

*The impact*

OF COVID ON THE MOTOR  
RETAIL INDUSTRY IN SA

WHAT SHOULD YOU BE DOING NOW TO COME OUT WITH  
A FIGHTING CHANCE AT THE END OF THE LOCKDOWN.



# Foreword

We're about halfway into our lockdown in South Africa. As the dust starts to settle on parked cars at closed dealerships and the reality of economic hardship starts to set in, we see some very worried dealer principals and motor vehicle franchisees. Motor vehicle dealerships, deemed non-essential businesses by the South African government have had to shut their doors for the duration of the lockdown and have moved into survival mode.

Motor vehicle dealerships have been under pressure for a while now. Net profit margins in this industry are low in comparison to their turnover (around 1.5% - 2% of turnover) and, in particular, the luxury segment of the market has been hampered by slow economic growth and rising vehicle prices. The National Association of Automobile Manufacturers of South Africa (NAAMSA) released sales statistics at the start of April 2020 indicating that vehicle sales were down 29.7% for March 2020 compared to the same period for the previous year (even though Covid-19 only affected a portion of the month). April 2020 sales numbers will be virtually zero and one shudders to think what the May 2020 numbers will look like.

The temporary closure of these businesses has caused great upheaval, with many businesses worried about their ongoing survival. We look at what dealer principals and owners of these businesses can do over the course of the next few weeks to open stronger and hit the ground running ahead of their competitors.

But first, the good, the bad and the ugly of where we are at the moment.



# THE *Good*

## 1 It's not forever

This crisis is not going to last forever. It may take a little while, but the volumes will eventually return. Depending on the number of dealerships that are still left standing at the end of the year, the good traders may emerge with better unit volumes than they did before.

## 2 Drop in interest rates

Interest rates have seen a drop of 200 basis points and the fuel price has come off significantly – with petrol reducing by almost R2 / litre and further reductions to come. This leaves a bit more money in the hands of consumers and may make financed deals a bit more likely to pass credit approval.

## 3 Time to focus on strategy

Five weeks sounds like a lifetime to close the doors – and it is. But it's also a great time to spend on business strategy and reconfigure the way you operate. Any chief executive officer would give his right arm to have weeks to devote to planning and sales strategy.

## 4 There is help

Franchisors and bankers are coming to the party. Banks have offered floorplan assistance and a number of franchisors have extended some of their normal payment terms to offer some relief.



# THE *Bad*

## 1 Recovery will take a while

It's going to hurt for a while before it gets better. It's unlikely that the first purchase one would make after emerging from lockdown would be a new vehicle – basic necessities are more important. Dealerships are going to have to dig into reserves for a few months. It is our view that the market will see a reduction in volumes of at least 15% to 20% for the year.

## 2 Stock Availability

Several manufacturers have shut their plants worldwide so, depending on the model and franchisor, new vehicle stock and parts availability may be problematic in the medium term. This would naturally depend on the demand over the same period.

## 3 Long term market impact

Many experts are predicting a change in consumer behaviour patterns as corporates discover that staff are actually able to work remotely. A change to a work from home environment may mean that households can do with one less car. This will have an impact on the long-term prospects of the industry.

## 1 Rand Devaluation

Earlier this month, the rand fell off a cliff and has not fully recovered. If this level is sustained for a long period, it will ultimately have an impact on imported vehicle prices, making them less affordable for South African consumers;

## 2 SA Inc. doesn't offer much support

There is limited to no government assistance available. Even a small dealership selling an average of 15 vehicles per month will likely have a turnover of over R50million and will not qualify for most of the relief packages available; and

## 3 Not everyone will survive

The lockdown comes at a time that some businesses were already struggling (luxury segment in particular) and the unkind reality is that some businesses might not make it through this.

## 4 Used Vehicle Market

Used vehicle auctions are shut and the vehicle rental business has disappeared overnight. If corporates start offloading fleets and used vehicle lots release cars at low prices to create liquidity, the used vehicle market could face significant price pressure. This could have far reaching consequences.

## PREPARING FOR A *post Corona* ENVIRONMENT

There are three key sectors that we believe dealerships are going to have to look at post Corona to ensure that they thrive. Those dealerships that spend the next couple of weeks reviewing their strategy and that implement this strategy well will be the ones best placed to succeed in the weeks post lockdown.

Every dealership needs to be looking at how they can leverage off their strengths and fix some of their weaknesses. Here's a few things that we think are important:



## Employee Well-being

A large portion of the workforce in the South African dealership environment drive their income from commission. These individuals would (naturally) be concerned about their next pay check. It's going to be difficult to guarantee staff the same level of income but businesses should try to support their people to the best extent possible. At a minimum, good dealerships should be implementing employee support programs that demonstrate that they care about their people.

These employees will be re-entering the business in a few weeks and a demotivated workforce will have detrimental effects on the business (not to mention that high performing staff may be attracted to competitors that were more concerned about employee well-being during the crisis).

## Communication

The best communication takes the form of clear, prompt and transparent messaging. It's even more important given that you need to use this time to secure ongoing support from your workforce. Employee concerns and fears should be addressed promptly and honestly.



*People*

People are the biggest asset of your business. That's why they're first on our list.

## Temporary Employer / Employee Relief Scheme (TERS):

One of the few government relief mechanisms available is that of TERS. Employers who have had no option but to reduce their salary overhead should be lodging claims for their workforce. Further, it is worth considering some form of rebate scheme for employees to compensate them for the loss of earnings. One such option would be to link overall dealership profitability to remuneration. If the dealership is able to sufficiently reduce costs and retain enough revenue to keep dealership profitability stable, employees can be made whole again.

