



OBSERVATIONS

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Woodstock and the Rise of the Truck Market

The Canadian market for light trucks is tracking at 68 percent of the total market through the first eleven months of 2017. Indeed, during four of the last twelve months light trucks accounted for more than 70 percent of the market and we forecast that this coming year they will exceed 70 percent for a full year for the first time in history.

This begs the question, why?

I've been studying this industry since 1969 and the answer is quite complex. My first thought is "Woodstock", that's right, the rock and roll festival held in up-state New York in August 1969. During the sometimes rainy weekend, 32 acts are performed outdoors before an audience of more than 400,000 people, mostly baby boomers. It is widely regarded as a pivotal moment in popular music history, as well as the definitive nexus for the larger counterculture generation. Indeed the phrase "the Woodstock generation" became part of the common lexicon. We more commonly refer to this as the 'baby boomer' generation/cohort and it has been the largest vehicle buying cohort in North America since they turned 16 and began driving.

Boomers also were the first demographic cohort to begin to drive light trucks in a big

way. I encourage everyone to watch the movie, "Woodstock" and you will see pictures of the Volkswagen Camper/Bus which was the counter culture vehicle of the day. Volkswagen has also recently revived images of the Camper/Bus in recent advertising. Many believe that Woodstock was the defining moment for the baby boomer generation, 'Peace, Love, Music and Freedom' and a van represented "Freedom" especially since it was also something that you could live in while you explored the country.

In addition, the Boomer's parents drove cars and the last thing a Boomer wanted was to drive what their parents drove. Light trucks fit the bill for this new 'activity' oriented generation of drivers. I would argue that this counter-culture has since filtered down through Gen 'X' and Gen 'Y' and now millennials. In 1969, light trucks represented exactly 15.0 percent of the Canadian market. Ten years later this had increased to almost 30.0 percent with the first real sprout in their sales coming after Woodstock.

But there were a number of other reasons. A hidden but very important element of the move to light trucks was also the influence of government regulation (and in this case it was over regulation). I remind everyone that the

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words 'light truck' is what they are called today. Back in the 1960's and 70's they were called 'commercial vehicles' since that was their primary use. In 1965 Ralph Nader published his book, "Unsafe at Any Speed: The Designed-In Dangers of the American Automobile" and the government responded with a wave of regulations focused on increasing the safety of vehicles.

At the same time there was a recognition that criteria air contaminates (i.e. smog and other nasty chemicals coming out of tailpipes) threatened the health of the nation and our collective governments also began introducing regulations to control tail pipe emissions. Almost all of these Regulations were targeted at passenger cars. Light trucks were primarily for 'commercial' use and were not originally included in the Regulations since the Government worried that they would burden businesses with higher costs.

The time table for these Regulations was aggressive and the vehicle companies were not able to seamlessly introduce technology to address these two issues. Thus many believe that the 1970's into the 80's produced some of the worst passenger cars ever sold in North

America. But the consumers, (especially the boomers) were smarter than the regulators. If cars were not very good why not buy a truck which was not originally burdened with all this regulation and they better fit their lifestyle aspirations. Boomers originally started buying large vans which were a very small part of the market in the 1970's but by the early 1980's they represented almost a quarter of the truck market. You could drive to the beach with a half dozen friends and still have room for your boom box and a cooler of food and drinks. These large vans were a wonderful vehicle in which to enjoy life.

But there also were serious issues with the move to large vans for personal use. These vehicles may have been different from their parent's vehicle and much better than over regulatory burdened passenger cars but at the end of the day they were still body-on-frame construction and drove like a truck and this made them somewhat unattractive from an ownership point of view: repair costs, cost of fuel, handling, etc. At the same time, passenger cars were quickly moving to uni-body construction which made them much cheaper to own and more enjoyable to drive. In 1983, the then Chrysler

company introduced what was originally called the 'garagable van' but which quickly become known as the 'Mini-Van'. It was built on the uni-body constructed Omni/Horizon platform and I believe this was the early stages of light trucks becoming more car like and thus more attractive for consumers to own. Today almost all SUV's and Mini-Vans are uni-body construction (essentially truck bodies on passenger car platforms) and pick-up trucks remain the last bastion of body-on-frame construction. Mini-Vans were less than 1 percent of the light truck market until 1983 but with the introduction of the Dodge and Chrysler mini-vans they moved up to more than a third of the light truck market by the early 1990's.

In the 1980's and 90's another engineering phenomena developed in the automotive sector. This one not specifically related to the product but to how the OEMs manufactured their vehicles. This was the coming of age of 'flexible' manufacturing plants. In the old days the OEMs were tied to manufacturing one type of vehicle on an assembly line and hoped it sold 200K+ in order to get economies of scale. With the 'flexing' of their plants they were able to manufacture multiple vehicle types all on the same platform

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Canadian Light Vehicle Sales by Segment - Units

