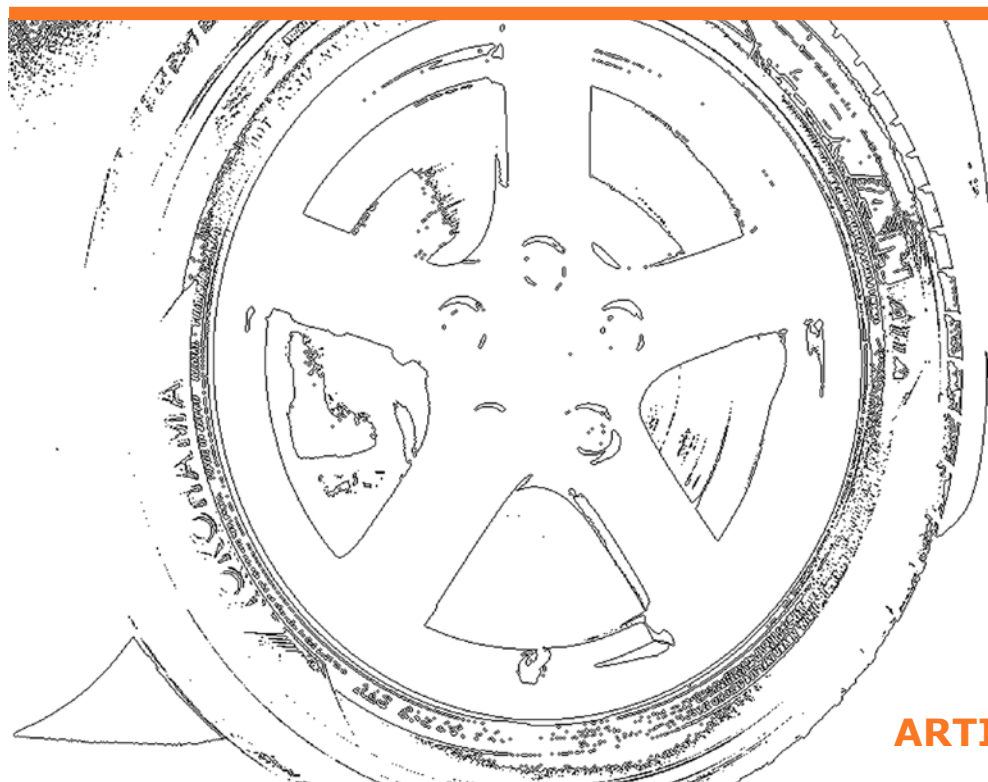


Knowledge

BANK



ARTICLE 10

Selling your business cars and vans

Selling your business cars and vans

Disposal Background

If you obtain your vehicles on contract hire or have a fleet management arrangement, you will not have to worry about disposal. The supplier will deal with this for you. In all other cases you will have direct exposure to the used car market.

The market operates in much the same way as any other market – the more you understand how it works, the better the price you will achieve.

Used car prices fluctuate according to a variety of macro and microeconomic factors. If the economy is doing badly, interest rates are high, jobs are less secure than they were and people have less money in their pockets to spend, used car prices will be relatively low. When the reverse applies used car prices will be higher.

On the supply side, if there is low supply of used cars into the market, prices will tend to rise.

Until mid 2007 demand had been high and the economy had been strong, so prices were relatively high. In the following eighteen months supply remained high but demand-side factors (economic downturn, buyer's concerns their jobs) had made buyers wary about replacing their cars, despite falling interest rates, so used car prices fell sharply.

At the time of writing the UK economy is in recession. As a fleet manager you cannot do much about the state of the UK economy: When you need to sell cars you need to sell them, though when prices are low you might wish to consider extending your vehicle retention period for a few months or even a year.

When deciding what cars to put on your fleet, think about the typical used car buyer. He or she is operating on a budget. They cannot afford to buy a new car. They will be thinking about the same personal, status, fashion, practical and transport needs as buyers of new cars – they just have less to spend. They will want smaller cars because they are cheap to run or people carriers (MPVs) for family practicality.

