

**PGDM (IB), 2020-22
International Marketing
IB-305**

Trimester – III, End – Term Examination, April 2021

Time allowed: 2.5 hours

Max. Marks: 50

Roll No. : _____

Instruction: Students are required to write Roll No on every page of the Answer Sheet. All other instructions on the question paper / notifications should be followed meticulously.

Section A

Attempt any three.

Word limit: 300 words

M M =10* 3 = 30

1. “The most complicated problems in dealing with cultural environment stem from the fact that we cannot learn culture, as international marketers, we have to understand and live it.” Elaborate on the following statement with your thoughts. (CILO -1)
Or
What are the implications of currency appreciation and currency depreciation in international marketing? Explain with examples. (CILO -1)
2. What is anti-dumping? Who are the parties in international trade who will be harmed and helped by dumping? Explain with examples. (CILO -2)
Or
Explain 3 controllable and uncontrollable variables each in pricing for exports. (CILO -2)
3. Explain the following concepts with examples
 - a. Transfer Pricing
 - b. Countertrade (CILO -3)
Or
Why has junk food been able to transcend cultural barriers despite food being a culturally sensitive product? Explain with examples (CILO-3)

Section B

M M= 10* 2 =20

Case Study is compulsory and is for 20 marks.

Case Study: Cepuros Malaysia

1. How should CFI develop the salsa market in Malaysia? How should the marketing investments be allocated?
2. Using the SWOT analysis, what are the top three areas that CFI should work on at a priority basis?

Cepuros Foods Malaysia: Finding the Secret Sauce for Growth

After ending her weekly conference call with executives from the corporate headquarters of Cepuros Foods International (CFI) in Singapore, Shelby Diaz looked out the window of her office in Kuala Lumpur hoping for inspiration. As the country manager for Cepuros Foods International– Malaysia (CFI-M), Diaz was responsible for developing and marketing CFI-M's products. She needed to increase the sales of CFI-M's Baik Sos Salsa line of shelf-stable salsas by the end of 2019.

Diaz had begun the call by explaining her plan to target new products to CFI's existing salsa customers with small increases to the marketing and communications budget. She had planned to target customers who purchased the original salsa to try the new flavors. Her proposal was to increase salsa sales 15% by increasing selling expenses by 7%. CFI's CEO, Bia Aati, interrupted her. He said, "The proposal lacks a long-term vision. The success of the salsa line is essential to our revenue growth in Malaysia. We need an aggressive, mass-market strategy with major investments in marketing and an ambitious sales goal."

CFI's executive vice president of marketing, Chen Lee, disagreed. She said, "Growing revenue through salsa sales is important, but a mass-market approach is too risky. Targeting our marketing mainly to our current cooking sauce and salsa customers is more reasonable." Before next week's call, Diaz had to decide how to revise her proposal. She remembered the Ansoff's matrix used in her MBA program and decided to use it to frame her recommendations. Should she change the proposal to develop consumer demand in the mass market, increase consumer demand among existing buyers, or convince them to follow her original plan?

Malaysia in 2018

Comprising two regions separated by the South China Sea, Malaysia contained multiple ethnic groups who spoke 134 living languages. Its official language was Bahasa Malaysia; the official religion was Muslim. Malaysia's urban population was growing; more than one-fourth of its citizens lived in the greater Kuala Lumpur area, known as Klang Valley. **Exhibit 2** provides country statistics.

Malaysian Cuisine

Malaysian cuisine represented a fusion of ethnic Malay, Chinese, Indonesian, and Indian cuisines. Typical foods were strong, spicy, and aromatic, using herbs and spices from Southeast Asia. Rice was usually eaten with meat and vegetable dishes, curries, and condiments such as Malay sambal sauce. Proteins were often marinated with herbs and spices before being cooked, while vegetables were usually stir-fried. Malays blended and sautéed ingredients such as lemongrass, shallots, ginger, chilies, and garlic to make sauces and pastes. Examples of popular Malay dishes were nasi lemak (rice steamed in coconut milk mixed with sambal, dried anchovies, peanuts, and boiled egg served in a banana leaf) and beef rendang (beef stewed in coconut milk and spices).

