

USED VEHICLE: SUPPLY, STOCKING AND SALES

Executive Summary

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1.1 AUSTRALIAN SALES LEVELS

The challenges faced by individual organisations will be affected by the overall sales trends in the used vehicle market and any changes in the level and type of competition. Between 1999 and 2003 the ratio of used vehicle sales to new vehicle sales was 2.3, illustrated in *Figure 1*. For 2003 the volume of used vehicle sales was 1.7 million passenger motor vehicles (PMVs), and volume of new vehicle sales was 739,089, including recreational and SUV vehicles. New vehicle sales volumes have increased by 16% between 1999 and 2003, and used vehicle sales have increased by 11% for the same period.

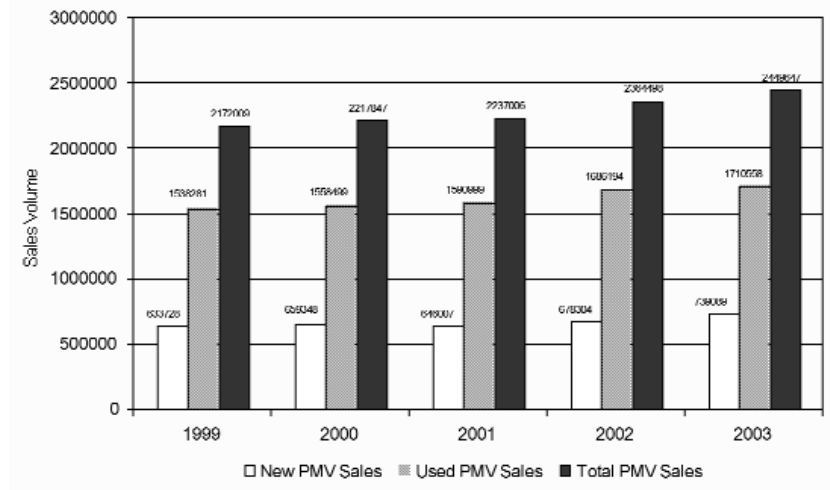


Figure 1 Australian Vehicle Sales

For the same period the population growth was 5% so both new and used passenger vehicle sales volumes have grown at a rate higher than the population. The total vehicle parc has also grown considerably from 9.5 million PMVs in 1999 to 10.4 million PMVs in 2003, while the percentage vehicles exiting the parc has decreased.

There are some key factors that will have an impact on the future of the used vehicle market:

- The growth in new vehicle sales and the increase size of vehicle parc is higher than the population growth.
- The number of PMVs per 1000 people has increased by 2% in five years to 522 vehicles per 1000 people in 2003. The vehicle density has increased by 11% in the decade since 1993.
- Vehicle usage or ownership for people 18 and above is 647 PMVs per 1000 people, a 9% increase since 1993.
- The number of vehicles per 1000 licensed drivers varies between 800 PMV and 1000 PMV across the states with Western Australia, Victoria, and Queensland having the highest level of vehicle ownership / access in Australia shown in *Figure 2*.

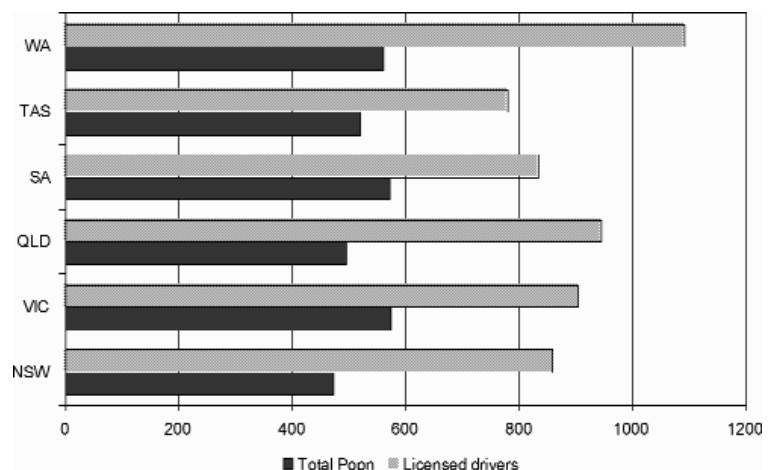


Figure 2 Number vehicles per '000 licensed drivers

This indicates that there is little room for growth in sales as a result of increasing population, so the industry will need to consider the overall market efficiency, which is currently at 22%, lower than the parc efficiency of the UK, France, or Germany. There has been little change in parc efficiency in the last five years and currently there is no national policy to remove aging vehicles or require a minimum roadworthy standard.

During this period dealer numbers (as measured by Motor Car Trader licenses) have not changed significantly although the industry is very volatile with 7% of dealers exiting each year and 7% new entrants into the market. However the number of licenses with wholesale has increased. The increase is due to wholesalers moving into the retail market and dealers and retailers extending their operations into the wholesale market, so competition in both areas has increased.

