

SPOTLIGHT: FINANCE



Is PCH the new PCP?

Personal contract hire is growing faster than any other form of finance in new car retail. While PCP still accounts for more than 80% of the market, could leasing claim its crown?

In the world of new car finance, personal contract purchase (PCP) has been the outstanding success story of the past decade, but recent moves from leasing companies may indicate that the market is shifting towards personal contract hire (PCH).

Arval revealed plans earlier this year to offer PCH and maintenance services to the employees of existing customers who do not qualify for a company car, while in March Zenith launched Zen Auto, which offers PCH to any member of the public. Others have their own pilot schemes.

Adrian Dally, the head of automotive finance at the Finance and Leasing Association (FLA), said consumers' openness to finance solutions that place less emphasis on ownership will see leasing solutions such as PCH gain traction on the road to mobility as a service (MaaS).

"PCP is currently 80% of the market but PCH is growing fast," he said. "It has gone up from 2.4% of the market in 2010/11 to 10-11% now – a much higher growth rate than PCP."

The PCH model will benefit from the arrival of WLTP and RDE legislations which increased vehicles' emissions on paper, causing a rise in benefit-in-kind (BIK) tax, forcing many company car drivers to consider personal leasing options.

"With the introduction of WLTP on new cars, coupled with the lack of clarity on BIK rates beyond 2020, there is a growing level of uncertainty around company cars. Some drivers, particularly those in perk cars with a cash alternative rather than the essential users, are considering their options," Mark Evans, a fleet consultant for ALD Automotive, told *AM's* sister magazine, *Fleet News*.

Dealers, too, are becoming aware of the growing importance of PCH.

"There's a massive movement towards PCH and it's getting bigger all the time," said Peter Smyth, director of Swansway Group.

"It's driven by low or manageable monthly rentals on premium brands with strong residual values.

"People aren't bothered if they own a car any

more because it's a depreciating asset. All they want is access to mobility."

While PCH sales overtook hire purchase (HP) in 2016, it still has a long way to go before it can match, let alone surpass, PCP in volume terms.

In 2017, the total value of new cars bought using PCH in the consumer sphere was 2.2 billion, compared with more than £15bn spent on PCP deals. However, it is the growth rate of each that has become noteworthy over the past two to three years.

In 2015, for example, the overall value of the finance market for new cars rose 15.3% year-on-year and the amount spent on PCP rose broadly in line with that (up 19% on 2014). However, the amount spent on PCH rose almost 75% over the same period. While this is from a lower base (from £614 million-£1,073m) than PCP (£13.2bn-£14.9bn), PCH did also outstrip all other forms of finance and outperform the market in 2016 (up 76%) and 2017 (up 14.7%).

According to the latest figures from the British Vehicle Rental and Leasing Association (BVRLA), PCH for the fleet sector was also up 

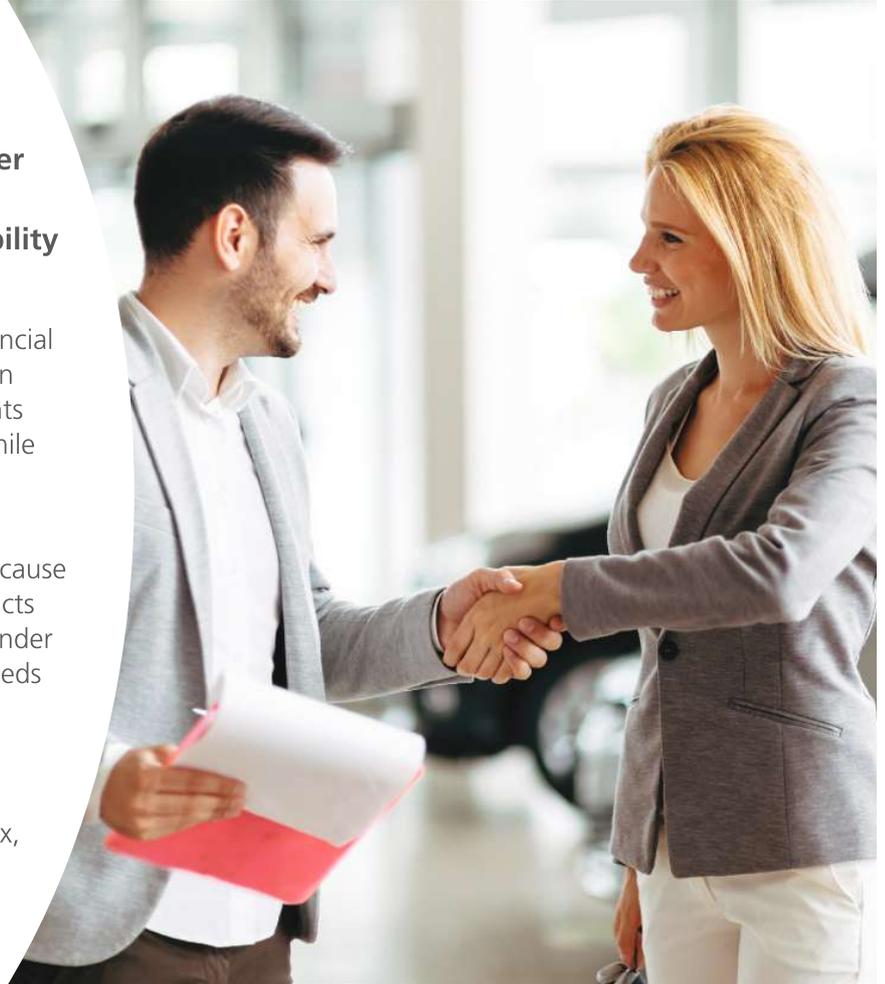
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14% in the first quarter of 2018, versus a 42% rise a year before.

