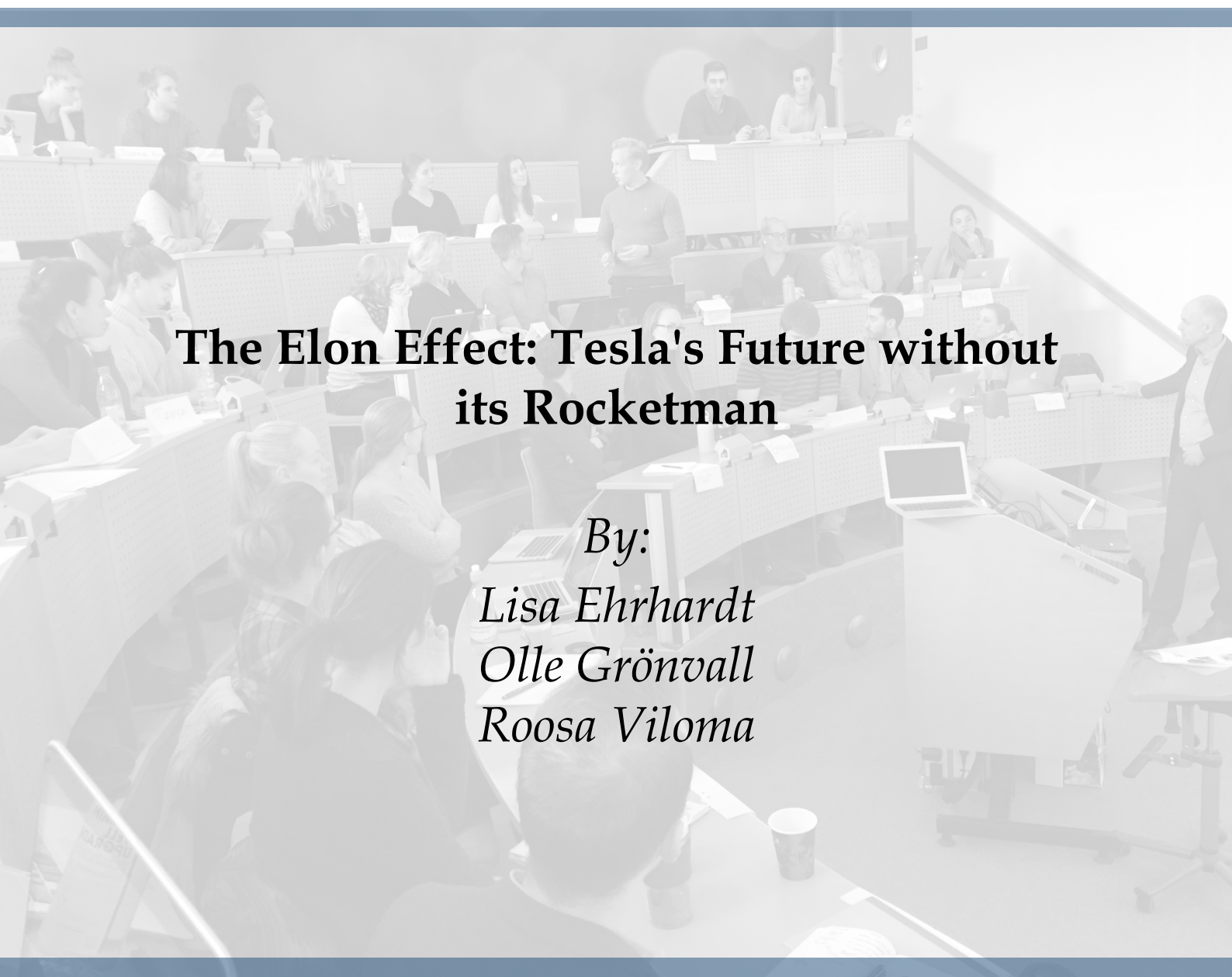


CORPORATE BRAND MANAGEMENT AND REPUTATION

MASTER CASES



The Elon Effect: Tesla's Future without its Rocketman

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Corporate Brand Management and Reputation: Master's Cases

The "Corporate Brand Management and Reputation: Master's cases" is a case series for applying the case method of teaching and learning in higher education. The cases are relevant to brand strategists in private and public sector organizations, as well as academics and students at universities, business schools, and executive education.

