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Positioning the Tata Nano (A)

As the 2009 date neared for the launch of his long-awaited Nano automobile, Ratan Tata, chairman of Tata Motors Ltd. (TML), was considering how best to position his new brand. The Nano represented a new class of ultra-low-cost cars that held the potential to revolutionize the road scene in India; positioned properly, it held enormous promise for TML in particular—and for India as a whole.

One option would be to position the Nano as a means of family transport that was safer and more comfortable than a motorbike. Because the Nano's low price had been the basis for much of the publicity it had received, however, a comparison of the Nano's price to the cheapest car then available could appeal to consumers aspiring to car ownership. Yet another approach would be to focus on a specific segment and usage situation, such as college students, who might be attracted to the Nano's styling and maneuverability.

With so many options, it was difficult to choose.

The Tata Group: Company History

The Tata Group was founded by Jamsetji Tata in 1868 as a trading company. Over the years, the company expanded and won a place is India's history by giving the country its first steel mill, power utility, luxury hotel, and international airline. By 2011, the Tata Group comprised ninety-eight companies spanning a vast range of interests in seven sectors: information technology and communication, engineering, materials, services, energy, consumer products, and chemicals.

The Tata Group was well known in India and was seen as a company that inspired trust and has a strong commitment to ethics. This commitment was captured in the Tata Code of Conduct:

> *A Tata company shall be committed to good corporate citizenship, not only in the compliance of all relevant laws and regulations but also by actively assisting in the improvement of quality of life of the people in the communities in which it operates. The company shall encourage volunteering by its employees and collaboration with community groups.*[1]

The Tata promise to improve the quality of life guided its product development, of which the Nano was a prime example.

[1] Tata Code of Conduct: Clause 10, last modified October 1, 2008, http://www.tata.com/aboutus/articles/inside.aspx?artid=NyGNnLHkaAc#10 (accessed June 29, 2011).

Tata Motors Ltd.

Tata Motors Ltd was established in 1945 as the Tata Engineering and Locomotive Company (TELCO). TELCO entered the passenger-car segment in 1991 when it released the Tata Sierra under a joint venture with Mercedes Benz. In 1998 the company launched the Indica, a compact car, and India's first sports utility vehicle, the Tata Safari. In 2005 it introduced the company's first mini-truck, the Tata Ace.

TELCO was renamed Tata Motors Ltd. in 2003. The following year the company was listed on the New York Stock Exchange and began a series of acquisitions and ventures to broaden its global presence. In a span of three years, TML acquired Daewoo Commercial Vehicles Company (Korea) and a 21 percent stake in Hispano Carrocera (Spain); it also began joint ventures with Marcopolo Brazil, Thonburi Automotive Assembly Plant Company (Thailand), and Fiat Auto (Italy).

In 2008 TML purchased automotive brands Jaguar and Land Rover from Ford Motor Company. Although TML was primarily interested in Land Rover, the two brands came as a package deal at the price of $2.3 billion. This acquisition fueled international expansion, and by 2009 TML had manufacturing facilities in the United Kingdom, South Korea, Spain, Morocco, Thailand, and Bangladesh and was exporting to Europe, Africa, the Middle East, Australia, Southeast Asia, and South America.

The Indica, priced at roughly Rs. 4 lakh (US$9,000),[2] had been Tata's most successful passenger car. Advertising for the Indica, touted "More Car per Car" (see **Exhibit 1**).

Table 1: Tata Indica Sales

Year	Number of Cars Sold
2003–2004	80,000
2004–2005	105,521
2005–2006	111,574
2006–2007	144,690
2007–2008	135,642
2008–2009	111,254

Source: Compiled from Tata Motors Annual Reports.

Indica sales accounted for more than 60 percent of all passenger- and utility-vehicle sales for Tata Motors in 2007 and 2008, and 54 percent of all the company's passenger- and utility-vehicle sales in 2009.

