



# Surviving and Thriving in the New Efficient Marketplace

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special feature bonus

Dale Pollak, Founder of vAuto, Talks About the New Used Car Market

Most dealerships still operate from a decades-old playbook when managing their used car business. To win, dealers need to adopt a more disciplined, investment-minded approach. The No. 1 reason that dealers are not recognizing the full potential of their used car operation is the fact that they don't understand what it means to move from an *inefficient* to an *efficient* marketplace.

An efficient market is any market where buyers and sellers have relatively equal knowledge of choices and alternatives. Was the used car business efficient before the Internet? No — people regularly paid more money for their used cars than they would have if they'd only known where others vehicles just like it were being sold for less. Is the used car business today efficient, and getting more efficient every day? Yes — the Internet makes buyers aware of choices and alternatives for any vehicle in any market.

Thanks to the Internet, the used vehicle market has become a commodities market. Buyers have a multitude of choices, and prices are easy to find. Vehicles aren't as unique as they used to be, no matter what some dealers would like to believe.

Consumers are no longer the losers when it comes to buying a used vehicle. The new losers are dealers who have failed to understand the dynamics of today's Internet-driven market. The days of convincing people to pay more for a used vehicle than they should are long behind us. Rather, the used vehicle is going to bring in only what the market will bear in the new efficient marketplace. All efficient markets are governed by the same

principles. Whether it is the oil, grain, metal or automobile markets, if they're efficient, they're governed by the forces of supply, demand and price sensitivity. These are the important factors that are playing out in governing the success of your used vehicle operations.

The new car business has been efficient for many years. Customers shopping for new vehicles have clear choices of where to go for identical vehicles and better deals. Because the new car business has been efficient for some time, dealers well understand what it means to own new inventory with a high day's supply. They would never dream of purchasing new vehicle inventory with a high day's supply and then pricing it over the market. Yet, that is exactly what car dealers across the country are doing in their used vehicle operations.

What if you had to choose: you could either pay attention to the age of the vehicle in inventory or its day's supply in the market, but not both? My professional opinion is that you'd be way better off knowing the vehicle's day's supply in the market rather than how long you've had it in your inventory. Think about it. If you knew from the first day that you had a vehicle in stock that it had a market day's supply of over 100 days, how long would you be proud of it? Answer this question: How long would you be willing to advertise a new vehicle for over market money if there was 100-day supply of identically equipped vehicles in your market? I think the answer is that you probably wouldn't do it at all. So why are you doing it in your used car operations today? I can show any dealer that they have vehicles with 100+ market day supply

being advertised for over market money.

The single most important metric to consider when deciding whether to purchase a vehicle, how much to pay, or how it should be priced is the supply and demand of that vehicle in the market. Consider what happens when dealers receive a new hot model from their manufacturer that has pent up demand and very little supply. Isn't it true that you can ask and get anything you want for yours, regardless of what your competition is doing with theirs? That's what efficient markets do for sellers when you offer an item for sale that has more demand than supply — it rewards you with premium prices and profits. Conversely, when you offer vehicles for sale where supply outstrips demand, you can't price those vehicles aggressively enough. It only makes sense. This principle is as time-tested as markets are themselves. In the efficient market, when considering what to buy, how much to pay or how to price, you must know the vehicle's market supply and demand.

Here's an example: With gasoline prices soaring, we all intuitively understand that gas sipping cars are quickly becoming the rage. I thought it would be interesting to take three markets — Los Angeles, Chicago and Tyson's Corner, Virginia — and show you the top five gas sippers in each market (See Table 1). Note that the ranking is based on lowest day's supply, in other words, the current available supply divided by the average daily retail sales rate over the past 45 days. These are the ones that people will beat your door down for, more than any others. If you know this, that's valuable information.

Now that the used car business has become

an efficient market, dealers are either sailing on the seas with the wind at their back or in their face, on a unit-by-unit basis, depending on the vehicle's supply and demand. When I say the vehicle's supply and demand, I mean its current availability (exact year, make, model and specific equipment) divided by its average daily retail sales rate over the last 45 days. There's a direct correlation between equity, volume and gross.

The good news is that the Internet offers the same opportunities for dealers to examine their market, and software packages and management and technology partners exist that allow dealers to examine live analysis of used vehicle markets, along with up-to-the-minute information about used vehicle supply, demand and pricing in their specific markets.

This information is the holy grail, and can change a dealership's destiny. Tell me a vehicle's supply, demand and price sensitivity and I'll give you a better answer as to whether I want to own it, how much I'll pay for it and how to price it. It takes everything that I always knew about the investment nature of the used-vehicle industry and brings it to life in a simple and non-threatening manner. If I'm talking to a dealer, once they understand the concept of an efficient market, we can have a rational and productive conversation about his inventory in terms of the vehicle's supply, demand and price sensitivity. It makes perfect sense to them, and it's changing the way they think.

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## POPULAR GAS SIPPERS

location/make	days supply	available	sold
<b>Chicago</b>			
2004 VW Beetle GLS Conv.	37	17	22
2005 Scion xB	50	40	35
2007 Toyota Yaris S	54	19	17
2004 Chevy Aveo	56	82	43
2006 Scion xA	60	32	24
<b>Los Angeles</b>			
2007 Toyota Yaris	38	47	55
2005 Chevy Aveo	45	94	95
2004 Scion xB	45	92	91
2007 Honda Fit Sport	47	26	25
2004 Honda Civic LX Sedan	54	116	97
<b>Tyson's Corner, VA</b>			
2007 Toyota Yaris Base	32	18	25
2004 Honda Civic LX Sedan	40	35	39
2005 Chevy Aveo	42	32	34
2005 Honda Civic LX Sedan	54	93	77
2003 VW Beetle GLS Conv.	58	27	21