The cases are written by groups of master's students as a course project. The specially developed case format is defined as: *"A management decision case describes a real business situation leading up to a question(s) that requires assessment, analysis, and a decision reached by discussion in class. The alternative approaches and recommendations from the class discussion are followed by a description of the choices made by the case company. This description is then discussed by the class."*

The student groups select the topics of their case providing updated and relevant insights into corporate brand management. The cases can be used as "written cases" (handed out and read in advance, later to be discussed in class) and/or as "live case" (presented by the teacher following a discussion in class). Each case includes teaching notes, visuals with speaker's notes, learning objectives, board plans, and references.

The mission of the series is *"to develop cases for discussion providing insights into the theory and practice of corporate brand management and reputation, with the intent of bridging the gap between academic teaching and managerial practice."*

The series is a result of co-creation between students and teachers at the elective course Corporate Brand Management (BUSN35 – five-credit course/eight-week half-time studies), part of the master's program International Marketing and Brand Management at Lund School of Economics and Management, Sweden. The cases represent the result of the intellectual work of students under the supervision of the head of course.

Although based on real events and despite references to actual companies, the cases are solely intended to be a basis for class discussion, not as an endorsement, a source of primary data, or an illustration of effective or ineffective management. The cases are free to be used and are to be cited following international conventions.

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The Elon Effect: Tesla's Future without its Rocketman

WRITTEN CASE

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The Rocket Man Elon Musk, What Happens When He Flies Away?

Friday 24th February,

07:00 Start today's Model S production

09:00 Meeting with the board, "I have a new plan"

10:00 Continue Model S production

/Elon

That's what the morning email said that reached every chairman at 04:55 the same morning. What was this? Had Elon Musk himself just scheduled a meeting? And was it really going to last more than 20 minutes?

The chairmen ate their breakfast like normal and waited for the meeting to start. All six of them had gathered in the only room that was quiet and tidy enough to have a meeting in at the Tesla factory since the occasion that meetings even occurred was so rare that Elon didn't bother to maintain a room just for that reason. The digital clock on the wall switches to 09:00 and at that exact moment, Elon opens the door and together with a few unknown people enters the room.

"Welcome everyone!"

"Let's keep this simple. As you all know I have a lot to do with SpaceX and our new starship that we need to focus on these coming years. So because of this, I have decided to leave Tesla today. I have thought about this for the last couple of days and I thought that with this short notice, I would like you to, with the help of these consultants that I have brought with me today, come up with how you would like to move forward and how to communicate this to the other stakeholders. Thank you all for your time at this amazing company and I wish you all the best of luck in the future! You will all have a seat reserved for the upcoming Mars trip! But since I'm not going

to contribute any more to this meeting, I might as well leave now, do not forget that I'm still the CEO for the rest of the day, so at 10:00 I want you all to go back to your work desks."

And that was it. Elon didn't even manage to close the door before the consultants had started writing out a schedule on one of the whiteboards. Another consultant started to read from the notes they had brought with them.

"So, who is it that we have to find a successor to?" started the consultant.

Elon Musk...

Elon Musk, a South African-born entrepreneur and inventor, is widely regarded as one of the most influential figures in the tech industry. He truly embodies big thinking and risk-taking. With a few taps from his fingers, global markets can crash and soar. He is the founder of SpaceX, Tesla, and The Boring Company, among other groundbreaking ventures. With a net worth of over \$200 billion, Musk is among the richest people in the world. He is also known for his unconventional ideas and ambitious projects, such as colonizing Mars, building high-speed tunnels under Los Angeles, and developing a brain-machine interface.

