The Used LCV Market Report 2012

A REPORT BY BCA

Centre for Automotive Management
The University of Buckingham Business School
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Foreword

We are delighted to bring you this second edition of the BCA Used LCV Market Report.

The Used LCV Market Report 2012 aims to provide the same invaluable insight into the latest developments in the United Kingdom LCV market as the inaugural report – presenting an objective and authoritative review of the used light commercial vehicle industry.

LCVs perform the ever-increasing and crucial role of moving goods and services to every corner of the country, with used light commercials firmly established as a critical part of the business mix, particularly for small and medium enterprises.

The 2012 edition of the Used LCV Market Report looks at the fast-changing LCV market and the key issues and concerns facing those involved in this sector – manufacturers, fleet/leasing companies, franchised dealers, used LCV retailers and LCV operators.

New LCV volumes fell steeply during the 2008/2009 recession and, in the current uncertain economic climate, will probably take several years to recover to pre-recession levels. The upshot will be considerably fewer first-time used vehicles reaching the used LCV market during the next few years – with the likelihood that demand for younger used LCVS could outstrip supply at times. What steps might used LCV retailers and LCV operators take to address the impact this might have on their business?

Professor Peter Cooke and The University of Buckingham Automotive Team have, once more, independently researched and written the Used LCV Market Report; have highlighted some interesting analyses and raised a series of strategic issues which used LCV dealers and LCV operators might wish to consider.

BCA is pleased to provide this 2012 edition of its Used LCV Market Report to all those closely associated with the LCV industry.

Duncan Ward
BCA General Manager,
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January 2012

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Introduction

The LCV market, particularly the used LCV sector, might be claimed to play a crucial role in the country's economic development. While the used LCV market is much smaller, and has a lower profile than the used car sector, it is a vital ingredient for the many businesses that rely on a ready supply of used light commercial vehicles.

LCVs do not have the glamour of cars and, and it has been argued that management in many organisations rarely has a strong empathy with LCVs. This may need to change over the next few years.

Report objectives

The principal objectives of the report are as follows;

- To review the role of the European new LCV market.
- To examine the development of new and used LCV sectors in the United Kingdom.
- To review the UK LCV industry's relationship with the used LCV sector.
- To propose some high-level strategies that used LCV retailers and operators might care to consider in a period of economic uncertainty and potential used LCV supply difficulties.

The data used in the report is largely in the public domain; much of it provided by BCA, the SMMT and the ACEA. Independent analysis and interpretation have been undertaken by the Buckingham Automotive group.

The LCV sector

The preferred mode of commercial transport

Used LCVs could be called 'the preferred mode of commercial transport for small and medium enterprises'. The SME sector is increasingly regarded as the powerhouse of the UK economy; and is also one of the largest employment sectors in the country. It is a sector the Coalition government seeks to nurture and hopes will help drive economic recovery over the next few years.

For most SMEs, a new light commercial vehicle is purely aspirational, much as a new car is for most private motorists. Indeed, a used LCV is normally the only sensible option within many SMEs' financial reach to meet their business' transport needs and deliver their products and services to customers.

The report outlined

The Used LCV Market Report 2012 comprises the following chapters;

- Chapter 1 – Introduction; sets out the overall report and the main issues shaping the country's LCV industries.
- Chapter 2 – The European LCV Market; highlights developments in the major European light commercial vehicle markets and shows, while sourcing is common across Europe, the rate of economic recovery varies between the principal markets. The chapter highlights that the United Kingdom is part of a larger economic region.
- Chapter 3 – Macroeconomic Issues and the UK LCV Market; examines a number of key economic factors such as GDP, interest rates and unemployment and their impact on the new LCV sector. The chapter also seeks to establish high-level relationships in the current economic climate between financial factors and the LCV industry.
- Chapter 4 – UK New LCV Market; looks at the development of the UK new LCV market, the steep decline in new LCV volumes during the 2008/2009 recession and prospects for their recovery.
- Chapter 5 – UK Used LCV Market; considers the used LCV sector from various viewpoints. Perhaps the most telling aspects are those associated with used LCV prices at auction – and some of the strategic implications that might arise as the shape of the market and sales volumes change.
- Chapter 6 – Used LCVs in Short Supply?; the report highlights the potential shortage of first-time used LCVs entering the market over the next few years, as the much smaller number of new LCVs sold since 2008 come up for replacement. The chapter also examines some of the issues and steps used LCV retailers and used LCV operators might care to consider to address this potential risk to their business. A shortage of used LCVs is a matter of fact rather than speculation, unless the economy contracts even further than the most pessimistic forecasts.
- Chapter 7 – Conclusions; discusses some of the principal issues highlighted in the report and the move of the used LCV industry towards an Age of Procurement.

A new or used LCV is essentially an investment to generate revenue

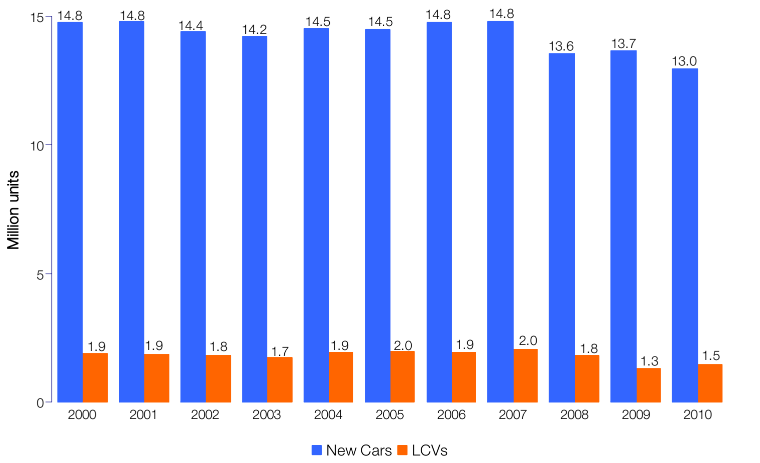
It cannot be stressed often enough that new and used LCV markets are so very different to their car counterparts. A new or used LCV is essentially an investment to help generate revenue, unlike private sector cars or many business cars. The used LCV market is likely to change markedly over the next couple of years and face an entirely different set of challenges than the used car sector.

The European LCV Market

While much smaller than the car sector, the European LCV industry is a substantial one amounting to some two million new LCV sales annually, with an LCV parc of around 25 million units. The relative size and importance of the LCV market varies quite significantly between EU countries, driven largely by a range of cultural and economic factors. It is a matter of speculation whether the Eurozone crisis at the end of 2011 will throw the LCV market into confusion in some countries as economies attempt to take account of the new economic order.

New car and LCV sectors

Figure 2[1]; Western Europe (EU15/EFTA) new car/LCV sales 2000 – 2010



Source: ACEA

Figure 2[1] shows sales of new cars and LCVs in western Europe since 2000.

New LCV volumes were close to the two million mark for much of the 2000 to 2007 period, dropping to 1.8 million in 2008 at the outset of economic downturn, and to 1.36 million units in 2009 as recession hit hard across the region. The improving economic climate in most western European countries saw new LCV volumes rise some 150,000 units (11.3%) to 1.45 million in 2010.

In contrast, EU15/EFTA new car volumes fell 5% from 13.7 million in 2009 to 13 million units in 2010 as scrappage schemes, which had artificially inflated new car volumes in 2009 and early 2010, were phased out. LCV scrappage programmes were generally less generous and attracted fewer participants than new car schemes.

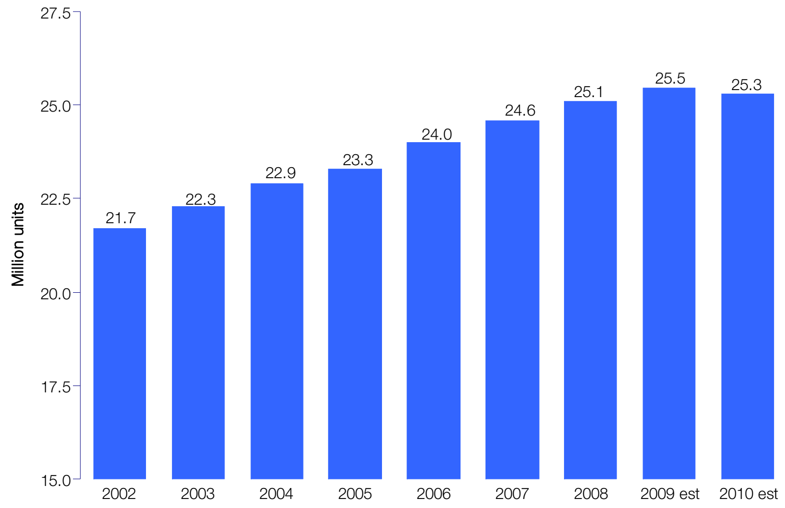
To early to say that new LCV sales are firmly on the road to recovery

New LCV registrations in western Europe continue to grow – rising 7.5% to 1.42 million units for the first eleven months of 2011. However, it is too early to say that new LCV sales are firmly on the road to recovery, as financial crises and the age of austerity affecting many European countries', may well cause volumes to fall once more in the foreseeable future. It will be interesting to observe whether changes in the LCV market impact on the Eurozone countries or challenge the countries outside the common currency.

European LCV parc

The western European LCV parc rose by 3.4 million to 25.1 million between 2002 and 2008, fuelled by steady annual new LCV volumes of around two million units during that period – Figure 2[2].

