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OBSERVATIONS

Dennis DesRosiers

Will Canada Shift to European Values?

British author Matt Ridley's new book, The Rational Optimist, posits - and be aware that my hopelessly-broad summation does no justice to his work - that humankind is on a trajectory of long-term gain. He discusses the effects of war, famine, plagues, despots and tyrants, and he balances all with the stabilizing influences of free markets and technology to suggest that such setbacks merely delay - but do not inhibit - the onward push of progress and situational betterment. Through it all, he stresses a common drive that has united us from our savannah origins to our touchdown at Tranquility Base: **Nobody wants less**.

In the course of his lifetime (and incidentally, mine), average per-capita global income has tripled while lifespans have risen by 30 percent, child mortality dropped by two-thirds and per-capita food production increased by another third - all while the world's population has doubled. Ridley believes that the sharing and mixing of ideas through unencumbered commerce has allowed for this relative prosperity to occur. Such mixtures represent a sort-of sexual reproduction; products of conceptual union retain important parental elements but represent something entirely new. This is of course in opposition to asexual reproduction, where genetic uniformity is upheld because there simply exists no mechanism to integrate new data into the system.

By way of automotive example, such mixing was attempted on a small scale with the doomed union of Daimler Benz and Chrysler. The supposed "merger of equals" was anything-but and the resulting child corporation proved weaker than both parents. Ridley might argue that this failure stemmed from the lack of parity between partners.

Consider, then, a Chevrolet Malibu. It meets or exceeds American expectations of style and space, yet it hews equally to the European value set with exemplary cornering composure and general speed-masking. It represents a more natural fusion of American and European attributes. One could, in fact, step back and say the same for most vehicles on sale today in Canada. All are products of the globalized economy and represent an increasingly natural fusion between East and West. Common to all modern cars is that they offer more space, performance, refinement and efficiency. These complicated, eleventeenth-generation products are very real manifestations of Ridley's theory: **Nobody wants less, and the best way to deliver more is to allow ideas the freedom to intermix.**

Think - Then think again

Recent events in the auto sector and the wider economy have given me occasion to

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re-evaluate sundry long-held assumptions about the motivations and automotive buying patterns of Canadian consumers. For years, I have argued that the Canadian consumer was culturally leaner than his American counterpart. A more sensible man, the Canadian, budget-minded and well-grounded in a priority structure that included - but was not ruled by - personal transportation. I remain convinced that Canadians are making, and will continue to make, responsible car choices.

This is, however, a discussion about intentions and outcomes. I argue now that the massive portion of Canadian vehicle sales owned by the Entry Level marketplace (50.8 percent in 2009) may be an outcome not of intention but of circumstance.

Excepting the past six months' sales, plenty of evidence documents Canadians' move toward Entry Level vehicles. A good analyst looks deeper, tracing thoughts back to their origins and identifying old assumptions that led to iron-clad conclusions. I still believe Canadian consumers are fundamentally different from their American counterparts but wonder whether our tastes will shift more towards those of the European mainstream over the next decade. Americans define luxury as bigger and more

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Passenger Car Survival Rates

	Vehicles Sold 11 to 15 Years Ago	Vehicles Sold 16 to 20 Years Ago	Vehicles Sold 21 to 24 Years Ago
Porsche	100.0%	98.4%	84.6%
Mitsubishi	99.9%	46.1%	3.7%
Lexus	91.2%	73.5%	N.A.
BMW	89.7%	66.9%	34.9%
Volvo	86.3%	57.8%	23.5%
Jaguar	84.8%	54.4%	36.1%
Toyota	83.7%	33.5%	11.7%
Audi	82.8%	32.9%	7.2%
Mercedes	82.1%	76.8%	63.7%
Acura	80.4%	45.9%	12.9%
Honda	80.4%	38.2%	7.0%
Saab	77.0%	33.4%	15.2%
Lincoln	73.2%	31.8%	16.7%
Subaru	72.9%	23.2%	3.7%
Volkswagen	70.2%	26.2%	10.3%
Cadillac	68.8%	43.9%	20.1%
Infiniti	68.7%	43.8%	N.A.
Buick	67.4%	29.3%	6.2%
Saturn	66.4%	36.7%	N.A.
Chrysler	63.9%	23.2%	6.4%
Oldsmobile	62.8%	26.0%	7.3%
Mazda	62.0%	26.6%	6.2%
Nissan	62.0%	22.2%	5.8%
Mercury	57.5%	15.8%	4.0%
Pontiac	56.6%	14.0%	5.4%
Ford	56.4%	16.9%	4.4%
Chevrolet	54.8%	16.1%	6.4%
Dodge	51.0%	15.0%	2.9%
Eagle	50.4%	15.8%	2.2%
Plymouth	50.0%	15.1%	2.7%
Hyundai	36.4%	5.0%	0.9%
Suzuki	34.4%	7.4%	3.1%
Isuzu	16.6%	8.0%	1.4%
Lada	4.0%	1.3%	0.4%
Industry Average	**63.0%**	**22.8%**	**6.4%**

Source: DesRosiers Automotive Consultants Inc., AIAMC, CVMA and Registration Data © R.L. Polk & Company, 2009 data released 2010.

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powerful, while Europeans would enumerate qualities like sophistication, substance over show, innovation, quality over quantity and brains over bulk.

