Analysis of Tesla’s Business Model: A Comparison with Toyota

Yuhang Li1,*, Jinru Lin2,*, Shuning Xu3,*

1 School of economics and management, Dalian Jiaotong University, Dalian, 116045, China
2 Business School, Southwest Jiaotong University Hope College, Chengdu, 610400, China
3 School of politics and public administration, Soochow University, Soochow, 215124, China
*Corresponding author. Email: guanghua.ren@gecademy.cn
*These authors contributed equally.

ABSTRACT
The rise of the electric vehicle industry led by Tesla indicates that the market will also challenge the traditional automobile industry. With the consumption of petroleum fuel and the development of new energy sources, electric vehicle companies like Tesla have attracted the public's attention and have mastered a particular market share in a few years. However, Tesla's development is not as good as it appears, and Tesla has made some business model adjustments in order to expand its market. In order to better understand the differences between the electric vehicle industry and the traditional automobile industry, we analyzed the business models of Tesla and Toyota in the way of the business model canvas. At the same time, we analyzed the influence of path dependence on Tesla’s business model, mainly to supplement the analysis of value network factors missing from the canvas of the business model. Therefore, we also give some suggestions on Tesla's business model and current situation.

Keywords: Business model, Business model Canvas, Tesla, Toyota.

1. INTRODUCTION
Although technology is developing rapidly and people's concept of environmental protection is gradually increasing, energy shortage and environmental pollution still exist. To balance the needs of energy and environmental protection, new energy vehicles have become a meaningful way. Nevertheless, the use of new energy vehicles will still release CO2. With the continuous development of clean power generation technology and the continuous improvement of clean power generation, new energy vehicles can effectively reduce environmental pollution. Accelerating the industrialization process of new energy vehicles can not only promote energy conservation and emission reduction in the field of transportation and the sustainable development of the automobile industry, but also enhance the innovation ability of automobile manufacturing enterprises and promote the technological progress of the automobile industry, which benefit the whole human race.

In 2020, the market value of Tesla increased by more than seven times, exceeding $600 billion. It surpassed Toyota to become the world’s highest car company with the highest market value. It surpassed the combined market value of Exxon Mobil, Royal Dutch Shell, and BP, three international energy giants. Founded in 2003, Tesla has established a benchmark position in the electric vehicle industry in less than 20 years, and has continuously entered into new energy fields such as energy storage, power generation, and virtual power plant. The achievements Tesla reached cannot do without its unique business model.

However, the new energy ecology is still in its infancy, especially the distributed new energy power generation market is small, energy power enterprises are not enough to participate in the motivation, and the technical standards and market standards of enterprises in various countries are not unified. Tesla’s real competitors in the field of new energy are not new energy operators but traditional energy companies and large-scale new energy developers. In the half-year of 2021, Tesla encountered a series of problems such as owner rights of protection, chip shortage, and delivery delay, which aroused wide attention of the market and public opinion. At present, Tesla, the heading of the capital market and the leader of the new energy vehicle industry, is far from being stable in its position. Its
future development is still restricted by multiple factors such as market, finance, capacity, and chip. Although Tesla achieved an annual profit for the first time in 2020, its net profit was only 721 million US dollars, far lower than traditional automobile and energy giants such as Toyota and Shell. Moreover, from the perspective of profit structure, it gained 1.58 billion US dollars from selling carbon emission credits, far exceeding its annual net profit, and its main business was still in a net loss. In the first quarter of 2021, Tesla achieved a net profit attributable to common shareholders of $438 million. Still, the income from selling carbon credits was as high as $518 million, and the deficit of the main business continued to exist. In the future, in addition to continuing the level of profitability, Tesla also needs to improve its profit structure and enhance the confidence of investors and consumers in its main business.

This paper wants to analyse the advantage of Tesla’s business model and how it can take advantage of it to promote its development. We will analyse that through vehicle integration of new energy project development, equipment research, manufacturing, and energy usage, how Tesla can effectively promote cost reduction, quality improvement, and efficiency increase of the whole industrial chain. At present, essential parts of Tesla products, such as battery modules, solar tiles, and power electronic devices, are all produced by Tesla itself. It realizes the interconnection, digitalization, and intelligent collaboration of the whole value chain, making production, operation, and asset management minimalistic, intelligent, and efficient. It forms an interdependent and coevolutionary ecological system within the company and forms a community of destiny with “value symbiosis” with other main bodies of the ecosystem. With the strong cohesion and radiation of the ecosystem, Tesla constantly enhances customer stickiness, develops more customers, and accelerates product iteration to form a benign ecological cycle.