Figure 2[2]; Western Europe (EU15/EFTA) LCV parc 2002 – 2010



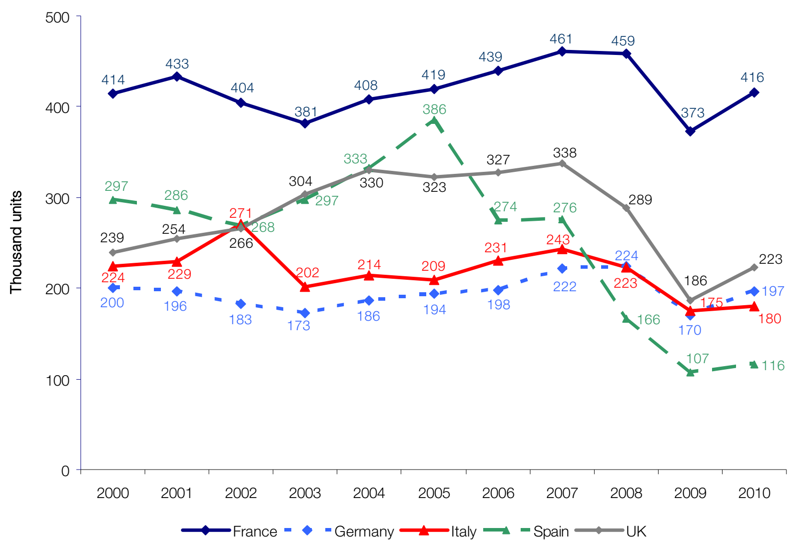
Source: ACEA/Buckingham

Significantly lower sales in 2008 and a sharp fall in 2009 saw the LCV parc growth arrested, with the prospect it will only begin to rise significantly when new LCV volumes reach pre-recession levels once more.

LCV major markets

The pattern of new LCV sales in Europe's major markets is quite different to that of new car volumes.

Figure 2[3]; New LCV sales in major European markets 2000 – 2010



Source: ACEA

France has consistently outstripped all other markets in the new LCV volume league over the past decade, weathering the economic storm somewhat better than other major markets. The UK has held second position over the past five years, some 26,000 units ahead of third-place Germany in 2010 – while Spain has fallen, from the second position it held up to 2005, to the bottom of the table for the past three years.

France has consistently outstripped all other markets in the LCV volume league

- France; has, by far, the biggest new LCV market in Europe, topping 400,000 units for nine of the past 11 years – reaching an all-time high of 461,000 in 2007. Following a drop of 86,000 to 373,000 during 2009's recession, French new LCV market volumes rose to 416,000 in 2010 – stretching its lead over second-placed UK to 193,000 units.

- United Kingdom; rose steadily to a record 338,000 in 2007, falling steeply thereafter to a 15-year low of 186,000 units in 2009. While UK new LCV volumes rose 19.6% and 37,000 units to 223,000 in 2010 – this was some 100,000 units fewer than annual sales in the 2004 to 2007 period.

- Spain; Spanish new LCV sales climbed to a high of 386,000 units in 2005, crashing by 279,000 to just 107,000 units four years later in 2009, as Spain's economy suffered badly during recession. 2010 saw little improvement, with Spain's new LCV volumes edging up just 9,000 to 116,000 units year on year. Government deficits and spending restrictions may well have a negative impact on LCV sector growth in 2011, given the high level of unemployment.

- Germany; had the smallest new LCV market until 2008, when Spain took over that spot. Germany's new LCV market has proved relatively resilient during the economic downturn, showing signs of recovery with a rise of 22,000 to 197,000 units in 2010.

- Italy; had a flat new LCV market for some years leading up to 2007's volume of 243,000 – falling back to 175,000 in 2009, making up little ground in 2010 with a rise of just 5,000 units over the previous year. Fiscal reform to attempt to rebalance the budget may have significant strategic implications in 2011 and 2012.

Looking at the major EU markets' LCV volumes in 2011 – the UK (+17.4%) and Germany (+18.4%) both recorded double-digit rises for the January to November period. France's LCV sales were up 2.8%, while Spain's and Italy's fell by 9.5% and 2.1% respectively year on year.

Some initial conclusions

Nobody knows what the implications of the Eurozone crisis will be

It could be claimed 2011 is 'the lull before the storm'. Nobody knows what the implications of the ongoing crisis in the Eurozone will be over the next few months – or how the fallout will impact on the weaker or even the stronger economies. Whatever effect it has, it will take several years to flush through the system, which may well include significant changes to the new LCV industry and, by definition, the used LCV market.

While the LCV market in the EU had showed signs of starting to recover in some countries, the Eurozone crisis will take the whole European economy into uncharted territory. European economies are so closely linked that changes in one country inevitably cross borders and have a wider impact that could apply to the new and used LCV industry as much as any other part of the business community.

Macroeconomic Issues and the United Kingdom LCV Market

While John Donne is accredited with claiming that 'no man is an island', the modern version of this might be 'globalisation impacts on us all'. Not that many years ago, the new LCV and the used LCV markets were relatively easy to predict. No longer. As the range of economic issues affecting both LCV sectors has become a positive maelstrom – used LCV practitioners need to fully appreciate the pressures exerted by the wider economy so they can compete effectively.

This chapter of the report examines a range of macroeconomic issues which affect the country's new and used LCV markets. While some aspects apply equally to both new and used car sectors, others are much less relevant.

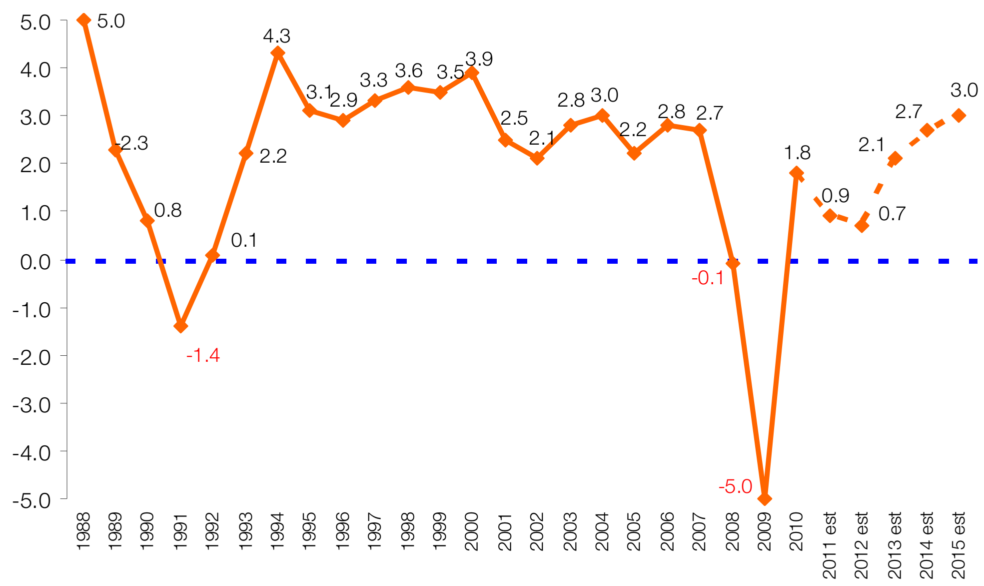
Gross domestic product

Figure 3[1] shows how gross domestic product (GDP), the total value of work generated by the country's economy, has moved over the past 20 years. The figures, which influence business and consumer confidence most, are the year on year percentage movements and over a longer period of time.

If GDP is on an upward path, confidence in the wider economy is normally improving

Thus, if the GDP is on an upward path, confidence in the wider economy is normally improving, even when recovering from a recession which, in turn, tends to encourage investment. However, the psychology of fear of the unexpected and unknown can all too easily sap that emerging confidence.

Figure 3[1] GDP year on year trend 1988 – 2015



Source: ONS/OBR

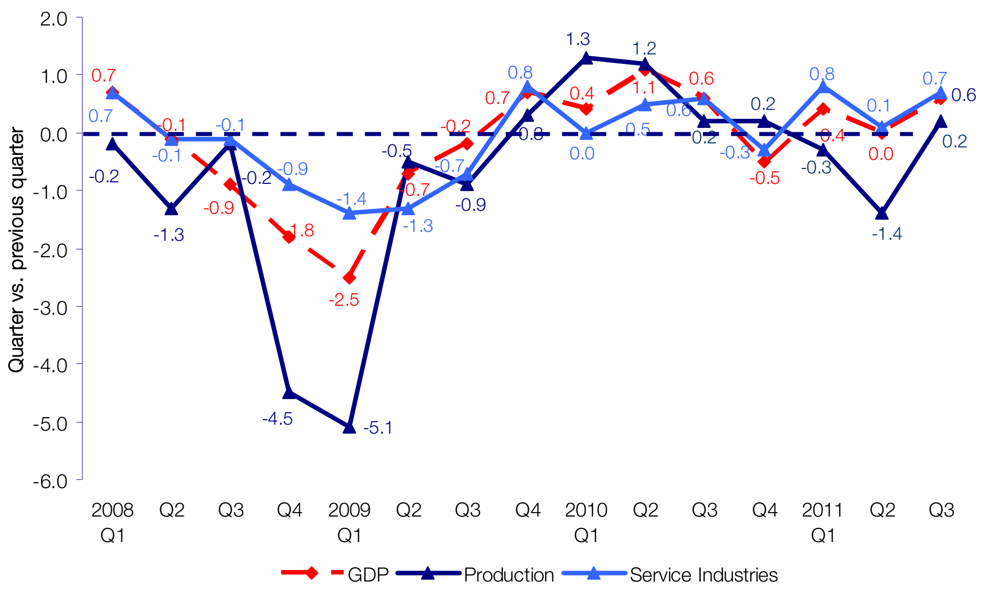
GDP dropped steeply during the 2008/2009 UK recession, more so than the more modest fall experienced during the recession of 1990/1991. The 2008/2009 recession lasted for six quarters compared with five quarters for the 1980/1981 and 1990/1991 downturns, when it took three years on both occasions for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

The most recent recession hit business confidence hard, with many businesses stopping buying new LCVs – driving new LCV volumes down to a 15-year low in 2009 as operators held on to their existing units longer or cut the size of their fleets.

