



III. Short Answer Type Questions [4 Marks]

Question 1. What do you mean by Indirect Export?

Answer: It is an occasional exporting which is a passive level of involvement where the company exports from time-to-time.

- on its own initiative.
- by getting work through independent middlemen.
- in response to occasional or unsolicited orders from abroad.

For this the company makes:

- a commitment to expand through exports,
- the least change in the company's product lines,
- workforce organization,
- investments or missions are involved.

Question 2. Why is indirect method a convenient mode of expanding?

Answer: It is so due to the following:

- It reflects a commitment to expand through exports,
- It involves the least change in the company's product lines,
- It involves least change in workforce organization, id) Involves less change in investments or missions.

Question 3. Explain Direct Export.

Answer: It is a type of export in which firms decide to handle their own exports. Through this strategy of entering global market, the enterprise takes greater risk and investment, but so the potential return are more. Direct export can be done by a firm through:

- Domestically based Export Division or Department.
- Overseas Sales Branch or Subsidiary Establishment.
- Nominations of Foreign based agents or distributors to sell the goods on behalf of the company.

Question 4. How is licensing used by the firms for entering in global market?

Answer: The licensor licenses a foreign company to use a manufacturing process, trademark, patent, trade secret or other item of value for a fee or royalty.

By this the licensor safely and easily can gain entry into the foreign market at little risk and the licensee gaining production expertise or well-known product or name without having to start from zero.

Question 5. Explain one example of licensing.

Answer: When SEARS opened departmental stores in Mexico and Spain, they found qualified local manufacturers to produce many of its products. This not only significantly reduced SEARS cost of production but led the company to earn enviable revenue position.

Question 6. Explain Contract Manufacturing.

Answer: It is a method for a local firm to go global. Here, the firm engages local manufacturers to produce the product for them. When SEARS opened departmental stores in Mexico and Spain and found it convenient. Contract manufacturing offers the company a chance to start faster and with lesser risk.

Question 7. What are Joint Ventures? Explain.

Answer: A joint venture is a restricted or a temporary partnership between two or more firms to undertake jointly to complete a specific venture. Here, both the parties participate in the equality and operations of the business, sharing profits or losses in the agreed ratio. This method is useful for going global when one wants to take limited, calculated risk.

Question 8. Describe one example of Joint venture.

Answer: Godrej-GE is a joint venture formed by spinning off the refrigerator business of Godrej and Boyee with GE (USA) with Godrej holding 60% stake and GE holding 40%. Godrej-GE plans to consolidate its refrigerators business and enter into other white goods manufacture such as ACs, dish washers, etc.

Question 9. Explain Direct Investment method of going global.

Answer: It refers to the through direct ownership of foreign-based manufacturing facilities. Here the firm exposes its large investment to risks by buying partly or full interest in a local company or by building its own enterprise.

Question 10. Give one example of Direct investment.

Answer: Electrolux AB a Swedish company and a world leader in white goods manufacturing plans to invest about \$ 100 million in India in the next 3-4 years. Heinz took over Glaxo's foods business for Rs 210 crores.

Question 11. Describe Horizontal Integration.

Answer: Horizontal integration occurs at the same level of the value added chain but involves a complementary, value added chain. It may involve acquisition of one or more competitors at the same level of business.

Question 12. Give one example of Horizontal Integration.

Answer: Hindustan Lever Ltd. has ensured for itself a presence in all segments using new brand launches and by strategic moves such as the acquisition of TOMCO.

The acquisition of TOMCO enhanced HLL's market share like it bought Hamam, 501, Moti, Jai and OK into HLL's brands, with already having Lifebuoy, Liril, Lux, Rexona, Dove, LeSancy as its powerful line extensions.

Question 13. What is Diversification strategy? Explain.

Answer: Diversification means adding new lines of business. These new lines of business may be related to the current business or may be quite unrelated. If the new lines added, make use of the firm's existing technology, production facilities or distribution channels or it amounts to backward or forward integration, it may be regarded as related diversification. Q14. What is Product Development Strategy?

Ans. Product Development Strategy implies developing or modifying the existing product to meet the requirement of the customers. This involves developing and selling new products to people who are already purchasing the firm's existing products, i.e., management can consider new product possibilities in the same existing markets by:

- Adding new features: A fairness cream with sunscreen component.
- Different Quality Levels: Surf excel, Surf Ultra, etc.
- Alternative Technology: CDMA and GPRS mobiles.

IV. Long Answer Type Questions [6 Marks]

Question 1. World is Shrinking! Explain in what way?

Answer:

- Brands: Many brands like Kellogg's in breakfast cereals,

Baskin Robbins and Walls in the ice-cream market, Sony, Akai, Panasonic in electronic market, Honda, Mercedes- Benz, Volkswagen in car market, Nestle, McDonald, etc. have become household names today. »

- Foreign Companies: Many foreign companies have turned towards India through mergers, takeover, collaborations, joint ventures, etc.
 - Product: Any world class product is now available in any part of the world.
 - Reach: The reach for any type of the product have become easy for the customers.
 - Communication techniques: Means of communication like mobile, internet, etc have brought the global markets at the door steps of the consumers.
- These all happenings which has brought the countries closer is also meant as World is Shrinking!

Question 2. What changes are being seen in Indian economy in the recent times?

Or

The Indian market is going through a period of upheavals. Explain.

