

THE CAR INDUSTRY'S BIGGEST PITFALL:

Markdowns

Lotlinx



› What Can You Do Differently to Compete in this New Economy?

Dealers commonly voice concerns about relying on pricing tools, fearing they might trigger a downward spiral in prices. However, data-driven decision-making has never been more crucial in today's industry landscape. A data-driven approach can, in fact, propel dealerships towards a "race to the top" in terms of front-end gross profit.

Market pricing tools have long wielded considerable influence over a dealership's pricing strategies, primarily revolving around the market price of vehicles and how to set a price relative to local competitors. Another critical factor influencing pricing is time: if a car isn't moving within a specified timeframe, a price markdown is triggered. This tactic often proves successful, as the unit eventually sells once it reaches the right price point.

However, the question remains: did the adjusted price entice new online buyers, or did the in-store sales process clinch the deal (such as sales commissions)? What's the proof that markdown was the smartest move?

The eBook explores the complexities of vehicle markdowns in dealership pricing strategies, challenging common beliefs about their effectiveness in boosting sales. It emphasizes the escalating costs of holding inventory, including media, maintenance, and depreciation, which motivate dealerships to minimize inventory time on lot through proactive pricing and promotion strategies centered around inventory risk.

Key points include:

› Misconceptions About Markdowns:

Despite the traditional belief that markdowns spur purchases, their impact on sales and visibility is often overstated.

› True Costs of Aging Inventory:

Holding costs increase daily, underscoring the financial strain of prolonged aged inventory and the hidden costs associated with markdowns. Segmenting financials by risk exposes the impact.

› Data-Driven Pricing Strategies:

Effective management requires leveraging data to predict inventory aging and implementing proactive pricing adjustments.

› Effectiveness of Promotions vs. Markdowns:

VIN-specific promotions are highlighted as more cost-effective in generating leads compared to markdowns alone, which often fail to sustain increased interest.

› Cadence of Price Reductions:

Successful sell-down rates are linked to early price adjustments rather than reactive markdowns after extended periods.

› Consistency Across Vehicle Types:

The article challenges assumptions about pricing strategies for luxury versus non-luxury vehicles, suggesting a uniform approach based on operational cadence rather than vehicle type.

IN CONCLUSION, this guide advocates for a shift towards comprehensive, data-driven pricing strategies to optimize profitability and minimize the financial impact of aging inventory in dealership operations.

> Must-know markdown facts:



74%

of inventory receives no views on a dealer's website after the initial markdown.



ONLY

53%

of cars don't have views after the second markdown.



69%

of inventory that receives at least 1 markdown will require additional markdowns



The online impact of a markdown lasts only

7

DAYS



The VDP cost of attracting a shopper due to a Markdown exceeds \$100/shopper

65%

OF THE TIME



Lead volume does not increase after a markdown



Lead volume increases after a VIN is promoted by

20%



Lead volume is highest when price to market is

97%

(but does not lead to highest gross)

> The Facts: Markdown and Promotion Strategies

If cars aren't moving, the historical approach has been to initiate markdowns. A price drop could make a leery consumer more apt to buy, right?

There are many misconceptions about the effectiveness of markdowns.

The True Costs of Aging Inventory

Every day a vehicle sits on a lot, it costs more money. Dealerships know this universally, but may not fully comprehend how it impacts profitability. When polled, many dealerships are not confident they are calculating all the expenses of aging inventory.

> Holding costs include:



**Media &
Advertising**



Maintenance



**Storage &
Real Estate**



**Labor Costs
Not Associated
with the sale**



Depreciation



**Floor
Plan**

Holding Costs used to run \$45/day but are easily north of \$65/day today. Some brands with very high days supply see higher holding costs due to aged new units that are over 180 days exacerbated by floorplan interest rates over 8%.

These are primarily hard costs, some of which are unavoidable.

