



MG-302 Fundamentals of Management

International Business Operations of Tesla Inc.

Submitted to.

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Abstract

Five years after its foundation by a group of innovative Silicon-Valley engineers, Tesla, with its mission to accelerate the world's transition to sustainable energy, delivered the world's first zero-emission electric car



model—the Tesla Roadster—in February 2008. Since then, it has produced two other all-electric car models, the Tesla Model S and Model X, and unveiled a fourth model, the Tesla Model 3. Tesla's first expansion moves into the foreign market were its opening of a showroom in London on 25 June 2009 and a store in Munich in September 2009. This paper examines strategies Tesla employed in the foreign market, discusses elements that catalyzed its success, establishes problems it should solve, and, finally, outlines essential managerial implications.

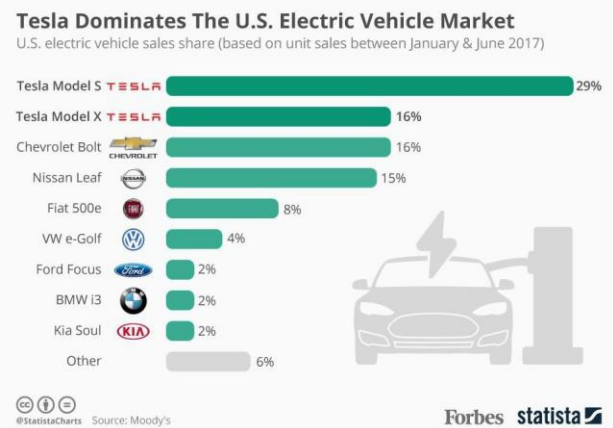
1. INTRODUCTION

1.1 Objectives:

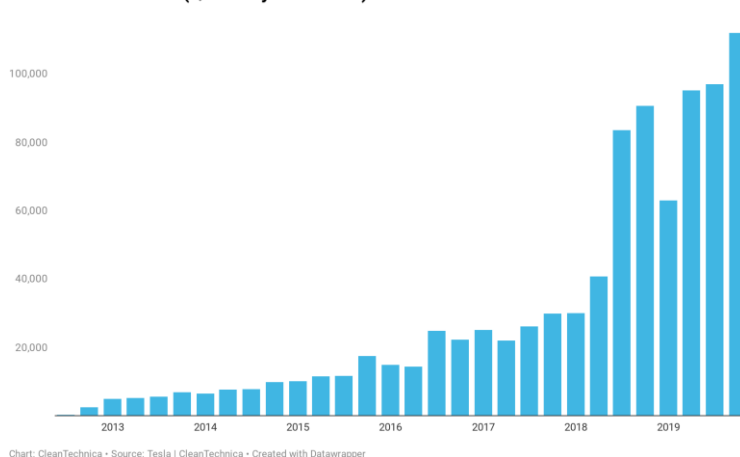
The objectives of this research are to analyze strategies Tesla used in the foreign market and problems it should solve, to discuss elements that made its strategies successful, and to draw significant managerial implications.

1.2 Reasons for Choosing Tesla:

Tesla was chosen as the case study because of its dominance in the electric car industry and, most importantly, because of the significant role it plays in transitioning the world to sustainable energy. As of December 2016, Tesla had sold over 185,000 electric cars

