

Crossing Over: The New Dynamics of Model Proliferation

Mazda recently announced that their next-generation minivan, the Japanese-market MPV, will not be offered to North American consumers. In its stead, a seven-passenger "crossover" vehicle, the CX-9, will join the lineup as Mazda's large family vehicle.

The situation brewing at Mazda is not unique. Virtually every major vehicle manufacturer has "crossovers" in the showrooms or on the way. "Crossovers" receive lots of press, which might give you the distinct impression that a lot of people are buying "crossover" vehicles. Is this the next big thing, the killer application? Are these the Precision Sizers of the 1970s or the minivans of the 1980s? Will they upset the reigning car/truck/minivan hierarchy that has remained roughly stagnant for a decade?

I recently received an e-mail asking what, exactly, is a crossover vehicle. I had to think for a moment, since the term has become so amorphous as to be almost totally meaningless. If I were being strictly literal, I could make a case that the minivan concept - one of Canada's most consistently popular vehicle segments for two decades - is the original "crossover." Indeed, when first introduced in the early 1980s, the modern minivan linked two sagging segments - the full size van and the full size station wagon - to create one wildly popular replacement niche. Lightning can't always strike twice, but that hasn't stopped the OEMs from trying.

One could define crossovers as cross-breeds. Two vehicles of dissimilar proportions are mated and the resulting product is voted on by the buying public. At present, most crossovers have a compact/intermediate-sized passenger car and a compact/intermediate-sized SUV as shared parentage. This has led many to believe that crossovers are passenger cars on light truck platforms or vice versa. I don't exactly agree.

Ask the editor of a major automotive magazine and you'll hear that the typical crossover is a member of the car-based sport utility family - a "soft roader." It will have unit-body construction, a wagon shape (complete with

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Top-Twenty Market Share 1981 - 2004

	Top 20 Units	Share of Market
1981	547,302	46.0%
1982	388,977	42.3%
1983	427,812	39.6%
1984	502,270	39.1%
1985	626,332	40.9%
1986	600,434	39.6%
1987	603,814	39.5%
1988	658,934	42.2%
1989	613,591	41.4%
1990	560,125	42.6%
1991	548,556	42.6%
1992	533,960	43.5%
1993	507,407	42.7%
1994	575,972	44.7%
1995	571,842	49.2%
1996	640,335	53.4%
1997	761,841	53.7%
1998	745,344	52.2%
1999	798,511	51.8%
2000	841,142	53.0%
2001	809,479	50.7%
2002	848,033	49.0%
2003	759,254	46.7%
2004	719,849	45.7%

Source: DesRosiers Automotive Consultants Inc., AIAMC and CVMA

Observations - "Crossing Over: The New Dynamics of Model Proliferation"

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rear hatch), and a relatively low step-in height. All-wheel-drive may be available but is certainly not a prerequisite. Platforms are usually sourced from passenger cars or minivans.

I believe that a better definition is that a crossover is a vehicle that combines the best elements of the segments it bridges.

Listing the actual vehicles to which the "crossover" moniker may apply is easier said than done. Several are obvious, many are vaguely in-segment, and some are downright problematic to pin down. How does one describe a Chrysler Pacifica, Nissan Murano, or Chevrolet Equinox? Is a Honda Element a car, van, or SUV? What of the Toyota Matrix, Lexus RX330, or Chrysler PT Cruiser? How does one classify the Chevrolet HHR? It's not available in Canada, but how do you define a Toyota Scion xA or xB?

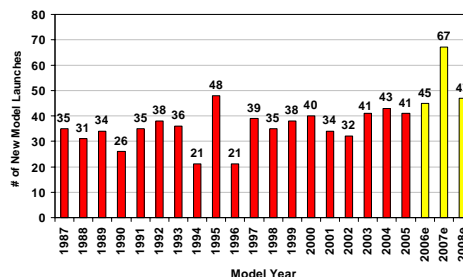
Furthermore, dead vehicles can posthumously find themselves branded as crossovers. The AMC Eagle and Subaru BRAT - not to mention the Chevrolet El Camino, GMC Caballero, and Ford Ranchero - certainly bridged segments. All were based on car platforms, and all had a few uniquely truck-like capabilities. The lines between vehicle categories

have always been highly subjective; today, however, automakers are more conspicuous in their acknowledgement of the false walls that separate seemingly disparate market segments.

It is important to note that this sort of gender bending occurs only at the fringes of segments. The meat of each vehicle class - those vehicles that are the perennial bestsellers - is solidly within specific boundaries.

We're seeing a lot of movement around the edges of segments. There is an intense streak of individualism in today's culture, along with a steadily shrinking attention span. From the tattooed teenager to the over-incentivized automaker, everyone's looking for a way - any way - to differentiate themselves from the crowd. Crossovers facilitate this trend. They are broadly individualistic in that their appeal is narrower than bland sedans. Moreover, because they are "interesting" vehicles, they can function as half-strength surrogates for more expensive "halo" cars.

