CBA Builder Simple Worksheet 3: Internationalization of Tata Motors in Europe[1]

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You are employed as international advisor for Tata Motors. Tata Motors, an upcoming emerging multinational from India's largest conglomerate Tata, is planning to launch its new product Tata Nano in Europe. Tata Nano is the world's cheapest car with the market price of just £1,277 in India, but it will not be that cheap in Europe. The estimated price in Europe will be approximately £3,500, which is almost half of the average cost of small family cars available in the European market. Hence, Tata Motors is very optimistic with its plans to launch the car in the European market.

The financial crisis which has hit most in Europe seems to be an opportunity to Tata in servicing this market. Tata has already built up its brand name by acquiring Land Rover and Jaguar in 2008. After this acquisition Tata has a wide product portfolio ranging from the world's cheapest cars to premium cars. Tata has estimated a market of 40,000 small cars across Europe per year in the coming time and anticipate capturing a market share of 3% in first year to be increased by 1% every year, over the next 5 years. This is equivalent to the sale of 1,200 cars in year 1.

Tata is contemplating two options: (1) export the car from India, or; (2) set up a manufacturing car plant in Portugal. The financial crisis has also brought down the industry average wage costs and has made available skilled labour. The average cost estimates for production, as well as marketing, in Europe are given in Table 1. However, if the car is produced and exported from India then the cost of production in India is estimated to be £1,200, with added costs in the form of CIF in Europe estimated at £1,780 per car (marketing costs also apply).

Table 1: Cost and Sales Estimates (Option 2)

Number of cars (sales)	Cost of production (£)	Marketing cost (£)	Sales price (£)
1200	3375.00	54.54	3498
1600	3131.25	50.91	3498
2000	2925.00	48.73	3499
2400	2687.50	47.27	3499
2800	2725.00	46.23	3499
3200	3108.83	45.48	3499

[1] This is a hypothetical case for classroom use. Case study in part or in full can be used with proper acknowledgement.

Questions

1. Using the data on costs and sales/revenue (benefits of these projects), calculate the overall Net Present Value (NPV) and Benefit Cost Ratio (BCR) associated with each of the two options, (1) export the car from India, or; (2) set up a manufacturing car plant in Portugal with a total CBA period of five years.

2. What if you consider a period of six years? Does this change the overall outcome?

3. It is also important to consider the relative NPV each year, to ascertain at which time it would be financially viable to move production from India to Portugal. Complete the table below by calculating the NPV and BCR for each year for each option (i.e. NPV for option 1 in year one, and NPV for option 2 in year 1, and so on). Using the figures in the completed table, when does it become financially viable to move production from India to Portugal?

	Option 1: Import from India			Option 2: Manufacture in Portugal			
Year	Costs	Benefits	NPV (Profit)	Costs	Benefits	NPV (Profit)	Decision
1							
2							
3							
4							
5							

4. Using your knowledge about TNC, and the outcomes of the project appraisals you have performed, what will you recommend to Tata Motors? Should they internalize production or not?

5. If you are in favour of internalization, what ownership and location advantages do you identify which you can suggest to Tata Motors to engage into FDI in Europe?