

# Ingenious e-Brain

Nurturing Innovations - Fostering Business

## Tesla's Direct to Consumer Retail Model



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# Abstract

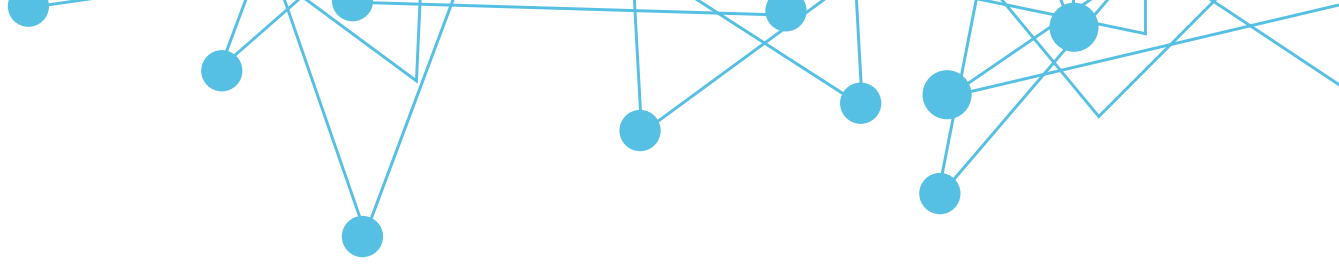
If given an option most of us would prefer to buy their favorite product from the source directly, but the reality is different when one sees the glitter of an Apple owned store in California and compares it to the manufacturing unit in Shenyang. So why do brand like to sell directly? It is not a new trend though many new startups are adopting it and it has shown to be a success in terms of implementing quality and controlling costs. Every customer wants to buy product that approves his or her taste, of course many a times cost being the prohibitive factor could lead to making a generic purchase.

To understand how brands these days are selling directly to the customer and avoiding the intermediary the case of Tesla's sales strategy is used. Its growth due to the direct to consumer model (D2C) is also discussed as the exemplar of how it could aid new businesses or ones that are aiming for better service delivery and cost minimization can benefit from this model.

## Introduction

Tesla Motors, Inc. is an American automotive and energy storage company that designs, manufactures, and sells luxury electric cars, electric vehicle powertrain components, and battery products. Tesla Motors is a public company that trades on the NASDAQ stock exchange under the symbol TSLA. In the first quarter of 2013, Tesla posted profits for the first time in its history.

The market for fully electric vehicles is growing. Some reasons behind the growth include new regulations on safety and vehicle emissions, technological advances, and shifting customer needs and expectations. But much of the mainstream acceptance and excitement for electric cars can be traced back to Tesla Motors Inc (TSLA). In this article we review Tesla's business model and how it differs from traditional automobile manufacturers. (Read more in [The Story Behind Tesla's Success](#)).



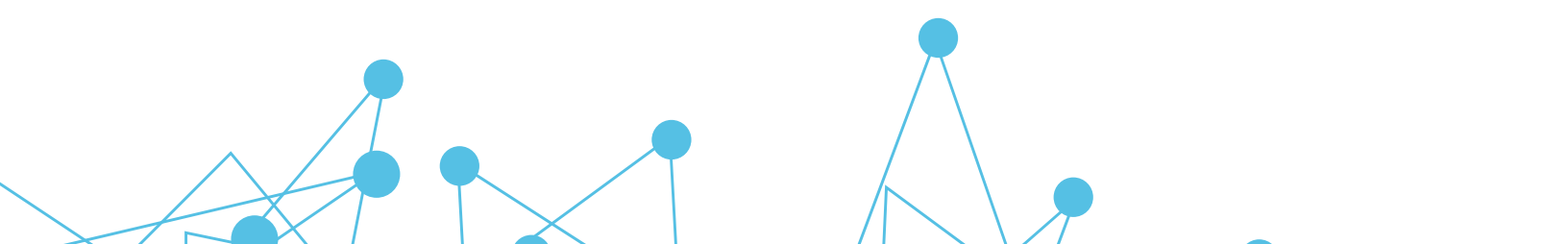
Tesla founder and CEO Elon Musk launched the company with the mission, “to accelerate the advent of sustainable transport by bringing compelling mass market electric cars to market as soon as possible.” This mission has served as the backbone to Tesla’s very successful business model. (Read more in [Getting To Know Business Models](#))

Tesla took a unique approach to getting its first vehicle in the market. Instead of trying to build a relatively affordable car that it could mass produce and market, it took the opposite approach, focusing instead of creating a compelling car. In a post on Tesla’s website, CEO Elon Musk said this about the company’s mission, “If we could have [mass marketed] our first product, we would have, but that was simply impossible to achieve for a startup company that had never built a car and that had one technology iteration and no economies of scale”. This allowed Tesla to acquire funds more cost efficient cars which the public could buy.

