05029

MANAGEMENT PROGRAMME

Term-End Examination

December, 2013

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*** *which carry* ***20 marks*** *each*
(iii) ***Section B*** *is compulsory and carries* ***40*** *marks.*

SECTION-A

1 (a) What is the essence of multi-nationality? Elaborate the concept on the basis of several definitions that have been offered with reference to an MNE.

(b) Explain the theory of mercantilism. Has the theory any relevance in the present day world? Discuss.

2. (a) What evolutionary changes generally take place in the MNE strategy and structure ? Explain.

(b) What factors a company might consider to choose a particular ownership strategy?

3. (a) Critically examine the various approaches to control of international business. Is any particular approach preferable? If so, why?

(b) There are a number of areas where MNCs and host country interact. Discuss those areas and show how could the host country optimize those interactions to its advantage ?

4. (a) What factors influence the decision regarding location of production facilities in International business? What complexities and trade-off might be involved?

(b) Can you name a single management practice of MNEs that appeals to you and why?

5. Explain **any three** of the following:

(a) Stages in cross-cultural negotiation process.

(b) Total Quality Management and International business.

(c) Objectives of trade groupings.

(d) Major implications of WTO on world business.

(e) Major causes of time and cost overrun in projects.

SECTION-B

6. Read the following case study and answer the questions given at the end.

ENCORE APPLIANCES INDIA

It was only six months ago that D'Costa managing director of appliances India(Encore) had returned to India from the US as the CEO of a newly-floated Indo-American joint venture. He had always known that doing business in India was a ballgame different from the one he was accustomed to in the US.

D'Costa had migrated to the US in 1975 and from Chicago-based Encore Inc., a $1.5 billion consumer good giant. Marketing a range of household goods like coffee percolators, blenders, ice-cream makers, soda makers, food processors, juicers and microwave ovens under its own brandname, Encore had followed a deliberate strategy of outsourcing its products since it set up shop in 1972. In fact, it had no manufacturing facility it could call its own, and depended, instead, on vendor-manufacturers in the Chicago area. Marketed through an extensive dealer network under the umbrella of a common brandname, Encore's products were quite popular and enjoyed substantial marketshares in some segments of the American consumer durables market. Initially, D'Costa had joined the microwave oven division of the company as a marketing executive and had stayed there for the first five years of his career.

Working closely with Encore's vendors during this period, he had evolved a system of joint costing under which the company and its microwave oven - assemblers had access to each other's cost data pertaining to material, labour costs, and overheads. Free sharing of information enabled everyone to determine product costs more accurately which, in turn, led to substantial cost savings and, consequently, higher profit margins for both the licensor and the licensees. Not unique to American business, it was for the first time that this concept had been introduced

in the Encore empire. D'Costa's success attracted the attention of the company's top brass, which decided to extend the joint costing system to other product categories too. Elevated to the post of assistant vice-president in 1986. D'Costa became vice-president (logistics) around the time India declared herself open for business in mid-1991.

In early 1993, having consolidated itself in the home market despite a recession, Encore began examining the prospects of doing business in developing markets world-wide. It was a cover story published in *Fortune* that forced Encore to take a critical look at the potential of the Indian market. For, that report quoted a study by the Delhi-based National Council of Applied Economic Research which said that there were 65.1 million middle-class households in the country, each earning over Rs 18,000 per annum. Of this, it added, 3.7 million households earned Rs 78,000 and one million households earned over Rs 100,000 every year. One million high-income households was but a minuscule part of the Indian population, but it was larger than many other foreign markets. In October 1993, Encore's CEO asked D'Costa to spend a month in India to study the market and shortlist Encore's prospective collaborators in the consumer appliances business.

On his very first trip, d'costa saw that in contrast to Encore's approach of outsourcing, most household appliance firms in the country had their own manufacturing facilities. The reasons were more historical than strategic. Under the licence-permit raj, which had prevailed for decades, entrepreneurs had first cornered licences

given by the government and planned their product profiles almost as an afterthought. Even when they resorted to outsourcing, it was not because it made commercial sense, but because the government insisted on it by reserving the manufacture of some products for the small-scale sector. But the dereservation policy, one of the planks of liberalisation, had changed all that.

