

## MARKET ENTRY STRATEGIES

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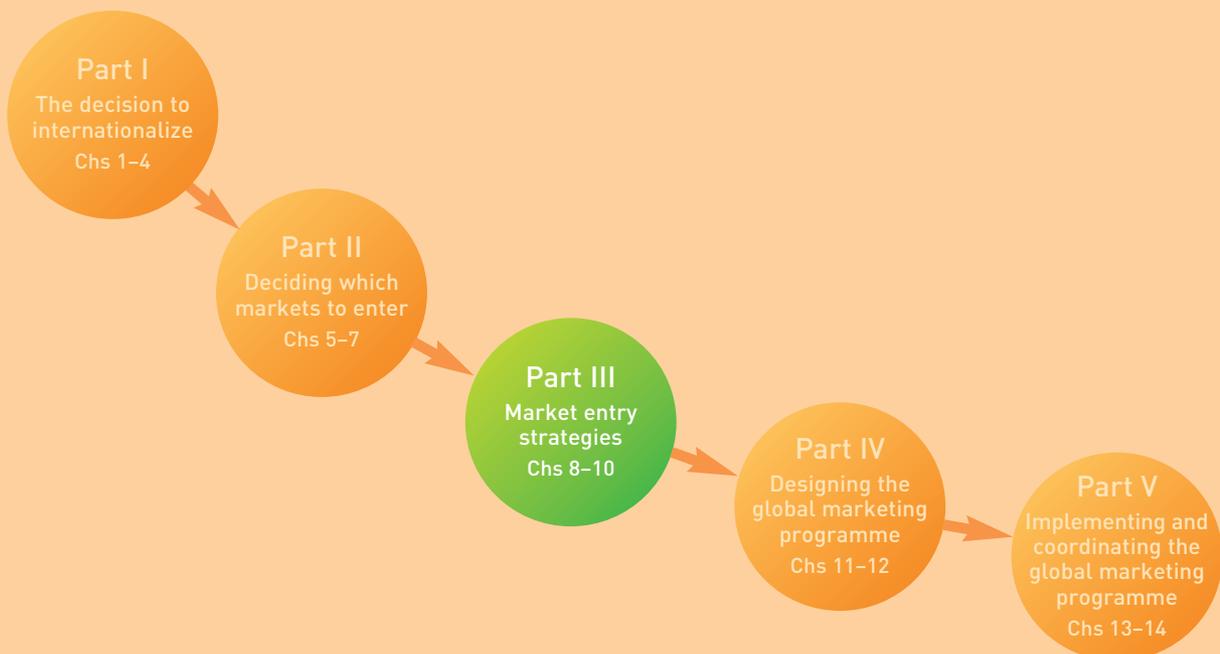
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## Part III VIDEO CASE STUDY

# Tata: Which entry modes should be used for Tata Nano - the World's cheapest car

Indian conglomerate Tata Group ([www.tata.com](http://www.tata.com)) employs nearly 300,000 people in 85 countries. The patriarchal company has a history dating back to 1868 and the height of the Victorian Raj. 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 capitalization of US\$73 billion at the end of 2007. The Tata Group comprises 98 companies in seven business sectors. About 66 per cent of the ownership of Tata Group is held by the charitable trust of Tata. Companies that form a major part of the group include Tata Steel, Tata Motors, Tata Consultancy Services, Tata Tea, Tata Power and the Taj Hotels. Tata Motors has a workforce of 22,000 employees working in its three plants and other regional offices across the country.

Tata Motors' range of passenger cars is still not comprehensive by international standards. In commercial vehicles, Tata Motors commands an imposing 65 per cent market share in the Indian heavy commercial market (buses and trucks). The company is trying to modernize its range of commercial vehicles. Tata Motors has less than 20 per cent share of the Indian passenger car market and has recently been suffering a sales slump. In 2007, it produced 237,343 cars and more than 300,000 buses and trucks. Outside India Tata Motors is selling relatively few cars so its international marketing experience is weak.

Tata Motors has some distinct advantages in comparison to other MNC competitors. There is a definite cost



Tata Nano

advantage as labour costs are 8-9 per cent of sales as against 30-35 per cent of sales in developed economies. 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. In addition, there are favourable government policies and regulations to boost the auto industry, for example, incentives for R&D.

