

The Long View



A REPORT BY BCA



Executive Summary

‘History is the only guide we have to the future’ is a cliché – but, unless we have a crystal ball, there is little else to use. The used car industry is no exception and the ‘Long View Report’ seeks to highlight some of the recent historic issues which may impact on the future of the sector.

The report looks at the broader aspects of the UK’s used car industry and discusses measures used car retailers might consider to develop their business in the light of the economy and the fast-changing used car market.

- The report highlights long-term trends in critical UK economic indicators – GDP, inflation and unemployment, all of which have a powerful impact on the country’s automotive industries.
- Of particular importance is the GDP trend for manufacturing and the service sectors. The rise and fall in RPI, CPI and unemployment, also have a marked impact on consumers’ confidence and their decision whether to retain or replace their privately-funded car and, as a consequence, new and used car market volumes.
- The United Kingdom’s ageing population and women’s ever stronger influence on used car acquisition raises questions and provides opportunities for used car dealers in equal measure. A firm grasp of both these segments’ unique motoring needs is now an essential ingredient in retailers’ used car marketing and stocking strategies.
- The recent steep fall and anticipated slow recovery in new car market volumes will affect the supply of used cars and the shape of the used car market for several years to come. Used car retailers will be faced with increasing difficulties in sourcing younger used cars which account for around two thirds of their used car volumes.
- Franchised dealers will probably suffer most from this threat to their traditional ‘younger used car trading zone’. On the other hand, dealers selling older used cars will benefit from access to a greater number of older vehicles from the steadily ageing car parc
- The final chapter of the report sets out some of the key issues and strategic implications for the future of the used car market, and provides some ‘thought starters’ used car retailers might consider in developing their own plan.

The ‘Long View Report’ highlights matters of concern for used car retailers; but does not necessarily offer solutions to these issues – although awareness is ‘half the battle?’

It is all too easy to respond to short-term, weekly or monthly changes on used car sentiment. On this occasion, we ask you to stand back and look at some of the longer-term issues.

Contents

Executive Summary	3
Contents	4
Introduction	5
• Junior Partner?	5
• The Real Importance of Used Cars	5
• Report Objectives	6
• The Report Outlined	7
Chapter 1; Macro-economic factors and the New and Used Car Markets	8
• Gross Domestic Product – the Longer Term	8
• CPI and RPI Trends	10
• Interest Rates	11
• Unemployment Trends	12
Chapter 2; Long-term New and Used Car Markets	14
• New and Used Car Sales	14
• New Car Sales and GDP	15
• Dealers' Used Car Sales and GDP	16
• New Car Sales and Unemployment	16
• Dealers' Used Car Sales and Unemployment	17
Chapter 3; Demographics and Used Car Buyers	19
• Changing Demographics	19
• Used Car Buyers by Age Group	20
• Women in the Driving Seat?	21
• Crunch Factors	22
• Lasting, Profitable Relationships	24
Chapter 4; Used Car Market the Future?	28
• Used Car Market Supply	28
• New Car Market	28
• Aging Car Parc	29
• Prospects for Dealers' Used car Volumes	30
• The Dealer Response	32
Chapter 5; Implications, Actions and Conclusions	33
• Some Questions to Ask	33
• The Long-term Market	34
• Critical Buyers' Issues	34
• Used Car Market	35

Introduction

The British economist, John Maynard Keynes, made a statement that has much bearing on the automotive sector; *"In the long run we are all dead"* – suggesting, by implication, that the long run has economic implications.

Another English philosopher, John Donne, made a similarly profound statement three centuries earlier, *"No man is an island"* – which has a serious bearing on the development of the used vehicle industry. Quite simply, no business situation can be treated safely in isolation and there are long-term implications we need to consider.

With pressures of business, it is all too easy not to make enough time to consider the wider issues of the economy and its impact on a specific industry. One might ask – what does the wider economy and competitive situation have to do with a single transaction? The honest answer might be – ‘for a single transaction not a lot, but for a number of transactions it can be highly relevant’.

The motor industry is no exception

The motor industry is no exception. Indeed, there are regular reports on the effect the economy or economic expectations have on the demand for new cars. In contrast, one rarely hears of the impact the economy, the long view, has on the used vehicle market.

While the used vehicle sector is all too often regarded as the ‘poor relation’ of the new car market; it is decidedly not, and should never be seen in this context. Typically, annual used car volumes are around three times that of new cars and generally generate a turnover several billion pounds higher than the new car market.

Junior partner?

Indeed, one could easily argue that the new car market is the ‘junior partner’ in the country’s motor industry. In a mature vehicle market, such as the United Kingdom, very few private sector new car sales are truly incremental. They are almost entirely replacement units which have to be sold to part fund a new car.

The real importance of used cars

It is only in the past decade or so that the real importance of the used car market and substantial profit opportunities it offers have become widely acknowledged within the UK motor industry. In truth, without their used car operations’ contribution many franchised dealers could have gone to the wall during the recent recession.

It would be fair to claim that the numbers the used car industry is normally associated with are units sold and prices as defined by CAP and Glass’ Guide. However, there has been relatively little attention paid to the longer-term data that affects the market – partly because such information may not be readily available and, partly, because few people in the used car industry have fully considered the impact of wider economic issues on the sector.

But, as the used car industry becomes more professional, and margins become tighter, so longer-term trends and figures will take on a greater relevance with regard to sales, stocking and profit planning.

Report objectives

The principal objectives of the 'Long View' report are threefold;

- To highlight some of the longer-term issues which influence the development of the used car market.
- To present a range of longer-term used car volume data as a valuable benchmark.
- To highlight used car buyers' key requirements and expectations when deciding what car to buy and where from.

While not all of these issues might be called ground-breaking, looking at such data over a longer period of time may assist used car retailers in planning their used car buying and selling strategies.

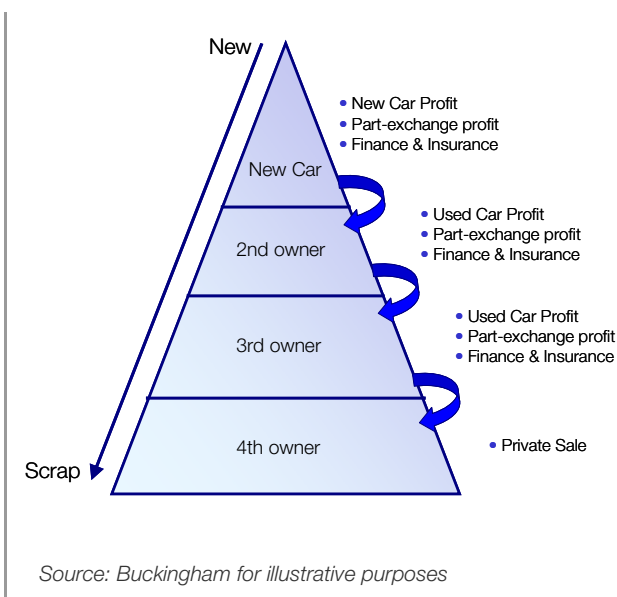
An industry supply chain

A critical element of a healthy car market is the ability of vehicle owners to dispose of their existing car easily and cost effectively and be able to release funds to help them buy a replacement vehicle.

Figure 1[1] illustrates the vehicle supply chain. 'Every used car sold is a new car to the next buyer' is an important industry truism that should be emblazoned on every used car retailer's wall. Remember, a new car is aspirational. Although, the majority of car owners are unlikely to ever afford a new car, they will all seek to buy 'a better used car'.

Any significant change in either the new or used car market can have a marked impact on the other sector. It is dangerous, therefore, to focus on a single part of the industry to the exclusion of the remainder.

Figure 1[1] Used car supply chain



The report outlined

This report seeks to set the used car market in a wider business context and cross-relate a range of issues which might affect volumes and values. The report comprises the following chapters;

- **Macroeconomics and the Used Vehicle;** presents a number of broader economic indicators that influence used car market volumes.
- **Long-term New and Used Car Markets;** presents a series of longer-term data. All too often, analyses and judgments are based on two or three years' information; this chapter seeks to present a range of longer-term data to help provide a better understanding of the key issues driving the used car market.
- **Demographics, Gender and the Used Car Market;** a market relies on both sellers and buyers; this chapter focuses on used car buyers, their habits and expectations when buying a used car.
- **Used Car Market – the Future?;** looks at the impact the steep fall in new car sales and changing car parc is having on the used car market and the outlook for the next few years.
- **Implications, Actions and Conclusions;** highlights issues from previous chapters and raise relevant questions which used car organisations might seek to address as they move forward.

The 'Long View Report' seeks to highlight some of the longer-term issues and rationales that may assist in used car management and improving profitability.

Macroeconomic Factors and the Used Vehicle Market

All markets are subject to a cocktail of external influences rather than just one overriding factor. This is certainly true of the used car market.

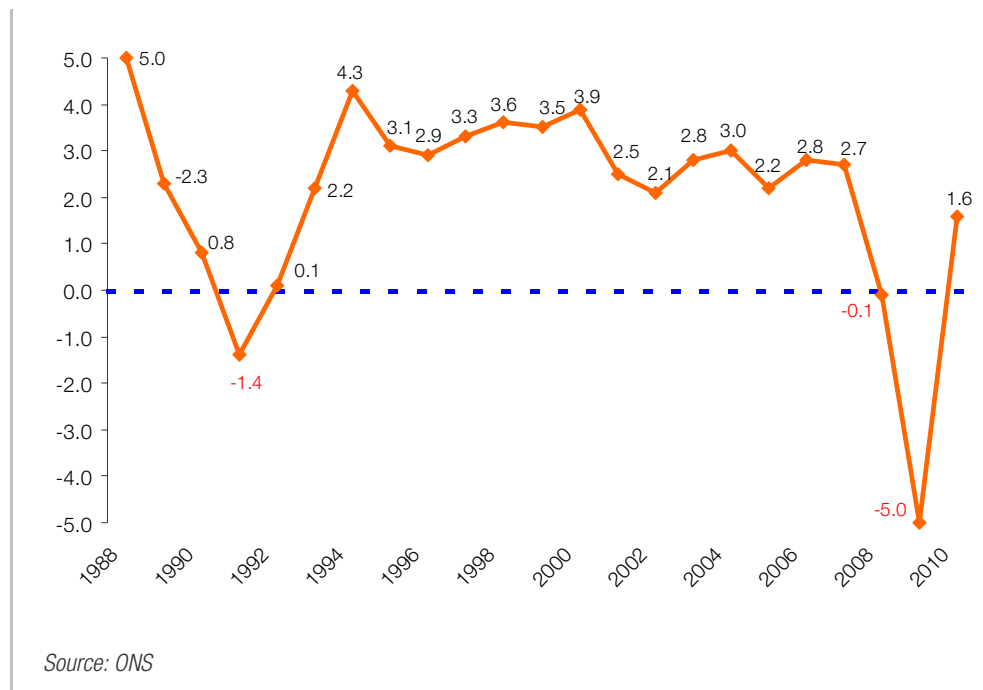
This chapter of the report reviews a number of high-profile 'outside' indices and indicators that influence the supply, demand and prices of used cars.

