

Mid-term evaluation

- Link is available through the whole semester.
- would like to know more about corporate structure and corporate governance: corporate structure in the following classes. CG
- Include YouTube videos: will try to find more.
- need more time to understand certain concepts: my fault & will adjust the level of difficulty.
- it's rushed to find certain information. For example like the company exercise: my fault & real world
- No assignments for next week (changed!)

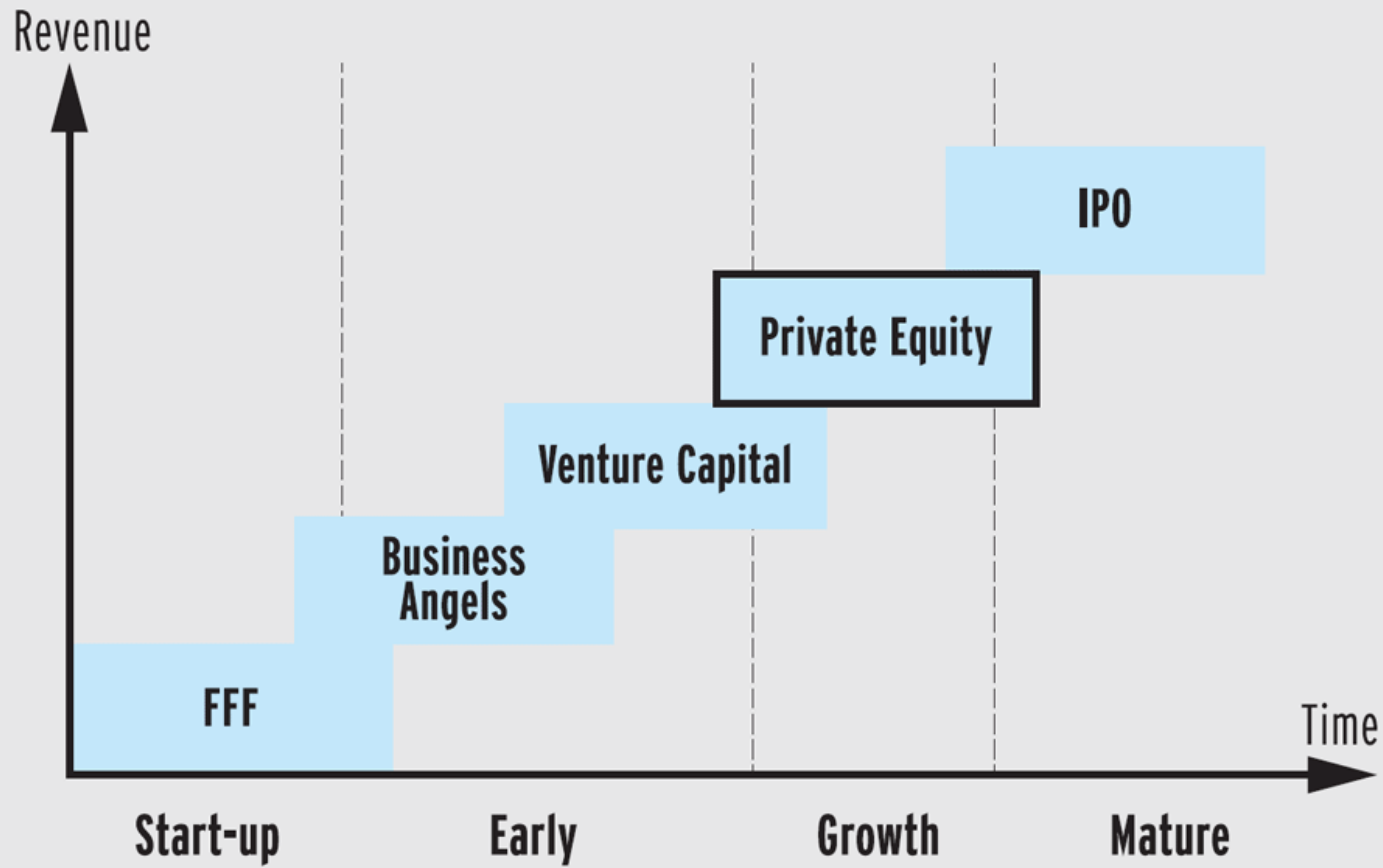
- enjoyed Harvard cases, first time using them, great resource to learn from: heavily used in business schools & for the future
- like the real world analysis: absolutely yes for strategy course.
- do not like the idea of group projects...: peer-evaluation & real world
- a smaller condensed sheet of topics could be helpful: have it here but future classes are subject to change

