

Tata Motors

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Introduction

Economically lower-class Indians felt empowered when they walked into a Tata Motors (TML) showroom in Mumbai, India, on April 21, 2009, and reserved their first family car for Rs 1,00,000 (US \$2,000). In that month, India was under the spell of two global influencing acts. The first was the holding of general elections in which the world's largest democracy was going to the polls. The second was the first day on which the world's cheapest car was available for purchase. No one had thought it possible to sell a car with all the required safety features and design for just under US \$2,000. Tata Motors, a company that changed the basic automotive business model, had products ranging from the costliest—Jaguar and Land Rover—to the world's cheapest car, the Nano. Tata Motors is the only automobile company in the world offering products ranging all the way from the smallest car to the luxury segment.

The success of Tata Motors lies in its international growth strategy (Appendix I), “to consolidate position in the domestic market and expand international footprint through development of new products by:

- Leveraging in-house capabilities.
- Acquisitions and strategic collaborations to gain complementary capabilities.”

In 2009, Tata Motors had operations in 35 countries around the world (Exhibit 1), and it was on the 100 New Global Challengers list released by Boston Consulting

Appendix I Growth Strategy of TML

1984 : India's first LCV (407 truck)

1996 : India's first SUV (Safari)

1998 : India's first passenger car—Indica

2004 : Acquisition of Tata Daewoo, Korea

2005 : India's first mini-truck (Ace)

2005 : Acquisition of stake in Hispano, Spain

2007 : Formed an industrial JV with Fiat

2007 : JV in India with Marcopolo of Brazil

2007 : JV in Thailand with Thonburi

2008 : People's car—Tata Nano

2008 : Acquisition of Jaguar Land Rover



EXHIBIT 1 International Markets for Tata Motors

Passenger Vehicle International Markets	Commercial Vehicle International Markets
Venezuela	Chile
Senegal	Algeria
Ghana	Nigeria
Congo	Ghana
South Africa	Zambia
Ethiopia	Angola
Tanzania	Mozambique
Kenya	Uganda
Russia	Mauritius
Ukraine	Australia
Spain	Turkey
Italy	Egypt
Poland	Russia
Turkey	Ukraine
SAARC	Spain
Thailand	Italy
Malaysia	Poland
Middle East	SAARC
	Thailand
	Malaysia
	Middle East
	Senegal
	Ghana
	Congo
	South Africa
	Ethiopia
	Tanzania
	Kenya

Group. TML became the largest player in the 8-ton heavy truck segment in South Africa and the second-largest player in the 2- to 4-ton segment in South Africa. TML is the largest player in light buses and the second-largest in light trucks. The story of global expansion of Tata Motors started in 2004.

Domestic Economy

The Indian economy in the year 2004 had a growth rate of 8.0 percent. Indian gross domestic product (GDP) grew by 4.4 percent in fiscal year (FY) 2001, by 5.8 percent in FY 2002, and by 4.3 percent in FY 2003, with an expected future growth rate of 7.0 percent in FY 2005, 9 percent in 2006, and 11 percent in 2007. However, according to Goldman Sachs, India will have the highest growth rate in GDP in comparison with other emerging economies until 2045–2050.

Governmental Initiation

The government of India in the years 2002–2003 invested heavily in infrastructure, implementing the following six-point strategy:

1. Strengthening and four-laning of high-density corridors.

2. Golden Quadrilateral (5,846 kilometers).
3. NSEW Corridor (7,300 kilometers).
4. Road connectivity to major ports.
5. Private sector participation in financing construction and maintenance.
6. Improvement, maintenance, and augmentation of the existing national highways network.

This investment was expected to enhance commercial vehicle penetration in India. Furthermore, in 2008, India became the:

- Second-largest two-wheeler market in the world.
- Fourth-largest commercial vehicle market in the world.
- Eleventh-largest passenger car market in the world and is expected to be the seventh-largest market by 2016.

Demographic Shift in India

It was expected that by 2009, 60 percent of India's population would be 25 years of age and less. The consumption of food and beverage, which was 62.5 percent in the years 1970–1971, came down to 44.5 percent in 2001 and was trending toward further reductions. The consumption of transportation was 2.8 percent in the years 1970–1971 and grew to 13.5 percent in the year 2000–2001. The increasing per-capita disposable income is leading to a subsequent decline in the proportion of spending on basic necessities and an increasing proportion on transportation. Transportation became the second-largest spending category in 2002.

Domestic Automobile Industry

According to Goldman Sachs' BRIC Team, there will be a significant increase in the middle-class population in India, coupled with an increase in per-capita GDP (in terms of purchasing power parity, PPP), and the team expects India to hit the "sweet spot of car ownership" between 2015 and 2025.

These structural changes have totally altered the commercial vehicle market; there will be a structural shift toward heavy commercial vehicles (HCV). The demand for buses will increase substantially, especially for large, luxury buses.

International Automobile Market

Global Automobile Trends

International automobile markets are at crossroads. Factors like consumer preferences, competitive dynamics, the cyclical nature of product design, environmental factors, and regionalism are all factors affecting the global strategy of automobile giants.

Motorization and population increases are the two most influential factors in automakers' strategic product management. In countries where population is increasing but motorization is saturated, auto companies have to consolidate their present position as well as launch new products to attract new, young customers. In areas where both factors are increasing, they have to invest in services, supply chain, and new product launches.

