

South Africa - Automotive Retail Financial Performance Trends October 2021 to May 2023

Executive Overview

Turbulence in global affairs and global economics will be the earmark of this decade. Global efforts to manage costs and inflationary forces have been mixed with success on one hand but with stubborn persistence on the other.

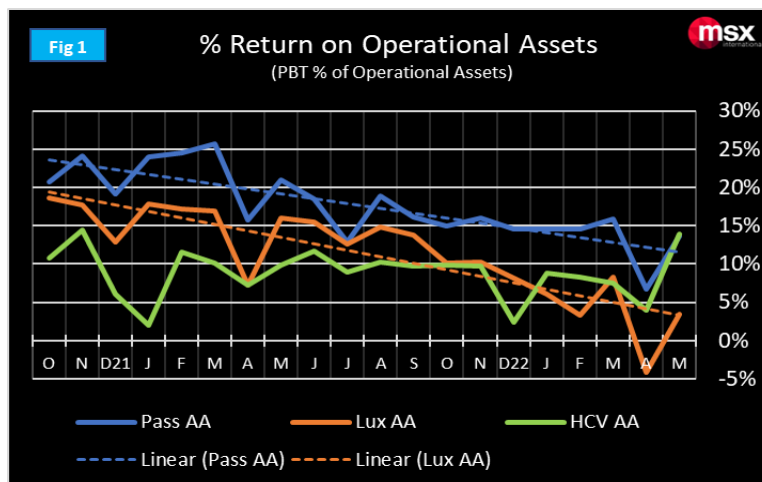
The South Africa scenario is dominated by ever increasingly inefficiencies in infrastructure which is a crucial success factor for any modern economy, these being of course the supply of electricity and the flow of goods in and out on rail and through ports.

Business resilience, the ability to understand the total business environment and to direct business operations and navigate the many challenges needs a much greater focus.

MSX's Benchmark KPIs

The benchmark KPI's provide a point of context for judging dealer performance. These KPIs are all a calculated average.

Automotive Retail Network Performance - % Return on Operational Assets - Fig 1



The average profitability, as measured by the percentage Return on Assets, for South African automotive dealers is heading down to a negative position. There will be brands and dealers who are doing better and holding their own on one hand, but on the other the prognosis is not favourable.

The primary variables in the MRA profitability equation, combine to produce and explain this result. The question is which of the three variables is contributing to this trend?

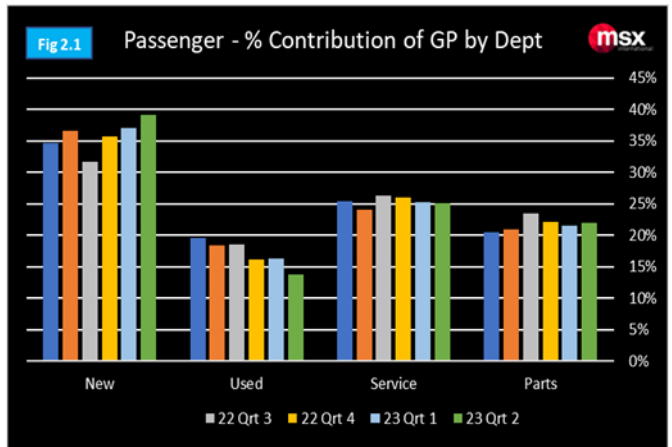
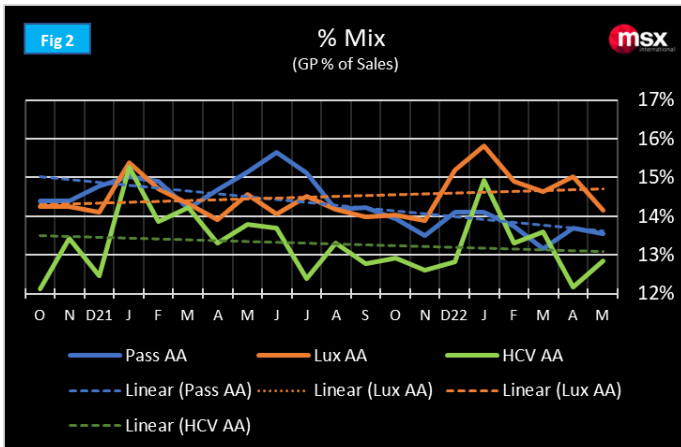
The M represents the % Mix (or gross margin) and this is showing a steady rise as reflected in Fig 2. The control of expenditure is represented by the % Retained (PBT expressed as a percentage of gross margin).

