
The Power Of The Indian Consumer (1218)

Ravi Kant

Managing Director

Tata Motors

There is an urbanization of the mind that is happening in India. Normally, when you talk of urbanization, you talk of people living in urban areas. What is happening now is that even people living in rural areas are beginning to have an urban mindset. It means they want to improve their quality of life; they want to have material comforts. There are two key reasons driving that. One reason is that there has been a major explosion in connectivity, in communication connectivity. The second reason is the reach of television--soap operas and many other items. These two combined are creating a major information explosion that is making people understand and see what's happening in different parts of the country. It's making them change their quality of life, to improve their quality of life. This is what I call urbanization of mindset. This is a key change taking place in India. The second key change that is happening in India is that the working population is of very young age. In fact, in 2050, those numbers are going to be the largest in the world, including China. When you have young people, they like to change their quality of life even faster, because they're impatient; they want to get things done fast. This is the second change that is very powerful in India. The third change is the disposable income. If you take India's 1.1 billion population, and take only 30 percent or 35 percent, that's about 350 million or so. Of those 350 million, which is more than the population of the U.S., their basic necessities have been provided for. They have shelter, they have clothing, and they get their food every day, so there's no problem as far as basic needs and necessities are concerned. Whatever further income they get, that becomes a disposable income, discretionary income. Also, in India, there's a parallel economy going on, which is a strong cash economy. When these people have discretionary income, they like to spend. What you have is a combination where people are aware that changes are taking place, and they want to change. They're younger people, so they want to change even faster. They have the money to make it happen. Now, besides that, what has happened in the last few years is the availability of finance? Even though I may have money, the finance is becoming more and more available to more and more people. Even if I don't have money of my own, I can take credit, like in Western countries. That credit trend is becoming more and more powerful in India. You have all the ingredients. The fifth biggest change that is happening is the connectivity, the physical connectivity in India. That's quite a big task that the country has taken upon itself. You might have heard of major highway construction work that has started in India. One is called the Golden Quadrilateral; the others are called the North-South and East-West Corridors. More than that, the biggest one is a rural road reconstruction project, where all the villages in plains having a population of more than 1,000, or in hills with population of more than 500, are getting connected by all-weather roads. You'll find that from one person visiting a month, it suddenly becomes 10 or 20 or 30. We are not talking about changes in terms of percentage. We're talking in multiples--huge multiples. These five trends together will make a paradigm shift in the country. In the next five to ten years, a powerful force is getting unleashed in the country. It is not seen and it is going to be all across the country.

Diversification For Growth (1219)

Ravi Kant

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Tata Motors is an automobile business. Primarily it has been in the commercial vehicle business of trucks and buses. The automobile business is a cyclical business. There is a cyclicity that goes up for four or five years, comes down for two or three years, and then goes up again for four or five years. In 2001 we had a major problem because the economy was in a downturn if you were predominantly a commercial retail player. Therefore, the market shrank, although we still maintained our market share. Because the market shrank by almost 40 percent, it brought a lot of grief to the company. For big trucks, which are close to the economy, the amplitude of cyclicity was very high. That means it would go down by as much as 50 percent, and in two years' time it would also go up by 40 percent. It was that kind of cyclicity. When you come to the light commercial or small commercial vehicles, you found that the cyclic amplitude was much less. It would go up by 20 percent and come down by 20 percent or 15 percent, or whatever. Similarly, you find that with cars, the cyclicity is much less. It will go up by 10 percent or come down by 10 percent. In the case of buses and defense business, there was hardly any cyclicity. We felt that, going forward, if we were to have a good mix of the segments and good portfolio of products in those segments, we could reduce the impact of cyclicity of big trucks. It didn't mean that the entire company had to go down badly [with cyclicity]. It is for that reason that we thought we would get into small trucks, small buses, and things like that. This was a major thing. One of the other things we found was that our products were very strong and good for the current usage. The market was changing rapidly, and for the new trends that were going to emerge in the market, our products were not as good. We looked at an entire revamp of the whole product line, from small trucks to big trucks, from small buses to big buses, and getting a major foothold in the passenger car business. The third thing [we considered] is how to ensure that we are more economically viable. We found, at that point in time, that our breakeven point was almost 66 percent, or two-thirds of our capacity utilization. We said, "No, that's not going to happen, because the market can always come down quite substantially." We asked, "Why don't we bring down this breakeven point?" We went into a massive cost-reduction project, and that was not only for variable costs, fixed costs, and finance costs, but the whole lot. We were able to bring the breakeven point to one-third capacity utilization. Then we felt strong, and we felt that, even if the market was to shrink by as much as 60 percent, we'd still be in a position to make profit, albeit in a smaller number. This is something that company was able to do in two years' time, and we were able to change from minus 500 to plus 500 profit. That gave us a tremendous amount of confidence and a tremendous amount of faith in our ability to look at and overcome an adverse situation. We have now found an answer to the future, and we should be in a fairly strong position at least for next 10 or 15 years. There is a natural, inbuilt opportunity or timing, because you are in a cyclical industry. When you are going down, it always reminds you again that you need to look at yourself. The cycle comes with such

regularity that you have no option but to look at yourself in a more determined and more challenging manner.

