*Originally published on LinkedIn on **29th May 2020**: https://www.linkedin.com/pulse/berylls-retail-metrics-4s-state-health-dr-jan-burgard/*

Dr. Jan Burgard
Executive Partner; Co-Founder at Berylls Strategy Advisors

BERYLLS RETAIL METRICS – "4S State of Health"

This article is part of our "Quo Vadis, China?" series. Our full study can be downloaded here.

+++ Management Briefing +++

- In order to get closer to customers and fully exploit market potential across all city tiers and customer segments, **OEMs continue to grow and upgrade their retail networks**
- A transformation on this scale and magnitude **requires a clear, fact-based view on the level of stress** OEMs can feasibly put on individual dealerships in their network
- OEMs **try to address this** with **broad KPI suites designed to create comprehensive dealer performance overviews** – these KPIs reflect **different levels**, some of them give indication on **overall state** of the dealerships, while others are dedicated to **certain sections** of the dealerships, e.g. new car sales, aftersales etc.
- Often, however, these provide only a very **rough indication** of **potential risks and threats** to **individual dealers** and, by extension, the **network as a whole** – actually, the deployment of all these KPI at the same time, **makes monitoring virtually impossible** as their sheer mass and missing prioritization leads to complete **confusion instead of transparency**

- Contrary to this, instead of using a plethora of **futile metrics**, we believe that only **6 KPIs are fully sufficient** to assess a dealership's **current state of health**. Together with a second **set of metrics tailored** to each dealer's particular business needs, these can be used to create a **running dealer risk assessment**
- Today's elaborate **reporting efforts can be reduced by more than half**
- The above mentioned KPIs can further be consolidated into an **intuitively understandable KPI dashboard with data views tailored to your steering requirements**, integrated into your mobile device as App or WeChat Miniprogramm – your retail network's health is always in the palm of your hands
- In addition, external data sources could be used to complement internal reports to provide an outside-in perspective and improve forecasting

+++

Competition from new, digital sales platforms, tightening environmental regulations and higher customer expectations force OEMs to rethink their approach to physical retail in China.

In order to get closer to customers and fully exploit market potential across all city tiers and customer segments, OEMs continue to grow and upgrade their retail networks. This transformation demands significant financial investments and close coordination of all efforts across the entire network to maximize impact.

Transparency must come before transformation

A transformation on this scale and magnitude requires a clear, fact-based view on the level of stress OEMs can feasibly put on individual dealerships in their network. In other words, OEMs need to have complete transparency on each dealer's current "state of health" from both a financial and a strategic viewpoint.

Yet the current retail setup of many OEMs makes it very difficult to control and steer dealerships effectively. Often, the large number of different dealer groups, and significant discrepancies in terms of reporting methods and tools create a degree of complexity that makes consistent monitoring of and comparison across dealerships almost impossible. OEMs try to address this with broad KPI suites. Often, however, these provide only a very rough indication of potential risks and threats to individual dealers and, by extension, the network as a whole.

A balancing act

To be clear, the intention is perfectly sound. Effective steering requires transparency. Yet, tracking more KPIs does not automatically lead to more insights, better retail steering or enhanced dealer performance.

BERYLLS STRATEGY ADVISORS GmbH

CONTACT
Dr. Jan Burgard
Maximilianstraße 34
80539 Munich

T +49 89 710 410 40-0
jan.burgard@berylls.com

www.berylls.com
info@berylls.com

Pang Da Auto Group, who filed for bankruptcy in 2019, is a case in point. For years the dealer group boasted profitable operations and grew to 1,200 outlets nationwide in 2017. However, the group's growth trajectory was sustained by rising levels of debt, a lot of which was borrowed short-term. Thus, when demand for cars declined in 2018, Pang Da recorded a net loss of CNY 6.2 billion while the group's short-term liabilities rose to CNY 24.9 billion. When creditors demanded repayments, the company was unable to meets its financial obligations.

On the surface what happened at Pang Da into looks like a series of unfortunate events. A lot of dealers use short-term borrowing, for example, to finance their inventory. This, however, can quickly lead into a downward spiral, such as when consumer demand wanes while OEMs – ignorant of the risks they are exposing their dealers to – continue to insist on sales targets being met. Then dealers can quickly find themselves in a cashflow trap as inventories build up while prices drop.

The big picture as is – Current "state of health"

A good set of dealer KPIs can provide an early-warning mechanism to identify the kind of risks that hastened Pang Da's collapse. But what is the right set to accomplish this?

