

**THE INFLUENCE OF GLOBALISATION
ON AUTOMOBILE MANUFACTURERS
IN SOUTH AFRICA**

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**Thesis submitted in fulfillment of the requirements for the degree of
Philosophiae Doctor in the school of entrepreneurship, marketing and
tourism management, faculty of economic and management sciences of the
Potchefstroom University for CHE**

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Potchefstroom

November 2003

ACKNOWLEDGEMENTS

This study would not have been possible without the grace and mercy of the Almighty God who gave me the strength and perseverance to complete this study. I would like to take this opportunity to express my heart-felt gratitude towards a number of very special people whose contribution, support and understanding were essential for the timely completion of this study.

- Prof. L.R.J. van Rensburg (promoter), Director, School of Entrepreneurship, Marketing and Tourism Management for his guidance, wisdom and encouragement. I feel privileged to have been his student.
- Dr. J.L. van der Walt (co-promoter) for his advice and guidance throughout the study.
- Prof. G. J. de Klerk, Dean, Faculty of Economic and Management Science, Potchefstroom University for CHE for his support and encouragement.
- The South Eastern University of Sri Lanka, who granted me study leave to read my Ph.D. degree at the Potchefstroom University for CHE, South Africa.
- Mr. A.R.A.Tawfeak and family, who extended their full and most valuable co-operation in various respects to complete my study. Actually, no words could convey my gratitude to this family.
- Mr. George K. John, lecturer, Pharmacy Practice, School of Pharmacy, Potchefstroom University for CHE, for his support and encouragement.
- Mr. Naeem Cassim, Distribution Manager, Daimler Chrysler SA Ltd., for his suggestions and relevant information regarding this study.
- Mrs. E. Rood, information specialist, Ferdinand Postma Library, Potchefstroom University for CHE, for providing the necessary data and information whenever it was needed.

- All the staff at the Ferdinand Postma Library, Potchefstroom University for CHE, for extending their full support to obtain the relevant literature material pertaining to my study.
- Mrs. J.W. Breytenbach, Statistical Consultation Services, Department of Statistics, Potchefstroom University for CHE, for completing and analysing the data processing within a short period of time.
- All automobile manufacturers in South Africa, for their enthusiastic participants, their co-operation, and without whom the study would not have been possible.
- All staff of the School of Entrepreneurship, Marketing and Tourism Management for their moral support and encouragement. A special word of thanks to Mrs. E. P. Beukes, secretary to the School.
- The General Administrative staff of the Potchefstroom University for CHE who extended their full support whenever I needed any administrative assistance.
- Mrs. E. Brand, for the efficient and timely language editing and proof-reading of the thesis, while always being pleasant.
- Friends and colleagues and all those who encouraged me to complete my study.
- My mother, late father, brothers, sister, brothers-in-law and all family members, who inspired me to continue my academic career.
- My wife and son, a special word of heart-felt thanks, for their love, patience, support and encouragement to complete this study by staying with me in Potchefstroom, South Africa right through the study.

ABSTRACT

The South African automobile manufacturing industry has grown since 1920 from an import and assembly industry to an import-substitute industry. From the inception, the automobile manufacturing industry developed under the careful monitoring of the Government to obtain the objectives of the economy of the country. Until 1960, all automobile manufacturers imported completely knocked down sets from abroad to assemble vehicles. These excessive imports drained the South African foreign reserves. By 1961, the South African Government had introduced local content programmes to stop / reduce importations in order to save foreign currency and develop the industry into a self-sufficient manufacturing industry. Each phase of the local content programme (six in total) had both advantages and disadvantage but contributed significantly to the growth of the industry.

Existing manufacturers received significant protection from both new manufacturers and new-model entry into the market by means of high tariff barriers. New competition in the form of new manufacturers or imported products was relatively small with little risk for existing manufacturers. The country's automobile manufacturers were growing and during this period reported profits. By 1990 the globalisation process had accelerated more than ever before. Restructural changes took place in most manufacturing industries due to the globalisation process. Most countries have to a large extent been feeling the influence of globalisation in the manufacturing sectors since the early 1990s. Many changes took place with regard to technology, production methods, labour utilisation and marketing of the manufacturing sectors due to the globalisation process. Since 1994, the Uruguay Round Agreement and the Marrakesh Agreement were established under the World Trade Organisation (WTO) that governs world trade. Under these agreements all countries are forced to free up their markets through tariff reduction on imports. South Africa had to reduce its tariff on imported goods and vehicles according to the Uruguay Round Agreement, as the country is one of the signatories to this agreement. According to WTO obligations, a comprehensive tariff reduction was introduced on the automobile manufacturing industry through the implementation of the Motor Industry Development Programme (MIDP) in September 1995 in South Africa. This proved to be a turning point, with South Africa becoming increasingly integrated into the global economy. The South African automobile manufacturing industry is currently one of the largest industries that have embraced the realities of globalisation.