The growth of PCP has been fuelled by websites offering ultra-low interest rates and its flexibility, pushing it to a point where PCP now accounts for 82% of new car registrations. But PCH is starting to make inroads too, with customers being enticed by lower prices and access to new cars they may not have otherwise been able to afford.

As recently as April, Vauxhall Finance launched PCH and Business Contract Hire to boost SME business sales within the brand's UK dealer network. In June, Santander Consumer Finance secured agreements with Mazda and Volvo to offer PCH deals to its UK customers.

Dally said the final decision on PCP or PCH is ultimately dictated by consumer choice.

"It comes down to what product is most suitable for the customer and their needs," he said.

"The dealer is required under regulation to give the consumer all the information they need to make the right choice for them."

Despite the undoubted rise in PCH, Vauxhall Finance's UK sales and marketing director Kevin Douglas said its sales are not being realised by franchised retailers as much as those that are explicitly part of the manufacturer's authorised business centre networks. But he believes this market segment will only increase in future years.

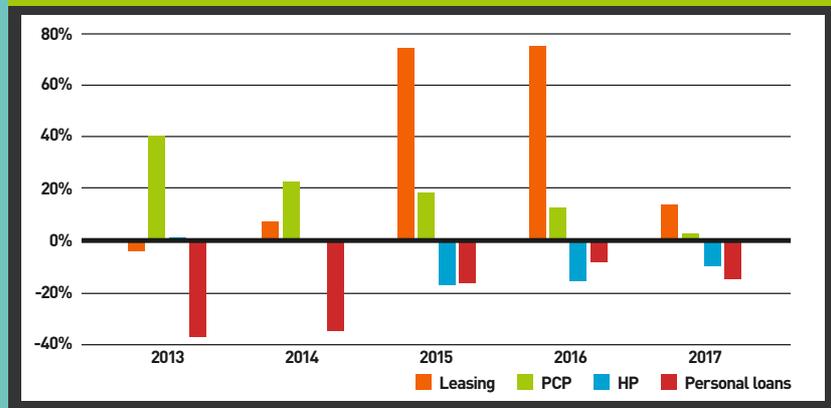
"The nuts and bolts of the sales process, however, largely remain the same," he said.

"The sales process is designed so that the customer is presented with all available products to ensure that they receive the funding solution that is most appropriate to their needs and personal circumstances."

The first question that dealers should ask consumers looking to buy a car is how long they plan to keep the vehicle and their budget, said James Tew, the chief executive of iVendi. Then they can determine what the best finance option is, weighing up each's merits and debits, he said.

"The benefit of PCH is that it may be the lowest cost outlay for the vehicle they want on a monthly basis," he said. "The downside, of course, is that there is zero equity at the end when they come to hand the vehicle back to the dealer."

YOY CHANGE IN VALUE (€M) OF NEW CARS BOUGHT ON FINANCE 2013-2017 (SOURCE: FLA)



THE BENEFIT OF PCH IS THAT IT MAY BE THE LOWEST COST OUTLAY FOR THE VEHICLE A CUSTOMER WANTS

JAMES TEW, IVENDI

Clive Brook, managing director of Volvo retailer Clive Brook, said PCH's key driver is price and the lower cost of entry. By offering an attractive lead-in price, however, it's hard for retailers to then upsell additional options that may be available with PCP or HP, he said.

"PCH is becoming a more socially acceptable way of financing a car," he said. "However, it's difficult to encourage the customer to buy additional products when they don't have any real ownership of the vehicle."

He also warned that dealers need to make consumers aware of the penalties that can be incurred with PCH, such as early termination fees that you don't get with PCP or HP. If they are

looking for a more flexible product they may be better off with PCP, he added.

"The most important piece of advice that we give PCH customers is that it's a lease agreement," he said. "Therefore, should they wish to get out of it early there are much higher charges involved than if they were to choose another finance option."

Peter Allibon, sales director of Mazda UK, said PCH presents almost as many challenges as it does opportunities for the retailer. However, he added that PCH offers a more simple way to advertise, allowing a dealer to promote monthly rentals in a transparent and attractive way.

"The challenges are that it will drive down the new car price per unit if the manufacturer doesn't structure the programme with dealer profitability in mind," he said. "They may also find themselves having difficult conversations if they have not explained the product to the customer properly."

Smyth said the main difference between PCH and PCP customers is that the PCP customer tends to research the vehicle they want and then goes into the showroom and buys it, whereas a PCH customer shops according to their budget. However, he cautioned that while PCH might be a more attractive price, the devil is in the small print.

"What the PCH customer needs to be aware of are factors such as what is considered to be fair wear and tear," he said. "Then there are the mileage penalties they need to know about."

Louise Wallis, the head of business management at the The National Franchised Dealers Association (NFDA) said that while incentives can help to sell PCP and PCH, the Financial Conduct Authority (FCA) stipulates that the customer should be allowed to make their own informed choice and it should not be target-driven.

"It's about making sure the customer knows what they are buying," she said. "So the dealer needs to explain that there are certain regulations that sit behind PCH, the car and the consumer that are different from those for PCP."

Despite trailing PCP currently, Graeme Bannister, consulting director at Frost & Sullivan, said PCH is "evolving" and is no longer the "tough sell" it was 10 years ago. **ALEX WRIGHT**

YOY CHANGE IN MARKET SHARE (%) OF FINANCE TYPES 2013-2017 (SOURCE: FLA)

