

Tata's Nano

The Ship Has Sailed on the People's Car

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When Ratan Tata, Chairman of Tata Group, looked at the masses of India, he saw more than just a business opportunity. Exposed to the dangers of the crowded and fast-paced streets in one of the most rapidly emerging economies, the rickshaw and scooter drivers in India were being left behind by its rapid development. Ratan's quest to improve their quality of life and that of the millions of Indians without efficient transportation, would ultimately lead him to the Nano.

At its simplest, the concept was a low cost vehicle produced from the same scooter parts as its predecessors. Slowly, the vision evolved. Three wheels eventually became four. A shell without glass windows or side paneling and doors soon met global safety standards. Some forty patents later and 'the people's car' was born. The car was symbolically priced at one lakh (US\$2,250).

True to Ratan Tata's dream, the Nano represented more than just an affordable mode of transportation. It offered nearly every Indian the opportunity to make an enormous leap towards achieving the standard of living enjoyed by the developed world. The rest of the developing world awaited anxiously the results of the Nano experiment. If Tata could make it work in India – a country renowned for barriers regarding infrastructure and low car ownership – it could work anywhere.

Yet close to two years after its launch, the Nano continues to struggle. Sales have lagged forecasts, production has been plagued

by delays and new competitors are poised to enter the market. In the words of Carl-Peter Forster, Tata Motors CEO, the Nano is still a 'raw diamond in need of polishing,' but for how much longer? As the Indian consumer continues to evolve, the Nano falls further and further behind. Once filled with so much promise, is the Nano still 'the people's car'?

Ultimately, the Nano has surpassed the level of affordability of the lower-income market it was intended for. Worse, the market that can afford it does not want it. The Nano is stuck somewhere in the middle of a spectrum with profitability on either end.

The Indian Market: Changing Dynamics

For the Nano to truly be 'the people's car,' it would have to be designed with the rural market in mind. Comprised of 790 million people, or 70% of India's total population, this market is twenty three times the size of Canada.

Generally speaking, rural consumers have very specific characteristics that differentiate them from the urban market. Rural income as a percentage of GDP has fallen from 62% in 1970 to 48% in 2005. This is due, in part, to the faster growth in per capita urban income. While India's average per capita income is \$1,016, there is a substantial difference between rural and urban areas. Urban consumers boast an income that is roughly 2.8 times higher than their rural counterparts. A distinct strategy is required for each market in order to appeal to consumers with divergent standards of living.

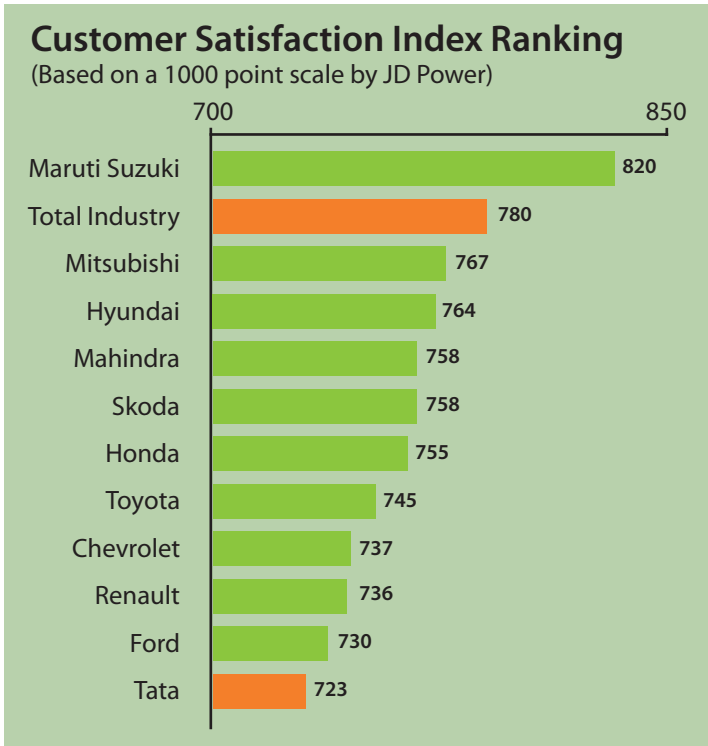


To cater to the Indian market, the Nano needed to represent stylish, low-cost, private transportation. Ratan Tata knew this and positioned the Nano as a 'safe, affordable, all-weather vehicle for a family which is today traveling on a two wheeler.' Affordability is the main driver of Tata's strategy, with cost reduction at its core. Yet looking at how the market has reacted to the Nano, it becomes unclear whether 'the people's car' has truly lived up to this title. To be widely adopted, Tata will have to address either the aspirational or utility needs of consumers.

Aspirational Purchasing

A central theme to the purchasing decision for Indian consumers is whether they see a product as aspirational. Indian consumers use the products they purchase as an outward representation of status. At 28%, the annual growth rate of the Indian luxury goods market is one of the fastest on the planet. As income rise, so too does the importance of such purchases.

