

# Why Factories Should Use Auctions to Certify Vehicles

Auctions have built a nationwide infrastructure of body shops and mechanics' bays that can be used for vehicle certification. Also, auctions perform diagnostic testing that detects problems often missed during a visual inspection.

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Certification has gained in-creasing importance over the years, especially since manufacturers and banks became more involved in leasing. More than ever before, leasing emphasizes the need to maximize used-vehicle values. A few years ago, there was a trend in using the auction system for "pre-certification" work. All the inspection, diagnostic, mechanical, and body work was per-formed by the auction, and dealers purchased these units "retail-ready." The dealer would provide the necessary marketing, sales, and warranty services that would let the purchasing customer know that their certified vehicle was a cut above the best late-model vehicles.

Lately, however, we've seen more certification work being done at the dealership level. Very little of it is done at the wholesale level.

Auctions have a lot to offer to the certification process. They rep-resent a national infrastructure of body shops and mechanics' bays at auction facilities that can be tapped into for certification, and which provide the auto manufacturers economies of scale. Auctions are a natural place to perform the nuts-and-bolts of certification.

Even if the dealer isn't doing the certification work, there are many benefits to the dealer by having the auction pre-certify a vehicle. A retail-ready certified vehicle eliminates the problem of tying up dealers' service bays, which they need for handling their retail customers' vehicles. Dealers can also floor-plan a retail-ready vehicle, con-serving precious working capital. Auto

repair work is necessary to bring the vehicle to like-new condition according to the standards of the certification program. Step 4 is offering a warranty of some sort.

The diagnostic testing step often gets missed. I've observed the use of diagnostic equipment diminish over time. I always stress the importance of the diagnostic testing step because it detects problems that the inspection process does not. Even if the diagnostic testing step isn't one that a remarketer chooses to do, there's still a lot of under-utilized capacity at the auction level to do more certification work.

The auction industry has recently adopted a list of minimum certification standards. We don't want the term "certification" to be used loosely. It can mean different things to different people. But at the minimum, it should mean the things that are listed in the mini-mum standards that were recently adopted by NAAA.

Over the years, I've done a lot of analysis on vehicle certification. Costs include spending on certification related inspection, actual repairs, replacement of parts, oil changes, and so on, to bring the car to certified condition. That investment is either matched or exceeded by the incremental sales price that you get on that vehicle. The \$200-\$500 investment in the certification process at the wholesale level will generally achieve more than that in incremental sales price on that vehicle. Plus, that is the sales price that will be published in the guide books, which helps captive finance companies that are originating leases on new vehicles. It's in the manufacturer's interest, in the captive finance companies' interest, and in

manufacturers have already instituted programs that perform a higher-level reconditioning work at the auction level. Let's take it one step above that by having the vehicle ready to go as certified when the dealer buys it.

I've always advocated a four-step certification process. Step 1 is inspection. Step 2 is diagnostic testing. Step 3 is doing whatever

the bank's interest not to subsidize the residual values, but rather to put money into the car at the back end, which will allow them to achieve a significant benefit at the front end as well.

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