Marketing Plan for Tesla Motors’ Model S

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“I understand and will uphold the ideals of academic honesty as stated in the Honor Code.”
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I. Executive Summary

Tesla Motors was founded in 2003 on the belief that its product and technology were inherently different from its competition. Tesla aims to compete with other luxury brands like Audi and BMW. As the only fully-electric luxury car producer, Tesla utilises an interesting marketing mix to appeal to its target market in the eco-friendly, technologically savvy upper-middle class. With the increased environmental concern and tax credits given to those who buy eco-friendly cars, Tesla prices its luxury Model S rather cheaply compared to its competition. However, its product does not lack the feel of luxury with a 17-inch touchscreen with media, communication, cabin and vehicle controls, and Bluetooth technology as well as 200-watt stereos. Tesla’s product is highly customisable since all cars are custom made after the customer has ordered the product, either done in its mall storefronts or online, because Tesla has no inventory. The cars come a single or dual charger, a 240V charger, and a 110V charger for standard house outlets. Since the Model S has about a 244 mile range on one charge, Tesla has built Supercharger stations across the United States to facilitate cross-country travel. CEO Elon Musk promised these Supercharger stations will always be free to Tesla owners. In order to promote its product, Tesla avoids a traditional advertising and retailing but focuses on creating awareness through word-of-mouth and social media. Musk actively promotes through Tesla’s YouTube channel, blog, and twitter to keep customers up to date on what the company is working on and releases to look for in the future. Overall, Tesla marketing mix is quite effective in creating value for its customers through its environmentally conscious product, free charging stations, and tax credits. However, in order to progress its current market offering, Tesla should invest in a small inventory of cars for test-driving, not charge customers large sums of money to test-drive its cars, and invest in more other forms of promotion than word-of-mouth and social media.
II. Introduction

Martin Eberhard and Marc Tarpenning founded Tesla Motors in 2003, and, since then, the company has bloomed (Appendix 2). After going public in 2010, Tesla’s revenue now exceeds $2.44 billion with a gross profit of $456.26 million (Key Statistics Tesla). The name pays homage to Serbian inventor Nikola Tesla who created the induction motor and alternating-current power transmission. Without Tesla’s vision and brilliance, the company would have no product. Tesla Motors’ mission is to “to accelerate the advent of sustainable transport by bringing compelling mass market electric cars to market as soon as possible” (Tesla Motors). The company believes in transportation that is eco-friendly, stylish, performance driven, and accessible to customers. In 2008, Elon Musk became CEO of Tesla Motors. Musk aims to eventually offer electric cars at an affordable price to average income consumers. Musk seeks to attain this goal by working towards producing an electric vehicle under $40,000 by 2017 (Tesla Motors). Tesla is the first successful American auto manufacturer startup in the past 100 years and has won numerous awards for its production and performance. After five years, Tesla released their first car, the Roadster, which achieved 245 miles on a single charge, a 135 miles per gallon equivalency (Tesla Motors). Prior to the Roadster, no other electric sports car achieved such performance levels. Tesla discontinued the Roadster in 2012 to focus on two new models, the Model S sedan and Model X SUV, whose production has been delayed to 2015 (Appendix 1). For our analysis, we will be concentrating on the Model S, which is a full-size, electric, five-door, luxury lift back that was introduced in 2012. Since the introduction of the Model S, it has won awards such as 2013 World Green Car of the year, 2013 Motor Trend Car of the Year, Automobile Magazine’s 2012 Car of the Year, Time Magazines Best 25 Inventions of the Year 2012 award, and the Consumer Reports top-scoring car ever. The Model S has also scored a perfect 5.0 NHTSA safety rating.
III. External Environment

Due to the rise in both gas prices and environmental awareness, pure electric cars have become increasingly popular throughout the United States. Now, it is not uncommon to see hybrids and electric cars on the road. With the Model S, Tesla Motors is the one of the first companies to market a fully electric luxury sedan. According to the U.S. Census Bureau, the per capita income of the average American has slowly risen in the past four years from $28,374 to $28,829, creating a seemingly favourable market for luxury items like the Model S. Also, government subsidies on electric vehicles (US News) has allowed Tesla to retain more of their profits as they continue selling cars. However, in places like Texas, Tesla has been met with challenges hindering their sales and performance. New legislation has been able to stop Tesla from legally selling as well as advertise (Bloomberg). Overall, the government subsides, rising environmental awareness, and increases in income provides Tesla an external environment that will have a positive effect on its market. (Appendix 3)

