



# OBSERVATIONS

Dennis DesRosiers

## One Size Down - Right Sizing the Light Vehicle Market in Canada

It's funny how the past manages to repeat itself. With Russia sounding more Krushchev than Gorbachev, a minority-group Democrat entering the White House and the very survival of the US auto industry the subject of hot debate in circles political and social, the past half-century's events have coalesced into a single history-making year. It is within the context of this remarkable moment that the behaviour of automotive consumers and corporations has begun to mirror that of their Carter-era counterparts.

The late-1970s and early-1980s are remembered as a period of "downsizing." Cars lost length, tonnage, cubic inches and a great deal of unquantifiable-but-sorely-missed panache. In an effort to increase fuel economy across manufacturers' lineups, massive cars became large cars while previously-large cars became midsizers ("Precision Size" in contemporary parlance). The first generation of rear-drive downsized products forced consumers to accept smaller rear seat and trunk dimensions, but the early-1980s saw a second product offensive consisting largely of front-wheel-drive midsize cars. The packaging efficiencies inherent to FWD architectures allowed vehicles to lose even more weight and size with little compromise in interior volume or performance.

Small[er] vehicles had long existed in manufacturers' lineups when the initial urge

to downsize ripped through the zeitgeist. Through the 1960s and 70s, Chevrolet showrooms were stocked with any number of Corvairs, Chevy IIs, Novas, Vegas and Monzas, but it took a "values directive" from Madison Avenue to shift consumers from the huge stuff to the merely-large stuff.

Results were mixed. Some products - Chevrolet's downsized Caprice/Impala and Chrysler's front-drive K-Cars, for instance - were standouts. Others, like GM's abortive dalliance with diesel, had lasting negative ramifications. Despite impressive taming of the technology's noises and smells, virtually every auto journalist over the age of 50 (and many under) seems contract-bound to mention his smoky weekend with a 1981 Oldsmobile Ninety-Eight when reviewing the latest hyper-clean Mercedes-Benz BlueTEC diesel.

### **Is the past repeating itself?**

As gas prices spiked last summer, sales of large SUVs plummeted while small cars soared. The news media delighted in stories of ex-Tahoe drivers finding comfort and economy behind the wheels of their new Honda Fits - or of classified-section hounds unearthing moldy Geo Metros and Ford Fiestas for temporary mileage duty.

These people are, of course, outliers to a larger system. A recent conversation with

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some advertising friends revealed that the wider market is undergoing a phenomenon similar to the downsizing of the 1970s, but sufficiently different that it deserves its own term: One Size Down.

Going One Size Down - or taking a step sideways - can mean swapping one gas guzzler for another. Consider the exodus from full size SUVs to large crossovers. According to user-reported mileage averages on Fuely.com, (detailed in last month's Observation), GM's Tahoe/Yukon twins consume between 13.3 and 14.3 L/100 KM in real-world driving. Owners of those vehicles are reportedly deserting them in

favour of unit-body alternatives like the GMC Acadia.

While the Acadia (and its Lambda platform mates at Buick, Chevrolet and Saturn) offers a number of ride, handling, and space-efficiency advantages over the Tahoe/

