

Tesla: End Of Customer Referral Program Weakens Bull Case

Jan. 23, 2019 2:46 PM ET 180 comments | 23 Likes

by: Seven Corners Capital Management

Summary

- Tesla bulls love to proclaim that the company does not pay (and never has paid) for advertising, implying that Tesla is not "demand-constrained".
- This claim is demonstrably false.
- Tesla CEO Elon Musk recently stated that Tesla's customer referral program (essentially a paid advertising campaign) will cease on February 1st due to budget constraints.
- Will demand for Tesla's EVs and solar products weaken when the company's proselytizers cease being compensated?

One of the key planks in the Tesla (NASDAQ:TSLA) bull case is that the company enjoys limitless demand for its products. Being "production-constrained" instead of "demand-constrained" is bullish because it implies that once temporary production bottlenecks are solved, revenues will explode upwards for many years to come. Of course, if this narrative were true, then the company certainly should enjoy a valuation far in excess of other conventional automakers (see, for instance, analysts' current price targets ranging from \$284 to \$465 per share, implying at the \$375/share midpoint a market cap of \$64 billion and an enterprise value of approximately \$75 billion for Tesla). If, however, the "no paid advertising" assertion were proven false, Tesla just might need to be valued more in line with traditional automakers, which sport valuations of approximately 6X to 10X forward earnings, versus 45X for Tesla. Even a price-to-earnings valuation of double that assigned to traditional automakers (or around 15X) would imply approximately 67% downside for Tesla shares (without even considering whether analysts, who traditionally have been wildly optimistic regarding the company, might be too aggressive with their 2019 Tesla earnings estimates), a sobering fact staring bulls in the face.

Bull Case - Tesla Pays Nothing To Advertise

To "prove" that Tesla is not demand-constrained, bulls claim that the company does not rely on advertising. Thus, the theory goes that if they don't even need to advertise, Tesla is only just beginning to tap the latent demand for its products. Moreover, this fact gives Tesla a serious competitive edge over traditional OEMs, which spend billions on product advertising. We have seen this narrative pushed in various news headlines, for example, the following from Ad Age, the SF Chronicle and Teslarati (links here, here, and here):

AdAge Sections ▾ Latest ▾ Editor's Picks ▾ Most Popular ▾

TESLA STILL DOESN'T NEED PAID ADVERTISING TO MAKE SALES

By [E.J. Schultz](#). Published on August 03, 2017.



BIZ & TECH // BUSINESS

Tesla's bold approach to advertising: Don't do it



David R. Baker

Feb. 19, 2016

Updated: Feb. 19, 2016 5:02 p.m.



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LIFESTYLE

The Brilliant Tesla Advertising Strategy, or Lack Thereof



By Nicolas Zart

Posted on August 22, 2014

In the Teslarati article, the author claims as follows:

Tesla does not spend millions of dollars in a traditional ad campaign. They let you and I discuss it, rave about it, hate on it, or rejoice in the spirit of going electric in a Tesla, be the catalyst to a viral and brilliant marketing campaign. At the end of the day, Tesla advertising is free.

In the Ad Age article, we find the following bullish analyst assertions on the topic:

"I don't expect that Tesla will have to spend a dime on advertising anytime soon," said Michelle Krebs, a senior analyst for AutoTrader, citing the reservations for the Model 3. "It will take Tesla a good amount of time to fulfill those orders even if they are successful with their ambitious launch plan. Tesla, indeed, has built a strong brand that requires little or no promotion for now. Tesla has taken on a life of its own."

So, there you have it - all of Tesla's advertising is "free" to the company, and their products require virtually no promotion (they "sell themselves"). Demand, consequently, should remain strong for many years, meaning the only thing holding back a massive jump in profits is (temporary) production constraints. Hence, the uber-bullish analyst valuations for the company currently.

Tesla's "\$0 Advertising Budget" Claim is False

Unfortunately, for bulls, the claims regarding Tesla's "\$0 Advertising Budget" are demonstrably false. While Tesla indeed does not spend money on traditional advertising (Super Bowl ads and the like), they devote significant resources to non-traditional advertising. CEO Elon Musk let the cat out of the bag with the following tweet from January 16th:



Elon Musk @elonmusk

Following

The Tesla customer referral program will end on Feb 1. If you want to refer a friend to buy a Tesla & give them 6 months of free Supercharging, please do so before then.

9:31 PM - 16 Jan 2019

2,252 Retweets 31,455 Likes



1.9K 2.3K 31K

Wait, doesn't this refer to a customer referral program, not advertising? Actually, the referral program IS advertising. Anytime a company exchanges something of value in return for the promotion of its products, this constitutes advertising. Under the Tesla referral program, Tesla owners can choose from various categories of swag based on the number of "qualifying referrals" they achieve. For example, a person with three qualifying vehicle referrals can choose to receive "Forged Performance Wheels for Model 3, 21" Arachnid Wheels for Model S or 22" Turbine Wheels for Model X" as a reward. A person with 1 to 5 solar referrals gets \$250 cash or credit per each installed referral. And so on. The referral prizes represent substantial costs to the company, as Musk indicated in this follow-up exchange regarding the tweet above:



Fred Lambert @FredericLambert · Jan 16

Replying to @elonmusk

The current round was supposed to run until March 11. So it's ending for good? Not just this round?

7 5 181



Elon Musk @elonmusk · Jan 16

Yes, ending on Feb 1. It's adding too much cost to the cars, especially Model 3.

174 67 1.5K



Jason Tipton @CECsec214 · Jan 16

Elon, you just killed 3/4 of Tesla youtube.

3 23

Now, readers (especially Tesla bulls) might be forgiven if they complain that this is merely nitpicking, since how much money could a few thousand (or even tens of thousands of) sets of performance wheels or \$250 credits really add up to? Well, first, consider Musk's statement that "it's adding too much cost" - it certainly doesn't get much clearer than that, right? But, wait, there's more. As one Clean Technica author explained recently (perhaps not realizing Tesla might not want this info out in the open), there are actually secret referral prizes that could potentially add up to billions in subsidies for referrers (i.e., advertisers):

For my first 6 articles, I didn't even include my referral code. The free Supercharging was only good for Model S and Model X cars (later, the Model 3 Performance was added) and I figured everyone I knew and who read my articles couldn't afford that expensive of a car.

That all changed on October 6th when Tesla expanded the referral program to allow buyers of ALL Model 3s to get free Supercharging! I knew that the \$49,000 car with tax credit, gas, and maintenance savings was affordable to many more people, so I started to include my referral code in my articles, while also encouraging people to use codes of people they know in person. I didn't know if people would use it, but I thought I might as well include it, just in case they didn't know any Tesla owners.

The prize I really wanted was to be invited to the Model Y unveiling (5 referrals). Things have changed a lot in 3 months. As I mentioned this past week, I now have 75 referrals and have found out that there are secret levels that allow you to get discounts on the upcoming Tesla Roadster. It appears I get 1 Roadster free and 1 at a 40% discount. I hope to get a few more referrals in the next 2 weeks so I can get a larger discount on the second Roadster. The taxes and insurance on the Roadster may be quite high, so it may be tough to afford it, even if it is free, so most people who have a lot of referrals are trying to get 2 so they can sell one to pay the taxes on the other— and can thus keep it. Otherwise, most will just have to sell it instead of driving it.

For each referral, someone in my position gets another 2% off the price of a Founder's Edition Roadster, which is expected to cost \$250,000. So, each referral is worth \$5,000 before tax, about \$2,500 after tax. The benefits to the buyer are unfortunately smaller. The 6 months of free Supercharging (9 months if you haven't test driven a Model 3) is worth about \$200, assuming you use it for 1000 miles a month for 6 months instead of charging at home for 13 cents a kWh.

This particular pro-Tesla author concluded that these secret referral codes could potentially cost Tesla as much as "\$1.2 billion in Roadster discounts". Note also the following coverage from The Drive regarding this same issue:



Thus, if the claims regarding secret referral rewards are to be believed, Tesla is effectively paying high-level referrers a massive \$5,000 per referral. In essence, Tesla has been outsourcing its advertising (via its referral program) to such "super referrers", who regularly churn out hyper-bullish Tesla "news coverage" under monikers such as Teslarati, Electrek and Clean Technica, as well certain Tesla YouTube proselytizers who rack up millions of page views for their videos. Any way you slice it, the foregoing constitutes some serious advertising costs.