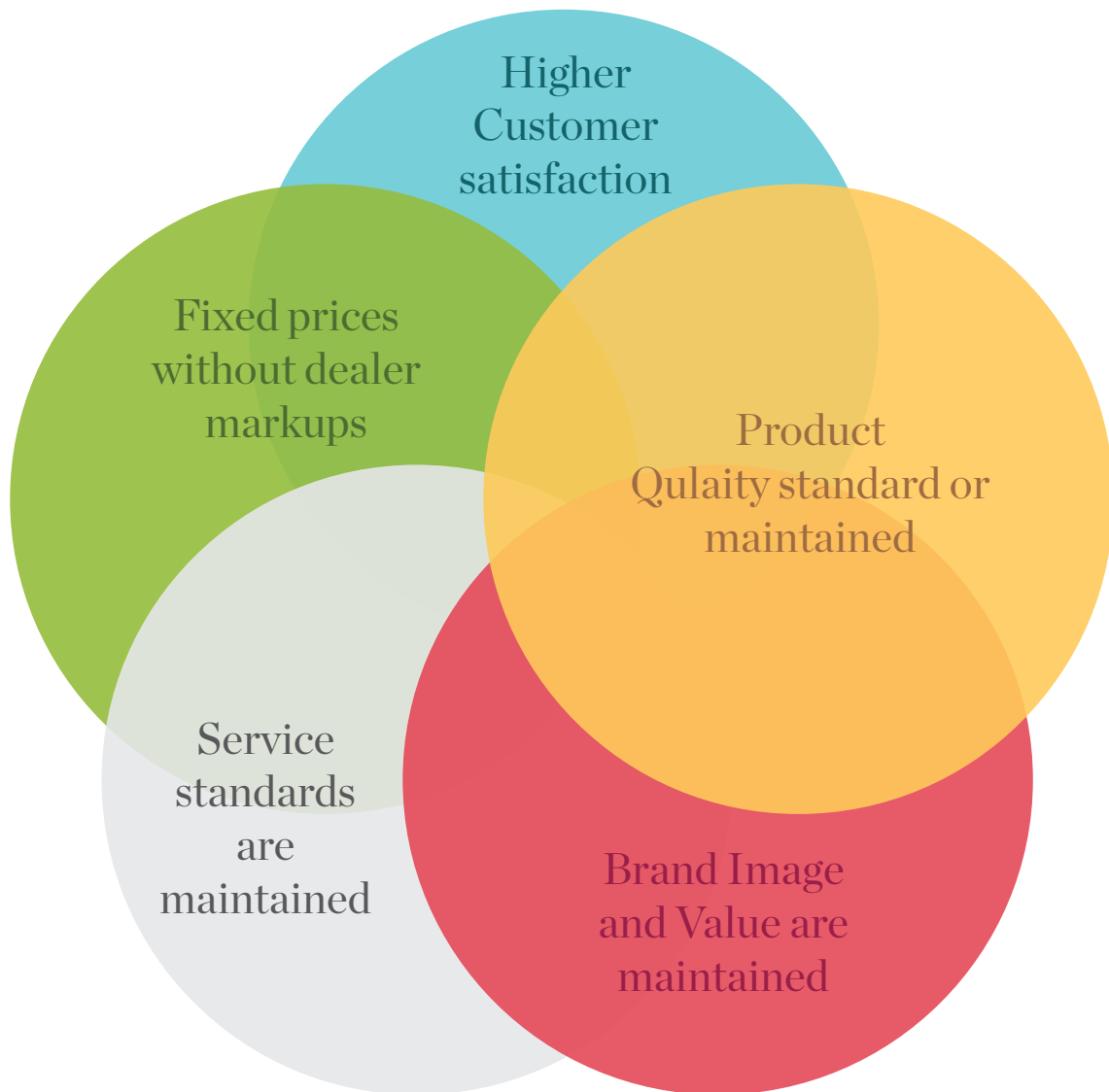
## Direct sales retail approach

Unlike other car manufacturers who sell through franchised dealerships, Tesla uses direct sales. It has created an international network of company-owned showrooms and galleries, mostly in prominent urban centers around the world.

