GL BAJAJ
Institute of Management & Research
Approved by A.I.C.T.E., Ministry of HRD, Govt. of India

Roll No…………

Plot No. 2, Knowledge Park-III, Greater Noida (U.P.) – 201306

POST GRADUATE DIPLOMA IN MANAGEMENT (2017-18)
MID TERM EXAMINATION (TERM-II)

Subject Name: **International Business Environment**	Time: **01.30 hour**
Sub. Code: **PG11**	Max Marks: **20**

Note: 1. Writing anything except Roll Number on question paper will be deemed as an act of indulging in unfair means and action shall be taken as per rules.
2. All questions are compulsory in Section A, B & C. Section A carries 1 Case Study, 8marks, Section B carries 3 questions of 2 marks each and Section C carries 2 questions 3 marks each.

SECTION A **8 Marks**

Q. 1: **Case Study:**
Pepsi's Indian Operations:
Coca-Cola, the world's number one cola company, was forced to close its operations and leave India in 1977 after the Janata Party came to power. In the late 1970s and even in the late 1980s, India had a closed economy and government intervention in the corporate sector was quite high. The Janata Party government (1977-79) legislated that foreign enterprises operating in any non-priority sector in India could not own more than a 40% stake in the ventures. Coca-Cola was running its operations through a 100% subsidiary at this time. Since it did not want to enter into a 40% partnership with an Indian company and share its technology, it had to stop its operations and leave the country.

However, multinational companies such as PepsiCo had been eyeing the Indian market for a long time since India's vast population offered a huge, untapped customer base (the then per capita consumption of soft drinks in India was only three bottles per annum). The United States, the major market for PepsiCo, seemed to be reaching saturation levels and the option to expand on a global scale became inevitable for the company. PepsiCo was also encouraged by the fact that increasing urbanization had already familiarized Indians with leading global brands and its officials involved themselves in hectic lobbying with the Indian government to obtain permission to begin operations in the country. It had become imperative for PepsiCo to come up with a package attractive enough for the Indian government as many political parties and factions opposed its establishment in India.

After its first proposal submitted to the government of India was rejected, Pepsi submitted another proposal which was aimed to improve the deteriorating Punjab state that was plagued with political and social problems in the 1980s. Also, the fact that Punjab boasted a healthy agricultural sector (with good crop yields in the past) made PepsiCo decide to link its entry with the development and welfare of Punjab. It promised to establish an agricultural research center, focus on food and agro- processing, which would create 50,000 jobs throughout the country, and said that only 25% of the investment would be directed towards the soft drinks business. It said that the 25,000 jobs created in Punjab alone would tempt many of the terrorists to return to society, added a lot of 'plus points' to PepsiCo's proposal, since a large number of young people in the state had become terrorists during the 1980s. Despite protests from opposition parties and other Indian soft drink companies, the government which was impressed with the terms and conditions PepsiCo had proposed finally cleared the venture in September 1988. Pepsi launched the soft drinks business with great fanfare and an elaborate multi-media advertising campaign in 1989. The Pepsi Foods Ltd. (Pepsi) venture was a joint venture between PepsiCo (held 36.89% of the venture's stake), Punjab Agro Industrial Corporation (PAIC, a body established by the Punjab g vernment held 36.11%) and Voltas India Ltd. (a company owned by the business h use f Tatas held 24 %). Its cola was named 'Lehar Pepsi' to differentiate it from Pepsi. In the packaging and promotion, where the product name was visible the name Pepsi was given a prominent position while the Lehar part of it was relegated to the background. Consumers thus invariably had a stronger, more lasting impressi n of 'Pepsi' than 'Lehar Pepsi'.

Pepsi began in 1990 by setting up a fruit and vegetable processing plant at Zahura village in Punjab's Hoshiarpur district and entered into contracts with farmers to buy tomatoes for its plant. However, things didn't go according to the plan after Pepsi started its operations. By the time the crop was harvested in 1990, the Zahura plant had still not been made operational. As the crop could not be utilized as planned, the local farmers had to bear combined losses of Rs 2.5 million. Critics commented that Pepsi paid the farmers only Rs 0.75 per kg of tomatoes, when the market price was Rs 2.00per kg and alleged that the company had selected only big farmers, deliberately neglecting the small and medium farmers. Further, only 793 jobs were created by 1991 and it increased to a meager 2,400 by 1996. But, Pepsi claimed that it had provided employment to around 26,000 people in the country through indirect employment, which included the final vendors of the soft drink. Pepsi also failed to adhere to its commitment to export 50% of its production. Since its agricultural initiatives were not turning out to be as productive as planned, its export of fruit/vegetable-based products was negligible.