Production, services and gross domestic product

Figure 3[2] sets out the quarter versus quarter rise or fall in production and service sectors' GDP from 2008 to the third quarter 2011 – and how they compare with the overall GDP trend.

Figure 3[2] GDP quarter vs. quarter, production and services; 2008 – 2011



Source: ONS

All three indices dropped steeply in the final quarter of 2008 and first quarter of 2009, not returning to positive territory until Quarter Two 2010. Recovery is proving to be fragile, however, with overall GDP and service industries faltering at the end of 2010 and production output falling back markedly in the second quarter of 2011.

While overall GDP has been the steadiest line over the past three and a half years, it is struggling to keep its head much above the 'Plimsoll Line' in 2011. In terms of production, LCVs have a role in moving both raw materials and finished goods and providing support services.

Services industries' GDP appears to have weathered the financial storm a little better than production, falling less in the height of recession and proving more resilient since the beginning of 2011. Service industry lead times are that much shorter than changes in manufacturing and the associated supply chain.

Inflation reducing real household disposable income and consumption

In its November 2011 economic outlook, the Office of Budget Responsibility lowered its GDP growth forecast to 0.9% for 2011. It attributes its revised GDP figure to the UK's economy losing momentum over the summer, tighter credit conditions and higher than expected inflation reducing real household disposable income and consumption. While the UK's economy is expected to pick up in 2012, the headline measure of GDP is likely to remain broadly flat until the second half. The OBR expects GDP to grow by 0.7% in 2012, 2.1% in 2013 and 2.7% in 2014.

Of course, the UK figures have to be seen in the light of the wider European situation and the various, worrying crises hitting the Euro zone.

While hindsight is a powerful management tool, the real challenge is how will the new and used LCV markets react if economic growth remains close to zero or even technically enters a double-dip recession.

CPI and RPI trends

The last time the 12 month RPI (retail price index) was in double figures was 1990 when it reached 10.9% in September/October that year – settling in the 2% to 4% band for 15 years or so thereafter. While RPI dipped into negative territory during the 2008/2009 recession, it has stubbornly remained around the 5% mark during 2010 and 2011 – see Figure 3[3] overleaf.

This uncomfortably high rate is attributed to global raw material prices, higher energy prices and rising demand for food products in emerging economies as people become more affluent and look for western-style commodities and lifestyles.

Inflation is principally measured by two indicators – RPI and CPI. While both monitors track the price for basket of goods and services they have a slightly different make-up.

- CPI; Consumer Price Index, includes a range of items not covered by RPI – stockbroker fees, university accommodation and an index of new cars based on published car prices. CPI has a strong influence on public sector pensions and is used as the baseline for changing a variety of benefit rates. It has also been used as the basis for the government’s inflation target, set at 2% since December 2003.

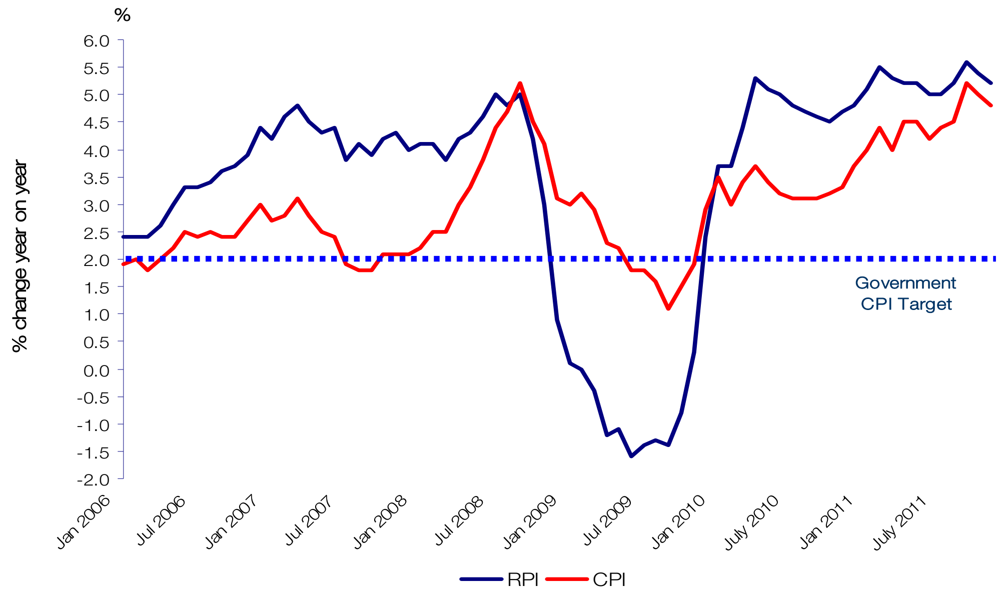
- RPI; Retail Price Index, covers a range of costs not included in CPI, such as mortgage interest payments, council tax, house depreciation, buildings insurance, TV licence, road fund licence and used car prices.

The uncomfortable fact is that different groups of the population and markets are hit at different rates so averages disguise the real situation. All of these factors have an impact, either directly or indirectly, on both private and business confidence and expectations – which, in turn, works right through to demand for new and used LCVs.

Rate of inflation

Figure 3[3] shows CPI and RPI have fluctuated since 2006, and how both indicators have risen steeply since early 2010, squeezing household incomes hard.

Figure 3[3] RPI and CPI; 2006 – 2011



Source: ONS

RPI fell from 5% in September 2008 to a low of -1.6% at the height of recession in 2009 – climbing to around 5% in the spring of 2010, settling above this mark for all but two months of 2011. RPI sits at 5.2% in November 2011, but is expected to fall back during 2012 as prices fall back and the impact of the government's increase in VAT falls out of the comparison. In the long run, the Office of Budget Responsibility expects RPI to be around 1.4% higher than CPI inflation.

Inflation should begin to fall at the start of 2012

CPI has been a less volatile over the past five years. It remained above zero during the recession – dropping to 1.1% in September 2009, exceeding 3% for the whole of 2010, before climbing to a high of 5.2% in September 2011, the highest since the measure was introduced in 1997. While CPI dropped to 4.8% in November 2011, the huge rises in electricity and gas tariffs are still taking their toll. Inflation should begin to fall at the start of 2012 as the impact of the January 2011 VAT hike from 17.5% to 20.0% drops out and rising energy, commodity and food prices wanes. According to the Office of Budget Responsibility, CPI should drop to around the Bank England's target level of 2.0% by 2013.

Of course, these headline inflation figures camouflage much higher price rises in the essential goods and services households depend on – fuels and lubricants rose by 13.1% in the 12 months to November 2011, gas by 25.3%, electricity by 15.5%, transport by 7.2%, food by 4.0% – and water and soft drinks 4.6% higher year on year. Given the government's move to CPI as the base for calculating pension and other benefits' rises, it is likely a growing number of people, particularly those relying heavily on pensions and benefits will become progressively poorer – or have to make greater savings for their future out of current earnings.

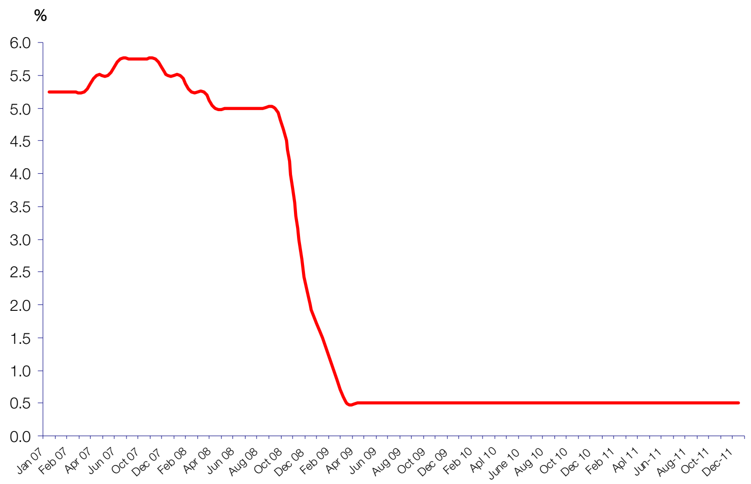
The message for businesses? A need for lower costs and greater efficiency, recognising changing consumer shopping habits as they are forced to seek ever better value for money, think further ahead and more defensively than ever before.

Interest rates

Bank of England's base rate held at half a per cent since March 2009

Figure 2[4] shows the Bank of England's base lending rate dropped steadily from 2008 and has been held at half a per cent since March 2009.

Figure 3[4] Bank of England base interest rate; 2007 – 2011



Source: Bank of England

In mid 2011, the major clearing banks indicated they were close to target in terms of lending to business, particularly to SMEs – albeit the interest rates and security demanded make the Bank of England base rate almost risible.

