When a Discount Becomes a Death Spiral

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President Trump's "big, beautiful bill" made headlines earlier this year, but its real implications are only now unfolding. For example, American buyers will soon lose their $7,500 tax credit on new EVs and $4,000 on used models.

Cue a last-minute flurry of purchases before the September 30 deadline. But the long-term forecast is as grim as a Tesla investor's Twitter feed. J.D. Power has just slashed its 2025 EV market share projection from 12% to just 9%. Down on last year.

Growth is sputtering for EV makers because most overshot production, while lacking both brand-building investment and pricing discipline: the twin engines you need when a bend in the road like this one appears.

The best global evidence? BYD. You may not know the name in the U.S., but it's the planet's biggest EV maker, marketing cars and trucks everywhere from Berlin to Buenos Aires. BYD predicted it would sell 5.5 million vehicles this year—ten times Tesla's anticipated U.S. sales.

But that was before the ass fell out of its brand and its market. BYD is suffering a full MBA syllabus of business challenges all at once: customer service failures, after-sales

chaos, product faults, software glitches.

But the biggest problem at BYD is pricing.

The company set its list prices at laughably low levels. Globally, BYD competes with Tesla by offering comparable vehicles at 30% to 50% less, even as Tesla's own pricing drifts south.

And when challenged, BYD goes further: discounting these already bargain-basement prices. This summer, the company ran extensive "Spring Festival Sales" offering up to 20% off its best-selling models along with a host of other promotional incentives. With most of BYD's marketing spend pumped into dealer rebates and zero-interest loans and their promotion, little remained for long term, emotional brand building.

The discounting was so bad the Chinese government had to step in, warning BYD and its competitors against further "rat-race competition." Beijing is worried that these discounts will damage international perceptions of Chinese brands. You know your prices are too low when even the communist government has a problem with them.

While China's engineering prowess grows, its managers falter on the basics of pricing. American brands aren't much smarter; plenty of them also need a pricing 101, so here it is.

Don't focus on revenue. It is not the ultimate goal of a business. Profit is. Sure, you need revenues to produce profits. But companies like BYD follow the signpost of revenues in the wrong strategic direction. If you want to generate revenues then make more products, have lots of brands, run lots of sales promotions, spend your ad dollars on performance marketing and never lose a customer on price.

But if you want to be profitable, do the exact opposite. Use consumer research to set the right price, not costs or

competitor levels. Expect to lose some consumers on price and enjoy the marginal implications that follow. Spend some money on performance and growth marketing, but make sure at least as much is devoted to brand building.

And avoid discounts as much as you humanly can. They are the crack cocaine of marketing.

If you discount prices by 20% like BYD you will see a jump in sales. But most of those sales would have come to you anyway. You are just moving them forward. And making the sale at a much more inferior margin. Worst still, you then encounter a dry spell because all those future sales have been sucked forward by last month's special promotion. So, you run another promotion because that's how you made sales happen last time. And you get another, slightly smaller, bump of less marginal sales.

And there it is! Promotional dependence. Which turns to addiction. And then to desperation.

Managers rarely grasp how a relatively minor discount can strangle future performance. Research from Wharton shows price is the single biggest lever of corporate profits—far stronger than sales growth or cost-cutting. A 20% price cut, BYD-style, doesn't nick 20% from profits. It can eradicate them completely.

And that's not to mention the impact on the supply chain of sudden lifts and lows in demand. Or the squeeze from retailers who insist on the same promotional terms for their stock. Or the dismay of customers who already paid a higher price for a brand they once trusted. Or the commodifying impact that these discounts have on brand equity and the subsequent price sensitivity that ensues. Or the price war that eventually erupts tarring every competitor with the same dirty promotional brush.

Look at BYD: its enormous $100 billion revenue masks an

enterprise in genuine peril. Discount-fueled dependence and under-investment in brand building have left it dangerously exposed. Gross margins are down. Quarterly profits have slumped 30%. Debt-to-asset ratios have stretched past 70%. $45 billion has vanished from its valuation. And worst of all suppliers, employees, customers and even the Government now question the company’s capabilities.

Marketers say plenty about how branding builds a business. And not enough about how discounting knocks it down.

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