

The distribution channels and strategy business essay

[Business](#)



4. 1. Cultural / Social Forces Undoubtedly social factors are related to political and economic circumstances. It includes the cultural aspects with increases in environmental consciousness, attitudes and emphasis on green products. The company's product demand is affected by these trends, as well as how that company operates. For example, Tesla provides a product that will produce zero emissions but at a cost approximately between \$67, 000 and \$103, 000 CAD - that limits it to very few as a viable alternative to an economically friendly gasoline car. No matter where the conversation is focused on the environment, carbon footprints and greenhouse gases. Also, with the trend for consumers to purchase products that are considered eco friendly¹⁶, these trends can be finite as price still plays a significant role in consumer buying decisions. Consumers are also losing faith in petroleum fuel and the associated costs in production, especially in the wake of environmental calamities like the BP oil spill in the Gulf of Mexico. Tesla's zero sacrifice Model S and the \$103, 000 CAD price tag gives the affluent buyer a ticket to exclusiveness. Part of the green revolution is the elite and celebrity aspect historically associated with owning hybrid and electric vehicles. One of the consumers concern on hybrid and electric vehicle is its performance, or lack thereof. Tesla's Model S answers this with acceleration faster than most Sedan cars of the same price and yet produces no carbon emissions. Tesla Motors is built of environmental consciousness and its pursuit of diminishing dependence upon a diminishing resource for their consumers is what the company values and depends on most for increasing revenue.

4. 2. Demographic Forces The second macro environmental factor, which Tesla Motors runs into, is the demographics. Because Tesla vehicles

only appeal to those who can afford it, this fact alone might be a major problem for Tesla's success in the future. Although Tesla Motors offers a first-rate vehicle when it comes to efficiency, performance, and class the price for the fairly new car company is not economically friendly. Currently Tesla's prices can range from the base vehicle Model S which costs between \$67,100 CAD (40kWh) up to its Performance edition which is estimated at \$103,000 CAD (85kWh). With its above average cost of the high end fully electrical cars Tesla must integrate a more concentrated segmentation strategy in targeting the correct demographics to foster the company's success.

4. 3. Political Forces Tesla Motor's debut is targeting initially the Toronto Market and is well planned with the current political climate. The political factors related to Tesla, includes mainly what and how to extent the Canadian government intervenes the economy in Canada. After reviewing the political factors including areas such as tax policy, labor law and environmental law, it can be firmly documented that the Canadian and American governments have had a strong influence on withholding the electric car to the main public. Prior endeavors to produce electric vehicles were disregarded in North America; however, Hybrid cars, have pushed the marketplace and electric vehicles are gaining attention among provincial and federal government legislation in Canada. A legislation currently approved by the Vancouver's city council requires that all new condominiums built in the city to install the 240-volt outlets needed to charge the Tesla in 20% of all parking spots. Vancouver is the first city in North America to do so. The Ministry of Environment from British Columbia says that 210 electric vehicles were leased or sold since the province introduced its tax incentive for people

who choose to buy EV cars. 10The Ontario government has announced that it wants to have at least one in each twenty vehicles driven in Ontario to be 100% electric by 2020. In order to achieve this goal, the Ontario government has introduced strong green car incentives with tax rebates from \$4,000 to \$10,000 for purchased vehicles after July 1, 2010². Qualified green cars would also receive green license plates that would allow drivers special privileges including unrestricted access to HOV lanes regardless its occupancy, access to public charging facilities, parking at Ontario government, and GO Transit lots.

