

Tata nano – a study on business challenges in india

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TATA NANO – A STUDY ON BUSINESS CHALLENGES IN INDIA Introduction Tata Nano, pet project of the chairman of the Tata Group Mr. Ratan Tata was a car which was expected to change the face of automobile sector in India. In the highly competitive small-car market of India, Tata Nano promised to set the bar so high that it would become extremely difficult for the competitors to match. The dream of owning a car for as little as Rupees 1 lakh (Rs. 100, 000 – roughly USD2500) was too tempting for millions of Indians who cannot afford even a small car.

The kind of extensive media coverage Tata Nano received right from the day it was announced through the entire period until the first units were handed over to the owners was something that its competitors dreamed of. However, after two years of launch, the Tata Nano manufacturing plant at Sanand in Gujrat, India is running at around 20% utilization. People's Car- It is a common sight in india to see an entirefamilyof four travelling on a two-wheeler in heavy traffic and bad road conditions all through the year. Car Ownership across countries – Present and Future

As can be seen from the IMF report above, car ownership in India is expected to grow exponentially in the coming decades. India's Growth in GDP Per Capita Combining the predictions about car ownership in India with the growth in GDP per Capita in India, we can clearly see why the automobile sector, especially the small car market is one of the most competitive sectors in India at present. In a market like this, a car like Tata Nano had the potential to sell like hot cakes. But it didn't. Let us now try and understand why Tata Nano was not able to meet industry expectations. Reasons for Setbacks

Tata Nano (Photocredit: Wikipedia) Too Many Crises – Since its launch with great fanfare in 2009, the Nano has survived from one crisis to another. There was opposition to Tata's original plans to site the factory in West Bengal, as discussed later, forcing a last-minute scramble to switch the site to Sanand. It opened last summer, but not enough cars came off the production line to fulfill the early orders. To make matter worse, a few cars catching fire on road, raising fears about the Nano's safety. Price – Nano's price, which was supposed to be its USP, is apparently one of the major reasons behind its low sales.

For majority of Indians, owning a car is not about utility or mobility; it is a dream, ambition and status symbol; just like a house. So, the low price of Nano does not turn it into an asset. It becomes more like a commodity. Also, the initial marketing and promotion of Nano gave the average consumer the idea that owning a Nano would somehow be a confirmation of their poverty, and not a way to get out of it. Ironically, a big number of Nano's buyers buy Nano as their second or third car after already owning another car. This segment is not the segment initially targeted by Tata.

Resale-The re-sale car market gives stiff competition to the Nano. A 3-4 year old used car originally costing 3-4 lakh in on-road price (like Chevrolet Spark and Maruti Alto) can pose a stiff challenge to Nano given the relative price-parity that emerges when it comes to re-sale. For instance, Nano's Mumbai on-road price for Std BSIII model pegged at 1. 51 lakhs is a few walks away from the Rs. 2 lakh plus used-car-version ' Spark'. People, who may go for the advanced model Nano Cx BSIII, may consider opting for ' Spark' or ' Alto' given that the said Nano model costs around 1. 2 lakh rupees. In fact, Nano

seems to have failed to pose a challenge to the market players in this re-sale car niche segment. Needless to say, there is not much value extracted from a Nano upon resale either. Rescuing Nano – To improve Nano's market performance, Tata motors is trying to expand to other regions searching new markets for Nano. Given its modular design, Nano can be assembled and manufactured in practically everywhere on the planet. Hence, Tata is looking at SAARC nations, Latin America and other regions, where the economic conditions are similar to India.

Also, Tata is contemplating coming up with Nano electric models and even a Nano diesel version After suffering setbacks with the initial market response, Tata Motors hired Carl-Peter Forster, a former boss of General Motors Europe as head of Tata Motors in February 2010. After taking charge, Forster realized that he will have to reinvent the Nano business model. There was no real national distribution scheme, very little marketing and advertising, and no effective system of consumerfinance. The irony was that many rural Indians never got to hear bout or have the opportunity to see the car that was supposed to help transform their lives. Issues with Nano The Nano's marketing problems began with its product positioning. The price crept up by around 15%, putting it out of the reach of first-time buyers with no regular employment or payslips to back an application for credit. And by emphasising its cheapness rather than its basic but appealing qualities, it deterred slightly better-off consumers who could afford one but aspired to more sophisticated vehicles, such as those from Tata's biggest rival, Maruti, the leader in India's small-car market.

