

Dealership profit continues decline

But dealers have opportunities to bring their variable expenses more in line with lower margins

While the average U.S. dealership's profit slide has continued through the first six months of 2024, the decline is showing signs of leveling off. It remains to be seen whether the industry's Great Normalization journey is nearing its end, but the slowdown in that earnings falloff is a positive signal.

Profitability for the typical franchised dealership continues to be above the norms seen before the onset of the coronavirus pandemic in 2020, but it has declined roughly 50 percent from its peak in 2021. It's important, however, to view these results with a focus on brand and geography. Dealerships representing certain brands continue to operate at an elevated level, while stores representing other brands have seen performance revert to levels closer to their historical norms.

What is now clear — and troubling — is that many dealers aren't acting quickly enough to rein in expenses that rose during the heights of the pandemic profit boom. With this report, the Presidio-NCM Average Dealership Performance Benchmark is providing some new visibility into dealership expense data that makes that clear. The average dealership has seen its variable gross profit plunge 32 percent since 2022, but its total personnel expense, for instance, has dropped by just 6 percent during the same period.

"We're surprised that the typical dealership hasn't adjusted its spending and variable costs as quickly and appropriately as it should have given the decline in profitability over the last two years," said George Karolis, president of The Presidio Group. "This is a time when dealers must be nimble and adjust quickly to the industry's changing circumstances, and many of them have not."

According to the Presidio-NCM Average Dealership Performance Benchmark, net pretax profit for the average

franchised store slid 33.4 percent through the first half of 2024 compared with the same period in 2023. That's just 1 percentage point more than the profit decline for the first quarter of this year. The dollar figure of the average store's net pretax profit is not being shared.

Current Snapshot

Here's a quick look at the average dealership performance through the first six months of 2024:

Profit change year over year:

