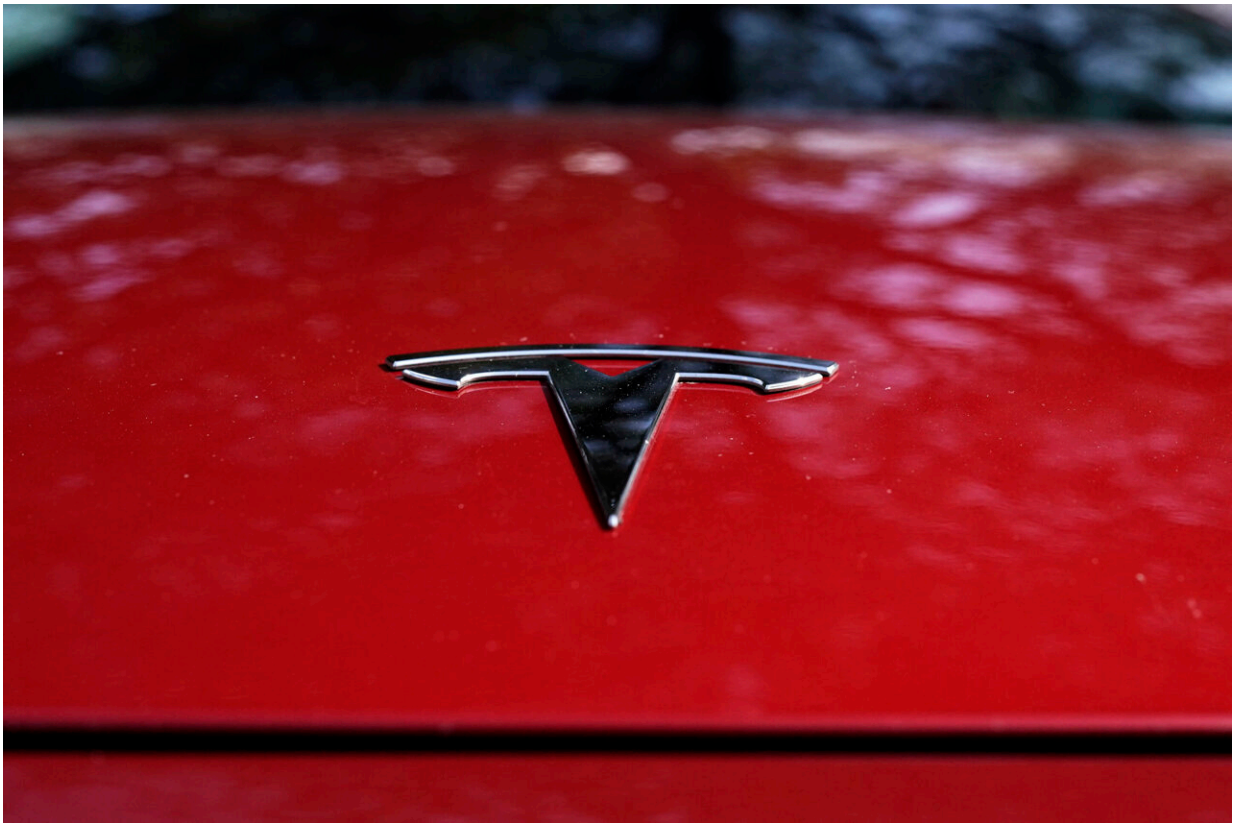


# Tesla price cuts: Flagging demand or tactic to boost sales?

March 6 2023, by Tom Krisher

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A Tesla logo is seen on a vehicle on display in Austin, Texas, Wednesday, Feb. 22, 2023. On Wednesday, March 1, Tesla executives said the company will use innovative manufacturing techniques and smaller factories to cut the cost of its next generation of vehicles by as much as half of the ones it now builds. Credit: AP Photo/Eric Gay, File

In explaining why Tesla Inc. keeps cutting prices on its electric vehicles, the auto industry is pretty much divided into two camps.

