

While the Presidio Midyear 2024 Dealer Direction Survey recognizes the reality of today’s falling dealership profits and valuations, it also reveals the optimism that dealers have about the business over the long term.

Almost two-thirds — 63 percent — of U.S. auto dealers who participated said they expect dealership profitability to decline over the next 12 months, down from 68 percent of respondents in last winter’s survey. While that acknowledges that profit levels are still normalizing, dealers’ views in the midyear survey were more positive over a horizon of the next three years. Just more than half expect profits to stay the same or increase over that longer period.

“At some point we will all find our equilibrium,” one survey respondent wrote.

Dealers generally want to keep expanding. About 69 percent of survey takers said they were interested in buying dealerships over the next year. A majority of respondents — nearly 55 percent — said they think dealership valuations will drop over the next year, but that view fell to just less than half when applied to a three-year horizon.

“We are actively shopping and waiting for a little air to come out of the valuations,” one respondent wrote.

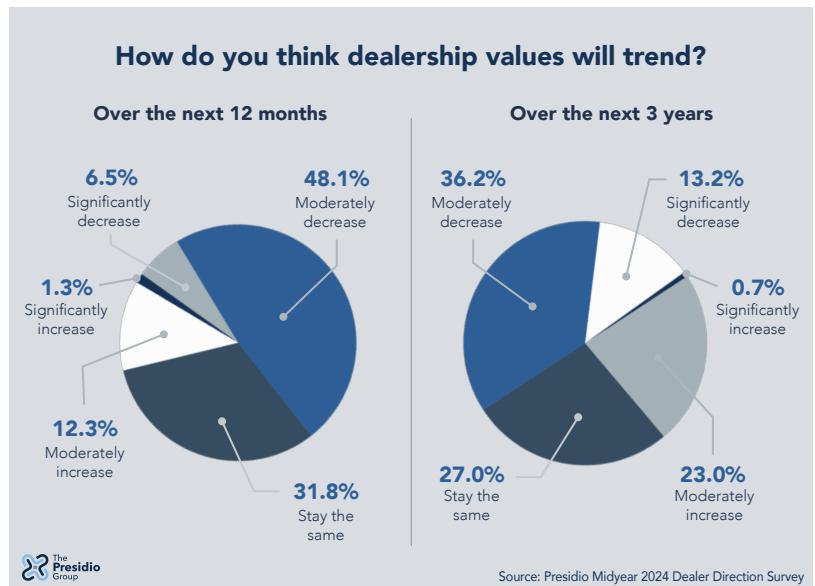
Another said return on investment would have to justify an acquisition, but “scale is important.”

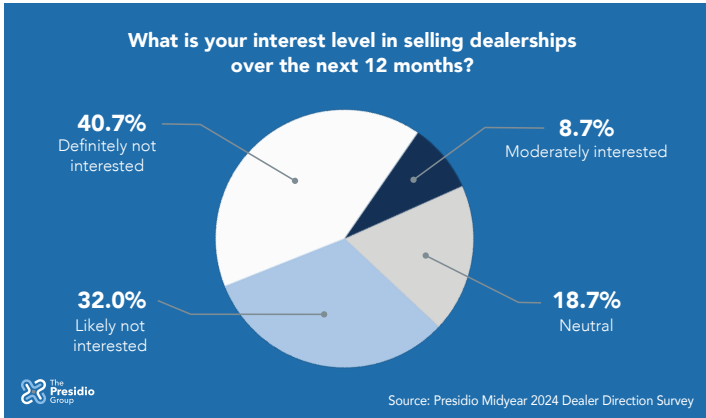
Several dealers indicated they are looking for bargains when it comes to acquisitions — and that they think a window could be about to open where there are good deals to be had, especially as bigger groups that have expanded rapidly look to sell stores as part of portfolio management efforts. Some respondents acknowledged they indeed are likely to divest some underperforming dealerships.

“The time to buy is when others are not,” one survey taker wrote. “Most of the larger groups will need to purify their mix of locations and brands. ...It’s occurring NOW and will continue to evolve over the next two years.”

Another wrote, “I want to buy broken stuff for low dollars and bet on a guy to fix them.”

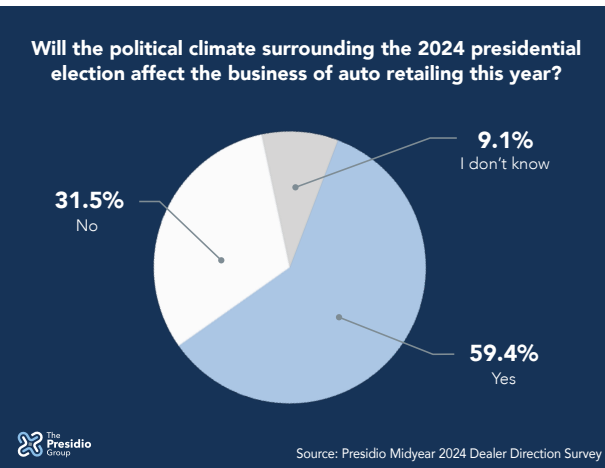
The Presidio Dealer Direction Survey is conducted twice a year to provide a view into dealers’ outlook on dealership profitability, valuation and the buy-sell market. The latest survey was conducted from June 10 through Aug. 1 and aggregated responses from 163 dealers and top dealership group executives representing more than 2,600 franchised stores. In addition to their outlook on dealership profitability, valuations and acquisitions, we queried survey takers on the factors most challenging for dealers and asked them to rate the most desirable brands to represent.





Dealers continue to be most worried about economic issues like higher interest rates and vehicle affordability in the short term and direct sales models and automaker margin cuts in the long term. Several expressed fear that the automakers will shift costs to them with traction on electric vehicles falling off. Some called out specific brands as problematic, saying in part that some automakers need to do more to stabilize inventory levels.

