

OPERATING ENVIRONMENT AND STRATEGIES FOR TATA MOTORS: A STUDY

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ABSTRACT

This case study provides an in-depth study of the environment in which India-based company Tata Motors competes. In order to understand key aspects of the company, a SWOT analysis was conducted to better determine both the internal and external aspects of the operating environment. Using this analysis in combination with a summary of the conditions in the domestic environment, suggested strategies are given. The purpose of these strategies is to provide creative, beneficial, and resourceful ways Tata can continue to succeed in the highly competitive automobile industry. Along with the general strategies, a brief implementation plan is given to demonstrate how to put these strategies into action.

KEYWORDS: SWOT Analysis, Operating Environment, Domestic Environment, Implementation Plan.

Introduction

Tata Motors Group, a USD 42 billion organization, is a leading automobile manufacturer with a portfolio that includes a wide range of cars, sports vehicles, trucks, buses and defense vehicles. Their marque can be found on and off-road in over 175 countries around the globe. Part of the USD100 billion Tata group founded by Mr. Jamshed Ji Tata in 1868, Tata Motors is among the world's leading manufacturers of automobiles. They believe in 'Connecting aspirations', by offering innovative mobility solutions that are in line with customers' aspirations. They are India's largest automobile manufacturer, and they continue to take the lead in shaping the Indian commercial vehicle landscape, with the introduction of leading-edge power trains and electric solutions packaged for power performances and user comfort at the lowest life-cycle costs.

Global Competition

Tata Motors competes in the global market. As a result, they are fighting with the best of the best and trying to succeed in foreign nations. Tata recognizes the obstacles presented with establishing a reputation in foreign countries and has succeeded partly through having an understanding of their competition.

Domestic Competition

Tata Motors has felt the full effect of domestic competition in recent years. They have been negatively impacted in their homeland, India, falling to third and fourth in automobile sales and commercial vehicle sales respectively. Note: Although Tata Motors focus is primarily on these two segments, passenger and commercial, there is much competition through substitute goods such as 2-wheelers (See 5. Substitutes)

Coordination amongst Competitors

The industry's competition does not always work as lone wolves against each other. Often times two or more companies will align their goals to try and dominate the rest of the competition. They recognize the value some major players are able to provide for them and cooperate through aligning goals, sharing resources, and distributing risk. There are many cooperative agreements throughout the industry but some notable examples include the following:

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- Ashok Motors and Leyland Motors in the manufacturing of light commercial vehicles
- Volvo Group & Eicher Motors Limited
- Jiangling Motors and Ford Motor Company for commercial vehicles
- Hyundai and Sichuan Nanjun Auto for commercial vehicles

Threat of New Entry

The automobile industry is heavily saturated with major players creating high barriers of entry and diminishing the threat of new entrants. There are many factors that cause high barriers of entry. First, there are substantial capital requirements associated with entering the automotive industry. Aside from the initial investments in property, plant and equipment, new entrants will need a surplus of capital to invest in research & development in order to produce automobiles capable of competing in the current market. In addition, competitors would need enough capital to take advantage of economies of scale in their production to drive product costs low enough to compete with competitor pricing. Another barrier of entry are the supply chain relationships in the industry. Long term contracts are often formed between the suppliers of raw materials, assemblers, and manufacturers thus creating a high barrier of entry for new competitors. Due to the high start-up costs for vehicle production facilities, there is a need for evidence of significant potential return on investment to consider entering the industry.

Substitutes

There is a wide variety of substitute goods available to consumers for Tata Motors' products. Although there are many goods that could be considered substitutes, such as bicycles, boats, etc., the most directly competitive of these substitutes are 2 and 3-wheel vehicles. Worldwide, motorcycles and scooters have a significant impact on automotive sales. Heavily populated countries with significant traffic congestions and poor road conditions such as India are large consumers of scooters. Two companies that have achieved great success in the scooter market are Hero Moto Corp, Bajaj Auto Limited and TVS Motor Company. Hero's "Splendor" sells over one million units per year. Bajaj is the leader in 3-wheels in India and is always looking to improve their products. Lastly, TVS has excelled in manufacturing and selling of mopeds, scooters and motorcycles.

Environment of India

Tata Motors is based in India, the seventh largest country in terms of area, and second largest country in terms of population. These two factors coupled with the growing economy, strong culture, and damaged political and governmental environment make India a fairly unique location for many auto manufacturers. The following sections provide an overview of these factors in regard to India and the effect they have on Tata Motors.

Analysis

The case problem can be analysed by many ways but to make a bold impression, SWOT analysis, PESTEL analysis and Porter's 5 force model has been done.

Swot Analysis

- **Strengths**
 - State-of-the art research and development facilities. Tata Motors invests in R&D and has an army of young technicians and engineers tasked with improving manufacturing and production capabilities, and providing a better product for the consumer. Their testing facilities have everything they need to identify necessary improvements and provide an in-depth understanding of their product development and quality.
 - Tata Motors is a strong domestic player (India's largest automobile company).
 - Products are abundant across market share and brand name is recognizable. They have maintained among the top automobile manufacturers for many years as well as being a top commercial vehicle manufacturer.
 - Innovation and catering to consumers. Tata has been able to successfully adapt to market and consumer conditions in order to profit in the industry. An example of this is recognizing the poverty level in India and coming out with the Nano as an affordable option for consumers.