Gross Domestic Product – the longer term

The gross domestic product indicator – or GDP – represents the total value of work generated by the economy. The important figure from the point of view of the used car market is not so much the absolute GDP figure but the change that takes place over a period of time.

Figure 2[1] shows the annual percentage changes in GDP for the 1988 – 2010 period.

Figure 2[1] GDP year on year trend 1988 - 2010

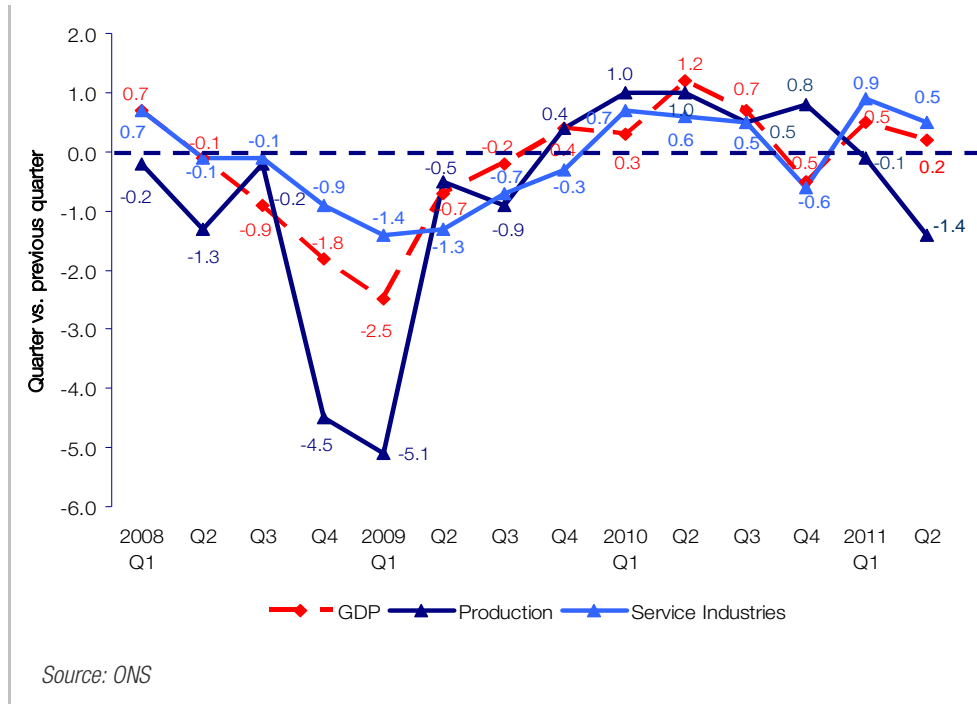


GDP dropped steeply during the 2008 and 2009 UK recession, much more so than the more modest fall experienced during the recession of 1990/1991. The 2008/2009 recession lasted for six quarters compared with five quarters for those in 1980/1981 and 1990/1991, when it took three years on both occasions for economic output to reach the pre-recession level of output.

Gross domestic product and production

Figure 2[2] shows the production index fell dramatically in Quarter 4 2008 and Quarter 1 2009 – recovering strongly thereafter, before slipping 0.5% in Quarter 4 2009.

Figure 2[2] GDP quarter vs. quarter, production and services; 2008 - 2011



Although it weakened in the second half of 2008 and first quarter of 2009, the red line for overall GDP was much steadier than production during recession, as it includes a wide range of services, food and other activities necessary to keep the economy running.

The start of the economic recovery, which began in the second quarter of 2009 and continued through the first three quarters of 2010, and the first quarter of 2011, might well be reflected in the demand for used cars, as car owners feel the economy and their own financial situation becomes a little clearer.

The interesting challenge, however, will be how GDP performs as the government's cuts bite hard throughout 2011.

The Bank of England announced on 10th August it had downgraded its forecast for the country's annual GDP growth to 1.4% from its earlier estimate of 1.8% in May. It is the second time the Bank has reduced its GDP forecast this year, having previously predicted a growth of 2%. It also expects 2012's GDP to be lower than previously expected at around 2%, compared with its earlier forecast of 2.5%. GDP is currently around 4% below its pre-crisis peak.

The Bank attributes its revised GDP forecasts to the UK's economy failing to gather momentum as consumer spending is being squeezed due to wages failing to keep pace with the rising cost of living – while exports have been hamstrung by the slowdown in the world economy.

CPI and RPI trends

Following a high of 10.9% in September/October 1990, RPI settled in the 2% to 4% band for some 15 years, dipped into negative territory for a short while during the recent recession, before settling around the 5% mark throughout 2010, and 2011 to date. CPI has been much more stable than RPI post 2008 although it continues to run significantly above the government’s objective of 2% year on year.

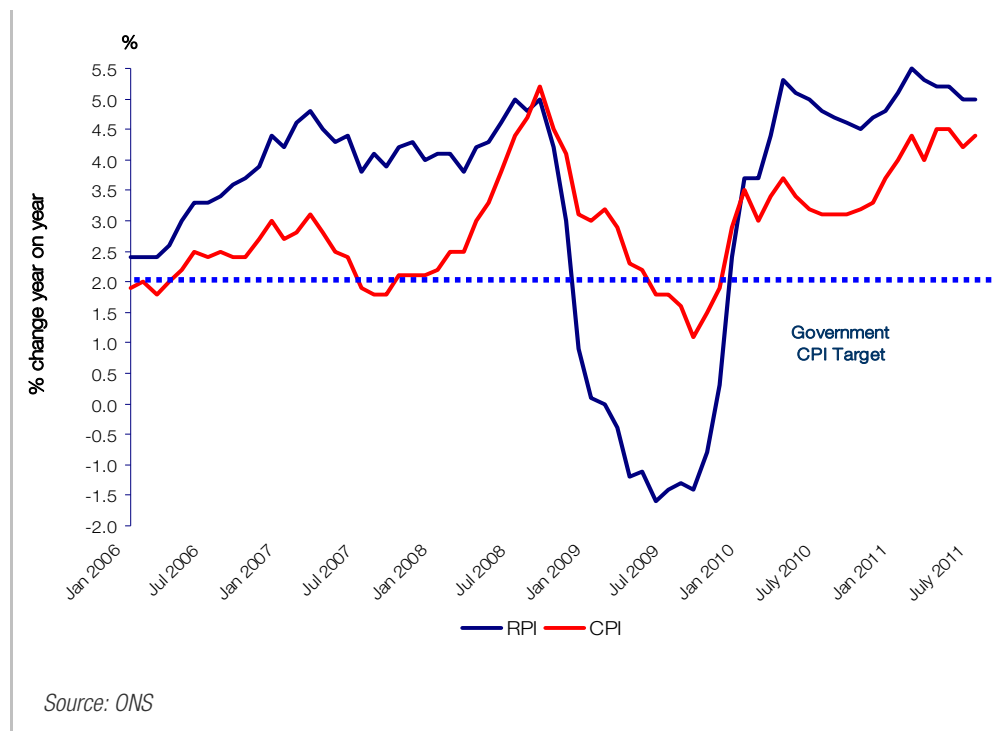
The basic approach to the measurement of inflation adopted by RPI and CPI is the same. While both track the changing cost of a fixed basket of goods and services over time there are differences in the coverage of both indicators. For example;

- **RPI;** covers a range of costs excluded from CPI such as mortgage interest payments, council tax, house depreciation, buildings insurance, TV licence, road fund licence, and a price index for cars based entirely on used car prices.
- **CPI;** includes a range of items not covered by RPI – stockbroker fees, university accommodation and an index for new cars based on published new car prices. CPI has a strong influence on public sector pensions, benefits and tax credit issues. CPI has also been used for the government’s inflation target, set at 2% since December 2003.

Inflation tops 5%

Figure 2[3] shows RPI fell from 5% in September 2008 to a low of -1.6% in the midst of recession the following year – rising steeply thereafter to around 5% in the spring of 2010, eventually soaring to a 20-year high of 5.5% in February 2011.

Figure 2[3] RPI and CPI; 2006 -2011



The government’s preferred measure of inflation, CPI, has been somewhat less volatile over the past few years. It remained above zero throughout the recent economic downturn – bottoming out at 1.1% in September 2009, topping 3% for the whole of 2010, before climbing to 4.5% in May 2011 – more than double the Bank of England’s 2% target. It is expected to rise to around 5% in the next few months, before falling to around 2.5% in 2012.

Of course, these headline figures mask much higher price rises in the ‘must-have’ supplies households need to live and work – fuel rose by 13.7% in the 12 months to May 2011, transport by 8.0%, food by 5.8% – bread on the table was up 5.8% and water and soft drinks 10.3% higher year on year.

The personal relevance of CPI is that it is the government’s preferred indicator for changes in allowances and pensions. Perhaps the biggest single group who may suffer from this are pensioners as index-linked payments’ base migrate from RPI to CPI.

Interest rates

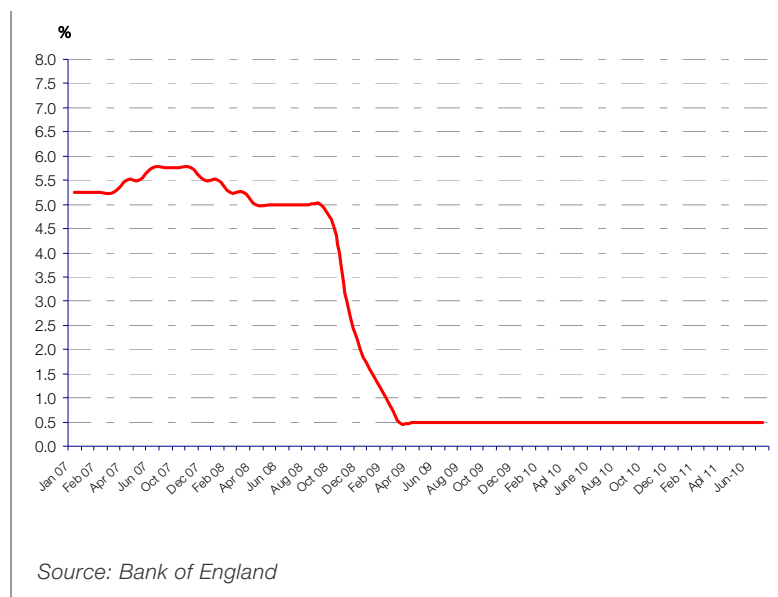
Figure 2[4] tracks the Bank of England’s base lending rate over the past four years. It will be noted the rate dropped steadily from 2008 and has been held at half a percent for over two years.

The Bank of England’s base rate is theoretically a highly attractive rate at close to zero and is running well below the rate of inflation.

However, borrowers have to pay much higher interest for loans while rates paid to savers are much closer to the base

rate. ‘Hidden’ rates are also currently added in the form of ‘arrangement fees’ and a plethora of other hidden bank charges.

Figure 2[4] Bank of England base interest rate; 2007 -2011



Unemployment trends

The final measure which is relevant to the used vehicle industry is unemployment. While some unemployed may well buy used cars, the figure is better used as a barometer of economic activity.

While the working population too often forgets that an ‘unacceptably high unemployment rate’ may represent 6% to 8% of people out of work; psychologically they ignore that 90% are in employment, even though some of these are in part-time work or relatively poorly paid jobs.