New model Launches by Model Year



Source: Merrill Lynch

The Dodge Viper is one heck of a sports car, but the PT Cruiser created exponentially greater dealership traffic.

Notwithstanding all this talk of buzz, success is still measured in sales. Although the fringes of the various segments have lengthened, the cores are still the cores. It appears that consumers appreciate value when delivered in familiar packaging.

To bear out this assumption, we tabulated the sales of the twenty best-selling light vehicles in Canada over the past twenty years, organized by segmentation. What's most surprising is the absence of change over two decades of great diversification and upheaval in the automotive industry.

The most consistently popular vehicles in Canada are light trucks, with the GM C/K pickup, the Ford F-Series pickup, and the DaimlerChrysler minivans rotating through the top three positions at regular intervals. Subcompact, compact, and intermediate-sized passenger cars round out most lists. In 2004, for instance, the top five vehicles in Canada were the GM C/K (when combined), Ford F-Series, Dodge Caravan, Honda Civic, and Toyota Corolla.

More interesting, however is the fact that compact

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Top-Twenty Sales-Weighted Segmentation 1984-2004

Passenger Car	1984	1988	1992	1996	2000	2004
Subcompact	14.1%	8.7%	7.0%	-	2.9%	7.0%
Compact	34.9%	28.4%	31.9%	26.5%	34.7%	36.1%
Intermediate	20.5%	16.7%	20.7%	17.4%	15.0%	9.3%
Sport	-	3.8%	-	-	-	-
Luxury	4.4%	-	-	-	-	-
Light Truck						
Compact SUV	-	-	-	-	-	2.8%
Intermediate SUV	-	-	2.9%	5.1%	2.8%	-
Small Pickup	4.8%	7.0%	-	-	-	-
Large Pickup	17.8%	21.0%	17.9%	25.6%	21.7%	26.0%
Small Van	-	6.8%	19.5%	25.3%	22.9%	18.9%
Large Van	3.6%	7.6%	-	-	-	-
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: DesRosiers Automotive Consultants Inc., AIAMC and CVMA

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passenger cars consistently represent between twenty eight to thirty six percent of the top-twenty total. While never claiming the absolute top spot, there are always more compact sedans on the top-twenty than any other segment group. This is a phenomenon that stretches back further than the current economy-oriented market climate, further than any contemporary political issue, and - most significantly - further than the "premium compact" trend.

The Plymouth Reliant and Ford Tempo that placed third and fourth on the 1984 list (behind the GM and Ford full size pickups) were simple vehicles. Compact and inexpensive, both of these vehicles would have been termed "basic transportation" when compared with more expensive contemporary vehicles.

Today, however, we have a situation where the sales leaders are "no-compromises"

automobiles. The Mazda3, sixth on the 2004 list, has been favourably compared to BMW's 3-Series. The Honda Civic and Toyota Corolla are representative of a 'world class' build quality standard. The refinement expected of a luxury vehicle is now available in entry-level products. Indeed, the new Mercedes B-Class vehicle is listed as a compact, not a luxury car. Yes, there were still a few less-refined products available in 2004 - Cavalier, Accent - but those vehicles were sold more on price than features - like 1985's sales-leading Hyundai Pony, a paragon of frugality. They do not represent the mainstream of the compact market as Reliant, Tempo, and Escort once did.

The percentage of intermediate passenger cars achieving top-twenty status remained very stable in the 20 percent range from the 1980s to the early 2000s, when the segment dove to just 10 percent of total top-twenty sales.

What has caused this recent drop in intermediate sales? I believe it has been the influx of "crossovers" into the market. Car-based vanlets, tall wagons, and 'soft roaders' strike a good compromise between fuel efficiency and space concerns. 2004 marked the first year that a car-based compact SUV made it onto the top twenty (Ford Escape), and the tall-wagon Toyota Matrix was doubtless responsible for swaying some compact sedan buyers into the crossover camp. GM recently favoured the crossover approach by developing the Delta platform-based Chevrolet HHR instead of a "traditional" Cobalt wagon. While a wagon would always play second chair to the sedans and coupes, the crossed-over HHR is receiving a greater amount of positive press than any other Cobalt variant. It has the same footprint and fuel economy as a compact sedan, but just as much interior capacity as a compact SUV.

But all this talk about crossovers isn't of much consequence because they have yet to dent the Canadian sales charts in significant volumes. Furthermore, no single model may ever make it into the top five - or even the top ten.

