



Financial Implications of No Sales and Multiple Registrations

An in-depth analysis into how consignors might improve retention and financial results by becoming more efficient sellers

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Explanation of Study:

Used vehicle consignors continue to try to understand the best selling strategy which will maximize the results from vehicle remarketing. Any sales strategy will take into account 2 different goals to varying degrees:

- 1) Efficiency – focus on high conversion rates to get vehicles off the books as quickly as possible
- 2) Price Realization – focus on achieving the highest prices for the portfolio

Consignors have traditionally sought to strike a balance between them as part of their overall remarketing philosophy. Banks and dealers are typically more focused on removing a depreciating asset from their books, and as a result conversion rates tend to be high. Captive finance companies and manufacturers are more mindful of protecting residual values and focus primarily on price realization, which often leads to low conversion rates, high days to sale and additional holding costs.

This study is designed to better understand the relationship of these two factors to each other, and evaluate how to best execute on a strategy weighted heavily on price realization. As we illustrate in this study, these two factors do not necessarily counterbalance each other, and a renewed understanding of the most effective way to maximize price may be warranted.

Methodology and Data Sample:

Consignors decide whether to accept a dealer's high bid based on what the consignor thinks the particular vehicle is worth, balanced against operational goals for conversion and cost. For example, if a vehicle was registered 4 times before it sold, then in each of the first three sales the consignor decided not to sell the unit to the highest bidder. This study evaluates whether that was a good decision based on the eventual sale price compared to the highest bid offered in any of the previous registrations.

Manheim Consulting has long known that vehicles sold at the first registration bring higher sales price and better retention than vehicles run multiple times. What was unknown, however, was the cause of this correlation, and whether any conclusions could be drawn to better understand the most effective remarketing strategy.

The sample consists of all Manheim US sales and registrations during 1st quarter 2010. Only units that did not sell on the first registration were evaluated (over 115,000 units). The following metrics were used to gauge whether no-sale decisions were advantageous or detrimental to consignor results:

- MMR retention
- Age of units
- The difference between a high bid and the ultimate sales price

Cases where the sales price exceeded the previous high bid are classified as "Gain", while cases where the sales price was lower than the high bid are classified as "Loss". Units where the previous high bid equals the eventual sale price are classified as "None".

No material differences in location, model year, recon spend or mileage were observed for Gain, Loss or None units. Salvage and Specialty transactions and outliers were excluded from the study, as were units where no high bid was recorded in order to control for inconsistencies in the way bid data is captured.





Executive Summary:

The traditional view of remarketing strategy is that there are primarily two factors that consignors seek to balance to maximize results¹:

- 1) Efficiency – focus on high conversion rates to get units off the books as quickly as possible
- 2) Price Realization – focus on achieving the highest prices for the portfolio

However, after analyzing the results of this first of its kind study, the evidence overwhelmingly suggests that efficiency and price realization are not necessarily at odds with each other, and can be one and the same.

Consignors will experience cases where a vehicle did not generate a fair bid, and it is reasonable to try again at the next sale. For every metric studied, the 1st registration provides the highest returns, while the 2nd registration offers the most opportunity to improve on an inadequate previous high bid that consignors believe to be too low. When units are registered in more than 2 or 3 sales:

- *Consignors are more likely to realize a loss*
 - The likelihood of a gain is just **26%** after the 3rd registration, and declines even further with each additional registration
- *The losses grow larger*
 - The average difference between the high bid on a previous registration (which was not accepted) and the eventual sale price is a **loss of \$56**. Consignors risk substantial losses in pursuit of maximizing price, which resulted in approximately **\$25.6 million in lost remarketing value**
- *MMR retention deteriorates*
 - After the second registration, MMR retention is **2.5 percentage points lower** than it could have been if the previous high bid had been accepted
- *Vehicles depreciate*
 - MMR values **depreciate \$38** with each additional registration
- *Cost of capital grows*
 - Including cost of capital, operational costs and loss in value, **consignors lost \$80.7 million** as a result of refusing initial high bids in an effort to maximize sales price

This deterioration in value can be quite substantial even on a per unit basis, and grows with each additional registration. Another dynamic to consider is buyer expectations – dealers begin to notice units that run through the lane many times, and as a result do not bid enthusiastically for them. In extreme examples dealers may get frustrated with the seller entirely and go elsewhere.

