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Trade Disrupted (Multi-part Series): **“Curb Purchase” Segment** **Increasing due to Technology and** **Industry Trends**

- **Emerging C2B tools and services are creating alternative vehicle remarketing options for consumers. Growing dependence on used cars by franchise dealers is supporting the growth of these offerings.**
- **Franchise and independent dealers are acquiring more inventory directly from consumers and indirectly via third-party C2B services.**
- **Increased curb purchases bring efficiencies and conveniences to wholesale and retail transactions.**

“Curb Purchase” Segment Increasing due to Technology and Industry Trends

Last month, the automotive media platform, TrueCar, purchased a 20% stake in Accu-Trade, a vehicle appraisal company owned by the well-known vehicle wholesaler, R. Hollenshead Auto Sales. Via its relationship with TrueCar, Accu-Trade provides consumers with guaranteed offers to buy their vehicles, regardless of whether the customer purchases another one. This type of transaction is known as a curb purchase, and we estimate the U.S. market size for curb purchases at 1.5 to 2.0 million light vehicles (excluding salvage and low-value vehicles bought by “Cash for Cars”-type programs).¹ This number is small compared to dealer trade-in volume, which we estimate at nearly 12 million vehicles. But as new C2B services and tools continue to emerge, the size of the curb purchase segment is expected to grow by a triple-digit percentage by 2025.

Industry Newcomers and Incumbents Enter the Curb Purchase Segment

On a national scale, CarMax was known as the car dealer that would buy any vehicle at a guaranteed price, regardless of whether or not the owner purchased a replacement. In the metro areas where it operated, it wasn't uncommon for franchise dealers to send their customers to CarMax for a second opinion on their potential trade-ins rather than risk losing vehicle sales to a competitor. CarMax's customer-centric buying strategy helped the retailer develop a successful inventory acquisition channel, currently buying an estimated 650,000 vehicles each year from consumers and supplying nearly 40% of its retail inventory, while also appraising millions of other vehicles.

By the mid-2000s, franchise and independent dealers became increasingly aware of CarMax's success in acquiring vehicles and generating sales leads, and reacted with “We Buy Your Cars” offers in their website marketing and showrooms. Recognizing this trend, by January 2010, Autotrader launched Trade-In Marketplace (TIM), which enabled consumers to receive guaranteed trade-in values for their cars without requiring a subsequent retail purchase. The values for TIM were provided by R. Hollenshead, which now guarantees trade-in values for Accu-Trade's product. TIM was successful in generating used car inventory for some dealers, but it was largely used as a dealer tool for new and used vehicle retail leads.

The curb purchase landscape has since evolved with several consumer-facing brands emerging, some with offers geared at dealers, and others aimed directly at consumers. Companies like The Appraisal Lane purchase vehicles directly from consumers for distribution via their B2B wholesale network. Others, like DealerStrip or Swap Motors, will auction consumers' vehicles to pools of dealer buyers. Online tools like those from KBB, plug into dealership websites, providing guaranteed trade-in values directly to consumers. Online retailers, notably Carvana and Vroom, buy (and pick up) vehicles directly from consumers, and long-standing traditional retailers, like AutoNation and DriveTime, promote nationwide programs to buy vehicles. And while we've presented a summary of the major nationwide players in this space, there are thousands of dealers who also participate and currently purchase an estimated 4% to 7% of their inventory directly from consumers.

¹ The vehicles bought via Cash for Cars programs, in which companies like Copart purchase low value and salvage-level vehicles directly from consumers, are excluded from this analysis as these vehicles are generally not retail saleable.

C2B Vehicle Curb Purchase Landscape (U.S.)



Note: The landscape above represents companies that directly/indirectly support the C2B curb purchase segment. This landscape graphic is non-exhaustive.

