

Profitability Attainable as Carvana is Evolving How Used Cars are Sold

Companies: AN, CARG, CARS, COST, CVNA, INFO, KMX, LAD, TRUE

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Research Question:

Does Carvana truly have a unique business model that will eventually become profitable?

Summary of Findings

- Profits are attainable for [Carvana Co.](#) (CVNA) and its partially unique business model—if it continues to adjust and execute its business plan and operations.
- Carvana is not entirely disrupting the used car market, but it is evolving how used cars are bought and sold. The company has successfully tapped into consumers', particularly millennials', desire for a different, non-dealership, car-buying experience.
- Carvana's business model is not considered completely unique, but it does have some unique elements and praiseworthy features. Carvana's high-quality, consumer-friendly online platform, transparent pricing, seven-day return policy, and aggressive national marketing campaign, including its car vending machine, were all cited as competitive strengths.
- Nine of 14 sources think Carvana can become profitable with adjustments to its business plan, some of which the company is already undertaking. Sources said lowering the cost of acquiring cars, adding more inspection/reconditioning and distribution centers (IRC), and providing parts and service options for buyers will help Carvana reach profitability. The company has stepped up its internal car buying effort and broken ground on its eighth IRC.
- Two sources suggested that Carvana could become profitable by slowing its growth. This, however, is highly unlikely, as its CEO has [no plans](#) to take his foot off the growth gas.
- Current market conditions are highly favorable for Carvana. Sources said the used car market is strong, with an annual growth rate of 1% to 6%. The strong economy and escalating new car prices are driving more car shoppers to the used car market.
- Headwinds Carvana must navigate include paying too much for inventory, overcoming the lack of parts and service revenue, and significant competition from [CarMax Inc.](#) (KMX), which is expected to catch up to Carvana with its online offering as part of its omnichannel sales initiative.
- To capture consumers willing to shop for cars online, traditional dealers like [AutoNation Inc.](#) (AN) and [Lithia Motors, Inc.](#) (LAD) are adding online sales platforms that are expected to be competitive.
- [Cars.com Inc.](#) (CARS), [CarGurus Inc.](#) (CARG), [TrueCar Inc.](#) (TRUE), and [Vroom](#) were also discussed as providing competition in the online space.

Silo Summaries

1) New and Used Car Dealers

Four of five traditional new and used car dealers see profitability as possible for Carvana with some alterations to its business model. Sources said to achieve profitability Carvana will have to slow its growth and add service and parts, in-house financing, and insurance. Two sources said the Carvana business model is unique, another said it is consumer friendly and copied from CarMax, and two said it is not unique; however, one added that the Carvana vending machine is unique. **Four sources said the used car market is strong, due in part to the unaffordability of new cars.**

2) Banks and Auto Finance Companies

Three auto lending executives acknowledge that Carvana's business model has some unique attributes that are resonating with millennials and consumers that do not want to get involved with dealerships. Consumer friendliness, pricing transparency, and strong marketing that includes the Carvana vending machine are considered unique. **Two sources think Carvana has a shot at profitability, but there is risk. Getting to scale and profitability will be a challenge without additional reconditioning and distribution centers and service centers for Carvana car buyers. The used car market is growing at 5% to 6% a year, according to one source, and was described as large, robust, and strong. High new car prices are forcing consumers to the used car market.**

3) Carvana's Online Competitor

Carvana is unique only in its marketing and sales strategy. Plenty of others sell used cars and sell them online. Marketing is the company's strength. It is kind of the "Kleenex" of Internet auto sales. Logistics and auto acquisition costs are a problem for Carvana. **But he thinks the company will ultimately turn a profit, as it figures out how to scale up its business model.** Carvana can engage partners to help minimize the cost of auto acquisition and to provide post-sales services.

4) Industry Specialists

Four of the five industry specialists do not think Carvana is unique. Three sources said Carvana can become profitable, but it will have to improve its car buying at a lower cost, keep real estate costs low, and find a way to stay in touch with its customers. Sources praised Carvana for aggressive marketing, an excellent online platform, and capturing the interest of millennials. **The used car market is seen as strong by four sources, with one saying it is growing at 1% to 2% per year. The high cost of new cars and the strong economy are the drivers of the market.**

	Carvana Business Model	Carvana Profitability	Used Car Market
New and Used Car Dealers	Partially Unique	Possible—with Changes	Strong
Banks and Auto Finance Companies	Partially Unique	Possible—with Changes	Strong
Carvana's Online Competitor	Not Unique	Possible—with Changes	Strong
Industry Specialists	Not Unique	Possible—with Changes	Strong

Background

Blueshift Research's initial research found Carvana, the technology-driven online used car dealer using car vending machines, posting amazing growth numbers and attempting to disrupt how used cars are bought and sold. Founded in 2012 to modernize and streamline the used car buying experience, Carvana has become the third-largest retailer of used cars in the United States. With an online focus, no-sales salespeople, no haggling, access to a massive inventory, financing, and extended service contracts, Carvana has built a car buying experience customers love. However, Carvana has yet to produce a profit and has been moving further from profitability in its pursuit of growth. This lack of profit has led some in the auto and finance industries to question if Carvana's business model is truly unique or just a gimmick that will have to fight for profits like every other used car dealer.

Carvana's third-quarter (Q3) performance exceeded \$1 billion in revenue for the first time and achieved a 23rd straight quarter of triple-digit growth. Revenue rose 105% year to year and retail unit transactions were up 83% to 46,000 in the quarter. Despite these impressive top-line growth numbers, operating losses persist. In Q3 2018, Carvana's net income was a loss of \$64.4 million. This year, Q3 losses totaled \$92.2 million—a 43.2% difference. These losses are due to the massive growth in overhead needed to feed Carvana's top-line acceleration.

Carvana's Q3 expansion and additional overhead includes a 249% increase in auto purchases from customers (a positive, as this increases gross margin on sales), the start of construction on its eighth inspection and reconditioning center (IRC), four new car vending machines—bringing its total to 22 across the United States, and the opening of nine new markets during the quarter, widening Carvana's reach to 146 markets at quarter's end.

The financial community is beginning to ask when or if Carvana will turn a profit. One [questioner](#) said that delivering a better customer buying experience does not always translate into a successful business. This source cited [Beepi](#) as an example of a company set on revolutionizing car sales using an online model that went out of business. [Another source said](#) that, although Carvana's sky-high growth rates are dazzling, it is only making minimal profit gains. This leads some to wonder whether Carvana is nothing more than slick internet marketing and a car vending machine wrapped around an old business model.

Carvana's CEO was recently [interviewed](#) and specifically addressed the profitability worries saying, "Over the last three years we've gone from losing about 23 cents on every dollar of revenue to 3 cents last quarter." He further suggested that with the incredibly large growth opportunity still facing the company, "I think it's hard to say that now is the time to take your foot off the gas."

Carvana was referenced in two of Blueshift's recent CarMax reports. In our [August 21 report](#), Carvana was CarMax's most frequently discussed competitor. Comments included that Carvana provides strong competition, there is room for both Carvana and CarMax, CarMax can do it cheaper-better-faster than anyone, and Carvana's business model is not sustainable. In our [May 1 report](#), Carvana was the most frequently discussed competitor disrupting used car sales, with its online selling model, its car vending machines, and delivery service. Sources were impressed with Carvana but raised concerns that it is not making any money.

Current Research

Blueshift Research assessed whether Carvana's business model is truly unique and capable of producing profit. We employed our pattern mining approach to establish four independent silos, comprising 14 primary sources and three secondary sources focused on the used car industry. Interviews were conducted November 10–29.