If you are selling a significant number of large executive models you will not be selling the cars the average buyer wants to buy. The prices you achieve will reflect the fact that the used car market does not favour these models.

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Most business cars enter the used car market when they are three years old. The market price for these will vary according to how long it has been since the model was introduced to the market, that is, how far it is through its life cycle. Most used cars sell for a premium for a year after introduction of the model to the used car market. Prices then flatten out for a few years. Then, towards end of model life cycle, they begin to decline. There is some evidence that this pattern can be predicted, manufacturer-by-manufacturer. That is, each manufacturer's models tend to follow the same pattern whereby they achieve a premium price, then have a stable price and finally a declining price. While this correlation may exist there is certainly no such correlation across different manufacturers in the same car size sector.

'Special editions', often launched by manufacturers to boost the sale of unpopular models nearing their replacement date, do not command a premium on resale. The colour of the car is important in the used car market. Used car buyers are a conservative lot. Cars that are brown or green will not sell as easily or achieve the same prices as cars that are red, grey, silver, black or dark blue.

It is interesting to note that most police forces now order silver cars, to make the cars more attractive to the used car market. Silver (and silver/grey) is the most fashionable colour now across the world, not just in the UK. Some believe it will become less fashionable in time, leading to a glut of old-looking used silver models and lower prices. Some manufacturers and paint suppliers believe that white will be the next 'in' colour, despite the fact that it shows all marks and looks dull after a few years. Until recently, a white upper medium sector car would sell for up to £500 less than a blue or silver model. Metallic paint scores better than non-metallic.

Colours that sell well on small cars do not necessarily sell well on bigger cars. So, for example, a 'flat' (non-metallic) blue will be shunned on a big car but, if it is quite a bright blue, it will sell well on a smaller car. Similarly, a flat red looks acceptable on a smaller car. Generally speaking, the larger the car the more conservative the colour should be. A good colour can add 10% to the sale proceeds of a used car compared with a poor colour.

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Unpopular colours seem to find their way into rental fleets, then quickly onto the used car market in volume, so prices fall.

The used car market values air-conditioning, electric windows, central locking and power steering.

If accessories have been removed leaving holes, or if tow bars have been fitted, the value will be marked down.

Used car prices fall in the month before the registration plate changes in March and September. This is because traders and dealers do not want to hold stocks of cars over the change date, only to find that they then look older to the buying public. Don't take delivery of a new car in February or August or you will be trying to sell it three years later in a quiet used car market. If you want to take a vehicle on contract hire in the last fortnight of February or August, you may well find that your contract hire company asks you to wait until the next month or charges a small premium for earlier delivery. There is a huge increase of supply into the used car market in March and September because of the large number of vehicles taken by dealers in part-exchange.

If you wish to sell a vehicle to a retail customer (perhaps a friend of the driver, or someone who will buy through the internet) it is a good idea to advertise it as early as possible, ideally before it becomes available. That way you can sell it as soon as it is replaced. The downside here is that it may be difficult to arrange a test-drive if your driver still needs the vehicle for work.

There are many ways to sell used vehicles and we will consider some of them here. Generally, the closer you can get to the retail buyer the higher the price achieved but selling to the retail buyer is also the slowest route and has most risk attached.

Remember that it takes up to six weeks for the DVLA to relicence a vehicle if the buyer does not have a V5: Before issuing a new one they check with the previous owner to ensure the car has not been stolen. If you dispose of a car without a V5 the dealer will have to hold the car in stock for this period before they can sell it. During this time the car will depreciate for two further months and the buyer will have to pay for storage and other holding costs. This will be reflected in the reduced price they will be willing to pay for the car. Traders will mark down

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prices by up to £500 where the V5 is missing. So you should always make sure that the V5 is available when you sell a car.

