

**The Sustainability of the South African
Automotive Export Leather Sewing Industry.**

By

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Declaration

This work has not been previously accepted in substance for any degree and is not being concurrently submitted in candidature for any degree.

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This dissertation is being submitted in partial fulfilment of the requirements for the degree of Masters in Business Administration.

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Dedication

To my wife Gwen, my children Brian, Obakeng and Gosiamé for being denied that fatherly love and attention during my studies. I really appreciate their support and understanding while attending classes, group studies and all that time spent behind the personal computers doing the assignments.

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Chapter 1

Background to the study

1.0 Introduction

The South African automotive leather export sewing industry was established in about 1991, when domestic firms were exposed to international markets. The industry's success was largely attributed to the relatively cheap labour, infrastructure, leather and tax incentives given by the South African government. Interest in investment shown by multinational companies has resulted in significant growth in the industry today.

However, at one time, the socio-political status in South Africa meant that the environment in which the industry developed was artificial. Economic, political and cultural conditions were not conducive to export manufacturing due to international sanctions.

Consequently, the leather export industry was provided with an opportunity to integrate into the international arena primarily through the Motor Industry Development Programme (MIDP). The MIDP initiative allows South African automotive companies to offset import duties against exports. This duty offset programme aims to encourage firms to focus on high volume production runs and import less popular models that are expensive to produce locally.

However, with the inclusion of the Eastern European countries into the European Union, it is expected that the market will become highly competitive. It has already been predicted by Ballard (2002) in a study on the South African leather business that the automotive leather sewing export industry is an "easy-come-easy-go" industry, with its success not linked to any intrinsic advantages South Africa possesses, but due to rebates from the Motor Industry Development Programme.

Although South Africa has a number of advantages such as relatively cheap labour, material in leather hides, and a good infrastructure, the automotive sewing industry has yet to establish its efficiency when exposed to open market competition. Therefore, to create a perception of stability for international investors, the industry must seek contact with outside partners for market access, technology and process know-how through collaboration and benchmarking.

This study therefore aims to develop a discourse related specifically to the sustainability of the leather export sewing industry as it approaches deregulation.

The research is of a qualitative nature. Semi-structured interviews were conducted based on open-ended questions; factors addressed included the status quo and developmental issues establishing the efficiency in the industry. All interviews were recorded, transcribed, manually coded and thematically analyzed.

1.1 Motivation for the study

With the MIDP credited for rescuing the once highly protected South African motor sector, the time has come where relevant stakeholders in the industry should consider long term strategies when the government will be deregulating the MIDP in 2012. Building a sustainable business requires competitive thinking and cost-down strategies because the current automaker's philosophy for competitiveness is to invest in fresh, attractive and consumer driven products rather than incentives that push product to consumers (Tay, 2003).

1.2 Research Objectives

The study will investigate two main themes,

Status quo issues:

- Does the MIDP currently still provide the South African automotive leather export manufacturing industry with significant strategic advantages, and will the industry be ready after the deregulation of the MIDP in 2012?
- How is the industry currently affected by the strong South African currency?

Developmental issues:

- Does collaboration in the South African export leather sewing industry exist with respect to global competitiveness?
- Are there any long-term strategies being considered with respect to barriers to departure?
- How will the global competitiveness, with respect to the inclusion of the Eastern European countries into the European Union, and threats from China and Australia, affect the industry?

1.3 The Aim of the study

The aim of the study is to give to the role players in the SAAELI the background knowledge on how the experts identifies the advantages, disadvantages and threats awaiting the industry.

The study highlights the shortcomings to the industry as contracts are only awarded to the South African firms because of incentives from the MIDP, and to what measures of preparedness is the industry undertaking?

Are the firms in the industry repositioning themselves only by taking advantage of the country's advanced infrastructure, cheap labour, or the availability of raw material?

1.4 Problem Statement

The South African Automotive Export Leather Industry was created and existed in an artificial niche during the time the country was isolated from global

competition. It has been suggested that the industry does not have the inherent sustainability with respect to competing in an unprotected global environment.

1.5 Limitations of the study

The limitations were the absence and postponements of appointments from industry and the government representatives who did not want to be interviewed but rather preferred to answer the questions through my questionnaire.

The study covered firms from the Kwa-Zulu Natal and Gauteng areas; the restricted scope of the study is due to the geographic location as some experts were as far as the Eastern Cape, which would have increased the costs of this research if the study was extended. Permission had to be obtained from our company, as all respondents except the representative from the government in the Department of Trade and Industry are rivals/competitors in the SAAELI.

The research is based from industry's experts' views and opinions and from past literature.

1.6 Outline of the study

Chapter 2 provides a contextualized picture to the factors impacting on the SAAELI, using relevant academic literature to the topic of investigation.

Chapter 3 is an overview of the research design and methodology used in the study. The data was tape recorded and presented through semi-structured interviews, coded manually and transcribed then put through the Atlas Ti.

Chapter 4 discusses the results and findings from the experts' views and opinions, with background information from the academic literature discussed in chapter 2.

Chapter 5 offers recommendations and conclusion guiding the SAAELI to what measures and strategies must be undertaken to ensure its sustainability.

1.7 Conclusion

Chapter 1 provides an insight and background to the motivation, aims, objectives, limitation and the problem statement of the study. The next chapter gives an overview to factors affecting the SAAELI; the discussion is based on literature relevant to the topic of investigation and the South African government's involvement to ensuring the industry's sustainability.

Chapter 2

Literature Review

2.0 Introduction

Chapter 1 discussed relevant literature to the topic of investigation, in order to develop a contextualized picture of the factors that impacts on the South African export automotive industry; this chapter will cover the following areas:

- A rationale for Government trade interventions
- The rationale for incentive programmes in the South African export automotive leather sewing industry.
- The effect of the strong South African currency on the industry.
- The coherence of the automotive leather export sewing industry.
- Strategic thinking related to barriers to departure in the South African context.
- Threats to the South African automotive leather export industry from competing nations

2.1 A rationale for Government on trade interventions

According to Takeuchi (2001), the governments of competing nations are motivated to pursue trade liberalization in order to achieve economic efficiency, and at the same time pursue protectionism of their infant industries. Trade liberalization is a trade policy that allows domestic firms to compete more freely in world markets and foreign firms to compete more freely in domestic markets while the criterion for economic efficiency is value. A change that increases value is an efficient change: Schenk (2002) argues that economists are interested in economic efficiency for two reasons; positive and normative. On the theoretical level, the positive reasons are based on the observation that people search for value in the utility and profit maximization because the search for value is the driving force of markets. The normative reasons are the desires from economists

to make policy recommendations as they can predict whether a policy will or will not achieve the goals set for it.

Tumlir (1985) argues that policy makers tend to think of trade as a direct source of economic growth and any expansion of trade as good, with the emphasis being on exports, because exports are considered primarily for the employment they generate, especially in developing countries for the foreign exchange advantages they might provide. From empirical studies we are informed that trade plays the role of engine for growth and development; it helps with the global allocation of resources, enhances output, production and increases the overall gains of social welfare (Lamy, 2005).

Governments like South Africa create programmes like the MIDP with the intention to pursue protectionism in the form of subsidies in order to achieve social stability. From his literature, Takeuchi (2001) argues that governments' motivation to protect inefficient industries is based on the fear of creating social instability, that is, unemployment might lead to social instability. With South Africa emerging from an apartheid era, Foreign Direct Investments tend to arouse nationalistic feelings. Investors and the government must define political risks broadly to include not only the threat of political upheaval, but also the likelihood of subjective actions that might result in financial loss (Czinkota, Ronkainen and Moffett, 1999).

Trade allows countries to concentrate on what they can do best, and countries will translate those individual advantages they have into maximizing productivity, which in turn can lead to more developments (Hill, 2000).

The trade strategies of many nations are designed to boost exports and limit imports, the reason being that some nations will protect their home market, thereby ensuring their domestic firms get access to the manufacturing and product know-how. An example is a country like Japan, which is one of the

richest in the world and being a neo-mercantilist country itself, still supports and favours free trade while simultaneously protecting certain segments of its economy from efficient foreign competition (de Jonquieres, 1994). Hill (2000) further confirms that subsidies from governments help domestic firms in two ways; they help industries to compete against low-cost foreign imports and help them gain export markets while increasing international competitiveness. With government's protected programmes in place, industries are built behind subsidies and incentives with the assumption that at some point the industry will become self-sufficient.

2.1.1 Summary

- Governments protect industries in order to achieve social stability, because unemployment might lead to social instability.
- Governments support industries until they have grown in a manner that they can compete on their own.
- Incentives and subsidies are designed to boost exports and limit imports ensuring that domestic firms are able to access manufacturing and product know-how.

The country urgently needs to present itself as an attractive destination to securing the industry. When the MIDP is phased out, will the industry compete on its own ability without subsidies?

2.2 The South African export automotive leather sewing industry (SAAELI): its rationale and a brief history of its existence

The complexities and labour intensiveness of the leather sewn seat covers and their design, has increased the cost of doing business in developed countries. However, developing countries like South Africa stand to gain from this shift of global production from major Original Equipment Manufacturers (OEM's). This is because labour, which is relatively cheap and abundant, and good infrastructure

with good governance, enabled the industry to grow bigger, as the strategic role of multinationals is to produce labour intensive products at the lowest cost possible (Teece, Pisano, and Shuen, 1997). It is evident that most multinational companies have extensively displaced their own production to lower costs through global production. The logic of such an approach is the promotion of cost efficiency on an international basis providing enhanced transfer of resources and competencies, especially in areas of technology and innovation (Johnson and Scholes, 1999).

With programmes like the MIDP, the country is in line with the advocates of strategic trade policy where the use of subsidies is favoured as a way of helping domestic firms achieve a dominant position in those industries where economies of scale are important because “the world market is not large enough to profitably support more than a few firms” (Hill, 2000: 154).

Governments actively encourage global operators to base themselves in their countries as a means of attracting foreign direct investment. They encourage private business to invest in certain sectors of the economy in accordance with national goals and industrialization strategies as a way of boosting economic growth. As described by Hill (2000:182), “a foreign direct investment occurs when a firm invests directly in facilities to produce and /or market a product in a foreign country”. The motive to move offshore is to use the firm’s competitive advantages in conjunction with factor endowments of that foreign country.

Using BMW South Africa as an example, the company that was the front runner in the automotive leather export seat sewing industry changed its strategies to ensure that the industry does not only thrive due to resource-based factors like cheap labour, minerals, materials and good infrastructure. They realized that to be globally competitive the capital and human resources must be prepared and utilized effectively through training and development (Blanchard, 2003). With most employees in the industry still semi-literate, to make the basics in business

understood, companies must ensure proper training and development is improved to meet the high quality standards required by overseas customers.

With the government's assistance in promoting export, the industry became globally connected, resulting in increased learning and improvement of skills. Some multinational companies investing in the country realised the importance of global learning as skills were transferred from both sister and parent companies to achieve the competitive conditions in the global marketplace. Bartlett and Ghoshal, (1989) argue that in today's environment, competitive conditions are so intense, that to survive, companies must exploit their experience-based economies, which translates to the transfer of core competencies within the firm. However, on global learning, they further confirm that the flow of skills and product offerings should not be coming from one side but from both home and foreign subsidiaries.

Figure1: South African Automotive Export Leather Industry (SAAELI)

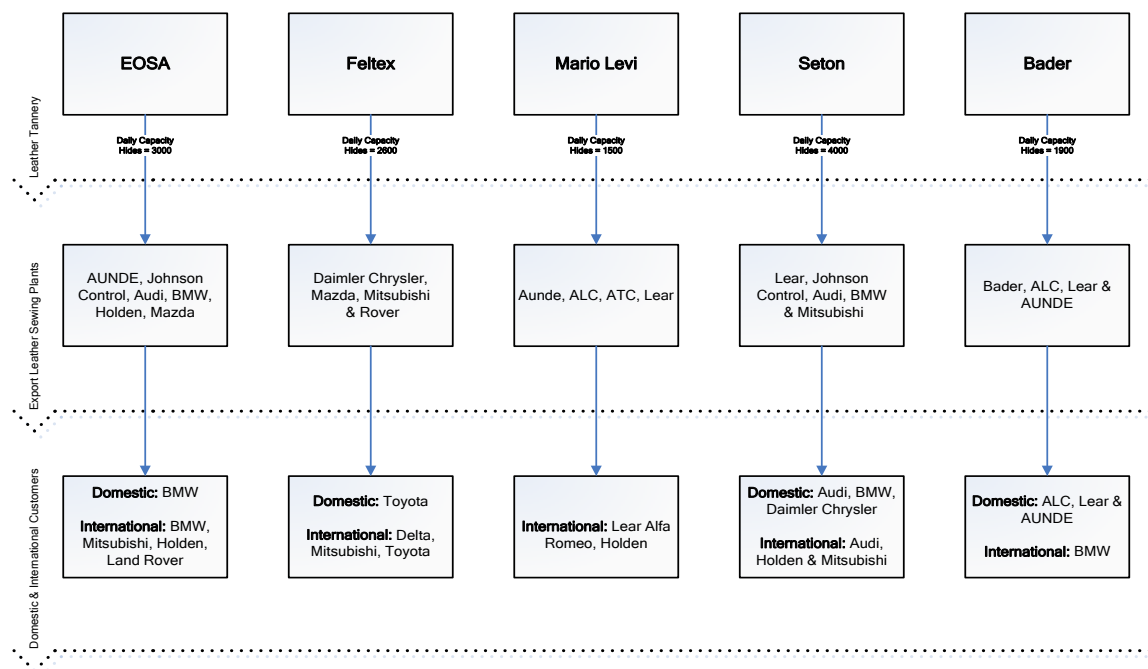


Figure 1 is the visual representation of production displacement in the South African Automotive Export Leather Sewing Industry (SAAELI). Multinational leather tanneries like Mario Levi, Bader, Seton and Eosa, (which are all foreign

owned) invested in the industry to supply the sewing plants, as the demand for leather components was greater than the supply. Established companies like Aunde, Johnson Control, Bader and Lear came to South Africa when the window of opportunity opened due to the government's implementation of the MIDP to take over the sewing sectors that were mostly owned by major motor companies.

Bader invested in the manufacturing of leather hides while at the same time is involved in the sewing of automotive leather seats. Foreign direct investment (FDI) implies a degree of control over the enterprise; the general attitude towards foreign direct investment and its development over time may be indicative of the long-term prospects for investments.

However, the investment and competition among these firms has resulted in local companies like ALC, ATC and Feltex improving and being recognized as global players. Today the automotive leather export sewing industry is the second largest in the exporting component sector, the first being the catalytic converters which have attracted all of the world's major producers of auto exhaust systems to South Africa. However, by 2002, the automotive sector was the third largest sector in the South African economy (after mining and financial services) and was the leader in the manufacturing sector contributing 6.3% of the country's gross domestic products (TISA, 2003).

With South Africa encouraging free trade, regulations like the Motor Development Industry Programme (MIDP) has helped the once highly protected South African motor industry to become globally competitive by providing an improved basis for sustainability.

According to Robertson (2005: 18), "the scheme is working well and the industry cannot expect any changes to the current model. If it was heavily off track, bells would be ringing". He further confirms that in 2004 the rebates, which are termed Import Rebate Credit Certificates, amounted to R15.3 billion for car imports and

components. This scheme allows both OEM's and component manufacturers to earn duty credits from exporting, and these duty credits can be used to offset import duties on components or materials. Therefore, the MIDP must be reshaped in a faster fashion to ensure sustainability of the industry in the long run.

2.2.1 Summary

- The industry has transformed itself to where it is now globally connected, and with the creation of the MIDP the country has attracted more foreign direct investments from leading OEM's.
- Global competition in capital and human resources must be utilized effectively through continuous training and development.
- South Africa must take advantage of production displacement.

2.3 The Effect of the Strong South African Currency on the Industry

International trade and investment has its own risks; future exchange rates cannot be predicted because the rate at which one currency is converted into another will typically change over time (Hill, 2000). The rate of return the industry earns on its investment depends not only on the country's interest rates but also on the value of the currency change, for example, the South African rand against the euro/dollar worthiness.

With regard to exports, the strengthening of the currency's corporate earnings will be depressed, which in turn will require the industry to revisit its productivity factors. The industry grew while the South African Rand was trading at about R10 to the US dollar; contracts were concluded at R10 to the US dollar while today the currency is sitting at R6 to the US dollar. The volatility of the exchange rate presents a challenge for international business because exchange rates are difficult to predict, but the firms involved must ensure that they are very productive, efficient and competitive if they want to be in business. Firms need to

trim expenses to ensure that the cost of producing leather seat covers is no higher than elsewhere in the world.

Currency appreciation for any country is a sign of economic growth, though it is dangerous for companies that have revenues coming from abroad. A weak currency favours the exporters and a strong one puts importers in a favourable position (Dragos, 2005).

South Africa is exposed to currency speculation; this involves the short-term movement of funds from one currency to another in the hopes of profiting from shifts in exchange rates. Therefore, the stronger the currency, the less competitive, and the more difficult it will be to do business. A weaker rand is seen as a benefit to the market as the industry gets more rands from their dollar or euro-denominated customers.

The labour movement of South Africa is calling for the South African government to talk the rand down. As outlined in one of the newspaper articles, the chief economist of the Congress of South African Trade Union, Neva Makgetla, says, “the consistent government view on weakening the rand would deter speculative investments in the country as these investments are sparked by the perception that the currency will even be stronger” (Louw, 2005:3).

Mnyanda (2003:2) argues that companies “need to be more sophisticated in their outlook and can no longer add on an automatic assumption of currency depreciation”. His views were supported widely; for example Martin Jankelowitz, who is the head of Market and Economic Research at Investment Solutions, says that a weaker rand is not a solution for the economy since the South Africans had failed in generating jobs despite the rand declining for the past fourteen consecutive years.

However, being engaged daily in international business must be of benefit to the industry as it now knows the predictors to short term foreign exchange rate movements.

2.3.1 Summary

- Firms cannot rely on a weaker rand to be competitive and it seems that a stronger rand negatively affects the leather export industry. However, it is difficult for some firms as they broke into the market during the depreciation of the currency and now the situation has changed to where they have to prove their sustainability.
- Currency appreciation is a sign of economic growth, though it is dangerous for a company that has revenues coming from abroad.

