

News or Noise: Did Elon Musk Give Away the Crown Jewels?

By David Fisher, Chief Investment Officer

Last week, Tesla Motors founder and CEO Elon Musk announced that “Tesla will not initiate patent lawsuits against anyone who, in good faith, wants to use our technology.” According to those close to him, Musk is “annoyed, frustrated and exasperated” with the pace of development of the battery-operated automobile industry. In a conference call, he expressed concern about global warming, saying, “We really need to do something. It would be shortsighted if we try to hold these things close to our vest.”¹

So, is Musk’s decision to open up his company’s patents an altruistic act by a wealthy engineer and CEO who is only thinking about the global climate, or is this a savvy move by a very smart business owner?

History of Open Source

Much of the analysis of Musk’s decision centered on the impact of Tesla moving to an open-source platform. The website Engineering.com compared the decision to similar moves that resulted in industry standardization, noting that “Tesla is essentially creating an open standard, much like IBM did with its personal computer and JVC did with the VHS recording technology.”² Others in the industry also made the connection to the Linux operating system.

In fact, advancements toward an open-source car have already occurred. Much of the computer technology in automobiles comes through the Automotive Grade Linux version of Linux software. The group “is providing a common operating system and application programming interface (API) for car information and entertainment systems.”³ Musk himself alluded to the inefficiencies caused by patents when he said, “Too often these days they serve merely to stifle progress, entrench the positions of giant corporations and enrich those in the legal profession rather than the actual inventors.”⁴



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The Future of Electric Cars

Tesla certainly made a decision that will likely create a greater social good (more rapid development of battery technology and lower costs for end consumers). But did pure altruism motivate the move? We doubt it. If Tesla can ensure the creation of a mass standard for the future electric vehicle, then its shareholders will likely benefit. The market is the ultimate arbiter of these things, and with Tesla stock up nearly 10% from the day before the announcement, investors seem to like what they've heard.

If Tesla had really given away technology representing a significant portion of \$25 billion in shareholder value, those owners would have revolted. In fact, the market likely recognizes that shareholders will win if Tesla is a smaller part of a much bigger ecosystem, as opposed to being a big player in a niche market. Additionally, the bigger ecosystem will come with new infrastructure in the form of widely distributed charging stations and the ability to sell batteries to many other manufacturers. All of these allow investors the possibility of recouping some of the investments they have already made. In the end, Musk's bold move could go down as one of the more clever business decisions in history. He'll get credit for the social good it generates while creating significant wealth for his investors and himself. Nicely played, Mr. Musk.

Sources

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3. Vaughan-Nichols, Steven. "Tesla Accelerates Race Toward Open-Source Cars." *ZDNet*. <http://www.zdnet.com/tesla-accelerates-race-toward-open-source-cars-7000030526>
4. Musk, Elon. "All Our Patent Are Belong to You." *Tesla Motors blog*. <http://www.teslamotors.com/blog/all-our-patent-are-belong-you>

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