Will "Super Referrers" Really Soldier On Promoting Tesla Products For Free?

Now, consider whether such Tesla super referrers will be quite as eager to burnish Tesla's public image with their coverage when they are no longer being compensated for it by the company with free Roadsters. As the Twitter commentator above exclaimed, Elon may have just "killed 3/4 of Tesla YouTube". Tesla may well have also killed off (or at least seriously financially maimed) its largest journalistic boosters as well. Somehow one doubts that any rational individual will be quite as enthusiastic in producing pro-Tesla news coverage when doing so for free, rather than being paid \$5,000 per referral.

Thus, we think Tesla investors, whether long or short, should seriously consider what effect the cessation of Tesla's referral program will have on end demand. On the one hand, we have Musk's admission that it was costing Tesla far too much, so the referral program must have been driving a meaningful amount of sales. On the other hand, one could argue that Tesla will devote the cost savings to other forms of advertising, perhaps traditional, which might make up for a drop in referral sales. Moreover, Musk himself will no doubt continue to generate reams of free press due to his larger-than-life personality, and "true believers" will continue to promote the brand in order to combat climate change, etc.

Investors should be especially wary of the change in Tesla's advertising strategy and spend in light of Musk's recent admission that "[in the current quarter the] shipment of higher priced Model 3 variants (this time to Europe and Asia) will hopefully allow us, with great difficulty, effort and some luck, to target a tiny profit", but that, ominously, "the road ahead is very difficult". Even if referrals were responsible for just 5% of Tesla's aggregate revenues in the third quarter of 2018 (i.e., sales that would not have occurred absent the referrers' efforts to promote the Tesla brand), their absence would have cost Tesla over \$340 million in lost sales in the quarter and resulted in a much lower GAAP operating profit. Musk now seems to be setting Tesla longs up for bad news in the coming quarters, at least with respect to profitability, and the lack of lead generation via the referral program likely will not help things in this respect.

Conclusion

One of the main rationales supporting Tesla's massive market valuation has consistently been that the company is production-constrained, not demand-constrained. A proof-point of this thesis is that Tesla does not spend a dime to advertise its products. While this is true with respect to traditional advertising, it totally ignores the apparently significant amounts that Tesla has been spending on non-traditional advertising, such as through its owner referral program (note we have not even touched on the amounts Tesla spends on showrooms, which are obviously an additional form of advertising). Now that Tesla's referral program is ending at the end of this month - apparently due to budget constraints, per Elon Musk's own admission via Twitter - it remains to be seen what the effect will be on end demand. But it doesn't appear bullish, especially given the fact that Tesla's EV subsidies in the US are also ending soon. Tesla longs should brace for the bad news in coming quarters.

Disclosure: I/we have no positions in any stocks mentioned, and no plans to initiate any positions within the next 72 hours. I wrote this article myself, and it expresses my own opinions. I am not receiving compensation for it (other than from Seeking Alpha). I have no business relationship with any company whose stock is mentioned in this article.

Comments (180)

Bay Area Kid, Contributor

"One of the key planks in the Tesla (NASDAQ:TSLA) bull case is that the company enjoys limitless demand for its products."

Who are these people that think there is limitless demand? The bull case is that Tesla has very high demand, as evidenced by their huge reservation list and market-leading sales of their products.

23 Jan 2019, 02:49 PM

willis_dickfit

Market leading sales? Oh yes, the niche market within the niche market. Got it!

23 Jan 2019, 03:02 PM

M9888

Keep on buying.

Crap quality M3.

23 Jan 2019, 03:10 PM

ItsAIIBS

@Bay area

Where are all those "reservations". when people have a reservation, they uphold this "obligation" within a reasonable or set timeline. They were NOT reservations, they were refundable deposits for fan boys and cultists hoping for a sub net \$30k EV. Oops! The so called demand has stalled. it will pick up a little in Europe initially, then wash rinse repeat. The narrative will not change. The M3 S and X are in automotive terms. dated. How will they be able to get major facelifts? Answer? S is due for some planned, it won't be enough.

23 Jan 2019, 03:45 PM

out for now

@Bay Area Kid

The Model 3 introduction was an historical, one-of-a-kind event. You will never see reservations that high again.

By the time the Model Y ships, it will be just another high-range SUV or CUV BEV - without the federal tax credit. My guess is that Tesla will never even announce a reservation count for the Model Y.

23 Jan 2019, 03:46 PM

Bay Area Kid, Contributor

"Where are all those "reservations". when people have a reservation, they uphold this "obligation" within a reasonable or set timeline."

There are around 200,000 reservations remaining. You can find their the deposit amount on the balance sheet.

23 Jan 2019, 03:50 PM

Bay Area Kid, Contributor

"By the time the Model Y ships, it will be just another high-range SUV or CUV BEV - without the federal tax credit."

It won't be just another BEV. It will be a Tesla, which has the best BEV brand in the world.

23 Jan 2019, 03:51 PM

johnafish

@Bay Area Kid

"Huge reservation list"

400,000 reservations after more than 2-years of hype doesn't justify a \$50+ billion valuation, VW Group & Toyota each sell twice that many vehicles every month, have done for as long as Tesla have been in existence.

I'll be surprised if Tesla's demand is above 10,000 per month from the middle of 2019.

23 Jan 2019, 04:15 PM

jerry-j

Reservations for what? A product that will kill Tesla?

23 Jan 2019, 04:49 PM

efrontier

A brand based on lies and PR stunts.

23 Jan 2019, 05:37 PM

Bay Area Kid, Contributor

wrong. a brand based on the best performing BEVs on the planet

23 Jan 2019, 05:46 PM

efrontier

Nothing says environmental stewardship like a sub-3-second 0 to 60! LOL!!!

23 Jan 2019, 06:03 PM

Roger Knights

"There are around 200,000 reservations remaining. You can find their the deposit amount on the balance sheet."

But some of those deposits were \$10,000 (IIRC) for the semi and \$250,000 for the founder's edition Roadster.

23 Jan 2019, 06:12 PM

Bay Area Kid, Contributor

"But some of those deposits were \$10,000 (IIRC) for the semi and \$250,000 for the founder's edition Roadster"

Correct. There are a number of different products that Tesla provides reservations for, each with a different deposit amount.

As of their latest 10-Q, Tesla had \$905 million in customer deposits.

23 Jan 2019, 06:23 PM

russlehm

@Bay Area Kid The top 22 best selling vehicles in America, just America sold more vehicles each than Tesla's entire global 2018 sales. Cars like the Kia Optima, Nissan Altima, heck the Honda Pilot sold more than all Model 3s and loaded up it gets close to \$42,000 and Honda does very little discounting, and the Pilot wasn't even Honda's best selling vehicle. The Accord and Civic both beat Tesla Global sales. The giants like the Chevy Silverado and the Ford F-150 didn't even notice.

23 Jan 2019, 08:36 PM

bubbleception

had. there. fixed it for you @Bay Area Kid

23 Jan 2019, 10:10 PM

Bay Area Kid, Contributor

"Nothing says environmental stewardship like a sub-3-second 0 to 60! LOL!!!"

We're talking about selling cars. If Tesla's didn't have the performance (and other features) they do, they wouldn't be selling in such large numbers.

24 Jan 2019, 12:57 AM

bull_rider

These are wealthy people who just haven't bothered to reclaim their deposit money yet. If there really are 200,000 reservations, how is it that Tesla is getting some people a car in a very short time? What about these 'reservation' holders, don't they want their cars too after so many months?

24 Jan 2019, 09:01 AM

bull_rider

BEV - 'bumper ejecting vehicle'

24 Jan 2019, 09:02 AM

bull_rider

I expect demand to fall after the bulk of any wait list is resolved where the weather is nice and sunny, since word of mouth in colder climates is not going to be nearly so glowingly positive.

24 Jan 2019, 09:03 AM

bull_rider

You'd think that was some kind of achievement! But electric motors develop 100% torque at 0 rpms. And who on Earth has any need whatever for a car that hits 60 in less than three seconds?

Given the way many people drive, that's an invitation to disaster and death.

24 Jan 2019, 09:04 AM

bull_rider

More like 'foundering edition'.

24 Jan 2019, 09:05 AM

bull_rider

Never mind that the interior looks cheap and the steering wheel is like the one on my Cub Cadet, I want a car that is dangerously and uselessly quick to 60.

