

TESLA, INC. STRATEGIC DIAGNOSIS

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Tesla's mission statement is *“to accelerate the world's transition to sustainable energy.”*



Tesla's vision statement is *“to create the most compelling car company of the 21st century by driving the world's transition to electric vehicles.”*

TESLA

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I. KEY STRATEGIC ISSUES

i. Reliability problems: Tesla's reliability possess a major problem for the company

According to FOX BUSINESS stated on 21st, April, 2019 that the publication removed model 3 from the list of reliable car causing its stock taking a hit as a result. The main problems that customer complaining about are including issue with body hardware, paint and trim, and headaches with vehicle's in car infotainment and electronic package, and map that rescale and pan in the navigation system.

ii. Government tariff impose: Trump's tariff could knock Tesla autopilot off course

Government has imposed 25% tariff on imported goods from China including electronics which is significantly impact on Tesla by forcing it to cease making its self-driving computer in China that would lead to detract from its continuous growth and sustainability in this very difficult industry, according to TECHCRUNCH posted on 3rd, May, 2019.

iii. The rise of competition intensity

The level of competition is continuing to rise unconditionally in the market of electric car because big players are trying to catching to Tesla with all they have. For example, according to the website BARRONS has stated on 7th, May, 2019 that BMW is charging after Tesla and planning already to have 25 electric vehicle model including hybrid and plug in car by 2025. Another evidence is that Ford Motor invested 500 million dollars in Rivian company to produce the electric car some sort SUV and Pick Up, this is according to Phnom Penh Post posted on 26th, April, 2019. More surprisingly, Volkswagen has launch the new ID.3 hatchback which consider as direct challenge to Tesla's supremacy in Electric market, announced by TTNEWS on 8th, May, 2019.

II. THREE STRATEGIC OPTIONS

i. Market development strategy

Tesla has been lacking presence in countries that have strong economic growth and stability which is a mass market that could definitely seek high revenue that result in high profitability such as in Asian, Europe, and Southern America. The customers that are in the middle class in these countries are willing to pay more for environmentally friendly sort of products such as electric vehicles and solar panel which are the products that Tesla currently producing. Especially, by putting its foots in the automotive industry in these countries it would be financially and serving a charitable rather than a profit making purpose benefit for the company itself. Moreover, if Tesla is able to successfully engage and offer its products as an affordable price for those middle class customers it would hugely extended the growth of the company to another level. In addition, according to ELECTREK posted on 3rd, May, 2019 showed that Tesla is expanding in Czech Republic and Iceland also.

▪ *Evaluation*

Suitability: actually this strategy helps Tesla to earn more revenue through exploring into another new market with its existing product that has a good situation in demand on the

market right now. Furthermore, Tesla has already jump into the China market and consider it as the second biggest market for its product selling right now. Moreover, it is even its product and service to Czech Republic and Iceland which consider as the perfect for massive adoption for electric vehicles. Besides, it helps to deal with the first key issue which is the problem of reliability because it makes itself more accessible to the customer whom are living all around the world and hard to find a service center near them when they want to fix their product.

Feasibility: In fact, this strategy can be done without any big deal of a challenge for Tesla because they already had the skill worker with enough finance support and the most advance technology on hand.

Acceptability: there's no rumors about any stakeholder to propose against this strategy and the result was quite well like what is expected because the oversea customers are welcomed for the environmentally friendly car.

ii. LEADER STRATEGY

According to the study of OECD shows that the size of the global middle class will increase from 1.8 billion which also stated that 664 million are in Europe, 525 million are in Asia, and 338 are in North America in 2009 and it will reach to 3.2 billion by 2020 and 4.9 billion by 2030. The bulk of this growth will come from Asia and by 2030 Asia will represent 66% of the global middle class population and 59% of middle class consumption, compared to 28% and 23%, respectively in 2009. These data indicate that the middle class population is a mass market which Tesla can significantly increase their revenue if they adjust their price to this segment, so they can gain lots of customer base because currently Tesla only focusing on the upper class. Beside, according to the master plan of Elon Musk he also clearly stated his second step that he will *use that money to develop a medium volume car at a lower price* and his third step is to *use that money to create an affordable, high volume car*. However, in doing so Tesla will be losing its title as luxury associated with their products and magnate customers alike.

▪ EVALUATION

Suitability: actually it does really fit to the trend that the company has to adopt to the increasing number of middle and low class population. Plus, by applying this leader strategy it does response to the third strategic issue which identify about the high intensity of competition among the companies in the automotive company and of course Tesla use this leader strategy on its model 3 which has an affordable price of 35000\$ and also differentiate itself from other electric vehicle that has similar price but unmatched performance.

Feasibility: In fact, Tesla has all the resources needed to implement this strategy without a second thoughts on any flaws.