In 2017, consumer demands for *halal* (an Arabic term denoting "lawful or permitted under the standards of Islamic law") food ingredients were high. The government's Department of Islamic Development (JAKIM) certified food products meeting halal standards; all certified food packages carried a standard, government-issued logo. Halal certification was important even among non-Muslim consumers because it signified quality and was required for other food safety designations. Consumer demand for healthy foods was also high. In April 2017, Malaysia's Department of Health launched a Healthier Choices logo to promote healthy foods. Unfortunately for CFI-M, low-sodium soy sauce was the only condiment permitted to carry the logo. However, the government's healthy living campaign and consumers' increased exposure to international health trends increased demand for fortified/functional,

naturally healthy packaged foods that were healthier for consumers.

Four other food trends influenced Malaysian cuisine in 2018. First, an expanding middle class and a more urban population were demanding quality food products at better prices. Second, increased concern about food safety and health resulted in the growth of premium, high-quality, and natural products. Third, there was more demand for convenience and indulgence in grab-and-go and snack foods. Fourth, consumers increasingly wanted new flavors and innovative food profiles.

Malaysian Food Consumption

Approximately half of Malaysians ate three meals plus small snacks every day. According to a survey of Asia-Pacific consumers, chocolate topped the list of popular snacks (69%), 57% of respondents snacked on vegetables, while 43% snacked on chips/crisps. In 2017, a survey of urban households, a survey commissioned by CFI, reported that 82% of respondents prepared at least three meals per week using meats, seafood, and vegetables combined with prepackaged sauces.

Malaysians frequently dined out at cafés and restaurants and ate street food sold in stalls, hawker centers, markets, and small shops. According to the Malaysia Food Barometer, 64% of Malaysians surveyed ate at least one meal per day either outside the home or consumed food at home that was purchased ready to eat (takeaway).

Malaysian Food Retail

In 2016, total retail sales of food and beverages in Malaysia were US \$16 billion. Smaller stores such as provision shops, grocery stores, and specialty food stores held 56% of this market. Supermarkets, supercenters, and department stores with supermarkets accounted for 43%. The three largest chains were the Cold Storage Group, Tesco Malaysia, and AEON. The Cold Storage Group operated 119 mass-market and 21 premium stores. Tesco targeted the mass market through 56 hypermarkets in major cities. AEON offered a full-scale supermarket inside its 37 high-end department stores. Other premium supermarkets included Jaya Grocer, Village Grocer, Ampang Grocers, and BIG.

Many smaller food retailers were family-run. They targeted consumers who valued convenience. They carried fresh products, some branded products, and a small number of popular imported foods and beverages. Local households demanded these products at competitive prices. Attracted by lower prices and sales promotions, urban consumers tended to shop at larger food retailers such as supermarkets and supercenters. Most offered in-house brands, which were often priced 10% lower than comparable products to attract price-conscious customers from lower- and middle-income groups.

Malaysian Sauces, Dressings, and Condiments Industry

In 2017, the sauces, dressings, and condiments industry in Malaysia was an estimated \$257.8 million, with 5.6% year-over-year sales growth expected between 2018 and 2022. Sales by category included cooking ingredients (\$83.2 million), pickled products (\$7.6 million), table sauces (\$144.3 million), tomato pastes and purées (\$2.3 million), and a variety of others (\$20.4 million). Pasta sauces recorded the highest volume growth (14%) due to aggressive price promotions with paired products. Sales of mayonnaise increased by 12%, with leading brands investing in media advertisements.

Food companies also offered a variety of packaged cooking sauces. Curry was the most popular (27%), followed by tom yam paste (23%), bean paste, rendang, and fried rice. In 2017, rendang saw the strongest growth among cooking sauces. It was widely accepted by Malay consumers; however, traditional preparation required multiple steps, so consumers preferred to buy packaged rendang.

In 2017, Nestlé (M) Bhd was the industry leader with Maggi (12.5%); it promoted using in-store sampling, price discounts, and investments in digital media. Lee Kum Kee (6.1%), Adabi (6.0%), and Lady's Choice (4.0%) had the next highest shares.

Many consumers chose international brands due to their quality, wide availability, and frequent price promotions. Store brands available through major supermarkets typically provided greater price discounts than name brands did. Brands also relied on seasonal price promotions to maintain market share.

