

Remarketing 101:

The Impact of Seasonal Price Patterns On Fleet Returns

Used-vehicle secondary market price patterns show that auction prices are influenced by seasonal factors. Understanding select concepts and related variables can help fleet managers leverage seasonal trends to maximize value for their organizations.



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A Historical Look at Seasonal Price Patterns

Automotive industry experts historically operated with the understanding that used-vehicle secondary market, or auction, prices were influenced by seasonal variables. However, many legacy assumptions are no longer accurate in today's market.

Trusted assumptions have dissolved over time. This is because used-vehicle auctions have evolved, auction transaction data capture and reporting methods have improved and market value estimation models have become more sophisticated. As buyers and sellers have adjusted to leverage these industry advancements, seasonal price patterns have also adjusted accordingly.

How Technology Shaped Today's Used-Vehicle Market

Currently, an independent used-vehicle dealer looking to purchase inventory can easily perform the following functions online without leaving his or her office:

- Obtain accurate market valuation estimates.
- Analyze past auction transaction data.
- View comprehensive auction inventory photos and condition data.
- Secure financing, bid on, purchase and arrange delivery for vehicles.

Twenty years ago, this same dealer had to dedicate hours for preparation, in addition to braving the elements to travel to the auction to perform the same functions.

Historical Seasonal Price Pattern:

- Summer = higher auction prices
- Winter = lower auction prices
- End of calendar year = sharply lower auction prices as new model year is introduced

Current Seasonal Price Pattern:

The evolution of the used-vehicle auction and retail markets, plus other variables, resulted in a more complex seasonal price pattern.

Are Seasonal Price Patterns Driven by Changes in Supply or Demand?

A historical breakdown of NADA auction net transactional auction sales data shows that used-vehicle auction supply has been relatively stable between periods. All factors being equal, with a relatively stable supply, it can be assumed that any repeated pattern of short-term market pricing peaks and troughs during certain calendar periods can be attributed to changes in demand.

	Q1	Q2	Q3	Q4
CY13	24.6%	25.1%	28.2%	22.1%
CY14	26.9%	24.7%	25.2%	23.2%
CY15	27.5%	25.7%	24.1%	22.7%
3 year Avg.	26.3%	25.2%	25.8%	22.7%

The Fundamentals of Secondary Market Prices – Supply and Demand

Price levels in any free market are driven by two variables – supply and demand. The used-vehicle secondary market is a wonderful illustration of this price discovery mechanism in action.

On a daily basis, tens of thousands of vehicles are sold through a bid-and-ask pricing process, at both physical and online auctions. Here, supply-and-demand variables are the sole determinants of price. Every buyer and seller participating in the market, usually without realizing it, is influencing longer-term market pricing levels at all auctions.

They do this by impacting both current and future prices with their buying or selling decisions on a single transaction.

How Seasonal Price Patterns Form

Pricing patterns occur when data is available and transparent, resulting in linkages between transactions across auctions and time periods. If these trends are aligned to repeating or calendar-based variables, seasonal trends emerge that are important to understand.

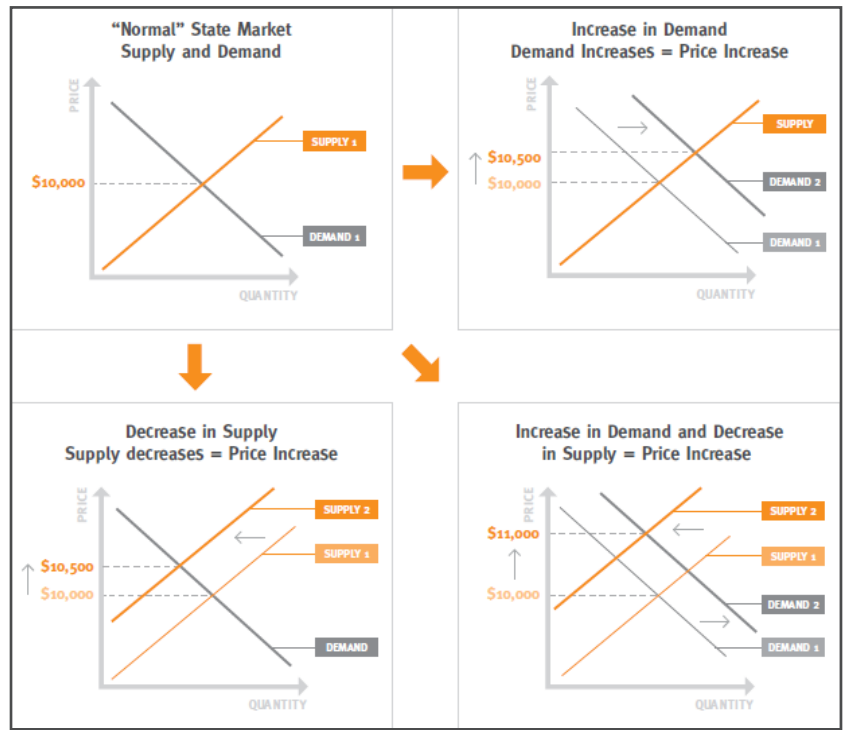
For example, if more buyers enter the market in January to build dealer inventory, as long as supply is constant, the increase in demand will drive prices higher. If this January phenomenon is based on some fundamental driver, and occurs every year, a seasonal price pattern increase will emerge.

What Are The Main Drivers of Seasonal Demand?

