Used LCV Market Report 2010

A report by BCA

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Foreword

Once the Cinderella of the motor industry, light commercial vehicles are increasingly seen as a vital and integral part of many manufacturers' long-term plans, and a part of the business where cutting-edge design and technological development go hand in hand. Tomorrow's vans will have all the refinements and efficiencies we currently look for in cars, while specialist dealer support will become ever more common.

As far as the economy is concerned, the business of buying and selling light vans is increasingly regarded as one of the benchmark figures in the health or otherwise of UK plc. Where we were once a nation of shop keepers, we are now a nation of plumbers, builders, electricians, delivery drivers and mechanics – either way it is a nation that needs vans.

This all impacts, of course, on the used LCV market and those that operate within it – the volume sellers, the specialist buyers, retailers and the end users. Just where is the used van market going, who is driving demand, where are the pinch-points? And, what impact will the marked decrease in new LCV sales volumes have on the used market in two, three or four years time?

Luckily, we have Professor Peter Cooke and the Centre for Automotive Management Team at Buckingham University who can provide us with some thoughts on these issues.

BCA is delighted to support this publication which we believe to be the first in-depth, stand-alone look at the business of new and used LCVs in the UK. We are sure it will make interesting and enlightening reading for anyone working within the commercial vehicle sector as a manufacturer, franchised dealer, specialist seller or fleet/lease company operating vans.

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Introduction

The importance of the UK's new and used light commercial vehicle (LCV) markets attracts relatively little attention. Yet, in terms of business economics, the LCV markets are as important, if not more important, than the company car sector.

Why? Perhaps because very few senior executives drive LCVs in their business role, and probably because LCVs are not anywhere near as glamorous as company cars. Everybody has a view on 'white van man', however much the LCVs they drive perform such a critical role in the country's economy.

It can be argued that company cars add less to the economy

When the Buckingham Automotive Team began research for this report, it quickly became clear there is a paucity of information on the LCV sector. Surprisingly so – when it can be argued that company cars add less value to the economy; their role more one of convenience, while relatively unsung LCVs perform the ever-increasing and crucial role of moving goods and services to every corner of the country.

Report objectives

The principal objectives of the report, sponsored by BCA, might be summarised as follows;

- To review the role, size and development of the European and UK LCV industries before and during the recent recession.
- To examine the United Kingdom LCV market in some detail and analyse the dynamics and changes in the sector over the past few years.
- To present a review of the used LCV industry in terms of routes to market and the implications of supply and demand on price and other aspects of the sector.
- To discuss who buys used LCVs in the UK and identify some of the strategic implications of recession on the market.

The data used in this first Used LCV Market is principally in the public domain and has been interpreted by the Automotive Team at The University of Buckingham. It will take considerable time to gather sufficient data to make longer-term comparisons similar to BCA's highly-regarded 'Used Car Market Report' to be published shortly –now in its 20th year.

The LCV sector deserves more prominence

The true role of LCVs in the economy should see the sector given much more prominence. Used LCVs are commonly the preferred mode of business transport for small and medium enterprises (SMEs), as new vehicles are very often beyond their financial reach, while used LCVs serve their purpose exceedingly well. Used LCVs also have a significantly longer 'business life' than cars, two or three more businesses using them, whereas cars typically have just one business user before being sold to a private motorist.

Ever higher LCV specification

Within vehicle manufacturers, it was long assumed that profit opportunities from LCVs were lower than cars, simply because of lower initial cost. However, with the range of bodies available and the ever-higher specification to improve LCV driver comforts, this is invariably no longer the case.

LCVs are increasingly fitted with a specification closer to cars, comfortable seats, air conditioning and quality audio systems are now common place. LCV drivers are every bit as much a revenue earner and representatives of their company to customers than some executives in the business.

There is perhaps is a lack of understanding about LCVs in media circles

However, there is perhaps a lack of understanding about LCVs in media circles that tends to keep them 'below the radar'

The report reviewed

The Used LCV Market Report is divided into seven principal chapters that might be summarised as follows;

- Chapter 1, Introduction; sets out the objectives for the report and the role of each report chapter.

- Chapter 2; The European LCV Market; focuses on the market across Europe and illustrates the way it has developed compared to the car market. In developing markets, the LCV mix is often much richer than mature markets, simply because an LCV or pickup is often used for business purposes during the day and for private purposes after work. Perhaps the most interesting anomaly in the European LCV market is the extraordinary high number of LCVs sold in France. A feature of this chapter is the lack of reliable data on the used LCV sector – despite a European LCV parc of some 25 million units. Used vehicles seem to be of little interest to politicians – perhaps because they consider that only new cars give a machismo indication of a thriving, thrusting economy.

- Chapter 3; UK Economic Situation; the new government will inevitably lead to changes in the economic situation with wide spread implications for the business scene. LCV markets, particularly the used sector, are closely linked to economic performance and expectations.

  Given the current dire economic scene, the prospect of higher taxes – whether direct, indirect or stealth after the post-election budget, together with higher VAT, weaker sterling, escalating oil prices and a likely reduction in public sector employment – the path of UK economic recovery may be more tortuous than other countries.

The UK economic recovery may be more tortuous than other countries

  Chapter 4; UK LCV Market; sets the scene for the new LCV market in the United Kingdom. The new LCV sector is interesting in that it is dominated by a small number of huge operators – the Royal Mail and major utilities such as British Telecom, electricity, gas are all organisations with massive purchasing power. Major leasing companies, daily rental and 'white van' delivery organisations are also big players in the new LCV sector.

The changing shape of the country's LCV parc provides an interesting pointer towards problems the Buckingham Automotive Team feels will affect the used LCV sector in particular over the next two or three years.

- Chapter 5; UK Used LCV Industry; is the principal chapter of the report and presents a series of analyses. The most challenging are those associated with 'Used LCV Prices at Auction', which have shown a degree of volatility during the economic downturn. Used LCV prices will likely remain strong during the period of economic recovery, due to a growing shortage of LCVs reaching the used van market.

The LCV scrappage scheme has been remarkably unsuccessful

Overall, the Scrappage Scheme has been widely regarded as a very 'successful government strategy'. Despite LCVs being part of the scheme, it has been remarkably unsuccessful in persuading owners of older vans to scrap their vehicle in favour of a new one.

- Chapter 6; Who Buys Used LCVs?; used LCVs are bought principally by SMEs rather than more expensive new vans. However, a projected shortage in the supply of used LCVs, caused by the recession-driven slump in new LCV sales, is likely to create a serious used vehicle supply problem over the coming three to seven years – or perhaps longer. Whether small and medium businesses will be able to afford new LCVs, when they have difficulty sourcing used vehicles, will be an interesting debating point.

- Chapter 7; Implications and Expectations; the used LCV sector is one of the few markets, in these days of rapid change, where a whole industry has grown up with buyers rarely seeking to buy a new unit.

Very different to the car market

The UK LCV market, particularly the used LCV sector, is very different to the car market. They are both mature markets with a complex supply chain; the majority of new LCVs being acquired as replacement units, in turn, demanding that first-owner LCV operators have their disposal channels well organised.

SMEs rely on major van operators steadily replacing their fleets

SMEs rely on the country's major van operators steadily replacing their fleets with new units, thereby supplying the used LCV market with an adequate supply of lower-cost vans which SMEs can afford to buy.

A degree of change might be anticipated in the used LCV market during the period of economic recovery as businesses reorganise their market focus. Some will upsize, others downsize, and others amalgamate and consolidate. Equally, the products and services offered may have different distribution and support needs.

Some initial conclusions

This first Used LCV Market Report should be treated as work in progress. It does not have the 20-year pedigree of the BCA Used Car Market Report – rather it seeks to set the groundwork for future editions. In its own right it seeks to analyse an under researched but very important market.

The European LCV Market

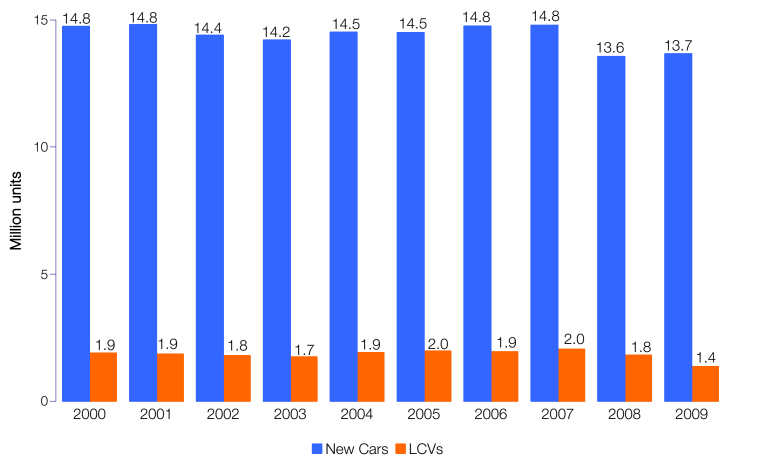
The light commercial vehicle sector is a highly dynamic industry, the numbers of LCVs in individual European markets varying depending on the nature of the economy and the use and local inter-changeability of LCVs and cars.

New car and LCV sales

The European LCV market is much smaller than the new car sector, with a greater proportion of LCVs sold in Europe produced within the region than are imported.

Figure 2]1] shows the relative sales of new cars and new LCVs in western Europe.

Figure 2[1]; Western Europe (EU15/EFTA) car/LCV sales 2000 – 2009



Source: ACEA

New LCV volumes fluctuated a little between 2000 and 2004, levelling at around two million until 2007, falling to 1.8 million in 2008, before plummeting to a lowly 1.36 million units in 2009.

As will be reviewed later, the drop in new LCV sales will perhaps have a bigger impact on the overall European economic recovery than the fall in new car volumes, for the simple reason that many SMEs and start-up businesses rely so heavily on used LCVs to meet their business' transport needs.

