

Company overview of tata motors limited



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Tata Motors Limited was founded in 1945 and it is the most successful automobile manufacturing company in India. With Tata Group as its parent company and Ratan Tata as its CEO, Tata Motors has sold almost 6 million vehicles nationally since their first launch in 1954 (Tata Motors, 2010). In expanding their business internationally, Tata Motors has proven that they are qualified as another competitor in automobile industry. Their products are commercial vehicles like buses and trucks, and also passenger cars like Tata Sierra, Tata Estate, Tata India, Tata Nano, Tata Xenon, etc. The company revenue was Rs. 27, 055. 57 crores in June 2010 (Tata Motors, 2010). In India, Tata has operations in Jamshedpur, Pune, Lucknow, Patnagar, and Dharwad. Tata Motors was listed in New York Stock Exchange in 2004, followed by open their operations in UK, South Korea, and Spain (Tata Motors, 2010).

In 2004, Tata Motors joint venture with Daewoo Commercial Vehicles Company from South Korea and formed Tata Daewoo. Continue one year later they bought Hispano Carrocera, a Spain company and also in 2008, they bought Jaguar and Land Rover from Ford, a UK based automobile company (Tata Motors, 2010).

Macro Environment Analysis of the Company

In analyzing macro environment of Tata Motors, it is crucial to know the main factors that influence the company when entering business to another country. Political, Economic, Social, and Technological (PEST) analysis is used to dig deeper some external factors which affect business in macro environment. With 4 perspectives in PEST analysis, it will help us to know the

host market condition, possible growth, opportunities, decision making, and important steps (Lawson, 2006).

III. 1. Political-Legal

Political is about the condition of politic and security in the domestic market which influence daily activity, including business. Legal is about the bureaucracy or regulation that should be fulfilled when we want to open a business. This is also an important factor because without obeying laws, rules, and regulation in the country, it is almost impossible to establish market there. Tata Motors was established in India, so Tata Motors has to concern on laws, rules, regulation, and political stability in India. But since Tata Motors has many subsidiaries in many countries, Tata Motors has to obey the host country's laws also. In 2008, Tata Motors bought over Land Rover and Jaguar from Ford Motor. Since then, Tata also has to concern on the UK laws and regulation (Carty, 2008). Moreover, as the first company to be listed in New York Stock Exchange, Tata Motors also has to concern on US politics..

Generally, the political factor in the company's macro environment such as: tax policy, government regulations, and laws. It is famous that India is one of the countries which have a complicated bureaucracy, this is one of the obstacles if establishing business there (Sastry, 2005). Political unstable such as wars or conflicts also cause inflation and may affect oil price in one country. High inflation cause the government has to rise up prices, and oil price is the common price to get raised. And it is automatically the higher price of oil will affect the sales of cars (Wardell, et al., 2008).

There were some political conflicts which were faced by Tata Motors recently. In their official website, stated that Ratan Tata (Tata Motors CEO) faced difficulties when he wanted to launch Tata Nano. They have to deal with some emission norms and regulations in order to produce the cars (Tata Motors, 2010).

As been reported on Bloomberg Businessweek in 2008, there was conflicts happened between two political parties when Tata Motors wanted to established their factory in Singur (India) and some protests from the local farmer. The conflict was about the agricultural land which Tata used to build the factory. Finally, Tata Motors had to relocate their factory and lost \$100 million for relocation cost and over \$ 300 million for investment (Banerjee and Guha, 2010). This problem is to prove that how stable the political situation of the country plays an important role in the company's macro environment.

III. 2. Economical

The condition of economy in recent time or in the future can influence the growth and strategy of the company. This is very important because Tata Motors is a multinational company. Tata Motors has to understand the trend of economic growth in every single country that they do business with. This factor tells about the economical factor that surrounding the company such as: economy fluctuation, monetary and fiscal policy, government spending, unemployment level, interest rate, exchange rate, Gross Domestic Product (GDP) per capita, etc.

In the domestic market, Tata Motors has to pay attention to the economic condition of India. India is a developing country with GDP per capita = \$ 3,200 and \$ 3.68 trillion national purchasing power (CIA, 2009). As been affected by the depression of global economic, India's automobile industry also has to bear the consequences. The increase of material price forced Tata Motors to increase its truck price of 3.5% which lead to decrease in demand (Mapsofindia, 2010).

