PGDM (IB), 2016-2018

GLOBAL BUSINESS ENVIRONMENT

Subject Code: IB-208

TRIMESTER –II, End Term Examination, 2016

Time Allowed: 2 hours, 30 minutes **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.

Sections	No. of Questions to attempt	Marks	Marks
A	3 out of 5(Short Questions)	5 marks each	3*5 = 15
B	2 out of 3 (Long Questions)	10 marks each	2*10= 20
C	Compulsory Case Study	15 marks	15
		Total Marks	**50**

SECTION A

Answer ***any three*** questions from this section.

Q.1.Everest Company has been exporting its line of mountain climbing equipment to buyers world-wide for thirty years. Top markets include United States, European countries and Japan. Customers in these countries always pay in their local currency. Everest's vice –president of international sales often states that the firm's biggest day-to-day challenge is dealing with foreign currencies. How can use technical forecasting to take up this challenge? Suggest at least two methods.

Q.2. Discuss the relevance of IMF's SDR in the current times. What is the process of its valuation?

Q.3. Discuss the economic and social effects of Tariff imposition on imports?

Q.4. How would the "Economic Freedom Index" and "Ease of doing Business" facilitates the business manager's task of scanning the business environment?

Q.5. Discuss how Transfer Pricing is used by Multinational Corporations to shift income across borders?

SECTION B

Answer ***any two*** questions from this Section. Each question carries 10 marks.

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Q.1. The organization of the future will more than likely face pressures for global integration along with those clamouring for local responsiveness. In your opinion, which structural form would best manage that challenge? You may draw reference from Bartlett & Ghoshal's model of evolution of global organizations.

Q.2. TelComm Corporation is a manufacturer of components for the cell phone industry. TelComm founder Alex Bell heard that China has the world's largest number of cell phone numbers and wants to begin exporting the firm's products there. But TelComm has little international experience. Please summarize major trade barriers (tariff & non-tariff) Mr. Bell might face and what they should do to minimize their threat?

Q.3. Assume that after your post graduation, you start working for an SME (Small & Medium Enterprise) which manufactures Italian tile, granite countertops and other high quality building materials for residential construction projects. Your boss wants to begin foreign operations. Prepare a memo for her in which you briefly describe the various modes of entry in foreign countries.

SECTION C

Read the case and answer the questions given at the end.

Subway and the Challenges of Franchising in China

Subway, the fast-food marketer of submarine sandwiches and salads, has more than 34,000 stores in ninety-eight countries and generates $15 billion in annual revenues. The franchising chain opened its first international restaurant in Bahrain in 1984. Since then, Subway has expanded worldwide and generates about one-fifth of its annual revenues abroad. The firm expects foreign markets to contribute much of its future growth. Subway is one of the most successful fast-food chains in China. Fish and tuna salad sandwiches are the top sellers. By 2006, Subway had opened about forty stores in China. The franchise had its share of initial setbacks. Subway's master franchisee in Beijing, Jim Bryant, lost money to a scheming partner and had to teach the franchising concept to a country that had never heard of it. Until recently, there was no word in Chinese for "franchise." Cultural problems are still an ongoing challenge. After Bryant opened his first Subway shop, customers stood outside and watched for a few days. When they finally tried to buy a sandwich, many were confused and Bryant printed signs explaining how to order. Some didn't believe the tuna salad was made from fish because they could not see the head or tail. Others didn't like the idea of touching their food, so they would gradually peel off the paper wrapping and eat the sandwich like a banana. To make matters worse, few customers liked sandwiches. Subway has had to create menu items that suit local tastes, such as "Roasted Duck Sub." Subway-or Sai Bei Wei (Mandarin for "tastes better than others")-has forged ahead. Bryant has recruited numerous committed franchisees that he monitors closely to maintain quality. He recruits local entrepreneurs, trains them to become franchisees, and acts as a liaison between them and Subway headquarters. For this work, he receives half of their $10,000 initial fee and one-third of their 8 percent royalty fees. Today, there are more than 300 Subway stores in China. Other multinational franchisors still face significant challenges in China, particularly in dealing with the ambiguous legal environment, finding appropriate partners, and identifying the most suitable marketing, financing, and logistics strategies. Famous brands like A&W, Dunkin' Donuts, and Rainforest Cafe have all experienced these issues.

Why China for Franchising?