The screenshot shows the Tata website homepage with the following sections:

- Structural success:** Room time in the infrastructure sector has created a huge demand for TRF's expertise in bulk handling equipment and systems, leading to excellent growth prospects.
- GROUP NEWS:** TCS and Sanctuary Asia launch book on wildlife sanctuaries; Tata to ride Nano to Geneva Motor Show; media release | media report | media reports on the Tata Nano; Market cap of \$55.32 billion; 88 operating companies; Tata Group presentation.
- SPOTLIGHT:** Tata Mutual Fund schemes with awards; Five investment schemes of Tata Mutual Fund have recently won awards and high rankings across various fund categories.
- THE CHINA IMPERATIVE:** Alan Rowling, executive director, Tata Sons, and Johnson Lam, operations head, TCS, China, talk about the Tata Group's growing business relationship with the country.
- THE NANO:** The People's Car - Nano; Interview with Ratan Tata, Chairman; Tata Sons; Media release; Picture gallery; Downloaded photographs; Media reports on Tata Nano; www.tatanano.com.
- PRODUCTS AND SERVICES:** Tata Motors.
- CORPORATE SUSTAINABILITY:** Breaking new ground; The Jan Swasthya Sahog has responded to the challenges of rural and tribal healthcare by developing low cost holistic solutions that are both replicable and sustainable.

Tata website

## Introduction of Tata Nano in January 2008

Measuring just over 10 feet in length and 5 feet in height and width, the Tata Nano is powered by a 623cc two-cylinder petrol engine at the rear giving just 33 horse-power. It has a top speed of about 90 km/hour and will do about 22 km on a litre of petrol. And the basic version is sparse: no air conditioning (other than the wind-down window variety), no power steering, no radio, no passenger-side mirror and only one wind-

screen wiper. But the makers claim it can carry four passengers plus the driver, with a bit of a squeeze.

The Tata Motors factory in West Bengal will initially be able to turn out up to 250,000 cars a year but sales are predicted to top one million within two or three years.

The vehicle is called the 'one lakh' car because it will sell in India for one lakh – or 100,000 rupees – equivalent to about US\$2,500 or three times the average national income per annum in India.

Tata Motors insists the car is 'environmentally friendly' and exceeds regulatory standards on safety and pollution. Indian standards for road safety and pollution emissions generally lag behind British and European levels, so the car might not be legal on European roads. It must comply with European standards, which could mean replacing glass, lights, tyres and seatbelts.

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 from India's aspirational and increasingly middle class population – now numbering 50 million in a country with a total 1.1 billion people – for more cars will add to pollution and global warming.

*Watch the video before answering the questions.*

### Questions

- 1 Which world regions (and specific countries) would you recommend for Tata Nano's international market expansion?
- 2 Which 'entry mode' would you suggest for the chosen markets (knowing that Tata Motors have taken over Land Rover and Jaguar – see the Video Case Study in the Introduction to Part II)?

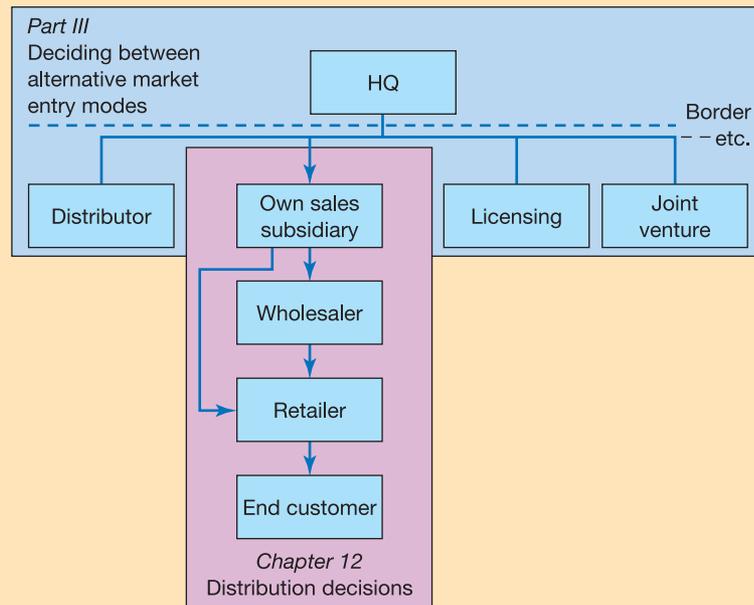
Source: Video accompanying the text, [www.tata.com](http://www.tata.com)

# Introduction to Part III

Once the firm has chosen target markets abroad (see Part II) the question arises as to the best way to enter those markets. In Part III we will consider the major market entry modes and criteria for selecting them. An international market entry mode is an institutional arrangement necessary for the entry of a company's products, technology and human capital into a foreign country/market.

To separate Part III from later chapters, let us take a look at Figure 1. The figure shows the classical distribution systems in a national consumer market.

**Figure 1** Examples of different market entry modes and the distribution decision



In this context the chosen market entry mode (here, own sales subsidiary) can be regarded as the first decision level in the vertical chain that will provide marketing and distribution to the next actors in the vertical chain. In Chapter 12 we will take a closer look at the choice between alternative distribution systems at the single national level.

Some firms have discovered that an ill-judged market entry selection in the initial stages of its internationalization can threaten its future market entry and expansion activities. Since it is common for firms to have their initial mode choice institutionalized over time, as new products are sold through the same established channels and new markets are entered using the same entry method, a problematic initial entry mode choice can survive through the institutionalization of this mode. The inertia in the shift process of entry modes delays the transition to a new entry mode. The reluctance of firms to change entry modes once they are in place, and the difficulty involved in so doing, makes the mode of entry decision a key strategic issue for firms operating in today's rapidly internationalizing marketplace (Hollensen, 1991).

