

Dealership profit decline starts to level off

New data from the Presidio-NCM Average Dealership Performance Benchmark indicates that the downward spiral in profitability for the typical U.S. dealership seems to be leveling off.

Through the first nine months of 2024, net pretax profit for the average franchised store dropped 30.4% compared with the same period in 2023. While still a big drop, it marks a minor improvement from the 33.4% decline recorded for the first six months of this year.

The data suggests that dealership profitability may finally be reaching a new level of normal after sharp pandemic-era increases made way for steep declines the past two years. If dealership profitability is finally leveling off, that new normal is well above what was typical before the pandemic. The average dealership's pretax profit for 2024 through September was 1.8 times 2018's level, according to the Presidio-NCM data.

New-vehicle margins continued to drop over 2024's first nine months, while used-vehicle margins improved from their levels at mid-2024. The average dealership was helped in part in the last quarter by a strong fixed-operations performance, which narrowed the drop in overall gross profit. Of course, brand and geography continue to be crucial factors in how well any particular dealership performs. Some brands have done a better job than others to preserve the variables supporting elevated profitability.

While the signs of improvement in the most recent quarter are encouraging, plenty of uncertainty persists and could influence this positive trend in either direction. For instance, the impact of inflation and waning consumer savings, the speed of interest rate relief and the outcome of the U.S. election are several key factors at play in the near term.

"We at Presidio have been watching the normalization trends closely for signs of leveling off, and the modest improvement seen during the just-completed third quarter is the strongest indicator yet that retail automotive's profit tumble could end up stabilizing at a level well above pre-pandemic norms," said George Karolis, president

of The Presidio Group. "The improvement in fixed-ops performance was a clear bright spot. But the overall situation is fluid and should be viewed with caution. It won't be clear that we've reached a new normal until we've seen the leveling off over several successive quarters. Even then, that new normal will vary significantly depending on a dealership's brand and location."

The Presidio-NCM Average Dealership Performance Benchmark is based on aggregated financial results of more than 3,900 U.S. franchised dealerships of all brands

Current Snapshot

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

Profit change year over year:

