

The Luxury Market in Canada

One of the fastest growing segments in the light vehicle market in Canada is the luxury vehicle category.

Luxury vehicles include small luxury cars like the BMW 3-Series, luxury high cars including the Mercedes S Class, luxury sport cars such as the Porsche 911 and luxury sport utility trucks, for example, the Lexus RX 330.

BMW was able to hold onto their number one position in the luxury market for 2004 although Chrysler came very close to taking over that spot. BMW sold 16,598 luxury vehicles versus Chrysler with 16,402 luxury vehicles. If you include the Dodge Magnum in Chrysler's totals they would be number one in luxury vehicle sales in Canada. Acura moved ahead of Mercedes-Benz in 2004 as the third best selling luxury brand.

The luxury segment is very competitive and quite crowded with a record 28 brands vying for sales in the various luxury segments. New entrants over the last few years include Hummer, VW, Ford (separate from Lincoln), Mitsubishi and Maybach. We are not able to get sales data for the exotic brands like Maserati so the actual number of brands would be a lot higher.

For the analyst, this segment presents a number of anomalies. For example, one of the segment-reporting controversies in Canada concerns the luxury definition. Many in the industry believe there should be a strong

emphasis on price in determining whether a vehicle should be included in the luxury segments. Indeed most say that the luxury segment begins at the \$40,000 level and some indicate the true luxury market starts at an even higher price point.

But there is an official OEM committee that determines these things and they put little emphasis on price and instead take the recommendations of each OEM as to what vehicles belong in each segment. As a result, there are some vehicles that are included are

(continued on next page)

Canada

	1997	2004	2004/1997
Total Light Vehicles	1,387,950	1,534,373	10.5%
Entry Level	432,918	609,580	40.8%
Family/Intermediate	605,770	512,712	-15.4%
Large/Luxury/Sport	113,156	170,769	50.9%
Primarily Commercial	236,106	241,312	2.2%
Pure Luxury	59,750	123,349	106.4%
Entry Level	31.2%	39.7%	
Family/Intermediate	43.6%	33.4%	
Large/Luxury/Sport	8.2%	11.1%	
Primarily Commercial	17.0%	15.7%	
Pure Luxury	4.3%	8.0%	

Source: DesRosiers Automotive Consultants Inc., AIAMC and CVMA

United States

	1997	2004	2004/1997
Total Light Vehicles	15,113,451	16,860,579	11.6%
Entry Level	3,648,153	3,926,175	7.6%
Family/Intermediate	6,689,111	6,201,192	-7.3%
Large/Luxury/Sport	2,454,048	3,782,180	54.1%
Primarily Commercial	2,322,139	2,951,032	27.1%
Pure Luxury	1,238,456	2,337,138	88.7%
Entry Level	24.1%	23.3%	
Family/Intermediate	44.3%	36.8%	
Large/Luxury/Sport	16.2%	22.4%	
Primarily Commercial	15.4%	17.5%	
Pure Luxury	8.2%	13.9%	

Source: DesRosiers Automotive Consultants Inc. and Ward's Automotive Reports

Observations - "The Luxury Market in Canada"

Canadian Light Vehicle Market - Luxury Vehicles

Year	Total Market	Luxury	Luxury Share	High Luxury	High Luxury Share	Luxury Sport	Luxury Sport Share	Luxury Sport Utility	Luxury Sport Utility Share	Total Luxury	Total Luxury Share
1990	1,285,788	18,441	1.4%	16,704	1.3%	4,217	0.3%	65	0.0%	39,427	3.1%
1991	1,266,482	20,665	1.6%	17,434	1.4%	3,089	0.2%	161	0.0%	41,349	3.3%
1992	1,204,348	18,281	1.5%	18,450	1.5%	2,701	0.2%	151	0.0%	39,583	3.3%
1993	1,164,677	17,520	1.5%	21,228	1.8%	2,244	0.2%	227	0.0%	41,219	3.5%
1994	1,224,949	21,702	1.8%	20,854	1.7%	2,139	0.2%	535	0.0%	45,230	3.7%
1995	1,130,211	24,299	2.1%	19,090	1.7%	1,780	0.2%	816	0.1%	45,985	4.1%
1996	1,173,090	24,424	2.1%	20,423	1.7%	1,597	0.1%	1,474	0.1%	47,918	4.1%
1997	1,387,950	29,313	2.1%	23,314	1.7%	2,328	0.2%	4,795	0.3%	59,750	4.3%
1998	1,389,126	30,343	2.2%	23,758	1.7%	2,545	0.2%	10,190	0.7%	66,836	4.8%
1999	1,501,099	34,907	2.3%	27,350	1.8%	3,454	0.2%	13,028	0.9%	78,739	5.2%
2000	1,549,441	37,135	2.4%	29,627	1.9%	4,581	0.3%	15,729	1.0%	87,072	5.6%
2001	1,570,629	37,488	2.4%	26,914	1.7%	4,949	0.3%	19,199	1.2%	88,550	5.6%
2002	1,703,246	44,305	2.6%	28,154	1.7%	6,843	0.4%	21,539	1.3%	100,841	5.9%
2003	1,593,506	46,774	2.9%	24,407	1.5%	7,364	0.5%	32,521	2.0%	111,066	7.0%
2004	1,534,415	49,132	3.2%	26,181	1.7%	8,204	0.5%	39,832	2.6%	123,349	8.0%
	-3.7%	5.0%		7.3%		11.4%		22.5%		11.1%	