Analysts predicted that several trends would shape the industry. First, consumers would continue to demand smaller package sizes. Second, growth opportunities would come through marketing campaigns, price promotions, and bundled sales. Third, sales of pasta sauces would grow rapidly; companies would launch new variations coupled with celebrity endorsements, advertisements, and free gifts. Fourth, marketing campaigns such as advertisements through YouTube, social media, brand endorsements, free gifts, price promotions, and participation in local events would increase.

Cepuros Foods International–Malaysia (CFI-M)

CFI was founded by Vivekasugha “Alif” Bin Gunnaalan in Singapore, where his parents had been successful restaurateurs. After earning a degree in food technology, Gunnaalan first developed products for global food companies. In 1987, he founded CFI. CFI specialized in the development, branding, and marketing of cooking and table sauces with unique flavor profiles. By 2017, CFI had more than 50 employees and country offices across Southeast Asia. (**Exhibit 1** shows CFI’s income statement for 2017.) CFI partnered with local food manufacturers and distributors to produce its sauces. In 2017, Singapore accounted for 48% of CFI’s sales, with Indonesia (21%), Malaysia (12%), Vietnam (10%), and the Philippines (9%) accounting for CFI’s other revenue.

CFI-M outsourced manufacturing and distribution but was responsible for marketing, sales, and communications. The office included Shelby Diaz, the country manager; two marketing and promotion specialists; and two salespersons.

Target Market

CFI-M’s primary target market was upper-income, urban households living in the Klang Valley region of Malaysia. These households typically were dual-income and relatively price insensitive. They preferred premium products that were halal certified and made with high-quality, natural ingredients. Due to their busy lifestyles, CFI-M’s customers relied on the convenience of preparing meals using packaged products rather than making meals from scratch. They typically had global travel experience and often sought innovative, unique, or international flavor profiles.

Brands and Product Lines

CFI-M sold three lines of products marketed under the name Baik Sos, which translates as “good sauce.” The brand was known for being healthy; it did not use monosodium glutamate (MSG), artificial coloring, or artificial preservatives; was halal certified; and had a reputation for using only high-quality ingredients. CFI-M offered two brands of cooking sauces. The Baik Sos Sihat line was positioned as super- premium. Its packaging used a high-gloss design with a black background; bright yellow, red, and white text; and a picture of a finished dish spanning the upper-right hand side. Available sauces included Malaysian Masak Merah, Malaysian Nyonya, Malaysian Hoi Sin, Indonesian Rendang, and Thai Green Curry. The manufacturer’s suggested retail price (MSRP) was RM8.29.

The Baik Sos Riang line was positioned as premium. Its packaging used a more traditional design with a blue-and-white pattern background, yellow and white text, and a picture of a finished dish in the middle. Sauces available were marketed as classic Malaysian, including Rendang, Satay, Pajeri, Chicken Curry, Meat Curry, and Spicy Tomato. The MSRP was RM4.99.

In 2016, CFI-M introduced a single, shelf-stable salsa under a new brand: Baik Sos Salsa. Inspired by Mexican-style salsas common in the United States, the salsa blended

chunks of tomatoes and onions with lemongrass, ginger, chilies, and garlic. It was marketed as a healthy, mildly spicy topping to flavor chips, papadum (i.e., a thin, crisp, disc-shaped dough), vegetables, and rice. Packaging promoted it as “the first and only Malay-fusion salsa.” It accounted for 6% of CFI-M’s total sales revenue. Baik Sos Salsa was priced as a premium product with an MSRP of RM6.99 and had the highest gross profit margin of any of CFI-M’s products.

Although there was no other packaged salsa sold in Malaysia in 2017, salsa was known there before CFI-M sold it. In 2014, Mission Chips debuted its tortilla chips and engaged a popular chef to demonstrate how to make five salsa-like dips at home. By 2018, there were more than a dozen Mexican restaurants serving chips and salsa in Kuala Lumpur. Malaysian cuisine also had several popular dipping sauces, including hoisin, plum sauce, chili sauce, sambal, and peanut sauce. CFI-M believed that salsa was most like sambal, a hot sauce or paste made from chili peppers and other ingredients. A wide variety of packaged sambal pastes were available across Malaysia and were often used as a dipping sauce or topping. Traditionally, sambals were used as an all-purpose condiment.

