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An Analysis of Operating Environment & Strategy: A Case Study of Tata Motor

Michael J. Crawford

Salem State University

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AN ANALYSIS OF OPERATING ENVIRONMENT & STRATEGY: A CASE STUDY OF TATA MOTORS

Honors Thesis

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By

Michael Crawford

Professor Jian Gu
Faculty Advisor
Department of Management

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Abstract

This report 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.
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1. Executive Summary

Tata Motors is faced with significant international and domestic competition for passenger, luxury, and commercial vehicles. The environment in their home country opens doors to a number of opportunities and threats. In order for Tata Motors to continue to succeed they will need to take preventive and preparatory action against these threats as well as expose and capitalize on the different opportunities. The high barriers of entry results in a low threat of entry for new competitors, but the access to affordable substitute goods makes competing in the auto industry exceptionally difficult.

Even with tough competition and a tarnished reputation, Tata Motors has many organizational strengths they can utilize to stand out in the industry. It will be important for Tata to keep Jaguar and Land Rover distant from the rest of their operations as to protect JLR’s prestigious brand image. Another great idea for Tata is leveraging their connection with Tata Group to combine resources for mutual financial benefit. Lastly, Tata motors will need to capitalize on both the young population in India through new product designs as well as the low discretionary income in third world companies through a new introduction of the Nano.

2. External Analysis

2.1 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.
2.1.1 Passenger and Luxury Vehicle Competitors

A few of the top competitors for Tata Motors in terms of passenger vehicles include-Nissan, Ford and Volkswagen. These three companies have world-wide brand recognition, a substantial amount of resources, significant market share, diverse product lines and innovative technologies. They are also leaders in the United States market in terms of fuel efficiencies and safety ratings. They are tough competition for Tata Motors, and although they do not always come up with the next great idea, they are quick to mimic those who do. An example of this ability to adapt to industry changes was when Tata released the affordable Nano. It did not take long for these competitors to realize the potential for this idea and they quickly came out with their own versions (although the price discrepancy was significant being priced at nearly four times the price for the Nano). In addition to the three aforementioned competitors, Maruti, Renault and Chevrolet also offered similar spin-offs of the Nano.

There are also several companies that compete directly with Tata in the luxury division including Mercedes-Benz, BMW and Cadillac. Each of these companies have makes and models very similar to those of Jaguar and Land Rover. 4-door, coupe, 4-wheel drive, SUVs and more are all matched amongst competitors. In addition to the price and features, the prestige associated with the brands is also globally recognized for each company. Market share percentages vary upon country, but in the United States and some European countries, Tata’s Jaguar and Land Rover are significantly undermined in terms of market share.

2.1.2 Commercial Vehicle Competitors
Tata Motors competes with several companies in the commercial vehicle market. Ashok Leyland and Daimler are among the top five bus manufacturers in world and compete directly with Tata Motors bus product line. Tata is not free from competition in terms of trucks or tractors either. Isuzu, a Japanese commercial vehicle and engine manufacturer, is the world leader in truck manufacturing. Mahindra & Mahindra and John Deere are both the world leaders in tractor manufacturing as well as agricultural equipment in general.

2.2 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 2.5 Substitutes)

2.2.1 Passenger Vehicle Competitors

Some of the top competitors for passenger vehicles include: Mahindra & Mahindra, Hyundai Motor, Maruti Suzuki, Honda, Toyota and Ford. Mahindra & Mahindra is one of the largest vehicle manufacturers in India with a diverse product line and are building brand awareness through a continued effort on international sales. Maruti Suzuki has several successful models because of their continued investment in new technologies and meeting international standards for safety and emissions. Hyundai, Honda, Toyota and Ford have all realized the potential for success in India and have been
increasing manufacturing and production in order to capitalize on the demographics of the population. Honda surpassed Tata for the number three rank in passenger sales.

### 2.2.2 Commercial Vehicle Competitors

India is an attractive market that has sprouted fierce competition not only in passenger cars, but also commercial vehicles. Some of the top competitors for commercial vehicles include: Mahindra & Mahindra, Ashok Leyland and Force Motors. Mahindra & Mahindra has a variety of commercial vehicles spanning trucks, tractors, buses and even military vehicles. Ashok Leyland is a top commercial vehicle manufacturer in India with a specialty in bus manufacturing. Lastly, Force Motors is a leader in manufacturing of tractors, buses and smaller commercial vehicles with a focus on enhancing value for the consumer.

### 2.3 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:

- 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

2.4 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.

2.5 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 MotoCorp, Bajaj Auto Limited and TVS Motor Company. Hero’s “Splender” sells over one million units per year. Bajaj is the leader in 3-wheelrs in India and is always looking to improve their products. Lastly, TVS has excelled in manufacturing and selling of mopeds, scooters and motorcycles.

2.6 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.

