

LEVEL 4

MODULE CODE: LCBB4005

THE GLOBAL BUSINESS ENVIRONMENT

ASSIGNMENT: 2

ASSIGNMENT TITLE: “TESLA” The electric car industry.

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Introduction

The business world has drastically changed due to the advancement of information technology and its incorporation into business activities; this has made business organizations regularly innovate to maintain a strong market position. The number of new entrants is also increasing in all the industries with improvement in exiting companies. Altogether, competition has risen massively. Due to the overuse of resources, the world is also facing sustainability issues, from global warming to a harmful impact on life. The sustainability issue is adding to the pressure that is met by the business organization due to competition. To be precise, sustainability and competition have become significant factors in the survival of a business organization. This fact is supported by BBC report that struggle is increasing in vehicle industries as the latest technology like electric and driverless cars are taking over, and meanwhile, CO₂ emission issues in increasing at an alarming rate reported by (Thomas 2019). Therefore, companies must increase their competitive advantage by incorporating strategic practices and effective systems in their operations. This essay analyzes the electric car industry concerning the competitive environment and the effects of the factors that influence the business. For this analysis PESTEL and Five forces models have been used to explain the car industry environment while focusing on Tesla. The value chain of Tesla has been used as a central point of discussion.

Tesla is one of the well-known car manufacturing companies with various vehicle-related products and services under the name of Volkswagen Group. It started making cars in 2005, and soon after that, it entered into the electric car market in 2008 with its famous roadster, Sedan. The Sedan is an entirely electric car with the ability to drive 245 miles per charge (Tesla, 2020). Tesla's environment is getting competitive with the most extensive vehicle companies that have already entered into the electric car industry, such as Volkswagen, in the form of Five forces and PESTEL factors affecting the business. The Five forces are a model introduced by Porter and to understand the rivalry and competition of a company. It considers competitors, new entrants, suppliers, buyers, and substitutes as the external factors that affect company performance as a micro external environment (Bruijl, 2018). Likewise, the PESTEL framework is also a combination of external elements that decide the feasibility of a product or a service. It includes the political, economic, social, technological, environment, and legal environment of a place as a macro-environment for a business (Oussama, 2018). In this situation of various external factors influencing the industry,

companies like Tesla emphasize their value chain to find saving and cost-cutting areas for the business. Value chain a framework also introduced by Porter that helps in strategic planning, understanding the factors of competitive advantage and linkages between the activities which create value (Ensign, 2001). It includes inbound logistics, operations, outbound logistics, marketing, and services as the primary strategic planning areas.

Tesla's inbound logistics area is negatively affected by the supplier force, environment, and economic factor. The company uses electric batteries whose prices are continuously rising in the economy. According to the United Nations, the continuously increasing demand for batteries for EV has set its raw material prices to increase till the year 2030 because environmental factor that has raised various concerns like CO₂ emission discharged by fuel cars (United Nations, 2020). Customers are shifting towards electric vehicles. Tesla's inbound logistics includes purchasing and storing raw material, including steel, lithium, aluminum, copper, and nickel. The company has the most massive warehouses for material storage, such as a giant warehouse of the Bay area in San Francisco is leased to Tesla. This warehouse is 1.3 million square feet in size (Field, 2017). But the critical factor that plays a significant role in the inbound logistics of the company is the relationships with suppliers. The supplier force affects the operation by creating a lack of raw material if not handled strategically. Putting suppliers in the primary areas of value chain shows that they are significant, and they must be valued. But unfortunately, Tesla is damaging its relationship with the suppliers. According to Forbes, Tesla has blamed suppliers for the issues that took place in the manufacturing process. The suppliers used by Tesla also provide material for other similar companies, but Tesla is the one that blames suppliers reported by (Abuelsamid, 2017). This clash with suppliers can disrupt the value chain and the entire supply chain system of the company. Therefore, it must maintain strong positive relations with all its suppliers.