Baik Sos products were packaged using vacuum-sealed, plastic pouches with zip closures. Recipes and nutrition labeling were provided on the back. In Malaysia, this packaging signified product quality and offered storage space savings. Common packaging allowed CFI-M to standardize production and distribution variable costs across product lines. Among premium cooking sauces, Baik Sos was the top seller in two of the largest premium supermarkets in the Klang Valley. For 2018 and 2019, CFI-M forecasted 3% annual growth in its annual revenue, with the same variable cost percentage and annual 3% growth in fixed cost projections for its cooking sauces and salsa if it did not introduce a new line of salsas. **Exhibit 3** provides CFI-M’s income statement for 2017 and forecasts for 2018 and 2019. Variable costs provided include raw materials, production, packaging, and distribution.

Production and Distribution

Bina Food Industries produced CFI-M’s foods. It transformed raw ingredients into ready-to-sell products for CFI using CFI’s food quality standards and recipes. Because CFI-M’s products used halal certification standards, its average costs were slightly higher than CFI’s corporate average. Bina also warehoused and distributed products for CFI-M through its food distribution division. Offering more than 50 brands across 100 product categories, Bina specialized in domestic food products and had strong relationships with food retailers. Because CFI-M produced all products through Bina, CFI-M enjoyed discounted rates for food distribution.

Baik Sos products were sold primarily through two chains of upscale supermarkets: Jaya Grocer and Village Grocer. Both were family-owned and sourced products directly from local and overseas food distributors. These chains included 35 supermarkets located close to higher-income consumers living in the Klang Valley. Bina worked directly with each supermarket chain to maintain inventory levels and stock products on shelves. CFI-M worked directly with both to market and promote its products. On average, CFI-M’s revenue per unit was 70% of the MSRP after retailer markups.

Communications and Promotions

CFI-M’s marketing and communications strategy used advertisements across a variety of media that were designed to encourage trial among new customers and brand preference among existing customers. Messages focused on quality, freshness, and purity with a brand-focused approach. Its tagline was *Kualiti restoran, dimasak di rumah*, which translated in English as “Restaurant quality, home-cooked.”

In 2017, CFI-M spent approximately 10% of its selling expenses producing videos and blog postings offering recipes made by local chefs using Baik Sos products. Chefs from popular local restaurants were recruited as spokespersons to describe ingredients, flavors, and pairings. CFI-M’s director of marketing communications, Zara binti Rifat, noted, “Each video has more than 500,000 views and hundreds of positive

comments; our chefs' cooking tips and personalities connect with customers seeking advice for healthy snacks, family meals, and party planning. We should develop stronger partnerships with the chefs and their restaurants. We could have the chefs introduce salsa and raw vegetables as a healthy snack or side dish in a quick food tip video."

In 2017, approximately 20% of CFI-M's selling expenses were spent on paid advertisements on the radio. Nationwide, 96% of Malaysians listened to the radio for an average of 14.5 hours per week. A survey of 1,000 consumers in Peninsular Malaysia revealed that consumers believed advertisements on the radio were memorable (67%), made brands advertised more appealing (81%), increased trust in brands advertised (73%), made a brand seem more authentic (70%), and made them feel more loyal to the brands (68%). After hearing an advertisement on the radio, 33% of respondents indicated doing research about the advertised product or brand, while 25% considered buying.

CFI-M also relied on digital advertising through banner, video, search, mobile, and social media advertising. In 2017, a survey of Malaysians suggested that 70% of Malaysians were active on Facebook, followed by YouTube (69%), Instagram (49%), Twitter (30%), and Pinterest (17%). Accordingly, CFI-M spent approximately 10% of its selling expenses in 2017 on paid advertisements on Facebook, Instagram, YouTube, and Pinterest and 5% on banner and search ads.

