



Business Strategy & Beyond Market Constraints

Taft College Foundation – Mini-Leadership Summit
May 2017

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Innovating in an Established Market



TESLA MOTORS





The U.S. Dealership Distribution System

- First car dealership established in 1898 to sell steam automobiles from General Motors Corp.
 - Manufacturers tried many distn systems, settling on franchises.
 - Similar to franchises for Singer Sewing Machine Company & McCormack Harvesting Machine Company.
 - Why use a franchise system?
- Do these reasons still apply today?
 - Number of dealers today: approx. 18,000.
 - Number of dealers peaked at 53,125 in 1927.



Auto Distribution: Party Like It's 1898

- There has been minimal innovation in the automobile distribution system in the U.S.
 - Dealer network not dissimilar to what it was in 1898.
- In the U.S. today:
 - Manufacturers do not sell direct to consumers.
 - No made-to-order business plans in automotive industry.
 - Only online presence is bricks-&-mortar dealers or lead generators who direct buyers to dealers (e.g. autobytel.com; carsdirect.com – lead-generator & partial vertical integration)
 - ... except Tesla.



Innovation in Auto Distribution

- Innovation in distribution rampant in other industries:
 - Retail and Big Box Stores: Wal-Mart.
 - Personal computers and Made-to-Order: Dell.
- Why has the car distribution system persisted?
- Because it is efficient?
 - No – very inefficient system: double-marginalization, sales commissions, inventory costs, shipping costs, etc.
 - E.g., value of new car inventory about \$100 billion with annual carrying cost of \$890 million (2008).
- Because consumers like buying from dealers?
 - >70% (and ↑) of new car buyers begin research online.
 - >70% of consumers say they'd prefer to "buy direct from manufacturers even if it didn't save any money."
- Because U.S. manufacturers don't know how to innovate?

GM's Made-to-Order Chevrolet Celta



The Celta Sales & Distribution Strategy...A New Economy Model

The Celta will be sold starting the third week of September. Simultaneously, GM do Brasil and its dealer partners are preparing to rollout in stages over the next several months a new internet sales channel based on four key strategies: (1) e-commerce, (2) one price, (3) direct invoicing and (4) fast delivery to the customer.

"Together with our dealer partners, we have stepped out of our comfort zone and broken ground so that Brazilian consumers can have the right car, at the right place, at the right time and at the right price," said Joseph DaMour, General Director, Sales & Marketing, GM

- Direct internet sales model in Brazil.
 - Time from configuration to delivery: 1 week.
 - 20 "build combinations" available.
 - GM uses 50% fewer parts & 60% fewer suppliers.
 - Prices 6% lower – 700,000 sold in first six years (2000-06).
 - GM doesn't offer this sales channel in the US.



Why No Innovation?

- One reason there has been no innovation in the US is because it is *illegal* to innovate!
- To sell a car in any state in the U.S. you have to be registered as a dealer (requires physical location).
- In many states, the manufacturer is prohibited from acting as a dealer (31 states, including Texas).
 - Restrictions on competing with independent dealers in all states.
 - e.g., Chrysler in Los Angeles: “banner” showroom, sub-market rent.
- In many states it is illegal to sell a car over the internet unless licensed as a dealer (and have a physical location).
- Example: GM was listing used cars (off lease) on a website. Purchase was through a TX dealer who received a commission.
 - Texas regulators had the website shut down.
 - Ruling was that website constituted a dealership.

Car Deals on Groupon



- September 2010:
 - 200 Mercedes for \$20,000 – 33% discount.
 - Illegal in the US!



Does this Matter to the Established Car Industry?

- Yes!

Table 2

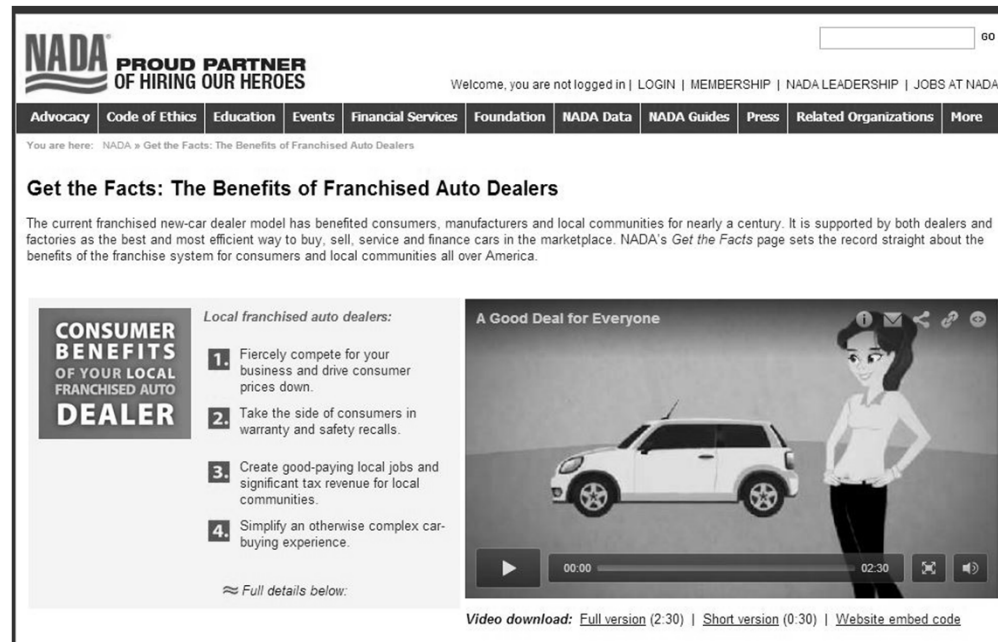
Number of New Light Vehicles Sold per Dealership, U.S. Market

