

**THE BRIGHTEST VIEWS ARE  
FROM THE SUMMIT**



**A View From America: Three Research Projects  
With Some Commentary on Canada**

**Glenn Mercer**

**CADA 2025**

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**Further, the author claims extensive ancestral relations in Newfoundland (Bay Roberts), which may alter your views on his expertise!**

# **Overview of the Three Projects**

**Each talk in full runs 45-60 minutes. These are the “movie trailer” versions.**

## **I. Dealership of Tomorrow (DoT)**

**External trends and how they affect North American dealers**

## **II. Cost of Distribution (CoD)**

**The economics of different sales channels (dealer, agency, direct)**

## **III. Back to Basics (B2B)**

**Internal developments and projection of future USA dealer finances, with reference to the UK and Canada**

# **I. Dealership of Tomorrow (DOT)**

**(brief EXCERPTS only)**

# Introduction: History of the DoT Project

- I. **2016: NADA sees many changes and developments that may affect the future of dealers in America, including:**
  1. AV (autonomous vehicles)
  2. MS (mobility services, such as ridehail (Uber))
  3. EV (electric vehicles)
  4. CC (connected car)
- II. **A research report was commissioned to investigate and predict the impact of these and other trends on NADA member dealers. The project is focused *only* on impact on dealers.**
- III. **The report has been updated every year since, and today I am sharing just one excerpt of the 2024 update.**

# Trend 1: Autonomous Vehicles (Robotaxis)

**“Robotaxis will destroy car sales”**

- **Yesterday: Why own a car?**
  - **In 2012, Sergey Brin, co-founder of Google, says: “You'll ride in robot cars within 5 years.” (CNET)**
- **Today: Waymo works, but loses \$; Tesla doesn't work, but makes \$**
- **Tomorrow: Slow but steady growth:**
  - **High-functionality robotaxis gain ground vs. ridehail – at what cost?**
  - **Medium-function AVs become options for personal ownership**
  - **Low-functionality ADAS becomes ubiquitous for all**

# AV: Crushed Hopes ...

MIT robotics scientist Rodney Brooks: “None of the predictions that were out there in 2017 for AVs in the next few years have happened. None.”

FORECASTS: [http://www.driverless-future.com/?page\\_id=384](http://www.driverless-future.com/?page_id=384) March 27, 2017

NVIDIA to introduce level-4 enabling system by **2018** (2017)  
NuTonomy to provide self-driving taxi services in Singapore by **2018**, expand to 10 cities around world by **2020** (2016)  
Delphi and MobilEye to provide off-the-shelf self-driving system by **2019** (2016)  
Ford CEO announces fully autonomous vehicles for mobility services by **2021** (2016) ←  
Volkswagen expects first self driving cars on the market by **2019** (2016)  
GM: Autonomous cars could be deployed by **2020** or **sooner** (2016) ←  
BMW to launch autonomous iNext in **2021** (2016) ←  
Ford's head of product development: autonomous vehicle on the market by **2020** (2016) ←  
Baidu's Chief Scientist expects large number of self-driving cars on the road by **2019** (2016)  
First autonomous Toyota to be available in **2020** (2015) ←  
Elon Musk now expects first fully autonomous Tesla by **2018**, approved by **2021** (2015)  
US Sec Trans: Driverless cars will be in use all over the world by **2025** (2015)  
Uber fleet to be driverless by **2030** (2015) ←  
Ford CEO expects fully autonomous cars by **2020** (2015) ←  
Next generation Audi A8 capable of fully autonomous driving in **2017** (2014)  
Jaguar and Land-Rover to provide fully autonomous cars by **2024** says Director of Research and Technology (2014)  
Fully autonomous vehicles could be ready by **2025**, predicts Daimler chairman (2014) ←  
Nissan to provide fully autonomous vehicles by **2020** (2013) ←  
Truly autonomous cars to populate roads by **2028-2032** estimates insurance think tank executive (2013)  
Continental to make fully autonomous driving a reality by **2025** (2012)

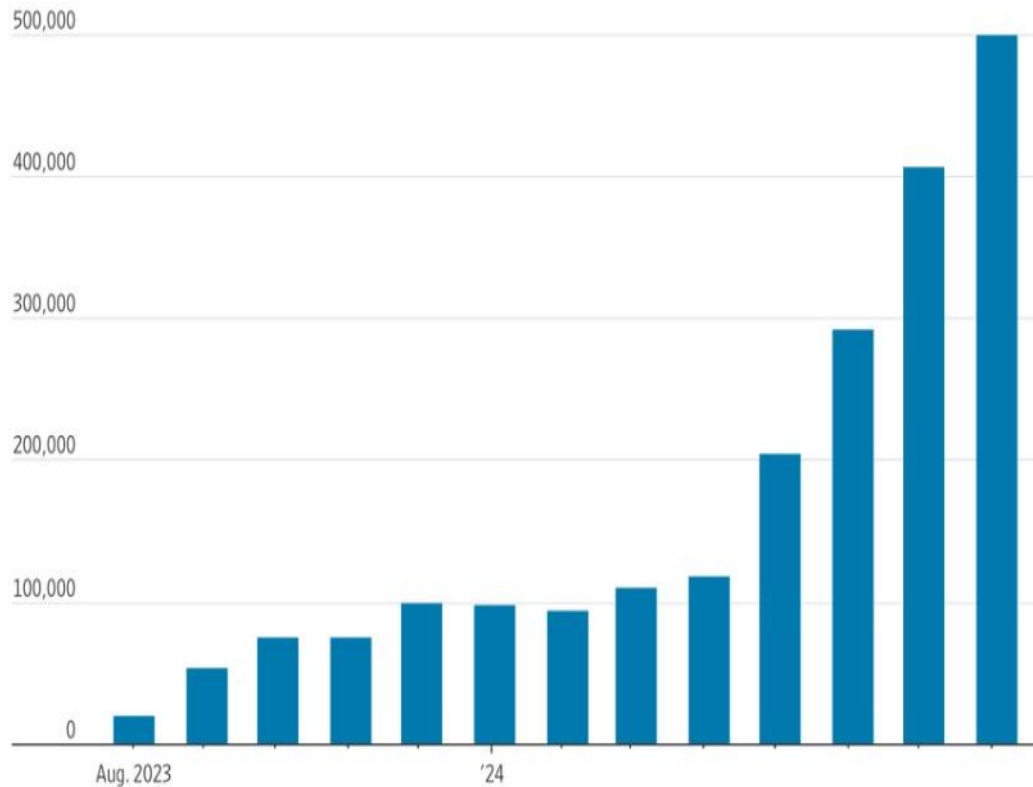
## Key:

- (year of prediction)
- **Blue:** predicted year
- **Pink:** failed to happen
- **Arrow:** retracted later

# AV: ... revived by an Accelerating Waymo

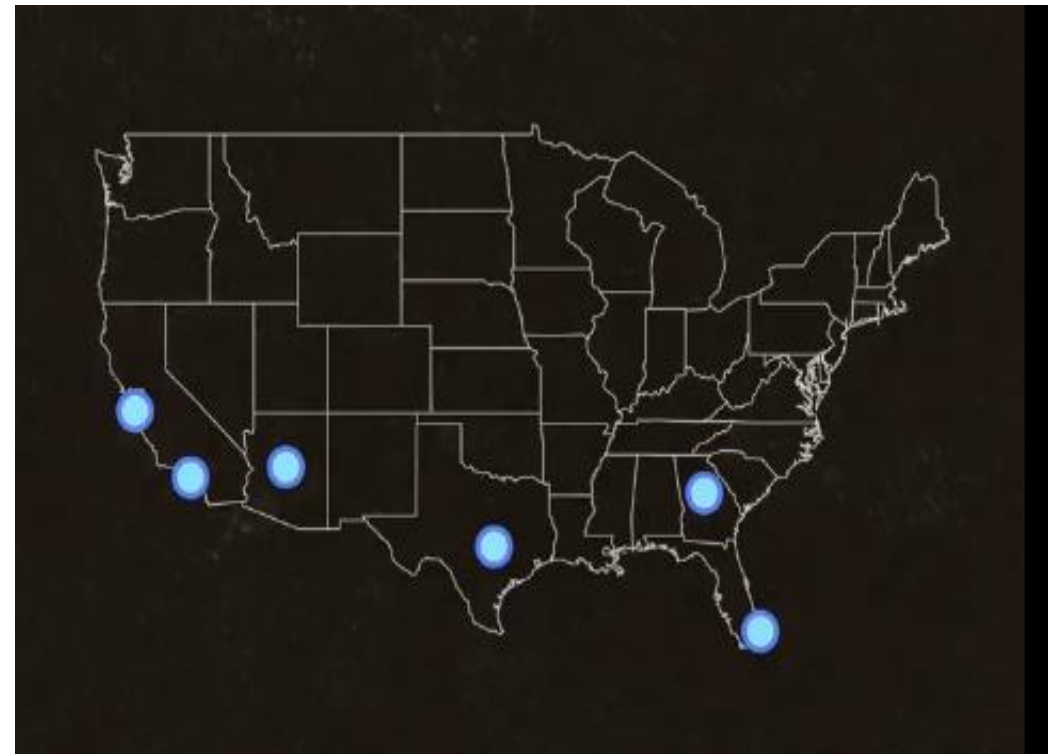
Waymo rides have exploded, and seem to be eating into Uber and Lyft market share primarily. But there are issues still: Waymo has launched only in cities with good weather, and the company is thought to be losing thousands of dollars per ride still.

### WAYMO PASSENGERS IN CALIFORNIA



Source: California Public Utilities Commission

### WAYMO LAUNCH CITIES (CURRENT & SOON)



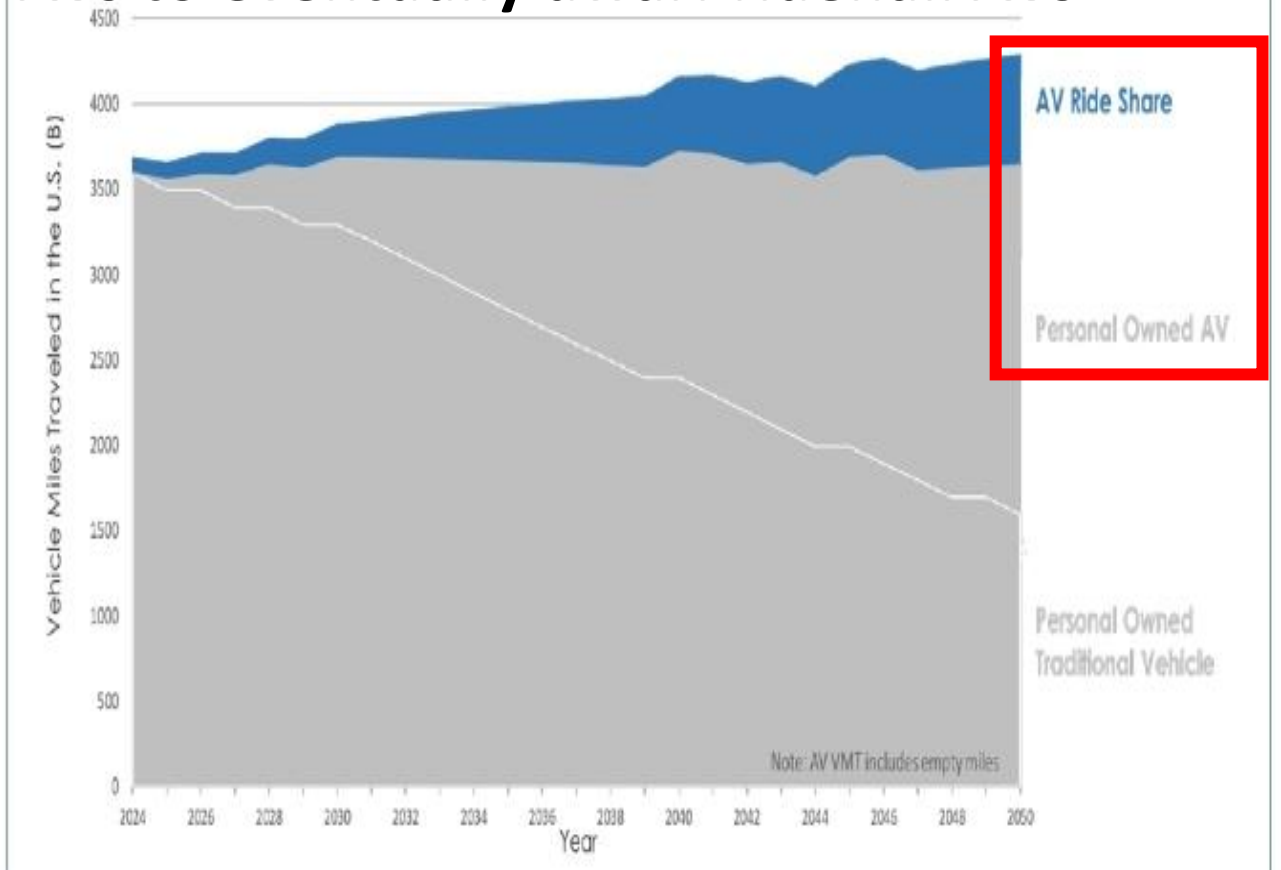
# And if/when it *does* work, it may be in personal cars

IF AV COSTS KEEP FALLING, AUTONOMY MAY BECOME A PERSONAL OPTION

“Waymo says it eventually wants individuals to own and operate vehicles using its autonomous driving technology.”

