

# **The Dealer Margin Challenge**

## **Navigating Mid-Teen Margins in a Normalizing Market**

*How successful dealers are adapting—and what manufacturers must understand*

A White Paper by Oryx DTR

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## Executive Summary

The firearms retail channel faces margin pressure as the market normalizes after pandemic-era surges. Gross margins persisting around 16% on firearms—based on mid-2024 trends documented through year-end—combined with operating costs of \$40-50 per transaction, create challenges particularly for dealers focused primarily on new firearm sales. However, many dealers are successfully adapting through diversification, and the industry's overall health remains strong at \$91.65 billion<sup>1</sup> in economic impact supporting 383,000 jobs.

<sup>1</sup>\$91.65 billion per 2024 NSSF Economic Impact Report; rounded to \$91.7B throughout document for readability

While overall demand normalizes after pandemic peaks (adjusted NICS background checks down 5-14% year-over-year through 2025, with Black Friday week 2025 down 13.6%, but maintaining a streak of 60+ consecutive months exceeding 1 million checks), margin pressures persist for non-diversified dealers. Premium firearms above \$1,000 consistently provide robust margins, though high-volume dealers can achieve profitability on mid-priced firearms (\$500-800) through operational efficiency and strong accessory attach rates.

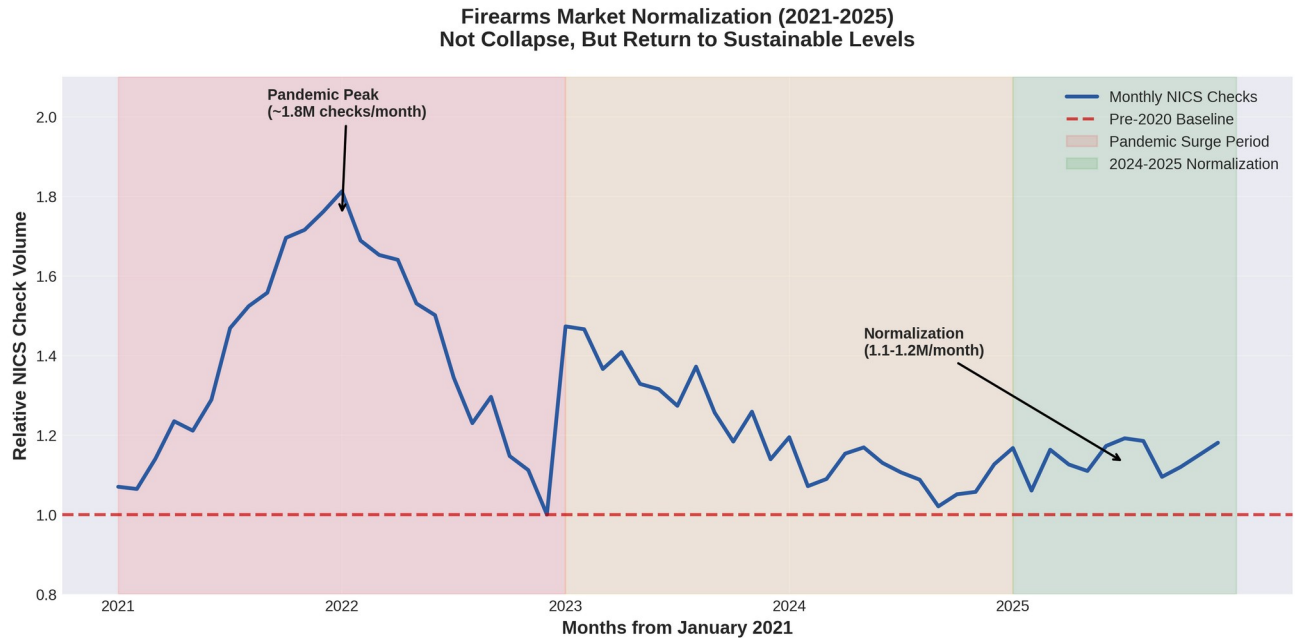
Successful dealers have responded by building resilient business models: leveraging 40-50% margin accessories, 60-97% margin services (gunsmithing, training), shooting ranges with recurring revenue, and used firearms where margins remain uncontrolled. Range-retail combination models and online-focused dealers (e.g., GrabAGun) through high-volume/low-overhead operations demonstrate the industry isn't failing—it's evolving toward diversified operations.