As soon as a dealership accepts inventory, the clock starts ticking, and the expenses start tallying. The other hidden cost, partly because it is not easily viewed within any of the DMS platforms, is markdowns.

Dealership executives often focus solely on general financial metrics without analyzing performance relative to risk.

It's crucial to pinpoint potential risk factors as vehicles enter the showroom, enabling proactive measures to prevent markdowns and significantly enhance the chances of a profitable transaction.

1

Identify units that are likely to become risk units the moment they hit the showroom.

4

Monitor the VDP views and lead data of potentially at-risk units.

2

Price aggressively from the start, and don't use a default tool-generated price.

5

Execute an aggressive markdown if the vehicle doesn't move in the first 12 days.

3

Augment promotion with VIN-specific targeting to increase market visibility.

6

Make smaller incremental markdowns every 7 days while continuing the strategy of VIN-specific targeting.

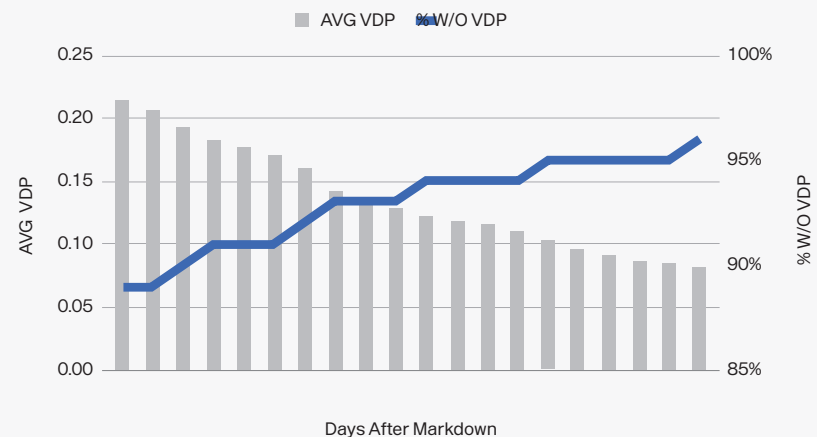
› 74% of inventory receives no views on a dealer's website after the initial markdown.

There's an erroneous assumption that once you mark a vehicle down, the interest in it will be noticeably greater. This correlation may be accurate in other areas of retail, but for cars, not so much. Website traffic data shows the connection is weak, **with 69% of used and 76% of new listings achieving no noticeable improvements in organic or direct views of the Vehicle Detail Page (VDP) post markdown.**

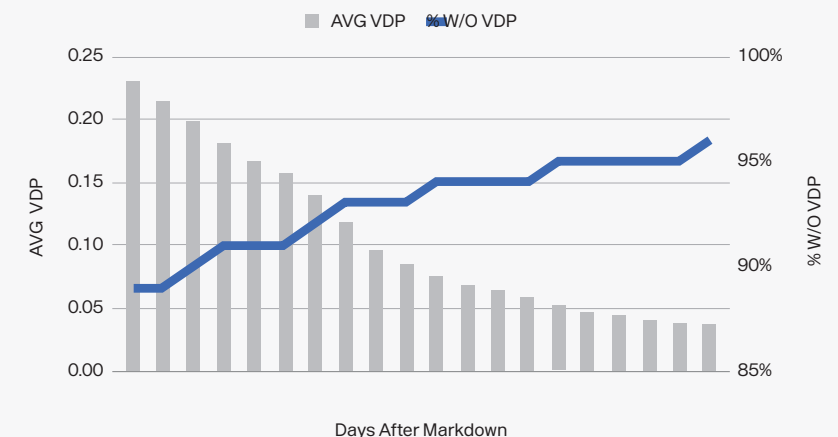
Presuming one of the goals of a markdown is to attract buyers, the cost of generating a VDP using markdowns is between \$90 and \$250! *(As measured by dividing the markdown by the number of shoppers to the vehicle within 7 days of the markdown.)*

Even when there is a surge of activity, it's short-lived, happening for only a few days. A price slash doesn't get you closer to selling a vehicle. What works best to create engagement and convert buyer intent? You'll find more success by employing VIN-specific strategies, which create more personalized buying experiences that are more likely to turn into sales.

