USED CAR RETAILING

The stock turn quandary – quicker sales or hold out for margin?

A dealership's track record and current market opportunity should form the foundation of stock turn policy. *Alex Wright* reports

Given the rapid depreciation rate of used car values in the current market, it's critical that car dealers get their stock turn policy right first time.

Many will look to reduce their price to get a quick sale and avoid additional stocking costs.

Others will try to hold onto the vehicle for as long as possible until they get the desired price, particularly given the shortage of some models.

Motor industry expert Mike Jones says dealers need to base their stock policy on their own selling track record and the opportunity to sell the vehicle.

"First, they need to look at what they have been known for and are good at selling," says Jones. "Then they need to look at what the opportunity is in the market."

Rod Addis, senior used car consultant at Hot Berry Consulting, says that to determine a days-in-stock policy that's right for them, dealers must first work out their break-even point. That is the number of days before their stocking costs outweigh their margin, he says.

WHAT DOES THE COST OF STOCKING INCLUDE?

Addis, who spent more than two decades with companies such as Reg Vardy, Sytner and Mercedes-Benz Retail Group before going into consultancy, says the cost of stocking a used vehicle includes stocking interest, traditional marketing, digital marketing, point of sale, site maintenance (valeting, etc.), miscellaneous costs, goodwill, late costs, general vehicle expenses, depreciation, auction costs, transport costs and overage stock costs. On average, he says these costs amount to around £20 per day, per vehicle for the retailer.

In terms of a stock turn policy's duration, Addis says the general rule of thumb is 45 days, with the margin decreasing as new stock enters the market. After that point, he adds that any sale will typically result in a net loss.

"Return on investment (ROI) is the primary measure for successful used car stock management, so a sound understanding of the costs will be key when devising your stocking policy," says Addis. "Plan to prevent overage stock by identifying potential problem vehicles from day one and progressive actions for each of the other key stages."

Neil Smith, founder of Motorvait, says independent dealers should ideally have a minimum of eight stock turns per year, with the more proactive ones having nine to 10. Independent groups rarely trade out of used stock vehicles after 90 days, he adds.

"Independent retailers realise the value of the additional revenue generated from selling a used vehicle with finance and value added products, negating the need to trade out of stock at a significant loss," says Smith.

"In short, dealer groups should regularly be reviewing the stocking policy and not just when we see changes in the level of depreciation. Stock turn is the key to profitability."

It's also key to put a sound buying plan in place, says Addis. This will ensure sold stock is replaced with the right stock for the business, he says.

Jones adds that there is no reason why dealers shouldn't hold out for a buyer paying sticker price.

But he says they need to clearly explain to the customer why it's valued at that price.

"If you've got a desirable car and it's priced right, then you should be holding out for the sticker price," says Jones. "The challenge with that, however, is explaining to customers who have been taught that they should always negotiate on price, that you have price-checked it on a regular basis and it's a fair figure for the vehicle."

Smith takes the contrary view. But he adds that doesn't mean the vehicle has to be sold at the cheapest price in the market.

"What needs to be understood is that at all times their vehicles need to be priced to market and track that market price," says Smith.

"To maximise opportunities and to retain the maximum amount of profit, pricing to market allows a dealership to ensure that its cars are visible at all times and by selling faster they will retain more profit than by holding out on a price just because they think that's what it's worth.

"It's only worth what the majority of interested consumers are willing to pay and that is largely now dictated by price indicators published by the aggregators. Consumers know what a good or great price is for that particular make, model or derivative. So, unless you are there or thereabouts with that good to great price day in, day out, inevitably you will limit your opportunity to generate a lead."

ACHIEVING STICKER PRICE

Addis agrees that, in some cases, retailers can hold out for the sticker price. For example, if a stock vehicle is in high demand, but is scarce, but only for a short period. In other instances, he says that the 45-day principle applies.

"Speed of sale is key to profitability," says Addis. "Used car customers search and research online, and price is a key factor in ensuring your stock is visible to the widest possible audience.

"Review used car prices at least twice a week to ensure your stock remains priced to sell. That doesn't mean changing prices, but tracking the market to ensure your stock represents excellent value.

"When you consider the realisable margin is greatest on day one and the stocking costs are at their lowest, it makes perfect sense to sell faster as opposed to waiting for the elusive local or walk-in customer. This customer type will also check the market price before committing to buy."

While speed of sale is important, Jones says retailers also need to ensure they are getting a return on their investment. That can be achieved, he says, by either making a faster stock turn for a slightly smaller profit or a slower turn for a bigger gain.

"Currently, dealers are having to temper their speed of sale aspirations because of the shortage of used car stock given the low level of registrations during the pandemic and post-pandemic period," says Jones. "Many have lengthened their stock turn period and held out for higher profits because they know they can replace the vehicles."

Given that most dealer capital is tied up in car stock, Addis says it's vital they improve their ROI. By selling them faster, not only will they increase their stock turn, but also incur less costs per sale, he says. Added to that, he says that the volume sales increase drives profit into the service and parts department as they prepare more vehicles.

"More sales generate more part-exchange stock, both retail and trade," adds Addis. "Trade stock valued correctly is a source of profit. Retail part-exchange stock has always been the best source of stock for retailers too."

Jones says that once dealers have adopted a stock turn policy, they need to stick to it.

He advises against sales staff using their discretion when selling a vehicle that they may think is a bit special, warning that it could soon become the rule rather than the exception.

"The danger with using your discretion for a 'one-off' is that it can soon creep into other sales," says Jones. "So, it's best to stick to your policy and make sure that you're getting your ROI, but that you're also able to replace the vehicle."

Smith agrees. He says that often, dealers have considered stock to be special, only for it to still be in stock 180 days later.

"The point of a velocity sales strategy is to move stock out as quickly as possible, retaining as much profit as possible," says Smith. "If you deviate from the policy, you then make it subjective rather than objective, and then you are open to emotion."

Addis says that dealers also need to look at the available vehicle data and review the interest in it before making an informed decision about how to sell it. But he adds that, if it isn't generating leads, it should be quickly re-priced.

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