

Tata motors company: entry in south africa



Tata Motors is India's largest automobile company, with revenues of \$4.7 billion in 2004-05. It has the largest market cap of 54% in commercial vehicle segment in India, and 20% (second largest) in the passenger car segment. Tata Motors was established in 1945 and today has more than 3 million vehicles on Indian roads. Before 1990s, Tata mainly focused on the commercial vehicle segment. That time Tata used to make commercial trucks, military trucks, and construction vehicles. Their first step towards the passenger car sector was through the introduction of Utility vehicles (similar to SUVs in U. S.) with two main models, Tata Safari and Tata Sumo. The great success and acceptability among customers of these two vehicles gave Tata encouragement to enter into the small car sector in India. In 1998, Tata Indica was launched which is a fully indigenous small passenger car which was appropriate for narrow Indian roads. The Indica was very successful and based on this achievement within four years Tata became the second largest passenger car manufacturer of India.

The main competitors in consumer cars in India is Maruti Udyog, which holds about 60% of the market share with 600,000 cars on the Indian roads. There are eleven major players in the game for a market with consumer spending based on the ideals of saving money and giving up luxuries for basic needs. Maruti has dominating power in the distribution networks in India and they are taking full advantage of these by having service centers located for their consumer market throughout the country. Tata Motors is climbing up to the hill against Maruti in the Indian market, so it is essential for them to expand further. Even though Tata is facing tough pressure from its competitors from

within and outside the country but they do have enough chances for further growing.

Tata has a great competitive advantage over other vehicle manufacturers of India because they own half of the industries that supply materials which are required for motor vehicle production. Mainly, it is a supplier for itself. They have the steel industry that provides raw material for the vehicle's body, and it also have a large textile company that provides the fabric used in the seats of the vehicles. They also own a large engineering sector where they have more than 100 engineers and scientists employed that work continuously in research and development to enhance customer satisfaction with the use of advanced technology and creativity.

Tata Motors is the first company from India's large engineering sector that is going to be listed in the New York Stock exchange and is quickly emerging as global automobile company. In 2004, Tata acquired Daewoo Commercial Vehicles Company which is Korea's second largest commercial vehicle maker. Tata Daewoo Commercial Vehicles Company has already started launching new products in Korea and Asia. In 2005, Tata Motors acquired a 21% stake in Hispano Carrocera, a reputed Spanish bus and coach manufacturer. After the grand success of Indica and Indico in India, Tata decided to take a decision to go one step forward and launch these cars in the international market. One of the countries that Tata decided to explore is the South African market. There are number of reasons why South Africa is a potentially successful market for many global companies. It is located next to the Indian Ocean with no large areas of land between India and S. Africa.

In addition to convenient geography, the political and economic state of S. Africa makes for an attractive new market.

Entry into South Africa

In 2004 Tata Motors entered the South African market with a plan to open two production facilities for assembling small cars. The original intention of this strategy was to take advantage from the South Africa's free trade agreement with the EU. The plan is to create South Africa a possible hub from which to assemble and export passenger cars to the European Market, thus mimicking the business strategy of several rivals already in the South African Market such as Toyota, Volkswagen, and Ford. In addition, South Africa has a strong middle class segment, thus providing a growing local customer base for their target market. Further, Tata has a change to establish themselves as a responsible, respectable company and possibly open up other business opportunities by entering the South African market. Tata's current plans to invest in South Africa equal to US \$ 245 million in the next two years in South Africa.

The major reason in Tata's decision to enter South Africa was facilitated by the political and governmental changes that occurred during the 1990s. Specifically, the election in 1994 was the first all-race elections for South Africa, in which South Africa became a full democratic country. The winner of the election was Nelson Mandela of the African National Congress (ANC) who had an overwhelming victory. The ANC has won the subsequent two elections, the last one in April 2004, when it won nearly 70% of the total vote. In June 1999 Thabo Mbeki succeeded Nelson Mandela as president. The

view of the ANC embraces investor-friendly economic policies that have expand the way for multi-national companies to launch operations in the new market. Since 1994, the government of South Africa has taken some steps in order to make the country more open and easy access to foreign investment. It appears that the current ruling political party has a strong hold; however, as a result of the constitution in South Africa, the specific ruling party has not authority to influence international business trends dramatically.

