

Tesla Discussion Questions

Read the article “Tesla Cuts Prices in China as Price-War Truce Fails”. Then discuss the following questions:

- 1. If you are the CEO of BYD, Zeekr/Geely or Volkswagen, how will you respond? Why? What considerations will inform your decision?**
- 2. Was Tesla right to cut prices? Why or why not?**
- 3. “Chinese and foreign car brands are also using strategies to attract potential buyers without offering direct discounts, said Shi Ji, an autos analyst at CMB. Tesla has recently offered additional insurance subsidies in a way that would lower costs for consumers. U.S.-listed EV startup”*

Why do you think they are doing this?

Tesla Cuts Prices in China as Price-War Truce Fails



Tesla's deliveries in China last month hit a six-month low, with around 31,000 cars sold locally. Photo: Cfoto/Zuma Press

The world's largest electric-vehicle maker on Wednesday cut as much as \$10,000 off some Model S and Model X vehicles, after Monday [cutting the prices](#) of two premium versions of its Model Y by up to 4.5%. That is the latest in [a series of price cuts](#) in China and elsewhere, as Tesla looks [to maximize sales volume](#) even if it means lower profit margins.

A Model S plaid now costs around \$132,000 in China and a Model X plaid is \$137,000, both of which are imported into China. Despite the cuts, they are still more expensive than in the U.S., and Chinese buyers are spoiled for choice as many rival EV makers [have also made price cuts](#) since December.

Tesla's deliveries in China last month hit a six-month low, with around 31,000 cars sold locally, even as overall sales of battery-powered cars grew more than 30%. In comparison, Warren Buffett-backed

[BYD](#)

sold 230,000 vehicles in July.

Tesla counts China as its most important overseas consumer market and manufacturing hub. Tesla Chief Executive [Elon Musk](#) met [senior officials in Beijing](#) during a recent three-day trip to China. During the latest quarter, the Chinese market contributed around 22% to Tesla's global revenue.

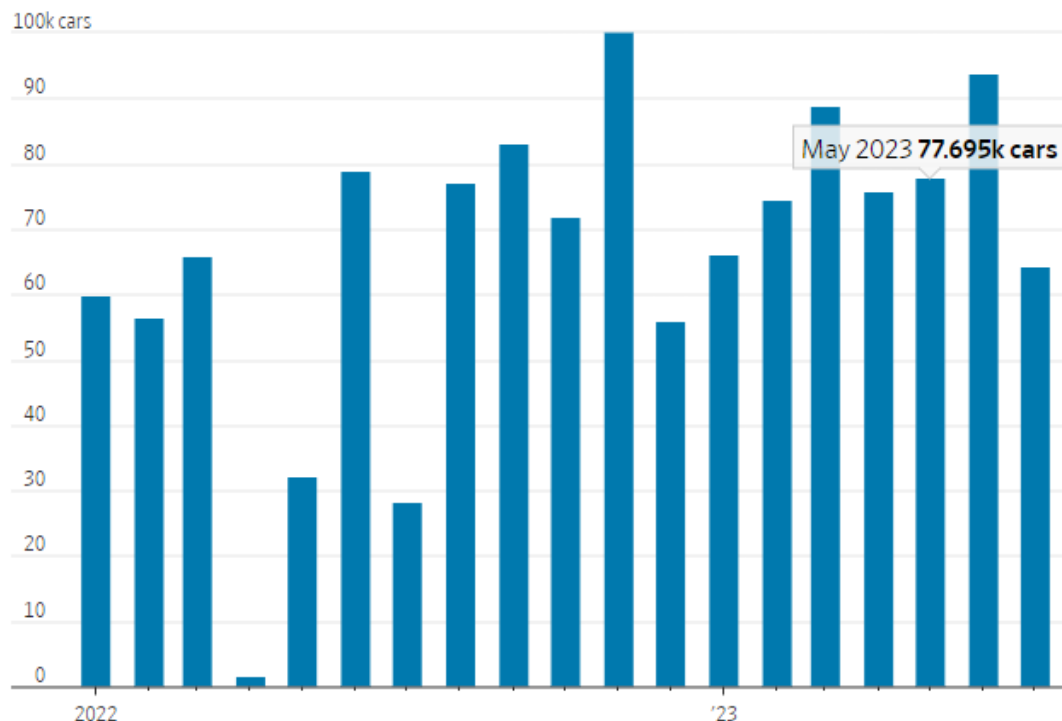
Tesla enjoys much bigger profit margins in China than any of its competitors there, analysts say, allowing it to potentially mark down prices more aggressively to drum up demand.