	1990	2000	2010	2016
Passenger Cars				
Subcompact	151,289	59,583	88,165	80,949
Compact	330,419	373,882	360,432	343,817
Sport	74,176	34,145	29,527	32,183
Luxury Compact	-	10,102	9,968	15,502
Luxury	18,604	35,387	50,500	50,754
Intermediate	287,561	303,606	150,152	118,662
Luxury High	16,541	25,015	12,545	12,997
Luxury Sport	4,217	4,581	4,033	7,234
Total	882,807	846,301	705,322	662,098
Light Trucks				
Subcompact Sport Utility	15,141	5,966	1,626	52,392
Compact Sport Utility	18,229	62,327	248,729	406,116
Intermediate Sport Utility	32,109	79,844	122,513	168,906
Large Sport Utility	5,935	30,416	9,769	22,131
Luxury Compact Sport Utility	-	839	18,806	61,314
Luxury Intermediate Sport Utility	65	12,748	39,001	52,852
Luxury Large Sport Utility	-	2,142	5,802	15,958
Small Pick up	58,379	27,042	43,308	32,019
Large Pick up	127,008	202,654	253,545	344,559
Small Van	112,605	244,375	85,703	90,451
Large Van	33,510	31,985	22,995	40,099
Total	402,981	700,338	851,797	1,286,797
Total Light Vehicles	1,285,788	1,546,639	1,557,119	1,948,895

Source: DesRosiers Automotive Consultants Inc., CVMA & GAC

and assembly line. Today it is common to have 3 to 5 models built on the same assembly line. This gave the OEMs an ability to quickly react to changes in the market. It also gave them the ability to divide the market into smaller and smaller segments. If the market only desired 50K to 75k of a vehicle type they could meet this demand and still be profitable by adding other vehicle types to the identical assembly line.

The ability to differentiate your product from the competition has always been a critical

element to market success and these 'flexible' plants helped facilitate this in a very big way. Thus began the era of product proliferation. There was a day and age where there were about 150 to 200 different models offered in the market. Now it is closer to 300 individual models with many of these models being light trucks since these were the types of vehicles that consumers were buying. In the 1970's there were compact, intermediate, full sized and sport cars on the car side of the market and vans, pick-up trucks and sport utility vehicles on the light truck side of

the market. Today there are 19 distinctive segments and most of the additional segments are light trucks.

The 'Woodstock' generation of consumers embraced light trucks and many have driven a light truck their entire life, first a full size van, then a mini-van or two, then multiple SUV's; if you were a country boy or girl you might have substituted a pick-up truck for one of these. But if you were a teenager in 1969 when you attended Woodstock or watched the movie then you are in your late 60's today and likely retired or about to retire. This cohort has also created significant wealth and now that they are 50 years older many they have moved out of the mass market segments and are treating themselves to a luxury vehicle or at least a premium vehicle. Back in the 70's and even 80's the only luxury vehicles were passenger cars. To cater to this generation the OEMs launched a number of 'luxury' light trucks and today there are dozens of 'luxury' light truck models to choose from which further expanded the market for light trucks.

More recently, government regulation has again come into play in helping grow light truck market share. Governments

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now focus regulation on the issue of climate change which is directly related to fuel efficiency. One of the problems with light trucks is that, on average, they are about 2 litres per 100 Kilometers less fuel efficient than equivalent passenger cars. Consumers love their trucks and all the 'utility' they offer their life style. To move back to passenger cars would take away much of the advantages of a truck so one way to address fuel efficiency regulation was to downsize them. First was to move from intermediate and full size down to 'compact' sized light trucks and eventually to 'subcompact' sized light trucks. Especially on the SUV side of the light truck market. This splintering of the market gave consumers more choice and lowered the cost of ownership ... lower capital cost, less fuel consumption, etc., yet still provided the consumer with all the attributes of owning a light truck. Since the beginning of the availability of sales data the compact passenger car segment was the best-selling segment in Canada. This changed two years ago in 2015 to the compact sport utility segment.

My last factor is a bit silly but an important part of this move to light trucks. For marketing reasons many vehicles that we traditionally called a passenger

car are now called a light truck or SUV. The new Honda HRV and the new Toyota CHR if introduced into the market a couple decades ago would have been called a 'car'. Call it a 'car' today and consumers would never buy one. But the HRV is built on the same architecture as a Honda Fit and the CHR is built on the same architecture as a Toyota Prius and indeed the next generation Corolla (a car) is going to be built on that architecture as well. Put them side by side to their car cousins from an earlier age and it is hard to tell the difference. There are a number of others that are called an SUV but are simply jacked-up passenger cars. Some of these don't even offer all-wheel drive. So simple 'nomenclature' has also been an important element of the growth of light trucks.

Those are the underlying reasons for the growth of light trucks that I can think of. There may be others that I missed. But where does this all end? Is it possible that passenger cars will disappear entirely? I don't think so. Passenger cars are still much less expensive than equivalent light trucks so affordability keeps the car side of the market relevant. Airport rentals require both affordability and interior/trunk space and cars better fit these criteria so the daily rental

market should remain biased to passenger cars. And I believe that the 'regulations' that initially helped grow the light truck market are now poised to compress the market. How much is debatable but the upcoming fuel efficiency rules will be very difficult to meet with a market highly biased towards light trucks. The absolute size and weight of many trucks works against these new regulations. All vehicles of all types and sizes are becoming more fuel efficient but it appears that there will have to be some downsizing in the vehicle of choice if tough fuel efficiency regulations are to be met. Although downsizing within the truck segments is possible these regulations are likely to favour a slight move back to passenger car segments. Some would claim that may be close to the end of the increase in light truck share of the market. However the number of 'all-new models' targeted to be introduced over the next five years is highly biased toward light trucks so their market share will likely continue to grow at least for a short while. **DAR**