

Media Release

Automechanika Leading International Trade Fair for the Automotive Sector
Johannesburg Expo Centre, 18 - 21 March 2009

Media Enquiries Contact:

Roger Houghton : Media Manager
Tel: 011 476 7400
Fax: 086 505 8957
e-mail: houghtonr@mwebbiz.co.za
Web: www.automechanikasa.co.za

“THESE TOUGH TIMES WILL PASS” – BRAND PRETORIUS, CEO OF MCCARTHY MOTOR HOLDINGS

“We can expect that the tough trading conditions the South African motor industry is experiencing at the moment are likely to prevail until the first quarter of 2010. However, we are not without hope and we are not helpless. There are many things we can do. We have to stay optimistic and upbeat, and not be afraid of the future. These tough times will also pass.”

This was the message of Brand Pretorius, CEO of McCarthy Motor Holdings, in an address at the first Automechanika SA trade fair at the Expo Centre, Nasrec, in Johannesburg today.

Mr Pretorius, addressing more than 150 delegates representing every category of the local motor industry, painted a bleak picture of the current state of the industry in South Africa. The topic of his address was: Survival in These Times – a Franchise Dealer Perspective.

“We are living in unprecedented times. Unthinkable things have happened. We’ve seen fundamental changes in the global business environment and we are at a defining moment in the history of the motor industry, locally and internationally,

“Owing to a variety of reasons, such as the huge drop in sales (more than 50% down on the 2006 peak), high interest rates, substantially reduced credit approval rates, a less profitable sales mix for dealers, with customers opting for less expensive vehicles, poor margin retention on new vehicles, oversupply of stock in some instances and substantial fixed cost burdens due to investment in expensive, custom-built facilities in the period 2005-2008, and limited flexibility because of onerous lease obligations and punitive accounting conventions, the industry is suffering at the moment.

“In fact, some 150 franchise and more than 200 independent used vehicle outlets have closed their doors over the past 14 months. Estimated job losses in the industry since January 2008 are close to 10 000,” the McCarthy Motor Holdings CEO said.

More

Automechanika South Africa, 18 - 21 March 2009

In 2006, a year in which 714 000 new vehicles were sold, the majority of experts and the key players in the industry were forecasting substantial and sustainable growth until 2011. "We were all very optimistic about the future. WesBank's Ronnie Watson was predicting sales of a million new vehicles per year in the comparatively near future. Manufacturers as well as importers made huge investments in their businesses.

"That was then. For this year, 2009, NAAMSA is forecasting new car sales of between 380 000 and 385 000 units. The bottom has fallen out of the market," Mr Pretorius stated.

However, among the doom and gloom there are a number of positive indications. Used vehicle sales as well as margins are starting to improve, and parts and service contributions are showing growth in real terms.

"South African consumers can also look forward to a drop in interest rates in the near future, which will have a positive impact on disposable income, and a possible reduction in fuel prices, which will have a slowing effect on inflation. Internationally we can expect more stability as the huge intervention initiatives undertaken by governments start producing results over the next nine months. Taken all these factors into account, I expect to start seeing an improvement in the South African business environment towards the end of the year."

Mr Pretorius suggested a number of solutions to the viability crisis franchise dealers are facing. These include a significant dealer network rationalisation, leading to higher volume throughput per dealer.

"There are just too many dealers. A dealer, to be viable, needs to sell between 60 and 70 vehicles per month. Dealer numbers need to be rationalised and manufacturers and importers should not replace franchise dealers who are closing their doors," said Mr Pretorius.

There should be constructive partnerships between OEMs/importers and dealers. "Manufacturers and importers should be less prescriptive, not set unrealistic standards and become more pragmatic. Also, they should present franchise dealers with more favourable terms."

More

Automechanika South Africa, 18 - 21 March 2009

Other solutions Mr Pretorius suggested include margin restoration on new and used vehicles, and parts and service, the optimization of supplementary income, dramatically reduced asset levels, a single-minded focus on cash flow, more efficient processes and operating systems, aggressive cost cutting and a significant increase in staff productivity.

“We should also strive for the maximum levels of customer retention,” Mr Pretorius stated. “In the current climate we cannot afford to lose one single customer.”

For management Mr Pretorius has the following advice: “Stay optimistic and upbeat – don’t be afraid of the future. Hold on to your longer-term vision and objectives. Don’t stop thinking. Watch your cash flow like a hawk – personally. This is of critical importance, as cash flow is the lifeblood of any business, large and small. And, above all, don’t panic!” Mr Pretorius concluded.

Ends

For more information contact:
Roger Houghton on 011 476 7400 or at houghtonr@mwebbiz.co.za
Media Releases and photographs stored electronically at
www.quickpic.co.za and www.automechanikasa.co.za