“Manufacturers need to stop producing so many vehicles and control the unreasonable spike in prices,” one respondent wrote. “They are pricing themselves out of selling new vehicles, and the carrying cost is staggering with the current interest rates.” It’s “brand dependent,” another wrote. “Some brands have already normalized, others only partially.”



Most dealers foresee election hang-ups

Nearly 60 percent of dealers responding to the Presidio Midyear 2024 Dealer Direction Survey said this year’s U.S. presidential election will affect the business of auto retailing. And most are braced for a negative or mixed impact.

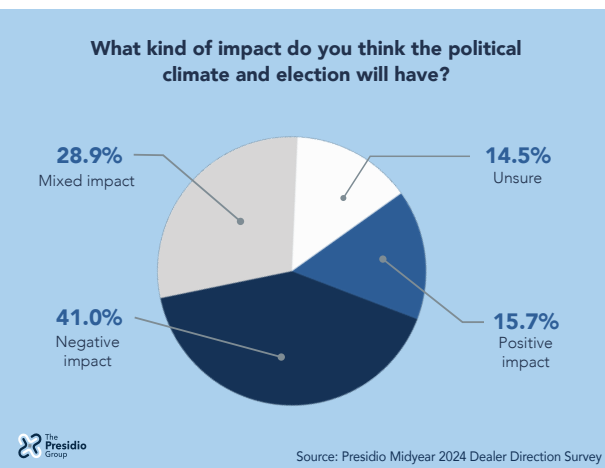
“I don’t remember ever experiencing a political climate as volatile as the current one,” one respondent wrote. “The only certainty at the moment is uncertainty.”

And uncertainty leads to consumers throttling spending on large-ticket items, other survey takers wrote.

Of those expecting the election to affect business, 41 percent foresee a negative effect, nearly 16 percent foresee a positive effect and 29 percent expect a mixed impact. The rest of dealers answering that question were uncertain themselves.

“As the election gets closer, people tend to hold on to their money and wait for the outcome,” one respondent wrote. “No matter who wins, 50 percent of the country is happy and 50 percent unhappy.”

Presidio’s findings dovetailed with research from Cox Automotive. A recent Cox consumer survey concluded that many vehicle shoppers may be staying on the sidelines. In Cox’s latest quarterly Dealer Sentiment Index poll, undertaken this summer, political climate was No. 3 among franchised dealers’ biggest concerns — 49 percent said it was holding back business, up from 26 percent a year earlier.



Toyota, Lexus and Honda once again topped the Presidio Brand Desirability Ranking, followed by German luxury brands Porsche and BMW and then Subaru, a mass-market Japanese brand that has become a winner on throughput, or sales per dealership. Mercedes-Benz, Kia, Hyundai and Audi round out the top 10.

The ranking is based on responses to the Presidio Dealer Direction survey, which asks dealers to rate the desirability of owning dealerships representing specific brands. We included most brands sold in the U.S. as options and presented some as clusters of brands commonly found under one roof — Chrysler-Dodge-Jeep-Ram or Jaguar-Land Rover, for instance. We also gave an option for ultraluxury brands (such as Aston Martin, Ferrari and McLaren) grouped collectively.

After producing three sets of rankings, patterns have emerged: top-tier Japanese brands are generally most favored by dealers, followed by top German luxury makes and then the South Korean brands. The domestic brands come in anywhere from the middle of the pack to near the bottom of the list. None of this comes as a surprise to the Presidio team, which has been seeing these dynamics play out in the dealership buy-sell market for a while now.


























No one moved up or down the ranking more than one or two spots this time save for one troubled domestic-brand entrant — Chrysler-Dodge-Jeep-Ram, which dropped by four places to the No. 23 position. An inventory pile-up and weak consumer demand for the automaker’s products is decimating profit margins at CDJR dealerships. Those factors, plus the view of our survey takers, contributed to Presidio’s decision to reduce blue-sky valuation multiples this quarter for the Stellantis brands.

Three players dropped in ranking by two spots —Buick-GMC, Cadillac and Subaru. Even though Subaru slipped down the list by two spots, its rating of 7.69, on a scale of 10, actually nudged slightly higher as it was surpassed by the two brands above it by a tenth of a point or less. As referenced earlier, Subaru has become a popular brand with consumers and dealers.

The biggest movers up the list this time, rising two spots each, were BMW, Acura and the collection of ultraluxury brands. Another handful of brands rose by one place each.

Brand Ranking

Dealers responding to a Presidio survey ranked the desirability of owning stores representing the following brands:

	Toyota	9.33
	Lexus	9.01
	Honda	8.26
	Porsche	7.79
	BMW	7.78
	Subaru	7.69
	Mercedes-Benz	7.59
	Kia	6.88
	Hyundai	6.56
	Audi	6.01
	Chevrolet	5.66
	Ford	5.34
	Jaguar-Land Rover	5.03
	Mazda	4.81
	Buick-GMC	4.62
	Genesis	4.52
	Volkswagen	3.99
	Acura	3.96
	Ultraluxury	3.90
	Cadillac	3.75
	Volvo	3.42
	Nissan	2.97
	CDJR	2.82
	Lincoln	2.78
	Infiniti	2.59

Brand Ranking Biggest Gains & Declines

Biggest Gains:			Biggest Declines:		
Current place		Change in place	Current place		Change in place
#18	Acura	↑ 2	#23	CDJR	↓ 4
#5	BMW	↑ 2	#15	Buick-GMC	↓ 2
#19	Ultraluxury	↑ 2	#20	Cadillac	↓ 2
			#6	Subaru	↓ 2

Source: Presidio Midyear 2024 Dealer Direction Survey