Some business Implications

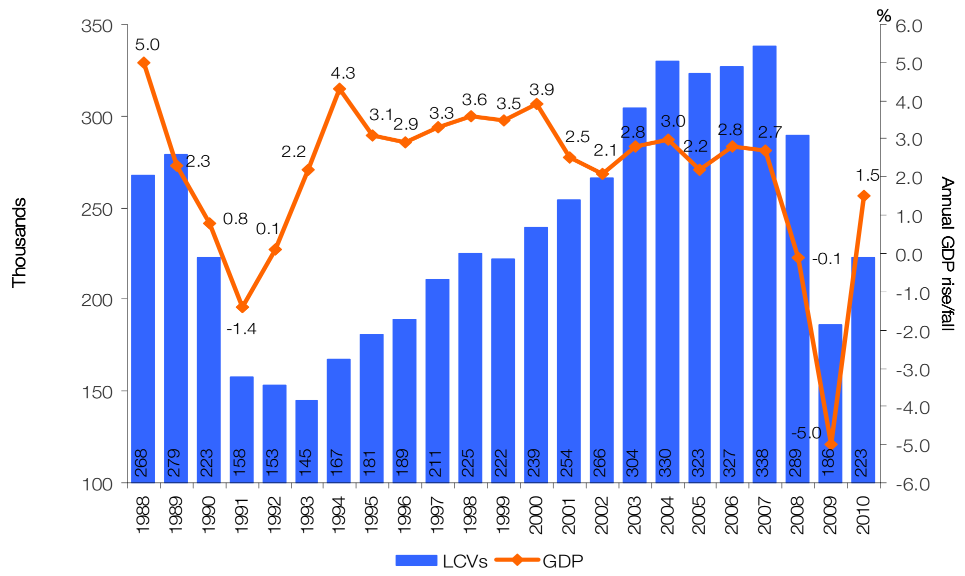
The foregoing comments may appear somewhat obscure and unrelated to day-to-day business and the LCV sector in particular. They are not. Consider the following implications;

- The western world's recession means there will be lower demand for UK-sourced goods and services; therefore lower economic activity.
- Continuing high inflation and wage restraint will erode individuals' purchasing power and buying confidence; they will look for ever more value for money.
- Prevailing low interest rates with inflation mean the value of savings will decrease in real terms. Will people move out of savings – or save more to compensate?
- Business confidence is lower because many buyers, whether companies or individuals, have no alternative but to cut their spending.

The economy and the LCV

Figure 3[5] overleaf shows how new LCV sales fall markedly when GDP growth dips below 2%, as seen in the 1991/1992 recession when LCV volumes dropped to around 150,000 units for three years, and took several years to recover. New LCV sales fell sharply, once more, at the onset of recession in 2008 and crashed the following year.

Figure 3[5] GDP vs. new LCV sales; 1988 – 2010

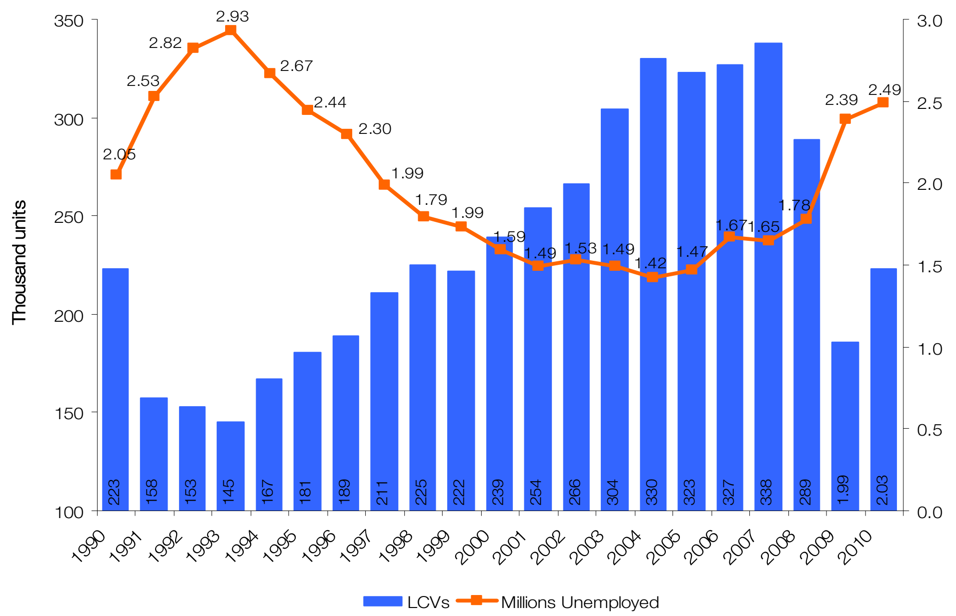


Source: ONS

Although LCV sales rose in 2010, as GDP headed upwards once more, they are unlikely to reach pre-recession levels until GDP is sustained above the 2% mark for a considerable period of time. Given that buyers of new LCVs in a mature market will largely be replacing existing units, it is reasonable to assume the state of the economy has just as powerful an impact on used LCV volumes as it does on new units.

A second illustration of macroeconomics and how it affects new LCV demand is shown in Figure 3[6] which plots demand for new LCVs against longer-term unemployment.

Figure 3[6]Unemployment vs. new LCV sales; 1988 – 2010



Source: ONS

The more people in work the higher the demand for new LCVs

Quite simply, the more people in work the higher the demand for new LCVs. When unemployment rose to nearly three million in the early 1990s, new LCV sales plummeted and remained relatively low until unemployment dropped significantly below two million.

The pattern was repeated during 2008 to 2010 – when unemployment rose steeply, new LCV volumes slumped – recovering to a degree when the rate of unemployment levelled off in 2010. However, with unemployment rising once more in the final quarter of 2011, new LCV sales are unlikely to return to anything like pre-recession levels until unemployment is seen to be heading firmly towards the two million mark.

The level of unemployment is forecast by the Office of Budget Responsibility to continue to rise in the coming year, peaking at around 2.8 million (8.7%) in the final quarter of 2012.

Some initial conclusions

The chapter has sought to present some of the key economic indicators and the direct impact these issues have on the demand for new and used LCVs.

Britain is now on a slower path to recovery than after the Depression of the 1930s and, despite higher GDP growth in the three months to September than expected, the UK economy is currently no bigger than it was in December 2006. There is now every likelihood the economy will, at best, flat line in the final quarter of 2011 and the first quarter of 2012.

Although the chapter has examined a small number of economic indicators, the message emerging is a strong one in that demand for new LCVs and, arguably used LCVs, is strongly linked to the state of the economy, overall economic expectations and business confidence.

UK New LCV Market

The previous chapters have examined the European new LCV market and looked at some of the high-level economic factors affecting the UK's LCV market. This chapter of the report turns to the development of the UK's new LCV market which supplies first-time used vehicles to the used LCV sector.

New LCV market

Figure 4[1] shows the new LCV and new car sales trend over the past 10 years, and the relationship between both sectors.

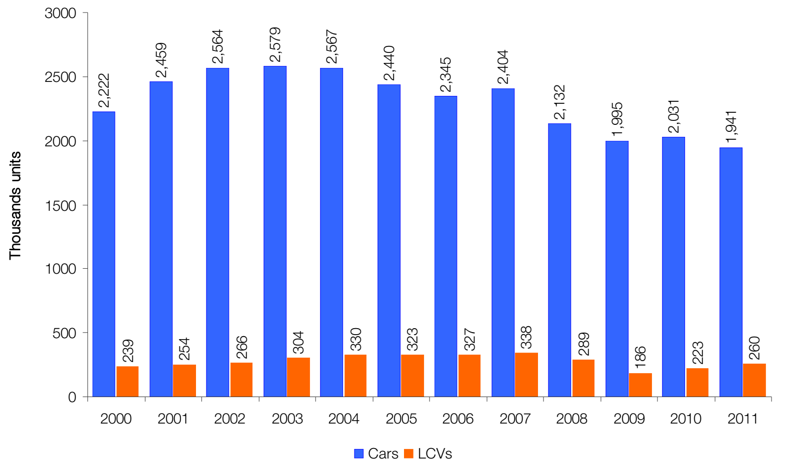
New LCV sales grew steadily for several years reaching an all-time high of 337,741 units in 2007. As the recession hit hard in 2009 new LCV sales plummeted to 186,386 – 151,000 units less than 2007's figure, and their lowest point since 1995. This pattern very much reflects the economic climate and overall business activity discussed in the previous chapter.

New LCV sales have recovered faster than new car sales

While the new LCV sector suffered more acutely than the new car market in 2009, new LCV sales have recovered faster than new car volumes, up by 19.6% to 222,915 units in 2010.

New LCV market volumes continued to grow in 2011, rising by a further 16.7% and 37,238 units to 260,153.

Figure 4[1]; UK new car and LCV sales 2000 – 2011

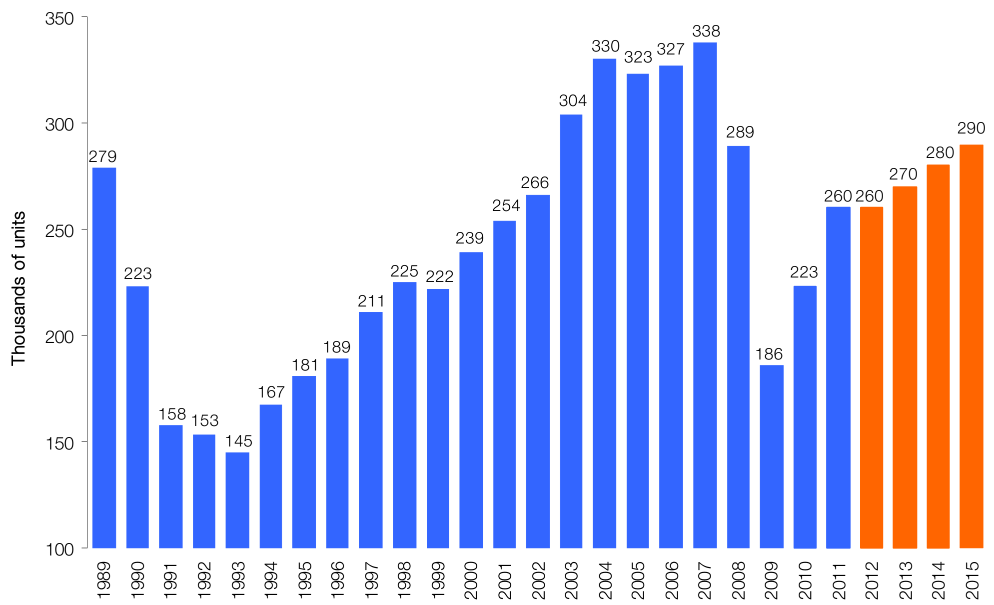


Source: SMMT

Longer-term sales pattern

Figure 4[2] overleaf shows new LCV sales during the past two recessions. New LCV registrations fell 35% during the economic downturn of the early 1990s', taking five years to recover to pre-recession volumes – while the longer, deeper recession of 2008/2009 drove new LCV sales down by 45% from 2007's record high figure.

