South Africa - Automotive Retail Financial Performance Trends
June 2021 to January 2023

Executive Overview

The world is experiencing recessionary conditions which vary in extent from country to country. The containment of inflation by central banks in most markets, is the primary cause for this trend. South Africa's dependency on demand from global markets therefore suggests recessionary conditions are likely to arise for South Africa.

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 reflecting a gentle downward trend. The three 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.

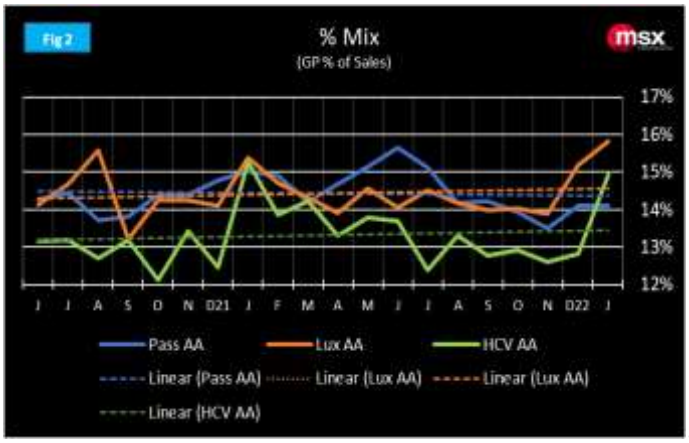
% Mix – Fig 2

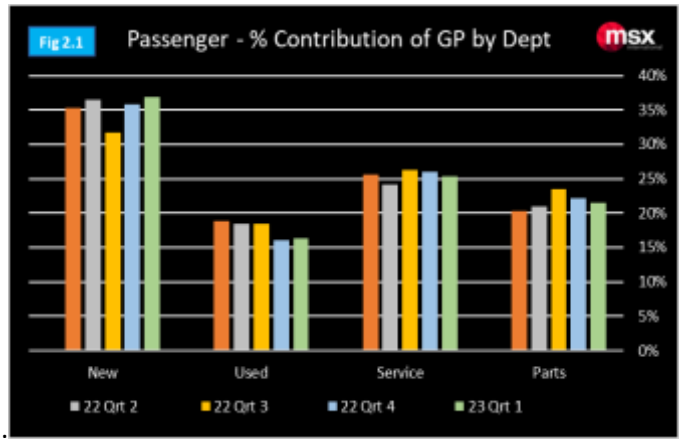
The % Mix (Gross margin %) has shown steady rise since October 2022. The % Mix is an aggregation of the margins from all departments.

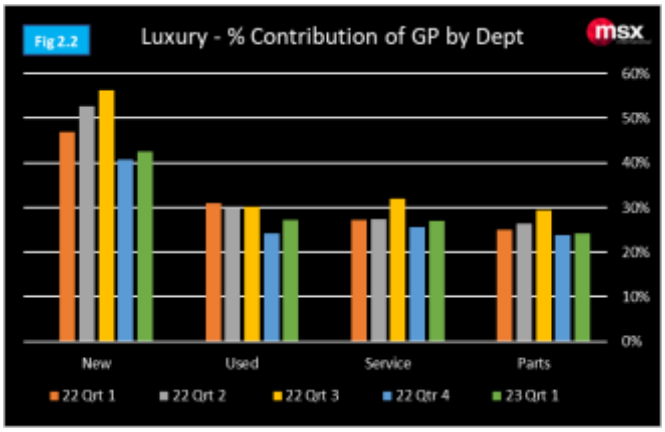
The passenger segment as read with the positive trend in (Fig 2) and the Balance of the Contribution from each department (Fig 2.1) reflects the new department as the main contributor followed by the service departments.