Innovate To Disrupt An Industry (1220)

Ravi Kant

*Managing Director
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Nano was created when our Chairman, Mr. Ratan Tata, observed that there were many people and families who travel on two-wheelers. Because of lack of access to four-wheelers, most people in India prefer to use two-wheelers, and today nearly eight or nine million two-wheelers are sold in the country. It's a common sight in India—you'll find the whole families traveling on a two-wheeler. That means there is a husband who's sitting on the seat, there's a child that's standing in front, and there is his wife or lady sitting at the back, and with a child in her lap. This is a very unsafe, uncomfortable way of traveling. Mr. Tata thought if we could have a four-wheeler that would give them the safety and the comfort, then it could be a good segment to get into. The important thing was that it had to be accessible in terms of economical value to large number of people, so that they would want to shift over from a two-wheeler to a four-wheeler. That was the basic concept that Mr. Tata initiated some time ago. At a press meet in Geneva, one of the reporters or correspondents asked Mr. Tata about this vehicle. He asked the question, "What do you think the price would be?" At that point in time two-wheelers were around 40,000 rupees, and the cheapest four-wheeler was at 200,000 rupees, so he just said 100,000 rupees, which in Indian terminology means one lakh. One lakh is 100,000 rupees. That label got stuck, that it has to be one lakh, which is equal to \$2,500 U.S. That is why, when we unveiled it, and when Mr. Tata was asked what the price would be, he said, "A promise is a promise." He declared that it would be 100,000 rupees. That shocked people, because nobody expected that a vehicle at this price could ever be produced. It is a vehicle that is good to look at. It has four doors; it can comfortably seat four people. It is nice to drive, and it will give a tremendous amount of fuel efficiency—50 miles per gallon—and economical to use. So it has all the ingredients, and you can understand how for the middle class, consisting of about 350 million or 400 million people, it's a dream come true. They could never have thought in their minds that they would ever be able to ride a four-wheeler, and suddenly, they find that they can reach there, and they can do it. It has brought about a huge groundswell of interest in this vehicle. The key lesson, first, is to dream a dream. You've got to start from there. Don't think that anything is impossible. In this case, we didn't go about trying to upgrade a two-wheeler, or downgrade a passenger car. We took a plain sheet of paper and started working on that. We said, "If the price is going to be this, then the total cost of the vehicle is going to be this, so it has to be like this." Then we broke down those costs into various components and aggregates. "The cost has to be that." That's how we began to start working, and that's how we began to start talking to all the suppliers. Many suppliers took this (inaudible) there many multinational companies who would never have thought that they could deliver a product, a component, at that price. We looked at

whole thing totally new, the whole thing out of box, and we came up with fantastic solutions. It's the combination of all this which has made Nano possible at this price.

Globalization Through Acquisition (1221)

Ravi Kant

*Managing Director
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When we were looking at the turnaround 10 years ago, we unveiled a three-phase strategy of turning around in two years' time and strengthening our position in the domestic market. The third phase was going into the international market. We felt that we already had a high market share in commercial vehicles, more than 60 percent, and we had to protect that market share in this country. If we wanted to grow more, even in passenger cars, then we had to go out to other countries. Two options were available to us. One was organic growth--go from scratch and start working upwards. Surely this is something we had to do, but it would take a long time. The other was inorganic, meaning through mergers and acquisitions. We decided that we should go with both. It is for this reason that today our turnover is close to \$25 billion U.S., an increase of almost 10 times in a span of about seven or eight years. That's a huge growth, and that has happened because of mergers and acquisitions. The first of this happened in Korea. There was a company called Daewoo Truck Company, which was available for sale. We were one of 10 bidders, and we finally succeeded in getting the company. We have done very well there; both the top and bottom lines have increased substantially. The second event was that we took on a stake in a Spanish bus company with manufacturing locations in Spain, Morocco, and Casablanca. The third one--the big one--was Jaguar and Land Rover. Our template for international business has been to be seen as a local company in that country. For example, we want to be seen as a South Korean company in Korea. We don't want to be seen as an Indian company in Korea. Similarly, we want to be seen as a South African company in South Africa, or a British company in Britain. What does it mean? It means that you need to have local management. You need to connect yourself with the local society. You must, therefore, feel the pain and the pleasure of being in that society, and not be seen as an outsider. That is something which is difficult to implement. In a way, it's a hands-off philosophy. You give the responsibility to the local management but hold them accountable at the same time. That doesn't mean there will be freedom to do anything that they want. There will be a budget, and they'll be responsible for that. They have to meet the budgets. We will give a critical analysis. We'll act as a sounding board; we'll act as the facilitators for them to do well. But ultimately, they have to take the ownership and responsibility.