In the United States, Western Europe, Japan, and South Korea, there was an average sales reduction of 20 percent from 2007 to 2009. The sales growth was unaffected in China but grew in India and Eastern Europe.

The global automobile industry is varied not only in strategic orientation but also in customer preferences. For example, for an American automaker, styling means boxiness, a large nose/deck, and an emphasis on size. For a European, it can mean roundness, a short nose/deck, and emphasis on aerodynamics and space efficiency. The engine body, from an American point of view, will be large and powerful engine, a heavy body with slow response. For a Japanese car, the engine can be small, with a light body; the emphasis is on fuel economy and sharp response. In terms of value added, a European wants total balance, while the Japanese want options and many features as standard equipment. The overall image for an American vehicle is that of an all-purpose road cruiser—large, comfortable, powerful; for a European the automobile is a driving machine—responsive, precise, sophisticated.

The automobile companies make more profit in selling luxury cars rather than in selling small cars. The revenue shares for participants in the automobile value chain are as follows: suppliers have a 60 percent share of the recommended retail price, assemblers have 10 percent, marketing logistics another 10 percent, and dealers 20 percent. Vehicle manufacturers in mature markets derive about 20 percent of revenues and 40 percent of operating profits from sales of spare parts.

Tata Group

Tata Group has been one of the largest and most respected industrial houses of India, with a pioneering track record over 130 years. In FY 2004 Tata Group had over 80 companies with leadership presence in most of the sectors. Its revenues were approximately Rs 615 billion (US \$13.4 billion, equivalent to 2.6 percent of India's GDP at current prices), and its net profit was Rs 57 billion (US \$1.3 billion).

Tata Motors

In 2004, Tata Motors was India's largest automotive company in terms of revenue. Tata Motors was the market leader in commercial vehicles and the second-largest player in passenger vehicles. In 1954, it began manufacturing vehicles. The firm has demonstrated very strong R&D skill sets with the capability of developing vehicle platforms indigenously at a relatively low cost. In 2003, Tata Motors had three manufacturing facilities, in Jamshedpur, Pune, and Lucknow. In 2004, it acquired Daewoo Motors and added the Gunsan plant in South Korea, its first outside India. It had the widest range of product offerings in the Indian market, consisting of commercial vehicles, multiutility vehicles, and passenger cars.

International Business Initiatives by Tata Motors in 2004

In 2004, exports were 15 percent of revenues, and Tata Motors made a target of increasing the exports by 20 percent in 2006.

Ravi Kanth, Managing Director TML, thought that the best strategy for Tata Motors was focused positioning and marketing in selected countries.

- **South Africa:** The market was 360,000 units annually and was comprised of passenger cars and pickup trucks. Tata Motors positioned itself as a seller of a "value for money" product there. The production plan was to make the

products in India and ship them to South Africa in 2005. The initial target was 2,000 or more by the third quarter of that year.

- **Sri Lanka:** The commercial vehicle volume was approximately 13,800, primarily medium to heavy commercial vehicles (MHCVs) and light commercial vehicles (LCVs). The competition in Sri Lanka was from secondhand imports of Japanese vehicles. Tata Motors had to cut the Japanese market in Sri Lanka. The plan was to export around 700 vehicles in the third quarter of 2005 and approximately 1,800 units in 2005.
- **Russia and East Europe:** Targeting the LCV truck market in Russia, Tata Motors started operations in 2004 in the Ukraine through bus assembly.

Tata Motors replicated these strategies in other key markets of Southeast and South Asia, Southern Europe, the Middle East, and Africa.

Organic Growth Strategies of Tata Motors

To develop and sustain a competitive advantage, Tata Motors developed a two-pronged strategy. First, it expanded its capacity. In 2004, the utilization was around 75 percent for commercial vehicles (CVs) and utility vehicles (UVs), and 100 percent for the Indica plant, which made passenger cars (PCs). Indica's PC capacity was expanded by 50 percent by the end of 2005. In the same year, CV capacity was expanded and new products were developed (small pickups and intercity and intra-city buses). By 2006–2007, new platforms had been created for global trucks, a new utility vehicle, and compact cars. For the people's car, there were new engine offerings and commensurate expansion in R&D capability. The goal was for expansion into new markets and product categories, both domestically and internationally.

Inorganic Growth Planning of Tata Motors in 2004

Tata Motor's philosophy of inorganic growth was as follows:

- Acquiring an international company for (a) access to markets, (b) access to new technology and R&D capability, and (c) growth in international business.
- Marketing tie-ins for (a) distribution and (b) cobranding.
- Asset purchases for (a) new products, (b) new technology, and (c) new capacities.
- Strategic alliances for (a) product swaps and (b) R&D alliances.

There were further challenges for Tata Motors, such as cost pressures on input materials like steel, engineering plastics, aluminum, copper, and so on. As of April 2005, the company also felt the impact of emission compliance measures. Eleven cities in India have migrated to Euro III, while the rest of the country will migrate to Euro II emission norms. The cost of meeting the emission standards may lead to an increase in price, leading to sluggish demand conditions in 2006. Fuel price increases are also a factor.

Furthermore, the automotive business model was changing. Automobile manufacturers were making money not only by selling cars but also by maintaining them and selling accessories.

