

# The environment, and internal environment. first of

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The aim of this report is to conduct a marketing audit of Tesla Inc., an automotive company with focus on manufacturing electric vehicles. The reasons for conducting this marketing audit are to identify the company's position in the marketing environment, its objectives, strategies, and activities, which eventually aim to identify strategic issues and problems, but opportunities too (Fahy and Jobber 2015). Tesla was founded in 2003 by a group of engineers who wanted to prove that electric driving was more possible than most people would think (Tesla Inc. 2018). The electric cars segment in which Tesla is operating has some unique features compared to the traditional automobile segment.

Electric vehicles take advantage of high oil prices but are sensitive to changes in government regulations and technological innovation that can affect costs and sales. Moreover, governments have started to implement regulations regarding CO2 emissions and also, an increasing amount of people are becoming environmentally concerned. The marketing audit focuses on the external environment, industry environment, and internal environment. First of all, the external environment analysis focuses on aspects such as political and legal factors, economic factors, social factors, technological factors, and ecological factors (PESTEL analysis). The PESTEL model enables companies to remain competitive by becoming aware of their external environment and identifying any possible threats (Fahy and Jobber 2015). Then it continues with the industry environment analysis concentrating on the threat of new entrants, the threat of substitutes, the bargaining power of suppliers, the bargaining power of buyers, and the intensity of rivalry (Porter's five forces). This framework helps the company to

identify the profit potential of an industry, and its keyplayers and/or new entrants (West, Ford and Ibrahim 2010). Finally, the internal environment analysis is carried outhighlighting the company's strategies regarding its organisationalinfrastructure, human resource management, technology development, operations, marketing & sales, and services.

These factors were chosen because theyidentify organisational strengths and weaknesses, and develop responsivestrategies (Aaker and McLoughlin 2010). The United States government, after successfully implementing greenhouse gas and fuel economy regulations forvehicles manufactured between 2012 and 2016, they decided to develop additionalregulations in the future, starting from 2017 to 2025 (International Council onClean Transportation 2014). As a result, the new regulations would set a significantlylower level of CO2 emissions allowed by vehicles produced duringthat time.

The European Union has takensimilar action on this matter as well. They have passed laws that promoteinnovative technologies for producing eco-friendly vehicles, eventually aimingto reduce greenhouse gas emissions by 30% by 2020 (International Council on CleanTransportation 2013). Moreover, they have stated that manufacturers whose CO2emissions exceed the proposed targets will be fined (Official Journal ofthe European Union, 2009).

The Chinese government has alsoenforced regulations on fuel consumption standards and greenhouse gas emissionssince 2004, and recently, these regulations were developed even further. However, China's approach is more flexible with automotive manufacturers thanthe European Union

(Transportpolicy. net 2015). All in all, the above lead totighter emission controls in the future and a shift in customers' demand tomore environmentally friendly vehicles.

Consequently, Tesla will most likelybenefit from this. The financial crisis of 2008 had a major impact on the world economy. However, China's GDP was not affected asmuch as the EU's or the US's, thus becoming the largest auto market in 2009(OECD Economic Outlook 2009).

But, automotive companies arepart of a cyclical industry which means they produce high-value products with along lifetime. This implies that better financial conditions help vehicle salesto increase. As a result, this relates to business cycles and GDP(InvestingAnswers 2015). Furthermore, commodity priceshave a major role.

Oil prices affect customer demand and running costs, and rawmaterials (e. g. aluminium and lithium) influence production costs (Bloomberg2016; Market Realist 2015). Ultimately, Tesla's sales haveincreased since world economies and people have recovered from the financialcrisis (Tesla Inc.

2015), and also oil prices are expected to increase whichmight turn customers to alternative options (Bloomberg 2016). However, lithiumprices are high as well, which is used to manufacture their batteries (MarketRealist 2015). Recently, an increasing number ofpeople have become environmentally concerned resulting in intentionallyavoiding certain brands (HuffPost Business 2015). In addition, when customerscan afford environmental-friendly products that are more expensive thannon-

environmental-friendly products, they feel their social reputation increases (Vladas et al. 2010).

In this case, Tesla is a premium electric car manufacturer displaying environmental consciousness. Therefore, this highly influences socio-cultural factors and people's perception of this company. Technological advancements are extremely rapid in today's era.

A few noteworthy examples are electric cars, automatic parking systems, and improved safety controls. However, despite all the enormous development in the automobile industry, customers still have second thoughts on adopting an electric vehicle, mainly due to battery costs and range anxiety (Tesla Inc. 2015). Nonetheless, Tesla is offering a variety of technological advanced electric cars and has also built a network of charging stations to deal with battery range issues (Tesla Inc. 2015). Moreover, Tesla has managed to cut down significant battery production costs (Clean Technica 2014). Climate change and environmental pollution are much-discussed issues nowadays.

A large amount of CO<sub>2</sub> emissions come from vehicles with internal combustion engines (Go Electric Drive, 2015). Therefore, governments are seeking ways to reduce CO<sub>2</sub> emissions by trying to limit them and issue a fine to those who do not comply (International Council on Clean Transportation 2013; Official Journal of the European Union, 2009). However, Tesla manufactures electric cars with little to none emissions that could harm the environment (Tesla Inc. 2018).

Furthermore, governments are trying to promote eco-friendly automotive companies (International Council on Clean Transportation 2013; GoElectric Drive 2015). The automobile market requires high capital investments for new entrants to cover production costs and staff salaries. Tesla spends far less money compared to bigger industry players but it re-invests a higher percentage of sales revenue to keep the company in operation (Tesla Inc. 2015). In addition, technical expertise and technological innovations are another barrier companies have to face.

