

THE TATA NANO: THE PEOPLE'S CAR (B)

By early 2011, the Tata Nano, the world's cheapest car, finally was available India-wide through Tata's 874 outlets. Previously, sales had been limited to 12 of India's 28 states as the company ramped up output and marketing plans. The Nano's December 2010 sales were reported at 5,784 cars, and total sales of all Tata models that month reached 67,441 cars.

That had to be seen as good news given that Nano sales had dropped steadily from a peak of 9,000 or so in July 2010 to a low of 509 four months later. Total 2010 Nano sales were roughly 77,000. Sales of all passenger vehicles in India, including three-wheelers, had increased 30% from the previous year to 2.4 million, and two-wheeler sales had grown by 22% to 8.7 million units. For 50% of Nano customers, the vehicle was the household's second car.

There were several reasons for Nano's sales problems. First, the Nano's lowest price was (Indian rupees) INR137,555 in New Delhi, a significant increase from the originally touted one lakh (INR100,000) price point. Six widely publicized auto fires—one of which occurred within hours of purchase—ignited safety concerns. Further, Tata had struggled with production because political issues forced the Nano plant to move from West Bengal to Gujarat. It was not until June 2010 that Tata finally achieved an annual production capacity of 250,000 Nanos.

In the interim, because not enough cars were being produced, the company did not advertise or expand distribution channels. Stories about the fires continued to be widely publicized. Hoping to put these problems behind it, the company announced plans to reinvigorate the Nano with a series of marketing initiatives.

Tata achieved national distribution two years after Nano's advent and then went forward with its first television advertising campaign. One commercial echoed the anticipation Indian consumers seemed to feel as they awaited the Nano's launch. In some scenes, a persistent "Sunshine Yellow" Nano traversed rough roads to the delight of onlookers. Meanwhile, in a remote village, a granddaughter pestered her grandmother: "When will it arrive? When will it arrive?" When at last it did, she kissed it, looked around at the crowd of smiling locals surrounding the car, and marked its hood with kohl, a tradition in India intended as protection

This case was prepared by Paul Farris, Landmark Communications Professor of Business Administration, and Raj Venkatesan, Bank of America Research Associate Professor of Business Administration. It was written as a basis for class discussion rather than to illustrate effective or ineffective handling of an administrative situation. Copyright © 2011 by the University of Virginia Darden School Foundation, Charlottesville, VA. All rights reserved. *To order copies, send an e-mail to sales@ardenbusinesspublishing.com. No part of this publication may be reproduced, stored in a retrieval system, used in a spreadsheet, or transmitted in any form or by any means—electronic, mechanical, photocopying, recording, or otherwise—without the permission of the Darden School Foundation.*

from the evil eye. Outdoor campaigns in five states and more than 100 towns served to reinforce the brand.

Observers did not believe merely increasing advertising would cure all Nano's ills. "The positioning of the car was entirely wrong. There was a great disconnect in the kind of people they were reaching out to and the kind of people they wanted to sell to," said Sudipt Roy, a professor at the Indian School of Business. A web presence including social media outlets and an interactive "design your own Nano" page failed to reach the Nano's intended market, he said.¹

Tata spokesperson Debasis Ray also noted that most of the Nano's targeted customers felt intimidated by flashy showrooms. Tata had 619 traditional showrooms, but also set up 289 Special Nano Access Points and service centers where customers could test-drive the car. Ray also announced that some 1,200 salespeople had been recruited and trained to work out of these dealerships.

Other programs addressed financing and maintenance concerns. The 90% financing was seen as vital, especially since the base model was sold at (U.S. dollars) USD2,700, and the top variant for as much as USD4,000 (Mumbai prices). PricewaterhouseCoopers's Abdul Majeed said:

From USD2,000, you can't go to a USD4,000 car, because if the price differential between the Nano and the next best alternative—the Maruti Suzuki Alto [starting at USD4,000]—comes down, [the Nano] won't be very attractive to people. The segment they're targeting is very cost-competitive; they need to keep their cost structure very tight.²

To quell quality concerns, Tata extended warranties to four years or 60,000 kilometers. It also offered a maintenance option at a cost of INR99 (USD2) a month.

With new marketing programs in place and a larger production capacity, Tata was looking to move the Nano into new markets including Thailand, Sri Lanka, Bangladesh, and other nearby countries. Said Tata CEO Carl-Peter Forster: "We will go after these markets one after another. The Nano is a raw diamond that needs polishing."³

¹ "No Takers: Is the Tata Nano Running Out of Gas?" India Knowledge@Wharton, January 27, 2011, <http://knowledge.wharton.upenn.edu/india/article.cfm?articleid=4564> (accessed May 12, 2011).

² Siddharth Philip, "Tata Starts Nationwide Sales for Nano after Warranties, Loans Boost Demand," Bloomberg, January 3, 2011.

³ "Tata Nano for Thailand?," *Thailand Times*, January 30, 2011.