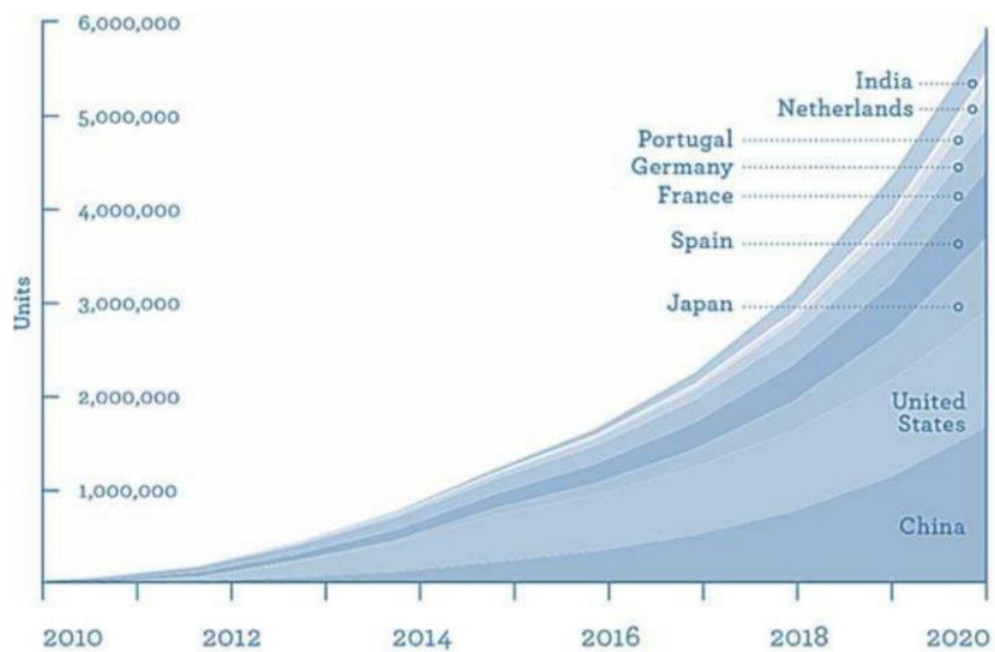


Tesla Vehicle Sales (Quarterly Deliveries)



worldwide (Tesla n.d.), making it the second-largest global pure electric car manufacturer after the Renault-Nissan Alliance. Also, with the transportation sector contributing to 14% of the global greenhouse gas emissions in 2010

and 26% of the total US greenhouse gas emissions in 2014 (IPCC 2014, 8; the United States Environmental Protection Agency 2017), Tesla, which accounts for nearly half of the global EV battery consumption and whose objective is to produce zero-emission vehicles, will help reduce greenhouse gas emissions and stop climate change—one of the greatest threats to humanity in the 21st century.



Sales targets of the most important EV countries

2. CASE ANALYSIS

2.1 Introducing Tesla:

Tesla, Inc. (formerly known as Tesla Motors Inc.) is a Palo Alto, California, US-based automobile company that designs, manufactures, and sells electric cars and electric vehicle powertrain components with a focus on energy innovation (Tesla n.d.). Although Tesla was initially co-founded by Martin Eberhard and



Marc Tarpenning in 2003, it also considers JB Straubel, Ian Wright, and Elon Musk as its co-founders (Burns, Kumparak, and Escher 2015). Its current CEO is Elon Musk, who owns a 22.25% stake in the company as of April 2017. Tesla's mission is to accelerate the world's transition to sustainable energy (Tesla n.d.). Its master plan is to build

and sell zero-emission electric sports cars and use the profits to manufacture and sell more affordable electric family vehicles (Musk 2006). Tesla's dominant pricing strategy, which is closely related to its master plan, is price skimming: It initially entered the automotive market

with an expensive, high-end product—the Tesla Roadster—targeted at wealthy customers. With profits generated from the sales of the Roadster, it could finance the production of a less expensive car model, the Tesla Model S. Profits obtained from the sales of the Model S, in turn, helped fund the manufacture of an even cheaper



car model, the Tesla Model X, targeted at a broader and less affluent market. Tesla's next car model is the Tesla Model 3, which was unveiled in March 2016

and whose production is programmed for the end of 2017. The company went public on June 29, 2010, when it launched its Initial Public Offering (IPO) on the NASDAQ stock exchange under the symbol TSLA. Tesla's first expansion moves into the foreign market were its opening of a showroom in London on 25 June 2009 and a store in Munich in September 2009. As of December 2016, it had 17782 employees and had sold over 186 000 electric cars worldwide. It currently has about 272 stores worldwide, 164 of which are in 26 different countries outside the US, with Germany having the highest number (27) of its overseas stores (Tesla n.d.). Its core competencies are powertrain and vehicle engineering.

22 International Strategies Tesla employed in the foreign market:

Tesla's international-level strategy is the transnational strategy. With this strategy, Tesla seeks to simultaneously achieve low costs through economies of scale, location economies, and learning effects; and differentiate its cars across geographic markets to account for local differences. Most of Tesla's strategies in the foreign market are similar to those it employs in the United States. These strategies are as follows:

Direct Selling: Tesla sells its cars directly to customers through its stores and galleries or the Tesla website. Elon Musk (2012) states that the main reason for this direct selling, and not selling through dealers, is "the fundamental conflict of interest faced by dealers between selling gasoline cars, which



constitute the vast majority of their business, and selling the new technology of electric cars." Benefits of this direct selling include greater customer satisfaction since Tesla can better match its production with consumer preferences and a

reduced total cost thanks to the absence of dealer costs such as inventory financing and insurance and advertising and sales commissions (Bodisch 2009).