Figure 4[2]; New LCV sales/forecast 1990 – 2015



Source: SMMT/Buckingham

Although it might be claimed 2010’s figure of 223,000 and 2011's sales of 260,000 are encouraging, the SMMT believes LCV volumes will remain flat in 2012, well below the 300,000-plus level achieved between 2004 and 2007. Indeed, the current uncertain economic outlook suggests it could be several years before sales return to the 300,000 mark – and several more before they might reach the heights of the mid 2000s.

The steep decline in new LCV sales and prolonged recovery will clearly have a dramatic impact on the number of first-time used vehicles entering the used LCV market over the next few years, with serious implications for the many businesses that rely on a ready supply of younger used light commercials for their transport requirements (see Chapter 6).

New LCV sales by manufacturer

The new LCV market is dominated by three principal players

The new LCV market is dominated by three principal players (Ford, Vauxhall and Volkswagen) which, between them, accounted for half the market (52%) and 135,000 units in 2011 – see Figure 4[4] overleaf. Ford continues to head the UK's new LCV league, its sales rising 18.1% and 10,738 to 70,226 units last year, for a market share of 27%.

Second-placed Vauxhall saw its LCV volumes grow for the second year running, up 22.2% to 33,514, followed closely by Volkswagen, its LCV sales 23.4% and 6,006 units higher at 31,716. Renault and Peugeot also fared better in 2011, the former's LCV volumes up 2,134 to 19,382, and the latter 2,944 units higher at 19,328.

Nissan had a particularly strong year in 2011, its LCV sales rising 74.4% to 10,854 – pushing its market share up from 2.8% in 2010 to 4.2% last year.

Notable LCV manufacturers to lose ground in 2011 were Mercedes and Citroën. Mercedes saw its new LCV sales fall 3.4% to 19,495, while Citroën experienced a drop of 4.4% to 17,275 units.

Figure 4[4] LCV sales by manufacturer 2007– 2011

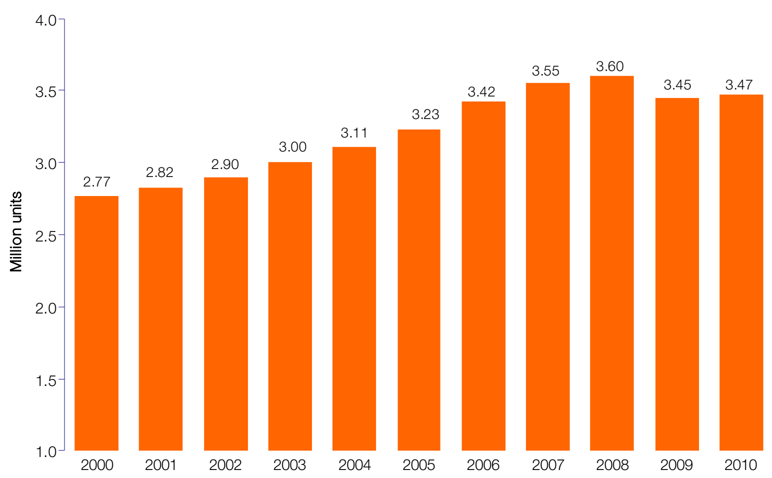
Marque	2007	2008	2009	2010	2011	% Share 2011	% Change 2011 vs. 2010
Ford	93,035	80,735	52,829	59,488	70,226	27.0	18.1
Vauxhall	52,943	49,863	22,801	27,417	33,514	12.9	22.2
Volkswagen	27,426	26,004	21,206	25,710	31,716	12.2	23.4
Mercedes	25,740	24,590	17,424	20,173	19,495	7.5	-3.4
Renault	20,933	16,693	9,710	17,248	19,382	7.5	12.4
Peugeot	16,512	15,644	13,286	16,384	19,328	7.4	18.0
Citroën	25,501	21,193	15,481	18,074	17,275	6.6	-4.4
Nissan	16,095	9,960	6,709	6,223	10,854	4.2	74.4
Toyota	9,898	8,557	5,799	6,617	8,391	3.2	26.8
Fiat	12,902	9,425	4,880	6,977	8,130	3.1	16.5
Mitsubishi	11,214	6,645	4,874	6,821	7,341	2.8	7.6
Land Rover	4,059	4,227	3,838	4,874	6,209	2.4	27.4
Iveco	6,960	5,819	2,791	2,616	3,628	1.4	38.7
Isuzu	1,856	1,367	1,075	2,190	2,431	0.9	11.0
LDV	7,996	4,580	960	79	1	0.0	-98.7
Others	4,671	4,161	2,723	2,024	2,232	0.9	10.3
Total	337,741	289,463	186,386	222,915	260,153	100	16.7

Source; SMMT

The LCV parc

Rising sales of new LCVs from 2000 pushed the LCV parc up by 800,000 units to 3.6 million in 2008 – dropping to 3.45 million the following year as new LCV sales plummeted during recession.

Figure 4[5]; UK LCV parc 2000 – 2010



Source: SMMT

Despite the partial recovery in new LCV volumes in 2010 and 2011, the LCV parc is likely to show little, if any, growth in the next few years until sales reach the 300,000 unit mark once more.

Some initial conclusions

The fall in new LCV sales in recent years will have a number of knock on implications for the LCV parc for several years to come. The average vehicle age will certainly increase significantly and the overall parc might yet show a modest reduction in size.

There will be fewer younger used LCVs coming to market

There will be fewer younger used LCVs coming to market for used LCV buyers – whether retailers or operators to acquire – which, in turn, may impact on the next levels of the used LCV supply chain as well as affecting prices.

The reduced level of economic activity may well hide the implications of a reduced supply of used LCVs short term. However, once the economy starts to recover, the shortage of product could well become a major issue, with buyers having to pay a higher price for often older stock, and operators rethinking their vehicle use.

The message for used LCV professionals is the market could well be entering 'The Age of Procurement' in which secure supplies of quality used LCVs becomes critical. It is noted elsewhere that the used vehicle industry is expert at being able to buy used vehicles well – the future challenge will be 'can it source its used LCV requirements well?'

UK Used LCV Market

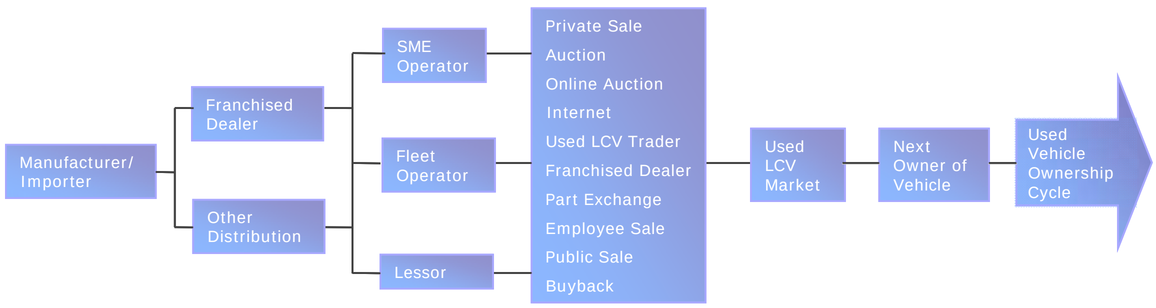
The used LCV market, like the used car market, is significantly larger than the new vehicle market and is a major driving force of business and SMEs in particular. This chapter look more closely at the used LCV supply chain, used LCV volumes and their impact on used vehicle disposal values. The report has already touched on some of the changes that are expected as the economy evolves and starts to recover.

Used LCV supply chain

The writers make no apology for repeating the phrase 'used LCV supply chain', used several times in this report and for emphasising its importance to the market.

Figure 5[1] shows the number of first-time used LCVs entering the used LCV supply chain is controlled entirely by the number of new LCVs sold previously. Indeed, many a used LCV practitioner would claim the prime role of the new LCV market is to provide the used LCV sector with an adequate supply of vehicles.

Figure 5{1] Used LCV Supply Chain



Source; Buckingham

Of course, a healthy used LCV market is also vital to new LCV buyers so they can dispose of their used units quickly and cost effectively, and minimise their total cost of vehicle operation. Indeed, it's crucial for all members of the supply chain to keep the cost of disposal of used LCVs to an absolute minimum.

New LCV units are traditionally acquired by major users such as public utilities, leasing companies, rental operators, logistics organisations etc., commonly in large numbers often at heavily discounted prices.

Many businesses buying used LCVs are well-established enterprises that have made a business decision that their transport needs can best be met by used LCVs and have no desire to buy a new unit. SMEs, small/medium enterprises, in many cases look to buy first-time used LCVs and often paint and sign write to meet their own requirements.

This process may be repeated several times across the life of an LCV, each player retaining it for a time then trading it for a younger used model while the old unit is recycled to the next owner until it is eventually scrapped.

Given the predicted shortage of used LCVs over the next several years (see Chapter 6), used LCV practitioners would be well advised to review their procurement strategies and practices to ensure they have the mechanisms in place to protect supply as the economy starts to recover. 'Professional buying' is only half the story; access to an appropriate stream of quality used LCVs may require different skills.

