

# **SUMMARY REPORT RECESSION, SCRAPPAGE AND SUSTAINABLE RECOVERY**

*A report by Peter N C Cooke*

*in association with BCA*



A copy of the full report is available from [www.buckingham.ac.uk/cam](http://www.buckingham.ac.uk/cam)

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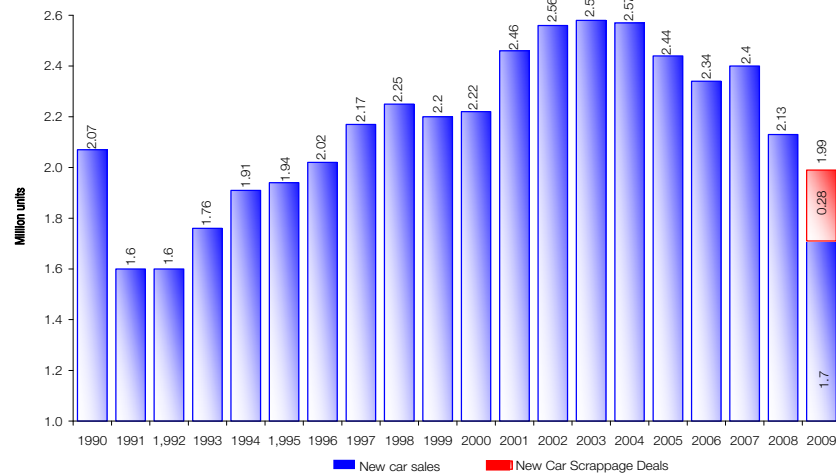


# Recession, Scrappage and Sustainable Recovery

## Scrappage, implementation and the legacy

United Kingdom new car sales peaked in 2005, falling markedly in 2008 and 2009. While conventional wisdom suggests a sustainable UK new car market in the region of two million units per annum – the aggressive approach of car manufacturers and freely available credit took new car volumes to around an arguably untenable 2.5 million units for something like five years – Figure 1.

Figure 1; UK new car registrations; 1990 - 2009



Source: SMMT

## United Kingdom scrappage scheme

The UK scrappage scheme was, as some insiders have commented, introduced somewhat late and perhaps reluctantly by government.

New car sales from the scrappage programme helped lift the UK new car market to some 1.99 million in 2009. But, if the scrappage deals are totally excluded, the 'natural new car market' was close to 1.7 million units. Figure 2 shows the principal features of the British scrappage programme.

Figure 2; United Kingdom scrappage scheme

- Passenger cars first registered in the United Kingdom on or before 29 February 2000.
- LCVs not exceeding 3.5 tonnes first registered in the United Kingdom on or before 28 February 2002.
- Vehicles to be scrapped and a new vehicle ordered.
- Participants to receive £2,000 incentive – £1,000 government incentive to be matched by £1,000 from participating vehicle manufacturers/dealers.
- Initial funding to last until 28 February 2010 was £300 million or until the fund was exhausted – sufficient to fund 300,000 replacement cars and LCVs. Extended to £400 million for 400,000 cars and LCVs in the same timeframe. On 4 February 2010, fund extended until 31 March or until £400 million fund was exhausted.
- The selling franchised dealer is responsible for administration, paperwork and for getting the vehicle scrapped in the right way.
- The scheme is inclusive of VAT.

Source; SMMT

At its outset, the UK scrappage scheme aimed to drive up UK car and van sales and protect jobs in vehicle manufacturing and its supply chain, at a time when sales and production were both nearing crisis levels. It was also intended it would benefit the automotive retail sector in terms of higher new car volumes and, more importantly, profitability.

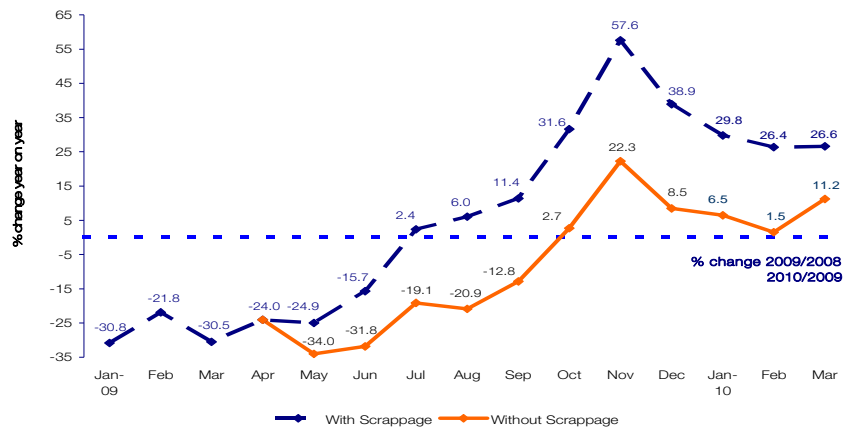
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But, how well has the scrappage scheme lived up to its aims? And, does it merit the Department of Business, Innovation & Skills' assessment –, Lord Mandelson said – *“I am pleased to see scrappage has delivered the results we aimed for – not just for manufacturers, but for the whole industry and its supply chain. The figures show that this scheme gave vital support, boosting demand when the industry needed it most.”*

