

## Maximizing Used Car Inventory Profit During Times of Inflated Prices

Since March 2020, the automotive marketplace has been highly volatile. The COVID-19 pandemic forced manufacturers to pause production lines, greatly reducing dealerships' inventory to a level that was unable to meet surprising consumer demand. As the gap between supply and demand widened, dealers turned toward used inventory to maintain volumes and profitability. The increased demand for used vehicle acquisition significantly raised wholesale vehicle prices to historical levels as dealers struggled to fill their lots with used inventory. Some dealers even report purchasing vehicles near or at original MSRP!

### A Shifting Marketplace

In the first half of 2021, unprecedented demand, coupled with higher acquisition costs, drove retail asking prices on used inventory to an all-time high. Current trends in the marketplace have started to signal a major risk associated with increased pricing and stocking levels. A combination of the ramp-up in used vehicle wholesale and retail prices, an anticipated spin up of new car production (increased supply), and softening consumer demand will undermine price support for high cost inventory, greatly increasing a dealerships' financial exposure.

The LotLinX proprietary data network has been tracking the industry's stocking and pricing fluctuations to determine the most effective way to mitigate this potential risk.

### Now is the Time for a Smart "VIN-Aware" Strategy

Although new car supplies are far from stabilizing, dealers can continue their record profitability streak by executing vin-aware strategies to move their high-cost used inventory. This will allow dealers to "dollar cost average" their used floor plan in sync with falling retail prices. Essentially faster turns will enable dealers to

### Used Car Retail Prices vs. Supply



#### Chart 1.1

Median Retail Vehicle prices (Yellow) are up by over \$5k since February at \$27k vs. \$22k in January.

### Stocking variance comparing stocking inventory to ending inventory on a rolling 30 days



#### Chart 2.1

In May, dealers began holding more used inventory than they started with 30 days prior—indicating a chance for overstocking.

replace their stock with fresh stock at lower wholesale cost, thus reducing the margin impact of a shifting market. Viewing each VIN as a separate asset and then dividing marketing budget accordingly across all VINs is the most cost-effective way to attack this uncertain market.

Resilient dealers who want to remain strongly profitable regardless of changes in the marketplace need to adopt a VIN-aware marketing strategy:

### Median Used Vehicle Retail Price

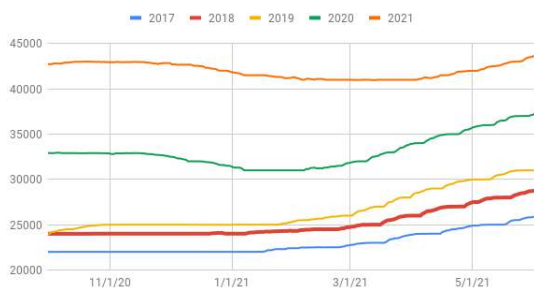


Chart 2.2

Median used vehicle prices have sky-rocketed since March. These pricing levels are above historical norms and likely unstable.

- 1 Accelerate sales rate within the first 14 days for every unit
- 2 Drive vin-specific demand to aged units with historically high costs
- 3 Become VIN-aware

### Avoiding the Trap

The market's current financial risk lies primarily with units aging over 14 days on lot. Recently, dealers have begun holding more inventory than they held 30 days prior. The 2018 model-year has the largest growth in used inventory stocking levels, while there is a significant decrease in 2017 units.

### Vehicle Retail Units

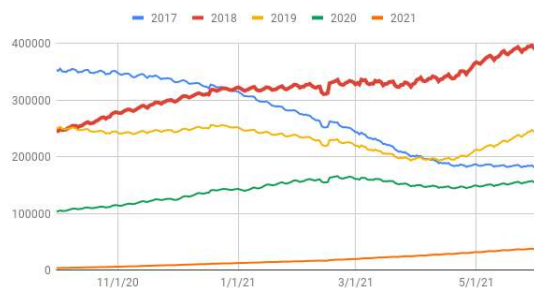


Chart 2.3

Stocking levels for 2018 model year units have steadily increased, but this is also where some of the largest price increases have occurred. The greatest financial risk.

