

Future Developments in the Field of Marketing



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Executive Summary

With the rapid development of new energy vehicle (NEV), the study of marketing strategies for NEV has gained popularity gradually. Tesla Motors, a pioneer of electric vehicles (EVs) has created an unprecedented concept of automobiles and opened up a new segment. It can be said that Tesla Motors is an inescapable research object when it comes to the study of marketing in NEV.

This paper first introduces the background of Tesla and China's NEV market, then analyzes Tesla's STP strategy and clarifies the market segments and user groups, where Tesla has done very successfully. Second, SWOT is used to analyze the strengths, weaknesses, opportunities and threats of Tesla. Tesla owns a good brand image and creates innovative marketing strategies, but fluctuating prices and less product choices have a negative impact on customers. With the awakening of people's environmental awareness and increasing sales in China's NEV market, Tesla will definitely continue to make progress. However, it still needs to pay attention to the fierce market competition and strengthen its ability to properly respond to public opinion. Finally, this paper suggests that Tesla should improve its price stability, product range marketing and public opinion response.

.Key word: Tesla, New Energy Vehicle, Marketing Management

1 Introduction

1.1 Research Background and Objectives

1.1.1 Research Background

In recent years, China has witnessed huge progress in its economic growth, growing by 6.6% on average every year from 2013 to 2021, higher than the average of 3.7 percent for developing economies (China State Council, 2022). In addition, Chinese residents have seen their personal disposable income reach 35,128 yuan (£4,100) in 2021, an increase of 8.1% in real terms over 2021 (National Bureau of Statistics of China, 2022). On the other hand, leading scientists have achieved consensus on the fact that exhaust fumes are partially blamed for climate change (ScienceDirect, 2022). To tackle this issue, it's unsurprising that most countries have dedicated themselves to promoting the development of new energy vehicles (China Economic Net, 2020). Another incentive is, no doubt, China's subsidy policies targeted at new energy vehicles. According to statistics, the subsidy for a pure electric passenger car with a range of 300-400 km (including 300 km) is 9,100 yuan (£1,060); for a car with a range of more than 400 km (including 400 km), it is 12,600 yuan (£1,470) (China State Council, 2021). All these factors have played a significant role in the increasing market penetration of new energy vehicles in China.

1.1.2 Introduction to Tesla

Headquartered in Silicon Valley, Tesla Motors was established in 2003 (Tesla, 2022). As one of the earliest manufacturers to achieve mass production of EVs, Tesla is famous for competitive performance and range. In 2013, Tesla first came into China (CNN, 2013). Through years of efforts, Tesla's revenues in China's market reached \$6.662 billion in 2020, and \$13.844 billion in 2021, with a year-on-year growth of 107.8% (Tesla, 2022). However, Tesla has been troubled by brake failure at the same time, raising people's concerns about safety issues. In addition, some of local car makers, such as Li Auto, XPeng and NIO, have been trying to challenge the dominance of Tesla. As a result, Tesla must redirect its marketing strategies to address future difficulties and

challenges.

1.1.3 Research Objectives

This paper aims to evaluate the efficiency and effectiveness of the existing marketing strategies and adjust its plan accordingly. In doing so, it can promote the development of Tesla China. In addition, this paper also hopes to provide general experience and feasible solutions for local new energy vehicle companies to operate and develop more smoothly.

1.2 Literature Review

1.2.1 STP Marketing

STP Marketing consists of Market Segmentation, Market Targeting and Market Positioning. Under the framework, the potential customers are selected, the target market is determined, and finally the niche market is positioned (LAPASS, 2020).

Market segmentation refers to the process of dividing the whole market into several small ones in accordance with different demands, desires, purchasing behaviors and purchasing habits according to the results of market research. Each market segment is a group of consumers, where people share similar demands.

Market Targeting refers to one or several sub-markets where an enterprise intends to meet its needs with corresponding products and services through market segmentation.

Market positioning refers to the fact where your product stands in the market. Market Positioning is aimed at creating certain brand image or characteristics in the eyes of potential customers, retaining a deep impression and unique position in order to gain competitive advantages. (Indeed, 2021).

