



PART I

Assessing the competitiveness of the firm (internal)

CHAPTER 2

Identification of the firm's core competences 27

CHAPTER 3

Development of the firm's competitive advantage 60

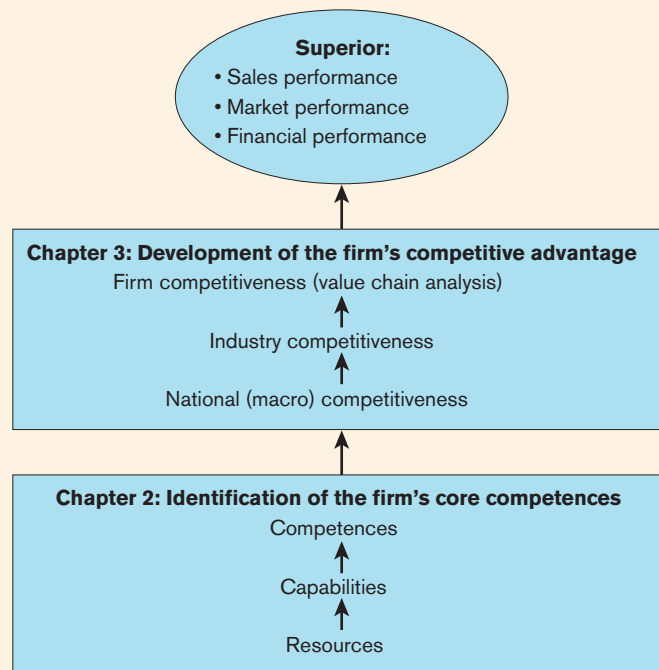
CASE STUDIES

Video **Tata Nano**: Competitiveness of the world's cheapest car 24

2.1 **Senseo**: Competition is coming up in the coffee pod machine market 51

3.1 **Nintendo Wii**: Taking the leadership in the games console market 92

When the international economy was relatively static, competition was a 'war of position' in which firms occupied competitive space like squares on a chessboard. The key to competitive advantage was where a firm chose to compete. How it chose to compete was also important but secondary – a matter of execution. However, as markets fragment and product life cycles accelerate, dominating existing product segments becomes less



The structure of Part I

important. In today's dynamic business environment a firm's success depends on anticipation of market trends and quick response to changing customer needs. The essence of strategy is not the structure of a firm's products but the dynamics of its behaviour. In future the goal is to identify and develop the hard-to-imitate organisational capabilities that distinguish a firm from its competitors in the eyes of customers.

Part I covers the necessary internal analysis to assess the competitive advantages of the firm with regard to its customers and other stakeholders in the external environment, which is the focus of Part II.

The structure of Part I is shown in the diagram above.

Chapter 2 identifies the firm's core competences, based on the assessment of its resources and capabilities. Capabilities can be described as what an organisation does as opposed to what it has (resources or assets). Chapter 3 then continues with how the core competences might be used in the development of competitive advantages, from the macro-level (country-specific advantages) to the micro-level (value chain analysis).

PART I VIDEO CASE STUDY

Tata Nano

Competitiveness of the world's cheapest car

The majority of growth in the global automobile industry in the coming decade will come from emerging economies such as India, China and Eastern Europe. And the largest contribution to growth of the auto market in these countries will be the fast-growing small car segment. The increasing disposable income of the middle-class population is the key driver of the small car market in developing nations. However, in developed regions such as the US and Western Europe, stringent environmental standards are increasing the need for more fuel-efficient cars.

Tata motors

Indian conglomerate Tata Group (www.tata.com) employs nearly 300,000 people in 85 countries. Today the Tata Group is India's largest conglomerate company, with revenues in 2006–07 equivalent to US\$28 billion (equal to 3.2 per cent of India's GDP), and a market capitalisation of US\$73 billion at the end of 2007. The Tata Group comprises 98 companies in seven business sectors.

One of the companies in the Tata Group is Tata Motors. Tata Motors is gearing up for the global market. Tata Motors, one of India's largest automobile makers, manufactures buses, commercial trucks and tractor-trailers, passenger cars (Indica, Indigo, Safari, Sumo, and the ultra-cheap Nano), light commercial vehicles, and utility vehicles. The company sells its cars primarily in India, but about 20 per cent of sales comes from other Asian countries and Africa, Australia, Europe, the Middle East and South America. In 2008 Tata Motors bought the Jaguar and Land Rover brands from Ford for about \$2.3 billion. Tata Motors has a workforce of 22,000 employees working in its three plants and other regional offices across the country.

Tata Motors has a lower than 20 per cent share of the Indian car market and has recently been suffering a sales slump. In 2007 Tata Motor produced 237,343 cars and more than 300,000 buses and trucks. Outside India Tata Motors is selling only a few cars so their international marketing experience is weak.

Tata Motors has some distinct advantages in comparison to other MNC competitors. There is a definite cost advantage as labour cost is 8–9 per cent of sales as against 30–35 per cent of sales in developed economies.



