

Project 4: Proposal, Handling Tesla, Inc.

Model 3 Slow Delivery Rate

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TESLA, INC.

Abstract

The purpose of this mock proposal is to demonstrate my understanding of the company's current problem, learn how to brainstorm recommendations, and learn how to write a proper business proposal. This proposal showcases four recommendations through research on the current issue, budgets, and planning.

Tesla, Inc. produces fully electric self-driving cars, energy generators, and energy storage devices. It was originally founded by Jeffrey B. Straubel, Elon Reeve Musk, Martin Eberhard, and Mark Tarpenning on July 1, 2003 (Tesla Inc, n.d.). The headquarter is in Palo Alto, CA (Tesla Inc, n.d.). For this project, I am specifically focusing on improving the Model 3 delivery rate. I am writing this mock proposal as Zachary Kirkhorn, Chief Financial Officer, to Elon Musk, Chief Executive Officer, to address the current issue and to suggest recommendations to resolve it. The issue is that their shares and revenue have been decreasing over the year due to their inability to keep up with Elon Musk's delivery goals (Kolodny & Wayland, 2019). I also specifically explained the cost associated with each recommendation and how each recommendation will commence with the responsible teams once a recommendation is chosen.

Keywords: Tesla, shares, revenue, Model 3, delivery rate, slow.

TESLA, INC.

To: Chief Executive Officer Elon Reeve Musk <elon.musk@tesla.com>

From: Chief Financial Officer Zachary Kirkhorn <zachary.kirkhorn@tesla.com>

CC:

BCC:

Date: December 13, 2019 at 10:00am

Subject: Improving Tesla, Inc. Slow Delivery Rate Business Proposal

Attachment: 2019HandlingTeslaIncModel3SlowDeliveryRateBusinessProposal.pdf

Dear Elon Musk,

After our last meeting regarding the company's Model 3 delivery issue, I came up with some ideas that could potentially resolve it. The attached file is the business proposal you requested. I look forward to hearing your thoughts and to discussing this matter further.

Regards,
Zachary Kirkhorn

Zachary Kirkhorn
Chief Financial Officer
Tesla, Inc.
3500 Deer Creek Road,
Palo Alto, CA, 94304, United States
(650) 681-5000 (Office)

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Model 3 Slow Delivery Rate

Prepared for
Elon R. Musk
Chief Executive Officer
Tesla, Inc.
Palo Alto, California

Prepared by
Zachary Kirkhorn
Chief Financial Officer
Tesla, Inc.
Palo Alto, California

December 13, 2019

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Letter of Transmittal

December 13, 2019.

Chief Executive Officer Elon Reeve Musk
Tesla, Inc.
3500 Deer Creek Road, Palo Alto, CA, 94034, United States

Dear Elon Musk,

As you requested, I investigated further about the Model 3 slow delivery rates. After reviewing reports from the manufacturing department, I have found that our factory is receiving complaints for delayed deliveries. It is not a production issue. It seems that the factory is producing cars faster than we can have them shipped out. The numbers of trucking companies we have contracted so far is not enough to deliver the finished products on time.

In the proposal, I listed four recommendations that could potentially resolve this issue. Let us discuss which recommendation is best after you have reviewed my proposal.

Regards,
Zachary Kirkhorn

Zachary Kirkhorn
Chief Financial Officer
Tesla, Inc.
3500 Deer Creek Road,
Palo Alto, CA, 94304, United States
(650) 681-5000 (Office)

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Executive Summary

This report showcases Tesla's slow delivery rate of Model 3 and how to improve it. Our Gigafactory in Nevada is receiving complaints from the customers about their delayed Model 3s and we have not been handling the issue properly. Ultimately, we have been losing shares and revenue since the shareholders are seeing the issue as a decrease in demand (Villasanta, 2019).

To combat this issue, I have come up with four recommendations through thorough researching.

Such recommendations are –

1. Contracting with additional auto transport companies.
2. Strategic placement of future factories.
3. Creating Model 3 pickup locations.
4. Introducing the car vending machine method.

I also included how each recommendation will be commenced with proper budgeting, staffs, and schedules once a final decision is made.

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Introduction

This report was prepared to investigate Tesla's slow delivery issue of Model 3 and how to possibly resolve it. Since the beginning of this year, our delivery numbers have not been satisfying in the eyes of the customers and shareholders. Looking at the delivery numbers, we can tell how much we are behind in deliveries. This is negatively affecting both the value of our shares and our bottom line. After thorough research, I prepared this report with four recommendations to combat this issue.

Background

Currently, the company is unable to keep up with Elon Musk's delivery goals (Kolodny & Wayland, 2019). The order backlog is growing as it enters the fourth quarter (Wilkins, 2019). Tesla's delivery rate is slow as it struggles to deliver cars overseas (Siddiqui, 2019). The customers and shareholders are interpreting the slow delivery rate as decrease in demands (Villasanta, 2019). Ultimately, Tesla has been losing reputation and shares over the year.

Problem

Tesla's delivery rate has not been satisfying in the eyes of customers and shareholders. We have been losing revenue and our stock prices decreased as a result. For the first quarter of 2019, we produced 77,100 cars but only delivered approximately 63,000 cars; we lost \$2.90 per share (Kopecki & Kolodny, 2019). For the second quarter, we manufactured 87,048 cars and delivered 95,200 cars (Tesla Q2 2019 Vehicle Production & Deliveries, 2019). Delivery rate increased but stocks decreased by \$1.12 per share after we posted our earnings for that quarter (Baccardax, 2019). For the third quarter, we manufactured 96,155 cars and made 97,000 deliveries. However, we did not reach 99,000 deliveries as Wall Street expected; shares decreased by 3% as a result (Kolodny & Wayland, 2019).

