

The Nano Story

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On the 23rd March 2009, the Tata Motors Company launched its much publicized small car 'Nano' at Mumbai. As the Sanand plant at Gujarat is at its inception now, a makeshift arrangement has been made to produce 50,000 units at their Pantnagar plant. Limited numbers of prospective buyers will receive their cars after three months, in June 2009. It is reported that the basic model priced at Rs one lakh (ex-factory without transportation cost) without air conditioning will contribute only 20 percent of the Nano sales and rest 80 percent will be contributed by the premium models priced at around Rs1.6 lakh.

The TMC's strategy on the Nano draws a striking similarity with the General Motors' (the US auto major currently struggling for its survival) global production strategy in the late 1980s that was based on 'simple and flexible manufacturing plants; global sourcing of automobile parts; rapid introduction of new models; and a lean dealer net work'. This strategy had shown success in Europe and it was introduced in Brazil in the early 1990s, with a goal of applying it in Asia, Eastern Europe and ultimately in the United States. Later Ford and other major automobile companies also followed the same model.

In 1997 GM made the Blue Macaw Project the centipede of its Brazilian strategy. GM chose the state of Rio Grande do Sul as the site. The project revolved around a new automobile assembly plant with an annual capacity of 150,000. The plant produced a stripped-down version of the Opel Corsa, a subcompact car, with an under \$10,000 price tag. Among the advantages of locating in Rio Grande do Sul were geographical proximity to the Southern cone's major markets in southern Brazil, the Buenos Aires region of Argentina and Uruguay. In return for agreeing to build the \$600 million plant in a lightly industrialized area, GM received a package of subsidies from the state government of Rio Grande do Sul. The subsidies amounted reportedly to \$250 million, and the tax breaks appeared to have the potential to equal \$1.5 billion over a 15-year period. GM executives maintained that in the absence of these subsidies, the firm would have located the plant in a more developed part of Brazil. In 2000, the GM plant employed 1,300 workers, and locally based suppliers employed another 1,300 workers. The plant housed 20 suppliers, the most important of which were US, French and Japanese companies. GM outsourced all components except power trains, body welding, body panels, paint, and final assembly. Similar activities were planned in the TMC's mother plant at Singur. The main thrusts were on body welding, body panels, paint, and final assembly. Major components were to be supplied by other ancillary companies.

In May 2006, when Tata Motors had announced its decision to start an automobile factory at Singur (West Bengal) to roll out the world's cheapest car Nano. The actual launch of the car in Mumbai in March 2009 was an important phase in the automobile history of the world. This brief history of Nano has taught people how a large corporate house could (i) use, to its advantage, the unhealthy competition among different states to attract large capital; (ii)

effectively use the parliamentary politics as a business strategy to convert an internal crisis into an advantage. Politics has played an equally important role, if not more than business economics, in shaping the future of Nano.

The supportive role of the 'state' in the expansion of large capital is a controversial and much discussed topic. This symbiotic relationship between the state and large capital had worked successfully throughout the 19th and most decades of the 20th century. In India, the Tatas did not rely much on the nascent 'State'. They constructed their own power plant to supply electricity to its factories, managed schools, research centers, municipalities etc. To ensure steady supply of management staff, created Tata Administrative Service (TAS) in line with the Indian Administrative Service. Till the early 1980s, the government role was considered as regulator only. One of the major changes that Mr Ratan Tata had brought about in the Tata House after he succeeded JRD Tata in the mid-1980s was the group's attitude towards government. In the changed situation, the Tatas decided to involve the government as their business partner. The group's involvement in the Karnal refinery project with Indian Oil Corporation (which did not take-off), Ratan Tata's acceptance of the Chairmanship of Air India and his close advisory relationship with Rajiv Gandhi could be cited as indications of change in attitude towards the government. The relationship between the state and the group improved over the years and during last two decades; the Tatas have succeeded in extracting substantial benefits from the state. Allocation of vast agricultural lands by various state governments to the Tata companies, say for shrimp cultivation at Chilka (1991); steel plants at Gopalpur on Sea(1995)and Kalinga Nagar (2004); automobile plants at Singur (2006) and Sanand (2008), are few such examples. There were resistance against all the above projects; many protesters were killed and none of the projects have been put into operation till date. But except in Chilka, the Tatas have not returned a single acre of land to the government/cultivators. With the passage of time, when the protest movements dwindled, the Tatas have increased their grip (as seen in Gopalpur) on the land.

