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1. Executive Summary

The report aims to provide a detailed analysis of Tesla's marketing activities including marketing strategy and management. To this end, the report first introduces the background of the organization and its products. Second, it adopts two tools — PEST(EL) and STP (Segmentation, Targeting and Positioning) to carry out the analysis of the macro and micro environments of Tesla with special focus on the challenges and threats in marketing activities, providing a comprehensive assessment for the organization. And based on the assessment, three recommendations are listed for the company to overcome both internal and external threats and improve its competitiveness by adopting advices or adjusting its current marketing strategies.

2. An Introduction to Tesla

2.1 Development of Tesla

Established in 2003, Tesla was an automobile manufacturer that focuses on designing, producing and selling high-end electric vehicles (EV), solar panels, and a smorgasbord of accessories and was named after the well-known scientist Nikola Tesla. Its founders were two American engineers, Martin Eberhard and Marc Tarpenning, who then served as the chief executive officer (CEO) and chief financial officer (CFO) of the company, respectively (Q.ai 2022). And in 2004, Elon Musk became the chairman of Tesla, ushering a new era of EV in the increasingly digitalized world.

As Tesla's vision is to promote electric cars which are accessible and affordable for more consumers and speed up the shift of the world towards sustainable and renewable energy powered by solar power and electricity and so on (Tesla, 2022), it has designed Model series, including Model S, Model 3, Model X, and Model Y with different targeted consumers and

visions. Model S is composed of a perfect blend between exceptional performance, functionality, and attractive styling with a rigid body structure, nearly 50/50 weight distribution and a remarkably low center of gravity (Tiwari, 2017). And it has three battery options for customers to select — 40kWH, 50kWH, and 85kWH with a range of 256km, 370km and 480km respectively, and the prices of them are \$57,400, \$67400, and \$77400 (Tesla, 2022). And Model 3 also provides three options — Standard version with the range of 491km, Long Range version with the range of 602km and Performance version with the range of 547km. And the prices of them are \$40,390, \$56,390 and \$62,290 (Tesla, 2022). Model X in 2022 in China provides two options, namely Model X and Model X Plaid. The former one has a range of 560km with the price of \$120,990 and the latter one has a range of 536km with the price of \$138,990 (Tesla, 2022). As for Model Y, it has offered two choices for consumers — Model Y Long-Range and Model Y Performance. Long-range version has a range of 660km with the price of \$65,990 and the performance version has a range of 615km with the price of \$69,990 (Tesla, 2022).

2.2 Major Marketing Challenges Faced by Tesla

Kotler and Armstrong (2018) defined marketing as “the process by which companies engage with and create value for customers and build strong customer relationships to capture value from customers in return.” As its second largest market, Tesla has paid enormous efforts in enhance its marketing in China so as to retain old customers and attract new ones. And, since the establishment of the gigafactory of Tesla in China in December 2018, the sales of Model series have increased significantly as the factory is responsible for producing Model 3 sedan and batteries for EV. Therefore, the company witnessed a dramatic growth of sales for a couple of years, as shown in Figure 1 (Demandt, 2021).

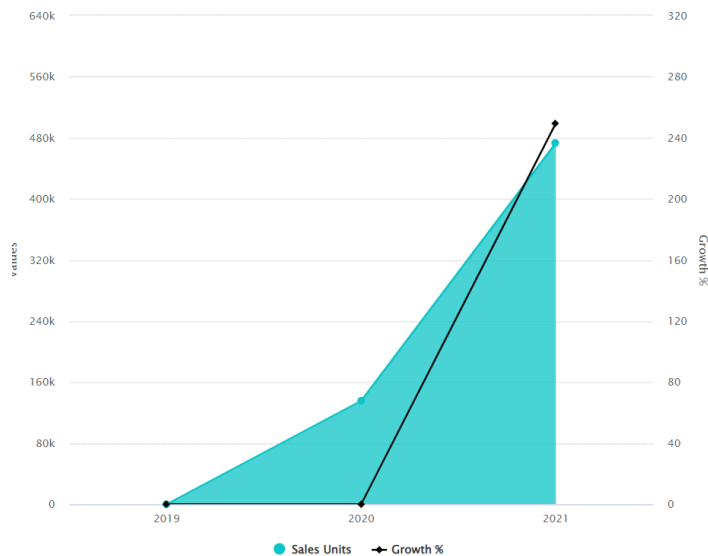
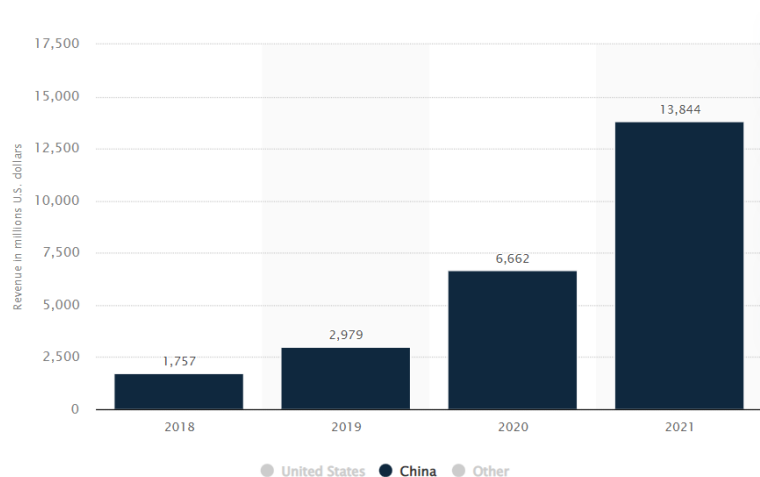