1.2.2 SWOT Analysis

Developed by Albert Humphrey, SWOT Analysis was proposed on the basis of the research of the Fortune 500 companies in the U.S. in the 1970s (Humphrey, 2005). SWOT stands for strengths, weaknesses, opportunities, and threats. It is aimed at managing objectives of the organization or project and identifying internal and external factors which are favorable and/or unfavorable to the realization of the external

objectives (Toolshero, 2010).

Strengths refer to a company's capabilities to exceed its competitors, or a company's unique resources which can enhance the competitiveness.

Weaknesses refer to something that a company is short of or does poorly, or a situation making a company vulnerable in certain aspects.

Opportunities are a major factor affecting corporate strategy. Company managers should identify each opportunity, evaluate the growth and profit prospects, and select the best opportunities that match the company's financial and organizational resources and have the greatest potential to give the company a competitive advantage.

Threats refer to factors in the external environment that have a negative impact on a company's profits, positioning, etc. Corporate executives should identify the threats from the perspective of future interests in time, make evaluations and take proper and timely strategic measures to counteract or mitigate their impact.

2 STP Marketing

2.1 Segmentation

According to the analysis of new energy vehicle market segments, the main consumer groups for Tesla are:

First, targeted customers are mainly distributed in first tier cities, while radiating to second- and third-tier cities.

Second, potential consumers are people with high income, higher education background, their own houses and fixed parking spaces.

Third, people need to have rational auto consumption demand and mature consumption psychology. They prefer certain brands, love sporty cars and personalized consumption. In addition, their travel needs are basically for transportation within the city.

2.2 Targeting

Theoretically, potential customer are people who have the purchasing power. However, the best consumers are those with high demand for technology and financial stability, especially some businessmen, corporate CEOs, general managers, senior executives and middle-class families and above. This is because they have a cultural understanding of EVs that is consistent with the core values that Tesla is promoting, and they are able to spend money to solve common problems and pay for them after purchase.

2.3 Positioning

First, Tesla's performance is outstanding. Thanks to its own pure electric technology as well as dual motor technology, Tesla has revolutionary improvements in 100km acceleration, stability, traction, and safety, with excellent advantages over Plug-in Hybrid Electric Vehicles (PHEVs) and Hybrid Electric Vehicles (HEVs). These are what young consumers want.

Second, Tesla uses pure electric technology, which is more advanced than other competitors. With increasingly serious exhaust pollution and haze in major cities, consumers begin to understand how urgent energy saving and emission reduction is. Tesla's electric vehicles work with zero emissions to alleviate this crisis. At the same

time, Tesla car owners are considered as advanced social class who focus on environmental protection and get more social recognition.

Third, Tesla strives to combine excellent performance, novel shape and Internet technology at its infancy, achieving the most customized functions through the least interface. Tesla also realized the online upgrade of the embedded system in the real time, which distinguished itself from those manufacturers who only stuffed concepts of new energy into traditional products. It has thus become a benchmark for mutual promotion and integration of NEVs and the Internet.

In summary, Tesla's position in China should be luxury car and it can meet the demands of Chinese consumers: young, ambitious, environmental protection, and excellent performance.

3 SWOT Analysis---- Internal and External Environment

3.1 Strengths

First, Tesla Motors has a clear brand image in the field of NEVs. As an emerging brand, Tesla Motors is not yet comparable to Volkswagen and BMW in terms of history. However, it has defined itself as a technology company rather than a traditional car company, making itself more popular among the young (Investopedia, 2019). Tesla has leveraged its revolutionary design and performance to declare its strength and innovation, completely overturning people's perception of electric cars as toys or auxiliary equipment and sparing no effort to promote NEVs around the world. It is no exaggeration to say Tesla has become a benchmark in the field of NEVs, just like what Ferrari and Porsche are to supercar (Torque News, 2020).