Elon was born on June 28, 1971, in Pretoria, South Africa, to Errol Musk, an electromechanical engineer, and Maye Musk, a model and dietitian. Maye has described Elon as a genius from an early age, often reasoning with her in a way that was beyond his years. Elon's childhood was marked by introversion, reading, and coding. He preferred the company of books and computers over other children and was often bullied in school, which led him to seek refuge in video games. He attended several schools in South Africa, but he was not a model student, often finding classes boring and choosing to read or work on his computer instead. Despite his achievements, Elon's childhood was not without difficulties. He has spoken openly about his rough childhood and the mental and physical abuse he suffered at the hands of his father. His parents divorced when he was just ten years old, which was a traumatic experience for him. However, Elon was able to channel his energy and focus on his passions, which eventually led him to great success in the technology industry.

At the age of 17, Elon moved to the United States to study physics and economics at the University of Pennsylvania. After two years, he transferred to the University of Illinois at Urbana-Champaign, where he earned a degree in physics. In the summer of '94, Elon started working as a summer intern at a gaming start-up, called Rocket Science. He was kind of introverted, so he fits right into the rest of the group. He was very very interested in world-building, in storytelling. The founders of Rocket Science thought that he was gonna be an entrepreneur. He then moved to California to pursue a PhD in applied physics and materials science at Stanford

University. However, he dropped out after just two days, as he felt that the internet would have a greater impact on society than a PhD in materials science.

In 1995, Elon and his brother, Kimbal Musk, founded Zip2, a web software company that provided online business directories and maps for newspapers. It was noticed from early on that Elon had a work ethic like no one else, he worked seven days a week and sometimes slept on the office floor and he expected others to work equally as hard. The company was successful, and in 1999, Compaq bought it for almost \$300 million. Elon received \$22 million from the sale, which he could have used to buy an island in the Bahamas but instead, he was far more interested in building and creating a company. He used to start X.com, an online payment company. X.com later became PayPal, which revolutionized the online payment industry. PayPal was acquired by eBay in 2002 for \$1.5 billion, making Elon a multimillionaire.

After Paypal, Elon started debating between either solar, electric, or space. He thought that nobody was going to be as crazy enough to do space, so he chose to better do space. Consequently, he embarked on that journey to create SpaceX in 2002. Elon had a vision: "What are some of the problems that are likely to affect the future of humanity? The biggest terrestrial problem we've got is sustainable energy. The other one is the extension of life beyond Earth. To make life multi-planetary."

Musk invested \$100 million of his own money to start SpaceX and began recruiting top engineers and scientists to help him build the company. One of his first hires was Tom Mueller, a rocket engineer who had worked on several NASA missions. Together, they began working on a new rocket design that would be more efficient and affordable than traditional rocket technology. Their hard work paid off in 2006 when SpaceX launched its first rocket, the Falcon 1, designed to carry small payloads into orbit. Unfortunately, the rocket malfunctioned and failed to reach orbit. However, Musk remained determined to succeed and continued to refine the technology and improve the launch capabilities of his rockets.

SpaceX got one more chance, a fourth rocket. They had just enough existing components to attempt a fourth and final flight to orbit. Engineers were exhausted, but Elon rallied everyone up for not giving up and continuing this for the last time and putting everything on the last rocket. Falcon1 was the first privately developed launch vehicle to reach Earth orbit from the ground. NASA contacted SpaceX that they would offer a \$1.5 billion contract with them. This meant that NASA took a risk since SpaceX was a very small company and very unproven. SpaceX went from launching a small rocket to working on the transportation system of the International Space Station. Jumping into this huge responsibility was a major step for the company and suddenly they were in the big league. With the retirement of the last ever space shuttle, the US Government is now reliant on SpaceX to make good its promise to resupply the international space station.

Tesla, Going From Master Plan to Accelerating the World's Transition to Sustainable Energy

The year is 2003 and in the city of San Carlos, California, two engineers Martin Eberhard and Marc Tappening decide to start the company we know today as Tesla, Inc. Named after Nikola Tesla, the 19th-century inventor who has become well-known for his contributions to electrical engineering and sciences, the company set out a goal to both develop and produce their own electric car.

