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Question

How should Scion react as their target demographic, Generation Y, ages and demands different styling and functionality? Is Scion's long-term strategy of locking-in young buyers to the Toyota product line viable and sustainable? If not, how can their strategy be enhanced so that the Scion buyers of today become the Toyota/Lexus buyers of tomorrow?

History of Scion

Toyota's Scion brand debuted in June of 2003 with two hip new cars aimed directly at the youth market—the xA wagon and the boxy xB SUV. A year later in July of 2004, the sporty tC coupe was introduced (see Appendix for pictures and specifications of Scion vehicles). By March of 2005, 140,000 Scions had been sold and demand showed no signs of slowing.

Scion's Strategy

Toyota is using its new Scion brand to capture a bigger market share by catering solely to Generation Y consumers (see Appendix for a more detailed description of Generation Y). They have devised a whole new advertising and marketing campaign, tailored to the unique needs of this consumer group. The cars themselves have an iconic look, which aims to please the “trend setting” consumers of this new generation. Scion cars have a short shelf life, with the cars being completely redesigned about every four years [1]. Former Scion VP Jim Farley explains this strategy:

“Now that we're creating our second-generation products, we have the chance of totally redoing the recipe. With at least one vehicle, we will start fresh - go through the mental discipline of throwing it out and starting over again. We have to do it. We can't squander our learning. We have to do something that's risky. Not being distinctive is the worst sin [2].”

The key here is that all models will be continuously changing, made possible by Toyota's superiority at small batch releases of models (see Appendix for details on Toyota's production line process). Scion is hoping to avoid making the mistake of many other car companies, who find a successful vehicle and tinker with it endlessly, until all interest in

the model has died, as was the case with the Oldsmobile Cutlass (see Appendix for more on Oldsmobile). Farley guarantees that the planned updates “won’t be linear product evolutions [3],” meaning if the xB’s boxy shape isn’t for you, something that better suits your tastes may be only a few years away.

The cars themselves are inexpensive, as they need to be affordable to young consumers. For many of them, this will be their first car purchase and so trade-in discounts often won’t apply. To compensate for low sticker prices, Scion pushes the fact that the cars are customizable. This means that Toyota plans to make money by selling accessories such as body kits, subwoofers, under-car lights, bumper appliques, carbon-fiber engine covers, and racing pedals [4]. Two to three times as many accessories are sold on Scions as on other Toyota cars. “Scion's Jim Farley is convinced that the vehicles that will succeed in the market are those that seem exclusive, or which readily lend themselves to customization so that they will, in fact, become special [5].”

It seems almost obvious that any car manufacturer’s goal is to sell as many cars as they can. Scion’s business plan, however, differentiates itself from the rest of the market almost as much as its cars do. “The magic of Scion is its uniqueness. If we sell 300,000 units, it’s not Scion anymore [6]” says Jim Farley, Vice President of Toyota’s Scion division. To remain in the niche market that they’ve carved out, Farley says they are aiming to sell 100,000 – 200,000 Scion cars a year. As a comparison, Toyota sells 400,000 Camry’s each year and it is partly through this strong financial backing that Scion is allowed its flexibility.

Scion’s advertising and marketing campaign is key to their long-term strategy. Their target audience is unfortunately very resilient to mass-marketing, so a whole new approach is needed in order to reach this consumer group. Much of the advertising is done online, where a large portion of these consumers find their information and spend their time. The internet is as essential to reaching Gen Y, as network television was for the baby boomers. Scion uses online chats and e-mail campaigns to reach customers. They are employing non-traditional promotional tactics, associating the Scion name with

other elements of Gen Y pop culture. They recently sponsored a national Halo II XBox tournament, had a give-away Scion xB at the 2005 Electronics Entertainment Expo (E3) in Los Angeles, signed a \$100 million marketing deal with the NBA, and sponsor magazine advertisements focused on youth lifestyle magazines, “most of [which] are obscure and cover the arts, music, or pop culture.” According to Dawn Ahmed, Scion’s national marketing communications manager, “nontraditional titles make up 75% of Scion’s magazine ad buys [7].” They also advertise on lifestyle websites, outdoor radio stations, and late night television, with many of their television and movie advertisements employing “cool” computer animation and urban, techno beats.

Scion also cleverly uses their customers as a form of advertising. Since the Gen Y is very devout to their community, using these trendsetting consumers as advertising is fairly simple. "If they are successful at making the world think that Scion is perceived as cool by the cool kids, they know that everyone else will want to buy in," Stein [senior analyst at Jupiter Research] says. "It's almost more important for people to know that Scion is advertising in these niche spots than it is for them to actually see the ads [8].” Furthermore, by providing good service and a quality car at a reasonable price, Scion hopes please their customers, who will then pass on recommendations to their friends.

Industry Analysis / Six Forces

New Entrants

Toyota’s Scion is not the industry’s first attempt at capturing the youth car buying market (see Appendix for Oldsmobile and Saturn), but it may so far be the most concerted effort at doing so. Before Scion, many manufacturers already had individual cars in their lineups (or cars in the pipeline) meant to appeal to young, style-savvy buyers which now compete with Scion cars, but none have entire brands geared at this audience. In addition, Scion’s success is bound to attract new entrants to the market with new car offerings that are aimed directly to steal market share from Scion.

Potential entrants into this market would most likely have to be a pre-existing car manufacturer, because the low-end car market is heavily dependent on economies of

scale. However, not all manufacturers can be classified as a potential entrants; for example, luxury automakers such as Mercedes-Benz and BMW have little interest in pursuing customers at this price point, because doing so is likely to alienate their current customers. Domestic auto manufacturers who typically have lackluster designs and quality at this price point are also unlikely to be competitive with Scion's offerings.

Possible new entrant threats are likely to come from the other major Japanese auto makers Honda, Mazda, and Nissan. Korean auto makers Hyundai and Kia are also potential competitors with their recent improvements in quality and styling. European offerings geared towards the younger crowd such as Mini and VW can also be viewed as potentially entering the market. Finally, DaimlerChrysler has seemingly made advances in small-batch technology and could potentially aim at this young crowd, since they've already had some success appealing to young car enthusiasts, with their immensely popular Dodge Viper (see Appendix for a detailed analysis of competitor offerings).

