

Inventory Management

What is the best way for dealers to source used vehicles that are hot in their market?

Sourcing Hot Vehicles

The perception of not being able to source hot vehicles for the right money is understandable but wrong. The reason that it's understandable is that we never knew how good we had it. When the market delivered 17 million new cars, dealers stood on their lots and people threw trade-ins at them. If they didn't get enough of the right trade-ins, dealers went to their local auctions where fleet, lease, rental and manufacturers dumped large quantities of vehicles upon them. How hard did dealers really need to work?

Today, however, the flow of trade-ins on the used car lot and vehicles at the auction has been substantially reduced. Once these two common means of sourcing vehicles have been taken away, the perception of not being able to buy a car is completely understandable.

The conclusion that it can't be done, however, is dead wrong. Hot vehicles can be sourced and purchased for the right money all day long, but it requires a different approach and strategy. The first step of the new strategy is to broaden the consideration set of vehicles that you're willing to sell. If you continue to limit yourself to the types of vehicles that are consistent with your new car franchise and/or past sales history, you're putting a lot of pressure on yourself to compete in a narrow arena. Give yourself a break, and expand the consideration set. Second, you must have a technology that allows you to identify what are the hottest vehicles for sale in your market. What defines a hot vehicle however, should be based on the time tested principles of supply and demand. There are always vehicles that have high demand and short supply, and these are the ones, irrespective of their brand or lack of history, that should be included in the expanded consideration set. Third, identify the vehicles in the larger set with high demand and short supply that surprise you. If high demand and short supply vehicles on that expanded list surprise you, chances are they are not top of mind of every other used car buyer in the country. Such vehicles won't necessarily be easy to buy, but will most certainly be easier to buy than the commonly understood hot vehicles. When you have knowledge about your market that is not commonly shared with your competitors and you can act on it, that's true advantage.

Once such vehicles are identified, there is a new strategy for determining how much you can afford to pay. Start by looking at the traditional valuation sources like auction data, NADA and Black Book. While this will not be your valuation methodology, it gives you a sense of what your traditional competitors are likely to be thinking. For your purposes, you'll start by pinpointing the exact price at which you'll need to advertise your target vehicle for retail purchase. This will be done by assessing the identical, competing vehicles currently in the market. Once you've set the retail price for the vehicle that you haven't even purchased, then you back out your reconditioning, related costs and the minimal front end gross profit that you're willing to make. What's left over represents the maximum amount that you can justify paying. This top down approach applied to vehicles that are not commonly understood to be hot by your competitors will frequently produce a value that you're able to pay that is well above the price derived from traditional valuation sources.

Now that you've determined the hot cars and the amount that you can pay, once again you need to turn to technology to see where those vehicles are offered for sale. Be prepared to use online auction platforms and/or buyers on the road. These hot vehicles will often not be available in your backyard. Finally, because this approach takes more time and effort than traditional sourcing, it is wise to designate an appropriate stocking analyst to do the research and legwork on behalf of the used car manager. Using these strategies and technologies, the used car manager and stocking analyst will source an endless supply of hot cars for the right money.



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