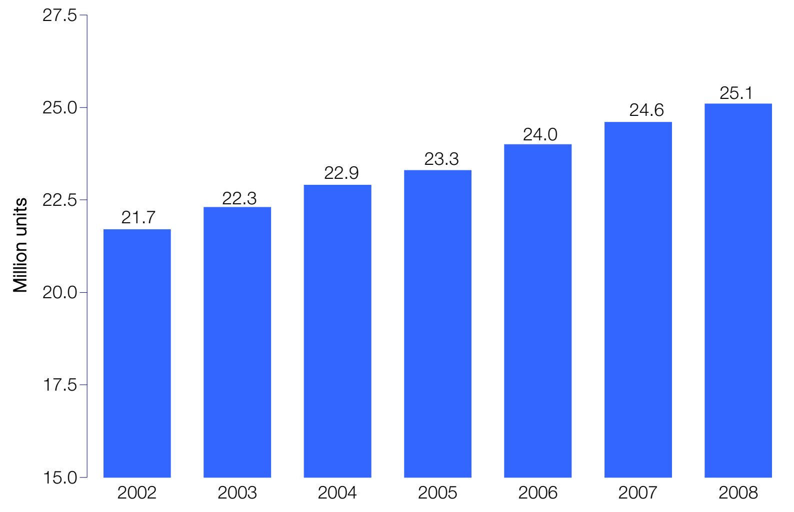
European LCV parc

The drop in LCV sales in Europe over the past two years, and anticipated slow recovery, will lead to a significant change in the European LCV parc.

Figure 2[2], overleaf, shows the most up-to-date LCV parc at the time of writing, showing a rise of 3.4 million to 25.1 million units between 2002 and 2008.

The dramatic fall in European LCV sales in 2009 will arrest this growth until such time as there is a sustained recovery – although they are unlikely to reach anything like the two million mark for some years to come. The average age of the LVC units in the European LCV parc will also grow significantly older over the next few years as fewer new vans enter the parc.

Figure 2[2]; Western Europe (EU15/EFTA) LCV parc 2002 – 2009



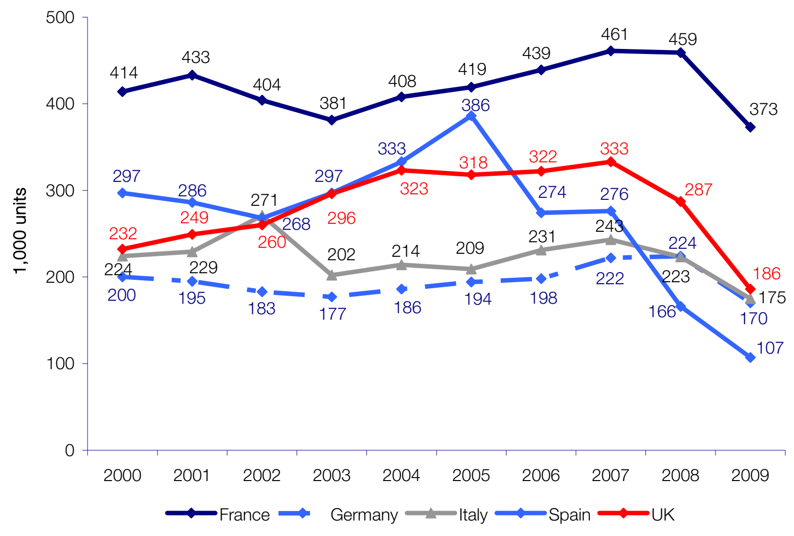
Source: ACEA

LCV market analysis

On a pan-European basis, one might expect LCV sales to broadly reflect the sales of new cars. This would make Germany by far the biggest market.

In fact, Figure 2[3] shows that new LCV volumes in the major EU markets are quite unrelated to new car volume hierarchy;

Figure 2[3]; New LCV sales in major European markets 2000 – 2009



Source: ACEA

France is the largest European LCV market

- France; is the largest European new LCV market; peaking at 461,000 units in 2007, before tumbling to 373,000 in 2009. This near 20% drop reflects the change in the economic situation with companies extending their replacement cycles and/or cutting the size of their LCV fleets.

- The UK market; reached an all-time high of 333,000 in 2007, dropping to 186,000 units in 2009 – a 44% fall. UK new LCV sales are barely half that of France, although car sales are normally very much on a par.

The biggest drop in new LCV sales has been in Spain

- Spain; the biggest drop in new LCV sales has been in Spain; where the market peaked at 386,000 in 2005, before collapsing to 107,000 units in 2009. The Spanish economy has gone through one of the most traumatic changes in Europe in the past couple of years. Much of Spain's economic boom was based on property – a classic employer of high numbers of specialist craftspeople and major users of LCVs. The LCV market problems have also knocked through to the short-term rental market.

- Germany; the smallest LCV market, and the last to see a marked drop in van sales, had the smallest year-on-year decline in 2009. Given the post-scrappage slump in new car sales in Germany, it will be interesting to see if manufacturers step up their assault on the German LCV market from 2010 onwards.

- Italy; Figure 2[3] shows Italy has had a relatively steady LCV market for some years, although it, too, has dropped in the 2008 and 2009.

The widely different new LCV sales pattern in mature EU markets may be attributed to different styles of business, daily rental industries and different driving requirements. It is probably true to claim that LCV markets are more complex than new car markets. It is also likely they might start to change as automotive industries develop, the nature of business changes, and LCV market opportunities open up.

European used LCV data

Sales volumes for European used car markets have proved difficult to gather; as there is no central organisation collecting them. Indeed, the Buckingham Automotive team has been unable to trace any credible used LCV data at all.

Some initial conclusions

The chapter has examined the broad state of the European LCV industry. It has shown the LCV sector is notably smaller, and perhaps more volatile than the new car market. The car market has the advantage that it is built up from private and business fleet sectors. While the car and LCV sectors need not be in absolute synch with each other, the LCV industry is almost entirely focused on business users.

United Kingdom Economic Overview

Arguably, the LCV market is probably more susceptible to economic change and economic expectations than the new and used car sectors. The new car sector has two principal customer groups, private buyers and business car users. The way that economic change influences these two elements is slightly different so, when one sector is performing less well, the other segment can be healthier

As will be examined later, the relationship between business car users and LCV operators is further complicated by business cars having typically 'one business user, then on to the private sector'.

- The used car market is almost totally reliant on private motorists buying its cars, which has a much wider economic spectrum than is generally the case with LCV buyers.

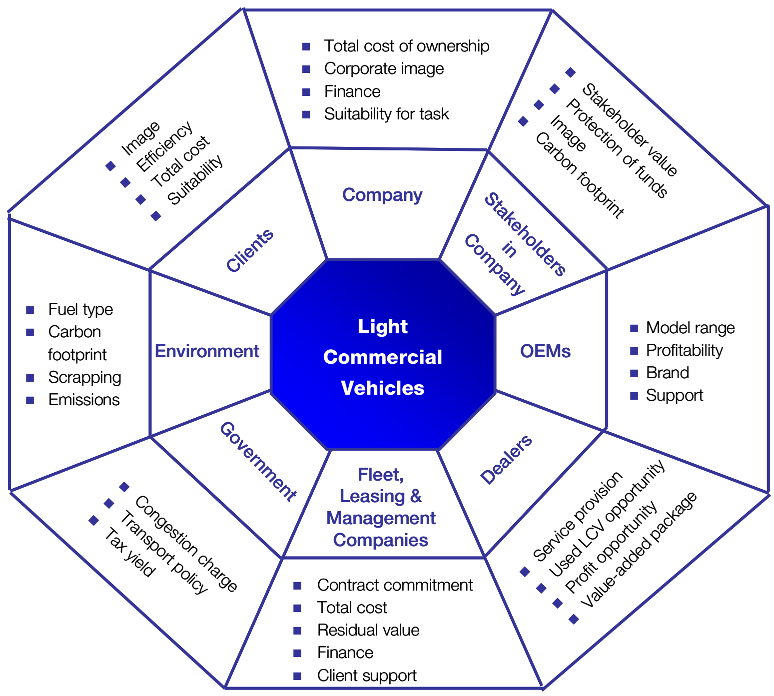
LCV used sales rely almost entirely on business users

- LCV used sales rely almost entirely on business users; particularly those in the SME group of companies.

- While hard numbers are not available to justify the case, there is much anecdotal evidence to suggest, that in periods of redundancy and recession, there are many start-up, sole trader operations as unemployed people try their hand at running their own business – many relying on an LCV to deliver their goods and services.

Stakeholders in LCV business

Figure 3[1]; Stakeholders in the LCV market



Source; Buckingham – for illustrative purposes only

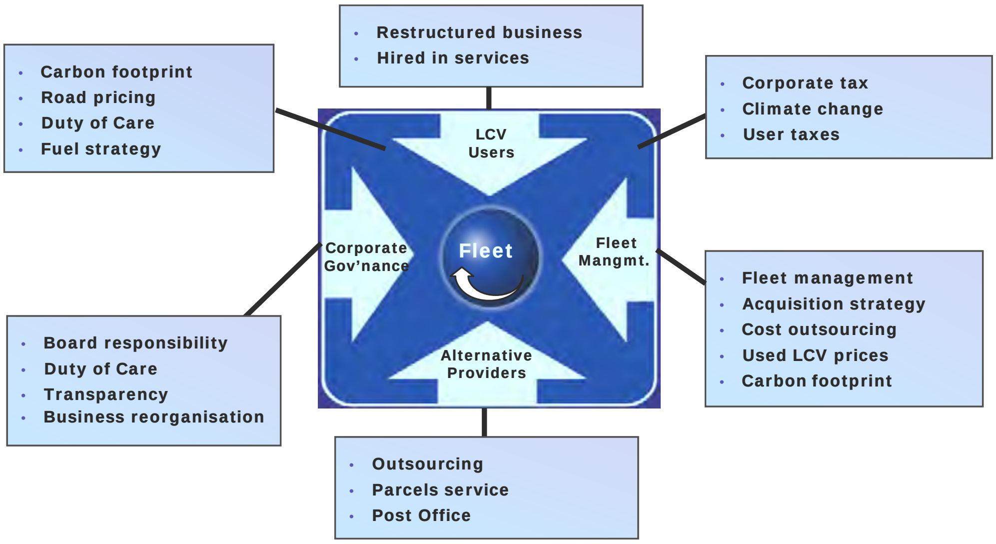
A first view of the economy as it impacts on the new and used LCV markets can be summarised by the 'Stakeholders in LCV Sector' shown in Figure 3[1] on the previous page.

