

The Death of a Small Car

V.S.P. Rao

Professor and Dean, ICFAI Business School (IFHE, Hyderabad, India); e-mail address: vsprao@ibsindia.org

Abstract: Tata Motors launched the low-cost car, Nano in 2009. The expectations were high. It was supposed to change the rules of the game in automobile industry forever. A series of operational hurdles came in the way spoiling the show. The manufacturing plant had to be relocated, due to the agitation launched by farmers whose land was acquired by the Company. Consequently, operational costs increased. Customers could not get the vehicles on promised dates. Initial technical problems caused a series of fire accidents which turned the tide against the image of the car. The positioning of the car as a 'cheap vehicle' proved to be a strategic blunder forcing the Company to call it a day.

INTRODUCTION

Priced at the US \$2000, Tata Motors Ltd (TML) launched Tata Nano in 2009. The day when the car was showcased, i.e., March 23, 2009--the company's website received more than 20 million hits in a short span of time. It was the most talked about automobile debuts in India. The launch rekindled hope in the minds of millions of middle-class families who were looking for a safe and affordable family car in place of a two-wheeler. Nano was expected to turn the face of mobility in India. Media labeled it as a disruptive innovation that would prove to be a game changer. The company received order applications in excess of 200,000. Global auto giants began to wonder whether they missed a real opportunity by not entering the ultra-low-cost car segment. The hype around the car was unbelievably high and people began to call Nano as a kind of engineering marvel, having the potential to change the rules of the game in Indian automobile industry.

The car sales, however, never showed any positive trend during the last 8 years. The capacity utilization in the Sanand plant was poor (25%) and the inventory pile-up was a matter of serious concern, especially after 2014. Attempts to boost the sales through revamped models did not succeed. In March 2017, TML could sell just 174 units—thus, sealing the fate of the car, more or less, permanently. Why did the car fail to live up to its promise and potential? Where had things gone wrong?

THE STORY

Ratan Tata, the Chairman of Tata Group, wanted to build a safe and affordable car with a price tag of INR 1 lakh (\$2000). The ultra- low-cost segment in passenger cars never existed before. Tata wanted an innovative product to fill the void through frugal engineering if executed properly; the idea could disrupt the market and change the rules of the game in favor of the Group. TML tasted success with a mini truck—expected to replace the three-wheeled auto-rickshaw which dominated the scene-- called Ace in 2005. With its compact size and shorter turning radius, the pickup truck could maneuver through India's congested roads and economically transport small loads in various parts of the country. Priced at \$5000, the truck

proved to be a blockbuster innovation. Ratan Tata believed that TML would be able to create and dominate the ultra-low-cost segment in four wheeler market through Nano. To this end, a small team was created under the leadership of Girish Wagh, who led the development effort for the Tata ACE. The car should be a paragon of thrifty innovation and frugal engineering. It must be the People's Car which every Indian would love to own.

Ratan Tata wanted the Nano car manufacturing plant to be established in an economically backward area, generating employment and offering a better quality of life to the poorest of the poor. When the West Bengal Government came forward with lot of incentives and assured a land parcel of 997 acres—645 acres for building the Mother plant, 290 acres for the Vendor park and 60 acres for various other agencies—TML accepted the offer and went ahead after paying a price varying between \$10,000 to \$20,000 per acre to 13,500 landowners depending fertility in 2006. The State Government acquired the land forcibly, leading to widespread protests and agitations, led by a group of 2500 landholders who owned 400 acres. They refused to accept the compensation offered by the State and refused to surrender the land which was their only source of livelihood. The Opposition party leader, Ms. Mamta Banerjee stood by the agitating farmers, drawing nation-wide attention. By the time the agitation took an ugly turn—that is September 2008--TML had spent \$300 million on the Plant which was almost complete. The 60 key Vendors have spent about \$110 million in setting up ancillary units supplying key components to TML. Violent protests made life miserable for workers of TML and when the situation had become untenable, Ratan Tata took the painful decision to relocate the plant to Sanand in Gujarat State which came forward to allocate 110 acres to Tata Motors Limited. On June 2, 2010, the Sanand Plant became fully operational and was inaugurated by Gujarat Chief Minister, Narendra Modi. By then, TML had spent about \$400 million on the Sanand plant.

