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| **C:\Users\ADMIN\Desktop\j.png** | **JAIPURIA INSTITUE OF MANAGEMENT, INDORE**  Post Graduate Diploma in Management |
| **Course Title: International Business (Course Code: 40421)**  **End-Term Examination, Term - VI (April, 2024)** | |
| **Time Duration: 2 Hours Total Marks: 40** | |

***General Instructions*:**

1. *Answer the questions as directed. The break-up of the marks is given wherever necessary.*
2. *Answers should be brief and to the point.*
3. *Do not write on the question paper except your roll number.*

**SECTION - A**

**Q:1A** As future business leaders, grasping the complexities of the export process entails not only understanding the procedural aspects but also being adept at mitigating associated risks.

With this perspective in mind, envision a scenario wherein a company based in India seeks to export its products to global markets. Pen down a chart that delineates the step-by-step export process, identifying the diverse array of risks inherent in the export journey. Also, elucidate how exporters can proactively manage and mitigate these risks to safeguard their business interests and maximize profitability. Support your question with the role of the government in facilitating an export business.

**Q:1B** In the context of global trade, evaluate the importance of Free Trade Agreements (FTAs), Preferential Trade Agreements (PTAs), and Comprehensive Economic Cooperation Agreements (CECAs) in alleviating tariff and non-tariff barriers. Distinguish between the mechanisms of FTAs, PTAs, and CECAs in facilitating trade relations.

**[6 + 4 = 10 Marks]**

**Q:2** In light of the dynamic evolution of the international business landscape, analyze if the key trade theories: Absolute Advantage, Comparative Advantage, Factor Proportions, Country Similarity, and International Product Life Cycle are still relevant in making strategic decisions for international expansion. Additionally, examine how contemporary factors such as technological advancements and geopolitical shifts influence the applicability of these theories in the current global scenario. Provide concrete examples from real-world business contexts to support your analysis.

**[10 Marks]**

**SECTION - B**

**Case: Acquisition of Zain by Bharti Airtel**

**Indian Telecommunication Sector**

As the second-largest telecommunications market in the world, India has witnessed sustainable growth over the last decade. This success is partially attributed to the government's easy market access policy coupled with a fair regulatory framework, which enables companies to offer telecom services at affordable prices to customers. In addition, this sector claims to be one of the fastest-growing ones. Because of the deregulation of the Foreign Direct Investment (FDI) policy, this sector is among the top five employment opportunity generators in India. Employment opportunities have emerged because of the penetration of telecom services in rural areas and due to the increased usage of the Internet in both urban and rural areas. According to Randstad India, this sector is expected to generate four million jobs directly or indirectly over the next five years.

As far as projections go, International Data Corporation (IDC) predicts that India will overtake the US as the second-largest smartphone market in the world by 2017. As far as new subscribers are concerned, the Indian telecom sector is making significant efforts toward penetrating deep into the rural sector, consequently giving access to services to the most economically disadvantaged areas. The telecommunication services industry witnessed an addition of 135.7 million subscribers in 2016-17, more than double that in the previous year. The total subscriber addition in the country rose to 1,194.6 million users. As a result, there was a significant increase in revenues for various players. The surge in subscriber additions was because of Reliance Jio, which added a massive 108.7 million users from its launch in September 2016. The new entrant scored these subscribers by offering unlimited free 4G high-speed data, Voice over Long-Term Evolution (VoLTE) calls, and Short Message Service (SMS) and app services for six months. Center for Monitoring Indian Economy (CMIE) expects the subscriber additions to remain healthy in the current year. The total subscriber base is expected to improve to 1.26 billion users in 2017—18. The wireless subscriber base is expected to expand to 1.24 billion users. The wireline subscriber base, on the other hand, is expected to decline to 22.9 million by March 2018.

Because of the predatory pricing of the new entrant, Reliance Jio Infocomm, the net sales of the industry plunged by 10.3 percent in the March 2017 quarter. The top line of Bharti Airtel, the industry leader, fell by 8.3 percent year-on-year. Idea Cellular and Reliance Communications’ revenues too plummeted by 14.9 percent and 25.4 percent, respectively, during the quarter. As against a fall in sales, the operating expenses of the industry corresponding to the goods sold rose by 3.9 percent. As a result, the operating profit of the industry dropped by 42.4 percent year-on-year. The operating profit margin reduced by 13.2 percentage points to 23.6 percent of sales in the quarter under review. The industry's interest expenses and depreciation charges surged by 37.2 percent and 14.5 percent, respectively, in the March 2017 quarter. The industry incurred a net loss equivalent to 8.5 percent of the total income in the March 2017 quarter as against the net profit in the year-ago quarter.