The paradigm shows the spread of stakeholders in LCVs. Given the nature and use of LCVs, the relationships between new and used vehicles is perhaps more complex than cars. Used LCVs are commonly acquired by business users, typically SMEs and small businesses. Business car users, on the other hand, almost always buy new rather than used cars.

LCV Drivers for Change

Figure 3[2] shows a 'Drivers for Change' model for the new LCV market – that is different from the 'Drivers for Change' for the used LCV sector discussed later in the report – Figure 5[3].

Figure 3[2]New LCV Drivers for Change



Source; Buckingham – for illustrative purposes only

The Drivers for Change for LCVs are subtly different to those for cars and, as one might expect, are more commercially driven. One might consider the following to be of relevance;

- Carbon footprint; given the significant acquisition of new LCVs by large fleets, the carbon footprint is becoming increasingly important. However, CO_2 emissions are probably less important to used LCV operators, where cost and reliability are generally more critical issues. Electric LCVs, which have been around in specialist applications for many years, will undoubtedly come back on the agenda.

- Road pricing; given the number of LCVs used by utilities and for urban delivery, road pricing and congestion charging must be considered relevant. Any future proactive changes for commercial vehicles may well impact on the mix of LCV and MCV units acquired. Again, electric vehicles could become an issue of contention if government incentives and sanctions, such as congestion charge exemptions, are introduced.

- Duty of Care; of great importance to utilities in planning and operating their LCV activities. However, one might question the priority with regard to used LCVs. Although duty of care has always applied to used LCVs, its practical enforcement appears to be rising up the agenda.

- Fuel strategy; prices are escalating and, with government tax needs likely to continue to rise, so fuel efficiency will be increasingly important with LCVs. Electric vehicles will introduce a new dynamic in terms of replacement batteries or rechargeable in situ, as will electric used vehicle pricing.

- Corporate tax; could become a factor if governments and local authorities seek to hike the revenue generated indirectly from LCVs.

- Climate change; while already an issue with first owners, this will be less important to used LCV operators.

With regard to the LCV fleet a couple of issues justify further discussion;

As the economy recovers from recession, what will be the demand for LCVs among bigger operators?

- Restructuring business; important as the economy emerges from recession – what will be the demand for LCVs among bigger operators? Will they need to restructure/reshape with LCV fleets to deal with changing business? Will there be specific change within utilities where the relevant regulators are seeking to enhance service but reduce costs? Equally important, over what timescale might they need to restructure their fleets?

- A shortage of capital; for business restructure, whether in the LCV fleet or elsewhere in the organisation, may lead to changes in vehicle provision methods – or even outsourcing of business.

In the case of fleet management, the next group of drivers for change, there are changing pressures on LCV fleet operators;

- Fleet management; will the fleet be managed internally or will management be outsourced – and to whom? Would it pass to a fleet management or leasing company? The level of outsourcing could impact on acquisition practices too.

- Used vehicle disposal; can be important if a business has a large fleet – optimum disposal can have a significant impact on the total cost of operation. This is examined later in the report.

- Alternative providers; of LCV capacity justify further discussion as one has to see the activity as a holistic one;

- Growth in Internet shopping; has had, and will continue to have, a significant impact on demand for LCVs. As the industry grows, and the providers of distribution services become mature, one might expect more of them to move from used to new LCVs. There are some signs emerging of a multi-tiered distribution hierarchy arising.

- **Post Office and parcels services;** have to be considered as a strategic threat to the total demand for LCVs, but that relative impact will depend to some extent on the efficiency and effectiveness of national as distinct to the local distribution.

Corporate governance, with all of the issues associated with it has risen, and will continue to escalate among the lists of issues of importance regarding LCVs. Consider some of them;

- **Board responsibility;** may emanate across the whole organisation and will certainly become a serious driver for change. No longer can LCV drivers be treated as second-class citizens or employees.

- **Duty of care;** will impact on vehicles and perhaps more importantly on LCV specifications as well as hours of use and driver times. This may have special relevance in the regulated utilities sector.

While any of these Drivers for Change, taken on their own, may not be critical, together, they can create a considerable force in the development of the LCV industry and, beyond that, the used LCV market.

Working population and employment

While recently published data shows that the GDP in the United Kingdom is spent by the public sector, there is still a thriving private sector, although, post general election, we may expect to find this balance change – but over what period?

From the viewpoint of a background for the LCV market, and particularly the used LCV market, a breakdown of employment in the United Kingdom is interesting- see Figure 3[3].

Figure 3[3] Employment in private sector 2008

	Number Enterprises	Employment 1,000	Employees 1,000	Turnover £ million
All enterprises	4,783,285	23,128	19,055	2,994,978
All employers	1,237,565	19,239	18,532	2,763,280
Sole proprietor	3,545,720	3,888	523	231,698
1	192,055	438	192	31,323
2-4	617,130	1,868	1,612	210,984
5-9	223,585	1,551	1,454	177,975
10-19	116,645	1,612	1,561	190,499
20-49	55,415	1,720	1,687	251,897
50-99	17,105	1,189	1,182	171,373
100-199	7,985	1,113	1,108	164,183
200-249	1,620	363	361	70,893
250-499	3,070	1,061	1,058	269,371
500 or more	2,955	8,325	8,316	1,224,781

Source; ONS

From the point of view of the LCV industry market analysis such a table provides an interesting but indirect approach to LCV sales and, more particularly, who buys used vehicles.

- At the start of 2008 there were an estimated 4.81 million private sector enterprises in the United Kingdom – a growth of 104,000 or 2.2% over the previous year. This is the highest level since the regular series analysis started in 1994. They employed an estimated 23.1 million people and had a combined annual turnover of £3 billion.
- Within that universe, SMEs accounted for 99.9% of all enterprises, 59.4% of private sector employment and 50.1% of private sector turnover. Employment in SMEs is estimated at 13.7 million – some 287,000 higher than the previous year – a rise of 2.1%.
- SME turnover was estimated at £1,500 billion, some £61 billion or 4.2% higher than 2007.
- More important for the LCV user sector, a fifth of all UK private employment is in enterprises operating in the wholesale, retail and repairs sector.

It is against this dynamic sector that the LCV user industry should be seen, particularly at the SME end of the spectrum used LCV operators.

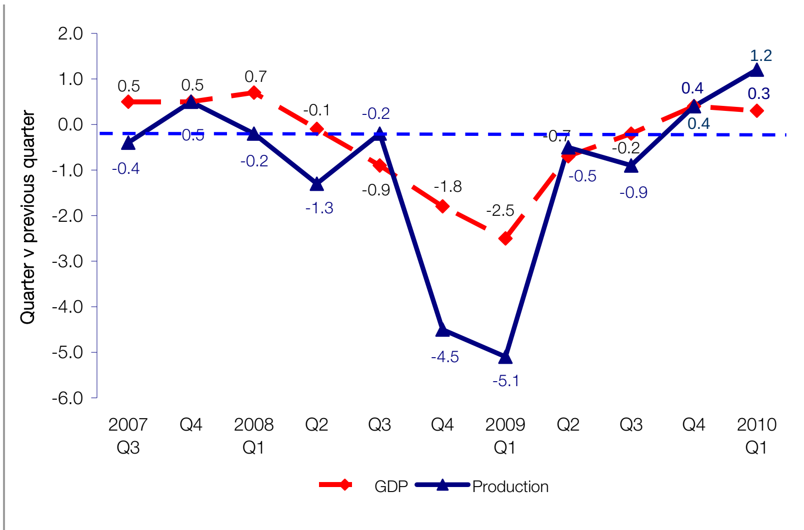
Economic activity

The bulk of new LCVs are acquired by utilities and a small number of major players

As the LCV market is driven almost entirely by business demand, sales of LCVs are probably more influenced by the state of the economy than the new car market. The bulk of new LCVs are acquired by utilities and a relatively small number of major players.

The level of economic activity and expectations regarding industry development has a major influence on the demand for new and ultimately used LCVs. The quarterly change in GDP (Gross Domestic Product) and the changes in the level of production, shown in Figure 3[4], offer a strong pointer to the fall and recovery in demand for LCVs.

Figure3[4]; UK GDP quarter vs. quarter 2007 – 2010



Source: ONS

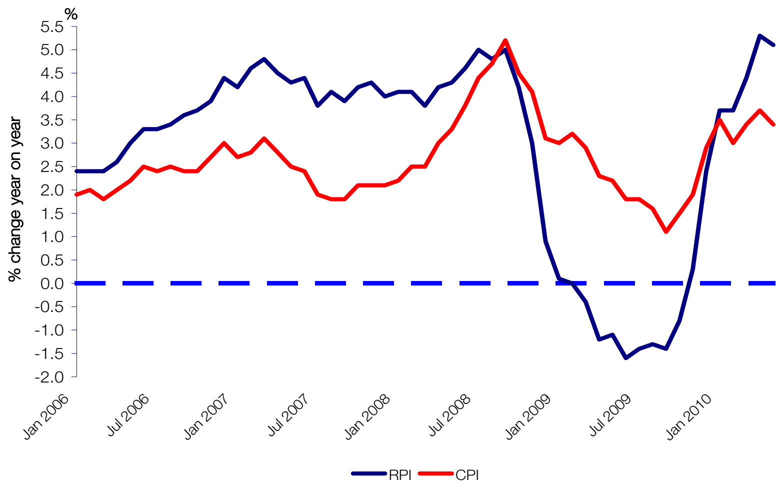
The amount and form of economic growth is increasingly difficult to predict in a post recession and post general election climate. How much will be driven by the UK and how much by other recovering economies?

RPI and CPI

However, the mere change and apparent start of recovery in business activity cannot be treated in isolation.

Historically, we have seen some companies that are apparently doing well go out of business when they fail to take account of changing price levels caused by inflation.

Figure3[5]; CPI and RPI trend 2006 – 2010



Source: ONS

- Currently, but for how long one asks, UK inflation is running at a relatively low level, in some sectors of the economy it has been negative at times.

