

Tesla Motors
Global Business Plan

Team: Central Players 2

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Executive Summary

For the last seven years Tesla Motors has used the Internet to market the company's only electric car, the Roadster, in foreign nations which has produced less than stellar results. Although Tesla has failed to make a profit and is losing approximately \$200 million annually, the unique qualities of the high-performance Roadster have attracted the interest of Toyota. To prove their commitment, Toyota has invested \$50 million in additional technology that will improve the car's battery longevity on the road, and finance the research and development of Tesla's newest automobile, the Model S, which has an anticipated arrival date of 2012. The Model S is the most affordable vehicle within Tesla's showcase, and is considered a family sedan with a price tag that will run 50 percent less than the Roadster. The less expensive Model S will improve the company's economies of scale by making a vehicle that is more affordable to the masses.

These new developments have better positioned Tesla to enter foreign markets through foreign direct investment rather than using the on-line order method. The expense of tariffs when selling automobiles internationally, especially expensive automobiles such as the Roadster and Model S, limits the market of potential customers by doubling the cost of the vehicle. Foreign direct investment will allow Tesla the opportunity to target a new market through mass production using a low-cost labor force, avoiding the high tariff costs, and also taking advantage of government subsidies as a result of clean-air policies.

As a result of Toyota's investment in Tesla's technology, our proposal addresses the advantages and challenges involved in improving Tesla's expansion into India's market, through a partnership with Toyota. Currently, Toyota has one plant in India and is opening its second plant in 2010. Tesla's business strategy of quality performance will be enhanced by Toyota's managerial style and manufacturing efficiency. Not only will Tesla be able to enter India's market by partnering with the highly respected Toyota brand; it will be able to

penetrate the market with limited competition from other luxury, electric-car manufacturers. Since Toyota has worked within the cultural structure of India, negotiating with local government and labor forces, Tesla's value chain will be enhanced by using Toyota's management team. Toyota can advise Tesla's managers on steps needed to incorporate the manufacturing of the Model S into the culture of India's community with speed and grace.

India has great potential as Tesla's first expansion into the global market through foreign direct investment (FDI). The country has a population of 1.1 billion people with an economy that is growing at a rate of 8.60 percent. The number of middle-class consumers has reached an all time high of 50 million people. As a result of India's expanding economy, 14 out of 16 auto manufacturers in India have seen record growth, with cars sales increasing by 33 percent in the second quarter of 2010.

There are some shortcomings that will make an expansion project into India's market difficult. As a result, Tesla will need to work through India's culture of corruption that has a history of penetrating the business community. The cost of the automobile, even under mass production with low-cost labor, is still expensive, limiting Tesla's market to a relative small number of consumers. The marketing and advertising strategy needs to key in on the precise target market and place cars in showrooms in areas that are saturated with consumers in the highest income category in order to achieve success in India.

As a result of economic growth, India faces new challenges such as air pollution and migration to highly populated cities. These environmental deficiencies will open the door for Tesla to market its electric car to consumers that are concerned about air pollution and India's carbon footprint. In May of 2010, Tesla devised a marketing strategy to promote the Roadster among India's elite society. This first step in expanding into India's market is

indeed a step in the right direction for Tesla. The Model S is Tesla's best chance of success, based on a lower price point and more "practical" design. A partnership with Toyota in India provides Tesla with the opportunity to enter large markets in Asia and the European Union at a future date.

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India's Political System

When India declared its independence from Britain in 1947, it developed a federal system of government that resembled the British House of Commons and used parts of the government structure found in the U.S., Canada, and Australia (Darlington, 2009). India is a democratic republic in which the central government has power over the state government. The similarities between India's government and the U.S. government will benefit Tesla Motors as the company works through the legal system to establish a market in India.

The executive branch of the government consists of the President, who is considered the Head of State and fulfills a more ceremonial role (Darlington, 2009). The governors for each of the 28 states and 7 union territories are appointed by the President (Trade Chakra, 2008). In the U.S., the governors are elected by the people and therefore are a major player in bringing employment and jobs into their state. Due to major corruption at the local level, governors in India have less power and are not the major force by which to do business within the country of India.

India has both national parties and state parties. However, India is no longer controlled by a one party governing system as it has been in the past; instead regional parties have more control causing instability in the government through local government alliances (Darlington, 2009). The management team at Tesla will need to establish a close relationship with regional politicians to understand their role in the business sector of the local economies, especially in the city of Bangalore, India, possible site for manufacturing Tesla's automobiles.

Greasing the palms of politicians has been common practice in India for many years. The economic growth in India has caused increased complaints from companies that local politicians and other bureaucrats have "created new choke points" by which to leverage power for personal and financial gain at the expense of holding up the progress of foreign investment ("In India", 2007, para. 9). Tesla Motors will need to make a decision on which

methods to use to effectively get work accomplished in Bangalore. Tesla could decide to protect their image by approaching local politicians with respect but at the same time avoid succumbing to bribery. Tesla could work to win favor with politicians through the initiation of community service projects. Depositing some of Tesla's profits back into the community, possibly to improve infrastructure or the school system to appease politicians could accomplish this. If Tesla decided to succumb to bribery tactics, they would need to channel their effort in search of the most powerful politicians in Bangalore, as well as, find other companies that have established businesses in the area to educate management on how to get work done.

Economic System

India is becoming more of an open-market economy, but remnants of its non-reliance on import trade continue to exist. Reduced controls on foreign trade and investment began in the early 1990s has perpetuated growth, which has averaged more than 7 percent since 1997 (Gulati, 2010). India's diverse economy includes traditional village farming, modern agriculture, handicrafts, a wide range of modern industries, and a multitude of services. Services are the major source of economic growth, accounting for more than half of India's output (Gulati, 2010). India has taken competitive steps to capitalize on its large population of English speaking workers in order to build a more efficient software service presence. Tesla's potential workforce will be supported by the software developed from Tata Consultancy Services Ltd., developed to monitor a government program in 200 districts that offers rural workers 100 guaranteed days of work per year ("The Trouble," 2007). Tesla Bangalore could offer a competitive wage to the workers referred from Tata to draw not only a skilled workforce, but increase the relationship with local district leaders in Bangalore.

According to the United States Central Intelligence Agency World Fact Book (2010), "India's long term challenges include inadequate physical and social infrastructure, limited employment opportunities, and insufficient basic and higher education opportunities. In the

long run, however, the huge and growing population is the fundamental social, economic, and environmental problem.” (Thedora, 2010), and despite the fact that Bangalore is considered the “Silicon Valley of India”, its infrastructure is inadequate to support the growth needed to boost economic growth (“The Trouble,” 2007). With the country’s public debt equal to 82 percent of GDP, private funding for growth is the only option (2007). With the backing of a corporation as large as Toyota, other investors in the area would be more likely to share in the costs and risks of infrastructure development. MAS Holdings Ltd. of Sri Lanka chose India over China to build an industrial park with textile manufacturing plants that will employ 30,000 because of a subsidy from the state of Andhra Pradesh for electricity and roadwork (2007). Tesla Bangalore could utilize such subsidies to improve the infrastructure. With the roads and bridges literally crumbling as a result of heavy use by such a large population, the magnitude of repair needed grows daily, and the necessity for private firms to partner with the government agencies is crucial.

Tesla must take into consideration the infrastructure shortfalls in Bangalore, before proceeding to form a joint venture with Toyota. In a Toyota/Tesla partnership, Tesla’s management team would need to work closely with Toyota’s managers to determine the amount of financial investment Tesla would be responsible for if India required Toyota to pay for roads, water, and electrical improvements needed in plant operations and for employees to get to work. Roads in serious need of repair and severe traffic congestion are likely to decrease productivity if employees are not able to get to work on time. Many major cities in India are banning semitrailers from daytime travel due to congestion, which could bring about scheduling issues when transporting vehicles to showrooms.