- 1) New and used car dealers (5)
- 2) Banks and auto finance companies (3)
- 3) Carvana's online competitor (1)
- 4) Industry specialists (5)
- 5) Secondary sources (3)

Next Steps

Blueshift Research will continue to research Carvana's expansion and pursuit of profits. We will review the progress CarMax is making with its online offering to determine how it may impact Carvana's future success. Finally, we will review online sales efforts from the major dealers to determine if they are having any impact in the online sales space.

Silos

1) New and Used Car Dealers

Four of five traditional new and used car dealers see profitability as possible for Carvana with some alterations to its business model. Sources said to achieve profitability Carvana will have to slow its growth and add service and parts, in-house financing, and insurance. Two sources said the Carvana business model is unique, another said it is consumer friendly and copied from CarMax, and two said it is not unique; however, one added that the Carvana vending machine is unique. Four sources said the used car market is strong, due in part to the unaffordability of new cars. One source said the market is flooded with lease returns and dealers have lots of inventory on hand. CarMax is Carvana's main competition, which one source noted has been selling online for 10 years and benefits from a strong finance division. Traditional dealers are also selling online directly and through third-party platforms including [Costco Wholesale Corp.](#) (COST), [TrueCar Inc.](#) (TRUE), [Autotrader](#), Cars.com, and CarGurus. Vroom and [Edmunds](#) were also discussed as Carvana competition.

Key Silo Findings

Carvana Business Model

- 2 said the Carvana business model is unique
 - o 1 said car dealers are copying Carvana and added that Carvana's national presence is a strength.
- 1 said the business model is consumer-friendly and copied from CarMax.
- 2 said the business model is not unique.
 - o 1 added that the Carvana website is easy to navigate and the vending machine *is* unique.

Carvana Profitability

- 3 said Carvana can achieve profitability with business model changes.
 - o 1 said Carvana will have to slow its growth.
 - o 1 said Carvana will post a profit when volume catches up with fixed costs.
 - o 1 said Carvana can achieve profitability if it adds service centers.
- 1 said it will be hard for Carvana to profit because they lack revenue from parts and service, financing, and insurance.
- 1 said the current Carvana business model is not sustainable.

Used Car Market Conditions

- 4 said the used car market is strong. The unaffordability of new cars is driving consumers to used cars.
- 1 said the used car market is flooded with lease returns and dealers have lots of inventory.

Competition

- CarMax is the primary Carvana competitor.

- Traditional dealers selling online and through third parties including Costco, TrueCar, Autotrader, Cars.com, and CarGurus. Are also competitors.
- Vroom and Edmunds were also discussed as competition for Carvana.

1) Michael Bor, CEO of CarLotz, a consignment store for used cars

Carvana's business model is unique. That is because it allows online buyers to either pick up their cars in person or receive them in a delivery. But the lack of profitability is its biggest weakness. It can become profitable, but will have to change some of its practices and figure out a way to cut costs. He thinks the vending machines will ultimately go away. The company's biggest asset is being able to raise hordes of cash. That allows it to put droves of money into marketing and sell cars unprofitably.

Carvana Business Model

- "Yes, it's definitely a unique business model. It's not the vending machines, those are more for marketing. What's genius is that it bridges the gap between someone totally comfortable buying online and someone who still wants to see the car."
- "My guess is that Carvana 2.0 or 3.0 won't have vending machines, on the assumption that people will be comfortable with the full concept online."
- "Its biggest strength is the ability to seemingly raise unlimited amounts of money. That enables them to make a lot of mistakes, to learn, and to not be bound by the traditional requirement of businesses to make money."
- "They're tremendous at marketing and selling vision, and this helps them pour in a lot of money and fix mistakes. They can overpay for cars and sell them for less than others. They can buy a lot of customers. It's very helpful when you're starting a business with a new way of doing something."
- "Their biggest weakness is the struggle to get to profitability. While their gross profit seems to be improving, the cost of running a nationwide business like theirs is high."
- "In addition, I don't know if the online model works for the bulk of used vehicles that need to be sat in and driven before they are bought. It's more difficult to stand behind an 80,000-90,000-mile vehicle than 20,000[-mile one]. But most used car transactions are in the 80,000-90,000 range."
- "Still, even if they focus on 50,000 miles and below, there is enough volume that, if they take a bigger share, they will be successful."

Carvana Profitability

- "They have the ability to be profitable, but they will have to dramatically change the way they run the business. They can be profitable more quickly if they slow down the growth plan and focus more on buying low and selling high. Their quest to be huge and everywhere puts longer-term profitability at risk."
- "They can't get to profitability without additional capital. They're spending a lot of money on marketing and on the last mile of delivery. The logistical expense of getting the car to the person is important. It will take at least a couple years before they can get profitable. If there's a recession, they'd have a major problem getting capital."

Used Car Market Conditions

- "The market is strong. New car prices are high, sending buyers to used cars. And the financing market is strong: people are getting good rates on loans. People need cars."
- "Negative equity is a problem for consumers, but people need a car. And they will find a car that works for them—maybe a 20,000-mile car instead of a 10,000-mile car. The market can sense trends. Dealers will shift prices to meet demand."
- "Ridesharing is good for the market. Drivers put a ton of miles on their cars and swap cars more frequently."

Competition

- "CarMax is quickly becoming their biggest competitor. It's making a strong push to mute Carvana's impact. There's Vroom, too, but I don't see a lot of marketing or plate frames with their name on the road."

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Michael Bor, CEO of CarLotz, a consignment store for used cars

2) Earl Stewart, president and owner of Earl Stewart Toyota in Florida

Carvana has a consumer-friendly business model and could turn profitable once its volumes catch up with its fixed expenses. He sees Carvana's transparent pricing structure as its main selling point. The vending machines are little more than expensive marketing gimmicks.

Carvana Business Model

- "CarMax wrote the book, and Carvana copied a lot of what CarMax does. Carvana has one price. They put their lowest price on every car. They don't have hidden fees. They do what I do, except they have \$100 million a year to spend on advertising. With the money they have to spend, I think they have a fair chance to stabilize and become profitable. We need more places where people can safely buy used cars."
- "It's a good model. They really understand the used car business. They get it. This idea of buying a lot of cars directly is interesting, too. Of course, they're losing money hand over fist. They say that has to do with their overhead as they grow. They're spending a lot of money on advertising. Their profit spread when they sell their cars is very good."
- "What Carvana gets is they understand that automobile dealers, and especially used car dealers, have a really bad reputation with consumers."
- "[The vending machines are] an ingenious idea, although it's not new. Mercedes does it in Germany. I hate to think how much they spend, but everybody talks about it. It's completely impractical."

Carvana Profitability

- "If they can stabilize and don't have to spend as much as they are now, and let the volume grow into their fixed expenses, they can be profitable."
- "When? That's anybody's guess. A lot of these IPOs have gone public while losing huge amounts of money, and Wall Street was accepting it. Now, I think Wall Street has sobered up. It really remains to be seen."

Used Car Market Conditions

- "As dealers, we're realizing more of the importance of used cars. Off-lease cars are a source of a lot of our cars. [The] used car [market] cumulatively is gaining share."
- "There's always that threat [of default risk]. But with the subprime loans during the Great Recession, we learned people are more likely to make a car payment than a home payment. Without a car, they can't get to work, they can't get their kids to the doctor. You can sleep in your car, but you can't drive your home. It's not as big a threat as we once thought it was."
- "As a dealer, I'm seeing lenders step up and give loans to people with lower and lower Beacon scores. We used to not even consider people in the 500s. But now we see people with a 520 Beacon financed all the time."
- "When somebody comes in with \$1,000 or \$2,000 of negative equity, the dealers are pushing and pushing. They say that they'll pay your old car off. They just roll that into the cost of the new loan. The dealer makes a lot more money financing a car with negative equity. As a dealer, the more you finance, the more you make. Today's cars are much more reliable. You can drive the car five, six, seven years, and it's still a good car. We're seeing 72- and 84-month loans. I don't like it, but it's far less dangerous than it was."