In the international market, Tata Motors aims more to developing countries and middle-class family (Peacock, 2008). Each and every country has their own exchange rate or currency and it keep on changing every time. So for being a multinational company, Tata Motors has to concern in any changing of countries currency, especially US Dollar because Tata Motors also listed in New York Stock Exchange (NYSE, 2010). Inflation is also one of the factors, because it affects the interest rate for doing investment in a country (Russell, 2006). The increase or decrease of Inflation, will lead to a lower or higher interest rate. Looking deep to the economical macro environment may help Tata Motors in price setting, demand, cost, and decisional making in the company.

III. 3. Socio-Cultural

Socio-cultural is focus on the attitude of consumer and employee which also affect the strategy. Strategy planning must follow the development of educational level and social assessment in order to see the influence toward the strategy. Some of the factors are: income distribution, attitude, education, health and wellness, changing life style, and demography.

Tata Motors must realize the type of customers in India as its domestic market. The attitude and life style of those customers affect the demand for Tata Motors which also influence its decisional making (Tata Motors, 2009). Indian people are careful with their spending. They do not want to buy thing which is not worth it (Sharma, 2010). They are also usually educated and easy access to information. So, Tata Motors has to look at local perspective to market their product (Deoras, n. d.).

Besides that, in doing business in 26 countries with 26 different cultures in each country, Tata Motors has to understand and apply different strategy. For example: Tata Motors cannot apply Indian culture to United Kingdom when they purchased Land Rover and Jaguar from Ford (a UK based company), because each place has their unique demographic. Another example would be: When marketing their product, Tata Motors must know the local demand. India for example, they have pretty low GDP per capita and most of the people prefer small car (Alvares, 2010). So, Tata Nano (one of Tata Motors product, a small car with \$2500 price and the world cheapest car) seems fit into the market (Nussbaum, 2008). In 2009, Tata Motors faced culture problem in United States whereby affected the sales of their Jaguar. Many American did not want to buy a famous brand like Jaguar if it is owned by Indian company (Kamath, 2009).

In focusing their socio-cultural environment, Tata Motors has Corporate Social Responsibility (CSR) team which does social activities, donation, charity and caring the environment (Tata Motors, 2008).

III. 4. Technological

Technological environment could affect raw material, operation, product, and company services. The development of technology can give huge opportunity to increase the product output in the company. Government intervention through tax policy and laws also play important role in the development of technology. The willingness to do innovation and taking risk seems to be the important component in this factor. Technological environment such as: The impact of changes in technology, new invention and development, cost and use of technology, and information technology development. This factor could give a competitive advantage to the company.

As one of the giant automobile company, Tata Motors has to adapt and develop their product to the technology. The adaptation is not only in the factory machines but also in the car parts. Tata Motors allocate 2% of their Sales to Research & Development Department (Tata Motors, 2010). Now, they are working to make environmental friendly buses such as hydrogen fuel cell buses and hybrid cars (Doggett, 2010).

Not only in the 'real world', but Tata Motors also expand their services through internet. Tata Motors has on Online Booking Services which allow customers who has problem with their car to book date to send their car to their workshop. Now, customer also can purchase Tata Nano through internet, Tata Motors expand their business to e-commerce marketing (Marathe, 2009).

III. 5. SWOT Analysis of Tata Motors

SWOT Analysis is a tool to analyze situation and condition of a business. It shows the Strengths, Weaknesses, Opportunities, and Threats of the business. It is helpful to support the decisional making in the company because this analysis shows the current performance of the company and the possible challenges in the future time (Kern, 2001). And these are the SWOT Analysis of Tata Motors which been described from their official website:

III. 5. 1. Strength:

- Strong brand image
- Good management
- Done many good innovations

III. 5. 2. Weaknesses:

- The market target mostly is lower level citizen
- Advertisement and promotion still below other companies

III. 5. 3. Opportunities:

- The acquisition of Jaguar-Land Rover will give more opportunities to produce different product innovation and aim to luxury market segment.
- The new 'Tata Nano' as the world cheapest car will bring lots of demands.

