



STRATEGIC AUDIT REPORT  
OF TESLA MOTORS  
PRESENTED BY

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# TABLE OF CONTENTS

|                                                                 |    |
|-----------------------------------------------------------------|----|
| Table of Contents                                               | 2  |
| Executive Summary                                               | 3  |
| Current Situation                                               | 4  |
| Luxury Electric Vehicles                                        | 4  |
| Increasing demand                                               | 4  |
| Partnerships                                                    | 5  |
| Affordability                                                   | 5  |
| External Environment                                            | 6  |
| Opportunities                                                   | 6  |
| Threats                                                         | 6  |
| Internal Environment                                            | 7  |
| Strengths                                                       | 7  |
| Weaknesses                                                      | 8  |
| Strategic Alternatives                                          | 8  |
| Partnerships                                                    | 8  |
| Product Expansion                                               | 9  |
| Recommended Strategy                                            | 9  |
| Implementation                                                  | 10 |
| Budget/Cost                                                     | 11 |
| Evaluation                                                      | 11 |
| Controls                                                        | 12 |
| Appendix                                                        | 13 |
| NATTAA's Data Figures:                                          | 13 |
| Figure 1. Consumer Interest in Environmental Issues             | 13 |
| Figure 2. Consumer Reasons for "Going Green"                    | 14 |
| Figure 3. Industry Market Share                                 | 14 |
| Figure 4. Hybrid/Electric Vehicles Owned by Affluent Households | 15 |
| Figure 5 Adults Who Use Social Networks                         | 15 |
| Figure 6. Effective Advertising Measures                        | 16 |
| Figure 7. Tesla's Competitor Profile                            | 16 |
| Works Cited                                                     | 17 |

## EXECUTIVE SUMMARY

Marc Tarpenning and Martin Eberhard co-founded Tesla in 2003 with the objective to “create efficient electric cars for driving aficionados” (Hoffman 26-1). They wanted to increase social awareness about a new alternative to the old-fashioned and inefficient way of powering a vehicle. Tesla’s overarching mission statement is to “accelerate the world’s transition into sustainable energy.” The best way to achieve this is to incorporate social technology into Tesla’s everyday sales. In order for Tesla to achieve its mission, it needs to motivate and influence consumers to care about their environment and understand how it impacts their world. The point of influence in today’s society is that of social media.

This report is intended to help this company gain more brand recognition and provide ways to help attract a bigger customer base to achieve their goals. Without a current marketing strategy, Tesla has so far relied on word-of-mouth advertising. This method, however, is not enough for Tesla to realize its goals. This report proposes a social media marketing strategy to help Tesla expand its reach to a larger target audience. Through social media, the company will gain more publicity as well as create a newfound platform to create a more direct and interpersonal interaction between the company and its consumers. Leading into the second obstacle, most vehicles require gas to be powered which has proven to be detrimental to the environment. Predominantly, gas has required fossil fuels and in turn it has emitted harmful chemicals into the air.

## CURRENT SITUATION

Under CEO Elon Musk, Tesla Motors went public in June 2010 raising \$226.1 million at its first stock debut at \$17 a share (Hoffman 26-1). Tesla Motors hopes to increase worldwide acceptance of electric vehicles. With that in mind, Tesla Motors unveiled its first all electric car, the Roadster, in 2006. The two-seat sports car is “powered by a three-phase, four pole AC induction motor... has a top speed of 130 mph and accelerates from 0 to 60 mph in under four seconds, all completely silent” at a hefty price of U.S. \$108,000 at the lowest (Hoffman 26-1).

While other car companies develop compact electric cars, Tesla is “the first company that commercially produced a federally compliant electric vehicle with the design styling and performance characteristics of a high-end performance automobile” (Hoffman 26-1). Tesla’s focus is to build high performance electric vehicles in hopes to further sustainable transportation and environmental consciousness. In order to reach this goal and make its cars accessible, Tesla has developed the Model S - “the world’s first premium electric sedan” (tesla.com). There is a significant price decrease with the new model, making it half the retail price of the Roadster. This will widen Tesla’s customer base and fulfill its objective to grow in sales and profit; something they were not able to do with the Roadster’s high expense. Model S is aimed towards “larger families and a greater-sized market” unlike its past small demographic market of “white males, 45 and older, who are married, have no kids, and make over U.S. \$75,000 a year” (Hoffman 26-12).

