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A Strategic Audit of Tesla

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A STRATEGIC AUDIT OF TESLA

An Undergraduate Honors Thesis

Submitted in Partial Fulfillment of

University Honors Program Requirements

University of Nebraska-Lincoln

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Abstract

This strategic audit will examine the problems Tesla is currently facing, do a Porter's Five Forces analysis of the company, review environmental factors affecting Tesla, state Tesla's current strategy, evaluate their distinguishing resources and competitive advantages, and end with a strategic recommendation along with implementation requirements.

One of Tesla's vehicles crashed in March 2018 while on autopilot, which caused their stock to drop significantly. They're also experiencing issues with the production of the new Model 3. The current political situation and growing demand for the parts Tesla needs are environmental factors that are having a negative effect. On the other hand, today's society and the upcoming generations are becoming more and more concerned with being environmentally friendly, which is an environmental factor that will positively effect Tesla.

In short, Tesla's strategy is to improve the environment by leading the way with electric cars and other types of renewable energy products that will eventually be able to be made in such a way that will make them affordable for everyone.

Tesla's human capital is one of its most distinguishing resources. Elon Musk's innovation, dedication, and funding abilities are a large piece of their competitive advantage.

My recommendation would be to re-evaluate the production process, specifically that of the Model 3 and brainstorm how to address the hiccups they've been experiencing. Afterward, release a realistic and achievable time-frame for all current and future productions. Lastly, Tesla should put a greater focus on educating the public about how their vehicles work and are made to combat the bad press they've been receiving. Information on this is already available to the public and is easy to find, but Tesla should actively promote it more.

Implementing this recommendation would require time to study the production process, finances needed to fix problems, additional finances to promote education about their products, and finances to hire an additional or new press manager if deemed necessary.

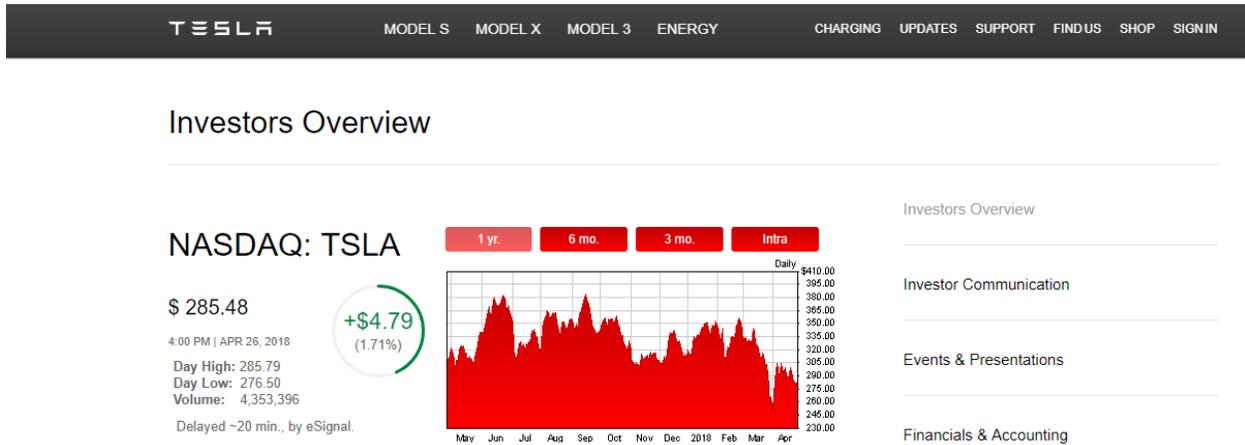
Key Words: Strategic, Audit, Tesla, Business, Strategy, Analysis

Dedication

I would like to dedicate this report to my fiancé, Jared Olson. Although he is over 400 miles away in my home state of Minnesota, he has supported me in my journey through the honors program. He believed in and encouraged me on many nights when I lost all belief in myself. Jared has been so caring, has many times purchased food for me while I worked, and made sure I remembered to eat. His fascination with electric vehicles was the inspiration for the topic of this audit. Jared, you are the love of my life, thank you for everything.

