

PGDM- IB (2017-19)
INTERNATIONAL MARKETING
Subject Code: IB-301

Trimester – III, End – Term Examination, March 2018

Time allowed: 2.5 hours

Max. Marks: 50

Roll No. : _____

Instruction: Students are required to write their roll number on every page of the question paper, writing anything except the roll number will be treated as Unfair Means. In case of rough work, please use the answer sheet.

Section A

Attempt only **THREE** questions.
Word limit: 200 words

Marks: 5*3=15

1. Effective international marketing research is crucial to prevent marketing failures. Justify this statement with suitable examples.
2. Dual pricing and price discrimination are normal phenomena in international marketing. Discuss the 1st level of price discrimination with examples.
3. Select any product and analyse its marketing strategies in international markets.
4. Explain the concept of transfer pricing. How do firms use it as a tool to circumvent regulatory provisions of the countries where they operate?
5. Write short notes on the following
a. International franchising b. greenfield operations

Section B

Attempt only **TWO** questions.
Word limit: 400 words

Marks: 10*2=20

1. Work out a market segmentation plan for exports of fresh fruits from India. Which countries would you target first? Detail your logic for the choice.
2. Markets with geographic proximity are not always the most preferred markets. Examine this statement critically and explain with suitable examples.
3. An international marketer has to find a trade-off between standardized and customized product as it is difficult to evolve a completely global product. Critique this statement.
4. In view of the fact that many of the products marketed by developing countries are unbranded, give reasons why a marketer should stress on building brands.

Section C

Compulsory Case study

Marks: 15

McDonald's and Obesity

The Problem

Governments and influential health advocates around the world, spooked that their nations' kids will become as fat as American kids, are cracking down on the marketers they blame for the explosion in childhood obesity. Across the globe, efforts are under way to slow the march of obesity.

In the United States roughly 30 percent of American children are overweight or obese. According to the U.S. Centers for Disease Control and Prevention (CDC), an estimated 64.5 percent of Americans tip the scales as overweight or obese, the highest percentage of fat people of any country in the world. However, adults and kids in other countries are catching up.

The World

The World Health Organization (WHO) reports that globally there are now more than 1 billion overweight adults and that at least 300 million of those are obese, a 50 percent increase in the number of obese people from 1995, when there were 200 million. An estimated 17.6 million children under five are estimated to be overweight worldwide.

In many countries the worst increases in obesity have occurred in young people. About half a million children in Europe are suffering classic middle-aged health problems because they are too fat. Obesity among European children has been on the rise over the last 15 years. The number of overweight children in Europe did not change much from 1974 to 1984; then the rate started to creep up during the next 10 years, and it exploded after 1995.

In Britain, one in five children is overweight or obese, in Spain 30 percent, and in Italy, 36 percent. While less than 1 percent of the children in Africa suffer from malnutrition, 3 percent are overweight or obese.

Perhaps the most distressing data come from Asia, where the measure of being overweight used in Western countries may underestimate the seriousness of weight-related health problems faced by Asians. In Japan, for example, obesity is defined as a body mass index (BMI) level of

25 or more, not 30 as it is in Western countries. But Japanese health officials report that a BMI of 25 or more is already causing high rates of diabetes. About 290 million children in China are thought to be overweight, and researchers expect that number to double in the next 10 years. The World Health Organization has warned of an escalating global epidemic of overweight and obesity.

Global Reactions to Obesity

One of the perplexing questions is why the relatively sudden increase of obesity worldwide? Some opine that fast food portion sizes are partly to blame. The average size order of French fries has nearly tripled since 1955. Some people say advertising is to blame, particularly ads aimed at children, such as those ads that use celebrities to market high-calorie foods. According to *USA Today*, one study found that the average American child sees 10,000 food ads a year, mostly for high-fat or sugary foods and drinks.

Traditionally, in developing countries, the poorest people have been the thinnest, a consequence of hard physical labor and the consumption of small amounts of traditional foods. But when these people in poor countries migrate to cities, obesity rates rise fastest among those in the lowest socioeconomic group.

Even as food companies battle U.S. lawsuits and legislators who blame them for inducing childhood obesity, they're being attacked on another front—Europe—which is threatening, among other things, to ban advertising icons such as Tony the Tiger and Ronald McDonald. "I would like to see the industry not advertising directly to children," said one European health commissioner. "If this doesn't produce satisfactory results, we will proceed to legislation." The European Health Commission has called for the food industry to set its own regulations to curb so-called junk-food advertising aimed at the European Union's 450 million citizens—or face bans similar to the tobacco industry.

