

# Behind the Nano Mistakes : A Case Study on Consumer Psychology

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### Abstract

*Since from its conception, there have been way too many impediments towards the success of Tata Motors dream project – Nano. It seems evident that Tatas have had problems with the entire marketing mix for Nano. There were initial safety issues with the product; they couldn't hold on to their original pricing promise due to rising costs; there was a tough time with the distribution due to serious mismatch between demand and supply; and there wasn't a proper promotional campaign to begin with. This explorative case study looks beyond the mistakes and attempts to throw light on the consumer psychology regarding Nano's initial low market acceptance; which seemed to be quite different from what the company and industry had speculated in the beginning. While making qualitative assessment of the perception, attitudes and behavior of the consumers, the case study also explores the continuous hurdles that Tata Motors had gone through and the others that it still tries to overcome to ensure "Nano – the people's car", gets its truly deserving position in the market.*

*"We are happy to present the People's Car to India and we hope it brings the joy, pride and utility of owning a car to many families who need personal mobility."*

– Ratan Tata after unveiling Nano at the 2008 Delhi Auto Expo<sup>1</sup>

*"I think it's a moment of history and I'm delighted an Indian company is leading the way."*

– Anand Mahindra, Managing Director, Mahindra & Mahindra Quoted by Hindustan Times before the unveiling of Nano<sup>2</sup>

*"There was a mismatch vis-à-vis the hype. The gestation was too long. It kind of broke the momentum."*

– Hormazd Sorabjee, Editor of Autocar India<sup>3</sup>

### Introduction

*On a rainy evening, a 70 year old industrialist was on his way in an overcrowded Indian city. He looked temporarily relieved from the annoyance of frequent traffic halts, as his car prepared to start again to make its way out. From the inside of his luxurious glass windows, his tired wandering eyes briefly looked around at the busy city crowd before settling at a nearby scooter. He noticed that there were four persons sitting on it – a woman, two kids, and a man who was riding the scooter. All of them were tightly holding each other as the man*

## Keywords

Tata Nano, Consumer Psychology, First-time Car Buyers

<sup>1</sup> Hindustan Times, "Tata Nano aimed at common man, says Kamal Nath", New Delhi, January 10, 2008, Source: <http://www.hindustantimes.com/StoryPage/Print/268524.aspx> (Accessed on 29-09-2011)

<sup>2</sup>Hindustan Times, " Industry reactions to Tata 's new Nano car", New Delhi, January 10, 2008, Source: <http://www.hindustantimes.com/StoryPage/Print/268512.aspx> (Accessed on 29-09-2011)

<sup>3</sup> Rajeev Dubey, "Not a Nano Problem", Businessworld, 01 August, 2011

tried hard to balance and skip through the packed-up traffic obstacles. He observed their urgency, as thousand others, who were headed on that same congested way that evening. They didn't have any alternatives; and neither as if, they were complaining. He thought that perhaps, it is just a regular small compromise, by regular Indian people on a regular Indian city. But still, the 70 year old man wasn't convinced. He shook his head and asked to himself – "Shouldn't they too have the basic privilege of safety and a little more convenience?"<sup>4</sup>

That was the precise moment when a latent need was identified; a beautiful idea was conceived; and was about to be transformed into a huge business opportunity. But years later this "Marketing Fairytale" did not proceed in reality in the way as it had once begun with.

From the beginning, "Nano" was considered to be the "Big" idea of a prospective auto revolution for the emerging world and particularly for India. But even more than two years after its overstretched commercial entry into the Indian roads, it struggled to keep up the business expectations of its ambitious makers. The cheapest possible car that promised to address the billion aspirations of the so called "bottom of the pyramids" didn't quite able to deliver the way the industry had speculated. Since, its commercial inception in mid 2009, the sales were never on a steady upward trajectory that is presumably typical for such a technological breakthrough. For the Tatas, the dream car project soon turned out into a nightmare, when in November 2010, the USD 27 billion company<sup>5</sup> could only manage to convince 509 cars to its dealers across India. Though,

after that debacle, Tata Motors undertook some serious readjustments and to some extent did manage to marginally pull up Nano's performance from December 2010 onwards. But in spite of all its efforts, Nano was still far from close to its original intended targets. Till Mid 2011, it sold just over 5,000 units<sup>6</sup> a month. Then, aiming towards a distantly difficult breakeven, the company went back to a set of elementary strategies that included a redrawn full-fledged promotional campaigning; improvement of productivity and supply chain coordination; going rural; and opening up of more exclusive dealerships. All these were made to be the obvious priority that needed to be addressed before going too futuristic and working for the 2<sup>nd</sup> generation of Nano. However, long before the "Actual-Nano" was unleashed, the "Idea-Nano" was immediately sold out to a varied section of audiences, who were dumbstruck by its low price appeal. The concept was unique, innovative and hugely appealing to the mass. It was all set to make a rapid penetration in the growing automobile market of Indian. A brand new product created for a brand new segment, virtually didn't have any competition at that point from any of the rivals. The Tatas therefore left no stones unturned to exploit this "partially created and partially self-generated" explosive hype that surrounded the whole Nano idea. But then, there are vital questions that remained to be answered – Why things didn't work out as expected? What were the missing links between the planning premises and the on-road realities? Will Tata Motors be able to learn from its big mistakes and turnaround to hold a leadership position with its iconic brand – "Nano"?

#### Exhibit-1

##### Tata Motors – the Global Indian Automobile Giant

Tata Motors Limited is the world's fourth largest truck manufacturer, the world's third largest bus manufacturer, and India's largest automobile company, with consolidated revenues of Rs.1,23,133 crores (USD 27 billion) in 2010-11. It is the leader in commercial vehicles in each segment, and among the top three in passenger vehicles with winning products in the compact, midsize car and utility vehicle segments.

