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Practice exam questions

Can anyone rival Tesla?

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Check your answer to the question on pp. 6–7 of the magazine. This question relates to the Edexcel specification.

Sample answer

Market penetration is part of Ansoff's matrix. It states that a growth strategy for Tesla would be to increase sales of existing products in their existing market, such as by using different pricing strategies.

Adopting a market penetration strategy would mean adopting different pricing strategies for existing products in their existing markets, such as Tesla's recent reductions in its retail pricing for the model 3, Y and S range of cars. For example, in 2023 Tesla reduced the price of its electric vehicles (EVs) by up to £8,000, which meant that the company was able to maintain a significant price advantage over other manufacturers such as BMW. Tesla was able to do this without sacrificing significant profit margins due to advanced robotics and the introduction of innovative technologies such as the Gigapress, which allows Tesla to produce a car body in one piece. Such pricing strategies mean that Tesla is likely to not only be able to increase its 2024 market share globally from its 2023 level of 21% but may also be able to maintain profit margins compared with other manufacturers, who may not have such low average costs bases. This may result in continuing shareholder confidence in investment returns, while encouraging current petrol car owners to consider making the switch to electric due to Tesla's products getting nearer to price parity with ICE cars. This untapped market would further boost Tesla's market share.

However, market penetration carries many risks for Tesla. Recently, reducing car prices played a part in reducing the value of EVs across manufacturers, as Ford and other EV manufacturers had no choice but to cut their own vehicle prices. As a consequence, already jittery customers who may have considered switching to an EV for the first time may be put off by the significant depreciation costs they may have to stand when it comes to trading in the vehicle compared with a similarly priced ICE vehicle. In the first quarter of 2024, global deliveries dipped by 8.5%, which was clearly not the aim of the Tesla price reductions in a market where there are already worries about issues such as range and charging infrastructure. As a consequence, Tesla's market share may actually reduce due to the hit on consumer confidence of such a large price reduction, effectively driving EV converts back to ICE cars. It may also encourage customers to look to other brands such as BMW to insulate them from the impact of depreciation on their purchase. Ultimately, this could lead to an overall reduction in market share rather than an increase, the exact opposite of this market penetration strategy.

A product development strategy means Tesla developing a new product in an existing market. This is clearly an approach Tesla has adopted with the Cybertruck, as the truck market is forecast to grow significantly by 2030. This is an untapped market for Tesla so has the benefit of being open to greater expansion in market share than the EV car market, which it already dominates, and could be argued

to be much more difficult to extract any significant growth from in comparison. Tesla has already launched the Cybertruck in the USA with some success, so costs of new product development have already been incurred, with Tesla hoping that its innovative steel construction will allow it to gain a competitive advantage over those already in the market such as Ford. Tesla has already gained a proven track record in using advanced manufacturing techniques to significantly reduce unit costs and waste and this may give Tesla the ability to gain customers from its current EV car base, who wish to have a truck for business purposes, as well as tempt over customers from both other EV truck manufacturers and current drivers of ICE vehicles. This could therefore result in significant gains in both market share and profits for Tesla, which is clearly hoping to be able to dominate this market in much the same way as it dominates the EV car market.

However, the product development strategy means that Tesla has already incurred significant costs and product delays due to its state-of-the-art production techniques for the truck, exasperating possible owners, who may have instead bought the Ford F150. There have already been teething problems with the Cybertruck with some first owners reporting rusting of the steel body. An even bigger issue is that the Cybertruck is currently only able to be sold in the USA market as it does not meet UK and EU safety legislation standards. Both of these issues mean that growing market share globally is significantly reduced in the short term. This may not only be a high-cost strategy due to the development from scratch of the Cybertruck, representing a large chunk of the US\$2.593 billion spent each year, but these costs are ongoing until production issues are ironed out. As a result, the product development strategy results in a very slow start in terms of sales and market share, particularly as Tesla has to wrestle customers away from already established EV truck manufacturers.

Overall, Ansoff's matrix appears to be an effective tool to look at both of the strategies proposed in the context of increasing Tesla's market share. Product development is recommended as it appears to offer the greatest potential gains in market share, particularly as Tesla has already born the R&D costs for the cybertuck, such as the introduction of a 400v architecture. Tesla have already made considerable inroads into the EV market in terms of market share and due to its aggressive price reductions and those of competing manufacturers, it may be that market penetration is less lucrative in terms of further increases in growth. This is particularly an issue due to the rise of fierce competition from Chinese manufacturers such as BYD that are able to have significantly lower unit costs due to the lower pay rate of the labour force in China. Tesla has the innovative manufacturing capability and an unmatched public charging network that are likely to allow it to have a number of distinctive capabilities over other western manufacturers of trucks. This may again see Tesla gaining a significant increase in the market share in trucks, once the teething problems are resolved. In the longer term this may insulate the manufacturer further from the probable entry to the market by Chinese manufacturers in future.

Sample examiner comment

Mark: 20/20 (level 4 – an excellent response, fully focused on the question)

Excellent and detailed knowledge and understanding of market penetration and product development and how it may help Tesla achieve growth in market share.

Excellent application is shown through the use of appropriate context applied to the question.

Analysis is well developed and coherent and logical analysis are linked together, giving cause and effect of the positive and negative effects of competing arguments, using context based on qualitative and quantitative data. An evaluation of the use of market development in the context of growth of market share is shown, using MOPS and context to support a judgment.

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