How the Internet Is Revolutionizing America's Used-Car Industry

ATKEARNEY
an EDS company

Introduction

You know the stereotype. Walk onto a used-car lot and come face to face with a smiling salesman wearing the infamous plaid sport coat and a tie that may or may not match. Nonchalantly grinning from ear to ear, he welcomes you with a hearty handshake and perhaps even a slap on the back, and by way of introduction, drops the line that many of us have heard at one time or another: "Have I got a deal for you!" Today, that well-worn phrase is finally true for millions of consumers shopping for used cars. But instead of the used-car salesman's voice, it is computer-aided—the voice of the Internet and it really does "have a deal for you." By giving car buyers searchable access to millions of vehicles, the Internet is radically changing the $360 billion used-vehicle industry in the United States.

The Internet is transforming long established practices of vehicle remarketing—the process of reselling pre-owned vehicles in retail and wholesale channels. It is pushing activity that traditionally takes place in dealerships and at physical auction sites into the virtual domain. In the retail sector, individual consumers are forgoing classified ads and hit or miss trips to local dealers and, instead, taking their vehicle searches online. According to Gartner Group, 32 percent of U.S. households that purchased used vehicles from September 1999 through March 2000 used the Internet at some point during the buying process. In the wholesale sector, dealers are beginning to peruse and buy at online wholesale auction sites in lieu of bimonthly pilgrimages to physical auctions. Findings in a year 2000 A.T. Kearney study confirm it—16 percent of franchised dealers reported buying used vehicles online at a wholesale auction website.

With fundamental change underway, industry players are aggressively maneuvering to capture the opportunity. Consider that in the past six months, nearly 20 partnerships have been announced in the e-remarketing space. Cobalt and GE formed MotorPlace Auto Exchange, AutoTradeCenter has teamed up with Honda to sell used cars online, and Manheim bought LemonBusters to build its inspection capabilities. These players know that it is a new era and a new game. It is all about positioning and building a product and/or supply advantage.

In this paper, we present A.T. Kearney's perspective on the changing used-vehicle market. We begin by describing key developments in e-remarketing—the web-enabled, used-vehicle remarketing landscape. We highlight new business opportunities made possible by the Internet and explain how both new and traditional players are positioning to capitalize on these opportunities. Finally, we explore the four key factors for e-remarketing success. Devised by A.T. Kearney, these factors are fundamental requirements for any company intending to pursue a long-term strategy for remarketing vehicles in the new economy.

KEY BENEFITS OF E-REMARKETING

The Internet is the single most important force driving change in the used-vehicle market. It allows greater aggregation of used-vehicle supply and demand, creates vast "virtual" used-car lots, and enables efficient and secure online transactions. Whether it is one person selling through the classified ads, a dealer selling to consumers, or a wholesaler hauling used vehicles to an auction site, the Internet has changed this industry's business dynamics *(see sidebar: Our Nation's Used-Car Lot).*

There is little mystery as to why there is nonstop growth in the online remarketing industry. It is the overwhelming benefits—which are enjoyed by buyers and sellers alike:

Online solutions slash time and costs

The Internet promises to cut remarketing costs for vehicle supply owners by slashing both time and process costs. A seller who uses an online auction channel rather than a physical auction can cut vehicle remarketing time by half, or more. The less time it takes to remarket a vehicle the less it costs. The vehicle owner who sells online can see 15 to 25 percent in cost savings due to lower inventory carrying costs and depreciation. Process costs can be reduced as well. By selling a used vehicle earlier in the supply chain, the owner can eliminate transportation and physical auction sales costs. These savings can be anywhere from 30 to 40 percent of total remarketing costs, and the resulting overall e-remarketing savings can range from 45 to 60 percent of traditional costs, depending on where in the remarketing supply chain an online solution is employed *(see figure 1).*

Not surprisingly, wholesale vehicle supply owners are salivating over the opportunity to lower their remarketing costs. With a vehicle volume of 10 million units per year, at a cost of $1,000 per vehicle, the potential industry savings could total more than $5 billion annually.

Buying dealers stand to gain as well. Online auctions allow buying dealers to stock used-car inventories from home or the office at any hour of the day. Forgoing visits to a regional auction reduces dealer cost of acquisition by an estimated $125 per vehicle, and, a used-car manager who spends time on the lot rather than at auctions will be accessible and therefore able to negotiate and approve more vehicle sales.