The conclusion is the efficiency versus price realization concept is a false choice. A traditional focus on price realization by holding out to get the “best price” can be a very misleading, ultimately ineffective approach. To pursue a truly effective strategy, consignors should make restrained, targeted decisions not to accept reasonable bids early in the sales cycle. Increased discipline and a stronger focus on efficiency will lead to large gains in performance and decreases in cost for many consignors.

¹ Another component, which is not addressed in this study, is a seller’s reluctance to sell a vehicle for less than was paid for it, regardless of fair market value. This study assumes that sellers make rational decisions based on a perception of market price which is not influenced by how much the seller paid for or owes on the unit.



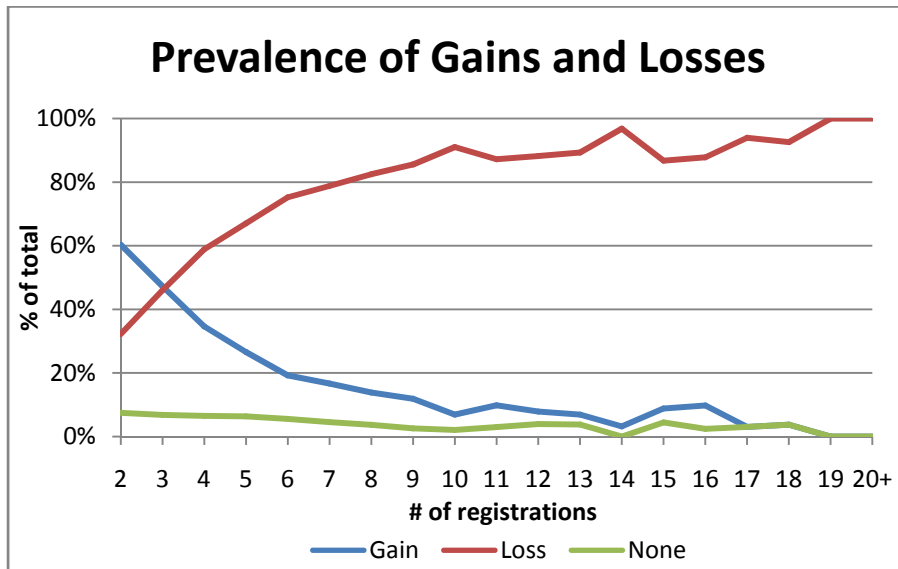


Probability of Gain and Loss:

Many factors go into the likelihood of realizing a gain or a loss with respect to an unaccepted high bid. The most important factor that influences the likelihood of a gain or a loss is the number of times a vehicle is registered for sale.

As illustrated in the chart below, the likelihood of a gain goes from 60% when the vehicle is sold in the 2nd registration, to 35% when the vehicle is sold in the 4th registration. In fact, after the 2nd registration the likelihood of a gain remains below the chances of a loss, and this trend only accelerates with additional registrations. Put another way, just 26% of sales that occurred after the 3rd registration resulted in a gain over the previous high bid.

Chart 1: Prevalence of Loss/Gain



This data suggests that it is best to limit the number of times a vehicle is rerun to 2 or less.

Taken to the extreme, realizing a loss is a near certainty for vehicles that are registered more than 10 times.

Another way to evaluate the chances of a gain or a loss is to understand the relative impact that such gains or losses would have. Gains tend to be smaller than losses, with large losses always more likely than small losses regardless of how many times the vehicle was registered. Again the data suggests that the best potential gains come early in the sales cycle. As a vehicle runs through the lane more and more times, the likelihood of realizing a significant loss accelerates.