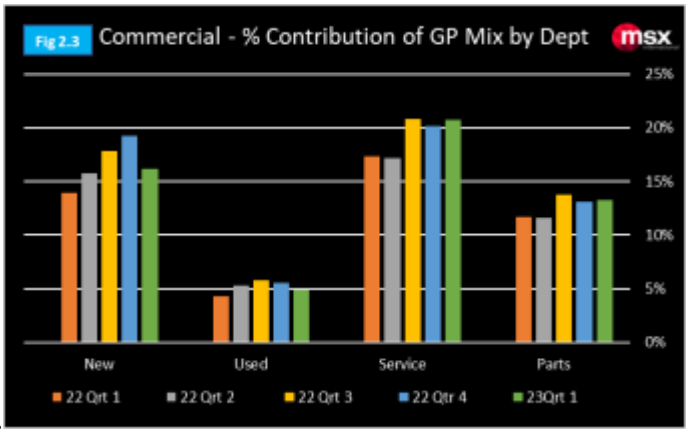
The luxury segment shows that the new department continues to be the main contributor to profitability.

The commercial vehicle segment continues to derive its largest contribution from the service department.





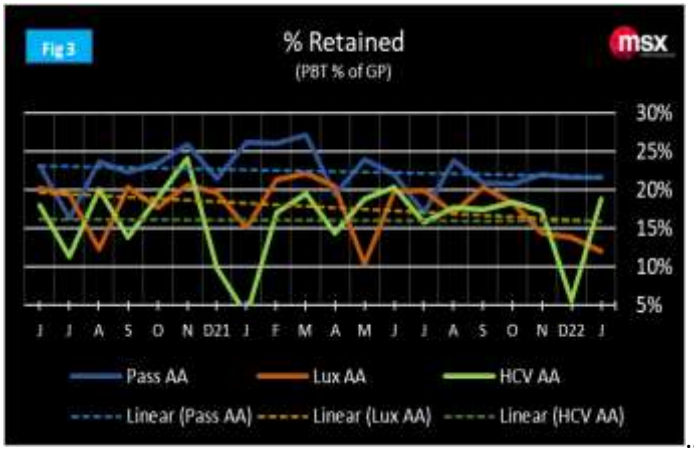


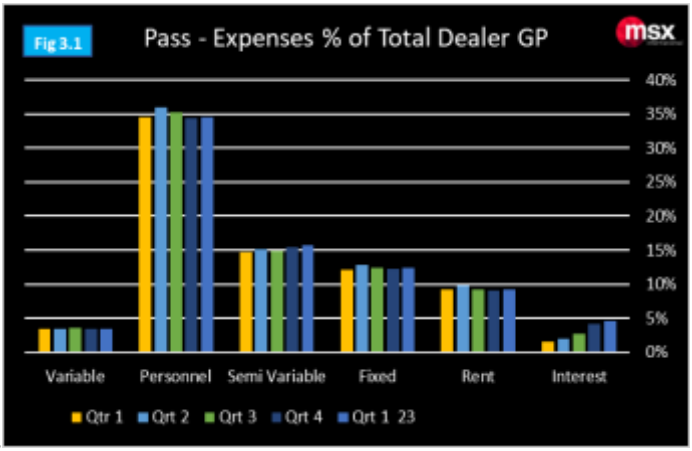


% Retained – Fig 3

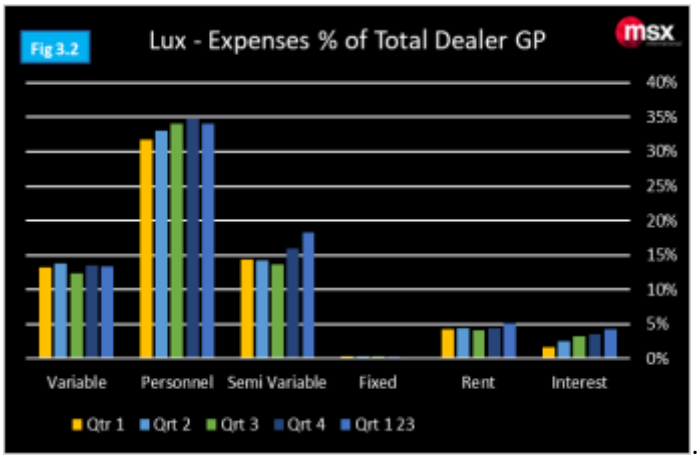
The % Retained is the Net Profit expressed as a % of the Gross Profit It's a measure of control of expense management by the dealership team. The management objective is to control expenditure in relation to gross profit available.