Exhibit 1: Field of potential KPI

In our experience the best way to ask the question is thus: How can we assess a dealer's "state of health" with the least amount of KPIs? Instead of using a full set of metrics, we recommend focusing on a few KPIs which track not only operational performance but help render an up-to-date "big picture" on a dealership's financial health. In fact, we believe that 6 KPIs, tracked monthly as part of a running forecast, are sufficient for a quick and correct judgement of each 4S dealer:

BERYLLS STRATEGY ADVISORS GmbH

CONTACT
Dr. Jan Burgard
Maximilianstraße 34
80539 Munich

T +49 89 710 410 40-0
jan.burgard@berylls.com

www.berylls.com
info@berylls.com

Top-line growth in sales & aftersales

- Vehicle sales
- Retention rate

These two KPIs describe present and forecast income levels from new car, used car, fleet and aftersales sales, giving a full picture of a dealership's top-line development. The new car monthly projection should be based either on experience or be obtained from seasonal changes of the market itself. The retention rate is a key metric in forecasting future sales and can be based on various user surveys.

Price discipline & operational efficiency

- Gross profit
- ROCE

These two KPIs describe a dealership's present and projected future operational efficiency. Operational efficiency projections should be done in line with the top-line forecast. They also reflect price discipline since constant purchasing volume should result in somewhat constant gross profits. Any changes towards that would signal pricing issues.

Financial health & sustainability

- Free cashflow
- Debt-to-equity ratio

The free cashflow and the debt-to-equity ratio describe the financial health of a dealership. Respectively they highlight a dealers' ability to enable growth (through e.g. additional investments in showroom optimization) and the amount of debt a dealer is incurring to run their business. Cashflow projections can be made based on existing transactions, e.g. outstanding payables and liabilities along with top line/bottom line projections. These projections should be done on a rolling basis.

The big picture going forward – Running forecast

However, while assessing a dealership's current "state of health" is a critical first step, a comprehensive risk assessment must also look ahead. All too often performance metrics focus only on past performance and give too little thought to tracking changes over time in relation to future performance. Thus, for example, changes in the inventory turn rate often anticipate coming changes in ROCE and free cashflow. The same applies to parts & service absorption rates, changes in which have a direct impact on gross profit.

We therefore recommend complementing a state of health assessment with appropriate KPI to be used as early indicators going forward. These should be tailored to each dealer's specific business needs. Inventory turn, for example, will be less critical for dealers selling mostly high-margin premium vehicles than for ones selling budget or volume cars. Thus beside KPI related specifically to vehicle sales (e.g. "inventory turn rate") and aftersales (e.g. "parts & service absorption rate"), a comprehensive KPI suite should include also misceleneous metrics such as "aged stock" or "reconditioning time".