	2001	2002	2003	2004	2005	2006	2007	2008	2009
Toyota	1,926	1,890	1,966	2,128	2,237	2,412	2,369	1,928	1,488
Honda	1,287	1,283	1,337	1,387	1,381	1,418	1,448	1,327	1,062
Nissan	1,067	1,020	996	1,180	1,200	1,083	1,118	983	783
Ford	861	789	779	748	717	679	631	528	472
GM	626	636	631	634	625	589	574	471	377
Chrysler	575	553	570	607	651	637	579	447	396

- Why the difference?
- Legacy dealerships are a significant strain on the competitiveness of the U.S. car industry.
 - 2nd mover advantage!
 - Dealer restrictions shape the market for new cars.
 - Implication: If you can change the law, you can change the market (to your adv)

Why So Many Restrictions on Selling Cars?

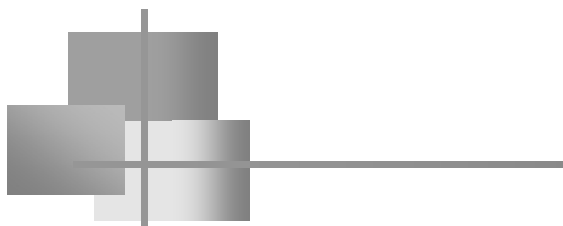
- Restrictions on selling cars exist because dealers want them.



The screenshot shows the NADA website with the following content:

- NADA PROUD PARTNER OF HIRING OUR HEROES**
- Navigation menu: [Advocacy](#), [Code of Ethics](#), [Education](#), [Events](#), [Financial Services](#), [Foundation](#), [NADA Data](#), [NADA Guides](#), [Press](#), [Related Organizations](#), [More](#)
- Text: "Welcome, you are not logged in | [LOGIN](#) | [MEMBERSHIP](#) | [NADA LEADERSHIP](#) | [JOBS AT NADA](#)"
- Breadcrumb: "You are here: [NADA](#) » [Get the Facts: The Benefits of Franchised Auto Dealers](#)"
- Get the Facts: The Benefits of Franchised Auto Dealers**
- Text: "The current franchised new-car dealer model has benefited consumers, manufacturers and local communities for nearly a century. It is supported by both dealers and factories as the best and most efficient way to buy, sell, service and finance cars in the marketplace. NADA's *Get the Facts* page sets the record straight about the benefits of the franchise system for consumers and local communities all over America."
- CONSUMER BENEFITS OF YOUR LOCAL FRANCHISED AUTO DEALER**
- Local franchised auto dealers:**
 1. Fiercely compete for your business and drive consumer prices down.
 2. Take the side of consumers in warranty and safety recalls.
 3. Create good-paying local jobs and significant tax revenue for local communities.
 4. Simplify an otherwise complex car-buying experience.
- Text: "≈ Full details below."
- A Good Deal for Everyone**
- Video player showing a woman standing next to a white car.
- Video controls: play button, 00:00, 02:30, full screen, volume.
- Text: "Video download: [Full version \(2:30\)](#) | [Short version \(0:30\)](#) | [Website embed code](#)"

- Manufacturers oppose the restrictions.
- Just how powerful are car dealers in America? ...



- Dealers vs. Manufacturers?
- Who wins?

- Dealers win!!

THE WALL STREET JOURNAL

WSJ.com

OPINION | NOVEMBER 17, 2008

Why Bankruptcy Is the Best Option for GM

Chapter 11 would better preserve the valuable parts of the company than an ad hoc bailout.

By MICHAEL E. LEVINE

General Motors is a once-great company caught in a web of relationships designed for another era. It should not be fed while still caught, because that will leave it trapped until we get tired of feeding it. Then it will die. The only possibility of saving it is to take the risk of cutting it free. In other words, GM should be allowed to go bankrupt.



Consider the costs of tackling GM's problems with some kind of bailout plan. After 42 years of eroding U.S. market share (from 53% to 20%) and countless announcements of "change," GM still has eight U.S. brands (Cadillac, Saab, Buick, Pontiac, GMC, Saturn, Chevrolet and Hummer). As for its more successful competitors, Toyota (19% market share) has three, and Honda (11%) has two.

GM has about 7,000 dealers. Toyota has fewer than 1,500. Honda has about 1,000. These fewer and larger dealers are better able to advertise, stock and service the cars they sell. GM knows it needs fewer brands and dealers, but the dealers are protected from termination by state laws. This makes eliminating them and the brands they sell very expensive. It would cost GM billions of dollars and many years to reduce the number of dealers it has to a number near Toyota's.



SECRETARY OF THE ARMY
WASHINGTON

MAY 12 2010

The Honorable Christopher Dodd
Chairman
Committee on Banking, Housing and Urban Affairs
United States Senate
Washington, DC 20510

Dear Mr. Chairman:

I am writing regarding the legislation before the Senate which would establish the Consumer Financial Protection Agency (CFPA) and delineate the limits of its authority.

I understand that an amendment may soon be introduced that would exempt automobile dealerships from any financial oversight under the CFPA. The Army would have strong concerns with any such amendments.

Over the years, many of our Soldiers have fallen victim to predatory lending practices and have entered into contracts for prohibitively expensive financial products promoted by some unscrupulous car dealerships and lenders. Though the Army does educate our Soldiers about buying cars in our normal financial education curriculum, the fact remains that junior enlisted Soldiers – many of whom are drawing a regular paycheck for the first time in their lives and are inexperienced in financial matters – remain an easy target for dishonest brokers. We owe them the protection and oversight that would be afforded by the CFPA.

