

**Moving the Metal:  
Three Recent Auto Retail Research Projects  
... and Their Implications for the Future**

**Glenn Mercer  
AFNY April 2025**

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# **Three Research Projects...**

## **... and Their Implications for the Future**

**I. Dealership of Tomorrow: External Trends**

**II. Cost of Distribution: Internal Economics**

**III. Back to Basics: Current Challenges**

**IV. Implications for Industry Relations**

- General Background**
- Panel Discussion**

# **Three Research Projects...**

## **... and Their Implications for the Future**

**I. Dealership of Tomorrow: External Trends (2017+)**

**II. Cost of Distribution: Internal Economics**

**III. Back to Basics: Current Challenges**

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# **Dealership of Tomorrow: A Focus on External Trends**

**Purpose: examine long-term trends “outside the store” for their potential impact on new-car retailing.**

- AV (autonomous vehicles)**
- EV (electric vehicles)**
- MS (mobility services, especially ridehail)**
- CC (connected car)**
- And others (e.g. vehicle subscriptions, AI, China...)**

# Dealership of Tomorrow: A Focus on External Trends

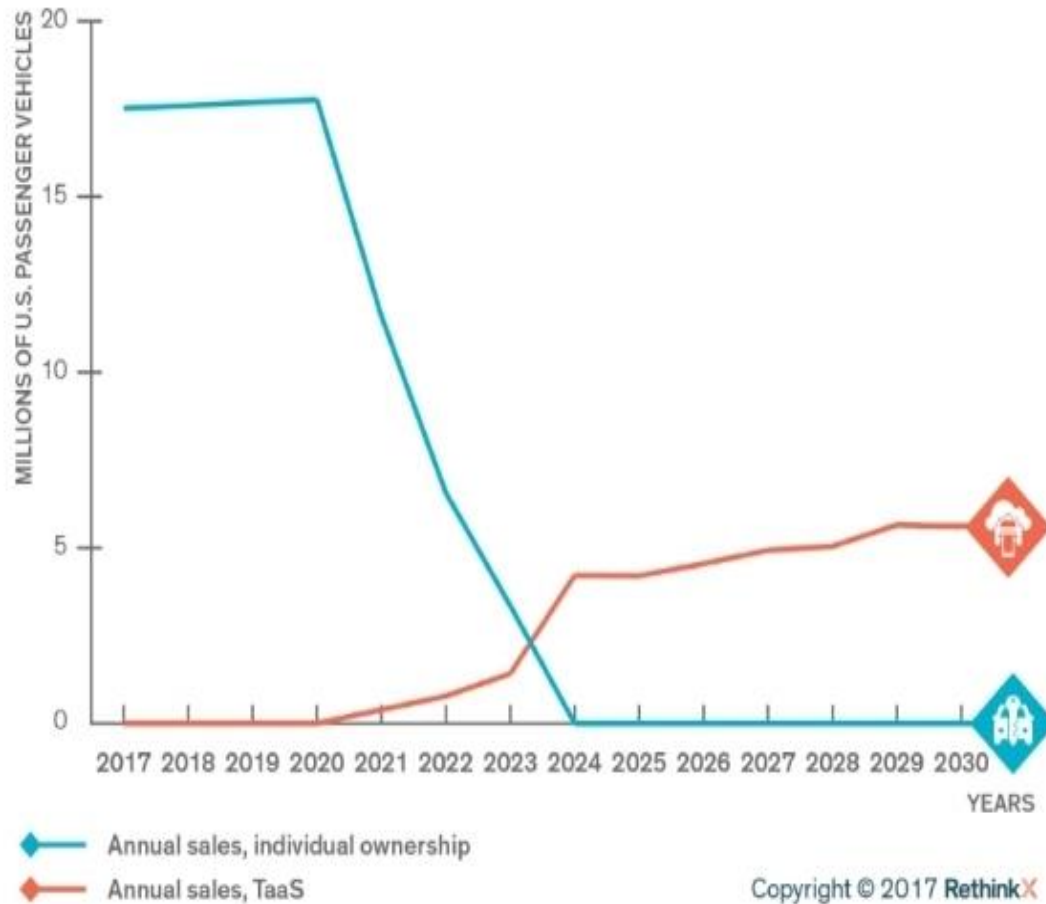
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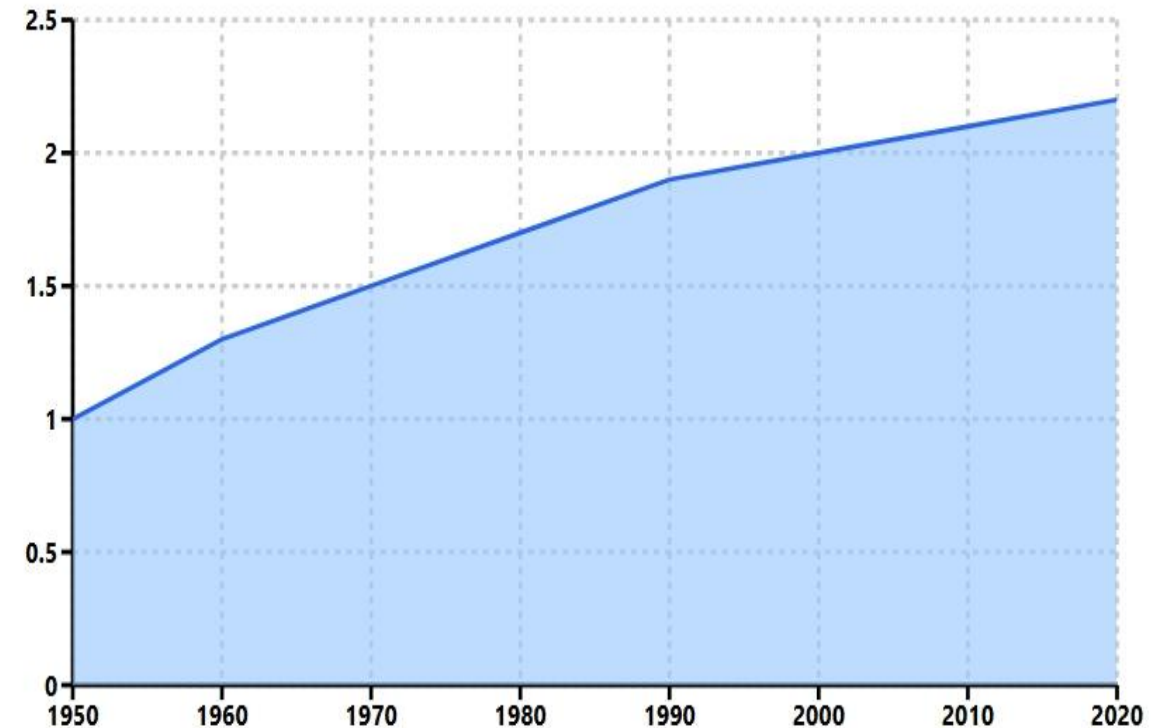
**Top-line Summary: *the industry always adapts***

