

## Tesla and Toyota: The Unlikely Partners

**Tesla Motors, the specialized maker of all-electrical vehicles, now has three vehicles in its lineup. They completed their initial public offering of stocks in 2010, and say that the subsidized loan they got from the US Department of Energy loan was helpful but not necessary for their commercial success. They seem to be having a very good year, and to have hit on the right concept by selling all-electrical vehicles in the luxury niche rather than the mass-market niche that many other auto makers have favored.**

They also have a partnership with Toyota that involves sharing of technologies and some joint technology development. Such a partnership was not remarkable for Tesla in the startup phase, because it needed larger automobile firms to provide it with resources and give it recognition and status. Tesla partnered with Daimler even earlier, and their CEO and founder Elon Musk has acknowledged how a partnership with such a high-status firm “saved them” in their early phase.

Toyota is a different matter. It is renowned for its close management and coordination of suppliers, but it has not been eager to enter into partnerships with other types of firms, and especially not other auto makers. After all, they are competitors, and Toyota would rather beat its competitors than join them. Nor does it usually deal with small upstart firms such as Tesla, preferring (as many large firms do) partnerships with large and established firms. Even when it comes to the vision of low-emission cars, Toyota is distinctly more conservative than Tesla and even its other large-firm peers. In its own development it favors hybrids over all-electrical cars, and its Priuses are obviously mass-market (though chic in Hollywood).

So what happened? The last few years have been rocky for Toyota, which has been hit by various problems that shook the confidence in its vaunted quality program and pointed to problems with its growth plans. Its profitability has lagged. As a result, Toyota started looking changes in its strategy more broadly, including its strategy for partnerships. This matches research that I have done with Andrew Shipilov and Stan Li on how firms react to low performance. Because partnerships are so central to how firms reach out for new kinds of knowledge and technology, and potentially discover and exploit new business opportunities, changing the partnerships strategy is a strong move to try to recover in the face of adversity.

Had Tesla approached Toyota just a few years earlier when Toyota hit its peak performance, they

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would probably not have been seen as the firm that might help Toyota in the future. It took a run of poor performance, and a realization that a new strategy for getting partners could be needed, to make Toyota management look at them differently.

Yuliya Chernova. (ECO:nomics) Tesla CEO: Government Subsidies Are Usually Bad. Wall Street Journal, March 22, 2012. Shipilov, Andrew V., Stan Xiao Li, and Henrich R. Greve. 2011. “The Prince and the Pauper: Search and Brokerage in the Initiation of Status-Heterophilous Ties.” *Organization Science* 22(6):1418-34.

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