

# ***Analysis of the Influence of Tesla's Pricing Strategy on Purchase Intention***

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**Abstract:** The generation of today is changing drastically and has an impact on various things, and one such thing is the purchase intention of consumers. The pricing strategy of Tesla will be explored and assessed on how it impacts the consumers and their perception of the cars. It has been evident from the study that Tesla uses various pricing strategies to target different consumer segments. One consumer segment is high-end customers, and the other is the economic section of society. This report shows that the customers of Tesla are not only impacted by the price but also by brand reputation, its differentiation of products and technological advancements. The owners of Tesla cars are the people whose consumer psychology is greatly influenced by the brand by demonstrating how the brand is committed to environmental goals. The report provides valuable in-depth information regarding the various pricing strategies and their impact on the customers showcasing the competitive advantage of Tesla in the market.

**Keywords:** environmental sustainability, pricing strategy, electric vehicles, purchase intention

## **1. Introduction**

In the world of today, the production of vehicles is increasing, and this has created a lot of environmental issues by releasing pollutants into the environment. However, the generation of today is more environment-oriented and is trying to take purchase decisions that benefit the environment. This infers that people are more tilted towards the brands, which encourages them to have options for sustainable brands. By keeping in mind this trend, the vehicle-making industries are now making a switch towards a more sustainable option, such as electric vehicles. This provides the brands with the benefit of attracting more customers. There are many factors which influence the behavior of people toward the purchase of electric vehicles. The first influencing factor is a concern for environmental sustainability. The world has realized the need for vehicles that will produce less to no pollution and can create environmental balance. There are various growing issues because of environmental pollution, such as changing global climate increase in the pollutant level in the air [1]. Consumers who are concerned about the environment are more interested in the purchase of electric vehicles so as to create a positive impact on the environment. The second influencing factor is the change of people with the changing technology. As the world is changing, technology is also evolving, which makes it compulsory for people to adapt to the changing technology. In addition to it, the third most influencing reason is the policies regarding electric vehicles. This is because the government has

reduced the upfront costs of electric vehicles, which increases the comparative advantage of the electric vehicle market for consumers.

These reasons can influence consumers and make them willing to purchase electric vehicles. There are various brands in the industry, and one of the famous brands is Tesla. In the year 2003, Tesla was founded by Martin Eberhard and Marc Tarpenning. Tesla made the first Tesla Roadster which had half the qualities of an electric vehicle and used lithium-ion batteries [2]. This created a buzz in the world and drew the attention of people, and after that, many other models were launched by Tesla, such as Model S, which was known for its performance and mileage. In addition to it, various other models having new and advanced features as electric vehicles were launched, such as Model Y and cyber truck [3]. Along with this, the market position of Tesla is well known as it can be considered a great leader in the industry of electric vehicles. Tesla has focused on the performance of the vehicles while considering the natural environment. It has been found that Tesla has been doing exponentially good as the total gross profit kept on increasing in the financial year 2022-2023, however in first quarter of 2021, there was slight decrease from 5777 to 4511 [4]. Additionally, for the pricing strategies, Tesla mostly used a skimming pricing strategy to target high-end customers. Originally, Tesla entered the Chinese market and targeted high-end people by keeping the price of the electric vehicle as high priced [5]. Even the target customers of Tesla are rich people who have an interest in high-end technology. The main aim of the study is to analyze the Influence of a Brand (Tesla) Pricing Strategy on Purchase Intention.

## 2. Introduction of Tesla

Tesla is a well-known brand, especially in the market of electric vehicles. The brand launched many models, which ultimately led to an increase in popularity. The main goal of Tesla is to adopt various technologies which will accelerate the sustainability of the environment. Apart from the electric vehicle market, Tesla is also known for driverless driving cars. Tesla has made an autopilot system, and by activating this, people can drive cars without even doing anything. As the company was founded in 2003, it came into the limelight when Elon Musk took over the company as CEO. In addition to it, the company has expanded its production facilities in various countries of the world, which are known as Gigafactories. It is a famous electric vehicle manufacturing company which gained success in a short span of time. Furthermore, many advancements have been made by the company in the area of battery advancements. Additionally, a public business with its Californian headquarters, Tesla employs around 99,290 people [3]. Tesla consists of a significant share of the market in the USA in the electric vehicle market, and an estimated 81% of the revenue is generated from this market.

There are various competitors of Tesla all over the world, which include Toyota, Ford, Volkswagen and so on. In addition to it, there are various consumer groups that the company targets. One of the consumer groups that the company targets is the luxury group of people that likes expensive things. The company first launched its electric vehicle in the Chinese market. Furthermore, the revenue of Tesla increased from 18756 in Q1-2022 to 24,318 in Q4-2022 [6]. This infers that the company is making a significant amount of profits year by year.