In 2001 Tata Motors led the commercial-vehicle segment, but it was a distant second to Maruti Suzuki India in the passenger-vehicle segment (see **Exhibit 2**). Recent company initiatives included efforts to develop hybrid and electric cars and to conserve natural resources. The company also worked to embody the Tata Group promise of improving the quality of life for women and children in India by supporting education and employment.

[2] As of July 2011, USD 1 = 44.6 Indian rupees (Rs.); Rs. 100,000 = 1 lakh; 100 lakh = 1 crore.

The Automotive Industry in India

Following the government's liberalization of regulations on foreign trade and restrictions on private companies, which began in 1991, the automobile industry flourished, with an average growth rate of 17 percent annually. In 2009 the industry produced more than 11 million vehicles.

Table 2: Automobile Production (Number of Vehicles)

Type of Vehicle	2004–2005	2005–2006	2006–2007	2007–2008	2008–2009
Passenger vehicle	1,209,876	1,309,300	1,545,223	1,777,583	1,838,593
Commercial vehicle	353,703	391,083	519,982	549,006	416,870
Three-wheelers	374,335	434,423	556,126	500,660	497,020
Two-wheelers	6,529,829	7,608,697	8,466,666	8,026,681	8,419,792
Total	8,467,853	9,743,503	11,087,997	10,853,930	11,172,275

Source: Society of Indian Automobile Manufacturers, "Production Trend," http://www.siamindia.com/scripts/production-trend.aspx (accessed June 27, 2011).

Despite the rapid growth, per-capita ownership of automobiles in India is low compared with that in developed countries—an estimated 12 car owners per 1,000 people, versus 765 per 1,000 in the United States, and 426 per 1,000 in the United Kingdom.[3] Two-wheelers—mopeds, motorcycles, and scooters—dominate the Indian road scene because of their fuel efficiency, low purchase and maintenance costs, and small size, which makes them easy to maneuver in the nation's crowded city streets. Seventy-six percent of all vehicle sales in India are of two-wheelers. By comparison, passenger vehicles make up only 16 percent of total vehicle sales in the country.[4]

Passenger vehicles are categorized by their body type and price range. Prior to the launch of the Nano, the Maruti 800 and the Alto competed in the A, or entry-level hatchback, category, whereas the Tata Indica was in the B1 category.

Table 3: Passenger-Vehicle Segments

Segment	Description	Approximate Price Range
A	Entry-level hatchback	Under 3.5 lakhs
B1	Hatchback	3.5 to 6 lakhs
B2	Hatchback	6 to 7.5 lakhs
C1	Sedan	Under 8 lakhs
C2	Sedan	8 to 9.5 lakhs
D1	Premium sedan	Under 15 lakhs
D2	Luxury sedan	Under 25 lakhs
Utility	Sport utility vehicles and multi-utility vehicles	

Source: Nilangshu Nandi, "Passenger Car Segments—India," *Automobile Industry Through My Eyes* (blog), August 12, 2012, http://autoenthu.blogspot.com/2012/08/passenger-car-segments-india.html.

[3] *United Nations World Statistics Pocketbook and Statistical Yearbook*, 2007.

[4] Society of Indian Automobile Manufacturers, "Market Share," http://www.siamindia.com/scripts/market-share.aspx (accessed June 27, 2011).

The Nano

Tata's inspiration for developing the world's smallest and most fuel-efficient car was the common sight of an Indian family of four traveling the streets precariously perched atop a motorbike. In an interview during the 2007 Geneva Auto Show, Tata outlined his plan to build a low-cost "people's car" for the rapidly growing middle class of consumers in India. When asked how much such a car would cost, Tata replied with a figure that popped into his head: Rs. 1 lakh. This figure, which at the time fell midway between the price of the cheapest car and the price of a typical two-wheel motorbike, was intended as no more than a rough estimate, but press coverage of TML's plan to build the "world's cheapest car" convinced him to embrace the challenge of creating a car that could be sold at that price.