Figure 2[5] UK unemployment rate; 2008 - 2011

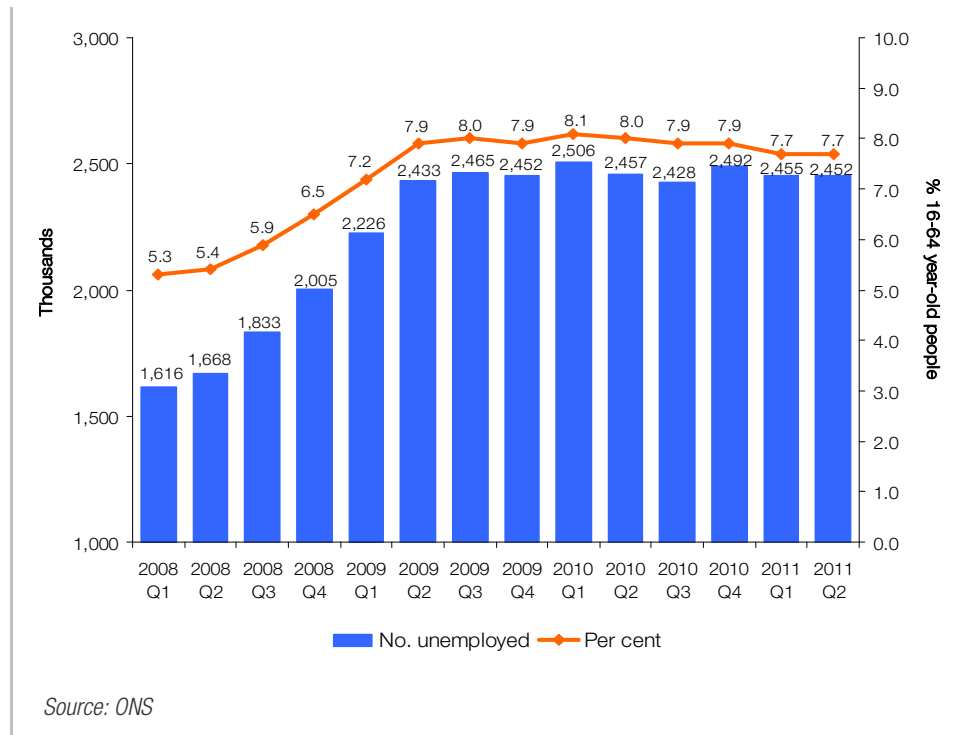


Figure 2[5] shows the number of people unemployed in the UK rose by 900,000 over the past three years – from 1.6 million at the beginning of 2008 to 2.5 million at the end of 2010. Looking at the pattern following the 1992/93 recession, the current level of unemployment may not yet have peaked and will probably take several years to return to anything like pre-recession levels.

On this front, the British Chamber of Commerce believe UK unemployment could rise to 2.65 million by early 2012. The independent Office of Budget Responsibility expects unemployment to peak at 8.2% in 2011, slip to 8.1% in 2012 – falling steadily thereafter to 6.4% in 2015.

Some initial conclusions

According to the Institute for Fiscal Studies, most people's after tax income has fallen behind the real cost of living by around 1.6% a year since the start of the economic downturn – the biggest three-year drop in living standards since 1980 – 1983. For most of the previous 50 years, a middle-income family's income would have risen by about 1.6% annually.

The new independent Office for Budget Responsibility is predicting that earnings growth will not catch up with the RPI measure of inflation until 2013. Average earnings will increase by around 2% in 2011 and 2.2% in 2012, while RPI inflation will average 5.1 per cent this year and 3.6% in 2012. Only in 2013 will earnings overtake RPI inflation, rising by 3.8% with RPI expected fall to 3.5%.

There is currently no hiding place for families that are arguably suffering the biggest fall in living standards for nearly 40 years. They are being squeezed from all sides due to a sluggish economy, all-time high VAT, soaring inflation and tax and benefit changes aimed at restoring public finances – and a rise in National Insurance contributions from April 2011. Retired people are amongst the hardest hit because of paltry interest rates on savings.

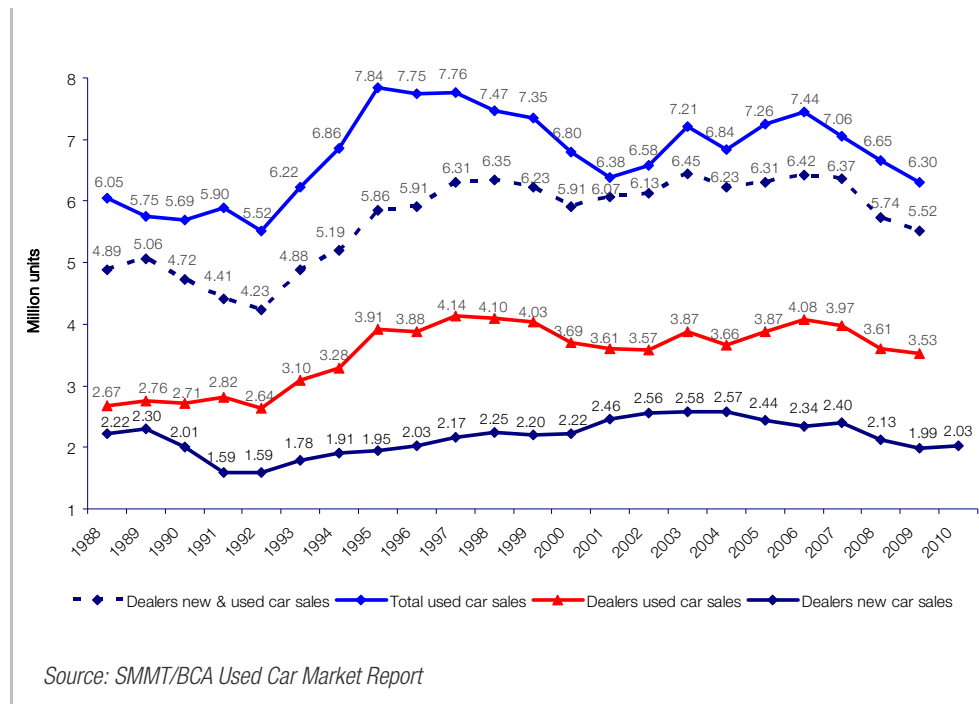
Long-term New and Used Car Markets

New and used car sales are generally assumed to be driven by the state of the economy and the level of economic wellbeing – however that might be measured. This chapter seeks to compare some of the longer-term trends in the nation’s economy against the pattern of new and used car sales.

New and used car sales

Figure 3[1] shows a 20-year trend of new car sales – rising from a low of 1.59 million units, in the recession of the early 1990s, to a peak of 2.58 in 2003. New car volumes fell steadily thereafter to around two million units in 2009 and 2010, with the considerable support of some 400,000 new car deals from the 2009 – 2010 scrappage programme.

Figure 3[1] Long-term new and used car sales; 1988 – 2009



However, new car sales are overshadowed by used car volumes through franchised and non-franchised used car retailers. The chart shows used car volumes are generally more volatile as they are driven by private buyers who react quickly to changing economic circumstances by modifying their own buying behaviour.

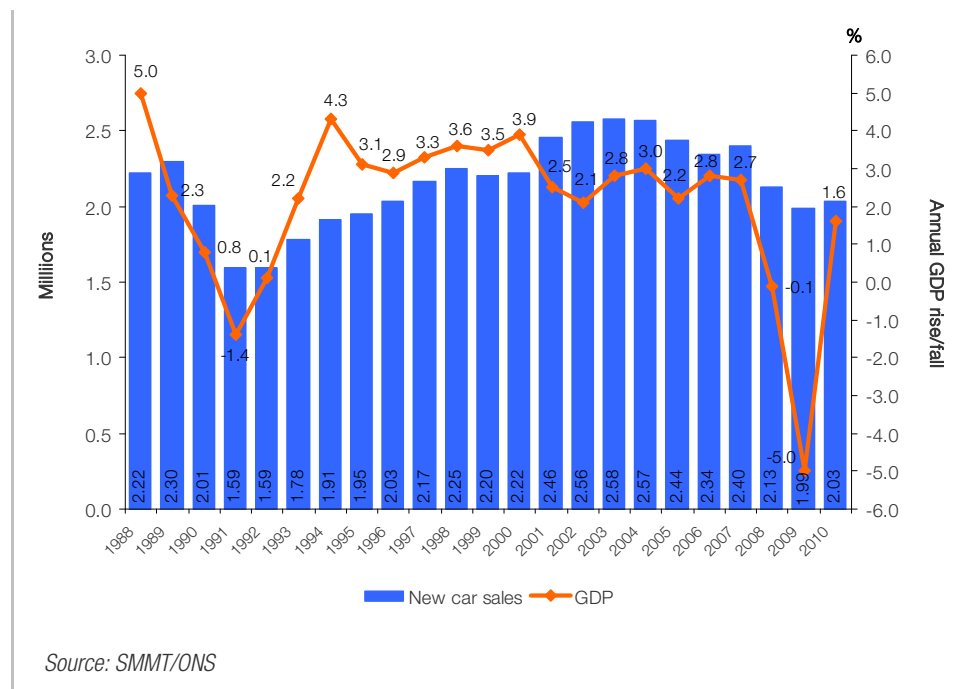
The top line on the chart represents total sales of used cars over the past 20 years, which takes into account lower-priced used cars often sold privately or to friends or family members.

Franchised and non-franchised used car retailers' share of used car market volumes rose by some 10 percentage points during the 1990s, from 45% to 55% of the market – a position they have retained ever since. This reflects, in particular, franchised dealers increased focus on used car retailing and the critical contribution it makes to their profitability.

New car sales and GDP

Figure 3[2] shows the long-term relationship between new car sales and GDP, showing how new car volumes fall steeply when GDP moves into negative territory. New car sales start to fall when GDP growth drops below 2% as seen in the 1991/1992 recession when volumes dropped to 1.59 million for two years, only beginning to recover when GDP exceeded 2% once more in 1993.

Figure 3[2] New car sales vs. GDP; 1988 - 2010



New car sales continued to grow and remained strong for 15 years or so, until the GDP indicator started dropping in the second half of 2008, when volumes fell to a 12-year low of 2.13 million units.

