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A Game Plan for 'Cars at Risk'

by: Dale Pollak

With the recent shortages of off-rental and off-lease vehicles at auction, dealers may find themselves having to "step up" at auction – something which is more commonly expected as part of closing deals during the appraisal process. After feeling the sting of paying more than usual at auction, it is particularly difficult to accept having to "get out" of a vehicle back at the dealership, whether it was

acquired at auction or not.

However, price ranks as a consumer's top consideration when shopping. In the Internet age, today's customers know far more about what's out there and for how much than ever before. Making gross by simply marking up a vehicle \$2,000 to \$3,000 above the acquisition price is no longer a viable option. It is simply more important than ever to manage "cars at risk," despite having had to cough up more than expected.

I've observed a variety of approaches that dealers use to manage their "at risk" inventory. The most successful dealers have adopted a systematic, well-defined course of action. But the key to making this work is what I describe as an investment-minded approach to managing used inventory. Essentially, you must recognize inventory as an investment, as well as merchandise.

Dealerships that successfully manage their inventory as a financial investment begin with weekly scheduled meetings to discuss "Cars at Risk" (CAR). The purpose of these weekly CAR meetings is very clear – to identify vehicles that are unlikely to perform well and establish a specific action plan for each of them. Start by reviewing at least the 10 worst performing vehicles, defined not by age, but by examining what was actually paid for the vehicle and what it can really bring in. The following points will help general managers (GM) lead a productive meeting with the used car manager (UCM) and team:

- **Do you agree that we have a problem with this car?** This question functions as a gut-check and establishes common ground. A GM will have looked at the financial data and know that there is a problem with a vehicle from an investment standpoint. The UCM, having brought the car in, may not yet be ready to be objective. He may be just looking at the car's age or whether it is a "hot" vehicle. By examining what was actually paid for the vehicle and what it can really bring in, you focus on the question of "do we own this car right?" Agreeing on this point is the first step toward managing cars at risk.

- **What is the plan for disposition of this vehicle?** This question forces a decision on the best course of action for the vehicle – retail or wholesale? If you decide to wholesale out of the vehicle, the GM and UCM can agree on the best way forward to accomplish this. Otherwise, there are additional questions to answer.

• **Is the vehicle ready to sell?** If the decision has been made to retail a vehicle, the next step must be to determine if the vehicle is really ready to sell. Does it need reconditioning? Is it clean? This may require the GM and UCM to actually take a look at the vehicle, in person, to make sure they are on the same page.

• **Is the vehicle priced to sell?** As we know, today's shoppers are using the Internet to find the best values so they are well aware if your competition has a better deal to offer. Fooling yourself into believing that the marketplace is still as forgiving as it once was is not an option. Efficient pricing with a full view of the market and the competitive arena must be an integral part of all cars at risk discussions. At risk vehicles must be priced to sell.

• **Is our team properly motivated to get the job done?** The decision still needs to be made whether any sales spiffs need to be put in place to move the car according to the agreed plan. Identifying the need for sales incentives is part of the CAR reality check.

• **Have we scheduled a review?** Finally, even best efforts do not always result in an "at risk" car getting sold. The team must agree on a reasonable timetable for reviewing each vehicle at risk.

I should warn you, despite the apparent simplicity of the CAR discussion questions, these meetings do not come without pain and discomfort. Remember, these conversations require revisiting decisions that may no longer seem prudent. The key to successful meetings is to keep the tone constructive. The goal must be to make positive, investment-minded decisions as a team. Over time, as both GMs and UCMs become accustomed to both asking and answering these critical questions, there are fewer and fewer surprises.

In stores where a cars at risk strategy like this is in place, I've seen how losses diminish, turn and volume improve, and total gross increases. And, perhaps what is most remarkable, the at risk list itself begins to shrink as managers begin thinking as investment advisors earlier in the process.

Overpaying at auction is not an excuse for ignoring at risk inventory. In today's market, it is necessary to manage every used vehicle as an investment. If your approach is anything less than that, your used vehicle department itself is at risk of losing its competitive edge.

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