
How to price your vehicles.

a vehicle pricing tool guide
by **AutoRevo**.

Price it right and watch it move.

The price of a vehicle, whether it's at the auction or on your lot, will determine your turn and spread.

Automotive dealers have a complicated business cycle. Each vehicle requires research before it is purchased and sold on your lot. Thankfully, technology provides advanced, easy-to-use research tools with market-specific pricing data and pricing managers.

Having the right tools makes a huge difference in running your dealership. What was once a difficult and time-consuming process becomes an educated and informed decision based on market reality. Pricing tools allow you to research efficiently so that you can manage your business more effectively.

It just makes sense.



The Dealer's Business Cycle

The money is made in the buy.

That's one of the first things I learned when I got into the car business. Without the right inventory, your sales will be laborious and your turnover will be incredibly slow.

Gone are the days when a dealer could buy and sell new inventory based on information in a small book carried in his or her back pocket. A little blue book simply isn't enough anymore. The Internet provides key data to dealers and consumers alike, so it's never been more important to stay focused when it comes to inventory selection and pricing.

How do you find the right inventory, for the right price, and then turn around and make the sale?

Use Technology to Your Advantage

Inventory pricing tools and management software can allow you to drastically increase your revenue. You'll make smarter buying decisions, resulting in fewer headaches. You'll also make better pricing decisions, based on current, powerful data, which will allow you to sell your inventory more efficiently.

With today's hyper-competitive market and Internet-informed customers, it's never been more important to be knowledgeable about the current market. A vehicle pricing tool will make sure you have the most up-to-date information possible so you can make the best decisions for your business.

The Dealer's Decision

Some of the most successful dealerships are flipping their entire inventory once to one-and-a-half times per month. This level of performance is driven by two factors: making educated buying decisions and pricing vehicles properly.

Most dealers buy what they **think** can be spread the most, and then they **hope** it will sell quickly. When I was working at a dealership, we took a different approach – we bought what we **knew** would sell quickly, and then focused on the total sales.

Pricing Based on Spread

A dealer buys a vehicle for \$25,000, and it takes 90 days to sell it for \$28,000. The gross is \$3,000.

Subtract recon, floor-plan interest, and commission. This is the modus operandi for a lot of dealers, and they're happy with these results.

Pricing Based on Turn

A dealer buys a vehicle for \$25,000, and it sells for \$26,000. The gross is only \$1,000 - but it sells in 14 days.

More than likely there's no interest paid on this deal, commissions are paid, and the dealer has his money back. Now he does it again... and again... and again... Until, over the course of those same 90 days from the first example, he turns multiple vehicles and could possibly pull a higher overall profit.

This is the method we used at the dealership where I worked - it allowed us to maximize cash flow, and it gave us more opportunities to win on front end gross. We also earned more finance business, sold more extended warranties, and collected more doc fees, prep fees, and postage fees. Our sales people were happier, too, because there were more opportunities to earn commissions. Overall, this method just worked better for us.

The Choice

Whether a dealer prices inventory based on spread or on turnover, he must be able to buy the right inventory, and price it to sell by making objective and informed business decisions. That's where a pricing tool becomes critical, as we'll explain in the following pages.

Pricing Tool Terminology

Your pricing tool should include the following information:

Volume:

The number of matching vehicles that are currently for sale in your market.

Sold Count:

The number of matching vehicles that have been sold in the past 45 days in your market.

Turn:

For vehicles that have been sold in the past 45 days, turn is the average number of days it took to sell those vehicles.

Days' Supply:

The number of days it would take to sell all of the matching vehicles that are currently on the market, based upon the current turn rate.

Price to Market:

How your vehicle's price compares to the market price. For example, if the Price to Market for a vehicle is 80%, then your vehicle is priced 20% below the average market price. Conversely, if the Price to Market for a vehicle is 125%, then your vehicle is 25% more expensive than the average market price.