This paper adopts the business model canvas analysis method of Oster Walder et al. [1], analyses Tesla’s business models from different construction subjects from nine basic building blocks, and summarizes the business models corresponding to the construction subjects. The comparison with the giants of traditional car companies provides direction guidance for the sustainable development of Tesla in the future. A business model is a conceptual tool that contains a set of elements and their relationships and allows the expression of the business logic of a particular company. The business model describes the basic principles of creating value, delivering value and acquiring value. The business model of Tesla illustrates how Tesla integrates internal and external resources with the concept of system, and finally realizes the business logic of sustainable operation.

2. LITERATURE REVIEW

2.1. Business model

Since the business model was put forward in the 1950s [2], people from all walks of life have had a heated discussion on the business model. As the business model is constantly changing [3], there is still no consensus on understanding the business model. The business model is mainly used to solve strategic problems in companies, which is determined by two main factors: efficiency and novelty [4]. At the same time, as a centre, the business model is constantly squeezed by strategy, organization, and system. Of course, it is also suggested that the core of the company's business model should not be based on untested or speculative assumptions about the future [5]. The business model mainly refers to three aspects: company logic, company operation mode, and how to create value for stakeholders [6].

2.2. Business model canvas

The business model canvas was first proposed by Osterwalde. Business model canvas can be divided into four categories: Product, Customer Interface, Infrastructure Management, and Financial Aspects. And these four categories include a total of nine subcategories: Customer Segments, Customer Relationship, Channels, Key Partners, Key Activities, Key Resources, Value Propositions, Cost Structure, and Revenue Streams. These are nine interrelated factors, and the aspects expressed by these nine factors are also different. Business model canvas is a tool, which provides the company with the goals it needs to achieve, and analyses the strategic elements that have the greatest impact on the business [7]. We mainly use the business model canvas to study the business model of Tesla.
3. METHOD

3.1. Tesla’s business model canvas

Table 1. Tesla’s business model canvas

<table>
<thead>
<tr>
<th>Key Partners</th>
<th>Key businesses</th>
<th>Value Proposition</th>
<th>Customer Relation</th>
<th>Consumer segmentation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Panasonic</td>
<td>1. Automotive</td>
<td>1. Innovation towards vehicle: High</td>
<td>“Service Plus”</td>
<td>1. Individual customers who are environmentalists and performance enthusiasts;</td>
</tr>
<tr>
<td>2. Ningde era</td>
<td>2. Energy generation and storage.</td>
<td>performance and intelligent services</td>
<td></td>
<td>2. Entry-level luxury buyers: Model X or S</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Key resources</th>
<th>Value Proposition</th>
<th>Customer Relation</th>
<th>Channel</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Intellectual property- electric powertrain</td>
<td>1. Innovation towards infrastructure system: High performance recharging station</td>
<td>“Service Plus”</td>
<td>1. Tesla store</td>
</tr>
<tr>
<td>2. Engineering staff</td>
<td></td>
<td></td>
<td>2. Website Design Studio</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Cost structure</th>
<th>Source of income</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>equipment 20%, body 12%, chassis 7%, drive 15%, battery 35% and other 11%</td>
<td>1. Automobile sales and leasing</td>
<td>2. Energy generation and storage</td>
</tr>
</tbody>
</table>

3.1.1. Key Partners

A key partner is a partner that a company seeks external help to maximize profits. Oil and engine restrict the traditional automobile industry, but restricting the new energy automobile industry is the battery and charging device. The battery is the main source of power supply for Tesla, and battery life is a competitive point for various new energy enterprises. More cars will be electric-only if the battery life is strong enough.

Panasonic has become one of the key battery supply partners of Tesla. In addition to Panasonic’s concept of environmental protection, its battery performance is also very strong. To improve safety, ordinary electric vehicles usually choose to sacrifice efficiency, but Panasonic started from decades of profound research and development foundation of precision home appliances, not only pursue the bold of efficiency, but also developed layers of a protection monitoring system, and ensure the safety of the battery to ensure efficiency and technology at the same time. Ningde Era is also one of Tesla’s key battery partners. At the end of 2019, Ningde Era announced that it would take the lead in adopting the modelless battery pack with the new CTP technology, which is a technology that other battery manufacturers do not have, and Tesla’s Model 3 series has the CTP battery of Ningde Era. Tesla completed its acquisition of Solar City in 2016. Solar City specializes in solar cells. Tesla aims to build an integrated, sustainable energy company with Solar City that will cover everything from energy creation and storage to energy transportation and consumption one day. The combination of the two companies will complement each other well.