The relocation of the plant from Singur (in West Bengal) to Sanand (in Gujarat) delayed production by more than 16 months. As a result, the Company was unable to accept bookings beyond 100,000 cars. TML waned customers to pay a booking fee of INR 300 (\$6) and an upfront payment ranging between INR 95,000 to 140,000 (\$1900-2800) for the three models that were released (basic Nano, Nano CX, and Nano LX). The car was made available through 214 existing TML dealerships spread across India's 28 States. However, the promised delivery schedules could not be met. Prospective customers were asked to wait endlessly. Limited production figures did not allow the Company to release cars on promised dates. Customers expressed frustration, resentment and anger in more than one way through social media platforms. Car bookings got cancelled with frustrating regularity. Belying all predictions from TML, only 30% of the demand came from existing two-wheeler owners and 50% from those who took delivery of Nano as a second car. The car was supposed to generate demand from two-wheeler owners but got positioned as a second car for existing affluent families. Responses from buyers who took delivery were pretty bad due to a series of fire accidents that made front-page news in national newspapers. There was no serious attempt to reach out to rural customers at that stage to get additional bookings. Uncertain production schedules did not allow the Company to take such a proactive step.

As the waiting time grew longer, cancellations picked up speed. The rising input costs made the company to jack up prices-- forcing the prospective buyers to either postpone their buying

decision(s) or explore other viable options. In the interim, the car prices in the second-hand car market crashed by about 30 per cent, followed by price reductions effected by two-wheeler manufacturers. Buyers had a choice now to buy a car with all features in place at an economical price instead of buying a ‘toy-like-car’. TML tried its best to revive the demand by bringing out new and improved versions of Nano at various points in time but failed to get customers on its side. The sales took a precipitous fall in March 2017, when the numbers fell to 174—forcing the Company to allow the product to have a natural death. (Exhibit I)

<i>Exhibit I: How the volumes of Nano fell</i>		
Month	2016-17	2015-16
April	1,100	1,486
May	856	1,365
June	481	1,700
July	701	2,120
August	711	2,235
September	610	2,415
October	726	2,300
November	525	2,263
December	1,004	1,374
January	391	1,608
February	312	1,414
March	174	732
Total	7,591	21,012
Source: SIAM		

GOING OFF THE TRACK

When asked to offer advice, the renowned branding expert, Jack Trout commented: “Fill it, shut it and kill it”. He felt that a car with a dented image would have no takers in the market. That verdict came 4 years back. TML did try every trick in the book to put the car back on track but failed—paving the way for a series of unanswered, troubling, nauseating and prohibitive questions. Is it possible to manufacture cars at a rock-bottom price, without sacrificing basics such as safety, fuel efficiency, and emission norms? Can cars be pitted against two-wheelers on one side and reasonably priced four-wheelers on the other side? Is it possible for any company to challenge industry leaders into a win-lose game without adequate preparation?

THE INSIGHT

Ratan Tata believed that Indians had a genuine hunger for a low priced no frills car. It all started with an interesting insight shared by Ratan Tata. On a wet August night in 2003, while returning from office to home, Tata saw a young couple traveling with two kids on a two-wheeler and visualized the attendant risks and felt the need for a safe, affordable vehicle that could be put to use by millions of middle-class families. The idea led to the development of an indigenous technological marvel that was finally presented to the audience on 10th January 2008 at Pragati Maidan, New Delhi.(Exhibit II)

