

**ULMS 353 – Strategic Management and Business Policy**

**A strategic Report of Tesla**

Student A: 201317164

Student B:



**Executive Summary**

Tesla is a market leader in the US electric vehicle industry. Recently, Tesla’s revenue surged by 74%. However, Tesla faces challengers including increased competition from established automobile companies to legal disputes in states across the US. Tesla has a competitive advantage in technological innovation for their lithium-ion batteries, this is because the batteries are long-lasting range with great and powerful performance. Being innovative and having a good customer experience has helped Tesla gain brand recognition. However, the industry’s biggest threat comes from existing car companies such as Audi deciding to establish themselves in the EV market as it becomes more profitable. Tesla’s competitors in the EV industry have varied distribution channels including websites and dealerships allowing their products to be accessible globally. Moving forward Tesla is well placed to take advantage of growing demand with Disposable Personal Income in the US reached an all-time high of $1,963.2 billion USD Billion in January of 2021 (Bureau of Economic Analysis, 2021). However, due to Covid-19 the US economy may stagnate. This will affect Tesla as expensive luxury vehicles are less attractive to consumers in an environment of low confidence, low economic growth, and high inflation.

**Summary of Student A’s Strategic Options**

My strategic options include a market development strategy that suggests tesla move into the Indian Market. The product development strategy suggests Tesla manufacture a mass market affordable pickup truck. The market penetration strategy suggests Tesla allow their vehicles to be sold through dealerships. The advantage of the market development strategy is that India is a huge market and has the potential for equally huge sales. However, there is a lack of charging infrastructure, and the market is dominated by cheap vehicles as opposed to luxury vehicles like Tesla’s. The product development strategy is beneficial as it will lead to a higher market presence in rural US where Tesla has little presence. However, the releases of the Cybertruck an unconventional pickup truck means that any new pickup will impact the success of the Cybertruck. The market penetration strategy is advantageous because it will increase accessibility for consumers by allowing Tesla vehicles to be sold in states which previously had legal barriers including Texas. However, it will mean Tesla have reduced control over service and increased costs due to middleman. The market penetration strategy is my recommendation.

**Summary of Student B’s Strategic Options**

**Introduction**

Tesla, Inc. is an American electric vehicle and clean energy company based in Palo Alto, California. The company gets most of its revenue and profit from automotive (electric) sales (Statista, 2021). Tesla's key markets include the United States and China. However, it moved into China relatively recently in 2018 and it has a larger market share and number of sales in the US (CNBC, 2021). As a result, this report defines Tesla as part of the electric vehicle industry in the US. Tesla’s objective is to accelerate the world's transition to sustainable energy through producing electric vehicles (Tesla, 2013). Recently, Tesla’s revenue surged by 74% and Tesla reported a record net income of $438 million during the first quarter of 2021 (The Wall Street Journal , 2021). However, Tesla faces challengers from increased competition from established automobile companies to legal disputes in states across the US. This report aims to address such challengers and will offer an internal and external analysis of Tesla, followed by a discussion of the future strategic options available. Finally, the report will offer a recommendation for a future strategic direction.

**Internal Analysis**

**Primary activities**

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| --- | --- | --- | --- | --- |
| **Inbound logistics**  Raw materials are supplied by different companies (Maverick, 2019).  Tesla’s factory in Fremont is one of the largest manufacturers in California (Tesla, 2021).  Tesla opens new factories in Texas (Hull & Bloomberg, 2021) | **Operations**  Tesla production rate has increased and rose by 30% meaning they can produce more cars. (Wagner, 2021).  Gigafactory is to help production reach 500,000 cars per year (Tesla, 2021).  Marketing trends to see what consumers want. | **Outbound logistics**  Tesla has its stores across the US which you can go to the showroom to see their latest cars (Tesla, 2021).  Tesla has options to purchase and add features to the car online (Glon, 2020). | **Marketing and sales**  Tesla uses its website and other digital channels for marketing and promotion (Rojas, 2020).  Elon musk uses social media to engage with its customers and fans (Hogan, 2018).  Stores and galleries used for promoting marketing as well as sales, strengthen the brand (Tesla, 2021).  Celebrity endorsements to attract new consumers (Siembiedi, 2020). | **Service**  Service stations across the US if anything happens to the car (Tesla, 2021).  Warranty policy covers you for 4 years or up to 50,000 miles (Tesla, 2021)  Supercharging sections in case the battery needs recharging (Tesla, 2021). |

**Support activities**

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| **Firm infrastructure**  Tesla is a U-form organizational structure, with strong leadership with Elon Musk at the top as CEO (Meyer, 2018).  Finance and accounting to help with any issues. (O'Kane, 2020)  Legal services (Baxter, 2020)  Quality management to ensure products are up to standards (Morris, 2020). | **Human resources**  Employee involvement as Tesla depends on thousands of talented employees (Burgersdijk, 2020)  Tesla employs thousands of new employees in 2020 (WAGNER, 2021)  Recruitment is not based on degrees, more on speciality and how you can implement this (Kelly, Forbes, 2020) | **Technology development**  App to connect to car anytime anywhere (Hodges, 2020).  Website instead of physical dealerships (Lavietes, 2019)  Waste management to save Tesla money and help the environment (Forfar, 2018) | **Procurement**  Tesla has strong relationships with suppliers (Maverick, 2019)  Panasonic is Tesla’s leading supplier. (Tesla, 2011)  Short term contracts. |

Tesla has been effective and efficient in recent years which has led them to being a market leader in electric vehicles (in the US). Tesla’s new Gigafactory’s helps reach 500,000 cars per year (Tesla, 2021) with more cars being produced this will be efficient for Tesla as the delivery time will decrease and production rate will increase. Tesla’s online options to add features (Glon, 2020) is effective, and attracts consumers who like to design their car how they wish. For example, one feature could be autopilot which tesla specialises in. Elon Musk using social media to engage with its consumers (Hogan, 2018) is effective as they would like to hear Tesla’s latest news and this engagement will improve brand loyalty. Hiring thousands of new employees has been effective for the business as it has helped the company’s productivity and performance. Another important factor which has helped Tesla become a market leader is their suppliers as they provide specialist parts, without these parts Tesla would be unable to manufacture at the quantity and quality they do. Features such as the Tesla App have been efficient as it helps engage the consumers with their cars to check their cars status, this feature is innovative as only certain competitors have this feature.