A declining % Retained (Fig 3) would suggest that dealers are incurring proportionally higher levels of expenditure in relation to the gross margin generated from operations. Inflation being part cause and increased personnel costs.

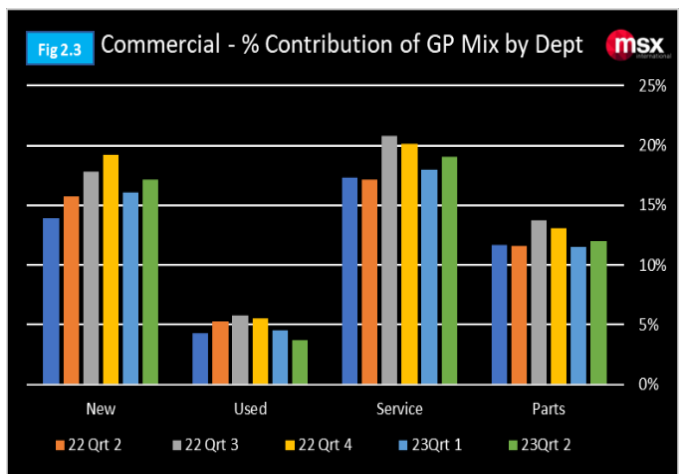
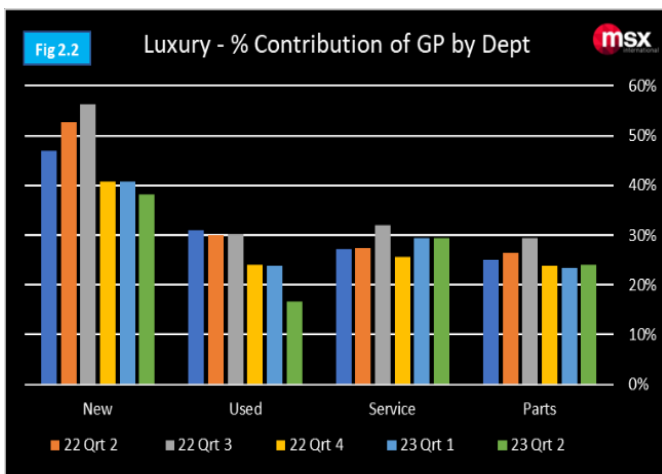
The third variable is Assets Activity (Annualised Sales divided by operational assets). Activity reflects a sharp decline (Fig 4) which is attributable to the build-up of inventories (Fig 4.1). Component supply chain constraints are steadily dissipating, and dealers therefore now need to manage inventories on pre covid type trading conditions.

% Mix – Fig 2

The % Mix (Gross margin %) is the aggregated results of all departments gross margins. The decline from the 1st quarter of 2023 (Fig 2) shows that trading conditions are tough because of the recessionary conditions and fierce competition in the automotive sectors.