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We also have not been handling the pre-ordered Model 3 delivery delays properly. Some of our customers were not given the new delivery dates at all, while some orders' delivery dates were extended to six to eight weeks or even delayed indefinitely (O'Kane, 2019). This is further hurting our reputation. A friend of mine who recently received a Model 3 explained how his car delivery was delayed multiple times without being given a reason (B. Khoo, personal communication, December 7, 2019).

Purpose

For this proposal, I am specifically focusing on Model 3 and its delivery rate in the United States. The ultimate purpose of this proposal is to further increase Model 3 delivery rate. Once we have chosen an appropriate recommendation, we will be able to repair customer relations, regain market shares, boost our revenue, and redeem ourselves ultimately.

Proposal

Recommendation 1 - Contracting with Additional Auto Transport Companies

Some of our customers have found out about the storage areas where we keep our finished Model 3s and is spreading the news on social media (Boudette, 2019). This is negatively affecting our company's image. Contracting with additional trucking companies would resolve both inventory overflow and our delivery issue.

Recommendation 2 - Strategic Placement of Future Factories

Building factories close to areas where high demands are located could help us deliver our finished products to the customers efficiently with less cost. With this solution, we can cut down the shipping distance, the delivery time, and our costs of paying the shipping companies' services.

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Recommendation 3 - Creating a Model 3s Pickup locations

Delivering Model 3s straight to the customers' doors is costly, time consuming, and inefficient. Allowing the customers to have an option of picking up their pre-ordered Model 3s will ease our local delivery responsibilities. Rewarding such customers with some compensations such as two car-maintenance services will encourage more customers to pick up their own cars.

Recommendation 4 - Introducing the car vending machine method

Carvana is a used car retailer which uses a vending machine method to sell cars (Henry, 2015). Introducing Carvana's car vending machine system could work to our advantage. To make this recommendation work, we could manufacture a certain number of Model 3s to fill up the car vending machine. The customers could choose an available option, handle required applications and payments online, and pick up the car at the vending machine on the same day. This method could also ease our local delivery responsibilities.

Staffing & Schedule

Recommendation 1 - Contracting with Additional Auto Transport Companies

- The team needed for this recommendation, Sascha Zahnd (VP Global Supply Chain) and Roshan Thomas (VP Global Supply Chain), will meet on December 16th and discuss more about it.
- Once this recommendation is chosen, the responsible team will report to Chief Financial Officer, Zachary Kirkhorn, on December 18th for authorization for contracting with additional trucking companies.

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Recommendation 2 - Strategic Placement of Future Factories

- CEO Elon Musk and CFO Zachary Kirkhorn will have a meeting on December 16th to discuss the potential locations for future factories and assign a research team to evaluate further.
- If this recommendation is chosen, the research team will be sent out on December 23rd.

Recommendation 4- Introducing the car vending machine method

- CEO Elon Musk and CFO Zachary Kirkhorn will meet on December 16th to discuss how to implement this method.
- Final decision will be made by December 24th.
- If this recommendation is chosen, we will start the construction of the car vending machine starting January 1, 2020, and finish by the end of February 2020, or by the end of March 2020 as the latest.

Recommendation 3- Creating Model 3s Pickup Locations

- The supply chain management team, VP Global Supply Chain Sascha Zahnd, VP Global Supply Chain Roshan Thomas, and VP Global Supply Management Karn Budhiraj will have a meeting on December 16th
- If this recommendation is chosen, the responsible team will report to both CEO Elon Musk and CFO Zachary Kirkhorn and make plans to initiate the recommendation by December 20th.
- The Construction of the pickup location will be started on 23rd and will be done before the end of March 2020.
- Starting next year April 1, 2020, customers will be able to pick up their Model 3s at the pickup locations.

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Budget

Recommendation 1- Contracting with Additional Auto Transport Companies

- Each trailer truck can hold 12 cars (S, 2017) and the trucking company charges \$2.20 per loaded mile (Boblett, 2018)

Recommendation 2- Strategic Placement of Future Factories

- Sending out people to research locations may cost about \$5,000-\$10,000.

Recommendation 3- Creating Model 3s Pickup Locations

- Cost of opening a pickup location-
 - Construction of dealership-like building - \$118.15 per square foot (Construction Cost Estimates for Car Dealership in National, US, n.d) x 10,000 square feet = \$11,815,000.
 - Operation manager - \$41 to \$55 (Hourly wage for Operations Manager, n.d)
 - Hire 5-10 staffs - \$20 per hour (per staff)
- Cost of Rewarding customers
 - 2 maintenance services that would cost the company
 - Auto Mechanic - \$17 per hour (Salary: Auto Mechanic, n.d)
 - Replacing brake fluid - \$80 to \$100 (Fosse, 2019)
 - Tire rotation, cleaning air filter, and other maintenance services would cost us nothing.

Recommendation 4- Introduce the car vending machine method

- Cost of building the huge car vending machine may be the same as Carvana's which is approximately \$5 million (Miller, 2019).
- Operation manager - \$41 to \$55 (Hourly wage for Operations Manager, n.d)

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- Hire 5-10 staffs - \$20 per hour (per staff)

Authorization

This report was prepared for Chief Executive Officer of Tesla, Inc., Elon Musk, to show potential resolutions for the slow delivery of finished Model 3s. As the Chief Financial Officer, I give my full permission for this proposal to be released. I believe that the recommendations will resolve our issue.

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