Second, Tesla's disruptive marketing strategies prove successful. Its sales channels combine experience stores and network direct sales. The model is pre-order before manufacture (Vogue Business, 2020). It looks more like a technological and electronic company than an automaker. However, it is the marketing model that has laid a solid foundation for its success. The traditional channels of car marketing channel are through 4S stores, which are typical dealership. The existence of dealers is likely to cause vicious competition. Different stores may scramble to lower prices to attract customers and squeeze the living space of other dealers. Agreements between dealers may not work and convince all people because of the fierce competition in the stock market. As a result, Tesla combines network direct sales of Xiaomi and experience stores of Apple (INSIDEEVS, 2022). This model both eliminates the costs of intermediary channels and maintains Tesla's high-end and fashionable product image. In addition, Tesla's stores are located on ground floors of large high-end shopping malls, with dazzling and stylish decoration. Inside are platforms to showcase the dynamics of cars. Consumers can also customize their own car on a huge screen. Salespeople in experience stores also behave in a different way. Instead of constantly persuading you to buy a particular product, sales staff of Tesla will be like those in Apple experience stores, help you experience products better (The Motley Fool, 2016). You purchase your

order online and it will be delivered directly from the manufacturer.

3.2 Weaknesses

First, prices change frequently. According to incomplete statistics, the official price ranges of Model S, Model X, Model 3 and Model Y models have been adjusted a total of about 59 times since December 2013, among which Model S was accountable for 24 times or so (Jiemian News, 2018). Considering the product nature of cars is high value but low consumption frequency, frequent price adjustments will no doubt seriously damage consumers' trust and loyalty to the brand.

Second, Tesla Motors has short product lines with a few choices. As of December 2022, Tesla has only launched five models - Roadster, Model S, Model X, Model Y and Model -3. Since Tesla Roadster was out of production long ago, only four models are in service now. Although the four already cover the two most important ranges of sedan and SUV, it is indeed not enough compared to traditional car companies, which offer dozens of products for potential customers to choose (Yahoo, 2020).

3.3 Opportunities

First, the rising environmental awareness is pushing up the demand for NEVs. With PM2.5 particles the culprit of many serious respiratory diseases, air pollution has become increasingly important to the public (Feifei Wang, 2021). On September 18, 2015, Volkswagen was accused of selling diesel cars with a special software by the U.S. Environmental Protection Agency. The software could work secretly during exhaust emission tests. In doing so, these sub standardized cars passed the inspection, identified as "high environmental cars". However, when these cars drive in daily lives, they emitted large amounts of pollutants, as high as 40 times the U.S. legal standard (Xinhua News, 2015). After the outbreak of this incident, the claim of "environmentally friendly fuel cars" was reduced to an environmental scam. Meanwhile, NEVs, especially battery electric vehicles, which can make "zero emissions" and "zero pollution" possible, have begun to come into consumers' view, and their environmentally friendly concept and efficient use of energy have been gaining consumers' favor. The development of new energy vehicles has thus ushered in a high-speed growth period.

Second, China is one of leaders in the world in terms of new energy vehicles, which is inseparable from policy support provided by the Chinese government. For instance, as early as 2009, the Chinese government formulated a project called "Ten Cities, One Thousand Vehicles". China aimed to add 1,000 new energy vehicles in 10 cities each year in the next 3 years. The involved fields included public transport, taxi, municipal affairs, and postal services in large-and-medium-sized cities. Through this program, the Chinese government aimed to increase the operation size of NEVs, which ultimately accounted for 10% of the national vehicle market by 2012 (China Association of Automobile Manufacturers, 2013). In addition, the Chinese government has given firm support to develop the EV industry through purchase subsidies and other ways. 100 billion yuan (£11.7 billion) in subsidies have been offered to EV consumers since 2009, which was supposed to end in 2020. However, the pandemic struck the world. In order to stimulate the sales volume of EVs and economic recovery, China's central government has extended monetary incentives as well as prolonged the purchase-tax exemptions though at reduced rates. These incentives as well as billions of investments in charging stations have been pushing up the demand for EVs. It is estimated that the growth rate in 2022 will reach 30.82% and the total sales ramp up to 3.82 million cars (Daxue Consulting, 2022).

3.4 Threats

First, the fierce competition in China is one of the biggest challenges. On one hand, local new energy vehicle startups, such as Li Auto, XPeng and NIO, have been committed to the field for many years, obtaining customer recognition and stakeholder support to a certain degree. On the other hand, many traditional fuel car companies, such as Honda, Mercedes-Benz, BMW and Audi, have also released their own electric or hybrid cars. Coupled with new foreign brands like Tesla, it is not difficult to imagine how fierce the competition it is. In the first nine months of 2022, the sales volume of Tesla China registered a total of 319, 659, with a growth of 55.3% year on year and accounting for 9% of the total new energy market. However, the first, BYD, took a share of 29% (CPCA, 2022). While market share alone cannot truly reflect the actual

situation, it is still worthy of attention. As a saying goes, “A little leak will sink a great ship.”