2 A U C T I O N S

Auctions are an efficient way to dispose of your vehicles. Generally they achieve the fastest sale at the lowest risk. It is generally believed that your risk ends when the hammer falls, but that will depend on the Selling Description you have chosen. Different auction houses adopt different selling descriptions; BCA uses the following terms:

1. No major mechanical faults – vehicles sold under this description should not have any major faults in the following – the engine, the gearbox, the clutch, the brakes, the transmission
2. Specified faults – the auctioneer will read out any particular defects notified by the seller.
3. Sold as seen (and with all its faults if any) – such vehicles are purchased as they are and with no warranties whatsoever by the seller.
4. On an engineer's report – with the benefit of an engineer's report produced by BCA.

If the vehicle is described as having No Major Mechanical Faults or Specified Faults on the entry form that the seller completes, the purchaser has one hour after the end of the auction to complain to the BCA Branch Engineer about any mechanical defects not disclosed by the seller. The Branch Engineer will investigate the complaint and if it is justified the seller will be contacted with a view to negotiating an adjustment to the price to cover the cost of rectifying the fault. If the complaint is extremely serious, the branch engineer will cancel the sale.

The problem is that selling a car at auction will generally achieve the lowest prices, as most people who attend are traders who are buying for resale. They must buy in order to have stock to sell but they have to leave enough scope to achieve their margin on resale. Nonetheless, the speed and efficiency with which cars are sold at auction is impressive, and these can save you money and management time.

The auction house will advise you on valuation and setting a reserve price. Most offer a collection and valeting service and will arrange prompt transfer of the sale proceeds to you. All can now arrange to prepare vehicles for sale. The services they offer range from 'smart repairs' to remove small dents, to comprehensive refurbishment and repair.

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It is best if you attend the auction in person to see the sale take place. That gives you the chance to see the condition of your vehicles and will help you set accurate reserve prices. By attending in person you can amend prices according to how the bidding is going on the day. If the car fails to attract the reserve price you can still do a deal there and then with the final bidders.

You should discuss your sale with the auction house and take their advice on when to put your vehicles under the hammer. You want to sell your cars when the right type of buyer is in the auction hall. Auctions hold special sales targeted at different buyers. It is probably not a good idea to tell anyone the estimated residual value you originally set on the vehicle.

Retail customers buy used vehicles from manufacturers' franchised dealers, used car supermarkets, small independent used vehicle showrooms and motor traders. Regardless of the type of operation, all dealers take in a large number of used cars in part exchange. In many cases, however, these are not of the right quality for them to sell on their forecourts so they have to sell to traders or through auction houses.

Franchised dealers have had a hard time of it in recent years. They have faced pressure on margins on new vehicle sales while bigger fleets (including contract hire and fleet management companies) have kept tight control over the charges they can make for maintenance work. For many dealers, used car sales have represented one of the most profitable parts of their business. They need a ready supply of good quality stock to feed this business, so many will be happy to retail your vehicles.

Various arrangements can be made: They may simply buy your cars from you, take them on 'sale or return' or sell them for a share of the sales proceeds. One useful approach is to agree that they will display your vehicles for a fixed period of, say, 40 days. If they sell during this period they will pay you, say, 90% of the sale proceeds. If they fail to sell within 40 days they will immediately pay you CAP or Glass's Retail price less 12%. Alternatively you might agree they will retain 100% of any proceeds over a pre-agreed figure. These arrangements give them the incentive to sell the car quickly and at the best possible price.

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If you arrange for a dealer to sell your vehicles you should agree the deal in writing at the outset. If the dealer sells as your agent, you will be responsible to the buyer if anything goes wrong with the vehicle. If the dealer sells as principal he has this risk.

Part Exchange

Part-exchange offers you an efficient way to dispose of a vehicle. You agree a purchase price for the new car and a disposal price for the old one, pay over the difference and enjoy key-for-key exchange on delivery. Part-exchange is a good way to dispose of 'difficult' cars – those that have suffered damage, are old models or the wrong colour. The dealer will feel obliged to take the car and dispose of it as part of the price he has to pay for supplying you with a new car.