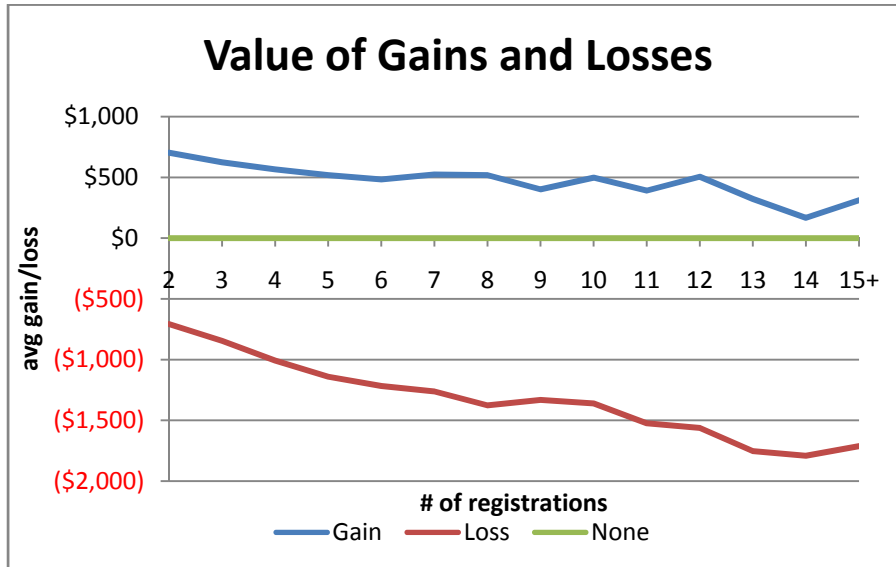




Financial Impact of Gains and Losses:

The overall financial effect of rerunning units is an average net loss of \$56 per vehicle, which is a gross loss of \$6.4 million dollars in lost remarketing value in just one quarter (\$25.6 million annualized). Consistent with the probability of gain/loss, the factor that most influences the value of the gain or loss is the number of registrations.

Chart 2: Value of Gains and Losses

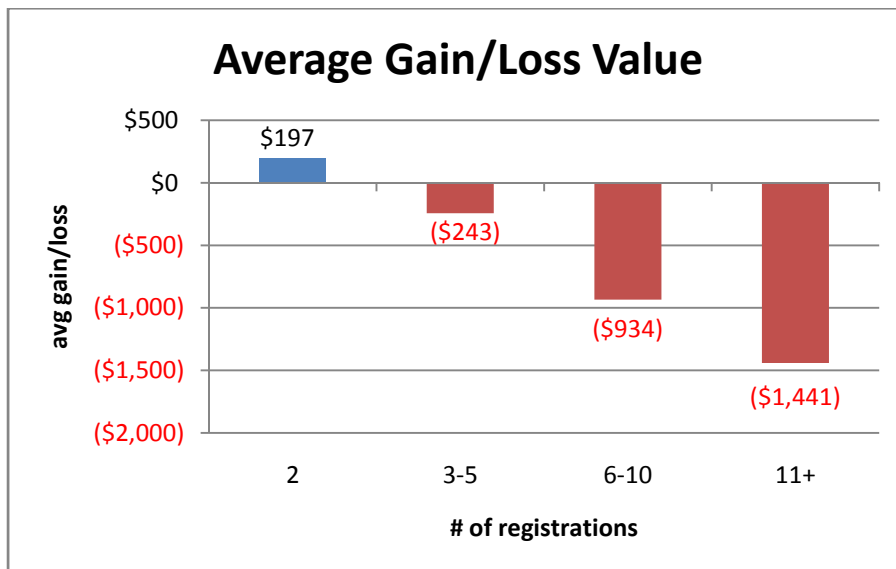


Not only does the probability of a gain diminish over time, the value of gains decrease as well, making it even more likely that the additional costs incurred for rerunning a car will fail to be offset by any potential gain in selling price.

Losses get bigger and the gains get smaller as the number of registrations increase.

As illustrated in the chart below, after the 2nd registration the average difference between the previous high bid and the eventual sale price is negative. These losses grow larger as the number of registrations increases and eventually average a net loss of over \$1,400.