Second, frequent safety accidents and poor public opinion response have cast shadow on Tesla. In recent years, Tesla has witnessed a boom in both sales and revenues. However, negative news have never stopped, one of which is the brake problem. In the 2021 Shanghai Auto Show, a woman called Mrs. Zhang climbed on the roof of one car of Tesla to defend her rights, saying "Tesla's brakes have serious hidden dangers", arousing a high degree of public concern (TheStar, 2021). Not coincidentally, when parking his Model Y, a driver found the car losing control, hitting two motorcycles and two bicycles and causing two deaths and three injuries in Chaozhou City, Guangzhou Province, on November 5th (Global Times, 2022). As to this accident, Tesla said the driver did not press the brakes throughout, and the accelerator pedal continued to run at 100% state. However, according to video surveillance data, there was once occasional brake light on state. By now, high-level professional agencies have been involved. If Tesla's claims are proven wrong, the damage to the brand's image can be huge, making consumers see the brand as irresponsible and unreliable. Moreover, Tesla's related departments failed to make proper response to various rumors and the victims, which made this accident run out of control, witnessing the negative effects become stronger.

4 Conclusions

All in all, Tesla's market positioning in China is very clear: meeting the needs of Chinese consumers, young, ambitious, environmentally friendly, high-tech, excellent performance and luxury. This is highly consistent with the cultural connotation and corporate image that Tesla promotes. Therefore, Tesla's STP strategy is very successful and should be maintained.

However, from the perspective of SWOT, Tesla also faces problems such as unstable price system, less product choices, fierce competition and poor public opinion response. The unstable price system, no doubt, damages target customers' trust and support for Tesla, dealing a devastating blow to Tesla's word-of-mouth strategy. Imagine, you purchase your order just 5 days ago, Tesla would lower the price twice (Compare.com, 2022). Will you still be willing to support this enterprise? The answer is no in most cases. Poor public opinion response will even bring the whole brand into disrepute. When a brand is caught in a huge scandal, people will no longer take the brand as a choice, regardless of whether it is true or not.

5 Recommendations

First, Tesla should maintain price stability. As the most profitable car company, Tesla is earning 8 times more than Toyota per car sold (Torque News, 2022). Therefore, Tesla is fully capable of smoothing out price fluctuations and ensuring profitability. Price increases due to raw material shortages or price cuts to stimulate sales are acceptable, but multiple price adjustments in a short period of time will undoubtedly have an impact on destroying consumer loyalty to the brand.

Second, Tesla needs to accelerate the launch of new products. It is reported that Tesla is developing Model 2, Cybertruck, Semi and a new Roadster to meet the demand of different regions and users (Car Fule, 2022). Thanks to Tesla's special model of paying a deposit before manufacturing, Tesla has sufficient cash flow to support the research and development of new products. Although R&D is not the responsibility of the marketing department, the department can attract public attention to Tesla and its products via

Third, strengthen the ability to respond to public opinion. Musk has said many times that Tesla will not advertise and pay for endorsement (CANDID, 2021). But advertising and marketing are two different things, and they are not the same as the ability to respond to public opinion. Negative news not only overshadow the brand, but also make all marketing efforts wasted. After the incident of Mrs. Zhang in Shanghai (mentioned above), Tesla PR team had sent a microblog to thank milk tea (a kind of drink) from domestic Tesla owners. However, the public questioned whether it was a show due to some clues. In addition, Tesla's executive Mrs. Tao Lin once said that consumers had to be educated (or given a lesson), insinuating that consumers caused troubles for no reason and took opportunities to smear Tesla (Equalocean, 2021). These poor public opinion response and PR skills have further disappointed consumers. Therefore, it is necessary for Tesla to strengthen public opinion response skills and properly manage negative news and information so as to lay a solid foundation for its marketing efforts.

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