South Africa - Automotive Retail Financial Performance Trends
January 2023 to September 2024

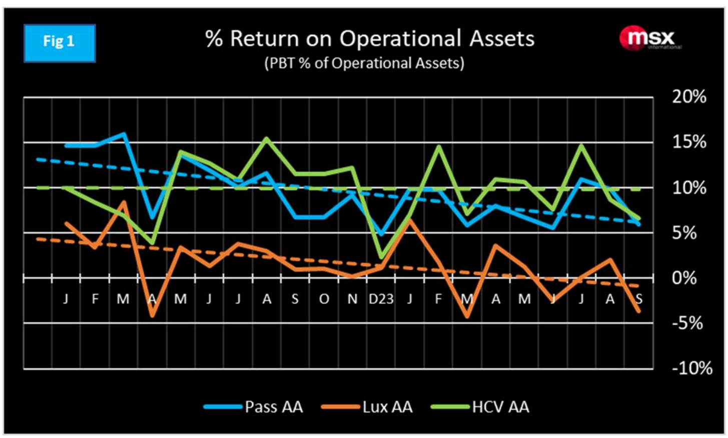
Executive Overview

South African automotive retail operations face a combination of unique challenges. The changed political landscape has on the one hand improved business confidence but, the arrival of Chinese manufacturers has created a new dynamism on the price point value proposition for all existing manufacturers. South African consumers are feeling the pinch of inflation. The collective view of economists is that GDP for South Africa will remain at 1 % in the short term.

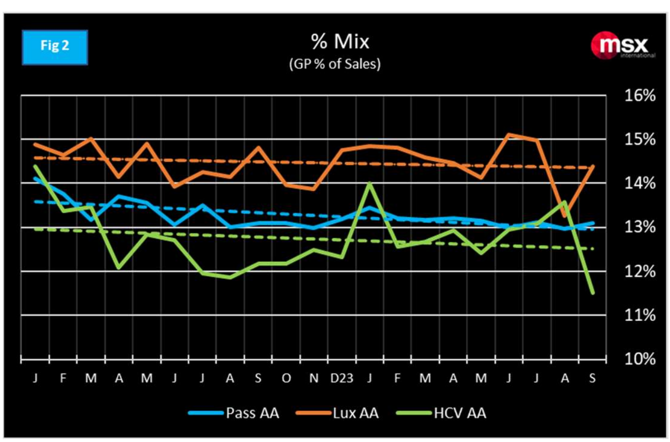
MSX's Benchmark KPIs
The benchmark KPI's provide a point of context for judging dealer performance. These KPIs are all a calculated as a monthly average. Each set of benchmarks is an aggregation of four or more brands.

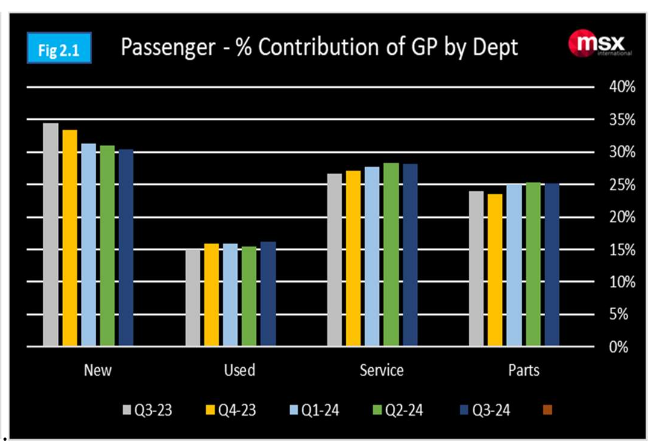
Automotive Retail Network Performance - % Return on Operational Assets - Fig 1

The returns earned by dealers in the three categories have trended downward for twenty-one months. These results are the actual average, which implies that there are dealers who are producing better results and equally there are dealers performing poorly. In the financial analysis below are observations which indicate what actions a dealership team might need to consider until economic and trading conditions improve.