Exhibit II: The NANO Timeline

·	January 2008: Ratan Tata unveils the Nano
·	October 2008: Nano plant pulled out of Singur following violence from locals
·	October 2008: Project relocated to Sanand, Gujarat
·	November 2008: Tata Motors starts working on rolling out Nano from Pantnagar plant
·	March 2009: Nano launched from Pantnagar
·	May 2009: Nano receives 203,000 bookings through lottery system
·	July 2009: First Tata Nano delivered
·	October 2009: Tata Motors orders pre-emptive checks & retrofitment after fire incidents
·	June 2010: Sanand plant rolls out first Nano
·	November 2010: Two-wheeler exchange scheme launched for Tata Nano
·	December 2010: Sales continue to fall, hit a new low of 554 units
·	March 2011: Tata Motors starts exporting Nano to Sri Lanka, Nepal
·	October 2013: CNG Nano launched
·	January 2014: Nano Twist launched
·	May 2015: GenX Nano launched
·	March 2017: Sales hit an all time low of 174 units
·	Source: Business Standard, 15 April 2017

Such an insight was not supported by customer feedback or market research. Through frugal engineering and thrifty innovation, he believed that an entry-level, all-weather personal transportation can be made available at a rock bottom price of INR 100,000. The low-priced car, it was believed, would change the rules of the game in the automobile industry. Unfortunately, he forgot that there was a formidable rival –Maruti Udyog Ltd—offering entry-level cars at affordable prices for over two decades in India. In order to grab a sizeable market share from a well-positioned player, you need to have a product full of novel features & surprises. The company must be working on such an innovative product secretly –like what Apple did before hitting the market with disruptive innovations in the form of iPhone, iPad, iPod etc.—before making an audacious statement. Ratan Tata took the big leap, following a top-down approach, instead of the traditional bottom-up approach followed by almost all car manufacturers. Cars must be delivering unparalleled value to customers—matching their aspirations & expectations. Undertaking a vanity or ego-satisfying trip that there was an imaginary gap that was visible to only one company and making a giant leap to fill such a gap by a truck manufacturer, on hindsight, was the gravest mistake committed by the Company. The car never proved to be a paragon of frugal engineering, as perceived by the Media, the Global Automakers or the General Public. The company was trying to convert a crazy idea into an achievable goal—a kind of mission impossible-- by focusing attention on cost factor alone which proved to be suicidal in the end. Adding salt to injury, the technical specifications of the car were far below the expectations of prospective first-time buyers of entry-level cars. (Exhibit III)

Exhibit III: Comparison of Hyundai Santro, Tata Nano and Maruti Alto

	Hyundai Santro	Tata Nano	Maruti Alto
Displacement	1086 cc	624 cc	796 cc
Power	62.1	37.5	47.3
Torque	96.1Nm@3000rpm	51Nm@4000+/-500rpm	69Nm@3500rpm
Transmission	Manual	Manual	Manual
Turning Radius	4.4 meters	4.0 meters	4.6 meters
Ground Clearance	164mm mm	180mm mm	160mm mm
Boot Space	218 liters	110-liters	177-liters
0-60	N/A	N/A	N/A
0-100	N/A	N/A	N/A
True Speed	136.9 km/Hour	N/A	N/A
Steering Type	Manual	Manual	Manual
Fuel Type	Petrol	Petrol	Petrol

(Source: <http://www.carcomparisons.in/compare-hyundai-santro+xing-vs-tata-nano-vs-maruti-alto+800>)

OBSESSIVE FOCUS ON COST

The Company tried its best to cut costs to bare bone levels in order to bring out a ‘dream car’ for the low-income groups. This kind of maniac and obsessive focus on cost-cutting did more harm than good to the product. Instead of squeezing vendor margins and demanding the impossible from the auto-component manufacturers, the Company could have fulfilled the ‘promise’ through innovation in design and materials. The vendors began to cut corners and in the end, the car was not built as well it should have been. This led to safety and other issues—where instances of Nano catching fire were widely reported. TML tried to look the other way, initially, saying that it was a failure of electrical equipment. It came forward to retrofit the exhaust and electrical systems but refused to recall the cars. The extended warranty scheme (offering warranty for 4 years instead of the earlier 18 month period) did not help the company move closer to the disgruntled and unhappy customers.

