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TESLA, INC

Report

Basics of Business Operations

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1 INTRODUCTION

This is a report about the basics of Teslas operation.

2 BASIC INFORMATION

This chapter will give some basic information about Tesla, and why this company is interesting for me.

2.1 Why I chose to investigate Tesla

This is the company Ive heard a lot about for many years and I think it is finally a convenient time to start learning about it. I am also quite interested in alternative energy sources and saving the environment.

2.2 Basic information

Tesla currently has 33,000 employees. The companys products are automotive and energy storage. Tesla's headquarters are located in Palo Alto, California. It also has stores located in Canada, Europe, Asia and Australia.

The main market for all of Teslas car models is the United States. Norway is the largest overseas market for the Model S.

3 HISTORY

3.1 The foundation

The company was initially founded in 2003 by Martin Eberhard and Marc Tarpening, although the company also considers Elon Musk, JB Straubel, and Ian

Wright as its co-founders.

The founders were influenced to start the company after GM (General Motors) recalled and destroyed all of its EV1 electric cars in 2003. Tesla's early primary goal was to commercialize electric vehicles, starting with a premium sports car aimed at early adopters and then moving as rapidly as possible into more mainstream vehicles, including sedans and affordable compacts for the mass market, serving "as a catalyst to accelerate the day of electric vehicles" (Bryant 2016).

3.2 Main business development

Tesla signed a production contract on July 11, 2005, with Group Lotus to produce "gliders" (complete cars minus powertrain). The contract ran through March 2011, but the two automakers extended the deal to keep the electric Roadster in production through December 2011 with a minimum number of 2,400 units

Musk led Tesla's Series B US\$13 million investment round. Musk co-led the third, US\$40 million round in May 2006. Tesla's third round included investment from prominent entrepreneurs including Google co-founders Sergey Brin and Larry Page. The fourth round in May 2007 added another US\$45 million and brought the total investments to over US\$105 million through private financing.

In October 2008, Musk became CEO and laid off an additional 25% of Tesla's workforce.

By January 2009, Tesla had raised US\$187 million and delivered 147 cars. Musk had contributed US\$70 million of his own money to the company. Elon Musk owns a 20.8% stake in the company as of March 2017. The prototype Model S was displayed at a press conference on March 26, 2009.

In June 2009 Tesla was approved to receive US\$465 million in low-interest-

bearing loans from the 2007 US\$8 billion Advanced Technology Vehicles Manufacturing Loan Program by the United States Department of Energy, while Ford got \$5.9 billion, and Nissan got \$1.6 billion. The funding came in 2010, and supported engineering and production of the Model S sedan, as well as the development of commercial powertrain technology. Tesla repaid the loan early and with \$12 million in interest in May 2013, and was the first of the automakers to repay.

On June 29, 2010, Tesla launched its initial public offering (IPO) on NASDAQ. 13,300,000 shares of common stock were issued to the public at a price of US\$17.00 per share. The IPO raised US\$226 million for the company.

3.3 Most interesting business operations

In June 2009 Tesla received US\$465 million in loans from the 2007 US\$8 billion Advanced Technology Vehicles Manufacturing Loan Program by the United States Department of Energy, while Ford got \$5.9 billion, and Nissan got \$1.6 billion. But it was the first company to repay the money.

The founders were influenced to start the company after GM (General Motors) recalled and destroyed all of its EV1 electric cars in 2003 (Musk 2017).

4 EXTERNAL ENVIRONMENT

4.1 Economic environment

I will now provide some information on the United States's economy. The source can be found next to the data.

- GDP (in 2016): 18.569 Trillion US\$ (From: World Bank)
- GDP per capita (in 2016): 57,466.787 US\$ (From: World Bank)

- Unemployment rate (in August 2017): 4.4% (From: U.S. Bureau of Labor Statistics)
- Inflation rate (for 12 months ending in August 2017): 1.9% (From: <http://www.usinflationcalculator.com/inflation/current-inflation-rates/>)
- Trade in 2017 (million US\$): Trade balance: -458,725.2 (a trade deficit); Total exports: 892,621.2; Total imports: 1,351,346.4 (From US' Census Bureau)

Despite having heard of it before, I still find it rather interesting that the biggest economy in the world has a negative balance in trade. Even more interesting is that this deficit is due to consumer products and automobiles, and that the trading partner responsible for this is China. The unemployment is gradually declining, which is a good sign for the economy.

4.2 Cultural Environment

I will now discuss about cultural factors of the United States according to (Hofstede 2017). First of all, there is a high degree of individualism and masculinity in the USA. That important factor plays a crucial role in advertising. Sometimes, showing that you are the best is more important than being actually the best, which is why Elon Musk, current CEO of Tesla decided to associate his brand name with the Roadster, a luxurious electric sportscar. This car showed to everyone that electric car can be as fast beautiful as any other traditional car.

The US scores below average on Uncertainty Avoidance. As a result, there is a fair degree of acceptance for new ideas and innovative product, something that Tesla also rely on.

However, Americans only score 26 on Long Term Orientation, which means that people don't change their mind easily and will continue to maintain time-honoured traditions and norms. Businesses also prefer to measure their performance on a short-term basis, something that Tesla does have to consider.

Still, reality shows that Tesla has been doing well lately on the stock market, which means that investors are confident in the company's long term result.

4.3 Political Environment

According to (Koopman 2013), Tesla wouldn't be a considered successful had it not been for the government's support, particularly from the Advanced Technology Vehicle Manufacturing program and President Obama. After the election of Donald Trump as president, many people worried that Tesla would lose federal support for its business. However, as I mentioned before, the company is still doing fine. Debord (2016) went as far as saying: "It doesn't make sense for politics to turn against Elon Musk and Tesla", reasoning shutting down his company would result in a big economic loss.

5 GLOBAL ENVIRONMENT AND INTERNATIONAL TRADE

The top five trading partners of the US in the current year are China, Canada, Mexico, Japan and Germany (information was received from United States' Census Bureau). Seven out of fifteen trading partners are from Europe.

Tesla opened its first store in Europe in June 2009 in London's Knightsbridge district in the UK, followed by Munich in Germany in September. Tesla's European headquarters are in Amsterdam, the Netherlands.

Norway is the largest overseas market for Tesla's Model S, with 11,802 new units registered through October 2016 thanks to the country's comprehensive incentives for the adoption of pure electric cars. The Parliament of Norway set the goal to reach 50,000 zero emission vehicles by 2018. Among the existing incentives, all-electric cars and utility vans are exempt in Norway from all non-recurring vehicle fees, including purchase taxes, which are extremely high for ordinary cars, and 25% VAT on purchase, together making electric car purchase price competitive with conventional cars.

6 BUSINESS ETHICS AND CORPORATE SOCIAL RESPONSIBILITY

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