Competition

- "It's an online world. We sell a lot of cars with third parties online. We deal with Costco, TrueCar, and Autotrader. We sell cars directly online and we go through Cars.com and CarGurus. We deal with half a dozen third parties."

If they can stabilize and don't have to spend as much as they are now, and let the volume grow into their fixed expenses, they can be profitable.

Earl Stewart, president and owner of Earl Stewart Toyota in Florida

3) James Boening, General Manager of Ourisman Lexus in Rockville, MD

Carvana has a unique business model. Dealers, including his own, are trying to do the same thing, but it takes time. It is not easy to convince consumers of an online model without national marketing. The lack of service centers is a weakness for Carvana, but he does not think that is insurmountable. He believes the company can become profitable and, if they do not, then investors will abandon it. CarMax is Carvana's biggest competitor, but dealers are a threat, too. It is they who can offer certified, pre-owned vehicles.

Carvana Business Model

- “Yes, it is unique. There are dealers trying to adopt the same philosophy, but it’s rare. We’re attempting to do it, but it takes a lot of effort to get the momentum going. The biggest obstacle as a single store is convincing clients we’re willing to do the same thing. We can’t run national commercials. Awareness is the hardest part.”
- “Carvana’s biggest strengths include their national presence, the way they do their photography and display cars online, and their seven-day guarantee.”
- “Their weaknesses include their lack of service centers to help clients after the fact, like dealers do. Also, there are some people who want more human interaction and going to facilities. I think that eventually changes. I don’t think their weaknesses are insurmountable at all.”
- “I don’t view Carvana as a disruptor, but as bringing advantageous change. It’s someone looking at the hourglass a little differently, and maybe I need to also.”

Carvana Profitability

- “They will have to be profitable eventually, or their investors will back out. If they’re willing to make adjustments, I think they can turn profits. A big piece of that would be adding service centers. That’s a big part of the industry. It gives franchise dealers revenue to offset market swings and is important for customer retention.”

Used Car Market Conditions

- “The used car market is really strong, and I think we stay on this trend for years to come. People can’t afford new cars, but they can afford two-year-old cars, which are built well across most brands and last longer.”
- “The fact that cars last longer won’t reduce buying, because people have been conditioned to trade in every two to three years, whether they need to or not. The used car market won’t decline until new car production declines, and I’m not looking for that soon.”
- “Ridesharing and subscriptions create opportunities. We’re looking into a lot of it. For dealers who embrace it, you pick up business from those who don’t.”
- “Some of the people with negative equity will turn to leasing a new car to walk away from the negative equity.”

Competition

- “CarMax is probably the biggest competitor for Carvana. But I believe franchise dealers are second, though it’s not the same business model. The dealer body sells so many cars across the country, that Carvana has to compete with us whether they think so or not. Dealers are the ones who can sell certified, pre-owned cars.”

If they’re willing to make adjustments, I think they can turn profits. A big piece of that would be adding service centers. That’s a big part of the industry. It gives franchise dealers revenue to offset market swings and is important for customer retention.

James Boening, General Manager of Ourisman Lexus in Rockville, MD

4) Owner of a chain of dealerships in the Southeast

Carvana’s business model is not unique. CarMax has been showing its inventory on a mobile phone app for 10 years. The vending machine is a unique marketing idea. That attracts attention, but it is a wealthy demographic that is interested. Normal Americans, the kind who would shop at Walmart, do not even know how it works. Profits will be difficult to come by. Carvana is trying to make a profit without the most profitable parts of the business—service, parts, labor, finance, and insurance—and that is not happening. Its inventory acquisition model is a problem, too.

Carvana Business Model

- “The business model isn’t unique. Dealers were selling online long before Carvana. CarMax has been showing national inventory on a mobile app for a decade. Offering free transportation to pick up cars isn’t unique either.”
- “Building a tower as a vending machine and using it as a merchandising platform: that is unique. It gets people talking. But the real appeal is to an affluent demographic that doesn’t represent the country as a whole.”
- “As for Carvana’s strengths, it’s easy to navigate the website. The tower is a market differentiator that captures people’s imagination.”
- “As for weaknesses, if you go to a Walmart in any small town in the South or Midwest and ask them to use Carvana, they wouldn’t know how to do it. Carvana is limited in its reach until it can offer mainstream financing and real options.”

Carvana Profitability

- “It won’t reach profitability going this way. I know how we make money, and it’s not like this. This is optics, this is what people talk about at barbecues. Car dealers don’t make money on auto transactions. They make money on service, parts, labor, finance, and insurance.”
- “It’s hard for me to believe they’ll be profitable by excluding the most profitable parts of the business. I don’t think they will be profitable without massive shifts. They will need to have big retail locations for people to get serviced.”
- “Acquiring inventory is a problem, too. It’s hard to be competitive in an environment like this when you have to source 90% of your inventory. It’s much easier if consumers are there with cars.”
- “They talk about the efficiency in their selling process. But it’s very difficult to be a disruptor, because the disposal of cars isn’t an easy issue. That’s why the franchise dealer model is hard to disrupt.”

Used Car Market Conditions

- “The used market is strong. Anytime there are economic headwinds, they drive business to value, which creates demand for used cars. Demand is strong throughout the Southeast, and I expect that to continue.”
- “The increase in negative equity makes it more difficult to buy a used car. But, in the end, dealers cut the price of cars all the time to keep sales going.”

Competition

- “Who has a national platform and no franchise? I would say CarMax is ahead. They have service locations, and their financial arm is incredibly strong. They understand the need to be hyperlocal for consumers’ taste. Vroom also is a strong competitor.”

It’s hard for me to believe they’ll be profitable by excluding the most profitable parts of the business. I don’t think they will be profitable without massive shifts. They will need to have big retail locations for people to get serviced.

Owner of a chain of dealerships in the Southeast

5) Owner of six new and used car dealerships in the Mid-Atlantic who sells used cars online

He is skeptical about Carvana’s ability to compete against traditional dealers. Carvana is disruptive, but its business model is unsustainable. The quality of its cars could turn off repeat buyers.

Carvana Business Model

- “I don’t think it’s a unique business model. They’re doing the same thing everybody else is doing. What are they doing that’s different?”
- “They’re being transparent in regards to pricing. But when you’re talking about used cars, I think the dealer wins. Where are they coming up with certified used cars?”

Carvana Profitability

- “No. I think they’re going to go bankrupt. I don’t think it’s a sustainable business model. Listen, you can go online and you can find something for cheaper. But the question is, is it good?”
- “When people start getting into cars that aren’t certified and they have a problem and bring them back to the lot and they hear, ‘You bought as-is’—they’re not coming back.”

Used Car Market Conditions

- “The market is flooded with a lot of lease returns. Manufacturers are sucking wind because they have a lot of inventory. The key is to keep your inventory low and turn it quickly.”
- “I don’t think there’s going to be a lending crisis. The reality of it is, if you got up in a helicopter and looked down on cars on the highway or a lot, 90% of the people who own cars or lease cars are underwater. It’s been that way ever since leasing started back in the 1990s. That’s just the way the car market is. At the end of the day, you could pull over anybody on the side of the road and I bet 90% of those people are upside down on their cars. Every once in a while, somebody will pay cash or put 50% down, but that’s rare.”
- “I think it’s a disruptor. It sends people to them; it gives them another place to shop.”

