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by Chris Woodyard


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Feb 21, 2012

Flood of low-end luxury cars aims to batter BMW 3 Series

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By James R. Healey, USA TODAY

Updated 8h 39m ago
bare-knuckles fight is about to begin for low-end luxury-car buyers.



CAPTION General Motors via Wleick

Never mind that small cars generally don't go over well with American buyers.

Or that the recession left fewer people with enough cash or credit for a lux-mobile.

PHOTOS: Small luxury cars hit dealerships

Or that some buyers might never accept "low-end" and "luxury" in the same sentence.

There's no turning back. The entry, or newly named "gateway" luxury segment now is in play, and here come the players.

Most of the cars will be smaller and lower-price than the bigger models but able to boast higher mileage and — automakers dearly hope — able to draw a whole new crowd of younger buyers who'll stay forever.

"Everybody wants to have a (BMW) 3 Series," says Steve Shannon, U.S. marketing chief for Hyundai, which sells larger

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About Chris Woodyard

Chris Woodyard is an auto writer for USA TODAY who covers all aspects of motoring. He revels in the exhaust note of a Maserati and the sharp creases of a Cadillac CTS. Chris strives to live a Porsche life on a Scion budget. More about Chris



luxury models Genesis and Equus. "That is such a great spot to be in."

The 3, a compact sedan, is "small enough to be big-city friendly, but big enough to be adequate for people living elsewhere. It successfully and magically attracts demographics from other segments, everybody from 20-somethings to senior citizens," marvels Jesse Toprak, auto-industry expert at research and shopping site TrueCar.com

Most likely challenger:

Cadillac's \$34,000 ATS compact sedan coming this summer. "They'll do very well with it. I wouldn't be surprised if it became the No.1-selling car for Cadillac. If I were a dealer, I'd be quite excited," says Jim O'Donnell, retired chief of BMW in the U.S. and now an auto-industry expert at the New England Consulting Group.

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Other contenders include Acura ILX, a redesigned Lincoln MKZ, Mercedes-Benz' A- and B-class models finally bound for the U.S., and a new take on Audi's A3.

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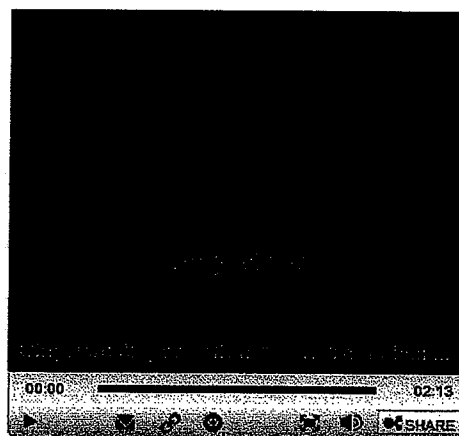
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The redone MKZ is a key element in what Ford Motor says is the "reinvention" of its foundering Lincoln luxury brand with new and redesigned models. On sale later this year, the new MKZ will be longer and wider than the current version, though it still will be the smallest Lincoln. Ford will take pains to distance it from the similar 2013 Ford Fusion, with which it will share a platform. A hybrid model is expected.

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The concept version of the new-generation A that's been on the auto-show circuit is much more stylish than the box that's been masquerading as the small A-class in other markets.

Already in the low-end luxe firefight: Buick Verano and Lexus CT 200h.

Enough buyers consider Buick a premium, or even a luxury, brand that its \$24,000 Verano small sedan, launched last November, is on the entry-luxe radar in spite of its mainstream price. It lacks some up-market features, such as a backup camera, and its Chevrolet Cruze underpinnings might doom it to non-luxury status, but it could come across as a great bargain and siphon some buyers looking at other gateway luxury models.

CT 200h, an upscale gas-electric hybrid hatchback loosely based on the Toyota Prius, has been on sale since last March. It's the brand's newest and least expensive model, about \$4,000 less than the cheapest version of the small, sporty Lexus IS sedans that some would consider a more direct challenge to the BMW 3's. But the CT's hybrid drivetrain, quirky looks, sporty chassis and \$30,000 starting price are Lexus' attempt to seduce luxury newcomers in a new way.

Challenging the 3 Series is a formidable undertaking, whether done head-on, as the Caddy ATS will do, or obliquely, by selling a car that's only roughly similar in size or price. Even BMW's own smaller and lower-price model, the 1 Series, can't do it: BMW sells 11 times as many 3's as 1's.

Introduced in the U.S. as the 1977 BMW 320, the first 3 Series car immediately drew admirers for its then-uncommon blend of sports-car handling and sedan practicality.

When the second-generation 1984 version of the 3 hit showrooms, upwardly mobile "yuppies" (young urban professionals) thought they'd found the perfect wheels for their rising status.

Now it's BMW's best-seller, accounting for 38% of all BMW's U.S. sales last year. A slightly larger, quicker, more fuel-efficient, sixth-generation 3 just went on sale and it's better-equipped than the car it replaces.

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Rivals have no choice, really.

To meet ever-stricter federal fuel-economy regulations, they need the smaller, better-mileage machines to offset the lower mileage of big-engine models that give a luxury brand its panache and earn big profits.

And they need entry models for what the industry believes is a tidal wave of successful twenty- and thirtysomethings, like those 1980s yuppies, who are looking for luxury-brand cars that are trim and technological — and value-priced. Studies show that luxury buyers are more brand-loyal than others, so snagging buyers just as they're ready for their first premium model is good business.

"People are more likely to get to a 7 through a 3 than through a Mercedes," says Gary Stibel, CEO of the New England Consulting Group, referring to BMW's flagship 7 Series big sedan and the mainstay 3 Series.

"Capture, land and expand," he says.

Whether that will be easy — that is, whether there is the supposed pool of able buyers and they will tumble to the new machines — is being debated.

"I'm less than real enthusiastic about the success of luxury small cars (in the USA). They just don't seem to resonate," says Jack Nerad, veteran of the auto industry who is executive editorial director at Kelley Blue Book's kbb.com.

But TrueCar.com's Toprak says, "Overall, the prospects in the small luxury segment are very positive."

BMW spokesman Thomas Plucinsky notes that such market movement is happening elsewhere: "In Europe there is a push toward luxury brands going to smaller-size cars." Even in the bigger-is-better U.S., "We think we can go to the smaller size without watering down the brand," he says.

Thus, BMW has "several (BMW-brand) models under consideration" that are as small as the models it sells under its Mini Cooper brand, Plucinsky says, and BMW plans them for the U.S. market in coming years. The so-called UKL cars (a European size designation) will be front-wheel drive — possibly sacrilege in the eyes of fans of the BMW that's known for its rear drive.

In fact, BMW's Mini brand was portrayed as a way for BMW to market smaller, front-drive cars without undercutting the BMW rear-drive heritage.

It's plain that a lot of money and maneuvering are aimed at what is, after all, just a slice of the premium market, which is itself a sliver of the total new vehicle market.

Why? Because of what might happen. Says Acura's Ikeda: "Now, the luxury market represents only 10% of total industry sales. But research shows that 80% of mass-market buyers are considering stepping up to a luxury vehicle."

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