



Navigating the new road in automotive retailing

Charting CX transformation during industry disruption

Automotive retail is winding its way through a year marked by significant disruptions. Tariff uncertainty, high financing rates, and the expiration of electric vehicle tax credits continue to reshape market conditions. Some car retailers have warned that consumers are pulling back—CarMax, the largest seller of used cars, recently said that its sales and profit plunged in the latest quarter.¹ Despite recent federal funds rates cuts, new auto loan rates have risen to 9.43 percent (up 75 basis points year-to-date) and used auto loan rates are at 14.15 percent (up 70 basis points year-to-date). This situation pressures dealers to reassess their sales strategies as consumers deliberate on purchasing post-tariff inventory.²

In response to these challenges, dealers and OEMs are actively adapting by implementing innovative strategies, enhancing customer experiences, and leveraging data insights to increase efficiency. Notably, however, the current environment offers numerous opportunities to enhance these efforts, enabling stakeholders to address evolving challenges and build resilience in an ever-changing marketplace.

Shifting market environment

The automotive retail sector faces several challenges that threaten traditional operations and dealer networks.

Rising tariffs present a major challenge for the automotive industry by driving up the prices of imported vehicles and parts. As these tariffs continue to change, they inject new volatility and uncertainty into the sector. Consequently, OEMs are rethinking their supplier relationships and expanding domestic production capabilities to buffer against these unpredictable tariff fluctuations.

OEMs appear to have taken a measured response to tariffs so far. As of August 2025, the average new vehicle MSRP of \$51,099 was only 3.3 percent higher, and incentive spending held steady at 7.2 percent of average transaction price over the same period. Despite this stability, more recent reports suggest that some automakers are actively adjusting incentives to offset ongoing tariff impacts.³ It remains to be seen how much OEMs

will need to adjust pricing once the full cost of tariffs begins to affect day-to-day operations and component costs.⁴

Another major challenge is the evolving electric vehicle (EV) market. The auto industry faces significant uncertainty regarding long-term consumer response to the expiration of EV subsidies. According to the JD Power E-Vision Intelligence Report (October 2025)⁵, EV sales in October plummeted by 53 percent, now representing only 6 percent of total monthly new vehicle sales. It remains to be seen whether this marks a lasting shift in consumer behavior or a temporary rebound from September's spike.

Looking ahead, the market faces additional threats: in 2026, 243,000 franchise EV leases will end—more than three times the volume of lease returns in 2025—forcing a large cohort of current EV owners to make new purchase decisions. According to the same JD Power report, while a majority of these owners say they

¹ Nicholas Miller, "CarMax Profit Sinks on Weaker Used Car Sales," Wall Street Journal, September 25, 2025

² Jonathan Smoke, "Auto Loan Rates Trend Higher as Federal Reserve Cuts Rate Policy," Cox Automotive, September 17, 2025

³ "Toyota Incentives and Lease Deals for November 2025," Real Car Tips, November 20, 2025

⁴ "Kelley Blue Book Report: August New-Vehicle Prices Rise as 2026 Models Hit Lots, EV Sales Accelerate," Cox Automotive, September 10, 2025

⁵ "EV Sales Down, but Not Out: U.S. Consumer Interest Continues to Grow, Led by Current EV Lessees Coming Back to Market," E-Vision Intelligence Report, J.D. Power, November 2025

will definitely (79 percent) or probably (15 percent) consider an EV for their next vehicle, only time will tell how this will translate into actual sales. On a more optimistic note, EV consideration among active new-vehicle shoppers reached its second-highest level of the year in October, with 24.2 percent saying they are very likely to consider buying or leasing an EV in the next 12 months, up from 21.6 percent in September. The top reason for choosing an EV remains expected lower running costs, and JD Power reports that 86 percent of EV owners find these expectations are met. While these changes impact all EVs, the percentage shift in price may be more significant for lower-priced models compared to higher-priced. Understanding these relative impacts helps OEMs strategize effectively for different market segments.

Moving to challenges at the dealer level, used car inventories in 2025 are below the five-year historical averages (excluding 2021, which is viewed as an outlier due to the pandemic-induced new car shortages).⁶ This shortage is being driven by a surge in consumers looking to avoid tariff-induced price increases on new models. Although used cars remain profitable, their

scarcity presents challenges for dealers, who now must effectively manage limited stock while navigating competitive pricing models.