On the surface, franchising in China is attractive because of its huge market, long-term growth potential, and dramatic rise in disposable income among its rapidly expanding urban population. The market for fast food is estimated at $15 billion per year. China's urban population, the target market for casual dining, has expanded at a 5 percent compound annual growth rate over the past several years, a trend expected to continue. Increasingly hectic lifestyles have led to an increase in meals the Chinese eat outside the home. Surveys reveal that Chinese consumers are interested in sampling non-Chinese foods.

Market researchers have identified several major benefits to franchising in China:

•A win-win proposition. Restaurants were one of the first industries the government opened to private ownership in the early 1980s. Franchising in China combines the Western know- how of franchisors with the local market knowledge of franchisees. Many Chinese have strong entrepreneurial instincts and are eager to launch their own businesses.

•Minimal entry costs. Because much of the cost of launching a restaurant is borne by local entrepreneurs, franchising minimizes the costs to franchisors of entering the market.

•Rapid expansion. By leveraging the resources of numerous local entrepreneurs, the franchisor can get set up quickly. Franchising is superior to other entry strategies for rapidly establishing many outlets throughout any new market.

•Brand consistency. Because franchisors are required to strictly adhere to company operating procedures and policies, brand consistency is easier to maintain.

•Circumvention of legal constraints. Franchising allows the focal firm to avoid trade barriers associated with exporting and FDI, common in China.

Challenges of Franchising in China

China's market also poses many challenges for franchisors:

•Knowledge gap. Despite the likely pool of potential franchisees, realistically, few Chinese have significant knowledge about how to start and operate a business. There is still much confusion about franchising among lawmakers, entrepreneurs, and consumers. Focal firms must educate government officials, potential franchisees, and creditors on the basics of franchising, a process that consumes energy, time, and money.

•Ambiguous legal environment. Franchisors need to closely examine China's legal system regarding contracts and intellectual property rights. The Chinese government introduced regulations permitting franchising in 1997. The legal system is evolving and has numerous loopholes and ambiguities. Some critical elements are not covered. The situation has led to di-

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verse interpretations of the legality of franchising in China. Franchisors must be vigilant about protecting trademarks. A local imitator can quickly dilute or damage a trademark a focal firm has built up through much expense and effort. Branding is important to franchising success, but consumers become confused if several similar brands are present. Chinese imitators have launched restaurants that use similar logos and menus, and even accept coupons from Subway when consumers mix up the two stores.

•Escalating start-up costs. Ordinarily, entry through franchising is cost effective. However, various challenges, combined with linguistic and cultural barriers, can increase the up-front investment and resource demands of new entrants in China and delay profitability. Given the shortage of restaurant equipment in China, the franchisor may have to invest in store equipment and lease it to the franchisee, at least until the franchisee can afford to buy it.Franchisors must be patient. McDonald's has been in China since the early 1990s and has devoted substantial resources to building its brand. But few firms have its resources.

Perhaps the biggest challenge of launching franchises in China is finding the right partners. It is paradoxical that entrepreneurs with the capital to start a restaurant often lack the business experience or entrepreneurial drive, while entrepreneurs with sufficient drive and expertise often lack the start-up capital. Subway's franchise fee of $10,000 is equivalent to two years' salary for the average Chinese. The banking system in China is still developing.

Availability and financing of suitable real estate are major considerations as well, particularly for initial showcase stores where location is critical. According to established Chinese law, local and foreign investors are allowed to develop, use, and administer real estate. But in many cases, the Chinese government owns real estate that is not available for individuals to purchase. Private property laws are under developed, and franchisees occasionally risk eviction. Fortunately, a growing number of malls and shopping centers are good locations franchised restaurants.

The Chinese authorities maintain restrictions on the repatriation of profits to the home country. Strict rules discourage repatriation of the initial investment, making this capital rather illiquid. To avoid this problem, firms make initial capital investments in stages to minimize the risk of not being able to withdraw overinvested funds. Fortunately, China is gradually relaxing its restrictions, and franchisors have been reinvesting their profits back into China to continue to fund the growth of their operations. Reinvesting profits also provides a natural hedge against exchange rate fluctuations.

Q.1. From Subway's perspective, is franchising the best entry strategy for China? What is your opinion about the method of franchising followed by Subway?

Q.2. What are the challenges faced by Subway in China? Do culture and intellectual property issues pose specific threat? How can they be managed?

Q.3. Briefly compare the business environment in Indian & Chinese markets for Subway's operations?

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