Competition

- “[Carfax](#) [owned by HIS Market Ltd./INFO] and Edmunds are selling cars. You’ve got Truecar. Carvana is in an interesting niche, but, at the end of the day, I just don’t think it’s sustainable.”

2) Banks and Auto Finance Companies

Three auto lending executives acknowledge that Carvana's business model has some unique attributes that are resonating with millennials and consumers that do not want to get involved with dealerships. Consumer friendliness, pricing transparency, and strong marketing that includes the Carvana vending machine are considered unique. Online sales of used cars is not especially unique. Two sources think Carvana has a shot at profitability, but there is risk. One did not comment. Getting to scale and profitability will be a challenge without additional reconditioning and distribution centers and service centers for Carvana car buyers. One source said Carvana is paying too much for their inventory. Another source suggested Carvana could benefit from a partnership with a national service chain. The used car market is growing at 5% to 6% a year, according to one source, and was described as large, robust, and strong. High new car prices are forcing consumers to the used car market. CarMax and AutoNation were discussed as key Carvana competitors.

Key Silo Findings

Carvana Business Model

- 3 said the Carvana business has some unique elements, including consumer friendliness, pricing transparency, and strong marketing, which includes its vending machine.

Carvana Profitability

- 2 said profitability is possible with additional reconditioning and distribution centers and a service option for its buyers.
- 1 did not comment.

Used Car Market Conditions

- 3 said the used car market is strong, driven by the high prices of new cars.
 - o 1 said the used car market is growing 5% to 6% a year.

Competition

- CarMax and AutoNation were discussed as Carvana competitors.

1) Top executive at a regional auto lender

Carvana does have a unique business model, but the question is whether it is a sustainable model. It has a strong marketing campaign and has attracted millennials and buyers who do not want to deal with going to a dealership. The company has a chance to become profitable, but it is not a slam dunk. If Carvana does not reach profitability within two to three years, the stock market will turn on it. Already, the stock is highly overvalued. It is valued like a tech company, but it is really just a used car dealer with a twist. It does not have enough distribution and reconditioning centers. It is paying a lot for cars, which means it has to charge a higher price than others to become profitable. And its prices aren't appealing.

Carvana Business Model

- "Carvana is unique in its marketing and in offering a customer experience where they don't have to deal with sales guys and don't have to return their cars to dealerships. So far, customers are willing to pay for that."
- "But many people are looking for the best deal. They won't pay \$2,000 to \$3,000 more for a car just so they don't have to spend two to three hours in a dealership."
- "Carvana's strengths include a very innovative brand, the ability to tap into millennials and the mobile generation, while traditional retailers like CarMax initially missed out. The vending machines are a cute gimmick that attract attention, and they have a good brand behind them."
- "The negative is that Carvana is hemorrhaging cash. It will need to achieve scale in the next two to three years and turn some profits. I don't think the market will wait like it did with CarMax—15 years until profitability."
- "It's getting securitizations done and its per-vehicle loss is coming down. I just don't know if it has enough stores in place—enough distribution and

Will they ever reach profitability? I don't know. We're past peak auto sales now by a couple million units a year. Leases are becoming less of a selling tool for franchise dealers. I think Carvana will have a hard time finding the sweet spot: two- to four-year-old inventory at auction. Dealers are keeping more of that for themselves.

Top executive at a regional auto lender

reconditioning centers—to get there in time. Stock investors expect returns.”

- “Carvana has huge growth in sales, but is still losing money. They have to achieve 200% to 300% growth for years just to break even. At a certain point, they’re past the point of no return.”

Carvana Profitability

- “Will they ever reach profitability? I don’t know. We’re past peak auto sales now by a couple million units a year. Leases are becoming less of a selling tool for franchise dealers. I think Carvana will have a hard time finding the sweet spot: two- to four-year-old inventory at auction. Dealers are keeping more of that for themselves.”
- “I saw a report saying that the average franchise dealer is receiving 35% to 40% of profits from used cars, and that profit is up 30% to 35% a year. Demand is strong for used cars. Carvana and CarMax are paying high prices to keep inventory.”
- “They are paying the most and, thus have to sell at the highest price. I don’t know if that’s a sustainable business model.”
- “At some point Carvana can reach profitability, but their stock is massively overvalued now. They are getting a tech company’s valuation when they are just a car dealer with a slightly different delivery mechanism.”
- “Carvana has pissed off independent dealers because it’s paying so much for cars. But it’s not the disruption of business that they’re touting. Their 400% sales growth still makes them just a blip in the overall used car industry.”
- “CarMax reacted quickly. They lagged in online, but then caught up. They have brick and mortar and reconditioning capabilities. Carvana has 10% of the back-end facilities that are necessary to run a profitable used car business.”
- “Carvana is trying partnerships with other franchise dealers to get suitable reconditioning facilities. But it’s not working too well. The car business is changing. While Carvana is fairly innovative in delivery and marketing, I don’t know if they’re at the right place at the right time.”

Used Car Market Conditions

- “The used car market is growing 5% to 6% a year [in sales]. Small, independent dealers continue to get squeezed, as the big guys can pay more for cars and sell to subprime borrowers. There is a slowdown in subprime, as there’s not that much left. What is left is bad credit or first timers. First timers are having trouble getting financed.”
- “The increase in negative equity will affect the market only if there’s a recession and people turn in their cars in droves. But I don’t think that will happen. People with seven- and eight-year loans will have negative equity for a long time, but people are keeping their cars for a long time.”
- “Rideshare’s impact is limited, because there is no successful model to finance the cars. I’m skeptical of the entire space. I don’t see a pathway for [Lyft \[Inc.\] \(LYFT\)](#) and [Uber \[Technologies Inc./UBER\]](#) without autonomous vehicles that are accepted by riders. Drivers are destroying their rideshare cars, and [lenders] take hits, so there is not a lot of financing available.”

Competition

- “CarMax is their main competitor, as I mentioned.”

2) Executive for a major subprime auto lender

Parts of Carvana’s business model are unique: the delivery mechanism, the vending machine gimmick, and the fact that they buy so many cars from private parties. But selling online is not unique, and there is still a question of whether they can scale. Providing service to Carvana car owners is also an issue. That is what determines whether they get repeat buyers. At some point, Carvana is likely to be profitable. If that does not happen within five years, the company has a major problem.

Carvana Business Model

- “Merely being online doesn’t make them unique. Virtually everyone has an online platform allowing you to search inventory and get information about vehicles. One thing that makes them unique is their heritage. The ownership, coming from DriveTime, really understands the used car market.”
- “The delivery mechanism is particularly unique. The gimmick of the vending machine is unique. It allows for a lot of visibility, and they don’t need a lot of ground for their locations.”

At some point they’re likely to be profitable... I don’t know how long it will take, but if they can’t get there within five years, I would be pretty worried.

Executive for a major subprime auto lender

- “A lot of sellers deliver cars, but the percentage of Carvana cars that they bought from private parties is high. When you can buy that many cars from private parties, there’s a good chance you’re getting better cars than you would at auction.”
- “Buying from private parties replicates the benefit of new car dealers that most used car dealers don’t get. That focus on private parties is unique.”
- “As for weaknesses, there’s still a question about how scalable it is to deliver cars around the country efficiently. If a customer in Florida sees a car that’s in Ohio, can you get the car there cost effectively?”
- “There’s also a question about how well they can provide service after the cars are bought. If you’re not near a Carvana location, how do they deliver service?”
- “It’s the service that determines whether someone buys a second car. They have to fill in that weakness to prevent customers from being dissatisfied. Perhaps they can partner with a national service company.”
- “Also, it’s more difficult to appraise a trade-in with the online business model. They don’t negotiate on price, so in a negative equity situation, it might be difficult to make that deal.”

