

# USED CAR MARKET IMPORTANT To Franchised Dealers



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It's no secret that with new car sales down, many franchised dealers here in Atlanta and around the country are relying on used car sales to remain profitable.

In fact, in addition to placing greater emphasis on their existing used vehicle operations, many franchised dealers in the Atlanta area have established, or are considering establishing, separate used vehicle lots to cater to different market niches.

The key factors contributing to this trend include:

- 1 The profit potential in the used car market.
- 1 The opportunity to serve a broader base of customers
- 1 The positive synergistic effects that a well-run used vehicle operation can provide to new vehicles, service and parts, and F&I income



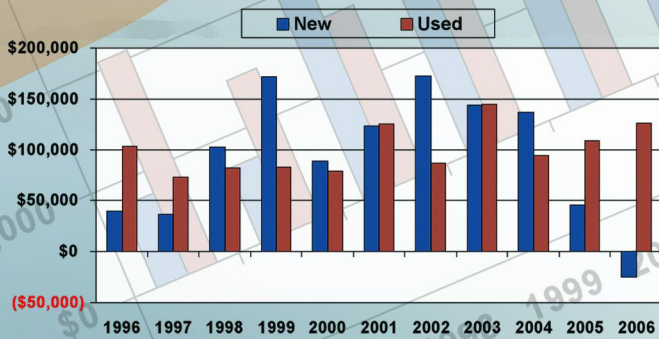
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# DYNAMICS



## Used Vehicles - A Safe Harbor in Stormy Seas

New versus Used Vehicle Departmental Net Profit - Average Dealership



Source: NADA

As dealers enter these new markets, it is important for them to understand how the supply and pricing of these different types of vehicles will play out long term. At Manheim Consulting, we combine the most comprehensive vehicle database (including data drawn from sales activity at our three Atlanta-area auctions) with industry expertise and analytical techniques to offer our customers highly customized solutions and insights. As the more than 160 franchised dealerships that comprise the MAADA consider the opportunities in the used car market, there are several trends we suggest they follow. For example:

### Higher inventory acquisition costs pressure Buy-Here, Pay-Here dealers.

Roughly speaking, a vehicle at the same age, mileage, and condition that a dealer paid \$2,500 for at auction in 2005 will now cost \$3,500. That has been driven by higher demand, not lower supply.

### Auction supply for vehicles in middle price tiers set to grow.

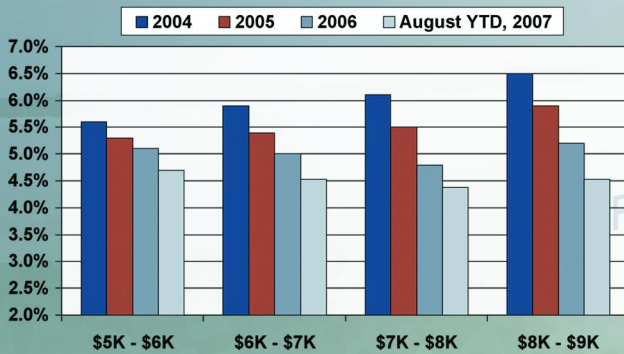
The share of auction volume in the price tiers between \$5,000 and \$9,000 (ideal inventory for dealers catering to the subprime market) has declined significantly over the past year. But, with both end-of-service fleet units and subprime repossession volumes at auction destined to grow in the years ahead, this situation will soon change.

### Rental risk units represent a growing opportunity for dealers.

The share of new vehicles sold into rental that were risk (as opposed to manufacturer repurchase units) rose from 34 percent in the 2003 model year to more than 50 percent today. This trend will continue. It's a great opportunity for dealers to acquire late-model vehicles outside their franchise brands and also a second chance to get vehicles within their franchise for their certified pre-owned inventory. In either case, to understand market values and future supplies, dealers will need to monitor rental company purchasing and holding patterns.

## Supply of Middle-Priced Vehicles Shrinks

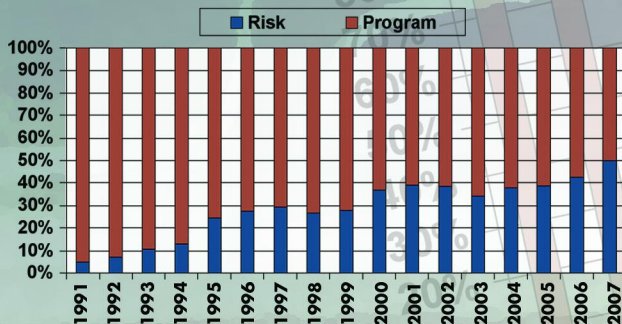
Percent of Total Auction Volume by Price Tier



Source: Manheim Consulting

## Risk/Program Split by Model Year

Risk / Program Split by Model Year



Source: Bobit Business Media, Manheim estimate for 2007

Helping franchised dealers understand the dynamics of the used car business is just one of many services we're providing our clients every day. Please contact me at [lynn.morgan@manheim.com](mailto:lynn.morgan@manheim.com) if you'd like to learn more about how we can put business analytics to work to help improve your bottom line.

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