Chart 3: Average Gain/Loss Value





The condition of the unit also influences the net gain or loss compared to the previous high bid, as shown in Charts 4a and 4b. Losses moderate for higher quality units; however, losses for grade 5 vehicles are much larger than expected, which may be related to unrealistic price expectations for these relatively uncommon units. Units with a large amount of unrepaired damage also realize a larger loss, which could be due to a buyer’s uneasiness taking on reconditioning risk.

Chart 4a: Average Gain/Loss by Grade

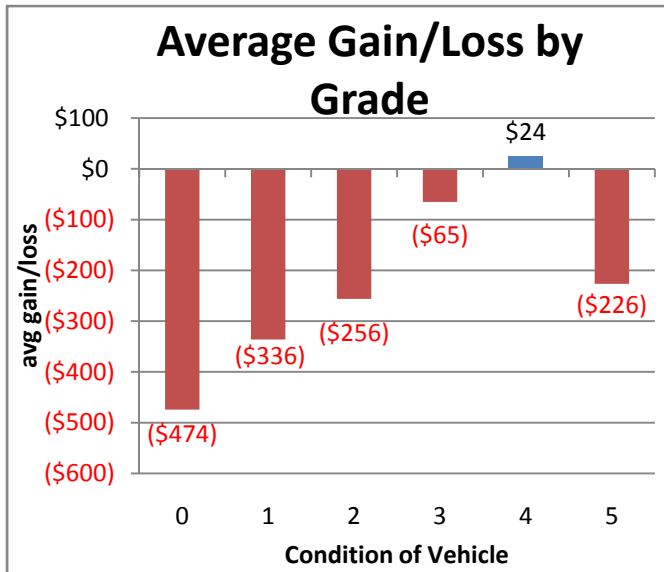
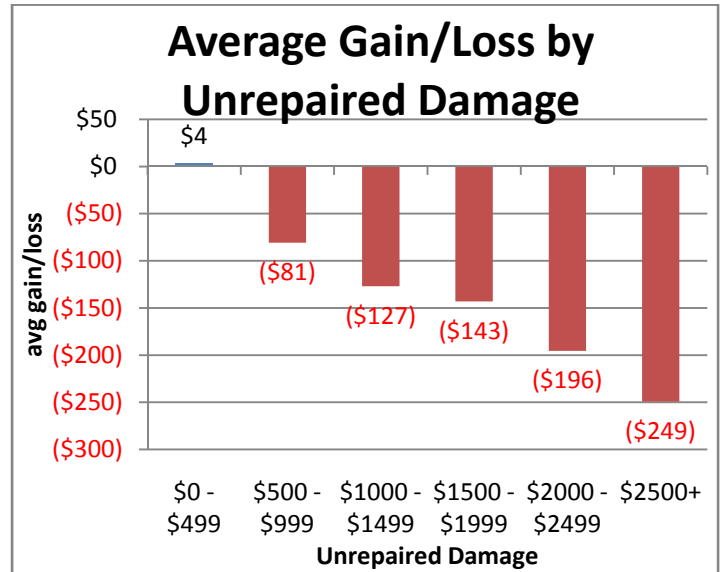
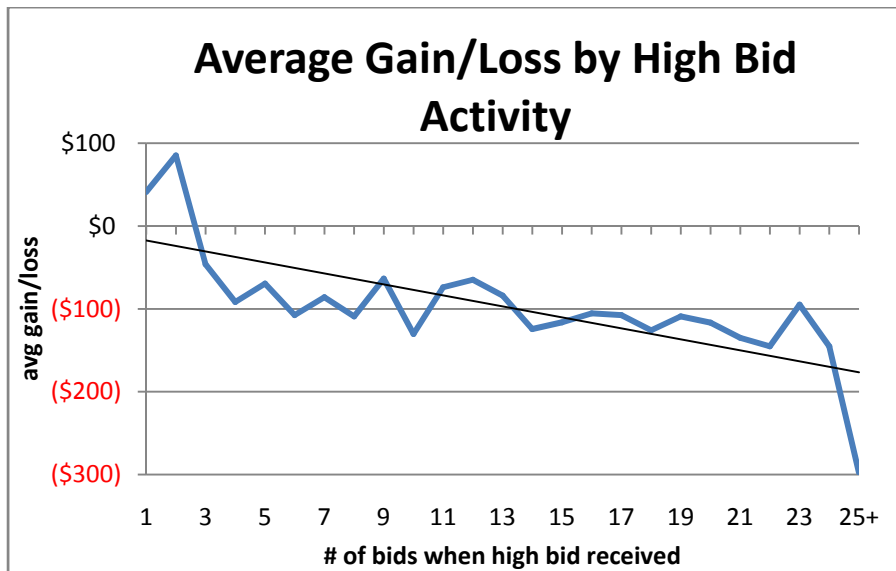


