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Practice exam questions

Robotaxis: the USA versus China

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Check your answer to the question on pp. 2–5 of the magazine. This question relates to the Edexcel specification.

Sample answer

One advantage of Tesla pursuing a strategy of market penetration in its core EV market is that it would directly address the immediate threat to its primary source of revenue. The article highlights that Tesla's EV sales fell in 2024 and 2025 and that it is 'struggling against Chinese-made EVs'. By focusing its resources on competing more effectively in this established market – perhaps through price adjustments, marketing campaigns or product enhancements – Tesla could defend its market share and stabilise its sales. This is a less uncertain strategy than entering a completely new market. It uses Tesla's existing brand recognition, production facilities and distribution networks. For a company facing declining sales, a defensive strategy to protect its core business could be seen as a logical and financially prudent way to secure short-term profitability before taking on new, high-risk ventures for long-term profitability.

However, the major drawback of this option is that Tesla may be fighting a losing battle, risking significant resources with little guarantee of success. A simple market penetration strategy may not be enough to counter the momentum of competitors. Furthermore, with its sales in Europe dropping 40% in 2025, it is clear that competitive pressure is immense and global. Putting investment into a market where it is already losing ground could be a costly mistake, potentially leading to a price war it cannot win and failing to address the fundamental objective of securing its future-focused, trillion-dollar valuation. As a result, long-term profitability could be jeopardised.

On the other hand, focusing on new product development with robotaxis aligns perfectly with Tesla's brand image as an innovator and could unlock enormous future profits. This is clearly a high-growth emerging market. Fortune Business Insights predicts a global market value of \$118.61 billion by 2031, and demand is already surging, with rival Waymo seeing a dramatic increase to 550,000 rides in a single month in 2025. Musk has explicitly linked this venture to shareholder expectations, promising a million robotaxis on the road by the end of 2026. Pursuing this option would reinforce Tesla's position as a cutting-edge technology company, not just a car manufacturer, which is crucial for justifying its high valuation and achieving long-term, high-margin profitability in a market where customers are willing to pay a premium.

However, this strategy is incredibly high risk and puts Tesla up against some of the world's most powerful companies. The article states that for rivals backed by Amazon and Google – companies with '2–3 times the market value of Tesla and exceptionally deep pockets' – failure would result in just 'a few days of embarrassment'. For Tesla, however, success is 'far more crucial' as its valuation depends on it. Tesla is not the market leader; Google's Waymo is the current 'frontrunner in the USA', and other giants like Apple have already pulled out after spending over \$1 billion, highlighting the

immense difficulty and capital required. Gambling the company's future on a market where it is already behind well-funded competitors could be a strategic error that imperils the entire company, rather than securing its profitability.

In conclusion, Tesla should choose the second option: new product development. This is because the market for traditional EVs has become intensely competitive, with Tesla's sales falling in 2024 and 2025 as it struggles against rivals. A defensive market penetration strategy would mean pouring resources into a market where its dominance is clearly eroding. In stark contrast, the robotaxi market is new, dynamic, and forecast for explosive growth, with predictions of a global value of over \$118 billion by 2031. The opportunity to establish a leading position in a new, high-growth market is strategically superior to defending a declining share in a saturated one. This aligns directly with Tesla's core objective, which is not long-term profitability but securing its massive trillion-dollar valuation. This valuation is built on the promise of future-focused, disruptive growth – something a conservative penetration strategy fails to deliver. Pursuing the high-risk, high-reward robotaxi market reinforces the investor narrative that Tesla is a pioneering technology company, which is essential for justifying its valuation and achieving long-term growth. Given the shift in the market and the nature of its valuation, betting on the future with robotaxis is the only logical path forward.

Sample examiner comment

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

A depth and range of knowledge and understanding are shown of the importance of the strategic concepts of market penetration and new product development, along with their associated risks and rewards.

Application is applied effectively and is fully integrated throughout the answer. The response consistently uses specific financial and non-financial details from the article – such as the fall in Tesla's sales, the growth in Waymo's rides, the market value of competitors, and the predicted size of the robotaxi market – to build and support analytical arguments, rather than just stating facts.

Analysis is well-developed, balanced and demonstrates clear chains of reasoning for both options. The answer effectively explores the consequences of each strategy, such as how market penetration could secure short-term profit but fail to support the long-term valuation, and how new product development aligns with the brand but carries immense financial risk against powerful competitors.

The answer makes a clear and well-supported recommendation as to which strategy is most likely to secure Tesla's long-term profitability and valuation. The conclusion uses a sophisticated and structured approach to weigh the competing arguments, focusing on the most crucial factors of the market and Tesla's objectives. The justification is consistently rooted in the unique context provided, leading to a powerful and decisive final judgment.

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