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USED CAR INVENTORY MANAGEMENT

4 ESSENTIAL METRICS

TO DRIVE USED VEHICLE SUCCESS

CONTENTS

INTRODUCTION

MOST DEALERS RECOGNIZE IT'S TOUGHER OUT THERE IN USED VEHICLES.

The constant pressure on gross profits. Smarter customers. More cars and more vehicle value volatility.

It's no surprise that many dealers and used vehicle managers have stepped up their game. They've gone beyond educated guesses and instinct. They rely on technology and tools to give them the competitive market insights that help them make profit-precise decisions at each stage of every used vehicle's life cycle.

These dealers won't go back to the old ways. They are selling more vehicles more quickly, and making more money, than many thought possible.

Among these dealers, the most successful rely on four metrics that apply to every used vehicle, in order to consistently make the best decisions. They don't just use the data sometimes. It's behind every decision, and the increased sales volume and profitability speak for themselves.

These dealers consider the following four metrics to be the unshakable foundation of their used vehicle success stories.

1 MARKET DAYS SUPPLY

DEFINITION:

This metric expresses the relationship of the vehicle's desirability in a market based on supply and demand.

APPLICATION:

Dealers use this metric in three ways — as a goal to assess how quickly a specific vehicle might take to retail, as a benchmark for their inventory's overall market appeal, and as a guide to make initial and ongoing used vehicle pricing decisions.

BENCHMARK:

Dealers often aim to achieve a 70-day market days supply average for their entire used vehicle inventory. The benchmark should guide, but not strictly define, a dealer's acquisition strategy. Broadly, vehicles with a market days supply of 65 days or fewer are often retail no-brainers — that is, the balance of supply and demand data suggests these cars will sell quickly. However, used vehicles with a 120-day market days supply can also make good sense as retail units, depending on a dealer's ability to acquire them right and align their pricing to reflect a fair amount of competing cars. The key here is striking an inventory-wide balance between highly desirable and less desirable cars. In general, the 70-day mark indicates a well-balanced inventory.

With pricing, dealers should know that vehicles with a lower market days supply can often merit an above-market asking price, because of their market appeal. The converse is also true — vehicles with a high market days supply often require a below-the-market-average price to ensure they retail quickly.

$$\text{MARKET DAYS SUPPLY} = \underbrace{\text{DAILY SALES RATE}}_{\frac{\#\text{ of Days}}{\#\text{ Sold}}} \times \text{CURRENT AVAILABLE INVENTORY}$$

2 COST TO MARKET

DEFINITION:
This metric shows how “right” you own the vehicle compared to the retail market.

APPLICATION:
Dealers use this metric to know the “spread” between what they’ll pay to acquire an auction or trade-in vehicle, and their likely retail selling price. By knowing how much they might make on every vehicle, dealers can source, merchandise, price and manage every unit with its retail profit in mind.

BENCHMARK:
Dealers should aim for an 84% cost-to-market ratio for their inventories. This creates a 16% spread to achieve a dealer’s front-end gross profit goals. This benchmark should guide vehicle acquisitions to ensure appraisers and buyers can readily understand the relationship between the acquisition price, other costs (e.g., reconditioning, transportation, packs) and a unit’s likely gross profit potential. The old saying, “You make your money when you acquire a car,” remains true today.

$$\text{COST TO MARKET} = \frac{\text{OWNED}}{\text{AVG. RETAIL ASKING PRICE}}$$

3 PRICE TO MARKET

DEFINITION:

This metric measures how the price of a vehicle compares to the average price of identically equipped competing vehicles in the market. A vehicle with a price-to-market ratio of 100% is priced squarely in line with the same or similar competing units. A vehicle with a price-to-market ratio of 105% is priced 5% higher than the market; a price-to-market ratio of 95% signals a vehicle priced 5% below the market.

APPLICATION:

This metric shows dealers how their price on a vehicle, or their inventory overall, matches up to the competition. Some dealers use the metric to know the precise price point, for specific vehicles, that will maximize gross profit and retail within their time-in-inventory preferences.

BENCHMARK:

It’s not uncommon to see the price-to-market ratio for a dealer’s entire inventory to run between 92% and 95%. The specific benchmark can vary based on a dealer’s goals for gross profit and inventory turn, as well as the type of vehicles that they prefer to sell. In general, dealers adjust the price-to-market ratio for used vehicles down as vehicles age to mitigate the risk of aged units and wholesale losses. Dealers who are price-vigilant also find instances where the market days supply of their vehicle, as well as online interest from buyers, might warrant a price increase, or a lower-than-typical price reduction during a vehicle’s retail lifecycle.

104%	+4% Price to Market
100%	Current Market Price
96%	-4% Price to Market

4 DAYS IN INVENTORY

DEFINITION:

This metric shows the number of days in inventory, on a specific-vehicle or overall-inventory basis. Typically, the higher the days in inventory for a vehicle or a dealer's overall inventory, the greater the likelihood of wholesale losses and diminished front-end profitability.

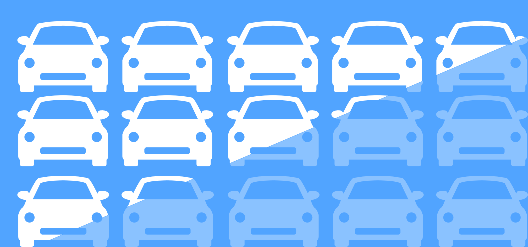
APPLICATION:

Dealers use this metric to manage and maintain the velocity of their retail sales, and maximize the profitability of each sale. The metric also helps dealers create inventory-age-based pricing and desking decisions.

BENCHMARK:

The best-performing used vehicle retailers aim to maintain at least 55% of their retail inventory under 30 days of age. The benchmark indicates a suitable level of sales velocity to retail vehicles while they are fresh and able to deliver the highest front-end gross profits. Dealers who achieve this benchmark also suffer less from aged units, as they've found a way to retail the vehicles before age becomes an issue.

AIM TO MAINTAIN
AT LEAST 55%
OF RETAIL INVENTORY
UNDER 30 DAYS OF AGE



KEY QUESTIONS

TO ASSESS THE QUALITY OF INVENTORY MANAGEMENT METRICS

Inventory management solutions providers typically highlight the efficacy and value of the inventory metrics their systems offer. But not all metrics are created equal. The following questions can help you assess how well a specific solution's metrics will serve your dealership.

RELEVANCE:

Does the information seem easy to understand? Does it look like it will help you make better decisions that make you more money?

BREADTH:

What sources does the inventory management system use to render its metrics? What sites are not included?

PRECISION:

Do the metrics reflect same-same comparisons between vehicles — that is, vehicles with the same color, condition, equipment, trim level and mileage? How frequently does the system update its source data?

VALIDATION:

What do other dealers or third parties say about the quality and value of the data?

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ABOUT US

vAuto provides innovative technology, tools and business intelligence to thousands of dealerships across the United States and Canada, helping them compete more effectively and increase new and used vehicle sales volumes and profits. Founded in 2005, vAuto revolutionized dealers' used vehicle operations with the groundbreaking Provision® Suite tools. Leveraging the Velocity Method of Management®, pioneered by vAuto's visionary founder, Dale Pollak, the Provision Suite guides used vehicle acquisition, appraisals, pricing, merchandising and more based on real-time, local market supply and demand data.