↓ **30.4%**

Revenue:
\$61.6M
↓ 2.0%

New vehicles retailed:
647
↑ 1.6%

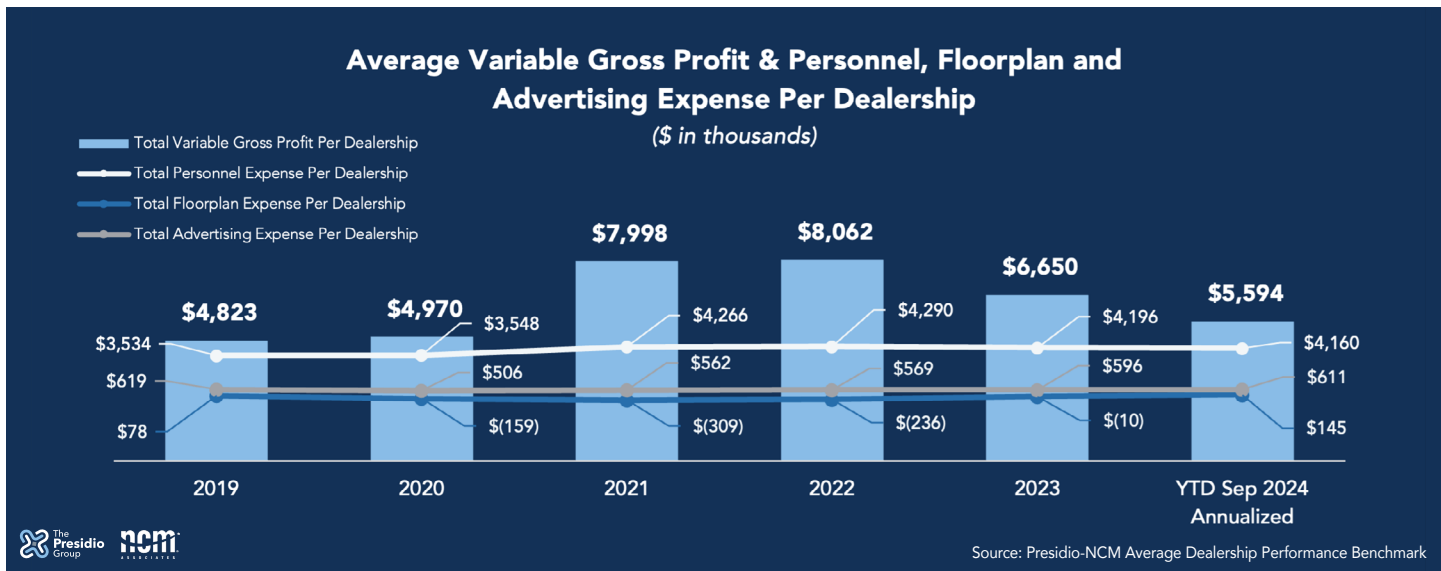
Used vehicles retailed:
551
↓ 0.2%

Gross profit per new vehicle retailed:
\$2,326
↓ 33.5%

Gross profit per used vehicle retailed:
\$1,416
↓ 19.3%

F&I income per retail unit:
\$1,568
↓ 1.2%

† Automaker bonuses/incentives from adds and deducts are included in departmental gross; PVR only includes retail units; net profit is pre-LIFO



and sizes that work with NCM Associates, which provides 20 groups, consulting and training to dealers across the country. The number of outlets contributing data represent more than a fifth of all 18,000-plus dealerships in the U.S.

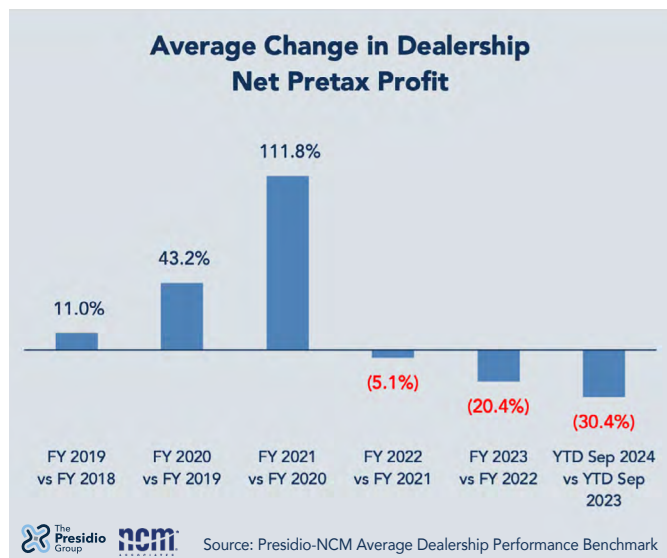
The average dealership’s slight moderation in profit decline for the nine-month period compared with the six-month period may have had a connection to the June cyberattacks on CDK Global. Industry forecasters said the massive weeks-long disruption to dealership operations caused by the CDK system outage hurt results in the final days of the second quarter but that stores could recover some of that revenue, at least as related to deferred vehicle sales, later in the year.

In addition to the moderating net profit decline, the Presidio-NCM benchmark revealed other areas of improvement for the typical dealership.

Vehicle margins seem to be stabilizing to varying degrees.

The average gross profit per new vehicle retailed dropped 33.5% during the first nine months of 2024 to \$2,326, a slightly lower dollar figure than recorded through June. But the average gross profit per used vehicle actually showed improvement against the first six months of the year. That measurement dropped 19.3% to \$1,416 through September compared with a 22.9% drop to \$1,404 per vehicle for the first six months. Finance-and-insurance income has been steady in recent quarters, dipping only slightly from \$1,574 through June to \$1,568 through September.

“It’s encouraging to see the erosion of profit for the average dealership moderating,” said Paul Faletti, CEO of NCM Associates. “To ensure that their operations are ready for



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wherever the new normal lands, dealers should continue to scrutinize their expenses and other operational metrics and make the necessary adjustments to maximize earnings moving forward.”

The need to better manage costs was revealed by new data on personnel, floorplan and advertising expense that was added to the Presidio-NCM benchmark in mid-2024.

Through the first nine months of 2024, the average dealership saw variable gross profit plunge 33.2% compared with the same period in 2022, but total personnel expense fell just 3.8%. On a year-over-year basis, personnel cost for the average dealership dropped 1.9% during the first nine months of 2024. Many dealers still have work to do to control costs relative to production for optimal performance as the decline in variable gross continues to outpace personnel expense decline.

Fixed operations was a positive for the quarter and helped offset continued falloff on the variable side of the business, which declined 18.2% year over year for the first nine months of 2024. By contrast, the average store’s gross profit from fixed ops rose 5.4% for the same period and helped limit the decline in overall gross profit to a drop of 7.7% compared with the first nine months of 2023.

The gains in fixed-ops gross profit helped drive the average dealership to a fixed absorption rate of 70.4% through the first nine months of 2024 versus a rate of 68.2% for the same period in 2023.