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| **Resources (tangible, intangible)**  Tesla brand (DeBord, 2020) | **Capabilities**  This benefit tesla in many ways as it is used for marketing as well as gaining recognition to increase its brand awareness which will help them publicity and to gain new customers and increase its profits and market share. | **Distinctive or threshold capabilities.**  Distinctive |
| Elon Musk (Youshaei, 2018) | Elon Musk is a capability because he is an asset to the company as he thinks outside the box and brings in many consumers through his follower’s base as he has millions of followers that he engages with this will increase the company’s recognition and markets for the company in a way as he keeps them updated. | Distinctive |
| High-capacity production in the US (Tesla, 2021) | As Tesla has built Gigafactory’s this has helped them to gain a high capacity in production and cost less this will benefit Tesla as delivery time will be a lot faster and this will make customers happy as they will not have to wait as long for that car to be manufactured. | Threshold |
| Developed e-commerce and app infrastructure rather than physical dealerships (Salacka, 2017) | Their developed website is there instead of having a dealership reason for this is because online you can always engage with your customers and have immediate access to them this will help the brand loyalty and recognition which will be good for aftersales. | Threshold |
| Financial (Elliot, 2021) | Tesla financial capabilities give them the benefit of using their money to build knowledge and skills, this is so they make the right decision for the company financially and an example can be the Freemont Gigafactory which is a good investment as this increases their production rate. | Threshold |
| Celebrities endorsement (Lambert, 2020) | Using celebrity endorsement can reach a different target and attract new customers who may have never heard of Tesla yet. This is done through the company giving a Tesla vehicle to promote and use. | Distinctive |
| Technological innovation (batteries) (Cohen, Forbes, 2019) | Tesla uses lithium-ion batteries in its cars this is rare to manufacture. This battery sets Tesla from others as it can give the consumers more mileage as it is a stronger battery, there is also strong R&D within the company to help it thrive in competitive markets and reduce its costs as Tesla joins Panasonic to make more batteries. | Distinctive |
| Physical stores and galleries (Tesla, 2021) | The physical galleries and stores are owned, Tesla has many around the globe. This is so that customers can come and look at their new car models and give customers the experience of what a Tesla car feels like. As the stores are owned this saves Tesla money on having to pay rent which in the long run will be cost-efficient. | Threshold |
| Human resources (Kelly, 2020) | Having good human resources gives Tesla the benefit of hiring talented individuals and paying employees on time through payroll, performance management to ensure the company is performing to expectations. This plays a key role as it helps to develop, reinforce, and change the culture within Tesla. | Threshold |
| Experienced management team | Having an experienced management team is good for Tesla as it helps them with their day-to-day activities, also they have more knowledge than someone new. Some team members are experienced sectors such as technology for the batteries and design of the Tesla models. This will set Tesla from its competitors, | Threshold |
| Reputation (Bernal, 2020) | Reputation plays a key part with Tesla as it is a well-known brand and that’s how a customer perceives the business. if the reputation is good then that will mean customers will keep coming back as they are getting their value for money. This can bring in new consumers as people may have heard good things about Tesla and this will increase their sales. | Distinctive |
| Different car models (Tillman, 2021) | Having different electric car models is good for Tesla as this sets them from competitors such as Toyota and general motors who only have one or two models. Having a variety of option is good as some customers may not like one design of the car so they can look at alternatives such as Tesla Model 3 or Model X. | Distinctive |

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| **Capability/VRIO**  Elon Musk | **Valuable**  Yes | **Rare**  Yes | **Imitable**  Yes | **Organization cap**  Yes |
| Developed e-commerce and app infrastructure rather than physical dealerships | Yes | No | No | Yes |
| Experienced management team | Yes | yes | Yes(ish) | yes |
| Physical stores | Yes | No | No | Yes |
| Tesla brand | Yes | Yes | Yes | Yes |
| High-capacity production in the US | Yes | No | No | Yes |
| Technological innovation(batteries) | Yes | Yes | Yes | Yes |
| Financial | Yes | No | No | Yes |
| Different electric car models | Yes | No | No | Yes |
| Pricing strategy | Yes | No | Yes | yes |
| Unique design | Yes | No | Yes | Yes |
| Intellectual property rights, copyrights, and trademarks | Yes | Yes | Yes | Yes |
| Supercharger Network | Yes | Yes | Yes | Yes |

Through VRIO we have identified that Tesla has a competitive advantage in technological innovation for their lithium-ion batteries, this is because the batteries are long-lasting range with great and powerful performance. Currently, one of Tesla best-performing cars have a range of 370 miles when fully charged and last a lifespan between 300,000-500,000 miles (Cohen, Forbes, 2019) making it valuable and rare compared to its competitors with a lower range and performance. Tesla also has patents around their battery packs so that other competitors such as General Motors and Toyota can not imitate this. As Tesla has a Gigafactory this gives them a competitive advantage as Tesla and Panasonic’s joint venture (Inagaki, 2020) allow Tesla to produce more batteries than all carmakers combined. Having manufacturing processes under one roof gives Tesla the advantage of reducing costs prices of batteries and other manufacturing processes.