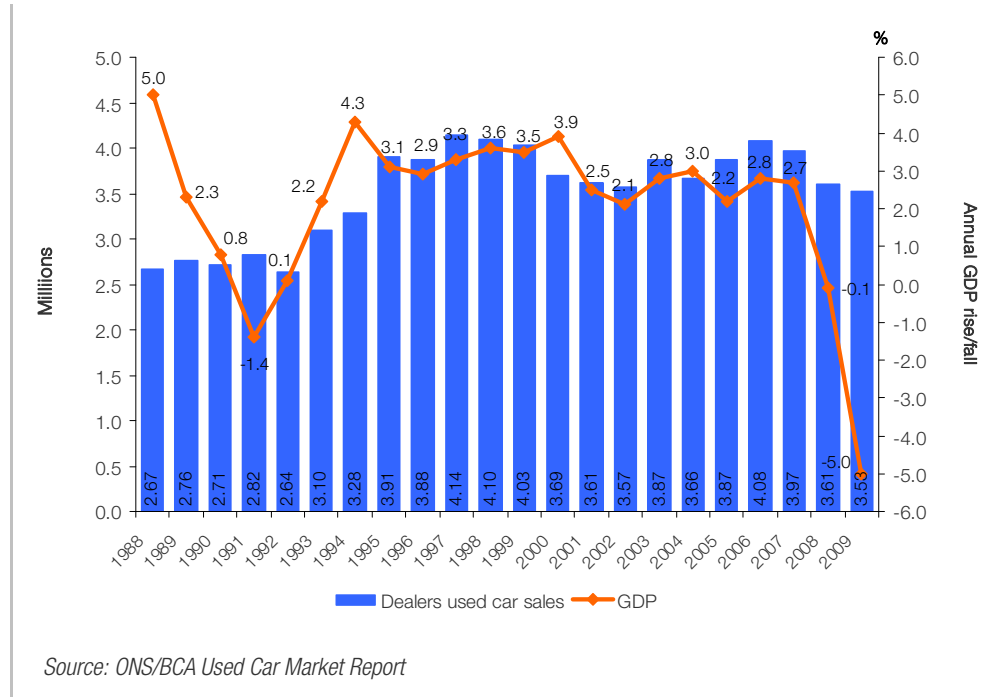
Without the support of 285,000 scrappage incentive deals in 2009, new car volumes would have dropped to 1.71 million units reflecting the steep fall in GDP that year. The recovery in GDP seen in 2010 helped new car volumes to recover to 2.03 million units, albeit with the help of 106,500 scrappage deals.

New car volumes are not expected reach anything like pre-2008 recession levels for several years to come – probably not until GDP settles comfortably over the 2% mark.

Dealers' used car sales and GDP

Figure 3[3] sets out the annual variation in GDP compared with used car sales through franchised and non-franchised used car dealers over the past 20 years.

Figure 3[3] Dealers' used car sales vs. GDP; 1988 - 2009



The trend shows that, whilst used car volumes react to the rise and fall in GDP, they do not appear to react so dramatically as new car volumes do. When GDP growth fell below 2% in 1990 to 1992, used car sales weakened somewhat in 1992, recovering quickly from 1993 as GDP growth accelerated and remained strong for many years as the economy grew steadily.

Used car volumes seem to falter when there is a hint that the economic growth will slow to 2% or lower – and drop more severely during recession as they did in 2008 and 2009 – though not so radically as new car volumes.

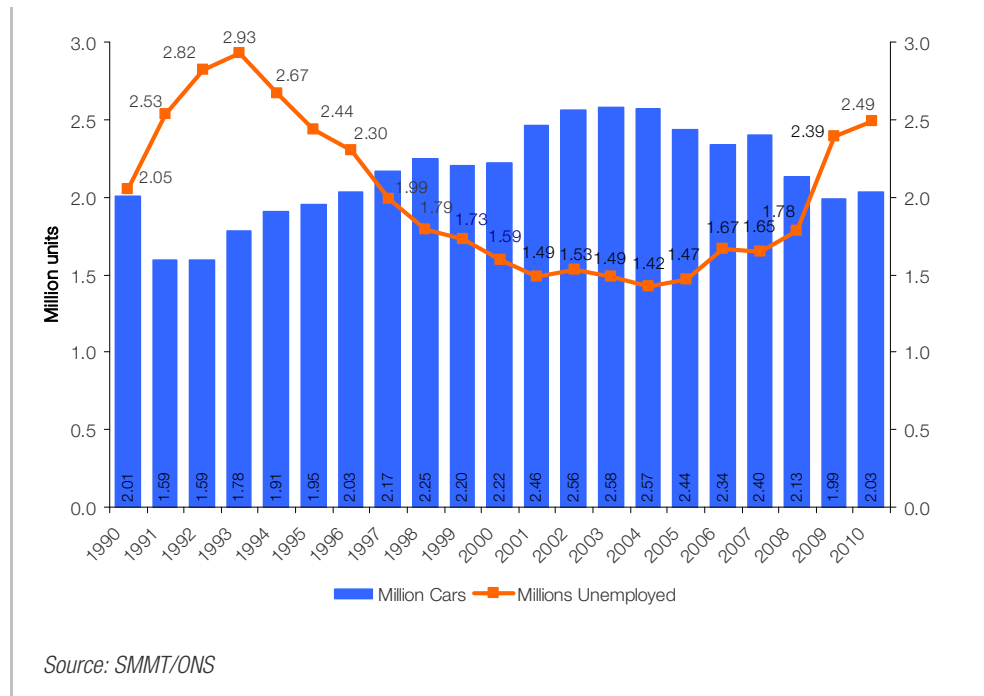
This relative stability probably reflects that used cars are sold entirely to private car buyers for their personal mobility; some of whom will have traded down from a new car.

New car sales and unemployment

With a combined business and private car buyer market it would be reasonable to expect demand to reflect unemployment. Quite simply, the more people in work the higher the demand for new cars,

Figure 3[4] overleaf illustrates this concept clearly. Back in the 1990s unemployment rose to nearly three million and, over a decade, dropped to around half that number.

Figure 3[4] New car sales vs. unemployment; 1990 - 2010



Not only do new car sales rise as unemployment falls, but they start to weaken once more as soon as there is the slightest hint of higher unemployment.

Dealers' used car sales and unemployment

Figure 3[5] Dealers' used car sales vs. unemployment; 1990 – 2009

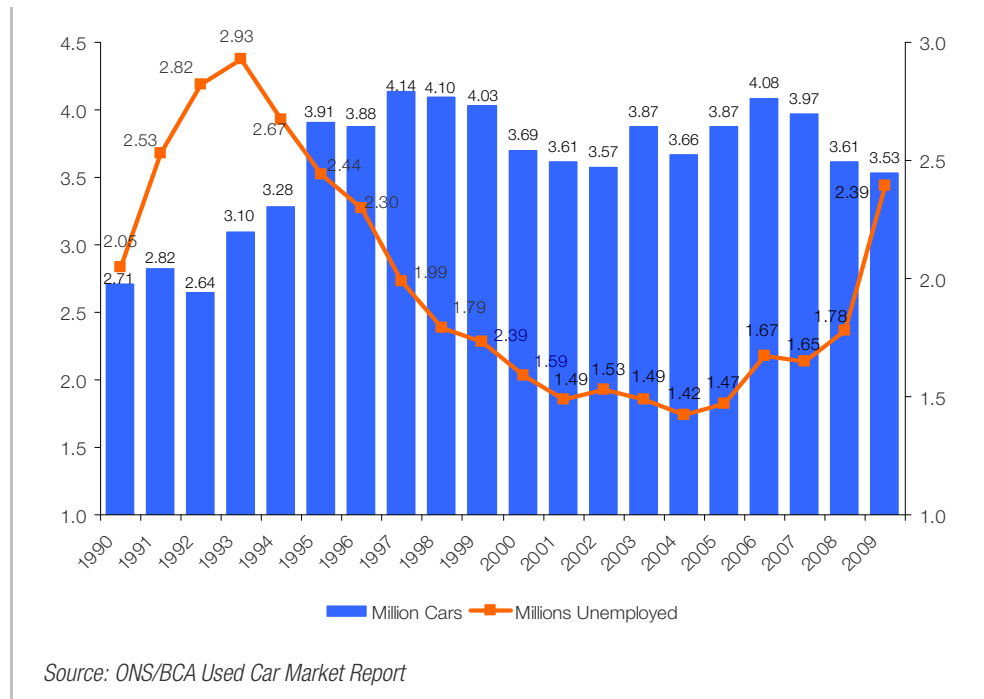


Figure 3{5} shows how dealers' used car volumes fell when unemployment rose quickly during the 1990/1991 recession – but recovered at a faster rate than new car sales as unemployment dropped steadily over the next three or four years. Used car volumes weakened once more as unemployment plateaued at 1.5 million – and the new car market reached record levels.

The reason for this apparent anomaly may be accounted for in a number of ways. Perhaps some buyers switch from buying a used car to a new one in good economic times when credit is freely available – or, of course, it could be that there is a relatively finite demand for used cars through dealers, but these customers would buy relatively more expensive used cars.

Some initial conclusions

This chapter underlines how new and used car market volumes reflect the health of the country's economy and are extremely sensitive to the rise and fall in GDP, inflation and unemployment.

Demographics and Used Car Buyers

Previous chapters have examined the changing picture of the United Kingdom economy and its impact on the new and used car markets.

This chapter takes a longer view of demographics relative to used car buyers. It also seeks to highlight gender trends in terms of used car acquisition and identify strategic implications for provision of used cars.

Changing demographics

The population of the United Kingdom has aged steadily over the last generation or two. When state pensions were introduced for men aged 65, and women aged 60, they were crudely calculated to give people a few years' retirement before they died, generally around the age of 'three score years and ten'. How that has changed – the average person retiring at 65 or 60 is likely to live well into their eighties.

A second unintended consequence of people being healthier and living longer is they are likely to lead active lives and continue to drive.

Figure 4[1] shows how the UK population has grown and aged over the past 30 years – 2.5 million more people in the 45-59 year age group and three million more aged 60 or older.

In contrast, the number of people between 15 and 34 years of age has dropped from 17 million in 1981 to 16.2 million in 2009.

Figure 4[1] UK population trend; 1981 –2009

Millions	1981	1986	1991	1996	2001	2006	2009
15-21	9.0	9.2	8.2	7.2	7.3	8.0	8.2
25-34	8.0	8.0	8.9	9.1	8.5	7.9	8.0
35-44	6.8	7.7	7.9	8.0	8.9	9.3	9.0
45-59	9.5	9.2	9.5	10.6	11.2	11.8	12.0
60-64	2.9	3.1	2.9	2.8	2.9	3.2	3.7
65 plus	7.9	8.7	9.1	9.2	9.4	9.7	10.1

Source: ONS

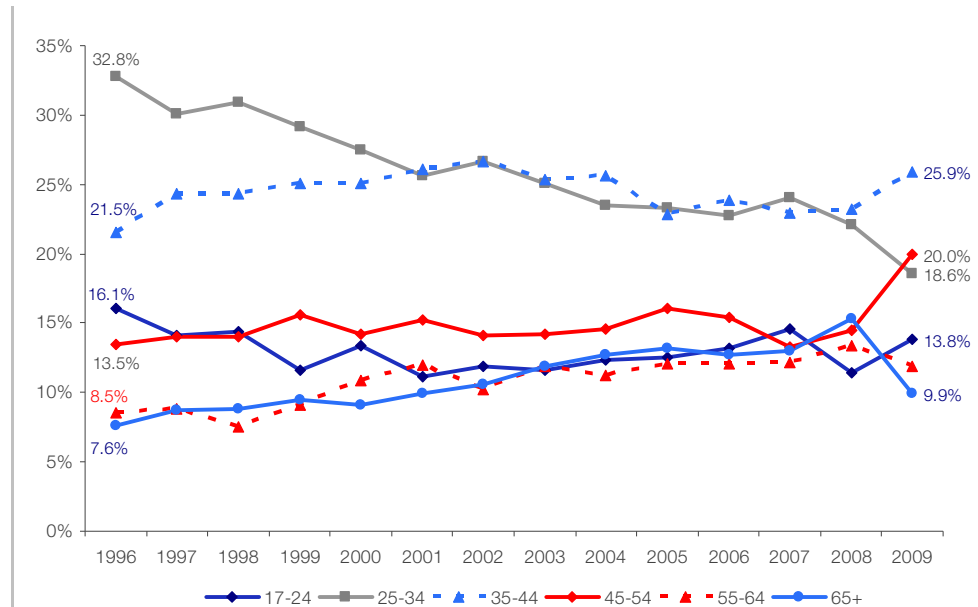
An interesting report published in February 2011 suggested that over 65s made a net contribution of some £40 billion to the UK economy in 2010, even allowing for the costs of pensions, welfare and health services. This is predicted to rise to £77 billion by 2030.

