

CES Makes It Clear: The Electric Car Battle In 2017 Will Be Between GM And Tesla

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by: Anton Wahlman

Disclosure: I am/we are short TSLA.

Summary

- Chevrolet Bolt is the electric car industry's new standout, with approximately 200 miles of range in a practical package for under \$40,000 before tax adjustments.
- Volkswagen presented a stunning and practical minivan concept, that unfortunately won't enter production until 2019.
- Audi showed the new interior for the 2018 A8 and the 300-mile range, all-electric crossover eTron Quattro.
- Mercedes committed to outlining its plans for an electric car roadmap before the end of 2016, plus showed off its self-driving 2017 E-class sedan.
- FCA showed a most unusual - in a positive way - interior concept for a future Jeep, that is totally different from anything you've seen.

Competition against Tesla (NASDAQ:TSLA) is coming from numerous angles, from almost all automakers, but there is one company that towers above the rest for the next two years, and that is General Motors (NYSE:GM). While Audi (OTCPK:AUDVF) and Nissan (OTCPK:NSANY) will join this battle in a big way in late 2017 and into 2018, followed shortly by other automakers in late 2018 and into 2019, what will really matter for investors for the next 12-18 months is the epic battle in the electric car world of GM versus Tesla. Everything else, as important as it and they are, will be relative noise.

Several automakers presented new products at CES, but for almost all of them, the first page of the pitch was nearly identical in all cases:

"We (Automaker XYZ) are betting all on a future that consists of three things:

1. *Electrification.*
2. *Autonomous driving.*
3. *Connected and digital."*

It wasn't physically possible to cover all automakers and all events, but the highlights are as follows:

General Motors

If you have been following the news coverage over the last 40 hours, you would be forgiven for believing that the world had no way to predict the revolutionary status of the Chevrolet Bolt as it relates to competing with Tesla. However, if you had read Seeking Alpha one year earlier, you would have seen what was coming.

The breakthrough product in terms of a long-range (defined as 200 miles on the US test cycle) at under \$40,000 before tax adjustments, is the Chevrolet Bolt. While pictures had already leaked beforehand, it was finally time to see it in the flesh.

Initially, it was a little hard to get a sense of the bodywork details and proportions, as some cars were plastered with decals, or surrounded by numerous people at the press conference. Later, however, it was time to see a fully buffed-up car in an unobstructed setting.

The more I look at the car in the flesh, and in peace and quiet, the better all the lines and proportions look. While the outer dimensions are not significantly different from a Nissan LEAF or Kia Soul EV, the car simply looks fresh and well-proportioned - with lots of very elegant design elements.



Source: Charged (GM CEO Mary Barra with the new Bolt)

The bottom line with the Chevy Bolt is this: If you are looking for a pure electric car, this one will reign unmatched for most potential buyers when it hits the market at the end of this year. Nobody will be able to deliver this amount of range, with this amount of interior space, for this price - and in a package that's easy to park in a tight space. It will drain most of the oxygen out of the EV market.

Can Tesla's Model 3 compete with the Chevrolet Bolt, even though it will arrive at a minimum one year later? That will be the big question.

While there is no shortage of talk about "Tesla-killers" from various angles, there are significant differences of degrees between them. For the next 15-18 months - and perhaps as much as 24 - the Chevrolet Bolt will be the most relevant "Tesla competitor" in the marketplace, delivering what may turn out to be a highly reliable and practical electric car with long range and at an unprecedented price.

Most recently, the argument was made on SA that the Bolt is not a concern for Tesla. Specifically, what was stated was this:

So, let's assume that the Bolt will beat the Model III to market by one year. In that one year, it's quite unlikely that the Bolt and Model S will be cross-shopped due to the huge discrepancy in price and features.

I could not disagree more. The author makes a strange argument here, as he sidesteps the longer-term problem for Tesla, which is that the Bolt has beaten the Model 3 to market and will put pressure on Model 3 margins. In addition, he also completely dismisses any impact the Chevy Bolt will have on Model S sales already before the Model 3 comes out. Let me deal with those two arguments in turn.

