

The business environment of tata motors in india



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As emphasized by (Palmer and Hartley, 2006) the Macroenvironment of a company is composed of the External Determinants. This includes factors such as political, economical, social, technological, environmental and legal. These factors have an indirect impact on a firm or any business activity. The Microenvironment of a company is composed of the Internal Determinants. This includes factors such as suppliers, consumers, competitors.

Bringing this into perspective it is very significant for any company to analyse and study the Business environment in order to make plans, design strategies and take decisions. For example, a company from the United Kingdom setting up its activities in India has to focus on the Macro and Micro Environment in India to run successfully. If they work according to the analysis of the business environment in the United Kingdom they are bound to fail in their operations in India.

Thus to understand the Macroenvironments, companies and management students can make use of PEST analysis which helps in critically evaluating the political, economical, social, technological, environmental and legal determinants which have an indirect impact on any business entity. This critical evaluation helps a business firm to strategise effectively and take justified decisions. After analysing the business environment using the PEST tool, any company can make use of SWOT analysis to gain an insight on the strengths, weaknesses, opportunities and threats to survive in today's world comprised of severe competition.

According to (Day and Shoemaker, 2005) scanning the Business Environment is like adapting a peripheral vision. Companies with a peripheral

vision can recognize the changes taking place in the business environment and accordingly take steps to confront potential threats and grab the opportunities that can prove to be of significance moving ahead. Companies with a good peripheral vision gain a competitive edge over their competitors if they react positively to the changes happening around.

The company selected for this work is Tata Motors. Being a huge manufacturer of automobiles, its periphery consists of all the accordant forces. Thus an analysis will be done considering the changes that have occurred over the last five years, how Tata Motors have reacted to these changes in order to survive in today's world of fierce competition. In this work Tata Motors will be analysed using tools like PEST Analysis, Michael Porters five forces and SWOT Analysis, and in the process these tools should be of help in deriving some conclusions and making some recommendations.

Organisation Description and Background

Tata Motors is India's largest manufacturer of automobiles. It was initially known as Tata Engineering and Locomotive Company. In 1954, the company signed a collaboration agreement with Daimler Benz of Germany and started the manufacturing of commercial vehicles. It has been a pioneer in this sector, especially in India. They also have their base of operations in the UK, South Korea, Thailand and Spain. Manufacturing of passenger cars, utility vehicles, passenger buses and light, medium and heavy commercial vehicles are the main areas of business of Tata Motors. [www. tatamotors. com]

The commercial line of Tata Motors has had its roots strengthening since several years in different market segments such as Europe, Africa, Australia,

Southeast Asia, South Asia and the Middle East. Tata Motors have always believed in acquisitions to expand their business and build a market share around the world.

Daewoo, a commercial vehicle company was the second largest truck manufacturer in South Korea. It was acquired by Tata Motors in the year 2004 and this take over gave Tata a significant place in the Korean Market. Following this acquisition Tata Motors got into a joint venture with Thonburi Automotive in the year 2006 allowing them to operate in Thailand. Tata Motors believes in expanding through Mergers and Acquisitions rather than spending several years in building a business. [www. tatamotors. com]

The largest acquisition made by Tata Motors was that of Jaguar and Land Rover from Ford in March 2008. These two brands cost Ford 5.3 billion dollars whereas Tata paid Ford 2.3 billion dollars (Carty, USA Today). This was a significant step for the company as it paved way for them into the business of luxury cars.

Tata Motors, in the above mentioned journey has been exposed to the determinants in its environment. Going ahead an analysis would be done on it using tools such as PEST Analysis, Michael Porters five forces and Swot Analysis.

PEST ANALYSIS

POLITICAL FACTORS:

As mentioned above Tata Motors has its operations in several countries around the world. In setting up these operations it was vital for Tata Motors to analyse the Political Environment so as to run the business smoothly. Over <https://assignbuster.com/the-business-environment-of-tata-motors-in-india/>

the last five years Tata Motors has had a chance to venture in different Markets. When it entered in the UK, the options of entering USA and Russia were also available. But Tata Motors preferred UK over USA and Russia due to favourable political factors such as India being a preferred economic agent, UK car market and potential and language similarity. USA market requires high quality and there are several non-tariff barriers which make it difficult for a new company to enter the market. The reason Russia was declined is because they lack a well-developed dealership network, there were high entry barriers, Language problem and finally there was always the uncertainty of future economic state. As emphasized by (Hill, 2002) the cooperation between India and the UK falls in the regime of favourability which implies benefits being derived due to less tariff and non-tariff barriers. Thus Tata Motors' decision of entering the UK market is justified.

