

KwaZulu-Natal's automotive assembly and component manufacturing sector – Some thoughts and considerations

Justin Barnes

**Benchmarking and Manufacturing Analysts SA (Pty) Ltd
For the KwaZulu-Natal Department of Economic Development
27th November 2008**

Presentation outline

- Outline the importance of the industry to KZN
- Outline the changing competitiveness context confronting the industry
- Unpack some of the issues presently constraining the growth of the automotive manufacturing sector in KZN

Profile of the KZN auto industry

	KZN data	KZN as % of RSA	KZN as % of World
Vehicle	140 000 units	30%	0.2%
Vehicle export			0.2%
Component manufacturing			0.1%
Auto manuf. employment			0.2%
Passenger car sales			0.1%
Light Commercial Vehicle sales			0.1%
Vehicle parc	1.1 million	14%	0.2%

In summary: The KZN automotive industry is:

- Critical to the KZN economy

- Externally oriented

- Insignificant globally

Source: AIEC (2008), and own estimates

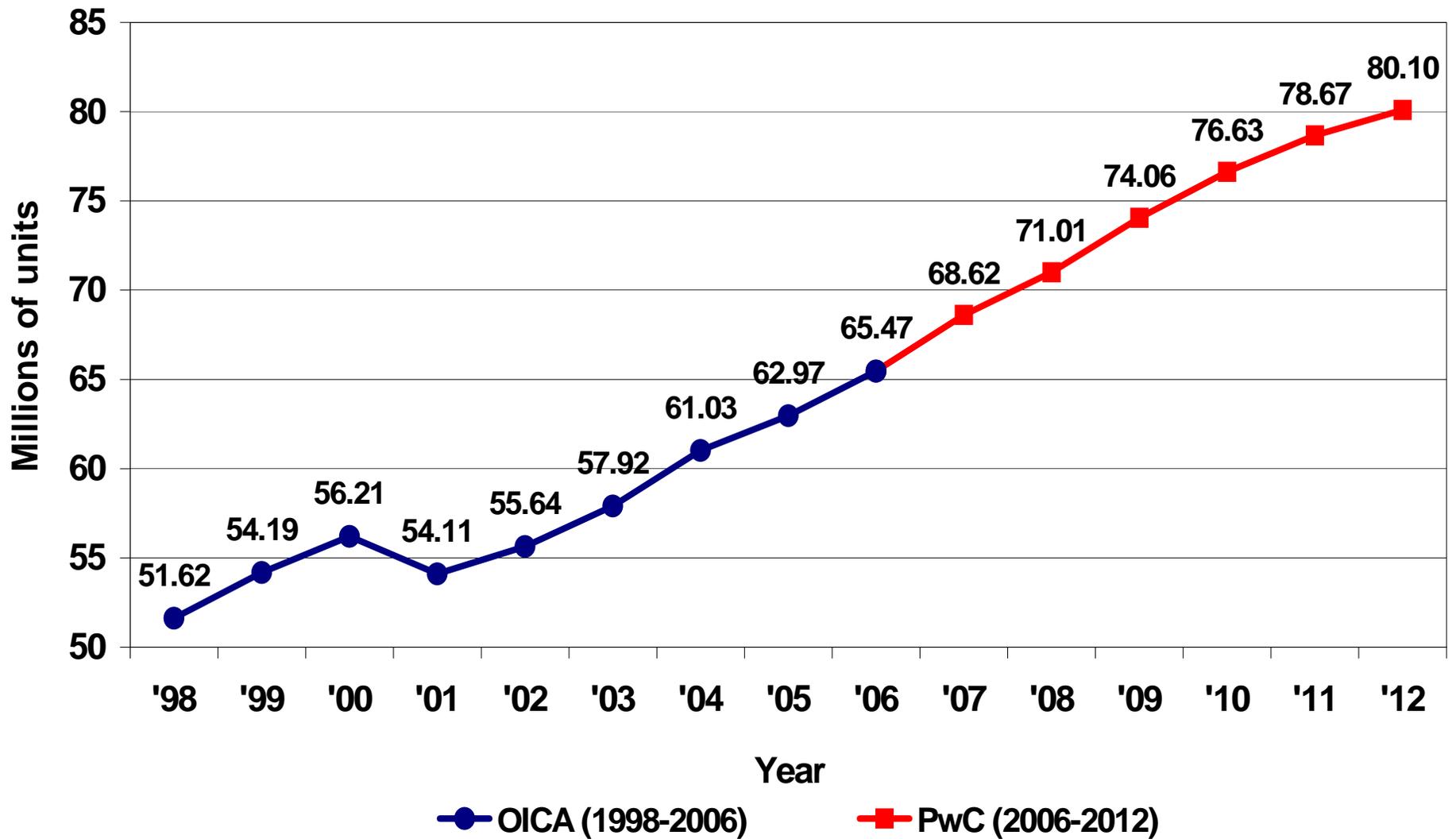
KZN-specific trends

- National benchmarking data shows stronger growth in the KZN auto components industry versus other provinces: sales, employment, investment, etc.
- Toyota's recent growth also far ahead of other SA based OEMs
- Clear advantage of having leading SA and international OEM, with highest production locally
- But still **only 3rd most important regional auto industry** in country, and struggling with similar issues to SA industry more generally:
 - Firm-level cost competitiveness
 - Firm-level technical competitiveness
 - Skills (acquisition, development, retainment)
 - Transformation
 - Local content
 - Infrastructure

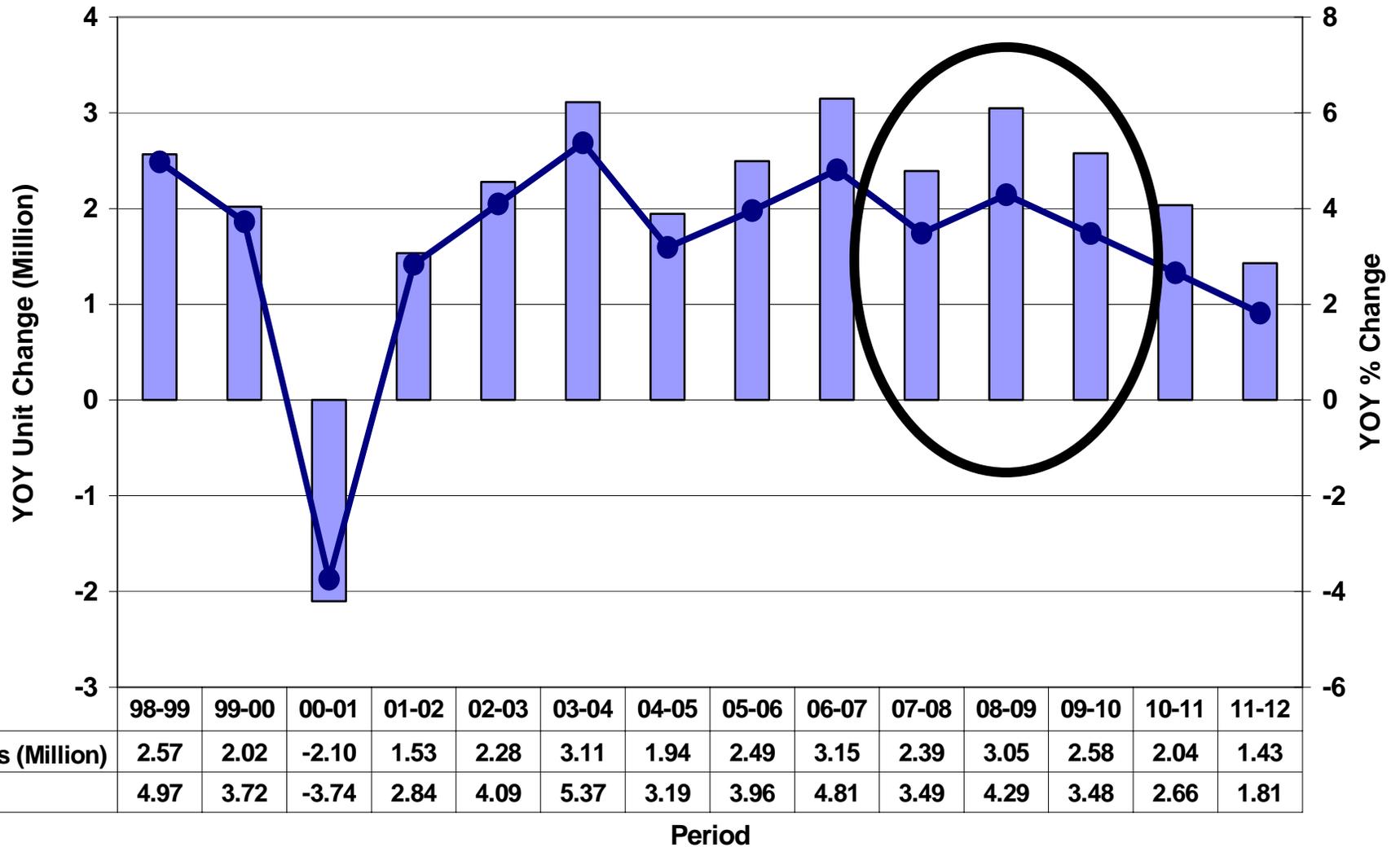
What does this mean?

