

# GM offers big discounts to boost Volt sales (Update)

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This Feb. 19, 2012 file photo, shows a 2012 Chevrolet Volt at a Chevrolet dealership in the south Denver suburb of Englewood, Colo. Sales of the Volt set a monthly record of 2,800 in August, mostly because of steep discounts. (AP Photo/David Zalubowski)

General Motors rolled out the Chevrolet Volt two years ago with lofty sales goals and the promise of a new technology that someday would help end America's dependence on oil.

So it seemed like a good thing in August when [sales](#) of the \$40,000 car set a monthly record of 2,800. But a closer look shows that things aren't what they seem for the cutting-edge car.

Sales rose mostly because of discounts of almost \$10,000, or 25 percent of the Volt's sticker price, according to figures from TrueCar.com, an

auto pricing website. Other pricing services gave similar numbers, and dealers confirmed that steeply discounted Volts are selling better than a few months ago.

GM's discounts on the Volt are more than four times the industry's per-vehicle average, according to TrueCar estimates. Edmunds.com and J.D. Power and Associates say they're about three times the average. Discounts include low-interest financing, cash discounts to buyers, sales bonuses to dealers, and subsidized leases.

Americans have been slow to embrace electric cars. But the Volt's August sales show they're willing to buy if prices are low enough. Even so, electrics have a long way to go before they enter the mainstream and make money for car companies. Electrics and gas-electric hybrids account for just 3.5 percent of U.S. [auto sales](#) this year. GM is losing thousands of dollars on every Volt, raising the question of how long it can keep eating the steep losses.

For the foreseeable future, carmakers will have to cut prices to move electric vehicles off dealer lots. The nonpartisan Congressional Budget Office says the cost of electric cars must drop to be competitive with gasoline-powered ones.

GM executives have conceded from the start that they were losing money on the Volt, and that was before the big discounts.

Now the losses could be even higher. It costs \$60,000 to \$75,000 to build a Volt, including development, manufacturing and raw materials, estimates Sandy Munro, president of Munro & Associates, a Troy, Michigan, company that analyzes vehicle production expenses for automakers. Much of the cost comes from an expensive combination of two power systems—electric and gasoline. With a sticker price of \$40,000, minus the \$10,000 the company pays in incentives, GM gets

roughly \$30,000 for every Volt. So it could be losing at least \$30,000 per car.

"It certainly wasn't a rousing success," Carter Driscoll, senior analyst for CapStone Investments who follows [electric cars](#), says of the Volt.

GM confirmed there are incentives on the Volt and that the company loses money on the car. But the automaker declined to give figures for the discounts or the losses. The figures exclude a federal tax credit that goes to buyers.

The automaker says Munro's estimate is high because it doesn't spread the Volt's costs far enough into the future, when more Volts will be sold. Automakers typically spend \$1 billion or more to develop a car, and sometimes don't recoup the investment and start making money until late in its life. Also, Volt technology will be used in future cars and trucks, eventually leading to profits, the company says.

GM spokesman Jim Cain says most of the Volt discounts come in the form of lease deals, which account for about two-thirds of sales. In some markets, Volts can be leased for \$249 per month with \$2,400 down.

"We're trying to create a market for a brand-new technology," Cain says.

## NO SPARK AT THE START

The Volt, a four-seat compact, was rolled out in a few states in December 2010 with a starting price of \$41,000.

GM had high hopes. The car's features stacked up well against the Nissan Leaf, a pure electric car that debuted about the same time and is the Volt's closest competitor. The Volt goes about 35 miles (56 kilometers) on battery power, then a gasoline-powered generator can

take over, giving it the same range as a car with a gasoline engine. And the battery can be recharged in 10 hours from a standard home electrical outlet for about \$1.50.

But the timing of the launch was poor. The pricey car hit showrooms when many buyers were reeling from the bad economy and turned off by the government's \$50 billion bailout of GM.

"Let's face it, over \$40,000 is asking a lot for a compact car," says Bob Lutz, a retired GM vice chairman who led the development of the Volt.

Even a \$7,500 federal tax credit, which dropped the Volt's sticker price to \$33,500, did little to promote sales. The car cost \$7,000 more than the Leaf, and \$13,000 above a well-equipped compact with a gas engine.

As it reached more dealers in 2011, the Volt had to overcome more than a high price and recession-weary Americans. The government found that the battery could catch fire after crash tests. In California, a key market because of its tech-savvy population, another roadblock emerged. Volt drivers traveling alone weren't allowed to use carpool lanes because the car didn't qualify for a state exemption. Drivers of the Toyota Prius hybrid, meanwhile, could use those lanes, thanks to the exemption for lower-polluting vehicles.