Source: DesRosiers Automotive Consultants Inc., AIAMC and CVMA

(continued from previous page)

considered questionable by some industry members. The best example is the DCX 300 Series. Base price for the Chrysler 300 is under \$30,000, which seems a little low for this segment but DCX classifies the vehicle as a luxury product and thus we include it in our small luxury segmentation.

These segment issues cause us to pull our hair out on occasion but we always go with what the industry trade associations recommend. I disagree with some of these segment choices but I'm also not about to fight them. Interestingly, even though there is an "official" segmentation published by the

industry, most OEMs don't use it and instead develop their own internal segmentation guidelines.

The luxury market was one of the few growth segments in Canada over the last two years and long term has been one of the fastest growing segments in the Canadian market. In 1990 sales were 39,427 units or 3.1 percent of the market. By 2004 sales were 123,349 units and 8.0 percent of the market up a full percentage point from 2003. Luxury vehicle sales in 2004 were up 11.1 percent compared to the total market, which was down by 3.7 percent.

We also believe that, given the amount of competition in this

segment and the maturing baby boomer demographic, this

Luxury vehicle sales in 2004 were up 11.1 percent compared to the total market, which was down by 3.7 percent.

segment has considerable upside potential. The lead edge of the boomer population group is over 55 years old and in their primary wealth creation years. Many have done very well in their careers and are looking for a higher end vehicle to drive, as they get older. Many can certainly afford a more expensive vehicle. Thus in our

(continued on next page)

Canadian Light Vehicle Market - Luxury Vehicles

Year	Total Luxury Market	GM Luxury Share	Ford Luxury Share	DCX Luxury Share	Japanese Luxury Share	Korean Luxury Share	European Luxury Share
1990	39,427	10,460	26.5%	4,394	11.1%	910	2.3%
1991	41,349	11,961	28.9%	4,021	9.7%	721	1.7%
1992	39,583	10,747	27.2%	3,872	9.8%	419	1.1%
1993	41,219	10,662	25.9%	5,151	12.5%	2,715	6.6%
1994	45,230	11,076	24.5%	5,021	11.1%	4,667	10.3%
1995	45,985	9,934	21.6%	4,455	9.7%	3,866	8.4%
1996	47,918	10,255	21.4%	3,559	7.4%	2,048	4.3%
1997	59,750	12,641	21.2%	4,537	7.6%	1,441	2.4%
1998	66,836	10,426	15.6%	4,937	7.4%	3,441	5.1%
1999	78,739	10,389	13.2%	5,654	7.2%	5,660	7.2%
2000	87,072	10,768	12.4%	6,417	7.4%	5,797	6.7%
2001	88,550	9,911	11.2%	6,513	7.4%	4,460	5.0%
2002	100,841	11,505	11.4%	7,701	7.6%	3,976	3.9%
2003	111,066	10,592	9.5%	7,361	6.6%	6,747	6.1%
2004	123,349	9,863	8.0%	5,773	4.7%	18,654	15.1%
	11.1%	-6.9%		-21.6%		176.5%	5.2%

Source: DesRosiers Automotive Consultants Inc., AIAMC and CVMA

Observations - "The Luxury Market in Canada"

(continued from previous page)

segmentation forecast we have luxury vehicles out-performing the market as a whole.

The long-term sales data reveals some interesting stories. Volvo was number one in the market in the mid 90s, for example, a fact that I'm sure a lot of a people never realized. Mercedes-Benz is often considered the number one luxury brand but in reality they are usually third or fourth behind Acura and Volvo. BMW has been a strong number one in Canada with their strong entry-level luxury cars.