First, let's understand that it is somewhat difficult to comment on the Tesla Model 3 yet, seeing as it has not been shown, and we will not know what content it will have to offer at its presumed base price of \$35,000. Furthermore, there is no shortage of debate around whether Tesla can offer such a car at a profit anywhere near \$35,000.

GM has two distinct advantages over Tesla in producing a mass-market car. First, it actually has experience in designing and producing for cost. It does this in numerous factories around the globe all day long, and sells ten million vehicles per year. This is in contrast to Tesla, which in its last reported quarter sold under 12,000 cars and lost \$19,810 per car sold at an average selling price of just under \$100,000. At ten million cars versus 50,000 per year sold, the scale difference between GM and Tesla is 200:1

Second, GM has the ability to cross-subsidize the Bolt without much pain at this point. Tesla has no such room to maneuver. You can view Tesla's situation analogous to Box (NYSE:BOX) or Dropbox trying to compete with Microsoft (NASDAQ:MSFT)

OneDrive, Google (NASDAQ:GOOG) (NASDAQ:GOOGL) Drive or Apple's (NASDAQ:AAPL) iCloud, when they give away storage for free to the average consumer.

I have no doubt that Tesla's Model 3 will look great - better than the Chevrolet Bolt, perhaps - and will have a competitive set of available features (except Apple CarPlay and Android Auto, apparently). If Tesla intends to be profitable, however, it may have to price the car higher than GM's equivalent car for the reasons I stated above, and it may still not persuade buyers who just want the maximum amount of range for the best price - or people who want Apple CarPlay or Android Auto.

As far as the author's claim that in the meantime - during 2017 and into 2018 - the Chevy Bolt won't compete with the Tesla Model S, I think that will prove partially incorrect primarily for this reason: There are many Tesla buyers today who didn't really want to buy a Model S because it's too big or too flashy, but for whom the Nissan LEAF or equivalent simply had too little range. As a result, they paid up to get the Tesla Model S. They had the money (perhaps only barely), and although they didn't really want to spend it, the alternatives were so inferior.

For many of those people, the Chevy Bolt dramatically narrows the gap. It does not need to close it. The Bolt will have at least 200 miles of range, still likely less than the base Tesla's (Model S70) 240 miles of range, but not by a lot. The Bolt has more headroom in the backseat than the Model S, and it offers features such as Apple CarPlay and Android Auto.

In other words, except for those who would buy a Model S because of its styling, or perhaps the luggage space, a buyer who simply wants the most amount of range for the least amount of money, may go with the Bolt. It's telling that the author didn't include the Model S in his table of \$ per miles of range. Here is what the comparison would be:

- Chevy Bolt: \$38,000/200 miles = \$190 per mile
- Tesla Model S 70: \$70,000/240 = \$292 per mile

In other words, the Chevy Bolt is approximately a 35% better deal than the Tesla Model S - and that's before customary dealer discounting that in the EV world today easily exceeds 10%. For many EV buyers, that's game over.

Volkswagen (OTCPK:VLKAY)

The most interesting concept car from CES was without a doubt Volkswagen's BUDD-e minivan. It has a bulldog stance with characteristic design elements and unprecedented exterior lighting.

This "bulldog" front to the car in combination with the square-ish rest of the body, means three things compared to the other electric minivan, the Tesla Model X:

First, the Volkswagen is extremely spacious in relation to its outer proportions.

Second, it will be much easier to park:

- Length: VW 181 inches, Tesla 198.6 inches
- Width: VW 76.3 inches, Tesla 81.6 inches
- Height: VW 72.2 inches, Tesla 64 inches (according to Wikipedia and without Falcon Wing Doors open)

Third, the Volkswagen's lower aerodynamic efficiency means that despite having a bigger battery than the Tesla (101 kWh compared to 90 kWh), it will have a lower range (233 miles instead of 257).

