

A PRACTITIONER'S BRIEFING; RECESSION AND RECOVERY

A report by BCA



Professor Peter N C Cooke
Professor of Automotive Management
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Executive Summary

The end of recession and anticipated economic recovery over the next two or three years will have significant implications for used car retailers. The recent and forecast low level of new car sales will have an enormous knock-on effect on the used car market and the shape of the country's car parc for at least a decade to come.

The first-time used car market is totally reliant on new car sales for its stock in trade. If there are fewer new cars coming into the market, then the used car sector is very likely to contract, average age of available units will increase, or both.

The key points highlighted in this report might be summarised broadly as follows;

- While economic recovery may have started in the final quarter of 2009, the impact of recession in the United Kingdom will continue well into 2010 and will have a powerful impact on new and used car demand.
- The severe drop in new car sales and expected slow recovery will take nearly 10 years to work through the UK car parc – dictating the age profile of used car stock across this period. The fall in new car sales since 2007 means there will be around 1.5 million fewer cars entering the supply chain over the next five years than the previous five.
- Higher prices at auction are already reflecting the growing shortage of younger used cars coming into the used car market and, in turn, the retail market. There will be an equilibrium point between used car prices and new car prices to balance the supply and demand mix.
- The change in the mix of the car parc will force dealers to reconsider their business models with regard to the age profile of the used vehicles they stock, sell and support, pushing them to handle older units if they are to maintain current sales volumes.
- Availability of used car finance will be critical for the future well-being of a sustainable used car market – and other value-added services may be required to protect dealer profitability in the face of weaker stock availability.

There is a long-held belief that the automotive industry works from the top (manufacturing) down. In mature markets such as the UK, well in excess of 90% of new car sales are replacement units. Therefore, until car owners are able to sell their current vehicle and release the funds tied up in it, they are not in a position to buy a new car – strong support for the contention that the used car market is the critical driving force in the country's motor industry.

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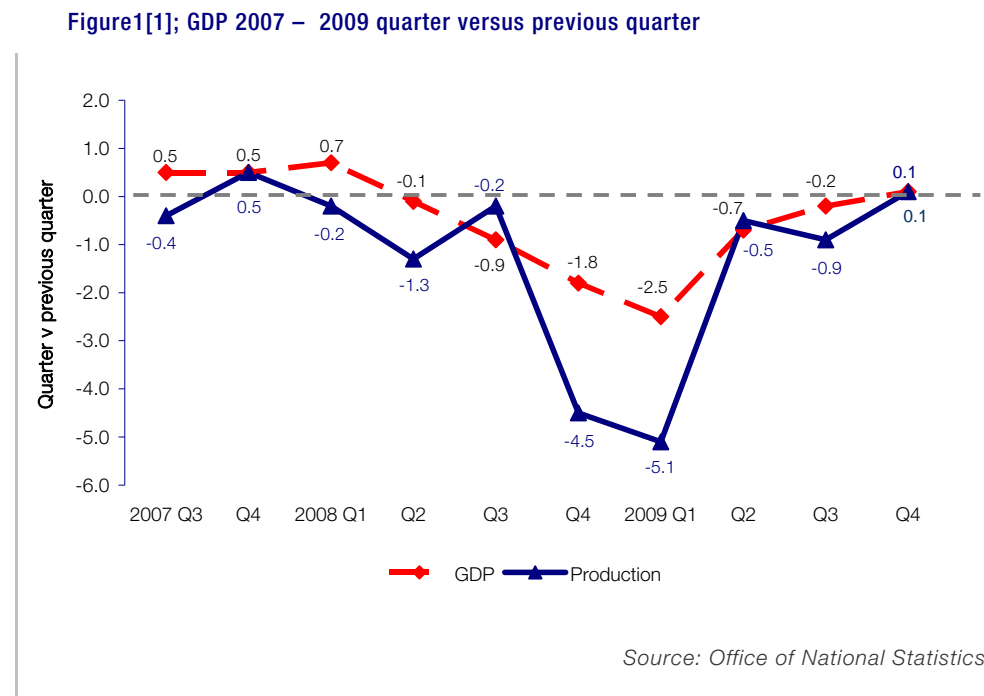
The Recession

The country's longest economic downturn in history

'Recession' is properly defined as 'economic output falling for two or more consecutive quarters'. The United Kingdom economy was in recession for six successive quarters to the end of September 2009, the country's longest economic downturn in history.

The Bank of England has forecast a 'V-shaped' recession with a relatively prolonged recovery period. The downside, however, is that unemployment may continue to grow for some time after recovery is genuinely underway.

Figure 1[1] shows the Bank of England's figures for the Gross Domestic Product pattern over the 10 quarters up to December 2009.



The chart shows just how much the UK economy has deteriorated on a quarter by quarter basis during the current recession – look at the 'zero change' line on the chart and the movements around that point.

- GDP fell 3.2% between Q4 2008 and Q4 2009 – which inevitably reflects on all forms of economic activity.
- The second line on the chart shows a 6.3% reduction in production output year on year for the same period.

Both of those economic factors have had, and will continue to have, a significant impact on the demand for new and used cars; particularly while jobs are at risk and people postpone buying decisions.

Briefing note objectives

The four principal objectives for this paper might be summarised as follows;

- To review the impact of recession on the UK's new and used car markets – the used car market cannot be reviewed in isolation.
- To examine the implications of pricing in the used car sector given the expected economic recovery.
- To consider strategic planning implications for organisations involved in the used car industry.
- To identify some of the key issues driving the used car market during a period of economic recovery.

The briefing also seeks to make some rational judgements on the shape of the used car market as it may develop over the next few years.

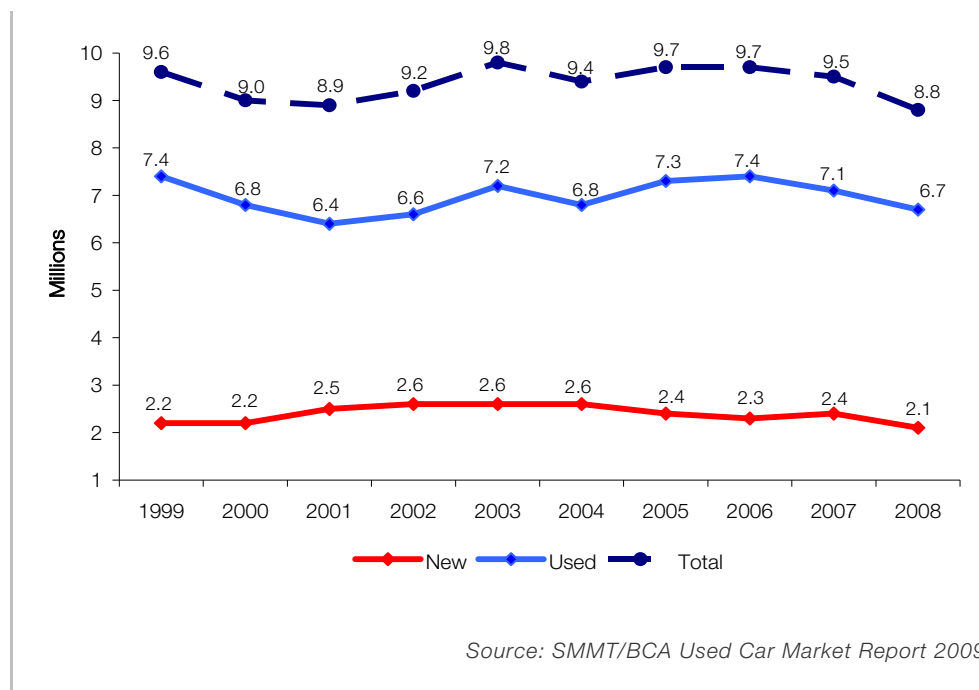
Part of the research has been drawn from the 'BCA Used Car Market Report 2009', written by The University of Buckingham Automotive Team – plus relevant new information as it has become available, analysis and forecasts.

