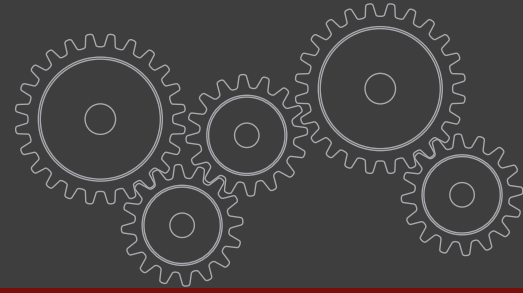




MANHEIM CONSULTING

6205 Peachtree Dunwoody Road Atlanta, Georgia 30328
phone: 678.645.3500 www.manheimconsulting.com



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The Value of Recon and Certification



The popularity of factory wholesale certified programs has led to wholesale certification programs that non-factory remarketers can use to boost remarketing returns. To help auction customers better understand this, Manheim Consulting analyzed the remarketing success of seven high-volume auction consignors that offer wholesale certification warranties on their units. These certified offerings were either the “Manheim Certified Program” or a “Private Label” program for an individual conignor using the same standards.

“Success” in this study was defined as the difference between the sale prices of certified units and the Manheim Market Report (MMR) value for similar units that were not reconditioned for certification.

The study centered around 89,813 auction transactions from seven non-factory consignors. One-third of the transactions, 29,726, were sales of certified vehicles. Two-thirds were non-certified. All of the consignors are either leasing or lending institutions, or both. The total dataset was sufficiently large for a high level of statistical accuracy and confidence.

The overall result of the study: sellers with certification programs averaged a \$2.27 return for every \$1.00 invested in the recon and certification process. An ROI of this magnitude makes a convincing case for combining certification and the right kinds of reconditioning into a strong remarketing strategy.

While a wholesale certification program might not suit all consignors’ remarketing objectives, the availability of such a substantial investment “lift” makes it prudent to at least review and consider certification as part of a total remarketing plan.

The Manheim Certification process has two basic steps.

- Selecting vehicles appropriate for certification
- Inspecting and reconditioning vehicles to meet certification minimums



Selection starts with the vehicle's condition (see 0-5 vehicle condition grading scale Appendix at end of this report). How condition fits into the decision to certify is not always obvious, but it is always important. It may seem counter-intuitive, but choosing vehicles with the highest condition grades – Grade 4 and Grade 5 – for certification will not always yield the highest ROI percentage.

The study shows that vehicles grading near Grade 3 usually offer the best percentage ROI.

The vehicles selected by the seven consignors were closely clustered around Grade 3. Four consignors selected vehicles that averaged slightly above Grade 3 -- 3.14. The other three chose vehicles grading slightly below -- 2.80.

Interestingly, the four consignors with units slightly above Grade 3 achieved 4% greater retention, based on MMR, than those with vehicles lower than Grade 3. No concrete conclusion can be drawn from this fact since the study did not control for the effectiveness of each consignor's marketing campaign. Still, this difference hints at the precision required in the selection of vehicles to achieve the best return on recon and certification investment.

The reasons for selecting units near Grade 3? First, they have negligible paint and body damage, are generally clean and odor-free and, thus, can be reconditioned for certification at reasonable cost. The seven consignors spent an average of \$356 to recon and detail their certified vehicles; this included the certification fee.

A second reason for focusing on the middle condition grades is buyer confidence. Vehicles grading 4 and above tend to create an implicit "certification" in buyers' minds simply because their initial condition is better; that tends to reduce, somewhat, the auction buyer's need for formal certification.

On the other hand, reconditioning and detailing vehicles at Grade 4 and above tends to cost only slightly less than repairing Grade 3 vehicles. However, these better quality units are more desirable on their own because of their higher initial condition and, thus, usually sell for more than average MMR. This narrows the gap between the sales prices for certified units and non-certified, which tends to lower the ROI percentage.



These results do not argue for omitting the higher condition grades from certification. **There is a positive investment lift for certifying vehicles of all conditions above 2.0.**

Once a group of vehicles is selected, how much reconditioning is enough? The first objective of reconditioning for certification is to bring the vehicle into compliance with the minimum requirements of the Manheim Certified program. Compliance means meeting the program's 32-point checklist.

The seven consignors in this study spent an average of \$301 reconditioning and detailing each vehicle. The consignors prepared their similar, but non-certified units with an average investment of \$164 for reconditioning and detail per vehicle. On average, the sellers spent \$137 more preparing certified units than they spent fixing their non-certified vehicles.

