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A COMPARATIVE STUDY ON LONG-TERM FINANCIAL POSITIONS OF GENERAL MOTORS COMPANY & TESLA INCORPORATED THROUGH PESTEL ANALYSIS

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ABSTRACT

The study aims to compare through PESTEL Analysis between Tesla Inc. and General Motors. The PESTEL analysis of Tesla identifies political factors such as government policies and regulations promoting electric vehicles, economic factors like fluctuations in raw material prices, socio-cultural factors such as shifting consumer preferences towards eco-friendly vehicles, technological factors including advancements in battery technology, environmental factors such as increasing environmental awareness, and legal factors such as intellectual property protection and product safety regulations. The PESTEL analysis of General Motors identifies political factors such as government regulations on emissions and safety standards, economic factors like fluctuations in fuel prices and global economic conditions, socio-cultural factors such as changing consumer preferences for environmentally friendly vehicles, technological factors including advancements in electric and autonomous vehicles, environmental factors like sustainability initiatives, and legal factors such as labor laws and product liability regulations. Overall, conducting PESTEL analyses on Tesla Inc. and General Motors Company helps shed light on their long-term financial positions. These analyses provide crucial information for stakeholders, investors, and management to make informed decisions and formulate strategies to navigate the ever-evolving automotive industry.

Keywords: safety standards, economic factors, technological factors, socio-cultural factors, legal factors.

INTRODUCTION

Tesla, Inc. is an American electric vehicle and clean energy company headquartered in Palo Alto, California. The company was founded in 2003 by Elon Musk, JB Straubel, Martin Eberhard, Marc Tarpenning, and Ian Wright, with the goal of accelerating the world's transition to sustainable energy. Tesla is best known for its electric vehicles, including the Model S, Model X, Model 3, and Model Y, as well as its solar products and energy storage systems. The company's electric cars are known for their high performance, long-range capabilities, and cutting-edge technology. Tesla

has also been a pioneer in developing advanced driver assistance systems and autonomous driving technology.

In addition to its electric vehicles, Tesla produces solar panels, solar roofs, and energy storage products for residential and commercial customers. The company's energy storage systems are used to store renewable energy generated by solar panels and wind turbines, which can then be used when needed, reducing reliance on fossil fuels.

Wagner (2020) claims that Norway, with nearly 50% of newly registered electric vehicles out of all new registrations in 2018 and almost 7% of the country's vehicles being electric, has the highest percentage of electric vehicles per capita in the world. According to Wagner, government incentives, similar to those in France and Germany, which were mentioned above, and the accessibility of many electric vehicle chargers have contributed to Norway's success in the adoption of the electric fleet. These factors make owning an electric car possible (2020).

