



SB-4119

M. B. A. (Sem. II) (F.T. & Eve.) Examination
March / April - 2011
International Business Environment
(Old Course)

Time : 3 Hours]

[Total Marks : 100

Instructions :

(1)

नीचे दृष्टावेक निशानीवाणी विगतो उत्तरवही पर अवश्य कभवी. Fillup strictly the details of signs on your answer book.	Seat No. :
Name of the Examination :	<input type="text"/>
<input type="checkbox"/> M. B. A. (SEM. 2) (F.T. & EVE.)	<input type="text"/>
Name of the Subject :	<input type="text"/>
<input type="checkbox"/> INTERNATIONAL BUSINESS ENVIRONMENT (OLD)	<input type="text"/>
Subject Code No. : <input type="text" value="4"/> <input type="text" value="1"/> <input type="text" value="1"/> <input type="text" value="9"/>	<input type="text"/>
Section No. (1, 2,.....) : <input type="text" value="1&2"/>	
Student's Signature	

- (2) Figures on the right indicate maximum marks of the question.
(3) Q. No. 1 and 7 are compulsory.
(4) From Section I, answer any two questions from Q. No. 2,3,4 and 5.

SECTION - I

- 1 Explain International Trade theories with suitable examples. 18
- 2 Describe how foreign exchange market works. Also describe in brief how exchange rate determination takes place. 16
- 3 What are the various ways of going international ? Explain with suitable examples. 16
- 4 What is political risk ? Explain in brief various Economic Environment factors affecting international business. 6+10=16
- 5 Differentiate between WTO and GATT. Also discuss the achievement of WTO in respect of its objectives. 6+10=16

SECTION - II

- 6 Write short notes on any three : 8×3=24
- (i) IMF
 - (ii) Global competitiveness
 - (iii) IPR
 - (iv) Globalization and HR
 - (v) Reasons for Government Intervention in Trade.

- 7 Case Study (Compulsory) : 26

Sweden's IKEA

Originally established in the 1940s in Sweden by Ingvar Kampard, IKEA has grown rapidly in recent years to become one of the world's largest retailers of home furnishings. In its initial push to expand globally, IKEA largely ignored the retailing rule that international success involves tailoring product lines closely to national tastes and preferences. Instead, IKEA was stuck with the vision articulated by founder Kampard, that the company should sell a basic product range that is "typically Swedish" wherever it ventures in the world. The company also remained primarily production oriented; that is, the Swedish management and design group decided what it was going to sell and then presented it to the worldwide public - often with very little research as to what the public actually wanted. Moreover, the company emphasized its Swedish roots in its international advertising, even going as far as to insist on a "Swedish" blue and white colour scheme for its stores.

Despite breaking some key rules of international retailing, the formula selling Swedish designed products in the same manner everywhere seemed to work. Between 1974 and 1994 IKEA expanded from a company with 10 stores, only one of which was outside Scandinavia, and annual revenues of \$ 210 million to a group with 125 stores in 26 countries and sales of close to \$ 5 billion. In 1994 only 11% of its sales were generated in Sweden. Of the balance, 29.6% came from Germany, 42.5% from the rest of the Western Europe, and 14.2% from North America. IKEA's expansion in North America was its most recent international venture.

The foundation of IKEA's success has been to offer consumers good value for money. IKEA's approach starts with a global network of suppliers, which now numbers 2,700 firms in 67 countries. An IKEA supplier gains long-term contracts, technical advice, and leased equipment from the company. In return IKEA demands an exclusive contract and low prices. IKEA's designers work closely with suppliers to build savings into the products from the outset by designing products that can be produced at a low cost. IKEA displays its enormous range of more than 10,000 products in cheap out of town stores. It sells most of its furniture as kits for customers to take home and assemble themselves. The firm reaps huge economies of scale from the size of each store and the big production runs, made possible by selling the same products all over the world. This strategy allows IKEA to match its rivals on quality, while undercutting them by upto 30% on price and still maintaining a healthy after tax return on sales of around 7%.

This strategy worked well until 1985, when IKEA decided to enter the North American market. Between 1985 and 1990 IKEA opened six stores in North America, but unlike the company's experience across Europe, the stores did not quickly become profitable. Instead, by 1990, it was clear that IKEA's North American operations were in trouble. Part of the problem was an adverse movement in exchange rates. In 1985, the exchange rate was \$ 1 = 8.6 Swedish kroner; by 1990 it was \$ 1 = SKr 5.8. At this exchange rate many products imported from Sweden did not look inexpensive to American consumers.

But there was more to IKEA's problems than adverse movements in exchange rates. IKEA's unapologetically Swedish products, which had sold so well across Europe, jarred with American tastes and sometimes physiques. Swedish beds were narrow and measured in centimeters IKEA did not sell the matching bedroom suites that Americans liked. Its kitchen cupboards were too narrow for the large dinner plates

needed for pizza. Its glasses were too small for a nation that adds ice to everything. And the drawers in IKEA's bedroom chests were too shallow for American consumers, who tend to store sweaters in them.

In 1990 the company's top management realized that if it were going to succeed in North America, it would have to customize its product offering to North American tastes. The company set about redesigning its product range. The drawers on bedroom chests were designed to be two inches deeper and sales immediately increased by 30 to 40%. IKEA now sells American style king and queen sized beds, measured in inches, and it sells them as a part of complete bedroom suites. Currently, it is redesigning its kitchen furniture and kitchenware to better appeal to American tastes. The company has also boosted the amount of products being sourced locally from 15% in 1990 to 45% in 1994, a move that makes the company for less vulnerable to adverse movements in exchange rates.

This break with IKEA's traditional strategy has paid off. Between 1990 and 1994, IKEA's North American sales have tripled to \$480 million, and the company claims it has been making a profit in North America since early 1993. By 1994, the company had also expanded the number of North American stores to 13, and it plans to have 15 open by the end of 1995.

Questions :

- (i) What strategy was IKEA pursuing as it expanded throughout Europe during the 1970s and early 1980s - a multi-domestic strategy, a global strategy, or an international strategy ?
- (ii) Why do you think this strategy did not work as well in North America as it did in Europe ?
- (iii) As of 1995, what strategy is IKEA pursuing ? Does this strategy make sense ? Can you see any drawbacks with this strategy ?