Elon Musk is valuable to the company as he is the CEO and has an extraordinary ability to problem-solve, innovate, and he is very knowledgeable and has a skillset in doing different tasks which makes him stand out from others. Elon Musk’s decisions are important as he has many responsibilities. He does not let failure stop him as we have seen with the Cybertruck incident (BBC, 2019) he uses these failures to show it is okay to make a mistake which makes him popular and likeable to the public. He is rare as he cannot be imitated given it is difficult to have such capabilities and skillset to achieve what he has done. This makes him a competitive advantage for Tesla as his knowledge provides innovative ways of moving to clean energy (Barhat, 2019). This will benefit Tesla as they will have an advantage within this sector due to his knowledge.

What makes Tesla’s brand one of the biggest, strongest, and valuable brands in the world is that it has created a realistic demand for an electric vehicle industry giving tesla a good reputation within this market sector. Many companies have started to follow in Tesla’s footsteps. Tesla is rare as they are one of the leading companies within the industry, and their unique brand image affects their popularity. Overall, sales show why Tesla must have a strong brand image to increase their revenue. Tesla’s cars as designed with the way consumers look at the brand in mind as innovative, high tech, and luxury. This has helped them as they have high-performance electric cars such as Model S which is comparable to the quickest cars (Tesla, 2021). The brand recognition for Tesla was done through word of mouth, being innovative publicly and having a good customer experience has helped Tesla gain brand loyalty putting a barrier for customers to switch between competitors.

**Stakeholder mapping**

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| --- | --- |
| **High power/ low interest**  Competitors who are producing and focusing on developing their technological advanced cars have high power but low interest, competition is very important for tesla as this can help them benefit from insights gained from others.  The government also has high power as they issue grants and loans, incentives and developing regulations that Tesla will need to follow to have a stronger relationship.  Suppliers are crucial to tesla as they have helped with Tesla’s success.  International trade can affect trade and sales as taxes can be increased meaning that Tesla can come out with less profit. | **High power/high interest**  Shareholders have high power and high interest as they invest heavily within the company to gain profit and growth for Tesla.  Customers also have high power and interest as they affect Tesla’s revenues as they are the ones who buy the cars so monitor to keep a good relationship.  Joint venture between Tesla and Panasonic.  These all have high power and high interest within Tesla as they are heavily invested.  Senior leadership team these stakeholders help the company with their daily activities and that’s why Tesla needs to keep a strong bond between the s. |
| **Low power/low interest**  Non-external and non-government businesses do not have any influence on Tesla however this can have an impact on Tesla brand and reputation and their neglect can lead to this, so, therefore, Tesla needs to monitor this to prevent this from happening. If this does happen this will affect Tesla reputation and brand bringing sales and profits down which is not beneficial for Tesla. | **Low interest/high power**  For Tesla to achieve long term success their employees and labour force must be trained and well communicated for them to achieve strategic objectives in their day today. Even though they have low power they are crucial to Tesla because without them the company would not be able to function. this stakeholder has high power within the organisation as it affects the company’s performance and productivity to increase Tesla’s profits. |

Key stakeholders for Tesla are its employees, this is crucial and important as Tesla need employees for day-to-day activities and they play a key part within the company’s performance and level of productivity. Another key stakeholder is the customers as they have high power and high interest in Tesla. They affect Tesla’s revenue as they are interested in reasonable pricing and quality products. Tesla does this to benefit themselves by minimising their costs (Tesla, 2021) . Suppliers play a key part for Tesla because without them they would be unable to make their cars. Therefore, it is good to keep a productive relationship with them, such as a joint venture like Tesla have done to produce more batteries in the Gigafactory this will reduce Tesla’s overall costs and they will be able to produce more batteries. The last important stakeholders are the investors/shareholders as they are the ones who invest in Tesla and are important to the company's capitalization. Shareholders and investors have an interest in the company’s growth and profits and through this Tesla aims to maximize profits to benefit their shareholders/investors.

Weaknesses

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| --- | --- |
| Electric car milage range  ref | Tesla best performance vehicle covers just over 300 miles in range. This is impressive and is being improved by Tesla as consumers may fear going on long journey’s, as they may not have enough miles to do so and before setting off, they will need to plan to see whether there is a Tesla Supercharger or a public station, differences are one charges faster than the other. So, a short-term solution for this would be for Tesla to increase its battery capacity by making them stronger so that Consumers can get more range. The long-term solution will be to add more supercharging stations around the world. They can do this by partnering up with a petrol station such as Shell for example and add more charging stations this will increase the locations and be less costly for Tesla and benefit both companies. |
| High price compared to fuel cars.  ref | Tesla is more expensive than most cars this makes it less affordable for consumers however Tesla have said to decrease its costs in the future. With the Freemont Gigafactory they are now able to produce more batteries so in the short term this will benefit them as they are able to produce more at a less cost. Due to the economies of scale by doing everything under everything under one roof within the Gigafactory this will benefit Tesla as they are able to cut costs within the batteries, reduction of waste and innovation. This alone without the battery production will influence the price reduction. This will make Tesla’s cars more affordable in the future and this will increase the demand as more people will want to move to a clean energy environment and prices will be low. |
| Elon Musk bad publicity (Salinas, 2018) | Elon Musk has a big impact of Tesla and what he does in public can affect the company as we have seen by the marijuana situation with Joe Rogan where he smoked on a live podcast this immediately affected Tesla’s stock |