To accommodate the implementation of Model S, Tesla purchased the NUMMI factory, “one of the largest, most advanced and cleanest automotive production plants in the world,” which will also be used for all future vehicles (Hoffman 26-2). The acquisition of the NUMMI factory helps Tesla work towards their mission “to accelerate the world’s transition to sustainable transport,” by allowing mass production to be possible in the future (tesla.com).

## LUXURY ELECTRIC VEHICLES

### INCREASING DEMAND

Tesla desires to develop alternative energy electric vehicles, without sacrificing the creature comforts that potential customers are looking for. Most car companies have been focusing on making small, compact, and simplistic electric cars. On the other hand, Tesla is focused on developing “high-priced, high performance electric vehicles that compete with the likes of BMW and Porsche” (Hoffman 26-2). Tesla also addresses the current social trend of environmental awareness. According to Figure 1 (see appendix), it is evident that almost half of the population (at 44%) cares about the current environmental issues, while only 7% of the population does not care at all (Statista). Tesla is ultimately reaping the benefits of this social trend through its business structure and the reduction of its carbon footprint.

## PARTNERSHIPS

Other things that are helping Tesla gain traction are its partnership deals, along with current and pending patents - which are propelling Tesla as a strong leader in the sustainable energy industry (Hoffman 26-5). These additional endeavors assure the prosperity of Tesla as they help "diversify its revenue streams and network and access [to] greater supply chains" (Hoffman 26-13). Tesla has been working exclusively with the Toyota Motor Corporation to develop a "validated powertrain system...which will be integrated into an electric vehicle version of the RAV4," and it has received \$110 million in the process (Hoffman 26-2). Through these strategic partnerships, Tesla is gaining funding for its research and development while also gaining knowledge from experienced members in the auto industry. As a result, it has become an innovative company with "35 issued patents and approximately 280 pending patents" which are advantageous to the company since its "patents and innovations are not easily duplicated by competitors" (Hoffman 26-5).

With the increase in the amount of electrical cars sold, there is a greater demand for more charging ports. People may be hesitant to buy a Tesla model from the fear of being stuck without a port to charge the car. Regular fuel-driven cars have access to a gas station at every turn, while Tesla automobiles do not have a vast access to charging docks. An increase of people will be influenced to purchase an electric car if there is a guarantee of efficient charging stations. All of the concerns surround the availability to charge Tesla's batteries. If Tesla were to address the issue of the company's ongoing research to fulfill battery charges and port availability, consumer anxiety while will be eliminated and purchase motivation will be increased.

## AFFORDABILITY

In addition to creating a luxurious car, Tesla plans to develop an affordable car to widen its target market. With the Roadster, the company aimed at consumers with a high-paying job and lifestyle. This concept needs to be reevaluated in order to gain a wider range of target market consumers. Creating a cheaper electric vehicle, that maintains the same advanced technology system and gadgets, will persuade people to invest in Tesla research and development. There will be a cost-effective new product more families will be able to purchase. In Tesla's beginnings, its automobiles were geared towards individuals who were financially stable enough to buy an upscale car. Now, a broader spectrum of potential consumers can choose to purchase a Tesla automobile if they are interested in environmental sustainability. This also helps ignites word-of-mouth marketing, from consumers sharing their good and bad experiences. In all, having an affordable Tesla model will be able to bring Tesla closer to their focus of furthering sustainable transportation.

## EXTERNAL ENVIRONMENT

### OPPORTUNITIES

A major issue that Tesla faces is consumer perception on electric vehicles. Most individuals believe electric vehicles to be “underpowered, clunky looking, hard to charge, quirky, and undependable,” causing them to be reluctant in switching from traditional petroleum-based vehicles to electric vehicles (Hoffman 26-8). Although petroleum-based vehicles have proven to be vectors of harmful chemicals, it is still the main preference due to high switching costs involved with the adoption of electric vehicles (Hoffman 26-8). The driving range of the vehicles is also a major concern for customers because of the lack in public infrastructures that are able to support electric vehicle battery re-charges (Hoffman 26-8).

Within the electric vehicle industry, Tesla also faces competition from many established companies such as Nissan, BMW, and Mitsubishi (Hoffman 26-3). As seen on **Figure 7**, all of these companies have been present since the early 1900s and have garnered a solid following; they have also gained footing in the electric vehicle industry, and have support and knowledge from their other endeavors (unlike newcomer Tesla). Most competitors also provide alternative vehicles at a fraction of the price - making Tesla seem less attractive to consumers.

