

The Impact of Tesla's Brand Scandal in China on Consumer Loyalty

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Abstract: Since its establishment in 2003, Tesla has been a pioneer in the global electric vehicle industry and entered the Chinese market in 2014, quickly becoming a leader. However, its success has been accompanied by controversies and scandals. In 2020, a sudden price reduction sparked dissatisfaction among car owners, leading to legal actions. Additionally, incidents of vehicle self-ignition, charging failures, and braking issues in China have raised widespread consumer concerns. Tesla executives often deny responsibility, blaming external factors or improper operation, which further damages the brand image. This report uses qualitative analysis to explore the impact of Tesla's public relations crises in China on consumer loyalty. Research shows that product quality, service level, and technological capability are key factors. Despite Tesla's achievements, its improper handling of crises has weakened its brand. To restore trust, Tesla must focus on consumer needs and expectations, improving service quality.

Keywords: Tesla, scandal, public relations crisis, customer loyalty.

1. Introduction

Since its establishment, Tesla has been committed to promoting the development of the global electric vehicle industry. Tesla is an American new energy vehicle brand founded in 2003. During its development, Tesla continuously researched the market and launched two popular models, the Tesla Model X and Model 3. With the launch of Model 3, Tesla began to lead the development of electric vehicles. In 2014, Tesla officially entered the global market, including the Chinese market [1]. In the following section, this report will introduce Tesla's development history and scandals in China.

1.1. Tesla's Development History in the Chinese Market

In October 2017, Tesla was officially established at China New Energy Research and Development Co., Ltd. In 2018, the Tesla Technology Innovation Center was successfully established in Beijing, China. In 2019, Tesla began construction on its super factory located in Shanghai, China. In December of the same year, the first complete vehicle produced by the Gigafactory was officially launched, marking the beginning of Tesla's localization process[2]. The successful construction of Tesla's Shanghai Gigafactory has not only brought unprecedented pressure and impact to Chinese domestic car brands, but also brought important technological progress and innovation to the Chinese automotive market.

Since 2014, the number of Tesla owners has increased from the initial 15 to over 1.7 million. According to Tesla's official data[3], from 2014 to 2016, Tesla delivered a total of 21,200 vehicles in the Chinese market. In 2017, Tesla delivered over 20,000 vehicles to the Chinese market throughout the year. In 2019, Tesla sold 50,000 vehicles, and in 2020, Tesla sold 148,000 vehicles in the Chinese market. In 2021, 2022, and 2023, Tesla sold 320,700, 439,800, and 603,700 vehicles in the Chinese market, respectively. The sharp increase in Tesla's annual sales volume confirms the success of Tesla's localization strategy.

1.2. Tesla's Scandal in the Chinese Market

The surge in Tesla's sales volume has made it one of the leading electric vehicle brands in the Chinese market. The high popularity of Tesla in the Chinese market has attracted attention from all sectors of society, and the scandal that Tesla was exposed to has also received widespread public attention. While Tesla has achieved success in the Chinese market, it is also facing a crisis from public opinion. For example, in 2020, Tesla's price reduction incident led car owners who had already purchased but had not yet delivered to take legal action against Tesla, strongly accusing Tesla of defrauding consumers[4]. However, Tesla did not handle the consumer's rights protection behavior in a timely manner, which has caused strong dissatisfaction among consumers. Apart from price reduction incidents, Tesla is often criticized by consumers for its product quality issues. Since 2020, Tesla has experienced dozens of accidents of various sizes in China due to inexplicable self-ignition, charging self-ignition, and brake failure[5]. In the face of this scandal, Tesla officials have always responded with an attitude that the product has no problems, mainly caused by external or owner issues. In the face of repeated brand scandals, Tesla still maintains its arrogant attitude, which not only damages its brand image but also causes great dissatisfaction among Chinese consumers[6]. On August 7, 2024, Tesla launched a large-scale recall campaign in China, involving a total of 1.68 million vehicles[7]. This recall is not only setting a new record, but also raising deep concerns among the public about the safety of electric vehicles.

