Analysis of Tesla's Business Strategy in China

Liang Shan[1, †], Nongyi Wang[2, †], Junsheng Xu[3, *, †]

[1]The First High School of Changsha, Changsha, China

[2]Beiwai Affiliated School Chaoyang Bilingual School, Beijing, China

[3]St. Mary's-Wuhan, Wuhan, China

*Corresponding author: kevin.xu@smoaeducation.org

[†] These authors contributed equally.

Abstract. With the outbreak of the COVID-19, the rise of the peers, and the spread of public opinion, Tesla has constantly adjusted its strategy to improve its producing technology, and they're creating more and more sells amount. However, Tesla is facing severe international competition these days. This paper will start from three aspects of Tesla's current difficulties: business strategies, influencing factors on the price of Model 3 products, and adopts the method of literature research to study Tesla's competitive strategy. The research results show that Tesla's problems in quality control and after-sales, as well as independent research and development of new energy batteries are the biggest challenges Tesla faces. This study establishes an important development strategy for new energy vehicles represented by electric vehicles, which brings opportunities for the promotion of new energy vehicles and is conducive to the promotion mode and experience operation of Tesla's new energy vehicles in the Chinese market.

Keywords: Tesla; China; Strategy management.

1. Introduction

The rate of global warming has been rising recently. The creation of new energy vehicles is essential for achieving sustainable development, carbon standards, and carbon neutrality. Local new energy businesses in China first lacked a strong feeling of competitiveness and were forced to rely on government subsidies and different preferential policies. Tesla was launched by the Chinese government to boost the innovations and competitiveness of domestic businesses. For Tesla, this presents both an opportunity and a challenge. Tesla's localization may expand its market in China, but it will be difficult to differentiate itself from other companies like Xiaopeng, NIO, and BYD. Tesla is a firm that is transforming the world because it has altered how people perceive electric vehicles. The focus of Tesla's present innovations should be on the company's commercial strategy and the advancement of electric vehicle technology. It is a corporation that is deserving of appreciation and full of expectations. Since its inception, the Tesla brand has been associated with terms like "environmental protection" and "high-tech," and it has always radiated a cool star quality. Early on, this had a significant impact on the brand's fan base and had unforeseen marketing results. And Tesla started its own story with that atmosphere. Tesla started growing in China once its domestic market had stabilized.

As a leader in the new energy vehicle industry, Tesla Inc. has received much attention for the decisions it has taken both domestically and internationally. In recent years, the impact of the epidemic, the evolution of international relations, and events such as energy allocation have required Tesla to constantly adjust its strategy.

In the process of implementing the innovation strategy, whether a good trust relationship and a stable long-term value alliance can be established will play a vital role in the survival of enterprises the arrival of the new energy era has begun to drive many enterprises to transform into the business of new energy vehicles. The most remarkable achievements are Tesla Motors in the United States, BYD in China and Better Place. The sustained and stable growth of enterprises that leave many people thinking depends on whether their industrial chain can form a stable collaborative innovation capability [1].

Through the Tesla China influence strategy study by Yao (2016), it is obvious to get that new energy vehicles are raising extremely fast in both domestic and international markets [2]. Tesla has become a global leader in new energy vehicles in this field of autonomous driving and supercharging, and Tesla has a perceived brand advantage in the automotive field and can order directly online when people need to go to purchase a vehicle. The current environmental conditions have promoted the development of new energy vehicles, and in the current situation, the government has proposed purchase tax exemptions and economic subsidies in order to promote people to protect the environment [3-8]. Compared with traditional energy vehicles, Tesla has the advantages of price and product specificity, which makes it occupy many automobile markets in China and the world. Based on the current development status of the automobile industry, this paper takes Tesla as an example to try to analyze the challenges brought by the changes in the external and internal environment in the development process, so as to provide practical significance for the future development of the enterprise.