Singur is not an exception to this trend. Though Tata Motors had abandoned the Singur project in October 2008, till date it has not returned the land to the farmers. Instead, recently it expressed its willingness to renew the lease agreement for another year. The Chief Minister Buddhadeb Bhattacharjee's reported comment in an election rally on 11 April (ABP, April 12, 2009), expressing his desire to return to Singur to build the Nano factory adds to the speculation that the Tatas' decision to abandon the project midway was nothing but a well planned strategic retreat. They will return back to Singur at the most appropriate time.

The decision to abandon the Singur project has benefited both Tata Motors and the ruling Left Front government of West Bengal. It was a win-win situation for both the parties. In a twosome game, no one recognizes the third or fourth parties and they remain beyond the fence, as silent spectators. However, in Singur, the third and the fourth parties namely local peasants and civil society organizations did not remain quiet. They have made their voices heard across the country.

The most crucial gain for TMC was to get seven extra months between November 2008, when the launch was initially scheduled, and March 2009, when Nano was actually launched. This additional seven months have benefited the company in two ways.

First, the production cost could be reduced. Now, the cost of production is much less compared to last year. Since January 2008, the prices of two major inputs namely cold rolled steel and rubber have decreased by 28 p.c. and 19 p.c. In addition to this, the government has slashed the excise duty from 16 p.c. to 8 p.c.. Moreover the price of crude oil has also decreased by over 51 p.c. in the said period.

Second, TMC has an opportunity to mobilize funds, at a negligible cost, by asking the prospective buyers of Nano to place deposits in advance. This has been made possible at a time when the company has been facing severe financial crisis. *The Economist* (March 26, 2009), has estimated that prospective Nano customers are expected to place deposits worth up to \$1 billion with Tata Motors at the time of placing order for the car. The company will retain that amount, without paying any interest, for at least three months before the first phase allocation of limited numbers of cars are complete. And those willing to be considered for the second batch will be paid interest, below the market rate, after one year. Had TMCs launched Nano, as scheduled before, in the month of November 2008 at a time when the economy was worst hit, the Tatas could not have been successful in mobilizing such a huge sum of money at a negligible cost. By July–August last year, Tata management could realize that the impact of the global recession would be severe. It may be recalled that the crude price per barrel went up to \$147 in July 2008. Certainly that was not a conducive situation to launch a motor car targeting price sensitive middle-class clients. They were just looking for an excuse to delay the project and buy some time- till the economy shows some signs of recovery.

Like other steel and automobile companies across the world, the Tata companies have also been affected adversely by the super recession the global economy had been passing through for the past one year. For them, the problem got more harsh due to some expensive acquisitions in the overseas market. After the takeover of European steel major Chorus by Tata Steel, Tata Motors acquired the British auto firm Jaguar Land Rover (JLR) in June 2008, paying a hefty sum of \$2.3 billion. Since then, sales has fallen 22 p.c. production has been slashed by 60 p.c. 1800 jobs have been cut and Tata Motors have pumped in \$1.2 billion of working capital into JLR. As the condition did not improve, in March the company has approached the British government for a loan guarantee of \$730 million. Added to this, back home, the sales of the Tata Motors' heavy vehicles have fallen by 60 p.c. (may be to utilize the excess capacity, Nano is being assembled in their Pantnagar plant). All these factors have put the company into a severe crisis and their credit rating in March 2009 has fallen to B3 from B1. Moreover, for the first time in recent past, Tata Motors incurred a loss of \$54 million (approximately Rs 270 crore) in the quarter ended December 2008. It has been reported that this year Tata Motors faces a funding gap of at least \$3.4 billion. Out of this, \$2 billion has to be repaid by June 2009. During such a financial crisis, Nano has emerged as a savior.

Decision to abandon the Singur project has helped TMC extract huge concessions from the Gujarat government also. To understand the strategic move of the company, one will have to relook closely at some of the major political events those occurred immediately before the move. The official Left had withdrawn support from the UPA government in the center; signs of a prolonged global recession were getting prominent in every passing day and in West Bengal, the LF government, the main sponsor of the project was under severe political pressure due to pathetic performance in every aspects- political, economic and social. Civil society organizations were on the street seeking justice against atrocities of the ruling party. Competent managers of Tata Motors, through their accurate assessment of political environment and timely intervention had turned a threat into a huge advantage. Under the changed situation, keeping in mind the future plan of their dream car, they realized that Gujarat could be the only other state which could be made to compete against West Bengal. The Gujarat chief minister Narendra Modi was contacted secretly and he fell victim to the ploy immediately. Thus, Tatas succeeded in extracting huge concessions from the Gujarat government also. Probably the benefits were much higher than the prohibitively large concessions, details of which are yet to be revealed, they had obtained from the West Bengal government.

