

Tata motors case

Business



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Case Analysis, Tata Motors International Business and Economics Amsterdam Business School, 2010 Introduction Tata Motors is an automotive company to take notice of. Representing the evolving Indian population and growing economy of one of the world's key emerging markets, it is a market leader for commercial vehicles and third for passenger vehicles in the Indian market.

It shocked the world by introducing the \$2000 Nano in 2009 and also by growing its portfolio by purchasing Jaguar Land Rover, a company that at first glance embodies values and skills very different to its own. At the same time, Tata Motors has also made some very smart global moves through its purposeful joint ventures and subsidiaries and through its product adaptations to the local markets. However, Tata Motors needs to fully understand its domestic market, as well as the global automotive industry, in order to create a strategy that will ensure its future total success. History of Tata Motors Tata Motors began manufacturing vehicles in 1954, though the company was established before that, in 1945 for locomotive manufacturing. Its first commercial vehicle in 1954 was created through a partnership with Daimler-Benz AG.

In 1991 it expanded and entered the passenger vehicle market with its Tata Sierra. Currently Tata Motors operates in 35 countries, especially focusing on markets with conditions similar to India, such as Russia, Turkey, and many African nations. It is currently the Indian market leader in commercial vehicles, and they are expected to produce almost 400, 000 in FY2010. The product line for commercial vehicles includes all sizes and styles of trucks

and buses. Tata Motors produces less passenger vehicles than CVs, with an expected output of almost 300, 000 for FY2010.

The most popular product in India is the Indica Vista, a small hatchback car (see appendix for image). The Indian economy and its automobile market To a great extent Tata Motors will see its future success plotted as a function of the overall Indian economy. India is the second most populous nation in the world with 1.18 billion people, so the buying habits of the domestic market will have a powerful impact on the bottom line. As the Indian economy grows, so will the wealth of its citizens (especially the middle-class), and therefore also the number of automobiles purchased. The outlook of the Indian economy is very positive with the highest expected growth rate of GDP compared to other emerging markets until 2050 (see the appendix for historical Indian GDP trends).

With this growth comes increasing wealth of all citizens, and changes in lifestyle are already being observed. The population is becoming younger, and with youth comes less prudence and more superficiality (i. e purchases of goods). Additionally, as income increases, so does disposable income, meaning that more money can be set aside for items that are not basic necessities but rather “ splurges”. Automobiles would be a key product in this category, with ownership of automobiles becoming a key symbol of ones increasing status. As such, India is already the second fastest growing automobile market (after China).

In this sense, the automobile revolution in India has already begun, but there is still a long way to go. Currently ownership of automobiles in India is

reserved for only 12 out of 1000 people. This ranks them #102 in the world, behind Haiti, and a very long way from more developed nations such as the U. S. (765 out of 1000) and the Netherlands (412 out of 1000). In this sense the market has a long way to go until becoming saturated.

The government and state bank are also playing in a role in increasing automobile purchases/reliance. For example, recently the government has invested in a massive infrastructure implementation, including better highways for dense areas of traffic, new routes to travel between cities, and better maintenance of national highways. All of these actions will make driving more plausible and enjoyable compared to the past. The state bank of India also helped influence people's decisions to purchase automobiles by providing lower interest rates on automobile loans for a year starting in February 2009 (also a key part in the domestic market's quick recovery, especially compared to the global recovery). India is not only becoming a key market for the sale of automobiles but also for the production of automobiles. By 2016 India is expected to output 3 million of the world's small cars (compared to the current production of 1.

million for all passenger vehicles. Additionally, it is expected that more and more parts of the supply chain will migrate to India as it provides low-cost supplies, highly skilled engineers, and creative solution to automobile designs. Although Tata Motors is a market leader for CVs in India, it falls a distant third to Maruti-Suzuki for PVs. As of February 2010, Maruti-Suzuki captured 44% of the domestic PV market, whereas Tata only has 14%, slightly behind Hyundai with 16%. Maruti-Suzuki is a key domestic competitor, especially since it commands a first-mover advantage.

