

# USED CARS

## A DEALER'S SALES ACTION PLAN FOR RECESSION AND RECOVERY

*A report by BCA*



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# Executive Summary

Some commentators would claim the used car market is the 'Cinderella' segment of the motor industry but, in a period of recession, the sector demands more attention than ever before. The changing shape of the car parc as the economy emerges from recession will also make this sector of dealer business even more crucial than it has been in the past.

Franchised and non-franchised dealers' face an exceedingly tough challenge – to 'to generate sufficient profitable sales and economic activity to ensure their business is in a sound financial state to take full advantage of the elusive economic upturn when the country fully emerges from recession'.

In this briefing note, the following issues are put forwards as being important, and manageable;

- Opportunities to sell cars are likely to remain thin on the round throughout 2010 – as the economy struggles out of recession and car owners face a raft of increased costs in terms of higher VAT, significantly higher fuel costs, increased VED charges, rising insurance bills – and first year registration fees for new car buyers.
- Used car market segmentation can be employed in exactly the same way and as new car market segmentation – and programmes can be tightly targeted.
- Consumers expect at least a good an experience in buying and owning a used car as they do with a new one. Budgets need to be focused to provide this balance.
- Used cars have become a buyers' market yet, with a tightening of availability of quality vehicles and manufacturers aggressively promoting new car sales, used car retailers will need to become ever more professional in market analysis, planning and marketing used cars.
- While technology is a powerful sales tool, it is no substitute for dealer salespeople communicating effectively with prospects and customers. The briefing examines some of the key issues of customer contact.

As shown in the final chepter, it is possible to develop a tightly-targeted programme to build used car marketing and markets – and dealer profitability.

The checklists presented have been designed to help kick start the sales planning and implementation process in what will become an increasingly tight market; one where dealers need to be totally professional in a highly competitive situation.

# Contents

<b>Executive Summary</b>	3
<b>Contents</b>	4
<b>Chapter 1 – Introduction</b>	5
• Dealers face a tough challenge	5
<b>Chapter 2 – The Used Car Market</b>	7
• Underlying demand weak	9
• Used car auction values	10
• New versus used car market – parallels and inconsistencies	11
• ‘Only men buy used cars’	11
• Demographic evaluation	12
• Implications for used car retailers	14
• Checklist for action	14
• Some initial conclusions	15
<b>Chapter 3 – Consumer Expectations</b>	16
• What type of used car to consider buying/	16
• Choosing which used car to buy	17
• Which used car dealer to buy from?	17
• Buying in the next 12 months	18
• What type of car to buy next time?	19
• Where to buy the next car?	19
• Buying a car during recession	20
• What car to buy when the recession is over?	21
• Dealer actions	22
• Some initial conclusions	23
<b>Chapter 4 – Dealer Used Car Marketing Plan</b>	24
• Segmentation and sales in recession	24
• Sales records deserve to be raked over	25
• Opportunity streams	26
• Different characteristics	27
• Set conversion ratios to meet sales objectives	27
• Customer follow-up	27
• Some initial conclusions	28
<b>Chapter 5 – Implications and Conclusions</b>	29
• Actions for economic recovery and used cars	29

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# Introduction

2008 and 2009 have seen a marked fall in the United Kingdom's new and used car volumes – but for the scrappage scheme, new car sales would have taken a much harder hit than used car volumes.

The past 18 months have seen a good number of franchised dealers and used car retailers cease trading, with the likelihood of further casualties during the anticipated slow recovery from recession.

With new and used car markets expected to be weak for some considerable time to come, many dealers' survival will depend on how effectively they deal with this almost unprecedented threat to their business.

The fall in new car sales over the past three years, and the prolonged recovery expected, mean the supply of quality younger used cars will become even tighter. This suggests they may be more expensive and more difficult to source; with increased market understanding and professionalism very much the order of the day.

## Dealers face a tough challenge

*Sound enough to take advantage of the elusive economic upturn*

Franchised and non-franchised dealers' face an exceedingly tough challenge – to 'to generate sufficient profitable business to ensure their organisation is in a sound enough financial state to take full advantage of the elusive economic upturn as the country emerges from recession'.

This report seeks to examine the effect of the recession on the used car market in particular, and suggest how used car retailers might apply traditional analyses and techniques normally associated with the new car market to the used car sector. It does not attempt to offer a magic bullet, rather a number of thoughts, ideas and techniques that a forward-looking franchised or non-franchised used car retailer might consider taking on board.

The objectives of the report are as follows;

- Firstly, to examine, at a high level, the current and changing shape of the UK car market – focusing on the used car market as it faces the early stages of recovery.
- Secondly, examine car owners' experience and motivations during the recession, and how they might react as the economic climate gradually improves.
- Thirdly, working from first principles, the report seeks to outline the development of a used car sales and marketing approach that used car retailers might fine tune to their own circumstances.

- Fourthly, the briefing paper seeks to highlight some of the critical steps used car retailers and particularly used car sales managers might take to build used car market activity.

The writer claims no special insight into the used car market or its dynamics. Rather, the report offers analyses of some of the most pertinent data on the used car sector and recent consumer research on used car buyers – linking them to a series of tried and tested sales and marketing methods.

*A series of tried and tested sales and marketing methods*

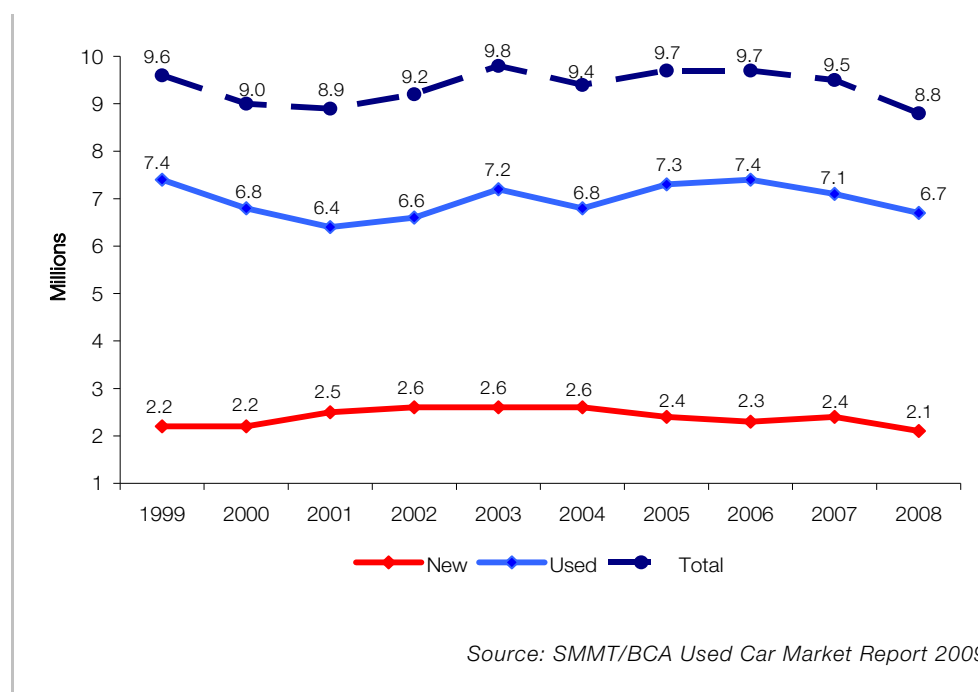
The principal chapters – The Used Car Market; Consumer Expectations and The Used Car Market and Dealer Used Car marketing Plan are written in a generic vein, so they can be readily adapted to individual business needs.

# The Used Car Market

The UK's new and used car markets slowed down dramatically in 2008 and the first half of 2009. Although, boosted by scrappage schemes, the new car market showed significant improvement in the second half of 2009, there is no sure way of knowing how much of this growth is sustainable. Forecasts for 2010 are 'not encouraging' for new cars, which may mean a greater reliance on used car activities to generate revenue and profitability.