In an era of persistent conflict and multiple deployments, our Soldiers and their Families are under increasing stress. In surveys conducted by the Department of Defense, finances rank among the primary causes of stress for most military Families. As auto loans are often the most significant financial obligations of our Soldiers – particularly within the junior enlisted grades – we believe that greater government oversight of auto financing and sales for our Soldiers will help protect them and reduce unnecessary financial strain on our already overburdened Army Families.

Soldiers who are distracted by financial issues at home are not fully focused on fighting the enemy, thereby decreasing mission readiness. Protection from unprincipled auto lending enables our Soldiers to concentrate on their primary mission – protecting our great Nation.

Thank you for your continued support of our Soldiers and their Families.

Sincerely,

John M. McHugh

- Which group can beat (politically) the car dealers?
- How about the US Army?
- Result?
 - The dealers won.



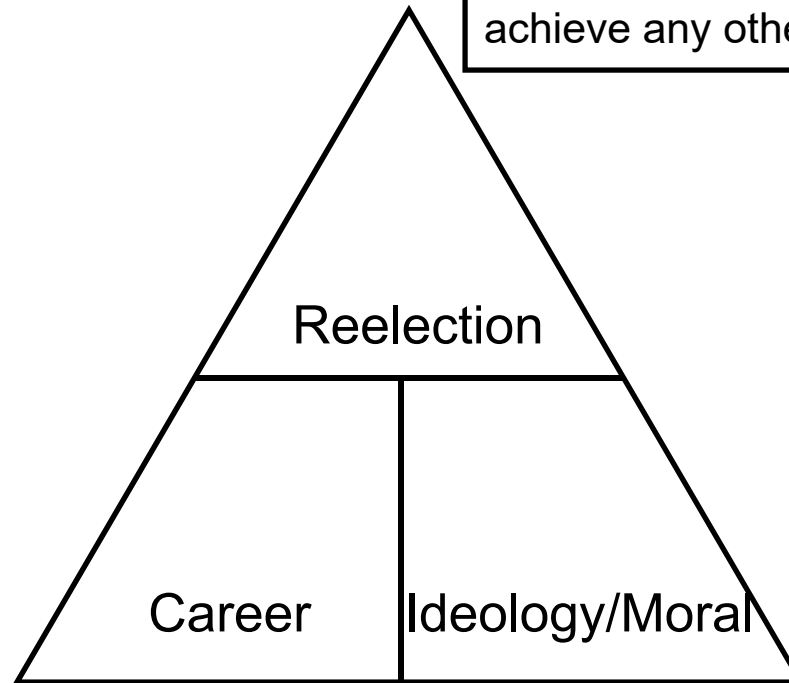
Understanding Political Power

- Why do the car dealers get to impose restrictions?
- Restrictions are the product of political competition.
- ... and car dealers are *"politically powerful"*
- Our question: What does it mean to be "politically powerful"?
- Political power comes from giving politicians what they want.
- What do politicians want?



The Politician's Hierarchy of Needs

Without being reelected the politician cannot achieve any other goals.



In order to advance up the electoral or party ladder politicians must create new constituencies and alliances with other members of their political party.

Politicians are often elected because of their moral and ideological positions. When reelection does not loom too large these concerns will often determine behavior.

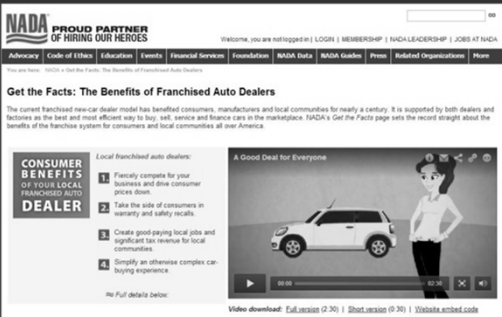


The Sources of Political Power

- Politicians need votes (whatever their true motivation).
- Need to identify voters who care about an issue
- ... and care enough to change their vote based on decision.
 - Politicians are always accused of taking “_____” voters for granted.
- Who cares enough?
 - Those directly affected – does your job depend on policy?
- Everyone else needs to be convinced. Politician needs:
 - Money: donations pay for advertising (= jobs!!).
 - Information/framing: Popular causes (= jobs!!).

The Power of the Car Dealers

- The car dealers:
 - Deliver a lot of jobs ... but more than the manufacturers?
 - Don't have the most money (they are barely profitable nowadays).
 - Have a good message: jobs, small business, ...
 - But not as good as the US Army!
 - Economic arguments (truth!) are not on their side.



The screenshot shows the NADA website with the following content:

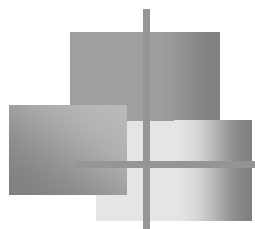
- Header:** NADA PROUD PARTNER OF HIRING OUR HEROES. Navigation links include Advocacy, Code of Ethics, Education, Events, Financial Services, Foundation, NADA Data, NADA Goals, Press, Related Organizations, and More.
- Main Title:** Get the Facts: The Benefits of Franchised Auto Dealers.
- Text:** The current franchised new-car dealer model has benefited consumers, manufacturers and local communities for nearly a century. It is supported by both dealers and factories in the best and most efficient way to buy, sell, service and finance cars in the marketplace. NADA's Get the Facts page sets the record straight about the benefits of the franchise system for consumers and local communities all over America.
- Consumer Benefits:**
 - 1.** Fractally compete for your business and drive consumer prices down.
 - 2.** Take the side of consumers in warranty and safety recalls.
 - 3.** Create good-paying local jobs and significant tax revenue for local communities.
 - 4.** Simplify an otherwise complex car-buying experience.
- Local franchised auto dealers:** (Section header)
- Video:** A Good Deal for Everyone. Video player showing a woman standing next to a white car.
- Footer:** Video download: Full version (2:30) | Short version (0:30) | Viewable embed code

