

Chapter 3

Choosing the right stock and sourcing cars effectively

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To be successful in any retail environment, one of the key ingredients is good stock management. Be it presentation, pricing, volumes or control, getting it wrong can be costly, not only in lost sales opportunities, but in stock losses and write-offs. Our industry carries one of the highest individual commodity values of any and, when multiplied by the number of units in stock, can run into millions of pounds of investment at any one time.

If you analyse the activities required to control and handle used vehicle stocks well, they are many and varied. How much stock to hold? How to source the right stock? How to price the stock accurately against the market? How to control ageing? How long to keep stock to maximise profit? Sounds like a minefield, but in this chapter we are going to unravel some of these issues to help you run an efficient and profitable used car operation.

Understanding the market

Used car operations exist in many guises and stock levels vary enormously, but often the overall volume of stock is based on factors such as the size of display,

funding lines or budget. Although these are important factors it is often worth going back to basics and looking at the opportunity that exists in the market and within your own business.

Having the correct level of stock is vital, but many used car operators carry more stock than is ideal to meet demand. Although sourcing enough stock may be the issue over the next few years, it hurts equally to have too much and to be carrying both the costs and write down of excess units.

Market size can be established in a number of ways. Franchise sites have easy access to registration data and working on simple industry ratios can establish how many used cars they are likely to sell in any given year. The benchmark is normally a minimum of two used vehicles to every new one. For non-franchise sites, market

data can be bought from many sources and historic sales volumes always give a good starting point.

Having established how many cars are likely to be sold each year, a required stock volume can be easily calculated. In its most basic form, stock holding should be based on a minimum stock turn of eight times a year. To explain stock turn simply, if an outlet sells 400 units in a full year and carries 40 units on stock, then the stock turn would be 10 ($40 \times 10 = 400$).

It is important to get stock turn above eight to maximise efficient use of cash, but if stock turn escalates too high you may be missing opportunities

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