Franchise Horsepower Index

Blue sky multiples get all the attention in a buy-sell conversation, and for good reason: they are the most direct read on what a buyer is willing to pay for a franchise. But a multiple is ultimately a market opinion. It reflects dealer sentiment, deal flow, and scarcity as much as it reflects the underlying economics of the store. To measure those economics directly, we built an Franchise Horsepower Index: new vehicle throughput multiplied by average new vehicle transaction price, indexed to the market average of 1.00x.

New vehicle revenue is not the same thing as profit, but it is roughly 50% of a dealership's total revenue, and it is the engine that feeds every other department:

- Used vehicles: Trade-ins and lease returns are heavily influenced by new vehicle sales, so this index is a barometer for both the volume of vehicles a used vehicle department will see and the price range of the vehicles that return to it.
- F&I: Higher-priced vehicles support higher-dollar F&I products, which can offset the lack of volume compared to their lower-priced high-volume competitors.
- Fixed operations: Higher-throughput brands generate significantly more repair orders, but higher-priced brands can post significantly larger profit per RO, which often more than offsets the difference in volume.
- Expenses: Higher-throughput brands typically require a larger footprint, more employees, and a bigger overall expense structure, one that only pays off if the volume can be profitable enough to support it. Lower-volume brands need a smaller footprint and carry lower overhead, though that logic bends depending on factory facility requirements, since higher-priced brands often demand a higher investment per square foot than higher-volume, lower-priced brands.

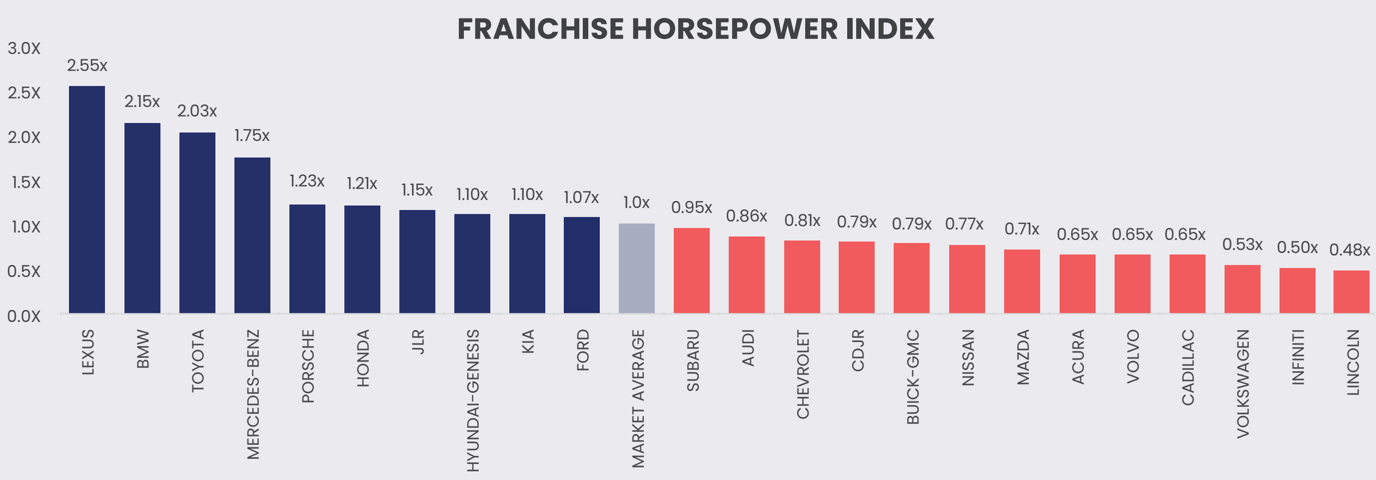
The new vehicle department is the key driver for most dealerships, and dealers should weigh the economic opportunity of a franchise carefully against their strategic goals before buying in.

Blue sky multiples and the Franchise Horsepower Index move together more often than not: brands that generate more new vehicle revenue per store tend to command higher multiples too. But the exceptions are where the real story is.

Porsche and Nissan sit at opposite ends of the same trade-off. Nissan's new vehicle throughput is roughly 2.2x that of a Porsche store, but the average transaction price of a new Porsche is roughly 3.6x that of a new Nissan. Net those two factors together and the average Porsche store generates about 1.6x more new vehicle revenue than the average Nissan store, despite selling far fewer cars.

Four brands have managed to turn both dials up at once. Lexus, BMW, Toyota, and Mercedes-Benz combine high throughput with high transaction prices, and it shows: all four post the top Franchise Horsepower Index scores in the industry, Lexus at 2.55x, BMW at 2.15x, Toyota at 2.03x, more than double the market average of 1.00x, with Mercedes-Benz at 1.75x. These are likely the most profitable franchises in nearly every market where they compete, a byproduct of OEMs that have managed dealer count with discipline while building vehicles that consumers are willing to pay up for.

For dealers, the Franchise Horsepower Index is a way to see past the multiple to the underlying new vehicle economics, and to find where a dollar of goodwill buys the most opportunity.



Source: Haig Partners, Wards, Kelley Blue Book