A large number of transnational corporations (TNCs) and multinational corporations are entering the domestic and regional markets with highly innovative, quality and low-priced vehicles without any barriers. The trade liberalisation process has increased competition and imports, creating high pressure and influence on the performance of automobile manufacturers in South Africa in terms of production volume, marketing, employment level and profits. Global competitors have eroded the market share, while domestic sales for vehicles have declined due to imported small, affordable and sophisticated car models. The total accumulated net profits of all seven manufacturers in the country have declined significantly after the introduction of trade liberalisation in 1995.

The above factors motivated the investigation of the influence of globalisation on the overall performance of automobile manufacturers in South Africa. Based on a comprehensive literature review and empirical analysis, the following conclusions were reached.

The majority of automobile manufacturers have sufficient internal strengths and resources to face global competitors. The majority of automobile manufacturers cannot offer low-priced vehicles to customers compared with global competitors in the liberalised marketplace. This has a seriously negative impact currently, keeping the industry far behind from the competitive position. Lack of automation in production, lack of investment to introduce computerised and advanced technology in the production process, poor production volume, inability to reach economies of scale, high production costs and lack of teamwork in production are factors that hamper automobile manufacturers in South Africa. These manufacturers are unable to increase their sales in the domestic market to reduce production costs, as low-priced imported vehicles have eroded the domestic market. At the same time, current global market trends in terms of over-capacity, small and low-priced and differentiated models with sophisticated technology have significant negative effects on the performance of automobile manufacturers in South Africa. All these trends will affect the investment, production volume, market share and profits of local manufacturers and severely threaten their survival over the long term.

A quality product at a lower cost is an important weapon to overcome these problems and meet all the above threats in the marketplace. Finally, a competitive advantage umbrella model consisting of the most important aspects is given where the automobile manufacturer has to concentrate intensively and immediately on improving their competitive position to overcome the negative influence of globalisation in future.

OPSOMMING

Die Suid-Afrikaanse motorvervaardigingsnywerheid het sedert 1920 gegroei vanaf 'n invoer- en monteringsnywerheid tot 'n invoervervangingsnywerheid. Sedert sy ontstaan het die motorvervaardigingsnywerheid onder die versigtige beheer van die Regering gestaan ten einde die doelstellings van die land se ekonomie te bereik. Tot 1960 het alle motorvervaardigers heeltemaal ongemonteerde stelle ingevoer om motors te monteer. Hierdie buitensporige invoervolume het die Suid-Afrikaanse buitelandse reserwes uitgeput. Teen 1961 het die Suid-Afrikaanse Regering plaaslike-inhoudprogramme in werking gestel om die invoer te beëindig / of te verminder ten einde buitelandse valuta te bespaar en die nywerheid tot 'n selfonderhoudende vervaardigingsnywerheid te ontwikkel. Elke fase van die plaaslike-inhoudprogram (altesaam ses fases) het beide voor- en nadele gehad, maar het betekenisvol bygedra tot die groei van die nywerheid.