New and Used Car Markets

New and used car markets slowed down dramatically across Europe in 2008 and the early part of 2009. Although, boosted by scrappage schemes, many new car markets are showing improvement, there is no sure way of knowing whether this is sustainable growth, whether the markets are 'L-shaped' or might slip back into a 'W-shaped' recession.

The UK is no exception. Its total new and used car market fell to 8.8 million units in 2008 from 9.5 million the previous year – one million units fewer than the new and used car peak of 9.8 million 2003.

Figure 2{1}; Market volume new vs. used cars



New car volumes

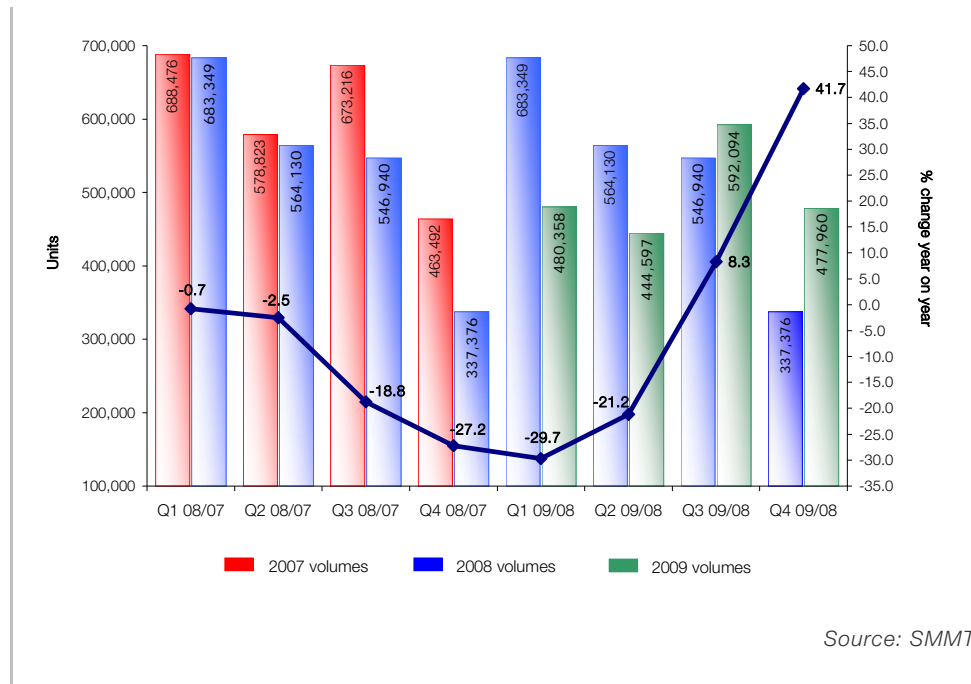
New car volumes fell to their lowest point for 12 years

Following three years above the 2.5 million mark between 2002 and 2004, new car volumes fell to their lowest point for 12 years in 2008, down 11.3% to 2.13 million units – nearly 450,000 units fewer than the all-time high of 2.58 million reached five years earlier.

The decline continued during the first half of 2009 (Figure 2[2] overleaf), before making a strong recovery in the second half of the year following the introduction of the government scrappage scheme in May.

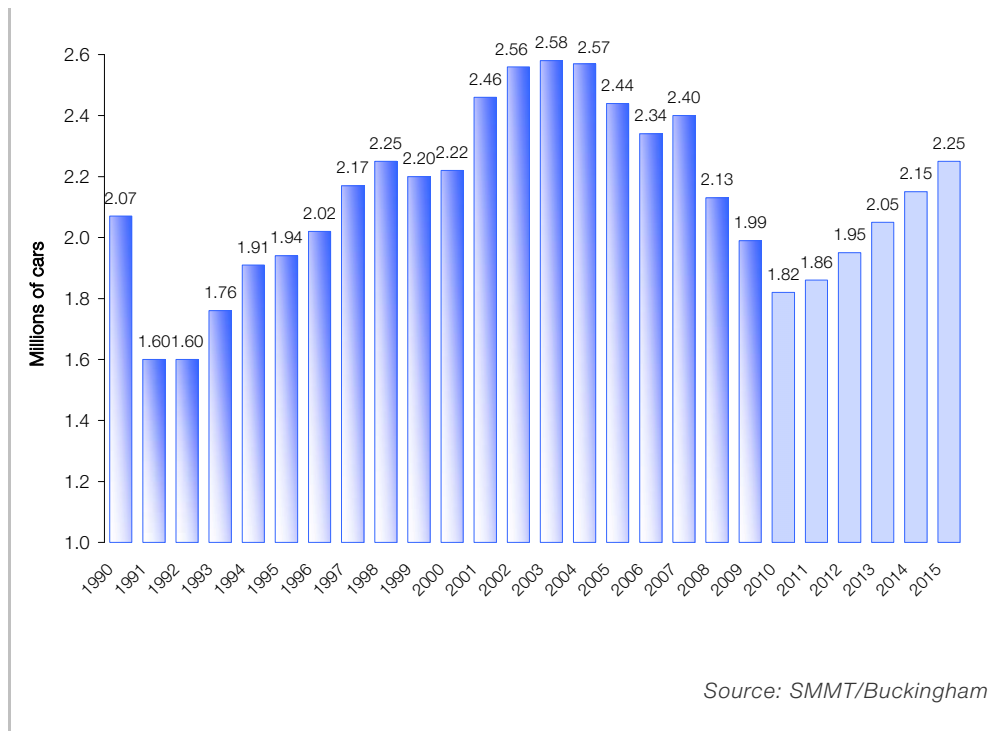
New car sales fell 25.9% or 322,524 units in the first six months of 2009 – rising by 21% or 185,728 units in the July to December period. Full-year new car registrations for 2009 showed a drop of 6.4% and 136,796 to 1.99 million units – representing a fall of 19.8% to 1.71 million excluding new car scrappage deals.

Figure 2[2]; New car volumes 2008 –2009



The underlying demand for new cars remains weak, however. Although there is some sign of a rise in fleet and leasing companies' replacement activity, there is little optimism that the underlying private new car market will make a quick recovery in the foreseeable future.

Figure 2[3]; UK new car registrations; 1990 – 2015



The SMMT’s most recent forecast sees the new car market falling back to 1.82 million units in 2010 – as VAT returns to 17.5%, the scrappage scheme comes to an end in February, and substantial first-year road taxes take effect in April.