This means the 2018 model year will have the greatest pricing pressure and local competition. Dealers should pay particular attention to their Coupe, SUV, and Pickup inventory levels as they also may be taking on greater financial exposure. Naturally, there are some exceptions to this trend. Dealers are selling more minivans than they are acquiring which is typical of the early summer selling cycle.

### Offloading Inventory Risk

The past year's volatile market has reiterated the importance that strong financial results depend on how successfully dealers can offload inventory risk against dynamic market conditions. Dealers can compensate for fluctuating prices and weakening demand by becoming VIN-aware. Being VIN-aware means that every unit of inventory individually has its own pricing, merchandising, marketing budget and exit strategy. Just like every used vehicle has a unique

repair order, every VIN should have tailored marketing and budget to drive the right pace of demand (online shoppers) to move the vehicle quickly.

There is a strong correlation between daily online exposure of a vehicle and the time it takes to sell. Most favorable cars should sell under 14-21 days and transact at or above market average price with proper market visibility, but many cars initially lack market visibility. Used units lingering on lot over 30 days, typically will underperform in the market by 400%.

How does this happen? The primary issue is that most advertising delivers 80% of demand (shoppers) to less than 20% of the inventory, leaving a majority of units unseen and unsold. A VIN-aware approach applies the right budget to every unit to assure consistent exposure.

## Becoming VIN-Aware

- 1 Promote each VIN before adjusting the price.

*Dealers should measure how much traffic each piece of inventory is getting in its first 14 days. If market visibility has been achieved and a unit still hasn't sold after 14 days, dealers should review the unit against the average days to sale of competitive vehicles. In all cases when the vehicle is still relatively fresh, increasing visibility should be the first choice before adjusting price.*

- 2 Maintain sales pace and margins by realigning listing prices at or below current market price and relative to current wholesale prices.

- 3 Have an exit strategy for VINs that exceed the average days to sale of similar units. Restock with lower-cost replacement inventory to match the cost basis of shifting retail prices and demand.

LotLinx has become a trusted partner for today's dealers to sell new and used vehicles quickly and for more gross. Using data as a weapon, dealers can measure the exposure of every VIN and its unique market dynamics. LotLinx can expand dealers' used car reach, retailing units regardless of their store's traditional inventory makeup and regardless of fluctuating market conditions.

### % Overstocked by Body Segment

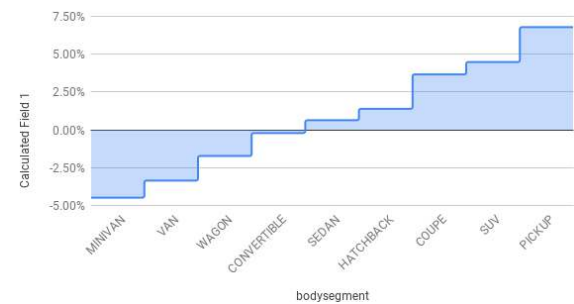


Chart 2.4

Inventory supply may be outpacing demand for Coupes, SUV and Pickups.

### Vehicles that have a shorter days on lot have higher VDPs per day.

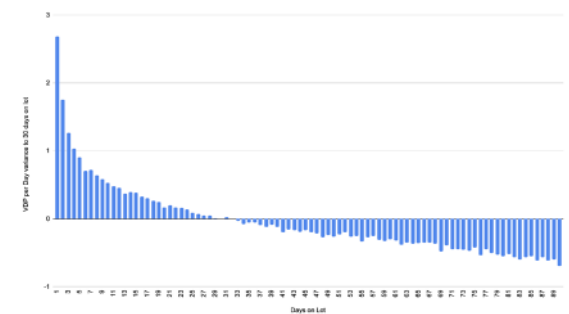


Chart 3.1

Vehicles that sell within the first 30 days have significantly higher daily exposure. Lack of exposure leads to vehicles taking longer to sell.

To learn more about VIN-aware dealership marketing and the LotLinx approach, visit [VINaware.com](http://VINaware.com) or email [hello@lotlinx.com](mailto:hello@lotlinx.com).