

DOING BATTLE WITH THE VEHICLE VENDING BOTS

Faster reconditioning means more efficient used car dealership operations.

Bots – Sophisticated Online Retail and Marketing Tools

An increasing number of digital retailing companies is diligently working to take away automotive dealerships' used car business.

Companies like Carvana, Vroom, Driveway and CarMax are leveraging inventory, reconditioning and workflow management technologies to connect customers with vehicles faster and easier than ever.

Furthermore, these national marketing machines are actively spreading the word that dealerships are no longer necessary to buy a vehicle. Vroom's Super Bowl commercial vividly and effectively compared going to a dealership to buy a used car to being tortured.

To remain strong competitors in their markets, dealers need to acquire used vehicle inventory more efficiently and get those vehicles sale ready faster. To do this, they must adapt and become adept at using modern, digital-based inventory, reconditioning and workflow management tools.

Used-Vehicle Marketplace

The U.S. used-car market is more than twice the size of the new-car segment and is outpacing it in growth, according to a recent McKinsey & Company report.¹ The company's auto retail micro-market model for used-car demand in the United States estimates that Americans buy approximately 40 million used cars each year, versus 17 million new ones, and that used-vehicle sales will increase faster than new-vehicle sales over the next five years.

“Dealerships reconditioning even 50 vehicles a month will gain radical benefits by making consistent improvements in how they process new inventory from auction and trade to their frontline.”

The rising demand for used vehicles means that used vehicle inventories are declining. As a result, used vehicle prices are expected to increase.

Other organizations concur with the used-vehicle market's importance. In the Cox Automotive Industry Insights 2021 webcast, Zo Rahim, Cox Automotive manager of economic and industry insights, said, "We have seen a recovery in the retail market; this is especially true of the used-vehicle market. It is important to keep in mind that the total used-vehicle market in the U.S. is two-and-a-half times the size of the new-vehicle market. It absolutely dominates the automotive landscape."

Rahim went on to say that in uncertain economic times, used vehicle sales fall less than new car sales and rebound faster.

Digital Commerce 360 reports that online used-car sales total an estimated \$7.09 billion annually, compared with online new car sales totaling an estimated \$7.5 billion annually.

Pandemic-Trauma Continues

Pandemics affecting the car business are not behind us. The latest is a ripple effect of COVID – the shortage of semi-conductor chips used abundantly in today's high-tech cars.

"More than a year after its outbreak, the coronavirus keeps finding new ways to hit automakers," said *Automotive News*. Used-car consultant and dealer Ed French coined the current market, *Chip-Demic*. AutoNation CEO Mike Jackson told Yahoo Finance, "I've never seen a more unpredictable situation."

Those who dive deep into these things say the chip shortage will cost the industry nearly \$61 billion in revenue this year across the entire supply chain, dealers included.

"This could be 10% of global demand in 2021, its impact, which craters the recovery. We don't think we're overstating this," said a managing director for the consulting firm AlixPartners, reported by CNBC News.

The shortage will hit General Motors' 2021 earnings by \$1.5 billion to \$2 billion this year and Ford Motor by \$1 billion to \$2.5 billion.

All this trickles down to fewer new cars in dealers' showrooms, and one can anticipate continued high demand for certified preowned and other newer-model used vehicles.

French anticipates used-car marketers like CarMax, Carvana, Shift, Vroom and others are acquiring used vehicles "at a rapid rate of acquisition in anticipation of Q2 and Q3 (supply) being extremely short."

J.D. Power's Q1 2021 Used Market Update noted used prices would remain at the historic highs driven upward by COVID-related economics. The report cautioned that continued uncertainty – "virus outbreaks, vaccine roll-out, federal stimulus, employment conditions, new-vehicle production constraints and the change in the (federal) administration" – dealers could expect market volatility.

How do you respond? Take a hard and critical look at all processes to bring efficiency and transparency to customers. The single-most money-making operation to gain efficiency for most dealerships is reconditioning.

"Most dealers don't have the block-and-tackle basics in place. The amount of money they're leaking out is nuts!" said French, who is also principal consultant for AutoProfit, and a member



"The rising demand for used vehicles means that used vehicle inventories are declining. As a result, used vehicle prices are expected to increase."

