A STRATEGIC ANALYSIS OF THE SOUTH AFRICAN
MOTOR MANUFACTURING INDUSTRY’S CHANGING
BUSINESS ENVIRONMENT.

BY

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PORT ELIZABETH
DECLARATION

A STRATEGIC ANALYSIS OF THE SOUTH AFRICAN
MOTOR MANUFACTURING INDUSTRY’S CHANGING
BUSINESS ENVIRONMENT.

I declare that: is my own work and all sources used or quoted have been indicated and acknowledged by
means of complete references. I have not previously submitted this thesis for a degree at another university
or technikon.

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C R Stockwell                  Date
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CHAPTER 1

INTRODUCTION TO THE STUDY

The South African economy has shown very little economic growth and car sales declined steadily from 1988 till they increased slightly in 1999. 2000 saw the economy recovering from a recession, and motor vehicle sales increasing. In order for the South African motor manufacturing industry to remain viable, the manufacturers, who must operate within the framework of the Motor Industry Development Plan, face increasing international competition as the large motor firms from around the world strive to gain a foothold in Africa in anticipation of an “African Renaissance.” South African manufacturers have to develop appropriate strategies to ensure profitability and survival in the new millennium. This entails a thorough analysis of the changing business environment the industry finds itself trading in.

1.1 MAIN PROBLEM OF THE STUDY

The need to develop appropriate strategies leads to the following question which is the main probe of the study: What is the nature of the South African motor industry’s business environment and what strategic action will be appropriate for it’s members to deal with the changing environment.
1.2 SUB-PROBLEMS

In order to solve the main problem, solutions to the following sub-problems are required:

1. What are the different methods that can be used to analyse the environment and if these methods are used, what will be the outcome?

2. What key opportunities exist and what threats are there to the environment that South African Motor Manufactures trade in?

3. What potential does a co-operative arrangement such as the Motor Industry Cluster have for making the environment more manageable.

4. What conclusions concerning the appropriateness and strategic value of the analysis can be arrived at?

1.3 OBJECTIVES

The first objective of this study is to identify and formulate an appropriate method of strategic analysis to establish what problems local motor industry manufacturers are facing and to seek general solutions to these problems.

A second objective is to suggest future strategic action that the members of the motor industry can consider in order to survive and grow.
1.4  DELIMITATION OF THE RESEARCH

In order to make the topic manageable, it was necessary to state the delimitation of the research, which comprises the following areas:

1.4.1  Firms investigated

The research focuses on the environment of the South African motor manufacturers and reference will be made to the original equipment manufacturers only in as far as the motor manufacturers use them as a means of generating forex credit.

1.4.2  Geographical delimitation

The evaluation will be limited to South Africa and South African motor manufacturers trading within the country.

1.4.3  Subject of evaluation

The macro economic environment in which the motor manufacturers operate will be studied and analysed.

1.4.4  Theoretical delimitation

The study will focus on the existing models, e.g. a PEST Analysis, which are used to analyse the environment and are described in relevant strategic management textbooks.
1.4.5 **Definitions of concepts**

For the purpose of this study the following meanings are associated with the concepts in the title and the problem statement of the study.

1.4.5.1 **Strategic analysis**

Strategic analysis is the study of the environment an organisation finds itself operating in, by the management of that organisation, in order to systematically plan optimal strategies for the future success of that organisation.

1.4.5.2 **Environment**

This refers to factors and influences in the political, economic, social and technological fields in which the motor industry trades, both nationally and internationally.

1.4.5.3 **Motor manufacturers**

The motor manufacturers are those firms engaged in the assembly of motor vehicles to be sold on the South African market, or for export to other markets.

1.4.5.4 **Component manufacturers**

The component manufacturers are those firms that supply the motor manufacturers with components or exist to export components overseas to enable a manufacturer to take advantage of the forex credits.
1.4.5.5 **Motor Industry Cluster**

Clusters are geographic concentrations of interconnected firms and institutions in a particular field. Clusters encompass an array of linked industries and other entities important to competition. They include suppliers of specialised inputs such as components, machinery and services and providers of specialised infrastructures. Clusters are often extended downstream to channels and customers and laterally to manufactures of complementary products and so to companies in industries related by skills, technologies, or common inputs. Many clusters include governmental and other institutions – such as universities, standard setting agencies, think tanks, vocational training providers, and trade associations that provide specialised training, education, information, research and technical support (Porter 1998:77).

The Motor Industry’s cluster in the Eastern Cape is still in its infancy and has not yet reached this level of sophistication of the international clusters which formed naturally generally over a long period of time.

1.5 **IMPORTANCE OF THE RESEARCH**

With sales being lost to new manufacturers and imported products, it is essential for established local manufacturers to retain as much as possible of their traditional market and to seek new markets wherever possible if they hope to survive. This research project is aimed at indicating the options available to manufacturers attempting to do this.
1.6 RESEARCH METHODOLOGY

The study comprised of a literature study as well as an empirical study.

1.6.1 Secondary sources

Secondary sources providing information on analysing the business environment with a view to choosing appropriate strategies were consulted. In addition, research reports provided valuable information concerning the research method used in this study. Information relevant to the analysis of the environment was obtained from many popular press publications and it was possible to complement these sources with industry publications.

1.6.2 Primary sources

The primary sources consulted consisted of employees and members of the Motor Industry Cluster. This phase of the research project was considered qualitative, which is seen as “a creative, scientific process that necessitates a great deal of time and critical thinking, as well as emotional and intellectual energy. One must have a true desire to discover meaning, develop understanding and explain phenomena in the most thorough way possible…” (Radder 1997:25). More information on this phase of the resource is provided in Chapter 6.

The research is a qualitative study which analyses the environment South African
motor manufacturers find themselves operating in. It broadly describes the theory relevant to this analysis and sets out to find solutions to the problems encountered.

The researcher is employed in the South African motor industry.

1.7 OUTLINE OF THE THESIS

The dissertation has been divided into the following seven chapters.

Chapter 1 introduces the study. Chapter 2 and chapter 3 assess the nature of the South African motor manufacturing environment using a PEST analysis. Chapter 4 discusses the key forces within the competitive environment of the South African motor industry and chapter 5 discusses the opportunities and threats to the industry. Chapter 6 is an empirical study of the Motor Industry Cluster. Finally chapter 7 contains the conclusions and recommendations.
CHAPTER 2

AN ASSESSMENT OF THE NATURE OF THE SOUTH AFRICAN MOTOR MANUFACTURING ENVIRONMENT (PART ONE).

2.1 INTRODUCTION

Crafting strategy is an analysis driven exercise, not an activity where management can succeed by sheer effort and creativity. Judgements about what strategy to pursue should ideally be grounded in a probing assessment of a firm’s external environment and internal situation. Unless a company’s strategy is well matched to the full range of external and internal situational considerations, its suitability is suspect. Although approaches to strategic management differ, in other respects the above is true for all approaches (Thompson and Strickland 1996:56).

The business environment is in a constant state of flux and changes at an ever increasing pace. This change is fuelled by changes in the speed of global communication, which in turn is a result of advances in technology. An example of the accelerated change is the effect of technology on the unit trust industry. Access to this industry by cell phone allows clients access to their portfolio from anywhere in the world at anytime (Weekend Business: 08/04/00). This is a South African development by Old Mutual and is known as Wireless Application Protocol (WAP).
The diversity created by the many different influences on the environment and the uncertainty resulting from rapid changes makes it very difficult to predict how a firm will interact with environmental forces with the passage of time. Hence the need to analyse the environment.

The environment of the South African motor industry has undergone extensive change which will be analysed in this chapter and in chapter 3 by means of a PEST Analysis. Furthermore, an overall framework will be introduced as a basis for discussion in this and the next chapter.

2.2 THE ENVIRONMENT OF THE SOUTH AFRICAN MOTOR INDUSTRY

The environment of the South African motor industry can be analysed by considering the individual components of the environment separately. The environment can be divided into the following separate components (Johnson & Scholes 1999:105):

- the social environment
- the political and legal environment
- the macro economic environment
- the technological environment

To understand the environment in which the South African motor manufacturers operate, it is useful to initially determine how static the industry is, and how much
change is taking place, that is whether the environment is in a state of flux. The more dynamic the environment, the more complex conditions are likely to be. In a stable environment conditions are likely to be stable.

2.2.1 The Pest Analysis.

A technique for analysing environmental influences is the PEST Analysis which involves identifying the political, economic, social and technological influences on an organisation (Johnson and Scholes 1999:104).

All industries are characterised by trends and innovations, which bring about changes in the industry and if they are important changes, they force firms in that industry to respond. The dominant factors which bring about change in an industry are known as driving forces. A Pest Analysis can be used as a starting point when analysing the driving forces in an industry.

2.2.1.1 A PEST Analysis of the Environment of the South African motor industry

A framework for performing a PEST analysis of the South African motor industry, which focuses on the political, economic, social and technological environmental influences and the factors which affect them, is shown in figure 2.1.
Figure 2.1  A PEST Analysis of the South African Motor Industry.

What are the environmental influences affecting the organisation?
Which are the most important at the present time?
Which will be the most important in the next few years?

**Political/Legal**

- The Motor Industries Development Plan (MIDP)
- New labour legislation
- Environmental protection laws

**Government stability**

**Economic Factors**

- Macro economic environment
- The introduction of the South African economy to the global economy
- The competitive nature of the local car market
- The South African economy
- The business cycles
- Foreign exchange rates
- Interest rates

**Sociocultural Factors**

- Levels of education
- Crime
- Aids pandemic
• Income distribution
• Population demographics
• Unemployment

Technological Factors
• Government and industry focus on technological effort
• Speed of technology transfer
• Information technology

(Johnson and Scholes 1999:105)

2.2.2 POLITICAL/LEGAL

The following four political/legal factors play a roll in influencing the development of the South African motor industry:

2.2.2.1 The Motor Industry Development Plan (MIDP)

(a) The MIDP Before Revision

The Motor Industry Development Plan (MIDP) replaced the old local content programme which was based on local content by weight as opposed to the MIDP system where local content is based on value. Local content refers to the locally
manufactured parts used when assembling a motor vehicle i.e. body panels, batteries and tyres. When the local content programme was in use a unit was weighed at the start of production of a new model and thereafter at the introduction of a revised model. All locally produced parts were then weighed and calculated as a percentage of the vehicle’s weight. A local content of 66% was required at the introduction of a new model.

Manufacturers therefore invested large sums of money in press plants, machining facilities to machine engine, suspension and brake components that had been locally cast.

This system was “to a large extent directed towards import replacement” (Kotze1994:107). Kotze also found that the high protection provided to local vehicle and component manufacturers contributed adversely to the high cost of locally manufactured vehicles and resulted in a reduced local market.

With the introduction of phase 4 of the local content programme, a value based system of local content replaced the weight based system. The value based system was retained when the MIDP was introduced in September 1995.

The MIDP was designed to make the South African motor industry more competitive, productive (with improved quality levels) and sustainable by
reducing the number of locally produced models thus capitalising on economies of scale. This in turn would increase the locally produced volumes of vehicles and components which it was hoped would increase employment and make vehicles more affordable to the average man in the street.

In September 1995, The MIDP introduced the following regulations (naamsa.co.za):

- No mandatory local content was required in the production of local vehicles
- A duty free allowance of 27% of vehicle ex-factory turnover for component imports was allowed
- Exports could be used to complement imports
- Improvements were made to the Small Vehicle Incentive (SVI).