2.4 Why coherence is important in the Automotive Leather Export Industry

Heylighen, (1998: 1) argues that coherence requires the connection and mutual support of different beliefs; “connection means some kind of a semantic or associative relationship, so that information about one idea also gives some information about the other”. Regarding the automotive leather export industry, collaboration and benchmarking must be used as coherent models to improving its supply chain management.

Success in the future will depend on adopting a model based on collaborative relationships with suppliers. This concept (where collaboration is made the centerpiece of strategy), suggests that suppliers must work together with customers to enhance product development to create a collaborative response rather than firms working in isolation. However, the focus should be more on core competencies in order to eliminate redundant processes (Blake, Cucuza & Rishi, 2003).

While competition is about technological innovation, South African firms involved in this industry should join hands and invest in areas such as research and development, technical expertise and engineering to develop products that can be manufactured in a cost-effective manner. The industry should also embark on benchmarking studies to compare the efficiencies in areas like lead times, technology and overall management of the industry from suppliers up to the customers. “Benchmarking is a highly respected practice in the business world. It is an activity that looks outward to find best practice and high performance and then measures actual business operations against those goals” (www.benchnet.com).

Collaboration is the involvement of those who will be affected in the identification of strategic issues, the setting of the strategic agenda or the strategic decision-making process. The outcome might be of higher quality where involvement across industry players could critically propose new ideas and again appraise proposed solutions (Johnson and Scholes, 1999). Collaboration identifies key strategic issues, brings shorter cycle times between suppliers and customers, and reduces costs and benefits from the development of consumer-centric offerings, which can bring new ideas.

Collaboration goes hand in hand with benchmarking, the term that is used by manufacturing companies in revitalizing themselves by comparing the features, assemblies and components of their products with those of their competitors (Camp, 1989).

However, with most companies supplying the same customer, the question is whether collaboration is a good concept for these firms, because going too far in assisting rivals of strong companies in the same industry could kill the goose that lays the golden egg (Kanter, 2005). Most firms are supplying the OEM's with the same products, the difference being the cost of running their own businesses.

Blake, Cucuza & Rishi (2003:1) postulate that the automotive leadership is facing harsh competitive truths. They argue that in order to succeed, firms need to go outside of their cocoons and “create value for consumers and customers faster”, show a greater need for production and process aggressiveness to embrace technological breakthrough in their respective industrial engineering”.

2.4.1 Summary

- Collaboration is a requirement if the industry wants to stay ahead of technology, because it identifies key strategic issues, brings shorter cycle times between suppliers and customers; reduces costs and benefits from the development of consumer-centric offerings, which might bring new ideas. Competition is about technological innovation, industry should join hands and invest in areas like research and development and technical expertise and engineer developing products that can be manufactured in a cost-effective manner.
- Benchmarking should be enhanced as it is a highly respected practice in the business world because it is an activity that looks outward in finding best practices and high performance to measure the actual business operations against competitors or against sister companies overseas.

2.5 Potential barriers to departure in the South African context

One could make a reasonable assumption that in order for a business to flourish, stakeholders should have a clear picture of the factors that may hamper their progress. For the SAAELI these barriers to departure include the following:

2.5.1 Investors' feasibility checks in a given country

Different countries have particular advantages in different product activities, from a profit perspective, it will make sense for firms to disperse their productive activities to those countries where according to the theory of international trade, these productive activities can be performed most efficiently (Hill, 2000:143).

Ballard (2000), a researcher with the Industrial Restructuring Project from the University of Kwa-Zulu Natal, focused on critical issues that impact on the competitiveness of the South African manufacturing sectors. He confirms that the industry is under threat from increased global competition and further states that the automotive leather exports sewing industry came to South Africa opportunistically to take advantage of the MIDP, and the industry used the shelter afforded by this regulation to be competitive without any intrinsic advantages. The intrinsic or inherent value of an organisation may be subject to changes over time as the key issues might be the accurate judgment from shareholders as production dispersion is an international trend towards cost savings (Johnson and Scholes, 1999).

South Africa is now a member of the World Trade Organisation (WTO), a body that polices world-trading practices and mediates disputes between member countries. Together with the International Organizations on Securities Commissions (IOSCO), they are concerned with the protection of investors, ensuring that trade is fair, efficient and transparent, to reduce any systematic risk (WTO News, 1996).

Transparency is based on the belief that corruption is a major threat to development, international trade and seriously distorts economic activity, denying people the benefits of their efforts (Eigen, 2005). Therefore, South Africa had to do away with all previous support mechanisms for the motor industry, because if WTO requirements are enhanced, business has much more to gain from government efforts in opening protected markets to imports and foreign direct investments.

Investors not only look at the cheap labour and incentives offered by emerging countries; together with the International Monetary Fund (IMF) they look at the economic and macro policies' fundamentals of the country. Currently there is confusion, which is of advantage to South Africa, as technically the country is

neither a developed nor an emerging economy (i.e. an emerging country but not fully developed). Today the industry can boast that it has become one of the global players, unlike in the past where it was absorbing only local inefficiencies.

The area of supply chain management needs to be improved as the industry is serving the most demanding and sophisticated customers from Europe as well as the Australian market. As postulated by Slack et al (2001:412), “the supply chain management is concerned with managing the flow of materials and information between the operations which forms the strands or ‘chains’ of a supply network”. The industry, together with its suppliers, should work on an integrated path that will rise itself to business education.

If the industry does not stay with the latest technologies, it will lose out to the rest of the world. Hill (2000) postulates that firms that can successfully develop and market new products will earn enormous returns. Global competition will cause a country to be more on its toes; the industry cannot afford to have waste, as seen with the collapse of the South African footwear industry as a result of not investing in new technologies.

The MIDP has given the industry a lifeline and enabled the South African firms to compete globally; however, the success might not be there forever. Dlamini (2004) said in his column in the Sunday Times newspaper that this is a challenge to the industry’s competitiveness as it is not yet self-evident that captains of the auto industry have a clear vision for the future competitiveness of their companies.

With the country’s current infrastructure, the South African government needs to take a closer look at their infrastructural backlogs, as poor infrastructure will impact on the industry’s logistics. The government of South Africa must revisit its Motor Development Programme, as areas of distance to market are a concern. Most customers are in Europe and freight costs can be a problem if firms are not

subsidized. With global sourcing being the policy of automakers, the industry is competing with the rest of the world, and being far from the markets, the South African industry might not receive information on time, because being close to the market will strengthen the overall potential and ensure developments have the right practical applications. In recent years, time-based competition has grown more importantly where firms that can adapt quickly to unpredictable customer demands will gain an advantage (Stalk and Hout, 1990).

However, regulations like the MIDP, as related from past literature, can hide the inefficiency of firms, as is the case with Brazil's deregulation of the automotive sector in the 1980's where it became clear that the industry was highly inefficient through protectionism (Shapiro, 1996).

2.5.2 Summary

- Investors look for cheap labour, good infrastructure and incentives offered by emerging countries, but together with the World Trade Organisation (WTO) and the IMF, they look at the country's economics and the transparencies of the macro economic policies of a country.
- Proper development of supply chain management must be enforced to improve and add value to the quality of goods supplied.
- The South African government must revisit its MIDP programme, as areas of distance to market is of a concern; without subsidies firms might not be competitive in the long run.

2.5.3 The Industry's threat from competing nations

The threat to South African firms is largely from the Eastern European countries that are to be accepted into the European Union because of the highly skilled labour force, distance to market and transportation costs that might lower the costs of doing business for multinational companies.

With trade barriers permitting in the European Union, Eastern European countries will be given first preference, thereby causing South African firms to lose out on their investments. The risks of increased complexity and distance need to be managed carefully as the delays and hold-ups can be far greater than on products sourced locally. Today global sourcing is all about price and the quality of a product. If the industry meets the demanding standards imposed on it, it will benefit by getting the business (Morgan, 2005).

However, for the industry to be competitive, it has to take advantage of the current situation in which companies are still enjoying the patronage of motor parent firms (Ryan, 2003). Even though the industry is under threat, there is no guarantee that these foreign countries with their new democracies will capture the bigger market share, as there is still a lot to learn. Strategic commitment is a decision that has a long term-impact and is very difficult to reverse (Ghemawat, 1991). For any multinational to enter a foreign country on a significant scale, it has to associate itself with the value of a major strategic commitment.

Currently, Eastern European countries are having problems of their own, due to the huge investment drive from Western countries. The people from these Eastern countries have realized that their standard of living was too low, therefore they started demanding higher wages (to increase their standard of living), giving the South African industry an advantage.

Eastern countries are not our only threats; there is also China and Australia. The Australian automotive industry is questioning the South African Motor Industry Development Programme. Although there are agreements in which South Africa is importing complete cars from Australia, they (Australians) have been very critical all along of the MIDP, especially on issues like the calculation of raw material as local content.

From January 2006, the benefits in terms of the MIDP that were available to the export automotive leather components to Australia, will be reviewed, as the two countries signed the memorandum of understanding because the Australian government was threatening to challenge South Africa at the World Trade Organisation (Cockayne, 2005).

According to Barnes and Morris (2000) in their research, the Australians were deeply concerned about the MIDP, mostly regarding the long-term implications for the technology displacement, and the possible long-term undermining of the South African automotive components sector to their industry.

China poses another threat as they are close to Japan and South Korea, which are the world's leading car manufacturers. Currently, if the Chinese enter the automotive leather industry, the South African industry will be in trouble. Their (China) wage rate is five times lower than ours, they have a fifty-seven hour working week compared to forty-two in South Africa, and annual leave of five days compared to twenty days in South Africa. Companies in China benefit greatly from grants given by the government on loans where interest rates are so low that companies pay up to one or two percent of interest when purchasing machinery or when building new plants (Formby, 2005).

2.5.4 Summary

- South Africa is at a disadvantage as China and Eastern European countries have highly skilled labour, and customers from Western European countries are at their doorsteps.
- With these countries being close to Western Europe, Japan and South Korean major motor companies, it might have an adverse effect on the industry as transportation and labour costs, together with the government's grants offered by China to its industries, will make the South African firms inefficient.

- However, there are positive factors (for South Africa) that have been noticed in some of these Eastern European countries. Labour rates are actually increasing because of the rising standard of living. However, there are no guarantees that these countries with their new democracies will capture the bigger market share, as there is still a lot to learn.
- Countries like Australia are of concern to the SAAELI, as they are questioning the MIDP's rationale, and they are concerned with the long-term implications on the technology displacement and the possible long-term undermining of the MIDP to their industry.

2.6 Strategic advantages for the SAAELI

According to Heckscher-Ohlin's theory (Suranovic, 2004) labour-abundant countries will export more labour-intensive goods while capital-intensive countries will export more capital-intensive goods. With the country's abundance of labour and the labour-intensiveness of leather sewn covers, it will make sense for the South African firms involved in the industry to take the advantage and quote for more business.

From the Infant Industry's argument proposed by Hamilton (1972), it is suggested that developing countries have the potential comparative advantage in the manufacturing of goods.

The following are the attributes taken from Porter's Diamond (1990) thesis on nations shaping the environment for local firms to compete, thus creating the promotion of competitive advantage.

- Factor endowments: The country has the basic factors in natural resources and the good climate that is not interrupted by natural disasters and the right demographics, puts South Africa in the best location to conduct business. On advanced factors, areas like communication

infrastructure, research facilities and the technological know-how have enabled the industry to compete internationally.

- Demand Conditions: The local demand for the automotive leather components has increased and provided the industry with an opportunity to upgrade their competitive advantage. The increase in the export of fully built cars by companies like Toyota, BMW SA and the Daimler Chrysler companies has stimulated the industry to improve product quality.
- Related and Supporting Industries: The presence of internationally competitive suppliers has made the industry benefit from investments where government, together with firms, has helped the industry to achieve a strong competitive position internationally.
- Firm's strategy, Structure and Rivalry: The strong association formed through domestic rivalry has created the competitive advantage, as vigorous domestic rivalry has made firms look for ways to improve efficiencies, making them better international competitors. Domestic rivalry creates pressures to innovate, improve quality and reduces costs.

However, developing countries cannot compete with well-established industries in most developed nations. In allowing an industry to get a foothold, governments should temporarily support new industries until they have grown strong enough to compete on their own (Banders, 1986).

Global vehicle manufacturers established South Africa as a reliable supply base, which led to marked improvements in quality standards. A principle reason for the shift in ownership relates to the manner in which exporting contracts were secured as well as the need to access global design capabilities. Products made in South Africa needed to be manufactured according to global design developed by a leading multinational company, usually the parent company (TISA, 2003). With trade barriers permitting, the South African government has put its weight behind the industry. As reported in their eighth report on the state of the South African automotive industry (2004), the Minister of Trade and Industry, Mandisi

Mpahlwa said that global decision-makers cannot afford to overlook the South African automotive industry in their short listings. He said that in a global village where products are delivered on the doorsteps of OEMs and system suppliers, the location of suppliers is becoming increasingly irrelevant. The industry is well positioned to capitalize on the future global developments.

However, the situation has changed, because firms that can develop their products quickly with good logistics' methods can get contracts irrespective of the distance to market. The problem in the automotive industry today is that the focus of competitiveness is on investing in new, attractive and affordable products rather than incentives (Tay, 2003).

Locally, the industry contributed to the transfer of skills; there was a jump in industry by people employed in the shoes and clothing sector to where they are today absorbed in the automotive export leather sewing sector.

While the country is enjoying some competitive advantages, the industry should seek contact with outside partners for market access, technology, process know-how, production justification and other joint venture benefits. The major operational strengths identified in the industry are the competitive manufacturing costs, the ability to manufacture to the highest quality specifications and the technological competence.

The industry has proved that is able to add value to the global strategies of parent companies and it has enhanced positive developments such as the sharing of knowledge and access to the latest technology, which is very vital to the industry's sustainability.

Companies have built world-class facilities in South Africa and the industry has become more and more capital intensive, which is good for business because the more firms in the country, the better it is for local competition. The South

African Department of Trade and Industry confirms that the country has the ability to build plants much more quickly and at lower costs than its competitors (TISA, 2003).

2.7 Conclusion

Governments will protect their infant industries in order to achieve social stability because of the fear that unemployment can lead to social instability. These infant industries will be protected until they have grown to an extent that they can compete on their own.

With today's complex design of automotive leather seat covers, developing countries like South Africa stand to gain from contracts awarded by leading multinational motor companies, as it is expensive to manufacture these covers in developed countries.

The automotive leather export sewing industry in South Africa has transformed itself to where it is now globally connected, and with the assistance of the MIDP the country has seen more foreign direct investments from leading multinational companies.

It must be noted that investors do not only look at cheap labour, good infrastructure or incentives offered by emerging countries, but together with the World Trade Organisation (WTO) and the International Monetary Fund (IMF) they look at the economic and the macro economic policies of a country.

Firms in the industry should take advantage as multinational companies are displacing their own production to developing countries with the aim of lowering costs.

However, firms cannot rely on a weaker rand to be competitive; it seems that a stronger rand negatively affects the leather export sewing industry because it

must be difficult for firms that broke into the market during the depreciation of the South African rand. The situation has now changed to one where they have to prove their worth and the way they are going to sustain themselves from global competition. Currency appreciation is a sign of economic growth though it is dangerous for companies that have revenues coming from abroad.

In today's world competition is about technological innovation more than anything else, therefore it will make sense for firms to collaborate in areas of research and development, technical expertise and engineering, so that the industry becomes the market leader in automotive leather sewn parts, developing and producing goods in more cost effective ways.

Firms should always consider benchmarking, which is a highly respected practice in the business world; it is an activity that looks outward in finding best practices and high performances to measure the actual business operations against competitors or against sister companies overseas. Proper development of supply chain management must be enforced to improve and add value to the quality of goods supplied.

The highly skilled labour force in Eastern European and Asian countries, their location, and distance to market brings advantages the South African industry does not possess. Most customers are at the doorstep of leading multinational motor companies, and transportation costs are much cheaper as trains can be used as a mode of transport, unlike the South African firms who have to use airfreight to transport goods.

However, there are positive factors that have been noticed in some of these Eastern European countries; labour rates are actually increasing together with their population's standard of living, no guarantees that these countries with their new democracies will capture the bigger market share as there is still a lot to learn.

Countries like Australia are still questioning the South African's Motor Industry Development Programme, worrying about the long-term implications for the technology displacement and the possible long-term undermining of their automotive industries.

The South African government has put its weight behind the industry. The current Minister of Trade and Industry, Mr. Mandisi Mphahlela, explained during one of his speeches, that global decision-makers couldn't afford to overlook the South African automotive industry. He confirmed that in a global village where products are delivered to the doorsteps of OEM's, the location of system suppliers are becoming increasingly irrelevant.

Chapter 3

Methodology

3.0 Introduction

Churchill (1995:11) defines research as not only to collect data, but rather its role in the actual collection of data and analysis, research plays an important role in determining the information that is needed to address specific issues as well as the implications of what the collected information suggests. Research requires answers to a number of questions and a number of decisions about the techniques to be used in solving a research problem. Research is a systematic inquiry that provides information to guide business decisions (Cooper and Schindler: 2001:15). They further state that good research generates dependable data if derived by practices that are conducted professionally and that can be used reliably for managerial decision-making.

Chapter 3 discusses the key aspects such as the preparation of the study design, data collection, sampling, anonymity and the instrument design used to present the data.

3.1. Study Design

The unit of analysis in this study was a social intervention programme and required indirect observation from the perspective of a number of individuals affected by it (Mouton, 1996). Therefore, a case study approach was deemed most appropriate for this study (Babbie and Mouton, 2001).

3.2. Data Collection

2.1: Primary data

Using the communications approach, the data was recorded and presented through semi-structured interviews in order to understand the views and opinions of experts (Sellitz, Wrightsman and Cook, 1976). Due to the dynamics in

geography and distance for the people interviewed, I anticipated the personal interviews being costly, though I felt I had more control during the interviews and the approach was useful in probing questions, as it afforded me the opportunity to use scoring devices (Cooper and Schindler, 2001).

2.2: Secondary data

Historical data from past research will be used to identify areas that did not receive attention. (See Attachment 2, letter of Information and consent that was sent to relevant stakeholders.)