New VDP After Markdown

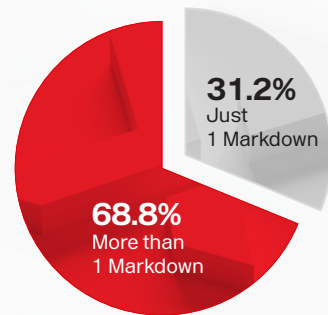


Used VDP After Markdown



The graphs show the fall off of VDPs per day following a markdown (gray) and the percentage of inventory that received no organic or direct traffic following the markdown (horizontal scale starts at the day of the markdown). This analysis clearly shows that the impact of a markdown is short-lived if there is a VDP at all.

Percent of Inventory With Just 1 Markdown



Multiple Price Reductions

As noted above, the initial markdown doesn't guarantee more views, interest, or sales. A single markdown rarely moves the needle. Most vehicles have three to four price reductions before they sell.

Of the vehicles that warrant a markdown, only 31% of them have only one markdown. This means that nearly 70% of inventory that receives a markdown requires multiple markdowns. This fact emphasizes the need to make data-driven pricing decisions instead of expecting a price cut to equate to a purchase.

Interestingly, applying a markdown doesn't necessarily result in a lead. In fact, 70% of used and 62% of new inventory don't have markdowns but still manage to generate at least one lead. Moreover, there's no apparent correlation between the number of markdowns and lead generation. Surprisingly, a unit with two markdowns is just as likely to generate one lead as it is to generate ten!

Consider instead two strategies:

STRATEGY 01

Consider how the price reduction is displayed on the dealer website. For example, test if showing the % price reduction or the actual price reduction stimulates more interest.

STRATEGY 02

Consider coupling all markdown vehicles with VIN-specific promotion.

➤ Proactive Pricing Strategies Lead to Higher Sell-Down Rates

Another misconception many pricing managers hold is that markdowns should exclusively apply to aging inventory. This approach relegates pricing to a reactive stance. Embracing a proactive pricing strategy yields higher sell-down rates.

When reviewing the daily selldown performance, it's clear that adjusting the price late achieves a steep selldown rate but comes at the expense of a substantial reduction in profit. Dealerships that wait, over-react and take too steep of a discount late in the game. Dealers that are proactive early tend to beat market selldown rates.

Many dealers use a default initial price for a vehicle based on rules set in a pricing tool. Worse is listing a car for sale and NOT setting a price.

Q | How much slower does a vehicle sell that initially has either no price or a placeholder price?

A | Ineffective initial pricing adds at least 10 days to the sale of used inventory and 15 days for new inventory.

Making market price adjustments early, within the first week to nine days, directly correlates to achieving higher dealership profitability. Turning vehicles this quickly also decreases carryover inventory and days to sell.