The interior was shown in "living room" format, enabled by the square-ish body yielding the huge usable interior space, but one can imagine any configuration from people-carrier to a mobile office. Needless to say, perhaps, Volkswagen lacks those troublesome Falcon Wing doors.

Many early electric car buyers - of the Chevrolet Volt and Nissan LEAF in 2011, say - have been looking for this kind of all-electric all-wheel-drive minivan to replace their second car. The Volkswagen BUDD-e would have been a success in the market - right now.

Alas, the BUDD-e is not going to be available anytime soon. While it is officially a concept car, it was clear that Volkswagen is well underway with plans to build it - starting in 2019. That's at least three years from now. One wishes that this project had kicked off in 2013 instead of 2014.

In addition, Volkswagen gave a preview of some of the elements of the mid-cycle refresh of the Golf, which arrives near the end of 2016. Aside from a dramatically improved instrumentation and touchscreen, the electric Golf ("eGolf") will get a better battery that's got perhaps approximately 20%-35% better range than the current one (83 miles). Still that would mean a range of 100-120 miles only. How this will be able to compete with the Chevrolet Bolt that will have a range of 200 miles - perhaps more - at what appears to be a similar price, I have no idea.

The conclusion from this, is that Volkswagen will take a back seat to GM in terms of competing with Tesla as effectively as possible, until at least early 2019.

Audi

Audi focused its news on showing the new cockpit interior for the 2018 A8 and 2018 eTron Quattro, the latter one being the all-electric all-wheel-drive crossover performance car. These are the first Audis that get rid of the "remote control knob" between the front seats - in favor of two touchscreens on the center stack.

The 2018 Audi A8, which is expected to be shown before 2016 is over, and available in dealerships in the second half of 2017, is going to have significant driver assist features at least on par with the best in the industry, such as the path-breaking 2017 Mercedes E-class.

Audi also showed again its eTron Quattro concept. This all-electric crossover will have approximately 300 miles of range and be available in early 2018. The price has not been decided or disclosed. When it arrives, among the cars we know for sure will arrive in that timeframe, it will be the most direct Tesla Model S (and/or X) competitor yet.

Mercedes

Mercedes played up the all-new 2017 E-class, which officially debuts on January 11. It is even giving rides to journalists ahead of time, in order to show the interior and to experience the car's advanced driver-assistance features. Mercedes claims it sets the new standard in self-driving capabilities, but that has yet to fully be put to the test in a comparison with the best that the competition has to offer. The 2017 E-class hits dealerships this Summer.

Mercedes showed the biggest improvement to the user interface of the instrumentation. It consists of two small touchpads on the steering wheel where your thumbs naturally fall, and these two touchpads are very similar to the touchpads that used to be the signature of the BlackBerry (NASDAQ:BBRY) pointing device ca 2010-2015. I tested it and it is a godsend in terms of improvement, compared to the old system.

The 2017 E-class also debuts the availability of Android Auto and Apple CarPlay in a Mercedes. This was overdue, but better late than never. Tesla now remains one of the very, very few car companies to not have implemented or even announced Android Auto and Apple CarPlay.

More interestingly, perhaps, was some clarification on Mercedes' electric car plans. It says that it intends to clarify this roadmap before 2016 is over. The strategy is this:

1. Mercedes will deliver a total of ten (10) plug-in hybrids before 2017 is over - five of which are already in production today or have already been announced.
2. Mercedes will deliver future "electric-first" optimized cars based on a new EV platform.

In other words, Mercedes' strategy is similar to BMW (OTCPK:BAMXY), which has plug-in hybrid versions of its main car lines - and then the "i" series of cars for "electric from the ground up" cars. Backing into a reasonable set of expectations, Mercedes' most direct Tesla-competitors would arrive approximately one year later, after the Audi eTron Quattro. This puts the Mercedes entries close to the beginning of 2019.

Mercedes made the comment that it puts 270 miles on the US test cycle as the baseline for these models. Depending on the body size and the progression of battery density, the range could be higher on some models, but it will not enter the market with pure EVs less than 270 miles of range.