Even though Bangalore has many shortcomings when it comes to infrastructure, it has not affected the success of the community’s technology industry. The technology industry, which employs 18,000 people, is located in what is called “Electronic City,” surrounded by concrete walls, and consists of 80 acres of well-cared for property with beautiful winding roads (“The Trouble,” 2007). The Tesla/Toyota partnership would do well

if they closely associated themselves with this industry and reaped some of the rewards of being classified as a high-technology company.

India's Legal System

The Indian Constitution was drafted in 1950 and guarantees equal rights to all citizens, prohibits discrimination on basis of race, gender, caste, and religion, and allows universal franchise, thus making the Indian electorate the largest in the world (Dayanand, 2004). The Fourth Part of the Constitution contains what is called directive principles of state policy, which requires the government to set goals for the welfare of the people such as minimum wage, jobs, and medical care. It is imperative for Tesla to understand the local and central government in regards to labor and wage regulations and practices. Corruption in negotiation practices is rampant, and in order to avoid stalls in negotiation, bureaucratic red tape, and/or complete shut out by the local and state officials, it is important to not only know the laws, but also have an underlying knowledge of the corruption at hand (McMullen, 2010).

A unique feature of the Indian Constitution is that, despite its Federal system and the existence of the Central and State laws with their predefined spheres of application, there exists a single integrated system of Courts, which administers both the central and the state laws. From highest to lowest, the hierarchy is as such:

1. Supreme Court of India
2. High Courts: in each group of States or State, including both Civil and Criminal Divisions
3. Hierarchy of Subordinate Courts, including both Civil and Criminal Divisions
4. State divided Judicial Districts presided over by a District and Sessions Judge
5. Criminal Jurisdiction, including Courts of Chief Judicial Magistrates, Judicial Magistrates of 1st & 2nd Class and Civil Jurisdiction, including Courts of Munsifs, Sub-Judges, and Civil Judges. (Dayanand, 2004).

At the village level, legal problems are resolved with help of "Panchayats." The Panchayat is a group of five respected people of the village whose ruling on the matter is final. The councils have a large presence in the smaller rural areas, having a significant impact on the workforce for Tesla manufacturing. Many of the rural roadways in and around Bangalore are impassable at best, and without local government support and subsidies to build or repair, the infrastructure would be difficult for Tesla to finance.

In order to recognize success in India's car market, Tesla will need to ensure that all vehicle specific information is made available at a consumer level, to avoid legal ramifications and potential strife. This information may include: battery warranty, safety information, registration and licensing fees, and tax implications. Working with the local government will also help Tesla adhere to country specific sales guidelines.

Due to the increasing awareness of environmental safety, the local government in India has introduced laws banning the use of plastic bags in many cities (The National, 2010). The implementation of such laws represents India's ongoing commitment to "going green", and yet another opportunity for Tesla to enter a market that recognizes the benefits of maintaining a healthy environment.

Culture within India

Culture within India is reminiscent of a kinte cloth with every pattern representing a different belief system and pattern of behaviors, which ultimately shape the country's sociological, political, and economical backbone. While it is important to maintain such an environment, it is equally as important to continuously broaden cultural boundaries in order to recognize long-term growth.

With a population of over 1.1 billion people, India is regarded as one of the most culturally loyal and diverse countries in the world (iloveindia.com, 2010). This recognition is due in part to many traditions that have been passed down over centuries, positioning India to develop a warm culture, backed with ancestral customs and rituals which have spread

throughout India's modern day heritage. With a population of almost four times of the United States, it is no surprise to find that the population within India communicates through 33 different languages. This assortment of languages further solidifies the cultural diversity and the constant need for communication. Although there are several languages spoken in the India, the most popular and most widespread language is Hindi. According to surf-india.com (2010), Hindi is the official language spoken by 337 million people in India, and second most spoken "Indian" language is Bengali, being spoken by 70 million people. The emersion of the English language in India continues to expand through globalization and the need to communicate across boarders. The wide spread use of the English language within India may prove to work in Tesla's favor, and better position the company to market its vehicles to a broader range of potential consumers. The many languages that exists within India, further solidifies how socio-cultural practices of the past and present play a dominant role in defining India's position in society.

Historically, men have occupied the role of the breadwinner in most Indian families, while their female counterparts managed household chores and other domestic duties. Although the "traditional India" serves as a cornerstone for strong cultural beliefs and traditions, the new day India has ignited new opportunities and interests among Indian women that transcend previous boundaries. According to carazoo.com (2010), a 2008 study revealed that more than 30 percent of cars purchased in India were influenced by women. As a result, purchasing an automobile becomes a family affair, attracting the interest of both men and women. This trend indicates women are taking a more proactive approach towards independence, which in turns catapults change and challenges cultural barriers. Advancements in the opportunities for the voice of women to be heard shows the glass ceiling in India may not be as transparent as originally thought. If positioned strategically, Tesla Motor's will be able to capitalize on the growing interest of automobiles in India by marketing their electric vehicles as a universal product that has no "perceived" boundaries or limitations. Due to the infantile stage of Tesla's presence in India, perception

and marketing will play a major role in the adaptation of electric cars within the area. If Tesla is able to attract the masses, they will have a better opportunity of recognizing success in a very competitive market.

Due to the melting pot of regions within India, the country is able to continuously expand cultural practices from different perspectives without sacrificing the intimacy of past cultural traditions. One tradition that continues to underscore India's cultural make-up is the marriage structure that exists within the country. Historically, Indian marriages have been arranged and tailored to the expectations of the parents of the prospective bride and groom. The practice of arranged marriages exemplifies the strong level of commitment parents have towards the matrimonial success of their children. India has been able to preserve ancestral customs and give birth to a new generation of culture while upholding the same values and level of distinction. Cultural consistency has helped India bridge many gaps in tradition that are prevalent in other countries.

Language and Education

The quality of education has become a hot topic of conversation among those studying the country of India. Historically, India's educational system has been divided among the "have" and the "have not's", leaving much separation in the level of education received between both groups. The disequilibrium that exists within the education system is due in part to the division in classes within India. Typically, those families that can afford to send their children to private schools are able to benefit from the best education being offered. On the contrary, those families living in impoverished areas have less access to already strained recourses. To combat the growing concern for an increased quality in education, a legislative law was passed by India's government to narrow the gap between thriving and struggling schools systems. An article written by Mian Ridge (2010), states the "education for all" law obligates India's government to pay for all children to attend school regardless of their economic background. According to the new law, state-run schools will be upgraded, and private schools will be forced to reserve one quarter of their places for

children from impoverished backgrounds. The large numbers of children that make up India's school system have created a demand for better educational opportunities within the country. As the emphasis on consistent and fair education continues, the overall health within India's independent communities will improve over time. Through India's devotion to decrease the gaps in education could prove beneficial to Tesla's target market in the future. With more children receiving quality education, resulting in more skills and ultimately increasing future incomes Tesla has a promising future if this becomes the trend.

Corruption

India has a long history of corruption pertaining to business, most notably from 1947 to 1990 under strict rules and regulations termed License Raj (Kamath, 2007). The license was imposed in order to provide state control over the economic climate up until 1990. An astounding eighty government agencies needed to be satisfied prior to a company manufacturing or establishing business within India (2007). Even after government approval, many companies were still regulated on a regular basis. Although licenses were liberated in 1991, manufacturing plants still encounter a permit process when importing equipment and purchasing land. This practice parallels the permit process in the United States, which is also used to conduct business. In order to increase the opportunity for success within India, it is imperative for Tesla Motors to understand the history behind the country's business policies (2007).