## Scrappage – a qualified ‘Yes’?

From a government point of view, the scheme helped create a ‘feel-good factor’, as new car volumes started to show rapid improvement, particularly compared with the dire monthly figures during the previous nine months.

Figure 3; UK new car registrations percentage change

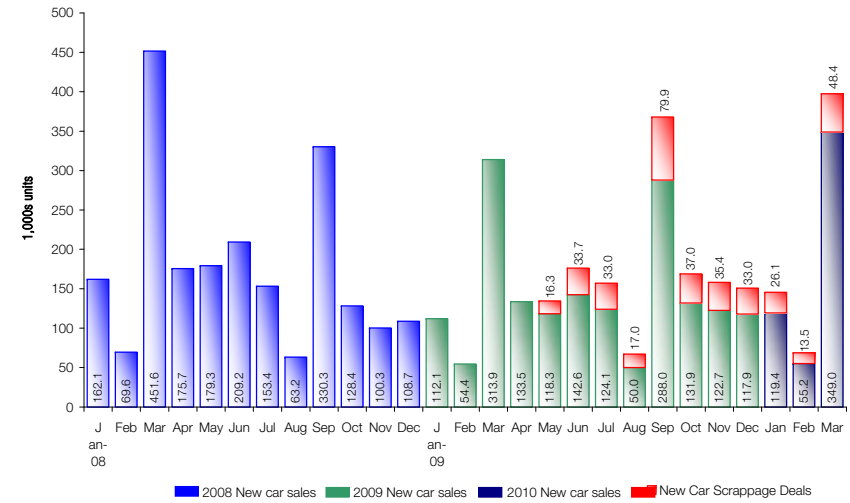


Source: SMMT

Figure 3 shows the trend of new car registrations since the introduction of the programme with and without the scrappage volumes.

From manufacturers' viewpoint, the news was also encouraging, as total sales of new vehicles in the UK market improved. However, global manufacturers tend to look at markets less parochially than governments. To a vehicle manufacturer, Europe is ‘a single market block’ and vehicles can be sourced from anywhere within the region or even further afield.

Figure 4; UK new car registrations 2008 - 2010



Source: SMMT

- New cars sold as replacements for scrappage units are principally lower-priced units on which the absolute profit is likely to be smaller than medium or large variants. Many cars sold under the scrappage scheme been imported from Korea and central and eastern Europe where the proportion of UK-sourced components used is likely to have been minimal – see SMMT's scrappage data in Figure 5 overleaf.

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Figure 5; New cars sold under the UK scrappage scheme

Manufacturer	Scrappage Deals May 2009 – Mar 2010			% New Car Market Share		
	Units	Share	Sales per Outlet	Jan-Apr 2009	12 months 2009	Jan-Mar 2010
Audi	4,298	1.2	37	5.2	4.6	4.9
BMW	3,706	1.0	25	4.4	4.9	4.1
Chevrolet	3,991	1.1	40	0.8	0.9	0.7
Citroen	9,958	2.7	51	3.4	3.6	3.4
Fiat	29,749	8.0	187	2.3	3.0	2.7
Ford	42,465	11.4	77	17.4	15.9	15.4
Honda	12,522	3.4	66	4.2	3.8	3.3
Hyundai	43,947	11.8	335	1.8	2.8	4.2
Kia	29,997	8.1	227	1.8	2.5	3.4
Mazda	11,280	3.0	71	2.4	2.4	2.4
Mercedes	1,830	0.5	14	3.6	3.6	3.3
MINI	6,563	1.8	44	1.6	2.0	1.8
Mitsubishi	2,214	0.6	19	0.5	0.6	0.5
Nissan	15,154	4.1	84	3.2	3.9	3.7
Peugeot	15,775	4.2	56	5.2	5.1	5.4
Renault	13,095	3.5	60	3.0	3.2	5.0
SEAT	6,639	1.8	61	1.4	1.5	1.6
Skoda	11,659	3.1	91	1.5	1.9	1.8
Suzuki	12,152	3.3	83	1.3	1.4	1.2
Toyota	27,950	7.5	149	5.4	5.1	4.7
Vauxhall	24,504	6.6	61	14.0	11.9	11.0
Volkswagen	29,678	8.0	135	8.3	8.1	8.4
Volvo	6,594	1.8	62	1.5	1.7	1.9
Others	6,681	1.8	37	5.8	5.4	5.3
<b>Total</b>	<b>372,401</b>					

Figure 5 shows 372,401 new cars were delivered under the scrappage scheme to the end of March 2010, leaving a balance of about 20,000 orders to be delivered before the end of July to still qualify for the scheme.

