



Monday, September 17, 2007



Used Vehicle Shoppers are Playing 'The Price is Right'

by: Dale Pollak

As I listened to this morning's news broadcast, I was puzzled to hear the headline news that followed the usual reports on war casualties, presidential debates and the latest high-profile crime. The broadcaster announced in dramatic fashion that comedian Drew Carey would be replacing Bob Barker as host of the popular television show "The Price is Right."

My first question was how and why this seemingly trite story made it to the short list of headlines on the morning world news. But by the time I poured my first cup of coffee, I had an answer. It occurred to me that for the past 35 years more Americans have been willing to tune into a game show dedicated to guessing the right price for a product than to all of the cultural, historical and artistic programs combined. Very few shows of any kind can claim to have run for 35 years and still be going strong. The bottom line is that our nation and society seems obsessed with knowing the right price for a product.

Unfortunately, the automobile industry has had no such similar obsession when it comes to pricing used vehicles. For the most part, every dealership has always done about the same thing when it comes to determining a price for a used vehicle. In most cases, a \$3,000 to \$5,000 mark-up is placed on top of the dealer's cost, and that price persists for approximately 30 to 45 days. Typically, only after 30 to 45 days have elapsed is a price then adjusted for a rapid sale. This common practice has prevailed for a reason that must be understood and then, more importantly, challenged.

Historically, used vehicles were one-of-a-kind items. Unlike new cars, used vehicles had no window stickers detailing the specific equipment and suggesting a list price. This meant that buyers could not easily locate, shop, and compare similar vehicles for negotiating purposes. The lack of comparable choices meant dealers enjoyed healthy profits and were able to otherwise work out of inventory that they owned for too much money.

When dealers place a \$3,000 to \$5,000 mark-up on top of their cost for the first 30 to 45 days, they are expecting to get lucky. They're expecting that someone will come onto the lot, select and fall in love with a vehicle, and negotiate a purchase with limited, if any, comparable alternatives. This scenario was fairly common for the first 100 years or so of the used car business. Today, however, you can no longer count on getting lucky.

The Internet has changed the game for dealers. By just visiting a high profile consumer site such as AutoTrader.com, shoppers can easily locate dozens (if not hundreds) of vehicles virtually identical to what they want to buy. These shoppers can now see the location, features and prices of these

vehicles. Shoppers have so many options that they must pare down their list to a short manageable few. Those dealerships whose vehicles make the cut to the short list will be the ones that receive the telephone inquiry or the visit from the prospective buyer. This is simply how the process works today.

Now step back and ask yourself whether you can see the disconnect. On one hand, dealers are willing to take the bulk of their used vehicle inventory (1 to 45 days) and place an arbitrary mark-up on top of their cost. Depending on how much was paid for the vehicle, this practice frequently causes the price to be above the average, and in most cases significantly higher than the most aggressively priced vehicles. This means that the prices of many vehicles for sale on the Internet are too high, and therefore, not effectively competing for leads. On the other hand, consumers can easily identify vehicles whose prices are more competitive than the rest. These competitively priced vehicles are the ones that consistently make it to the short consideration list, leaving the rest to the fate of luck and age.

The bottom line is that there is a new game in the used car marketplace. The new game is a reality show, not a game show, where the "price must be right." And the reality of this game is that dealers don't win at the expense of consumers. Rather, smart dealers win at the expense of other dealers who either don't accept or understand the rules of the new game.

In future articles, I will detail how winning dealers determine the "right price" and how they make appropriate adjustments to ensure the optimal balance between fast turn and high gross. This is a game where not everyone can win, but those who know how to play most effectively will win 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. Pollak is a sought-after speaker on the topic of maximizing dealership profits from pre-owned vehicle operations. vAuto is headquartered in Oakbrook Terrace, IL.

Source: Dealer Communications, Dealer Pre-Owned E-News, September, 2007

<http://www.imakenews.com/eletra/gow.cfm?z=dealercomm1%2C123614%2C0%2C787186%2Cb11>