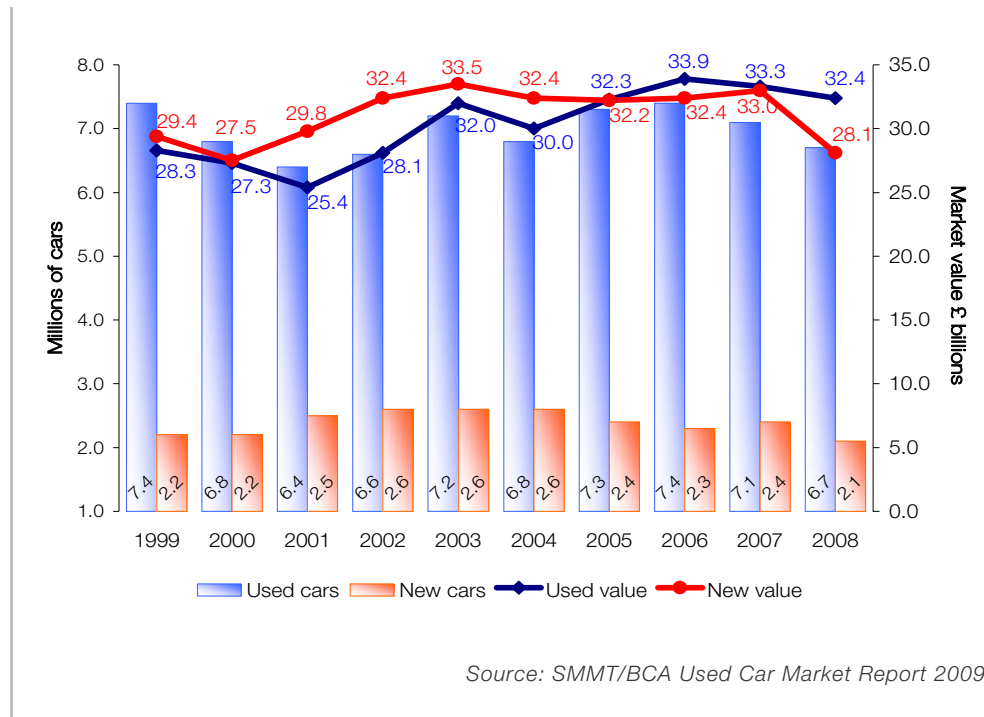
Most estimates foresee a modest year-on-year growth

While the speed of a new car sales recovery is open to speculation, most estimates foresee a modest year-on-year growth in the region of 100,000 units – reaching around 2.25 million in 2015 – but well short of the 2.5 million plateau reached for five years a decade or so earlier as shown in Figure 2[3].

New and used car volume and value

Figure 2[4] shows the relationship of new and used car volumes and market values. Perhaps the more interesting relationship is the relative value of the new and used car sector – the used car market was worth £4 billion more than the new car market in 2008.

Figure 2[4]; New and used car market volume and value



This clearly shows an industry in recession. Demand for both new and used cars dropped in 2008 and the value of the new car market fell significantly. The decline in value for new vehicles also reflects a shift in the vehicle mix towards smaller, lower-priced models, which will have significant implications for used car retailers.

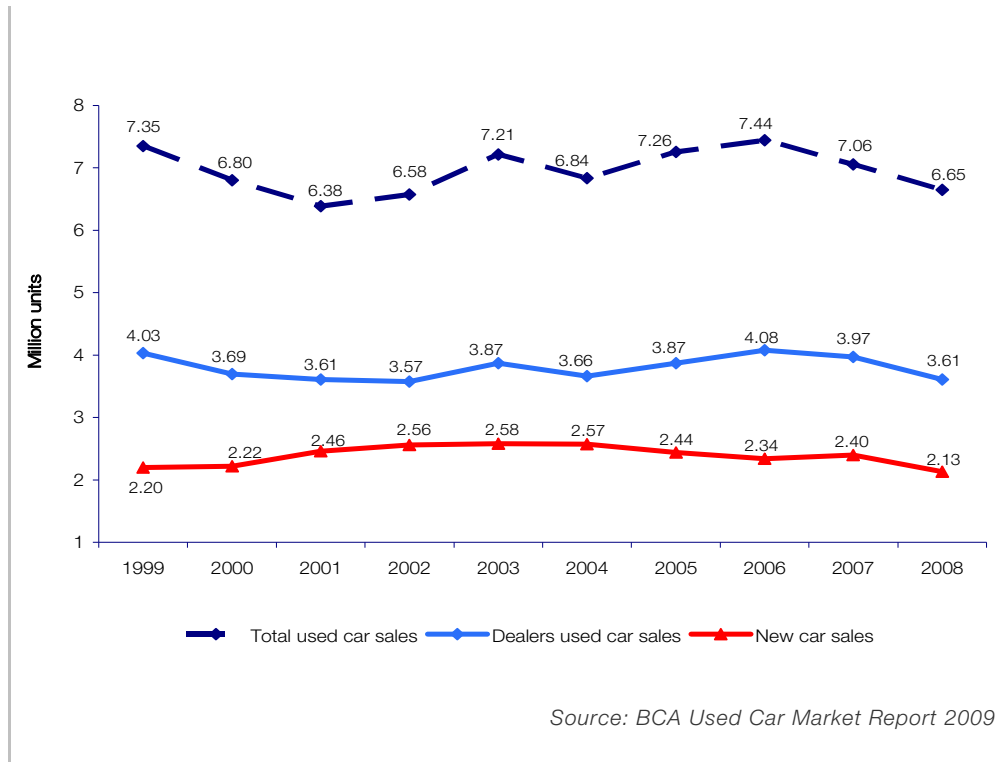
The signs are that the new/used value gap will widen in 2009

The signs are that the new/used value gap will widen in 2009. Indeed, it may well not begin to close until the economy recovers sufficiently for those car owners, who have postponed changing their car or migrated to a used car in the short term, move back to a brand new car or a newer used model.

Used car volumes

Following three years over the seven million mark, UK used car volumes fell 5.8% to 6.7 million units in 2008. The severe economic downturn hit the used car market hard in the second half of 2008, pushing franchised and non-franchised dealers' 2008 used car sales down by 9.1% to 3.61 million units – their lowest point for seven years.

Figure 2[5]; Used car volumes 1999 - 2008



Early indications are that used car volumes experienced a single-digit fall in 2009; proving more resilient than the underlying new car market has in the face of such a severe and prolonged recession.

Very close-knit affair

The used car and new car markets are a very close-knit affair; the UK's 30 million car parc essentially acting as the used car industry's supply chain.

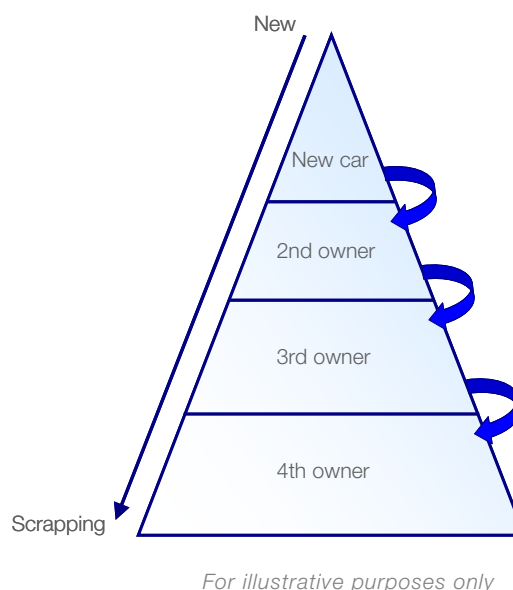
Typically, a car passes from 'new' to 'used' status – after 2-3-4 years in terms of company cars, and generally a little longer in the case of privately-owned vehicles. Car rental companies' and manufacturers' vehicles often enter the used car market within 12 months of registration (around 350,000 units per annum in normal times).

Thereafter, it may take 12 to 15 years, or longer, for a car to work its way through the parc and several owners until it is scrapped – unless there is something like a scrappage scheme in place or it is written off earlier for some particular reason.

Used car supply chain

The recession-driven new car slump of 2008/2009, and anticipated slow recovery, will have a dramatic impact on the UK car parc and, by implication, used car supply.

