PGDM (RM), 2016-18
GLOBAL RETAILING
Subject Code: RM-401
Trimester IV, End Term Examination, September 2017

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.** In case of rough work please use answer sheet.

Section A (Attempt any three. Word limit: 300 words) **M M = 5 * 3 = 15**

1. 'Divestment is called a method of investment in the context of international retailing'. Illustrate with examples.
2. 'The current estimated value of trans-shipping in Luxembourg is eighty percent of its FDI flows.' Explain this statement.
3. The patterns of development based on market proximity (the EPRG Framework) become less important and less evident as retailers have become more international in their objectives and expansion. Give your comments on this statement.
4. Define any two: area representation agreements, master franchising, direct franchising?
5. Explain the Simpson and Thorpe's PLIN Model (1995). Between the PLIN model and the Treadgold typology, which is more relevant and why?

Section B (Attempt any two. Word limit: 500 words) **M M= 10* 2 =20**

1. Which are the three most important metrics which will help an international retailer to understand whether to invest or divest stores in a particular country? Discuss in detail.
2. A fashion retailer with a strong brand, internationalizing for the first time might choose to use franchising as a market entry method. Comment.
3. Select any retailer and explain how Dunning's eclectic paradigm could be applicable to an internationalizing firm.

Section C (Compulsory Case Study) **15 marks**

Home Depot

Home Depot is the world's third largest retailer. Only Wal-Mart and Carrefour are ranked high In Deloitte's 2015 ranking of the world's top 250 retail companies (Deloitte, 2015). A home improvement specialist, Home Depot has international operations in Canada, Mexico, Puerto Rico, and the Virgin Islands, as well as a very large domestic US business. As this list of locations intimates, Home Depot's current operations would imply a reticence on behalf of the retailer to move far from home However, it is not that long since analysts were commenting on Home Depot's aim to conquer the South American market by adding Argentina and Chile to International portfolio (Edgecliffe-Johnson, 2010).

Home Depot's first move out of its domestic US market was into neighbouring Canada in 1994. This was followed in 1998 by a move into Chile via a joint venture with Falabella, a domestic Chilean home improvement chain. Entry into Chile was closely followed by Argentina in 1999 and Mexico in 2001. The company also had a small operation In Puerto Rico. The move to Mexico via acquisition of the four-store TotalHOME was greeted well by commentators at that time, pointing to Mexico's highly fragmented home improvement market (Emmott, 2001), By 2003, as a result of two more acquisitions, Home Depot had become Mexico's number two home improvement retailer (Buckley and Liu, 2003).

Almost no sooner had Home Depot entered Mexico than the company announced in October 2001, its intention to leave both the Argentinean and Chilean markets, just eighteen months after entering the former. By the end of the year, it had sold its stake in the Chile operation, consisting of five stores, to joint venture partner Falabella, and its four stores in Argentina to Hipermercados Jumbo (Edgecliffe-Johnson, 2001).

According to the analysis of Bianchi and Arnold (2004), a key reason for Home Depot's problems in both countries was its lack of understanding of society and the shopping culture Inthe markets. In terms of Chile, the company underestimated the collective nature of Society whereby the family is dominant- families shop together at weekends. Further, Home Depot imposed the same type of management on the Chilean culture that it operated in its domestic market. Networking in Chile Is fundamentally important to successful business, with competitors and suppliers meeting on a regular basis.

According to Bianchi and Mena (2004: 495), 'Chilean retailers are led by professionals that belong to large family business groups in Chile, which are well regarded by the Chilean business community. In their wisdom, Home Depot banned its managers from such meetings, and they were not allowed to talk to competitors. This proved very detrimental. By imposing an external culture, Home' Depot's managers were left out of this cultural and social loop.

Home Depot's local competition in Chile, Sodimac and Easy, did have a much better understanding of their consumer. In defensive moves in anticipation of the arrival of Home Depot, Sodimac introduced self-service and a credit card facility while pursuing an expansionist strategy. Easy also introduced a credit card facility and refurbished its stores. Such a defensive strategy is characteristic of Chilean retailers, who are known for defending their local market from foreign competition (Bianchi and Mena 2004).

The importance of women in the shopping situation was severely underestimated by Home Depot throughout the company's entire time in Chile and Home Depot returned losses. According to Bianchi and Mena (2004), within three months of acquiring its stake in Home Depot, Falabella had changed the name to Home Store, added new product lines part particularly targeting the female consumer such as kitchenware and appliances, cut excessive spending, and turned the loss making company Into a profit making one.

As Home Depot exemplifies, culture and society can be factors that are seriously underestimated by retailers when internationalizing, but they do so at their peril. As Bianchi and Mena (2004: 503) warn: 'Business models are not exportable to other countries without a prior understanding of the local consumer (culture, values, customs) and local competitive environment.

Case Study Questions

1. Explain why Home Depot has been successful in Mexico and Puerto Rico, yet could not sustain its business in Chile or Argentina.
2. What could Home Depot have done to avoid finding itself in a divestment situation in both Chile and Argentina?
3. Provide and discuss two examples of retailers that have made mistakes in international markets by underestimating the importance of consumer behavior in the market they are entering.