

The history of tata nano marketing essay



Although China and India will continue to be the most populous countries in 2020 with 1.4 billion and 1.3 billion people respectively, their receptiveness to low-cost vehicles differs. The more rapid increase in disposable income in China, combined with an aging population and a historical preference for larger vehicles, lead to the conclusion that India and the rest of Asia (excluding China) will be the most promising ultra-low-cost car markets, accounting for perhaps 60 percent of the estimated global market potential. This is not to say that China should be neglected. The size of the Chinese market in 2020, estimated at 2.6 million units, will contribute significantly to the rise in overall vehicle production and, ultimately, to the profitable production of low-cost vehicles.” (ATKearney, 2012)

In 2012 the demand for automobiles worldwide will be at 17.5 million vehicles. Emerging markets like India, China and Asia will contribute to the overall successful production and profitable sales of Low Cost and Ultra-Low Cost Cars.

Maruti Suzuki with its Maruti 800 car dominated the low cost car market in India. Current competitors in the low cost car market to Tata Nano are the Maruti 800, Maruti Alto and the Hyndai Santro king. Several manufacturers have announced ultra low cost (ULCC) cars most prominently being, Bajaj motors whose ULCC car RE60 is already in production and on the road competing with Nano within the Indian market. Bajaj primarily manufactures two and three wheelers for the Indian market and its business is directly impacted by Nano. Other ULCC car projects that were announced for the indian markets are, cars by Maruti Suzuki (Cervo model), Renault-Nissan and Chrysler. Other competitors in the market for Nano at the same price

segment will be the three wheeler passenger carrier (Auto rickshaws) and two wheeler motorbikes.

Tata motors encourage innovation and this innovation drives growth at Tata motors. Tata Motors developed and targeted the innovative Nano car within the ultra-low-cost (ULCC) category catering to the poor and middle-class of India, primarily the low income group, first time car buyers and the two wheeler motorbike owners. plans are to introduce this car in other emerging and developed markets utilizing the concept of reverse innovation, by innovating and developing the Nano, Tata motors has shown the automobile industry that a ultra-low cost vehicle market exists catering to the basic transportation necessities of the poor and middle class, this is in direct defiance to popular auto analyst sentiments that such a car could not be conceived and be practical. Tata proved that innovative and “ outside the box” innovative approach is important for companies to cater to the poor and the middle class in emerging markets as well as the developed markets.

“ The Indian automotive market was the fastest growing in Asia driven by India’s large population of 1. 14 billion and a low car penetration of approximately eight cars per thousand people. Maruti Suzuki India Ltd. was the leader in the passenger vehicle segment with 47% market share. This segment was expected to grow at a compounded annual growth rate of 14. 5% in the period from 2009 to 2013. The bulk of this growth was expected in the passenger car segment, especially the small car segment, on the back of the reviving Indian economy and shifting preference to fuel efficient, low maintenance cars. The UV and MPV segments were expected to grow because of reductions in taxes. The market was also witnessing a

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polarization with people's preferences moving from sedans to small cars or utility vehicles. Exports were another growth area and India's largest markets were Asia and Africa. As output quality improved, Europe was also gaining in importance." (Krishna Palepu, Bharat Anand, Rachna Tahilyani, (2011))

In the year 2006-07, Indian domestic passenger car market grew up by 20 percent, Majority of the growth is in the small car segment, The small car penetration in the Indian market is eight cars per thousand people. The automotive sector in India, specially the small car segment is being driven by several factors like improved economic growth and the resulting rising incomes of Indian consumers, preference for fuel efficient and low maintenance cars due to rise in gas prices, improved financing for autos at better interest rates, improved infrastructure like roads and other auto supplier and maintenance facilities and finally the Tax incentives provided by the Indian government. All these factors have made India into one of the fastest growing passenger car markets in the world. It is an attractive market for innovation and investments with a great probability of profitable returns on these investments (ROI).

2. Critique the evaluation of the Nano. Please start from the concept stage and end with the delivery stage. Highlight why this product could not have originated in the developed world. How was this process different from a typical automobile manufacturing process? Do you think that this product will be successful in the marketplace? If so why, and if not why?

Nano was designed and innovated from scratch in five years by the research and development (R&D) carried out by the Tata Nano development team. The team members were asked to use frugal development strategies to maintain low price targets, an ex-factory price tag of INR 100,000 or about US \$2500 was chosen. Cost reduction efforts were constantly made by Tata Motors and its suppliers by reducing the trim levels required as well as carefully ruling out components or features that were not necessary for basic transportation like traction control, power steering etc. Engine was designed from scratch and underwent several iterations to ensure optimal power, Steering, driveshaft, seating systems and exterior body were all designed to be light in order to reduce weight of the car and to be cost effective. Care was taken to ensure quality control of every part that was designed. Major components such as the engine, tires, gear boxes etc underwent several iterations of redesigns and safety reviews before being finally accepted for production. The accepted model was an ultra low cost car ULCC, at production it met its price objective of \$2,500, or approximately 100,000 rupees. The Nano is about 10 feet long and 5 feet wide, with four doors, it is powered by a 623cc two-cylinder engine at the back of the car. The car has 33 horsepower and is capable of cruising at 65 miles per hour. It gives approx. 50 Miles per gallon

and has four small wheels at the corner of the car to improve handling. It has a small trunk accessible through the back seat.