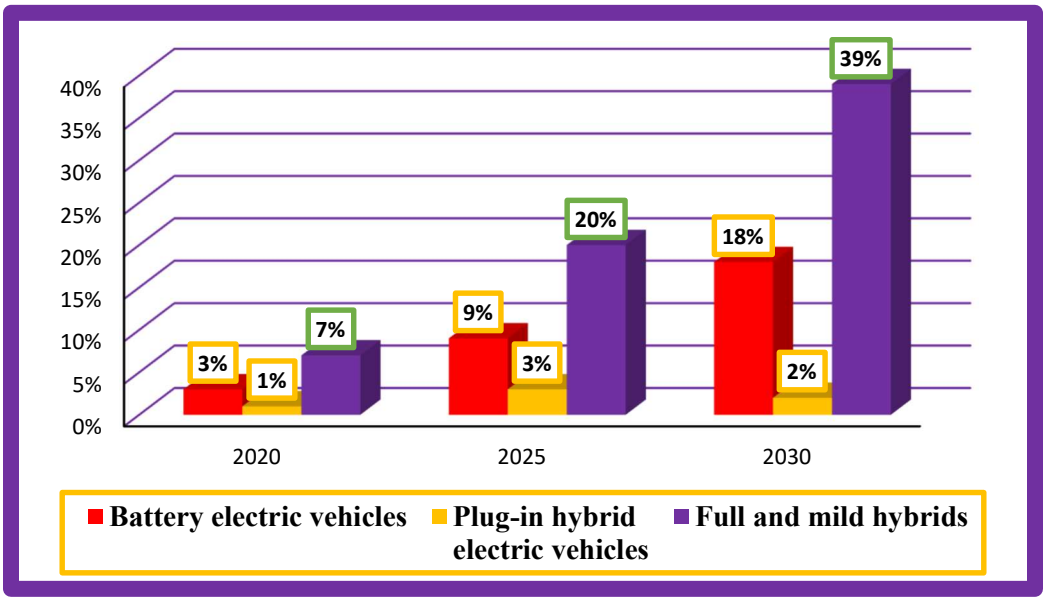

Figure 1. depicts a forecast for 2020 and a market segmentation of the electric vehicle market. Electric vehicle sales as a percentage of car sales worldwide between 2020 and 2030, by segment. Source: Statista (2020b)

As a result, battery electric vehicles made up 3% of all electric vehicles sold in 2020, plug-in hybrid electric vehicles made up 1%, and full and mild hybrids made up 7%. According to the forecast, battery electric vehicle sales will increase to 9% of all vehicle sales in 2025, while plug-in hybrid sales will increase to 3% and full and mild hybrid vehicle sales will increase to 20%. However, by 2030, sales of plug-in electric vehicles will only account for 2% of all sales, battery electric vehicle sales will account for 18% of all sales, up from 12% in 2025, and full and mild hybrid vehicle sales will increase quickly to 39% of all sales, nearly doubling from 2025 levels. It can be said that the market for electric vehicles is expanding and that these cars are becoming more

popular. Governments in many developed nations are supporting this development by offering subsidies for the purchase of electric cars and by imposing higher taxes and even fines on drivers of conventional fuel vehicles that emit high levels of CO2. This indicates that the market environment is favourable for the development and value growth of Tesla Inc.

General Motors Company, commonly known as GM, is an American multinational corporation that designs, manufactures, markets, and distributes vehicles and vehicle parts. It was founded in 1908 and is headquartered in Detroit, Michigan. GM is one of the largest automakers in the world, with a diverse portfolio of brands including Chevrolet, Buick, GMC, and Cadillac. It also has joint ventures with other automakers in countries such as China and India. Over the years, GM has been known for many innovations, including the first electric car, the EV1, and the first mass-produced gasoline-powered car with an automatic transmission, the Hydra-Matic. The company has also been at the forefront of developing new safety technologies, such as airbags and anti-lock brakes.

(Howell, 2000) asserts that GM has emphasized the significance of innovation for ownership advantage in the Chinese market based on this model. Instead of the industry-standard "forecast-make-sell" business model, GM's innovative processes are based on a "sense-respond-learn" strategy. It is predicated on the idea of "learning by doing." To quickly seize new opportunities, the goal is to concentrate on R&D activities, create new technology, and create new products. Using this model's full potential, GM has so far been very creative. The introduction of Cadillac self-starting engines, OnStar satellite technology that allowed for vehicle tracking in case of an emergency or theft, biofuel and hybrid cars, electric and network vehicles, and attempts by the company to address consumer preferences, environmental concerns, and global fuel dependence with its operations in China have improved the company's reputation.

GM has had its share of challenges, including bankruptcy in 2009, but it has since rebounded and is now a profitable company with a strong focus on electric and autonomous vehicles. The company has announced plans to have 30 new electric vehicles globally by 2025 and to be carbon-neutral by 2040. The pandemic increased demand for electronic devices like the iPad and PlayStation, where semiconductors are essential. The manufacturer was unable to launch their product line because of the lockdown. The manufacturer focused more on semiconductors used in consumer electronics in order to balance the rising demand for electronic devices and satisfy the unexpected, pandemic-driven demand.