Established in 1945, Tata Motors' presence indeed cuts across the length and breadth of India. Over 5.9 million Tata vehicles ply on Indian roads, since the first rolled out in 1954. The Company's manufacturing base in India is spread across Jamshedpur (Jharkhand), Pune (Maharashtra), Lucknow (Uttar Pradesh), Pantnagar (Uttarakhand), Sanand (Gujarat) and Dharwad (Karnataka). Following a strategic alliance with Fiat in 2005, it has set up an industrial joint venture with Fiat Group Automobiles at Ranjangaon (Maharashtra) to produce both Fiat and Tata cars and Fiat powertrains. The Company's dealership, sales, services and spare parts network comprises over 3500 touch points; Tata Motors also distributes and markets Fiat branded cars in India.

Tata Motors, the first Company from India's engineering sector to be listed in the New York Stock Exchange (September 2004), has also emerged as an international automobile company. Through subsidiaries and associate companies, Tata Motors has operations in the UK, South Korea, Thailand and Spain. Among them is Jaguar Land Rover, a business comprising the two iconic British brands that was acquired in 2008. In 2004, it acquired the Daewoo Commercial Vehicles Company, South Korea's second largest truck maker. The rechristened Tata Daewoo Commercial Vehicles Company has launched several new products in the Korean market, while also exporting these products to several international markets. Today two-thirds of heavy commercial vehicle exports out of South Korea are from Tata Daewoo. In 2005, Tata Motors acquired a 21% stake in Hispano Carrocera, a

<sup>4</sup> Imagined based on media reports

<sup>5</sup> Tata Motors Limited is India's largest automobile company, with consolidated revenues of Rs.1,23,133 crores (USD 27 billion) in 2010-11

<sup>6</sup> The approximate average sales of Nano from May 2011 to July, 2011

reputed Spanish bus and coach manufacturer, and subsequently the remaining stake in 2009. In 2006, Tata Motors formed a joint venture with the Brazil-based Marcopolo, a global leader in body-building for buses and coaches to manufacture fully-built buses and coaches for India and select international markets. In 2006, Tata Motors entered into joint venture with Thonburi Automotive Assembly Plant Company of Thailand to manufacture and market the Company's pickup vehicles in Thailand. Tata Motors is also expanding its international footprint, established through exports since 1961. The Company's commercial and passenger vehicles are already being marketed in several countries in Europe, Africa, the Middle East, South East Asia, South Asia and South America. It has franchisee/joint venture assembly operations in Kenya, Bangladesh, Ukraine, Russia, Senegal and South Africa.

The foundation of the Company's growth over the last 50 years is a deep understanding of economic stimuli and customer needs, and the ability to translate them into customer-desired offerings through leading edge R&D. With over 4,500 engineers and scientists, the Company's Engineering Research Centre, established in 1966, has enabled pioneering technologies and products. The Company today has R&D centres in Pune, Jamshedpur, Lucknow, Dharwad in India, and in South Korea, Spain, and the UK. It was Tata Motors, which developed the first indigenously developed Light Commercial Vehicle, India's first Sports Utility Vehicle and, in 1998, the Tata Indica, India's first fully indigenous passenger car. Within two years of launch, Tata Indica became India's largest selling car in its segment. In 2005, Tata Motors created a new segment by launching the Tata Ace, India's first indigenously developed mini-truck. In January 2008, Tata Motors unveiled its People's Car, the Tata Nano, which India and the world have been looking forward to. The Nano brings the comfort and safety of a car within the reach of thousands of families. The Tata Nano has been subsequently launched, as planned, in India in March 2009.

The Company's over 25,000 employees are guided by the vision to be "best in the manner in which we operate, best in the products we deliver, and best in our value system and ethics." Tata Motors is committed to improving the quality of life of communities by working on four thrust areas – employability, education, health and environment. The Company's support on education and employability is focussed on youth and women. In health, it is working through intervention in both preventive and curative healthcare. The goal of environment protection is achieved through tree plantation, conserving water and creating new water bodies and, last but not the least, by introducing appropriate technologies in their vehicles and operations for constantly enhancing environment care.

With the foundation of its rich heritage, Tata Motors today is etching a refulgent future.

**Source:** <http://www.tatamotors.com/known-us/company-profile.php>

### **The Bumpy Ride of a 'People's Car'**

Even before the car could actually roll out to meet people's expectations, it had to face tough challenges from every corner. From the insides of its design rooms to the factory and then into the outside open market, it had to struggle at every stage of its making and subsequent survival. Following are the biggest among them:

- **The big project of a small car – An engineering challenge**

The history of automobile engineering probably dates back to the primitive times when man first invented the wheel. And since then, the wheels of innovation in automobiles have never stopped moving. In 1995, the Group Chairman, Mr. Ratan Tata presented the idea of Indica, as "the Zen's size, the Ambassador's internal dimensions and the price of Maruti 800."<sup>7</sup> There weren't too many who could be convinced, but he went ahead with determination. It wasn't too long before he turned that idea into reality and made Indica one of Tata's flagship brands. Years later, in 2003, a four-member team

from Tata Motors was asked to work on a new project. But this time, it was even more challenging than the former. "It began as an advance engineering project. The idea was to try and create a very low cost transportation with four wheels – it was not even defined as a car"<sup>8</sup>, says Nikhil A Jadhav, Industrial Designer, INCAT<sup>9</sup>, who has worked with the project since its inception. Later, the targets were made specific – to build a complete car whose overall price must not cross the Rs 1 lakh barrier, without compromising on aesthetics, safety, environmental concerns and value to the customers. It was a tough ask for the team who had then went through an uneven journey filled with technical obstacles, cost constraints and differences of opinions within. Often, they had come back to the same place from where they had to start it all over again. The team frequently felt handicapped by costing limitations. Girish Wagh, Head of the Small Car project said, "Our biggest challenge was to keep the balance between cost and performance. The brief was that the vehicle should be attractive to customers without any compromise on quality and

<sup>7</sup> Meenakshi Radhakrishnan-Swami and Rashmi K Pratap, "The Tatas without Ratan", Business Outlook, 3-16 October, 2010, volume 5, issue 21, pp 52