- The risk, however, is the impact that future inflation, added to changes in all levels of taxes and significantly reduced government expenditure, might have on overall demand.

Recent releases show an increase in inflation figures – and must be expected to rise

- Recent economic releases show a rise in inflation figures. Equally, inflation and, therefore RPI, must be expected to rise with weaker sterling and higher oil prices. Figure 3[5] highlights the relative volatility of both the RPI (retail price index) and the CPI (the tighter consumer price index) since 2006.

- The drop in RPI during 2009 provides an indication, if one needs it, of the depth of the recession and the way organisations were trimming prices to gain or retain business.

- The CPI indicator has been somewhat less volatile. However, perhaps the most important concern is the way both indices have shown a significant rise in the latter part of 2009 and early 2010.

Interest rates

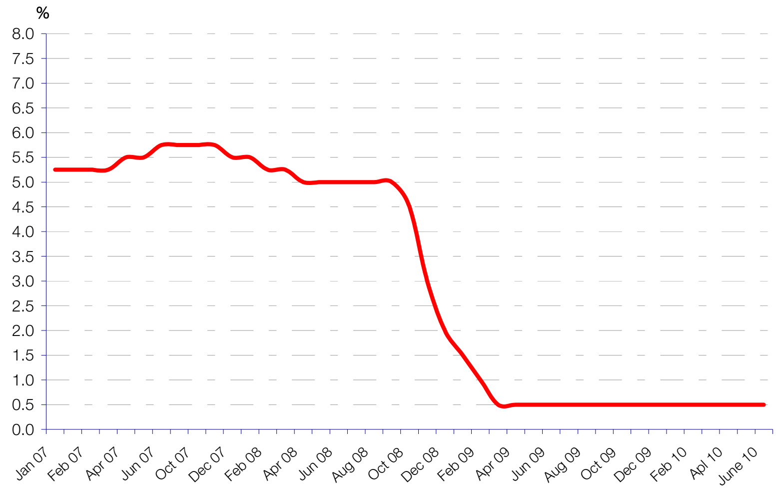
While interest rates in the United Kingdom, 0.5% at the time of writing, are at a historic low, it is not the rate businesses are able to borrow at. Loan rates are significantly higher and the greatest problem is often one of the sheer availability of funds. Indeed the most recent CBI economic survey indicated that capital availability is likely to be a major issue over the next few years.

Various forecasters have suggested that, over the next couple of years, capital will be in very short supply and its allocation tightly controlled – with all of these implications for vehicle funding. While Figure 3[6] shows the drop in interest rates over the past two years; given the current economic crisis, predicted economic cutbacks, the Bank of England base interest rate must be under some pressure. Further pressures will come from the recovering global economy.

The idea of 'lending to struggling businesses' is not an attractive one to banks

From used LCV buyers' viewpoint, however, government instructions to banks to 'lend to industry' may be more important. But, are these diktats empty political rhetoric or something more serious? The idea of 'lending to struggling businesses' is not an attractive one to banks!

Figure3[6]; Bank of England base rate 2007 – 2010



Source: Bank of England

Some initial conclusions

The foregoing notes have sought to review the LCV market in the wider economic context. While vans may share many parts with their car equivalents, they are at heart commercial vehicles and are more subject to the economic profiles than the car sector.

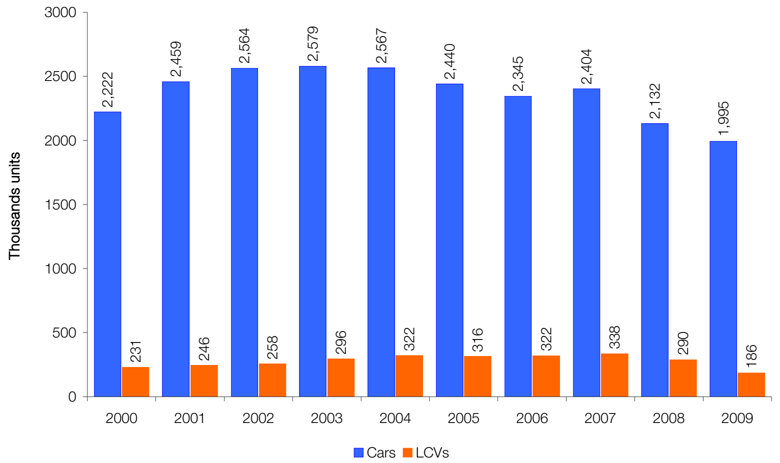
The state of the commercial vehicles sector is a prime indicator of the health of the country's economy – if there is a strengthening demand for vans, it's because there is sufficient demand for the products and services their operators provide.

UK LCV Market

The previous chapters have examined the European LCV market and highlighted some of the economic issues impacting on the UK's LCV market. This chapter examines, at a high level, the development of the new LCV market because, without a new market, there cannot be a used LCV market.

New LCV and new car markets

Figure 4[1]; UK new car and LCV sales 2000 – 2009



Source: SMMT

The LCV market is significantly smaller than the new car market in the United Kingdom.

Figure 4[1] shows the United Kingdom LCV market recorded steady growth until 2007.

This strong period, running a couple of years behind the 2003 peak for cars, represents the change in market demand for a series of service industries. The mid 2000s saw a strong growth in demand for services provided by utilities, 'support service industries' and public sector activities.

The 'economic crash' of 2008/2009 saw the new LCV market almost halve

However, the 'economic crash' of 2008/2009 saw the new LCV market fall dramatically from 338,000 to 186,000 units. Rarely has there been such a marked drop in demand for a product in such a mature industry.

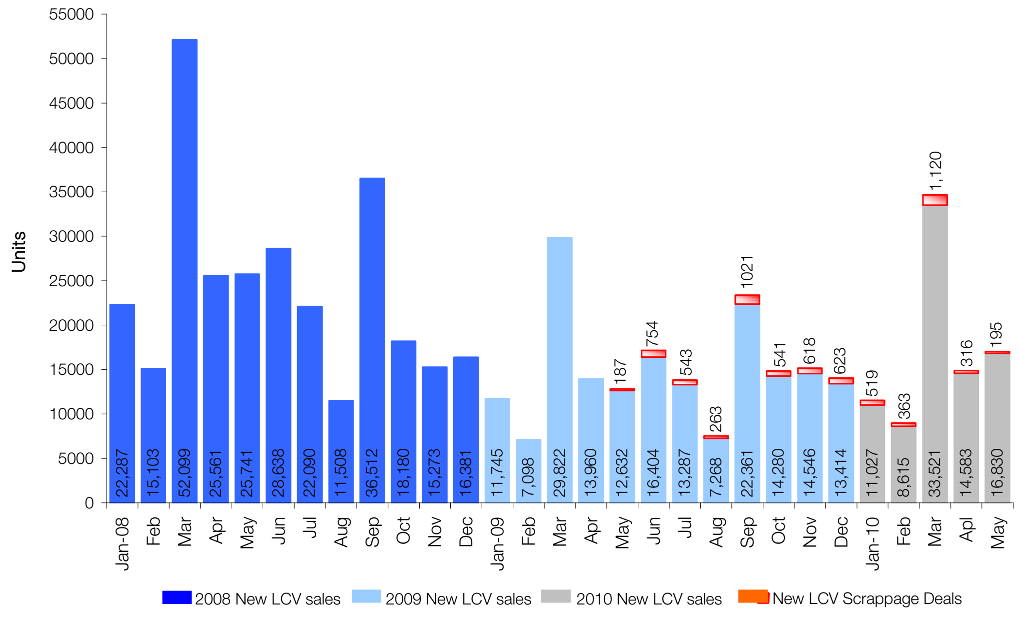
A comparison with the economic activity shown in the previous chapter gives an indication of just how closely the LCV sector is related to business activity. The impact of this collapse in new LCV sales on the used LCV sector as a whole is discussed in the next chapter.

Seasonal sales

In the same way that new car sales are seasonalised across the year with the focus strongly on the two months of plate changes, so are sales of LCVs.

Figure 4[2] shows monthly LCV sales from 2008 to 2010. It will be noted that the 'big month sales', were considerably lower in 2009 and 2010 than 2008.

Figure 4[2]; Monthly LCV sales 2008 – 2010



Source: SMMT

Figure 4[2] also highlights the number of new LCV units supplied through the scrappage scheme, totalling 7,146 – hardly exciting considering over 391,000 older cars were replaced under the scheme in the same period.

The cost of replacement was probably beyond the financial probity of many SME's

Such a low take up of new LCVs under scrappage scheme is not really surprising. It was no Aladdin's scheme of 'new LCVs for old' – the cost of replacement was quite significant and probably beyond the financial probity of many SMEs. Perhaps, if the scrappage scheme had allowed for replacement of older LCVs with, say up to 2-3 year-old units, there would have been a more meaningful take up.

New LCV sales by manufacturer;

The number of LCV manufacturers in the United Kingdom is considerably smaller than those supplying cars. Figure 4[3] overleaf compares LCV sales by marque over the past five years.

It will be noted how the market share of some players has fluctuated significantly across the period. At least some of this may be accounted for by large orders from a few national fleet operators and other factors such as the introduction of new models. .

