Case of Tata Motors' Nano

Developing new business models often starts with envisioning a clear value proposition. Johnson et al. (2008) illustrate this point with the example of Indian Tata Motors. India has the phenomenon of so called "scooter families" – parents with their children who drive together on one scooter. Driving a small motorbike with three, four or even more people is a normal way to move in India, often times without helmets and no matter the weather conditions. "When Ratan Tata of Tata Group looked out over this scene, he saw a critical job to be done: providing a safer alternative for scooter families" (Johnson et al., 2008, 54). The idea for the Tata Nano was born. A car that is cheap enough to allow scooter families to change from vulnerable motorbikes to safer automobiles – a powerful value proposition. Offering safe and affordable transportation that previously wasn't attainable for the average Indian family would obviously create value for customers, however, to capture that value Tata Motors needed to realize a viable business model.

Therefore, the next challenge for Tata Motors was to determine if there could be a business case, i.e. a profitable market opportunity, for this value proposition. India has millions of people in need of safe and affordable mobility solutions; but how to offer a cheap car and earn money with it (the most basic Nano sells for below 3,000 Euro)? Tata developed a financial model based on high sales volumes, which was realistic due to India's large population and the widespread need for an affordable solution. In hoping to maximize profits through economies of scale, the company calculated with a rather small profit margin per car to keep prices low. Moreover, the Nano was designed to be a practical car. As many "luxury" elements as possible were eliminated from the car design, without reducing safety.

The creation of the Nano value proposition breached a whole new market for Tata Motors. For this reason, designing and manufacturing the Nano required resources and capabilities that did not exist within the existing company. Tata looked externally to hire young engineers who were not pre-occupied with the company's business as usual and traditional car designs. The minimalist design and outsourcing of 85 percent of the car's components while simultaneously reducing the number of suppliers by 60 percent, led to drastically reduced production costs as compared to Tata's traditional manufacturing model. Altogether, Tata's vision of safe and affordable cars for scooter families led to a new business model with a value proposition that is clearly focused on making people move in a safer way rather than on enhancing the style and feel of moving, which, contrastingly, has been the primary approach in traditional automobile marketing. Furthermore, the economics of the Nano and its manufacturing model are profoundly different from the company's usual approach.

While Tata offers a valuable product to average Indian families who can now move safer, this offering has remarkable side-effects: a rapidly growing number of cars on Indians crowded streets, a growing consumption of natural resources to produce and use the cars as well as increasing CO_2 emissions, which in turn pose a threat to human health. That is, while the Nano value proposition caters to the needs of scooter families it also leads to conflicts with the values of stakeholders who are concerned about ecological sustainability and responsibility.

Another kind of conflict related to the Nano has to do with the relocation of one of Tata's Nano factories. In 2008, Tata had to leave Singur, an Indian town in a rural region of West Bengal, because of land conflicts that were, and still are, overlapping with political conflicts around pro- and anti-industry positions. In consequence, Tata had to leave Singur because 2,400 farmers claimed their land back (Business Standard, 2016). Besides these problems in Singur, the Nano has not become the big commercial success that was initially anticipated. The plant was moved to Sanand with an annual production capacity of 250,000 cars. However, sales figures are discouraging: "Nano sales have been dwindling since 2011-12, when it sold 74,521 cars but the sales dropped to … 16,903 cars in 2014-15." (Business Line, 2016) Additionally, Tata workers at the Sanand factory went on strike in February 2016 to fight for the reinstatement of suspended workers.

What can be learned from this case is that a strong and socially motivated value proposition might be beneficial for particular target groups. But whether it is also beneficial for the company, its employees, and local stakeholders is another issue. That points to the importance of a normative management approach that considers the whole business environment and creates according corporate identities and policies to inform strategic and instrumental innovation.

Questions (chapter 5.4):

1. How does the value proposition impact the business model?
2. Did an external or internal force lead to strategic values-based innovation at Tata Motors? What internal changes did this new value proposition spur?
3. How did the business model innovation of Tata Motors help tackle societal issues? Which societal issues are being addressed?
4. What are motivating values that made Tata develop the Nano – do you see a tension between traditional business motivations and the idea of offering safe mobility to otherwise vulnerable families?
5. How do you evaluate the trade-off between safety for families and children, and increasing traffic, resource consumption, and emissions to the environment? Is this trading-off responsibility against ecological sustainability?
6. Can you think of another example of a company addressing social issues using an innovative value proposition or business model?
7. Compare the story of the Tata Nano and its product-related values to those of other cases of people's cars (like Fords Model T, the Volkswagen Beetle, the British Motor Corporations Mini or the 2012 people's car crowdsourcing project by Volkswagen in China).