# Findings Summarized in One Chart: RESILIENCE

*ICE vs. TaaS: Projected trends in annual sales*



*Vehicles per Household Over Time*



Source: Transportation Energy Data Book, ORNL, Table 9.2

# Three Research Projects...

## ... and Their Implications for the Future

### I. Dealership of Tomorrow: External Trends

- External threats have receded: so, *focus on the task at hand*

### II. Cost of Distribution: Internal Economics

### III. Back to Basics: Current Challenges

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**I. Dealership of Tomorrow: External Trends**

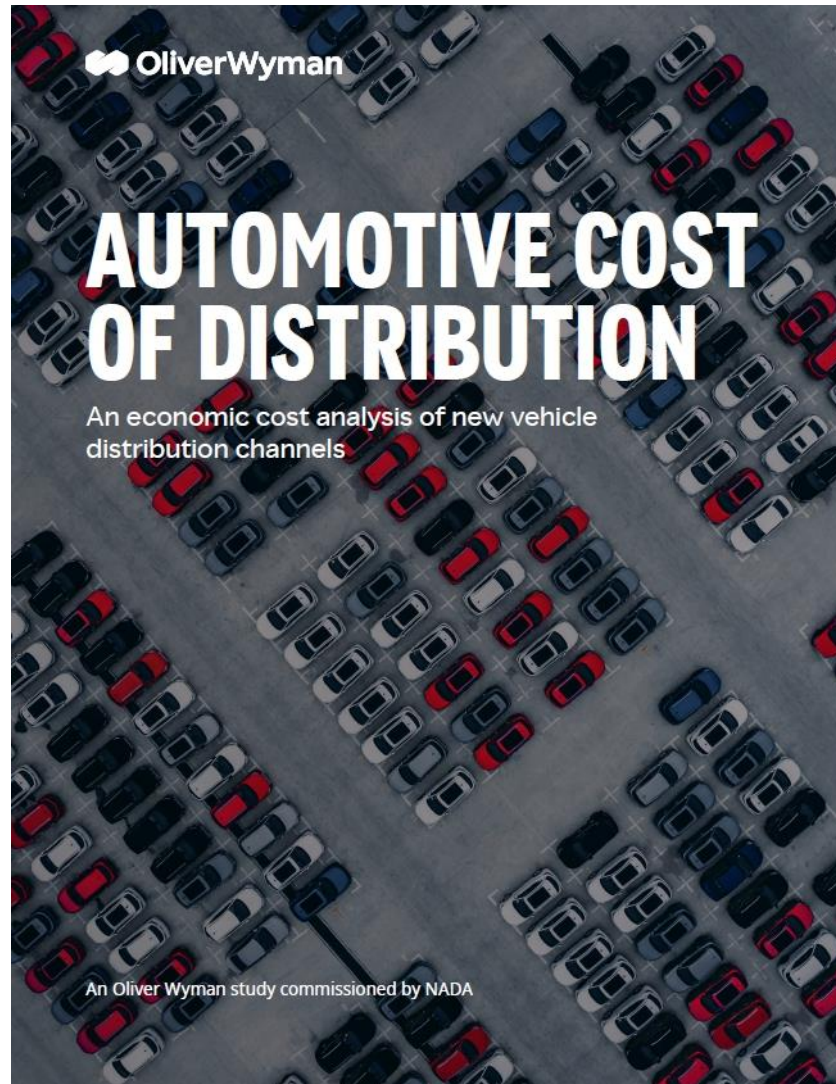
**II. Cost of Distribution: Internal Economics (2024)**

**III. Back to Basics: Current Challenges**

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# NADA/Oliver Wyman on channel costs