Porters Five Forces Table:

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| --- | --- | --- | --- | --- | --- |
| Porters Five Forces | Threat of New Entrants | Industry Rivalry | Buyer Power | Supplier Power | Threat of Substitutes |
| Degree (low-moderate-high) | Low | High | High | Low | Moderate |
| Justification | High economies of scale  High cost of research and development  High Cost of Brand Development | Almost all major automobile companies already have an electric car or have announced one in the works.  Low Switching Costs  Intense Competition | Few but high value purchases.  Low switching costs  Moderate Level of Substitutes | The reliance on batteries where there is a limited supply.  Specialized parts  Moderate Size of Suppliers | Gas-powered and hybrid vehicles  Other modes of transportation such as Trains and buses.  Inner city bikes get a significant amount of funding and encouragement from government bodies. |

**External Analysis**

Porters Five Forces Table:

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Porters Five Forces | Threat of New Entrants | Industry Rivalry | Buyer Power | Supplier Power | Threat of Substitutes |
| Degree (low-moderate-high) | Low | High | High | Low | Moderate |
| Justification | High economies of scale  High cost of research and development  High Cost of Brand Development | Almost all major automobile companies already have an electric car or have announced one in the works.  Low Switching Costs  Intense Competition | Few but high value purchases.  Low switching costs  Moderate Level of Substitutes | The reliance on batteries where there is a limited supply.  Specialized parts  Moderate Size of Suppliers  Tesla supplies it own batteries. | Gas-powered and hybrid vehicles  Other modes of transportation such as Trains and buses.  Inner city bikes get a significant amount of funding and encouragement from government bodies. |

**Threat of New Entrants**

New entrants to the EV industry require high economies of scale to compete against established firms. It is difficult for start-ups to enter the EV industry given the high costs of increasing economies of scale and brand development. However, existing firms in the automobile industry can overcome this barrier to entry if they already possess high economies of scale. Another barrier to entry is the high costs of research and development. New entrants cannot compete against established firm’s pace of innovation without huge investments. However, Tesla’s decision to waive its patent rights could lead to new entrants being competitive by having access to the latest innovation (Tesla, 2014). The industry’s biggest threat from new entrants comes from existing car companies such as Audi deciding to establish themselves in the EV market as it becomes more profitable.

**Buyer Power**

Current buyers of electric cars are disproportionately high-earners, college educated and middle aged (40-50) (Office for Low Emission Vehicles, 2015). Current buyer power is high because the EV industry is highly competitive, and buyers are concentrated. Most major automobile companies have a line of electric vehicles. Furthermore, it is easy for customers to switch between competitors that have higher quality or cheaper products as there are few tangible costs to doing so. However, brand loyalty and environmental concerns can be a barrier to customers switching between competitors. Given the EV industry is significantly smaller than the automobile industry, and customers purchase a car every 5-10 years (IHS Markit, 2016) the customers have significant leverage to influence products. However, as electric vehicles become more popular the market concentration will decrease. Therefore, the current power of buyers is high in the EV industry, but this will decrease in the future.

Porter’s Generic Strategy Table

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| --- | --- | --- |
| Company | Generic Strategy | Justification |
| Tesla | Differentiation | Tesla’s targets high income or middle aged and technologically savvy consumers. Tesla’s products are highly priced and technologically innovative. Therefore, Tesla aims at specific target markets by releasing specialised products at a higher price. |
| Ford | Cost Leadership | Ford have reduced expenditure on raw materials was cut down and the online manufacturing process was introduced that focus on the development of cars on one process rather than having different segments of engineering and production (Senna, 2013). |
| Nissan | Cost Leadership | Nissan’s products are low cost and target broad demographics. For example, middle-income group individuals in the age group of 25- 45 years who are looking for a family vehicle. |
| Fiat | Cost Leadership | Fiat vehicles are low cost and have a low price. Fiat uses cost leadership to expand market share. |
| Honda | Cost Leadership | Honda’s products are low cost. Honda focusses affordability and accessibility of its produce across the globe. This leads towards high brand awareness and high sales growth. |
| Chevrolet (General Motors) | Cost Leadership | Chevrolet vehicles are low cost. It uses a cost leadership strategy to preserve it market leadership and expand market share. |
| BMW | Focused Differentiation | BMW business strategy focuses on premium customer segment. Its products are differentiated through design and digitalisation. |
| Toyota | Cost Leadership | Toyota’s vehicles are low cost and have a low price. Toyota uses cost leadership to penetrate foreign markets and expand market share. |
| Hyundai | Cost Leadership | Hyundai’s vehicles are low cost and have a low price. They use cost leadership to penetrate foreign markets and increase market share. |
| McLaren | Focus (Differentiation) | McLaren sells high end luxury vehicles to a specific market segment of extremely wealthy individuals. It is focusses on high-end high-performance cars allows it to be competitive in this niche market segment. |
| Porsche | Differentiation | Porsche pursues differentiation due to its strong brand presence. Porsche produces high quality and high-performance cars to differentiate itself from the competition. |
| Cadillac | Differentiation | Cadillac pursues differentiation by utilising its luxury brand name to produce vehicles that are luxury and high performance. |
| Volkswagen | Cost Leadership | Volkswagen’s vehicles are low cost. As a reputable and established brand Volkswagen uses cost leadership to maintain market share through efficient value chain management. |