Certified Pre-Owned (CPO) Program: Tesla uses a buyback program called Certified Pre- Owned (CPO) in countries such as Germany, France, Sweden, Norway, and Canada. Through this program, a Tesla Model S is sold with the right to return it to the company after three years for a reimbursement of 43% to 50% of its original price. Tesla then inspects, refurbishes, and certifies the used cars, after which it extends the warranty and sells the cars for about 62% of a Tesla Model S new car's price. With this strategy, Tesla not only collects the resale profits (since it sells directly to customers) but also expands more into the mainstream market as it can attract the not-so-wealthy customers by selling at a more affordable price.

Strategic Positioning of Stores and Galleries: Another strategy employed by Tesla in the foreign market is deliberately positioning its stores and galleries in high foot traffic, high visibility retail venues, like malls and shopping streets that people regularly visit in a relatively open-minded buying mood (Musk 2012). This approach is to, as Musk (2012) states, “reach people before they decide on a new car.”

Local Responsiveness: As one of its strategies to attract customers in the foreign market, Tesla customizes its cars to meet local needs and to satisfy the tastes and preferences of its customers.



For example, in response to customer feedback, Tesla made some modifications to its Tesla Model S in China, including an ‘executive rear seat’ option, which costs \$2000 over the standard model and aims to make the rear seat experience more comfortable (O’Hara 2015).

Related Diversification: A strategy employed by Tesla to expand globally is related diversification through strategic alliances with well-established

international auto and battery producers. Tesla actively collaborates with foreign firms in the research, development, and production of electric powertrain components (lithium-ion battery cells). This was the case with the Japanese automotive manufacturer Toyota, for



which Tesla built the lithium-metal-oxide battery and other powertrain components for the Toyota RAV4 EV Second-generation; the German automaker Daimler AG, for which Tesla manufactured electric powertrain components for the Mercedes-Benz A-class E-cell and the Mercedes-Benz B-class ED; and the Japanese battery cell maker Panasonic, together with which Tesla develops nickel-based lithium-ion battery cells for electric vehicles and with which Tesla collaborates on the manufacture and production of photovoltaic (PV) cells and modules. With these partnerships, Tesla was able to realize greater cost economies by benefiting from the experience of these well-established firms and, thus, establish a dominant global position not only in the electric car sector but the entire automotive industry.

23 Problems Tesla Should Solve in the Foreign Market:

Although Tesla has successfully established about 164 stores and galleries in 26 foreign countries, it still has several problems to solve in the foreign market. These problems include:

High Prices and Threat of Substitutes: Tesla's objective of starting with expensive electric sports cars and later producing much cheaper electric family vehicles affordable to most car buyers has not yet been achieved. Its car models sell at prices which are relatively very expensive compared to fuel-using cars and some hybrid cars. As a comparison, Europeans paid an average of US\$30,700 for new fuel-using vehicles bought in H1-16 (Munoz 2016), but a Tesla Model X was priced at US\$80,000 at that time. This relative expensiveness of Tesla's electric

cars compared to hybrid and fuel-using cars causes potential buyers of Tesla's zero-emission electric vehicles with limited incomes to buy hybrid and gasoline- or diesel-fueled cars instead. Also, due to its high prices, to date, Tesla has not been able to establish stores in any underdeveloped countries, where it would have very few customers.

Lack of Acquisitions and Joint Ventures in the Foreign Market: With acquisitions, a firm can have a rapid market entry, gain immediate access to customers and the distribution system, and obtain instant recognition in a new market (Ahlstrom and Bruton 2010; Hill, Wee, and Udayasankar 2016, 484-87).



Furthermore, with local acquisitions, a firm can reduce costs associated with establishing new infrastructure and with local joint ventures, it can benefit from the experience of a locally successful company (Hill, Wee, and Udayasankar 2016, 476- 91). Although Tesla is projected to acquire Grohmann Engineering, a German manufacturing

company that specializes in automated manufacturing, it currently has no main foreign acquisitions. Its most important acquisitions are SolarCity and Riviera Tool, which are both US-based (Rexaline 2016). Tesla also lacks local joint ventures in foreign countries.

Lack of Superchargers and an Insufficient Number of Stores: With only about 164 stores outside the US, Tesla is far behind its main competitors such as Ford, which as of the end of 2015 already had about 8733 Ford and Lincoln dealerships outside the US (Ford n.d.). For Tesla to reach and satisfy its customers



more, it must increase the number of its charging stations. Customers should not have to travel long distances before they can charge their cars. It also has to become more global by opening stores in countries where it does not yet operate and adding more stores in places where it already exists.