U.S. Volt sales totaled just 7,700 in 2011, short of GM's goal of 10,000 and a fraction of the 136,000 for the Prius hybrid, the world's best-selling alternative fuel vehicle. Volt sales have climbed to more than 13,000 this year. But at their current pace, sales will still miss the company's 2012 target of 60,000 worldwide.

## MOVING THE NEEDLE

Faced with disappointing sales, GM began toying with discounts. In June

of 2011, the company knocked \$1,000 off the Volt's starting price, but it didn't help. So early this year, GM started offering many more discounts, which soared to \$10,000 per car in August.

The Volt is now the top-selling electric car in the U.S. —7,400 ahead of the Prius Plug-in. Nissan's Leaf is a distant third, and analysts say Volt sales could reach 20,000 this year.

Spikes in gas prices also have helped sales, especially when incentives rise at the same time. The national average price of gasoline rose at least 24 cents a gallon in March and August. Those were the Volt's two best sales months.

Other changes have helped boost the car's appeal. Engineers figured out that the Volt fires were the result of a coolant leak that caused electrical shorts after side-impact crash tests. GM retrofitted the car with more steel to protect the battery. No fires were ever reported on real-world roads.

The carpool problem, which had cost sales on the West Coast, also was resolved. California has 1,500 miles (2,400 kilometers) of freeway lanes that can be used only by cars carrying two or more people. But there are exceptions allowing lower-pollution vehicles with one person. Initially, the Volt didn't qualify because its gasoline-powered generator didn't meet the pollution standards.

But engineers eventually cut the generator's pollution, and the Volt won an exception in late February, immediately boosting sales in a state where one-quarter of all Volts, or about 3,400, were sold this year.

Before the cheap leases and the carpool exemption, Bunnin [Chevrolet](#) in Culver City, California, was selling three to five Volts per month. The dealership sold 36 last month, mostly leases, and it is struggling to keep

Volts in stock, says sales manager Chad Kelman.

"It definitely helps to discount," Kelman says. "The market in L.A. is fiercely competitive."

Gas in Los Angeles, which now runs more than \$4 per gallon, was the big reason that Donald Keller traded in his 2007 Lexus ES350 for a 2012 Volt in July. But he might not have bought it without \$5,000 in discounts from Bunnin Chevy.

Keller, 82, who volunteers to take senior citizens to the grocery store and medical appointments, says he's driven more than 1,100 miles (1,770 kilometers) in his Volt, and hasn't bought any gasoline. Charging the car has boosted his electric bill by about \$40 per month, but he used to spend \$200 a month on gas for the Lexus.

"I don't go to the (gas) station and I don't have to worry about the price," he says.

## AIMING FOR THE MAINSTREAM

While the Volt isn't helping GM's bottom line, it's not in danger of being canceled anytime soon.

GM can subsidize the Volt's cost from profits on other cars, says CapStone's Driscoll. But eventually GM will have to get closer to breakeven or make money, he says. GM earned almost \$2.5 billion overall in the first half of this year.

Discounting the price should help Volt sales expand beyond early adopters, says Michael Lew, an energy efficiency analyst for the Needham & Co. investment firm. That's important because if sales increase, GM will have more negotiating power with parts suppliers to

cut costs and stanch losses, he says.

GM says that the Volt has helped the company, even if it never makes a dime. The car has pulled in customers from rival brands, and helped Chevy wrestle at least part of the environmental halo from Toyota's Prius, executives say. It also will help GM meet tough government fuel economy standards.

GM's Cain says the company wants all cars and trucks to be profitable, but some take longer than others.

"Its prime purpose was to introduce a new generation of technology," says Lutz, the former vice chairman. "And at the same time ... demonstrate to the world that [GM](#) is way more technologically capable than the people give it credit for."

## **The 5 top-selling electric cars in the US**

Americans have been slow to adopt electric cars. Here are the five top sellers in the U.S. this year, with sales listed through August.

Chevrolet Volt: 13,497

Toyota Prius Plug-in: 6,082

Nissan Leaf: 4,228

Mitsubishi i-MiEV: 403

Ford Focus Electric: 169

Source: Auto companies, Autodata Corp.

Fisker Automotive says it has sold more than 1,000 Karma sports sedans in the U.S. since December but would not say how many were sold this year. Ford Focus Electric fleet sales started in December, but it was not in dealers until May.

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