Despite the positive external market, Tesla’s Model S is in direct competition with other luxury sedans from cars such as the Mercedes Benz S Class, the Audi R8, and the BMW 7 Series. Mercedes was founded in 1901, followed by Audi in 1904, and then BMW in 1927. In comparison, Tesla was founded in 2003, making Tesla the neophyte while Mercedes, Audi and BMW are veterans of the market. However, because the market is highly specialised, the rivalry is modest. Due to the depleting petroleum supply and rising prices (GasBuddy), the electric car market is very attractive and expanding fast. With an increasingly attractive alternative automobile industry, the threat of new entrants into the electric car industry is very high. Established car manufacturers are able to produce high capital investments and avoid the financial obstacles by creating electric vehicles. For production, car-manufacturing companies are
highly dependent on the availability of raw materials, therefore the power of the suppliers is high (Tesla Strategy). In contrast, the bargaining power of buyers is modest. Tesla is responsible for supplying manufactured cars for companies like Daimler and Toyota, who have strong bargaining power. However, government incentives will give potential customers tax credit deductions if they are the owner of an electric vehicle, which creates high demand and keeps the buyer’s bargaining power low. (Appendix 4)

One of their biggest strengths is Tesla’s ability to outsource secondary components (Suppliers/Outsourcing), keeping costs low and allowing them to focus primarily on technological advancement. This boosts research and development for creating the most efficient electric battery technology. Another strength of the company is its distribution of goods in high traffic retail locations. This increases potential customer interaction while eliminating the cost of 10% dealership commission (Tesla Strategy). However, Tesla’s biggest weakness is its lack of liquidity. Despite the high sales of new Model S in 2013, the company has not yet seen actual profit because of their large sum of debt. Tesla’s most promising opportunity is customer awareness about the benefits of having an electrical car; especially with the substantial rise in petroleum prices and increased concerns about environmental pollution. One threat to Tesla is the entrance, to the electric car market, of more established manufacturers with higher expertise and power in the automobile industry. This would decrease the existing number of Tesla customers and allow other companies to sell more efficient cars at a lower price. (Appendix 5)
IV. Market Segmentation

The target market for the Model S is the upper-middle class, baby boomers who are green friendly ("Tesla Marketing Plan"). Tesla is looking for consumers that are interested in a luxury car as well as one that is also good for the environment. In addition, Tesla is targeting technologically savvy customers. Not only is their fully electric car a new technological advancement, but the car also offers special features such as the “Tech Package with Autopilot” (EV Incentives). This package includes features such as memory seats and mirrors, and driver profile (EV Incentives). It also has onboard maps and navigation for North America with free updates for seven years (EV Incentives). More features include automatic keyless entry, and autopilot convenience features that are available though software updates (EV Incentives).

Despite these luxury features, Tesla has not been doing well this past year. Tesla notes that their current earnings are below zero; however, they expect to have a comeback. Next year they are projected to have an earnings growth of 1850% that has been determined by external personnel ("Tesla Motors, Inc. (TSLA) Forecast Earnings Growth") (Appendix 8). This increase in projected growth is also confirmed in Tesla’s internal data (Appendix 7). Also, Tesla Motors’ full year revenues reached $2.5 billion in 2013, and this year was 499.5% above the prior years results (Earnings & Estimates Summary - TESLA MOTORS INC (TSLA,)). By presenting new technology through the form of electric cars and luxurious benefits, Tesla expects successful sales to their target market.
V. Marketing Mix

A. Product Strategy

One distinguishing feature of Tesla’s Model S is that it is considered a “green” alternative to normal cars since it reduces the user’s carbon footprint on the world (Tesla Motors). The body of the Model S is made of lightweight aluminium reinforced by high strength, boron steel elements (Tesla Motors) with a total cargo volume of about thirty-one cubic feet (Tesla Motors). The Model S comes with a 10 kW capable on-board charger with input capability of 85-265 V, 45-65 Hz, and 1-40 A (Tesla Motors). Consumers have a choice between a single charger and a dual charger with which they can reach up to fifty-eight miles to every eight hours of charging; and, to charge the Model S, the user can simply use the existing wall outlets found in their homes (Tesla Motors). While it is incredibly powerful as a vehicle, the entertainment system is also quite impressive. With a 200 watt seven speaker stereo system that has AM, FM, and HD radio capabilities, it also supports MP3, AAC, and MP4 music formats (Tesla Motors). The 17-inch capacitive touchscreen encompasses media, communication, cabin and vehicle controls with Bluetooth wireless technology for hands-free calling and music streaming (Tesla Motors).