III. 5. 4. Threats:

- The tight competitiveness in automobile industry

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- The high oil price
- The high price of raw materials

The International Consideration

As being the largest automobile company in India, Tata Motors knew that they could gain more profit by expanding their market globally. Opening business in some other countries outside their domestic market in India will bring benefit to them to be closer to their customers and reach worldwide market.

IV. 1. Worldwide Branches

Tata Motors was established in 1945; however Tata Motors started expanding their business internationally since 1961, they are doing export with over 80 countries in 5 continents. In 1992 Tata Motors reached Europe market by export (Ibef, 2010). They have operations in: Venezuela, Senegal, Ghana, Nigeria, Zaire, Tanzania, South Africa, Spain, Italy, United Kingdom, Ukraine, Russia, Chile, Australia, Poland, Turkey, Syria, South Arabia, India, Sri Lanka, Bhutan, Thailand, Malaysia, and Bangladesh (Tata Motors, 2008).

With 23, 000 employees worldwide, Tata Motors is the first automobile company to be listed in New York Stock Exchange (NYSE) in 2004. In the same year also they bought Daewoo Commercial Vehicles Company, a South Korea truck manufacture. Again Tata Motors expand its wings by buying 21% shares of Hispano Carrocera in 2005, a bus maker from Spain. A year later, they joint venture with Thonburi Automotive Assembly Plant Company from Thailand. Moreover, they also cooperate with Marcopolo, a Brazilian

company. Furthermore, in 2008 Tata Motors acquired Jaguar and Land Rover from a UK company, Ford (Tata Motors, 2010).

IV. 2. Tata Motors Concern toward International Business

As one of the big player in automobile business, Tata Motors must concern on many important things such as: environment, politics, and cultures. There is a big issue right now in Tata Motors which is related to their concern toward environment. A big demand for their low cost car 'Tata Nano' will bring even more pollution because it is affordable and every people will buy it (Shivani, 2010). It is a good sign for the company but a bad sign to the earth.

To focus into Tata Motors international business, United Kingdom is taken as an example. UK market is favourable for Tata Motors. Some of the advantage that they received by doing business in the UK are: Language; because India used English as their official language and so does UK, Tata Motors sees UK market is potential, UK is more attractive than another country also because they have lower entry barriers and they have a good network for dealer which is very important for Tata Motors (Purcell, 2009). Tata Motors has to concern on UK economic condition too, because it is a main market for Jaguar and Land Rover (Subbu, 2003; David, 2008). It is saver for Tata Motors for doing business in UK because the stability of Pound Sterling and UK is a good place to make Foreign Direct Investment (Invest in the UK, 2010).

But overall, Tata Motors has to concern on the tight competitiveness in automobile industry in the UK. Huge brands such as: Toyota, BMW, Honda,
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Mercedes-Benz, etc, are also big players in the market. Therefore, Tata Motors must keep the strong performance by keep developing new product to attract customers. Also keep good relationship with customers to enhance their loyalty (Nemo, 2010).

IV. 3. Internationalization Method

Tata Motors ways to international business such as: joint-venture, subsidiary, exporting, franchise, and dealer distribution. Tata Motors used Joint-venture or associate companies to touch Europe market (Ibef, 2010). They associated with Hispano Carrocera in Spain and become Tata Hispano. Tata Hispano produces coach, big buses, large cars, and regional transport (Auto, 2009). In 2009 Tata Motors bought 100% stake of this company (Indian Info Tech, 2010).

Subsidiary or acquisition means when a company is owned and controlled by its parent company after has been acquired (Lennon, 1999). Tata Motors has 30 subsidiaries and 20 of them are outside of India. They gained almost Rs. 6500 crore revenue from the subsidiaries in 2006 which contributed almost 20% of the group revenue (Tata Sons Ltd, 2007). The most profitable subsidiary is Tata Daewoo Commercial Vehicle (TDCV) in South Korea and Telco Construction Equipment Company (Telcon), cooperate with Hitachi in India (Tata Sons Ltd, 2007).