Bestaande motorvervaardigers het noemenswaardige beskerming geniet teen beide nuwe vervaardigers en nuwe-modeltoetreding tot die mark deur middel van hoë tariefversperrings. Daar was min mededinging in die vorm van nuwe vervaardigers of ingevoerde produkte, met min risiko vir bestaande vervaardigers. Die land se motorvervaardigers het gegroei en gedurende hierdie periode winste aangekondig. Teen 1990 het die globalisasieproses begin versnel, meer as ooit tevore. Herstrukturierungsveranderinge het in die meeste vervaardigingsnywerhede plaasgevind as gevolg van die globalisasieproses. Meeste lande het in 'n groot mate die invloed van globalisasie begin voel in die vervaardigingsnywerheid sedert die begin van die vroeë 1990s. As gevolg van die globalisasieproses het baie veranderinge plaasgevind met betrekking tot tegnologie, produksiemetodes, arbeidsbenutting en die bemerking van die vervaardigingssektor. Sedert 1994 is die Uruguay Ronde Ooreenkoms en die Marrakesh Ooreenkoms onderteken onder die Wêreld Handelsorganisasie (WHO) wat wêreldhandel beheer. Volgens hierdie ooreenkomste is alle lande verplig om hul markte oop te stel deur tariefvermindering op invoer. Suid-Afrika moes ook sy tarief op ingevoerde goedere verlaag volgens die Uruguay Ronde Ooreenkoms omdat die land een van die ondertekenaars van dié ooreenkoms is. Volgens WHO-verpligings is omvattende tariefvermindering in die motorvervaardigingsnywerheid aangekondig deur middel van die implementering van die Motornywerheidsontwikkelingsprogram in September 1995 in Suid-Afrika. Dit het 'n keerpunt teweeggebring, met Suid-Afrika wat toenemend in die wêreld ekonomie geïntegreer is. Die Suid-Afrikaanse motorvervaardigingsnywerheid is tans een van die grootste nywerhede wat die werklikhede van globalisasie aanvaar het.

'n Groot getal oorgrens maatskappye en multinasionale maatskappy tree tans toe tot die plaaslike en streeksmarkte met hoogs geïnnoveerde, kwaliteit en laeprys-voertuie sonder enige versperrings. Die vryehandelsproses het wedywing en invoer laat styg, met toenemende druk en invloed op die prestasie van motorvervaardigers in Suid-Afrika wat betref produksie-omset, bemaking, werksgeleentheid en wins. Wêreldwedywers het die marktaandeel uitgekalwe, terwyl binnelandse verkope van voertuie afgeneem het as gevolg van die invoer van klein bekostigbare en gesofistikeerde motormodelle. Die totale opgehoopte netto winswaarde van al sewe motorvervaardigers in die land het merkbaar afgeneem na die aankondiging van die vryemarkbenadering in 1995.

Bogenoemde faktore was die motivering vir hierdie ondersoek na die invloed van globalisering op die totale prestasie van motorvervaardigers in Suid-Afrika. Gebaseer op 'n omvattende literatuurstudie en empiriese ondersoek is daar tot die volgende gevolgtrekkings gekom.

Die meerderheid motorvervaardigers het voldoende interne kragte en bronne om wêreldmededingers die hoof te bied. Die meerderheid motorvervaardigers kan egter nie dieselfde laeprys-voertuie aan hul klante voorsien in vergelyking met wêreldmededingers in die vrye mark nie. Dit het tans 'n ernstig negatiewe uitwerking wat die nywerheid weerhou van 'n kompeterende plek in die mark. 'n Gebrek aan outomatisering, onvoldoende investering om gerekenariseerde en gevorderde tegnologie in die produksieproses aan te wend, swak produksie-omset, onvermoë om skaalbesparings te bereik, hoë produksiekoste en 'n gebrek aan spanwerk in produksie is alles faktore wat motorvervaardigers in Suid-Afrika belemmer. Hierdie vervaardigers is dus nie in staat om hul verkope te verhoog om produksiekoste te verminder nie, omdat laeprys-voertuie die plaaslike mark uitgekalwe het. Terselfdertyd het wêreldneigings met betrekking tot oorkapasiteit, klein en lae-prys gedifferensieerde modelle met gesofistikeerde tegnologie 'n aansienlik negatiewe invloed op die prestasie van motorvervaardigers in Suid-Afrika gehad. Al hierdie neigings sal investering, produksie-omset, marktaandeel en winste van plaaslike vervaardigers beïnvloed en hul oorlewing oor die lang termyn ernstig bedreig.

'n Produk teen 'n laer koste is 'n belangrike wapen om hierdie probleme die hoof te bied en die bedreigings in die mark te weerstaan. Ten slotte is 'n sambreelmodel ontwikkel wat bestaan uit die belangrikste faktore waarop motorvervaardigers ernstig en onmiddellik moet konsentreer ten einde hul kompeterende plek in die mark te verbeter en die negatiewe invloed van globalisasie in die toekoms te oorkom.

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CHAPTER 1

AN INTRODUCTION TO THE STUDY

1.1 INTRODUCTION

This thesis undertakes to study the influence of globalisation on automobile manufacturers in South Africa. The rapid process of globalisation has had a significant impact on the world economy in the last decades. All industries have undergone structural changes in terms of production methods, finance and investment, labour, technology, and marketing due to the accelerated process of globalisation. In the case of automobile production and its market, the pattern of supply and demand of passenger vehicles has changed during the second half of the last century. In this context, all automobile manufacturers in South Africa have to face new challenges and the effect of globalisation in order to compete and survive in the globalised marketplace. The major objective of this study is to investigate the influence of globalisation on automobile manufacturers in South Africa. The motivation for the study, the problem statement, purpose of the research, a brief research methodology and outline of the chapters are provided in this introductory chapter.