Used LCV market volumes

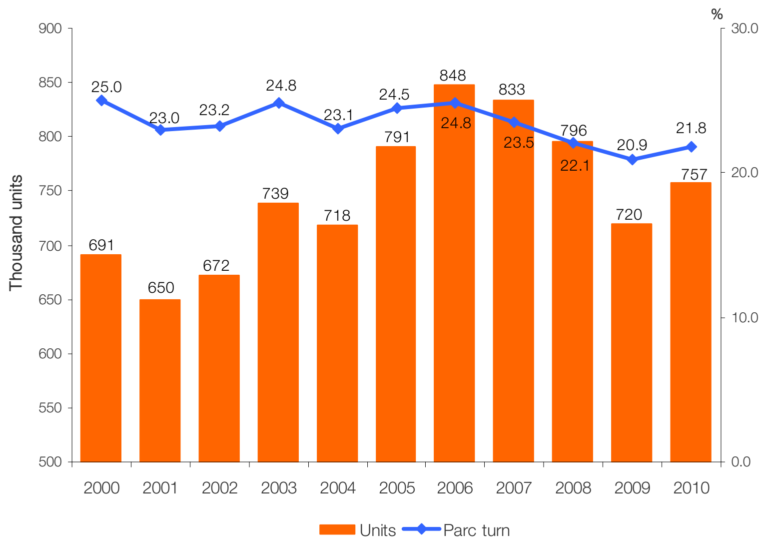
There is insufficient data available on used LCV transactions to put an accurate figure on used LCV market volumes. There are, however, strong similarities between the LCV and passenger car parcs in terms of age at time of initial replacement, vehicle ageing and scrappage trends to suggest both parcs might have roughly similar parc turns. If this was the case, used LCV market volumes would have been broadly as shown in Figure 5[2].

Similar to used cars, used LCV volumes peaked in the mid 2000s, at around 850,000 units in 2006, falling in 2008 at the onset of the credit crunch – dropping to a 6-year low of 720,000 in 2009 at the height of recession. 2010 saw used LCV sales rise once more as the economy showed signs of improvement.

The size of the used LCV market is governed to a large extent by the LCV parc

The size of the used LCV market is governed to a large extent by the LCV parc – and the rate this is supplied with new stock, driven by the rate of acquisition of replacement new units.

Figure 5[2] Estimated used LCV volumes ; 2000 – 2010



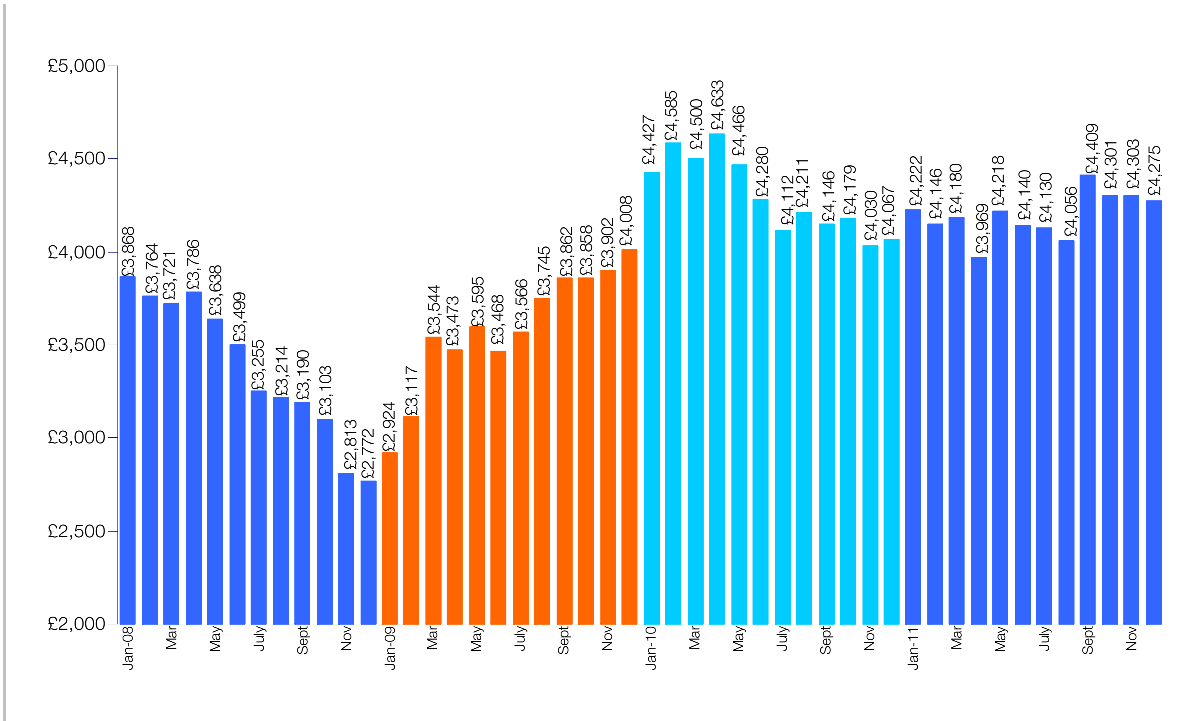
Source: Buckingham

The number of used LCVs sold in any one year is also influenced by the speed of change (parc turn) within the used LCV market. If owners change their used LCVs more frequently there will be more transactions.

Used LCV average prices at auction

Average LCV prices at auction have had a rocky ride over the past few years as shown in Figure 5[3]. While prices collapsed at the height – or perhaps depth – of the recession in 2008, they have picked up again and moved above the pre-recession levels, perhaps caused by the growing shortage of first-time used LCVs.

Figure 5[3];Used LCV average auction values 2008 – 2011



Source: BCA

Average prices at auction fluctuated between £3,868 in January 2008 to a low of £2772 in December that year, recovering to £4,008 in December 2009 – before reaching a high of £4,633 in June 2010. LCV auction values reached their highest point for 16 months in September 2011, with stock issues and strong demand keeping values firm in succeeding months.

A number of issues might be identified from this chart;

- For sellers, changes in prices achieved may have significant implications for cash flows – important if a business is running on small margins.

- For prospective used LCV buyers a fall in price at auction is good news. However, the predictions are that prices might rise and there is also a risk of units being older and with more miles on the clock. Will these vehicles be acceptable – or might it be better to retain existing units – or even look at alternative methods of distribution if this is an acceptable option? Buyers of used LCVs may need to consider older, less attractive vehicles or retain units for a shorter period; different support packages; reducing mileage or vehicle use.

For a sole trader, a price hike of £1,000 or £1,500 may be a step too far

- For a sole trader, a price hike of £1,000 or £1,500 may be a step too far and demand a serious rethink. It may mean running an LCV for much longer – or perhaps having fewer units and renting an LCV(s) when necessary.

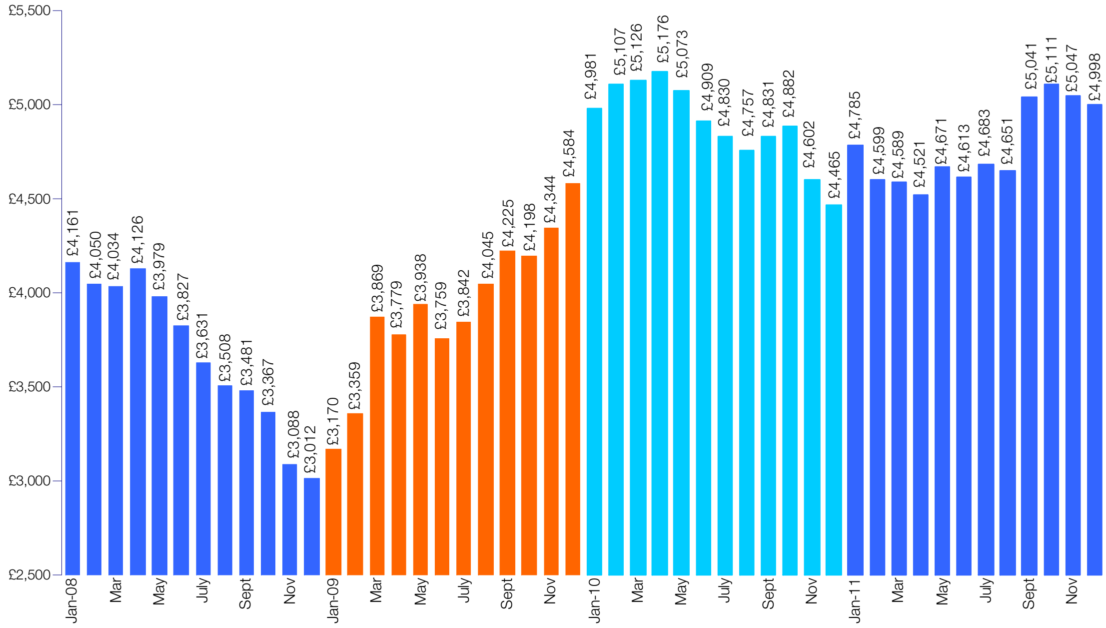
- While Figure 5[3] shows a degree of fluctuation in prices and, as it is known that volumes will be lower, there may be issues arising for certain routes to market. Some operators need to consider alternative, more cost-effective or less-expensive methods to sell their used vehicles? On the assumption there will be a three to four year younger used LCV shortage, business models may have to change.

While there is no assurance that the past will be a totally reliable guide as to what might happen in the future, something as fundamental as a reduced supply can only mean higher prices unless everybody seeks to buy fewer vehicles – which is most unlikely. Any used LCV price stabilisation is likely to be at a higher level than has been the case – and an economic recovery could drive these prices even higher.

Used fleet and lease LCV average prices at auction

Figure 5[4] shows average used LCV at auction prices for the period 2008- 2011. As with the pervious chart there was a severe drop at the end of 2008 and a steady recovery thereafter.

Figure 5[4] LCV average fleet and lease auction values 2008 – 2011



Source: BCA

The monthly auction figure shows a smoother transition which is likely to have been caused by the more disciplined used LCV disposal patterns of the professional new vehicle operators.

Even with these units there were short-term peaks and troughs which may well have been caused by the impact of fleet updating and supply or demand moving out of projected equilibrium for a short period.

Disposal strategy is likely to become ever more important

Disposal strategy is likely to become ever more important and, for used LCV retailers, procurement of suitable stock will become critical. Quite simply, the shortage of quality stock will force the industry to become increasingly professional and players may seek alternative sources of units as discussed later in the report.