↓ **33.4%**

Revenue:
\$40.0M
↓ 3.4%

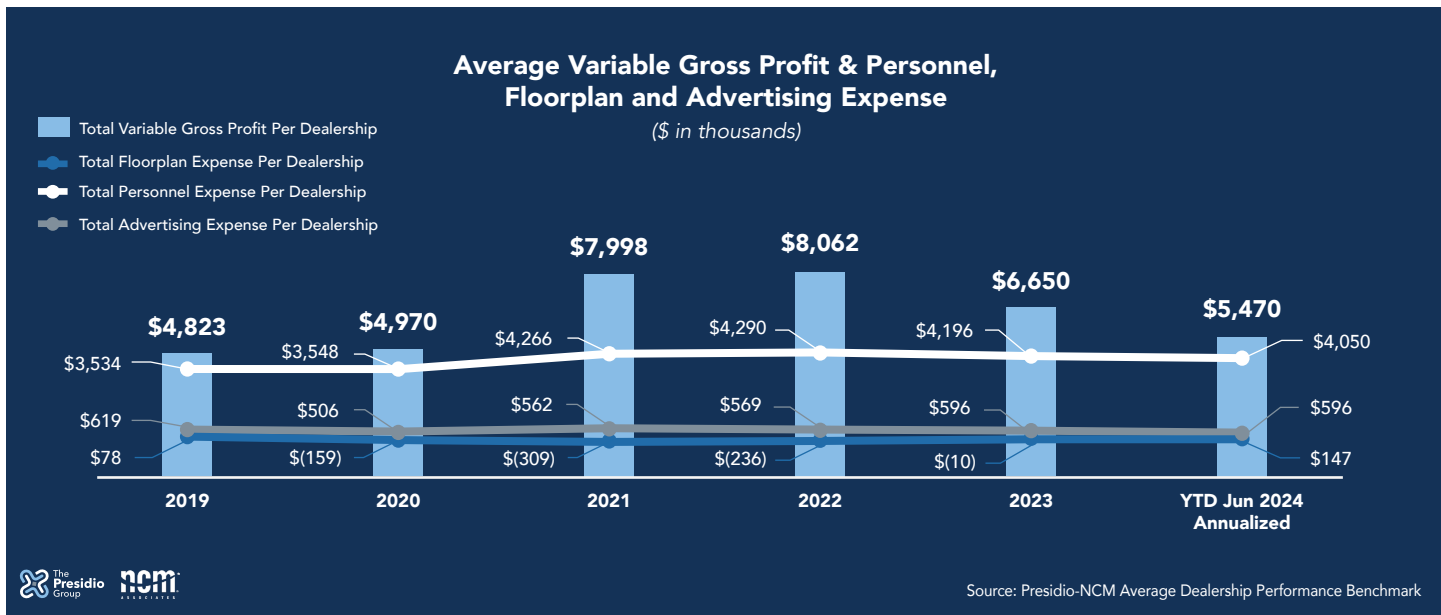
New vehicles retailed:
410
↓ 1.4%

Used vehicles retailed:
364
↔ 0.0%

Gross profit per new vehicle retailed:
\$2,408
↓ 32.9%

Gross profit per used vehicle retailed:
\$1,404
↓ 22.9%

F&I income per retail unit:
\$1,574
↓ 0.6%



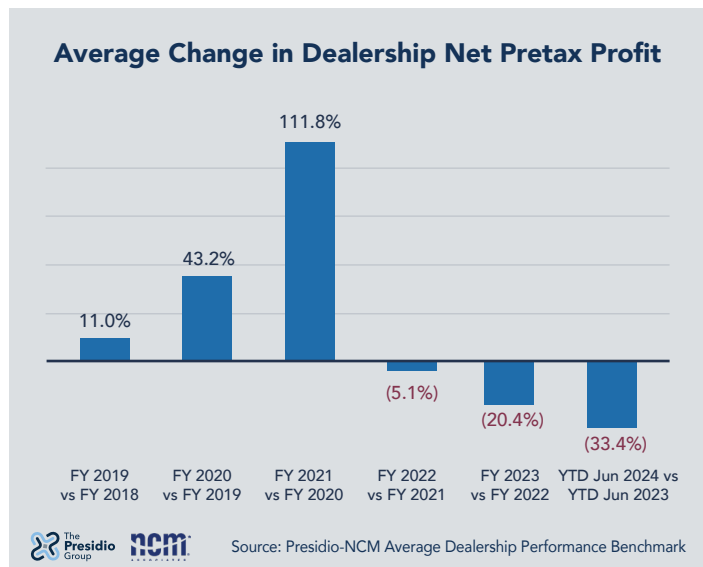
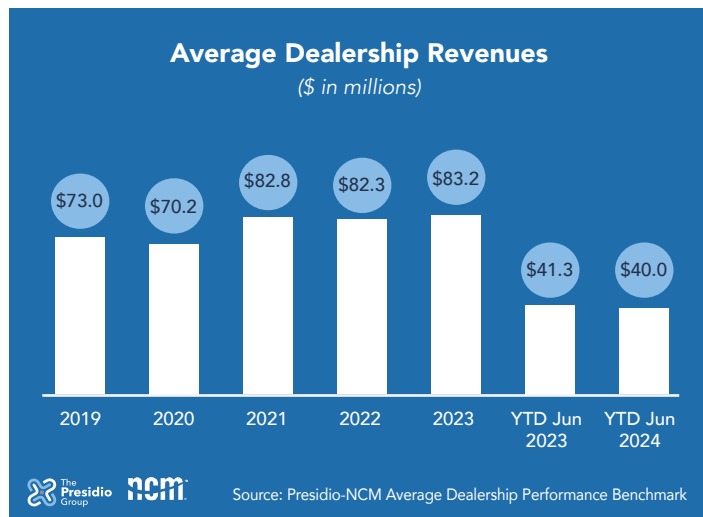
Despite that decline, the average dealership’s net pretax profit was still 1.7 times 2018’s level, according to a Presidio-NCM analysis.

The Presidio-NCM Average Dealership Performance Benchmark is based on the aggregated financial results of approximately 3,900 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 more than a fifth of all 18,000-plus dealerships in the U.S. A slightly smaller pool of dealerships than is typical contributed to the data for this period because the June cyberattacks on CDK Global Inc. delayed many dealership groups in reporting their results.

During this time of change, dealers should be adjusting their businesses models for whatever the new normal ends up being, said Paul Faletti, CEO of NCM Associates.

“The extraordinary profits that dealerships enjoyed in 2021 and 2022 have contributed to what now appears to be a slip in focus by some operators,” said Faletti. “The Presidio-NCM benchmark data now clearly shows that dealers have more work to do when it comes to managing expenses. It is crucial for all dealers take a close look at their operational metrics to ensure they are maximizing their earnings during this time of normalization.”

Dealers themselves expect future profitability to continue to wane. Nearly two-thirds of dealers who took the latest



Presidio Dealer Direction Survey this summer said they expect dealership profitability will decline over the next year. Their outlook over the next three years is moderately better — just less than half of respondents expected a profit dip, and the share of respondents expecting profit growth over that longer horizon was nearly double the share expecting it for the next 12 months.

It's clear to the experts at Presidio that dealers will continue to grapple with swelling inventory and that profits will continue on a downward trajectory this year. But it's important to consider the positives — while the average store's profit level is down 50 percent from its peak in 2021, it's still 69 percent higher than it was in 2018.

Is the industry approaching the new normal? It's possible, though we'll note that where profitability settles will vary depending on a dealership group's brands and geography. Some brands are outperforming others and doing a better job of managing production, inventory and incentives. Stellantis and Nissan in particular have been criticized by dealers for allowing supply to balloon.