For most SMEs the market entry represents a critical first step, but for established companies the problem is not how to enter new emerging markets, rather how to exploit opportunities more effectively within the context of their existing network of international operations.

There is, however, no ideal market entry strategy, and different market entry methods might be adopted by different firms entering the same market and/or by the same firm in different markets. Firms often combine modes to enter or develop a specific foreign market (Petersen and Welch, 2002). Such 'mode packages' may take the form of concerted use of several operation modes in an integrated, complementary way (Freeman *et al.*, 2006). In some cases a firm uses a combination of modes that compete with each other. Sometimes this occurs when a firm attempts a hostile takeover of an export market.

As shown in Figure 2, three broad groupings emerge when one looks at the assortment of entry modes available to the firm when entering international markets. There are different degrees of control, risk and flexibility associated with each of these different market entry modes. For example, the use of hierarchical modes (investment modes) gives the firm ownership and thereby high control, but committing heavy resources to foreign markets also represents a higher potential risk. At the same time heavy resource commitment creates exit barriers, which diminish the firm's ability to change the chosen entry mode in a quick and easy way. So the entry mode decision involves trade-offs, as the firm cannot have both high control and high flexibility.

**Figure 2** Classification of market entry modes

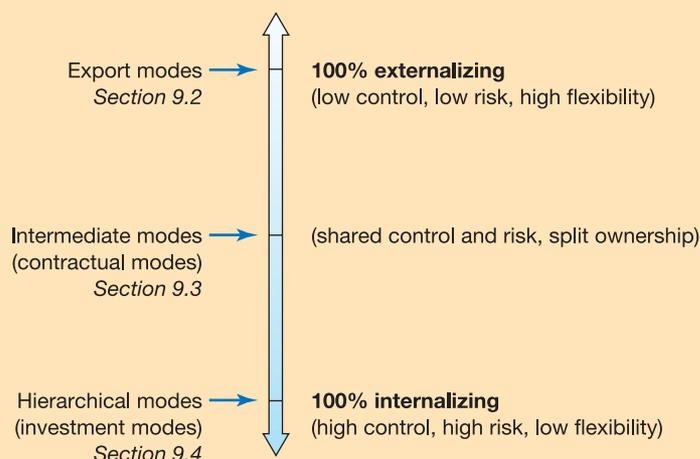
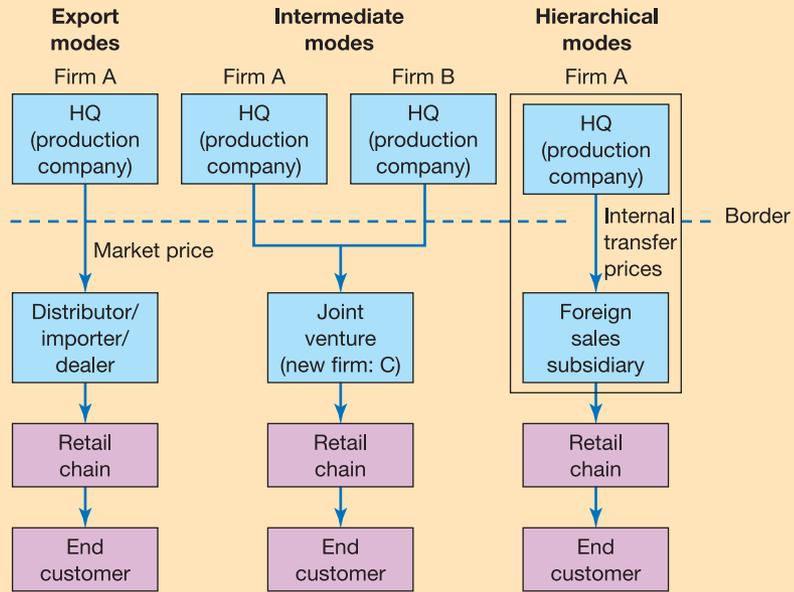


Figure 3 shows three examples representing the main types of market entry mode. By using hierarchical modes, transactions between independent actors are substituted by intra-firm transactions, and market prices are substituted by internal transfer prices.

Many factors should be considered in deciding on the appropriate market entry mode. These factors (criteria) vary with the market situation and the firm in question.

Chapter 8 will examine the different decision criteria and how they influence the choice among the three main groupings of market entry modes. Chapter 9 will discuss in more detail the three main types of entry mode. A special issue for SMEs is how their internationalization process is related to their much bigger customers and their sourcing and entry mode decisions. This will be discussed further in Chapter 10.

**Figure 3** Examples of the different market entry modes in the consumer market



The simple version of the value chain [see Figure 1.7] will be used to structure the different entry modes in Chapter 9.

## References

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