24 Jan 2019, 09:06 AM

Allanbr

Tesla shorts are hilarious. Even having Ferrari style performance is now considered a negative? What will they think of next?

Maybe you could bash Tesla for creating safe cars too! After all, less accidents = less repair work and replacement sales = bankruptcy?

Whoever says human beings are not creative is a fool!

01 Feb 2019, 07:07 PM

uptick_rule_now

sales should really tank now. if they have not done so already

23 Jan 2019, 02:50 PM

djunh

they probably already have and the company is front running that a little bit. What is slightly odd is that most of the market is bouncing a little today so far. Tesla is not joining them as it has for the past two months.

24 Jan 2019, 10:36 AM

OD Dave

We have reduced production in order to give ourselves flexibility to increase production in the future." He actually said that. Maybe he's been taking a few pokes !!

23 Jan 2019, 02:53 PM

tuskenrader

Quote source?

23 Jan 2019, 03:11 PM

Allanbr

There's a word for "reducing production to give us more flexibility to increase it". It's called retooling.

02 Feb 2019, 11:03 PM

JaaaayZ

dear author, now Tesla will spend even less on advertising. if it is due to budget, like you suggested, it may be bad. but if it's due to more confidence on their products, or that Tesla felt that it has attracted enough seed customers and cutting more cost and lower price is the key for customer base expansion, it is a solid business strategy. too early to tell.

23 Jan 2019, 02:55 PM

Seven Corners Capital Management, Contributor

Author's reply » "if it's due to more confidence on their products"

If they had such confidence, why have they been giving away \$250,000 roadsters to high-volume referrers?

23 Jan 2019, 03:02 PM

feynmanrules

I know they were giving out small benefits to referrers, but I didn't know about the free roadsters until a youtuber announced (w/a crying, thank-you video) that he had won one. Then a few months later, he said he'd won TWO.

While I always knew he was using referrals, I never knew he was trying to win \$250,000 cars while he was pushing out tesla vids. He should've disclosed this, he seemed like a good guy but I can't trust his reviews anymore. While I suspect he is just generally clueless (or perhaps telsa makes high-referral-generating folks sign an nda about the program?), the possibility he may hurt his reputation forever to win a car that may never exist sort of tells you something about the guy regardless.

23 Jan 2019, 05:51 PM

Krypto

@feynmanrules That guy should go back and put a disclosure statement on all his videos and apologize that he was a paid flack instead of an honest reviewer.

23 Jan 2019, 06:37 PM

bull_rider

Truth in advertising laws don't apply to paid skills I guess.

24 Jan 2019, 09:08 AM

Allanbr

Seven corners - a major volume référer is easily worth 250k of MSRP. A major YouTube promoter could literally encourage hundreds of sales - if not thousands.

02 Feb 2019, 02:25 AM

Drewstefer

Ya there are lots of things weakening the bull case.

I was the only one on SA stating in early January that layoffs were coming.

So what is the result of these layoffs? As a manufacturing expert one thought relates to loaded factory rates. Overhead is amortised over production hours and with 1/3? fewer hours, the loaded factory production cost per hour probably went up a lot. This in turn drives up the cost of the Model S/X.

Losing a whole shift of Model S/X will result in additional losses simply due to overhead absorption over fewer hours.

Oh NO Watch out BELOW!!

23 Jan 2019, 02:59 PM

trentbridge

You are imaginative - you actually saw a Tesla world that had no Model 3s covering the factory overhead - I accept that the number of Model S and X per week will decrease - say 500 less per week but what happens if the Model 3 production rises an extra thousand? Doesn't the factory overhead get divided by the sum total of vehicles produced?

23 Jan 2019, 11:47 PM

Drewstefer

@trentbridge

I was a controller for a publicly traded manufacturing company and set all the factory rates. Overhead rates are set by direct labor hour. The loaded shop rates go up when losing a shift because there are less hours to absorb all the overhead. Less people = less working hours to absorb overhead.... so cost/component (example car seats) goes up during the next cost rollup in the ERP system. The financial guy doesn't just have to cost the assembly process but all processes that involve direct labor in the factory .

If you chose to allocate "overhead by car" for the section of the factory making Model S and X, the cost of these 2 cars would go up when cutting out a shift because you are making fewer vehicles in the same space and the overhead cost does not go away ... although it would be reduced a bit (less supervisors, consumables, etc).

The Model 3 would have its own cost rollup. I was only referring to the Model S/X costs going up because it was reported that they lost a whole shift making these cars. Hope that helps. The overhead has to go somewhere and I would doubt that they would take Model S/X overhead and somehow apply it to Model 3 as you are suggesting. That would be confusing and kinda dumb because then the Model 3 would not be costed correctly. Please refer to the following link : [www.dummies.com/...](http://www.dummies.com/)

24 Jan 2019, 04:26 AM

trentbridge

@Drewstefer

If you chose to allocate "overhead by car" for the section of the factory making Model S and X, the cost of these 2 cars would go up when cutting out a shift because you are making fewer vehicles in the same space and the overhead cost does not go away ... although it would be reduced a bit (less supervisors, consumables, etc).

I think you are eminently qualified to express an opinion and I am sure that Tesla management thought long and hard about their options - it comes down, in my opinion, to two things:

What is the gross margin on the Model 3 LR Performance and what is the gross margin on the Model S/X 75 kWh.

The reality facing Tesla is that many think the newer vehicle is a better buy than the Model S and X 75 kWh - because the battery-pack is more efficient - so it made sense to discontinue the cheaper versions of the Model S and X and focus on the Model 3.

Specifically the percentage of Model 3s that can be sold as high-margin Model 3 Performance.

The part that is interesting in the statement is what Tesla then said:

At the same time, these changes, along with continuing improvements, give us the flexibility to increase our production capacity in the future as needed.

That raises the possibility that Tesla is going to revamp the battery-pack for the remaining Model S and X variants with 21700 battery cells and offer a longer range...

24 Jan 2019, 09:52 AM

marriottmare
Stay long Tesla

23 Jan 2019, 03:02 PM

djunh
stay classy san diego

23 Jan 2019, 03:07 PM

Amos Tuck
Hodor!

23 Jan 2019, 03:51 PM

hyeduk
Referral marketing is considered a word of mouth marketing and the best marketing drivers for sales. Elon talks about a word of mouth marketing all the time. So stop this nonsense! Shorts will any news, strategy, decision in their favor

23 Jan 2019, 03:02 PM

Analitik I am Montana Skeptic and so is my wife
If referrals are so effective, why is Tesla abandoning it?

23 Jan 2019, 04:09 PM

Bay Area Kid, Contributor
"If referrals are so effective, why is Tesla abandoning it?"

They're abandoning it because it was too effective. The referral rewards were negatively affecting their margins.

23 Jan 2019, 04:11 PM

johnafish
@hyeduk

"Referral marketing is considered a word of mouth marketing"

No, not when you're giving the referrer two cars with a combined value of half-a-million-dollars.

23 Jan 2019, 04:12 PM

hyeduk
Referrals never last for ever. The message is there and Tesla has gained popularity

23 Jan 2019, 04:17 PM

hyeduk
No, Elon gives a free Jet and train to anyone who makes a referral

23 Jan 2019, 04:18 PM

MySami
True-Dhat!

23 Jan 2019, 05:19 PM

Krypto
@Bay Area Kid Those "referral rewards" were bribery to get advertising disguised as true journalism. It is a scandal.

Does CBS or the New York Times get paid to write favorable reviews of ICE cars and not disclose it as advertising?

23 Jan 2019, 06:39 PM

Bay Area Kid, Contributor

"Those "referral rewards" were bribery to get advertising disguised as true journalism. It is a scandal."

None of these people hid the fact that they were part of the referral program (anyone can be). Fred (the guy from Electrek) talks about his progress quite often. This is no way a scandal, except for the bears here on SA. The program has been around for awhile and these people were very upfront about their participation.

23 Jan 2019, 06:41 PM

Analitik I am Montana Skeptic and so is my wife

@Bay Area Kid "They're abandoning it because it was too effective. The referral rewards were negatively affecting their margins."

