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THE WHOLESALE USED VEHICLE CHANNEL

Executive Summary

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Just over 1.54 million used passenger vehicles were sold through the retail used passenger vehicle market in 2002, compared to 730,000 new passenger vehicles. This represents five new passenger vehicles and ten used passenger vehicles for every 100 persons aged eighteen and over in Australia. The private-to-private segment for used vehicles is the largest individual segment and accounts for 30% of all used vehicle sales. As a percentage of the Australian market the private-to-private segment has increased by 4% since 2000. Used vehicles from government fleets are the next largest source of used vehicles, followed by manufacturer and rental fleets, and then business fleets (*Figure 1*).

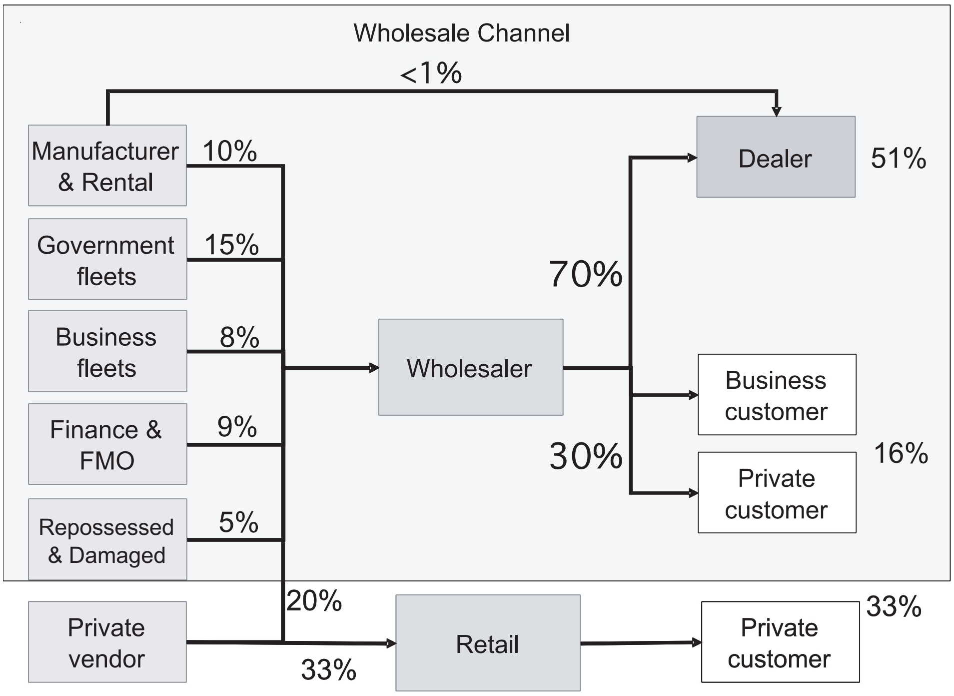

Figure 1 Sources and customers of used vehicles

There are several factors contributing to the increase in private-to-private sales. The Goods and Service Tax (GST) introduced in 2000 applies only to sales by used-vehicle dealers and not to private-to-private transactions. Internet listings of vehicles by private sellers have increased over the last five years and private buyers are increasingly using the Internet as an information source and to locate vehicles, by-passing more traditional sales channels.

The wholesale channel for used vehicles consists of three types of entities: sources or suppliers of used vehicles, intermediaries which provide a service, and the buyers (*Figure 2*). At any given time an individual organisation can operate as a source, an intermediary or a buyer. The ratio of vehicles moving through the wholesale channel versus private-to-private sales is 2:1. For each vehicle in the wholesale channel there is an average of 2.8 transfers between channel entities.