Figure 2[1] shows total new and used car volumes 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**



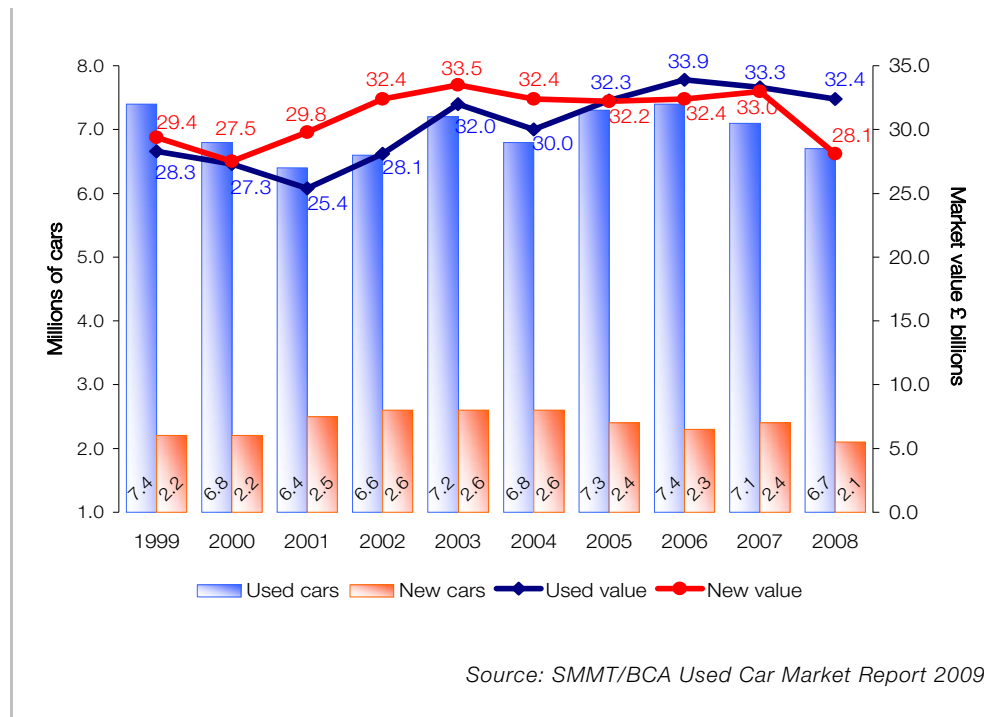
Following three years above the 2.5 million mark between 2002 and 2004, new car volumes fell to their lowest point for 12 years in 2008, to 2.13 million units – nearly 450,000 units fewer than the all-time high of 2.58 million reached five years earlier.

The value of the UK used car market in 2008 was £4 billion more than the value of the new car market, and more than three times as many used units were sold as new cars – Figure 2[2] overleaf.

*Signs are the new/used value gap will have widened in 2009*

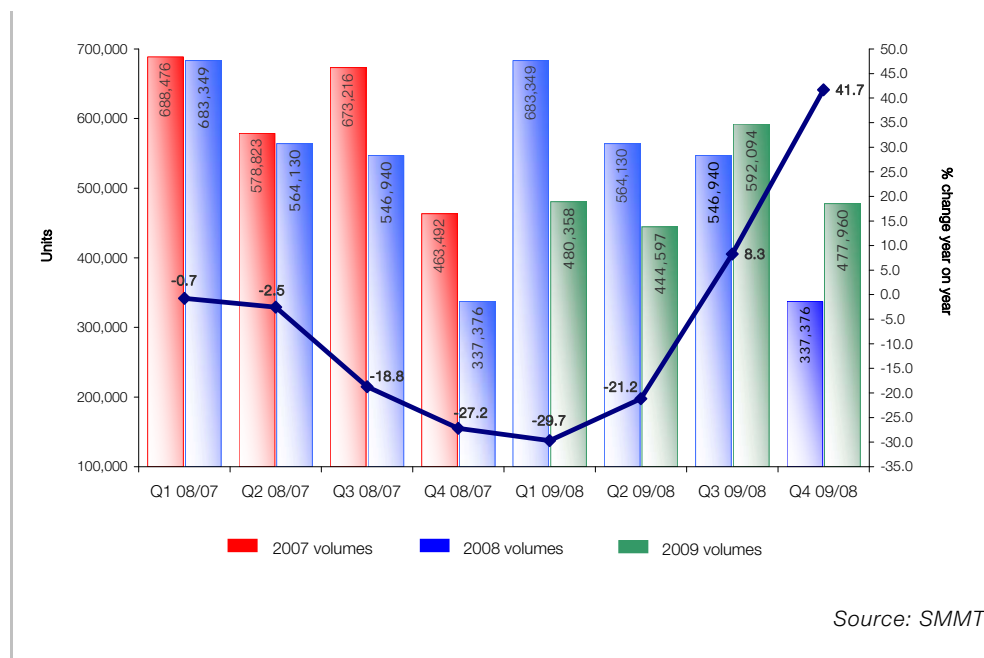
The signs are that the new/used value gap will have widened in 2009. Indeed, it may well not begin to close until the economy recovers sufficiently for those car owners, who have postponed changing their car or migrated to a used car in the short term, feel confident enough to move back to a brand new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

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



New car sales continued to decline during the first half of 2009 (Figure 2[3]), before making a strong recovery in the second half of the year following the introduction of the government scrappage scheme in May.

Figure 2[3]; New car volumes; 2007 –2009



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. Registrations for the full year 2009 were 1,994,999 units, a fall of 6.4% and 136,796 units from 2008 - the first sub two million new car market since 1995.



Excluding new car scrappage deals, new car registrations for 2009 would have fallen to 1.71 million units.

### Underlying demand weak

*The underlying demand for new car remains weak*

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 the underlying private new car market will make a quick recovery in the foreseeable future. At this stage, the SMMT expects 2010 new car volumes to be in the region of 1.8 million units.

Early indications are that used car volumes have 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.

At a macroeconomic level, the prime causes of this downturn in new and used car volumes might be highlighted as follows;

- **Credit availability;** was severely restricted during much of 2008 and 2009. While interest rates have theoretically been mouth-wateringly low – in reality, qualitative barriers to borrowing rather than economic ones, seem to have been in place. While the Chancellor may be putting pressure on nationalised banks to increase consumer and small business lending, banks are also seeking to rebuild their balance sheets and meet new liquidity requirements. Car buyers with ready access to credit are, therefore, in a strong negotiating position
- **Unemployment;** there is speculation this could approach three million during 2010, as a second wave of redundancies caused by companies' reorganisation emerges. Although there are still more than 25 million people employed; a lot in secure positions, many are not spending. While 'employment' is important from a car buying point of view, there is a large, secondary group with 'planned incomes' – retired people. Equally, some otherwise funded buyers may prefer to be seen as avoiding 'conspicuous expenditure'. They may simply not buy; while others might trade down to a smaller new car or a used car
- **New car scrappage scheme;** from mid-May 2009 the government made up to £300 million available to encourage owners of cars or LCVs over 10 years old to scrap their old vehicle and replace it with a new one. At the end of September 2009, the fund was raised to £400 million until such time as it is exhausted or the end of February 2010 – since extended to the end of March. The government is contributing £1,000 per vehicle with participating manufacturers contributing a similar amount – making a total incentive of £2,000 per deal.

*There are still more than 25 million people employed; a lot in secure positions*

*It is debatable how much the programme has contributed to UK vehicle production or dealer profitability*

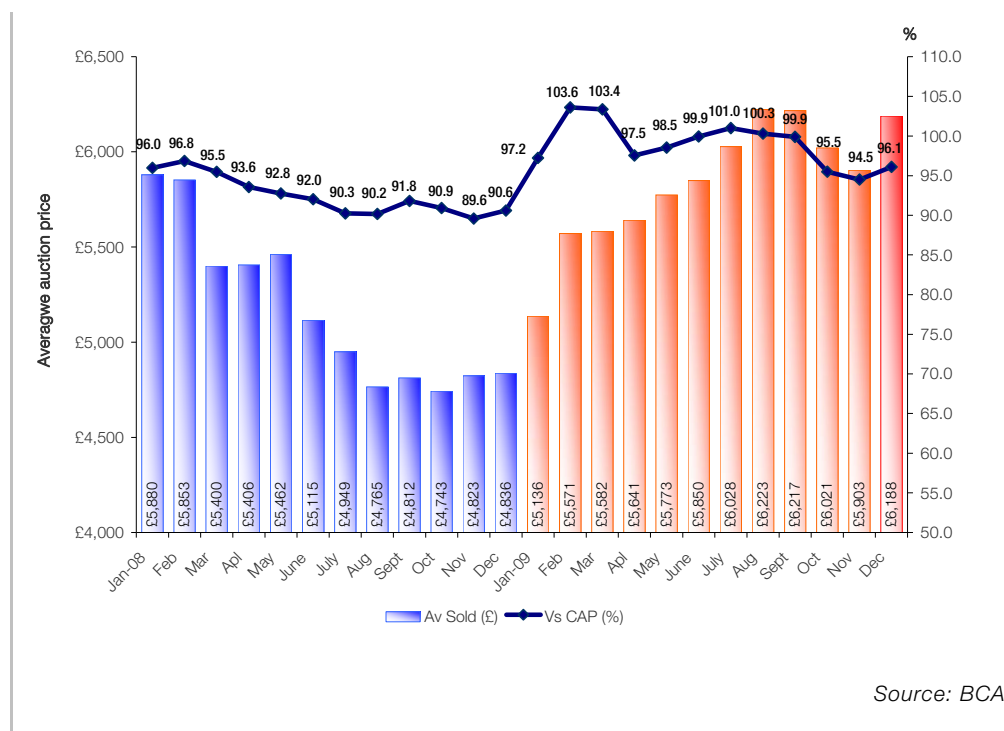
While up to 400,000 'incremental' new car and van sales may serve political expediency, and the scrappage scheme is claimed to have injected a degree of confidence into the new car market – it is debatable how much the programme has contributed to UK vehicle production or, for that matter, dealer profitability. Experience elsewhere in Europe where scrappage schemes have finished shows substantial falls in new car volumes after the incentives were withdrawn. (*'Recession, Scrappage and Sustainable Recovery' – a new report for BCA by the Centre for Automotive Management at The University of Buckingham*)