**Bharti Airtel Limited**

Bharti Airtel Limited, formerly known as Bharti Tele-Ventures Ltd. (BTVL), is an Indian company offering telecommunication services in 18 countries across South Asia and Africa.

It offers telecom services under the Airtel brand and is headed by Sunil Bharti Mittal. The company was founded in 1995 and has its headquarters in New Delhi. Apart from mobile services, the company offers fixed-line telephone services, broadband connection, tele media, and tower infrastructure. It also provides standard and high-definition digital TV services.

Bharti Airtel is the largest mobile network operator in India and the third largest in the world with 357 million subscribers as of March 2016. Quality is an important part of Airtel’s inclusive culture. As far as established initiatives are concerned, Airtel has undertaken internal projects in Lean Six Sigma and Performance Variance Reduction (PVR). In addition, the company has ensured a very positive culture of opportunity and reward. This has helped them to attract and retain talent.

Airtel is known for its minute factory model, which is a low-cost, high-volume model. It has outsourced all its operations, except marketing, sales, and finance. Various telecom players in the industry have opted for an outsourcing strategy to lower operating costs. Ericsson and Nokia Solutions and Networks maintained Airtel’s equipment while IBM provided IT support. Bharti Infratel, Indus Towers, and various other joint ventures of Bharti maintain the transmission towers. To increase its market share in India, Bharti Airtel also adopted the “Matchbox Strategy” of distribution, in which mobile SIM cards and top-up vouchers were sold by any local pan shop that also sold matchboxes.

Airtel’s first international presence was seen in Sri Lanka in 2009. It crossed the one-million customers mark within six months of its operation. Thereafter, Airtel penetrated similar, emerging markets adjoining the Indian Peninsula, such as Bangladesh, where they acquired Warid Telecom at a 70% stake. In addition to the Indian Peninsula, they entered other emerging and developing regions, such as Africa in 2010, where Airtel acquired Zain Africa.

**Zain**

Zain Group was established in Kuwait in the year 1913. It was formally known as MTC or Mobile Telecommunications Company. In 2007, MTC group was rebranded as Zain, Africa. Zain has a commercial presence in Bahrain, Iraq, Jordan, Kuwait, and other countries in the Middle East. There are no restrictions on Zain shares, as the company’s capital is 100% free float and publicly traded.

**About the Deal**

By 2010, the Indian telecom market had attracted many competitors, so Airtel decided to expand its business. The most lucrative market at that time was Africa, which had low penetration, nearly double the average revenue per user ($8 to $12), and lower competition, with less than half the number of players as India. To increase the customer’s willingness to pay, they focused on lower rates and high volumes. Airtel could afford to go for lower rates because they were one of the few carriers across the world with free cash flow. To enter the African market, Airtel acquired the biggest player in the African market, that is Zain. This was a logical decision because Africa was considered the next investment hub in the coming future, with its billion-plus population, large amounts of natural resources, cheap labor, and more importantly, a telecom density of less than 30%. As a result, they completed the acquisition of Zain Africa BV, which had operations in over 15 countries and an estimated value of US $ 10.7 billion.

With a population of a billion people, Africa’s demand for mobile services is growing at an incremental rate. Bharti Airtel might need to invest large amounts in infrastructure and equipment to cater to this market. Airtel’s only motto in Africa has been to follow its winning strategy of being a player in the low-cost, high-volume segment. To implement this strategy, Airtel has to make sure that customers converse more by introducing cheap call rates and, as a result, it captures a good proportion of the rural population.

The acquisition of Zain by Bharti Airtel was announced on March 21, 2010, for US $10.7 billion. Under a privately negotiated agreement, Bharti Airtel went for a 100 percent stake acquisition of Zain Africa. It was an all-cash deal, financed by debt from various banks. Airtel availed a loan of US $ 1 billion from the State Bank of India. Several banks, such as Barclays and Standard Chartered, agreed to finance a US$ 7.5 billion loan for the same. Bharti Airtel paid US$ 8.3 billion cash upfront at the time of the deal, US$ 700 million was paid one year after the closing of the deal, and the remaining US$ 1.7 billion was assumed as debt on the books of Zain.