This strategy to extract maximum benefit from the competing states was not new. As observed elsewhere above in this article, in the 1990s, the US auto giants General Motors and Ford had successfully implemented this strategy to obtain maximum concessions from the provincial governments of Brazil. Analyzing the impact of such investments on local economy, G H Hanson (2001) in his paper, 'Should Countries Promote Foreign Direct Investment?' had raised a very important question. He asked, if it was true that the benefits of FDI for host countries were insufficient to justify FDI promotion policies, then why did host-country governments continued to offer multinationals special treatment? According to him, there were two main reasons. One, the governments felt compelled to offer concessions given that multinationals subjected their location decisions to bidding by potential host-country governments. Second, promoting such investment, served the interests of host-country politicians. Attracting multinationals either had benefited specific constituencies, from whom politicians derived support, or fitted into the political strategies of empire-building. The second reason cited in Hanson's analysis aptly explains the political motives of the government of West Bengal and Gujarat in siding with the Tatas in this controversial project. Tata Motors have understood accurately the political interests and compulsions of the state governments. They simply exploited such weakness to their advantage. In 2006 also they successfully implemented the same strategy before selecting the Singur site. At that time, they projected Uttaranchal as another likely contender for the Nano project. The West Bengal government out of desperation, walked into that trap and ended up offering huge economic concessions to the company.

The political compulsion of the LF government becomes more clear when one analyzes the state government's enthusiasm to attract large business houses, including foreign firms, to the state in which over 55,000 small and medium firms have been closed during last three decades. Contrary to the general

expectation that the LF government would extend all kinds of support to the small and medium entrepreneurs of the state, in reality, they did the reverse. The political logic is obvious. Financially strong local entrepreneurs would aspire for political power which the ruling parties in West Bengal are not willing to share with . As entrepreneurs from other states/overseas countries would remain focussed on business activities only, political risk is much lower in such cases. Maybe, due to same political reason, the number of local entrepreneurs in China is very limited. Foreign capital and transnational corporations are welcome there.

The low price of the car and its unique production strategy that was based on 'simple and flexible manufacturing plants; global sourcing of automobile parts and rapid introduction of new models' have compelled the management to follow an innovative promotional strategy to establish the Nano brand within a very short time , across the country, at a limited budget. Seven months delay in the launch of the car and the associated controversy the project has generated due to the abandonment of the Singur plant, has helped Tata Motors achieve that objective. The production model remains an area of concern for them. Tata Motors' dream car has a striking similarity with another product, the IBM PC, launched by IBM in 1981. Except for its name, IBM had contributed nothing in that product which had brought in a revolutionary change in the economic and social activities across the world. In that PC, all critical components were supplied by other companies like Microsoft, Intel and Seagate. But clone makers realized trick quickly. They purchased the critical components from the original suppliers, assembled the same as per the standard set by IBM and flooded the market with low priced IBM Compatible PCs. Thus IBM failed to retain its control on the PC market.

Most of the critical components of Nano will be supplied by other companies. For example, BOSCH will supply the engine, alternators, brakes etc. LUCAS-TVS; TACO; RICO; Sundaram Clayton; Rasandik et al will provide various other critical components. (*Hindu, Business Line*, March 23,2009). In future any expert mechanic may assemble a Nano Compatible small car procuring the critical components from the market. Apprehending this, Tata Motors has reportedly applied for patent protection for over 37 inventions and innovations linked to its Nano. Industry watchers have interpreted this as an aggressive move to protect the low-cost car against imitation. But mere patent protection may not be sufficient to stop imitation at the local level. So the Tatas have opted for an aggressive strategy and tied up with 15 national banks to market their dream car. And to establish the brand with a limited budget, from day one they have consciously relied more on fuelling controversies than spending millions of rupees on advertisements. During last one year, the attention Nano has received from the press and political parties was unbelievable. Thousands of tons of news prints and hundreds of hours of prime television and radio time in all the national and regional languages have been used for Nano related news and stories. The more the controversies, the more the mileage for the Nano brand. The timing of the launch on 23 March, just before the election, was also meticulously thought of. Nano has emerged as a major election issue in Gujarat and West Bengal- more in case of the latter. The sarcastic remarks by Mr Ratan

Tata, an urbane gentleman, during the launching ceremony of Nano should be analyzed as a tactical move to fuel and sustain the Nano controversy.

Most probably, Tata Motors will be back to Singur. It was abandoned only to be back again. As the election result indicates Mamata Banerjee coming to power in the next assembly election scheduled within a year, Tata Motors will agree to restrict the plant size to 600 acres. Rest 400 acres will be returned to the farmers. It should be remembered that Nano's next destination is Europe and then to Southeast Asia via Thailand. In its expansion plan Singur has an important role to play. □□□