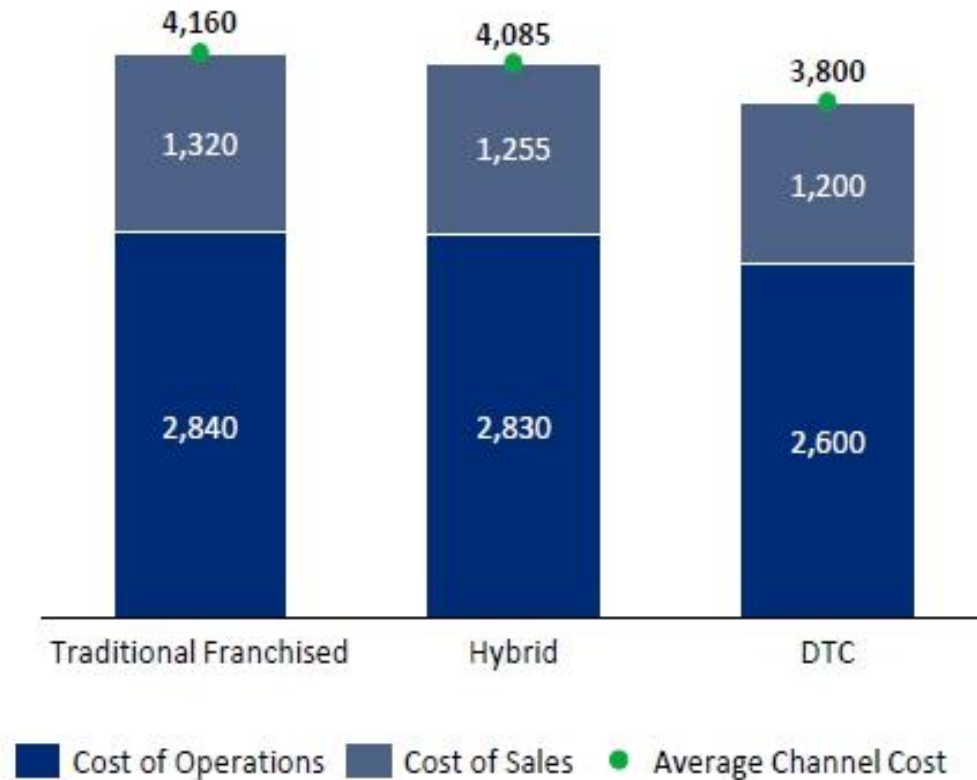


**Assertion: “We think our distribution model today is about \$2,000 per unit more expensive than Tesla.”**

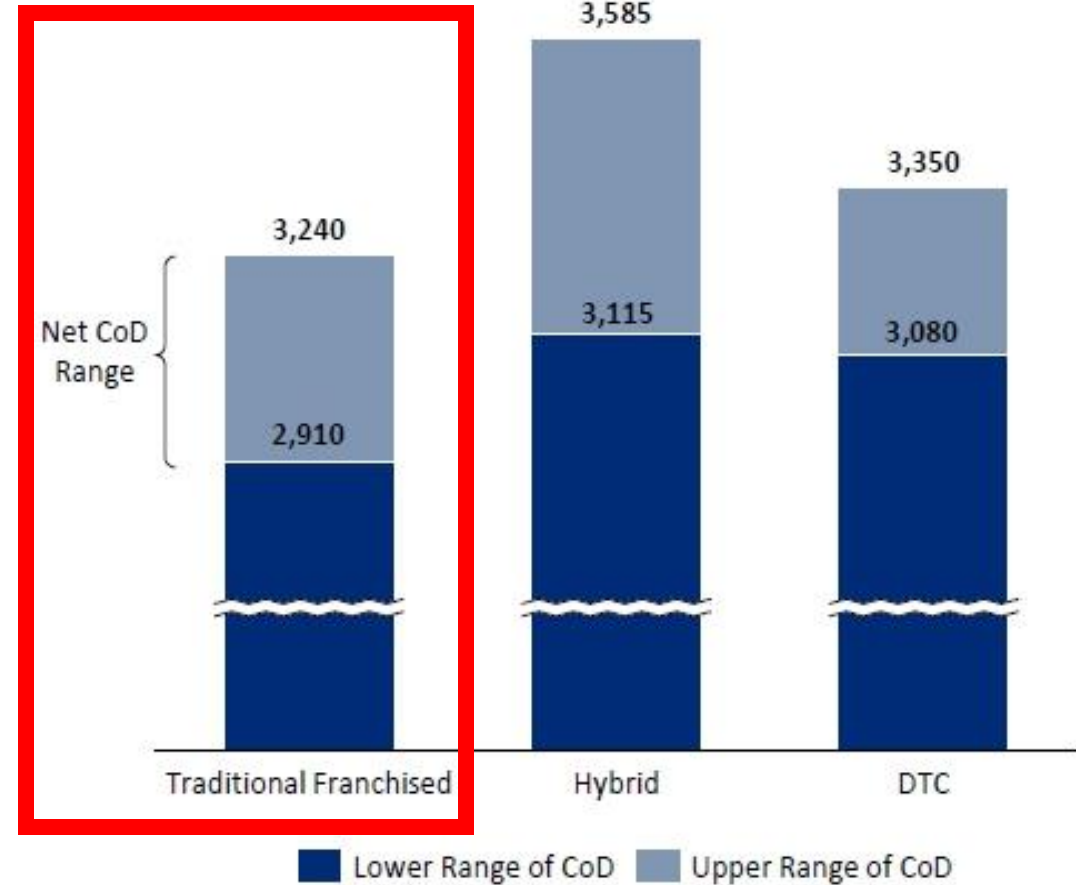
**Jim Farley, June 1, 2022, Bernstein 38th Annual Strategic Decisions Conference**

# Reality: on net cost + value, the dealer channel wins

Average Channel Costs per Vehicle (value excluded)  
2012 – 2019, \$



Net Cost of Distribution Ranges per Vehicle  
2012 – 2019, \$



# Three Research Projects...

## ... and Their Implications for the Future

I. Dealership of Tomorrow: External Trends

II. Cost of Distribution: Internal Economics

- The channel has proven its worth: *there's no greener pasture*

III. Back to Basics: Current Challenges

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# **Three Research Projects...**

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**I. Dealership of Tomorrow: External Trends**

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**III. Back to Basics: Current Challenges (2024 - 2025)**

