

An even keel



In his first press interview in four years, **John Bailey**, Manheim's UK boss, talks about the state of play in a hitherto volatile secondhand car market

Curtis Hutchinson

The used car market has never experienced anything like it. The last 12 months have seen the sector on a roller-coaster ride with values falling, rising and now showing signs of levelling out as good quality stock becomes a much sought after commodity. As chief executive of Manheim UK and Europe, John Bailey has first hand experience of the cyclical

risers and falls in the used car market. He started in the trade back in the early 1980s in his family's Bristol and West Motor Auctions business. After acquiring a second site in Rotherham the expanded company became Independent Car Auctions and started working closely with the American giant Manheim Auctions on new generation IT technology.

This collaboration turned into a joint venture in 1996 when Manheim decided to grow in Europe. Bailey became a major shareholder and the business grew through a series of acquisitions.

Manheim now operates 30 sites in Europe, 80 in the US and five in Canada and employs 32,000 staff.

Bailey admitted that even in the depths of the 1990s recession he's never quite seen anything like this before.

As a veteran of the used car wholesaling business, Bailey has a high industry profile and was keen to share his views with *Motor Trader* on what has been a turbulent period, in his first press interview in four years.

What's your analysis of the used sector in the year to date?

No-one expected the used car market to be as buoyant as it has been. We've all been waiting for the bubble to burst. It hasn't burst but it has started to slow down. I think we'll see some stability in the last quarter.

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Demand will slow down a bit – it won't be as strong as it has been for the last nine months. Seasonal fluctuations are coming and it is settling down.

Fleet prices dropped marginally in September. Is this a sign of the market correcting itself?

The market has been the strangest I've seen it in 30 years. I think the market has found its feet again and we're now into the seasonal fluctuations with more predictability and less volatility. From the end of 2008 we've gone from one end of the

spectrum to the other: car prices were dropping like a stone and in January someone switched the lights on and it has kept coming back since; that can't continue, I think it's found its level.

How do you think the market will perform in 2010?

I think we'll see the traditional pick up in January but not as big as this year. I think values will be sustainable next year, I don't think we'll see major ups or downs. It will be a strong market with a lot of extra trade buyers coming in.

Many franchised dealers have traditionally relied solely on their revenues from new car sales, added service and aftersales. With the last two years seeing massive drops in new car sales a lot of dealers have turned to used cars to fill that void. Also some dealers are switching from new to used. With the new car market so far down the trade-ins are not coming in, so they have to go out to the auctions and this has helped create a strong used market.

Used car supermarkets have taken a big chunk of the market ▶

QUICKREAD

- ▶ John Bailey started his career in the early 1980s in his family's Bristol and West Motor Auctions business
- ▶ In 1996 the expanded business hooked up with Manheim Auctions, the US giant
- ▶ Manheim operates worldwide with nine sites in mainland Europe, 21 in UK, 80 in US
- ▶ Used prices are levelling out after rising for most of the year
- ▶ Online customers are still visiting live auctions

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◀ and because of necessity the new car dealer has been forced to refocus on the used car market and they realise there's good margin business to be had. New car dealers have been dictated to (by manufacturers) and that had to change and it is changing now. Car manufactures need to work with their dealers; you can only squeeze so much out of a dealer.

Do you think franchised dealers will now be more competitive against independent car supermarkets?

A significant number of dealers have already upped their game and refocused on used cars and they will be competitive. They have an advantage: if you have a manufacturer brand over your door and you're selling used cars then customers tend to like to buy a used car from the same manufacturer's dealer. Price will obviously be the challenge but franchised dealers are getting smarter in terms of value.

How will the fall in new car sales over the last two years impact the used car market in the future?

We'll see an impact in three years time on the corporate side which will probably track what's happened in the new car market. There will be a downturn in supply from the corporate market but it won't be massive.

We're still waiting for some cars, which have been extended under lease agreements, to come back so next year there will be an influx of cars that would have come back this year and that will continue into 2011.

In three years time, hopefully, we'll see a recovery in the new car market, as we did in the last recession in 1990, but things are already levelling out.

Do you see any parallels in the used sector between this recession and the last one?



▲ SHIP SHAPE: John Bailey at Manheim's Bristol site, October 2009

This one is more dramatic. Last time around we didn't have car manufactures getting into financial difficulties and asking governments for financial help. We didn't have banks cutting off funding and fighting for their own survival.

Last time around the used car market was strong. During a recession the used car does create its own marketplace. Affordability changes, which opens up opportunities in the used sector. There is still cash around but buyers are cautious.

With a shortage of good quality used cars, where are dealers going for stock?

Some are buying direct from their manufacturers, which they may not have done before. To make up the shortfall some are also being a lot less choosy about what they put on the forecourt.

Franchised dealers have always come to auctions. A lot of them have used wholesale dealers but I think that market is contracting as used cars are now a focus and that is an additional expense to them: why should they pay a third party to buy cars for them?

There can be an element of suspicion in the dealer-to-dealer market unless they've known each other for a long time. Whereas with Manheim, or British Car Auctions, there's some strong branding there which gives the dealer comfort.

There's also a massive uplift in the number of franchised dealers who have cottoned on to the fact

that you don't have to physically attend the auction: you can buy online from your desk.

What trends have you been seeing in the van sector?

It has been very buoyant over the last 12 months but we're seeing a large number of high mileage and lower values vehicles coming to market. The market is slowing down. A lot of owners are holding on to them for longer as they baton down the hatches.

How has the downturn affected Manheim's bottom line?

We're fighting the recession and rising costs but maintaining a high level of service. We've managed to gain some market share in 2009 which we intend to continue with. We've invested heavily in the business in the last five years and some of those investments – in people, process and customers – are now giving us an opportunity

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to win some market share. We're very pleased with that and combined with a strong market it has been a lot less dramatic 2009 than we expected it would be.

Many dealers have already upped their game and refocused on used cars

We expect to slowly carry on and increase our market share in a competitive environment; it's not going to happen overnight. We haven't had any customers leave us, which is good, and

if we maintain this success it will be a strong year. We're a \$15bn business, so we can ride out a downturn better than most. **MIT**

Parting with exchanges

MANHEIM aims to increase its penetration of the small dealer market with its Seller Advance service which it has been piloting since the summer.

The service, which provides online evaluations of part-exchanges, is aimed at smaller franchised sites who do not traditionally use auctions.

According to Manheim the system allows a dealer to get a real-time valuation from Manheim. Once the price is agreed the vehicle can be sent directly to auction at the click of a button.

After the vehicle has been inspected by Manheim the full valuation will be advanced, via BACS, the next working day. Once the auction has taken place and the vehicle has been sold, the price difference between Manheim's advance payment and the achieved price will be reconciled within one week.

"In the current climate this could prove to be invaluable as dealers get cash up front before the car is auctioned," said John Bailey.



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