



Improving the sales performance of Tesla in China

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To: Elon Musk, CEO of Tesla Motors
From: Lu Lyu, a student from London School of Economics and Political Science
Date: 1st October 2015
Subject: Recommendations about increasing the sales of Tesla in China.

Dear Mr. Musk,

First of all, I am writing to congratulate you for your great success of managing Tesla to be the best known and the most successful maker of electric vehicles (EVs) in American and European markets. The success of Tesla in these markets undoubtedly proves the broad prospects of luxury EVs. However, things happened in China is completely different. Since entering the Chinese market in last April, the sales of Tesla has been continuously grown slowly and until now, the whole year's sales target has only been finished less than half. Faced with this unexpected result, as a Tesla admirer, I am as anxious as you. China, as the world's largest car market, has broad space for development, thus while at first the development of Tesla was not going smoothly in Chinese market, there are enough rooms to enhance and further. Therefore, I am writing to you to tell you the problem which currently hinders the sales growth of Tesla in China and offer the corresponding recommendations based on my five-year educational background in consumer psychology and two-year Chinese marketing experience.

According to the Chinese automobile market environment and the status quo of Tesla development in China, I identified three aspect factors which impede Tesla's sales growth.

1) In the aspect of the product and service of Tesla:

- a) Although Tesla has been building the charging infrastructure aggressively and continuously, the pace of construction still has not caught up with owners' demand. This temporary shortage of charging infrastructure results in Tesla owners' strong dissatisfaction and thus ultimately negatively affects the word of mouth of Tesla vehicles and the sales growth.

2) In the aspect of Chinese consumers' understanding of EVs and Tesla:

- b) GFK, a German market research company, recently conducted a research about consumer's attitude and understanding of EVs in China, Japan, France, Spain, Russia and the US. The result showed that EVs are least popular in China because more than half of Chinese consumers consider that EVs are not safe, easy to operate and have high maintenance costs. However, these problems on EVs have already been solved by Tesla's designers and other electric-car makers. Thus, we can see that Chinese consumers have the

misunderstanding on EVs, which is another reason of poor sales.

- c) Since entering the Chinese market, Tesla almost has not advertised their vehicles on any Chinese media platforms. This nearly zero marketing strategy has caused Chinese consumers has not been familiar with Tesla or stimulated to purchase Tesla vehicles.

3) In the aspect of Chinese policy environment on EVs:

- d) At present, the supportive policies Chinese government introduced on EVs are all about giving the subsidy to EVs' owners. However, as Tesla vehicles are luxury sports cars, Tesla's target consumers are very wealthy. Thus, these policies have small effect on the car purchasing' selection of Tesla's potential consumers.

Based on these four problems, I will give four specific and workable recommendations to solve each problem.

1. Creating a mobile application for sharing charging piles and facilitating communication between Tesla vehicles' owners.

As Tesla owners' dissatisfaction impedes the sales growth, improving Tesla owners' satisfaction is the first step to promote sales. Since the construction of charging infrastructure takes time, Tesla need a short-term solution to help current Tesla owners find charging posts conveniently so as to ease their discontent. Therefore, I suggest Tesla to develop a mobile application which enables Tesla owners to search and ask their nearest other Tesla owners whether they have available charging piles and whether they are willing to share with them. Besides, this mobile application can offer a platform that allows Tesla owners to communicate their driving experiences or problems with other owners or Tesla experts. This solution has many benefits. Firstly, sharing charging piles not only maximises the utilisation of every charging pile and solves the difficulty of finding charging posts, but also facilitates the communication between Tesla owners. Secondly, the function of information sharing not only enables owners' problems to be solved quickly by the help of others, but also promotes the connecting between owners and ultimately enhances owners' satisfaction, love and loyalty of Tesla.

2. Cooperating with other electric-car makers or Chinese environmental organisations to disseminate the knowledge of EVs and keep positive communication with consumers on the social media platform.

As many Chinese consumers have misunderstandings on EVs, Tesla can collaborate with other organisations to dispel these misunderstandings. These collaboration is not only beneficial to co-create a sustainable electric-vehicle market, but also beneficial to eliminate consumers' misunderstandings more effectively and efficiently.

Furthermore, keeping positive communication with consumers will help each organisation ensure that consumers actually understand what they are disseminating and respond their questions immediately.

3. Finding a renowned successful celebrity to endorse Tesla vehicles.

As successful celebrity to some extent represents higher social-economic status, celebrity endorsement can give Tesla vehicles a symbolic meaning that is having Tesla stands for having higher status. Most of people want to have higher status, thus this endorsement can stimulate their purchase.

4. Cooperating with the Chinese government to establish some new supportive policies such as separating a specific lane for EVs on the roads or allowing people to park EVs freely in the public parking space.

As the using process of Tesla is the major concern of current potential consumers, cooperating with governments to create some relevant policies on EVs will enable potential consumers to see the privilege of driving Tesla and thus encourage their purchase.