<sup>8</sup> Source: [http://tatanano.inservices.tatamotors.com/tatamotors/index.php?Itemid=210&id=184&option=com\\_content&task=view](http://tatanano.inservices.tatamotors.com/tatamotors/index.php?Itemid=210&id=184&option=com_content&task=view) (Accessed 19-10-2011)

<sup>9</sup> INCAT is a unit of Tata Technologies Ltd. engaged in engineering services and enterprise IT services for manufacturing industries. It has engineering centers in North America, Europe, India and Thailand.

performance. Mr. Tata set the internal benchmarks. The company has done a lot of innovations to bring the cost down."<sup>10</sup> Of course, it was a perfect example of how constraints lead innovations. The team wanted to have alloy wheels but they were too expensive, so they came up with 'style-in-steel wheels' – a concept that looks like alloy but made of pressed steel and costing almost same as the normal steel wheel. While most of the conventional cars have front engines, the Nano team came up with an "out-of-the-box" rear engine concept. It gave a substantial cost advantage to the cost driven project. "While driving from rear is a more efficient way of transferring power; driving from the front is more cost effective as you don't have to take the power to the rear. We thought of taking advantage of both by having a rear engine with front wheel drive. It made the car more low-cost,"<sup>11</sup> explains, Abhay Deshpande, Assistant General Manager-Vehicle Integration, ERC<sup>12</sup> Fitting the engine, the gearbox and the exhaust system into the space behind the rear seats was another big innovation the team had successfully incorporated. Creating an optimum balance between power and efficiency was also one of their greatest achievements. They started with a 544cc, and managed to increase the engine to 624cc with 27bhp. The "Nano Movement" was not only restricted inside Tatas. In fact, many suppliers too contributed significantly in the engineering of various components for Nano. However,

there were also moments of disagreements; it wasn't always easy to satisfy Mr. Tata, who was not only a constant observer of the progress, but also an integral part of the team and provided valuable inputs during the developments. "In the last week of July, 2007 just when the team thought it had it all together and could begin work on the virtual phase, there was one more hiccup. Mr. Tata felt the nose of the car looked snub; while the team felt that the nose gave the car a sportier look. But they went back and did some renderings to increase the nose; it actually helped increase the length of the car as well as internal volume,"<sup>13</sup> acknowledges Mr. Jadhav. When finally the prototype was ready, Tata motors developed a highly skilled 120-member manufacturing team. People were taken from both inside and outside Tata Motors including a vast pool of graduate trainee engineers from IIT Kharagpur and Jadavpur University. With the commitment and dedication of all these people, backed by the visionary leadership of Mr. Ratan Tata, a new significant chapter was added to the never-ending history of break-through automobile engineering. "India's strength in manufacturing of small cars, which has been amply articulated by the development of the Nano, and its frugal engineering expertise positions India as a highly competitive destination for design, development and manufacture of small cars,"<sup>14</sup> says Vishnu Mathur, Director General, SIAM<sup>15</sup>

### Exhibit-2

#### The Shaping of the People's Dream

Nearly 72 hours before the launch of his dream car, Tata Group Chairman Ratan Tata spent 90 minutes with ET<sup>1</sup> for a one-on-one on the making of the people's car. He shares the trials and tribulations he faced during the journey. Here is some text of the interview. **Q: Are you nervous? Is this much bigger than the launch of Indica?** *I think I was much more nervous during the launch of Indica because we had never been in car manufacturing before. We were venturing into a new segment. We are again venturing into a new segment but in a product line in which we have 10 years of experience now. At the time of the Indica launch, you did not know whether the market would accept you becoming a car manufacturer from a truck manufacturer. We took some widely publicised goals at that time that we would be as big as the Ambassador, or we would have the same size of the Maruti or we would have a diesel engine. We made those statements. We didn't know those would be the kind of things the market would go for. So, I think at that time we were much more apprehensive and nervous than we are today.* **Q: If one would really start at the very beginning, what really was the trigger for the idea?** *Basically, just as an Indian, you know, I would be as concerned of my-self as one of the rickshaw pullers in Calcutta running with a rickshaw behind with two people sitting back. It bothered me. My mind will start thinking: Can we put a bicycle there? The same thing bothers me when I visit a plant also. The workers are bending over when the work piece should be raised or maybe they should sit in a pit or whatever. Because I think human fatigue is something that affects safety. So in this particular case, you could not help but notice that there were three or four family members on a scooter, the kid standing in the front, the guy driving the scooter and the wife sitting side saddle holding a little kid. And when you're driving a car, you certainly say, Oh my god, be careful, they may slip. Add to that slippery roads and night time too. Any of these reasons can be dangerous for transport...*

**Source:** <http://economictimes.indiatimes.com/articleshow/2690794.cms>

<sup>10</sup> Source: [http://tatanano.inservices.tatamotors.com/tatamotors/index.php?option=com\\_content &task=view &id=184 &Itemid=210&limit=1&limitstart=1](http://tatanano.inservices.tatamotors.com/tatamotors/index.php?option=com_content &task=view &id=184 &Itemid=210&limit=1&limitstart=1) (Accessed 19-10-2011)

<sup>11</sup> Source: [http://tatanano.inservices.tatamotors.com/tatamotors/index.php?option=com\\_content &task=view&id=184 &Itemid=210&limit=1&limitstart=1](http://tatanano.inservices.tatamotors.com/tatamotors/index.php?option=com_content &task=view&id=184 &Itemid=210&limit=1&limitstart=1) (Accessed 19-10-2011)

<sup>12</sup> Engineering Research Centre of Tata Motors situated at their Pune Plant

<sup>13</sup> Source: [http://tatanano.inservices.tatamotors.com/tatamotors/index.php?Itemid=210&id=184&option=com\\_content &task=view](http://tatanano.inservices.tatamotors.com/tatamotors/index.php?Itemid=210&id=184&option=com_content &task=view) (Accessed 19-09-2011)

<sup>14</sup> Lancelot Joseph, "Zipping Ahead", Business India, July 10, 2011

<sup>15</sup> Society of Indian Automobile Manufacturers (SIAM) is the apex industry association representing the Indian automobile manufacturing industry