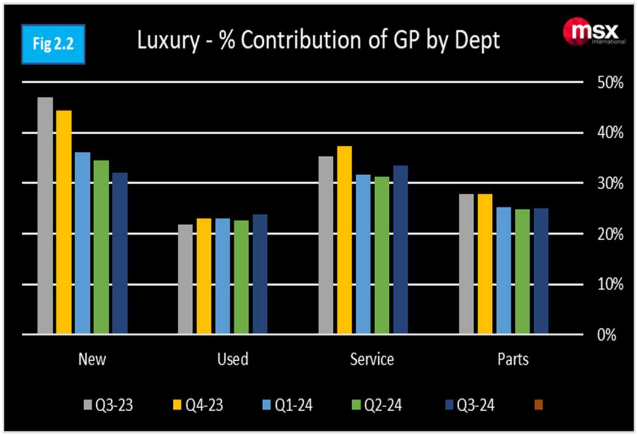


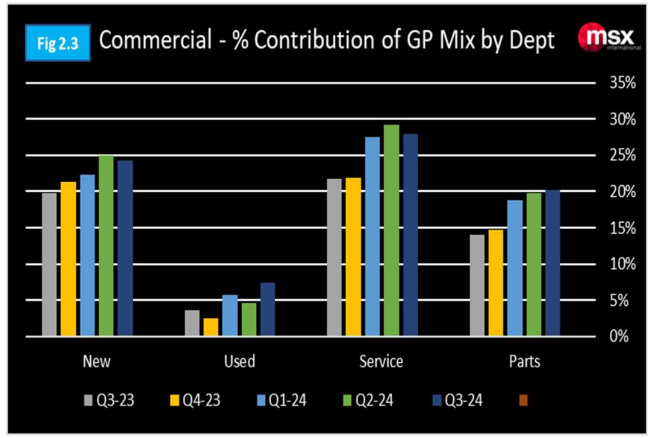
% Mix – Fig 2
A rise or fall in the % Mix at a dealership level will be attributable the changes in the % Mix earned in each department. The aggregated trend in Fig 2 shows a steady decline. What the Fig 2.1 to 2.3 show is that the % Mix in each category varies by department.





The % Mix by department for Passenger (Fig 2.1) continues to have New and Service departments making the largest contribution. Luxury (Fig 2.2) contributes in the same proportions. Commercial (Fig 2.3) vehicles earn their maximum margin contribution from Service.