Locate-to-order used cars

The Internet promises similar perks for the car buying public. In the past, a typical consumer had to either surmount an exhausting search, traveling from dealer to dealer to find a good used-car deal, or stay at home thumbing through the classified ads. Either way, the consumer ends up settling for the best vehicle they might find rather than the dream car they want. With online access to used vehicles and online search capabilities, buyers can virtually locate their used dream car "to order." With the push of a button, a used car can virtually be built to personal specifications. In fact, the entire supply base of used cars is becoming one giant virtual used-car lot where a car buyer can specify the make, model, year and options of a desired vehicle. A few seconds later, the computer has located the desired vehicle or vehicles anywhere in the country. While complete access to all vehicle inventories is not yet possible, there is sufficient inventory to whet most consumers' appetites. Remember, more than 30 percent of used-car purchasers go online to shop for their used vehicle.

One-stop shopping

The Internet is making it cheaper and faster to review and purchase nearly all complementary vehicle services—enabling customers to bundle vehicle financing, insurance, warranty, and registration services at the point of purchase. With more service offerings, competition among service providers increases, which ultimately should mean lower prices for consumers. Also, automated selection tools that provide side-by-side comparisons help used-car buyers choose from among several financing or insurance suppliers. For instance, quotes from several insurance companies can be obtained and compared online at Autobytel.com and Insweb.com, eliminating the need to make phone calls to several local agents. And no more standing in long lines at the DMV, thanks to links to registration and title transfer services like Titletransfer.com.

Sellers reap residual value

Finally, used-car sellers gain access to a broader demand base distributed over a wider geographic region. The entire country. Thus both casual and wholesale sellers can ask for and get higher prices. Wholesale sellers can circulate their "virtual" vehicles among several demand groups. Casual sellers can do the same by posting their vehicle for sale on several websites, many of which are free. Consumers can check out online dealer sites like CarMax, which buys used cars from consumers even if the consumer does not buy a car from CarMax. And in the near future, companies such as Autotrader could offer to remarket consumer used vehicles through a B2B or C2B channel if a casual seller's online listing fails to produce a sale.

E-REMARKETING—IDENTIFYING THE OPPORTUNITIES

The used-car industry is fast changing its focus from simply remarketing to e-remarketing. The supply chain is being shortened, virtual inventories are growing, new and more efficient players and processes are emerging, and more consumers and dealers are going online. To capitalize on the upheaval, companies are pursuing new strategic opportunities along the e-enabled vehicle supply chain. Three areas are getting the most attention—online B2B auctions, e-tailing sites and auxiliary services *(see figure 2).*

Online B2B Auctions

An online business-to-business (B2B) auction is an e-commerce exchange in which wholesale sellers post their vehicles for sale to wholesale buyers. It supplants the traditional physical auction process. Unlike other industries where online exchanges are a new way of conducting business, in the automotive industry they are only a slight variation from a process that participants are comfortable with and for which there is already a supporting infrastructure. As a result, the movement toward online wholesale auto exchanges is happening quickly.

Three groups are driving efforts in the B2B online auction space. Two of these, vehicle supply owners and physical-auction operators, have tremendous influence in the traditional physical auction process. The third group, online remarketing service providers, is brand new to the e-remarketing game. To understand what each group is doing, it is helpful to consider the market from their perspectives.

Vehicle supply owners

For the largest vehicle suppliers like Ford and General Motors, remarketing is a multi-billion dollar business. They must not only ensure an efficient disposal channel, but also protect residual vehicle values. Vehicle manufacturers, vehicle financiers, and other large vehicle suppliers manage auction supply and demand to protect their multi-billion dollar remarketing liabilities. In fact, this is the vehicle manufacturer's key advantage. They own the vehicle supply at the top of the remarketing supply chain—controlling where it goes, when it can be sold, and to whom.

Vehicle supply owners have the most to gain from online B2B auctions. They can save time and cut processing costs in the wholesale remarketing supply chain. Just think, a vehicle manufacturer that remarkets 500,000 vehicles per year at a cost of $500 million can cut his costs by 50 percent, or $250 million per year, in perpetuity.

