

American International Automobile Dealers

Reactions to the New Kid in Mid-Town

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Chevrolet bills its new Malibu midsize sedan as “the car you can’t ignore,” and, indeed, the redesigned model has been in the spotlight – and under the magnifying glass – since its November retail debut. Should the midsize retail sales leaders – Toyota, Honda and Nissan – be watching their rear-view mirrors for the bowtie emblem?

Early reviews of the Malibu have been mostly positive, and the general consensus is that it deserves a place on consumers’ shopping lists. Doug Schuster, J.D. Power and Associates’ executive director of global forecasting, predicts success for the Malibu but also believes the midsize leaders will retain their positions.

“It’s a more competitive ‘retail’ Malibu compared to the ‘fleet’ Malibu we’ve seen before. It could start to sway some buyers who were focused on leaders in the past, but we’ll have to wait until next year to see how it does and where trade-ins come from.”

Schuster sees the Malibu as further evidence of a “rebirth” in the midsize segment that emphasizes greater performance and style while still focusing on value. “We saw that with the Volkswagen Passat and Mazda 6, and then later with the new Camry and Accord,” he said.

Jeff Soga, Toyota’s project manager for Camry, Solara and Avalon concurs. “Consumers continue to demand more value and features from their midsize sedans, and, unlike the past, stylish design has become a competitive differentiator,” Soga said. He added that reliability, value, ride quality, and overall comfort and safety remain top purchase motivators.

Stable at 16, Hot Under 25

The midsize segment went through a bit of a lull in 2004-2005 as buyers were shifting into SUVs and crossovers, according to Schuster. “The segment has picked up, though still not to where it was in 2000-2001, and we expect to see stability,” he said.

Jesse Toprak, Edmunds.com senior analyst, agrees that stability reigns in the midsize segment. “It’s a healthy segment, about 16 percent of the industry this year, and that is relatively unchanged over the past few years,” he said. The hot part of the segment is under \$25,000.”

Incentive spending has declined for the midsize segment, currently averaging about \$1,265 according to Toprak. “It’s a buyers’ market in midsize right now, with a lot of choices and a lot more car for the money than in the recent past. Even without the incentives, the level of standard equipment is a convincing value story.” The Malibu, he agreed, is now a more serious competitor than before.

Big Numbers for Some Midsizers



Camry



Accord



Altima

Here's a look at the major midsize players through November 2007, with a comparison to the same period last year:

Toyota Camry (including Camry Solara models) – 434,277 (+5.8%)

Honda Accord – 360,976 (+10.8%)

Chevrolet Impala – 293,328 (+11.2%)

Nissan Altima – 259,611 (+24.6%)

Toyota Prius – 167,009 (+70.4%)

Ford Fusion – 136,007 (+4.8%)

Pontiac G6 – 132,894 (-7.6%)

Hyundai Sonata – 120,696 (-13.4%)

Chevrolet Malibu – 116,140 (-23.8%)

With those numbers come footnotes: The Camry has been the best-selling passenger car in the U.S. for nine of the past 10 years. According to *Automotive Fleet* magazine, fleet sales absorbed more than half of Impala and Malibu production and more than a third of G6 production through the first six months of the year. In the same period, about a quarter of Sonatas went to fleet sales.

John Hawkins, president of the Great Metro Auto Group in Montclair, Calif. and current American International Auto Dealers Association (AIADA) chairman, lauded Nissan's progress with the Altima but said the Sonata's drop "was not due to the product, but more to the lack of marketing savvy and consistency."

Growing with Buyers, but Economy Still King

Today's midsize leaders owe much of their success to delivering consistently good fuel economy, even as they grew in size and power with each redesign. Accord started out as a 68-horsepower subcompact in an era of gas-guzzling V8 sedans, inched its way to compact status in the 1980s and then grew to midsize stature a decade ago. The Camry launched in 1983 as a compact and became a midsize with its third-generation model in 1992. (When the Accord debuted in 1976, America's best-selling car was a midsize model that weighed twice as much as the little hatchback and sold 500,129 units: the Oldsmobile Cutlass.)

Today, Accord and Sonata models without a sunroof are tagged "full size" cars by the Environmental Protection Agency (EPA), which assigns categories by total interior volume (120 cu. ft. and above is full-size). The Impala is also a full-size model by that definition.

Camry offered its first V6 engine in 1988, Accord in 1995, and Altima in 2003. (Prior to that, Nissan had relied on its upmarket V6 Maxima to compete with higher-end Accord and Camry models.) The 4-cylinder remains the volume leader for all three. About one in five Altima and Camry customers chooses the V6; it's about one in four for the Accord.

Gary Robinson, product planner for the Accord, said that the V6 had been as high as 30 percent of volume a few years ago. He attributed the current V6 take rate to its Variable Cylinder Management (VCM) system, which helps a V6 Accord come within 2 MPG of the 4-cylinder models' EPA fuel economy ratings. "If there was more of a gap, we might be seeing a different situation now, but who knows what will happen if gas prices keep climbing?" he said. (Several other V6 models in the segment can make a similar claim.)

Dave Conant, owner of Norm Reeves Honda in Cerritos, Calif., said V6 demand tends to spike when Accord is new and then declines later in the model's lifecycle. "By the fifth year [of a model cycle], it's mostly 4-cylinder value buyers coming in. But even as more people migrate to higher fuel economy models, there's a place for a nicely optioned, powerful-but-efficient V6."

What's Next?

The top three international-brand midsize models seem to have mastered the formula for success, and now others are poised to follow it. Volkswagen's Passat, impressive in its design and always more luxurious and more expensive than the leaders, has struggled in the market. Sales of 34,000 through November are down 33 percent from last year. VW recently announced it was

developing a less luxurious “New Medium Sedan” in a bid to reach 120,000 annual sales.

Mazda’s 6 brought sporty style into the segment (and provided the basis for the Ford Fusion), but sales of 52,783 through November were off by 12.5 percent from 2006. The car’s replacement due next year is expected to be larger and roomier while brandishing even bolder lines. Other brands, including Mitsubishi and Kia, have hinted at more daring designs for upcoming sedans.

According to Toyota’s Soga, one thing midsize buyers don’t necessarily want is a bigger car. Taking a mild swipe at the new Accord, he said, “Based on our internal research and data we feel that Camry is the right package in terms of size, features and amenities for the Standard Midsize segment.”

Conant believes the growth in size and luxury for midsize models has likely leveled off. “It would not be logical for Accord to become an even bigger car. Two key selling points are still maneuverable size and ease of parking,” he said. “And for Nissan, the Altima has caught up to what Maxima was supposed to be.”

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