

Orphans

Last fall, Volkswagen announced that 2006 would be the final year for North American sales of its Phaeton luxury flagship. The Phaeton's failure was especially public because of its high price and profile, but cost alone cannot explain how a major industrial concern can misjudge its market so completely. With the intense segment balkanization and product proliferation that's sweeping our industry, it's more likely than ever that a number of newly-introduced vehicles will follow the Phaeton into the figurative footnotes.

OEMs often tout the number of new products they have in the pipeline: "12 new products in 12 months!" "22 new products over the next two years!" Implicit in this strategy is that by blanketing the market with new vehicles, fortunes are assured. Throw enough product into the market; at least some of it is going to stick. This *Observation* is about the product that didn't work - the products that failed. We call these vehicles "orphans."

We are currently aware of 67 new vehicles being launched in 2007. This is an unprecedented number of introductions, far beyond the 30-35 intros that were common in the nineties, even leapfrogging the 40-45 yearly launches that had become the norm this decade. With so many products hitting the market simultaneously, segments become super-saturated and consumers get confused. OEMs must differentiate their products in meaningful ways while maintaining a solid value proposition.

In the real world, vehicle purchasers are swayed by a wide variety of factors above and beyond those related to the vehicle itself. Not everyone reads reviews, and many don't place a high value on a

vehicle's subjective attributes. Factors affecting vehicle choice can include regional and national marketing campaigns, local inventory levels, distribution politics, incentives, brand image, dealer body quality, and, of course, the most important variable of all: price. All these issues, plus myriad others, play into the buying decision.

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It is telling, then, to look through the sales records and discuss those vehicles that failed to meet with success - the vehicles which, for one reason or another, fell flat on the Canadian market. Is there a common characteristic shared by unsuccessful vehicles, or did each fail on its own merits (or lack thereof)? Can some lessons be learned?

You can pose some simple questions: Do orphaned products fail for reasons related to the product, the deal, or the marketing? Does the Canadian consumer care more about the product or the deal? Can good product be harmed by a bad deal, or can inferior product be supported by a good deal? Does the market always "find a way" to deliver the best products to mainstream consumers, or do winners occasionally get lost in the mix?

What follows are four case studies from a variety of vehicle segments, both low and high volume. By seeing what went wrong on a model-by-model basis,
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some important lessons can be learned - lessons about vehicles, buyers, and the human condition.

Toyota Previa (1990 - 1996)

The Previa was Toyota's second attempt at a North American market minivan. The first (aptly called the Van) was an undiluted forward-control import ill-adapted to North American driving conditions. Short, narrow, underpowered, and top-heavy, the Van was replaced by the Previa in 1990. Though far more modern in styling and packaging, the Previa retained its predecessor's mid-engine layout. This gave the van excellent handling (for its class), but it restricted engine access and delivered high maintenance bills.

Of the six major minivan platforms in full production between 1990 and 1996 (i.e., DaimlerChrysler minivans, Ford Aerostar, GM Lumina/Transport, GM Astro/Safari, Mazda MPV, and Toyota Previa), the Previa was last in sales. In seven years of availability, Toyota sold just 31,236 units. In the same period of time, DaimlerChrysler moved 459,997 Caravans and Voyagers.

Unlike the bestselling minivans of the period, the Previa was available in just one wheelbase length. A four-cylinder engine was the only available powertrain until 1995, when a mildly supercharged version was made available. I would argue that the base engine was underpowered for this product.

The Previa was also expensive. Basing at \$21,988 (1991), the Previa started \$5,000-\$6,000 higher than its rivals.

It can be argued that the Previa's lack of commercial success was due to its non-traditional chassis layout, but I believe that pricing was the deal killer. Given the difference in cost between a base Previa and a base Caravan, the Previa did not provide significantly more value. A minivan is essentially a

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needs-driven purchase, and the "premium minivan" concept would not gain widespread marketplace acceptance until the end of the 1990s. Chrysler's own Town & Country, a leather'n'wood version of the 'magic wagon,' sold in trivial volumes during the same period. The Previa was, at best, an awkward 'premium' product, offering minor touch/feel advantages (and no real world performance or usability virtues) over its Detroit-sourced competitors. Minivan consumers could not justify the price.

It has only been in recent years that the market has come to accept premium vans, like high-trim versions of the Honda Odyssey and Toyota Sienna. These vans possess a large touch/feel advantage over their less-expensive competitors, along with sportier performance and more standard features.

The Lesson: In 1991, the market was not yet ready for a premium minivan, and the Toyota Previa was left unable to substantiate its high price in the face of strong competition.

Volkswagen Phaeton (2003 - 2006)

The VW Phaeton is an outstanding car. It is a magnificent engineering achievement, coddling its occupants in supreme luxury while providing an

uncommon level of performance capability.

