OPEN BOOK EXAMINATION **NEW SYLLABUS**

345

Roll No.…………………

Time allowed : 3 hours *Maximum marks : 100*

Total number of questions : 6 *Total number of printed pages : 7*

***NOTE** : Answer **ALL** Questions.*

1. The growth of shopping *via* internet had been viewed by Japan's Seven-Eleven convenience store chain as an opportunity rather than a threat. Because of the conditions in the Japanese market place, Seven-Eleven Japan was not likely to be able to sell its own food and other products over the internet. The company could, however, provide service to a large number of Japanese who do not have credit cards or who do not have strong aversion to providing credit card information over the telephone. With over 10,000 outlets in Japan, Seven-Eleven has stores within a short distance of most of its customers and, in fact, of most Japanese. Their customers tend to visit the stores frequently for relatively small purchases.

Thus, Seven-Eleven Japan developed a plan to serve as a distribution point for the products of other companies that were selling over the internet. Customers who wanted goods from an internet marketeer could order the goods over the internet, and the internet marketeer would ship the goods to a Seven-Eleven store near to the customer. The store would then give the goods to the customer when he or she visits the store, accept in cash (as most Japanese customers prefer) or by credit card, and remit the money to the shipper. The ubiquitous and efficient delivery services available in Japan would facilitate quick delivery to the stores, which would, in fact, be easier than locating the often difficult-to-find address of individuals. Seven-Eleven would collect a small fee for this service. More importantly, the stores would bring in additional potential customers, or bring in regular customers for additional visits. These customers might buy some of Seven-Eleven's own products in addition to picking-up their internet order.

In November, 1999, the company started this system of handling merchandise for internet marketeers, delivering goods to customers from their stores, accepting payments from the customers and remitting the payment to the seller. They entered into agreements with Softbank Corporation, Tohan book, Yahoo Japan and others to create a venture to sell using a website on Yahoo Japan. In February, 2000 Seven-Eleven partnered with seven others, including Sony, NEC, Mitsui trading company and Japan Travel Bureau to distribute a wide range of products, to provide music and photos online, and to handle booking and sale of tickets. In another venture, they were involved with internet automobile sales agencies. In July, 2000 they opened a virtual mall named *7dream.com* allowing customers to order goods online and pick-up at the Seven-Eleven store of their choice. The service proved to be a great success increasing the sales of their own products while they also collected small fees from the sellers.

In 2001, Seven-Eleven extended this service to Taiwan. The service might also be offered in additional markets if successful in Taiwan, and if target markets had appropriate characteristics.

In 2004, company opened its first outlet in China through a joint venture with local firms. Although, a Hong Kong company operates several Seven-Eleven stores in south-eastern China, this was the first time Seven-Eleven had made an equity investment and operated a store in the country. Seven-Eleven (Beijing) Co. expects to open 30 to 50 stores in the Chinese capital by mid-2005. By 2010, the company plans to have 500 stores in the nation.

Background

The Seven-Eleven chain has a long history of innovation and growth. It was originally a US company that was subsequently acquired by Japan's Ito-Yokado Co. Ltd. (Ito-Yokado). The original US Seven-Eleven, owned by a Corporation of the United States, was designed to meet the needs of the growing number of wage-earner families and single workers in the United States who worked on non-standard hours. These people often had difficulty in getting to large grocery stores and supermarkets during the hours that they were open. The increasing affluence in the United States, particularly among the target customers, suggested that they would be willing to pay something extra for the convenience of being able to shop at other times, and preferably 24 hours a day. The company opened a number of outlets, carefully selecting the items to be carried, used centralised purchasing to obtain low prices, monitored sales to improve the mix of products offered, carefully controlled inventories and used frequent delivery to achieve high turnover in limited spaces.

In 1973, Seven-Eleven's parent company, Southland Corporation (Southland) saw an opportunity in the Japanese market where many other companies saw only potential problems. The Japanese distribution system was very complex with multiple levels of wholesalers and many very small 'Mom and Pop' stores. Compared to the United States, there were twice as many wholesalers per capita and over twice as many retailers per capita in Japan. Though many of those in the distribution chain in Japan operated on very small margins, the multiple levels resulted in high distribution costs. Additionally, all participants in the distribution system were notoriously reluctant to change distributors or suppliers.

While many foreign markets viewed the Japanese market as too difficult to penetrate, Southland felt that they could set-up their own marketing chain and operate it more effectively than Japanese competitors who retained their existing systems. Japanese society appeared to be ripe for the Seven-Eleven concept. The number of women in the workforce had increased, and most men worked such long hours that they could not visit stores during the regular hours of operation. The typical neighbourhood food stores were small and carried a limited range of products, often specialising in only one type of food (fish, or vegetables, or rice, *etc*.). Traditional housewives were accustomed to visiting local shops once in a day to get fresh foods, but the number of households where women had the time to do so was decreasing. Japan was becoming increasingly affluent and people had always been willing to pay extra for convenience. The concentration of the population in a few metropolitan areas and the widespread use of trains and buses for commuting to major business districts meant that there were many locations with high traffic volumes.

Japan was still viewed as a very difficult place to do business if you did not have the right connections as well as detailed knowledge of the legal, political and social environment. Southland, therefore, formed a strategic alliance with Ito-Yokado, a large Japanese supermarket chain operator. The joint venture was highly successful, with Seven-Eleven becoming the largest convenience store operator in Japan. In an attempt to avoid being acquired by a Canadian company in 1987, Southland sold its shares of Seven-Eleven Japan to Ito-Yokado.