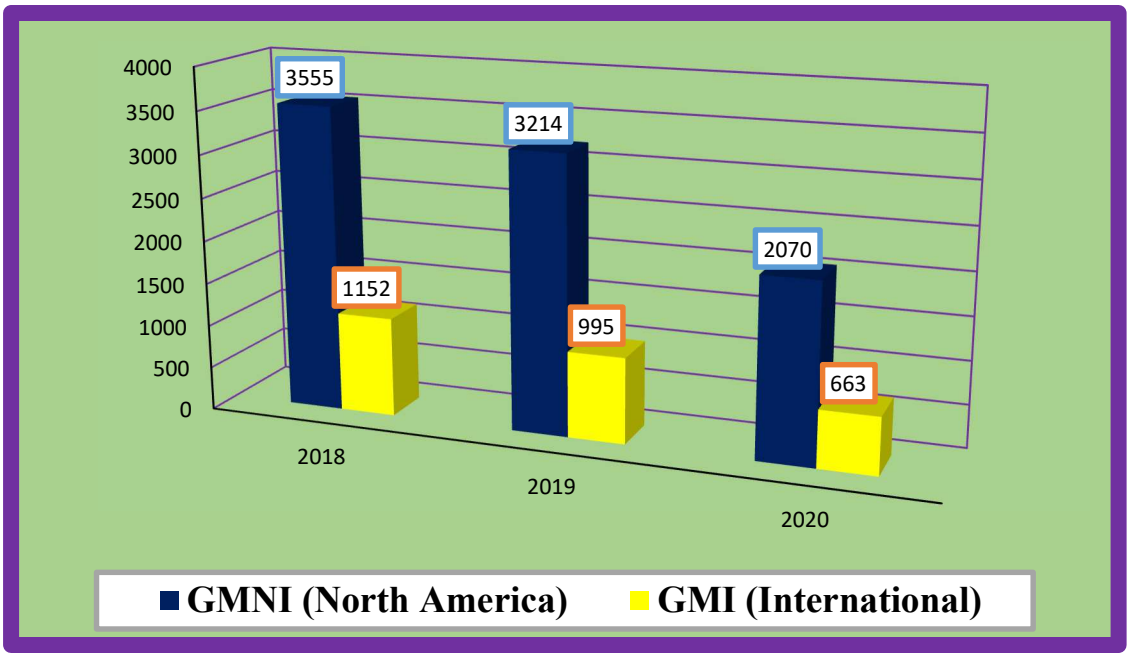

Figure 2. Wholesale vehicle sales in thousands

By increasing the price of the vehicle, the manufacturer has partially mitigated the pain by shifting some of the burden onto car buyers. Chips for vehicles are scarce regardless of the maker or the model. The company must decide which vehicles are most important and how to best respond to car shortages. Additionally, customers have been forced to turn to used cars due to the lack of new cars, which has unbalanced the used car market and inflated used car prices. GM is one of the top automakers in the world because the majority of its revenue comes from the sale of automobiles. Specifically, out of a total of $122,485 million in revenue for the 2020 fiscal year, GM generates $108,673 million, according to its 2020 consolidated income statement. To address the shortage, GM has reduced production of other models, primarily small SUVs and sedans, while reallocating available chips to higher-margin cars with popular models—huge SUVs and trucks. David Welch and Ed Ludlow stated in GM Will Co-Develop Chips with Several Producers to Secure Supply that a lack of chips caused a decline in production, which is why GM experienced a significant decline in its third-quarter 2021 sales, which was about 33% lower and profit was almost half what it was a year earlier.

Objective: To highlight the long-term financial positions of the firms through SWOT and PESTEL analysis.

RESEARCH DESIGN

The research has been utilizing the Descriptive research to conduct the study.

Sample: for the study two US based automobile companies General Motors and Tesla Inc. were chosen due to it's a huge market share.

Through PESTEL analysis, the overall performance and financial health of selected General Motors and Tesla Inc. automobile companies have been measured.