According to the NAAMSA website the MIDP has had a positive effect on local industry as the following status between 1995 and 1998 shows:

- Exports increased from R4 to R9 billion;
- Annual investment in assembly grew from R850 million to over R1 500 million;
- Vehicle prices declined by 5% in real terms; and
- Small car prices were amongst the worlds cheapest.
(b) **The midterm review**

The MIDP was revised in June 2000 when the Minister of Trade and Industries announced lower import duties and new investment allowances which were aimed at further stimulating the industry’s key objective, which is to make progress into the international arena. It has given the motor industry a firm basis for future planning in the form of a new support package known as the “Productive Asset Allowance” (PAA) which was effective from 1 July 2000 (Eastern Province Herald, 02/06/01).

The PAA as a package which is a non-tradable (import) duty credit, calculated at 20% of qualifying investments, will be available to manufacturers over five years. The PAA can be used by the motor industry against vehicle imports to sustain its range of imported vehicles. On a limited basis the PAA can be used retrospectively and is applicable to component manufacturers with the original equipment manufacturers having to pass on 80% of the duty saving to the component manufacturer.

In addition the Board of Trade and Tariffs recommended the following (Report No: 4045 Board of Tariffs and Trade, 2000):

- That the MIDP be extended to 2007;
that the rate of duty on imported light motor vehicles decrease by two percentage points per annum after 2002 until 2007 when 30 per cent *ad valorem* is reached;

that the rate of duty on original equipment components (i.e. fitted at the time of assembly of the vehicle) be reduced by one percentage point from 2002 to 25 per *ad valorem* by 2007;

although the board strongly supports model rationalisation with increased volumes, it rejected forced rationalisation on the grounds of the negative consequences of forced discontinuation of the production of certain models, which would result in job losses. It was considered unlikely that South African motor manufacturers would achieve meaningful economies of scale in terms of international volumes in the near future. Thus, workers retrenched due to discontinued production are unlikely to be immediately reabsorbed into the work force.

The small vehicle incentive which is an additional duty free allowance, is to be phased out but the qualifying value of light vehicles increased annually by the percentage increase in the production price increase. This also commenced from 1 July 2000 and from then on 1 January each year until 2002, after which the duty free allowance would be withdrawn.

Import/export complementation is to be phased down from 100 percent in 2003 to 70 percent in 2007.
The revisions to the MIDP have been generally well received by the local manufacturers. Christof Kopke (2000) the President of NAAMSA, is quoted as saying “The proposed changes were consistent with the overall objective of creating a progressively more competitive automotive industry in South Africa.”

The MIDP has had mixed success since its introduction in 1995. It has succeeded in preventing the industry from becoming importation based with little local manufacture. However, employment in both the motor industry and in the component industry has dropped, and cheaper more affordable vehicles have not appeared (The Star, 17/08/00).

(e) **The Automotive Industry Export Council (AIEC)**

The creation of the AIEC was the initiative of the Department of Trade and Industries (DTI). It was created to examine the South African motor industry’s entire supply chain logistics with a view to possibly pooling logistical resources for instance warehousing on foreign soil.

Faisal Ismail, the DTI’s Chief Director, Export and Investment Promotion, told the meeting at the launch of the AIEC that the government had taken a conscious decision to reposition South Africa in the global economy as an exporting nation (CARtoday Com 22/07/00).
The establishment of the AIEC is fully supported by NAAMSA with its strategy of focusing on generic non-competitive projects and issues (CARtoday.Com 22/07/00). According to the draft constitution of the AIEC it intends:

• to function as an export forum, to enable its members to discuss issues of common interest and develop appropriate positions and projects to promote and safeguard the automotive industry’s export activities;

• to initiate closer interaction and liaison between the DTI and exporters in the South African automotive industry;

• to identify key automotive industry export capabilities, key competitive and potentially competitive automotive products as well as foreign market opportunities on behalf of the South African automotive industry and to determine key priorities in its export development;

• to increase export awareness and establish an export culture in the South African automotive and associated industries;

• to provide a platform for government and the automotive industry to jointly develop and manage a more focused global strategy for export development;

• to utilise the platform provided by the council to assist and train small, medium and micro enterprises (SMMEs) to enter and compete in export markets;

• to collect, study and disseminate information relevant to the exports of motor vehicles and their components. To initiate appropriate action aimed at reducing and overcoming identified obstacles and improving export
opportunities to consider legislation, regulations and other governmental measures in importing countries in respect of the importation and distribution of motor vehicles and their components;

• to consider customs, distributive organisations and practices in the motor trade of importing countries;

• to consider South African legislation, regulations and other governmental measures in respect of the export of motor vehicles and components;

• to consider modes and costs of transportation and insurance of motor vehicles and components to export markets;

• to take such steps as may be required from time to time in the interests of it’s members towards the maintenance and expansion of exports of motor vehicles and their components;

• to consider the impact of free trade and/or other economic block proposals, including the South African Development Community (SADC), on the export of motor vehicles and their components;

• to appoint industry representatives to serve on the National Export Advisory Committee (NEAC).

It has been agreed that the AIEC should be nationally representative of exporters of automotive products and motor vehicles and that regional initiatives – such as
the Eastern Cape cluster initiative and the Pretoria Metro development initiative – should be invited to participate in the activities of the Council.

2.2.2.2 New labour legislation

The major new Acts instituted by the ANC government since it came to power in 1994 are as follows (VWSA Planning Round 48 Information Sheet, 04/08/99):

- Labour Relations Act - entrenches the right to strike; it regulates labour disputes through mediation, arbitration and the labour court; and prescribes the minimum trade union rights.

- Basic Conditions of Employment Act - reduces working hours; increases overtime premiums; increases holiday time; regulates shift work; and allows for minimum wages.

- Employment Equity Act - promotes equal opportunity and fair treatment by eliminating unfair discrimination; implements affirmative action measures by re-dressing disadvantages in employment for designated groups (blacks, women and the disabled), by ensuring their equitable representation in all occupational categories and levels of the workforce.

- Medical Schemes Act – regulates medical schemes; provides greater access to medical cover; extends the definition of dependants to include all family members living in the same household as ordinary dependants. The contribution to medical aid schemes may only be raised on the grounds of
family size and income, not age or health status. The Act guarantees acceptance to schemes regardless of state of health, for example HIV/Aids.

In this study it is argued that all the above Acts add to industry costs. However, given the stance of some senior members of the ANC towards the HIV/AIDS crisis, the guarantee of acceptance to medical aids of HIV/AIDS patients is surprising.

2.2.2.3 Environmental protection laws and quality standards

Speaking at a South African Society for Quality symposium, Ms Merba Visagie, Trade & Industry Deputy Director said that "environmental, safety, health and quality standards are being used to create technical barriers to competitive imports" (Eastern Province Herald, 23/06/99). Therefore local industries wishing to export to overseas markets have to obtain internationally recognised ISO14000 environmental accreditation and similarly recognised quality standard accreditation such as ISO9000 and VDA6. A plant does not have to be at the cutting edge of environmentally clean technology to obtain ISO14000 accreditation, but has to show continuous improvement at their annual audits. It is a long-term continuous process and should therefore not require huge once-off capital investment. However failure to obtain accreditation will leads to high prices being paid in cancelled orders.
2.2.2.4 **Government stability**

It is argued in this study that having won almost a two-thirds majority in the 1998 general election, it is very unlikely that the ANC and the other two members of the Tri-Party Alliance, the South African Communist Party (SACP), and the Congress of South African Trade Unions (Cosatu), will be ousted in the foreseeable future.

However, the possibility exits that the Alliance could split up, thus weakening the ANC’s position, or that government could be pressurised into changing its macro economic policies.

In the event of the ANC abandoning its macro economic policy, the economy and the country as a whole could slide into a similar situation as has occurred in Zimbabwe. As it is the merest hint of sympathy for Robert Mugabe's policy of land reform by a South African politician sends the rand plummeting. Heine of the Democratic Party said that the economy had been battered by the events in Zimbabwe and the rand had hit its lower levels than ever before these events (Eastern Province Herald 10/05/00).

However, the present government has a competent team comprising of the Minister of Finance, the Governor of the Reserve Bank and the Minister of Trade and Industry and the economy is growing, albeit at a lower rate than forecast. Sound monetary and economic policy could lead to further growth. In this regard
the Minister of Finance has optimistically forecast that South Africa which is now responsible for less than one percent of world trade, "could soon account for 3, 4 or 5 percent of world trade" (Eastern Province Herald, 29/09/00).

Willie Madisha, the President of COSATU, speaking at Cosatu's 7th National Congress, attacked the Government’s macro economic policy, its stance on HIV/Aids and proposed labour law amendments (Business Day online 19/09/00). In February 2000, COSATU launched a month of industrial action to demand the Government slow down tariff policies and make it harder for firms to sack workers or close down. Government response provided little cause for hope for COSATU, as Mr. Mbeki used his "State of the Nation address, to stress his commitment to investor friendly policies, including rightsizing, the public service" – (Eastern Province Herald, 08/02/00).

Nel (Weekend Business, 26/06/00) maintains that economic growth is the key to prosperity and that "the Government role in this process is to create an investor-friendly environment, boost business and investor confidence, develop the private-public sector partnerships and establish links between big, anchor investment projects in under-developed areas." With this in mind, and given the presidents pre-occupation with an "African Renaissance", unless there is major social upheaval in the country or abroad, such as major economic collapse before the
government policies have taken effect, it is argued in this study that the political situation in South Africa seems set to remain stable.

2.2.3 THE SOCIAL ENVIRONMENT

The socio-cultural factors which influence the environment of the South African motor industry are as follows:

- The AIDS pandemic
- The high levels of crime
- The demographic environment
- Levels of education
- High unemployment levels
- Income distribution
- A unionised labour force

The above socio-cultural factors will be elaborated on below.

2.2.3.1 The AIDS pandemic

AIDS has taken an enormous toll in Africa. It is likely that the accepted figure of 12 million Aids related deaths in Africa has been underestimated (Eastern Province Herald, 14/07/00). The epidemic which started in Central Africa has spread downwards to South Africa where its effects are to be felt by the country’s economy.
Unlike malaria, gastric diseases and other common infectious diseases, AIDS usually affects adults during their productive years. It is therefore the industrial workforce that is mainly at risk.

Industry is thus also at risk, particularly labour intensive industry. According to the Chamber of Mines Health Advisor “Some initial research conducted in the Carletonville region revealed that of gold miners tested, in excess of 25 percent, up to 30 percent, had contracted HIV” (Eastern Province Herald, 25/05/99). Gold miners are considered high risk because of the number of migrant labourers present in the gold mining industry.

The South African motor industry is similarly at risk. It is less automated than its international equivalent and it relies heavily on semi-skilled labour. As AIDS threatens the South African motor industry’s workforce, so does it threaten the motor industry, and thus the foothold that local industry has created for itself in the global industry. University of Natal researcher, Ken Michael believes that “to build on gains in productivity made recently, companies within the industry should be planning for the impact of the epidemic by formulating comprehensive AIDS prevention and human resource development practices”. (AIDS Africa Analysis, June/July 2000 Edition). The disease is highly prevalent in Kwazulu-Natal, Gauteng and the Eastern Cape, the three areas which house the major motor manufacturers.
Although the full impact of the AIDS pandemic on South African industry in general and the motor industry in particular is some way off, the effects of AIDS have already been felt in Africa. Research results which were released at the recent 13th International AIDS conference held in Durban, July 2000, indicated “that an HIV-positive employee will cost the corporate world five to eight times his annual salary over a seven-year term” (Eastern Province Herald, 12/7/2000). The research was based on actual costs at South African firms employing 10 000 people.

Donald Thea, a member of the research team, stated “Despite the potentially ruinous impact of HIV/AIDS on African business, few attempts have been made to quantify the effect of the disaster on companies’ productivity, and profitability… The aggregate impact of all costs is an increase in labour costs and a decline in labour productivity making it more expensive for a company to produce a given quantity of its product” (Eastern Province Herald, 12/07/00).