BERYLLS STRATEGY ADVISORS GmbH

CONTACT
Dr. Jan Burgard
Maximilianstraße 34
80539 Munich

T +49 89 710 410 40-0
jan.burgard@berylls.com

www.berylls.com
info@berylls.com

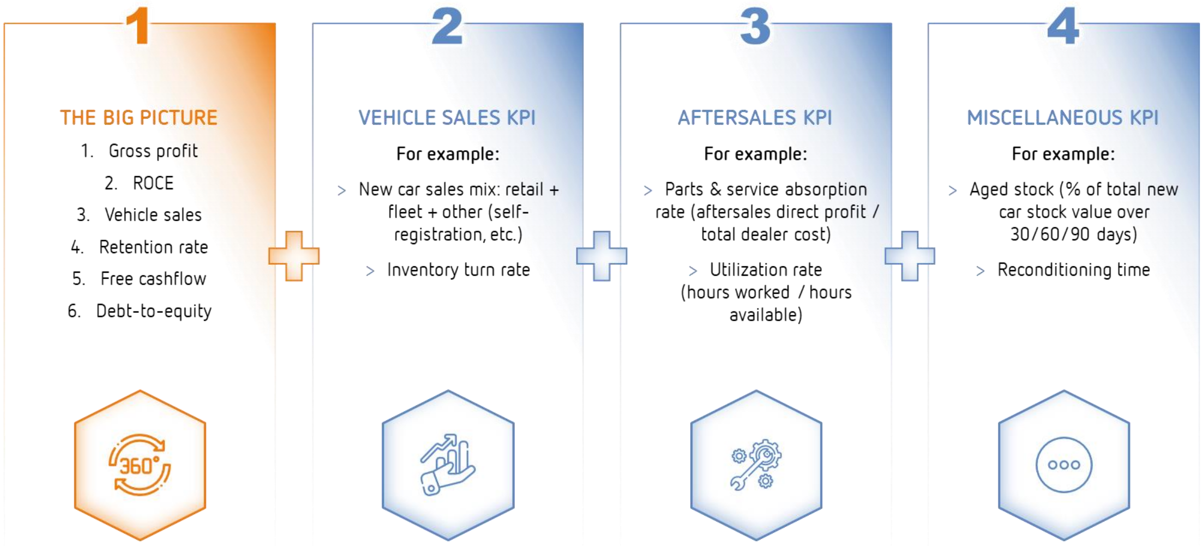

Exhibit 2: Examplarly dealer KPI suite

In addition, external data sources could be used to complement internal reports to provide an outside-in perspective. Soft factors could also be considered to improve forecasting. For example, if dealers happen to know in advance when a competitor product is going to be introduced, the forecast could be adjusted to account for a drop in sales of comparable own models that this would likely result it. An adjusted forecast based on the above KPIs could then be used to define operational risk mitigation measures.

Aligning KPI suites and making them widely accessible

Performance KPIs are more than mere accounting measures; they should be part and parcel of a dealer's day-to-day operation. In addition to aligning their KPI suites with OEMs and dealer group management, individual dealers should also make them readily accessible.

Dealer groups and OEMs necessarily look at different KPIs when evaluating dealer performance. This applies especially with regards to required levels of consolidation, e.g. per market area, per city, per region, per dealer group. We therefore recommend defining all reporting requirements in close alignment with dealer groups and OEMs.

Typical reporting practice at today is limited to elaborate creation of huge tables, with various aggregation levels. These data collections are barely target group-oriented and hence, provide hardly added value to retail steering efforts at OEMs.

To socialize state of health KPIs, dealers should integrate all KPI metrics into a consolidated dashboard. Ideally, this should be realized in an App (or, alternatively, a WeChat mini program) for improved viewing and browsing of individual dealers' performance and overall network health.

BERYLLS STRATEGY ADVISORS GmbH

CONTACT
Dr. Jan Burgard
Maximilianstraße 34
80539 Munich

T +49 89 710 410 40-0
jan.burgard@berylls.com

www.berylls.com
info@berylls.com

With views tailored to different target audiences' needs, financial reporting becomes direct and efficient. In the long-term this also helps reduce reporting and tracking efforts.

Our joint forces consisting of Berylls Strategy Advisors and Berylls Digital Ventures offer such turnkey solutions from strategic planning, conceptual design to final implementation and operation.

Exhibit 3: Exemplary KPI dashboard

Streamline. Transform.

In the current climate, a lot of OEMs run the risk of putting too much pressure on their dealers to rapidly implement transformative measures. Implementing a streamlined "4S State of Health" metric before rolling out such measures, might in many cases be the critical stepping stone required to ensure long-term transformational success.

Outlook– Weathering the changes ahead.

The Chinese market has changed substantially in the recent years. Simple growth strategies will not work in an environment, where the new winners will be determined based on who can best exploit market potential. Rather, weather the change requires full transparency of one's own top and and bottom line potentials, not just physical retail, but across all lines of business in the Chinese automotive market. Read further in our full study on China to find out more about a country you thought you knew.

BERYLLS STRATEGY ADVISORS GmbH

CONTACT
Dr. Jan Burgard
Maximilianstraße 34
80539 Munich

T +49 89 710 410 40-0
jan.burgard@berylls.com

www.berylls.com
info@berylls.com

Berylls Strategy Advisors is a top management consulting firm specialized in the automotive industry, with offices in Munich and Berlin, in China, in Great Britain, in South Korea, in Switzerland and in the USA. Its strategy advisors and associated expert network collaborate with automotive manufacturers, automotive suppliers, engineering services providers, outfitters, and investors to find answers to the automotive industry's key challenges. The main focus is on innovation strategies and growth strategies, support for mergers & acquisitions, organizational development and transformation, and profit improvement measures across the entire value chain.
In addition, together with our clients, experts at Berylls Digital Ventures develop solutions for digitizing and transforming the business models of OEMs, suppliers, and engineering services providers. Longstanding experience, well-founded knowledge, innovative solutions, as well as an entrepreneurial mindset distinguish Berylls Equity Partners provides automotive industry companies with know-how and entrepreneurial capital. Strong anchor investors provide financial support for companies at all stages of the value chain in special situations. Berylls's consulting teams are characterized by many years of experience, profound knowledge as well as innovative solution competence and entrepreneurial thinking. Through partnerships with experts, Berylls can draw on in-depth technology expertise, a comprehensive understanding of the market, and powerful networks in order to develop workable solutions.

BERYLLS STRATEGY ADVISORS GmbH

CONTACT
Dr. Jan Burgard
Maximilianstraße 34
80539 Munich

T +49 89 710 410 40-0
jan.burgard@berylls.com

www.berylls.com
info@berylls.com