Figure 2[6]; New used car supply chain



Clearly, when new car sales plummet and remain low for a considerable period of time, it has a powerful and long-term effect on the availability of used car stock. While the shortage of part-exchanges and fleet and leasing companies postponing vehicle replacement have been well aired of late – little mention has been made of the wide-ranging, lasting impact of the country's rapidly aging car parc.

Worsening supply of younger used cars

While the eventual recovery of non-scrappage private and fleet and business new car volumes will gradually improve the supply of used cars, used car retailers will be faced with a worsening supply of younger used cars which generally make up the most lucrative part of their business.

Dealers selling older used cars will benefit from access to a greater number of older cars from the ageing car parc. However, franchised dealers, in particular, will suffer on two fronts – a marked and lasting shortage of used car stock in their traditional 'younger used car' trading zone – and a dearth of cars in the age range they rely on for much of their service and repair business – cars up to five years old.

There's nothing can be done about the ageing car parc in the short term, the wheels have already been set in motion by the sheer size of the fall in new car volumes. With the decline in new car sales so great, and recovery likely to be agonisingly slow, a return to a plentiful supply of younger used cars, which dealers have been accustomed to in recent years, is unlikely for several years to come.

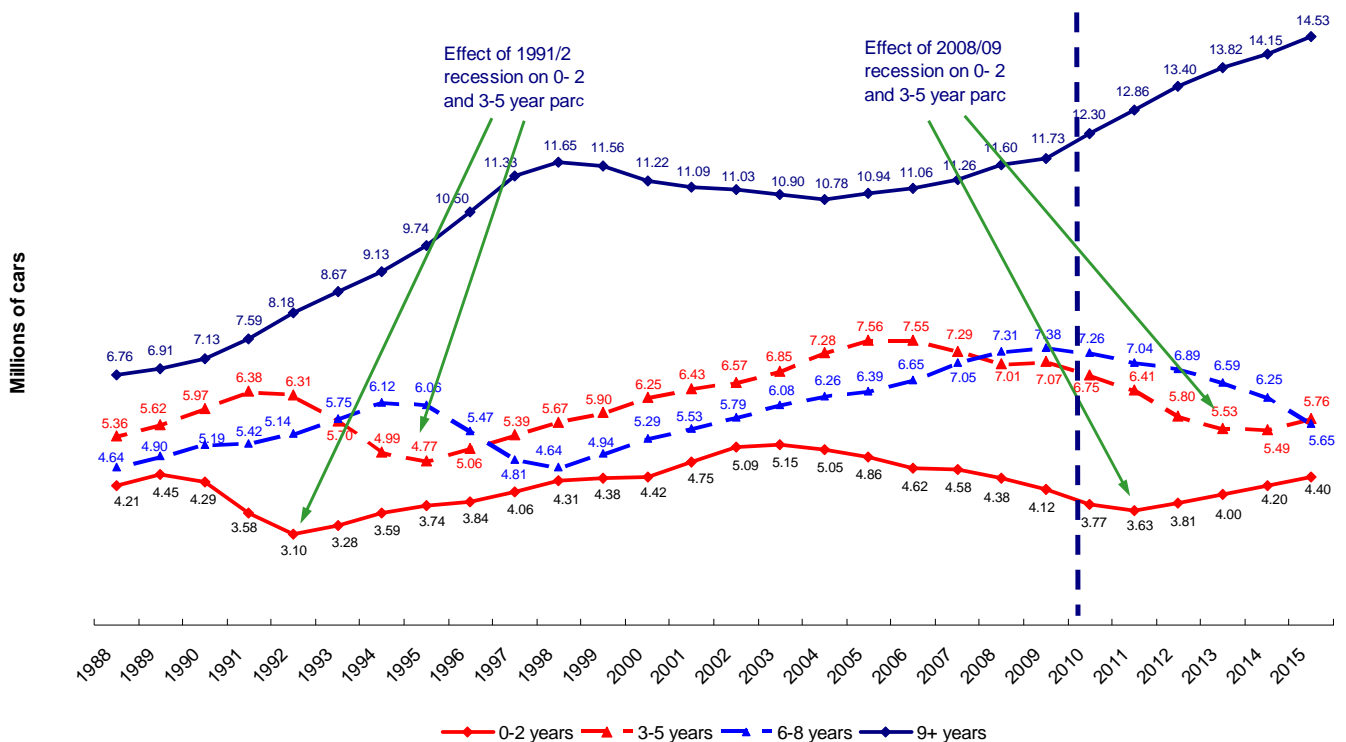
Used car retailers will be faced with a worsening supply of younger used cars

UK car parc

Cars enter the used car supply chain with their second owner and normally change hands several times before they are eventually scrapped.

The steep fall in new car sales in 2008/2009, and the sluggish recovery expected, will have an enormous impact on the UK car parc. The overall car parc (used car stock) will fall by less than half a million units over the next three years (boosted by up to 400,000 scrappage scheme new cars), before starting to grow again in 2013 – although the average age mix of the car parc will change radically.

Figure 2[7], UK car parc by age sector; 1988 – 2015



Source: SMMT/Buckingham

‘Used car waves’

Figure 2[7] splits cars in the car parc into four different age groups showing the way they move through the parc in potential ‘used car waves’ – set by new car volumes in the year these units were first registered. The car parc forecasts shown in the chart reflect the new car volumes shown in Figure 2[3] and well-established car survival rates recorded in recent years.

Figure 2[8]; Car parc 0-5 year-old cars 2005 – 2015 (millions)

2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
12.42	12.17	11.87	11.39	11.19	10.52	10.04	9.61	9.53	9.69	10.16

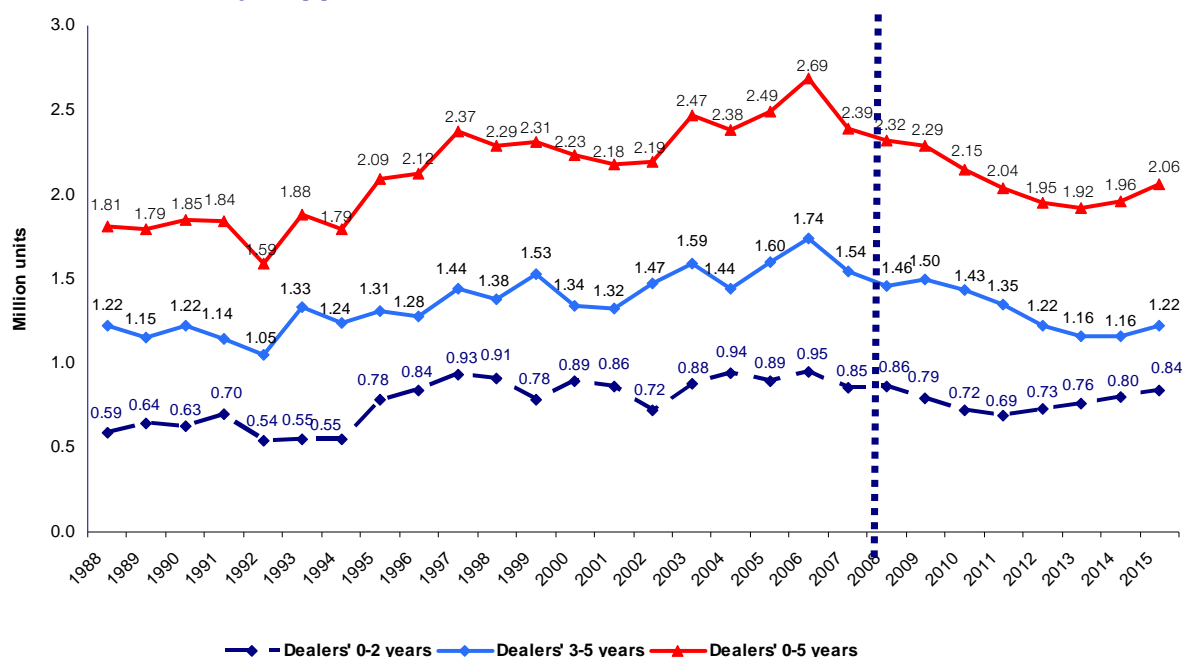
Source: SMMT/Buckingham

There were 12.4 million 0-5 year-old cars on the roads at the end of 2005, falling to 11.4 million by the end of 2008 – and to around just 9.5 million by 2013 – growing slowly, thereafter, as hoped-for, higher new car volumes eventually feed through to this age sector of the parc.