The head of the National HIV/AIDS programme has urged business to fight AIDS: In contrast, the president of South Africa stated publicly that he does not believe that HIV causes AIDS, or that a virus can cause a syndrome. (Eastern Province Herald, 09/10/00). This statement caused confusion among the South African people and it subsequently has become difficult for health counsellors to do preventative counselling among the people, especially the high risk groups.
COSATU president attacked the government’s stance on HIV/AIDS saying that South Africa needed to put the controversies behind it and develop strategies to obtain cheap drugs, either through hard negotiations with producers or through parallel importation of generics and compulsory licensing (Business Day online, 19/09/00). The president later withdrew from the AIDS debate (Sunday Times, 15/10/00).

Government response to HIV/AIDS has been minimal, and only two million Rand has been set aside for a poster campaign. In this study it is argued that this campaign is unlikely to have a far reaching effect.

2.2.3.2 The high levels of crime

Crime in South Africa receives much attention both nationally and internationally. According to the official South African Police Services web site (saps.co.za/8_12000/CrimeSityatio.htm, 14/10.00) regarding the crime situation at National, Provincial, Area and Station level, the sub-categories of robbery with aggravating circumstances, car-jackings, hijackings of trucks, bank robberies and robbery of cash in transit are the sub trends, receive the most publicity and usually have the harshest impact on national and international perceptions regarding crime in South Africa (Financial Mail, 22/09/00).
The early release of prisoners adds to the general perception that crime is one of the main causes of South Africa’s inability to attract foreign investment. Mtlombothi (Financial Mail, 22/09/00) added that “It is not clear whether losses of jobs and South Africa’s inability to create new ones are, as Cosatu argues, a result of Government’s liberal economic policies, or simply that investors are refusing to bite because of a crime-infested environment.”

Concerning the early release of prisoners, Mlhombothi (Financial Mail, 22/09/00) writes: “South Africa has, in a very short time, almost squandered the enormous international goodwill it gained from its miraculous transition, with a constitution that speaks to our hopes and not our fears...Sadly, the subject of crime is always likely to crop up whenever South Africa is mentioned. It has almost become the country’s trademark’’

The appointment of the successful businessman, Meyer Kahn, as Police Commissioner, did not result in the anticipated crime reduction. The Minister of Safety and Security, identifies “disunity along racial lines”, a “national command structure which is predominantly white” and “a lack of proper deployment of resources” as the reasons for police ineffectiveness. Other problems mentioned were police illiteracy, police corruption and a generally demoralised force (fm.co.za, 17/09/00).
Although the Minister of Safety and Security promised results within a year, the broad picture has not changed and even the appointment of Jackie Silebi, a proven “doer”, as Police Commissioner has proved fruitless. (fm.co.za, 17/09.00).

Mr Tshwete has attempted to create a 50:50 representivity in the command structures of the South African Police Services (SAPS) and this had led to the promotion of people into positions in which they have had no experience, which has not been conducive to improving police efficiency (fm.co.za, 17/09/00).

It is argued in this study that high unemployment levels and poverty lead to crime. The cycle can only be broken by high levels of economic growth which will require substantial foreign investment. It is further argued that the government seems set to continue with its economic and monetary policy, which is aimed at economic growth. However without an effective police force to control crime, it is unlikely to have the desired effect as quickly as is necessary.

### 2.2.3.3 The demographic environment

The growing black middle class is seen as one of the fastest growing car markets of the future in South Africa. The Employment Equity Act, while it empowers blacks and other racial and disabled groups, has a negative effect on the ability of white males, in particular, to find employment. As observed by the researcher, this has led to a large number of white, middle class families emigrating, taking with
them their managerial, financial and technical skills. This has been a further body blow to industry and the economy.

2.2.3.4 High unemployment levels

Unemployment in South Africa is very high: “Unemployment, using the international (‘narrow’) definition, currently stands at about 20%. However, we recognise that many of our people have been out of work for so long that they have stopped looking. Unemployment stands at around 29% if the broad definition is used, which includes these discouraged workers” (Employment Strategy Framework, 13/10/00). Although reliable statistics on unemployment are hard to obtain it appears the government has a severe unemployment problem. As the above reflects the national average, it can reasonably be expected that in the poorer provinces, such as the Eastern Cape, this figure is significantly higher.

Owing to the motor industry’s drive to become internationally competitive, employment levels have decreased. “Total motor industry employment by NAAMSA manufacturers has dropped from 39 152 in 1995, to 32 299 in 2000, despite fully built up exports kicking in” (The Star, 17/08/00). The union movement is very concerned but seemingly powerless to change the situation. Government macro-economic policy “is bleeding jobs through privatisation and tighter State spending” (Cosatu General Secretary, Financial Mail, 15/09/00). This
has led to increasing frustration for the trade unions over their lack of influence on government policy.

Government remains entrenched in its view that the only way to solve the unemployment problem is by high levels of growth in an investor-friendly environment. However, it is hampered by a lack of policy co-ordination: “No new co-ordinating centre has been established since the Reconstruction and Development Office was closed” claims COSATU, (Financial Mail, 15/09/00).

It is argued in this study that further stumbling blocks in the way of economic growth are a plummeting Rand, blundering politicians and outside influences, such as fuel price hikes and inflation.

2.2.3.5 Levels of education

In the 1990’s, schooling has been made compulsory until grade 9 and the number of enrolled students from previously disadvantaged groups has climbed dramatically.

However, a larger number of illiterate people and semi-literate, unskilled people form part of the country’s labour force, or are unemployed. Furthermore, since 1980 many jobs have become redundant, leaving workers both unemployed, or unemployable. As companies have adapted to economic change, large numbers of
middle management jobs have disappeared, and there are fewer jobs at the bottom of the occupation ladder for people with few, or no skills. “There is only one way to go in the circumstances: if you cannot find workers for jobs, you must retrain workers for jobs. Government and workers are aware of this and some important programmes have been initiated” (Polity.org.za/Employment Strategy framework, 13/10/00).

The writer has observed that within the motor industry, new employees are expected to have much higher levels of education than in the early 1990’s. When Volkswagen of South Africa (VWSA) began the Golf 4 export project to Europe in 1998 Grade 10 was the minimum requirement. Most successful applicants had a matriculation qualification (Grade 12) and even a few university graduates were employed to work on the assembly line. Similar criteria were applied to the 1 300 workers employed to replace those who lost their jobs during the strike at Volkswagen’s Uitenhage plant in February 2000.

The National Bargaining Forum Agreement between COSATU and the motor manufacturers stipulates that workers must be offered Adult Basic Education, which includes basic literacy and numeracy, as well as, and multi-skilling training, through which a worker can improve his/her grade. The end result is that more and more workers are being paid for their skills, and not only for the work they do.
According to the head of the Volkswagen Education and Training Institute, established to provide technical skills training for all VWSA employees (Eastern Province Herald, 04/04/00) “The biggest danger facing the South African economy as we enter the boom phase, is a shortage of skills.”

2.2.3.6 Income distribution

After Brazil, South Africa is the most unequal society in the world with 40% of the country’s total income benefiting just 10% of households. The white/black income ratio is approximately R7,50 to R1 (Financial Mail 01/09/00).

More than two-thirds of blacks live in poverty while less than one in ten whites do. The highest number of poor people live in KwaZulu-Natal with about 80% listed as such. Northern Province has a poverty rate of 78%; the Eastern Cape 74%. The Western Cape and Gauteng have poverty rates of 29% and 32%, respectively (Financial Mail, 14/10/00).

Concerning the unemployed, Legum of the SA New Economics Network (Financial Mail, 14/10/00) said the following to say: “Their dependency is now complete. They have the choice of begging, crime or various dysfunctional solutions like prostitution.”
It is argued in this study that notwithstanding the changes the Employment Equity Act will have on the demographics of the management structures of the motor industry in particular, and industry in general without creating employment, the only change likely to occur in income distribution is that there will be an increase in the number of middle class blacks. This is unlikely to change the lot of the average poverty stricken, unemployed citizen.

2.2.3.7 A unionised labour force

The labour force in South Africa remains highly unionised, as retrenchment of members continues in various industries, especially the mining industry. However union leadership has been weakened as a large number of trade unionists have been absorbed into the South African government and the unions have lost some of the militancy displayed during the eighties and early nineties. Workers no longer seem prepared to strike at “the drop of a hat” on the pretext that “an injury to one is an injury to all” without considering the long term implications of their actions. This is largely due to the fact that the political goals have been achieved.

According to Anstey, director of the labour relations and human resources unit of the University of Port Elizabeth, (Sunday Times, 07/02/00) the strike in February 2000 at VWSA’s Uitenhage plant was led by old workers and not by young hotheads. Anstey states that research “indicates that various conflicts are unending, because some struggle groups need conflict more than peace, that peace
brings a loss of identity, resources and influence. So they keep fighting and accuse those who crossed the struggle groups. Those left behind after the apartheid struggle ended saw little improvement in their lives and may even have been sidelined within the union. Eventually a series of key issues emerged over which they felt too much had already been sacrificed – at the moment of crisis they resorted to the tried and trusted weapon of militancy which had borne fruit in the past.”

The VWSA strike ended with 1300 union members loosing their jobs. These workers resigned from the National Union of Metal Workers of South Africa (NUMSA) and joined the Oil Chemical General and Allied Workers Union (OCGAWU) who challenged their dismissal. The case has gone for arbitration.

The outcome of this arbitration is likely to influence union and worker behaviour in the future. If OCGAWU is successful they may oust NUMSA at both Daimler Benz in East London and VWSA in Uitenhage where they are trying to get a foothold in the Eastern Cape Motor Industry. Should the motor firms be forced to recognise OCGAWU as the majority union, militancy may again become the way the union conducts its business as it strives to establish itself. This would influence productivity in a negative way at the firms involved.
2.3 CONCLUSION

By introducing of the MIDP and environmental protection legislation the government has taken the right steps to ensure a stable economy in which the motor industry and industry in general can grow although the new labour legislation is bound to counter productive from the point of view of the employers. However but much has to be done to correct the social ills of the country. Social stability in the country is unlikely without a reduction in crime, improved levels of education, a viable government AIDS policy, and a reduction in poverty (which requires that job creation become a major focal point).
CHAPTER 3
AN ASSESSMENT OF THE NATURE OF THE SOUTH AFRICAN
MOTOR MANUFACTURING ENVIRONMENT (PART TWO).

3.1 INTRODUCTION
The South African economy, largely isolated from the rest of the world was for years based mainly on mining and agriculture. Since 1994 it has become part of the international economy and the focus has swung from mining and agriculture to an industrial economy. In the manufacturing sector of the economy the motor industry plays a major role.

3.2 THE ECONOMIC ENVIRONMENT
In this chapter the economic and technical aspects of the South African motor industry’s environment is discussed.

3.2.1 Economic factors
In figure 3.1 the framework illustrates the economic and technical environmental factors of the PEST Analysis. In this first section 3.2.1 the economic factors are discussed, followed by the factors of the technical environment in section 3.2.2.
### Figure 3.1 An Analysis of Economic and Technological Environmental Influences

#### Economic Factors

- Macro economic environment
- The introduction of the South African economy to the global economy
- The competitive nature of the local car market
- The South African economy
- Business cycles
- Foreign exchange rates
- Interest rates

#### Technological factors

- Government and industry focus on technological effort
- Speed of technology transfer
- Information technology

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#### 3.2.1.1 Macro economic environment

The government is the single institution which most dominant influence on the environment and thus the macro economy. There are three groups of economic measures in particular which may have a bearing on the management of a firm (Financial Management, 1990:32)
• The general economic policy and the free market mechanisms for promoting economic development and growth such as those relating to different areas of production, with export promotion, regional development, small business development and the training of worker corps.