- The figures show the main beneficiary of the scrappage programme was Hyundai which sold 43,947 new cars under the scheme, accounting for 11.8% of total scrappage deals. Hyundai had 1.8% of the new car market just before the scrappage scheme started – climbing to 4.2% for the first three months of 2010 – averaging 335 scrappage deals per sales outlet
- Kia had an average of 227 scrappage deals per dealership, 108 fewer than Hyundai – accounting for 8.1% of the scrappage market.
- Other manufacturers taking a notably bigger share of new scrappage deals than their customary new car market share were Fiat, Kia, Mazda, Nissan, Skoda, Suzuki and Toyota.
- While Ford took second place in the table with 42,465 units, its 11.4% share of scrappage is lower than its ongoing new car market share before and after the introduction of the programme.
- With the exception of Hyundai, Kia, and perhaps Fiat, Toyota and Volkswagen, new car sales per outlet from the scrappage scheme has been modest for other franchises relative to their normal volumes – and is unlikely to have had a significant impact on job protection or dealer viability.
- Notable volume manufacturers who ‘punched below their weight’ on the scrappage scheme are Peugeot, Renault, Vauxhall and Volkswagen.

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## Scrappage and changing new car buyer patterns

At the time of writing, there is a relative paucity of data in the public domain regarding car owners who have traded in their 10 year-old cars for new models. However, an interesting series of implications and potential conclusions have already begun to emerge from the pattern of new car buyers taking advantage of the scrappage scheme;

- Prime beneficiaries are buying 'small, lower-powered, lower-priced cars'.
- Given a would-be beneficiary of the scrappage scheme has to have owned the car surrendered for at least a year – and because of the shortage of credit needed to have access to funds, so buyers will generally be established persons who 'recognise a bargain'.
- Given the 'owned for a year' and '10 years old' rules, by implication many of these vehicles could be lower-mileage runabouts – the image of 'Auntie's Morris Minor' springs to mind.
- Developing the theme above, born out by anecdotal evidence, many cars being put to the crusher are often well maintained and in good condition for their age – offering further low-cost motoring, while some were future 'heritage cars' that have not been spared the crusher. Would these 10 year-old plus cars normally have been replaced or are many of these acquisitions opportunistic?
- Given these traded-in cars have to be scrapped, what will be the implications for the older used car market – private to private buyers – often the bailiwick of lower-paid workers for whom there is no reliable bus or train to get them to work?

- Will the loss of up to 400,000 older used cars have a significant impact on service, repair, accessory and wider aftermarket sales? Would it be fair to claim many scrappage units would have been relatively well maintained, thus creating MOT and service business, at least part of which will now be lost in the longer service intervals of the replacement vehicles, most covered by warranty?

## The used car issue

Unlike the German scrappage programme, the UK programme only covered new cars and LCVs. Thus, a real problem has been created for dealers in terms of the natural demand for used cars.

It will be some time before it is possible to determine whether the scrappage scheme has changed the profile of the new car market substantially for the longer term. Although, the UK new car market has swung sharply towards smaller cars, from 35.5% of the market in 2008 to 40.8% for 2009 – a growing proportion of which are being imported from the Far East.

Up to 400,000 buyers have been taken out of the used car market. It would not be a step too far to claim that it is highly likely that a significant number of the 'scrappage scheme beneficiaries' would normally have bought a used car at some point in time, maintained it and replaced it after a few years.

With a car replaced under scrappage, that used car buying opportunity will probably have been lost for several years, particularly if the replacement unit is covered by a five year, or more, warranty. Many older people, who have bought a new car for the first time under the scrappage scheme, will possibly plan to keep it for as long as they continue driving.

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## Scrappage – some early conclusions

The full results and impact of the car scrappage scheme will take some time to emerge and be fully evaluated. However, at this stage, the Buckingham Automotive Team believes the following points are relevant and important;

**Costs;** the cost of the scrappage programme was shared equally between the government (taxpayer) and vehicle manufacturers/dealers – each contributing £1,000 to the £2,000 incentive on each deal – close to £400 million in total for each of the parties.

