Tata Group: India’s New Global Challenger

Tata, India’s largest company, operates in seven distinct business sectors, including automobiles, chemicals, IT, consumer products, engineering, and consulting. Altogether, Tata comprises more than 90 separate firms. The chairman of Tata Group is Ratan Tata, the charismatic descendent of the company founder. Now in his seventies, he has emerged as a popular and respected corporate titan, known around the world. An avid aviator, he often flies his own Falcon 2000 jet to meetings around India.

As the group’s chief visionay and dealmaker, Mr. Tata has been aggressively expanding the Tata Group into world markets. For example, one of the group subsidiaries, Tata Steel, recently purchased the Dutch-British steel giant Corus Group, for $13 billion. The move boosted the firm’s steel-making capacity fivefold. In 2008, another group subsidiary, Tata Motors, became the focus of world attention when it acquired Jaguar and Land Rover from Ford for $2.3 billion. Tata Motors launched the Nano in 2009 which, at approximately $2,500, is the world’s cheapest car. The Nano addresses a longtime dream of Ratan Tata to develop reliable but supercheap automobiles, revolutionize the global auto industry, and make India a major economic power. “Nano” means “small” in Gujarati, the language of Tata’s founders.

Background on the Tata Group

Founded in 1868 in Bombay as a textile trading company, Tata gradually expanded into hotels, power plants, chemicals, steel production, and several other industries. The government of India long discouraged international trade by imposing high trade barriers and bureaucracy. As these restrictions loosened in the 1990s, Tata’s international operations flourished. Tata Motors began producing cars in joint ventures with Fiat and Daimler-Benz. Tata bought 30 percent of the coal subsidiaries of an Indonesian mining company to supply coal for Tata’s power plant in India. Altogether, the Tata Group has factories in numerous emerging markets, including Kenya, South Korea, Malaysia, Russia, and Thailand.

As India’s biggest firm, Tata has many competitive advantages, including vast financial resources and access to capital on favorable terms; strong corporate image; connections with countless high-quality business partners; competitive cost structure, thanks to the huge, low cost Indian labor pool; and long-standing relationships with national and state governments in India. In the auto industry, Tata Motors’ reputation is growing. It counts on sister subsidiary Tata Steel to continuously provide steel to manufacture Nanos and other cars, a key advantage. The purchase of Corus Group, in addition to increasing steel capacity, also greatly expanded Tata’s access to automakers across Europe and the United States.

Tata is arguably the most important of the new global challenger firms charging out of big emerging markets such as China, Brazil, India, and Russia. The emerging giants tap abundant low-cost labor, tech talent, and mineral resources to increasingly target the world’s biggest growth markets. Brimming with cash and confidence, they export innovative business models honed in some of the world’s most challenging markets. Governments and state-owned enterprises influence the procurement activities of corporations. Tata capitalizes on its family.

conglomerate networks to enhance its position as government supplier in numerous business sectors.

**Tata Motors**

Today Tata Motors, or “Tamo,” is one of India’s largest motor vehicle companies. At present, Tamo’s main market is India, but the firm also operates in other countries, especially in Asia. In 2008, Tamo unveiled the Nano, the world’s cheapest car. Manufactured in India, the Nano seats up to five people and gets extremely good gas mileage. Initially, the car was targeted to India’s middle class, the approximately 200 million people who earn $20,000 or more per year.

About one-quarter of all cars and trucks sold in India bear the Tamo brand. The firm’s next logical target will be countries outside India, especially emerging markets that provide key growth opportunities. Tamo aims to transfer its vast experience in India to markets in Africa, Latin America, and the Middle East. In Asia, the countries of Indonesia, Thailand, and Vietnam appear ripe for sales of a cheap car. Millions of low-income consumers worldwide would love to own a car, but until the launch of the Nano, they have had few or no alternatives. The acquisition of Jaguar and Land Rover has increased Tamo’s visibility through globally recognized brands and provided an entree to Europe and the United States.

**Challenges**

Tamo faces numerous challenges in making the Nano a success. For one, despite its very low price tag, management needs to market the Nano as an aspirational status symbol. Tamo will need to provide attractive financing packages for potential owners. The Nano has numerous other challenges, including growing competition and the global recession.

In India, 70 percent of the population still lives in the countryside, and the transition of land from agrarian to industrial use often meets with angry protest. In 2008, Tamo was forced to abandon construction of a factory in West Bengal, India, intended to manufacture the Nano. Protesters surrounded the new Nano plant and blocked roads to prevent workers or deliveries from reaching the facility. In Calcutta, activists burned the Nano in effigy. Violence and threats to worker safety ensued for months during construction of the plant. West Bengal politicos encouraged labor unrest, leading to capital flight and making the region unfriendly to business. Despite being 80 percent complete and costing $350 million, Tamo had to abandon the plant due to violent protests from farmers and political activists. Production of the Nano was moved to another location in India.