The ominous comparison to cigarettes is increasingly being made in the United States as well. Commenting on a McDonald's plan to send Ronald McDonald to schools to

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preach about nutrition, an aide to a U.S. senator said, "No matter what Ronald is doing, they are still using this cartoon character to sell fatty hamburgers to kids. Once upon a time, tobacco companies had Joe Camel and they didn't get it either."

Also under fire is TV advertising of kids' foods, as calls for curbs or bans rise around the world. "If the rise in [the] child obesity trend continues, within five years we'll be in the same situation as America is today," said a senior child nutritionist at the University of Copenhagen who sits on the board of Denmark's National Board of Nutritional Science. "Banning TV ads that are targeting kids is an important strategy to adopt." But there is an argument that those measures won't help. "In Sweden, Norway and Quebec, where food ads are banned from kids' TV, there's no evidence that obesity rates have fallen."

A new law in France will force food marketers to choose between adding a health message to commercials or paying a 1.5 percent tax on their ad budgets to fund healthy-eating messages. Other measures under consideration in Europe include banning celebrities and cartoon characters from food ads aimed at children and preventing food marketers from using cell phone jingles to reach kids.

Ireland bans celebrities from food and beverage ads aimed at children and requires confectionery and soft-drink spots broadcast in programs where half the audience is younger than 18 to carry a visual or voice-over warning that snacking on sugary foods and drinks can damage teeth. Ireland is a small market, but there are fears that these measures could spread to the United Kingdom and then to the rest of Europe, especially since many advertisers run the same campaigns in the United Kingdom and Ireland.

Unlike France and Ireland, the United Kingdom is trying a more carrot-and-stick approach, encouraging self-regulation with legislation as a last but threatened resort. In November 2004, the U.K. government published health recommendations giving the food and beverage industries until early 2007 to act more responsibly or face formal legislation. The document followed a high-profile U.K. government inquiry into child obesity last year. Marketing and agency executives called to give evidence were grilled publicly over the use of celebrities in ads, inciting kids' "pester power" and high salt and sugar content in foods.

The paper's proposals include clamping down on using cartoon characters to appeal to kids in food and beverage ads, potentially dooming brand icons such as Kellogg's

Tony the Tiger. There have also been calls for a ban, like Ireland's, on celebrity endorsement in "junk-food" advertising by 2006. In a country where the biggest grocery-store brand, PepsiCo's Walker's Crisps, relies on celebrities in its ad campaigns, that's a big deal.

The Nordic countries are the most militant about enacting laws to ban or restrict marketing of foods that they consider unhealthy to children, and fighting to extend those restrictions to the rest of Europe. The toughest laws against advertising to children have long been in Scandinavia, where the health risks of obesity and diabetes from high sugar consumption are sometimes compared to tobacco. The legislatures in Sweden, Finland, and Denmark are all considering even tighter controls on marketing sugary foods. Denmark's National Consumer Council has petitioned the government to ban marketing "unhealthy food products" to anyone under 16, and Finland's legislature is hearing from health groups that want a total ban on TV ads for sugar-laden food. Commenting on such proposals, the CEO of the Finnish Food and Drink Industries Federation said, "Implementing stricter controls on advertising food and drinks will not be a quick-fix answer to all these problems."

"The European Union is on it, Washington's on it, the ball is rolling now and the food companies have to do something," said one top advertising agency executive. But he added, "I hope food companies won't be bullied into doing things that play to the politicians," noting there are other contributing factors for obesity, such as low income. He said food marketers could truly contribute to a solution by putting money into programs like the USDA's Nutrition Program for Women, Infants and Children, a subsidized food and education program that also happens to be very good at driving sales for the products approved for the list. The key is to translate the hype to real solutions like physical education in schools and parents—the most important role models, according to substantiated research—reclaiming responsibility. "If a food has a right to exist, a marketer has the right to advertise it."

Marketers are struggling against a crackdown on food advertising amid growing concern over obesity throughout the world. Marketers are trying to avert a clampdown with greater self-regulation. But, despite a slew of individual company efforts to shift new-product and marketing focus to healthier offerings, the industry has, until now, largely shied away from defending itself more broadly.