Creating A Culture Of Change (1222)

Ravi Kant

*Managing Director
Tata Motors*

People have been used to looking at things in a certain manner. If they are required to change, it takes a long time, because that's how they have been successful doing that thing. They're saying, "I have been successful doing this thing this way; therefore, I would not like to change." There is a resistance to change, especially with people who have been in the organization a long time. If you want to bring about change, there are three things you need to do. Number one is, expose these people more and more to external environments. Force them to see that the world outside has changed, and they also have to change. Number two is, get people from outside the organization who have been through the change and lived through the change. You don't need many people, but a few people. You bring them and place them in organization so that they begin to create that environment or activity of change, and looking at things in a different manner. The third is, pick people out from the younger lot, who are not so rooted in that kind of philosophy, that kind of mindset. Ask them to take up challenges and do things in a somewhat different manner. It's a combination of these things. Not one of them taken alone is going to be successful. It is a whole combination of things that you do whereby you are able to bring about change in the organization. In Tata Motors, we have done all three. We were looking to have the last mile of connectivity, and we wanted to create a small truck. If I went through the normal routine, there would be a problem. We picked out a young, bright, articulate person who could move around in the organization and get things done, and who was committed to delivery. We picked the person out; he was in his early 30s. We gave him the opportunity. We built a team around him. He was supported by everybody in the organization, and [he and his team] went on to create what we call the small truck, the Ace, which has become a phenomenal success. This person, after the success of Ace, has now been made project manager for Nano, our small car. He has gone from one success to hopefully another big success. Looking at that success, more and more people want to have newer and more challenging responsibilities. That's a big change. That's one. Number two, other people in the organization have now learned that it is imitated, that you need to have only 30 years of experience to succeed. People with 10 years of experience or 15 years of experience can also succeed, given the environment, the passion, and that we are looking at and doing things in a certain way. It has brought about a huge change.

CSR: Giving Back To The Indian Society (1223)

Ravi Kant

*Managing Director
Tata Motors*

To understand corporate social responsibility, we need to go back to the origins of Tata Group. We need to look at the way it is structured, the way it works, and the philosophy and DNA of Tata Group. You will find that there are two public charitable trusts, which were created about 78 years ago by the sons of the founder. These two public charitable trusts control a private company called Tata Sons. They have about two-thirds shareholding in that. Tata Sons has

shareholding in different Tata companies, like Tata Power, Tata Steel, Tata Motors, Indian Hotels, and others. Each company is independent but responsible to his board of directors. Therefore, Tata is a loose confederation of industries, unlike GE, which is one company. Tata Group is not one company. It's composed of different companies. Whatever dividend is made, to the proportion of the equity shareholding, goes into Tata Sons, which then decides to invest into other businesses, invest back into the businesses, or into the charities. These charities make lot of investments in charitable purposes, and those are education, health, and many other things. Most of the time, they would not like to talk about what they do. They have built great institutions, such as the cancer hospital, Tata Institute of Fundamental Research, Tata Institute of Social Sciences, and even Indian Institute of Science, which is more than 100 years old and is actually a Tata creation. In this way, they have created many new institutions, and they have been working on this. When tsunami [hit], or when the earthquake [hit], they helped. The scholarships and things that are done are done in a quiet manner. The philosophy comes from the founder, who said that whatever comes from the society must go back to the society. What he meant was that we are not living in isolation, and profit is not our only motive. After all, we have earned profit because of the society in which we are living, and therefore, we must share in the profits that we make by giving back to the society. This was the philosophy. By doing things in a manner that makes you trust people, in a transparent manner, you act not so much as the owner but as the trustee of the business. In fact you'll be surprised to know that Mr. Ratan Tata, who's the current group chairman, owns hardly any shares. He owns a small percentage of shares. He's not there at the head as a classical owner but as a trustee of the Tata Group. That is the philosophy in which this is founded, and that philosophy has been flowing down in different Tata companies for a long time. People are becoming more and more conscious of the environment. People are becoming more and more conscious of the society in which they're living. We are looking at corporations doing their own share of accountability. The words of the founder, Mr. Jamsetji Tata, are very relevant. That is the philosophy, and the crux of the philosophy is that what comes from the society must go back to the society.