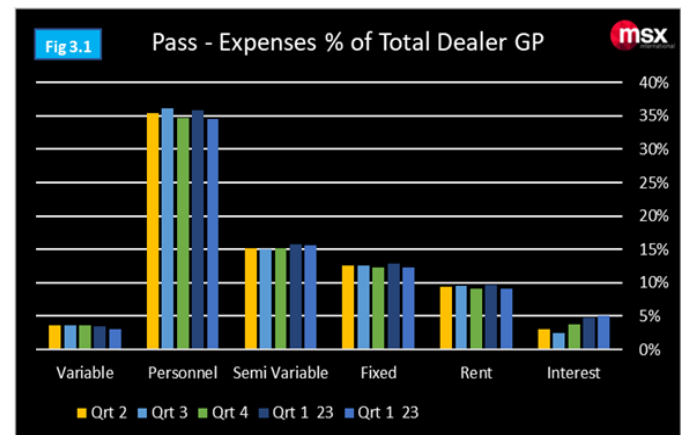
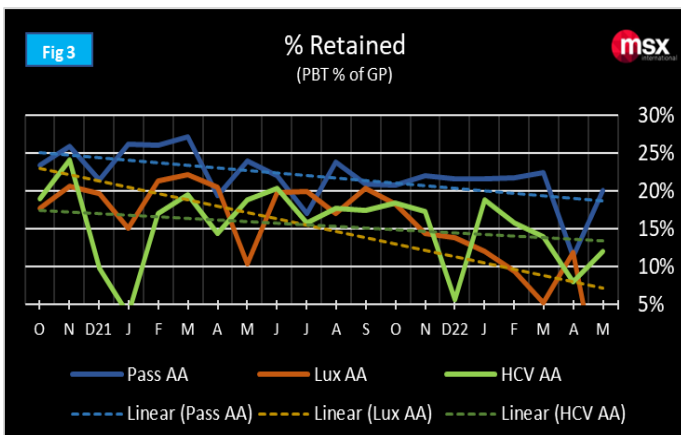


The balance of the gross margin contribution from each department for each segment is reflected in (Fig 2.1 to Fig 2.3). New vehicles is the largest contributor for the Passenger and Luxury segments with aftersales being the largest contributor for Commercial Vehicles. Aftersales is the second largest contributor. Interestingly the contribution from new departments had in the latest quarter outpaced that of the previous quarters.



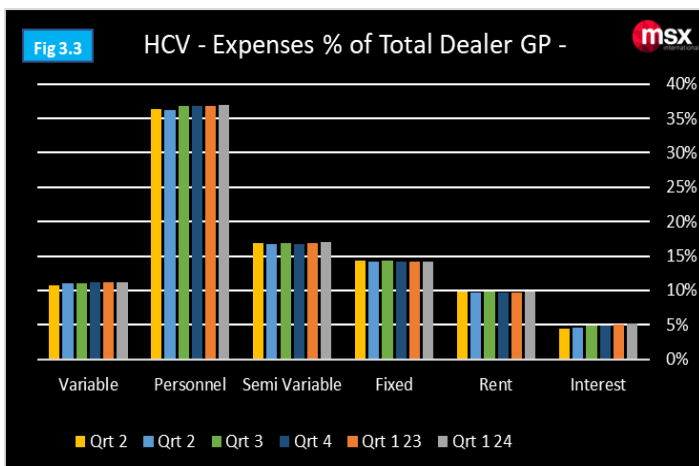
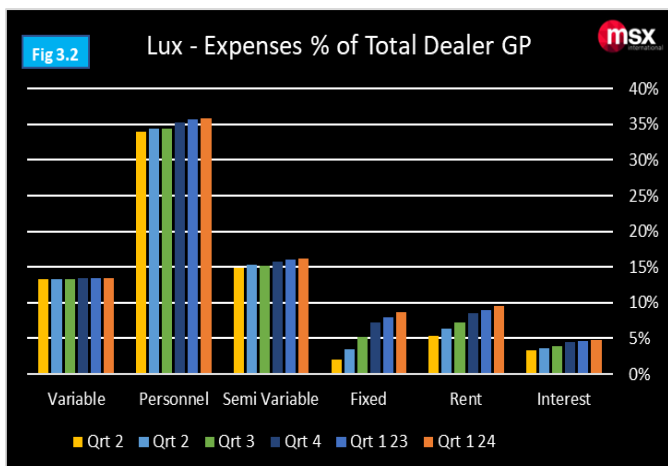
% Retained – Fig 3

The % Retained is the Net Profit expressed as a % of the Gross Profit. It's a measure of the control of expense by the dealership team. The management objective is to control expenditure in relation to gross profit available.



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The level of expenditure in all three segments (Fig 3.1,3.2 and 3.3) remains steady with personnel costs the largest.

