Conduct a position analysis of tata steel marketing essay

Introduction:

This report is objectively aimed at presenting a position analysis of Tata Steel. Business module concepts and techniques have been employed to present an in-depth analysis of the issues and challenges confronted by Tata Steel.

For the compilation of Data on Tata Steel the following Research Technique was adopted:

Secondary Research: references from e-books, websites and journals for data compilation and analysis besides modules presented by the University.

The following business tools have been employed for this analytical presentation:

S. W. O. T Analysis

Porter's Five Force Model

BGC Product Portfolio Matrix

Position Analysis of TATA Steel

1. Application of Business Strategy Model's to TATA Steel

10. 1 SWOT Analysis

SWOT analysis is conducted for an organization in order to comprehend its overall Strengths, Weaknesses, Opportunities and Threats. Once these aspects are clearly understood in the right perspective it becomes easy of an organization to capitalize on its strengths, devices strategies to reduce or eliminate weaknesses and explore all the opportunities available to improve its market position and standing. A SWOT analysis of Tata Steel would assist in comprehending the current position of the organization and the challenges and issues faced by it. Besides the negative aspects the positive aspect could be ascertained.

http://www. northwoods. org. uk/files/northwoods/images/SWOT2. png

STRENGTHS:

Tata Steel has its mines which ensure a steady supply of raw material mainly iron ore thereby making the organization self sufficient in terms of its raw material needs for production purposes.

Tata Steel has a Research and Development department which is result oriented and dedicated. Research is carried out in continuity and experiments conducted in areas of procurement of raw material, development of product, steel making procedures, blast furnace and other areas. Hence, resultantly Tata Steel products are the best in the Indian as well as global market.

The organization has a strong and growing market in South East Asia and India. Until the recent past, Tata Steel was the only supplier of value added steel to the Indian Auto Industry.

By the year 2011, it is expected that Tata Steel have a capacity of 10 million tonnes per annum by way of production.

The internal control system of Tata Steel is highly efficient. The Corporate Audit department of the company continuously supervises the internal control system. The primary function of this department is to provide the Board of Directors of the company with updates about the effectiveness of the company's risk management policies, identify opportunities to improve on the growth prospects of the company, identify bad sectors and provide recommendations in terms of new policies to achieve organizational goals.

Tata Steel has had a foray of good and productive mergers and acquisitions and has geographically entered into new geographical territories.

Enterprise Risk Management (ERM) is a new process which is being worked upon by Tata Steel to have a more defined risk management approach. The key objectives of (ERM) are the following:

To have an integration of all processes of planning and decision making

To have a proper framework to monitor risks at all levels of the organizational hierarchy

To ensure an effective process wherein the Board of Directors and Shareholders are regularly updated about vital happening in the organization affecting the interests of the Company

Greater stability is expected to be brought about by Tata Steel on account of the structural changes the organization is going through currently.

The very best of technology is adopted by Tata Steel to ensure that all the production processes are environmentally friendly, cost and quality effective.

By the acquisition of Corus and Greenfield Ventures, Tata Steel has diversified all the risk entailed in the process of Iron and Steel manufacture.

WEAKNESS:

Endemic Deficiencies: Tata Steel is confronted with this weakness as they are inherent in the quality of some of the necessary raw materials. In cooking coal available in India the content of ash is relatively high and this affects the production of iron and this leads to a need to import. Nickel, Ferro-molybdenum which happens to be a necessary ingredient fails to be available.

There is a shortage of iron ore deposits and arises the problem of insufficient raw materials. The quality of hard coal deposits is inferior and the cost of coking and non coking coal is always on the rise causing a rise in the cost of production.

The organization has to make provision for sustainable methods of production of steel as the resources for raw material are in a state of depletion and are non-renewable.

The excessive power shortages in India have resultantly led to a decrease in the productive output of the plant.

Low freight capacity and lack of good network of transportation has further led to retard the growth of the Indian Steel Industry of which Tata Steel happens to be a major player.

Though India has cheap labor but the productivity of this labor is low and therefore cheap labor tends to be expensive in the process as overall productivity of the organization is affected.

The cost of basic input and services are high. Electricity is 10 cents in India compared to 3 cents in U. S. A. Freight costs from Jamshedpur to Mumbai is 50 dollars per ton whereas from Rotterdam to Mumbai it is barely 34 dollars.