Competitor Benchmark Table:

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Company | Brand Image | Product Diversity  (EV’s) | Geographical Coverage | Market Reach in US (Electric Vehicles) | Distribution channels | Marketing Activities | Technology | Size of Organisation  (Revenue in 2020) | Product Quality |
| Tesla | Luxury high status | Higher relative product diversity | US, Europe, China (but not a huge presence) | Large Market Share | Tesla all-electric cars are sold exclusively through the Tesla website and at company-owned stores. | Strong presence on social media. | Technological Leader in Electric Vehicles and driverless cars. | Medium, Revenue: $31.5B | High |
| Ford | Budget, low status | Low | Global | Large Market Share | Mainly dealerships or their online store | Traditional Media | Technological leader for in-car appliances | Large, Revenue: $127B | Low |
| Nissan | Budget, low status | Low | Global | Large Market Share | Mainly dealerships or their online store | Traditional Media | Follower | Large, Revenue: $91B | Medium |
| Fiat Chrysler | Budget, low status | Low | Global | Low Market Share | Mainly dealerships or their online store | Traditional Media | Follower | Large, Revenue: $108B | Low |
| Honda | Budget, low status | Low | Global | Low Market Share | Mainly dealerships or their online store | Traditional Media | Follower | Large, Revenue: $137B | Low |
| Chevrolet (General Motors) | Budget, low status | Low | China, North America | Large Market Share | Mainly dealerships or their online store | Traditional Media | Follower | Large, Revenue: $122B | Medium |
| BMW | Luxury, high status | Medium | Global | Large Market Share | Mainly dealerships or their online store | Traditional Media | Technological leader for in-car appliances | Large, Revenue: $111B | High |
| Toyota | Low status, budget | Low | Global | Large Market Share | Mainly dealerships or their online store | Traditional Media | Follower | Large, Revenue: $250B | High |
| Hyundai | Low status, budget | Low | Global | Large Market Share | Mainly dealerships or their online store | Traditional Media | Follower | Large, Revenue: $104B | High |
| Karma Automotive | High status, luxury | Low | Europe, North America | Low Market Share | Dealerships | Tradition Media | Follower | Small, Revenue: 500M | High |
| Porsche | High status, luxury | Low | Global | Low Market Share | Mainly dealerships or their online store | Traditional Media | Follower | Medium, Revenue: $26B | High |
| Cadillac (General Motors) | High status | Low | US, Canada, China | Low Market Share | Mainly dealerships or their online store | Traditional Media | Follower | Large, Revenue: $122.5B | High |
| Volkswagen | Low status, reliable, budget | Low | Global | Low Market Share | Mainly dealerships or their online store | Traditional Media | Follower | Large, Revenue: $223B | Low |

**Competitor Analysis**

Tesla’s competitors in the EV industry have varied distribution channels including websites and dealerships allowing their products to be accessible globally. Many of Tesla’s competitors are bigger organisations. In 2020 Ford’s revenue was $127.144B (macrotrends , 2021) compared to Tesla’s $31.536B (macrotrends, 2021). Ford has more money to invest in economies of scale or research and development giving them a competitive advantage over Tesla. While Tesla invest less into research and development, it specialises in electric vehicles and AI resulting in Tesla being the technological leader in both. Tesla uses its own internal distribution network. Its vehicles can be purchased from the Tesla website or Tesla owned stores. This impacts its geographical coverage as its harder in some states to get a Tesla either due to fewer stores or legislative barriers preventing Tesla selling its products directly to customers. Tesla can improve its geographical coverage by expanding its distribution channels.

PESTLE Analysis Table:

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| --- | --- | --- | --- | --- | --- | --- |
| Factor | Political | Economic | Social | Technology | Environment | Legal |
| Trends | Tax Credits offered by local and national governments.  Investment in infrastructure i.e., electric car charging stations.  Government loans and subsides environmentally sustainable companies.  Due to Covid-19 governments around the world are looking to implement policies that increase consumer spending and confidence. | Increasing disposable income.  Increasing petrol prices or decreasing price of renewables.  The price of materials is decreasing such as batteries.  Economic consequences of Covid-19 likely to be felt for many years to come. | Environmental conscious customers.  Growing social status of electric cars.  Increasing demand for products that utilise renewable energy.  Consumers are open to using new technologies in their automobiles. | Self-driving cars  Charging stations  Batteries  High pace of innovation in the electric vehicle industry.  Growing use of embedded technologies in automobile industry. | Increasing concern towards greenhouse gas emissions due to automobiles.  Waste management.  Increase in renewable sources.  Accelerated climate action. | Dealership sales regulation in the United States.  Expanding international patent protection.  International Agreements such as Paris Climate Change Agreement increasing legal pressure of having environmentally sustainable vehicles.  Energy consumption laws that electric vehicle companies must abide by.  Technology companies’ security concerns leading to legal action to prevent spying. |

**Political**

In the US there are state and federal incentives to encourage consumption and growth in the EV industry. Governments have subsidized companies through low interest loans. For example, Tesla was given low-interest loans amounting to $465 million from the US Department of Energy (Energy.gov, 2017) . Many states use tax credits to encourage consumers to purchase electric vehicles. However, the disparity in tax credits offered between states is large. For instance, tax credit for PEV buyers ranges from $500 in Maryland to up to $7500 for commercial PEVs in California (Tesla , 2021). State and local governments have aimed to invest in electrical vehicle infrastructure such as charging stations. Almost $529 million across 19 states has been invested in public charging for passenger vehicles (Smith, 2020).