- The Verge, 6/16/2021

GM predicts (2022) personally-owned AVs to eventually dwarf ridehail AVs



## **Trend 2: Mobility Services (Ridehail)**

**“Ridehail will destroy car sales”**

- **Yesterday: Why own a car?**
  - **“Uber CEO Kalanick says car ownership is becoming passé: ‘Millennials aren't buying cars anymore. They don't want to drive. They don't want to own cars. They don't want that inconvenience.’”  
– 2017 (Newsweek)**
- **Today: ridehail trips < 1% of personal car trips (NHTS)**
- **Tomorrow: Just one more mobility service, like:**
  - **Rental cars (Hertz was founded in 1918)**
  - **Plane travel**
  - **Mass transit**

# Mobility Services (Ridehail)

Mobility services have had *zero* visible impact on private car ownership.

## “Vehicles available” per household

Metro Area	2005	2015	2022	2022-2005
Boston Cambridge Quincy	1.58	1.60	1.61	+0.03
Chicago Naperville Elgin	1.64	1.63	1.63	-0.01
San Francisco Oakland Fremont	1.69	1.73	1.75	+0.06
Los Angeles Long Beach Anaheim	1.81	1.84	1.87	+0.06
New York City Newark Jersey City	1.23	1.25	1.22	-0.01
Dallas Fort Worth Arlington	1.81	1.88	1.91	+0.10

Source: Table B08201, American Community Survey (1-year estimates), Census Bureau

# Concluding Remarks on Dealership of Tomorrow

- **Some trends we were worried about years ago:**
  1. Do not worry us as much now: AV (though reviving, via Waymo), Ridehail
  2. Have become a mixture of opportunity and threat: EV
  3. Are not yet clear to us: Connected Car (pro's and con's)
- **New topics are now “on the radar,” such as:**
  1. AI: truly new or Yet Another IT Trend (5G, voice commands, Second Life, etc.)
  2. China: economics meets national security
  3. **Channel Change Part II (Scout, Afeela, Amazon/Hyundai+) - CoD**
  4. **Future financial results - B2B**

## **II. Cost of Distribution (CoD)**

**(main points only)**

**Summary report: <https://owy.mn/4hNOTFA>**

# History of the CoD Project: Ford and DTC

- In June, 2022. Jim Farley, CEO of Ford, speaking of the USA market, said “We think our distribution model today is about \$2,000 per unit more expensive than Tesla.” *Is this true?*
- Similar numbers were put forth by Wall Street analysts and other automotive commentators.
- NADA felt it needed to shift the discussion about this from “exchanging assertions” to “discussing facts,” and commissioned consultant Oliver Wyman to do a very deep dive into the situation.
- The project was launched in 2023, completed in 2024, and shared with the public in the Fall of 2024.



# Methodology: very granular analysis of activities

Every activity required to distribute and sell a car was costed.

## KEY ACTIVITIES AND COSTS - LOGISTICS

## KEY ACTIVITIES AND COSTS - RETAIL AND POINT OF SALE SERVICES

Activity	Sub - Activity	Associated Cost/Value	Included	Cost per vehicle (\$)	Key Considerations
0	Inventory Management at Distribution Center	New Vehicle Inventory Management	Finished goods holding costs	9	<ul style="list-style-type: none"> <li>Owner compensation and commission</li> <li>Sales Managers</li> <li>Sales-persons</li> <li>F&amp;I compensation</li> </ul>
1	Planning	Inventory Planning	Person	10	<ul style="list-style-type: none"> <li>Average amount sales-person raises vehicle transaction price</li> </ul>
2	New Vehicle Transportation	Vehicle shipped to dealer	Shippir	11	<ul style="list-style-type: none"> <li>CRM Software, licensing</li> <li>Management and service fees</li> </ul>
3		Vehicle inspection	Person	12	<ul style="list-style-type: none"> <li>Warranty clerks</li> <li>DMV clerks</li> <li>Admin/clerical personnel</li> </ul>
4	Receive and Inspect at Dealer	Inspect equipn		13	<ul style="list-style-type: none"> <li>Average amount sales-person increases F&amp;I product purchase</li> <li>Data processing – hardware, software, service contracts</li> </ul>
5		Unpack and reassemble Vehicle	Person	14	<ul style="list-style-type: none"> <li>Bank/software or database access with financial service cost</li> <li>Service bureaus</li> <li>Offsite data storage, specialized programming and services</li> </ul>
6			Equipn	15	<ul style="list-style-type: none"> <li>Bank costs</li> <li>Banking fees</li> </ul>
7				16	<ul style="list-style-type: none"> <li>Bad Debt</li> <li>Bad Debt Recovered</li> </ul>
8	Vehicle Financing	Vehicle payment and financing	Person	17	<ul style="list-style-type: none"> <li>Vehicle Registration/Title Transfer</li> <li>Clerical staff</li> <li>Book-keepers</li> </ul>
9			Person	18	<ul style="list-style-type: none"> <li>Title and registration fees and taxes</li> <li>Title and registration fees</li> </ul>
				19	<ul style="list-style-type: none"> <li>Cost per vehicle is based on average of 20 Group Dealer Data over 11 years with 7570 unique rooftops © Oliver Wyman</li> <li>Company Vehicle and Credit Company Fees</li> <li>Travel, Meals, Entertainment</li> <li>Membership, Dues, Publications</li> <li>Postages, Freight, Contributions</li> <li>Other Miscellaneous</li> </ul>
				20	<ul style="list-style-type: none"> <li>Miscellaneous</li> <li>Estimated 100% of Miscellaneous costs</li> </ul>
				21	<ul style="list-style-type: none"> <li>Garage keeper Insurance + Other Insurance</li> <li>Insurance – Others</li> <li>Garage keeper insurance (case dependent)</li> </ul>
				22	<ul style="list-style-type: none"> <li>Personnel/staff costs</li> <li>Insurance Coverage for Employee/Liability (Other)</li> <li>Inventory clerks</li> </ul>
				23	<ul style="list-style-type: none"> <li>Estimated 8% of Total New Vehicle Personnel Cost</li> </ul>
				24	<ul style="list-style-type: none"> <li>SUBTOTAL ASSORTMENT/STOCKING</li> <li>\$ 730.02</li> </ul>






Cost per vehicle is based on average of 20 Group Dealer Data over 11 years with 7570 unique rooftops © Oliver Wyman

# Methodology: costs assigned to three channel type

We examined direct-to-customer (DTC), dealer, and hybrid (a type of agency)






## TRADITIONAL FRANCHISED

Simply based on the average dealer operations as they exist today. This channel serves as the baseline from which the other two are derived. This drives our “delta-based” approach, in which the next two channels are modeled in terms of differences from this baseline.

-  Wider price bands set by OEM
-  Sales structure managed individually
-  Facility owned and operated by dealer
-  Inventory owned and managed on-site by dealer
-  F&I managed by dealer






## HYBRID

The Hybrid or “American Agency” channel takes elements of European Agency and adjusts them for the American legal and regulatory environment. The channel closely resembles how OEM employee vehicle discount programs are managed in the US.

-  Narrow price bands set by OEM
-  Fixed commission-based sales structure
-  Facility owned and operated by dealer
-  Inventory owned and managed on-site by dealer
-  F&I managed by dealer







## DIRECT-TO-CONSUMER

The Direct-to-Consumer channel is modeled after new EV entrants but scaled up to more fairly compare its economics with those of mass-market manufacturers, applying the same network footprint, sales volume, and product mix conditions used for the other channels.

-  Fixed pricing set by OEM
-  Volume based commission sales structure
-  Facility and inventory owned by OEM
-  Inventory managed in off-site distribution centers by OEM
-  F&I managed by OEM

# Methodology: removal of “upstream” strategies

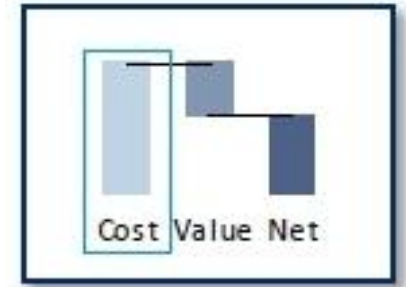
These strategies affect costs but have nothing to do with the sales channel!

UPSTREAM STRATEGY	DECISION
 Product Line Complexity	Offer many vehicle models vs. just a few
 Product Options Complexity	Offer many trim levels and options on each model vs. just a few
 Inventory Pull vs Push	vs. forecasted demand
 a physical store	
 tions	
 Product Advertising	ing channels vs. low levels of marketing

For example, Tesla has few models, few options, cheap facilities, little advertising: which reduces its cost. But it could do all these things with dealers and agents!

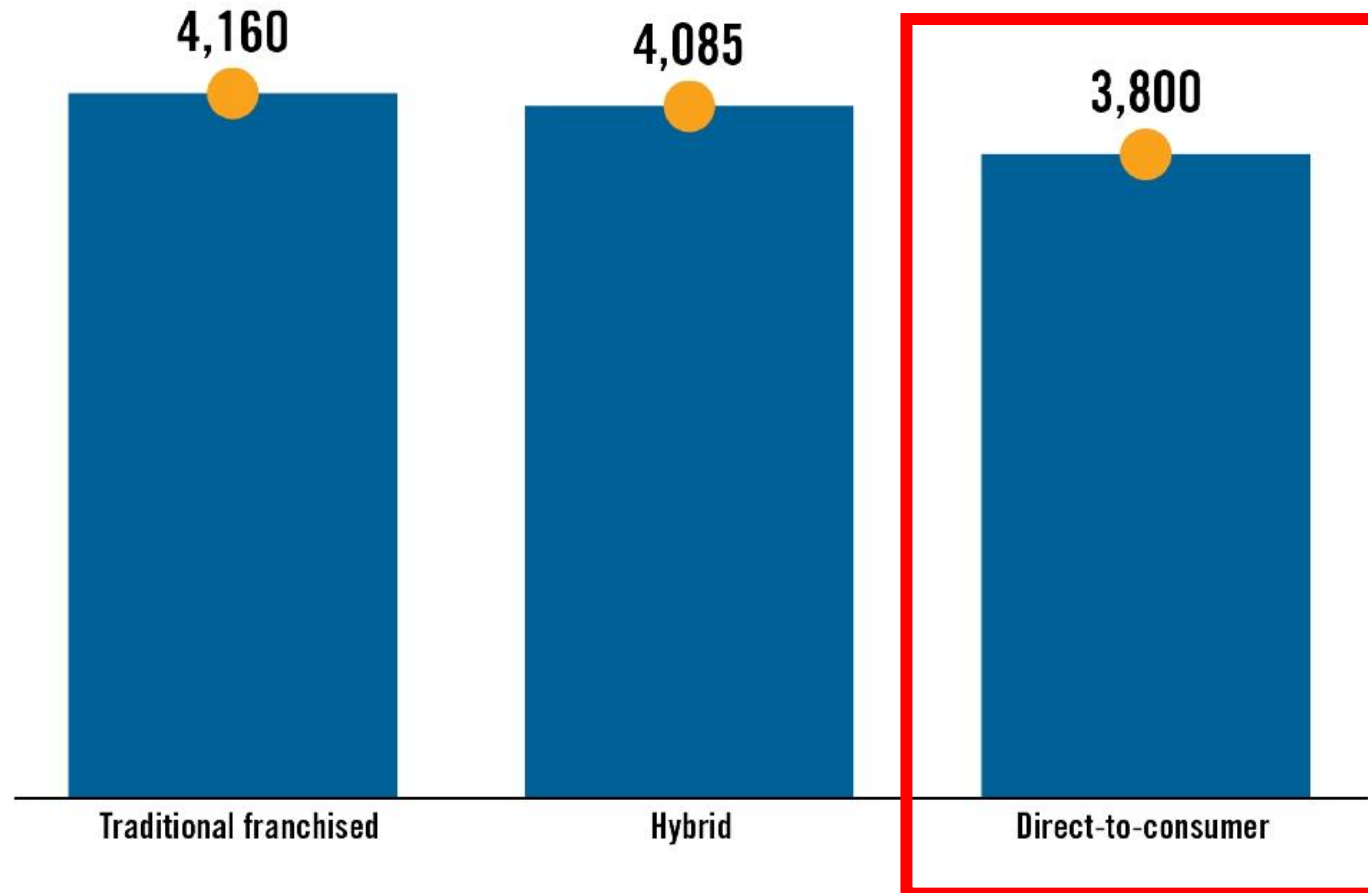
# If we look only at *gross cost*: DTC is lowest

One driver of lower DTC cost: only one IT system is used network-wide.



