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THE OPEN UNIVERSITY OF SRI LANKA
BACHELOR OF MANAGEMENT STUDIES DEGREE PROGRAMME
LEVEL 06
FINAL EXAMINATION 2016
INTERNATIONAL MARKETING-MCU4206

DATE: 14th JULY 2016 **TIME: 1.30 P.M TO 4.30 P.M**

INSTRUCTIONS

Answer **question number 01** and **three other** questions.

Answers should be clear and supported with examples where necessary.

01. Read the case given below and answer the question given at the end of the case.

Pepsi's Entry into India: A Lesson in Globalization

In May 1985, PepsiCo had joined hands with one of India's leading business houses, the R P Goenka (RPG) group, to begin operations in the country. The company, along with the RPG group company Agro Product Export Ltd., planned to import the cola concentrate and sell soft drinks under the Pepsi label.

To make its proposal attractive to the Indian government, PepsiCo said that the import of cola concentrate would essentially be in return for exporting juice concentrate from operations to be established in the north Indian state of Punjab. In its proposal submitted to the Ministry of Industrial Development, company sources said that the objectives of PepsiCo's entry into India revolved around 'promoting and developing the export of Indian agro-based products and introducing and developing PepsiCo's products in the country.' However, the government rejected this proposal primarily on two grounds: one, the government did not accept the clause regarding the import of the cola concentrate and, two, the use of a foreign brand name (Pepsi) was not allowed as per the regulatory framework.

The association with the RPG group too ended at this juncture. Not willing to sit quietly on the issue, PepsiCo put forward another proposal to the government a few months later.

The company knew that the political and social problems[4] that plagued Punjab were an extremely sensitive issue for India in the 1980s. PepsiCo's decision to link its entry with the development and welfare of the state was thus a conscious one, aimed at winning the government over. The fact that Punjab boasted a healthy agricultural sector (with good crop yields in the past) also played a role in PepsiCo's decision. Reportedly, the new proposal gave a lot of emphasis to the effects of PepsiCo's entry on agriculture and employment in Punjab. The company claimed that it would play a central role in bringing about an agricultural revolution in the state and would create many employment opportunities. To make its proposal even more lucrative, PepsiCo claimed that these new employment opportunities would tempt many of the terrorists to return to society.

Pepsi began by setting up a fruit and vegetable processing plant at Zahura village in Punjab's Hoshiarpur district. The plant would focus on processing tomatoes to make tomato paste. Since the local varieties of tomatoes were found to be of inferior quality, Pepsi imported the required material for tomato cultivation.

The company entered into agreements with a few big farmers (well-off farmers with large land holdings) and began growing tomatoes through the contract farming route (though the agro-climatic profile of

Punjab was not exactly suitable for a crop like tomato, Pepsi had chosen the state because its farmers were progressive, their landholdings were on the larger side, and water availability was sufficient). Initially, Pepsi had a tough time convincing farmers to work for the company. Its experts from the US had to interact extensively with the farmers to explain how they could benefit from working with the company. Another problem, although a minor one, was regarding financial transactions with the farmers. When the company insisted on payments by cheque, it found out that as many as 80% of the farmers did not even have a bank account..!

In the early 1990s, the Government of India was facing a foreign exchange crisis. The country was finding it extremely difficult to borrow funds from the international markets due to a host of problems on the political, economic and social fronts.

Organizations like the International Monetary Fund agreed to help the Indian government deal with the financial crisis, on condition that it liberalized the Indian economy. As a result, the government decided to liberalize the economy. The removal of the numerous restrictions on foreign trade and the increased role of private equity in Indian markets were the two most prominent features of the government's new economic policy. Pepsi benefited from the economic changes in many ways. The removal of various restrictions meant that it no longer had to fulfill many of the commitments it had made at the time of its entry. The government removed the restrictions that bound Pepsi's investments in the soft drinks business to 25% of the overall investments and required it to export 50% of its production.

Though Pepsi attracted a lot of criticism, many people felt there was a positive side to the company's entry into India. According to a www.agroindia.org article, Pepsi's tomato farming project was primarily responsible for increasing India's tomato production.

Production increased from 4.24 million tonnes in 1991-92 to 5.44 million tones in 1995-96. The company's use of high yielding seeds was regarded as one of the reasons for the increase in productivity in tomato cultivation during the same period. Commenting on the above issue, Abhiram Seth, [Seth, the company's Executive Director (Exports and External Affairs)] said, "When we set up our tomato paste plant in 1989, Punjab's tomato crop was just 28,000 tonnes, whereas our own requirement alone was 40,000 tonnes. Today, the state produces 250,000 tonnes. Per hectare yields, which used to be 16 tonnes, have crossed 50 tonnes." Pepsi was, however, not as successful in the chili contract farming venture that was started soon after the tomato venture stabilized...

The company's contract farming initiatives and its focus on improving Punjab's agricultural sector seemed to indicate that Pepsi had been working towards fulfilling its pre-entry commitments. However, the reality was quite different.

In 2000, the company's exports added up to Rs 3 billion. The items exported included not only processed foods, basmati rice and guar gum , but also soft drink concentrate. Though the company did not make the figures public, in all probability, the portion of soft drink concentrate in its exports was much higher than that of any other product. In fact, the company met the soft drink concentrate requirements of many of its plants worldwide through its Indian operations. Even by 2000, of its annual requirement of 25,000 tonnes of potatoes per annum, Pepsi got only 3,000 tonnes from its contract farmers.

Source :http://www.icmrindia.org/casestudies/catalogue/Business%20Strategy1/BSTR062.htm

(a) Analyze the social, political and economical factors that Pepsi had to come across in the environment of the host country. (10 marks)

(b) Critically evaluate the market entry strategy of Pepsi. (15 marks)

Total 25 marks

02. (a) An organization considers the legal and political forces of the host country before entering any potential foreign market. Explain with reasons why such an exercise is needed. (15 marks)

(b) Explain what do you understand by the term 'exchange risk' in international marketing and what are the strategies available for a marketer to manage such risk. (10 marks)

Total 25 marks

03. (a) Explain why internationalization of a firm is identified as a gradual process (support with theories) (17 marks)

(b) Why would you suggest that a gradual process of internationalization is advantageous for the exporting firm. (08 marks)

Total 25 marks

04. (a) Explain the actions that a marketer should carry out in the first phase of the planning process to offer his fruit products to an international market. (20 marks)

(b) What information will he have with him at the end of this phase? (05 marks)

Total 25 marks

05. Write brief notes on the following topics highlighting the purpose they serve in international marketing.

(a) The Proforma Invoice

(b) Delivery terms

(c) Letter of Credit

(d) Certificate of Origin

(e) Tariff barriers (05 marks each)

Total 25 marks