3.3 Sampling

Judgemental (purposive) sampling was employed in order to achieve an insider perspective on the topic of investigation (Churchill, 1995). In order to achieve triangulation, seven units of observation were chosen for investigating this phenomenon.

The following five stakeholders were interviewed:

1. Three exponents of the automotive leather sewing industry, i.e. the Senior Managers of AUNDE SA, Bader SA and Lear Companies.
2. The Marketing Executive from Seton Company, a tannery supplier to the industry.
3. The Purchasing Manager at BMW SA, which is a client to the industry.
4. Richard Ballard from the academic sector, at Kwa- Zulu Natal University,
5. A representative from the South African government in the Department of Trade and Industry.

The interviews were all conducted as planned, except for the company Johnson Control because I was unable to reach and get their acknowledgement for the interview. Instead I included Bader SA, which is also involved in the sewing and export manufacturing of automotive leather for replacement. All respondents from the companies interviewed will be named as industry representatives while

respondent from the Kwa-Zulu Natal University as academic, and from the Department of Trade and Industry as a government representative. The names of the respondents will be changed to protect their identities.

Conducting personal interviews on this research was expensive as most respondents were from the Gauteng province. However, I found out that personal interviews allowed me to probe for open-ended questions and clarify unclear questions because I met people who have been in the industry for more than twenty years, and have seen the establishment and growth of this industry through the MIDP.

3.4 Anonymity

All respondents interviewed were given false names to protect their identity and the confidentiality of the companies they work for:

Respondent A is a Commercial manager at Aunde SA

Respondent B, a researcher at the University of Kwa-Zulu Natal

Respondent C, Marketing and Sales manager at Bader SA

Respondent D, Financial manager at Lear SA

Respondent E, government official in the Ministry of Trade and Industry

Respondent F, Marketing director at Seton SA and

Respondent G, the Commercial manager at BMW SA.

3.5 Instrument Design

3.5.1 Researcher as Filter

With my fifteen years experience in the industry, I am in a position to change an insider perspective. As the interviewer, it was my undertaking to pose questions that were specific rather than general to avoid respondents giving answers that might not be helpful to the study.

3.5.2 The data collection instrument

The interview was aimed at answering the research objectives, and to this end six questions related to the status quo of the MIDP, whilst a further four questions related to developmental issues (Interview Schedule; See Attachment 2). Whilst broadly directed at these areas, the questions were also broad enough so as not to limit the perspectives of each respondent (Babbie and Mouton 2001: 289)

3.5.3 Data collection

The verbatim transcripts of the tape-recorded interviews were used as a basis from which to analyse the primary data.

3.6 Data Analysis

Data was initially coded manually and then through Atlas Ti 4.1 (Computer Assisted Qualitative Data Analysis) programme (see attachment 3). The themes were then reported and discussed.

3.7 Conclusion

This chapter serves to outline the criteria and the procedures that the researcher had to consider in the planning and carrying out of the research study. The planning entails the permission, anonymity, selection of respondents who were judged on their expertise and their ability to provide the desired information while tapping into their collective memories of expertise.

Using the communications approach, data was recorded and presented through semi structured interviews, historical data from past research is used in the study to identify areas that did not receive attention. Conducting personal interviews was expensive as most firms are in the Gauteng province though personal interviews allow a researcher to probe for open-ended questions. The data was initially manually coded and then coded through the Atlas Ti 4.1 where the themes were reported and discussed.

Chapter 4

Results, Discussions and Findings from Interviews

4.1 Introduction

From the discussion in Chapter 2, it seems fairly clear that the landscape into which the MIDP programme was conceived has changed fundamentally from both a political as well as an economic perspective. South Africa was rapidly propelled from a state of political isolation to a bastion of civil rights. Similarly, the economy has seen exponential, and at times uncontrolled, growth and whilst it may not yet be able to claim 'developed' status it can no longer be classified as purely 'developing'. Therefore, it stands to reason that unique solutions are required to serve its changing needs.

The SAAELI serves as a particularly poignant case; therefore, this chapter will focus on status quo as well as developmental aspects related to this industry.

To this end, this chapter will cover the following themes that developed from the interviews conducted on industry experts, namely:

- How the MIDP transformed the South African Automotive Export Leather Industry
- Strategic advantages to the automotive leather export sewing industry offered by the MIDP
- Developmental issues awaiting the automotive leather export sewing industry
- Strategic disadvantages for the South African Export leather sewing industry.
- The Influence of the Strong South African currency, and

- What are the management strategies with respect to barriers to departure?

This chapter makes the assumption that the SAAELI will change in the years to come; however in what manner is yet uncertain, because as respondent B states:

“Due to the country’s isolation from the rest of the world, the motor industry was able to absorb some of the local inefficiencies. Industry experts argue that since there is democracy in South Africa, people have realized that they cannot get away with what they used to do ten years ago in terms of repressive minds from management in how they operated” (P2: 9) (99:101).

4.2 How the MIDP transformed the South African Automotive Export Leather Industry

The MIDP instilled three key changes in the industry since its inception:

- Learning brought about by international business exposure?
- Competitiveness in terms of labour efficiencies and transfer of skills
- Potential factors to the sustainability of the industry

4.2.1 Learning as brought about by international business exposure

Respondent A argues that the support mechanism the government had in place in the past is diminishing in compliance to the WTO (World Trade Organisation) requirements where export subsidies and local content requirements for export products are no longer regarded (P1: 1) (21:24).

Respondent B confirms that the learning part was very weak as the industry by then did not understand what was going on, especially with the high tariffs because they were supplying a relatively undemanding local market (P2: 1) (29:32).

...“I think there is something to be said for increasing the number of firms; if one firm exposes itself to the business world the learning will come through” (P2: 3) (46:47).

Respondent A further explains that since the learning was weak and most employees were not educated and some semi literate, there was a need to bring the employees to the level of understanding where they can work within the requirements set out by customers which compels today's firms to adhere to processes like the Six Sigma, ISO 9000 and the VDA Systems.

It did not take much training to get the quality standards right because there was a jump in industry. As Respondent B said, “looking in terms of the leather industry, there is something going on because a whole lot of people that were making shoes and clothing are mostly absorbed in the leather sewing industry” (P2: 4) (53:56).

The same comments were confirmed by Respondent F and Respondent C on the tanneries' side as they are the main supplier of hides to the sewing plants; they tell us that players in the shoe industry who were manufacturing the gloving leather took the opportunity to branch out to the automotive leather industry (P3: 4) (50:53).

With the footwear market virtually collapsed, Respondent F states:

... “we as a tannery looked in terms of what could be done to sustain the production and that we saw the motor industry as being a long term growing market” (P6: 1) (10:13).

4.2.2 Competitiveness in terms of labour efficiencies and transfer of skills

Respondent G gave an example of the cheap labour rate from Eastern European countries; he argues that there is a debate about the MIDP - whether it has done enough for the transfer of skills (P7: 3) (21:22), but “If you go out of the

hypothesis that the MIDP has been successful, we will find that it has created a positive influence from the transfer of skills" (P7: 2) (18:21).

Respondent D echoes the same view:

...“There has been a positive impact with foreign companies investing and transferring skills to South African people” (P4: 16) (36:38).

Respondent B sees it differently - that the MIDP is not specifically about skills but about bringing certain business investments to South Africa (P2: 54) (24:26).

He emphasized that the industry is just getting better with management being mostly South Africans (P2: 55) (48:50).

4.2.3 Potential factors to the sustainability of the industry

Since the MIDP does not offer any direct incentives, finance or funding, it encourages the motor industry to invest in South Africa in terms of building plants and purchasing of machinery (P6: 7) (56:58), hence the influx of capital and the motor industry's growth in South Africa (P7: 1) (14:15).

Respondent B gives his view that “some of the car manufacturers will deliberately go and set up plants like the Precision firm in Port Elizabeth for catalytic converters, a subsidiary of Delta Motors SA, and all this is because of the MIDP's incentives" (P 2:16) (172: 174).

With global strategies pursued by OEM's today - splitting up production to create bigger volumes and economies of scale benefits - the industry is well positioned to continue getting the business if they maintain and improve their products. The industry must strive for continuous improvement because since it is exposed to competition, research and development, experience and all the pressures, it must be able to solve problems set out by customers' requirements (P6: 17) (143:145).

The MIDP created investment opportunities where foreign tanneries entered South Africa due to local firms not being able to supply, or not having the capacities for the volumes the OEM' s were looking for (P3: 2) (35:38). The transfer of investment localized products and the industry more in South Africa, considering that in 1987 there was only one tannery in the country (P3: 3) (46:49).

Respondent D agrees with other respondents that there are a lot of overseas companies investing in South Africa, buying out companies and also investing in themselves (P4: 3) (42:44).

Respondent F further confirms that looking at the tanneries, there is a very high capital on fixed plants, which cannot be easily moved. Before one can shut down and scrap the plant, one will have to look at all the alternatives of how to overcome or to solve the problems (P6: 18) (171:174).

“Again, it is a trade-off between closing the plant and moving it somewhere else, but it all suggests a short term solution because moving the plant to some other country before shaping up, and later realizing it was a wrong decision could have a tremendous effect - like Seton in Hungary” (P6: 19) (177:180).

Looking at factors that can make big business disinvest in South Africa, Respondent B suggests, “this had all sorts of implications for tanneries, which had a long-term stake, unlike the sewing plants, which are easier to set up” (P2: 17) (177:179).

Everyone believes that the MIDP allowed the industry to become more competitive (P1: 9) (171:173); the programme has encouraged big business in the automotive sector, because the more you sell the better it is for them (P3: 5) (64:66). The only thing that needs to be in place is that there must be a sort of

rearrangement to the MIDP to make it user-friendly for OEM's to still benefit from it (P3: 11) (124:126).

Both respondent D and E agree that the MIDP encouraged investment in South Africa:

“The positive thing is the programme is not just bound to one sector; you need different skills for sewing than assembling of a vehicle, assembling a car or building a catalytic converter” (P4: 2) (34:36).

Respondent E further confirms that the MIDP is the most important driving force and main reason for expansion and export performance (P5: 1) 14:15).

Before the MIDP there were no exports, only the inefficient, uncompetitive inward-focused industry. However, since the MIDP, South Africa is now part of the global market and integrated into global strategies of parent companies. However, as argued by Respondent D, the industry is competitive because it has the MIDP as an advantage (P4: 4) (73:74). Respondent G agrees with Respondent D that due to the MIDP, the industry is in a position to compete but it is a very dangerous thing for people to rely on (P7: 5) 30:32).

Regarding trade/competition between Western and Eastern European countries, respondent F argues that it will reach equilibrium after a while; what is going to happen is that a lot of work will be going out of Western to Eastern Europe and that will have a detrimental effect on Western Europe. The people from Western Europe will start suffering while the unemployment will be on the increase; the people from Western Europe will become poorer while the Eastern countries will have a huge influx of work (P7: 9) (100:106).

The Eastern European countries will increase their demands or requirements for their level of pay, but it must be understood that though there is a drive to invest in Eastern Europe, most investors are still looking at Western Europe (P7: 11) (113:114).

4.2.4 Summary

The support mechanism the government had in place in the past is diminishing in compliance to the WTO (World Trade Organisation) requirements where export subsidies and local content requirements for export products are no longer regarded. With South Africa being a democratic country, people have realized they cannot get away with what they used to do ten years ago while the country was isolated, as it contributed to the weak global learning/education because the motor industry by then was supplying an undemanding local market.

The weak learning experienced by firms coupled with semi-literate employees, forced the industry to train and develop people to understand the requirements of the international quality standards like the ISO 9000, Six Sigma, TUV Audit and the VDA systems. However, it did not take much training to get the quality standards right as there was a jump from one industry to another; people that were previously in the employment of the clothing and shoe industry were absorbed. Therefore, tanneries took the opportunity in branching into the automotive leather sewing industry.

Different views were expressed regarding the MIDP in relation to the transfer of skills; some experts argued that the MIDP is not specifically about skills, but by bringing certain business investments to the country, the industry is just getting better being managed by South Africans.

Some respondents says people make a mistake in thinking that the MIDP offers direct incentives, finance or funding; instead it encourages the motor industry to invest in building plants and purchasing machinery. With investments in fixed plants foreign tanneries have established, which is backed by huge capital, investors will think twice before considering shutting down or relocating somewhere else. Closing a plant and moving it elsewhere and later realizing it was a wrong decision could have tremendous effects.

The MIDP has allowed the industry to become more competitive and has encouraged big business in the automotive sector because the more they sell the better it is for them. The positive thing is the programme is not bound to one sector; what is required is a sort of rearrangement of the MIDP to make it user-friendly for OEM's and sewing plants to still benefit from it.

4.3. Strategic advantages offered to the automotive leather export sewing industry by the MIDP.

4. 3.1 Strategic advantages provided by the MIDP process

Respondent B describes the MIDP as the main driving force that has promoted the automotive export sector in South Africa. He states:

“It has definitely transformed the shape of the industry and it is by far globally connected resulting in a lot of learning with improved skills as well” (P2: 33) (50:53). “The emphasis has switched to export, and with export the quality of products promoted integration and with that integration it promoted the industry globally” (P2: 32) (32:35).

Respondent B argues that this has lead to a significant return in foreign investment (P2: 34) (64:66)

Respondent C sees the MIDP as a good programme for South Africa because, “...many people turned to the industry because of the MIDP's incentives and investments; hence its growth” (P 3:17) (27:29).

However, his view stands on the condition that the industry remains attractive as an investment and not an opportunity (P3: 18) (120:124). Respondent D argues that as long the industry is competitive it will still be viable past the year 2012, because Africa is the third largest international producer of hides after Argentina and the Mexican states (P4: 27) (136:139).

Similarly, respondent D suggests that the MIDP has ensured a very good future for the automotive suppliers and has opened the export market for the country, thereby making it competitive with the rest of the world (P4: 14) (12:15). He states that there has been a positive impact with foreign companies investing and transferring the skills to South Africans because the industry is so competitive it has won contracts from their European competitors (P4: 17) (114:115).

Furthermore, respondent D states that with South African companies competing with developed nations like Europe and Mexico (P4: 15) (20:23) it indicates, at least for the short term, that the industry has gained the competitive edge required by its customers.

Respondent B holds a similar view that the reduction of waste through quality improvement initiatives has made firms more efficient, as the stock produced can be on the customers' production lines within two to three days" (P2: 39) (204:208).

Respondent A argues that the South African industry is still being awarded more business than their rival Eastern European firms as these countries have higher wage costs, which lowers productivity. He states:

"...most companies have to pay their employees reasonable wages to ensure people do not live in 'drench pipes and in squalor'" (P1: 19) (167:170).

Respondent D and F echo this view as they respectively state:

"If these countries are included in the European Union they will have to come in on the same level of the rate of pay, living standards and governance, which they do not have at this stage " (P4: 18) (146:149).

And,

"Moreover, with the Eastern European countries' having entered into the European Union the expectations of their people in those countries is now to live at the same standards as their Western European counterparts. The

wage demands have gone up; their expectations in terms of infrastructure, housing and anything else are all escalating quite rapidly. These countries are starting to rise to similar cost structures like Western Europe. However, they have quite good years ahead of them before they can do that” (P6: 34) (205:211).

4.3.2 Summary

Respondents tend to agree that the MIDP transformed the shape of the industry to global status. With the MIDP in place the emphasis switched to export, and with export it promoted the quality of products through an integrated path that promoted the industry globally. With the business that was largely South African; foreign firms invested significantly and the industry is now competing with firms from developed countries like Europe and Mexico, which all resulted from quality improvements in the production of leather sewn seat covers and the reduction of waste.

Some experts explained that the MIDP has ensured a very good future for the local automotive suppliers where it had opened the export market for the country, making them competitive with the rest of the world. They further describe the MIDP as something that will not totally disappear; because its attraction is all about incentives rather than investments. As long as the industry is still competitive it will still be around past the year 2012 as Africa is the third largest producer of hides after Argentina and Mexico.

The industry should take advantage of the situation in Eastern Europe where people are battling to live to the same standards as their Western counterparts because issues like infrastructure still has to be developed. It shows for the short term that the industry has gained the competitive edge required in international standards.

4.4 Developmental issues awaiting the Automotive Leather Export Sewing Industry.

4.4.1 Issues Relating to the Productivity and Efficiency gains

Respondent E suggests that the global trend is to move production from developed to developing countries in order to save costs (P5: 8) (53:54).

Respondent D also gives a similar view that the industry needs to be more intelligent in looking at avenues where it can do things smarter and cheaper,

“ things like the plastic products that we still import, the metal that we still import but are available in South Africa”(P4: 26) (130:134)

Respondent D further states the view that if the industry can localize the bigger content of its components and raw material at its disposal, then it will be more competitive and the total efficiency in output will be improved (P4: 21) (122:124).

Respondent A states-

“...Thus competing against other developing nations where relatively cheap labour is used especially in countries like China, Mexico and Turkey it means that to be competitive the industry must become much more efficient with respect to offsetting its labour cost” (P1: 22) (83:87).

Respondent A suggests that increasing volumes and containing raw material at lower costs will improve the productivity gains to the industry (P1: 20) (42:45).

Similarly, respondent G states that for people to rely on the MIDP the biggest problem is that they do not look at their labour efficiency side of things; not much has been done to improve the productivity for the industry as a whole to survive without the MIDP, and to the effect that it is compounded by the strong currency (P7: 19) (45:50). For respondent G the MIDP is no longer contributing to industry efficiency and therefore “the best thing is to disregard the MIDP and see it at something that just helps the industry along.” (P7: 22) (77:80).

4. 4.2 Technological Issues

According to respondent F, technology is the key in providing a product in tune with the latest industry trends and specifications (P6: 43) (157:159). He further states:

“The industry has to keep the technology and equipment up to date with the rest of the world; the same goes for the suppliers, especially in the chemical houses, to see what they can do in terms of research and developments on the physics and leather’s aesthetics” (P6: 42) (154:156).

Respondent A agrees in essence,

... “that the technology should not replace human resources but should rather bring more jobs and business into the country, leading the way into the sewing technology” (P1: 25) (139:141).

Respondent F also emphasizes the issue of keeping up with the latest technology. For him

“...Investment brings along changes, motivation and obviously the investment in further technology” (P6: 31) (58:63).