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This is because it was the first to offer a modern car to India when it launched the Maruti800 in 1983. This name has become synonymous in India with small car. Strategic Analysis For strategic analysis both Strengths, Weaknesses, Opportunities, and Threats (SWOT) and Porter's Five Forces model have been used. SWOT Before Tata Motors can fully create and implement its local and global strategies, it must be cognizant of its SWOT. By focusing on these four key areas it can formulate a plan to capitalize on its strengths and available opportunities while improving its weaknesses and combating its threats.

The strengths of Tata Motors include the following:

- * Resourceful conglomerate: the group contains a portfolio of companies that together offer a powerhouse of capabilities
- * Large, balanced portfolio: all the products for both CVs and PVs showcase many different types of automobiles, ranging from the big to the small, the cheap to the expensive, with none needing too much attention at the expense of others
- * Good R; & D: experienced in developing low-cost models, R; & D is enhanced by the various relationships with established companies (i. e. Fiat)
- * Low labor costs and skilled workforce: Indian population is highly educated, especially in the skills necessary to manufacture automobiles
- * Growing Indian economy: Economy is consistently growing, meaning that Tata's core customer group has many years until it slows its purchases

The weaknesses the company struggles with are the following:

- * Diverse portfolio can lead to loss of control and lack of coordination: Tata motor has several brands and operations in various countries, with many different types of products. When

comparing the big automobile companies today one can see a trend that those with “ many brands” (e. .

GM and Ford) are often are less successful than those with “ one or few brands” (e. g. Toyota and VW). * Small market share abroad: The benefits from economies of scale cannot be utilized optimally* Weak brand name abroad: Tata is relatively unknown in most developed countries.

If known at all, then it is associated with low cost products like the Nano car.

* Low quality image, especially compared to global competitors: Low cost models are usually associated with lower quality products. New brands have to earn their good quality image. Lacks first-mover advantage: Maruti-Suzuki is the first mover on the Indian market. The opportunities that exist for the company are the following: * Strength domestic market share for PVs: New models need to be introduced. The Nano is especially interesting since it targets a new consumer group.

Also Jaguar Range-Rover can grow on the domestic market as Indians become wealthier.* Take advantage of large potential internationally (especially in other emerging markets) for existing products: Low cost and fuel efficient products are in high demand for many international markets. Use low cost model as base: In India one can produce cars at low price for export to foreign markets. * Continue to improve position along supply chain: As Tata grows it will gain a stronger negotiating position versus suppliers. Furthermore, the number of suppliers on the Indian market is growing which reduces the suppliers bargaining power and consequently increases Tata's.

As the market matures the competition will ensure higher quality of products from the supply chain. * Luxury car sales= highest profit margins: Land-Rover and Jaguar are high profile brands that can be sold to the growing Indian market with higher absolute margins. And finally, the threats that will need to be addressed by creating a strategy to compete in spite of them: * Increasing costs of input materials: As global demand for raw materials raise the cost of input materials increase too. * Emission compliance regulations: India has continuously made requirements on emissions more stringent and this trend is expected to continue. Internal engine development or access to fuel efficient engines will be important in the future.

* New engine technologies: To meet future emission compliance regulations new engine technologies might be needed, e. . hybrids, or electric engines. Either internal development is needed or cooperation with companies possessing such technology are needed. * Safety of small cars (and reputation for safety): Safety development is always needed for all cars, and especially for small cars. * Cyclical nature of automotive industry: The automotive industry follows the economic cycle in general, so one needs to be prepared for future slowdowns.

In conclusion, the SWOT analysis shows us that Tata is rather well positioned, especially on the domestic and foreign developing markets. The competition is expected to increase on the domestic market with time as more foreign automotive brands enter the Indian market. One of the most serious threats is the expected development needs with regards to improved and enhanced engine technology. Porter's five forces Porter's Five Forces has also been used to analyze the industry context in which Tata motor

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operates. * Threat of new competitors – high Domestic: As the world economy becomes more globalised with fewer barriers it will become easier to establish entities on new markets. The Indian market will become attractive for foreign automotive companies since the purchasing power of the population is expected to increase greatly.

Since India is Tata Motors most important market, increased competition will become a significant threat to the company. Most of this competition is expected in the medium and high end segment, though. The risk is classified as high. Foreign, developing countries: New competitors are foreseen to enter since other automotive brands see opportunities there (i. e.

