

Business Management- Standard Level

Research Question:

‘Will Tesla be able to increase its market share in the Chinese electric car market by opening a Gigafactory in china?’



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Introduction

China is by far the largest electric vehicle market in the world due to its government support in the form of subsidies. As it reduces the purchase price for the consumers¹. Tesla, Inc, US electric vehicle manufacturer, is keen to invest in the Chinese market through its Gigafactory in order to reduce production cost and begin production of locally build models.² The Gigafactory will be the source to manufacture 10,000 model 3 electric sedans per week and it cannot be possible without the baseline Shanghai factory (Gigafactory 3). One of the world's biggest consumers of EV's is China, therefore building one of its giga factories in China and investing \$2 billion could be beneficial for Tesla. Gigafactory typically means Giant Factory, as they are the world's largest lithium-ion factory. The Giga plant not only constructs electric vehicles, but it also works with batteries, solar panels and home storage solutions- all under one roof.

China has produced half of the global electric vehicles during 2018 while the US has just produced 20%³. The intense competition in China comprises comparators who offer cheaper solutions in comparison to Tesla. Not only this, non-Chinese automakers such as BMW, Audi, Mercedes and Toyota have strong presence and already established manufacturing and sales units through partnership and agreement with local entities. While it cannot be denied that Tesla has enjoyed special treatment by the Chinese government, Tesla still has to sell this product at profit considering its price tag. Subsequently there exists immense competition from companies like NIO who are cash rich and possess local knowledge of culture and related things⁴.

Therefore, the question arises- ***Will Tesla be able to increase its market share in the Chinese electric car market by opening a Gigafactory in china?***

¹ Appendix 1

² Appendix 2

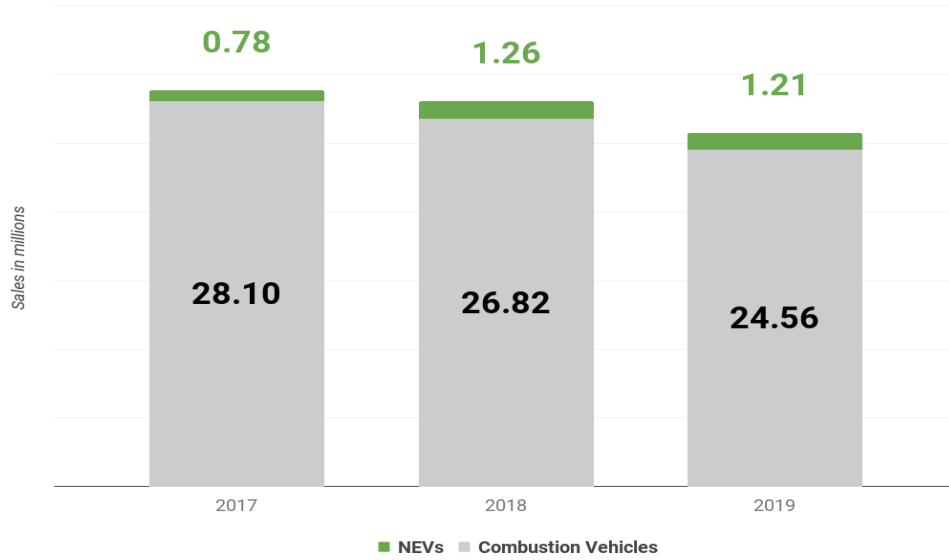
³ Appendix 3

⁴ Appendix 3

Main research and findings

China Auto Sales

Numbers in millions, data from CAAM, includes passenger and commercial vehicles



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Figure 1: Sales growth of China's auto market (EV)

SWOT Analysis

Strength	Weaknesses
<ul style="list-style-type: none"> ● Technology enthusiasts in china agree with Tesla's Vision and mission statement⁵ ● Network of more than 2,100 regular EV chargers and pos1,200 super chargers across china⁶. ● Mobile applications in China positions Tesla through a significant competitive advantage⁷. ● Tesla has Strong and dependable relationship with Chinese government⁸. ● Elon Musk is the face of Tesla and a renowned leader⁹. ● Made in China vehicles allow Tesla to encash subsidy¹⁰. 	<ul style="list-style-type: none"> ● Unaware of local Chinese culture and practices¹¹. ● Tesla model 3 will cost \$50,000 approximately despite subsidies offered by government¹². ● Tesla needs to secure funding that will allow them to complete and operate a factory in Shanghai¹³. ● Tesla is unable to produce 10,000 model 3 sedans per week without manufacturing in china¹⁴. ● Tesla wouldn't be able to manufacture model 3 at \$35,000 with manufacturing in china¹⁵. ● Tesla is yet to publish an 8k filing with SEC thereby declaring secure funding and material partnership to build future capacity¹⁶