Carvana Profitability

- “At some point they’re likely to be profitable, depending how they work through these negatives. When they get to scale, it will probably happen. I don’t know how long it will take, but if they can’t get there within five years, I would be pretty worried.”

Used Car Market

- “The used car market is where the activity will likely be for the next few years. All the new vehicles sold through leasing assures significant volume of two- to four-year-old cars. Combine that with the high cost of new cars, and new car buyers will become used car buyers. That’s great for Carvana.”
- “Negative equity is always a problem. It’s a byproduct of longer terms and people driving longer distances to work so they can live in affordable housing. There also are a lot of [drivers] doing part-time ridesharing. That’s driving up mileage, and cars are depreciating faster.”
- “The increase in ridesharing has created a higher number of used car buyers. [Fair](#), [Hertz \[Corp.\]](#), subsidiary of Hertz Global Holdings Inc./[HTZ] and [Enterprise](#) are among those who have entered that space as providers.”
- “Carvana is a disruptor, because they have a gimmick that attracts people to their model. They can create a supply problem for independent dealers, because when Carvana is acquiring so many vehicles, that makes it more difficult for independent dealers to buy. The price gets driven up and eventually puts the dealers’ business at risk.”

Competition

- “In a sense, everyone is a competitor, because everyone is online. But CarMax is the strongest of them. Because of its size, it can get cars to customers cost efficiently. Other companies aren’t as efficient as CarMax or Carvana. Maybe AutoNation can compete.”

3) Auto lender from one of the Top 20 U.S. banks

Carvana has a consumer-friendly business model and has honed in on a desire for transparency in pricing. The vending machines are attention-grabbing but expensive.

Carvana Business Model

- “Unique? Yes. They are both seller of vehicles and finance company rolled into one.”
- “Carvana is at the leading edge when it comes to offering consumers a different way to purchase a car. Their online shopping experience allows a consumer virtual showroom visits on thousands of used cars from wherever they are. Carvana describes in detail each car’s features and they provide a great photo gallery detailing every vehicle. Their pricing and fees are transparent, so a consumer knows exactly what to expect.”
- “They have scale in inventory, as they can acquire, fully recondition, and sell late model used cars with a transparent price to consumers. They also provide financing and offer their customers multiple ways to shop and have their vehicle delivered, including their very cool—and very expensive—vending machines.”

Carvana is at the leading edge when it comes to offering consumers a different way to purchase a car. Their online shopping experience allows a consumer virtual showroom visits on thousands of used cars from wherever they are.

Auto lender from one of the Top 20 U.S. banks

- “Auto sales are very competitive and, while Carvana can sell a wide variety of used cars, they do not sell new cars, as they have no connection to the OEMs.”

Carvana Profitability

- Declined to comment.

Used Car Market Conditions

- “Nearly 40 million used cars will be sold this year in the U.S., so the market is still large and robust. New cars sales are impacted by higher prices and increased depreciation, which help support demand in used cars.”
- “All of these trends slow the demand for cars, both new and used. Younger buyers in urban areas may have less of a need or desire to own a car, if their transportation needs can be met by ridesharing and/or public transportation.”

Competition

- Did not discuss

3) Carvana's Online Competitor

Carvana is unique only in its marketing and sales strategy. Plenty of others sell used cars and sell them online. Marketing is the company's strength. It is kind of the “Kleenex” of Internet auto sales. Logistics and auto acquisition costs are a problem for Carvana. But he thinks the company will ultimately turn a profit, as it figures out how to scale up its business model. Carvana can engage partners to help minimize the cost of auto acquisition and to provide post-sales services.

Key Silo Findings

Carvana Business Model

- 1 said Carvana is unique in its marketing and sales strategy.

Carvana Profitability

- 1 said Carvana will eventually become profitable.

Used Car Market Conditions

- 1 said the used car market remains strong.

Competition

- CarMax is a strong competitor with physical locations, a large inventory, and, now, online sales.
- Vroom has limited market share.
- Fair offers leasing.

1) Executive at an online auto sales platform

Carvana Business Model

- “Their marketing and sales strategy is unique. Selling used cars to consumers isn't unique, and there are other sellers online: Vroom, Beepi. And CarMax is changing its narrative from being just brick-and-mortar.”
- “Carvana's strength is its marketing muscle. It's a little bit like the Kleenex of online car sales. They have brand exposure. The fact that people are talking about them and that people are mindful of the stock has elevated them.”
- “In terms of weaknesses, they still have logistical challenges, acquisition challenges, and challenges with the vending machines. It's a lot of infrastructure and quite expensive.”
- “They have limited sales locations and limited warehouses where their cars are located. There's not the ability to have a car dropped off for a test drive. They don't get enough trade-ins to fulfill their supply needs. So they have to go to auctions or work with local dealers to get cars. That means they pay a premium.”

I think they ultimately will be profitable. I think they will continue to find economies of scale and efficiency in their model. And I think they will find partnerships to mitigate some of the risk. They have to sell after-market products [like service], but they don't necessarily need to be servicers themselves.

Executive at an online auto sales platform

Carvana Profitability

- “I think they ultimately will be profitable. I think they will continue to find economies of scale and efficiency in their model. And I think they will find partnerships to mitigate some of the risk. They have to sell after-market products [like service], but they don’t necessarily need to be servicers themselves.”

Used Car Market Conditions

- “It’s still a pretty strong market. New vehicle prices are up and loan rates are still steady on used cars. Negative equity is a problem. It affects residual values and results from higher loan amounts and longer-term maturities. To be sure, you can argue that if people get out of their new car, they will go to used cars.”
- “Rideshare drivers need to purchase cars, and companies like Carvana and Fair, which leases used cars, can help.”

Competition

- “Vroom doesn’t have as much market share. Fair has the advantage of leasing. CarMax has the locations and the inventory, and now they’re adding the digital experience.”
- “Every other dealer is becoming competition. We’re offering the platform to enable them to do so.”

4) Industry Specialists

Four of the five industry specialists do not think Carvana is unique, while one says completion of the auto sales transaction paperwork online is. Three sources said Carvana can become profitable, but it will have to improve its car buying at a lower cost, keep real estate costs low, and find a way to stay in touch with its customers. Not offering service after the sale is considered a weakness. Sources praised Carvana for aggressive marketing, an excellent online platform, and capturing the interest of millennials that are looking for non-dealer car buying experiences. One source said Carvana is evolving the car buying experience—not disrupting it. Another said they are semi-disrupting the industry, but that they are not providing anything new. The used car market is seen as strong by four sources, with one saying it is growing at 1% to 2% per year. The high cost of new cars and the strong economy are the drivers of the market. One source said the used car market is falling, due to too much inventory. CarMax is viewed as Carvana’s primary competition. One source said Carvana is trying to become the new CarMax and another said CarMax will catch up with Carvana’s online offering. Vroom, AutoNation, and Lithia Motors were also discussed as competitors with online offerings.

Key Silo Findings

Carvana Business Model

- 4 said the Carvana business is not unique.
- 1 said the online completion of transaction paperwork is unique.
- Sources praised Carvana for its excellent online platform, aggressive marketing, and tapping into millennials’ desire to avoid dealerships.

Carvana Profitability

- 3 said profitability is possible with improved car buying practices, low real estate costs, and finding a way to stay in touch with its buyers after the sale. Providing a service option was discussed.
- 1 is not sure about Carvana achieving profitability and referenced how long it took CarMax.
- 1 did not comment.