2. Material and Methods

This report mainly uses qualitative analysis to conduct research. Qualitative analysis focuses on understanding and interpreting human behavior, experience, and phenomena[8]. Due to Tesla's public crisis management in China leading to a decline in market share, this report chooses to use qualitative analysis as the research method. In addition, due to the extensive literature on Tesla's public relations crisis, qualitative research can help identify patterns in consumers' and the public's perceptions of Tesla's public relations crisis by analyzing a large number of textual materials, thereby providing directions for improvement for Tesla. Last but not least, qualitative analysis helps to reveal causal relationships between events[9]. This report mainly uses qualitative analysis to explore how Tesla's public relations response affects public attitudes and behaviors.

The research literature of this report mainly comes from Tesla's official reports, Chinese government reports, and other scholars' research on Tesla. There may be some potential risks during the literature collection process. This report strictly complies with legal requirements during the data citation process to reduce potential risks. In addition, all data cited in this report are sourced from officially released information to reduce potential risk issues caused by inaccurate information sources.

3. Analysis and Findings

In this section, this report mainly analyzes the relationship between Tesla's scandals in China and consumer loyalty through consumer loyalty theory, Hofstede culture theory, and crisis public relations theory.

3.1. Consumer Loyalty Theory

The theory of consumer loyalty holds that enterprises should aim to satisfy the needs and expectations of customers, effectively eliminate and prevent customer complaints, continuously improve customer satisfaction, and thus promote customer loyalty[10]. The influencing factors of consumer loyalty include product quality, service level, technical capability, and brand image[11]. Product quality is considered the most fundamental factor affecting consumer loyalty. High-quality products can provide consumers with a good user experience, thereby enhancing their trust and loyalty to the brand [12]. As mentioned earlier, Tesla's product quality has attracted the attention of Chinese consumers. Tesla's lack of positive response to issues such as unexplained self-ignition, charging self-ignition, and brake failure, as well as the recall of 1.68 million cars in the Chinese market, have raised concerns among Chinese consumers about product quality.

In addition, service level is also an important factor affecting consumer loyalty. High-quality pre-sales, sales, and after-sales services can enhance consumer satisfaction, thereby increasing their loyalty[13]. Tesla adopted a direct sales model in China, which has the advantages of transparent pricing and unified services[14]. Tesla has adopted a combination of online and offline service models in the after-sales stage, including virtual service centers, 400 customer service hotlines, mobile services, and so on. These innovative measures aim to provide users with a more convenient service experience, such as quickly solving problems through remote diagnostic technology and reducing unnecessary in-store repairs[15]. According to the research by[16], user satisfaction with Tesla has consistently exceeded 98%, indicating that the majority of Tesla owners have a positive attitude towards their services.

In addition to improving Tesla's brand loyalty to a certain extent through service level, Tesla's technological innovation has also won many followers. Tesla's battery technology not only extends the range of electric vehicles, but also improves the safety and durability of batteries[17]. In addition, Tesla's autonomous driving technology is at the forefront of the world, driving a revolution in the automotive industry[18].

Last but not least, although Tesla has gained recognition from consumers in terms of service level and technical innovation, the attitudes are different among Chinese consumers regarding Tesla's brand image. On the one hand, Tesla's high-performance products deserve consumer recognition, but Tesla's attitude towards handling public relations crises has sparked consumer worries, as mentioned before.

In summary, Tesla's success in the Chinese market is partly due to its strong brand value, technological innovation capabilities, and market positioning, as well as the increasing acceptance of new energy vehicles by Chinese consumers. However, with the rise and development of domestic electric vehicle brands in China, Tesla will face even more intense competition in the future. Therefore, Tesla needs to continuously improve its products and services to maintain and enhance its brand image and win the trust of more consumers.

3.2. Hostede Cultural Theory

Hostede's cultural theory is a method used to analyze differences between different cultures. This report will use Hostede's cultural theory to analyze the reasons for Tesla's public relations crisis in China in depth. As shown in Figure 1, compared to the United States, China scores average in

uncertainty avoidance. This means that Chinese people tend to seek rules and structures to reduce risks when facing uncertainty. Tesla's brake failure and other technical issues have raised concerns among consumers about safety, and Tesla's failure to address these issues in a timely and effective manner has made consumers feel worried. In addition, China is a typical collectivist society that values harmony and collective interests[19]. Tesla, as a foreign company, failed to fully demonstrate its emphasis on the interests of the Chinese consumer group when dealing with public relations crises. Instead, it exhibited a self-centered attitude, which conflicts with the values of Chinese society.