Nanos safety has been questioned although the car has been thorough various safety reviews and has passed different crash ratings.. This is primarily due to the fact that there is a consumer perception that low cost translates to low quality of product. Nano is sold with razor thin margins, which means that it requires large sales numbers to recuperate investment costs and make a profit; another issue is with the price of commodities used to build Nano, if these fluctuate then the production costs go up erasing whatever small margins were made with it. This also makes it impossible to commit to its initial design objective of keeping costs down to \$2500. If one needs other additional offerings such as air-conditioner or power steering then he has to pay extra, up to \$1000 dollars more.

A car like Nano could not have originated in the developed world because the consumer market in the developed world is quite different from the emerging markets. Consumers in emerging markets see basic transportation as a necessity, any product developed should be low cost and affordable, additional comfort features are not a requirement to these consumer. Consumers in the developed world prefer larger cars with more comfort features, like power steering, traction control, air-conditioning etc. Auto manufacturers within the developed markets tend to cater to these needs and wants of their consumers, hence they have never looked in this direction for innovating a product such as the Nano ULCC. Another reasoning would be that previous efforts to introduce such a low-cost product, “ the Yugo” in the developed markets of the United States of America was unsuccessful and <https://assignbuster.com/the-history-of-tata-nano-marketing-essay/>

would have been a factor to impede R&D into such segments and products by the automobile manufacturers, Automobile manufacturers are also turned off by the razor thin margins that come with such low-cost products, they are afraid and skeptical in their ability to reach targets and achieve sufficient return on their investments (ROI) within these markets because increased product sales are needed to realize positive revenues and profits.

Tata Nano should be a hit in the market because there is a demand in the Indian market for such a product, although sales have been slow the fundamentals of the markets are strong for Nano. Tata motors will sell this low-priced product successfully in low-income markets. Nano enables low income earners to own a car, before Nano families could not afford a car and a four person family had to ride dangerous two wheelers, these people now have the option to access a safe and functional car.

Lately Nano sales have been lagging due to poor marketing choices by Tata motors, Tata motors need to stop marketing the Nano as a “ poor man’s car”, This strategy has not gone well with the middle class who aspire to get the same bigger cars as the upper class as a sign of prestige. Then customer order were delayed and additional expenses occurred for Tata motors due to the Singur plant strikes and relocation, Spontaneous fires due to faulty wiring, recalls due to faulty starters has also dampen sales in India

Tata group should not hold back and reinvent there marketing strategy, They should keep on Innovating to iron out all the remaining bugs in their product, they need to keep their production costs significantly low to maintain a low price for the car. The low production costs achieved by Tata were by using

less and more cost effective raw materials and building strong supplier relationships. Tata has to maintain this cost advantage compared to its close competitors. The future of Nano in the small car segment will be dependent on ironing out any remaining bugs, development of strong product features, innovative distribution channels, effective promotional strategies and most importantly maintaining an attractive price.

Do you think that Tata Motors will be a successful player in the global automotive market? If so why and if not why? How critical is Nano to Tata Motors?

“ The Tata group had aggressively pursued an internationalization strategy and exported products and services to over 85 countries. By 2009, its international operations contributed to 64. 8% of its total revenues. It was also focusing on driving growth through new technologies and innovation and the Nano and Ekta supercomputer were examples of this effort. ”

(Krishna Palepu, Bharat Anand, Rachna Tahilyani, (2011))

“ Tata Motors was India’s largest automobile company by sales with consolidated revenues of \$14 billion in 2008-2009 (see Exhibit 3 for Tata Motors financials). With four million vehicles on Indian roads, it was the leader in commercial vehicles and among the top three in passenger vehicles with products in the compact, midsize car, and utility vehicle segments. Its cars were primarily sold in India, and only 3. 3% of cars produced were exported mainly to Asian countries, Africa, Australia, Europe, Middle East, and South America.” (Krishna Palepu, Bharat Anand, Rachna Tahilyani, (2011))

Tata motors is part of the Tata group which has aggressively pursued an ongoing globalization strategy. Tata motors is India's largest automobile company and among the top three in passenger vehicles. It plans to expand its presence globally in the emerging markets of Asia, Africa, South America, Middle East and also in the developed markets of Europe, North America and Australia.

Tata motors should be successful in following this strategy of globalization being driven by new technologies and innovation. Tata Nano is already based on this strategy. Nano is poised to be a big seller in emerging markets apart from the Indian market, but it will face different challenges which need to be overcome within developed markets. Consumers in the developed world will not be impressed with the small size or the cost of the car, its lack of comfort features will make it less attractive to these consumers as they hold the perception that low cost equals low quality. This "low cost equals low quality" perception needs to be overcome as Tata introduces the car in the developed markets, the company must find ways to convince consumers of the developed world that the Nano has passed or exceeded all safety requirements placed by the regulating agencies within these markets. Tata can observe other automobile manufacturers like KIA motors and Hyundai and look at the successful methods they implemented to convince quality conscious consumers within developed markets about their automotive products.