### THREATS

Tesla’s restricted budget and the current financial state in the United States is also a threat to its growth. The United States is facing a large budget deficit that makes it difficult to fund programs like the Zero-Emission Vehicle (ZEV) program which can be beneficial to Tesla and its continued research and development of electric vehicles (Hoffman 26-6). Alternative energy funding unfortunately falls under the discretionary spending arena which is one of the first arenas to face cuts since it is focused on additional services as opposed to mandatory services such as national security (Hoffman 26-6). On top of the large deficit of the U.S., Tesla is faces challenges because of the “massive shortfalls and reductions in services and funding” in California, the state in which it operates its manufacturing and where its largest target market resides, (Hoffman 26-6).

Along with financial restriction, Tesla also faces regulation issues which are placed on electric vehicles (Hoffman 26-7). There are many regulations by the Environmental Protection Agency and the National Highway Traffic Safety Administration that electric vehicles need to comply to. A current topic of interest is “how the range of electric vehicles is calculated,” which could potentially hurt Tesla (Hoffman 26-7). The new numbers given would decrease and so would the attractiveness of electric vehicle since it would suggest that they would not be as superior to petroleum based cars (Hoffman 26-7). There are also many safety requirements such as battery safety and noise regulations which are time consuming and costly to adhere to (Hoffman 26-7).

Although there are many threats that Tesla faces, largely due to the new industry of electric vehicles, there is a continuous shift toward green energy which benefits Tesla and provides opportunities for growth. Electric vehicle endeavors received significant support from the government as President Obama “set a goal of getting one million electric cars on the road by 2015” (Hoffman 26-6). Government agencies are also supporting loans programs aimed toward reducing the carbon footprint and with the current catastrophe of the BP oil spill that occurred in 2010, people have begun to seek alternatives to reduce their dependance on oil (Hoffman 26-6). Although some make the argument that funding the electric vehicle industry is costly, more people are realizing that the long-term benefits outweigh the short-term costs.

Electric vehicles are becoming more financially attractive to consumers because of the fuel costs that will no longer be incurred (Hoffman 26-7). The electrical costs of vehicles, such as that of Tesla’s Roadster, have remained relatively stable - unlike gas prices which continue to be on the rise. This uncertainty in prices has made consumers more willing to invest in electric vehicles (Hoffman 26-7). Since there is a shift toward green energy, we also see that many consumers are interested in lessening “their negative impact on the environment” through any means possible (Hoffman 26-7). Tesla’s vehicles fit this criteria by “reducing consumer demand for oil and eliminating harmful emissions during use” (Hoffman 26-7). With this opportunity, Tesla can work on building a strong and loyal customer base, along with establish a long lasting reputation.

## INTERNAL ENVIRONMENT STRENGTHS

Tesla’s innovations are what have allowed it to have a significant advantage over its competitors. Since its establishment, Tesla has acquired proprietary technology that “includes cooling systems, safety systems, charge balancing systems, battery engineering for vibrations and environmentally durability, customized motor design and the software and electronics management systems necessary to manage battery and vehicle performance under demanding real-life driving conditions” (Hoffman 26-5). This plethora of innovations has allowed it to keep “an extensive intellectual property portfolio”(Hoffman 26-5). Not only is its research and development groundbreaking, but these innovations and patents have given Tesla an edge over its competitors - as they are unable to easily replicate them (Hoffman 26-5).

Tesla’s growth towards innovation is primarily attributed to its skilled workforce. Tesla is based in Silicon Valley, allowing it to “recruit engineers with strong skills in electrical engineering, power electronics, and software engineering to aid it in development of its electric vehicles and components” (Hoffman 26-5). Tesla makes innovation its top priority, explaining why Elon Musk “stocked his executive team with half techie, half business hybrid employees who are former industry leaders” (Hoffman 26-13). Tesla believes that its

innovative break-throughs are due to their “culturally unstructured” work environment that encourages employees to think creatively, work closely with other teams, and also allow time for innovation (Hoffman 26-13).

## WEAKNESSES

Tesla began producing electric vehicles to cater towards a narrow target market (the affluent class), yet this strategy has unfortunately turned into a major weakness for the company. Tesla first designed and sold the Roadster in 2008, for a hefty price tag of \$108,000 (Hoffman 26-13). Since then, it has sold a total of 1,500 units, but the revenue gained from the the Roadster did not cover the costs of production until the second quarter of 2009 (Hoffman 26-13). The electric vehicle industry is at its beginning stages of development, which also poses a weakness.