1.2 MOTIVATION

There has been a hot debate on the concept of globalisation since the late 1980s and early 1990s. Since the collapse of the Soviet Union, most scholars, politicians, business people and the media have been using the term globalisation frequently (Gill, 1996:210). The movement of commodities, capital, finance, technology, ideas and information, are all used as part of a strategy of economic development in the New World order where the borders of countries have become blurred (Gill, 1999: 66).

Increasing economic integration and interdependence between countries are some of the important changes taking place due to the rapid process of globalisation (Gill, 1999:70). This brings about the reorganisation of products, interpenetration of industries, and marketing across borders (Mittelman, 1996:2). A number of changes have taken place in investment, production methods and marketing in the world under globalisation (Cox, 1996: 22).

Transnational corporations (TNCs) and multinational corporations (MNCs) are playing an important role in the rapid globalisation process through their direct investment and technological power (Hoogevelt, 1997:69). Most of the resources and liberated market in developing countries are controlled by the giant TNCs of developed countries. Political domination and economic exploitation are the ideology of free-market liberalisation (Tandon, 1998:12).

Transnational production systems have been some of the major aspects of industries in the globalisation process of the last decades. Most production and exporting activities are controlled by giant producers and marketers through trade liberalisation (Gereffi, 1996:53). According to Shafika (1997:29), the globalisation process has been accelerated by factors such as computerised technology and neo-liberal economic strategies. The International Monetary Fund (IMF) and World Bank play an important role in imposing globalisation and increasing control over the economy of the countries of the world, especially in developing countries (Kiely, 1998:26). New market rules, privatisation, deregulation, cuts in government spending, high competition, an outward-orientated economy, trade liberalisation, specialisation in production and flexibility of factories, are the important features of a neo-liberal agenda in the globalisation process (refer to section 4.4.2) (Shafika, 1997: 20). Governments are pressured to free their trade by reducing tax on imports under the policy of liberalisation (Gill, 1997: 25).

World trade is controlled by the World Trade Organisation (WTO), which controls trade regulations to protect the interests and benefits of international banks and TNCs (Buthelezi, 2000:8). The IMF and World Bank also changed their constitutions to the benefit of financial liberalisation to accelerate the globalisation process (Tandon, 1999:109). The Uruguay Round Agreement and Marrakesh Agreement (between the members of the WTO in April 1994) were the turning point of the world economy. These agreements have played a vital role in trade liberalisation policies. All tariff reductions to free trade liberalisation take place through these agreements. South Africa has agreed to reduce its tariff on imports because it is also a signatory to the latter agreement (Shafika, 1997:147). As a result of these changes TNCs are opening manufacturing companies in developing countries where cheaper labour and markets for products are available. TNCs transfer advanced technology, management techniques and work organisation across the globe to control trade all over the world by means of the trade liberalisation policies of governments (Braithwaite & Drahos, 2000: 208). In order to control the global market, TNCs are applying different production and

marketing strategies, research and development (R & D) activities, human resource policy, operating styles, advanced technology and communication, sound financial capacity, sourcing policy, new innovated product development and investment policies.

These TNCs and MNCs appoint skilled and efficient executives for their global factories in developing countries. These executives, also known as “global thinkers”, design marketing strategies to streamline a corporation’s global perspective (Warren, 1989:1). Global corporations are based on the concept of “think locally and act globally”. These corporations introduce affordable small and lower-priced vehicles with better quality and frequent model changes to the global market to fulfil the increasingly sophisticated taste of consumers (Department of Trade and Industry, 2001: 3).

Developing countries have to improve their manufacturing methods to compete with global competitors in the context of globalisation. Most developing countries do not have sufficient skilled manpower, investment and technology to compete with global companies (Humphrey, 1995:150). South Africa is far behind in terms of technology, investment and manpower (engineers and technicians) compared with other developed and developing countries in the globally competitive market (Makgetlaneng, 2000: 49).

