

Weak market a threat to independent car dealers

● The market is dominated by national or regional dealer groups with combined resources

David Furlonger
Editor at Large

The continuing weakness of SA's new-vehicle market, coupled with increasing competition and shrinking margins, is likely to put more independent dealers out of business, says Brandon Cohen, chair of the National Automobile Dealers' Association (Nada).

Independent franchised dealers, relying on income from a single outlet, are finding it hard to survive in a market that has been in overall decline for a decade and which, even now, has not recovered to pre-Covid levels. Increasingly, the market is dominated by national or regional dealer groups with the combined resources and sales to remain profitable.

Cohen expects to see more independents either close or be taken over by groups.

"A tough market that is not growing will weigh heavily on independents," he says. "We expect to see further shrinking [of their numbers]."

Help, however, may be at hand from an unlikely source. Chinese brands have heaped extra pricing and cost pressures on existing motor firms and their dealers. Traditionally, says Cohen, market newcomers seek out established dealer groups because of their perceived stability and financial backing.

Some new Chinese brands, however, want to do things their own way, rather than follow "corporate" marketing rules. "They are seeking out small groups and independent owners", says Cohen. "We will see which model will prevail over the next three to five years."

Newcomers are also generally more open to multi-franchising, where several brands are sold from a single dealership. Some motor brands have taken a deliberate decision to cut dealer numbers. Volvo intends to



Tough times: Independent franchised - car dealers are finding it hard to survive in a market that has been in overall decline for a decade. /File

shrink its SA network as part of a plan to eventually sell only electric vehicles (EVs). Mazda, once an "everyman" brand but now specialising locally in upmarket SUVs, has reduced its dealer network from 53 to 33 since 2023. Local MD Craig Roberts wants the survivors to sell an average of at least 100 each this year, totalling 3,300.

Dealers in other countries would sniff at such numbers. In the US, individual dealerships count sales in the thousands, not hundreds. Then again, US consumers buy as many new vehicles in one day as South Africans do in a month.

The record for SA new-vehicle sales was almost a quarter of a century ago, in 2006, when 714,340 cars and commercial vehicles were sold.

The global economic crash a couple of years later put paid to

hopes of continued growth. There was a rally in 2014, with 644,523 sales, but since then the overall trend has been relentlessly downwards. In 2024, the number was 531,775 – still short of the 536,486 in 2019, before Covid-19 wrecked markets.

In January, some forecasters suggested that would remain out of reach this year but sales in the first two months suggest it might be achievable. At the end of February, aggregate sales totalled 94,968, which was 9.5% more than at the same stage last year. Within the overall total, car sales grew 18.6% to 68,871.

Medium-term forecasts are for slow growth – insufficient for new dealers to confidently enter the market.

Cohen says: "We are possibly close to [dealer] saturation, based on current projections for vehicle sales. Further expansion

will be directly proportional to the growth of the economy and buyer market."

The influx of low-cost Chinese brands, allied to a general consumer shift towards smaller, cheaper vehicles, is putting huge pressure on dealer profit margins. The potential arrival of additional brands like Chinese company Geely, which has tried and failed twice already in SA, won't make it any easier.

On average, says Cohen, new vehicles are "high in revenue but very low in profit".

Used vehicles offer better margins, while the best returns come from parts and service. The last two, however, are threatened by the shift towards EVs. They have fewer moving engine parts than petrol and diesel vehicles and therefore require less maintenance.

Volkswagen Group Africa

MD Martina Biene says service needs on EVs are potentially 80% lower and labour costs 47% lower.

Cohen thinks dealers will cope. "Dealers have become masters at strict budgeting, cost management and lean operating," he says.

Those skills will be further tested by other new technologies. AI is unavoidable but definitely not cheap.

Dealers are also adjusting to the uncertain advance of online marketing. The good news is that predictions traditional dealerships would become irrelevant have not come true.

Customers may do much of their research online but they still want to see vehicles "in the flesh" and sit in them. They also want the reassurance of personal dealer contact and advice.

furlonger@businesslive.co.za