Strategic Analysis Report

Case of Tesla merger with Solar City

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1. Introduction

The concept of globalisation has taken the business into a more competitive environment where strategic thinking and sustainable implementation of practices has become necessary. Generally, a corporate strategy includes various elements like planning, commitments, decisions, and actions for attaining strategic competitiveness and projected returns (Almuzel, 2018). The current report is developed to analyse the strategic development and planning of the Tesla Company who engineer, manufacture and sell electric vehicles as well as energy solutions. Tesla follows a global standard of strategic management because of the high demand for reducing vehicle costs and low pressures for local responsiveness (Song, 2019). In its strategic development, Tesla has variations of business establishment as well as challenges to meet (Siriwardane, 2018). One of the challenges is the industry Tesla functions in, which is based on car manufacturing. The study of Stringham, Miller and Clark (2015), notes that in the car industry it is next to impossible for new entrants to innovate and establish a customer base, as it works on consumer trust built through years of operations. Although, Elon Musk, CEO of Tesla accepts that Tesla is not only a car-manufacturing firm; he imagines Tesla as a future innovation-based firm that targets making practical energy available to the world.

2. External Analysis of the Company

Figure 1 SWOT

2.*1 SWOT analysis*

Among the automobile industry, Tesla has emerged as one of the most discussed and analysed company with a significant impact on the economic development of the industry (Boggild, 2016). In order to understand the external factors that contribute to the strategic management of the company, a SWOT analysis is given below:

Strengths	**Weaknesses**
• Any company is as good as it employs in competitive industries. Tesla is one big example of such companies which is remarkably successful due to its diversity and innovation in technology (Alghalith, 2018).	• One of the weaknesses that Tesla faces is the high-quality standards of innovation that become a complicated environment for the production being at risk (Yang, 2017).

• The increase in sales of Tesla marks it as the leading automotive company delivering 367, 500 vehicles to date. The unparalleled advancement of luxury and innovation both have taken the company to new levels of success leaving behind the exclusive companies like BMW and Mercedes. • Another strength of Tesla is that it is the best company with the finest electric cars (Mayfield, 2018). When compared by the range, Tesla's cars cover the best and maximum distance i.e. 600 kilometres on one time charged battery (Song, 2019).	• Additionally, the introduction, manufacturing and production delays affect the launch of their new vehicles making the competitive edgeless to ratio. • Another weakness is the issue of supply and demand as due to complex experiments and procedures, the company faces the unbalance system of meeting the required production (Liang, 2017). • The major reason for decreased production is the limited availability of batteries. The shortage of charging supply affects the sales resulting in company reputation at risk (Liu and Meng, 2017).
Opportunities • The most credible opportunity from which Tesla can gain potential benefits is by expanding its sales in the Asian market (Tehseen, 2018). Asia is an untapped market for electric and innovative automobiles and Tesla can avail the chance to prove its efficient and exceptional production of electric cars.	**Threats** • Despite Tesla's assurance of premium quality and exceptional standards of production, the company has the biggest threat of product liability claims (Liu and Meng, 2017). Even though, the company had launched various autopilot vehicles to address the liability concerns however, in

• Another opportunity that can benefit Tesla is the affordability of electric cars (Cheong, 2016). Through the launch of Model 3 which is an affordable version of Model S, the company can expand its audience market. • A big game-changer for Tesla can be the introduction of in-house technology for battery production. The company aims to develop its battery cells which will increase the manufacturing cost and reduce the cost of production (Liu, 2017).	case of an accident none of them were successful. • Another emerging threat for the company is the extensive competition from alternative vehicles as well as self-driven technology (Cheong, 2016). Most of the automobile companies that belong to luxury class including Mercedes, BMW, and economy class of Toyota and Ford are in line to give a tough competition of future technology in electric cars. • Apart from this, the unsustainable confidence and increased disbelief also affect the company overall (Ferreira, 2019). The deficiencies and product defects cause distress among users which may impact the business development in the long run.

