

Module: Global Business Environment, Task 1

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Student name: Cezar-Daniel Totoro 2028347

Lecturer: Dr. Olusoi Ashaye

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Introduction

Tesla is a famous brand in the automobile industry. It is an American company that operates the business of clean energy and electric vehicle. It operates its business in the global market. We have selected electric cars of Tesla for our assessment of the global business environment. The global business environment refers to the worldwide environment that is beyond any country (Peng, 2016). This essay evaluates the challenges of electric cars' internal and external business environments. It also discusses SWOT, PESTLE, Porter's Five Forces Model, value chain, and competitive advantage of Tesla's electric cars. There is a discussion of the reasons for engaging in international trade.

1. Internal and External Business Environment of Tesla (Electronic Cars)

A company's internal environment consists of the elements within the company (Kuratko et al., 2014). Tesla's internal environment is composed of the company's mission, vision, strategy, management, workplace culture, employees, etc. And external environment consists of the elements outside the company. Such as political, social, legal or regulatory, environmental, economic, and technological factors (Craig and Campbell, 2012). Internal and external environments impact the operation of Tesla. Electric cars production is the new segment of Tesla in the automobile industry. The challenges of the internal and external environment of the electric car segment are uncertainty in using proprietary technologies, changes in political and economic trends, social values, customer demands, and intra-organisational conflict.

Tesla expands its electric car business in many other countries. The challenges of the global business environment of Tesla for electronic cars:

Cultural differences:

Culture is different from country to country. Cultural difference is a challenge for entrepreneurs to operate business globally. As Tesla operates its electric cars business in many other countries, It faces cultural differences.

Managing a global team: Tesla has to manage a global team for the global business of electric cars. The global team observes and leads the performance in different countries where its business is operated.

Foreign exchange rate and inflation rate: Foreign exchange rate and inflation rate are different in different currencies creating problems in global business.

1.1 SWOT Analysis

SWOT analysis is a strategic technique used to identify strengths, weaknesses, opportunities, and threats of a company (GURL, 2017). Strengths and weaknesses are internal factors. On the other hand, opportunities and threats are external factors of the company. SWOT analysis of Tesla:

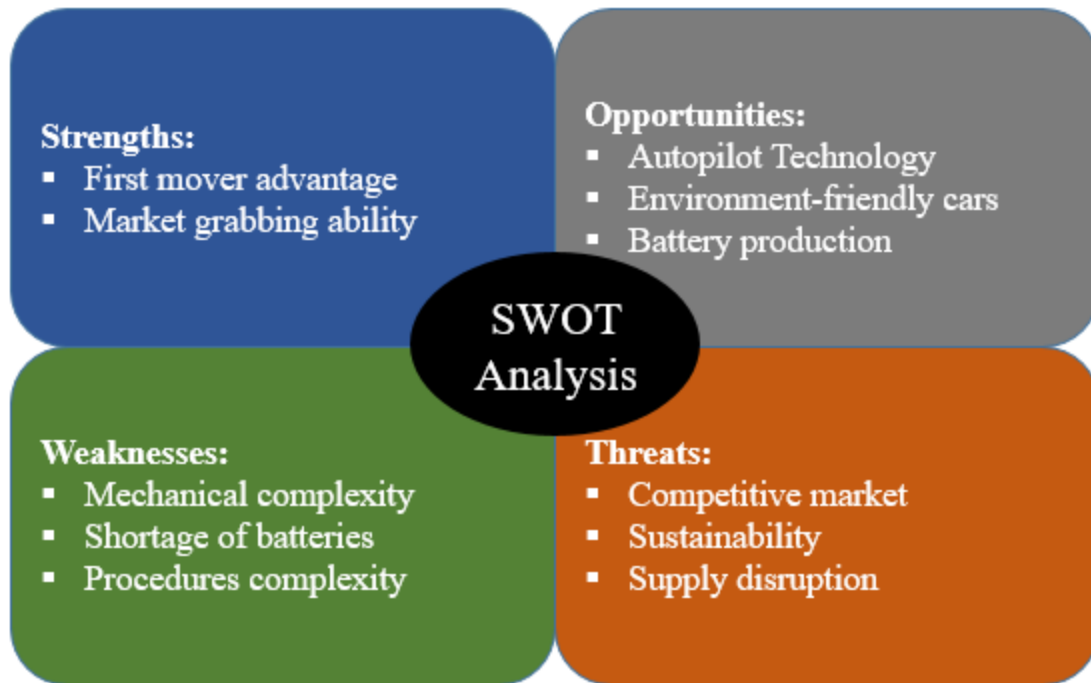


Figure 1: SWOT Analysis

Source: (Own)