The first time car buyers were showing a lot of reluctance to even test drive the car. A kind of lethal fear got firmly implanted in the brains of prospective car buyers that it was not strong and sturdy enough to carry a family safely from one location to another. The image of the car, thus, got permanently dented. The response from prospective customers was shockingly negative: “What do you expect from a cheap car?” The car failed to withstand the crash test which was conducted by ADAC in Germany. Tata’s claimed that the car would get 4 stars but subsequently got no star rating for lack of adult protection and not meeting basic UN safety requirements. This was the final nail in the coffin that damaged the image of the car, more or less, permanently.

NO ONE WANTS TO BUY A ‘CHEAP CAR’

No one wants to buy a cheap product. Being cheap, in a way, indicates below low on quality as well. Many a time even intelligent and established manufacturers seem to ignore this basic marketing mantra when trying to position their product in the minds of customers. People want

good products at an affordable price. Affordability cannot be equated with cheapness. Southwest Airlines offers a quick, safe and affordable option for passengers to move from location to the other with ease and comfort.

Southwest Airlines: Recipe for Success

Its operations are simple and incredibly efficient. It uses only one type of aircraft, the Boeing 737. Employees manage to turn around planes amazingly quickly between flights, thereby minimizing downtime. They do their job diligently & happily, delivering value to customers. The flights stick to the announced schedules. Southwest follows the no-frills, no fees (no surcharges, no charges for ticket changes, free luggage etc). No assigned seats. No meals. No hassles. It delivers satisfaction to customers through committed, motivated and happy workforce year after year. In a brutal industry, Southwest stands at the top, making profits ever since it got listed five decades ago.

MacDonald's offers standardized, quick, convenient and good quality meal options at economical prices. Operating in multi-myriad countries, the fast food chain sticks to the basics—quality, service, cleanliness and delivering value to all kinds of customers from different countries. The offerings are tuned to suit tastes and preferences of local customers. The safe and clean store image coupled with its fierce commitment to quality helped the company stay ahead of competition during the last 6 decades of its existence. Wal-Mart is a discount retailer giving ample choice for customers to buy quality at affordable prices. Customers, to cut short a long argument, want value for money. They are not keen to buy cheap burgers, soaps, toothpastes or even chocolates. Tata's, sad to relate, seem to have ignored this while positioning the Tata Nano in the minds of prospective customers.

POSITIONING THE CAR

Nano proved to be a kind of an enigma wrapped up in mystery. Nano was meant to be an affordable car, but the pricing went against the promise. It was projected as a safe car, but the buyer did not want to take the risk of even test driving, after a series of widely reported accidents in all national newspapers. It was meant to be a People's car, but there was nobody willing to own it. It was meant for two-wheeler owners, but very few bought it out. It was projected as a product of thrifty innovation and frugal engineering. But no one believed the message. What went wrong? A variety of explanations had come from auto expert's industry analysts, branding gurus in order to unravel the mystery. The initial hype generated a lot of heat and noise in the market. Every move from TML was covered widely. The positive and negative news flow kept the momentum alive. The Company discounted, unfortunately, the value of advertising during the period when things were not on track. The delays, the accidents, the complaints and almost everything were put aside. There was no conscious attempt to undertake rectification steps to improve the image of the car through clear communications. Rivals followed a different and fairly established route by picking celebrities to endorse the brand and achieved great success. TML used the electronic media for the first time on December 10, 2010 when things went wrong, but it was too little, too late. By that time the image of the car got damaged irreparably. The rising input costs compelled the company to raise the prices –much to the dislike of prospective car buyers. The delivery delays turned the sentiment negative and led to further cancellations. One problem led to another and ending up

in a series of complex issues that went out of control after a while. The message never reached the targeted buyers since the distribution network in rural areas was non-existent.