Figure 1 Annual Vehicle Sales of Tesla in China (including exported vehicles)

Even we exclude the sales of export, the overall sales were still on the rise as demonstrated in Figure 2 below (Carrier, 2022).



It is clear that from 2019 to 2021 Tesla saw an exponential growth of its EV sales, generating enormous profitability for the company and making Elon Musk the wealthiest person in the world. And this was thanks to the firm's impressive marketing strategies, the subsidies and preferential policies provided by the Chinese government, the rising spending power of Chinese people and stability of global landscape both economically and politically and in terms of public health, which becomes all the more important after the outbreak of COVID-19 pandemic. However, these achievements don't guarantee that Tesla can also have bright prospects in China

without any changes in marketing management. In fact, the company now encounters several problems including safety issues, price fluctuation, strong competitors, and the unstable international environment, a majority of which could be solved with the improvement of marketing strategies. In the context of the pandemic, Tesla has to close its brick-and-mortar stores not only in China, but also the whole world, for example its first and largest brick and mortar in Parkview Green shopping mall in Beijing was closed in the first half of this year due to the covid restrictions (Nedelea, 2022). In addition, it also witnesses the rising rivalry in the Chinese market posed by its competitors including BYD, XPeng and NIO who have encroached the market share of Tesla. And there are some other problems related to marketing strategies and management for Tesla which will be discussed in detail in the following parts of the paper.

3. A Comprehensive Analysis of Tesla's Marketing Activities

In this section, we will thoroughly analyze challenges of marketing strategies and management faced by Tesla with two business analysis tools — PESTEL and STP (Segmentation, Targeting, and Positioning) so as to point out the major external threats and internal weaknesses.

3.1 PESTEL Analysis

PEST(EL) is one of the several tools to investigate the broad macro-environment of an organization which considers the impact from six aspects, namely, Political, Economic, Socio-Cultural, Technological, Ecological and Legal factors (Johnson et al., 2014).

Politically, the supportive policies made by the Chinese government in 2022 have changed dramatically compared to that of in 2021, especially for new energy vehicles. According to the official notice jointly released by the Ministry of Finance of the People's Republic of China (PRC), the Ministry of Industry and Information Technology of PRC, Ministry of Science and Technology of PRC and the Development and Reform Commission (*the Fiscal Subsidy Policies*

of 2022 for the Promotion and Application of New Energy Vehicles 2021), in 2022, the subsidies for new energy vehicles shall be reduced by 30% from the 2021 level; the preferential policies for purchasing new energy vehicles will be suspended on December 31st, 2022. And regulations security issues of new energy vehicles will be stepped up to enhance the Corporate Social Responsibility of organizations including improving their after-sales service and so on, and to ensure data security and cyber security at the national level. In contrast, the Notice released by the Chinese government in 2020 said that the supportive policies for new energy vehicles would be extended to 2022 considering the factors of technological progress, economies of scale and the impact of COVID (*Improving the Policies on Government Subsidies for Promotion and Application of New Energy Vehicles 2020*). The subsidies in 2020- 2022 would be decreased by 10%, 20%, and 30%, respectively, from the previous year. And This means that the government originally intended to cancel the subsidies in the end of 2021, but due to those objective reasons, had to prolong this policy. Based on the Figure 3 below, it's evident that the sales of Tesla in China over the past two years grew steadily (Zhang, 2022). However, with the cancellation of subsidies, the sales have fluctuated in this year. Evidently, the future trend for new energy vehicles is no more government supports, but more regulations. As a result, Tesla, as a company of electric vehicles, will not be able to enjoy such dividends since 2023 when there could be a sharp drop in sales, and thus it has to made some changes in marketing.