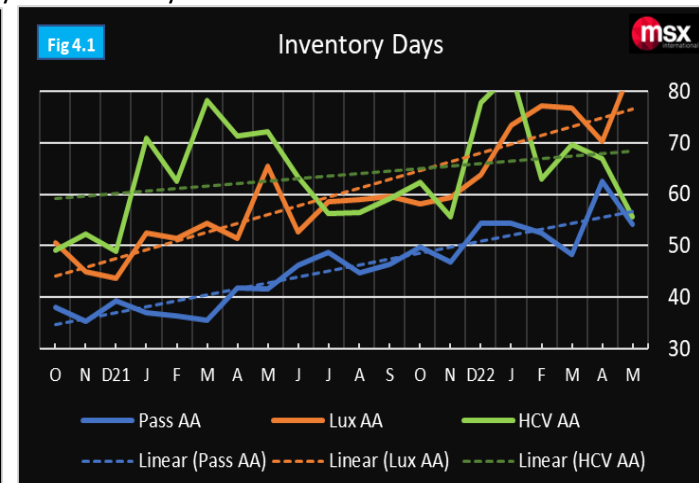
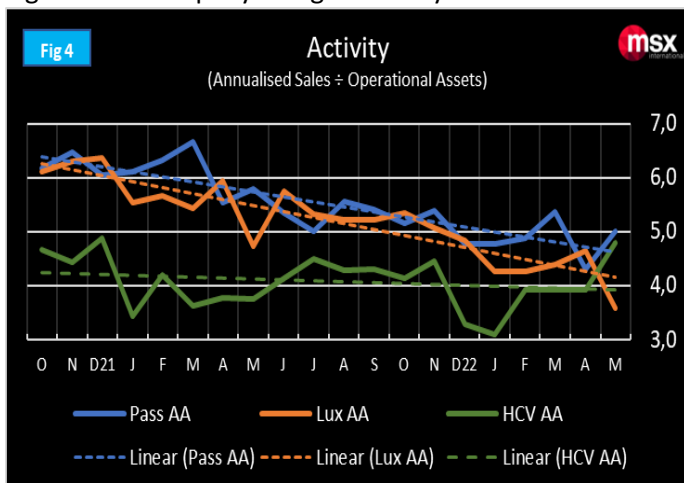


Employee costs remain the largest contributor and **Interest** costs in all three categories show a **Step** increase.

Asset Activity- Fig 4 and Fig 4.1

Activity measures the number of times operational assets are cycled in a year. The decline in assets activity (Fig 4) highlights the fact that dealers on turning stock at a much slower rate. This corroborates the fact that South Africa is potentially heading to a recessionary position.

Fig 4.1 shows rapidly rising inventory levels as reflected by the stock days on hand.

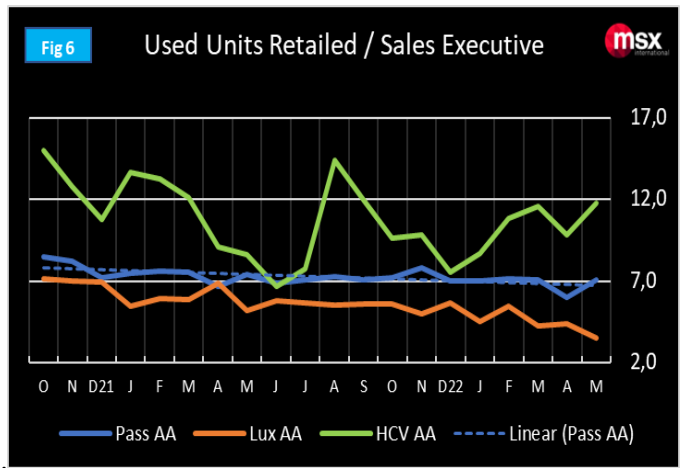
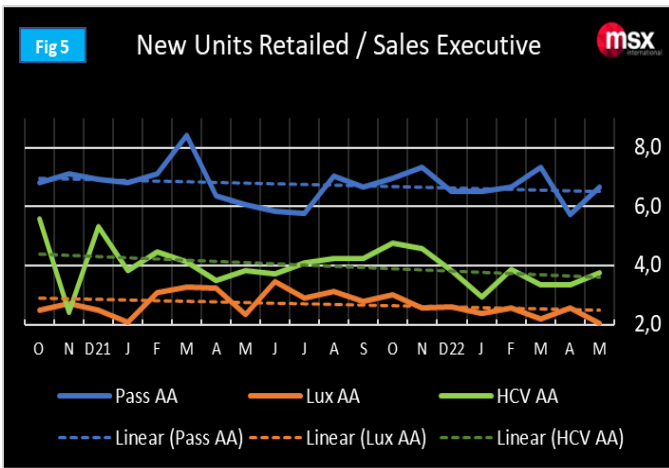


