Tesla Strategic Analysis

MBA 695 Strategic Management

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**Strategic Analysis - Part 2**

**VRIO Analysis**

The VRIO framework is described by Barney and Hesterly (2010), as an excellent analysis tool which can be used to assess a firm’s internal environment. According to them, the acronym represents the four essential questions that need to be asked about a capability or resource so as to determine its competitive prospective. These four questions are:

1. Value: Can/Does the capability/resource enable a business to take advantage of opportunities in the environment and/or neutralize a threat in the environment?
2. Rarity: Does only a small percentage of competing firms currently control the resource? (this question also seeks to determine whether the firm’s products/services or their raw materials rare)
3. Imitability: Is the resource/products/service difficult to imitate? Are there cost disadvantages to firms, without the resource, in developing or obtaining it?
4. Organization: Do the policies and procedures of the firm support the rare, costly to imitate, and valuable resources exploitation?

In line with the VRIO analysis tool, a reassuring answer to the above questions relating to the business under analysis would be an indication that the business is able to put up a competitive advantage.An analysis of Tesla using the VRIO analysis tool and the potential outcome for the organization following the shortage of lithium batteries causing it to not meet demand, can be done as follows:

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| **Tesla analysis using VRIO Analysis tool** |
| If the Lithium batteries are: |  | Tesla can expect: |
| Not valuable |  | Competitive Disadvantage |
| Valuable, but not rare |  | Competitive parity (equality) |
| Valuable and rare |  | Competitive advantage (At least temporarily) |

Additionally, should the imitation costs be high, Tesla may enjoy a sustained competitive advantage period

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| **VRIO analysis while incorporating Inimitability** |
| If the lithium batteries are: |  | Tesla can expect: |
| Valuable, rare, but not costly to imitate |  | Temporary competitive advantage |
| Valuable, rare, and costly to imitate |  | Sustained competitive advantage  |

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| **VRIO summary of Economic and Competitive Implications** |
| Valuable? | Rare? | Costly to Imitate? | Organized Properly? | Competitive Implications | Economic Implications |
| No |  |  | No | Disadvantage | Below Normal |
| Yes | No |  |  | Parity | Normal |
| Yes | Yes | No |  | Temporary Advantage | Above Normal(at least for some amount of time) |
| Yes | Yes | Yes | Yes | Sustained Advantage | Above Normal |

The column indicated “Organized properly” refers to the organizational control and structure which ought to be aligned to give individuals the incentive and ability to exploit the business’ assets/resources.Therefore, based on the analysis guide, Tesla’s critical resource: Lithium-ion batteries can be looked at in the following manner:

Are the batteries valuable to the ability to meet demand?Yes (Novio, 2017).

Are the batteries rare or scarce? Yes, there is a shortage (Novio, 2017).

Are the batteries costly to imitate? Yes, there are cost disadvantages to firms, without the resource, in developing or obtaining it(Price, 2016).

Is the firm’s organizational structure and control properly aligned? Yes (Tesla, Inc., 2017).

VRIO Analysis Recommendations

With an answer of yes to all these questions, it is determined that Tesla can have a sustained competitive advantage and an above normal economic advantage should they find a way of addressing the lithium battery shortage and meet customer demands. The organization should, therefore, produce its own lithium batteries to meet demand of electric vehicles.

**PEST analysis**

The PEST analysis is a valuable analysis tool that can help a business understand its market decline or growth, and, therefore, the businesses’ direction, potential and position (Roper, 2012). The acronym PEST represents the Political, Economic, Social and Technological factors used to evaluate the organization’s market. These factors also provide a framework for appraising a situation. The PEST analysis can also, just like the Porter's Five Forces model, and SWOT analysis, be used to evaluate an idea, marketing proposition, company direction andposition or strategy (Gillespie, 2007). Below is a PEST analysis of Tesla:

Political Factors

The impact of the political environment and government decisions and actions on the Tesla business are identified in this section:

* There has been political stability in most of the businesses’ major markets. This has resulted in a favorable macro-environment that will enable the furthering of Tesla’s penetration strategies.
* Free trade Agreements expansion which has opened opportunities for the business to increase its international operations.
* Incentives by the Government for electric vehicles. Based on this factor, Tesla Inc., therefore, has an opportunity to strengthen its financial performance.

Theseexternal political factors present an opportunity for Tesla to grow in the automotive sector.

Economic Factors

The impact of the economic conditions on the Tesla business are identified in this section:

* Decrease incosts of renewable energy whichmakes the company’s products more attractive, bearing in mind that the business grows with increase in popularity of as renewable energy solutions.
* Decrease in Lithium battery costs which can be used as an opportunity to make the electric vehicles more affordable and therefore increasing demand for them.
* Economic instability in the Asian and European markets posing a threat to the growth of business in these regions.