CFI-M offered modest price discounts six times per year around the major holidays. It often coupled them with in-store samples of products cooked using Baik Sos Sihat sauces. Combined, price discounts and sampling represented 30% of CFI-M's selling expenses in 2017. In 2017, CFI-M also spent 25% of its selling expenses on trade promotions directly to supermarkets for better shelf positions and seasonal displays. These included slotting allowances (for shelf space), display allowances (for point-of-purchase space), temporary price discounts, and free products. Both Jaya Grocer and Village Grocer occasionally offered price discounts on select cuts of meat with a purchase of a Baik Sos Riang cooking sauce. CFI-M maintained positive relationships with its retail partners through its salespeople.

Setting the Course

CFI-M planned to expand its Baik Sos Salsa item into a full line of five salsas. Each salsa's flavor profile would be internationally branded to reflect vegetables, fruits, herbs, and spices common to one of five countries: the United States, Mexico, Thailand, Indonesia, and Malaysia. Recipes used for each of the new flavors were already used in one or more of the CFI-M's sauces, so there were no changes in the suppliers of raw ingredients. CFI-M was scheduled to ship these products in early 2019 and planned to sell each for an MSRP of RM6.99. Although customers could purchase similar fresh salsas from the menu at the few Mexican restaurants in Malaysia or buy ingredients to make similar salsas at home using a recipe, no one sold packaged salsa to customers in the retail food setting.

Shelby Diaz commissioned a marketing research firm to conduct a consumer survey in late 2017. CFI-M collected data from 2,000 shoppers at select Jaya Grocer and Village Grocer locations. For comparison, the firm used the Maggi brand as a moderately priced cooking sauce and Adabi as a premium cooking sauce. Both Sihat and Riang had very high brand awareness (97%), which was similar to Maggi (97%) and Adabi (95%). As expected, Sihat had significantly higher quality perceptions (95%) than Riang (75%), Adabi (73%), and Maggi (50%). Purchase behaviors for Riang and Maggi were similar; both were purchased at least once by 74% of shoppers. By comparison, less than half had purchased Sihat and Maggi (49% and 44%, respectively). Of those who had made a purchase, shoppers purchased an average of six pouches of Sihat and 12 pouches of Riang annually.

Baik Sos Salsa did not perform as well for brand awareness: Only 19% of shoppers knew the product was available for purchase. However, among those who were aware, 95% perceived it as high quality. Only 10% of the shoppers surveyed had purchased Baik Sos Salsa at least once in the past three months. Of those, 75% liked it and planned to

purchase it again. On average, Baik Sos Salsa purchasers bought it twice during the past twelve months. Diaz believed the results highlighted the strengths of the Baik Sos brand yet also identified problems with Baik Sos Salsa. Using the survey results, the research firm explained:

The brand name is strong, but most consumers were confused by Baik Sos Salsa. Baik Sos is associated with high-quality cooking sauces, so consuming Baik Sos Salsa without cooking was inconsistent with previous experiences with the brand. Most shoppers had no experience with salsa outside Mexican restaurants in Kuala Lumpur. Most shoppers who knew about salsa as a product for purchase knew the Baik Sos Salsa brand, but they had not considered purchase.

Using this information, Diaz originally proposed targeting customers who purchased the original salsa to try the new flavors. For example, she proposed offering a price discount on any of the new salsa flavors with the purchase of the original. For 2019, she forecasted an increase in salsa sales by 15% from 2018. Her proposal increased total selling expenses by 7% and general and administrative (G&A) expenses by 3% from 2018, but she projected no change in variable cost percentages.

When Diaz explained her plan during the call to target the new products to existing users, Aati commented:

CFI should be pushing the boundaries of food innovation. Malaysian palates are poised for something new. If [Malaysians are] taught how to enjoy it, salsa will appeal to every Malaysian household. CFI-M needs to educate the consumer and make it more widely available. Let's focus on wider distribution through mass-market supermarkets. I know we can double our salsa by the end of 2019 if we budget \$800,000 for selling expenses and \$550,000 for G&A expenses.

Lee disagreed:

Doubling salsa sales will take longer than a year; it takes time to build relationships with new retailers. Even if we could get the shelf space, we also need to consider our competitors and our premium brand image. If Nestlé or Heinz introduces lines after we have done the heavy lifting, they can steal market share with lower prices. We also risk diluting our premium image if we start selling in mass-market retailers. However, I believe that Shelby's projections for selling expenses are too low; we should increase investments in total selling expenses by 15% as compared to 2018. This will allow us to focus on increasing awareness and trial among our current customers. Our sales goal should be a 30% increase in salsa sales.