The number of over 65s in work has more than doubled in the past decade. The WRVS 'Golden Age' Report and ONS claim there were some 412,000 over 65s in work in 2001; which rose to 870,000 by the end of 2010. The implications for the used car market could be enormous.

Used car buyers by age group

A further analysis established by the annual BCA Used Car Market Report is a split of used car buyers by age group – Figure 4[2].

Figure 4[2] Used car volumes by age group; 1998 - 2009



Source: BCA Used Car Market Report 2010

- Perhaps the most striking change in the past 15 years is the steady decline in used car buyers in the 25-34 age group from 32.8% in 1996 to just 18.6% in 2009. Certainly, part of that change must be accounted for by changes in personal economic situations – higher incomes, lower mortgage rates in recent years, and that this group is perhaps more able to afford a new car or drive a company car.
- A second steady change, but with some distortion in the past couple of years involves under 24 year-olds, many buying ‘their first car’ – typically a used vehicle. Although the figures show a steady downward trend, the numbers kicked up in 2007. It’s our suggestion this is due, in part, to more students living at home and commuting to college or university.
- A third trend is the steady rise in the number of older used car buyers – the 65-plus group. This dropped back to 9.9% in 2009, perhaps due to the impact of the scrappage incentive scheme which saw many older car owners take advantage of a once in a lifetime opportunity to buy a new car at a bargain price.

Women in the driving seat?

Women currently outnumber men in the UK population stakes, the gap widening steadily from the age of 60 years old upwards – Figure 4[3].

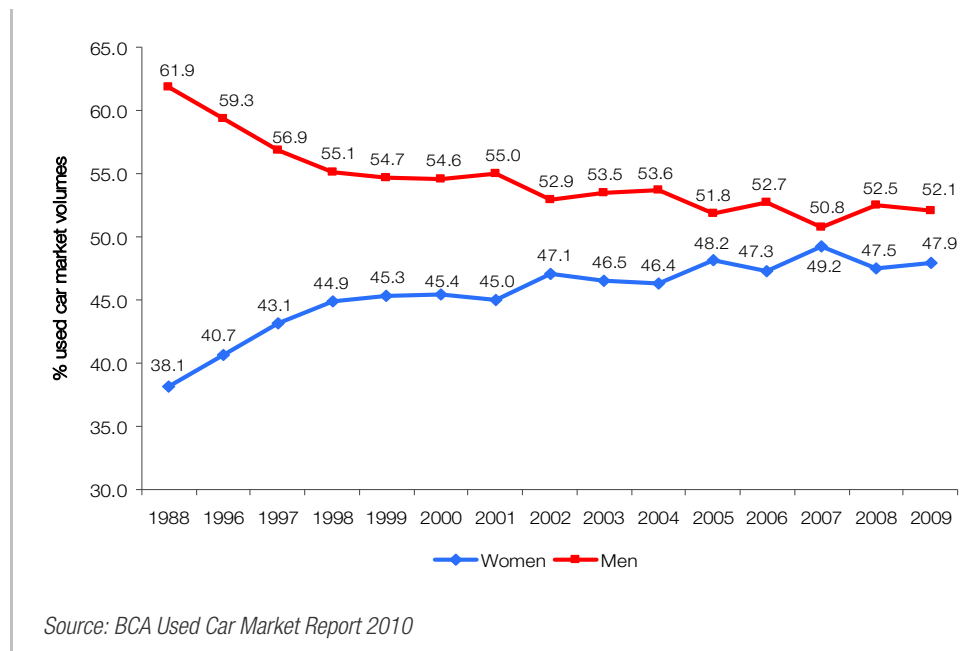
Figure 4[3] UK Population by gender; 2009

	All ages	15–24	25–34	35–44	45–59	60–64	65–74	75–84
Male %	49.2	51.2	50.6	49.6	49.3	48.9	47.6	42.6
Female %	50.8	48.8	49.4	50.4	50.7	51.1	52.4	57.4

Source: ONS

Traditionally red-blooded males would have one believe they are the principal buyers of used cars. They are, but only just – as shown in Figure 4[4].

Figure 4[4] Used car volumes by gender; 1998 - 2009



Over a 20-year period, the proportion of women used car buyers has grown by nearly ten percentage points almost closing the gap with men in 2007. The small rise in male buyers in 2008/2009 may well have been caused by higher unemployment and a proportion of would-be new car buyers trading down to a used car.

Implications of changing demographics

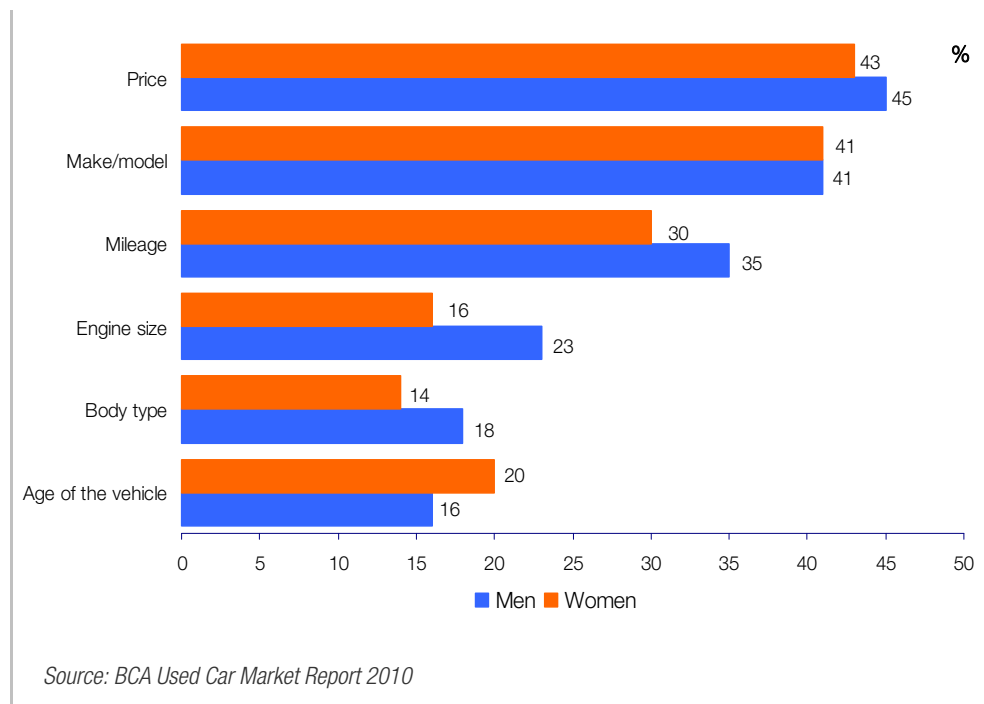
While the demographics of a nation change, albeit slowly, it is possible for market-oriented used car retailers to use such information and analysis to plot their strategic positioning in the marketplace, in the same way that car manufacturers do with new cars. An awareness of the demographic spread and a firm grasp of changing patterns is a powerful ingredient in used car market planning and associating stocking strategy – and far more likely to be successful than a ‘one size fits all’ approach.

Crunch factors

The starting point is developing a clear understanding of the crunch factors which influence different groups of used car buyers when deciding exactly what car to buy and who to buy from.

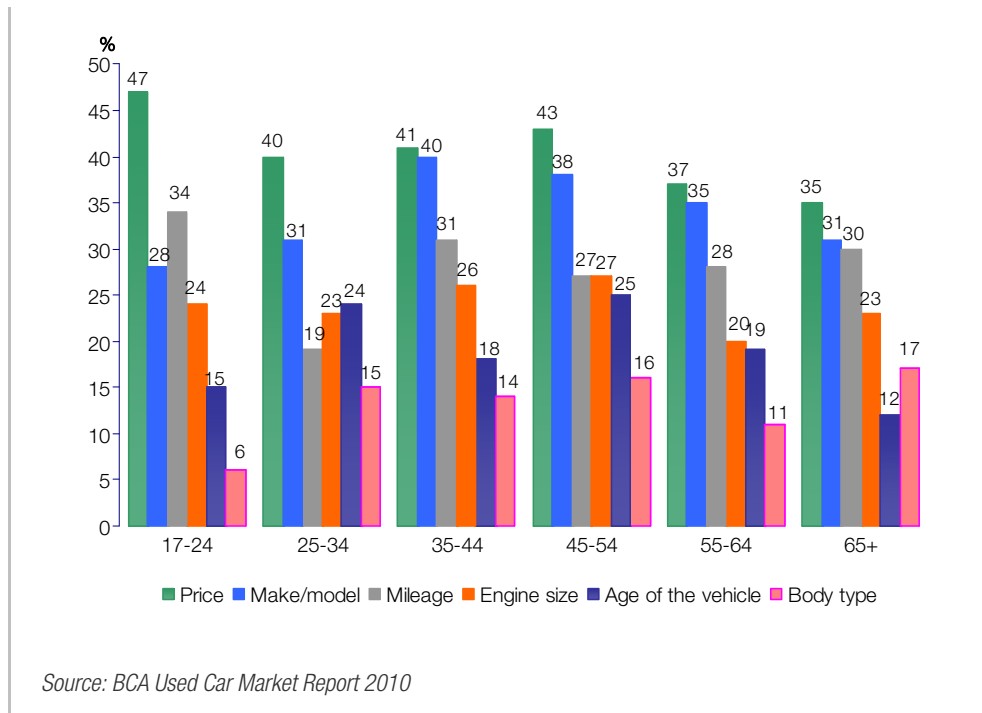
Consumer research for the annual BCA Used Car Market Report highlights how men and women, and the various age groups, often think quite differently in making such buying decisions.

Figure 4[5] Crunch factors when deciding which car to buy; by gender; 2010



- ‘Price’ and ‘make and model’ have much the same influence on men and women. Although men take much more account of a car’s ‘mileage’ and ‘engine size’, women are more likely to be influenced by the ‘age of the vehicle’ than men – Figure 4[5].
- Figure 4[6] overleaf shows how ‘price’ is the most influential consideration for used car buyers up to 54 years of age, followed by ‘make and model’ for those between 25 and 54. While ‘engine size’ is higher up the agenda for younger car buyers, it is less of a concern for middle-aged motorists.
- Older motorists are interested, first and foremost, in ensuring that the ‘make and model’ meets their needs and lifestyle, with ‘price’ further down the shopping list for them than all other age groups.

