

A Study of the Expansion Strategy of NIO to Europe

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Abstract: The research and sales of new energy vehicles are progressing rapidly. As of today, the advantages, disadvantages, and prospects of new energy vehicles are still being discussed by various parties. NIO, undoubtedly, is the fastest rising and most controversial force among domestic car manufacturers. With high sales prices, substantial cash flow, and a promising stock performance, NIO has been criticized for consistently operating at a loss since its inception. What is NIO's profit model and core competitiveness? This paper aims to explore this question, along with the associated risks, and provide recommendations for its development.

Keywords: New Energy Vehicles; NIO; Profit Model; Core Competitiveness

1. Introduction

NIO's official Weibo account announced that its new intelligent electric flagship SUV, the ES8, has obtained European Whole Vehicle Type Approval (EWVTA). This signifies that NIO's ES8 vehicle, intended for export to Europe, can now be mass-produced and officially registered in all European Union member countries. Referring to the plan announced in NIO's Norway strategy on May 6, 2021, it was stated that "NIO will deliver its first model, the all-new ES8, in Norway in September this year, and the first service and delivery center will be opened in Oslo. The intelligent electric sedan, ET7, will also enter the Norwegian market next year." [1] It is evident that NIO's expansion into Europe is gradually progressing. NIO, with its momentum like thunder, has surged to the forefront of domestic new energy vehicle brands and has been actively expanding into overseas markets. What are the advantages that contribute to its success?

2. Company profile

NIO is a global startup brand that has established multiple institutions in 13 locations worldwide, including San Jose, Munich, London, and Hefei, covering research and development, design, production, and business. It has gathered thousands of top talents in the automotive, software, and user experience industries, and has initially established a nationwide user service system in the Chinese market. The abbreviation NIO stands for "A New Day", expressing NIO's vision of pursuing a better tomorrow, a blue sky, and creating a joyful lifestyle for users.

In November 2014, NIO was founded by Li Bin, Liu Qiangdong, Li Xiang, Tencent, Hillhouse Capital, and Sequoia Capital, among other top Internet companies and entrepreneurs who deeply understand user needs. NIO received investment from well-known institutions such as Temasek, Baidu Capital, Sequoia Capital China, Hozon Auto, Lenovo Group, Joy Capital, and many others. Its main products include ES6, ES8, EC6, EVE, and EP9. On September 12, 2018, NIO went public on the New York Stock Exchange (NYSE), raising approximately \$1.1 billion, becoming the first Chinese new energy vehicle manufacturing company to complete an IPO. Its headquarters is located in Hefei, Anhui Province.

3. The business model of NIO and its core competitiveness

3.1. The business model

NIO primarily focuses on four core businesses: automotive marketing, energy deployment, software services, and building user communities. [2] It aims to create a high-end Chinese new energy vehicle

brand, utilizing the BaaS (Battery as a Service) battery leasing business to reduce the barriers to car ownership and increase sales. By providing high-quality services, NIO aims to maintain customer loyalty. In terms of technology, it implements a “vehicle-battery separation” approach, enabling its products to have features such as rechargeable, swappable, and upgradable functions, thus completing the closed-loop in its business model. NIO’s business model is unique in the current new energy vehicle market, which sets it apart from other competitors.

In terms of sales and service networks, NIO adopts a direct sales model. The first NIO center outside the Chinese market is set to open in the third quarter of this year in Oslo, the capital of Norway. NIO is not the first Chinese electric vehicle brand to sell products in Norway. Xiaopeng Motors obtained orders from Norway in September 2020 and established a deep cooperation with local distributor ZEM to engage in market sales and after-sales services for Norwegian consumers. However, NIO’s overseas strategy is more comprehensive. NIO founder and chairman, Li Bin, revealed in a media interview that NIO had been studying the Norwegian market as early as 2018. NIO is fully prepared with products and a team to enter the Norwegian market.

