

**GUJARAT TECHNOLOGICAL UNIVERSITY****MBA – SEMESTER - 3 - EXAMINATION – SUMMER 2021****Subject Code: 2830006****Date: 17/08/2021****Subject Name: International Business****Time:02:30 PM TO 05:30 PM****Total Marks: 70****Instructions:**

1. Attempt all questions.
2. Make suitable assumptions wherever necessary.
3. Figures to the right indicate full marks.

- Q.1 (a)** Which is the right sequence of stages of Internationalization? **6**
1. A. Domestic, Transnational, Global, International, Multinational  
B. Domestic, International, Multinational, Global, Transnational  
C. Domestic, Multinational, International, Transnational, Global  
D. Domestic, International, Transnational, Multinational, Global
  2. Which is not an Indian Multinational Company?  
A. Unilever  
B. Infosys  
C. Asian Paints  
D. Wipro
  3. NAFTA is an example of  
A. Capital Market  
B. Customers Union  
C. Economic Community  
D. Free trade agreement
  4. Which of the following is referred to as a predecessor of WTO?  
A. IMF  
B. World Bank  
C. OPEC  
D. GATT
  5. Subsidiaries consider regional environment for policy or strategy formulation is known as  
A. Polycentric Approach  
B. Regiocentric Approach  
C. Ethnocentric Approach  
D. Geocentric Approach
  6. Globalization refers to  
A. Lower income worldwide  
B. Global Warming and their effects  
C. Less foreign trade and investment  
D. Integrated and interdependent world
- Q.1 (b)** 1. Differentiate between Forward and Spot market **04**  
2. Define Market Economy  
3. Define Political Risk  
4. What is globalization?
- Q.1 (c)** Explain Global Sourcing in line of Global Supply Chain Management **04**
- Q.2 (a)** Explain in detail the different drivers for globalization **07**
- (b)** Political system of any country affects its Legal and Economic system. Explain. Also elaborate on different types of Political system that prevails in world **07**

**OR**

- (b) What are the different types of Economic system existing? Explain the Economic system followed by India **07**
- Q.3** (a) Write in detail on any two International Organizations promoting and assisting in international trade **07**
- (b) The US – China Trade war and global economic dominance is witnessed by the world economies. Explain this game changing scenario in context to Government influence on trade. **07**
- OR**
- Q.3** (a) Describe the different dimensions of a global manufacturing strategy with the help of an example **07**
- (b) A strong International HRM leads to a high productivity, competitive advantage and value creation. Explain **07**
- Q.4** (a) Explain how a location decision will affect the international operations of your business. **07**
- (b) Differentiate between the traditional and contemporary organizational structure. Also explain how internationalization of business affects the structure. **07**
- OR**
- Q.4** (a) What are the factors affecting Exchange rates. Explain it with suitable examples **07**
- (b) Explain the various economic rationales for Government Intervention. **07**

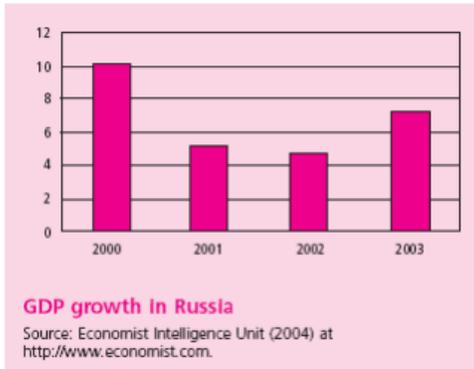
**Q.5**

**IKEA BRANCHES OUT IN RUSSIA**

**14**

IKEA, the Swedish furniture retailer, has seized the opportunities presented by the emerging market economies in Central and Eastern Europe, steadily opening new stores in the region following the fall of the Berlin Wall. While its store locations in Poland, the Czech Republic and Hungary were in the more stable and successful transition economies, its foray into Russia presented greater risks. The attempted radical economic and political reforms in Russia in the 1990s had been traumatic, culminating in financial crisis in 1998. Since then, rebuilding and economic development have gradually got back on track. The economy grew 7.3 per cent in 2003, bringing cumulative annual growth to 38 per cent since the 1998 crisis (see figure). This impressive performance owes much to Russia's oil and gas revenues, but the government's policies have been aimed at developing a more diversified economy, including telecommunications, construction and retailing, which are stimulating domestic demand.

IKEA is an internationally known home furnishing retailer. It has grown rapidly since it was founded in 1943.



Today it is the world's largest furniture retailer, recognized for its Scandinavian style. The majority of IKEA's furniture is flat-pack, ready to be assembled by the consumer. This allows a reduction in costs and packaging. IKEA carries a range of 9,500 products, including home furniture and accessories. This wide range is available in all IKEA stores and customers can order much of the range online through IKEA's website. Low prices are one of the cornerstones of the IKEA concept and help to make customers want to buy from IKEA. This low price strategy is coupled with a wide range of well designed, functional products. Since it was founded IKEA has always had concern for people and the environment. The IKEA vision 'to create a better everyday life for the many people' puts this concern at the heart of the business.