D'Costa could not fail to notice that several firms had already started outsourcing in a small way. And the trend had even caught on with some of the transnationals which had entered the Indian automotive, consumer goods, and personal hygiene product markets. Outsourcing made sense for five reasons:

- It diverted funds from investment in plant, machinery, and infrastructure to marketing, brand building, and R and D.
- It reduced the cost of entry.
- It lowered the risk of entry.
- It provided flexibility in production schedules.
- And it cut costs by about a third.

In less than four months after D'Costa's visit,Encore had been incorporated as a joint venture between Encore Inc. and Home Appliances, a Bombay-based company that manufactured pressure-cookers at its own production facility at Aurangabad, the industrial town deep in the heart of Maharashtra. Set up in 1982 by Purushottam Shah, a technocrat-turned entrepreneur, it was a single product company with a turnover of Rs. 15 crore in 1993 and a 10 percent share of the domestic pressure cookers market. While Encore took a 51 percent equity stake in the Rs. 10-crore equity base of the new

company, it announced that it wished to invest Rs. 100 crore in the country. While Shah became the new company's chairman, Encore Inc.'s senior management in Chicago had little hesitation in nominating D'Costa as the managing director. Glad to get an opportunity to duplicate Encore's success in his home country. D'Costa suggested that the Encore product range could be introduced in a phased manner. Spreading launches over two years was acceptable to both partners in the joint venture, and it was unanimously decided to launch the Encore mixer-grinder first in the local market.

from the very beginning, d'costa took a conscious decision that Encore would recruit its own team of employees, develop its own network of vendors, and build its own stream of dealers-independent of those of Home Appliances. This was not only because the product range was different but, more importantly, because D'Costa was keen on modelling a new organisation along the lines of Encore Inc. which would be lean, mean, and hungry for growth. To start off, he took on five engineers whose job it would be to identify about a dozen vendors who could make a complete mixer-grinder precisely as per the designs supplied and the quality standards laid down by Encore Inc. While the vendors finally chosed were all licenced original equipment manufacturers (OEM) for several firms, D'Costa saw little merit in entering into exclusive arrangements with them. It would take about six months, he reasoned for Encore to gain market acceptance and for demand forecasts and production profiles of the vendors to emerge. The same logic applied to the appointment of 150 dealers, confined, initially, to 10 cities in western India.

One month before Encore's product was scheduled for a commercial launch, D'Costa firmed up an advertising campaign to announce the arrival of Encore in India and to highlight the superior quality of its product to the Indian consumer. Essentially a rollover of campaigns that had proved successful in the US, the advertisements specifically mentioned that the Encore mixer-grinder would soon be available in select cities in the states of Gujarat, Maharashtra, and Goa and provided the names and addresses of dealers in each state. And the campaign worked in that it raised the expectation levels of urban consumers belonging to high-income groups, who looked forward to a quality foreign brand. Although dealers initially perceived the advertisement as an invaluable aid in their efforts at pushing the product, they sought greater ground support in terms of point-of-purchase (POP) promotion material. And they also asked for higher margins. Since Encore Inc. had never used POP material in the US, D'Costa saw little use for it in the Indian context. He also politely, yet firmly, told the dealers that their margins would be revised only after sales started picking up.

Having supplied the designs and the bill of materials, D'Costa had left it to each vendor to procure the necessary raw materials on his own and bill Encore for the final product. His reasoning was - on the face of it - flawless: vendors knew the raw materials market better since they had been in the business of making mixer-grinders for years. But he had not reckoned with the typical quick-money approach of the small-time entrepreneur. Most vendors bought poor-quality

materials cheap in order to cut costs and artificially widen their margins. Very few finished products stood the stringent tests of quality inspection that Encore laid down. Infact, the entire maiden lot had to be discarded because it was nowhere near scratch. Soon, Encore's engineers started intervening in the purchase of steel and plastic by their vendors. Compounding the quality crisis were logistical problems, both in the case of supplies of raw materials and despatches to dealers. The net result was that the commercial launch had to be deferred by a month, which left Encore's dealers rather peeved.

