Better place

Better Place has been one of the most highly supported start-ups in history. The company, set up by Shai Agassi, managed to raise a whopping 750 million dollars among investors and was supported by some of the world’s most influential leaders. So what went wrong? For this we have to take a look at the whole story of Better Place.

The Beginning

The company and idea behind Better Place are the creation of the successful Israeli businessman Shai Agassi. Instead of buying expensive electric cars and batteries, Better Place would offer plans similar to phone plans. The customer would sign a contract for miles instead of minutes, being able to use the car without owning the battery and after a period of several years, the customer would have covered the cost of the car. For the price customers were used to paying for gas, they would now pay for the battery as well as the electricity needed to run it.

Besides being more environmentally friendly, going fully electric would also give countries and car owners the advantage of being less dependent on oil and the countries exporting it.

As a beta testing area Agassi would use Israel. Israel might seem to be a strange choice, but actually it has many advantages as a testing platform for the cars.

First, more than probably any other country in the world, Israel is attracted to the idea of being independent of its powerful oil-producing neighbours, many who are far from friendly regimes.

Second, because of the hostility of most of Israel’s neighbours, Israelis can’t drive beyond their country’s borders. As the country is also very small, the maximum driving distance is very limited, making it relatively cheap and easy to cover the entire country with a charging grid.

Last, Israel is home to some of the most advanced technology development in the world. Who would be more capable to create a whole new smart-grid, managing millions of charging stations, than the country with the highest concentration of engineers and R&D spending in the world?

Agassi’s mission, supported by Israel’s influential former prime minister and noble prize winner Shimon Peres, seemed infallible. It was a win-win situation for the customers, the company as well as the entire country. After an initial $130 million investment by Israel billionaire Idan Ofer, many were fast to follow. It didn’t take Agassi long to raise the $200 million Ehud Olmert required, and he ended up raising nearly 4 times that amount.

After signing a Memorandum of Understanding (MOU) with Renault-Nissan, under the lead of Carlos Ghosn, to build the world's first Electric Recharge Grid Operator (ERGO) model for Israel, Better Place now had all factors in hands that it would need to make the mission a success: a car, a company and a country.

The Expansion

Better Place’s mission was to sell over 100.000 cars in the first years after launch. Corresponding to half of the entire car market of Israel, this was a bold statement, but then so were the rest of Agassi’s plans. How could this super ambitious, yet solid plan ever go wrong?

It was Agassi’s ambition and untamable confidence that lead the company to be one of the most successful start-ups in history, but might also ultimately have been the reason why the company fell nearly as fast as it rose in the following years.

The more money he had to spend, the more possibilities Agassi had. The more possibilities arose, the more the company lost focus. Instead of using just Israel as a beta market, Better Place was concurrently exploring and rolling out systems in Denmark, the USA and Australia. At the same time it was researching market opportunities in Japan, China and Hawaii, and trying to keep its options open in many more countries.

Besides the enormous amount of money it costs to have complete management systems in multiple countries, the management systems also lacked experts in either the automotive or infrastructure industry. Many of Better Place’s top executives were former SAP employees. Better Place became one of the most desired companies to work at, and even though there was absolutely no need to invest in attracting new talent, the company still kept paying well above industry average. Driven by the ambition to change the world and motivated by Agassi’s unbelievable forecasts, the company seemed to lose its connection with reality.

With money not being a major issue, the company failed to make cost a priority in the design of the charging and battery swapping systems; at $2 million each, they were more than ten times the cost of for example Elon Musk’s Tesla charging systems. The company spent over $60 million developing AutoOS, an operating and navigational system that TomTom already sells at the much more economic price of $29.99. Money wasn’t even saved in the office space. With offices around the world, the company spent over $7 million a year on travel expenses and the main US office allegedly boasted Coke Zero and Nature Valley granola bars.

If business would have gone as predicted, selling 100.000 cars in the first period, all might have been well in the end. However, the company ended up only selling 1.400. Even though no compromises were made to make the swapping stations as modern and user friendly as possible, this can hardly be said for the cars Better Place offered. By only selling one, very dull model of sedan, for which the company had a partnership with Renault, Better Place failed to reach the party that was to ultimately use and pay for their network.

Without the batteries, which were owned by Better Place and have been sold off after the company’s bankruptcy, the cars, which already looked outdated when they rolled off the line, have become completely worthless.

The very disappointing sales numbers and exorbitantly high operating costs of over $500.000 a day, were not the only challenges faced by Better Place in unrolling their countrywide network. Local authorities, whose permission was needed to build battery-switching stations, put up unexpected roadblocks, slowing progress, company officials said. And when employers provide the cars to their workers, which is a common practice in Israel, the workers pay a usage tax that reflects the full value of the car, including the battery, undermining Better Place’s effort to drive down costs.

All in all, from this case we learn that even when backed with extreme amounts of investment, an ambitious project will fail when not managed well. Being a very capital intensive industry, one cannot permit oneself to have any unnecessary costs. Unfocused expansion and unnecessary overhead costs and the will to develop and keep everything but the car in-house lead Better Place to be a money-devouring monster. By promising the future and failing to deliver more than an outdated Renault sedan for an incomplete charging network, the company lost not only their own credibility, but might have seriously damaged any future initiatives for an extensive charging grid. Better Place and Shai Agassi may have very successfully sold the dream of the future to its investors, but failed to make it come true for the large public.

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