<sup>16</sup> Economic Times

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- **Singur Setback– Tatas stuck in between a politicized battle-ground**

The left party comfortably won once again in the 2006 state assembly elections in West Bengal. Their unbroken record of ruling the state consecutively for more than three decades as a democratically elected government continued. The clear verdict from the people was seen as a support for industrial development, growth and employment generation for the immense pool of educated youth in the state, which the left had promised during their statewide campaign. The Chief Minister, soon after winning the elections, proudly announced the “good news” of Tatas selecting the state for their one lakh car project. But things turned dramatically complex when Tatas chose Singur as their location for the small car project. The farmers, backed by the opposite political party, refused to part their land for the project. Subsequently, the State Government took a controversial decision of forcefully acquiring the land from some of the unwilling farmers. Quickly, the whole site became an arena for a prolonged political drama. Unfortunately, Tatas were stuck in between this unsought, unanticipated political conflict. But in spite of the strong resistance, they went ahead with their investment in Singur plant. They invested nearly around Rs. 1,800 crores<sup>17</sup> in the project. But finally they had to give up when it seemed virtually impossible to resolve the ongoing conflict. Consequently, Tatas were offered land by other state Governments to shift their project. Lapping on to this opportunity, the Gujrat Government put forward an attractive package to the Tatas. And almost after 2 years from the Singur debacle, Tatas were able to roll out their first Nano from Sanand Plant in Gujrat<sup>18</sup>. Looking back at that whole Singur crisis, there were two big losers. First was the Left party in West Bengal, who incidentally faced a humiliating defeat and thrown out of power at the 2011 elections. Second was the Tatas, who, during their excruciating journey from Singur to Sanand, suffered incalculable loss in the form of time, effort and money. The India Managing Director Prakash Telang explains that because of the Singur episode, the momentum was lost – and all the hype that was surrounding the product simply backfired because the company was not in a position to meet the initial demand.<sup>19</sup> While announcing his decision to pullout from Singur, Ratan Tata said, “I came to Bengal to be a partner of industrial development of Bengal and returning with great pain in my heart...”<sup>20</sup> Many experts pose the question – “Had the Singur episode indirectly affected Nano’s future?” The answer is certainly, yes.

- **The haunting stats of post-launch**

The first big blow came in the form massive booking cancellations triggered by media reports of the vehicle catching fire on the roads. The company itself recorded 10 such incidents and yet termed them as rare. But they failed to convince the initial buyers who had already booked the vehicle. Out of 1,00,000 bookings, 30,000 were cancelled immediately. Further, from the initial customer database, it became evident that the first 1,00,000 car buyers were not the typical two-wheeler users that the company had originally targeted. In marketing, a wrong target audience is as bad as a wrong product or even worst. The company achieved marginal progress in sales from July 2009 to January 2010. And then peaked in July 2010, when it managed to sell around 9,000 Nanos. But, just after that it suddenly lost its momentum and driven down towards a steady fall. The darkest month was November 2010, when the volume could only reach a dismal 509 units – it’s lowest ever. Carl-Peter Forster, Managing Director & Group CEO, in a recent interview clarified this number saying, “The 509 in November is a classic example where we did not sell 509. We sold a couple of thousand. But it was a stock correction.”<sup>21</sup> Whatever may be the case, but it definitely served as a wake-up call for everyone at Tata Motors. In July, 2011 Tata Motors managed to sell only 3260 Nanos, whereas it’s nearest indirect competitor and a consistent player, Maruti’s Alto, sold 24974 units.<sup>22</sup>

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<sup>17</sup>The Financial Express, “Bengal version of Singur story fuels Tata’s fury”, June 15, 2011, Source:<http://www.financialexpress.com/news/bengal-version-of-singur-story-fuels-tatas-fury/803675/4> (Accessed on 19-09-2011)

<sup>18</sup> The first Nano was rolled out from the Sanand factory in June 2010.

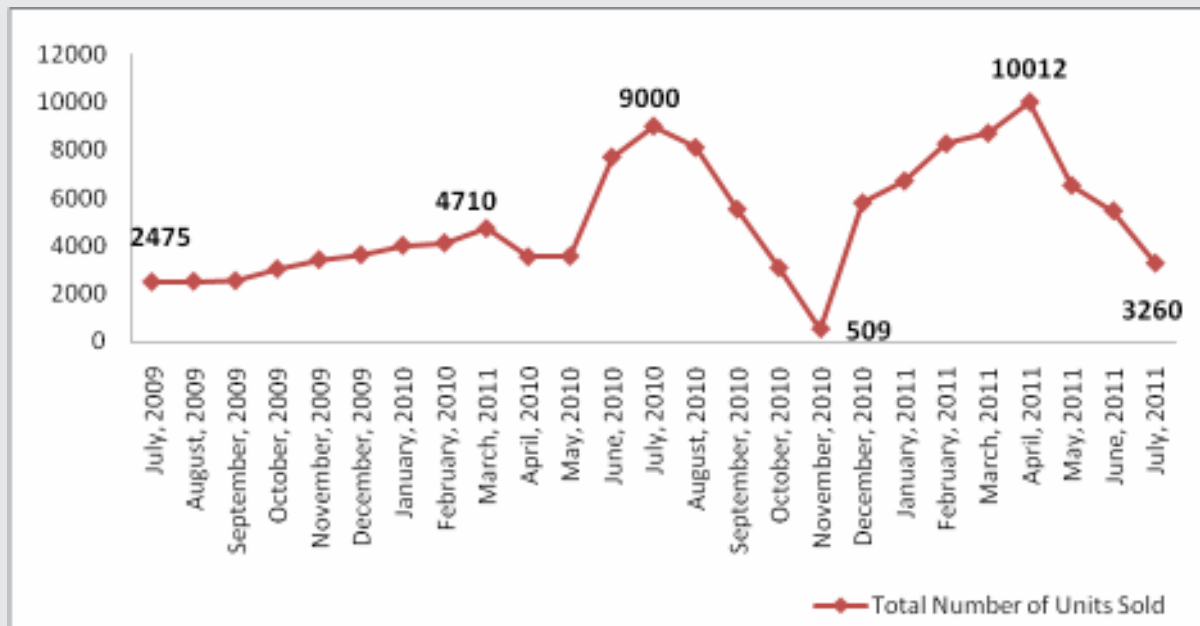
<sup>19</sup> Rajeev Dubey, “Not a Nano Problem”, Businessworld, op.cit.