This extra expense in certification was recovered in the final sale price at the rate of \$2.27 for every \$1.00 spent on recon, detail and the certification fee when compared to MMR values for the similar but non-certified vehicles.

One of the consignors in the study was able to cherry-pick vehicles for certification with such precision that it spent the same amount preparing them as it spent on its non-certified units. This seller still realized a \$215 higher sales price on certified vehicles than its non-certified cars.

The study establishes a clear message for remarketers with the volume, the willingness and the resources to engage in wholesale certification: Such wholesale certified programs, intelligently combined with appropriate reconditioning and detailing, provide a low cost method for significantly boosting sale prices.



Appendix

VEHICLE CONDITION GRADING SCALE

Grade 5, X-Clean - Vehicle is in excellent condition, with only minor defects in panel surfaces as noted in the condition information for each vehicle. The body panels require no conventional body or paint work, but may have had limited high quality repairs performed. There are no missing, broken, or damaged parts that require replacement. The interior compartment has no cuts, tears, or burns that require repair and does not show signs of wear. The vehicle's frame/structure has not been repaired or altered, and is expected to measure to published specifications. Vehicle is mechanically sound and all accessories are operable. All fluid levels are full and clean; all tires will be near new or better.

Grade 4, Good - A better than average unit with minor chips or scratches in panel surfaces as noted in the condition information for each vehicle. This vehicle may require minor conventional body and paint work or removal of small dents that have not broken the paint using Paintless Dent Repair. The body of the vehicle may have had high quality conventional repairs. A minor missing or broken part may require replacement as noted. The interior is clean and will show minimal wear. The vehicle may have sustained cosmetic or light collision damage and been repaired to collision industry standards. The frame/structure has not been damaged or repaired and is expected to measure to published specifications. Vehicle is mechanically sound, and all accessories are operable. Vehicle may need fluids serviced, or tires rotated. Only scheduled maintenance will be necessary. Tires will be good or better.

Grade 3, Average - The average vehicle will have normal wear and tear (for example, parking lot dings, small scratches, chips and/or minor broken parts). It may require some conventional body and paint work or replacement of parts as noted in the condition information for each vehicle. The interior will show signs of normal wear and usage, requiring repair or replacement of parts as noted. Prior repairs may have been performed on this vehicle at an acceptable quality level. The vehicle may have sustained cosmetic or light collision damage and been repaired to collision industry standards. The frame/structure has not been damaged or repaired and is expected to measure to published specification. Vehicle is mechanically sound but may require maintenance or minor repair of accessories. The fluid levels may be low or require replacement. Tires will be average or better.

Grade 2, Rough - Vehicle shows signs of abnormal wear and tear. The body has dents, scratches, and body panels that may require replacement as noted in the condition information for each vehicle. Broken and missing parts are to be expected. The interior shows signs of excess wear with burns, cuts or tears, and non-removable stains as noted. This vehicle may have multiple prior repairs performed at substandard levels, which may include repaired or unrepaired collision and/or frame/structure damage. The frame/structure is not expected to measure to published specifications. Vehicle may have mechanical damage that prohibits vehicle from operating properly. Repairs can be made, but engine and/or transmission may be in poor condition. Operability of accessories is questionable. Fluids are low or require replacement. Worn tires are to be expected.

Grade 1, Extra Rough - This vehicle has been severely abused or has sustained major collision damage, but may be driveable. It is cost prohibitive to extensively recondition this vehicle by automotive industry standards. The frame/structure is not expected to measure to published specification. Although operable, this vehicle is near the end of its useful life. Operability of accessories is doubtful.

Grade 0, Salvage - Vehicle is inoperative. Unit is good for parts only. Mechanical and body parts may be inoperable, disconnected, damaged or missing.

Note: flood damaged vehicles will not exceed a grade value of 2.

THESE ARE GENERAL GUIDELINES FOR DEFINING APPROPRIATE GRADING OF VEHICLES. THE VEHICLES HAVE TO BE JUDGED ON THEIR TOTAL CONDITION AND NOT STRICTLY WHETHER THEY MEET EVERY LINE OF THE DEFINITION EXACTLY. THIS GRADING SYSTEM DOES NOT TAKE INTO ACCOUNT THE MILEAGE ON THE VEHICLE. IT IS INTENDED ONLY TO REFLECT THE OVERALL CONDITION OF THE UNIT. MILEAGE HAS A DIRECT CORRELATION ON A VEHICLES WHOLESALE VALUE AND SHOULD BE TAKEN INTO ACCOUNT WHEN EVALUATING A VEHICLES VALUE.

