The Carvana Business Model

Idea In Short

Carvana buys used cars from auctions, dealers, trade-ins and individual sellers, reconditions them, and resells them to consumers through a website and app rather than a lot full of salespeople. The company delivers vehicles to customers' homes or lets them collect a car from one of its multistory vending machine towers. Retail sales generate most of its revenue, with wholesale sales, financing, vehicle service contracts and insurance referrals adding smaller but meaningful streams on top. Carvana nearly collapsed under its own debt in 2022 before a bondholder restructuring and a sharp operational reset turned it into one of the most profitable public auto retailers in the country by 2024. This article traces how that model works, what broke it, and how the company fixed it.

A used-car chain built inside another used-car chain

Ernest Garcia III founded Carvana in 2012 as a subsidiary of DriveTime Automotive Group, the used-car and finance company his father, Ernest Garcia II, had built out of the former Ugly Duckling chain. Co-founders Ryan Keeton and Ben Huston joined him. In its early years, Carvana bought much of its inventory from DriveTime and relied on the older company for funding, loan purchases and technology support before DriveTime spun it off as an independent business in November 2014.1 Carvana went public on the New York Stock Exchange in April 2017 under the ticker CVNA, then used the capital markets to fund an aggressive multiyear expansion into new metro markets.

Selling a car through a phone

The core of the Carvana model is that the entire purchase happens online. A shopper browses inventory on the website or app, uses 360-degree photo tools to inspect a specific vehicle, and can complete a purchase, arrange financing and schedule delivery without visiting a lot or talking to a salesperson. Carvana adds the cost of acquisition,

reconditioning, inspection, marketing and transport to a vehicle's price, and the difference between that all-in cost and the sale price is the company's retail gross profit. A seven-day return window lets buyers reverse the purchase if the car does not match what they expected once it is in their driveway.

Financing as a second product line

Carvana does not just sell cars; it lends money to buy them. Customers can pay cash, take a Carvana-originated auto loan, or arrange third-party financing, and the company's online prequalification process lets shoppers see loan terms without a hard credit check. The interest income on loans the company originates and later sells or retains adds a revenue stream separate from the vehicle sale itself, and financing availability is part of what lets Carvana move inventory that a cash-only buyer might pass on. Vehicle service contracts and GAP coverage, sold through a partnership with Root Insurance, layer additional fee income on top of every transaction.

Vending machines as a branding device

Carvana's coin-operated vending machine towers, glass structures that stand several stories tall in cities including Nashville and the company's home base of Tempe, Arizona, are a small part of actual delivery volume but a large part of the brand. Most vehicles reach buyers through home delivery, and the vending machines mainly serve customers who choose to pick up their car themselves after completing the transaction online. The towers function more as physical marketing than as core logistics infrastructure, giving Carvana a distinctive, photographable presence in cities where its actual operations run out of far less glamorous reconditioning centers and inspection hubs.

> To change the way people buy cars by providing our customers a car-buying solution that is fun, fast, fair and powered by technology.

A record run followed by a near-collapse

Carvana's revenue and unit sales grew rapidly through the pandemic years, helped by a touchless delivery model that suited buyers avoiding in-person contact, and the company

reached the Fortune 500 list in 2021 in only eight years of operation, one of the fastest climbs on record.2 That growth was funded largely with debt, including a 2022 purchase of physical auction sites from ADESA. When the Federal Reserve raised interest rates and used-car prices fell from their pandemic peak, Carvana's borrowing costs rose just as its margins compressed. Shares that had traded above $370 in mid-2021 fell to roughly $3.55 by December 2022, a decline of more than 99%, and analysts openly questioned whether the company would survive.3

Cutting debt to buy time

Carvana avoided bankruptcy through a 2023 debt exchange in which bondholders, including Apollo Global Management, agreed to swap more than 96% of the company's $5.7 billion in unsecured notes for new secured debt, while the company cut roughly $1.3 billion of obligations and closed underperforming reconditioning sites. Garcia III publicly rejected the idea that the company had been close to filing for bankruptcy, telling Bloomberg the business was never at that kind of risk even as its bonds traded at distressed prices.4 The restructuring left Garcia III and his father in control of the company through their super-voting shares, a structure that had already given the family roughly 88% voting control before the crisis began.

