Executive Summary
This is a brief to the CEO of Tesla Inc. It is critical analysis and evaluation of Tesla as a company and its current position. It uncovers questions around its strategy, business model, competitive advantage, resources, and capabilities. In this report, I make a case for Tesla’s move to open its patents to other companies, linking its rationale, to the concept of open innovation, a highly propagated innovation strategy spearheaded by a Berkeley Haas scholar, Henry Chesbrough, who describes the concept as a more open way of innovating. I also explain the rationale behind Tesla’s strategy and what they stand to gain or lose through this move. I conclude stating my expert opinion of what the future looks like for Tesla. Will they be able to weather their current storms and truly revolutionize the auto-manufacturing industry, paving the way to a sustainable energy for the future?

Company and Industry Overview
Tesla Inc. is disrupting the motor vehicle industry through technology-based innovations. Its mission and vision statements emphasize the focus of the company is ushering in the new era of electric cars, and alternative energy sources, which it considers more reliable, efficient, and sustainable. The company has the highest customer satisfaction rate of any car manufacturer. Tesla has high customer loyalty, and 91% of customers plan to buy or lease another Tesla for their next car.

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<th>COMPANY</th>
<th>Tesla Inc.</th>
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<tr>
<td>INDUSTRY</td>
<td>Automotive, Energy production, Energy storage</td>
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<td>FOUNDED</td>
<td>July 1, 2003</td>
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<td>TYPE</td>
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<td>PRODUCTS</td>
<td>Electric cars, batteries, auto-financing options, energy storage</td>
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<td>REVENUE</td>
<td>$58 billion (2021)</td>
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<tr>
<td>OWNER</td>
<td>Elon Musk (21.7%)</td>
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What is the strategy of Tesla Motors? How does its business model differ from that of the leading automakers?

The Corporate Strategy and Competitive Advantage is based on technology product innovation, differentiation, vertical integration in manufacturing, and distribution.

- **Automobile as a software product**: Tesla’s business models are one of a kind. Tesla builds cars by developing software much in the manner at which grand technology counterparts like Apple developed the iPhone. Tesla even announced that it will offer its Full Self-Driving Package as a subscription service, which could be considered software-as-a-service (SaaS). The great thing about Software as a service company is the ability to make incremental updates to the products even after purchase. Tesla’s ability to make incremental improvement strengthens their cars and this makes it different from traditional automakers, where the product is the same for as long as you drive it.

- **First Mover: Technology product innovation**: As an early adopter, Tesla’s battery-powered motors being significantly simpler, radical with the alternative energy and software capabilities, than their internal combustion competitors make it’s a first mover. However, others would argue that they weren’t truly first movers. Electric cars had been in development at times before. Yet, they seem to come to mind first with electric cars due to strong brand equity. However, the risks involved in being a first mover is unprecedented, and traditional companies would rather be fast followers. This is a clear competitive advantage as Tesla is positioned well to keep market share while other automakers try to play catch by Tesla.

- **Minimizes the total cost of ownership**: Tesla leverages its genius in battery technology to minimize the total cost of ownership over the vehicle’s lifetime. With fewer parts, only 20 versus 2,000 in internal combustion engines, this simplicity dramatically reduces the consumers total cost of ownership.

- **Vertical integration in Manufacturing and Distribution**: For instance, its vertical integration strategy shows that Tesla is opening opened various production plants in various global regions. With this approach, allows company to have 100% control of their production and manufacturing. Buying a Tesla is relatively simple: Go online, pick a model, choose features, place deposit, and schedule pickup. Done. **Tesla uses its own stores, interactive websites, and delivery to sell directly to customers, and has successfully created a seamless experience that customers can control.**

- **Differentiation**: Tesla has a broad differentiation strategy extending its focus to battery technology, and environmentally friendly products such as solar roof tiles. They sell powertrain systems and components to other auto manufacturers. Like its competition, Tesla offers financial services including vehicle loans and leases.

- **Pricing strategy**: Tesla’s primary pricing strategy involves high price points because of its superior product. This strategy allows Tesla to enter the premium market, and then drive down market as fast as possible to higher unit volume and lower prices with successive model. A niche into mass market growth strategy would characterize Tesla.

- **Influencer marketing**: Stars from Hollywood involved in the first selling wave as well as its stunning design, exceptional performance (range, battery charging time, software development advantage)
In the market for plug-in electric vehicles, how do the resources and capabilities of Tesla compare to those of the established automakers?

- **Superior Technology:** Tesla’s ability to create a superior technology is no doubt Tesla’s most pronounced capabilities and resources as well as its competitive advantage. It dominates the economics of lithium battery cells and EV battery packs. Tesla recently acquired battery manufacturing companies to incorporate advanced battery-related technologies/patents.