OPPORTUNITIES:

In all sectors of the Indian Industry there avails a good scope of increasing steel consumption and Tata Steel stands to benefit from this happening.

India has approximately 700000 thousand villages and there is tremendous untapped potential in the rural areas for marketing steel products. The organization could tap the opportunity of enhancing steel application in these areas and promote the consumption of steel and steel products in the rural areas as on account of their large population they present good opportunities of high revenue.

The automobile sector, engineering industries, water and irrigation enterprises are the areas where the organization could focus on promoting steel consumption as the industries are on varied stages of development and steel forms a necessity in their production processes.

It is predicted by business analysts and economists that the world consumption of steel would triple up in the next few decades. Tata Steel could strategies with long term objectives to eventually dominate the world market in terms of steel production, distribution and sale.

The acquisition of Corus has brought in high technology which could be utilized by Tata Steel to improve production processes.

The worldwide booming infrastructure has brought in greater demand for steel and this opportunity to promote growth and sales could be tapped by Tata Steel.

THREATS:

Global warming has led to greater environmental costs and the threat to the environment creates a need for Tata Steel develop a greater sense of responsibility as the raw materials for production of steel are extracted.

Scarcity of raw materials and high input costs threaten the very existence of the industry.

There is a parallel growing threat of substitutes. Plastic and composites are replacing steel in the spare parts industry of automobiles. Aluminum is another metal which is creating a threat to the existence of steel but at the moment the high cost of aluminum extraction in terms of electricity charges has brought the threat under control.

Steel pipes have been replaced by PVC pipes and RCC pipes in many applications causing huge revenue losses especially to Tata Steel.

Porter Five Forces Model

http://www. 12manage. com/images/porterfiveforces. gif

In the last several years, Tata Steel has been registering substantial growth in the domestic market as well as the international market. The global economy prior to recession was robust enabling Tata Steel to grow abundantly but with the liquidity crisis, there have been reported medium term hiccups. Tata Steel’ domestic sector has been analyzed through Porters Five Forces Model to comprehend the competitiveness of the steel sector and understand Tata Steel efforts and initiatives to safe guard its position for five major threats which predominate being as follows:

New Entrant Threats: Barriers to entry blocking new entrants and the willingness to overcome the same. Barriers such as governmental policies, economies of scale, product differentiation.

Rivalry among the existing competitors in the market and the intensity of the same

The Suppliers’ bargaining powers

Substitute products posing threats

Threat of Substitutes

Bargaining power of buyers

Entry barriers: High

Capital Requirement: Steel industry is highly capital intensive and the requirement of set up of a business would be around 30 bn dollars and this too depends on location of plant and utility of technology.

Tata Steel has safeguarded itself in this respect with a lineup of Greenfield projects aimed at domestic and international establishment. The domestic establishments would include areas such as Jharkhand, Orissa and Chhattisgarh and on the international scenario there is Bangladesh, Iran and Vietnam.

Currently, Tata Steel has successfully expanded its capacity from an existing 5 mtpa to 6. 8 mtpa at Jamshedpur with and investment of 5000 crore. The organization is now in the process of further up gradation of the existing plant with further capacity from 6. 8 mtpa to 10 mtpa. The expected investment is amounted to be 15000 crores.

The matter of the fact is that any new enterprise cannot compete with Tata Steel in terms of investment, growth or expansion at the financial inputs of Tata Steel is substantially high.

Economies of scale:

Tata Steel enjoys complete economies of scale as the organization owns mines for vital raw material required for production processes. Lower costs, Research and Development and bargaining power of the organization constitutes economies of scale. Coal and limestone mines are in possession of the company. Through joint ventures and on its own Tata Steel owns assets in countries like Australia, Oman and Mozambique.

Government Policy:

The governmental policies of India in context to steel producers are favorable but there are few draw backs with regards to land acquisition and iron ore mines acquisitions. For new businesses, regulatory issues pose a hurdle. But Tata Steel is a business organization which is more than a 100 years of age functioning successfully and has acquired respectability and recognition from the Government of India.

The government favors steel manufacturers in terms of policies. But it should be noted that there are certain discrepancies encompassing the allocation of iron ore mines and land acquisitions. Furthermore, there exist hurdles in the form of the regulatory clearances.