For used car retailers, who deal primarily in younger used cars (0-5 years old), there will be around three million fewer of these units ‘in stock’ by 2013, than the high point of 2005 – nearly two million fewer than the 2008 figure – posing a serious threat to used car volumes in this age group over the next few years.

Dealers’ sales of 0-5 year-old cars could fall dramatically

Figure 2[9], UK dealers used car volumes; 1988 – 2015



Source; BCA Used Car Market Report 2009/Buckingham

Dealers’ used car sales have averaged 20.4% of the 0-5 year car parc over five years up to 2008 (parc turn). At this rate, based on the falling car parc, dealers’ 0-5 year-old used car volumes could fall dramatically – by up to three million units spread over the eight year period to 2015, compared with the much higher levels experienced in 2005 – Figure 2[10]).

Figure 2[10] Dealers’ used car volumes 0-5 year-old cars 2005 – 2015 (millions)

2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
2.49	2.69	2.39	2.32	2.29	2.15	2.04	1.95	1.92	1.96	2.06

Source; BCA Used Car Market Report 2009/Buckingham

Like any forecast, these used car sales predictions are not set in stone and could be influenced by either a sizeable shift in new car volumes or higher or lower used car sales penetration of the car parc for this particular age group of cars.

New car sales influence

On the new car sales front, any improvement on the volumes set out in Figure 2[3], would have little impact over the next two or three years. The 0-5 year-old parc decline is a product of the two million unit drop in new car sales from the high volumes seen between 2001 to 2005 (12.6 million units) – and those of the 2006 to 2010 period of around 10.6 million.

The size of the 0-5 years of age car parc will also continue to shrink after 2010, until new car volumes rise considerably above the two million mark.

The parc turn influence

A significant rise or fall in the parc turn would have a significant influence

A significant rise or fall in the parc turn, or ‘what percentage of 0-5 year-old cars on the roads, do franchised dealers and used car retailers sell in a year?’ – would have a significant influence on used car volumes.

Figure 2[11]; Dealers’ parc turn 0-5 year-old cars (percentage)

1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
22.9	22.5	20.9	19.6	18.8	20.5	19.3	20.0	22.1	20.2	20.3

Source: BCA Used Car Market Report 2009

A one percentage point swing in parc turn, either way, would have a profound impact on dealers’ used car volumes – in the region of 700,000 units over the 2009 to 2015 period, as shown in Figure 2[12].

Figure 2[12]; Dealers’ used car volumes 0-5 year-old cars (millions)

1000s	2009	2010	2011	2012	2013	2014	2015
Used car volumes at 20.4% parc turn	2.29	2.15	2.04	1.95	1.92	1.96	2.06
Used car volumes at 21.4% parc turn	2.40	2.26	2.15	2.05	2.03	2.06	2.16

Source: Buckingham

Hardly credible?

At first glance, suggestions there could be a two to three million drop in dealers’ sales of 0-5 year-old cars over the next five or six years seem hardly credible.

Of course, forecasts are just that. They are always open to question, revisions and alternative interpretation – so it’s perhaps tempting to regard variations of such magnitude as purely a ‘fog-screen’ of figures out of step with reality? A bit like the world could come to an end through global warming? It really couldn’t happen – could it?

However, a look at the key drivers of this phenomenon suggest the threat to dealers' sales of 0-5 year-old cars should be taken very seriously indeed – if for no other reason that they account for two thirds of dealers' used car volumes – and possibly more for many franchised dealer outlets.

- The car parc is dealers' market opportunity – their 'used car stock'. Based on recent years' new car sales and the SMMT's forecast for 2010, there will be around two million fewer used cars in the 0 – 5 year age bracket to sell at the end of 2010 compared to five years earlier.
- Underlying new car sales for 2009 (excluding scrappage deals) were a little over 1.7 million units. The 285,000 new car scrappage deals arguably offer little respite or opportunity for the used car industry. Around three-quarters of these new cars were bought by older owners of 10 years-plus cars, who are unlikely to sell their new acquisition in the normal first-owner time span of between three and four years. Over 80% of scrappage deals were imported, small, low-priced vehicles, many likely to suffer higher levels of depreciation – few of which will represent highly-profitable opportunities when they eventually reach the used car market.
- At the time of writing, the full effect of new car sales achieved through scrappage is unknown. Until the scrappage programme has run its full course and all units are delivered, it will be difficult to determine 'natural sales' from 'artificial sales'.
- Could there be some respite from higher than expected new car volumes from 2011 onwards? Hopefully, the economy and new car sales will recover more quickly than the current somewhat modest predictions, although there is little evidence from previous recessions that this is likely.

It took six years to recover to pre-recession new car volumes following the 1919/92 recession

It took six years to recover to pre-recession new car volumes following the 1991/92 recession – and no one is predicting when, or if, the new car market will ever return to the pre-recession level of 2.5 million units seen five years or so ago.

Even if there is an unexpected lift in new car sales, it would be 2014, at the earliest, before it would have much effect on the used car market. So, hopes that the new car market will be the used car sector's saviour in the short term appear futile.

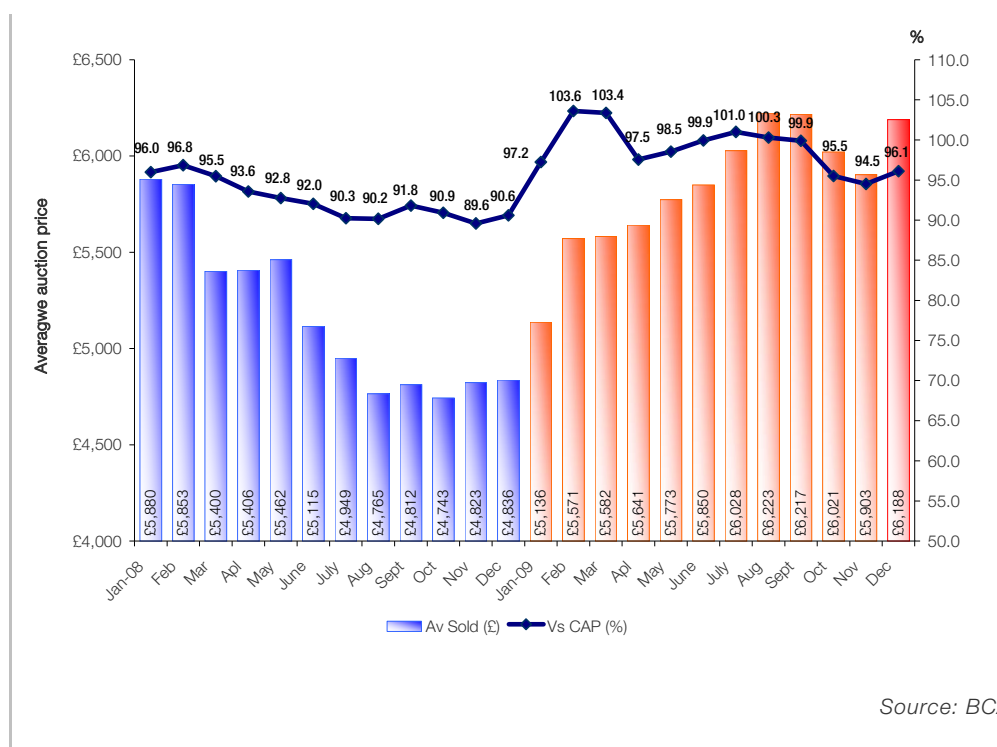
However one decides to crank the figures, the inescapable and unpalatable outcome is that there is a fast-growing 'black hole' in the number of 0-5 year-old cars on the roads – a powerful threat to franchised and non-franchised dealers' used car business.