In order to meet the goal of pricing the Nano at Rs. 1 lakh, it was necessary to find ways to reduce the costs associated with parts and manufacturing without compromising quality. TML partnered with a wide range of suppliers who embraced the challenge, seeing it as an opportunity to expand their own capabilities. GKN Driveline India spent a year designing a lightweight and low-cost driveshaft—the component that transfers power from the engine to the wheel. "We thought if we were successful in this, we could dictate terms to the market, and every other car manufacturer would want to work with us," says Rajendra Ojha, chief executive of GKN Driveline India.[5]

The final design included parts from 100 different suppliers, who provided everything from gasoline injection systems to mirrors and windshield-wiping systems. The development of the Nano's engine, however, was left to Tata Motors. Initially, the company considered adopting a two-wheeler engine design, but it ultimately decided to build an entirely new, two-cylinder 624 cc engine for the Nano. The engine would be placed in the rear to reduce the overall size of the car, though this heightened somewhat the noise level for passengers.

Three models were created: the Nano, the Nano CX, and the Nano LX (see **Exhibit 3**). The Nano was a bare-bones version that met the Rs. 1 lakh goal by omitting air conditioning, power steering, power windows, anti-lock brakes, air bags, and dual windshield wipers. The CX and LX models offered more luxurious features at a higher price.

TML planned to produce 350,000 Nanos in the first year at a plant being built at Singur, in West Bengal. The cost of the plant was expected to be 1,500 crore. Two additional plants of similar capacity were planned, with the goal of reaching an annual production capacity of one million Nanos.

The Singur site was large enough to accommodate a number of key suppliers, as well as the TML facility. Soon after construction began, however, farmers whose land the government had seized—without compensation—for the project began protests. In September 2008 TML abandoned construction on the Singur plant, taking a substantial financial loss, and identified a new site at Sanand, in the state of Gujarat. Moving the equipment from Singur to Sanand was forecast to delay the onset of production 18 to 24 months. Rather than postpone the much-anticipated launch, the company elected to produce Nanos temporarily at the TML Pantnagar

[5] Manjeet Kripalani, "Inside the Tata Nano Factory," *BusinessWeek*, May 9, 2008, http://www.businessweek.com/innovate/content/may2008/id2008059_312111.htm.

plant in Uttarkhand. The available capacity of this plant meant that initial production would be limited to 50,000 Nanos.

Distribution

The capacity limitations led to the use of a booking process to take orders for the initial run of Nanos. If orders exceeded the production capacity, a lottery then would be used to select those who would receive the first Nanos. Bookings were scheduled to be taken between April 9 and April 25, 2009. Customers could book online for a service fee of Rs. 200 or book at one of the Tata dealerships for a fee of Rs. 300. Offline booking applications could be submitted in some 1,000 cities and in 30,000 locations, including State Bank of India branches, Tata motor dealerships, Croma outlets (a Tata-owned electronics megastore), Westside stores (a Tata-owned clothing and home goods store), World of Titan showrooms, and Tata Indicom Exclusive stores. In addition to the booking fee, customers had to pay a deposit that represented the majority of the final cost: for the basic Nano the deposit was Rs. 95,000; the Nano CX was Rs. 120,000; and the Nano LX was Rs. 140,000.

Once the Sanand plant opened, the Nano would be available through the 214 Tata motor dealerships spread across India's twenty-eight states. Tata dealer margins ranged from 4 to 10 percent. Dealer margins for the Nano, however, were expected to be in the 2 to 3 percent range, with a 1 percent discount off the full dealer cost if the dealer paid cash up front.[6] Manufacturer margins were not disclosed but were estimated to be approximately 15 percent.[7]

In order to reach more rural areas that lacked TML dealerships, the company was entertaining the possibility of contracting with entrepreneurial engineers. These engineers would be trained to assemble Nanos from car kits provided by TML and would also serve as local retailers for the car. Ratan Tata explained that the reason for this distribution method was to get a high volume of cars out in a cost-conservative manner.

> *Such a figure—a million cars—has never been achieved in the country before. If it had to be done the conventional way, it would have meant investing many billions of dollars. So we looked at a new kind of distributed manufacturing, creating a low-cost, low break-even point manufacturing unit that we design and give to entrepreneurs who might like to establish a manufacturing facility.*[8]

TML believed, however, that it would be unable to assume responsibility for warranty or liabilities on cars assembled by independent groups.