Respondent F further gives a different view on technology. He states:

“We do not have the problem, the technology and expertise available in South Africa; it is a matter of control, control and control. Once you have developed a process, it is down to controlling the consistency of that process with obvious ongoing research and development to improve on it” (P6: 35) (44:47).

Respondent E also notes between technology and investment that, “accommodating exports requires investments which includes technological transfers and skills upgrading” (P5: 2) (19:22).

4. 4.3 Competitiveness and collaboration

According to Respondent A, the industry should be in a situation where it will move ahead with proper leadership working together to get the synergies from different companies (P1: 23) (123:125). He stipulates the areas requiring collaboration in issues like raw material and of course the technology (P1: 24) (134:136).

Collaboration in the export automotive leather sewing cannot be guaranteed nor will it happen, since the firms involved are competing with one another.

Respondent A explains further that collaboration is non-existent in the industry as competition exists with respect to global competitiveness but competitors are very protective with their business (P1: 7) (120:122).

Respondent B interprets collaboration as effective supply chain networks. He argues that local suppliers have to think far more creatively to work with foreigners to establish more business opportunities that might bring the creation of supply customer partnerships (P2: 50) (82:84). He further contends that ...” the real weak point is not the first tier supplier but the second and third suppliers. The weakness is mainly on poor quality of goods supplied, and this problem can only be resolved by the proper supply chain management development” (P2: 51) (215:220).

Respondent B, through his company, Kwa-Zulu Natal Benchmarking Club, together with Justin Barnes from the BM Analysis, conduct and do the tracking across manufacturing firms on lead times and inventory levels. The lead times in the industry are coming down, the quality of products are improving, meaning the efficiency is well on the increase (P2: 8) (92:94), they often visit similar companies overseas secretly on direct benchmarking to see how they are operating, especially the Eastern European countries where most of the industry’s competitors are. All that comparison is measured on industry average and international averages (P2: 12) (117:121).

Respondent B explained that the industry needs to work together, already Eastern European countries “have much more capable and matured industries especially in the textile” which the South Africans do not have. (P2: 31) (267:269). If the MIDP falls away in 2012, the industry will have to start working on its efficiency rates and prove to the investors that they can make it on output per capita. Respondent B explains that as the proportion of exports to local supply changes, the industry will see a kind of maturing where all the eggs will be in one basket (P2: 22) (231:233).

Respondent C’s response to collaboration is that the role players only attend meetings on collaboration if there is something of future interest that might affect their firms (P3: 19) (85:87). The implication here is that an incentive is required that may have universal appeal to all local stakeholders

Respondent C further states-

“I do not think openness exists as there are factors contributing to profitability, which companies might not want to disclose as to them it is confidential” (P3: 8) (83:85).

Respondent D suggests that this incentive may be the threat of open, unrestricted global competition, which will require some collaboration locally in order to secure the industry’s future (P4: 20) (112:114).

Although collaboration is non-existent, there *is* potential for collaboration as the role players must have a common interest in trying to ensure the continuation of the MIDP for the leather sector, or involve the government, through the Department of Trade and Industry, to come up with some form of incentive and subsidies for protection (P6: 40) (129:135).

Respondent B suggested that collaboration should come as a recommendation.

“The whole idea is so interesting because most of the firms currently in business are foreign players and so efficient and competitive that they do not see the need for collaboration” (P2: 18) (181:185).

Respondent B gives a warning that,

“It makes sense on certain things and it obviously does not make sense to sit around and mention what strategies to take pertaining to market opportunities, whereas supplying the same customer will make sense on supply chain management development” (P2: 19) (190:193), establishing more business opportunities that might bring the creation of supply customer partnerships (P2: 7) (83:84). “It is surprising to see the South African catalytic industry engaging and collaborating on all matters concerning their industry, whereas in the automotive leather export industry everybody is only looking after their own interests” (P2: 26) (156:160).

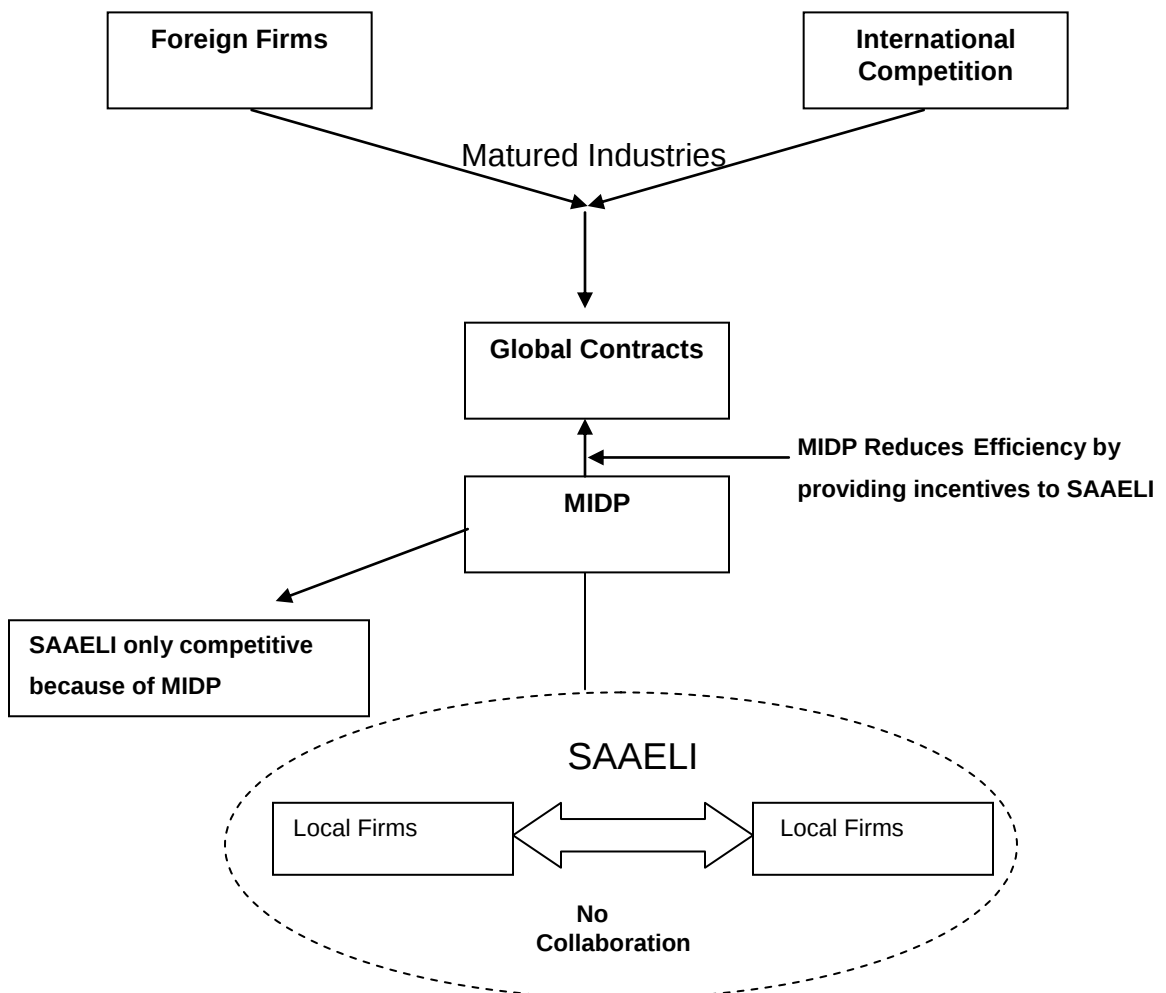
For the short term, the MIDP helps the industry to be sustainable. As shown by the diagram (Figure 2), the MIDP, with its incentives, gives the SAAELI the competitive edge through its breaks and rebates from exporting goods.

The problem with incentives may be the threat of open, unrestricted global competition where foreign companies are competing on their own abilities, as these companies are from developed and matured industries. The MIDP limits the efficiencies of the SAAELI, as the question must be asked: how much is the government spending in protecting in incentivising this industry?

Collaboration among the SAAELI members is needed because openness does not exist. The threat from foreign firms is that these companies are well established; they do not need government assistance, areas of supply chain management is already in place, and they can tender for any contracts as they have the capital, technology and expertise. Members of the SAAELI should show interest in collaboration to ensure the continuation of the MIDP.

Considering the evidence observed, the tension that seems to exist between competition and collaboration is perhaps best illustrated visually (see Figure. 2). International firms function efficiently and can therefore compete as individual entities. However, in South Africa the MIDP artificially “boosts” efficiency. Should the MIDP fall away, South African firms will have to collaborate in order to be efficient. However this may lower the competitiveness of local firms across the board.

Figure 2: The tension between collaboration and competition



4. 4.4 Government's involvement in SAAELI

Government involvement in the automotive leather industry will probably always exist to some degree. The following comments present possible reasons for its continued input:

“The support mechanism the South African government had in place in the past is diminishing in compliance with the WTO (World Trade Organisation) requirements where export subsidies and local content requirements for export products are no longer regarded”(P1: 1) (21:24).

“With the distance to market being a huge disadvantage to the industry, it will be difficult to compete with Eastern European countries if the government of South Africa does not intervene in assisting the industry” (P1: 28) (181:184).

“Global sourcing is the policy of OEM”s today; however, South African companies are now finding themselves competing with countries that protects and subsidizes their own industries”(P6: 37) (72:74).

“Although there are obstacles to meet with the investment and technology that is available worldwide, a little bit of the leveling of playing fields from the government should be seen in maintaining the South African industry”(P6: 45) (192:195).

“The MIDP in the short term might help to sustain, but the principle of the current MIDP of reducing the scale of benefits and probably phasing out the programme in 2012, will put pressure on those companies to find efficient and productive means to compete worldwide” (P6: 38) (81:84).

Competing against other developed nations where relatively cheap labour is practiced (in countries like China, Mexico and Turkey), it was found that to be

competitive, the industry has to become much more efficient in order to offset their labour costs (P1: 22) (83:87)

Respondent D confirms that if the government can assist in localizing the bigger content of the bulk components that are imported, that will make the SAAELI more competitive and the total efficiency in output can be improved (P4: 21) (122:124).

..."Our major factor that is to be considered is the freight costs, because many bulk components we use are imported, we work on it and export it again" (P4: 13) (120:122).

Respondent F further comments on the industry's collaboration through the MIDP stating:

..."I think where there is potential for collaboration we must have a common interest in trying to ensure the continuation of the MIDP for the leather sector or for the MIDP to come with some form of incentives or subsidies for protection. In addition, if we are not on the level playing fields the industry is at a disadvantage, therefore on that aspect, we can do it on a collaborative or industry bases and that will include all component sector industries in South Africa" (P6: 40) (129:135).

4.5 Summary

To compete with firms in the developed countries, the industry should be more efficient to offset its labour costs. The industry should look at ways where it can do things smarter and cheaper; localizing the bulk of imported components can contribute to the improvement of the industry's total efficiency in output.

Some respondents argue that some firms rely on the MIDP while not looking at their labour efficiency side of things; being productive is to disregard the MIDP and see it as something that just helps the industry along.

The industry has to keep the technology up to date with the rest of the world while involving its suppliers in terms of research and development.

Other respondents suggested that since the industry is labour intensive, the technology required must be such that it will not lay the people off, but instead create more jobs.

Respondents differed greatly on the issue of technology, some saying the technology is available and it is only a matter of controlling the processes.

Most respondents agreed that the industry should collaborate, though issues pertaining to market opportunities will not make sense as most firms supply the same customers. Openness will not exist, as factors contributing to profitability will not be disclosed as it is confidential but collaboration will make sense where the industry should share ideas focusing on skills, raw material and technological issues. Some said collaboration should come as a recommendation, but the problem is most firms are foreign-owned and do not see the need for it. It will make sense, as South Africa has no mature industries compared to countries like Turkey.

The distance to market will force the government to intervene if the industry is to be competitive, as it competes with firms in those countries that still subsidize and protect their industries. For the short term the MIDP will help firms in the industry but with the government's review on the MIDP in reducing the scale of benefits, it will put pressure on companies to find efficient ways to compete globally. Some explain that, as the proportion of exports to local supply changes, the industry will see a kind of maturing where all the eggs will be in one basket.

4. 5 Strategic disadvantages for the South African Export leather sewing industry

From the interviews, it can be seen that the disadvantages for the industry are related to labour problems facing the industry and disadvantages in relation to location economies. Accordingly, this section reflects the respondents' comments in this regard.

4. 5.1 Labour problems facing the industry

Respondent F states that In the past, there were more inherent advantages where the industry had relatively cheap labour, but with the Eastern European countries coming into the arena, and China on the doorstep of major Japanese motor companies, there might be a bigger impact on the industry because of lower labour rates offered by these countries (P7: 15) (87:90). Respondent F further confirms:

...”twelve years ago, labour in South Africa was very cheap with a lot of incentives, and today the industry is competing with countries like India, with its workers in the same industry paid sixty-seven US cents an hour. Workers in India can work up to fourteen hours a day, seven days a week with no reimbursement, because for them they are very pleased just to have a job” (P6: 21) (187:191).

In South Africa there are no labour regulations in terms of piecework, which the industry is not allowed to introduce, holding it back on competition with other countries (P6: 29) (185:187).

In terms of the South African tanneries, these firms are struggling to “fill the capacities that they have created based very often on promised potential business which motor companies put to them” (P6: 26) (114:116). Most tanneries are sitting with excess capacities in the hope they will get more business. Very often the OEM's will give target prices to the tanneries, and if they do not meet

them the OEM's will say sorry. Therefore, "collaboration does not help because if we do not meet their targets, someone else within the industry will get the business". (P6: 28) (125:129)

Inclusion of the Eastern European countries is already affecting the industry. "Using Poland and Austria as an example, those people are coming into play with better rates, their efficiencies and quick turnaround times play a major role against the South African industry" (P3: 16) (144:148).

These countries entering the industry were costing their products very cheaply in regard to their labour rates together with their cheap electricity and water supplies (P6: 30) (202:204).

Respondent G further confirms that the industry needs to understand that the "people in Eastern Europe are desperate for work; they are willing to work for much less compared to the rest of the Western Europe" (P7: 16) (98:100).

Respondent A says that "the labour rate in Mexico and China is a quarter compared to South African firms, and Turkey, which is more expensive than South Africa, is thirty percent more productive than the South African labour force, meaning their overall efficiency makes their labour rate cheaper" (P1: 10) (87:91).

Respondent D further responded by saying that on the sewing side, the industry does have some difficulties in reaching the production levels compared to Mexican counterparts; the Mexican plants are operating "in ways that one cannot believe" and they are getting into manufacturing with a low cost environment, which is a big concern for the South African industry. (P4: 9) (84:89).

Respondent B confirms that there has been a lot of individual opportunism for a while, and though probably short-term, he does not know if the industry had a sort of stake in the long-term survival (P2: 25) (174:177).

“There is a big challenge for the South African industry’s role players to really put in more effort as Eastern European countries do not have the strong labour unions as in South Africa”, Respondent C (P3: 22)

(148:150).

Respondent G further points out that though the infrastructure in Eastern Europe is poor, it can be developed from scratch very easily, emphasizing that nobody from Europe is going to come and develop the infrastructure in South Africa.

Foreign companies might invest in plants and machinery but it will definitely not benefit them to build roads and so forth (P7: 8) (90:95).

The MIDP is giving quite the “competitive edge with its breaks, and rebates from exports but the South African firms are not pushing enough on productivity” (P4: 10) (65:69).

However, the growth we have seen from the late 1990’s will never happen again as a direct result of the MIDP (P2: 28) (241:243), because of diminishing benefits from this programme, which has to be in line with other countries protecting their industries.

4. 5.2 Disadvantages in relation to location economies

The advantage to the Eastern European countries is that they are neighbours to most big automakers, “one can put the goods on a train and within an hour, they will reach their destination”. Whereas the cost of flying a seat cover from South Africa if compared to the Eastern European countries is so huge that without the MIDP the industry will be struggling (P2: 29) (251:257). The worst fear is the integration of those industries because it is so easy to work across borders and the distance to market from South African firms on flight costs is a concern (P2: 30) (259:261).

The logistics problem has always being a problem for the industry. The logistic costs into Europe is about six percent of the sales price of the leather kit, very

expensive to transport but if “one has to export with a cheaper kit like textile your logistic costs will be twenty percent higher into Europe” (P1: 14) (177:181).

Other factors that need to be considered by the industry are the freight costs on bulk components that are imported and transformed into finished goods then exported again (P4: 13) (120:122). The flight costs incurred by firms can contribute to the “barriers to departure”. Respondent B suggests that though efficiencies have been looked at in relation to the flight costs, which are very expensive, flight is safer to use than the sea freight which can increase the lead time and accumulate inventory of up to three weeks (P2: 20) (208:211).

The main obstacle that can contribute to the demise of the industry is the transport costs. South African firms will still need support through the MIDP or alternative programmes (P5: 6) (54:57).

Respondent F also agrees “if the government wants to maintain the automotive component industry, including the exporting of leather seats, it has to find new methods of bringing the industry into a competitive economic situation with other subsidized countries” (P6: 2) (23:26).

4.5.3 Summary

Inherent advantages of relatively cheap labour is now a thing of the past; Mexico and Eastern European countries are a threat, coming into play with better rates, efficiencies and quick turnaround times.

From the tanneries’ side, they are struggling in filling the capacities created based on promised potential business from motor companies; most of them are sitting with excess capacities in the hope they will get more business.

Other concerns are the Eastern European countries, as they do not have strong labour unions like Cosatu in South Africa. Regarding the labour force, people in

Eastern Europe are desperate for work, willing to work for much less. In countries like Mexico and China the labour rate is a quarter of what South African firms pay their workers, while Turkey which is much more expensive is thirty percent more productive than the South African labour force.

Disadvantages in relation to location economies are that the industry's competitors are neighbours to big motor companies, trains can be used to transport goods and within an hour these goods will have reached their destination. Without the MIDP the industry will struggle in terms of flight costs.

The worst fear is the great integration of those firms across borders, in terms of logistics' costs South African firms pay six percent of every leather seat sold into Europe while the textile seat will not make sense to manufacture, as it will cost the industry twenty percent more on flights to Europe.

4. 6 Influence of the Strong South African Currency

The respondents commented widely on the recent changes in the SA currency and the implications this has had on import-export trade.