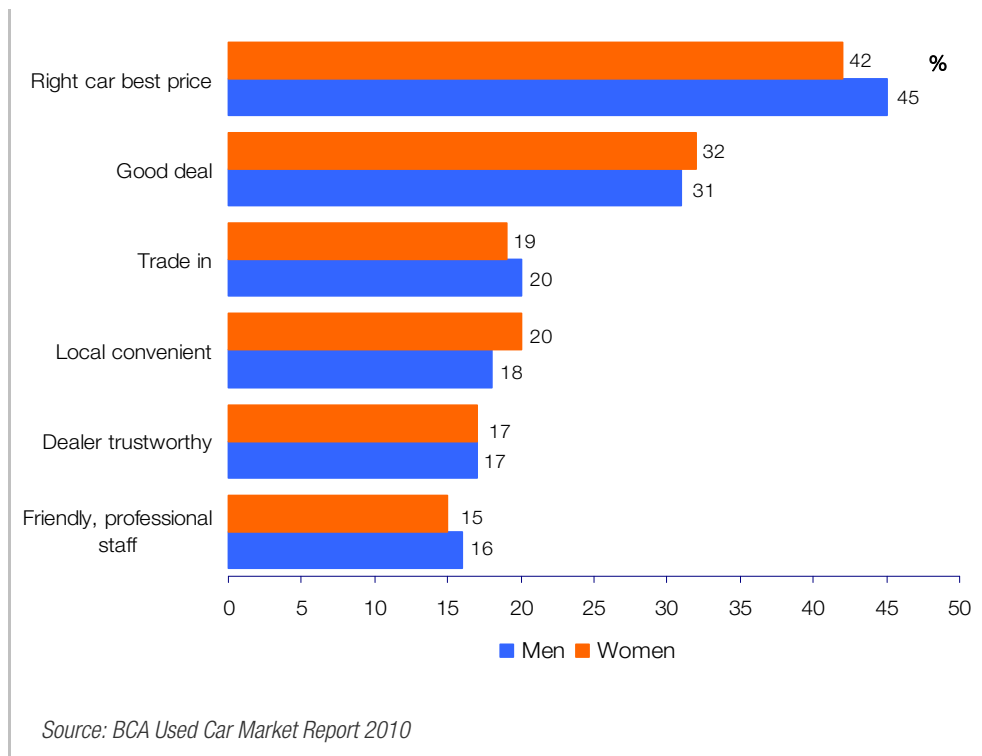
Figure 4[6] Crunch factors when deciding which car to buy; by age group; 2010



Who to buy from?

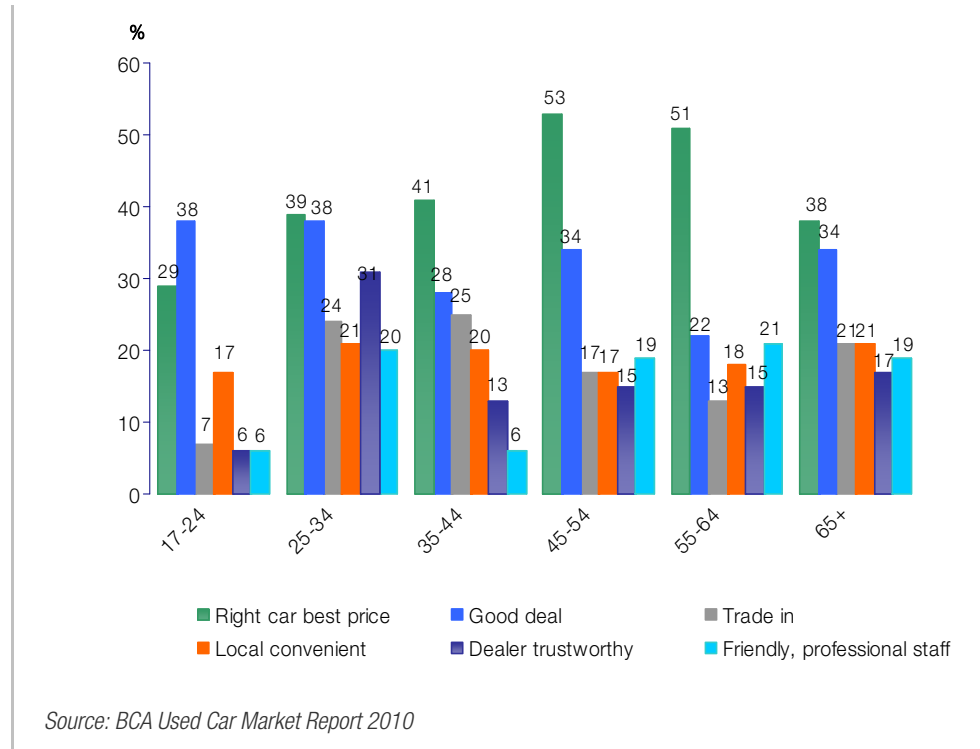
Men and women have very similar views when deciding on which used car retailer to do business with, placing the ‘right car at the right price’, a ‘good deal’ and the ability to ‘trade in’ their car at the top of their shopping lists – Figure 4[7].

Figure 4[7] Key issues in choice of used car retailer; by gender; 2010



Looking at the preferences of the groups in Figure 4[8] shows that people of different ages have a quite different blend of expectations when deciding whether to strike a deal with a used car dealer or not.

Figure 4[8] Key issues in choice of used car retailer; by age group; 2010



- Half of middle-aged car buyers put having the ‘right car at the right price’ firmly at the top of their priorities. While younger motorists are more interested in striking a ‘good deal’; they show very little interest in whether the seller is ‘trustworthy’ or its staff is ‘friendly and professional’.
- In addition to finding a car at the ‘right price’, and getting a ‘good deal’, older motorists look for a blend of buying ‘locally’ from a dealer ‘they can trust’ and doing business with ‘friendly and professional staff’.
- Car owners in the 25 – 44 year age group are more interested than others in the ability to ‘trade in’ their existing car – a quarter of them citing this as a key requirement in deciding on a used car retailer.

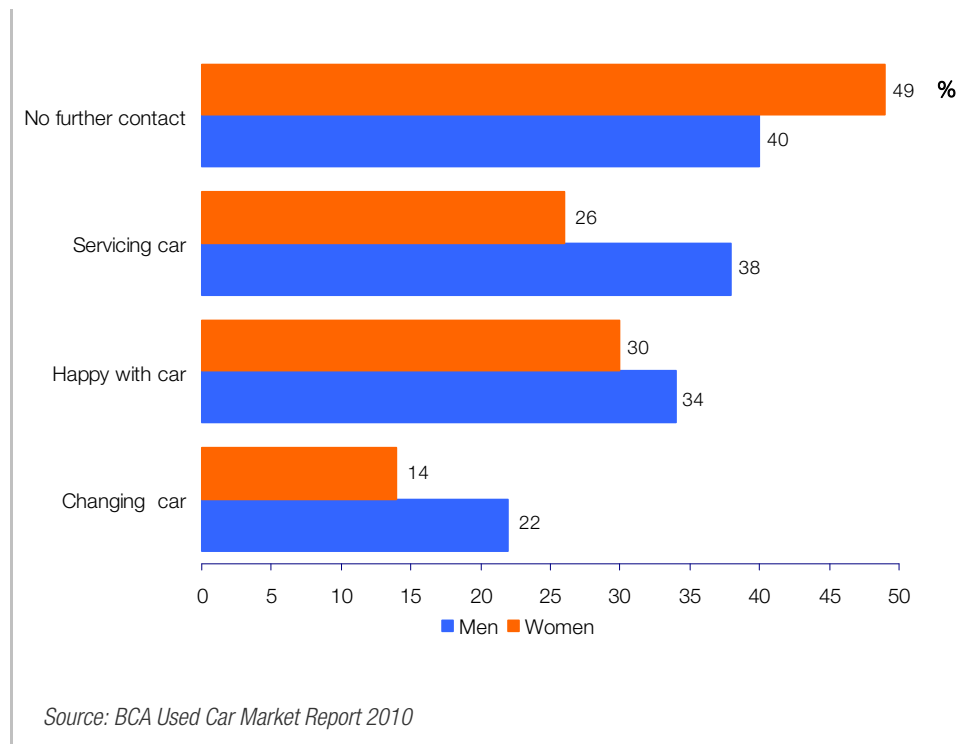
Lasting, profitable relationships

Building lasting and profitable relationships with used car buyers is the surest way for car sellers to fully understand their customers’ needs and priorities, ensure they are completely satisfied – and retain them as customers.

Dealers' track record of keeping in touch regularly with their used car customers has proved disappointing over several years' research for the BCA Used Car Market Report. The 2010 report showed that, overall, only a third of buyers had been asked by the seller if they were satisfied with their car or interested in servicing – while just 18% had been approached to see if they were interested in changing their vehicle.

Looking below the surface of these figures reveals some areas for concern on the gender and age group front – as can be seen in Figures 4[9] and 4[10].

Figure 4[9] Dealer follow-up with used car buyers; by gender; 2010

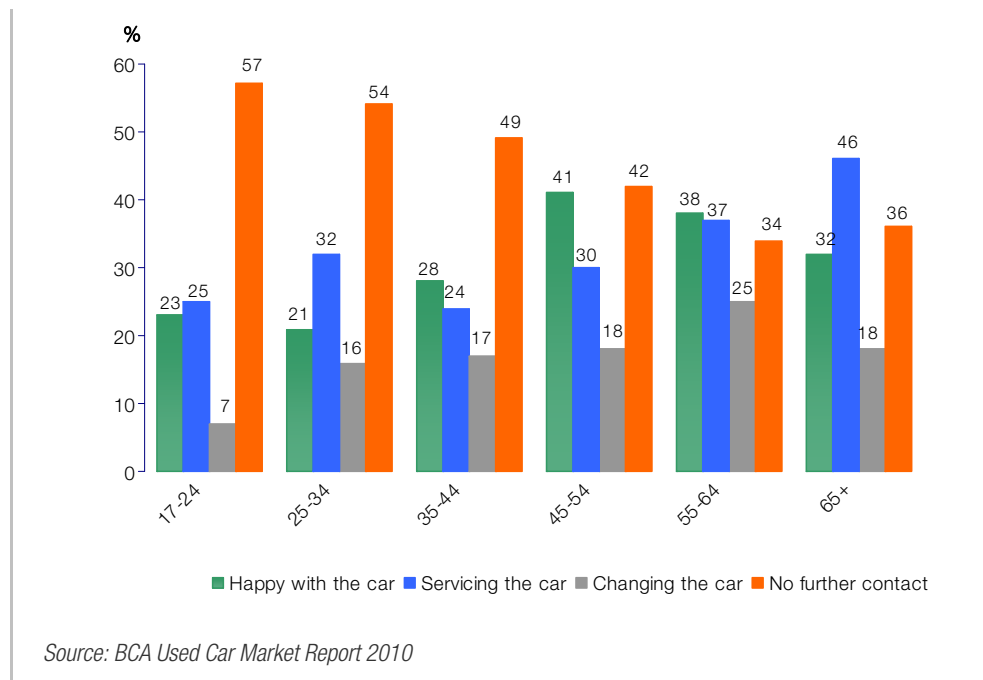


- It appears used car dealers are less inclined to keep in touch with female used car owners – half of women had not heard at all from the retailer they had bought their car from compared with 40% of men.
- While there was little difference in terms of a 'satisfaction call', there was a wide gap on the 'servicing' and 'changing car' fronts. Only 26% of women had been contacted by the seller about servicing compared with 38% of men – and just 14% of women compared with 22% of men were called to see if they were interested in buying another car.

