PGDM (RM), 2019-21
GLOBAL RETAILING
RM-403
Trimester IV End Term examination, September 2020

Time allowed: 2 Hrs 30 Min
Max Marks: 50

Roll No: ____________

Instruction: Students are required to write Roll No on every page of the question paper, writing anything except the Roll No will be treated as **Unfair Means.** All other instructions on the reverse of Admit Card should be followed meticulously.

Section A

Word limit: 300 words **M M = 10 *3= 30**

1. (A) With reference to Hollander's typology, pick any major Indian retail company and describe where this company sits within the typology. Is this typology still relevant or have there been additions beyond this typology? Discuss in detail. (CILO-1)
   Or
   (B) Select any retailer and explain how Dunning's theory could be applicable to the internationalization of the retail firm. (CILO-1)

2. (A) Politics, culture and history have an effect on retail internationalization and innovation. Discuss with examples (CILO -2)
   Or
   (B) Discuss three of the main consumer trends in the 2020s as per the reports, and assess the impact such trends will have on a regional convenience store operation. (CILO -2)

3. While investing in foreign operations, what are the methods that international retailers can utilize to reduce the possibility of expropriation. Explain in detail. (CILO -3)
   Or
   (B) How are international retailers impacted by currency fluctuations? What strategic changes can a retailer take to reduce the negative impacts? Give examples.
   (CILO -3)

Section B

M M= 10* 2 =20 **Case Study is compulsory and is for 20 marks.**

1. Using the process of country selection for expansion, select one of the two countries mentioned- Russia or India. What screening criteria will you use in evaluating the two countries? (CILO -2)

2. Which FDI model—Greenfield investment, acquisition, or joint venture—is most suitable for each of the prospective countries? Explain your reasons for the same.
   (CILO-3)

CASE : MIDEA REFRIGERATOR: THE “GO GLOBAL” ODYSSEY

In 2016, the manager of Chinese firm Midea Refrigerator was considering the next step for the company, which was at a turning point. For the previous 12 years, Midea Refrigerator had been pursuing globalization via direct export, but the high cost of exporting products was depleting its profits and undermining its competitiveness in the international market. Therefore, a transition from direct exporting to foreign direct investment (FDI) was necessary. However, the exact approach to securing FDI was unclear.

CHINA’S “GO GLOBAL” STRATEGY AND HOUSEHOLD ELECTRICAL APPLIANCE INDUSTRY

Before the 1980s, there were hardly any competitive domestic manufacturers of household appliances in China. 1 The situation changed with China’s economic reform and opening in 1978, as well as the implementation of two strategies: “bring in” and “go global,” which referred to the goals of first bringing in foreign companies and technology to develop China, and then encouraging Chinese companies to develop their overseas markets. Accordingly, China’s household appliance manufacturers started importing equipment and production lines from developed countries, learning these new technologies, and producing new appliances of their own. In addition, foreign manufacturers set up branches in China. By the end of 1994, more than 20 Sino-foreign joint ventures had been established to make household appliances.2 A number of brands sprang up and waged a nationwide battle of acquisition, producing some giants in the field, including Midea, TCL, Gree, and Haier.3 These companies competed against each other and the foreign companies for market share in China. To increase profits, they also manufactured electrical components or products for foreign brands, acting as original equipment manufacturers (OEMs). For many household appliance manufacturers in China, being an OEM was the first step on the path to go global.

In the 21st century, even more Chinese enterprises were exporting or operating abroad, but foreign household appliance enterprises were pursuing their own strategic shifts after China became a member of the World Trade Organization (WTO) in 2001.4 Hitachi, Toshiba, and Matsushita simultaneously set up innovation centres in China.5 Samsung, LG, and A.O. Smith greatly increased their numbers of production lines and investments in the Chinese market.6 To carve out more market share, these brands lowered their prices and forced domestic enterprises into a price battle, in which the fledgling Chinese companies paid a heavy price. Suffering from decreasing profits in the Chinese market, Chinese household electrical appliance manufacturers had to accelerate their overseas market development.

In 2013, Chinese companies looking to go global had a historic opportunity. The “One Belt, One Road Initiative,” proposed by Chinese President Xi Jinping, provided a new insight into global expansion. “One Belt” and “One Road” referred to the Silk Road Economic Belt and the Maritime Silk Road Economic Zone, which connected Asia with Europe via Russia and Southeast Asia, respectively.7 The initiative was proposed to strengthen ties between China and the countries along the “Belt” and “Road.” With national preferential policies reducing transnational operation risks, a number of enterprises had already elected to invest in the “Belt nations,”8 and some household appliance manufacturers were preparing their next move with regard to this changing landscape.