Innovations and additional comfort features like traction control, power steering, air conditioning need to be added to confer to consumer comfort and safety demands. These additions should be innovative resulting in a

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modest increase the price of the car, This price increase will not be an issue with these consumers as long as their needs are met. Another avenue of marketing the Nano will be as a green car, with its low maintenance, low emissions and fairly high gas mileage it would be a great automobile option for the middle class consumers within the developed world, who are reeling under high gas prices eating into their spending budgets during current recessionary times. Tata motors owns Jaguar and Range rover brands which are associated with performance, quality and luxury these brands can be leveraged against the Nano to boost its market appeal.

Tata motors has made a considerable investment of time and money in the Nano project, Tata Nano has created a new segment in the passenger car market, but there are still concerns about the company's lack of capacity to fulfill high demand, the low margins the company would get from the product, and the long time the project will need to break even. Nano was advertised as the one lakh (Rs 100, 000) or \$2500 car gaining a lot of news and publicity in the local and global automotive markets. Nano is its chairman Ratan Tata's dream, a chance to prove that Tata motors can innovate and live up to its promise of innovation and radical changes in affordability of cars for the poor and middle class, it has become a matter of criticality for Tata Motors that the current momentum should continue and be accelerated for Nano to succeed.

How would you go about launching the Nano if your team has been given the responsibility of launching the product in the developed world? What is the financial situation of Tata Motors? Does it have the resources to launch this product on a global scale?

The customers in European and American markets that demand high quality larger cars providing more comfort feature leading to an enhanced driver experience, moreover due to recent recession within the developed markets there will be expectation of the car to retail at a reasonable and competitive price.

My Team will improvise and innovate the Nano car in order to appeal to the large middle class in these markets. The idea would be to align the product more with the consumer needs and demands within the developed world. We will strategize and plan on introducing the Nano as a Green car within the developed markets. My team with the help of the R&D and product development team within our product department will focus to innovate and produce Electric and gasoline Hybrid engines for the Nano car similar in line to the more popular Toyota Prius, the target would be to increase the current mileage two fold i. e. to get 100 miles with the latest hybrid electric engine and an increase in horsepower to at least 110hp total hybrid hp with 50hp gasoline engine (Latest prius has 134hp with 80hp gasoline engine). Max speed should be increased to 90 MPH, This increased engine capacity, horsepower, mileage and max speed will make the car sporty, advanced and trendy within the consumer base. Car will need to have standard comfort features like power controls (power mirrors, power seats), traction control, power steering and air conditioning will be standard to confer to consumer

comfort and safety demands. All these innovations will be done in tandem with our suppliers who will be sourced locally, they will be given freedom to innovate and design their parts to the best of their ability, preference will be given to parts that are quality made, simple and cheaper to mass produce. Safety and emission standards required will be satisfied as per design objectives.

Once we have our product aligned with the customer's needs and wants. We will price the car very competitively significantly lower than that of the competitor, We will market the car by advertising its sportiness, low maintenance, low emissions and fairly high gas mileage features to target the bottom of the pyramid. We will create distribution channels and forge relationships with auto retail outlets to make our product widely available within our targeted segments. We will provide great financing for our cars to the buyers, to forge goodwill and satisfaction among consumers we will have a several years or mileage “ no questions asked warranty” on the engine and power train of the car which will exceed or be similar to our nearest rival (Toyota prius or Mercedes Benz Smart car).

The global financial crises created financial issues for major Western automobile companies but Tata Motors has weathered the issues quite successfully so far,

Here is a quick analysis on the financial statement (Exhibit 3) from year 2005 to 2009, concentrating on the latest information for year 2009.

Total revenue grew from 8.9 billion dollars in 2008 to almost 14 billion dollars in 2009.

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Profits decreased from 542 million in 2008 to -494. 2 (loss) in 2009.

Debt to equity ratio increased from 133. 2% in 2008 to 588. 7% this means that tata motors has been aggressive in financing its growth with debt, too much debt can add additional interest expenditure which can affect profit margins which were negative in 2009.

ROA (return on assets) decreased from 7. 0% in 2008 to negative – 0. 4% in 2009. This indicates Tata motors usage of its assets was suboptimal in 2009 .

ROE (return on equity)) decreased from 26. 2% in 2008 to -34. 2% in 2009

Company was not profitable with shareholders investments generating negative ROE.

From the above analysis it seems like Tata motors is in financial turmoil because of additional debt and liabilities that has been incurred in year 2009. Because of this financial condition it is unadvisable for Tata motors to launch its product on a global scale within the current fiscal 2009. It should concentrate on promoting and selling its current products to gain additional revenues and use them to correct its bad debt and liability position.

Once the Financial outlook of Tata motors improves then Tata motors should plan and if necessary accordingly to its launch markets redesign and launch Nano within those markets.