- **Potential shortage of used car stock;** BCA and other leading players in the used car industry were reporting a shortage of quality used car stock for much of 2009, as many fleet operators and leasing companies extended their replacement cycles. There was also a lack of dealers' part-exchanges from depleted new car volumes and a worsening supply of younger used cars from the country's ageing car parc. (*'Recession and Recovery; Strategic Analysis of the Used Car Market' – a new report for BCA by the Centre for Automotive Management at The University of Buckingham*)

### Used car auction values

Figure 2[4] shows used car auction values recovered strongly in 2009, remaining above the £6,000 mark for the July to October period. 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. 2009 average auction prices finished £1,352 and 27.9%% higher year on year at £6,188.

**Figure 2[4]; Average used car auction values; 2008 – 2009**



## New versus used car market – parallels and inconsistencies

All too often it is overlooked that, however old a car is, it is still very much a 'new car' to its next owner. Indeed, used car buyers may have to put more effort into saving for their 'new car' and will treat it accordingly. They expect the same treatment as new car buyers from used car retailers and particularly the salesperson who sells them their car – they are distinctly not in the second division – they are motorists with purchasing power.

*Car buyers' needs and expectations are much the same*

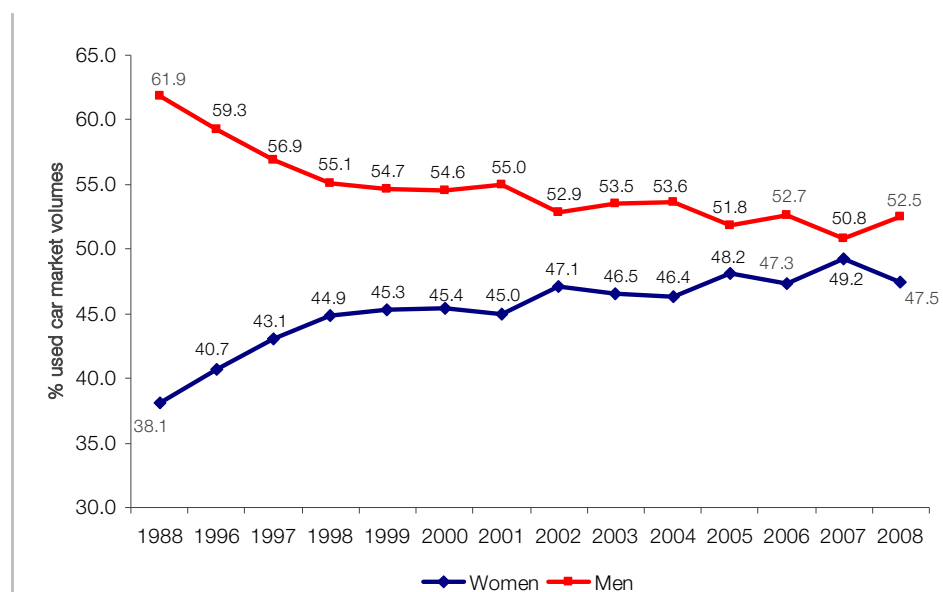
Thereby hangs the clue to buyers of a brand new car or a used car with perhaps a good number of miles on the clock – car buyers' needs and expectations are very much the same.

If customers' needs are much the same, it is likely that used car prospects can be analysed and segmented in a similar manner to new car buyers. New car style analysis may not always have been applied to the used car market perhaps through lack of direction – or simply because used car buyers 'just kept coming in'. Try the same analysis; the parallels are surprising! What are some of the different dynamics of the used car market that might suggest the type of used car stock that could prove attractive?

## 'Only men buy used cars?'

Conventional wisdom has long assumed that 'only men buy used cars', with many retailers' used car stock biased heavily towards 'boys' needs'. Nothing could be further from the truth, however.

**Figure 2[5]; Used car market share by gender**



Source: BCA Used Car Market Report 2009

The apparent reversal in this trend in 2008, shown in Figure 2[5], is logical, in that there was a drop in new car volumes and a substitution of some historic new car sales with used cars.

From used car retailers' point of view, there are a number of immediate issues to consider on the gender front;

*What used cars do female motorists prefer to buy and drive?*

- What used cars do female motorists prefer to buy and drive? Do these differ significantly from used cars preferred by men?
- Are salespeople provided with training in terms of building empathy and selling to female prospects?
- Do you maintain an accurate, up-to-date database of female used car buyers and prospects – and cater for them in terms of used car inventory?

Although such adjustments may appear quite minimal, they can yield big dividends in terms of opening up a used car operation to a growing market segment.

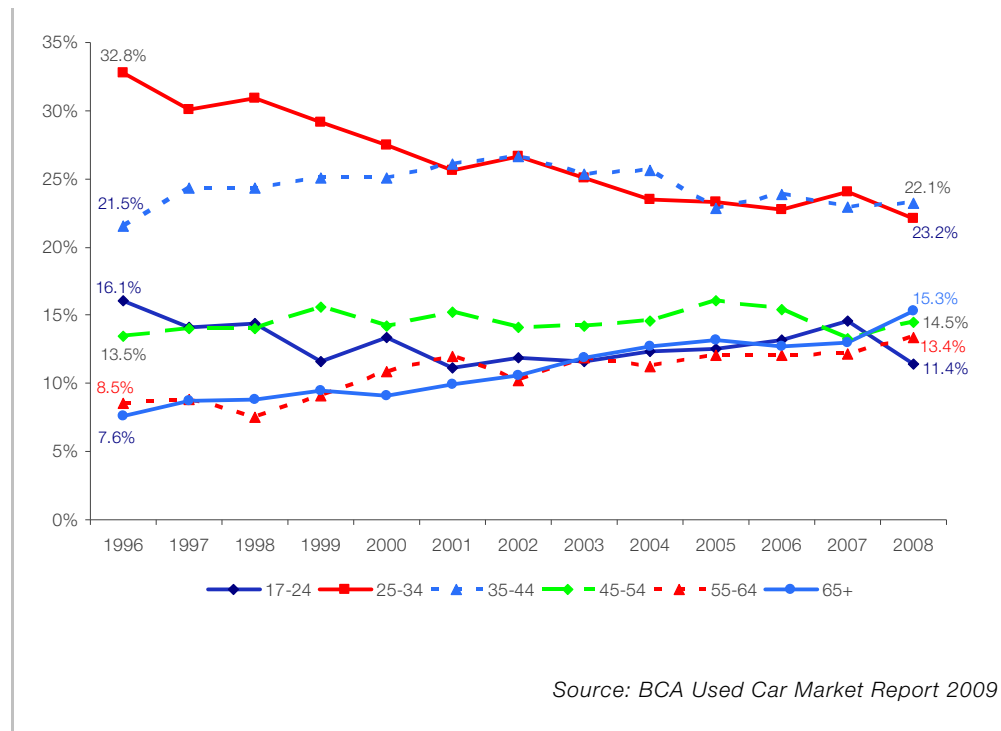
### Demographic evaluation

The United Kingdom's population is ageing and different age groups have very different requirements on the used car front. 'Boy racers' are poles apart in their needs and expectations to older or retired motorists – yet both groups buy used cars and, with the high level of youth unemployment, the latter group may prove more attractive at this point in time.