In the current new energy vehicle industry, recharging is the predominant method used by most automakers for power supplementation. However, NIO has taken a different approach by adding battery swapping functionality to its vehicles in addition to charging capabilities. The battery swapping model for electric vehicles refers to the centralized storage, charging, and distribution of a large number of batteries at charging stations. At these stations, the service includes battery replacement for electric vehicles or charging and logistics management of the batteries, integrating battery swapping services alongside other functions. At the corporate level, NIO has invested a significant amount of capital in the battery swapping infrastructure. It can be said that the “battery swapping model” is a focal point for NIO, as they vigorously promote it to attract customers and generate profits. [3]

With the continuous increase in the number of electric vehicles, the shortcomings of the decentralized charging infrastructure have become increasingly evident. In contrast, the centralized battery swapping model alleviates the pressure on vehicle owners for electricity, while offering a faster and more convenient charging process compared to fast-charging stations. NIO has entered into a strategic agreement with Sinopec (China Petroleum & Chemical Corporation) and jointly developed the NIO second-generation battery swapping stations. Occupying an area of 60 square meters, these stations have a battery storage capacity of 13 units and support 312 battery swaps per day. Users do not need to leave their vehicles; they can simply press a button to complete the automated battery swapping process while parked. The entire battery swap takes just 4 minutes and 30 seconds, significantly improving commuting efficiency compared to traditional electric vehicles that may take several hours to fully charge. Furthermore, under the battery swapping model with the “vehicle-battery separation” feature, vehicle owners have the option to lease the batteries, greatly reducing the cost of vehicle ownership. For NIO, this not only lowers the entry barrier for customers but also directly drives sales growth.

3.2. Core competitiveness

Amidst the vast array of new energy vehicle products introduced by numerous brands, how does NIO distinguish itself to make its products stand out? Why is NIO able to position itself as a high-end brand, surpassing BYD in terms of technology, expertise, and experience, while BYD frequently encounters strategic setbacks in the new energy vehicle industry? Moreover, why are customers willing to pay prices ranging from three to four hundred thousand for NIO products while BYD remains in the range of two hundred thousand? What is the essence of NIO’s core competitive advantage?

Any system is composed of three parts: elements, connections, and functions. In terms of elements, as electric vehicles, NIO and BYD models have significant similarities, so let’s assume they are roughly the same. In terms of functions, both aim to provide transportation services to users, assuming they are the same as well. However, when it comes to connections, which involve the combination of components and processes, NIO has fundamentally changed its way of connecting with users and completely transformed the types of customers it connects with, compared to BYD. In simple terms, NIO and BYD target completely different user types and niche markets.

To begin with, the term “owner” is replaced with “user” in order to establish a renewed and updated connection between car companies and their customers. Although it may seem superficial, this change in terminology signifies a shift towards a more comprehensive understanding of the relationship. “Owner” implies a singular description, referring to the consumer’s ownership of a product. On the other hand, “user” is a more complex descriptor, representing the consumer not only as the owner of a

particular product but also as the recipient of the entire company's services throughout the entire process. Therefore, NIO's most acclaimed aspect is not just the performance of their vehicles but rather their focus on providing exceptional service to users. Furthermore, NIO achieves a shift in the types of connections by targeting a specific group of people through its products. This can be inferred from NIO's founder, William Li's, statements such as "NIO's goal is not to surpass Tesla because Tesla aims to be the Toyota or Volkswagen of the electric vehicle industry, while NIO wants to be the Mercedes-Benz or BMW" and "NIO's positioning is high-end. Whatever price range the main models from Mercedes-Benz and BMW are sold at, NIO will sell at the same price range." From the very beginning, NIO strategically establishes a strong identity and actively assigns a favorable identity to its target audience in order to win their favor and encourage them to identify with the brand. Once someone accepts this positive identity, others will naturally follow suit and be willing to pay for that identity.