In addition to cost savings, there are opportunities for generating additional revenue. Vehicle manufacturers can open their auctions to other vehicle suppliers and even to consumers, charging a fee for online remarketing. Additionally, they could follow the lead of other Internet consumer sites and charge advertising fees, and garner referral revenue from complementary service providers like insurance companies. Remarketing can fuel brand awareness and help drive market share and new car sales. Remarketing efforts tied to certified used-vehicle programs provide an opportunity for superior value creation. Given numerous advantages, it's no wonder vehicle manufacturers are aggressively pursuing this opportunity.

Physical-auction operators

Physical-auction operators are at the center of traditional remarketing. They own the channel through which most wholesale inventory currently flows. In the Internet economy, these companies are redefining their offerings to provide online auctions—thus protecting their share of the remarketing supply chain.

Although they are downstream, physical-auction operators have several advantages. They own and operate the physical infrastructure and best understand the business of vehicle auctioning. Through their long-standing relationships with vehicle suppliers and several thousand dealers across the country, they are well positioned to redirect the existing players through their version of online auctions. By aggregating both supply and demand through traditional auctions, these players are today's used-vehicle market makers and command a strong position in the industry. Leveraging strong relationships with logistics, inspection, and reconditioning companies, the physical-auction operators are also well positioned with back-end fulfillment capabilities. These advantages are allowing the physical-auction operators to hit the ground running with fully functioning online auction solutions.

Take Manheim Auctions as an example. Manheim sells vehicles online via two channels. Through the CyberLot section of its website, registered dealers can view and buy wholesale inventory online from manufacturers, leasing companies and financial institutions across the country. Dealers that want to sell online can also post vehicles for sale to consumers through AutoTrader.com, an affiliated Manheim website. As dealers have become more comfortable with buying on the Internet, online sales from CyberLot auctions have grown—from just $58 million in 1997, to a projected $1.5 billion in 2000.

New online remarketing service providers

As with every other B2B industrial sector, pure play startups have emerged in the automotive remarketing space. New players are positioned with ground-up, Internet-focused business models. Not tied to any one group of stakeholders, these dot.com startups have the ability to offer both open and closed auctions to buyers and sellers across the full spectrum of players. However, their lack of existing relationships, lack of supply, and lack of a dealer network frames their challenge—they must aggregate inventory online from suppliers in order to build the eyeball count of purchasing dealers. Their lack of physical infrastructure is a drawback as well. They need space for performing needed fulfillment services such as inspection, reconditioning, and vehicle storage if they are to deliver on their Internet solution promises.

Among the most notable new entrants are Autodaq and AutoTradeCenter. The two companies offer online B2B e-remarketing solutions to vehicle supply owners. At both sites, supply owners can choose to list their vehicles in "open" or private "closed" auctions and thereby can target buyers and dealers important to the vehicle supply owner. To counter the inherent relationship and infrastructure drawbacks, AutoTradeCenter has developed vehicle manufacturer relationships with Honda and Suzuki, and Autodaq has developed a relationship with Hyundai.

E-tailing sites

While most of the activity in the B2B segment occurs out of the view of most consumers, the opportunities being pursued in the retail market are increasingly changing used-car buying behavior. According to Gartner Group, 36 percent of all households are very likely to shop for their next used vehicle online. While most retail used-car buyers use the Internet primarily for comparison shopping, 1 percent reported actually purchasing a used vehicle online, and 5 percent said they were "very likely" to buy their next used vehicle online. Combining these data with the annual size of the U.S. used-vehicle market ($360 billion), the Internet will influence over $100 billion worth of used-vehicle sales, and will ring up nearly $20 billion in direct sales of used vehicles.

There are four models of used-car e-tailing sites on the Internet—referral sites, direct sites, auction sites and locate-to-order sites. Each model offers increasing value to consumers, but is progressively more difficult to implement.

Referral model

Referral sites are the easiest to implement and, therefore, make up the vast majority of e-tailing sites. They allow potential buyers to search virtual inventories for a vehicle of interest. The inventory is actually owned (and physically held) by dealers or casual sellers that post vehicles for sale on the site. Referral sites are not involved in sale transactions, but rather generate revenue from paid advertising and by collecting a listing fee from sellers.