When IKEA opened its second store in Moscow in 2001, it was inundated with 44,000 shoppers in just a few hours. While the company has prided itself on its classic Scandinavian-style furniture, it was overwhelmed with the response of the Moscow public. After all, Russians enjoy a far lower general standard of living than IKEA's typical middle-class customers – Russian GDP per capita was just \$2,346, less than a tenth of that of Germany, its largest market, where it has 31 stores. IKEA has prided itself on its good design and low prices which the bulk of consumers could afford, but in Russia, surely only the elite could afford to shop there. IKEA's general director in Russia said: 'If we had relied on official statistics, we would never have believed that Russians would buy as much' (Brown-Humes, 17 May 2002). But consumer demand was growing and spending power was concentrated in Moscow, which, with a population of 10 million (approximately that of the Czech Republic) presented the opportunity for moving in ahead of other retailers. Russia's economic transition, however, remains clouded by doubts about its long-term prospects. Market reforms are taking place, but the economy still suffers from corruption, lack of transparency and a weak legal system. Both foreign investors and Russian businesspeople have therefore been less than enthusiastic about investing in Russia. Flows of FDI were \$1144m. in 2003 (UNCTAD, 2004), well below those of the Czech Republic. Moreover, extreme inequality and high levels of poverty remain. In an overall population of 144 million, 20 per cent are below the official poverty line of 50 per cent of median income. Worryingly, life expectancy actually went down in the 1990s: the probability of a Russian inhabitant not surviving to the age of 60 is 29 per cent, placing Russia alongside some of the world's poorest developing countries (UN, 2004). Sustained growth and stability offer some hope of improvement in the investment climate

IKEA's business has been built on a philosophy based on the wish to improve the lives of ordinary people, including those who live in cramped conditions. For this reason, its founder says: 'I am much more eager to open stores in Russia than in Germany or the UK' (Brown-Humes, 12 August 2002). Accordingly, new stores in other Russian provinces are envisaged, as well as in Ukraine. The CEO says that, because IKEA is not a public company, it can afford to take a more long-term perspective (George, 28 September 2004). He also points to the benefits of becoming established in new markets before competitors move in: 'we believe very strongly that going early into these markets has some advantages ... One is that you can get hold of good locations at reasonable prices, and then international competition is not too heavy so you can establish brand recognition' (George, 28 September 2004).

A. Identify the Strengths of IKEA

B. What were the reasons behind IKEA's expansion into Russia?

Nike built its iconic brand on its reputation for high-quality athletic footwear, incorporating innovative features, for which consumers were willing to pay premium prices. The Air Jordan is an example, with its bubble soles, fashion appeal and sports star endorsement of Michael Jordan in 1985. A bright young prospect at the time, he went on to become the most famous basketball player ever. Nike credits this endorsement as having opened up a new market of young, urban, male consumers (Garrahan, 5 August 2003). The appeal of Air Jordans, now in their eighteenth model, is fading, as consumers are choosing between performance and fashion in trainers, with the 'retro' trainer gaining in popularity. While Nike accounts for 39 per cent of the market in branded athletic shoes, this share has slumped from 48 per cent in 1997, in a market which is now more fragmented. Performance brands, such as New Balance, have prospered, and other brands, such as Puma, have gravitated more to the fashion trainer. Nike should be a strong presence in both these segments, but it is wary of the fashion route, as fashions are notoriously ephemeral and demand cannot be predicted. Its signing of the basketball star Le Bron James for an estimated \$90 million, in 2003, was a way of renewing its established strength in basketball.

Looking to expand in international markets, Nike concluded that football had the greatest market potential. The catalyst, as its CEO explains, was the 1994 World Cup in the US: 'Up until the 1994 World Cup the US was the centre of this company's universe ... We came to the realization that we could only become so big in the US and if we wanted to be taken seriously on a global scale, football had to be a priority' (Garrahan, 5 August 2003). Its football division has now become the driver of non-US sales. It concluded sponsorship deals with the Brazil national team and Manchester United, the latter a 13-year £303 million kit deal reached in 2002. It has also made sponsorship deals with Ronaldo (Real Madrid and Brazil) Luis Figo (Real Madrid and Portugal) and Wayne Rooney (Manchester United and England). For the first time in 2003, Nike generated more revenue from overseas markets than it did in its home market. It also overtook Adidas, with \$10 billion in revenues. A further milestone occurred in 2004, when Nike overtook Adidas in European market share, accounting for 34 per cent of the football-related footwear market, compared to the 30.2 per cent share of Adidas, which has traditionally dominated European football.

Nike is aware that celebrity sponsorship does not translate automatically into sales. It stresses: 'We have to deliver a product that captivates the consumer. And then we have to market it so that it is special.' At the same time, the Nike brand has been extended to many sports and events, including the Olympics, golf and professional cycling (it sponsored Lance Armstrong, 7-times winner of the Tour de France). Is it spreading itself too thinly? Its CEO says: 'We have to keep renewing and refreshing what Nike stands for' (Garrahan, 5 Aug 2003).

Sources: Gapper, J., 'The big bucks that keep Nike in the big league', Financial Times, 4 November 2003; Garrahan, M., 'The fabulous football money machine', Financial Times, 26 April 2003; Garrahan, M., 'How to keep doing it all over the world', Financial Times, 5 August 2003; Garrahan, M., 'Nike scores on the football pitch', Financial Times, 19 August 2004; Garrahan, M., 'Nike overtakes Adidas in football field', Financial Times, 19 August 2004.

- A. Why did Nike shift its focus to football?
- B. What lessons does the case study highlight for other companies wishing to expand in international markets?

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