Hey Kid,

Your definition of effectiveness being limited to sales unit numbers and revenue is so narrow as to be useless (but typical for bulls). Lets try looking at margins and profits shall we and then re-evaluate the "effectiveness" of Tesla's referral programs

23 Jan 2019, 07:18 PM

Bay Area Kid, Contributor

that's literally the point of a referral program, to drive revenue

23 Jan 2019, 07:25 PM

Krypto

@Bay Area Kid No one understood that they were getting two \$250,000 Roadsters for their promotional efforts.

It is staggering.

23 Jan 2019, 11:20 PM

trentbridge

I read that the average buyer was going to buy the vehicle anyway and spent a few minutes on the internet to get a referral code so Tesla was paying for a "done deal" in many cases. People like the Tesla videos on YouTube and saw no harm in adding a "tip" to their purchase as Tesla picked up the tab.

23 Jan 2019, 11:51 PM

Krypto

@trentbridge Sure, if it was a \$250 tip, I guess most people thought that way, though I myself would have thought Tesla would add that to the price so I wouldn't have done it.

How many thought it was going to be \$5000 dollars per referral?

That was a damn stupid move by Tesla.

24 Jan 2019, 08:45 AM

bull_rider

I can imagine this word of mouth...

Wife: "I don't care HOW much we owe on it! I want you to get RID of this thing and get us a REAL CAR again! I am TIRED of telling the kids that they have to freeze in a "LUXURY" car because the batteries won't last long enough if I turn on the heat!"

24 Jan 2019, 09:10 AM

bull_rider

And the cost of materials needed to make / sell all those cars was adding up. By reducing sales, they save on materials.

24 Jan 2019, 09:11 AM

bull_rider

More proof that someone with techno-smarts is not automatically smart about something entirely different, like running a business. No matter how smart they think they are about everything.

24 Jan 2019, 09:13 AM

UrKiddingRite

@Bay Area Kid

"They're abandoning it because it was too effective. The referral rewards were negatively affecting their margins." - Too effective or too generous because there is a huge difference between the two.

By saying it was "too effective" you make it sound like there were so many new referred orders that Tesla couldn't keep up with all the referral orders, and thus had to end the program, when that is NOT the case but rather the referral bonuses they were giving out were way out of whack with the small number of referrals they were getting and therefore they can't no longer afford to provide referral bonuses.

I can still get \$100.00 referral bonuses from the last 2 used car dealerships I bought vehicles from and have received \$300.00 in total for doing so over the years. They can afford to do this because it is a small amount and a cost effective way of getting a new customer. Giving a customer a new \$250,000.00 car (not to mention 40% off another \$250,000.00 car) for 75 referrals is ludicrous and makes me think that these "referral bonuses" for journalists were instead hidden payoffs to write positive Tesla propaganda.

24 Jan 2019, 11:06 AM

Russ M3513

Wifey needs to remember to plug in every night, just as she remembers to drive the boys to hockey practice.

24 Jan 2019, 02:04 PM

Outcast_Searcher

hyeduk: Referrals are effective for quality makers like Honda and Toyota because people love their cars to be durable and relatively trouble free. And statistically significant customer feedback from outfits like Consumer Reports is the best indirect referral feedback possible when the data is strongly positive.

If Tesla had solidly positive Consumer Reports ratings, consistently, then all the bulls' Tesla quality is fantastic rah rah stuff might mean something. Instead, the highly variable and sometimes very negative Consumer Reports quality and durability feedback re Tesla correlates with all the customer complaints in various Tesla fora.

But the fanbois have no end of hype and hope. That works, until it doesn't.

Meanwhile, the competition will continue to arrive from the quality car makers at an accelerating rate.

28 Jan 2019, 02:21 PM

Outcast_Searcher

Bay Area Kid: You are proof of how delusional many Tesla fanbois are. Good work.

28 Jan 2019, 02:22 PM

Outcast_Searcher

hyeduk: Yet all the bad news from Elon, yet fanboi dreams never cease. Rather odd how that works. Eventually, quality, service, math, etc. matters.

28 Jan 2019, 02:23 PM

Outcast_Searcher

Krypto: I think that the fact that the vast majority of papers and periodicals now use "closet advertising", where thinly veiled ads are disguised as "articles" is a sad reflection on the state of journalism.

Since this is common, to me, journalism is far less credible, generally. And such "articles" can't be trusted as objective.

It's a sad example of the declining morality of the business world, and the politicians who flog it. This trend has been occurring for decades, BTW.

28 Jan 2019, 02:26 PM

Outcast_Searcher

UrKidding: Right on the \$100 referrals. I get that from Toyota car salespeople at my local dealer, and it's not like I ask for it. I just do business in a simple, straightforward way (and demand that they do too).

Presumably referrals from such buyers might well be to relatively serious friends. The \$100 is worth it to the salesperson, just not to have so much of their time wasted from random people wanting to take test drives who have no intention to buy.

28 Jan 2019, 02:31 PM

tuskenrader

1. Create straw-man that bull case relies heavily on the referral program and low advertisement expenditure. 2. Demolish straw-man.

You know what sells the cars? Seeing and driving the cars. When/where does that happen? At showrooms during business hours or anytime an owner shows off to friends and family (or to strangers).

Never has this happened:

Family/Friend/Rando: "Hey, what's up with your car, I've never heard of it?"

Tesla owner: "Go away! I'm not being compensated by a referral program enough to share anything with you!"

23 Jan 2019, 03:13 PM

Seven Corners Capital Management, Contributor

Author's reply » All of your counter-arguments are straw-men arguments themselves (e.g., "bull case relies heavily on the referral program" or "Never has this happened" etc). If there was no point in having a referral program, then why on earth have they had one up until now? If there WAS a need for a referral program, why did they need it? You can't have it both ways.

23 Jan 2019, 03:19 PM

traveler501

@Seven Corners Capital Management You're conflating whether there was any point to a referral program at all to "needing" one, and then inferring negative repercussions for removing it at this time. There's no reason to assume any of that. Occam's Razor: it was somewhat useful before, and now it's not. No big deal. Your counter to "Tesla doesn't advertise" is equally weak. Nobody means there is no form of advertising whatsoever...they mean they don't run TV ads and billboards etc. And they haven't. They simply haven't.

23 Jan 2019, 03:32 PM

Seven Corners Capital Management, Contributor

Author's reply » "it was somewhat useful before, and now it's not. No big deal."

Wrong - they aren't ending it b/c they don't need it - Musk specifically said they are ending it b/c it is costing them too much money. Read what he wrote in his tweet on the subject - it's quite clear.

23 Jan 2019, 03:34 PM

madhaus

They're ending it because it cost too much money NOW. It was needed before. The referrers got the word out for them. That is not advertising. That is MARKETING. It remains true that Tesla did not do any advertising, which is paying to run messages where people can see them. Everything they have done would be considered marketing and promotions, and they have never said they don't do those.

Your argument remains a straw man, you claim that the lack of traditional advertising is the only reason the company isn't valued like a legacy car manufacturer. There are plenty of reasons it's valued differently. It's a new company, it doesn't follow the formulas the legacy automakers do, it avoids the aspects of car purchase and ownership that people hate the most (haggling at a dealer, not being shown the cars they came in to see, having to wait hours to be squeezed by the finance people, bringing it in for software updates, etc). Are they making mistakes? Of course. But they are very focused on learning from them, which isn't what we've seen from the other companies.

Your thesis is bunk built on lies built on bad assumptions.

23 Jan 2019, 06:09 PM

cescoman

tusk

when anybody asks me about my MS I always take time to tell them what an overvalued piece of crap it is. Just doing my part. Have already saved several people from making the same mistake as I did.

23 Jan 2019, 08:47 PM

trentbridge

Perhaps having showrooms is a better use of Tesla's funds than paying referral fees to enthusiasts? None of the Model 3 demo appearances in Europe were paid for by a YouTube blogger..and yet thousands turned out to see the cars..

23 Jan 2019, 11:54 PM

bull_rider

I can imagine this kind of 'referral' - someone shows up at a gathering and asks that half a dozen other guests to please (go out in the dark / rain / cold) move their cars so he can park near enough to charge his Tesla with electricity mooched from the host. Once back inside he extols the virtues of his car to the same people he just inconvenienced.

24 Jan 2019, 09:16 AM

bull_rider

It's a new 15 year old company. Got it.