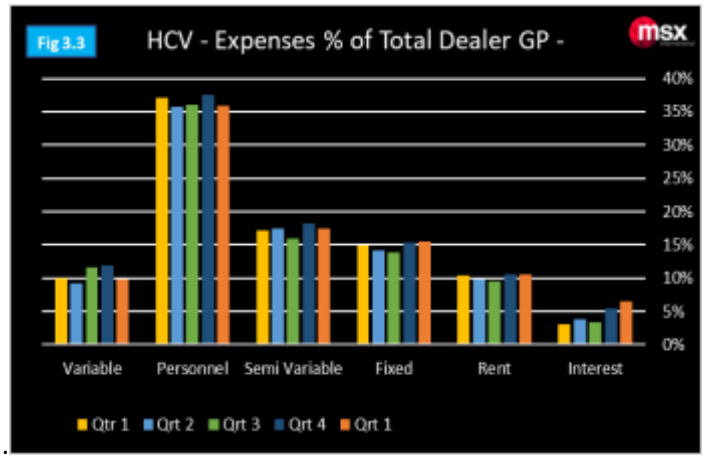
The level of expenditure in all three segments (Fig 3.1,3.2 and 3.3) remains steady with personnel costs the largest.





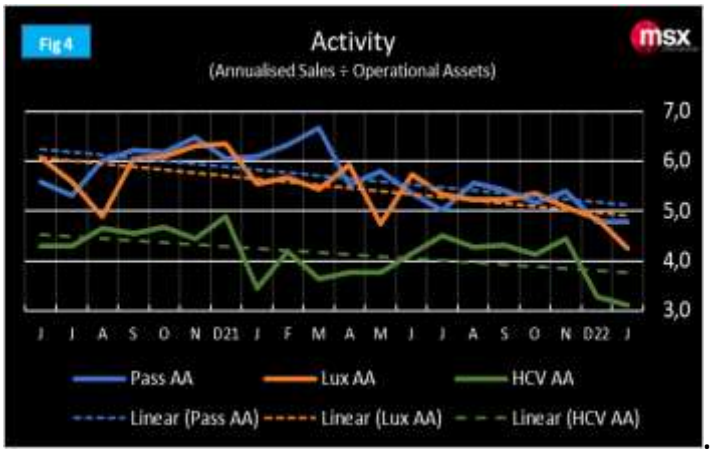
Employee costs remain the largest contributor and **Interest** costs in all three categories show a **Step** increase.





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) is caused by lower sales and rapidly rising new and used inventory levels. Supply chain issues with new vehicles are reducing and the demand and pricing of used vehicles is a new challenge for dealers. There is an increase interest rate / cost risk for any borrowings related to funding new and used inventories.





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 of passenger and luxury segments are steady.