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[6] Stephan Mayer and Ruediger Pleines, "Mega Market for Ultra-Low-Cost Cars: Focusing on Customers in Developing Markets," A. T. Kearney, Inc., 2008.

[7] Paul W. Farris, Rajkumar Venkatesan, Amy Lemley, and N. Raghu Kishore, "The Tata Nano: The People's Car," Case #UV2968 (Darden Business Publishing, July 28, 2009).

[8] Christabelle Noronha, "The Making of the Nano: Interview with Ratan Tata," Tata Group Media Room, January 2008, http://www.tata.com/aboutus/articles/inside.aspx?artid=Sd75BUBmzSM=.

Competition

Maruti Suzuki pioneered the mini passenger car category with the launch of the Maruti 800 in 1983. The Maruti 800 remained uncontested as the smallest, most affordable car in India until the release of the Nano (see **Exhibit 4**). Advertising presented the Maruti 800 as the car for the Indian masses (see **Exhibit 5**).

Maruti also had a strong presence in the highly competitive compact-car category with a lineup of four vehicles: Alto, Swift, Zen, and Wagon R. Together these cars accounted for 58.8 percent of compact-car sales between 2005 and 2008. By contrast, Tata's sole compact car, the Indica, held roughly a 17 percent share of the segment. Maruti Alto, introduced in 2000, surpassed the Indica in sales a few years after its launch and became the bestselling car in India (see **Exhibit 6**).

At Rs. 1 lakh, the Nano was roughly half the cost of the Maruti 800, its lowest-priced competitor; in the wake of the publicity surrounding the Nano, however, Hyundai, Maruti, Habib Motors, Renault Nissan, Toyota, and Ford all issued statements about new ULC cars with planned released dates in 2008, 2009, and 2010. The cars differed slightly in pricing and the luxury features they included.

The two-wheeler segment arguably posed tougher competition to the Nano than passenger cars. Leading companies in the two-wheeler segment included Hero Honda Motors, Bajaj Auto, TVS Motors Company, and Honda Motorcycle & Scooter. Motorcycles accounted for 80 percent of two-wheeler sales and cost anywhere from Rs. 35,000 to Rs. 75,000. Mopeds, although making up a smaller part of the two-wheeler segment, cost as little as Rs. 15,000. In addition to being priced significantly below the Nano, two-wheelers were less expensive to operate due to their higher fuel efficiency (70 km/liter vs. 23.6 km/liter) and lower maintenance costs. Also, the maneuverability of two-wheelers made them a favorite with college students.

Although Tata saw mini cars and two-wheelers as the competition, others saw the Nano as an alternative to public transportation. Viewed through this lens, rather than as improving life for the masses, the Nano, critics argued, would do harm by putting millions more passenger cars on India's already-congested, poorly maintained roads, thus dramatically increasing air pollution—a position at odds with Tata's green initiative.

The Evolving Marketplace

In 2008 India had a population of 1.1 billion, with a median age just under 25 years. The 2001 census estimated the average household size to be slightly greater than five persons and somewhat larger in rural areas than in cities.[9]

India's rapid economic growth since 1991 substantially reduced the portion of the population living in severe poverty and created a sizable middle class centered in the cities. Defining households with annual disposable income of Rs. 200,000 to Rs. 1 million as middle class, a McKinsey Global Institute report estimated that 5 percent of the population was middle class in