ECONOMIC FACTORS:

This is one of the most significant determinants that need to be analysed as it encompasses factors such as market growth potential, pricing strategies, return on investment and various such monetary aspects. Since 2004 Tata Motors is on an expansion role around the world. It has made its presence felt in over five countries world-wide through acquisitions and joint ventures. Over the past five years there have been changes in different economies. Tata Motors has been adapting to these changes successfully and running their business smoothly. To give an example if there is a hike in price of aluminium in Kenya, Tata Motors has the option of falling back on suppliers in Europe or Asia. They also have to keep a close eye on the fluctuation in the currency rates. The rupee being strong against the American Dollar

doesn't mean it will be strong against the Sterling Pound. This factor is directly related to Capital Investment thus posing a challenge, Tata Motors operating in different economies which have been in a turmoil due to recession.

SOCIAL FACTORS:

Demography is one of the significant social factors. It comprises of lifestyle, consumer trends, income, spending power etc. The trait of demographic trends allows a company to make plans and strategise on the kind of products to be marketed. As emphasized by (Intel, 2006) the influence of fashion and luxury is so strong that consumers neglect the hike in price of fuel. Catering to this Tata Motors launched Tata Safari and Tata Sumo Grande, India's premier SUVs. Having said that, not all the people are in a position to afford these cars. Bringing this into perspective Tata Motors has continued to manufacture and market Tata Indica, a low budget passenger car. A lot of motorcycle accidents taking place in India, Ratan Tata, the Chairman of Tata Group had a vision of launching the worlds cheapest car and his vision did come true in the form of Tata Nano. Thus it is clearly evident that Tata Motors does respond to changes in the social factors.

TECHNOLOGICAL FACTORS:

Technology is a factor that enables a company to gain a competitive edge and survive the fierce competition in the market. Tata Motors has currently employed 1400 Scientists and Engineers in their Research and Development Team. This has ensured that they are ahead or at par with their competitors in the domestic market as well as internationally. [www. tatamotors. com]. In the last 5-10 years technology has been advancing at a very rapid space.

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There have been foreign automobile giants like Hyundai, Toyota etc setting up operations in India. Their cars were technologically far too advanced than Indian cars. They had power steering and windows, central locking, automatic transmission on gears etc. Considering these changes in the environment Tata Motors did not lag behind. They also adapted and brought out cars with this technology and survived the robust change and maintained their position as a leader in the automobile sector.

MICHAEL PORTERS FIVE FORCES ANALYSIS:

<http://www.valuebasedmanagement.net/images/porterfiveforces.gif>

Source: www.valuebasedmanagement.net.

The above mentioned diagram shows the factors considered as significant by Michael Porter in his analysis. Moving further we will see how this analysis can be used to evaluate Tata Motors' project "Tata Nano".

Threat of New Entrants:

Tata Motors launched Tata Nano as the worlds cheapest car. It basically targeted the people who used motorcycles as their mode of transport. Indian automobile sector is vibrant and emerging, attracting international brands like Volkswagen, Toyota, etc all of whom are expected to launch new innovative products. Tata Nano is priced approximately at just Rs 1, 00, 000. Launching a product at such low cost implies that the manufacturer needs to make a huge initial investment and bear a low profit margin as well. The competitors are studying the strategies of Tata Motors closely. But because of the above mentioned reasons Tata Motors doesn't have the threat of New

Entrants immediately but yes it will have to definitely face some fierce competition in the future. [www. scribd. com]

Threat of Substitutes:

Tata Nano faces a threat from electric cars as a substitute. Reva car is already present in the Indian market and Morbi based Ajanta Group is planning on manufacturing an electric car. Ajanta Group is planning on pricing its electric car at Rs 85000 which is even cheaper than the Tata Nano. Reacting to this threat Tata Motors has already considered making an electric car and named it the E-Nano. [www. scribd. com] The second hand market for cars is also booming in India. These second hand cars can act as substitutes to Tata Nano as they are in the same price range, moreover they have powerful engines. [www. jimthetrucker. com]

Bargaining Power of buyers:

Tata Nano is a car that has been manufactured keeping in mind the people with low income. At present Tata Nano is the only car in the Indian Market available at such a low price (approximately Rs 1, 00, 000). Bringing this into perspective the Indian consumers do not have many options. This implies that there is not much bargaining power vested in the hands of the buyer. But as and when the competitors come with similar cars the buyer will have the power to switch cars, the power of choice etc. [www. tatamotors. com]

Bargaining Power of Suppliers:

There are about 60 companies acting as suppliers for Tata Nano. These suppliers together assimilated an amount of about \$112. 7 dollars to set up base on the Singur Complex. Suppliers mentioned that the existing plants

were equipped enough to support the launch of Tata Nano provided the Tata Plant shifts to Pantnagar or Pune. Other suppliers showed cooperation by showing the will to use their sheds as warehouses for storing purposes.

