



# The Ongoing Technology Evolution of Dealership Inventory Management

Managing inventory effectively has always been a challenge for dealerships—both franchised and independent. The overall goal of inventory management for dealerships is to own the *right vehicle* at the *right price*, which requires you to have done your homework *before* you take in a vehicle on trade or at auction. Done well, inventory management can unlock tremendous front-end profit potential for your stores.

For many years, inventory management was more of an *art* than a *science*, requiring insight, discipline, a sense of history, and a “gut feel” of the local market. While dealers were aided by a variety of proven strategies that worked well in their era, they were also thwarted by inaccurate and untimely data or the inability to match the most appropriate data to the situation in front of them.

In addition, sometimes dealerships fell into the trap of thinking inventory management was mainly about pricing and marketing. That is not the case in today’s market environment however. Margin compression, combined with a change in consumer demand (from sedans to SUVs and light trucks), has shifted the focus back to inventory management *fundamentals*. Acquisition price, speed to market, and inventory turn are now more critical than ever. Inventory management requires greater attention with a much heavier focus on local information.



## A Brief Journey Through History

Bill Krouse, an early pioneer of negotiation-free selling, was the general manager at Polar Chevrolet-Mazda in White Bear Lake, Minnesota, in the early '90s when, at his urging, the dealership initiated negotiation-free selling.<sup>1</sup> He thought it inequitable that the traditional car-selling process was biased toward customers and salespeople who possessed the information, skill, and demeanor to negotiate well, while everyone else paid more. Then, the introduction of the World Wide Web began to level the playing field. Access to information became accessible and common place. Consumers gained power in the buying process and became more determined to get the exact vehicle they were looking for, even if that meant expanding their shopping range or switching brands.

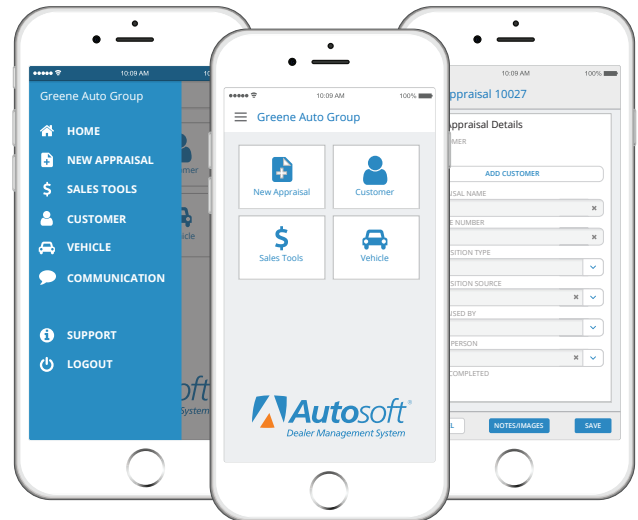
With car shopping and buying dynamics changing, innovators like Bruce Thompson, who founded American Auto Exchange (AAX) in 2001, and Dale Pollak, who launched vAuto in 2005, stepped in with new tools to help dealers compete in an entirely new way. Thompson's early models provided inventory stocking and pricing guidelines based on the dealer's historical record. Pollak's *Velocity Method of Management* maximized a dealer's used vehicle sales volumes and profitability using market metrics, serving as one of the major forces behind the shift towards a more scientific process of inventory management.

As more time passed, however, increasing price transparency eroded margins. Evolving inventory management strategies encouraged dealers to lower price and seek higher volume. Success depended on having access to critical insight into consumer desires and needs, market demand and pricing, days' supply, and other factors. Turn, equity, and margin all took on more important meanings. Dealerships needed more help and better technology.

