

# Case Study of a class-action lawsuit against Tesla's Monopolistic practices based on its price discrimination strategy

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## Abstract:

This essay investigates the intersection of Tesla's restrictive policies on third-party parts and services with its price discrimination strategy, analyzing the legal and economic implications. The class-action lawsuit filed by five Tesla owners in March 2023 alleged violations of the Sherman Antitrust Act and the Magnuson-Moss Warranty Act. Despite claims of misleading repair cost information and post-purchase restrictions leading to higher expenses for consumers, Judge Trina Thompson ultimately dismissed the case. The study illuminates Tesla's economic rationale for implementing such policies, exploring how they contribute to its pricing strategies. It evaluates the potential impacts on consumers, including loss of warranty eligibility and compatibility issues with third-party parts. Perspectives from the plaintiffs, Tesla, and the court are examined, highlighting contrasting viewpoints on monopoly practices and consumer rights. Furthermore, the essay reveals broader implications for antitrust concerns arising from price discrimination strategies employed by modern firms.

**Keywords:** Price discrimination; Antitrust concerns; Tesla; Class-action lawsuit

## Introduction

In March 2023, Five Tesla owners set up a class-action lawsuit against Tesla, accusing that Tesla's restriction on the use of third-party parts and services in its vehicles violated the Sherman Antitrust Act and the Magnuson-Moss Warranty Act (Monahan and Fight to Repair Newsletter). These owners claimed that when they were purchasing Tesla cars, the repair cost provided by Tesla misled their decision and Tesla's restriction behaviours after their purchase forced them to bear a higher cost of parts and services (United States District Court, Northern District of California 2). Once they use third-party parts and services in Tesla's vehicles, their eligibility of free warranty will be cancelled and sometimes it's just a waste of money since Tesla may deny the access of third-party parts and make them incompatible to the vehicles (United States District Court, Northern District of California 2). However, the outcomes seem to stand by the side of Tesla as this lawsuit was finally dismissed by Judge Trina Thompson (Monahan and Fight to Repair Newsletter). In this way, this study will introduce how Tesla's above-mentioned monopoly practice relates to its price discrimination strategy, explain Tesla's economic rationale for implementing this strategy, evaluate the potential impacts of this practice on consumers, discuss the views of the plaintiffs, Tesla, and the court. Meanwhile, this case study will also compare

the results of the case of Tesla with those of other similar cases which also uncover the fact that the price discrimination strategy of modern firms would lead to anti-trust concerns.

## Tesla Price Discrimination Practice

Tesla's price discrimination practice partly falls into the range of second-degree price discrimination. Specifically, Tesla charges customers different prices if they purchase different versions of the same model. With the version going up, the functions of the same model vehicles including automatic driving, high-speed connection, and acceleration boost will be different. For instance, the cheapest version of the Tesla Model 3 is equipped only with Rear-Wheel Drive. If customers want their Model 3 to have better performance and be more good-looking, they can spend more money on equipping their Model 3 with Dual-motor all-wheel drive, larger-size tyres, more colourful Exterior paint and interior, and more durable charging parts (The Value Edge). Actually, this type of price discrimination strategy can be widely seen in many other vehicle companies such as Porsche, BMW, Benz, and so on. Thus, this is nothing new.

What may truly raise public concerns about its monopoly is the tying strategy of Tesla. If customers choose to purchase Tesla's vehicles, it's to some extent equal to the fact that they choose to purchase Tesla's after-sale repair

service and parts. This is because Tesla has designed Vehicle warranty and related policies to prevent Tesla vehicle owners from acquiring parts and related services outside of Tesla (United States District Court, Northern District of California 1). To maintain and repair Tesla vehicles, external unauthorized maintenance shops have to know the Vehicle diagnostics and remote information first, which Tesla has banned by purposefully designing the vehicle system (United States District Court, Northern District of California 1). Tesla also limits the information visit and access to the vehicle system of external unauthorized parts. In other words, Tesla skillfully monopolizes the repair market for Tesla vehicles by making use of the aforementioned tying strategy.

### Economic Analysis

In the following two subparts, we'll briefly explain why Tesla chose to practice these price discrimination strategies from the economic perspective and how these price discrimination strategies will impact customers.

Economic rationales

First of all, in terms of Tesla's second-degree price discrimination strategy, there are two main profits that Tesla will gain from an economic perspective.

On the one hand, allowing customers with higher budgets to personalize and customize vehicle settings and accessories can make Tesla earn additional money from these customers who are willing to pay a higher price and who are keen to purchase a vehicle with the highest function and personalized appearance.

On the other hand, compared with its competitors which mainly charge fees for vehicle physical accessories and exterior trim, Tesla first applied the price discrimination strategy to the field of in-car Wireless functionality. This difference guides Tesla to benefit more from the second-degree price discrimination strategy (The Value Edge). With Tesla's marginal profit increasing and marginal cost dropping from \$84,000 to \$36,000, Tesla will gradually squeeze the weak rivals and even drive them out of the market by reducing the price of basic vehicles but raising the fees of additional settings and accessories (The Value Edge). In this way, Tesla will undoubtedly dominate the market and determine the price of its vehicles at a level that it's willing to offer instead of taking customers' willingness into consideration.