Chart 4b: Average Gain/Loss by Unrepaired Damage



The last factor that influences the net gain or loss is the relative strength or weakness of the bidding activity. Low bidding activity (only 1 or 2 bids received) suggests that the highest bid could have been higher had there been more interested buyers.

Chart 5: Average Gain/Loss by High Bid Activity



Thus, the ultimate sale price tends to be higher than the previous high bid when only a handful of bids were received.

On the other hand, healthy bidding activity suggests that there is not as much room for improvement. The eventual sale price is more likely to result in a loss compared to the high bid previously offered in a competitive atmosphere.

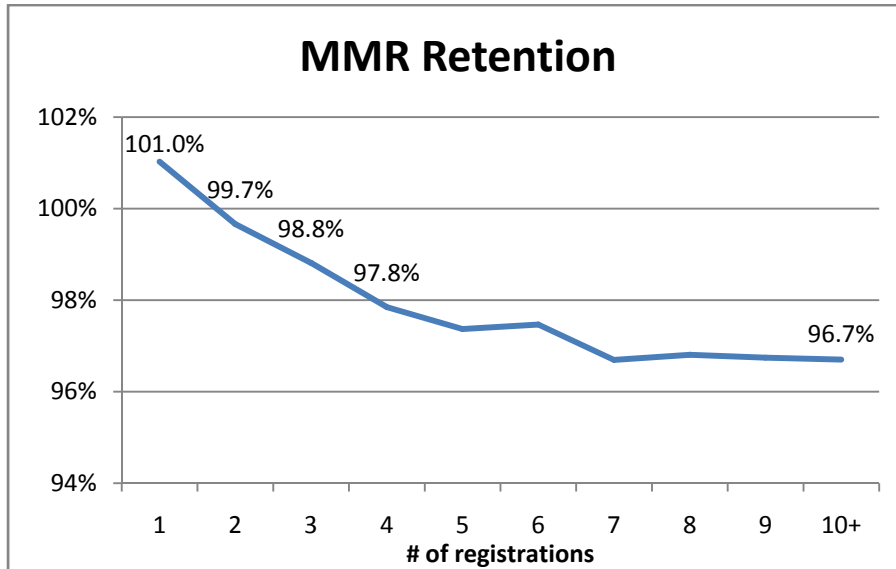




MMR Retention:

Because Manheim is the leader in the wholesale used vehicle market, the Manheim Market Report (MMR) value is the most accurate, widely used benchmark to measure sales price performance.

