

GAUTENG BUSINESS CONSULTATIVE FORUM

SESSION: Automobile Industry

DATE: 22 March 2017, GIBS, Illovo

Executive Summary

South Africa's Automotive industry is a vital cog in the country's economy. It makes up 30% of the country's total manufacturing output, is responsible for more than half-a-million jobs along its value chain, and the sector contributes 7.5% to South Africa's gross domestic product (GDP).

On 22 March 2017 the University of Pretoria's Gordon Institute of Business Science (GIBS) hosted a number of players from across the industry for a Gauteng Business Consultative Forum focused specifically on the Automotive sector. The purpose of the forum was to enable dialogue between the Gauteng Provincial Government and the private sector.

The event was attended by key stakeholders including Gauteng Economic Development MEC Lebogang Maile; Dr David Mosondo, CEO of the Automotive Industry Development Centre (AIDC); Chief Economist of Econometrix, Azar Jammine; representatives from Nissan and Ford; component manufacturers; up-and-coming black industrialists; and suppliers to the Original Equipment Manufacturers (OEMs) or car manufacturers.

GIBS Senior Faculty and Programme Director and facilitator of the forum, Abdullah Verachia, summed up to the expectations of the meeting as follows:

- Cohesion to speak about key and critical issues;
- Identify common issues and barriers within the sector;
- Deepen social capital and trust; and
- Create industry partnerships.

Professor Nick Binedell, GIBS founder and former Dean of the business school, told the delegation: "You will come out of this with a better sense of where sector is." He continued to say: "You are meeting at a vital time. Our economy is not growing, we have major socio-economic issues... we are not knitting together. I always say South Africa is like a jigsaw puzzle, but someone else has the picture on the box! We don't know how it fits together."

Binedell said of the Automotive industry: "This sector has been a strategically vital sector in South Africa. It's got a long history, it is an interesting history, a lot of it was shaped and comes out of the past, and the reason you are in the room is to ask how do we take this forward for the benefit of the country, and the industry and government, and all the stakeholders?"

Addressing delegates, Maile also reiterated the need to ensure not only the sustainability of the Automotive sector, but also the continued growth of the industry. He said the contribution of the sector was vital for the province and, as such, government has worked hard to contribute to and incentivise the industry. Maile made mention of the provincial government's three-pronged economic development strategy, centred on transformation, modernisation and industrialisation, and how the Automotive industry forms part of that strategy. The MEC reiterated that by working together, industry and provincial government could partner to lobby national government on critical issues.

Maile also acknowledged that there had been enough talking and now was the time for action. He said: “Many people believe government likes meetings and speeches. But here, in Gauteng, we are action orientated. We want to work with industry and not just sit in our offices. We want to make sure there is cohesion and autonomy within the structures.”

AIDC’s Mosondo spoke to the role his organisation played within the sector. He pinpointed a number of challenges, and warned that the future of the industry - given the growing trend of nationalisation in the United States and the European Union (two major export markets for the sector) - was a concern. “[Growing nationalisation] means the South African Automotive industry is going to be challenged, because America [the United States] is our second-largest export market. So [if] that market is closed our ability to export is at risk.” He also said that the UK’s Brexit vote was also going to have implications for how South Africa positioned itself in the global market.

Mosondo stressed that South Africa was falling behind fellow BRICS (Brazil, Russia, India and China) nations in terms of performance; especially as the country faces the major challenge of being geographically far away from major export markets.

Turning to more internal South Africa-specific industry issues, he stressed that transformation and competition had to go hand-in-hand; the excuse that transformation was not competitive could no longer be touted as an excuse. More broadly, Mosondo presented a breakdown of the industry and highlighted key areas which he believed the forum should focus on during its deliberations, namely:

- Market size
- Localisation
- Transformation
- Logistics and infrastructure
- Skills development
- Electric vehicles.

Jammine then stepped in to take delegates through a SWOT (strengths, weaknesses, opportunities and strengths) analysis of the industry. The key points to come out of his presentation were:

Strengths

- The country’s level of urbanisation.
- The existence of a well-developed financial services sector.
- A culture of proprietary technology.
- Well-developed logistics and infrastructure.
- The fact that South Africa is host to a number of international players, a fact which offers good networking within the sector.
- The excellent quality of production.
- Stakeholder integration.
- Government support and policy certainty.
- Beneficial trade agreements, such as Agoa.

Weakness

- Low level economies of scale.
- The distance from export markets.
- Limited investment by lower tier component manufacturers.
- The fact that small, medium and micro enterprises (SMMEs) typically have no access to global markets.
- The lack of accreditation.

- High wages vs productivity.

Opportunities

- Improving localisation.
- Increased exports to Africa.
- Integration with state-owned enterprises.
- Research and development (R&D), engineering and testing facilities.

Threats

- Slow economic growth.
- Currency volatility.
- Delays getting cleaner fuels.
- An unstable labour environment.

The veteran economist offered a positive spin on the country's economic outlook, mentioning improvements in industrial relations; lower-than-expected inflation; stable interest rates; improving commodity prices; and a favourable rand, which is still relatively cheap in relation to major global currencies. However, Jammine did note that business confidence in the country remained low and needed to be addressed if the country hoped to attract greater international investment.

Following the presentations, and in order to facilitate free-flowing discussions, delegates were then split into two groups in order to flesh out what they saw as the major challenges to the industry. Although the first group had a more circumspect discussion in comparison to the more heated debate which took place in group two, both came up with very similar issues that needed to be dealt with. Issues raised revolved around three key areas:

1. Skills

- Assessing the skills people are being trained for against the actual skills needed in industry.
- Making the industry 'sexy' to new entrants in order to create a skills pipeline.
- A focus on primary skills, with mention being made of minimum wage.
- Keeping up with industry innovation.
- The need to drive and grow entrepreneurial skills.
- Knowledge transfer to enable transformation and support SMMEs.

2. Bridging and alignment between suppliers and OEMs

- Expectations versus actual entry options for SMMEs.
- Education and what is required from suppliers.
- Suggestions of creating an OEM Open Day to show SMMEs what OEMs require in terms of supply.
- Understanding and appreciating workflow: is there enough demand to justify supply?

3. Localisation and transformation of supply chain

- How do we work together as an industry?
- Transferring industry lessons and experience from tier one suppliers and passing them to tier two and three suppliers.
- The need for greater policy support.
- Growing output volume and become more competitive as an industry. South Africa is competing globally, which raises issues of scale, cost of supply, etc.

- Frequency of power and water cuts, which effects efficiency and competitive advantage.
- Transport infrastructure to allow factories to run 24-hour operations through three work shifts.
- Inhibitors to efficiency, including linking raw materials and beneficiation to supply the industry.
- The need to transform not only the primary sector but also secondary and retail sectors.

Once the two groups came together again to compare notes, delegates were asked to volunteer to serve on a task team which would be charged with delving into the issues raised during the forum and coming up with potential solutions to key challenges.

Chief Operations Officer of the Gauteng Growth Development Agency, Jameel Chand, closed the session by saying: "The key purpose of getting the process going is a sincere attempt to open dialogue between all players, and how they can get together with a high level of accountability. We all want South Africa to succeed, but how do we use the strengths of all players to pull this together."

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