

MANAGEMENT PROGRAMME

Term-End Examination

December, 2011

MS-97 : INTERNATIONAL BUSINESS

Time : 3 hours

Maximum Marks : 100

(Weightage 70%)

Note :

- (i) *There are two Sections : A and B.*
- (ii) *Attempt **any three** questions from Section-A.
It carries 20 marks each.*
- (iii) *Section-B is compulsory and carries 40 marks.*

SECTION - A

1. (a) What are the dimensions of International business ? Discuss.
- (b) Discuss the Comparative Cost Theory of international trade and critically examine it.
2. (a) What evolutionary changes have been observed in International business and resulting organisation structure ?
- (b) Discuss the concept of Strategic Alliance and its determinants.

3.
 - (a) Critically examine the various approaches to control in international business. In what way corporate culture may be helpful in the control process ?
 - (b) How Technology Transfer helps the MNCs to innovate and inturn helps increase their profits ? Discuss.

4. Discuss the merits and demerits of various approaches to sourcing and procurement in International Business.

5. Write notes on the following :
 - (a) Impact of FDI on Less Developed Countries (LDCs)
 - (b) Dynamics of regional trade groupings
 - (c) Need for international negotiations in international business
 - (d) Globalization of business and its impact

SECTION - B

6. Read and analyze the case study, hereinafter carefully and answer the questions given below :

TI Cycles

Come September, TI Cycles will complete 60 years. But the maker of iconic brands BSA and Hercules is grappling with a challenge usually faced by startups: how to grow itself and expand the market, too. The Indian bicycle market, the third biggest in the world after China and USA, has barely grown over the last 10 years with volumes just about increasing from 11 million units to 12 million. As disposable incomes grew, cycles became uncool-the age profile of cycle users has narrowed from 2-25 years a decade ago to 2-14 years today. Motorcycles and scooterettes have become more affordable and attractive with cheap finance and more models. No wonder. India consumes just 10.50 cycles per thousand people compared to Japan's 84.30, USA's 56.1, Malaysia's 33.6 and China's 18.

The bicycle companies found themselves pedalling uphill, without gears. TI Cycles' revenue stayed between Rs 450 crore and Rs 500 crore between 2000-01 and 2005-06. With just four large players-Hero, Atlas and Avon, apart from TI Cycles-accounting for over 90 per cent of total cycle sales, competition is fierce (they do not even share their production and sales numbers!).

Steep discounts, perennial schemes to push volumes and extended credit periods also tempered profits. TI Cycles' profits (before interest and tax) hovered around Rs. 20 crore for most part of this decade.

The Change

In 2005-06, a new (and a younger) team took the saddle at TI Cycles and began looking for ways to change the pace. "We realised that the cycle industry was not doing enough for demand creation. There were no fresh ideas, no significant investments and over time the products had become irrelevant, too. We decided to take the leadership and bring about a transformation in the way the industry operated," says L.Ramkumar, Managing Director, Tube Investments of India Ltd. (of which TI Cycles of India is a division).

The company began to market cycles differently. It started selling cycling instead of cycles! "We decided to address the issue of cycling itself. It was a directional shift from selling products to experience. By making cycling relevant we can get people (who had exited cycles) back on the saddle," explains B.K.Singh, Vice President, Sales and Marketing, TI Cycles. All the communication and promotional activities were re-focussed to promote cycling-a healthy and environmental-friendly activity.

Simultaneously, it also began to work with dealers and started rolling out modern retail outlets. "We desperately needed to improve the shopping experience. Dinky shops in congested places and poor display of models invariably meant that people ended up buying the wrong cycle, which contributed to poor satisfaction levels leading to people exiting cycles altogether," says Singh. Today, TI Cycles has 90 stores (BSA Go, Track and Trail, etc.) in five different formats and over 240 Hercules BSA zones (shop in shop) inside major dealer outlets. In a bid to bring urban adults back to cycles, the company launched newer models and tied-up with international brands such as Canondale (USA) and Bianchi (Italy) to offer their latest bikes for sale in India.

TI Cycles also decided to leverage its BSA and Hercules brands to a wider age group by venturing into fitness equipment and battery-operated e-bikes. "Our brands stood for fun, freedom, fitness and environment. We saw fitness equipment for home segment as a good business fit with health awareness just about beginning to spread. We wanted to offer e-bikes to people exiting cycles and looking for an environment-friendly option," explains D. Raghuram, Senior Vice President, Bicycles and Fitness, TI Cycles.

These measures coupled with back-end measures such as vendor development, revamping

of manufacturing-outsourcing most component production and limiting in-house production to just frames and forks and setting up production facilities in Nasik and Noida (closer to the markets and supply chain) saw sales jump to Rs 736 crore in 2008-09 (from Rs 577 crore in 2007-08) and profit (before interest and tax) to Rs 29.20 crore (up from Rs 21.80 crore in 2007-08).

Challenges Remain

With the overall industry volume remaining stagnant, pinching market share from the competition has its limits-especially when the competition is strong and has already begun replicating TI Cycles, successful strategy. The market is also refusing to evolve. Acceptance of premium bikes is still low (less than 1 per cent) with the standard black and green bikes accounting for 45 per cent of the sales and special bikes making up for the rest. The company's effort to popularise cycling and thus grow the industry also has limitations as the infrastructure in India is anticycling. In the absence of dedicated cycle tracks, Indian roads are a cyclist's nightmare. Also, there is a social stigma attached to cycles-more so in rural areas-where shifting to a motorbike or moped is a wealth statement.

E-bikes are still a nascent and low-volumes market in India and world over its sales have been driven only by governmental sops. Selling home

fitness equipment would call for path-breaking marketing and financing schemes to make it a part of every Indian household.

At 40 million bikes a year, export is a big opportunity. Demand for cycles in USA grew by 20 per cent in 2008. Europe, too witnessed a double digit growth. In some markets demand is such that there is a waiting period for cycle delivery! But TI Cycles-which was exporting about four lakh bikes a year worth Rs 80 crore to Europe in the early '90s-has been left watching from the sidelines, as it had quit the export market in the mid-'90s in the face of cheap Chinese bikes.

TI is trying to play catch up, shipping frames and forks to a French sports retailer. "USA and Europe have moved far ahead of India in cycle technology. They prefer carbon fibre bikes while we are still a steel bike market. Carbon fibre is a difficult technology to master and the entire component eco-system needs to be developed. It is a priority area for us but will take a while," says Raghuram. TI Cycles also has a brand issue to contend with. It can use the BSA and Hercules brands only in India and a Few neighbouring countries.

"We would want to emulate Taiwan, which is a major player in the premium export market. We are constantly evaluating options. When opportunity comes, we are not going to sit quiet,"

sums up Arun Alagappan, Senior Vice President, Retail and BSA Motors, a next-generation member of the promoter family responsible for some of these changes.

Questions :

- (a) Spell out the strategy of TI Cycles.
 - (b) Give pointed answers to the following :
 - (i) What is the company's business ?
 - (ii) What is presently the problem ?
 - (iii) What action/strategic action is required ?
 - (c) How do you assess the company's prospects for exports ? What challenges could it face globally ? Suggest modes of entry in international business for them.
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