

Tata Nano: Poor Man's Car or Radical Innovation?

by Gerard J. Tellis

On Monday, President Barack Obama challenged the United States automobile companies to create a credible model to survive and succeed in the competitive global market. That market now has a new entry, the Tata Nano, launched in Mumbai, India, a week ago. It is easy to dismiss the Nano as a small, basic, poor man's car that will cause a mere ripple on the world market. The Nano defies this initial perception—it represents a radical innovation that has the potential to revolutionize automobile manufacturing and distribution.

The Nano incorporates three innovations, which together make it huge. First, the Nano uses a modular design that enables a knowledgeable mechanic to assemble the car in a suitable workshop. Thus, Tata can outsource assembly to independent workshops that can then assemble the car on buyers' orders. This innovation not only removes costly labor from the manufacturer's side but also allows for distributed entrepreneurship on the dealer's side. Second, the low cost of the Nano comes from a combination of its exclusion of frills and luxuries and its inclusion of numerous lighter components, from simple door handles and bulbs to the transmission and engine parts. The lighter vehicle enables a more energy efficient engine that gets 67 miles per gallon. Third, the Nano's novel design incorporates a much smaller footprint—at 122 inches long, it's one of the shortest four-passenger cars on the market—yet it allows for ample interior space.

These innovations have enabled Tata to introduce the Nano at a base price of \$2,000, less than half that of the next cheapest rival in India, the Maruti 800. The low price has triggered worldwide interest in the car and a surge of orders even in a struggling auto market. It promises to make Tata a well known name, more so than as the recent acquisitions of Jaguar and Land Rover that weakened it financially.

The Nano's dramatically lower price harks back to origins of other radical innovations that reshaped various markets. In 1908, Henry Ford revolutionized automobile manufacturing and ownership by introducing the Ford Model T at \$850, when rival cars sold for over \$2,000. In the 1930s, Ferdinand Porsche opened car ownership to the German masses with the introduction

of a simple, economic, “people’s car”: the Volkswagen. In 1906, King Gillette revolutionized the razor market and initiated daily shaving with the introduction of the safety razor with blades that sold for 5 cents apiece, a fraction of rival razor system of that time. In these and many other cases, the product itself or its manufacture involved many innovations. But the culminating innovation was the lower price that revolutionized the existing market.

Targeting a low price was one of the goals of these innovators to unleash the mass market for these goods. The Nano could also unleash the mass market for cars in India and in the rest of the developing world.

Most importantly, the Tata Nano represents a type of radical thinking that the United States auto companies lacked and that may have given them a way out of the deep rut in which they now spin their wheels. The U.S. auto companies have had several warnings of the type of car that the world needs. These warnings have come in the way of emission and fuel efficiency standards passed by the EPA and various state agencies. Unfortunately, the U.S. auto companies have typically resisted these standards. In contrast, they focused on large, high margin cars that are also gas guzzling and polluting. GM’s Hummer epitomizes this mentality and represents a stark contrast to the Tata Nano.

The problems of energy scarcity, environmental pollution and road congestion should not discourage Ratan Tata from making and selling as many Nanos as he can. Firstly, the Nano is more energy efficient and affordable than any other car. Moreover, the explosion of vehicles will force regulators to control pollution, pressure governments to build better roads, and motivate innovators to produce more efficient engines. A perusal of the history of innovation shows that great innovators brought the goods enjoyed by the elite to the masses. Tata’s Nano will go up as another example in this inspiring history. While some argue that the recession is a bad time to launch new products, a body of research shows that new products are the least resistant to recessions. Indeed, the Nano has the potential of flourishing despite the recession or softening its sting because of its extraordinary price. It’s a radical innovation precisely because it is a poor man’s car.

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