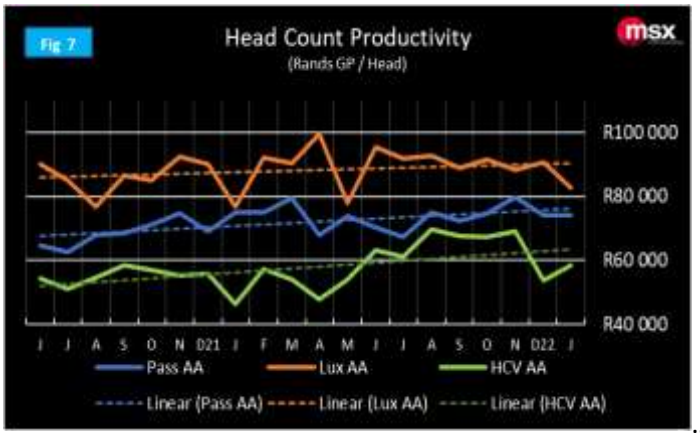


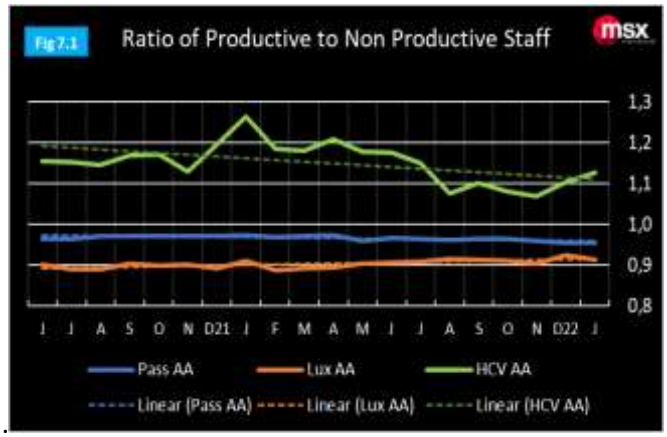
The trend of the ratio of used to new vehicles retailed is unchanged.

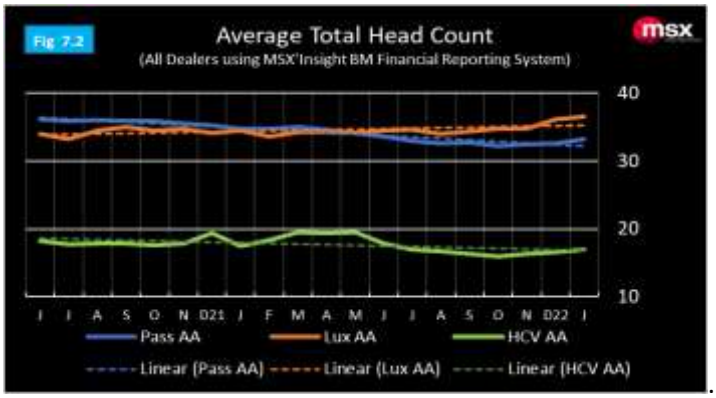


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The gross per head (Fig 7) continues to rise. The ratio of productive to non-productive heads is steady but does indicate the reliance on support staff. The average head count in dealerships (Fig 7.2) remains consistent.



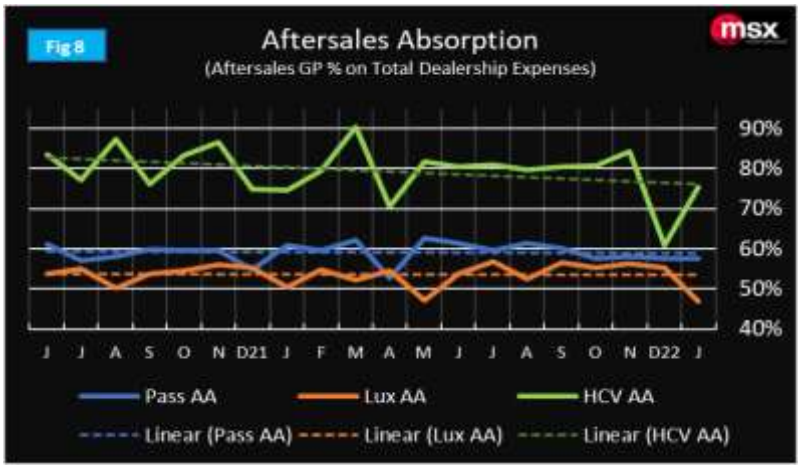
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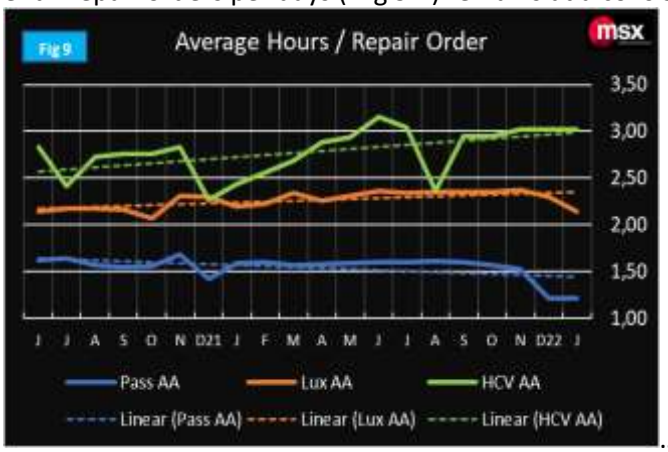
Aftersales Absorption - Fig 8