Used Car Market Conditions

- 4 said the used car market is strong, driven by the high prices of new cars and the strong economy.
 - o 1 said the used car market is growing 1% to 2% a year.
- 1 said the used car market is falling, due to a large inventory of cars driving down the prices.

Competition

- CarMax is Carvana’s key competitor.
 - o 1 said Carvana is trying to become the new CarMax.
 - o 1 said CarMax will catch up to Carvana in online sales.
- Vroom and traditional dealers selling online, including AutoNation and Lithia Motors, were also discussed as competition.

1) Brian Allan, CEO of [respective.io](https://www.respective.io), an auto dealership advisory and investment firm, and a former dealership executive

Carvana's business model is not unique. It is still selling and delivering cars. But its marketing is unique, especially the vending machine. And it has broken the negative legacy of going into dealerships and negotiating. CarMax and individual dealers will catch up, but Carvana still has a lot of room for growth. Its biggest shortcoming is the lack of service centers, but if it can overcome that and attract subprime buyers, it could be profitable in two years.

Carvana Business Model

- "The business model isn't unique, but the marketing is. It's simply selling cars and delivering them, which any dealer can do. People are still signing contracts. They are just using the Internet instead of the phone. And they aren't going to dealers, which has been happening for a long time, though not in large numbers."
- "But I applaud them for the marketing package, including the vending machine. It's like a new flavor of pizza—putting salmon or caviar on top."
- "They have broken through the negative legacy of going in and negotiating with three people. For people who don't want to go to the dealership, they have made it easy and fun. They have removed anxiety with the seven-day return policy. And the vending machine creates a visual to reinforce that it's easy to buy."
- "But as more dealers adopt the online model, that lessens Carvana's uniqueness. Dealers don't communicate that very well now. But more dealers are doing it. CarMax is quickly adopting a fast delivery, with much of the paperwork online."
- "Still, Carvana has a lot of growth potential."
- "The No. 1 weakness for Carvana is having no parts and service department. They are missing a huge opportunity. They have the option to partner with service centers and get some revenue."
- "The vast majority of dealerships earn significant income from parts and service. That's recurring revenue that Carvana doesn't enjoy. They're also removing the stickiness of client to dealer. Most customers want to buy a car where they can service it."
- "Carvana has third-party warranties, but the car goes to a different place for service, creating anxiety for the consumer. Perhaps Carvana could lease space from auction houses, which are now selling more of their cars online, to place service centers."

Carvana Profitability

- "They could become profitable in two years with a couple shifts. First is providing service locations and second is catering to subprime buyers that want to eliminate the embarrassment of being declined or taken advantage of in a dealership."
- "Carvana isn't disrupting the used car market, but rather evolving it. It's not doing anything another dealer can't. But there is a segment of the market for it—subprime and people who will pay a premium for not going to a dealership."
- "Still, Carvana's share of the overall market is very small. And there's concern about how fast CarMax can shift to an image of being as online-friendly as Carvana is. CarMax is the one who can compete, and they are positioning themselves to do that."

They could become profitable in two years with a couple shifts. First is providing service locations and second is catering to subprime buyers that want to eliminate the embarrassment of being declined or taken advantage of in a dealership.

Brian Allan, CEO of [respective.io](https://www.respective.io), an auto dealership advisory and investment firm, and a former dealership executive

Used Car Market Conditions

- "The market is still strong. There are forces people didn't foresee. One is new car prices rising sharply. The other is the growth of ride-hailing, which has increased demand for cars, especially ones two to six years old."
- "Negative equity is having more of an impact on the new car market. People are having a tough time getting out of their used cars."

Competition

- "As a single entity, CarMax is the main competitor. But the dealer body as a whole represents competition, too."

2) Auto industry consultant and former manager for several large dealers

Carvana is unique in terms of automating paperwork and letting consumers complete forms in the privacy of their homes. Instead of sitting in dealerships for hours, car buyers can fill out Carvana's paperwork at their leisure. Carvana's weakness is that it does not have a way to stay in touch after the sale. Dealers maintain contact via their service departments.

Carvana Business Model

- "There are several unique things. They do some things really well, and there are some things they don't do well. There are some gaps in the model. They're definitely changing the way customers buy cars. We're launching products to supply traditional dealers with products to compete against Carvana."
- "Their online shopping journey, and the way they take customers through that path to buy cars online, is the best in the industry. They do the best job marketing. Only about 5% of their customers buy the car 100% online. The majority are still showing up to see the cars. They're having the customers do a lot of the work online."
- "They buy a lot of cars without seeing the cars. CarMax always saw the car before buying it. Carvana is buying cars sight-unseen."
- "Long term, they're going to struggle because they don't have a way to stay in contact with the customer after the sale. They don't do warranties or service, so after Carvana's customer buys, they're going to dealers or [Pep Boys](#) [a subsidiary of Icahn Enterprises L.P./IEP] for service."
- "If the dealers can figure out the Internet marketing piece, they can win over the Carvana customer long term. They're getting the customer on the backside, through their service departments."
- "The transparency in the process [is unique]. They'll tell you, you can buy the car online. You're doing the work you're doing at the dealership online. You might be doing it over a couple days. Instead of sitting there at the dealer for two or three hours, you can fill out the paperwork at home."

Carvana Profitability

- "I don't know. As an investor, I might look at CarMax and think about where CarMax was in achieving profitability at this point in its evolution."

Used Car Market Conditions

- "Next year is going to be a tremendous year for used cars. There's been so many new cars produced over the last three to five years. I think the manufacturers are going to pull back, so there'll be fewer new cars and more demand for used cars."
- "We saw this in 2007 [with underwater loans]. The good thing is, cars are lasting longer. But there's pressure to sell new cars, so dealers are mining their own databases. They'll contact somebody they just put in a 72-month loan about buying another car."
- "It's a lot cheaper to just go buy a used car [to use for ridesharing]."

Carvana Competition

- "Carvana is gaining, but it's still less than 5% of the overall used car market. What people are noticing is their growth and their grosses."
- "The dealers are about to have a record year, so it's hard to convince them they have a problem. But they have to adapt."
- "Is Carvana a disruptor? Absolutely. It's cool on the side of the highway. Customers are digging the online experience. They're very transparent. A lot of dealers will tell you, 'I hate the web. If I could turn it off, I would.'"
- "Wouldn't it be cool if you could just say, 'I want the car, let me fill out the paperwork at home?'"

Is Carvana a disruptor? Absolutely. It's cool on the side of the highway. Customers are digging the online experience. They're very transparent. A lot of dealers will tell you, 'I hate the web. If I could turn it off, I would.'

Auto industry consultant and former manager for several large dealers

3) Economics professor and industry consultant

Carvana's business model is not unique; a compelling marketing pitch is its main point of differentiation. Zoning restrictions on its towers mean Carvana's lots are relegated to secondary locations, which is a cost saver.