By owning the sales channel, Tesla believes it can gain an advantage in the speed of its product development. But more importantly, it also creates a better customer buying experience. Unlike car dealerships, Tesla showrooms have no conflict of interest. Also, customers only deal with Tesla-employed sales and service staff. Including the showrooms, Service Plus centers (a combination of retail and service center), and service facilities, Tesla has 225 locations around the world as of July 06, 2017. Tesla has also made use of the Internet sales where consumers can customize and purchase a Tesla online.



## Direct to consumer Benefits

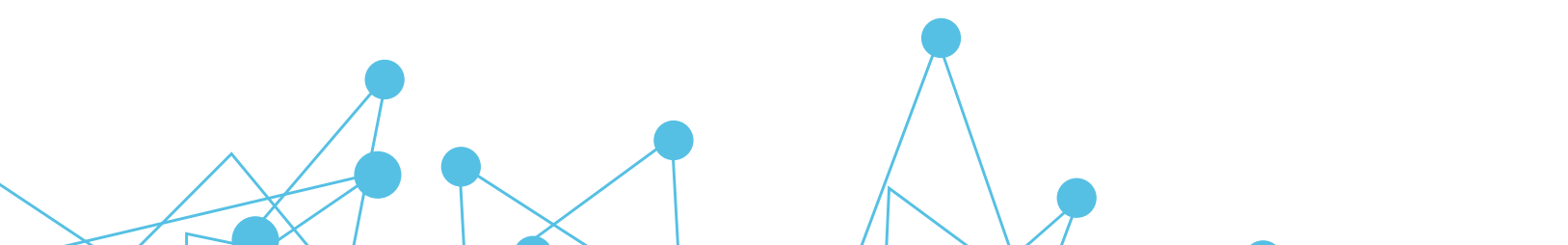


Tesla has combined many sales centers with service centers. They believe that opening a service center in a new area corresponds with increased customer demand. As a result, they have combined their direct sales strategy with service centers in their newly expanded retail concept called “Service Plus.”