However, being able to develop and produce a car doesn't only require knowledge, you also need money. Martin and Marc started to look for people to invest in their new company and ended up pitching to Elon Musk. The pitch took place at the SpaceX office and the two founders explain how different the pitch to Elon was compared to the other potential investors. Elon understood the mission immediately and didn't react as if they were crazy, as other people had expressed. Something that probably wasn't all that weird since the guy they pitched for was the founder of a company that was trying to get people to Mars. The result of the pitch was successful and Elon Musk joins the company after investing \$6,5 million and by this becomes the chairman of the board of directors. Two years later Elon managed to bring in another three rounds of funding by convincing people that electric cars were the inevitable future for us, and by this reaching a total value of \$105 million and ultimately enabling the company to launch their first car, the fully electric Tesla Roadster.

Tesla revealed the Roadster prototype in 2006 and just two months later "The Secret Tesla Motors Master Plan (just between you and me)" was published by Elon Musk. In the Master Plan Elon explains how Tesla's mission will be: "To help expedite the move from a mine-and-burn hydrocarbon economy towards a solar electric economy," heralded by "a wide range of models, including affordably priced family cars." The following couple of years consisted of a period of change in the company. The original CEO Martin Eberhard resigns from the position and both he and his co-founder Marc Tappening ultimately ends up leaving the company in 2008. In the same year, the company starts to sell the first production car of the Tesla Roadster and Elon Musk becomes the CEO of Tesla.

The sales of the Roadster however didn't turn out to be as successful as Tesla might have hoped for. With a price tag of around \$100,000 and the fact that it took more than 24 hours to charge up the battery through the standard wall outlet, led the sales figures to not live up to their full potential. The combination of low sales figures and the financial crisis resulted in Elon Musk firing 24% of the employees to avoid bankruptcy, a decision that came to be his first as a CEO of Tesla, but not his last.

In 2009, just one year after Elon had become the CEO, Tesla revealed their second car, the Tesla Model S. This was done at the SpaceX headquarters and within

the first couple of months the model had received over 1,000 reservations. This year was also the first year where the company started to show positive financial results. And in 2010, just one year later and another year of receiving even more funding, Tesla went public in the U.S. as the first automaker since Ford in 1956. The 13.3 million shares initial price of \$17 increased to \$23,89 at the end of the day, resulting in a total value of \$2,22 billion.

The coming years would take Elon Musk's new success story through multiple achievements such as launching five new cars: Model X, 3, Y, Cybertruck and a new Tesla Roadster. While also launching the first Autopilot for cars, building a network of superchargers for Tesla cars and building "The Gigafactory" to produce their own batteries. This has also led to the company being able to report its first quarterly profits.

With Elon Musk in the driving seat of Tesla, Inc we have seen the company go from a small company with an ambitious vision to electrify the car industry, into a multi-billion dollar company competing in multiple industries. Even though Elon has been in some controversies during his time at Tesla, announcing critical goals that haven't been fulfilled and getting hit with multiple lawsuits, the positive effect he has had on the company is inevitable.

However, since 2019 Elon Musk has been under enormous pressure, as Tesla did not seem to be able to get out of debt, despite Musk's great promises and delivery records. The announced number of delivered electric cars, however, could not be achieved to any extent, and in addition, there are quality problems and other points of criticism. But the company is rebuilding, and Elon Musk is proving his worth as CEO once again.

Elon Musk's Financial Impact on Tesla

Looking at the performance of the stock since its initial public offering (IPO) on June 29, 2010, investors shouldn't be disappointed. In 2020 and 2021 in particular, i.e. before the purchase of Twitter, the Tesla share price climbed tremendously and Elon Musk was crowned "Person of the Year" by the Times in 2021. He also achieved the title of "wealthiest person on earth". Moreover, Tesla finally generated profits.

Tesla opened with 13.3 million shares worth 17 U.S. dollars per share in 2010. The price of a Tesla share was around 304 U.S. dollars in September 2022. Thus, if someone had spent \$10,000 on shares when Tesla went public in 2010, they would have acquired 588 shares. Two stock splits would have increased the number of shares held up to 8820. At the price in September 2022, the shares would be worth about \$2.64 million a few months ago. With an increase in value of over 26 percent, an investment of 10,000 US dollars would make one a millionaire back in September.