And sales volume isn't keeping pace. The average dealership retailed 410 new vehicles through the first six months of 2024, down 1.4 percent. It retailed 364 used vehicles during the same period, the same number as in the year-earlier period. Total revenue per store came in at \$40 million, down 3.4 percent.

To be sure, vehicle volume and total revenue for the average dealership were likely hurt to some degree by the massive disruption caused by the June 19 cyberattacks on CDK. Affected stores had to scramble as their dealership

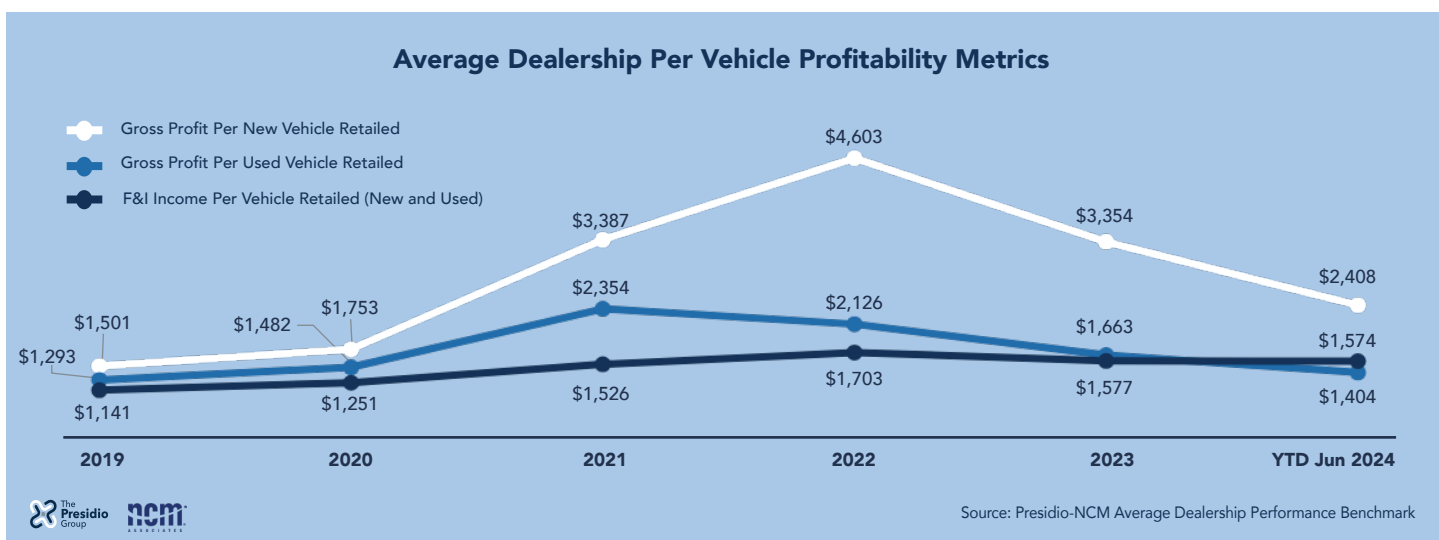
management systems and other tools and platforms were out of commission for the last 11 days of the month. The outages cost affected dealerships some vehicle sales for the period as many shoppers either deferred their purchases or took their business elsewhere. Parts-and-service sales also took a hit.

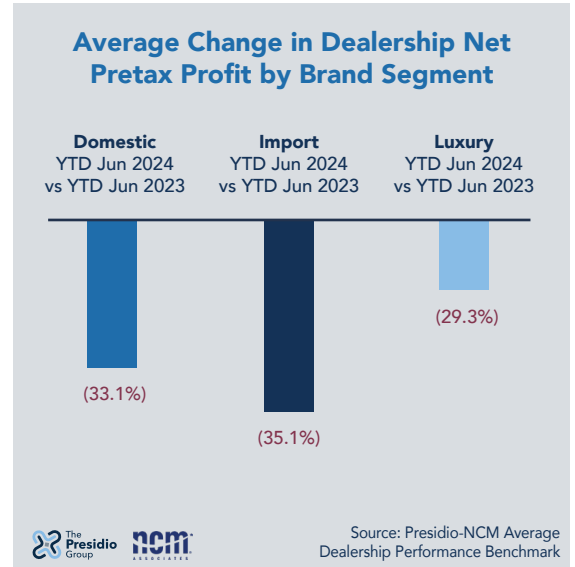
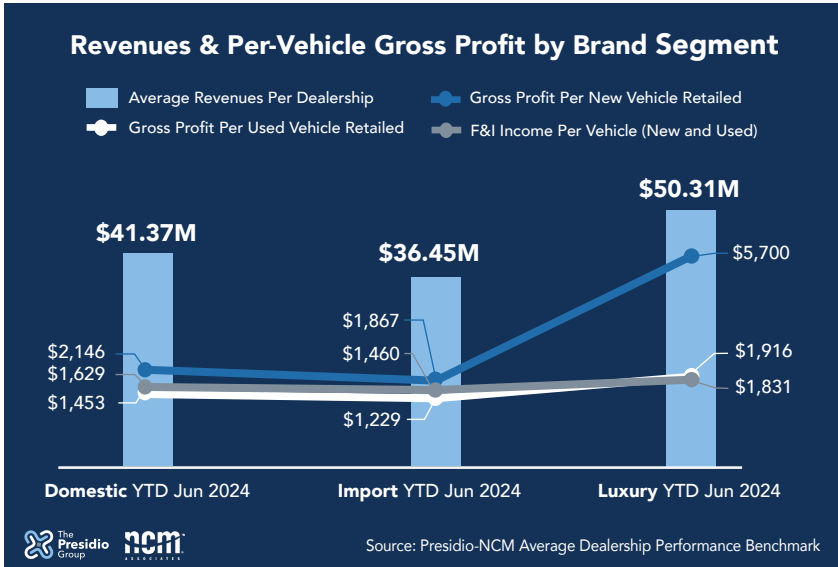
With sales flat to down, inventory levels rising and interest rates up, dealers' floorplan expenses are rising, too. In 2024, the average dealership's net floorplan interest has firmly swung from a credit to an expense.