The implications of an ageing population suggest used car retailers in certain retirement areas should focus at least part of their used car inventories and sales effort on the older community. Those retiring today on a reasonable pension may well buy three or even four cars before they decide to give up driving.

Other groups may show similar traits. Look at your local demographic mix; a surprising amount of data is relatively easily available. While, the ageing population trend shows a tectonic shift; a more interesting analysis is perhaps the used car market share trend of the different age groups over the past 20 years – Figure 2[6] overleaf

Each of those age groups may have a different outlook that may change with the state of the economy. They have quite different used car requirements. Consider two groups at opposite ends of the age spectrum;

**Figure 2[6]; Used car buyers; by age groups**

- **17-24 year old group;** a group whose used car market share has risen in the past few years. There may be strategic reasons for this including, for example, students living at home and commuting to college or university, rather than moving away with much higher living costs.

The drop in share in 2008 may well prove to be a blip, or could be a longer trend. However the growth in youth unemployment would suggest the figures may take a while to recover. The growing number of younger people looking to continue to live at home taking advantage of the 'The bank of mum and dad' means this sector may have significant purchasing power and might also require their own transport to commute to work.

- **65-plus age group;** has shown a steady, if unspectacular, rise across the period. It represents higher expectations of older people who have quite distinct needs in terms of cars and supporting services. The pattern may change, of course, as early anecdotal evidence suggests this group has been attracted to the new car scrappage scheme.

*Evidence shows this group has been attracted to the new car scrappage scheme*

Predictions can be made about changes in other age groups and trends can be plotted. Individual segments may well have their own car requirements whether new or used. Equally, these different groups may have wider implications in terms of finance, service, insurance and other services.

## Implications for used car retailers

Implications for used car retailers looking to employ demographics would include;

- Have you, or can you, analyse your market territory to identify relevant used car buyers' groups – e.g. young people or retirees?
- Are any of the groups in your demographic model bucking the trend or changing their purchasing habits?
- Do you plan to identify age groups you wish to pursue and focus your used car inventory on target age groups?
- Are your salespeople trained to specialise in particular age groups?

The logical analysis is to examine the demographics of the local market objectively, and focus on those sectors most likely to produce dividends.

## Checklist for action

It is possible for dealers to identify and analyse their own business and its opportunities. Consider the checklist shown in Figure 2[7]; the data can be teased out for even relatively small markets.

**Figure 2[7] Checklist for used car market opportunities**

• Examine sales records and identify which groups offer the best business opportunities
• Undertake some local market research/intelligence gathering – where are used car buyers based – are you well enough known there?
• Ensure salespeople are trained for the predominant groups in your market area
• Look at local competition – what segments do they compete in; what do they do well/badly – how can you use that knowledge in your business?
• Establish whether there are any seasonal trends in your current customer base – do you respond to it – how might you respond to it better?
• Marketing strategy – highlight routes for product information to chosen target sectors – Internet; newspapers; specialist websites; direct marketing etc.
• Inventory policy – what units would be most suitable for specific target market groups?
• Identify and implement a stocking strategy to satisfy local used car market requirements
• Vehicle sourcing; where will these vehicles be sourced from and stock kept up to date?
• Do you ask customers if they have friends/relatives who might want to buy a used car?

*For illustrative purposes only – not comprehensive*

### **Some initial conclusions**

The UK used car market is three times larger than the new car market and dealers' used car sales are considerably bigger than the new car market in volume terms.

It is possible to analyse the used car market in the same way as the new car sector and to exploit the opportunities accordingly.

# Consumer Expectations

The previous pages offered some high-level thoughts on identifying used car market segments and some pointers on the opportunities some of these segments offer.

This chapter moves the argument one step further to look at motorists' preferences and experiences in buying and owning a used car – and the key factors that influence them in deciding what car to buy and where to buy it from.

*Used car buyers need to be treated equally as well as new car buyers*

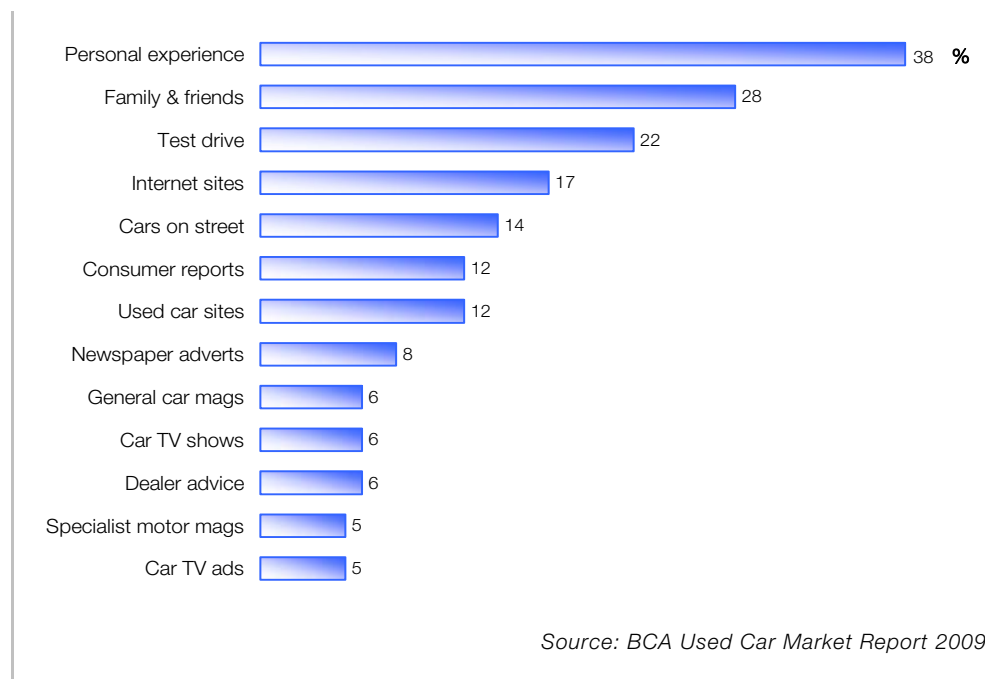
Used car buyers need to be treated equally as well as new car buyers. The initiative has firmly moved to the buyer. Used car buyers are as sophisticated as new car buyers; they merely want to buy a different product – even though many of them may have the ability to buy a new car if they wanted to.

## What type of used car to consider buying?

'Confidence' in making the right decision is always a key issue in buying something that somebody has used before.

Research for the BCA Used Car Market Report 2009 shows that 'personal experience of a particular make/model', 'views of family and friends' and taking a 'test drive' have by far the strongest influence on car buyers when making up their minds what type of used car to consider buying – Figure 3[1].

**Figure 3[1]; Influences on type of used car considered**



The research also showed that 17% of car buyers said the Internet would influence their buying decision compared with just 10% two years earlier.

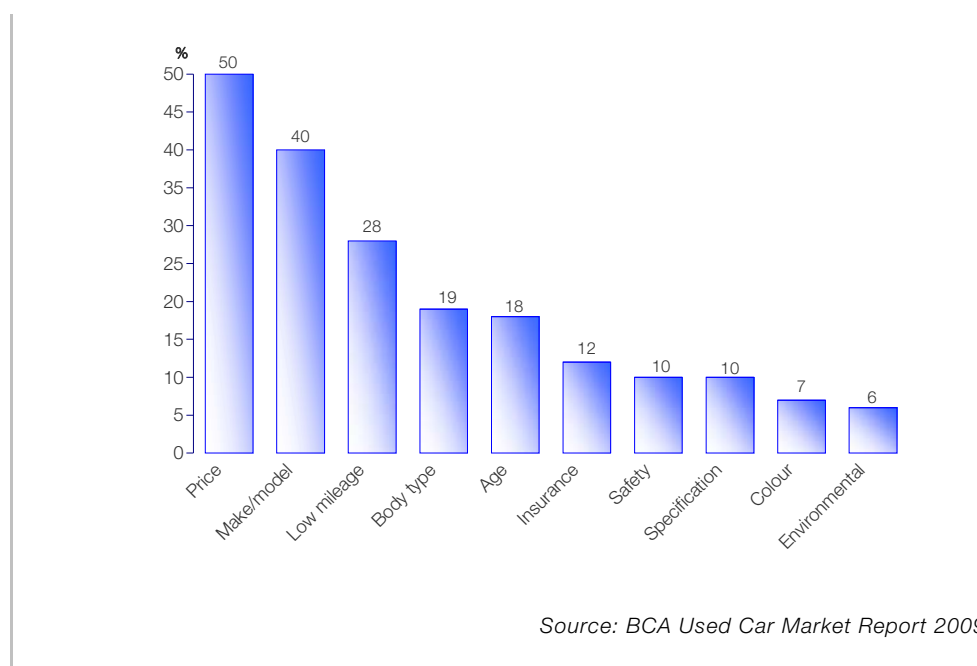


In this regard, men are more likely to be influenced by used car retailers' websites than women, while a quarter of the 17-24 year age group surf the Internet and are far more interested than others by 'cars you see on the street', 'newspaper adverts' and 'car TV shows'.