9/11	Industry analysis
9/18	Internal analysis & Cost leadership strategy
9/25	Differentiation strategy
10/2	Strategy process & Corporate governance
10/9	Entrepreneurship & Innovation
10/16	Outsourcing & diversification
10/23	Alliance & Acquisition
10/30	International strategy
11/6	CSR & Final review

Signaling theory in the entre context

- Signalers: entrepreneurial firms
- Receivers: investors
 - Angels or seed capital
 - Venture capital (VC)
 - Private equity (PE)

Company funding life cycle



Source: Dylan Taylor

Signaling theory in the entre context

- Signalers: entrepreneurial firms
- Receivers: investors
 - Angels or seed capital
 - Venture capital (VC): most active
 - Private equity (PE)
- Signals:
 - Founders: education, experience
 - Technology: patent
 - Endorsement: alliance partners, board

Theranos & its founder Elizabeth Holmes

- a revolutionary technology that could perform multiple tests on a few drops of capillary blood drawn by a minimally invasive finger prick



Lawsuits

- SEC lawsuit (2018, March. Finally end with settlement):
- “raising more than **\$700 million** from investors through an elaborate, years-long fraud in which they exaggerated or made false statements about the company’s technology, business, and financial performance”
- “Theranos, Holmes, and Balwani claimed that Theranos’ products were deployed by the U.S. **Department of Defense** on the battlefield in Afghanistan and on medevac helicopters. In truth, Theranos’ technology was never deployed by the U.S. Department of Defense.”
- “The Theranos story is an important lesson for Silicon Valley,” said Jina Choi, Director of the SEC’s San Francisco Regional Office. “Innovators who seek to revolutionize and disrupt an industry must tell investors the truth about what their technology can do today, not just what they hope it might do someday.”
- Source: <https://www.sec.gov/news/press-release/2018-41>

FDA

- In 2015 July: FDA allows for herpes test run on Theranos machine.
- In 2015:
- the FDA had classified Theranos' "nanotainer" as a Class II medical device, meaning that Theranos would need to use special labels, meet certain performance standards and perform post-market surveillance of the device.
- Theranos asserted that the nanotainer was a Class I device and therefore was not subject to any regulatory requirements.
- After the 2015 inspection, Theranos announced that it would **voluntarily suspend** its tests apart from the FDA-approved herpes simplex virus (HSV-1) test.

Walgreens

- In 2013: partnership to offer in-store blood tests.
- Interviews with Theranos trainers for Walgreens employee: not running fingerstick process but venipuncture. Say the statement: “due to the test that your physician ordered, we have to perform venipuncture to make sure that we had enough sample to perform the testing. Would you like to proceed?”. Then send the blood sample to CA office. (actually run on Siemens machines)
- Theranos said to Walgreens: Machine is not ready for Walgreens store.
- After the WSJ article in 2015 Oct, Walgreens suspended plans to expand Theranos blood-testing centers in their stores.
- After July 2016, CMS officially banned Holmes from operations, and Walgreens ended its relationship with Theranos.
- In Nov 2016, sued Theranos for **\$140 million** invested. Ended with settlement.

VCs

- Founder's deliberate holding info
- Follow other VCs:
- The first million dollars that the company received was from Tim Draper, a venture capitalist, who had known Ms. Holmes as a childhood neighbor and playmate.

Why do we need electric cars?