- From the government's point of view, the scheme is likely to have been self financing taking VAT contribution into account. While an average price for new cars bought under the scheme is not available, the government would have broken even at a sales price of £6,666.66 when VAT was 15%.
- The Department of BIS has yet to publish the average sales price or the total amount taken in VAT under the scrappage scheme. However, it appears that around three out of 10 cars bought under the scheme were larger than the Supermini segment, leading to speculation that the average unit price could be closer to the £8,000 mark.
- If that were the case, the Treasury would have reaped about £350 million in VAT (15%) from the vehicles sold under the scheme between May and December last year – and a further £150 million from the balance of deals up to the end of March at the higher rate of 17.5% – an upfront 'profit' of around £100 million for the Treasury.

- The National Audit Office's (NAO) view was *'In the longer term, the costs of the scheme would exceed benefits and would not, therefore, provide value for money. The Treasury will reap a short-term gain of £116 million, but a long-term loss in the region of £18 million. The estimated long-term loss is principally due to a prediction that some 54% of sales would occur anyway, rising to 92% in the long term.'*

**Vehicle Manufacture;** car production made a significant recovery in the second half of 2009 from the dire levels of the previous nine months, that were typified by short-time working at several plants and Honda's factory closure. But, how much this was due to the UK scrappage programme and how much to scrappage schemes in Europe is, of course, open to debate.

- While the number of UK-built new cars sold under the scrappage programme has not been released, it is clear that the vast majority have been imported from Europe or wider afield. A first pass at the table in Figure 5 suggests that around 85% of new cars registered under the UK scrappage scheme were imported – close to 30% of the total from the Far East – although there is speculation that the imported figure is closer to 90%. It is likely, therefore, that only 37,000 to 56,000 of these new units will have come from a UK plant – a fraction of a normal year's passenger car output.
- While some of the imported cars would have been built with engines made in Britain, relatively few of their other components would have been manufactured here – risking comments that the vast majority of 'taxpayers' money invested in the scrappage fund has been used to support other countries' car manufacturers and their supply chain'.

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- Arguably, such a very small amount of home-produced cars from the UK's scrappage programme is not the panacea for UK car production that some have claimed. It appears that protecting thousands of jobs in the country's car and engine production, the supply chain and distribution networks, has been delivered far more by judicious short-time working, factory shutdown, redundancy programmes and other cost-cutting measures introduced by manufacturers – and, of course, the many orders for UK-built cars generated by other European countries' scrappage schemes.

**Retail sector;** the scrappage scheme has been a powerful stimulus as far as new car volumes are concerned, tempting many more private new car buyers into the market during a period of recession.

- The scheme has helped build confidence in the automotive retail sector, heightened new car and dealer visibility and brought up to 400,000 mostly new customers into the franchised dealer arena. It could be argued it has also produced a feel-good factor that has benefitted the motor industry and a considerable short-term political payback for the government
- The majority of new cars sold under the umbrella of scheme have been to motorists who wouldn't ordinarily buy a new vehicle. In normal circumstances, these owners of older cars would likely buy a used car at some point, triggering one or more sales up the used car supply chain until someone bought a new car – over time generating more aftersales and finance business for the retail sector – probably more than a million transactions.

- It must also be acknowledged that most new cars bought under the auspices of the scrappage scheme are lower-priced models offering lower profit opportunities – no part-exchange to retail – little or no finance contribution – little opportunity of immediate aftersales business – or the likelihood of the car entering the used car market in a normal replacement timescale.
- While on a wider front, there seems to have been fewer dealers going out of business than might have been expected during a lengthy recession, this is probably a lot more to do with sensible management and tight cost control than a substantial 'bottom line' profit contribution from new car scrappage deals.

### Car parc implications

The steep fall in new car sales in 2008/2009, and the sluggish recovery expected, will have an enormous impact on the UK car parc. For used car retailers, who deal primarily in younger used cars (0-5 years old), there will be around three million fewer of these units 'in stock' by 2013, than the high point of 2005 – nearly two million fewer than the 2008 figure – posing a serious threat to used car stock availability and used car volumes in this age group.

It is also not difficult to work out the implications for the size of the service/repair market – or the huge task that dealers face to sustain their aftersales business. There is a 'black hole' looming in the aftersales market for younger cars – amounting to around £2 billion in the 2009 to 2015 period compared to 2008's level – at its worst between 2012 and 2014.

**A copy of the full report is available from;  
[www.buckingham.ac.uk/cam](http://www.buckingham.ac.uk/cam)**