A number of giant automobile manufacturers have been opening assembly operations in many developing countries during the period 1991 to 1997. The global over-production of automobiles is the key reason for the rapid changes that are taking place in the world’s automobile manufacturing sectors. Over-production is one of the serious problems faced by automobile manufacturers and has forced these giant manufacturers to create tie-ups and giant ventures with foreign companies under the globalisation and integration process (Black, 1994:9). Mergers and acquisition strategies are taking place among automobile manufacturers due to over-production in order to reach economies of scale in production and product developments (Ghemawat & Ghader, 2000: 65; Doole & Lowe, 1997:7).

According to Barnes and Kaplinsky (2000b: 213), South Africa was the largest car-producing developing country in 1960, but is now far behind a number of developing countries. Black (2001: 3) indicates that a tariff reduction programme was introduced in September 1995 through the implementation of the Motor Industry Development Programme (MIDP) on both build-up vehicles and components according to the obligations of the WTO and Marrakesh Agreement.

A comprehensive tariff reduction through the MIDP in the automobile manufacturing industry in South Africa has removed the protection of local automobile manufacturers. This tariff reduction has had a direct negative impact on the overall performance of automobile manufacturers in this country. Margins have reduced and the output of these sectors has decreased due to the increased imports of low-priced vehicles and advanced technology in the domestic market. This has had an impact on investment and increased competition in the domestic market. The industry could not reach economies of scale in production due to decreased market shares as the domestic market share became eroded by global competitors. The MIDP may reduce pressure on certain parts of the industry, but will keep local automobile manufacturers far behind with regard to a globally competitive position (Michie & Padayachee, 1997: 20).

As previously mentioned, rapid changes are taking place in the automobile manufacturing industry in South Africa in the context of global economic integration where mergers and acquisitions are expected both globally and locally due to increased competition (Maphologela, 2000a:13). However, it is argued that there is a chance for new entrants to open assembly factories in South Africa under the trade liberalisation policy (Cokeyne, 1997:3).

Fundamental changes are essential though in the operation of automobile manufacturers in South Africa in order to compete in the global market. Manufacturers will have to improve efficiency, operate more cost-effectively and implement new manufacturing methods and strategic marketing (ANON, 2001b:41). South African automobile manufacturers have realised that they have to improve their international competitiveness (Wakeford, 1996:4). Trade liberalisation, according to WTO obligations, has brought a number of impacts on these automobile manufacturers (Black, 2001:4). The overall performance of local automobile manufacturers in this country has been affected negatively due to the globalisation process in recent years (Maphologela, 1998:13).

Globalisation has left an indelible mark also on South Africa. As automobile manufacturers have also been influenced, the production and marketing function of automobile manufacturers in South Africa have been influenced through mergers and global development. Parent companies endeavour to bring South African automobile manufacturers into their global operations and supply-chain as part of their global strategy.

1.3 PROBLEM IDENTIFICATION

The reason for this study is to investigate the influence of globalisation on automobile manufacturers in South Africa. It will be based on the following problems that are faced by automobile manufacturers in this country after the trade liberalisation policy as a result of the implementation of the Motor Industry Development Programme (MIDP) in the globalisation process.

- The **output of automobile manufacturers** is small compared with other developing countries (total contribution to the total world vehicle production in 2001 was only 0.72%). The total vehicle production of South Africa has declined after the introduction of trade liberalisation through the MIDP in 1995. Total production has not shown satisfactory growth since 1996 except the year 2001 (NAAMSA, 2002b:5). Productivity levels declined sharply during the 1990s. After the introduction of tariff reduction through the MIDP in 1995, there were no improvement in the productivity level (Department of Trade and Industry, 1999:13 & Black, 2001:16). Poor productivity is the most important feature of South African assembly plants compared with other countries.
- It will be difficult for South African automobile manufacturers to enjoy the benefits and sufficient profits unless they have world class production and are capable of selling vehicles into their domestic and global markets of the **same quality, price and innovated designs** as other global manufacturers in the context of the liberalised market (Barnes, 2000a: 59)
- Application of **lean production** and the **just-in-time (JIT) system** will enable companies to reduce the cost of production and reach economies of scale (Asley, 1997:25). Although South African automobile manufacturers have made efforts to adopt these methods in different forms, production levels are still not sufficient at many assembly plants (Duncan, 1997:188). According to the Department of Trade and Industry (1999:8), South African automobile manufacturer are far behind with regard to manufacturing in terms of quality, cost and inventory levels and flexible production method. Production methods are an essential aspect in the context of globalisation to compete with global competitors with their innovated and quality products. The level of automation is also very low among South African automobile manufacturers compared with other countries (Black, 1994:71). South African automobile manufacturers will have to

manufacturers clearly indicate that most local automobile manufacturers are gradually coming under control of TNCs after the establishment of the MIDP in 1995. Parent companies have control over the production, technology and marketing activities of South African automobile manufacturers (Black, 2000: 405).

reduce the number of makes and models in order to reduce the cost of production to compete in global market place (Black, 1994: 71).