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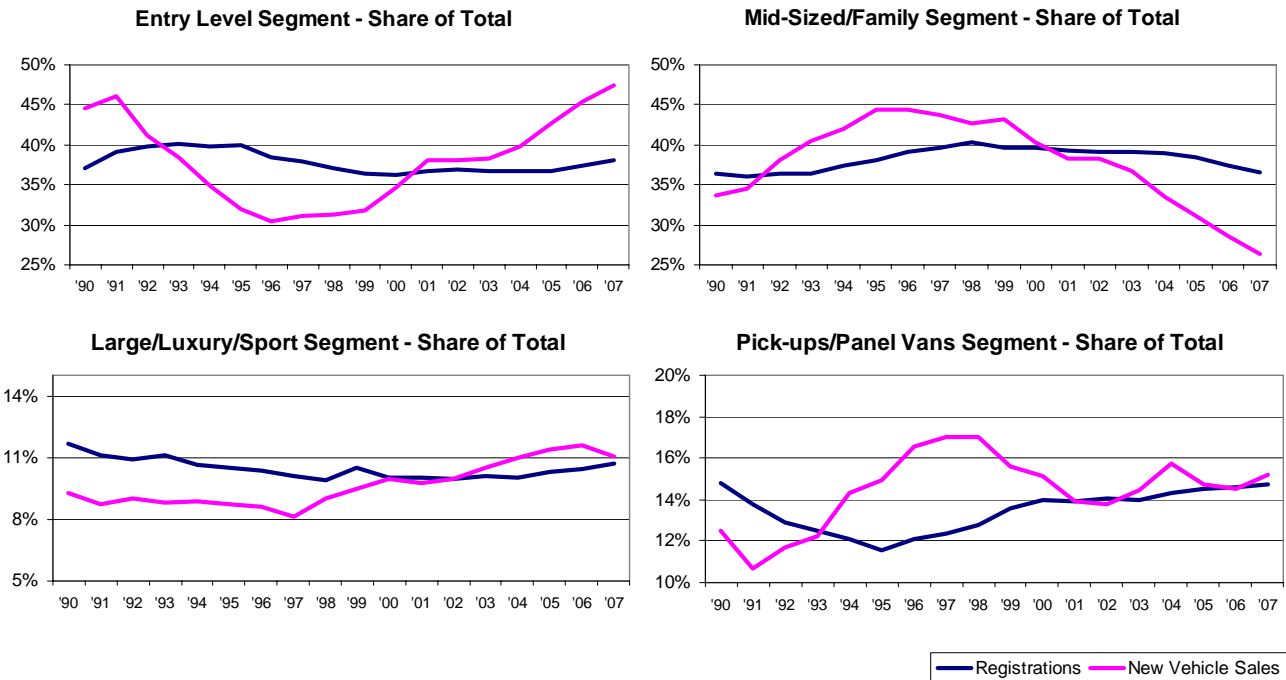
Yukon, fuel economy is not high on the list. Lambda owners on Fuely.com have reported average fuel consumption in 13 to 14 L/100 KM range - similar

to the full size SUVs that these vehicles are replacing. People are swapping clumsy vehicles for ones with greater agility, but modern suspenders do not a fuel efficient vehicle make.

In similar fashion, minivan sales have declined precipitously over the past few years, with former minivan-intenders becoming crossover owners. Vehicles like the Toyota Highlander, Ford Edge, and Nissan Murano have grown in popularity, supplanting minivans as the choice of a new generation of active parents. Given the tight focus fuel efficiency receives, it stands to reason that the minivan's successor vehicle would offer some benefits in this regard.

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## Canadian Vehicles on the Road vs. New Vehicle Sales by Segment - Share of Total



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Unfortunately, as is the case with those exiting Large SUVs, former minivan buyers realize very little enhanced fuel economy in their new midsize crossovers. Average FE returns for the above-listed crossovers range from 11 to 13 L/100 KM - identical to the numbers for vehicles like the Dodge Caravan, Chevrolet Uplander and Toyota Sienna.

Crossover volumes have risen quickly since their introduction in the late 1990s, and their growth has mirrored a sharp decline in the popularity of traditional SUVs. As such, while the number of large body-on-frame vehicles has dropped steadily since the early years of this decade, the total number of SUVs (including both traditional and crossover models) has risen from 268,463 units in 2002 to 361,344 units last year. SUVs currently represent 21.9 percent of the total vehicle market. These vehicles are, as a rule, less fuel efficient than cars of equivalent interior dimensions.

In addition to the transition from large, clumsy vehicles to large, agile vehicles, One Size Down

can also refer to movement of buyers from those same clumsy vehicles into smaller, more agile vehicles. Moving from an SUV of any sort to an Intermediate or Compact Car will often deliver better performance and fuel economy while still meeting the day-to-day needs (if not extra-ordinary

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needs, like occasional towing) of the average consumer. Again, this is a separate phenomenon from the downsizing binge undertaken three decades ago. Whereas downsizing involved the OEMs forcibly moving customers to smaller vehicles by decreasing size across entire lineups, One Size Down represents a consumer movement - a step back on Sloan's ladder.

These One Size Down trends are very evident in our data. Table 1, for instance, shows the size structure of the vehicles currently on the road (i.e., what kinds of vehicles are being traded in) compared to the sizes/types of vehicles being bought. It is crystal clear that many mid-sized/family vehicle owners are switching to smaller entry-level vehicles and abandoning the intermediate categories in the process. This movement is less evident in other vehicle segments, though there has been a distinct move away from pick-up trucks.