- Diverse product lines. Tata Motors has options for many automotive needs from cars and trucks to passenger vans and coach buses. Globally, Tata is ranked among the top five truck and bus producers.
- Growing brand. Tata has been buying up foreign brands to build up the company and help with their efforts in the global market. Notable brands include Jaguar, Land Rover and Daewoo Commercial Vehicles Company.
- Strong relationships. Tata has made it of utmost importance to continue developing and maintaining relationships with dealers, suppliers, and even customers. This prioritization of connections helps ensure the longevity of business operations through strong networks throughout the supply chain.
- Access to Tata Group resources. The Indian multinational conglomerate has a plethora of resources at their disposal that could greatly benefit Tata Motors.
- India's largest company has resources from over 90 business entities that span seven business sectors. Among these resources include steel, insurance, technologies, manufacturing solutions, enterprise logistics and more. All of these could be used by Tata Motors to improve efficiencies and cut product costs.
- Environmental consciousness. Tata Motors has a commitment to being environmentally conscious and taking measures to minimize their carbon footprint. As a result, many of their plants and facilities have earned various environmentally friendly awards. In a world where everyone is being more and more conscious of environmental impacts, Tata Motors is ensuring their company maintains a positive reputation.
- Another important strength for Tata is the ability to produce a low price product. One example is the Nano. Although they did not sell as many units as they would have liked, there are global markets similar to India's where an automobile like the Nano could thrive. Global expansion of the Nano is definitely a big strength for the company but it will require improving the model to meet consumer safety requirements to ensure future success.
- **Weakness**
 - Safety standards. Unfortunately, Tata has not gained a strong reputation as being a "safety brand." One prominent example is Tata labeling the Nano as being a safe and affordable car and then receiving horrible safety ratings. They even received a zero-star rating for child protection. This has led to much damage to reputation. According to consumer responses, the Nano would be much more successful if the product design was safer and especially included airbags.
 - Tata Motors products are not very stylish and many products simply have outdated designs. This is a problem because the population demographics show a huge young consumer base now and for many years to come for India and the designs of the cars are not particularly attractive. If Tata could develop products with a more sleek and "hip" design they may be able to better capitalize on the young population which tends to be more concerned with design than some of the older generations.
- **Opportunities**
 - Paving of roads in developing countries could lead to more jobs, more discretionary income and more auto demand
 - Rising young population in India means large market of consumers
 - Third-world countries with low discretionary income good are a good condition for Nano
 - Women's Rights Activists could lead to more women in workforce and increased auto demand
- **Threats**
 - Domestic corruption in India's government
 - Caste system and cultural beliefs in India
 - Strong competitors with many more years of experience
 - Phasing out of government subsidies, especially diesel

- Increased raw material costs due to a strengthening global economy
- Higher safety standards of other nations

Case Solution

• Take Advantage of Resources of Tata Group

There are a number of ways collaboration between Tata Group and Tata Motors could be beneficial. One example is the bundling of insurance with automobiles. The way it would work is as follows: at the dealership, customers would be able to choose whether or not they wanted to buy insurance with the automobile. Say the vehicle normally costs \$10,000 and outside insurance would cost \$2,000. Tata could instead bundle Tata Group's insurance with the vehicle and sell it for less, say \$10,500 for both; \$9,250 for car and \$1,250 for insurance. Tata Group and Motors could both afford the discount because it will translate into a higher volume of sales. (Note: these numbers are for demonstration and actual pricing should be computed by finance divisions of both companies). Other ways to benefit from Tata Group include using their steel resources to lower product costs and utilizing enterprise resource systems to identify any inefficiency throughout the company. Utilization of Tata Group's resources could certainly translate to a strong upper hand against many competitors and much of the collaboration would be attractive for both parties since they would both be benefitting from the cooperation.

• Bringing the Nano to the Global Market

There is great opportunity for Tata's Nano in other developing countries where consumers do not have a high level of discretionary income. My suggestion is to learn from the mistakes of the Nano in India to excel in other third world countries. This will require rethinking the Nano in terms of meeting consumer needs. My suggestion is to design the Nano in a way where features can easily be added in to the car for extra cost. Tata has to realize for some consumers, minimum price is of utmost importance, but for others, they would prefer to spend a little extra and get other features they want. The way Tata can offer this is through allowing consumers to build upon their model for an increased price. For example, the Nano is sold at \$2,600 but consumers have a list of features and associated prices they can choose from: front airbags \$100, side airbags \$80, air conditioning \$120, etc. (Note: these prices are for demonstration purposes and all prices should be calculated by the finance & accounting division). This allows Tata to place an importance on consumer needs while still achieving minimal cost.

• Separation of JLR and Tata Motors

Jaguar and Land Rover (JLR) was a key acquisition for Tata Motors to excel in the luxury car market. JLR brings a lot of revenue for Tata Motors and their vehicles have high profit margins, characteristic of the luxury car sector. JLR is significantly different than Tata Motors on many levels including prestige, reputation, market share and more. I suggest JLR should remain as separate from Tata Motors as possible as to not damage their reputation. At first, some may think it would be wise for the two to be associated because then Tata Motors reputation will strengthen, however it is too big of a risk and quite likely to occur that JLR's reputation will weaken. Rather than trying to fix one brand image by using another, Tata should work on fixing its own reputation without the help of JLR. JLR is the key to Tata's luxury success and jeopardizing their reputation in hopes to strengthen a damaged reputation is not a wise decision. In summary, I think it is best for Tata Motors to keep JLR's marketing, distribution and all of the value chain separate from Tata's main business.

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