

AUTOMOTIVE

## Tesla's future foggy as obstacles mount

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*Tesla's Model 3 sedan. Image credit: Tesla*

By SARAH RAMIREZ

U.S. automaker Tesla and its founder Elon Musk have been inundated with negative press for the last several months, and the consequences for the brand remain unclear.

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The year began with Tesla dealing with production issues and fending off criticism from consumer advocacy groups. A U.S. Department of Justice investigation and Security and Exchange Commission (SEC) lawsuit followed in the fall, thus far resulting in Mr. Musk stepping down as Tesla's chairman as part of a settlement.

"The results of the SEC's civil case against Musk could have been much worse," said David Undercoffler, editor in chief of [Autolist](#), San Francisco. "There was the potential for Musk to be forced out of Tesla entirely, something many analysts say could have severely damaged Tesla's ability to remain an independent company and which would have sent its stock price plummeting."

### Twitter trouble

Tesla's most recent legal issues arose after Mr. Musk took to Twitter to announce his plans to take Tesla private. As part of his statements on social media on Aug. 7, he tweeted that he had secured funding that would value shares at \$420 a piece.

The privatization plans increased Tesla's stock price by 9 percent, but since then shares have been on a decline. A follow-up announcement later in August confirmed that the company would be remaining public.

By late September, the SEC sued Mr. Musk for "false and misleading" statements, claiming that he never had the funding secured. Per [CNN](#), the suit alleged that Mr. Musk never talked to anyone on the Tesla board or spoke to outside advisors about going private.

Initially, the SEC aimed to have a judge bar Mr. Musk from leading a public company again ([see story](#)).



*Tesla CEO Elon Musk at a speaking engagement. Image credit: Wikimedia*

As part of the SEC settlement over the fraud charges, Tesla and Mr. Musk will each have to pay \$20 million fines. Mr. Musk will resign as chairman of the board but remain as CEO, [CNBC](#) reports.

"I think this allows Elon Musk to start focusing on the operations of the business rather than communication and PR," said Milton Pedraza, CEO at [The Luxury Institute](#). "This should help him focus on operational excellence — producing the number of cars they need, flawlessly and at a very high-quality rate and deliver them — so [Tesla] can ramp up sales and keep the profitability levels they are looking for."

Aside from the now-settled SEC suit, the U.S. Department of Justice is also investigating Mr. Musk's statement about taking the company private.

Per a report from Reuters, Tesla said it is cooperating with voluntary requests for documents surrounding its now sidelined plans to become a private company. The criminal probe could lead to other evidence of wrongdoing at the auto company ([see story](#)).

"Tesla isn't out of the woods yet with regards to Musk's tweet in August," Autolist's Mr. Undercoffler said. "He and the company are facing class action lawsuits from investors alleging the tweet amounted to securities fraud. Those lawsuits could cost Tesla many millions of dollars, possibly even into the nine-figure range."

#### Driving forward

Despite Tesla's recent troubles, production and deliveries continue at breakneck speed. In the third quarter of 2018, the automaker delivered 83,500 vehicles, including 55,840 Model 3 cars.

"This good news has earned Tesla plenty of positive headlines just when it needs them to distract people from its recent — and ongoing — legal troubles," Mr. Undercoffler said.

Production of the popular Model 3, Tesla's "entry-level" offering, was partially slowed by robots, leading the company to replace some of its automation with humans this past spring ([see story](#)).

"Only operational excellence can save the company," The Luxury Institute's Mr. Pedraza said.

After Tesla announced delays to its Model 3 line, Autolist found that many of its customers said they would cancel their orders if the cars were not delivered in a timely manner. For luxury auto brands, meeting production deadlines can be a challenging task, but for customers it is one of the most important criteria for owning a luxury car ([see story](#)).

"The automaker still needs to prove that it can build the Model 3 at scale and profitably at the same time — something that has eluded it thus far," Mr. Undercoffler said. "There are also concerns that supply of the Model 3 now outstrips demand for it."

Recently, Tesla also faced scrutiny from consumer advocacy organizations, the Center for Auto Safety and Consumer Watchdog. The groups claim Mr. Musk and Tesla's marketing misrepresented its Autopilot feature, causing consumers to believe its cars are self-driving and raising the potential for fatal accidents from misuse ([see story](#)).

Even with its reputation for innovation and disruption, Tesla falls behind other luxury automakers in terms of emotional intelligence. According to a report from the Luxury Institute, Tesla placed in sixth and seventh for product

quality and customer service experience, respectively, but landed in the 11th spot out of 16 for emotional intelligence ([see story](#)).

With legal and financial obstacles yet to be resolved, as well as customer service issues, the future for Tesla is still murky.

"I think in the next year we will know whether Tesla will remain independent or whether it will be absorbed by another company because of its technology and brand," Luxury Institute's Mr. Pedraza said.

"I don't think the company will remain independent forever," he said. "The automotive company that acquires the brand will be able to leverage its capital expertise and make Tesla what it was intended to be."

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