- ... but they have the best combination of these things.
- ... they are entrenched (defending the status quo).
- ... and they have two other advantages:



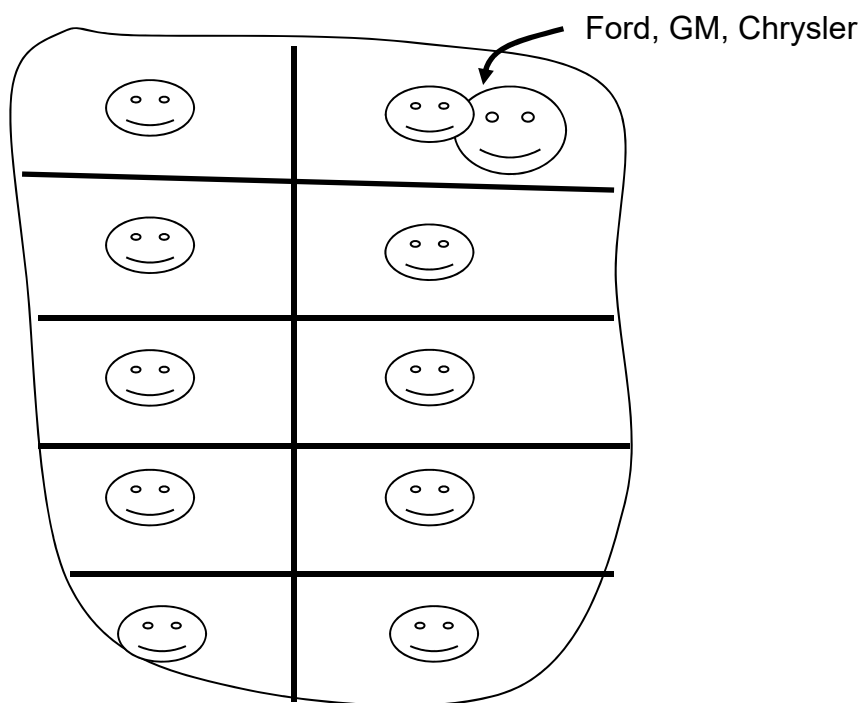
Advantage #1: The Power of Coverage

- Politicians seek votes ... but not all votes are equal.
 - *(what happened to one-person, one-vote?)*
- *Which votes matter more?*
- Not just “which” but “where”.

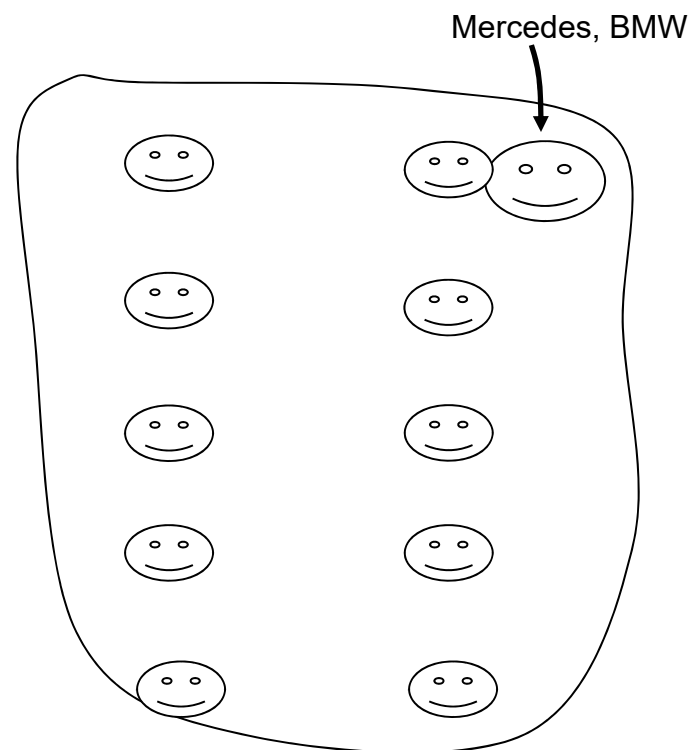


Coverage: The System Matters

Two Countries: Green and Blue
Each elects a 10 member legislature.



Plurality rule, 10 districts



Proportional Representation (PR), one grand district

⇒ Concentration vs. Numbers



Evidence from Europe

- Car industry was exempt from competition law until 2002
 - “block exemption” expired 30 September, 2002.
 - Ex: Fiat Marea pre-tax price £9,197 in UK, £5,583 in Denmark.
- EU Commission removed exemption in 2002.
 - Dealers now allowed to open showrooms anywhere (exclusive territories removed).
 - Expected welfare gain of €9-11 billion per year.
 - Dealer market has contracted but the market still evolving.
 - Realized welfare gain is positive.



The Source of Political Power

- Facts:
 - 20% of state sales tax revenue comes from car dealerships.
 - Car dealerships account for 7-8% of retail employment.
 - Car dealerships in every population center in the country.
 - i.e. in every electoral district.
- Levels of political protection:
 - Car dealerships have federal statutory protection.
 - Even stronger protection at state level.
 - No sig. opposing interests at state level (i.e., manufacturers).
- Not all votes are created equal!