Tata Motors acquired Daewoo Commercial Vehicle Co. (DWCV) of Korea and made it a 100 percent subsidiary on March 30, 2004. The HCV was a product segment of DWCV and a complementary product for Tata. The acquisition gave Tata access to assembly technology for high-end trucks, the potential for leading the

domestic market in high-end trucks, and an entry to the South Korea market for medium and intermediate commercial vehicles. Tata had a market share of 25 percent as well as an additional annual production capacity of 20,000 units. The purchase was a very profitable venture, earning Tata US \$5.4 million on a turnover of US \$222 million in fiscal year 2003 on a 21 percent of Daewoo's capacity utilization.

Positioning of Tata Motors in the Global Markets

Ravi Kanth, Tata's Managing Director, had to decide on a positioning strategy for Tata Motors in the global markets. Tata Motors aspired to be among the top global manufacturers in the product group of medium and heavy trucks. In pickup trucks, Tata had to establish a presence in the global segment and couple that with a high domestic demand potential. Tata also targeted the niche global markets in the compact car segment.

Enhancing Capabilities: Partnering with World-Class Players

Tata Motors is no stranger to global partnering:

1. In a joint venture with Marcopolo (Tata Motors, 51 percent; Marcopolo, 49 percent), the goal was to take advantage of product development and participation in mass transport opportunities in Indian and international markets. The target is to produce 150,000 buses (24- to 54-seaters) in five years using India's low-cost advantage.
2. In an alliance with Fiat, (a) Fiat distributes products in India and (b) the two companies engage in a joint manufacturing venture (Tata Motors, 50 percent; Fiat, 50 percent) in India. Tata gained access to world-class car engine technology. Both companies gained access to a production capacity of 100,000 cars and 250,000 units of engines and transmissions for use globally.
3. To capitalize on the regional trading block ASEAN and local country competencies, Tata formed a joint venture in Thailand with Thonburi Thailand (Tata Motors, 70 percent; Thonburi, 30 percent). In Phase I, the production capacity was 12,500 units per annum. In March 2008, Xenon was launched in Thailand, and an eco car project started.
4. To deal with customs in South Africa, Tata Motors formed a subsidiary (Tata Motors, 60 percent; Tata Africa, 40 percent). The products manufactured will be passenger and commercial vehicles.

Despite this track record, many were surprised when Tata Motors acquired Jaguar Land Rover for US \$2.3 billion. Tata had its reasons for the purchase: (a) the opportunity to participate in two fast-growing auto segments (premium and small cars) and to build a comprehensive product portfolio with an immediate global footprint; (b) to increase business diversity across markets and product segments; (c) to get a unique opportunity to move into a premium segment with access to world-class iconic brands; (d) to fit Land Rover naturally above Tata's utility/sport utility/crossover offerings for the 4 × 4 premium category and to broaden the brand portfolio with Jaguar's performance/luxury vehicles; and (e) to enjoy long-term benefits from component sourcing, low-cost engineering, and design services.

For any company to survive, its organizational structure must be excellent and coupled with a suitable business model, effective cost control mechanisms, appropriate products and services, ample resource capabilities, process, and quality, as well as with organic and inorganic growth strategies.

CASE DISCUSSION QUESTIONS

1. What are some of the features of the Indian market that make it an attractive domestic market to Tata Motors?
2. Prepare a SWOT analysis for Tata.
3. What does a five forces model look like for Tata in the global automotive market?
4. What are the key success factors for a global automobile major?
5. As mentioned in the case, the international success strategies for Tata were “to consolidate position in the domestic market and expand international footprint through development of new products by leveraging in house capabilities, acquisitions, and strategic collaborations to gain complementary capabilities.” Did Tata achieve these goals? Please elaborate your answers with examples from the case.
6. Ravi Kanth said that international success will take place through focused positioning and marketing in selected countries. Do you agree with his viewpoint?

The Fleet Sheet

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At precisely 8:00 A.M. on Monday, April 3, 2000, faxes began printing out simultaneously in the offices of English-speaking companies all over the Czech Republic. Among the news of the Czech Republic translated into English that day was an interesting political insight gleaned from two newspapers:

*"The Washington Post wrote that Madeleine Albright is the weakest U.S. Secretary of State since the early 1970s and is now only popular in Prague. Euro quips that that's not so bad: the only place Vaclav Havel is now taken seriously is in Washington."*¹

It was this kind of honest, straightforward evaluation of the Czech economy and government that had made the *Fleet Sheet* so popular to foreign companies and their managers. For Erik Best, founder of the *Fleet Sheet*, there were many decisions to be made concerning the future of the company as well as his own future.

He had begun the business on February 22, 1992, because of a perceived short-term need by Western companies rushing into Czechoslovakia after the Velvet Revolution for economic and political information that they could understand. He had envisioned that in a few years these companies would train Czech nationals to take over their operations in the country, and the English-speaking Westerners would withdraw. That had not happened, and he now wondered if he had a "going concern" that lacked a sound organizational and legal structure to survive into the future. He also wondered how long an operation such as his would continue to be a viable venture because of rapidly-changing technology and greater access to news through the Internet. Erik was now 37 years old, and he knew he needed to make some decisions for the future.

Erik's Education and Early Work Experience

Erik was born in North Carolina, and when he was 11 years old, his family moved to Montana. He went to high school there and wrote for the high school newspaper. He also became a part-time staff sports writer for the *Missoulian*—the local newspaper. Near the end of his senior year in high school, Erik was offered a journalism scholarship to Vanderbilt University; however, he turned it down because at that time he was not sure he wanted to be a journalist. In the back of his mind, he had thought for some time that he wanted to be involved in business or politics or perhaps both. He decided to attend Georgetown University, and he received a degree in Foreign Service from Georgetown in 1985. In the summers while working on his undergraduate degree at Georgetown, he also studied the Russian

language at Middlebury College in Vermont, a school well known for its concentration on international affairs. He subsequently received a Master's Degree in Russian from Middlebury in the Summer of 1985. Perhaps the educational experience that had the greatest impact upon Erik's life was a required four months' stint in Moscow. When he had completed his degree at Middlebury, he entered the M.B.A. program at the University of North Carolina at Chapel Hill and received his M.B.A. degree in 1987.

