

ALICE M. TYBOUT

Positioning the Tata Nano (B)

During the two-week Nano booking period in April 2009 TML received bookings for more than 203,000 vehicles; 100,000 of the bookings were selected by lottery to be first in line to receive Nanos as they were produced. Those not selected in the lottery were given the option of receiving a full refund or retaining their booking, which guaranteed the initial price, until production capacity enabled filling the order. Eighty percent of the bookings were from customers who were current automobile owners, whereas only 20 percent of bookings were from two-wheeler owners.¹ Half of the bookings were for the Nano LX model; 30 percent were for the CX; and only 20 percent were for the basic model.² The first Nano hit the road in July 2009, with Mumbaikar Ashok Raghunath Vichare as the first owner of a top-end Nano LX.³

Bookings were sufficient to absorb the initial, limited production capacity, though over time excitement waned and cancellations mounted. At the end of 2009, though, the expanded capacity of 250,000 units per year provided by the new Sanand plant in Gujarat required the development of the marketing and sales infrastructure, as well as financing to support open sales. This was done using a staged rollout approach. Open sales through Tata dealerships began with a single state in August 2009. Coverage was expanded to include twelve states by December and was scheduled to encompass all twenty-eight states by January 2011. Monthly sales grew steadily in the year following the launch, peaking at 9,000 per month in July 2010. By December 2010, 71,000 Nanos were on the road.

In November 2010, however—a month in which car sales grew 22 percent, to 203,000, and sales of competitor Maruti Alto reached 30,000—sales of the Nano plummeted to a mere 509 units, representing an 85 percent decline over the prior year.⁴ Two factors likely contributed to the sharp decline. First, concerns about the car's safety were raised when half a dozen Nanos caught fire. After conducting an investigation, Tata Motors Ltd (TML) issued a statement concluding that the fires were the result of “foreign electrical equipment” found on top of the exhaust system and not of any safety defect in the car design or parts. Although taking pains to say it was not issuing a recall, the company sought to reassure customers by offering to retrofit their Nanos with additional safety features, extending the original eighteen-month warranty to four years or 60,000 km, and providing an optional maintenance package for about Rs. 90 per

¹ Suresh Nandi, “A Big U Turn by the Small Car, Tata Nano,” *Deccan Herald*, May 17, 2011, <http://www.deccanherald.com/content/162053/a-big-u-turn-small.html>.

² Nick Kurczewski, “Tata Nano: 200,000 Orders and a Waiting List Through 2011,” *Edmunds Auto Observer*, May 5, 2009, <http://www.autoobserver.com/2009/05/tata-nano-200000-orders-and-a-waiting-list-through-2011.html>.

³ “Tata’s Dream Car ‘Nano’ Hits the Road Today,” *South Asia Times*, July 18, 2009, <http://www.southasiatimes.in/business/headline/6999-tatas-dream-car-nano-hits-the-road-today-.html>.

⁴ Vikas Bajaj, “Tata’s Nano, The Car that Few Want to Buy,” *New York Times*, December 9, 2010.

month. By December, sales had rebounded to 5,784 units. Second, rising raw material costs forced the starting price to rise to Rs. 1.3 lakhs and the average price of the three models to Rs. 1.5 lakhs. This significantly reduced the price gap between the Nano and other low-end cars.

As January 2011 approached, chairman Ratan Tata reflected on the many challenges his company had overcome in launching the Nano; he wondered what adjustments the marketing strategy needed in order to sell the volume of cars that could now be produced. His vision for the Nano had been to serve the needs of consumers who previously had not been able to afford a car.

The booking process insured, however, that initial sales were primarily to current car owners in urban areas, some of whom hoped to sell at a premium their right to purchase. Often, the Nano was bought as a second car for use by the wife or a college-age child in the household. Nanos now were available for open sale through Tata dealerships, but these dealerships offered limited coverage of smaller cities and were nonexistent in rural areas. Moreover, some lower-income consumers were hesitant to venture into Tata Motors dealer showrooms. Further, the Nano's status as the lowest-priced car was both a differentiating factor and a source of concern to prospective lower-middle-class buyers who sought cars that could withstand the hazards of India's city streets and its rural roads. Although advertising for the Nano⁵ was designed to illustrate the car's impressive performance on a rocky, uneven road, some consumers were skeptical and expressed a preference for paying a bit more to buy a somewhat larger car, such as the Maruti Alto, which had a bigger engine and a longer track record.

⁵ See http://www.youtube.com/watch?v=3WB87eo_obU.