Advantage #2: The Importance of Collective Action

- The car dealers other big advantage?
 - They turn up.
- Beyond manuf. the big loser from sales restrictions is: you!
- When did you last protest to an elected representative?
 - How much effort would you put in? Send an email?
- Jobs, money, framing doesn't matter if you don't turn up.
- Solving collective action problems can be difficult...



Collective Action and the Prisoners' Dilemma

- Two elements:
 - Cooperation is *valuable*
 - Cooperation is *problematic*
- More formally:
 - each player's choice of his or her dominant strategy (i.e., for whichever strategy the other player might choose, we will choose one particular strategy) results in an outcome that is worse for every player than if they all chose another alternative.
- How can we assess the likelihood of collective action?



Collective Action Checklist

Collective action is more likely if:

- Stakes are high (e.g. farm subsidies)
- Groups are small (e.g. producers versus consumers)
- Issue comes up frequently (e.g. car safety)
- Members of interest group share many common interests (e.g. unions, AARP)
- Interest can free-ride on existing organization/network (e.g. NIMBY, unions and trade policy)
- Issue is newsworthy - the media can solve collective action problems



Organizing Coalitions

- Key challenge in politics – forming coalitions
- Coalitions of potential allies do not always form spontaneously
 - Lack of information
 - Cost of organization
- Businesses can be a critical catalyst for beyond-market coalitions.



Takeaways I

- 5 main sources of political power:
 - Direct votes: jobs!
 - Money.
 - Coverage.
 - Solved collective action problem.
 - Information/Framing: A good message.
- → The source of political power is identifiable.
 - It can be measured.
 - It can be built and it can be countered.
- Succeeding in a market means building market power and beyond-market (political) power.

How Do Dealer Restrictions Affect Market Entry?

- How does Tesla shape its market strategy to deal with beyond-market constraints?
- *Does Tesla want or need independent dealers?*
- To sell cars in California:
 - Tesla registered as a dealer.
 - Can't compete with independent franchisees.
 - Fortunately doesn't have any!
 - *A last mover advantage?*
- *What about other states?*



TESLA MOTORS



Retail Innovation by Regulation

- What about states where a manufacturer can't be a dealer?
 - Should Tesla take on independent dealers?
 - Should Tesla lobby to change the law?
 - *Does Tesla have any political power?*
 - Should Tesla "do an Uber"?
- Tesla opted to conform to the law
- ... but test its limits.
- Step 1: Tesla opened "galleries" in select states.





Retail Innovation by Regulation

- Step 1: Tesla opened “galleries” in select states.
 - Can’t purchase from galleries. Sales through Tesla head office.
 - Can’t do repairs at galleries – constitutes “dealer behavior”.
 - In Texas (Houston & Austin) galleries employees cannot:
 - Discuss purchasing, financing, or leasing a Tesla.
 - Tell customers the price of a Tesla or how they might reserve one.
 - Offer test drives.
 - Refer customers to an out-of-state store that does any of those things.
 - Colorado showroom currently under investigation by Colorado Dealers Association and Colorado regulators.
 - Tesla can’t sell to some states.
- Step 2: For internet sales, Tesla ships by 3rd party (Tesla argues the transaction is then in CA).



Regulatory Risk

- Tesla IPO Prospectus, 2010:

We may face regulatory limitations on our ability to sell vehicles directly or over the internet which could materially and adversely affect our ability to sell our electric vehicles.

The foregoing examples of state laws governing the sale of motor vehicles are just some of the regulations we will face as we sell our vehicles. In many states, the application of state motor vehicle laws to our specific sales model is largely untested under state motor vehicle industry laws, particularly with respect to sales over the internet, and would be determined by a fact specific analysis of numerous factors, including whether we have a physical presence or employees in the applicable state, whether we advertise or conduct other activities in the applicable state, how the sale transaction is structured, the volume of sales into the state, and whether the state in question prohibits manufacturers from acting as dealers. As a result of the fact specific and untested nature of these issues, and the fact that applying these laws intended for the traditional automobile distribution model to our sales model allows for some interpretation and discretion by the regulators, the manner in which the applicable authorities will apply their state laws to our distribution model is unknown. Such laws, as well as other laws governing the motor vehicle industry, may subject us to potential inquiries and investigations from state motor vehicle regulators who may question whether our sales model complies with applicable state motor vehicle industry laws and who may require us to change our sales model or may prohibit our ability to sell our vehicles to residents in such states. In addition, decisions by regulators permitting us to sell vehicles may be subject to challenges as to whether such decisions comply with applicable state motor vehicle industry laws. Such challenges, if successful, could prohibit our ability to sell our vehicles to residents in such states.



Shaping a Market Strategy

- Tesla has pursued an “conform-and-test” strategy.
 - Conform: not open company-owned dealerships where prohibited.
 - Test: sell over the internet where not expressly prohibited (a legal gray area)

- They’ve had some victories (fortune favors the brave!):



A State by State Fight



Elon Musk
@elonmusk

Follow

New York judge just ruled in favor Tesla, dismissing the legal attack by auto dealers to prevent direct sales!


11:03 AM - 11 Apr 2013

586 RETWEETS 352 FAVORITES



- Victory is step-by-step ...

