

# Small Isn't Smart

The minute commuter car has turned out to be an oversize drain on profits

It seemed like an extremely clever idea at the time: a stylish two-seater commuter car that would be ideal for city traffic, small enough to fit in the tiniest of parking spots and highly fuel efficient. It seems like an even better idea now. But 11 years after Mercedes dreamed up the idea with Nicholas Hayek, the creator of Swatch watches, the minute Smart car has become an oversize drain on the automaker's profits. In the first six months of this year, Mercedes plunged into the red because of a massive \$1.3 billion restructuring charge it took for its Smart operations.

Smart's woes are typical of the troubles afflicting the entire Mercedes group. The car's manufacturing costs are far too high, especially given its relatively small scale—last year the company sold just 150,000 of them. Smart's managers were overly ambitious in developing new models too quickly, according to com-

► The svelte two-seater car is a fuel sipper and can easily squeeze into small parking spaces.

pany officials and analysts. Hayek long ago dropped out. But even before the original model he helped to inspire had established itself, Smart moved on to new territory: the model range was extended to a four-seater, a roadster and a planned SUV. (3)

Mercedes and its parent, Daimler-Chrysler, have delivered an ultimatum to Smart, which is based near Stuttgart but whose cars are manufactured in France: (4)

Break even by 2007 or else. The roadster

and the SUV have been axed, as have one-third the employees. Ulrich Walker, Smart's president, says the firm has reduced fixed costs 26% and is "on the right track toward an economically sound future." Some financial analysts are urging Daimler not to wait until 2007, but Dieter Zetsche, the newly appointed chief executive, says that "it's only fair to give them the time to deliver on their promises."

With its hugely successful Mini, Mercedes' archrival BMW has shown that there is a market for small commuter cars—even in the SUV-happy U.S. If Smart does buck the odds and survive, the next big decision will be whether to launch the car in the States. A successor model to the original two-seater is under design, and it will comply with U.S. road requirements, company officials say. In hindsight, "we were naive," says a senior Smart executive. "We initially said we weren't selling a car but an idea. Now we know that customers want to buy cars, not ideas." —P.G.



TIME, OCTOBER 24, 2005

1. minute = tiny, very small
2. woes = misfortunes
3. SUV = sports utility vehicle (= four-wheel drive)
4. to break even : *rentrer dans ses frais*
5. to buck the odds : *forcer le destin*
6. in hindsight = in retrospect

NRC  
Juin 2006  
JOUR 1  
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