Tesla’s limited economies of scale and resources are things that are hindering it from growing. The electric vehicle industry is fairly new which means that there is not a lot of support and resources from which Tesla can pull from. This is evident by the fact that Tesla is heavily dependent on Lotus’ chassis and it is also reliant on one battery cell supplier (Hoffman 26-6). Tesla engineered its car to accept different cells form various vendors, yet the newness of the industry has made it hard for more people to invest in making cells, this has resulted in there being only one qualified vendor (Hoffman 26-6). It is evident that the supplier power is high, attributing to the high costs associated with economies of scale since Tesla has no other financially beneficial alternatives.

A lack of brand recognition is another component that is hindering Tesla. Although Tesla is breaking new ground in developing electric vehicles that have high end styling and performance, as a luxury car would, it still has not gained much attention. This is partly due to the fact that Tesla has been reaching out to such a specific target market through the sole means of word of mouth (Sparks). The Model S is offered at a substantially lower price than the Roadster. This will hopefully allow more consumers to grow familiar with the Tesla brand.

## STRATEGIC ALTERNATIVES

### PARTNERSHIPS

Tesla is currently working along with Toyota to work towards sustainable mobility. “Toyota invested \$50 million in Tesla and together the two companies will cooperate on the development of electric vehicles, parts and production system and engineering support” (Hoffman 26-2). Tesla is reliant on their suppliers. The partnerships that Tesla has with Toyota and Daimler will help this situation. Tesla’s “partnerships are an opportunity for Tesla to diversify its revenue streams and network and access greater supply chains” (Hoffman 26-13). While Tesla is providing their electric vehicle expertise to Daimler and Toyota on the development of the Daimler’s Smart Car and Toyota’s RAV4, Tesla in return will be able to tap in both Daimler’s and Toyota’s supply chain. Both Daimler and Toyota have been around for a

longer period of time compared to Tesla, and they have a stronger supplier base that Tesla can take advantage of.

## PRODUCT EXPANSION

Creating electric vehicles that are affordable to a broader public can expand Tesla's customer base while also generating financial aid for its future research and development. To address this Tesla has begun with the introduction of the Model S, to be released in 2012, which has the potential of increasing profits. After the Model S Tesla could also work on potentially bringing other products within the same cost range in the near future. Even though Tesla is known for producing high-priced luxury cars, introducing more affordable cars would benefit Tesla in the long run.

## RECOMMENDED STRATEGY

### SOCIAL MEDIA

To grow in brand recognition, Tesla needs to expand its current brand ambassador reach by using social media, the new word of mouth. Social media will provide a new platform for consumers to share their experiences and opinions and give Tesla's narrative an interactive touch as consumers feel they are part of a new movement: going green with style in a Tesla luxury vehicle. Currently, Tesla hasn't been able to generate enough vested interest into their products from affluent households in the United States since about 90% of these households currently don't own an electric vehicle. As seen in **Figure 4**, only those with a higher salary are more interested in buying this car. This goes back to the idea that creating a car that is more affordable and can be bought by a more diverse set of people, meaning this would no longer be specific to wealthy people but to middle-income and the working class. Tying in the social media aspect, it would bring more attention to this company. Also this is still a fairly new company, so consumers might think that this brand is only selling a luxurious expensive car. Furthermore, social media would help more people see the new and different cars that Tesla is launching. It would keep the public up-to-date on how Tesla is developing, producing, and when they are launching their models.

Here at Agent NATTAA, our Tesla Marketing Plan will provide Tesla with a permanent outlet to generate publicity and awareness for any future releases currently being worked on in their R&D department. Having multiple accounts set up on different social media sites, such as Facebook, Twitter, and Instagram, can show people that this is a well-connected company that wants to interact with their present and potential customers to determine what is the best way to satisfy their car needs. Being on social media will allow the company to check in on how consumers feel about other electric vehicles that are from businesses besides Tesla. This keeps them updated on what features stand out to a buyer and which ones they should leave out.

## IMPLEMENTATION

Before Tesla can continue to expand, the company needs to focus on changing consumer perception on electric vehicles - which can be accomplished through social media marketing. The main social media platforms that Tesla can benefit from are Twitter, Facebook, and Instagram. Tesla could gain significant feedback on what consumers are looking for while gaining brand recognition. Setting up pages on Facebook, Twitter, and Instagram also allows Tesla to reach people who would otherwise not have exposure through other means since Tesla relies on word of mouth advertisement as its marketing strategy.

