Tata motors porters five model and pest analysis marketing essay

De-licensing in 1991 put the Indian automobile industry on a new growth trajectory, which attracted foreign auto giants to set up their production facilities in the country to take advantage of the various benefits it offers. Large middle class population, growing earning power and strong technological capability have been boosting automobile demand for the past few years. Despite economic slowdown, the Indian automobile sector is expected to see high growth in coming years, especially in passenger cars segment, said our new research report, " Indian Automobile Sector Analysis".

The passenger vehicle market, which constitutes around 80% of automobile sales, has immense growth potential as passenger car stock stood at around 11 per 1, 000 people in 2008. Anticipating the future market potential, the production of passenger vehicle is forecasted to grow at a CAGR of around 10% from 2009-10 to 2012-13.

The recent launch of Tata Nano has brought about a new revolution in the country's small car segment. Seeing the good initial response from consumers, many other players in the industry are chalking out their plans to launch cars in this segment in the next few years. Our research foresees a CAGR growth of around 14. 5% in domestic volume sales of passenger vehicles during the forecast period. Other segments, such as two-wheelers, multi-purpose vehicle and light commercial vehicle, are also expected to witness fast growth in coming years.

Withstanding a growth rate of 18% per annum, Indian automobile industry; manufacturing cars, buses, three wheelers, two wheelers, commercial vehicles, heavy vehicles, provides employment to a large number of workforce. A number of leading global automotive companies entered into joint ventures with domestic manufacturers of India and thus started the large-scale production of automobiles in India.

PLAYERS IN INDIA

Maruti Udyog, Fiat India Private Ltd, Ford India Ltd., General Motors India Pvt Ltd, and Toyota Kirloskar Motor Ltd among others. The production of automobiles in India is mainly for the domestic customers. Some facts on Automobile industry in India:

India has the fourth largest car market in the world

India has the largest three wheeler market in India

India is the second largest producer of two wheelers in the world

India ranks fifth in the production of commercial vehicles.

Hyundai Motors ranks second in car production in the world.

The two wheelers manufacturers in India are, at present, doing good business. The popular two wheelers manufacturers in India are

Bajaj Auto

Hero Honda Motors

Honda Motors

LML

Scooters India Ltd

Suzuki Motorcycles

TVS Motor Company

Car manufacturing in India first began in late 1940s. Earlier a couple of cars made by foreign technology were manufactured in India. But now, cars made by Indian car manufacturers dominate the business. The future of car manufacturing in India is bright. The popular car company in India are:

Maruti Udyog

Ford India Private Ltd:

General Motors India

Hindustan Motors

Hyundai Motors

Fiat India Private Ltd.

Tata Motors Limited

Toyota Kirloskar Motor Ltd

Domestic Market Share for 2008-09

Passenger Vehicles

15. 96%

Commercial Vehicles

3. 95%

Three Wheelers

3. 60%

Two Wheelers

76. 49%

MARKET SHARE

At present major Indian, European, Korean, Japanese automobile companies are holding significant market shares. In commercial vehicle, Tata Motors dominates over 60% of the Indian commercial vehicle market. Tata Motors is the largest medium and heavy commercial vehicle manufacturer.

Among the two-wheeler segment, including scooters and mopeds-motorcycles have- major share in the market. Hero Honda contributes 50% motorcycles to the market in which Honda holds 46% share in scooter and TVS makes 82% of the mopeds in the country. In the three wheeler industry in India, Piaggio holds 40% of the market share. Bajaj is the leader by making 68% of the three-wheelers.

Car manufacturers in India dominate the passenger vehicle market by 79%. Maruti Suzuki is the largest car producer in India and has 52% share in passenger cars and is a complete monopoly in multi purpose vehicles. In utility vehicles Mahindra holds 42% share. Hyundai and Tata Motors is the second and third car producer in India.

DOMESTIC SALES

Established under the parent company, Tata Group, in 1945, Tata Motors Limited has become India's largest automobile company. It was the first Indian automobile company to list on the New York Stock Exchange. Tata Motors began manufacturing commercial vehicles in 1954 with a 15-year collaboration agreement with Daimler Benz of Germany. This partnership has led Tata Motors to not only become India's largest automobile company but also India's largest commercial vehicle manufacturer; the world's top five manufactures of medium and heavy trucks and the world's second largest medium and heavy bus manufacturer. Having just entered the passenger vehicles market segment in 1991, Tata Motors now ranks second in India's passenger vehicle market.

Tata has enjoyed the prestige of having developed Tata Ace, India's first indigenous light commercial vehicle; Tata Safari, India's first sports utility vehicle; Tata Indica, India's first indigenously manufactured passenger car; and the Nano, the world's least expensive car.

PEST ANALYSIS

POLITICAL

Since Tata Motors operates in multiple countries across Europe, Africa, Asia, the Middle East, and Australia, it needs to pay close attention to the political climate but also laws and regulations in all the countries it operates in while also paying attention to regional governing bodies. Laws governing commerce, trade, growth, and investment are dependent on the local government as well as how successful local markets and economies will be due to regional, national and local influence.

