

## Can Chevy's Volt Jolt A Declining Hybrid/Electric Car Market?

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Argument: Despite all the hype, the Chevy Volt faces huge market challenges

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### **Article:**

With everyone from powerful politicians to uber celebrity Lance Armstrong sermonizing the benefits of hybrid cars why are sales declining and why are new models continuing to be introduced?

In 2010 sales of hybrid cars in the U.S. declined 6% while sales of all personal vehicles rose 11% [source: [HybridCars.com](#)] This was the third straight year of declining sales for hybrids.



***The 2011 Chevy Volt is powered by electric charge and a gas-powered generator***

Huh? With so many powerful influencers hawking hybrids and with huge amounts of money thrown at hybrid hype why aren't sales rising sharply even in a down economy? We took a quick look to see how car writers are describing the trend and were surprised to see that very few writers are suggesting that true market demand for hybrids could be declining. Most articles point to the slow economy, a reduction in fuel prices, Toyota's recent safety issues and other bits and pieces of information...none of which hold water when explaining a reversal such as this in an auto market that's growing overall.

However even a newbie market demand analyst can look at key industry numbers and have confidence in recommending that this market is not a good place to invest capital.

Here are the facts:

- the overall car market in the U.S. rose 11% in 2010
- the hybrid car segment declined 6%, its third straight year of declines

- sales of clean diesels rose 37%
- sales of plug-in electric cars, including the highly touted Chevy Volt, totaled 345 units (both the Volt and the Nissan Leaf were introduced in December 2010)
- there were 30 models of hybrid cars on the market in 2010
- Toyota makes 5 of the top 7 selling hybrid models and has a total 69% market share
- the next biggest market share is 12%, held by Honda
- U.S. automakers have a combined 13 models in the marketplace and have a total 15% market share
- GM alone has 9 models in the marketplace and had total sales of 10,153 units in 2010...a 4% market share. In practically every other industry having 9 capital and labor intensive offerings in a single mass market category, each with a market share of less than half a percent, will get someone moved out of the executive suite.

So with market demand reality setting in will we see and hear less of the hybrid cars dogma? It's not likely, at least in 2011. Even though hybrid cars seem to be a good business for Toyota and Honda, strategic reasons for other automakers to continue losing shareholder money on hybrids pretty much all lead to government regulation. These reasons include:

- currying favor to stake a claim at the subsidies trough (did you know that the electric plug-in Chevy Volt, which sold 352 units in 2010, carries a \$7,500 federal tax credit...plus \$1,000 for charging equipment installation...plus, what the heck, \$5,000 of state tax credits for Californians?)

- using hybrids to meet federal government [CAFE regulations](#) on their total product lineup...the fuel efficiency standards are set to increase in 2012
- not wanting to be left in the lurch should strong market demand appear which, it's safe to say, is only going to happen through more government regulation such as a grossly higher gasoline tax or widespread Volt-like tax credits

Governments are generally inefficient meddlers in otherwise efficient markets. Even though the federal government handed out tax credits on *some* hybrid car purchases in all of 2010 (the tax credits for Toyota expired in 2007), the market declined anyway while the overall car market posted a double-digit gain.

A key metric to watch in 2011 will be sales of the Chevy Volt, being marketed as the first practical, extended range, all-electric (not hybrid) vehicle. It may easily be the most hyped car on the planet right now. It has its own song and its own dance (both of which are truly awful...we bet you can't make it all the way through this video:

<http://www.youtube.com/watch?v=xvwTMZNWGuk> ).

At the recent North American International Auto Show in Detroit, Motor Trend named the Volt its 2011 Car Of The Year. That may, or may not, have something to do with GM's hefty advertising for the Volt in Motor Trend. On Motor Trend's website the president and editor-in-chief of Automobile magazine gives a very strong plug for the Volt. Automobile and Motor Trend are owned by the same company.

Also, the Volt's pricing strategy is puzzling. The car lists for more than \$41,000, which is just about twice as much as the market leading Prius. Even with the \$7,500 federal tax credit it will cost half again as much as the Prius for non-Californians. Even if the higher price is justified by the Volt's greater horsepower and feature package, will the general public somehow prefer the Volt to the other offerings in the market?

It would seem that GM is betting at least part of its future on the Volt, perhaps because the federal government suggested it. But the one thing that the government can't do is force consumers to purchase Chevy Volts, even with outlandish taxpayer funded discounts. Nonetheless, pundits are suggesting the Volt will sell 10,000 units in 2011. Its current run rate is about 3,800 units annually.

Based on marketplace dynamics, the past performance of GM hybrids and politicians and increasing consumer weariness with green marketing the Volt is in for a serious uphill climb no matter how much money is thrown at it.

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## **About The Author**

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