MIDEA GROUP AND MIDEA REFRIGERATOR

Midea Group

Established in 1968, Midea Group was a publicly listed Fortune 500 company that offered one of the most comprehensive product ranges in the home appliance industry. It produced diverse equipment for lighting, floor care, and refrigeration, as well as laundry machines, large cooking appliances, small kitchen appliances, and water appliances. In 2015, Midea had 260 logistics centres in more than 200 countries and global revenue of US$22.17 billion.9

Midea Refrigerator

Midea Refrigerator was established in 2001. In 2004, Midea Group acquired Royalstar Company by acquiring 50.5 per cent of its shares, as well as Hefei Hualing Co., Ltd, a foreign-invested company whose main business was exporting refrigerators. These acquisitions greatly improved the company's capability for refrigerator manufacturing. By 2017, Midea Refrigerator had three manufacturing bases in Hefei and Guangzhou with more than 6,000 employees. Midea Refrigerator produced products under the brand names Midea, Royalstar, and Hualing. Both Midea and Royalstar were very well-known brands in China— especially Midea, whose value exceeded $4.6 billion in 2016. Gradually, Midea Refrigerator became one of the largest refrigerator suppliers in China. Further, the firm was continually increasing its development, earning $5.4 billion in 2015 in the global market.

THE PRODUCT "GOES GLOBAL"

Unable to compete directly with the largest corporations in the global market (e.g., Siemens, LG, Electrolux, and Panasonic), Midea Refrigerator, like many refrigerator manufacturers in the early 21st century, opted to pursue the OEM path. With the advantage of low labour and material costs in China, Midea Refrigerator could make a profit by manufacturing refrigerators for international brands like Electrolux, Sears, LEC, and Morita; this arrangement resulted in the shipment of Midea products to dozens of countries and regions, and the OEM market came to account for half of Midea Refrigerator's business.

However, the landscape changed after 2001. China's development was reducing OEM profit due to the rising cost of production, even as competition in the national market was becoming increasingly fierce. The expansion of Midea Refrigerator also called for more capital. The tide of globalization after China's WTO entry and the requirement to develop drove Midea Refrigerator to choose one of two options: struggle against adversity and attempt to flourish, or watch its profits dwindle away. It was high time to make a transformation. Therefore, despite all the uncertainties, the company's manager made the bold choice to launch Midea-brand refrigerators in the global market. But the question remained: how should the company implement this launch?

THE BRAND "GOES GLOBAL"

In 2004, there were hardly any household appliance enterprises in China pursuing global expansion. The only significant player in this category was Haier, which adopted a "difficulty first" strategy—occupying the market that was hard to enter first before dealing with the easier ones. Established in 1984, Haier imported China's first foreign refrigerator manufacturing production line from the German firm Liebherr, and proposed a brand-building strategy early in 1985.10 It exported the first shipment of refrigerators to Germany in 1990, making Europe its first step to entering the global market.11 In 1995, Haier began to establish overseas factories and in 1996, it opened its first international factory, Haier Sapporo, in Indonesia. In 1997, Haier set up LKG Electrical Co., Ltd in the Philippines, and Haier Industrial Co., Ltd in Malaysia.12In 1999, the company established its first industrial park in the United States (in South Carolina). In this way, Haier had pursued a direct localization path from the outset.13

Because it was successful for another large Chinese appliance company, Haier's FDI strategy seemed to be feasible for Midea Refrigerator, but Midea Refrigerator declined to follow Haier's example and turned to a safer path instead: direct export first. He Xiangjian, the chairman of Midea Group, said, "For us, low velocity was much better than going astray." Thus, 2005 witnessed the beginning of Midea Refrigerator's direct export for overseas brand building. The daunting task that remained for the company was to find the right channel and market. Early in 2000, Midea Group's U.S. subsidiary, European subsidiary, and Japanese subsidiary started operations, and its branches in South Korea and Singapore were established in 2001, which laid a solid foundation for Midea Refrigerator's export business. The subsidiaries were empowered by the headquarters to draw up their own marketing plans to suit the real conditions of the local market. In this respect, Midea Refrigerator benefited from the subsidiaries that the headquarters had opened, taking advantage of local expertise. In the process, the company honed its skills to set the right prices and conduct the appropriate marketing activities to promote overseas sales.

To broaden its existing channels, Midea Refrigerator had to make a new path for itself. To export to more overseas markets, the company had to cooperate with commercial agents in the target markets. Opening the commercial agent channel was not easy because Midea Refrigerator had to decide which country to start with, and then find the appropriate agent. The company was primarily operating as an OEM, and the United States was the largest market of Midea-manufactured refrigerators, but did that make the country a promising prospect for Midea Refrigerator's exports? A glance at the U.S. market at the time (i.e., 2004) revealed that its refrigerator market was almost totally carved up among several American giants, including Whirlpool and General Electric, and some time-honoured foreign brands, such as LG and Electrolux. These prominent brands not only had high-quality products but also had the greatest brand awareness among North American consumers, which was truly indomitable; the same was true in Europe and many other developed nations, which left newcomers only a marginal possibility of success. New geographical locations had to be considered. The manager of Midea Refrigerator carefully considered this vital first step, and before long, he recognized one area that presented great potential: Australia.