Dealership Productivity Metrics

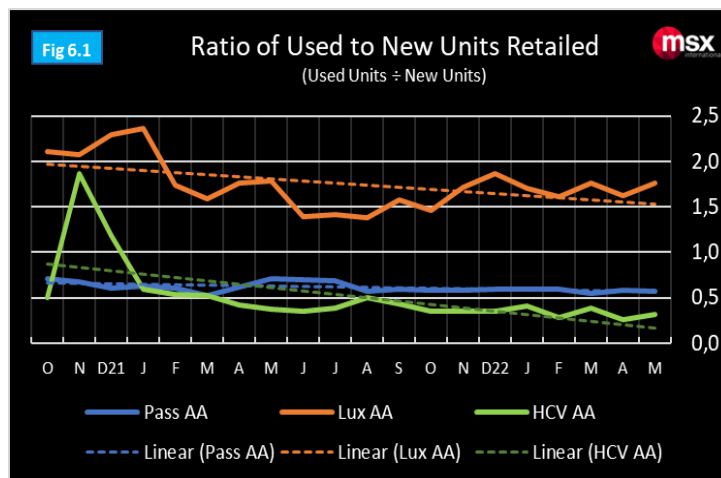
New and Used Units sold per Sales Executive

These productivity measures are important as they serve as a guide to management and sales executives on what average performance is and where they need to improve their performance.

The productivity trends for new (Fig 5) and used (Fig 6) indicate that productivity per sales executive for passenger and luxury segments are steady.

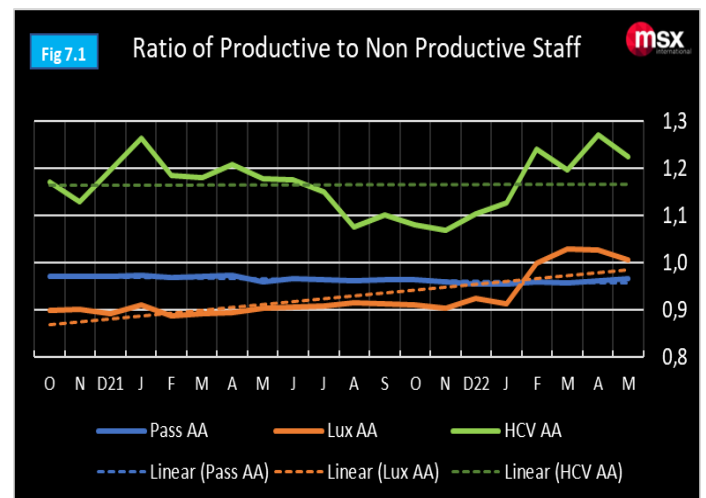
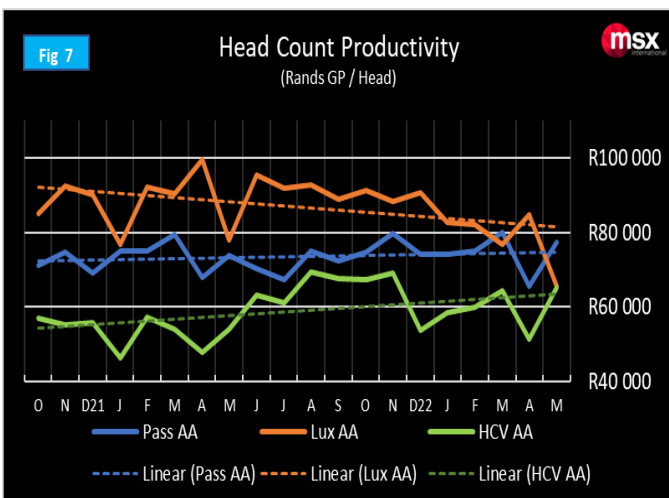


The trend of the ratio of used to new vehicles retailed is unchanged. Used vehicle sales as reported by dealers continue to outpace the sale of new vehicles.