Through the first six months of 2024, the average dealership posted net floorplan interest expense of nearly \$74,000. That's a swing from a gain of approximately \$23,000 for the same period in 2023. Dealers can make money on floorplan during low-rate environments because of floorplan interest credits that automakers pay to dealerships. Examined another way, floorplan is costing the average dealership \$100 more per new and used vehicle retailed so far this year vs. 2023 and a whopping \$245 more compared with 2022.

Per-vehicle gross profits have continued their slide this year, though the rate of decline accelerated only slightly from the first quarter through the first half. The average gross profit per new vehicle retailed dropped by 32.9 percent to \$2,408. The average gross profit per used vehicle dropped 22.9 percent to \$1,404. Finance-and-insurance income declined by 0.6 percent to an average of \$1,574 for the first half.

On the fixed operations side, gross profit rose 3.0 percent for the average dealership through the first half of 2024. Fixed-ops gross as a percent of total gross profit came in





at 50.1 percent. The average dealership’s fixed absorption rate was 69.3 percent for the first half.

Though profits are dropping across the industry, luxury-brand dealerships continue to be more resilient than their peers. The average luxury store experienced a 29.3 percent average profit dip for the first half compared with 2023’s first half, according to the Presidio-NCM benchmark. The average import-brand store saw a 35.1 percent slide for the same period, and the average domestic-brand store recorded a 33.1 percent drop.

Luxury store vehicle margins also continue to hold up better. The average gross profit per new vehicle for the luxury segment was \$5,700 through the first six months — up from the first quarter’s \$5,589 but down from the average of \$6,538 for all of 2023. The average luxury store recorded gross profit per used vehicle of \$1,916.

The domestic segment posted the next best gross profit per new vehicle, averaging \$2,146, down from \$2,278 in the first quarter and \$3,132 for all of 2023. The average domestic store posted gross profit per used vehicle of \$1,453. The average import-brand store recorded a per-vehicle gross profit of \$1,867, down from \$1,940 in the first quarter and \$2,694 in 2023. The average import store posted gross profit per used vehicle of \$1,229.

In addition to floorplan, which we talked about earlier, personnel and advertising costs comprise what is often viewed as a dealership’s big three expenses. Because floorplan is so closely tied to interest rates, it is less controllable than the other two. That’s part of why it’s

surprising to see that the typical dealership hasn’t done more to rein in its expenses in those other two categories over which they have more discretion.

There is some room to take action on the advertising front — the average dealership is spending \$52 more on that per vehicle retained than it did in 2018 and \$10 more per vehicle than a year ago.

But the biggest opportunity without question is in personnel expense.

The average dealership recorded personnel expense of \$2.02 million through the first six months of 2024, compared with \$2.12 million for the comparable period in 2023. That is an expense decline of just 4.5 percent during a period in which the average store’s pretax profit dropped 33.4 percent.

Viewed another way, the average dealership’s personnel costs went from \$1,828 per vehicle retained in 2018 to a high of \$2,729 per vehicle in 2022 to \$2,617 so far in 2024 — an expense decrease of just \$112 per vehicle during the past two years even though profits have dropped significantly during that period. That’s not a sustainable model.

Brands and geography continue to be all-important when it comes to dealership profitability. But they’re not factors that can be changed, while variable expenses can be reworked. Better expense control is possible for everyone, and this expense data clearly shows that dealers have room to improve. If they can make smart adjustments, they’ll be better positioned to weather any storms as they ride out this journey to the industry’s new normal.