The government structure in South Africa is a constitutional democracy with a bicameral parliament and in this process an executive president elected by parliament. The president can serve two terms, however, is forbidden from serving a third term. The constitution is the supreme law of the land and it constitute with the all rules and regulations governing among other things, international business. The constitution further provides all the basic rules and regulation for an independent corruption watchdog, the public protector, and for independent commissions on human rights, gender equality and the restitution of land rights. The National Assembly formed by 400-member and this is elected by proportional representation. The Senate is indirectly elected and represent the nine provinces. The judiciary is fully independent and includes a nine-member constitutional court.

The government of South Africa, through its Department of Trades and Industry, and automakers operating in that country overhauled the sector and created a reputation for quality in the global market. During the apartheid era South Africa was isolated, and this situation failed South Africa in a uncompetitive auto industry. Now, international automakers have started to come in South Africa and invest money into their local operations,

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and those operations have struggled to prove that they can cut costs and produce world-class quality. In 1995 South African auto exports unit was between 15000 and 20000, exports since then have grown exponentially to nearly 200, 000 units, thus proving that South Africa is going to appear as a strong global competitor in this industry. Moreover in foreign investment there is no government intervention or partnerships required in South Africa.

These operating parameters and facilities allow Tata and its competitors to be publicly held corporations or private companies. In the last ten years competition in South Africa has grown dramatically and the market is day by day proving as a survival-of-the fittest market. In 2001, Hyundai of South Africa folded. Today, there are over 40 competitors in the auto industry alone.

South African Economy

The currency in South Africa is the South African Krugerrand. The value of this currency appreciated last couple of years. There has been a recovery in external demand, growth in tourism and continued expansion in total domestic demand is result for continue to boost South Africa's real GDP growth in 2006. Real GDP growth is estimated to continue to grow at over 3 per cent in 2006 base on averages of the past few years. mining, manufacturing and agriculture these three are the most important contributors to the South African economy . Most economic activity takes place in Gauteng because here the majority of mining occurs.

The country's financial and industrial infrastructure is already being developed and has excellent growth potential. But South Africa is surrounded

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by the problem of huge socio-economic inequalities and stratification, which were cultivated in the apartheid era. This problem cause huge decline in unemployment rates, widespread poverty and steep increases in crime.” South Africa’s economic policies are sated for increasing both economic growth and investment in order to create employment. But the most auspicious thing is that inflation is under control in the country, external debt is manageable and the degree of political stability is high. Thus, the economic outlook for South Africa is positive.

Investing in South Africa

In 1997, the Department of Trade and Industry launched a national investment agency called Investment South Africa. The main responsibility of this agency to increase the investment inflow at the national and provincial levels. The agency also provides investment requirements and makes opportunities available in every province. There is no restriction on the extent or type of foreign investment in South Africa. The government is trying their level best to encourage both foreign and domestic investment through the introduction of certain incentives. Interest Rates in South Africa are slightly higher than 7%. On the other hand commercial cost of equity is estimated around 15. 5% due to South Africa being a poorer country. Poorer countries usually need to pay more than rich countries if they borrow fund in the international capital markets.

The South African government is giving their best effort to attract foreign investment, but has been slow to remove some hurdles investors face, notably securing work visas for even key managers. It has also proved

unsuccessful to provide specific incentives for foreign investors, although this issue has been raised on several occasions and is going to be resolved eventually. The prospect of foreign direct investment in the country's automotive industry has been enormous. Therefore it is potential for automobile investors seeking domestic, regional and wider export markets. However, investors will have to address two key issues:

- BEE: The South African government is seriously committed about promoting BEE, and investors need to have few plans to include training black workers at all levels of the company and working with other BEE companies. This is especially required when a company has any plans to deal with the government.
- HIV / AIDS: All companies who wish to invest in South Africa should carefully developed HIV / AIDS policy, given the high rates of infection. This should range from direct provision of healthcare and policies affecting direct relatives to training staff members.

Automotive Industry in South Africa

The automotive industry is one of South Africa's most promising sectors, with many of the major multinationals using South Africa to source components and assemble vehicles for both the local and international markets. Although there is a distance from some of the major markets Africa, and particularly South Africa, produces high quality products at prices competitive with other automotive manufacturing and assembly centers.

