

- 21 For more on value-based pricing, see Peter Doyle, *Value-Based Marketing: Marketing strategies for corporate growth and shareholder value* (New York: John Wiley & Sons, 2000), Chapter 8, pp. 262–70.
- 22 Phil Zinkewicz, 'Med mal in crisis mode', *Rough Notes*, 145(9), September 2002, p. 66.
- 23 K. Priess, S. L. Goldman and R. N. Nagel, *Co-operate to Compete* (New York: Van Nostrand Reinhold, 1996), pp. 139–46.
- 24 Priess, Goldman and Nagel, *Co-operate to Compete*, pp. 145–6.
- 25 Ronald J. Baker, *Pricing on Purpose: Creating and capturing value* (Hoboken, NJ: John Wiley & Sons, 2006), pp. 256–61.
- 26 For comprehensive discussions of pricing strategies, see Nagle, Hogan and Zale, *The Strategy and Tactics of Pricing*.
- 27 See 'Intestinal networks in health and disease', *Nature* (Supplement), 474(7351), June 2011, pp. 297–336.
- 28 Adapted from information found in Mei Fong, 'IKEA hits home in China; the Swedish design giant, unlike other retailers, slashes prices for the Chinese', *The Wall Street Journal*, 3 March 2006, p. B1; 'Beijing loves IKEA—but not for shopping', *Los Angeles Times*, 25 August 2009; and <www.ikea.com/ms/en_US/about_ikea/factandfigures/index.html>, accessed April 2010.
- 29 Alireza Haji and Morteza Assadi, 'Fuzzy expert systems and challenge of new product pricing', *Computers & Industrial Engineering* (New York), 56(2), March 2009, p. 616.
- 30 See <www.ford.com.au>, accessed 13 December 2011; <www.caradvice.com.au/142416/2012-ford-focus-sport-titanium-now-standard-with-satellite-navigation>.
- 31 Gary M. Erickson and Johnny K. Johansson, 'The role of price in multi-attribute product evaluations', *Journal of Consumer Research*, September 1985, pp. 195–9.
- 32 See Nagle, Hogan and Zale, *The Strategy and Tactics of Pricing*.
- 33 Walter Baker, Mike Marn and Craig Zawada, 'Price smarter on the Net', *Harvard Business Review*, February 2001, pp. 122–7.
- 34 See the price/value sensitivity drivers in Nagle, Hogan and Zale, *The Strategy and Tactics of Pricing*. Also see Geoff Colvin, 'Yes, you can raise your prices', *Fortune* (New York), 4(2), March 2009, p. 20.
- 35 These steps are based on the article by Robert J. Nolan, 'How do you know when the price is right?', *Harvard Business Review*, September–October 1995, pp. 174–83.

PHOTO/AD CREDITS

353 © M4OS Photos/Alamy; 372 © Romain Degoul/REA/Redux;
376 Christopher Schall/Impact Photo; 378 © Raghu Rai/Snapper Media;

381 These materials have been reproduced with the permission of eBay Inc.
© 2009 eBay Inc. All rights reserved; 388 © Stringer/epa/Corbis.

Case study

Na! No! Not a 'priced' possession?

Mahesh Enjeti, SAI Marketing Counsel

The Tata Nano was launched in March 2009 several months after it was originally scheduled to hit India's high-density roads. Alluringly priced at US\$2000 (A\$3000-plus at that time) for the first 100 000 cars sold, the Nano was expected to carve a

sizeable share among middle-class families who often carried a foursome on their two-wheelers. (Over 13 million Indians buy scooters/motorcycles each year.)

The four-door, rear-wheel-drive, 626 cc, two-cylinder, multipoint fuel injection-powered Nano was designed to travel 100 kilometres on less than 5 litres of petrol, making it India's smallest and most economical car ever. At the same time, it offered space, speed (up to 105 kilometres/hour), safety and superior emission standards (Euro 4) that belied both its size and price tag.

PRICE, THE NANO'S PRIME DRIVER

As discussed in this chapter, price is a very potent business lever—the one element of the marketing mix that directly drives revenue. Its impact in the marketplace and on a company's bottom line can be sharp and immediate. On the flip side, however, price isn't the easiest among the 4Ps to get right; it needs to be carefully aligned with a product's target market, its benefits, positioning and channels. Pricing decisions demand a clear and deep understanding of a firm's cost structure, its competitive set and the value it delivers to consumers.