- **Autonomous Driving Feature:** Tesla’s autopilot is the most advanced driver assist system available. In autonomous mode, one can drive the Tesla without touching the steering wheel. It can work entirely independent of the driver, stop at traffic lights, change lanes, overtake cars, and park all by itself. This feature makes Tesla highly desirable than its competition.

- **Customization feature:** Tesla is heavy of personalization and customization to match the needs of customers, its drivers. Their website has action calls like: **Design and order your Tesla Model S!** This of course is not the only car brand that has custom orders, but the fact that they go beyond common practice, as it allows customers to influence the appearance and other design elements of the vehicle or the product they order. Such a service makes Tesla an expert at creating this unique customer experience can lead to incredible loyalty and growth.

- **Sustainability: a cause larger than life:** In 2020, Tesla users helped accelerate the world’s transition to sustainable energy by avoiding 5.0 million metric tons of CO2e emissions. **With such impact and vison, Tesla attaches its brand to the predominant market trend of the day — going green to reduce climate change.** From a marketing standpoint, Tesla already has a big advantage in establishing a strong brand equity, compared others. **They leverage brand equity through their zero-dollar marketing strategy.**

- **Staying Nimble:** Unlike Tesla, nimble, they outsmart their competitors who are rigid, followers, big, bureaucratic, slow to respond to changing customer behavior.

- **Vertical integration:** According to their latest financials, in the Q1 2022, Tesla produced over 305,000 vehicles and delivered over 310,000 vehicles, despite ongoing supply chain challenges and factory shutdowns. Vertical integration was useful during the pandemic when the world was experiencing supply chain issues (Fingas 2019).

- **Research and development:** Tesla is known to be one of the most innovative companies in the market as it keeps investing more in research and development. In 2018, Tesla invested $1.8 billion on developing advanced technologies leaving most of its competing companies behind. Tesla places huge importance on reaching new technologies to improve performance.

- **Major automakers derive advantage from economies of scale and overall size.** technical capabilities, and product development advantages. In almost all functions and activities from technology development, through purchasing, manufacture, distribution, and financing, the major automakers appear to have an unassailable advantage.

- **Tesla resources and capabilities** include- design, brand, marketing, agility, and technology.
Explain the rationale for Tesla’s strategy. To what extent does this represent an optimal response to Tesla’s strengths and weaknesses relative to the established automakers?

- **Tesla Mission and Vision Statement**: Tesla’s vision statement “to create the most compelling car company of the 21st century by driving the world’s transition to electric vehicles” reveals its ambition to lead other automobile manufacturers into the electric model future. Tesla’s mission statement is “to accelerate the world’s transition to sustainable energy”. The entire business model and their strategy strongly reflects both the vision and mission as well as the success the company has achieved so far in accelerating this transition. The focus on sustainability indicates the compliance of the company with current global trends and demands of business methods that align with calls for green energy.

- **Core Values**: Tesla’s core values comprise “doing the best, taking risks, respect, constant learning, and environmental consciousness.” Tesla applies these core values as the principles that govern the overall attitudes and practices. This is a solid rationale for their current corporate strategies. The openness to risk taking and emphasis on performance has seen Tesla advance strategically.

- **Company Culture**: Tesla has created a culture that aims to help its employees instinctively think creatively and innovatively seek solutions that will continuously improve the company which sets it apart from competitors, including automotive, storage and energy generation. Tesla attributes its ability to remain competitive to these behaviors.

**Impediments to success for Tesla and Recommendations**

- **Problems of Volume**: However, volume is one of the major challenges facing the company as well as operational limitations, delivery, and inability to meet up with increasing demand. Tesla manufacturing capability is considerably weak compared to other in-plug electric companies. It caused delays in the distribution of the previous models and continues to be one of the most important problems of the company.

- **Limited Global Presence**: Even if Tesla’s sales increase rapidly every year, the core of its market remains to be the US. They have failed to adopt a global expansion model. In 2018, the US accounted for 70% of its revenues as it generated $14.9 billion. (Fingas 2019). The company also has a considerable presence in China, yet still little compared to the US. However, competitors have strong chains of distribution all around the world, this hinders Tesla’s growth and expansion.

- **Small Customer Segment**: Tesla has maintained a premium car company image and produced premium products for the niche market. In my opinion, a significant reason that makes accelerating growth difficult for the company is targeting a small premium customer segment.

- **Unprofitability**: Because of its high operational costs, it tends to incur due to its vertical integration strategy, R&D, and limited production capacity, Tesla has not been profitable. In 2016, the company was $2.5 billion in debt. Moving forward, Tesla would have to evaluate its vertical integration strategy to see if the administrative costs involved in running multiple channels of the product development is worth the cost and risk.