4. Potential issues and risks

There are two main reasons why NIO chose Norway as its gateway to enter the European market. Firstly, Norway has favorable climate conditions for electric vehicles. In extremely cold climates, electric vehicles often face issues such as battery malfunctions, shortened lifespan, and unstable power output. Such frigid weather conditions are definitely unfavorable for promoting electric vehicles. However, Norway's climate is relatively mild, and it does not experience the problem of power battery hibernation during winter. Secondly, Norway offers a conducive market environment. The country does not impose purchase taxes or import taxes on electric cars. This means that Norwegian citizens can enjoy preferential policies when purchasing electric vehicles, and NIO can maintain its domestic pricing while selling vehicles in Norway. Additionally, Norway maintains friendly diplomatic relations with China, resulting in relatively relaxed import and export policies for Chinese goods. Moreover, the local population in Norway has already embraced Chinese brands without any obstacles. Furthermore, Norway has a strong socio-economic foundation, with a high GDP per capita that ranks among the top in the world. The people of Norway do not face significant financial pressures and are willing to purchase new electric vehicles, even at slightly higher prices compared to traditional gasoline-powered cars. [4]

The rapid and exhilarating growth in the stock prices of new energy vehicle companies in 2020 made people both nervous and excited, as if they were in a science fiction novel. For NIO, it was astonishing to see its stock rise from under \$3 per share in early 2020 to nearly \$63 per share, leaving people in disbelief. However, the stock market boom does not necessarily reflect the actual operational situation of the company, as there is often a significant disconnect between the stock market and the company. NIO, as a large-scale automaker with a market value of \$80 billion, sells only tens of thousands of vehicles per year, which is hard to believe considering its main business is car sales. Moreover, the company has been experiencing annual losses of over 5 billion RMB. Despite continuously raising funds through stock issuance and convertible bonds to support the company, its own cash-generating ability falls significantly short. [5]

In the past two years, battery swapping technology has been rapidly developing. In addition to NIO, other related companies such as SAIC and Geely have also actively responded to policy calls. However, the promotion and implementation of this technology have been relatively slow, mainly due to the lack of clear industry standards. Each automaker has its own research and development stage and pathway, along with patents and trade secrets, which leads to differences in battery specifications and swapping methods among manufacturers. Moreover, there are significant variations in the swapping methods for different vehicle models. Coordinating the interests of all parties involved becomes a major obstacle in establishing unified standards.

NIO's journey to expand internationally has also faced numerous difficulties and challenges. Firstly, there is low brand awareness. Tesla, Audi, Volkswagen, and other automakers have already captured a significant market share in Norway with their various models. It is not easy for NIO to change user acceptance and brand recognition. Secondly, NIO faces cross-cultural challenges from design to software development. The company needs to make localized adjustments to its products, services, and software development to adapt to the cultural differences in the target market.

5. Design and execution recommendations

Currently, the large and mid-size SUV market in Norway is almost untapped, providing an opportunity for NIO's ES6 and ES8 models to serve as an entry point and fill this market gap. To meet the demand for automotive technology, it is important to continue increasing research and development investment and ensure sufficient funding. Paying attention to user feedback and implementing a "customer-first" approach is crucial. Installing intelligent systems in vehicles to gather customer experience feedback and making timely adjustments based on user responses will enhance the overall customer experience. It is also essential to strengthen brand building efforts to establish a strong presence in the market.

In internal control, NIO should prioritize cost reduction. When facing the need for significant funding in areas such as infrastructure expansion and technological advancements in research and development, it is crucial to explore ways to efficiently reduce operational costs. This approach is necessary to ensure the company's cash flow, especially in situations where profitability cannot be achieved immediately. By effectively managing operational costs, NIO can secure its cash flow and pave the way for future success.

6. Conclusions

The development of the automotive industry is a marathon, especially for the new energy vehicles sector. NIO's entry into the Norwegian market is not only a brave attempt by Chinese domestic brands to seize the international new energy vehicle market but also the first exploration by a Chinese auto company to establish a localized team overseas.

As one of the few Chinese domestic car brands that have achieved complete independent research, design, and production and aim to compete with traditional luxury car brands like Mercedes-Benz, NIO not only needs to achieve success in the domestic market but also bears the significant responsibility of showcasing Chinese technology, business models, and service quality to the world. However, NIO's current achievements are far from meeting everyone's expectations. Although it has gained recognition from some consumers in terms of brand premium, the path towards high-end positioning for Chinese brands seems to have had a promising start, but NIO has paid a high cost for this path. NIO now faces a crucial decision: whether to continue maintaining high costs and improving service levels to consolidate its luxury positioning through a stronger brand, or to optimize the industrial chain and introduce affordable mass-market models to address cost issues. We eagerly await how NIO will choose its direction.

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