<sup>20</sup> Santosh Kumar Agarwal, “Ratan Tata Announces Exit of ‘Nano Project’ from Singur”, Ground Report, October 03, 2008, Source: <http://www.groundreport.com/Business/Ratan-Tata-Announces-Exit-from-Nano-Project-in-Sin/2870637> (Accessed on 29-09-2011)

<sup>21</sup> Rajeev Dubey, “Not a Nano Problem”, Businessworld, op.cit.

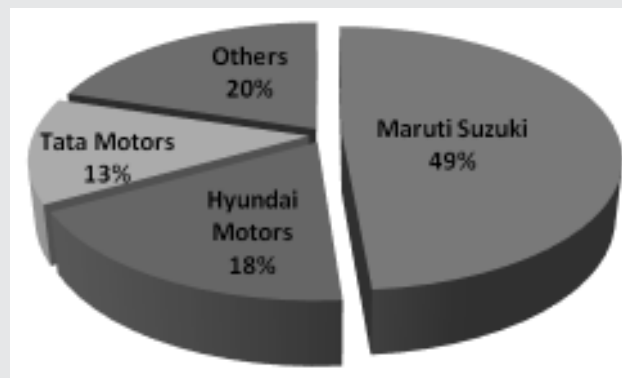
<sup>22</sup> Lijo Mathai, “Analysis of the July 2011 car sales – Indiandrives way”, Source:<http://www.indiandrives.com/analysis-of-the-july-2011-car-sales-indiandrives-way.html> (Accessed on 19-09-2011)

**Exhibit-3  
Monthly Sales of Nano**



Sources: *Businessworld*, 1 August, 2011 & <http://www.indiandrives.com/analysis-of-the-july-2011-car-sales-indiandrives-way.html>

**Exhibit-4  
Market Shares in Total Passenger Car Sales in India**



Source: *SIAM*. 2011

### Headed on a wrong road

There were too many things that went wrong during the crucial introductory phase. Matthew J. Eyring<sup>23</sup> interestingly pointed out in a blog article about Nano as, “A cheap car that’s not really cheap; a safe car whose safety has been questioned; a poor people’s car that poor people aren’t buying. That sounds like a failure, certainly.”<sup>24</sup> There are few things that were perhaps uncontrollable – the recessionary climate, the land crisis at Singur, the rising cost of raw materials and so on. But from a more strategic angle, there are other things that could have been averted or at least dealt differently. Let’s

take a look at the things that actually went wrong for the company.

- **The Advertising Myopia**

The primary objective of advertising is to communicate the value proposition of an offering to its target customers. Initially, the marketing heads at Tata Motors heavily relied on the massive hype and independent media coverage for communicating the Nano. Occasionally, they made brief press releases and were quite content to see regular Nano headlines on every major news papers and

<sup>23</sup> President of Innosight, a consulting and investment firm with offices in Boston, Singapore and India

<sup>24</sup> Matt Eyring, “Learning from Tata’s Nano Mistakes”, January 11, 2011, Source: [http://blogs.hbr.org/cs/2011/01/learning\\_from\\_tatas\\_nano\\_mista.html](http://blogs.hbr.org/cs/2011/01/learning_from_tatas_nano_mista.html) (Accessed on 09-09-2011)

magazines. Active advertising was virtually missing from the scene. Many believed that they are already ahead with *Awareness*, *Interest* and *Desire* stages that follows the *Action* in the AIDA<sup>25</sup> model. Tata Motors justified their initial no-advertising as a step not to exaggerate the overfull demand<sup>26</sup> situation. "There's no point in creating demand (through advertising) when there were pending bookings still to be fulfilled..."<sup>27</sup> justifies R. Ramakrishnan, Vice-President (commercial), Passenger Cars, Tata Motors. Tata Motors stand also implicitly suggested that they were staying away from any additional investments in the Nano project which were seen by them as practically unnecessary. Advertising budget for new products generally constitutes the bulk of the total budgeted investments on a project. Certainly, by eliminating that "extra" cost, Tata Motors tried to minimize their already overshooting investment on a categorically low margin product offering. Incidentally, their first complete commercial to hit television screens was on 10 December, 2010; way too late and just days after the shocking November dispatch numbers.<sup>28</sup> Moreover, Tata Motors never believed in celebrity endorsements of their brands, especially in case of Nano which was projected as a "People's Car". However, some other big players have followed entirely different strategies. For instance, "barely a year after Santro made its world debut in India, HML<sup>29</sup> emerged as the second largest car maker in the country by March 1999."<sup>30</sup> One of the first things Hyundai did was roping in Bollywood's number one star, "Shahrukh Khan" to endorse the brand. Given the popularity of films and film stars in India, the strategy paid off immediately.

- **Delivery Delays – Turning anticipations into frustrations**

Due to the fierce land protests at Singur, the Nano project got delayed by long 16 months. The production for the first 1, 00,000 cars were further delayed. Tata Motors couldn't accept bookings beyond the initial 1,00,000 cars. It kept requesting the willing customers to wait, and wait, and further wait without assuring them of a clear time frame. David H. Maister in his famous article, "The Psychology of Waiting Lines", mentioned that uncertain and unexplained waits feel longer than finite and explained waits. So the wait was frustrating for the anticipating Nano customers who once were actually swept away by the huge hype and were totally ready to take their chances with the product. Tata Motors could not deliver the 1,00,000 units at one or two goes due to their limited production capacity. They had to rely on a limited batch-by-batch production and had to distribute them to the customers on a priority basis. This further increased the dissatisfaction of the customers as their waiting time

kept on getting longer and longer. Also, due to their supply limitations the company initially couldn't open enough official bookings for many potential buyers from smaller towns and cities. Meanwhile, the negative publicity surrounding the fire incidents made some of the customers to back-off from their initial bookings. As a result, around 30 per cent customers cancelled their bookings and many more perhaps never attempted any.