In the context of automobiles, consumers are aspiring for a car that is beyond their reach. India's prospective car owners no longer want just the most basic models and instead are beginning to look at all the features that consumers in developed countries have come to expect. This shift is critical given the importance of status in Indian culture. Certain features – air conditioning for example – are becoming as critical a representation of status as the cars themselves.



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This movement spells trouble for the Nano. A JD Power survey that ranks consumer satisfaction for cars in India had them ranked lowest amongst all automakers in 2008, which points directly to the consumer impressions surrounding the brand. Concerns about engine fires and other quality issues increasingly add to the negative outward impression for purchasers of the vehicles. The Nano does not carry the signal of status that urban consumers want their vehicle to convey.

With rapid economic growth and only approximately 1.4% of the population owning a vehicle, the Indian market should represent an attractive opportunity for auto manufacturers. However in India the growth of urban income is outpacing the need for a cheap entry vehicle. To the urban consumer, why buy the Nano when you can spend marginally more to get a vehicle that is more spacious, more luxurious and of a higher status in society?

Cheap, but not Necessarily Affordable

The Nano also struggles to reach a price point that is affordable for the Indian consumer. Tata is cognizant of this predicament and has made the Nano much more readily accessible to the average consumer. For example, they have offered 100% financing for customers and imposed minimal collateral requirements. However, Tata's lack of success in reaching their sales goals suggests that deeper problems exist.

Tata has thus far failed to convince cost-conscious consumers to make the leap from having no motorized transportation to purchasing the Nano. Consumers are much more likely to first adopt vehicles like the two-wheel Mahindra Duro priced at 0.3 Lakhs, one third the cost of the Nano.

However, rising commodity prices – particularly steel – have resulted in retail price increases of 6% and called into question the sustainability of a low-price strategy. Increasing interest rates and fuel costs further undermine the Nano's affordability. Low-income consumers, to whom the Nano already represents a significant investment, are likely to require third-party financing.

The lowest income Indians can justify a purchase only if there is an opportunity for income generation behind it. They want the vehicle that gives them the ability to start micro enterprises or transport goods to market. A small two-door compact does not fit those needs.

Ultimately the Nano is poorly positioned for India. The vehicle marketed as 'the people's car' may not be attractive to the aspirational consumer. The rural consumer represents an even more challenging situation. Not only can they not afford it, but the Nano fails to provide sufficient utility to justify a purchase. If the objective of the Nano was to create 'the people's car' then Ratan Tata failed.

Growing Competition

Competition in the market for low-cost vehicles may be limited for the moment but a wave of new entrants further threatens the

Nano's positioning. If competitors follow through on their plans and produce a car that is either cheaper or more aspirational, the Nano will be further isolated from profitability.

The Maruti Cervo is set to hit the market by April 2011, priced around 2 Lakhs. Not only is it comparable in design and more expensive, its four doors make it more spacious; this coupled with price, makes it more of a desirable purchase for the aspirational consumer.

Nissan-Bajaj-Renault will bring out their Ultra Low Cost Car (ULC) in 2012. When they do, the Nano will be completely cornered. Not only will the market have a car that is priced slightly higher and indicative of higher status, the Nano will no longer hold the title of the cheapest car in India.

The Actual Car of the People

The vehicle closest to fitting the needs of the rural market is the new Tata Magic, a modification of the Ace line of micro trucks priced at roughly 2 Lakhs. Conventional trucks are currently too expensive to service this market and the Magic is well suited for both commercial and family use. It is also durable enough to overcome many of the infrastructure issues that plague rural India. If Tata can find a way to price it in a range comparable to the Nano at 1.5 Lakhs, then it will truly be 'the people's car'.

There are several steps that Tata can take to help low-income consumers surmount the affordability barrier. First, the Magic will be positioned as a utility vehicle and therefore perceived as more of an investment than a discretionary purchase. A vehicle that enables farmers to transport their product to market faster or get people to distant employment will actually generate income for rural consumers. Second, the attractiveness of the Magic as a group purchase, a vehicle shared among extended family or small communities, will partially offset the initial financing barrier. Finally, Tata should extend its financing initiatives to make a purchase more reasonable for the average rural consumer.

Tata must turn its focus away from the Nano and position the Magic as 'the people's car'. Unfortunately, they have continued to focus their investment activities on the Nano, recently investing 200,000 Lakh in a new facility intended for Nano production. This shift in strategy will see Tata focus primarily on serving the needs of the rural market, positioning them on the far left of the spectrum. The manufacturer that finds the balance between price and utility will be the most profitable amongst the low-income consumers, specifically in the rural markets.

Ultimately, all hope with the Nano may not be lost. The car's value proposition is still compelling in select international markets; there are tantalizing opportunities outside of India. Even in India, the Nano may still reach the volume needed to be a profitable piece of Tata's portfolio but it will never fulfill Ratan Tata's vision as the 'peoples car.'

Indian Auto Industry - Positioning Map