Besides doing joint-venture and subsidiary, Tata Motors also exports some of their products. In 2008, Tata Motors exported more than 33, 000 units (Tata Motors, 2009). The exported country is spread in 5 continents and more than 70 countries. In the year 2006, Tata Motors exports reached 11% of its total

sales (Onkvisit and Shaw, 2004); they focused in South Africa market in that year and exported almost 33% of the total export (Economic Times, 2006).

Tata Motors has franchisees in some countries such as: Kenya, Bangladesh, Senegal, Russia, and Ukraine (Tata Motors, 2010). In addition, they have dealers to distribute their cars to their customers in Venezuela (Tata Sons Ltd, 2010).

IV. 4. Problem Faced by Tata Motors

Even though the field of international business seems fertile, but it has so many obstacles and problems. Tata Motors has to be careful to overcome all the problems. Some of the problems would be: Joint venture problem, decreasing of stock, economic downturn in America and Europe, and last but not least is the tight global competitiveness of automobile company (Menezes, 2005).

First, joint venture problem. When Tata Motors took over Jaguar and Land Rover in 2008, both them was doing badly (The Economist, 2009). Jaguar sales dropped to less than 65, 000 cars in 2007 while Land Rover turned form favourable to unfavourable because they world demand is changing to environmental friendly cars while Land Rover still producing its spendthrift fuel cars. To overcome these problems, Tata Motors made a careful step by making new car design. Tata Motors came with Jaguar X-type which is better in design and also cheaper. They had a warm response from the market. To maintain it, Tata Motors asked help from Jaguar-Land Rover management to take part in the company. In Land Rover case, Tata built Land Rover LRX which is better in fuel consumption and low emission (Kamath, 2009).

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Another problem would be the decreasing stock of Tata Motors in 2008. This problem rose because of the \$ 3 billion debt that Tata Motors loaned to buy Jaguar-Land Rover which could cause higher interest cost and lower down earnings (Kamath, 2009). This problem also compounded by the global economy crisis. Many Investors afraid that Tata Motors's stock would fall down. The best solution to this problem is to increase sales by making lower cost cars which will attract the customers, also support from Tata Group (its parent company) to help Tata Motors to settle their financial problem first (Krishnamoorthy and Koenig, 2008; Moinansari, 2009).

Can be said that Tata Motors enter the global market was not in a right time. When it acquired Jaguar-Land Rover from Ford, American and European markets were in a weak point. The best solution in this condition is to keep the good management between Tata Motors and Jaguar-Land Rover, and also good investment in their product line like the latest 'Tata Nano' which is the world cheapest car to reach every corner market (MBA, 2010).

Although Tata Motors is a largest automobile company in India, but it only ranked as the 19th largest manufacture in the world (OICA, 2009). So, to face the competitiveness among the companies, Tata Motors must find a way to attract the market, for example: New product line, Make a low price car with a good quality, maintain their safety level, etc (Horner, 2009).

The Future Growth of Business

Tata Motors performance is also countable in automobile industry. With Tata Group as its parent company, and Ratan Tata as its CEO, Tata Motors is keep growing and expanding their market. In their official website, stated that the <https://assignbuster.com/company-overview-of-tata-motors-limited/>

company revenue jumped 30.5% from last year and they got Rs. 2,571 crores of profit (Tata Motors, 2010). It is a positive growth from the company.

Ansoff Product-Market Matrix was founded by H. Igor Ansoff in 1957. This marketing tool is used to help company to find the best strategy that should they choose to reach the objectives (Harris, 2000; Botten, 2008).

Source: Ansoff 1957 cited in Campbell and Craig, 2005

Output from this Ansoff Matrix is a growing strategies which are appropriate for every part of business. Igor Ansoff stated that there are 4 strategies in Ansoff Matrix, they are: 1). Market Penetration, 2). Product Development, 3). Market Development, and 4). Diversification (Graham and Allan, 2008).

V. 1. Market Penetration

The company is trying to reach the existing market with product that has existed too. This is the safest step because it has lesser risk than any other strategies. Usually, companies use this strategy to attract their competitors' customers. Tata Motors used this strategy when they reached UK market by take over Jaguar-Land Rover, Tata Motors did not just concentrate on the new products line that they can produce from the two companies above but instead, Tata Motors still producing Tata Indica in the market (Tata Motors, 2003).

