

InThinking IB Business Management
Exam Practice Question – Tesla
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<https://pixabay.com/photos/tesla-tesla-model-x-charging-1738969/>

The share price of Tesla on 15 March 2019 was around \$55. Despite the turmoil of the COVID-19 pandemic that followed six months later, Tesla's share price had reached over \$795 on 14 March 2022. So, an investor who bought \$10,000 back in March 2019 would have seen the value of the investment rise to a staggering \$144,545 during this time.

The success of Tesla is beyond its CEO, Elon Musk; it is about branding, quality, market leadership, productivity, and profitability. Tesla also has gigafactories in Germany and the US. However, in 2021, about half of the world's Tesla vehicles were made in China, with most of the cars being exported for sale in Europe. As labour costs are significantly lower in China than Germany and the US, the **mark up** of each Tesla produced in China is higher. Despite shipping costs, there are huge **economies of scale** for Tesla exporting the vehicle made in China. Elon Musk is also the CEO of SpaceX, an American aerospace manufacturer and provider of space transportation services.

Part of the reason why Tesla's shares had risen so sharply was the company had reached its sales target of half a million cars in 2020 (it actually sold 499,550 cars that year). This is a major achievement given the fall in average household incomes during the global pandemic. Another reason was that Tesla, founded in 2002, was not profitable as a company until after 2019. The company had declared a loss of \$665 million in 2019. In 2020, the share price of Tesla increased by 740% as sales soared, and its market capitalization reached \$848 billion making it the fifth most valuable company in the US and surpassing Toyota as the world's most valuable automaker. By the end of 2021, Tesla had declared a profit of \$5.52 billion, with steady sales growth and average costs under control. This trend is expected to continue as Tesla entered India in 2021, a potential lucrative market for the company.

Tesla's growth strategies have also focused on giving its staff more autonomy in the workplace as well as the company's continual investments in new technologies. Tesla also works closely with governments to build the necessary infrastructure needed to have sufficient power charging facilities, such as on highways (motorways).

Whilst Tesla is the clear market leader in the global electric vehicle industry, it has been operating without much competition until recently as the market continues to enjoy annual growth rates in double-digits. This has attracted competition from across the world, including Nio and BYD (China), Volkswagen Group (Germany), Hyundai and Kia (South Korea), Toyota and Honda (Japan), as well as Ford and General Motors (USA).

Table 1 - Excerpts of Tesla's financial data

	2017	2018	2019	2020	2021
Production*	100,757	254,530	365,232	509,737	930,422
Employees	37,543	48,817	48,016	70,757	99,290
Sales (\$bn)	11.76	21.46	24.58	31.54	53.8
Sales (units)	103,091	245,491	367,656	499,535	936,172

* Total number of vehicles produced

Source: adapted from [Tesla Investor Relations](#)

Questions

- (a) (i) Define the term *mark up*. [2 marks]
- (ii) Define the term *economies of scale*. [2 marks]
- (b) Calculate Tesla's labour productivity rates in 2017 and 2021. [2 marks]
- (c) Outline **two** benefits of higher labour productivity for Tesla. [4 marks]
- (d) With reference to Ansoff's matrix, recommend a suitable growth strategy for Tesla given the potential threat to its market leadership. [10 marks]