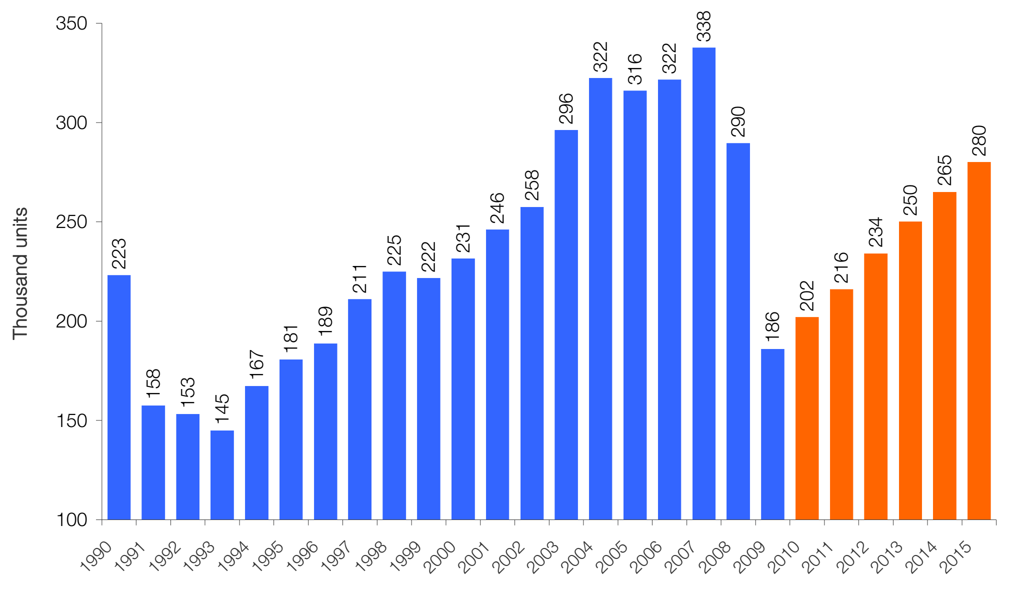
Figure 4[3] LCV sales by manufacturer 2005 – 2009

Marque	2005	2006	2007	2008	2009	% Share 2009
Ford	87,042	91,415	93,035	80,735	52,829	28.3
Vauxhall	52,481	47,816	52,943	49,863	22,801	12.2
Volkswagen	22,445	25,290	27,426	26,004	21,206	11.4
Mercedes	22,257	21,202	25,740	24,590	17,424	9.3
Citroën	22,456	24,239	25,501	21,193	15,481	8.3
Peugeot	16,967	16,947	16,512	15,644	13,286	7.1
Renault	21,322	20,912	20,933	16,693	9,710	5.2
Nissan	15,372	17,661	16,095	9,960	6,709	3.6
Toyota	5,454	6,533	9,898	8,557	5,799	3.1
Fiat	12,417	12,895	12,902	9,425	4,880	2.6
Mitsubishi	12,747	15,303	11,214	6,645	4,874	2.6
Land Rover	4,588	4,406	4,059	4,227	3,838	2.1
Iveco	7,649	7,089	6,960	5,819	2,791	1.5
Isuzu	2,389	1,947	1,856	1,367	1,075	0.6
LDV	8,387	7,569	7,996	4,580	960	0.5
Others	8,957	5,938	4,671	4,161	2,723	1.5
Total	322,930	327,162	337,741	289,463	186,386	100.0

Source; SMMT

LCV parc will not grow for several years

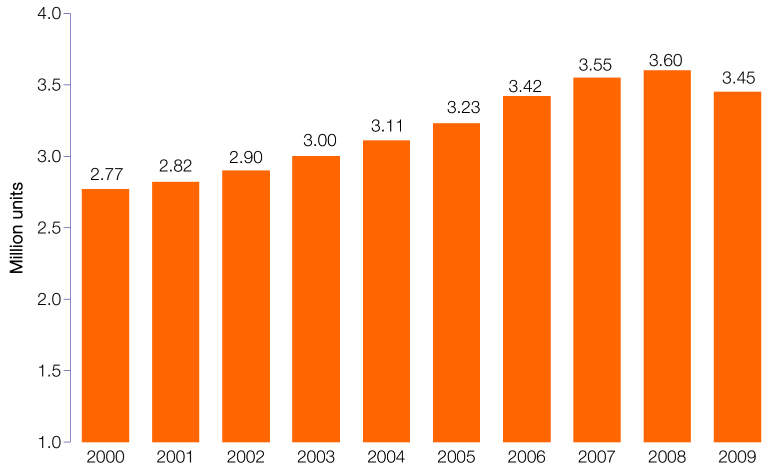
Figure 4[4]; LCV market volumes/forecast 1990 – 2015



Source: SMMT/Buckingham

Strong sales of new LCVs since 2000 saw the number of LCVs on the country's roads (parc) increase by one million to 3.60 million in 2008 – falling back to 3.45 million units in 2009 as the new LCV market crashed to a 15-year low of 186,386 units.

Figure 4[5]; UK LCV parc 2000 – 2009



Source: SMMT

This steep decline in new LCV sales and the forecast slow recovery – see Figure 4[4] on previous page – will have a marked and lasting impact on the LCV parc. Unlike the long period of growth from the mid 1990s, the overall LCV parc will remain relatively flat over the next five years, remaining below 2008's all-time high for the foreseeable future.

Knock-on effect for used sales

Clearly, when new LCV sales plummet and remain relatively low for a long period of time, it has a powerful impact on the mix and age of the parc – and a knock-on effect for used LCV sales and stock availability in particular.

Used LCV retailers selling older LCVs will benefit from a greater number of older vans from the ageing parc

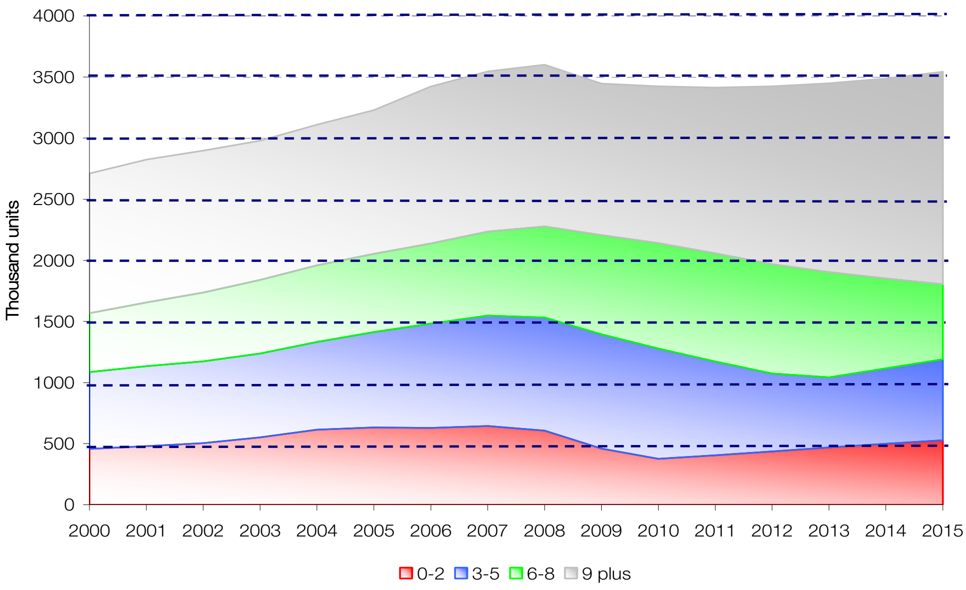
Used LCV retailers selling older LCVs will increasingly benefit from access to a greater number of older vans from the ageing parc. However, franchised LCV dealers, and retailers specialising in younger LCVs, are likely to experience a growing shortage of used LCV stock in the traditional age band their businesses focus on.

There is nothing can be done about the steadily aging LCV parc in the short term. The decline in new LCV sales has been so great, and the recovery likely to be so agonisingly slow, that a return to a plentiful supply of younger used LCV sales will not happen for a good number of years.

Fewer younger LCVs in the parc

There were 1.53 million 0-5 year-old LCVs on the roads at the end of 2008, falling to 1.39 million at the end of 2009 – destined to drop a further 353,000 units to a low of 1.04 million in 2013 – before improving new LCV sales begin to push the number of LCVs in this sector upwards once more around 2014 – see Figure 4[6] overleaf.

Figure 4[6]; LCV parc sectors



Source: SMMT/Buckingham

- The majority of 0-2 year-old vans (around nine out of 10 company owned) will still be in the hands of their first owners and not reach the used van market – typified by an average age at auction of 41 months for fleet and lease units. Arguably, this makes the 3-5 year-old van sector the most critical to used LCV retailers and countless businesses that rely on the ready availability of younger, quality used vans.

- The recent decline and ongoing low level of new LCV sales will ultimately cut the number of vans in 3-5 year age sector harshly – which will be felt most between 2012 and 2014. There were 934,000 LCVs in the 3-5 year age group at the end of 2009 which are fated to drop by 295,000 to 638,000 by 2012, and to just 572,000 in 2013 – a fall of nearly 40% in this segment in just three years' time. The situation will begin to ease thereafter as, hoped for, higher new LCV sales begin to filter down through the parc.

It took 10 years to recover from the 1991/1992 recession to pre-recession new LCV volumes

- It took 10 years to recover from the 1991/1992 recession to pre-recession new LCV volumes, although no one is predicting if the market will ever return to the 300,000 plus units seen between 2003 and 2007.

- The dearth of LCVs in the 0-5 year-old age group, for some considerable time, will also drive down the service and repair market for this sector considerably. A drop of some 400,000 units cannot fail to have a big impact on the livelihood of franchised and independent operators who specialise in servicing and repairing younger vans.

Some initial conclusions

There are issues of changing fleet size and fine tuning that will be relevant for larger users of LCVs, but these changes are driven by the wider financial strategies of such organisations. As can be seen, there has been a marked fall in new LCV volumes in 2009, as companies retained their units for longer than has normally been the case and/or cut the size of their fleets.

UK Used LCV Market

From a business economics viewpoint, the used LCV sector is probably as important, if not more important, than the new LCV industry.

This chapter seeks to examine and analyse the used LCV market in the United Kingdom. However, the first point that must be made is that there are no official figures sales volumes of used LCVs.

