**Top Automotive Industry Financial Metrics**

The automotive industry is one of the most important and influential sectors in the global economy. It is also one of the most complex, with a vast array of players and products. In order to make informed decisions about investing in or doing business with automakers, it is necessary to understand the key automotive industry financial metrics. But before getting into the nitty-gritty of this lucrative industry, we need to understand financial analysis

**What is Financial Analysis?**

Financial analysis is the process of evaluating a company’s financial statements to determine its financial health and performance. Financial analysts use ratios and metrics derived from a company’s financial statements to make informed projections about a company’s future. You can use various ratios and metrics to assess a company’s liquidity, solvency, profitability, and efficiency. While ratios and metrics are important for all industries, they are especially important for the automotive industry. Automakers are complex businesses. So, it is essential to understand how they are performing financially before investing in them or partnering with them. Now that we have explained what financial analysis means, let’s have an overview of the giant automotive industry.

**Automotive Industry Overview** The automotive industry is one of the most important industries in the world. It has total market value of over $2 trillion. The automotive industry employs millions of people worldwide and is a major contributor to global economic growth. Every year, the automotive industry produces over 65 million vehicles. The automotive industry is a complex and sprawling sector with many different players. There are three basic types of Automotive companies:

– OEMs or Original Equipment Manufacturers, which design and build vehicles

– Automotive Parts Suppliers, which supply parts and components to OEMs

– Automotive Retailers who sell vehicles to consumers There are also other players in the automotive industry, such as Automotive Financing Companies and Automotive Repair Shops.

Now that we have an overview of the automotive industry, let’s take a closer look at the financial metrics that are most important for assessing its health.

**Debt-to-Equity Ratio**

You might know for a fact that the automotive industry is capital-intensive. That’s the reason the debt-to-equity ratio (D/E) is a very important financial analysis metric in the automotive industry. This ratio compares a company’s total liabilities to its shareholders’ equity. A high D/E ratio means a company is highly leveraged and at a higher risk of defaulting on its debt. A low D/E ratio means that a company is less leveraged and less risky. Investors usually prefer companies with a low D/E ratio. Automakers, on average, have a high D/E ratio because of the capital-intensive nature of their businesses.

**What is an Ideal D/E?**

There is no such thing as an ideal D/E ratio. It all depends on the company’s industry and business model. However, a good rule of thumb is to stay below a D/E ratio of 2 (which means that the company’s debt is two times its equity). Having a D/E of 1 means that the company’s debt is exactly equal to its equity. The Debt-to-Equity ratio for some of the major automakers is as follows:

General Motors = 1.43

BMW = 1.24

Toyota = 0.52

Tata = 1.45 (Investopedia, 2021)

You can find a company’s D/E ratio on its balance sheet. The formula for calculating the D/E ratio is: Debt-to-Equity Ratio = Total Liabilities / Shareholders’ Equity If at any time you need professional help regarding the calculation of automotive industry financial metrics, Oak Business Consultant’s expert financial analysts are here for you.

**Inventory Turnover Ratio**

One of the important automotive industry financial metrics is the inventory turnover ratio. This ratio specifically applies to car dealerships. Generally, auto dealerships are considered to be carrying substantially more inventory than about 60 days’ worth on their lots as a warning sign of sluggish auto sales. A company’s inventory turnover ratio calculates how often its inventory is sold or turned over in a year or another specified period. For a car dealership, it is a good indicator of how quickly the existing inventory of cars on their lot is sold since it measures how efficiently a company manages orders and inventory.

**A Case Study on Car Dealership**

It might look quite simple from a bird’s eye view initially. However, going into the details, you will find out how intricate these things can get. For a better understanding of the car dealership business, here is a car dealership case study by Oak Business Consultant. The case study is about an automotive dealer who wanted to acquire an investor based on a concrete business plan, financial model, and pitch deck. And how Oak Business Consultant helped this auto dealer improve and polish their business model as well as financial projections.

**What Are Some Alternatives to Inventory Turnover Ratio?**

There are a few alternatives to the inventory turnover ratio that you can use to measure a car dealership’s efficiency. The Days Sales Outstanding (DSO) measures how long it takes a company to collect payments from its customers on the sales they have made. The Accounts Receivable Turnover Ratio (ARTR) calculates how many times per year a company collects payments on its receivables. You can also use the Receivable Day Count (RDC) to measure how many days of inventory are being financed by accounts receivable.

**Return on Equity Ratio**

The return on equity (ROE) ratio is another important automotive industry financial metric. This ratio measures a company’s profitability by dividing its net income by its shareholders’ equity. Other than the automotive industry, ROE, in general, is one of the financial analysis metrics that has high importance for investors. And when we talk about the auto sector, this ratio is essential to measure the performance of a carmaker to see if it is worth investing in. As the name already suggests, it’s the “return” on “equity.” This means that it takes the net income and divides it by the shareholders’ equity. This will then give investors an idea of how much profit a company is making with the money that they have invested.

**What is an Ideal ROE?**

There is no one answer to this question since what might be an ideal ROE for one company might not be the same for another. However, a general guideline is that a healthy and sustainable ROE should be in the range of 15-20%.

A high ROE ratio means that a company is very profitable and is making good use of its shareholders’ equity. A low ROE ratio means the company is not as profitable and is not using its shareholders’ equity efficiently. You can find a company’s ROE ratio on its income statement. The formula for calculating the ROE ratio is:

ROE Ratio = Net Income / Shareholders’ Equity

Oak Business Consultant’s team of expert financial analysts can help you calculate and understand all these ratios and other essential metrics specific to your business.