There are two main types of referral sites—business-to-consumer (B2C) and consumer-to-consumer (C2C). B2C referral sites are the original used-vehicle remarketing sites: online pioneers like Carpoint, Autobytel and Cars.com. Dealers list multiple vehicles for sale at their dealerships and pay the site for consumer "referrals." C2C referral sites, by contrast, are those such as AutoTrader.com, which function as online classified ads for individual sellers and dealers. Increasingly, the distinction between the two types of sites is blurring as traditional B2C referral sites allow individuals to post their vehicles to the site's online inventory.

Direct model

Direct sites are dealer run websites where the dealer posts its own physical inventory online. Many traditional dealers, and especially national mega-dealers such as AutoNation and CarMax, are following this trend. According to an A.T. Kearney survey, about 75 percent of franchised dealers have their own websites where they list vehicles for sale. Consumers can browse and search for vehicles offered by a particular seller. Revenue is generated from selling used vehicles.

Auction model

Unlike wholesale auction sites, e-tail auction sites offer vehicles to the driving consumer. Examples include eBay and Yahoo! both of which post vehicles online for consumer bidding. Many of the listed vehicles tend to be antique, specialty or limited production models for which sellers charge a premium price. Auction sites make money from sellers via listing and transaction fees.

Locate-to-order model

By delivering just what a consumer wants, locate-to-order sites claim to deliver maximum value to the consumer. Among the most notable of these is iMotors, which aims to fulfill direct consumer requests for used vehicles *(see sidebar: Online Interceptions: Snatching Customers Away from the Used-Car Lot).* For a small fee, consumers specify the used car they are looking for and iMotors promises to find and deliver it in two to four weeks. Like referral sites, locate-to-order sites do not stock any inventory, but instead allow buyers to select the make, model, year and options for any used vehicle. Once a selection is made, the online supplier physically locates an exact or nearly similar vehicle, confirms the buyer wants it, buys it, refurbishes it, and delivers it to the customer.

Auxiliary services

The growing demand for virtual inventory is driving similar demand for vehicle information—all forms of vehicle data from model to VIN specific are going virtual. Traditional infomediaries like Kelley Blue Book and Edmunds now offer their print-based compilations of vehicle pricing data online at their websites. And new players like Carfax offer title checking services to consumers and dealers who want to verify service, repair and mileage data.

In addition to information services, the advent of online "site unseen" vehicle purchasing has created a demand for third-party providers of inspection, certification and warranty services. For example, for $100 Saturn dealers will provide a vehicle inspection report to consumers looking to post their vehicles for sale on eBay. New entrants like Lemonbusters.com and Bestoffer.com offer on-site vehicle inspection services to online buyers who are geographically separated from a vehicle they want to buy. Buyers looking for piece of mind can also visit Warrantybynet.com's website to price and buy aftermarket used-vehicle warranties.

The growth of buying and selling vehicles online has increased the demand for online transaction enabling services such as financial services, delivery and logistics, and title processing services. eLoan.com offers loan application and approval notification online. Trucking companies such as DASAutoShippers.com offer pickup and delivery services to individual buyers and sellers. And Escrow.com offers consumers online escrow and title transfer services.

THE FUTURE OF E-REMARKETING IS WIDE OPEN: FOUR FACTORS TO SUCCESS

As the Internet drives value enhancements and huge cost savings for buyers and sellers alike, those in the remarketing business must weigh their Internet options. In the short term, companies such as Manheim with established remarketing relationships and infrastructure are at an advantage. In framing an Internet strategy for the long term, however, all players will do well to keep in mind four critical success factors.

1. Aggregate supply

The "build it and they will come" idea is as true for used cars as it is in the movies—to sell used cars, suppliers must build a virtual "used-car lot of dreams." Buyers of used vehicles, whether retail or wholesale, want to shop where there is a huge selection of inventory. Sellers that provide a large inventory of the right vehicles, usually late-model cars, will attract many buyers to their lots and websites. It is no different here than in other industries. As Wal-Mart has done nationally with consumer goods, Meijer has done in the Midwest for groceries, and Amazon has done online for books—supply aggregation is key to generating buyer interest.