Strengths:

First mover advantage: Tesla is the leading pioneer of electric vehicles in the automobile industry. Tesla was founded by a group of engineers in 2003. They made electric vehicles to prove that electric vehicles are quicker and better to drive. Tesla has the patent of electric vehicles. So, it is a strength for this company.

Market grabbing ability: Tesla has introduced different types of electric cars at different times to grab the electric cars' market. The different types of electric cars of Tesla are Model S, Model X, Model 3, and Model Y.

Weaknesses:

Mechanical complexity: If the innovation standard is higher, mechanical complexity and production risk will be greater. Tesla faces mechanical complexity in start-up, and production when it launches a new model of electric cars.

Shortage of Batteries: Battery is used in electric cars. Tesla's productivity of electric cars has declined because of the shortage of batteries.

Procedures complexity: Tesla faces some complexity in the case of research and development cost, production cost, resource management in the manufacturing procedures.

Opportunities:

Autopilot technology: Autopilot enables the cars to accelerate, steer and brake automatically within their lane. Tesla has autopilot technology in electric cars for the cars' convenience and safety. Customers trust and prefer Tesla's electric cars for their autopilot technology.

Environment-friendly cars: Tesla's electric cars are environment-friendly as the cars are driven electrically, not by fuel. Nowadays, people are aware of environmental protection. So, they try to minimise the use of fuel and demand electric cars rather than fuel-driven cars. The demand for environment-friendly electric cars is increasing day by day all over the world.

Battery production: Tesla manufacture battery for electric cars in-house, this process reduces the production costs of electric cars (Eftekhari, 2019). It also reduces the unemployment rate by creating jobs in battery production.

Threats:

Competitive market: A competition among the electric cars producers was in France (Guarnieri, 2012). But nowadays electric cars global market is becoming competitive day by day. The competitors of Tesla are Waymo, Lucid Motors, etc. It is a threat for Tesla to compete in this competitive market.

Sustainability: Tesla must maintain the long-term sustainability of electric cars. But it is not easy because of its unstable conditions of manufacturing and limited infrastructure.

Supply disruption: Tesla faces supply disruption of electric cars because of its material shortage. It is a threat to the business.

1.2 PESTLE Analysis

PESTLE analysis is an acronym for a tool used to identify the external factors facing an organization (Simões, 2020). The letters stand for political, economic, social, technological, environmental, and legal.

Political Factors: Political factors determine the extent to which government and government policy may impact an organisation or a specific industry. Political factors include political policies, stability, trade, fiscal policies, and taxation policies (Rastogi et al., 2016).

Tesla's electric cars depend on electricity. Tax is imposed on electric cars. The customers wait for a chance of tax credit for using the cars. As Tesla's electric cars are environment-friendly, the government provides incentives that strengthen the financial performance of Tesla.

Economic Factors: Economic factors impact the economy of the company and its performance, which in turn directly impacts the organisation and its profitability. Factors include interest rates, employment and unemployment rates, raw materials cost, and foreign exchange rates (Perera, 2017).

The demand for environment-friendly and cost-effective cars is increasing. Tesla manufactures these types of electronic cars that help to compete over competitors in the automobile industry and increase the economic growth of the company as well as the country. As Tesla operates its electric cars' business not only in America but also in many other countries of the world, this business is affected by foreign exchange rates. Tesla needs a lot of employees to operate electric cars' business globally. As a result, the unemployment rate is declined.

Social Factors: Social factors focus on the social environment and identify emerging trends. This helps a marketer to further understand their customer's needs and wants. Factors include changing family demographics, education levels, cultural trends, attitude changes, and changes in lifestyles. Tesla's electric cars are the luxurious product. It improves people's living standards.

