

GLOBAL BUSINESS ENVIRONMENT

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Introduction

Electric cars get their energy from rechargeable batteries, a move that is aimed at reducing the emission of greenhouse gas and improving the quality of air in the urban areas. The low consumption of energy and low maintenance costs have made majority of car buyers to prefer electric cars. One of the best known brands in this category is Tesla cars. Other than their modern and sporty designs, Tesla cars are known for their unique battery systems which have made them on top of the list among other electric cars. This essay is geared towards analyzing the business environment of the electric car industry to showcase how the automobile industry has transformed. It will be done through Porters value chain analysis of Tesla Model 3 brand.

Background of the Company

Based in Palo Alto, California in America, Tesla Incorporation is a company that deals in electric cars and clean energy. It manufactures electric cars, energy storage batteries and solar products like solar roof tiles and solar panels. The company was founded in 2003 by Marc Tarpenning and Martin Eberhand (Tesla, 2014) .The Company has multiple plants for both production and assembly in both America and China. As of 2019, Tesla was ranked as one of the best electric manufacturer in the world (Pontes, 2020) with an increase of 50% of sales from 2018 to 2019. The rise in sales can be attributed to Tesla's efforts of releasing the Model 3 cars that are affordable. Tesla cars are known for their driving features and the security features.

Porter's Value Chain Analysis

Michael Porter defines value chain as the activities that are involved in order to ensure a product reaches its consumer in a company. The process starts from the manufacturing process to the after sales process. This is a strategic tool that helps a company prioritize the most important activity to the least. For a company like Tesla to be able to come up with a good strategy, it's important to first point out the forces that help the company form a competitive strategy while ensuring it remains relevant and competitive on the electric motor industry. China has the biggest market share of customers therefore Tesla as a company needs to have a strategic plan to ensure customers get the cars on time at lower costs in China and across the world.

Value chain refers to the internal activities of a company that are involved in transforming raw materials to consumable products and services. Therefore value chain analysis is like a measuring tool for the activities in the company. According to David (2011), this kind of analysis is important to a company. It helps in determining the weaknesses and strengths of a company and in identifying activities that add value to the products and services. The analysis is categorized as Primary activities and secondary activities.



(Ryan, 2017)

Primary Activities

These are activities that a company like Tesla does that have a direct impact or add value to the process of production. The production process of Tesla cars is done through the adoption of vertical integration strategy. This means the supply chains of the components to be used to make Tesla cars are owned majorly by Tesla Company.

Inbound Logistics: This is the flow of goods inside the company which include the transportation, delivery and the storage of goods. Tesla has in-house manufactures with many more suppliers producing and delivering other materials and components. This process ensures waiting time is reduces and production is on time. (Bowman, 2010) Most of the warehouses are located in America and Taiwan. The company has leased most the warehouses. The main warehouse at California is used for both manufacturing and storage. The Taiwan warehouse is used for storage and administration services. (Field, 2017)

Operations: Most of its operations are done in both California and Netherlands. Tesla relies on advanced technology like robots to help in production of its cars at the Fremont factory in Northern, California. The robots can produce more than 80 cars per day and the use of programming is implemented to help in producing various car models. (Hill, et al, 2014) There are two segments, automotive segment which deals with the development and design and general sales of Tesla electric cars. The other segment deals with solar systems and generation of electricity through the solar systems.

Outbound Logistics: This activity involves the storage and distribution of the cars. Tesla cars are stored in 18 countries where customers are informed on the benefits of using them. The cars are shipped to various countries across the world. The company also makes direct deliveries to customers. Consumers get to reserve Tesla cars online and this gives them the chance to customize the features of the Tesla model they prefer. The cars are sold directly clients since Tesla company does not use super dealers and re-sellers to help push for the sale. This move cut the costs of operations which in the long run ensure Tesla cars do not increase since they are already expensive.

Sales and Marketing: other than the showrooms and online reservations, Tesla ensured its stores are located in places where there is high traffic of people and where the rich people are likely to shop from to promote brand awareness. Other than relying on celebrity users of its cars, like Morgan Freeman uses Tesla Model S (Miller, 2012), Tesla develops its own short films of experiences of buyers of its cars and also relies on the YouTube ad campaigns, The company does not spend much on advertisements and rely mostly on referrals. (Leonhardt, et al, 2018) Used Tesla cars are also sold through auctions.

