

Just more than two-thirds of U.S. auto dealers who participated in the quarterly Presidio Dealer Direction Survey expect dealership profitability to decline over the next 12 months as the industry continues to see performance fall off from pandemic-era highs.

“We’re headed back down the peak toward normalcy,” one survey respondent wrote.

“The factors that existed during the pandemic that created shortages of product have been largely eliminated,” another wrote. “Competition is ramping up again, and dealer pricing is following a competitive strategy that leads to decreased profit from new-vehicle sales.”

“The cost of doing business has risen rapidly and shows little sign of slowing.”

— Dealer respondent to The Presidio Group
Q4 2023 Dealer Direction Survey

Nearly half of respondents expect dealership values will trend downward during the same period. A valuation dip is a natural consequence of lower profits, as several dealers pointed out in comments. Even with declines expected, many respondents said they generally still view values as strong and noted that the coming changes will be situational.

“It will vary by brand, size and location,” one respondent wrote.

Some are even optimistic that values will hold or even improve depending on the circumstances.

“The right store in the right spot with the right franchise continues to be worth more,” a survey taker wrote.

Even with their moderately negative outlook about how dealership financial performance and values will trend over the next year, dealer respondents continued to express enthusiasm about the industry. The majority said they want to keep expanding their dealership groups — 56 percent of respondents expressed interest in buying stores over the next 12 months, while only 7 percent indicated an interest in selling dealerships during the same period.

The quarterly Presidio Dealer Direction Survey was

conducted from Jan. 19 through Feb. 15 and aggregated responses from 285 survey takers representing about 3,100 franchised dealerships. That was a bigger and more varied pool of dealers than those who participated in the inaugural survey last fall. In addition to their outlook about dealership profitability, valuations and acquisitions, we queried respondents on the factors that will most challenge dealers in both the short and long term. We also asked them to rate the most desirable brands to represent.

Their responses reveal that dealers are increasingly concerned about economic headwinds in the short term and threats to the franchised dealer model in the long term. But those concerns are balanced by dealers’ desire to expand their businesses and their confidence in the strength of the dealer franchise model.

Rising expenses were a clear theme highlighted by dealers.

“The cost of doing business has risen rapidly and shows little sign of slowing,” one respondent wrote.

“We will have to work very hard with all team members to get it to stay the same,” another wrote. “We began implementing changes 6 months ago to prepare for the

Challenges Ahead

Dealers responding to a Presidio survey identified the most concerning headwinds they face in the near term. Dealers could select up to three answers.

Interest rates	55.7%
Vehicle affordability	53.2%
Electric vehicle supply-demand balance	32.7%
Inflation	21.4%
Increased regulatory scrutiny	18.2%
Cost of capital	16.9%
Inventory levels	16.5%
Possibility of recession	15.7%
Threats to the franchise model	14.9%
Consumer demand	14.5%
Vehicle loan availability/lending standards	8.5%
Dealer-factory relations	7.3%

slowing economy.”

Several dealers mentioned increased pressure from automakers eating into vehicle margins. “Manufacturers are squeezing the dealers,” one respondent wrote.

In the near term, survey takers called out interest rates, vehicle affordability and electric vehicle supply-demand balance as their three most concerning headwinds. One respondent commented that the industry would experience “downward pressure on [profit per new vehicle retailed] as OEMs compete to clear overproduced EVs due to supply-demand favoring consumer.”

Survey respondents were allowed to select up to three near-term and long-term risks.

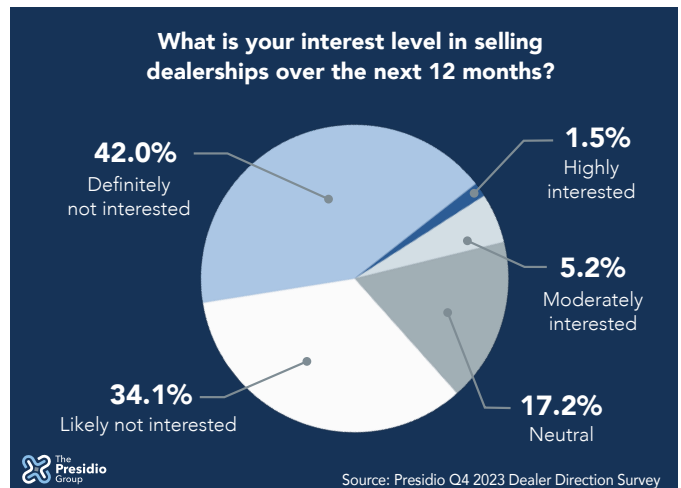
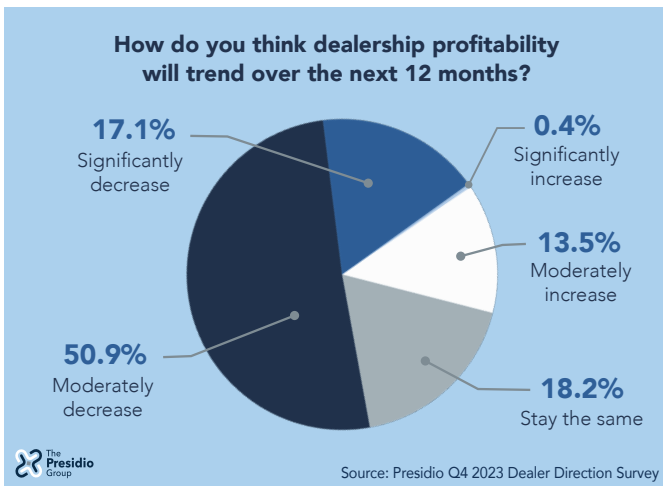
In the long term, survey respondents called out direct sales models as presenting the biggest risk to the traditional franchised model. Nearly two-thirds of respondents selected