### Choosing which used car to buy

The 'right price' cited by half of car owners, and the 'right make and model', mentioned by 40% of survey respondents, remain top of car buyers' shopping lists when deciding exactly which used car to buy – Figure 3[2].

**Figure 3[2]; Crunch factors in choosing a used car**



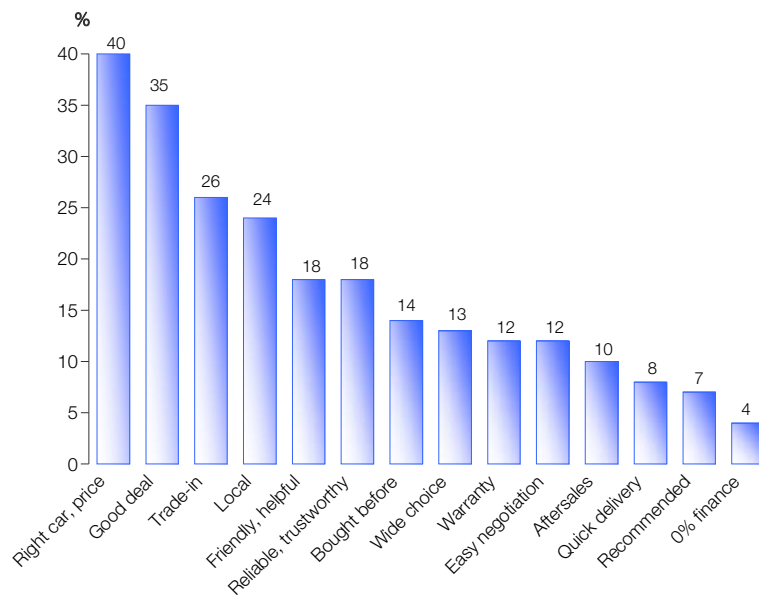
'Price' is also critical for two-thirds of 17-24 year-olds, but much less of an issue for middle-aged and older car buyers. 'Make and model of vehicle' is uppermost in the minds of older motorists who are also more concerned with the 'age of the vehicle' they buy than other age groups.

### Which used car dealer to buy from?

*Motorists have never wavered about what they expect from a used car retailer when buying a used car*

Motorists have never wavered about what they expect from a used car retailer when buying a used car. Figure 3[3] overleaf shows what they want is quite straightforward – the 'right car at the right price', 'a good deal', 'to trade in their old car', 'to deal locally' and 'with friendly, helpful and professional staff.'

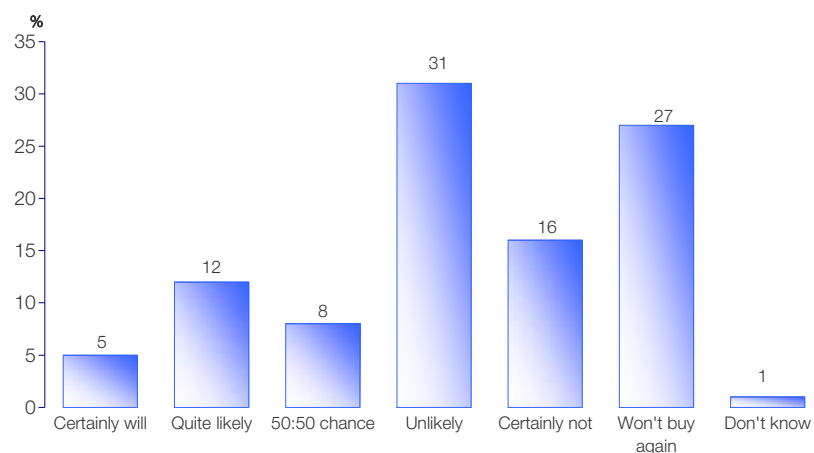
Franchised and non-franchised used car retailers, who consistently meet these requirements, are well placed to attract and retain a growing number of used car customers.

**Figure 3[3]; Factors influencing choice of dealer**

Source: BCA Used Car Market Report 2009

The survey revealed that men like to feel they have 'got a good deal' more than women, which is also a must for half of younger used car buyers. On the other hand, older motorists like to be sure about 'the cut of a retailer's cloth' – stressing that 'the staff are friendly and helpful', 'the dealer is reliable and trustworthy' and 'I have bought a used car from them before' as distinct qualities they look for when deciding who to deal with.

### Buying in the next 12 months

**Figure 3[4]; Likelihood of buying in next year**

Source: BCA Used Car Market Report 2009

Figure 3[4], on the previous page, shows that 17% of motorists thought they, or a member of their family, would 'certainly' or 'quite likely' buy a used car in the coming 12 months while a further 8% believed there was a 50:50 chance of doing so

*Motorists most likely to buy a car in the next 12 months are in the 17-24 year age group*

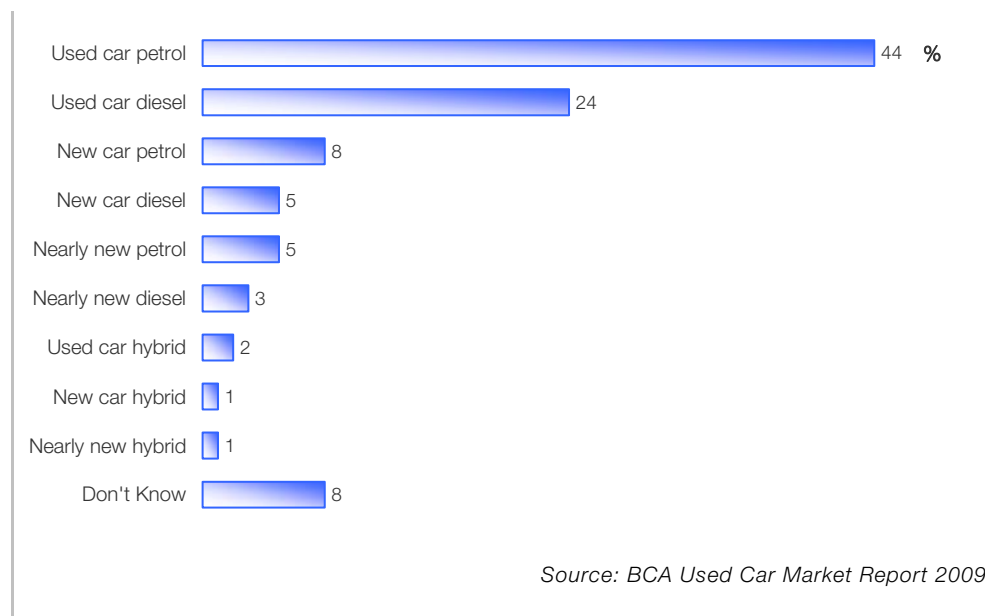
Motorists most likely to buy a car in the next 12 months are those in the 17-24 age group, 30% of them saying they 'certainly will' or will 'quite likely' buy a used car in the coming year.

While a fifth % of men said they might buy a car in the next year, just 14% of women thought this was a real possibility.

### What type of car to buy next time?

Four out of five motorists are planning to buy a used car next time they change – with 9% of prospective buyers looking for a nearly-new car.

