

The road to normalization: Brands, geography matter more than ever

The average U.S. dealership saw additional profit declines as 2023 ended, further validating what The Presidio Group has dubbed auto retail's Great Normalization as the record highs of the peak pandemic period retreat.

The first full-year results for the Presidio-NCM Average Dealership Performance Benchmark showed that the average franchised store posted a 20.4 percent decline in net pretax profit for all of 2023, an acceleration from the 19.5 percent drop recorded through the first nine months of the year. The dollar figure of the average store's net pretax profit is not being shared.

"We're continuing the downward direction, but the rate of decline is showing signs of leveling off," said George Karolis, president of The Presidio Group. "2024 will be choppy and will trend down overall. But brands and geography matter much more than ever during this normalization journey."

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.

"As dealerships' operational metrics continue to decline from the extraordinary levels of the first few years of the pandemic, they will benefit by looking at how their results stack up to their peers," NCM Associates CEO Paul Faletti said. "Dealers also need to examine their pre-pandemic operational baseline so they can best position themselves for the more traditional retail environment we're starting to see come back into play. That in part means going back to the basics — in a lot of areas, we took our eye off the ball during COVID."

Dealers generally understand that profits aren't staying at the elevated levels of recent years. More than two-thirds of dealers who took the most recent Presidio Dealer Direction Survey said they expect dealership profitability will decrease over the next 12 months.

That said, auto retailing on the whole remains an extraordinarily robust business. Dealership profitability still remains well above pre-pandemic norms, and the

Current Snapshot

Here's a quick look at the average dealership performance for full-year 2023:

Profit change year over year:

↓ -20.4%

Revenue:
\$83.2M
↑ 1.1%

New vehicles retailed:
859
↑ 6.7%

Used vehicles retailed:
729
↓ 5.0%

Gross profit per new vehicle retailed:
\$3,354
↓ 27.1%

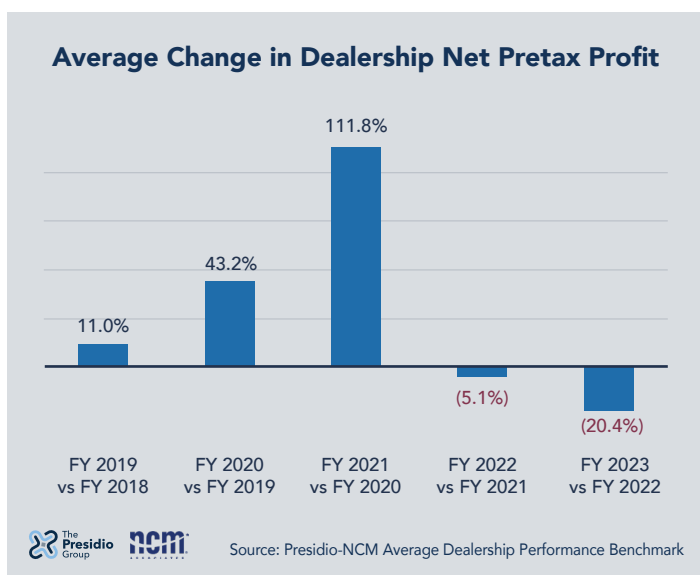
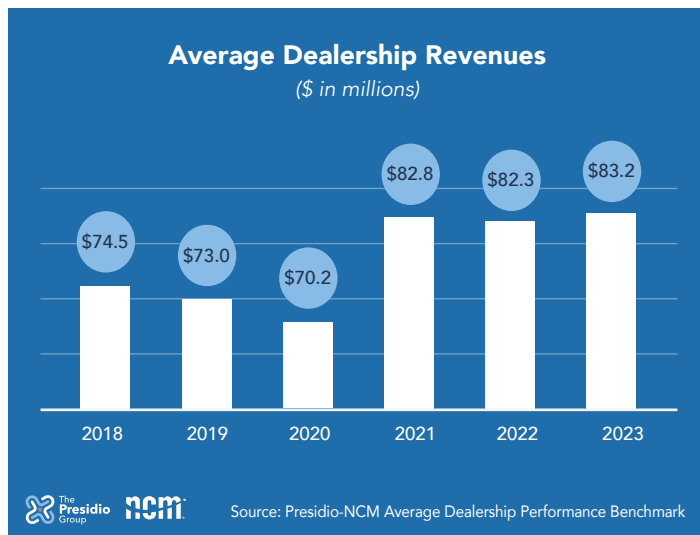
Gross profit per used vehicle retailed:
\$1,663
↓ 21.8%