Tata Nano European launch at a Motor Show 2008

Source: © P. Cox/Alamy

Tata Motors has extensive backward and forward linkages and it is strongly interwoven with machine tools and metals sectors from other parts of the Tata Group. There are favourable government policies and regulations to boost the auto industry, e.g. incentives for R&D.

The acquisitions of Jaguar and Land Rover created financial pressure for Tata Motors, with the company stating that it wanted to spend some \$1.5 billion over the next four years to expand the facilities manufacturing the luxury brands. In addition to giving Tata a globally recognisable product, the Land Rover and Jaguar deal also gives Tata an entry into the US. Through a deal with Fiat, Tata is already distributing the Italian cars in India and may expand the offering into South America, a Fiat stronghold.

Development of Tata Nano

In 2008 Tata unveiled the Nano, the cheapest car in the world, at the Auto Expo in New Delhi. The car seats five people, gets up to 55 miles to the gallon, and sells for about \$2,230. At first the Nano will be sold only in India, but Tata hopes to export them after a few initial years of production; the Nano might be exported to Europe as early as 2012. First shipments to Indian customers are expected in mid-2009.



The alternative for Tata Nano

Source: © B. O'Kane/Alamy

Tata Nano started with the vision of Ratan Tata, chairman of Tata Motors' parent, Tata Group, to create an ultra-low-cost car for a new category of Indian consumer: someone who couldn't afford the \$5,000 sticker price of what was then the cheapest car on the market and instead drove his family around on a \$1,000 motorcycle. Many drivers in India can only afford motorcycles and it is fairly common to see an Indian family of four on a motorcycle.

In India alone there are 50 million to 100 million people caught in that automotive chasm. Until now none of the Indian auto-makers have focused on that segment. In that respect, the Nano is a great example of the Blue Ocean Strategy.

The customer was ever-present in the development of the Nano. Tata didn't set the price of the Nano by calculating the cost of production and then adding a margin. Rather, it set \$2,500 as the price that it thought customers could pay and then worked back, with the help of partners willing to take on a challenge,

to build a \$2,500 car that would reward all involved with a small profit.

The Nano engineers and partners didn't simply strip features out of an existing car, the tack Renault took with its Dacia Logan, which sells in India for roughly \$10,000. Instead, they looked at their target customers' lives for cost-cutting ideas. So, for instance, the Nano has a smaller engine than other cars because more horsepower would be wasted in India's jam-packed cities, where the average speed is 10 to 20 miles per hour.

The Nano aims to bring the joys of motoring to millions of Indians, doing for the subcontinent what the Volkswagen Beetle did for Germany and the Mini for Britain. But the plan has horrified environmentalists, who fear that the demand for more cars from India's aspirational and increasingly middle-class population – now numbering 50 million in a country with a total 1.1 billion people – will add to pollution and global warming.

The global automotive industry and the current crises

In 2007, a total of 71.9 million new automobiles were sold worldwide: 22.9 million in Europe, 21.4 million in Asia-Pacific, 19.4 million in USA and Canada, 4.4 million in Latin America, 2.4 million in the Middle East and 1.4 million in Africa. The markets in North America and Japan were stagnant, while those in South America and Asia grew strongly. Of the major markets, Russia, Brazil, India and China saw the most rapid growth.

Since mid-2008 the sales from the world automotive industry has been developing negatively as a result of the current financial crises.

Two of the most promising markets for Tata Nano are characterised in the following:

India

India is likely to evolve into a global hub for small-car manufacturing. Currently, India is one of the largest producers of small cars with the small-car segment accounting for about three-quarters of the Indian car market. The fast-growing small-car market has encouraged several global auto companies (Renault, Nissan, Toyota, Hyundai) to announce plans for the launch of small cars in India. With the launch of Tata Nano, the stage is set for around a dozen new small and compact cars to be launched in India in the next two years. Currently, Maruti Suzuki India, the largest passenger car manufacturer in India, has more than a 60 per cent share of the domestic small-car segment.

China and Japan

In the long term the small car demand in China is expected to increase. However, the narrow price gap between the small-car segment and the medium-car segment has made medium segment cars a more attractive choice for consumers.

Mini-cars account for more than one-third of the total volume of sales in the Japanese auto market. Suzuki and Daihatsu are the market leaders in the small-car market in Japan. A large number of Japanese consumers are moving from luxury cars to mini-cars due to environmental standards and increasing gas prices.

Please watch the video before answering the questions.

QUESTIONS

- 1 What could be the main reasons for Tata Motors entering the global small-car market?
- 2 What are the competitive advantages that Tata Motors would enjoy with their Nano in emerging markets?
- 3 What are the barriers for entering Western markets with Tata Nano?

SOURCES

Tata Motors (www.tatamotors.com); <http://tatanano.inservices.tatamotors.com/tatamotors>; general public information.