

Here's The Real Reason Tesla Makes No Money



by [Tyler Durden](#)

Elon Musk bills Tesla as the pinnacle of "lean" manufacturing. Just search for pictures of Tesla's manufacturing plant and you'll undoubtedly be served up futuristic looking images, like the one below, depicting 100's of red robots building vehicles without a single employee in sight.



But, if Tesla is truly the lean manufacturing powerhouse that it purports itself to be then **we do wonder why it continues to burn through ~\$600 million of cash every single quarter**, or roughly \$30,000 for every car that it sells?



Perhaps this 'anomaly' has something to do with the fact that, as [Automotive News](#) points out, **Tesla's real 'capacity problem' has nothing to do with the size of their manufacturing facility but rather the staggering number of people they're using to build their cars.**

The 5.3 million square feet of manufacturing space that Tesla now occupies started off as a joint operation between General Motors and Toyota which began in 1984 and was intended to help the Japanese automaker learn about doing business in America and teach GM the principles of lean manufacturing. **20 years ago the plant pumped out over 350,000 new cars each year or roughly 74 vehicles per worker.**

Meanwhile, **Tesla**, the 'pinnacle' of lean manufacturing with a 20-year technology advantage, **somehow only manages to build somewhere between 8-14 cars per employee.**

It's because in this temple of lean manufacturing, Tesla uses far more workers than NUMMI employed to build far fewer cars. In 1985, its first full year of production, NUMMI had 2,470 employees and produced 64,764 vehicles — about 26 vehicles per worker per year. **By 1997, it had 4,844 ? workers and produced 357,809 vehicles — about 74 vehicles per worker per year.**

Tesla, on the other hand, had between 6,000 and 10,000 workers in 2016 and manufactured 83,922 vehicles. That puts its vehicle-per-worker number between 8 and 14, about one-seventh the efficiency of NUMMI at its peak.

"The number of people Musk's got in there has a great deal to do with why he doesn't make money building vehicles," said automotive manufacturing consultant Michael Tracy of Agile Group in Howell, Mich. "Toyota's numbers reflect the number of people you expect to have if you were going to efficiently build vehicles for a profit."

Of course, given that Musk intends to go from manufacturing 100,000 cars a year to 500,000 with the launch of the Model 3, one has to wonder whether or not that is actually possible.

The Fremont factory assembles the Model S sedan, Model X crossover and the soon-to-launch Model 3. Musk said the upcoming Model Y will be built in a separate factory.

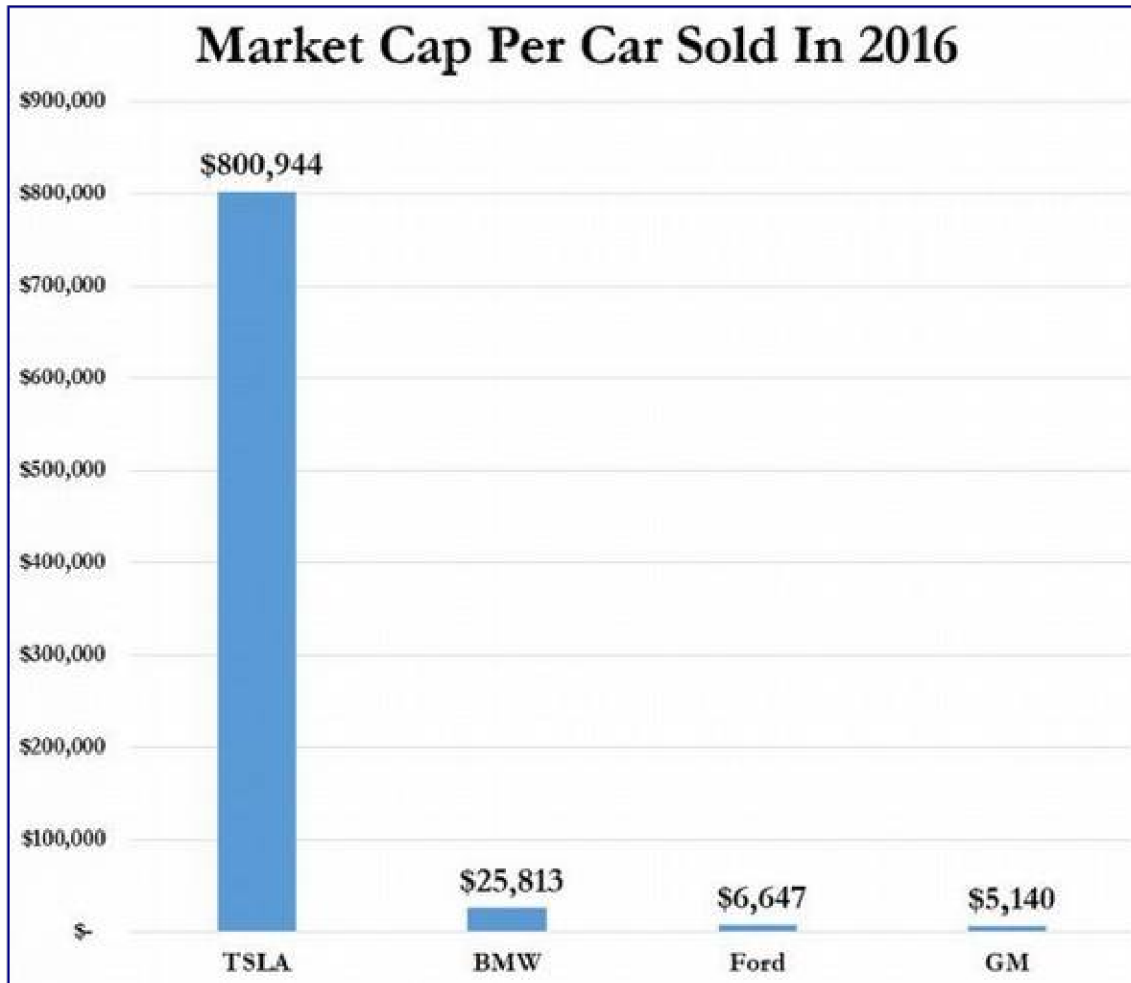
In Tesla's fourth-quarter earnings call in February, Musk said that once the Model 3 launches, he plans to begin producing 5,000 vehicles per week in the fourth quarter, and ramp up to 10,000 vehicles per week by 2018.

"Going from 100,000 to 500,000 units is a huge leap for any company," said Sam Fiorani, vice president of global vehicle forecasting at AutoForecast Solutions. "For them to build a half a million units next year, it would be an amazing ramp-up for what is still a startup company. There's all kinds of red flags."

But, as we pointed out earlier this month when Tesla's market cap surpassed that of BMW, Ford and GM, the market doesn't seem to care much about Tesla's manufacturing inefficiencies and will undoubtedly underwrite however many billions of dollars are needed to build additional manufacturing capacity.



And, given that the investors seem to think Tesla is worth about \$800,000 per vehicle it cranks out, we see no reason why the company shouldn't be worth \$400 billion within a year or so when they start pumping out 500,000 cars per year.



Finally, for all the Tesla investors looking to retire off their stock gains, we have some beautiful ocean front property in Oklahoma that we think might be just perfect for you.