In Tata Motors agreement with Ford to purchase Jaguar and Land Rovero, Tata Motors must have a full comprehension of the governing bodies and laws regulating commerce in United Kingdom.

Tata’s headquarters in Mumbai, India, strictly controls and regulates operations in all dealerships and subsidiaries, in addition to knowing and abiding by all labour laws in the multiple countries where they have manufacturing plants it has to watch political change.

The foundation of the company’s growth internationally is a deep understand of economic stimulation, customer needs, and individual government regulations and laws. Although it is the headquarters ultimate responsibility to make sure each individual office and branch is operating and abiding by the local laws, it will become increasingly more important for that duty to be taken care of at the regional.

ECONOMIC

Operating in numerous countries across the world, Tata Motors functions with a global economic perspective while focusing on each individual market. Because Tata is in a rapid growth period, expanding or forming a joint venture in over five countries world-wide since 2004, a global approach enables Tata Motors to adapt and learn from the many different regions within the whole automotive industry. They have experience and resources from five continents across the globe, thus when any variable changes in the market they can gather information and resources from all over the world to address any issues. For instance, if the price of the aluminum required to make engine blocks goes up in Kenya, Tata has the option to get the aluminum from other suppliers in Europe or Asia who they would normally get from for production in Ukraine or Russia.

Tata Motors also has to pay close attention to shifts in currency rates throughout the world. Currency fluctuations can equate to higher or lower demands for Tata vehicles which in turn affect profitability. It can also mean a rise in costs or a drop in returns. But they also have to pay attention to not just the domestic currency, the rupee, but also to the dollar, euro, bhat, won, and pound, to just name a few. Just because the rupee is strong against the dollar does not mean it is strong against all the other currencies.

SOCIAL

Undoubtedly, the beliefs, opinions, and general attitude of all the stakeholders in a company will affect how well a company performs. This includes every stakeholder from the CEO and President, down to the line workers who screw the door panel into place, from the investor to the customer, the culture and attitude of all these people will ultimately determine the future of a company and whether they will be profitable or not. For this reason, Tata Motors tends to use an integration and rarely separation technique with foreign companies they acquire.

On the other hand, some economic issues that Tata Motors face must also be looked at from a more localized perspective. For instance, the market in India for cars is much different than the market for cars in Italy. For one, India has over one billion more people than Italy does, thus the market is much larger or not as limited. Second, you must also take into affect the demographics and the average income of each market. Italians have a higher average income per capita than Indians and Italian citizens tend to drive larger and fancier cars. For this reason, the Tata Nano might not do so well in the Italian market. In summation, Tata Motors views the economy from a global perspective with operations across the entire globe; however, they must also maintain a local market understanding and knowledge when it comes to product positioning and placement throughout the different markets Tata conducts business in.

TECHNOLOGY

Tata Motors and its parent company, the Tata Group, are ahead of the game in the technology field. The Tata Group as a whole has over 20 publicly listed enterprises and operates in more than 80 countries world-wide. This equates to Tata Motors having lots of experience and resources to draw from for research and development purposes. The foundation of the company's growth is a deep understanding of economic stimuli and customer needs, and the ability to translate them into customer-desired offerings through leading edge R&D . Employing 1, 400 scientists and engineers, Tata Motors' Research and Development team is ahead of the pack in India's market and right with the rest of the field internationally. Among Tata's firsts are " the first indigenously developed Light Commercial Vehicle, India's first Sports Utility Vehicle and, in 1998, the Tata Indica, India's first fully indigenous passenger car," as well as the increasingly famous Tata Nano, which is projected to be the world's cheapest production car. In the automotive industry, it is becoming increasingly crucial for manufacturers to stay on top of the technology curve with new problems always rising such as escalating gas prices and pollution problems. Tata recognizes this and dedicates lots of resources and time into research and development to be even with or preferably ahead of other competitors, global trends, and changing economies. In all, an automobile manufacturer must change, adapt, and evolve to stay competitive in the automotive game, and this is exactly what Tata is doing with their rapid growth, and extensive research and development.

PORTER’S FIVE FORCES ANALYSIS OF INDIAN AUTOMOBILE SECTOR

It’s true that the average person can’t come along and start manufacturing automobiles. The emergence of foreign competitors with the capital, required technologies and management skills began to undermine the market share of various companies.

The domestic auto industry posted a robust over 24 per cent jump in August sales, fuelling hopes of an even better performance in the coming festival season. According to the Society of Indian Automobile Manufacturers (SIAM), the industry sold 10, 08, 702 units in August against 8, 11, 341 units in the same month last year. Passenger car sales continued to grow for the seventh straight month for August, up 25. 59 per cent while sales for motorcycles soared 25. 94 per cent for the same month.

At present 100% Foreign Direct Investment (FDI) is permissible under automatic route in this sector including passenger car segment. The import of technology/technological upgradation on the royalty payment of 5% without any duration limit and lump sum payment of USD 2 million is allowed under automatic route in this sector.