The Cadillac story is an interesting one. Number two to Volvo in the early 90s, they fell most years through to the introduction of the CTS in 2002,

which helped them pick up a little more than a point in the market and stabilized their market position. Since the early success of CTS, however, Cadillac has lost almost two points of market share and is

Although the luxury markets are growing in Canada, compared to the U.S., our luxury market is tiny.

now ninth in the luxury market. Indeed they are in a lower position today than before they introduced the CTS in Canada. It is a tough situation when you put that much of your resources into renewing a brand and you end up with less market share.

Lincoln has also run headlong into serious competition in Canada declining from an 11 plus share of the market to only 4.1 percent.

Another interesting story is Lexus. Lexus is a strong number one in the luxury segments in the U.S. market and is growing, whereas in Canada they are sixth in market share and are struggling. You can't blame the product, their product is spectacular. So why do they do so well in the U.S. and not so well in Canada?

It comes down to the type of luxury products Canadians purchase. Canadians are concentrated in the smaller luxury segments and the Lexus

(continued on next page)

Luxury Vehicle Sales in Canada - Units

(Luxury, High Luxury, Luxury Sport and Luxury Sport Utility)

		1990	1995	2000	2001	2002	2003	2004	Change
1	BMW	4,002	5,245	11,022	12,702	14,520	15,160	16,598	9.5%
2	Chrysler	910	3,735	5,501	4,248	3,770	6,598	16,402	148.6%
3	Acura	2,455	1,270	8,376	11,012	10,864	12,327	14,191	15.1%
4	Mercedes-Benz	4,065	4,255	12,457	11,881	14,520	13,868	12,337	-11.0%
5	Volvo	5,583	7,814	8,658	9,237	9,442	10,750	11,135	3.6%
6	Lexus	607	1,912	5,257	5,575	6,514	8,132	8,318	2.3%
7	Infiniti	283	1,307	4,340	3,765	6,969	8,938	7,841	-12.3%
8	Audi	1,385	681	5,992	6,072	7,236	7,861	7,422	-5.6%
9	Cadillac	5,105	4,367	6,042	5,137	7,063	6,548	6,401	-2.2%
10	Lincoln	4,361	4,455	6,417	6,513	7,701	7,361	5,043	-31.5%
11	Dodge	-	131	152	108	90	149	2,252	1,411.4%
12	Mazda	1,246	514	894	551	307	794	2,118	166.8%
13	Saab	251	1,300	1,483	1,710	1,764	1,710	1,864	9.0%
14	Porsche	327	307	1,288	1,102	1,193	1,612	1,816	12.7%
15	Jaguar	1,005	945	2,323	2,460	2,556	2,366	1,751	-26.0%
16	Volkswagen	-	-	-	-	-	806	1,612	100.0%
17	Chevrolet	823	436	1,181	1,046	1,230	1,020	1,048	2.7%
18	Nissan	813	69	1	-	741	1,559	983	-36.9%
19	Kia	-	-	-	-	-	269	946	251.7%
20	Range Rover	65	816	1,015	913	947	762	838	10.0%
21	Ford	-	-	-	-	-	-	730	-
22	Hyundai	-	-	284	1,108	947	626	625	-0.2%
23	Hummer	-	-	-	0	424	872	498	-42.9%
24	Honda	-	-	412	401	336	238	250	5.0%
25	Toyota	1,827	2,514	1,771	887	567	287	187	-34.8%
26	Mitsubishi	-	-	-	-	-	3	84	-
27	Oldsmobile	3,674	2,745	2,052	2,016	1,024	442	52	-88.2%
28	Maybach	-	-	-	-	-	8	7	-12.5%
	Total Luxury	39,427	45,985	87,072	88,550	100,841	111,066	123,349	11.1%
	Total Market	1,285,788	1,130,211	1,549,441	1,570,629	1,703,246	1,593,506	1,534,415	-3.7%
	Luxury Share	3.1%	4.1%	5.6%	5.6%	5.9%	7.0%	8.0%	

Source: DesRosiers Automotive Consultants Inc., AIAMC and CVMA

Observations - "The Luxury Market in Canada"

Luxury Vehicle Sales in Canada - Share by Brand

(Luxury, High Luxury, Luxury Sport and Luxury Sport Utility)

