

Used-Car Sales Have Moved Online— Here's Why Both Customers and Dealers Are Happy

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6–8 minutes

It used to be harder to tell if that cream puff was really a lemon.

In 1970, Nobel Prize-winning economist George Akerlof wrote about used-car markets to illustrate the problem of information asymmetry in markets: Sellers know a great deal more about the quality of their cars than buyers do, making it difficult for buyers to differentiate between low- and high-quality vehicles.

That information gap has narrowed over the years: In 1975, the Magnuson-Moss Warranty Act, also known as the Lemon Law, started requiring sellers of consumer products to provide detailed information about warranty coverage. Since 1985, the so-called Used Car Rule has required car dealers to display a window sticker with warranty information. Sellers have made it easier for consumers to pick out the highest-quality used cars by certifying cars that have been inspected and repaired. Services such as Carfax help consumers track vehicles' history, and third-party resources such as Consumer Reports and J.D. Power help consumers suss out which vehicle models are more reliable than

others.

The pandemic might have hastened another layer of transparency as more consumers searched for cars online. Online-only car sellers like [Carvana CVNA -1.70%decrease; red down pointing triangle](#)▼ gained traction over the pandemic. At the same time, bricks-and-mortar sellers such as [CarMax KMX -1.50%decrease; red down pointing triangle](#)▼ made it possible for consumers to complete all steps of used-car buying online. More than 95% of used-car searches start online, and more than 70% of consumers use third-party websites to compare prices, [according to McKinsey](#). The online platform of [Lithia Motors LAD -1.30%decrease; red down pointing triangle](#)▼, the largest publicly listed dealer group, had 31.5 million unique visitors in 2023, a 46% increase from 2022.

Consumers used to visit four to six dealerships in person before buying a car, according to Sam Zales, chief operating officer at online marketplace [CarGurus CARG -0.88%decrease; red down pointing triangle](#)▼. Now they can browse for cars, compare prices between dealers, line up financing and—if they so choose—transact online and have the car delivered without literally kicking the tires. Most consumers still prefer to visit the dealer in person for the final steps to test drive the car and close the deal in person, Zales said. Still, about 42% of consumers say they completed at least part of the financing process online, according to a 2023 survey by CarGurus.

At CarMax, the largest used-car retailer in the U.S., about 55% of retail sales were driven by consumers using a mix of online and offline interactions. Roughly 14% were completely online, and 31% were completely in person.

Prospective buyers and sellers of used cars have more access to information than they have ever had. Online, consumers can look up not only the price, but how many of a particular vehicle model are available in the local market, how long the vehicle has been on the market and reviews of the dealerships themselves. CarGurus' Zales said the platform has seen prices for similar vehicles converge over time.

“Dealers have to get as aggressive as possible, knowing that information is out there online,” he said.

A 2001 [academic paper](#) by lead author Florian Zettelmeyer, professor of marketing at Northwestern University's Kellogg School of Management, illustrated this: New vehicle buyers who used an internet referral service paid 2.2% less for their car than those who didn't.

That might seem like it is stacking the deck against dealers. It actually could help them earn more money. Dealers can use real-time market data to determine the optimal bidding price in wholesale auctions, for example. A McKinsey report by senior partner and lead author Ben Ellencweig analyzed 15,000 car transactions in 2022 and 2023, and estimated that dealers could expand their margins by 2 percentage points if they used real-time used-car-market pricing data to bid. That comes out to a \$22 billion opportunity in the U.S. and Europe combined. McKinsey also estimated that dealers in the U.S. and Europe could collectively make \$1.2 billion more by allocating used-car inventory to the right places around the country.

Online wholesale auctions should help. When wholesale car auctions were done in person, it limited the pool of buyers to

dealers within a certain driving distance. This meant that, for instance, a used soft-top car sold in the winter in Massachusetts might be auctioned off to a low bidder nearby, when a dealer in Florida might have been willing to pay a higher price. Virtual auctions can remove that inefficiency.

CarMax now conducts 100% of its wholesale auctions virtually—a pandemic-era adaptation that has stuck around. Listed companies such as [Openlane](#) [KAR 0.06%increase; green up pointing triangle](#) ▼ and [ACV Auctions](#) [ACVA -0.42%decrease; red down pointing triangle](#) ▼ run entirely digital marketplaces for the wholesale market.

All of these developments—both in retail and wholesale selling—point to a more efficient used-car market. But it also introduces an advantage for auto manufacturers and their franchise dealership networks.

John Murphy, equity analyst at BofA Securities, said virtual auctions allow automakers to more easily keep wholesale used vehicles within their own branded dealer network—even those that are in different states. This is another advantage that stems from eliminating geography as a factor: Online auction platforms like ACV and Openlane allow dealers and automakers to conduct closed auctions within their own network. That enables branded dealer groups to retain the value of those used cars and future revenue streams that come from them, such as service, parts and even future used sales.

Data and analytics are helping to remove inefficiencies in a highly fragmented, historically opaque market. That is helping both sides leave less money on the table.

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