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RETHINKING SCION

## Quirky goes mainstream, so Scion adapts with a sporty coupe, hip music, maybe U.S. production



JACK HOLLIS, Scion vice president, with the FR-S sports coupe concept: "Scion wants to be more influential. We want to talk to more people. We're getting the right people, so the real question is: How do we get more of them?"

Mark Rechtin

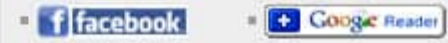
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LOS ANGELES -- If Toyota's Scion youth brand had stuck to its original premise, the third generation of the boxy xB would be rolling into showrooms today.



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As envisioned by Toyota, Scion products would be quirky, uber-cool and not around long enough to get stale. Its first-edition products were replaced after just four years. But the second-generation xB and xD, which arrived in mid-2007, are still on showroom floors, with no indication that they will be replaced anytime soon. The tC coupe was around for six years before it was changed last summer.

Lengthened product cycles are just one key change in how the brand functions. Retail processes, product segments and communications arenas that once were under the radar -- and a central part of Scion's strategy -- have become mainstream, forcing Scion to adapt.

Responding to its multiyear sales slump, Scion is adding two all-new vehicles, including a sporty, \$20,000-plus coupe. It is expanding its underground cultural reach into areas such as the "death metal" music scene. The rise of social media means Scion is loosening up the way it talks with Gen Y.

Scion also is making its retail sales approach a little less laid-back. And Toyota may build Scions in the United States to negate the currency disadvantage hitting its current Japan-built lineup.

All those changes do not mask the brand's underlying problems. Sales and shopper counts have swooned since the second-generation products arrived, although some of that can be attributed to the recession.

From a peak of 173,034 in 2006, Scion sales have fallen every year since, to just 45,678 last year for the three-vehicle lineup. Through April, sales were up 40 percent, largely on the introduction of the new tC coupe.

Scion Vice President Jack Hollis says he is not worried about sales numbers.

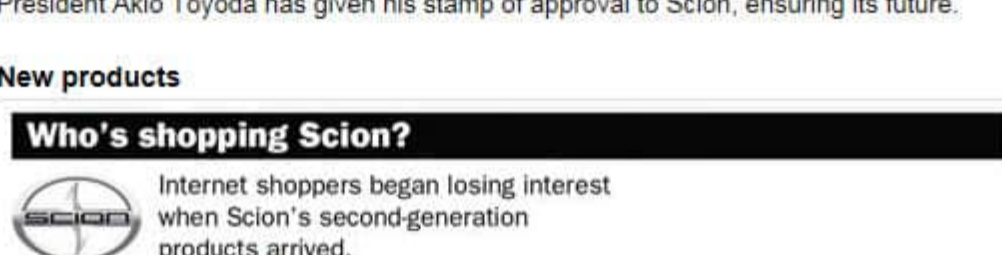
"We still don't go with a set number. Scion wants to be more influential. We want to talk to more people," Hollis said in an interview. "We're getting the right people, so the real question is: How do we get more of them?"

Toyota has always viewed Scion as more of a mad-scientist laboratory than a profit center. It was intended to attract young buyers to the Toyota family in a way that mainstream Toyota compact cars never could.

But as gasoline prices have soared, rival automakers are making their compact cars more exciting than their pedestrian loss-leaders of the past. That puts pressure on Scion to make its cars that much more compelling. One positive sign: [Toyota Motor Corp.](#) President Akio Toyoda has given his stamp of approval to Scion, ensuring its future.

### New products

#### Who's shopping Scion?



Toyota executives realized that selling three niche cars didn't give Scion enough product breadth, so it is adding two products -- the iQ microcar this summer and the FR-S rear-drive coupe next spring.

With its fuel-economy-first message, the tiny iQ seems an odd fit for a brand that relies on quirky styling. But Hollis believes the car will expand the reach of the brand to Gen Yers -- those born after 1980 -- who have a strong commitment to the environment.

Meanwhile, the sporty FR-S arrives in 2012 at a price point expected to be well north of \$20,000 -- out of the reach of most Gen Y buyers. But that's part of Scion's expansion of its buyer base. Buyers moving on to their second post-college job and ditching their hipster ways could still gravitate to the 200-hp rear-drive coupe. Plus, first-gen tC coupe buyers now have an aspirational product at trade-in time.