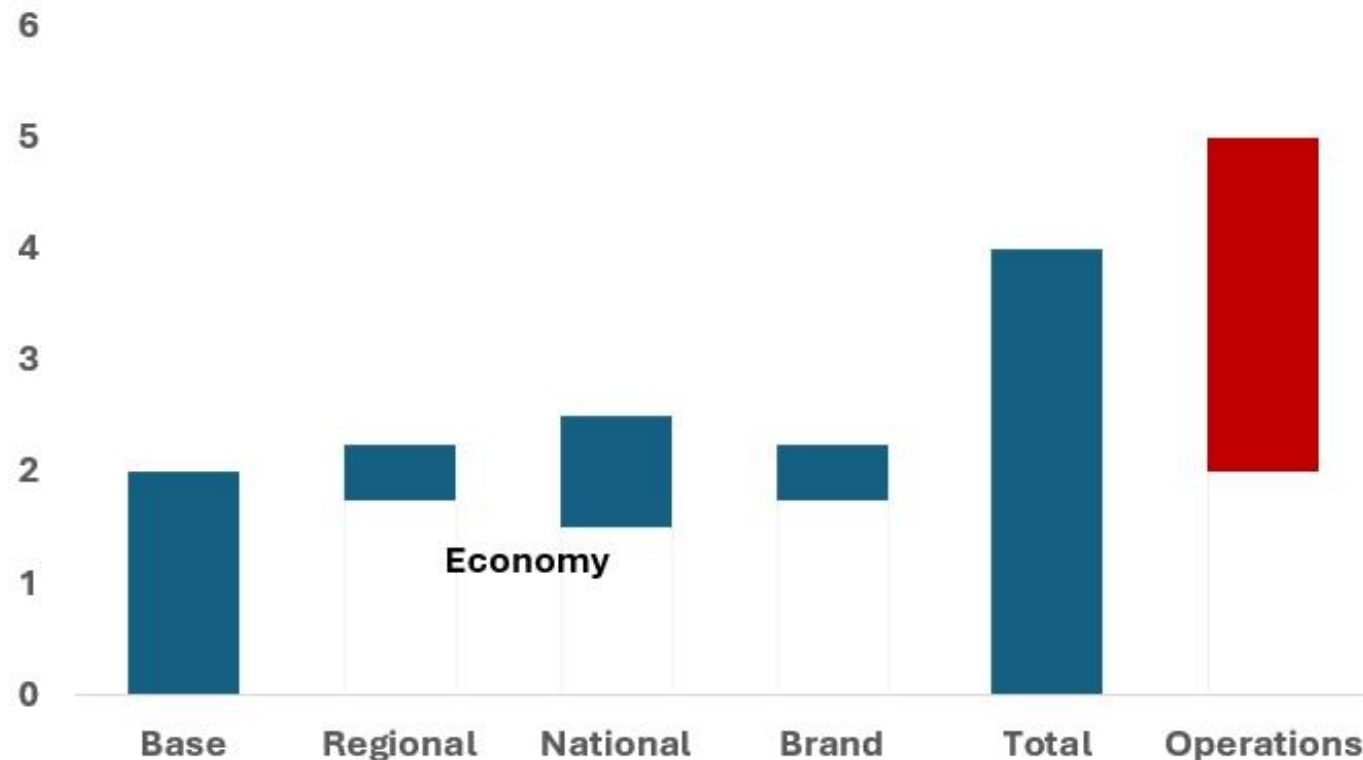
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# Back to Basics: Impact on ROS of External Factors

## WHILE OTHER FACTORS MATTER, OPERATIONAL EXCELLENCE DOMINATES

Contribution of Various Factors to Dealer ROS, %



How to read:

- if average ROS is 2%;
- a strong location & *local* economy can add 0.5%;
- a strong *national* economy 1.0%;
- favorable brand 0.5%;
- and superior operations (strategy & tactics) 3%.

Effects are *not* likely cumulative!

# **Key Findings on Future Expected Profit... and Beyond**

## **WHAT DID OUR INTERVIEWS AND RESEARCH TELL US? 3 THINGS**

### **1. The Times They Are [ *not?* ] a-Changin'**

- By dealer department, our interviewees' views as to future profitability
- The results? Flat: no significant change in profitability.

### **2. I Can't Get No Satisfaction**

- When we further triangulate these results with other estimates, we forecast, again no significant change in bottom-line profitability.
- This is both good news and bad news

### **3. I Can See Clearly Now**

- The path to BETTER than this average is to out-retail, not out-deal
- Five themes point the way forward