3.1.2. Key businesses

Key businesses are the activities that a company must do to maintain its business model. According to Tesla’s annual report, its key businesses are automotive and energy generation and storage. Automotive mainly accounts for about 85%, and the latter primarily accounts for about 15%. The automotive segment includes the design, development, manufacturing, sales, and leasing of electric vehicles and sales of automotive regulatory credits. Additionally, the automotive segment comprises services and others, including non-warranty after-sales vehicle services, sales of used vehicles, retail merchandise, sales by Tesla acquired subsidiaries to third party customers, and vehicle insurance revenue. The energy generation and storage segment include the design, manufacture, installation, sales, and leasing of solar energy generation and energy storage products and...
related services and sales of solar energy systems incentives [8].

3.1.3. Value Propositions

Value Propositions mainly refer to products and services that create Value for specific customer segments. Tesla's value proposition is divided into three aspects: innovation in vehicles, innovation in batteries, and innovation in infrastructure.

Firstly, the innovation of cars is mainly autonomous driving technology and connection technology. It adds to the customer's connection to the outside world, such as the customer needs to recharge the navigation station and other applications. It further digitizes the network and connects service centres such as maintenance centres and infotainment centres to form a network. Secondly, the Tesla engine has a good understanding of the battery management system, which has a close relationship with battery suppliers Panasonic and Ningde Era development. Tesla owners can also have some control over the battery system. For example, when the ambient temperature is too low, tesla owners can control the battery system before getting in the car to make it safer. Finally, to meet customers' changing needs, Tesla has set up supercharging stations in different areas, so that customers can locate the location of charging stations to charge cars at any time through the screen in the car, which significantly reduces the anxiety of customers caused by car power.

3.1.4. Customer relations

The customer has a service network through which the customer and the brand are connected. Tesla's service network is one of a kind. It's called “Service Plus” and combines every step of the customer relationship with the brand in one place [9].

Customers can better connect with Tesla through the service network. Tesla digitally keeps an eye on every customer all the time. It is mainly manifested in these aspects:(1) In case of minor failures, customers can call the after-sale phone, which can provide customers with effective measures to save time. (2) If the customer service cannot solve the customer's problem, the company's engineers can make remote diagnoses to help the customer eliminate the fault. (3) If the car breaks down, the customer can contact Mobile Service, and the company will send the Mobile Service car and engineers to repair it. If the above problems cannot be solved, the customer needs to go to the service centre to solve them.

3.1.5. Channel

According to Tesla's annual report, Tesla generally sell products directly to customers, including through our website and retail locations. Tesla sells its products to customers primarily through proprietary means, with no third-party trading. Tesla also often adopts the B2C e-commerce model, and the payment method is the combination of cash on delivery and online payment, which is also the difference between Tesla and other enterprises.

3.1.6. Customer segmentation

Tesla's customers as a whole are mainly environmental enthusiasts. But Module X and Model S are mainly aimed at high-income groups, while other products such as Model 3 and Model Y are mainly aimed at the mass market.

3.1.7. Source of income

From the table, we can find that Tesla's revenue sources are mainly divided into three categories:
automotive revenues, Services and other, and energy generation and storage segment. Automotive revenues account for the largest proportion of annual revenue, while Services and other and energy generation and storage segment accounts for the same amount of revenue.

Table 3. Tesla’s revenues during 2018-2020[8]

<table>
<thead>
<tr>
<th>Building Block</th>
<th>Year Ended December 31, 2020 (Dollars in millions)</th>
<th>2020 vs. 2019 Change</th>
<th>2019 vs. 2018 Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Automotive sales</td>
<td>26,184</td>
<td>2019</td>
<td>19,952</td>
</tr>
<tr>
<td>Automotive leasing</td>
<td>1,052</td>
<td>2019</td>
<td>869</td>
</tr>
<tr>
<td>Total automotive revenues</td>
<td>27,236</td>
<td>2019</td>
<td>20,821</td>
</tr>
<tr>
<td>Services and other</td>
<td>2,306</td>
<td>2019</td>
<td>2,226</td>
</tr>
<tr>
<td>Total automotive &amp; services and other segment revenue</td>
<td>29,542</td>
<td>2019</td>
<td>23,047</td>
</tr>
<tr>
<td>Energy generation and storage segment revenue</td>
<td>1,994</td>
<td>2019</td>
<td>1,531</td>
</tr>
<tr>
<td>Total revenues</td>
<td>31,536</td>
<td>2019</td>
<td>24,578</td>
</tr>
</tbody>
</table>

3.1.9. Cost structure

The cost structure of Tesla includes equipment 20%, body 12%, chassis 7%, drive 15%, battery 35%, and other 11%. Its industrial chain includes a power system, electric drive system, charging, chassis, body, other components, central control system, interior, and exterior, etc., with more than dozens of direct and indirect suppliers.

