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## Growing Pains of the Tata Nano

When Tata Motors, the automaker from the \$68 billion Tata Group of India,<sup>1</sup> announced the launch of a people's car in 2003,<sup>2</sup> the idea had everything in it to make the Indian middle-class dream of owning their first car come true. Nano looked to be the perfect platform to reap the fortune at the Base-of-the-Pyramid (BoP),<sup>i</sup> and more importantly, showcase to the world how frugal innovations in the developing world could create affordable cars with a price tag of \$2,500.<sup>3</sup> The rising affluence among the target audience, the middle class of India and thriving rural residents, seemed to hold enormous potential.<sup>4</sup> Purchasing power appeared apt, with increasing inflow of expatriate income and the rising salaries of the young workforce in IT and other sectors.<sup>5</sup>

Prompted by increasing competition within the banking sector in India, more banks were vying to lend car financing to customers for the first time, creating a rosy prospect<sup>6</sup> for Tata Motors and its new car, the Nano. It appeared that the stage was set for the overwhelming acceptance of Nano. Moreover, with the recent acquisition of Jaguar and Land Rover, Tata Motors had the technical and financial muscle of being the top automaker in India.<sup>7</sup> The credibility Tata Group enjoys as one of the most respected business houses in the world added authenticity to the claim, and buzz to the idea, that they could in fact deliver the car of the people and for the people.<sup>8</sup>

Tata Motors placed big hopes on India's small towns. In addition, the company saw potential from a significant number of senior citizens and existing car owners who might opt for a second or third car for short rides. It was predicted that rising rural incomes would push more rural people to move from two-wheelers to cars, with the low-priced Tata Nano being the first affordable option.<sup>9</sup> "I hope it will be seen as the car...which changes the manner in which people in rural and semi-urban India will travel," said Mr. Ratan Tata, the Chairman of Tata Motors.<sup>10</sup> While Mr. Tata saw the potential, not all agreed. "A two-wheeler is a necessity, while a four-wheeler is looked at as a luxury in India," said a competitor.<sup>11</sup> Not only that, but potential owners must factor in the running and maintenance cost of a four-wheeler. "Later on, we did calculate that it would be three times that of owning a motorcycle," added the competitor. Add issues of parking space, road width, and security of the vehicle. "You have to understand that the average two-wheeler fellow lives a very humble existence, probably in spaces where the car would not even reach his doorstep," said the competitor (this is a genuine concern in India, given that the streets and sub-streets in many areas are very narrow, particularly in densely populated urban areas).

i The Base-of-the-Pyramid (BoP) refers to the billions of people who live on less than \$3,000 per year in the informal economy of the developing world. This poverty creates an urgent societal need and presents a vast potential opportunity for business growth. Intelligent, informed management can address both aspects successfully.



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