Today, a major form of corruption is the criminalization of Indian politics. It is believed that 25 percent of the Indian parliament members have faced criminal charges for crimes such as murder, immigration rackets, embezzlement, and accepting bribes. Embezzlement and bribery could be of potential concern for Tesla Motors if money is being fraudulently transferred by government officials for unlawful payments (Wax, 2008). This type of activity is often difficult for foreign businesses to prove as they are considered geographical outsiders. Bribes are common in India; a 2005 Transparency International found that over 75 percent of citizens believe that corruption is getting worse when trying to

accomplish business with India's public office ("India Corruption," 2005). In addition to paying bribes, working with public figures is often a slow and grueling experience as other organizations have reported. If Tesla expands to India successfully, the company will need to give considerable thought to how it will respond to potential bribes. Tesla Motors needs to keep in mind that through such expansion and making these grease payments they could possibly be helping the Indian economy as well as increasing their global presence (Hill, 2009).

Moral Obligations

As a large corporation, Tesla Motors, like many other organizations has a moral obligation to contribute to the society's of which they operate in. This form of social responsibility links business decisions with economic and social consequences (Hill, 2009). As a large corporation, social responsibility is simply the act of giving back to the society's that have made them successful (2009).

Tesla Motors, whom is currently losing over \$200 million annually and does not expect to be out of the red until after 2015, is going to find it difficult to contribute monetary donations (Tesla Motors, 2010). However, Tesla can explore other options to give back to the Indian society without providing monetary donations. Alternative donations include, hiring local talent (India is full of engineers), volunteering to local organizations, and their presence in India.

By providing jobs to locals, Tesla Motors is showing their obligation towards the success of the local economy and the Indian people. To further solidify their ongoing commitment and support, Tesla Motors can also offer volunteer programs, community service, and employee time to help minimize costs. If Tesla Motors is able to recognize economic success, the company will be better positioned to give back to the local Indian community. Finally, the simple idea of reducing emissions, involves projecting a sense of social responsibility towards the people of India. Providing alternative eco-friendly products (electric car) will reinforce Tesla's commitment to preserving natural resources, while

exemplifying the need to be socially responsible. By making the decision to expand their electric car suite to India, Tesla Motors is taking a step in the right direction towards social responsibility. Tesla's fully electric (not a hybrid) motor does not produce the harmful emissions that are rampant within the traditional automobile industry (Tesla Motors, n.d.a). By developing electric vehicles, Tesla Motors will be able to add an environmentally effective product to the market while limiting harmful emissions in the earth's atmosphere.

Locations – Absolute and Comparative Advantages

As consumers, we have been trained to equate the location of a potential home, school, or business with the likelihood of how successful the venture will be. This strategic thinking is critical in selecting the most appropriate venue, and can be applied to several environments.

Although Tesla Motor's is a fairly infant company, the electric-centric company is making strides to break in to various regions across the globe. A major factor in Tesla's slow start out of the starting gate is partly due to user adaption, but more likely, location. Making the decision to expand globally involves a delicate selection process where several compelling factors need to be addressed. Location, location, location, is a running tag line that will ultimately determine Tesla's success in the international market, specifically India.

India's dense population is a prime area for the marketing and utilization of electric vehicles. The over- populated regions within many of India's states have historically (negatively) impacted the quality of air, and continue to contribute to ongoing pollution. It is not surprising to see large countries such as India suffering from the many environmental plagues brought about from high levels of car emissions, and the over utilization of fossil fuels. Being able to capitalize on India's need for a cleaner and more energy efficient environment may segue into India's electric car market for Tesla Motors. By focusing on heavily populated areas that are in dire need for an environmental facelift, a genuine "need" for alternative automobiles may be uncovered, guiding potential consumers in the direction

of battery operated vehicles. As a result, Tesla can slowly wedge their way into a space that has proven to be an uphill battle to date.

Tesla Motor's electric vehicle has been the proverbial "square peg in a round hole". The vision of marketing battery operated vehicles that preserves energy is a valid concept, but their selection of locations need to be based upon a specific set of criteria. To increase the likelihood of demand and successful sales in India, Tesla should also place a fair amount of emphasis on targeting the exclusive market of "well to do" residents within various cities. By targeting those who can afford to buy their vehicles, Tesla will be better positioned to expand into the international market. This forward-thinking approach was noted in a May press release on Teslamotors.com (2010). According to the announcement, the Roadster electric vehicle arrived in India on May 17, and was displayed at the Ambience Mall in Gurgaon, in suburban Delhi. The announcement also gives reference to the "exclusive" locations where the electric vehicles were displayed, and stated that the country's multinational business hub prides itself on the fact that every household has available electric power connections.

The Tesla team has done a good job of showcasing the potential global endorsement of their creation and letting the public know of their intent to ride the fast lane to the most elite group of potential buyers. In the early summer of May 2010, Tesla Motors announced their electric car would be showcased in Jaipur, and the car would be hosted by His Royal Highness Sawai Bhawani Singh Bahadur, the last maharaja of Jaipur -- considered Rajasthan's most significant political, cultural and religious figure (Tesla Motors, 2010). If Tesla can create a niche environment for their niche product, and maintain the interest of high society, the company might recognize more international success throughout India and across the globe.

An article featured in *The Financial Express* (2010), a daily newspaper that is operated within India, provides a window into India's outlook on electric vehicles. During an interview with *The Financial Express* (2010) Naveen Munjal, Managing Director at Hero

Group, spoke of the increasing awareness of electric vehicles and that his company is exploring the feasibility of rolling out electric three-wheelers and other specialty vehicles since it has become one of the pioneers of the electric platform in the country.

Although the boom of electric vehicles has yet to leave its permanent mark on India's automobile industry, the country has expressed some interest in entertaining the idea of a courtship with automobiles fueled by alternative energy. Gradual steps are being taken to target specific groups of people who may see the benefit to purchasing a battery operated vehicle, and the country is making strides in gradually shifting towards a more eco-conscience society.

Economies of Scale

Tesla Motors has yet to realize the power of economies of scale because of the infancy of the company and lack of demand for electric cars. Economies of scale are cost reductions per vehicle associated with greater output (Hill, 2009). Basically, the more Tesla produces, the lower the price will become for the company and the consumer over the long-term. There are various avenues Tesla can take to increase demand, production, and essentially make their vehicles more affordable for a wide range of consumers.

India is no stranger to electric cars as the Reva Electric Car Company's "Revai," a very compact four-seat hatchback, has been sold in India since 2001 (Lakshman, 2009). The Revai, although gathering much attention because of the attractive \$12,000 price tag, has a lackluster of world sales because of the performance, 54 miles per charge and top speed of 50 miles per hour (2009). For Tesla, it is interesting to note that there is indeed a market in India for electric vehicles and with the right positioning economies of scale can be realized.

Tesla's roadster, which is significantly more expensive than the Revai (India's Electric car), will be able to control a niche of the higher-end (luxury) Indian market and possibly realize first-mover advantages for doing so. First-mover advantages are "economic and

strategic advantages that accrue to early entrants into an industry" (Hill, 2009, pg. 181).

Although, Reva is present in the Indian market and has been selling cars since 2003, Tesla, who put their first car on the road in 2008, (1000 roadsters sold world wide) has shown there is indeed an advantage the company is gaining over the electric car market world-wide, and can use this notoriety to its advantage within a competitive Indian market (Lakshman, 2009).

Another notable difference is that Tesla (a now publicly traded company) is gaining much more exposure/buzz about their products. Tesla can use this exposure to their advantage by gaining a first-mover advantage in the luxury electric car market in India. Although over 85 percent of the nation lives on less than \$2.50 per day, it would still be advantageous for Tesla to penetrate this market ("One Third," 2008). India has one of the world's fastest growing automobile industries that in the long-term will increase trade, jobs, and the overall economy of India. Tesla can realize this opportunity through exports or direct investment by creating a positive reputation in India for possible future manufacturing expansion. Upon successful entry to the Indian market via exports or direct investment, Tesla can use the existence of electric cars manufactures and suppliers in India as a resource for their vehicles.

