

An Expert Opinion on the Used-Car Market

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Tom Kontos is no stranger to vehicle remarketing. In fact, he helped launch and was the principal author of the ADT Automotive Used Car Market Report — a comprehensive annual analysis of strategic trends and issues relating to the U.S. used-vehicle market. Kontos has more than 19 years experience in market research, financial analysis, and strategic planning. Tom now authors the award-winning publications, Global Vehicle Remarketing and Pulse for ADESA Corporation, a leading auction and remarketing services company.

Kontos serves as ADESA's vice president, industry relations and analytical services. We recently caught up with him to get his views on vehicle remarketing. Here's what he had to say:

Q. How big is the used-vehicle market today, and where do you see the CPOV segment going?

A. In the United States, it's about a 43 million-unit market. Compare that to the new-vehicle market. In 2001, one of the best years on record, some 17 million new vehicles were sold in the U.S. That's less than 40 percent of the used-vehicle market. Looking at it another way, 2.5 used vehicles were sold in the U.S. in 2001 for every new vehicle purchased. The current total vehicle population is 216 million. That means one of every five used vehicles changes hands every year. Franchised dealers sell 16 million used vehicles each year and that number has grown considerably. In 1990, franchised dealers sold 14.2 million. By 2001, that number had grown to 16 million. Concentrating solely on the certified segment of that market, various industry sources estimate that somewhere between 500,000 and 750,000 certified units were sold in the U.S. last year. This year, we're on pace for between 1 million and 1.2 million certified used-vehicle sales (over 818,000 certified used vehicles had been sold through August 31). I think most experts agree that it's a trend that will continue to grow.

Q. What are the factors that have led to this growth?

A. One thing is leasing, which brings more used cars back to franchised dealers. Leasing gives dealers access to some of the best used cars they can find, since lessees have to return to the dealer at the end of the lease term. These cars are ideal candidates for certification. Another reason why remarketing has grown is the profitability in selling used cars. Franchised dealers have realized this potential and have begun tapping into it.

Q. Does ADESA's research indicate that consumers are willing to pay more for a certified vehicle? If so, how much more?

A. Certifiable units are typically worth between \$500 and \$1,500 more at retail. Although dealers are paying more at wholesale for these vehicles, they are passing through the premium to the consumers and usually make a bigger profit on certified, versus non-certified.

Q. Has vehicle remarketing increased residuals? How does that affect dealers?

A. Generally, if you put money into a vehicle before you remarket it, you enhance the quality and the actual value of the car. By improving residuals, certification ultimately will help dealers originate more new leases, because banks and credit arms will be able to offer lower monthly payments on new car sales. And on the sale of certified units, dealers can rest assured that whatever reconditioning costs they put into the car, they get that and more out of it.

Q. What are the overall benefits of a CPOV program for a dealership? Are the benefits relevant to a specific area within the dealership or are they spread out to various areas?

A. Any time you enhance the value of a used car you enhance the value of your new cars. You improve the perception of your new vehicles and your franchise in general. You build brand loyalty. If you think about it, all of the cars running on the road today are used cars. The perceived quality of the vehicles on the road today affects the perception of the brand. I see this program helping the new-vehicle department, as well as parts and service, due to the warranty. That's typically profitable for dealerships. In addition, as I said earlier, it supports dealership and brand loyalty. Grosses are better than on non-certified used vehicles.

A final thought: One of the areas where dealers can do better is to look for ways to dispose of vehicles that don't belong on their lots. This means being more proactive with what they do with their aged inventory. To maximize wholesale gross, data shows that they should use auctions to dispose of those vehicles as much as possible.

Indianapolis-based ADESA is the United States' second-largest and Canada's largest wholesale auction chain. With locations in the U.S. and Canada, it provides services that handle all aspects of vehicle remarketing. For more information on ADESA and more findings by Tom Kontos, please visit their website at www.adesainc.com.

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