## Average gross channel cost per vehicle

2012-2019, US \$



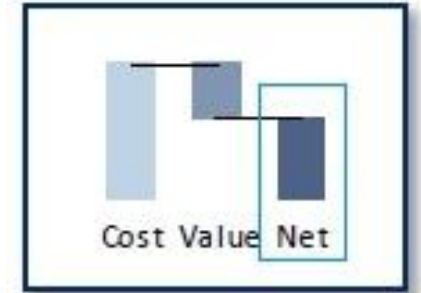
# But then we have to consider channel *value*

For example, dealers add value by “tailoring” deals to customers.

	TRADITIONAL FRANCHISED	HYBRID	DTC
Overall Impact of Value	\$ 1250 - \$ 920	\$ 970 - \$ 500	\$ 720 - \$ 450
Operational Value Impact	\$ 1070 - \$ 800	\$ 470 - \$ 250	\$ 250 - \$ 50
Value Drivers	<ul style="list-style-type: none"> <li>• Customized Deal Structures: Ability to “work the deal” through financing options and trade in facilities across brands to facilitate liquidity raising sales by 2.5 – 3%</li> <li>• Upselling allowing for higher transaction prices</li> <li>• Customer loyalty and local engagement incentivizes return of customers</li> </ul>	<ul style="list-style-type: none"> <li>• Customized Deal Structures: Reduced ability to work the deal due to OEM as primary F&amp;I provider; trade-ins will remain consistent; raising sales by 0.5 – 1%</li> <li>• Upselling allowing for higher transaction prices</li> </ul>	<ul style="list-style-type: none"> <li>• Shift from local F&amp;I capabilities to captive OEM hinders 40% of subprime, deep prime capabilities resulting in lost sales, raising sales by 0 – 0.5%</li> </ul>
Transaction Price Impact	\$ 180 - \$ 120	\$ 500 - \$ 250	\$ 470 - \$ 410
Optimization Drivers	<ul style="list-style-type: none"> <li>• Intra-brand competition remains the same, not impacting average vehicle transaction price</li> <li>• Individual price optimization to maximize revenue based on customer’s willingness to pay impacting revenue by 0.2 – 0.3%</li> </ul>	<ul style="list-style-type: none"> <li>• Reduced intra-brand competition increases average vehicle transaction price by 0.50 – 1%</li> <li>• Narrow pricing bands hinder dealer’s ability to maximize customer’s willingness to pay impacting revenue by 0.1 – 0.2%</li> </ul>	<ul style="list-style-type: none"> <li>• Reduced intra-brand competition increases average vehicle transaction price by 1%</li> <li>• Fixed pricing hinders channel’s ability to maximize customer’s willingness to pay impacting revenue by 0.05 – 0.15%</li> </ul>

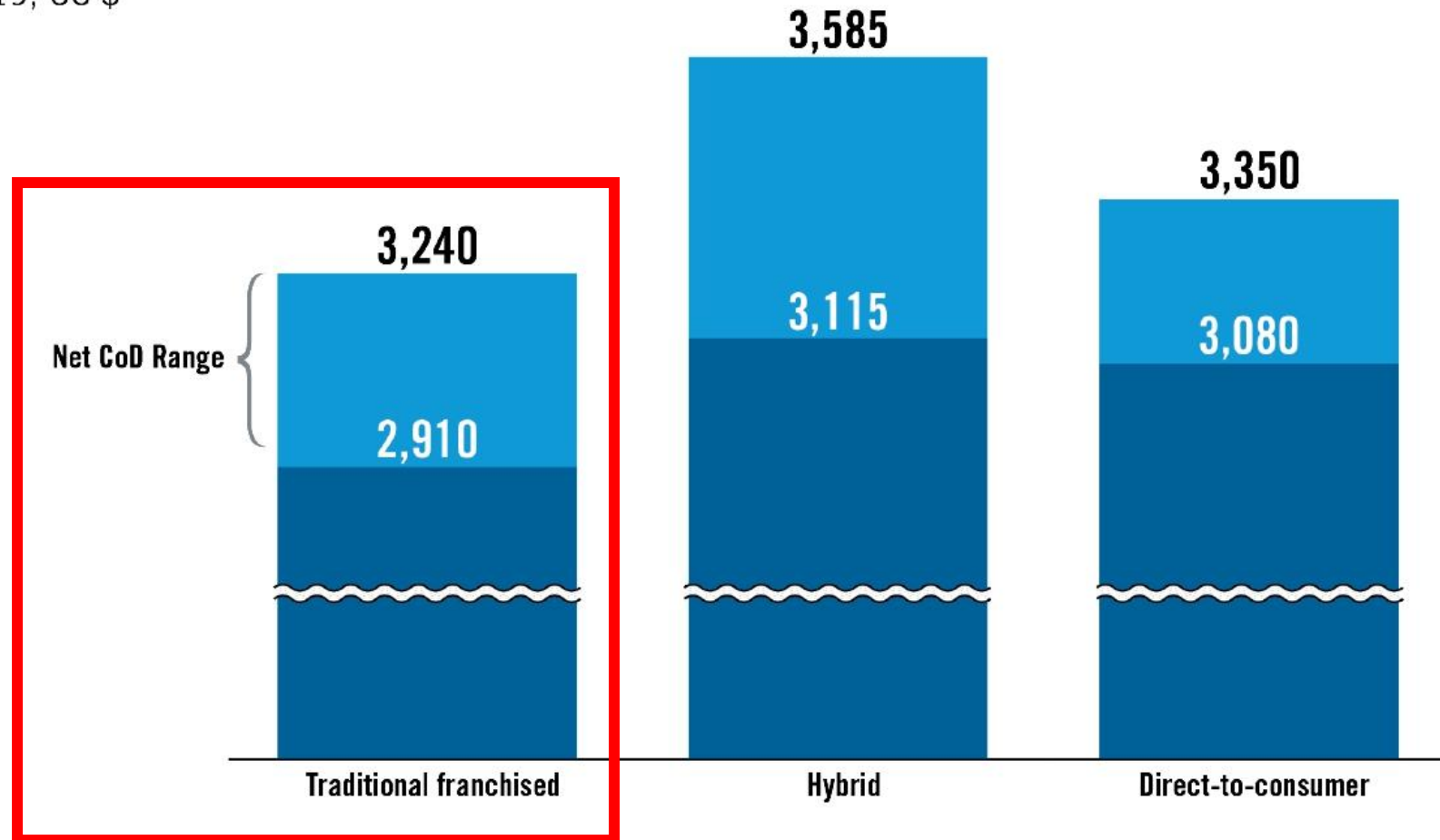
# When we look at the *total*, dealers pull ahead

Dealers' greater value offset their slightly higher gross cost.



## Average net channel cost per vehicle after accounting for contribution of value

2012-2019, US \$



# Closing remarks re CoD

These are my personal observations only!

- We have shown *averages* only: there are enormous differences among brands. For example, luxury brands may have gross costs of \$8,000/car.
- The final numbers are very similar across channels (+/- 10%), because every channel has almost the same tasks. It becomes a matter of strategy: a brand wanting more control may choose DTC, a brand wanting higher ability to push metal may choose dealers.\*
- **In the end, Mercer's Rule is:**
  - **If demand > supply, *you can sell any way you want***
  - **If demand < supply, *you need dealers***
  - **And the car industry has been mostly in over-supply for over a century...**

\* Thus, BYD volume brands use dealers, BYD premium/luxury brands are DTC. Source: ABSG.

## **III. Back to Basics (B2B)**

# Introduction: History of the B2B Project

- I. **2024: NADA and US and UK dealers generally see a return to normalcy after the abnormally high profits of the chip-shortage/pandemic years of 2021-2023. The concerns now are:**
  - What is “the New Normal”? And
  - What will profitability look like by 2030 or so?
- II. **A research report was commissioned to investigate and predict the trajectory of overall new-car dealer profits in the UK and the US, and also the composition of such profits (that is, across New Sales, Used Sales, F&I, Service (parts and labor), and Collision Repair.**
- III. **The work started in August this year and will be finished early in 2025. I present here *80% complete* results.**

# As profits recede, where is “the new normal”?



# Insights from the US: 1

## Market:

- Flat new volumes expected: 16-16.5 million new/year through 2032 (S&P)
- Minimal consolidation of stores (18,000) but 2-3% annual decline in owners (6,500)
- Omnichannel dominance continues: **no movement to pure online**
- EV market evolves from *buyers* to *shoppers*, BEV to BEV/PHEV, grows slow but steady
- Premium segment may move closer to agency, volume brands keep dealer model

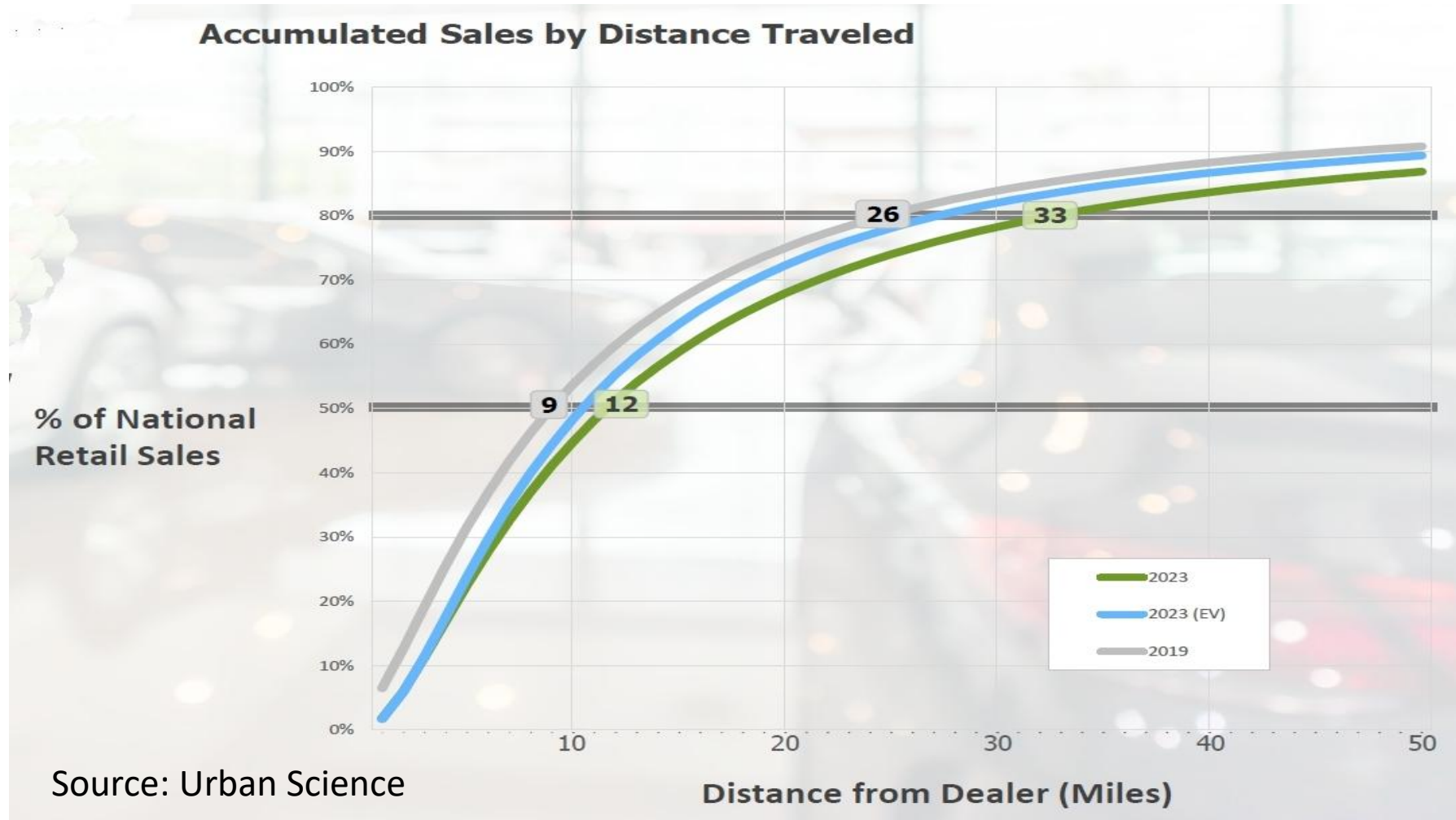
## Success Drivers: By Department

- New: pricing out of our hands, so focus on efficiency; **follow market premiumization**
- Used: more controllable; aim for 1:1\*; seek more sourcing options; **sell older cars**
- **Service:** carries more weight, retention is everything (via ESPs, etc.); improve tech retention; seek out older cars; consider more convenient satellite/mobile service
- F&I: product innovation fights against regulation pressure

