

A Map to Success

Cox Automotive's Mark O'Neil Offers Keys to Finding Your Way Through the Unmapped Territory of a Growing and Changing Used Car Market

By Mark O'Neil

The automotive business today is driving into unmapped territory.

Yes, all of us in this business have for nearly a decade enjoyed a robust, expanding industry for both new and used cars. But we are beginning to see the headwinds of a contracting market – because growth is never forever.

It's not all bad news though. Far from it. In fact, for used car dealers, the outlook is strong.

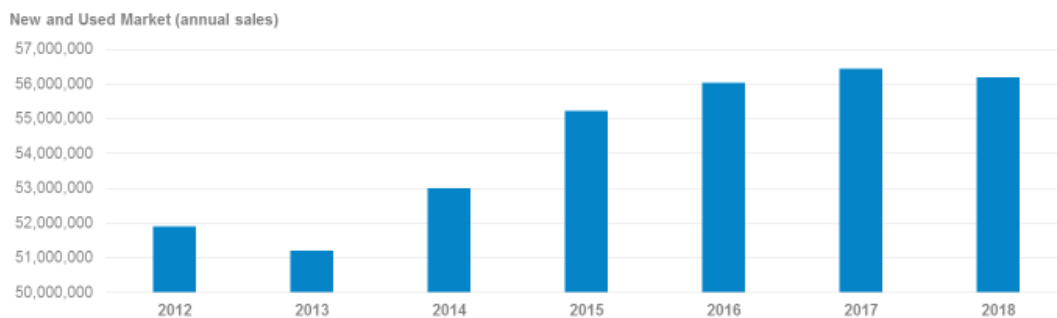
Good data is more important than ever as we head into a somewhat murky future.

At this year's NADA Show, Cox Automotive released its *2018 Used Car Market Report & Outlook*, which now includes a forward-looking perspective on 2018 and beyond.

In it, we took a careful look at our industry and were generally encouraged by what we see.

Total Light Vehicle Market

New and Used Sales combined will exceed 56 million units again in 2018



Source: IHS Household Analytics Database – sample of almost 50% of retail registrations

The report shows the used car market will continue to be a strong opportunity for growth.

It's no coincidence that more major players – including Sonic and Penske – are making moves toward stand-alone used car operations.

There should be sufficient room for all players in the near term, as buying conditions in the economy remain robust despite the stock market volatility in February and March.

The demand for personal transportation was strong in 2017 with more than 56 million new and used vehicles sold, and 2018 is expected to be a very similar year.

Strong labor markets, coupled with low interest rates and solid credit availability, are providing a sound foundation for vehicle demand by supporting both the need and ability of potential car buyers. Consumer confidence continues to be strong, near record levels.

But as Cox Automotive president Sandy Schwartz has said: The time to change is when times are good.

So here are some key areas independent dealers should focus on to remain successful, and even increase profitability, in the current market.

USE ACTIONABLE DATA AND INTELLIGENCE

We have access to more data than we've ever had before, and while access to insightful data is not the sole driver of success today, it is certainly the foundation of any good, profitable business.

As a dealer, you need to find ways to use actionable data and intelligence to make faster, smarter business decisions.

I'm not talking about analyzing the various metrics in the automotive industry. You can leave that to the economists.

Instead, I am talking about making the conscious decision to stop relying on instinct and intuition – your “golden gut” – and start relying on intelligence, prediction and, ultimately, optimization based on market data.

Strong retail demand for used cars is largely being driven by affordability. Dealers should consider using stocking tools to align their inventory mix accordingly.

Data and intelligence gathered from many sources across the automotive industry can be processed and analyzed in ways to help you determine which vehicles will perform best in your specific market.

You can also use market-based data to find the perfect price for every vehicle on your lot.

Now let's think about using data to assist you with inventory and floorplanning.

For example, how much inventory should you stock? The answer varies based on realistic, monthly desired sales numbers and turn times.

Let's say you want to sell 60 units per month. Assuming the average turn time is 40 days, that means you would turn your inventory nine times in a year.

The formula for inventory in stock, then, comes down to some simple math: monthly desired sales divided by how many times your lot is turned per year, multiplied by 12.

So based on 60 desired sales per month and a 40-day average turn time, you would need to stock 80 units.

By putting powerful information to work, you can focus on making your customers happy instead of chasing inventory and constantly worrying about turn times and holding costs.

TAKING ADVANTAGE OF SOFTWARE AND TOOLS

Dealers face three key inventory challenges in the year ahead.

In order to make the most of actionable data and intelligence, look for software and tools that integrate data to drive operational efficiencies that enable you to find the right inventory at the right price, and know how to price inventory to improve your velocity.

Despite the challenges, there's plenty of opportunity to make operational efficiency and profitability cornerstones of your inventory management strategy. But you'll need to do things faster – whether it's acquiring cars, getting them retail-ready or pricing them for a fast sale.

We hear from dealers all the time that there are so many inventory details they want consumers to see but they don't have the time or bandwidth to keep the merchandising consistent and updated across all of their consumer touch points.

Look for tools that help solve that challenge and easily integrate into and streamline with the existing sales process of your dealership.

ACQUIRING INVENTORY ON DIGITAL MARKETPLACES

One of the growing headwinds for new vehicle sales comes directly from the used market, in the form of off-lease vehicles.

