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LCCB 4005 The Global Business Environment

Environmental Analysis of Tesla

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Introduction

The business environment plays a vital role in shaping up the strategies and capabilities of the companies in a particular industry. It comprises different factors or forces which impact the business processes both internally and externally. This report will focus upon the environmental analysis of the automobile industry by critically evaluating the challenges in the internal and external business environment. With the rapid advancement of technologies, the automobile industry has transformed extensively through implementing competitive strategic interventions. Tesla Inc. is one such automobile company that designs and manufactures electric vehicles, battery energy storage and other related products and services. Although the company has a competitive brand reputation; yet, there are several challenges that the business encounters while trading across the globe. These challenges will be explored concerning certain relevant models or frameworks. Furthermore, the core sustainability values will also be denoted to understand Tesla's competitive advantages in the worldwide automobile industry.

PESTLE Analysis using Porter's Five Forces

Political factors: The automobile market faces issues in planning its strategies due to the continuous changes in government policies from one country to another. The increase in production cost and limiting the ways of marketing and selling cars tend to rise complexities for the companies (Boyle, 2021). The taxation policies are also different. In some countries, pure electric vehicles are not required to pay any road tax. London's Go Ultra Low City project will build up to the avail that already enjoyed by way of electric powered automobile proprietors who, underneath the authorities' plug-in vehicle provide scheme, get 35% off the price of a car up to £4,500, and who additionally gain from lower running, protection and restore fees, zero street tax and lower fuel charges. Who also benefit from lower running, maintenance and repair costs, zero road tax and lower fuel costs. (Williams, 2016). The Australian government has aimed to charge taxes on electric vehicles after a bill was laid out by South Australia's Legislative Council (Hamsen, 21). Moreover, government efforts in India have been made for reducing the global tax rate from 12% to 5% on vehicles and from 18% to 5% on electric vehicle chargers (Prasad, 2019). Also, India launched a Faster Adoption and Manufacturing of Hybrid and EV (FAME) plan in 2015. However, despite so much effort made to encourage citizens to buy more electric vehicles, the rate of consumer adoption in the country remained lower .

Economic factors: The automobile industry has a brighter scope of increasing the GDP rate of the global economies in the upcoming years with its electric vehicle segment. In 2020, the market size was estimated at 246.70 billion USD (Fortune Business Insights, 21). Despite the covid-19 lockdown, the market has been quite lucrative and the electric car makers have

witnessed considerable growth in sales. However, the companies have undergone severe challenges in their supply chain operations as they could not import materials required for manufacturing the cars. Although the established car brands like Tesla face a relatively lower bargaining power from the suppliers due to their enormous market size and competencies, the smaller car brands have faced extensive supply chain disruptions causing them to experience a higher bargaining power from the suppliers. Moreover, the industry has been in a tough spot because of the shortage in the workforce, factory closures and limited operations (Meticulous Reserch, 21). This increased the global unemployment rate affecting the operations of the automobile sector. Nonetheless, there is a significant opportunity for the market to grow in the upcoming years and thus, the leading brands can recover effectively by recruiting skilled staff thereby increasing the employment rate (Tengler, 2020).

Social factors: The global automobile industry is presently crawling with companies manufacturing electric vehicles to increase their competitiveness. The companies tend to target highly ambitious and determined customers belonging to upper and middle-income groups who can purchase smart automated cars and enhance their living standards. Thus, the switching cost of the consumers in this market is much lower which increases their bargaining power over Tesla. The personality types of Tesla's consumers are mostly aspirers, succeeders, explorers and reformers. Thus, the company has been experiencing a challenge in attracting Indians since the prices of Tesla cars exceed the consumers' affordability. Moreover, the company faces issues in operating in the African automobile industry as the market is not supported by charging stations, service centres, internet connectivity and proper navigation updates (Ians, 2021). Hence, even if the company witnesses consumer demands, it is often quite challenging for them to operate successfully in some markets and satisfy the consumers.

Technological factors: As technological implementation has advanced in the electrification of vehicles, the global automobile market is growing which drives the companies to invest more capital into manufacturing electric vehicles. Many leading and reputed car brands across the world namely Toyota, Volkswagen, Ford Motors, BMW, General Motors, etc. have already started investing in their electric vehicles to fulfil the growing needs of the consumers. Moreover, traditional car makers like Nissan, Honda, etc. are offering hybrid gasoline-electric cars along with purely electric cars which are in great demand in the market (Cheng, 2021). Besides, there are several other companies such as Lucid Motors, Rivian, NIO and Lordstown that are also emerging as the major alternatives for Tesla in the present-day market (Doll, 2021). Hence, it can be said that Tesla has a higher threat of substitutes and competitive rivalry across the world.

Legal factors: The demand for electric vehicles is increasing which is pushing the governments of all the countries to build up infrastructures suitable for meeting the demands. In the case of the US, President Biden has recently signed The Infrastructure Investment and Jobs Act (The Bipartisan Infrastructure Bill) which ensures government expenditure of 1.2 trillion dollars in the electric vehicle segment (Cheng, 2021). According to this Bill, the US government aims to build roads and bridges, set up a large network of charging stations and facilitate broadband internet access. Hence, the electric car makers of the country including Tesla have a scope to expand their US market successfully. On the other hand, the Automated and Electric Vehicles Bill issued by the UK government attempts to improve the country's infrastructure to install charging points for electric vehicles and make it easier for the people to drive them efficiently (Gov UK, 2018).