\* Used cars were 25% of store revenue in 1990; now 35%

# Store count stays high, as Americans like local dealers

IN THE USA AT LEAST, THE INTERNET HAS NOT BEEN “THE DEATH OF DISTANCE”



**Interpretation:**  
about 80% of new car sales are from dealers *less than 30 miles* from the customer's home.

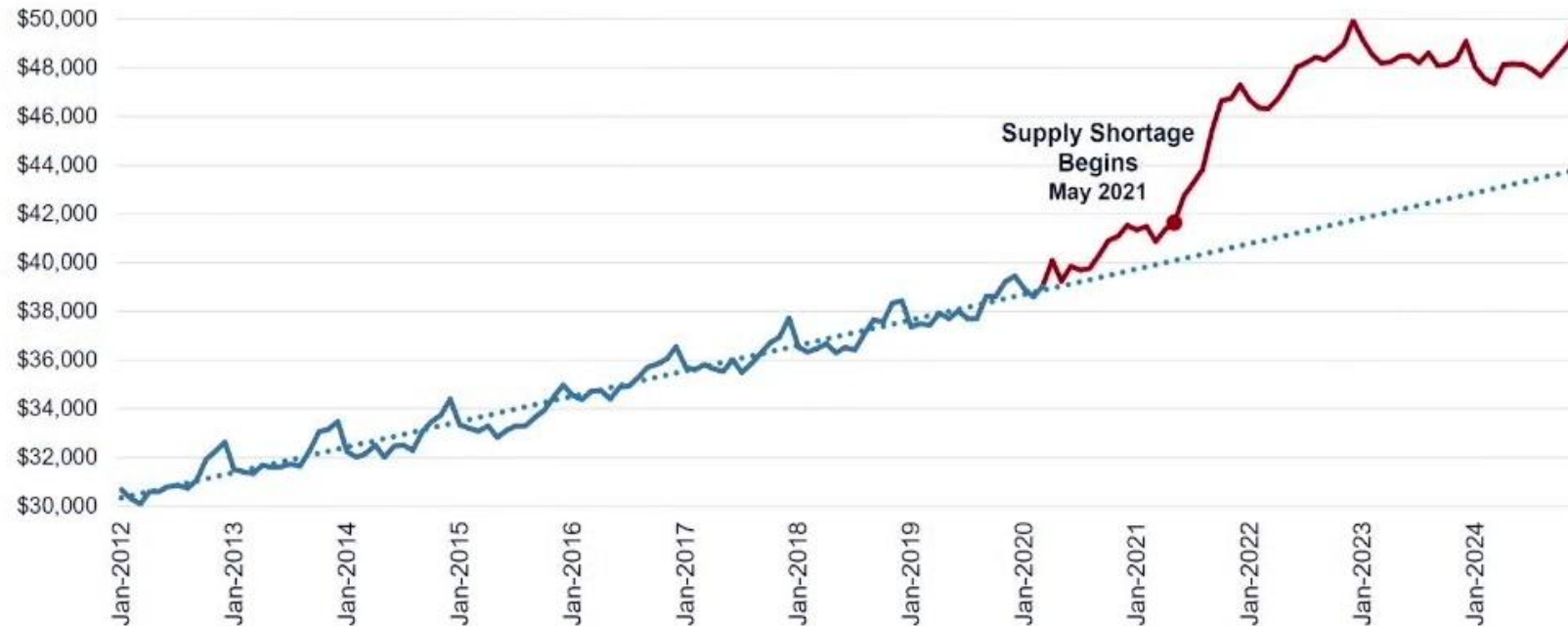
# The American market is moving steadily to premium

This may be permanent: prices have *not* regressed to the prior trend

**Transaction Prices** | Now Near \$49,740 – Up 1.3% From Last Year

Close to \$50K peak – about 10% above prior-Covid long-term average

Estimated Monthly Transaction Prices



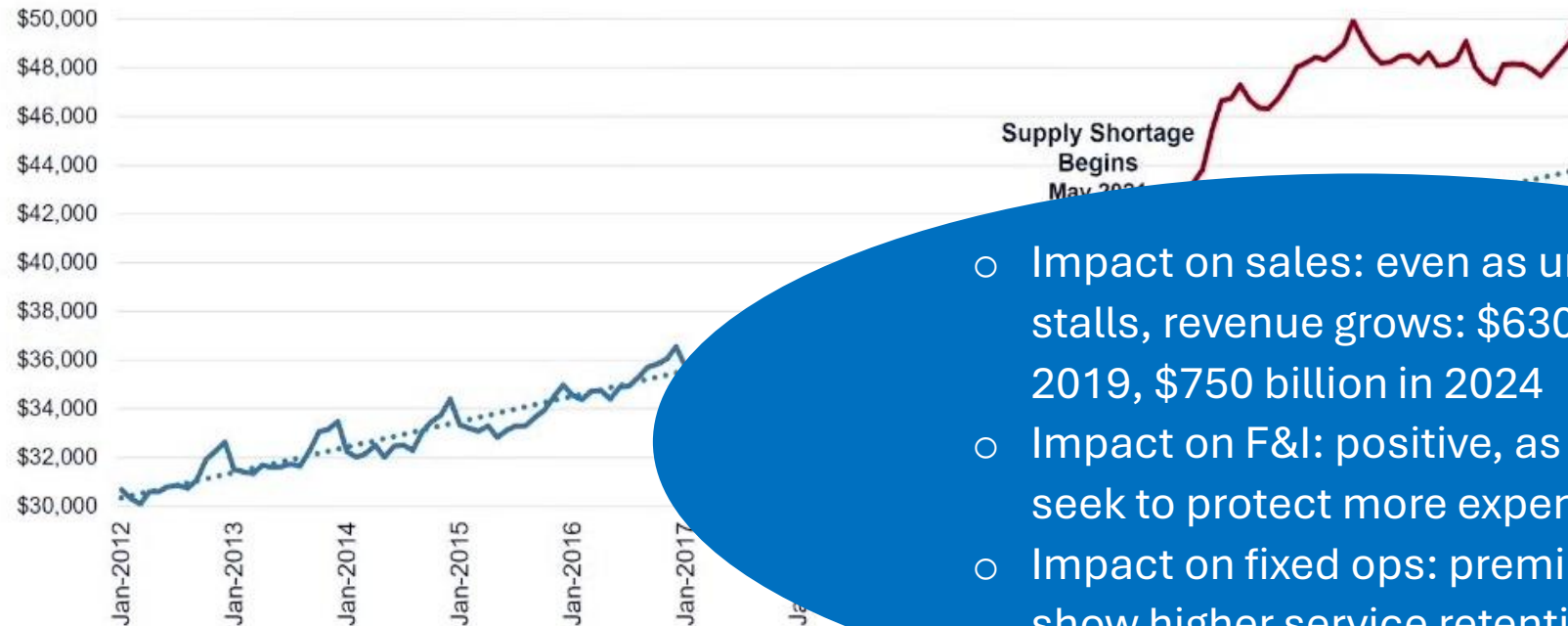
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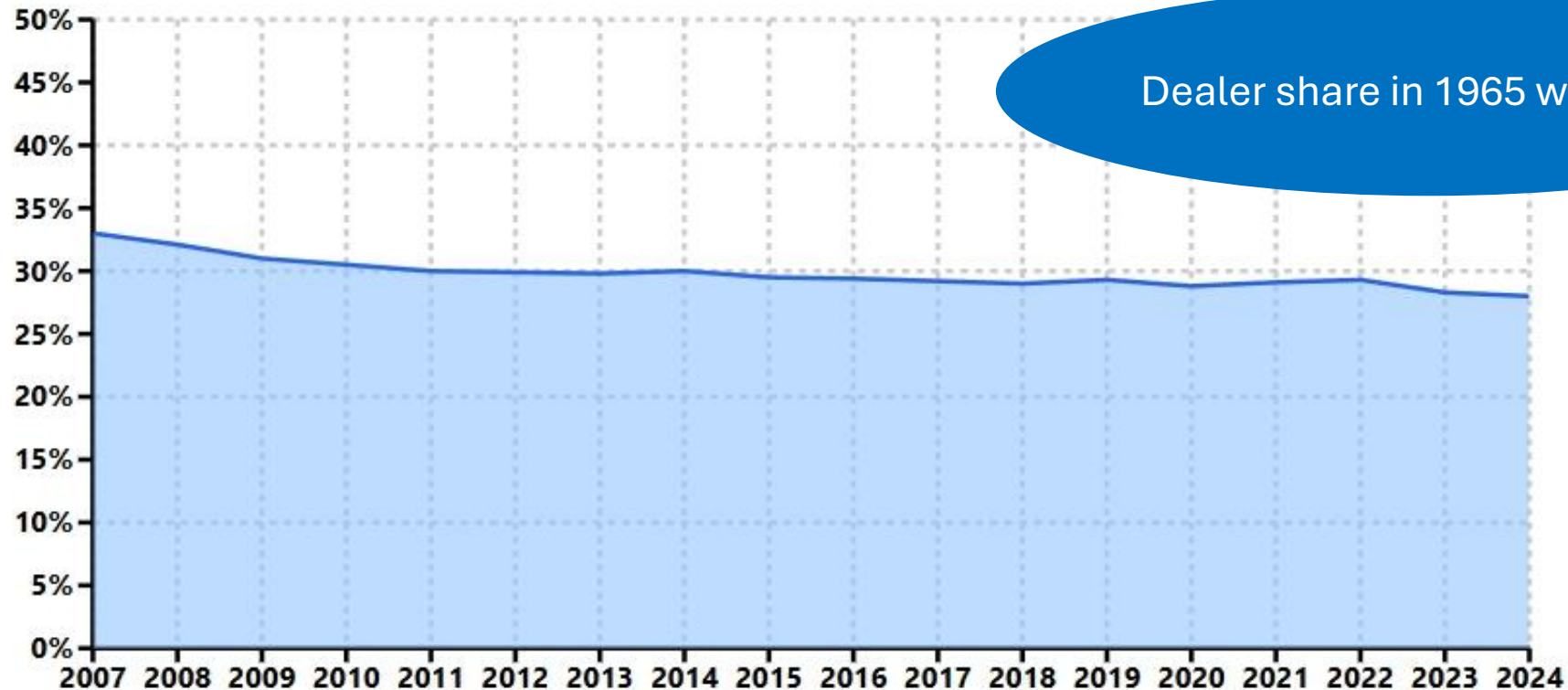
- Impact on sales: even as unit growth stalls, revenue grows: \$630 billion in 2019, \$750 billion in 2024
- Impact on F&I: positive, as customers seek to protect more expensive assets
- Impact on fixed ops: premium cars show higher service retention

# Used: time to go after even older cars?

Type of Used Car	Typical Age	Average Price	ROI
CPO	0-3 years	\$36,000	50%
“Core”	4-8 years	\$29,000	65%
“Value”	≥ 9 years	\$15,000	130%
Source: Lithia III/24			

# Service: upside is almost unlimited

## Dealership Share of Total Maintenance and Repair Market

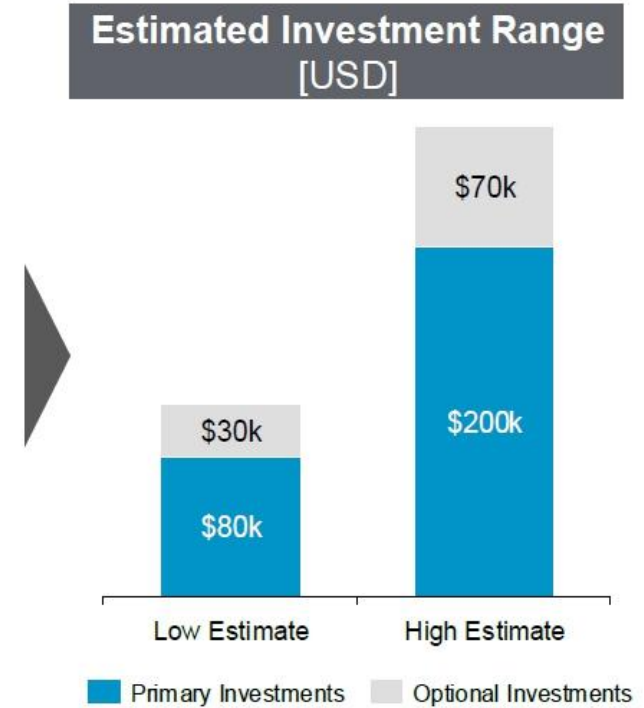


Source: Auto Care Association

# An average service provider will need to invest between ~\$80k-270k over the next few years to prepare for BEV transition