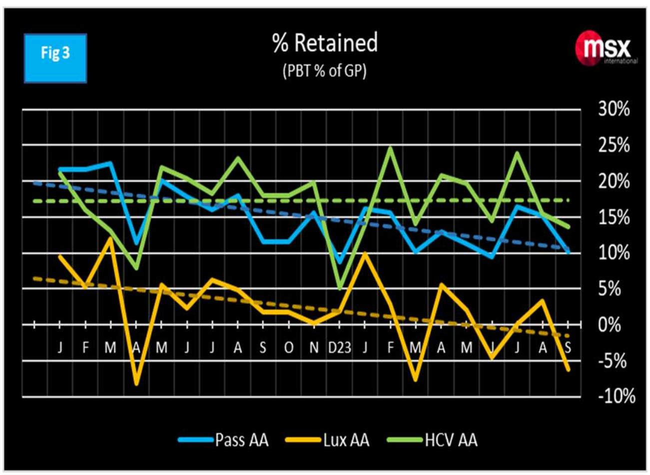


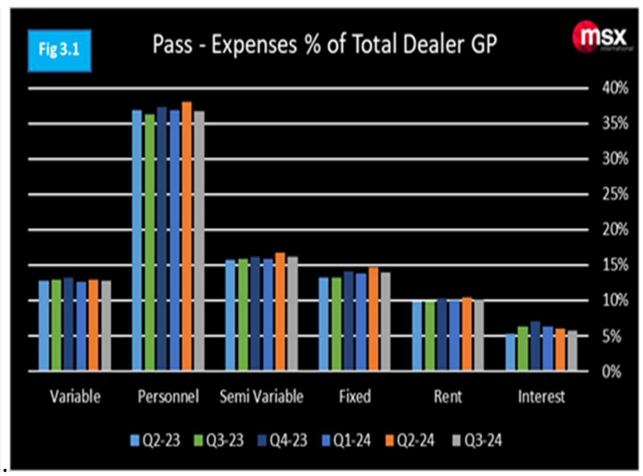


% Retained – Fig 3

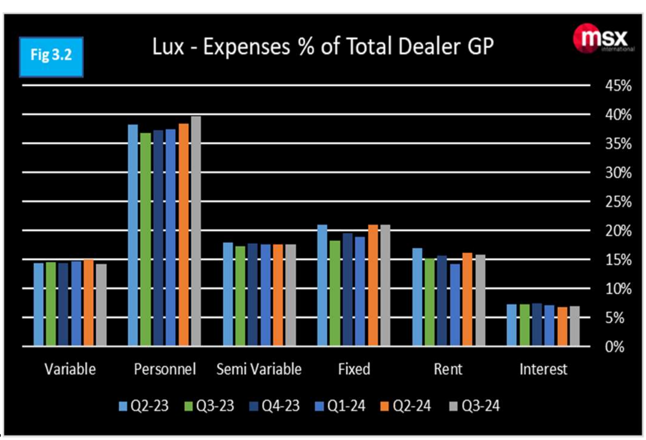
The % Retained is the Net Profit expressed as a % of the Gross Profit. It is an indication of operational efficiency and a result each departmental manager should track.

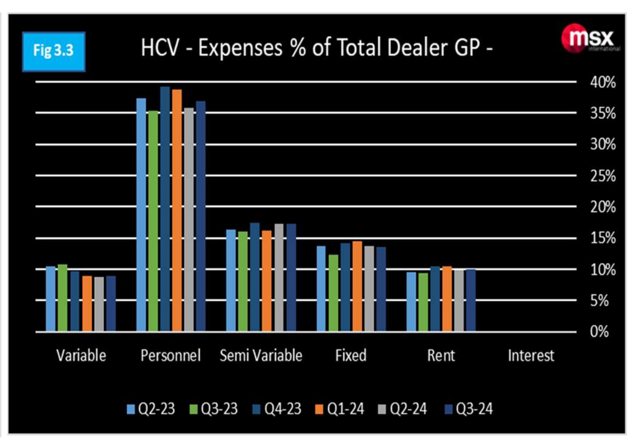
The % Retained for Luxury and Passenger in Fig 3 are declining. Luxury is on average not achieving a breakeven. Passenger is declining and it is a signal to dealers to evaluate expenditure decisions. Personnel expenses are the largest expense category.





The value of these three tables is to provide a benchmark in the six primary expense categories that would indicate whether own expenses are reasonable or require re-assessment.