McDonald's Response

For the last few years, McDonald's has reacted to the obesity issues in several ways in the U.K. and other countries. Concerned about consumer reaction to the film *Super Size Me*,¹ McDonald's Corp. broke a U.K. campaign called "Changes" with poster ads that omit the Golden Arches for the first time, replacing them with a question mark in the same typeface and the tagline "McDonald's. But not as you know it." Promoting ongoing menu changes, the posters feature items such as a salad, a pile of free-range eggshells, pieces of fruit and cups of cappuccino. The effort preceded a direct-mail campaign to 17 million households touting healthier menu items and smaller portion size.

McDonald's aim was to cause people to think differently about McDonald's and to make the public aware of new products. "There's no intention to abandon the Arches" but only to focus attention on the "healthy" additions to the menu. Despite the new campaign, research showed the chain hadn't received the hoped-for awareness for some of the newer items on its menu, including the all-white-meat Chicken Selects and the fruit bags. More worrisome, a research study revealed that frequent users didn't like to admit to friends that they ate at McDonald's. "We don't want to have closet loyalists."

One researcher urged more time for McDonald's "Changes" campaign to get traction. "The market position and market stature of McDonald's in the U.K. is not nearly as strong as it is in the U.S. and accordingly, you have to stick with the program longer," he said. But he warned that the "Changes" campaign could backfire. "Trying to suppress the logo is not likely to change the hearts and minds of many fast-food voters in Europe."

In anticipation of the release of the documentary *Super Size Me* in the United Kingdom, McDonald's in London went on the defensive with full-page newspaper ads discussing the film. The ads, headlined "If you haven't seen the film 'Super Size Me,' here's what you're missing," have appeared in the film-review sections of six newspapers to coincide with filmmaker Morgan Spurlock's appearance at the annual Edinburgh film festival. The copy

Super Size Me is a documentary on the fast-food industry and the addictiveness of fast food, its allure to children, etc. Scenes in the film feature Morgan Spurlock (the director and producer of the documentary), whose food feat consists of eating some 5,000 calories a day, twice what his doctor says he needs to maintain his starting weight of 185 pounds. He also avoids exercise because, he says, that's what most Americans do. Spurlock gains weight—nearly 25 pounds over 30 days. His cholesterol goes up, and so does his blood pressure. His doctor describes his liver function test results as "obscene." Spurlock complains of sluggishness, depression, shortness of breath, impotence, chest pressure, and headaches.

describes it as "slick and well-made," and says McDonald's actually agrees with the "core argument" of the film—"If you eat too much and do too little, it's bad for you." However, it continues: "What we don't agree with is the idea that eating at McDonald's is bad for you." The ad highlights some of McDonald's healthier menu items such as grilled chicken salad and fruit bags. A spokeswoman for McDonald's said it ran the ads to ensure there was a "balanced debate" about the film. *Super Size Me* distributor Tartan Films has retaliated by running identical-looking ads in newspapers promoting the film.

As a direct response to government calls for food marketers to promote a more active lifestyle, McDonald's U.K. launched an ad campaign aimed at kids featuring Ronald McDonald and animated fruit and vegetable characters called Yums. In two-minute singing-and-dancing animated spots, the Yums urge, "It's fun when you eat right and stay active."

Even though McDonald's plans to expand its healthier menu offerings, it does so cautiously, so people remember that the Golden Arches at its core still means burgers and fries.

McDonald's, throughout Europe and elsewhere, is testing ways to address the obesity issue. In Scandinavia, for example, popular healthy local foods have been added to the McMenu, like cod wrapped in rye bread in Finland. In Norway, some outlets sell a salmon burger wrapped in rye bread. In Sweden, no salt is added to the food served.

In Australia, McDonald's took a different approach—it reduced its budget for ads directed to kids by 50 percent.

McDonald's French operation raised the ire of the parent company when it ran a print ad in a women's magazine quoting a nutritionist's suggestion that kids shouldn't eat at the restaurant more than once a week. While the ad was meant to promote McDonald's and seems reasonable since the French only visit quick-service restaurants every two weeks on average anyway, such a campaign would have been heresy in the United States. McDonald's Corp. later issued a statement claiming that "the majority of nutritionists" believe McDonald's can fit into a balanced diet. Later, the company recruited a pair of French nutritionists who declared the Big Mac and cheeseburger healthier than traditional French fare such as quiche.