Because labor is inexpensive in India, Tesla will be able to utilize the difference in labor costs compared domestically in the United States and increase their economies of scale in the long-term should they be able to setup manufacturing facilities there. Through reductions in labor costs (in the future), and more output (if demand increases), Tesla will be able to market their vehicles at a much more affordable price and possibly target other markets in India and globally as well.

The largest hurdle for Tesla to overcome is gaining access to the Indian market through exports or direct investment. Once, Tesla has a foothold in India and their reputation is favorable, they can further their expansion into the specialization of producing

specific parts or vehicles in India and realize the value of economies of scale through increased production and lower costs.

Tariffs Affecting Car Imports

India is currently working with the U.S. administration to develop policies that will promote non-tariff trade barriers (The Economic Times, 2010). The Indian government is also negotiating with their own automobile circle to establish lower import tariffs on foreign made cars. Recently, the Commerce Secretary, Dr. Rahul Khullar, stated that India's automobile industry cannot continue to "live behind very large protective tariff walls" ("India," 2010, para. 2). An import duty on a luxury car such as Tesla's Roadster would run as much as or more than 100 percent of its price. The duty on a Toyota Prius, a comparable car to Tesla's new S model, is 110 percent (Blanco, 2010, para 1). Despite the absorbent duty, Toyota has sold 80 cars in the Indian market in the last three months proving there is a market for eco-friendly vehicles (Blanco, 2010, para 1).

India has also expressed an interest in establishing free-trade agreements with the European Union and Japan ("India," 2010, para. 4). Since India's tariffs also affect the import price of auto components, the Indian government is concerned that foreign automakers will build their factories in other countries that are offering incentives to improve job opportunities. The government of India believes foreign auto technology would help improve India's car industry, as India's cars are not competitive in the global market because the technology is lagging behind the rest of the world ("India, 2010, para. 7). Tesla's high performance electric car would meet and exceed India's expectations when it comes to new advanced technology. Free-trade agreements with limited tariffs would dramatically decrease the price of Tesla's cars and make them more affordable for India's citizens that are in the upper-income bracket.

However, until policies are changed, Tesla must work with India's customs procedures as they stand. At the present time, the amount of documentation that is needed for cars to pass through customs is quite extensive. This would affect Tesla's ability to meet

order deadlines if their products were delayed as a result of complicated paperwork. India's valuation procedures affect the cost of tariffs, because the process allows customs agents to adjust the value of the import (Office of the United States Trade Representative, 2008, p. 3). If Tesla would decide to reduce the price on their new Model S to increase interest in the automobile when it first enters the market, India would still determine the cost of taxes based on what customs perceives as the actual value of the car.

Changes in the tariff policies in India are unlikely to change soon. The head of the auto manufacturing association, Delhi's Chenoy, is convinced lower tariffs will increase imports of foreign cars because India's consumers prefer foreign-made vehicles (Just-Auto, 2010, para. 8). "India's car lovers prefer British, American, German, and Japanese technology" (Carazoo, n.d.b, para.1) over the cars produced by India's auto companies. This concern by the auto manufacturing association is good news for Tesla because Chenoy's concern reveals that marketing the Roadster and the Model S, as an American car would add value to the product.

Subsidies Influencing India's Auto Industry

Tata Motors received subsidies from the government to build a factory that makes Nano cars; considered the "cheapest brand of car ever made" (Thakurta, 2009, para. 1). Nano's sale price is between \$2,500 and \$3,500 and most likely will only be sold in India (Thakurta, 2009, para. 3). The manufacturing plant has been offered direct and indirect subsidies through a variety of government entities. The government of the western state of Gujarat is subsidizing Tata Motors through an incentive package worth \$6 billion to guaranty they locate their manufacturing plant in Gujarat (Thakurta, 2009). The government has also made "soft loans" to Tata Motors with a generous payback program (Thakurta, 2009, para. 14). Gujarat's government is paying for the total cost of utilities and roads, plus supplying land on which to build homes for employees that will work at the factory (Thakurta, 2009). The Toyota/Tesla Motors plant in Bangalore will not be affected by Tata's popularity in this region of India. However, Tesla should avoid building a plant in Gujarat

since a vast amount of government money is being used to make sure that Tata Motors is successful.

Environmental activists have been outraged at the indirect subsidies offered to the middle and upper class citizens when it comes to purchasing a car. Car owners pay limited amounts of money for parking, use of the highways, and contributions to clean-air taxes (Thakurta, 2009). The activists feel that the public transportation system receives fewer subsidies than car owners. This attitude toward car ownership makes entering India's market very attractive because the government is supportive of advances in the auto industry.

India's government, which until now dictated the price of gasoline and diesel, decided they will soon lift the subsidies on gasoline but kept subsidies in place for diesel fuel. The government will now let the global market determine the price of gasoline in India. This in effect will help Tata Motors, since 80 percent of their cars run on diesel (Nair & Sharma, 2010). However, this will also benefit Tesla since gasoline prices will increase, making electric cars more attractive. Tesla's other competitors such as Hyundai Motors, the largest distributor of cars in India, will be impacted by higher gasoline price since only 20 percent of their cars use diesel (Nair & Sharma, 2010). Honda Motor Company is currently ranked fifth in car sales in India and has no diesel models in the Indian marketplace (2010). Subsidized gasoline currently sells for 20 percent more than diesel (Nair & Sharma, 2010). Once the global market determines gasoline prices, Tesla's marketing campaign will be able to take advantage of the high cost of gasoline in order to attract new customers.

Quotas Affecting the Car Industry

The government of India is working on updating its affirmative-action plan that will put new quotas in place requiring corporations to hire and train underprivileged citizens. The India government had promised to eliminate this quota program after 10 years, but feels that corporations are not doing their part and will be considering tax incentives to encourage active participation in the affirmative-active program. If Tesla should decide to

manufacture their cars in India, affirmative-action regulations would need to be understood and implemented.

Policy Implications

In 1993, the passenger car industry was de-licensed to encourage more foreign investment (Ministry of External Affairs [MEA], n.d.). India's new auto policies promote more competition among foreign and domestic car manufacturers in order to maximize growth, increase employment potential, advance technology and make India the new international hub for innovative cars (MEA, n.d., para. 16-21). India's auto policies include steps to modernize the industry by incorporating India's software products, assisting companies in the development of alternative fuel sources, and offering cars that match international safety and environmental standards (MEA, n.d., para. 22-25). India's auto policies would not be a deterrent against Tesla establishing a manufacturing plant in India. In fact, India's new attitude toward foreign auto companies would give Tesla an opportunity to introduce a product with a higher standard of quality and energy efficiency than any other car on the market in India.

Foreign Direct Investment

Tesla has three options by which to introduce their electric automobiles into India's market. The first option would be to take on-line orders and ship cars manufactured in the U.S. to individuals living in India. This is the current route that Tesla has chosen with little success. The second route would be to ship cars to showrooms in India. This would add to the price of the automobile as a result of India's policy of high tariffs, ultimately increasing the cost of the car by as much as 100 percent as noted above. The third option would be to invest in a manufacturing plant in India and produce the cars locally.

The third route has been made easier since India has changed its economic and financial policies to encourage more foreign investment in its country. Since 1991, India's government has made it possible for companies such as Tesla to forego obtaining an industrial license if they would decide to manufacture their cars in India (Secretariat for

Industrial Assistance, 2003). Currently, India's policy allows FDI up to 100 percent under the new automated route (Business Maps of India, n.d.). Since India eased the regulations on FDI, the U.S. has seen a turn over of \$12 billion as a result of manufacturing of cars in India and a \$3 billion turn over in the production of component parts (Business Maps of India, n.d.).

