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# Round two: repositioning the Tata Nano

### Sanjit Sengupta and Avadhanam Ramesh

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You will have copycats and the car business is a game of leapfrog, so it's possible that others will actually exceed what you have with better value for money and better technology. So you have a window of time in which you are supreme and that's the time you must really exploit the market and fill the demand with your product. To market this car, we have to be as innovative in terms of how we take this to market and how we ramp production up fast enough so that we can fulfill the demand in a short period of time (Autocar India, 2010c).

The bottom of the pyramid continues to be where the action is. But the aspirations of people are moving up. People want to jump into something more substantial (Hormazd Sorabjee, Editor of Autocar India) (Bajaj, 2010).

On February 15, 2010, Tata Motors announced that Carl-Peter Forster had been appointed as the group CEO with overall responsibility for Tata Motors globally. Previously, he had been Managing Director of Opel, President of GM Europe, Chairman of Saab, and Group Vice President, General Motors (Carl-Peter, n.d.). UK born and Germany raised, Carl-Peter Forster moved to Mumbai to address the challenges of his new assignment. Of specific concern were the challenges surrounding the Tata Nano, a breakthrough innovative compact car championed by Chairman Ratan Tata, that had been launched in June 2009 as the world's cheapest car. While initial sales figures looked encouraging, by the Fall of 2010, Nano faced a sales slump. Carl-Peter Foster and his top management team needed to design and execute marketing strategy and programs that would make the Nano cross over from a niche to a mainstream product in the competitive Indian market. By December 2010, having been on the job for about ten months, Forster and Tata Motors needed to show that they understood the needs of the Indian consumer and could turn the Nano into a successful product.

#### Company background

Tata Motors, part of India's biggest business conglomerate, the Tata Group, started as a locomotive and truck maker in 1945. It gradually built market share in the car business over the last 20 years on the strength of modestly priced cars and sport utility vehicles (Carl-Peter, n.d.).

Many years ago, Ratan Tata, Chairman of Tata Motors noticed that Indian families with three and four family members often commuted on a two-wheel scooter or motorbike (Exhibit 1). It seemed like a dangerous mode of transport, especially for night driving and adverse weather conditions. He had a vision to make a safe family transport for the Indian masses, a four-wheel vehicle made from scooter parts (Autocar India, 2010c). He asked his engineers to design a car to execute this vision. The engineers took about five years (2003-2008) to develop the product. On January 10, 2008, Tata Motors publicly announced the Nano at the ninth Auto Expo in New Delhi at the target price of Rs 1,000,000 (\$2,500), unarguably the world's cheapest car (The Tata Nano, 2009). At the time, the Maruti 800, the closest competitor in the Indian automobile market had a retail price around Rs 200,000 (\$5,000). A flood of media coverage followed, both in the Indian and international press.

The purpose of this case study is to train business students and executives to make long-term strategic decisions. It is not intended to endorse or critique any actions of Tata Motors management

Disclaimer. This case is written solely for educational purposes and is not intended to represent successful or unsuccessful managerial decision making The author/s may have disguised names; financial and other recognizable information to protect confidentiality

Nano had a two-cylinder, 624 cc, 35 horsepower engine, with a single windshield wiper at launch. Three variants of the Nano were offered (a standard version, the CX, and LX models), differing largely in trim levels, air conditioning and other options (Palepu et al., 2010). The fuel efficiency was in the range of 22-26 kilometers per liter (50-60 miles per gallon). With four doors, it had ample room for four adults (The Tata Nano, 2009). The maximum speed was 106 kilometers per hour (65 miles per hour) with good handling and stability (The Tata Nano, 2010).

Tata Nano started taking orders in April 2009. By May 2009. Tata Motors received 206.000 orders for Nano from people who had not even taken a test drive. The company did a computer-generated random allocation to 100,000 customers and gave an option to the others, to either retain their booking amount with Tata Motors and get delivery after cars had been delivered to the first 100,000 customers, or get a complete refund. 55,000 (beyond the initial 100,000) opted to retain their bookings with Tata Motors (Palepu et al., 2010).