### **This white paper examines:**

- The mathematics of dealer profitability across price points
- How successful dealers are thriving through diversification
- Strategic implications for manufacturer-dealer relationships
- Distribution model trade-offs and emerging approaches

## Market Context: Normalization, Not Collapse

The firearms industry in 2025 reflects normalization following unprecedented pandemic-era demand surges. The chart below illustrates this trend using FBI NICS data adjusted per NSSF methodology:



*Data: FBI NICS via NSSF adjusted methodology, 2021-2025*

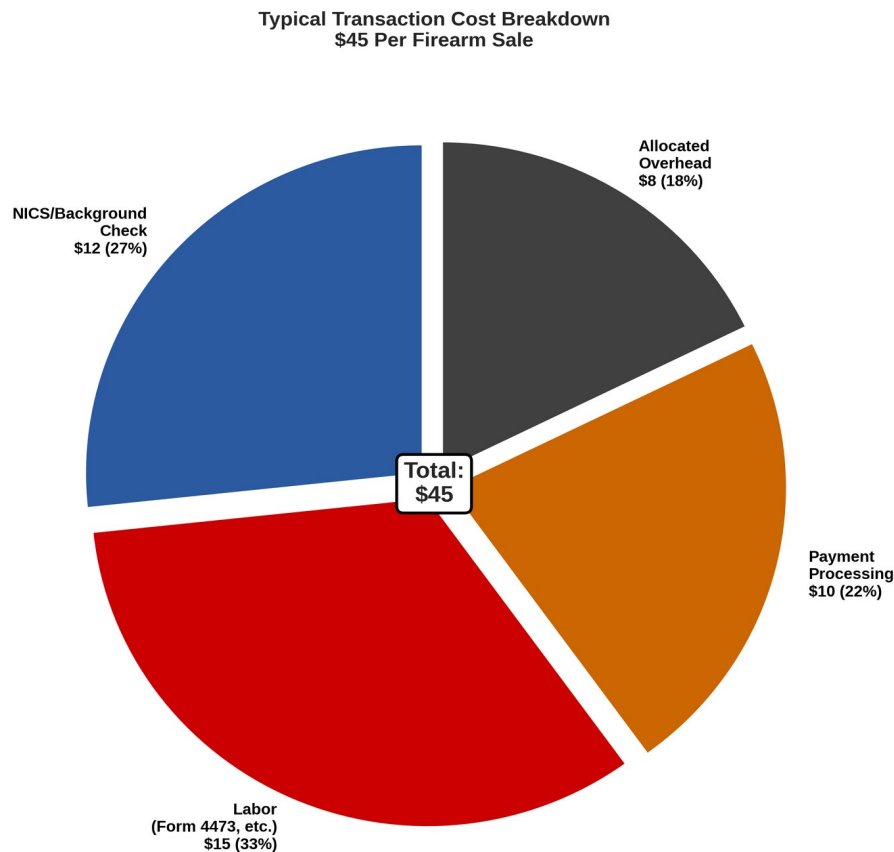
### Key indicators:

- **Sales trends:** Adjusted NICS checks declined 5-14% YoY through 2025 (Black Friday week down 13.6%) but maintained 60+ consecutive months exceeding 1 million checks. Sales remain above pre-2020 baseline levels despite normalization.
- **Economic impact:** \$91.65 billion in total economic impact in 2024 (latest available data), supporting 383,000 jobs with average compensation of \$68,300 (NSSF, 2024).
- **Manufacturer performance:** Public companies report lower sales versus pandemic peaks but remain profitable through cost management. Some project modest 2026 rebounds as inventory normalizes.
- **External factors:** Post-2024 election cycle reduced fear-driven purchasing compared to 2020-2021 surge. Tariff impacts on imported firearms and components add cost pressure. Online dealer success demonstrates alternative business models.

