



Matt Baker

IF YOU DON'T START BUYING, WHAT WILL YOU SELL?

In its wake, "Cash for Clunkers" has left dealers to ponder over some hefty inventory issues. While manufacturers race to replenish new cars, efforts to stock used units are plagued in part by a decrease in available supply. Wholesale prices have been steadily increasing over time due to manufacturers cutting lease programs, rental companies holding on to units for longer, and most recently the decrease in sales creating a drop in the overall number of trades. As a result, dealers are now left to satisfy an increase in demand for pre-owned vehicles with fewer units. This supply vs. demand curve is driving current auction prices up and will continue to do so, as many analysts predict, through 2010. These price problems are being felt by every dealer nationwide, leading many to believe that taking risks on the auction block will bear no reward.

However, choosing to give into intimidations by sitting patiently on the sidelines will not win you the game either. Making the decision

to "hold off" on purchasing additional inventory brings its own set of risks. Lack of used inventory puts the dealership at a disadvantage when trying to appeal to used car consumers who are in search of variety. With fewer customers coming in due to limited selection, dealership sales people often resort to desperate sales techniques, which, in turn, lower profit margins. A decrease in dealership profitability means a decrease in sales staff pay and morale, thus causing the best sales professionals to seek employment elsewhere.

The truth is that while book vs. market values may not currently be equal, they will once again balance out just as they have in the past. Yes – the sudden spike in prices is much ado with reduction in supply thanks to the economic effects stated above. However don't forget that this increase is also a sign of growth in the number of serious buyers in the marketplace. This new influx of consumers is hungry for variety and will choose to buy from the dealer in their area who offers

them the greatest selection.

Just as car dealers are having issues finding pre-owned units to sell, today's consumers are having problems finding pre-owned units to buy. However, consumers looking to purchase a used car today may not be aware of the change in market value. Consumers who price shop against book value will soon find out that today's price is what today's price is. In my personal experience facilitating sales for dealers over the past few weeks, there is some silver lining here. Believe it or not, banks and credit unions are still buying despite the gross difference in book vs.

market value. Of course, some are still more aggressive than others, which is why it is in your best interest to nurture relationships with your strongest lenders and search out others who may better fit the current needs of your market and inventory.

In a way, this auction-price predicament is a blessing in disguise. After all, isn't a growth in demand what everyone in the automotive retail industry has been waiting for? Sure, the situation may not be "perfect," but it is a testament to the fact that market share is out there and is up for grabs. So how do you, as a concerned dealer, make the most of this opportunity? It's simple. Do what your competition is *not* doing.

Since many dealers have chosen to sit on the sidelines, those who decide to get in the game by purchasing cars now will reap the greatest financial reward now and in the future. In order to sell more cars, a dealership has to have more units on the lot to sell. While the initial investments may seem steep, they are far outweighed by the monetary rewards if the dealership is willing to change their mindset and reevaluate their strategy. In this case, determining whether or not a dealer's high inventory will sell for a profit is greatly dependent on the dealer's advertising presence. As an unfortunate circumstance of the automotive recession, many (if not most) dealers have spent the last year tightening their ad budgets. For those who choose to amp up advertising, they will attract more customers and likely generate a greater gross per unit simply because *no one else is out there* to distract the attention of serious buyers. This situation poses an unbelievable opportunity for dealers to increase their share of the market, but *only* for those who are willing to take the first step.

The truth is, no one knows when prices on used units may stabilize. Don't let fear of loss distract you from your business' ultimate objectives. Staying profitable can't happen if there are no cars at the dealership to sell. Reevaluate your current strategy to account for the new changes in market conditions and take advantage of opportunities to increase your advertising presence. You may be surprised by how successful you'll become.

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