Seven-Eleven Japan thus became Japanese owned. Subsequent financial problems at Southland in 1990 led to the US company selling 75% of its stock to Ito-Yokado. In doing so, it turned its approximately 7,000 company-owned stores in 21 countries over to the Japanese company. (The name of Southland Corporation, now Japanese-owned, has been changed to Seven-Eleven Inc.)

Under Japanese Leadership

During the period of Japanese ownership from 1987 to the present, the company has enjoyed remarkable further growth and increasing profitability in Japan, and has expanded its overseas operations. The number of its stores in Japan has grown from 3,304 in 1987 to over 10,000 in 2004. Sales per store have steadily increased, market share has increased, and earnings have grown rapidly, with a record profit of over US $1.6 billion in the fiscal year ended February, 2004. On an average, each store in Japan now attracts 950 customer visits per day.

Seven-Eleven Japan's performance is even more impressive when placed in the context of the whole industry. Several other Japanese companies, attracted by Seven-Eleven's early success, formed competing chains. Lawson Inc. is the second largest convenience store franchise operator, followed by Family Mart. While Seven-Eleven has prospered, the convenience store sector as a whole has suffered from a slowdown in sales growth. Seven-Eleven, however, remains the market leader.

The company's success appears to have been built on a commitment to innovation. It was the first in Japan to introduce a point-of-sale (POS) system for merchandising control. It was also the first to start accepting payments for utility companies, a service now earning commissions on US $6 billion of such payments per year. It subsequently started handling insurance company payments, payments for NHK (the national broadcasting company) and others. Also, in 1987, the company introduced a control system to keep prepared rice food products at 20 degrees Centigrade through factory, delivery, and in selling cases. They continually upgrade their information systems (fifth generation *via* satellite communications in 1997) and their warehousing and delivery systems. They continually track sales data so as to determine the best mix of products and make changes in 70% of their products each year. The company develops tie-ups with manufacturers and producers, where mutual advantage can be attained in advertising or offerings. It is increasingly looking overseas for suppliers where superior products or lower prices for quality products can be obtained.

Taiwan and Beyond

The overall social, economic, and geographic environment in Taiwan appears to offer excellent potential for a profitable extension of Seven-Eleven's delivery and payment service for items ordered on the internet. Taiwan has an even higher population density than Japan, with 611 people per square kilometer in Taiwan compared to 333 people per square kilometer in Japan. Both countries also have most of their populations concentrated in a few major cities. The ratio of stores to population is high in both nations, with over 10,000 stores in Japan for catering to its population of 126 million, and over 3,100 stores in Taiwan for its population of 22 million. Thus, in Taiwan as in Japan, there is easy access to Seven-Eleven stores for most of the population.

The per capita GDP in Taiwan is only approximately one-third of that in Japan. However, the Taiwanese also have an aversion to giving out private information over the internet. Many people cannot, or do not, want to stay at home waiting for delivery services. Thus, it is easier for them to pick-up items at the convenience stores.

Seven-Eleven Japan has outlets in 19 countries. Only 4 of these countries have more than 500 outlets per country. These are Japan, the United States, Taiwan, and Thailand.

Strategy in China

Seven-Eleven took a conservative approach in entering the Chinese market, determining market potential by licensing agreements with a Hong Kong firm opened stores in Shenzhen and Guangzhou. When decided to make an equity investment they did so in the capital city with local firms as partners. In operations, they will be similar in some ways to the approach in

Japan. The outlet will be open 24 hours per day. It will handle mainly prepared dishes and foodstuffs in lunch boxes, although handling about 20% fewer items. The per capita income in China is low, but it is growing rapidly and there are increasing number of busy people with comfortable incomes in the larger cities.

Based on the above, answer the following questions :

(a) What factors accounted for Seven-Eleven's success in Japan ? Discuss.

(10 marks)

(b) Is Seven-Eleven Japan wise in extending its delivery and payment services to Taiwan ? Justify.

(10 marks)

(c) If its extension of services to Taiwan is a success, should it extend such services to the United States, Thailand, or other countries ? Elaborate with reasons.

(10 marks)

(d) Does China offer good potential for Seven-Eleven ? Elucidate.

(10 marks)

(e) Was Seven-Eleven's entry strategy appropriate for the countries ? Explain why or why not.

(10 marks)

2. (a) (i) India adopted special economic zone (SEZ) model from China in order to increase its exports. In this context, analyse the uniqueness of SEZ model and give your opinion as to why SEZ will increase India's exports.

(ii) Though SWOT analysis is a very old technique but still companies are using it. Explain why SWOT analysis is still very much relevant for the companies.

(iii) One of the major key changes in the FDI Policy, 2013 was the approval of FDI in multi-brand retailing. Analyse the impact of the FDI policy in multi-brand retailing.

(5 marks each)

(b) Distinguish between the following :

(i) 'Economic union' and 'political union'.

(ii) 'WTO' and 'UNCTAD'.

(iii) 'Anti-dumping duties' and 'countervailing duties'.

(iv) 'Warehousing' and 'inventory management'.

(v) 'Commodity agreement' and 'international commercial arbitration'.

(3 marks each)

3. What is a Logistics Park ? Why has the government established free trade warehousing zone (FTWZ) and how will FTWZ facilitate India's export and import ?

(5 marks)

4. Licensing seems to be a fairly safe way for a manufacturer to produce in a foreign market for the first time. Comment.

(5 marks)

5. If a firm is planning a strategic alliance then how will it decide about the type of strategic alliance and how will it proceed through different stages of alliance formation. Discuss.

(5 marks)

6. A small and medium enterprise shoes manufacturing company is very successfully doing its business in Indian market. Now the company wants to export its products to international market. The company has hired you as an international business consultant for preparing the detailed export plan so that the company can start exporting its products as early as possible. Suggest how the company can plan for the prospective export.

(5 marks)

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