While down from pandemic extremes, dealership profits remain higher than historical norms

The average U.S. dealership's profit slide accelerated during the first three months of 2024. While the Great Normalization from the record highs seen at the peak of the coronavirus pandemic clearly continues, the good news is that profitability for the typical franchised store remains well above pre-2020 levels.

According to the Presidio-NCM Average Dealership Performance Benchmark, net pretax profit for the average franchised store slid 32.4 percent in the first quarter compared with the same period in 2023. The average store posted a drop of 20.5 percent in last year's first quarter, a rate of decline that generally continued throughout 2023. The dollar figure of the average store's net pretax profit is not being shared.

"While the rate of decline accelerated as the year began, it's important to view those results through the lens of normalization," said George Karolis, president of The Presidio Group. "The declines aren't extreme. It's the profits at the height of the pandemic that were extreme. They're just normalizing now."

Even with the 32.4 percent decline in the first quarter, the average dealership's net pretax profit was still around 1.8 times 2018's level, according to a Presidio-NCM analysis.

The Presidio-NCM Average Dealership Performance Benchmark is based on aggregated financial results of more than 4,300 U.S. franchised dealerships of all brands and sizes that work with NCM Associates, which provides 20 groups, consulting and training to dealers across the country. The number of outlets contributing to the data represent nearly a quarter of all 18,000-plus dealerships in the U.S.

During this time of change, dealers should be getting their businesses ready for whatever the new normal ends up being, according to Paul Faletti, CEO of NCM Associates.

"As vehicle gross margins and total store profitability ebb, it is crucial that dealers take a close look at every aspect of their operations to make sure they have the right cost structure, the right people and the right processes and practices," Faletti said. "Having a strong playbook in place is how the best-performing dealership groups will ride out this normalization period."

Current Snapshot

Here's a quick look at the average dealership performance for the first quarter of 2024:

Profit change year over year:

↓ -32.4%

Revenue:	$19.6M	↓ 3.1%
New vehicles retailed:	198	↓ 1.0%
Used vehicles retailed:	182	↓ 2.2%
Gross profit per new vehicle retailed:	$2,524	↓ 31.8%
Gross profit per used vehicle retailed:	$1,393	↓ 21.3%
F&I income per retail unit:	$1,548	↓ 1.0%

Source: Presidio-NCM Average Dealership Performance Benchmark

More than two-thirds of dealers who took the most recent Presidio Dealer Direction Survey in January and February said they expect dealership profitability will decrease over the next 12 months. While it's not yet clear where profits and other key performance metrics will land, dealers and Presidio experts expect auto retailing to remain a profitable and robust business for the long term.

Inventory recovery continues to drive the profit decline. After supply levels fell to about 30 percent of the historical norm in 2021, Presidio estimates they are now close to 90 percent of pre-pandemic levels." Even though new-vehicle supplies have significantly improved, new-vehicle sales volume was essentially flat during the first quarter. The average dealership saw new volume dip 1 percent, from 200 vehicles to 198 vehicles.

The average gross margin per new vehicle retailed slid sharply by 31.8 percent to $2,524. That gross, however, is still well above the $1,300 to $1,500 typically recorded in the years leading up to the pandemic.

The anemic new-vehicle sales pace in the first quarter is likely a result of a shrinking pool of pent-up new-car buyers, and this softening demand could add pressure to the industry's already swelling inventory levels and dealerships' floorplan interest expense.

The Presidio team strongly believes that brand and geography will play an increasingly prominent role in ongoing performance. Luxury-brand dealerships have outperformed their peers so far in retaining pandemic-era profits, but the slide for those stores is now firmly accelerating, according to Presidio-NCM segment data for the first quarter.

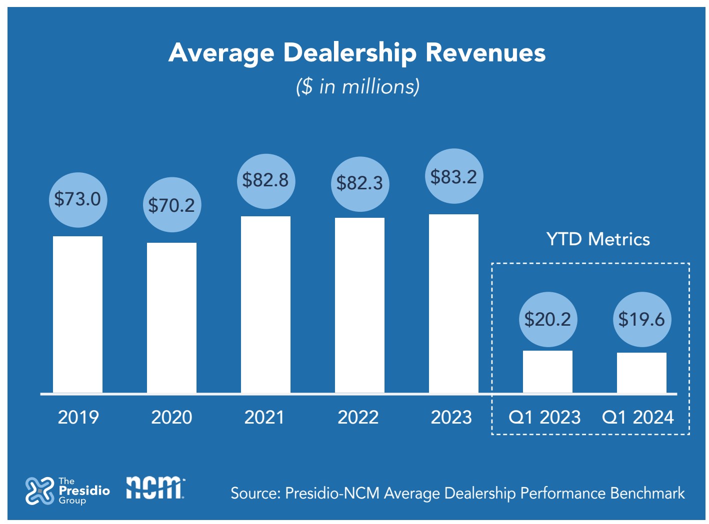
The average luxury dealership experienced a larger profit percentage drop for the first quarter than the average dealership, and the average luxury store's rate of decline also outpaced those for import-brand and domestic-brand stores. Luxury stores experienced a 34.1 percent average profit dip for the first quarter compared with the year-earlier quarter, according to the Presidio-NCM benchmark. The average import-brand store recorded a slide of 32.7 percent for the same period, and the average domestic-brand store posted a 31.3 percent decline.