- **Capacity utilisation** levels in the car manufacturing industry has declined sharply since 1996 with the implementation of tariff reduction through the MIDP (NAAMSA, 2002: 7; Department of Trade and Industry, 2003a). The low level of capacity utilisation in the automobile manufacturing sector will impact negatively on the cost of production and profits of the industry.
- **Lower-priced products** dominate the domestic demand for cars, while **competition** has also increased **in the domestic market**. These trends impact negatively on economies of scale and production in the South African automobile manufacturing sector after the introduction of the trade liberalisation policy in 1994 (Black, 2001: 4).
- South African automobile manufacturers do not have sufficient **sophisticated technology** to compete with global competitors and are mainly dependent on foreign technology. South African automobile manufacturers have a number of weaknesses with regarding to technological capacity to compete with global competitors (Black, 1994: 17).
- **Total investment has increased** continuously to R2, 078 m in 2001 from 388.5 m in 1995. Ironically, however, the **total production level has been declining** from year to year since 1996 after the tariff reductions due to increased imports (NAAMSA, 2002:8; Department of Trade and Industry, 2003a). Barnes and Kaplinsky (2000b: 213-214) argue that investment levels are not sufficient compared with other developing countries to develop and upgrade new capacity. Poor performance is the major reason hindering the increase of foreign investment in the South African automobile manufacturing sector.
- The introduction of the MIDP in 1995 brought about **changes in the ownership structure** of automobile manufacturers in South Africa over the last few years (Mthimkhulu and Furlonger, 2001:42). All domestic automobile manufacturers are now at least partly controlled by TNCs, except the German subsidiaries. These changes in the ownership structures of automobile manufacturers clearly indicate that most local automobile manufacturers are gradually coming under control of TNCs after the establishment of the MIDP in 1995. Parent companies have control over the production, technology and marketing activities of South African automobile manufacturers (Black, 2000: 405).

- The total **employment level** in the motor vehicle industry **has declined** rapidly after the introduction of the MIDP in 1995 in South Africa. The total employment level has declined to 279,700 in 2001 from 308,600 in 1995 (NAAMSA, 2002: 7; Department of Trade and Industry, 2003a).
- Motor **car sales have declined** seriously from 1997, with a small improvement in 2001. After tariff reduction, the import of vehicles eroded domestic vehicle sales. New vehicle sales have again declined in the first part of 2003. In general, domestic car sales have declined continuously after the introduction of the MIDP (NAAMSA, 2003).
- **Imported vehicles and global competitors have eroded the market share** of automobile manufacturers over the last few years (NAAMSA, 2002:47). A number of assemblers and importers compete in the domestic market for a small size of the market in South Africa. According to Pretorius (Viljoen, 1996:15), this situation was created by trade liberalisation.
- Since 1998, the total **export of vehicles has increased** slowly. Only German-owned automobile manufacturers contributed significantly to export vehicles from South Africa, while other assemblers were far behind in increasing export vehicles. The exports of some assemblers are controlled or restricted by their parent companies. For example, Toyota SA's exports are restricted by Toyota Japan, even though Toyota has only a 27.8% equity share in Toyota SA (Barnes, 2000: 412).
- **Passenger vehicle imports have increased** rapidly since 1997. Total imported vehicles constituted 18.3% of the local new vehicle market in 1998 and increased further in 2000. It is expected that imports will have increased 25% for new passenger vehicles by 2007 (Automotive Industry Development Centre (Pty.) Ltd., 2001). A large number of sophisticated models are coming into the South African domestic market every year (Furlonger, 2000:150). Many transnational automobile manufacturers in the world are investing huge amounts of money in their R & D activities in order to introduce their new models, which include small and medium-sized cars of a high quality. The cars that will be entering the South African market will create more pressure on the performance of local companies (Grant, 2003). After the introduction of the MIDP, overall trade deficits of the automotive industry market in South Africa have widened. Since 1995, imports have been increasing over exports (NAAMSA, 2002: 3).