Marketers in France have lobbied hard to be allowed to use positive lifestyle messages in ads—like emphasizing the importance of physical exercise and a balanced diet—rather than grim health warnings. France's Ministry of Health appears to be listening, and is now expected to let marketers choose among three or four positive health messages. Industry experts say the government changed its

mind out of fear that strong warnings might backfire, causing anxiety among consumers about eating. Moreover, France may hope its new law, if not too extreme, will become a blueprint for Europe.

Snack Food Industry Responses

Snack food and beverage companies like PepsiCo have joined the fray along with the fast-food industry. PepsiCo's strategy includes adding products like Walker's Potato Heads, launched recently in the United Kingdom as a healthier snack for children, and encouraging exercise. In October 2004, Walker's did a pedometer giveaway through its Web site, backed by a \$5.6 million TV campaign. "We want to demonstrate that we are taking a responsible approach and make governments aware of what we are doing. In our view it is entirely wrong to pin all the blame on advertising to children, and we think we have moved to the stage where most governments accept this."

In Canada, where about one-third of children aged 2–11 are overweight, Concerned Children's Advertisers, a group whose members include Nestlé Canada, Coca-Cola, General Mills, Kellogg, and Kraft, has just begun running the first of three 60-second spots featuring "Health Rock," a colorful animated figure on a T-shirt, who sings about balancing food and activity.

In the Asia/Pacific region, few countries except Australia have yet to make food marketing and childhood obesity an issue. In much of Asia, a Western fast-food meal or a cola is still an occasional treat rather than a daily overindulgence. As childhood obesity begins to register as a concern in China, though, McDonald's has started promoting healthier items such as high-calcium fruit yogurt and chocolate pudding and low-fat milk on in-store marketing materials like tray liners.

Marketers are also keeping an eye on Brazil. A São Paulo university recently analyzed children's programming and found that 1 out of every 10 minutes of advertising was a food commercial. That study is a starting point for the group appointed within a government health organization's ad unit to examine nutritional claims in advertising to children.

Questions

1. How should McDonald's respond when ads promoting healthy lifestyles featuring Ronald McDonald are equated with Joe Camel and cigarette ads? Should McDonald's eliminate Ronald McDonald in its ads?
2. Discuss the merits of the law proposed by France that would require fast-food companies either to add a health message to commercials or to pay a 1.5 percent tax on their ad budgets. Propose a strategy for McDonald's to pay the tax or add health messages, and defend your recommendation.
3. If there is no evidence that obesity rates fall in those countries that ban food advertising to children, why bother?
4. The broad issue facing McDonald's U.K. is the current attitude toward rising obesity. The company seems to have tried many different approaches to deal with the problem but the problem persists. List all the problems facing McDonald's and critique their various approaches to solve the problems.
5. Based on your response to question 4 above, recommend both a short-range and long-range plan for McDonald's to implement.

Sources: Alexandra Jardine and Laurel Wentz, "U.K. Not Feeling the Love: McD's Puts Slogan on Ice," *Advertising Age*, September 13, 2004; Kate McArthur, "Marketers Brace for Food-Ad Rules," *Advertising Age*, October 25, 2004; "Thinking Locally," *Advertising Age*, March 7, 2005; "The Weight of the World: Obesity: A Global Epidemic," *Current Events*, September 26, 2003; Alexandra Jardine and Laurel Wentz, "It's a Fat World After All," *Advertising Age*, March 7, 2005; Steven Gray and Janet Adami, "McDonald's Gets Healthier—But Burgers Still Rule," *Wall Street Journal*, February 23, 2005; Alexandra Jardine and Laurel Wentz, "McD's Refutes Film in U.K. Ads," *Advertising Age*, September 30, 2004; Alexandra Jardine and Laurel Wentz, "McD's Rolls Ads sans Golden Arches," *Advertising Age*, October 18, 2004; Stephanie Thompson, "Europe Slams Icons as Peds Fight Back," *Advertising Age*, January 31, 2005; "Thinking Locally," *Advertising Age*, March 7, 2005; Emma Ross, "Obesity Hurting Health of European Children," *Associated Press*, June 3, 2005; J. E. Brody, "Globesity," *New York Times*, April 19, 2005.