• Fiscal policy revolves around the tax receipt and expenditure. In South Africa a firm must pay about 50% of its income (excluding tax concessions) to the government and thus the tax policy of the country has an important influence on various financial decisions i.e. real investment. On the other hand the government sometimes offers significant tax concessions in order to reach specific objectives such as the promotion of training, export, industrial decentralisation and concessions on the depreciation of certain assets (such as machinery).

• Monetary policy is used by the government in an attempt to influence the money supply and credit facilities of the country depending on the state of the economic cycle and the general conditions in the money and capital markets. Since these actions influence the availability and cost of capital Management must constantly be aware of developments in these area as inflation can play havoc with an economy, slowing economic growth, driving up interest rates and causing the currency to fluctuate on international markets; all of which discourages investment.
The growth rates need also be considered as an expanding economy also an expanding economy gives firms the opportunity to grow. Interest rates directly affect the demand for a product, especially when the sale of the product requires the buyer to borrow money to complete the transaction.

3.2.1.2 The introduction of the South African to the global economy

In order to trade with the rest of the world, South Africa has to comply with the General Agreement on Trade and Tariffs (GATT) between the advanced industrial nations of the West. It is an agreement aimed at removing the barriers to free flow of goods, services and capital between nations (Hill 1997:7). Therefore the Government is obliged to phase out protectionism in the South African motor industry, if the motor industry is to compete on the Global Market.

As stated in chapter 2, the ANC government introduced the Motor Industry Development Plan (MIDP), which has resulted in the fundamental restructuring of the motor industry. The objective of the MIDP is to boost the competitiveness and productivity of the local industry to meet international levels and in so doing ensure the industry’s long term survival.

Manufacturers thus have two distinct markets: the local market and the export market. The researcher has observed that this is especially true for manufacturers
who concentrate mainly on exporting fully built up units to overseas markets, namely, BMW SA, Daimler Chrysler and VWSA.

Other manufacturers, namely Delta, Ford Motor Company of Southern Africa and Toyota S.A., export units to Africa in small quantities but concentrate mainly on the export of components to manufacturers overseas.

It is argued in this study that whether local manufacturers concentrate on exporting components or fully built up units, they have to export to survive, as the small local market and weak economy would be unable to sustain them in the face of competition from cheap imports. This has resulted in a reduction in the number of platforms they build and in increased volume to take advantage of economies of scale. A platform consists of the floor-pan, various engine and transmission combinations and the suspension of a motor vehicle. Simply by changing the body panels, a number of different models can be built on one platform. An example of this is the Audi A3, the A4 Golf and the Jetta are built on the same platform.

3.2.1.3 The competitive nature of the local market.

The local passenger car market, was described by Maergner (1999) at the VWSA year-end Supplier Awards as being “about the most challenging in the world. Where else will you find a market of around 200 000 vehicles being contested by seven local manufacturers and 16 manufacturers of imported vehicles?”
He added that “To make things even more challenging, more than 600 model derivatives were being offered for sale on this small market at our last count.” The local motor vehicle market has continued to shrink since the 80s and in 1999, 100 000 units less were sold than in 1996 (Eastern Province Herald, 13/01/00). Although vehicle sales are showing an overall upward trend in the first nine months of 2000, the competition for sales remains very tight and is expected to continue for the foreseeable future.

3.2.1.4 The South African economy

The South African economy has shown very little growth and in 2000 the predicted economic growth was downgraded from 3,5 percent to 3 percent by the Investment Services Group, Citadel (Eastern Province Herald, 23/08/00). This flat economy and the falling value of the rand is not conducive to business confidence and it is unlikely that vehicle sales will increase dramatically in the short term although steady, since only slow growth is expected.

3.2.1.5 Business cycles

The South African economy began to pick up during the latter part of 1999 and at the beginning of, 2000, the International Monetary Fund’s World Economic Outlook predicted a growth rate of 3,5 percent and based this conclusion on resurgent financial market confidence. However, in June of the same year; the
South African Chamber of Business (SACOB) reported that the main business confidence index had risen. This was due to a range of economic factors, as well as the peaceful outcome to Zimbabwe’s elections (Eastern Province Herald, 12/07/00).

The Zimbabwean crisis and the inability, or unwillingness of politicians to distance themselves from Mr. Mugabe and his policies, together with the rising oil prices, have taken their toll on the South African economy, and the growth rate for 2000 was 2.5 percent. Although this figure was significantly lower than the predicted 3.5%, it does show steady growth which analyst Citadel Investment Services predict to be 3.5 percent growth in 2001. This remains to be seen, as low business confidence does not bode well for a strong cyclical business upturn.

### 3.2.1.6 Foreign exchange rates

The South African Rand against other major currencies has continued to fall since former president Botha’s “Rubicon” speech during the political turmoil in the late eighties. This decline has continued after the ANC came in to power in 1994.

Although the decline has benefitted export, it has had a negative effect on imports. As far as the motor industry is concerned the managing director of Delta said: “A weaker Rand, even though good news for exports, was bad news for any company having to import components” (Eastern Province Herald, 15/09/00).
The South African motor manufacturer mainly sources components from Europe; Germany in particular, or from Japan. As a result, firms importing components from Germany have, at various times, held an advantage over firms importing components from Japan, depending on a favourable Rand/Euro versus the Rand/Yen exchange rate, or vice versa. This has allowed the firm benefiting from the more favourable exchange rate to delay price increases, or to take bigger profits. Toyota had to change its local content policy to increase local content to counter exchange rates which affected its competitive position with German sourced rivals, who have benefited from the weakness of the Euro. This is to the benefit of the component industry as South Africa becomes the hub of development for Toyota vehicle for the African continent (News Today, 12/07/00)

3.2.1.7 Interest rates

After several interest rate cuts in 1999, interest rates are likely to remain steady in the near future. Mr Mboweni, President of the Reserve Bank, is committed to a targeted inflation rate, which is under pressure because of rising fuel costs. At the same time, if the Reserve Bank revises the Repo rate, it will slow the sluggish economy down even further. The Repo rate is the interest rate at which the Reserve Bank lends money to the commercial banks.

SACOB said in July that they “did not expect a hike this year in interest rates, which have fallen steadily since 1998” (Eastern Province Herald, 12/07/00)
3.3 THE TECHNOLOGICAL ENVIRONMENT

The researcher observed that the technology used by the motor industry has kept abreast with changes internationally, given that South Africa’s small motor industry produces relatively few motor vehicles, which are designed by international parent companies. The following factors are discussed in this chapter:

- Speed of technology transfer
- Government and industry focus on technological effort
- Information technology (IT)

3.3.1 Speed of technology transfer

Changes in technology and technological trends have an influence on strategies. They can present an opportunity to firms which are in the position to capitalise. New technology can, however, put a firm out of business if the firm is not in a position to take advantage of it.

Actual new vehicle technology is transferred immediately a new model is built in South Africa. If new technology is required to assemble the vehicle, or the installation of new technology is cost effective and is not prohibitively expensive, it is acquired at the start of production of the vehicle by the manufacturer concerned.
The South African motor manufacturers are, by and large, “followers” in the technological environment of the motor industry. The motor vehicles they produce are designed internationally and very little local development of motor vehicles takes place. The exception to the rule is Toyota’s “Condor”, which has undergone considerable local development in order to render it suitable for African conditions (CARtoday.com 27/10/00).

This study argues that South African suppliers to the motor industry are in a similar position, in that the suppliers’ products have to conform to the design standards of international manufacturers. The production process used to manufacture these parts is sometimes modified to suit the manufacturing technology available in South Africa or to be in line with the volume of components required by the South African motor industry, which is generally considerably less than is required by the giant plants overseas.

3.3.2 Government and Industry Focus on Technological Effort

The Department of Trade and Industry launched an initiative to stimulate industrial innovation, known as the Partnership in Industrial Innovation (PII), which is a technological promotion program (CARtoday 10/11/99). The motor industry as a whole may become a beneficiary of this government initiative. The initiative is designed to:

- Promote technological innovation in industry.
• Establish partnerships between government and the private sector for the promotion of technological innovation

• Enable the Government and the private sector to share in the risks and returns of industrial research and development.

• Become self sustainable in the medium term.

3.3.3 **Information technology (IT)**

Although Audi of South Africa have been using e-business transactions to sell vehicles for a long time, and have even been using the internet to finance vehicles, in general, South African motor manufacturers are some way behind their international competition in the area of IT (VWSA internal memo, 04/09/00).

In August, 2000, General Motors (GM) announced a billion-dollar e-commerce strategy. GM predicted that by 2003 there would be 500 million internet users, and that the purchase of more than eight million vehicles valued at more than $200 billion would be influenced by web browsing. The new e-GM business group were to transform GM’s traditional automotive operations into a global e-business enterprise *(CARtoday, 13/06/00).*

Brand Pretorius of McCarthy Motor Holdings expressed the following views: “With the current trend towards increased use of information technology, customers will be better informed in terms of choice,
quality, value and service. The use of information technology to enhance the relationship between businesses and their customers can play a valuable role in increasing the productivity and efficiency of a firm. With the advances made by information technology every day, using the internet to glean information and conduct transactions will become a way of life, which is why the motor industry needs to adapt quickly to this (Eastern Province Herald, 03/12/00).

3.4 CONCLUSION

South Africans, have been repeatedly reassured that all has been put in place for the country’s economy to take off, economic growth continues to fail to live up to expectations. Until such time as appreciable and steady economic growth in South Africa is achieved, South Africa will remain a follower in technical fields as there will not be funds to finance technological developments of the scale required to make South Africa a leader in technology.
CHAPTER 4

IDENTIFYING THE KEY FORCES WITHIN THE
COMPETITIVE ENVIRONMENT

4.1 INTRODUCTION

The South African motor industry is extremely competitive. Analysing this environment requires more than just the use of the PEST analysis if a thorough understanding of the environment is necessary.

Porter’s Five Forces Model approaches an analysis of the environment from a different perspective to that of the PEST analysis and thus provides additional information in the quest to understand the environment a firm operates in.

4.2 PORTER’S FIVE FORCES MODEL

The Five Forces Model is a framework developed by Michael Porter of the Harvard School of Business Administration, and is an aid to managers who analyse the business environment in which they find their firms. Porter’s model concentrates on five forces which together create the competitive environment of an industry. They are as follows:

- The risk of new entry by potential competitors
The degree of rivalry among established companies within an industry.

The bargaining power of buyers

The bargaining power of suppliers

The threat of substitute products (Hill and Jones, 1997: 72).

4.2.1 **Implications of the Five Forces**

In an analysis of an industry, each of the five forces must be thoroughly studied, their strengths, and what their collective force would be on a specific market, assessed.

Generally the stronger the competitive forces, the less profitable a market is. The ideal market is one where the prospect of long term profitability is good, entry barriers are high, both the suppliers and the buyers have relatively weak bargaining power, and there are no significant threats from substitutes. Even when some competitive forces are strong, a firm with the correct market position and strategy can find an industry attractive.

When it is necessary for a firm to cope successfully with competitive forces, strategy should:

- Insulate the firm from competitive forces as much as possible;
- Influence the industry’s rules in favour of the firm as much as possible; and
• Provide a strong, secure position of advantage from which to operate within the competitive industry.

4.3 ANALYSIS OF THE INFLUENCE OF THE FIVE FORCES ON THE SOUTH AFRICAN MOTOR INDUSTRY

4.3.1 The influence of the MIDP

The MIDP was designed to make the South African motor industry internationally competitive by opening the country’s markets to international competition. The MIDP has therefore had a great effect on the five forces acting on the South African motor industry.