- The **accumulated net profit** of seven automobile manufacturers increased to R328 m in 1992 to 2,032 m in 1995. However, after 1996, profit **declined** sharply (there was a total loss of R547 m in 1997) with only a slight improvement in profit in 2000 and 2001. Tariff reduction through the implementation of the MIDP is the major reason for the decline in profit (NAAMSA, 2000: 60).

Globalisation has two sides. It is a multi-disciplinary, multi-directional and symbiotic entity for both the country and the global corporation and is one of the factors that might hamper transformation in South Africa from being in the global market. The dominant trends have a significant impact on South African automobile manufacturers. In this situation, the country's automobile manufacturers are being forced to improve their competitiveness rapidly in order to market their products on the domestic, regional and international markets.

The problem statement / research question that can be elucidated from the motivation and problem identification is therefore: How does the South African automobile manufacturing industry operate; how has globalisation influenced the automobile manufacturing sector of South Africa; which principles apply to globalisation in practice; why have automobile manufacturers become integrated with their parent companies in recent times; and what capacity and ability do automobile manufacturers have to react to the new challenges in the global marketplace.

1.4 THE PURPOSE OF THE RESEARCH

The purpose of the research can be divided into the goal and the objectives.

1.4.1 Goal

The goal of the research is to evaluate the influence of globalisation on automobile manufacturers in South Africa

1.4.2 Objectives

To attain the goal of this study, the following research objectives need to be achieved from the literature study and empirical investigation, namely to conceptualise:

- (1) The retrospective overviews of the broad business environment of automobile manufacturers in South Africa since the 1920s;
- (2) from the existing literature the principle of strategic marketing and the marketing environment;
- (3) from the existing literature the principle of globalisation and its operational methodology;
- (4) from the existing literature the global marketing strategies and global marketing environment; and
- (5) the trends, factors and problems associated with globalisation in the automobile manufacturing business in South Africa.

1.5 RESEARCH METHODOLOGY

The research consists of two phases, namely a comprehensive literature review and an empirical study to assess the influence of globalisation on automobile manufacturers in South Africa. This introductory chapter gives a schematic representation of the two phases, while an in-depth discussion of both phases will be given in the ensuing chapters.

1.5.1 Phase one - A comprehensive literature review

The literature review is compartmentalised into four parts for the sake of better structural organisation. In order to establish theoretical background to the problem, a comprehensive theoretical study is conducted to assess the factors and trends of globalisation and its influence on the performance of automobile manufacturers in South Africa in the context of globalisation.

The first part of the literature review (Chapter 2) is based on the broad perspectives of the business environment of automobile manufacturers in South Africa since the 1920s. It gives a broad background about the trends of the business environment of automobile manufacturers in South Africa from its outset to date.

In the second part of the literature review (Chapter 3), the principle of strategic marketing and environmental analysis will be investigated.

In the third part of the literature review (Chapter 4) an in-depth analysis on the principles of globalisation trends in the current scenario will be conducted.

In the fourth part of the literature review the focus is on dealing with global strategic marketing and its environment (Chapter 5).

The above-mentioned background knowledge is essential to support the empirical investigation of the study. The literature review establishes a broad knowledge on globalisation, current trends of globalisation, strategic marketing and the global marketing environment. This knowledge will enable management to understand the situation in the context of globalisation as well as the capacity and ability they must have to react to competitors in the global marketplace. In this way they would be able to escape from the negative impact of globalisation.

1.5.2 Phase two - Empirical investigation

A structured questionnaire was designed, based on the above-mentioned literature review. Each relevant question was selected from various parts of the literature on the basis of important concepts and themes to assess the capacity and ability of automobile manufacturers to react to competitors in the globalised marketplace. The major aim was also to establish the impact of globalisation on the performance of automobile manufacturers in South Africa in the context of the globalisation process.

1.5.2.1 Data gathering

A structured questionnaire was designed and used to gather data from the top executives of the automobile manufacturers in South Africa. The quantitative approach was used in the questionnaire because this method is very helpful to assess the attitudes of respondents to each question on a numerical scale.

1.5.2.2 Structure of the questionnaires

The questionnaire was divided into ten sub-sections. Each sub-section consists of several relevant questions. The research title was given at the top of the first page of the questionnaire so that the

respondents could understand the research area. A brief sub-title was given at the beginning of each sub-section of the questionnaire to make the respondents feel comfortable and to make the understanding of each question easy. The questionnaire was divided into ten sections in the following manner:

- Local and global competitor analysis;
- customer analysis;
- stakeholder analysis;
- marketing environmental analysis;
- internal analysis;
- production methods;
- trade liberalisation issues;
- global marketing trends and their influence;
- government policy on automobile manufacturers in South Africa; and
- marketing strategy.