The Move to Prague

Erik Best, a fluent speaker of the Russian language and one conversant in other Slavic languages, became enamored with the historic changes taking place in Eastern Europe. Never in the twentieth century had the opportunity existed to be a part of such a great transformation. Never before in history had countries formerly living under a Socialist government with centrally planned economies tried to make the transition to a free market economy where Adam Smith's "Invisible Hand" would be responsible for moving resources into their most advantageous usage.

Therefore, when the offer was made to Erik by the M.B.A. Enterprise Corps to join them in their work in Czechoslovakia, he quickly accepted. In February of 1991, Erik packed his bags and moved to Prague. He immediately fell in love with the country and found the Czech language very similar to Russian. In explaining his love of Prague to others, Erik would state, "I have always loved music, and there is no city in the world so rich with music as Prague. There are classical concerts daily in concert halls, churches, town squares, on the breathtaking Charles Bridge, private chambers, large public halls and under street arches. There are violinists and accordionists playing on street corners and in Metro stations. I have heard that there are more musicians per capita in the Czech Republic than anywhere else in the world. After all, it was in Prague that Mozart wrote the opera *Don Giovanni* and found greater acclaim than in his own Austria. It was also the home of composers Dvorak and Smetana. This is one of the reasons I feel at home in this city."

The Situation in Eastern Europe

In the early 1990s, the breakup of centralized Socialist economies was occurring all over Eastern Europe. Simultaneously, there was a rapid growth of the private sector in Russia and the surrounding countries of Poland, Czechoslovakia, and Hungary. One of the challenges in the burgeoning market economies was creating small businesses out of large enterprises and also launching entirely new ventures where none had been before. In fact, the development of the small business sector had been the most successful manifestation of the movement to a market economy. Small businesses had also been the greatest success story in the privatization process. Auctions of small businesses and the restitution of property in these countries had led to the restoration of some family businesses.

However, numerous problems beset these newly-created companies. In some cases, the venture was merely additional work added to one or two other jobs to keep the entrepreneur afloat with increasingly higher inflation rates and increasingly stagnant wage rates. Many small businesses were forced into operating illegitimately to deal with unfair and cumbersome legal procedures in the regulatory environment, or to avoid the attention of the Mafia or corrupt officials. It became very difficult to work out a secure contract for lease of property, and the banking system was not equipped to deal with the needs of small business.²

Another serious problem was the lack of experience in running private businesses that existed in Eastern Europe. Most hopeful entrepreneurs had lived all of their lives in a Socialist economy and had no training or knowledge related to the way in which one becomes an entrepreneur. It was into this environment that many organizations from the West sent consultants to assist with the revitalization of the economy as a free market. The M.B.A. Enterprise Corps was one such operation.

Origination of Idea for the *Fleet Sheet*

After working in Prague for a year, it became clear to Erik that international companies that had established offices and operations in the Czech Republic had difficulty in obtaining accurate and timely information on political and economic trends in the country upon which to make business decisions. From his work as a management consultant, he knew that decision makers in companies are very busy, and those operating in the Czech Republic would need information that was very concise and written in English. At the time, no such product was available in the country. It occurred to him that a 1-page faxed bulletin would be the best format for such a paper. The fax was also an inexpensive medium to use. He knew that in the beginning there would not be much news to report, and a 1-page sheet of paper would probably hold all he needed to print.

By early 1992, he had worked out all of the details to begin the business, and on February 22nd he published the first issue. Erik believed that if he had 4 or 5 subscribers in the first month, the product would be successful. In fact, approximately 15 to 20 subscribers signed up in the first month of operations. By early Spring of 2000, there were somewhere in the neighborhood of 1,000 subscribers receiving the *Fleet Sheet* on a regular basis.

Believing that the life cycle of his product would be relatively short, Erik took little thought to establishing a permanent structure for his business. He set it up as a sole proprietorship, and did not bother with a business plan since the operations of the company were uncomplicated and easy to establish. By 2000, he had 8 staff members in the company. Some of the staff came in the very early morning to review newspapers and begin translating the news from Czech to English. Other members of the staff came in around 7:30 A.M. and were involved in distribution and client support. Erik assumed the major responsibility for picking out the most important news to be translated and distributed in the *Fleet Sheet*. He believed a key competitive advantage of the *Fleet Sheet* was its emphasis on a quality product that reported useful Czech economic and political news. Occasionally, the *Sheet* had made a person unhappy by interpreting something incorrectly. However, if Erik agreed with the person's argument, he would admit it and print a retraction. He had found it important to listen to customer complaints and recognize the needs of the customer. He attempted to treat his readers as equal partners. The name for his paper came from the fact that it was issued in a timely manner, and also in reference to Fleet Street in London where all of the major newspapers once resided before moving to the Docklands.