In the case of Nano, price served an even greater purpose—it challenged the industry paradigm, reengineered the manufacturing process and redefined the marketplace. In January 2008, at the New Delhi Auto Show when Ratan Tata, the chairman of Tata Motors, revealed a people's car costing upwards of Rs100 000 (a psychological threshold for middle India), competitors, analysts and suppliers were quite sceptical. But his passion, combined with the Tata engineering team's talent, tenacity and tightfistedness, made the Nano a reality. Tata, however, never saw it as a 'cheap car', but as an affordable four-wheel alternative for the common man on motorised two wheels. Environmentalists, on the other hand, feared a looming threat to India's growing emissions menace. Neither happened.

PERFORMANCE PARADOX

Even two years after the launch of the Nano, sales were still sluggish, with monthly figures sliding to below those of the legendary Maruti 800 (which coincidentally had been launched as a 'people's car' nearly 26 years before) and the more recently arrived Ford Figo. The expectation of long waiting lists and the prospect of demand outstripping supply remained mere dreams as the 'dream car' struggled to find customers even as cash discounts of up to 15 per cent became common during the festive season.

Politics, providence and consumer psyche, among other things, contrived in strange ways to cause delays and cost overruns, fears about the vehicle's safety, and declining appeal. Singur in eastern India, where the Nano factory was to be originally housed, witnessed large-scale agitation by farmers whose land was acquired by the Tatas for construction of the plant. The escalation of these protests to violent clashes with the police led Tata Motors to relocate manufacturing to an existing plant in western India.

Production dropped to almost a fifth, which depleted the availability of cars at showrooms around the country (depriving prospective buyers of any opportunity for a test drive) while undermining the economics of production and threatening the delivery of the much-promoted price.

'Foreign objects', the installation of unauthorised equipment and an overheated catalytic converter resulted in half a dozen or more instances of the Nano catching fire, making a dent in consumer confidence.

ASPIRATIONAL PRODUCT; INSPIRING-ENOUGH BRAND?

There were some strategic missteps along the way, the most notable being the absence of a national launch campaign to help establish the Nano's brand salience and appeal. And when a campaign finally did appear—more than a year and a

half later—its sober, low-key approach failed to kindle much excitement. In contrast, ads for two-wheelers, featuring Bollywood stars and movie-like action, delivered entertainment value and desirable brand properties; more importantly, they made an emotional connection with the very target market the Nano was hoping to attract.

LOW PRICE CAN BE A DOUBLE-EDGED SWORD

A low price has the potential to drive new demand. Yet, in an aspirational category such as cars, it entails the risk of stimulating primary demand for the product, leading to consumers opting for a higher-priced brand that fulfils their aspirations even better. The magical Rs100 000 price tag was for the basic Nano. With rising material costs, it rose to more than Rs140 000. For every bell and whistle added, the price increased, thus narrowing the gap with the more established and better-endowed Maruti 800 and the new Ford Figo, both very popular vehicles. Reduced availability, concerns about safety and limited emotive appeal (accentuated by the Nano's use as taxis) have made this difference seem slimmer. Ironically, the emphasis on low price in media stories also pegged down the brand's aspirational level. In hindsight, trying to reach the entire middle market all at once may have been a flawed strategy given the new circumstances.

A good product that is also a smart buy, the Nano articulated its price better than its value. It has time to redeem itself in the market, but not too long as the Bajaj RE 60 is waiting in the wings (or more correctly, wheels) to ride on India's already clogged roads.

Sources: Jyoti Thattam, 'The little car that couldn't', *Time*, 24 October 2011; 'Wharton's John Paul MacDuffie on the Nano and Tata Motors "real test"', 27 January 2011, <<http://knowledge.wharton.upenn.edu/India>>; 'No small wonder: Tatas launch the Nano', 9 April 2009, <<http://knowledge.wharton.upenn.edu/India>>.

DISCUSSION QUESTIONS

- 1 What are the main reasons why the Nano hasn't performed as well as expected? How would you have managed the challenges, especially in relation to the Nano's performance in the marketplace? Provide examples.
- 2 'Price can be a double-edged sword in an aspirational category.' Do you agree or disagree with this statement? Give reasons to support your answer.
- 3 Based on the Nano experience, what would you do differently in pricing and promoting the new Bajaj RE 60? (Research online to learn more about this car.) Justify your response.