For your convenience, I have summarised the problems and corresponding recommendations in the following table.

Aspects of problems	Problems	Recommendations
Products and services	Present Tesla owners have strong dissatisfaction because of the shortage of charging infrastructure.	Creating a mobile application for sharing charging piles and facilitating communication between Tesla vehicles' owners.
Chinese Consumers' perceptions	Many Chinese consumers have misunderstanding of EVs.	Cooperating with other electric-car makers or Chinese environmental organisations to disseminate the knowledge of EVs and keep positive communication with consumers on the social media platform.
	Chinese consumers have known little about Tesla.	Finding a renowned successful celebrity to endorse Tesla vehicles.
Policy environment	Existing subsidy policies on EVs have the small impact on the sales of Tesla.	Cooperating with the Chinese government to establish some new supportive policies such as separating a specific lane for EVs on the roads or allowing people to park EVs freely in the public parking space.

I hope these recommendation can be adopted by Tesla and improve Tesla's sales performance in China. I fully believe that Tesla will create a great achievement in Chinese market.

Looking forward to hearing from you.

Yours Sincerely,

Lu Lyu

THEORETICAL BACKGROUND

All the recommendations are supported by scientific theories and researches. Thus, in the next sections, I will respectively introduce (1) the installation theory that I applied to analysis Tesla's current problems and propound corresponding recommendations and (2) the specific social psychological theories and studies that I employed to support every recommendation.

Installation theory

Installation theory is a general framework and powerful tool about how to change and evolve social-technic systems, namely *installation*, in the world (Lahlou, 2011). The theory indicates that individual behaviour is determined by three layers of installation which are (1) artefacts installed in physical environment, (2) social representation installed in human minds and (3) institutions installed in the society (Lahlou, 2011). Thus, in order to change Tesla's present and potential consumers' behaviour, I drew on these three layers of installation to analyse Tesla's pre-existing problems and propound specific recommendations. More specifically, the first level, namely physical level, refers to the property of artefacts which provides affordances for human activity (Lahlou, 2014). In the case of Tesla, I found that the shortage of charging infrastructure to the large extent limits Tesla owners' driving area, thus I suggested Tesla to create a mobile application which can provide affordances not only for sharing charging piles between owners and solving the difficulty of charging, but also for the communication among Tesla owners. The second level, namely psychological level, refers to representations and practices in human mind which allow people to interpret situations and phenomena and take adapted action (Lahlou, 2014). Regarding the case of Tesla, I identified that Chinese consumers' representations about EVs and the brand Tesla are not correct or sufficient, which finally affects consumers' purchase practice. Thus I advised Tesla to cooperate with other organisations to change consumers' representations. The third level, namely institutional level, refers to the rules which are created to keep social-technic system running smoothly and updating appropriately (Lahlou, 2011). For the case of Tesla, pre-existing policies in China cannot facilitate Tesla's sales performance, thus I proposed Tesla to collaborate with Chinese government to create some new policies about the using process of EVs. In conclusion, the problems and recommendations I proposed in the memorandum was based on these three levels of installation theory and may affect the whole development environment of Tesla in China and finally promote its sales performance. In the next section, I will introduce other social psychological theories and studies behind each level's recommendation in detail.

Physical level: creating a mobile application

The first purpose of creating the mobile application is to enable Tesla owners to share their own charging piles with each other. This action between consumers is a kind of *sharing* which is defined as “the act and process of distributing what is ours to others for their use and/or the act and process of receiving or taking something from others for our use” (Belk, 2007, p. 126). In a word, sharing is a non-reciprocal pro-social behaviour (Benkler, 2004) or an altruistic act (Belk, 2014). Belk (2010) argues that sharing as a communal act can create the sense of bonding and solidarity. Based on Maslow’s hierarchy of needs, everyone has the need to belong (Maslow, 1943), thus sharing is beneficial to satisfy people’s need of affiliation by linking one person to the other. Besides, sharing as an altruistic act can enhance people’s feeling of self-worth (Reissman, 1965), positive emotions and satisfaction of life (Adler, 1937). Therefore, taken together, facilitating Tesla owners’ sharing behaviour is conducive to increase their sense of well-being and improve their degree of satisfaction.

The second purpose of this recommendation is to promote the communication between Tesla owners on the Internet. This network platform to some extent is a *brand community* which is defined as a specialised community without the limitation of time and space and formed by a series of social relationships among users of a certain brand (Muniz & O’Guinn, 2001). Brand community enables members to share information, feelings or problems of brand product or service and build further contacts with other members (Shu & Zhang, 2013). As members of brand community have frequent communication with each other, they finally feel a sense of belonging to this community (Tsai, 2011) and this sense of belonging will contribute to the consumers’ brand love, loyalty and positive word-of-mouth (Tsai, 2011; Reimann, Bechara, Castaño & Zaichkowsky, 2012). Furthermore, researches demonstrated that sharing as an altruistic behaviour can strengthen people’s sense of belonging to their community (Theurer & Wister, 2010). Therefore, Tesla’s own-designed mobile application as a brand community has many benefits that I discussed above, which ultimately promotes the sales growth and sustainable development.