The Board of Tariffs and Trade (Report no. 4045, entitled: Midterm Review and Extension of the Motor industry Development Programme for Light motor Vehicles) says the following: “It should be noted that imports constitute a much larger part of vehicle sales than previously. This trend is in line with the intention to subject the motor industry to increased competitive pressure in order to improve its competitiveness”. The government has therefore actively sought investment in the motor industry by international companies, many of whom have responded positively.

4.3.2 Risk of new entry by potential competition

It has been observed by the researcher that a number of the manufacturers who left South Africa during the apartheid era have returned, but now only market
vehicles, rather than assemble them locally. These manufacturers include Peugeot, Renault and Alfa Romeo, all of whom assembled vehicles in South Africa previously.

Another European marque which has returned to South Africa is Volvo, which initially marketed only imported, fully built-up units in South Africa but later assembled cars at the Wheels of Africa plant in Botswana where Volvos were built alongside Hyundai vehicles until the plant’s closure (January 2000). Chrysler are also considering returning as a manufacturer to South Africa at the start of their next model cycle, possibly to assemble the Jeep Cherokee for the African market.

Daewoo’s plans to assemble vehicles in South Africa received a major setback with the collapse of several Asian currencies which plunged Daewoo into a financial crisis. A number of the large, international motor companies have negotiated with the Korean conglomerate to buy the motor vehicle division, with Volkswagen considering buying a Daewoo pickup assembly plant in England. Ford Motor Company were the last company to withdraw from negotiations with Daewoo, soon after which Daewoo was declared bankrupt. No further investment in South Africa by Daewoo is likely in the near future (CARToday.com 26/09/00).

Hyundai, after the collapse of Wheel of Africa, established Hyundai Automotive South Africa that markets imported vehicles through the Imperial Group’s
Associated Motor Holdings (AMH). AMH also hold the franchise rights for Kia Motors South Africa who are set to consolidate with Hyundai Automotive South Africa now that their parent companies have merged in Korea (CARtoday.com, 15/11/00).

The researcher concluded that there is a growing number of new brands in South Africa. Some manufacturers of these brands have gained access to assembly facilities in South Africa as a result of mergers with other motor companies. Chrysler gained access to the Mercedes Benz plant in East London when merging with Daimler Benz to form Daimler Chrysler. Volvos are to be assembled at the Ford Motor Company of Southern Africa’s plant in Pretoria. Renults will also again be assembled in South Africa at Nissan’s Rosslyn plant, as Renault now controls Nissan after becoming the majority shareholder of the Nissan company.

Fiat, which already has a presence in South Africa in that their Uno has been assembled at Nissan’s Rosslyn Plant, are returning to South Africa to assemble the Palio range (probably in Port Elizabeth). “Fiat auto SA said yesterday it would invest R350 million this year to enable the company to assemble its new Palio range in SA, doubling the local production of Fiat cars” (Business Day, 10/02/00). Fiat Auto SA intends exporting from South Africa as well and will become part of the worldwide component exchange network between Fiat plants.
Those manufacturers who have entered the market by way of a merger, have ready access to dealer networks. Manufacturers marketing fully built-up vehicles have either to develop dealer networks themselves, which require a substantial amount of capital, or to negotiate an agreement with a group such as Imperial to market their product and train their dealer staff as Imperial does for Hyundai and Kia (CARtoday.com, 15/11/00).

The MIDP, has created easy access to the South African market for the international motor industry, thus resulting in a loss of market share to the established local motor manufacturers as volumes of imported vehicles have grown. However the MIDP has made up for lost sales locally by providing the South African motor industry with access to the international markets.

4.3.2.1 **Brand loyalty**

Most new motor vehicles bought in South Africa are bought by fleet owners as “company cars” or as part of a “car allowance” plan. Most of these buyers tend to buy the best vehicles their allowances will cover.

As reported in News Today (25/01/00), an VWSA internal e-mail daily news brief, the Plok Company released research, which shows that “Generation X” new car buyers display below average brand loyalty when returning to make a purchase. Generation X are the 20 to 35 year-olds around the world. The article continues to
say that Generation X new vehicle buyers thrive in environments where they have a choice.

4.3.3 The Degree of Rivalry Among Established Companies Within an Industry

The Rivalry within the South Africa motor industry has always been intense. It has been increasingly so since the MIDP opened up the local market. Toyota SA, the only listed motor company in South Africa, has led the market for the past two decades although VWSA, usually second, led the passenger car market in 1999. Volkswagen have been unable to capitalise on their recent success in the passenger car market as they do not produce a light delivery vehicle of the Toyota Hilux class. Most manufactures have resorted to “marketing programs” of one sort or another in recent years as vehicle sales dropped from 368 359 units (including light commercial vehicles) in 1996 reaching a low of 251 000 units in 1999.

Examples of these marketing programs which are listed below, have been taken from VWSA’s Competitor Product Information Volume 13, 30/04/98:

BMW

3Series:

- Range priced from R 122 400 to R 259 800.
- For a limited period buy BMW at 10% interest
- Offer only valid on selected models.
**RENAULT**

*Megane Classic 1.56 RT:*

- Priced at R 95 733
- No deposit, interest 0.75% below prime, payments of R 2 739 over 48 months
- Full maintenance including tyres, a four year AA membership, 4 year licence and registration.

**HYUNDAI**

*Accent 1.5 CSi and 1.5 RSI:*

- 1.5 CSi priced at R 59 450 and 1.5 RSi priced at R 66 950
- Choice of 3 options were available until the end of April 1998
  1. Factory fitted A/C
  2. Alloy wheels, central locking and rear spoiler
  3. Three year 100 000 km Service Plan that covers all servicing and parts

**TOYOTA**

*a) Venture:*

- Range priced from R 81 172 – R 100 942.
- R12 000 value pack where customer gets R 12 000 off purchase, price or package of bull bar, alloys, radio tape, low insurance payments, or maintenance options.
- Vehicle can be financed with what is left.

*b) Hilux:*
• Range priced from R 67 214 – R 173 141

• Choose one option from a variety of finance options:
  - No instalments for four months.
  - No deposit.
  - One year insurance.
  - Three year extended warranty.
  - Tracker security valid for three years.
  - Instalment of R 1 600 per month with 10% deposit and payments over 54 months.

New entrants to the South African market have also had to become involved in these marketing programs which can be considered a form of price war.

4.3.4 Bargaining power of buyers

There are a limited number of large fleet owners in South Africa, in addition to which most “Rent-a-Car” companies, such as Avis and Imperial have preferential agreements with one or another of the motor manufacturers, such as the agreement Avis has with VWSA. This precludes any real bargaining power that fleet owners may have. For example, Avis buys directly from VWSA and has a “buy back” agreement with VWSA, ensuring that VWSA purchases Avis’s used vehicles which are then sold as used cars by the VWSA Dealer Network. Other rent-a-car companies, who also buy Volkswagen products, have to purchase these units from
a dealer at discounted prices (Private discussion with Mr M Bosman of VWSA, 15/11/00)

The government has traditionally been one of the bigger ‘special market’ clients, purchase vehicles by means of a tender system, but seem to be spending less on replacement vehicles in recent times. So much so that in certain areas services such as that the SAPS are hard pressed to perform their duties efficiently due to a lack of transport and even fuel. The Eastern Cape, and Port Elizabeth, in particular are areas where this is a problem (Private discussion with Donovan Pagel a SAPS reservist, June 2000).

Before the recent resurgence of the new vehicle market some manufacturers sanctioned discounting vehicles to the public by their dealers. The ‘down side’ of discounting during the lean times is that the value of a vehicle discounted to the public when new is reflected in its used car value.

Brand Pretorius, CEO of McCarthy Motor Holdings (MMH), told the Car Conference, South Africa’s first online automotive conference at (CARtoday.com 23/11/99): “Every fundamental aspect of the motor business in South Africa is changing as we enter the 21st century”. As MIDP started taking effect, the number of model derivatives available on the South African market have increased from 190 to more than 600. As a result, “Competition has intensified – and will
continue to do so, to the benefit of motorists and to those in the industry who seize on the new opportunities being created.” Pretorius cited Internet cars sales as an example. MMH’s McCarthy Call–A–Car telephone and Internet service is currently selling 400 cars a month.

Also, as in all aspects of South African life, the demographics in the market place are changing. Pretorius states that: “While these customers which may be buying new or recent model used cars for the first time, they must be treated with the utmost respect because they are very discerning and also tend to regard poor service as being discriminatory…Dealers - and smaller dealer groups - will merge and there will be fewer outlets with smaller showrooms serving bigger areas. Many particularly in rural districts - will handle multiple franchises” at (CARtoday.com 23/11/99).

Pretorius challenged the original equipment manufacturers (OEM’s) “to eradicate the unfair one-sided franchise agreements that restrict us from conducting business in the spirit of true partnership.” This is in line with recent policy statements from the National Auto Dealers Association (NADA). He added “We must ensure that dealers are no longer the main victims of the fight between vehicle manufactures for market share and their own financial survival”.

4.3.5 The bargaining power of suppliers
One of the major changes which has taken place in the industry is the change in the supplier/manufacturer relationship which is discussed in the next section.

4.3.5.1 The current supplier/manufacture relationship

The motor industry internationally is undergoing fundamental change which includes the way in which it does business with its suppliers. Some of the ethics of the past are gone and manufacturers play one supplier against another in what has been termed “horse trading”.

The merger of some multinationals is taking place to enable these companies to take advantage of economies of scale by developing and using common platforms and drive trains. According to Vermeulen (Eastern Province Herald, 25/06/00) there was a relentless drive to bring down the cost of manufacturing and supply by rationalising, consolidating and creating economies of scale.

A recent survey by Price Watergate Coopers found that over $7bn worth of motor industry mergers and acquisitions took place in 1999. The survey predicted that over the medium to long term only 30 of the existing 600 tier-one component suppliers, globally would survive the shake-up. Motor companies merging bring along their suppliers and in time the less efficient of these suppliers will fall by the way-side. First tier suppliers are required to become responsible for the least partial development of the products they supply to the motor manufacturers. In
some cases they are required to deliver the part directly to the assembly line and fit it to the vehicle.”

According to Day (News24, 10/08/00) the automotive industry observers have acknowledged that growing auto manufacturer’s demands are creating a new supplier hierarchy – consisting of half tier, such as tier 0,5 system integrators and tier 1,5 technology specialists. Day notes that this shift, that will ultimately strengthen the industry, forcing suppliers to re-evaluate their positions and to find their rightful places in the supply chain. “Suppliers need to pick the tier that fills their situation and strategy and also brings the most value to their customers…if they don’t make the decision and develop a strategy to support it someone else will make the decision for them”(News24, 10/08/00).

Regarding South Africa, it was found that some of the established suppliers to the motor industry have had to negotiate agreements with international suppliers in order to retain their local market, or gain access to new technology to create doorways to the global market. In some cases the OEMs have invited international suppliers to set up a local operation when they were dissatisfied with local suppliers, or the special skills required.

Venture Industries, a US based supplier of components to the motor industry is an example of a company which has been drawn to South Africa. The company has
made a number of large investments in South Africa to establish itself strategically in the industry. It bought out Mega Hitec, Delta Motor Corporation’s Industrial Mouldings and a majority share in Auto Industrial Centre (AIC) while simultaneously securing the Otto International interest in its SA partnership, Venture Otto SA, which was renamed Venture SA. Venture, who manufacture moulded plastic parts such as bumpers, will invest a further R100m to upgrade and extend its factory in East London. This sort of commitment to the South African motor industry displays faith in the growth of the component industry in South Africa and particularly in the growth in the export market. Walker predicts the rapid expansion of the South African facility over the next few years, as the South African operation becomes integrated into Venture’s international supply base. He further stated that “The facility will have a large export component to it through increased volume. In three-and-a-half years, 40% of our turnover, or about R200m, will be export related” (Business Day, 13/09/00).