According to the Car Wars vehicle launch schedule published by Merrill Lynch, there will be 67 new models launched for the 2007 model

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1984 Top-Twenty Sellers

Rank	Vehicle	Sales
1	GM C/K Pickup	45,868
2	Ford F-Series	43,295
3	Plymouth Reliant	32,642
4	Ford Tempo	31,642
5	Dodge Aries	28,093
6	Chevrolet Chevette	26,195
7	Hyundai Pony	25,123
8	Chevrolet Cavalier	24,729
9	GM S10/Sonoma	23,936
10	Honda Accord	23,243
11	Ford Escort	23,194
12	Oldsmobile Toronado	21,912
13	Oldsmobile Cutlass Supreme	21,500
14	Chevrolet Celebrity	21,021
15	Honda Civic	19,519
16	Pontiac 6000	19,187
17	GM Regular Van	18,210
18	Oldsmobile Cutlass Ciera	18,204
19	Pontiac Sunbird	18,025
20	Mercury Topaz	16,732
Total		502,270

Source: DesRosiers Automotive Consultants Inc., AIAMC and CVMA

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year. Contrast this with the typical number of yearly model introductions (between 35 and 45) and you realize that we're entering into a period of intense segment splintering. If a buying public that previously supported a certain number of new models is suddenly asked to accommodate nearly twice as many products, then logic dictates that a large number of those products need to be lower-volume vehicles of limited popular appeal.

Another unfortunate outcome

1994 Top-Twenty Sellers

Rank	Vehicle	Sales
1	Chrysler Caravan/Voyager	71,004
2	GM C/K Pickup	70,905
3	Ford F-Series	50,554
4	Chevrolet Cavalier	40,465
5	Pontiac Grand Am	31,351
6	Pontiac Sunbird	27,314
7	Ford Taurus	25,734
8	Ford Aerostar Wagon	24,211
9	Dodge Intrepid	22,959
10	GM Astro Van	22,604
11	Honda Civic	22,359
12	Honda Accord	22,256
13	Ford Escort	21,591
14	Toyota Corolla	20,742
15	GM Lumina/Transport	20,114
16	Dodge Ram Pickup	18,301
17	Toyota Camry	16,105
18	Jeep Grand Cherokee	15,925
19	Ford Tempo	15,831
20	Dodge Neon	15,647
Total		575,972

Source: DesRosiers Automotive Consultants Inc., AIAMC and CVMA

may be that many of these 'new' vehicles will simply fail. Instant orphans.

Looking at the market share of the entire top-twenty list, it's clear that this trend has already begun. We have witnessed the end of our industry's twenty-five year period of product consolidation. The top-twenty list represented roughly 40 percent of the total market in the mid-1980s and rose to a high of 53.7 percent in 1997,

2004 Top-Twenty Sellers

Rank	Vehicle	Sales
1	GM C/K Pickup	77,396
2	Ford F-Series	71,791
3	Dodge Caravan	63,559
4	Honda Civic	61,041
5	Toyota Corolla	44,563
6	Mazda Mazda3	42,680
7	Dodge Ram Pickup	37,709
8	Pontiac Sunfire	33,724
9	Toyota Echo	31,252
10	Chevrolet Cavalier	29,229
11	Pontiac Montana	29,073
12	Ford Focus	28,391
13	Honda Accord	25,814
14	Ford Freestar	21,733
15	Chevrolet Venture	21,376
16	Chevrolet Impala	20,876
17	Ford Escape	20,318
18	Toyota Camry	20,135
19	Toyota Matrix	20,017
20	Hyundai Accent	19,172
Total		719,849

Source: DesRosiers Automotive Consultants Inc., AIAMC and CVMA

but has since fallen back to 45.7 percent in 2004. The rapid sub-segmentation that's currently occurring will only further reduce the relevancy of the top-twenty list.

How does a vehicle OEM stay competitive in this niche marketing climate? They must do as Chevrolet, Mazda, and Toyota have done: spin secondary vehicles off of their primary platforms. The HHR, Mazda5, and Matrix are based on volume-leading Cobalt,

Mazda3, and Corolla platforms, reducing engineering/tooling costs and allowing for greater product coverage without the crippling large expenditures associated with all-new platforms.

A lesson can be taken from the global showrooms of most vehicle OEMs. In some foreign markets - Japan, for example - there is a much tighter spread in most automakers' model lineups. In other words, they market a lot of very similar vehicles alongside one-another. Instead of having a small car, a medium car, and a large car, an OEM might have three gradations of each category (eg. small-small, medium-small, large-small, and so forth).

In much the same way, North American-market consumers may find themselves faced with a very complicated market next year. On a scale of one to five, where one represents pure car and five represents pure truck, it is conceivable that a number of "2,3,4" crossover choices could exist in every vehicle lineup. The spread would cover all possible combinations of car/truck DNA. This is how the vehicle OEMs are achieving their record number of product introductions: crossover variations on core car/truck platforms. **DAR**