# Future Profit Estimation #1: Adding Up the Parts

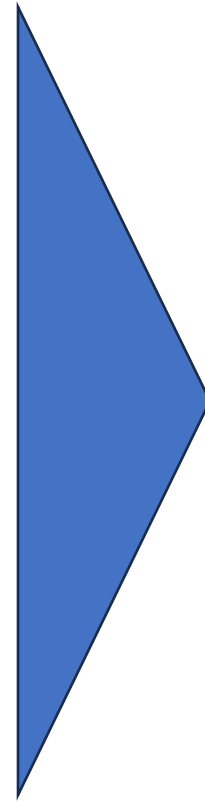
## RESULTS FROM FIELD INTERVIEWS AND RESEARCH

**NEW: FLAT OR DOWN SLIGHTLY**

**USED: FLAT OR UP SLIGHTLY**

**F&I: FLAT OR DOWN SLIGHTLY**

**AFTERSALES: UP OR UP STRONGLY**



**SUMMED UP: NO CHANGE  
TO THE STORE BOTTOM  
LINE, REMAINING  
ON AVERAGE **2.0-2.5% ROS****



# Key Findings

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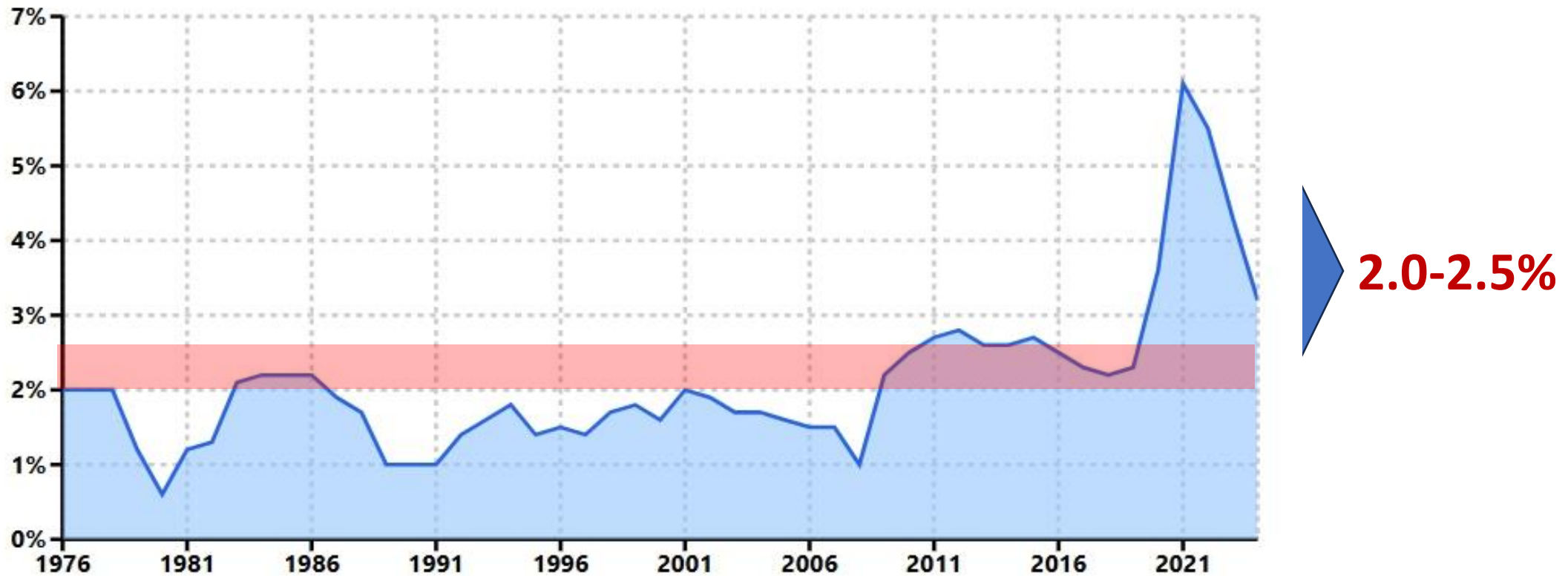
## **2. I Can't Get No Satisfaction**

- This outcome is confirmed when we triangulate with two other estimates.
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# Triangulating Estimation #2: History

## OVER MANY YEARS (EXCEPTING PANDEMIC) ROS HOVERS AT 2-2.5%

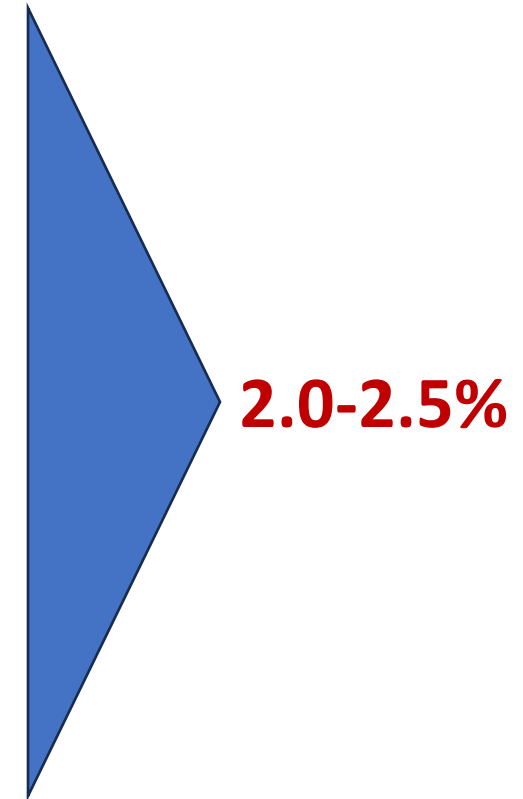
Dealership ROS Over Time



# Triangulating Estimation #3: Channel Economics

**STABLE INDUSTRY M&A ACTIVITY IMPLIES WE ARE AT EQUILIBRIUM**

- If ROS is “too high” external capital will enter and bid up dealership multiples
- If ROS is “too low” capital will leave the industry and reduce dealership multiples
- Stable M&A (“normalized”) multiples over time (Kerrigan, Haig), low rates of owner exit (private, 1-3% / year), and low rates of entry (public chains still <20% share after 25 years) imply stability at this ROS.