## 3. Consumer Psychology

Consumer psychology is shaped by many factors which can help in purchase-making decisions. These factors can include the motivations, services from a particular brand and so on. Perception plays an important role as this can shape the psychology of the consumers [7]. The marketing of a product, such as demonstrating its design, and showcasing the best features of the product, also make up the perception of the consumer. The consumer act upon the various perceptions that are created by the

marketing team of the brand, and this shapes consumer psychology. Another significant factor that is responsible for shaping is social influence. It is one of the main factors which shapes consumer psychology as well as purchase-making decisions. Consumers get influenced easily by their family members, cultural beliefs and attitudes of friends [8]. In addition to it, when a purchase is made by any of the family members, their recommendation and word-of-mouth will impact their psychology. This impact can alter their opinions, attitudes, values and perception regarding any product. This also includes the experience that the consumer gets when they purchase any product. If the experience of a customer is good, then they will repeat their purchases and will create positive word-of-mouth, and if they have any issues with the purchase, it will create a bad reputation and result in negative word-of-mouth.

It should be noted that all consumers have different psychologies, and this also includes the owners of Tesla cars as well. Tesla owners can be considered brand-conscious people, and by keeping in view the brand exclusivity of Tesla, the purchase-making decision of electric vehicles gets influenced. As the electric vehicles of Tesla showcase environmental sustainability and consumers who want a brand having a great reputation will always purchase products [9]. Tesla successfully targets this psychology of the consumers and increases brand revenue. As most of the target consumers of Tesla are elite groups, they always remain in the community and spread word-of-mouth when they feel that the brand has a high reputation. This suggestion from peers or family and friends can motivate consumers to become owners of Tesla cars.

Furthermore, the company initially targeted the elite people, but with the launch of various models, such as Model 3 and Model Y, Tesla also targeted the economic class. This impacted the psychology of the people who wanted affordable products. This connected with affordability as these models were more related to the people who could not afford the previous models. In addition to it, these models helped in providing the same range and mileage with almost the same charging hours as luxury electric cars. Along with this, these models also provide a contribution to environmental sustainability. Hence, the people who belong to the economic class and want to contribute to the environment can get attracted. Another factor that can influence the human psychology of the car owners of Tesla is brand loyalty. Most of the consumers of Tesla are loyal to the brand and believe in the reputation that the brand created over a period of time [10]. It has been evident that brand trust is an important factor in the development of brand loyalty. This brand trust is created by when a brand builds credibility in that capacity by delivering performance from time to time [11]. It infers that when a brand makes itself worth the loyalty, then its owners become loyal to that brand. Similarly, this is true with Tesla as well because Tesla has always pioneered in creating history by providing timely technological advancements which help the owners to update themselves. In addition to it, the psychology of some people is that they will manage long-term cost savings. This is because the purchasing cost of the car is higher than other traditional cars; however, the secondary costs, such as the costs of petrol and diesel, are saved in these vehicles.

#### 4. Analysis of Pricing Strategy

Tesla uses various pricing strategies that impact the willingness of consumers to purchase the cars. Tesla is known for attracting customers by providing interactive pricing strategies. Tesla originally used a skimming pricing strategy to attract customers who belong to the elite group. When Tesla started using this pricing strategy of this, it gave consumers the perception that the Tesla cars were having high quality [12]. This is because consumers most of the time link the high prices of the products with their quality, features and performance. Consumers relate the high prices with the quality of the products and hence prefer the products having high prices. Similarly, the high prices of the Tesla cars gave the perception the customers that the cars are of high quality and are better than their competitors [11]. The models that come under this category are Model S and Model X. By doing

this, and Tesla made sure that the consumers will perceive the product as a premium product. As the company launched new cars, such as electric vehicles and autopilot cars, which do not require the use of an active driver, the company used the high prices to make it visible and obvious to the customers that Tesla is a luxury brand and has exclusive features that are not present in other cars. This understanding of the consumer that the Tesla is a luxurious product and is a technology-induced car-making brand and that people from high-class society can only afford it.

In addition to it, Tesla launched its models, such as Model 3 and Model Y, which had less price than the previous models of Tesla [3]. These models were more affordable and targeted the economic section of society. By this, the company used the penetration pricing strategy in which the price of the products is affordable in order to expand the market among the wider sections of society.

The company was getting high competition from various other car makers in the luxury cars such as Volkswagen, Hyundai Motors and so on, so the company got a competitive advantage of having an expanded market [13]. Consumers who want to shift from traditional vehicles but in an affordable manner got attracted. As the prices of the new Tesla car models were low as compared to the previous model, it provided a perception of cost savings for the future to the consumers. This way, Tesla targeted both the elite and economic sections of society by using a skimming and penetration pricing strategy. Additionally, by doing this, the company demonstrated care and concern for the environment. This is because everyone cannot afford highly priced cars, which contribute to environmental sustainability, so the company designed car models which have a positive impact on the environment and are also reasonable to purchase for a middle-class family. This improved the willingness of consumers to purchase Tesla cars.