The second element of the value chain is an operation, which is the most crucial part. It involves all the activities from receiving raw material to producing the final product. Operations are the stage where any company creates competitiveness as much as possible by using an effective and efficient system in the factory and supporting roles. Functions are related to competitors and new entrants, which is also affected by technology. It involves design engineering, assembling, and all other related activities. The electric car industry is getting highly competitive due to innovation by competitors and new entrants attracted by new opportunities created by technology found by

(Debye 2014). Hence, technology has brought various options to utilize, such as automatic machines in the production lines and robots performing multiple functions previously performed by human labor. Tesla is using technology and innovation to be ahead of its competitors and new entrants. This is proved by the latest advancement in operations at Tesla when it announced a cyber-truck. This system's efficiency achieved over 200,000 preorders for its latest model, which is more than the orders received by the best car of 2018 made by Ford, reported by (Furr and Dyer, 2020). In light of the above information, it can be said that Tesla has understood the value-creating area very well and investing in it at maximum. Operations are also affected by the increasing number of substitutes where companies are producing cars based on renewable energy sources like hybrids and bio-diesel. But it is also essential for the company to keep an eye on what others are doing because companies like Ford and Nissan as shown by the industry's recent statistics below:

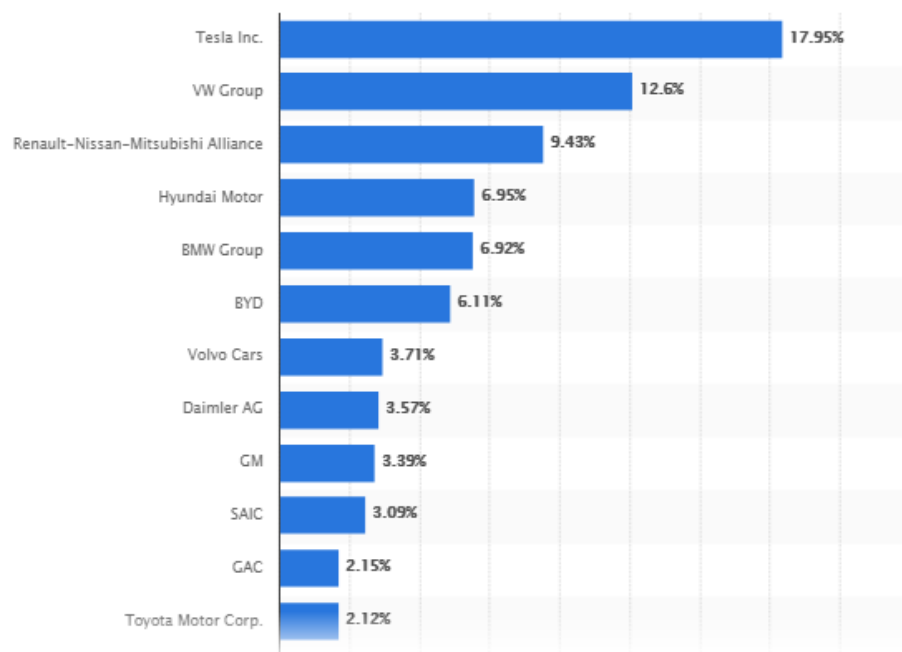


Figure 1: EV companies ranking 2020 by market share, Source: (Wagner, 2020)

The third element in value creation is outbound logistics. Outbound logistics involve storing and shipping all the finished products and related services to the customers. As the customers' factor directly applies here; therefore, outbound logistics are influenced by customers from the Five force model, change in customer behavior, and the latest customer expectations trends. This area also requires the latest technology to deliver the product timely to the customer without affecting satisfaction. One common practice in the electric industry is the involvement of dealers and third-

party sellers who provide the products to customers concluded by (Chandra, Ghosh, and Srivastava, 2016). From the analysis of Tesla's outbound logistics, it is evident the company has transformed it into digital supply chains that no longer required a human hand to assist the customers. According to Forbes, Tesla has stated product shipment digitally instead of physically. Whenever a company ships a new product, from the instrument panel to the navigation screen, all the systems get an updated algorithm over the cloud reported by (O'Marah, 2016). When looked from a customer point of view, Tesla delivers what a modern car driver expects to get an exchange of his or her spending. An excellent combination of mechanical and digital technology with advanced features like GPS and speed, all in one solution, is a product and service anyone wants. In this regard, the entire electric car industry is transforming into digital systems. Still, it seems that Tesla has created massive value in its outbound logistics by directly connecting to the customers.