Under the new FDI regulations, Tesla would now be able to ship parts to produce their electric cars without restrictions. They would not be tied to purchasing or making their component parts in India, which would decrease inventory costs. Component parts could be shipped from established manufacturing plants; using the just-in-time inventory method to assemble cars as they are sold. This would benefit Tesla since it allows for more flexibility to produce cars on demand with limited need for storage of parts and pre-assembled cars.

Government Policy

India's government is currently looking to rewrite clean-air policies as environmentalists and activist groups such as Greenpeace are targeting emissions regulations due to the fact that the demand for new passenger cars in India increased by 32 percent in 2009 (Parvaiz, 2009). The National Auto Fuel Policy, established in 2003, was introduced in phases to enforce emissions and fuel regulations that will, when fully implemented, more closely resemble the policies of the European Union ("Emission Standards," n.d.). The Indian government, as well as environmentalists, is concerned with the expected growth in auto sales and the amount of pollution these vehicles will create. The Central Pollution Control Board of India has echoed these concerns since many of India's major cities are no longer meeting the regulatory clean-air standards that were established by the World Health Organization for airborne pollutants (Parvaiz, 2010).

Greenpeace is demanding that India's government set standards on all new cars limiting CO₂ emissions ("Greenpeace," 2008). Currently 18 percent of India's CO₂ emissions are the result of automobiles burning gasoline ("Greenpeace," 2008). Tesla promotes the fact that their car produces one-half the amount of CO₂ compared to

gasoline-fueled vehicles (Tesla Motors, n.d.b). Tesla assumes in this case that one-half of the country's electricity is produced by using coal (Tesla Motors, n.d.b).

The people of India are blaming the government for establishing policies that support the car industry over public transportation. India's government subsidizes the car industry by offering "cheap land, interest-free capital, and other concessions" to decrease the cost of producing cars (Parvaiz, 2010, para. 21). Tesla could take advantage of India's enthusiasm to promote new investments in the automobile industry and reach out to India for help to subsidize a new manufacturing plant that will produce an electric car that will help India meet the new clean-air policies.

Economic Integration Opportunity

Economic Integration are agreements generally region specific amongst countries that seek to "reduce, and ultimately remove, tariff and nontariff barriers to the free flow of goods," (Hill, 2009, pg. 274). Economic integration encourages countries that are geographically specific to one another to promote free trade with member countries. There are several levels of economic integration than vary from minimally integrated to most integrated which include: a free trade area, customs union, common market, economic union, and political union (Hill, 2009).

India is participating in several regional trade agreements (RTA) that they believe will promote the objective of trade liberalization or free trade. India is participating in RTA's that are either bilaterally or regionally grouped which include, South Asia Free Trade Area (SAFTA), Asia Pacific Trade Agreement (APTA), Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) and India-Mercosur Preferential Trade Agreement (PTA) (Trade Agreements, n.d.).

SAFTA came into play in 2006 after a summit of the South Asian Association for Regional Cooperation (SAARC), which includes Bangladesh, Bhutan, Maldives, Nepal, Pakistan, India, Sri Lanka and Afghanistan. This is important to Tesla because SAFTA

promotes competition in free trade areas removing barriers to entry and respecting the economic development of the member states. Being a first mover in Electric Cars, Tesla Motors can benefit through free trade in the member states as well as seek out other opportunities such as suppliers and manufacturing (Trade Agreements, n.d.).

The APTA agreement promotes economic development through agreed tariffs and aims to improve/promote trade among member states. The APTA agreement includes Bangladesh, India, Sri Lanka, China and Korea. APTA also promotes transparency to the member states and focuses on the development of the least developed countries. Tesla Motors can see some favorable attributes to this agreement through gaining experience and transparency of the larger countries and increase exposure to larger markets (Trade Agreements, n.d.).

BIMSTEC is a sub-regional economic cooperation among member countries that promotes free trade among members and encourages outside investment and trade. There are 13 sectors to the agreement and each country voluntarily leads the sectors. India leads Transportation & Communication, Tourism, Environment and Disaster Management and Counter Terrorism (Trade Agreements, n.d.).

ASEAN agreements goals are to enhance economic trade, promote trade, develop economic cooperation and facilitate economic integration between member countries. The most notable parts of this agreement for Tesla are infrastructure and the automotive sectors. Through investing in infrastructure the member countries are promoting transportation, which is essentially the business Tesla is in. Through promoting the automotive sector the ASEAN agreement aims to reduce trade barriers and reduce tariffs on vehicles/goods moving across member borders (Trade Agreements, n.d.).

The final agreement to which India is a part of, the PTA was signed between India and MERCOSUR in 2003 to negotiate reciprocal tariff practices and promote free trade in alignment with the World Trade Organization (Trade Agreements, n.d.). Although, India has

only been a member since 2003 it shows their persistency of moving their trade relations west.

Economic Integrations are very important for Tesla Motors to consider in India. Although the United States and India do not have such agreements as mentioned above it is important to note that both countries participate and promote regional economic integration. Because both countries promote economic integration this could prove beneficial in the future for Tesla should trade barriers be eased. Tesla when exporting to India will face tariffs since no free trade agreement exists with the United States, which will ultimately increase the cost of the vehicles.

Foreign Exchange Risks

Tesla Motors should be cognizant of the fluctuation in exchange rates between the U.S. dollar and the Indian rupee. Exchange risks are, "potential gains or losses that result in an exchange rate change" (Giddy & Duffy, n.d., para. 2). Because Tesla Motors is a U.S. company, they will need to convert their revenue from Indian rupees to U.S. dollars. Tesla Motors needs to keep a keen eye on the exchange rates because disequilibrium in exchange rates could affect Tesla's bottom line, positively or negatively.

The Indian Rupee is a relatively weak currency when compared to the U.S. dollar. The Rupee fluctuated between 43.68 and 47.33 to 1 U.S. dollar from February 2010 to July 2010 (Indian Rupee, n.d.). Because of the fluctuation, it will be beneficial for Tesla to consider management options when dealing with exchange rate risks. Through managing exchange rate risk, Tesla Motors will be better positioned to maximize profits when seeking expansion into India. There are a few options to consider when insuring/hedging against foreign exchange risk: spot exchange rates, forward exchange rates, and currency swaps (Hill, 2009).

Spot exchange rates are when two parties agree to exchange currency, in this case Rupees to Dollars, and expedite the execution of the transaction immediately (Hill, 2009).

This type of transaction may not be in the best interest of Tesla Motors because of the large volume of monies being exchanged and the potential loss in value that could occur on a same day exchange. A spot exchange is most appropriate for trading small denominations of currency (2009).

Forward exchange rates, "occur when two parties agree to exchange currency and execute the deal at some specific date in the future" (Hill, 2009, pg. 312). Tesla could benefit from this type of exchange because forward exchange rates are quoted for 30, 90 and 180 days (2009). Through a forward exchange rate, Tesla can safeguard profits on vehicles sold in India should the rupee/dollar rate fluctuate. Ultimately, forward exchange rates will enable Tesla to essentially buy time while attempting to maximize profits

Finally a currency swap "is the simultaneous purchase and sale of a specified amount of foreign exchange for two different value dates" (Hill, 2009, pg. 313). Due to Tesla's infancy, and the limited amount of foreign suppliers, it is not in the company's best interest to consider currency swaps at this time. However, once Tesla expands operations and gathers more suppliers from foreign countries, it would then be advisable to consider currency swaps

Currency Exchange Forecast

Tesla Motor's ability to recognize profits through the sale of electric vehicles in India depend on the stability of the U.S. dollar against the rupee; the currency used in India. During this last decade, India made an effort to open up its markets by developing a more liberal approach when writing new policies to encourage FDI. In turn, the value of the rupee has held steady as the country's economy continues to grow (Indian Blogger, 2010). The currency exchange forecast for the next 8 months reveals a small decrease in the value of the rupee of 3.7 percent against the dollar (The Financial Forecast Center, 2010).