**Bottom line:** The industry is healthy and adapting. However, margin compression creates genuine challenges for specific dealer segments, particularly those dependent on new firearm sales without complementary high-margin revenue streams.

## Understanding Operating Costs

Industry data documents firearms margins persisting around 16% based on mid-2024 trends documented through year-end. Comprehensive full-year 2025 margin surveys pending publication Q1 2026. Operating costs per transaction typically range from \$40-50, though this varies significantly by dealer volume and efficiency.



*Data: Retail industry studies, firearms dealer financial reviews*

These costs are largely fixed regardless of firearm price, creating disproportionate pressure on lower-priced products. A \$300 handgun and \$1,200 rifle face nearly identical operating costs, but vastly different margin dollars to cover them.

# Where Profitability Lives

## Price Point Profitability Analysis

The waterfall chart below shows exactly where money disappears in firearms retail:



Calculations: 16% industry avg margin, documented operating costs

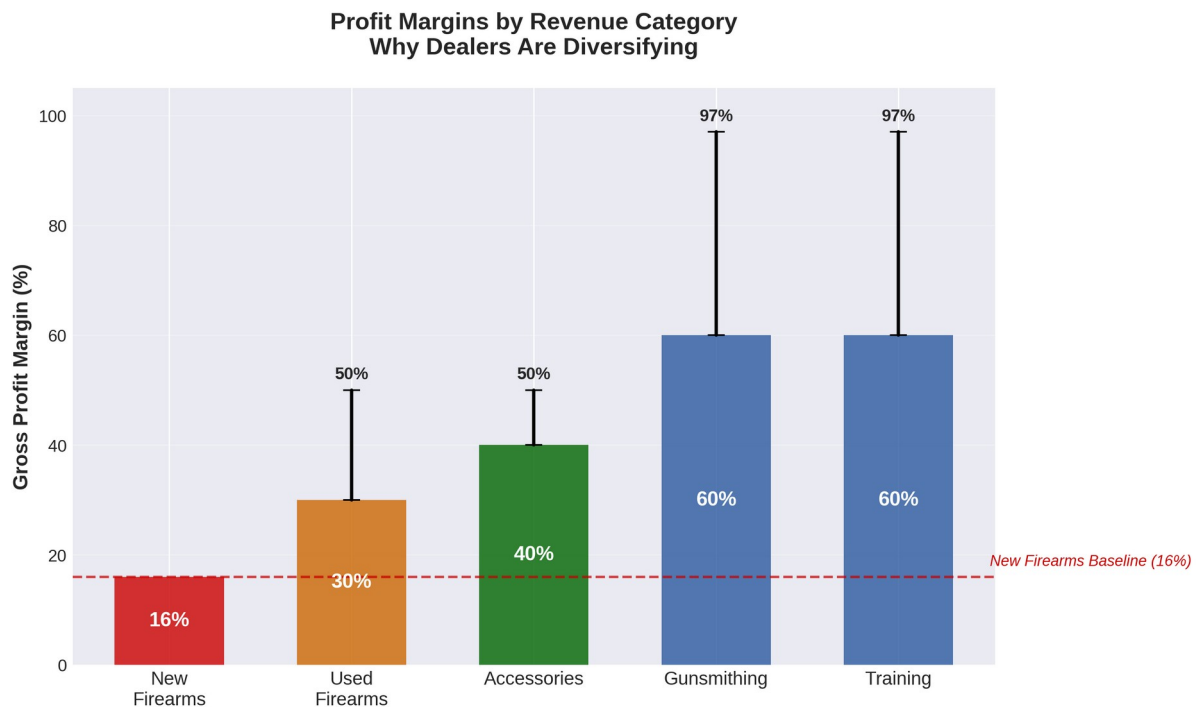
### Key Insights:

- **\$400 firearms are marginal:** \$19 net must still cover rent allocation, utilities, and provide profit. Viable primarily as loss leaders driving accessory sales.
- **\$600 firearms break even:** \$50 net barely covers allocated fixed costs. Profitability depends on operational efficiency and attach rates.
- **\$1,200+ firearms provide robust margins:** \$141 net provides cushion to cover full overhead and generate meaningful profit consistently.

