

Reducing upstream/online “cherry-picking” through accurate, scientific floor pricing

May 2017

Introduction

Consignors often price upstream/online channels at a premium to protect against the downside of under-valuing vehicles. As a result, buyers “cherry-pick” the “better” vehicles (i.e. cars worth the premium) from upstream/online channels, and only the “worse” vehicles are left for physical auctions. To address “cherry-picking”, we developed a statistically-driven, VIN-specific, wholesale valuation model – based on the Manheim Market Report (MMR) and vehicle odometer, damage, content, and exterior color. We used this model to set floor prices on a consignor’s upstream/online portfolio and tracked performance of both sales and no-sales that later sold at Manheim. Compared to the consignor’s own floors, **scientific floors reduced “cherry-picking” and improved retention in all channels.**

Findings:

- Using their own floor prices, the **consignor** sold “**better**” vehicles (low-damage / high-content) **upstream/online** and “**worse**” vehicles (high-damage / low-content) **in-lane** ... due to “**cherry-picking**”
- Using our **scientific floor prices**, the consignor sold a more **even mix of vehicles across channels**
- At the same time, **cars with scientific floor prices** achieved **higher price retention in all channels**

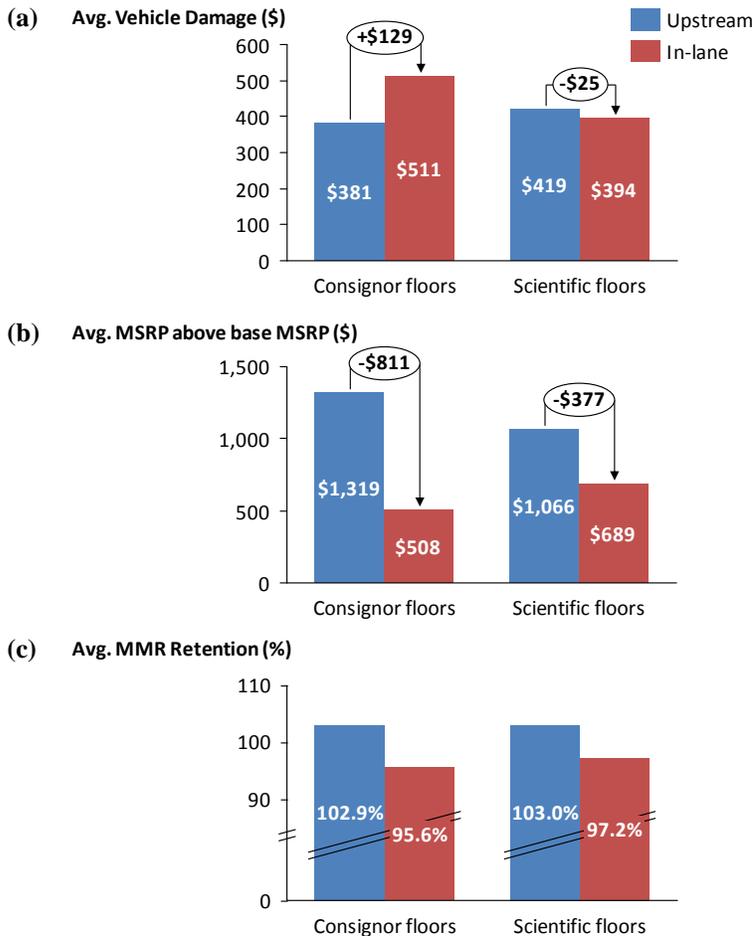


Figure 1:

(a) and (b), left side: When the consignor used its own floor prices, upstream buyers “cherry-picked” the “better” (i.e. low-damage / high-content) vehicles, leaving the “worse” ones to be sold in-lane.

(a) and (b), right side: When using scientific floor prices, a more even mix of vehicle conditions and content were sold across channels.

(c), both sides: At the same time, scientific floor prices achieved higher price retentions than consignor floor prices in both channels.

Benefits to consignors of reducing “cherry-picking”:

- Drives upstream/online sales – selling vehicles faster **minimizes depreciation** and **reduces carrying cost**
- Levels pricing and evens out the mix across channels – **brings new buyers into each channel**
- Increases price retention – **improves consignors’ overall financial performance**

Methodology:

- For a period of several weeks, RMS Automotive (a Cox Automotive company) set scientific floor prices for 50% of a consignor's upstream/online portfolio, and the consignor set floor prices for the other 50%
 - During this period, RMS and the consignor each set floor prices for more than 1,000 unique VINs
- We tracked performance of both sales in this upstream/online channel and also no-sales that subsequently sold at a Manheim physical auction within a few weeks
- In order to capture the cost of depreciation, price retention was measured as the sale price compared to MMR on the first date the vehicle was offered upstream/online