China). These markets are growing in importance for Tata. The risk is considered to be medium. Foreign, developed countries: New competitors are not foreseen. The competition is already intense so it difficult to launch new brands. The risk is seen as low.

Overall, the risk is considered high since the domestic market is the most important one today. It would be of strategic value to continue to reduce the importance of the Indian market versus other markets. * The intensity of competitive rivalry – medium Domestic: On the domestic market the competition is less but it is expected to grow over time as the market becomes more saturated and after foreign automotive brands have established themselves in India. The risk is classified as medium. Foreign, developing countries: In developing countries the customers have lower brand loyalty than in developed countries.

Since their markets are growing rapidly there are ample opportunities for different brands. Brand loyalty is less on these markets. The risk is classified as medium. Foreign, developed countries: The competition is already very intense. Many brands are well established and there is a significant level of customer loyalty in the developed world. With the economic downturn there is already an overcapacity in these countries which makes competition even fiercer.

The strongest advantage of Tata is the low cost of many of its products. In the luxury segment the competition is high. Overall, the competitive rivalry for Tata Motor is highest and therefore the most consequential for the domestic market. However, the present competitors are well known. The risk is considered to be medium.

* The threat of substitutes – low/medium Vehicle structure will probably be similar in the foreseeable future, but less fuel consuming engines and new engine technologies are expected. It will be important to position Tata so that it is ready for that shift in technology. Already now Tata motor has an alliance with Fiat, so they seem aware of this. The risk is considered medium. Motorcycles very popular alternative in India, but usually people prefer to travel by car if they can afford it. This risk is considered low.

Environmental concerns and governmental regulations might make people use public transport (though more of a concern in developed nations). The risk is considered low. The threat of lower priced products competing on the Indian market is seen as low due to that Tata is already well positioned here.

The risk is perceived as low. Overall, the risk of substitutes is considered low to medium.

There will most likely be a shift in engine technology, but Tata motor seems to be preparing itself. * The bargaining power of customers – medium/high Domestic: The number of automotive competitors on the domestic market will grow with time as the wealth of the Indian population increases. This will increase the bargaining power of customers. Today the bargaining power of customers is considered medium. However, Tata seems well positioned in producing cost effective cars.

In the high end segment the risk appears to be greater. The risk is considered medium/high. Foreign, developing countries: Here the brand loyalty is less than on the domestic market. The customers will choose what they consider being the best quality to cost option. The risk is considered high. Foreign, developed countries: On the global stage the competitors are already very established so the bargaining power of customers is high.

The customers here might have an initial negative attitude which needs to be overcome. The risk is classified as high. For all above markets individuals buyer of PVs often have less bargaining power than buyers of CVs due to the fact that the latter often buy many vehicles at the time and therefore have more room for negotiating on the price. Overall, the risk of increased bargaining power of customers is considered medium/high. * The bargaining power of suppliers – low An upward pressure of prices exists due to increased global demand of raw materials. However, the rest of the auto

industry faces the same situation, which means that their increased costs will to a large extent be transferred to the end consumer.

Worldwide the number of suppliers to the automotive industry tends to become fewer due to the cost pressure from the car manufacturers. More suppliers are appearing on the Indian market, which increases Tata's bargaining power versus its suppliers. The risk is classified as low. Tata Motors' International Strategy In short, strategy in an international context is a plan for the organization to position itself against its competition and a resolution on how it wants to configure its value chain activities on a global scale. Tata Motors is focusing on expanding into markets similar to those of the home base, using competencies developed at home. Tata Motors wants to consolidate its position in the domestic market and expand its international footprint through development of new products.

The basic internationalization strategy for Tata Motors is a regional rather than a global strategy as it only expands in geographies where it can have a meaningful presence, a sustainable market share and where it can have an impact on the development of the country (i. e. South Africa). Through a regional strategy companies try to gain economic advantages from a regional network and to gain local advantages from regional adaptation. The location of the competitive advantage in the value chain determines the choice of the generic strategy.

