

How does Tesla Stand Out?

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Keywords: Electric Vehicles; Disruptive Innovation Strategy; Competitive Advantage

Abstract: Tesla, a pure electric vehicle and energy company, has only been established for 17 years. Today, Tesla has a market value of US\$3,796. As an international company, Tesla has achieved great success with its unique management strategy called disruptive innovation strategy. Disruptive innovation strategy means prying up the market with fewer resources, which brings significant benefits and make it possible to put the company in a leading position. In this article, I analyze Tesla's value creation mode and disruptive innovation strategy and use VRIO model to explore the advantages and disadvantages of Tesla's strategy, which has an educational guidance to other international companies.

1. Introduction

As the world pays more and more attention to environmental issues, pure electric vehicles have developed rapidly in recent years. Although they are not as widely accepted as traditional power vehicles, more and more people are interested in pure electric vehicles. The pure electric vehicle industry led by Tesla has opened up emerging markets in various countries around the world.

The main core theory in this article is destructive innovation strategy, which is the business innovation theory proposed by Christensen. With the development and changes of the times and the market, its conceptual theory has been adjusted and developed accordingly. "Disruptive" means that smaller companies can successfully establish business with fewer resources (Christensen et al., 2015). "Disruptive" and "disruptive" are actually prying open the market with fewer resources [1]. The core of "disruptive" is technology, and the predecessor of destructive innovation is destructive technology. Christensen then extended disruptive technology as a business model, that is, disruptive innovation strategy. Secondly, Markides (2006) believes that business model innovation and radical product innovation are the two particular type of disruptive innovation. These two types can be understood as creating and providing new products for the market, or as opening up new ones. So one of the central concepts of this theory underlines the opening up of new market models which is the supply of new products or the development of new markets [2].

This article will combine the theory of disruptive innovation and adopt the literature research method to collect and organize information to qualitatively analyze the current situation of how Tesla implements this strategy [3]. The article is structured as follows. Section 1 gives the frame of the whole article. Section 2 introduces Tesla's overview. Section 3 analyzes Tesla's international value creation strategy. Section 4 presents the advantages and disadvantages of Tesla's international strategy. Section 5 gives the conclusion and recommendations.

2. Overview of Tesla

Tesla is an American electric vehicle and energy company founded in 2003 and headquartered in Palo Alto, California, USA. It was co-founded by Martin Eberhard and Marc Tarpenning. Tesla mainly provide high-performance electric vehicles with well-designed appearance, and advanced components for electric vehicle power system. Although Tesla has not been established for a long time, it has developed extremely rapidly.

As a new energy vehicle company, its development must rely on strong technology and huge

financial support, and Tesla has shown amazing capabilities in financing, self-innovation and collaborative innovation. The key milestones of Tesla since the start of internationalization are shown in Table 1.

Table 1. Milestones of Tesla

Year	Milestone events
2012	Model S was delivered in Norway & entered the European market Model S was launched in China & entered the China market Tesla car caught fire frequently, and its stock price fell by 20%
2014	Tesla Gigafactory construction starts
2015	Model X, a luxury SUV Launched Autopilot kit released
2016	Model 3 released, starting at 35,000 US dollars
2017	Delivery of Model 3 began, with the first delivery of 30 vehicles Launched an upgraded version of Roadster and electric truck Semi
2019	The Shanghai Super Factory officially started Entry-level SUV Model Y released
2020	Tesla's fully automated driving test version officially released

Source: Tesla's official website and NetEase financial information

3. Tesla Value Creation Strategy-disruptive Innovation Strategy

"Disruptive" means that smaller companies can successfully establish business with fewer resources. "Disruption" is actually prying up the market with fewer resources. The core of this "disruption" is technology [4].

First of all, Tesla's innovative products are pure electric vehicles. Although electric vehicles are not a completely innovative product, it is based on the fact that before Tesla entered the market, the automotive market did not focus on auto brands that only produce pure electric vehicles. Therefore, it is an innovative product for Tesla to provide the pure electric vehicles to the automotive market. It is Tesla who introduced pure electric vehicles to step into a new era through a destructive innovation strategy in the car market[5].

Secondly, the business model of Tesla differs from ordinary car production brands. The main development of Tesla is not the same as the traditional car companies which aims at middle- and low-class customers at the first step. Tesla entered the market from the high end and then to the downward. The model released by Tesla is a sports car with a high price and high cost, which is their first step. Obviously, they are aiming at the entry of high-end consumers into the market, thereby determining the market positioning of high-end cars. In the second step, they released the Model S, which is a moderately priced mass-produced model. This move is to compete with luxury mainstream companies such as Mercedes-Benz. In the third step, they released the Model 3, a low-cost, lower-priced car. In China, the official starting price of the domestic-manufactured Tesla Model 3 is currently RMB249,900. Comparing with the imported Tesla Model 3 20 months ago, whose starting price of the version was RMB433,000, the entire price cut was as high as RMB189,100. Tesla eventually reached the largest ordinary consumer, which further promoted the development of the Chinese market.