24 Jan 2019, 09:18 AM

UrKiddingRite

@Seven Corners Capital Management

The Musk-ateers are so brainwashed into believing that there is, and will never be, any downside to anything Tesla that they refuse to even acknowledge Musk's own reason for why he does something if the given reason reveals a flaw in Musk.

Musk literally said that they were getting rid of the referral program because it was costing them too much money but instead of accepting what Musk said as being the truth, that it was too expensive, the Musk-ateers twist Musk's words to something else because the "too expensive" explanation can raise bad connotations of money trouble at Tesla and they can't bear to hear, or deal, with that.

To the Musk-ateers when he lies he's telling the truth and when he tells the truth he's lying.

24 Jan 2019, 01:55 PM

Davewmart

@UrKiddingRite

Accusations of fiddling and gaming the figures for referrals spurred Musk into action.

That is his job, not theirs.

24 Jan 2019, 02:00 PM

UrKiddingRite

@madhaus

"The referrers got the word out for them." - it doesn't bother you that it appears that the "referrers" who benefitted the most from the secret referral scheme are turning out to be pro-Tesla "independent and unbiased" car journalists?

That Musk was buying positive Tesla propaganda (and negative other EV manufacturer articles) under the guise of an unbiased journalist? If those people want to be Tesla marketers then be a Tesla marketer but reveal that you are being paid by Tesla to promote their products and thus subject to paid bias. Stop pretending that you fairly judge all products while Tesla is giving you a free \$250,000.00 car and your biggest concern now is to keep writing Tesla articles so that you can get enough referrals to get a 2nd free \$250,000.00 car so you can sell it to afford to pay the taxes on the first free one.

Only the terminally brain dead and the terminally brainwashed would refuse to see the huge conflict of interest in providing free 1/2 million dollar incentives to journalists (of any kind).

24 Jan 2019, 02:05 PM

Krypto

@UrKiddingRite In spite of these irregularities, the stock goes up today anyway!!

Crazy!!

24 Jan 2019, 04:14 PM

Outcast_Searcher

Tuskenrader: And never has this happened according to fanbois: "Hey, where's your car? I haven't seen it for a week (or a month)".

Oh, it's in the shop again. They give me a rental, but I really hate having to drive it 200 miles, and then go get it, for each repair. Oh, and I hate that I've had a few of these, where my Toyotas just worked for a decade or so, aside from maintenance. And I could do that maintenance at any local shop, including those in walking or biking distance.

Information works both ways. Tesla service and quality isn't exactly a beacon of only good news.

28 Jan 2019, 02:35 PM

dc1reg

Isn't the referral program kind of suspect, people are being compensated for recommending a product. Shouldn't they be telling their friends "oh ya I'm getting paid to tell you this is a great car"

Short

23 Jan 2019, 03:27 PM

Seven Corners Capital Management, Contributor

Author's reply » Yes, it's considered unethical. These people are commonly known as "shills".

23 Jan 2019, 03:30 PM

Krypto

@Seven Corners Capital Management I agree what those referrers were doing was completely unethical, and if Tesla was in on it, even if they covered themselves with language and expenses on their P & L, they were constructively in on the activity, and should have to bear the burden of their deceptive

practices.

It is like a constructive discharge - you cannot say someone "quit" when you tell them to quit or they will be fired.

You have fired them under the law. Using an agent paid by a company to advertise and commit unethical journalistic practices is equally poor and indefensible behavior.

23 Jan 2019, 06:43 PM

trentbridge

"You get the same GM discount that employees get" - year end advert on my local station. I wasn't aware that traditional car dealers were so ethical as to charge a fixed price for each vehicle - or did bargaining disappear and I didn't know about it? When the dealer shows you his invoice does he mention the extra "holdback" is his to keep?

23 Jan 2019, 11:59 PM

Harry Polizzi, Contributor

Seven,

"You can't have it both ways."

You forget you are talking to TESLA BULLS, not normal thinking human beings. If Elon says it it is gospel truth--no if, ands, or butts!

Referrals assured.

Never has this happened assured.

Assured assured.

Harry

23 Jan 2019, 03:32 PM

traveler501

Funny how there's always a flurry of negative "analysis" on Tesla just before any major announcement or just after any press release (no matter how innocuous). It's a longstanding pattern...including both the short term market drop that accompanies the doom and gloom, and the totally predictable rebound when the sky doesn't fall. The SEC should be looking into this market manipulation with at least as much sincerity (severity?) as they did for Mr Musk's musing about going private on Twitter. Now Mr Musk was genuinely thinking about going private, we know that...and genuinely thought he had a financing agreement with Saudi Arabia. Are all these "analysts" really genuine in their 13+ years of FUD? Isn't there another word for being so benighted for so long? I don't think it's "analysis".

23 Jan 2019, 03:44 PM

Analitik I am Montana Skeptic and so is my wife

@traveler501 "genuinely thought he had financial agreement with Saudi Arabia"

So again, Elron is as sophisticated as George Costanza

23 Jan 2019, 04:53 PM

ACBet

@traveler501 ...

"Now Mr Musk was genuinely thinking about going private, we know that...and genuinely thought he had a financing agreement with Saudi Arabia."

GEN-YOO-INE!

Now what made Musk think that he had a financing agreement with Saudi Arabia?

23 Jan 2019, 04:54 PM

bull_rider

@traveler501 "Now Mr Musk was genuinely thinking about going private, we know that...and genuinely thought he had a financing agreement with Saudi Arabia."

I've read indicates that calling that agreement 'tentative' is a wild overstatement.

24 Jan 2019, 09:26 AM

bull_rider

All he had was 'a show about nothing'.

24 Jan 2019, 09:27 AM

smurf

@Analitik I am Montana Skeptic and so is my wife

"So again, Elron is as sophisticated as George Costanza"

Or maybe more like Kramer?

24 Jan 2019, 01:08 PM

Seven Corners Capital Management, Contributor

Author's reply » FWIW, IMHO Musk is an amazingly talented entrepreneur. Too build companies from scratch is incredibly difficult - he deserves a lot of credit for what he has achieved in life thus far (despite his character flaws). The world is a better place b/c companies like TSLA and SpaceX exist.

This doesn't mean, however, that TSLA's stock price cannot go much lower (it certainly can, and probably will).

23 Jan 2019, 03:44 PM

smurf

@Seven Corners Capital Management

Up until now, we were on the same page, opinion-wise.

I disagree with you about Musk. While he may be bright and a visionary, at heart he's a charlatan, prevaricator and shameless self-promoter.

Look at all his enterprises...Close examination of Tesla, SpaceX, Boring (ha), and recently Solar City reveal each to be a giant house of cards.

24 Jan 2019, 01:20 PM

ItsAIIBS

MB advertises, spends about \$150m annually. Has this hurt their bottom line? Tesla cannot even advertise on the back of a grocery store receipt, it would impact them in a big way. Fundamentals are not important. Go Tesla!!

23 Jan 2019, 03:47 PM

johnafish

This is better than paid advertising, it's paid advertising on indefinite interest-free credit, because no-one has seen one of those 'free' Roadsters yet, in fact no 'recipient' can even tell you what year they'll be receiving their 'free' roadster.

I think the Tesla advertising team will keep pumping the pro-Tesla articles out while there's any hope that those 'free' Roadsters might arrive one day. My guess is no-one will ever see a 'free' Roadster, but it's a terrific way to hook the gullible.

Musk certainly knows how to milk fools, maybe he is a genius after all.

23 Jan 2019, 04:04 PM

Analitik I am Montana Skeptic and so is my wife

Milking fools IS Elron's genius ability.

23 Jan 2019, 04:55 PM

2HandedEcon

I have wondered about the accounting for the referral prizes, so perhaps someone else knowledgeable can illuminate this issue. Since the referral prizes are not actually paid out, but "in kind," they have no immediate impact on cash. Just later on when a Roadster is sold, it will be shown as \$250,000 in revenue, but zero cash received. i.e. entry #1: dr. promo exp, cr. referral prize liability. When the car is "sold," entry 2: cr revenue \$250,000, dr. referral prize liability \$250,000 (with zero cash coming in.) Is it possible they are not even expensing these prizes yet? We know they do not run any of these expenses against cost of goods and thus gross margin, but maybe they have yet to acknowledge the referral prize liability.

23 Jan 2019, 04:09 PM

dc1reg

2Hand, I'd be surprised if these prizes (roadsters) represent a legality binding liability for Tesla.