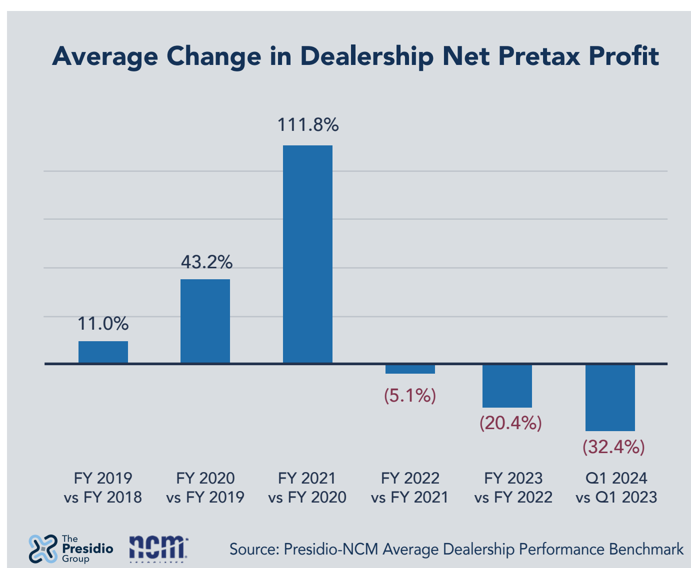
For all segments, the quarter-over-quarter slide for the first three months of 2024 significantly widened compared with the declines posted for full-year 2023 vs. 2022.

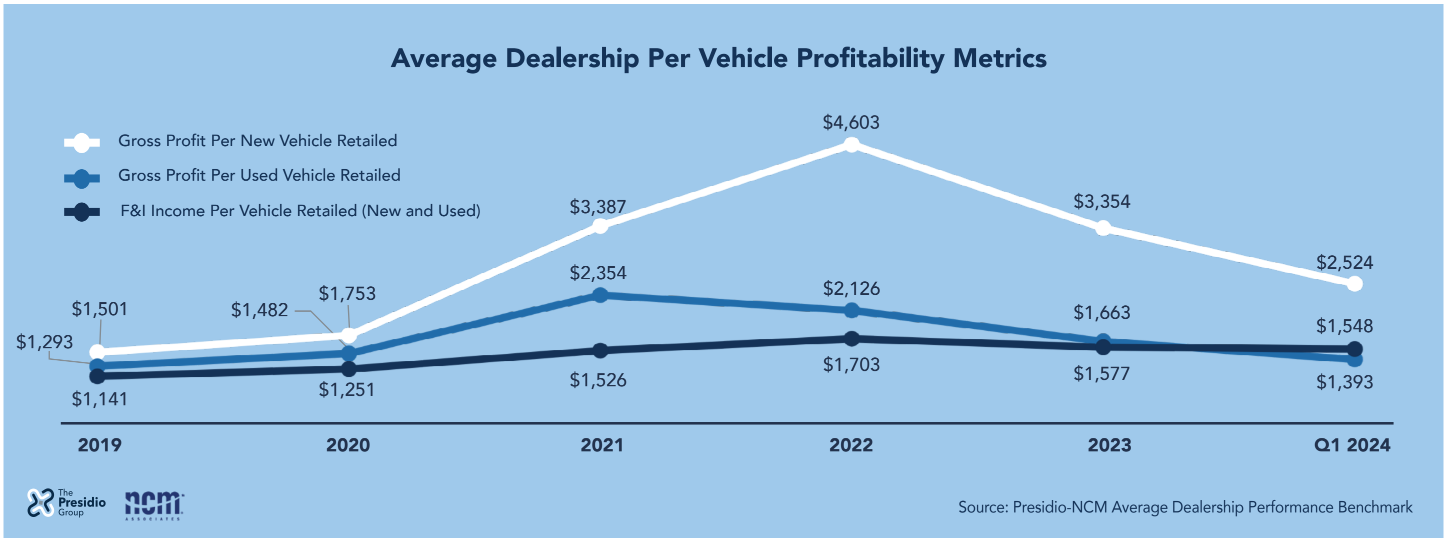
Luxury stores, however, remain more resilient overall to the downward pressure of normalization. Average gross profit per new vehicle for the luxury segment came in at a very healthy $5,589, albeit down from the average of $6,538 for all of 2023.

The domestic segment posted the next best gross profit per new vehicle, averaging $2,278. That was down from an average of $3,132 for all of 2023. The average import-brand store recorded a per-new vehicle gross profit of $1,940, down from $2,694 for all of 2023.

Metrics on the used side of the business are much closer to pre-pandemic levels of profit than the new-vehicle side. The average dealership saw retail used-vehicle volume dip 2.2 percent in the first quarter of 2024, and the average







gross profit per used vehicle dropped 21.3 percent to $1,393. That is more than $1,000 lower than the average gross profit per used vehicle just two years earlier, and it is just $100 higher than 2019's average of $1,293.

The picture for the used business varies a bit among segments. The average luxury store recorded gross profit per used vehicle of $1,925, while that metric came in at $1,442 for the average domestic-brand store and $1,204 for the average import-brand dealership.

While finance-and-insurance income is still much higher than before the pandemic, it also continues to soften, settling at an average of $1,548 for the first quarter. That's down just 1 percent from 2023's first quarter but is nearly 10 percent lower than two years earlier.

As the average dealership's variable gross normalizes at a rapid pace, the parts and service business is stepping up. Fixed operations' gross contribution to total gross continued to increase across all segments in the first quarter of 2024, coming in at 50.3 percent for the average dealership compared with 45.2 percent for all of 2023 and in the mid-30s earlier in the pandemic. Read more about what a dealership's fixed operations performance says about the quality and sustainability of its earnings on pages 14-15.

With profits from vehicle sales and F&I falling, the pressure is on for all dealerships to maximize the performance of fixed operations. That, plus tighter cost controls that don't jeopardize variable sales performance, will be key to successfully riding out the continued slide in profitability from the earlier extremes.