The Pricing Strategy

Erik realized immediately that the major publication constraint would be the number of people he could physically fax copies of the *Fleet Sheet* to in a short period of time. This was primarily due to the fact that he knew there would be a limitation

on the number of telephone lines that he could get. He also knew that another constraint was the budget of the companies and when they needed to have the news. The larger multinational companies, he speculated, would be willing to pay a higher price to get the information very early in the morning. On the other hand, smaller companies beset with fewer complicated decisions would probably be willing to pay a lower price to have the information later in the day. Some businesses might need the information only once a week.

On the basis of this assessment, Erik constructed a pricing structure that averaged \$3 to \$4 per day for the customer who wanted the *Fleet Sheet* faxed to him or her early in the morning, and for the smaller companies who needed the *Fleet Sheet* faxed to them only once a week, the price would drop \$.50 to \$.75 an issue. There would be intermediate pricing between the two end points. Therefore, the large companies and lawyers for whom “time is money,” could have access to all of the Czech political and economic news early in the morning so that they could make astute and timely decisions based upon realistic information. The companies that did not need information in a timely manner could enjoy the benefit of a discounted price for the information. The graduated pricing strategy would also make the distribution of the paper manageable. It seemed to be an effective pricing strategy: pricing based upon when the subscriber receives the news. The attractiveness of the pricing strategy was that anyone could afford the *Fleet Sheet*.

In order to insure the timeliness of the paper, Erik initially guaranteed the larger companies that if they did not receive their fax of the *Fleet Sheet* before 9:00 A.M. each day, it would be free. However, the fax was never late, and Erik simply dropped this guarantee since no one worried about getting a fax late.

Marketing of the *Fleet Sheet*

The marketing of the *Fleet Sheet* was multi-pronged. The first thing that Erik did was to advertise in English-language publications such as the *Prague Post*, *Business Central Europe* (published by *The Economist*), *The American Chamber of Commerce Newsletter* and in the Czech press in very select publications read by the elite. He was surprised that his subscribers had been not only people from English-speaking countries, but also the Dutch, French, German, and even some Czech companies that realized having the news abbreviated for them saved valuable time.

The company also engaged in direct marketing. They found out about new companies moving to town from the American Chamber of Commerce, people Erik met, personal contacts, and by word of mouth. With all new contacts, the company immediately apprised them of the product they were offering. Erik found that his satisfied subscribers let other people know about the service, and many new customers came from referrals. One reason his subscribers had been well satisfied was because Erik made an effort to dig into the important issues facing businesses in the Czech Republic. He also attempted to give people analysis rather than a simple reporting of the news. He found that clients read the *Fleet Sheet* because of the selection of articles that were covered.

A more recent addition to his marketing activities had been using e-mail to whet the appetite of potential subscribers. (See Exhibit 1, “e-mail Synopsis of *Fleet Sheet*.”) Whenever anyone e-mailed him, Erik immediately added their name to a list of people who receive a summary of the day’s *Fleet Sheet* articles twice a week. The purpose of this was to acquaint them with the value of subscribing to the

EXHIBIT 1 E-Mail Synopsis of Fleet Sheet

Sub: **In today's Fleet Sheet**

Date: 11/20/00 12:43:19 AM Central Standard Time

From: info@fleet.cz (Fleet Sheet/E. S. Best)

To: info@fleet.cz

From today's Fleet Sheet:

(MFD/1) The four-party coalition won a big victory in the Senate elections yesterday, gaining seats in 16 of the 19 races in which it had candidates. ODS and CSSD lost their Senate majority and will not be able to elect the chairman of the Senate or push through constitutional changes on their own. The top position in the Senate is now held by Libuse Benesova of ODS, but she lost to Helena Rognerova of the 4C. ODS won just eight of the 27 Senate seats at stake, and CSSD managed only one victory. An independent candidate won the final seat. The communists (KSCM) failed to win any seats. One seat had been decided in the first round in favor of the 4C. Of the 81 total Senate seats, the 4C now has 39, 22 for ODS, 15 for CSSD, three for KSCM and two for independents. Voter turnout was less than 20 percent. Vaclav Klaus responded to this by saying the Senate should be reformed so that its elections become part of the regional elections. (MFD/8) Jiri Leschtina of MFD says it will be interesting to see whether the Senate results lead anyone from within ODS and CSSD to break the loyalty pact and take a firm stance against Klaus and Zeman.

*

(HN/2) The results of the Senate elections reduce the chance that Vaclav Klaus will succeed Vaclav Havel as President. The results suggest that a candidate close to the 4C and Havel has a better chance. The results also make it unlikely that the constitutional amendment to reduce the powers of the President will win approval. If passed, the President's power to pick Bank Board members would be limited.

*

(HN/3) CEO Jaroslav Mil of CEZ said that if price were the top priority, the sale of the state's stakes and the regional electricity distributors could bring Kc 200–300bn in privatization. If synergies were sought with the natural-gas distributors, he said, the amount could be higher. However, if things such as maintaining employment and coal output play a role, this amount cannot be expected, he said. In this respect, he said he could imagine a requirement that a certain amount of output be guaranteed by the buyer. He also said he sees no reason why one Czech company should not be able to offer gas, water, and electricity. He also indicated that he expects more use of nuclear power in the future. (HN/P9) CEZ's stock hit a low for the year of Kc 85 and might fall more.

*

(MFD/2) Klaus got a bit touchy at ODS campaign headquarters yesterday after the first results of the Senate elections were announced. When an MFD photographer made a call during Klaus' live interview on Czech TV, Klaus grabbed the man's cellphone out of his hand and tossed it into the corner. "How can he dare (talk on the phone) while I'm being interviewed?" Klaus asked. (MFD/3) Milos Zeman, for his part, refused to face defeat and didn't even show up at CSSD campaign headquarters.