Aside from the entertainment features, the Model S comes with a new vehicle limited warranty for four years or 50,000 miles, a warranty for the 60 kWh battery equipped Model S and drive unit for eight years or 125,000 miles or a warranty for the 85 kWh battery equipped Model S and drive unit for eight years and unlimited miles (Tesla Motors). Both battery warranties “cover damage from improper charging procedures and battery fire, even if the fire results from driver error” (Tesla Motors). Also unique to Tesla, are the phone applications with which drivers can use to check the charging status of their cars. Tesla is also working with government organisations in order to set up public charge stations wherever their product is sold.
Generally speaking, Tesla’s competitors are all other car companies. But, what sets Tesla apart from the rest is the theme of luxury found in its fully electric cars, an aspect entirely different from the other hybrid cars it competes with. Because of these luxury features, Tesla is able to compete not only with energy-saving cars but also the other luxury cars on the market. Tesla’s closest competitors are vehicles such as the Chevrolet Volt, which is another plug-in electrically charged car, and luxury brands like Mercedes-Benz and BMW. However, what makes Tesla different from its competitors is that it is a fully electric car, mainly to be used for short distances, such as around town or short road trips. With people becoming more green-oriented, people still desire a luxury vehicle but also want to leave smaller carbon footprint. Tesla has created a completely new product answers to both of these needs (Appendix 9).

Right now, the substitutes for the Model S are electric-hybrid and diesel-hybrid models, but there still remains the possibility that other luxury brands will create their own fully electric cars and enter the market. Tesla’s main supplier is Panasonic. Panasonic provides Tesla Motors with support so that Tesla can maintain its position at the technological forefront (Rogowsky). While Tesla conducts sales all over the world, the main concentrations of customers are located on the west coast of the United States (Rogowsky). However, by the end of next year, Tesla hopes to double its production and deliver as many cars outside the U.S. as it is selling here (Rogowsky) (Appendix 10).

As the only fully electric, full-sized luxury sedan on the market, Tesla has few alternate powertrain competitors. Of its competitors, the most notable are Audi’s A7, BMW’s 7-Series and ActiveHybrid 7, and Porsche’s Panamera S E-Hybrid. Audi’s A7 and BMW’s 7-Series offer diesel engine options as their alternative powertrain where as BMW’s ActiveHybrid 7 and Porsche’s Panamera S E-Hybrid both offer combustion and electric engines. The main difference between
the Model S and its competition is its electrical engine technology. While the Porsche Panamera boasts its battery can be charged in two and a half hours by a 240V socket or while driving due to the recuperation energy generate by breaking or the combustion engine itself (Porsche), the Model S’s battery can be fully recharged in an hour and a half with the standard 240V charger that comes with the car (Tesla Motors). Additional accessories that decrease the charging time for the Model S are also available for purchase. Even with a standard 110V house outlet, Tesla’s battery recharges faster than the Panamera’s by twenty minutes (Tesla Motors). Also, Tesla has built free Supercharging stations across the United States, and a few in Canada, which the CEO promises to always be free of charge. These stations can recharge half the battery in only twenty minutes, and a full charge can be completed in a little over an hour (Tesla Motors). Currently, there are 119 supercharger stations in the United States and Canada, and these are strategically placed so cross-country travel is possible in the Model S without concern for the 244 mile range constricting their travel (Tesla Motors). As Tesla has expanded their company internationally, there are also seventy-six stations in Europe and twenty-six in Asia (Tesla Motors). Not to mention, in the alternative powertrain luxury sedan class, the Model S is relatively cheaper than its competition starting with a fair price of $69,900 MSRP (Tesla Motors) compared to Porsche’s Panamera which costs $96,100 MSRP (Porsche). Of the Model S competitors, only the Audi A7 is cheaper at $68,300 MSRP (Audi).
B. Promotional Strategy