Unfortunately, as many pundits have lamented, the Phaeton was the wrong car from the wrong company at the wrong time. Volkswagen went too far, too fast. The proof is in the sales: 34 Phaetons sold in Canada in 2005. This represents just 1.8 percent of the heavy cruiser sedan market (BMW 7-Series, Mercedes-Benz S-Class, Jaguar XJ, Lexus LS430, Audi A8). None of these are high-volume vehicles, but to believe that potential Mercedes buyers will jump-ship is Pollyanna-esque.

Volkswagen had only to look at its own corporate history for an accurate foretelling of the Phaeton's future. Audi's launch of the 200-based V8 Quattro in 1989 was met with a thud just as resounding as that generated by the Phaeton. Priced a few thousand dollars below the BMW 7-Series (and, it should be noted, more than ten thousand above the 1990 Lexus LS400), the V8 Quattro sold about a hundred units per year until cancelled in 1993. Despite good looks and excellent driving dynamics, the V8 Quattro couldn't compete; Lexus (launched in 1990) owned the value angle, while BMW and Mercedes-Benz had the prestige market sewn up. Clearly, the Audi brand still had some growing up to do.

Perhaps the Phaeton would have done better around the \$80,000 mark. The Lexus LS430 and Jaguar XJ - traditionally the less ostentatious members of the big sedan class - both play successfully in this arena. By challenging Mercedes-Benz and BMW - brands with two accumulated lifetimes of high-luxury experience between them - Volkswagen was simply out

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of its perceptual league. Would anyone buy a \$100,000 Subaru? A \$100K Ford? The Volkswagen brand has no immediate potential to operate in that level. Besides, corporate sibling Audi *already covers* the upper range and markets a competing product!

On the dealership level, stores that ordinarily did volume business in Golfs, Jettas, and Passats were tasked with selling and servicing a \$100,000 luxury vehicle. The high luxury buyer has different dealer expectations (eg. deferential treatment, equivalent loner vehicles, rarified atmosphere, etc.), and Volkswagen shops were not prepared to deliver on the \$100K promise. Walk into any BMW or Mercedes dealership; it's like a laboratory. Spotless, gleaming, tasteful. The salesmen sport expensive suits and expensive haircuts. They reflect the brand image. It is difficult to change dealer culture, and Volkswagen stores were ill-equipped to handle a high luxury product.

The Lesson: Volkswagen has given irrefutable proof that separate brands are necessary to support products at opposite ends of the price spectrum.

Lincoln LS (1999 - 2006)

Like virtually every vehicle on this list, the Lincoln LS is not a bad car - but it's not a great car either. Basing around \$42,000, it has had to do battle with a number of segment heavies, including the Acura TL, Audi A4, Chryslers 300M and 300C, Infiniti G35, and - of course - the sterling BMW 3-Series. From a peak of 2,498 units in 2000, LS sales slid to an even 700 in 2005. Contrast this with the BMW 3-Series, generator of an average sales volume above 7,700 units per year for the same period. Had the LS arrived in, say, 1995, its mission might have been easier. As it

was, though, the LS debuted in 1999 with generic exterior styling and an uncontroversial, one-size-fits-all interior. It immediately sunk to the bottom of the magazine comparison tests ratings, not because of an

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inherent flaw, but because it failed to shine in any single area.

Why did the LS fail to sell in significant volumes? There are plenty of mediocre cars that manage to lead successful sales lives. The LS received solid marketing support and rode upon a modern, responsive chassis. It was facelifted in mid-cycle and augmented with V8 power. Still, issues with Lincoln's brand image kept it on the sidelines.

Consider Cadillac's still-recent image overhaul. GM has managed to coax the brand out of retirement and into the limelight once again. Cadillac now wears a performance mantle, the lineup acting as an American interpretation of German luxury. This feat was accomplished by populating the showrooms with desirable, competitive products: CTS, SRX, STS, XLR. Even the stodgy DeVille has been rebranded "DTS" and given an edgy new look. By sweeping away the remnants of old-style "Detroit Iron," Cadillac became cool again.

Lincoln, on the other hand, failed to follow the LS up with other European-style products to bolster their 'new' image - whatever that was supposed to be. On the contrary, they have persisted with the old "American Luxury" themes. New Town Cars still provide reliable service to North America's airport

terminals, and Lincoln's sport utilities are interstate inhalers in the traditional mold. The LS is a fish out of water within the Lincoln brand, suffering the same sort of brand identity crisis as the Volkswagen Phaeton.

Furthermore, the small Lincoln's \$42,000 starting range missed Canada's well established premium "sweet spot" of \$30-\$40K. Even if the base vehicle is severely decontented, there must be a \$39,999 variant on the books in order to attract the new Canadian "premium" buyer - a customer who can be radically upsold into the \$50,000 range, but for whom the psychological barrier of a \$40,000 base price can remove a vehicle from consideration. The 3-Series (\$35,200), C-Class (\$38,450), A4 (\$35,970), G35 (\$39,990), ES330 (\$39,950), IS250 (\$36,300), and CTS (\$35,555) all show up with segment-appropriate pricing. Why couldn't Lincoln?