Used Car Values and Recession

Average used car prices at auction plummeted as the economic downturn deepened during the second half of 2008 – recording a fall of over £1,000 for the year as a whole.

In contrast, 2009 saw a strong recovery in used auction values, remaining above the £6,000 mark for the July to October period – Figure 3[1]. While prices weakened somewhat in the fourth quarter, this follows a typical pattern of values peaking in September before falling slightly towards the end of the year.

Figure 3[1]; Average used car auction values; 2008 – 2009



Source: BCA

2009 average prices finished £1,352 and 27.9%% higher year on year at £6,188. CAP Clean performance also recovered strongly in 2009, settling a few points either side of 100% for the first nine months of the year, falling back a little in the final quarter.

Much of the recovery in auction prices is put down to a shortage of used car stock

Much of the recovery in auction values is put down to a shortage of used car stock during 2009, pushing prices up as dealers competed for a supply of good quality cars to retail, fuelled by;

- A reduction in short-cycle vehicles from pre-registered units, nearly-new cars, car rental and bodyshop courtesy car sources.
- Fewer fleet and leasing disposals as many businesses extended their replacement cycles.
- Fewer part-exchanges from the severe drop in new car sales.

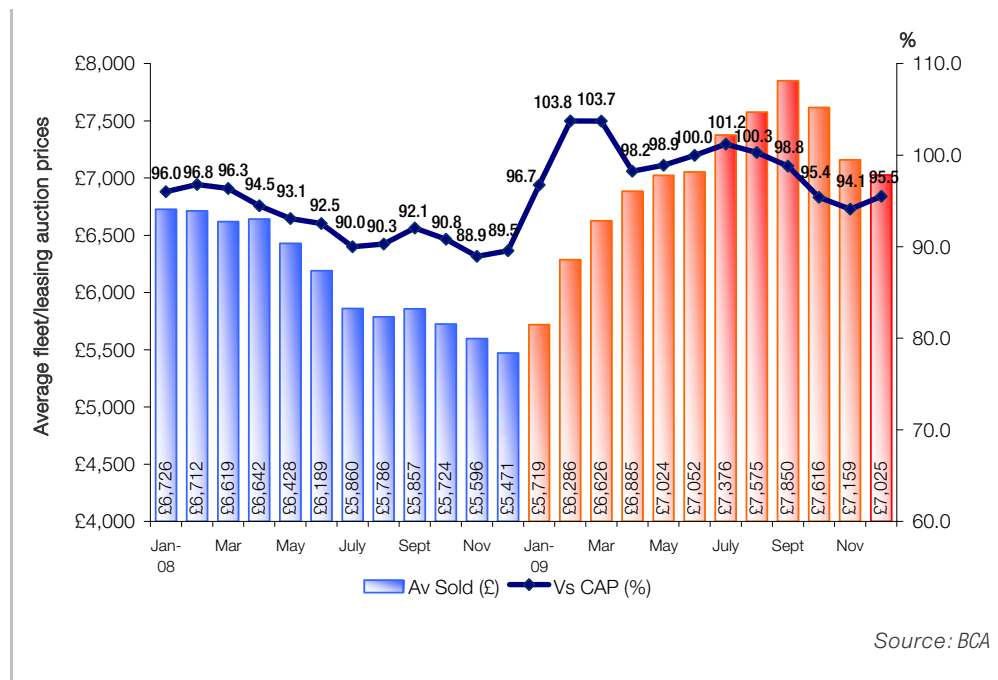
The average auction price trend during 2009 is testimony to the underlying strength of the used car market in the face of a deep and lasting recession. Sustained price rises over a number of months – such as those seen in 2009 – are unlikely to be repeated, simply because the market had fallen so far and needed to recover.

However, it is likely that auction values will remain relatively strong in the medium term, as the shortage of younger used cars worsens and the demand for used cars begins to grow as the economic climate improves.

Fleet and leasing auction values

Figure 3[2] shows that average fleet and leasing auction prices fell steeply during 2008 – recovering robustly, month by month, to a high of £7,850 in September 2009. Despite falling in the final quarter, values remained well ahead of 2008, up by 28.4% and £1,554 over a 12 month period – CAP Clean performance also slipping somewhat in the fourth quarter.

Figure 3[2]; Fleet and leasing average used car auction values; 2008 – 2009



The strategic implications of these two sets of pricing data might be summarised as follows;

- Any substantial decline in used car volumes clearly has a knock-on effect on the residual values of these units; the relationship would appear to be quite close in that dealers can buy used cars for stock as required – although there is a finite limit as far as availability is concerned.

- While fleet operators and leasing companies have to project their residual values three to four years ahead, to determine rental rates for these vehicles, there can be a high degree of price volatility that, in turn, can cause under charging and a significant loss per unit.
- Leasing companies that re-leased units at even a nominal rental may well have reduced their exposure to a significant loss on disposal.
- In terms of economic recovery, there will be a finite level to which used car prices can rise governed by dealers' willingness to pay high prices for units for stock. At some stage, some used car buyers will also decide it makes better sense to buy a new car – even a smaller one – than pay too high a price for a used one.

Market Opportunities and Recovery

As the economy struggles to recover in 2010, dealers will be hard pressed to,

- Firstly, increase used car volumes, and
- Secondly, source sufficient vehicles from a depleted stockpile of younger used cars – as used car demand eventually improves.

Areas dealers might target to address these critical requirements are;

- Increased emphasis on older car sectors
- Used car stock management
- Point of Sale finance
- Increased service retention
- Customer relationships

Increased emphasis on older cars

One realistic option open to used car retailers is to deal more in older used cars sitting in the 6-8 year-old car parc segment created by high new car volumes between 2002 and 2005.

Dealers' 6-8 year-old parc turn has fallen from the higher levels seen in the 1990s, as dealers have tended to focus more on the burgeoning 0-5 year parc segment created by several years' record high new car volumes

Figure 4[1]; Dealers' parc turn 6-8 year-old cars (percentage)

1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
18.2	17.9	13.5	14.1	12.4	13.5	11.8	11.2	11.7	13.7	10.7

Source: BCA Used Car Market Report 2009

Traditionally, sales of 6-8 year-old cars account for around 20% of dealers' volumes

Traditionally, sales of 6-8 year-old cars account for around 20% of dealers' used car volumes, averaging 11.8% of this car parc segment annually over five years up to 2008 – Figures 4[1] and 4[2].