Traditional brick-and-mortar operations have advantages over online-only players in perception of quality and test-drive availability.

Top 5 barriers to online purchase, % of respondents



Recommendations for customer retailing

Effortless test-driving

- Test-drive specific vehicle at hub location or similar vehicle within a defined range

Clear inspection process with certified mechanics

- Full list of repairs made during reconditioning
- “Meet the mechanic” featuring real certified mechanics

Transparency on imperfections

- Clear photos that reveal any visible dents, dings, or scratches

Painless returns

- Return vehicle at any hub location or have it picked up

McKinsey & Company

Source: McKinsey Used Car Survey

of the board of directors for TruWorth Auto, used car dealerships in the Indianapolis, Indiana, market. “You have to be a very efficient, 14-day-bucket used-car business. That’ll turn a dealership selling 30 used cars a month to 120.”

Stop Losing Used Car Sales to Bots

Even with pandemic-related challenges, these well-funded automotive ecommerce companies reported sales and revenue increases from 2019 and are positioning themselves for strong growth in 2021.

And while they have taken great pains to make their car-buying processes as hassle-free as possible, dealerships, however, still hold many advantages — especially in the used-car segment.

According to McKinsey, used-car buyers see the inability to conduct in-person inspections and test-drives as the biggest barriers to purchasing a used vehicle online. **See the chart above.**

In addition, when dealership sales associates are able to produce the right information at the right time to answer prospect and customer questions on the fly, it builds value into the vehicle and trust in your sales teams, which sets up the opportunity to deliver a breakthrough experience for customers.

“Without clock-like accountability and measurement, dealers really can’t know how efficient their recon process is.”

Narrowing the Sales Cycle with Improved Reconditioning

Reconditioning practices and the related technologies proven to eliminate waste, delay and cost have been around for over a decade. Though thousands of dealers will testify to how these practices and tools help them achieve consistent advantages and better turnaround times, many dealers don't believe the claims or feel they don't apply to their operation.

Dealership vehicles and the customer experience that is offered *must* bring more value to the deal table at a more competitive price. Efficiency, collaboration and a focus on faster turnaround times help shepherd resources more prudently and profitably in this ever-competitive business.

Dealerships reconditioning even 50 vehicles a month will gain radical benefits by making consistent improvements in how they process new inventory from auction and trade to their frontline.

Let's Drill the Numbers

Reconditioning can either be a cost or a profit center for a dealership. Reconditioning cycle speed makes the difference. This linear clock time starts when the check is written for a car at acquisition and stops when that vehicle is frontline ready.

A dealership's goal should be a three-to-five-day recon turnaround time, which is almost impossible to achieve using traditional reconditioning vehicle and workload tracking systems.

Faster recon contributes to:

- **More profitable inventory turn.** Every 2.5 days that a dealership can reduce its time to get vehicles to their frontline will add one additional inventory turn. The more turns, the fewer vehicles that are needed to stock yet more cars will be sold.
- **Cars get sold sooner.** Fresher cars command more looks and hold asking price better.
- **Online sales increase.** When a lead surfaces for a vehicle that has just posted online while at the auction, sales staff will have all essential and accurate information to present that vehicle confidently right at their fingertips.
- **Reduce holding cost margin erosion.** Every car bought has an overhead expense called holding cost, a \$37 to \$85 per car per day (based on make) depreciation charge against sale gross. Faster reconditioning helps minimize this erosion.