Respondent A states that the strengthening of the currency affects the industry negatively, but one must not forget that the currency is moving off a false base line because "if we take a straight line over the last twenty years the South African currency continues to depreciate by the differential between the inflation rate and its trading partners (P1: 6) (104:108). Currently it is trading at R8 to the Euro and if changes reoccurs with the currency appreciating to the R6 or R7 mark to the Euro or R5 to the US dollar, the industry will be in serious competitive pressures from its overseas rivals" (P1: 32) (112:115).

Respondent B provides further confirmation that "when the currency was weak everyone was excited about exporting, and that in retrospect that was very naïve because everybody thought this was the way things were going with the

currency” (P2: 48) (126:129). He says it really must have tested the companies’ abilities in holding on to contracts and one could imagine the firms that were based specifically on cheap prices making a fortune some three years ago to be really battling by today. “The period of the depreciation of the rand was the windfall opportunity for people to break into the markets - that was done when the window closed (appreciation of the rand) and firms had to move along with everyone else (P2: 49) (134:141).

Respondent D’s response to the currency was very positive, “if we have to look at the OEM’s, the imports are getting cheaper but with the strengthening currency we rather get a little less rands”. On a global consolidated basis of numbers the industry gets more US dollars to the rand, “With the strengthening of the currency, one get less rands and your profit margins decreases but if one looks at the global basis, it looks positive again” (P4: 25) (94:102).

Respondent F also confirms the currency’s appreciation affects the industry enormously, because it has to part long term in years and, as an exporter there is a fixed Euro price. With the strengthening of the currency one gets less rand, putting pressure on the costs of doing business and there is no way for the industry to push costs down in South Africa where the inflation is between five to ten percent (P6: 48) (98:102). The disadvantage is the supply of finished goods to OEM’s as they are the direct exporters. Companies involved in the direct sewing of leather seats buy the leather hides in rands and sell it to the OEM’s in rands.

The OEM’s exports the finished goods through the MIDP process, because they have to counter trade by importing cars in euros and exporting seat covers in euros or dollars. “The counter trade is in forex to offset one against the other; so far, it does not affect them seriously but it affects the suppliers if they have to compete with a very strong South African rand”. “That affects local firms as they

are the suppliers, and currently with the OEM's, in terms of pricing, we are getting that protection" (P6: 49) (104:110).

A secondary effect of currency change is global sourcing and pricing. According to Respondent C, seeing the industry being exposed to global prices, and again exposed to quotations that are currently done worldwide by OEMs, the driving forces are no longer the same today (P3: 1) (21:23). "If we take some of the multinational companies in South Africa, areas such as quality, standardization of methods, buying of raw material, forms part of the company's global strategy (P3: 7) (79:81).

The industry relied a lot on the source of good raw leather material, which is traded on the market at dollar-based pricing and it must ensure that it fits to those world-pricing levels. "The MIDP has caused what they call the MIDP pricing of leather and has raised the world prices". (P1: 8) 130:134)

Respondent F suggests that OEMs measure the industry in terms of rand per square metre and rand per car kit, and thereby they are measured with the rest of the world. "Global sourcing is the policy of OEMs today and as a supplier source they have to compete with the rest of the world, including countries that protect and subsidize their industries" (P6: 8) 70:72).

Respondent B confirms that with OEMs locating the production globally, it has a major impact on investments and the supplier chain because assemblers or OEMs dictate whom the suppliers must be or where to purchase from their business units (P2: 56) (76:79).

4.6.1 Summary

It is evident that the strengthening of the rand plays a bigger role in decreasing the profitability of the industry; only the OEMs are benefiting as they are being paid in Euros or dollars while companies directly involved in the manufacturing of

sewn seats have to compete, buy and sell their stock items on rand to rand bases. With respect to this particular industry, one could argue that a strong currency is in fact a relative disadvantage.

Most local firms made a mistake, as they did not conduct research to their economic forthcoming. Respondent B points out that most companies were naïve in thinking that was the way the currency was going.

The depreciation of the currency has tested the companies' abilities to hold onto contracts, and firms that were making a fortune years ago are really battling by today. "The period of the depreciation of the rand was the windfall opportunity for people to break into the markets, but when the window closed, firms had to move along with every one else.

With the industry exposed to global prices, the buying of raw material forms part of companies' global strategies. Good raw material is traded on the market at dollar-based pricing and the MIDP in itself has caused what is called the MIDP pricing of leather, which has raised the world prices. The OEMs measure the industry in terms of rand per square metre and rand per car kit, and with OEMs locating production globally, this has adverse effects on investments and the supplier chain because these OEMs dictate whom the suppliers should be.

4.7 Conclusion

Chapter Four discussed the following themes that developed from the interviews conducted on industry experts; namely

- How the MIDP transformed the South African automotive export leather Industry
- Strategic advantages offered to the automotive leather export sewing industry
- Developmental issues awaiting the automotive leather export sewing industry

- Strategic disadvantages for the south African Export leather sewing and
- The influence of the strong South African currency

It is evident that the SAAELI through the MIDP has changed the complexion of the motor industry because previously most motor assemblers were wholly South African- owned or franchisees of foreign assemblers. Before the democratization of South Africa not much interest was taken, as there was less competition among firms absorbing some of the local inefficiencies due to the countries sanctions. The industry is now competing with firms from developed countries like Europe and Mexico, which were the results of quality improvements and the reduction of waste.

Chapter Five provides opinions and recommendations and an overall conclusion.

Chapter 5

Conclusions and Recommendations

5.1 Introduction

The purpose of this research study was to establish if firms in the SAELI would be independently sustainable after the deregulation of the MIDP in 2012, and if so, what challenges lay ahead. Programmes like the MIDP can hide inefficiency as seen in the case of Brazil's deregulation of their automotive sector in the 1980's. In this instance it became clear that the industry was in fact highly inefficient through to much government protectionism.

Due to the multi-faceted unit of analysis, judgemental (purposive) sampling was employed in order to achieve an insider perspective on the topic of investigation. Seven stakeholders were interviewed, three being the exponents from the automotive leather sewing companies, one from the tannery, representative from BMW SA, representative from the academic sector and the South African government's Department of Trade and Industry. Six questions from the interviews related to the status quo of the MIDP whilst the last four questions related to the developmental issues. The verbatim transcripts of the tape-recorded interviews were used as a basis from data was analyzed.

This final chapter provides the opinions from industry experts on themes developed during the interviews and their unique answers to the research questions posed.

5.2 Conclusions based on themes developed

5.2.1 How the MIDP transformed the South African automotive export leather Industry

The motor manufacturing business practices from the apartheid South Africa, where the industry was tailored to supply an undemanding local market was simply unable to contribute to global learning. Therefore the advent of democracy

in South Africa has removed the modus operandi from the isolation years. The weak learning, coupled with semi-literate employees, forced the industry to train and develop people to understand the requirements of the international quality standards like the ISO 9000, Six Sigma, TUV Audit and the VDA systems. However, it did not take much training to get the quality standards right as there was a jump from one industry to another; people that were previously in the employment of the clothing and shoe industry were absorbed into other industries, especially tanneries, who took the opportunity to branch out into the automotive leather sewing industry. International exposure has brought about 'learning' and accordingly the governmental support mechanisms from the past are diminishing. For example, in compliance to the WTO (World Trade Organization), local content requirements for subsidized export products requirements have been somewhat disregarded. Therefore the MIDP has contributed indirectly to competitiveness by addressing labour inefficiencies and facilitating the transfer of skills.

Since the MIDP was introduced South Africa is now part of the global market and integrated into global strategies of parent companies from the major OEM"s.

The MIDP has encouraged the motor industry to invest in building plants and purchasing of machinery. With investments in fixed plants which foreign tanneries have put in place, (and funded by huge capital), investors will think twice about closing down or relocating. Closing a plant and moving it elsewhere and later realizing it was a wrong decision, could have tremendous effects.

The MIDP has allowed the SAAELI to become more competitive and has encouraged big business in the automotive sector because the more they sell the better it is for them. The positive thing is the programme is not bound to one sector; what is required is a sort of rearrangement of the MIDP to make it user-friendly for OEMs and for sewing plants to still benefit from it.

5.2.2 Strategic disadvantages to the SAAELI offered by the MIDP

Labour issues are perhaps the single biggest concern for the SAAELI. The inherent advantages South Africa had in cheap labour is now a thing of the past, as countries like Mexico and Eastern European offer better labour rates, comparable source products and efficiency and quick turn around times. Some respondents see the country's labour regulations as problematic in terms of piecework, which the industry is not allowed to practice, thereby holding back on competition. Furthermore, the influence of the South African labour unions is seen as too strong and at times even to the disadvantage of the worker.

From the tanneries' perspective, firms are struggling to fill the capacities created based on promised potential business from motor companies. Most of them are sitting with excess capacities in the hope they will get more business.

The local industry has a disadvantage in terms of physical location. Some of its competitors are 'neighbours' to large motor companies. Therefore transportation costs will inflate the price of local products; A cost which the MIDP currently cushions.

With the industry exposed to global prices, the buying of raw material forms part of companies' global strategies. The MIDP has raised the world prices, good raw material is traded on the market at dollar-based pricing and the MIDP in itself has caused what is called the MIDP pricing of leather. The OEMs measure the industry in terms of rand per square metre and rand per car kit and OEMs locating production globally has adverse effects on investments and the supplier chain because these OEMs dictate whom the suppliers should be.

5.2.3 The influence of the strong South African currency

It is evident that the strengthening of the rand plays a significant role in decreasing the profitability of the SAAELI industry. Currently, only the OEMs are benefiting as they are being paid in Euros or dollars while companies directly

involved in the manufacturing of sewn seats have to compete, buy and sell their stock items on rand to rand bases.

Most local firms made a mistake, as they did not study their economic forthcoming. Respondents explained that most companies were naïve in thinking that was the way the currency was going while it was at R13 to the dollar.

The depreciation of the currency has tested most companies' abilities to hold on to contracts, and firms that were making a fortune years ago are battling today. The period of the depreciation of the rand was the windfall opportunity for new firms to break into the markets that was available, but with the window closed firms have to prove themselves to be efficient.

5.2.4 Developmental Issues awaiting the SAAELI

The global trend of international business is to move production from developed to developing countries in order to save costs. Therefore the SAAELI needs to be more intelligent in looking at avenues where it can offset its labour costs and areas like the localization of imported components, can contribute in improving the industry's total efficiency's output.

Respondents suggested that since the industry is labour-intensive, the technology required must not come in ways where it will lay off people, but instead create more jobs. Some differed greatly on the issue of technology, saying the technology is available and it is only a matter of controlling the processes. Technological issues with regard to the goals and means of achieving technological progress, there must be consensus amongst the government, labour and firms because the technology required must be conducive to maximizing productivity and the creation of jobs. The government must assist the industry in closing the innovation gap; there is currently little innovation in South Africa as the country produces too few engineers and technical personnel

because there are no incentives for students studying science at universities and technikons.

Most respondents agreed that the industry should collaborate, though issues pertaining to market opportunities will not make sense as most firms supply the same customers. Openness will not exist, as factors contributing to profitability will not be disclosed since they are confidential but collaboration will make sense among firms sharing ideas focusing on skills, raw material and technological issues. As South Africa has no mature industries compared to countries like Turkey. The problem with collaboration is that most firms are foreign-owned and do not see the need for it. Collaboration among the SAAELI members is needed because openness does not exist. The threat from foreign firms is that these companies are well established; they do not need government assistance, areas of supply chain management is already in place, and they can tender for any contracts as they have the capital, technology and expertise. Members of the SAAELI should show interest in collaboration to ensure the continuation of the MIDP.

The distance to market will force the government to intervene if the industry is to be competitive, as there are countries still subsidizing and protecting their industries. For the short term the MIDP will help firms in the industry but with the government's review on the MIDP to reducing the scale of benefits, it will put pressure on those companies that are still struggling to be efficient.

The government can assist in localizing the bulk components that are being imported to make the industry competitive. Most components the industry uses are mostly imported, transformed into finished goods and exported again.

5.3 Recommendations

The recommendations in this study follow necessarily from the conclusions and as such focus mainly on removing industry disadvantages and dealing with developmental issues in structured manner. Specifically then, this study recommends that issues concerning labour, the emergence of global competitors, logistics and currency fluctuation feature strongly in the strategic thinking of companies functioning in the SAAELI. Furthermore, development plans must include systematically improving productivity and efficiency, research and development in technology, striking a balance between competitiveness and collaboration in the local industry and negotiating the ongoing role of government in the industry.

The SAAELI is facing mounting pressure from global competition where OEM's strategies are to reduce costs, and with the MIDP in place where the industry is built behind subsidies; to be sustainable the SAAELI will require employing competitive thinking and cost down strategies before the MIDP is deregulated in 2012.

Using the complexity and chaos theory Stacy (1993) argues that the world in which the organizations exist is highly complex and unpredictable. The automotive industry is on the brink for a huge technological change due to the shifts in the balance of power, the SAAELI is facing threats from Eastern countries where long standing barriers have been dismantled and these countries are now asserting themselves in claiming a larger role in the world economic stage (Martin and Jacobs, 1995).

The research study outlines the views from experts that for the SAAELI to be competitive, the industry should stay on the leading edge of technology. Leading technology on its own is not enough to guarantee a firm's survival, the firm must apply that technology to develop products that will satisfy the customer needs,

design products that will be manufactured in a cost effective manner and ensure the technology to be used will create more employment than people losing their jobs.

It is recommended from experts that for the SAAELI to be productive, it should disregard the MIDP and rather sees it as something that helps the industry along. The industry should look at the labour efficiency side of things; offset its labour costs and together with the government look at ways of localizing imported components.

The strengthening of the South African rand and logistics is still a concern; the airfreight costs will still require the government to play a leading role to subsidize the industry to be competitive. Collaboration should come as a recommendation since South Africa does not have matured industries if compared to countries like Turkey.

On the positive side, the MIDP has ensured a very good future for the local automotive suppliers where it opened the export market for the country making it competitive with the rest of the world.

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Abbreviations

1. MIDP: Motor Industry Development Programme
2. OEM: Original Equipment Manufacturer
3. IMF: International Monetary Fund
4. TISA: Trade and Investment South Africa
5. WTO: World Trade Organization
6. EU: European Union
7. SAAELI: South African Automotive Export Leather Industry
8. FDI: Foreign Direct Investments
9. IOSCO: International Organizations on Securities Commissions

Attachment 1



D U R B A N
INSTITUTE *of*
TECHNOLOGY

Dear Participant,

LETTER OF INFORMATION AND CONSENT

Title of study: The Sustainability of the Automotive Export Leather Sewing Industry - Will the Industry Survive after the Deregulation of the Motor Industry Development Programme in 2012?

I am currently undertaking a Master's research project that aims to develop a discourse related specifically to the sustainability of the South African automotive leather sewing industry.

Would you agree to be interviewed for the study? The interview will take approximately 45 minutes. Participation is voluntary and you are free to withdraw from the study at any time. The information you give will only be used for research purposes, and your identity and individual answers will be kept very confidential. Should you wish to discuss this further please feel free to contact my supervisor, co- supervisors or myself on the following numbers:

1. Lymon Molokoane, Tel. no: 031- 9138150, Cell no: 0835579112 (B.Tech: Management)
2. Dr. Corrie Myburgh Tel no: 031 – 204 22923, (M.Tech: Chiropractic)
3. Dr Hari Lal Garbharran, Tel no. 031- 3120485 (Doctor of Public Administration)

Your assistance will be much appreciated,
Yours faithfully,

Lymon Molokoane

.....

Please complete the following as confirmation of your willingness to participate in this research project:

I, have adequately discussed the study with the researcher, understand that I may withdraw from it at any time without giving reasons, and voluntarily agree to participate by being interviewed (or by returning the questionnaire if relevant).

Signature: Date:

Attachment 2

Interview Schedule

Interview the Appropriate Respondent:

Good morning/afternoon. I am currently working on a research project to which I would like to ask questions pertaining to the sustainability of the automotive leather export sewing industry in South Africa.
Please know the questions are purely for research and will be in two phases, i.e. covering the status quo and developmental issues.

Status Quo Questions

1. The industry was started long before the MIDP implementation; what were the driving forces?
2. Do you think there is any change through these driving forces today?
3. How has the MIDP affected the transfer of skills?
4. How has the MIDP affected the transfer of investment?
5. Do you think the MIDP affects the efficiency of the industry?
6. To what extent does the strengthening of the rand affect the industry?

Developmental Questions

7. Does collaboration exist with respect to global competitiveness?
8. What factors should be considered to improve global competitiveness?
9. Will the intrinsic advantages of the South African industry, along with the level of efficiency be enough to overcome the barriers to departure?
10. How will the inclusion of the Eastern European countries into the European Union affect the South African industry?

Attachment 3

Data Coded Through the Atlas Ti.

HU: lymon2

File: [G:\student research\lymon molokoane\lymon3]

Edited by: Super

Date/Time: 2005/06/29 - 15:35:05

Codes-quotations list

Code-Filter: All

Code: Strategic Advantages to AMLES through MIDP {27-0}

P 1: lymon interview1.txt - 1:16 (39:41) (Super)

Media: ANSI

Codes: [Advantages to AMLES through MIDP]

The industry employs 3500 people and probably another 4000 downstream in areas like tanneries and even hard merchants.

P 1: lymon interview1.txt - 1:17 (68:70) (Super)

Media: ANSI

Codes: [Advantages to AMLES through MIDP]

which from their investment generates profits and contributes to the economy of the country as well.

P 1: lymon interview1.txt - 1:18 (91:93) (Super)

Media: ANSI

Codes: [Advantages to AMLES through MIDP]

With these factors, pressure is being put on South Africa, and the only reason we have is that the MIDP which is allowing us to play in the global arena.

P 1: lymon interview1.txt - 1:19 (167:170) (Super)

Media: ANSI

Codes: [Advantages to AMLES through MIDP]

Now that they are part of the European Union, their living expenses have gone up and firms have to pay their people reasonable wages to stop them from living in drench pipes and in squalor.

P 2: lymon interview2.txt - 2:32 (32:35) (Super)

Media: ANSI

Codes: [Advantages to AMLES through MIDP]

With the MIDP the emphasis switched to export, and with export the quality of products promoted integration and with that integration promoted the industry globally.