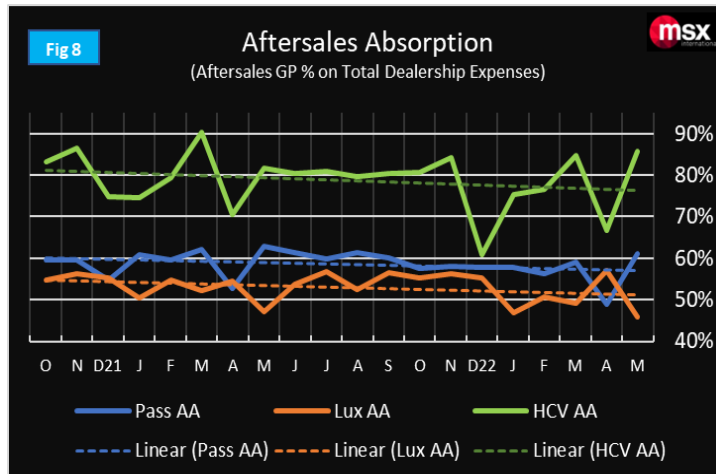
The gross per head (Fig 7) is reflecting a decline since the start of 2023. The decline indicates that lower gross margin is being generated across all departments in the dealership, despite the possibility that fewer staff are employed.

The ratio of productive to non-productive heads is steady but does indicate the reliance on support staff. The average head count in dealerships (Fig 7.2) remains consistent.



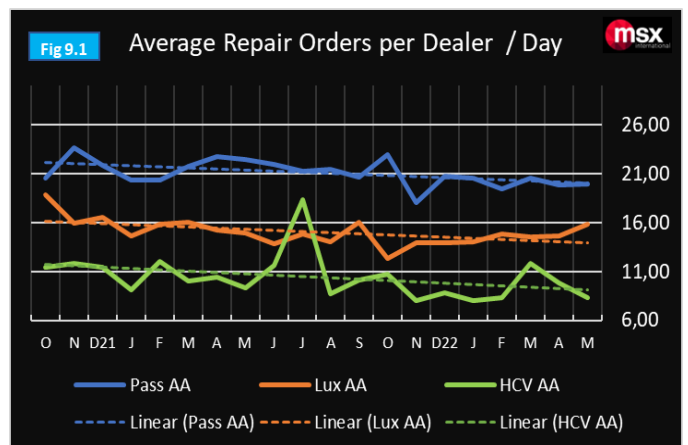
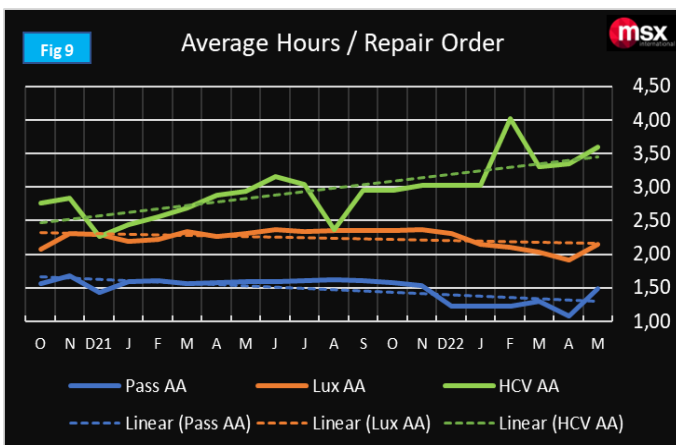
Aftersales Absorption - Fig 8

Aftersales Absorption indicates what the contribution from aftersales is to cover total dealer expenses. The norm is approximately 65% absorption. The average trend line of each segment shows a small decline, but overall aftersales absorption is in a health performance band.