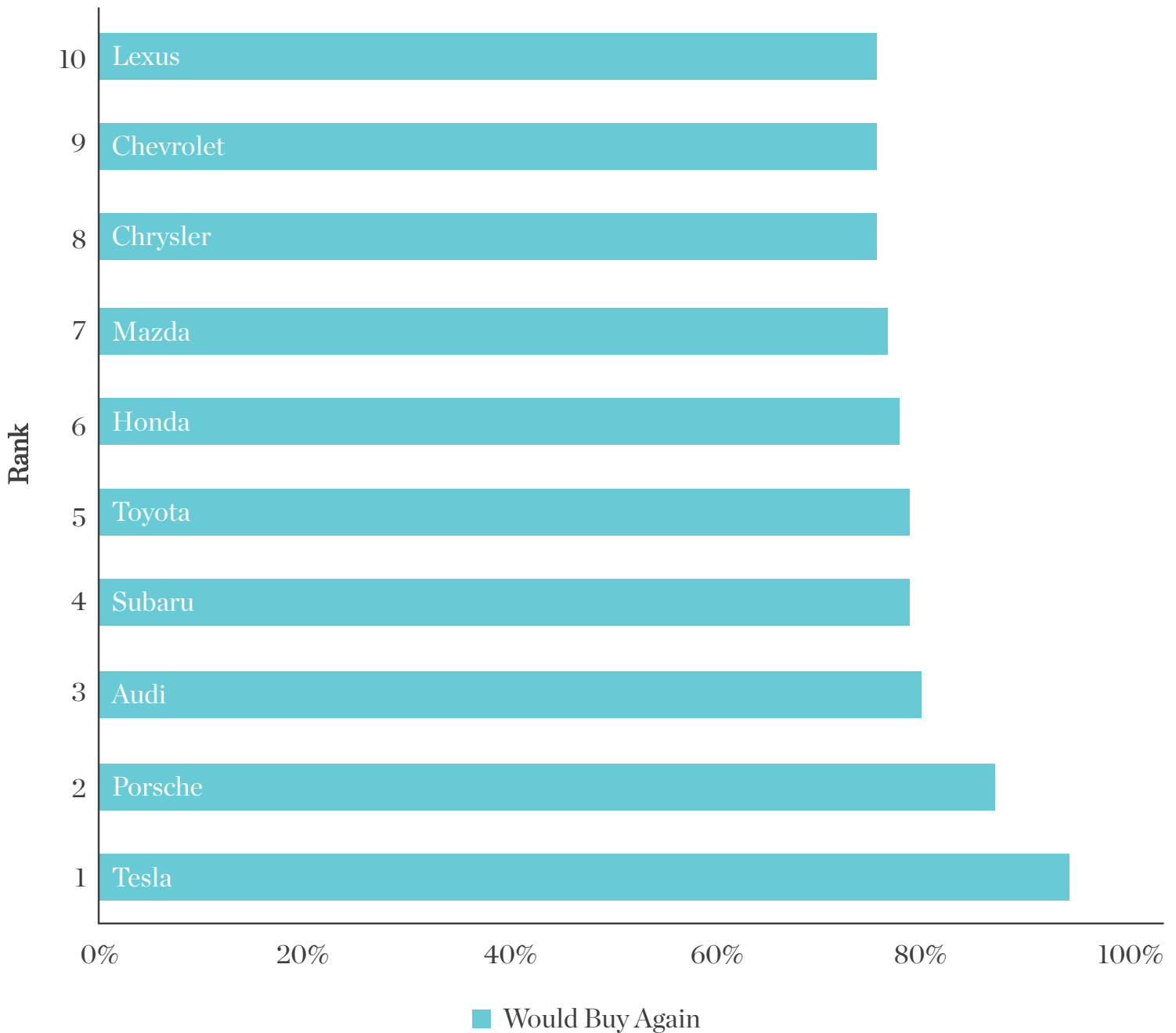


Customers can charge or service their vehicles at the service centers or the Service Plus locations. Also, in certain areas, Tesla employs what it calls Tesla Rangers. They are mobile technicians who can service vehicles from your house. Sometimes, no onsite technician is required at all. The Model S, can wirelessly upload data so technicians can view and fix some problems online without ever needing to physically touch the car. As of 5 July, 2017, there are 323 Tesla service locations and due to upcoming mass produced model 3 there will be 441 service centers as per Tesla.

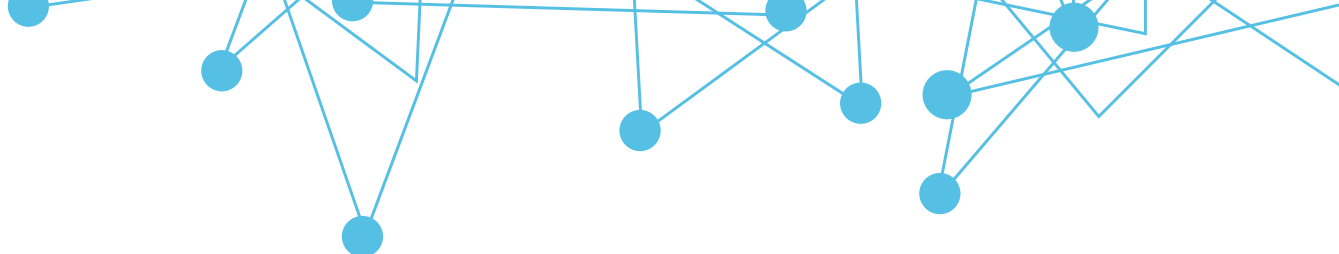


# Direct to consumer model compared to traditional sales model with intermediaries

## Automobile Experience Ranked



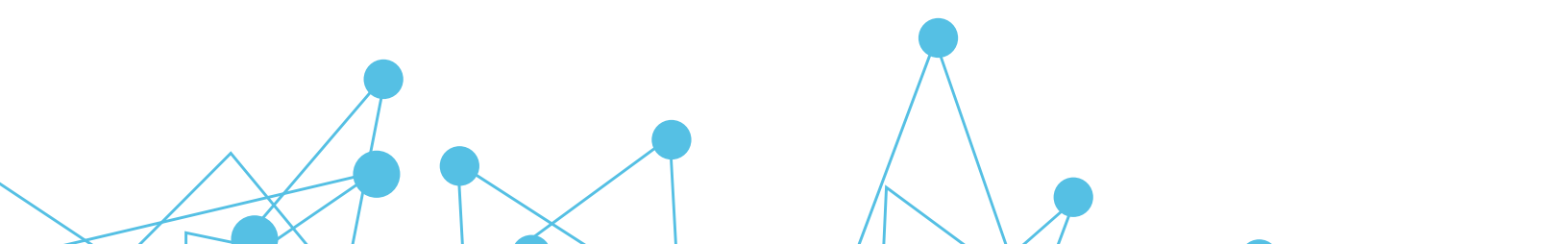
(Data Based on Consumer Reports satisfaction rating)



In a study by Consumer reports, USA's largest consumer satisfaction rating agency it was found that Tesla Car owners faced the least amount of after sales service difficulty. and were among the most satisfied car owners. This mainly due to Tesla approach to apply Total Quality management throughout, from production to customer service delivery as it was witnessed many a times the service experience was due to dealers who always focused on their margin rather than customer's satisfaction. Due to Tesla's direct sales model, they did not have to face any of the problems related to service delivery compared to traditional car dealers.