**Critical context:** Mid-priced handguns (\$500-800) comprised 64% of Q1 2024 transactions, making this segment critical for volume dealers. High-volume operations can achieve profitability on mid-tier firearms through operational efficiency and strong accessory attachment. These transaction-level margins don't capture overall store profitability—a \$400 firearm may be marginal alone but profitable when paired with \$150 in accessories at 45% margin, generating combined profit of \$87.

# How Successful Dealers Thrive

The chart below shows why dealers are diversifying away from firearms-only models:



*Data: Shooting Industry Magazine 2021-2024, NSSF, White Collar Combat*

## Diversification Strategies

### 1. Accessories: The Real Profit Center

Accessories deliver 40-50% margins compared to firearms' 16%. Industry analysis confirms accessories often generate 70-80% of total store profit despite representing lower sales volume. A \$400 handgun with \$66 gross profit becomes viable when paired with \$150 in accessories generating \$60-75 additional profit. Smart dealers now treat firearms as traffic drivers for high-margin accessory sales.

### 2. Gunsmithing Services: 60-97% Margins

NSSF research based on multi-year dealer financial reviews documents margins between 60-97% because labor costs are fixed while service fees can be set independently. A single gunsmith generating \$800,000 annually with 70% margins contributes \$560,000 in gross profit—more than selling 8,500 budget firearms at \$66 gross profit each.

### 3. Shooting Ranges: Recurring Revenue

Indoor ranges transform the business model from transactional to recurring. Industry data shows ranges generate 30-40% of total revenue for combined operations with net margins of 10-25%, often stronger than retail firearms sales. Range-retail combinations now dominate among high-performing dealers.

### 4. Training Programs: Premium Margins Without Inventory

Running two concealed carry classes monthly at \$150 per student (15 students) generates \$54,000+ annual revenue at 60-97% margins. This exceeds the profit from selling 818 budget handguns—with no inventory risk, no NICS checks, and minimal overhead.

## **5. Used Firearms: Uncontrolled Margins**

Used firearms offer the only category where dealers control their margins. Industry sources document margins of 30-50% on used firearms versus 16% on new. A Glock 19 purchased as trade-in for \$350 and sold for \$450 yields \$100 profit after operating costs—more than double the margin of selling new.