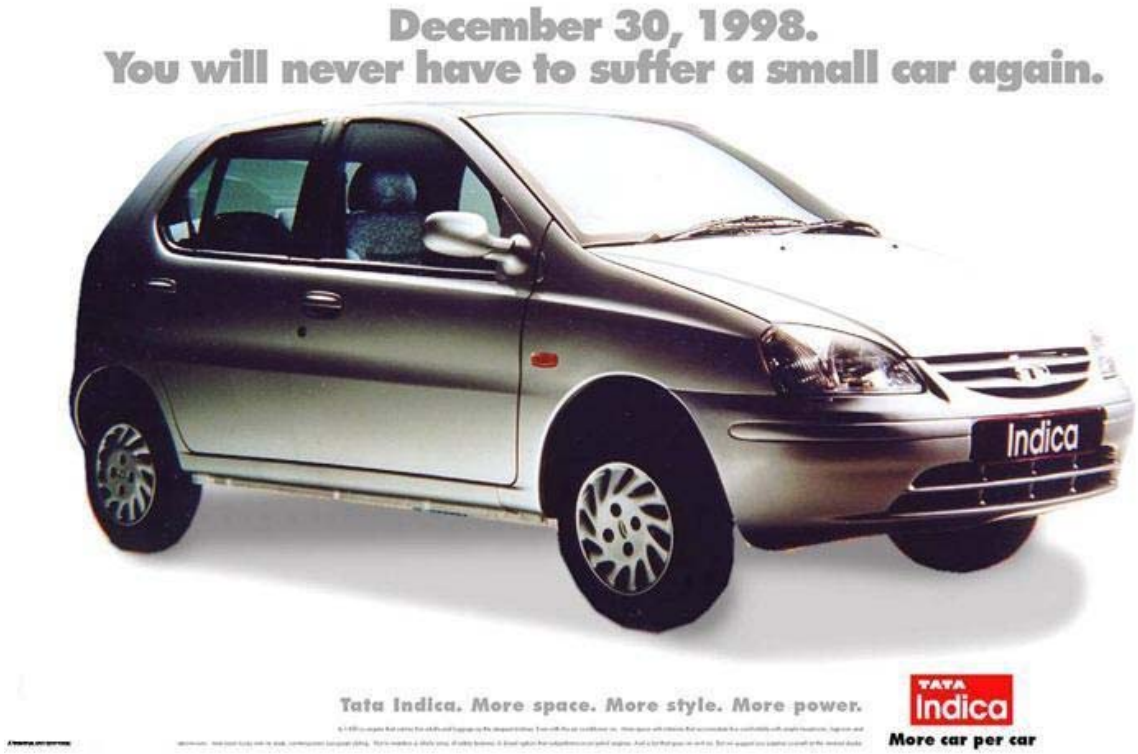
[9] Census of India 2001, http://censusindia.gov.in/Data_Products/Data_Highlights/Data_Highlights_link/data_highlights_hh1_2_3.pdf (accessed July 22, 2011).

2005 and forecasted that this number would grow to 19 percent by 2015 and to 41 percent by 2025.[10] As household incomes rise, the proportion of income devoted to transportation, which accounted for 17 percent of household spending in 2005, was expected to increase to 19 percent of spending in 2015 and 20 percent of spending in 2025, primarily because of increased car purchasing. Increased spending on health and education was also anticipated.

Although rising aspirations have accompanied the growth in disposable income and the expansion of the Indian middle class, absolute income levels are low and remain so even when adjusted for purchasing power. Limited incomes coupled with an ingrained orientation toward seeking a bargain mean that the new Indian middle class consumer is a tough customer. Companies will be challenged to meet the combination of high aspirations and the need for low prices.

[10] Eric D. Beinhocker, Diana Farrell, and Adil S. Zainulbhai, "Tracking the Growth of India's Middle Class," McKinsey Global Institute, August 2007, http://www.mckinseyquarterly.com/Tracking_the_growth_of_Indias_middle_class_2032 (accessed July 22, 2011).

Exhibit 1: Ad for the Tata Indica



Source: "Rewinding to the Tata Indica," *The Marketers* (blog), Feburary 23, 2010, http://www.themarketers.in/rewinding-to-the-tata-indica.