The original plan was that the Nano would begin manufacturing operations at a new plant in Singur. West Bengal in eastern India. But these plans had to be suspended in September 2008, after Tata Motors had already invested Rs 15 billion in construction (Palepu et al., 2010), due to political opposition and unrest. Tata Motors decided to relocate the plant to Sanand, Gujarat in western India but this delayed the volume ramp up by 14 months. All the initial consumer enthusiasm could only be fulfilled by supplying just 3,000 Nanos per month from a temporary facility[1]. Deliveries of the Nano began in June 2009 (Exhibit 2).

The mini and subcompact vehicle segments comprised about 65 percent of the total light vehicle market in India. Analysts projected that combined sales of these two categories would be 997,000 units in 2010, increasing to 3.14 million units by 2017 (Zhu and Ammar, 2010).

#### Initial target market and positioning

True to Ratan Tata's vision, the initial target market for the Tata Nano was comprised of individuals and families who relied on a two-wheeler for transport. The value proposition was a safe, affordable, and attractive car. Initial reactions from industry analysts, dealers, and consumers was overwhelmingly positive.

Indians are highly cost-conscious, giving importance not only to the retail price of a car, but also to factors like fuel efficiency and running costs while making their purchase decisions. The emergence of a large middle class, estimated at about 300 million, together with a young population with big aspirations, presented an almost ideal customer base for Nano (Zhu and Ammar, 2010).

Analysts said that even if the Nano managed to convert just 10 percent of the nine million two-wheeler users, it would have 50 percent market share of the Indian car market (The Tata Nano, 2008):

Nano is expected to change the automobile market in India. It would cater to a typical middle income Indian family of four who wants to avoid rain, wind, and dust. Its freedom for four (said Dilip Chenoy, a Spokesman of the Society of India Automobile Manufacturers; The Tata Nano, 2008)

In spring 2008, Tata dealers expressed excitement about the Nano. One dealer characterized the market as middle-class families and college students. Although two-wheelers offered twice as many miles to the gallon, safety, and comfort gave the Tata Nano a competitive advantage over two-wheelers. Another dealer cited the car's attractive design as a selling point. Still, he conceded that price was the Nano's chief appeal (The Tata Nano, 2009).

Rajesh, an IT professional working with a multi-national corporation in Gurgaon, who travels every day in a Bajaj Pulsar motorcycle, said, "I would definitely consider buying the Nano as the cost of the car fits my pocket and above all it gives good mileage" (The Tata Nano, 2008).

On the other side were naysayers. Aman Verma, the manager of a Hero Honda two-wheeler showroom in East Delhi, had a different opinion. "Nano may give a lot of people a chance to own a car, but more than fixed price, it's the variable cost of maintenance, fuel and spare parts, where the two wheeler sector has an edge" (The Tata Nano, 2008). Some critics guestioned whether the low price meant the Nano was of low guality (The Tata Nano, 2009).

The initial ad campaign, encompassing all mass media such as print, television, radio, and online, was aimed at urban and semi-urban areas across India. It was launched in different regional languages to address different markets. The tag line for the campaign was "Now You Can" and emphasized Nano attributes such as safety, speed, mileage, and space. Ad execution was basic, nothing extravagant, without any celebrity endorser (Exhibit 3) (The Tata Nano, 2010d).

#### Sales and safety problems in the field

Owing to production constraints, Tata Nano sold a cumulative 7,075 units until May 2010, including 3.035 units in May 2010 (The Tata Nano, 2010a), Sales for June 2010 were 7.704 units (The Tata Nano, 2010c). In July sales reached a high of 9,000 units then dropped to 8,103 units in August and 5,520 units in September. During the same period (July-September 2010), overall sales of passenger cars in India rose from 158,764 units to 160,974 units to 169,082 units (The Tata Nano, 2010e).