## ESTIMATED INVESTMENTS REQUIRED FOR SMALL TO MEDIUM SIZED SERVICE SHOPS TO REMAIN COMPETITIVE FOR BEV SERVICE DEMANDS:

Investments to Support BEV Service Demands <sup>1</sup>	Estimated Investments [USD]
Technician Training & Certifications for BEVs <sup>2</sup>	\$2,500 – 10,000
Safety Equipment	\$5,000 – 15,000
Level 3 Charging Capabilities <sup>3</sup> (50-150 kw)	\$40,000 – 100,000
Battery Testing Equipment	\$10,000 – 20,000
Diagnostic Tools <sup>4</sup>	\$7,500 – 15,000
Lift Modifications & Battery Handling Equipment <sup>5</sup>	\$15,000 – 40,000
Test Vehicles / Test Fleet (optional investment) <sup>6</sup>	\$30,000 – 70,000



Source: Independent market research, Industry Expert interviews (OEM/dealers & independent aftermarket), Strategy& Analysis

Notes: 1. Investment estimates consider investments required for an average small-medium sized service shop (e.g., 3-5 services bays, 1-3 technicians) 2. Training will vary per technician; expected cost per technician is \$1,500 to \$3,000 based on available certification offerings 3. One level 3 charger assumed to maximize flexibility of operations within a service / repair shop. Level 2 charging may be possible but will vary based on needs of the shop 4. Diagnostic equipment may vary based on OEM specifications 5. Many service shops are upgrading lifts due to increased weight of BEVs compared to ICE vehicles; additional specialized lifts required for battery tray removal / handling 6. Leading BEV service have, or are planning to purchase vehicles to develop familiarity and knowledge of BEVs, this is not necessary but recommended

# Insights from the US: 2

## Success Drivers: Overall Store

- Renew emphasis on cost control across the board (personnel, IT, insurance, etc.)
  - Process standardization reduces individual performance variation
  - Accelerate digital integration into operations, prune app complexity
  - Centralize operations where possible (used refurb, collision, etc.)
  - Automate (in face of wage inflation, AI swaps human for machine expertise), professionalize, train, train! Push vendors hard on IT integration.
- Gain scale to lower cost and grow margins (store level and local market level)
- Unlock real estate value if it exceeds operations value
- Expect new and used price convergence through use of industry-wide shared analytics, thus *“We cannot out-deal the competition, we can only out-manage!”*
- *Summary: New 0/-, Used 0/+, F&I 0, Service +*

**Total store results from sum-of-parts: 2.0% to 2.5% ROS (essentially, unchanged)**

# Five cross-cutting themes for doing better than average

1. Retention retention, retention
  - From new to used, from both to service and F&I: rinse and repeat
2. Can't "out-deal," must "out-manage:" that is, cut costs
  - Personnel: automate to replace human expertise with machine expertise
3. OEM encroachment continues: "family-owned company store"
  - Beware of the OEM's Digital Retailing Platform (DRP) **SKIPPED**
4. Scale matters, but it's not just about cost
  - Scale provides "room" to invest, to centralize, to diversify
5. Unlock the promise of IT
  - The time has come for dealers and their vendors to finally crack the code

# Interviewees Focused on 5 Paths to Better Profits: 1

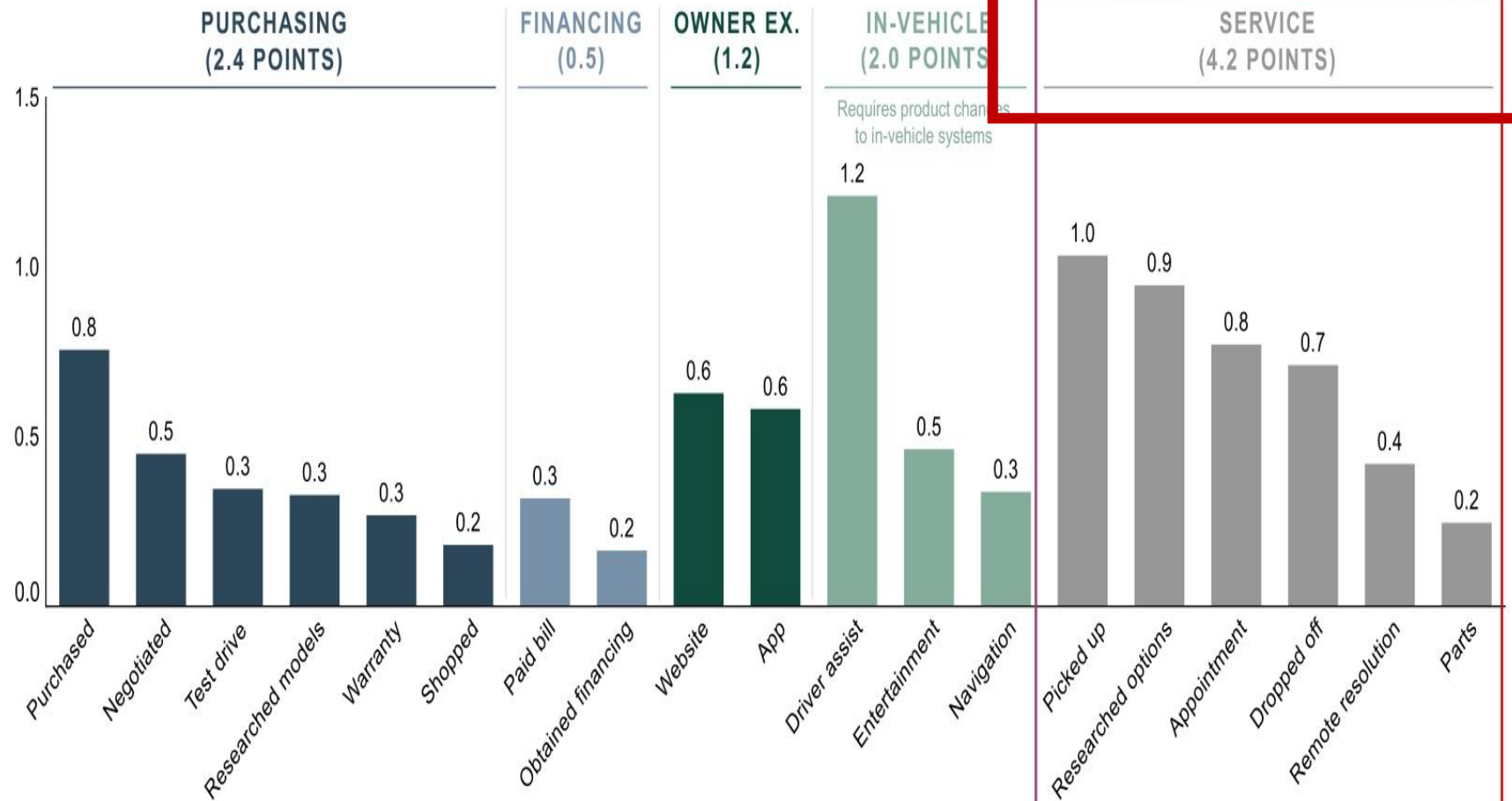
## **RETENTION: CALCULATING THE VALUE**

- Across industries, the customer retention-to-acquisition cost ratio ranges from 1:3 to 1:6. Thus if cost of acquiring a new customer is 100, cost of retaining is 15 to 35.
- Automotive- Specific Results: the ratio is generally 1:4 to 1:6. Most studies cite positive service/aftersales experience as the single strongest retention lever.
- Absolute dollar amounts are hard to compute, but one estimate suggests:
  - the cost of conquest is \$800-\$1,200 per transaction
  - and the cost of retention \$150-\$250 per transaction
- Distribution of the cost savings is even harder to calculate, but rough estimates:
  - the dealer captures 65-70% of the benefit of retention (lower marketing spend per sale, reduced negotiation time, higher closing rates, higher additional retention into service): direct costs of making the sale
  - the OEM capturing 30-35% (reduced incentive spend, lower national advertising cost, more predictable production planning): indirect costs of building the brand

# Note the great influence of service experience on retention!

## SERVICE AS DRIVER OF FUTURE PROFITS

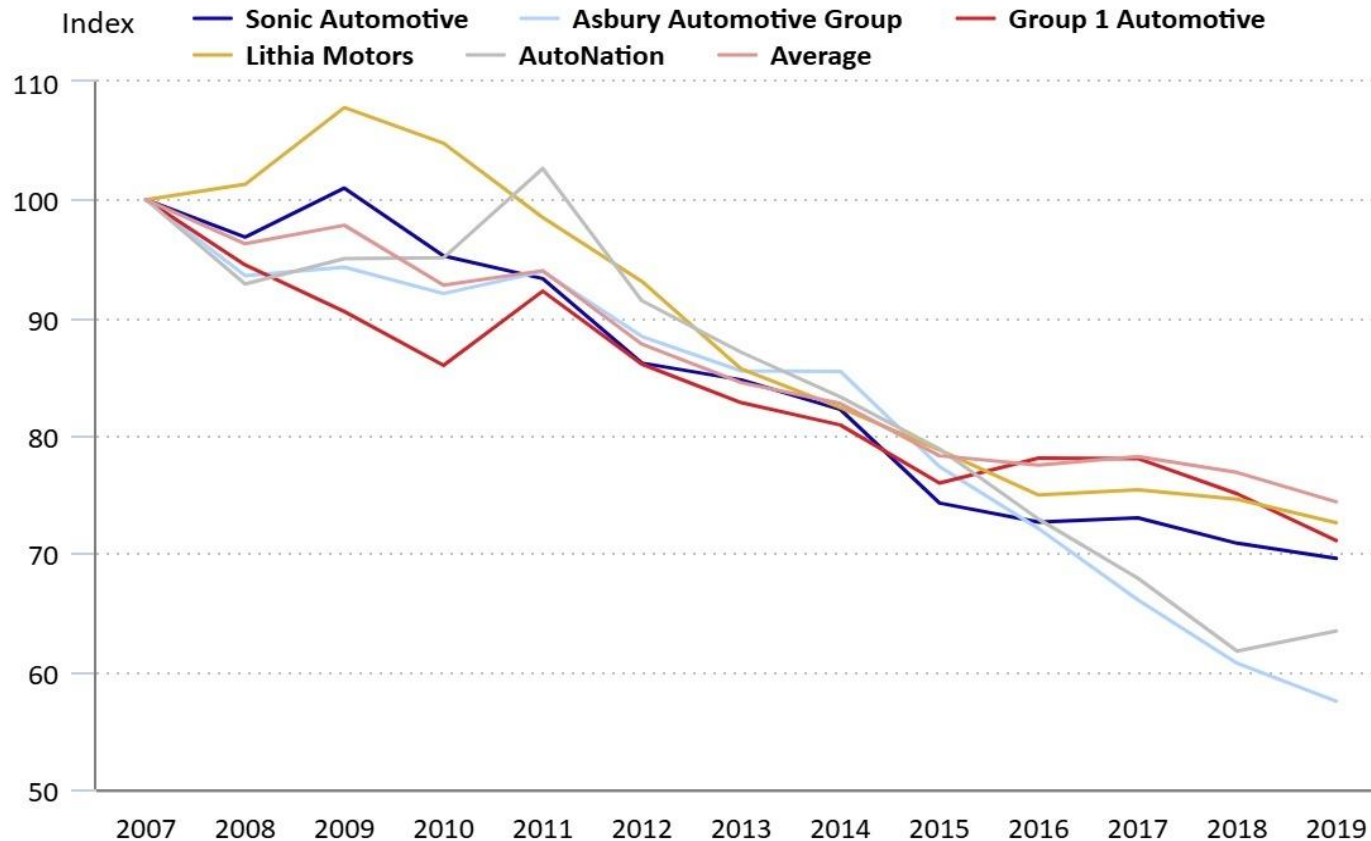
Bain research (using Uplift and LMC data) show Net Promoter Scores (~ loyalty) **more influenced by service than by sales, F&I, etc.** NPS can translate into future revenue and profits.