Dealers face a potentially enduring challenge due to the issue of vehicle affordability. There are growing concerns that high vehicle prices could reduce sales, burdening dealers with expensive inventory that risks going unsold. This could prompt OEMs to compromise by offering incentives to help move inventory, which would help dealers. However, dealers may also need to adapt by improving profit generation from finance and insurance (F&I) products like maintenance insurance and service add-ons like rustproofing. Furthermore, optimizing fixed ops profitability could become a priority as margins for vehicle sales continue to diminish.

The higher financing rates mentioned earlier in this paper can also affect consumer purchasing decisions and prompt dealers to explore new financing solutions, such as longer-term leases, and adaptive strategies that can ease the burden on consumers while sustaining sales volumes.

Profitability under pressure: Executive strategies for resilient performance

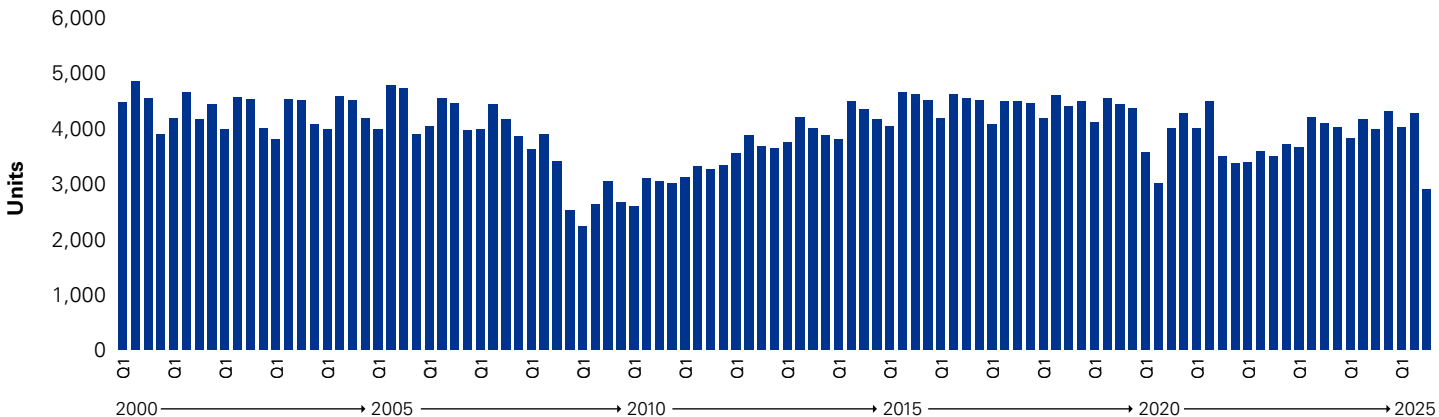
Although this year has presented a daunting series of detours, both auto dealers and OEMs have historically shown remarkable adaptability in the face of shifting economic conditions. While the narrative highlights positive financial performance, it's important to acknowledge that overall retail vehicle volume declined in Q2.

Economic performance continues to be positive—net pretax profit for dealers in the second quarter of 2025 increased by 27 percent compared to the previous year.⁷ Despite this drop in units sold, dealers demonstrated resilience by achieving profit growth, driven largely by consumers accelerating purchases ahead of anticipated tariff hikes, which helped offset the impact of lower sales volumes.

Additionally, the average gross profit per new vehicle rose 4.8 percent from the first quarter of 2025—it's the second uptick for that metric in recent history, and signals an exit from a downward slide that started three years ago.⁸ We view this as a bottoming-out after correction from the post-COVID-19 chip shortage that pushed up prices and margins. Moreover, dealers have also been adept at pivoting business strategies to maintain profitability, leveraging various operational tactics. For example, many dealers are diversifying revenue streams by expanding service offerings, such as maintenance, extended warranty and financing options, and exploring non-traditional sales channels.⁹

Exhibit 1:

Total vehicle retail units sold (thousands)