		1990	1995	2000	2001	2002	2003	2004
1	BMW	10.2%	11.4%	12.7%	14.3%	14.4%	13.6%	13.5%
2	Chrysler	2.3%	8.1%	6.3%	4.8%	3.7%	5.9%	13.3%
3	Acura	6.2%	2.8%	9.6%	12.4%	10.8%	11.1%	11.5%
4	Mercedes-Benz	10.3%	9.3%	14.3%	13.4%	14.4%	12.5%	10.0%
5	Volvo	14.2%	17.0%	9.9%	10.4%	9.4%	9.7%	9.0%
6	Lexus	1.5%	4.2%	6.0%	6.3%	6.5%	7.3%	6.7%
7	Infiniti	0.7%	2.8%	5.0%	4.3%	6.9%	8.0%	6.4%
8	Audi	3.5%	1.5%	6.9%	6.9%	7.2%	7.1%	6.0%
9	Cadillac	12.9%	9.5%	6.9%	5.8%	7.0%	5.9%	5.2%
10	Lincoln	11.1%	9.7%	7.4%	7.4%	7.6%	6.6%	4.1%
11	Dodge	0.0%	0.3%	0.2%	0.1%	0.1%	0.1%	1.8%
12	Mazda	3.2%	1.1%	1.0%	0.6%	0.3%	0.7%	1.7%
13	Saab	0.6%	2.8%	1.7%	1.9%	1.7%	1.5%	1.5%
14	Porsche	0.8%	0.7%	1.5%	1.2%	1.2%	1.5%	1.5%
15	Jaguar	2.5%	2.1%	2.7%	2.8%	2.5%	2.1%	1.4%
16	Volkswagen	0.0%	0.0%	0.0%	0.0%	0.0%	0.7%	1.3%
17	Chevrolet	2.1%	0.9%	1.4%	1.2%	1.2%	0.9%	0.8%
18	Nissan	2.1%	0.2%	0.0%	0.0%	0.7%	1.4%	0.8%
19	Kia	0.0%	0.0%	0.0%	0.0%	0.0%	0.2%	0.8%
20	Range Rover	0.2%	1.8%	1.2%	1.0%	0.9%	0.7%	0.7%
21	Ford	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.6%
22	Hyundai	0.0%	0.0%	0.3%	1.3%	0.9%	0.6%	0.5%
23	Hummer	0.0%	0.0%	0.0%	0.0%	0.4%	0.8%	0.4%
24	Honda	0.0%	0.0%	0.5%	0.5%	0.3%	0.2%	0.2%
25	Toyota	4.6%	5.5%	2.0%	1.0%	0.6%	0.3%	0.2%
26	Mitsubishi	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%
27	Oldsmobile	9.3%	6.0%	2.4%	2.3%	1.0%	0.4%	0.0%
28	Maybach	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
	Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: DesRosiers Automotive Consultants Inc., AIAMC and CVMA

(continued from previous page)

product is within the higher luxury segment. Americans primarily buy high-end luxury so Lexus, for example, does very well in the U.S. market. It does less well in Canada. What sells well in Canada are vehicles such as the BMW 3 Series, the Mercedes 'C' Class and the

Virtually every company lost share in this segment to DCX during the last year.

Acura entry-level luxury products.

Although the luxury markets are growing in Canada, compared to the U.S. our luxury market is tiny. As mentioned earlier, about 8 percent of our total market is luxury, whereas in the U.S., over 13.9 percent is luxury. This is 50 percent larger than Canada on a market share basis and it is also

radically different from a brand perspective.

Within the luxury segments, the sport utilities have been growing very rapidly along with the small luxury market. The high-end luxury market has been down quite significantly over the last few years peaking at 29,000 units in 2000 and declining to only 26,000 units last year. Luxury sports cars, although a very small segment, have also been growing over the last few years.

Over the last decade the Japanese have picked up a lot of share in these segments growing from a little over ten percent in 1994 to a peak of 29.1 percent in 2003. The Europeans have always been a major player in the luxury segments and over the last decade have grown from about a third of the market in the early 1990s to 50.0 percent of the market in 2002. GM has

declined from a peak of 28.9 percent of the market in 1991 to 8.0 percent in 2004 and Ford has declined from a peak of 12.5 percent in 1993 to 4.7 percent in 2004. DCX was typically a very small player until the introduction of the current 300 Series, which has given them a 15.1 percent share and they are now the largest single company in the luxury market. Virtually every company lost share in this segment to DCX during the last year.

Overall, although there are analysis and reporting complications arising from the "luxury" definition, this will be a very interesting segment to watch over the next few years. As I indicated, some brands are facing significant challenges and it will be intriguing to see if "resurrection" efforts continue on some of the declining brands or whether there will be aggressive efforts to develop new "breakthrough" entries such as DCX did with the Chrysler 300.

This also brings up the question of whether a huge concentration of effort and resources by an OEM in this or any segment can detract from effectiveness in other segments. Right now luxury continues to be "hot" but future sustainability can be influenced by a wide variety of factors. I look forward to following and reporting on the possible future twists and turns in this evolving segment. **DAR**