

Pricing strategy used by tata motors



This assignment is made on TATA motor company, originated from India, and I have been supposed to take the role of marketing analyst and prepare a report on the TATA's decision of launching a low cost car name Nano. This assignment will analyze several aspect of Indian market, TATA's marketing strategy with respect to current and future impact and challenges, advantages and drawbacks of their business strategy and check out the possibility of launching this car outside India. This assignment will be answering several questions presented to us regarding marketing, pricing and promotional strategies they have used and to analyze future challenges related to it. I have tried to take help from literature and relate the literature with current marketing practices and business environment so that I can explore the answers of the question presented to us in this assignment.

There are three most common pricing strategies used by managers, each of these strategy satisfies certain objectives, below are explain each of the strategy and objectives it is able to achieve.

Pricing is called skimming pricing when is it charged above the industry regular prices and it is kept on higher side, objective of such pricing is to recover early cash from the market or serve a certain niche in the market, moreover such pricing is also used to provide prestigious image of brand (Richard et al, 2005).

At par pricing is charged when price is kept at same as of industry trend and such prices are charges for " me too" kind of products. Such pricing is dangerous in way that customer's do see any perceived difference of the brand from other (Richard et al, 2005).

When prices are kept lower than the industry trend, such pricing is called penetration pricing and such pricing is used either for market development or penetrating in the market by encouraging people to use the product (Richard et al, 2005).

In case of TATA NANO, management used penetration pricing, since their objective was market development by encouraging those people to use cars, who were previously unable to buy cars because of high prices. They kept the prices of cars at very lower side, around 100, 000 rupees, and by charging such price they tried to penetrate in the market, to reach to the consumer which were unable to afford the car thus creating their kind of customers, by doing this they developed the market and instead of getting their chunk from existing car users market, they increased the number of prospect consumer and make low income people come into car users club.

Penetration pricing is very helpful in market development, when organizations want to expand the market then there is always a need of a factor that can make the people use the product, and in economies like India, pricing is effective tool to play with, pricing can be used as a tool that can make the people use the product and expand the market boundaries, since their product was able to comply with all the safety standards, such pricing strategy was obvious to be used in order to gain maximum acceptance from general public, such price is also used when there is not visible different in product features (Richard et al, 2005).

Question no. 2: Pros and Cons of Using this Strategy

Every pricing strategy has its own pros and cons, since TATA has opted for penetration pricing, we shall have a look on advantages and disadvantages of this pricing strategy.

Pros:

One of the advantages that low pricing give is that is make the product adaptation process more faster, when organization charges low prices on their products then customer tend to give it a try for once at least and if product is up to expectations then product is accepted faster. Another benefit is that in low price category organization would not have to face more competition in initial stage, talking about Nano, initially TATA would not face competitive situation for initial years as it would be difficult for competitors to beat the price (Richard et al, 2005).

Such pricing also create good will in early customers, but this good will is dependent upon their experience with product, if product is good the good word of mouth is guaranteed, this strategy also bring the advantage of low cost because in order to meet the low price organization have to go on low cost strategy and this way they automatically switched to low cost model (Richard et al, 2005).

There are two more benefits of this strategy, one is such pricing strategy act as entry barrier for others, like in case of Nano, if some want to enter into such segment they would not able to meet that price range easily and this way competitors will kept away. Other benefit is channel support, because of

low price turn over remains high and that suits channel members, and they remain happy with organization (Richard et al, 2005).

Cons:

The first disadvantage of this pricing strategy is that customer keeps on expecting prices to be on lower side and any increase in price due to economic or organizational reason is resisted, the other disadvantage of low price is related to customer's perception about company and brand, the low price effects the perception about product quality, and some segment of customer are hesitant to buy low priced products because that they believe that lower price will result in lower quality (Richard et al, 2005).

Continuous low price associates certain image with product and image conscious people start avoiding such product, and end of the day product's association in customer's mind are like cheap or something of low quality. That is why organization offering low prices has to work harder on their brand image then others(Richard et al, 2005).

Question no. 3: Pricing Strategy if Nano is launched in Europe

When we talk about Nano to be launched in outside India, Europe or America for example then the same question comes in mind that what should be the pricing strategy, to me TATA should stick to same penetration pricing because of certain reasons that are mentioned below.

The above mentioned markets are already facing competition by some large players like General Motors, Fords, Honda and Toyota, for a car like Nano it would be extremely difficult to compete with these giants if Nano is

expensive or even if price is at par, more over due to increase in fuel prices, economic conditions customers buying power is also affected, so they would prefer to buy a small car with low price that would meet their basic travelling needs. Size and product feature also suggest that Nano should be price lower, if Nano is not offering any luxury then why to charge higher. In a competitive markets like Europe and USA where big player are dominating the market, for a new entrant to get attention from customers and get adapted there has to something surprising in the product package that could only be price in Nano's case.