Although used-vehicle demand is driven by many industry and economic variables, seasonal demand is attributed to a limited number of factors:

- **Tax refund season** – Most used vehicle buyers today require financing with down payments. Income tax refunds are a common source of these down payments. As dealers made the connection between increased demand around income tax refund season, they began increasing inventory ahead of the retail demand through auction purchases. This in turn drove up wholesale demand and auction prices
- **Weather** – In certain parts of the country, weather extremes can limit retail activity at dealerships and related auction activity. Weather trends can also impact demand for individual vehicle segments, such as pickup trucks or cargo vans used in building and construction industries. In addition, major weather events, such as hurricanes or major snowstorms, are disruptive to both demand and supply resulting in volatile price fluctuations
- **Holidays** – Periods leading up to major holidays can also adversely impact auction activity as dealers manage retail inventory levels accordingly

How Supply and Demand Drive Price Levels in the Used-Vehicle Market



To illustrate how supply and demand drive price levels in the used-vehicle market, this graph shows how price is impacted when a shift to supply or demand occurs. These scenarios only show how a price increases, but when the opposite shift to supply or demand occurs, the inverse outcome will occur and prices will decrease.

Quantifying Seasonal Price Impact

By utilizing a proven market valuation model⁽¹⁾ as an annual baseline for measuring retention and comparing it to actual LeasePlan auction sales results, the seasonal price fluctuations can be easily identified and more importantly, quantified.

Although the annual baseline used in this analysis varies slightly from year to year, over the last three years it averaged 100.5 percent. This indicates the auction sales amount for LeasePlan units averaged .5 percent more than the applicable Market Value Guide estimate.

The analysis clearly shows that during certain periods, actual auction sales retention percent consistently trended well above the full-year average. In other periods, proceeds consistently trended below the calendar year average. Green and red boxes highlight the “good” and “bad” times to sell vehicles during a full-year seasonal cycle.

How Can I Use Seasonal Patterns to Maximize Returns for My Fleet?

In practice, leveraging seasonal patterns can be challenging. Disposal timing can be an inexact science due to:

- Manufacturer order-to-delivery timing
- Termination-to-disposal timing
- Individual fleet policy and practices
- Operational, financial and budgetary restrictions

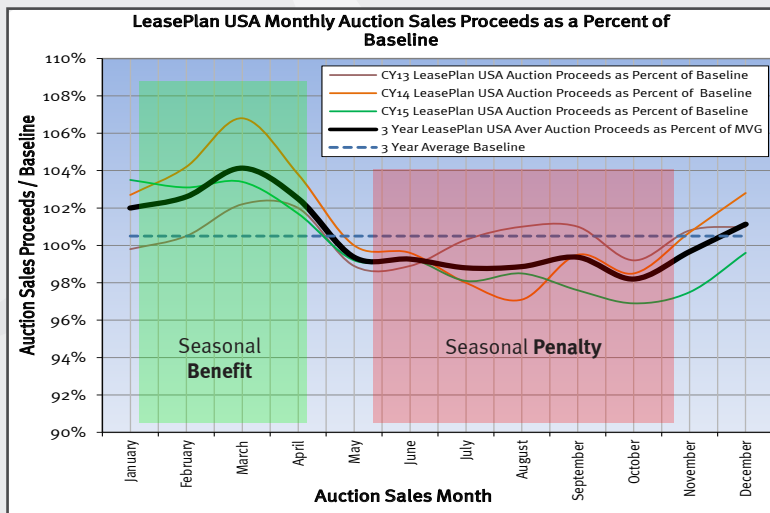
However, to maximize the seasonal benefit, a fleet manager should align replacement order timing to the best of their ability. This can be done by ensuring the existing unit is sold at auction during the periods that historically have experienced the highest seasonal price benefit, late Q1 - early Q2. In addition, a fleet manager should avoid periods that historically have the lowest benefit, Q3.

Should I Hold My Vehicles to Get Seasonal Benefit?

Not usually. Alignment of replacement timing does not mean “holding” a grounded vehicle for sale for an extended period of time. This strategy is not prudent as “time only” depreciation averages around 1 percent per month so over a couple months the normal, time only depreciation will introduce risk into the equation and quickly offset any seasonal benefit.

Model⁽¹⁾ The annual baseline utilized for this analysis was derived from the LeasePlan’s proprietary market valuation model (LeasePlan Market Value Guide). This statistical model was created in 2006 and consistently delivers an annual benchmark within 1% of LPUS actual market proceeds.

Behavior⁽²⁾ Past performance does not guarantee future results and although this pattern has been observable for over 5 years, changing supply or demand dynamics can shift (or eliminate) the historical seasonal price fluctuations. As an example, if next year consignors push 40% of their auction sales into Q1, as compared to a historical average around 25%, prices will fall accordingly and the Q1 seasonal benefit will no longer exist. LeasePlan’s Strategic Modeling and Analytics Research Team monitors and measures this secondary market phenomena closely and will provide any relevant information if major deviations from the present state occur.



Using the last three years as a predictor of future behavior⁽²⁾, late Q1 and early Q2 auction sales realized an average 5 percent peak premium over the annual baseline. On the other end of the spectrum, Q3 sales resulted in the lowest price attainment with an average sales price around 2 percent below the annual baseline.

For more information on optimal replacement, call an expert today at 1-855-588-3677, or visit us online at www.leaseplan.ca