Problems Tesla is Facing

Tesla has been fairly successful until very recently. While they are still seeing success, the crash of one of their vehicles while on autopilot caused their stock to plummet at the end of March this year (See figure below).



The figure above is directly from Tesla's website and also shows a closer view of what happened in March if the three-month view is selected (See figure below).



As can be seen, Tesla's stock did recover from the drop in March but had not yet reached the highs it once held. Historically, Tesla had done very well, so

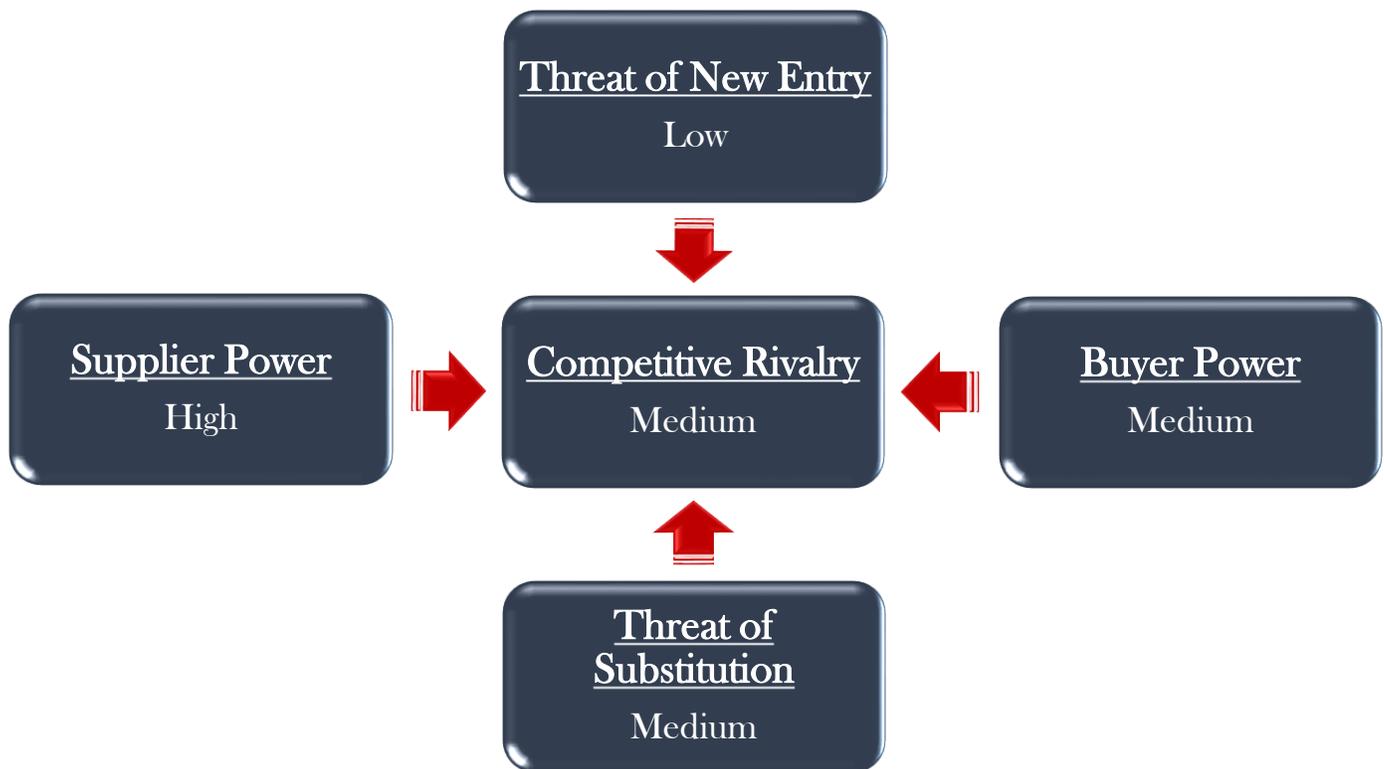
it's not unreasonable to assume that their stock will go back up to what it once was.