Clearly, this is a worrying situation in terms of retaining women customers and repeat used car sales, bearing in mind nearly half of used cars are now bought by women.

An equally perturbing pattern is apparent in dealers' relationships with used car owners of different age groups – see Figure 4[10] overleaf.

Figure 4[10] Dealer follow-up with used car buyers; by age group; 2010



- Used car retailers are clearly more focused on keeping in touch with their older used car customers. Less than half of used car owners in the 17- 44 year age group had heard from their selling dealer compared with nearly two thirds of 55 years-plus buyers who were contacted.
- Dealers seem to have little interest in keeping their 17- 24 year-old customers on board – completely ignoring three-quarters of them on the ‘satisfaction’ and ‘servicing’ fronts.

Bearing in mind younger car owners change their car frequently, and have something like 50 years car ownership in front of them, it defies the imagination that just 7% had been approached about changing their car. Perhaps because they tend to buy cheaper used cars at this stage in their life – a shortsighted dealer strategy to say the least?

Whilst dealers’ prospecting for service or repeat car sales business improves with a customer’s age, there is clearly a ‘mountain to climb’ to reach anything like an acceptable level.

Some strategic implications

A number of important strategic issues emerge from the changing demographics pattern. These might be divided between the organisations producing first-time used cars – car manufacturers, franchised dealers, leasing companies and fleet operators – and those organisations that sell used cars to buyers.

In the case of creators of used cars for sale, the following issues might be relevant;

- Do fleet operators buy new cars with private used car buyers in mind?
- Is the changing demographic pattern of used car buyers being reflected in new car specification – smaller cars; what body style and engine capacity etc?
- What are the exact requirements of the demographic groups acquiring used cars?

The old adage of 'specify a new car with the used car buyer in mind' has never been more relevant than it is today, particularly as the economy changes. However, specification change will take three years or more to reach the used car market, which raises a further question – how to predict used car buyers' preferences and expectations three years hence?

The second group of implications affect the retail end of the used car supply chain. Given the changing demographics, and indeed the changing new:used vehicle mix in the market – what are the implications for used car retailers? Consider some of the higher-level ones;

- Is the changing used vehicle market mix being reflected in the way used vehicles are brought to market?
- Is the sales force undertaking a sustained, effective follow-up programme with used car buyers, designed to build customers' satisfaction, loyalty and retention? Research suggests this is far from the case.
- Are the differing needs and preferences of men, women and different age groups fully recognised – in terms of the vehicles and sales and marketing approach?

It is strategically important that the market is supplied with used cars that meet the needs and expectations of motorists, both for the organisations that generate used cars and the dealers who sell them.

Some initial conclusions

The chapter has demonstrated some implications of the changing demographics of new and used car buying. The challenge for forward-planning used car operators is to identify how such issues might impact on their business.

Used Car Market – the Future?

Used car market supply

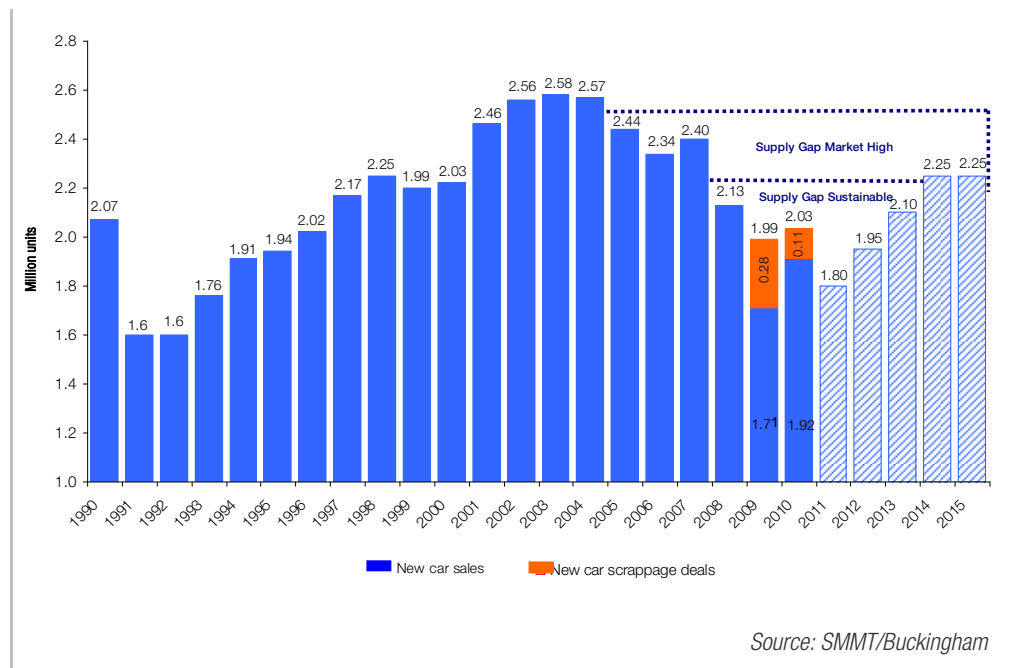
The used car supply chain is essentially a funnel. New cars feed into the top of the funnel and flow down to eventually become used cars – passing through a number of owners until they are eventually scrapped.

Clearly, when new car sales plunge and remain weak for a long period of time – see Figure 5[1] – it has a powerful and lasting impact on the supply of vehicles into the used car supply chain.

New car market

New car sales, which spent five years around the 2.5 million mark between 2001 and 2005, were held at 1.99 million in 2009 with the support of 285,000 deals from the government's new car scrappage scheme. 2010's volumes of 2.03 million units were boosted by a further 106,500 scrappage deals concluded in the first quarter of the year.

Figure 5[1]; UK new car registrations; 1990 - 2015



The Buckingham team expects new car sales to be in the region of 1.8 million units in 2011 – lower than that achieved in 1994, some 17 years earlier. Recovery from this low 2011 forecast will be around 100,000 units a year, although even this may be optimistic given the state of the UK economy and its lack lustre performance.

The SMMT is somewhat more optimistic about new car market growth, however, forecasting 1.93 million units for 2011 and 2.02 million for 2012.

The real issue is perhaps more one of ‘what is the sustainable UK new car market’? An arbitrary figure that could be used to illustrate this would be about 2.25 million new car sales annually – without ‘force-feeding’ the market by high discounts and other types of special incentives.

The lower dotted line in Figure 5[1] shows what might be called the current ‘sustainable supply gap’ in terms of new cars which will eventually become used cars. The higher dotted line shows the much bigger gap in used car supply from the record-high 2.5 million new car volumes reached between 2002 and 2005.

Ageing car parc

Figure 5[2] shows how the country’s car parc has aged considerably, since new car sales started to slide in 2005, and will continue to do so for the next three or four years. While the overall car parc will remain around the 30 million mark for several years to come, the average age of cars on the roads will increase significantly.

Figure 5[2] UK car parc 2000 – 2015

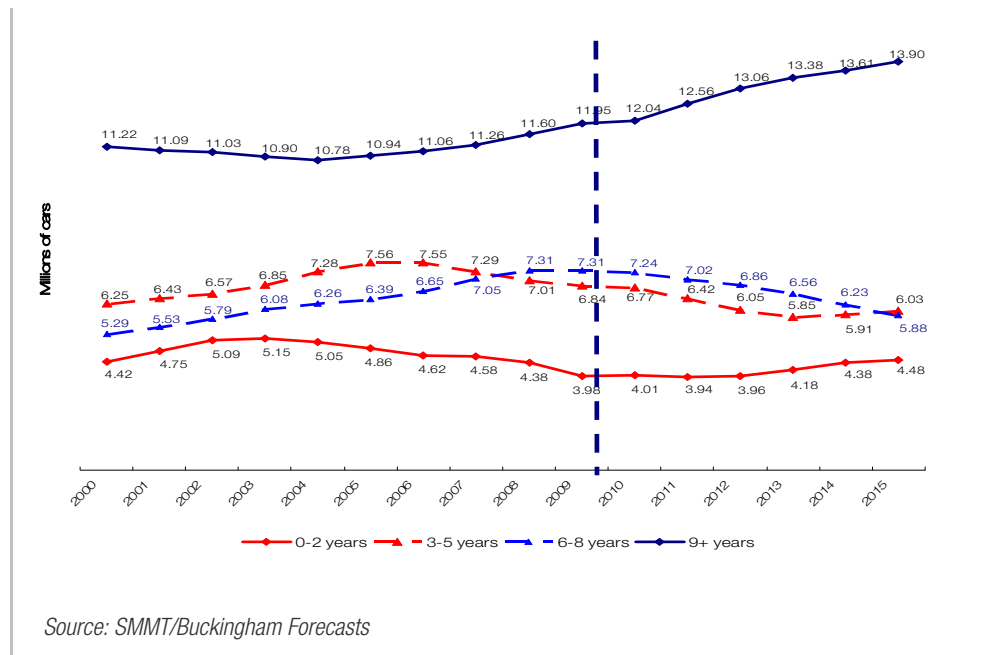


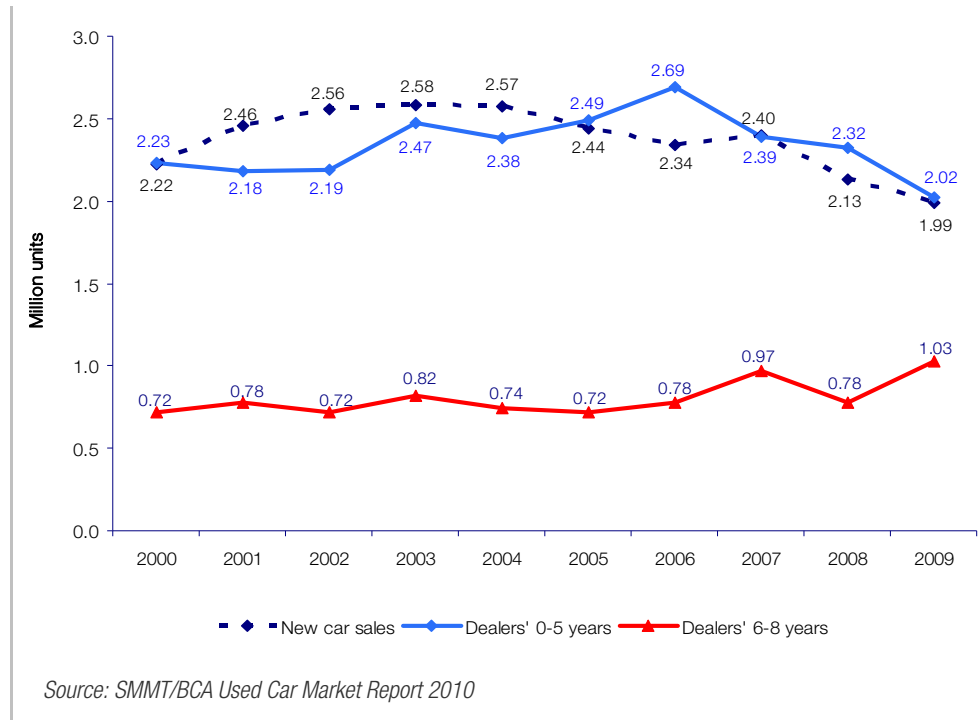
Figure 5[2] splits cars in the parc into four different age groups set by new car sales in the year they were first registered. The car parc forecasts shown in the chart reflect the new car volumes and forecasts shown in Figure 5[1] and well-established car survival rates.