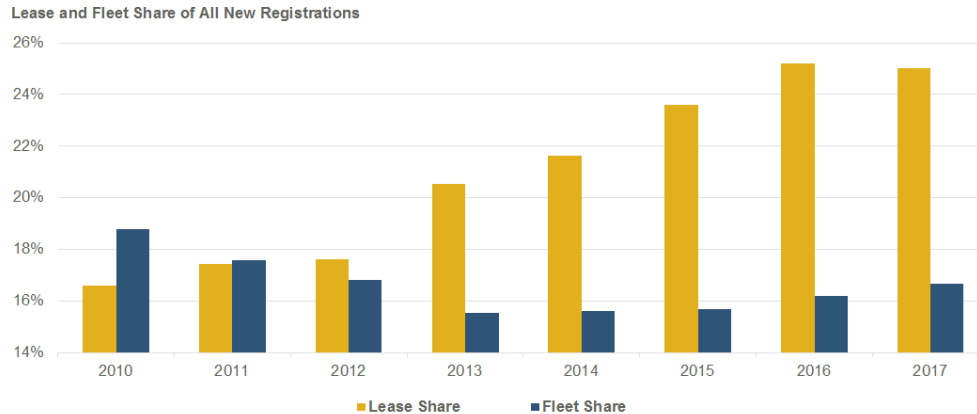
Leasing's share of total sales has grown rapidly since the recession, rising from 17 percent of the total market in 2010 to more than 25 percent in 2016 and 2017.

A result of that sales strategy by OEMs is that off-lease vehicles are now flooding back to dealers and providing a steady supply of high-quality, high-content alternatives for new car buyers.

Cox Automotive estimates nearly 4 million off-lease vehicles will be coming back to dealers over the next year, 1.5 million more than what had been considered normal. They will provide an opportunity for further growth in the used car segment as they become competition for the new vehicle market.

Lease and Fleet Share Key To Market Recovery

Karma – returns providing large supply of gently used, heavily discounted product choices



The opportunity is not only in the sheer volume of off-lease vehicles coming back, but in the types of products available. The product mix returning to dealers over the coming years will have many more SUVs, CUVs and pickups – the products that interest consumers most.

And the content of those vehicles will be strong. They are not stripped-down, baseline versions of higher-end nameplates. Most, if not all, will have touch screens, Bluetooth connectivity and other features consumers crave.

In the business today, SUVs and CUVs are king, so this new mix of off-lease vehicles creates an excellent opportunity for used car dealers.

When you are looking to acquire those sought-after off-lease vehicles, you need to look upstream from physical auctions to digital opportunities, such as OEM open sales and digital marketplaces.

Several online marketplaces exist that can make it quick and easy to find the inventory that meets your customers' needs at the right price.

Look for options that deliver personalized search results so your search, bidding and purchase history is taken into account, allowing the platform to serve up increasingly more relevant inventory recommendations.

Given the influx of off-lease vehicles, several OEMs have created digital storefronts accessible to independent and non-OEM franchise dealers. Through those digital storefronts, dealers have 24/7 online access to national inventory of off-lease vehicles.

Using a site like that, you can set up saved searches and alerts that will automatically alert you when specific inventory becomes available.

Given that the website is an open platform, you no longer have to reserve time to attend simulcast online auctions at set times or attend on-site live auctions. That can save you both time and money.

STREAMLINING WITH INTEGRATED SOLUTIONS

Speed to market can be achieved if you streamline your inventory process from the point you acquire inventory to the time it's retail ready.

Think about the process you follow today. Do you get your vehicles online while they are in transit from the auction to your dealership or do you wait until those vehicles get to your lot?

The name of the game is maximizing velocity. Once you have acquired the right inventory, the next step is to look for integrated solutions that enable you to efficiently manage your inventory by getting it retail ready fast and quickly marketing your newly acquired inventory in near real-time – even before the vehicle is on your lot.

When taking cars in on trade, choose options that include VIN scan technology and quick, uncomplicated self-service options so you can load comprehensive build data, receive market-based pricing and create enhanced images into a consumer-facing or wholesale digital marketplace listing within minutes.

By connecting vehicle auctions, transportation, merchandising and advertising together into one unified partner, we have shown we can shrink the time it takes to acquire and market inventory from the industry average of 28 days down to just three.

That means less holding costs and more exposure for your vehicles, which translates to faster vehicle turns and more ROI for used cars.

The simple truth is this: The faster and more efficiently you can get used vehicles to your front lines, the more profitable you will be.

IMPROVING THE CONSUMER BUYING EXPERIENCE

I have talked a lot about what you can do on the business side to increase your profitability. Now let's address the flip side of that – the consumer buying experience.

The typical car buyer in the U.S. spends more than three hours in the dealership from start to finish, according to Cox Automotive's 2018 Car Buyer Journey Study.

For most car buyers in America, that's entirely too long.

Year after year, we have seen consumers express their frustration with the car-buying process and demand a change.

We have found consumers want to choose their own path to purchase, which means they want to be able to structure their deal and monthly payment *before* visiting the dealership, and only then visit the store to confirm their numbers, take a test drive and complete the paperwork.

Dealers can create an enjoyable buying experience by adopting the digital retailing tools today's consumers expect, which the recent Cox Automotive Future of Digital Retail Study showed means not only happier customers, but more profit per unit.

With the right tools, you can deliver the shopping and buying experience nine out of 10 consumers want and the control and efficiency dealers need, making it faster and easier than ever for dealers to close sales.

The data is clear: It's a good time to be focused on used cars.

That said, dealers continue to face the challenges of margin compression and growing consumer expectations.

For used car dealers, margins have decreased by 20 percent over the past 10 years. At the same time, consumers know what they want, both in a vehicle and a buying experience.

So I encourage you to take this opportunity to assess everything in your toolkit to ensure you are competing at the highest level.

Now is the time to make changes so you can remain successful in the current market.



Mark O'Neil is chief operating officer of Cox Automotive, a global automotive services and software company whose vision is to transform the way the world buys, sells and owns cars. For more information, visit www.coxautoinc.com.