- **Rising Price and a Falling Economy**

Just when Tata Motors seemed to be ready for the commercialization of their highly anticipated Nano, the global economy was hit by a downturn. Many experts thought that India's growing economy is likely to be least affected by this global turmoil. But in reality, that didn't help to regain people's confidence who were concerned about their jobs and income. Under the circumstances, the generally conservative middle-class wasn't likely to take any further financial risks. The whole country seemed to be on a savings mode, postponing their every big investment. Meanwhile, the raw material prices also went up by almost 30-40 per cent, causing Tata Motors to stretch-out their pricing boundaries for Nano. It would be fair to say that Tata Motors were unfortunate to be coincided with the ill-timed slowdown. According to the India Economy Review report, "A continuation of dull domestic sales trend, set in by high interest rates, hike in fuel prices including diesel, high vehicle prices and inflation from the beginning of the financial year showed up in passenger vehicle sales in June 2011. Domestic sales grew by flat 4 per cent to 188710 units in June 2011, weighed down by 275-bp hike in key policy rates as almost 70 per cent car sales are financed."<sup>31</sup> The implications of the report was simple – "*Tough Times Ahead*".

- **Targeting Myopia – A total mismatch between targeted and actual buyers**

Prakash Telang, the Managing Director, India Operations of Tata Motors, confessed, "Of the first 50,000-60,000 Nano buyers, 80 % already owned cars. That meant that we had probably not reached out to the two-wheeler user."<sup>32</sup> Certainly, something had seriously gone wrong with the overall targeting strategy for Nano by Tata Motors. However, it was not about the fundamental validity of the target segment as much, as it was about the accountability of not being able to reach them effectively. The primarily responsible factors were lack of advertisement, insufficient handling of critical issues such as people's safety concerns, and the surrounding negative perceptions. The way a group of customers might react to a particular marketing stimuli, actually depends upon a complex psychological process that

<sup>25</sup> AIDA which stands for Awareness, Interest, Desire and Action is a simple model that explains the customer's motivational levels during a buying process.

<sup>26</sup> It's a market situation where existing supply is insufficient to meet the existing demand.

<sup>27</sup> Rajeev Dubey, "Not a Nano Problem", Businessworld, 01 August, 2011

<sup>28</sup> *ibid.*

<sup>29</sup> Hyundai Motors India Ltd, the 100 per cent subsidiary of the Korea-based Hyundai Motor Company

<sup>30</sup> Lancelot Joseph, "Zipping Ahead", Business India, July 10, 2011

<sup>31</sup> India Economy Review, August 2011, Mumbai

<sup>32</sup> Rajeev Dubey, "Not a Nano Problem", Businessworld, 01 August, 2011

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goes beyond the obvious looking demographic variables. The coming section explores these aspects in detail.

### **Unfolding the Consumer Psychology**

Nano was more an outcome of the intuitive imagination than a concrete concept based on prior field research. In fact from time and again, there was a considerable debate from within Tata Motors regarding viability of this project. But the Tata think-tank perhaps somewhere had seriously misunderstood the potential buyers. As it turned out, the initial bookings for Nano almost entirely came from existing car owners and not from the originally targeted two-wheeler owners. It seems that Tata Motors failed to discover the actual psychology of its target segment. Following may be some of the hidden factors inside what is known as the consumer black box:

- **Not all two-wheeler owners are practically four-wheeler aspirers**

Even at the basic price point, Nano could not be perceived as a viable alternative for two-wheelers. Nano failed to retain its original tag as a “Rupees One Lakh Car”. At 3 to 4 times the price of a scooter or even a 150 cc motor bike, Nano isn't quite stands as a substitute for up-gradation. Moreover, for a large section of the low-income, middle-aged, habituated and satisfied two-wheeler owners, a “car” is something they are not yet comfortable in relating themselves to. The operating cost, rather than initial investment, is what the average customers consider when seeking value for money products. People cannot afford to be impulsive about cars; they do have to think about the regular recurring costs of fuel, driver, insurance, pollution tests, taxes, parking fees, maintenance etc. Even after excluding the optional liability of a driver (which may be essential for many first time buyers), the operating cost cannot be tightened beyond a certain limit. Another factor that is still a constraint for many urban middle and lower middle class families is space. The Nano was initially targeted at bigger cities which are not free from the regular problems of urbanization like large migratory population, cramped infrastructure, congested streets and inadequate housing. Many middle class families living in those cities don't have a proper house for themselves; leave aside any luxury of a personal garage or a parking space. “We can afford a Nano, but where will we keep it? There is no provision for separate garage in our small rented apartments...” points out Mrs. Dasgupta, a young housewife from Kolkata.

- **Price-sensitive customers can be quality-suspicious too**

The Maruti Alto, largely considered as a fuel-efficient, value for money and easy to maintain compact car,

