

MARKET DAYS SUPPLY FOR AUCTION-BUYING

In today's highly competitive and margin-compressed market, dealers can no longer buy cars at auction to feed their used vehicle inventory. Dealers need to buy the cars that are right for their local markets, as well as their profit and return-on-investment (ROI) objectives.

The Possibilities Are Endless

A key obstacle for dealers is identifying the cars that are truly right for their market and other retailing objectives. For many buyers, the solution rests solely on instinct and experience. A buyer might have a good sense of the vehicles they recently sold and need to replace. They might also have an understanding of how much should be paid to acquire a vehicle in order to achieve the front-end gross profit objective their dealers expect.

Missed Opportunities

Relying on instinct and experience to perform this analysis misses two critical variables — it doesn't assess the current competition a particular car will face in the retail market, or what those competing cars mean in terms of the unit's profit potential.

Introduction to Market Days Supply

A growing number of dealers use Market Days Supply (MDS) to measure the desirability of a particular vehicle in their local market before they decide how much they might pay for that vehicle at auction. As a result, a buyer knows the demand of a specific vehicle before an investment is made.

Market Days Supply is calculated by dividing current available supply by the average daily retail sales rate over the past 45 days. Vehicles with lower Market Days Supply values reflect higher demand and, therefore, represent greater turn and gross profit potential than those with higher days supply values. When buyers use Market Days Supply in their assessment of auction vehicles, they become better auction buyers.

Market Days Supply measures current available supply of similarly configured vehicles and the rate these vehicles retailed over 45 days in a specific market.

Market Days Supply Calculation

$$\frac{\text{Number of Days}}{\text{Number Sold}} = \text{Daily Sales Rate}$$

$$\text{Daily Sales Rate} \times \text{Current Available Inventory} = \text{Market Days Supply}$$



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3 WAYS MARKET DAYS SUPPLY MAKES BUYING BETTER



1. Identify each vehicle's retail competition and price sensitivity.

Market Days Supply helps a dealer understand how right a vehicle might be for your market. If the car is a common unit, based on competing vehicles, a dealer can adjust their bidding accordingly.



2. Step up for the right vehicles.

Chances are, a dealer won't be the only one bidding on a vehicle with a low Market Days Supply. This knowledge brings power. A dealer will know if he or she can afford to step up and acquire the unit, given that it'll sell quickly and present the best opportunity to maximize ROI.



3. Minimize the risk of acquiring the wrong car.

Buyers like to take chances — especially when the acquisition price seems especially right for a vehicle. Market Days Supply gives dealers more assurance that the vehicle really represents a good buy.

Limitations and Opportunity

Market Days Supply is not the only metric to use for auction buys. Dealers still need to accurately assess the potential costs and front-end profit associated with each auction purchase. Market Days Supply helps dealers understand the desirability of the cars purchased — and the likelihood that those cars will quickly attract buyers to a dealership's showroom.

For more information, visit:
www.stockwave.com/mds

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