During Spring 2010, there were field reports of fires in a handful of new Nano cars. In one widely publicized instance, a family was taking its new Nano home from a dealership in Mumbai when smoke started billowing from the back of the car. Soon, the entire car was engulfed in flames. There were no injuries, however, the publicity did have a negative impact on Nano's perception of safety (Bajaj, 2010). This may partially explain the sales declines during July-September 2010.

In July 2010, Tata increased prices on the Nano for the first time, by 3-4 percent, due to a sharp increase in input costs (The Tata Nano, 2010b) and this may also have contributed to the sales decline during July-September 2010. In October 2010, Tata announced a second additional price hike of similar amount, once again citing sharp increases in input costs (Ambre, 2010). Sales declined from 5,520 units in September, to 3,065 units in October, to just 509 units in November (The Tata Nano, 2011c).

Many small-car buyers said they preferred the Maruti Alto, which has a bigger engine, more storage space and a longer track record than the Nano. Jatin Layazawala, a Mumbai Businessman, recently bought an Alto after considering a fully equipped Nano, which he said would have cost only \$800 less (Bajaj, 2010). All was not well with Nano.

An analysis of the first set of Nano bookings around May 2009 revealed that 50 percent of the bookings were for the LX version, 30 percent for CX, and 20 percent for the base model. Ravi Kant, Managing Director of Tata Motors at the time, commented:

This gives you an idea of how the consumers' mindset itself has changed. People want a low price car but they want to have comfort. Therefore, they want air conditioner, and other accessories even in a Rs 100,000 car. A Rs 100,000 car is an idea, but ultimately the product has to sell on its own standing (Palepu et al., 2010)

In a follow-up interview Ravi Kant was asked, "The Nano was conceived as an upgrade from a bike. So are two-wheeler owners buying the car?" His response:

It's not just two-wheeler owners but many different types of people that are buying the Nano, Earlier we thought that maybe only two-wheeler buyers would be interested in the car, but when we unveiled the car in 2008 it became apparent that all kinds of people were interested in it. What the Nano has done is to substantially broaden the whole appeal of a car to many more people, and not just two-wheeler owners (Autocar India, 2010a).

Exhibit 4 shows profiles of four real Nano customers.

#### New leadership

Under new CEO Carl-Peter Forster's leadership, Tata Motors undertook decisive actions to deal with the negative publicity around safety, quality and declining sales. At no extra cost, Tata fitted Nanos with new exhaust and electrical systems. Even existing owners of Nano could have their old exhaust and electrical systems replaced with new ones absolutely free. A new warranty policy stated that:

The Tata Nano will now come with a four year/60,000 km (whichever is earlier) manufacturer's warranty, at no extra cost. Besides being applicable on new deliveries, the warranty is also being extended to all existing owners of the car (The Tata Nano, 2010a).

New customers were also offered optional comprehensive maintenance contract just at Rs 99 per month.

A new advertising campaign was launched in December 2010. A new set of TV Commercials had the tag line, "Aapki Khushiyon Ki Chaabi" (The Keys to Your Happiness) portraying Nano as an attractive car that could ride easily over rough terrain and had a roomy interior (The Tata Nano, 2011b). The TV commercials featured college kids, young couples, and families with small children all driving in Nanos.

Talking about the falling sales of the Nano, Forster said that availability of finance posed a "hurdle" in sales. He said that the Nanos sold in the initial months were mostly bought by people who were not the actual target customers of the car. The intended customers. two-wheeler owners, were facing some problems in getting finance as many of them did not enjoy the same credit worthiness as regular car buyers (The Tata Nano, 2010f). In December 2010, Tata Nano announced a loan program that offered Nano consumers 90 percent financing and approval within 48 hours of application (The Tata Nano, 2010a).

Tata Nano sales bounced back to 5,784 units in December 2010 from 509 units in November. Customer satisfaction studies with current Nano owners indicate that over 80 percent are satisfied or very satisfied with the car, because of it being small yet spacious, its performance, maneuverability, durability, mileage, and safety (The Tata Nano, 2011c). However, according to the Four Wheeler Total Customer Satisfaction Survey conducted in the last quarter of 2010, Tata Nano scored the lowest of four brands in the entry level compact category with 70 points, with the best selling Maruti Alto scored 91 points (The Tata Nano, 2011d).