Aftersales Absorption serves to indicate what the contribution from aftersales should be to cover total dealer expenses. The norm is approximately 65% absorption.



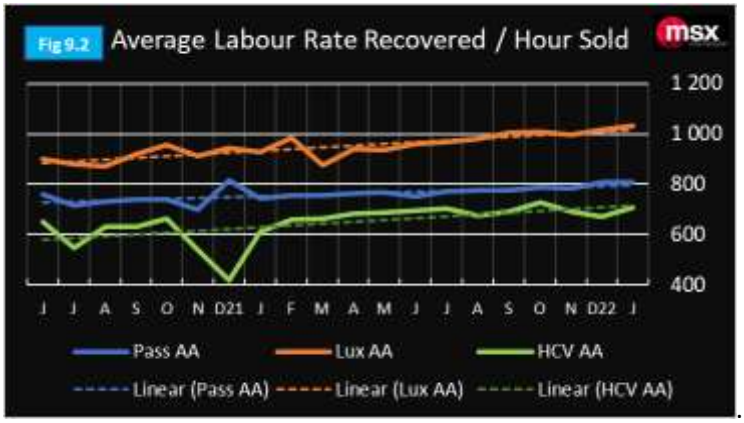
Service Productivity Metrics - Figs 9, 9.1 and 9.2

The average hours per repair order (Fig 9) remains steady though a drop-off for passenger is indicated for the year end. Repair orders per days (Fig 9.1) remains at a consistent level.



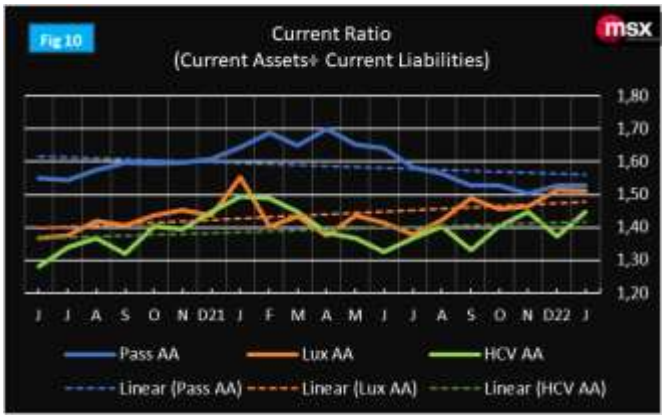


The rapid and consistent rise in labour rates (Fig 9.2) is a sign that inflationary forces are at work. Two primary factors may contribute to this. The retention of skilled staff at times required a upward adjustment to employee earnings and inflation in general.



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. Liquidity in all thee categories looks good with passenger showing that funds previously availabe are now being absorbed to fiance stock.



Future Prospects

Product supply constraints for South African automotive retailers, are steadily reducing, with clear evidence that rising new inventory levels now pose a challenge to dealers. Consumer demand for new vehicles is steady, be it that affordability is a primary consideration by consumers.

The reduction in inflationary economic forces around the world will improve conditions for business in South Africa.
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