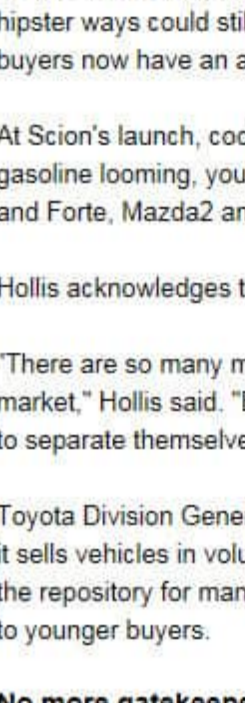
At Scion's launch, cool compact cars were hardly big sellers. But with \$5 a gallon gasoline looming, youth-oriented small cars such as the Ford Fiesta, Honda Fit, Kia Soul and Forte, Mazda2 and Hyundai Veloster threaten to steal Scion's thunder.

Hollis acknowledges the deeper competition.

"There are so many more entries, so many more people investigating that small-car market," Hollis said. "But because of all that attention being given, some people will want to separate themselves from that."

Toyota Division General Manager Bob Carter said that the Toyota brand does best when it sells vehicles in volumes larger than 100,000 units. That could mean Scion becomes the repository for many Toyota niche vehicles, so long as they could feasibly be marketed to younger buyers.

### No more gatekeepers



Toyota chief Akio Toyoda supports Scion.

Scion also is taking a new look at how it approaches social media. When the brand was launched in 2003, blogging was expensive, Facebook was a nonentity, and not every kid had a smart phone.

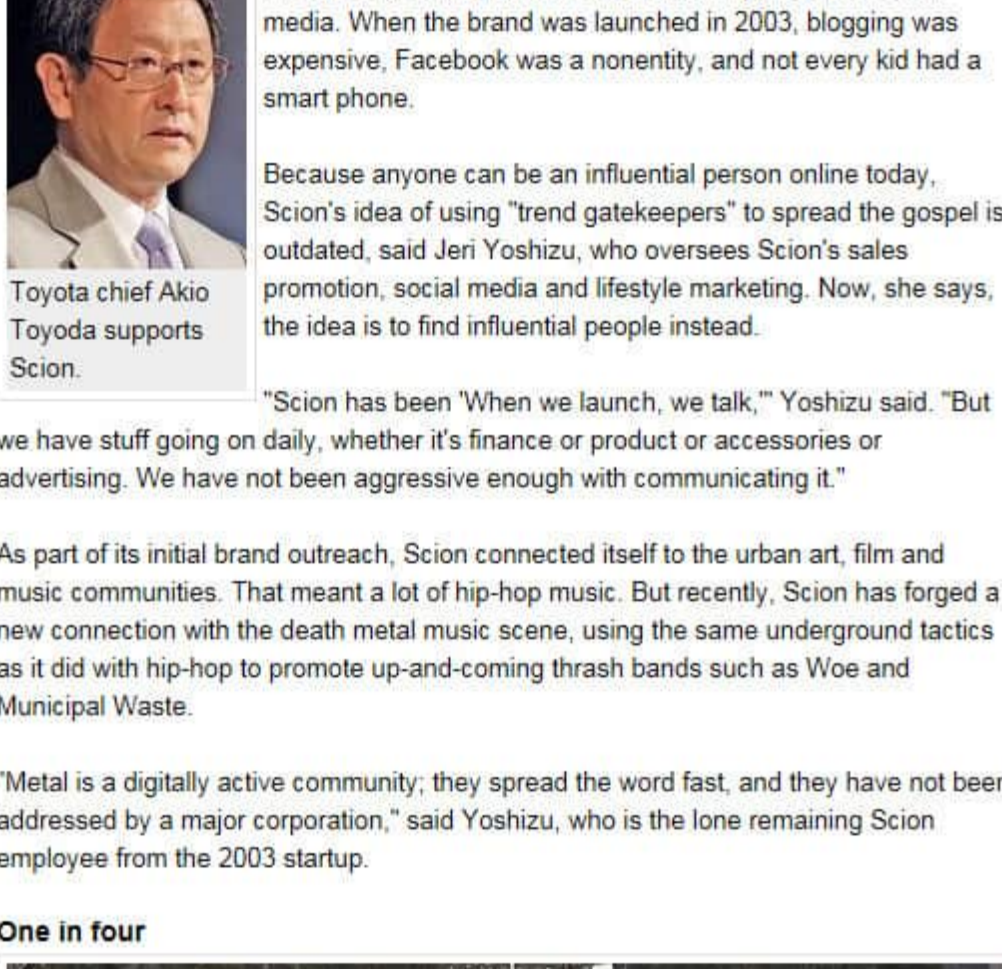
Because anyone can be an influential person online today, Scion's idea of using "trend gatekeepers" to spread the gospel is outdated, said Jeri Yoshizu, who oversees Scion's sales promotion, social media and lifestyle marketing. Now, she says, the idea is to find influential people instead.

"Scion has been 'When we launch, we talk,'" Yoshizu said. "But we have stuff going on daily, whether it's finance or product or accessories or advertising. We have not been aggressive enough with communicating it."