Additionally, Tesla plays a vital role in enhancing its pricing strategy from time to time [6]. This is because there are various competitors of Tesla, including high-end as well as affordable car brands. As the competition is tough for Tesla and in order to have a comparative advantage in the market, Tesla remains flexible when it comes to changing the pricing strategy. By this, consumers became more willing to purchase a car that would be suitable according to their budget. Along with these, Tesla possesses a strong brand image which motivates people to purchase the cars [14]. This is because the company has successfully showcased its features regarding the application of new technology and innovation. Further by making it possible for people to drive driverless cars by inculcating artificial intelligence. However, there can be a possibility that these may result in negative consequences. This is because Tesla has a limited supply of vehicles such as Model S, Model 3, Model X, Model Y, Cybertruck, Roadster and Semi. This shows that there is a limitation of models of cars which makes it difficult for the consumers to have a wide option to choose from. This indirectly impacts the willingness of consumers to have a purchase. This is because there can be many consumers who do not feel that their values and beliefs align with the available car options. Some consumers may be looking for certain designs in the cars that may not be available in Tesla stores because of limited options. Hence, there are various positive as well as negative influences on the willingness of consumers to purchase Tesla cars depending on the demands and needs of the consumers, and these pricing strategies are effective enough to attract various customer segments.

## 5. Suggestions

There are various suggestions that Tesla can use in order to remain competitive in the market. The first suggestion is to remain active in research and try to invest in new technologies that can attract the technology-loving young generation. Most consumers believe in Tesla because of their attractive technology set up in the vehicles, and this is the main reason why the consumers convert into customers. Hence, for this, Tesla should continue to invest in technological advancement to keep the skimming pricing strategy valid for high-end customers. This will increase the profit margin of the company because investing in high-end technology, even in times of uncertainty, can be beneficial

because it increases the chances of continuity in business [5]. In addition to it, the second suggestion is to make an effective marketing strategy whose main goal will be to emphasize the benefits of purchasing Tesla cars. As most of the customers view Tesla as a branded car-producing company having expensive rates, it is important for the company to start flowing information through digital marketing techniques to let people know and understand the savings that they get after making a one-time purchase [15]. This is because the cost of petrol and diesel for the vehicles will be saved as the Tesla cars need superchargers for them. Digital marketing is effective nowadays because most of the generation is using digital platforms for their knowledge gaining. Adopting this strategy will be beneficial for the company to gain the attention of most young minds.

The third suggestion is to keep the flexible pricing of the cars and not remain rigid to the old pricing strategy. This is because the market is unpredictable, and because of the Covid-19 pandemic, many industries are facing economic imbalance [16]. In addition to it, the countries are also facing economic recession, which makes it nearly impossible for consumers to afford expensive products. Even if they can afford it, they still will give priority to other needs, and this is the main reason the company should remain competitive by making the pricing strategy flexible. Along with this flexibility, the fourth suggestion is that the company can start the option instalment options so that it will be easy for people to afford the car. Introducing a subscription system is important because customers can get benefit from conveniences like automatic availability of the car at the time of need or quick access to new features [17]. Additionally, businesses will also be able to attract more customers and receive monthly or annual payments. This subscription model provides a more flexible nature of making payments to the people and can be appealing to most of the customer segments.

## 6. Conclusion

The main aim of the task is to analyze the influence of a brand (Tesla) pricing strategy on purchase intention. The above analysis provided many findings, and it has been showcased that Tesla is a popular brand of car-making electric vehicles, and because of this, it impacts consumer psychology. The main aim of the brand is to provide environmental sustainability and made technological advancements in the car. There are many types of consumers for Tesla, which include brand-conscious people, environment-conscious people, affordability-conscious people and many more. It is evident that Tesla used different types of pricing strategies, such as skimming pricing strategy and penetration pricing strategy. The company used a skimming pricing strategy to target the high-class society people and wanted to have a big margin of profits for the cars. On the other hand, the company used the penetration pricing strategy and developed various models, such as Model 3 and Model Y, to target the economic class of people and expand their market. By doing this, the company influenced people to convert from consumers to customers by showing a strong commitment towards environmental sustainability. This helped the consumers to afford the cars they otherwise would not have the ability to purchase cars. Tesla has played a major role in impacting consumer psychology by giving them high-end technology, affordability, luxury and so on. The suggestions are also provided, which include continuity in investing in technology and creating an effective marketing strategy to inform people regarding the benefits of electric vehicles. In addition to it, the adoption of a flexible pricing strategy is recommended along with the adoption of the subscription model for the convenience of customers and, lastly, the partnership with other car brands to open superchargers for cars. Thus, Tesla uses effective pricing strategies to influence consumer psychology and make them purchase the products.

The significance of the study is that it provides insights into the factors which are responsible for the success of Tesla especially in the electric vehicle segment. The study provides an in-depth understanding of how using different pricing strategies at different stages can help in getting a competitive advantage in the market. Additionally, there is a great impact of this study on the different



companies that are new entrants in the automobile industry. This is because they can get knowledge on how to attract different types of customer segments by using different pricing strategies. Similarly, the benefits of this study result for various people involved. These people can be automobile companies, investors and consumers. However, the objective limitation is that all the details and characteristics of the pricing strategies of Tesla may not have been extensively explored. Moreover, the electric vehicles and other AI-based cars of Tesla are still evolving and hence a broader perspective may have remained unexplored in the study.

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