

# Tata nano marketing assignment

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1. 0 Introduction TATA

Motors Limited is India’s largest motor passenger automobile and commercial vehicle manufacturing company. Its annual revenue exceeds USD six billion, ranking it among the top ten companies in India. Unveiled in January 2008, their new TATA Nano passenger automobile was a much awaited car by the local and international markets. (Tata Motors, 2008) Production began later that year. Its distinct features and reasonable price boosts its popularity and demand. Excluding taxes, the TATA Nano is priced at USD 2500.

It is compact (only 3 meters long) with enough space to comfortably seat four people. Fuel efficiency also plays a major role in its success; it does almost 50 miles per gallon of petrol. This highly fuel efficient, spacious car is also environmentally friendly, emitting less carbon dioxide than most two wheelers. (Tata Motors, 2008) [pic] (iwebie, 2009) Currently Nano is undergoing modifications to cater to foreign markets. By 2011, a modified Nano Europa is to be launched in Europe as a more powerful car with better safety and regulation to fit European standards. Business Line, 2009)

Development of the Nano Europa creates an option to market a similar model for the United States with a mutually beneficial arrangement for both countries. In order to penetrate the American market, the country's economic, cultural, political and legal environment must be analyzed. 2. 0 Economic Environment The economic environment of a country describes the external environment a firm will be operating in. This section attempts to discuss some of the most important economic variables. 2. 1 Global Business Cycle Trends:

The global financial crisis reflects falling purchasing power in the international market and therefore is of great concern to Tata. The crisis worsened in September 2008 in the United States with bankruptcies, credit freeze and panic (James, Park, Jha, Jongwanich, Terada-Hagiwara & Sumulong, 2008). From there it spread to the rest of the world; from the Eurozone to the developing economies of Asia. As a result consumer behavior has changed substantially. Understanding these changes will improve Tata's competency in the new conditions.

The sharp drops in US consumer confidence and expenditure “ could hold serious consequences in a country where private consumption accounts for more than 70% of the GDP” (Datamonitor, 2009). 2. 2 GDP: GDP is an important factor as it allows the company to estimate purchasing power in the wake of the global crisis. Falling GDP usually means falling purchasing power. According to (Euromonitor International, 2009), two or more consecutive quarters of negative real GDP growth indicate a recession. Appendix A shows that US Real GDP had been experiencing persistent negative growth since 2007. 2. 3 Unemployment: Higher unemployment will

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act as a hurdle to Tata's Nano's success in US by reducing disposable income and therefore demand. Slow down in the housing sector has slowed down the construction industry and led to job cuts. With 82000 job cuts in the construction industry alone in November 2008, the US unemployment rate stood at 7.2% which is the highest in 16 years (Euromonitor International, 2009).

2.4 Fiscal Policies: To boost America's ailing economy, the government has introduced the American Recovery and Reinvestment Act of 2009.

According to Euromonitor International (2009), this stimulus package is the biggest ever in US history including tax breaks and ambitious spending. The breakdown of the fiscal package is given in Appendix B. This is of great interest to Tata's marketers since it promotes demand, growth and consumer confidence and will improve the market for Tata's Nano.

2.5 Consumer confidence and consumer credit: The US consumer market is the world's largest. This is attractive to marketers since it implies a significant market for products.

However, according to Euromonitor International (2008), consumer expenditure has fallen sharply since the last quarter of 2007 with consumer confidence at 'a 16 year low'. Falling consumer confidence reduces consumer expenditure and the demand for products like Tata's Nano.

2.6 Income, Expenditure and Savings: Harsh credit and employment conditions meant incomes were no longer enough to cover expenditures. Consequently Americans had to draw on their savings which meant that savings fell towards the end of 2007. For Tata this has serious repercussions, as

Americans may not have adequate savings to purchase the Nano in the future.

Appendix C illustrates the relationship between income, expenditure and savings between 2001 and 2007. 2. 7 Income distribution: Income is mainly distributed between three major groups in the US. According to Euromonitor International (2008), Baby Boomers, aged 45-59 years, are the highest earning consumer segment earning between USD 48000-84000 annually, with a 'refuse to age' attitude. Spending often on children and grandchildren they would be a lucrative market for Tata's Nano. The second biggest demographic segment is approximately 36 years in age, earns about USD 60000 annually and accounts for a large proportion of the population.