But an online seller's ability to aggregate supply depends on how far upstream it is in the supply chain. Vehicle-supply owners at the top of the supply chain have a significant strategic advantage. They usually own the cars and thus can decide to whom, where, and when their vehicles are sold. Even without supply ownership, suppliers that work to acquire used cars further upstream will be able to deliver more desirable vehicles to their customers. In short, suppliers that can leverage the Internet to aggregate supply in virtual lots with vehicles stocked upstream in the supply chain will generate the most demand.

2. Build a cost effective remarketing network

Suppliers cannot stop at offering the right car at the right place at the right time—they must also deliver it at the right cost. To be a low-cost used-vehicle provider, a supplier must build an efficient remarketing network that meets the fulfillment challenges of selling used vehicles online.

This is no easy task. After all, selling cars online is not like selling books or CDs. The back-end fulfillment challenges of delivering vehicles are far greater. Vehicles are acquired one at a time, weigh 4,000 pounds or more, require inspections and extensive paperwork, and are a thousand times more expensive than CDs. Suppliers cannot simply order a bunch of merchandise, build a distribution center, and rely on UPS, FedEx or Airborne for delivery.

Suppliers that deliver on their promises do so because they have a national network of car buyers reading classifieds, visiting auctions, and developing relationships with vehicle-fleet owners. They have multifunctional inspection and reconditioning centers serviced by regional logistics and trucking companies. They boast a customer service organization knowledgeable of the three types of state specific vehicle documentation, which is also capable of calming customers uneasy about handing over $10,000 for a vehicle they have never seen.

Players that pull together efficient networks in these areas are at an advantage. Those that misstep and fail to execute cost effectively will not be price-competitive in the marketplace. Their customers will be driven away—forced to do business with suppliers that have figured out how to grease the wheels of their supporting remarketing network.

3. Provide customer convenience

Online vehicle sellers must be customer focused. Whether in retail or wholesale, customers will not purchase, and definitely will not return to buy again if the process is difficult or time consuming. In the online marketplace, as in the offline one, buyers shop with a balanced concern for value and convenience. Remember, it was the convenience of bypassing crowded parking lots and long checkout lines that drove consumers online in the first place.

Any online buying experience must meet consumers' needs in four key areas—customization, connectivity, confidence and fulfillment. This is a subset of the seven characteristics that define the online digital customer experience. For example, a user-friendly site must provide search tools so consumers can quickly find the exact vehicles they are looking for. A good website allows customers to connect with complementary service sites to enhance the buying process. For example, links to information, financing, and insurance providers will help car buyers determine their total cost of ownership and compare it across vehicles. Websites that offer vehicle specific content such as pictures, title checks, and independent inspection reports always gain a leg up on the competition. These sites recognize that building consumer confidence and reducing apprehension are necessary accoutrements to online, site-unseen purchasing processes. Once all of these website issues are hammered out, suppliers that respond to and fulfill offline customer demands to the greatest extent will win. Undoubtedly, customers who leave a website feeling like they got a good deal and who enjoyed the shopping and buying experience will come back.

4. Integrate the retail consumer, but only where it makes sense

So far, B2B has been the area of "quick wins" for e-remarketing. By cutting out the middleman and directly connecting buyers and sellers online, B2B auctions have established themselves as the early momentum builders of e-remarketing efforts.

But can these ideas be applied to the much larger retail sector? We think so. We see the online integration of the retail consumer, where it makes sense, as the "big play" in e-remarketing. Importantly, consumer integration must be targeted only to areas where it makes sense—where a feasible and profitable supply and demand model can be justified and proven.

Consider Driveitaway.com, a B2C used-vehicle auction site that brings off-lease vehicles (normally sold at wholesale auctions) direct to consumers via the Web. Now imagine going a step further. Imagine a service from Manheim or one of the vehicle manufacturers where consumers can go to list their cars in a B2B-type online auction. The consumer gets to set the reserve price, and no longer has to settle for the used-car manager's trade-in offer. In this consumer-to-business (C2B) model, the consumer no longer languishes at home wondering if the potential buyer that just called is ever going to show up to look at the car. Instead, this used-car seller is busy selling via the industry standard disposal channel used today for B2B auctions, where thousands of dealers can make an offer for the vehicle. With such a service, consumers get integrated directly into the most efficient remarketing channel, thanks to the Internet.