The Lesson: A single brand cannot support two images. Lincoln is presently a confusing juxtaposition of themes: yachts and jetskis under the same tent. There is little room for movement between Lincoln products, as each seems to play to a distinct demographic group. In contrast, the successful luxury brands attempt to cater their vehicles to similar demographic groups, slices of society instead of wide swathes.

Saturn L-Series (2000 - 2005)

It would be easy to pick on the Pontiac Aztek, but that vehicle has been documented to death. So let's tackle the Saturn L-Series instead. The L-Series entered the hotly contested family sedan market in 2000 and immediately sold poorly.

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Of its many competitors, only the aging Mazda 626 undersold the Saturn before being succeeded by the successful Mazda6 in 2003. The L-Series' first year was its best, with sales of 5,374 units in 2000. In all, 18,703 L-Series sedans and wagons have been sold in Canada since the vehicle's introduction six years ago. For comparison, Honda sold 186,716 Accords between 2000 and 2005. It's worth noting that there are just as many dealers selling Saturns as Hondas, so distribution clearly isn't the problem.

The large Saturn was not a bad car, but it was definitely a boring car. To augment Saturn's lineup, GM engineers "Americanized" the European-market Opel/Vauxhall Vectra. A capable, if not cutting edge, platform was fitted with softer suspension, less aggressive tires, cheaper interior materials, and inoffensive (some might say invisible) styling. The enthusiast magazines called it as they saw it: bland. This is not a damning critique - numerous other "boring" intermediate sedans regularly quadrupled the Saturn's sales results (eg. Chrysler Sebring, Buick Century, Chevrolet Malibu), so there was more afoot in the L-Series' failure than simple product issues.

The Saturn brand debuted in 1990 as an alternative to the traditional car buying experience. The cars have always been unremarkable, but Saturn generated respectable sales by playing to a previously-untapped section of the consumer public: those who dislike the bargaining process. Until the advent of the L-Series, Saturn's product lineup was uniformly populated by entry level coupes and sedans.

Generally speaking, most Saturn buyers are women and most are price-sensitive. Saturn's *raison d'etre* is providing honest transportation to people who are threatened by the give-and-take of a normal vehicle purchase scenario. A case can be made that such buyers are non-aspirational - they may have absolutely no interest in climbing the 'Sloan Ladder' (i.e., transitioning to larger and more expensive products as they age and their earning capacities increase). If you market yourself specifically to people who are not interested in cars - who may actually *dislike* cars - then you face the possibility of substantial resistance when trying to sell them a larger, more expensive car. Remember that the quantifiable merits of the vehicle are tertiary in the established Saturn equation: dealership experience comes first, then price, *then* product.

The Lesson: Try dropping a product - anything - into the ring with Accord and Camry, two 800-pound gorillas whose untouchable reputations justify the few thousand extra they cost. To compete with the import nameplate heavyweights, you need a solid product and a marketing message that successfully reaches beyond your current customer base.

The Lessons

The Toyota Previa was expensive and unconventional. The VW Phaeton overshot its potential market, exposing the brand's current limitations. The Lincoln LS was an unfortunate casualty of poor brand identity and unresponsive pricing. Existing Saturn owners and potential Saturn buyers found nothing compelling about the Saturn L-Series or its scant publicity ventures.

There are literally dozens of other examples. The length of this column prohibits further in-depth examples, but the Mitsubishi Lancer Sportback, Saab 9-5, Suzuki Aerio and Verona, Mitsubishi Galant, Subaru Justy, Ford Thunderbird (new), Acura NSX, and Infiniti Q45 all qualify as orphaned products. All failed to generate much sales momentum at launch, and all failed to maintain any of that momentum through their showroom lives.

The real lesson here is that product alone is often not the answer to an OEM's woes. Yes, high-quality, high-value product is still the most important factor, but vehicles do not exist in a vacuum. Without the proper blend of support and marketing from the host OEM, virtually any vehicle can potentially fail. As can be seen from the above case studies, even the best (eg. Honda, Toyota) occasionally misfire, delivering products and/or brand messaging that are out-of-step with the mainstream. Maybe the vehicle was priced wrong? Maybe it entered a segment too early, testing the water before the pool warmed up? Perhaps other vehicles in the brand's lineup didn't support the new vehicle's image, making it a stranger in its own showroom? Whatever the reason, it's important to remember that behind every successful vehicle, there's a successful marketing plan, advertising campaign, distribution scheme, pricing matrix, and branding message. It helps if the vehicle itself is great, but even poorly designed products can find some success if all the other variables are well executed. Getting one of those variables wrong may mean the difference between success and failure in the vehicle marketplace. **DAR**