Secondly, Tesla's tying strategy also provides a substantial income for itself. According to the report of Tesla, in the period from January to September 2023, Tesla has made \$6.15 billion from the field of vehicle-related service and other vehicle-related income (Stempel). This means that in the short 9 months, the hidden tying strategy has generated more than \$6 billion in income for Tesla. Although compared with the vehicle sale revenue which occupied

81% of its revenue, the percentage of vehicle-related service and other vehicle-related income is only 9% which is relatively quite small, the cost of producing and selling one vehicle goes far beyond that of providing vehicle-related service and parts (Stempel). Tesla may have an even higher net profit margin if they provide car-related services and parts. Thus, Tesla has a strong motivation to continue practicing this tying strategy at least considering from the perspective of interest.

### Potential Impacts on Consumers

Tesla's price discrimination strategy has two-phase impacts. In the short term, since Tesla's strategy is combined with measures for proactive price reductions against basic version vehicles of different models, customers with lower budgets and willingness to pay less can benefit from its strategy. However, the customers who are willing to pay more and have a higher budget may get a loss since more settings and accessories start making money. The actual money they pay for a Tesla vehicle may even exceed the amount that they originally planned to pay.

In the long term, both types of Tesla owners will suffer from Tesla's price discrimination strategy. For one thing, once Tesla's second-degree price discrimination sets a firm basis for its dominance in the market and drives other competitors out of the market, it will begin raising the price of its basic-version vehicles. Therefore, both kinds of Tesla customers have to pay more otherwise they will not be able to get a Tesla car or even a similar-quality and similar-function vehicle from the market. For another, Tesla is motivated to maintain its tying strategy and continue its policy that restricts external service and parts, in the long run, both types of Tesla owners will have to encounter the fact that Tesla cars will break down at least once. Then, they have to purchase expensive repair services and parts for replacement from Tesla. If there is no regulation on this, the fees that customers need to pay will continue going up as Tesla dominates the market and customers have no way and no negotiation power to solve the repair issues. What's worse, the number of repair shops run by Tesla grows much slower than the number of Tesla owners. That indicates that customers will not be able to get in-time repair due to the imbalance between the supply of Tesla's maintenance resources and the higher demand of Tesla owners who seek repair services.

Actually, some of the impacts have come into reality. Even though Tesla has reduced its price several time, in general, its product average price kept increasing with its expanding vehicle sales (United States District Court, Northern District of California 5). Apart from that, one customer wants to change the battery pack for its Tesla vehicle. Rich Rebuilds only charges \$700 to fix it but Tesla asks for \$16,000 (Monahan and Fight to Repair News-

letter).

## **Case of antitrust Lawsuit against Tesla's Pricing Discrimination**

Based on all these losses and inconveniences that Tesla's price discrimination strategy has caused, the following case analysis will be grounded in *Lambrix v. Tesla, Inc.* and discuss the relevant markets that this case belongs to, Tesla's claim, the plaintiff's opinions, and the district court's final decisions.

### **Market Definition**

According to the case, within the territory of the U.S., the EV Market, The Tesla Repair Services Market, and The Tesla-Compatible Parts Market are the three main markets related to this lawsuit.

The first one is the EV market, in which EV companies design, produce, and sell electric vehicles with low exhaust emission but similar transport functions compared with traditional cars (United States District Court, Northern District of California 4). At present, even though Tesla's market share has dropped to 65% from 80% due to the increasing participation of other brands, it's still the biggest brand in the EV market (United States District Court, Northern District of California 5). Thus, it's convincing that Tesla has market power in the EV market at present.

The Tesla Repair Services Market is the second one. In this market, the services can be divided into two categories, one includes the free services that are covered by the warranty and recognized by Tesla while the other one consists of the paid services that are out of the warranty or regarded as not meeting the warranty requirements (United States District Court, Northern District of California 6). Regardless of which type of service that customers are looking for, the only regular service provider is Tesla as being required by Tesla's policy and limited by Tesla's price discrimination practice. Thus, there is no doubt that Tesla has market power in the repair services market, too. At last, it's the Tesla-Compatible Parts Market. In this market, the parts that are compatible with Tesla's vehicles are traded. However, once customers purchase Tesla vehicles and try to replace some parts, they have to choose and pay for the parts provided by Tesla since most of the parts in Tesla's vehicles are not interchangeable with the parts produced by other vehicle manufacturers (United States District Court, Northern District of California 8). Although this market is derived from the more competitive EV market, the latter has a rare chance to restrict the monopoly status of Tesla in this market (United States District Court, Northern District of California 8). Therefore, Tesla dominates the Tesla-Compatible Parts Market as well.