3.2. Tesla’s business model cobweb

We adopted the method put forward by Osterwalder, identified and coded the nine plates of Tesla, and this coding has three levels: low, medium, and high. According to this method, we made the Tesla business model cobweb. At the same time, through analysis, we found that Tesla mainly focuses on customer and infrastructure management. This business model focuses on value. Therefore, Tesla is a value creative business model, which creates primarily customer value by providing differentiated services.

Table 4. Tesla business model building block coding

<table>
<thead>
<tr>
<th>Building block</th>
<th>Tesla</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer Segments</td>
<td>Diversified and niche markets</td>
</tr>
<tr>
<td>Customer Relationship</td>
<td>One-to-one service, self-service high</td>
</tr>
<tr>
<td>Channels</td>
<td>Own channel low</td>
</tr>
<tr>
<td>Key Partners</td>
<td>Strategic and cooperative cooperation high</td>
</tr>
<tr>
<td>Key Activities</td>
<td>Diversity resources high</td>
</tr>
<tr>
<td>Key Resources</td>
<td>Basic services low</td>
</tr>
<tr>
<td>Value Propositions</td>
<td>Fixed cost and variable cost low</td>
</tr>
<tr>
<td>Cost Structure</td>
<td>Income from fixed assets low</td>
</tr>
<tr>
<td>Revenue Streams</td>
<td></td>
</tr>
</tbody>
</table>
3.3 Tesla’s business model analysis

Apart from the business model painting framework, we also draw insights from Bohnsack and others. They proposed three aspects that may influence business model design: the value proposition, the value network, and the revenue/cost model [12]. Compared with the business model canvas, this business model adds the factor of the value network. This analysis method is mainly applicable to electric vehicles.

On the one hand, the value propositions of target customers are different, so the market segments selected by the company are also different. Therefore, this mainly reflects the target customers and corporate identity of the enterprise. On the other hand, the company's value proposition changes with the use of automobiles. This divides different automobile companies and also shows the reaction degree of each enterprise to electric vehicles. For example, this reaction degree indicates a series of constraints on whether the company can accept the current electric vehicle industry. Of course, when studying this business model, we also need to use path dependence to analyse it. In general interpretation, path dependence means that current and future states, actions, or decisions depend on the path of previous conditions, actions, or decisions [13]. Combining these two dimensions and path dependence, four prototypes of electric vehicle business models are produced: luxury specific-purpose, luxurious multi-purpose, economy specific-purpose, and economy multi-purpose. Next is the analysis of Tesla, to express what is the applicable business model of Tesla.

The luxury specific-purpose model is the first EV business model, which mainly provides customers with expensive luxury EVs for particular purposes. At the beginning of Tesla's establishment, the initial target market group of products was luxury EVs. Because the target customers they targeted were mostly rich people, they were not very sensitive to the price of luxury EVs. Under this business model, the driving experience and image of the car are more important than the mileage of the vehicle. Because most of these customers own a second car or hold an exclusive charging service, these customers often regard Tesla as a status symbol. Therefore, Tesla has set special services for customers, promoting online ordering and offline test drives. Although Tesla lacks a dealer network, this method ensures high quality and lets customers know the advantages of EV. At the same time, the unique purpose value proposition is also closely related to the value network, and its luxury side is mainly reflected in sales and after-sales service.

3.4 Toyota’s business model analysis

Table 5. Toyota’s nine modules

<table>
<thead>
<tr>
<th>Main Category</th>
<th>Deputy Category</th>
<th>Typical Data Citation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer Segments</td>
<td>Diversified customers</td>
<td>1. Several brands serve customers with different price needs.</td>
</tr>
<tr>
<td>Customer Relationships</td>
<td>One-to-one service</td>
<td>1. The use of e-CRB software system tries to promote sales and service.</td>
</tr>
</tbody>
</table>
### Channels
- Offline
- 1. Toyota store;
- 2. Corporation with local companies.
- 1. Mazda for complementary technology

### Key Partnership
- Government and other companies
- 2. Subaru for high performance engines
- 3. Aisin for components
- 4. Government support.
- 1. Car

### Key activities
- External market connection
- 2. Residential construction
- 3. Biological Engineering

### Key Resources
- Production management mode
- 1. Lean production

### Value Propositions
- Basic services
- 1. Avoidance of waste
- 2. Insurance of quality
- 3. Innovation of technology
- 1. Automobile sales and leasing account for 85% of cost.
- 2. Financial services account for 5%.
- 3. Serving General account for 10%

### Cost Structure
- Fixed cost, management cost and investment cost
- 1. Automobile sales and leasing;

### Revenue Streams
- Cars, financial activities, services and government subsides.
- 2. Services and others;
- 3. Maintenance plan;
- 4. Licensing agreements.