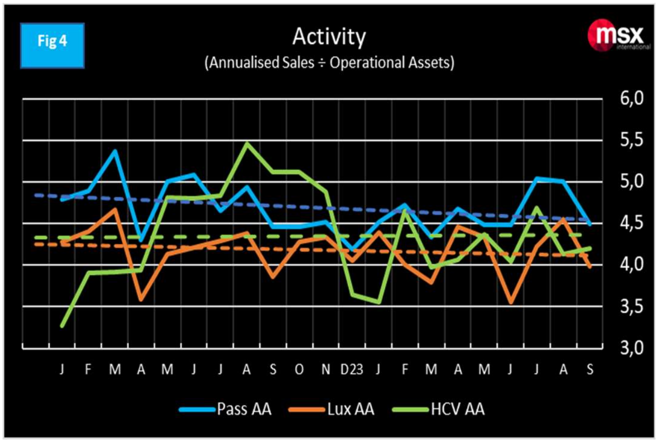


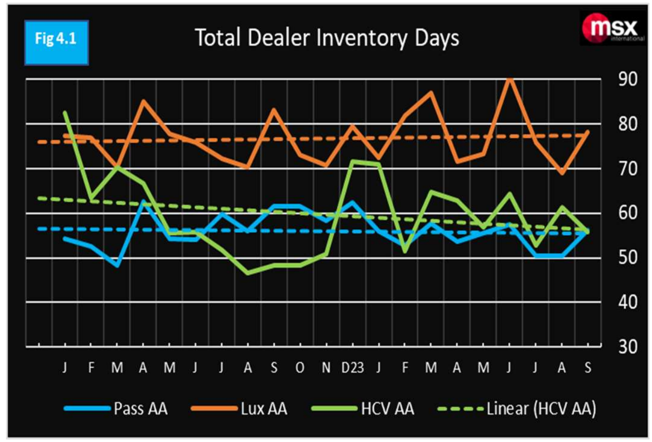


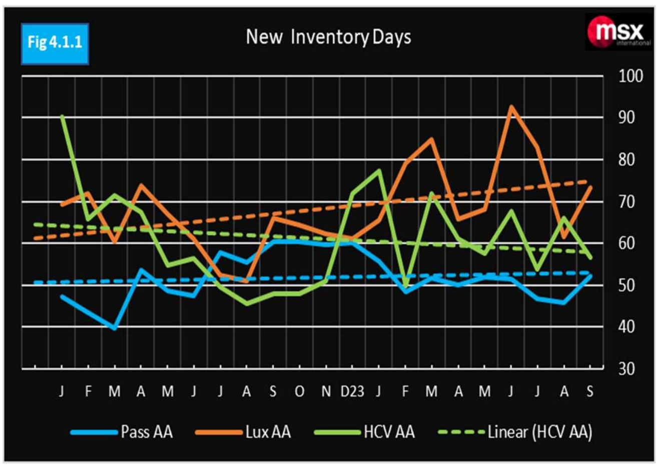
Asset Activity- Fig 4 and Fig 4.1

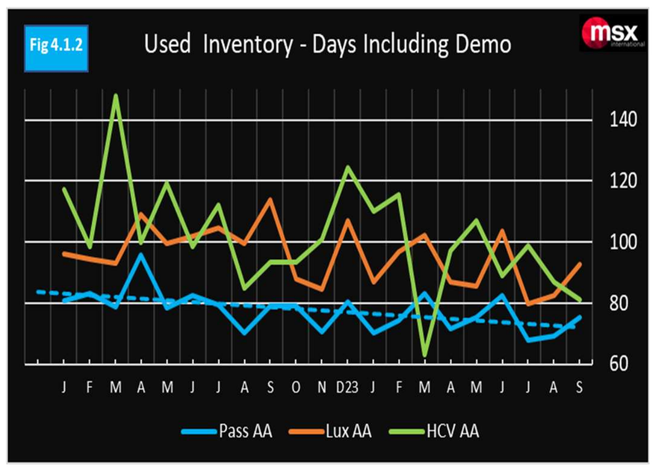
Activity measures the number of times operational assets are cycled in a year. The objective from an operational perspective is to maximize the asset activity. Operational Assets excludes land, buildings, and goodwill.

Activity is a function of Sales ÷Operational Assets. A rise or fall in either would move activity up or down in frequency. The stability of activity in each category (Fig 4) would suggest inventory levels have remained steady. Total Dealer Inventory levels are reflected in Fig 4.1. A breakdown of inventory by department shows a decline overall.