Tesla's social media pages are to be set up three months before the release of the Model S in 2012. Having social media platforms set up three months ahead of the release of Model S will allow consumers to grow an interest and awareness of the model. The platforms will run for twelve months, which will give enough time for a span of a year to gain significant information. Once the information is obtained, Tesla will evaluate its reach and the consumer reactions through evaluating how many likes are obtained, how many mentions are made about the product, the comments that people make, and the demographic of who its followers are.

Social media is a low cost venture as the majority of these platforms have no initial start up fees to create an account. Tesla would need to use their human resources division to create a new Social Media Coordinator position, who would be in charge of creating posts and sharable content across the various social media platforms. It will be the responsibility of this coordinator to increase Tesla's consumer image and ingrain itself in the consumer's mind as the go-to company for electric vehicles.

The main priority that Tesla has is to improve consumer perception of electric vehicles, a major barrier that has prevented many people from switching from petroleum based vehicles. Once they successfully do this, Tesla will thrive from the consumer adoption of electric vehicles. Social Media would be a way for Tesla to achieve this goal. The introduction of the Model S itself will also help improve consumer perception as Tesla is shifting from being exclusive and overpriced to being affordable and a better fit for families. Not only will the Model S help with consumer perception, but its sales will also serve as funding for more research and development.

Tesla's use of social media will also make consumers feel integrated as a part of the production process. Tesla can also use this opportunity to educate consumers on the perks of going green with electric vehicles. "[Tesla's] goal is not to sell a person a car, but to educate them on what electric cars and, particularly, what Tesla electric cars can provide" (autotrader.com). This shows how social media can increase consumer knowledge on electric vehicles and hope that it will modify the negative consumer perception on electric vehicles.

## BUDGET/COST

The projected budget for creating a new Social Media Department in Tesla would be \$1.5 million. Tesla currently does not spend a lot on advertising and promotion campaigns, spending about \$2.9 million in 2011 (Shukla 1). The social media campaign is sent to launch in 2012 which will increase the advertising budget to \$4.4 million by the end of 2012.

Although focusing on social media is not as costly as focusing on other endeavors, there are some costs that are incurred in the process. Particularly, there is an opportunity cost incurred by creating a new department and there are also financial cost from employing social media savvy people to make up that department. The opportunity cost of implementing social media is that Tesla will lose focus on research and development, something that has given them competitive edge. The financial costs of employing fifteen people who specify in social media while helping the current employees is \$750,000 annually (Jolandars). Tesla must employ new people since its current workforce consists of engineers who do not fit the needs of the social media department.

## EVALUATION

Tesla will have their social media platforms run for six months to a year after the Model S has been released. This will allow Tesla to see how consumers are reacting to their social media platforms, and Tesla can decide whether this marketing strategy is something that they want to use long term. Tesla will be evaluating how consumers are reacting to the model. For example, analyzing the frequency of hashtag and mentions towards the company across the company's social media platforms will form a visual of the marketing plan's impact on both consumers and Tesla's potential growth.

After the marketing strategy has been implemented, Tesla's social media department will evaluate the data collected from Facebook, Twitter, and Instagram. Factors that Tesla would look at include: the amount of social media traffic in each platform, number of shares and likes, mentions of Tesla's brand, and comments of consumers' likes and dislikes.

The Social Media Department will act as a filter. Having social media accounts will allow consumers to voice their opinions. This can cause some issues because there can be negative comments made. However, the social media department can filter through and reach out to those that have concerns over Tesla's products. Tesla could then use that as an opportunity to improve interact with their consumers with these issues. This would portray Tesla as an innovating company that takes what the public has to say into consideration when creating new vehicles. This would transform the primary negative views into useful ones, which would benefit the company by again showing that they are listening to their customers and are making an effort to fulfill their car dreams.

Focusing back on the constructive feedback, Tesla will be able to expand on the elements of its electric vehicles that are the most successful in meeting customers'

expectations and keeping them satisfied. Whether it is the good gas mileage or the sleek finished look of the car, people are happy with all of the the different and cool components.

## CONTROLS

We suggest using Output Controls to measure the effectiveness of our social media campaign. We can measure the performance of our social media campaign through the use of customer satisfaction survey at the point of sale when purchasing a new Tesla Vehicle. The survey would include a specific question stating "How did you first hear about Tesla Motors?" We will compare the increase of Tesla sales with our current social media activity to see whether more consumers were driven to purchase a Tesla vehicle after interacting with our company on social media.

## APPENDIX

### NATTAA'S DATA FIGURES

FIGURE 1. CONSUMER INTEREST IN ENVIRONMENTAL ISSUES

How much, if at all, do you care about environmental issues or causes?