There were significant cultural, lingual, and regulatory differences among the 15 countries in which Zain operated. Cultural differences between the acquirer and the target nation can cause problems in integrating the operations post-acquisition. Airtel followed the Replication and Aggregation policy for value creation. They replicated their existing model with cultural changes in mind while going global. The infrastructure and power supply in Africa is sub-standard as compared to India. This was a serious operational threat that could have resulted in a hike in the operating expenses of Bharti Airtel. All devices and equipment were procured globally by Airtel, as none of the firms had production facilities in Africa. This directly added to the tariff and import duty as well as increased the operating cost. Apart from infrastructure, as with all countries, Africa too had different regulatory laws, which had to be followed by Bharti Airtel post the deal.

**Current position of Airtel**

Based on subscribers, Bharti Airtel was the third-largest telecom operator globally in 2016. It has a total of 117 majority-owned subsidiaries and joint ventures. The company has a total of 357 million subscribers globally as of March 2016, out of which 251 million subscribers are from India in 81 million subscribers are from Africa. It is the second largest telecom operator in Africa based on the number of subscribers. Airtel Africa is a subsidiary of Bharti Airtel Ltd., has a presence in 17 African countries, and contributes to 25% of its total revenue. As a result, we can say that India and Africa are Bharti’s major markets. It is the first telecom company in India to receive a payment bank license and offers 7.25% interest rate on its savings bank account. It is attracting retail customers by offering free talk time and a higher interest rate on savings bank accounts, for encouraging customers to deposit their money.

The diversified portfolio of Airtel has helped it to sustain growth. The mobile business of Airtel has shown a slow growth rate of only 5% in FY 2016, while the Airtel business and digital television services have shown a growth of 16% and 18% year-on-year in FY 2016. More than 50% of its revenue in 2016 was from its Indian business. Currency fluctuations and the divestment of tower assets led to a decline in the revenue from Africa by 7% in 2016. Airtel Africa had signed an agreement with Liquid Telecom to use its existing optic fiber network. This will enable Airtel to provide 3G and 4G speeds to their customers in Africa. Airtel has a wide presence in emerging economies, such as India and African countries, where around 90% of the total mobile subscribers are pre-paid and highly price-sensitive. As a result, it has to always offer competitive offers to sustain these customers and has to try to shift a few of them to the post-paid segment. In addition to this, to match the low-cost offering of Reliance Jio in India, which is the key market of Airtel, the company has to provide new offers at low costs to sustain its customers. Further, with the increase in smartphones are the number of data subscribers over the years, the revenue from voice and message services is declining constantly.

We see a bright picture of the company in the coming years. With an increase in the disposable incomes of consumers in emerging markets, the use of smartphones by subscribers has increased. Users are shifting from low-priced voice to higher-priced data usage, and this will increase revenue for Airtel. Bharti Airtel’s diversified business portfolio (apart from mobile services) provides it an edge over its competitors. Apart from this, strong economic growth in African countries provides a bright opportunity to Bharti Airtel for its growth in Africa.

By correct pricing, cost advantages, or product differentiation, a company can create value for itself. Airtel provides good quality, substantial network coverage, a large number of products and services, and the best customer services, but its prices are relatively high. It has a large number of outlets and, consequently, a wider reach.

As we know, the key success factors for any telecom firm are price, customer services, brand image, network coverage, call quality, reach, and product offerings. Airtel’s core competencies are sales and promotions, brand image, market share, resource availability, and product quality. Airtel is a well-known name throughout the world. So, because of its internationalization strategy, it is earning huge amounts of profit. It goes for a multi-dimensional expansion to stay one step ahead of its competitors, which is done by stable and visionary management. It also provides free software and updates on rental. Airtel was the first to launch mobile-to-mobile payment, which enabled Airtel users and ICICI Bank Visa cardholders to pay for their purchases with their Airtel Mobile connection. In this way, Airtel emerged as a favorite brand.

**A.** Evaluate the strategic reasons behind Airtel’s entry into overseas markets. From the EPRG framework, which orientation did the company display in its international expansions?

**B.** Critically examine if Zain was a good acquisition. Outline the challenges Bharti had to take care of for appropriate value capture through inorganic growth.

**[10 + 10 = 20 Marks]**