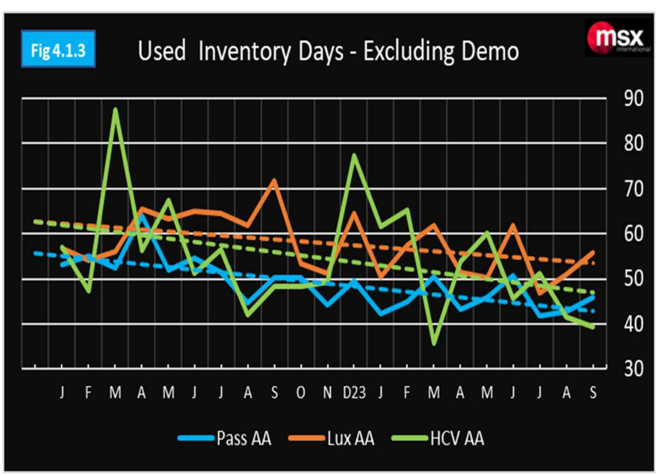


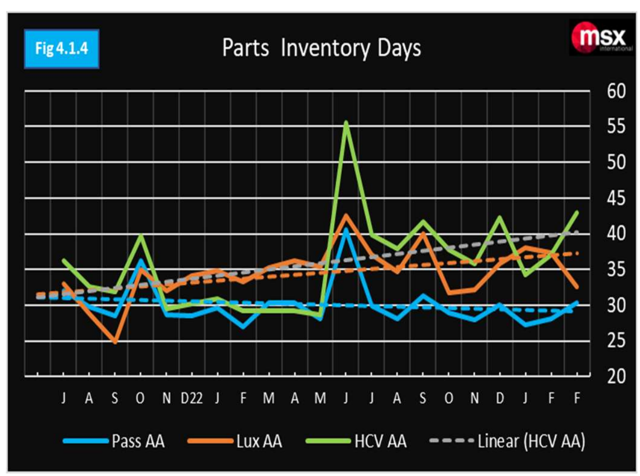






New Inventory Days (Fig.4.1.1) continues to increase. So to with Used Inventory Days (Fig 4.1.2) including and excluding Demo(Fig 4.1.3). Parts Inventory days (Fig 4.1.4) feature a rise in Commercial Vehicle levels.

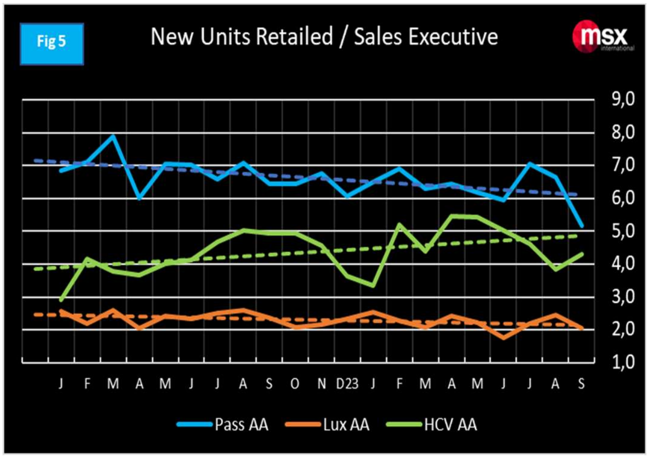


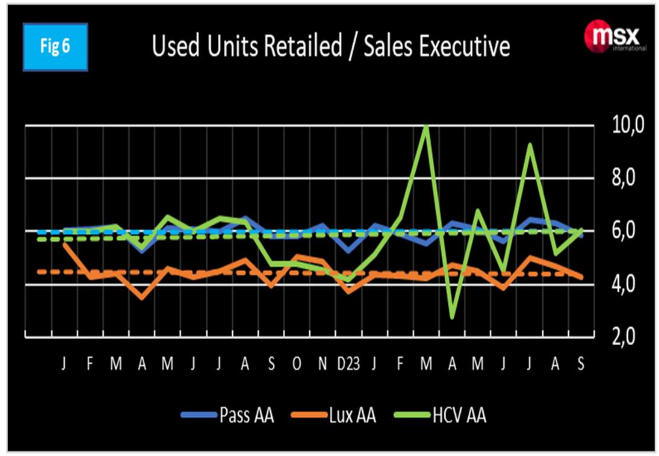


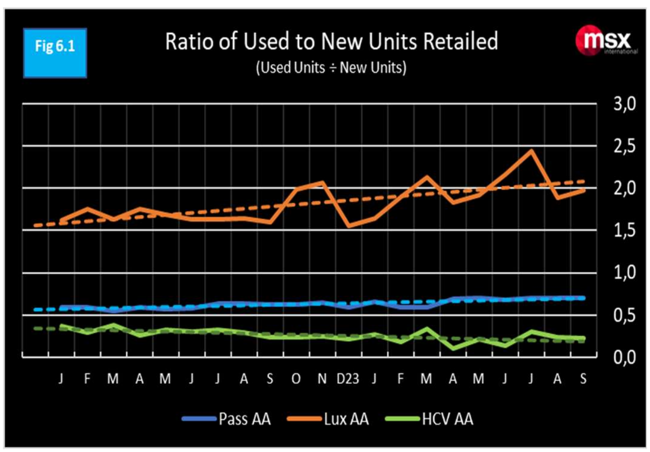
Dealership Productivity Metrics

New and Used Units sold per Sales Executive Fig 5 and Fig 6
Trends are steady and the average ability for a sales executive to sell a given number of units is indicated.

Ratio of Used to New (Fig 6.1)
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.