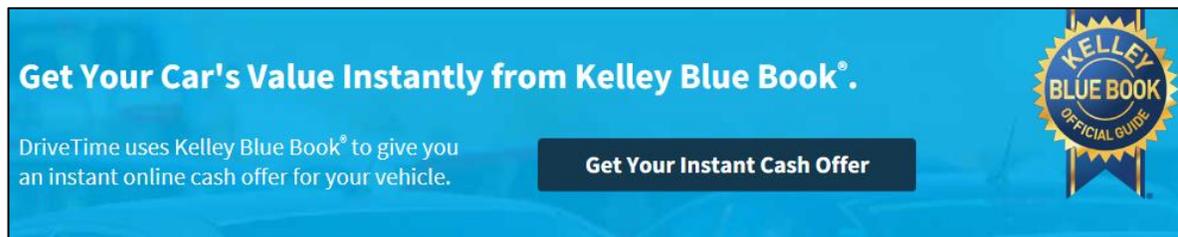
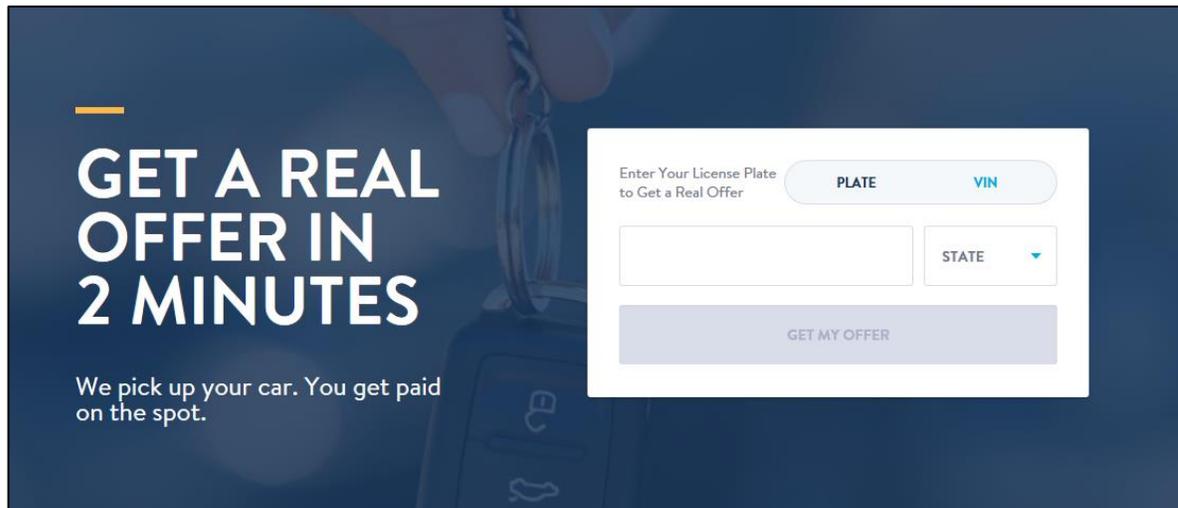
Trends Create Tailwinds

In addition to a growing number of competitive offerings by industry incumbents and startups, the curb purchase segment is also benefiting from several industry-related trends. Digital retailing, or the automotive retail industry's migration to move retail transactions online, is growing at an increased pace as more dealers embrace customer-centric technologies. The broad adoption of digital retailing tools is encouraging innovation in the online trade-in process, with various dealers' website platforms offering plug-in API-based trade and appraisal modules that even support remote vehicle inspections. As consumers are increasingly exposed to these sophisticated dealer-based appraisal modules, they are also seeking competing offers from other C2B sources, which is fueling further growth in this space.

Finance- and economic-related industry trends are also supporting the curb purchase segment. As dealers face new car margin compression and the concurrent need to provide consumers with affordable payment options, they are increasingly pursuing used vehicle sales, and are, therefore, focused on finding more efficient sources for inventory. As Carvana explained in its annual 10-K filing, its primary source of wholesale vehicle inventory comes from consumer purchases, and it actively plans to grow this channel further. "We plan to grow the number of vehicles that we purchase from our customers either as trade-ins or independent of a retail sale. This, in turn, will both grow our wholesale business and provide additional vehicles for our retail business, [because these acquisitions] are more profitable compared to the same vehicle[s] acquired at auction." We estimate that curb purchases account for only 6% of franchise dealer retail inventory, compared to trade-in inventory, which accounts for an estimated 50% (excluding off-lease vehicles). As more dealers pursue curb purchases, consumers can expect more competitive appraisals for their cars, which will also attract new types of vehicle sellers as the market segment becomes more efficient. These sellers include commercial light vehicle owners, who are increasingly using these services as an alternative to other remarketing channels, and also vehicle lessees, which are targeted by C2B services with offers to terminate their leases at specific dealers.

Finally, automotive megatrends, like mobility services, are also playing a part in growing C2B offerings. The rise of ride sharing, car sharing, and subscription services is eliminating the need for vehicle ownership for some consumers, and, thus, an increasing number of vehicle owners are using C2B curb purchase services to dispose of their vehicles.

Dealership Website Offers Aimed to Consumers



Note: The top graphic is from Carvana's website, which uses its own appraisal tool named Cardian Angel. The bottom graphic is from DriveTime's website, which uses an appraisal tool based on KBB technology.

Curb Purchase Segment Poised for Triple-Digit Growth

Dealers will continue to seek more efficient inventory acquisition sources as an alternative to other channels. And while the majority of consumers seeking a vehicle replacement will continue to trade in their vehicles to the same dealer as their retail sale, a growing portion will seek alternatives as transparency allows them to efficiently compare trade-in offers on an "apple by apple" basis, a feat that was not feasible in the past. The C2B tools and services that connect consumers with dealers are improving the efficiency of dealers' inventory acquisition, but they are also improving the customer experience for consumers. As all segments of the trade-in space face evolution, the curb purchase segment will benefit, achieving triple-digit growth by 2025.