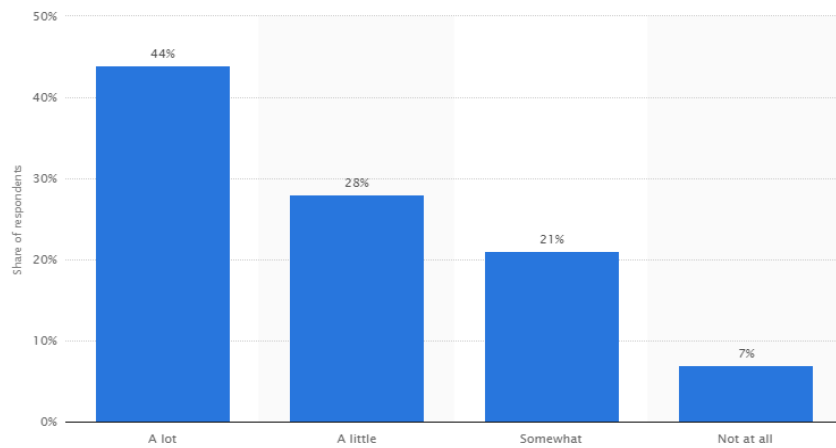


FIGURE 2. CONSUMER REASONS FOR “GOING GREEN”

Reasons for consumers to "go green" in the U.S. in 2010 (in percent)

