

## Tesla faces stiff challenges with Model 3



Elon Musk unveils Tesla's newest electric car, the \$35,000 Model 3, at the company's Hawthorne Design Studio. (Tesla Motors)



By Charles Fleming

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Tesla Chief Executive Elon Musk has come one step closer to realizing his long-held dream of bringing affordable, zero-pollution vehicles to the world's highways.

After months of secrecy, he unveiled the prototype for his planned \$35,000 Model 3 battery electric car Thursday night to hundreds of adoring fans, a generally enthusiastic automotive press and a massive global presales response.

By 10:30 a.m. Friday, Musk said, Tesla had received more than 198,000 deposits of \$1,000 each for future deliveries of the sleek and low four-door sedan — an unprecedented response for a car that hadn't even been shown in photographs when the deposits were made and that won't be delivered to customers for at least 18 months.

Wall Street liked the new car. Tesla stock traded after-hours at \$241, up \$12 a share, after closing at \$237. But now Musk and his production team face an enormous set of challenges. They must turn the prototype into a working car, find a way to sell it at the stated price point, get their growing auto plant

and new battery factory up to full capacity, and bring the Model 3 to market in time to beat the competition.

Critics of the Fremont, Calif., electric car company don't believe any of that can be done. Musk has trouble meeting his own deadlines and building automobiles sufficiently bug-free for a mass market. Musk seemed to realize the monumental task ahead, tweeting Friday: "Definitely going to need to rethink production planning."

Some doubt he can produce the Model 3 for \$35,000 without losing money on every car he sells.

"I don't believe they can make any money selling this car for much less than \$50,000," said Mark Spiegel, CEO of the hedge fund Stanphyl Capital Management.

"Unless something changes, the more Model 3s they sell, the more they will lose."

Tesla has stated it will produce more expensive versions of the 3 first, filling orders for the most heavily option-laden vehicles before building and delivering the base models. Some early recipients of the \$81,200 Model X paid as much as double that price for theirs.

"Tesla has a history of introducing a vehicle with a reasonably low price and then selling versions that are much more expensive," said Jack Nerad, market analyst at Kelley Blue Book.

But by the time purchases of the Model 3 can actually be made, other inexpensive plug-in battery electrics from more established companies with better production track records — and a better capacity to sell cars with low profit margins — will already be in showrooms. The \$37,500 Chevrolet Bolt is expected to be a strong rival. Other plug-in electrics are said to be coming from BMW, Mercedes, Volvo and others.

Musk himself acknowledged the possibility that the car will not be available in time to meet the promised late-2017 delivery date. At the Tesla Design Studio in

Hawthorne, Musk promised delivery of the Model 3 by "next year," then drew indulgent chuckles when he added, "I do feel fairly confident it will be next year."

Deliveries of Musk's much-admired Model X, an elegant, high-performance seven-seat SUV, were delayed by more than 18 months after Tesla experienced production problems with the car's complex falcon-wing doors. The prospect of a delay did nothing to diminish the enthusiasm of the assembled faithful. Eliciting rock star adoration from a crowd of 150 auto journalists and 650 Tesla owners, Musk took the stage Thursday in Hawthorne amid flashing lights and booming techno beats.

"To any of you who bought an S or an X — thank you for paying for this," Musk told the crowd, saying those more expensive, earlier-generation models helped pave the way for the Model 3.

Many of those present already owned one of those, or both, or more. Jerry Roby of Newport Beach owns a Roadster, an S and an X. Arriving in a branded Tesla cap and windbreaker, Roby had already put down deposits for two Model 3s at the Tesla store near his home.

His friend Paul Norris had also made deposits for two cars — having also previously purchased all three Tesla models.

At a bank of computer screens at the evening event, other would-be 3 drivers were placing orders. The father-and-son team of David and Adam Metcalf of Florida had paused to switch credit cards after one maxed out. The Metcalfs had already placed orders for 12 Model 3s and needed to order five more. Some were for the research facility at the University of Central Florida, where the senior Metcalf works. As for the others? "I have a list," he said.

In the first 24 hours, Tesla received 180,000 preorders. Estimating that the average transaction price for the vehicle would be about \$42,000, Musk estimated his 24-hour haul at \$7.5 billion. "Future of electric cars looking bright!" he tweeted. In fact, the company's take was closer to \$180 million — nothing to sneeze at, but only seed money in the capital-intensive auto production business.

Even after the unveiling, little more was known about the car except its stated MSRP, its claimed range of 215 miles per electric charge and its ability to accelerate from zero to 60 mph in less than six seconds.

The Model 3 will be built alongside the Ss and Xs in Tesla's huge California factory. The company has said it could produce as many as 90,000 vehicles annually this year, and by 2020 could be churning them out at the rate of 500,000 a year — a number Musk said Thursday night he was "confident" Tesla could achieve.

Meeting that production rate will also require Musk to move aggressively forward with his "gigafactory," the immense northern Nevada facility where, in cooperation with electronics giant Panasonic, Tesla will build the batteries for its vehicles. Musk told his audience that the factory is now officially "operational," and will begin delivering batteries at the end of next year.

Musk acknowledged that selling massive volumes of Model 3s will require more retail outlets and more charging stations. He promised that the current 215 retail outlets globally would double to more than 440 by the end of next year. He also said the company's global network of 3,600 "supercharger" stations — where Teslas can be brought to nearly full charge in 30 minutes or less — would also double within that time frame.

Perhaps Musk's greatest challenge will lie in selling his chic, environmentally friendly vehicles to a mass audience. As several analysts pointed out, the customer who spends \$100,000 or more on a Model S or X probably has two or three other luxury cars in the garage, and is not terribly inconvenienced when glitches require maintenance.

Tesla has had trouble with reliability. Though the Model S won almost every accolade and award in the motoring press, and received the highest possible safety and performance ratings, Consumer Reports later added the 2012-2013 and 2015 Model S to its "worst of the worst" section of "Used Cars to Avoid."

The customer spending \$35,000 on a Model 3 probably won't embrace a car that isn't close to trouble-free. That heightens the pressure on Tesla, said award-winning car designer Henrik Fisker, whose futuristic Karma held promise as a stylish electric performance car before financial troubles sidelined the firm.

"Tesla's advantage is that, being a new car company with a new brand, they have a cool factor the established carmakers don't have," Fisker said. But "once you start moving down market, the customer's lifestyle is very different. Someone who buys a \$35,000 car, this is his only or his primary car. People are still reluctant to have their only car be an electric car." [charles.fleming@latimes.com](mailto:charles.fleming@latimes.com)