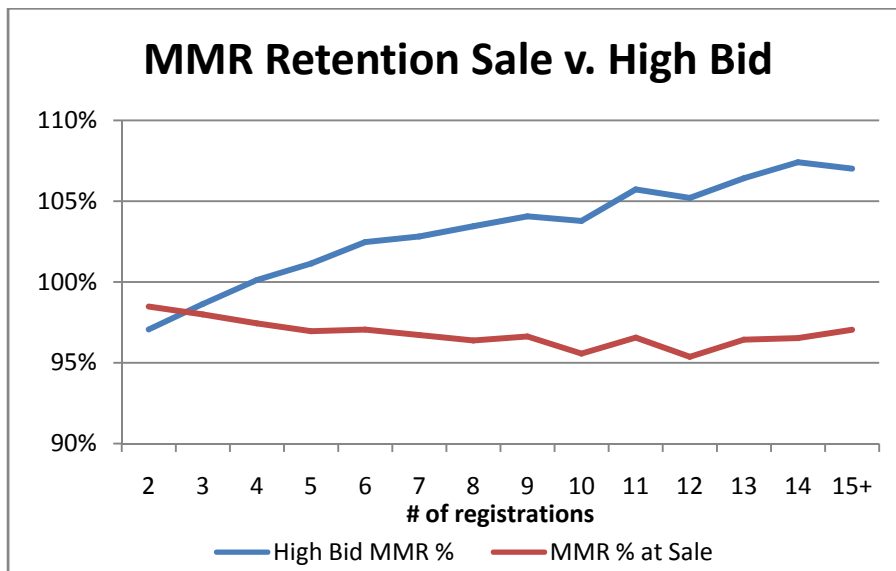
Chart 6: MMR Retention



As shown in the chart to the left, MMR retention at sale suffers as the number of registrations increase.

In the context of record high market performance, this loss of retention is very significant. When compared against the retention that could have been achieved had the previous high bid been accepted, this lost opportunity becomes even more apparent.

Chart 7: MMR Retention at Sale v. High Bid



After the second registration, MMR retention is 2.5 percentage points lower than the retention that could have been achieved had the previous high bid been accepted.

This data also suggests that consignors may want to limit the number of times a vehicle is offered for sale to maximize retention.

Vehicles are depreciating assets, so when a vehicle runs in multiple sales the market value of that unit deteriorates \$38 (or 0.3%) with each additional registration. For that reason consignors with low conversion rates take on substantial depreciation risk, and also tend to realize lower retention on those depreciated MMR values. The dual dynamic of increased depreciation and lower retention performance suggest that consignors should be reluctant to dismiss reasonable high bids early in the sales cycle.



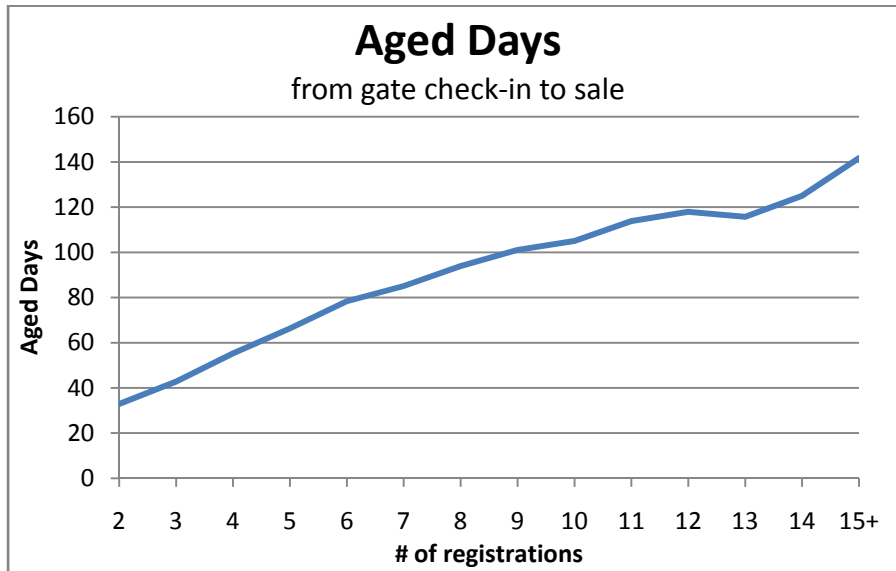


Cost of Additional Registrations:

One of the least understood aspects of a remarketing strategy focused on sales price realization is the additional costs incurred as a result of low conversion rates. When a consignor decides not to accept a high bid and reregisters the unit at the next sale, a variety of costs come into play, including:

- cost of capital (opportunity cost) as a result of additional days to sale
- operational costs to inspect and represent units

Chart 8: Aged Days



As illustrated in Chart 8, each additional registration delays the sale date by an average of 6 days.