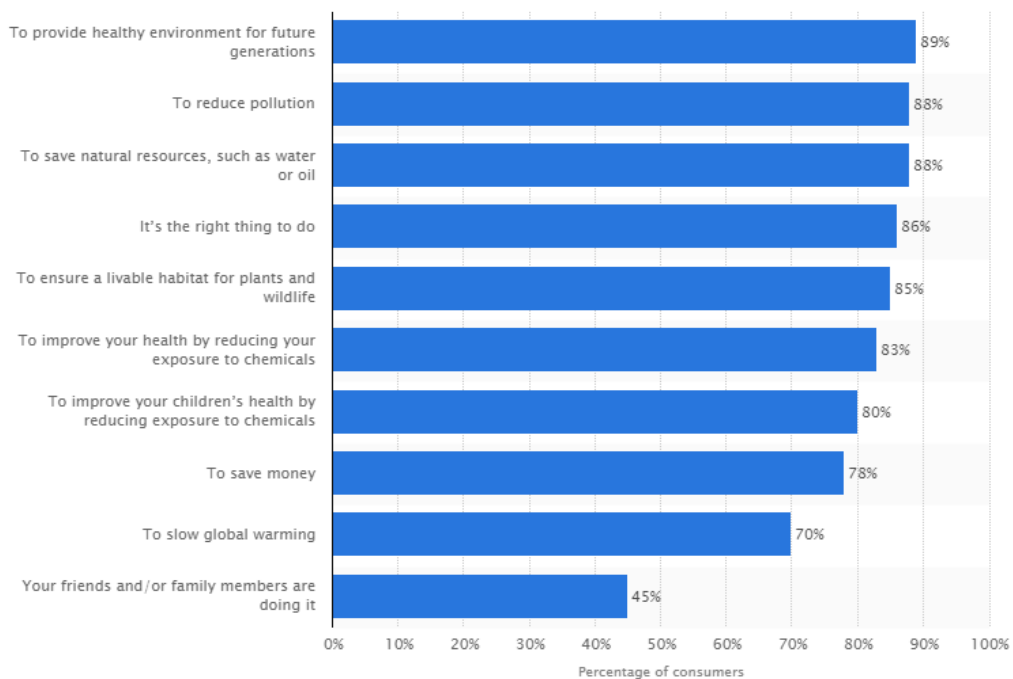


FIGURE 3. INDUSTRY MARKET SHARE

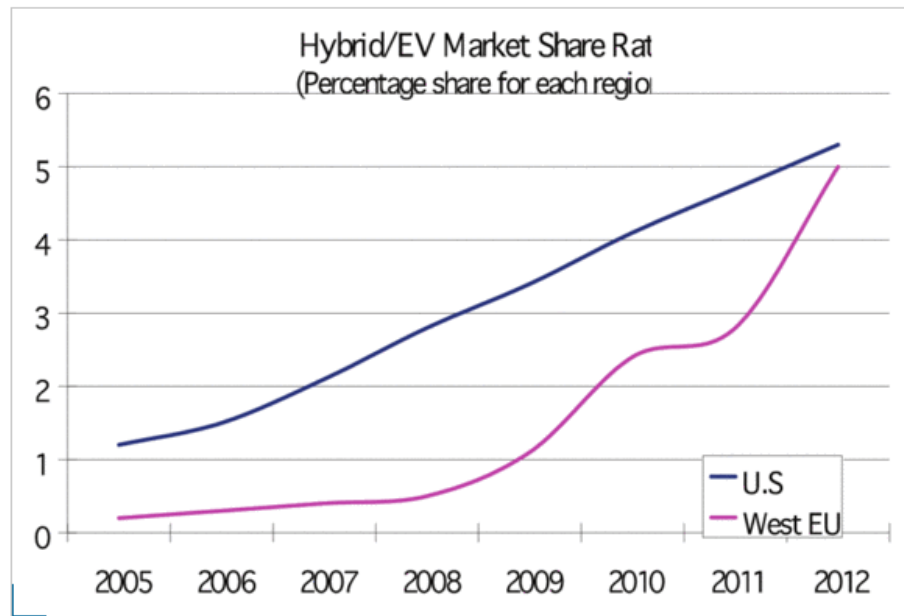


FIGURE 4. HYBRID/ELECTRIC VEHICLES OWNED BY AFFLUENT HOUSEHOLDS

Number of hybrid/electronic vehicles owned by affluent American households in the United States in 2016

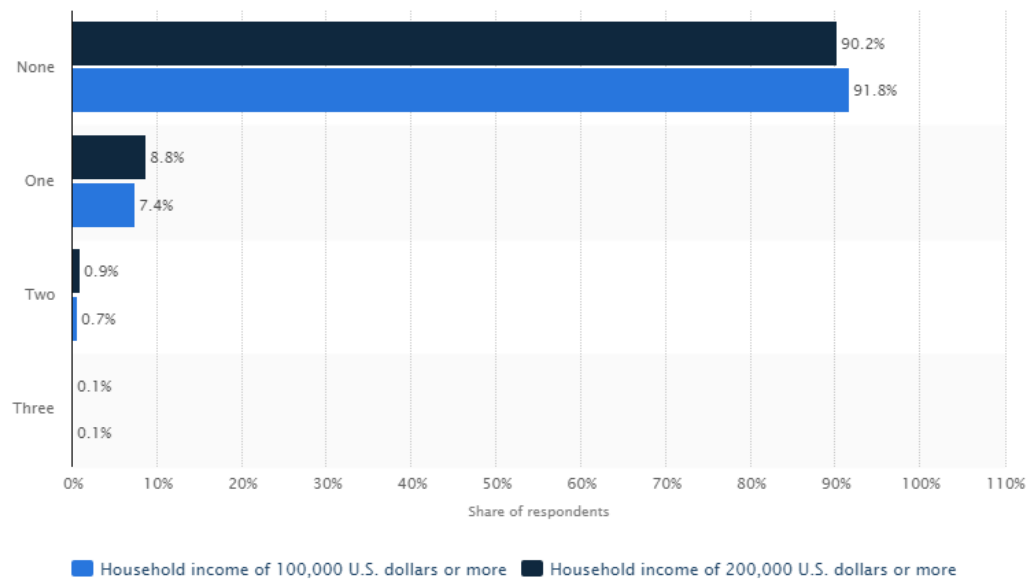


FIGURE 5 ADULTS WHO USE SOCIAL NETWORKS

Percentage of adults in the United States who use social networks as of July 2015, by income

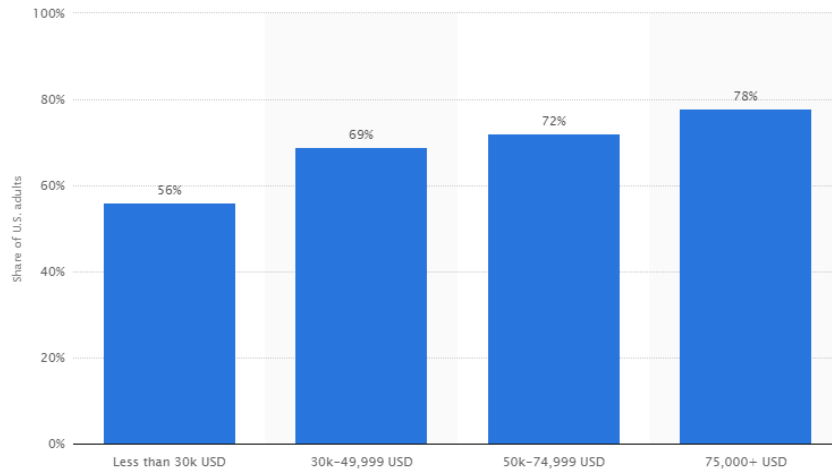


FIGURE 6. EFFECTIVE ADVERTISING MEASURES

Which of the following advertising measures would you consider effective for small and medium-sized enterprises?