Environmental factors: The environment plays a vital role in influencing the business strategies of the automobile industry. All countries must ensure zero carbon emissions in the environment to promote eco-friendly operations. According to (EDF, 2021), electric vehicles are better for the environment as they emit lesser toxic gases and chemicals and also save energy consumption. However, evidence state that the plug-in vehicles are not environment friendly and might potentially discharge greenhouse gases thus polluting the environment. This is because a large amount of coal is burnt for charging the plug-in cars which increases energy misuse as well as causes carbon emission (Plumer, 2021). Nevertheless, Tesla stands in the topmost position in the global electric vehicle market. The company has a premium brand reputation and it invests sufficiently in designing vehicles that help in avoiding CO2 emissions of around 5 million metric tons (Tesla, 2020). Moreover, it is unlikely for any new automobile company to beat the market competitiveness of the existing reputed brands easily owing to their strong entity. Thus, the threat of new entrants in this industry is much lower.

SWOT Analysis

Strengths:

- Tesla has been recognised as the fastest growing automobile brand across the globe in 2021 having a growth rate of 157% (Carlier, 2021). It has sold a total of around 627350 units in the first three quarters of the year.
- In the UK, Tesla witnessed new car registrations and a record sales volume which surged the market share for electric vehicles (Lambert, 2022).
- The company has actively rolled out its charging network at the motorway service stations for the convenience of the consumers which made the brand quite recognisable in the global automobile market (Schwanen, 2019).

- It is the leading pioneer of designing top-notch and advanced electric vehicles that are energy and cost-efficient.
- They have a skilled workforce and huge capital strength to promote continuous innovation in operations.

Weaknesses:

- The prices of Tesla cars are way too higher for all the average consumers to afford (Ross, 2021).
- Since it targets premium level consumers, the target market is quite smaller for the company.
- All its batteries are sourced from a single distribution channel and thus, Tesla can run short of batteries to charge their cars (Ross, 2021).
- Staff shortages and supply chain disruptions due to the covid-19 pandemic restricted in meeting the increasing electric vehicle demand to a certain extent.
- The prices of manufacturing materials are rising constantly which disrupt their production line.

Opportunities:

- The electric vehicle demand is going to increase sustainably in the upcoming years thus maximising Tesla's market scope.
- The company's globally renowned under-construction powerhouse Gigafactory can help in minimising the battery sourcing crisis (Ross, 2021).
- There is scope for Tesla to attract a wider market in Asian countries by lowering the prices of some of its electric cars.
- Consumers' awareness of environmental protection is increasing considerably which can mark the demand for electric vehicles in the upcoming years. Tesla must consider producing more cars to maintain a competitive balance between the demand and supply.
- More demands should be tackled by creating more job opportunities in the global market thus contributing to the company's profits.

Threats:

- The number of competitors and substitute products is increasing massively which might become a considerable threat for Tesla.
- Increasing prices of manufacturing materials might lead to a higher cost of production thus affecting Tesla's budget.

- Many countries fail to build up a suitable infrastructure for driving electric cars even after issuing policies and regulations for environmental protection, for example, India .

Value Chain Analysis

The value chain of a company comprises of both primary and support activities:

Primary activities:

Firm infrastructure: Detailed monitoring is done for ascertaining that the quality of the products is managed well along with proper financing and planning of its operations.

Human resources: Tesla has a significant talent pool that has proficient and learned engineers to design highly efficient electric vehicles. There are enough scopes of recruiting and training skilled individuals to improve the product quality standards.

Technology: Tesla is tops in technological advancements and they prefer to try innovative ways to implement new technologies in their operations (Tesla, 2021).

Procurement: Tesla relies on efficient suppliers who can provide them with reusable and renewable materials for manufacturing electric vehicles. Smooth operations for the value chain are ensured within the business activities.

Support activities:

Inbound and Outbound logistics: Tesla has a specialised product line that requires quality raw materials and effective resources. Proper logistics operations and costs are managed through responsible warehousing, order processing, transportation and distribution of the orders to selective destinations.

Operations: Tesla has its battery powerhouse as well as separate working units which are well-coordinated thus helping in creating value for the customers.

Marketing and sales: The company promotes its products through different channels to create awareness of its environmental friendly activities to the target customers.

Service: On-demand car delivery is available at Tesla to ensure quick services to the customers.

Conclusion

The overall study discussed the different challenges that Tesla Inc. faces in its internal and external global environment. It has been perceived that although the company has a reputed brand image in the automobile industry across the world, its operations while trading to other countries pose certain challenges and complexities which make it difficult for them to withstand

sustainability. With the help of PESTLE, Porter's five forces, SWOT and Value chain frameworks, the company's operational efficacy has been critically evaluated.

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