Third is the age-group 24-32, which accounts for 15% of the total population and is important for its size, though not for its income. A breakdown of income distribution is given in Appendix D. 2. 8 BOP: The persistently deficit US current account reached its peak of USD 901, 878 million in 2008 (Euromonitor International, 2009). This is a drawback especially for companies like Tata planning to export to the US since it increases the likelihood of a sudden depreciation of the dollar to reduce the BOP deficit.

Foreign companies with investments in the US will buy less foreign dominated currencies. Exporting companies will experience a fall in demand for their goods as the products become more expensive for US consumers with the depreciation of the dollar. 3. 0 Cultural Environment: 3. 1 Hofstede's Cultural Dimensions This section analyzes the consumers' perceptions and behaviour towards their environment. A country's culture encompasses “

knowledge, belief, art, morals, law, custom, and any other capabilities and habits acquired by man as a member of society” (Nakata & Huang as cited in Yaprak, 2008). Geert Hofstede first introduced cultural dimensions into contemporary business literature. He attempted to assess cultures at a national level; it has also been applied using individual consumers as the unit of analysis (Blodgett, Bakir & Rose, 2008). The illustration below gives a representation of America’s cultural environment according to Hofstede’s cultural dimensions, [pic] (Source: ITIM, 2009) The diagram illustrates that level of individualism is one of the highest in the world.

Fernandez-Berrocal, Salovey, Vera & Ramos (2005) in their paper explained that individualistic cultures have a high level of subjective well-being; that is, quality is a vital determinant of purchase behavior. Train & Winston (2007) further reinforce this by explaining that U. S. car manufacturers started losing their market share to their foreign counterparts because consumers perceived U. S. cars to score lower in terms of quality and reliability. US scores the lowest in terms of Long-term orientation (LTO) that indicates respect for culture and a belief in fulfilling social obligations (ITIM, 2009).

This brings to view a patriotic and nationalistic side to the American people which President Obama is trying to rekindle by using ‘buy American’ as his new motto (Euro monitor International, 2009) in an attempt to protect the US economy by reactivating employment. Consumers are skeptical because they no longer view auto ‘imports’ as costing jobs for themselves or their friends’ (Train & Winston, 2007). This was due to Japanese and European automakers building factories and research facilities in the US which spurred local employment. This also led to reduction in market share of US

automakers (Train & Winston, 2007). . 2 The Changing Shape of Culture Culture is usually known to be “ inherently conservative, resisting change and fostering continuity” (Czinkota & Ronkainen, p. 54, 2007). Conversely Craig & Douglas (2006) elaborate on the dynamism of culture, and how it is reshaped due to political, social, economic and technological forces (Usunier & Lee as cited in Craig & Douglas, 2006). This is proved by how as the recent economic downturn has affected the buying patterns of American consumers. As reported by Investorsobserver. com Americans are holding on to their wallets, due to factors like higher fuel and food prices.

Moreover there is also an increasing trend of consumer bargaining and heavy usage of discount coupons (Euromonitor International, 2009). Therefore, consumers are not willing to spend as much as they used, and are being thriftier, therefore moving towards long term orientation. Earlier Americans preferred larger and more expensive vehicles, but ever since the price of petrol has increased the demand for such vehicles declined (Euromonitor International, 2009). Furthermore due to the recession it is more expensive to maintain large vehicles.

Hence there is a demand for smaller, fuel efficient vehicles which Tata Nano can capitalize upon. 3. 3 Going Green Another trend that has emerged is the increasing awareness and demand for alternative energy sources. This development is facilitated by Obama’s attempt to turn America into a ‘ green’ society by inculcating the usage of alternate fuels and other energy conservation practices (Walsh, 2009). He emphasizes that Americans are fed up of unpredictable fluctuations in oil prices and hence “ have a better

understanding of why we need an energy transformation” (Walsh, p. 34, 2009).