The Manheim average is 17.9 days for vehicles sold at the 1st registration. By subtracting 17.9 days from the average aged days in this sample, a sale delay can be calculated.

Using a conservative cost of capital estimate of \$4 per day per unit, consignors incurred additional holding costs of \$10.3 million in 1st quarter 2010 (\$41.2 million annualized) as a result of this sale delay.

The operational costs of each additional registration are the most difficult to quantify, since the remarketing practices of consignors can vary widely. The time required to inspect and/or represent each unit and to administer any custom marketing promotions are additional operational costs to consider. Using a conservative estimate from several major consignors of \$1 per unit per registration, the operational costs of registering units multiple times add up to \$346,000.

Table 1: Net Effect of Costs

	Units	Avg Registrations	Avg Aged Days	Avg Sale Delay	Cost of Capital (\$4/day/unit)	Operational Costs (\$1/reg)	Gross Price Gain/Loss	Net Impact
Gain	57,384	2.5	33.9	16	(\$3,672,576)	(\$146,145)	\$38,809,167	\$34,990,446
Loss	49,801	3.6	48.3	30.4	(\$6,055,802)	(\$177,667)	(\$48,306,980)	(\$54,540,449)
None	7,969	2.8	36.7	18.8	(\$599,269)	(\$22,198)	\$0	(\$621,467)
Overall	115,154	3.0	43.2	25.3	(\$10,327,646)	(\$346,010)	(\$9,497,813)	(\$20,171,469)

When solely looking at the loss in sales price achieved, consignors lost \$9.5 million by not accepting previous high bids. However, after taking into account the additional holding and operational costs, the net loss is more than doubled to \$20.2 million (\$80.7 million annualized), as demonstrated in Table 1.





Conclusion:

The data from every metric studied is very clear. Whether evaluating the probability of a gain or a loss, the financial impact, effect on retention or additional costs incurred, the message is consistent. The highest opportunity for maximizing price is very early in the sales cycle. Consignors will inevitably experience cases where a vehicle did not generate a fair bid, and it is reasonable to try again at the next sale. However, a strategy focused on maximizing price at the expense of all else often fails in its primary objective.

Encouraging excitement in a lane is one of the keys to remarketing success and one of the best ways to do that is to show buyers that reasonable offers will be accepted. Busy lanes yield higher prices and more competition, and the reverse is also true. Dealers can get frustrated when fair market bids are not accepted. The quality of subsequent bids deteriorates as dealers begin to recognize the same vehicles being offered for sale week after week. When taken too far, buyers may migrate to more willing sellers to fulfill their inventory needs.

This study has illuminated some key findings that can be applied to any sales strategy to become more effective. For every metric studied, the 1st registration provides the highest returns, while the 2nd registration offers the most opportunity to improve on an inadequate original high bid. When units are registered in more than 2 or 3 sales:

- Consignors are more likely to realize a loss
- The losses grow larger
- MMR retention deteriorates
- MMR values depreciate
- Cost of capital grows

To pursue a truly effective strategy, consignors should be restrained and targeted in decisions not to accept a high bid. Some factors that increase the likelihood of improving upon a high bid are:

- Early in the sales cycle (only 1 or 2 previous registrations)
- Above average condition grade (high 3 or 4 grade)
- Very little unrepaired damage
- Extremely low bidding activity (less than 4 bids received)
- High bid less than 95% – 96% of fair market value (based on MMR, grade and other factors)

The efficiency versus price realization concept is a false choice. A traditional focus on price realization by holding out to get the “best price” can be a very misleading, ultimately ineffective approach. In spite of the long odds, if continually reregistering a unit does achieve a higher sales price the substantial costs associated with doing so often outweigh the potential gain. As this study has proven, doggedly chasing after the highest price is an endeavor fraught with risk in exchange for very little, if any, gain.