2.6.1 Culture

India has a very strong sense of culture amongst the 1.2 billion population. There are lots of customs, beliefs and traditions that help to shape the culture. The primary language is Hindi, although English is widespread, and the most popular religion is Hindu at roughly 80%. Hinduism, a strong caste system and general beliefs have established a culture with a defined hierarchy, gender standards, and importance on education. Among these, people also place a sincere value in trust. People listen to each other and are much friendlier to each other than they are with foreigners, ranking as “least friendly nation to expatriates” by Forbes. In general, people like to do business with people they know and trust recommendations from friends and family over a stranger.
These elements of India’s culture have profound impacts on Tata Motors’ domestic business operations. First, the Hindu religion and strong caste systems plays a role in all aspects of life for Indians. This has the potential to cause disruption in communication for all departments of Tata Motors. For example, if a member of a lower caste is trying to give an order/direction to someone of a higher cast, or even the potential for certain Tata products to be associated with one caste could hinder sales from reaching full potential. Fortunately, there are laws that forbid caste discrimination, but that does not make the discrimination completely gone. Second, the continued valuing and investing in education will eventually lead to an increase in engineers, technology personnel and other occupations that will likely take away from the large agricultural workforce. As a result, there may be less need for the products Tata supplies to this sector of the economy. Third, the gender discrimination in India holds the automotive industry back from reaching its full potential. Nearly half the population is female and they do not live the same lives as men. Depending on the area, women’s rights could be somewhat relevant or completely disregarded (however, more women’s rights activists are beginning to sprout up across the country). Their primary job is housework, which does not really require having an automobile. If they were to enter the workforce the same as men, there would be more demand. Lastly, the importance of trust has a powerful impact on Tata. Having their home country in India gives them a competitive advantage against foreign companies trying to get involved in the Indian market. In order for these foreign competitors to succeed they will need to hire Indian sales people to be selling their products. This is because of both the way Indians perceive expatriates and the value they
place on recommendations from people they know and trust. So, this cultural element is good for Tata Motors.

2.6.2 Economy

India’s economy is considered as one for high growth potential due to the large and growing population, change of economic ideals and various other factors. Roughly 28% of India’s population is under 15 years of age, 18% are between 15 and 24 and 41% are between 24 and 54 years of age. Economic ideals have aided India’s economy as well by moving away from their self-sufficient economy to further explore the benefits of an open-market economy. This free market approach has led to privatization of government entities, industrial deregulation and more loosely controlled foreign investments. This has all helped India to achieve an estimated 7.3% real GDP growth rate and an approximate GDP of 7.411 trillion, which is fairly good considering the global recession. There is also an approximate unemployment rate of 7.3% with nearly 30% of the population below the poverty line. In addition, India has decreased its inflation rate by over 4% down to 5.9%.

Agriculture and services account for the majority of India’s workforce with slightly less than half being involved in agriculture and services being the primary stimulant for India’s economy. The rupee has recently been stabilizing due to a positive investor outlook for India. This is largely due to expectations for economic reform and the government’s ability to reduce debt.

All of these economic conditions will have an effect on Tata Motors. Fortunately, the expected financial impact on Tata Motors is mostly positive. The growing population
and specifically the young population will ensure there is a stable customer base for Tata’s domestic market for years to come. With over 240 million people in agriculture, there will be a stable demand for agricultural machinery, equipment and vehicles. The improving economy in India will translate to an increase in discretionary income for citizens which may lead to an increase in sales. The downside of this however is that nearly 30% of the population is below the poverty line and may be more likely to save their discretionary income rather than spending it on a new automobile. The strengthening of the rupee is both good and bad. On the down side, this could negatively impact exports, as well as give incentive for people to import their goods since their currency is stronger. A potential positive for this is a decrease in competition as companies may focus more on their entities in other nations rather than India where they may be able to get “more bang for their buck” through currency ratios in other nations.

2.6.3 Political & Governmental Environment and Subsidies

India’s political structure is that of a Federal Republic with three main sections. The Republic of India contains 29 states with seven union territories. The Executive section is led by a President, Vice President and Cabinet Ministers with the responsibility of passing laws made by the legislature. The Legislature/Parliament consists of the Lok Sabha (Lower House, elected by citizens) and Rajya Sabha (Upper House elected by state legislators), and the Prime Minister and they have the responsibility of making laws. The Judiciary section consists of the Supreme Court of India which is responsible for solving issues between the other two sections as well as handling other public matters/concerns. There is also a State Legislature with many citizen-elected officials.
The government has had many problems from battling with deficits to fighting rampant corruption and lack of reform. To start, the government subsidized several fuels including diesel. This ended up being a very costly decision as crude reached high prices and drove up the fiscal deficit. India will have to take advantage of decreased crude prices in order to phase out the subsidy and improve the deficit. Second, the government is filled with corrupt officials. In a country where there are hundreds of millions of people living in poverty, it is a shame politicians have wasted and/or stolen tens of billions of dollars in taxpayer money.