Barriers to entry:

Economies of scale: Companies like Maruti, Hero Honda etc are present in market from many year and achive the optimum level of production through which these companies are enjoying the economies of scale. But for a new player it will not be easy to get benefit of these economies of scale due to high price competition from exiting players

Demand side benefit of scale: It is never easy to get the trust of the customer. Company like Hero Honda, Bajaj and TATA etc having the large number of customer base and build the trust in the product. So new players will have make place among the customer to beat the competition which will not be easy for them.

Customer switching cost: Customer in automobile industry has high switching cost. Because after buying vehicle once they did not replace it before two or three years so the switching cost in this industry is high. It will be a barrier for new player.

Capital requirements: Capitals require tostart an automobile company is very high. Land and machinery requirement and human resources requirement and after then there is high competition so it will be very risky for new company.

distribution channels: In automobile industry or in any industry to capture the huge market you should have a big distribution network not only for sales of vehicles but also for the services, which is important feature consider for company. Like Maruti due to the oldest company in India have the advantage over the competitors. Ever existing players are not able to overcome this who are trying from so many years so a big barrier for new entrance.

Threat of Substitutes

If we talk about the substitute for automobile then there are mainly two substitutes are:

Railways

Airlines

But both of these will not be substitutes for every customer and in every situation. Like for a short journey airlines will not be substitutes. And journey to a place where railway can't reach in this position railway will not be substitute. but these can be threat in near future as airlines industry trying their hard best to cheap their fair and start as much as local airlines.

But within the automobile industry lots of completion and substitutes are able like for two wheels any car can be substitute after the launch of Nano the price factor also remove and owned car or car on rent are the substitute for each other. This is great advantage to TATA as now two wheeler customer can also go for car which mean new segment of customer.

Bargaining Power of Suppliers

To manufacture a vehicle number of inputs is used like steel, seat covers, technology, and tyre etc. Input which add value to the vehicle supplier of those inputs are always have bargaining power like tyres of MRF will add value to the final product so company using the MRF tyre can’t change the supplier easily due to high switch cost.

When we talk about steel major input for the automobile industry and in India steel demand is more than its supply and most of the steel is imported from the abroad so in this case also automobile company are lacking.

But when we talk about the input like seat cover, plastic etc. which can easily switch and cost is nil of switching. So in this case bargaining power of supplier will be low.

Bargaining Power of Buyers

For the produced which are adding values to the product the switching cost of company will have low bargaining power because it will directly affect the customers.

Company have to keep good relation with supplier to enjoy the benefit of discounted prices so they have to go keep long relation with supplier. So they can’t change supplier time to time. In that case buyer will have high bargaining power.

When automobile company can go for backward integration in that case buyer have the high bargaining power. Like Tata which have its own steel plants so can face the problem of shortage of raw material.

When buyer power is strong, the buyer is the one who sets the price in the market. Here there are purchases of large volumes. There is prevalence of alternative options It specifies the impact of customers on the product

Price sensitive customers were some of the factors that determine the extent of influence of the buyers in this industry. The major focus of Indian Component suppliers is Quality as suggested by one of the Japanese Quality focus firm. The Industry association ACMA reports that over 170 of its members have already received ISO-9000 certification and 23 have received QS9000 certification.

Industry Rivalry

When total costs are mostly fixed costs, the firm must produce capacity to attain the lowest unit costs. Since the firm must sell this large quantity of product, high levels of production lead to a fight for market share and results in increased rivalry. This is happening in the automobile industry all player are big and put huge investment.

Industry becomes unstable as the diversification increases. In this case the diversity of rivals is moderate as most offer products which are close to standard versions and the competitors are also mostly similar in strength

The presence of many players of about the same size little differentiation between competitors. Higher the competition in the industry lower would be the profit margin. To remain ahead in competition, auto-makers were tempted to offer value added services to the customers incurring more costs.

Conclusion:-

Tata Motors is an overall strong company that has found strength and expansion through its parent company, Tata Group, but also through its numerous acquisitions and mergers. Although Tata Motors stock prices have fallen since the start of the 2008 year due to suggestions that Tata Motors is overreaching by adding luxury brands to pair with the Nano, the world's cheapest car.

Chairman of Tata Group, Ratan Tata, rejects suggestions that, " We're not trying to be a global player," he told reporters in New Delhi Jan after unveiling the Nano, which will be built in a new plant costing 10 billion rupees ($249 million). " We will grow internationally in select markets" (Krishnamoorthy).

we identify and describe attributes of successful companies including: production efficiency, well-planned cost structures, distributed management, attention to underserved markets, and well-respected brands and products. We then move from specific company attributes to identifying key trends in the automotive industry as a whole including: international expansion, distributed competition in new markets, increased environmental regulation, increased energy constraints and increased operational efficiency.

With the development of Indian economy and the liberalisation of policies new international players are entering in the Indian market due to huge potential. It will be directly affect the national players. The future looks much more promising for the four Asian companies with international market reach that were studied: MUL, Honda, Hyundai and Toyota. Toyota stands out as being best positioned for success in the near future, while Honda will most likely continue to be successful on a smaller scale. And although currently successful, it is much more difficult to predict the future success of Maruti Udyog Automotive Industrial Company. Both companies remain mainly focused on the Indian markets.