Tesla Motors takes a very interesting and risky approach to advertising as it prides itself on having no advertising campaign. According to editor for Advertising Age, Michael McCarthy, “Tesla Motors has no advertising, no ad agency, no CMO, no dealer network. And that’s no problem” (UC Berkeley Extension). Instead, Tesla Motors relies on a pull advertising strategy, choosing to rely on media vehicles such as social media, blog forums, and word of mouth to promote its products. The company goes as far as having Musk write in the Tesla motors blog on the company website to forecast upcoming products and technologies to look forward to. The company updates its social media promotions monthly to let the target market know of any and all new changes and improvements to look forward to. For this reason, Tesla does not favour promoting in any specific season, but rather promotes whenever there are new products that can bring in a larger customer base. The most unique selling point Tesla bases its proposition on is offering a zero emission sports car. There are currently other manufacturers that offer electric fuelled vehicles; however, they carry a negative stigma of weakness and under-performance. Tesla is the first company to create a high performance car through new and groundbreaking electric fuel technology (UC Berkeley 24). The best way to view a Tesla vehicle is through its creative web page, which allows viewers to learn about the different aspects and technologies through interactive explanations. Appendix 12 gives one example of the very rare Tesla brand advertisement. While the company does not pay for a traditional advertising strategy, they excel in creating consumer buzz and producing very attractive results with their electric vehicle products.

While most car brands try to maximise their promotional strategy to attract prospective consumers, Tesla tries to minimise all five elements of the promotional mix to ensure a unique
experience for their consumers. Unlike every other car brand, Tesla does not promote through dealerships but, rather, in showrooms in shopping malls. The only place to see a physical Tesla model would most likely be the closest mall. Typically, a showroom exhibits one single vehicle in a small shop next to the Bloomingdales, Zara, or Macy’s. In addition, Tesla does not have any commissioned sales people or inventory because Tesla is working to move away from the traditional retailing. Tesla’s only advertisement is its mall showrooms, rarely would anyone see a Tesla commercial or ad. Consumers seek out Tesla only after hearing about it through word of mouth or seeing the physical products. Another unique aspect of Tesla is that it has no sales promotion. In fact, Tesla’s prices are nonnegotiable, and all transactions are conducted online, turning the typical personal selling of cars into a technological retail procedure. Since Tesla does not have an inventory of their products, if a potential consumers wants to test-drive its cars, they would have to put down a $5,000 deposit. If a potential consumer would like to purchase a Tesla, they would have to wait for months as Tesla custom builds their car. Tesla is not only changing automobiles but also how car brands promote and market their products. (Appendix 13)

Since Tesla is an emerging car company, its still needs to put forth more public relations efforts. So far, they have taken action by rehiring their old communications chief Ricardo Reyes. Reyes helped to start up the company in their early stages, but took a leave of absence to head communications for another startup company. (Vance) Now, he has returned to run communications and public relations for Tesla. It was imperative for Tesla Motors to take action on their public relations after an incident when Musk tweeted unveiling its “D” (Vance). Musk tweeted that in reference to the Tesla’s all-wheel drive option; however, the public turned the CEO’s tweet into a sexual remark which created a huge internet buzz (Vance). Musk claimed he
had no intent to create such an uproar (Vance); however, he gained a lot of free publicity from his
tweet no matter his intent.

Even with Tesla’s mishaps and evolving communications department, it manages to
promote its product and catch the public’s eye with its tactics. Tesla Motors prides themselves on
not having the pushy car salesman, but having salespeople who sell an experience with Tesla.
The reason Tesla acquires so much publicity without having an immense amount of advertising
is because its ideas are new and futuristic. As of right now, Tesla’s communications department is
based off inspiring people with its new projects. Musk built his company on two things: build a
product that matters and tell a story that resonates with people (Veeramcy). In this modern age,
social media is everything. Musk promotes heavily through YouTube which is all he needs in
order to excite the public about Tesla’s products (VEERASAMY). The reason Tesla is able to stick
with people is because it’s something cool, unique, and technologically advanced product that is
only going to keep advancing.
C. Pricing Strategy