Figure 4[2]; 6-8 year-old cars percentage of dealers' used car volumes

1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
20.6	22.0	19.4	21.6	20.1	21.2	20.1	18.5	19.1	24.3	21.6

Source: BCA Used Car Market Report 2009

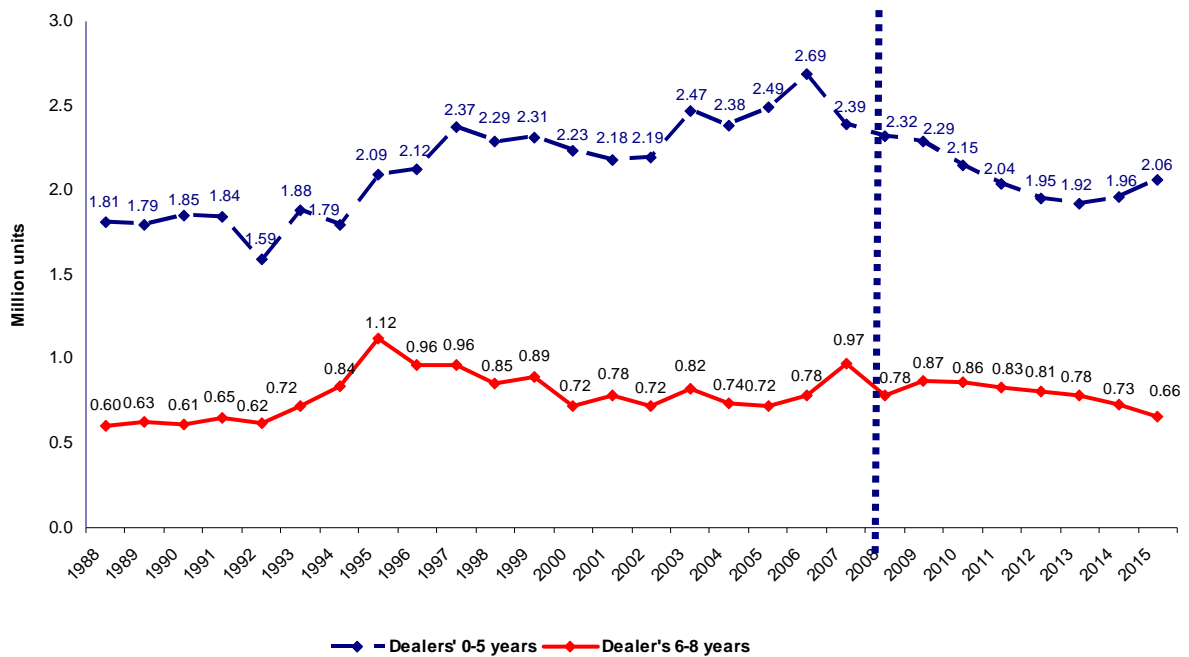
Figure 4[3]; Car parc 6-8 year-old cars 2005 – 2015 (millions)

2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
6.39	6.65	7.05	7.31	7.38	7.26	7.04	6.89	6.59	6.25	5.65

Source: SMMT/Buckingham

Figure 4[3] shows the 6-8 year car parc will peak in 2009, remaining around seven million units until 2012; a clear opportunity for dealers to underpin their used car volumes until the 0-2 and 3-5 years' segments begin to recover.

Figure 4[4]; Used car volumes 1999 - 2008



Source: BCA Used Car Market Report 2009/Buckingham

At a parc turn rate of 11.8%, dealers' sales of 6-8 year-old cars would remain above 800,000 units until 2012 (Figure 4[5]) – weakening steadily thereafter as this car parc age group shrinks due to the high number of new cars registered eight years or more earlier having passed through this sector of the parc.

Figure 4[5]; Dealers' used car volumes 6-8 year-old cars (thousands)

1000s	2009	2010	2011	2012	2013	2014	2015
Used car volumes at 11.8% parc turn	871	857	831	812	777	738	667
Used car volumes at 12.8% parc turn	945	930	901	881	843	800	723

Source: Buckingham

As we have seen earlier, a one percentage point improvement in parc turn makes a big difference – an additional 470,000 car sales for dealers in the 6-8 year age group over the 2009 and 2015 period by raising the parc turn to 12.8%.

Many well looked-after cars in this age group are regarded as highly desirable

Demand in this sector remains strong and underlines that, for many motorists on a tight budget, a six year-old, 80,000-mile car is a very attractive, affordable proposition. Many well-looked-after cars in this age group are now regarded as a highly-desirable second family car – well able to challenge an equivalent new car for quality, appearance and reliability.

Remember, there is also an additional 720,000 units on offer if dealers can increase their turn of the 0-5 year-old car parc by one per cent – a million plus extra used car sales up for grabs . . .

Use car stock management

Given the tighter used car stock situation in terms of supply and pricing, dealers may need to refocus their used car inventory, ensuring they are holding exactly what their target and de facto market sectors require.

Used car inventory has to be made to work harder

Quite simply, the used car inventory has to be made to work harder than it has ever done in the past, and dealers may need to focus on such basics as proactively marketing their used car offering rather than being reactive and waiting for customers to come to the dealership. (*Used Cars; Recession and Recovery – A Dealer Sales Action Plan – a new report for BCA by the Centre for Automotive Management at The University of Buckingham*)

Point of Sale finance

The ‘credit crunch’ could be claimed to have had a disproportionate impact on the used car market with car loans much more difficult to secure over the past 18 months or so. Until the economic downturn and banking crisis, ‘credit was relatively easy’ and banks and finance houses had freely granted loans to buy used cars.

With the likelihood of weaker used car demand and difficulty in the supply of quality used cars for some years to come, selling finance to a high percentage of car buyers will push profitability to a higher plateau.

The challenge is to ensure car salespeople provide every prospective car buyer with a competitive Point of Sale finance quote – even when customers say they have pre-arranged finance or claim ‘they will be using cash’. It should become second nature for salespeople to discuss finance with every car buyer – without fail.

Service retention

Dealers’ ability to increase service retention is crucial to help offset weak new and used car volumes

Dealers’ ability to increase service retention is crucial to help offset weak new and used car volumes for some years to come – to counteract the impact of the ageing car parc on service and repair market volumes for younger cars in the parc – traditionally the mainstay of franchised dealers’ aftersales business.

Figure 4[6]; Car parc 0-5 year-old cars 2005 – 2015 (millions)

2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
12.42	12.17	11.87	11.39	11.19	10.52	10.04	9.61	9.53	9.69	10.16
2009 – 2015 car parc vs. 2008				-0.20	-0.87	-1.35	-1.78	-1.86	-1.70	-1.23

Source: SMMT/Buckingham

Figure 4[6] shows how much the parc of younger cars (0-5 year age group) is expected fall over the next few years – and how much lower than 2008's level this sector of the parc is likely to shrink, before it begins to recover in 2014. It is not difficult to work out the implications for the size of the service/repair market – or the huge task that dealers face to sustain their aftersales business.

If there are substantially fewer cars on the country's roads for any age group, then service and repair market for that sector drops accordingly – there is no way of producing units magically to fill the gap. The service and repair market volumes shown in Figure 4[7] reflect the car parc trend for this particular sector and the Castrol/Trend Tracker Professional Report 2008 which estimates annual average service/repair expenditure at £249 per unit in the car parc.