V. 2. Product Development

The company offer new product to the present market. This is an important strategy to give fresh breath to the market. The new product will attract

more customers from the existing market. The first product development of Tata Motors was 'Tata Sierra', their first passenger vehicle. Tata Sierra was marketed in 1991. And that was the first step of Tata Motors to develop their product and future strategy (Tata Motors, 2010).

Tata Motors also did product development when they started to produce 'Tata Nano' in 2008, Ratan Tata thought about making the world cheapest car and produced it in the domestic market first, India (Tata Motors, 2009). The strategy was to sell affordable car to the people in the same time, expanding their market.

Before that, Tata Motors developed the first mini-truck in India called Tata Ace. Tata Ace came to the market in 2005 and in 2 years time, they have sold 96, 000 units of Tata Ace (Tata Motors, 2007). By marketing this product, Tata Motors expand their market to mini-truck segment and become market leader (Thakkar, 2010).

As been stated in Businessworld website (2010), Tata Motors is planning to put Rs. 10, 000 crore for product development. The investment will be used to cover their debt when purchasing Jaguar-Land Rover, to buy new technologies, and any other improvement.

V. 3. Market Development

Use the present product that belong to the company and offer it to a new market. Many MNE usually use this strategy to reach wider market domestically and internationally. Some examples of market development are: expanding to another country, selling the product to a different market

segment, and using the product for different function (Graham and Allan, 2008). Tata Motors has developed their market overseas; they reached South Korea market in 2004, Spain market in 2005, Thailand market in 2006, UK market in 2008, and many more. Tata Motors sells their existing product like buses, trucks, and cars in those markets. Tata Motors is planning to make their market even wider by opening new companies in developing countries such as: Indonesia, Philippines, and Turkey (Tata Motors, 2010).

V. 4. Diversification

This is a strategy whereby the company makes a new product and offers it to the new market. Diversification has higher risk than another strategies because the market and the product is new, but in the other side it could bring more profit to the company as it will bring new customers (Graham and Allan, 2008).

Tata Motors diversified their product when they entered UK market and took over Jaguar-Land Rover in 2008 (Rao, 2009). It allowed Tata Motors to produced new products line, for example: Jaguar X-Type and Land Rover LRX (Kamath, 2009).

New Venture

Tata Motors main target market mostly is developing countries because developing countries seem to have fewer barriers to entry and the market is growing (Wentz, 2007). Tata Motors currently is famous with their Tata Nano, a ‘one-lakh-car’ which is cheap in price; this car is only cost Rs. 100, 000 or \$ 2, 500 (Tata Motors, 2010), this car really fits for developing countries

which have lower GDP per capita, and also Tata Motors produces buses and trucks which is suitable for industrial country. It is proven by how they operate business with Thailand, in 2008, they managed to sell 600 big trucks (HT Media, 2009).

To expand Tata Motors market, Indonesia will be chosen. Dilip Chenoy, director of Society of Indian Automobile Manufacturers (SIAM) says that Indonesia has a very good market and it is showing an optimistic economy (Reuters, 2009).

VI. 1. Method of Business Entry

The method of business entry that should Tata Motors do is Foreign Direct Investment (FDI). They did the same when they entry Thailand market; Tata Motors joint venture with Thornburi Automotive Assembly. And since Indonesia and Thailand has similar market, it will be good if they find a partner in Indonesia and joint venture with them (Bhattacharya, 2010). FDI has a lot of benefits to both sides. It gives advantage to the host country to develop their economy, enhance the technology, more capital and investment, and new product. To the original firm, it gives opportunity to expand the market, easier marketing process, and surely will bring more profit to the company (Graham and Spaulding, 2005).

Indonesia has become target for FDI to so many companies in many countries. Lots of Multi National Enterprise (MNE) planted their business there (Afrida, 2010). Foreign Capital Investment Law No. 1 of 1967, amended by Law No. 11 of 1970 regulates FDI (Expatriate Association Jakarta, 2010).