Tesla didn't respond to a request for comment.

Chinese consumers are becoming more thrifty, with government officials concerned about weak spending as the country [has slipped into deflation](#) and other economic measures show signs of weakening. [Exports are falling](#), the housing market is mired in a downturn and [youth unemployment](#) has reached a record high.

China's Finance Ministry recently extended the tax exemption on purchases of EVs and hybrids to the end of 2025.

Tesla's monthly deliveries in China



Note: Figures include exports.

Analysts at Nomura said in March that the widespread automobile price war, which was first led by those selling petrol-powered cars but has dragged in EV makers, would weigh on inflation in China.

Sales of electric and hybrid cars have been a bright spot in the economy, but their growth has slowed from previous years after China phased out nationwide EV subsidies last year. Carmakers in China, even those selling premium cars, have cut back on prices.

Tesla, along with more than a dozen Chinese EV makers, participated in a pledge brokered by a Chinese government-backed car association last month meant to halt a bruising price war by promising they would refrain from “abnormal pricing” in China. But the association called off the pact, citing concerns that it would violate anticompetition laws.

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Zeekr, a premium EV brand under Chinese automotive company

[Geely](#)

, last week marked down one of its earlier models by more than 10%.

[Volkswagen](#)

's joint-venture this month announced up to \$8,200 worth of benefits for buyers of its electric ID.6 X and lowered sticker prices for some of its traditional gasoline-powered cars.

In July, dealers for Chevrolet offered almost 27% in discounts for its cars, while those for German brand

BMW

gave markdowns reaching an all-time high of over 19%, and Audi's discounts reached almost 25%, according to an analysis by CMB International. Tesla's discounts in July were just 1.2%.

Chinese and foreign car brands are also using strategies to attract potential buyers without offering direct discounts, said Shi Ji, an autos analyst at CMB. Tesla has recently offered additional insurance subsidies in a way that would lower costs for consumers. U.S.-listed EV startup

Xpeng

introduced its latest model at a price lower than expected.

"Production capacity has been set, so everyone would like to sell more and make a profit," Shi said.

More than half of the Tesla vehicles sold around the world are delivered from Shanghai after the company upgraded production capacity there last summer, making it capable of churning out more than 750,000 vehicles a year.



Zeekr is a premium electric-vehicle brand under Chinese automotive company Geely. Photo: /Bloomberg News

Amid anticipation that Tesla would expand its auto manufacturing in China, the U.S. carmaker ultimately announced in March that its next car factory will be built in Mexico. In Shanghai, it will build a facility to produce energy-storage products unrelated to EVs.

Industry observers have warned that many carmakers in China won't survive the fierce competition. Sales have slumped even for some of [China's most vaunted EV startups](#) including

[NIO](#)

and Xpeng, which recently were boosted by new investments.

Some 75 Chinese car brands have closed in the past three years, Zhu Huarong, chairman of state-owned

[Chongqing Changan Automobile](#)

, one of Ford's joint-venture partners, said earlier this year. Another 60% to 70% of those still in the market may no longer exist in the next three to five years, he said.

While China became increasingly challenging terrain for Tesla in the face of rivalry from domestic brands, the company had the [worst year](#) in its stock's history in 2022 as it fell short of global car-delivery targets.

Tesla has cut back on prices for its U.S. vehicles this year to drive up demand. It also [introduced this week cheaper versions](#) of the Model S and Model X in the U.S. with a smaller drive range.

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