Barriers to entry include the aforementioned economies of scale and reputation. Toyota is the best in the business at cheaply creating small batches of cars (see Appendix) and so technologically they have a significant advantage over other potential entrants. Reputation is also a big factor here, since Toyota is widely regarded as a good, reliable, auto-maker, but geared towards Baby Boomers and Generation X. Scion has taken the reliability associated with Toyota, but has tried to appeal to young Generation Y buyers with attractive features such as low cost, no haggling over prices, and good dealership experience facilitated by digital kiosks that allow you to add and subtract features at will and then order a custom made Scion.

The main advantage of being a first mover into a market is the ability to build a good reputation, and this seems to be exactly what Scion is going for. According to Scion, 85% of Scion buyers are new to Toyota and 95% of them would recommend their Scion dealer to a friend [9]. While the perceptive eye might be a bit skeptical of that customer satisfaction rating (seeing as how the customers have likely just bought a new car and so are excited and happy), the fact that anyone is reporting a positive experience when

buying a car, is pretty astounding. So long as Toyota continues to attract new customers through its Scion brand and also retain its current customers, by ensuring good value, reliability and customer service, it should be very difficult for other auto-makers to enter the market and compete with them.

Scion's coherent strategy is also a strong barrier to entry. By spinning off an entirely new brand name instead of simply releasing new cars under Toyota, Scion is better able to focus on their target demographic and gives it a sense of credibility. Companies that simply add a car to their lineup to compete with Scion cars may associate too much of the company's overtones on the car and make it less effective at reaching the Gen Y consumer.

As can be seen by the descriptions of competitors' offerings, both present and future, not many of them will be occupying the same product space as Scion. With the exception of the Mini, no other manufacturer seems to be trying to imitate Scion's strategy of adding dealer customizable options to their cars. Instead, other auto manufacturers seem to be differentiating their products with other features, such as long warranties for Kia, upscale options for Mazda, high performance for Mini, and superior build quality for VW.

It seems that Scion has found a defensible niche that serves its core customers so well that no other auto manufacturer will find it worthwhile to enter the business. Perhaps Scion's coherent strategy and first mover's advantage erect such effective barriers to entry that competitors cannot imitate their strategy and don't find it profitable to go after the same customers. It appears that auto manufacturers are chasing Generation Y buyers, just not the small segment of Gen Y buyers that Scion is targeting. Scion is currently sitting on a good strategy that other manufacturers have yet to touch, however they should remain wary of the attempts other companies are making at attracting Gen Y consumers, even if it isn't the "trend-setting" segment.

Rivalry

Contrary to popular belief, Toyota is not trying to enter the cheap car market with its Scion brand of cars. Scion cars are inexpensive as far as cars go, but they are by no means the cheapest ones available. The current (2005) base prices of the Scion xA, xB, and tC are \$13,045, \$14,245, and \$16,515, respectively. As Table 1 indicates, the cheapest Scion, the xA, is still more expensive than nine other models offered by different manufacturers, including one by Toyota. Instead of selling cars to buyers that are simply looking for a vehicle to take them from point A to point B, for as little money as possible, Scion is targeting buyers who value stylish, unique cars, that are easily customizable and fit their active lifestyle. In this way, Scion is not pursuing a cost strategy like the rest of the cheap car market, but is instead minimizing cost for a higher level of value. This emphasis on quality and not price indicates that Scion's target market is not particularly rivalrous.

	Car	Price
1	Chevrolet Aveo	\$9,455
2	Kia Rio	\$9,740
3	Hyundai Accent	\$9,999
4	Chevrolet Cavalier	\$10,135
5	Toyota Echo	\$10,245
6	Saturn Ion	\$10,430
7	Pontiac Sunfire	\$10,895
8	Kia Spectra	\$11,820
9	Nissan Spectra	\$12,200
10	Scion xA	\$12,480

Table 1 The 10 Cheapest Cars of 2004. Keep in mind that prices may have changed somewhat since then (\pm \$500) but the list is still applicable.

Even if minimizing price is not of primary concern to Scion, they have to be aware that young, first time car buyers do not have a lot of money to spare and that Scion cars still

need to be priced competitively enough that buyers are willing to pay the higher cost for the increase in quality and features.

As stated before, price is not the only factor and potential buyers also consider factors such as styling, reliability, features, power etc. Because Scion is looking for “hip young buyers” who want nice interiors and the ability to modify their vehicles, the market they’re aiming at is only rivalrous in that the cars must be comparably priced to their competitors’ cars because young people simply can’t afford to pay a lot extra for those nice features. At the same time, if there is only a modest price difference, then people will likely be willing to shell out a little extra to get a car that they are really passionate about and that has features that they actually want, i.e. nice stereo system, air conditioning, etc. Furthermore, most people want to buy a vehicle that will last them a while and won’t constantly be in the shop, and so having the reliable Toyota name backing the Scion brand, adds value to the vehicles and helps to balance out the extra initial cost, compared to a Hyundai or Kia which are very cheap initially but are not known to be interesting or reliable.

Toyota’s Scion division is at the forefront of an industry wide change in the inexpensive car market. It appears as if the majority of auto manufacturers are beginning to cream-skim the high-end customers of the low-end car segment by justifying slight price increases with more standard features, higher quality build, more dynamic styling, and a more enjoyable overall drive typically found in more expensive cars. As the low-end car industry moves towards a value/quality strategy as opposed to the previous cost strategy, the industry will become less rivalrous and less competitive on price.

Buyer Bargaining Power

Scion customers do not have much buyer bargaining power. The market for sporty, stylish, and cheap entry level sub-compact cars is not very concentrated. There are currently very few other companies that offer cars geared towards Gen Y consumers. Some of the other auto-manufacturers, mentioned above, are attempting to compete with Scion, but for now the Scion brand is differentiated enough that potential buyers cannot

just go down the street and find a comparable deal. The consumers have a fairly elastic demand, which is evident by the fact that they will buy the base car but add thousands of dollars in accessories in order to build their own Scion. They may be looking for a reasonably priced car, but they are still willing to spend a fair amount in customization costs, an option that is not currently available at other dealerships. One of the things that limit the buyer bargaining power significantly for a car market is the sales strategy. Scion dealers employ a no-haggle, “pure price” sales method, which on the one hand should improve the car-buying experience, but on the other hand, reduces the customer’s bargaining power, since the price is “take it or leave it.” At the same time, customers can still negotiate price to a certain extent, based on trade-in discounts, but with Scion, this may be a small effect, since most Scion buyers are first-time car buyers.