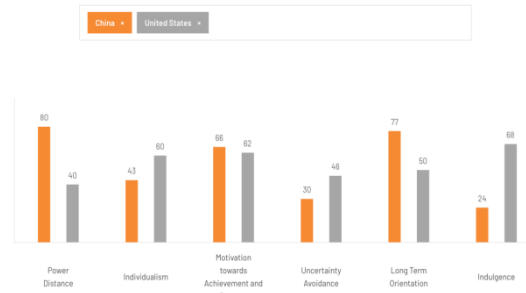


Figure 1: Country Comparison of the United States and China.
Source: [20]

Tesla's public relations crisis in the Chinese market can be partially attributed to its failure to fully understand and adapt to the characteristics of Chinese culture. Tesla's initial success in the Chinese market may have led it to overlook the influence of cultural differences, especially when dealing with consumer relations.

3.3. Public Relations Crisis Theory -5S Theory

This section will analyze Tesla's public relations crisis management through the 5S theory. The 5S theory of public crisis relations includes Speed, Shoulder, Sincerity, Systematic, and Standard[21]. Tesla's response speed in certain crisis events is relatively fast, but its response often lacks careful consideration. For example, in the Shanghai Auto Show rights protection incident, Tesla's initial response, although prompt, did not truly solve the problem in terms of content, but instead intensified the conflict. Tesla failed to provide detailed and objective information in a timely manner but instead chose to use accusatory language, which led to further deterioration of public opinion [22]. In addition, as mentioned earlier, when facing a public relations crisis, Tesla officials always respond with the attitude that the product has no problems, mainly caused by external or owner issues. This approach does not comply with the Shoulder and Sincerity principles of the 5S Theory. Tesla lacks a systematic operational mechanism in crisis public relations handling. After a crisis occurs, Tesla's response often appears scattered and lacks coordination. For example, when dealing with car owner rights protection incidents, Tesla's internal communication may be insufficient, resulting in inconsistent external statements and failure to form a unified crisis response plan (In Dow Jones Institutional News, 2024). In addition, Tesla has not fully utilized the power of third-party authoritative institutions to enhance its credibility.

Therefore, Tesla failed to follow the 5S principle in handling crisis public relations, resulting in poor public relations response and even exacerbating the crisis in some cases. In the early stages of Tesla's public relations crisis, such as the 2021 Shanghai Auto Show rights protection incident, Tesla's sales in China did experience a certain degree of decline. For example, sales in April 2021 decreased by 26% compared to March, and there was also a significant decrease in order volume. These data indicate that the damage to Tesla's brand image directly affects consumers' willingness to purchase, and has had a short-term impact on Tesla's market share. In addition, with the rapid development of

local Chinese brands, as shown in Figure 2, Tesla is facing increasingly fierce competition in China. In 2023, Tesla's market share in China decreased from 10.5% to 8.8%, reflecting that although Tesla's sales growth momentum is strong, its market share has shrunk in a fiercely competitive environment[23].

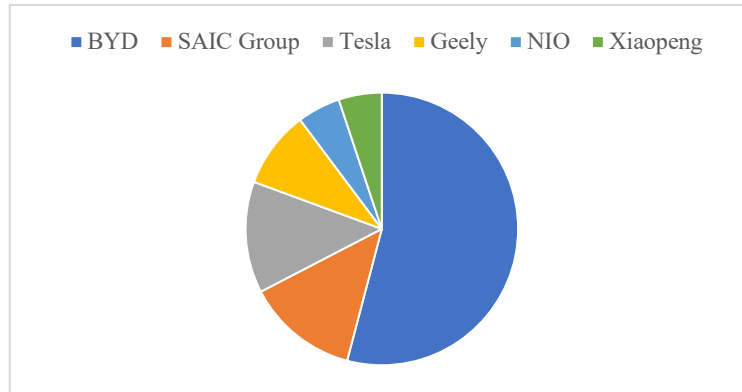


Figure 2 Competitors analysis in the new energy vehicle industry
Source: [24]

4. Recommendations

In response to Tesla's existing problems, this report plans to provide recommendations for Tesla's response to the public relations crisis in China in this section.