Acceptability: Actually, this strategy doesn't have any conflict with the top stakeholders but unfortunately for the staff there were reduction in the workforce about 7% in order to aid model 3 production to produce it at the highest cost efficiency as possible. However, it wasn't turn out as what to be expected and even make a loss in total of 702\$ million.

iii. DIVERSIFICATION STRATEGY

Tesla has experienced a success with venture in new market segment as being SolarCity. Seeing this huge success Tesla would be acquiring or joining strategic alliance with another company in the future that would sustain its competitive advantage and the product life cycle of the company in the long run. On the other hand, Tesla itself could also expand its resources and capability refer to product and technology into a new market. For example, according to TechCrunch in 22, April, 2019 stated that Tesla *expect to launch the first robotaxis as part of broader vision for an autonomous ride sharing network in 2020*, CEO Elon Musk said during the company's Autonomy Day. Tesla will enable the owner to add the equipped vehicle to its

own riding sharing app which has similar model like Uber, Lyft, and Airbnb. Although, the challenges that Tesla going to face is that these companies are already build a good reputation in the market, so it's hard for Tesla to outsource the competitor except for its advance technology. Another interesting example is that on 7th, May, 2019 Tesla plans to sell owner cheaper car insurance that's posted by THE WALL STREET JOURNAL.

▪ EVALUATION

Suitability: Due to the excess amount of resources and capabilities has made Tesla to consider the diversification process that would earn itself a better off at earning profit and aiming to reach the managerial goal. More importantly, it's also come to deal effectively with the third strategic issue because it needs to find more additional income resources as many as possible to support the frontline *star rising product* with is competing intensively in the automotive industry in order to remain its top speed.

Feasibility: actually, Tesla already has everything that has to be have except it needs to hire more people in order to operate in its new market operation.

Acceptability: after the announcement of its goal to jump into the other business in the near future, there are not anyone who fighting against Elon Musk decision. But for some reason Warren Buffet has warned Tesla about the impact and the difficulty of the plan that Tesla oppose to enter the insurance company and sell these insurances specifically for their electric vehicles at a cheaper price compare to others.

III. RECOMMENDATION

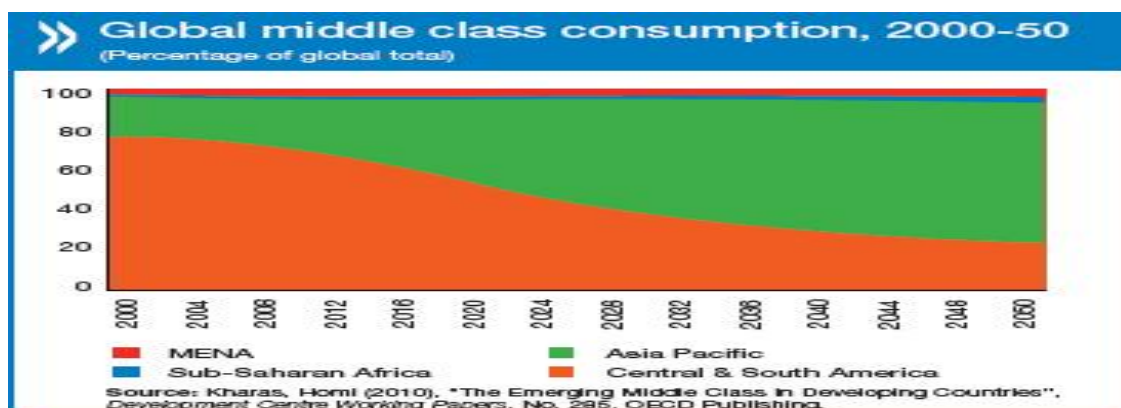
Tesla has been doing well with their path into the future and position itself as the top notch player in the autonomous self-driving car in the market right now, so our recommendation is that Tesla should keep doing the leader strategy which is a really good option to capture more and more customers in the middle class as the trend in middle class population is going to rise up in a significant level as we have discussed above. The success of Tesla model 3 would satisfy lots of consumers because the company has tried its hardest to produce the model 3 in a cost efficiency way which made it affordable to the segmented middle class. However, capturing lower and middle class would benefit the company both monetary and terminally. The main objective is not just only to attract customers but aiming to accelerate the global traction for Tesla. In addition, a low price model would result in a good way as to support new product line in the future and create customer relation. So, it would be better off for the company to carry on this lower pricing model forward. Moreover, they should still try to differentiate themselves by focusing on developing even higher technological advance and the performance of its car, especially the model 3 which is the hope of the company to capture the customer in the mass market for this model

i. IMPLEMENTATION ISSUES AND HOW TO OVER COME

For the first couple of year Tesla began making its model 3, it hopes that this car could bring the electric vehicle to mass but unfortunately it faced the production problem that impact on its ability to produce the car. Now Tesla has overcome those obstacles but it is facing more difficulty to delivering those cars to customer and even being able to book a sale. Moreover, it also faces other challenge such as a diminished federal tax credit and slowing demand for its vehicles. On the other hand, Elon Musk also accepted that as the most difficult logistic problem he has ever encountered. Besides, the according to the report said that on April model 3 delivery had decreased from 63150 to 50900 because of the trouble to their overseas destination. Overall, the report also said that its deliveries fell 31% if compared to the fourth quarter of 2018. Additionally, most of the deliveries are coming from Europe and China.