Fleet Sheet for daily faxes. Understanding the animosity some people have to receiving "junk e-mails," Erik added a notice at the bottom of the e-mail that explained:

If you do not wish to receive such messages in the future, please simply let us know and we will remove your name from our list.

Few people ever asked to have their names removed, and many signed up as regular subscribers. This was probably because the e-mail was only sent to individuals whom Erik believed would have an interest in Czech news.

In the late 1990s, Erik developed a website for his company. The web address was <http://www.fleet.cz>. (See Exhibit 2, "*Fleet Sheet*" Home Page and Final Word.)

EXHIBIT 2 *Fleet Sheet Home Page and Final Word*

the fleet sheet

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Banning spam

Most of the unwanted email that clogs in-boxes is from a small number of international mailers who send out millions of pieces of junk every day. IT Minister Vladimír Mlynář is working on a bill for imposing an absolute ban on unsolicited commercial email, but the law would apply only to Czech entities and would have no effect on the vast majority of spammers. Mlynář told Czech Radio that his bill is similar to the one signed into law this month in the U.S., but the U.S. law in fact allows spam that is from clearly identifiable mailers and that gives the recipient a way to "opt out" of future mailings. Spam is used responsibly by numerous legitimate businesses in the CR, including airlines, hotels and publishers (including the Final Word). Mlynář's bill would kill a highly effective marketing tool and provide very little protection against the real villains.

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He believed that the website had enormous market potential for his company. It would now be possible for the company to place a page on the website that was a sampling of the *Fleet Sheet* for interested individuals and companies. Erik believed this had the potential to generate an even greater number of subscribers than did the e-mail synopses.

In the past, Erik had offered the entire archives on disk. A company would pay about \$500 a year to subscribe to the service. However, he decided to put all of his archives from the past 8 years on the website. The service was free, but one had to register to have access to it. This registry began to generate a good source of names for the e-mail synopses which were intended to develop enough interest from the reader to cause him or her to subscribe to the fax service.

Erik hoped that his Web site would be of sufficiently high quality for people to continue to read it. He was gambling on the belief that a company could make more money in the long run by using its archives as a marketing tool to generate more subscriptions than by selling the archives as some companies such as the *Wall Street Journal* had done.

People occasionally asked Erik why he didn't go to e-mail entirely as the medium for publishing and distributing the *Fleet Sheet*. His response was, "There is the problem of protecting intellectual property. Unless you can encrypt it, you may have a copyright infringement of your material. In fact, Stephen King's most recent story which was published originally on the Internet was encrypted, but someone broke the code. Another problem with encryption is that the message can only be sent to a specific person—not a company. Therefore, there are some real problems with encrypting the information on the Internet."

Hurdles for the Business

Unlike most start-up businesses, the *Fleet Sheet* was profitable from the very beginning. Erik made an early decision to rent office space and computers initially. Whenever it became clear that the *Fleet Sheet* was a viable business, he did invest in some assets for the company such as necessary equipment.

Concerning the success of the company, Erik mused, "The revenues of the company have grown every year because the Czech Republic was seen early as the darling of the West, and they also received a great deal of media attention. Under more realistic conditions, many of the companies would not have come here." However, in the last couple of years of the 1990s, there had been a decline in subscribers. Erik often contemplated how recent world economic events might be affecting the circulation of the *Fleet Sheet*.

As to the last hurdle, Erik commented, "We have had to fend off 6 or 7 competitors who began to offer the same service that we were offering—a faxed bulletin with important political and economic news. It was a blatant rip-off of our product. The success of the *Fleet Sheet* drew other companies into the market."

Erik speculated:

The drastic price reduction the competition offered in the beginning served to lower the overall revenue size of the market. I have often wondered if there is a big enough market to support ONE such publication over the long run, much less numerous competitors in a smaller revenue pool.

However, he also observed:

The reason we survived was due to the overall quality of the paper. Business people know quality when they see it, and they immediately know that the Fleet Sheet is professionally done.

Government regulations which had been devastating to many businesses in the Czech Republic had been minimal for the *Fleet Sheet*. The company did not require

a large number of licenses or drug approvals as did the large pharmaceutical companies operating in the country. However, it had been faced with government bureaucracy—especially in the distribution of their product. The government informed them that they had to send the *Fleet Sheet* to hundreds of libraries at the company's own expense. This, of course, would have made the company non-profitable and no one would have read the paper anyway. They decided to take a risk and send the paper to only selected libraries where they believed there was a greater chance of someone actually reading the *Fleet Sheet*. Fortunately, the regulation was changed in the early part of 2000 so that the company would no longer be required to distribute the paper in this manner.

In the late 1990s, Erik decided to add an advertisement to the *Fleet Sheet*. The ad was priced at \$400 a day and was rotated among 4 or 5 different companies' ads. (See Exhibit 3, "*Fleet Sheet* with Ad.") If he should decide to add another advertisement, Erik would probably have to add another page to the fax. Faxing charges are minimal; the primary cost would be additional staff to prepare another page. However, he wondered if the primary focus of the paper—relevant information in a concise format—would be maintained. People don't mind taking the time to read 1 page of the most concise political and economic news of the day, but would they read 2 pages?

