

Cost Congress : Business Strategy Aligned to Cost Strategy– TCM Way

Shailesh Chandra

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A business strategy details the strategic path to a company's aspirations

Company Aspirations

What the company aspires to achieve in terms of business results

Typical Aspirations

- Revenue
- Market share
- Profitability
- Investor returns
- Stakeholder value
- ...

Business Environment



Business Strategy

Playbook to achieve the company's aspirations despite uncertainties & challenges in the business environment

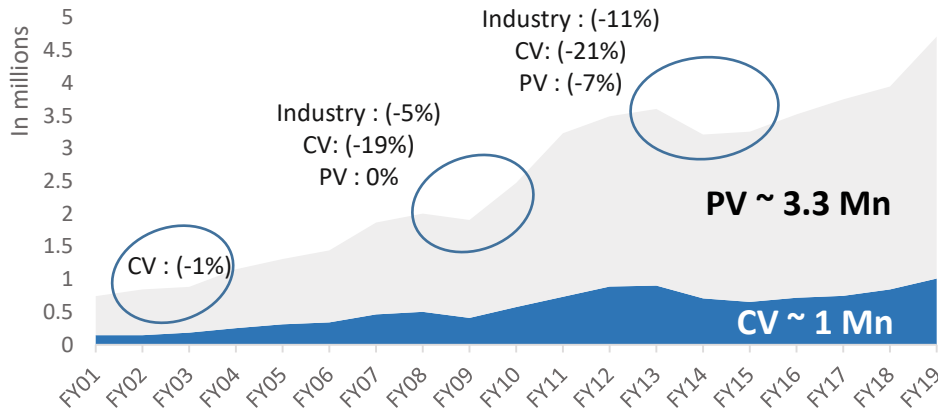
Elements of Business strategy

- *Product strategy*
- *Market strategy*
- *Customer acquisition strategy*
- *Manufacturing strategy*
- *Supply Chain strategy*
- *Organizational strategy*
- ...

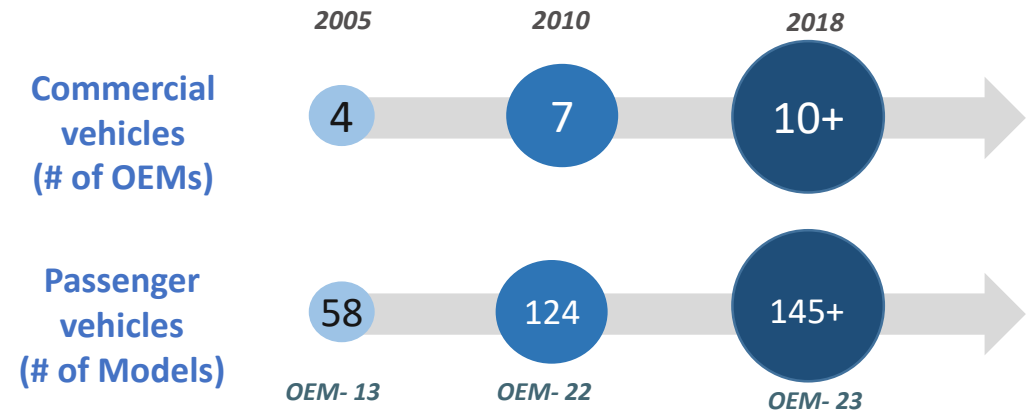
The key goal of business strategy is to help a company address the uncertainties in its business environment