> The Initial Markdown Amount Needs to Be Data-Driven

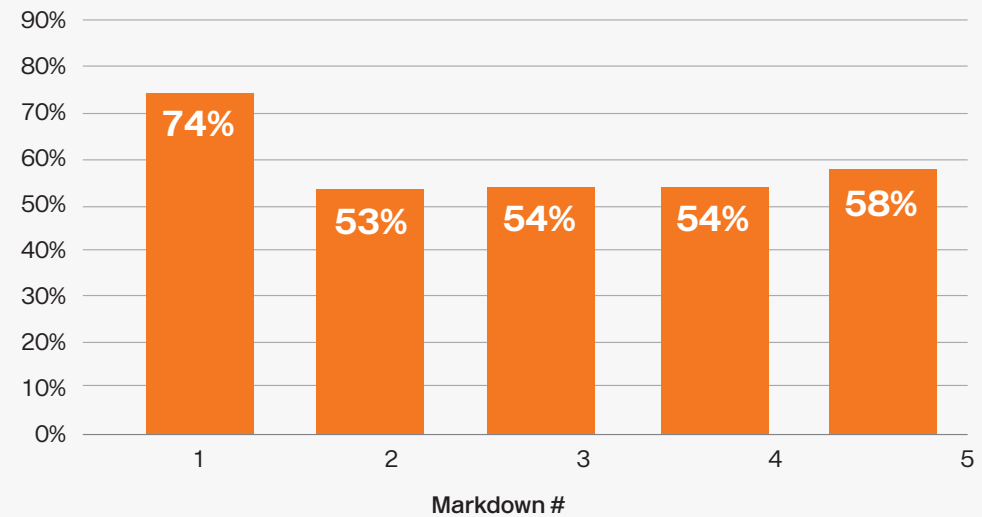
Does the amount of the markdown matter? Absolutely, and the market leading dealerships leverage data, not assumptions. Lotlinx data revealed that the average reduction for a new vehicle is \$1,800, but critical is the impact of the FIRST markdown, including:

74% of inventory doesn't receive views after the initial markdown. Only 53% of cars don't have views after the second markdown.

Why the difference?

Most of the time, dealerships hesitate on the first markdown, leading it to be less aggressive. On average, it takes at least 20 days to sell a vehicle after the first markdown. Some will sell faster, some much slower, but on average it is at least 20 days and at least \$1,300 in additional holding costs.

Used - % Inventory not seen daily after price change



The absence of a listed price for a vehicle in its first week on the market significantly affects the time it takes to sell. The table contrasts the difference in days to sale between vehicles with an initial price and those without. This impact is most pronounced in the used vehicle category, where not specifying a price prolongs the sales process by an average of 10 days, resulting in approximately \$650 per unit in additional holding costs and \$700 reduction in gross profit.

> Price Reduction Success Doesn't Differ Among Luxury or Standard Vehicles

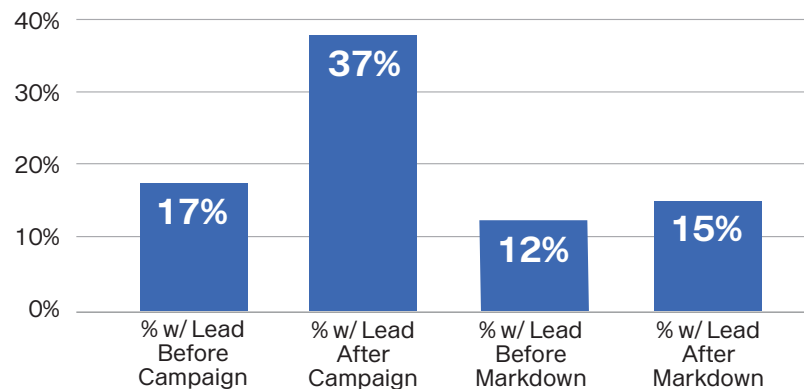
There are many differences between the buyer demographics for luxury versus non-luxury vehicles, and an obvious conclusion is that non-luxury vehicles might respond more to price reductions. After all, consumers have varied motivations, budgets, and expectations.

However, regarding markdowns, all categories of cars are homogenous. Lotlinx demand data supports the idea that luxury units require the same cadence of price reductions and face the same aging challenges.

Where pricing sensitivity does come into play is vehicle scarcity. Minor price changes impact common or "high volume" units more significantly. Regardless, the operational cadence of reducing price is still essentially the same; only the amount differs.

Understanding these data-backed facts about markdowns leads to new and accurate realizations about holding costs. The takeaway is that dealerships should apply the same operational processes and cadence to luxury and non-luxury vehicles.