2.2 *PESTLE Analysis*

Figure 2 PESTEL

The global automotive industry is worth over 5 trillion dollars and is projected to grow to almost 9 trillion dollars' worth of businesses in the next ten years (Statista, 2020). The GDP of several countries and even the global economy is dependent on the trillions generated from the automotive industry. Therefore, any shifts in politics, economy etc. on a global scale affects the automotive industry in one way or another. This in turn affects the business of Tesla in terms of affordability and feasibility for a buyer. The PESTLE analysis of the global automotive industry is given as follows:

2.2.1 Political Factors

Currently, the most prominent factor affecting the global automotive industry is the looming prospect of a deal or no-deal Brexit. According to one estimate, Brexit will have seismic effects on a global scale, which can cost over 50 billion euros to the automotive industry (France-Presse, 2019). This is a massive number, which will not only affect old businesses, but also

American based brands like Tesla that are planning on expanding in the European market. Although, innovative measures to fill the gap left by Brexit in the automotive industry can turn this into an opportunity

2.2.2 Economic Factors

The trade war carrying on between USA and China is bound to have global repercussions for several industries including the global automotive. China is considered to be the biggest market for car sales in the entire world, however the ongoing trade war has resulted in increased prices and decreased demand (Reuters, 2019). The fall in demand is directly related to the trade war, therefore as long as the trade war lasts, it will negatively affect the automotive industry.

2.2.3 Social Factors

Among the social factors, the advent of car hailing, ride sharing and renting applications has changed social patterns. Thomas (2019) highlights that with the rise of companies like Uber, conventional car manufacturers have failed to offer lower costs of travel and maintenance. Such social factors, however are entirely dependent on the companies or the industries innovation, as they can be turned into an opportunity.

2.2.4 Technological Factors

This aspect provides a great opportunity for the car manufacturers to innovate and grow their business. The field of AI and driver-less cars is an unprecedented technology that can attract consumers and generate high amount of revenue (Eliot, 2019).

2.2.5 Legal Factors

The study of Brenner and Herrmann (2018) has discussed that the automotive industry is subjected to continuous legal changes in the form of patent laws, copyright laws, safety procedures and legal woes of competition. In such an environment, car manufacturers have to be proactive to keep up with the changing laws, especially now with the introduction of driver-less cars and ride-hailing options.

2.2.6 Environmental Factors

It is now widely accepted that the automotive industry and cars are the single biggest source of air pollution on the planet and have the largest carbon footprint (Pervaiz et al., 2016). This exposes the industry to major criticism, which affects brand image and any environmental laws directly affect this industry.

Political • Unpredictable Brexit conundrum, deal or no-deal scenario – Opportunity	**Economical** • The US-China trade war and fall in global economy – Threat
Social • Rise of ride-hailing applications like Uber that offer lower costs – Opportunity	**Technological** • AI and self-driving technology in the automotive industry – Opportunity

Environmental	**Legal**
• High rate of pollution and changing legislation for sustainability – Threat	• Continuous flux in the legislative framework for car manufacturers, with AI, Uber, environmental laws etc. – Threat