that factor. The next two biggest long-term concerns selected were legislative changes, particularly around dealer franchise laws, and the industry shift to electric vehicles.

“Consolidation to big players will force the manufacturers to go to a direct-to-consumer model,” one respondent wrote.

Even with those concerns, the majority of dealers who took the survey still are bullish about growing and buying more stores. With 56 percent of respondents indicating interest in buying dealerships in the next 12 months — and such interest being backed up by the frequent dealership transactions announced so far early this year — further consolidation of the dealer body is happening in force.

“We will continue to see consolidation with groups,” one respondent wrote. “It will become increasingly difficult for mom-pop dealerships to survive.”



Not surprisingly, Toyota and Lexus continue to lead the Presidio Brand Desirability Rankings. The stablemates are perennially top performers and popular with dealers. Both brands saw throughput, or sales of new vehicles per dealership, soar in 2023 as inventory levels continued to recover. Lexus posted throughput of 1,312 new vehicles per store, while Toyota jumped to 1,558 per outlet, according to Automotive News.

The ranking is determined by dealer respondents to the Presidio Dealer Direction Survey, which is fielded each quarter. They are asked to rank the desirability of owning dealerships representing specific brands. Most brands sold in the U.S. are given as options, with some presented as clusters of brands commonly found under one roof — Chrysler-Dodge-Jeep-Ram or Jaguar-Land Rover, for instance. We also give an option for ultraluxury brands (such as Aston Martin, Ferrari and McLaren) grouped collectively.

The pool of respondents for the most recent survey expanded to include more small- and medium-sized dealers, driving some of the change seen in the rankings. In all, responses were collected from 285 dealers representing about 3,100 stores.

Volume brands, both import and domestic, were generally the biggest movers up the list, while luxury brands generally slipped the most in placement.

Honda and Subaru made significant gains near the top of the ranking with Honda at No. 3, up four spots, and Subaru at No. 4, up two spots. Honda has seen product availability improve, and Subaru continues to see rising throughput with sales per dealership up to 989 vehicles in 2023.

The three most coveted German luxury brands — Porsche, Mercedes-Benz and BMW — each slipped two spots but remain highly ranked at Nos. 5, 6 and 7, respectively.

Porsche, though a desired and valuable brand, is expensive to buy and low volume thus making for a higher return-on-investment hurdle. The view on Mercedes-Benz may be hampered by an electric-vehicle strategy unpopular with some dealers. Mercedes stores also are known in the market as difficult to acquire because the automaker is quick to exercise its right of first refusal and reassign deals to a buyer of its choosing, typically someone who already owns the brand's outlets.


























Why buy?

Dealers responding to a Presidio survey said adding desired brands to their portfolio and improving return on investment were their top reasons for wanting to acquire dealerships. Dealers could select up to three answers.

Generating return on investment	54.3%
Enhancing dealership portfolio by adding desired brands	54.3%
Creating opportunities for next generation or key operational talent	36.4%
Building scale to leverage technology investments or other resources	28.5%
Diversification	23.2%
Enhancing dealership portfolio by adding desired regions/markets	21.2%
Investing excess capital	16.6%

Brand Rankings

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

 TOYOTA	Toyota	8.67
 LEXUS	Lexus	8.18
 HONDA	Honda	7.76
 SUBARU	Subaru	7.66
 PORSCHE	Porsche	7.10
 Mercedes-Benz	Mercedes-Benz	6.96
 BMW	BMW	6.90
 KIA	Kia	6.71
 HYUNDAI	Hyundai	6.45
 CHEVROLET	Chevrolet	6.28
 AUDI	Audi	5.86
 FORD	Ford	5.52
 BUICK GMC	Buick-GMC	4.79
 JAGUAR LAND ROVER	Jaguar-Land Rover	4.71
 MAZDA	Mazda	4.57
 GENESIS	Genesis	4.47
 VOLKSWAGEN	Volkswagen	4.39
 CADILLAC	Cadillac	4.37
 JEEP RAM	CDJR	4.14
 ACURA	Acura	4.11
 ASTON MARTIN FERRARI McLAREN	Ultraluxury	3.96
 VOLVO	Volvo	3.72
 NISSAN	Nissan	3.61
 LINCOLN	Lincoln	2.90
 INFINITI	Infiniti	2.86