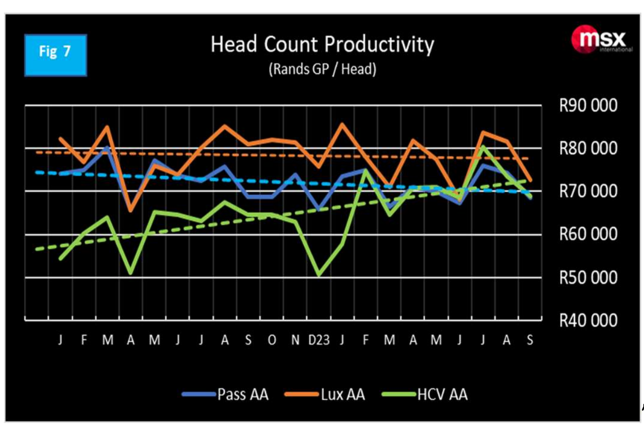






Head Count Productivity (Fig 7)

Commercial vehicles have shown a steady improvement in the Gross Profit/Head. Both Passenger and Luxury categories are showing a decline given the decline in gross margins. Head counts in each category have remained steady. The ratio of productive to non-productive heads is deteriorating.



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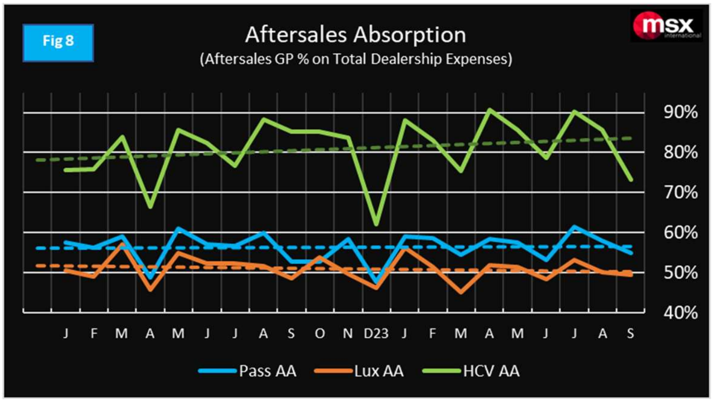
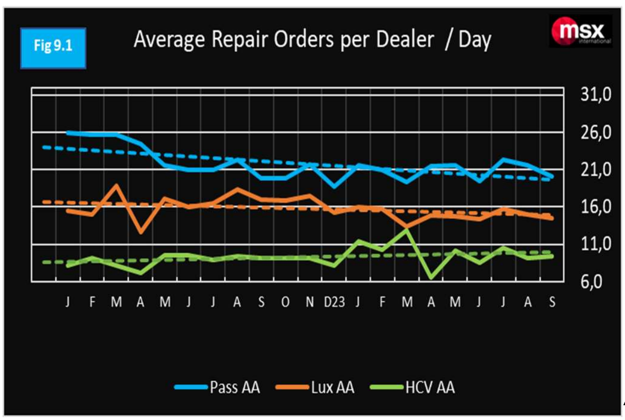
Aftersales Absorption - Fig 8

Aftersales Absorption expresses the gross profit contribution from Parts and Service departments to the Total Expenses of the Dealership. It is also a risk indicator in that any reduction below the norm (+- 60%) puts a dealership at risk in terms of reliance on new and use trading, where market conditions as they are at present, are resulting in in lower new and used trading volumes.



Service Productivity Figs 9, 9.1 and 9.2

Consistent trends (Fig 9) prevail with a upturn in average hours/repair order for Commercial Vehicles. A consistent pattern in ROs per day (Fig 9.1) is showing. Labour rates (Fig 9.2) continue to show a month on month rise.



