

The uncertainty game

SPECIAL REPORT

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Dealers are trying to get to grips with an acute shortage of good used stock and experts say it's a problem that is not going away anytime soon

John Kirwan

It's a "stocking crisis," said Glass's Guide. The supply shortage is "unprecedented" said Cap Black Book. There's a "dearth of stock" said auction house BCA. After a dire 2008 and upbeat first half of 2009, the used car market is causing problems again.

The collapse in new car sales over the past year means there is less stock filtering into the used car market, which is contracting at a pace.

As demand exceeds supply, wholesale prices keep on rising.

And the problem for dealers is customers are increasingly unwilling to accept higher retail prices so margins are squeezed.

Inchcape, the number two dealer group in Britain was cautious last month about used cars and where the market is going.

The group had done well out of the used sector in the first half but, now, like so many dealers, it was in uncharted territory.

Ken Lee, Inchcape group marketing director said there was "uncertainty" as to what the used sector was going to do.

It was a conundrum addressed by the auction houses and car valuation guides last month.

Glass's Guide said the problem



TAKING STOCK: Dealers are finding it difficult to get good stock

started when dealers and carmakers slammed on the brakes in 2008, slashing costs and clearing the balance sheets.

They took a scythe to low-profit daily rental business. Dealers, meanwhile, reduced the number of demonstrators and courtesy cars on their books to cut costs in a dire financial climate.

The supply of used cars was largely unaffected in the first few months of the year with vehicles still in the pipeline but that has changed, said Glass's.

"The supply is now severely

depleted and manufacturers widely report that their inventories are not only lower than January but they are at an all time low," said Glass's.

The impact on prices has been dramatic. Late plate used cars are up by as much as 25 per cent, according to Glass' Guide managing editor Adrian Rushmore.

"The growing concern for dealers is that consumers will not accept the transfer of these higher trade prices to retail asking prices.

"Dealers are turning to older

Dealers are increasingly turning to older vehicles for suitable stock

vehicles as the only means of maintaining a suitable level of stock.

"The severe reduction in new car sales has generated fewer part-exchanges and many

franchised dealers have expressed more of an interest in purchasing cars from general auction sales than at any time in the past." ▶



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◀ Over at rival valuation guide Cap, the prognosis is similar. It said there had been predictions that the market would stabilise in the summer but this has not happened.

"In an unprecedented market, dealers are still desperate for stock despite a gradual slowdown in retail demand."

The valuation guide's measure of auction conversion rates for ex-fleet cars was the third strongest in 2009 with 87.5 per cent of cars selling first time.

Cap concedes that while leasing companies will be cheerful at rising prices, protecting their margins at time of disposal, for dealers it is a different story.

"Because consumers are buying fewer new cars, dealers are unable to rely on part-exchange cars to fill the forecourt."

The result is that franchised dealers have had to go head to head with independent dealers at auction.

"Franchised dealers in particular have been forced to join the general clamour for stock in the open market, adding to the upward pressure on prices."

"But because consumers are still resistant to higher retail values in the current economic climate, the inevitable result is squeezed margins."

The results from auction houses reflect the rise in demand with very high conversion rates and rising auction sale values.

Auction house Manheim confirms the confident state of the



GOING UP: Prices rose once again in August

market in 2009 in its most recent survey.

"The buoyant used car market in 2009 is reflected in the 75 per cent of dealers experiencing improved used car sales compared with 2008."

It is a buoyancy that has helped many a dealer group. Inchcape, the number two dealer group by turnover, reported last month that used cars were strong in the UK with "volumes and margins ahead" of 2008. Pendragon chairman Sir Nigel Rudd said the company had "seen a return to more normal markets for used car sales" and Lookers said it was achieving a "strong performance" in used sales.

That was then. What about now? Where do dealers go from here? Dealers will face a tough time sourcing good used stock over the next two to three years, according to BCA.

"The drop in new car volumes means there will be a significant fall in the number of younger used

cars coming to the market in the next two to three years.

"This is significantly less than the used car market would conventionally be able to absorb."

A steady decline in used car volumes, particularly in the younger segments, will almost inevitably continue as the car parc shrinks and changes shape, according to the report.

"This, in turn will mean used car retailers will need to seek to enhance their value added, and profitability per unit, if they are to remain economically viable," it said.

At Glass's Guide, Rushmore believes the supply of ex-rental cars will continue to fall and the supply of used cars will not improve until mid-2010 at the earliest.

He argues that even if they do come back in, they will do so with "short term" contracts, exceeding the usual seven months.

"This will prolong the period of used car drought," he said.

Cap, too, believes there is "no early end in sight to supply constraints" and it warns dealers to "expect further

reductions in the number of cars returning to the used car market over the coming weeks" and once again it bumped up the values of cars in August, this time by 1.5 per cent.

Professor Peter Cooke, KPMG Professor of Automotive Management, University of Buckingham thinks we may be seeing a shift in the marketplace and prices of younger cars will continue to rise.

Dealers may have to rewrite the rule book on the age of vehicles they stock.

"This phenomenon is likely to continue for years," he said. **MT**

Dealers face a tough time sourcing good stock over the next two years

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SPONSOR'S COMMENT

John Gilbert,
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Management



Thinking globally...

As Lumley Auto we supplied quality insurance products to the automotive sector for over 30 years.

However, since we had a change of management five years ago, we have grown from an annual turnover of £3m to nearly £20m.

Our special relationship with AXA Insurance has helped us build operations throughout Europe and the Middle East. So the company that you have always known and trusted is now truly global.

We therefore decided to rename the company Global Insurance Management to reflect this growth.

Our name change came into effect in April and to mark the occasion we launched a new website www.globalim.co.uk complete with policy registration and industry news. We also have FSA updates at www.globalim.co.uk/fsa-information

Taking care of cashflow

In straitened times cashflow is king. With this in mind Manheim has launched Seller Advance. Dealers can value a part exchange vehicle online, using market data and vehicle condition information.

Once the value is agreed for a set period the vehicle can be sent to auction at a click of a button. After the vehicle has been inspected the full valuation is advanced via BACS the next working day.

Once the auction has taken place and the vehicle sold, any difference between the valuation and Manheim's advance payment is reconciled within one week. In a six month trial, margin of error was less than three months.



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