Fiat-Chrysler Automobiles (NYSE:FCAU)

FCA announced that it's bringing 4G LTE, Android Auto and Apple CarPlay to cars starting this year, in selected 2017 model year cars. Noodle on that for a moment: Fiat-Chrysler will have Android Auto and Apple CarPlay before Tesla will.

It also showed that it will be equipping future police cars - the Dodge Charger - with a giant center stack touchscreen that's larger than the one in the Volvo (OTCPK:VOLVY) XC90 but slightly smaller than the one in the Tesla Models S and X. One wonders when Fiat-Chrysler will put this screen in non-cop cars too.

Perhaps the most interesting surprise of the whole show was the new Jeep interior concept. It is probably the most impressive interior concept I have ever seen, making the interior look like a combination of a log cabin and a spa. It's really hard to explain, but it's the first futuristic interior concept that feels "warm." Typically, these new car interior concepts feel very "cold" and "metallic" as a result of a very computer-like environment and those kind of sterile materials.

If FCA actually implements this new "wooden" design concept into Jeeps in the coming years, the future of the Jeep brand looks bright. Yes, it's that good.

On January 11, FCA is expected to unveil the all-new Chrysler Town & Country minivan, which is expected to come in a plug-in hybrid version. As such, it will provide an alternative to the Tesla Model X for those who want a minivan with an electric plug. Granted, its electric range may be as little as fifteen or so miles (could be anything from 10 miles to 30), but with a gasoline engine and tank behind it, it should have a total range closer to 400 miles and ability to refuel those 400 miles of range at any gasoline station in less than five minutes.

On the other hand, the Chrysler plug-in electric-hybrid minivan is expected to cost anywhere from half to a third of a Tesla Model X. And just as with the Volkswagen BUDD-e, it will lack those Falcon Wing doors.

Conclusion

Automakers may sometimes not agree on a lot, but it's clear from the presentations and products shown at CES that they agree about at least three things almost religiously:

1. The focus on long-range electric cars is significant, led by the Chevrolet Bolt, but with Mercedes, Audi and Volkswagen being some of the others who will follow in most cases one or two years behind electric car market leader GM.
2. Self-driving capabilities are moving forward at rapid pace, with many automakers such as Audi, Mercedes, Cadillac and Volvo delivering breakthrough products in 2016 and 2017.
3. The new instrument panels will have touchscreens galore - in some cases augmented by buttons and knobs - and will be much easier than the systems that were in the market until recently. Almost all automakers - with only the fewest exceptions - already have started launching cars with Android Auto and Apple CarPlay, or will start doing so later this year.

In summary, GM with the Chevy Bolt will have by far the most market impact in terms of Tesla competition when it arrives in late 2016. The other automakers will also join the electric car market with their more significant models, but not until anywhere from six months (Nissan) to almost three years (Volkswagen and in some cases Mercedes) behind GM. In-between those extremes, we will also find companies such as Hyundai (OTC:HYMPF), Ford (NYSE:F), Honda (NYSE:HMC), Volvo and Jaguar Land Rover.

Editor's Note: This article discusses one or more securities that do not trade on a major U.S. exchange. Please be aware of the risks associated with these stocks.

Additional disclosure: At the time of submitting this article for publication, the author was long GOOG and AAPL, and short TSLA. However, positions can change at any time. Volkswagen paid for airfare, lodging and meals at a vehicle launch event that coincided with a trade show. Audi, Mercedes and General Motors hosted press conferences and/or roundtables with executives.

Comments (453)

Value Horizon, Contributor

Anton, while I appreciate your sharing your observations at CES, in this blog you've made it abundantly clear you have taken only a superficial look at the market opportunity for Tesla.

allow me to give you a few clues about the view you'll have if you study Tesla's opening for growth beyond the superficial,

1) it is a myth that EVs are forever some sort of separate "kiddie pool" of a market. the global auto market is