PESTEL analysis is a useful framework for analyzing the external factors that affect a company's operations and success. When it comes to the automobile industry, PESTEL analysis is a framework or tool used to analyse and monitor the macro-environmental factors that have an impact on an organization, company, or industry. It examines the Political, Economic, Social, Technological, Environmental, and Legal factors in the external environment. PESTEL analysis can be particularly relevant because there are many factors that can impact the industry, including economic conditions, political stability, social trends, technological advancements, environmental concerns, and legal regulations.

PESTEL Analysis of Tesla Company

PESTEL analysis is a crucial tool used by businesses to analyze the external factors that may affect their operations. The acronym stands for Political, Economic, Sociocultural, Technological, Environmental, and Legal factors. In the case of Tesla Incorporated, PESTEL analysis is particularly important for the following reasons:

Political Factors: Political factors are an essential aspect of PESTEL analysis that can impact Tesla's operations. For instance, Tesla relies on government subsidies and tax incentives to drive sales of electric vehicles, which is an essential aspect of the company's business model. Therefore, any changes in government regulations related to the electric vehicle market could have a significant impact on Tesla's operations.

Economic Factors: Tesla is a luxury brand, and as such, its sales are often affected by economic conditions. For example, during economic downturns, people tend to cut back on their spending, and this could affect Tesla's sales. In addition, changes in exchange rates and interest rates could also affect Tesla's profitability.

Sociocultural Factors: Sociocultural factors such as consumer preferences, attitudes, and beliefs also play a significant role in Tesla's operations. For instance, the growing concern about the impact of climate change and environmental issues has increased the demand for electric vehicles, which is a positive development for Tesla. However, consumer preferences can also change quickly, and Tesla needs to keep up with these changes to remain relevant.

Technological Factors: Technology is an essential aspect of Tesla's business model, and the company heavily relies on it to manufacture its electric vehicles. Tesla needs to keep up with technological advancements and trends to remain competitive and to ensure that its products remain appealing to customers.

Environmental Factors: Environmental factors, including climate change and environmental regulations, also play a crucial role in Tesla's operations. Tesla's products are designed to be

environmentally friendly, and any changes in environmental regulations could impact the company's operations significantly.

Legal Factors: Legal factors such as regulations related to manufacturing, labor laws, and intellectual property rights are also important considerations for Tesla. For instance, lawsuits related to intellectual property could affect Tesla's ability to manufacture its products or impact its brand image.

PESTEL Analysis of General Motors Company

It helps organizations like GM to identify the opportunities and threats that exist in the environment, which enables them to develop strategies that align with the external forces.

For GM, a PESTEL analysis would be particularly useful given the industry's dynamic and ever-changing nature. Here are some ways in which a PESTEL analysis could be helpful for GM:

Political: This includes factors such as government stability, trade policies, tax policies, and regulations. GM is a global company that operates in different countries, and its operations could be affected by political instability in certain regions, changes in regulations, or trade policies. For example, if the government in a particular country raises import tariffs or introduces stricter emissions regulations, GM's costs could increase, affecting its profitability.

Economic: Economic factors such as inflation, interest rates, exchange rates, and economic growth can impact GM's operations. For example, if there is a global economic downturn, consumers may reduce their spending, leading to a decline in demand for GM vehicles.

Sociocultural: This includes factors such as demographics, consumer behavior, lifestyle changes, and social attitudes. Sociocultural factors can influence consumer preferences and purchasing decisions, and GM must be aware of these trends to remain competitive. For instance, as people become more conscious of their carbon footprint, there may be increased demand for electric or hybrid vehicles, which could be an opportunity for GM.

Technological: The automotive industry is undergoing rapid technological change, and GM needs to keep up with the latest trends to remain competitive. Technological factors such as the development of autonomous vehicles, electric vehicles, and advances in manufacturing technology can impact GM's operations.

Environmental: Environmental factors such as climate change, natural disasters, and sustainability concerns are becoming increasingly important to consumers. GM must take into account environmental concerns in its operations and product development. For instance, GM can reduce its carbon footprint by using more renewable energy in its manufacturing facilities.