Examples of upstream advantages are low-cost operations or high-quality design. Marketing, Sales and services are examples of downstream advantages. For Tata the upstream advantages are low costs operations,

abundant resources, and a large knowledge pool for R; amp; D. Companies with upstream advantages favor transnational, international or regional strategies as they seek for location advantages and gaining economic efficiencies from operating worldwide. Tata Motors' International Strategy

Tata Motors' Strategic Objectives As a part of the company's internationalization strategy, Tata Motors has decided to focus on a narrow base of 14-15 countries where market conditions are similar to that of India. In these countries, Tata Motors now has dedicated manufacturing facilities, marketing teams and sales teams.

The idea is to have self-sustained operations in this narrow band of countries. The company evaluates locations on the basis of market opportunities and labor skills. The options multinational companies have for entering foreign markets and countries are called participation strategies. Tata Motors' participation strategies and inorganic growth plans are divided into Joint Ventures, Strategic Partnerships and Acquisitions. The objective of these participation strategies is to gain complementary capabilities and economies of scale through the following:

- * Develop sustainable competitive advantage (R; amp; D)
- Enter new international markets (JV, Strategic Partnerships and acquisitions)
- * Access to new technology (Acquisitions)
- * Research ; amp; Development alliances (Strategic Partnerships)
- * Production capacity (Strategic Partnerships)
- * Dealer Network (Acquisitions)
- * Co-branding and partnering with World-Class Players (Strategic Partnerships, acquisitions)

Now that Tata Motors has established a sustainable model in some countries, its main challenge is to replicate this model in other

countries as well. It needs to improve its product reliability and service network in order to continue finding success in other markets.

Global trends in automobile industry Energy supply security and global warming continue to challenge all countries around the world in terms of global economy and planet environment. Key technologies such as hydrogen fuel cells, electric cars and bio fuels are expected to contribute to emission reduction in the long run. Bio fuels have been increasingly explored as a possible alternative source to gasoline with respect mainly to transport. Going Green Going Global Recently, hydrogen, electric and hybrid cars have been developed and demonstrated in global automotive exhibitions. Key interests have been attracted to discuss future trends in green vehicles.

Major car manufacturers seek leadership in future green vehicle markets. The slogan of Paris Motor Show 2010, the largest car exhibition in the world, was “ driving is fun and environmentally responsible”. In Paris motor show 2010, this year more than 300 brands of cars were present in the show, many of them presenting futuristic concepts which will be harmless for the environment. Car manufacturers want to attract customers with new environmentally-friendly vehicles. It seems that the electric concepts and hybrids did not miss Paris Motor Show 2010.

Exhibitors – Peugeot, Renault, Citroen, Saab, Honda, Mini, Seat, Audi or the exclusivist Lotus, Infiniti, Jaguar, Bentley or Ferrari and so on – all of them have presented brands more “ green” than ever and have repeated obsessively the slogan “ driving is fun and environmentally responsible”.

Tata’s challenges As shown in our theoretical analysis, recent emphasis on

global climate change is increasing pressure on Tata motors as well as other car makers to make the right decisions in many areas, including R; amp; D and manufacturing. In fact, emission-level targets, currently in question, threaten to alter the entire structure of the auto industry. These challenges hit an industry already plagued with high costs, low profit margins, and accelerating competition. New entrants from Chery Automobile are working aggressively to capture their share of the global market, following the path taken by the Japanese in the 1980s and the Koreans in the 1990s – both of whom went beyond their domestic markets by focusing on the United States first, and on Europe later.

Key Issues to be considered Challenges in environmental issues Considering the global trends, the inconsistent policy environment is a major issue, primarily in environmental/emission regulations. India resorted to implementation of emission regulations in a phased manner in different regions, due to the non-availability of compatible fuel. This poses a problem to OEMs and their suppliers in anticipating demand. : Infrastructure bottlenecks Most of Indian cities are unplanned without any parking for most houses. This leads to a huge problem in terms of illegal parking.

Even Legal Parking sees fights between neighbors leading to fights and sometimes even deaths. With thousands and millions of car hitting the roads every day and month, the problem is growing even more acute. India's Transport Policy is a total mess with no solution in sight. Public Transport is not given enough money or resources to make a difference while Tata is making huge profits. India needs to massively invest in public infrastructure

and dis-incentivize private modes of infrastructure like cars through congestion and fuel taxes.