Lead before and After Markdown vs. Campaign



> The Impact of Promotion

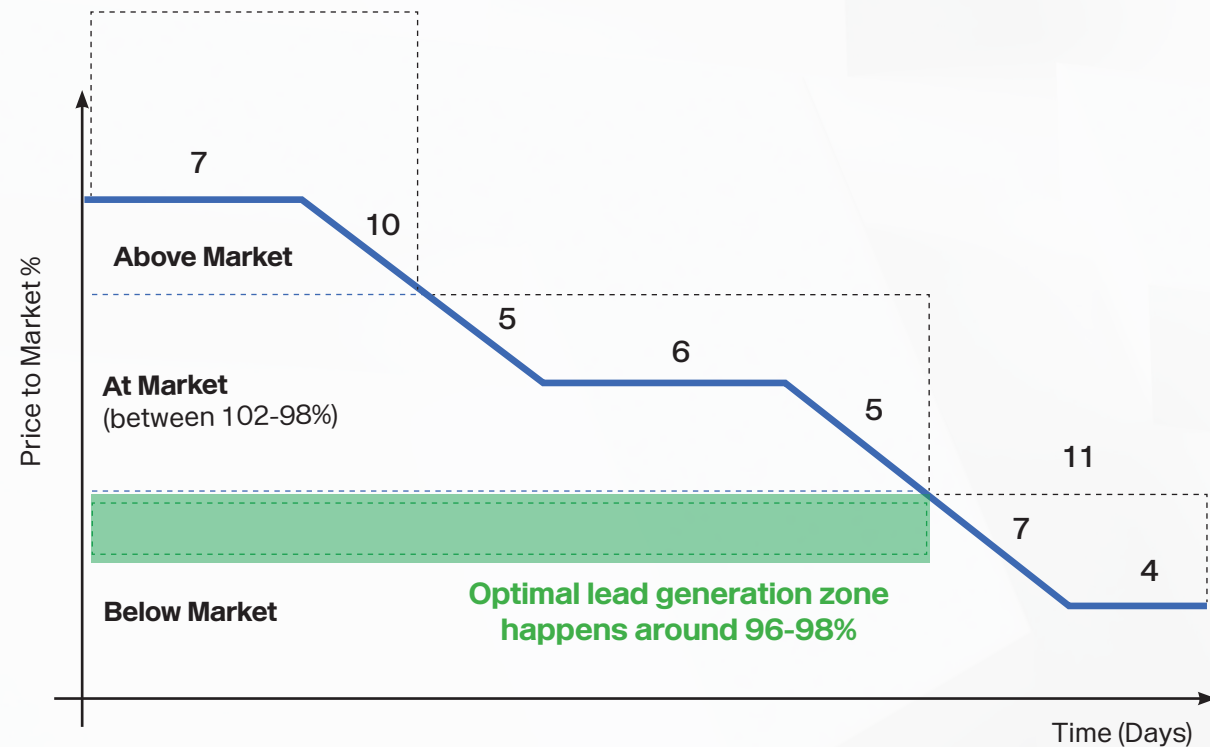
Using VIN-specific promotions can be a powerful strategy. While generating incremental views through markdowns can exceed \$200, promotions incur only a fraction of that cost. However, which strategy proves more effective in lead generation beyond cost considerations?

Regardless of the number of markdowns applied, approximately 15% of markdowns result in a lead. Regrettably, 10% of markdowns occur even when there's a pre-existing open CRM lead, indicating existing shopper interest. In contrast, VINs included in campaigns generate leads at more than double the rate of those with only markdowns. On average, a VIN-specific campaign generates leads in 7 days for used vehicles and 13 days for new ones.

Pre-campaign stands at 17%, escalating to 37% within the campaign period when comparing lead generation rates. This starkly contrasts markdown effectiveness, where only 12% of listings generate leads before markdowns, and the figure rises only marginally to 15% after markdowns. Hence, if lead generation is the primary objective, issuing markdowns isn't the most effective approach.