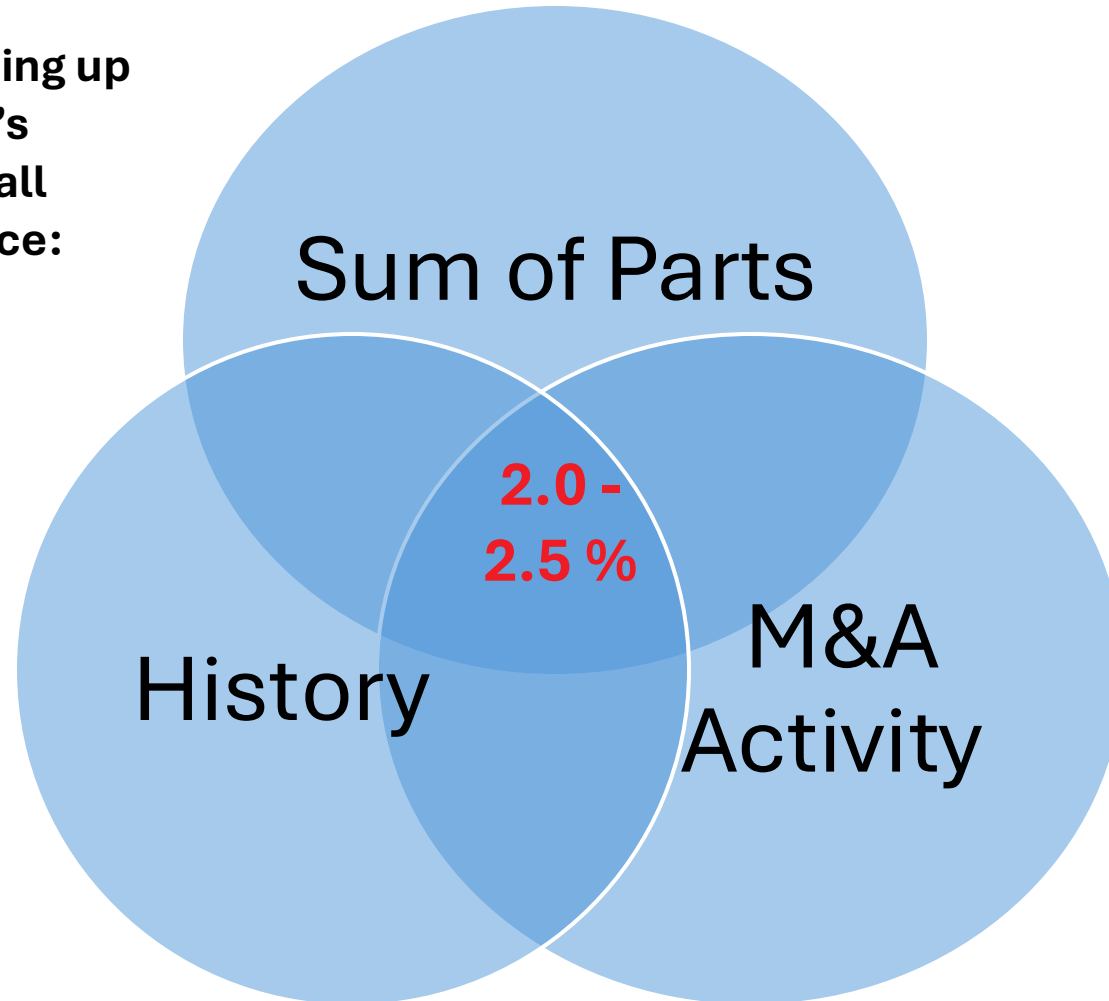


# Triangulation (roughly!) Converges on 2.0-2.5% ROS

## GOOD NEWS (NO DECLINE) AND BAD (NO GROWTH)

Sum of Parts: adding up each department's results, plus overall store costs. Source: interviews.

History: projecting the future from decades of past results. Source: financial records.



M&A Activity: Stable low rates of owner entrance and exit implies current profit levels are at (roughly) equilibrium. Source: general research.

NOTE! “Book” profits only; franchised dealers only; **real estate business excluded (ROS versus ROI)**

# Key Findings

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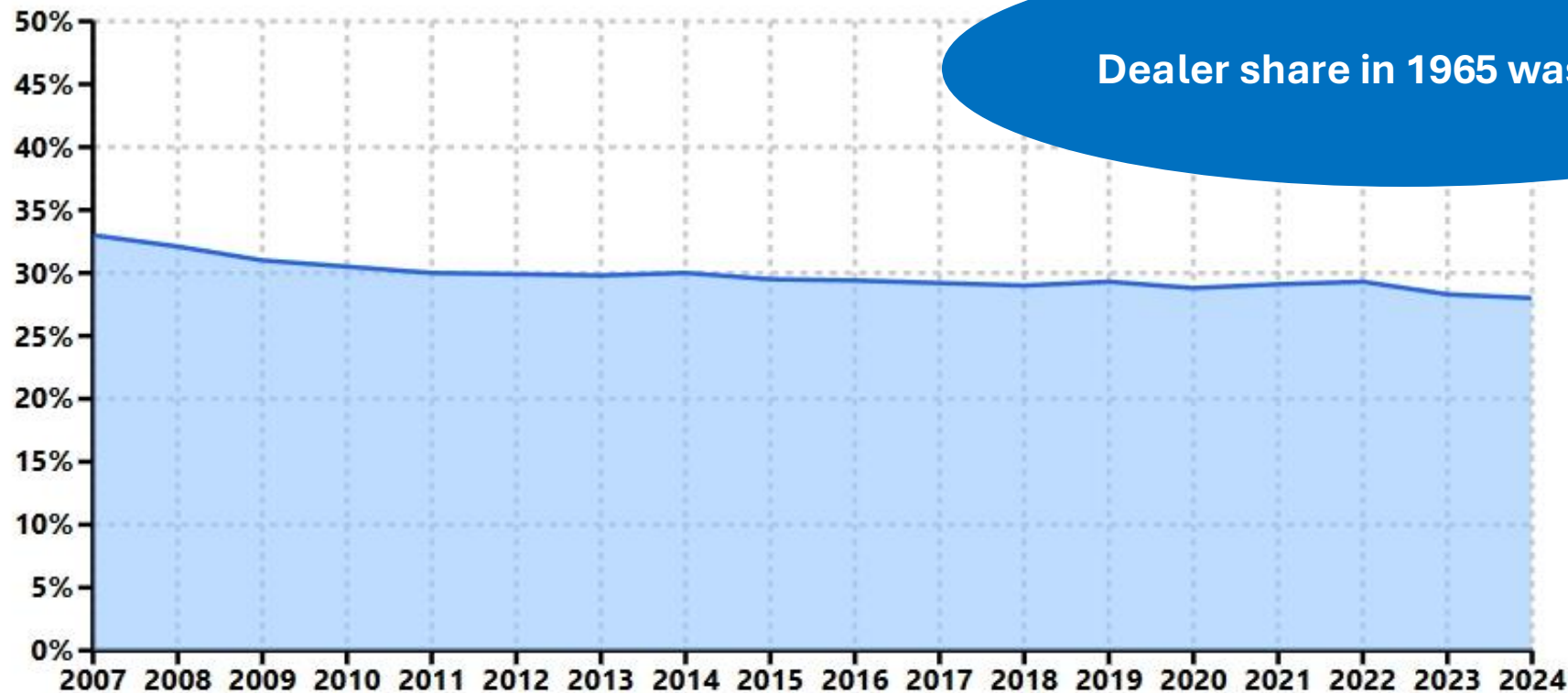
# **What Strategies Can Limit Profit Regression to the Mean?**

