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Tesla's Evolution: Mass Market Electric Vehicles?

On a late November day in 2023, Sheritta Watts,¹ Tesla's vice president of strategy, watched as part of the first wave of long-awaited Cybertrucks rolled off the production line at the gigafactory in the company's headquarters in Austin, Texas. Tesla was relieved to reach this milestone as the Cybertruck, announced in 2019, had proven extraordinarily challenging to manufacture, given its radical and complex design and external material components that proved difficult to shape and mold into the body of the vehicle.

In the near term, the Cybertruck was an additional burden on Tesla's lagging financials. For 2023, third-quarter earnings showed a 44% decline in year-to-year net income, a 7.6% operating margin, and an automotive gross margin of 18.7%. In the previous year's third quarter, operating margin was 17.2% and automotive gross margin 27.9%.^{1,2} (For previous years' financials, see **Exhibit 1**). The electric vehicle (EV) price wars that began earlier in 2023 had resulted in Tesla reducing prices and issuing discounts on many of its vehicles to prop up sales, which inevitably reduced profits.

While admiring Tesla's newest vehicle, Watts was also thinking about the market as she knew it. The electric pickup segment in the United States was at less than three percent of total EVs, according to Motor1.com, and a tiny sliver of the total pickup market.³ Did the Cybertruck, yet another premium tier EV, say more about what excited the company's CEO than what Tesla would need to remain the leader in the EV space? Competition was challenging Tesla's EV dominance in the U.S. and globally. Did the next industry cycle hinge on launching a mass-market, affordable EV? As of 2023, no major automaker had accomplished this feat. For years, CEO Elon Musk had alluded to development of a more affordable EV, including in a recently released Master Plan Part 3.⁴ In 2020, Musk stated, "One of the things that troubles me the most is that we don't yet have a truly affordable car, and that is something that we will make in the future."⁵

Pieces of Tesla's strategy appeared to be coming together with the announcement of a new gigafactory in Mexico, which was predicted to house the future production of Tesla's first mass-market EV.⁶ Would its

¹ Sheritta Watts is a fictional character.

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