4. 4. Economic Forces

Economic factors include economic growth in the alternative energy industry, Tesla's recent partnerships, and major changes within the insurance industry. These factors have major impacts on how Tesla will be able to operate and make decisions. The costs with fuel and insurance are increasing and have become the major factors of operating a vehicle. According to the Consumer Price Index, the price of transportation in Canada has increased four percent in the last 12 months. Additionally, paying higher prices for gasoline and passenger vehicles, consumers paid five per cent more for passenger vehicle insurance premiums. 12 In the past, it was true that crude oil prices were synonymous with the price of gasoline; however, since 2000 this historical trend has not held as pump prices have raised almost 40 per cent in the United States. 13 As of July 1, 2013, the taxation on pump gas has increased by eight per cent with the new Harmonized Sales Tax in Ontario. 14 As taxation expands to incorporate the new practices of green business, the much hyped carbon tax and many of the policies and instruments to measure have not been implemented in North America Tesla has recently announced a partnership

with Toyota Motor Corporation, 15 which will help to achieve Tesla's goal in producing increasingly affordable electric cars to mainstream buyers. This partnership will benefit both sides significantly, as Japan is positioning itself to be a market leader in hybrids and Electric vehicles. Recently, the media has portrayed the automotive industry, particularly for start-ups, as removed from the romance of yesteryear. It is increasingly difficult economically to create, design and manufacture vehicles.

4. 5. Technological Forces

As mentioned earlier in this marketing plan report, technological factors include purchasing technology with incentives offered by the government of Ontario for example. Technically, the electric technology powering the Tesla line-up is state-of-the-art; however, the problem is where owners will be able to go to charge up away from home when traveling beyond the roughly 400 kilometer range. The Department of Transportation in California has created charging stations throughout the state and listed them on a publicly accessible website¹⁷. Many cities in Canada already have 120-volt outlets, which means that they are plugged in for electric charging stations. The same electrical outlets used to keep Canadian cars' engine blocks warm in the winter could also be used to power plug-in hybrid electric vehicles year-round. This would avoid the need for extensive infrastructure as the Tesla vehicles come with charging solutions for 110, and 240-volt outlets. 18

(Appendix E) 4. 6. Natural Forces

The growing awareness to climate changes are environmental factors that affects how companies operate and the products they offer. Also, consumers who are increasingly more aware of the environmental impacts of production have been affected. An event like the catastrophic BP oil spill in the Gulf of Mexico raises the question of our

reliance on petroleum and strengthens environmentalism as ideology already prevalent throughout society. There is no doubt about the influence of this disaster in future decisions worldwide on the procuring of oil from deep sea operations and more importantly, push stricter legislation within the industry. As a result, the cost of petroleum products will continue to rise. Growth of the world population, particularly in emerging countries, and a significant increase in per capita income are the key trends that will influence oil demand. 19 Mainstream and short-term prices are expected to be around \$80 a barrel with a four per cent increase in market demand through to 2014. Depending on transport sector policy initiatives and future economic growth and around the globe, there could potentially be either a management or crisis situation for the industry. 19 Already happening in Europe, future trends will promote new technologies and influence energy policies with the environment in mind and re-thinking mobility. The issues covered throughout this natural force analysis shape and influence the opportunity for Tesla Motors, Inc in Canada. After external analysis, there is a favorable climate for Tesla's launch into Toronto in winter, 2014.

5 Microenvironment (Internal Analysis) 5. 1. Management Elon Musk is the Chairman, Product Architect, and CEO and responsible for Tesla's management team. A higher management team selected from top automotive and technology firms is also responsible for leading Tesla's management team. Elon Musk is the primary shareholder of the company and is considered almost as a symbol of the brand. Tesla has a strategic partnership with DOE Loan Facility, which is fully dependent on Musk remaining in his role as Tesla CEO and retaining the larger percentage of the