23 Jan 2019, 04:55 PM

martin1234

250k is the sales price.

hopefully they produce it much cheaper.

24 Jan 2019, 07:25 AM

finplus

still the cost of goods sold would have to be in the 150K range even if the gross margin on roadsters were as high as 40 percent. once enough referees have "earned" their roadsters (the total is "material" in accounting terms), wouldn't at least that amount have to appear as an accrued liability on the balance sheet?

24 Jan 2019, 05:39 PM

rdonr

But what about if they never build the Roadster, which I bet they won't? If Tesla gets all the deposits for the car, way up front, and gives away free ones, they won't build them because they have already taken in most of the cash up front.

I predict the Roadster will never be built, thus this give away doesn't really cost Tesla much. Just some good will from suckers who will still believe in Tesla, after Tesla burns them, because they are true believers. But they won't get burned for years down the road because Tesla will keep promising it is coming, year after year.

25 Jan 2019, 03:46 PM

3laine

The Clean Technica writer quoted in this post has another interesting article from the next day. He surveyed the people who used his referral code and found that the majority of those who responded were not influenced by his articles and would have bought Teslas anyway. They just used his code to get the free rewards.

So, removing the rewards substantially reduces costs, with a minimal reduction in orders.

I agree with the premise that Tesla was effectively advertising through the referral program, but I also believe that the "super referrers" were getting incredible benefits from minimally increasing demand.

23 Jan 2019, 04:16 PM

flufferty the gigabot

The economist term is "deadweight loss", incentivizing behavior that would have occurred anyway, or not generating enough additional incremental sales to offset the total cost of the subsidy.

The other Flufferbots used their excessive downtime watching KUKA ping-pong videos or filth (DOT5 fluid everywhere), I did a doctorate in economics instead. In hindsight my time would have been better spent watching cat videos, they make as much sense as Keynesianism.

23 Jan 2019, 09:06 PM

User 13124602

And what do people think the semi and sports coupe extravaganzas were, if not advertising? How much did it cost to hand tool and stage these prototypes of never-to-be-manufactured products?

Yup, no advertising—just millions in product announcement farces in lieu thereof.

23 Jan 2019, 04:16 PM

ACBet

So what happens to the free Roadsters for super referrers if the next Roadster is never built.

Welcome to Musk World!

23 Jan 2019, 04:17 PM

flufferty the gigabot

They'll be given Herbalife shakes instead.

23 Jan 2019, 09:03 PM

jdash

The new Roadster is not even on the horizon. Not designed, not tooled, nothing sourced. They have no idea what it will cost to build, where it will be built, or how to pay for it. Absolutely pure, unadulterated vaporware of the first caliber.

23 Jan 2019, 11:31 PM

flufferty the gigabot

@jdash , they'll get a solar roof in place of the Roadster.

Maybe they'll fire a few Roaster 2.0's into space then tell the lucky winners "those are yours, you just need to fetch them, good luck".

24 Jan 2019, 12:59 PM

johnafish

Basically it looks like Tesla outspend virtually every other carmaker when it come to advertising. Hilarious.

23 Jan 2019, 04:42 PM

flufferty the gigabot

Traditional car makers gave away diecast toy cars, Tesla gives away the real thing.

23 Jan 2019, 09:01 PM

johnafish

@flufferty the gigabot

"Traditional car makers gave away diecast toy cars, Tesla gives away the real thing"

Really? I thought they just promised to give away the real thing, there's a subtle difference, a Muskism, can you spot it?

24 Jan 2019, 07:16 AM

flufferty the gigabot

@johnafish , agreed, promise them the moon, string them along and don't deliver anything, it's genius Muskism. I bet they wish they went for the 'real' diecast model now.

Maybe he'll offer them a solar roof instead!

24 Jan 2019, 12:55 PM

Mitch Zeitz

Great article about yet another unethical practice at Tesla - hidden payments to shills. But Tesla really does save money on marketing, because the most costly giveaways like the Roadster don't exist now and never will. These shills are bigger suckers than the customers, since Tesla will be bankrupt long before they get free cars. So for once Musk isn't lying that they don't pay for advertising, but he is lying that the reason they're cancelling the program is to save money. They're being forced to shut it down by the authorities or company lawyers who know what's coming down the pike. Just like selling FSD was shut down. They loved the \$, but were selling a product that didn't exist...like the solarroof, or the roadster, etc.

23 Jan 2019, 04:51 PM

Seven Corners Capital Management, Contributor

Author's reply » Mainly agree except hard to know what exactly was promised to whom, since these were "secret" reward levels. But probably true that TSLA will attempt to avoid delivering the free Roadsters as long as possible (if they ever do).

23 Jan 2019, 05:06 PM

Pale Blue Dot Research, Contributor

referral programs are a demand lever used when demand is weak. this article was a complete waste of time. introductory promotions are no longer needed once market share has been achieved and brand awareness takes over for promotion. marketing 101.

23 Jan 2019, 05:07 PM

Amos Tuck

@Pale Blue Dot Research

You better hope market share hasn't been achieved.

If market share's been achieved, Tesla's in big doo-doo!

Also, it seems like Tesla's brand equity is starting to keen out the window; the build quality on the M3 is low and it's extremely difficult (if not impossible) to get these cars fixed when they break.

Who needs that headache?

23 Jan 2019, 05:34 PM

Pale Blue Dot Research, Contributor

60% market share has been achieved within a 1% BEV global adoption TAM. Plenty of growth available.

23 Jan 2019, 06:03 PM

Amos Tuck

@Pale Blue Dot Research

Tesla's share of the pie is going to shrink a lot faster than the pie is going to grow.

Musk is right - Tesla faces a very difficult road ahead and might not be VIABLE. *

They simply don't have the balance sheet to navigate that road. (And if they crash, no one will be able to fix their car because it's a Tesla.)

* Musk's words.

24 Jan 2019, 09:29 AM

bull_rider

Referral, not 'referel'.

Spelling 101.

24 Jan 2019, 09:31 AM

Commonnonsense

Pale Blue...: "60% market share has been achieved within a 1% BEV global adoption TAM."

Are you seriously suggesting that 60% of global BEV sales are Teslas?

24 Jan 2019, 01:59 PM

cparmerlee

@Seven Corners Capital Management "Tesla's customer referral program will cease on February 1st due to budget constraints."

Of course that is not the truth, at least not the whole truth. The problem today is orders, not margins. It doesn't matter what the margin is if you can't sell all the cars you produce.

If the referral program were actually working to bring in marginal customers, then there would be no scenario where it would make sense to cut it due to "budget constraints." It is abundantly clear that the program is not bringing in many marginal customers, and it is mostly just an expense item. Worse than that, there are people out there gaming the referral system at Tesla's expense, so it is doubly bad.

The reality is that the referral program probably never paid for itself after the first 120 days, but this company just doesn't deal with reality very well.

23 Jan 2019, 05:16 PM

engrlishspeaker

Youtube videos will continue because people love watching Tesla videos and the video makers make money through advertising that Youtube places with their home-made videos. That people only make Tesla videos to get their referral codes out there is false--fake news! They make money through ads too.

23 Jan 2019, 05:22 PM

Seven Corners Capital Management, Contributor

Author's reply » "That people only make Tesla videos to get their referral codes out there is false--fake news!"

--> Straw-man argument (nobody said that people ONLY make TSLA vids b/c of referrals). Of course ad payments play a role (although based on the complaints which are abundant, YouTube doesn't pay that much to producers). The argument is that people will be LESS INCLINED to make vids if there are no referral rewards (so, instead of churning out 5 pro-TSLA vids per month, they might only do 2 or 3 per month).

23 Jan 2019, 05:29 PM

Seven Corners Capital Management, Contributor

Author's reply » BTW, congrats on your 2 comments and your racist handle.

23 Jan 2019, 05:31 PM

efrontier

I love watching YouTube videos that expose Elon's tricks and lies.

23 Jan 2019, 05:48 PM

johnafish

The video's will continue, in part, because those who have qualified for 'free' Roadsters or other large (coming soon) rewards need Tesla to be as successful as possible, so they get their rewards as soon as possible.

No Tesla = no reward, they're on the hook now and will perform for free.