P 2: lymon interview2.txt - 2:33 (50:53) (Super)
Media: ANSI
Codes: [Advantages to AMLES through MIDP]

In promoting export, the MIDP has definitely transformed the shape of the industry and it is by far globally connected and resulted in a lot of learning and improved the skills too.

P 2: lymon interview2.txt - 2:34 (64:66) (Super)
Media: ANSI
Codes: [Advantages to AMLES through MIDP]

I think it goes to the story that in the past, the business was largely South African and only now, you have the foreign investments coming back in a very significant way.

P 2: lymon interview2.txt - 2:35 (72:75) (Super)
Media: ANSI
Codes: [Advantages to AMLES through MIDP]

Therefore, these investments came because of the MIDP advantages and its incentives. You also have global production being located to South Africa, e.g. BMW South Africa

P 2: lymon interview2.txt - 2:36 (90:91) (Super)
Media: ANSI
Codes: [Advantages to AMLES through MIDP]

terrific changes over a short period of time from the late 1990's through the present day

P 2: lymon interview2.txt - 2:37 (96:98) (Super)
Media: ANSI
Codes: [Advantages to AMLES through MIDP]

The reduction of waste, has improved dramatically across the industry over the last five years and I think that happened because of the process called MIDP,

P 2: lymon interview2.txt - 2:38 (194:199) (Super)
Media: ANSI
Codes: [Advantages to AMLES through MIDP]

The advantage of leather is if you get local hides they will be classified as local content, common problems that stood in the face of the industry may be the competitive advantage with the market because if companies collaborate there are benefits that can uplift their businesses.

P 2: lymon interview2.txt - 2:39 (204:208) (Super)
Media: ANSI
Codes: [Advantages to AMLES through MIDP]

what we see in companies like Aunde, Lear or the Johnson Controls they are the most efficient automotive plant

suppliers where their throughput, their incredibly rapid stock does not sit around idling, stock can be on the lines in Germany within two to three days after being finished from the production lines.

P 2: lymon interview2.txt - 2:40 (248:251) (Super)
Media: ANSI
Codes: [Advantages to AMLES through MIDP]

The advantages of doing business in South Africa is similar in the Eastern European countries, e.g. a lot of development must be done benefiting from lower wages to all sorts of lower input costs but still relatively advanced to South Africa.

P 2: lymon interview2.txt - 2:41 (257:259) (Super)
Media: ANSI
Codes: [Advantages to AMLES through MIDP]

If we pay less on import tariffs to the European Union countries there is no particular disadvantage

P 2: lymon interview2.txt - 2:53 (166:172) (Super)
Media: ANSI
Codes: [Advantages to AMLES through MIDP]

The car manufacturers wanted to import cars they could not manufacture locally, thinking how best the MIDP could work to their advantage. Already two sectors were earmarked and leather seat exports with catalytic converters were the best options to advance their aims since they had terrific values and can discount massively on import tariffs.

P 3: lymon interview3.txt - 3:17 (27:29) (Super)
Media: ANSI
Codes: [Advantages to AMLES through MIDP]

many people turned into the industry because of the MIDP and investments hence the growth of the industry itself.

P 3: lymon interview3.txt - 3:18 (120:124) (Super)
Media: ANSI
Codes: [Advantages to AMLES through MIDP]

I do not think the MIDP will totally disappear, because I read an article about the former Chairman of Daimler Chrysler SA, Mr. Kopke warning that something must be done to the MIDP; the programme cannot disappear completely because its attraction is all about incentives for more investments

P 4: lymon interview4.txt - 4:14 (12:15) (Super)
Media: ANSI
Codes: [Advantages to AMLES through MIDP]

That is where the MIDP came from on ensuring a very good future for the automotive suppliers and opening the export

market for us to be competitive with the rest of the world

P 4: lymon interview4.txt - 4:15 (20:23) (Super)

Media: ANSI

Codes: [Advantages to AMLES through MIDP]

The industry has grown a lot if you look at one of the markets for leather seat exporting. Already the South African industry is competing with companies from Europe and Mexico and that has not only benefited the leather sewing industry

P 4: lymon interview4.txt - 4:16 (36:38) (Super)

Media: ANSI

Codes: [Advantages to AMLES through MIDP]

Yes, there has been a positive impact with foreign companies investing and transferring those skills onto South African people.

P 4: lymon interview4.txt - 4:17 (114:115) (Super)

Media: ANSI

Codes: [Advantages to AMLES through MIDP]

To show we are competitive we had won contracts from our European competitors.

P 4: lymon interview4.txt - 4:18 (146:149) (Super)

Media: ANSI

Codes: [Advantages to AMLES through MIDP]

If included in the European Union they will have to come on the same level of the rate of pay, living standards and governance, which they do not have at this stage

P 6: lymon interview6.txt - 6:31 (58:63) (Super)

Media: ANSI

Codes: [Advantages to AMLES through MIDP]

the MIDP export's incentives put the OEM's in a position where it is been official that if they want to sell cars in the country they will be welcomed as their exports will be gaining a benefit from the export credit. Thus, it motivates obviously the investment in further technology and equipment in the tanning and sewing industry.

P 6: lymon interview6.txt - 6:32 (145:150) (Super)

Media: ANSI

Codes: [Advantages to AMLES through MIDP]

There were times in the past when we said it is impossible but at the end of the day you have achieved maybe not one hundred per cent of that objective but helps us in gaining more experience and knowledge to what we are doing. If we do not stay with the latest technology we are going to lose out to the rest of the world, we must always have our eyes open to global competitiveness.

P 6: lymon interview6.txt - 6:33 (182:185) (Super)
Media: ANSI
Codes: [Advantages to AMLES through MIDP]

today the costs of doing business in Hungary is going up similar to what it is in the Western Europe. South Africa also had the advantages before but today we are exposed to the high labour rates, which are no longer cheap, with productivity not as good per man-hours.

P 6: lymon interview6.txt - 6:34 (205:211) (Super)
Media: ANSI
Codes: [Advantages to AMLES through MIDP]

Moreover, having entered into the European Union their expectations of the people in those countries is now to live on the level of the Western Europe. The wage demands have gone up, their expectations in terms of infrastructure, housing and anything else are all escalating so quite rapidly. These countries are starting to rise to similar cost structures like Western Europe. However, they have quite good years ahead of them before they can do that.

P 7: lymon interview7.txt - 7:18 (16:18) (Super)
Media: ANSI
Codes: [Advantages to AMLES through MIDP]

With the inflow of investment definitely there has been a transfer of skills because you need more skills in the beginning of each industry.

Code: Developmental issues awaiting AMLES {40-0}

P 1: lymon interview1.txt - 1:20 (28:30) (Super)
Media: ANSI
Codes: [Developmental issues awaiting AMLES]

the industry has to increase volumes and become more productive and ensure raw material costs are contained at global prices,

P 1: lymon interview1.txt - 1:21 (42:45) (Super)
Media: ANSI
Codes: [Developmental issues awaiting AMLES]

to ensure training programmes are put in place to accelerate the development of people. Most of the people employed are given technical skills and the industry is embarking on adult based education programmes.

P 1: lymon interview1.txt - 1:22 (83:87) (Super)
Media: ANSI
Codes: [Developmental issues awaiting AMLES]

Competing against other developed nations where relatively cheap labour is practiced in countries like China, Mexico and Turkey it was found out to be competitive we have to become much more efficient in order to offset their labour cost.

P 1: lymon interview1.txt - 1:23 (123:125) (Super)
Media: ANSI
Codes: [Developmental issues awaiting AMLES]

We need to see the industry moving ahead as much as it could with proper people working together to get the synergies from different companies.

P 1: lymon interview1.txt - 1:24 (134:136) (Super)
Media: ANSI
Codes: [Developmental issues awaiting AMLES]

We certainly have to focus on raw material, skill issues and of course, the technology.

P 1: lymon interview1.txt - 1:25 (139:141) (Super)
Media: ANSI
Codes: [Developmental issues awaiting AMLES]

the technology that will bring us more jobs and business into the country leading the way into the sewing technology.

P 1: lymon interview1.txt - 1:26 (153:155) (Super)
Media: ANSI
Codes: [Developmental issues awaiting AMLES]

to see the operators during their shift change standing next to the operator who is still on duty, there is no time lost on productivity or output.

P 1: lymon interview1.txt - 1:27 (158:160) (Super)
Media: ANSI
Codes: [Developmental issues awaiting AMLES]

That philosophy need to be put first on to our people, as we are not used to it even to our management it will be difficult to work it right the way down.

P 1: lymon interview1.txt - 1:28 (181:184) (Super)
Media: ANSI
Codes: [Developmental issues awaiting AMLES]

you cannot compete with the Eastern European countries because of location hence the requirement from government's assistance to overcome our disadvantages.

P 2: lymon interview2.txt - 2:42 (82:83) (Super)
Media: ANSI
Codes: [Developmental issues awaiting AMLES]

Therefore, local suppliers have to think far more creatively to work with foreigners

P 2: lymon interview2.txt - 2:43 (101:105) (Super)

Media: ANSI

Codes: [Developmental issues awaiting AMLES]

I guess you could say global competition is also causing us as a country to be more on our toes. We cannot afford to have waist, the footwear and clothing industry collapsed because they were battling to get around the huge inventories they used to hold.

P 2: lymon interview2.txt - 2:45 (218:221) (Super)

Media: ANSI

Codes: [Developmental issues awaiting AMLES]

The weakness is mainly on poor quality of goods supplied, and this problem can only be resolved by the proper supply management development and very serious intervention from first tier suppliers or customers.

P 2: lymon interview2.txt - 2:50 (82:84) (Super)

Media: ANSI

Codes: [Developmental issues awaiting AMLES]

Therefore, local suppliers have to think far more creatively to work with foreigners to establish more business opportunities that might bring the creation of supply customer partnerships.

P 2: lymon interview2.txt - 2:51 (215:220) (Super)

Media: ANSI

Codes: [Developmental issues awaiting AMLES]

I do not know how the leather suppliers are like in terms of efficiency, I know right across the whole automotive the real weak point is not the first tier supplier but the second and third suppliers. The weakness is mainly on poor quality of goods supplied, and this problem can only be resolved by the proper supply management development

P 3: lymon interview3.txt - 3:19 (85:87) (Super)

Media: ANSI

Codes: [Developmental issues awaiting AMLES]

Meetings are only held where role players will attend if something of future interest will affect them.

P 3: lymon interview3.txt - 3:20 (111:114) (Super)

Media: ANSI

Codes: [Developmental issues awaiting AMLES]

I think there will be changes coming so that South Africa should become at least on parity to areas of price, labour costs which must be reduced or be offset by higher productivity.

P 3: lymon interview3.txt - 3:23 (39:40) (Super)
Media: ANSI
Codes: [Developmental issues awaiting AMLES]

Therefore, in that sense it was imported skills but over the period the skills started growing in South Africa.

P 4: lymon interview4.txt - 4:19 (10:12) (Super)
Media: ANSI
Codes: [Developmental issues awaiting AMLES]

The incentives were needed to attract investment in South Africa especially in increasing job opportunities in the OEM's market.

P 4: lymon interview4.txt - 4:20 (112:114) (Super)
Media: ANSI
Codes: [Developmental issues awaiting AMLES]

the rest of the world and all of us must be sharing ideas and even quoting against each other for business that we really want.

P 4: lymon interview4.txt - 4:21 (122:124) (Super)
Media: ANSI
Codes: [Developmental issues awaiting AMLES]

if we can localize the bigger content of what we got that will make us more competitive and the total efficiency in output can be improved.

P 4: lymon interview4.txt - 4:22 (134:136) (Super)
Media: ANSI
Codes: [Developmental issues awaiting AMLES]

We need to know how to apply these things better and cheaper and we will be competitive.

P 4: lymon interview4.txt - 4:23 (139:140) (Super)
Media: ANSI
Codes: [Developmental issues awaiting AMLES]

If we can improve our processes in the manufacturing and tanning the industry will be cost effective.

P 4: lymon interview4.txt - 4:26 (130:133) (Super)
Media: ANSI
Codes: [Developmental issues awaiting AMLES]

we need to be more intelligent as well, we need to look at avenues to do things smarter and cheaper. We have small things like the plastics products used in this industry to which we still import,

P 5: lymon interview5.txt - 5:8 (53:54) (Super)
Media: ANSI

Codes: [Developmental issues awaiting AMLES]

global trend is to move production from developed to developing countries to save costs.

P 6: lymon interview6.txt - 6:35 (44:47) (Super)

Media: ANSI

Codes: [Developmental issues awaiting AMLES]

We do not have the problem the technology is available and expertise available, it is a matter of control, control and control. Once you have developed a process it is down to controlling the consistency of that process with obvious ongoing research and development to improve on it.

P 6: lymon interview6.txt - 6:36 (67:70) (Super)

Media: ANSI

Codes: [Developmental issues awaiting AMLES]

No, I do not think the MIDP has anything to do with the efficiency of the industry, MIDP helps us to get volumes in South Africa and on the other side, we need to be economically competitive and that does not have anything to do with MIDP.

P 6: lymon interview6.txt - 6:37 (72:74) (Super)

Media: ANSI

Codes: [Developmental issues awaiting AMLES]

Global sourcing is the policy of OEM's today and as a supplier source we have to compete with the rest of the world including countries that protect and subsidise their industries

P 6: lymon interview6.txt - 6:38 (81:84) (Super)

Media: ANSI

Codes: [Developmental issues awaiting AMLES]

The MIDP in a short term might help them to sustain but in principle of the current MIDP on reducing the scale of benefits and probably phasing out the programme in 2012 will put pressure on those companies to find efficient and production means so they can compete worldwide.

P 6: lymon interview6.txt - 6:39 (89:94) (Super)

Media: ANSI

Codes: [Developmental issues awaiting AMLES]

Logistically we are disadvantaged and perhaps the only way for the government is to look at rand for rand ex-factory to be world competitive in terms of our internal efficiencies and growing skills etc. From a point of logistics may be the government must look at subsidies because there are so many countries subsidising and protecting their industries.

P 6: lymon interview6.txt - 6:40 (129:135) (Super)

Media: ANSI

Codes: [Developmental issues awaiting AMLES]

I think where there is potential for collaboration is we must have a common interest in trying to ensure the continuation of the MIDP for the leather sector or for the MIDP to come with some form of incentives or subsidises for protection. In addition, if we are not on the level playing fields the industry is at a disadvantage, therefore on that aspect, we can do it on collaborative or industry bases and that will include all component sector industries in South Africa.

P 6: lymon interview6.txt - 6:41 (141:142) (Super)

Media: ANSI

Codes: [Developmental issues awaiting AMLES]

What we always have to do is to keep our technology and equipment up to the date with the rest of the world.

P 6: lymon interview6.txt - 6:42 (154:156) (Super)

Media: ANSI

Codes: [Developmental issues awaiting AMLES]

The same must go to the chemical houses too to see what they can do in terms research and development on leather's aesthetics and physics

P 6: lymon interview6.txt - 6:43 (157:159) (Super)

Media: ANSI

Codes: [Developmental issues awaiting AMLES]

If the technology is improved, equipment is up to latest trend we will supply a better product to the automotive industry and still comply with the requirements on specifications put to us

P 6: lymon interview6.txt - 6:44 (159:161) (Super)

Media: ANSI

Codes: [Developmental issues awaiting AMLES]

We are always put on to challenge by our customers that they need soft or good print retention; good rub fastness on the leather and that makes one to be up to date.

P 6: lymon interview6.txt - 6:45 (192:195) (Super)

Media: ANSI

Codes: [Developmental issues awaiting AMLES]

Yes, we have obstacles to meet but I think with the investment that is here, the technology that is available worldwide and a little bit of the level playing fields from the government we should be out to maintain the industry in South Africa.

P 7: lymon interview7.txt - 7:19 (45:50) (Super)

Media: ANSI

Codes: [Developmental issues awaiting AMLES]

For the fact that people rely on the MIDP my biggest problem on the MIDP is that people do not look at the labour efficiency side of things, really not much has been done to improve the productivity so that the industry can survive without the MIDP and to the effect that it is compounded by the strong currency.

P 7: lymon interview7.txt - 7:20 (56:57) (Super)

Media: ANSI

Codes: [Developmental issues awaiting AMLES]

I hope there is a bit of teamwork where everybody regards himself or herself not as a single player in this global arena

P 7: lymon interview7.txt - 7:21 (68:71) (Super)

Media: ANSI

Codes: [Developmental issues awaiting AMLES]

We have to get our house in order and continue working on improving the efficiency to compete globally. We need to come out of the sense that we are South Africans and there is the rest of the world.

P 7: lymon interview7.txt - 7:22 (77:80) (Super)

Media: ANSI

Codes: [Developmental issues awaiting AMLES]

I think the key is to regard the MIDP as non existent, we have to try and do things without the MIDP and see the MIDP as something that helps us along.

P 7: lymon interview7.txt - 7:23 (81:82) (Super)

Media: ANSI

Codes: [Developmental issues awaiting AMLES]

to change the efficiency level and improve on our productivity.

Code: Disadvantages to AMLES d.t. MIDP {25-0}

P 1: lymon interview1.txt - 1:11 (12:14) (Super)

Media: ANSI

Codes: [Disadvantages to AMLES d.t. MIDP]

it was viable for the beginning of the South African leather automotive sewing export industry though logistically South Africa was disadvantaged because of its location.

P 1: lymon interview1.txt - 1:12 (27:28) (Super)

Media: ANSI

Codes: [Disadvantages to AMLES d.t. MIDP]

Looking at the changes in the MIDP itself there are diminishing benefits

P 1: lymon interview1.txt - 1:13 (147:150) (Super)
Media: ANSI
Codes: [Disadvantages to AMLES d.t. MIDP]

Big problem, areas like the labour in South Africa is no longer cheap, not to say is based on the fact that rand per hour is not cheap it is based on the fact that the amount of rands we pay we are not a productive nation.

P 1: lymon interview1.txt - 1:14 (177:181) (Super)
Media: ANSI
Codes: [Disadvantages to AMLES d.t. MIDP]

The logistics problem has always being a problem for us in this country. Our logistic costs into Europe is about six percent of the sales price of the leather kit, very expensive to transport but if you export with a cheaper kit like textile your logistic costs will be twenty percent higher into Europe.