Tesla is now fighting direct sales restrictions in North Carolina

Fred Lambert - 7 hours ago  @FredericLambert

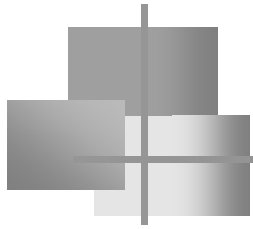
CARS TESLA

Tesla, BMW partner Demmel bringing 50 jobs to Henderson

Emily Patrick, epatrick@citizen-times.com 5:23 p.m. EDT April 20, 2016

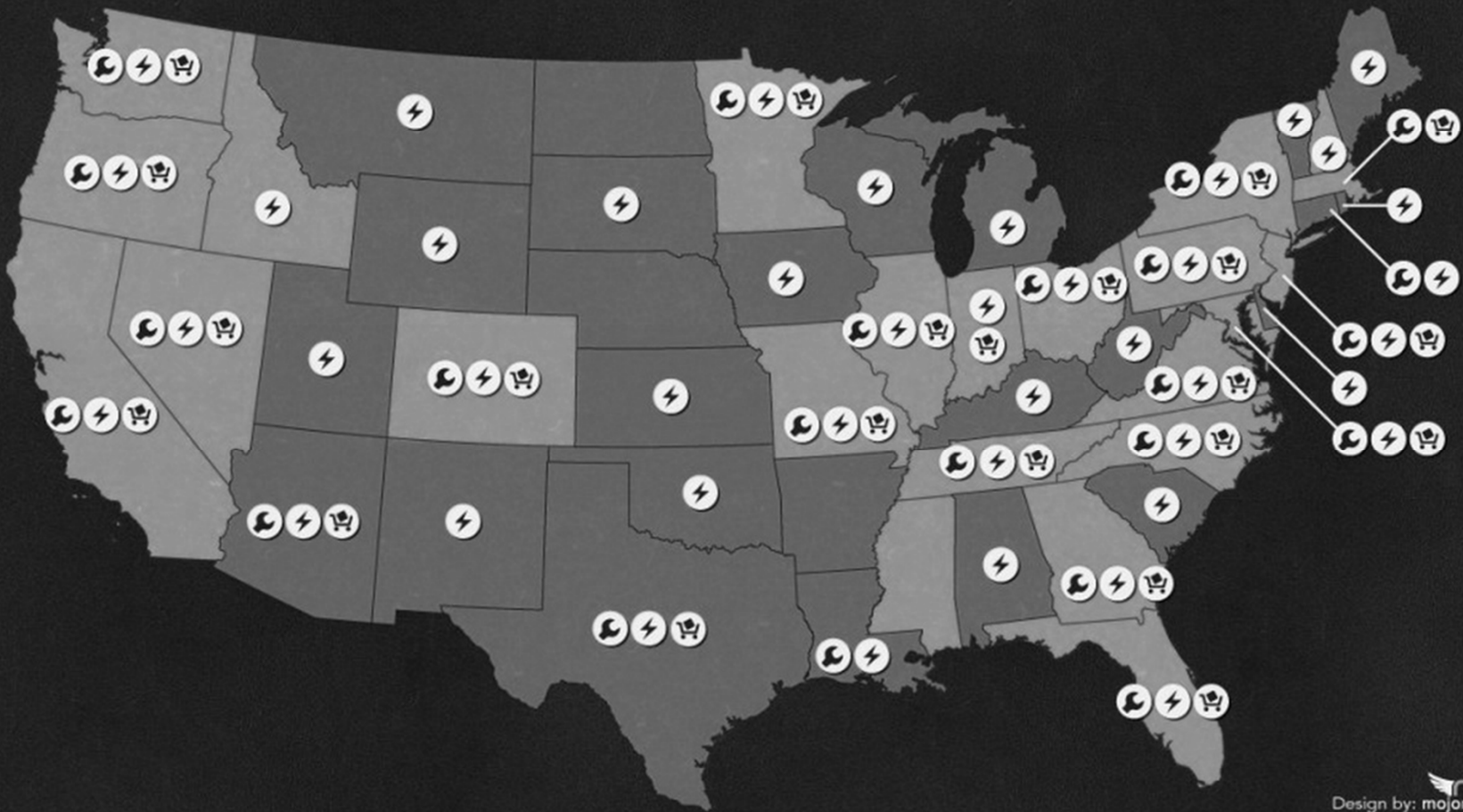


The move to sustainable transportation is an essential step in the evolution of humans to live in a way that does not destroy the world around us. I have driven over 35,000 miles in my Tesla Model S, and all the electricity (with the exception of road trips) has come from sunshine collected by the solar panels on the roof of my home. – Leilani Münter



How is this playing out across the country?

CAN TESLA SELL CARS IN MY STATE?



Design by:  mojomotors

Sources: teslamotors.com, scholarworks.gsu.edu
(Accurate as of April 21, 2015)

ALASKA



HAWAII



WASHINGTON D.C.



YES

NO

SERVICE CENTERS



SUPERCHARGERS



STORES & GALLERIES



Free-Market Cheerleader Chris Christie Blocks Tesla Sales in New Jersey

By Will Oremus



Gov. Chris Christie, champion of the free market except when it hurts the car-dealership lobby.

Photo by Mark Wilson/Getty Images

Like a lot of Republicans, New Jersey Gov. Chris Christie likes to talk about how the government should get out of the way of the free market. In a speech last week in Washington, D.C., he railed against President Obama's economic interventions. "We don't have an income inequality problem, we have an opportunity problem in this country because government's trying to control the free market," he said. And he urged his fellow conservatives to shout their opposition to government regulations from the rooftops. "We need to talk about the fact that we're for a

Tesla Can Now Resume Car Sales In New Jersey

Posted Mar 18, 2015 by Matt Burns (@mjburnsy)

New Jersey Governor Chris Christie just signed a law that will allow Tesla to start selling its vehicles again to residents of the state.

