

Tata steel marketing strategy



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In this report, Tata Steel Group (Tata Steel) has been chosen as an organisation to analyze the strategic changes made over past five years including strategic positioning, strategic capability, SWOT and drivers behind these changes.

Tata Steel currently is a major player in global steel industry. In year 2005 (Figure 1), Tata Steel operation was mainly focused in Indian subcontinent and revenue generated was close to US\$ 5. 0 billion only. However their initiative to expand their operations globally proved very successful over last five years. From being a mere local steel producer, they transformed themselves into a major global player in steel producers (Figure 2). They have been aggressively involved in capacity expansion by acquisitions and organic growth. Business Standard once commented that “ Tata Steel moved into its next target to become the world’s second largest steel company by 2012 with the help of its most expensive bet worth US\$ 12. 9 billion on Corus Group”.

Last two years has been very difficult period to global steel industry because of worldwide recession. The global crude steel production for year 2009 was 1220. 0 mpta (million tonne per annum) as reported by World Steel Association lower by 8% against that of 2008. The decline in demand was due to deterioration in economy experienced by key steel end users. Table 1, shows the growth/decline in terms of crude steel production for the top ten steel producing nations.

However, by acquisition of Corus and other assets, Tata Steel now ranks among world’s top ten (Table 2) largest steel producers with current steel

production capacity of 32. 0 mpta. After five years of its expansion programme, Tata Steel is now world's second most geographically diversified steel producers.

Mission Statement

In its mission statement Tata Steel expresses that while honesty and integrity are the essential ingredient of a strong and stable enterprise, profitability provides the main spark for economic activity. Founded way back in 1907, Tata Steel stress on their core ideology in its vision statement by making emphasis on their people, supplier of choice, innovative approach and their conduct. Tata Steel's vision statement is now became a tangible asset, which provide right direction to their managers and employees. Tata Steel has highly skilled employee asset of 81, 000 spread over five continents. Tata Steel stress on creating differential value for their customer with help of continuous improvement in their business process and product technology.

Value Chain Analysis

The value chain is an economic tool used to determine the strategic resources available to a company. Basic principle of the Value Chain Analysis is that the basis for a competitive advantage of a firm lies primarily in the application of the bundle of valuable resources at the firm's disposal. To transform a short-run competitive advantage into a sustained competitive advantage requires that these resources are heterogeneous in nature and not perfectly mobile (Barney, 1991, p105-106; Peteraf, 1993, p180).

Effectively, this translates into valuable resources that are neither perfectly imitable nor substitutable without great effort (Barney, 1991, p117). Tata

Steel has few major strategic capabilities which are valuable, unique and non-substitutable.

Tata Steel's Strategic Capabilities

Tata Steel's strategic capabilities are presented in Table 3, below.

Table 3

Resources

Competences

Threshold Capabilities

Threshold Resources

Threshold Competences

Steel production plants at various geographical locations.

Production and Sales management.

Offices and buildings at various geographical locations.

All other general management skills.

Sufficient supply of raw materials for steel making.

Sophisticated IT skills.

Sufficient cash flow.

Safety management.

Pool of skilled personnel.

Excellent customer service.

IT System in place.

Efficient management structure.

Logistic, freight and shipment facilities.

Effective employee welfare system.

Capabilities for Competitive Advantage

Unique Resources

Unique Competences

Varieties of products which caters to industries like Infrastructures, Automobiles, Aviation, Energy etc.

Very competent sales team with high negotiation skills which create market for their products.

Tata and Corus brands.

Excellent use of IT systems for very effective use in sales process.

Highly capable management team.

Continuous developing and upgrading new products to serve different industry levels.

Online portal Metal junction for buyers.

Highly skilled managers and directors who improve and support the company success.

A century experience in steel making.

Integrated supplier and buyer management.

Strong financial backing from group.

Lowest cost steel producer in world.

Very strong presence in India which is a big market for their products.

Enterprise Risk Management (ERM) to eliminate risk associated with various processes.

First mover advantage through innovative products & processes.

Continuous Improvement Process (CIP).

Excellent R&D for cutting edge technology and products.

Operational efficiency and excellent quality control.

Many proprietary products such as Tata Tiscon etc.

Long-term relationship with buyers and suppliers.

Porters Five Forces Analysis

Tata Steel has registered double digit growth in past few years except their European business. By applying Porters' Five Forces analysis principal, we

can evaluate the Tata Steel's market competitiveness and its current and future strategy towards intense competition faced at various fronts.

Threat of New Entrants: Low

Threat to new entrants in any industry sector is a major challenge. However in steel industry entry barrier is high hence threat of new entrants are relatively low based on factors such as huge capital investment, economies of scale, government policies and product differentiations.