24 Jan 2019, 06:59 AM

2HandedEcon

@dc1reg

Are you suggesting there have been no accruals for the liability, aka "Roadster for free". If not, they would eat all 80 of those Roadster prizes thru COGS one day. Seems at a min they are accruing the liability with a non-cash exp for "promotions" then they "sell" them for 0 cash one day. Still cute since the promo "expense" is non-cash. Those who think they have won Roadsters will not like to learn it was not a real obligation of TSLA, just some YouTube fun.

23 Jan 2019, 05:55 PM

ACBet

Maybe when it's time to give out those "free" roadsters, Tesla will find some of those "die-cast models" that the other manufacturers use. THAT would be funny! Kind of reminds me of the story in the news a while back about the stripper who was awarded a Toy Yoda in a contest at work. She sued and actually won; was then given the Toyota that had been promised.

24 Jan 2019, 09:45 AM

tjhmax

Wow. Non-investor bears are getting quite vicious. They want to be right so desperately they are yelling at the top of their lungs that the end is (finally) here.

After being wrong for all these many years, they think they finally made it. Get the pitch forks out and let's kill Tesla for good.

I think I know now how the mob mentality works and how it does sow violence by egging each other on and whipping themselves into a frenzy.

We will see how this goes. After being wrong so long, maybe you are right now.

23 Jan 2019, 05:58 PM

russclehman

@tjhmax Hope you didn't add shares at \$360. I wouldn't hold out for \$4000.

23 Jan 2019, 08:59 PM

bull_rider

Or even \$420.

24 Jan 2019, 09:35 AM

WillMetz

Reeks of desperation.

24 Jan 2019, 02:36 PM

tjhmax

I am a hold now. Stock is way too volatile because of the negative frenzy.

Should not be so volatile.

After all:

1. Tesla sells more cars than ever 2015-2018
2. They started to make profits
3. Quality of Model 3 is getting better
4. AutoPilot is NOW best in business (if you read Consumer Reports AutoPilot had better performance than SuperCruise. And the version they tested is very old now)...btw, I drive it every day 80% of the time!..no joking
5. Competition still not here and their near future offerings are already lacking based on analyst reviews.
6. Sandy Munro is now really giddy about Tesla "military grade tech", unheard of in any other car today or near future.
7. There is more but I am tired of writing.

And yes, there are super headwinds, but I explained that already before. Like Jay Leno already said. He does not get the haters and why people are not rooting for Tesla. New car companies don't come around much in the US and GM and Ford are losing ground big time around the world. Give it another 20 years and GM and Ford will be foreign owned like Chrysler!!! It will be sad.

26 Jan 2019, 11:51 AM

Seven Corners Capital Management, Contributor

Author's reply » "I think I know now how the mob mentality works and how it does sow violence by egging each other on and whipping themselves into a frenzy."

It happens on the long side as well - that's how the stock got to \$375.

23 Jan 2019, 06:01 PM

eenk

Excellent article, though I wish the distinction had been made between 'marketing' and 'advertising.'

Advertising is a specific aspect of marketing. Yes, the referral program was always a form of marketing, but a stretch to claim it is a form of advertising.

Tesla could spend plenty on marketing and still little on advertising.

Nit-picking.

23 Jan 2019, 06:09 PM

Roger Knights

author: "the amounts Tesla spends on showrooms, which are obviously an additional form of **advertising**"

Make that "marketing."

23 Jan 2019, 06:09 PM

jnbsan007

Can't believe I'm saying this but I'm seeing more Teslas - all types - than before. Talking about North Carolina. The product is sticking and as folks think more about CO2 the stick will accelerate. Yeah, ICE pick-up trucks are cool - just like smoking - until society attitudes change. I think the latter is underway so get ready for more Teslas at rush-hour.

23 Jan 2019, 06:14 PM

bull_rider

I'm thinking 'how much CO2 comes from fossil fuels to recharge Teslas?'

I can't wait to see people go off- roading in a 4WD pickup truck that weighs another 3/4 of a TON as they fight to make it through some mud.

24 Jan 2019, 09:37 AM

WillMetz

Less CO2. 4 Wheel Drive is much better than typical 4 wheel drive, because of the dual, independently controlled motors, despite the weight. I have seen this first hand on lots of snow, guessing it would be similar in mud.

24 Jan 2019, 02:37 PM

Bay Area Kid, Contributor

Marketing and advertising appear to be confused for each other quite often.

Marketing: How best to sell your product (distribution, price, promotions, target market, etc.)

Advertising: Communicating to the public information about your product.

Advertising is a part of marketing. IMO, this referral program is marketing, not advertising.

Actual advertising done by Tesla includes Musk's tweets (re: Tesla) and product unveilings,

23 Jan 2019, 06:49 PM

Seven Corners Capital Management, Contributor

Author's reply » Bay Area - if I pay you to write a positive review of a product and then post it on a website, is that not advertising (even if disguised as "journalism")? The following is from wiki:

"Advertising occurs when a firm directly pays a media channel to publicize its product."

Seems like Tesla was paying Electrek et al for advertising (it was just paying them in kind, not with cash or currency).

23 Jan 2019, 07:51 PM

Seven Corners Capital Management, Contributor

Author's reply » BTW...the top 3 links on Electrek's front page currently:

1. "Tesla is giving a Model 3 away to a hacker"
2. "Podcast: Tesla battery shakeup, flying Roadster, more"
3. "Podcast: Tesla, electric motorcycles, and more"

& the top stories below the front-page banner ad:

- A. "Tesla starts Model 3 test drives for reservation holders in Europe"
- B. "Tesla Model S and Model X production most affected by layoffs, report says"
- C. "TSLA: Wall Street goes after Tesla at a critical time"

Is this not advertising? Seems like it.

23 Jan 2019, 07:56 PM

Bay Area Kid, Contributor

Tesla did not pay anyone to give a positive review. that is a gross mischaracterization of the situation.

23 Jan 2019, 07:58 PM

flufferty the gigabot

They don't do journalism, they do hagiography.

23 Jan 2019, 08:50 PM

bubbleception

Please use simpler words for the Tesla perma-bulls in the audience @flufferty the gigabot ! :-)

24 Jan 2019, 09:45 PM

flufferty the gigabot

Got it, sancta simplicitas!

25 Jan 2019, 12:10 AM

flufferty the gigabot

How will Electrek survive? Where's the incentive to pooh-pooh all other BEV's from different manufacturers that don't provide thinly veiled bribes.

23 Jan 2019, 08:46 PM

sr1952

Musk always kicks the can down the road. These shills that promote Tesla get a free roadster. Are they really that stupid? Do they get a free unicorn too? When do you suppose these guys are getting their roadster? Elon has totally played them for fools and this incentive program will not cost Tesla a dime.

23 Jan 2019, 09:44 PM

jdash

The joke's on those suckers, there's never going to be another Roadster!

23 Jan 2019, 09:46 PM

Jamey2739

Longs should start thinking of TSLA as a seal in an ocean full of ravenous sharks (Toyota, VW group, Kia etc). For the last few years this "seal" has been dodging and twisting in circles to save its existence, those days are drawing to a quick close.

No company will touch this as an acquisition target due to its debt load and going concern value.

I would concede that Tesla's brand has current value, but will diminish massively if the stock implodes.

I think we can all agree this upcoming conference call will be epic. Please take care of you're money longs, or somebody else will.

23 Jan 2019, 09:47 PM

bull_rider

When the public starts to hear doubts that the brand may not survive, they'll also become reluctant to invest \$50,000 or more in a potential orphan. If they want an electric car they'll likely go to another brand that's financially not treading water.

24 Jan 2019, 09:40 AM

sasand

NReferral program

23 Jan 2019, 09:48 PM

sasand

No need for referral program or to worry Everyone knows Tesla is more superior than luxury ice cars like Mercedes, Audi, and BMWs based on safety and costs. Demand in California is enough for Tesla to stay in business for a long time. Projected revenue for Q.4 would be probably \$1-2 billion more than q.3 based on over 110000 car delivered. So profit is for sure secured. Q.1 would be profitable based on major cost cutting and adding Europe market share and possibly model y

23 Jan 2019, 10:01 PM

bull_rider

Wow, even Musk would tell you to dial back your enthusiasm.

24 Jan 2019, 09:40 AM

tmtran

Tesla spends very little on advertising compared to big auto because it doesn't need to. They still have over 200k reservations world wide for the model 3. Add this to non reservation holders and this would take well over a year to fill. The referral program ended because they are tightening the belt to pay for the upcoming debt. Tesla can easily bring it back whenever they want and have done so in the past

24 Jan 2019, 12:17 AM

sasand

Tesla could use model y preorder deposit in q.1 to pay for the debts.