## **INTERVIEWS HIGHLIGHTED 5 THEMES ON THE PATH TO BETTER PROFITS**

- 1. Retention retention, retention**
  - From new to used, from both to service and F&I: rinse and repeat
- 2. Cost reduction**
  - E.g., Personnel: automate (replace human expertise w/machine expertise)
- 3. OEM encroachment continues: “family-owned company store”**
  - E.g., Now OEM incentives, not margin, can make or break the bottom line
- 4. Scale matters, but it’s not just about today’s cost**
  - Scale provides “room” to invest, to centralize, to diversify
- 5. Unlock (finally) the promise of IT**
  - The time has come for dealers and their vendors to finally crack the code

# Retention: *service* example: upside is almost unlimited (INCREASING VEHICLE COMPLEXITY (ADAS, EV) SHOULD – FINALLY? - HELP)

Dealership Share of Total Maintenance and Repair Market

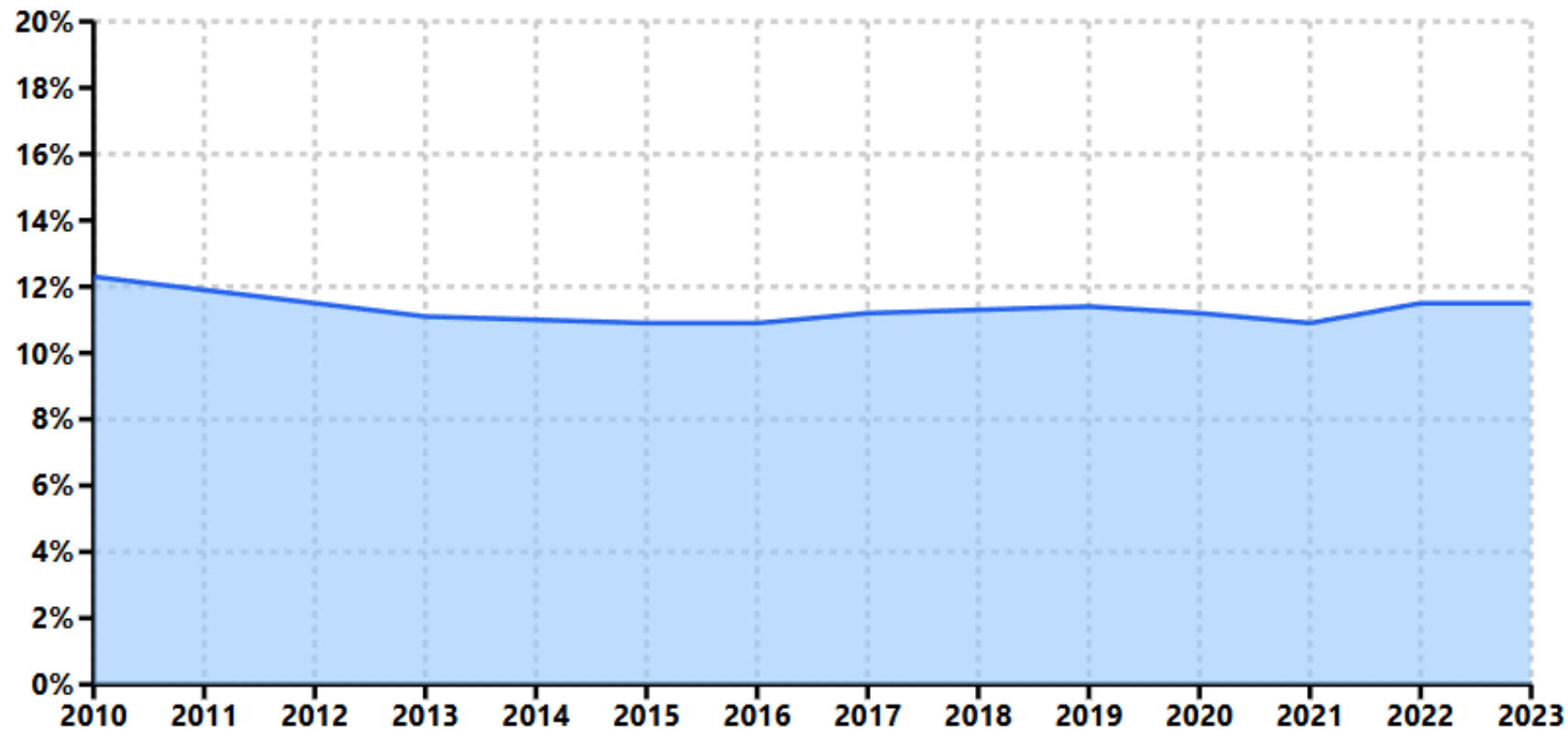


# Five cross-cutting themes on the path to better profits

1. Retention retention, retention
2. Cost reduction
3. OEM control advances: “family-owned company store”
4. Scale matters, but it’s not just about today’s cost
5. Unlock (finally) the promise of IT



**This will be an uphill battle: so far victory is elusive**  
**THE HOPE IS THAT *THIS* TIME AUTOMATION (INCL. AI) WILL WORK**  
**Total Expense as Percent of Store Sales**