# Interviewees Focused on 5 Paths to Better Profits: 2

## CAN'T OUT-DEAL, SO **OUT-MANAGE**: FROM GROWING MARGIN TO CUTTING COST

New-vehicle margin indexes for publicly traded dealerships, 2007–19



1. We show 2007-2019 to remove the exceptional influence of the 2020-2023 pandemic/chip disruptions.
2. Source is Camp, Havlin, and Stanley, "Automotive dealerships 2007–19: profit-margin compression and product innovation," Monthly Labor Review, U.S. Bureau of Labor Statistics, October 2022

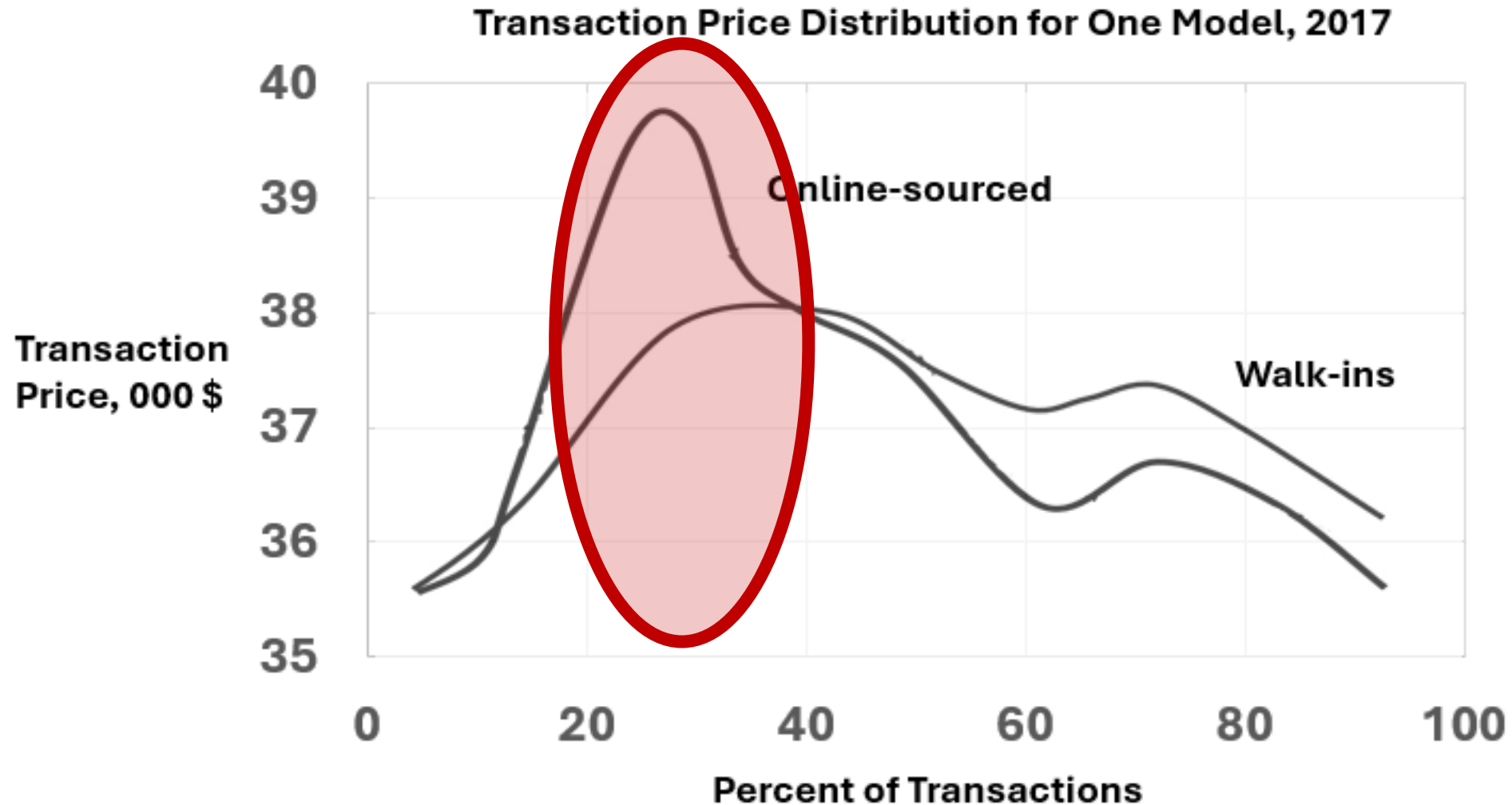
# Not Only Are Margins Lower, but Price Bands Are Narrower

## THE INTERNET AND THE OEMs NARROWED PRICE BANDS, LIMITING DEAL-MAKING

### SUMMARY OF MY RESEARCH FINDINGS (USA ONLY)

- **1950s–1980s:** Car buying was highly opaque. **Actual sale prices varied widely.**
- **1990s:** Prior to widespread internet use, studies showed thousands of dollars in price dispersion for identical cars. In general, well-informed negotiators got much lower prices than uninformed buyers. The interquartile range (IQR) of dealer profit on new cars was very wide: on a typical car, a quarter of buyers paid \$1,200 *above* a median price and a quarter paid at least \$1,200 *below* it.
- **By 2000:** the rise of online car information was well under way. Edmunds' "True Market Value" (TMV) is an example of tools that made the *median transaction price* for a given model transparent to everyone. One study found "internet buyers" paid some 2% less than "walk-in buyers." Dealers began advertising "internet prices" and studies found that for dealers with higher volumes of online sales had less price dispersion: the internet leveled the playing field:
- **By 2010-2020 internet use was ubiquitous:** over 80% of car shoppers were doing online research before buying. As a result, prices converged to the "internet price." One study found: "*consumer use of the internet has increased price transparency and reduced price dispersion.*"
- (Also, the no-haggle pricing trend emerged: The cultural shift toward transparency also led some dealers to adopt no-haggle or one-price: this is both a response to and a contributor of reduced dispersion.

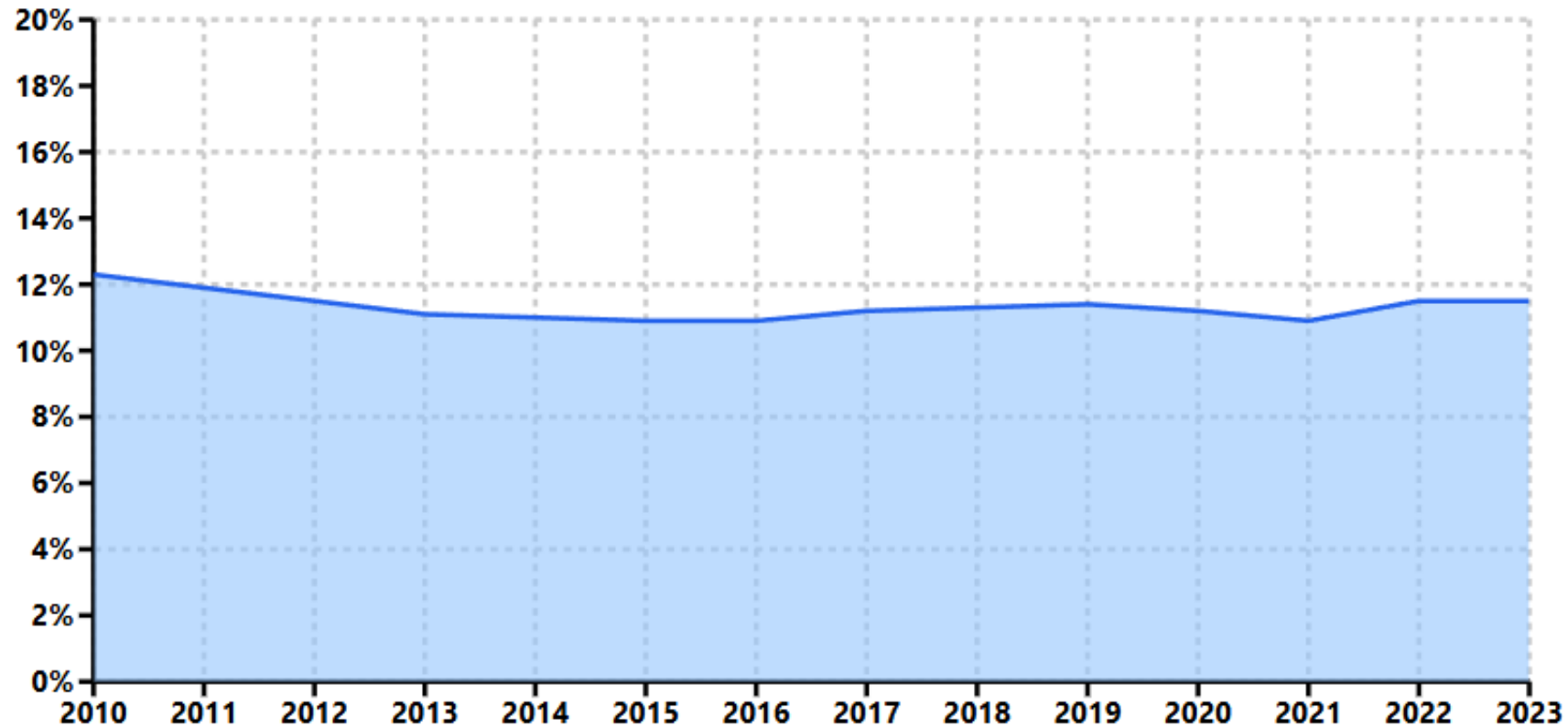
# Not Only Are Margins Lower, but Price Bands Are Narrower



Source: OEM X

# Cost Reduction: Can (AI-enabled) automation *finally* help?

Total Expense as Percent of Store Sales

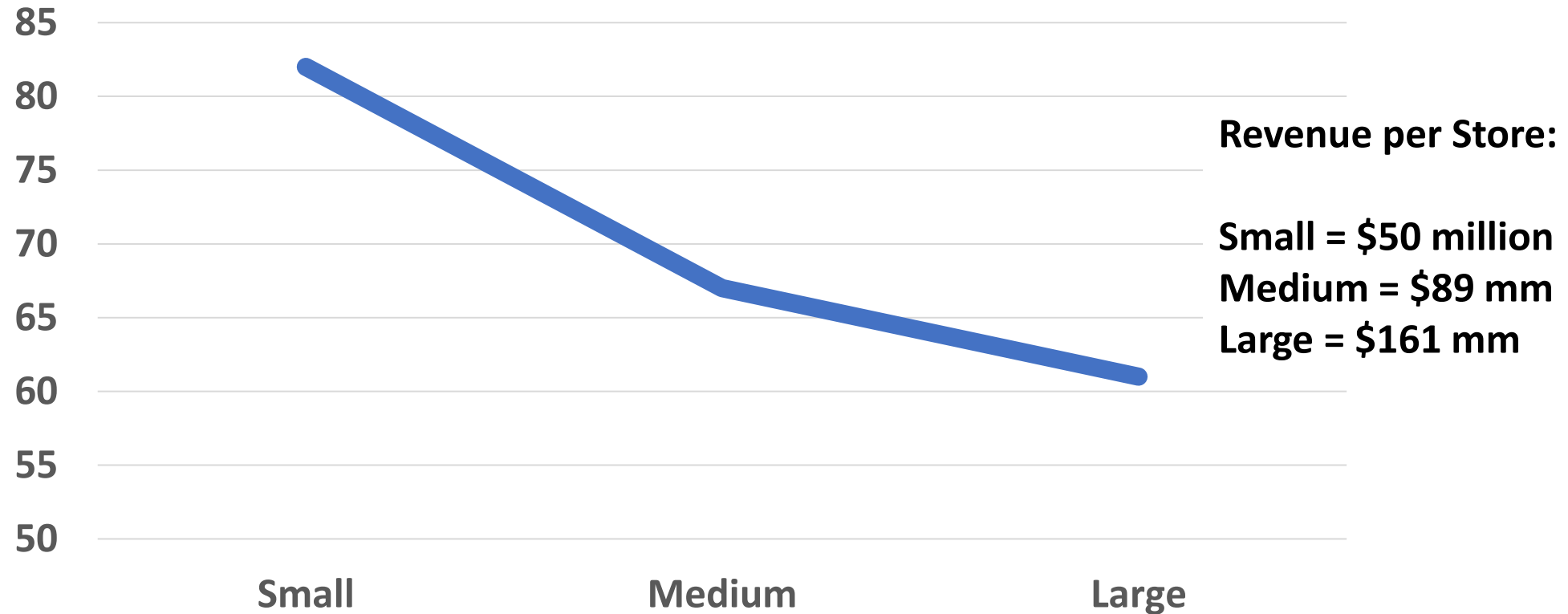


Source: NADA

# Interviewees Focused on 5 Paths to Better Profits: 4

ESTIMATING THE GAINS TO **SCALE** (store level only)