In the Spring of 2000, there were around 800 subscribers to the *Fleet Sheet* paying an average of \$2.50 each per day to receive the publication. In addition, each additional subscriber brought in 90% in profits and only 10% in variable costs. Erik speculated about whether a new format with two pages would actually reduce—rather than increase—subscribers.

Erik had always used Adobe Acrobat to format the paper, and the faxed paper was very easy to read. If he went to an e-mail publication of the paper altogether, there could be a text format that would not be limited to one or two pages. But he wondered if that would affect the integrity of the product. They had done so well in the past with the concise format of a 1-page fax. Would people actually sit at their computers and read through a lengthy e-mail the way they read through a newspaper or fax that they can hold in their hands? Erik speculated, "If you could produce the same experience of reading a newspaper on the Internet, it would be good. However, our present computer monitors prevent this from occurring." Erik also wondered how a company could build a brand name and attract a loyal readership over the Internet. On the Internet, one must click through so many pages to get to the desired material that the opportunity cost of one's time becomes very expensive.

When Erik began his venture in 1992, he firmly believed it would be a short-term operation bridging the gap until a new economy was established and other sources of information became available. With that in mind, he had spent little time pondering an appropriate legal structure for the business. He had initially set the business up as a sole proprietorship, but now he wondered if he should have established it as an LLC. He would also have developed a long-term strategy for the company. He wondered if it was too late to develop a business plan for the *Fleet Sheet* and alter its legal structure. He knew he would have to fill out some forms and notify the United States government of his actions, but perhaps he should do that. Erik wondered if a change in the legal structure of the organization would have capital gains tax implications if he decided to sell the business. He never assumed the business would last this long or he might have spent more time in planning rather than starting the business up in two weeks.

EXHIBIT 3 Fleet Sheet with Ad

the fleet sheet

[No. 2999 Today's news, today Prague, Tues., Dec. 30, 2003]

Business

(MFD/1) A poll by SC&C found that many Czechs associate EU accession next year with higher prices. Some price increases will take effect immediately in Jan., while others will be timed to coincide with EU accession on May 1. Consumers are stocking up on such things as gasoline, alcohol and prepaid phone cards at the old prices. The SC&C poll found that 26.8% of respondents fear price increases next year, compared to 16.7% who fear losing their job and 9.9% who fear accession. Most respondents consider 2003 to be an average year. Most young respondents thought it was a good year, while older respondents and low wage-earners tended to be more pessimistic. (MFD/B4) EU entry will mean higher prices for imports from some non-EU countries of such things as bananas, rice, tuna, bicycles, and CDs. (MFD/6) MFD pictures Klaus in a cartoon working on his New Year's address. "Bad things come in threes," he says. "First the floods, then the drought, then EU entry."

(MFD/7) Oskar said it expects a single-digit decrease in calling levels during the first months of next year, due to the sharp VAT increase. T-Mobile said it expects calling traffic to return to its previous level after a few months. Český Telecom expects about 100,000 people to give up their fixed lines because of the higher tax.

(HN/1) Some building & loans have been unable to handle all the customers seeking to sign contracts by the end of the year, before the state subsidy declines next year. ČMSS said that it expects to serve as many as 10,000 customers a day this week. About 2m new contracts are expected this year. Next year, though, this should drop to just six figures, according to ČMSS. Building & loans will use the promise of loans to attract new customers next year. (LN/6) Some clients are using very high target savings levels - such as Kč 1m - as a way to guarantee the higher state subsidies for many years to come.

(HN/13) Pre-Christmas internet sales quadrupled this year. Czech shoppers bought more-expensive items on line, such as DVD players and digital cameras.

(HN/18) Landowners claim that a planned new law for specifying the price and length of their leases of land to farmers is unconstitutional. One version of the bill would allow farmers to continue to pay today's artificially low rates. Farmers welcome the law and favor long lease periods.

(MFD/9) Škoda Auto is offering bonuses of up to Kč 90,000 on Octavias. (EU/62) Škoda does not expect its planned new Octavia to cannibalize its sister brands.

(HN/1) The terms for reserving and paying for tickets to next year's hockey championships were so tight that many people risk losing their reservations. Tickets went on sale shortly before Christmas and had to be paid for within seven days. Due to the

holidays, payment orders needed to be submitted many days in advance. Sazka said it will wait an extra day or two and will then put any tickets that have not been paid for on sale in early Jan. (MFD/D1) Some people are threatening to sue Sazka for not honoring ticket reservations that were made in the summer. Sazka blamed the situation on the Hockey Union.



(HN/13) The CR attracted 40 investments this year into IT and service centers, from companies such as Accenture, DHL, Honeywell and ExxonMobil. Investment into the 15 largest of them will exceed Kč 7bn. (DHL accounts for Kč 1.6bn of this, and HN gives no figure for Accenture, Honeywell and ExxonMobil.) These 15 investments are expected to lead to 4,386 new jobs. (EU/62) Separately, Škoda Auto Chairman Vratislav Kulhánek said the decade-long tax breaks given to foreign investors are "perverse." Many of the companies would come anyway, he said, and CzechInvest pays no attention to whether the new investments will threaten the existence of thriving businesses. CzechInvest's policies in general need to be examined, he said.

(HN/17) One of the pillars of Český Telecom's strategy is to remain in a business only if it is No. 1 or No. 2 on the market, according to HR Director Imrich Gombar. Layoffs will be closely linked to this. Job cuts are planned preliminarily for the end of each of the first three quarters of 2004. On average, employees will get about eight months' wages as severance pay.