This crash had brought to light a problem that Tesla does need to address. Although news articles and statements by Tesla have stated that the autopilot feature is not made to be completely handsfree 24/7, that is how people are treating it (Boudette, 2018, The Tesla Team, 2018, March 29 and March 31). It is also worth mentioning that all reports indicate that the Tesla involved in the crash gave the driver multiple visual and audio warnings to return his hands to the wheel prior to the crash (Boudette, 2018, The Tesla Team, 2018, March 29 and March 31). The facts of the crash indicate that there was user error involved and the autopilot feature did not directly cause the crash. Nevertheless, Tesla's reputation has been damaged and their autopilot abilities brought under scrutiny.

The second major issue Tesla is currently facing is the lag in production of the new Model 3. Production was suspended for a second time in mid-April 2018 (Shaban, 2018). While Tesla and Elon Musk are hard at work to fix the production issues they've experienced, results have been thus far disappointing to consumers and fall drastically short of Musk's promised production numbers.

Porter's Five Forces

The chart below illustrates Porter's Five Forces with respect to Tesla.



- **Threat of New Entry:** This force is low mainly because of the many barriers to entry. It would take a lot of money and resources for someone to start a new electronic vehicle company that could compete with Tesla. The technology and knowledge needed to do this would also be very expensive and potentially difficult to obtain. There are also political barriers to entry, especially considering Trump's current position when it comes to renewable energy vs. fossil fuels.
- **Threat of Substitution:** While this force is medium at the moment, it is likely to grow in the coming years and become quite high. As discussed, it would be difficult for a new company focused on electric cars to start up, but it is much easier for pre-existing car companies to expand into

the electric vehicle market. Many pre-existing car companies either have released their version of an electric car or have expressed plans to do so in the near future. According to my fiancé, Jared Olson, this is actually what Elon Musk wants. Jared says that Elon makes all of his patents and designs with Tesla available to the public so that others can follow his example and create more electric cars. It appears that Elon's goal is to create a world where electric cars are the norm, not the rarity, even though that means more competition for Tesla.

- **Supplier Power:** This force is very high with Tesla. My fiancé, Jared, works for an engineering company and says even companies like his are struggling to get all the parts they need because of the rise in demand of many electronic components wanted to produce vehicles. This rise in demand is giving suppliers a lot of power and have been exerting that power already by raising prices. As electronic vehicles and the use of electronic components in other goods become more and more popular and desired, suppliers of those goods will have more and more power.
- **Buyer Power:** This force is medium due to a mix of high and low factors. The current minimal number of substitutes for an electric car lowers buyer's power. Many of Tesla's customers are their customers because they want an electric car. But there is another type of buyer that must also be considered. Some of Tesla's customers are customers simply because they want a high-end vehicle and have the means to buy one. They may have chosen Tesla over others because of its fuel efficiency and

quality, but if that is not the main thing they are seeking, there are a multitude of high-end sports cars for them to choose from that are not Tesla. Substitutes for electric cars are few, while substitutes for sports cars are many. It all depends on the preference of the buyer. The combination of these high and low buyer powers causes the overall force to be medium.

- **Competitive Rivalry:** This force also sits at medium. As discussed, there are currently not many substitutes for electric cars, but that is quickly changing. Competitive Rivalry will soon become a high force if electric cars continue to gain popularity and become more and more affordable.

Environmental Factors Affecting the Industry

The current political situation and our current President do not favor renewable energy. While there is nothing major effecting Tesla at the moment, it could pose problems for them in the future.

The growing demand for the electronic components Tesla needs is adversely affecting the price of those products for Tesla as mention in the above Porter's Five Forces analysis. While this increase in demand gives suppliers the power to raise prices, it also would encourage new suppliers to enter the market, which will drive the prices back down again. Although the expanding demand is negatively affecting Tesla right now, it could be beneficial in the future if more suppliers enter the market, drive prices back down, and allow for more production of electric cars, which is something Elon Musk wants to see.