Answer: Following points narrate the changes/upheavals related to Indian economy in the recent time:

- Liberalisation: The winds of liberalisation have brought about changes that have been unimaginable a decade ago or in the pre-liberalisation era.
- New products: New players both from India as well as abroad are entering in different products. This has forced the consumers to upgrade their choices and preferences.
- Competition: The competition in the market has become intense where firms are trying to protect their turf while new ones are making every effort to gain a foothold.
- Communication: Time and distance are rapidly shrinking with the growth and expansion of faster technology, communication, finance and transportation.
- Indian companies: Indian companies around the world are going global, which is intensifying competition and creating new activities in market.

Question 3. When does a firm pursues to expansion strategy?

Answer: An expansion strategy is a strategy that a firm pursues:

1. Additional Product: It serves the public in additional product or service or adds markets of functions to its definitions.
2. Growth: The growth is fast in the market in which their products are sold.
3. More profit margin: They tend to have larger than average profit margins.
4. Stretch: A stretch rather than a fit strategy is pursued.
5. New users, etc: New markets, new products, new processes and new usage for old products are regularly developed.
6. Expansion: Internal expansions, mergers and acquisitions are used to achieve expansion.
7. Globalisation: Shifting from local to global markets is an expansion sign.

Question 4. Why is it desirable for a firm to grow and expand?

Answer: It is desirable for a firm to grow and expand because of following reasons:

- Natural desire: A healthy firm normally has a natural desire for growth for its goodwill and other reasons.
- Survival: Growth is essential for survival because if a firm does not grow when competitor firms are growing, then it might lose its competitiveness.

- Market share: A company needs growth to increase its market share so as to capture more number of customers.
- Market leader: Market leadership is an objective of growth for several companies and they want to dominate the other firms.
- Avoidance of risks: A company needs to diversify its business to minimize risks. By its profit earned by one product can be used for compensating for the losses of other product.
- Full utilization: Growth becomes essential for full utilization of the existing resources of the company. Profit can only be maximized in the presence of full utilization of resources.
- Raising profit: To increase profits is the most obvious objectives of growth. More is the sale more is the profit margin.
- Motivation for employees: People working in the organisation will be motivated only if there are challenges, opportunities and growth in the enterprise. More job satisfaction is obtained in this way.

Question 5. Explain the various forms which a profit market expansion can assume.

Answer: A profit market expansion can assume the following forms:

1. Penetration Strategies: This is a strategy to grow by encouraging existing customers to buy more of the firm's existing product. Here, the enterprise try and attempt to increase the sale of the current products in the current markets by following approaches:
 - Encourage frequency of use of the product.
 - Attract new clientele using sales promotion techniques like Advertising, Personal selling, Discounts, Coupons, etc.
 - Attract Competitors Customers by using persuasive techniques.
2. Market Development Strategy: It involves selling the firm's existing products to new groups of customers and exploring new markets for the existing product at all levels national and international. The new groups of customers can be searched in terms of: New Demographic Market, New Product use, New Geographical Market:
3. Product Development Strategies: It includes developing or modifying the existing product to meet the requirement of the customers. Developing and selling new products to people who are already purchasing the firm's existing products, i.e., management can consider new product possibilities in the same existing markets by Adding new features, Different Quality Levies and Alternative Technology.

Question 6. New group of customers can be searched in which terms. Explain each.

Answer: The new groups of customers can be searched in terms of:

- New Demographic Market: By studying Demographic characteristics like Income, Marital status, Standard of living, Education, Age and sex of the customers enterprise can offer the same product to a different demographic group. For example: Tata Nano caters to a segment of middle income group.
- New Product use: An entrepreneur can find out that people use its product in a way that was not expected. This new knowledge of product use provides insight into how the product may be valuable to a new group of buyers. E.g. Aspirin, a pain killer, has been found good for heart too.
- New Geographical Market: This means selling the existing products in the new locations and new markets. This has the potential of increasing sales of the product by offering the product to customers who have not previously had the chance to purchase its products. This is based on Customers'

preferences, Language, Legal requirements, etc.

Question 7. Explain the Product Development Strategy of Raymond.

Or

Explain the Product Development Strategy of Park Avenue.

Answer: Raymond's, in early eighties, launched some ready to wear trousers called 'Double Barrels'. The product received a low response. Aggressive advertising, naming the same now as Raymond's Leg wear with caption "no hassles with tailors" and the promise of a "great fit" too failed. The company, realized through research that by and large Indians were attracted to a foreign label consequently, the company decided to market their readymade garments under a new brand name — PARK AVENUE which conveyed a 'Western' image to fit in for perfect stylish and a completely Western image from top to bottom. Park Avenue extended wallets, belts and kerchiefs under one roof. With ease company sailed through the critical stages.

Question 8. What is Vertical Expansion? Explain.

Answer: Vertical expansion refers to any of the activities or functions, previously performed by the firm right from sourcing of raw material to supply of finished goods, through external agencies will now be performed by the firm itself. It is done through:

1. Backward Integration: It is a step back on the value-added chain towards the raw materials, by which the producer also becomes a raw material wholesaler.
For example: For manufacturing of 'Nirma' detergent an important raw material used 'Linear Alkaline Benzene (LAB)' which was earlier purchased is now manufactured by Nirma itself.
2. Forward Integration: It refers to taking a step forward on the value-added chain towards the customers by which the firm also becomes a finished goods wholesaler

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