**Figure 3[5]; Next car bought will be**



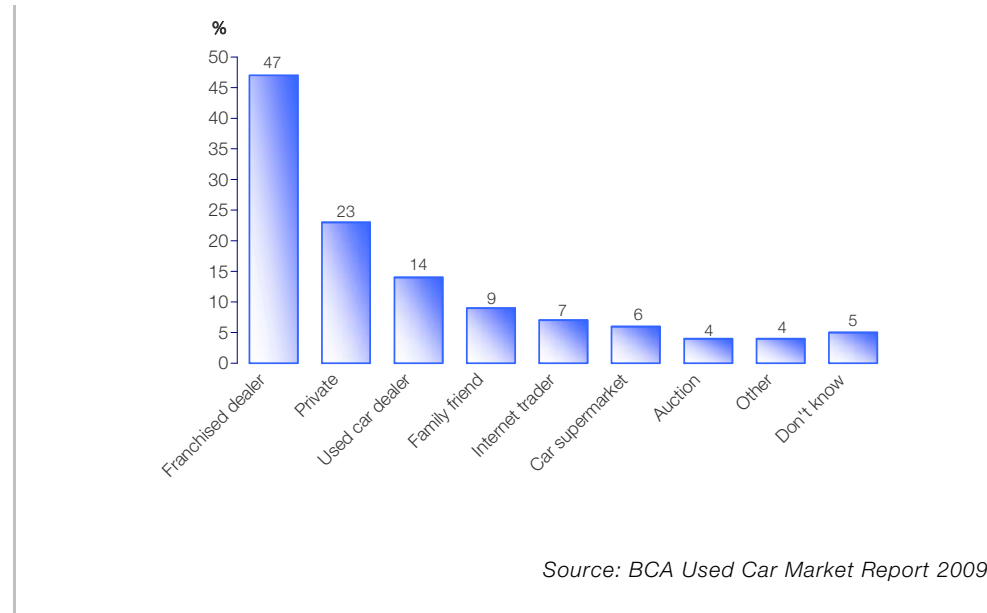
While, overall, nearly three out of 10 motorists say they intend to buy a used diesel next time they change their car, this rises steeply in line with the used car selling price.

### Where to buy the next car?

The number of car owners who plan to buy their next car from a franchised dealer is falling – down two points to 47% in the 2009 BCA survey from 49% in 2008 and 52% in 2007.

With some motorists saying they might consider more than one option, 14% of car owners said they will think about dealing with a non-franchised used car dealer, 7% from a car Internet trader and 6% from a car supermarket.

**Figure 3[5]; Where next car will be bought**



### Buying a car during recession?

*The current recession is the worst for decades*

The current recession is the worst for decades with an unparalleled impact on every area of the economy, leaving very few people untouched. Respondents to the 2009 BCA consumer survey were asked how the recession might affect any decision to replace their car.

**Figure 3[6]; Effect of recession on changing car**

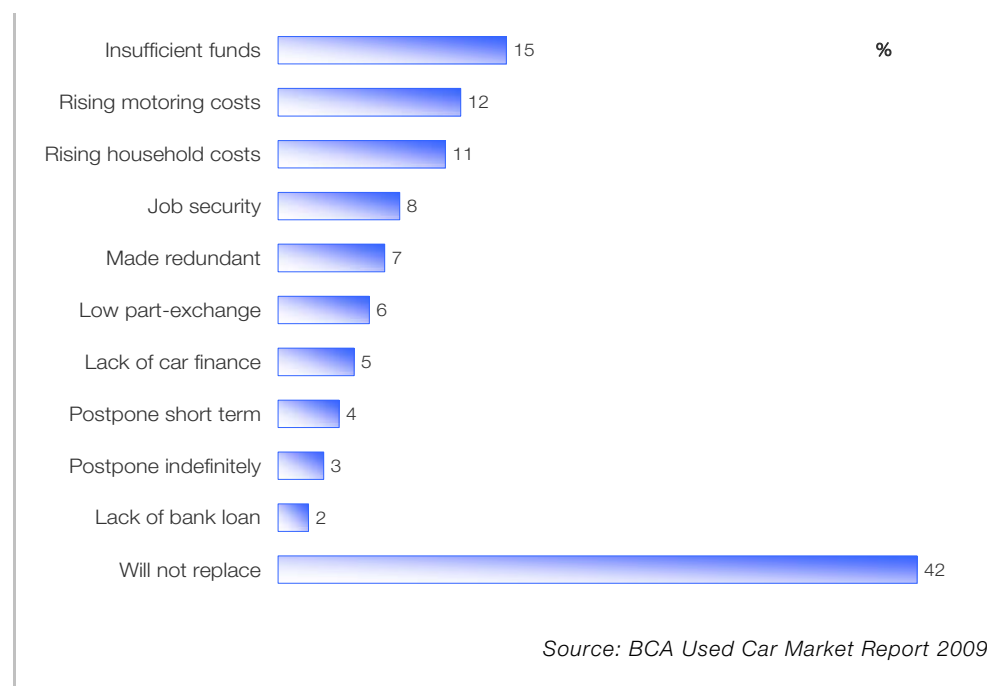


Figure 3[6] shows that two out of five car owners said they 'will not be changing their car' during such a severe economic downturn, 15% of motorists said 'insufficient funds' would play a part in their decision to buy or not, while a further 12% quoted 'rising motoring costs' was a factor they could not ignore.

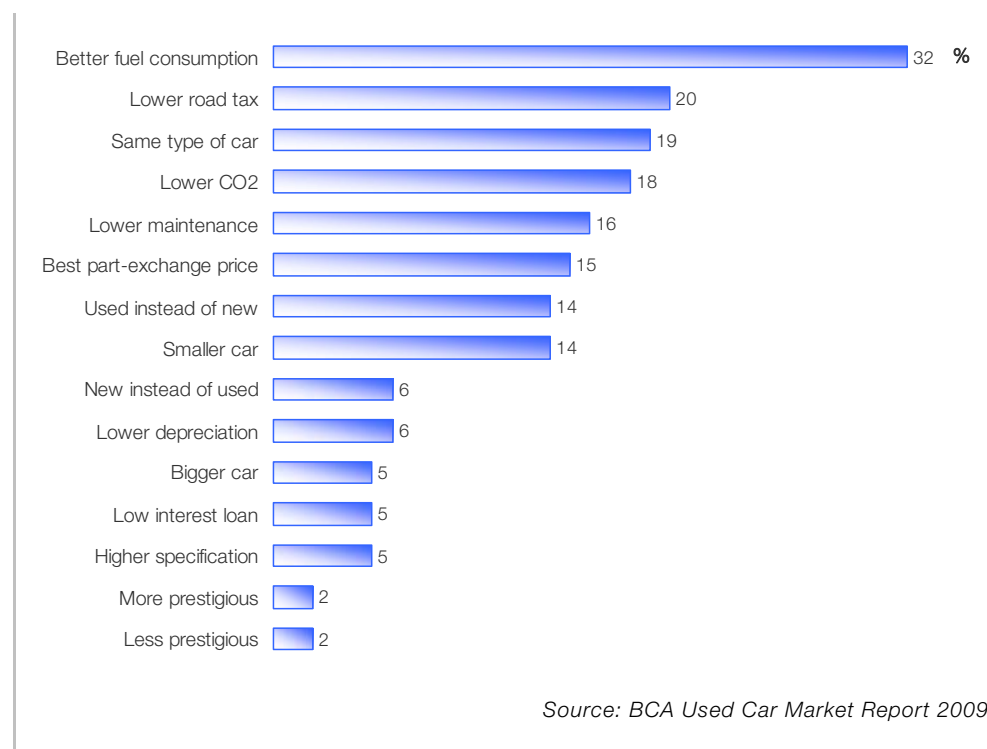
People in the 17-24 year age group appear to be feeling the effects of the recession more than others, citing 'insufficient personal funds', 'rising motoring costs' and 'lack of car finance' as factors they might struggle with when changing their car.

Looking across the used car price bands, car owners in the £10,000-£20,000 bracket have been most affected by 'redundancy', are concerned by 'too low part-exchange values' and more likely to 'postpone replacing their car in the short term'.

### What car to buy when recession is over?

At some point in time, perhaps 2010, the first significant, green shoots of recovery will probably appear, hopefully heralding the beginning of a sustained economic recovery.

**Figure 3[7]; What car to buy post recession?**



Will this encourage car owners to loosen or tighten their belts and buy a cheaper or more expensive car, larger, smaller, used or new, more prestigious or a higher or lower specification model?

Survey responses shown in Figure 3 [7] on the previous page suggested that, even in a more optimistic economic climate, car owners are planning to be prudent and resist the temptation to slacken their grip on their motoring expenditure.