On one side are analysts who see an aggressive move by the leading manufacturer of EVs to gobble up sales and [market share](#) from its competitors just as they're beginning to bring more vehicles to market.

On the other side are critics who argue that with demand for Tesla's older vehicles beginning to wane, the company feels forced to slash prices to attract buyers.

Over the weekend, Tesla cut the prices of its two costliest vehicles, from \$5,000 to \$10,000, or from 4.3% to just over 9%. A Model S two-motor sedan now starts at \$89,990, with the Plaid "performance" version beginning at \$109,990. A Model X SUV dual motor starts at \$99,990, the performance version at \$109,990.

It was the company's second price cut of the year in the United States. In January, Tesla slashed prices on several versions of its EVs, making some of them eligible for a new federal tax credit. The company cut U.S. prices nearly 20% on some versions of its top-selling Model Y SUV. It also reduced the base price of the Model 3, its least expensive vehicle, by about 6%.

Seth Goldstein, an analyst at Morningstar, suggested that Tesla is trying to strike a balance between securing the best prices possible and sustaining buyer demand so that its factories run fast enough to reduce the cost of producing each vehicle.

The company does have higher profit margins than other automakers, Goldstein said, in part because it has devised more efficient manufacturing methods and because EVs have fewer moving parts to assemble

"This could be a way for Tesla to hold off some of the new entrants" into the EV market, Goldstein said. The company is sending a message to rivals that "you have to offer the best technology at a compelling price while keeping your costs down."

Goldstein said he doesn't foresee additional Tesla price cuts this year, unless the U.S. economy were to slide into a recession.



A sign marks the entrance to the Tesla Gigafactory, Oct. 13, 2018, in Sparks, Nev. Tesla will get more than \$330 million in tax breaks from Nevada to massively expand its vehicle battery facility east of Reno and add a new electric semi-truck factory. Approval on Thursday, March 2, 2023, from the Governor's Office of Economic Development came as Republican Gov. Joe Lombardo cited the benefit of jobs and the boost that Tesla's huge Gigafactory has given the local economy for almost a decade. Credit: AP Photo/John Locher, File

Sales of the Models S and X represent only a fraction of Tesla's overall sales, but they had been rising over the past two years. Still, from the third quarter of last year to the fourth quarter, their sales fell just over 8%.

Sam Abuelsamid, e-mobility analyst for Guidehouse Research, noted that both models are expensive, out of reach of mainstream buyers. And they are aging, another factor in their flagging sales: The S debuted in 2012, the X in 2015.

Abuelsamid said he suspects that Tesla decided to cut prices after demand for the two higher-priced vehicles fell in January and February. Because Tesla reports sales only quarterly, its sales picture won't be clear until early April.

The latest price cuts, he said, should reduce the values of used Teslas simply because the new ones will cost less.

Though Tesla updated the interiors, electronics and performance of its Plaid editions, their exteriors still look basically as they did when they were first introduced. As a result, Abuelsamid said, the Teslas look older than similar models being produced by startups and legacy automakers.

"Under the skin there are a lot of differences" in the Teslas, he said. "Customers don't really see those differences."

During Tesla's investor day event last week, CEO Elon Musk conceded that affordability remains a drag on [sales](#).

"The desire for people to own a Tesla is extremely high," Musk asserted. "The limiting factor is their ability to pay for a Tesla."

In January, when Tesla announced its earlier price cuts, more versions of its popular Model Y small SUV became eligible for a \$7,500 federal electric [vehicle](#) tax credit by bringing them under government price caps. That round of Tesla price cuts didn't spark a price war as some analysts expected, though Ford did reduce the price of its Mustang Mach-E, a Model Y competitor.

Abuelsamid noted that there's still limited availability for high-end luxury SUVs made by BMW, Mercedes-Benz and others because automakers aren't producing many of them. Over time, he said, the other automakers could be forced to cut [prices](#) on their luxury models.

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