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THE MOTOR DEALER REPORT FROM AUSWILD & CO
PO Box 527 Kogarah NSW 1485
Chartered Accountants and Dealer Management Services

Website: www.auswild.com.au
Telephone: (02) 9588 0100
Facsimile: (02) 9588 7865

IMPROVE PROFITABILITY IN USED CARS BY RETHINKING RECONDITIONING

Today's car dealers can no longer count on the age-old axiom that $1 spent on reconditioning will translate to a $1.25 return. According to *Dale Pollack* of *vAuto.com*, when the profit margin is shrinking between the cost to acquire and the retail value of a used vehicle, it is time for dealers to revisit the reconditioning costs dealers have traditionally passed along to customers.

This reality is driven by two factors:

First, today's shoppers, whose initial review of used vehicles occurs via online vehicle listings, cannot fully appreciate a dealer's "extra mile of reconditioning" when they examine photos of a car online. Before internet and online shopping became the norm, this wasn't the case because a vehicle shopper's first review of a vehicle occurred on the dealership's lot.

Second, the margin compression for used vehicles makes it more difficult for dealers who go the extra mile to account for reconditioning costs and competitively price their used vehicles. This often translates to slower-moving inventory and age-driven price reductions, which combine to erode front-end gross profits.

Consequently, many dealers are looking for ways to trim reconditioning expenses and ease the downward pressures on their front-end gross profit margins.

One of these ways is sending out reconditioning work to third parties e.g. an outside mechanic, because these third parties can do the work a bit cheaper than the dealership's service department can.

If work is being sent out to a third party, money is leaving the dealership's service department – straight out the door, down the street to another business.

Used car reconditioning should be done at a dealership's service department. **Period!**

So, what can dealers do to keep the service department and used vehicle department happy by directing all reconditioning work to be kept in-house?

The following are some best practices that have helped dealers reduce their average reconditioning costs per vehicle — and increase their front-end gross profit margins:

- ***Charge less than retail rates for reconditioning labour and parts.***

  A growing number of dealers are abandoning the practice of charging full retail rates (or more) for the parts and labour required for reconditioning. The dealers are reducing their rates by up to 20 percent to minimise the costs they must recoup in their retail pricing. These dealers report that this operational adjustment helps them set more competitive retail asking prices and increase their used vehicle sales rates. In turn, the parts and service departments benefit because they see a greater number of internal repair orders, albeit at a lower rate per ticket.

- ***Scale back the scope of reconditioning when appropriate.***

  At some dealerships, the "go the extra mile" philosophy has shifted to "do what's required to make a car safe and look nice." This translates to fewer reflexive decisions to replace brakes and tyres, or fix small dings in the body work, or tears in upholstery and chips on windshields.

  Dealers note that a decision to scale back reconditioning is subjective – it depends on the car and the target customer. However, these dealers say their effort to narrow the scope of reconditioning has had little discernible impact with customers. If it does, dealers say customers appreciate their efforts to make a car right and close a deal.

  It can be more challenging and time consuming to reduce the scope of reconditioning for dealers who use third-party vendors to fix upholstery, dents, windshields and other imperfections. For these dealerships, it's a must to oversee the third-party vendors and their work to ensure it meshes with new mantra to "do what's required to make a car safe and look nice."

- ***Use lower-cost replacement parts when appropriate.***

  This would not apply to used vehicles that require genuine or OEM parts for certification programs.

  For other vehicles, however, dealers say they can reduce reconditioning costs by using quality, non-genuine parts when appropriate. In particular, dealers say they can save as much as 50 percent on the costs of high-volume replacement parts such as brakes, rotors and tires when they look for non-genuine alternatives.

Such efforts to reduce reconditioning costs should be taken in conjunction with a commitment to ***minimise the time required*** to make used vehicles front-line ready. In today's more time-sensitive and margin-compressed marketplace, dealers must reinvent their used reconditioning processes to fully realize the sales volume and profit potential of their used vehicle operations.

This reinvention needs to reduce the time and costs it currently takes to ready cars for retail – unnecessary delays for reconditioning also contribute to reduced profitability potential in used cars.

vAuto *was founded in 2005 by a group of automotive industry veterans determined to provide dealers with a new way to manage their used vehicle inventory.* ***Dale Pollak,*** *vAuto's founder, has published several books on his Velocity Method of Management™, and remains one of the leading authorities on automotive dealership management strategies. vAuto is now part of the Cox Automotive Group.* www.vAuto.com

For additional information, please contact your
Auswild Dealer Management Services Team

Vincent Choy James Dick Lee Payne

(02) 9588 0100

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