Our data also shows the side-stepping going on in our market. Traditional SUV sales have been falling as consumers embrace CUV alternatives. As mentioned earlier, we think that this is more One Size Over than One Size Down, but it is an interesting trend nonetheless.

A third (and smaller) movement exists at the edges

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## Crossover Utility Vehicle Sales in Canada

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	% Change
Total Cross-over SUV Sales	1,899	27,573	29,065	27,650	52,294	97,779	120,540	133,981	146,622	178,745	214,985	261,681	21.7%
Share of Light Vehicle Market	0.2%	2.0%	2.1%	1.8%	3.4%	6.2%	7.1%	8.4%	9.6%	11.3%	13.3%	15.8%	
Traditional SUV's	96,481	124,805	130,499	151,473	141,988	130,877	147,923	136,299	113,120	113,359	96,638	99,663	3.1%
Share of Light Vehicle Market	8.2%	9.0%	9.4%	10.1%	9.2%	8.3%	8.7%	8.6%	7.4%	7.2%	6.0%	6.0%	
<b>Total Light Vehicle Market</b>	<b>1,173,090</b>	<b>1,387,950</b>	<b>1,389,128</b>	<b>1,501,099</b>	<b>1,549,441</b>	<b>1,570,629</b>	<b>1,703,246</b>	<b>1,593,506</b>	<b>1,534,415</b>	<b>1,583,291</b>	<b>1,614,701</b>	<b>1,653,388</b>	<b>2.4%</b>
Traditional SUV's plus CUV's	98,380	152,378	159,564	179,123	194,282	228,656	268,463	270,280	259,742	292,104	311,623	361,344	16.0%
Share of Light Vehicle Market	8.4%	11.0%	11.5%	11.9%	12.5%	14.6%	15.8%	17.0%	16.9%	18.4%	19.3%	21.9%	

Source: DesRosiers Automotive Consultants Inc., AIAMC and CVMA

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of the market: those moving from any sort of vehicle - be it large, medium or small - to smaller engined or alternative powertrain versions of similarly-sized cars and trucks. Civic owners may transition to Civic Hybrids, while drivers of other C-size vehicles may find themselves smitten with the Volkswagen Jetta TDI, Toyota Prius or Chevrolet Cobalt XFE. Minute variations in the powertrain mix are not covered in our sales figures, but anecdotal evidence supports the existence of this trend.

### What does this mean?

I have written extensively about the phantom efficiencies promised by various millennial buzzwords. Corn-derived fuels have too high a lifecycle cost to effectively 'green' our roads. Hybrid powertrains installed in regular cars return mediocre mileage when driven by normal people in normal situations. The current crop of diesel-powered vehicles being offered in our market is not properly aligned with North American tastes and budgets.

I believe that the step-down trend falls into this category. Consumers are making lateral moves, but they are doing so under the mistaken belief that their choice will net them some sort of efficiency gain.

When the industry's first and second rounds of downsizing occurred during the late-1970s and early-1980s, cars got smaller. With very few exceptions, entire lineups lost significant inches and pounds. Today, however, our vehicles are still growing. The latest editions of the Honda Accord, Mazda6 and Toyota Corolla are larger and bulkier than their predecessors - their

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makers still kowtowing to the pronouncements of confused, suggestible focus group participants. We are sold this girth with lines like, "Weight gain was limited to just fifty pounds!"

Some studies have suggested that smokers with regular physical exercise routines are able to ward off lung cancer a bit longer than their sedentary counterparts. Anyone with a modicum of smarts or a functioning sense of self-preservation will respond to this information as follows: 'Perhaps, but that doesn't mean it's okay to smoke.'

In the same vein, the fact that vehicle manufacturers have

been able to hold the line on fuel efficiency does not mean that weight gains should be tolerated.

Make no mistake: weight is the single worst enemy of fuel efficiency. The late-1980s Honda CR-X HF was capable of extreme efficiency (EPA rated at 4.7 L/100 KM on the highway). It achieved this figure not through hybrid wizardry or cylinder deactivation or some other combination of modern buzzwords. The HF was a mileage monster because it weighed nothing.

The past two decades' advancements have been put to use in service of our preference for larger cars. In order to see real CAFE gains - in order to realize serious savings at the pump and reduce our oil consumption on a national level - the next round of products must be downsized. With thirty years' of engineering knowledge under our collective belts, we can avoid our fathers' mistakes. We've already lived through a second 1973 - let's do 1978 right this time. **DAR**