When part exchanging, it is important to ensure the net price you pay is reasonable. Consider the purchase price and the sale price separately and be happy that both are fair. Otherwise there is a risk the dealer might increase the used car price to satisfy your ego – your desire to get a great price for your car - and then reduce the discount on the new car below that which you could get elsewhere.

Dealer buy-back

Occasionally, as part of the negotiation for the sale of a new car, a dealer may be willing to offer to buy it back at a future date. The buyback price will be expressed as an amount payable at a certain date and mileage.

The wording of the agreement is important or it can create unexpected tax consequences. Tax legislation normally gives capital allowances to the person who is expected to become the ultimate owner of the vehicle. If you buy a car expecting to keep it for a few years, claim capital allowances during this period and then to sell it back to the dealer under a buy-back, you may find you have given away your right to any capital allowances if the agreement says the dealer will become the ultimate owner of the vehicle.

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Dealer put option

If you want to avoid this problem you may wish to consider using a 'put option'. This is an agreement that gives you the right, but not the obligation, to require the dealer to buy the vehicle at a certain date and for a certain price. You will have no commitment to sell but the dealer will be obligated to buy.

While this resolves the possible capital allowance problem, in real life a dealer will be unhappy to give you a put option. It gives them the risk that you will use the put option if it gives you the highest price, or sell the vehicle elsewhere if you can get a better price. This puts them in the position of, at best, making a small profit and at worst making a large loss.

While a dealer buy-back will normally commit you to delivering up the vehicle, a put option gives you the opportunity to decide on the best course of action at the time. Hence it is more valuable for you than the dealer buyback.

The reverse of a put option is a 'call option'. Under this arrangement, one party has the right to demand that the other sells them something. These are rarely used in vehicle-related transactions and are mentioned here only for completeness.

Dealer sales agency

Rather than using a buy-back agreement a good approach may be to agree on day one that you will appoint the dealer as your sales agent and let him have any profits above a pre-determined amount.

In all cases you should ensure the agreement is crystal clear about what will happen if the vehicle is returned before or after the agreed date, with higher or lower mileage than planned or in below average condition.

Driver sale

If you sell the car to the driver you can achieve a rapid sale at a price that is attractive to both parties. After all, the driver knows the car better than anyone else having driven it for some years and has an incentive to look after it if they know they could get the opportunity to own it.

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In selling the car to the driver you know you will achieve a rapid sale, with no disposal costs. You can set a price that is higher than you would achieve at auction but lower than the driver would pay if they bought from a dealer. Both parties win.

When selling to an individual you have to give a warranty under Sale of Goods legislation. You can protect yourself by buying mechanical breakdown insurance and giving this to the driver with the car.

You are also legally required to ensure the vehicle is roadworthy, and that the brakes, steering, lights and tyres are in a legal condition. If you fail to do so you face a fine of up to £5,000.

As an alternative to selling the car to the driver, you could sell it to another employee, or to a friend or family member. The only disadvantage of selling to your employees arises when they start making a part-time business out of buying company vehicles and selling them on commercially. This is not only distracting from the work they should be doing, it becomes somewhat distasteful for you and other employees to see a commercial operation being carried out on former company assets. To avoid this, you can set up rules limiting the number of vehicles any employee can 'deal' in during any given period.

Unfortunately many drivers feel tempted to ask for work to be carried out on their cars before they buy them from the company. Some have dubbed this 'preconditioning', the tendency for a car to need extra work, new tyres, etc, in the few months before it is sold to the driver. Here again you can avoid this by setting out rules. The contract hire industry has a general rule that it will only pay for safety-related or legally-required work in the last three months of a contract. You could adopt such a policy for your own business.

Retail sale

It is quite possible to set up a retail site for your used vehicles. A number of contract hire companies have such sites and a number of companies definitely have fleets that are big enough to consider this.