Psychological level

1) Disseminating knowledge on EVs and keeping positive communication with consumers

Social representations are set of ideas, values and practices which are shared among the members of community or social group and provide us a way to understand and interpret our world (Moscovici, 1984; Joffe, 1998). Moscovici

(1984) indicates that the aim of all the representations is to transform the unfamiliar knowledge into the familiar idea or common sense. For the case of Tesla, Chinese consumers has not been familiar with present EVs' performance and their current social representations on EVs have been outdated. Thus, new social representations on EVs need to be shaped so as to make Chinese people familiar with present EVs. Since social representations are shaped by interactions, dialogues and debates within the community are key to the development of social representations (Moscovici, 1988). Thus, I suggested each organization to keep positive communication with consumers so as to facilitate two-way communication, discussion and debate. Besides, as mass media is seen as a powerful tool for disseminating knowledge and forming people's perception (Jansson, 2002), I advised each organisation to take advantage of social media platforms in this transforming process.

Habermas's theory of communicative action also explain why keeping positive communication with consumers on the internet is important. Habermas (1992a) argues that the purpose of communicative action is mutual understanding which can only be achieved by two-way symmetric dialogue. Thus, keeping the dialogue with consumers is essential to ensure that the new knowledge of EVs is really understood by people. Apart from that, Habermas (1992b) proposes an ideal communicative situation that is everyone has equal power, right and freedom to express, question and introduce any ideas and attitudes, and meanwhile, all the ideas are valued by others. Based on this criteria, we can see that nowadays Internet is the most ideal communicative situation, thus communication on the internet is a wise choice.

2) Celebrity endorsement

Norman's theory of emotional design suggests that there are three levels of emotional design of a product (Norman, 2004). They are visceral design, which refers to the surface beauty of a product; behaviour design, which refers to the function of a product; and reflective design, which is related to the meaning, user's memory and self-identity of a product (Norman, 2004). Since Tesla vehicles as a luxury car have had the beautiful appearance and excellent function, we only need to focus on its reflective design. *The theory of extended self* indicates that our possessions are parts of ourselves, thus we can deduce a person's traits from the nature of his/her possessions (Belk, 1988). In addition, *Costly signalling theory* suggests that people always utilise some cues to signal their qualities to others for getting access to resources, reproduction, etc.(Zahavi, 1975). Thus, taken together, we can see that people prefer to have or show their possessions which can reflect their good characters and benefits their life, career, relationships and so on. As Tesla vehicles are environmental-friendly, by purchasing a Tesla, a person can signal to others that

he/she is a pro-social individual and concerned with environmental protection. This pro-social character is beneficial to have higher status in the group (Cottrell, Neuberg & Li, 2007). Combined with costly signalling theory, researchers demonstrate that when people are motivated to maintain or boost their status, they are more likely to engage in pro-social behaviour, such as purchasing green product (Griskevicius, Tybur & Van den Bergh, 2010). Therefore, in order to stimulate potential consumers to buy Tesla and signal their pro-social characters, I proposed Tesla to find a successful celebrity who represents higher status to endorse Tesla vehicles, so that potential consumers' status motives are activated and they are more inclined to purchase Tesla, a green product.

Institutional level: creating new policies

The fourth *principle of economics* which proposed by Mankiw (2007) is that people respond to incentives. The reason is people make decisions by comparing pros and cons, and incentives, such as public policies, can alter the benefits and costs which people confront, and thus change their behaviours. In the case of Tesla, facilitating government to create some supportive policies on EVs enables potential consumers to see the benefits of driving EVs so as to change their purchase decision. Moreover, according to the costly signalling theory, the new policy, such as separating a specific lane for EVs on the roads, can help people signal their particular pro-social characters to others.

CONCLUSION

This case study has identified four problems which result in Tesla's poor sales in China and has propounded four specific recommendations to help Tesla improve sales performance. All the problems and recommendations have been organised based on physical, psychological and institutional level of installation theory and each recommendation has social psychological theories and studies to support. However, these four recommendations have some limitations. Specifically, firstly, due to the shortage of charging infrastructure in reality, sharing can only help owners who live or move in the certain area which has already installed charging piles. Secondly, with the development of EVs market by changing Chinese consumers' social representation on EVs, the competition between electric-car makers will strengthen. Thus many carmakers will participate in the manufacture of luxury EVs and Tesla's competitive pressure will amplify. Thirdly, Tesla has never adopted celebrity endorsement as marketing strategy before, thus, it is a new challenge for Tesla. Finally, as Tesla is a foreign company for China, cooperating with Chinese government to create new policies is uncommon and difficult based on current Chinese political environment. In conclusion, although these recommendations have some limitations and difficulties, they are still

effective suggestions which can solve Tesla current difficulties, change their development environment and make Tesla's development in China more sustainable in the long run.

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