(iii) Why do you think Starbucks decided to enter the Japanese market via a joint venture with a Japanese company ? What lesson can you draw from this ?

(iv) When it comes to purchasing coffee beans, Starbucks adheres to a "fair trade" program. What do you think is the difference between fair trade and free trade ? How might a fair trade policy benefit Starbucks ? (5×4=20)

OR

Critically evaluate the Lessard-Lorange Model. Explain how the Lessard-Lorange Model help organizations to manage finances in international business operations. What are the other financial tools and techniques that a firm can adopt in order to take decisions in an international business operation ? (20)

his question paper contains 8 printed pages.]

864 *Your Roll No.* ....

M.COM. : SEMESTER – IV (NC) **F-I**

Paper No. – MN-462

Management of International Business Operations

ime : 3 Hours *Maximum Marks : 100*

(Write your Roll No. on the top immediately on receipt of this question paper.)

Attempt **all** *questions.*

All *questions carry equal marks.*

1. (a) "Firms need global orientation even to survive in the domestic market". Elucidate. (10)

(b) What is Strategic Positioning ? Examine the value creation activities that a firm undertakes in international business operations ? (10)

OR

(c) Discuss the basic strategies for locating manufacturing facilities in international business. (10)

(d) Differentiate between localization and transnational strategy that firms can pursue in international business operations. (10)

2. (a) Explain how an efficient logistics function can help an international business compete more effectively in the global marketplace. (10)

(b) What is the link between an international business's strategy and its human resource management policies, particularly with regard to the use of expatriate employees and their pay scale ? (10)

OR

(c) Examine the factors influencing the communication decisions in international markets. (10)

(d) Discuss the different financing options available to the foreign subsidiary of multinational enterprise. (10)

3. (a) Explain why production and logistics decisions are of central importance to many multinational businesses ? (10)

(b) Identify the factors that influence a firm's decision of whether to source supplies from within the company or from foreign suppliers. (10)

OR

(c) Examine the pros and cons of different approaches to staffing policy in the international business. (10)

(d) Explain how accounting systems affect control systems within the multinational enterprise. (10)

4. (a) Examine the HRM function of an international business for international labor relations. (10)

(b) Discuss the techniques that firms can use to quantify the various benefits, costs, and risks that are likely to flow from an investment in international business operations. (10)

OR

(c) What is IFRS ? Explain the factors responsible for convergence and greater harmonisation efforts at the international level. Highlight the major obstacles faced by IASB in harmonisation of accounting standards at the international level. (20)

5. **Case Study: The Globalization of Starbucks**

Thirty years ago, Starbucks was a single store in Seattle's Pike Place Market selling premium-roasted coffee. Today it is a global roaster and retailer of coffee with more than 16,000 stores, 40% of which are in 50 countries outside of the United States. Starbucks set out on its current course in the 1980s when the company's director of marketing, Howard Schultz, came back from a trip to Italy enchanted with the Italian coffeehouse experience. Schultz, who later became CEO, persuaded the company's owners to experiment with the coffeehouse format - and the Starbucks experience was born. The strategy was to sell the company's own premium-roasted coffee and freshly brewed espresso-style coffee beverages, along with a variety of pastries, coffee accessories, teas, and other products, in a tastefully designed coffeehouse setting. From the outset, the company focused on selling "a third place between work and home", rather than just the coffee. The formula led to spectacular success in the United States, where Starbucks went from obscurity to one of the best-known brands in the country in a decade. Thanks to Starbucks, coffee stores became places for relaxation, chatting with friends, reading the newspaper, holding business meetings, or (more recently) browsing the web.

In 1995, with 700 stores across the United States, Starbucks began exploring foreign opportunities. The first target market was Japan. The company established a joint venture with a local retailer, Sazaby Inc. Each company held a 50% stake in the venture, Starbucks Coffee of Japan. Starbucks initially invested \$10 million in this venture, its first foreign direct investment. The Starbucks format was then licensed to the venture, which was charged with taking over responsibility for increasing Starbucks' presence in Japan.

To make sure the Japanese operations replicated the "Starbucks experience" in North America, Starbucks transferred some employees to the Japanese operation. The licensing agreement required all Japanese store managers and employees to attend training classes similar to those given to U.S. employees. The agreement also required that stores adhere to the design parameters established in the United States. In 2001, the company introduced a stock option plan for all Japanese employees, making it the first company in Japan to do so. Skeptics doubted that Starbucks would be able to replicate its North American success overseas, but by the end of 2009 Starbucks had some 850 stores and a profitable business in Japan.

After Japan, the company embarked on an aggressive foreign investment program. In 1998, it purchased Seattle Coffee, a British coffee chain with 60 retail stores, for $84 million. An American couple, originally from Seattle, had started Seattle Coffee with the intention of establishing a Starbucks like chain in Britain. In the late 1990s Starbucks opened stores in Taiwan, China, Singapore, Thailand, New Zealand, South Korea, and Malaysia. In Asia, Starbucks' most common strategy was to license its format to a local operator in return for initial licensing fees and royalties on store revenues. As in Japan, Starbucks insisted on an intensive employee-training program and strict specifications regarding the format and layout of the store.

By 2002, Starbucks was pursuing an aggressive expansion in mainland Europe. As its first entry point, Starbucks chose Switzerland, Drawing on its experience in Asia, the company entered into a joint venture with a Swizz company, Bon Appetit Group, Switzerland's largest food service company. Bon Appetit was to hold a majority stake in the venture, and Starbucks would license its format to the Swiss company using a similar agreement to those it had used successfully in Asia. This was followed by a joint venture in other countries.

As it has increased its global footprint, Starbucks has also embraced ethical sourcing policies and environmental responsibility. Now one of the world's largest buyers of coffee, in 2000 Starbucks started to purchase Fair Trade Certified coffee. The goal was to empower small scale farmers organized in cooperatives to invest in their farms and communities, to protect the environment, and to develop the business skills necessary to compete in the global marketplace. In short, Starbucks was trying to use its influence to change not only the way people consumed coffee around the world but also the way coffee was produced in a manner that benefited the farmers and the environment. By 2010, some 75 % of the coffee Starbucks purchased was Fair Trade Certified, and the company has a goal of increasing that to 100% by 2016.

Questions :

(i) Where did the original idea for the Starbucks' format come from ? What lesson for international business can be drawn from this ?

(ii) What drove Starbucks to start expanding internationally ? How is the company creating value for its shareholders by pursuing an international expansion strategy ?