After ten months in his challenging new assignment, Carl-Forster Peter learned that Indian consumers are not just cost-conscious but also very demanding. They want added safety and luxury but they want it practically at the same cost. He and his management team needed to address the following questions on the future of Tata Nano. What should be the target market for the Nano going forward? How should the product be repositioned? What marketing programs should be implemented to achieve the repositioning?

Kevwords: Consumer behaviour, Target markets, Positioning, Implementation of marketing programs (marketing-mix), Bottom of the pyramid, India

#### Note

1. E-mail correspondence from Carl-Peter Forster, July 14, 2011.

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#### Exhibit 1.

# Plate E1 Indian family on motorcycle



Source: Autocar India (2010c, p.10)

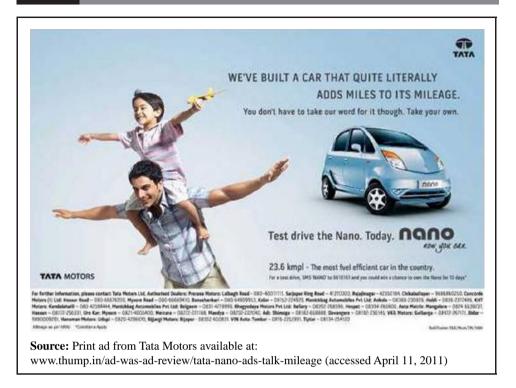
#### Exhibit 2.

# Plate E2 Tata Nano



Source: Photo by Tata Motors available at: http://news.cnet.com/2300-11389\_3-6225465.html (accessed July 6, 2011)

Figure E1 Nano print Ad "Now You Can"



#### Exhibit 4. Nano customer profiles (Autocar India (2010b, p. 40))

The Nano's appeal cuts across age, geography, and social strata. What is it that makes the car so attractive to its owners? Four new Nano owners share their thoughts.

Gautam Bose 42, Truck Driver, Kolkata Municipal Corporation, Kolkata.

Considers two-wheelers too dangerous and never bought one. When the Nano appeared, Gautam worked out the economics and figured he could afford the equal monthly installments. He did not feel air-conditioning was necessary, so he went for the middle version and saved a few thousand rupees. Instead Gautam got a good stereo and a bull bar in front to protect his investment. A garage has also been hired near his house to safely park the car. Though he still takes the bus to work, Gautam manages to put in some kilometers on his Nano every day, taking his children and wife around after work.

Hirak Sarkar 30, Teacher, Kashipur West Bengal.

This 30-year old had a fascination for cars since his childhood. And when the bookings for the Nano began, he was among the first in line even though he did not know how to drive. He needed financial help from friends and family to make the 15 percent down payment and enrolled in a driving school. Today he is a proud and confident owner of the Nano and even drove down to the Sunderbans in his little car.

Ashok Sinha, 70, Retired, New Delhi.

Ashok Sinha had a long career including senior executive positions across many media organizations. Though he had many official vehicles to take him around, after retirement he wanted his own car. However, being a pensioner, affordability was an issue. The Nano was the perfect car for him, inexpensive to buy and cheap to run. He finds it extremely comfortable to get in and out of and easy to drive, being small and light. And it gets him 18 kilometers per liter. He and his wife do not venture too far from their house, so the car is perfect for a retired couple.

Dheeraj Agarwal, 28, IBM India, New Delhi.

Dhiraj bought the Nano as his first car and uses it to for a long commute daily from his home in Model Town to his office in Gurgaon. He likes the ride comfort and air conditioning in the scorching Delhi summers. He has driven his Nano 550 kilometers from New Delhi to McLeodganj with four adults plus luggage through hills and valleys without any problems. The Nano gives him 21 kilometers per liter.

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