

Are You Maximizing Your Used Vehicle Department?



How to Impact Your Bottom Line with an Effective and Profitable Pre-Owned Operation

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In 2013, used vehicle sales averaged almost 31.3% of a dealership's total sales dollars.¹ That means maximizing the used vehicle department's operations can have a major impact on your dealership's bottom line.

From the work I've done in dealerships throughout the country, I've found several best practices to help you run an effective and profitable pre-owned operation.

There are three main areas to focus on:

1. Acquiring the right inventory.
2. Properly appraising trade-ins.
3. Managing aged inventory.

Acquiring the Right Inventory

When it comes to acquiring inventory, there are two questions you need to ask yourself. First, what inventory is considered the "right" inventory? Second, where do you find it?

What Inventory is the Right Inventory?

Before you can acquire the right inventory, you have to know what exactly the "right" inventory is for your dealership and your market.

Many seasoned used car managers base this decision solely on gut instinct. Some of the time, those seasoned used car managers are correct.

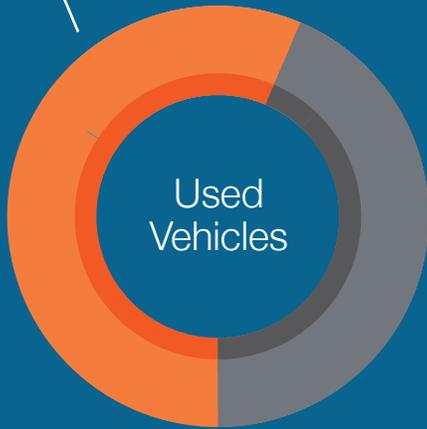
What about the rest of the time; how much is lost because of a bad decision made on gut instinct? And what about those of you who don't have a seasoned used car manager?

The solution is DATA — base the decision of what inventory is the right inventory on real data from your dealership and your market.

When deciding what's "right" for your dealership, take into consideration the number of previous sales for that particular vehicle, past turn rates, market information, and profit margins from similar vehicles.

All of this information will help you determine what inventory is the right inventory for your dealership. You can begin to develop a wanted vehicle list, or what I like to call a "buy list."

Trade-Ins



66% of the used vehicle department's inventory comes from trade-ins on new and used vehicle sales.

You can also develop a “sell list” of vehicles that don’t perform well at your dealership. This will guide you on which vehicles to wholesale immediately and prevent you from making the same mistake twice.

Where do you find the right inventory?

Now that you know what you need, you actually have to find it in order to stock it on your lot.

The right inventory mix can be acquired from several sources. The two most common are wholesale auctions and customer trade-ins.

If you have the right technology in place, there are some other options for acquiring your ideal inventory, including auction run lists, mining your current customer base for your “buy list” vehicles, and trading or purchasing from other stores in your dealer group.

Stocking the right inventory is the first step to a profitable used vehicle department. After you’ve determined what inventory is right for your dealership and where to find it, the next step is to properly appraise the vehicles.

Properly Appraising Trade-ins

The most common place to acquire used inventory is on your own lot from customers looking to buy. 66% of the used vehicle department’s inventory comes from trade-ins on new and used vehicle sales.² It’s extremely important to properly appraise each of these vehicles.

If you aren’t careful, you could face tremendous profit loss either up front by overpaying for a vehicle someone didn’t appraise properly, or later, when it’s been on your lot too long and you have to sell it at auction.

There are two main factors you need to consider when determining the appraisal value: whether to retail or wholesale the trade and the reconditioning costs.

Retail vs. Wholesale

Before you put an appraisal value on a trade, you need to determine if you will keep it for retail or wholesale it. This is an important first step, because the vehicle’s value, and your investment, will be different depending on the decision.

Two steps for properly appraising trade-ins:

1) Retail vs. Wholesale

2) Reconditioning

...it's still on your lot, and every day that passes equals more lost profit.

Retail vehicles compare book price to market price and usually have a higher value. Wholesale vehicles compare book price to auction sales, like NAAA, and usually have a lower value than retail.