The auto industry in India faces a volatile and complex business environment

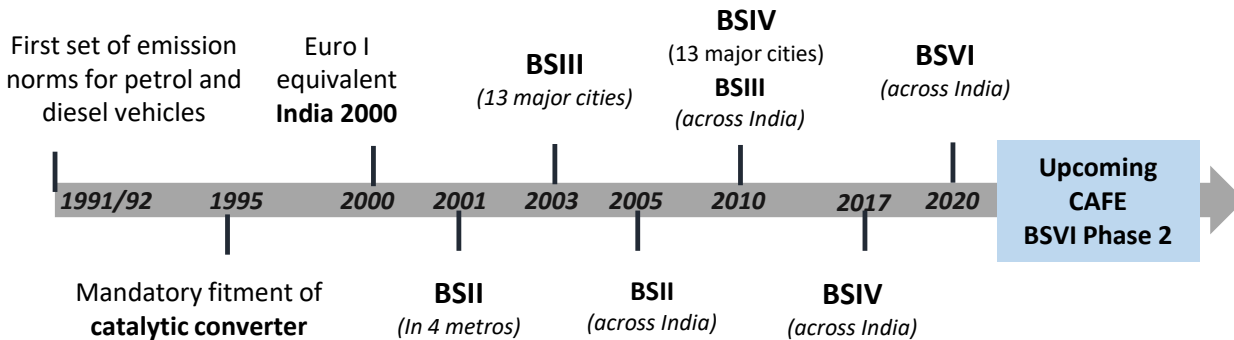
Demand Cyclicality



Increasing competition from global player entry



Tightening emission regulations



Emergence of new technologies (ACES)



These factors drive significant challenges and uncertainties for Auto OEMs

Auto OEMs are compelled to make frequent product interventions

Increasing vehicle content

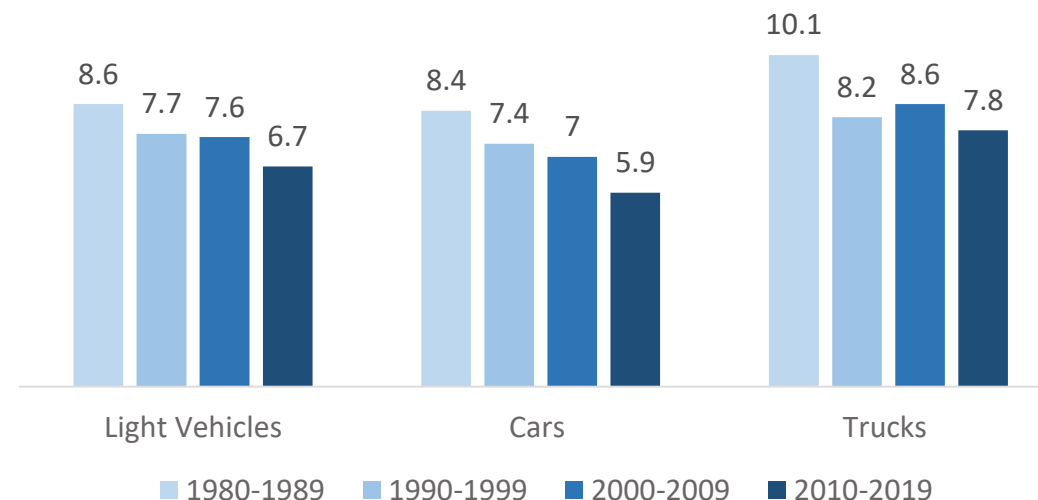
Features		2010	2020
Emission	BSIII	M	-
	BSIV	-	-
	BSVI	-	M
Safety	Seat-belt	M	M
	ABS	O	M
	Driver Airbag	O	M
	Reverse Parking Sensor	O	M
	Electronic Stability Control	O	O
	Brake Assist	O	O
Comfort and Convenience	Audio system	H	H
	AC	H	H
	Power Windows	O	H
	Power Steering	O	H
	Navigation System	O	O
Connectivity	Android auto/ Apple car play	-	H
	Smartphone Integration	-	H
	Telematics	-	O