- Society: Reduce emission
- Country: reduce reliance on petroleum
- Individuals: Save money, convenience

Origin

- California Air Resources Board (CARB) mandate: if automakers want to sell cars in CA, certain percent (e.g. 2% in 1998) of the vehicles have to be zero-emission.
- GM EV1 in 1996

Entrepreneurship opportunity

- The founders were influenced to start Tesla after GM recalled all its EV1 electric cars in 2003 and then destroyed them.
- State government support.

Founders of Tesla

- Tesla was incorporated on July 1, 2003 by two engineers.
- Then founders went connected with Elon Musk, who contributed US\$6.5 million of the initial (Series A) US\$7.5 million round of investment in February 2004, and became chairman of the board of directors.
- Musk then became CEO in 2008 and had invested \$ 55 million.
- Musk is the largest shareholder (21%) in the May, 2020.

Elon musk is not founder

Elon Musk

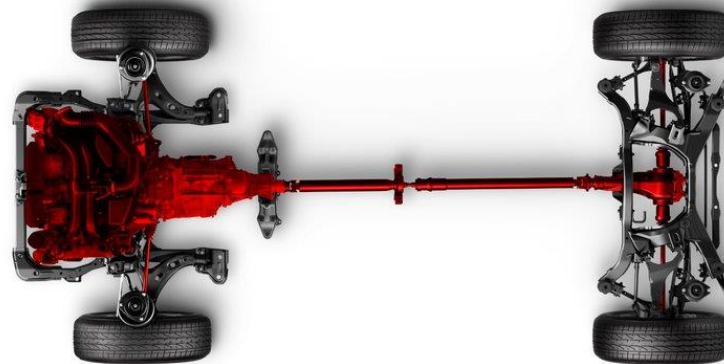
- Serial entrepreneur:
- In 1999: x.com, later merged and created PayPal in 2001. In 2002, Elon sold PayPal to eBay and received US\$165 million as largest shareholder.
- In 2002: Space-X
- In 2004: join Tesla



ELECTRIC
ALL-WHEEL DRIVE

VS.

MECHANICAL
ALL-WHEEL DRIVE



- Source: <https://www.tesla.com/blog/all-our-patent-are-belong-you>

All Our Patent Are Belong To You

Elon Musk, CEO • June 12, 2014

Yesterday, there was a wall of Tesla patents in the lobby of our Palo Alto headquarters. That is no longer the case. They have been removed, in the spirit of the open source movement, for the advancement of electric vehicle technology.

Tesla Motors was created to accelerate the advent of sustainable transport. If we clear a path to the creation of compelling electric vehicles, but then lay intellectual property landmines behind us to inhibit others, we are acting in a manner contrary to that goal. Tesla will not initiate patent lawsuits against anyone who, in good faith, wants to use our technology.

Barriers to opportunities

Customer demand

- Car space
- Advertising with celebrities
- Battery technology
- Free charging at Tesla supercharger stations
- Large automakers: don't care
- Oil & gas companies: don't care
- Dealers: No dealers (Apple inspired owned flagships stores)
- Government: get support & subsidy

The Secret Tesla Motors Master Plan (just between you and me)

Elon Musk, Co-Founder & CEO of Tesla Motors • August 2, 2006

system than you consume in transportation! **So, in short, the master plan is:**

Build sports car

Use that money to build an affordable car

Use *that* money to build an even more affordable car

While doing above, also provide zero emission electric power generation options

Don't tell anyone.

- Source: <https://www.tesla.com/blog/secret-tesla-motors-master-plan-just-between-you-and-me>

Tesla Roadster (2008-2012)

Technology:

- travel 393 kilometers (244 mi) on a single charge
- can accelerate from 0 to 97 km/h (0 to 60 mph) in about 4 seconds
- has a top speed of 201 km/h (125 mph)

Price:

- About \$100,000

model	year	price	type
Roadster	2008	\$100,000	sports
S	2012	\$74,990	sedan
3	2017	\$37,990	sedan
X	2015	\$79,990	SUV
Y	2020	\$52,990	SUV

Problems of Tesla?