As Ridley suggests, **we want more**. The 'more' we want, however, is not more of the same, nor is it more than you may need. Substance, sophistication, quality, improvement, evidence of thought and useful change: this is the 'more' we desire.

Canadian, American, European or Japanese: there are no moneyed groups practicing the sort of cultural asceticism that might lead them to purchase low-powered, feature-poor cars. Absent natural or man-made restraints (i.e., economic factors, population density or arbitrary state market intervention), people will purchase the most powerful, most comfortable, most feature-rich vehicles they can afford. Such a situation exists in the United States, but one can argue that it also exists in Europe.

Canadians are no different. We're just as taken with the automobile's cultural pull as our American cousins; we simply can't afford to play on the same scale. Our European proclivities, however, could lead Canadians to adopt many of the values outlined above.

The market responds

Continental market dynamics suggest that this theory may hold some water. We have long known that Europeans drive small cars due to their governments' steering of the vehicle market with various carrots, sticks and taxes. We have wondered: Why aren't European compacts more popular in this market? How come the Golfs and Coopers aren't joined by myriad other posh compacts, so delightful to drive yet cheap to own?

It comes down to this: Europeans feel the same yen for performance and status as we do, but due to regulatory interference in their markets, they must satisfy desires differently. Hence, the premium compact - the B-size car trimmed like a D-sedan (e.g., Mercedes-Benz A-Class). Hence the proliferation of little diesel engines powering biggish cars (BMW 520d, anyone?). They buy and drive these cars not because they prefer cramped environs or laborious acceleration but simply because they wish to satisfy **the inbuilt desire for more and are willing to game the system to achieve it.** This, and they're also willing to pay for it.

Our market suffers a paucity of these regional specials because they cost approximately $3,000 to $5,000 more than average North American-market vehicles offering similar levels of whatever makes a particular car special. Some of this differential can be traced to the different regulatory regimes under which overseas products are sold, but much comes from a conscious efforts to play to a European desire for more content.

From the number cruncher's perspective, a Honda Fit and MINI Cooper read from the same book: front-drive, small body, space for four and great mileage. The MINI, however, feels planted at 160 km/h and bursts with features, sophistication and style. It also costs more than the Fit (both to build and to buy).

However, for the cost of a Mini Cooper S, a Canadian buyer can opt for a Nissan Altima Coupe offering equivalent straight-line performance and freeway comfort **for a similar price in a larger package**. We are free to buy cars like this because our regulatory apparatus does not penalize us (yet) for choosing larger bodies and engines. If and when that regulatory curtain falls, Canadians are likely to embrace European values as a compromise to the size and performance they would normally prefer.

So: European consumers may not be able to afford true luxury,

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but they have stubbornly clung to Coco Chanel's maxim that, "Luxury must be comfortable; otherwise it is not luxury." Witness the birth of the premium compact, a vehicle that has thus-far delighted niche buyers and confounded North American executives. BMW's 1-Series coupes confuse Americans with pricing and feature loads that hedge on 3-Series ground but footprints smaller than average C-size commuters.

Should the regulatory climate continue down its current path, a remarkable opportunity exists in North America for European manufacturers to capitalize on the same phenomena - the very same base human desires - that propelled premium compacts to home market victory. We potentially are willing to work with governments to meet the arbitrary goals they set, but we are not willing to compromise on the golden trifecta of automotive attributes: features, power and size. Automakers may subtract from one column but they must add to the others in order to balance the package.

Canadian uptake of feature-rich compacts like the Mazda3 already proves this point. Faced with perennially climbing energy costs, consumers have realized that they can substitute size with features and power. Should energy costs increase further, we have every reason to believe that consumers in other market segments (i.e., Luxury) will begin to make similar rationalizations. While a 1-Series may make little sense at the present time, a levy on vehicles above a certain arbitrary threshold would increase its chances considerably.

How would a European surge manifest? One can imagine the largely-German Euro contingent growing its market share from the present 9-10 percent range into the 18-20 percent range with a steady push of premium compact products as European product values become further ingrained. Uptake will begin in the used sector, where consumers have the ability to take initial faltering steps towards different products without making the large investments associated with new vehicle purchases. With policy attacks on the new vehicle sector likely to increase, the pre-owned portion of the vehicle market will grow and more consumers will discover (and potentially embrace) these product values.

Another factor to consider is the diminishing price differential between European, Japanese and American-branded vehicles. With the gains in average productivity witnessed since the 1980s, price differentials that were once barriers to ownership - while still present - are now manageable for greater swaths of the consumerate. Further, the greater longevity associated with European products benefits owners, potentially reversing an initial cost difference. While most Detroit Three products will lose almost all market value, customer appeal and personal acceptability as it ages past the ten to twelve year mark, a similarly-sized Mercedes B-Class may retain a modicum of each, avoiding the scrapyard for longer than non-Euro peers. Indeed, the vehicle longevity chart clearly shows that European brands are responsible for some of the longest lasting vehicles on the road.

So: BMW, Mercedes, Volkswagen and perhaps even Fiat are well-positioned to grow their respective shares of the U.S. and Canadian vehicle markets should present trends continue. The French may even grace our shores with their idiosyncratic machines. While the final chapters in the book of big cars could soon be written, the future of comfortable, satisfying personal transportation should never be doubted.

People will always want more.

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