Legal: Legal factors such as regulations, employment laws, and intellectual property laws can impact GM's operations. GM must ensure that it complies with regulations and laws in the countries where it operates.

A PESTEL analysis of General Motors (GM) examines the external factors that may impact the company's business operations and strategic decisions.

CONCLUSION

The comparative study utilizing the PESTEL analysis of General Motors Company and Tesla Incorporated reveals significant insights into their long-term financial positions. Both companies operate in the highly competitive automotive industry, but their approaches to key external factors differ. General Motors demonstrates strength in its established market presence and extensive supply chain, providing stability and economies of scale. The company's focus on sustainability and electric vehicle development positions it well for the evolving regulatory landscape. However, the slower pace of innovation and potential reliance on traditional fuel-powered vehicles may present challenges in the long run.

On the other hand, Tesla's disruptive and forward-thinking approach has led to rapid growth and a strong market reputation. The company's emphasis on electric vehicles and renewable energy aligns with the increasing global demand for sustainable solutions. Tesla's innovative technologies, such as autonomous driving capabilities, offer a competitive edge, while its strong brand image and loyal customer base contribute to its financial success. Nevertheless, both companies face common challenges stemming from external factors, such as evolving regulations, economic fluctuations, and geopolitical uncertainties. The need for strategic adaptation to changing consumer preferences, emerging technologies, and shifting global dynamics remains crucial for their sustained success.

General Motors and Tesla each possess unique strengths and face distinct challenges in their long-term financial positions. General Motors relies on its established market presence and sustainability efforts, while Tesla's disruptive approach and technological innovation drive its growth. Understanding and effectively managing the PESTEL factors will be vital for both companies to navigate the evolving automotive landscape and maintain their financial stability and competitive advantage.

RECOMMENDATIONS

The recommendations are as follows:

- Both General Motors (GM) and Tesla should focus on diversifying their revenue streams to reduce vulnerability to external factors. By expanding into new markets and sectors, they can mitigate risks associated with fluctuations in the automotive industry and changes in consumer preferences.

- As environmental concerns continue to shape the automotive industry, both companies should prioritize the development of sustainable technologies. GM and Tesla should invest in research and development of electric vehicles (EVs), renewable energy, and carbon-neutral production processes to capitalize on the growing demand for eco-friendly transportation options.
- GM and Tesla need to closely monitor and adapt to changing regulatory environments across different regions. By proactively complying with emerging regulations on emissions standards, safety requirements, and autonomous driving, they can avoid costly penalties and maintain a competitive edge in the market.
- With the rapid pace of technological advancements, both companies should prioritize innovation and stay ahead of the curve. Investing in autonomous driving technology, connectivity features, and advanced manufacturing techniques will enable them to offer cutting-edge products and maintain market leadership.
- GM and Tesla should closely monitor economic conditions and geopolitical factors that can impact their financial positions. By diversifying their manufacturing locations and optimizing supply chains, they can minimize disruptions caused by trade disputes, inflation, and currency fluctuations.
- The companies should demonstrate social responsibility by addressing societal concerns. This includes improving worker safety, promoting diversity and inclusion, and supporting local communities. Such initiatives can enhance their reputation, attract talent, and foster positive customer sentiment.
- GM and Tesla must proactively manage legal risks associated with product liability, intellectual property, and data privacy. Implementing robust compliance programs, strengthening intellectual property protection, and ensuring secure data handling practices will safeguard their financial positions and brand reputation.
- Exploring strategic collaborations and partnerships can be beneficial for both companies. Collaborations with technology companies, energy providers, and infrastructure developers can help expand their reach, accelerate innovation, and leverage shared resources.
- GM and Tesla should maintain transparent and effective communication with investors. Providing timely and accurate financial information, outlining long-term growth strategies, and addressing investor concerns will enhance trust, attract capital, and support sustainable growth.

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