4.3.5.2 Bargaining with suppliers

It was noted that bargaining between suppliers and manufacturers takes place, but it is in a spirit of partnership and happens in a more constructive way than before, when manufacturers due to the political situation were forced to use only a handful of suppliers who monopolised the supplier market. Manufacturers reserve the right to see a complete breakdown of the suppliers cost and profit margins. Negotiation takes place around this information, quality standards and delivery conditions.
4.3.6 **The threat of substitute products.**

Notwithstanding the rise in exports and a moderate resurgence of the local market, most South African Motor manufacturers have an over capacity and could produce more vehicles if they were required to do so. This, together with the greater product variation available on the market today, enables dealers to maintain larger stock levels and a greater variety of products than before. Dealers are better able to supply discerning customers with what they want when they want it.

However it is not unusual for a customer to purchase another manufacturer’s product if what he wants is not available when he wants it. According to Derek Bloomfield, financial director of AMH, “With vehicles becoming so similar in many design and mechanical aspects, we firmly believe that the difference that will ensure future success depends on quality, maintenance and affordability” ([CARtoday.com](http://www.CARtoday.com), 15/11/00).

There is also a trend for South African buyers to ‘buy down’. Customers, buying cheaper Korean cars rather than German or Japanese models. John Sadler, Chief of Engineering of Delta Motor Corporation, says that with the buying-down trend continuing in South Africa, it has been important to meet or exceed the
expectations of customers who might traditionally have considered bigger or more expensive models (CARtoday.com, 09/09/99).

Substitute products are indeed a threat to manufacturers competing for market share within South Africa. Manufactures who give their export contracts preference are especially at risk. They will lose sales to their competitors as some customers will not, or cannot wait for the vehicle of their choice.

4.4 CONCLUSION

The Porter’s Five Force Model is certainly relevant to the situation in South African motor industry and when applied to this industry the following points are apparent:

- Rivalry amongst the established manufacturers is as intense as it has ever been and probably more so as the market has shrunk and is now recovering slowly. In addition this small market has a growing number of imported vehicles competing for a share of the market.

- The new win-win relationships between the supplier industry and the motor manufacturers must be nurtured. In addition, small local manufacturers must forge links with their international counterparts in order to stay abreast with the new technology and for their long-term survival.
• It is also essential for South African motor manufacturers’ management to understand the South African market, to ensure that it produces and markets suitable models for South Africa. Management must also use the flexibility made available to them by the MIDP to ensure that they import suitable and sought after models to supplement their locally produced model range.
CHAPTER 5

OPPORTUNITIES AND THREATS TO THE SOUTH AFRICAN
MOTOR VEHICLE MANUFACTURERS (A SCENARIO)

5.1 INTRODUCTION

All industry is subject to threats and opportunities. The South African motor
manufacturers are on the brink of international success, but to achieve this success
they will have to find ways of coping with the social problems of South African
society. This chapter discusses the Motor Industries Development Plan, the
Automotive Industries Export Council and government stability.

5.2 POLITICAL/LEGAL OPPORTUNITIES AND THREATS

The Department of Trade and Industry has actively created a number of
opportunities for the South African motor industry while at the same time limiting
threats to the industry.

5.2.1 The Motor Industry Development Plan (MIDP)

The MIDP has presented the South African motor industry with a blueprint for
survival and has opened the door to the international markets. The MIDP has thus
far been a success. The London Financial Times, in an authoritative view of the
international auto business, says that it is more competitive now than it has ever
been but can still not compete with the huge European plants. Commenting on the
MIDP, the London Financial Times says that “there is little doubt about the
achievements so far.” The article goes on to say: “Indeed the system is so
successful that it has attracted the unwelcome attention of the World Trade
Organisation” (CARtoday.com, 23/06/00).

South Africa’s motor vehicle market began to recover in 1999. “But domestic
sales in such a modest market are no longer the only issue for the South African
motor vehicle manufacturers,” the London Financial Times points out. “The
question is whether each factory can produce a sufficient quantity of cars, at
competitive prices and of good quality, to satisfy both the international and the
local markets and so benefit from economies of scale” (CARtoday.com, 23/06/00).

The MIDP’s Midterm Review added further incentives for the motor industry.
The Department of Trade and Industries confirmed that the MIDP is set to
continue till 2007. Notwithstanding the success of the MIDP so far, the South
Africa motor vehicle industry has only a finite period in which to draw level with
the international motor industry if it wishes to become internationally competitive
and secure the industry’s future. In addition there is always the threat of South
Africa becoming a ‘dumping ground’. In a presentation to the online Car
Conference (CARtoday.com 06/12/1999), Willie van Wyk, Managing Director of
Delta Motor Corporation, warned that “the South African market is not large enough to support viable local manufacture against uncontrolled importation. The risk is that the tangible protective measures, such as import duty, be reduced too far, or that the policing mechanisms fail – leaving South Africa open to floods of used vehicles from China and Russia… In both these cases, the established manufacturing industry as we know it would be under threat.” Van Wyk believes the MIDP will benefit the industry in the long term provided it retains sufficient protective measures to keep South Africa from becoming a dumping ground.

### 5.2.1.1 The Automotive Industry Export Council (AIEC)

The AIEC was created by the Department of Trade and Industries, with its brief to examine the South African motor industry’s entire supply chain logistics. It was to examine the possibility of pooling logistical resources, such as offshore warehousing, to focus on generic non-competitive projects and issues of concern to the OEM’s and the component manufacturers.

The creation of this body is further proof of the importance government in general and the Department of Trade and Industries in particular, attaches to the success of the MIDP and the motor industry’s export initiative.

### 5.2.2 Government stability
There is no discernible evidence that the ANC government will not remain in power for a long time to come and that it’s macro economic policies will no remain stable for the foreseeable future. Should the ANC be in the same position that President Robert Mugabe’s Zanu PF (Zimbabwe) found itself in recently, there are many observers who believe that the ANC would resort to tactics similar to those used by President Mugabe to remain in power. Such action would have a negative effect on the whole of the South African economy and industry.

5.3 ECONOMIC FACTORS

The South African economy is responding very slowly to the economic initiatives the government has put in place. In this study the following economic factors are discussed: business cycles, unemployment, the unstable South African currency and the future potential of the local market.

5.3.1 Business Cycles

Although a buoyant local economy is a definite advantage to the South African motor vehicle industry, it is intended that the motor industry becomes more and more reliant on economies elsewhere in the world as it becomes integrated with the international motor industry.

The London Financial Times has the following to say about the South African situation: “The danger is that South Africa is being seen as a ‘swing producer’ by
the multinationals – a place with spare capacity that can meet surges in demand when necessary while lying idle when the market is slack.” The London Financial Times cites the Volkswagen Golf 4 export order to Europe as an example of this: “Volkswagen of South Africa, after all, was chosen in 1998 to make Golf 4 because capacity elsewhere was fully utilised” (CARtoday.com 23/06/00).

These surges in demand are certainly a danger to the South African motor industry. However, the Golf 4 product remains in production in South Africa, with a large proportion of these vehicles being exported to Europe. VWSA are set to continue exporting cars to Europe in the foreseeable future, possibly because Africa is seen as an important future market and Volkswagen AG wish to entrench themselves in Africa.

5.3.2 Unemployment

In this study it is argued that unemployment is one of South Africa’s greatest economic problems and that it shows no sign of abating. One of the reasons for the inability of South Africa’s economy to generate employment opportunities is the cost of labour, which has risen faster than the cost of capital, with the result that manufacturers are turning to capital intensive programs rather than labour intensive programs.
Unemployment affects a country’s competitiveness generally, thus the effect on industry is negative. The London Financial Times reports as follows about the problem of competitiveness (CARtoday.com 23/06/00).

“Though the latest World Competitiveness Year book in April shows South Africa moving up four places in the competitive rankings to 38 out of 47 countries surveyed, it shows South Africa to be held back by a combination of high unemployment, a poor education system, a ‘brain drain’ and high levels of violence” (CARtoday.com 23/06/00).

5.3.3 The unstable Rand

In the year 2000 the Rand continues to fall against international currencies and was trading at R7.66 to the US dollar and R10.72 to the pound Sterling at lunch time on 26 November 2000. When compared with these two currencies 16 months earlier, by 23 July 2000, the rand had fallen R0.73 and R1.33 against the US dollar and the pound, respectively. As discussed in section 3.2.1.6 this has adversely effected the price of imported components used to assemble vehicles in South Africa.

5.3.4 The Future potential of the local market

The South African market has the potential to account for 500 000 unit sales annually in less than a decade according to Pretorius. This additional industry potential is an added reason for the multi-national interest in South Africa.
5.4 SOCIO-CULTURAL FACTORS

Crime, the AIDS pandemic, strikes and generally low levels of education are threats to the South African motor vehicle industry as will be discussed in this chapter of the dissertation.

5.4.1 Levels of education

The South African school education system is still suffering from the effects of the apartheid education system and will continue to do so for many years to come. In this study it is argued that most schools in the previously disadvantaged communities simply cannot match the education provided by the former model C schools, or the private schools. Although these schools are now open to all races, they are only really available to those members of the community who can afford it.

The Employment Equity Bill is aimed at benefiting those disadvantaged during the apartheid era. Unfortunately these people are also the people who are products of a very poor education system. Although tertiary education has now become more readily available to those who can afford it, the school education system has
shown very little improvement since the ANC came in to power, if recent poor matric pass rates are used as an indicator.

On the positive side, the improvement in motor vehicle sales and lucrative export contracts have returned most motor companies to a profit situation which should lead to increased training and more spending on educating the communities in which the motor companies operate.

5.4.2 The AIDS pandemic

The HIV/AIDS pandemic has the potential to wipe out all the motor industries hard-won productivity gains and is therefore a huge threat to the industry. It will cost companies large sums of money in lost productivity and increases in remuneration packages.

Speaking at the fifth annual conference on retirement funds, Mr Deane Moore, Metropolitan Life Insurance company’s benefits actuary stated “without companies being aware of it the human immuno-deficiency virus, or HIV as it is known, is insidiously attacking their most valuable asset – their human resources! By the year 2005 HIV could have eroded the productive capacity of humans to such an extent that companies find themselves battling to survive, let alone to thrive.” (Eastern Province Herald, 29/01/99)
Moore presented a breakdown of the cost of HIV/AIDS as follows: A loss of 45% in AIDS related costs would be a loss of turnover and profit. Metropolitan Life predicted that recruitment and training, sick and compassionate leave and legal costs would each account for a 10% increase in costs. Meetings between management and labour would result in an additional 20% burden and the final 5% would be due to a drop in morale and lower productivity. AIDS would make it increasingly difficult for companies based in South Africa to sustain any competitive edge they currently enjoy (Eastern Province Herald, 29/01/99).

5.4.3 Crime

The high level of crime, especially violent crime, has a serious impact on preparedness to invest in South Africa. Until the SAPS is a unified, motivated force with a sufficient budget to allow them the manpower, training, vehicles and equipment it requires, this is unlikely to change.

According to Moore (Eastern Province Herald, 29/01/99) certain of the expected effects of HIV/AIDS on the South African society are less easily quantifiable but equally devastating, especially as the consequences are not only financial e.g. the psychological impact on South African society of the extremely high death rates due to Aids… It is quite possible that a culture of death will develop where very little value is attached to human life. This would make it even more difficult for
South Africa to combat issues such as the incidence of violent crime and physical abuse which this country is experiencing (Eastern Province Herald, 29/01/99).