The basic Model S costs about $71,070 USD. Tesla prices the Model S knowing that there is a $7,500 federal tax credit for purchasing Tesla automobiles due to their lack of a negative effect on the environment. This brings the overall price of the Model S down to $63,570. Certain states also have incentives ranging from $9000 to $500 (Order Tesla). This pricing strategy accurately hits their target market of younger, wealthier people. Since this market has the cash to buy the Model S, the tax credits aid their ability to purchase a Tesla car as well as creates more of an incentive to do so. It is also reasonable because the Model S does not use gas, therefore it is more of a bargain than other luxury cars at the same price. Most of the competitor cars in the same class as Model S range from $115,900 (AudiR8) to $72,520 (Lexus LS). The Tesla without the federal tax credit is already the cheapest option. (Appendix 14)
D. Distribution Strategy

Since Tesla has no conventional distribution tactics and prefers to market its product positioning storefronts in “high foot traffic and high visibility retail venues such as, malls and shopping streets in relatively open minded buying mood areas” (Blog), its distribution strategy could be seen as selective. The storefronts, as seen in Appendix 15, only contain a single car for the consumer to have a visual and physical interaction with the vehicle which cuts costs. Tesla has trained specialists in each store to educate its customers on the product and any electric car. However, if the consumer wished to buy a Model S on site that day, the specialist would not be able to sell it to them as the Model S is sold out several months in advance and there is not inventory on site. Reservations must be placed and the consumer will receive their car in several months. Tesla uses this method because it believes, “Our technology is different, our car is different, and, as a result, our stores are intentionally different” (Blog). Tesla also does not grant any franchisees and manufactures, distributes, and sells its product, cutting out any middle men.
Using smartly placed pop-up stores, low prices, and a differentiated product, Tesla markets the Model S as a new eco-friendly, reasonably priced luxury vehicle that it sells in areas only where it knows it has its desired target market of the upper-middle class. By distributing to its own dealerships in areas Tesla see a potential market, Tesla eliminates having Model S cars sit on a third party dealership lot it has to pay commission for. The lack of a commission and the favourable tax credit aids the marketing strategy of the Model S as being the cost leader for its completion. Another strategy that Tesla employs with the Model S is being different from its competitors. The Model S is the only fully electric luxury sedan made by any company. Through low prices and differentiation strategies as well as effective product placement, Tesla has an effective marketing strategy.

Overall, Tesla Motors mission is to provide a car that is tech savvy and eco-friendly for the upper-middle class. Tesla provides value to its target customers through their product. Its electric car competes with many of the more luxurious cars and offers features such as 200 watt stereo with AM, FD, and HD stations, it also supports MP3, AAC, and MP4 players. The car also provides value for its customers through its 17-inch touch screen with media, communication, cabin and vehicle controls, and lastly Bluetooth technology for hands free calling and music streaming (Tesla Motors). All of these features appeal to the upper-middle class giving them the luxurious, technologically advanced car experience. Another way in which Tesla provides value for its customers is through tax cuts from the government given for driving eco-friendly cars that cut down the pollution in the country.

Tesla does an excellent job at providing value for its customer; however, there is room for improvement. One major flaw in Tesla Motors is its lack of inventory. When purchasing a Tesla
vehicle it usually takes a few months for the car to be custom made and then delivered. This results in the buyers having to wait extended periods of times before getting their car while other dealerships have cars ready on hand.

Another field where there is room for improvement for Tesla is its test-driving options for potential customers. Currently, a customer must put down a deposit of $5,000 in order to test drive a car. This is one of the results of Tesla’s lack of inventory. Asking for such a large sum of money simply to test drive a car could easily turn customers away and sway them to other luxury or eco-friendly cars. Tesla should invest in having a certain amount of cars from each series reserved to be test-driven, and it should not charge potential customers large sums of money to test-drive its vehicles.

Lastly, to provide value to customers Tesla Motors should invest in more promotion. Yes, its goal is to distance themselves from traditional retailing with its push advertisement through social media, but it is harder for customers to obtain knowledge on this company. Tesla relies on social media too much. While Tesla posts its sales promotions on its blog, no customers can truly access them unless they actively search for that kind of information for the products. With some advertisement, Tesla could connect with more potential customers, which would be beneficial since it is a new company. This will help get its new product on the same playing field as the other luxury car companies it competes with sooner.
VII. Appendices
VIII. References


Porsche. "Panamera S E-Hybrid - All Panamera Models - All Porsche Models - Dr. Ing. H.c. F.