While many consumers may never overcome their inherent distrust of online used-car buying and selling, a segment of the online population will become more comfortable, and will buy and sell their vehicles online. Companies that deliver compelling value and satisfying experiences to these customers, and give them access to new channels, will be well positioned for the future of e-remarketing.

Conclusion

So is e-remarketing really a good deal? If you are a dealer, vehicle manufacturer or vehicle lessor, then you are likely already reaping benefits—lower disposal cost, shorter disposal time, lower acquisition cost, faster inventory availability. If you are the average retail consumer, you are indirectly benefiting from an overall more efficient B2B process and have greater access to used-vehicle inventories. The benefits will continue to grow as retail consumer opportunities on the Web are developed and expanded.

The industry is still in the early stages of "e" but in the long run, the entire remarketing landscape will be transformed. A new set of processes will rule in a market where any two parties at any two locations in the supply chain will have the ability to transact directly. Behind the scenes, it will be more complex. Thousands of systems and processes will require integration. But in the near future, for you, me and the other 40 million used-car buyers in the United States, it will truly be "a good deal."

Our Nation's Used-Car Lot

The domestic used-car market in the United States is huge—almost two and a half times more used cars change hands each year than new cars. In terms of revenue, the two markets are nearly equal in size, with each producing about $360 billion of revenue in 1999. It may come as a surprise, but the used-car industry is no stranger to change. It has followed evolutionary progress, from small "mom and pop" independent dealerships on every corner, to large franchised dealerships. In the past decade alone, the number of independent used-car dealerships has dropped by 25 percent, while the number of franchised dealers has fallen by less than 10 percent. The evolution toward bigger dealerships continued well into the 1990s with the emergence of national mega-dealers like AutoNation and CarMax.

Today, the Internet is furthering this bigger-is-better trend; and doing it with virtual inventory rather than physical inventory. Below, we outline the four main sales segments of the used-vehicle marketplace and briefly discuss how each is responding to the online market (see figure A).

Consumer-to-consumer (C2C)

Casual consumer-to-consumer sales account for 10 million vehicle sales per year. These are the sales that take place through classified advertisements and specialty retail publications. Recently, online entrants have emerged to enhance the speed and quality of C2C contact. Not surprisingly, many of the new C2C online players have ties to daily newspapers with online classified advertising businesses. Examples include the Chicago Tribune's Cars.com website and AutoTrader.com, whose several backers own multiple daily newspapers.

Consumer-to-business (C2B)

Consumer-to-business sales account for 20 million units per year, primarily in the form of consumer trade-ins and direct sales to dealers. This used-vehicle segment is by far the largest with over half of all volume. For such a huge potential market, C2B has seen relatively little online activity to date. Only a few dealer websites such as CarMax encourage consumer trade-ins.

Business-to-consumer (B2C)

Business-to-consumer sales between franchised (and independent) dealers and consumers account for 30 million vehicles sold per year. Sales are distributed evenly between the two dealer groups. Contact between buyers and sellers is usually face to face at dealer lots. Both dealer groups have consolidated over the past 10 years, resulting in rising per dealer volume. From 1990 to 1999, the average number of vehicles sold per year per dealer rose from 250 to 390.

Online B2C activity is being driven by larger dealers and new online players. According to an A.T. Kearney survey of 100 franchised dealers, larger dealers are taking advantage of the Internet more aggressively than smaller ones. Indeed, large dealers that sell more than 150 new and used vehicles per month sell 16 to 20 of them online, whereas smaller dealers sell only three to four new and used vehicles online per month. Interestingly, one of the largest dealers is showcasing more of its inventory online—AutoNation closed 23 of its walk-in used-car superstores in December of 1999, and now pools its vast physical inventory from across many dealers virtually on its website. New players like iMotors.com are successfully selling online as well, moving several hundred vehicles per month with its innovative model of "locate-to-order" used cars.

Business-to-business (B2B)

The wholesale B2B segment accounts for approximately 10 million vehicle sales per year. This segment has five primary supply sources—manufacturers, leasing companies, rental car companies, fleet operators and dealers. Regardless of source, nearly all wholesale vehicles are remarketed through physical auctions. The largest physical auction company is Manheim Auctions. Following its October 2000 merger with ADT Automotive Inc., the company controls well over half of all wholesale auction vehicle volume.