Used LCV supply chain

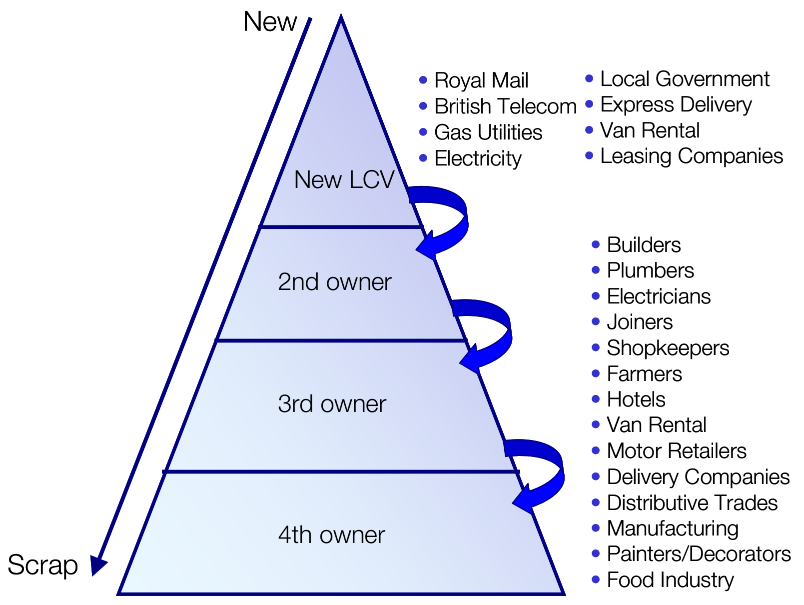
In a mature market, such as the UK, it is important to remember that new vehicle sales depend on the ability of buyers of new units to be able to dispose of their used vehicles to release their equity, before buying a replacement new unit. Figure 5[1] illustrates the concept.

A healthy used LCV market is crucial to buyers of new LCVs

A healthy used LCV market is crucial to buyers of new LCVs so they can also minimise their total cost of vehicle operation which, in turn, knocks on to the wider economy.

A second paradigm, Figure 5[2], overleaf, illustrates the used supply chain or the route to market for new LCVs, then on to the used LCV market.

5[1]; The used LCV supply chain

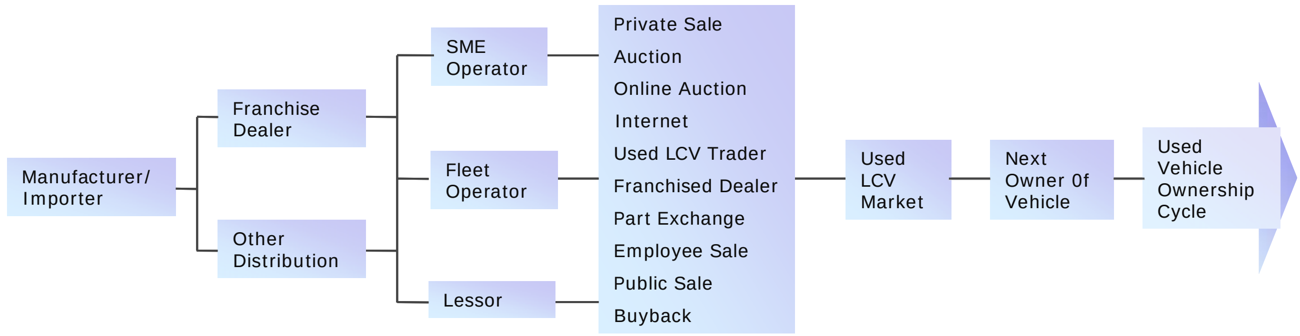


Source; Buckingham – for illustrative purposes only

The challenge is for all members of the supply chain to keep the cost of disposal of used LCVs to an absolute minimum.

This suggests that perhaps the route to second and subsequent LCV users is somewhat different to that for private cars. The most obvious difference is that a used LCV is going into a cycle of 'second and subsequent business users', rather than the almost entirely private buyer sector. As such, LCV buyers and the whole acquisition process are different – in that used LCV buyers will have a more precise specification and business needs in mind than private used car buyers.

Figure 5[2]; Used LCV supply chain to market

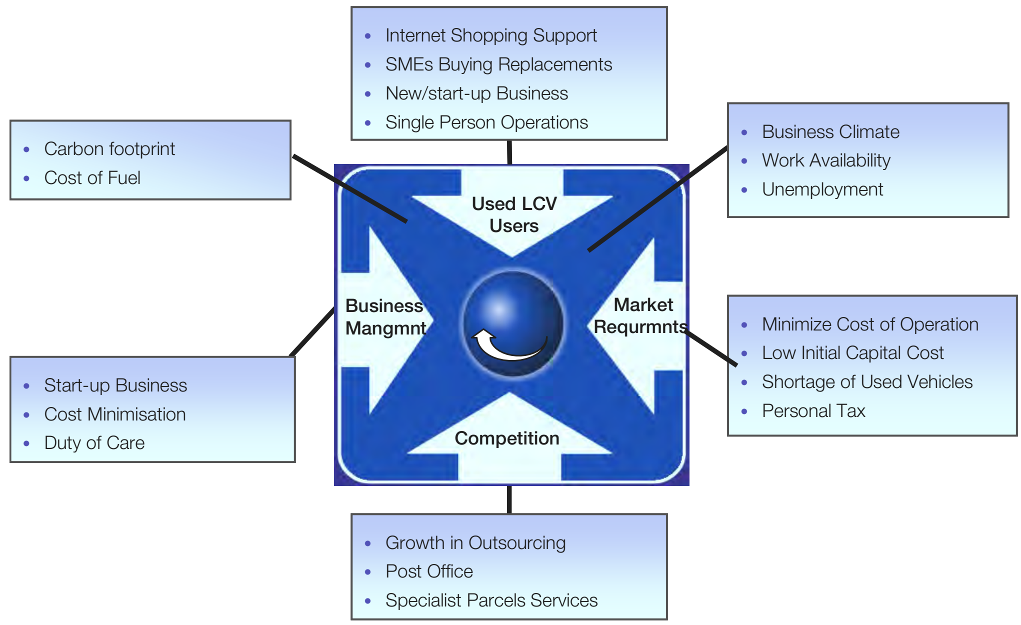


Source; Buckingham – for illustrative purposes only

Used LCV market drivers for change

Given the second business user ethos of the LCV market, the drivers for change are subtly different to those of the new LCV market.

Figure 5[3] Drivers for Change; used LCV market



Source; Buckingham – for illustrative purposes only

While some of the pressures on the market may be parallel to those on the new LCV sector, in terms of users, they are notably different. To used LCV buyers, available purchasing power may be critical and, as they normally buy in small numbers, discounting may be less of an issue than with volume purchasers of new LCVs. To a typical SME or sole trader LCV buyer, the type of use may be more of a driving force. Is the unit required at the lowest possible price – or something more substantive?

The £15,000 plus price for a new vehicle can strain the cash flow

As noted previously, very few SMEs buy new LCVs – the £15,000 plus price for a new vehicle can strain the cash flow, whereas a £5,000 – £7,000 used LCV will invariably serve their purpose very well indeed.

- Competition for the use of used LCVs is constant, driven by the economy and the revenue generating levels such vehicles are able to achieve. For example, in the online shopping delivery market where price is everything – or the 'minimal mileage mobile toolbox' of the plumber or decorator.

- Business management, the fourth set of different drivers for change, is again essentially cost driven, although duty of care has a key role to play.

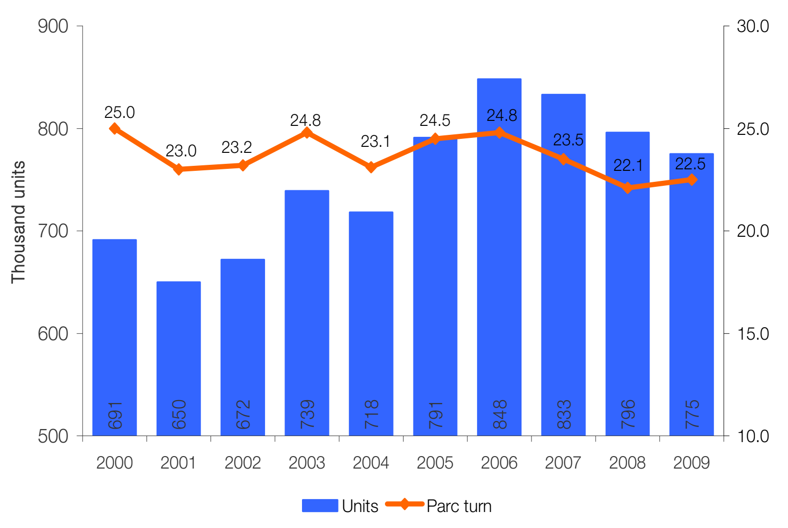
- In terms of the wider, external drivers for change, these appear to be parallel to those for new vehicles, but may be felt more acutely. One instance would be the cost of fuel where the largest players are able to buy ahead and able to arrange bulk discounts.

- We have commented elsewhere on the positive plethora of different vehicle body styles available. One segment which generally seeks to offer the most standard LCV configuration is daily rental, where the objective is a standard vehicle with a good residual value.

Used LCV demand is perhaps more susceptible to economic fluctuation than demand from larger fleets. Small builders and specialist trades are larger buyers, on aggregate, of used LCVs – but their opportunities are volatile compared with other business sectors

Used LCV market volumes

Figure 5{4] Estimated used LCV volumes 2000- 2009



Source: Buckingham

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

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

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 were the case, used LCV market volumes would have been broadly as shown in Figure 5[4] over the past 10 years.

Used LCV prices

As with every heterogeneous product, there is a degree of market and supplier segmentation so one might see several different prices for ostensibly the same item. Used LCVs are no exception. Consider some of them;

- The price the seller seeks for the vehicle – is rarely offered. In turn, that price will be influenced by the quality, age and mileage of the vehicle.
- There will be different prices offered by a dealer making a part-exchange arrangement against that unit.
- A used LCV trader buying for stock may offer a third figure – and will have to make a margin when it is subsequently sold.
- Equally, a private sale may attract yet another price level as there will be no middle-man involved.
- Price at auction offers yet another price level. This is transparent and the gross figure is determined by a willing seller and a willing buyer on the same day.
- It is against this complex pricing matrix that one has to determine an equitable and transparent pricing figure. For the purposes of this report, average auction prices are used as the benchmark.

Hidden cost of disposal

- A short caveat is included at this stage regarding the hidden costs of disposal and acquisition of used LCVs. The checklist in Figure 5[5] highlights some of the hidden costs associated with used LCV disposal. While not all of these costs are incurred in every LCV disposal, a surprising number can be – and the real magnitude will vary from one transaction to the next.