continues to be the largest selling passenger car in India. But the same Maruti, when “attempted to launch an expensive Grand Vitara, the move back fired...”<sup>33</sup> Similar is the case with luke-warm response to Kizashi – the company's attempted entry into the niche luxury segment. It seems clearly that the bottom-up approach has not quite worked well for Maruti. The reverse may be true in case of Tata Motors, which still carries the brand image as a strong, powerful, commercial vehicle manufacturer in India. In July 29, 2003, on the birth anniversary of founder chairman JRD Tata, the company changed its name from Tata Engineering<sup>34</sup> to Tata Motors.<sup>35</sup> It may be seen as a part of a grand strategy to increase their presence and relevance in the passenger car segment. However, Tata Nano is purely designed as a small family car. But with a price tag of 1 lakh, it spurred speculations and debate all over about its quality. In the Indian market, *price* and *quality* together are perceived as factors directly proportional to each other. Therefore in case of Nano, the “low-price over-positioning strategy”, to some extent has automatically created a low-quality consumer perception. We may call this a kind of “Unintended Negative Shadow Positioning”. A category of customers thought the car would not carry a full steel body and may be compromised on some basic features. Though Tata Motors did try to visibly counter all these at the January 2008 Delhi Auto Expo, a substantial category still held the belief that the steel and other materials used in Nano is of poor quality, besides it being not a fully equipped car. This perception was partly built upon the concept of the rear engine that is generally associated with ordinary three-wheelers, and thus didn't go well with many prospective buyers. The initial “thermal incidents”, as the company prefers to call the odd cases of the vehicle catching fire on roads, further reinforced all these beliefs. The widespread publicity of each incident, the spread of negative word-of-mouth and the company's own hesitations to publicly address the issue did the remaining damage to its reputation; of the initial 100,000 bookings, 30,000 cancelled immediately.

- **Why not the Alto? – Evaluating the alternatives**

Due to production delays and rise in material cost, the Nano could not hold its promise as “Rs One Lakh Car”. Currently the base model of Nano is priced at Rs. 1.41 lakh and the top model is priced at Rs. 1.97 lakh<sup>36</sup>. On the other side, Maruti – the specialist of small cars in India had the entry-level 800 and Alto. Though, Maruti 800 was the closest option for customers in terms of price but the later was more suited as it was comparatively new and optically more appealing. The fact that Maruti Alto itself took over the Maruti 800's position in 2004 as the bestselling car, shows the trend that consumers are

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<sup>33</sup> Jamshed Patel, “The curious battle: A heavyweight showdown between a brand and its products”, Business India, August 21, 2011

<sup>34</sup> Tata Motors was formerly known as TELCO(TATA Engineering and Locomotive Company)

<sup>35</sup> “Getting into overdrive”, January, 2004,Source:

<http://www.tata.com/company/Articles/inside.aspx?artid=lluZiQpjZAg=> (Accessed on 29-09-2011)

<sup>36</sup> The Delhi Ex-showroom price of Nano BS IV is Rs. 140,880 and Nano LX BS IV is Rs. 196,956, Source: [http://tatanano.inservices.tatamotors.com/tatamotors/index.php?option=com\\_booking&task=pricelist&Itemid=303](http://tatanano.inservices.tatamotors.com/tatamotors/index.php?option=com_booking&task=pricelist&Itemid=303) (Accessed on 27 September, 2011)



not looking at the price alone. A basic model of Alto reasonably sells at an approximate price of Rs 2.8 lakhs.<sup>37</sup> Therefore, even though being positioned a level below the Maruti 800 and Alto, Nano does indirectly have to compete with Maruti. This competition appears even more tangible when you consider the second-hand car market. For many average buyers, a second-hand deal of Alto is lot more sensible than a decently powered Nano. This is also quite ironic to the fact that Tata Motors had actually depended on the first-time second-hand car

buyers. Practically, a second-hand Alto may even cost cheaper than a fully loaded Nano. And technically, the Maruti Alto is not only more powerful<sup>38</sup> than Nano, but also it is the much established, more trusted, having high resale value and currently the largest selling car of India. Moreover, Maruti, through its True Value Dealership<sup>39</sup> gives customers a plenty of options at the going rate second-hand market prices and also provides quality assurance, free service and maintenance.

<b>Exhibit-5</b>			
<b>On the Race...</b>			
	<b>Tata Nano</b>	<b>Maruti Alto</b>	<b>Hyundai HA (Eon)*</b>
<b>Engine displacement</b>	623 cc and 800 cc diesel	800 cc petrol and LPG	800 cc & 1,100 cc diesel
<b>Mileage (Km/lt)</b>	22	20	22
<b>Price (Rs Lakh)**</b>	1.5-2.1	2.3-3.4	2.1-2.4
<b>Instrumentation layout</b>	1 dial	2 dial	3 dial
<b>Transmission</b>	4 speed	5 speed	5 speed
<b>Length</b>	3,099 mm	3,495 mm	3,500 mm
<b>Power windows</b>	Front	Front	Front

*Source: Businessworld, 5 September, 2011*  
*\*Hyundai was yet to launch HA (Eon). The company did not confirmed these details at that time.*  
*\*\* Prices were based on ex-Delhi showroom for petrol versions*

Initially, banks were hesitant of financing Nano; partly because of the low quality perception and partly because of the high volume projected by Tata Motors. Ashok Khanna, the senior executive vice-president and head of auto loans at HDFC bank confesses, "...we felt we were not equipped to handle the volumes they are talking about. We would over-burden the branches."<sup>40</sup> Realizing the fact that 85 per cent of all cars sold in India are financed, Tata Motors Finance<sup>41</sup> came out with an introductory offer of 8.99 per cent rate of interest against the market rate of 13.5 per cent. This interest rate and the initial down payment were very crucial aspects especially for the budget constraint target segment. But in spite of that, customers were not convinced. Even if a customer decides to buy a new Alto, he could do so by making a similar down payment with plenty of financing options from different banks. The affordability remains nearly same for the customers who are able to adjust with a 1-2 years of extended EMI<sup>42</sup>. "I went Tata showroom to see the Nano and the car seemed to be ok...", remarks Manish Agarwal, a local businessman from Siliguri, West

Bengal, "...but I also checked in to Maruti and found a 2008 Alto Lxi on offer from its True Value. At just 1.45 lakhs, I didn't miss the deal," he adds smartly and smiles.

• **The "Wait & Watch" Segment – A late majority**

Talking about "Bottom-of-the-pyramid" target has become a fashionable mantra for every new venture. But while launching a new, innovative, but yet high investment product, this bottom-of-the-pyramid often doesn't translate itself into a formidable segment of early-adopters. In fact, Nano turned out to be a classic example, where the actual mass reacted with caution, reservation and prolonged evaluation. Cars, even at a Nano's price-point still remain as a high involvement specialty product in India. While, the early fire incidents made the willing customer to suddenly hold on; the "wait-and-watch" tendency was further reinforced by rumors and reports of other manufacturer's plans to take on with the Nano. At that point perhaps the company could have immediately launched a more effective damage control publicity campaign followed by aggressive persuasive advertising. But their strategy wasn't proactive.