## Comparison direct to customer sales model to its traditional counterpart.

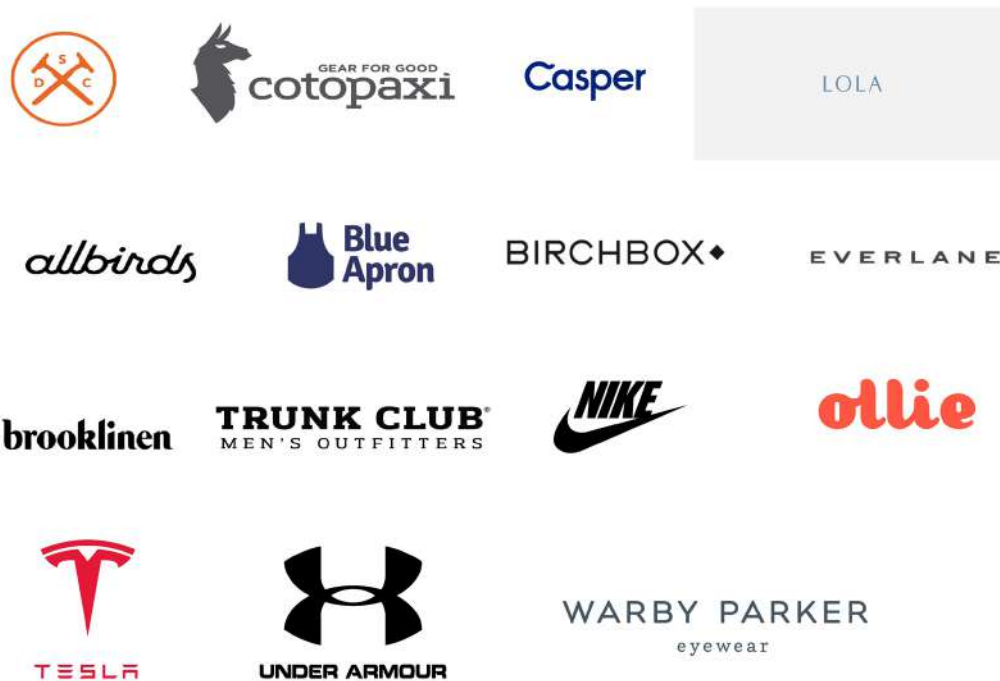
### Direct to Consumer Model

- › Direct Relationship with Customers
  - › All customer data is collected directly
  - › There is no risk from distributors
  - › Controlled Pricing to avoid dealer margins
  - › Consolidated operations leads to a better control over workflow
  - › New Products can be tested easily
  - › Has a greater Brand following due to the concept of “us against them”.
  - › Patrons are self-promoters of the brand.
  - › Fast feedback loop is shorter, so service delivery or product quality can be optimized at a faster rate.
  - › Logistics depends on the scale of the company usually smaller compared to traditional counterparts.
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## Traditional Sales Model

- › Conflicts in sales channels could arise consumer experience varies
- › Prices vary and are fragmented across regions
- › Channels could cannibalize each other
- › Fragmented operations can lead to lack of co-ordination
- › Quality of service may vary for the same brand in different locations.
- › Slow feedback loop, till the time it reaches the parent company it might be too late to implement changes.
- › Third party customer data collection, could lead to errors or privacy concerns.
- › A very strong network for logistics already exists.

Some of the popular direct to consumer brands in the market, though dollar shave club was acquired over Unilever it is used to represent its sales tactics, Apple was not considered in this as it has more than one kind of sales model that involves premium retailers.







## Conclusion

Though many states of USA oppose direct sale model of Tesla, in the end the one to gain most out of it is the final consumer. As it is known that franchisee retailers drive up the price and due to margins and commissions, which the consumer has to bare the end cost.

Tesla unique approach similar to apple owned stores is the future. Not only we as the consumers will benefit from it but also the manufactures. It also gives Tesla more control over the operations and helps to maintain its standards. Which is why the D2C model can have a significant impact on the market if adopted.

Table and sectors that are not using it. Camera retail, Electronics and BR capabilities.





# References

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