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Sustainable development, strategy and costs at Tesla

By João on June 23, 2014 at 8:00 am
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Tesla has recently **surprised half the world** (probably more than a half...) by making the company's patents available to competitors – to “anyone who, in good faith, wants to use our technology”, as Tesla put it.

That's a bold move.

The company mostly justified its move based on its sustainable development concerns, through “the advancement of electric vehicle technology” ““in the spirit of the open source movement”. Tesla's argument is that its small size makes it “impossible for Tesla to build electric cars fast enough to address the carbon crisis”.

Critics argue that Tesla's move may be “**Good for Humanity, But Bad for Business**” and label it as “foolhardy”. While Tesla now rejects its initial concern that large competitors would “copy [Tesla's] technology and then use their massive manufacturing, sales and marketing power to overwhelm Tesla”, critics believe their initial concern is still very valid.

A part of the issue is the huge Research and Development effort required for electric cars, in particular with regard to batteries. Tesla has already incurred into massive R&D costs, particularly as a percentage of revenues, when compared to their large competitors.

You've learned that past, sunk costs are irrelevant for decision-making. You know that Research and Development costs already incurred are irrelevant for decisions to be taken now. However, the analysis for Tesla has to be strategic and involve their competitors. Competitors lagging behind in R&D development still had very high R&D to be incurred in the future (definitely not sunk costs for them!), making investment in this technology less attractive – and more uncertain and less timely. Tesla releasing their patents allows their large competitors to immediately access to **arguably superior technology** without incurring in so high R&D costs.

But there may be other **positive strategic repercussions**, beyond cost and legal issues. This move may, for example, increase the development of the electric car industry (hence also benefiting Tesla) and make Tesla's technology the industry standard. It may even promote the recruitment of better human resources, attracted by working in a company promoting the “open source” philosophy.

Definitely, a complex strategic and financial puzzle, the one played by a company strongly committed towards sustainable development.

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