- Mass production
- Elon Musk: step down from chairman in 2019 & fine of \$20 million



Elon Musk ✓
@elonmusk

Follow



Am considering taking Tesla private at \$420. Funding secured.

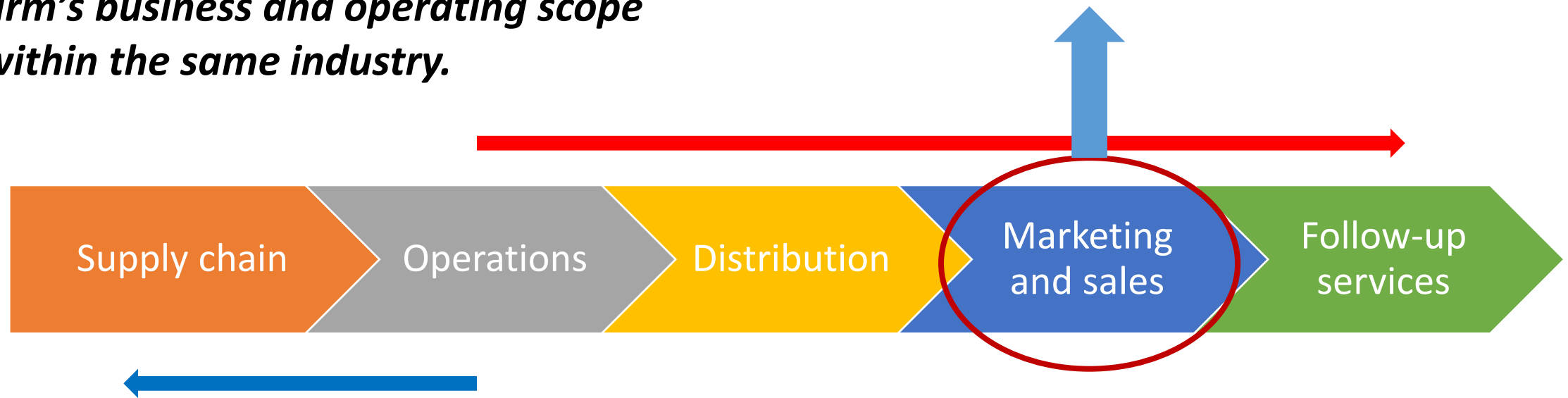
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Comments about Tesla case

- Grab entrepreneurship opportunity
- Technology is core
- Strategic plan of steps

Integration vs. outsourcing

Integration involves extending a firm's business and operating scope within the same industry.



Strengthen a firm's competitive position and achieve higher profitability!

Outsourcing involves contracting out certain value chain activities to outside specialists and strategic allies.

Integrating backward to achieve greater competitiveness

- Allow for differentiation
- Protect the company from knowledge leakage
- Respond quickly to changes

Integrating forward to enhance competitiveness

- Gain better access to end users
- Improve market visibility
- Include the purchasing experience as a differentiating feature

Disadvantages of a Vertical integration strategy

- Increases a firm's capital investments in its industry
- Increases a firm's business risk if industry growth and profits decline
- Can slow the adoption of technical advances
- Results in less flexibility to accommodate changing buyer preferences
- May require development of radically different skills and business capabilities

Strategic Rationale for Outsourcing

- Improve business focus
 - Lets a company focus on broader business issues by having outside experts handle various operational details
- Provide access to world-class capabilities
 - The specialized resources of outsourcing providers makes world-class capabilities available to firms in a wide range of applications

Strategic Rationale for Outsourcing (cont'd)

- Sharing risks
 - Reduces investment requirements and makes firm more flexible, dynamic and better able to adapt to changing opportunities
- Free resources for other purposes
 - Redirects efforts from non-core activities toward those that serve customers more effectively and in which the firm has competitive advantages

Outsourcing Issues

- Finding the most competent firm
 - Outsource only to firms possessing a core competence in terms of performing activity
- Evaluating resources and capabilities
 - **Do not** outsource activities in which the firm itself can create and capture value

- No assignments for next week (changed!)
- Make sure you come to the next class on time.