About a year ago, New Jersey started enforcing a law that required vehicles to be sold to consumers through dealerships. Tesla doesn't play nicely with dealerships. It sells its vehicles directly to consumers through company-owned showrooms instead of independently owned and state-certified dealerships. So about a year ago, Tesla stopped selling cars in New Jersey and the company's two showrooms were unable to offer test drives or discuss sale information.

The car company spent the last year publicly fighting the ban and on Monday won a major victory when the state legislature approved the bill. Under the new guidelines, Tesla can only open a total of four of its own dealerships and has to operate at least one service center.

Tesla might be able to resume sales in New Jersey, but it's still banned from doing so in Virginia, Arizona, Texas and Michigan.



Tesla Motors ✓
@TeslaMotors

A huge victory in New Jersey for consumer choice: We are open for business! @GovChristie

11:31 AM - 18 Mar 2015

561 RETWEETS 781 FAVORITES

Follow

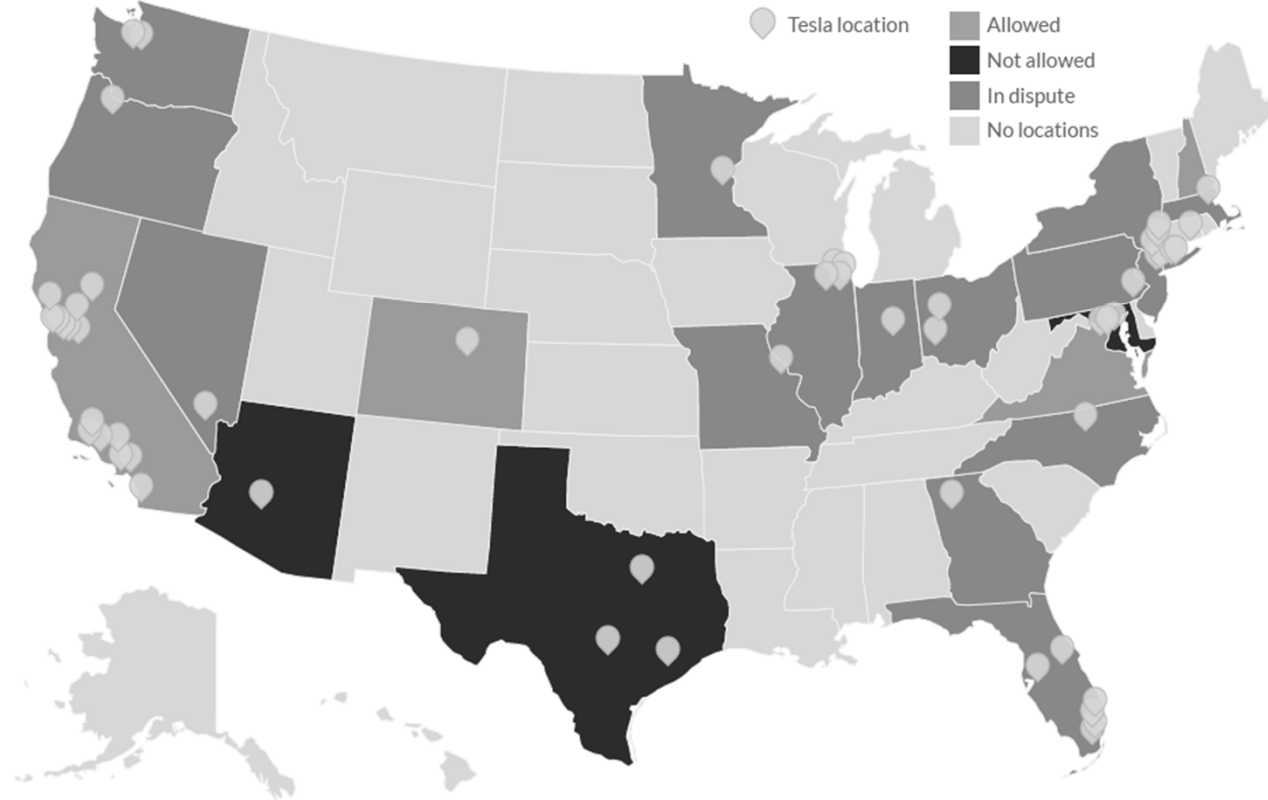
Why "huge"? Dynamic implications: How will political power change over time?

Two Years Previously

Where you can buy a Tesla

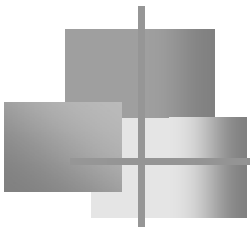
Tesla Motors wants to sell cars directly to consumers, but auto dealers and many state regulators are fighting it. Tesla locations in states where direct sales are prohibited can only serve as showrooms.

Recommend 368



Sources: Tesla, National Automobile Dealers Association

Map: CNNMoney



Tesla's Musk: I'll take store fight federal

NADA vows to defend state franchise laws

2 Comments | Print | Reprints | Respond | Recommend 16



Elon Musk:
May file federal
suit or lobby for
legislation

Amy Wilson

Automotive News

April 15, 2013 - 12:01 am ET

If Tesla Motors CEO Elon Musk can't win against dealers at the state level, he will make a federal case of his bid to sell electric vehicles directly to the public through factory stores.

"If we're seeing nonstop battles at the state level, rather than fight 20 different state battles, I'd rather fight one federal battle." Musk told *Automotive News* last week.