Internet action in the B2B used-car space is red hot—with many players throwing their hats into the ring. Manheim Auctions, for example, has hosted online auctions at its website since 1996. In 2000, it expects to sell more than $1.5 billion worth of vehicles online. Moving online sales up the supply chain, General Motors introduced GMAC SmartAuction to its dealers in 2000. Reportedly, GMAC will sell more than half a billion dollars worth of vehicles in its first year, with projections for more than $1 billion in year two. Among new entrants, AutoTradeCenter launched a model to connect wholesale buyers and sellers directly online. In June of 2000, the company rolled out the Honda Finance VIPS website to Honda and Acura dealers nationwide, putting Honda's entire 150,000 plus annual consumer lease portfolio online.

Online Interceptions: Snatching Customers Away from the Used-Car Lot

In the retail locate-to-order segment, iMotors.com is leading the way. The company began as a single used-car superstore in 1998 and a little more than a year later had transitioned to an online-only retailer with no physical inventory. Today, iMotors proclaims that it delivers more quality, service and value than any other car-buying experience, and it offers a unique value proposition—customer convenience. iMotors promises to all but eliminate the exhausting and time consuming search suffered by most used-car buyers seeking the elusive "perfect" used car.

Customers who visit a locate-to-order website such as iMotors choose the exact specifications of the vehicle they want to purchase and within minutes receive a price quote. In the case of iMotors, the price usually meets or falls below Kelley Blue Book retail. Once an order is placed, iMotors locates and obtains the vehicle from a wholesale source. The company enjoys a healthy virtual inventory thanks to strong relationships with select wholesale suppliers and physical-auction operator Manheim. And when the vehicle is shipped, it does not go directly to the customer. Instead, it takes an important detour to one of three regional certification centers for inspection and reconditioning. This is to overcome consumer resistance resulting from never physically touching the vehicle. iMotors soothes jittery nerves by conducting a 269-point vehicle inspection and then sells each vehicle with a 7 day/700 mile money back guarantee and a 3 month/3,000 mile warranty. Final delivery takes place at a local sales facility, with delivery times ranging from a few days for popular vehicles to as long as four weeks for specialty models.

Going forward, iMotors is focused on increasing its sales volumes, evident in its embarking on a new strategy of intercepting potential buyers on their way to purchasing a used car. To this end, iMotors has forged marketing alliances with other online new vehicle sites, including Autobytel and Carpoint, and with infomediaries like Edmunds.

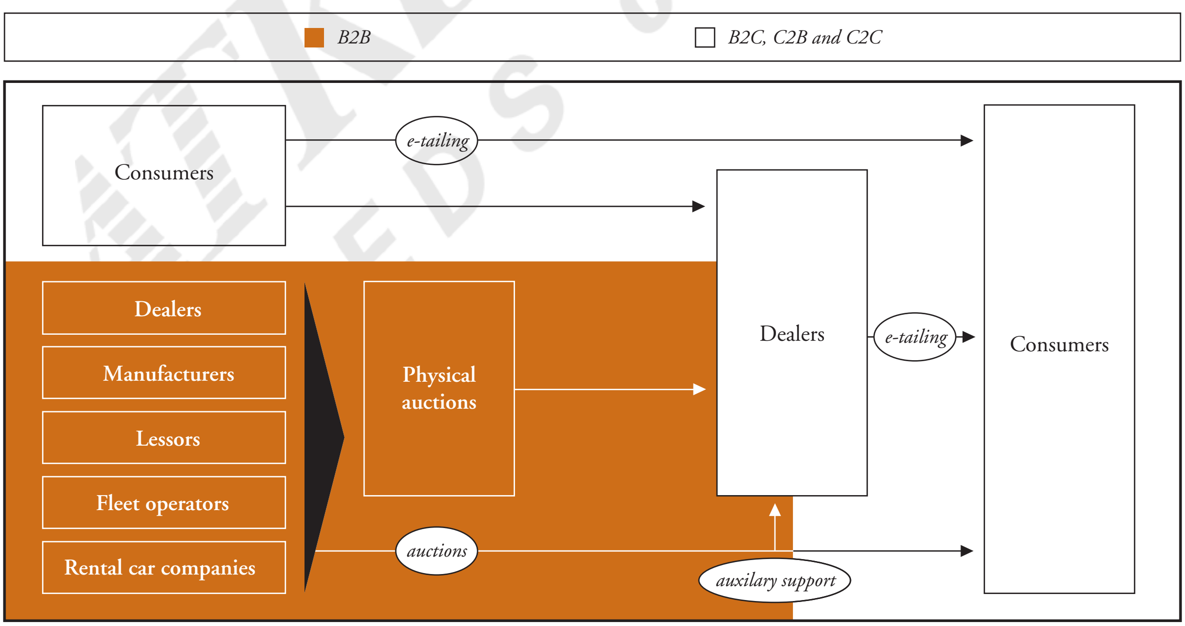
So far, the strategy seems to be working. iMotor's vehicle sales exceed several hundred per month and have been on a consistent growth curve throughout 2000. It is helped by built-in cost advantages of low inventory carrying costs, low overhead, and zero sales commission, which gives the company a slight price advantage over dealers.