On the volume side, the story continues to be somewhat static unit sales even as inventory has grown for many brands. New-vehicle supply for the overall industry stood

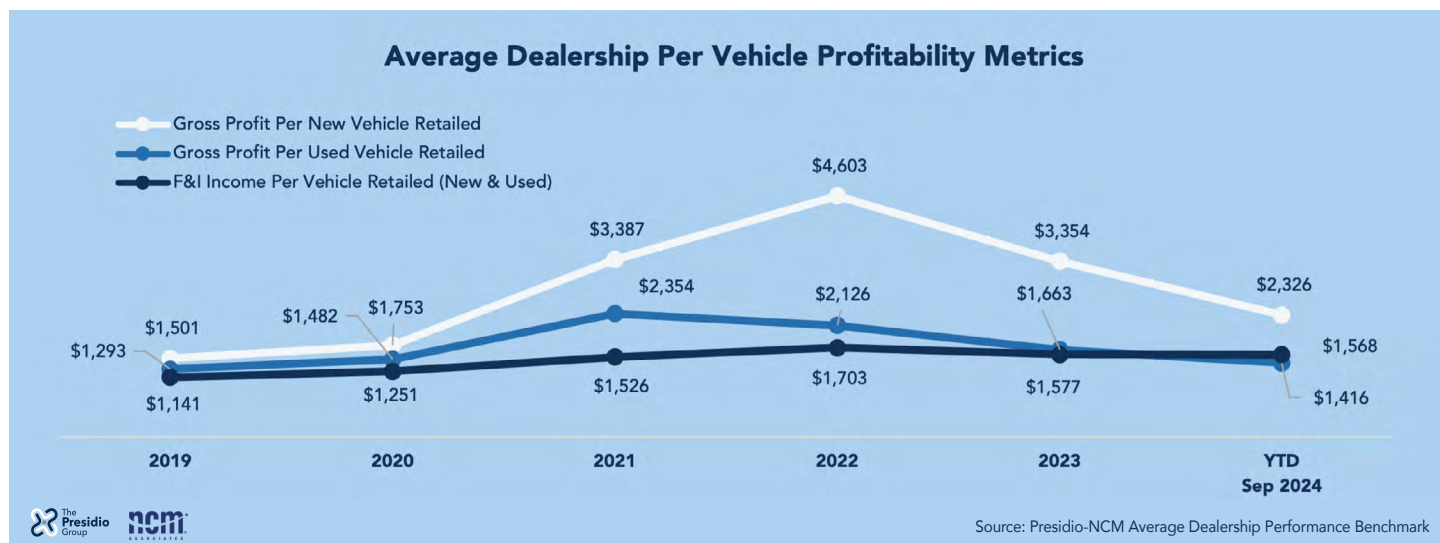
at 68 days at the end of September, according to a Presidio analysis of Wards Intelligence inventory data.

Concerns about affordability and high interest rates, plus economic uncertainty in advance of the 2024 election, have kept some buyers on the sidelines. It will be interesting to see whether the expected continuation of the Federal Reserve’s interest rate-cutting campaign will help boost sales in the post-election period.