2.3 Porter's five forces

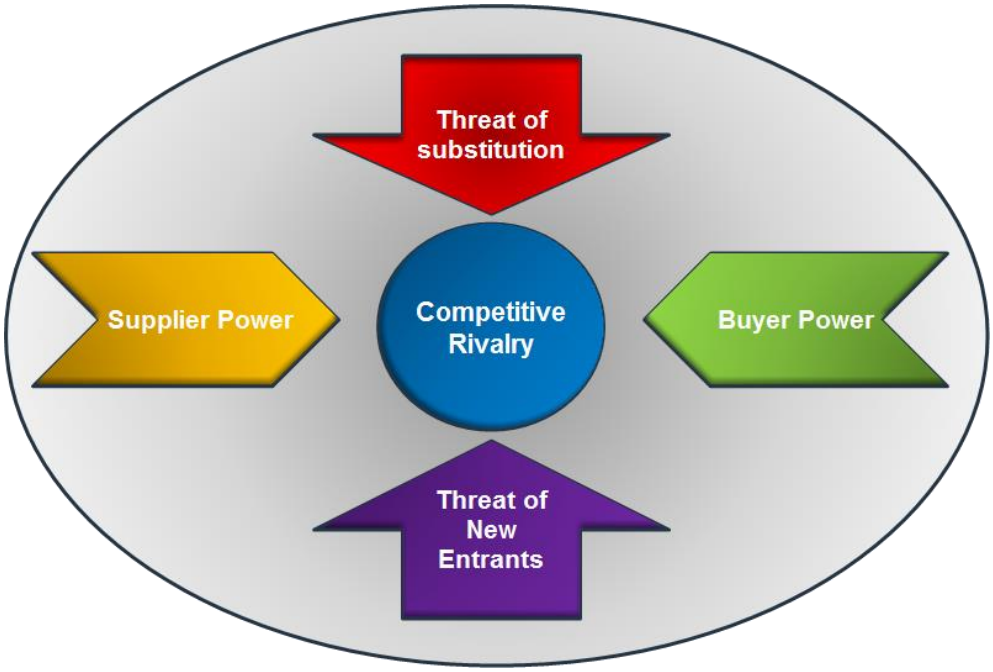

Figure 3 Porter's Five Forces

The global automotive industry is composed of multibillion dollar brands that have globalised into the market of other countries. To understand the strategic approach of the industry, Porter's Five Forces have been applied on a global scale. It is given as follows:

2.3.1 Competitive Rivalry: High

Whether luxury or cars used for daily necessities, the competition in the automotive industry is based on high rivalry. Yoffie (2019) notes that with highly loyal customers and a market that has matured, it is likely that brands overlap and compete for buyers. Mostly brands aggressively invest in research, development and innovation to stand out from the crowd, which is the only to get a competitive advantage over others.

2.3.2 Bargaining Power of Buyers: Moderate

In the automotive industry, usually consumers do not have any bargaining power. Although, when sales are carried out between government agencies for larger fleets, then the prices can be lowered, based on the demand (Akpinar and Vincze, 2016). Another aspect is that technological advancement has led to a wide variety of available products in the market at competitively low prices, therefore buyers can be termed to have a moderate bargaining power.

2.3.3 Bargaining Power of Suppliers: Weak

The foremost reason for low bargaining power of suppliers is the abundance of raw material present for the automotive industry (Akpinar and Vincze, 2016). This allows car manufacturers to switch between suppliers and avoid any dependence on a single supplier. This has also resulted in the absence of a single powerful entity among the automotive suppliers, as most are smaller entities.

2.3.4 Threat of Substitutes: Moderate

As stated by Yoffie (2019), customers in the car manufacturing industry are extremely loyal, therefore the chances of opting for a substitute are closer to zero. The presence of ride-sharing substitutes like Uber can pose a threat for the automotive industry (Thomas, 2019). However, this threat can be overcome with innovation and offering lower costs of travel and maintenance.

2.3.5 Threat of New Entrants: Weak

The cost of setting up a car manufacturing industry is extremely high, this lead several investors to opt for investing in an existing brand, rather than establishing a new one (Rübmann et al., 2015). Furthermore, the level of competition in the industry is another factor that forces stakeholders to refrain from entering the market.

