PGDM (Retail Management), 2014-2016
Retail Strategy and Negotiation
RM-502
Trimester – IV, End-Term Examination: December 2015

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.

Note: There are 3 sections in this paper. Answer briefly and to the point.

Section A: Answer any 3 Questions (5 marks each)

Q..1 What are the sources of Competitive Advantage for a firm? Describe the levels of CA in terms of Longevity? Provide illustrations for each of these levels.

Q. 2 Do you think that the present buzz around ecommerce especially in retailing is Justified? Discuss the critical factors that impact eretailing and are they positive or Adverse. Are there some products that lend themselves to online selling? Mention them.

Q.3 Recently there was a report that Starbucks viewed India as its greatest potential Market. The firm's claim is based on reduced per store losses to Rs. 60 lakhs. The number of outlets are progressively being increased. Do you think that Starbucks can be successful in India? If so why so?

Q.4 Do you feel that India should continue to restrict FDI in multi brand retail? Would global retailers be able to overcome the challenges that decades of large Indian organized retailers have been unable to. Under what circumstances would such groups make a positive difference to Indian customers?

Q.5 Explain the basics of Negotiation. What model is usually followed? Do the standard Recommendations for successful negotiation make sense? What should be the ideal approach to be followed in Negotiation. Ilustrate with an example

Section B: Answer any 2 Questions (10 marks each)

Q.1 The only instances of success in India's organized Retail space are companies in the South of whom the best examples are Saravana Stores and Nilgiris. What in your view are the reasons for this while larger business groups have failed. Do you think these two groups will maintain their respective successes. If not why not?

Q.2. Discuss the option of Retailers to introduce In-House- Brands. Under what circumstances can this option succeed for a retailer. Describe in some detail with an successful example of such a brand. Does this option work positively for the primary brand? Give reasons for your assessment

Q.3 Recently the owner, promoter of Zara became the richest man in the world. Trace the journey of this exceptional Retail giant to the top of its industry sub space. Provide the fundamental causes for its continuing success in a challenging business. Explain the causes for its lack of similar success in India.

Section C: Compulsory Case Study (15 Marks)

Coke in India Reality or Hallucination

Coca-Cola was the world's largest manufacturer, marketer, and distributor of nonalcoholic carbonated beverage concentrates and syrups, with more than 400 widely recognizedbeverage brands in its portfolio. Headquartered in Atlanta Georgia U.S.A with divisions and local operations in over 200 countries. Worldwide, Coca-Cola generated more than 70% of its income outside the United States by2003 (See Exhibit 3).

Coca Cola re entered India(the company was thrown out by the Janata Government in 1977 when George Fernandez a political radical was given charge of the Industries Ministry) in 1993 as a joint venture with an associate of the Bombay Dyeing group. The company quickly bought out the Indian partner and even more boldly, bought out the then leading Indian Soft Drinks player Parle Beverages for a sum of Rs. 175 Crores.

Two critical strategic decisions were taken by the Indian Subsidiary(subsequently renamed Hindusthan Coca Cola Beverages. The first was to "kill" Parle's established soft drink brands Thums Up, Gold Spot and Limca which were leaders in their respectives categories viz Cola, Orange and Lime&Lemon. This was to provide unhindered market passage for the company's global brands Coca Cola, Fanta, and Sprite.

The company also decided to remove its established bottlers all over the country and replace them with Company owned Bottling Operations(COBOs). This decision was explained as a move to ensure uniform quality and to gain the benefit of scaling up manufacturing Capacity- COBOs would have a minimum capacity of 10mn cases per year. Note: 1 case contains 24 bottles of a soft drink variant.
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From 1993 to 2003, Coca-Cola invested more than US$1 billion in India, making it one of the country's top international investors.22 By 2003, Coca-Cola India had won the prestigious Woodruf Cup from among 22 divisions of the Company based on three broad parameters of volume, profitability, and quality. Coca-Cola India achieved 39% volume growth in 2002 while the industry grew 23% nationally and the Company reached breakeven profitability in the region for the first time.23 Encouraged by its 2002 performance, Coca-Cola India announced plans to double its capacity at an investment of $125 million (Rs. 750 crore) between September 2002 and March 2003.24

Pepsico the other global contender: Meanwhile its dreaded rival who had re entered India in 1989, was expanding its presence in India marketing its international offerings Pepsi, Merinda and 77. The company's subsidiary Frito Lay had made a firm entry into the Indian Salty Snack Food space and the Carbonated Soft drink/Salty Snack duo would constitute a formidable hegemony against the acknowledged Global leader who had only the carbonated beverage in its competitive armoury.

The complexity of the consumer soft drink market demanded a distribution process to support 700,000 retail outlets serviced by a fleet that includes 10-ton trucks, open-bay three wheelers, and trademarked tricycles and pushcarts that were used to navigate the narrow alleyways of the cities.25 In addition to its own employees, Coke indirectly created employment for another 125,000 Indians through its procurement, supply, and distribution networks.