⁵ Appendix 1

⁶ Appendix 5

⁷ Appendix 5

⁸ Appendix 3

⁹ Appendix 3

¹⁰ Appendix 1

¹¹ Appendix 3

¹² Appendix 2

¹³ Appendix 3

¹⁴ Appendix 3

¹⁵ Appendix 3

¹⁶ Appendix 3

Opportunity	Threats
<ul style="list-style-type: none"> ● Tesla cars are not in subsidies cut as their range is less than 250 km¹⁷. ● China's government relations with Tesla's may effect and deteriorate competitor NIO¹⁸. ● Tesla can achieve economy of scale because investment in small businesses is depleting¹⁹. ● Potential sales growth of EV's in China and combustion vehicles sales reduce from \$26.82 (2018)-\$24.56 million (2019)²⁰. ● Demand to grow overall without government support²¹. ● If Tesla reflect positive social impact it can create a successful image and can penetrate in consumer market²². ● If Tesla focuses on fair compensation (i.e. training and education) then it can easily capture the market²³. ● Tesla model 3 to get subsidy of \$3500²⁴. ● China is inclined towards the green economy with its new energy vehicle policy²⁵. 	<ul style="list-style-type: none"> ● Unclear business and economic scenarios force many competitors to layoff many workers and cut back wages. This may unprecedentedly create pressure on Tesla to be careful and vigilant.²⁶ ● Competition from established local and global contenders like NIO, Xpeng, BMW, Daimler²⁷, SAIC Motor, BYD, Volvo and BAIC group.²⁸ ● Increase of EV's new start-ups in china²⁹. ● Cutback on subsidies³⁰. ● More than 500 manufacturers were registered to produce EV's in China³¹. ● Heavy investment from competitors like NIO³². ● China overall auto market decline in 2019³³ ● Low speed development in china as per the CAAM³⁴.

¹⁷ Appendix 1

¹⁸ Appendix 1

¹⁹ Appendix 1

²⁰ Appendix 1

²¹ Appendix 1

²² Appendix 1

²³ Appendix 1

²⁴ Appendix 2

²⁵ Appendix 4

²⁶ Appendix 1

²⁷ Appendix 2

²⁸ Appendix 3

²⁹ Appendix 3

³⁰ Appendix 1

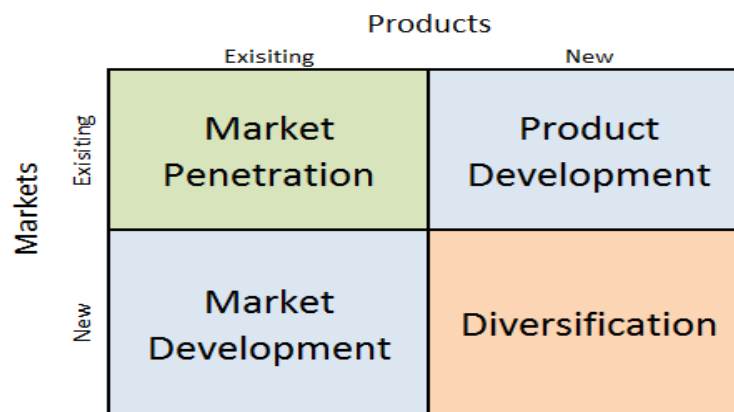
³¹ Appendix 1

³² Appendix 3

³³ Appendix 4

³⁴ Appendix 4

Ansoff Matrix



Tesla is market capturing in Chinese automobile market, especially in the electric vehicle car market, it can be referred to as a *product development* strategy which exposes Tesla to medium risk. This is because Tesla need to offer new products, research and develop them. Tesla has a wide range of product portfolio, from regular charging stations to super chargers³⁵, Lithium ion battery and solar roof. The American automobile giant must improvise on product features to attract the likes of Chinese consumers. This means significant and robust product development involving incremental investment and radical changes in order to beat home grown competitors like NIO. Moreover, Tesla can match and strategy its product to fulfil the vision of Chinese government of making china less polluted or maybe pollution free³⁶. Additionally, Tesla unique features like auto pilot mode on highways can position them well above competitors. However, investment in Gig factory requires considerable funding which Tesla lacks. The stimulus material also confirms registration of a new 500³⁷ electric vehicle manufacturer in china which might take away a larger share of the pie.