However, although the stock has risen substantially throughout its history on the stock market, the automotive giant's stock value has suffered significantly in the fall of 2022 due to Elon Musk's recent Twitter episodes. Around \$700 billion in stock market value has disappeared over the past year alone. Tesla shares even dropped below 100 euros at the beginning of this year 2023. The drop became particularly dramatic in October 2022: The closing of the Twitter takeover resulted not only in the share value dropping by a further 50 percent, but also in a loss of trust in Tesla. But not only the acquisition and management of Twitter affected the carmaker's share price, but in addition, the entire American tech industry suffered pressure resulting in a downturn, as rising U.S. interest rates made investors' money less easy to spend.

Nevertheless, Tesla is in a better position than the share price implies, and the first months of 2023 also indicate that the share price will recover. Although the share price has tumbled, the company's financial and economic situation has improved. After years of losses, the company is now profitable and generates more earnings from each electric model sold than most major manufacturers do from their vehicles. In addition, both analysts and experts agree that Tesla will continue to retain its potential and that the share price is likely to grow again, as the company is more than just a conventional car manufacturer. High hopes are placed on the energy segment and on Musk himself, who is not only entrepreneurial and courageous but also never fails to surprise.

Elon Musk as CEO

Taking a company from a start-up level to a multi-billion dollar company is exceptional. Being able to maintain a competitive position throughout decades is also impressive. Elon Musk has managed to do it both, but so have other CEOs as well, so what is it that makes him so special compared to other CEOs today?

Well, there isn't just one aspect of Elon's way to be and manage his businesses that makes him unique. One thing that he does best is setting up corporate visions that seem out of this world (literally) at the time they're stated, but in one way or another, he manages to realize them or at least make progress that makes them seem quite reasonable to achieve in the near future. Who would have thought that we would have self-driving cars just ten years ago? And who would believe that we are on the way to having starships that can take us to Mars?

Another thing that Elon does best is "living the brand". He wants to be the one contributing to making the brand himself and by this tries to work closely with his employees. He's not known for having a big corner office and he doesn't want to manage the companies through large middle management, instead, he has his sofa in a corner of the factory and tries to be as many hours on the factory floor himself.

Ultimately Elon Musk is the kind of CEO that gets things done. If you actually believe and want fully electric vehicles that can drive themselves or if you one day want to set your foot on Mars, you need Elon and Elon needs you. As a CEO he has been clear with his visions and that as an employee for one of his companies, you need to work long hours and do everything it takes to reach the vision. Here's one example of how he has communicated the expectations of his employees:

1. Avoid large meetings.
2. Leave a meeting if you're not contributing.
3. Forget the chain of command.
4. Be clear, not clever.
5. Ditch frequent meetings.
6. Use common sense.

His management style in particular is being questioned lately. Musk wants to determine and control and often does not even trust his closest managers. Due to these reasons and therefore frustration, many of his closest employees are leaving his businesses. His well-known office rules are another very controversial topic that is being discussed in public. Thus, he creates a challenging atmosphere in his own company. Furthermore, Tesla's largest shareholder James Anderson, head of a \$200 billion investment fund, further raised sentiment as he publicly mentioned that he could imagine Tesla corporation without Elon Musk as its operational CEO. James Anderson holds 7.5 percent of the shares in the car manufacturer. Thus, his opinion cannot be underestimated.

As a member of Tesla's board of directors sitting in the boardroom after Elon announcing his departure and discussing his succession, the question arises:

"Do we at Tesla need a new superstar CEO in the future? What kind of CEO does Tesla need to remain successful?"

Exhibit

Exhibit 1 Tesla's share price over the last 6 months

Tesla, Inc.

194,36 € ↓ 33,08 % -96,07 6 M.

20. Feb., 16:20:03 UTC+1 · EUR · ETR · Haftungsausschluss

1 T. 5 T. 1 M. 6 M. YTD 1 J. 5 J. MAX



Exhibit 2 Tesla's share price over the last 5 years

Tesla, Inc.

194,46 € ↑ 919,18 % +175,38 5 J.

20. Feb., 16:21:18 UTC+1 · EUR · ETR · Haftungsausschluss

1 T. 5 T. 1 M. 6 M. YTD 1 J. 5 J. MAX