Carvana business model

- “There’s really nothing there that’s unique. Not even the tower is different. The reason I say it’s not novel is that it was novel in 1990, when Mercedes set up the [towers](#) with all the different Smart Cars. The towers were throughout Europe.”
- “It appears to me that Carvana is trying to become a CarMax, but 20 years later. CarMax went in through the front door with big car lots, and then they went in through the back door of financing and insurance and buying from the public. Carvana is entering through the backdoor, using the technology first to attract the customer. Now they’re trying to fill out by getting sites. They’ve admitted that the profit margin on cars they buy themselves is much better than on cars they buy at auction.”
- “They’re having problems finding sites, because the towers violate zoning restrictions. In Richmond, Carvana wanted to be next door to CarMax’s headquarters, which is a high-end area. Instead, they were forced to go to an area overlooking the railroad tracks. But Carvana does have the buzz.”
- “One thing they’re trying to differentiate themselves on, which is true, is the certified cars which are one, two, or three years old. CarMax tried to do the certification, and it didn’t do very well. CarMax already had good brand recognition, so the certification added very little.”
- “[Its growth driver will be] pretty good marketing, and heavy marketing relative to the size of the firm. And the uniqueness of the trademark—the trademark being the tower.”
- “Unlike 20 to 25 years ago, because online is so big now, you don’t really need the top-dollar physical location. They’re setting up these massive marshalling yards, but they’re having trouble getting zoning with that, too. Even in these rural areas, nobody wants all the traffic.”
- “They’ve got this smaller footprint, like a smaller CarMax. But they’ve got these towers, so they have to go into secondary location.”

Carvana Profitability

- Declined to predict.
- “Carvana hasn’t made any money yet. Other people with brand-name capital in a given area will come in. There’s nothing here that’s not reproducible. The field will become more crowded.”

Used Car Market Conditions

- “Cars are becoming more homogeneous. That’s why rental car companies have tremendous penalties for smoking in a rental car—it’s like \$500. One of the reasons used cars aren’t homogeneous is they smell different.”
- “We went from three years to four years [for loans]. Then we went from four years to five years. In a rising used car market, that will hide some problems. But now that we’re getting into a falling used car market, that will exacerbate the problems. We’ve got plenty of used cars, so the price is going down. I have no doubt the lenders will be left holding the bag.”
- “It is an industry that is going to be with us. The used car business will last.”
- “They’re a disruptor, just like CarMax was and is. But CarMax was doing something new. I would call Carvana a semi-disruptor, in the sense that there’s nothing—nothing—new there.”

4) Top executive at an automotive research firm

Carvana is not unique: other players are selling cars online, too. The company’s strength is how easy it makes finding a car for consumers. Most car buyers search online first. Carvana has good presentations of its vehicles. Having their own finance operation is a double-edged sword—it gives them a greater opportunity for sales, but also an opportunity to make risky loans. Sourcing vehicles at a reasonable prices is an issue for Carvana. Still, it is disruptive, and it does have a good chance to become profitable.

Carvana Business Model

- “I don’t think they will be unique for a long time. Other companies are getting into direct sales: CarMax, other dealerships, and lenders.”
- “Their strength is the ease of looking through vehicles. They have a good way of presenting cars with photos and details. Most customers look online first when they’re buying vehicles. If their standard of presentation is above showing stock photos, like some dealers, they have a good way to get customers interested in vehicles.”
- “They have their own financing now. That’s a huge strength. It gives them more flexibility and opportunity to grow their portfolio. They aren’t dependent on lenders.”

- “But that comes with risks. Auto lenders have huge experience managing that risk. Carvana is just starting. They’ll have to manage risk in a time when customers want longer-term loans because they can’t pay otherwise.”
- “Seven-, eight-year loans are risky—unless you’re doing it well. If you have to take the car back, it can go below wholesale value. We have seen lenders without good controls for rideshare cars. Those vehicles get repossessed with three to four times the mileage that is typical. The asset value depreciates quickly.”
- “Carvana’s weakness is sourcing vehicles. Most of the vehicles in demand for prime customers are off-lease, late model years. Those are being snapped up by franchise dealers. When they come to auction, CarMax bids heavily.”
- “CarMax attracts trade-ins. Carvana is lagging behind. If their sourcing doesn’t improve, they will have to pay more for vehicles and lag behind in having the right kind of vehicles.”
- “Yes, they disrupt the way auto dealers work. They are making the process more digital. Their risks are in vehicle sourcing and finance. It’s a lot to manage. Others tried and failed. With any disruptor, the issue is how fast can you scale while avoiding mistakes that scale, as well.”

Carvana Profitability

- “If they continue building out a brand that is recognized nationally, get people to trade in vehicles with them, and continue to create a better customer experience, they do have an opportunity to make profits. People don’t look forward to dealing with dealers. CarMax is a company that has been able to elevate the customer experience.”
- “Carvana has to think through how it will make money. Given what they pay for inventory, are they making money on individual sales? They may not be now. In addition to sourcing vehicles, they have to finance selling online. Someone has to deliver cars, and they may get returned.”
- “As word passes on, and they keep customer service positive, it seems like a great business model.”

“If they continue building out a brand that is recognized nationally, get people to trade in vehicles with them, and continue to create a better customer experience, they do have an opportunity to make profits. People don’t look forward to dealing with dealers.”

Top executive at an automotive research firm

Used Car Market Conditions

- “The market is relatively strong. Because the economic recovery has lasted so long, the market is overloaded with supply—used and new. If job growth and business investment slow, that’s where challenges could come in.”
- “In that case, used car values could fall faster. But we don’t see the market falling off a cliff, unless the economy really starts to slide. And we project continued growth, just at a slower pace.”
- “Negative equity is more a problem for the new car market, because you have trade-in issues. It’s also a problem for lenders. If it’s a long-term loan, losses could be higher.”
- “Cars are lasting longer, but people are still trading in for a better used car. Customers aren’t keeping their cars longer.”
- “The impact of rideshare is substantial. There are a couple million active drivers. It’s a positive for demand. It has helped vehicle ownership, but it may slow down if Uber and Lyft cut their subsidies to drivers.”

Competition

- “CarMax is the biggest competitor. Larger dealerships are trying to go online. AutoNation and Lithia could provide competition. Smaller companies like Vroom also could become a threat.”

5) Top analyst at a major automotive company

The business model is not completely unique. Some competitors, like Vroom, are doing the same thing. And larger competitors, like CarMax and AutoNation, are increasing their online focus. But Carvana has first mover advantage, giving them brand advantage, as well. It also is appealing to millennials. Carvana has a good opportunity to scale in significant markets, giving it an advantage over Vroom and others. Car buying is a problem for Carvana. It does not have access to cheap inventory. The company can become profitable if it improves in that area and limits the cost of real estate and operations.

Carvana Business Model

- “It’s not completely unique. Some competitors are trying the same approach, like Vroom. And many larger dealer groups like CarMax and AutoNation are focusing on online sales. You certainly can’t say that Carvana has a moat around its business.”
- “Still, they’re the initial company that established the space and, as a result, they have substantial brand market share.”
- “One of their strengths is demographics. They seem to have captured more of the millennial market, which is a substantial part of the used market. That’s one aspect of their business model that might be defensible.”
- “Their brand position is a strength. They have scope and scale in significant markets. Vroom and others don’t have that advantage. So Carvana can do regional and national marketing, while others are trying to catch up.”
- “Car buying is a weakness. They don’t have as much access to inventory as others. Their marketing was initially more of selling than trading in. They don’t have trades on as many sales as their competitors do. Because they aren’t connected to the new vehicle business, they don’t have access to the nearly new, used car inventory.”
- “Dealer groups benefit from the growth in cars coming off leases. Carvana’s only access to those vehicles is auctions and the wholesale market. That translates to an inventory cost disadvantage. They’re improving, but it’s still a long-term challenge.”
- “One weakness that is fading is access to more robust consumer credit options. Carvana isn’t coming from the same strength as CarMax or traditional franchise groups. But Carvana has been aggressive in raising money and working with lenders. So that business is becoming more of a level playing field.”