The South African automotive and components industry is growing fast for past few years and is perfectly placed for investment opportunities. Both vehicle manufacturers such as BMW, Ford, Volkswagen, Daimler-Chrysler and Toyota have as well as component manufacturers (Arvin Exhust, Bloxwitch, Corning, Senior Flexonics) have established production bases in the country. The most of the industries are largely located in two provinces, the Eastern Cape (coastal) and Gauteng (inland). Automobile and component production plants in South Africa are placed to take advantage of the low production costs and access to new markets as a result of trade agreements with the European Union and the Southern African Development Community free trade area. There is also opportunities lie in the production of materials (automotive steel and components). South Africa's aim is to become an automotive investment destination of choice. By modernizing and upgrading of key and necessary elements in the automotive industry South Africa is trying to achieve an international competitive advantage.

Interest rates are currently at historic low levels and reduce the cost of investments and increase investment level. It is significant to note that most major multinational vehicle manufacturers are currently represented in SA, which means that international developments also impact on the country. The outlook for the vehicle industry is optimistic for both exports and the domestic market. South Africa will able to raise locally supplied parts, particularly in the vehicles now being exported in large volume and that should be their key challenge.

Market Share in South Africa

Tata Motors entered the South African market in December 2004 with an attractive range of passenger and light commercial vehicles. Initially in the passenger vehicle segment, the Indigo Sedan and Indica Hatch were introduced and eventually Tata offered a combined variety of six models. Due to an improvement in consumer confidence and declining interest rates South African new vehicle sales gained upward momentum.

Tata chose the South African market because it consist large number of Indian based consumer. tata usually produce inexpensive and small personal car which has high demand among middle class south African customer and that play a vital role to strong entry and gain market share of Tata. In March 2006, Tata has sold 20, 000 of its popular hatchback, Indica, since launching the model less than two years ago, leading analysts denominate Indian car the most successful brand ever to come to the country. A typical customer fits the profile of a young, mobile worker looking for a reasonably priced economical vehicle without losing some of the frills of more expensive models from competitors.

In May of 2005, after only six months its initial launch in South Africa, Tata had captured a 2% market share, outperforming the expectations of its local partner, Tata is currently capturing 4% of the market share and expects to reach a 7% market share in the South African passenger car market by 2007-08.

Comparative Competitor Analysis

Today the South African auto industry is one of the most competitive in the world, with 45 brands selling more than 1, 100 models to consumers. Ford
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has achieved a third-place market share of 9.1 percent, behind VW (14.6 percent) and Toyota hold (22.2 percent). Tata is currently placed in ninth position in South Africa in terms of market share, an impressive standing for entering the market so recently. Toyota remains the dominant player in South Africa and has placed in number position for many years. The company sold a national record total of over 125,000 vehicles compared to 94,000 for runner-up Volkswagen. The battle between Toyota and Volkswagen is longstanding and extremely competitive. These two companies consistently try to become market leader with new models and features, as well as keeping other automotive companies on their toes. Toyota has launched more new or revised models in 2006 than in any previous year in the company's 45-year history, while VW recently launched a one-ton pick-up range and is adding buses and heavy trucks to its product line. Both of these competitors will be difficult to surpass in terms of sales volumes and market share, but Tata is on the right track by offering its small passenger vehicles to meet the demands of the South African customer segment.

Distribution of Units Manufactured by Competitors in South Africa

Conclusion and Recommendations

Tata has got international visibility and prominence in the recent past for their Domestic and global achievements. This platform will allow Tata to unleash its full potential into new markets with new products. Tata's overall vision is to increase and update quality in its vehicles and keeping the cost low for consumers. Increased and modified quality includes using state-of-

the-art computer-aided design, manufacturing, and engineering that help further research and development. Tata's target to keep costs low to customers and it plans to reduce the increased cost of R&D by improving productivity, flexibility, and plant utilization.

I recommend Tata Motors maintain its strategy that it has applied in South Africa. It has in put major efforts by remaining in the South African market by investing heavily in new facilities to support its product-development needs. Tata was very successful in term of hiring new talent and institute newer methods such as computer-aided design (CAD), lean manufacturing, and creative engineering to help further develop its R&D. Tata is also going to get an aim to increase car capacity by 50% and develop new products such as a light-commercial vehicle and/or small passenger vehicles. Tata is going to introduce its new segment in the South African market by offering consumer financing for its citizens. Tata has placed itself in a prominent place with a strategy based on changing with the environment to offer products and services that the current market desires.