24 Factors of Tesla's Success in the Foreign Market:

The following elements contributed to Tesla's successful global expansion:


First-Mover Advantage and Weak Competition: As the first company to offer a fully electric sports car (the Tesla Roadster), Tesla built a reputation as a green-technology giant and acquired loyal customers. Also, due to the few number of electric carmakers, Tesla sells at high prices and still maintains its share of the electric car market.

Support by Governments for Environmentally Friendly Vehicles: Due to the increasing concern about climate change (and specifically global warming),



Tesla, as a manufacturer of zero-emission cars, benefited from subsidies and tax breaks established by various governments through plug-in-electric-vehicle incentive programs designed to encourage the production of environmentally friendly vehicles. For example, in

countries like Malaysia and Hong Kong, zero-emission electric cars like those offered by Tesla are fully tax exempted. Without these subsidies and tax exemptions granted by foreign governments, Tesla would probably not have achieved the success level it has. The Singaporean failure case best shows the importance of these tax breaks to Tesla's success in the foreign market: Without tax exemptions, the Tesla Roadster would have retailed between \$400,000 and \$500,000 in Singapore, almost twice the price of \$250,000 it had projected to sell



at with tax breaks, causing Tesla to cease its operations in the country just six months after moving in (Radu 2011).


Focused Differentiation, Low Bargaining Power of Buyers, and Inelastic Demand: Tesla's generic business strategy is focused differentiation. It offers uniquely designed high- performance electric cars and targets customers with high incomes. Because of this uniqueness of Tesla's car models, its customers have low bargaining power. Furthermore, due to Tesla customers' high revenues and the fact that Tesla cars are a luxury good, its customers are willing to pay high prices and, therefore, have an inelastic demand. The above arguments explain very well why Tesla can meet and even surpass its sales objectives.

Direct Selling: Another catalyst of Tesla's success in the foreign market is its direct-selling strategy. Through direct selling, Tesla is closer to its customers, quickly gets their feedback, and adapts its car offerings to their tastes and preferences on time before it ever loses any of them. It also eliminates additional costs associated with dealerships.

3. Conclusion

3.1 Summary of the Case Analysis:


Tesla is a US-based automobile company that was founded by a group of innovative Silicon- Valley engineers in 2003. Its mission is to accelerate the world's transition to sustainable energy. Its objective is to manufacture affordable zero-emission electric cars. Its core competencies are powertrain and vehicle engineering. It delivered the world's first fully electric car model, the Tesla Roadster, in February 2008. In addition to the Roadster, it has produced two other all-electric car models, the Tesla Model S and Model X, and unveiled a fourth model, the Tesla Model 3. Tesla's first expansion moves into the foreign market were its opening of a showroom in London on 25 June 2009 and a store in Munich



in September 2009. It uses similar strategies both in the US and abroad. Its corporate-level strategy is related to diversification, its business-level strategy is focused differentiation, and its international business strategy is the transnational strategy. Factors of Tesla's success in the foreign market include the existence of weak competition in the electric car sector and its first mover advantage, its unique strategies of focused differentiation and direct selling, and the support it receives from governments in the form of grants and tax breaks through programs encouraging green technology. With more than half of its stores and galleries outside the US, Tesla is quite successful overseas but still has some problems to solve in the foreign market. These issues include its lack of acquisitions and joint ventures in the foreign market, the high prices of its car models, its limited number of stores compared to that of its competitors, and its insufficient number of superchargers.

3.2 Managerial Implications:

Current trends such as the growing support by governments for environmentally friendly vehicles and increasing concern about climate change, the rising number of electric vehicle manufacturers and charging stations, the soaring oil prices and declining lithium-ion battery costs, and the increasing electric vehicle sales to fuel-using vehicle sales ratio, all suggest that electric cars are the future of the automotive industry. Tesla is in the right direction, and to maintain its dominant position in the electric vehicle sector, it should continue with its direct-selling strategy. On the other hand, it must establish more factories, stores, and galleries worldwide, enter into more alliances and joint ventures with and acquire local firms in the foreign market. Tesla must employ a different business strategy to expand into underdeveloped countries: Although it should continue with the focused-differentiation strategy in developed nations, it should use a focused-cost-leadership strategy to enter developing countries since potential



customers in third-world nations have relatively low incomes compared to customers in developed countries. It is necessary for Tesla to expand into underdeveloped nations because to achieve its mission of accelerating the world's transition to sustainable energy, it must operate in all parts of the world, not only in select developed countries.

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