If you've already determined the right inventory for your dealership, the retail vs. wholesale question should be fairly simple. Is the trade-in on your buy list or not?

If the trade-in is on your buy list, keep it for retail. If it is on your sell list, take it to auction. If the trade isn't on either list, you'll have to do some more market research, and this is sometimes where it comes down to a seasoned used car manager's gut instinct.

If you decided not to retail the trade, there is another option to consider besides taking it to auction. If you're part of a dealer group, check the buy list for one of the other stores in your group. This could save you auction costs and help your sister store with acquiring their "buy list" inventory.

Reconditioning Costs

The next step in properly appraising a trade-in is determining the reconditioning costs you'll have to invest in the vehicle.

When you're inspecting the vehicle, go beyond a quick once over of the interior and exterior. An expert should evaluate the overall condition, including appearance, mechanical, and accident history.

Another tool for determining reconditioning costs is the vehicle history report. This provides valuable information regarding service history, accident history, ownership records, and more.

Once you have these two steps figured out, determining the ACV should be easy.

Managing Aged Inventory

Let's take a moment to think about the entire acquisition process... a customer comes into your dealership with a vehicle they want to trade. You check over your buy and sell lists and determine the vehicle is on the buy list.

The reconditioning costs are relatively low and this particular vehicle seems to be getting a good market price right now. You decide to retail it.

Three months later, it's still on your lot, and every day that passes equals more lost profit.

In 2014, CPO sales increased 10.8% from the previous year.

The third step to maximizing your used profits is decreasing the chance of aged inventory and learning how to manage it when it does occur.

Here are 5 best practices on how to manage aged inventory:

1. Price to the Market:

Your best bet against aged inventory is pricing your vehicles to the market — not too far above or below it. Your customers are looking at every dealership's inventory around you for the best deal. You don't want to sell yourself short just to make a deal, and you don't want to ask the highest price so no customers even give you a chance.

2. Quick Turn-around:

Get your vehicles online as soon as you take them in. Recondition these vehicles within 48 hours of acquisition to make them front line ready. The goal is to make these vehicles ready for sale in the quickest time possible.

3. Spotlight Your Shining Stars:

As early in the process as possible, identify certified pre-owned vehicles from the rest of your inventory. In 2014, CPO sales increased 10.8 percent³ from the previous year. Customers are willing to pay more for a used model when they know it's certified.

4. Daily Inspection:

Walk the lot daily to see what your customers see. You'll pick up on vehicles that need additional care instead of your customers letting you know.

5. Stick to a Price Plan:

Adjust prices after two weeks and beyond until you hit your hard turn date. The longer you keep a vehicle in inventory, the more it will cost you. The values of pre-owned vehicles can drop daily, especially as you move from one month to another.

The used vehicle department has a lot of moving parts, and it requires a lot of data and information. If you don't have the manpower to spend hours on each appraisal gathering this data, an integrated appraisal solutions is the key. Used Vehicle Management does all of this, plus seamlessly connects to other Reynolds solutions for real-time information updates and data sharing.

Having access to all of this information, will help you make more profitable decisions when it comes to stocking the right vehicles and investing the right amount into them.

As a result, your employee morale will increase because you're selling more; and your customer satisfaction will increase because you're appraising properly, the sales process is quicker, and you have the vehicles your customers want.

Can you afford to miss out on any of these improvements?

Visit reyrey.com/whitepapers to read more about changes and new opportunities in the automotive industry.

Acknowledgements:

¹ NADA Data, 2014

² NADA Data, 2014

³ Overby, Joe. AutoRemarketing. "4th Straight Year of Record CPO Sales." Jan. 6, 2015.



Ray Skiba put his talents to work for several dealerships over the course of 14 years as a sales consultant, General Sales Manager, and General Manager. He has been with the Reynolds Consulting Group since 2001. His expertise lies in CRM Sales and Service consulting, used vehicle process consulting, BDC consulting, Internet process improvement, and customer relationship management.