To many fleets, this is the Holy Grail; achieving a sale to an end user

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buyer at retail prices. This guarantees you the highest prices as your sale occurs at the top of the supply chain – there are no dealers or traders in the middle adding value and costs and taking a profit.

The main downside, of course, is the cost of setting up and maintaining the site. Having a site in a prime position will generate the highest turnover but by definition this will also be the most expensive location. Then there are the costs associated with moving vehicles to the site and preparing them for sale. The costs of marketing the vehicles – encouraging buyers to visit your site rather than going elsewhere – will also be considerable. These costs can be offset to some extent by the sale of add-on products at the point of sale, such as motor finance, insurance, extended warranties and so on. The retail site becomes a business in its own right, with its own risks and rewards, requiring specialist knowledge.

Most large fleets steer away from this option as they wish to concentrate on their core business. Nonetheless, it could be a real option for some. Perhaps one day, experts in retailing used vehicles will offer an outsourcing service for larger fleets, setting up and running used vehicle sites on a consultancy basis? (If you adopt this idea, please remember where to send the royalty cheque).

Even if you have your own retail site you will not be able to use it to sell all of your vehicles. Some will be unsuitable for retail sale; for example, because of their condition. Unfortunately, retail sale is the slowest method of sale. The car can sit on a retail site for weeks before it is sold and there is no guarantee it will ever sell. You will also have to make sure that you receive a cleared cheque or a banker's draft before parting with the vehicle. Otherwise you risk being left with no car and holding a worthless piece of paper.

While mechanical breakdown insurance is a good sales tool and may help avoid some costs if a vehicle breaks down after you have sold it, you still have to give a 'Sale of Goods Act' warranty to a retail buyer regarding the merchantability, fitness for purpose and description of the vehicle. Your risk remains quite high – you are still responsible if the car explodes when the customer drives it away.

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Newspapers

The vast majority of businesses avoid selling through local newspapers because it is extremely time consuming to deal with inbound phone calls and show vehicles to potential purchasers. Here again, you have to give a warranty and retain the sale of goods risk.

Internet

The internet offers a good route for the sale of used vehicles and has grown into a major disposal route for corporate fleets. Retailing your cars delivers the highest price – but adds costs and risks

Currently, there are several organisations that can advertise used vehicles for sale on the internet, for a fee payable initially or on completion of a successful sale.

Geography is a limiting factor. If you have a potential buyer in Scotland but you are based in London you cannot afford to drive the vehicle up there in the hope that they will buy it. Internet sales work best if a picture of the actual vehicle can be posted on the site.

Preparation prior to disposal

If a car is well-presented it will achieve a sale price significantly higher than one that is poorly presented. A modest amount of money spent on preparing a vehicle is almost always repaid by an increased sale price. Yet most fleets do not bother to prepare their cars prior to sale.

If a car is in poor condition and requires a great deal of expenditure to bring it up to a reasonable condition, you may be tempted just to sell it 'as is' for a low price. However, no matter how bad the condition of the vehicle, it is always worthwhile to wash and vacuum the interior, and maybe to put in an air freshener if it has been driven by a smoker. You may think the vehicle is awful but someone will buy it so it pays to present it well.

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There are several options available if you wish to improve vehicle presentation:

- The lowest cost option is to have the vehicle washed and polished.
- 'Smart' dent repairs can be a valuable way to enhance value at moderate cost. This is a special method of paintless dent removal. Skilled technicians gently manipulate panels back to their original shape. These repairs only work where the original paintwork is unbroken. The process does not involve repainting so it is a same day service as there is no need to wait for paint to dry between applications, as in traditional repairs. Smart repairs are increasing in popularity.
- You should only embark on expensive bodywork repairs after carefully considering the likely return on your investment.
- Broken glass will reduce a car's price by perhaps £100. If you can get it repaired for less it may be worthwhile doing so.

If you use an auction, they may be able to prepare the vehicle for you.