



What do Nintendo and Massage Chairs Have to do With Used Cars?

by : Dale Pollak

With the holiday season behind us, we all have the depressing experience of seeing things that we only just purchased being sold at much lower prices. This happens every year, and will continue to do so. Why? Because when demand is high and supply is tight, we, the customers, will pay premium prices. And, of course, the reverse is true. Why do I bring up the most fundamental relationship between supply and demand? Let me take a minute to explain.

Across the country, dealers and managers of used car operations report that traffic is down. As I have explained in previous articles, this is because used car buyers are using the Internet to locate and hone in on a short list of potential vehicles, rather than physically wandering through dealers' lots until they find what they want. Those dealers that are skilled in the art of Internet merchandising and, accordingly, position their vehicles to make consumers' short shopping lists, will be rewarded with more opportunities and sales. As I have also outlined in previous articles, while these new merchandising skills are not simple, they are relatively few in number. Simply stated, if you have outstanding photos, rich textual descriptions and competitive pricing, then good things begin to happen.

Although many dealers have come to understand this dynamic, very few know how or have the ability to price their vehicles in such a way to attract buyers while still maintaining acceptable gross profits. In fact, I often hear the complaint, "If I price all of my cars right for the Internet, I won't make any money." This common assumption is in fact wrong, dead wrong. And herein lies the reason for the holiday supply/demand reminder.

There are a few fundamental principles that must be understood. The first of these fundamentals is that not every vehicle needs to be aggressively priced relative to identically equipped competing vehicles in the market. There are some vehicles whose market demand is very high compared with its supply. Under these conditions, that vehicle can be priced well over its competition and it will still draw a crowd. The truth of this principle is known to all car dealers through their occasional experience of receiving a new, hot model from their new car manufacturer. For those cars where there is pent up demand and virtually no supply, dealers can ask and almost get anything they want. This is how markets reward sellers for vehicles that are in high demand and in short supply.

This principle may seem obvious, and it is. But making the assessments of "what is hot and what is not" for used vehicles has historically been extremely difficult. Going back ten or more years, the "hot or not" question was answered almost entirely by instinct. We sometimes had the aid of registration reports that brought some data to this assessment, but this was fairly limited and dated. The "guess" method was the best that we could do, and worked better then, than now. This is because today there are exponentially more makes, models, and trim and equipment configurations, each with a unique supply and demand dynamic. If we put our egos aside, who among us can be so smart as to know what effect a small change in equipment or trim might have on demand?

The next step on our evolutionary path to answering the supply and demand or the "what's hot and what's not" question was the introduction of software that analyzed a dealership's past inventory sales performance. Initially, these systems were heralded as silver bullets. Unfortunately, they have failed to deliver on their promise. Users of these systems report that they are accurate about 50 percent of the time, which is equivalent to flipping a coin.

There are several reasons why these early software solutions are flawed. First, they do not account for differences in vehicle trim or equipment. Without measuring past performance on a true "apples to apples" equipment configuration basis, the data is simply inaccurate. Second, these systems do not capture "lost sales requests". Therefore, you don't know what you could have sold if you had it in stock. Third, these systems often incorrectly label vehicles as poor sellers because they don't take into account how the vehicles were priced. The list of defects goes on and on, but I think you get the point that these old stocking systems were the right idea, but not the right approach.

Today, technology has evolved to the point where you can know the actual supply of any vehicle in any market, given its exact trim and equipment configuration. Moreover, this new technology also tracks how long it takes each vehicle to sell given these factors. When you know how many vehicles exactly like yours are for sale in your market and you know the average rate at which they sell, you can, finally and for the first time, accurately answer if a vehicle is "hot or not." And, when you know how "hot or not" a vehicle is, you can finally answer the three most important questions: what to stock, how much

to pay and how to price.

This new technology delivers a days supply for every used vehicle in every market given its exact equipment configuration. This is accomplished by dividing a vehicle's currently available supply by its average daily sales rate. For example, if there are 10 vehicles available in the market exactly like yours, and they have been selling at the rate of one per day over the past 45 days in your market, you divide the 10 by one to determine that this vehicle has a 10-day supply in your market.

Let's take an example of a 2003 Jeep Wrangler in Chicago. This new technology tells us that 2003 Jeep Wranglers take an average of 57 days to sell in Chicago. And then it goes further. Don't you need to know, for example, that 2003 Jeep Wranglers with a sports package take 69 days on average to sell, but ones with a Rubicon package take only 19 days? If you are a Chrysler dealer in Chicago, you might have an instinct about these numbers. But what if you were a dealer of another brand contemplating a purchase and a price for each of these vehicles? Which vehicle should you price aggressively? Which vehicle do you want to stock? Would your instinct or present software solution answer this question for every possible vehicle in your market with any of its possible year, make, model and trim configurations? I think you now begin to get the idea.

Knowing how to price your vehicles on the Internet to drive traffic while still making healthy profits depends on your ability to know "what's hot and what's not" on an exact equipment configuration basis in your market. Today, using newly available technology, this can be done by taking accurate preference cues from your marketplace, rather than using erroneous data generated from your own dealership's individual and past performance. In future articles, I will outline other key fundamentals that will allow dealers to price vehicles on the Internet for both increased traffic as well as superior profits. In the meantime, take note of all those retail stores that are still having after Christmas sales because, they too, must live by the laws of supply and demand.

Drawing from 13 years experience as a dealer principal and eight years as a successful high technology executive serving the automotive retail industry, **Dale Pollak** is an authority on maximizing dealership profits from pre-owned vehicle operations. Pollak is the founder and chairman of the board of vAuto, Inc. a pre-owned inventory management solutions company.
