CASE STUDY

Conglomerate breaks out from India

Over the last two decades multinationals from developed countries have focused on their core activities where there appeared to be the most attractive global market opportunities. For many firms this has meant withdrawing from sectors by selling off unwanted parts of the business. The conglomerate model, in which hundreds of often disparate businesses are held in an organisation that perhaps resembles a private equity fund, is not so common in developed countries but is still favoured in emerging markets, and there are a number of examples in India and China. The activities that have bound these businesses together in the conglomerate model in the past have often been manufacturing or international trading. Western multinationals, however, seem to have focused on global branding and marketing, and outsourcing manufacturing wherever possible.

What will be interesting to observe over the next few years is how these conglomerates from emerging markets globalise their activities, whether they focus on marketing and global branding as, for example, LG and Samsung from South Korea have done, adopt a Western-style multinational approach or develop their own model.

Tata is an example of an Indian conglomerate that is now investing in foreign markets. India's growth has been around 8 per cent for four successive years and this has enabled Indian companies to develop strong balance sheets so that they have been able to borrow huge amounts of money abroad to fuel their international expansion and takeovers.

Ratan Tata became chairman of Tata Sons, a disorganised family business in 1991. He is a shy and unassuming figure who shuns the trappings of wealth, despite being one of India's richest men. He took over at a time when the Indian government began removing the bureaucratic controls that had previously curtailed the development of Indian firms. He set about rationalising the group's hundreds of businesses with the aim of making them more efficient. The organisation is still diverse, with interests in steel, cars, hotels, mobile telephony, chemicals and tea, and it is India's largest software firm.

A feature of most fast-growing companies from emerging markets is that they have lower costs than their competitors from developed countries. However, Tata's competitive advantage comes not just from the supply of low-cost, well-educated labour necessary for the technology-based activities. It has also built expertise in developing and operating automated, capital-intensive production, typical of steel making. Moreover during India's 1991 reforms Tata learned how to thrive in a highly competitive market place that still had a highly regulated environment and a poor infrastructure, and this serves them well as they pursue a strategy of mergers and acquisitions in different world markets.

PHOTO CREDIT: DAVID PEARSON/ALAMY

Ratan Tata has single-handedly made the company into respected MNE. In 2007 Tata completed a £6.7 billion takeover of Corus, the British–Dutch steel maker, in the process beating a Brazilian steel-making company CSN. A few years ago few experts would have thought that Tata could have progressed to the point where it would be in position to take over Corus but Tata had strengthened its position with the acquisition of Singapore's Natsteel in 2004 and Thailand's Millennium Steel in 2005. It also mines all the coal and iron ore it needs. It aims to produce steel close to its iron ore deposits and ship semi-finished steel to be finished close to its markets, so adding value in the various countries in which it is operating. In 2000 Tata took over Tetley Tea, a British business with a global brand, with the intention of linking India tea production with the overseas tea markets. Tata decided that Tata Motors would make its own car, turning away from the possibility of a joint venture with a more established manufacturer to produce an existing model. By 2007 the company was India's second biggest car manufacturer and had plans for a vehicle to sell for under US$3000.

Investment does not only take the form of acquisitions. Tata made Bangladesh's single largest foreign investment of £1.1bn when it agreed to build a power plant, steel unit and fertiliser factory after the government guaranteed a supply of gas for 20 years from its proven reserves. This deal was part of Bangladesh's aims of becoming more self-reliant and reducing its dependence on foreign aid.

Although he has made Tata's businesses more competitive and more global in outlook, the company has a tradition of being public spirited and Ratan Tata has said in interviews that he would prefer his legacy to be having caused no damage to others. The company has a reputation for refusing to accept bribes and treating its workers well. Two-thirds of Tata Sons is owned by charitable trusts that do good works in India. Although the company is competitive, some foreign investors wonder if this approach is right for running the global business.

QUESTION

1. What are the key issues that Tata faces as it progresses to becoming a global company?
2. What international strategic marketing options does it have and what recommendations would you make to the company to enable it to become a global company?

SOURCES: ADAPTED FROM 'CIRCLE THE WAGONS', *THE ECONOMIST*, 12 OCTOBER, 2006; 'STEELY LOGIC', *THE ECONOMIST*, 28 OCTOBER, 2006; 'THE SHY ARCHITECT', *THE ECONOMIST*, 11 JANUARY, 2007 AND 'BANGLADESH WINS $2BN INDIA DEAL' BBC NEWS ONLINE, 19 AUGUST, 2004