If Nano is not priced at surprisingly lower than its counterparts then product feature alone will not be able to get acceptability in consumer market where Honda, Ford and Toyota are also offering low priced small car, low price can only be the unique selling proposition that would be able to grab the attention and make competitors to stay behind for a while. Adding more Nano stands for inexpensive small car, and changing the entire product image would not be good strategy to adapt. So I believe that continuation of penetration pricing should be adapted if TATA decides to launch its car in USA and Europe.

Next decision is related to pricing the in different countries of Europe, one option is to charge different prices and other is to keep the price same for all countries. I think for its introduction phase, to create the buzz, Nano should be price same for all European countries, once product's acceptability is established then price can be variable from country to country, depending upon the cost structures of each country, but to introduction phase price should be the same in entire Europe.

Question no. 4: Drawback of charging low price on Nano

There are several draw backs if Nano is charged at low price, and management should take care of these drawback and work to overcome such disadvantages, major drawback are related to customer's perception about products features and other is customer's social acceptance of the brand, lets discuss them one by one.

When product is priced at exceptionally low cost then the first image that comes in consumer's mind that there should be something wrong with product feature, either the and it should be of low quality, either product material is of low quality or it is missing on some essential product features that are necessary part of this category, same would be the threat with Nano. Unlike Indian customers, European customers are more safety conscious, and if Nano is priced low then their perception about quality of product will lead to a assumption that product on high of safety standards and this car might be dangerous to travel in; and such perceptions if prevailed and badly hurt the brand image and eventually sales; same perceptual dilemma can occur with other product features like its fuel performance, its comfort etc, so management of TATA should work on building the brand towards reliability and good performance (Kotler, 2003).

Other disadvantage is related to social acceptance of such lower priced cars, we need to understand we are operating in market which is educated, more aware and with competitors like Honda, Ford, and Toyota and each of them are greater social acceptance, we also know that our target market is more brand conscious then other people living in other parts of the world; why would someone associate him/her self with a car which is such a low priced,

small sized and missing radio. So there is a great threat of Nano being perceived “ cheap” car rather than being “ inexpensive” car and then being socially unacceptable in masses. So in order to meet this challenge TATA would have to work hard on their brand positioning, they would have to position it not only high on performance and safety but also have to work on its social image, and make it “ cool” consumer’s mind, this way they may be able to cater to challenges put by disadvantages of low pricing (Kotler, 2003).

Question no. 5: Modification of Nano for Europe and USA

When TATA decides to go international and attempt to launch Nano in USA and Europe then they would have to analyze the external environment of host target markets. When analyze as markets for consumer vehicles then we see that their environment consists of high standards for safety and performance. There are two aspects that cater to this area, one governmental regulations and independent bodies that check the safety and environmental effects of certain cars on the road (Bordenave & Lung, 2000).

To make Nano legally acceptable in these markets TATA would have to modify their product, if do not modify Nano then legally it would not be accepted in USA and Europe. The other aspect of these issue is consumer perception, if Nano is acceptable according to requirements of safety and environmental law even then consumer’s perception about product may lead them to avoid such product which is generally would be perceived as less safer. If we suppose that Nano as it current condition is acceptable according to law of Europe and USA on safety and performance standards even then

there are chances that Nano would get negative perception by consumers on same features (Smagalla, 2004).

Therefore in order to get accepted in consumer markets and to be legally ok as product Nano has to be modified where necessary, however might increase some cost but it is also unavoidable.

Question no. 6: USA and Europe as Car Exporting Markets

When we talk about USA and Europe as car exporting markets then we can analyze the market on three dimensions competition, barriers to entry and consumer dynamics. Talking about competition, these markets are highly competitive which presence of major automotive giants like General Motors, Toyota, Honda and other, they are already competing for their chunk in the market, in such competitive environment for a new comer to enter and make their place would difficult, to prevent the entry of such a low priced competitor these big players are likely to start a price war and use their already established position against competitor, so on competition side these markets are not much attractive (Bordenave & Lung, 2000).

There are many barriers to entry as well, for a car like Nano which is priced so low, it would difficult to keep up to safety and environmental standards on USA and Europe, in order to meet the standards of these markets car has to be modified and this will increase the cost and, another factor that will increase the cost is channel of distribution, in India their distribution cost is low but when they will export then cost of reaching consumer will be high. These both cost coupled, would make it difficult for TATA to stay at the same

lower cost and they will be bound to increase it, and that where they will lose their unique selling proposition (Potter, 2004).

Consumer perceptions and their loyalty with other already established brands is another factor that also make this market unattractive, there are negative perceptions associated with low priced cars regarding safety, self image and performance. So in such a high society where consumers are brand conscious, it will be nightmare to get the brand established (Bordenave & Lung, 2000).

Above mentioned factor together makes USA and Europe an inappropriate market for exporting cars there are many challenges that are to be faced by TATA and high exporting and modification costs would make it difficult for them to stay on low price strategy and keep their low price competitive advantage workable.