

How to Make Tesla's Pricing Strategy Work For Your Business

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[Elon Musk](#) has shared an email on [Tesla's](#) pricing strategy with the world for a very specific and clever reason. We can go into the strategy behind sharing this email some other time—but there are important points to note from his email that you can apply to your own business. It is important, however, to appreciate the nuance to his email and the relevant business model and industry dynamics at play. The thinking and the context behind the message are crucial to note. Here is Elon Musk's email to all Tesla dealerships.

First, I'd like to congratulate you on an excellent quarter so far! This is likely to be the best ever in Tesla history thanks in large part to your efforts.

That said, it is absolutely vital that we adhere to the no-negotiation and no-discount policy that has been true since we first started taking orders 10 years ago. This is fundamental to our integrity and we maintain this policy even through the terrible depths of the great recession of 2008/2009.

It is fine to have a discount on cars that have been floor models, or used in test drives or were damaged before delivery. All we are doing there is assigning an accurate price to the vehicle. However, there can never – and I mean never – be a discount on a new car coming out of the factory in pristine condition, where there is no underlying rationale.

This is why I always pay full price when I buy a car and the same applies to my family, friends and celebrities, no matter how famous or influential.

The acid test is that if you can't explain to a customer who paid full price why another customer didn't without being embarrassed, then it is not right. We either win in a way that is fair and right or we lose with our honour intact and accept the consequences.

Also, I have asked our finance group to make sure that we only count a car as delivered in a quarter if it is actually delivered. Title transfer alone is irrelevant.

Finance will also be reporting every case of a car sold for less than list price, along with the reasoning for doing so which I will be reviewing personally.

Although this appears to be limited to a small number of cases worldwide, it needs to be zero cases.

I'm sorry for the draconian language as I am super grateful for your hard work, there is nothing that matters more than our integrity as a company. Customers need to know with absolute certainty they can always trust Tesla to do the right thing.

Thanks, Elon

In this one email we have the basis for a pricing strategy framework that you can use to guide your own pricing strategy.



Key Observations

Pricing strategy and tactics are a primary concern of the CEO and Founder of a \$30 billion company. Jeff Immelt, CEO of General Electric, also reviews pricing outcomes. There are a limited number of progressive CEOs in Australia who will take such an active and personal interest in pricing strategy and outcomes. In our view, any CEO who leaves pricing strategy discussions and decision making to the discretion of the Sales or Marketing Director has a death wish.

The CEO Stops the Problem Early

Most companies we see with margin erosion problems have discounting behaviour that is out of control. It is not isolated to one or two rogue sales reps but endemic from the ground up to the Sales Director. The discounting behaviour often goes hand in hand with a cultural belief that the company's business has been commoditised. The Tesla pricing policy is built on a fundamentally sound strategy of pursuing customer and marketplace integrity. Discounting new cars affect the resale value of cars and so devalues the installed base of cars already in the market. By protecting the new car price, Musk is also protecting the investments of early adopters who bought Tesla cars.

This then builds brand loyalty and goes a long way to ensuring that those Tesla owners will also make their next car purchase a Tesla. By forgoing a few sales generated by discounting, Tesla is playing a longer game looking at Lifetime Value of a Customer who may well buy one, two, or three Tesla vehicles over the next 10 years.

Price Flexibility

Note that Musk does not state that discounting has no role to play in the Tesla business model. Rather, he makes it clear that pricing dynamically to reflect value is important--and as long as discounts have some context, are controlled, and are connected to a clear set of value drivers, they play a part in the pricing strategy / management mix.

Analysis and Control

In this email, it also apparent that all discounts will be evaluated and controls implemented with Finance to make all pricing decisions transparent and accountable.

No-Negotiation Policy

All customers want a deal. All sales people want to make a deal happen. It feels good to negotiate. It sounds as though we have an aggressive culture of successful salesmanship when we say that "we negotiate hard". But what is actually happening here? A customer demands a price reduction when the product appears to be commoditised, the value of services and technical support is discounted to zero, and there is no accountability on the buyer's part to own the outcome of purchasing inferior product and service package.

This is a fundamentally different problem that negotiation cannot solve. This is a marketing value communication problem.

Number One Sales Challenge



In fact, the Number One challenge all sales people face today is ensuring that their marketing strategy positions their company, brands, and products or services as being able to solve the specific problems identified by a “customer segment of one”. In simple terms, showing up to a sales meeting to negotiate without first ensuring that all the elements of a high-value sale are in place will result in a price negotiation.

Final Words

Pricing is your most powerful profit lever. If pricing is not a primary concern of the CEO, the business has a major problem. There must be a set of policies and guidelines backed up system controls to make any pricing strategy or policy effective. If your value proposition is not clear to each market segment, you have a pricing strategy problem—and, without a doubt, a margin erosion problem.

To arrange a discovery call, please go to www.pricinginsight.com.au to schedule a booking.

Pricing Insight

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