Factors that are used to forecast future exchange rates, using the fundamental approach, include "GDP, inflation rates, productivity indicators, unemployment rate, and

balance-of-trade" (Economy Watch, n.d., para. 2). Tesla Motors would need to stay current on the following list of U.S. and India statistics that affect the value of the dollar:

- The current U.S. GDP for the second quarter was 2.4 percent (Bureau of Economic Analysis, 2010a).
- The U.S. inflation rate was -0.4 percent in 2009, but is averaging about 2 percent in 2010, though the inflation rate was 1.1 percent in June (U.S. Inflation calculator, 2010).
- The U.S. productivity rate increased by 2.8 percent during the first quarter (Bureau of Labor and Statistics, 2010b).
- The U.S. unemployment is 9.5 percent (Bureau of Labor and Statistics, 2010a)
- Goods & services deficit rose by \$42.3 billion from April to May 2010 (Bureau of Economic Analysis, 2010b)

India's statistics that will influence the currency exchange forecast include:

- India's GDP is currently at 8.60 percent (Trading Economics, 2010).
- India's inflation rate is at 13.91 percent (Trading Economics, 2010).
- India's unemployment rate at 7.32 percent (Trading Economics, 2010)

India's balance-of-payment decreased from \$34.0 billion in 2008 to \$30.7 billion in 2009 in U.S. dollars (Reserve Band of India, n.d.).

Currency Management and Strategy

With the fluctuation of currency exchange rates, and the value of the profits forecasted by Tesla, a shift towards a global currency strategy would be beneficial. There are several advantages to a centralized and standard monetary exchange from a company such as Paymentech. "Paymentech, L.P. is one of the largest payment processors for businesses accepting payments via traditional point of sale, Internet, catalog and recurring billing" (Peters, n.d., para 6). "The privately held company, founded in 1985, is an end-to-end processor for merchants of all sizes and industries." (Peters, n.d., para 6). To expand

into auto loans and sales through Paymentech or Chase, another globally recognized banking system, could bolster sales for Tesla by offering secured loans from a globally recognized bank. It would not be necessary for credit to be established in the country because merchants are able to bill in their own currency and the company guarantees the exchange rates. Furthermore, there is no need to establish banking relationships in India, as Paymentech would handle transfers and accounting in real time. (Peters, n.d.). Not only would this benefit the local dealerships, but would promote economic stability for Tesla in regards to foreign currency exchange.

Strategy Used for Global Expansion

The purpose of a strategic global expansion is to improve profits. When Tesla developed the technology for their high-performance electric sports car, the Tesla Roadster, the company intended to take the profits from selling the more expensive electric automobiles, expand on the technology, and in turn, produce a less expensive car families could afford. Tesla's goal is to be the leader in developing the first totally electric car with a battery that will stay charged for more than 300 miles (Tesla, 2010).

This goal has proved to be a challenge as Tesla has yet to obtain enough orders to stay afloat financially due to a shift in the global economy. Tesla's attempt to dabble in overseas markets has been facilitated through on-line orders. This strategy has not been effective due to high shipping and tariff costs, making the car unaffordable. Toyota has just recently decided to invest \$50 million in Tesla's technology via Tesla's California plant in Fremont (Siegel, 2010). This new development will better position Tesla to transition into new markets.

Toyota will open a plant near Bangalore India in 2010 to produce 100,000 smaller, inexpensive cars (Reuters, 2007). Strong financial backing from Toyota, will better position Tesla for a smooth transition into India's car market. Tesla has engineered a more affordable electric automobile, the Model S, which will sell for half the price of the Roadster. Tesla will be entering India's market as the leader in high-performance electric cars. Using

Toyota's just-in-time philosophy and the Toyota Production System strategy, Tesla could easily learn and adapt to Toyota's successful manufacturing style, making the production of the Model S more efficient.

Value Chain

The operations of Tesla in the United States and Europe have been established and maintained mostly by Elon Musk. Musk's executive team includes Deepak Ahiuja; Chief Financial Officer and Principal Accounting Officer, Peter Rawlinson; Chief Vehicle Engineer and Vice President, Franz von Holzhausen; Chief Designer, and the Board of Directors that consist of 8 people (Oram, 2008). Originally, the plant was going to be built in Albuquerque, New Mexico, but Tesla chose the California site to be closer to their research and development headquarters, and also because the battery pack was being produced in California at the time the plant was opened. (Tesla, 2010). Tesla's design was engineered by Lotus, and the team is assembling the chassis as well. The final certifications are done at the San Carlos, CA, Headquarters (Oram, 2008). Although Tesla has mainly been its own entity, and is not showing profitability, the company has entered into a contract with Daimler Smart for two electric cars for 1,000 of its lithium ion battery packs. There is also talk that the Toyota RAV4 is looking to make an electric version, and Tesla motors would be a part of the manufacturing design. (Abuelsamid, 2010). Having a globally recognized name like Toyota as a partner would benefit Tesla in many ways, but to be successful in the Indian market, enlisting Indian management and marketing roles would be highly beneficial. India, as stated earlier, has a very strong cultural and traditional heritage. In order for Tesla to gain notoriety, India's culture needs to be upheld through marketing strategies, and the overall perception of the company's infrastructure. Using the locality for blue-collar labor in the manufacturing plant coupled with advanced research and development, and marketing, would give Tesla a global advantage (Hill 2009).

Profiting from Global Expansion

Global expansion into India allows Tesla Motors to target a consumer base that would have difficulty purchasing and or affording luxury electric vehicles if Tesla remained a domestic player. Through global expansion, Tesla will be able to capture market share in India, and be capable of smoothly transitioning/expanding into neighboring countries, further increasing Tesla's presence and profits. Expansion into India will not only allow Tesla to capture a new consumer base, it will also allow Tesla the opportunity to increase profits by having their vehicles readily available to the growing consumer base in India.

Through a joint venture with Toyota, Tesla will be able to expand into India in which both companies would benefit. Tesla has the technical know-how to produce optimal electric vehicles and Toyota is known for their efficiency measures as noted above. By combining forces with Toyota (whom is already present in the market), Tesla will better position the company for success with a partner who is already familiar with the consumer base and the country (Hill, 2009). In the long run with the right strategy and promotions, Tesla will be able to realize profits by expanding operations globally to India.

Will global expansion be profitable for Tesla? It is a gamble to say the least. However, one can assume if the transition is smooth and Tesla begins producing vehicles in India, the global consumer base as well as Tesla will both reap the benefits of international growth. Through inexpensive and specialized labor, which is readily available in India, Tesla partnered with Toyota, can begin to mass produce vehicles and realize economies of scale. In doing so, consumers will benefit from lower prices as well as less emissions be emitted into India's air, and Tesla will be able to recognize higher profits due to the increased volume of sales. Ultimately, Tesla will be able to target more global consumers through attractive pricing, which will in turn, increase their overall return on investment (Hill, 2009).

Entry Strategy

Tesla's entry strategy into India's car market will consist of three main objectives. The first objective is to gain a thorough understanding of India's cultural and business practices to establish shared expectations with local businesses, political officials, vendors, and potential consumers. Having advanced knowledge of day to day business operations and best practices within India's economy will better position Tesla to create a circle of trust with the overall community within India.

The second objective for Tesla's entry strategy is to streamline the manufacturing process by forging relationships with Toyota, who will provide the manufacturing infrastructure for the production and sale of electric vehicles in India. In doing so, Tesla will be able to recognize economies of scales by producing a higher volume of vehicles which in turn will allow for lower costs per vehicles for consumers, making Tesla's electric cars more affordable ultimately increasing demand. Toyota will serve as a liaison between Tesla and potential consumers by breaking down cultural and economic barriers, making the transition into India's economy smoother and more cost effective for all parties involved. Manufacturing Tesla's vehicles in India will also provide a boost to the economy by creating opportunities for new employment for the people of India. Due to the lower pay scale in India, Tesla will be able to recoup savings from lower paid wages, which will in turn drive down the costs of their vehicles. To ensure accurate compliancy is followed, country specific labor laws will need to be addressed and monitored on a consistent basis.