F&I income per retail unit:
\$1,577
↓ 7.4%

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

experts at Presidio and NCM expect the typical dealership will remain solidly profitable even though further declines are likely. After all, even with a 20.4 percent drop in 2023, the average dealership’s net pretax profit last year was still more than 2.5 times 2018’s level, according to the Presidio-NCM analysis.

The biggest driver of 2023’s profit decline was the turnaround in new-vehicle inventory. As vehicle availability improved after years of shortages, dealerships’ pricing power ebbed. While the average dealership recorded a 6.7 percent gain in retail new-vehicle volume, the average gross margin per new vehicle retailed tumbled 27.1 percent to \$3,354.



As noted, brand and geography will play an increasingly central role in ongoing performance. Luxury-brand dealerships have outperformed their peers so far in retaining pandemic-era profits. But a deeper look at Presidio-NCM segment data for the fourth quarter reveals some cracks forming for luxury stores.

The average luxury dealership, though still experiencing a smaller profit drop for the full year than the typical dealership, saw its rate of decline in 2023’s fourth quarter widen beyond what domestic-brand or import-brand stores experienced. Luxury stores went from a 10.1 percent average profit dip for the first nine months of the year to an 11.7 percent drop for full-year 2023, according to the Presidio-NCM benchmark.

By contrast, the average import-brand store experienced a narrower rate of profit decline – moving from a drop of 21.2 percent through September to a slide of 21.3 percent for the full year. Domestic-brand stores saw a similar change – going from a 23.2 percent profit decrease through September to a 23.3 percent decline for full-year 2023.

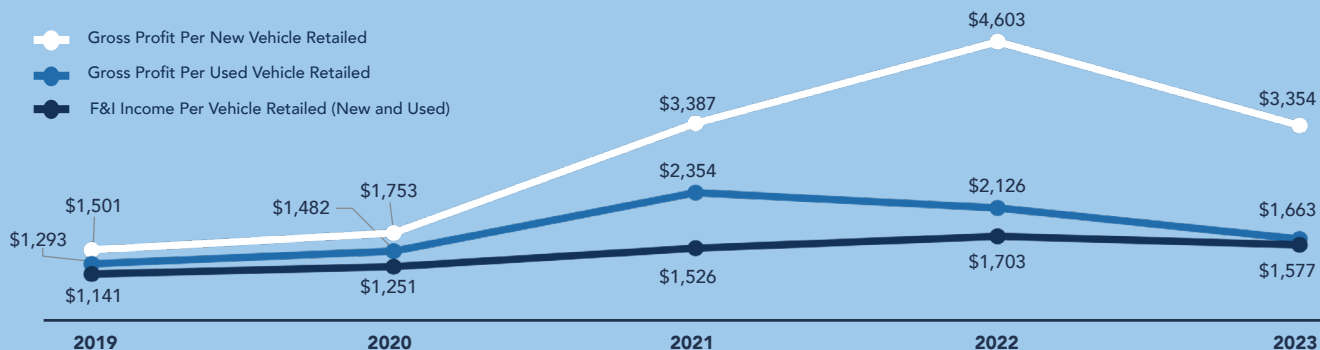
Luxury stores, however, are still more resilient overall to auto retailing’s negative trends. That is demonstrated by the extremely robust gross profit level of \$6,538 per new vehicle for the average luxury dealership in 2023. That per-vehicle gross slid 2.6 percent compared with the first nine months of the year. By contrast, per-vehicle profit on the new side at the average domestic-brand store came in at \$3,132 and down 2.1 percent compared with the first nine months. The average import-brand store recorded a per-new vehicle gross profit of \$2,694, down 5.7 percent compared with the first nine months.