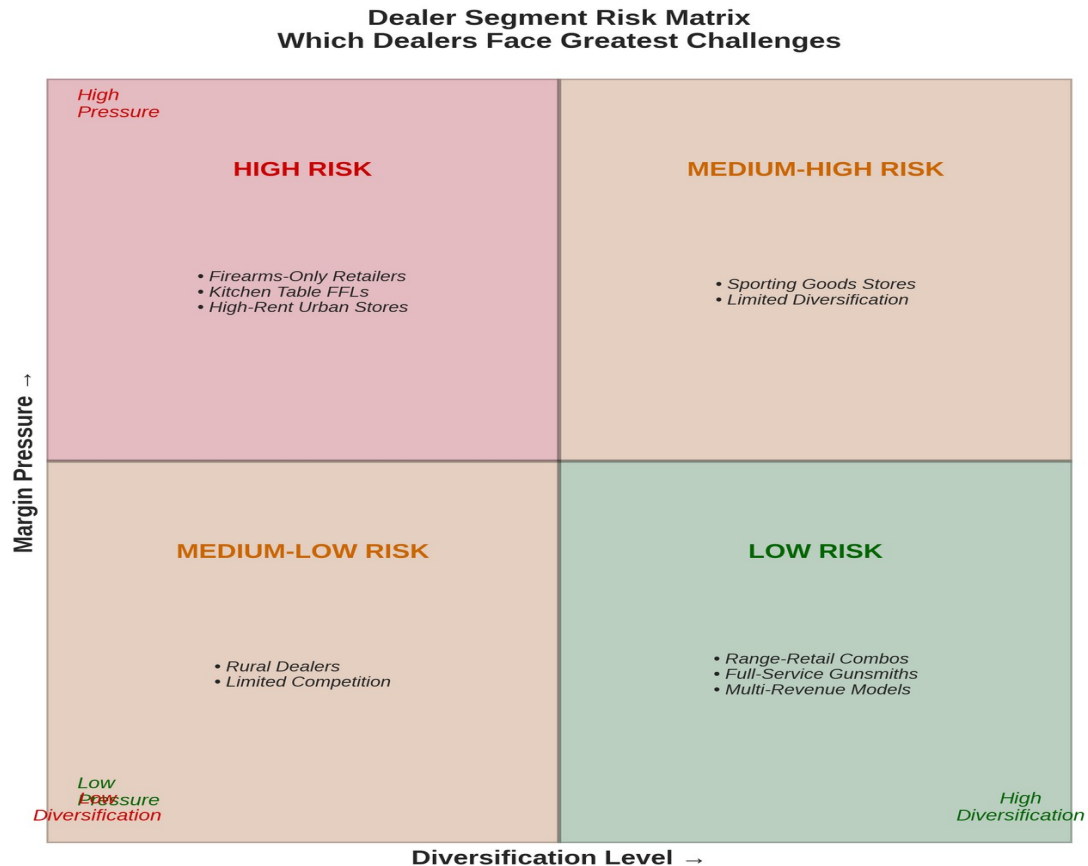
## **6. Online High-Volume Models**

Online-focused dealers demonstrate alternative paths to profitability through high-volume/low-overhead operations. By minimizing physical retail costs and maximizing transaction velocity, these operations achieve profitability despite thin per-unit margins—a model traditional brick-and-mortar stores cannot easily replicate.

# The Breaking Point

## Which Dealer Segments Face Greatest Pressure

Not all dealers face equal pressure. The matrix below shows risk levels by segment:



*Analysis: Industry sources, trade publications, dealer segments*

### Key Segment Analysis:

- **High Risk:** Firearms-only retailers and kitchen table FFLs lack high-margin services to offset losses. Many will exit firearms or pivot to outdoor sports retail.
- **Medium Risk:** Sporting goods stores and urban high-rent locations face pressure but have diversification options. Expect continued deprioritization of firearms in favor of higher-margin categories.
- **Low Risk:** Range-retail combinations and dealers with strong gunsmithing operations achieve 60-70% of revenue from high-margin services. This model is sustainable and growing as the industry standard.

# **Strategic Implications for Manufacturers**

When dealers prioritize higher-margin categories over firearms, manufacturers face both challenges and opportunities:

## **Loss of Shelf Space and Advocacy**

Successful dealers now dedicate more floor space to Yeti coolers, optics, and tactical gear than to firearms. As one dealer told industry media: "Yeti has literally saved our business." This isn't sentiment—it's survival mathematics based on profit per square foot. When firearms lose shelf space, manufacturers lose visibility and point-of-sale advocacy.

## **Reduced Dealer Engagement**

When dealers deprioritize your products, you lose frontline market intelligence, product feedback, and critical advocacy at the most valuable moment in the purchase journey—the salesperson's recommendation. Dealers don't actively promote products that damage their economics.

## **Opportunity in Alignment**

Manufacturers who understand and address dealer economics build stronger partnerships. Whether through direct relationships, hybrid models, or enhanced support within traditional distribution, aligning incentives creates sustainable competitive advantages. Those who move first gain loyalty and advocacy that compounds over time.

# Distribution Models: Trade-Offs and Opportunities

## Understanding the Three-Tier System

The traditional three-tier model (manufacturer → distributor → dealer) provides genuine value that should be acknowledged:

- **Credit terms and risk management:** Distributors extend credit to dealers who may not qualify for direct manufacturer terms, absorbing payment risk particularly important during market downturns.
- **Logistics and consolidated shipping:** Single shipments containing multiple manufacturers' products reduce freight costs for dealers
- **Broad inventory availability:** Immediate access to hundreds of brands without individual manufacturer relationships
- **Returns and warranty processing:** Centralized handling of defects, recalls, and customer service

The challenge isn't that distributors provide no value—it's that margin compression has squeezed channel economics, leaving dealers with insufficient margin to cover operating costs while distributors maintain their position in the value chain.