It was while touring the bylanes of Bombay's steel market that one of Encore's American engineers stumbled on a model of a mixer-grinder that looked different from the ones normally available. To his surprise, it bore an uncanny similarity to Encore's mixers on the outside, carried no label and was being sold at 60 percent of the price of the Encore equivalent. A casual conversation with a retailer revealed that it had been launched just a few days earlier and had been selling well because of the price. Buying a piece, the engineer immediately returned to the company's testing laboratory for a closer scrutiny. Once he opened up the casing, he was aghast to discover that the Encore design had been copied-mixer, grinder, and motor. When a baffled D'Costa consulted a patent attorney, he was told that the grey market flourished in most product categories. And the legal system offered the original manufacturer no protection from the pilferage of the product design or the imitation of product features.

An angry D'Costa was certain that the

pilferage of Encore's design had occurred at the vendor level since they were the only people who had access to the originals. Suddenly, he began to distrust them. In an effort to make them understand the damage such imitations would cause them, D'Costa convened a meeting of his vendors and announced a change in the producton pattern. The new strategy was to split the outsourcing in such a way that no one vendor would have the complete picture. Different components were sourced out to different vendors: the jar to one, the blades to another, the motor to a third, and the moulds to a fourth. Stating that he was recalling the design specifications from each of them, D'Costa said that every vendor would produce only one part each from then on. While the final assembly would be centralised at one vendor, Encore's engineers would over-see the process while, simultaneously, testing quality before branding and releasing the finished product into the dealer network. Not surprisingly, the vendors were none too happy with the new arrangement and expressed their displeasure over the reduction in volumes and revenue losses.

However, D'Costa assured them that several products from the Encore stable were scheduled for lauch in the next year and so, there would be enough business for all of them in the long run. Meanwhile, Encore's mixer-grinder had been priced 20 percent above its nearest competitor in order to reinforce the premium image of the product in the consumer's perception. But the wily ways of Encore's rivals were soon in evidence at the point of sale. Three competitors immediately hiked their dealer's margins and

ersuaded them to spread the word that the Encore brand was being made by the same assemblers who were making their brands and that Encore was no different from its competitors. The backlash was disastrous. Consumers saw little merit in paying a fancy price for a product which they perceived as offering no additional value over local brands. And Encore found itself unable to meet consumer expectations, which had shot up before the product had been launched.

The loss of brand equity was soon evident in the stockpiling of inventories with the dealers, whose offtake was gradually diminishing. It was at this time that the managing director of Encore Inc. chose to come to India unofficially while on an Asian holiday. D'Costa met him, along with Shah, and the three discussed what D'Costa called Encore's "teething" troubles in the market. While expressing his optimism about the long-term prospects of doing business in India and expressing his confidence in the ability of the local team to "stabilise" operations in a year. Encore Inc.'s CEO said "I am merely thinking aloud. But right now, there is a feeling back in Chicago that we too should set up our own manufacturing facilities in the US. We have consolidated our position as a major player in the American consumer goods market and it is perhaps time to build on that strength. We could also look favourably at the possibility of starting our own manufacturing facilities here in India. We could give it a thought. If you are keen on setting up your own manufacturing facilities here, we could even source some products for the American market from you."

Thus, D'Costa was trapped in a dilemma. With several more products scheduled for launch, would it make sense to build Encore's own manufacturing facilities? Would the time that this would take rob him of a competitive advantage in the market-place? Would it be better to continue outsourcing them? Or should D'Costa plan to switch from outsourcing to in-house production over a period of time? If the latter course of action were to prevail, how should he manage the various risks better? Indeed, where had outsourcing gone wrong in the first place? What was Encore's best manufacturing strategy for the future?

Questions:

(a) What problem situation the MD of Encore is faced with? Present your diagnosis and analysis of the problem with reasons.

(b) What kind of problems/ snags the company encountered which delayed its commercial launch of products?

(c) Attempt as SW (strengths and weaknesses) analysis of the company.

(d) Would it make sense for Encore to build its own manufacturing facilities? Or should it continue outsourcing products? What would be the right strategy for it. Give arguments in support of your answer.