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# Case Study of Tesla Inc. (Rough Draft)

In the world we live in there are many companies that stand out to us as consumers, and every product that we can think of or that we utilize we connect with a specific company or brand. In this everchanging world and with the mass developments we have seen in technology, one of the products that are seeing significant changes and technological advances are the vehicles that we operate and see daily. Leading the innovation and advances in vehicle technology, particularly the electric vehicle technology, is the company Tesla Inc. Tesla Inc., along with its founder Elon Musk, are both well-known names in the world we live in and it is hard to think of one of those names without immediately connecting it in your head to the other. This unique company that is young in comparison to its competitors is gaining a strong hold of the market share for the vehicle industry.

# Tesla Inc. Overview

Tesla, Inc. operates in two separate industries, the development, manufacture and sale of electric vehicles and the energy development and storage systems and technology. Tesla currently has four different models of vehicles and different levels of trim packages available for consumers to purchase and multiple energy storage products and generating products available as well. Tesla operates in these industries in both the United States and on the international scale. Currently, Tesla Inc. has a headquarters location in Pablo Alto, CA, with multiple locations that operate as manufacturing, sales, and distribution facilities located all around the world. Tesla Inc. has approximately 225 employees that work for the company with an approximate total of 48,817 employees from all combined locations and operations and currently holds an extremely high governance code rating of 9 (Yahoo Finance.)

Tesla Inc. currently has a functional organizational structure that they operate under, each separate department entity has its own corporate structure that they operate under( P Meyer 2018). This means that each operational group, such as the engineering department and sales department, have their own structure for that specific business group that they operate under due to these departments being separate in the business areas that they operate in. This allows for Tesla to maintain positive managerial control of the separate entities and departments and to strategically develop and implement changes in these departments to stay competitive in the automotive and power generation industries. Currently Tesla Inc. has four major leaders in place for the company, Elon Musk is the CEO, Zach Kirkhorn is the CFO, Jerome Jullian is the president of automotive and JB Straubel is the CTO. In addition to these four key members of the leadership team, it was mentioned how each separate business entity has its own leadership consisting of 24 other senior level executives. These senior executives are charged with the responsibilities of their business areas that all come together to make the overall parent organization successful.

The reasoning behind the choice of using Tesla Inc. as the company for this case study is due to a few different factors. Tesla is a newer company in the automotive and energy development industries and has seen great success since beginning its business ventures. Tesla currently has stock values and market caps that are well above that of its competition. Tesla operates in many different capacities and delivers much more than an EV that is affordable or energy storage products for households, but they also have consistently improved their business processes and technological advances to deliver the future of automotive technology and power generation and storage equipment. Many companies develop products simply to get consumers to purchase their products and innovate them just enough to stay competitive and earn the future business of their consumers, but Tesla does this not only for the consumers but for the passion they have in innovation and creation and this is something that should be sought after and admired.

## Situational Analysis

Tesla Inc. is primarily known for its manufacturing, distribution, and sale of electric vehicles to the market. Tesla does not mass produce its vehicles and sell them to traditional vehicle dealerships like many other manufactures do, but instead these vehicles are ordered and then built before being delivered to customers (tesla.com). This begs the question of who are these customers that are buying the product? The demographics of the current customers of Tesla’s most popular vehicle are primarily male, median household income of $128,000 and an average age of 46 years old(Hedgescompany.com). Majority of owners of the vehicles reside in the state of California, and 55% of the total Tesla owners live in the top 10% of the wealthiest zip codes in the United States(Hedgescompany.com). The current customers appear to primarily consist of those who early adopted the use of electric vehicles, have concerns about the environment, want to decrease oil dependency, and have higher than average wages(Lauren Young).

The future customers of Tesla and their electric vehicles are current challenges that Tesla is facing. Pricing is the US market, and a change is the tax deductions for electric vehicles, have made these vehicles cost an average of $6000 more than competitors pricing of similar vehicles on the market (Sean O’kane). This is prompting Tesla to expand its market further into the European and Asian markets which will allow them to reach not only consumers who fall into similar demographics as the US market but to reach other demographics that do not fall into the higher income percentile due to the pricing differences that will occur in these markets. The other way Tesla is working to reach new customers with their vehicles in the US market is to work towards reducing overall costs of production for their vehicles.

Tesla is primarily known for its production, distribution, and sales of electric vehicles and currently there are four models of Tesla vehicles on the market. These four vehicles all have different trim levels and packages that can purchased, and multiple upgrades to these vehicles that can be made based off the consumers preferences. Tesla does many things different than its competitors such as, owning its own distribution channel which enables them to have greater control of their sales and services(William Lowry).

Internal factors of Tesla are just as unique as the company itself. The internal factors that are impacting the company in the most significant manner is the current pricing of the products impacting the consumers able to purchase the products and their ability to deliver the products in the anticipated time frame. These issues are well known in the consumer market, while the product is astounding and appealing, the cost of the product keeps the consumers desiring the product but not able to purchase. Tesla is combating this issue by working towards reducing the production costs which in turn will enable them to lower the end price of the product. The other factor is the amount of time it takes from ordering the product, to receiving the product it can take up to an estimated 6 weeks, however this estimate is known for being inaccurate.