Data shows that lead generation increases as the price to market is lowered, with optimal lead generation occurring at 97% of the market. Exercise caution when focusing on just leads, as such a strategy may also come at the expense of overall profitability.

Additionally, consider the scarcity of the vehicle. High volume units are far more responsive to even minor price adjustments, and do not necessarily require reducing the price of all similar units. Momentum matters. Consumers are going to be interested in all of them. Coupled with vin specific promotion, the entire model line receives the benefit of additional visibility lift.



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> Creating a Data-Driven Pricing Strategy

With data analytics as your pricing engine, you have a much more reliable way to increase your margins. Implementing such a model can be seamless with the right technology. Here's what you can do with an inventory management solution that uses proprietary data and machine learning algorithms to track variables of real-time data inventory, consumer shopping behaviors, and market demand.

Establishing proactive pricing strategies is only sustainable with the right data. Too often, those making pricing adjustments, whether marking down or up, fail to improve dealer profitability because those making them don't have this information.

Without access to all market factors and data intelligence, you can't make the most informed pricing decisions. To gain these insights, you need data sets relating to:



**Consumer
Demand**



**Website
Traffic**



**Inventory
Supply and
Demand**



Pricing



**CRM
Opportunities
at the VIN Level**

By bringing all this information together, you can set the right price as a reflection of informed insights.

› Harness the Power of Predictive Analytics

Can a dealership accurately forecast market demand and customer preferences? Likely not, as they don't have the tools. You'll need a predictive analytics partner.

Predictive analytics becomes a key tool in pricing strategies by analyzing current market trends and buying patterns. It informs what vehicles are most in demand for buyers. As a result, you can optimize the sale of cars in those categories, turn them fast, and then restock. It can also inform vehicles that are likely to become aged units when they hit the lot.

If you don't have insight into what product will move the fastest and who to target, you're pricing based on instinct or assumption versus data.

› 5 strategies for reducing carryover inventory and increasing turn:

Strategy

01



Identifying fresh inventory with a high probability of becoming aged units and employing aggressive initial pricing coupled with VIN-specific advertising.

Strategy

02



Applying VIN-specific advertising across all inventory within a model line with either high days-supply or aging units.

Strategy

03



Changing operational processes so that a review of pricing on every vehicle occurs every seven days.

Strategy

04



Move vehicles around the lot positioned in prominent locations, and consider strategic compensation models and bonuses. Getting paid is more and more convenient.