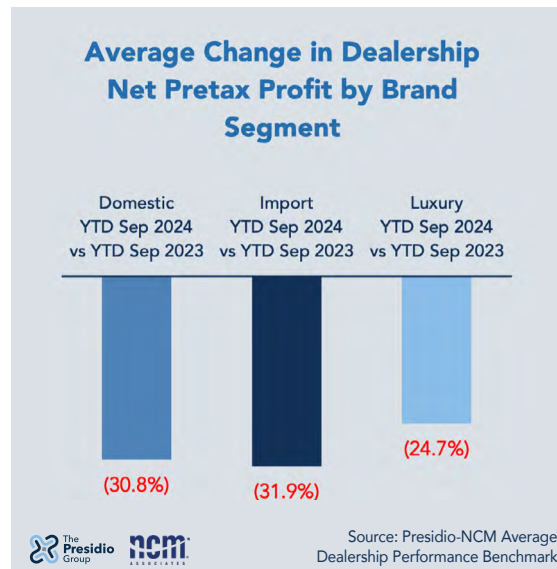
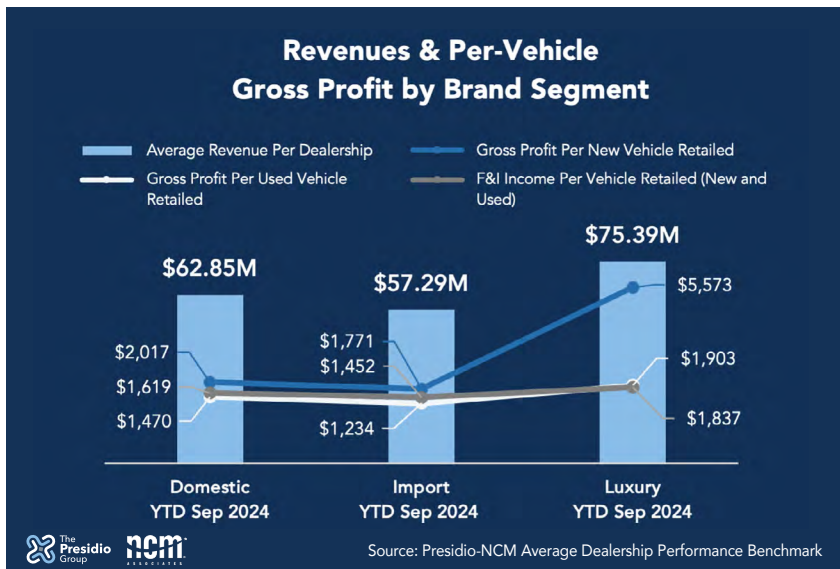
Through the first nine months of 2024, the average dealership retailed 647 new vehicles, up 1.6%. It retailed 551 used vehicles during the same period, down 0.2%. Total retail volume was 1,198 vehicles. Total revenue per store was \$61.6 million, down 2%.

Used-vehicle supply continues to be tight as the new-vehicle production constraints and leasing drought of two and three years ago come home to roost on the used side of the business. That used-vehicle supply challenge will continue and could even be exacerbated in some regions by recent hurricane-related vehicle destruction. Franchised dealerships are likely to face challenges improving used-vehicle sales volume until that supply situation normalizes.

The combination of more supply and higher interest rates this year has pressured dealership floorplan interest, which has swung from a credit to an expense in 2024. Through the first nine months of 2024, the average dealership posted net floorplan interest expense of nearly \$109,000. That’s a swing from a gain of nearly \$24,000 for the same period in 2023. Dealers can make money on floorplan during low-rate environments because of credits that automakers pay to dealerships. On a per-vehicle basis, net



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floorplan interest cost the average dealership \$90 instead of earning it \$20 as in the year-earlier period, combining for a total difference of \$110 per vehicle retailed.

Advertising costs for the average dealership rose 4.1% through the first nine months of 2024, an increase of \$10 per vehicle retailed.

The Presidio team believes that brand and geography will continue to play a major role in dealership performance and profitability.

The variables can differ widely by brand; some automakers are managing production, inventory and incentives far better than others. On inventory, for instance, the domestic brands have seen supplies soar this year, ending September at a 95-day supply as a peer group. By contrast, certain Japanese brands such as Toyota and Subaru have extremely tight supplies.

The importance of brand is apparent in Presidio-NCM benchmark data segmented by brand type. All three brand segments saw narrower declines in net pretax profitability for the average dealership during the first nine months of 2024 compared with the first half of the year. That demonstrates that the leveling off discussed earlier is happening broadly, an important step in finding a new operating normal for the industry.

The luxury-brand segment continued to outperform both domestic and import-brand segments. The average luxury store experienced a 24.8% year-over-year profit dip during the first nine months of 2024 versus a 32.0% slide for import

and a 30.8% drop for domestic.

Vehicle margins for luxury stores also continue to do better. Average gross profit per new vehicle for the luxury segment was \$5,573 through the first nine months of 2024, a year-over-year slide of 17%. Gross profit per used vehicle was \$1,903, down slightly from midyear and down significantly year over year.

Average gross profit per new vehicle for domestic stores slid 37% year over year to \$2,017. Gross profit per used vehicle came in at \$1,470, up slightly from midyear but down year over year.

Average gross profit per new vehicle for import-brand stores dropped 38% year over year to \$1,771. Gross profit per used vehicle was \$1,234, up slightly from the first half but down year over year. Though the import segment experienced the steepest profit slide, it's important to note that certain brands in that segment — notably Toyota, Subaru and Honda — have some of the best-performing dealerships in the industry.

A key takeaway evident across all brand segments: While new-vehicle margins are still falling, used vehicles may be finding their new normal on profitability.

It may mean stabilization is right around the corner. And if performance firms up at levels well above the pre-pandemic norms, the Great Normalization will prove yet another event validating the resiliency of the dealership model.

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