Tata motors going global

Business, Company

TATA MOTORS—GOING GLOBAL The wave of liberalization, privatization andglobalization, which started sweeping India since the early 1990s, gave Tata Motors (established in 1945) a new direction in the path of globalization. The Tata Motors firstly, realized that if it wants to grow then it cannot afford to keep its business connected solely to the fortunes of one country. Secondly, with the dismantling of import restrictions in the near future or it the rupee begins to gain ground then India may not continue to have the low-cost manufacturing advantage which it has enjoyed so far.

In that scenario, a transnational presence across countries that could offer greater cost advantages for manufacturing, will pay off. Thirdly, the automotive business is highly competitive and the competitiveness depends on economies of scale, quality and efficiency which could directly improve if the organization enters the foreign markets. The question that came in the minds of the senior management at Tata Motors was— " Should we remain an exporter of vehicles, which we have been doing since 1961 or should we venture into the international automobile market as a company that can match the best in the business? The answer was to widen its foreign campaign to more than just exports. As a result, recognizing the need to integrate its international strategy with its domestic one, the company split its previously independent international business arm into the two business units—the Passenger Car Business Unit (PCBU) and the Commercial Vehicle Business Unit (CVBU). The company's passenger car range comprises the hatchback Indica, the Indigo Sedan and the Marina, its station wagon variant, in petrol and diesel versions.

The Tata Sumo, its rural variant, the Spacio and the Tata Safari (the country’s first sports utility vehicle) are the company’s multi-utility offerings. The company’s Commercial Vehicle Business Unit (CVBU) has over 130 models of light, medium and heavy commercial vehicles ranging from two tonnes to 40 tonnes, buses ranging from 12-seaters to 60-seaters, tippers, special purpose vehicles, oil-road vehicles and defence vehicles. Dr. V. Sumantran, Executive Director, PCBU, says, “ The company has now embarked on a road where we have made exports an integral part of our business.

We do not think of sales outside the country as a separate activity. It is now integrated within the mission of each of its businesses. ” Ravi Kant, Executive Director, CVBU, says, “ In a cyclical business such as ours, it is important that we hedge against cyclicality. International business offers an opportunity as different countries go through peaks and troughs in demand at different points in time. Our capacity utilization is more effective and risks of downturns can be mitigated. ”

The two units have classified different markets in terms of size, growth opportunities, product segments and target volumes. After analysis of markets the company has decided to focus on 15 to 20 key countries, where the company will have a significant presence in terms of volumes and market shares, against being present as an exporter in 70 countries. Says Praveen Kadle, Tata Motors Executive Director ofFinanceand Corporate Affairs, “ Tata Motors does not plan to be all over the world.

Supply will follow demand and the company will need to address the markets tor different vehicles as stand-alone projects. For example, the compact-sized Indica will be marketed in countries where the company perceives a substantial market for it, like it did in Europe. The same goes for our commercial vehicles business. ” The implementation of new business strategy involves three stages—product upgradation, sales and distribution processes, and deeper penetration into foreign markets. Tata Motors has taken a number of initiatives to strengthen both product reliability and durability.

Through its subsidiaries and joint ventures, the company is engaged in engineering and automotive solutions, automotive vehicle components manufacturing and supply chain activities, machine tools and factory automation solutions, high-precision tooling and plastic and electronic components for automotive and computer applications, and automotive retailing and service operations. The company also draws on the resources of leading international design and styling houses like the Institute of Development in Automotive Engineering, SPA, Italy and Stile Bertoni, Italy.

The company has been successful in Sri Lanka and Malaysia where the installation of a sales process system and face-to-face customer meets through road shows and service workshops have started giving results. In order to enter foreign markets the company is following three routes. The first is the traditional method of exports, at which the company has been quite successful, notching up export revenue of Rs. 969 crores in the first nine months of FY 2004—05, recording a growth of 41 per cent from sales in Europe, Africa, the Middle East and Asia.

The second is the setting up of assembly operations in foreign markets. Tata Motors first used this strategy when it set up its first assembly operation in Malaysia in 1974. Since then, the company has successfully used it for expansion into Malaysia, Bangladesh, Senegal, South Africa and Ukraine by way of setting up assembly operations there through its distributors. The third is the route of acquisition and alliances. Tarn Motors entered into a tie-up with MG Rover, U. K. , to supply 1, 00, 000 Indica to be badged as City Rover.

Highlighting the importance of the tie-up, Dr. V. Sumantran, points out that the Rover agreement has been an important step in helping Tata Motors to gain very quick access to a fairly large market. ‘ Working alone in this area would have taken us much longer to create a distribution network. The exposure that the company and the products have received through the agreement validates the belief that we have arrived at a significant milestone in promoting the Tata brand,” elaborates Dr. Sumantran. It acquired Daewoo Commercial Vehicles, S.

Korea, in 2004, keeping the synergies in mind which are quite significant—a presence in the 250 to 400 HP range of trucks is what the Korean company brings to the table, as this complements the existing product range of Tata Motors which delivers vehicles up to 210 HP. The process gave not just a manufacturing asset base, but access to the market through an already strong brand identity. In 2005, it acquired a 21 per cent stake in Hipo

Carrocera, a reputed Spanish bus and coach manufacturer, with an option to acquire the remaining stake as well.

Hipo’s presence is being expanded in other markets. Today, Tata Motors is India’s largest automobile company, with revenues of Rs. 20, 483 crores (USD 4. 7 billion) in 2004—05, and is the world’s fifth largest medium and heavy commercial vehicle manufacturer. Its immediate goal is to achieve a 20 per cent contribution to its overall revenue from its international businesses by 2006. The leading global auto majors, for whom anywhere from 30—50 per cent of their business accrues from overseas sales, Tata Motors is still a long way off, but Mr.

Kadle believes that with its aggressive growth strategy a contribution of around 35 per cent maybe achievable in the next five-six years. Questions 1. What are the objectives that drove Tata Motors towards globalization? 2. What are the entry strategies that are being followed by Tata Motors in order to capture the foreign markets? 3. Discuss the logic behind the entry strategies that are being followed by Tata Motors. 4. In your opinion to what extent Mr. Kadle’s belief of overseas sales contributing 35 per cent of overall revenue, in the next five-six years, appears attainable?