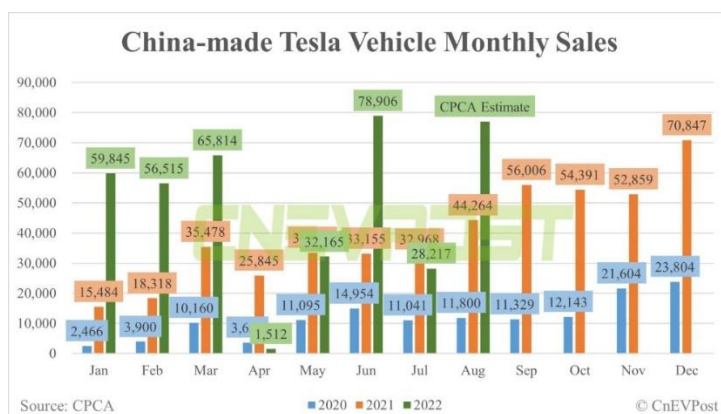


Figure 3

Economically, China's economy has recovered compared to the level of 2020 when COVID-19 pandemic outbreaked, but still is far lower than the level before the virus. As high-end consumption, the market of cars, especially of electric vehicles, is highly related to a country's economy. When the economy is buoyant and consumers are optimistic about the economic prospect, the demand will be on the rise. On the other hand, if the economy is stagnant, the demand will slump. According to the report (Li, 2022), China's gross domestic product (GDP) reached 114 trillion yuan, increasing 8.1% with per capital disposable income rising 8.1% in real times. A total of 12.69 million urban jobs were created, and the average surveyed unemployment rate amounted to 5.1%. And the consumer price index (CPI) grew by 0.9%. In addition, new models of business and companies with the focus on the digital technology and renewable and new energy are emerging. All of these are key indicators for a country's economy. Despite all these achievements, China's economy still faces downward pressure and has been hit hard by the recurrent COVID-19 from February to November which has dealt a heavy blow to most of the major cities in the country. And because of this, Tesla's sales in China witnessed a dramatic decrease in 2022, as shown in Table 1 (Demandt, 2021). It's evident that except the sales of Tesla in China (including export from China to other countries) in April, July, August and September all plummeted when the major cities were suffering. And because now the virus is spreading in China in a large scale, the economic prospect is not ideal. Therefore, Tesla's marketing department has to adopt to accidental changes by changing its marketing strategies so as to improve its sales in the context of the pandemic.

Year ^	Jan ^	Feb ^	Mar ^	Apr ^	May ^	Jun ^	Jul ^	Aug ^	Sep ^	Oct ^	Nov ^	Dec ^
2020	0	3,900	10,160	3,635	11,095	14,954	11,014	11,811	11,329	12,143	21,604	23,804
2021	15,484	18,318	35,503	25,845	33,463	33,155	32,968	44,264	56,006	54,391	52,859	70,847
2022	59,845	56,515	65,814	1,512	32,165	77,938	28,217	34,502	77,613			

Table 1 Monthly Vehicle Sales (including made-in-China vehicles exporting to other countries)

Social conditions including consumer behavior and traffic congestion can all pose a threat to Tesla, resulting in a drop of its market share in China. Let's first take the traffic jam in China as an example. According to Liu et al. (2020, p.1), despite the significant economic growth, the car ownership in China remains at a relatively stable level because of the purchase restriction policies to curb the traffic jam in major cities in China. In fact, most of the consumers of Tesla in China come from major cities like Beijing, Shanghai and Wuhan where traffic congestion is

so heavy that cars can hardly move in the rushing hours. As for the consumer behavior, massive of customers intend to purchase domestic brands rather than foreign brands. According to Cheng (2021), the top three favorite EV brands are BYD, Tesla, and Volkswagen, and their intension to buy electric cars from Chinese companies like Nio and Xpeng nearly doubled from 5% to 9.5%. And this indicates that Chinese customers intentionally tend to support domestic brands for its culture that Chinese people should always help each other so as to achieve win-win results. Therefore, the current traffic situation and people's conventional thoughts are all threats for Tesla's marketing expansion plan in China.

Technologically, Tesla actually enjoys advanced self-driving and battery producing technologies. But recently, some car accidents have occurred which has become the hot topic on Weibo, Chinese version Twitter, because all of these cars are Tesla series that easily catches people's attention. The owners all claimed that when the car lost control the self-driving system was useless, which got Tesla into trouble. And Scheer (2020) said that Alphabet might have an even more advanced autonomous driving system than Tesla. Due to these security concerns, the sales of the company may fall in China. And its battery manufacturing technology also is not the cutting-edge one. Let's compare Tesla with BYD. BYD, a subsidiary of its parent company which is a multinational manufacturer adopts lithium batteries that are one of the safest one with high flexibility and power output, whereas Tesla uses Nickel Cobalt Aluminum (NCA) batteries produced by the Panasonic (tycorun666, 2022). More importantly, BYD will supply Tesla with batteries in this year (Person, 2022). All of these demonstrate that the company should invest more in marketing activities to scale its promotion, otherwise it will only see continuous decrease in its sales in China.