5.4.4 Afro pessimism

In a speech delivered at the Reserves Bank’s Regional Monetary Policy Forum, Gill Marcus, deputy governor of the Reserve Bank (2000:p#) stated that as South Africans, we are our own worst critics, and are inadvertently chasing away much-needed foreign investment, and that we need to be more positive. She also pointed out that South Africa’s macro-economic fundamentals were in excellent shape, and the country even met the strict economic criteria for membership to Euroland, but that “our confidence in ourselves was the problem.”

This suggests that the perceptions of foreigners towards this country are to a large extent being negatively influenced by the image that South African citizens present abroad. This phenomenon has become known as “Afro Pessimism.”

This negative form of publicity by South Africans is damaging the country’s image, and is therefore a threat to all industry especially those that are exporting. Furthermore, no foreigner will invest money in a country whose own citizens are pessimistic about it.
Speaking at the Auto Africa Car Conference’s biggest gathering of decision makers in the motor industry in 2000, the Chairman Brand Pretorius urged local business to combat ‘Afro Pessimism,’ expressing support for President Thabo Mbeki’s plea to the business community to fight it (Wheels24.com, 30/10/00).

5.4.5 **Strikes**

All three motor vehicles manufacturing plants in the Eastern Cape, (Daimler Chrysler, Delta and VWSA) each experienced a strike in 2000, the strike at VWSA being the most serious and resulted in 1300 employees being dismissed. These strikes do much to negatively influence the perception of potential investors overseas.

5.5 **CONCLUSION**

The new opportunities available to the motor industry, have been facilitated by the creation of the MIDP. The threats to the motor industry are mainly the results of the social problems in South Africa such as the high crime rate which government seems either unable or unwilling to address. Unless it solves these social problems are solved industry in general may not achieve the success it is capable of.
CHAPTER 6
THE MOTOR INDUSTRY CLUSTER (MIC)

INVESTIGATED EMPIRICALLY

6.1 INTRODUCTION

The Motor Industry Cluster in the Eastern Cape consists of two directors as well as representatives of all the major motor vehicles manufacturers in the Eastern Cape. It also includes members of the supplier industry such as Shatterprufe and Dorbyl.

6.2 METHOD USED

The two directors of the Motor Industry Cluster (MIC) and members from Delta Motor Corporation, Ford Motor Company of Southern Africa, VWSA, Dorbyl and Shatterprufe were interviewed using schedule 1 (Annexure 1) for the directors and schedule 2 (Annexure 2) for the other members. As very little was known about the MIC, the Pest Analysis was used as a basis to formulate the questions in the schedules which were unstructured. The interviewees were encouraged to speak freely about the MIC so that the researcher could gather as much information as
possible about the MIC, the nature of the work performed and its objectives as possible.

The two directors of the Motor Industry Cluster were interviewed. The interview with Director No1 involved the origin and work of the MIC. Director No2 was interviewed about the future projects of the cluster.

Also interviewed were the following members of the MIC recommended to the researcher:

- The Logistics Manager of Delta Motor Corporation
- The Logistics Manager of Ford Motor Company of Southern Africa
- The Volkswagen Transport Consultant
- The Logistics Manager of Dorbyl
- The Logistics Manager of Shatterprufe

The representative from Daimler Chrysler was out of reach and because the other members of the MIC held the same general views of the cluster, it was deemed unnecessary to travel to East London for an interview. The universe of the study was therefore eight people and the sample size seven.

6.3 DESCRIPTION OF THE MOTOR INDUSTRY CLUSTER

This section of the chapter discusses the formation of the MIC, how it functions, and what is planned for its future.
6.3.1 The Motor Industries Cluster And Its Members

The following aspects are related to schedule one and the interview with Director No1.

The origin of the Motor Industries Cluster can be traced to 1998 when Daimler Chrysler approached the Fish River Spatial Development Initiative with the idea of forming a cluster. A consultant was appointed to lay the ground work for the project and the Motor Industries Cluster developed from there, Kruger becoming its first director.

The cluster was initially only concerned with the Eastern Cape and was to focused on the following functions:

- investment
- manpower development
- logistics
- supplier development

However the cluster has not developed along the conventional lines of a cluster in the mould of Silicone Valley, or the grand prix industry in the United Kingdom as described by Porter (1998: P#). It was formed artificially by its members in order to create a competitive advantages for the motor vehicle industry in the Eastern Cape.
The second issue that set this cluster apart from traditional clusters is that it only concentrates on logistics and improving the supply chain and standardising logistical procedures. The members of the MIC who initially funded the cluster with additional limited funding from government, insisted that the cluster show some material savings. The MIC has been successful in this regard, claiming savings of R25 million to R30 million. The other factors which where initially to form part of the project, namely investment, manpower development and supplier development, have been neglected because of the difficulty involved in quantifying savings associated with these initiatives. For example, savings associated with training are usually hidden.

The Original Equipment Manufacturers (OEM’s) involved include Delta, Daimler Chrysler, Ford Motor Company of South Africa and Volkswagen of South Africa. BMW South Africa has shown much interest in the cluster but have not joined and Toyota are not interested in joining the MIC at all.

One of the fundamental principles of the MIC was to bring people together to discuss their problems, share ideas and come up with the best solution to a common problem. Director No2 was often able to advise people from the business community whom they had to see in order to solve a specific problem.
Notwithstanding the success of the MIC in the logistical field it was felt that the cluster had not yet had any substantial influence on the motor industry in the way a traditional cluster would have on other fields. It had, however, impacted on the social environment in that the cluster had initiated projects like the car terminal erected at the East London Harbour that was responsible for the creation of 120 permanent jobs. It had also been partially responsible for Romatex, part of the supplier industry, relocating to East London which involved the creation of 1300 work opportunities in the area and also served to stimulate the local economy.

In the technological field the MIC directors worked on a track and trace system for cargo transported within the country by road.

The cluster does not see new entrants as a threat as they would increase volumes, thus giving the cluster more leverage with airfreight, road transport and shipping companies. It was felt that in the future MIC would follow the classic guidelines for clustering far more closely, stimulating investment and endeavour to incorporate other OEMs and members of the supplier industry. Growth is the critical success factor for the MIC.

6.3.2 The views of OEMs and supplier industry members of the MIC

The following aspects are related to schedule one and the interviews held with the members from the OEMs and the supplier industry.
All the members interviewed felt that although the cluster was small by world standards it was large enough to generate a competitive advantage. It was pointed out, that 80% of the capital involved in the motor industry was tied up in logistics and the storage of components. In addition, the greatest challenge facing the South African motor industry was its geographical location. Although the cluster focused on logistics and improving supplier systems and major improvements had been made, there are still many improvements which the members plan to focus on in the future. The members and in particular Ford, believe that South African Motor Manufacturers are ideally placed to serve sub-Saharan Africa, Asia including the Indian Ocean Region, Australia and South America.

Black empowerment was a social responsibility of the MIC and it was encouraged by the Department of Trade and Industries (DTI) who partially funded the cluster. As a result, personnel recruited by the MIC for its clusters proposed training programme would be drawn mainly from previously disadvantaged population groups. The cluster is always trying to attract black entrepreneurs.

In the technological field, the introduction of tracking systems and 2D bar coding were new to the South African motor vehicle industry. The greater use of information technology and the standardisation of logistics systems would not only benefit the OEMs and the established section of the supplier industry but also
the lower tier suppliers and new entrants to the industry, specifically from previously disadvantaged groups.

The MIC would welcome existing South African OEMs to the cluster for example, BMW South Africa, but felt that there were already as many OEMs in the country as the local market could support. It was Martin felt that the completely built-up units (CBUs) being imported into the country were serving not only to make the motor industry more competitive locally, but internationally as well. As import duties decreased the import of CBUs would increase. The members of the cluster would also encourage new entrants to the supplier industry, as increased freight volumes would increase their bargaining power. As OEMs and suppliers were forced to collaborate to create a competitive advantage and a win-win situation, suppliers gaining excessive bargaining power were not considered to be a problem.

It was generally felt that the MIC had to work towards the formation of a classic cluster and embrace all the neglected factors i.e. investment, manpower development and supplier development as originally planned, and to work towards a win-win situation for all its members.

The critical success factor for the South African motor industry was the ability to be competitive world wide with regard to the industry’s ability to supply
competitively priced products that were of world class quality. The MIC would to support the motor industry in this. The critical success factor therefore of the cluster was delivery, in that it had to continue to identify areas where it could solve problems and create a competitive advantage for its members. As such it was important that the cluster selects the projects it tackled carefully. The members all considered the projects planned for 2001 as very worthwhile.

The cluster was not a profit-making firm, so there are no real opportunities for or threats to the cluster and all benefits were for the members. It was up to the participants to ensure that they benefited from the cluster and from this perspective the threat of non-delivery is as much a threat to the MIC as it is to the motor industry.

6.3.3 The MIC and short term future projects

According to Director No2, the MIC will in 2001 be working on the following projects:

- A new airfreight service
- The Introduction of new logistics for local parts
- Standardisation of logistic systems
- Standardisation of IT systems
- Employing and training additional personnel
• Introducing consolidators
• Introducing 2D bar coding

These projects will be briefly described in the next section.

6.3.3.1 Introducing a new airfreight service

This entails setting up an airfreight service to Japan and Brazil together with Union-Transport. The first airfreight service set up was to Europe and this the new service is seen as a duplication of that work. This help ease the director’s work load.

6.3.3.2 Systems Standardisation of Logistics

The intention is to put systems into place with Imperial Transport, so that OEMs will know at any time what parts are in transit to them. The aim is that if an OEM has to change its build schedule, it will be able to compare the new schedule to their component stock situation. In addition it will know what components are en route to them and when they will arrive so it can decide whether the new schedule is viable or not.

6.3.3.3 Standardisation of the Information Technology systems

The members of the MIC are working together with the OEMs and the suppliers on the standardisation of the information technology systems together with the introduction of bar coding to remove the human errors in the system. This will require the OEMs to use similar forms such as request for quotation form and the
damage claim form. The OEMs and the first tier suppliers are described as “first world” but says that some of the lower tier supplier could be described as third world as they used very primitive systems. Standardisation would assist these suppliers, and the suppliers who dealt with a number of suppliers of their own, and a number of the OEMs.

6.3.3.4 Employing and training additional personnel

The MIC intends employing and training personnel to broaden the base of knowledge among the suppliers; to audit the supplier firm’s logistic systems and to introduce new entrants to the logistic systems used by the cluster. These cluster trainees will eventually also be required to help the suppliers with standardisation of their logistics systems.

6.3.3.5 Introducing consolidators

Introducing consolidators in the major centres will allow OEMs to change from using less than full container loads to full container loads (LCLs to FCLs). The consolidators will consolidate loads from all participating suppliers in the area the consolidating firm serves, to ensure that as far as possible only fully laden containers are transported to the OEMs. This will reduce the number of trips to the OEMs and therefore the number of vehicles in use, resulting in a cost saving.

6.3.3.6 Introducing 2D bar coding
Ford Motor Company of South Africa, who exports engine components to India and Brazil, needs to have a way of identifying parts shipped from South Africa. This is in order to ensure that warranty claims are charged to the correct component sources as components are also supplied from other countries to both India and Brazil. In order to do this Ford are introducing 2D bar coding. According to the respondent this defies the MIC’s objective of standardisation, but since it is necessary, an exception will have to be made.

6.4 CONCLUSION

The MIC is run by the middle management of the members its firms who are proud of the fact that they have been able to persuade their companies to come on board and share information and ideas in a way previously thought impossible. They all believe the cluster is an extremely worthwhile project and it is regarded as a bench mark by members of the cluster which was formed in the Pretoria area, but which has not been as successful as the local cluster.