- Despite its recent sterling growth and improved competitiveness, the KZN automotive manufacturing industry is ***presently very vulnerable*** to domestic and international market shifts:
 - ***Directly:*** In the form of reduced demand
 - Domestic market down 35% in October on a Y-o-Y comparative basis
 - International markets not much better, especially in South Africa's principal export markets of the EU, Japan and the USA
 - ***Indirectly:*** In the form of increased competition
 - Over-supply situation exacerbated
 - Industry operates on the basis of a high value, low margin business model, so significant overhead exposure in a downturn, especially when nobody saw the crisis coming
 - For example...

Global light vehicle production: 1998 to 2012 projected



Global light vehicle production year-on-year change: 1998 to 2012 projection



Source: OICA & Pricewaterhouse Coopers

Financial review of key global OEMs before the crisis!

Indicator	2004*	2005**	2006
Average profitability level	2.00%	3.20%	3.38%
Number making more than 5% net profit	6/14	5/15	5/16
Number making less than 5% net profit, but still making \$	6/14	8/15	9/16
Number making losses	2/14	2/15	2/16

* No 2004 figures included for Hyundai & Sabaru

** No 2005 figures included for Sabaru

Financial review of key global suppliers before the crisis!

Indicator	2004	2005	2006
Average profitability level	1.66%	0.93%	0.46%
Number making more than 5% net profit	4/24	6/24	4/24
Number making less than 5% net profit, but still making \$	16/24	12/24	12/24
Number making losses	4/24	6/24	8/24

Future outlook: Global and national trends

- Beyond the present crisis, the global outlook will remain incredibly tough, with number of external factors likely to restrict 'space' for KZN operations in international and SA markets. These factors lie outside the control of regional stakeholders
- Overcoming key meso and micro constraints impacting on the performance of the KZN automotive industry is therefore the priority
- What are these constraints?

Key meso and micro factors constraining the KZN auto industry

- At a meso level:
 - Infrastructure requirements of industry not being met (supplier parks, port facilities and costs, electricity, road and rail, effluent, etc.)
- At a micro level:
 - Lack of investment in people, capital, product and production processes
 - Skills deficiencies – playing in the ‘big league’ of manufacturing
 - Cost base, especially in respect of logistics and transports costs

In summary

- KZN automotive industry has considerable potential and has grown and developed impressively over the last 5-10 years
- Future potential is also clear – Could become the #1 automotive manufacturing region in South Africa and Africa
- Macro policy provides an enabling framework to realise this potential (through the APDP), but meso and micro level issues may ensure potential remains unrealised
- Therefore key role for regional stakeholders!

Thank you