Source: Bureau of Economic Analysis

⁶ Justin Fischer, "Used Car Price Trends for 2025," CarEdge, September 24, 2025

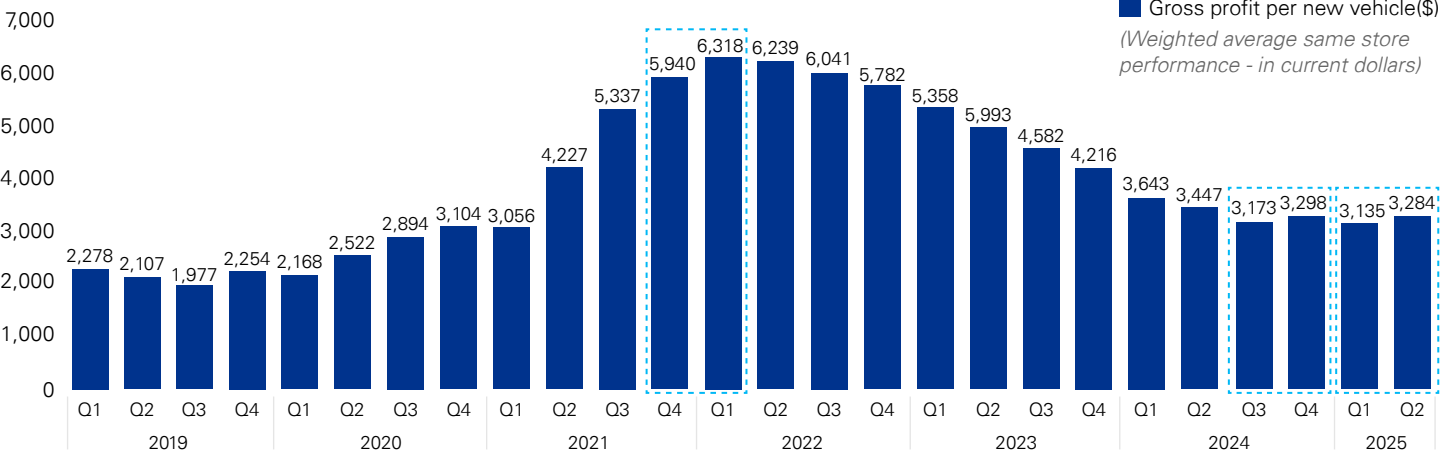
⁷ "Q2 2025 Presidio-NCM Average Dealership Performance Benchmark," The Presidio Group, July 2025

⁸ Ibid

⁹ "Q2 2025 Presidio-NCM Average Dealership Performance Benchmark," The Presidio Group, July 2025

Exhibit 2:

Gross profit per new vehicle



Source: Haig quarterly reports

How dealer executives can anticipate market shifts

Looking to the future, market complexities and emerging trends are poised to challenge the adaptability of both dealers and OEMs even further. A decline in demand for new vehicles is anticipated following a pre-tariff buying spree. In April 2025, Goldman Sachs lowered its estimate for 2026 sales to 15.25 million units, a reduction of 1.1 million units from its previous forecast.¹⁰ Similarly, Cox Automotive lowered SAAR for Q4 2025 to 15.5 million, down from an average SAAR of 16.3 million for the first three quarters of 2025.¹¹

Industry forecasts suggest consumers may defer purchases of 2026 models, which are expected to be priced significantly higher than current models. This anticipated decline in sales will strain the entire auto retail ecosystem, and OEMs—who rely on sustained sales volumes to balance production costs and market expectations—may be pressured to provide costly dealer incentives. Meanwhile, strained consumer demand will likely amplify competition among dealers, prompting them to explore

innovative ways to maintain sales momentum to meet monthly sales goals.

We encourage dealers to enhance their use of market data and analytical tools to gain visibility into regional demand patterns and competitor pricing models, allowing them to position their inventory advantageously. Besides leveraging pricing strategies, dealers can explore alternative pathways to optimize their used vehicle operations. These include enhancing online sales platforms to reach broader audiences and offering robust warranty and service packages that increase perceived value.

To effectively respond to these evolving trends, both OEMs and dealers must continuously refine their strategies by pursuing operational excellence and innovative approaches that foster adaptability. By harnessing advanced technologies and employing comprehensive data analytics, industry participants can gain actionable insights, enabling them to anticipate market shifts and respond with enhanced agility.



¹⁰ Abhinav Parmar, “Goldman cuts US auto sales estimate by nearly 1 million units due to tariffs,” Reuters, April 10, 2025

¹¹ Jim Henry, “Tariffs push prices up, auto sales down in 2026,” Wards Auto, September 29, 2025



Leading teams to deliver efficiency and superior customer experience

Amid the complex challenges facing the auto industry this year, dealerships have an opportunity to refine their operations and prioritize customer experience to maintain competitiveness and drive growth. Efficiency and superior customer service are crucial differentiators that can position dealerships favorably in an evolving marketplace. Here are some examples:

Maximize close rate: Optimizing sales processes begins with strategically assigning leads to the most capable sales representatives. By analyzing data on past performance, dealerships can identify reps who excel at closing deals through various channels, such as digital inquiries or in-person visits. Interviews and analyses highlight the importance of aligning rep strengths with lead sources to improve conversion rates.