: Consistent government's policy This enables that Tata can make long-term investment decisions based on stable ground rules. Long-term emission roadmap, and ensure availability of required fuel in all retail outlets at least one year ahead of the introduction of emission norms, which would help the entire value chain in India to adopt the relevant technologies in advance. The Central Government should bring down the high import duties on fully-built cars and two-wheelers. The policy of continued high protection is likely to inhibit competitiveness growth of OEMs in the long run. With the present robust health of this sector in India, the time may have come for opening of market to imports that would promote local efficiency, upgrade local demand.

: Investment in R; amp; D for product and process innovation Investment in R; amp; D for technology development will be one of the most important aspects of future strength of this industry. As shown in our SWOT analysis, given India's strength in the skills set required for technological development, the industry needs to invest in research and development to increase innovative breakthroughs for vehicle design as well as in manufacturing technology. Promoting exports Tata has gained strength in the small car segment, which is already being leveraged by OEMs like Hyundai, Suzuki and Tata Motors, and component manufacturers. But there is tremendous opportunity for capture of market share in other categories such as multi-utility vehicles, two-wheelers, hybrid vehicles and electric cars in coming a few years. This will need to be driven by Tata's corporate

strategies, and policy support from government (R&D and export incentives), but also by establishing a made-in-India brand. : Efficient manufacturing system in auto component industry Greater variety in vehicle launches by OEMs in recent years and increased export demand are offering newer challenges to manufacturing capabilities and economies of scale of component manufacturers.

The component industry needs to increasingly maintain lean and efficient manufacturing systems to be ahead of cheaper imports from abroad : Build Design ; & Innovation Capability Tata needs to rapidly move to a “ design and innovation” industry to achieve global competitiveness. Tata Motors has shown the way by developing the first sub \$2500 car in the world (Tata Nano). The auto component sector and the basic/ small car segment are steadily increasing their share in global markets by meeting global quality standards. But India still lags in building product and process development capabilities in the value chain in most vehicle segments. The way forward for firms is to increase investments for research in cost-saving technologies, product and process improvement, but also green technologies such as hybrid cars and hydrogen fuels tuning to the global trends.

: Penetration to Rural Market One of India’s strengths is its significant domestic demand as illustrated in previous pages. Rural India offers a huge market for motor vehicles, which is yet to be explored. Multi-utility vehicles have been popular in rural areas, but a constraining factor is the inadequate after-sales service and also poor infrastructure in these areas. With a strategic focus on rural market demand for multi-utility vehicles, OEMs could significantly enhance demand and market share. Future and long-term

outlook of Tata motors Even after the spectacular growth in recent years, the Indian automobile market still has considerable room to grow. Passenger car ownership in India is still very low even when compared to other emerging markets.

Despite domestic sales of over 10 million units annually, even two-wheeler ownership is below 100 per 1, 000 of the population. It is likely that the continued rise in average income levels will sustain demand for personal vehicles while overall economic growth will support the demand for commercial vehicles. According to a recent research, more than half of the world's car production as well as car components will be in emerging markets such as China, Brazil and India. Furthermore, forecasters see electric cars will capture a mere 1% of the global car market by 2016 and Hybrids may reach 4% market share, which leaves a full 95% of the market to traditional internal combustion engines although there are optimistic views estimate that Hybrids may reach about 15% of market share by 2020. This implies that Tata may have enough time to catch up with its competitors and substantial room to cope with current global trends which might need large capital investments in R; amp; D. In most countries, the automobile industry historically has been one of the sectors leading the economic growth and development.

Available indicators suggest that it will be no different in India, which is likely to remain one of the fastest growing economies in the world. Despite all the volatile challenges illustrated above, we have concluded that the long-term outlook for Tata remains bright. Appendix Indica Vista Indian GDP

Performance Source: IMF Apr ' 09', Economics Survey 2008-2009 Comparison between Indian and Western mobilization statusSource:[1]. [http://en.](http://en.wikipedia.org/wiki/Tata_Motors)

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