

Tata Motors Limited

Tata Motors is the largest automobile company in India with revenues exceeding \$8.8 billion. The company leads the market for commercial vehicles and is among the top three passenger vehicle companies with winning products in numerous market segments. More than four million Tata vehicles have been on the road since the first rollout in 1954. Tata Motors employs 22,000 people who are driven to be the “best in the manner in which we operate, best in the products we deliver, and best in our value system and ethics.”

The Challenge

After a decade of strong revenue and margin growth, Tata Motors began 2001 with a major challenge. Tata Motors was making major investments in the Passenger Car division to move away from the cyclical commercial vehicles business. While in the middle of this change, the commercial vehicles market shrunk by 40 percent—leading to a sharp decline in profitability. To make matters worse, both domestic and global competition increased due to the opening up of the economy and the reduction in tariff barriers. Tata Motors realized that something needed to be done very differently in order to regain the lead and truly become a world-class organization. Today, Tata Motors ranks as the world’s fourth-largest manufacturer of trucks with clear domination in the Indian commercial vehicles market. It is also among the top three in the passenger car market.

The Solution

To combat the issues it faced, Tata Motors established a three-stage plan. The first stage’s focus was on CQD improvement: Cost Reduction, Quality and Delivery improvement. The second stage focused on consolidating its position in India by bringing in new products in the market, and the third stage was (and is presently) focused on growing operations internationally.

In 2001, Tata Motors made the decision to partner with Ariba. In the first stage, the Tata Motors - Ariba team ran a business diagnostic exercise with the entire purchasing team to understand the buying pattern, business constraints and savings potential. Direct materials consumed nearly three-quarters of the cost of a vehicle. Therefore, the company started with cost reduction in direct materials.

The first sourcing project was completed in June of 2001. **The team identified a strong pipeline of sourcing projects, a clear schedule, and cross-functional teams to execute the projects.** Ariba Sourcing™ was deployed and category experts were brought in to provide Sourcing Services. Since the start of the program, teams have executed more

Results

- Nearly \$166 Mn USD in savings
- Spend penetration > USD 2 Bn
- ROI of 7:1+
- High adoption of online negotiating tool
- High Transparency and Compliance



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than 3,000 projects addressing Rs 9000+ Crores (USD 2+ Bn) of annualized spend using a combination of services and software solutions. In this phase, teams addressed direct materials categories like forgings, castings, fasteners, machinings, bearings, tires and also indirect materials categories such as lubes and MRO items. To help achieve its eSourcing goals, Tata Motors mandated that categories with annual spend greater than Rs 5 Lakhs annually (USD 12,000) should preferably be sourced online. This mandate resulted in significant improvement in eSourcing adoption.

“Cost reduction has become a way of life to stay competitive.”

Mr. Ravikant
Managing Director
Tata Motors

Moreover, the new Sourcing process led to improved transparency in the system, which is one of the key points of the Tata Code of conduct of doing business. Today, anything that goes through Ariba Sourcing is process- and project-driven. The online Sourcing process also reduced the negotiation lead time and streamlined the number of people required within the purchasing organization. **Tata Motors’ Ariba Sourcing adoption is now the best in Asia and one of the top five adoption stories worldwide within Ariba.** By 2003, the company had turned around under strong leadership of Mr. Ravikant and flawless execution by Mr. P M Telang, who ensured that the eSourcing program ran like a **savings factory**. Through visibility and regular management reviews, the eSourcing program became one of the pillars of the turnaround story.

In the next stage, the focus was on consolidating the position in India. This was done through strong cost leadership in existing products and ensuring that all costs (initial investments as well as material costs) were low in all future products. This was important as this could be leveraged to become a big barrier for new competition.

In 2005, Tata Motors launched the “Ace” model of small pickup trucks—which swept the entire small truck market in India because it was introduced at the right time, at the right price and with the right specifications. Due to the unique combination of cost, price and positioning, it created a new segment in the market and modified the structure of the industry. In order to keep the initial costs low, teams conducted more than 125 advance sourcing projects. Projects included heavy cash outflow items like machining centres moulds, material handling systems as well as direct material spend like sheet metal parts, crankshafts, tires, and batteries amongst various others. Tata Motors’ teams ensured that 50 to 60 percent of the Ace Model was competitively negotiated online. This paved the way for high profitability, low cost and

highest transparency in doing business. No wonder Tata Motors maintained high margins on products when the industry margins were going down. All new runaway success vehicles—Ace and Winger—went through this process.

The next stage focused on developing a profitable and competitive global business both from market and supply chain perspectives. eSourcing Tata Daewoo Commercial Vehicles (which Tata Motors acquired from Daewoo in Korea) and also has been the starting point for negotiations for new joint ventures like Tata Motors (Thailand)

Limited (JV with Thonburi Automotive of Thailand). Now the focus has changed from competitive price and low cost to globally competitive prices from globally competitive suppliers.

Lessons Learned

Along its journey to spend management excellence, Tata Motors has learned several best practices for success. First, the team recommends selecting the right categories for Sourcing to get the best return on the investment. Supply-side competitiveness, business impact and ease of implementation are key factors to assess while prioritizing the categories to address. Begin sourcing early, as Tata Motors found firsthand that many costs are locked in once the product goes beyond the design phase. Pruning material costs in the early stages is key to achieving maximum savings. Involvement of the cross-functional team throughout the sourcing process has been essential to the success of critical projects. Finally, being aware of the right sourcing process with the right tools and when you need help is critical.

About Tata Motors Limited

Tata Motors Limited is India’s largest automobile company, with revenues of Rs. 36,960 crores (USD 8.8 billion) in 2007-08. It is the leader by far in commercial vehicles in each segment, and among the top three in the passenger vehicles market with winning products in the compact, midsize car and utility vehicle segments. The company is the world’s fourth largest truck manufacturer, and the world’s second largest bus manufacturer. To learn more visit www.tatamotors.com

About Ariba

Ariba, Inc. is the leading provider of spend management solutions to help companies realize rapid and sustainable bottom line results. Successful companies around the world in every industry use Ariba Spend Management software and services. Ariba can be contacted in India at +91-124-413-5400, in the U.S. at 1-650-390-1000 or at www.ariba.com.