Threat	Opportunity
• **Ongoing US-China Trade War** • **Environmental Damage and Carbon Footprint of Car Industry** • **Legislative Changes in the Environmental, Ownership and Patent Laws.**	• **Ambiguity Between Deal or No-Deal Brexit** • **Market Based on High Rivalry with a Loyal Customer Base** • **Advent of Technology like AI and Driver-Less cars**

3. Internal Analysis

3.1 Resources

Physical	Financial

• Across the world, Tesla has managed to open more than 50 stores and a Gigafactory for manufacturing batteries – **Strength**	• In a short time, Tesla has managed to make grounds in the markets of Canada, Australia and New Zealand with various investors like Google, Daimler – **Strength**
Intangible • Innovation – The key element of success for Tesla is its innovation that stands out in the competitive business market – **Strength** • Reputational – Recently Tesla's reputation has taken a hit due to delays in production and failed operations – **Weakness**	**Human** • Research & Development - The company focuses highly on the R&D department through which the team highlights improvements and advancements – **Strength**

3.2 Competences

3.2.1 Value Chain Analysis

Inbound Logistics	• Tesla has leased various other warehouses in different corners of the world including America, Asia and Europe. • High quality products manufactured due to the expertise offered by executives and leaders
Outbound Logistics	• The leading manufacturing network of Tesla is based in Gigafactory Nevada. Tesla ships its electric vehicles to its stores in the US and 29 countries around the world. • Consumer complaints about delayed delivery of products
Operations	• The operations of Tesla are based on automotive segment and energy generation while storing capacity of solar energy as well.

	• Collaboration with Daimler and Toyota will help Tesla increase operations
Marketing & Sales	• The company usually uses its website and other digital sources for marketing and promotions. • Tesla has the strategy of customising each order on the client's demand, this is a great marketing technique but results in less sales.
Services	• Tesla offers after-sale services to its customers through a wide network of retail stores and service stations that are located in various countries of the world. • The customer service of Tesla is not completely favourable for customers.

3.2.2 VRIO Model

VRIO ANALYSIS V: Value creating potential R: Rarity I: Imitability O: Organisation support						**GRADING KEY** A: Outstanding Value and Performance B: Valuable but not vital source of advantage C: Beneficial but less significant D: Unlikely to be sustainable
	V	**R**	**I**	**O**		**Strategic Implications**
CORE COMPETENCIES						

Management & Leadership	A	A	A	A		JB Straubel is the co-founder and CTO of Tesla who is a skilled professional The company also includes veterans from the industry on positions like VP, VP Powertrain and VP Supply Chain. The combination of expert experiences offers great value and advantage to the company (Borén, 2017).
Outbound Logistics	A	A	A	A		Tesla's exclusive opportunity for its customers to customise their vehicle is beneficial, although results in complaints of late delivery.
Advanced Manufacturing Plant	A	A	A	A		One of the world's best elite car manufacturing is Tesla's factory, which owns around 5.3 million square feet of space for assembling and management
Services	A	A	A	A		The company owns an extensive network of stations for Super Charging across the world. It helps the customers charge their vehicles (Robèrt, 2017).
Operations	A	A	A	A		In order to maintain strategic coalitions, Tesla has established strategic alliances

						in different like OEM alliance: Toyota, Daimler

The application of the value chain analysis and VRIO model on the manufacturing capability of Tesla, has been helpful in identifying several distinctive competencies of the company. The most advantageous of all distinctive advantages is the efficiency of operations done as outbound logistics. The operations are good or special because they offer flexibility in the manufacturing system and collaborations have further improved operations. The option of customisation is another operational feature in the outbound logistics that is valuable for the customers and harder to imitate. The evidence of this is given on the official website of Tesla that provides a catalogue of models to pick the latest designs and technology from (Tesla, 2020). This trait is rare to be seen within the automobile industry, as most customisation options are for luxury vehicles (Fettermann, Echeveste and Tortorella, 2017).