Throughout India, Tamo works continuously to satisfy government authorities. India has a reputation for “suffocating bureaucracy” and its civil servants are among the least efficient in Asia. The country is awash in trade barriers, business regulations, and administrative hurdles. Many commodities can be imported only after receiving government approval. Import tariffs on parts and components can be substantial, often exceeding 25 percent. Licensing fees, testing procedures, and other hurdles are expensive and time-consuming. The commercial environment in India is still evolving and poses numerous hurdles for firms that do business there.

Pollution and Overcrowding in India

Growing car ownership is severely straining India’s already congested urban infrastructure. If the Nano proves a big success, India’s road network seems unable to absorb millions of new cars. Burgeoning car ownership in India and China are straining the world’s already self-destructive carbon footprint. India suffers from severe pollution. Throughout southern Asia, a thick brown cloud of particulate continually blocks the sun, altering weather patterns and causing health problems. The cloud is a by-product of emissions from coal-fired power plants, cars and trucks, and wood-burning stoves. As India industrializes, the country’s water, air, and soil are under increasing environmental pressure. Most Indians make their living from farming, and pollution has reduced growth yields of rice, wheat, maize, and sorghum.

Competitors

In addition to Tamo, several automakers have plans to enter the cheap car market in India. For example, Renault, Nissan, and India’s Bajaj Motors plan to jointly build a $2,500 car. Nissan CEO Carlos Ghosn aims to make emerging markets a cornerstone of his firm’s plans for global growth. Ford, Hyundai, Toyota, and General Motors are all developing inexpensive, small cars for emerging markets. Several Chinese companies already manufacture various car models, both for export and domestic consumption, and a few firms are exploring ultracheap options. Japan’s Suzuki sells the Maruti 800 in India, retailing for about $4,500.

Global Financial Crisis and Opportunities for Emerging Global Giants

Just as automotive sales declined in recent years, many automakers have launched new models, which boosted global competition. Tamo is well positioned to weather the recent global financial crisis. First, it enjoys low-cost production capacity, partly based on employing inexpensive labor in India. Second, the firm has significant experience in emerging markets, which are growing rapidly. By contrast, advanced-economy markets are largely saturated. Third, as the global financial crisis unfolded, many advanced-economy MNEs retrenched and focused more heavily on their home markets, especially in Europe and North America. For example, bankruptcy and restructuring led General Motors to refocus on the United States.

Corporate Social Responsibility

For decades Tata has promoted good works in India. Tata Steel spends millions every year on education, health, and agricultural development projects. It has developed irrigation systems that allow Indian farmers to grow cash crops. The firm has built schools, hospitals, and electrical plants and undertaken countless other socially responsible projects throughout India.

Similarly, Tamo undertakes various charitable activities in the communities where it operates. In 2008 Tamo acquired a major stake in Miljo Grenland/Innovasjon, a Norwegian electric car producer. Tamo is leveraging Miljo’s know-how to launch a new electric vehicle, the Indica.

Another group company, Tata BP Solar, makes rooftop solar-electric systems for buildings. The firm offers low-cost, solar-powered water pumps, refrigerators, and lanterns for areas that normally lack electricity. It has fitted 50,000 homes with $300 systems that can power lights, hot plates, and TV sets.
Conclusion

In emerging markets and developing economies, family conglomerates are leveraging various advantages to dominate home-country markets. Today, the conglomerates are applying these same advantages to extend their reach to markets worldwide. Tata’s numerous home country resources provide the firm with substantial competitive advantages and should allow it to perform well and capture market share from incumbent players in markets around the world.¹

AACSB: Reflective Thinking Skills, Ethical Understanding and Reasoning Abilities

Case Questions

1. Describe the various advantages that firms like Tata employ to become large industrial conglomerates. How can Tata use these same advantages to succeed in foreign markets?

2. What makes emerging markets attractive for international business? Discuss emerging markets as target markets, as platforms for manufacturing, and as sourcing destinations.

3. What is the relationship between trade barriers, bureaucracy, country risk, and the emergence of Tata as a major player in world trade? What is the role of declining government intervention in Tata’s success in India and its ability to internationalize? What should Tata do to manage country risk in India and other emerging markets?

4. Given growth rates and other characteristics of emerging markets, what markets should Tamo target for sales of Nano cars? What country-level factors should Tamo consider as it evaluates the potential of various emerging markets?

5. As it prepares to expand abroad, how can Tamo improve its corporate social responsibility toward future customers in emerging markets? What can Tamo do to minimize the impact of its operations on the natural environment in Asia and elsewhere?