(www.scribd.com)

Tata Motors has formulated a bill marketing system vesting the interest of the suppliers. Through this Tata's bank makes the payment to the suppliers and then Tata pays the bank. Tata has also set up a suppliers' council to recognize and rectify issues such as delayed payments which were acting as hindrance between the company and its suppliers. [www.tatamotors.com]

This shows that the suppliers conveyed utmost support to Tata Motors, thus rather than acting as a threat they acted in favour of the auto manufacturer. Tata Nano being the only make of its type the suppliers seem to be liberal but as and when competitors come up with similar cars the suppliers bargaining power will pose as a threat.

Rivalry among existing firms:

The competition is very fierce among car manufacturers in India, especially the small car manufacturers like Maruti Suzuki, Hyundai, Chevrolet etc. Tata Motors had come up with the Tata Indica to compete with the Maruti Suzuki 800, Maruti Suzuki Zen etc. Maruti at that time was the leader in the small car market in India. As a counter attack to the Tata Indica, Maruti came up with cars like Alto and some brand extensions like the Zen Estilo. The scene completely changed with the launch of Tata Nano. The price of Tata Nano was half the price of Maruti 800, which then was one of the cheapest car in the Indian Market.

In response Maruti Suzuki talked about slashing down the prices of Maruti 800 and Maruti Alto. There were also speculations about Maruti Suzuki redesigning the 800 to pose a challenge to Nano but this got scrapped as the costs involved were very high. The launch of Nano also hurt the dealers of second hand vehicles. These dealers in response got in tie-ups with banks and financial institutions to attract consumers towards buying second hand cars. Thus the launch of Nano intensified the rivalry amongst existing firms. [www. driveinside. com]

VALUE CHAIN ANALYSIS

<http://gscmotion.files.wordpress.com/2009/08/a-value-chain-analysis1.jpg>

Source - <http://gscmotion.wordpress.com/2009/08/07/using-value-chain-analysis-for-customer-satisfaction/>

The diagram shown above describes the main components and sub-components of a value chain. Going forward in this assignment an analysis will be done on the value chain of Tata Motors.

Inbound Logistics:

Tata Motors has a very strong set up of Inbound Logistics. This gives the company attain a competitive edge over the other players in the market. Following are the factors which enable the company to maintain a strong set up on Inbound Logistics. Tata Motors gets into Long term contracts with its service providers in transport and various other activities. It does the same with the agents dealing with it. It employs special personnel at regional offices to supervise the entire process. The company has made use of SAP business softwares to strengthen its IT department through which it is able

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to monitor the activities. The storage facilities are very efficient which lead to easy stuffing and retrieval of materials. [www. tatamotors. com]

Operations:

Over the past few years Tata Motors has established a Capital Equipment Manufacturing Division which assists the company in development capabilities of international standard. It also has designed Apprentice trainee courses which ensure stability in the supply of skilled manpower. Tata Motors also has a team looking into Kaizen and TPM which profoundly works towards improving efficiency. The company has an automated manufacturing process. Moreover the manufacturing is well distributed not just within India but globally. The company practices optimum utilization of capacity. An example to support this could be that of Mercedes Benz which uses Tata Motors' paint shop facilities.

Outbound Logistics:

Stockyards all across the country and also in the countries abroad where Tata Motors has its operations set up implies that they have a strong Outbound Logistics. As mentioned above the company gets into long term contracts with transporters, gives high and constant business to them which ensures it gets the best deals. SAP programmes ensure that all the offices and various sections are well connected which ensure timely execution of tasks. Pilferage is prevented, thanks to an excellent security system being enforced.

Marketing and Sales:

Tata Motors is in a pact with large number of dealers and agents to support the function of marketing and sales of its products. Tata Motors follows a systematic approach towards understanding the needs and preferences of customers. Over the past five years Tata Motors has been analysing the market dynamics and accordingly manufacturing innovative products or extending existing brands. Some examples of this would be Tata 207, Tata 407 and Tata Ace. Tata Motors caters to different segment of customers like the common man, farmers, Defence, State Transport etc. It has specific teams developed to address the needs of these customers respectively. Their strategy in Marketing and sales has enabled them to impose a Pan India and Global presence. A fact to support this statement is that Fiat which is an international brand got into a pact with Tata Motors on 13th January 2006 to use the dealership of Tata Motors to sell its vehicles and Tata Motors would use Fiat's technology and unutilized capacity.[www.tatamotors.com]