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The New Entry-Level Cars

Subcompacts continue to gain traction in the U.S. thanks to their improved styling and superior fuel economy

by [Jim Koscs](#)

We've seen this picture before: rising gasoline prices triggering an upswing in sales for smaller, fuel efficient cars. Last year, a trio of new small cars, the Honda Fit, Nissan Versa and Toyota Yaris, received the lion's share of attention. The general media called their introductions "good timing," focusing on fuel economy.

Fuel economy, however, was just part of the story behind those cars and critically praised new entries from Hyundai and Kia. Consumers gained a wider selection and welcomed an end to stripped-down "econoboxes" at the entry level. The new, higher-quality entry-level models brought dealers a much-needed opportunity to attract customers priced out of compacts.

We spoke with an industry analyst, manufacturers and dealers to find out where the trend is going.

By the Numbers

The segment champ so far this year is the Toyota Yaris, with just under 78,000 sold through October, including the three-door and four-door models. That was about 10,000 ahead of the Versa. Honda sold just under 46,000 Fit models, on target to moving the 54,000 it allotted for the year. Hyundai sold 32,000 Accent models and Kia sold 28,000 Rios in the period. Of Toyota's Scion models, only the new xD seems to fit into this category, priced at \$15,170.

More, More, More

Jesse Toprak, Senior Analyst for Edmunds.com, described a "more, more, more" philosophy behind today's successful new crop of entry-level small cars. "They have more equipment, more distinctive styling, and better gas mileage. Considering what you get for the money, it's a whole different ballgame than it was 10 years ago or even five years ago," Toprak said. More models, too, are turning on the charm with fashionable designs. "They're no longer little 'eggshell' vehicles lacking in fun."

He added, "With these factors, along with rising gas prices, a 'perfect storm' is coming together for small cars. It's the fastest-growing segment." Compact cars today, Toprak pointed out, garner a 17.7 percent market share compared to 13.8 percent in October 2004. "While market share has increased, incentive spending has declined, standing at an average of \$904 today versus \$1,449 three years ago."

Who's Buying?

David Conant, president of the CAR Group in Newport Beach, Calif. said he sees two groups buying these cars: young people and the young-at-heart. "The younger buyers are the bigger share, but we're surprised when we see a manufacturer introduce a vehicle that's focused on youth, and then some of the first customers in are 55 and up."

Affordability and good fuel economy are givens for the segment. Beyond those, Conant cited three "must-haves" for a modern entry-level car to attract younger buyers. "Number one is having the adaptability to customers' personal technology, including iPods and cell phones." Conant believes that styling -- the "cool factor" -- is a very close second, and third is usefulness/versatility.

"The younger customers want the car to be designed for their lifestyle. They don't want to adjust their lifestyle to the car. If an entry-level car isn't available with the latest electronic features, it's going to flounder. Ford has the right idea with the new Sync system," he said. (Developed with Microsoft, Sync allows voice control of various electronic devices, including cell phones and iPods. The basic technology will be available to other manufacturers next year, but Sync is Ford-specific and branded.)

Why They're Buying

Entry-level pricing and high fuel economy have always driven small-car sales, but those factors are no longer enough to assure growth. John Hawkins, president of the Great Metro Auto Group in Montclair, Calif. and current AIADA chairman, said, "We understand this category quite well. Sales of small cars are definitely going up. Gas here is \$3.50 for regular, so people are paying attention." The dealer group has Honda, Hyundai, Mazda, Nissan and VW franchises.

Hawkins said that today's entry-level car buyer is expecting all the latest safety features and amenities, "not strippers." Indeed, the small car buyer might have a hard time finding a "stripper" these days. Where ABS might have been hard to find in this segment in recent years, for example, it is now standard on some models.

Fit for Growth

Chris Naughton, a spokesman for Honda, said the Fit's fuel economy and affordability bring people in the door, and then the car's value and versatility seal the deal. "Fit is a premium small car, there is no 'stripped' version," said Naughton. "Every model comes standard with power steering, power locks and windows, air, AM/FM/CD stereo, plus six airbags and anti-lock brakes (ABS), starting at \$13,950."

Claims of room and versatility are not mere hype. Road testers have lauded the Fit's second-row "Magic Seat," and the EPA recognizes the Fit as a "small station wagon" thanks to its 90.1 cu. ft. of passenger space plus 21.3 cu. ft. of cargo space. Fuel economy ratings are nearly the same for Fit and Civic. The Civic, by comparison, is classified as a compact, with 16 cu. ft. less total interior volume. "The Fit filled the void left when the Civic grew," Naughton said, meaning the Civic grew in power, performance, content and refinement, which is the trend in its segment. He added that the Fit's success has not come at the expense of Civic sales, which were up nearly two percent through October.

The Fit also attracted another audience -- car enthusiasts. Car & Driver magazine, not known to suffer boring cars, put the Fit on its annual "10 Best" list for 2007.

Hawkins echoed other Honda dealers' concern that Honda was too cautious in its initial marketing plan for the Fit. "Honda did not supply what the market was demanding. Nissan has done a better job with the Versa," he said. Naughton confirmed that Honda will import 70,000 Fit models for calendar year 2008. The redesigned 2009 Fit, already generating media buzz, arrives next fall.

When Smaller is Bigger

As the Fit did at Honda, Nissan's Versa filled an entry-level slot as its Sentra compact grew larger, more powerful and offered new features. The Versa debuted as a 5-door hatchback for 2007 and added a 4-door sedan for 2008. Nissan

spokesman Darryll Harrison Jr. said the original five-door style accounts for 70 percent of sales.

Harrison explained that fuel economy, while one of the largest purchase considerations when looking at this segment, is only part of the overall intent. "Even though Versa doesn't have the highest MPG rating, it is still one of the best selling offerings in the segment, being the best seller in several months. We attribute these strong sales to the overall package, which includes great fuel economy." He adds that Versa surprised customers with its "large-car functionality," roominess, comfort and versatility.

The "large" claim for Versa is justified, as the EPA officially tags the Versa 5-door a midsize car, thanks to its 112.5 cu. ft. of total interior volume. The Versa, in fact, gets the EPA's nod for most fuel-efficient midsize car in its [2008 Fuel Economy Guide](#). In a comparison test of seven low-priced cars, Car & Driver magazine (May 2006) said, "On the road, what you notice first about the Versa is that it feels large." The Versa also offers one of the widest arrays of available technology features in its segment, including Bluetooth, iPod interface, satellite radio and Intelligent Key entry.

The Future

One thing the entry-level segment lacks is the kind of blockbuster that racks up 300,000-plus annual sales seen in the compact and midsize segments. Conant doesn't expect that to change. "It's a smaller segment and sliced up among a number of good players," he said. "It's likely to stay the same, because several brands have really figured out what works, and each is going to get its piece. Also, many customers make the step up to the compact during the sales process."

Still, Conant speculates that an entry-level car with all factors going for it -- "gotta have it" styling and features, best-in-class economy, and versatility, could potentially see demand for 100,000-plus sales.

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