Social Factors

The impact of the social factors on the Tesla business are identified in this section:

* The low carbon lifestyles have increased in popularity offering growth opportunities for the electric vehicles production as a result of increased demand.
* An increased renewable energy preference. This has provided Tesla with an opportunity to grow its renewable energy products portfolio.
* In developing markets, there is an improving distribution of wealth. This is also an opportunity for the business to increase sales and therefore, its financial performance.

Technological Factors

The impact of the technological factors on the Tesla business are identified in this section:

* Mobile systems popularity increase provides an opportunity for Tesla to increase the popularity for its products by using the mobile systems in them.
* The business is increasingly being automated which can be seen as an opportunity for Tesla to adopt automated processes for its business which are faster, more efficient and cheaper thereby improving overall performance.
* Constant developments in technology provide an opportunity for the business to enhance the technology of its products while also facing the threat of having its products become obsolete if they do not adopt as fast.

PEST Analysis Recommendations

The Political, Economic, Social, and Technological factors in the macro-environment mostly provide Tesla Inc. with opportunities for growth and improved performance. Therefore, it is necessary for Tesla to address the shortage of lithium batteries that is causing it not to be able to effectively meet demand, and take advantage of these opportunities available to it. The business can expand both internationally and locally by embracing the technological changes happening in its environment and also taking advantage of the social, economic and political opportunities (Housing Industry Association, 2011).

**Financial Ratios Analysis**

1. Gross Margin

This gross margin ratio is used as an indicator of pricing power and production efficiencies by analysts. It is calculated by dividing the gross profit of a company by its total sales. This margin shows the efficiency with which the auto-manufacturer operates its process of manufacturing to deliver products at prices aimed at achieving profitability that is as high as possible. As of June 2017, Tesla’s gross margin was at 23.90%. In the previous 10 years, the margin has ranged between 87.67% and -7.74% with a median of 22.84%. Higher margins are preferred and Tesla’s gross margin is indicative of a competition eroding margin (Tesla, Inc., 2017).

1. Operating Margin

This metric is very useful in the evaluation of a business’ profit-generating efficiency. This is the profit calculated before expenses. It includes the administrative, selling and overhead expenses incurred by a business in business operation and products marketing. The margin is calculated by dividing a company’s operating profit by its revenue. Tesla’s operating margin as at June 2017 was -8.64%.The margin has been declining in the last 5 years. Higher operating margins are preferred and serve as an indication of efficiency in operation. The company’s ratios have been very volatile over the past ten years with margins ranging between -109497.265 and -3.04% (Tesla, Inc., 2017).This negative marginhas been attributed to the company’s heavy investment in aggressive marketing and in-house research and development.

1. Inventory Turnover

This ratio can be used to indicate to investors and analysts, the efficiency with which a business manages its stock. It shows the number of times, within a specified period, a company turned over its stock through sales. Higher turnover ratios are preferred and serve as an indication of an efficient company. Tesla Inc.’s inventory turnover as at June 2017 was at 0.91 (Tesla, Inc., 2017).Auto manufacturers, including Tesla, rely on selling their products as fast as possible to produce income and a low turnover of stock may serve as an indication of problems with the stock or poor marketing tactics. The company’s ratio has been on an upward trend as from 2008 though still lower than that of its competitors in the industry. The problem at Tesla lies in its inability to meet product demand as a result of shortage in lithium batteries needed in the manufacturing of its electric vehicles.

**Recommendations**

Based on the VRIO Analysis, it is determined that Tesla can have a sustained competitive advantage and an above normal economic advantage should they find a way of addressing the lithium battery shortage and meet customer demands. The organization should, therefore, produce its own lithium batteries to meet demand of electric vehicles.

The Political, Economic, Social, and Technological factors in the macro-environment mostly provide Tesla Inc. with opportunities for growth and improved performance (Murphey & Gause, 1974). Therefore, it is necessary for Tesla to address the shortage of lithium batteries that is causing it not to be able to effectively meet demand, and take advantage of these opportunities available to it. The business can expand both internationally and locally by embracing the technological changes happening in its environment and also taking advantage of the social, economic and political opportunities.

The Financial analysis of Tesla shows that the company is still not performing efficiently as indicated by its gross and operating margin ratios (Horrigan, 1965). The company is equally not meeting demand as is expected and therefore needs to embark on a mission to acquire more lithium batteries either through producing them on their own or partnering with a lithium battery producer to produce majorly or exclusively for Tesla Inc.

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