The final objective for Tesla is to test India's car market by slowly introducing one specific vehicle for manufacturing. In doing so, Tesla will be able to gage the level of consumer interest, and ultimately success with minimum risk to the company. According to India's Finance and Investment Guide (2010), a fair amount of foreign countries have successfully entered into India's market since the country began its liberalization process in 1991. Although several business attempts within India have failed, the outlook for Tesla looks very promising. The expanding middle class in India will create a community of

potential consumers, ultimately luring traditional car owners to owning an electric vehicle. As a result, both the central and state governments are aggressively seeking foreign investment, adding numerous incentives to encourage overseas companies to set up facilities (India's Finance and Investment Guide, 2010).

Entry Mode

When selecting a mode of entry into a particular country, there are several factors that need to be considered. These factors include, but are not limited to, existing legal systems, level of risk on a corporate and consumer level, tax implications, and product familiarity (Emerald, 1983). Considering that Tesla is a fairly new company that attracts a unique pool of consumers, substantial emphasis will need to be placed on marketing their electric cars in order to gain adequate exposure and initiate consumer buzz. Toyota can help provide such a platform for Tesla, due to the company's existing brand recognition within India. Toyota established manufacturing operations in India in 1999, and has continued to produce a high volume of vehicles within the country. According to Cardekho (2010), Toyota has 81 new cars that will be released within the next 2 years, which is an indication of the high emphasis that is being placed on the development of new technology within the transportation sector in India. Historically, people tend to shy away from products that are considered "new to market" unless they offer a specific set of unique values. With the support of Toyota, Tesla has an opportunity to capitalize on the need for such "unique value" by strategically positioning the environmental values their vehicles provide. This uniqueness in turn, may be the bait Tesla needs to catch a new group of consumers. Until Tesla has become a household name within India, the company must continue to ride the on the curtails of Toyota

Import and Export Strategy and Financing

Tesla has attempted the strategy of exporting their cars via on-line orders but has failed to make a profit using this method. Even though India has made progress in decreasing tariffs on U.S. products, the tariffs on automobiles, such as Tesla's Model S,

remains high. In addition, export costs would require that the retail price of the Model S be listed at over \$100,000, which will attract a low level of consumer interest. The process involved in transporting vehicles internationally can be time consuming and a deterrent for many would be consumers. A standard international trade transaction will take at least 14 steps (Hill, 2009, p. 450). Assembling the vehicle in India will allow Tesla to recognize cost savings by utilizing Toyota's manufacturing facilities.

Exporting would require Tesla to adjust its entire budgeting procedures to reflect a fluctuation in the value of the rupee against the U.S. dollar. If Tesla wanted to export their Model S to India, their budgeting strategy would need to be more flexible. Management would need to estimate future exchange rates, which can be unpredictable (Milani, & Rivera, 2004). When the U.S. dollar increases in value against the rupee, competing cars produced in India become much more affordable. Even though high-performance electric cars are not currently available in India, alternative cars that use solar and/or gasoline/diesel do compete in the same market, such as the BMW, Prius, and Mercedes-Benz.

Even if Tesla does not export its cars from the U.S., the company will still need to work with a global currency management firm to purchase components to manufacture the Model S in India and to transfer rupees to U.S. dollars. Once Tesla establishes a market in India, the country will be used as the primary base to export Tesla vehicles to other Asian countries such as China, and Japan, as well as, European countries, and Russia. At this point, Tesla will need to evaluate tariff costs in order to determine the best markets to enter. Establishing a relationship with a trustworthy currency management firm to handle these transactions, as well, is necessary.

Production Strategy

Tesla Motors has developed a quality high-performance all-electric car that is far superior to any electric car in production at this time. Tesla's Roadster is a high performance electric car that has a top speed of 130 mph and accelerates from 0-60mph in 3.9 seconds that emits zero CO2 emissions (Motorexpo, 2009). However, the company has

only been able to sell a limited number of Roadsters since its conception, which has kept production costs high. The company focused on a differential strategy to increase the value of the automobile, but demand for the Roadster has not been able to offset costs due to car's limited battery life and scarcity of charging stations. Tesla will have its second car, the Model S, ready for production in 2012 (Garrett, 2010). Currently the car is in the research and development stage, which will allow for a more polished finished product. Toyota's investment in the Tesla's technology will offset the initial production costs of the Model S. However, to introduce the Model S into India's market, Tesla Motors will need to lower the cost of production.

Toyota's style of manufacturing, Toyota Production System (TPS) is a model by which other manufacturing companies have tried to emulate to improve efficiencies on the production line without affecting the quality of the product. The TPS adds value to a product by eliminating waste through the selection of appropriate facilities, machines, and skilled labor (Heizer & Render, 2008, p. 640). Production of the Model S car in India through a Toyota partnership strategy would allow Tesla to improve production efficiencies.

Toyota uses a just-in-time (JIT) inventory system, which saves on manufacturing costs by producing vehicles in an "on-demand" environment (Heizer & Render, 2008, p. 640). When using the JIT method of manufacturing, problems must be identified immediately in the production process because inventory is limited. Mistakes must be eliminated early to ensure inventory is never stockpiled and costs are controlled. Partnering with Toyota to improve production is a key element in Tesla's new strategy of operations.

Outsourcing Decisions

Tesla's operations in the Silicon Valley have proven to be on a very small scale; only one of the Board of Directors has any dealings in the operation of the plant, and the company spends little or nothing on advertising. Almost all elements of the manufacturing process are outsourced (Businessweek, 2007). With movement into India, and investments by Toyota, the ultimate goal for Tesla in India is to outsource as little as possible in the way

of engineering, manufacturing, and labor force. The top executives in the plant in Bangalore will be Indian, and the research and development team will be a mixture of local Indian, Toyota, and current Tesla employees.

With Toyota's investment, not only will Tesla gain \$50 million, but also access to Toyota's developed and successful supply chain in other countries, along with their global platforms and components ("Does Tesla," 2010). Because of the cost of importing parts, it would only make sense for the majority of the manufacturing to be done in Bangalore. Because the Toyota plant in India is currently running at full capacity, changing the manufacturing over to the Tesla is not only beneficial for Tesla, but has its advantages for Toyota, as well. The innovations of Toyota hybrid cars have a reputation for not being able to compete in the market with the more prestigious automakers. On the contrary, Tesla's electric vehicles offer advanced technology with engineering capability to back it up (2010).

Bringing engineering capabilities into a marriage with Toyota, along with hiring Indian executives, could benefit the decision not to outsource in the Bangalore plant. Adhering to local and state regulations and how to work with the Indian government is an area that an Indian leadership team can bring value to and successfully implement.

Market Segmentation and Strategy

Market segmentation, "refers to identifying distinct groups of consumers whose purchasing behavior differs from others in important ways," (Hill, 2009, pg 491). Market segmenting is reliant upon knowing who your consumer is; age, gender, income levels, occupation, and geographical location are all important factors that will need to be researched (Knowing Your, n.d.). Obtaining this information will be essential for Tesla to seek out appropriate market segments to determine if income levels will be able to support such an expensive purchase (Tesla Motors, 2010).

Tesla's vehicle the Roadster is a luxury car with a price tag of over \$100,000 USD. The upper income levels in India (\$217,000 +/year) are expected to increase dramatically over the next decade, which is promising for Tesla, given their current target market, as

noted above (India Profiles, 2006). The geographical presence of the 51 percent of the upper-middle class (\$10,000-217,000/year) and 61 percent of the wealthy upper class (\$217,000+/year) live in the larger cities in excess of 5 million people (2006). It will be imperative for Tesla to penetrate these geographical locations by setting up showrooms to specifically target the aforementioned classes that will be able to afford and enjoy the luxury electric vehicle Tesla has to offer.