The Indian economy was liberalized in 1990, to save India from a severe foreign exchange reserve (forex) crisis. It resulted in the removal of the numerous restrictions on foreign trade and increased role of private equity in Indian markets, which benefited Pepsi. 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. The company took full advantage of the new economic policy. In 1994, it bought off its partners in to the venture - while Voltas sold off its stake completely, PAIC's stake was reduced less than 1%. The company established a wholly-owned subsidiary, PepsiCo Holdings India Pvt. Ltd. (PHI), which was completely devoted to the soft drinks business. Soon, all of Pepsi's investments in the country were being routed through this new company. The new economic policy permitted the use of foreign brand names in India and consequently, Pepsi changed its cola's name from Lehar Pepsi to Pepsi. In 1995, Pepsi's decided to sell its tomato paste plant to the Indian FMCG major, the Unilever subsidiary, Hindustan Lever Ltd. (HLL). The only link that Pepsi maintained with its agriculture- related commitments was the contract farming of tomatoes over 3,500 acres of land in Punjab.

Though Pepsi attracted a lot of criticism, many people felt there was a positive side to the company's entry into India. According to an article, posted in www.agroindia.org, Pepsi's tomato farming project was primarily responsible for increasing India's tomato production from 4.24 million tones in 1991-92 to 5.44 million tones in 1995- 96 and also for expanding contract farming in the country. Pepsi offered its contract farmers advanced equipment to help them carry out their tasks efficiently and speedily, free of cost. The company finally had set up agro-research centers in Jallowal and Channo (in Punjab) and Nelamangala (in Karnataka) to carry out field trials for various crops, vegetables and fruits and maintain nurseries. Also, Pepsi had decided to invest Rs 1.25 billion every year in Karnataka during 2000-02, in addition to the Rs 1.4 billion agro-related investment. According to Pepsi's president P.M. Sinha, Pepsi had invested over Rs 18 billion by 2000 in India (of this, Rs 1.5 billion had been invested in Punjab, where around 8,000 people were working for the company).

Even though Pepsi's initiatives seemed to indicate that it had been working towards fulfilling its promises, the reality was quite different. In 2000, the company's exports added up to Rs 3 billion, which included not only processed foods, basmati rice and guar gum, but also soft drink concentrate. The company met the soft drink concentrate requirements of many of its plants worldwide through its Indian operations. By 2000, of its annual requirement of 25,000 tones of potatoes per annum, Pepsi got only 3,000 tones from its contract farmers.

Many analysts said that since the regulatory framework had changed entirely after its entry into India, Pepsi was not bound to honor its earlier commitments. They said that given this context, the fact that it had done so much for the country's agriculture sector was something to be appreciated.

By 2003, Pepsi's soft drinks, snacks, fruit juices and mineral water businesses had established themselves firmly in India. While the cola and snack brands had enviable market positions, the mineral water and juices businesses were still experiencing growth pangs. For millions of Indians, Pepsi had become a part of their lives in different ways. A far cry indeed to from the days when the cola giant was struggling to enter the country and had use the crutches of agri-business initiatives and export commitments!

Q1. Questions for Discussion:

i) Why do companies like Pepsi need to globalize? What hurdles and problems did Pepsi face when it tried to enter India during the 1980s?

ii) Critically analyze the strategy adopted by Pepsi to sell itself to the Indian government. Do you think the biggest factor responsible for the acceptance of its proposal by the regulatory authorities was its projection of its operations as the solution to many of Punjab's problems? Why/Why not?

SECTION B **02×03=06Marks**

Q.2: Distinguish between economic growth and development.

Q.3: Do you think that the increase in contribution of service sector to GDP helps the economy?

Q.4: What do you mean by Fiscal Deficit? How Revenue deficit is different from fiscal deficit? Explain.

SECTION C **03×02=06 Marks**

Q.5: Discuss about Economic Systems with illustrations of country cases.

Q.6: Critically examine the problems and prospects of privatization.