The big decline forecast in the number of 0-5 year-old cars on the roads is a product of the two million plus drop in new car sales from the high volumes seen between 2001 to 2005 (12.4 million units) – and those of the 2006 to 2010 period of around 10 million.

Strong link between the parc and sales volumes

Figure 5[3] underlines the strong link that exists between the aging car parc and dealers' used car volumes. Dealers' sales of 0-5 year-old cars rose by half a million units to a record high of 2.69 million in 2006 as the high new car volumes of the 2000 – 2004 period entered the car parc and fed through to the used car supply chain.

Figure 5[3] New car sales, dealers' sales 0-5 and 6-8 year-old used cars; 2000 – 2009



As the fall in new car sales gathered pace, and the supply of younger used cars faltered, sales of 0-5 year-old cars dropped to a 15-year low of 2.02 million units in 2009. On the other hand, dealer sales in the 6-8 year age group rose by quarter of a million units over the same three-year span, reflecting the growth in the 6-8 year car parc.

Prospects for dealers' used car volumes

Generally used cars will be sold for the first time within the first five years of their life. Used car retailers, particularly franchised dealers, rely on two main sources for their supply of used cars.

Firstly, used car disposals from fleet/leasing companies, car manufacturers and various other company car sources – and, secondly, trade-ins from the private and small business sectors. However, used car supply from these channels is currently under pressure from the steep fall and prolonged low level of new car sales.

For example, the supply of 3-5 year old company cars will weaken further in the next couple of years; as some 500,000 fewer new units entered the top of the car parc funnel in 2009 and 2010 than was customary during pre-recession times.

The flow of part-exchange volumes of younger cars from the private sector has also been hampered by low new car sales for well over two years.

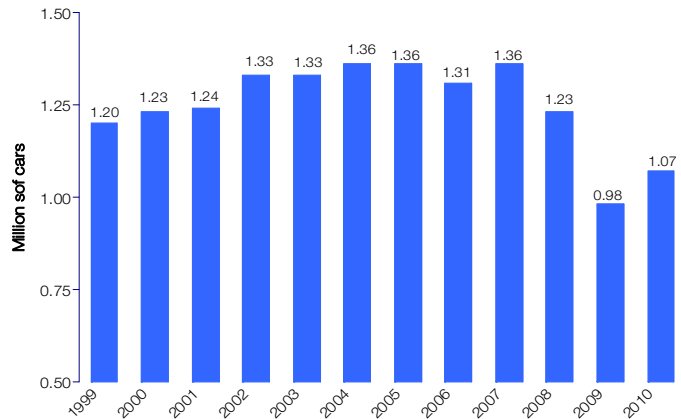
Non-scrappage private sector new car volumes were around 730,000 in 2009 and 850,000 units in 2010, compared with 1.05 million units in 2007 – producing considerably fewer potential used cars for retailing than pre-recession times.

As a rule of thumb – if we assume franchised dealers

obtain around half their used car stock from trade-ins against new cars – a shortfall of some 330,000 eminently ‘retailable’ used units has been built up between 2008 and 2010 compared with pre-recession levels. These will be missing from the younger segments of the used car market over the next few years.

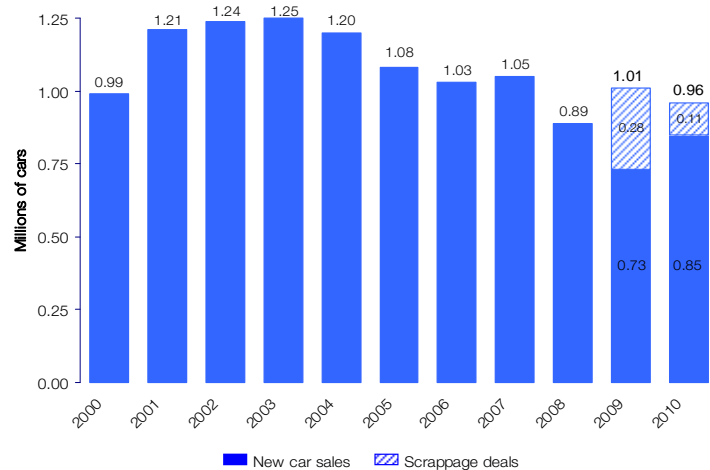
Current forecasts for new car sales suggest the looming shortage of younger used cars will continue for several years, until such time as there is an appreciable and sustained rise in new car volumes.

Figure 5[4]; New car sales; company cars 2000 - 2010



Source: SMMT

Figure 5[5]; New Car Sales Private Sector 2000 - 2010



Source: SMMT

The dealer response

From dealers' viewpoint, the consumer sector of the used car supply chain is the ultimate arbiter of price and demand. Equally, there is no 'silver bullet' to turn up the supply of younger used cars in the short term; which is completely at the mercy of the new car market and the wider economic circumstances that influence it.

However, there are a number of actions used car retailers might consider to help protect their used car business:

- Analyse their target used car market, determine used car inventory requirements to support target market segments and buy stock to meet their specific needs. Build a reputation as a specialist rather than be a generalist.
- Consider marketing suitable quality, older used cars and, for franchised dealers, a wider range of vehicles from other marques.
- Seek to sell a full package of finance; insurance; extended warranty; service packages etc.
- Ensure buyers of used cars are contacted regularly for referrals and repeat car sales – and are fully aware of aftermarket products and services.

In any retail operation, the purchasing function is one of the key aspects in operating profitably or very profitably. Indeed, buying is a management ability that is highly prized in the boardrooms of the most successful high street retailers; but does this expertise filter into the used car sector? Do used car retailers train and retain highly-skilled used car buyers to ensure they have the right used cars in stock at the right price to meet their stocking profile and local market requirements?

Some initial conclusions

The full impact of the steep and prolonged fall in new car volumes is yet to fully hit the used car industry. The demand for mid-age range used cars is still being fuelled by higher pre-recession new car volumes, while demand for younger used cars has been dampened by recession, rising inflation and lower net incomes.

However, as the economy recovers, the lower number of used cars entering the market for the first time will become more acute – with the likelihood that demand for younger, lower-mileage used cars will exceed supply. The natural evolution of these factors is that prices are likely to rise – particularly for the most popular and desirable cars when they reach the market.

Implications, Actions and Conclusions

The foregoing chapters presented a broad, long-term overview of the country's new and used car markets, and the major issues affecting the used car sector in particular. What are some of the more important implications for used car retailers? What steps might they consider to protect and develop their businesses in the current, challenging economic climate and tough market conditions?

Some questions to ask

No two used car operations are likely to take the same approach to develop or protect their future business. However, there are a number of questions, or actions, they might consider looking forward. The following paragraphs set out a series of questions that might be considered when planning future business. The list is not exhaustive, but it illustrates a possible route.

While some of these may be obvious and already in place, others will, hopefully, merit further investigation and consideration:

Macroeconomic Issues

The macroeconomic situation suggests family income streams are, and will continue to be, squeezed for the next two or three years. Implications for the used car market might include;

- A growing demand for smaller, more fuel-efficient cars – how might this be reflected in dealers' used car stocking policies and marketing strategy?
- Might there be a 'counter market' of buyers looking for bargains in terms of larger, more expensive used cars – perhaps a vehicle they have always promised themselves?
- Will there be specific buyer groups thinking of postponing changing their cars in the short or medium term? How might they be persuaded to reconsider?
- Could there be a drop in demand from would-be used car buyers working in the public sector, counteracted by a growth in those from the private sector as employment patterns change?
- Reports suggest a high number of new jobs have been taken by immigrants. Does this group represent a potential market opportunity? If so, what type of used cars do they require? How best to cater for this fast-growing segment?
- Low Bank of England rates are likely to continue for some time. Does your organisation have a wide enough range of finance sources available for buyers who need finance to fund their car purchase?

The long-term market

- The changing shape and size of the long-term used car market presents practical concerns and opportunities for used car retailers:
 - What might be the implications for used car stock acquisition and the product offering you can bring to market? Might increased demand cause used car prices at auction to rise over time, particularly for younger/lower mileage vehicles?
 - How will the ageing car parc affect your inventory strategy? Will you need to adjust your stocking policy – what might be the implications for inventory and acquisition costs?
 - One of the issues most starkly illustrated by the country's changing demographics is the ageing of the population which is destined to continue well into the future:
 - A growing, healthier, older population may indicate growing used car market opportunities. Retired used car buyers generally seek smaller, more fuel-efficient cars. Equally important, they have specific insurance requirements. Currently, the older part of the population have a disproportionate share of national wealth and, with pitifully low returns on investment, could be willing to spend money on a car rather than watch inflation eat into the real value of their savings.
 - The demographic split between male and female used car buyers is roughly equal. Are used car operations and staff aware of this balance? Are they skillful enough in dealing with and satisfying the unique needs of male and female car buyers?

Critical buyers' issues

- Critical buyers' issues are important in terms of offering the most attractive used car inventory for sale –for example:
 - What is your pricing and discount strategy? How does this compare with local competition and, of course, the huge number of Internet used car websites?
 - Is your model mix appropriate for the local market – do you keep this profile up to date and match inventory accordingly? Are units selected for stock with appropriate mileage, engine type/capacity and price range – how do you fine tune this to the local market?
 - Given the demographic profile of the target footfall – are you able to balance your inventory against these preferences
 - Given an ever more competitive market, in truth, how effective is your customer follow-up operation? Do you need to establish a closely monitored programme?

Used car market

- The used car market is evolving rapidly and shortage of new car sales over the past three years, and expected slow recovery, signals a potential shortage of younger used cars entering the market. What response might a used vehicle retailer consider?
 - Will the operation seek to broaden the age profile of its used car stock – if so – by how much might it seek to move?
 - Will used car sources need to be reviewed as a result of the likely shortage of good quality, younger used cars in the medium term?

Multi-sourcing will become standard practice

Dealers need to explore their options in an increasingly competitive marketplace for used cars - multi-sourcing will become standard practice and retailers that don't adapt may struggle to acquire the right stock at a competitive price.

Those closely involved in the purchase and sale of used cars would be well advised to identify how the uncertain economy and profound changes taking place in the used car market will affect their business – and plan how best to protect and successfully develop their business.

There is no silver bullet to deal with the issues of the used car market. However, when a used car organisation is developing its business plan, it should consider the broader implications of the new and used car markets and seek to set this in the wider business context.

Professor Peter N C Cooke
Professor of Automotive Management
The University of Buckingham
www.buckingham.ac.uk/cam

August 2011

Any part of this report may be reproduced for non-commercial purposes subject to appropriate acknowledgement. Any organisation wishing to use this report, in part or in whole, for commercial gain, should firstly obtain permission from the Public Relations Department at BCA.

This report is intended for information only. Neither BCA nor The University of Buckingham can accept any responsibility or liability for consequences arising from its interpretation or implementation.