<sup>37</sup> The Delhi Ex-showroom price of Maruti Alto Green Std BS IV (Non Metallic) is Rs. 2,792,47.27, Source: <http://www.marutisuzuki.com/prices.aspx> (Accessed on 27 September, 2011)

<sup>38</sup> Nano has low capacity 623cc two-cylinder rear engine compared to the 800cc (approximately) four-cylinder front engine in Alto.

<sup>39</sup> True Value is a Maruti Ceritified Second-hand Cars Dealership.

<sup>40</sup>Rajeev Dubey, "Not a Nano Problem", Businessworld, 01 August, 2011

<sup>41</sup> A 100 per cent subsidiary of Tata Motors set up primarily to finance the products of Tata Motors.

<sup>42</sup> Equated Monthly Installment

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## • The Dogmas & Dilemmas

An important aspect for first-time car buyers, especially for the average Indian middle class is the status symbol that a car reflects. From the Indian societal context, buying a car is generally considered to be a huge leap towards lifestyle and status upgrade. Tata Motors has itself acknowledged the fact that many customers, especially from smaller cities and towns are not too comfortable with the sophisticated purchasing process for cars. R. Ramakrishnan, Vice-President (Commercial), passenger cars says, "Many (two-wheeler) customers feel shy in a swank showroom".<sup>43</sup> On the opposite side, there are also a group of customers, who are a bit on the higher income side, are more inclined towards the higher-ranged options (including the second-hand options), simply because of the low status perception associated with Tata Nano. This is where, Maruti gets the advantage because, definitely Alto (first-hand or second-hand) was still better positioned as a first car option than Tata Nano in spite of its ultra low cost USP.

Cars are more often perceived as a status symbol than necessity in India. Many premium luxury brands that have entered India during the recent past, have managed to find a substantial niche who have upgraded themselves from mid-size to executive segments<sup>44</sup>. The Indian society is now fast transforming into a consumerist market from a traditionally conservative market, where the growing middle class is continuously looking to upgrade their lifestyle. This consumer trend has encouraged companies to come up with product lines that offer products with incremental value propositions for the Indian market. Maruti Suzuki, for example offers the highest number of variants in small cars which are positioned hierarchically at gradual price points. Generally, a second-time car buyer looks to upgrade him in this hierarchical order. For example, an existing Maruti Alto owner while considering buying his second car would preferably look for a Wagon R, Estilo, Ritz or similar/higher offerings from other manufacturers. Interestingly, during the buying process, that is, Need Recognition, Information Search, Alternatives Evaluation, Selection and Purchase, consumers often trade-offs between two adjacent hierarchical offerings and voluntarily moves up their desire to the next level. Therefore, it is not uncommon for an existing Alto owner who is considering a Wagon R, but finally end-up buying a Swift which is perceptually and price wise ahead in the hierarchical order. However, for an ordinary first-time car buyer, the choice of his first car may become quite a dilemma, where multiple factors like utility, efficiency, price, quality and status collectively intermingles to resist a quick decision-making.

## Conclusion

Tata Nano's failure to make an impressive entry into the market may be attributed to a number of causes. Some of the problems that they faced initially were somewhat unexpected and unavoidable such as the Singur crisis and the subsequent uncertainty over the economic climate. However, it won't be unjustifiable to say that there were some major marketing mistakes happened early on. One of them was the failure to understand and address the actual consumer psychology of the target buyers.

Tata Motors, learning from its earlier mistakes, has revamped its overall strategy with the Nano. The first among them was revamping its distribution strategy. The thrust was given to smaller towns and rural India. They planned to open more than 300 exclusive dealerships, which are mostly targeted at tier-3 and tier-4 towns. In its bid to eliminate quality fears from the minds of its prospective customers, Tata Motors has increased the warranty from 18 months to 60 months and 24,000 km to 60,000 km. Besides, the company has also offered an attractive Rs. 99 per month maintenance contract to its customers<sup>45</sup> and Rs 15,000 down payment option for financing. Further, in terms of advertising, Tata Motors launched new campaigns especially with Nano 2012 edition. In order to increase Nano's visibility, they also tied up with Kishore Biyani's Big Bazaar to display Nano.<sup>46</sup> Tata Nano's new catch-line – "*Aapki Khushiyon Ki Chaabi*" (Key to your happiness), connects much better with the target audience than the earlier – "*Now You Can*".

The Indian small car market has become more dynamic than ever. The pricing gaps are increasingly diminishing between segments. Hyundai rolled out its much anticipated Eon in October 2011. Though, the Hyundai Eon skipped the ultra low cost market of Tata Nano, and is thus perceived to pose no direct competition, but still there will be a section of the targeted Nano customers who will include Eon in their product comparison charts, besides the existing Alto. Moreover, Since Nano hasn't made a substantial impact on the sales of other cars, particularly Alto; therefore some manufacturers would be looking at the possibilities of pitching products in between them. Maruti is set to replace its iconic 800 with Cervo with a price range of 1.75 to 2.75 lakh.<sup>47</sup> Beside Maruti, Bajaj Auto is also not too far behind with its small car project. Therefore the road ahead is challenging for Nano.

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<sup>43</sup> Rajeev Dubey, "Not a Nano Problem", Businessworld, August 01, 2011

<sup>44</sup> According to new SIAM classification, there are Mini, Compact, Super Compact, Mid-Size, Executive and Premium sub-segments in Category-A of Passenger Vehicles.

<sup>45</sup> Rajeev Dubey, "Not a Nano Problem", Businessworld, August 01, 2011

<sup>46</sup> Rajeev Dubey, "Not a Nano Problem", Businessworld, August 01, 2011

<sup>47</sup> Vishal Krishna, "The New Arrival: Hyundai's new small car comes with big promises", Businessworld, 5 September, 2011

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