The fourth element in value creation is the marketing and sales area. Marketing of any product or service is affected by almost every factor, including micro and macroeconomic or Five forces and PESTEL factors. First of all, it is essential to understand why the marketing of electric cars is necessary? Because despite the various advantages and high value offered to customers, these cars are still difficult to sell due to its cons. The cons include price, availability of charging facilities, driving range, loading capacity, speed, and acceleration (Gärling and Thøgersen, 2001). Indeed, there are many function areas where electric car cannot provide the service given by classic cars. Therefore, marketing is the most crucial area of the value chain to generate maximum value if utilized strategically. All-electric car producing companies understand the importance of marketing. Microeconomic factors like competitors, new entrants, substitutes, and customers play a significant role in forming a marketing strategy. The strategy must be different and long-term based on customer behavior analysis. Tesla's marketing plan is based on simplicity in design and reliability concluded from customer insights reported by (Morris *et al.*, no date). Understanding the customers increases competitive advantage because this way, the company produces products according to customer wants. Secondly, marketing is affected by all the PESTEL factors in the following ways:

The political and legal environment provides opportunities and restrictions. First, due to the sustainability advantage of electric cars, many governments worldwide have encouraged such

vehicles, hence benefiting the companies. In this regard, many countries have designed policies to support the electric vehicles found by (Habich-Sobieggalla, Kostka, and Anzinger, 2019). Because electric cars are useful in the protection of the eco-system with less pollution. This factor of pollution and sustainability brings an environmental aspect that has become a point of focus for all the major companies in electric car industry like 10 PHEVs by Mercedes Benz, plugins, pure battery vehicles, and hybrids. But Tesla's master plan of sustainability is not only about electric cars, but it is a vision to transform and add different sustainability-based business ventures reported by (Eisenstein 2016). In light of the above information, it can be said that marketing based on sustainability messages will not only practical advantage but also supported by policies of different countries.

The last element of the value chain is service, which is also connected with customer satisfaction. The services area includes after-sale services and customer support. The customer support system should be effective and efficient to maintain the customer because the customer expectations are evolving in society. Today, social factors are based on digital technology and busy lives where people want convenience, quality, and quick service. In this regard, the use of technology to connect with people will be help. In this regard, (Piccoli, Anglada, and Watson, 2005) found that using technology can improve customer service activities. Unfortunately, Tesla lacks effectiveness in this regard because, according to a new survey, the biggest issue of Tesla is its customer service, as very few respondents considered the customer service excellent reported by (Salinas 2019). Tesla can create high value from service areas by increasing the effectiveness and efficiency of its services. Although it has integrated technology in all its operations, it should also include it to perform in the customer service area better. Otherwise, customer satisfaction will reduce.

Conclusion

This essay analyzed the electric car industry with a particular focus on Tesla, a well-known electric car manufacturer. The business frameworks like Five forces, PESTEL, and Value chain have been utilized to get an insight into the chosen industry. The analysis identified the value chain areas where Tesla is making maximum value, and those have high potential to give competitive edge but have issues. For example, inbound logistics are negatively affected by damaged relationships with suppliers, and low-quality customer service affects the services area of the value chain. It was found that the electric car industry is highly competitive with new entrants, substitutes, and

competitors like Ford and Volkswagen. Finally, it was shown that Tesla has created high value by using technology in operations, outbound logistics, and marketing.

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