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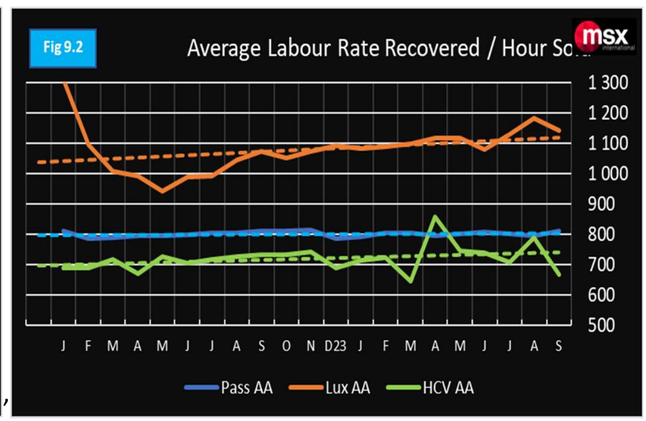
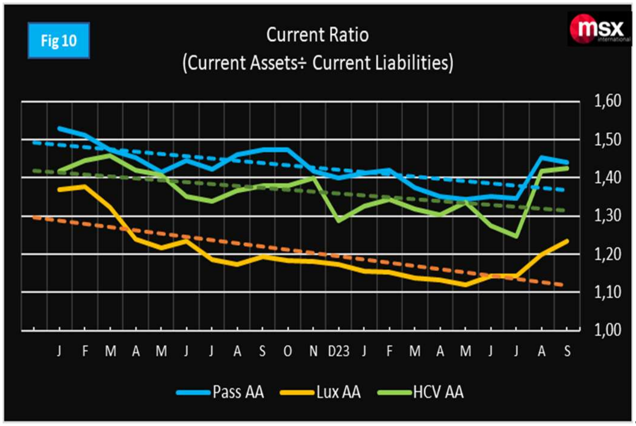
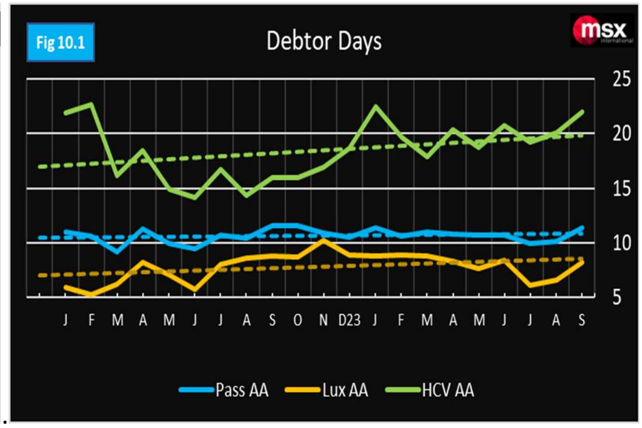
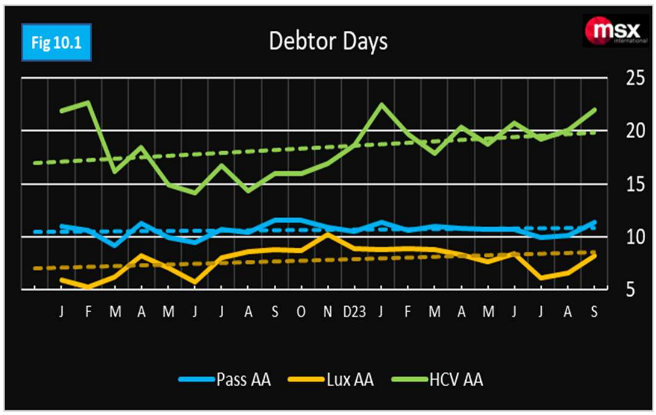


Dealership Liquidity : Current Ratio – Fig 10

The current ratio is used across many industries locally and globally to indicate liquidity in a business. The norm is a cover of 2:1 current assets to current liabilities. The decline in the Current Ratio (Fig 10) is a red flag indicating that liquidity levels are dropping, requiring of dealers to shepherd their cash resources. Debtor levels remain steady indicating this aspect of financial operations is well controlled.







Short Term Future Prospects for Automotive Retail South Africa

South Africa's economy is coupled to that of its principal trading partners. If they experience tight economic conditions, it impacts South Africa. Slow growth is evident with all key partners. The negative impact of geopolitical conflict is also having a retarding impact on local growth. South Africa's capacity to export is stumped by infrastructure constraints on harbour and rail, though private enterprise offers an upside for these two state owned services.

Dealers under these circumstances need to seek operational efficiencies which will contribute to dealer profitability.

Should you wish to have further information on industry trends and MSX's unique portfolio of performance benchmarks contact Jai Manilal.

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