In order for automobile manufacturers to keep their cars affordable for more customers, they need to achieve economies of scale and remain competitive. Finally, Tesla is directly selling its own cars to customers through their own dealerships. However, well-established companies in this industry already have their own distribution network in place, which makes it easier for them to enter the electric vehicle segment, and also as they have the required capital in place. Alternative forms of transportation include buses, trains, airplanes, and bikes. However, none of these are as convenient as a car. In densely populated areas, public transport is more preferred but in rural locations, where public transport is less available, more people own a car (American Public Transportation Association 2015).

Currently, electric cars are more suitable for short distance journeys, thus public transport might be seen as a threat. Also, for people who greatly take cost into consideration, public transport seems like a better option. However, people who want to buy an electric car are willing to pay the extra price, therefore Tesla's customers choose this vehicle based on its features. Cars

require numerous parts to be manufactured and in the past, automakers would have many suppliers for these car parts. However, after the 2008 financial crisis, this number has fallen. Now they use a significantly smaller number of suppliers and have closer bonds between them (Bain & Company 1999; Automotive News 2015). Regarding Tesla's batteries and car components, they are produced by only a few companies which creates an advantage for suppliers.

However, Tesla is a significant customer who buys the majority of the parts needed to build an electric car (Automotive News 2015). The majority of automobile companies use traditional distribution channels (i. e. 'middle man') through dealerships to sell their vehicles. On the other hand, Tesla has its own network of dealerships which cuts down costs and reduces the bargaining power of customers (Tesla Inc. 2015). However, price-sensitive customers may easily change to another company for a lower price. Nevertheless, Tesla customers are very satisfied with the company and its cars that they do not complain about the premium price Tesla competes not only with internal combustion automobiles, but with other electric-powered cars too.

Given the fact that electric vehicles are still in the introduction stage and internal combustion automobiles have reached the maturity stage, it is only a matter of time that electric cars will enter the growth stage and the mass market (Johnson et al. 2011). Also, government regulations promote the production of electric cars giving Tesla an advantage over traditional automobile manufacturers. At the moment, there might not be a

high level of competition among electric car manufacturers but, an increasing number of companies are planning to expand in the electric vehicle segment in the near future (KPMG 2015). Tesla's organisational structure is cost efficient because it hires less managers and employees, thus being able to pay better salaries despite being a small player in the automobile industry. However, only people with a high level of knowledge and expertise work for the company (Tesla Inc. 2018b). Moreover, this organisational structure boosts productivity because it allows clear communication.

For example, fewer people are required to be consulted for a decision and less supervision is needed, giving managers the opportunity on issues concerning their goals and not spending time monitoring employees. Tesla not only offers its employees high salaries but also other incentives to boost their motivation and productivity. For example, it gives its employees the ability to buy company stocks (Tesla Inc. 2018b).

Although electric cars are a relatively new technology, Tesla has a head start compared to other companies. Since it has been active in this industry for a long time, Tesla has in its possession the latest technologies and expert staff, making its cars the most advanced, eco-friendly, and safe electric vehicles on the road (The Motley Fool 2016). The Tesla factory in California has been designed in a particular way to allow multiple products to be produced at the same time while maintaining high quality standards (Tesla Inc. 2015).

Additionally, the company has plans to build its own battery manufacturing facility in the US and also plans to expand in other countries as well to cut down logistics costs (Tesla Inc., 2018c). Tesla does not a great



amount of spend money on advertising. It simply relies on media coverage during its events and word of mouth after that.

Furthermore, as it has been already mentioned, Tesla sells its cars through its own network of stores. In order to place an order, customers have to go online on the company's website and customize their vehicle (Tesla Inc. 2015). Due to customers' range anxiety, Tesla has focused on placing charging stations alongside main roads in America, Europe, and Asia (Tesla Inc. 2015). Also, by the end of 2015, they owned over 100 service centres where customers could drive their Tesla car for it to be repaired (Tesla Inc. 2015). To conclude, the external, industry, and internal environmental analysis have showed that Tesla is operating in a very interesting industry with great potential for growth and development in the future. From the external analysis it can be concluded that electric cars are being promoted by all the key factors. Recent regulations urge automotive manufacturers to adapt or comply to them. Consequently, Tesla will most likely benefit from this. Furthermore, there is an increase in Tesla's sales since oil is getting scarce and thus more expensive.

Also, there is an increase in awareness of environmental problems and hence willingness of people to buy an eco-friendly vehicle. In addition, the company has developed a variety of extra features for its vehicles and has also built a charging station network to deal with battery range issues. Finally, Tesla manufactures electric cars with little to none emissions that could harm the environment. The industry analysis showed that the electric cars industry has much potential in the future with new entrants joining in.

However, Tesla holds the upper hand which creates barriers for new entries. Moreover, public transport or other electric car manufacturers may appear as a threat at the moment due to costs. In addition, suppliers are limited meaning that they have an advantage over the company. On the other hand, buyers do not have much bargaining power since the majority are satisfied with the company.

Finally, there are not any major rivalries in this sector yet but more manufacturers are expected to enter. Overall the company's internal analysis showed that its organisational infrastructure is cost efficient and boosts productivity, hires the most appropriate employees and motivates them with high salaries and extra incentives, has in its possession the latest technologies, does not spend a large sum of money on advertising but yet manages to be trending, and pays great importance to after-sales services. Based on the above, Tesla should adopt a more affordable pricing strategy in the future to make its products more affordable and attractive to maintain its competitive advantage, since it is almost certain that new, well-established players will be joining soon in this small but rapidly growing industry.