Supplier Bargaining Power

While Scion seeks to differentiate itself from the older image of Toyota, they fully take advantage of Toyota’s established supply chain and manufacturing capacity. For the moment, Toyota factories have simply augmented their current output to accommodate the relatively low volume Scion production (less than 200,000 annual out of 6.7 million worldwide). Looking only at North American production of Toyota cars, which accounts for about 60% of the Toyota’s sold in the US, there are over 350 suppliers involved in the inputs to the car manufacturing process. Quantities of any one component can range from 25,000 for specialized components, used only on one model, to the millions of units/tons, for fasteners and steel.

Many inputs to the plants, such as steel and aluminum, are commodities and hence can easily be sourced from other companies. Other more specialized component inputs, like gear shift assemblies, are essentially products built to designs provided by Toyota; which boils down to effectively an integration task, which can be changed with relative ease. Additionally, company policy of getting more than one supplier/integrator for a component, reduces supplier bargaining power due to the fact that increasing throughput from one of the other suppliers of a particular component, has a lower switching cost than finding a completely new one.

Toyota's just-in-time production process minimizes its surplus of components and reduces switching costs due to obsolete components. The plant personnel process learning curve is the most significant cost of switching to new components, but a new supplier does not necessarily imply new components—so it's not clear that supplier bargaining power gains much here.

Aftermarket accessories are one relevant area in which suppliers hold some bargaining power. Scion has contracted with some big name aftermarket companies such as AEM, Hotchkis Tuning, and TYC (see Appendix for full list of accessories and suppliers) and has most likely done so because Gen Y values authenticity and quality. Although substitutes for these aftermarket companies exist, being the biggest name in the game gives them some negotiating power with Scion. Scion, however, could then argue that they are giving the aftermarket companies high visibility by integrating their product line with the Toyota/Scion dealership. Although it's a win-win situation for the suppliers and Scion, the suppliers may actually hold more clout because they know that the brand association is valuable to Scion to establish its credibility among the young car enthusiasts. The more prominent aftermarket suppliers also tend to have the highest quality products, which is important to Scion because they back these accessories with their warranty. In this sense, the high quality big name aftermarket suppliers have some control over pricing with Scion. If Scion signed exclusive agreements with these aftermarket companies barring them from supplying to other auto manufacturer dealerships, then the loss in negotiating power may be made up in the entry barrier obtained.

Complements

As mentioned above, one of Scion's main strategies is to make money from selling add-on accessories to their cars that are available at the dealerships. These customizable accessories include body kits, interior lighting, subwoofers, and performance parts that enhance the vehicle's power and handling. Scion is partnering with aftermarket tuning companies for many of these add-on parts and now carries over 30 available accessories.

Scion is also now getting involved in music and has “produced and given away 10 compact discs of compilations featuring young amateur musicians. The two bands Scion has recorded on vinyl can create their own compact discs for sale.” This is part of an attempt by Scion to become an everyday name in the lives of young consumers, not just selling cars, but selling a whole lifestyle. Since a great car stereo system is one of Scion’s most popular features, getting involved with the music business seems like a logical strategic decision.

Substitutes

Substitutes in the sporty sub-compact segment include the Mazda 3, VW Golf, Ford Focus, and others. Nissan is planning to release at least two new cars priced below its current entry level Sentra to compete with Scion [10]. Not every compact vehicle with a cheap pricetag, however, can be considered a substitute for a Scion—the car has to be easily customizable so that each owner can readily personalize their own car. As Scion VP Jim Farley explains, some cars aren’t “designed to be spec’ed out. The whole design doesn’t ask you, as a consumer, ‘Please customize me.’ Some base designs, especially for brands that want a premium mainstream image, have to have that in their designs [11].” Scion owners would agree; a large majority of owners chose Scion cars for their ease of modification and large aftermarket support available.

However, manufacturers that come out with a new, sporty and affordable car may not automatically be considered substitutes. The Scion brand name encompasses an entire culture that they are offering potential customers, and auto manufacturers that simply put out a new car under their current brand may not be using a strategy that is coherent enough to be successful.

Cheap entry-level cars, as well as used cars, are also substitutes for Scion vehicles. With regards to the cheap cars though, it is not clear that Scion is after these buyers anyways. Scion wants trendsetting young buyers who take pride in their cars and will customize them, and then proudly show them off around town. Customers who buy cheap entry-level cars are more interested in just getting from point A to point B and don’t really fit

with Scion's strategy. As for the used car market, many of these young buyers either simply don't have enough money to spend on a car, in which case they wouldn't be able to buy a Scion regardless, or they plan on making significantly more money in the near future, and so selling these customers a Scion, when they have their eyes on a new BMW, is simply not feasible and hardly worth pursuing.

Long Term Strategy and Recommendation

Suppose that Scion starts selling 200,000 cars a year, on the high end of what they'd like to sell. Current statistics show that 85% of Scion buyers are new to Toyota, and if this percentage can be maintained through their aggressive advertising and marketing campaign, Scion will be attracting 170,000 new customers to the Toyota camp every year. This number seems like a far cry from the 60+ million person consumer base classified as Gen Y that Scion, with its first mover's advantage, could be targeting. However, Scion acknowledges that their desired customers are anti-mass market and would lose interest if every other car on the road was the same as the one they just purchased. If there were as many Scion xBs and tCs as Camrys and Accords, the brand would surely lose its appeal, and its message of uniqueness would lose credibility.

On the other hand, we believe that Scion can successfully sell more cars than their current goal, by diversifying the models that they offer. Scion customers care about the uniqueness of their cars, so Scion should keep their current per model production goals, but expand that to increasing numbers of more models. The current lineup has three cars, which could be reasonably expanded to five cars within the next few years to capture a significantly larger audience, say with a small two-seater like the Mazda Miata or with a stylish pick-up truck like the Chevy SSR. If Scion is able to create many different car models, in relatively small batches, they should be able to continue expanding while still maintaining their image. Toyota is already the industry expert at producing small batches and many model variants profitably (see Appendix for details on Toyota's manufacturing capabilities), so this method of extending their market reach is viable.

