

Stuart L. Hart
Joshua Ferguson
Gokulakrishnan Jayakumar
Arpit Sharma
Sean-Michael Steele

case 2-135-828
May 28, 2024

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.

Published by WDI Publishing, a division of the William Davidson Institute (WDI) at the University of Michigan.

©2024 Joshua Ferguson, Gokulakrishnan Jayakumar, Arpit Sharma, and Sean-Michael Steele. This case was written by University of Michigan graduate students Joshua Ferguson, Gokulakrishnan Jayakumar, Arpit Sharma, and Sean-Michael Steele, under the supervision of Stuart L. Hart, Professor in Residence at the University of Michigan's Erb Institute, assisted by Nick Rojas, 2024 MBA/MS candidate at the University of Michigan. The case was prepared as the basis for class discussion rather than to illustrate either effective or ineffective handling of a situation. The case should not be considered criticism or endorsement and should not be used as a source of primary data. The opening and closing situations in the case are fictional in order to provide a more robust student learning experience.