Product differentiation:

Steel is a commodity which fails to have a major price distinction as it does categorize as being luxury product or a commodity under specialty category. Tata Steel is a business house in possession of high brand value and has recognition and hence Tata Steel enjoys a premium for their products on account of the quality the product it possesses. The following brands have been introduced by Tata Steel which is as follows:

Tata Steelium- the very first kind of Cold Rolled Steel in the world

Tata Shaktee- Galvanized Corrugated Sheets

Tata Tiscon (re-bars)

Tata Bearings

Tata Agro

Tata Wiron

Tata pipes

Tata Structura

The primary threat in terms of completion are faced by Tata Steel are in the form of Global Steel Industries or Giants such as Arcelor-Mittal and POSCO. Penetrating the Indian Markets is the intention of these Global Steel Business Houses.

Competition: High

A situation of high competition has arisen on account of China which greatly influences global prices by exporting to nations all over the world its produce and owing to this the steel industry being global faces threat and competition with China on the forefront.

In context to the pricing of steel, there fails to exist any difference between the products which are competing in the markets. Tata Steel has competitors in the form of four other firms in the domestic markets. The competing firms with Tata Steel are firms such as SAIL, JSW, ISPAT and ESSAR STEEL.

Besides these few competitors there are a substantially huge number of small firms into steel production comprising 35% of the total domestic market share.

The market shares of the 5 major players in the Indian

Steel Industry is:

COMPETITION ANALYSIS

Concentration Ratio:

As per the theory of Economics, the concentration ratio of a business house is used to indicate of the size of business house with regards to the industry taken as a whole. This may be of assistance in establishing the market form of any specific industry. The immensely employed concentration ratio is essentially the four-firm concentration ratio, which encompasses of the business's market share, in percentage form, of the four big business organizations in terms of market share in the steel industry sector. Generally, the N-firm concentration ratio equates the percentile of market output generated by the N biggest organizations in the industry

The 4 firm concentration ratio of the Iron and Steel Industry is statistically understood as 71%. This presents the fact that there is oligopoly in this sector as it is dominated by few huge business houses. Large percentage of market output is created by the 4 largest business organizations in the industry.

All the major domestic competitors like SAIL, ESSAR, JSW, and JSPL have presented strategically huge expansion plans in the recent times which are as follows:

SAIL has publicly stated that it will reach a target capacity production of 35 Million Tons by 2015.

JSW has strategies to expand its production to 35 Million Tons by 2015

Other firms such as JSPL, ESSAR have alike production expansion plans which would contribute in total achievement of 200 Million Tons steel manufacture by the year 2025.

Bargaining power of suppliers: High

The suppliers' power to bargain is relatively low for the completely integrated steel plants as they posses their own mines of vital input raw material like iron ore coal for the sake of exemplification Tata Steel. But, the firms that are non-integrated or semi integrated have to rely on suppliers. An illustration could be SAIL, which makes an import of coking coal.

As in-house or local raw material sources are not enough to provide supply to the Indian steel industry, a good amount of raw materials needs to be imported. For example, the deposits of iron ore are limited and there are issues in mining required amounts of it. India's hard coal deposits are of inferior quality. Owing to this reason hard coal imports have multiplied during the previous four by a total amounting to 40% to nearly 40 million tons. Nearly half of this is coking coal. India is positioned at being the world's sixth largest coal importer. The ever increasing output of electric steel is also leading to a steep increase in requirement for steel scrap. Some 2. 5 million tons of steel scrap have been imported in 2006, which is high in comparison with just 1 million tons in2001. In the forth coming years imports are expected to continue to rise owing to capacity increases.

Internationally, the succeeding three mining giants BHP Billiton, CVRD and Rio Tinto supply nearly 70% of the processed iron ore to mills of steel and command from the market a very steeply high bargaining power. With regards to India, NMDC is a big supplier to standalone and non-integrated steel manufacturing firms.

With a view to safeguard itself from the tremendous bargaining power of the buyers, Tata Steel has strayed or rather moved much earlier into the strategic plans of ‘ Backward Integration’. “ Ownership of raw materials and a continuous improvisation in manufacturing has been the key to Tata Steel’s increasing revenue or profits. In reality, the firm has been in ownership raw materials for the past 100 years,” quoted managing director B Muthuraman while discussing at length on the century-old company’s market standing.