## Training & Employee Innovation

All those training courses that the workforce never has time for? Now's the time. Most divisions within the business (sales, workshop, even administration) can spend this time accessing online webinars, training programs and the like.

We're operating in an age where almost everyone has a smartphone. It's easy for managers within the business to schedule video calls with the people on the ground to discuss strategy and past failings. Employees often value the opportunity to give input into the business and this will help unify teams.



## Cash

Cash is king in a crisis. Here are our thoughts on immediate steps you can use to create some liquidity.

### Rental Bill

After staff costs, rental is generally the biggest operating expenses on the income statement. Dealer principals should be having discussions with their landlords to reduce their rent bill for the coming months. If a complete waiver isn't possible, rental can be capitalised to the lease or perhaps the lease term could be extended in lieu of a discount during the crisis.

### Stock Holding

Now's the time to review your stock lists. Many dealerships have aged vehicles standing in their lots in the hope that they will be able to come out of a bad deal relatively unscathed. Look critically at these vehicles and cut your losses where necessary. The relief from immediate cashflow on selling these vehicles may outweigh the pain of selling at cost or at a loss to the trade.

### Bank Funding

Wesbank has come out with relief measures for affected dealerships. Most other banks and franchisors with floorplan facilities have done the same. Enter into discussions with your bankers immediately. Bankers would be more willing to extend terms than jeopardize a business with a good credit history that has been badly impacted by the virus. Leverage your long-standing relationships here.



## Website review

When was the last time you looked at your website? More importantly, when was the last time you looked at it on your mobile device?

According to a Kantar survey, 22% of South Africans surveyed are now shopping more online than they did before the Covid crisis.

Can you streamline your website and use technology to make the sales process easier? Perhaps the finance and insurance process can be made more efficient so that the customer shopping from his bed at 10pm at night can start the finance application process online before even phoning in or visiting the dealership.

There's a whole salesforce sitting at home at the moment. These staff should be reviewing the entire website to test its functionality and evaluate customer experience.



## Pipeline

One word – pipeline. There's just under two weeks left to refine sales strategies and open the doors with a full book of leads. Here's what you should be looking at:

## Stock availability

Depending on the franchisor, certain makes and models may have a backlog due to manufacturing plant closures across the world. For those dealerships with excess funding and cash availability, it's worth considering buying up the more popular models to corner the market with vehicle availability that no one else is able to offer.

## Lead Generation

Customers are still shopping. In the first week of lockdown, there were between 1,200 and 1,500 active users on the Auto Trader website in South Africa. If a customer is shopping for a vehicle in the current environment, it's a great lead (it means they are probably a serious buyer) – yet most dealers haven't updated their contact details on their own websites, let alone on Auto Trader.

Customers that can't get through to the sales team aren't going to buy cars. Dealerships should be updating their online presence to include a cell number or should redirect their landlines to a designated staff member.

Sales staff that are at home should be educated to not see this as a holiday. Databases can be mined to queue up a sales pipeline as well as a service pipeline. Those services that were booked during the lockdown period should be rescheduled before the vehicle ends up at a competitor.

## Business Strategy

Now's the time to be sitting down with the sales force and management team of these businesses to discuss strategic objectives for the weeks following lockdown as well as the long-term strategy for the business. There are new questions that are arising out of a post-corona world that businesses need to be prepared to address.

Not all of the below items arise from the sudden lockdown but these are the things that we think dealer principals should be thinking about.

1.

Better use of technology – can customers interact with sales teams using electronic platforms (WhatsApp for business is a prime example). Nothing stops a dealer from taking a service booking or starting the finance process on an online platform.

Dealerships that are relying on Auto Trader advertisements and an outdated website as their primary online presence may be behind the curve. There is a good argument to be made for a dealership to have its own digital marketing team to review and refine its online presence and digital marketing strategy. The digital experience is becoming more and more important (that is, how customers experience the buying process through a website, social media presence and electronic communication channels). Many consumers have researched and decided on a car (barring a test drive) before they've walked onto the dealership floor.

2.

Reduced staff space – Now that we've proved that staff can work remotely, does it pay to reduce dealership space? Can bigger dealers with several outlets reduce costs by creating offsite central administration hubs? With business moving to electronic mediums, does each salesman need a physical desk in the most expensive section of the dealership or can the business do with a back office setup (think cheaper call centre) with fewer people working the floor at any given time?

Granted, these are long term decisions as many businesses are locked into leases but it's still worth giving some thought to.

3.

Disruption is coming through automotive automation. Self-driving cars and ride sharing pose challenges to the industry in the long term (although South Africa is still a while behind the rest of the world).

4.

Cyber security and fraud. It's great to think about a digital strategy but this comes with its own risks. Dealerships need to review your processes relating to e-mail interception and electronic banking detail manipulation. It is also a good time to review insurance cover around these risks.

5.

The car service business is going to change in the coming months. Servicing a car requires several touchpoints, meaning a risk of the virus being transmitted. Notwithstanding the fact that dealerships will need to introduce the necessary measures to ensure safety, it's also important to communicate these measures to customers. A customer that does not feel safe is not going to be willing to bring a car in for a service.

# How can we help?

## Advice on liquidity and working capital

The next couple of months are going to be key to the survival of most businesses. We can help companies free up cash with sound advice relating to the release of cash from the balance sheet (amongst other things).

## Accounting in the cloud

Our PKF Ignite platform uses secure and leading-edge cloud-based accounting to manage business-critical financial processes and transactions, including cloud accounting & bookkeeping, dashboards & management accounts and payroll services

## Forecasting

Now, more than ever, businesses need accurate forecasts to enable real time business decisions. By using data analytic tools, we can help ensure that the decisions are made based on the correct underlying information.

For more information, contact one of our motor industry specialist partners:

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