(HN/2) Charges are expected to be filed early next year in what HN calls the biggest corruption affair since 1989. Karel Srba, Pavel Jaroš, Alex Satánek and other former top-level employees of the foreign ministry are suspected of profiting from state contracts. [HN's article was written by Sabina Slonková. Srba has already been found guilty of conspiring to kill her.]

(HN/17) Czech Railways chose Kapsch again to supply a GSM-R network.... Due to changes in U.S. rules, large PR agencies active here will no longer disclose their annual results.... Ruhrgas will shift its 24% stake in Pražská plynárenská Holding to E.ON. (EU/8) The SEC launched a Kč 100m computer system for detecting trading fraud. (MFD/5) On Jan. 10, Mountfield will launch discounts of "up to 100%" on garden tools and swimming pools.

Politics

(P/1) Stanislav Gross said KDU-ČSL Chair Miroslav Kalousek should join the cabinet. Kalousek said he is willing to enter into talks with ČSSD and US-DEU about a fourth cabinet seat for KDU. He ruled out any reshuffling of KDU's three seats.

(MFD/2) Czech TV will air a taped three-

Euro (fixing)	32.505	-0.015
Dollar	26.009	-0.235
Pound	46.168	-0.125
Slovak crown 100	79.011	-0.036
3-month Pribor	2.07	0.00
Dow Jones	10450.0	+1.2%
DAX	3952.7	+1.3%
Nikkei	10500.6	+0.8%
České Radiokom.	345.50	+0.6%
Český Telecom	287.50	-0.3%
ČEZ	145.25	+1.7%
Erste Bank	3210.0	+1.9%
Komerční banka	2414.00	+1.2%
Philip Morris ČR	15398.0	+1.6%
Unipetrol	66.39	+1.9%
PX 50	656.9	+1.15%

minute toast by Václav Havel at midnight on New Year's Eve. Václav Klaus will give his live New Year's address 13 hours later. (MFD/4) Separately, architect Bořek Šípek said he will wait for Klaus' term to expire to carry through with his idea of erecting 25 small buildings in the Castle grounds for representing EU countries. The project is supported by Havel but has been rejected by the current Castle administration.

(HN/4) Jiří Svoboda, who led the Communist Party for three years in the early 1990s, said the shift of voters away from ČSSD to the Communists is due mainly to two things. First, ČSSD makes one decision as a party and another on the cabinet level (such as in the case of the Iraq war), and this confuses voters. Second, voters perceive that the use of "repressive elements," such as wiretaps, is on the rise, and this reminds them of pre-1989 days.

(HN/3) Interior Minister Stanislav Gross said he has the feeling that Viktor Kožený does not meet the conditions set forth in the election law for running for office. Kožený has said that he plans to run for the European Parliament next year.

Society

(MFD/4) Two youths shot by security guards while allegedly trying to force their way into a nightclub in Most have died, and a third was charged with disorderly conduct. The guards have so far not been charged. A police car was called to the scene, but the officers reportedly remained in the vehicle while the shots were fired.

(MFD/1) Another flu epidemic is expected after New Year's, and it could be worse than the pre-Christmas epidemic. MFD quotes an epidemiology official from Ústí nad Labem as saying that anyone with a fever should seek medical attention.

(HN/13) About 25,000 Czechs are spending the holidays at the beach, up 25% from last year. Accommodations are cheap, income is up, the weather at the beach is warm, and there isn't much snow in the mountains. Favored destinations include Egypt, the Canary Islands and Thailand.

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Erik's Dilemma

Erik wondered if this business could survive indefinitely into the future. He also wondered what factors would have an impact on its remaining as a "going concern." Some foreign companies had already begun to close their offices in the Czech Republic because of the difficulties of doing business there, and the German banks were beginning to focus on Germany and not other countries. Even if the multinationals decided to stay in the country and there continued to be a

market for the *Fleet Sheet*, he wondered what format it might take in the future. And then there was the question of the Internet. Would people have such quick access to data on the Internet that a service such as his would become obsolete?

Erik also thought about future competition. Would other companies try to offer the service he was offering at a lower price? Would subscribers be enticed by lower prices even though the quality of the product might be inferior?

When Erik had first begun his business, he was not making what he considered an adequate salary; and he often speculated that it would be very easy to close the business and go to work somewhere else. However, by the Spring of 2000, the business was doing so well that he was making a very good salary that might be difficult to duplicate somewhere else. Erik thought it humorous to contemplate all of the problems that one encounters when a business becomes successful.

CASE DISCUSSION QUESTIONS

1. What are the potential difficulties of starting a business in a transition economy?
2. Prepare a SWOT analysis for the *Fleet Sheet*.
3. What are the key success factors of the *Fleet Sheet*?
4. What is the relationship among education, experience, personal skill, and entrepreneurship for Erik Best?
5. What did you learn about entrepreneurship from this case?
6. Erik Best did not prepare a business plan for starting the *Fleet Sheet*. What type of operation would benefit most from a business plan?

CASE CREDIT

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CASE NOTES

¹ Vaclav Havel was the gifted writer who was elected the first President of Czechoslovakia after the dissolution of Communism and was serving his last term in office.

² Lyapura, Stanislav, and Allan A. Gibb. 1996. "Creating small businesses out of large enterprises." *Small Business in Transition Economies*. London: Intermediate Technology Publications, Ltd., 34–50.