Tesla's strategy for entering these markets will be to first identify which states the majority of higher-income families reside, and where the most spending is occurring. The wealthiest states within India are Delhi and Maharashtra. The state of Delhi is considered to have the highest spending rate when compared to other states (India Profiles, 2006). To recognize early success, Tesla should market their vehicles to a targeted consumer base by establishing showrooms in Maharashtra or Delhi, as the income levels from this market segment will be able to financially support expansion efforts

Advertising

Tesla Motors currently offers a unique product to a sophisticated buyer. Therefore, advertising and marketing must strategically position this product to the correct market segment in order to maximize success in India. Because of India's diverse culture, Tesla will need to adhere to cultural boundaries and specific product placement when targeting this unique consumer. Thus, the idea of standardized global advertising may not work to Tesla's advantage in India because of the noted differences between cultures (Hill, 2009).

Because Tesla will be in joint venture with Toyota in India, it might be possible for Tesla to share the automobile spotlight with Toyota when it comes to advertising in order to recognize savings. However, if Tesla wants brand recognition separate from Toyota, it may make more sense to outsource (although costly) advertising responsibilities to an Indian ad agency such as Dentsu Communications, which also handles Toyota's advertising in the Indian market (Dentsu Communications, 2009). These methods of

communicating/advertising Tesla's products (via Dentsu Communications) to the Indian consumer will be very significant for Tesla for a variety of reasons; 1) Tesla will be able to manage their brand with a team of Indian professionals who know how to strategically position their electric vehicles to the correct consumer base as Dentsu has with Toyota, 2) through image building with Dentsu Communications, Tesla will be able to continue to build their image in the Indian market through culturally experienced professionals whom can show Tesla how to localize their ads in India, 3) through public relations (and networking), Dentsu Communications can assure that Tesla's message is consistent with the company's brand image and the culture of India, and 4) through print, television, and online advertising, Dentsu Communications can assure Tesla that the advertising message being communicated fits within the parameters of India's culture as well as Tesla's target market. Because Dentsu Communications is a global advertising giant, Tesla will be able to use their expertise in the future when the opportunities arise.

Pricing Strategy

Devising an affordable pricing plan that is strategically aligned with a specific target market of consumers is imperative for the successful sale of Tesla's electric vehicles in India. Although pricing vehicles at a premium (luxury) pricing will attract a niche group of consumers, a higher price point will also make it more difficult for Tesla to market and sell their cars to a diverse group of consumers. Therefore, "catering to the masses" will hopefully prove to be a step in the right direction for Tesla's bottom line. The Model S will prove to be a more affordable vehicle that may attract more consumers due to its lower price point and practical design. According to a ZDNet Asia survey conducted in 2008, each year IT professionals in India are earning 10 to 15 percent more in salaries than the previous year. Additional survey's should also be conducted to determine average commute time to work, average salaries paid for top tier positions, and how much money people are willing to spend on luxury vehicles. Obtaining this information will enable Tesla to uncover the "low hanging fruit" within the pool of prospective consumers. Overall, management

positions, accounting positions, and jobs within information technology deliver the best salaries to the working class of India (Vfreshers, 2008). Researching trends in salaries and occupations will help Tesla better qualify the purchasing power of potential consumers. As the world's second largest car market (Buy USA, 2010), it is fair to assume that India's economy has the stamina to withhold the emergence of battery-operated automobiles. However, Tesla will need to deliver a solid value proposition to potential consumers in order to increase the likelihood of financial success.

Management, Training, and Staffing: Policies and Strategy

In order for Tesla to thrive in global manufacturing and production, it must incorporate company specific strategies, with Toyota's philosophies that have demonstrated global success. According to Toyota (2010); Toyota "strives to offer products and services that are clean, safe, and of high quality." ...and...are fully committed to continuing to improve corporate value. Adapting this philosophy and capitalizing on the inexpensive labor force can move Tesla into a profitable stage in the Indian market.

The average monthly wage for Indian workers is equivalent to \$179 USD, and the minimum wage is 1.2 Euro per day, or approximately \$1.60 USD (India Economy and Employment Statistics, 2009). With the majority of the labor force being laborers that would fall into the minimum wage range, the salaries for management and executives can be more generous, attracting more suitable and capable management locally. Being able to relate to the culture of the local workers that have Indian management skills not only benefits Tesla financially, but allows for employment negotiation to be smoother and more successful.

Training will be done in the Toyota plant by Tesla's middle management team and Toyota employees currently working in the plant in Bangalore. The executives in the Silicon Valley office will oversee the executive and management training in the manufacturing plant in California. Communication between Toyota and Tesla on the executive level will take place monthly prior to implementation and weekly thereafter. Cultural training will be done

for all foreign employees, as this is one of the most challenging issues, and is also one of the main reasons that a disconnect occurs between countries. (Hill, 2010). Language, cultural, and Indian business etiquette will be the forefront of managerial training, while the labor force will concentrate on practical training.

Conclusion

In 2003, Tesla Motors made a ground-breaking decision to create a brand that would ultimately challenge the traditional vehicle in every sense of the word. (Tesla, 2010). Although tapping into the automobile industry through unprecedented innovation was going to be an uphill challenge at best, Tesla has remained determined to defy the rules of the familiar road. The apparent limited success of the electric car enthusiast has produced limited results, but a slow transition into global markets might prove to be a step in the right direction.

The decision to expand to global markets has not been an easy task for Tesla, and is not a subject the company has taken lightly. As the largest three-wheeler and second largest two-wheeler car industry in the world, India presents a great opportunity for Tesla to expand into global markets (Indian Auto, 2010). In order for Tesla to see success overseas, a strategic plan of entry and sustainability must be established. Cultural traditions, country specific business practices, current economic conditions, and governmental regulations and policies must be factored into Tesla's equation of entry. Marketing and advertising will also prove to be instrumental in providing would-be-consumers with a bird's eye view of Tesla's Model S electric vehicle. To compete with existing local car manufacturers; extensive research will need to be conducted to ensure marketing practices are being targeted to appropriate socio-economic groups.

Using the global economy as its canvas, Tesla Motors has painted a landscape of opportunities to expand into new markets within India. A strategic courtship with Toyota will provide Tesla with a global platform to showcase their vehicles and foster relationships with local Indian consumers. Over a period of time, this union will better position Tesla to

recognize economies of scales through increased production, resulting in more affordable product for consumers and a higher volume of sales.

While there are many justifiable reasons that support Tesla's attempt to take India's automobile industry by storm, the reality is that Tesla's electric vehicles are priced at a rate designed for a caviar budget. Furthermore, most families in India only own one non-luxury vehicle (Outlook Money, 2010). Based on this information, it is fair to assume the sole family mode of transportation would consist of an "all purpose" vehicle that was conducive for a family, rather than a sleek sporty sedan with touch screens and lithium battery packs. Although Tesla's electric vehicles may appeal to a younger generation of consumers with very little financial obligations, this niche group is not a large enough audience to create and support a sustainable electric car market within India. Building strategic relationships with Toyota through the use of the company's existing manufacturing facility in India will be instrumental for positioning Tesla to recognize more immediate economies of scales. Attempting to construct an organic manufacturing facility without such assistance will only add more expenses, inevitably creating a long and dark road to profitability for Tesla.

Therefore, in order to recognize economic success in India, Tesla will need to put the company's best foot forward to create a viable demand for their electric vehicles. The Model S will present an opportunity for the sustainable interest that is needed to drive positive results. With a more competitive price tag, the Model S has the potential to guide Tesla down the fast-track of success straight into India's automobile industry.

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