Diaz wondered how quickly CFI's salsa sales could or would grow. She did not want to invest in educating consumers if the concept of salsa was beyond most consumers' understanding and willingness to buy. As she turned back to her desk, Diaz considered the options. Given the difference in opinions between Aati and Lee, she knew she must be prepared to defend her recommendation during the conference call next week. If her argument did not convince one or the other to change his or her opinion, she would have a hard time getting approval to launch the new salsas.

Exhibit 1 CFI Consolidated Income Statement (Annual 2017)

	US\$	% of Revenue
Revenue	34,297,050	100.0
Variable costs	20,093,082	58.6

Gross profit	14,203,968	41.4
Fixed costs		
Selling expenses	4,499,925	13.1
General and administrative (G&A) expenses	4,552,246	13.3
Operating profit	5,151,797	15.0

Exhibit 2 Malaysia at a Glance

Area (land and water)*	329,847 km ²
Land boundaries*	Brunei 266 km; Indonesia 1,881 km; Thailand
Government*	Federal parliamentary monarchy (king and prime minister)
Population (2017e)*	31,318,992
Urbanization (2018e)*	76% of total population
Major urban areas (2018e)*	Kuala Lumpur: 7.564 million; Johor Bahru: 983,000; Ipoh: 786,000
Ethnic groups (2017e)*	Bumiputera 61.7% (Malays and indigenous peoples); Chinese 20.8%; Indian 6.2%; other 0.9%; noncitizens 10.4%
Languages*	Bahasa Malaysia (official), English, Chinese (Cantonese, Mandarin, Hokkien, Hakka, Hainan, Foochow), Tamil, Telugu, Malayalam, Panjabi, Thai
Major religions (2010)*	Muslim (official) 61.3%; Buddhist 19.8%; Christian 9.2%; Hindu 6.3%
Employment (2016)†	Service 61%; industry 28%; agriculture 11%
Unemployment rate (2018)†	3.4% (excluding 7.13 million not in labor force)
Labor force participation rates (2018)†	Male 80.1%; Female 54.8%
Median income (2016)†	National: RM 5,228; Kuala Lumpur: RM 9,073
Household expenditures (2016)†	Housing, water, electricity, gas, and other fuels 24.0%; food and nonalcoholic beverages 18.0%; transportation 13.7%; restaurants and hotels 13.4%
Literacy rate (2018e)†	Adults (15+): 94.6%
ICT usage (2017)†	Adults (15+): Internet 80.1%; computer 69.8%; mobile phone 97.7%

*Source: US Central Intelligence Agency, World Factbook: Malaysia, City, ST: Publisher, June 7, 2018.

†Source: Malaysia Department of Statistics.

Exhibit 3 CFI Malaysia's Income Statement and Forecasts without Introduction (US\$ rounded)

	2017 Actual		2018 Expected		2019 Forecasted	
	Total	Lines	Total	Lines	Total	Lines
Revenue	\$4,115,646		\$4,239,115		\$4,366,289	
Sihat		\$2,304,762		\$2,373,905		\$2,445,122
Riang		\$1,563,945		\$1,610,863		\$1,659,189
Salsa		\$246,939		\$254,347		\$261,978
Variable costs	\$2,503,960		\$2,579,079		\$2,656,452	

Sihat		\$1,362,115		\$1,402,978		\$1,445,068
Riang		\$1,004,053		\$1,034,175		\$1,065,200
Salsa		\$137,792		\$141,926		\$146,184
Gross profit	\$1,611,686		\$1,660,036		\$1,709,837	
Fixed costs						
Selling expenses	\$518,572		\$534,129		\$550,153	
G&A expenses	\$465,068		\$479,020		\$493,391	
Operating profit	\$628,046		\$646,887		\$666,293	

ⁱ ¹ Ansoff's matrix is a 2 × 2 table that offers four different options for growth: market penetration, market development, product development, and diversification. It can be found in H. I. Ansoff, "Strategies for Diversification," *Harvard Business Review*, 35, no. 5 (1957): 113–124.