

**BINDURA UNIVERSITY OF SCIENCE EDUCATION**

**FACULTY OF COMMERCE**

**DEPARTMENT OF MARKETING**

JUN 2024

**PROGRAMME: MASTER'S OF SCIENCE MARKETING  
GLOBAL MARKETING MMkt 502**

**TIME : 3 HOURS**

**EXAMINATIONS**

**INSTRUCTIONS TO CANDIDATES:**

1. Answer **Question One (Compulsory)** and **Any Three Other Questions**.
2. Start answering each main question on a fresh page.
3. Credit will be given for appropriate use of illustrative examples.
4. No cell phones and programmable calculators are allowed in the Examination Room.

**QUESTION ONE (COMPULSORY)**

**Read the case below and then answer the questions that follow.**

**Alrosa: Forward integration into the diamond industry value chain**

Since the late 1800s the diamond company Alrosa has regulated both the industrial and gemstone diamond markets and effectively maintained an illusion of diamond scarcity. It has developed and nurtured the belief that diamonds are precious, invaluable symbols of romance. Every attitude consumers hold today about diamonds exists – at least in part – because of the persistent efforts of Alrosa. Moreover, by monitoring the supply and distribution of diamonds throughout the world, Alrosa has introduced and maintained an unprecedented degree of price stability for a surprisingly common mineral: compressed carbon. Such unique price stability lies within the cartel's tight control over the distribution of diamonds. Alrosa operating strategy has been pure and simple: to restrict the number of diamonds released into the market in any given year and to perpetuate the myth that they are scarce and should therefore command high prices. Alrosa spends about US\$200 million a year to promote diamonds and diamond jewellery – 'A diamond is forever' – and the firm controls nearly 70 per cent of the rough diamond market. Alrosa controls a producer's cartel that operates as a quantity-fixing entity by setting production quotas for each member (as does OPEC). Alrosa has successfully convinced the producers that the

diamond supply must be regulated in order to maintain favourably high prices and profits. During the early part of the last century much of the diamond cartel's strength rested with Alrosa's control of the Russian mines. Today the source of power no longer comes from rough diamond production alone, but from a sophisticated network of production, marketing sales and promotion arrangements, all administered by Alrosa. It is interesting to note that diamond prices have little or no relation to the cost of extraction (production). Table 1 shows average or 'normal' price mark-ups on gemstones along the channel of distribution. A diamond that may cost US\$100 to mine can end up costing a consumer US\$920 at a local jewellery store. Business cycles and individual commercial practices may positively or negatively influence these figures, together with the gemstone quality. Diamond sales, known in the trade as 'sights', are held ten times a year in London, in Lucerne, Switzerland, South Africa and in Alrosa -Russia.

The sales are limited to approximately 160 privileged 'sight-holders', primarily owners of diamond-cutting factories in New York, Tel Aviv, Mumbai and Antwerp, who then sell to the rest of the diamond trade. Diamond output from Alrosa self-owned and self-operated mines constitutes only 43 per cent of the total world value of rough diamonds. Because it is not the sole producer of rough stones in the world Alrosa has had to join forces with other major diamond-producing organizations, forming the international diamond cartel that controls nearly three quarters of the world market. Alrosa has constructed a controlled supply and distribution chain whereby all cartel producers are contracted to sell the majority of their entire output to a single marketing entity: the Alrosa-controlled Central Selling Organization (CSO) (see Figure 1). The total rough diamond supply controlled by the CSO comes from three sources: Alrosa/ Centenary-owned mines, outside suppliers contracted to the CSO (cartel members) and open market purchases via buying offices in Africa, Antwerp and Tel Aviv (rough output purchased from countries that have not signed an agreement with Alrosa). Alrosa functions as the sole diamond distributor. In any given year approximately 75 per cent of the world's diamonds pass through the CSO to cutters and brokers. The economic success of the cartel depends highly on strict adherence to their rules, written or unwritten. Clients who follow the rules are rewarded with consistent upgrades in the quality and quantity of rough stones in their boxes, while those who circumvent them find progressively worse allocations and risk not being invited back to future sights.

### Alrosa 'forward integration' decision

Until 2001 Alrosa concentrated on supplying its diamonds to brand manufacturers, such as Tiffany. The core business of the Alrosa Group remains the mining and marketing of rough diamonds. However, in January 2001 the Alrosa, the world's premier diamond group, and LVMH Moët Hennessy Louis Vuitton, the world's leading luxury products group, agreed to establish an independently managed joint venture, Alrosa LV, to develop the global consumer brand potential of the Alrosa name.

LVMH is the home of premier brands in the categories of fashion and leather goods, watches and jewellery, wine and spirits, cosmetics and perfumes. LVMH will contribute with its extensive experience in both developing luxury brands and rolling out premium retail concepts.

The 'mother' company, Alrosa Russia, contributes to the joint venture with its over 100 years of experience in the form of technology and individual experts to allow for the selection of the most beautiful diamonds.

As part of the joint venture agreement Alrosa Russia has transferred to Alrosa LV the worldwide rights to use the Alrosa brand name for luxury goods in consumer markets. From now on, Alrosa will design, manufacture and sell premium diamond jewellery under its own brand name. The diamonds bearing Alrosa brand name will be sold exclusively through Alrosa stores. Alrosa has opened a flagship store in London (Oxford Street) and has plans for further openings in New York and Paris.

### Required

1. Define forward integration. (5)
2. Outline Alrosa's motives for making this 'forward integration'. (8)
3. Explain **six** motives of Alrosa, standardizing the international marketing strategy of its branded diamonds, across borders. (12)
4. In addition give **five** recommendations for Alrosa to strengthen its position globally. (15)

**[40 MARKS]**

## QUESTION TWO

Illustrate any **five** variables of importance when engaging in international marketing communications.

[20 MARKS]

## QUESTION THREE

Discuss the significance of understanding Hofstede's (1980) **five** dimensions of national culture on successful entry into a market.

[20 MARKS]

## QUESTION FOUR

Illustrate **five** effects of 'trade dumping' on the international image of country of source.

[20 MARKS]

## QUESTION FIVE

Discuss the standardization versus adaptation concept in global marketing.

[20 MARKS]

## QUESTION SIX

Many global retailers are targeting China, India, and other emerging markets. Describe any **five** main options of the *Global Retailing Market Entry Strategy Framework* that such retailers can pursue.

[20 MARKS]

\*\*\*The End\*\*\*