VI. 2. Porter's Five Forces Analysis

This theory was found by Michael Porter. It is used to analyze competition between industries. It says that a company should not be only competitor oriented but also has a clear market vision, Porter explains that our potential competitors are those infant industries, suppliers, customers and buyers, and substitute product producers. Therefore we have to know 5 forces that determine the character of one industry, they are: The threat of new entrants, Rivalry among existing competitors, The threat of substitute products or services, The bargaining power of buyers, The bargaining power of suppliers (Porter, 1979).

Source: Porter 1979 cited in Harvard Business Review, 2008

This theory will help us to understand the Indonesia market for Tata Motors, by using its 5 factors it will be easier to know the market strength and opportunity. First is 'The threat of new entrants'. This force is usually influenced by barriers to entry. For example: laws and regulation, access to materials, tariff, investment cost, etc. The more barriers to entry, the lower the threat of new entrants. Tata Motors must be aware for this threat if they want to come to Indonesia. Indonesia's market for 'Tata Nano' seems good because most of the cities in Indonesia are crowded and often jammed so the small and cheap car like Tata Nano will be on demand (Chaudhary, 2009). The new entrants which can give threat for Tata Motors such as: 'Intelligent Geely', a £1, 500 car by China Geely Automobile (The Economist, 2008) and also 'Maruti Ritz' by Maruti Suzuki (Autocar, 2010). So, Tata

Motors must maintain the loyalty of its customers by always giving the best services and always produce not only cheap but also good quality cars.

Second is 'Rivalry among existing competitors'. It is the most common thing in business world. If the business has many competitors, it could give disadvantages to the company because they share the same amount of customers (Royer, 2005). Tata Motors will have many competitors in Indonesia, such as: Honda, Toyota, Mitsubishi, Daihatsu, and many more. Each brand has their own competitive advantage, so Tata Motors have to make sure that they are strong enough to enter the market by keep innovate their cars, keep the low price, and promote more (Landscape, 2010).

Third is 'The threat of substitute products or services'. This theory investigates how many substitutes that the product has in the market. The existence of substitute product will block up the producer freedom for price setting (Morrison, 2008). The high price of oil sometimes lower down the demand for car, especially nowadays when the oil price has reached \$87/barrel (OPEC, 2010). People might substitute it with bicycle, motorcycle, or hybrid car which is popular recently. The strategies that Tata Motors should do are produce good quality cars, innovative products, and keep update with latest technology (Humad, 2005).

Fourth is 'The bargaining power of buyers'. The more products that the company has will bring a more choices to the buyers which will make their position become stronger. Buyers or customers are the main key for company, because they bring sales and profit (Miles, 1995). The target customer for Tata Nano is moderate to low level because it is affordable. The

cheap price will bring positive respond from Indonesia market (O'Connor, 2008).

And the last one is ' The bargaining power of suppliers'. This explains how important a supplier to a company. If let's say there are only a few suppliers in the market, the material will become rare and the bargaining power for the suppliers will be higher (Peng, 2008). Tata Motors Indonesia will still depend on their suppliers in India, so they need to maintain close relationship to the suppliers especially when the demand increases (Sachin, 2010).

Conclusion

Tata Motors, India largest automobile company has proven that they are countable in automobile industry. They are successful to reach domestic market and global market. Now, Tata Motors has reached market in 26 countries worldwide, from South America, Africa, Europe, and some part of Asia. This condition forces them to know every single country's political, economical, socio-cultural and technological issues and operates the business according to that. The headquarters in Mumbai (India) is responsible to balance and to control how the subsidiaries in many countries operate their production because political changing and conflicts always exists.

Tata Motors might face many competitors from the whole world, but to stand still and conquer the competitors is by developing products and keep innovating, this will give competitive advantage to Tata Motors. In these 2-3 years time, Tata Motors will invest to enhance their technology and cover

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their debts. This is a very good action from Tata Motors to show how integrated and strong they are. However, Tata Motors's step is not over yet, they are still expanding the business through many strategies. Developing new products and covering new market will always be their main purpose. Their vision is: “ Best in the manner in which we operate, best in the products we deliver, and best in our value system and ethics” – Ratan Tata.

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