Identify your top reps, and help them improve: Investing in sales training and development is vital for nurturing top talent within dealerships. By implementing targeted training programs and performance feedback mechanisms, dealers can empower reps to develop their skills and adapt to changing consumer expectations. Engaged and well-prepared sales teams are more likely to provide exceptional service and establish strong connections with customers.

Assess how you're priced versus the competition: In a competitive landscape, pricing transparency and competitiveness are essential for attracting and retaining customers. By leveraging leading practices in market research and competitor analysis, dealers can ensure their pricing strategies reflect current market conditions and offer genuine value to consumers. Effective pricing, coupled with clear communication, builds trust and reinforces consumer loyalty.

Explore alternative pricing models: Dealerships are moving beyond traditional negotiations by adopting fixed pricing and personalized bundles tailored to customer needs. Clear, transparent pricing reduces friction, attracts buyers who value simplicity, and lowers operating costs. By prioritizing efficiency and customer-centric strategies, dealers can address immediate challenges and build lasting loyalty, helping their businesses thrive through market changes.

Understand how to best serve today's time-conscious customers (profit versus time): Today's consumers prioritize efficiency and value when purchasing vehicles. Streamlining the sales process to minimize wait times and eliminate unnecessary steps is critical for meeting these expectations. Dealers can benefit from adopting technology-driven solutions, such as simplified financing platforms or virtual consultations, to expedite transactions, enhance the buyer experience and manage operating costs. By processing customers more quickly, dealers might require fewer sales reps or F&I reps. Additionally, adopting a one-price model that eliminates negotiation can reduce the need for sales managers who typically approve negotiated prices.

Case study: Lessons from data-driven dealership transformation

As part of a recent KPMG project, a global automotive OEM invested in analytics to enhance its understanding of sales dynamics, customer demographics, and dealer performance. Building on these investments, our team collaborated with the OEM to leverage analytics for dealer performance improvement, focusing on sales force effectiveness (SFX) and customer experience (CX).



Strategic implications and industry challenges:

The case study underscored the urgent need for transformation in response to industry headwinds and shifting customer demands threatening the current auto retail model's viability. Notable industry challenges included margin pressures exacerbated by recent global events, consumer dissatisfaction with the current auto purchasing experience, and threats to long-term viability due to trends like autonomous vehicles, mobility shifts, and electric vehicle adoption.



Project objective and approach: The primary objective was to identify improvement levers and dealer metrics to bolster dealer performance, focusing on SFX and CX. The consulting team collaborated closely with top dealers over several weeks to develop hypotheses for operational improvement in SFX and CX, establish baselines, and identify other opportunities for improvement utilizing each dealer's unique data. The team then presented findings and potential improvements to dealers in the presence of the OEM.



Critical areas for improvement: By working closely with dealers, we identified several critical levers for operational improvement. These include reducing transaction times and maintaining price discipline, enhancing online-to-offline transaction handoffs, and streamlining salesforce operations while adopting a one-price model. Together, these initiatives can significantly improve customer experience and profitability.



Key achievements and opportunities:

Near-term improvements were identified that potentially yield \$500k–\$1M in annual margin per dealer with minimal capital expenditure. Medium-term opportunities presented an additional potential margin impact of over \$1M per dealer. Overall, eight scalable improvement opportunities were pinpointed, promising an estimated \$7M–\$12M in annual margin across three high-performing dealers.



Expansion potential: A compelling opportunity exists for the OEM to scale the identified opportunities nationwide, potentially generating significant dealer margin growth by institutionalizing and scaling the approach. Mobilizing key resources and technologies are essential for successful implementation. Dealers must address structural headwinds and adapt to evolving consumer expectations for better CX.

In conclusion, these engagement results showcase the significant potential for dealers who adopt data-driven strategies to enhance performance and adapt to changing market demands. The project's accomplishments highlight the feasibility and benefits of immediate and scalable improvements in dealer operations.

How KPMG can help

Navigating the evolving auto retail landscape requires strategic insight. KPMG aids dealers and automakers in adapting to market shifts, such as tariff changes and financing rates, by providing:

**Sales optimization:**

Using analytics to enhance sales force efficiency.

**Partnership model development:**

Design and quantify the value of new OEM-dealer collaboration models and approaches.

**Business model optimization:**

Designing tailored business models that meet dealer capabilities and customer needs.

**Program management:**

Align objectives and manage change to enable smooth, effective OEM/dealer collaboration.

**Customer experience improvement:**

Streamlining processes to improve service and reduce transaction times.

We can help you tackle current challenges, innovate for the future, and build resilient customer relationships and strategic success.

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