Although those who can currently afford electric cars haven't fully adopted them yet, the upcoming generations are more concerned about clean energy and the environment, which will lend to greater demand and adoption of electric cars in the near future. Today's generation and the future generations have expressed a desire to be more environmentally friendly and aware. As electric cars become more and more affordable, these new consumers are very likely to make the market boom.

Current Strategy

Elon Musk has his "Master Plan" available for anyone to read on Tesla's website. In 2006 he published "The Secret Tesla Motors Master Plan (just between you and me)" which summarized, "So, in short, the master plan is: Build sports car. Use that money to build an affordable car. Use that money to build an even more affordable car. While doing above, also provide zero emission electric power generation options. Don't tell anyone," (Musk, 2006). A decade later, he published an update/addition to his master plan called "Master Plan, Part Deux" in which he adds to Tesla's mission and strategy by saying, "So, in short, Master Plan, Part Deux is: Create stunning solar roofs with seamlessly integrated battery storage. Expand the electric vehicle product line to address all major segments. Develop a self-driving capability that is 10X safer than manual via massive fleet learning. Enable your car to make money for you when you aren't using it," (Musk, 2016). These are the driving factors behind Tesla and influence everything they do. In short, Tesla's strategy is to

improve the environment by leading the way with electric cars and other types of renewable energy products that will eventually be able to be made in such a way that will make them affordable for everyone.

Distinguishing Resources and Capabilities

Tesla has incredibly innovative and driven employees and is dedicated to creating environmentally friendly products as a whole. This type of human capital is a very distinguishing resource for Tesla. Elon Musk's vision for Tesla and his dedication to make his vision a reality is also something that many companies don't have. Tesla is leading the way in renewable energy and is unafraid to try new products and markets. This passion for progress and willingness to explore new possibilities adds to Tesla's value, especially when they do make progress and new products succeed.

Competitive Advantage

Below is a brief chart showing the things that makeup Tesla's competitive advantage.

<u>Comparative Advantages</u>	<u>Distinctive Competencies</u>	<u>Core Competencies</u>
<ul style="list-style-type: none"> • Elon Musk 	<ul style="list-style-type: none"> • Creating electric cars • Finding new ways to create and use renewable energy 	<ul style="list-style-type: none"> • Access to funding • Innovation

Recommendation

My recommendation would be to re-evaluate the production process, specifically that of the Model 3, and brainstorm how to address the hiccups Tesla has been running into. According to reports, Musk halted production in mid-April so that upgrades could be made to the production process of the Model 3 (Crothers, 2018). This is a great start. I recommend continuing this behavior until an optimal production process is achieved. Afterward, release a realistic and achievable time-frame for all current and future productions. This will give customers waiting for the Model 3 an honest release date that they can count on this time. It will also show that they've learned from this experience and are prepared to announce more accurate timelines in the future. The current production behavior must be limited to this one-time occurrence

otherwise Tesla may lose credibility and trustworthiness. This is a very important factor in maintaining good customer relationships and maintaining customer loyalty.

Lastly, Tesla should put a greater focus on educating the public about how their vehicles work and are made to combat the bad press they've been receiving. Information on this is already available to the public and is easy to find, but Tesla should actively promote it more. If it had been advertised that the autopilot feature was not meant to allow for a 100% hands-free driving experience yet, but instead was intended to act as more of a safety net, they might not have received such harsh criticism after the crash in March. The information is available but is not actively being shared. That is what needs to change. Change can happen by holding press conferences and appearing publicly to discuss Tesla products. For example, Elon Musk could agree to interviews and appear on late night shows.

Implementation

Implementing this recommendation would require time to study the production process, finances needed to fix problems, additional finances to promote education about their products and increase publicity, and finances to hire an additional or new publicity manager to oversee the media related changes. The financial implication of my recommendation can vary greatly depending on the problems that need to be fixed. The biggest and scarcest requirement is time. Time is needed to find the problems, come up with a

solution, implement the solution, hire additional employees, decide what publicity channels should be pursued, determine the timeline of media appearances, and allow for the aforementioned appearances to have an affect.

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Figures of Tesla's stock levels were obtained from <https://www.tesla.com/> on April 26, 2018