Many salespeople working on car dealership floors have never seen a downturn like the current one. Some are battling to make the adjustments necessary to handle it, says Ford Motor Company of South Africa vice-president of marketing and sales Jacques Brent.

Industry veteran Brand Pretorius, chief executive of McCarthy’s, owners of the biggest dealership network in the country, says he has never experienced such a sudden and severe downturn in trade. He reckons that up to 100 of the nation’s 1,700 franchised dealerships could become victims of the crunch.

But both men told the Journal of Marketing that all was not gloom and doom: there could be opportunity in adversity and in looking at business differently.

Brent says that in the boom period of the past three years, which lasted until the middle of last year, many car sales people were more order takers than sellers – custom came to them without much trouble on their part. “Now we have a very different situation, where these people need to get out and aggressively market their products. Not all of them are up to it. The dealerships that are best placed to deal with the downturn are those that have relatively long-serving staff on the sales floor, good data bases of customers to mine, have a relatively high fleet content among their customers, and are located in industrial or semi-industrial areas rather than suburbs.”

He says that traditionally, dealerships approach the business on the basis that their parts, service, and used-car operations should cover most running costs, and new-car sales deliver the profit cream on top. Those distributors – notably French and Chinese car importers – without large numbers of sales and parts and service operations would feel the blast of recession before more established players.

Pretorius says that the ‘perfect storm’ combination of pressure on disposable income, record high levels of household debt in relation to income around 80% and a degree of political and social instability co-inciding with a consumer recession, made this a ‘very challenging’ period for the industry. His company stresses that dealerships can survive in the current conditions only if they sell more cars and use their used-car, parts and servicing assets better.

“Used vehicle sales have become more important than ever because if you can’t sell them, you can’t give trade-ins on news cars, and then you can’t sell new cars either. In the boom of the past four years there was a significant increase in the vehicle population. Many of those vehicles are now reaching the end of their warranty periods, which means we need to put on our after-sales parts and servicing hat to cater for new demand in the market. Workshop managers obviously are technical people and are driven by a supply inclination, rather than by marketing imperatives. It is incumbent on us to change that around to take advantage of the parts and servicing opportunities than can help keep our businesses alive.”

Hyundai advertising and public relations manager Jaco van Loggerenberg says it is not always appreciated that the record sales of the past few years were at exceptional levels, and that most brands are still selling at relatively good rates. “There was a bit of a bubble. You could say levels are now more realistic,” he said. His company was well placed by having a new, small, highly-specced model about to hit the market. Owners of certain luxury or thirsty models were battling to trade down, he said. From the manufacturer’s perspective, offers or payment holidays and free petrol were helping to move stocks from dealer floors.

Brent said Ford tried to keep its advertising current and relevant. “We know the monetary policy committee of the Reserve Bank meets every three months to consider interest rates. We have developed a campaign around interest rates which we flight at relevant times. If we offer fixed-rate loans, that at least gives a buyer some security and goes some way towards countering the negatives of the general economic situation”. He said he was wary of free petrol offers, because some had become synonymous with vehicles that had high fuel consumption, which, rightly or wrongly, was a negative for people looking to save on long-term fuel costs.

Pretorius says customer retention has become critical for dealership survival. “We need to make sure that every staff member in our dealerships is aware of the importance of every customer. In lean periods customers are more precious than ever, and in our company we try to provide them with what we call extreme fulfilment. We need to exceed their expectations. We need to recognize that both the demographic and psychographic profiles of the...
market are changing. The emerging market is becoming the main market. We need to align our staff profile to serve that market. We need to ensure our staff can adequately deal with these new customers’ needs. Many black customers see poor service as nothing less than discrimination, and they can be very demanding. We must ensure we have competent, professional staff to meet all their needs.”

Pretorius says he feels manufacturers could ease the pressure on dealerships by relaxing the standards they are required to maintain – which, he said, were among the highest in the world and somewhat unrealistic for a country like South Africa. “We are in a highly competitive, volatile market with some 57 brands and 2,000 different car and commercial models, yet we represent only 0.8% of the world market. Overnight we can swing into a loss resulting from high overheads. Obviously, as custodians of the brands, manufacturers are image conscious and want the best in their dealerships. All I’m asking is for some pragmatism.”

Brent acknowledged that the cost of keeping up standards was an issue for dealerships, and blamed it partly on historical factors. “Seven years ago, building costs in this country were relatively low in comparison with elsewhere in the world, and facilities could be provided within reasonable limits. But in the past seven years those costs have escalated out of control, and where before you could have built and equipped new premises for R30 million to R40 million, now the cost can be R80 million to R120 million. It becomes difficult to service payments on a facility that big – you need to sell an awful lot of cars,” said Brent.

Pretorius says buyers are moving down and from new to used vehicles. “Hopefully, the pressure on consumers will not get worse before it gets better. The saving grace, in a sense, for the motor industry is that public transport is not good. We have not yet seen people in significant numbers leaving their cars at home and using public transport. But should the taxi industry succeed in cleaning up its act and offer a reliable, safe service in a courteous manner, it could open up a whole new world of opportunity for itself.”

Pretorius pointed out that fleet purchasing was not as sensitive as private buyers to poorer economic factors. “Purchasing decisions are less emotion-driven and are more rational in that area,” he says.

McCarthy has outperformed the market this year with new car sales down only 12% against the market average of 20%, and used car sales up 9.9%.