P 2: lymon interview2.txt - 2:26 (156:160) (Super)
Media: ANSI
Codes: [Disadvantages to AMLES d.t. MIDP]

I was quite surprised that there was no one and I really do not know if there were any informal arrangements where big players were meeting to discuss matters together. On the seat sewing export industry; I did not see any collaboration between companies, it does not exist

P 2: lymon interview2.txt - 2:27 (163:166) (Super)
Media: ANSI
Codes: [Disadvantages to AMLES d.t. MIDP]

I assumed the catalytic industry group still exists because they used to think strategically about the industry as whole, its future and less to my knowledge there was no equivalence to the seat sewing manufacturers.

P 2: lymon interview2.txt - 2:28 (241:243) (Super)
Media: ANSI
Codes: [Disadvantages to AMLES d.t. MIDP]

However, the growth we have seen from the late 1990's will never happen again as a direct result of the MIDP.

P 2: lymon interview2.txt - 2:29 (251:257) (Super)
Media: ANSI
Codes: [Disadvantages to AMLES d.t. MIDP]

The advantage of these countries is that they are next door to most big automakers in Europe, one can put the goods on a train and within an hour, they will reach their destination. The cost of flying a seat covers from South

Africa if compared to an Eastern European country is so huge that one can only imagine that without the MIDP we will not match them.

P 2: lymon interview2.txt - 2:30 (259:261) (Super)
Media: ANSI
Codes: [Disadvantages to AMLES d.t. MIDP]

the worst fear for us is the great integration of those industries because it is so easy to work across borders and distance to markets from South African firms on flight costs.

P 2: lymon interview2.txt - 2:31 (267:269) (Super)
Media: ANSI
Codes: [Disadvantages to AMLES d.t. MIDP]

Eastern countries have much more capable and matured industries especially in cloth seats which we in South Africa we do not have any maturity in either business.

P 3: lymon interview3.txt - 3:14 (81:83) (Super)
Media: ANSI
Codes: [Disadvantages to AMLES d.t. MIDP]

If I think of the interaction between South African tanneries, yes the collaboration is there but to the minimum.

P 3: lymon interview3.txt - 3:15 (97:103) (Super)
Media: ANSI
Codes: [Disadvantages to AMLES d.t. MIDP]

The cost of raw material, lack of chemical manufacturers in South Africa and then the distance to the market.

I: What do you mean on distance to the market?

R: Transport costs, e.g. transporting goods from South Africa to Europe the costs are very high.

P 3: lymon interview3.txt - 3:16 (144:148) (Super)
Media: ANSI
Codes: [Disadvantages to AMLES d.t. MIDP]

Inclusion of the Eastern European countries is already affecting our industry, if you take Poland and Austria those people are coming into play with better rates, their efficiencies and quick turnaround times plays a major role against the South African industry.

P 4: lymon interview4.txt - 4:10 (65:69) (Super)
Media: ANSI
Codes: [Disadvantages to AMLES d.t. MIDP]

Yes it does, definitely, the negative impact that it got is because it is giving quite the competitive edge with the

tax breaks, and rebates from exports but the South African firms are not pushing enough on productivity. According to European standards, we are still not as productive.

P 4: lymon interview4.txt - 4:11 (74:76) (Super)

Media: ANSI

Codes: [Disadvantages to AMLES d.t. MIDP]

if the programme falls away, in the future we will have to work on our efficiency rate and prove to the investors on the output per capita.

P 4: lymon interview4.txt - 4:13 (120:122) (Super)

Media: ANSI

Codes: [Disadvantages to AMLES d.t. MIDP]

Our major factor that is to be considered is the freight costs, because many bulk components we use are imported, we work on it and export it again.

P 6: lymon interview6.txt - 6:24 (84:87) (Super)

Media: ANSI

Codes: [Disadvantages to AMLES d.t. MIDP]

our biggest disadvantages are that our major markets are not within South Africa's proximity, logistically the cost of freight of our product against Eastern block countries into Europe is much higher

P 6: lymon interview6.txt - 6:26 (114:116) (Super)

Media: ANSI

Codes: [Disadvantages to AMLES d.t. MIDP]

in terms of the tanneries the they are struggling to fill the capacities that they have created based very often on promised potential business which motor companies put to them.

P 6: lymon interview6.txt - 6:27 (120:121) (Super)

Media: ANSI

Codes: [Disadvantages to AMLES d.t. MIDP]

I think most tanneries are currently sitting with excess capacities in a hope that they will get more business.

P 6: lymon interview6.txt - 6:28 (125:129) (Super)

Media: ANSI

Codes: [Disadvantages to AMLES d.t. MIDP]

Very often the OEM's will give you target prices and that is if you do not meet them they will say sorry and sometimes you have to turn around and just say I cannot meet those target prices, Seton has just done that recently. Therefore, collaboration does not help because if we do not meet their targets, someone else within the industry will get the business.

P 6: lymon interview6.txt - 6:29 (185:187) (Super)
Media: ANSI
Codes: [Disadvantages to AMLES d.t. MIDP]

We have labour regulations in terms of piecework, which we are not allowed to introduce holding us back on competition with other countries.

P 6: lymon interview6.txt - 6:30 (202:204) (Super)
Media: ANSI
Codes: [Disadvantages to AMLES d.t. MIDP]

They were costing their products very cheaply, their proximity to the Western Europe, their cheap labour rates; cheap supply of electricity and water is of disadvantage to the South African industry.

P 7: lymon interview7.txt - 7:15 (87:90) (Super)
Media: ANSI
Codes: [Disadvantages to AMLES d.t. MIDP]

In the past, we had more intrinsic advantages where we had relatively cheap labour, but with the Eastern European countries opening up; there will be a bigger impact on our industry than China, which is on the doorstep of Europe.

P 7: lymon interview7.txt - 7:16 (98:100) (Super)
Media: ANSI
Codes: [Disadvantages to AMLES d.t. MIDP]

One must understand that the people in Eastern Europe are desperate for work; they are willing to work for much less as compared to the rest of the Europe.

P 7: lymon interview7.txt - 7:17 (115:117) (Super)
Media: ANSI
Codes: [Disadvantages to AMLES d.t. MIDP]

they will be willing to invest in Eastern Europe and that is still a big negative factor to us because we are so far if we consider the European companies.

Code: Influence of the strong rand {11-0}

P 1: lymon interview1.txt - 1:6 (104:108) (Super)
Media: ANSI
Codes: [Influence of the strong rand]

It affects us very negatively as we are becoming less competitive but we must not forget that we are moving off a false base because if we take a straight line over the last twenty years our currency continues to depreciate by the differential between our inflation rate and our trading partners.

P 1: lymon interview1.txt - 1:32 (112:115) (Super)

Media: ANSI

Codes: [Influence of the strong rand]

Currently we are trading at R8 to the Euro and if there are any changes with the currency going up to the R6 or R7 mark to the Euro or R5 to the US dollar, we will be in serious competitive pressures from our overseas rivals.

P 2: lymon interview2.txt - 2:48 (126:129) (Super)

Media: ANSI

Codes: [Influence of the strong rand]

When I did this research on the leather, the currency was very weak and everyone was excited about exporting, and that in retrospect was very naïve because we thought that was the way things were going with the currency

P 2: lymon interview2.txt - 2:49 (134:141) (Super)

Media: ANSI

Codes: [Influence of the strong rand]

It really must have tested the companies' abilities to hold on to contracts and I imagine those firms based on prices that were specifically cheap in their own terms and those that made a fortune some three years ago to be really battling. The period of the depreciation of the rand was the windfall opportunity for people to break into the markets that was done when the window closed and firms had to prove along with every one else

P 3: lymon interview3.txt - 3:6 (71:74) (Super)

Media: ANSI

Codes: [Influence of the strong rand]

If we have to go back some few years ago, contracts were concluded at R10 to the US Dollar, but today we are sitting at less than R6 to the US dollar which there is a decline in the profitability of the industry.

P 4: lymon interview4.txt - 4:25 (94:102) (Super)

Media: ANSI

Codes: [Influence of the strong rand]

Personally, it is very positive, if you look at the OEM's, the imports are getting cheaper but still with the strengthening rand we rather get a little less rands. On a global consolidated basis of numbers we get more US dollars to our rand, the only issue is if you import in Euros and get paid in Euros with South African overheads a negative impact will be encountered. With the strengthening of the currency, you get less rands and your profit margins decreases but if you look at the global basis, it looks positive again.

P 5: lymon interview5.txt - 5:7 (34:37) (Super)

Media: ANSI

Codes: [Influence of the strong rand]

Makes exports uncompetitive but imports cheaper. Big portions of South African products consist of imported material and therefore balance out the effects of the Rand. If exports are based on a weak rand, it is not a sound way of doing business.

P 6: lymon interview6.txt - 6:48 (98:102) (Super)
Media: ANSI
Codes: [Influence of the strong rand]

Enormously, because we have to part long term in years and as an exporter we have a fixed Euro price. With the strengthening of the rand you get less rand which puts pressure on our costs and there is no ways that you can push down costs in South Africa where you have an inflation of between five to ten percent.

P 6: lymon interview6.txt - 6:49 (104:110) (Super)
Media: ANSI
Codes: [Influence of the strong rand]

which OEM's exports through the MIDP processes, and they then have to counter trade by importing cars in euros and exporting seat covers in euros or dollars. They need to counter trade in forex to offset one against the other, so far, it does not affect them seriously but it affects us if we had to compete rand price with a very strong rand. That affects us as a supplier that currently we are being protected by the OEM's in terms of pricing.

P 7: lymon interview7.txt - 7:14 (50:51) (Super)
Media: ANSI
Codes: [Influence of the strong rand]

So the stronger the rand the more difficult it becomes for us to do business.

P 7: lymon interview7.txt - 7:25 (40:45) (Super)
Media: ANSI
Codes: [Influence of the strong rand]

From the local market probably not that much but it has a great impact on the export as a whole like your company(Aunde) where a lot has to be exported. Therefore, it makes the industry to be less competitive and put a whole lot on our pricing because the strengthening of the rand does have a negative impact on the industry.

Code: Management strategies assoc. with SA AMLES {84-0}

P 1: lymon interview1.txt - 1:1 (21:24) (Super)
Media: ANSI
Codes: [Management strategies assoc. with SA AMLES]

Yes, the support mechanism the government had in place in

the past is diminishing in compliance with the WTO (World Trade Organisation) requirements where export subsidies and local content requirements for export products are no longer regarded.

P 1: lymon interview1.txt - 1:2 (45:50) (Super)
Media: ANSI
Codes: [Management strategies assoc. with SA AMLES]

From our workforce we found out that most of our employees were illiterate and there was a need to bring them on the level of understanding to work within the requirements or specifications set out by the customers which compels today's firms to adhere to processes like the 6 Sigma, ISO and VDA systems.

P 1: lymon interview1.txt - 1:3 (70:76) (Super)
Media: ANSI
Codes: [Management strategies assoc. with SA AMLES]

The investment by the Aunde Group can be seen with their absolute world class facility in Durban and that does not mean they are the only ones on big investments but the leader at the moment. Competitors will also be putting world class facilities and the industry will become more and more capital intensive, the more investment in the industry the more we will be able to compete internationally.

P 1: lymon interview1.txt - 1:4 (82:83) (Super)
Media: ANSI
Codes: [Management strategies assoc. with SA AMLES]

We were able to absorb some of the local inefficiencies.

P 1: lymon interview1.txt - 1:5 (98:99) (Super)
Media: ANSI
Codes: [Management strategies assoc. with SA AMLES]

We benchmarked ourselves in various areas, with companies in the same industry and our overseas' sister companies.

P 1: lymon interview1.txt - 1:7 (120:122) (Super)
Media: ANSI
Codes: [Management strategies assoc. with SA AMLES]

No, I think competitiveness exist with respect to global competitiveness, competitors are very protective with their business.

P 1: lymon interview1.txt - 1:8 (130:134) (Super)
Media: ANSI
Codes: [Management strategies assoc. with SA AMLES]

There are issues particularly in this industry as it relies a lot on the source of good raw leather material which is traded on the market at dollar based pricing and the

industry must ensure that it fits to that pricing levels.
The MIDP has caused what they call the MIDP pricing of
leather and has raised the world prices.

P 1: lymon interview1.txt - 1:9 (171:173) (Super)
Media: ANSI
Codes: [Management strategies assoc. with SA AMLES]

it allows the South African industry to be more competitive
as their labour rates are increasing.

P 2: lymon interview2.txt - 2:1 (29:32) (Super)
Media: ANSI
Codes: [Management strategies assoc. with SA AMLES]

The learning part was weak and not understanding what was
going on especially with high tariffs because they were
supplying a relatively undemanding local market.

P 2: lymon interview2.txt - 2:2 (35:38) (Super)
Media: ANSI
Codes: [Management strategies assoc. with SA AMLES]

the South African firms are now working far more with
foreign items and that has brought a whole lot of new
requirements on the firms in terms of standards.

P 2: lymon interview2.txt - 2:3 (46:47) (Super)
Media: ANSI
Codes: [Management strategies assoc. with SA AMLES]

think there is something to be said for increasing the
number of firms; if one firm exposes itself the learning
will come through,

P 2: lymon interview2.txt - 2:4 (53:56) (Super)
Media: ANSI
Codes: [Management strategies assoc. with SA AMLES]

I have looked in terms of the leather industry and there is
something going on because a whole lot of people that were
making shoes and clothing are mostly absorbed in the
leather sewing industry.

P 2: lymon interview2.txt - 2:5 (59:60) (Super)
Media: ANSI
Codes: [Management strategies assoc. with SA AMLES]

Therefore, we have seen some old skills that have jumped
industries.

P 2: lymon interview2.txt - 2:6 (66:70) (Super)
Media: ANSI
Codes: [Management strategies assoc. with SA AMLES]

For example, starting with the motor assemblers some fifty

years ago they were all South African owned or franchisees of foreign assemblers on which not much interest was taken by the foreigners because of sanctions.

P 2: lymon interview2.txt - 2:7 (83:84) (Super)
Media: ANSI
Codes: [Management strategies assoc. with SA AMLES]

to establish more business opportunities that might bring the creation of supply customer partnerships.

P 2: lymon interview2.txt - 2:8 (92:94) (Super)
Media: ANSI
Codes: [Management strategies assoc. with SA AMLES]

we have done the trackings across industry on lead times, inventory levels were coming down, quality improving and all these key areas or measures is what is generally called efficiency.

P 2: lymon interview2.txt - 2:9 (99:101) (Super)
Media: ANSI
Codes: [Management strategies assoc. with SA AMLES]

People have realized that they cannot get away with what they used to do ten years ago in terms of repressive minds and how they operated,

P 2: lymon interview2.txt - 2:10 (105:107) (Super)
Media: ANSI
Codes: [Management strategies assoc. with SA AMLES]

Now we see global competition bringing in requirements for more responsive supply chain management.

P 2: lymon interview2.txt - 2:11 (112:114) (Super)
Media: ANSI
Codes: [Management strategies assoc. with SA AMLES]

it started probably in 1998, with money from the European Union, the way it operates is via the Department of Trade and Industry,

P 2: lymon interview2.txt - 2:12 (117:121) (Super)
Media: ANSI
Codes: [Management strategies assoc. with SA AMLES]

We often visit similar companies overseas secretly on direct benchmarking to see how they are operating especially with Eastern European countries where most of our competitors are. All that comparison is measured on industry average and international averages.

P 2: lymon interview2.txt - 2:13 (129:131) (Super)
Media: ANSI
Codes: [Management strategies assoc. with SA AMLES]

No one knew quiet what was going on but people certainly believed there were good opportunities, which will make them venture in foreign markets.

P 2: lymon interview2.txt - 2:16 (172:174) (Super)
Media: ANSI
Codes: [Management strategies assoc. with SA AMLES]

These car manufacturers will deliberately go and set up plants like the Precision in Port Elizabeth for catalytic converters, which is a subsidiary of Delta Motors SA.

P 2: lymon interview2.txt - 2:17 (177:179) (Super)
Media: ANSI
Codes: [Management strategies assoc. with SA AMLES]

Therefore, this had all sort of implications for tanneries, which had a long-term stake unlike the sewing plants, which are easier to set up.

P 2: lymon interview2.txt - 2:18 (181:185) (Super)
Media: ANSI
Codes: [Management strategies assoc. with SA AMLES]

To me it should come as a recommendation, the whole idea is so interesting because most of the firms currently in business are foreign players and so efficient and competitive that they do not see the need for collaboration.

P 2: lymon interview2.txt - 2:19 (190:193) (Super)
Media: ANSI
Codes: [Management strategies assoc. with SA AMLES]

It makes sense on certain things and it obviously does not make sense to sit around and mentioning what strategies to take pertaining market opportunities whereas supplying the same customer, it will make sense on supply chain management

P 2: lymon interview2.txt - 2:20 (208:211) (Super)
Media: ANSI
Codes: [Management strategies assoc. with SA AMLES]

I think efficiencies have been looked at in relation to the flight costs which are very expensive but safe to use the sea freight which will take up to three weeks and accumulating inventory.

P 2: lymon interview2.txt - 2:21 (211:215) (Super)
Media: ANSI
Codes: [Management strategies assoc. with SA AMLES]

The Durban Automotive Cluster is looking at ways on reducing the logistics' problems encountered; there is talk about how to use the Durban trade port and flying products out of Durban which are the advantages any company

P 2: lymon interview2.txt - 2:22 (231:233) (Super)
Media: ANSI
Codes: [Management strategies assoc. with SA AMLES]

As the proportion of exports to local supply changes, I think you will see a kind of maturing on the industry where all the eggs will be in one basket

P 2: lymon interview2.txt - 2:23 (236:241) (Super)
Media: ANSI
Codes: [Management strategies assoc. with SA AMLES]

they just did not know but more worried about the dependency to the MIDP. Others did say the MIDP is a kind of cherry but can make them survive. I think the answers here are mixed, if the MIDP goes tomorrow you will get companies that will survive and continue to function efficiently and those that will be under pressure and under threat.

P 2: lymon interview2.txt - 2:24 (263:267) (Super)
Media: ANSI
Codes: [Management strategies assoc. with SA AMLES]

Are there any similarities to employees on both sides on the level of education?