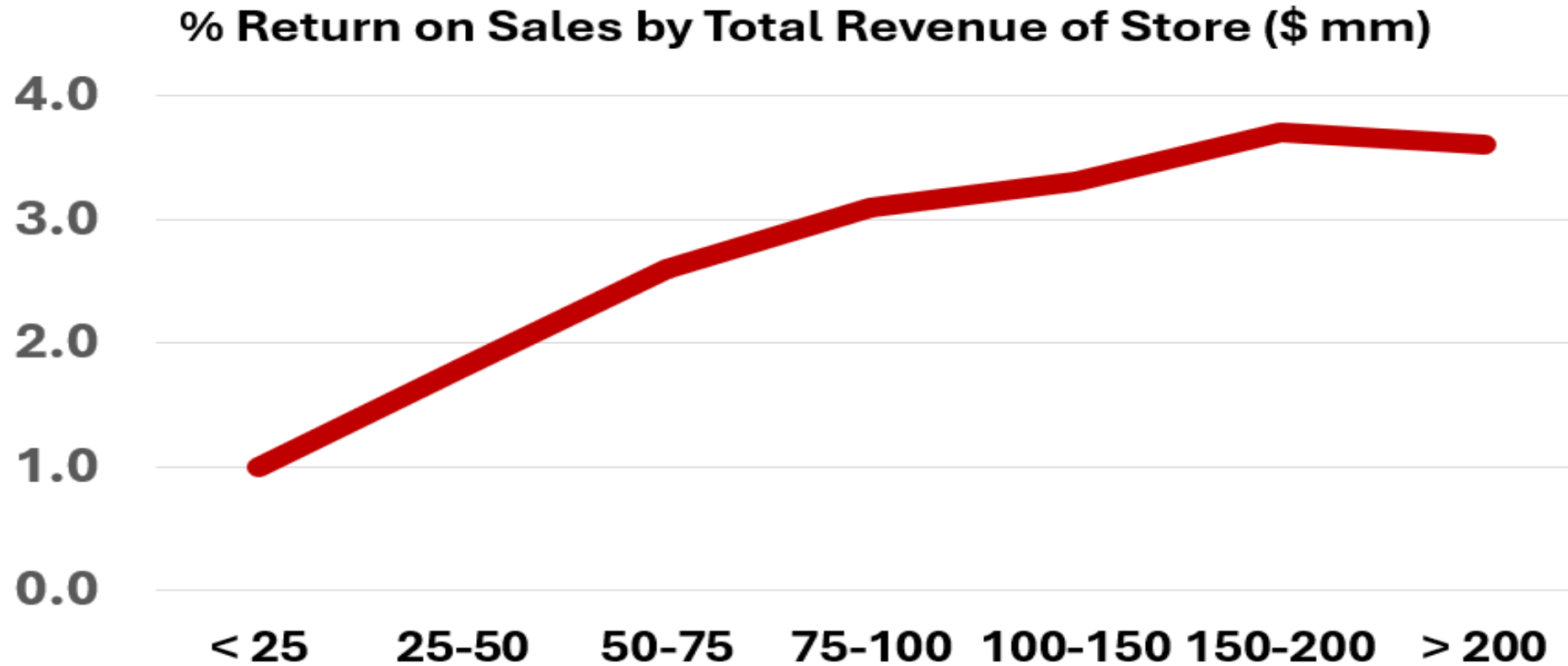
Store Level SG&A as Percentage of Store Gross



Source: Lithia Motors

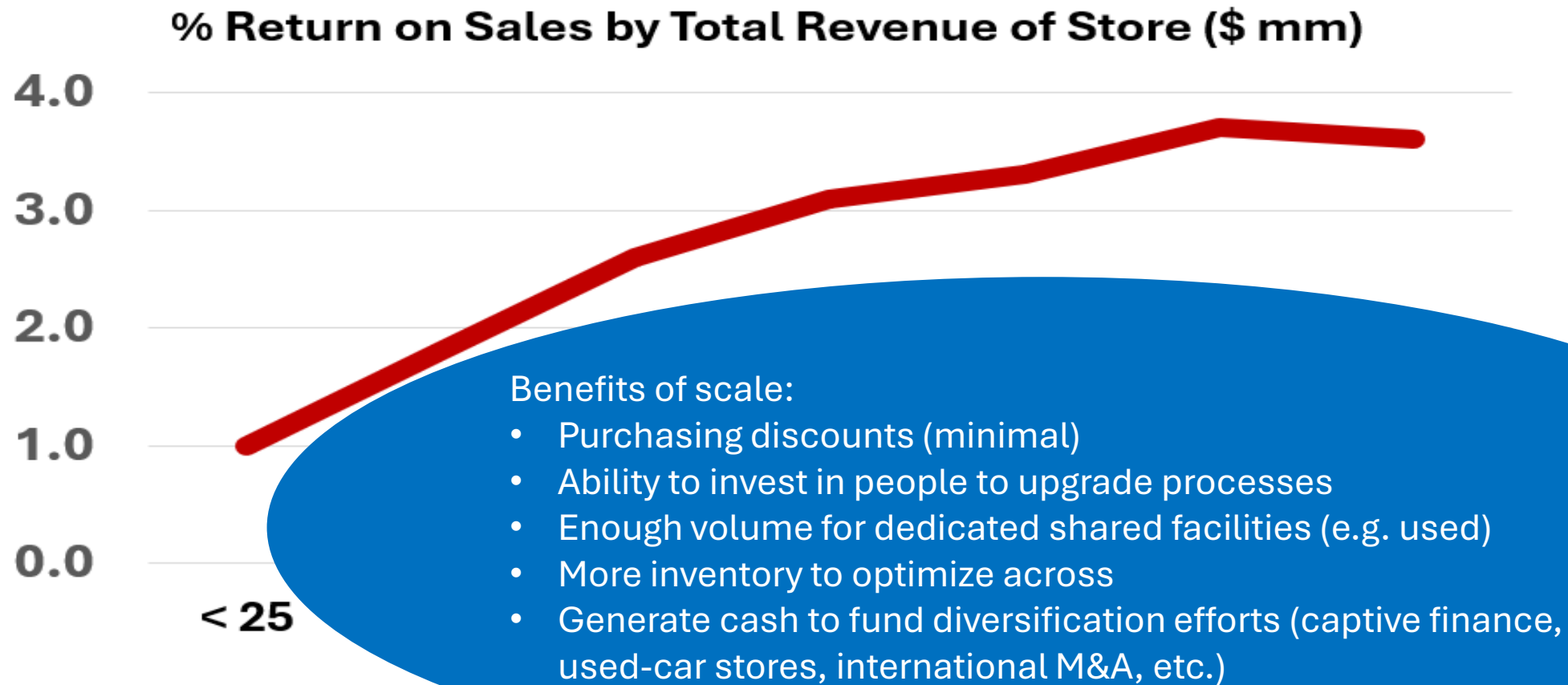
# Further evidence on the gains from **scale**

NOTE: At the multi-store chain level scale effects are much harder to find



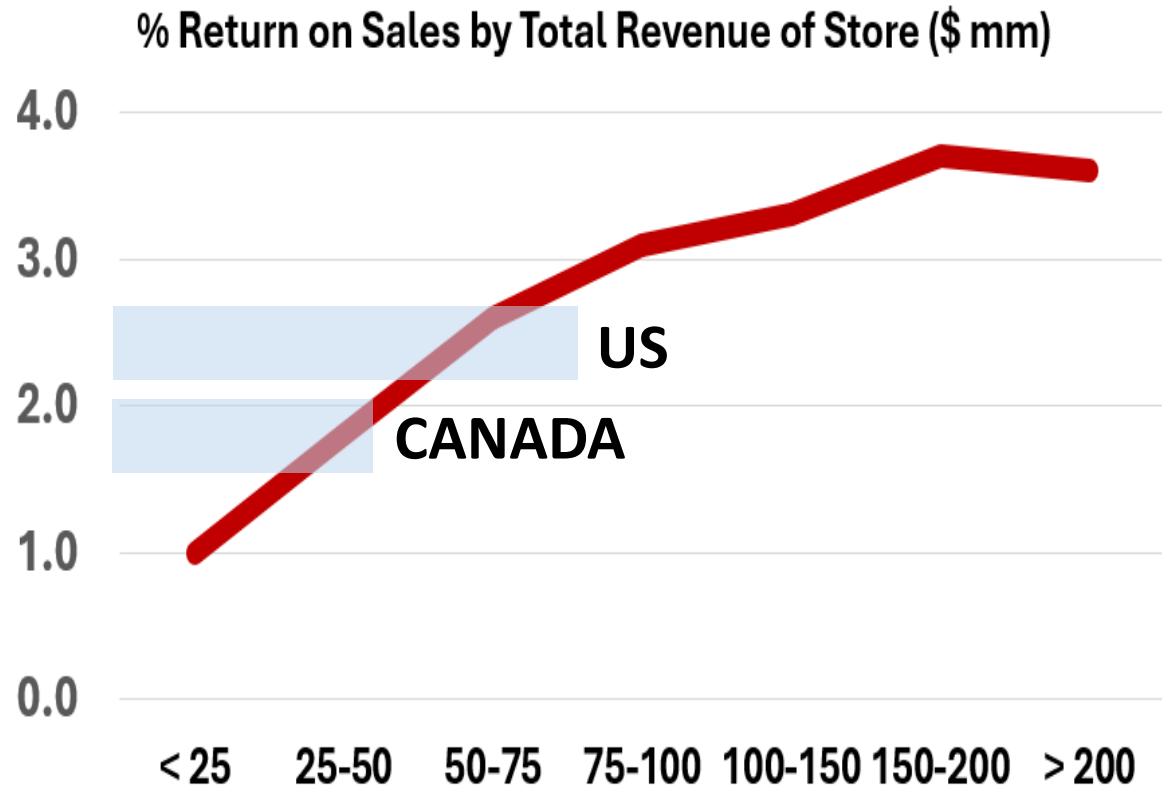
# Further evidence on the gains from **scale**

NOTE: At the multi-store chain level scale effects are much harder to find



# US:Canada Gap: scale may be the most important factor

AT A BIT UNDER 2X THE SIZE OF CANADIAN STORES, US STORES BENEFIT FROM SCALE



1. Scale of stores may explain much of the difference in ROS between Canada and the US.
2. This curve is from US data and may not apply in Canada.
3. Obviously, these are gross averages comparing 17,000 and 3,500 stores: Your Mileage WILL Vary!

# Interviewees Focused on 5 Paths to Better Profits: 5

## UNLOCKING THE PROMISE OF **INFORMATION TECHNOLOGY** (FINALLY)

### Challenges listed:

- **Integration:** disconnected systems, difficult integration across OEMs and between apps and DMS
- **Costs:** spending is high, benefits elusive: “We’re on a treadmill of new features and new costs”
- **IT-enabled OEM encroachment:** OEM Digital Retail Platforms (DRPs) are a concern
- **Implementation:** We struggle to adapt processes to IT: “We buy an app and then wait for it to work”

### Opportunities listed:

- **Scale Benefits:** larger groups better able to afford and implement sophisticated IY
- **Standardization:** slowly advances, as leading vendors emerging from "Wild West" era
- **Monetization of customer data** may finally arrive if it can deliver higher retention across the board
- **AI Opportunities:** growing optimism, as much as assistant as replacement. Specifics:
  1. **Neutral:** Remember, it’s just software. Another trend, like 4G to 5G. A big and important trend, but one like the many we’ve seen before
  2. **Positive:** so far mostly in customer interactions, but the back end may offer more headcount reduction in (quantity and quality): “Replace human expertise with machine expertise”
  3. **Generally:** Shop wisely: AI is not easily just pasted onto existing software

# So, what's the bottom line? Triangulating on (US) profit...

The New Normal is likely to resemble the Old Normal, which is not a bad thing. Three triangulations:

1. **SUM OF PARTS:** If New is =/-, F&I +/-, Used =/+, Service =/+, and CR +, but not at most stores, and with overall store expenses likely rising, the store total nets out to roughly a flat or stable outlook.
2. **HISTORY:** The American franchised new-car dealership industry as a group historically consistently generated a +/-2% Return on Sales (ROS) over time, with brief excursions higher (e.g., during the chip shortage and pandemic of 2021 and 2022) and lower (e.g., during The Great Recession of 2008). Therefore, all else being equal, history dictates The New Normal will be the same as The Old Normal. Higher returns during 2020-2023 (3.5-6%) were anomalous; expect reversion to historical mean.
3. **ECONOMICS:** The Oliver Wyman Cost of Distribution study verified that, within a narrow range, different types of new-car sales channels cost about the same, as they all have to carry out similar tasks. (Selection of channel thus depends more on which value the OEM wants to optimize: for example, the ability of the dealer channel to move metal versus the ability of the direct channel to eliminate intra-brand price competition.) Given this reality, whatever channel an OEM chooses will require a pretty similar return on capital (no “silver bullets”), which is likely to be pretty close to the historic dealer average – otherwise capital will leave the industry. *No channel works for free.* Dealer returns will therefore be stable.