company. 5. 2. Finance Tesla follows the Generally Accepted Accounting Principles for financial reporting and has received not qualified opinions on its annual reports from Pricewaterhouse Coopers LLC. Tesla uses the straight-line method for calculating revenues on lease vehicles, depreciation, development compensation, and costs stock based compensation. The company uses the first-in, first-out (FIFO) method to account for inventories, which are valued at lower of cost or market. Tesla offers leasing options on its vehicles, and all accounts receivables are trade receivables from their development services. In order to cover warranty repairs on its vehicles, Tesla maintains warranty reserves to fund potential manufacturer, which is consistent with the other automotive companies. The company began its earning revenue in 2007, posting \$73, 000 of powertrain sales. Over the past three years, the company's capital structure has changed drastically. Between the 2007 and 2008, negative stockholders' equity balance was presented; however, a positive stockholders' equity during that year by issuing preferred stock in 2009 and paying off notes payable. Tesla's current capital structure is 29. 15% debt to total equity and 22. 58% debt to total capital. (Appendix H). Tesla's primary source of debt is the \$465 million DOE Loan Facility, of which is \$56. 6 million has been drawn out by Tesla. Interest payments on the DOE loans have started in 2012. Certain clauses on the DOE Loan facility, require Tesla to keep certain levels of restricted cash. 24 Tesla vehicle sales began in 2008, increasing sales revenue to \$14. 74 million in that year. Tesla also earns revenues by selling their Zero Emission Vehicle (ZEV) to other companies. In 2011 Tesla's gross margin on its sales was of 9. 7%, and this has increased to 24. 12% in the

first nine months of 2012; however, their operating margin has been inconsistent in the past three years -42.64% in 2009, -46.36% in 2012, and -118.31% in the first three months of 2013. The 2011 high margin was due to recognized revenues of Roadster sales that were reserved in 2010. The company posted a net loss in each of these years. Negative operating margins are consistent with the battery companies analyzed, but not with the automotive companies. Negative operating margins are not sustainable over time and Tesla will need to increase future sales revenues to cover operating costs without additional financing. There is a positive outlook pertaining to the improvement and future financial performance of Tesla that should translate into positive earnings and stock prices, mainly with its expansion across Canada.

5. 3. Distribution Channels and Strategy

Unlike other automobile manufacturers, Tesla sells its vehicles over the Internet, and Tesla-owned stores in 31 cities worldwide following a pull strategy, where customers go through Tesla Website for any purchase. Tesla plans to have a total of 20 stores, opening the additional stores to coincide with the Model S rollout. (Appendix F). In 2010, Tesla hired George Blankenship, (Appendix C) as its vice president of design and store development, who formerly worked for Apple. " This is about technology, innovation, and a great pipeline of products that need to be explained to the customer" he told Fastcompany. com. 47 Blankenship's strategy is to put Tesla showrooms in the middle of popular retail districts, mimicking the strategy of high-tech companies like Apple, and completely revolutionizing the typical dealership model. Tesla main strategy to support post-sale customers is known as Tesla Rangers. The company sends mobile service technicians, to help individual

customers to support vehicles if they are located too far apart of a Tesla store, which also serves as repair facilities. This model however, may become much more costly with the increase of Tesla vehicles in circulation across Canada and as vehicle ownership spreads away from their store locations. Even though Electrical Vehicles require much less maintenance than Internal combustion engines, customers may hold back on buying a Model S if they are not confident in the pre-sales service provided at Tesla stores. The process for repair and service may be an obstacle for consumers when deciding if they would like to purchase a Tesla vehicle. Tesla distribution strategy for Model S is currently considered inadequate which may result in lower sales than its actual potential. Tesla management is completely aware that constructing a large network of brick-and-mortar stores goes beyond their financial resources. The company has adopted a strategy of building small number of company-owned stores and makes strong online sales; however, in many states of the US for example there are restrictions on online car sales.

5. 4. Manufacturing Infrastructure

Tesla has more than 150 single source suppliers around the world, being 30% of those suppliers located in North America, 40% in Europe and 30% in Asia. They provide over 2000 parts to Tesla. Tesla uses multi-site manufacturing process to produce the Model S. The company purchased a factory in Fremont, California in mid-2010 from New united Motor Manufacturing, Inc (NUMMI), which was a joint venture between General Motors and Toyota. Tesla has retrofitted the new facility to manufacture approximately 20,000 Model S vehicles each year, which will be approximately 5% of the plant's manufacturing capacity. The production of the Model S that started in mid-

2012 demanded that Tesla used a highly integrated manufacturing approach, even to manufacture products on site. This integrated approach alleviated the company's dependence on supplier performance. 8(Appendix C)