Figure 1: E-remarketing savings opportunity

% OF PHYSICAL PROCESS COST	LOCATION IN SUPPLY CHAIN OF E-REMARKETING SOLUTION/SALE	
SAVINGS CATEGORY	DOWNSTREAM[1]	UPSTREAM[2]
Time	15%	25%
Process	30%	40%
Total	45%	65%

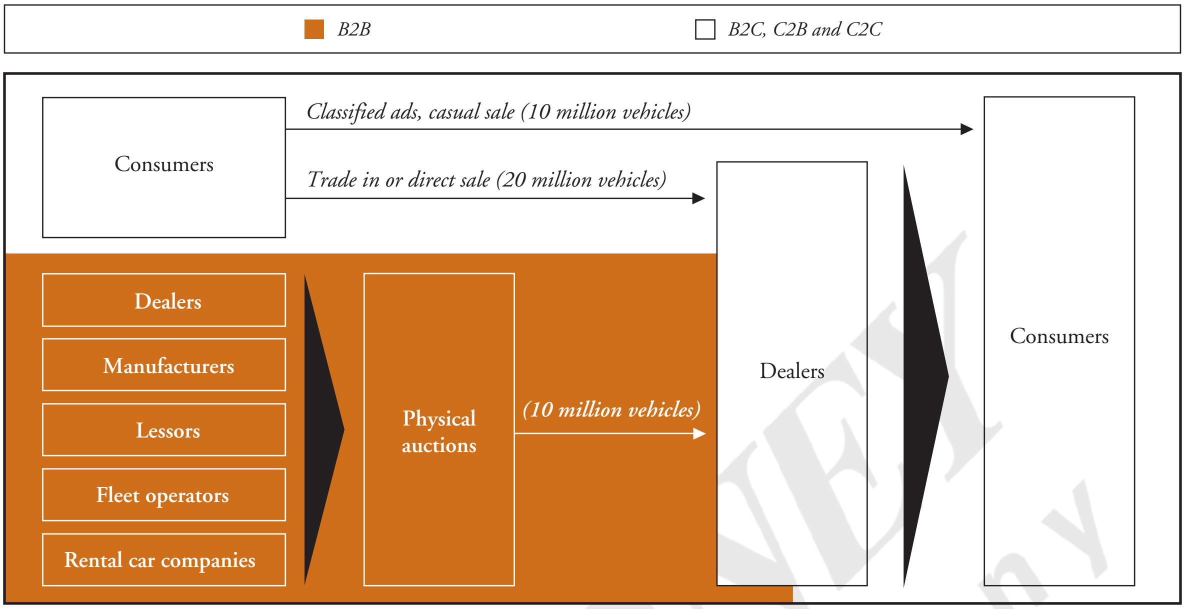
[1] Vehicle sold from intermediate location, on the way to physical auction
[2] Vehicle sold direct from turn-in location, at the dealer lot, or rental car lot
Source: A.T. Kearney

Figure 2: The "e-enabled" used vehicle supply chain



Source: A.T. Kearney

Figure A: The traditional used-vehicle supply chain



Source: A.T. Kearney

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