Steel industry requires huge capital investment to set up an integrated steel production facility plant which is currently close to US\$ one billion/mtpa as per Steel Manufacturers Association's recent estimate. This deters any new entrants entering in this field. By increasing their production capacity to 50mtpa and wide variety of products they can lower their cost, hence more profit, sustainability and these conditions are unfavourable to any new entrants.

Raw material is a major issue with corruption related to mining allocation and land acquisition, it makes difficult to new entrants to come in this field. Various regulatory clearance and environmental issues also pose big barriers to new entrants. Entry barriers in terms of product differentiation are very low in steel industry.

Competitive Rivalry: High

The steel industry is truly global in terms of competition with large steel producing countries like China significantly influencing global prices through their aggressive exports. In steel industry, branding is not very common hence little differentiation exists between their competing products. Tata

Steel faces stiff competition with their competitors such as Arcelor Mittal, POSCO etc.

Bargaining Power of Suppliers: High

Tata Steel enjoys greater autonomy in raw materials supply as they own mines for raw material supply. Tata Steel's fully integrated supply chain system keeps abundant supply of raw material for their plants. However, other steel producers, who don't have their own mines, have to rely on raw material suppliers. On global level raw material market is dominated by the three mining giants BHP Billiton, CVRD and Rio Tinto. They make mineral market as oligopolistic and supply two-thirds of the processed iron ore to steel producers hence command very high bargaining power. Other steel producers, who don't have their own mining operations, must buy raw material at market prevailing price and pass that hike to consumers which makes them less competitive.

Threat of Substitute Products: Low

New materials may pose threat to viability of steel. Aluminium, plastics and other composite materials are being considered as substitute in sectors like auto, aviation etc. Concrete is another substitute material that may pose threat to use of steel in infrastructure and energy sectors. Some of the substitute materials such as aluminium itself are very costly, hence doesn't pose very big threat against steel producers. However the growth led by infrastructure sector, automobile sector, aviation sector and consumable goods will keep demand up for steel hence more growth for Tata Steel.

Bargaining Power of Buyers: Average

Bargaining power of buyers is very limited due to their fragmentation. Big players of the major steel consumers in sectors such as auto, aviation, energy etc may squeeze greater amount of bargain. On the other hand these bulk consumers may offer long term procurement offer to the company hence more revenue generated. However, small and retail consumers are scattered, though they consume significant amount of steel production, don't have the same bargaining powers as in case of big players.

Tata Steel Group SWOT Analysis

SWOT analysis of any firm provides knowledge about the challenges and opportunities faced by Tata Steel group in future. They are detailed below.

(S)trengths

- Tata Steel has acquired vast mineral reserves which is a key to their operations. These reserves can cater their raw material demand for next three decades. Tata Steel's mineral reserves are located at various strategic geographical locations such as India, Australia, Canada, Mozambique, Oman, Ivory Coast etc.
- Tata Steel has very capable, credible and reliable top management. Their successful global expansion plan in last five years proved this. Tata Steel has successfully acquired and integrated Corus Europe, NatSteel Indonesia and Millennium Steel Thailand.
- Tata Steel uses custom made state of art integrated information management system for their routine operation. Their advanced R&D capability has improved further by acquiring Corus which is world renowned for its product innovation.

- Tata Steel uses Tata Group's strong distribution and retail network. Its Group's demand for steel is very high due to their presence in most of the sectors.
- Currently Tata Steel produces 32 mpta of steel and by completion of DPCL project its total capacity will reach to 50mpta which will make it second biggest steel producer in world.
- Tata Steel has structured risk management process in place in their operation known as Enterprise Risk Management (ERM). ERM's key function is to identify risk at every level and mitigate the same.
- Tata Steel mitigates very well the cyclical situation which occurs in steel industry occasionally by its broad spectrum of its product portfolio.
- Tata Steel expansion plan has consolidated its position worldwide and by diversifying its portfolio and market is in process to become a pioneer in steel industry.
- Tata Steel has very strong brand value for its products. This has strengthened further by acquiring Corus which itself is a big brand. Their successful integration with Corus was a benchmark in corporate history.

(W)eaknesses

- Tata Steel's substantial debt burden of US\$9.8 billion is a major weakness. Their debt equity ratio is currently 1.77, which reflects company finances are met by debt due to Corus acquisition.
- Its European business (Corus) has a high exposure to spot price and a high operational gearing thus creating very high risk of price volatility.