2. Description of Tesla

2.1 The Relationships of Political and Economic between China and America and Tesla's

In recent years, China and the United States have had many trade conflicts, which impacted both sides' economies. China's TACL is an important supplier of new energy batteries, which accounts for a large share in the global market, mainly due to the high-cost performance of its products. Many new energy companies, including Tesla, rely on batteries supplied by the company. However, the US recently released a new subsidy policy, which is only for new energy vehicles that are produced in North America. In other words, if Tesla wants to receive subsidies, it must give up using batteries made by TACL. It means that the U.S. is imposing trade sanctions on China. If China reciprocates by imposing sanctions on U.S. products, Tesla is going to face losses. China's new consumer market is the base of Tesla's interest. However, according to the data in July 2022, Tesla has fallen out of the top 10 list and was replaced by several domestic new energy companies. Now, Tesla does not have the advantage of high-cost performance. High operating expenses and assembly line costs make it difficult for Tesla to lower the price of products. According to the user portrait analysis, young and personalization are the main characteristics of the Tesla Model 3. For young users, the product's price is the primary consideration when purchasing [9-10]. Further research shows that this kind of customer will pay more attention to the development of new products, environmental protection, and future applications. Therefore, how to reduce costs, develop new technologies and improve battery longevity to promote environmental protection has become the problem that Tesla needs to deal with. At present, Tesla's competitors BYD and TACL have developed their battery research projects, because how to recycle the batteries of new energy vehicles has become a hot topic at present. Tesla's labor costs and operating costs are relatively high, and long-term capital is particularly important for Tesla.

2.2 Tesla's Challenges in Recent Years

Tesla has faced many challenges in recent years. No brand is perfect, so there will be mistakes and people will magnify them infinitely.

One is the auto safety problems and disputes, the modern new energy car is the most important auto safety problem for the security question, however, there are a number of complaints, such as body joggle, valve broken, battery is not stable, such as after the car accident when the owner found company Tesla didn't return and lead to vehicles did not dare to dare not open repair maintenance responsibility regulations. The solution is that when the battery is insufficient and unstable, Tesla uses the new battery 21700 battery to replace the 18650 battery as the new battery, so that the capacity becomes larger and the battery lasts longer.

Second, about Tesla's quality problems, the low efficiency of after-sales maintenance and the inability to completely solve the repeated problems make consumers worry about the future of Tesla

and reduce the purchase rate. Waste of time, according to consumers. The solution is to increase a lot of physical repair shops in the country for professional staff and efficient technology to better provide quality service to customers.

Third, the marked price also needs to be increased to qualify the car to pick up. The current unwritten rule that the government does not issue an invoice after the price increase shows that consumers voluntarily raise the price to buy Tesla, which is also one of the reasons for the decrease in sales. At the same time, the fact that this kind of thing has become the norm and the risk of violation is low makes people happy to raise prices. The solution is that Tesla has built a factory in Shanghai to better solve the production capacity problem, so that consumers will not rush for Tesla due to insufficient quantity and thus raise the price. Only by being honest and unfair in each purchase can this behavior be eliminated. Tesla is still in a fierce competition in the global automobile industry. Tesla faces competitive threats from traditional automobile enterprises and peer new energy intelligent automobile enterprises. On the one hand, traditional automobile enterprises have existed for many years and the entry of new energy vehicles can not affect the foundation of traditional automobile. On the other hand, new energy automobile enterprises are thriving and more and more people and enterprises join them to accelerate the progress of innovation and research and development. So Tesla will face more and more competition in the future. The solution is to focus on Tesla's unique technology and get bigger on the one hand.

2.3 Tesla and the domestic market competition

Tesla is also a very competitive car company in China, with model 3 and model Y in the top five in sales year after year, and the pricing of Tesla in China is in the middle and high-end models, but our domestic independent car brands (BYD, Azera, Ideal, etc.) also have excellent sales.

BYD occupies most of the market share of the post-80s and post-90s in the auto market, some of whom may not have achieved much success but also know how to enjoy life. BYD's vehicle pricing is relatively low compared to Tesla, making it more suitable for most families in China to buy. The current rise in fuel prices has given new energy vehicles a good space for development, so BYD has won the hearts of domestic people through a good reputation and high-cost performance. At the same price, BYD’s youthful and active appearance, in line with the fashion elements pursued by young people, and in the middle and senior vehicles BYD has a wealth of models and personalized, high-end configuration, which also makes BYD in the enterprise and government vehicles only have a place.

For the development of enterprises, the correct choice of target market can help enterprises to accurately classify the market and determine the target customers to serve. At the same time, based on factors such as resources, technology, competition and market capacity, choose the internal and external environment conducive to the development of enterprises. As a new energy vehicle enterprise with a high proportion of market share, Tesla's biggest difficulty in target selection is the inconsistency between product consumption ability and product cognition. To solve and break through this contradiction is one of the strategies pursued by current enterprises. First of all, through the price strategy, we should choose a reasonable price to adjust the strategy, so as to reduce the age and income level of the target customers and enhance the customer awareness and acceptance of the product in the market.

