Road Notes – Takeaways from Used Car Week 2024

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The 25th annual **Used Car Week** recently took place in Scottsdale, Arizona. This multi-track conference highlights trends in the automotive remarketing industry and various solutions for dealers, remarketers, lenders and other vendors. Here are selected notes from presentations by various specialists in the conference's Remarketing and NAVIcon tracks:

Auto Auctions

- Auction executives see a rapidly changing industry, with an increasing emphasis on digital and online sales. This process accelerated through the COVID pandemic but has become the new reality.
- Nevertheless, physical locations are still a competitive advantage for grounding, inspecting and reconditioning vehicles to reach buyers who strongly prefer the in-lane experience.
- While auction technology is evolving fast, the focus must remain on customer experience and ease of use. The keys are price, speed and simplicity.
    - Most customers want safety and security for their vehicles and transactions, quick condition assessments, efficient reconditioning options and "retail ready" vehicles.
    - Some tech is worth the investment, and some is not. But remarketers must "lean in" and continue to experiment.
    - Gaining scale is hard for new players but critical. That said, a long-term experimental view is wise where feasible.
    - With the right strategy and budget, disruption can be deliberate and steady, as opposed to rapid and chaotic.
- Despite political winds and OEM profitability concerns, EVs are a growing part of the used auction market and require somewhat different infrastructure to perform well at auction. Most auction companies are now equipped for that.
- Interest rates and affordability are currently favorable for used cars compared to new.
- With foreign locations and operations, customers want a consistent experience, comparable to their U.S. experience and one-stop solutions for financing, transport and export.
- Canada and Mexico are key markets – for both imports and exports – for U.S. remarketers.

Electric Vehicles

- The EV market is dramatically different than 12 months ago.
- There are many more used EVs in the market and the volume may grow fivefold over the next five years.
- There have been dramatic fluctuations in pricing caused by various developments, including Tesla price cuts, rental car dumping and Inflation Reduction Act (IRA) incentives.
    - Leases are currently popular for new EVs given that uncertainty.
    - But used EV pricing has generally stabilized – buyers are no longer "trying to catch a falling knife."
- Used EVs are more "normal" and a good bargain right now.
    - Average dealer turnover time is comparable to internal combustion engine (ICE) vehicles: 47 days versus 45 days.
    - EVs are a valid asset class for a few hundred dealers.
- If tax credits are phased out or down in the new administration, that may initially *boost* sales and volumes during the transition period – through 2025 – before the cliff is reached.
    - EPA emissions requirements, NHTSA CAFE fuel economy standards and state CARB regulations are likely to survive longer than IRA credits.
    - There seems to be enough momentum with EVs and enough continuing battery improvement for volumes to keep growing without full current incentives.
- Battery life expectations are still playing out, but early indications are that longevity is better than anticipated.
    - For example, some older EVs are retaining 88% battery life at 200,000 miles, even while battery range per dollar is quickly improving.
    - That may significantly affect vehicle portfolio management and loan-to-value calculations over time.
- EV add-ons, like service contracts, gap insurance, etc., require modestly different structuring because of lower maintenance, higher repair costs, and longer lifespan.
- Reconditioning is mostly easier with fewer moving parts, but there is a thinner supply chain for EV parts which partially offsets that. The time to frontline is speeding up with newer models.

- For smart battery monitoring and valuation in third-party apps and products, some OEMs make it easier to access relevant data while others are making it harder.
    - Tesla currently sets the market norms, and there's an expectation that OEMs will gradually allow the drivers to decide third-party access to their own vehicle data.

Vehicle Inspections

- The general challenges are what to collect, what to share and how to share it.
- There's an increasing emphasis on high-quality, comprehensive imaging, especially as more wholesale buyers and sellers are interacting exclusively online in virtual auctions.
- The COVID pandemic – when most transactions moved online almost overnight – led to big innovation and investment in inspection and imaging technology.
- Inspections started as a seller tool, but they are increasingly used by buyers to assess remote units.
    - Per NAAA standards and industry practice, however, condition reports are a seller disclosure where the seller chooses to share them with bidders.
- There are many tailor-made solutions, but speed and consistency remain the keys for useful inspections, proper reconditioning and inventory turnover.
- The technology is advancing rapidly, e.g. with drive-through imaging and "MRIs for cars," but there is no substitute for human oversight of what's reported and how it's used.
- Good, retail-ready cars are always hard to identify, so high-quality inspections will remain central to that.
- In-car and battery data are becoming more important, relative to physical appearance and manual inspections, as cars become more high-tech and electricity-propelled.
    - The main battery can be 30%-50% of the value of an EV, and its invisible condition can vary dramatically VIN-by-VIN.
    - But dealers will always need high-quality imaging for merchandising and marketing units.

Amazon Car Sales

- Dealers remain the sellers of record and set prices.
- Amazon's goal is to help dealers access customers and provide a great consumer experience to the roughly 250 million consumers available through Amazon.
- There is a dealer council to advise on process.
- Transactions can (purportedly) fully close on Amazon.
    - Customers have a hard time believing that. Many still expect to be taken back to a windowless finance and insurance room when they pick up their vehicle.
- Sonic Automotive has two stores participating and would like to add more.

Future of Remarketing

- The next five years may be the most exciting ever in the industry.
- Physical locations are still important for storage, inspection, reconditioning, etc.
- Vehicle-specific battery reports and inspections will become more and more critical.
- Artificial intelligence will complement human efforts to make the sales process better, faster and more consistent.
- Drive-through tunnels that can inspect vehicles and take hundreds of high-resolution photos already exist and will become more prevalent.
- Vehicle and fleet data will become even more critical to the sales process.
- The wholesale-to-retail value chain will continue to compress, with more cars going straight or nearly straight to retail. Whatever channel drives seller value.
- Women will continue to play greater and greater roles in the industry.

If you'd like to discuss any of these automotive issues or need related legal advice, feel free to contact Miller & Martin attorney **Jason McCarter**, Chair of **Automotive** Practice.