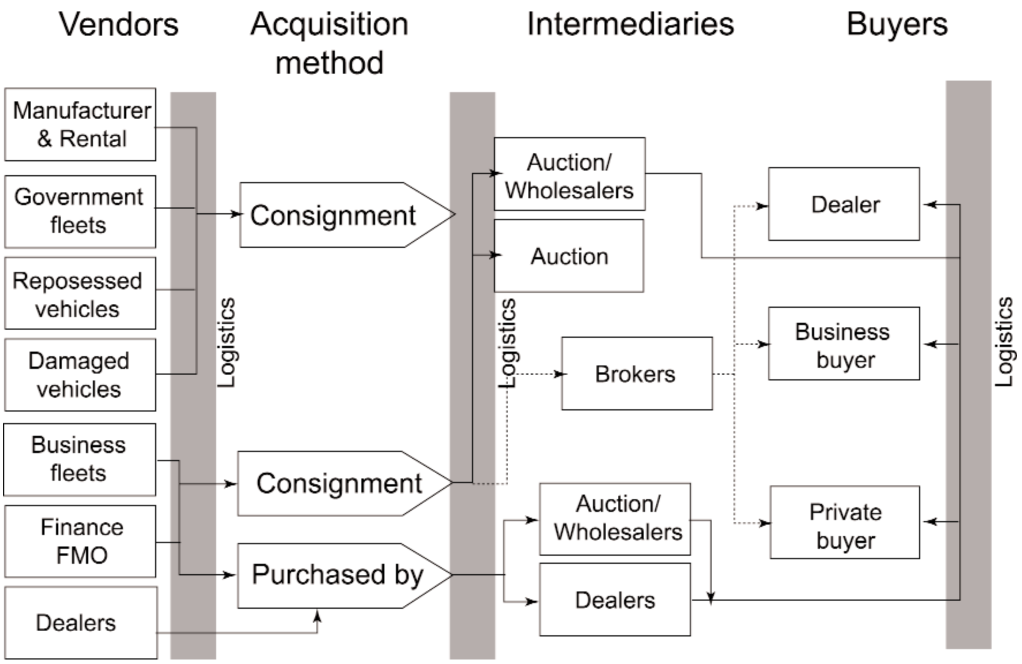

Figure 2 Entities in the used vehicle channel

Manufacturers and rental companies dispose of vehicles directly to dealers or indirectly through an intermediary such as an auction house. They use a preferred logistics supplier and tender for long term service agreements. The contracts and negotiations with intermediaries and logistics companies are characterised by a need for high levels of service, strong informal communication links and performance reviews. Currently, the disposal of these vehicles is not managed effectively which leads to oversupply of certain models, with a subsequent fall in prices. There is an opportunity to implement a forecasting/scheduling approach to the disposal of used vehicles.

Business and government organisations with fleets, and finance and fleet management companies dispose of their used vehicles by consignment at auction, or sale by tender. Unlike the manufacturers, the contracts and negotiations with intermediaries and logistics companies are characterised by variable levels of service, strong informal communication links and performance reviews. These fleet operators currently use regional stocking points and local transport companies to collect end-of-lease vehicles in a timely fashion. An opportunity exists to apply supply chain management techniques to the selection and use of logistics suppliers to improve the overall performance of supply. By focusing on supporting alliances between interstate and intrastate logistics companies, and balancing volume discounts against response times these organisations have the opportunity to reduce stock holding times and the number of transit points.

Dealer-to-dealer, and dealer-to-auction transfers account for 32% of all transfers, and are the most informal relationship within the channel. Dealers and auction houses operate as both sources of supply and as buyers in the channel. Dealer relationships are limited to two to three auction houses, one or two logistics providers and a core of six to ten dealers and are characterised by strong informal links, with high levels of trust. The relationships develop over period of ten to fifteen years, but are not formalised. Dealers with these strong informal links to other dealers utilise trade-ins from within the network as the major source of used vehicles. An opportunity exists for associated dealers to act in partnership to source logistics services.

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Vehicles traded-in by a private buyer on the purchase of another vehicle, account for 20% of all vehicles entering the used market. Depending on the type of dealer, between 75% and 90% of the vehicles will be retained within the dealership or dealer networks. Vehicles within the price range and model mix usually traded by the dealership will be retained internally, while the remainder will be sold at trade-in price to another dealership. Long-term dealer relationships have led to an efficient turnover of vehicles. The elapsed time from receipt of a traded in vehicle to its display for sale at the selling dealership can be as long as seven days. For dealerships specialising in used vehicles the average stock turnover for vehicles is 27 days. For franchised dealers, the average stock turnover is 45 days.

It is suggested that the high prices of low-volume, high-demand vehicles that are less than two years old are one contributing factor to the high turnover times of used stock for franchised dealers. The other factor is the need to obtain an appropriate return on vehicles that have been traded-in at close to retail value in order to achieve a new vehicle sale. Used vehicles with high demand but low supply levels were often retailed at prices similar to new vehicle retail prices.

Vehicle prices received at auction and trade are affected by the influx of high volumes of specific makes and models of vehicles. Volumes of 200 to 500 vehicles entering the market within a two-week period will result in a fall in prices received at auction or trade of $500 per vehicle. The common sources of over-supply are rental fleet vehicles or government fleet vehicles.

Each Australian State currently captures and records information on used vehicles differently. There is no current national system for collecting and analysing information from all sources. For organisations involved in the used vehicle channel and the used vehicle market, a current comprehensive system of collecting information will provide a useful tool in tracking changes in the market, and identifying points of oversupply and undersupply.

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