The moves to set up shop later on in rural belts were received with skepticism or ignored. The rural customers actually wanted to own a strong and sturdy compact car having enough space for a comfortable drive on rough roads. The car's appearance itself gave a scare to rural customers since it looked like a toy car. They were apprehensive about the strength of car to run on rough terrains. When they found this to be missing in the car that they were able to see only in urban show-rooms, disappointment and disenchantment compelled them to postpone the buying decision for a while. The Company's failure to entice rural customers with attractive financing schemes did not go well with many of the first time buyers. The financing schemes which took a back seat when the car was constantly in the news made their appearance when things went down. This time, it was the turn of customers to look the other way.

The first time buyers were neither from the low-income groups nor the rural households. They were from the major metro cities where Nano was being used as a second or third car for carrying children to schools or picking up groceries. This was a kind of positioning blunder as the Company was unable to address right from the days of launching till the time the car hit an insurmountable roadblock in 2017 when car sales have fallen to dismal levels. It was not clear whether the car was supposed to replace a two-wheeler for commuting? Was it meant to serve the needs of an affluent family as a second car? Was it meant to serve the transportation needs of the rural population? Or was it meant to be a car for all kinds of buyers? Simply positioning the same as a 'cheap car' did not help the company get closer to the targeted customers. The 'cheap pricing tag' was certainly the car's undoing". For the majority of middle-income consumer group in India, a car was an inspirational product. It was a symbol of social status and prestige.

Owning a car indicated personal success and in a way was a statement of how well he or she was doing in the Society. For a country whose romance with brands has just begun, buying a cheap car was like depreciating one's worth in society. Young Indians wanted cars that had everything to show at an affordable price. The Company had discounted this fact and went ahead by offering the product through its established network. There was no attempt to neither set up shop in rural belts nor greet prospective buyers with financing schemes of various kinds. Due to escalating input costs coupled with its own heavy initial set up costs, the Company was able to offer the car at a price of about INR 1,50,000 (\$3000) The customers were asked to make complete advance payment –knowing fully well that the waiting period could range from 1 to 1.5 years. By the end of 2009, the Company could deliver only 40 percent of the cars to pre-booked customers, refunding the advances received to the remaining customers. At a price of INR 150,000 Indian customers had other viable options to explore.

THE SECOND-HAND CAR MARKET

Anticipating the launch of Nano, players like Maruti Suzuki and Hyundai slashed the prices of used & certified cars by 35 percent. Second-hand car dealers also reduced the prices of other cars from General Motors, Ford etc. To retain their market shares, the two-wheeler manufacturers also cut the prices by about 20 percent. When Nano failed to keep the price closer to the promised \$1540, the competitors were laughing all the way to the bank. They were able to convince customers that a full-fledged second-hand car with all features is always better than a no-frills, cheap & unsafe car.

The customers who took delivery were not happy with the ugly 'auto-rickshaw' (a popular

three-wheeler used for daily commuting in Tier 1 and Tier 2 cities and rural areas) look, making peculiar, awkward noise. It was a no-frills car, so there were no radio, power windows, air conditioner, anti-lock brakes, air bags, power steering etc. In 2011, the car stood at the bottom of the customer satisfaction survey. The verdict was pretty clear: nobody wanted to own the world's cheapest car. The sales took a southward journey and the car went off the track, with no hope of recovery.

DISCUSSION QUESTIONS

1. Was there a strategy failure in the case of Tata Nano? If yes, where did things go wrong?
2. Do you think conducting an extensive market research, before the product launch could have saved the day for the Company?
3. In place of a toy-like vehicle, if the Company brought out a strong and sturdy car, do you think the rural demand could have been exploited profitably?
4. Do you think a product with a dented image can be revived? If yes, offer suggestions that could inject a fresh lease of life into the Car that is moving towards a kind of natural death.
5. According to you, the final nail in the coffin was put when the car was positioned in a wrong way? Or Are there enough reasons for customers to reject the car otherwise too?