There has been a substantial increase in private to private sales with the biggest increases occurring in Victoria and New South Wales. The increase in private to private market and the increase in private buyers purchasing vehicles from auction companies together with the rapid rise of the internet as a research tool indicate that the private customers are looking at alternative channels for purchasing vehicles. There is a requirement for the industry to undertake customer research to understand why customers are looking for alternatives to the traditional used vehicle retail outlets.

The factors contributing to the increase in the private to private market are:

- Ability by private owners to obtain best price through advertising on the internet
- Lack of awareness of the value provided by dealers through vehicle inspection, reconditioning and background checks
- Dealers less willing to trade undesirable vehicles or pay inflated trade-in values
- Customers looking for alternatives to the traditional sales channels.

1.2 PROFIT

The level of gross profit per vehicle achieved by dealers is related to the sourcing policy, the stock turns and the type of vehicle sold. Premium brands and special interest or lifestyle vehicles such as four-wheel drives achieve the highest average gross profit per vehicle, and imported volume brands have the lowest average gross profit per vehicle. The use of multiple sources to acquire vehicles is associated with higher levels of average gross profit per vehicle. Dealers using multiple sources have an active stocking policy in line with their sales strategy. Alternatively a high level of trade-ins, taken into stock, is associated with lower average gross profits per used vehicle salesperson.

The gross profitability from vehicle sales is affected by the stock turn level with the most profitable dealers having an average stock turn of four and above, and seven and above for the most profitable volume franchises. The best performance emerges by balancing stock turn with achieving the best possible return per vehicle and ensuring that aged stock is wholesaled. There is no correlation between the size of the dealership and the average gross profit per vehicle.

However the average gross profit per vehicle has fallen from \$1714 in 1999 to \$1629 in 2003 with an increased number of dealers reporting an average loss per vehicle. At the same time there has been an increase in the number of dealers reporting average gross profit per vehicle above \$2000 shown in *Figure 3*.

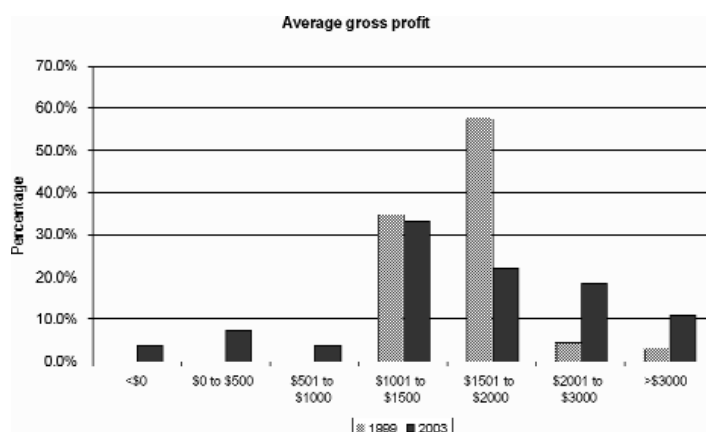


Figure 3 Average Gross Profit per Vehicle

Small dealers are not fully realising the opportunities to sell ancillary services such as finance, insurance and extended warranties. Pro-active dealerships are now offering extended warranties on all vehicles as a sales incentive and to capture future after-sales business. There are opportunities for dealers to become more proactive in selling finance and insurance, and increasing the number of revenue streams for the dealership.

1.3 MAJOR ISSUES

One of the major concerns for dealers are bureaucracy and taxation, and the impact on small business of collecting and remitting taxation. The time taken to meet the government requirements for taxation and business reporting are adding 15 minutes of time to each vehicle processed, and the cost is not being recouped in the vehicle sale. This additional cost has been absorbed by the dealers. Additionally the government is now seen as a competitor in the used vehicle market with government auctions selling direct to the public having an impact on both the supply of used vehicles and competition for potential customers.

GST was expected to have an impact on used vehicle prices. After an initial fall in 2001, the retail value of small and lifestyle recreational vehicles returned to pre-GST levels (compared to new vehicle prices), while the drop in value (compared to new vehicle prices) of large passenger family vehicles has persisted.

1.4 EMERGING RETAIL MODELS

Automotive superstores have been established for at least five years in both the UK and USA. The UK models have some specific features:

- Same day finance and insurance approval on site
- After sales service
- Vehicle locating service
- Fixed price, hassle free sales
- Supermarket style of product presentation.

In addition the stocking policy of the leading UK superstore is "sell one vehicle – buy one vehicle". The company tracks current customer buying patterns and seasonal trends to select vehicles for stock rather than the more traditional sales history model of vehicle selection.

The Australian superstore models operate in both the wholesale and retail channels increasing the number of revenue streams and increasing access to available stock. They may be a wholesaler / dealer or have specific ongoing relationships with a panel of suppliers. The emerging Australian superstore models offers the same range of services as the UK models and have the ability to take any vehicle as a trade due to the wholesale operation.

In addition all of these emerging models are located in areas away from high cost real estate locations but draw their potential customer pool from a wide catchment. They gain the benefit of controlling real estate costs while providing a package that attracts customers. In each case, the dealer locations are close to major arterials that provide easy access for customers.

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