Tata Steel and state-owned SAIL have hugely been able to protect themselves from raw material price fluctuations due to the possession of their captive iron ore mines. Tata Steel is positioned as one of the lowest cost markers of steel internationally. Other private steel firms, hit by high iron ore and coal rates, have transferred on the hikes to the consumers leading the government to push down on price increases to control the rate of inflation.

The business is dependent on imports for a large portion of its raw material – iron ore and coking coal needs. Tata Steel is highly self-sufficient to the proportion of 25 per cent for iron ore requirements. With supplies generating in from its new mines at New Millennium Corporation in the regions of Canada and also from the Ivory Coast over a large periodical term, its iron ore reserves would slowly hike to around 72 per cent by 2020. On the whole, the security of raw material will hit 60 per cent by 2016 and go up to about 70 per cent by 2019.

It is also evaluating several other mineral projects in Brazil and Australia

Heading with the goal of gaining logistics control, Tata NYK Shipping Pte Ltd, and Nippon Yusen Kabushiki Kaisha (NYK Line), a shipping major of Japan have initiated a into a long-term charter for eight supramax/panamax vessels and the revenue returns on such capital assets, weakening the prospects of US growth and in addition interest rate cuts. The primary counterpart to the resultant lowering of the dollar has been the increase in value of the euro, the yen, and other global floating currencies such as the Canadian dollar and some rising economy currencies. Corus acquisition is in reality being funded by a great amount of debt. This applies immense pressure on the organization's policy line, and in the event of the business environment declining, the requirement to repay this debt could restrain Tata Steel in its future endeavors and organizational plans of expansion. To add to this, this could also limit the Company's inorganic development options.

On account of recession in U. S, there has been tremor in the global business world specifically the developed nations and this makes the position of Corus riskier. UK, Germany, Netherlands form the prime market for Corus products and they too are being confronted with apprehension of recession on negative growth.

Corus is into the policy of having long period supply contracts with raw materials suppliers. Owing to this there could be a great periodical gap between differences in rates under purchase contracts and the time when Corus could facilitate an apt price change under its sales contacts with its customers. Besides, Corus might not be in a position to transfer on the hiked raw materials costs to its clients. Such happenings would lead to a downside of Tata Steel’s rating.

Steel production processes are reliant on energy and price fluctuation in energy market would in accordance affect Tata Steel’s bottom line.

Tata Steel has emerged to the position of being the 6th biggest Steel Producer globally post-Corus acquisition but the fact to be noted is that the cost of the integration goes far beyond the financial intricacies. There are other factors which will add to overall integration costs such as:

Cross Cultural Integration

Employer-Employee Relationship

POLITICAL:

Tata Steel has committed a substantial funding program of investment in politically unstable nations such as Thailand, Iran, Bangladesh and Mozambique. The complete process of setting up plan is beyond schedule on account of lack of gas supply in the nation of Bangladesh. On the other hand, Iron ore mine lease in Iran is pushing up the entire Project cost.

Rise in infrastructure spending by the Indian Government and development of network of roads could generate good amount of savings in freight and transportation expenditure, making steel companies and other industries of the nation of India internationally competitive.

SOCIAL:

Tata Steel Ltd is the recipient of the Golden Peacock Global Award for Corporate Social Responsibility

(CSR) for the functional year 2009. The award represents the firm’s continual commitment by business to ethical behavior, to economic development and to improving the quality of life of the workers and their kin, as well as to engagement with local social group.

Right from organizational policies on corporate accountability, alcohol and narcotic, and preventive measures for HIV, to a Code of Conduct that reaches out up to stakeholders, ethics and responsibility are intertwined in the daily working course of Tata Steel’s business.

LEGAL

Tata, the globally is recognized and appreciated for its ethical practices, CSR (Corporate Social Responsibility) is not just a formality but for the essence of the business. It is very hard to find any problematic situation in TATA’s century old history with regards non-ethical practices or behavior. But in recent times Company is suffering from Land Acquisition issues in Singur, West Bengal. Even though it’s not an issue in direct context to “ TATA STEEL” but the dilution in brand “ TATA” has a significant impact on the stock prices of Tata Steel.

10. 4 BCG Product Portfolio Matrix

Tata Steel has stable market growth but has a relatively high market share so it comes under cash cow.

This implies it is generating enough revenue that can be pooled into “ stars” and “ question mark”

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