Australia: A New Prospect?

Early in 1978, the Australian government had included China in a Generalized System of Preferences (GSP).14 GSP was a preferential tariff system that provided for a formal system of exemption from the more general rules of the WTO. A low tariff of 5 per cent greatly benefited Chinese firms that exported to Australia.15 Moreover, Australia was different from many developed nations because of its rarity of resources and the fact that most of its industrial products, including household electrical appliances, were imported. 16 Most importantly, there were not many local refrigerator manufacturers there, so Midea Refrigerator's management reasoned that it might be easier to carve out a market in this less competitive environment. The market prospect was also quite positive because Australia, as a developed nation, had positive economic performance and rising purchasing power in terms of household appliance consumption.

In spite of this generally positive environment, the path to Australia was not smooth. The first difficulty was to find the right agent. This agent needed to be powerful, and have multiple distribution channels. It took months for Midea Refrigerator's manager and his team to search and assess candidates before they finally made the decision to cooperate with "X Agency." Even more difficult was the choice of retailer, and this negotiation consumed even more time. It was hard to persuade retailers to change the current product structure. To establish the partnership, Midea Refrigerator's manager had to make significant compromises, including full support in terms of resources, personnel, and technical training, as well as offering an agency commission that was 10 per cent higher than the market price and granting exclusive agent rights for the contract year. Ultimately, however, the deal was settled.

Yet, finding a place in the Australian market was still far from easy. Foreign giants that had entered the Australian market early (e.g., Electrolux and LG) were strong. Electrolux and LG had 30 per cent and 10 per cent, respectively, of the Australian refrigerator market, so Midea Refrigerator would have to work hard for its own share. To gain this crucial hold, the manager and his team used three strategies:

First, target the "middle-" and "low-end" markets. The high-end market had already been captured by much larger companies. To find out what consumers in the low-end market really needed, Midea Refrigerator's manager and his team conducted market research across the whole Australian refrigerator market. They found that consumers in low-end market attached great importance to the price and energy- conserving qualities of household appliances. In response, Midea Refrigerator managed to raise its devices' energy-conserving abilities, and obtained a government certificate for highly energy-efficient products. The company also repeatedly emphasized energy conservation in its marketing while still maintaining a low price point to attract the low-end market.

Second, make the services localized. In providing services, Midea Refrigerator insisted on employing local people to serve the local market, especially in positions that involved direct contact with consumers. Third, quickly raise brand recognition. Midea Refrigerator held roadshows, undertook promotional activities, and sponsored popular local events. Most Australian consumers were sports fans, and many important sports events were held in Australia, making these events ideal national advertising platforms. Midea Group seized the opportunity to become the premier partner sponsor of Melbourne City Football Club so that the brand of Midea Refrigerator could also be widely circulated.

The battle for market share in Australia was challenging, but opening its first overseas market was highly beneficial for Midea Refrigerator, and taught the company many lessons to be used in future expansions as well. By 2015, Midea Refrigerator had entered the U.S., Canadian, Malaysian, Indonesian, Chilean, and Vietnamese markets through the company's subsidiaries, and established partnerships with many commercial agents, including UE Tech Co., Ltd. in South Korea, VSK International Co., Ltd. in Myanmar, and Tovarischestvo in Kazakhstan. The growth rate of its direct exports in the global market was buoyant.

GLOBAL STRATEGY

Competition in the global market remained fierce. To increase its profits, Midea Refrigerator had to lower its costs and make greater breakthroughs in terms of technology. The company was constantly increasing its efforts to achieve these goals.

Efficiency Improvement

Midea Refrigerator adopted the "T+3" model to improve efficiency and lower costs.17 This customer-order model was first developed by the Midea Washing Machine department, and was then adopted by the whole company to shorten each cycle (i.e., order receiving, material preparation, manufacturing, and delivery) to less than three days.18 By adopting the T+3 model, the company could quickly respond to orders from anywhere in the world, and promptly transport the necessary products or product components to the corresponding market.