It is concluded that the MIC may develop into an important instrument in managing aspects of the industry’s environment strategically.
CHAPTER 7

CONCLUSION AND RECOMMENDATIONS

7.1 INTRODUCTION

This chapter will first discuss the general conclusions: then, the extent to which the problem statement and objectives of the study were addressed: and thirdly the government’s gamble in introducing the MIDP. Finally recommendations are made.

7.2 GENERAL CONCLUSIONS

The general conclusions are that the South African motor industry is in a far stronger position to meet international opposition than it would have been had before the MIDP.

7.2.1 The government’s gamble
“The motor vehicle industry and the South African government took a big gamble when they decided to emerge from protected isolation to try and compete globally” said Mr Alec Erwin the Trade & Industry Minister at the Auto Africa Expo 2000 at Nasrec, near Johannesburg. “I am confident this industry will now go from strength to strength,” he added, predicting that after its initial success, South Africa would become a major exporting country that will enjoy greater success in the foreign markets than it does in its domestic market, sending out a positive message to the world about both South Africa and Africa as a whole. (CARtoday.com, 26/10/00).

7.2.2 South African industry as part of the global industry

The transition from a local industry to become part of the global industry has taken place both quickly and successfully and has applauded by JD Powers and Associates, who are widely regarded as the world’s leading automotive research agency. JD Powers says the following about one firm in the South African Motor industry, “The opening of the new Mercedes Benz C Class production facility in East London greatly escalates South Africa’s global role as a vehicle exporter – could prove of as much significance as the arrival of the first car in 1896 – which was also a Benz.” (CARtoday.com 19/09/00).

7.2.3 The extent to which the problem statement and objectives of the study were addressed

In chapter 1 the research problem was stated as follows:
1. What is the nature of the South African motor industry and what strategic action will be appropriate for its members.

2. This problem was further sub-divided into the following sub-problems:
   - What are the different methods that can be used to analyse the environment and if these methods are used, what will be the outcome?

3. What key opportunities exist and what threats are there to the environment that South African motor manufactures trade in?

4. What potential does a co-operative arrangement such as the Motor Industry Cluster have for making the environment more manageable.

The objectives of the study were:

- to identify, and/or formulate an appropriate method of strategic analysis to establish what problems local motor industry manufacturers face and to seek general solutions to these problems.

- to suggest future strategic action that the members of the motor industry can consider in order to survive and grow.

In an effort to solve the main and sub-problems, the macro environment of the South African motor industry was analysed in chapters 2 and 3 using the PEST analysis. The social, political, economic and technological environments were descibed. The analysis was continued from a different angle in chapter 4 using Porter’s five force analysis. The influence of the MIDP was analysed, as well as the risk of entry to the South African market by potential competition, brand
loyalty, the degree of rivalry amongst established companies, the bargaining power of buyers/suppliers, the current supplier/manufacturer relationship and the threat of substitute products.

In chapter 5 the opportunities for and threats to the industry were investigated more closely. This enabled the researcher to gain a clearer picture of the political/legal, economic, opportunities and threats to the industry such as the MIDP, government stability, business cycles, unemployment, South Africa’s unstable currency and the future potential of the local market. Socio/cultural factors were analysed such as the HIV/AIDS pandemic, crime and strikes were also analysed.

A very impressive effort of members of the South African motor industry to manage their environment through the use of a cluster was empirically investigated in chapter 6. Successes were evident in the areas of logistics which is the function the cluster has concentrated on.

7.3 RECOMMENDATIONS
The South African Motor Industry now has to capitalise on its early successes. To do this, South African Motor Manufacturers ought to work towards what will be to their best advantage in the long run. Whether independent or owned by an international manufacturer, they should guide their principles in the correct directions as far as possible.

7.3.1 **Strategic planning for survival and growth**

Strategic planning has to take into account the key threats to the local Motor Industry at this time appear to be:

- The industry or part of it not achieving the economies of scale and efficiencies required to become globally competitive by the time the MIDP comes to an end.

- That the swing producer scenario becomes a reality for the industry or part there of.

- That the AIDS pandemic will erode the gains in productivity the motor industry has achieved thus far and continues to improve on.

The MIC has already succeeded in addressing some of the important challenges facing the motor industry. It is recommended that this effort be given the full support of its members. It is also recommended that the MIC take responsibility for addressing some of the other opportunities and threats posed by the environment of the South African motor vehicle industry.
7.3.2 Failing to achieve global competitiveness

As with the global industry, the internationally emerging South African motor vehicle industry cannot plan for major international economic setbacks such as a protracted world recession. However, the motor vehicle industry will have to make the best of circumstances as they present themselves. The MIDP is only in existence for a finite period and those South African motor manufacturers who do not take advantage of it are bound to disappear or be marginalised. This could happen to any of the manufacturers, whether established or a new-comer, who is unable to meet the criteria contained in Willie van Wyk’s “Adapt or Die,” speech (Eastern Province Herald, 15/09/00) when he said that “tomorrows business demands efficient, integrated business processes, with emphasis on total teamwork. This leaves no room for the inter-departmental conflicts of yesteryear. Also there would be progressive movement from low volume assembly – and the accompanying costs of complexity. Tomorrows business demands volume manufacturing and assembly, for both local consumption and exports, be it vehicles or components. This implies that we have to access new markets to achieve economies of scale approaching those of the international arena”

Relating to economies of scale is the question of old and under-used plants. The future will bring new pressures for optimum use, best practice plant lay-outs, best machinery and equipment as well as efficient materials handling…to this I should
add the need for increased flexibility to respond to customer needs as quickly as overseas plants (Eastern Province Herald, 15/09/99).

It is a complex task to transform an old facility into a facility which approaches the efficiency of a new plant designed specifically for modern production methods. This is what is required but the most difficult change to make is the change required to the mind set of the employees involved.

7.3.3 Avoiding the swing producer scenario

Producing vehicles for the large multi-nationals when they require the additional volume, only to have them end the contract when they are able to meet the demand, is not what is required by the local vehicle manufacturers in their efforts to survive. They will have to learn to deal with market fluctuation on a much larger scale than they are currently used to, as international markets go through the normal cyclic phases of growth and recession.

Importing components from Europe or elsewhere to build cars which are then exported back to the component source, as is done by VWSA, is probably not expedient. It has thus far been avoided by Delta Motor Corporation as it does not make sense to import components to build cars here and then to export the cars back overseas. (Eastern Province Herald, 26/05/00). However, Delta whose
vehicle exports have been exclusively to sub-Saharan Africa, “is close to reaching an agreement with General Motors to export some of its fully built up units to Japan next year.” (Business Day online, 09/11/00).

Manufacturers have to find ways of protecting themselves from being used as swing producers by developing markets in countries where their products are not produced and where very little marketing of that product has taken place.

A good example of a South African manufacturer attempting to make good use of a natural market is Toyota’s approach towards Africa. After the long awaited Midterm Review, Toyota SA, who has been one of Toyota Motor Corporation’s most successful national franchisees world wide, announced its export strategy. Toyota SA plans an export drive into Sub-Saharan Africa. To this end it has formed a company with both Japanese and South African involvement, called Toyota Export Service for Africa (TESA). Toyota will be expanding into 24 African countries in a strategy designed to develop the export potential of South African built vehicles through Toyota Tsusho Africa (TTAF), a sister company of Toyota Motor Corporation. TTA will act as a combined operations centre for Toyota Tsusho Motor Corporation of Japan (TMC Japan), and Toyota Export Services will do the same for Africa. Toyota SA will not only be involved in the supply of locally built vehicles but will become involved in all the support activities in the motor vehicle industry, TMC of Japan (TMC Japan) has chosen
not to control operations in Africa, citing as the reason the fact that the expertise already exists in the area. According to the Director of Marketing, Toyota South Africa’s expertise in engineering products for African conditions, in co-operation with TMC Japan is fully appreciated by distributors in the region (CARtoday.com, 02/11/00). Much of Toyota’s effort will be centred on the Condor range, which has benefited from substantial South African engineering input. Toyota is hoping these initiatives will help as it tries to regain market share on the African continent lost to Nissan.

Nissan, who under Carlos Ghosn, who appointed by Renault, has turned its international operation around with continuing restructuring, has also used its local subsidiary to increase its market share in the African market.

Ford Motor Company of Southern Africa and Renault have both announced massive component export programmes, Ford exporting their “Ro cam” engine and Renault catalytic converters worth R11billion over six years. These components are essential to vehicle production elsewhere in the world.

South African manufactures can also avoid the “swing producer effect” by producing a specific model in a manufacturer’s range that is not produced elsewhere as do Daimler Chrysler in East London. They produce the only right hand drive C100 Mercedes Benz internationally. An even safer situation would be to produce a unique vehicle built on a platform used elsewhere by a multi national.
Such a vehicle would have to have sufficient appeal internationally to ensure continued demand.

### 7.3.4 The AIDS pandemic

If management want to avoid an industrial disaster which is forecast as a result of AIDS pandemic they are advised to prepare for it by cross training management and staff. In this regard firms should ensure that they have adequate training facilities, or access to such facilities to train new workers and staff. They should also ensure that they have an adequate, legal labour policy which protects them from the cost of carrying large numbers of unproductive employees.

### 7.3.5 Future business practices

According to Pretorius (Eastern Province Herald, 26/09/00) the most important under all circumstances is that one has to maintain a positive vision.” The seven points he mentioned for business success in the future are:

- To be totally proficient in the art and science of visionary leadership;
- To unlock the potential of each team member in the organisation has to be unlocked;
- To create demand through effective marketing;
- To apply world class norms;
- To mobilise IT;
• To deliver a disproportional value in the eyes of the customer where “trivial touches of excellence” are essential; and

• To deliver world class customer service

Pretorius concluded by stating that everything necessary must be done to create an economic miracle. (EP Herald, 26/09/00).

7.4 FURTHER RESEARCH

This study focused on the environment of the South African motor industry in general, and possible strategies for managing the environment. Certain factors were found to be of crucial importance for the future of the industry. Among these were the HIV/AIDS pandemic, the high unemployment rate, the unwillingness or inability of the government to solve certain of the social problems and the possible negative sentiment of foreign investors. In this study it is concluded that each one of these environmental factors deserves further investigation to determine its nature in more detail, its possible future impact on the industry and the appropriate strategic options that the members of the industry can consider.
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Annexure 1

Schedule 1

THE MOTOR INDUSTRY CLUSTER AS THE ANSWER TO THE ENVIRONMENTAL CHALLENGES

1. Is the concentration of motor industry related firms in the Eastern Cape large enough to generate the advantages, such as increase productivity, which are normally associated with an established cluster.

2. What changes have already been brought about by the Motor Industry Cluster in respect of:

   2.1 the economic environment
   2.2 the political/legal environment
   2.3 the social environment
   2.4 the technological environment

3. What threats are there to potential entrants to the cluster?

4. Are the firms involved in the cluster, specifically the suppliers to the OEMs, threatened by substitute products possibly from international competition?

5. What future actions are anticipated in respect of the above environments?

6. What do you see as the critical success factors for the industry?

7. What do you see as the critical success factors for the Motor Industry Cluster?
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4. Are the firms involved in the cluster, specifically the suppliers to the OEMs, threatened by substitute products possibly from international competition?

5. What future actions are anticipated in respect of the above environments?

6. What do you see as the critical success factors for the industry?

7. What do you see as the critical success factors for the Motor Industry Cluster?
8. What future actions do you consider important tasks for the Motor Industries Cluster?

9. What opportunities do you see for the Motor Industries Cluster?

10. What threats do you see for the Motor Industries Cluster?