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Pricing Without Market Visibility Misses the Mark

by: Dale Pollak

There are some things that nobody questions. The earth is round, the certainty of death and taxes, and the fact that every used car department works especially hard to get rid of vehicles before they become aged. Right? Wrong.

While I'm not going to assert that the earth is flat, or that death and taxes are avoidable, I am going to let you know that about half of the aged used vehicles in America are actually priced less aggressively than the fresh ones. Allow me to explain.

To provide a simple example, imagine a dealer has a vehicle in stock that is 15 days old. Our hypothetical dealer's 15-day unit is priced 5 percent above the identically equipped, competing vehicles with similar mileage in the local market. Dealers commonly accept this pricing strategy because the vehicle is considered "fresh merchandise." The traditional rationale is we can afford to ask a higher than average price for a new vehicle because, quite possibly, somebody will fall in love with it and take it home, unaware that there are others just like it for less money.

After approximately 30 to 45 days, however, as our confidence begins to fade, we often come to the conclusion that the vehicle needs to be re-priced in order to ensure a rapid sale. At least, this is what we would like to believe would happen on our lot. However, the reality is that approximately 25 percent of vehicles receive little, if any, price adjustment for the first 60 days. Yes, what I am saying is that the original asking price often persists for 60 days. Thus, the 45-day old vehicle in the dealer's inventory, by way of neglect, is priced less aggressively than when it was a 15-day old vehicle. I track day-to-day pricing on tens of thousands of vehicles on behalf of hundreds of dealers and this is simply the truth.

Perhaps even more surprising is that an additional 25 percent of used vehicles that are re-priced are actually less competitive after the adjustment than when they were fresh in inventory. This is because the starting point for the typical price reduction is the original asking price itself, which is often too high. Why is it too high? Because we often neglect to realize that the Internet provides shoppers with many choices of comparably equipped vehicles with similar mileage in the local market. So while we might feel good about our price reduction, the broader market is also reducing its prices and very often from a starting point that is more realistic. The bottom line is that in spite of our price reduction, we are actually losing ground to the competition.

When working with clients on efficient pricing, I often use the analogy of the children's game of pin the tail on the donkey. In this game, we are blindfolded, turned around, and then attempt to pin the tail on the donkey. The disorientation often causes us to miss the mark, amusing those with a perfect view. Similarly, in the used car business, we often engage in a series of price reductions based largely on our blindfolded high profit starting point. To our consumers, however, who have a perfect view of all competing alternatives on the Internet, this practice makes our prices appear as ridiculous as the tails pinned on the donkey's head.

The transparency of the Internet requires us to price with the same market visibility that the consumers have when they shop. This means that we must stop pricing from cost. We need to extend the effort or invest in software that compares our prices to similarly equipped competing vehicles in the market. If we want to get rid of inventory before it ages, then we absolutely cannot do it blindfolded. We must remove the blindfold, reorient ourselves, and hit the mark the first (and every) time.

Dale Pollak is the founder and chairman of vAuto, the most effective system for pricing pre-owned inventory to beat the competition. He has 13 years of experience as a dealer principal and eight years as a successful high technology executive serving the automotive retail industry and is a sought-after speaker on the topic of maximizing dealership profits from pre-owned vehicle operations. vAuto is headquartered in Oakbrook Terrace, Ill.