Tesla repays federal loan nearly 10 years early CNNMoney

By Chris Isidore @CNNMoney May 22, 2013: 4:51 PM ET

[Recommend](#) 1.8k [Tweet](#) 128 [Share](#) 8 [+1](#) 3 [Email](#) [Print](#)



Tesla co-founder and CEO Elon Musk.

NEW YORK (CNNMoney)

Tesla Motors announced Wednesday that it has repaid a \$465 million loan from the government nearly a decade before it was scheduled to do so.

The electric-car maker received the loan from the Department of Energy in January 2010, and it made its first payment this past December. That began what was supposed to be a 10-year repayment program, but plans have changed.

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LifeLock® Official Site

Tesla ([TSLA](#)) reported its **first quarterly profit** earlier this month, and *Consumer Reports* came out with a review calling the Tesla Model S the **best car it ever tested**. Those two facts, along with a significant short squeeze, helped send the stock **soaring to record highs**.

Can the battle be moved to federal level?

Tesla Motors White House petition passes 100K signatures — a small win for electric cars?



Image Credit: Tesla Motors

July 2, 2013 5:21 PM
Tom Cheredar




A White House petition to make it legal for Tesla Motors to sell its revolutionary cars directly to consumers surpassed its goal of 100,000 signatures today — meaning it'll get an official response from the Obama administration.



Strategy Question

- Should Tesla “venue switch” to Federal level in US?
 - Are they better off with one national fight rather than 50 individual fights?
- What factors determine your answer?
- Question: At which level does Tesla wield the most relative political power?



OFFICIAL WHITE HOUSE RESPONSE TO
allow Tesla Motors to sell directly to consumers in all 50 states.

Response to We the People Petition on Tesla Motors

By Dan Utech

Thanks for your We the People petition. We're excited about the next generation of transportation choices, including the kind of electric vehicles that Tesla and others have developed. These companies are taking steps to help spur innovation in the promising area of advanced batteries and electric automobiles. Vehicle electrification and other advanced technologies are vital components of President Obama's Climate Action Plan, and his commitment to addressing climate change and reducing carbon pollution, in addition to reducing our dependence on oil.

But as you know, laws regulating auto sales are issues that have traditionally sat with lawmakers at the state level.

We believe in the goal of improving consumer choice for American families, including more vehicles that provide savings at the pump for consumers. However, we understand that pre-empting current state laws on direct-to-consumer auto sales would require an act of Congress.

- The chance Congress will act is approximately zero.
 - Tesla's "coverage" at Federal level is terrible!

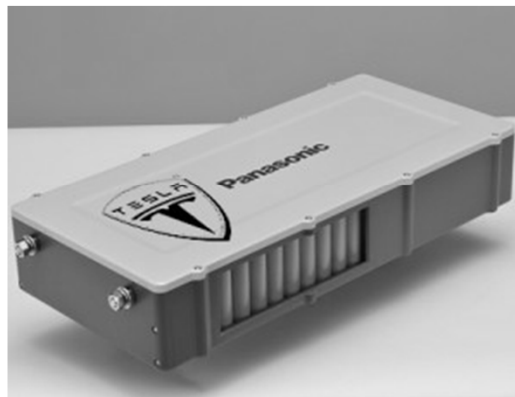
Does Tesla Really Need a \$5 Billion Battery?

Musk Seeks Sites in Southwestern States for Giant Factory

In a project that is befuddling industry experts and competitors, [Tesla Motors Inc.](#) [TSLA -5.85%](#) is looking for possible sites for a giant electric-car battery factory in four Southwestern states.

The plant, dubbed a "gigafactory" by Tesla Chief Executive [Elon Musk](#), would be the world's largest factory by a long shot. Mr. Musk has outlined a proposal to spend \$5 billion on it, hiring up to 6,500 workers and creating thousands of ancillary jobs. He compares the undertaking to auto-industry pioneer Henry Ford's early 20th century Rouge complex. It took in iron ore and other raw materials at one end and rolled out completed Model Ts at the other, aiming to control and cut costs at every stage of production.

Mr. Musk wants to begin making batteries at the plant in 2017, a timeline that puts pressure on the company to break ground this year. Tesla executives say they need the Gigafactory to guarantee the supply of millions of battery cells and to cut costs through scale and logistics savings.



Meanwhile, officials in Arizona, Nevada, New Mexico and Texas are trying to lure the Silicon Valley-based maker of electric cars to their state. Mr. O'Connell and other Tesla officials are in the final stages of vetting sites in those states.

In Texas, Gov. Rick Perry is said to be leading negotiations directly. He told Fox Business last week that he could support overhauling state laws that block Tesla from operating company-owned retail car stores so the Gigafactory and its jobs don't go elsewhere. "The cachet of being able to say we put that manufacturing facility in [our] state is hard to pass up," he said.

More
[Tesla Sets Norway Sales Mark](#)

In Arizona, legislators are pushing through bills to allow Tesla to sell cars without franchised dealerships. New Mexico may call a special legislative session to create incentives for the factory. And Nevada, which is rich in natural resources like lithium and the closest to Tesla's car factory in the Oakland suburb of Fremont, Calif., has already had Tesla officials visit Reno to look at sites.



Take-Aways II

- Markets are not shaped by market factors alone.
 - Govt policy often determines the rules-of-the game for market competition
 - ... and who wins and loses.
- The “rules” are the result of beyond-market competition.
 - The rules are not always sensible and they are rarely fair.
 - The rules of the game + market strategy determine performance.
- Political power can be measured, just like market power.
 - Beyond-market power (just like market power) can change: Think dynamically!
- Requires an Integrated Strategy: Market strategy + beyond market strategy should be complementary.