Normally, exclusivity and low price seem contradictory, but Scion is able to pull it off successfully. With its small batch production scheme and limited Release Series “dressed up” versions of its cars, Scion is making sure that their target consumers are buying these cars and being well taken care of. The important thing to take away from the 170,000 number is that these are brand new customers to Toyota, meaning that Toyota is providing a car for a first time buyer or stealing a customer from another auto manufacturer. This highlights Scion’s necessity to retain its customers so that they eventually become Toyota and Lexus buyers. The Scion concept is essentially Toyota’s preemptive strike at capturing Generation Y’s purchasing power, which by all accounts should be huge within the next decade.

However, in order to remain successful, we feel that Scion needs to do two important things. First, they need to be able to “stay hip” with their target demographic, i.e. young, trendsetting, car buyers. Second, once they have these Scion customers on board, they need to lock them in to the Toyota product line, by offering excellent quality, service, overall satisfaction, and most importantly, a car that fits their style and functionality needs when it comes time to replace their Scion.

As a company who is targeting a very specific demographic, the challenge always looms ahead of what to do when your core customers start to age. Molding a company to profitably follow a certain generation through their lifetime (the Oldsmobile strategy) is a viable strategy, as long as you are willing to kill off the brand, as soon as your target demographic starts to shrink and profits start to disappear. On the other hand, we believe that adopting a “forever young” strategy is not only feasible, but a more profitable and beneficial option available for Toyota. Scion is entrenching itself in the culture of its customers in ways unheard of in the automotive industry. For example, Scion has recently spun off its own music label to help young emerging artists to record their music and get it distributed. Scion also hosts art exhibitions, DJing events, and video game tournaments, all of which open communication channels between Scion and their core customers, and let the company know what their customers want to see in future cars. Among the car enthusiast communities, online message boards are becoming the center

of information and discussion for owners. Scion not only participates in this valuable exchange of ideas between its customers, it endorses it, by directly linking these forums and car communities on its own website. Scion execs are not trying to find out what their customers want by reading market research reports; they are taking an increasingly active approach that will hopefully keep them attuned to the ever-changing tastes of today's youth.

In order to keep the brand "fresh," Scion needs to be constantly updating the appearances and features of its vehicles to match the tastes of its potential buyers. If there is one thing that is clear, it's that young people will not buy cars that they find unattractive or cars that they associate with older people. To this end, Scion should constantly be hiring new young designers to help them create iconic, polarizing looks for their new cars. Ideally, these young designers will be in tune with what is desired by Scion's target audience. It might be best to hire these designers as freelance employees so that the Scion brand doesn't age with its designers. As exceptional Scion designers age, perhaps they could be merged into the mainstream Toyota/Lexus group to provide input on how to modify those existing cars or create new ones that would attract former Scion owners. Another possible way to help ensure that Scion has an influx of talented car designers, would be to create some outreach programs to the nation's top art/design schools, offering scholarships and internships to talented young artists who are studying automotive design.

Scion could also ask its customers via online polls, which of several concept cars they would like to see go to production, or they could simply release several new designs and then monitor online forums to see how people respond. These are untried tactics, but fit well with Scion's online presence and desire to be "in-tune" with their customers. With plenty of customer feedback, a competent group of artists, and experienced car designers at Toyota, Scion should be able to consistently release new cars that appeal to young buyers.

By focusing Scion on young car buyers, Toyota also gains some insight about what those buyers might be interested in for future cars, which it can then apply to the Toyota and Lexus lineup in preparation. This is a large benefit of not having Scion track the current generation, because that strategy would eventually lead to cannibalization of Toyota/Lexus sales.

However, once a buyer is actually in the driver's seat of a Scion, locking them in to the Toyota product line is not going to be easy, because today's youth have admittedly short attention spans and little brand loyalty. Generation Y also doesn't like to feel that they are being "herded" towards a particular product, so anything that Scion does to nudge its customers towards Toyota must be done implicitly. This can be achieved by making the Scion ownership experience as enjoyable as possible. Scion has already gone the first step by making the entire new car shopping process easier for first time car owners by offering easy financing, fixed-price buying, and informed salesmen that are there to help you get exactly the car you want. Hiring a young sales staff (preferably Gen Y and Scion enthusiasts themselves) that are better able to identify with young, first time car buyers, will likely be more successful than having long-time Toyota salesmen doing double-duty, selling Scions as an afterthought. Toyota's world-class reliability and build quality should make for a headache free ownership experience, that Scion owners will not take lightly when they are shopping for their next car.

Friendly dealerships that help buyers customize their cars, by having a showroom of accessories and the means to install them, will also go a long way in keeping customers satisfied. The ease of personalizing a Scion is what hooked the customer to begin with, and running an in-house aftermarket upgrading facility, using high quality parts, is likely to bring Scion owners back for more. Toyota seems to recognize this, as Ward's Auto World reports that "Toyota also has launched a major initiative to improve its dealer customer satisfaction, including a new survey system, a new covenant that improves advertising practices and increased field support [12]."

Because Scion dealerships are integrated with Toyota dealerships, another subtle hint would be for the dealerships to offer Scion owners a complimentary Toyota “loaner” car, while their Scion is in for service. This would help familiarize Scion owners with the Toyota lineup, without making them feel like the Toyota brand is being forced on them. For the lock-in strategy to work, Scion/Toyota should offer rewards to its loyal customers, such as a referral incentive which would give free aftermarket parts or a discount on future car purchases, for recommending Scion/Toyota to a friend or family member.

Most importantly, Toyota must have cars that appeal to Scion owners, when it comes time to buy a new car. It’s very necessary for Toyota to refresh its currently uninspiring lineup. As the Gen Y demographic grows up and become parents themselves, their needs will likely change quite dramatically. However, that doesn’t mean that they’ll automatically be flocking to the Camry and Corolla; the desire for uniqueness and individuality will most likely still be a key selling point in the practical car that they are shopping for. “It’s important for us to quickly develop ‘catcher’ products in Toyota and Lexus that are attractive to an xB or a tC owner,” acknowledges Farley [13]. To do this, Toyota needs to make sure that they are offering cars that will be attractive to all of their potential grown-up Scion owners. Customization may not be as important this time around, but unique styling and high functionality will hopefully strike a chord with former Scion owners.