Finally, Tesla's marketing model in the value chain is also different from traditional auto companies [6]. It uses global direct sales. The process of buying Tesla is: collecting model information, store experience & test drive, official website booking and online payment of deposit, factory order production, online payment of the final payment, vehicle delivery. Tesla is personally involved in all aspects of the car marketing process, and Tesla even has its own insurance company to provide insurance for car owners. At the same time, Tesla does not make any advertisements, but trying to turn its CEO Musk into a Silicon Valley Iron Man, and through Musk's frequent appearances in online media, he uses his perspective and experience to promote Tesla. It is a very

unique marketing model.

4. Analysis of Tesla's Strategy

4.1 The Competitive Advantages of Tesla

According to the VRIO model, Tesla's competitive advantages are analyzed (Table 2). Among them, brand, customer loyalty, innovation ability, cost control ability, marketing and user experience are its competitive advantages, which have advantages in four dimensions.

With the appeal of low-carbon environmental protection all over the world, governments of all countries strongly promote the new energy vehicles by economic and policy supports. In the foreseeable future, new energy vehicles will become the general trend. In such a big environment, Tesla is facing increasingly fierce competition, so it is important for Tesla to maintain and create its competitive advantage and more importantly, to overcome its shortcomings.

Table 2. Tesla VRIO analysis model

	V (Value)	R (Rareness)	I (Imitability)	O (Organization)
Brand	√	√	√	√
Customer Loyalty	√	√	√	√
Innovation Capacity	√	√	√	√
Cost Control Ability	√	√	√	√
Supply Chain	√	√	×	√
Financial Management	√	√	×	√
Employee Incentive Plan	√	√	√	√
Marketing	√	√	√	√
User Experience	√	√	√	√
Home Country Government Support	√	√	×	√

4.2 Advantages of Tesla's Strategy

a) Tesla has opened up a new car market with pure electric vehicles and attracted a group of high-end consumers who are keen on environmental protection or technology[7]. With this market positioning, it has successfully taken the first step and successfully implemented the next plan. Tesla's innovation is not only an innovation in technology and design, but also an innovation in the driving experience [8]. Drivers don't have to line up at the gas station, instead they can charge at home or nearby, which not only brings convenience, but also greatly reduces the travel cost to some extent. In addition, electric cars, which can reduce the greenhouse gases emitted by traditional cars, can protect the environment to a certain extent.

b) Tesla's direct sales approach can not only be closer to consumers, but also help factories to achieve zero inventory [9]. What's more, the biggest advantage of this model is rapid reflection and rapid response, which is the biggest difference with the traditional distribution model. The time it takes during the sales model from the factory production line to consumers, Tesla only needs 2 weeks at the fastest, 2 months at the slowest, in contrast with that traditional car companies which need a month at the fastest. Nowadays, it takes only 1-4 weeks to buy Tesla cars in China. In the early days, it took three months from the production line to delivery to Chinese consumers in the United States, while the German car companies in the same period took nearly half a year to complete the production line to delivery. From the moment a car is off the production line, Tesla's delivery process is to leave the factory, transport it to the delivery center in the consumer's designated city, inspect the car by the delivery specialist, and finally pick up the car by the user. In the comparison of the entire car purchase process, Tesla's direct sales model decreases the consumer's purchase process, guiding consumer behavior step-by-step, and by a rapid reflection

and rapid response model. From order to delivery, consumers can complete the process during the impulse consumption period. However, in the traditional distribution model, consumers need to repeatedly bargain at different dealers which makes it easier to run orders.

c) The difference between Tesla products and most order-based production is that Tesla tries its best to produce standardized cars, reduces the optionality of equipment, reduces costs through large-scale mass production, and directly feeds the decrease in cost at the terminal sales level, this is also the current advantage of Tesla's direct sales model.

d) Tesla's disclosure of its super charging station system technology patent to the industry will definitely give him an advantage in the future[10]. So far, BMW Smart, Mercedes-Benz A and B series, Toyota RAV4 have been provided with electric systems by Tesla. This reminds people of Google's strategy to authorize Android. Although Tesla's act seems to have exposed its core competitive advantage, actually they are cultivating the entire ecosystem. This is not only conducive to promoting the unification of electric vehicle charging standards, but also enables Tesla to save a lot of costs in the construction of charging stations, and the expansion of the charging network will be further accelerated. There is no doubt that only when electric vehicles are truly widespread around the world can Tesla get the most benefit.