Technological Factors: Technological factors consider the rate of technological innovation and development that could affect a market or industry (Meskhia and Shaburishvili, 2015). Factors

could include changes in digital or mobile technology, automation, research and development. There is often a tendency to focus on developments only in digital technology but consideration must also be given to new methods of distribution, manufacturing, and also logistics.

The electric cars of Tesla are technologically advanced. These features are attractive to the customers. This product brings technological enhancement all over the world.

Legal Factors: An organisation must understand what is legal and allowed within the territories they operate in. They also must be aware of any change in legislation and the impact this may have on business operations. Factors include employment legislation, consumer law, health, and safety, international as well as trade regulations and restrictions. As Tesla operates its electric cars business in many other countries, it needs to maintain some regulations and policies.

Environmental Factors: Environmental factors relate to the influence of the surrounding environment and the impact of ecological aspects with the rise in importance of CSR (Corporate Social Responsibility). This element is becoming more important.

The environmental factors are in favour of Tesla as it manufactures environment-friendly electric cars (Lugtu, 2019). The electric car is an environment-sensitive product. So Tesla always has to conform to some environmental norms.

1.3 Porter's Five Forces Model

Porter's Five Forces Model is a tool for assessing the competitive environment of an industry. It is also used to identify the structure of the industry and the strategy for creating a competitive advantage.

Threat of New Entrants (Low): As the barriers to entry in the automobile industry are high, the threats of new entrants are low. To start a business of electric cars, entrepreneurs need to invest a lot of capital. So, a person cannot easily start electric car production.

Tesla can increase the barrier of entry in the electronic car segment and lower the threat of new entrance by enhancing manufacturing efficiency and using technology to produce distinctive products.

Threat of Substitutes (Moderate): The threat of substitutes for electric cars is moderate. Because some alternatives to electric cars are present. Such as natural gas-driven cars, biofuel-driven cars, diesel-driven cars, etc. (Fridstrøm, and Østli, 2021).

Tesla can lower the threat of substitutes by using strategic marketing rather than traditional marketing and promoting the product for grabbing customers' attention.

Bargaining Power of Suppliers (Low): As the electric cars segment of the company relies on technological capacities and innovation, Tesla manufactures the engine and batteries for the electric cars so that they cannot depend on the suppliers. So, the bargaining power of suppliers is low. The electric vehicle is a comparatively new segment in the automobile industry.

Tesla can remain lower the bargaining power of suppliers of the electric car segment by shortening the supply chain network, diversifying suppliers, and developing vertical integration (Liu et al., 2014).

Bargaining Power of Buyers(Low): The bargaining power of buyers is low in the global market of electric cars. Because there is low competition and switching cost is high for electric cars in the market.

Tesla can remain to lower the bargaining power of buyers by diversifying products, improving autopilot technology, offering distinctive products.

Rivalry among Competitors (Low): The rivalry among competitors in the electric car segment in the automobile industry is low. Because it is a relatively new segment in the automobile industry and there are not a large number of competitors.

Tesla can remain lower the rivalry among competitors in the electric car segment by differentiating the products, enhancing brand value by using social media, etc.

1.4 Value Chain of Electric Cars

A value chain is a process of adding value to final products. There are included operations from purchasing raw materials to delivering the final products to the customers. There are two types of activities such as support activities and primary activities (Kumar and Rajeev, 2016). The value chain of the electric cars segment is given below:

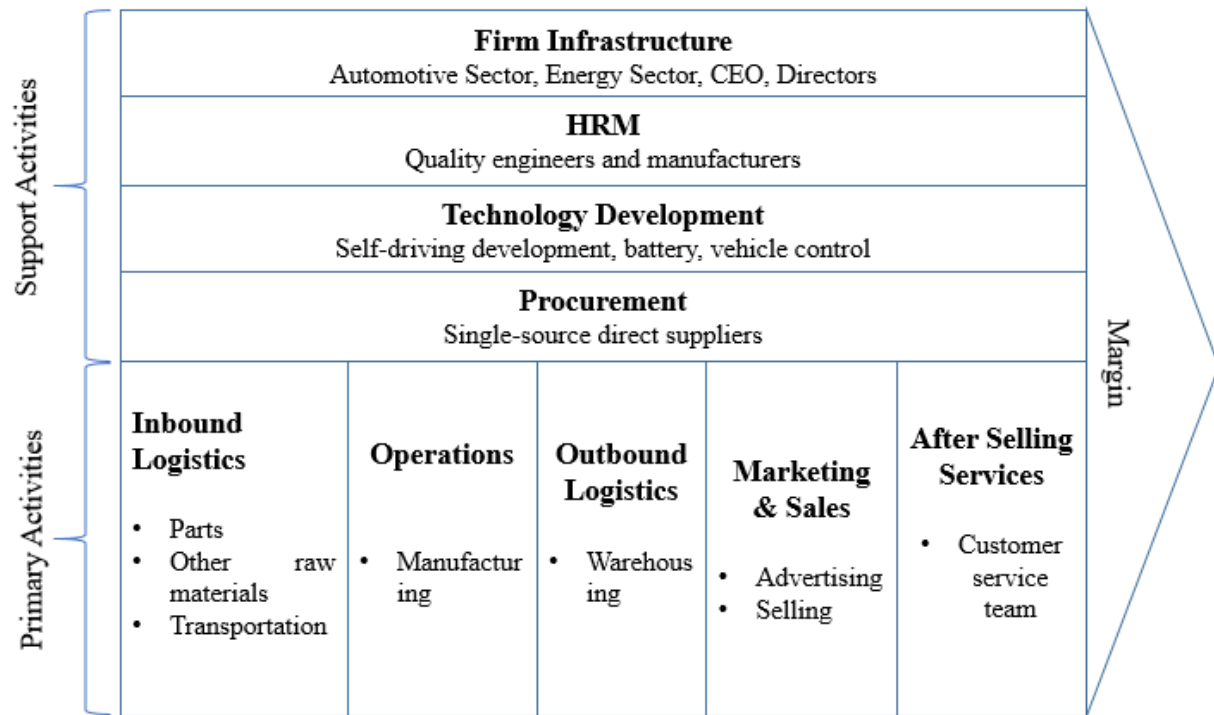


Figure 2: Value Chain

Source: (Dale Hart, 2021)

Primary Activities: There are five primary activities in the value chain (Dorri et al., 2012). Electric cars inbound logistics involve the purchase of parts and other raw materials and transportation to bring the production house. Operations involve manufacturing the final cars from parts and other raw materials. The final products are kept in the warehouse until the sale. Warehousing is outbound logistics. In marketing and sales activities, the company advertises the product and sells it to the customers. The company also gives after selling service for the electric cars by their customer service team in case of default in the cars.

Support Activities: There are four support activities. Firm infrastructure involves automotive sectors, CEO, directors, and energy sectors. HRM includes qualified engineers and manufacturers. As electric cars are technologically advanced, so technology development sector is most important. And procurement involves single-source direct suppliers.

1.5 Competitive Advantage

Competitive advantages of Tesla for the electric cars segments in the automobile industry are:

Product Differentiation: The electric cars' mass production was started by Tesla (Bilbeisi et al., 2017). Tesla manufactured different types of electric cars at different times. Such as Model S in 2008, Model X in 2015, Model 3 in 2016, Model Y in 2019. These cars are greater than the cars of other companies. For example, Model S for its better performance is greater than BMW 7.

Direct Selling Strategy: Tesla's electric car business's global business strategy is a direct selling strategy (Manna, 2017). The company has many stores in many countries for selling products and these stores are owned by the company. This strategy is different from the traditional dealership system. As a result, the company can lead the overall business globally with its team. That helps to succeed in business and compete with competitors.

Conclusion

The global business environment is related to worldwide environmental factors. Tesla operates its electric cars business in the global market. The global business strategy of Tesla's electric car business is direct selling. As many companies are in the global market, the global business environment is competitive. There are different challenges in the global business environment. Such as cultural differences, foreign exchange rates, currency differences, etc. SWOT analysis shows the strengths, weaknesses, opportunities, and threats of the business and helps to make future decisions. PESTLE helps to analyse the external environment of the business. Value chain analysis is used to increase production efficiency. SWOT analysis, PESTLE analysis, Porter's Five Forces Model, Value chain, all of these analyses help to assess the global business environment.

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