3.2 STP Analysis

Segmentation strategy was first proposed by Smith (1956) who thought that market segmentation divides a heterogeneous market into a number of smaller homogeneous markets

in order to response to different demands of customers. Currently, the vehicle market can be separated into small markets according to the prices and the propose of the vehicles, and consuming groups. According to HSBC (2013), the number of middle-class consumers who are well-educated, price savvy and aware of their interests and rights in China is increasing with higher disposable income. Nonetheless, unlike the mature vehicle market in the US, Japan and Europe, the Chinese market, which is an emerging market, remains unstable because of the impact of COVID-19, unbalanced economic development and distinct demand in different regions. And Tesla who mainly focuses on the high-end market in China probably will encounter setbacks if it doesn't change its marketing strategy to segment the market in China to pay more attention to other consumers between low-income class and middle-income class in second-tier and third-tier cities as they are the major customers.

Targeting is the second step for market segmentation because in this phase the organization has to decide which segments it will invest in. According to Beane and Ennis (1987), market segmentation and targeting should consider the following points: geographic factors, psychographic factors, demographic factors and behavioral factors. In the segmentation phase, it is mentioned that Tesla should pay more heed to the market in second-tier and third-tier cities without just considering the first-tier cities. In light of the demographic factors, Tesla should not only consider high-income groups, but also the middle-income groups as its prices still are relatively high. And that's why it has decreased its prices frequently in this year. Holbrook and Hirschman (1982) regard that people sometimes purchase products not only for its utilization, but also for its signified meanings. But Chinese people no longer only pursue luxurious brands as usual and as mentioned above, they tend to select high cost-effective brands and support domestic brands. Therefore, it's imperative for the company to adjust its marketing strategy and opt for the niche markets and according target consumers.

Positioning is the act of designing the company's offering and image so that they can occupy a

meaningful and distinct competitive position in the target customer's minds (Kotler, 2003). As mentioned above, the major competitor of Tesla now is BYD who offers the dynasty series vehicles including han, tang, qin, song and yuan with lower prices than Tesla (BYD, 2022). As a home-made brand, BYD enjoys government subsidies that Tesla doesn't have (Alagh, 2020), and thus the prices of dynasty series are lower than the Model series which is a better option for low- and middle-income residents in China. In order to have a better position in China and bridge its gap with BYD, Tesla has to figure out its strengths — cutting-edge technologies. It should develop a new positioning strategy by scaling up its marketing promotion on social media for its advanced Internet of Vehicles (IoV), Tesla's unique attribute, so as to ensure that its customers are conscious of it.

4. Conclusion

According to the PEST(EL) analysis, Tesla has room for improvement on marketing activities in four aspects. Politically, it no longer enjoys the government subsidies for new energy vehicles since 2023 which means its costs will rise; Economically, China's economy still suffers from the COVID-19 pandemic which will impact its sales; Social conditions such as traffic jam and rising support for domestic brands all will reduce its market share in China; and technologically, the security concerns and battery disadvantages led by its technological drawbacks are also threats. And according to the STP analysis, the company should re-segment the Chinese market while considering the geographic, psychographic, demographic and behavioral factors. And then, it needs to break the big market into smaller ones with special focus on the re-targeted customers based on the re-segmented markets. Finally, a novel positioning strategy should be developed to consider the consumer's perception on its products.

5. Recommendation

As mentioned in conclusion, Tesla has always targeted at the high-income residents in China with its Model series. First of all, to avoid the decrease of its sales, the marketing department of the company should change its marketing management or strategy by making a dent in the price of some low-cost vehicle with a particular focus on low- and middle-income groups and promoting its high cost-effectiveness after the price reduction via social media such as Weibo. By doing so, it not only can compensate the loss caused by the cancellation of government subsidies through attracting more new customers, but also can enhance its competitiveness against Chinese brands. Second, to mitigate the loss led by its technological drawbacks, the marketing department should emphasize its technological advantages, such as the state-of-the-art IoV, and promote its battery strengths for example the long-lasting capability compared to that of the BYD and other Chinese competitors rather than always talking about its disadvantages, such as break failures, so that the security concerns can be addressed to a large extent and the consumer confidence can be reshaped. As a result, more old customers will be retained. Third, as the market becomes more internet-oriented, the department should invite more celebrities to scale up the promotion not just on TV media, but also on social media which are actually the dominant media outlets in China. And celebrity effect will ensure the company to establish a niche and positive image brand, indicating that it can meet different demands of its customers (Chen & Jiang, 2013). By creating such an image brand, its repositioning strategy in China can also be realized in another form which is conducive to delivering real benefits to customers.

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