




**MRA  
performance  
model**

# Introduction



It has never been more important for Dealers and OEMs to drive bottom-line retail results and to ensure that they are maximizing the return on their investment. Inspired by the DuPont Cascade Analysis, the MSXI MRA Performance Model provides insights into the key factors that contribute to automotive retail performance. Used to evaluate a firm's financial position by assessing operating efficiency and asset utilization, the model serves as an invaluable decision making framework.



# Benefits of the MSX

## **MRA Performance Model**

While grounded in robust theory the MSXI MRA Performance Model is inherently practical in nature.

It is essentially a management model and its value lies in its ability to unlock dealership potential and to aid strategic decision making. Specifically the benefits include:

- ▶ Simplicity and ability to engage the entire management team
- ▶ Power as an objective setting framework
- ▶ Ability as a 'what-if' scenario planning tool
- ▶ Strength as a management tool for benchmarking and performance tracking
- ▶ Tools to identify the key drivers of retail performance



# What is the MSX MRA Performance Model?



The MSXI MRA Performance Model is a high level financial and performance analysis framework which can be used to analyse automotive retail performance and to guide strategic decision making.

- ▶ The model proposes that dealership financial health is measured by returns i.e. return on operational assets.
- ▶ These returns are essentially the product of a firm's ability to produce gross, manage expenses and turn its assets.

- ▶ The combination of three key driving factors creates what is known as a 'multiplier effect'. The 'multiplier effect' allows significant changes in the end result to be driven by simply making incremental changes to each of the factors.
- ▶ The three key drivers are fuelled by a number of enablers including productivity, customer retention, processes, staff motivation and culture.

# The MSX MRA Performance Model

The MRA formula is represented as follows:

$$\left( \frac{\text{Mix}}{\text{Sales}} \right) \times \left( \frac{\text{Retained}}{\text{Gross profit}} \right) \times \left( \frac{\text{Activity}}{\text{Operating assets}} \right) = \text{Return on operating assets}$$

The diagram illustrates the MSX MRA Performance Model formula. It consists of three circular components, each containing a fraction, followed by an equals sign and a final circular component. The first circle is labeled 'Mix' and contains the fraction 'Gross profit' over 'Sales'. This is followed by a large 'X' symbol. The second circle is labeled 'Retained' and contains the fraction 'Profit before tax' over 'Gross profit'. This is followed by another large 'X' symbol. The third circle is labeled 'Activity' and contains the fraction 'Sales' over 'Operating assets'. This is followed by an equals sign. The final circle is labeled 'Return on operating assets' and contains the text 'Return on operating assets' in red. The entire diagram is set against a dark background with a decorative red and pink geometric shape at the bottom right.

# MSX MRA performance **model components**

The MSXI MRA Performance Model hypothesises that automotive retail performance can be driven by focusing on three key drivers and on the enablers that fuel them.

As you can see in the model, the interrelationships that exist between the three drivers form what is known as a 'multiplier effect', which in turn enables enhanced levels of performance to be driven by focusing on incremental change in a few specific areas.

These key drivers of automotive retail performance, when combined together to form the 'multiplier effect' and the basis of the MSXI MRA Performance Model, provide the framework on which performance can be analysed and strategy can be formulated.

It is important to remember that the model is diagnostic and strategic in nature, providing unambiguous indicators of dealership financial health and clear performance signposts relating to process, people and strategic decision making.

### **Key driver #1 - Mix**

Mix reflects how well the business is balanced across and within each business unit. Total Gross Profit margin is the 'tell-tale' signal of this balance, specifically the relationship between gross profit and total sales.

### **Mix**

$$\frac{\text{Gross Profit} \times 100}{\text{Sales}}$$

### **Key driver #2 - Retained**

Retained is the proportion of the gross profit retained as profit before tax and reflects the discipline and efficiencies in the business. It reflects the ability of a firm to manage expenses relative to gross profit.

### **Retained**

$$\frac{\text{Profit before Tax} \times 100}{\text{Gross Profit}}$$

### **Key driver #3 - Activity**

Activity refers to the surge of sales that is generated in relation to the operating assets that are employed. Key elements of operating assets include stock on hand, receivables, cash and other operating assets.

### **Activity**

$$\frac{\text{Annualised Sales} \times 100}{\text{Operational Assets}}$$

# MSX MRA & the Business Management Solution

MSXI offers a comprehensive Profitability Solution through a process of education, analysis and application.







## **Education: Management Model**

The MSXI Profitability Solution 'educates' dealership owners, departmental leadership and OEM channel managers on sustainable dealership Profitability Solutions using the MSXI MRA Performance Model.

## **Analysis: Reporting & Analysis Tool**

The MSXI Profitability Solution offers the expertise and platform required to acquire data from dealerships, process it, upload it and generate business performance reports through our global financial reporting system eSOS. The team also offers the capability to analyse these reports, identify key insights and translate them into improvement actions for dealerships.

## **Application: Action Learning & Improvement**

The MSXI Profitability Solution includes performance groups and development groups and the facilitation of peer learning and best practice sharing. SME's are available on-demand for field support or for consulting interventions at dealerships, offering our customised health-check approach.

# About MSX International

For more than 25 years, MSX International has worked closely with vehicle manufacturers around the world, supporting them in maximizing value and experiencing measurable success through innovative BPO solutions and services. Our deep industry expertise combined with cutting-edge technologies aim to improve the performance of our automotive customers by increasing revenue, reducing cost and enhancing customer satisfaction.



# MSX MRA performance model