Figure 4[7]; Service and repair market – 0-5 year-old car parc at 2008 prices (£ billions)

2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
3.09	3.03	2.96	2.84	2.79	2.62	2.50	2.39	2.37	2.41	2.53
2009-2015 expenditure vs. 2008 level				-0.05	-0.22	-0.34	-0.44	-0.46	-0.42	-0.31
Percentage expenditure fall vs. 2008				-1.8	-7.6	-11.9	-15.6	-16.3	-14.9	-10.8

Source: SMMT/Trend Tracker/Buckingham

Although this might exaggerate the market size for 0-5 year-old cars a little – as younger cars generally need fewer repairs than average, some covered by warranty in the early years – it is balanced by a substantial fleet content with a higher than average rate of servicing. However, this should not divert attention from the 'black hole' looming in the aftersales' market for younger cars – amounting to around £2 billion in the 2009 to 2015 period compared to 2008's level – at its worst between 2012 and 2014.

At constant prices, it will be several years before the service and repair market value returns to the higher levels experienced 10 years earlier. Similar to the used car threat discussed earlier in the report, dealers' only option is to increase their share of the service and repair market for this age group and/or their penetration of the aftersales market for older cars.

Customer relationships

It's an extremely hard and costly exercise having to continually find new motorists to buy a used car – when it is far more cost effective selling to existing customers.

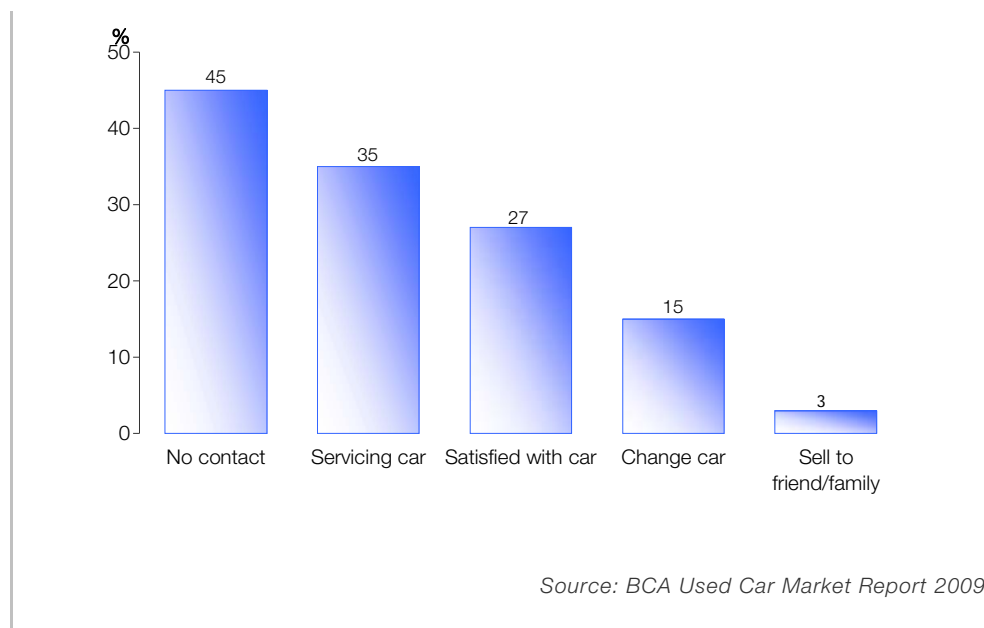
This should not divert attention from the 'black hole'

Over the past five years, research for the BCA Used Car Marketing Report has asked car owners if the dealer they bought their car from kept in touch regularly to ensure they were happy with their car, offer them service, or perhaps interest them in buying another car.

85% of used car owners had not been approached to see if they might consider replacing their car

The 2009 BCA report showed that 73% of used car buyers hadn't been asked if they were satisfied with their car, 65% hadn't been contacted about servicing and 85% of used car owners hadn't been approached by their selling dealer to see if they might be prepared to discuss replacing their car.

Figure 4[8]; Dealer contact with used car customers



Dealer salespeople, asking customers if they know of a family member, or friend, who might be prepared to discuss the possibility of buying a car, is almost unheard of.

Presumably, the majority of used car dealers are content to wait for their customers to get in touch when they have a problem or are ready to buy another car? Presumably, the majority of used car dealers are resigned to spending considerable time and money searching for completely new prospects, rather than building close, profitable relationships with more of their existing customers?

Unlike many products open to online purchase, the vast majority of new or used cars will continue to be bought 'seen', face-to-face with a salesperson. It is crucial during the long climb out of recession that dealers' salespeople dramatically improve their track record in keeping in touch with their new and used car customers, anticipating when they, or someone they know, might be thinking about changing their car, so they can be first at the post to discuss this possibility.

It is crucial during the long climb out of recession that salespeople improve their track record

Figure 4[8] underlines just how much room there is for improvement on this front.

Implications and Conclusions

The move from recession to economic recovery may have different implications for different sectors of the automotive industry. The bullet points below seek to highlight some of these critical issues by industry sector. Although not a comprehensive list, these observations offer some thought-starters as the economy moves towards some sort of recovery;

- **Used car supply;** quality used cars have been in short supply for much of 2009; which is likely to be a critical issue for some considerable time to come. It is possible many dealers will consider selling older cars to maintain their used car volumes and profitability.
- **Fleet operators and leasing companies;** may breathe a sigh of relief if used car prices at auction and trade remain strong, so they can recoup some of the losses accrued during the period of low used car values. There might also be some concern on auction and trade-in values if there is a significant shift in used car demand towards smaller rather than larger cars.
- **Used car prices;** it is likely that used car prices across younger age groups will remain relatively high as the economy recovers. There is, and will continue to be, a marked shortage of younger used cars caused by much lower new car volumes. Prices during recovery from the current recession could be further confused by the influence of the new car scrappage scheme, buyers' intentions to downsize and the sums they are willing to invest in a used car – particularly if credit continues to be tight.

It is likely used car prices across younger age groups will remain relatively high as the economy recovers

Finance; credit availability is likely to remain in relatively short supply for used car acquisition, at least for the foreseeable future. Finance for used car purchase will be critical with economic recovery and, given the pressures on consumer credit, there may be a move to focus on lower-priced and smaller cars from a funding viewpoint as the economy improves.

Manufacturers' finance houses may have a critical role to play here in terms of supporting franchised dealers through funding their used vehicle sales as a means of helping to rebuild new car volumes and profitability.

Dealers; will have a number of issues to contend with in terms of a recovering used car market. Building inventories of used cars may be difficult at times, in terms of unit availability and predicting any post-recession model change requirements.

Will recession and scrappage as well as growing environmental concerns impact on used car demand? Dealers may also need to operate outside their traditional comfort zone of younger used cars and focus more on those in the middle-aged group.

Franchised dealers face a particularly tough battle to protect their viability

- **Dealer numbers;** franchised dealers face a particularly tough battle to protect their viability on the following fronts;
 - A 17-year low new car sales forecast for 2010 and the likelihood of a prolonged recovery thereafter, falling well short of much higher pre-recession volumes.
 - A sharp fall in the 0-5 year car parc posing a severe threat to used car supply and used car volumes in this critical sector for franchised dealers.
 - A significant drop in car finance contribution from weaker new and used car volumes.
 - A marked fall in the service and repair market for 0-5 year-old cars which franchised dealers, in particular, rely on for much of their aftersales business.

Many dealers' survival will depend on how effectively they deal with these critical issues over the next two or three years. The UK franchised dealer count has been falling steadily even during the period when new and used car markets were much stronger.

The stark reality is that the industry might soon have to face up to the prospect of considerably fewer franchised dealers in the face of enduring, tough market conditions.

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