This point is reflected in the BBMG Consumer Conscious Report, which states that almost 90% of American consumers are likely to buy products from socially conscious companies; furthermore most consumers are welcoming the notion of shifting to green fuel (Euro monitor, 2009). This leads to demand in vehicles that are, efficient or hybrids or running on alternate fuels. Tata Nano should consider this facet of take advantage of it. 4. 0

Political and Legal Environment: In order to proceed with the analysis of the TATA Nano in the US, it is important for the company to examine the country’s political framework and legal structure. . 1 Political Structure The US government under the Constitution is categorized into three branches; Legislative Branch, Executive Branch and Judiciary Branch (Euromonitor International, 2009 & White House, 2009). In January 2009, the Democratic Party led by senator Barrack Obama came into power in the midst of a crisis that has lost nearly 2 million jobs and manufacturing industries like the automotive industry have hit a 28 year low point (White House, 2009). For this reason it is of great importance to analyze the political risk of the US. . 2 Political Risk The automotive industry is by far the most prominent industry in the US in the 20th century. However developing nations like India are rapidly matching the sophistication of the US industry and as in the case of the Nano have surpassed the technology and design of US manufacturers. Therefore, import of fuel efficient, reliable and cost-efficient cars has increased. Furthermore US owned MNC’s like GM have production plants in low wage countries to minimize production costs.

Americans are now advocating greater protectionism since the industry accounts for approximately 10% of employment (Raghu, 2007). Due to the financial crisis, President Obama is attempting economic reform through legislative and regulatory changes. This includes revision of bankruptcy laws, regulations for financial products and non financial institutions (Eurasia, 2009). There will also be direct involvement and control of financial enterprises, which would increase US holdings (Eurasia, 2009).

The government is also expected to revise their fiscal policies in order to encourage the country's economic growth (Eurasia, 2009). 4. 3 Legal The low US liberal import tariff of 2. 5% is lower than other countries and aids Nano's pricing strategy in the market (US Department of Homeland Security, 2009). The firm would still have to comply with the high environmental regulations set by the US Environmental Protection Agency (EPA) (Cooney & Yacobucci, 2006). Nano must have a combined fuel economy rating of atleast 22. 5 miles per gallon set by EPA (US Department of Homeland Security, 2009).

This however would not be an issue for the Nano as the car has a fuel-economy rating of approximately 50 miles per gallon (Tata Nano, 2008) Nano must also fulfill the DOT requirements, which ensures Federal Motor Safety Standards in the US. It requires meeting the government's bumper and theft-prevention standards (US Department of Homeland Security, 2009). Hence compliance is mandatory for Tata to be able to operate in the US. 5. 0 Conclusion: Although the compact and cost-effective Tata Nano is ideal for the Indian terrain it may not necessarily be so for the very dissimilar American market.

This questions the fact whether the Nano would be able to penetrate such a market. However the aspects discussed above indicate that this might be exactly the wonder car the US market needs now. There are certain drawbacks nonetheless. The present US economic environment poses both threats and opportunities for Nano. One such opportunity is how consumer insecurity has lead to preferences of more affordable modes of transport over luxury cars. Another opportunity is adjusted fiscal policies that encourage spending and investment. This too would make it very easy for the Nano to capture the market.

The drawbacks include the spiking current account deficits as exchange rates could fall suddenly. This creates uncertainty drastically affecting Nano's price and demand. The US changing consumer culture poses challenges for international and domestic automakers as consumers prefer to buy Japanese cars over the more expensive gas guzzling local cars. Hence the Nano should acquire attributes like high quality, reliability fuel efficiency to gain a competitive advantage over American automobiles. Politically, President Obama's move to amend fiscal policies and other reforms has created many advantages for foreign investors.

Legally US environmental regulations may work to Nano's benefit because fuel-efficiency is one of Nano's prime attributes. In conclusion, the US market is a potential market for Nano. 5. 0 Appendix: 5. 1 Appendix A [pic][pic] (Euromonitor, 2009) 5. 2 Appendix B [pic] (Euromonitor, 2009) 5. 3 Appendix C [pic] (Euromonitor, 2007) 5. 4 Appendix D [pic] (Euromonitor, 2007) 6. 0 Reference Berrocal, P. , Salovey, P. , Vera, A. , Extremera, A. & Ramos, N. (2006). Culture influences on the relation between perceived emotional <https://assignbuster.com/tata-nano-marketing-assignment/>

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