These factors all translate into effects on Tata Motors. Diesel subsidies and their potential discontinuation will have an impact on Tata Motors. If the fuel subsidies are to be phased out, household income will decrease for consumers by roughly 4%. It will be more expensive for people and businesses to use electricity, travel, etc. and thus there will be less money for them to spend on a new car, van, bus, etc.

Tata Motors will continue to be effected by National politics which rely heavily on state elections. Unfortunately, there has been a history of corruption throughout different levels of government that can cause big problems in completing reform. Sometimes, the delay in passing reform could be good, but other times Tata could be looking forward to a new bill or reform being put into action and it could negatively impact their business operations due to the timeliness and uncertainty of its passing. Corruption also means less money for the state to fund subsidies and new infrastructure projects. The subsidies would allow consumers more discretionary income and the government could also use extra money to pave more roads, thus creating more demand.
for automobiles. Thankfully, actions are being taken to fight back against corruption, but there is still a long way to go in cleaning up the governmental officials’ morality code.

2.7 Opportunities & Threats

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

3. Internal Environment

3.1 Organizational 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.

### 3.2 Organizational Weaknesses

- **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.

- Limited presence abroad. Although Tata has been successful in India and some surrounding nations, they are only recently starting to build more of a presence in European nations. Much of the rest of the world they have conducted business in but been unable to gain a large market share.

- Lack of success in luxury market for India. Although Tata has been able to acquire Jaguar and Land Rover, the company has still been struggling to excel in the domestic luxury market. Part of this problem could be the brand reputation as being a low-cost and they have not made significant marketing efforts to build awareness to the Indian population of their acquisitions in the luxury market. Perhaps if there were more public relations and advertising efforts, part of the consumers’ perception of Tata Motors would fade away and help them in the luxury market.
Another weakness that Tata has compared to other competitors is their comparative level of experience in passenger cars. When customers purchase a car they often associate the brands’ history with reliability and feel they can better understand a brand by knowing more about it. Since Tata passenger vehicles have not been around as long as other competitors, there is still a level of uncertainty from the consumer standpoint. There have to be some questions raised about quality or other factors when one of the youngest passenger vehicle manufacturers comes out with the cheapest model.

3.3 Coordination with Major Players

Although there is significant competition amongst major players in the industry, there is opportunity to gain an upper hand through coordinating with other major players. Tata motors is a company that understands the powerful results working with others can yield since they were able to work effectively with many companies since soon after their conception. Joint ventures among major players occur fairly often in the industry. Some notable examples include the following:

- Daimler-Benz for commercial vehicles
- Hitachi for hydraulic excavators
- Cummins Engine Co. for diesel engines.
- Daimler-Benz for passenger cars

As mentioned, Identifying competitors’ strengths and weaknesses provides an opportunity to excel in the industry by aligning goals in a cooperative effort. Often times it can be difficult for any one company to pursue all of their ideas, so many times a joint
venture occurs to mitigate potential losses while still being able to “test the waters” for what they believe could be a profitable idea. Tata has been able to recognize a cooperative effort can often times succeed at a lower cost than an individual effort.

4. Strategy Suggestions & Implementation

- Capitalize on young population
  - As mentioned before, India has a very large population under the age of 25. These young people do not want to be living in the last generation, they want what is new and current. Tata’s lack of modern design is hurting their sales among the next generation. My suggestion is to hire a new team of designers and engineers to work together and reduce a new line of products with a focus on sleek design and attracting the younger demographic. After the initial designs are complete, the team should survey a sample of the young population to get their feedback on the designs before following through to production. In addition, Tata should commit to a new marketing campaign to try and instill brand loyalty and recognition at an early age. By doing this, Tata will help secure their future market and the longevity of the company.

- Increase demand for automobiles in developing countries.
  - There are many developing nations where Tata Motors could establish their brand and profit as the nations continue to build upon their economy and infrastructure. The problem in many of these countries is the lack of roads which translates to less demand for automobiles. One way to implement this strategy is by forming an alliance with foreign
governments. This alliance is strengthened by the two parties sharing the same goal: building more roads. The tricky part will be managing the agreements between the two parties and establishing the terms of the agreement. I recommend assigning a negotiating team to handle these agreements who have explored the options for making this deal attractive for the governments’ to accept. Since these deals could lead to a significant financial gain for Tata, the CFO should consider the maximum investment they could make in collaboration with the government to be able to profit off the expected increased demand. Some suggestions to attract the cooperation of foreign nations may include: offering access to Tata Group Resources, agreeing to a higher tax rate for a certain number of years, offering steep discounts on Tata Motors’ products for government use (e.g. vans for transporting government officials).

Although the deal could be costly for Tata, they could effectively create entirely new markets by establishing more demand for automobiles in these developing nations. There is also the added benefit of more people needing to be employed to get these road projects done which will increase the level of discretionary income amongst the working population which could translate into even more auto sales.

- 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.
Works Cited