## Emerging Approaches

### 1. Hybrid Distribution Models

Some manufacturers maintain both distributor and direct channels strategically: distributor for broad market access (smaller dealers, mixed purchases, credit-challenged accounts), direct for strategic partners (high-volume dealers, range-retail combinations, exclusive product launches). This leverages distributor infrastructure while rewarding high-performing dealer partners with better economics.

### 2. Direct Programs with Platform Support

**Benefits:** Restored dealer margins (25-30% vs. 12-18%), direct market intelligence and feedback, stronger manufacturer-dealer relationships, competitive differentiation.

**Trade-offs:** Manufacturer assumes credit risk requiring evaluation capabilities, fulfillment infrastructure complexity and costs, returns and warranty handling directly, minimum volume requirements that may exclude smaller dealers, potential channel conflict with existing distributors.

While direct relationships offer margin restoration and intelligence gains, successful implementation requires robust logistics infrastructure—platforms like Oryx DTR address these operational challenges (ordering systems, logistics coordination, payment processing) while manufacturers retain control of dealer relationships and pricing strategy.

### 3. Enhanced Dealer Programs Within Traditional Distribution

Some manufacturers improve dealer economics without going fully direct: cooperative advertising funds and rebates for marketing spend, volume rebates through distributors providing retroactive margin improvement, demo programs and consignment reducing dealer inventory risk, training and certification programs adding value beyond product margin.

# Conclusion

## Understanding Dealer Economics in a Maturing Market

The firearms industry is experiencing market normalization after pandemic-era surges. In this maturing market, dealer margin pressure at around 16%—combined with \$40-50 transaction costs—creates challenges particularly for firearms-only retail models. However, the industry's overall health remains strong, and many dealers are thriving through diversified business models.

Range-retail combinations, dealers with gunsmithing operations, online high-volume operations, and diversified businesses combining firearms with high-margin accessories and services demonstrate successful adaptation. The industry isn't failing—it's evolving toward more resilient hybrid models that recognize the realities of modern retail economics.

For manufacturers, understanding dealer economics enables informed decisions about distribution strategy, partner selection, and channel investments. Whether through direct programs, hybrid models, or enhanced support within existing distribution, aligning economic incentives throughout the channel builds stronger, more sustainable partnerships that weather market cycles.

## Looking Ahead to 2026

Some manufacturers (e.g., Smith & Wesson) project modest rebounds as inventory levels normalize and product innovation drives demand. However, structural margin challenges will persist absent channel model evolution. Manufacturers who address dealer economics proactively position themselves to capture recovery growth while competitors remain locked in compressed-margin distribution models.

The firearms industry has weathered significant challenges over decades and continues adapting. Understanding the mathematical realities of dealer economics—and acting on that understanding—enables manufacturers to build channel strategies that reward their best partners while maintaining healthy distribution networks for long-term success.

## Additional Resources

For manufacturers seeking deeper analysis of three-tier distribution economics and hidden cost structures, see companion white paper: ***"The Hidden Costs of Three-Tier Distribution"*** available at the Oryx DTR website.

## **About Oryx DTR**

Oryx DTR provides direct-to-retailer platform services for firearms manufacturers exploring dealer direct programs. Our infrastructure addresses key operational challenges including ordering systems, logistics coordination, and payment processing, while manufacturers retain full control of dealer relationships, pricing strategy, and brand positioning.

We recognize that distribution strategy is nuanced—direct programs aren't optimal for all manufacturers or dealer segments. For companies evaluating channel options, Oryx DTR offers the technology and operational support to make direct programs feasible, scalable, and economically viable for both manufacturers and their dealer partners.

This white paper reflects our commitment to transparent industry analysis and thought leadership. Understanding dealer economics benefits the entire firearms community, regardless of distribution model chosen. We welcome feedback and discussion from manufacturers, dealers, and industry partners as we collectively navigate the evolving retail landscape.