Market Rank:

How your vehicle is priced in comparison to other vehicles with similar mileage. Market Rank is calculated by taking vehicles that are within 20% of your vehicle's mileage, then ranking them in order of the best value by price-to-mileage.

Evaluating Pricing Data

Whether you sell vehicles based on spread or turnover, a good pricing tool will help you select which vehicles to have on your lot, and then price them to achieve your sales strategy.

Buying Inventory

When looking for inventory, current market volume is extremely important and will affect your sales. How many of that particular vehicle are already for sale in the market? If the market is saturated, you'll have fierce competition, as shoppers have plenty of vehicles to choose from at various dealers.

A pricing tool can measure just how competitive the market is, and based on the purchase price for the vehicle, you can begin calculating possible profit if you were to sell that vehicle.

Informed buying decisions make selling vehicles that much easier.

Selling Inventory

It's in selling a vehicle that a pricing tool really works its magic. The vehicle's price has to be right for the market. When you have a clear view of that market, and of your selling strategy, the optimal selling price for that vehicle is easy to determine.

Pricing Zones

Your first decision is how to sell your vehicle: based on a competitive price or based on features. Taking into account the other vehicles in the market, you can determine if your price is underpriced, priced to turn quickly, within the average market price, priced to profit, or overpriced.

If you want to sell it quickly, price the vehicle below the average market price. Vehicles that are underpriced, priced to turn, or priced at the lower end of the average market price are likely to sell much faster.

Pricing a vehicle above the average market price margin, so that it pulls in a tidy profit, means it may spend more time on the lot, but it also means you'll have a healthier gross profit after the sale.

Overpricing the vehicle will likely result in a much longer turn time, and possibly an eventual price drop.

Reading the Data

Using the pricing zones and interpreting the additional data in your pricing tool will help you predict how well your vehicles will perform.

Let's look at sold count. Your sold count gives you a snapshot of vehicles sold within your market in the last 45 days. A high volume and a low sold count means the vehicle is difficult to sell. This is when it's important to make your vehicle stand out because of a low price or high-end content.

Turn lets you know the average number of days it will take you to sell this vehicle. It's based on the time frame in which other dealerships in your market have sold similar vehicles.

Vehicles with a low volume and higher sold count typically mean they move quickly, and buyers are also generally less picky. For a buyer, choosing their next vehicle from 10 different options is much easier than choosing it from 50.

Your overall market rank is very important, as you'll be able to see where you fit in the market based on mileage, price, available options, and other factors. If you're consistently priced just above the trend line, you can expect good sales.

Tool Expectations

To properly compete in today's market, you need to be able to monitor pricing trends based on physical market size, vehicle mileage, and trim.

You also need instant access to real-time market data. A lift kit and big tires won't show up under a trim package, but having access to the ad will let you quickly see why it's being offered at a higher price. The same applies with exceptionally low-priced vehicles that are in poor mechanical or physical condition.

The pricing tool and manager that you use can help you through the entire business cycle, from acquiring vehicles to selling them, and it can help you decide if you want to sell based on spread or on turn. It is an invaluable resource that can help both the new dealer and the seasoned professional.

I'm Zach, AutoRevo's Dealer Trainer, and I'm here to help any way I can. I have an extensive background in marketing vehicles exclusively on the Internet. I'm not a software guy - I'm a car guy who experienced firsthand the value in the tools that AutoRevo provides. Feel free to contact me with any questions or concerns. I look forward to helping you be more successful.

We hope you enjoyed this guide...

Unlike other providers who forget about you until you complain about a technical problem, AutoRevo is dedicated to helping each and every dealer succeed.

This pricing tool guide is one of many free guides that we provide for our dealers. We've worked with thousands of dealers through the years, and we want to share our knowledge and experience to help dealers be the best they can be.

Real data, real solutions, and real success. From vehicle acquisition to point of sale, we're with you every step of the way.

