

Asbury's Steps Toward 1-to-1 Used-to-New Sales Ratio

By Joe Overby
Editor

When Asbury Automotive Group discussed its first-quarter results and announced its Q auto stand-alone pre-owned store concept earlier this spring, chief operating officer Michael Kearney talked about the retailer's used-car culture.

It's an approach that has led to significant used-vehicle growth for Asbury in recent years, setting the group up nicely to roll out such an endeavor as Q auto.

"In terms of pre-owned, we have a very strong, dedicated culture toward pre-owned business, and we continue to push. So I think the pre-owned (success) is a result of continuing to talk about it and the culture we have created on how to maintain trades and take more trades at the desk, managing our inventory very carefully and how we price them on the Internet," Kearney said during the April conference call with investors.

Such an outlook and emphasis on used cars was also apparent in early June, when Asbury president and chief executive officer Craig Monaghan

and Asbury senior vice president/chief financial officer Keith Style spoke at the at the Stephens Spring Investment Conference in New York.

The Wall Street Webcasting website provided a webcast of their presentation made by the Asbury executives, who gave an update on the progress the retailer has made toward its used-car goals. Monaghan also offered a glimpse into how Asbury's used operations run.

"Philosophically, where we are in used cars is that we continue to march down the path towards our objective of selling one used car for every new car. The way we go about that is, we've got a used-car team that are really used-car veterans, who are there to support these ... company commanders in the stores," said Monaghan.

"And they will help them buy cars from auction when we need to supplement our inventory. They will review our cars that go to inventory to make sure we're only sending cars that we couldn't retail ourselves. They are the experts in the software that we have available in our stores; they are the power users, so they will train on that," he continued. "They will also help the stores train on their systems and processes to make sure we are following ... really basic techniques of essentially accelerating the speed to which we get a car put back on a front line.

"The tools themselves are the tools that help us decide what we pay for a car and where we price that at retail. The store's allowed to keep a car for roughly 60 days. Once the 60-day period is up, those cars essentially become property of Asbury and move into a virtual auction where we do whatever we please with them. It may be moving them to another store or even potentially moving them to an auction."

Progress Continues

In presentation slides posted to the company's website, Asbury indicated its same-store used unit sales were up 10 percent in Q1.

Asbury said it has realized more than 76-percent growth in its used-car business since



Craig Monaghan



Michael Kearney

By the Numbers: Asbury's Used-Car Ops

10% Year-over-year gain in same-store used-vehicle unit sales during Q1

76%+ Growth in used-car business for Asbury since 2009

SOURCE: Asbury Automotive Group

2009, increasing its monthly per store used unit sales from 39 in 2009 to 73 this past year.

During the June presentation, Style provided some perspective to the trends that Asbury is seeing in its used-car margins, while also touching on the company's used inventory levels.

"If you look back at last year, in Q2 and Q3, we had a large acceleration in our used unit volume increases. We invested heavily in the used business. Our inventory is up 40 percent, but we're turning that inventory at the same days' supply as we were before we began this large investment in our inventory," Style explained.

"We saw a decline in the gross per unit during that time. We pushed volume heavy and the gross did suffer a bit. In the first quarter here, we did see it pick-up; it's still down quarter-over-quarter, about \$50, but it's up sequentially," he continued. "I'd like to tell you that that is the new norm, but ... we need to recognize that the first quarter is a very strong used-car quarter for the industry, and there is a lot of demand in the first quarter as people use their tax refunds as down payments on used vehicles.

"So we have to recognize that. I would like to think that we're challenging ourselves internally, I would tell you, to maintain that level, but we'll have to see what we're able to bring in the second quarter."

And as Monaghan would attest, the demand from consumers is there.

Industry-wide, there were 4.39 million used sales in May, according to CNW Research, which counts sales from franchised and independent dealers as well as private-party transactions.

Although this number was basically flat from a year ago, franchised dealers increased their used sales 4.3 percent and moved 1.61 million pre-owned cars.

On the new-car side, the seasonally adjusted annual rate hit a seven-year high at 16.8 million in May, according to Autodata Corp., which pinpointed the monthly new-car sales total at 1.61 million.

Industry Comparisons

4.39 million

Industry-wide used-vehicle sales in May

1.61 million

Used cars sold by franchised dealers in May

SOURCE: CNW Research

1.61 million

New cars sold in May

16.8 million

New-car SAAR for May strongest since 2007

SOURCE: Autodata Corp.

This marked an 11.4-percent year-over-year rise.

"I think the used market is very much a reflection of the new market. It's there (demand). Now I will say, when the SAAR bumps to the levels that we saw last month (May), it's harder to get to the 1-to-1 ratio," Monaghan said. "It's just math.

"But it's still a good place to be."

Editor's Note: Staff Writer Sarah Rubenoff contributed to this report.

"Philosophically, where we are in used cars is that we continue to march down the path towards our objective of selling one used car for every new car. The way we go about that is, we've got a used-car team that are really used-car veterans, who are there to support these ... company commanders in the stores."

Craig Monaghan

Asbury Automotive Group