Subsequently one might review Tesla's position as *market development* strategy which exposes them to medium risk. While Tesla may be a strong brand in American market and may have established earlier roots in the Chinese market however, the firm still needs to constantly remind Chinese consumers about their new products and in what capacity they are better than the competitors. It is estimated that Tesla requires constant above the line promotion to develop its market. The newly developed and added features must be introduced as a unique preposition to enjoy first mover advantage. There is a possibility of some environment friendly enthusiasts³⁸ appreciating Tesla's product acting as earlier adopters however, it is cognizant to identify and appreciate those consumers who may help Tesla in attracting a significant share of the Market. The forecast³⁹ confirms that China EV's market is growing and fuel based is no longer the choice of the masses. Overall, Tesla needs a sizable funding to keep itself alive in the promotion game thereby developing its market constantly.

³⁵ Appendix 5

³⁶ Appendix 4

³⁷ Appendix 1

³⁸ Appendix 1

³⁹ Appendix 4

Force Field Analysis

Driving forces		Restraining forces
<ul style="list-style-type: none"> ● Gigafactory in china can add 10,000 vehicle per week⁴⁰. (4) ● Recharge network available⁴¹. (4) ● Tesla can contribute to vision of Chinese government to reduce pollution and add positive social impact⁴². (4) ● China EV's market increases from 4.5% to 4.7% in 2019⁴³. (4) ● China has cut-off its subsidy on vehicles which have a range less than 250 km⁴⁴ (4) ● Special dispensation by Chinese government⁴⁵. (4) ● China's electric market is growing⁴⁶. (3) 		<ul style="list-style-type: none"> ● Tesla still has an expensive car despite subsidy⁴⁷. (4) ● Competition from native companies like NIO and Xpeng motors⁴⁸. (4) ● Huge investment on Shanghai Gigafactory⁴⁹. (3) ● Model S will cost around \$140,000 after taxes in the US it only costs around \$80,000⁵⁰. (5)
Total (27)		Total (16)

⁴⁰ Appendix 3

⁴¹ Appendix 5

⁴² Appendix 4

⁴³ Appendix 4

⁴⁴ Appendix 1

⁴⁵ Appendix 3

⁴⁶ Appendix 4

⁴⁷ Appendix 2

⁴⁸ Appendix 2

⁴⁹ Appendix 3

⁵⁰ Appendix 3

Conclusion

Undeniably Tesla is one of the strongest electric vehicle manufacturers in the world and its decision to target Chinese electric vehicle market through its Gigafactory in Shanghai looks achievable. This is so because the world is changing, and consumers look forward to products that support such changes. The investment in the Research and Development in electric vehicles is appreciated and Tesla with its sizable brand can make it happen.

The Swot analysis that Tesla has Strong strength as it continues to live range resources to gain competitive advantage and other EV manufacturers. May take a longer time to create significant threats. Further Tesla does have weaknesses to deal with Chinese EV market however, this can be tamed with concrete strategy and some operational objective alteration.

The chosen 5 stimulus materials provide a range of opportunities for Tesla which can assist in achieving significant market share in the EV passenger car market. These opportunities are well within Tesla's ability to exploit them as directly or indirectly they contribute in the objective. However, Tesla has less control on the threats identified some of them are common for its competitors while most threats comprises the competitors who may equally strategies move to gain a significant portion of the EV market. Overall, the strength and opportunity are higher than weaknesses and threats. The Ansoff matrix confirms the risk of expansion as a medium for Tesla in the Chinese Ev market. Whether Tesla adopts a market orientated or a product-oriented approach or combination of both Tesla needs significant investment and therefore it may take Tesla a while, short to medium time period to gain a considerable market share of the EV market. However, the risks are in much control and Tesla needs to constantly pump in funds in product and market development.

Finally, the driving force weighs more than the restraining forces and therefore it can finally be concluded that tesla can increase its market share in the Chinese electric car market by opening a Gigafactory in china.

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