A number of points might be highlighted given the tightening supply situation;

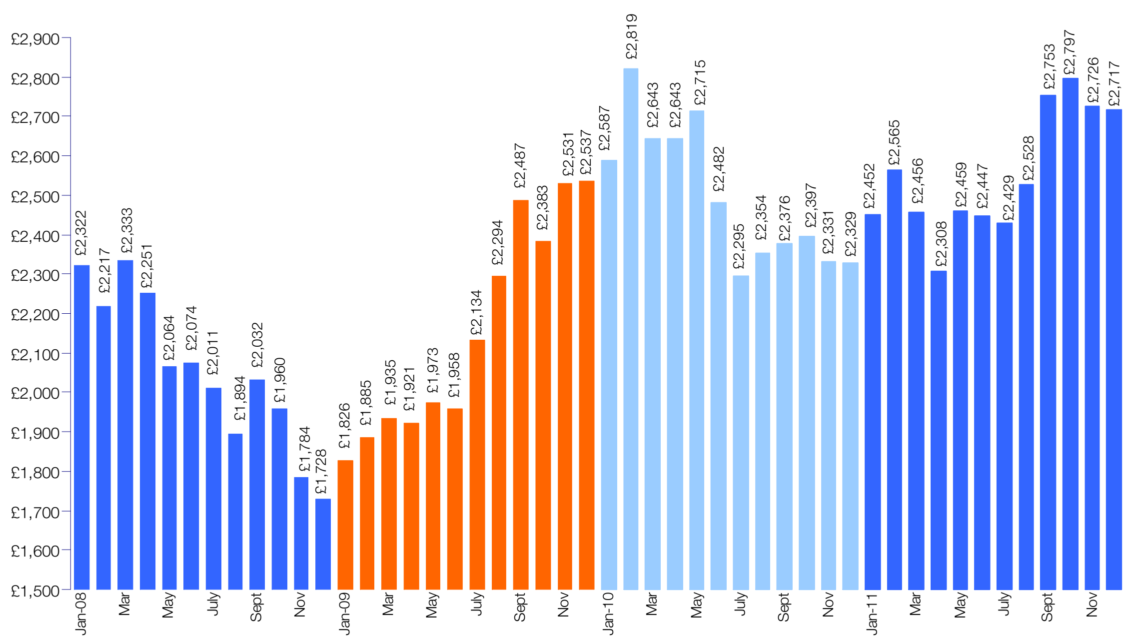
- Between January and December 2010 used LCV prices for ex-fleet and leasing vehicles at auction fell by some £500 – remaining relatively flat during 2011 until September when they broke through the £5,000 barrier for the first time since May 2010.
- The sign of a true professional retailer in the used LCV sector is the ability to foresee the prices achieved at auction. Given the likelihood of an ever stronger sellers' market, that ability could become even more important.
- Although the figures achieved in 2008 may be a fading memory, there is still a strong message as to what can happen if supply and demand move out of balance and lessors or fleet operators do not have the flexibility to retain vehicles on the fleet.

The message is a clear one – know your markets, watch every indicator and exercise the greatest possible flexibility.

Part-exchange LCV average prices at auction

Figure 5[5] shows recent figures for used LCVs at auction for part-exchange vehicles. It will be noted that the units follow broadly the same rise and fall of the other groups of units, although there is perhaps some more 'anger in the figures' in that the relative supply of part exchange units may not offer such good quality units.

Figure 5[5]; LCV average part-exchange auction values 2008 – 2011



Source: BCA

While the normal use of auction in association with part-exchange deals is to balance stocks and to dispose of less reliable units in particular. Given ever-tighter supplies of used LCVs in future, maybe dealers will pay more attention to those units that have traditionally been put to auction and decide to retail more of them – even if some refurbishment is required.

The different price at auction figures presented are but a symptom of the range of used LCV prices and quality available in the marketplace and point towards the importance of professional used LCV procurement planning as the economy develops.

Some initial conclusions

Recent auction experience shows there is a shortfall of 3 to 5 year-old used LCV stock

Recent auction experience shows there is a shortfall of 3 to 5 year-old, one owner used LCV stock, and trade buyers are looking further afield to secure stock. Many are considering older, higher mileage vehicles or even damaged units to meet their requirements, driving up values in the part-exchange sector.

When the UK economy eventually recovers, the shortage of used LCVs could put a real brake on SME development, and perhaps force them to examine alternative means of distribution or service provision.

The strategic issues and possible contingency plans which both used LCV professionals and their customers might consider are examined in more detail in the next chapter. This chapter has stressed the importance of procurement planning to ensure retailers have access to a steady stream of appropriate quality used LCVs.

Used LCVs in Short Supply?

There have been a growing number of reports in recent months of a shortage of younger used LCVs entering the market, failing to keep pace, at times, with demand for LCVs in the three to five year-old, one-owner segment.

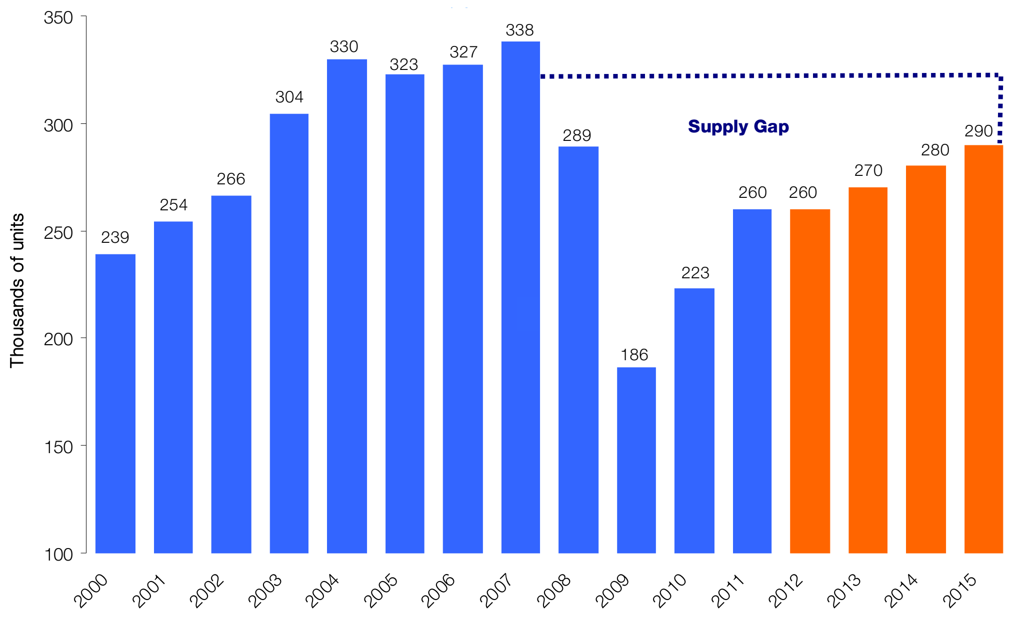
This chapter of the report looks at the prospects for used LCV supply over the next few years and the implications for used LCV retailers and operators from the severe decline in new LCV volumes since 2008.

Looming used LCV supply gap

The used LCV and used LCV markets are a close-knit affair; the UK's 3.5 million LCV parc essentially acting as the used LCV sector's stock in hand. Typically, an LCV enters the used LCV supply chain between two and five years old – on average at the three years, six month mark.

The recession-driven slump in new LCV registrations between 2008 and 2010 and slow recovery has had, and will continue to have, a big effect on the shape of the country's LCV parc. Clearly, when new LCV sales plummet and remain relatively low for such a prolonged period, it has a powerful and lasting impact on the availability of used LCV stock.

Figure 6[1]; LCV new sales/forecast 2000 – 2015



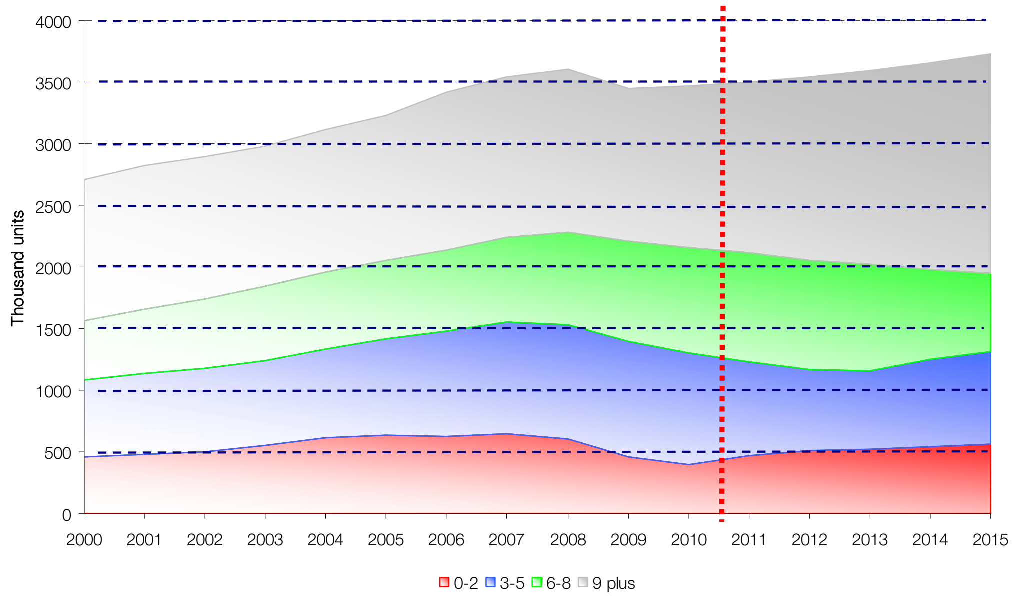
Source: SMMT/Buckingham

Figure 6[1] illustrates the looming used LCV supply gap facing the industry compared with new LCV sales around the 300,000 unit mark. While LCV registrations continued to rise in 2011, up 16.7% to 260,153, they are slowing. New LCV volumes are forecast by the SMMT to remain flat for 2012 – well short of the much higher pre-recession volumes.