- **Regulatory issues**: While Tesla is highly focused on autopilot technology, it has failed to monitor its political and legal external environment. Ignoring to play the long game of working
with global governments and policy makers to ensure regulatory measures that benefit them, especially as existing legal complication threatens Tesla’s future.

- **Elon Musk**: The Musk brand is one of being radical world changer, has helped the company position itself as an unorthodox one, on a mission to do the unthinkable, revolutionize the auto manufacturing industry. The success of Musk previous business is also advantageous and gives shareholders *a glimpse of hope* for future profitability of Tesla. However, Musk has a reputation of being erratic, which also causes issues indirectly.

- **Tesla’s “top-down” approach**—starting with a high priced, small volume sports car, then following it with a premium prices sedan and SUV before introducing a mass-market model. Tesla’s top-down approach allowed it to deploy its superior innovative technology and design capabilities while building its reputation among the lead customer segment of affluent, environmentally conscious, trend-setters.

- **The future growth of demand for EVs** is an additional source of uncertainty.

**Assess Tesla’s decision to make available its patents to other companies.**

**Open innovation, the next frontier**

The term open innovation means where company does not just rely on their own internal knowledge, sources, and resources (such as their own staff or R&D) for innovation (of products, services, business models, processes etc.) but also uses multiple external sources (such as outsourced research, customer feedback, published patents, competitors, external agencies, the public etc.) to drive innovation. A 2017 Harvard Business Review article stated that electrical vehicle battery performance may not match the performance of gas-powered options for another 50 years. The article also highlighted some challenges specific to Tesla, including the fact that their current battery technologies are not better or cheaper than existing internal combustion options.

Knowledge sharing (i.e., open innovation) may help accelerate progress and overcome general industry challenges which would allow auto manufacturers like Tesla to focus more on forming their individual competitive advantages. Tesla’s *Open Innovation strategy* addresses the need for accelerated innovation among electric vehicle producers. Tesla claims that this initiative would not inhibit their innovative progress because they couldn’t build enough electric cars to solve the carbon crisis by themselves, and alternative fuel vehicle sales formed less than 1% of total vehicle sales at top automobile manufacturers.

**What are the benefits?**

- By opening their innovation channel, they might have solved some of the issues. Opening the opportunity to enter mass production of affordable electric cars, a much bigger market.
- Open more business opportunities as Tesla's strategic approach to increase the number of varieties of EVs available to mainstream consumers includes the following
- Global energy Infrastructure development: force the global government and institutions to develop and accelerate the development of the alternative energy infrastructure. This is the biggest obstacle to the mass adoption of electric vehicles.
- Reduce in house R&D cost, through acquisitions Tesla can leverage external innovations.
Costs include:
However, has a problem of scale and operational inefficiencies to grapple with as well as infrastructural limitations.

- **Intellectual property loss**- Indeed, prior to announcing their open innovation policy, it was widely considered that a significant portion of Tesla’s value would be driven by its intellectual property rights and technological advancements [8].
- **A competitive market will be a result in more operational issues**- Tesla’s decided to adopt an open innovation strategy in 2014. In Tesla’s 2017 annual report, the company noted how competition in the electric vehicle segment had increased. This competition is predicted to further increase.
- **“To accelerate the advent of sustainable transport”** was only partly credible: the presumption was that Tesla viewed disseminating its technology as in its own interests as well.
- Enhanced reputation for altruism.
- Reciprocity from competitors—Tesla’s lead might make other auto makers hesitant in suing Tesla for infringing their patents.
- **Expanding the overall market for electric cars.** However, the impact of the dissemination of Tesla’s patented technology on the demand for electric cars would appear to be slight.
- Enhanced reputation for altruism and Tesla’s ability to influence standards in the industry. Typically, decisions to give away proprietary technology to competitors are motivated by the desire to exploit network externalities. However, it is not apparent that network externalities and the potential for technological standards are particularly strong in electric cars. The major source of network externality is in charging stations. Hence, if Tesla’s can make its supercharging technology the standard for recharging stations and maintain an ownership interest in the recharging network, this could be the basis of an additional revenue stream.

**Conclusion**
In emerging and technology-based industries, nurturing and exploiting innovation is the fundamental source of competitive advantage and the focus of strategy formulation. Tesla has created a company that has developed cutting edge leading technology, they have created some strategic moves differentiation, Vertical integration, zero dollar marketing, brand equity, Business to customer (B2C) that have proved successful over the and have a strong understanding of the dynamics of competition, the role of the resources and capabilities in establishing competitive advantage, and the design of structures and systems to implement strategy but now ensure they are able to sustain their competitive advantage as well as come up with solutions to their volume issue, high operational costs as well as operational inefficiencies. A focus of deriving value via disruptive technology is one option the company should explore.

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