Strategy

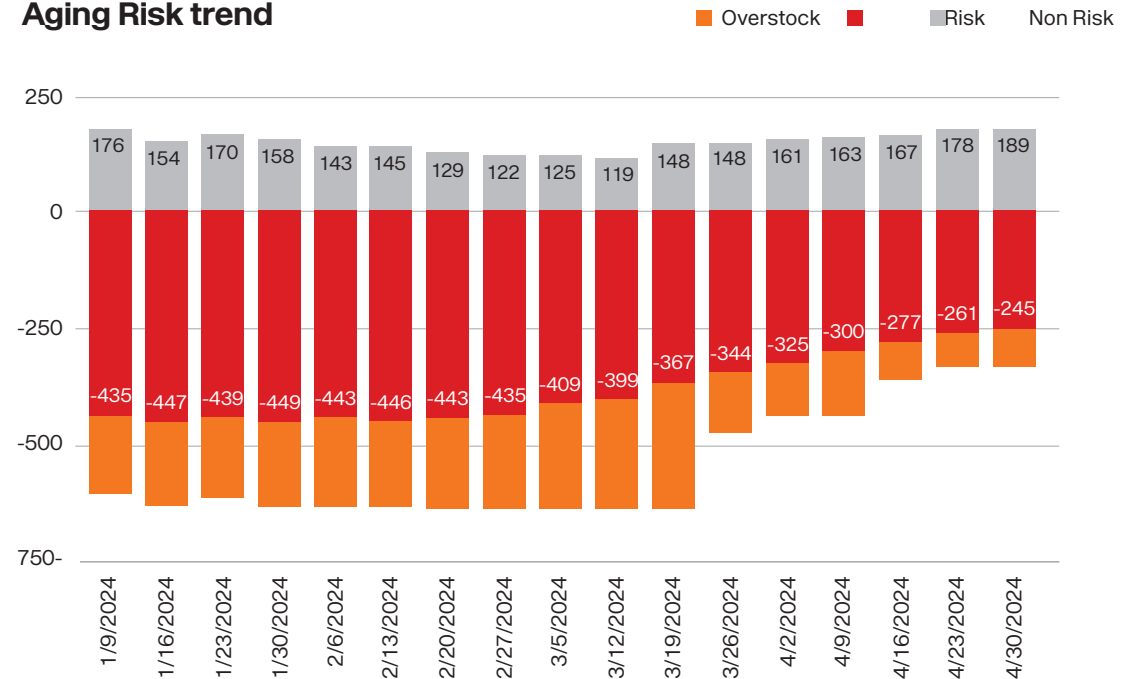
05



Setting initial pricing of vehicles based on risk factors, using initial markdowns to stimulate demand, and avoiding over-reacting with further markdowns.

This chart shows by week the number of fresh units (above the line) and the total number of aged units below the line categorized by including the number of units considered “overstocked” based on days-supply. The dealership adopted the above strategies in February and saw a massive reduction in aged units by June.

Aging Risk trend



› Data Intelligence Technology Improves Profitability

The pricing dilemmas that dealerships face are complex, but when you have data intelligence that's accessible, broad, and accurate, you have the best tools to solve it.

Empower your pricing strategies with our data tools that harness AI and machine learning technology, focusing solely on how to help dealers move inventory efficiently and effectively. Excel at data-informed pricing decisions with Lotlinx. Most auto industry data is too shallow to have these impacts, and you're still doing a lot of guessing. With Lotlinx, you won't randomly mark vehicles down or rely on traditional timeframes. You'll use the power of data to optimize every sale.

**Get the best possible market advantage on every vehicle transaction.
With Lotlinx, you can:**

- › Sell cars 10-7 days faster.
- › Increase profit by \$350 per unit.
- › Reduce wasted advertising spend.
- › Optimize inventory operations.



Achieve these results and more with our portfolio of inventory management technology.

› Lotlinx Sentinel VIN Management

Lotlinx Sentinel, a VIN management platform, is a data-rich AI inventory management platform. Users have customized optimization tools for pricing at their fingertips. It tracks 163 data variables relating to real-time inventory data, consumer shopping behaviors, and market demand. It also automatically detects at-risk VINs, so you can take action to turn it faster and not incur more holding fees.

› Lotlinx VIN View Optimizer

Lotlinx VIN View Optimizer (VVO) breaks down the channel engagement for each vehicle. With this technology, you can locate VINs with the least VDP views, those nearing 90 days, and VINs in high demand. As a result, you can price more strategically. Its use by the McCarthy Auto Group increased their conversions by 140% and reduced days on the lot from 42 days to 16.

› Lotlinx VMX

Lotlinx VMX is a free browser extension that provides VIN-level recommendations on the perfect time to promote your vehicles. A proprietary set of real-time market, pricing, and shopper engagement data, available on your desktop, formulate boost recommendations. The VMX Google Chrome extension is free for all stores registered under the Lotlinx platform.

› Lotlinx Showroom

Lotlinx Showroom transforms your VDPs into mobile-optimized experiences tailored to serve the most relevant actions right at your shoppers' fingertips. Engagement is just a tap away, whether it's a click-to-call, tap for directions, or scheduling a test drive.

Experience the Lotlinx difference today - visit [Lotlinx.com](https://www.lotlinx.com) to request your free risk assessment.