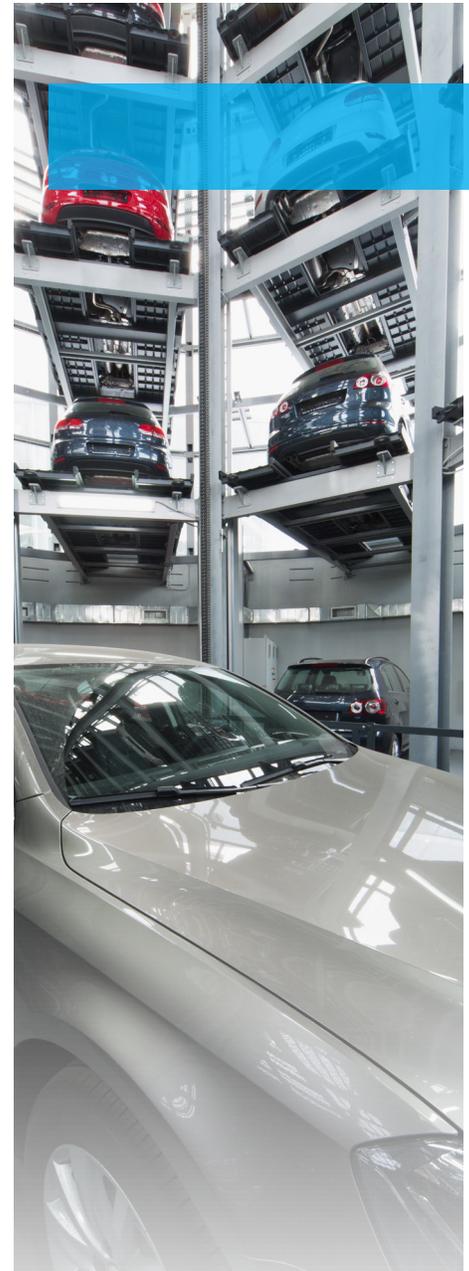
Without clock-like accountability and measurement, dealers really can't know how efficient their recon process is.

These tools help dealers limit a crucial cost — used car holding cost. Holding cost is an average daily depreciation of \$40 per car per day. A 10-day reconditioning cycle erodes sale gross by \$400 for each used car in inventory. On the contrary, a five-day cycle gets that car sale-ready in half that time or five days. The faster gain means \$200 more gross in that car.

If you recon 50 cars a month, that's \$10,000 a month more gross for the dealership. Faster reconditioning adds up to more efficient reconditioning and used car operations for your dealership.

French observed from his decade-long experience helping dealers improve operational results that contrary to how most dealer principals and general managers think, the most expensive cost a dealership has is how it manages its reconditioning turnaround time.

"This may be a controversial statement for somebody to actually accept because most dealers tell you, 'Well, it's (holding cost) my personnel cost.' It's actually not. It's the reconditioning time to line, because if your holding costs are \$60, \$70 a day per car, slow recon is killing you," he said.



“Online used-car sales total an estimated \$7.09 billion annually, compared with online new care sales totaling an estimated \$7.5 billion annually.”

— Digital Commerce 360



Improved Communication

Exceptional communication channels and robust vehicle-data gathering efforts reside in the automated reconditioning system. This data provides the insight for improving efficiency in the used car and internal service operations. It also equips sales associates with not just a vehicle's VIN data, but compelling sales resources such as inspection and repair reports, condition reports and vehicle images and videos.

Now, sales associates can answer questions from phone-ups, online leads or walk-ins promptly, accurately and convincingly. They have click-ready access to this data, whether at their desk or on break, to answer prospect and lead questions on the spot and instantly push this proof evidence to the prospect's phone or computer.

In a dealership culture that embraces recon technology, everyone is accountable for understanding how delay erodes profitability. Employees strive to return sales lead inquiries promptly and speed the flow of clear-title status communications and reconditioning repair estimate approvals swiftly.

“Remember, buyers are still out there looking for cars, though mostly from home, which means they are looking for bargains. This period offers a unique opportunistic side for consumers.”

VII. 5 Steps to Implement to Improve the Reconditioning Department

1. WORK THE DATA

Dealers need to scrutinize their numbers – inventory acquisition, pricing and wholesale data – and let the picture emerge. Likewise, they need to analyze their look-to-book ratios. How effectively does the ratio refill the lot with the vehicles their market desires? Get a precise summation of reconditioning efficiency.

2. BUILD INVENTORY TURN

Start building toward a 30-day inventory turn now. A dealer's risk and depreciation rates are too great not to buy the right cars (practicing a just-in-time strategy) and get them ready for sale in just a few days. Given that the optimum retail window, once cars are on the lot, is now 21 days, dealers cannot tolerate recon practices that take 10 or more days to get cars ready to sell.