One of the most controversial transaction costs associated with disposal may be ‘debadging’

- One of the most controversial transaction costs associated with used LCV disposal may be ‘debadging’. The last thing first owners want to see is another organisation driving one if their former LCVs still in their livery. Equally, that livery requires proper obliteration, even if it was a plastic panel which requires some partial or complete respray.

Figure 5[5]; Hidden costs of used LCV disposal

• Damage	• Preparation
• Documentation	• Sales administration
• Interest charges	• Security
• Ongoing depreciation	• Parking space/time
• Insurance	• Registration
• Movement to disposal site	• Unexpired RFT
• Management time	• Invoicing
• Bad debt collection	• Marketing
• Risk management	• Pricing
• Condition on sale	• Monitoring
• Commission	• Auction fees

For illustrative purposes only – not comprehensive

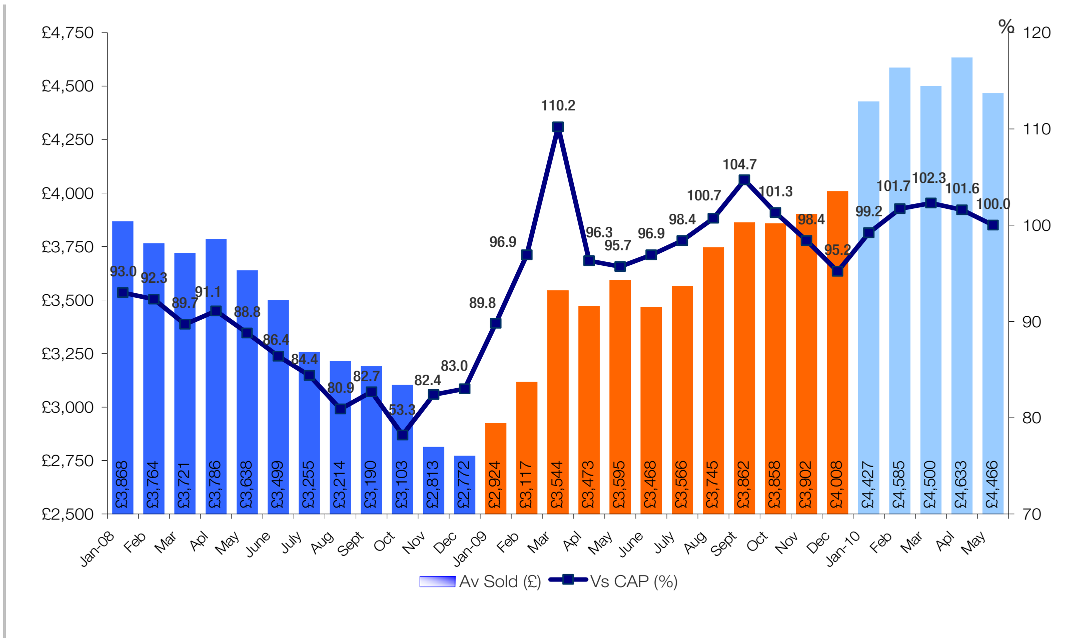
- One approach is not to have branding on the vehicle in the first place, so it can be put straight to disposal with out preparation.

- As noted previously, different levels of LCVs attract different used prices when sold at auction. However, the retail price is difficult to measure because discounts or part exchange over allowances may also be incorporated in the exercise.

Used LCV average auction values; 2008-2010

Average used LCV prices at auction dropped quite dramatically in the second half of 2008, but subsequently made a healthy recovery. Figure 5[6] clearly illustrate the trend.

Figure 5[6]; Average LCV auction values vs. CAP 2008 – 2010



Source: BCA

Prices at auction fluctuated between £3,868 in January 2008 to a low of £2,772 in January 2009, thereafter climbing to £4,008 by December 2009 – an average price rise of close to a third.

While such a fluctuation in auction prices might well be considered extreme, these figures are driven purely by supply and demand. There are several key issues to consider;

- For the seller, the drop in prices achieved at auction may have a significant impact on cash flow as well as total running costs when the final figures are put together. A poor residual is always bad news for the operator and often encourages them to retain vehicles longer.

- For the would-be buyer, a drop in prices achieved at auction has to be seen as good news, on the expectation that if dealers buy units at a lower price, then the retail price of used LCVs will be that more attractive.

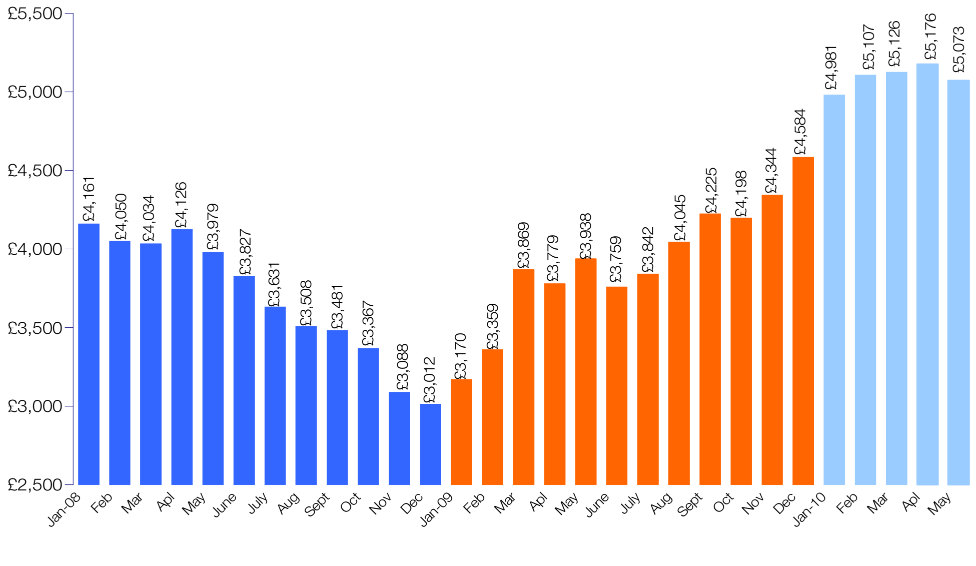
- However, the laws of supply and demand kicked in within a few months, numbers of units being sent to auction dropped and, therefore, used LCV prices rose quite steeply from December 2008. The risk with this type of situation is always that the market may overreact and supply and demand of used LCVs fluctuate and prices do the same. Figures for the first few months of 2010 shows that average used LCV prices at auction have remained high.

The risk is the market may overreact

However, common sense suggests values cannot keep rising inexorably. BCA expects prices to stabilise in 2010, albeit at a significantly higher values than 2009.Any significant fluctuations must be seen as unsettling for LCV operators, particularly major fleets and leasing companies. To a sole trader, a rise of £1,400 or £1,500 in auction price could make the difference between a newish used LCV and considerably older one – or no replacement or additional unit at all.

Used fleet and lease vans

Figure 5[7] LCVs fleet and lease auction values 2008 –2010



Source: BCA

Average auction prices for Fleet and Lease Used Vehicles, shown in Figure 5[7] page, indicate a tighter disposal strategy by the major leasing and fleet operators. Such operators are in constant touch with their clients as well as watching residual values and prices achieved at auction. They generally have the ability to flex vehicle replacements to avoid the worst prices and can have units for disposal moved around the country to achieve best available prices.

- It is claimed by many an industry insider that the true sign of professionalism in the leasing industry is the ability to forecast fluctuations in residual values – and to sell when prices are at their best in the short term.
- Figure 5[7] also gives an indication of the pain a lessor could suffer if it disposed of its vehicles at the wrong moment compared with a few months either side.
- A further reason for the relative calm in used LCV prices from lessor and major fleet operators' vehicles is these vehicles would generally be of highly attractive quality.
- Between January and December 2008, auction prices fell from £4,161 to £3,012 – a drop of 29% – but recovered to £4,584 by December 2009 – riding further in 2010.

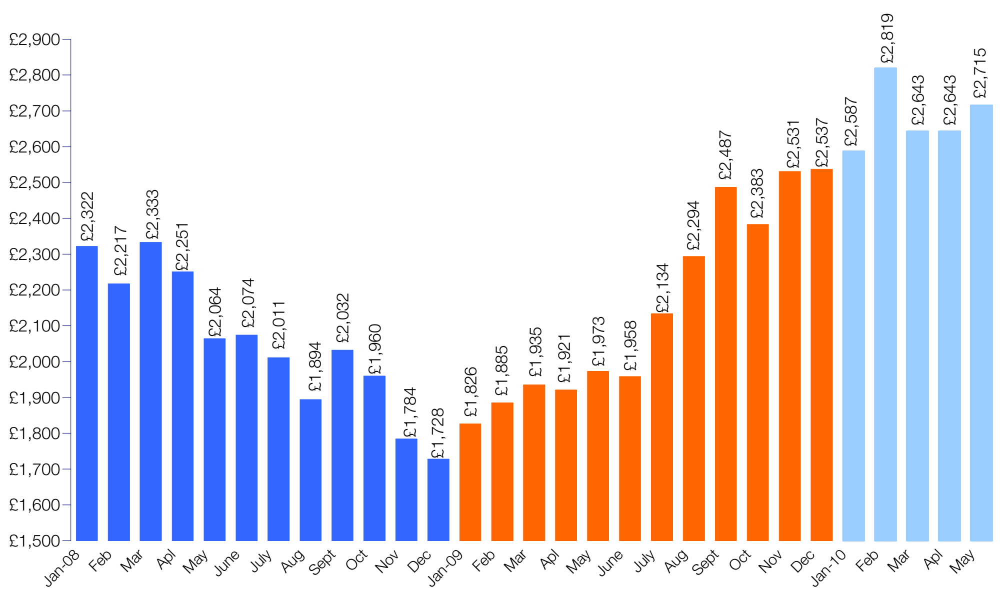
There are strongly defined market segments for used LCVs

Once again, there are strongly-defined market segments for used LCVs and, given the anticipated lower number of units appearing in the medium term, prices are likely to remain firm.

Part-exchange LCV values at auction; 2008 – 2010

The 2008 – 2009 figures shown in Figure 5[8] indicate essentially the same pattern as other used LCV categories – a steady drop across 2008 to a low in December 2008. Across that year, prices had fallen from £2,322 in January to £1,728 in December. There was a recovery to £2,587 by the end of 2009 – which has been maintained in 2010.