# Five cross-cutting themes on the path to better profits

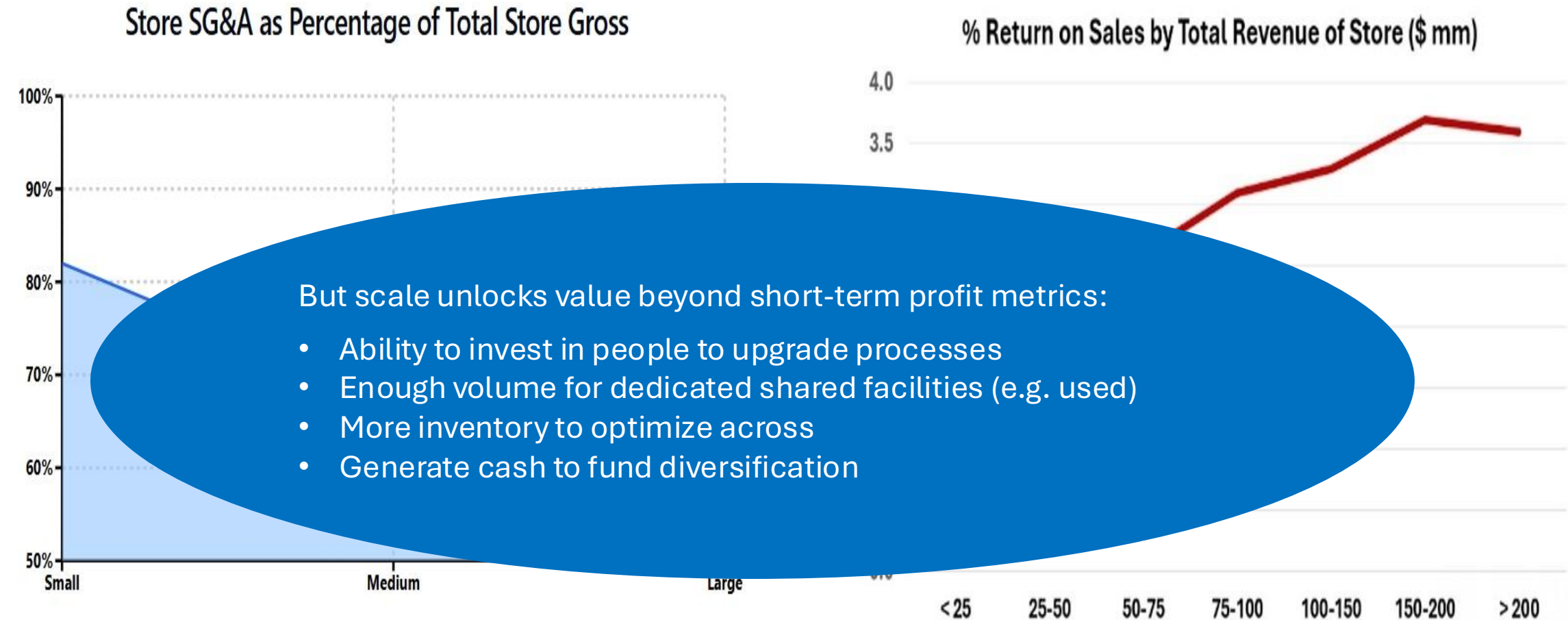
1. Retention retention, retention
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3. OEM control advances: see today's panel discussion
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# Scale matters, for many reasons – none automatic

## THE EVIDENCE ON PROFIT RATIOS IS CONCLUSIVE (*AT THE STORE LEVEL*)



Source: Lithia Motors

Source: Industry Database X

# Five cross-cutting themes on the path to better profits

1. Retention retention, retention
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4. Scale matters, but it’s not just about today’s cost
5. **Unlock (finally) the promise of IT**

# Unlocking finally the full potential value of IT

## I.T. HAS TRANSFORMED THE INDUSTRY... BUT REMAINS FRUSTRATING

- “We use IT to help us do things we can’t replace.”
- “The business is not ready for IT.”
- “IT is too expensive. The costs are too high.”
- “IT should be used to improve productivity.”
- “The tech is maturing. It’s not going to replace the old West.” Lots of firms launching just in order to be bought out by a DMS vendor. Calming down now.”
- “Regardless of problems, investing in automation of processes is THE way forward.”
- “I think the average store has two dozen IT vendors? How did we let this happen?”
- “We complain, but it’s our own fault, we’re salesmen not coders. We need a CTO.”
- “Maybe we can *finally* monetize customer data, by using it to drive retention.”

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# Dealer/OEM Relations: *Personal* Views From 30 Years - 1

## **Overall, relations are somewhat better:**

- Larger stores less dependent on the OEM, dealer groups with more brands the same, due to diversification
- Related: higher average absolute-dollar bottom lines ease tensions (“less at stake if you’re doing well”)
- Decades of state legislative and regulatory engagement have resulted in a stable set of “rules:” many of the basic issues (e.g. termination) are mostly resolved
- NADA’s “Guiding Principles on Evolving Business Models and the Dealer Franchise System” have provided a useful framework for discussing and resolving dealer/factory relations
- The gap in relations between newer (1970s-1990s) entrants and legacy OEMs has narrowed as their networks matured



# Dealer/OEM Relations: *Personal* Views From 30 Years - 2

**However, there is a rotating cast of factors that periodically (re)introduce stress:**

- Appointment of new OEM execs with their own (often short-term) agendas
- There's always tension re sharing of costs & profits between OEM and store
- OEMs often focus on dealer *profit* (ROS), dealers on their *investment* (ROI)
- The ongoing shift from front-end *dealer* margin to back-end *retailer* bonus can shift the principal's role from entrepreneur to employee (more dependent)
- Every X years an OEM will pursue new channel initiatives (Saturn, Daewoo, FRN, Scout, Affela, agency, Amazon/Hyundai, etc. Some of these work out, but they always introduce some amount of instability and mistrust
- Technological evolution plays a role, allowing greater OEM integration/control of store operations on the back end, and on the front end, new customer services ("connected car") where dealer participation can be unclear
- But *constant over the years* is the article of faith among dealers that OEMs have special and inexplicable disdain for smaller stores

# Questions?

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