## Technology Creates Better Science

Developments in the areas of cloud computing, mobile technology, database management, data analytics, website creation and design, and search engine optimization (SEO) have further shifted the inventory management standard towards a scientific approach. Here are six developments that are impacting how dealerships manage their inventory:

1. The technology platform, itself, is changing. Dealerships are moving to hosted solutions that enhance speed, productivity, and scalability for every department. Hosted solutions also provide stronger provisioning (i.e., control over what individual employees can see or do), while allowing more people to work with the same data without stepping on each other's toes or creating conflicting versions of an analysis. Dealerships can now work off one, true version of a record, keeping inventory management mistakes to a minimum. Plus, a single platform has proven to enhance the customer experience.
2. Market-based analytics are providing more discerning data. Dealerships now have access to near-real-time data regarding which vehicles consumers are buying in their area, as well as what the local competition is selling and at what price. More importantly, dealerships now have clearer insight into supply conditions and how both excess supply and supply shortages are impacting the marketplace. In the right hands, stocking, acquisition, and pricing analytics can greatly enhance dealership success. Dealerships can understand their potential profit and exit strategy for any possible acquisition before purchasing the vehicle. Dealerships need only learn how to utilize, analyze, and synthesize the data. Going forward, it may be the most important skill a dealership needs to succeed.



3. Online merchandising is expanding. Dealerships are finding they need to be able to manage many listing sites at once and ensure they are providing all the vehicle details and other information online shoppers are looking for during their research. Images are especially critical to the shopper who wants to be able to see inside and around the vehicle from all angles. Shoppers are also looking for product comparison tools, product reviews, pricing, and even direct access to social media. Dealerships' websites must be responsive and mobile friendly, as they now serve as the showroom for today's iGeneration and millennial buyers. A dealership's 2018 inventory management strategy must embrace all of these needs, and modern inventory management tools will do just that.
4. Other costs are being included for better decision making. To avoid losing money, dealerships need to understand the reconditioning needed for each vehicle, as well as the expense of such reconditioning, to get the vehicle "retail desirable." Inventory management tools like the one built within the Autosoft dealer management system allow this information to be entered, approved, completed, and automatically uploaded into each vehicle record. This inclusion ensures that the vehicle enhancements and associated costs can be built into the price of the vehicle. In addition, being transparent about reconditioning work may help generate more sales. Chad Bockius of CarStory explains that their research shows that consumers are more interested in reconditioning information than pricing itself, yet few dealers highlight any of the work they've done to improve their used vehicle inventory.<sup>2</sup>
5. Mobile technology is evolving to save time. Too many dealerships are still facing a time gap known as the "latency effect." This effect includes two time frames: 1) The time from the moment a vehicle is acquired to the moment it is placed on retail platforms and 2) The time from the moment a vehicle is sold until the time it is taken off retail platforms. The latency effect has a direct impact on turn, shopper satisfaction, and, potentially, profits. A time-saving combination of mobile technology and inventory management tools embedded directly inside the DMS helps dealerships greatly reduce the latency effect.
6. Search engines are impacting pricing. Many dealers still use a psychological pricing strategy, believing a consumer's emotional reaction will round-down a price of \$14,995 instead of rounding up, resulting in better feelings that make them want to purchase the vehicle. In today's world of technology, however, such tactics can cause vehicles NOT to show up in online searches where the consumer is looking for vehicles in a specific price range. A car priced at \$14,995, for example, wouldn't appear in the search results for a price range of \$15,000–\$25,000. And, though it would show up in a search for vehicles under \$15,000, it would be at the most expensive end, likely near the end of the results where few people would see it. To better align with search results and get more views, many dealerships have adopted flat pricing.

## Conclusion

Technology is ever evolving to make our lives and our jobs easier and more productive. Developments in inventory management technology, for example, are creating opportunities for more integrated and efficient processes, more informed decision making, and higher profits. Is your inventory management solution embracing the latest advancements to grow and adapt with your expanding needs?

1 Jim Leman, "Online F&I Depends on Car Dealership Culture Changes; Upgrades," Wards Dealer Business, Sept. 7, 2017  
<http://wardsauto.com/f-i/online-fi-depends-car-dealership-culture-changes-upgrades>

2 Chad Bockius, "Does Your Dealership Give Used Car Shoppers What They Want?" Dealer Marketing Magazine, April 29, 2015  
<http://www.dealermarketing.com/does-your-dealership-give-used-car-shoppers-what-they-want/>



Autosoft provides a complete dealer management system (DMS) that has received the Highest Rated DMS award from DrivingSales three years in a row. With affordable month-to-month contracts, Autosoft's DMS improves processes and reduces operating costs in over 2,000 franchised automotive dealerships. Easy-to-use and innovative software helps dealers focus on their customers' needs.