**Economic**

One economic trend that will affect the EV industry is the increase in disposable income. Disposable Personal Income in the US reached an all-time high of $1,963.2 billion USD Billion in January of 2021 (Bureau of Economic Analysis, 2021). When disposable income increases the purchase of cars increases. If people have more disposable income, it makes electric vehicles more attractive even with a premium price tag. Another economic trend is increasing petrol prices or decreasing price of renewables. Over the last decade, the price of electricity has decreased, wind energy prices have fallen 70% and solar photovoltaics have fallen 89% on average, with fossil fuels expecting to increase in price (Lazard, 2019). As a result, electric vehicles are becoming more fuel efficient, adding a cost advantage over petrol vehicles.

**Scenario Analysis**

**Economic Rebound**

There is uncertainty over economic growth and inflation in the next 5 years which has been triggered by the pandemic and its economic consequences. The likely scenario is that the economy will rebound with high rates of economic growth and decreases in unemployment. While inflation may increase beyond the federal target of 2-3% it will remain moderate. This will be advantageous to the EV industry as consumers will use increased disposable income and confidence to buy expensive goods such as cars. Indeed, as disposable income increases consumers have more freedom to pursue carbon neutral lifestyle’s which can entail switching from petrol cars to electric. This scenario will have a positive impact on Tesla as there will be increased demand for Tesla’s due to higher consumer confidence and increased disposable income.

**Stagnation and Inflation**

An alternative scenario is the economy fails to rebound as strongly as anticipated in the next 5 years, and due to large fiscal stimulus packages inflation increases to high levels. This will result in a small increase in consumer spending but decreasing consumer confidence. This will impact the sale of electric vehicles as low consumer confidence means consumers will opt to keep their old cars for longer and are unlikely to pay the premium price of an electric vehicle. This will affect Tesla as expensive luxury vehicles are less attractive to consumers in an environment of low confidence, low economic growth, and high inflation.

SWOT Table:

|  |  |
| --- | --- |
| **Strengths**  **(S1)** Tesla technical innovation for their batteries gives great performance with a long range milage.  **(S2)** Tesla has an amazing supercharging network that charges the EV vehicle within 1 hour.  **(S3)** Tesla have a large market share within the US, and this brings in many sales every year.  **(S4)** They sell their vehicles directly to customers through the website so there is no middleman man. | **Weaknesses**  **(W1)** Low battery supply making it difficult to manufacture.  **(W2)** Expensive cars compared to gasoline vehicles.  **(W3)** Limited market presence within Asia and Europe  **(W4)** Not enough supercharging networks.  **(W5)** High employability turnover rate with low employee motivation and working morale. |
| **Opportunities**  **(O1)** Take advantage of technological advancements in driverless cars and batteries.  **(O2)** Create their own battery supply instead of using Panasonic batteries.  **(O3)** Create more supercharging networks global.  **(O4)** Emphasizing growing fuel efficiency and lower cost of maintenance to consumers.  **(O5)** Expanding geographical coverage through expanding distribution network.  **(O6)** Economic rebound increasing disposable income then demand for Tesla’s. | **Threats**  **(T1)** Growing presence of established automobile firms.  **(T2)** Governments reducing tax incentives.  **(T3)** Economic instability resulting from the pandemic effecting demand for Tesla products.  **Tesla’s decision to waive its patent rights could lead to new entrants being competitive by having access to the latest innovation.**  **Smaller firm than some of the established firms like Ford meaning less money to invest in economies of scale and research and development.**  **legislative barriers preventing Tesla selling its products directly to customers.**  **Technology companies’ security concerns leading to legal action to prevent spying and hacking.** |

**Student A’s Individual Part**

TOWS Matrix

|  |  |  |
| --- | --- | --- |
| **Tesla** | **Strengths** | **Weaknesses** |
| **Opportunities** | Use Tesla’s strong social media presence to mobilize marketing campaigns to increase awareness of growing fuel efficiencies.  Use Tesla’s strong innovation to expand product capabilities capitalizing on the opportunity of people being more open to using technology in vehicles.  Use Tesla’s strong social media experience and capabilities to work with foreign social media companies to increase brand awareness and advertisements, capitalising on the prospect of expanding into a new market in Asia. | Reverse Tesla’s decision to waive some of its patent rights.  Strategic alliances with foreign companies to enter foreign markets.  Increase manufacturing efficiency.  Increase range of SUV’s. |
| Continue to invest in research and development which is already Tesla’s strength to take advantage of the opportunity of utilising new technologies like driverless cars. | Expand geographical coverage to take advantage of new markets by investing in Tesla weak distribution network.  Take advantage of growing consumer base by producing lower cost vehicles. |
| Use Tesla high stock price for acquisitions to increase patents and expand into new markets and gain important patents.  Use Tesla reputation to form strategic alliance with uber to use driverless cars as taxi service to take advantage of new technologies.  Use brand reputation to produce new products like SUV’s and pickup trucks. | Diversify Tesla products. |
| **Threats** | Expand knowledge management initiatives to increase innovation to reduce the threat posed by bigger companies who have more money to invest in research and development. | Work to accommodate dealerships given tesla weak geographical coverage to avoid losing customers due to legal disputes over where Tesla can sell its products directly.  Diversify supply chain as to not become over reliant on a particular supplier |
| Continue developing economies of scale to reduce costs reducing the threat posed by big companies moving into the market who have large economies of scale to undercut tesla. |  |
|  |  |
|  |  |