Strength	**Weakness**
• **Outbound Logistics that Offer Services of Customisation** • **Advanced Services in Manufacturing with Latest Technology in Assembling and manufacturing** • **Operational Mergers with Toyota and SolarCity that allows innovation and Generates Revenue**	• **Delivery and Launch Delays Because of the Feature of Production-On-Demand** • **Failed Operations and Broken Promises on New Models and Technology** • **The Consequent Fall in Reputation Due to the Failed Operations**

4. Strategy Evaluation

4.1 Merger with Solar City

In the year 2016, Tesla announced the creative idea of gaining electricity generation concept by acquiring SolarCity who is a solar panel producer. The company merged and offered $2.6 billion in an all-stock offer. The CEO of Tesla, Elon Musk, efficiently accepted the offer as the merger will provide huge income outflows for the company development. Tesla being an eco-friendly company emphasised on the vision of storing energy and promoting a green economy Cheong (2016). However, the experts from Wall Street were concerned about this merger to not being practically successful and may trouble the company with heavy debt. The criticism on Musk using this offer for personal advantage also speculated concerns in the business environment.

Since the acquisition of SolarCity by Tesla was made in 2016, the figures from 2017 and 2018 will be utilised to uncover the change with respect to its monetary wellbeing, benefit, and income. Generally, it may be seen that by securing the offer, Tesla has gone up 68% in sales. This is sensible since the product development has been extended. However, its gross edge reduced from 23% to 19% because the expense of production amplified by 76.6% (NASDAQ, 2017). This ought to be upon SolarCity since it was liable for concerns concerning the expense and productivity of developing and introducing the products. It appears that as an innovation firm, R&D took a major piece of working costs. It would be reasonable that the costs for improvement and research increased by the greater part since the two companies needed innovation to keep an upper hand in the market.

4.2 SAF Test

	Weakness • **Production and Launch Delays** • **Failed Operations** • **Tesla's Falling Reputation**	**Strength** • **Outbound Logistics like customisation** • **Advanced Services in Manufacturing with Latest Technology** • **Operational Mergers**
Threat • **US-China Trade War** • **Environmental Damage** • **Legislative Changes**	Sustainability is at the core of the merger in the form of green merger, however operations need to be made more effective.	Advanced technology and innovative means in the operational strategy of Tesla-SolarCity merger will make it successful
Opportunity • **Brexit** • **Highly Competitive Market** • **AI and Driver-Less Cars**	Products developed under the merger will be helpful in bringing up customer perception and provide a competitive advantage over other players.	Offering an innovative product in changing political markets can still appeal to customers and increase sales.

4.2.1 Suitability

The given case of Tesla and SolarCity merger depicts a productive approach with the element of suitability applicable to Tesla (Mayfield, 2018). The strategy is suitable in regard if revenue generation where the production cost may have increased simultaneously. However, the suitability of SolarCity panels for power generation and the green economy are significant opportunities that meet in the required strategy (Madson, 2020). Even though the worries of debt concerns and production costs increase, the concept will eventually be helpful for both companies to form an efficient and strong collaborative innovation.

4.2.2 Acceptability

In concern of the Acceptability of the proposed strategy, it may develop the element of risk in the context of innovation through solar panel energy. The practice is new stakeholders tend to invest in established productions (Kremer, 2020). Tesla may also face issues in gaining returns through merger productions and promotions. It is likely to take time for innovation to become a needful asset for a customer who wishes to spend more. In terms of the Power/Interest matrix, the stakeholders in Tesla's business ventures are noted. On the basis of the table, Tesla will have to be critical in getting key players on board with the merger, although customers and employees will be easier to satisfy.

Key Players • Shareholders • Investors	**Keep Satisfied** • Customers • Employee
Keep Informed • Government	**Minimal Effort** • Community

4.2.3 Feasibility

Without an appropriate and feasible business model, this merger may not work out well in the future. Tesla does not focus much on its marketing strategy which is a big concern for marketers and stakeholders (Molenaar, 2020). Initially, the practice of newly developed products will be a complex task which both companies have to configure upright. In case of defects or damage which

both companies have to configure upright. In terms of finances, the merger will have to succeed with its product for the smooth running of the merger.

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