In summary, the dominant power of Tesla in all these

three markets seems to meet the basic requirements of Anti-trust law violation. But this is far from concluding that Tesla has truly violated the law. Thus, in the following I will introduce how the different stakeholders of this case think of this issue.

### **Plaintiff's claim**

In this case, the plaintiffs mainly introduced two claims. The first one is that Tesla violates their repair rights. Unlike traditional vehicles which can be maintained and repaired in either the distributors or independent shops, Tesla electric vehicles are only allowed to get the same services in their companies or the authorized service centres with the parts manufactured and provided only by Tesla (Stempel). If customers don't follow its rules, Tesla will use software to remotely lock their vehicle system or cancel their warranty (Stempel). Above behavior obviously violates the basic trading principle that vehicles belong to their owners rather than their producers and the repair rights that have been safeguarded by the FTC (Gutterman). According to FTC, it's illegal to cancel the warranty and prevent customers from using the products by any means unless customers purchase the third product (Gutterman).

The other claim that the plaintiffs have made aims to explain why Tesla dares to do this despite being aware that this behaviour is illegal. They claim that Tesla's monopoly behaviour stems from its market-dominant power and violates the Anti-trust law. It's like a mutually enforcing circle, which not only forces Tesla owners to pay a higher price and wait for a long time to repair their vehicles but also sets a high barrier for independent repair services and compatible parts providers to enter these markets, which hinders fair market competition (United States District Court, Northern District of California 22). If there is no monopoly of Tesla in these markets, Tesla owners can have similarly various choices of maintenance and repair as traditional vehicle owners (United States District Court, Northern District of California 22). Moreover, with the market being more competitive, there will be a higher supply of services in the market and the price of maintenance and repair services will drop significantly (United States District Court, Northern District of California 22).

### **Tesla's Claim**

The moment that this lawsuit was raised, the representative of Tesla didn't respond to this news and its advocate even didn't attend the first court (Scarcella). According to the publicly available case information, the main claim of Tesla is that the EV market can't be separated from the EV after-sales market (Yuan). In fact, the claims of the Plaintiffs are grounded in the premise that all the three relevant markets are independent. However, Tesla argued that the Anti-trust law was designed to prevent a company's monopoly in an independent market (Yuan). The claims and

explanations raised by the plaintiffs only prove Tesla's monopoly behaviours in the repair and maintenance market and compatible parts market but fail to demonstrate that these two markets are independent of the EV market. In this logic, if these two markets are parts of the EV market and there is no evidence that Tesla has employed its price discrimination strategy to reduce the EV market's overall competitiveness level, it will mean that the claim that Tesla violates the anti-trust law doesn't hold up.

Additionally, Tesla also pointed out that it didn't harm the repair rights of customers (Yuan). On the contrary, what it has done is aimed to protect customers since if customers choose unauthorized parts and services, Tesla can't ensure that these parts and services will work the same as the authorized ones and then customers' life and wealth security will not be guaranteed. What's more, in the condition that after-sales market is a part of the EV market, Tesla's practice also didn't deprive customers of repair rights since they can freely choose to purchase Tesla's vehicles or not and they have been provided with enough information about the after-sales potential maintenance, repair, and part replacement cost when they were making the purchase decisions. In this way, the so-called limited choice of after-sale service and parts is the result of customers' active choice instead of Tesla's oppression.

### Court's analysis and conclusion

In the Tesla case, in the end, the court chose to dismiss the plaintiffs' claims that Tesla violated antitrust laws (Thompson). Judge Thompson argued that the plaintiffs did not prove that they were unaware of potential repair problems when they purchased their vehicles (Thompson). Thompson also indicated that the plaintiffs were unable to prove that Tesla's repair services and parts marketplace imposed monetary or other non-monetary costs (Thompson). These facts denote that Tesla's repair service and the corresponding component market in the Plaintiffs' complaint were not a single market, i.e. attesting to the claims that Tesla has made during the court. In this way, the single market applicable to the antitrust laws in the plaintiffs' complaint did not exist and the Tesla case cannot be applied to the California Unfair Competition Law and Sherman Act.

Tesla also faced allegations of illegal tie-up sales to hinder fair competition. However, this allegation would be upheld only on the premise that Tesla violated the antitrust laws. Since Thompson's argument showed that the judge did not support the plaintiff's argument that Tesla violated antitrust laws, this allegation was consequently dismissed by the judge, too.

### Conclusion

In a word, this case presents some important takeaways.

First of all, it's not deniable that Tesla's price discrimination strategies have worked efficiently since these strategies have brought a substantial income to it and contributed a lot to its dominance in the EV market, the Tesla repair and maintenance service market, and the Tesla compatible parts market, regardless of whether these three markets are interdependent or not. However, these practices also have raised a lot of public anti-trust concerns. Even though Tesla insisted that these three markets are not independent and the customers should have foreseen the cost when they made the purchase while the district court also supported its claims, the measures that Tesla has taken at least violate customers' repair rights. In this way, it's really hard to tell whether Tesla truly violates the Anti-trust laws and customers' repair rights or not.

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