It’s ironic that at a time when Toyota needs more specialty “catcher” vehicles the most, the two sportiest and most unique vehicles in their lineup, the Celica and the MR2 Spyder, have been discontinued (both bow out after the 2005 model year). As purely a business decision, Toyota cannot be faulted for dropping those two cars (both cars had been reporting increasingly dismal sales); however, Toyota has to realize that such cars may need to be reintroduced in a few years when the first generation of Scion owners are looking to move on. This will probably not be a problem as the cars will continue to be produced in Japan (where they very popular) and could be brought stateside again with relative ease.

As the current leader in hybrid drive technology, one wonders whether Toyota can leverage this advantage into their Scion brand. Young urbanites are sure to appreciate the environmentally friendly, gas-frugal powerplants (hybrid cars are optimized in fuel efficiency for city driving) as well as the “cool factor” of hybrid technology. However, at this point in time, offering hybrids at Scion’s low price point is unfeasible. For example, Toyota’s current hybrid best-seller, the Prius, offers interior space and cargo carrying capacity equivalent to the Scion xB but retails at more than a \$5,000 premium (MSRP is \$20,957). The soon to be available Toyota Highlander HV and Lexus RX400h SUV hybrids will retail for \$5,000 and \$10,000 more than their gas-guzzling counterparts, respectively. Whether hybrid technology really is that much more expensive to implement, or if Toyota is just keeping prices high because they can is debatable, but one thing is for certain: Toyota will not introduce low-cost hybrids right now because doing so will unnecessarily cannibalize their current hybrid lineup that are already selling faster than they can be produced (a waiting list to purchase a Toyota hybrid is not uncommon). Simply put, hybrid technology is not ready for mass production at the moment, but is definitely something that Toyota can leverage into their Scion vehicles when the technology becomes cheaper (although it’s uncertain whether Toyota will still have such a technological advantage in hybrids at that point).

Toyota’s Scion division has so far done a commendable job capturing the Gen Y car buying population. With an extremely cohesive strategy that blurs the distinction between car and lifestyle, Scion is likely to survive against imitators and new entrants who are not willing to put in the full effort of developing a new brand. To ensure future success, Scion must continue to keep its brand and model lineup in-line with the tastes of young trendsetters. Although staying on the cutting edge is typically a difficult strategy to maintain, Scion’s active dedication to keeping communication channels open with its target audience, and full immersion in its customers’ culture, bodes well for its success. To maximize the value of the Scion enterprise, Toyota now needs to add a facet to its business strategy which locks in these customers to the Toyota product line. Offering strong incentives for loyal customers, and more importantly, good quality and unique cars

that they would actually want to own, would be the ideal way to accomplish this. Although it's a little too early to gauge Scion's success, it very much seems that Toyota has taken a big step forward in rejuvenating its image and ensuring future buyers in Generation Y.

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Appendix A

Background Information

Who is Generation Y?

Generation Y is the consumer group, over 60 million strong, born between 1979 and 1994. They are approaching their mid-twenties right now. The children of the baby boomers, they are the next major consumer group that companies are trying to corner. The marketing styles aimed at this generation are completely revamped from their parent's generation, and Scion is trying to capitalize on this style. Gen Y (also known as the Echo boomers or Millennium generation) is a very diverse group; one in four live in a single-parent household, one in three identifies themselves as not Caucasian, and three in four have working mothers [14]. They have mostly grown up in thriving economic times, which have left them with high aspirations. This generation is also used to being bombarded by mass media, and they are therefore almost impervious to usual marketing strategies. They respect authenticity and diversity, and do not like the feeling that something is simply being sold to them. Trendsetters in the community choose popular new brands and styles, instead of marketers in a corporate office. Customization is a critical feature to this generation, as it plays to their notions of individuality, which is what the Scion brand is hoping to capitalize on. Beyond attempting to please Gen Y in general, Scion is specifically aimed at the fifteen percent of consumers who compose the "trendsetting" portion of this consumer group. These people are looking for new, stylish, and surprising designs that help support their fashionable look.

Prior Attempts at Capturing the Youth Market

Oldsmobile

Oldsmobile is another company that initially captured a very young market with a best-selling car. The Cutlass sold in mass quantity to young consumers because it was a middle-market powerful car that appealed to people on their way up. However,

Oldsmobile then used the advantage they gained in the mid-70s and put the Cutlass name on many different models, thus diluting its appeal. Also, Oldsmobile continued to strengthen brand loyalty and followed their consumer group [15]. This is an alternative that Scion could take. Currently, they plan on revamping the cars in an attempt to “stay young forever”, however if they followed the current consumer group then they would have many years of guaranteed market. While this plan worked for Oldsmobile, it eventually led to the closing of the line in 2004 [16]. While Oldsmobile attempted to revamp their image over the last few years of operation, they were unable to get rid of the older image they had acquired over the years. If Scion hopes to simply remain an intro car then they should not attempt to follow the consumers they are currently attracting.

Saturn

In the early nineties, GM realized that they were not capturing as much of the new car buyer market as their foreign competitors. Therefore, Roger Smith, chairman of GM, created a group of ninety-nine people whose goal was to create a new car and brand that would attract a younger consumer group. Thus, the Saturn brand was born. Much like Toyota gave Scion a new name to help differentiate the new cars from the traditional stereotypes of Toyota, Saturn allowed GM to abandon all previous assumptions and start from scratch with its reputation [17]. Saturn focused on a few key aspects that would later be important to many of the Gen Y consumers. It realized that the consumer group they were aimed at had a lot of distrust in car salesmen, and therefore it introduced published no hassle pricing and had sales associates that were paid by salary rather than commission in order to reduce stress on the buyer [17]. This is similar to Scion’s emphasis on online ordering and no haggle, “pure pricing.” Also, Saturn put a lot of advertising emphasis on the company rather than the car itself, much like Scion puts emphasis on the community aspect of the Scion owners, rather than the actual specs of the car. Saturn, however, never fully managed to capture the youngest end of the market like Scion and the Honda Element are doing because they were aimed at a more general population rather than a specialized subclass of people.