4.1. Establish a Localized Public Relations Team

Tesla CEO Musk has publicly stated that other companies will invest in advertising and entertainment manipulation, but Tesla will focus more on its products. At the same time, Musk also disbanded Tesla's public relations team. Tesla's Vice President of External Affairs in China, Tao Lin, has also publicly stated on social media that she does not want to spend energy on marketing and public relations and hopes to allocate resources to development that can truly bring value change[25]. However, in this era of rapid information transmission, any news will spread globally at a fast pace. Therefore, in order to maintain Tesla's brand image, and user reputation, and enhance sensitivity to the Chinese market, Tesla needs to rebuild its localization team.

For Tesla, localizing talent in the marketing department can help Tesla better understand and perceive the real needs of Chinese consumers, enabling it to launch more products and services that satisfy the demands of the Chinese market. On the other hand, it can help Tesla better understand the characteristics of the Chinese market, so that Tesla can better launch more effective marketing and promotion strategies. In other words, implementing a localization strategy for the marketing department is not only beneficial for Tesla to enhance its competitiveness in today's fiercely competitive market. At the same time, products and services can be more accurately positioned based on market demand, and thus continuously improve their market share. In addition to the marketing department, the establishment of a public relations team also needs to be considered for Tesla. With the rise of domestic Chinese car brands, Tesla's competitiveness is gradually declining. At this time, in the face of frequent public opinion pressure, if Tesla does not have a suitable public relations team to maintain its brand image, it may cause serious damage to the image of the brand and is harmful to sustainable development[26].

4.2. Improving Crisis Response Speed

Tesla needs to consider how to improve the crisis response speed. Take the example of a Tesla owner's rights protection incident that occurred on April 19, 2021, at the Tesla Auto Show in Shanghai. According to news reports[22], as mentioned before. The family members of the vehicle owner suffered injuries due to brake issues. Despite multiple attempts to protect their rights, no response has been received. In the end, the car owners went to the Tesla Auto Show in Shanghai to protect their rights. After the incident, Tesla responded arrogantly but did not provide a detailed description or announcement of the incident. It is believed that the brake failure of the vehicle is caused by the owner's own reasons, rather than the vehicle itself. In the following response, Tesla directly released the vehicle usage information of the owners to the public. This not only seriously violates the privacy rights of the car owner, but also attracts widespread attention from the public for its arrogant and irresponsible attitude. For a time, Tesla received condemnation from multiple official media outlets and government agencies.

Based on Tesla's response speed and content in handling the public relations crisis, it can be seen that Tesla did not respond quickly when facing potential public relations crises. At the same time, Tesla did not establish an emergency response mechanism for public relations crisis events, which resulted in a serious public relations crisis once the incident was exposed. Not only does it greatly affect the image of the brand, but it also greatly impacts consumers' confidence in Tesla products. Therefore, Tesla should establish a corresponding public relations team and emergency response mechanism. On the one hand, having a professional public relations department can intervene and warn potential public relations crises in advance, preventing them from developing into serious public relations crises. At the same time, external response messages can also be more accurate and truthful, avoiding information delays that can lead to slower response times. In addition, timely and proactive reporting of the progress of events to the public and media can greatly enhance consumers' confidence in the brand, and maintain the image and reputation of the brand.

5. Conclusion

In conclusion, as competition for new energy vehicles becomes increasingly fierce, Tesla needs to pay attention to the impact of public relations crises on consumer loyalty. This report mainly uses the consumer loyalty model, the Hofstede culture model, and the public relations crisis model to conduct an in-depth analysis of the impact of Tesla's brand scandal in China on consumer loyalty. The public relations crisis faced by Tesla in the Chinese market is the result of multiple intertwined factors, involving multiple levels such as corporate culture adaptability, product quality, crisis management capabilities, and media relations. In order to effectively address these crises, Tesla needs to comprehensively review its operational strategy in the Chinese market and take corresponding improvement measures.

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