The ageing LCV parc

While the number of LCVs on the roads (used LCV stock) will remain around 3.5 million for the next two or three years, the average age of the parc will change radically as the bulge of new units from 2004 to 2007 make their way through the parc and into the LCV supply chain.

Figure 6[2]; LCV parc sectors; 2000 – 2015



Source: SMMT/Buckingham

Figure 6[2] splits LCVs in the parc into age groups according to the year they were first registered, reflecting the new LCV volumes and forecasts shown in Figure 6[1] and well-established survival rates of recent years.

Figure 6[3]; LCV parc 0-5 year-old units 2005 – 2015 (thousands)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
0 – 2 yrs	632	629	644	607	460	400	464	506	524	542	562
3 – 5 yrs	780	852	904	926	934	903	766	658	631	706	754
0- 5 yrs	1,412	1,481	1,548	1,533	1,394	1,303	1,230	1,164	1,155	1,248	1,316

Source: SMMT/Buckingham

Figure 6[3] shows 1.23 million 0-5 year-old LCVs on the roads at the end of 2011 compared with an all-time high of 1.55 million units at the end of 2007. However, the full effect of this steep fall in new LCV registrations since 2009 will not be felt until 2012 and 2013 when there will be some 400,000 fewer younger LCV units on the roads than pre-recession levels.

If we assume the majority of 0-2 year-old LCVs are still with their first owners, the critical area for used LCV retailers and operators is the 3-5 year age group when most LCVs change hands for the first time. Here, a drop of some 140,000 units is expected by the end of 2011 compared with the previous year, supporting recent claims of a growing shortage of younger used LCVs reaching the used market.

This lack of supply is likely to worsen in 2012 and 2013

This lack of supply is likely to worsen in 2012 and 2013 as the number of 3-5 year-old LCVs in the parc plummets – to 658,000 in 2012 and 631,000 units in 2013 – some 300,000 fewer than 2009's peak of 934,000 vehicles.

Retailers and operators of older used LCVs will benefit from access to a greater number of units in the 6-8 year age group for a couple of years. These will reach a high of around 890,000 in 2012, falling steeply from 2014 as the record high new volumes of the 2004 to 2007 pass the eight year-old mark.

Wheels in motion . . .

There is nothing can be done about the ageing LCV parc as the wheels are already in motion from the sheer size of the drop in new LCV volumes and their relatively slow recovery. The steep decline in the 0-5 year LCV parc is a product of a 380,000 decline in new sales from the volumes seen between 2003 and 2007 and the much lower numbers sold/expected between 2008 and 2012.

Even if there is an unexpected rise in new LCV registrations it will be several years before the numbers in the critical 3-5 year age group of LCVs begin to grow significantly. Quite simply, there is an unpalatable 'black hole' looming in the number of younger used LCVs destined for the used market. And, as the economy improves, demand will, at times, probably exceed supply by a considerable margin.

A number of immediate issues can be identified;

- The industry took a decade to recover from the 1991–1992 recession to return to a balanced used LCV market. At this stage, there are no strong forecasts as to how long the used LCV market will take to return to the 300,000 units plus a year level.
- The shortage of units in the sub five-year parc could present a real problem for the used LCV industry, particularly for SME operators and, as mentioned previously, could perhaps even slow down economic recovery.
- How do traditional LCV dealers generate an acceptable return given a smaller, younger vehicle parc, difficulties in sourcing sufficient used LCV stock and shrinking service and repair business from this segment of the market?.

A more immediate problem regarding younger used LCVs is Transport for London's new Low Emission Zone will fine owners with Euro III engines. From January 2012, owners of older large vans, 4x4 utility and pickups, with an unladen weight greater than 1.205 tonnes, will need to replace them with newer units to avoid the being fined.

The new rules are not expected to effect major organisations or rental companies as their fleets are normally renewed between 30 and 60 months, but it will have a significant impact on the majority of small businesses and sole traders who tend to run older units.

The paucity of used LCVs might well be exacerbated if forecasts that recovery from the current economic downturn will take considerably longer than recent recessions prove true.

Used LCV operators and tighter supply conditions

The first operators to be affected will be those who buy first-time used LCVs

The first used LCV operators to be affected will be those who normally buy first-time used LCVs, although the same problem will occur further down the chain as these first-time-used LCVs are returned to the market a second time – and so on.

From used LCV buyers' point of view, the following strategies might be considered if difficulties are encountered sourcing younger used units;

- Retain existing used LCVs for longer. This may mean planning service schedules, allowing for tyre replacements and other maintenance and repairs, to extend vehicle life and reliability.
- Acquire older units than has been normal practice; a selective policy may be necessary if some vehicles have significantly higher mileage and use than others. If older units are acquired, they might need to be changed more frequently – possibly incurring higher overall costs and exposing the business to a greater used vehicle price risk.
- Replace some of the business' used LCVs with rental units. Although this is potentially an expensive alternative, perhaps the number of vehicles could be trimmed, or units only hired against specific projects. If the rental is pursued, it may be beneficial to arrange a contract with an LCV rental organisation to obtain the most attractive rates.
- Modify used LCV requirements to work with the changing mix of units coming to market. For example, there have been stronger sales of new car derived vans recently. Might they be suitable – would it need a change in business practice or drivers' attitude?
- Substitute used cars for used LCVs; undertake a user and cost analysis to establish whether there are opportunities within the business to substitute used cars for used LCVs without affecting overall business practice.
- Bite the bullet; buy the same type and age of used LCVs and accept acquisition prices could be higher at times of short supply.
- Buy new LCVs. This may not be such an unrealistic option in some cases. Would such units be retained significantly longer, thus reducing the risk of achieving poor residual values? What would be the projected maintenance and total cost of operation compared with a used, or even two, used LCV cycles a new unit might replace? Would the requisite capital or financing be available for such a move? Would low finance be available on a new LCV?

Clearly, there will be a shortage of younger used LCVs, at times, over the next few years which, in turn, is likely to mean higher prices and potentially lower quality/higher mileage units on offer. Therefore, astute, forward-thinking used LCV operators need to examine alternative strategies sooner rather than later – so supply difficulties and higher price problems will not arise unexpectedly and demand an instant, rather than a well thought-through decision.

Used LCV retailers and tighter supply conditions

Used LCV retailers also need to examine their supply and provision strategy in the light of fast-changing used LCV availability. From a strategic viewpoint, the following options might be considered;

- Establish ongoing used LCV requirements. It's important to analyse historic sales and make estimates of future requirements to arrive at a best estimate of used LCV stock – broadly by timing, age and type likely to be required. Be realistic.

Review major customers' likely requirements to predict sales needs

- Review major/regular customers' likely requirements to predict sales needs. Liaise with the most regular clients on how best to deal with changing used LCV availability and potential price movements.

- Review sources of used LCVs by type and mix. Used LCV retailers are only as good as their ability to source the appropriate stock at prices customers will accept. Where will these units come from? What arrangements, if any, can be made with used LCV sources to secure supplies? Is there a need to make any long-term supply arrangements?

- Examine alternative sources of used LCVs, their quality, reliability and prices – and keep up to date with their activities. Monitor performance and availability against normal supply patterns and sourcing.

Used LCV retailers will need to become ever more professional with fewer younger used vehicles on the ground jeopardising their traditional business. Their customers will also have problems of a shortage of used LCVs, sometimes at higher prices. It is a matter of working with customers to help them achieve their business objectives rather than moving to a radical alternative that makes change their business practice.

Some initial conclusions

All the portents and predictions are in place that the used LCV market will be short of younger used vehicles over the next few years. Used LCV retailers can continue as before and perhaps watch their business decline in line with the reduced product offering – or they can be proactive and seek to build their business in keeping with changing market circumstances

It is likely to be the end of the decade before the levels of LCV 'used stock' seen in the second half of the 2000s returns to the marketplace.

Conclusions and Implications

The used LCV market has always been overshadowed by the much larger used car market. However, in many ways, the used LCV market is more complex as it essentially provides units for business operators who may have specific requirements, while the used car market provides vehicles almost exclusively for private buyers who may not have such precise requirements.

The principal conclusions and implications that might be drawn from this study might include;

- A shortage of first-time used LCVs is looming and the magnitude of shortfall, both in volume and the time it will take to be flushed through the system, could take a decade.
- A change in the mix of new LCVs will lead, over the next few years, to a change in the used LCV mix available to used LCV retailers and their clients.
- The used LCV market is unique in that it provides vehicles for the business market and that the customer base, commonly SMEs, are seen as the powerhouse for growth in the United Kingdom economy over the next few years. A lack of supply of LCVs to this sector may impact on future economic growth.
- New LCVs are acquired by a range of different players and the economy is treating different sectors to different rates of development and recovery. Given these wide variations, the focus of sources of used LCVs coming to market will change. It will be important for used LCV professionals to be aware of these changes and be able to adjust their procurement strategies to take account of the changes.
- Strategic issues emerging from the Eurozone crisis will surely cross the Channel and affect both new LCV and used LCV markets. At this stage, it is impossible to predict with any degree of certainty what those implications might be.

The foregoing chapters have sought to review and present a high-level analysis of the developing used LCV market. This is a market sector which justifies further study to establish what makes it work, what client requirements will be and how these requirements will be met as the supply of first-time LCVs coming to market contracts, potentially for several years.

The message from the report is clear ‘the used LCV industry is changing; it is no longer a matter of ‘good buying’; it is now also a matter of increased professionalism. As the industry enters the 'Age of Procurement' – a new chapter is opening.

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