Carvana Profitability

- “Yes, they can become profitable. They are playing in a space that has the ability for healthy margins. Wholesale used values are no longer growing—so retail margins have stabilized or improved. As a startup, Carvana is spending a lot on growth and marketing, so they have to find a way to source vehicles that lowers the cost of inventory.”
- “If they stick to their digital format and limit the cost of real estate and operations, that will become an important differentiator over competitors. That will enable them to capture scale. They don’t need a storefront presence.”
- “The trends look favorable for reaching profitability, though I wouldn’t hazard a guess as to when.”

Used Car Market Conditions

- “The used retail market continues to grow 1% to 2% a year, and we see that as likely to extend for another three to five years. Affordability is a key driver of that, and the trend isn’t likely to shrink. Used cars match what entry-level buyers are looking for, unlike new cars, which, again, points to the strength of millennials.”
- “The growth of ridesharing is helping the market, particularly retail. That means demand for cars, which helps Carvana. There’s an increase in miles traveled, which means people have to trade frequently. That bucks the trend of people holding cars for longer.”
- “Negative equity affects the new car market more than the used, because it makes people stay in their vehicle longer.”

Competition

- “The biggest competitors are CarMax and larger dealer groups—AutoNation first and then the regionals. Carvana initially probably took share from independents, but those tend to be small. The digital aspect of Carvana can’t be met by smaller independent players. Vroom is a more direct competitor, but the threat there is more geographical.”

Yes, they can become profitable. They are playing in a space that has the ability for healthy margins. Wholesale used values are no longer growing—so retail margins have stabilized or improved. As a startup, Carvana is spending a lot on growth and marketing, so they have to find a way to source vehicles that lowers the cost of inventory.

Top analyst at a major automotive company

Secondary Sources

These three secondary sources focused on Carvana's growth, expansion, and customer reviews.

Nov. 21 Auto Remarketing [article](#)

Carvana is in pursuit of becoming the largest, most profitable used car retailer.

- "Carvana, the online used-car buying and selling platform launched in 2012 'to change the way people buy cars' is making good on that lofty promise if its third-quarter 2019 performance is an indicator.
- "In his third-quarter earnings conference call with investors, co-founder, president, and chief executive officer Ernie Garcia III reiterated that promise."
- "'Third quarter was our 23rd quarter of triple-digit revenue growth, and a 250% growth in the number of cars we bought from customers,' he said."
- "Carvana dealerships retailed 46,413 units in the quarter, an 83% increase, driving total revenue to \$1.95 billion, an increase of 105%".
- "'We've built something our customers love,' Garcia said, noting that in seven years Carvana has grown to become the third-largest retailer of used cars in the U.S."
- "'Certainly, we benefited from retail sourcing from consumers in the third quarter relative to second quarter and year over year. That said, there were a number of offsets. If we look sequentially, those offsets included high wholesale prices in second quarter and the early part of Q3, followed by relatively high depreciation rates in the latter part of Q3, which had an impact on our vehicle margin,' said Mark Jenkins, chief financial officer."
- "'Moreover, another sequential change was a reduction in delivery revenues on a per unit basis that came along with us scaling inventory on the eastern half of the U.S., with our Indianapolis, Cleveland and Nashville inspection and reconditioning centers coming online,' Jenkins added."
- "'Obviously, we are excited about our progress overall reaching gross profit per unit up \$170 year over year with buying customers definitely contributing, as we continue to source more retail cars from customers and continue to optimize our bidding and pricing algorithms,' Jenkins said."
- "Garcia noted that Carvana has bought cars from customers for only the last 12 months."
- "Garcia and Jenkins noted the Carvana platform scales quickly, with nine new markets launched in third quarter, for 146 markets. It also added four Carvana vending machine facilities in the quarter, including two in the Los Angeles area, for 22 centers."
- "It added a 23rd, in Memphis, Tenn., in mid-November."
- Market growth now gives Carvana coverage in 66% of the U.S. population, up from 58.6% at the end of fiscal year 2018. Its move into smaller markets, Carvana said, will position it to reach 90-plus percent of the U.S. population.
- "'In addition,' the shareholder letter noted, 'we believe we can efficiently serve another 5% of the U.S. population in smaller cities and towns through delivery from our nearby markets, ultimately bringing the total share of the population we serve to 95%.'"
- "For 2020, the company intends to resume 'the rapid pace of market openings,' beginning fourth quarter. Market grow decisions will be based on population coverage versus current market growth, 'as this metric will be more relevant as we move into smaller markets and fill in existing regions,' the company said."
- "Its plan to achieve these milestones depends partly on how quickly the company can build out its inspection and reconditioning centers (IRC) and, given the projected vehicle volume, maintain delivery timelines, especially the "last mile."
- "The company operates seven IRCs, with the eighth under construction in North Carolina. Its annual production capacity of 67,000 vehicles adds to Carvana's current operating IRC footprint of 350,000 annual units. The company is considering five additional IRC sites to become four-lane facilities 'over time.' Carvana sees its IRCs as a "long-term competitive advantage."
- "The company, however, is not yet profitable. Garcia said Carvana management will 'remain intently focused on this goal. But on the question of unit economics, the data is pretty clear: In the third quarter, 80% of our markets which made up 97% of our sales were contribution positive, and 14 markets which made up 35% of our sales were even more positive, after fully allocating all logistics and corporate expenses.'"
- "The company is forecasting long-term sales of 2 million-plus vehicles a year 'and becoming the largest and most profitable automotive retailer,' management said in its shareholder letter."

Nov. 5 AL.com [article](#)

Carvana continues its expansion with a new distribution and fulfillment center in Alabama.

- “E-commerce car platform Carvana will build a \$40 million distribution and fulfillment center in Bessemer, according to an announcement from Gov. Kay Ivey’s office.”
- “The project is expected to create more than 450 jobs.”
- “The Bessemer hub will handle fulfillment activities for Alabama and surrounding states, as part of the company’s inventory network. The center will also be home to inspection, maintenance and photography operations.”

Current Trustpilot [reviews](#)

Trustpilot has a 4-star rating for Carvana with several very positive reviews.

- **Initially nervous, but now converted 12/1/2019**
“To be honest, I was a little nervous at the beginning as I have only ever parted with a sum of money on a vehicle after interrogating the sales person for several session. But purchasing a new car for the family through Carvana was extremely easy and every question I had was answered promptly.
What really stood out was the before, during & after sales service. I could not be put at more ease throughout the process. The car was exactly what was described to the very smallest detail. I was giving a full history of the vehicle and every imperfection was pointed out just to make sure I was happy.
Well done, Carvana!”
- **Mostly a great experience... a few improvements and no one will ever buy a car from a dealership again... 11/30/2019**
“It was so easy and fun to shop for cars online, and when I was ready to buy, the process was quick and easy. I loved having the car delivered. Car prep needs a little work: they forgot the car mats (delivery lady put in an order but it’s going to be weeks, so I went and bought some cheap ones so we don’t mess up the floor of my car), wiper blades were torn up so I had to immediately replace, and on day 2 the battery died so I had to replace that. These details make me a little nervous that the car wasn’t truly checked out and prepared for sale.”
- **Straight forward purchasing and they stood by the car. 11/30/2019**
“The purchasing process for my VW was very straightforward and the delivery was on time to the minute. But as others have noted the car will likely look better on the website than it is in person. It is a used car after all. Mine had a few cosmetic issues that should have been marked on the web site 360 degree views - however mechanically the car is perfect and I had it thoroughly checked out by a specialist in the 7 day period. It still has 5 years of factory warranty in any case. I was able to resolve the cosmetic defects with Carvana, they were very professional and paid a body shop to take care them.”

Additional research by Dan Weil and Jeff Ostrowski.

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