Political Controversies – Nine months after the Tata Nano was unveiled to much fanfare, and with only weeks before the first car was scheduled to roll off the assembly line, Tata announced it was pulling out of West Bengal where work was near complete on the assembly plant. Company Chairman Ratan Tata noted that Tata Motors had already invested 15b rupees (US\$343m) in the small car project. But they had forgotten a vital detail which is a must for big investors looking to start big-idea investments on land owned by poor, mostly illiterate peasants in developing countries.

At the bottom of the Singur peasant resistance was the need for a land reform that enables peasants to have real choices on whether to continue farming or do something else. For Tata Nano, the government of West Bengal persuaded more than 10, 000 peasants in Singur to accept compensation for 1000 acres of farmland on which the Nano plant would be built. However, almost right from the start, as many as 2000 peasants refused the compensation, and demanded their land back. Farmers complained that the state communist government forcibly took their land to give to Tata.

With the help of the opposition parties, peasants opposed to the land acquisition filed petitions in court. In January, a Calcutta High Court threw out all the complaints, ruling that there was “ no violation of the Land Acquisition Act or any other regulation” by the West Bengal government in acquiring the land. But never ever underestimate the tenacity of angry peasants. When legal avenues were shut, Singur peasants took to the streets, organising daily protests and roughing up workers employed of the Nano factory.

As the protesters grew more menacing, Ratan Tata was forced to acknowledge the possibility of never seeing a single Nano roll off the plant in Singur. While Tata was contemplating the future of his pet project, and one of the most audacious projects in the history of Tata Motors, Narendra Modi – the Chief Minister of the Indian state of Gujarat approached him and promised to provide all support needed for Tata to move the plant from Singur to Sanand. Finally, Tata decided to move to Sanand and the first Nano rolled off the assembly lines at Sanand soon after.

Yet, even as it managed to relocate and hit the market with slight delay, Tata needs to reflect on what happened in Singur to avoid running into the same problem elsewhere. Part of the problem was lack of clear and transparent negotiation between peasant representatives, Tata and the government of West Bengal. Although the West Bengal government gave peasants compensation package that was way above the going rate, the lingering perception among the peasant was that a huge chunk of the money was creamed off by corrupt government officials.

To avoid this perception, true or false, Tata should have negotiated directly with peasants, by-passing the West Bengal government. Secondly, even as Tata boasted of an initial start-up of 250, 000 Nanos from the Singur plant, providing thousands of jobs to residents, it failed to make Singur residents take ownership of the plant. To the people of Singur, wealthy Tata was coming to grab their land to make billions of dollars for itself. Nano on Fire - To make matters worse, three Nanos have caught fire because of some reason or the other since its launch raising serious questions about its safety and severely damaging its Brand Equity.

Though Tata Motors has not commented on the reasons behind the fires, there has been strong word-of-mouth negative publicity towards the car. Recommendations Tata Nano has been a very interesting case about studying business in India and other emerging markets. It has seen some very interesting highs and lows which are unique to the Indian market. However, following recommendations can be made: 1. Clean up the Brand Image – Nano first of all needs to re-establish itself as a credible brand. This might be the hardest thing to do given the beating the brand image has taken because of the fires.

Nano would need to aggressively work on its PR and show how the accidents are not because of flaws in Nano's design but because of some unfortunate external factors. 2. Define a clear Marketing Strategy – Nano needs to have marketing strategies to target its real consumer segment which is the masses of India and showcase the Nano as an aspirational product for them instead of coming across as an accessory for the rich. 3. Focus on Other Countries – Export Nano to Indonesia, Eastern Europe and also Brazil as well as Southeast Asia where it can be sold without the bad name it has earned in India. . Use Shareholder base of Tata – Tata Motors have a shareholder base of around 350, 000 right now. It could be utilized to boost Nano sales through discounts etc. 5. Rework on Pricing – when Nano started, a major challenge was to prove whether it was possible to manufacture a car which can be sold at the price of Rs. 1 lakh. That point has been proven. The real challenge now is creating profitable car business. If Tata starts pricing its Nano in a range where it is more cost-effective, it would first, reduce the losses Tata incurs per car, as well as give the brand a facelift.