In order to solve this problem Tesla should relieve that delivery pipeline with a new factory in China. Plus, it should ask the federal to have an exemption for its electric vehicles especially with the model 3 in order to solve the diminished federal tax problem. Next, Tesla should not worry too much on the slow down it demands for model 3 but instead it has to stay focus and patient because base on our research so far we found that the forecast of the demand of model 3 would be a little lower than expected but it is going to rise steadily and earn the profit until the next few quarter in this year. Even though, there is going to be lost in revenue but Tesla can keep its way up by issuing more debt and equity on the market to raise more fund from the investors that believe in the Tesla future. Furthermore, we would suggest that Tesla modernize its mission and vision statement in order to keep up a good sense and align with its brand and value.

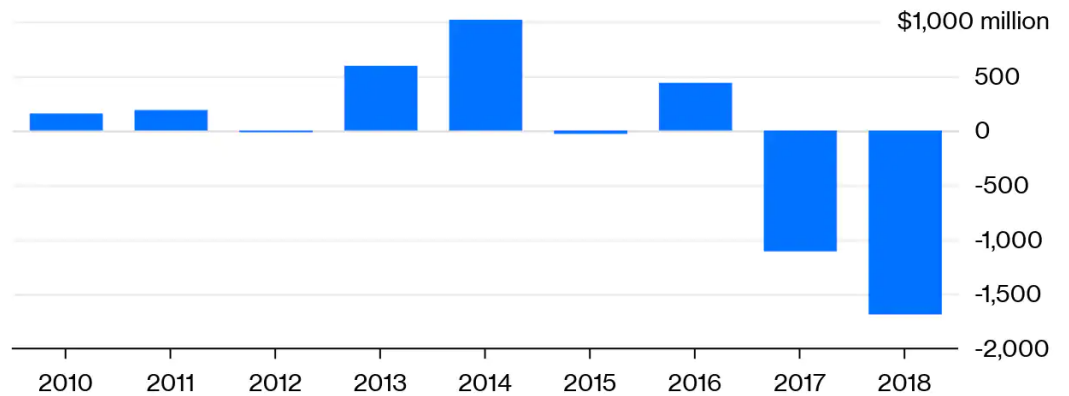
APPENDIX



Hard Working

Tesla's working capital has swung sharply negative since 2016, fueled by a big increase in accounts payable

■ Tesla's working capital at year-end



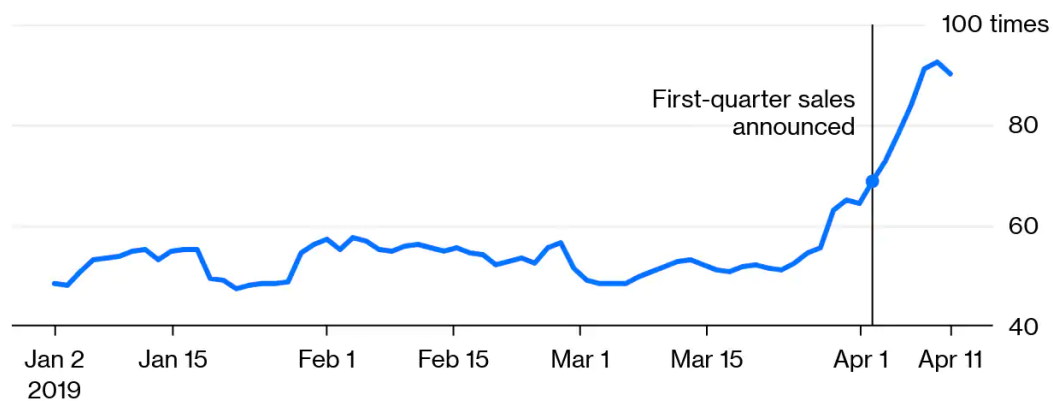
Source: Bloomberg

BloombergOpinion

The Upside Down

Tesla's stock has dropped almost a fifth in 2019, but earnings forecasts have fallen further, leading to a big jump in its valuation multiple

— Tesla's price-to-adjusted-earnings ratio, 2019 consensus



Source: Bloomberg

BloombergOpinion

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