Service, Tesla has service centers across the three continents. The company has built free charging stations for its consumers' cars and also with the policy of 50,000-mile warranty help in reducing the costs of operations. Tesla cars can be serviced at over 100 service centers available. (Ryan, 2017). Tesla users can request for service vans at their own costs.

Secondary Activities

These activities do not add value directly to the process of production though they define the success of the primary activities.

Infrastructure: The structure of a company is important to the process of production. Tesla has a horizontal organizational structure for seamless communication and fast decision making process. It is headed by a C.E.O who then delegates tasks to the low level managers. The C.E.O, Elon Musk, ensures the company adopts a good culture in order to execute its vision. (Forbes, 2014) Tesla Company also has a Chief Finance Officer plus vice presidents who are the heads of different departments like Engineering, Sales, production among others. The structure of the company is divided based on the product categories.

Procurement: This is the process of getting materials and services from the suppliers. Tesla has partnered with its suppliers like Panasonic and has developed a good relationship with the suppliers. An understanding is made between them so that may the main suppliers fail to meet their obligations, Tesla can reach out to temporary suppliers for the components.

Research and Design: this process is one of the most significant activities that has made Tesla relevant in the market and has ensured it still remains on the market. Tesla maximizes all the funds provided by the government to be used for research of electric cars. Its adoption of current innovative ideas has made the company make products with unique designs and of good quality. The company's main goal is to make cars that rely entirely on electric propulsion. Technology is also adopted in updating of software in Tesla cars as well as transportation of the cars.

Human Resource management: Tesla has outsourced a company to help in the hiring process. The employees are given shares in the company which makes it easier for managers to help in implementation of strategies to ensure profitability. The company has a strong management system that ensures good relationship between the managers and the employees. The company has over 40,000 employees worldwide and much focus is made on the HRM activity to ensure Tesla Company has a competitive advantage.

Costs vs. Differentiation Advantages

For a company that make cars like Tesla to be successful in implementing the Value Chain Analysis strategy, the process of coming up with the activities should follow some steps. The costs approach is when the companies want to understand the sources of the costs and their

impacts. This is used mostly by Automobile companies like Ford. Differentiation approach applies when a company is striving to make superior products in order to have a competitive advantage on the market.

Cost Advantage

The company should first identify the activities that are involved in the making of the products, in this case Tesla car. A good knowledge of the company is important in this step. The activities can then be divided to primary activities or secondary activities depending on how they affect the process of production. After identifying the activities, the total costs that will be used in each activity should then be determined. The next process will be to understand the factors that drive costs in each activity so as to see if adjustments or alternatives can be considered. The relationships between activities should be identified so as to understand how an operation in one activity may affect the value chain. Finally, the last process is to find out the opportunities that can help in reducing the costs. For example if Tesla cars are made of less components, the probability of having faulty parts will be low, hence low service costs.

Differentiation Advantage

The company should first identify activities that bring the greatest value to the customers, and then evaluate the strategies that can be used to add more value. This can be through the improvement of the product features, focus on customers and many more. Lastly, the company will make its decision based on the two steps and considering that which places them on the market.

Conclusion

Tesla's success is attributed to its high innovativeness and high discipline in management. It has taken the environmental concerns into consideration whilst ensuring high products are made and maximizing profits in the process. Tesla has clearly pointed out its targeted clientele are the upper-income consumers by the position of its stores and the usability of the cars. The Value chain strategy implemented by Tesla Motors is a cost advantage strategy. The company wants to make profits from the sale of Tesla cars at the lowest cost possible. Every activity involved in the Value Chain analysis is a strategy implemented by the company, from the production level, to

the sales level to the Human Resource level. The company does its own production of Tesla cars, uses no middlemen to sell the cars and does not spend much on marketing. The company has only invested much in service centers and the warehouses across the countries.

Tesla needs to consider all types of consumers by creating different models in order to stay relevant in the market and beat other competitors. The company should spend money on marketing especially through advertisement; this would increase its customer base and will ensure the product is placed strategically in the market amidst other existing products. Tesla cars should be sold through dealers and resellers to ensure they reach the customers on time. The inbound logistics of the company does not create value in the chain analysis. Tesla Company should focus on making long term plans instead of build-to-order basis.

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