*A fifth of motorists intend to buy 'the same type of car' next time*

Although a fifth of motorists intend to buy 'the same type of car' next time, a third of car buyers will be looking for 'better fuel consumption' and a fifth for 'lower road tax'.

Is your dealership watching for signs of an economic upturn, either nationally or merely in your market territory? What signs are you specifically watching for? Do you have a plan in place to take account of any upturn in the used car market?

The foregoing pages provide a series of both overt and covert messages regarding motorists and their attitudes to new and used cars and the recession. It is interesting to look at the overall findings and their potential implications for the used car market:

Consider the following;

- Car owners appear to treat their used car in the same way they have treated new cars in the past. They expect to be treated as 'first-class buyers' – not merely sent 'over there' to look at used cars.
- There has been, and will continue to be some move to used cars in lieu of new cars, at least during the recession; age of used cars would appear to be less of an issue than it has been, while mileage does not attract the same concern it once did
- As we move out of recession, car buyers will increasingly be looking for more fuel-efficient cars. While newer models may be able to satisfy this criterion, there could be strategic implications for used car prices with, perhaps, more focus on smaller fuel-effective units.

Used car buyers are also becoming more self-assured and assertive, and expect at least as good attention as new car buyers are accustomed to receive.

### Dealer actions

*Dealers need to make prospective buyers feel 'wanted'*

Dealers, particularly dealers' sales and customer contact staff, need to make prospective buyers feel 'wanted' and want to buy from their dealership. That means establishing channels of communication with prospects – and following them up. Consider the following most basic actions regarding customer expectations;

- Ensure the customer/prospects' initial contact/enquiry is turned into a pleasant experience – quickly.

- Establish a two-way communication with the prospect – identify what means of contact they prefer – not what the salesperson feels is best.
- Respond to customers' questions professionally; treat them as grown-up adults.
- Create, implement and monitor assured standards and feedback regarding dealership – customer communication.

### **Some initial conclusions**

The chapter has highlighted what the prospect expects from communicating with the dealer. The customer needs to have a clear message that they are important to the seller, and that the retailer is keen to get their business. All too often the prospect does not have that experience – and that's why they never move from 'prospect' to 'satisfied customer status'.

# Dealer Used Car Marketing Plan

The analyses discussed on the previous pages plus a range of similar exercises can provide a clear profile of the used vehicle market in any retailer's field of operation. The next challenge is to identify what are the specific used car requirements of the segments a retailer decides to focus on.

An evaluation of the different levels of market data should identify precisely what potential market sectors are available; while a review of the competitive situation would highlight close competitors' strengths and weaknesses – enabling retailers to pinpoint their own strengths, weaknesses and requirements for the market segments they plan to target.

**Figure 4[1]; Checklist for action**

<ul style="list-style-type: none"><li>• Customer finance – through car manufacturer's finance sources or established lines with finance houses. Ideally have 2-3 sources to increase the chances of approval.</li></ul>
<ul style="list-style-type: none"><li>• What additional/specialist services/providers might be of interest to specific target market segments?</li></ul>
<ul style="list-style-type: none"><li>• Staff training; focused skills for sales staff on the identified specialist sectors.</li></ul>
<ul style="list-style-type: none"><li>• Marketing strategy – highlight routes for product information to chosen target sectors – Internet; newspapers; specialist websites; direct marketing etc.</li></ul>
<ul style="list-style-type: none"><li>• What is the image you seek to project in the marketplace – do you measure it, and how good are you at managing it?</li></ul>
<ul style="list-style-type: none"><li>• Inventory policy – what units would be most suitable for new target market groups? Do you have a robust and disciplined inventory/ageing policy?</li></ul>
<ul style="list-style-type: none"><li>• Vehicle sourcing; where will those vehicles be sourced from and stock kept up to date?</li></ul>
<ul style="list-style-type: none"><li>• How strong is your website – do you have the services and ethos in place to satisfy the exacting demands of used car shoppers?</li></ul>

*For illustrative purposes only – not comprehensive*

Of course, any target market transition needs to be undertaken carefully to ensure existing customers are retained. It has always been more cost effective to satisfy and retain existing customers than continually having to find new ones.

## Segmentation and sales in recession

Can some specific segments be identified that are either counter cyclical or less susceptible to recession? It could be dangerous to focus on a segment that is more susceptible to recession and may take considerable time to recover.



Consider some of the possible sectors that may be less affected by recession;

- **Students;** while their incomes may be low, an ever greater proportion who attend further and higher education opt to live at home for financial reasons. That means a growing number need to commute, often quite significant distances. Their used car requirements may be quite simple. Parents may be a good touch, the car initially put on their insurance, part funded as part of the 'living at home package'. Maybe there is a replacement opportunity, even in deepest recession, shortly before the start of each term?
- **Retired motorists;** smaller cars; easy to get into and out of; probably four doors so they can accommodate their friends; use car for mobility and to pursue their hobbies. Reliability is also important; might there be a market for insurance – older persons' policies or even total management packages to minimise their exposure to unplanned larger bills?
- **Family fleets,** The number of multi-car households is growing. Some will be cars for older children. If the household can afford a number of cars it may be well worthwhile treating it as a 'family fleet' and offering advantageous insurance, finance and other services. They are unlikely to be all new cars, are possibly replaced regularly – three children's cars in a household gives a number of market opportunities over a couple of years or so.

### Sales records deserve to be raked over

Recession is a time when sales records deserve to be raked over like the embers of a smouldering fire, it is surprising what flames might be raised. What might be the elements of a recession-time used car marketing framework? Cost will be critical in any such exercise, so it will need to be pretty tightly focused.

*Cost will be critical in any such exercise*

#### Figure 4[2]; A marketing framework for recession?

• Target market segments; can you tightly define the sectors for the plan?
• Check all sales, service and contact lists to identify prospects in target categories?
• Identify the types of vehicles/price levels prospects in target groups are looking for.
• Are there additional products and services these prospects are interested in or bought?
• Can you develop a total package for the sector – including add-ons if non standard?
• What will the inventory policy be for units to attract specific target sectors?
• Communicate to target audience – a little ingenuity to arrive at a cost-effective approach.
• Present the stock attractively; rotate regularly; have a strict inventory strategy – 'xx days and auction' – having cut the price, if necessary, in that period.

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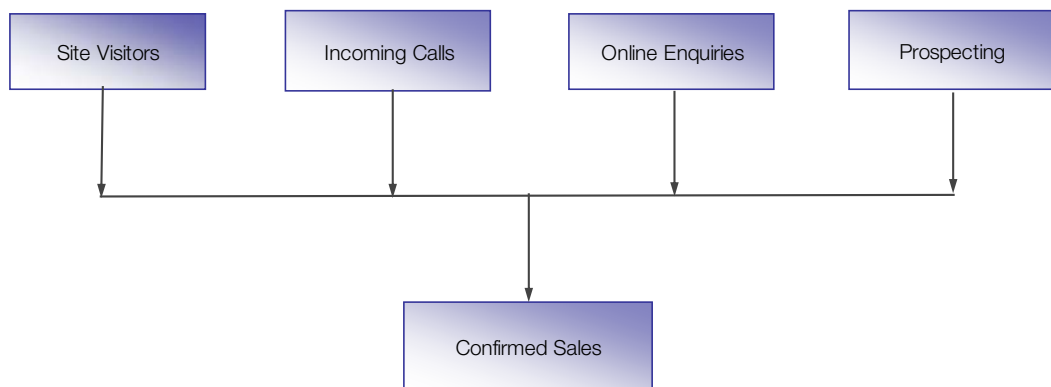
## Opportunity streams

*Opportunities to sell cars are likely to remain thin on the ground*

Opportunities to sell cars are likely to remain thin on the ground throughout 2010 – as the economy struggles out of recession and car owners face a raft of increased costs in terms of higher VAT, significantly higher fuel costs, increased VED charges, rising insurance bills – and first year registration fees for new car buyers.

It is essential, therefore, that dealers ‘raise the bar’ by converting an increased percentage of opportunities into sales. In simple terms, selling cars involves firstly getting face to face with enough people who are in the market to buy a new or used car – from one of the four ‘opportunity streams’ shown in Figure 4[3].

**Figure 4[3]; Opportunity streams**



- **Showroom/site visitors;** motorists who visit a used car site – or walk into a car showroom showing interest in the cars.
- **Incoming telephone enquiries;** from people looking for information, or expressing interest in buying a car.
- **E-mail or website enquiries;** from people using the Internet to help them find a new or used car they might be interested in buying.
- **Prospects;** existing customers who may be prepared to discuss changing their vehicle – referrals from existing customers or prospects – entirely new prospects – previously unsold prospects etc.