Toyota's Manufacturing Line

From Toyota's founding they have been refining their production process for low volume production. Initially they tried to adapt Henry Ford's conveyor production system, which was designed for high volume production for the low volume needs of Japan. Ultimately, Toyota simply had to create a new system all together. After nearly 20 years of adapting, Teruyuki Minoura, Toyota's managing director of global purchasing, said in 1950 that "Businesses suffer if efforts are devoted to raising productivity when the products themselves cannot sell." It was from this realization that the concept of just-in-time production was born. Until then Toyota had been running their production process as a *push* system, where the output of preceding lines drive the input of the following lines. The problem with this is that large surpluses of goods might build up if one line out produced another line. Toyota wanted a system to allow them to only produce what was needed and only to transport what is needed from one production area to the next with the goal being to lower the amount of wasted investment that would result from changing production to a new line. To do this they implemented a communication system where the current line tells the previous line what, when, and how many of their outputs are needed. If demand goes down at one point in the production process the others decrease their outputs to accommodate.

By 1985 Toyota's production requirements had far exceeded their original low volume approach and they introduced the Flexible Body Line (FBL) geared to handle the high volume needs, but incorporating the efficiency principle from their earlier process innovations. Costs incurred in introducing a new model in a factory were mostly due to building all the specialized modules that held the various parts as they go are being constructed and assembled. Up till this point each car would have around 50 different specialized jigs and given that the plants have limited square footage the number of jigs needed in the process was limiting the number of cars that could be constructed at one time and also the number of models that a plant could produce was related to the amount of storage they had for keeping sets of other models jigs. The Flexible Body Line process revolutionized the process by reducing the number of jigs to 3 per vehicle being assembled.

This process would last for 17 years until the Global Body line was introduced in 1996. The FBL was specifically designed to increase throughput and reduce time and costs of new model introduction/switching, but there was room for improvement. After several years of enjoying the reduction on the number of jigs required per car Toyota noted that the FBL had two areas that if improved would allow unprecedented flexibility. First three jigs was limiting the number of models they could produce because they had to store three jigs multiplied by the capacity of their plant for three jig production for each model they wanted to make. Second, robots could not be utilized as much as they would like in their largest plants because FBL jigs held the bodysides and roof panels from the outside which restricted the access of welding robots. The GBL moved the attachment points to the inside and put the body sides and roof panel on one jig. With these improvements the number of cars that could be under production at one time in the plant tripled and the retooling costs for making jigs for new models was drastically reduced. The number of robots used in the typical plant went from 250 to 350 and because the bodies were held from the inside the overall square footage a car under assembly required when down, so the number of cars in the line at one time actually more than tripled.

How Small Batch Releases are Possible

Toyota's modern Global New Body Line (GBL) manufacturing process makes low volume production of Scion models possible without sacrificing profitability. In 1996 Toyota unveiled their GBL production process [18]. With it came several improvements over their previous generation Flexible Body Line (FBL). These improvements include:
30% reduction of the time a vehicle spends in the body shop.

70% reduction in time required to complete a major model change.

50% cut in the cost to add or switch models.

50% reduction in initial investment for a plant.

50% reduction in assembly line footprint.

50% reduction in carbon dioxide emissions due to lower energy usage.

50% cut in maintenance costs for the production line.

Additionally, plants outfitted with GBL lines can produce 8 models seamlessly as compared to 5 models for FBL plants. As such Toyota is in a unique position of being set up to build many models of cars at low volumes. In the North American market that Scion is in, the domestic automakers are still working on the just-in-time concept and do not have processes that allow for rapid model change without incurring large switching costs.[18]

While Toyota sells millions of vehicles a year, they actually produce many variants of each model. According to Kosuke Shiramizu, (Toyota executive vice president in charge of manufacturing and quality management): “I don't think Toyota makes a car today in which a single model variant exceeds 10,000 units. Toyota defines variant in terms of body type (sedan, hatchback, station wagon, passenger van, SUV), grade, destination market (North America, Europe, or Asia), engine type, transmission, exhaust system and so forth. In the current environment, it would be unwise to target (yearly) sales of 100,000, even 50,000 units for a single vehicle type [12].”

Appendix B

Scion Specific Data

Scion xA



Pure Price	Manual	\$13,045
	Automatic	\$13,845

MECHANICAL/PERFORMANCE	
ENGINE	Double overhead cam (DOHC)16-valve VVT-i 4-cylinder
DISPLACEMENT	1.5 liters (1,496 cc)
BORE X STROKE	75 mm x 84.7 mm
COMPRESSION RATIO	10.5:1
VALVE TRAIN	Double overhead cam (DOHC) 16-valve Variable Valve Timing with intelligence (VVT-I)
INDUCTION SYSTEM	Multi-port EFI
IGNITION SYSTEM	Ignition system Electronic with Direct Ignition (TDI)
HORSEPOWER	108 hp @ 6,000 rpm
TORQUE	105 lb.-ft. @ 4,200 rpm
TRANSMISSION	
5-SPEED MANUAL OVERDRIVE	Standard
4-SPEED ELECTRONICALLY CONTROLLED TRANSMISSION (ECT)	Available
SUSPENSION	Front Independent MacPherson strut with stabilizer bar Rear Torsion beam with stabilizer bar
STEERING	Power-assisted rack-and-pinion steering
BRAKES	Power-assisted ventilated front disc / rear drum with Anti-Lock Brake System (ABS)

MILEAGE ESTIMATES (MPG CITY / HIGHWAY)*

Manual

32 / 37

*2005 EPA-estimated 32 city/37 highway mpg for xA manual transmission and 31 city/38 highway for xA automatic transmission. Actual mileage may vary.

Automatic

31 / 38

Add-on Accessories

Aftermarket Suppliers:

AEM
Hotchkis Tuning
OBX Racing Sports
Superior Dash
ACSCO
Nifty Products
TYC
Yakima

Pricing is MSRP for CA. Pricing may vary by dealer. Installation not included in most cases.