M: Mandatory H: Hygiene O: Optional

Customers typically not willing to pay more for mandatory & hygiene features

Shortening product lifecycle

Platform age in years at the time of substantial revision or reinvestment

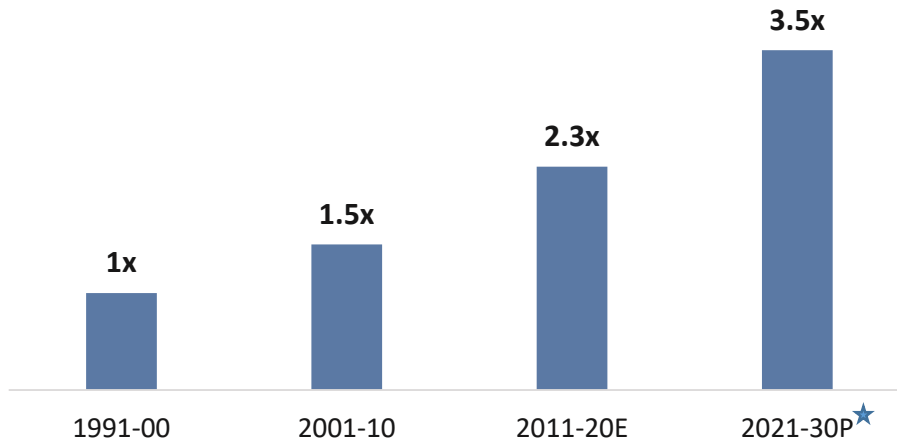


- Rapidly rising customer expectations leading to shortening of platform life
- Within platform, substantial model refreshes needed every 2-3 years to incorporate additional features

This leads to significant increase in feature and technology content across products

Auto OEMs need to bear high costs and investments to manage these changes

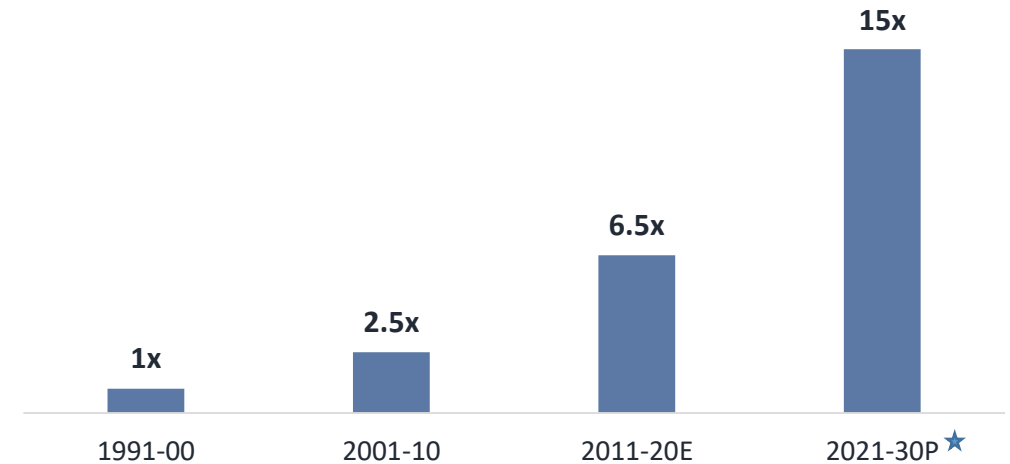
Increasing Direct Material Cost



Additional vehicle level costs to integrate regulatory mandates and new technologies:

- Emissions systems (EGR, SCR)
- Electronics (Rear view camera, parking sensors, etc.)
- Safety systems (ABS, Driver & co-driver air bags, etc.)
- Connected features (Smart Phone integration)

High investment on account of regulations, tech.



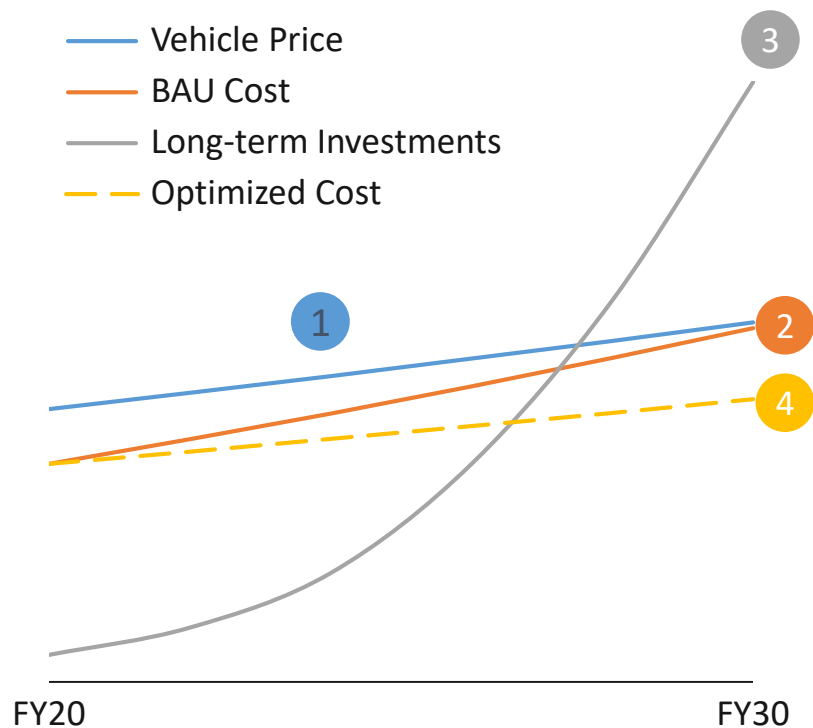
Investments needed in R&D, supplier development and P&M for:

- Electric, Hybrid Powertrains
- Emissions systems
- Semi-autonomous HW/SW
- ADAS
- Connected car features

However, Auto OEMs have limited ability to pass these costs on to customers

Cost management is critical for Auto OEMs to ensure long-term viability

Illustrative economics for OEMs



- 1 Vehicle Price:**
Ability to increase vehicle prices challenged by multiple factors including **shared mobility, entry of global players**
 - 2 BAU Vehicle Costs:**
Unit costs will increase due to further embedding of technology into vehicles as well as inflation
 - 3 Long-term Investments:**
Long-term investments **mandatory** to prepare for technological shift (ACES)
 - 4 Cost Optimization – potential source of OEM advantage**

 - Cost is the only factor within the OEM’s **internal control** to retain margins
 - With a holistic cost strategy, OEMs can create a **cost advantage** vs peers
 - Cost management can generate additional funds for **long-term investments**
- Dwindling margins → **Long-term viability?**

Therefore, Auto OEMs will need to rely on a strong cost strategy

There are a few key imperatives to ensure a strong cost strategy

1 Cost management varies at different times of the business cycle

- Ensure cost focus even when there is no margin pressure to **get ready for cyclicity/ uncertainties**
- Special provisions for managing costs in tough times
 - Create a **playbook for low margin periods** - to be reversed upon reaching normal state
 - Symbolic measures (e.g., no printing, approvals for air travel) to create a sense of cost control within the organization

2 Institutionalize cost management as an engine within the company that delivers savings year-on-year

- Ensure a continuous **Kaizen on costs** from the entire organization

3 Drive structural improvements in cost through agility and lean principles

- Drive **lower break-evens** year on year through fixed cost reduction, especially in a growing market with cyclicity
- Develop **capabilities** (e.g., analytics, modularity) that go **beyond immediate cost reduction** to build long-term advantage
- Leverage existing investments and **package protect new investments** for future needs to optimize new investments

4 Make cost management a way of life within the organization

- Integrate cost focus in **management reviews** and **decision making**
- Embed cost focus in the **culture of the organization** by communicating the objectives of cost management

Cost Strategy should hence sit at the core of Business Strategy for Auto OEMs

Case Study: Tata Motors has undertaken a journey towards cost leadership

2-pronged approach to balance actions across time horizons

Structural Improvements (Longer term)

- Target Costing and Should Costing techniques
- Extensive competitive teardown and benchmarking
- Classical VA-VE
- Driving scale through modularity
- Productivity improvements

Immediate Actions (Short term)

- Resource reallocation and budget optimization
- Contract re-negotiation leveraging scale
- Cost avoidance measures across functions
- Investment deferment through life extension for assets
- Significant cutting of discretionary expenses



4,000+ participants in idea generation
(employees, suppliers, customers)