This window also offers an opportunity to replace vehicles dealers might take a hit on. But make no mistake: As soon as things get moving forward, there is going to be a scarcity of inventory on the lot.

But as dealers replenish – and work toward a new 30-day or 12-times inventory turn – they will need to be a bit smarter than the next guy and need to apply strategies to recondition incoming cars in just *days*, not weeks. Dealers who still tolerate undisciplined and unmeasurable recon practices will find themselves in deep trouble – unless they embrace these reconditioning disciplines.

3. LEVERAGE SUPPORT

Use these days to heighten team members' skill level of the technology tools the dealership uses. Get familiar with the online resources offered by vendors. Dealers should ask their vendor support teams to help them find efficiency and profitability opportunities within those systems' data.

4. PROMISE HOPE

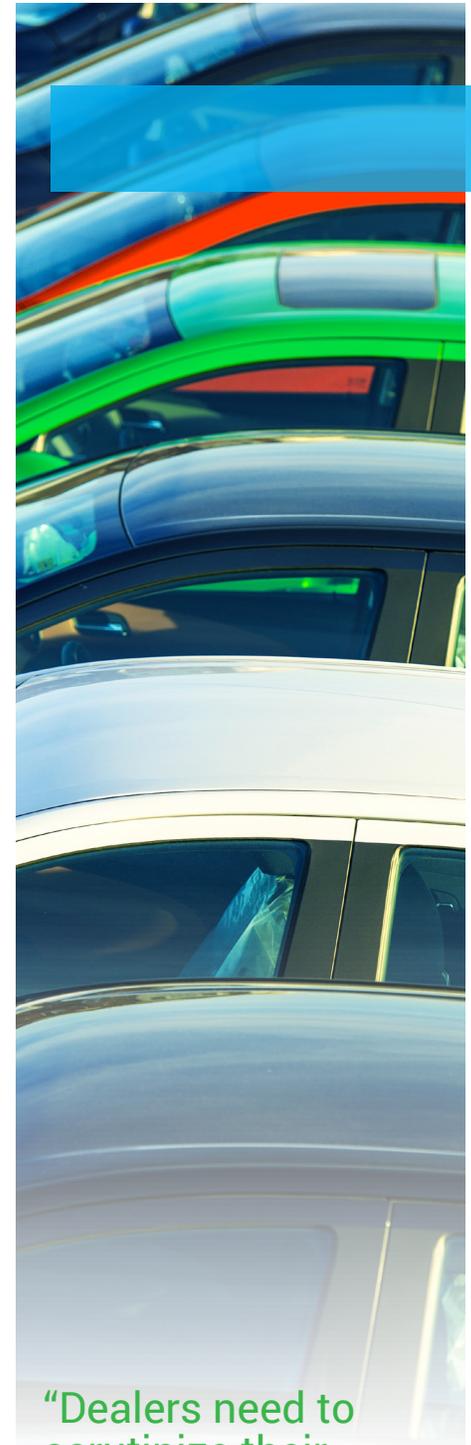
Dealers need to build hope among their teams, including taking business and personal conversations to a new level of transparency with key people. Clarify the dealership's direction and recovery plans at least weekly – and remind people how important they are now and will be as the company moves forward. We all want to feel safe and believe that we are rowing in the same direction when the seas get rough.

5. TRAIN INTENSIVELY

This is an excellent time to review company goals and benchmarks. Train, train, train – to improve product knowledge, customer engagement skills and hone the team's use of vendor technologies to squeeze out all their value.

When properly put in place, reconditioning technology can *transform* a dealership by placing a focus on used car sales lead conversion. The process becomes much more efficient, which creates a better experience for both the sales team *and* their customers – and helps combat the vending bots.

1: <https://www.mckinsey.com/industries/automotive-and-assembly/our-insights/used-cars-new-platforms-accelerating-sales-in-a-digitally-disrupted-market#>



“Dealers need to scrutinize their numbers – inventory acquisition, pricing and wholesale data – and let the picture emerge.”