Interestingly, import-brand stores trail luxury and domestic stores in the average used-to-new sales ratio. The average luxury and domestic stores retailed around one used vehicle for every new vehicle sold in 2023. That kind of 1:1 used-to-new ratio has long been considered the gold standard in auto retailing. The average import-brand store sold 0.73 used cars to every new vehicle sold in 2023.

More broadly on the used side, dealers continue to battle inventory availability challenges. The pipeline problem has firmly arrived – all those vehicles not produced at the

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Average Dealership Per Vehicle Profitability Metrics



Source: Presidio-NCM Average Dealership Performance Benchmark

height of the pandemic and microchip shortages in 2020 and 2021 mean fewer late-model used cars and trucks coming back to the market now. The average dealership saw retail used-vehicle volume dip 5.0 percent in 2023. And used volume is down even more compared with pre-pandemic norms — the average store’s used volume in 2023 was 10.1 percent lower than in 2018.

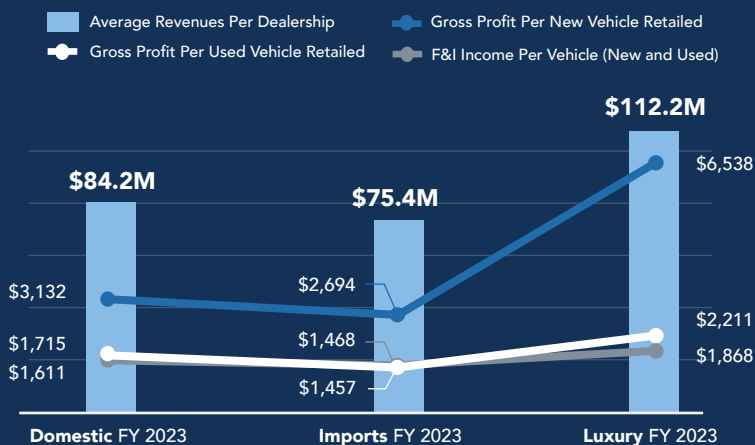
Even with that still-limited supply of used inventory, grosses also have dropped. The average dealership recorded \$1,663 in gross profit per used vehicle last year, according to the Presidio-NCM benchmark, down 21.8 percent compared with 2022. Used-vehicle profitability is still higher than before the pandemic, however, with last

year’s per-vehicle gross \$330 higher than in 2018.

Finance-and-insurance income declined 7.4 percent to \$1,577 per vehicle in 2023, though it’s still 47.0 percent higher than in 2018.

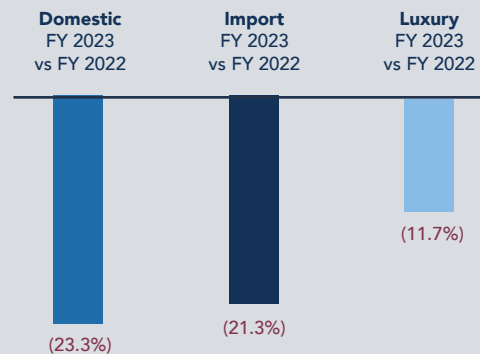
While the industry’s downward trends are continuing in 2024, it’s not yet clear whether the pace of decline slows, stays steady or accelerates. What is clear is that the dealers who commit to improved customer experiences while controlling expenses and aligning employees on operational best practices will be better positioned for industry-leading long-term outcomes.

Revenues & Per-Vehicle Gross Profit by Brand Segment



Source: Presidio-NCM Average Dealership Performance Benchmark

Average Change in Dealership Net Pretax Profit by Brand Segment



Source: Presidio-NCM Average Dealership Performance Benchmark

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