Sanjiv Gupta, President and CEO of Coca-Cola India, joined Coke in 1997 as Vice President, Marketing and was instrumental in the company's success in developing a brand relevant to the Indian consumer and in tapping India's vast rural market potential. Following his marketing responsibilities, Gupta served as Head of Operations for Company-owned bottling operations and then as Deputy President. Seen as the driving force behind recent successful forays into packaged drinking water, powdered drinks, and ready-to-serve tea 's, coffee, Gupta and his marketing prowess were critical to the continued growth of the Company.26

In an effort to make the price point of Coke within reach of this high-potential market, Coca-Cola launched the Accessibility Campaign, introducing a new 200ml bottle, smaller than the traditional 300ml bottle found in urban markets, and concurrently cutting the price in half, to Rs. 5. This pricing strategy closed the gap between Coke and basic refreshments like lemonade and tea, making soft drinks truly accessible for the first time. At the same time, Coke invested in distribution infrastructure to effectively serve a disbursed population and doubled the number of retail outlets in rural areas from 80,000 in 2001 to 160,000 in 2003, increasing market penetration from 13 to 25%.35In an effort to make the price point of Coke within reach of this high-potential market.

Distribution challenges: While Coca Cola has a national presence, there have been frequent complaints that some of its popular products including Thums Up which remains the market leader ahead of Coke and Pepsi, are not available in key urban markets including state capitals. Other problem areas include retailer dissatisfaction with the company policy of '"dumping its products" irrespective of retail offtake. Nasty rumours have been floating regarding significant presence of spurious products. Those opposed to the company including its rivals in the branded and unbranded sector point to the prices stamped on "branded bottles" being outdated and not reflective of current prices.

Other Woes: Worldwide there has been an irreversible trend towards Fruit juices and packaged drinking water. In India this trend has been witnessed over the last two decades with high growth rates of soft drinks which are not of the Carbonated variety which has been and continues as the staple of the global giants which include Coca Cola and Pepsico.

Profits: Coca Cola in India has not made profit and the Cumulative losses have increased over the last two decades. While the company showed a nil profit or extremely low profit in the years 2000, and 2001, the loss was large at $ 353 mn. In 2003. This has not created alarm in the company's corporate headquarters because it is set off against the profits of the larger corporate and the Indian loss is considered a "tax break" i.e reduces the amount of tax paid.

Seismic tremor 2005: In a top-level shake-up, Coca-Cola India president Sanjiv Gupta is likely to leave the high-profile soft drinks company after a stint of eight years. Coca-Cola, which is going through a rough phase globally, is restructuring its Indian operation under two CEOs, both likely to be expats. Sources said the new management team, including a new expat CFO, will take over shortly.

When contacted Mr Gupta said: "As of now, I have not resigned. I cannot comment on the future." Sources added that he would be with Coke for three months to facilitate a smooth transition. Mr Gupta, 44, joined the company in 1997 as its marketing head.

Those who know him, and the company, give him the credit of aligning the focus of the company with the realities of the Indian market. However, things have been tough for him for the past two years.

Apparently, Mr Gupta fell out with the new management of the Atlanta-based cola company over the Indian subsidiary's future strategy. Sources added the head of operations, Vipul Saurav, is slated for a posting abroad. In all probability, he would be replaced by John Eustace, who has come from Coca-Cola Hellenic Bottling Company, one of the world's largest bottler of Coke products. When Mr Gupta took over as CE

O in July '03, he was the second Indian to head Coke in India. The first was American-Indian Jaidev Raja. Analysts have often accused Coke for its incoherent leadership.

Unlike Pepsi, which had an Indian at its helm for more than a decade, Coke has changed several CEOs. When Mr Gupta leaves, he would be the fifth CEO in 11 years. After Raja, it was Richard Nicholas III, Donald Short, Alex von Behr and then Mr Gupta.

Coke's new global CEO Neville Isdell has taken the view that the Indian operation should change the management structure and hive off the loss-laden company-owned-bottling-operations (COBOs) under a separate head. In this scenario, Mr Gupta's scope of work would have been limited to looking after the concentrate division, marketing and innovations.

According to sources, this arrangement was not acceptable to Mr Gupta. This apart, said unconfirmed sources, there were other areas of disagreements. For instance, Isdell did not buy the big idea of selling soft drinks in small 200ml bottles. He is in favour of pushing 300ml bottles because he believes that it generates volume and increases the company's profitability. Isdell, it is believed, is also not very hot on Coke's rural focus in India.

India's importance in Coke's scheme of things was evident when it was part of Isdell's first overseas tour as global chief. Last November, after a six-month review of operations worldwide, Isdell, a 36-year veteran at Coke, said India, China, Russia and Brazil would be expected to contribute 41% to the cola company's carbonated soft drinks growth by '08. At present, they contribute 14%.

He said in the long term, 95% of the business will come from outside the US. Not surprisingly, Isdell is taking special interest in India for accelerated growth. That did not seem to come through.

Question 1. From the events and assessments made in the Case, what were the Strategic decisions that were sound in the Context of the Indian Business reality and which were the unsound ones. **7 Marks**

Question 2. Do you feel that Coca Cola like its major rival Pepsi have read the trends that are impacting their future prospects in their business which is non alcoholic beverages. What in your view are the trends and how should Coca Cola have responded appropriately **8 Marks**