*Implication: over time, averaging good and bad years, future profit will look like past profit*

# Forecasting Profit: **History** says ~2.5% (USA)

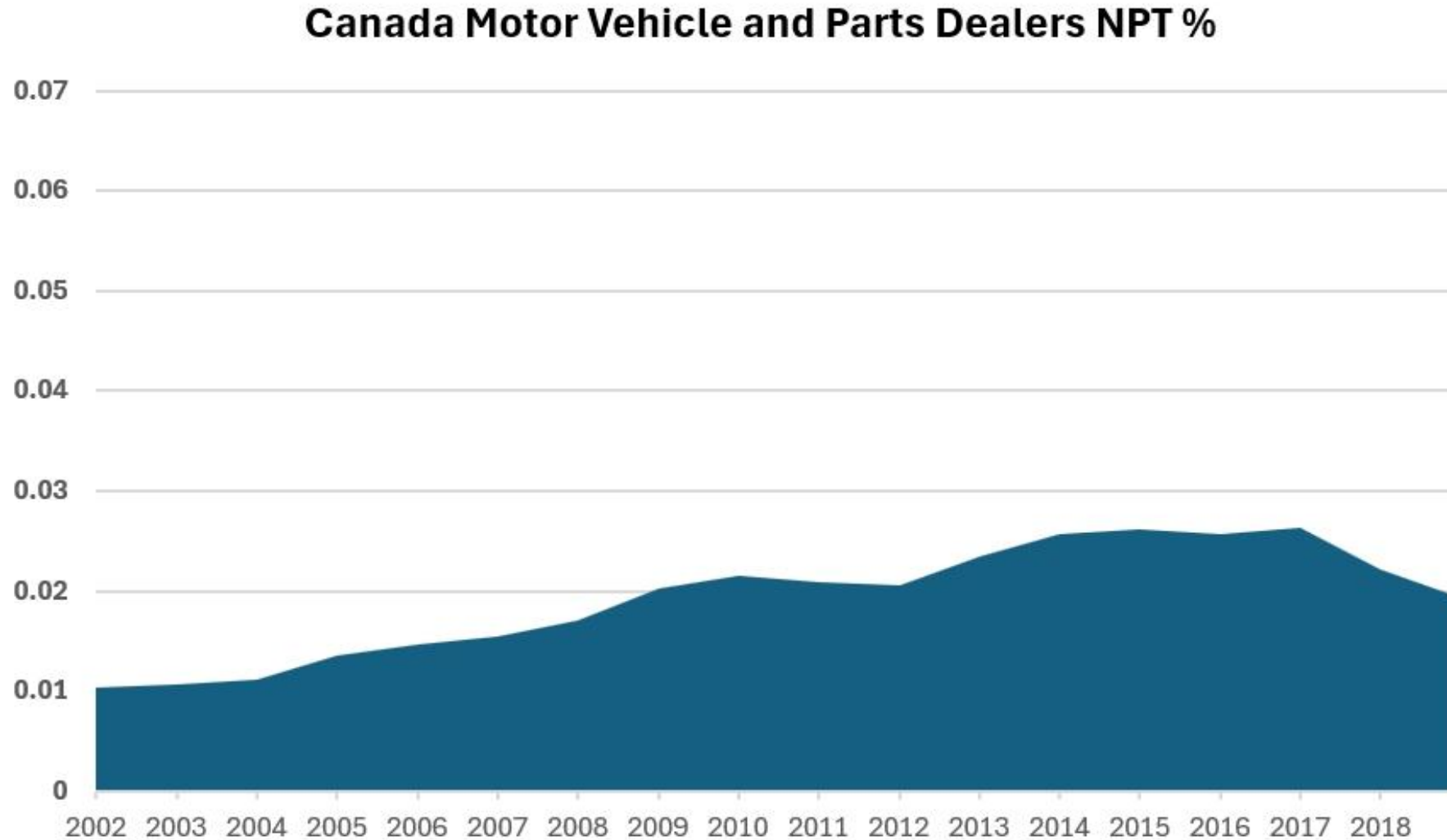
Dealership ROS Over Time



Source: Dan Thompson, from NADA data

Source: Statistics Canada

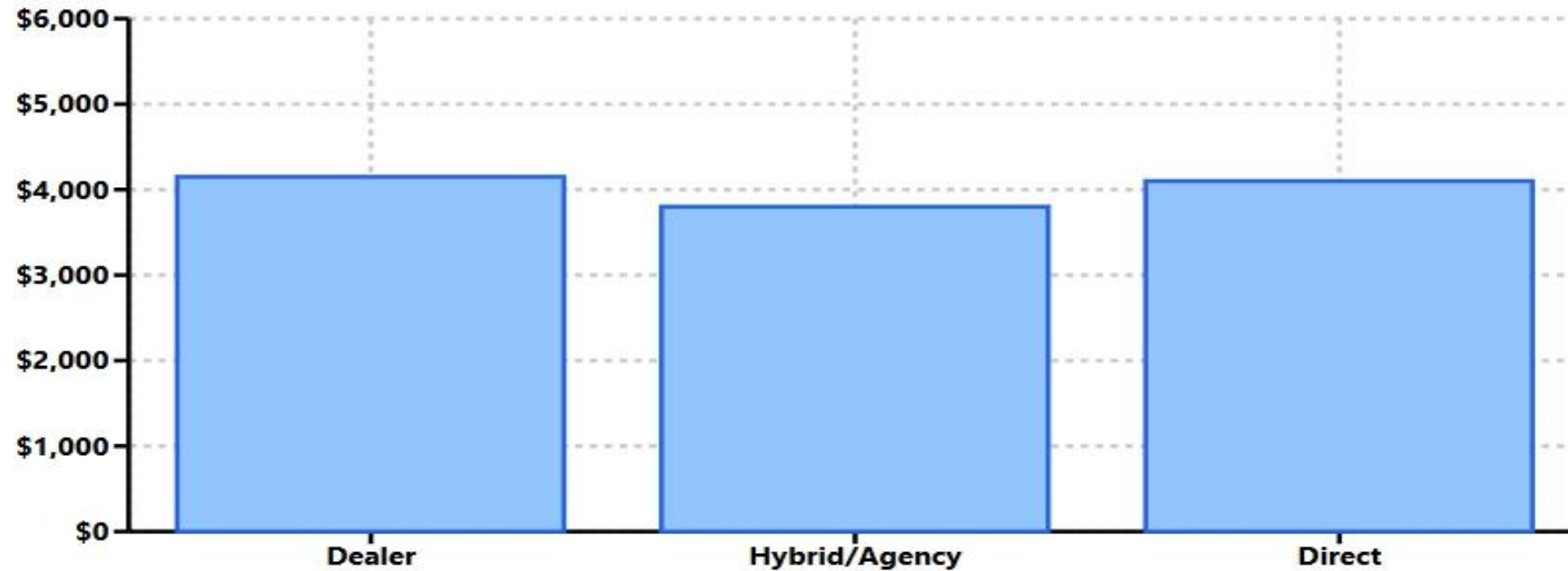
# Forecasting Profit: **History** says ~2.5% (USA)



Source: Statistics Canada

# Forecasting Profit: Can't Escape **Economics**

**Cost of Distribution by Channel Type**  
**Dollars per Car**



Value: \$900-\$1,200

\$500-\$1,000

\$450-\$750

Source: Oliver Wyman, *Automotive Cost of Distribution* report, September 2024

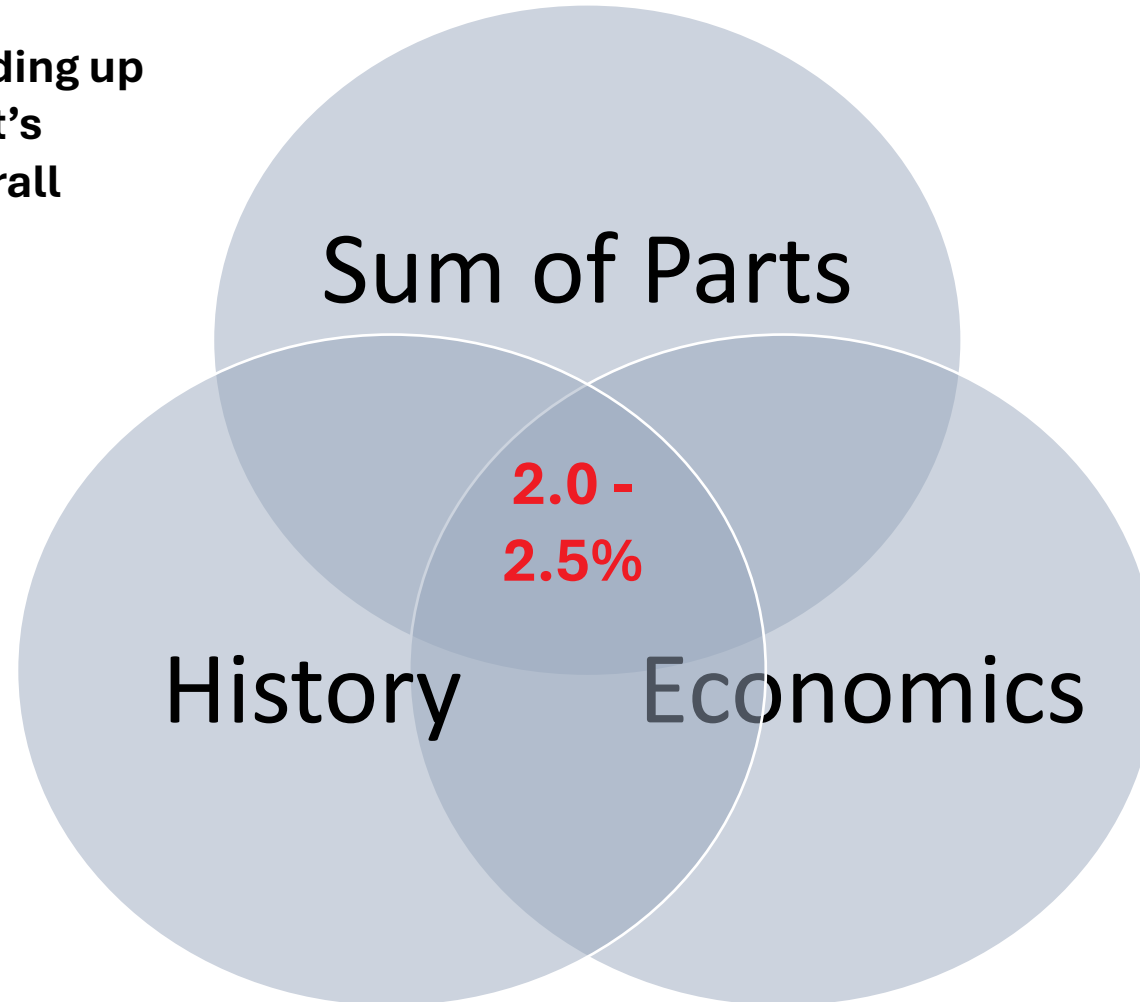
# Conclusions: Profitability\* Triangulated (US)

Three different approaches end up at the same (ROS) place

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

**History:** projecting the future from decades of past results

**Economics:** estimating the required return on capital to support the functions *any* channel must deliver



\* "Book" profits only; real estate business excluded

# Reality Check!

It is useful to look at these trends in store operations. However, other factors will have *more* impact on your results, such as:

- How the Canadian **economy** performs
- How the particular **brands** you have signed up with perform
- How Canadian **regulations and tax laws** may change

# Reality Check! Overall ECONOMIC outlook

## Forecasts of real GDP growth, CAGR %, next 5-10 years

- Bank of Canada (BoC): 1.8-2.0% in the latter 2020s
- IMF: 1.5-2% over the medium term
- OECD: ~1% in the latter 2020s.
- Parliamentary Budget Officer (PBO): over 2% now, down to 2% by 2028
- Department of Finance (Private-Sector Consensus): around 1.7% over 2023–2028
- Long-Run Potential (Finance Canada): 1.8% 2024-2028, thereafter 1.6%
- TD Economics: around 2.0% annually from 2027 through 2029
- Scotiabank Economics: 1.5-2.0% after the post-pandemic recovery phase.
- S&P Global Ratings: around 2% growth in the second half of the decade.

**Historical average 2000-2024: ~2%, thus forecast consensus is for a slight deceleration.**

# Reality Check! How different BRANDS perform

Goodwill Multiple Ranges



1. Source: DSMA, 2023, observed goodwill multiples by OEM brand
2. A better metric would probably be the CADA DSI survey results

# Reality Check! REGULATORY/LEGISLATIVE Environment

## Current Regulatory Issues Impacting the Industry **MERCER OPINION!**

1. Zero-Emission Vehicles (ZEV) Sales Mandate: dealer spending on EV infrastructure.
2. Financial Consumer Protection Framework (FCAC) has been strengthening oversight of F&I e.g. "non-optional fees." Impacts F&I department profitability.
3. Provincial consumer laws: notably Ontario with its Motor Vehicle Dealers Act (MVDA) and Quebec with its Consumer Protection Act amendments: may limit dealers' ability to adjust fees and charges after initial price presentations.
4. Competition Bureau (Digital Market Guidelines): Affects ads, online sales practices.
5. Labor Code Changes: Federal labor law changes (e.g. re paid medical leave, new workplace harassment provisions) may raise costs via provincial standards.
6. Privacy Law Reform: Bill C-27 introduces stricter requirements for handling customer data, may require new investments in IT systems and compliance procedures.
7. Provincial Right-to-Repair Legislation: While primarily targeting OEMs, this could affect dealers' service revenues over time.

# **Overall Summary**

**From Dealership of Tomorrow: Existential threats seem to have (mostly) receded, but dealers must stay alert and remain adaptable**

**From Cost of Distribution: There is no channel OEMs can choose that is inherently superior to the franchised dealer**

**From Back to Basics: Future profitability looks stable, with upside based on pursuit of four or five broad strategic thrusts**

**Questions?**

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