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## Values-Based Product Innovation – The Case of Tata Nano

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**Abstract:** The role of values, and in particular changing values, in innovation is not yet well understood. The case of the Tata Nano allows elaborating upon the potentials and risks of values-based innovation through a longitudinal analysis of three stages of the innovation process: 1) Development guided by the top management vision of safe and affordable mobility for Indian “scooter families” 2) market entry suffering from a mismatch between customer values, value proposition and marketing measures, and 3) market penetration based on repositioning the product as a smart, modern city car for young achievers. Reconstructing the case helps us to further differentiate the values-based innovation framework, and to understand the impact of diverse stakeholder values on product innovation success. Lessons learned emphasize the need to actively manage stakeholder values, and to make every business model component fit not only to one another, but also to stakeholder values and to the purpose of the whole endeavor.

**Keywords:** values-based innovation management; frugal innovation; stakeholder values; product innovation; innovation marketing; business models; automobile industry; case study.

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### 1 Changing values in the innovation process

In 2003 Ratan Tata, CEO of Indian Tata Motors, announced to create a small four-wheel vehicle. With a target price of about \$2000 it should be affordable for the growing middle class in India. His vision was to provide a safe alternative for „a single scooter carrying an entire family“ (Carney 2008) that Ratan Tata had noticed on a rainy day in the slippery streets of Bangalore. When the Nano was first presented at the New Delhi Auto Expo 2008 it was conceived of as „a great symbol of Indian-ishtyle socialism“ (rediff. com c.f. Chacko et al. 2010, 107) and as „the dream of millions of Indians“ (Financial Times c.f. ibid. 108). Even beyond India it was considered as „one of the most transformational consumer products in the century“ (Luft c.f. ibid. 109) and „one of the most important

cars ever designed ... a new brand of innovation that makes more out of less“ (Time magazine c.f. *ibid.* 107). Carlos Ghosn, head of Nissan-Renault at the time, is credited for phrasing the term „frugal innovation“ (Business Line c.f. *ibid.*) as a promising new strategy for emerging markets across the globe.

Severe challenges characterize this ambitious project to create a “small wonder” (as Chacko et al. entitle their 2010 project review published by Tata Motors) from the very beginning. From its beginning the Tata Nano has been an attention seeking case of automobile innovation and a matter of controversy for potential customers, for local stakeholders, for industry managers and academics. It has been declared as a radical and a frugal innovation (Tiwari & Herstatt 2012), it has been considered as a disruptive innovation (for the scooter markets). Kim and Mauborgne (2014) argued that the Nano pursues a blue ocean strategy combining product differentiation with a cost reduction approach to create a new market space in the automobile industry. However, these frameworks and case studies pay little attention to the values and the vision that directed the development and marketing of the world’s cheapest car. Thereby they fall short to understand and address the unique development and marketing of the Nano on the Indian and international market, and to address and manage challenges of similar projects in the future.

Providing a complementary perspective this following case study applies a values-based approach (Breuer & Lüdeke-Freund 2017) to improve our understanding of the case, and to further differentiate the values-based framework through a longitudinal analysis. It extends previous case discussions (*ibid.*) by elaborating upon the dynamic aspects of changing values and values-based statements. In a longitudinal perspective, we focus on three stages of the development process. We reconstruct how new constellations of product-related values and instantiations (e.g. provided through business model components and marketing instruments) shape innovation development. Insights and lessons learned are derived from a detailed analysis of the case based on academic literature, journalistic coverage, and corporate communication. Top-down values-based innovation management led to the development (first phase) of a frugal new “people’s car” design but faced unexpected protests against the production plants and an increase in costs. During market entry (second phase) a mismatch between value proposition and communication, and insufficiently understood customer values (bottom up) hindered widespread adoption of the Nano. In a third phase of market penetration the product was strategically repositioned around the new value proposition of a smart, modern city car for young achievers. The initial vision to provide a safe alternative for the mass market of middle class scooter drivers was not realized.

Lessons learned from the case provide hints how to manage values-based innovation within each of the three phases and across the innovation lifecycle, and how to involve different stakeholders appropriately. A better understanding of values and changing constellations of product-related values, business model components and marketing instruments throughout the innovation process will increase chances to design and successfully market innovations according to what we care about.