<table>
<thead>
<tr>
<th>Building Block</th>
<th>Toyota</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customer Segments</td>
<td>Identification Code Diversified and niche market</td>
</tr>
<tr>
<td>Customer Relationships</td>
<td>Identification Code One-to-one service</td>
</tr>
<tr>
<td>Channels</td>
<td>Identification Code Self-owned and partner channels</td>
</tr>
<tr>
<td>Key Partnership</td>
<td>Identification Code Strategic and collaborative cooperation</td>
</tr>
<tr>
<td>Key activities</td>
<td>Identification Code External</td>
</tr>
<tr>
<td>Key Resources</td>
<td>Identification Code Diversified resources</td>
</tr>
<tr>
<td>Value Propositions</td>
<td>Identification Code Basic service</td>
</tr>
<tr>
<td>Cost Structure</td>
<td>Identification Code Fixed cost</td>
</tr>
<tr>
<td>Revenue Streams</td>
<td>Identification Code Fixed-asset revenue</td>
</tr>
</tbody>
</table>
Just as the chart shows, Toyota focuses on the customer and tries to a minimum the cost and time of production. When applying the Toyota Production Method, the manufacturing process must first be viewed from the customer's perspective, both internal at the later stages of the production line and external to the final product. In the Toyota way, the first question to think about is, "What does the customer want out of the process?" The thinking on this question is going to define value. From the customer's point of view, you can look at a process and distinguish between activities and steps that create value and activities and steps that don't. Toyota applies this approach to any process, be it manufacturing, information, or service. What Toyota does is pay attention to the operation time between receiving the customer's order and collecting the customer's account to eliminate the waste that cannot create value and shorten the operation time. To reach this target, "lean production" and 6 sigmas are promoted. Lean production is defined as 5 processes: customer value, value stream, flow, pulling, and striving for excellence. To be a lean manufacturer, the producer must try to conduct a flow without interruption. A pull production system based on customer demand is adopted. That is, the previous manufacturing process only produces the materials or parts that the following manufacturing process will receive for a short period.

For labour, Toyota believes that keeping employees busy producing raw materials or parts as quickly as possible is not necessarily the best practice. A company should have materials or parts according to the needs of its customers. Rapid production to use up the productivity of its employees creates another form of overproduction and leads to the hiring of too many workers.

A big point we can focus in Toyota's business model is its uninterrupted "flow".

A continuous process means that when a customer places an order, the process is instructed to obtain what the customer needs for the order, no more, no less. The raw materials are then immediately shipped to the supplier's factory, where workers add components and send them to another location.

The factory, which is assembled by workers immediately, completes the products required by the customer's order and finally delivers them directly to the customer. The whole process will take hours or days, not weeks or months. One example of this is that Toyota takes less than a year, on average, to launch a car in Japan, compared with two years for its competitors, because its engineering operations are conducted in a non-stop flow model. From the beginning to the end of the automotive design process, the engineering work, design decisions, prototyping, and tool building all form a seamless flow and "communication." In this kind of process, nothing is produced upstream unless the person or step downstream of the process asks for it.

Of course, the ideal of "one flow" is not an overnight reality, and Toyota is a fact-facing company. It will not simply tie the machine and the supplier together in an inappropriate place to force the implementation of "one flow". While it is not possible to do this today, the ideal of non-interrupted processes provides a clear direction. At Toyota, this means using smaller batches, bringing all the processes closer to each other, and allowing materials to move between them without interruption, rather than mass production that results in piles of waiting for inventory. Toyota's managers and engineers do not need to perform a detailed cost-benefit analysis every time they want to perform a task to improve the
Secondly, the electric vehicle industry, and we talked about why it's necessary to develop and the opportunities for the electric vehicle industry. Secondly, we analysed the business model of Tesla and Toyota, respectively. Finally, we summarize some advice for Tesla and the electric car industry. The development of the electric car industry will have a better prospect in the future, but how to grasp the good opportunity and successful transformation is Tesla must be thinking of the problem.

REFERENCES

DOI: https://aisel.aisnet.org/cais/vol16/iss1/1/

DOI:https://doi.org/10.1287/opre.5.4.469


DOI:http://dx.doi.org/10.1177/0149206311406265


[10] Tesla, Tesla’s quarterly disclosure, Q1 2021, Q1 2021 Update (thron.com)