**What are Some Other Automotive Industry Financial Metrics Related to ROE?**

A few other automotive industry financial metrics are related to ROE.

• The return on assets (ROA) ratio measures how much profit a company makes with its total assets.

• Debt to equity ratio (D/E) compares a company’s total liabilities to its shareholders’ equity and measures a company’s financial risk.

• Earnings per share (EPS) metric calculates the amount of net income a company has earned per share of common stock outstanding.

• Return on capital employed (ROCE) ratio measures how efficiently a company uses its capital to generate profits.

These ratios are important metrics for measuring a car dealership’s financial health.

**Core Automotive Industry Financial Metrics**

The above metrics are comparatively generic and may apply to many other industries. Now, this section mainly focuses on the core automotive industry financial metrics. So, here they are:

**Manufactured Number of Units**

This metric tells you how many cars an automaker has manufactured. This is important to track because it can give you an idea of the company’s production capacity. It also tells you whether or not an automaker is able to keep up with the demand for its cars. For example, if an automaker’s manufactured number of units is on the decline, it could be a sign that the company is not doing well financially and might be in trouble.

**Total Manufacturer Cost**

The total manufacturer cost metric gives you a breakdown of how much it costs an automaker to manufacture a car. This is important to track because it can help you identify inefficiencies in the production process.

The breakdown of an automaker’s manufacturer cost can be:

– Material Costs

– Labor Costs

– Distribution Costs

– Assembly Costs

– Overhead Costs

If an automaker sees a rise in any of these costs, it could be a sign that the company is having financial difficulties.

**Average Selling Price**

This metric tells you how much money an automaker makes on each car it sells. This is important to track because it can help you identify whether or not the company is increasing or decreasing its profit margins.

An automaker’s average sale price of cars sold can be:

– Unit Margin (profit/unit) = Average Sale Price – Costs / Number of Units Sold

**Utilization Rate**

This metric tells you how efficiently an automaker is using its production capacity. It is calculated by dividing the number of manufactured units by the maximum number of units that could be produced in a given period of time. If an automaker’s utilization rate is low, it could mean that the company is not able to keep up with the demand for its cars and might be losing sales.

**Manufacturing Cycle Time**

The manufacturing cycle time metric tells you how long it takes an automaker to manufacture a car from start to finish. In addition to determining how many units can be manufactured within a time frame, this metric helps determine how many units will be available for customer purchase. To meet customer demand, companies must adhere to the manufacturing cycle time.

An automaker’s manufacturing cycle time can be:

– Total Cycle Time = Time It Takes to Manufacture a Car / Number of Cars Produced Per Day

– Max Cycle Time = (Time It Takes to Manufacture a Car – Start of Production) / Number of Cars Produced Per Day

If an automaker’s average or max cycle time is high, it could mean that the company is not able to keep up with customer demand.

**Yield Rate**

The yield rate calculates the number of good units that are manufactured compared to the total number of units produced. When we say “good units,” it means that the units meet the company’s specifications and are ready for sale. This metric is important to track because it can help you identify how efficiently an automaker is using its resources. In addition, if the yield rate is low, it could indicate that the company is having quality control issues.

**Recall Rate**

Within a specific time frame, this metric measures the percentage of defective vehicles produced. You can consider the recall rate the opposite of the yield rate. This metric is important to track because it can help you identify how well an automaker controls the quality of its vehicles. If the recall rate is high, it could mean that the company is having quality control issues and might be losing customers. And even before the customers, the total manufacturer cost would be very high.

**Safety Incidents Per Employee**

This metric tells you how many safety incidents happen within a company per employee. This metric is important to track because it can help you identify potential areas of improvement in an automaker’s safety program. If the number of safety incidents per employee is high, it could mean that the company is not doing a good job of keeping its employees safe. It could also affect the Automotive Industry Financial Metrics like

– Productivity = Units Produced / Number of Employees

– Absenteeism Rate = (Number of Absent Employees / Total Number of Employees) x 100%

– Turnover Rate = (Number of Separations / Total Number of Employees) x 100%

**Scrap Rate**

Scrap rate is the number of materials used that are not usable because of defects or production errors. This metric is important to track because it can help you identify how efficiently an automaker uses its resources. In addition, if the scrap rate is high, it could indicate that the company is having quality control issues.

You can calculate the scrap rate by dividing the total number of scraps by the total number of materials used.

**Average Downtime in Production**

No company can always have its machines running at 100% capacity. There will always be some downtime for maintenance, repairs, and other unforeseen events. This metric tells you the average amount of time that machines are not running. Or you can consider the downtime when the facility is not in use for the intended purpose, i.e., manufacturing or assembling. This metric is important to track because it can help you identify potential areas of improvement in an automaker’s production process. If the average downtime is high, it could mean that the company is not doing a good job with maintenance.

**Customer Satisfaction** Finally, it all comes down to customer satisfaction. There are several ways to measure customer satisfaction. Some automakers might track things like the number of complaints that are received or the number of vehicles that are returned. Others might track surveys or customer feedback.

A general rule of thumb in the auto industry is to look at the number of units sold annually. Since a company would only be able to sell more units when its customers are satisfied. On the other hand, in some cases, it is also possible that a particular car model gets sold because of its advertised features and everything. This is the reason the number of units sold can’t represent the satisfaction of the customers accurately. Whatever way you use, it’s important to track customer satisfaction because it can help you identify potential areas of improvement in your products and services.

**Do You Want 100% Customer Satisfaction in Your Auto Business?**

You should track Automotive Industry Financial Metrics, which gives insights into your customer base’s health and business operations. And the best way to calculate these metrics without any discrepancies is by hiring the best financial analysts in the industry.