NICHE VEHICLES FAST BECOMING MAINSTREAM

By Paul A. Eisenstein

Mercury Cougar

Car nuts don't think of it as the last letter in the alphabet; for them, it's the name of one of the most popular sports cars of the last 25 years. If all goes according to plan, we will soon see the return of the Nissan "Z" car.

Then there's "T," as in T-Bird. Ford dropped the slow-selling Thunderbird nameplate in 1997, but it returns next year — not as a midsize coupe, but in two-seat trim reminiscent of the original T-Bird roadster from the mid-1950s.

Following the success of Volkswagen's retro-styled new Beetle, lots of automakers are returning to their roots. Though sales of the Beetle have exceeded VW's wildest expectations, Ford and Nissan are making modest plans for their new models. Ford plans to build between 25,000 and 35,000 Thunderbirds a year, while "Z" car volume is likely to run anywhere from 40,000 to 90,000, according to senior Nissan officials.

By Detroit definition, those are "niche" vehicles. And until recently, such low-volume products held little interest for major automakers, like Ford or Nissan. With the cost of developing a new vehicle typically topping the $1 billion mark, carmakers could seldom recover their investment without selling at least 100,000 units annually.

Yet Ford has an extensive line-up of niche cars ready to roll off its drawing board. It's already done well with the Mercury Cougar, which debuted last year, about the same time as the European Ford Puma. Next on tap is the Lincoln Blackwood, a crossbetween a full-size sport-utility vehicle and a pickup truck, its cargo bed clad in elegant, black wingewood.

"I personally think the days of the very high-volume vehicle are behind us," says Ford President and CEO Jac Nasser. He predicts that cars like the Thunderbird are going to be more the norm than the exception in years to come.

Other automakers agree. General Motors, for example, has given a tentative go-ahead to the Cadillac Evoq, which debuted as a concept car at the 1999 Detroit auto show. GM recently announced plans for three new U.S. assembly plants, collectively code-named Project Yellowstone, that should reduce production costs by 20% because of their flexible manufacturing system. That could allow GM to roll a wide range of vehicles down one assembly line, which according to Mark Hogan, the vice president spearheading the project, could include niche spin-offs of high-volume cars. GM would be able to produce an SUV version of the Chevy Cavalier, for example, at volumes as low as 1,000 units a year.

That would give GM a potentially huge competitive advantage, because the larger profits will go to whichever automaker can do the best and fastest job of tapping into shifting market trends. "There's a tremendous cry among consumers for something that's truly individual," says Bill Robinson, an automotive design instructor at Detroit's Center for Creative Studies.

Computer-aided design and engineering systems make it easier to develop multiple bodies that fit on the same basic chassis. In the process, product development costs and "lead times" can be shortened substantially. The next step is to get suppliers involved. At GM's Yellowstone plants, outside partsmakers will deliver large, pre-assembled component "modules" right to the assembly line, where they'll be bolted together like Lego blocks.

As part of the "2020 Hot Rod" project GM is studying, outside suppliers might even produce entire bodies that it says could "bolt-on, or even stick-on the same platform .... anything from a pickup truck to a sports car to a hotrod."

But why stop there? Why not outsource low-volume vehicles entirely?

The European versions of DaimlerChrysler's Jeep Grand Cherokee and Plymouth's Voyager minivan are assembled by Steyr-Daimler-Puch, an Austrian subsidiary of Canada's Magna International, Inc. Magna is studying the idea of setting up a similar operation in North America, according to Vice President John Thomas. Such a plant could produce low-volume specialty vehicles for otherwise high-volume automakers.

But it also might be possible to produce "house brand" products, much like you find at the local supermarket. A chain of dealerships, such as Circuit City's CarMax, or Republic Industries' AutoNation, might contract Magna to build a unique line of vehicles they could badge as their own.

Back in the early 1960s, high-volume brands, like the Chevy Impala, sold more than a million units a year. Those days are gone for good. Whatever nameplate consumers buy, they have become less willing to settle for one-size-fits-all vehicles. They want products that match their tastes, needs and lifestyles. The manufacturers who figure out how to generate high-volume profits from niche-volume products are likely to be the winners in the decades to come.