R: It is comparable but not a massive difference, an uneducated guess,

P 2: lymon interview2.txt - 2:54 (24:26) (Super)
Media: ANSI
Codes: [Management strategies assoc. with SA AMLES]

I think it happened in indirect ways in the sense that the MIDP is not specifically about skills but about bringing certain business investments to South Africa.

P 2: lymon interview2.txt - 2:55 (48:50) (Super)
Media: ANSI
Codes: [Management strategies assoc. with SA AMLES]

we have seen the industry is just getting better with management being mostly South Africans.

P 2: lymon interview2.txt - 2:56 (76:79) (Super)
Media: ANSI
Codes: [Management strategies assoc. with SA AMLES]

Locating the production globally has a major impact on investments and the supplier chain because assemblers or OEM's dictate whom the suppliers will be or where to purchase.

P 2: lymon interview2.txt - 2:57 (141:143) (Super)
Media: ANSI

Codes: [Management strategies assoc. with SA AMLES]

Looking at the present scenario I do not think there will be a growth of export if the trends continue to be what they are.

P 3: lymon interview3.txt - 3:1 (21:23) (Super)

Media: ANSI

Codes: [Management strategies assoc. with SA AMLES]

exposed to global prices, and again exposed to quotations done worldwide, definitely the driving forces are not the same today.

P 3: lymon interview3.txt - 3:2 (35:38) (Super)

Media: ANSI

Codes: [Management strategies assoc. with SA AMLES]

If we take the situation of Bader SA on how it came to this country it was through the request of OEM's in Germany because the local firms that existed in the tanneries could not support or did not have the capacity for volumes the OEM's were looking for.

P 3: lymon interview3.txt - 3:3 (46:49) (Super)

Media: ANSI

Codes: [Management strategies assoc. with SA AMLES]

The transfer of investment in some areas localized products and the industry more into South Africa, if you consider in 1987 there was only one tannery in South Africa, i.e. Hanni and Sons in Nigel,

P 3: lymon interview3.txt - 3:4 (50:53) (Super)

Media: ANSI

Codes: [Management strategies assoc. with SA AMLES]

You also had players in the shoe industry who were manufacturing the gloving leather who took the opportunity to branch in to the automotive leather industry

P 3: lymon interview3.txt - 3:5 (64:66) (Super)

Media: ANSI

Codes: [Management strategies assoc. with SA AMLES]

the incentives from the MIDP the more you sell the better is for the firm, so as you can imagine OEM's are also interested in the bottom line.

P 3: lymon interview3.txt - 3:7 (79:81) (Super)

Media: ANSI

Codes: [Management strategies assoc. with SA AMLES]

If we take our own company, the Bader Group that is global, areas such as quality, standardization of methods, buying of raw material is part of the company's global strategy.

P 3: lymon interview3.txt - 3:8 (83:85) (Super)
Media: ANSI
Codes: [Management strategies assoc. with SA AMLES]

I do not think there is openness as there are factors contributing to profitability, which companies might not want to disclose as to them it is confidential.

P 3: lymon interview3.txt - 3:10 (114:115) (Super)
Media: ANSI
Codes: [Management strategies assoc. with SA AMLES]

The efficiency rate must really be looked at on cost savings as well.

P 3: lymon interview3.txt - 3:11 (124:126) (Super)
Media: ANSI
Codes: [Management strategies assoc. with SA AMLES]

He also mentioned that there must be a sort of rearrangement to the MIDP to make it user friendly for OEM's to can still benefit from it

P 3: lymon interview3.txt - 3:12 (132:138) (Super)
Media: ANSI
Codes: [Management strategies assoc. with SA AMLES]

for Bader the sewing operation is not its core business, we are not in this industry to grow, only if the OEM's request us to do something for them we will consider. However, you have to know that Bader will not suppress or quote against its opposition like the Aunde's, Lear or Johnson Controls because of its combined operational processes on tanning and sewing as sewing is not our core business.

P 4: lymon interview4.txt - 4:1 (9:10) (Super)
Media: ANSI
Codes: [Management strategies assoc. with SA AMLES]

was on the brink of going extinct or rely solely on export.

P 4: lymon interview4.txt - 4:2 (34:36) (Super)
Media: ANSI
Codes: [Management strategies assoc. with SA AMLES]

The positive thing is the programme is not just bound to one sector; you need different skills for sewing than assembling of a vehicle, assembling a car or building a catalytic converter.

P 4: lymon interview4.txt - 4:3 (42:44) (Super)
Media: ANSI
Codes: [Management strategies assoc. with SA AMLES]

see there is a lot of overseas companies investing in South Africa, buying companies out and also investing in themselves

P 4: lymon interview4.txt - 4:4 (73:74) (Super)
Media: ANSI
Codes: [Management strategies assoc. with SA AMLES]

We are only competitive in the world market because we have the MIDP as an advantage

P 4: lymon interview4.txt - 4:7 (136:139) (Super)
Media: ANSI
Codes: [Management strategies assoc. with SA AMLES]

If one looks at the raw material on leather, the industry will still be there after 2012 if we are productive because Africa is the third largest producer of hides after the Argentinean and Mexican states.

P 4: lymon interview4.txt - 4:8 (145:146) (Super)
Media: ANSI
Codes: [Management strategies assoc. with SA AMLES]

So far it has been very positive, because currently these countries are seen as low cost manufacturing facilities.

P 5: lymon interview5.txt - 5:1 (14:15) (Super)
Media: ANSI
Codes: [Management strategies assoc. with SA AMLES]

The MIDP is the most important driving force and main reason for expansion and export performance.

P 5: lymon interview5.txt - 5:2 (19:22) (Super)
Media: ANSI
Codes: [Management strategies assoc. with SA AMLES]

to accommodate exports we require investments, technology transfers, skills upgrading, etc otherwise no exports if it does not comply to world standards.

P 5: lymon interview5.txt - 5:3 (26:29) (Super)
Media: ANSI
Codes: [Management strategies assoc. with SA AMLES]

before the MIDP no exports, inefficient, uncompetitive inward focused industry. However, after the MIDP South Africa is now part of the global market and integrated into global strategies of parent companies.

P 5: lymon interview5.txt - 5:4 (45:46) (Super)
Media: ANSI
Codes: [Management strategies assoc. with SA AMLES]

Bigger volumes and economies of scale benefits, etc in doing it this way.

P 5: lymon interview5.txt - 5:5 (52:52) (Super)
Media: ANSI

Codes: [Management strategies assoc. with SA AMLES]

That we cannot avoid especially if we are not productive,

P 5: lymon interview5.txt - 5:6 (54:57) (Super)

Media: ANSI

Codes: [Management strategies assoc. with SA AMLES]

Even though South African firms are productive they will still always need support via the MIDP or alternative programmes due to its small size of 0,7% of global vehicle production.

P 6: lymon interview6.txt - 6:1 (10:13) (Super)

Media: ANSI

Codes: [Management strategies assoc. with SA AMLES]

The footwear market virtually went into zero, we as a tannery looked in terms of what could we do to sustain the production and that we saw in the motor industry as being a long term growing market.

P 6: lymon interview6.txt - 6:2 (23:26) (Super)

Media: ANSI

Codes: [Management strategies assoc. with SA AMLES]

If the South African government wants to maintain the automotive component industry including sewn up leather seats, it has to find new methods of bringing the industry into a competitive economic situations with other subsidized countries.

P 6: lymon interview6.txt - 6:3 (30:30) (Super)

Media: ANSI

Codes: [Management strategies assoc. with SA AMLES]

I do not think the MIDP directly has any effect on the transfer of skills

P 6: lymon interview6.txt - 6:4 (38:38) (Super)

Media: ANSI

Codes: [Management strategies assoc. with SA AMLES]

makes the synergy obtained through Seton invaluable.

P 6: lymon interview6.txt - 6:5 (47:49) (Super)

Media: ANSI

Codes: [Management strategies assoc. with SA AMLES]

We at Seton have a continuous improvement program, a very big scheme based on incentives for suggestions,

P 6: lymon interview6.txt - 6:6 (50:52) (Super)

Media: ANSI

Codes: [Management strategies assoc. with SA AMLES]

in terms of proposals for improvements, and that is one of

the things that keeps you up to date, and helps you to continue with competitiveness.

P 6: lymon interview6.txt - 6:7 (56:58) (Super)
Media: ANSI
Codes: [Management strategies assoc. with SA AMLES]

MIDP does not offer you any direct incentives, finance or funding, what MIDP does is it encourages motor industry to invest in South Africa in terms of their plants and equipment.

P 6: lymon interview6.txt - 6:8 (70:72) (Super)
Media: ANSI
Codes: [Management strategies assoc. with SA AMLES]

The OEM's in terms of rand per square measures us metre and rand per car kit and there we are measured with the rest of the world. Global sourcing is the policy of OEM's today and as a supplier source we have to compete with the rest of the world including countries that protect and subsidies their industries.

P 6: lymon interview6.txt - 6:10 (87:89) (Super)
Media: ANSI
Codes: [Management strategies assoc. with SA AMLES]

In addition, you have Asian markets supplying into China, which is a growing world producer of motorcars, Asian markets into Japan, which is a big producer of motorcars.

P 6: lymon interview6.txt - 6:14 (114:114) (Super)
Media: ANSI

Codes: [Management strategies assoc. with SA AMLES]

I do not see collaboration within the industry

P 6: lymon interview6.txt - 6:15 (116:118) (Super)
Media: ANSI
Codes: [Management strategies assoc. with SA AMLES]

We create capacities wrongly but it is a chicken egg situation because if you do not have the capacities they will not give you the business

P 6: lymon interview6.txt - 6:16 (121:123) (Super)
Media: ANSI
Codes: [Management strategies assoc. with SA AMLES]

We have to look at collaboration in terms of technology, strategies, pricing and buying.

P 6: lymon interview6.txt - 6:17 (143:145) (Super)
Media: ANSI
Codes: [Management strategies assoc. with SA AMLES]

Global companies like Seton are exposed to competition,

development, experience and everything else that goes within where pressures are put on by various customers to solve certain problems.

P 6: lymon interview6.txt - 6:18 (171:174) (Super)
Media: ANSI
Codes: [Management strategies assoc. with SA AMLES]

I think if you now look at the tanneries there is a very high capital on fixed plants, which cannot be easily moved, before you shut down and scrap the plant you will look at all the alternatives of how to overcome or to solve the problems.

P 6: lymon interview6.txt - 6:19 (177:180) (Super)
Media: ANSI
Codes: [Management strategies assoc. with SA AMLES]

Again, it is a trade off between closing the plant and moving it somewhere else, but that it all suggests to short term because moving the plant to some other countries before shaping up, and realising it was a wrong decision like Seton in Hungary

P 6: lymon interview6.txt - 6:20 (180:181) (Super)
Media: ANSI
Codes: [Management strategies assoc. with SA AMLES]

twelve years ago, labour was very cheap, a lot of incentives with a lot of protection

P 6: lymon interview6.txt - 6:21 (187:191) (Super)
Media: ANSI
Codes: [Management strategies assoc. with SA AMLES]

India is a perfect example, they pay sixty- seven US dollar cents an hour per eight-hour day and those workers work up to fourteen hours with no reimbursement to the four or five extra hours worked, for them they are very pleased to have a job. They will work up to seven days a week, which our people will not do.

P 6: lymon interview6.txt - 6:22 (201:202) (Super)
Media: ANSI
Codes: [Management strategies assoc. with SA AMLES]

coming from a communistic and historic background; they never knew what their costs were.

P 7: lymon interview7.txt - 7:1 (14:15) (Super)
Media: ANSI
Codes: [Management strategies assoc. with SA AMLES]

in regards to the motor industry's growth there has been an influx of capital

P 7: lymon interview7.txt - 7:2 (18:21) (Super)

Media: ANSI

Codes: [Management strategies assoc. with SA AMLES]

If you go out of the hypothesis that the MIDP has been successful, we will find that it has created a positive influence from the transfer of skills.

P 7: lymon interview7.txt - 7:3 (21:22) (Super)

Media: ANSI

Codes: [Management strategies assoc. with SA AMLES]

there is a debate about if has it done enough for the transfer of skills

P 7: lymon interview7.txt - 7:4 (29:29) (Super)

Media: ANSI

Codes: [Management strategies assoc. with SA AMLES]

I think on a psychological level the MIDP drives the industry

P 7: lymon interview7.txt - 7:5 (30:32) (Super)

Media: ANSI

Codes: [Management strategies assoc. with SA AMLES]

therefore we are in a position to compete which I think it is a very dangerous thing for people to rely on.

P 7: lymon interview7.txt - 7:8 (90:95) (Super)

Media: ANSI

Codes: [Management strategies assoc. with SA AMLES]

The labour rate is cheap; the infrastructure can be developed from scratch very easily. What I can say is that nobody from Europe is going to come and develop the infrastructure here in South Africa, they might invest in plants and machinery but definitely it will not benefit them on building roads and so forth.

P 7: lymon interview7.txt - 7:9 (100:106) (Super)

Media: ANSI

Codes: [Management strategies assoc. with SA AMLES]

From my personal opinion is that it will reach equilibrium after a while. What is going to happen now a lot of work will be going out of Western to Eastern Europe and that in itself is going to have a detrimental effect on Western Europe. The people will start suffering while the unemployment will start to rise, people from Western Europe will become poorer while the Eastern countries will have a huge influx of work.

P 7: lymon interview7.txt - 7:10 (110:112) (Super)

Media: ANSI

Codes: [Management strategies assoc. with SA AMLES]

the Eastern European countries will increase their demands

or requirements on what they want like their level of pay.

P 7: lymon interview7.txt - 7:11 (113:114) (Super)
Media: ANSI
Codes: [Management strategies assoc. with SA AMLES]

But still most of the people still want to invest in Western Europe

P 7: lymon interview7.txt - 7:12 (117:120) (Super)
Media: ANSI
Codes: [Management strategies assoc. with SA AMLES]

Why would investors go all the way to South Africa to do business and take the risk when they can do it cheaply in Eastern Europe? Therefore, that is the major factor in the demise of the MIDP

Code: Origin of AMLES in SA {9-0}

P 1: lymon interview1.txt - 1:29 (8:11) (Super)
Media: ANSI
Codes: [Origin of AMLES in SA]

the industry was only limited to the South African automakers at the time. The driving force to the leather export sewing was because of its labour intensiveness coupled with the abundance of raw leather material.

P 2: lymon interview2.txt - 2:46 (8:12) (Super)
Media: ANSI
Codes: [Origin of AMLES in SA]

I have often associated the growth of the leather industry with the growth of the MIDP. I am guessing and thinking if it started before it would not have been much fruitful, it was early in the 1990's when some companies were trying to export automotive leather components like BMW SA.

P 2: lymon interview2.txt - 2:47 (15:16) (Super)
Media: ANSI
Codes: [Origin of AMLES in SA]

What you might find is that the industry started in the early 1990's but the real growth is associated with the MIDP.

P 3: lymon interview3.txt - 3:21 (8:13) (Super)
Media: ANSI
Codes: [Origin of AMLES in SA]

The industry started long before the MIDP process because of involvement from South African motor companies and players in the industry market from overseas, especially from German companies like BMW SA which started investing in South African leather seat export sewing on a small

scale but the MIDP definitely helped in this process.

P 4: lymon interview4.txt - 4:24 (7:10) (Super)

Media: ANSI

Codes: [Origin of AMLES in SA]

The industry existed either before the MIDP but what happened as far as I know the South African motor industry was reaching a very critical point where it was on the brink of going extinct or rely solely on export.

P 5: lymon interview5.txt - 5:9 (7:9) (Super)

Media: ANSI

Codes: [Origin of AMLES in SA]

Driving forces most probably, the availability of the raw material for domestic production as no exports existed before the MIDP.

P 6: lymon interview6.txt - 6:46 (8:10) (Super)

Media: ANSI

Codes: [Origin of AMLES in SA]

based on the supply of raw material and as the years progressed our tanneries were exposed to the competition from the Asian markets in terms of cheap footwear market.

P 6: lymon interview6.txt - 6:47 (13:17) (Super)

Media: ANSI

Codes: [Origin of AMLES in SA]

We specialized in the production of leather and created ourselves as a supplier source to European customers in terms of good quality leather, and that really started the project which the South African government went in and started the MIDP to even grow the automotive sector even further and leather was part of that.

P 7: lymon interview7.txt - 7:24 (12:14) (Super)

Media: ANSI

Codes: [Origin of AMLES in SA]

but there was a positive effect from the MIDP in obviously the growth of the motor industry

Code: Threats to AMLES in SA {7-0}

P 1: lymon interview1.txt - 1:10 (87:91) (Super)

Media: ANSI

Codes: [Threats to AMLES in SA]

For example, the labour rate in Mexico and China is a quarter of what we are and Turkey, which is more expensive than South Africa is thirty percent more productive than the South African labour force meaning their overall efficiency makes their labour rate cheaper.

P 2: lymon interview2.txt - 2:25 (174:177) (Super)
Media: ANSI
Codes: [Threats to AMLES in SA]

There has been a lot of individual opportunism for a while and probably for short term and I do not know if the industry had a sort of stake in the long-term survival.

P 3: lymon interview3.txt - 3:13 (110:111) (Super)
Media: ANSI
Codes: [Threats to AMLES in SA]

I cannot see that, my point is the whole industry is under threat now because of global markets.

P 3: lymon interview3.txt - 3:22 (148:150) (Super)
Media: ANSI
Codes: [Threats to AMLES in SA]

There is a big challenge for the South African industry's role players to really put more effort as Eastern European countries do not have the strong labour unions as in South Africa.

P 4: lymon interview4.txt - 4:9 (84:89) (Super)
Media: ANSI
Codes: [Threats to AMLES in SA]

On the sewing sides we do have some difficulties in reaching the production levels of our Mexican counterparts, the Mexican plants are running in ways that you cannot believe and with the Eastern European countries getting into manufacturing with low cost environment, it is a big concern for us.

P 6: lymon interview6.txt - 6:23 (21:23) (Super)
Media: ANSI
Codes: [Threats to AMLES in SA]

Well the threat by the Australian government into the MIDP project is definitely on us, the incentives and protection offered by other countries throughout the world is as well a threat to our industry

P 6: lymon interview6.txt - 6:50 (135:137) (Super)
Media: ANSI
Codes: [Threats to AMLES in SA]

Currently our leather export sewing is being targeted against from Australia, which is putting so many questions to the future of the industry.