400 + workshops, 3000+ ideas



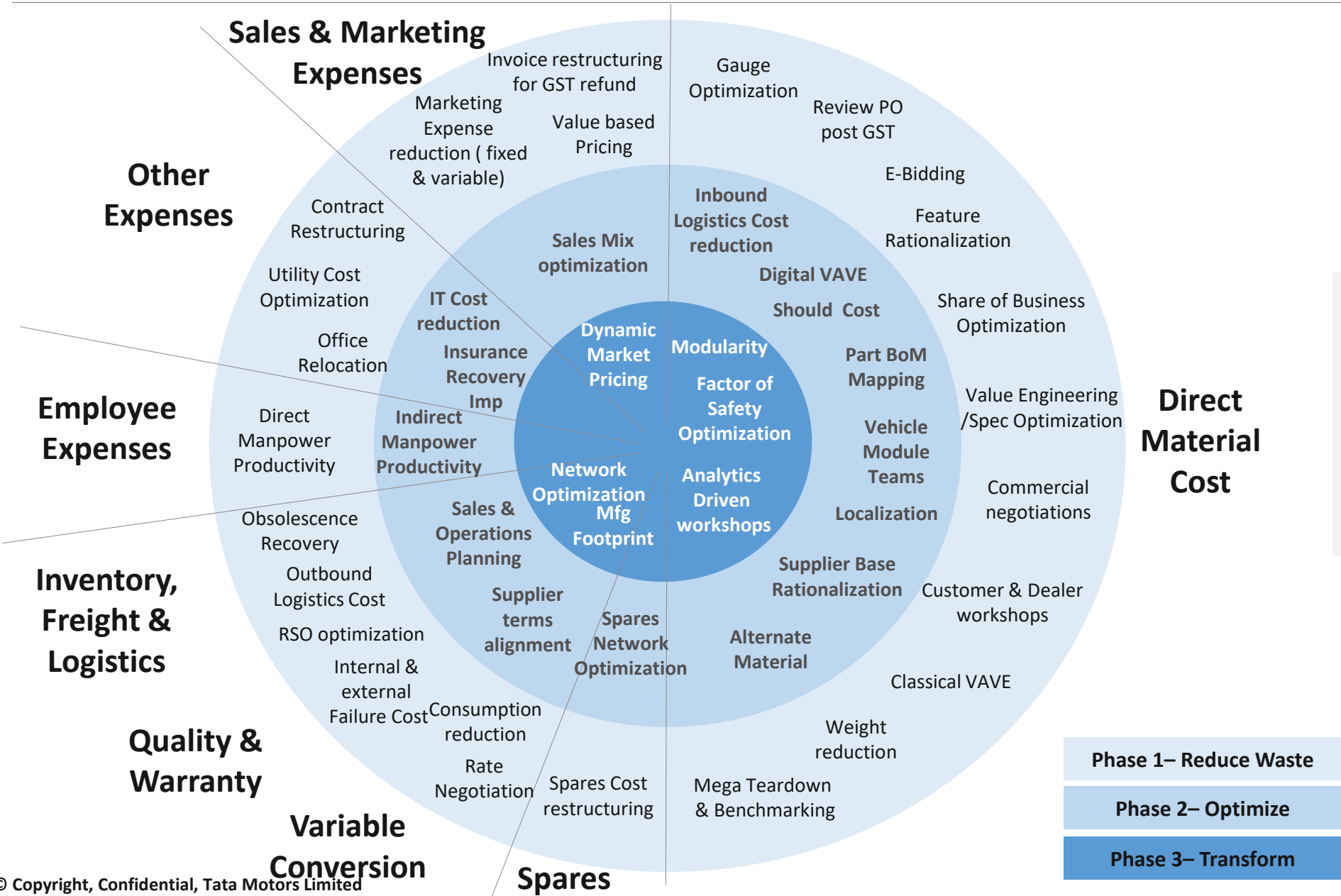
Dedicated CFTs across domains & locations



Training & Certification (including advanced VA-VE)

All actions underpinned by systematic planning, execution and review governance through central PMO

We are covering every aspect of cost in phase-wise manner



- **Systematic cost reduction** by addressing every aspect of cost head
- **Symbolic message** to the organization to focus on cost

Our cost strategy has enabled significant advantage for Tata Motors

Significant
reduction in
DMC

Lower
Capacity
Breakeven

Significant
reduction in
Fixed Cost

Significant
reduction in
Employee
Cost

We are working on achieving greater results in our journey towards cost leadership

Leaders must ensure that the organization is well-aligned in this journey

Common organizational risks w.r.t. deploying a cost strategy

- ! **Aversion to investments** necessary for long-term viability
- ! **Compromises on Quality** to ensure cost effectiveness
- ! **Jeopardizing brand value proposition** by eliminating features valued by customers

Key precautions to ensure organizational alignment to cost strategy

- ✓ Integrate cost strategy into overall business strategy to ensure **long-term viability**
- ✓ Leverage **Quality improvements** as a source of cost advantage
- ✓ Clearly understand **customer value drivers**, and optimize costs without affecting value drivers
- ✓ Ensure **clear communication** of cost management agenda to rank & file

A well-aligned organization is key to drive long-term sustainability of benefits of a cost strategy

Thank You