Technology Breakthrough

To enhance its core competitiveness around the globe, Midea Refrigerator continued to strengthen its technology by cooperating with global refrigerator giants like Electrolux and Whirlpool; this cooperation included employing refrigerator experts from Japan and South Korean, among other initiatives.19 Midea Refrigerator received many international certifications, including safety certification from US Underwriter Laboratories Inc.—the most authoritative organization in the United States engaging in safety appraisement, EU Energy Star certification, and TUV quality certification—a widely recognized quality certification in Europe granted by TUV Rheiland. The company also invested more in intelligent refrigerator development. Experts predicted that the intelligent refrigerator was the future of the refrigerator industry around the world, and that the global market for intelligent refrigerators would increase at a rate of 8 per cent to 10 per cent. Midea Refrigerator invested in this business niche and was soon a world leader in intelligent refrigerator development. The firm collaborated with Chinese online commerce company Alibaba to formally launch its intelligent refrigerator with the Alibaba Cloud system on September 8, 2016.20 This launch made Midea Refrigerator's "intelligent system" more localized to consumers in different countries.21

THE COMPANY "GOES GLOBAL"

Despite these efforts, Midea Refrigerator's global market continued to depend solely on direct export, which restricted further development, and its market share was still limited in some countries. The costs of cross-country transportation and tariffs continued to rise, which gave the company little leeway to lower its prices in order to compete with other multinational firms. Twelve years after the decision to launch the brand using direct export, Midea Refrigerator opted to take the next strategic step: FDI. Which country should serve as the company's starting point for FDI? The manager of Midea Refrigerator felt that there were only two clear options: Russia or India. Both countries fit the "One Belt, One Road Initiative," which meant that the investment could enjoy favourable national conditions. On the one hand, Russia was a large market: 80 per cent of its household electrical appliances were imported from abroad, and its consumption rate was increasing by nearly 15 per cent annually. Moreover, the country's refrigerator market comprised 30 per cent of the overall household appliances market.22 On the other hand, India was an emerging economy in Southeast Asia with rising national gross domestic product (GDP) and purchasing power. India's refrigerator market had significant potential because its climate required the use of refrigeration to keep food fresh. In addition, the Indian government had been encouraging FDI in its manufacturing area.23 Yet another question presented itself to Midea Refrigerator's manager: which FDI model—greenfield investment, acquisition, or joint venture—was most suitable for each of the prospective countries? These decisions were key to Midea Refrigerator's future.

EXHIBIT 1: MIDEA REFRIGERATOR'S INCOME IN SOME MAJOR MARKETS

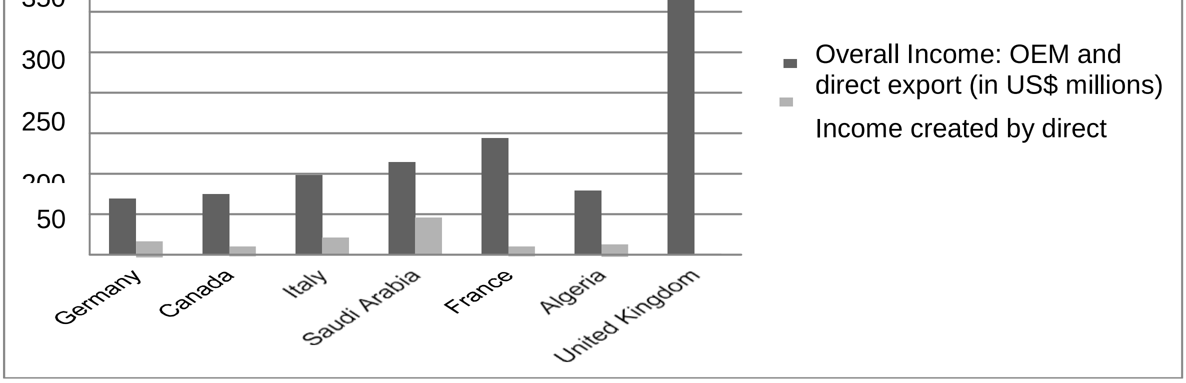

EXHIBIT 2: MIDEA REFRIGERATOR'S INCOME

Year	Overall Income			Income Created by Direct Export			
	Sales (in millions)	**Revenue** (in US$ billions)	**Increase Rate**	**Sales** (million set)	**Revenue** (in US$ billions)	**Increase Rate**	**Ratio to Overall Revenue**
2012	2.43	3.0	−13%	0.28	0.32	0%	10%
2013	3.12	3.7	24%	0.39	0.46	39%	12%
2014	3.53	4.4	18%	0.51	0.55	26%	12%
2015	4.60	5.6	26%	0.74	0.77	40%	14%
2016	6.20	7.0	26%	0.99	0.99	25%	14%

EXHIBIT 3: MAIN INDICATORS FOR INDIA AND RUSSIA IN 2016

		India	**Russia**
Investment environment	Increase rate of GDP per capita	6.11%	−3.93%
	Increase rate of household expense	7%	−9.53%
	Income tax for foreign enterprises	40%	20%
Industry condition	Average salary	US$150	US$450
	Increase rate of household electrical appliance market	13%	15%