2.4 Tesla Competes in Foreign Markets

In the U.S., for example, Tesla's main competitors are now Rivian Motors and Lucid Motors, but there are also some other promising EV makers, such as Aiways, aka Aichi. Lucid Motors, a strong overseas competitor to Tesla, has long been a highly prized electric car brand for American capital. The California-based electric-car maker earlier this year unveiled its first luxury model, the Lucid Air, an electric- vehicle with a 500-mile range. The Lucid Air starts at $77,400, but that will drop to $69,900. Thanks to a $7,500 government subsidy for consumers. The birth of more and more new energy vehicles also gradually let new energy vehicles from a monopoly market to a perfectly

competitive market. According to the data, as of May 2021, Tesla only occupied two seats in the top ten best-selling EV models in the United States, while the four major models of the brand, namely Model S/X/3/Y, were all in the top five in the same period last year. In my opinion, with the increasing popularity of electric vehicles, consumers have more and more choices. So it makes more sense to focus on Tesla's market share rather than mere sales, which, as it stands, are growing but losing market share in this segment.

Although Tesla's share in the new energy vehicle market is shrinking, Tesla is still the most popular EV brand in the United States. The future, Tesla will face more competition, according to U.S. media published information, just a few years more than 100 kind of electric vehicle program will make landfall in the United States market, with the sale of EV models, Tesla's market share inevitably will decline, but the whole of the electric car market sales volume will grow over time, despite the presence of more competition, But that doesn't mean fewer Tesla will be sold.

3. Suggestion

Based on the research above, Tesla should intensify the research on the products and development, especially how to extend battery durability. The changes in the international situation can affect trade; in that case Tesla needs to maintain its own energy source to cope with the supply chain. In addition, Tesla needs to improve the control of product quality. Specifically, it can be implemented to increase the steps of inspection before delivery or improve the efficiency of the assembly line. About the after-sales service, Tesla should improve quality of the service, eliminate hidden consumption and thus it can gain customers' trust.

4. Conclusion

For car owners in many cities, new energy vehicles basically meet their daily travel needs. In the field of electric vehicles, Tesla's high price positioning may not be in line with the future development direction of electric vehicles in China. Therefore, looking for possible opportunities and doing a good job in market segmentation has become the key to Tesla's breakthrough in the automotive industry. Last year, A00 class cars sold rapidly in China, and Tesla should make corresponding adjustments in China. In today's environment, government subsidies have brought unprecedented opportunities for the sales of electric vehicles. First tier cities such as Shanghai, Guangzhou and Beijing provide green channels for new energy vehicles. Tesla electric vehicle marketing needs to seize opportunities and meet challenges.

References

[1] Wu Yonglin, Li Yarong Comparison of collaborative innovation strategies between Tesla, BYD and Better Place Enterprise Management, 2015 (5): 3.

[2] Yao Zhenyu Research on Tesla Automobile Marketing Strategy, Guangdong University of Finance and Economics, 2016.

[3] Qi Fangming Research on the Marketing Strategy of Tesla Automobile Brand in China Hebei Enterprise, 2020 (10): 2.

[4] Huang Yanting Tesla's marketing strategy High Technology and Industrialization, 2015 (2): 2.

[5] Qian Zhichao, Bao Xiaoyun. Research on Tesla Automobile Brand Marketing Strategy. Heilongjiang Textile, 2019 (01): 39-41.

[6] Zhang Fang, Wang Zhanglin, Zou Jun Research on the promotion strategy of new energy vehicles in China -- based on Tesla's promotion model Price Theory and Practice, 2015 (9): 3.

[7] Ji Yunqi, Yang Yu. Analysis and Thinking on the Realization of NPV Increase and Marketing Strategy of Tesla Motors. Modern Marketing (Information Edition), 2019 (01): 166.

[8] Pei Xia. Analysis and Enlightenment of Tesla Electric Vehicle Business Model. Economic System Reform, 2015 (06): 119-123.

[9] Wang Meidan Research on Tesla's Internationalization Strategy Shandong University.

[10] Li Hongming. On Cognitive Evolution from Tesla's Price Reduction. Automobile and Driving Maintenance (Auto Edition), 2021 (02): 42-45.