External factors that impact Tesla are not much different than those that impact any other vehicle manufacturer. Unemployment, inflation, economic conditions, trade and tariffs, social factors, and many more. One of the more significant factors that is affecting Tesla is that the once known tax credit of $7500 that was made available to those who purchased electric vehicles, is no longer available due to changes in the federal tax code. This factor was once one of the variables that made consumers wish to purchase the vehicle due to it helping the product become more affordable. Another key factor that is starting to impact consumer decisions is that while the electric vehicle is good for the environment due to it not using fossil fuels, it that to charge the vehicle you must utilize energy that is generated off of fossil fuels. Tesla is working to combat this by developing charging packs that generate power from solar electricity.

It is no secret that Tesla is the leader in the electric vehicle and energy renewal market, but what makes them have this competitive advantage is the key to them being the leader in the electric vehicle realm. The first key is their advanced engineering with advancements in its cylindrical battery cells, battery management system and their software(Phil Lebeu). The other advantage they have over their competition is their Gigafactory that enables them to produce their batteries at a large rate, producing battery packs for 365,000 of their vehicles in 2019.

Tesla may be the leader in the electric vehicle market, but that does not mean that there are no opportunities available to them to continue down their road of success. Currently there are massive opportunities for Tesla if they are successful in moving into the Asian markets due to a lack of electric vehicles and renewable energy which is in demand. Reaching new consumers by having more affordable vehicles is another great opportunity, if they are successful in reducing the costs of their vehicles it will open the company up to a whole new market which will further provide financial stability to them. The last opportunity that is most important to secure which will assist in making the vehicles more affordable, will be to bring the manufacturing of their battery cells into an internal process instead of being outsourced to Panasonic(Bstrategyhub.com).

### Solutions to Identified Improvement Areas

Companies in any industry always have some form of improvement opportunities that can be capitalized on, Tesla is not exempt from this. There have been three areas of improvement that have been identified in this case study that Tesla has as opportunities based off a SWOT analysis conducted. Expanding operations and sales into the Asian markets is a massive opportunity for the company, reaching new consumers in the current markets that they operate in by developing either products that are more affordable by median income household or by lowering the prices of their current products to meet this demographic. Lastly, Tesla currently outsources the manufacturing and development of their batteries to Panasonic (Fred Lambert, 2020) and look at making this an internal manufacturing process.

Tesla’s presence in the Asian market is not as established as it is in the United States market. The costs of importing and transporting a product from the United States to China drives the cost of vehicle up exponentially, causing the end price tag to for a lower end model to cost around $51,000 USD (Lora Kolodny, 2019). Opening of the new manufacturing facility that broke ground in 2019 will exponentially change the amount of orders and production in the Asian market and securing a competitive advantage.

Affordability of Tesla’s products is a clear hindrance that they have for increasing demand of their products and the opportunity to lower their prices where it’s feasible should be taken, so long as it does not become a detriment to their profits. Reduction of price as an opportunity can be achieved by also taking the opportunity to manufacture their batteries themselves instead of outsourcing the products to Panasonic. While Panasonic is currently producing batteries that are 20% more efficient than other manufacturers, the cost to Tesla is approximately $111 per kilowatt hour of energy, (Fred Lambert, 2018). The goal of Tesla is to drop costs to $100, but it would be best to perform a make or buy analysis to see if bringing this process internally would be more cost efficient. These two opportunities can be improved by bringing the intellectual property rights and manufacturing rights from an external company to internal, which than directly can lower the end price of the products and reach a larger consumer base in the United States. Opportunities that Tesla must improve all revolve around getting their products to be more cost effective in some form or fashion. One of the keyways to lower the cost of the products is to begin making their own batteries, by doing so they would not be required to pay Panasonic prices for the batteries, but instead would be able to establish their own price and would be able to manufacture at rates that increases the supply of the products available internally without having to relay externally.

The important justification revolves more around the core principles of supply and demand found in microeconomics and how it pertains to the costs of their products. It is no mystery that price of a product affects the demand of the product, and currently there is a level demand of the products that Tesla has available. Lowering of prices of the product by entry into the Asian market where products will be manufactured and sold, along with acquisition of their own internal manufacturing process will effectively enable Tesla to decrease production costs, which will directly increase the demand of the product (Tim Haab, N.D.).

Ethical decisions are those that are made based on what is good and right as it pertains to business decisions and should speak to all levels of the business operations. When these decisions are made, they should coincide with the organizations culture and should be made while considering the impacts and perceptions of customers, society, economy, stakeholders and employees (Lumenlearnings.com, N.D.). Tesla will need to take into consideration how the decision they make will impact all of those involved, and work in a manner that does not put their ethics into question by all those involved with the company. Tesla currently has a code of ethics and guidelines for all those that they work with, from employee to CEO and the partners outside of the company, adhering to this code of ethics and providing a clear path for individuals to report and be protected when reporting ethical violations will help ensure that their decision making process remains ethical and changes made as they move forward are made with good intentions for both the company and all those involved with the company.

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