4.3 Disadvantages of Tesla's Strategy

a) Since the global environment been attached more and more importance, electric vehicles have received more and more attention, and some traditional car companies have begun to develop in this field. At present, China's new energy vehicle market is mainly dominated by traditional car companies, including many well-known brands such as Mercedes-Benz and Volkswagen which have established great brand effect and an efficient network of sales in the long-term market operation and development. Although they are new entrants to the electric vehicles field, they can make full use of the advantages of accumulated resources to pose threat to some degree. More importantly, these mainstream companies have greater economies of scale and more mature market system. If they reduce costs to increase their competitive advantage, providing lower prices for customers, then Tesla will certainly be affected.

b) Another threat to Tesla is from the traditional vehicle market. As far as the current market is concerned, there is no doubt that the alternatives to pure electric vehicles (BEVs) are mainly fuel vehicles (FCVs). Nowadays, the market share of pure electric vehicles is much lower than that of fuel vehicles. Hybrid vehicles, at the same time, are also another common choice. In the current market, the leaders usually do not pay attention to the threat of new technologies because they can keep their current market share by either reducing the producing costs or improving the function or quality of products. However, when facing with disruptive innovations, it is difficult for mainstream to expect the personnel and work procedures can mobilize and adjust human and financial resources to create a good situation in the changeable markets. The performance of mainstream technology may be not as good as the new technology product, but the external cooperation conditions is often lower than that they want to replace, which means when using the technology, the "cost" of new technology product is much higher than the mainstream ones. The "cost" mentioned does not refer to the level of material cost of the product itself, but the level of convenience and satisfaction. The entry of new technologies at the same time means fresh blood injecting into the market, but corresponding supporting facilities this new comer requires may cause the market to fail to follow up as well as increase adaptability of customers. For example, Tesla needs to use charging piles for charging. According to the statistics of the China Electric Charging Infrastructure Promotion Alliance, the total number of charging pile facilities in the country is currently 117.4, and the number of exchange stations is 306. Therefore, using charging piles may not be as convenient as using gas stations. What's more, the mileage of pure electric vehicles is not as good as traditional fuel vehicles. These reasons will inevitably affect the consumers when they make decisions, and may even lead to abandonment of pure electric vehicles and turning to fuel vehicles.

c) One of the problems with Tesla's marketing model is that it can only rely on its own expansion channels, so the expansion speed is not so fast. With the acceleration of localization, the number of

Tesla experience stores is obviously not enough. In Beijing, Mercedes-Benz has 33 dealers, BMW has 25 dealers, American brand Cadillac has 10 dealers, and Tesla has only 4 poor experience stores. Obviously, compared with traditional luxury car companies, Tesla's expansion speed is still too slow. According to the general process of Tesla's shop building process, the first is to build the super charging station in the city where the shop is intended to be opened, and then slowly accumulate the number of car owners. When the number of car owners reaches a certain number, start the shop building process. However, it is doubtful whether the direct sales model is competent when selling large-scale mass-produced industrial products with such a shop building process. Building an experience store to let consumers experience Tesla's products is a shortcut to selling cars, but how to quickly build a store is a problem that Tesla cannot avoid.

In general, the disruptive innovation strategy adopted by Tesla is very successful. Regarding some shortcomings of this strategy, Tesla also has some corresponding countermeasures. For example, when facing the threat of traditional enterprises in the market, Tesla's concept and brand effect will capture the attention of some customers. Tesla's pure electric vehicles not only achieve zero emissions, but also pay more attention to implement the environmental protection philosophy in all aspects, using green materials and manufacturing technologies as much as possible to build green cars. At the same time, Tesla's price cuts after its listing in China have also spurred many consumers to choose Tesla. The article will analyze Tesla's price cuts again.

5. Conclusion

This article analyzes the disruptive innovation strategy of Tesla, which is its main international marketing strategy. There is no doubt that Tesla has derived a lot of benefits from this correct guideline, potential challenge, however, still exists. According to the disadvantages analyzed above, some suggestions are given to Tesla. First of all, Tesla should adjust supply chain management. Through reasonable adjustment of supply chain management, supply chain costs can be reduced, overall efficiency can be improved, and enterprise performance can be improved. Secondly, Tesla should stabilize existing customer groups and expand target customers. Tesla should make a long-term plan to expand its customer base slowly and steadily. Thirdly, Tesla should diversify marketing network. Fourthly, Tesla should strengthen after-sales service and improve the value chain. Finally, Tesla should further improve the technology like autopilot and avoid some tragedies [11].

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