Back to record numbers

The cost cuts and restructuring set up a sharp rebound. Carvana sold 416,348 retail vehicles in 2024 for record annual revenue of $13.67 billion, a year the company described as making it the most profitable public automotive retailer in U.S. history by adjusted EBITDA margin.5 Growth continued into 2025, with retail units up 43% and revenue reaching $20.322 billion for the year. The company framed the results as evidence the leaner cost structure built during the restructuring, not just a stronger used-car market, was driving the improvement.6

Key Partners

Carvana's supply of vehicles depends on wholesale auctions, franchise and independent dealers willing to sell surplus stock, and individual sellers who trade in or sell cars directly through the website. Root Insurance provides the underlying insurance and GAP coverage sold to Carvana customers, while lenders and capital markets investors fund the loans the

company originates. Marketing agencies and logistics contractors support the delivery network that moves vehicles between reconditioning centers, vending machines and customers' homes.

Key Activities

Carvana's daily operations center on sourcing and inspecting vehicles, reconditioning them to a consistent standard, and maintaining the website and app that handle nearly every customer interaction. Delivery and pickup logistics, including scheduling drivers and maintaining vending machine towers, form a second major activity. Customer service, loan underwriting and marketing round out the operational core that keeps inventory moving through the system.

Key Resources

The website and mobile app are Carvana's primary point of contact with customers and the infrastructure through which almost every transaction flows. Its inventory of used vehicles, reconditioning centers and vending machine towers make up its physical resources, while its base of active buyers and sellers functions as a resource in its own right, since inventory depends on people willing to sell or trade in cars. A workforce of inspectors, drivers, technicians and support staff carries out the reconditioning and delivery work at scale.

Value Propositions

Carvana offers buyers a purchase process that can be completed entirely from home, with transparent pricing, a seven-day return window and financing available without a dealership visit. Sellers get a firm cash offer within minutes based on a vehicle's details, without the negotiation typical of a private sale or trade-in. A referral program that rewards existing customers who bring in new buyers adds a modest additional incentive on top of the core convenience pitch.

Customer Relationships

Most of Carvana's interaction with customers is self-service, handled through the website and app rather than sales staff. Customer support is available for questions on financing, delivery scheduling and warranty claims, and the vending machine pickup experience

functions as a branded touchpoint that reinforces the company's identity. Referral bonuses and social media engagement extend the relationship beyond the initial transaction.

Channels

The Carvana website is the primary channel through which buyers, sellers and trade-in customers complete transactions, supported by a mobile app available on iOS and Android. Vending machine towers serve as a physical channel for customers who choose vehicle pickup over home delivery. Financing, insurance and vehicle service contracts are all sold through the same digital channels rather than separate points of sale.

Customer Segments

Retail buyers purchasing a single vehicle for personal use make up the largest customer segment and the company's primary revenue source. Individual sellers and trade-in customers supply inventory in exchange for cash offers or credit toward a new purchase. Wholesale buyers, mainly other dealers, purchase vehicles that failed Carvana's retail inspection standards or represent excess stock, typically through the CarvanaACCESS platform built for bulk buyers.

Cost Structure

Carvana's largest costs are vehicle acquisition and reconditioning, followed by logistics and delivery expenses tied to moving cars across a national network. Facility costs for reconditioning centers, vending machines and hubs, along with platform maintenance, employee compensation and marketing, round out the cost base that the 2023 restructuring specifically targeted to reduce.

Revenue Streams

Retail vehicle sales generate the bulk of Carvana's revenue, with the markup between acquisition cost and sale price forming the core profit. Wholesale sales of vehicles that do not meet retail standards form a second stream, typically at a higher margin since they require less reconditioning investment. Financing income, vehicle service contract commissions and insurance referral fees add smaller recurring streams on top of the vehicle transaction itself.

- 1Carvana Company History
- 2Carvana's Rise Onto The Fortune 500 List
- 3Carvana Shares Tank As Bankruptcy Concerns Grow
- 4Garcia Says Carvana Was Never At Risk Of Bankruptcy
- 5Carvana Record Fourth-Quarter And Full-Year 2025 Results
- 6Carvana Expects Another Strong Year After Fourth-Quarter Results

Summary

Carvana's story is less about disrupting car sales than about proving an asset-heavy retail business can run on thin margins if logistics and financing are tight enough. The company still buys, reconditions, ships and finances a physical product at national scale, which means it carries real inventory and real debt, unlike pure marketplace rivals. Its 2022 near-collapse showed how quickly that model breaks when interest rates rise and used-car prices fall at the same time. The 2023 restructuring and the record results that followed show the same model can generate strong margins once volume returns and costs are controlled. Competitors from CarMax to Vroom have tried variations on the same idea, but none has matched Carvana's combination of vertical integration and delivery infrastructure. Whether that lead holds depends on how disciplined the company stays the next time credit tightens.