As part of its initial brand outreach, Scion connected itself to the urban art, film and music communities. That meant a lot of hip-hop music. But recently, Scion has forged a new connection with the death metal music scene, using the same underground tactics as it did with hip-hop to promote up-and-coming thrash bands such as Woe and Municipal Waste.

"Metal is a digitally active community, they speak the word fast, and they have not been addressed by a major corporation," said Yoshizu, who is the lone remaining Scion employee from the 2003 startup.

### One in four



The second-generation Scion xD, which arrived in 2007, is still on showroom floors.

Toyota brass hope those changes mitigate the effects of some tough trends facing Scion.

Scion's decline in sales and shopper counts parallels the misfortunes of Gen Y during the recession. A 2010 Pew Research Center study shows that 37 percent of 18- to 29-year-olds are underemployed or out of work. That's the worst for any demographic group in three decades.

"Every economic factor right now is affecting our target consumer, more than any brand. Nobody is in a worse situation than who we're going after," Hollis said. "They have double the unemployment rate; they have credit challenges. Even if you can get credit, it's going to cost you."

Scion, via Toyota Financial Services, is trying to take some of the heat off the financially strapped kids. Its "Gen-One" program bumps a first-time buyer with basically no credit up to a Zone 4, which represents a FICO score of 630 and a much more tolerable interest rate.

Plenty of Gen Y people still are buying cars, though. This year, one in four of all new-car purchases will be made by a member of Gen Y, according to TrueCar research.

The bigger problem is that Scion is struggling to get people into the showroom and keep them there. Not only are sales way off, the number of people shopping Scion has plummeted.

According to Compete Automotive data, the number of shoppers -- both among Gen Y and the general population -- looking at Scion has dropped to one-third the level of 2005.

The drop cannot be blamed entirely on the recession. In fact, the drop-off in shopper interest corresponds almost directly to the introduction of the second-generation xB and xD in 2007.

Many Scion bloggers complained that Toyota turned its quirky, plain-wrap box into something heavy and clunky, trading lower fuel economy for not that much more acceleration. Toyota execs respond that they gave customers exactly what they asked for: more room, power, safety and accoutrements.

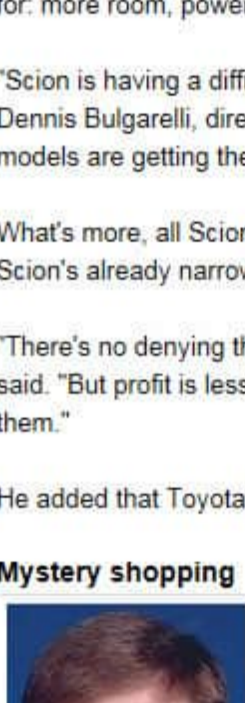
"Scion is having a difficult time standing out in an increasingly crowded market," said Dennis Bulgarelli, director of Compete's automotive practice. "Competitive makes and models are getting the attention that they used to get."

What's more, all Scions are built in Japan, putting them at the mercy of the strong yen. Scion's already narrow profits have gone into the red.

"There's no denying that the yen at 80 to 85 [to the dollar] is not a profit situation," Hollis said. "But profit is less a priority than who we're talking to and how we're speaking to them."

He added that Toyota is considering North American production for future Scion models.

### Mystery shopping



Carter: Toyota brand does well with big volume.

What's more, Scion isn't doing well once it gets the shoppers in the showroom.

According to mystery-shopping consultancy Pied Piper of Monterey, Calif., although Toyota's sales practices are near the industry average, Scion's are the third-worst.

Scion trailed other youth-oriented brands such as Volkswagen, Kia and Mazda mostly because the brand's low-pressure sales techniques don't give customers a reason to buy now or return for a future visit. Scion salespeople fared well in product knowledge, not overselling, and having power over negotiating the selling price.

"We are improving the customer experience, the shopping process, the in-dealership, service," said Dawn Ahmed, Scion corporate manager. "There are lots of opportunities there."

On the plus side, Scion's niche strategy has allowed it to maintain strong residual values, according to Automotive Lease Guide. With Scion's low incentive levels, ALG has recalculated residuals since its more pessimistic perspective at the brand's launch.

Just the same, Hollis is not bothered if a young person goes to a dealership looking for a Scion and leaves in a Toyota Corolla. Hollis is heartened that 70 percent of Scion customers are new to Toyota, and 60 percent retain their loyalty to Toyota for their next vehicle after a Scion.

"The customer wins, the dealer wins; Toyota wins. Scion was not created for Scion's sake," Hollis said. "Scion was created for Toyota's sake. It is an investment in Toyota's collective future."

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