Figure 5[8]; LCV part-exchange auction values 2008 – 2010



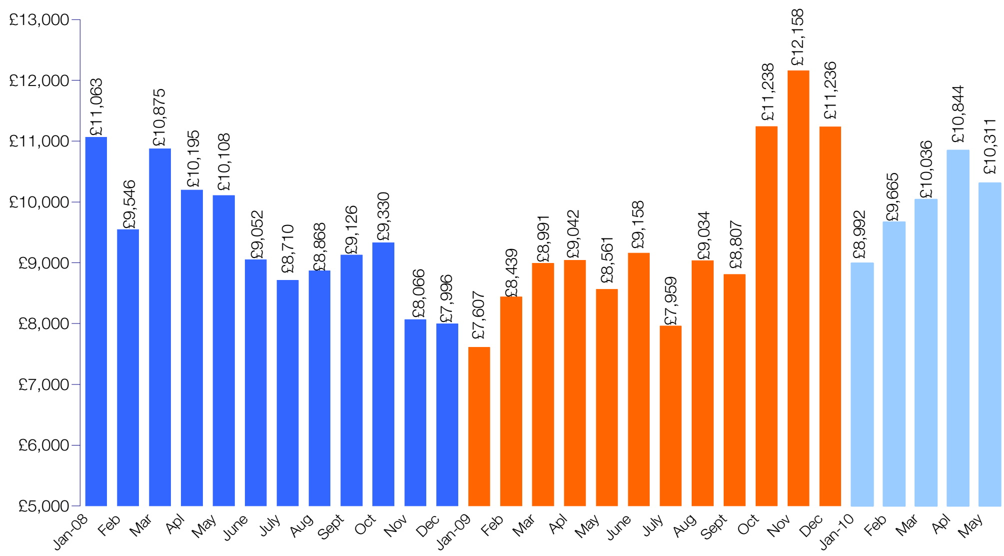
Source: BCA

This category might be called 'economy vans' – LCVs which traders put to auction because they do not fit their used LCV inventory requirements. However, the message is that there has been a steadily improving demand for them.

Nearly-new LCV used values 2008 - 2010

The least stable trend in auction prices is the one shown in Figure 5[9]. The nearly-new LCV sector is relatively volatile, influenced perhaps by the number of vehicles coming to auction. This category includes units from manufacturers, ex-rental units and units, for example, of companies going out of business. Thus, the number of units is volatile.

Figure 5[9]; LCV nearly-new auction values 2008 – 2010



Source: BCA

While prices achieved across the period are relatively high, many would claim this segment is the most highly demanded because the first users/owners have born much of the first-year depreciation and most of these vans are 'new in all but name'.

End of recession; a rush to replace?

Does that mean the LCV sector might come into a feeding frenzy?

Given that used LCVs of all categories are attracting stronger prices at auction, and many companies have held back on replacing their LCVs during the recession, does this mean the LCV sector might come into a feeding frenzy if many operators rush to replace their vehicles? If this takes place, it is highly likely that the imbalance of supply and demand will hold prices at auction, with used LCV retail prices remaining at a high level for the foreseeable period.

Some initial conclusions

The used LCV market is complex and differs from the used car market in that the former is principally a business to business rather than a private market – with all that implies.

Who Buys Used LCVs?

While it is difficult to put an exact figure on the ratio, the Buckingham Automotive team estimate that at least 90% of used LCV sales are of a business-to-business nature – and many of the remaining transactions will be 'semi-B2B'.

Many businesses buying used LCVs have not particular desire to buy a new unit

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 particular desire to buy a new unit.

Principal new LCV buyers

The report has commented previously that the bulk of new LCVs are acquired by a relatively small number of large fleet operators, with many smaller businesses opting to buy quality used LCVs at lower prices with lower depreciation rates. Figure 6[1] highlights some of the largest buyers of new LCVs;

Figure 6[1]; Principal new LCV buyers

• Royal Mail	• British Telecom	• Supermarkets
• Electricity/Gas companies	• Local government	• Water companies
• Van rental	• Leasing companies	• Parcel delivery companies

For illustrative purposes only – not comprehensive

To put those numbers further in context, the 'top 10 leasing companies in the UK had a combined LCV fleet of some 231,000 units in operation in 2009 – Figure 6[2]. The total LCV fleet of the FN50 – the 50 largest leasing companies, amounts to some 292,000 units.

Figure 6[2]]; Top 10 LCV leasing companies

	LCVs	Cars
Lex Autolease	78,482	259,296
LeasePlan	33,355	88,605
BT Fleet	30,133	8,547
Lombard Vehicle Management	22,765	67,703
Arval	16,526	56,971
Leaseway Vehicle Rental	13,260	3,314
ING Car Lease	11,056	36,983
Masterlease	8,940	35,406
Citroen Contract Motoring	8,800	13,400
Hitachi Capital Vehicle Solutions	8,117	23,556
Total Top 20 leasing companies	231,434	593,781
Total FN50 leasing companies	292,625	1,010,598

Source; 2009 FN50

LCV daily rental fleets are much more difficult to tie down, but the largest single specialist player is probably Northgate plc. It has more than 60,000 vehicles in the United Kingdom more than 80% of which are LCVs – with an announced acquisition programme of some 20,000 plus replacement units in the coming year. To new car buyers, their purchase might be the pinnacle of success. To LCV operators, however, that success may be achieved as cost effectively by buying a used vehicle.

Advantages of new and used LCVs

Figure 6[3] highlights some of the advantages and disadvantages of a used LCV as distinct from a new one.

Figure 6[3]; Advantages of new and used LCVs

Advantages new LCV	Advantages used LVC
• Most up to date product	• Highest depreciation passed
• Image	• Lower price
• Reliability	• Cost effective
• Minimise emissions	• Fit for purpose
• Homogenous products	• Difficult to separate

For illustrative purposes only

Characteristics of a quality used LCV

It is a statement of the obvious to claim that traders prefer to buy quality, clean used LCVs with a moderate mileage on clock – but these basic characteristics do no harm being repeated.

Figure 6[4]; Preferred characteristics of used LCVs

• Acceptable mileage/age ratio	• Full service record - MOT
• Acceptable level of options	• Tyre quality
• Preference for diesel	• Unspecialised – standard LCV
• Sound mechanical condition	• Little or no body damage
• Clean, unstained, undamaged interior	• Clean bodywork, no rust
• No bad odours from previous use	• No windscreen or glass damage
• No key wear and tear parts in need of immediate replacement	
• Without sign-writing or strong first-user identification or characteristics	

For illustrative purposes only

Quite simply, used LCV buyers are looking for a quality, reliable vehicle with a good history, its condition in keeping with age and mileage, with plenty of fault-free use still in it.

Used LCV applications

Buyers of used LCVs are the whole range of businesses that need to transport goods and/or people on business. As such, many such units are bought by the ever-growing range of service industries.

- A significant number of used LCVs are little more than mobile tool boxes for which easy access is important.
- Replacement of such used vehicles, in the case of second users, may well be on a well regulated time/mileage basis, with units being returned to market in good condition.
- However, further down the timeline, or indeed during a period of recession, replacement cycles may well be stretched. This not only means vehicles being returned with a higher mileage, but also means there are less units coming to market.

Replacing an LCV can be one of their biggest single investments

- A fairly important issue is that there is a steady stream of LCVs available at relatively predictable prices. To the sole trader or the SME, replacing an LCV can be one of their biggest single investments, so it is important that prices are steady and affordable.

A lasting shortage of used LCVs

During the first few months of 2010, as we have demonstrated elsewhere in this report, there is a growing shortage of younger used LCVs that has pushed up auction prices. Anecdotal evidence suggests some businesses that might have come to market this year may well be forced to delay replacement In turn.

A serious and lasting shortage of quality used LCVs coming to market could, we predict, have a negative impact on the rate of economic recovery. Government claims that SMEs are one of the driving forces of economic recovery. But, if they are unable to obtain the used LCVs they want at affordable prices, their businesses' position and profitability, as well as rate of growth could suffer – or they might be forced to consider other, less attractive business transport.

The shortage of bank funding for SMEs to develop their businesses may be further exacerbated if they have to pay inflated prices for their used LCVs. Indeed, there may well be an interesting business opportunity for niche players to offer acceptable financing terms – for acquisition or leasing of used LCVs.

The shortage of quality used LCVs could lead to a substantial growth in the daily rental parc

Equally, the shortage of quality used LCVs could lead to a substantial growth in the daily rental market, with businesses renting LCVs on the days they are really required rather than having them standing around under utilised.

Some initial conclusions

The critical issue regarding used LCV buyers is that at least 90% of them are business-to-business acquisition decisions and, of the remainder, many will still have a semi-business role.

Used LCV buyers have precise requirements and price bands – are probably more disciplined than used car buyers, and will continue to buy used LCVs based on economics as much as unwillingness or inability to spend considerably more on new units.

Conclusions and Implications

This review of the United Kingdom Used LCV market has been written as a companion to the annual BCA Used Car Market Report which has be published for 20 years.

The used LCV market has always been overshadowed by its much bigger cousin, the used car market. However its unique characteristics, as discussed in the foregoing pages, suggest the used LCV sector is very much a separate entity.

- Careful quantitative analysis of the used LCV market suggests the sector is generally under estimated and under valued and is perhaps under exploited, although it also has its highly-professional players.
- The business LCV parc does not end with the new vehicle being sold as a used vehicle, as in almost every case, it will be recycled to the next level of business user.
- Given the differences, at least in the case of cars, between fleet and private sales, one might ask if the LCV sector might learn any lessons from the car side of the industry, to make it a more effective, efficient and profitable sector.
- Realistically, the used LCV sector is one of the few markets, in these days of rapid change, where a whole industry and market has grown up with buyers rarely seeking to buy a new unit

The foregoing chapters have suggested not enough is known about the used LCV market, yet, because of its strict business focus, it could be strongly argued that the used LCV sector is at least as important as the used car market.

This short report is offered as a first objective review of the used LCV market; it is, in some places frustrated by lack of information, but even the longest journey has to start with a single step.

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