ANSOFF table:

|  |  |  |  |
| --- | --- | --- | --- |
|  |  | **Products/Services** | |
|  |  | New Existing | |
| **New**  Existing | **Market** | Conglomerate Diversification  Tablets (organic)  Data analytics  Acquisition of LOTaDATA | Market Development  Develop supercar to attract super rich.  Enter new markets such as India. |
| Product Development  Develop a new mass consumer friendly pickup truck Product.  Acquisition of Rivian.  Develop a Tesla motorcycle. | Market Penetration  Use innovation to expand product capabilities to increase quality.  Allow Tesla to be sold at dealerships across the US and Europe. |

**Market Development**

Tesla should pursue a market development strategy to increase sales by moving into the Indian market. The advantage of this strategy is Tesla will have access to a market of over 1.3 billion people. However, one drawback to the strategy is that India’s automotive market is dominated by cheap vehicles. Tesla vehicles are too expensive for most consumers. Another issue is the lack of charging infrastructure. Without a reliable charging infrastructure, it is unlikely individuals will be willing to invest in an expensive battery powered vehicle. Yet, this strategy takes advantage of opportunities including the potential growth of emerging markets in Asia and the economic rebound after the pandemic. Increasing Tesla’s presence in the Indian market could yield high profits if successful. However, Tesla is not the first mover as other companies like Mercedes Benz already sell electric vehicles widely in India (Charan, 2020). The success of this strategy will depend on how India’s economy recovers from the pandemic. Currently, India is experiencing vaccine shortages and an overwhelming number of cases (The Financial Times, 2021). Also, in India the threat of substitution is higher given the abundance of alternative modes of transport like buses, trains, and cheap taxis. These modes of transport are cheaper and more suited to the existing infrastructure. In the past Tesla has successfully expanded into China which already had a thriving electrical vehicle industry and suitable infrastructure. Yet, unique challenges posed by the Indian market make this strategy unlikely to succeed and if it where it would come at great financial cost.

**Product Development**

Tesla should pursue a product development strategy creating an affordable pickup truck ($30,000). The advantage of this policy is that it will further diversify Tesla’s product base and lead to increased options for consumers. Moreover, it will help Tesla sell more vehicles outside the west and east coast states. However, Tesla is bringing its first pickup truck to market in 2022 (the Cybertruck) (Wired, 2019) and a new pickup may reduce demand for the Cybertruck. Yet, the Cybertruck has an unconventional design and price tag of at least $40,000 and is not a mass market product. Therefore, creating a new affordable pickup truck would help Tesla increase its sales and gain a foothold in geographical segments of the market that have been difficult to reach including rural America. This strategy capitalizes on growing fuel efficiencies as petrol based pickup trucks have poor fuel efficiency (Lutsey, 2005), whereas Tesla’s electric vehicles are extremely fuel efficient. This can lead to a reduction in the maintenance costs of having a pickup truck. By increasing its product diversity Tesla can overcome the threat of increased competition as product diversity can lead to having a diverse customer base. Having introduced similar new products in the past Tesla is well placed to implement this strategy. For example, in 2017 Tesla launched the Model 3 which is now the bestselling electric vehicle of all time (Holland, 2020). This strategy will build on the current successes of Tesla by focussing on new target segments and increasing consumer options. This will lead to increasing revenues and a more secure long-term position.

**Market Penetration**

Tesla should pursue a market penetration strategy and allow Tesla vehicles to be sold at dealerships. This strategy will increase Tesla’s geographical coverage in the US and reduce the threat of legal barriers preventing Tesla selling its product directly to consumers. However, the disadvantage of this strategy is that costs will increase as the dealerships will have to be compensated. This will either increase the costs or the price, leading to a decrease in demand for Tesla’s. Also, Tesla will have less control over its customer service which may reduce the quality of the Tesla service experience, harming its reputation. However, an economic recovery could mean more people will be willing to buy luxury cars like Tesla’s. Making Tesla’s more accessible across the US will lead to a surge in demand assuming the economy recovers. Moreover, the implementation of this strategy should take no longer than a year. Tesla has the resources and capabilities to expand its supply chain to include dealerships across the US given its recent profits amounting to $721m (The Wall Street Journal, 2020). This strategy will build on the current success of Tesla increasing its market share and helping to expand the electric vehicle market across the US.

**SAFE Table:**

|  |  |  |  |
| --- | --- | --- | --- |
| Strategic options | Suitable | Acceptable | Feasible |
| Market Development | NO | NO | YES |
| Product Development | YES | NO | YES |
| Market Penetration | YES | YES | YES |

**Market Development Strategy**

The market development strategy expanding into the Indian market is not a suitable strategy. One reason is that a lack of infrastructure in India mean that Tesla’s charging network and technologies (a key strength) is redundant. For instance, the road conditions do not allow for Tesla to use its Autopilot (Hindu Times Auto News, 2021). However, it is reported that Tata Power and Tesla are specifically in talks with each other to set up its renowned Supercharger network in Maharashtra (Financial Express, 2021). Although, Tesla will not benefit from being the first mover as companies such as jaguar and Mercedes-Bens are already selling electric vehicles in India. However, this strategy takes advantage of emerging markets and the opportunity to expand Tesla’s geographical coverage to these markets. It does not minimize threats and likely increases the threat of economic instability after the pandemic affecting sales, as India has been experiencing significant difficulties with its handling of Covid-19.