24 Jan 2019, 12:52 AM

bull_rider

Is that allowed? To take a deposit and spend it to pay the bills?

Government can do things like that but is it legal for a company to do?

24 Jan 2019, 09:41 AM

Vitautas

I'm short and very sceptic about Tesla and E-Loony, but you can overdo the bashing:

Tesla stops referral program: Look, Tesla is broke soon, they can't afford advertising!

Tesla increases referral program: Look, demand for Teslas is so small that they have to advertise!

24 Jan 2019, 03:25 AM

Xandi

A crazy dangerous stock to buyvery erratic. One day it's up big, others down big. What gives. This stock is not for individuals like us, but for the big boys who can afford to gamble big time.

24 Jan 2019, 07:05 AM

martin1234

I wonder if there are really more than a handful or a dozen people who got a Tesla for free.

And how much is 6 month Supercharger for free - max a few hundred bucks (or nothing if not used).

This is nothing compared to a 60k USD car.

Would be nice if we could get concretely figures about the amount spent e.g. in 2018.

Meanwhile 400-500k Teslas on the road should be enough advertising, for -actually- the best EV available on the market.

On the other hand mankind is often not as clever as they should be.

Audi shows advertising in Germany now, saying that the "e-tron" is not the first, but the reinvention of the BEV.

I wonder how many people believe that (they also believed in Brexit, Donnie T., etc.).

24 Jan 2019, 07:34 AM

Seven Corners Capital Management, Contributor

Author's reply » "Meanwhile 400-500k Teslas on the road should be enough advertising"

The M3 is not impressive at all to look at in person, people barely even notice it - it looks like a Hyundai. The MX & MS are eye-catching, though.

24 Jan 2019, 09:48 AM

djunh

I liked the model S as well. There were a lot of them in Hong Kong back in 2016 when i was there.

24 Jan 2019, 10:45 AM

DavidusW426

Unabashed bulls like Ross Gerber, Kathy Woods and their insipid followers deserve the horse whipping they are about to receive. I just hope their lord and savior gets crucified... over this blatant fraud. Jail is too good for Lord Elon.

24 Jan 2019, 07:47 AM

alfl

"Tesla Raises Supercharger Rates"

Electrek: "Great move tesla!"

"Tesla Lowers Supercharger Rates"

ElectreK: "Great move Tesla!"

"Tesla Shuts Down Supercharger Network"

Electrek: "Great Move Tesla!"

24 Jan 2019, 08:26 AM

djunh

I am not sure who listens to Electrek but its clearly the primary propaganda outlet for tesla. They took a little too much joy in Doxxing Montana Skeptic for my taste.

24 Jan 2019, 10:46 AM

Davewmart

djunh

In my view Stephen Loveday at Inside EVs is a consummate toadie, even surpassing the redoubtable folk at Electrek

Busy crawling for the Roadster Musk will chisel him out of, perhaps.

24 Jan 2019, 10:51 AM

Commonnonsense

djunh: "I am not sure who listens to Electrek but its clearly the primary propaganda outlet for tesla. They took a little too much joy in Doxxing Montana Skeptic for my taste."

IIRC, MS referred to them as Pravda. Perhaps they took offence. Seemed like a compliment to me.

24 Jan 2019, 02:10 PM

PositiveAlpha

Tsla stopped the referral program - and my take is that they have enough ongoing demand for now.

Sales and production of Model 3 is increasing and EU / china deliveries seem to start soonish.

Efficiency seems to be increasing on final assembly, better quality (less rework), new battery lines at 400k each vs 300k per day, etc etc.

The Q4 / 2018 numbers will depend on the US demand, with heavy labour costs.

The Q1 numbers will take a hit due to a 4-6 week time shift to global deliveries vs US sales.

-- While increasing sales, production, efficiency, margins overall.

Around Q2/2019 the numbers are likely to be very good, seen around october 2019.

24 Jan 2019, 09:46 AM

jman12

What do you mean, why would they be upset they are getting a few roadsters each... He is stopping the program but your implying hes pulling already earned rewards.

He is not.

24 Jan 2019, 11:45 AM

flufferty the gigabot

I wonder how the chapter 11 court will deal with claims like "hey, they promised me a free Roadster if I shilled for them".

25 Jan 2019, 09:28 AM

tjhmax

How about Tesla getting their debt wiped out in Chapter 11 and party on?

Trump did it 3 times. Same with GM in 2009. That is the greatest business tool ever devised and the ace in Tesla's hand if the worst is going to happen...or is it the best. Your pick.

26 Jan 2019, 12:05 PM

sasand

Eat your heart out. Audi, Mercedes, BMW : Tesla by all means the safest car in the road!!!

24 Jan 2019, 12:59 PM

flufferty the gigabot

The NCAP ratings are decidedly average, not unsafe cars but nothing special.

27 Jan 2019, 04:44 PM

Wino

5 star rating is nothing to sneeze at.

28 Jan 2019, 09:12 AM

flufferty the gigabot

EuroNCAP for the Model 3 is on a par with the cheap Renault Zoe EV, not dangerous by any means but nothing special.

[www.euroncap.com/...](http://www.euroncap.com/)

Manufacturers that idly boast about safety are a danger to themselves and the wider public, it should be a constant treadmill of improvement not an end in itself. Talk about tempting fate and moral hazard.

28 Jan 2019, 11:09 AM

smurf

Interesting to note that many of the usual pro-Musk suspects are conspicuous by their silence lately. Maybe some of them got caught up in the layoff.

24 Jan 2019, 01:22 PM

Wino

We'll see what happens. Seems like they're trying to reduce operating costs which I thought was a strong point with most other brands. But this is Tesla and Elon Musk so bury them...right? No idea how this shorting thing works so I'll probably get buried as well. More education.

28 Jan 2019, 09:16 AM

rdonr

something that I am not reading out there;

One of the main reasons Tesla cars are NOT selling right now is: 1/2 Tesla cars are sold in California in the bigger cities. In these cities tech stock prices are down and real estate prices are down and not selling well. Tesla cars are a luxury item. ie; you can buy the same car for 1/3 the price, granted the lower price car isn't as fast and doesn't have the cool I-pad and electronics, but for 3 times the price, A Tesla car is a want, not a need. I am guessing many buyers are changing their mind and buying the cheaper car, and / or putting off the purchase decision because they don't feel as wealthy with their stock prices dropping, their stock options drying up, and their real estate investments flat to going down.

25 Jan 2019, 04:08 PM

Sleepless@FED

Thinking & Taking like a bear doesn't make a bear case 🐻

1. Unit Sales Volume went up - Stock has reached its peak, its downhill from here...
2. Gross Margins better - Input costs are inching up, margins will be squeezed
3. Cost Cutting - Company is struggling to survive. You can't cut your way to higher growth.
4. CEO/CFO departure - best & brightest are deserting the sinking ship...
5. M&A - late entry into an already saturated market. They are overpaying for the acquisition. It is unrelated and will distract the management from crucial tasks.
6. Divestiture/Spin-off : struggling for cash. It is a question of WHEN not IF.
7. Dividend increase : They are desperate to hold on to stock price. It is now a value stock, no longer a growth story.
8. Stock buyback : its all financial engineering. CEO and officers are trying to offset impact of stock options.
9. Company making headway in overseas markets : Competition is fierce. Convert into USD in which they report, it is nothing significant. Overseas economies are slowing down.

2/13/2019

Tesla: End Of Customer Referral Program Weakens Bull Case - Tesla, Inc. (NASDAQ:TSLA) | Seeking Alpha

10. Sales have gone up substantially: They are discounting heavily and struggling as competition is giving them a run for their money.

Logic and reasoning can be used to interpret facts in whatever way you want. This is what lawyers do for a living. Wall Street analysts are no different - particularly in an age when they have to lend shares to shorts to make a living. You get the idea folks...it is one thing to take the ball across the finish line and a different skillset to sit in the commentary box and yap all day 😊 ...

26 Jan 2019, 07:53 AM

flufferty the gigabot

"Dividend increase"

Seriously? Maybe think twice before copying and pasting to a TSLA thread?

27 Jan 2019, 04:15 PM