Exterior Accessories

Accessory	Price
Rear Spoiler	\$385 - \$423
Rear Taillights by <i>TYC</i>	\$275
Tail Light Garnish by <i>Superior Dash</i>	\$125 - \$169
Fog Light Kit	\$350 - \$425
Rear Bumper Applique	\$58
B & C Pillar Applique by <i>Superior Dash</i>	\$75 - \$189
Carbon Fiber Gas Lid Applique by <i>Superior Dash</i>	\$35
License Plate Frames (assorted styles)	\$30 - \$43
<i>Yakima</i> Rack	\$276
Front End Mask	\$55 - \$169
Mud Guards	\$108
Custom Fit Car Cover	\$219
Body Side Graphics	\$224 - \$264
Exhaust Tip by <i>Valor Manufacturing Inc.</i>	\$64
Ground Effects Kit	\$995
Carbon Fiber Engine Cover by <i>OBX Racing Sports</i>	N/A

Interior Accessories

Accessory	Price
LED Light Enhancements (different colors available)	\$250 - \$280
Cup Holder Illumination (different colors available)	\$299
Color Steering Wheel	\$299
Molded Dash Applique by <i>Superior Dash</i>	\$259 - \$299
Center Armrest	\$125
Shift Knobs by <i>OBX Racing Sports</i>	\$49 - \$59

Sport Pedals by <i>OBX Racing Sports</i>	\$79
Door Sill Enhancements by <i>ACSCO</i>	\$115 - \$139
Scion Security	\$469 - \$499
Security Remote Covers	\$19
Floor & Cargo Mats	\$120
Cargo Net	\$49
Cargo Tote by <i>Nifty Products</i>	\$40
SRS Side & Side Curtain Airbags	\$650
Auto Dimming Mirror	\$310

Performance

Accessory	Price
<i>Hotchkis Tuning</i> Front Strut Tie Bar	\$225
<i>AEM</i> Cold Air Induction System	\$335
Performance Clutch	\$328
TRD Lowering Springs Kit	\$189
TRD Struts/Shocks Kit	\$329
TRD Sport Muffler	\$299 - \$525
TRD Quickshifter	\$157
<i>AEM</i> Billet Oil Filter Cap & Battery Tie Down	\$105 - \$120

Audio Accessories

Accessory	Price
XM / Sirius Satellite Radio	\$449
8" – 10" Subwoofer by <i>Bazooka Mobile Audio</i>	\$429
AM/FM/6-Disc CD Changer by <i>Pioneer</i>	\$395

Standard Features List (for xA, xB, and tC)

Comfort & Convenience Features

Air Conditioner
Power Windows
Power Door Locks w/ Remote Entry
Power Outside Mirrors
Rear Window Defogger
Digital Clock
Tilt-Steering Wheel
Cargo Area Cover
Tachometer and Trip Meter
Driver and Passenger Vanity Mirrors
Cargo Area Under-floor Storage
60/40 Split Folding Rear Seat
Amber Instrument Panel Illumination
Sport Front Bucket Seats

Exterior

Choice of 3 Wheel Cover Designs
Multi-Reflector Halogen Headlamps
Fender Mounted Turn Indicators
Intermittent Front Wipers
Rear Wiper
Chrome Exhaust Tip
Rocker Panel Extensions

Audio

Pioneer AM/FM/CD Head Unit (MP3 and Satellite controller capable)
Scion Sound Processing
6-Speakers (include 2 tweeters)
Roof Mount Antenna

Safety Features

Driver and Passenger Front Airbags
Anti-Lock Brakes (ABS)
Driver and Passenger 3-Point Seats Belts
3-Across 3-Point Rear Seat Belts
First Aid Kit
3-Across Rear Head Restraints

Service Features

Three complimentary oil changes

Warranty

Basic Coverage: All components other than normal wear and maintenance items are covered for 36 months or 36,000 miles, whichever comes first.

Powertrain Coverage: The engine, transmission/transaxle, front-wheel drive, rear-wheel drive, seatbelts and air bags are covered for 5 years or 60,000 miles, whichever comes first.

Genuine Scion Accessories: Warranty coverage is for 12 months, regardless of mileage, with the exception of car covers, which are warranted for 12 months only. If the part or accessory is installed during the New Vehicle Limited Warranty period, coverage is for the 12 months or the remainder of the applicable warranty coverage.

Appendix C

Competitor Offerings

In order to accurately determine what cars compete with the Scion xA, xB, and tC models, it's important to first define what Scion really is. The xA and xB share the same 108-horsepower 1.5 liter four-cylinder engine, which, despite the low power rating, is plenty capable of moving the lightweight cars at a decent pace. The cars make well over 30 miles per gallon, making it an economical car in the city or on the highway. The suspensions on the xA and the xB are mildly sport-tuned and allow the cars to be competent handlers on city streets. Interior headroom, legroom, and available space for storage are surprisingly abundant given how small the cars look from the outside. All Scions are equipped with better than industry standard sound systems, consisting of an MP3 CD player and six or more speakers.

The tC is the only Scion offered at this point with serious performance aspirations. It has a 160-horsepower 2.4 liter four-cylinder engine with an optional TRD (Toyota Racing Development, Toyota's in-house tuner) supercharger available later this year for those with a heavier right foot than most. A sporty independent suspension (front and rear) and stiff anti-roll bars give the tC impressive handling prowess. The tC is often lauded for its high quality interior and exterior that is unfitting for a car in this price segment.

Overall, Scions bundle stylish design, functional interiors, a fun-to-drive engine/suspension combination, and relatively high quality at an affordable price. Scions are practical cars that can be easily personalized with custom accessories sourced directly from the dealership or from aftermarket suppliers. When asked to list a particular car's competitors, most automotive review websites spit out a long list of cars that share little resemblance to the car in question besides price and physical size. The following is a more intelligent compilation of cars that potential Scion buyers cross-shop because they offer Scion-similar attributes.



Mini

The Mini Cooper is a stylish and fun car that offers a myriad of interior and exterior customizable options (including what color you want the roof and side view mirrors to be painted). The Mini's are much more serious performance driving machines due to their BMW underpinnings and this is reflected in the price. The 115-horsepower Mini Cooper has a base MSRP of \$17,500 and the 168-horsepower Mini Cooper 'S' is \$20,950. The base model Mini's, at these prices, are comparably (but not better) equipped than the Scions. The high price-tag and performance capabilities essentially make the Mini Cooper a competitor of the tC. However, it's uncertain whether a Scion shopper would be willing to spend several thousand more for a car that is less functional than a Scion and does not have as high a reliability rating as a product backed by Toyota. The Mini seems to be targeting a different, wealthier demographic that is willing to spend more money for the cool retro styling and pure sports car demeanor.