Exhibit 2: Top Competitors

Company	Market Share (%)
Passenger-VehicleSegment	
Maruti Suzuki India	46.07
Tata Motors	16.45
Hyundai Motor India	14.15
Mahindra & Mahindra	6.50
Honda Siel Cars India	4.44
Toyota Kirloskar Motor	3.72
General Motors	2.82
Commercial-VehicleSegment	
Tata Motors	63.94
Ashok Leyland	16.47
Mahindra & Mahindra	10.01
Eicher Motors	5.57
Swaraj Mazda	2.19
Force Motors	1.56
Three-Wheeler Segment	
Bajaj Auto	58.60
Piaggio Vehicles	32.72
Scooter India	3.55
Atul Auto	2.39
Force Motors	1.44
Mahindra & Mahindra	1.31
Two-Wheeler Segment	
Hero Honda Motors	41.35
Bajaj Auto	26.70
TVS Motor Company	18.14
Honda Motorcycle & Scooter	8.80
Yamaha Motor India	2.86
Suzuki Motorcycle India	0.81

Source: ImaginMor, "Automobile Industry India," http://www.imaginmor.com/automobileindustryindia.html (accessed June 29, 2011).

Exhibit 3: Comparison of Nano Models

Feature	Nano	Nano CX	Nano LX
Front fog lamps	No	No	Yes
Rear fog lamps	No	No	Yes
Tinted glass	No	Yes	Yes
Front wiper	2 speed	2 speed	2 speed + intermittent
Front windshield	Plain	Tinted	Tinted
Seat upholstery	Single tone vinyl	Dual tone vinyl	Complete fabric
Steering wheel	2 spokes	2 spokes	3 spokes
AC with heater	No	Yes	Yes
Front power windows	No	No	Yes
Front seat headrests	Yes	Yes	Yes
Rear seat headrests	No	Yes	Yes
Low fuel warning lamp	Yes	Yes	Yes
Central locking	No	No	Yes
Door lock on passenger side	No	No	Yes
Front and rear seatbelts	Yes	Yes	Yes
Price	Rs. 1 lakh	Rs. 157,808	Rs. 181,438

Source: Tata Motors, "Tata 'NANO': The People's Car from Tata Motors," http://tatanano.inservices.tatamotors.com/tatamotors/index.php (accessed June 29, 2011).

Exhibit 4: Comparison of Tata Nano and Maruti 800

	Tata Nano	Maruti 800
		
Turning radius	4.0 meters	4.4 meters
Air conditioning	CX and LX models only	AC model only
Engine cylinders	2	3
Engine piston displacement	624 cc	796 cc
Fuel tank	15 liters	28 liters
Length	3.1 meters	3.3 meters
Width	1.5 meters	1.4 meters
Height	1.6 meters	1.4 meters
Seating capacity	4	4

Source: Tata Motors, "Tata 'NANO': The People's Car from Tata Motors," http://tatanano.inservices.tatamotors.com/tatamotors/index.php and Maruti Suzuki, "Car Models: Maruti 800," http://www.marutisuzuki.com (accessed June 29, 2011).

Exhibit 5: Ad for Maruti Suzuki

Source: *India* (blog), "Maruti No.1 in Sri Lanka Too," March 21, 2008, http://automobilindia.blogspot.com/2008/03/maruti-no1-in-sri-lanka-too.html.

India Comes Home Commercial: http://www.youtube.com/watch?v=LbX8e4seGoY

Exhibit 6: Comparison of Tata Indica and Maruti Alto

	Tata Indica e V2	Maruti Alto
		
Turning radius	4.9 meters	4.6 meters
Air conditioning	Le, Ls, LX models only	LX and LXi models only
Engine cylinders	4	3
Engine piston displacement	1396 cc	796 cc
Fuel tank	37 liters	35 liters
Length	3.7 meters	3.5 meters
Width	1.7 meters	1.5 meters
Height	1.5 meters	1.5 meters
Seating capacity	5	5
Price	Rs. 399,637	Rs. 230,847

Sources: Team-BHP, "Tata Indica eV2: Technical Specifications & Feature List," http://www.team-bhp.com/forum/technical-stuff/101057-tata-indica-ev2-technical-specifications-feature-list.html, and Maruti Suzuki, "Car Models: Maruti Alto," http://www.marutisuzuki.com (accessed July 6, 2011).