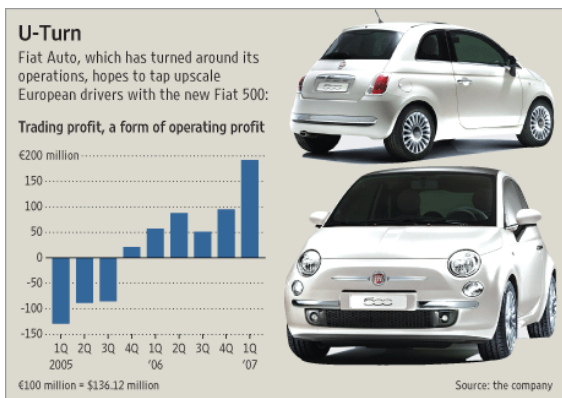


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Fiat Steers Upmarket With '500'

TYCHY, Poland -- From the unglamorous setting of a former Communist factory in southern Poland, Italy's Fiat SpA is launching a car it hopes will attract a new generation of European drivers with a sense of fun and money to burn.

Fiat, based in Turin, Italy, is bringing back its cherished 50-year-old Cinquecento, or "500" in Italian. But it is revving up this updated version from the entry-level 500 mini that helped modernize Italian industry in the late 1950s.



- **Revival:** Fiat plans to launch an updated version of the classic Cinquecento, or "500," that helped modernize Italian industry in the late 1950s.

- **Strategy:** The Italian auto maker wants the 500 to enjoy the success of the Mini that BMW revived in 2001, while charging a premium price tag.

- **Risk:** The 500 is a gamble in steering Fiat away from the inexpensive cars for which it is best known. Marrying power with style, Fiat wants the 500 to echo the success of the Mini that BMW AG revived in 2001, while charging a premium in the process. Fiat's new three-door mini will be equipped with a range of engines and the latest in-car gadgetry offered as extras, carrying a lofty price tag expected to be close to €12,000, or about \$16,000, for a basic model. Fiat didn't give an exact price range ahead of today's launch.

But Fiat isn't BMW, and the new 500 steers Europe's fifth-biggest car maker by volume away from the inexpensive small cars for which it is best known.

"I'm not a fan of introducing [more] low-cost cars in Europe," Luca De Meo, chief executive of Fiat Group Automobiles SpA, Fiat's auto unit, said at a conference in Prague last week. "We did it for years and we went almost bankrupt."

Thanks to a revived vehicle line up, Fiat's auto operations returned to profitability in 2006, after years of losses. But to succeed with its 500, it will have to convince customers that it is worth a BMW Mini-sized price, despite being built on the same platform as Fiat's entry-level Panda mini model.

"I like the look of it," says Alice Giovannini, a marketing executive in Milan. But price is still a factor, she said. "This is a Fiat and it may not be the greatest quality car. If it's going to cost me €12,000, I want everything in there: air conditioning, MP3 player, all that stuff."

Fiat officials declined to comment for this article.

Fiat is rolling out its entry in the market for hip, upscale cars at a time when many of Europe's auto makers are seeking ways to bolster their lineup of models. Toyota Motor Corp. and other Asian auto makers are capturing an increasing share of the European market, particularly for low-cost, mass-market vehicles. And the overall market is moribund -- European Union car registrations, a proxy for new-car sales, are down 0.8% for the first five months of the year, according to the European Automobile Manufacturers Association.

That has put pressure on Fiat and other auto makers to differentiate their products, and increase the appeal of the higher-end, higher-margin market over the mass market. But giving a brand a hip new aura can be tricky. Fiat's new product takes aim at the same market as BMW's hot-selling Mini. But Volkswagen AG's revival of its famous Beetle in the late 1990s may prove instructive: though welcomed in some markets, sales momentum faded over the years, with critics saying the car cost too much. VW cut prices in the U.S. last year to sustain demand.

Mr. De Meo said in Prague last week that Fiat has already received orders for 25,000 of the new 500 model, and projects sales of 58,000 for 2007 and about 120,000 in 12 months. Fiat is also introducing various marketing techniques to help stimulate demand. Potential customers can go to the Internet to custom order the versions they want, a step that appealed to a potential customer like Ms. Giovannini.

Industry observers say Fiat will probably do well with the 500 in Italy but are skeptical about its success elsewhere.

"People don't buy the BMW Mini just because of nostalgia for the old Mini," says Stuart Whitwell, joint managing director of brand-valuation consultancy Intangible Business in London. "They're also buying a BMW, they're getting a quality car."

"Though it may well do well in Italy and some other parts of southern Europe, I don't think it's iconic enough to do well in other markets," said Mr. Whitwell.

Fiat dominates the Italian market, making about one in every three new cars registered. But some say Fiat may find difficulty selling significant volumes of a premium-priced mini in other markets.

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"The crux of the discussion on the 500 is price," says Sanford C. Bernstein analyst Stephen Cheetham. "Will consumers think it is special enough to pay a premium versus all the other perfectly competent entry level cars on the market? It's possible in Italy where the reserve of goodwill for Fiat is strong, but we'd suspect it's a lot tougher elsewhere." Mr. Cheetham has a "sell" rating on Fiat shares.

To contain production costs, Fiat is building the 500 at a factory here, near the Czech border. The company has been making cars in Tychy since it made a deal with Communist authorities in the early 1970s.

The advantages of making cars in Poland rather than Italy are striking in terms of labor costs. According to Italy's national statistics institute Istat, the average gross monthly wage in Italy in 2006 was €2,870. Poland's GUS statistics agency says the average monthly private-sector wage in 2006 was 2,644 zlotys (\$960), or €705.

That attraction hasn't been lost on other car makers. South Korea's Hyundai Motor Co. chose the Czech Republic for its first car-making plant in Europe, and began construction in April with plans to invest €1.1 billion and produce 300,000 cars a year there by 2011. Last year, Japan's Toyota said it will invest another €145 million in its Polish gearbox production plant, and France's Renault SA said earlier this year that it is stepping up production of its Logan no-frills sedan at its Dacia unit in Romania.

The Tychy plant is central to Fiat's plans. The company expects to make at least 120,000 of the 500s a year, equal to more than 5% of the company's overall global production of just under two million vehicles in 2006. Tychy will also within two years be making Ford Motor Co.'s revival of its own Ka mini at the plant as part of an alliance between the two car makers. The upgrades will make Tychy factory the Europe's largest automotive plant, with a total capacity of half a million vehicles a year.

"Of course Mini's recipe for success spurs others to follow," said BMW spokesman Markus Sagemann. However, "as a premium offer in the small-car segment, the Mini continues to have a unique position," Mr. Sagemann added.