Mazda

The sporty Mazda3 from Mazda is a serious threat to Scion's offerings. The 4-door sedan starts at \$14,240 and the high utility 5-door hatchback model has a base MSRP of \$17,665, well within xB and tC territory. A 148-horsepower 2.0 liter four-cylinder is available for the sedan and a 160-horsepower 2.3 liter four-cylinder engine for the hatchback. The Mazda3 offers a stylish, practical package with competent handling and power. Mazda's in-house tuner, Mazdaspeed, promises that dealer-installable accessories and performance parts will soon be available as well. What's unique about the Mazda3 is that it offers options such as a navigation system and HID (High Intensity Discharge) headlights that were previously reserved for high-priced luxury cars. It is clear that Mazda is out to change the cheap car landscape and Toyota needs to take notice that they are not the only ones that are capable of making an affordable, customizable car.



Honda

Like the rest of the industry, Honda was caught by surprise at Scion's success. Honda is now scrambling to bring over a version of its Fit hatchback currently sold in Japan to go head-to-head with the xA and xB. This model should be in Honda's 2006 lineup and should wear a price tag under \$15,000 (slots in below current Civic). With performance and functionality similar to that of the xA and xB, Honda will have to do more than offer a cheap price to lure Scion customers over. However, Toyota needs to not underestimate this offering from Honda, as Honda was the king of "hot hatches" and sub-compacts as recently as five years ago and knows how to create cars that enthusiasts want. Honda posed a real threat with the Honda Element, which was aimed at a very similar portion of Gen Y consumers.

The Honda Element and the Scion xB are very similar in look and appeal. They are both aimed at similar consumer groups, however Honda and Toyota took very different approaches to capturing this market. Honda already attracts a fair amount of women to their cars, so they are aiming to get more young men to buy the Element [19]. Both companies are hoping to attract 22-year-old males who are college graduates with an above average income in order to bring down the average age of consumers. However, there is a great divergence in the exact subclass of consumers that they are aimed at. Scions are generally trying to attract trendy, urban customers who are technology savvy and on the leading edge of style. Honda did its R&D with a different consumer group. The Element was based on research done around consumers who spend their weekends surfing or hiking. They are not the trendy 10% of young people, but rather the consumer group with very active lifestyles who were looking for a car that would meet similar needs that an SUV or truck would serve [20]. The Element was designed from scratch with the American market in mind, which has lead to higher sales at higher prices, but the xB is steadily growing in sales; in the first eleven month of 2004, 55,460 Elements were sold, which was an 11% decline from the same period the previous year as compared to 43, 186 xBs were sold, which was a 611% increase [21]. Scion saved money in engineering by basing its new model off of an already existing Japanese model, the Toyota bB. While both the Element and the Scion appear to be success stories, the fact

that Scion created a whole new division and was very slow in bringing the cars into the market seems to have helped them get stronger base to continue in their current marketing approach.



Kia

If it's surprising that a Korean automaker has made this list as a potential competitor to the mighty Toyota Motor Corp., it shouldn't be. A decade ago, "Korean manufacturers struggled with a universally poor reputation for vehicle quality," says Joe Ivers of J.D. Power and Associates. Today, Korean manufacturers have aggressively cut initial quality problems and now lead the European and domestic manufacturers in terms of quality. In the 2004 J.D. Power and Associates Initial Quality Survey, Hyundai/Kia Motor America is tied for second place with Honda Motor Co., just one spot behind Toyota and actually ahead of BMW. The Spectra5 is Kia's offering into the sporty sub-compact market and its credentials are impressive. At \$15,790, the Spectra5 comes with a host of standard features that rivals that of Scion and a potent 138-horsepower engine. The sport wagon shape is extremely functional and the styling is refreshingly hip. And, Kia offers something Scion /Toyota doesn't—an industry leading 10 year, 100,000 mile warranty. Toyota must not underestimate the potential threat that Korean automakers pose or they may be blindsided in the very near future. As Road & Track eloquently puts it, "Take

notice, Japan. The Koreans are on a learning curve as steep as Mount Everest, and Kia's latest, the Spectra5, is eyeing the summit in the entry-level ranks."



Volkswagen

Volkswagen, with its counter-culture roots in the Bug and the VW Bus, seems like the ideal competitor to Scion's urban, anti-mass-media establishment. The Golf hatchback is the car credited with starting the "hot hatch" craze nearly two decades ago and is still popular among the young, college crowd today. The current iteration of the Golf has a base price of \$15,830 and comes extremely well equipped with standard features that exceed those offered on the xA and xB (such as four-wheel disc brakes). A 115-horsepower engine and an able suspension make this car a favorite among enthusiasts. VW's are also known for their high level of fit and finish and German car aura that is rarely found in cars at this price segment. Although VW dealerships currently do not offer a large amount of customization, the cars have a strong aftermarket following and customers eager to personalize their vehicle will have no trouble finding a community to help them do so. Volkswagen also has several similarly sized cars currently not available in the US that could possibly be pulled stateside to compete with Scion, such as the Lupo and Polo. Toyota needs to be wary of other car manufacturers with products in other countries that could be viable competitors against Scion that they can bring to the market in the US with little or no development time.

Luxury Brands

Many of the luxury brands are beginning to offer smaller and cheaper vehicles to attract younger buyers as well. Audi has just released its A3 5-door hatchback, BMW has the 1-series hatchback in the pipeline, and Mercedes-Benz is contemplating building its B-Class in the US. These ‘starter’ cars from the luxury brands, however, are not trying to become somebody’s first car, but instead be somebody’s first BMW, or first Mercedes, etc. They are targeting a younger demographic, but are essentially going for the younger generation of their current customers. The higher prices (over \$20,000) reflect this and take these cars out of the Scion shopper’s price range.

Domestic Automakers

Try as they do, the Detroit automakers cannot seem to come up with an inexpensive car that the young car buyers of today would consider ‘cool.’ Domestic styling of cheap cars has typically been dull and uninspiring, and lackluster quality surveys turn off savvy young shoppers who tend to scrutinize the quality of anything they purchase.