The level of risk is unacceptable. The main risk is that Covid-19 causes India’s economy to stagnate and consumer spending in the economy on luxury goods falls. This would result in Tesla sales being disappointing and may not justify the costs of expanding into the market. Also, the key risk is the lack of infrastructure as Tesla vehicles rely on electric vehicle charging infrastructure. It may make the product unusable for many consumers and decrease sales. This strategy in the short term will not generate the profits needed to justify the expansion given that there is low demand in the Indian market for electric vehicles, and there is a lack of charging infrastructure. However, in the long term as charging infrastructure increases and the Indian middle class continues to grow Tesla can expect to make significant profits. The stakeholder’s reaction will be positive as shareholders/leadership see expanding into a multibillion-dollar market as a positive sign for the future long-term growth of the company. However, they may consider it too soon and costly for Tesla to enter the market given the negative effect of Covid-19 on India’s economy.

The strategy is feasible. It can be financed, and Tesla has the capabilities and expertise to move into a different market as evidenced when it successfully moved into China (The Economist , 2021). However, the challenge is that Tesla will be importing vehicles from China to sell (Reuters , 2021). Thus, the cost of tariffs may make this difficult for Tesla initially as this will increase costs. Although India has a strong reputation for automotive engineering. As a result, it is possible for Tesla to create a manufacturing hub in India instead of relying on imports, thereby reducing costs.

**Product Development Strategy**

The product development strategy creating a new affordable pickup truck ($30,000) is a suitable strategy. It takes advantage of Tesla’s growing economies of scale which will make the production of a mass consumer friendly pickup truck less costly. It will minimize Tesla’s weakness of its electric cars being expensive compared to gasoline because pickup trucks have a higher average price than normal cars and Tesla can be more competitive in this price range. It will take advantage of the opportunity of growing fuel efficiencies in electric vehicles as petrol-based pickups have historically lacked fuel efficiency compared to other types of vehicles, something Tesla’s electric vehicles excel at (Bruno G. Pollet, 2012). However, it does not overcome any significant threats.

The level of risk is unacceptable. One reason is the product may fail to attract enough customers. Demand for pickup trucks is high in states Tesla does not have access to. For example, the best states for pickups are the prairie and great plains states, which are the least populous(Forbes, 2021). A number of these states Tesla is unable to sell their vehicles directly to consumers including bigger states like Texas (Heisler, 2015). Therefore, the risk is that demand for a new line of pickup trucks is not high enough in states Tesla can sell their products directly and the product fails to deliver significant sales. However, demand for pickups has increased across the US in recent years (Forbes, 2021) indicating that Tesla may be able to capitalize. Another risk is that Tesla has recently announced the Cybertruck (Tesla, 2021), creating a new affordable pickup truck risks leading to a fall in demand for the Cybertruck. Yet, the consumers will benefit as they have more choice. The leadership and shareholders will react positively as it will show an eagerness to capture different segments of the market including the rural areas of the US.

This strategy is feasible as it can be financed given that Tesla has recently made significant profits that can be reinvested into the company (Sky News, 2021). Tesla has the capabilities to produce a new affordable pickup truck. Its new Gigafactory will help to increase Tesla’s economies of scale making it possible to produce new vehicles at a lower cost (Tesla, 2021). Tesla has successfully launched new vehicles in the past and has the expertise, knowledge, and experience to successfully bring a new affordable pickup truck to market.

**Market Penetration Strategy**

The Market penetration strategy allowing vehicles to be sold at dealerships is suitable. This strategy utilises Tesla’s strong reputation, which can be leveraged against dealerships to gain an extensive and low-cost dealership distribution network across the US. However, this strategy fails to minimize any of Tesla’s current weaknesses. Yet, it takes advantage of the opportunity of a recovering economy after the pandemic, where many people across the US will have increased disposable income and confidence to buy luxury vehicles. Increasing the accessibility of Tesla’s in that climate will lead to increased revenues. Also, it minimizes the threat posed by legislative barriers that prevent Tesla from selling directly to customers across several states. Texas considered legislation in 2015 to allow Tesla to operate in the state but legislation was not passed (Buiness Insider , 2015).

It is a low-risk strategy as there are no significant upfront costs associated with this strategy. However, the key risk is that a dealership model is not viable as it puts pressure on Tesla’s profit margin through dealership costs. Tesla’s profit margins are particularly important as it has only recently recorded profits which have been a lingering financial concern for Tesla. Also, the dealership model leaves Tesla with less control over its service experience which may lead to a worse consumer experience and harm Tesla’s customer reputation. The shareholders will view it as a positive strategy as it will increase Tesla’s accessibility to consumers across the US, increasing sales with little risk involved. The customers will see it as positive because the customers location will not be a barrier to receiving Tesla products in the future.

The strategy can be financed as the only cost is the added cost of having a middleman/dealership which usually accounts for between 1%-4% (Edmunds , 2019). To implement this strategy Tesla needs to expand its supply chain to include dealerships across the country. Most of the operational costs associated with dealerships are absorbed by the dealership itself. However, Tesla may have to hire new employees to ensure the timely delivery of inventory to the dealerships across the US. Overall, Tesla has the financial capabilities to make this strategy feasible even if Tesla must hire new employees to help expand its supply chain.

**Conclusion**

The market penetration strategy allowing vehicles to be sold at dealerships is my recommendation. It is suitable as it takes advantage of Tesla’s strong reputation, and opportunities including the economic rebound that is expected in the US. It is the most acceptable given the low risk as there is no significant upfront cost to this strategy only the small added cost of a middleman. The return on investment is potentially high as it will increase the accessibility of Tesla’s for consumers across the US. Most stakeholders including customers and shareholders will see this as a good strategy as it should increase both revenue and accessibility. The strategy is feasible as it can be financed due to its low cost to implement. However, Tesla would have to expand its supply chain to dealerships which may require time, investment, and a shift in distribution patterns.