7 Tata Nano: The Car for the Bottom-of-the-Pyramid

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7.1 Case Overview

"If ever there were a symbol of India’s ambitions to become a modern nation, it would surely be the Nano [...] which encapsulates the dream of millions of Indians groping for a shot at urban prosperity."

(David Pilling 2008, Financial Times)

When Tata Motors Ltd. announced the development of an automobile with a selling price of one lakh (equal to USD 2,500 or EUR 1,500) in May 2003, domestic and foreign automotive manufacturers did not believe in the feasibility of the project. “If you think about the direction that safety and environmental standards are going in India, you cannot sell a car for that kind of price,” argued Osamu Suzuki, CEO of Maruti Suzuki, whose company still dominates the Indian small and mini car segment (Financial Express 2006). Other industry insiders questioned the defensibility of the announced selling price of USD 2,500 in times of raising steal and raw materials prices (Mitra 2008; Rowley et al. 2008).

Despite this scepticism, Ratan Tata, CEO of the Tata Group, declared that the Nano will set an example and will create a new bottom price in the mini car segment which enables millions of people at the bottom of the pyramid to possess their own car (Freiberg et al. 2010). To achieve this goal, Tata cooperated with various Indian and foreign suppliers as well as other business partners. Together with Fiat, as its strategic partner, Tata built up a production facility in which disruptive innovations were integrated into the production process. Finally, the Nano was launched in the Indian market in April 2009. One month after the market launch, over 200,000 people had already placed purchasing orders.

In this case study we will outline the conditions in the Indian automotive industry and analyse the market position of Tata Motors. Moreover, the development of the Nano is described and its future potential in India and on foreign markets is discussed.

7.2 The Indian Automotive Industry

“India is one of the fastest-growing markets in the world. It offers significant potential for profit growth.”

(Carlos Ghosn, CEO of the Renault-Nissan (as cited in Madslien 2007)

7.2.1 Policy and Regulatory Framework

Until the 1980s, the Indian government protected state-owned automobile manufacturers from foreign competitors through high import tariffs and the prohibition of foreign direct investments. A market entry of foreign car manufacturers was almost impossible. However, in 1983, the Indian government agreed to a license and joint venture agreement between the