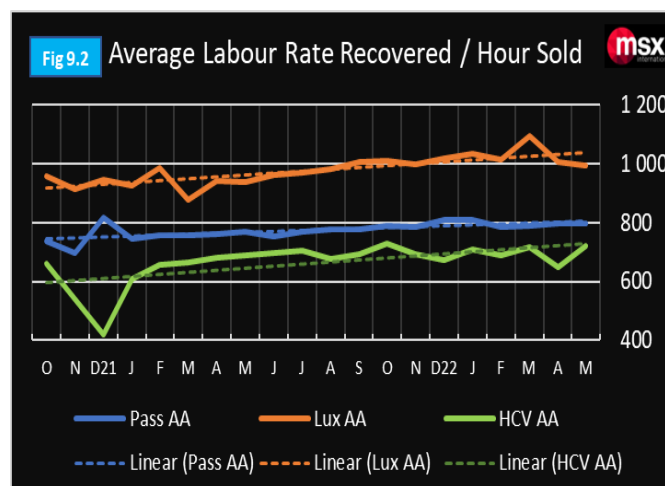


Service Productivity Metrics - Figs 9, 9.1 and 9.2

The average hours per repair order (Fig 9) remains steady. Commercial vehicles show a steady gain in 2023. Repair orders per days (Fig 9.1) remains at a consistent level.

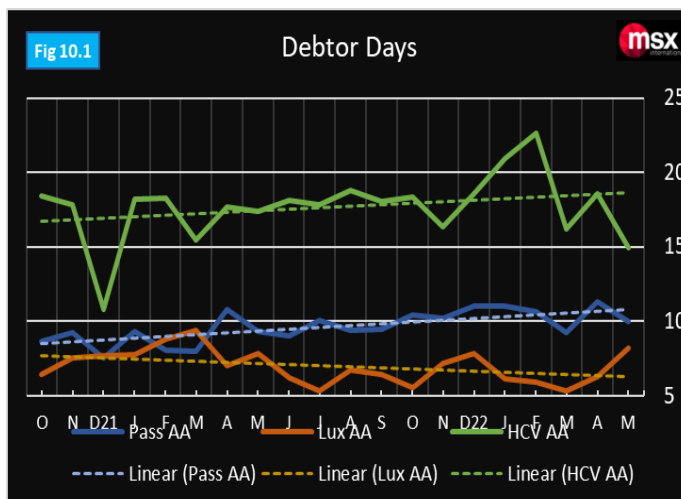
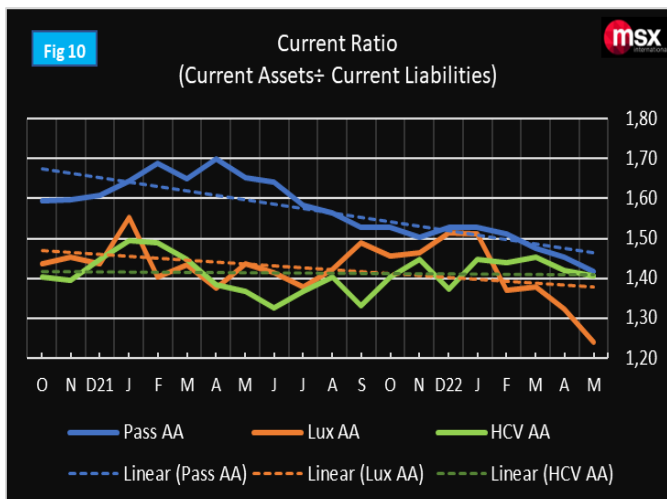


The steady consistent rise in labour rates (Fig 9.2) is a sign that inflation adjustments continue. Two primary factors may contribute to this. The retention of skilled staff at times required a upward adjustment to employee earnings and inflation in general.



Dealership Liquidity : Current Ratio – Fig 10

The current ratio is used across many industries locally and globally to indicate liquidity in a business. The norm is 1.2. Dealerships on average are showing lower liquidity and the declining trend is quite steep. Dealers would be well advised to marshal the cash reserves and asset management. Total debtors remain in normal bands of performance for each segment.



Future Prospects

The business trading norms and conditions as they may have existed for many years in South Africa, have all changed to a large extent and continue to change. The acronym VUCA environment applies even more today than it did six months ago. Volatile, uncertain, complex and ambiguous that describe our business and trading environment.

There is no single formula to guide one's preparation for what lies around the corner of tomorrow. However sound business management practices which include a firm grasp on financial management, tight control of asset levels and expenditure and a close knit management team with a clear vision are part of the recipe for success.



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