## Different characteristics

*Each of these opportunity stream has different characteristics*

Each of these opportunity streams has very different characteristics and salespeople need to treat them accordingly.

For example, a higher number of site visitor opportunities can be converted into sales than incoming telephone enquiries or e-mail enquiries. This reflects a much higher 'getting face-to-face' ratio for people who visit the used car site or showroom of their own volition, compared to prospective buyers who first get in touch by telephone or e-mail – and may not turn up.

However, a higher number of telephone/e-mails prospects who do agree to a meeting, tend to buy a car, because phone-ups and e-mail prospects tend to be more intent on buying than visitors to the site.

Ratios for converting 'cold' prospect opportunities into sales are naturally very much lower – because, to start with, the person contacted is normally not the slightest bit interested in discussing buying a vehicle.

## Set conversion ratios to meet sales objectives

From previous trends and experience, retailers need to work out the number of sales opportunities they need to generate from each of the four opportunity streams outlined and set conversion ratios to achieve their car sales objectives.

If there is a possibility of falling short of objective at any point in time, there are realistically only two options;

- To get face to face with more potential car buyers.
- And/or improve the percentage of prospects they convert into a sale.

## Customer follow-up

It is important to have a clear plan and to pursue focused business, especially during recession or periods of tight credit.

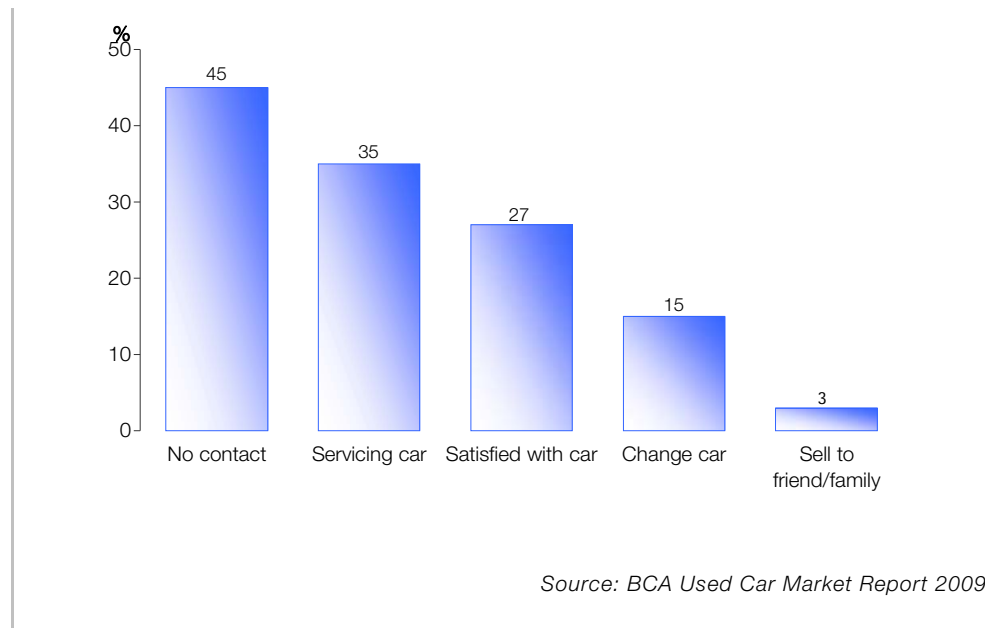
*It is critical each piece of feedback and comment is analysed*

There is, however, one item missing so far – 'monitoring and follow-up'. It is critical that each piece of feedback and comment is analysed, as much for those who do not buy as to the paeans of praise from those who do. Such feedback can help fine tune used car stock and sales and marketing approach.

Do your salespeople call every used car buyer soon after they have driven off the forecourt as a matter of course and regularly thereafter?

Consumer research for the BCA Used Car Market Report 2009 revealed that following-up customers is not one of used car retailers' strong points – 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 consider replacing their car.

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



Dealer salespeople asking a customer if they know of a family member, or friend, who might be prepared to discuss the possibility of buying a car, is a very rare occurrence.

It is as true in recession, as at any other time, that motorists look for an enjoyable experience when they buy a car that includes a relationship with the selling dealer and particularly the salesperson who sold them the car. When customers buy a new or used car, they want to enjoy a rewarding relationship with people who make them feel good and feel reassured they have made the right buying decision – and be more than happy to buy their next vehicle from the same place.

### Some initial conclusions

The used car market can be segmented in much the same way as the new car market, but few dealers undertake such exercises. The challenge is to identify key segments, highlight the ones that may be prevalent in your sales territory and build a focused marketing programme around them. There is business available for those who seek it – even in periods of deepest recession.

# Implications and Conclusions

Some clear implications can be extracted from the foregoing pages – consider some of them;

- The used car market value is significantly larger than the new car market at present – and there are signs this may continue at least short term.
- The used car market can be analysed in similar ways to the new car market – and it is possible for dealers to develop inventory and marketing strategies to exploit the results of such analysis.
- Used car buyers expect to be treated as first-class citizens in the same way as new car buyers, yet they are not always treated as such.

## Actions for economic recovery and used cars

*The used car market is a fickle one*

The used car market is a fickle one, but there are actions franchised and non-franchised used car retailers might take to enhance their used car positioning as the economy starts to recover from recession.

The following three checklists offer some higher level activities which the key business groups might consider;

### Figure 5[1]; Car manufacturers; used cars and economic recovery

<ul style="list-style-type: none"><li>• Establish finance/credit programmes for used vehicle acquired through dealers.</li></ul>
<ul style="list-style-type: none"><li>• Promote used vehicle opportunities – whether quality, warranty or other value-added services.</li></ul>
<ul style="list-style-type: none"><li>• Manage new car availability to ensure used cars retain their prices.</li></ul>
<ul style="list-style-type: none"><li>• Ensure a balanced mix/supply of new/used cars to smooth demand.</li></ul>
<ul style="list-style-type: none"><li>• If discounts are critical – seek to provide them in non-direct pricing formats – e.g. extended finance packages – to protect used car prices.</li></ul>

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In the case of manufacturers, the critical strategy during economic recovery is to support the market to keep the used car sector as flexible and as calm as possible. Some buyers will have switched from buying a new to a used car – how can this be promoted so these buyers return to the new car fold in future?

**Figure 5[2]; Dealers; used cars and economic recovery**

<ul style="list-style-type: none"> <li>• Seek access to finance packages/sources for used car buyers.</li> </ul>
<ul style="list-style-type: none"> <li>• Manage the mix of used cars on offer to be able to target your strategic customer/prospect groups.</li> </ul>
<ul style="list-style-type: none"> <li>• Seek to present used cars positively as a real alternative to new cars.</li> </ul>
<ul style="list-style-type: none"> <li>• Offer total packages with used cars to protect/enhance profitability.</li> </ul>
<ul style="list-style-type: none"> <li>• Ensure used car pricing strategy is appropriate to meet current market conditions and credit availability.</li> </ul>
<ul style="list-style-type: none"> <li>• Promote aggressively used cars through your normal marketing channels.</li> </ul>

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*Franchised dealers  
and used car retailers  
need to take every  
opportunity*

Franchised dealers and used car retailers need to take every opportunity to ensure their used product offering is as attractive as possible. This can be achieved by ensuring quality of product on offer, by targeting specific groups, by building excellent and lasting customer relationships – and, wherever practical, ensuring credit is available without being excessively onerous.

**Figure 5[3]; Fleet operators; used cars and economic recovery**

<ul style="list-style-type: none"> <li>• Manage replacement patterns to maximise residual values through balancing disposal with market demand.</li> </ul>
<ul style="list-style-type: none"> <li>• Prepare a strategy for cars currently being acquired for their future status as used cars.</li> </ul>
<ul style="list-style-type: none"> <li>• Explore alternative channels from fleet to the used car buyers.</li> </ul>
<ul style="list-style-type: none"> <li>• Manage return of cars to market to take account of any seasonality in the marketplace.</li> </ul>
<ul style="list-style-type: none"> <li>• If practical, return used cars to the market at different mileages.</li> </ul>

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Fleet operators, principally leasing companies, may look to enhance their used car operations by seeking alternative routes to market for their products; equally, they may seek to retain units a little longer so they achieve higher disposal values when they come to market.

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