- Tata Steel relies for some raw material on international suppliers, which expose their profitability in case of steep rise in their prices.
- Tata Steel's Indian operation is very much hampered by lack of infrastructure, shortage in power supply, lesser productivity, bureaucratic hurdle in export etc.
- Additional levies and tax imposed by local government put them in less profit making situation. The subsidies provided by some nations (China etc) will make their product less competitive in price hence reduce their demand.

(O)pportunities

- Currently the emerging economies are undergoing huge infrastructural developments, which require significant amount of steel in all sectors. In India the scope for expansion of its steel products are enormous in every sector, which Tata Steel can exploit very well with its increased production capacity. As per World Steel Association estimate, the consumption of steel will be doubled in next two decades.
- By Acquiring Corus and improving its own R&D activities, Tata Steel moved towards a better product differentiation and enhanced product portfolio which provide them new opportunities over its competitors.
- Their geographical locations with integrated operations and marketing strategy are a key factor in capturing market share and increasing their financial performance. They can implement Corus's advanced automation technology in their own plants to improve productivity, economies of scale, cost reduction, increased output and operational efficiency to achieve better performance.

- Following recent recession, various assets (minerals, plants facilities etc.) are available at a very low price due to their financial difficulty. Tata Steel, with strong backing from its parent group can secure future supplies of raw materials for steel making.
- With increased steel production capacity of 50 mpta, they will be the second largest steel manufacturer after Arcelor Mittal and most geographically diversified company with wide variety of product mix.

(T)hreats

- Steel Industry is major source of greenhouse gas emission, which makes them very vulnerable against many litigation and legislation in future.
- The raw materials used in steel production are non-renewable and their source is depleting very fast.
- Due to rising cost of steel products, the end users are looking for substitutes of steel; which can be a major threat to Tata Steel's business.
- Intense competition among international steel player and cheap steel available from China are another major threat to Tata Steel's performance.
- Tata Steel's huge debt is one of major threats against them. The rising interest will increase their debt burden.

Future Outlook

Following two years of worst global economic downturn, the world seems to be regaining some economic stability. There is moderate growth from

developed world; however emerging economies are registering very strong and sustainable growth with robust domestic market.

Before recession, the steel demand was very strong with over 6% growth during last decade; this is primarily driven by robust growth in BRICS nations (Brazil, Russia, India, China and South Africa), South East Asia and Middle East. By 2025, as per forecast BRICS countries will have 46% of global population and will consume 65% of the global production and will have three quarter of the global GDP.

The raw materials for steel making are going at record due to high demand, higher freight rates and monopoly of three big natural resources companies. The effects of the above factors are reflected in higher steel price and decrease in profit margin of steel companies. However Tata Steel's strategy adopted over last five years for securing long term contract for raw materials supply or acquiring new raw material mines at various geographical location has helped them to keep their prices competitive and making whole operation as viable. Tata Steel's integration with Corus has completed successfully and producing better result than expected. Tata Steel's strategic effort of capacity expansion and effort to secure raw materials source at various geographical locations yielding positive results.

Tata Steel's upstream integration process ambition will lead them to achieve 100% self-sufficiency in India and around 50% self-sufficiency in Europe in next 5 years. Tata Steel is investing heavily in R&D to get breakthrough technologies and develop new products and services that reduce the production cost and environmental impact over the product lifecycle. To

improve its processes, priority is given to energy conservation schemes; in technology break-through such as Ultra Low Carbon Steel making and in other innovative projects where the Group has proprietary technology.

Conclusions

“ It was the best of times, it was the worst of times...”, this famous quote meant a lot to Tata Steel. Five year back, just after starting of their ambitious global expansion plan, they were hit by worldwide financial tsunami which tested their resilience. Their well formulated and proved business strategy has shown resilience and ability to withstand the unprecedented highs and lows of a future that often comes unheralded. They have taken proactive initiative across all geographies to minimise aftermath shock of recession. Their strategy began to pay off towards the last quarter of year 2009, when they rebounded to profit after the turmoil of recession. Undeterred by the economic turbulence, the Company continued to place emphasis on working practices in health, safety and corporate citizenship, with specific initiatives taken in all these areas.

In addition, a continued focus on engineering solutions for customers is helping it maintain its position of a product pioneer. Tata Steel believes in staying alert to future opportunities while never letting go of its core values. This is the philosophy that has underpinned its growth over the years and one that remains its key driving force.

The strategy adopted by Tata Steel during last five years to become a global player paid off. They increased their revenue and production by six fold by capacity expansion or acquisition. They achieved raw material self-

sufficiency of 50% by year 2010 and by year 2012 they aim to increase it to 60% by more investment in mines acquisition. In last five years Tata Steel became a global player from a local steel producer with currently global presence in 50 markets and manufacturing operations in 26 countries.

Appendix A: Reference List

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