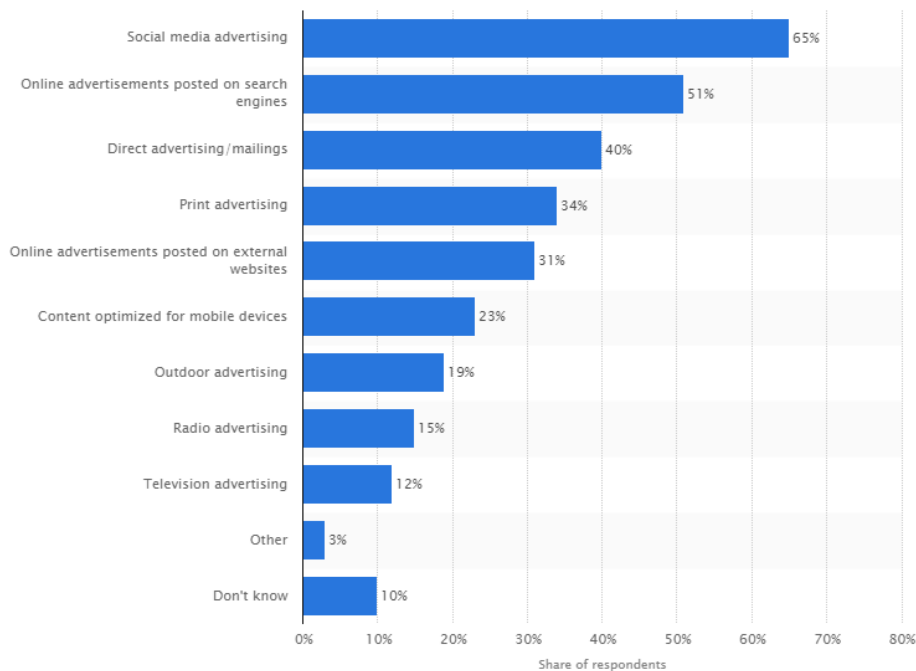


FIGURE 7. TESLA'S COMPETITOR PROFILE

| Car                                                                         | Company                                                           | Car Industry                                                                                                                                  | Product                                                                                                                                                                                                                                                                                                                                                                       |
|-----------------------------------------------------------------------------|-------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Mitsubishi i-MiEV                                                           | Established: 1970<br><br>Employees roughly 31,000 people          | Sells automobiles in 160 countries worldwide<br><br>Has .5% of U.S. market share in 2010 with 55,683 sold<br><br>960,000 units sold worldwide | Released in 2009<br>42,690<br><br>*Price:<br><br>Small, four passenger, all-electric car with top speed of app. 80 mph and range of 75 miles in a single charge<br><br>Uses lithium-ion battery tech.<br><br>Where: Asia, CR Europe.                                                                                                                                          |
| Nissan Leaf<br><br><br>*eligible for the 7,500 electric vehicle tax credit. | Established: 1933<br><br>Employees 150,000 people                 | Builds automobiles in 20 countries<br><br>700,000 units sold in the U.S.<br><br>Sold over 3m vehicles in 3 fiscal quarters in 2010            | Released in 2010<br>33,000<br>*Price:<br><br>First 100% electric, zero-emission car designed for mass market.<br><br>Five-passenger electric car with a top speed of 90mph and ranges of 100m on single charge<br><br>Uses lithium-ion battery<br>...Sold 173 units in US by end of Feb                                                                                       |
| BMW Hydrogen 7                                                              | Established: 1916 in<br><br>Employs approximately 95,000 workers. | First car developed in 1928<br><br>Sold 1.2M vehicles in 2010.                                                                                | Released in 2006<br>*Not made available for purchase<br><br>Four-passenger automobile that was the world's first hydrogen-driven luxury performance vehicle.<br><br>Dual-fuel vehicle capable of running on either liquid hydrogen or gasoline with the press of a button<br><br>425m combined range (hydrogen tank contributed 125m.)<br><br>Only 100 units produced so far. |

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