A four-point Likert scale was used in the questionnaire to determine whether the respondents agree or disagree with the statements. The purpose was to assess the factors of globalisation that have an impact on the performance of the automobile manufacturing sector in South Africa and what capacity and ability they have to react to global competitors in the globalised marketplace in order to survive over the long term.

1.5.2.3 Distribution of the questionnaires

The questionnaires were delivered to the managing director and marketing director of each automobile manufacturing company in South Africa to collect the relevant data. A total of 14 questionnaires were sent out by post, as there are seven automobile manufacturers operating in the country. Thirteen (13) completed questionnaires were received back, giving a return rate of 92.85%. The participants were informed about the research by means of a covering letter along with the questionnaire, telephonic and e-mail details. A telephonic and e-mail follow-up was conducted after the questionnaires were sent out to increase the response rates.

1.5.2.4 Processing of the data

The collected data were processed statistically to express the results of the study. For this purpose, the Statistical Analysis System ®(SAS system for Window Release 6.12, 1996 version) was used in consultation with the supervisor of the study and the Statistics Department of the Potchefstroom University. The statistical analysis was made in the form of descriptive statistics. This statistical method provides a well-organised summary of the collected data that is easy to understand. Collected numerical data is presented in the form of a frequency distribution table and the calculation of descriptive criteria to highlight the meaning of tendencies and characteristics of the summarised data.

1.6 Conclusions and recommendations

Eventually, a brief conclusion is given to questions in each section of the questionnaire based on the results and findings of the investigation conducted through the questionnaire. Based on the results and findings of the study, brief recommendations are given that might be useful to the automobile manufacturing industry. Executives could then look at the possibilities of implementation in the practical situation.

1.7 Limitations of the study

- The researcher had to wait three more weeks beyond the due date of the questionnaire in order to get back the entire questionnaire from the respondents, as the study population was small. The executives were willing to send back the completed questionnaire but were unable to send it back before the due date. The researcher had to wait some more weeks to receive a good response rate.
- The changing market scenario of the country may be a restriction when an in-depth assessment of the influence of globalisation on automobile manufacturers has to be made, as it is a complicated current issue.

This study is an effort to avoid such practical limitation and give the real position of the influence of globalisation on automobile manufacturers in South Africa.

1.8 LAYOUT OF THE STUDY

Chapter 1 - An introduction to the study

This is an introduction to the research study. The motivation for the study, the problem identification, objective of the study and problem statement / research question are given in this chapter. This chapter also describes briefly the research methodology that is to be applied to complete the research.

Chapter 2 -The business environment of automobile manufacturers in South Africa since the 1920s

This chapter evaluates the business environment of the South African automobile manufacturing industry since the 1920s to date in depth in order to obtain a broad knowledge about the trends of growth of automobile manufacturers in this country. It further describes how these changes are taking place within the structure and performance of the automobile manufacturing industry in the context of the globalisation process.

Chapter 3 - Strategic marketing, implementation and control

This chapter examines and discusses strategic marketing as well as the marketing environment. The existing literature on the principles of strategic marketing and the marketing environment is discussed. The discussion of the general and traditional strategic marketing concept creates a basic background to the management of automobile manufacturers in South Africa.

Chapter 4 - The nature and trends of globalisation with regard to the automobile manufacturing industry

This chapter deals with the existing literature on the principles of globalisation. What are the trends and natures of globalisation? What influences did globalisation have on the political and economic development of developing countries in recent decades? What are the important factors and instruments that accelerated the globalisation process in recent decades? How does it influence the production and marketing activities of the automobile manufacturing sectors?

Chapter 5 - Global strategic marketing and its implication for automobile manufacturers in South Africa

Chapter 5 reflects on global marketing strategies and why automobile manufacturers must pay specific attention to global marketing strategies in this era to compete with and react to competitors in the globalised marketplace. No company or country could operate any business isolated from the global market, as all countries are integrated into the global economy under the globalisation process. Management should have a broad insight into global marketing strategies to survive in the competitive marketplace.

Chapter 6 - Research methodology and empirical investigation

This chapter gives the research methodology that was applied to complete the research as indicated in Chapter 1. It analyses the collected data and gives the results and findings of the empirical investigation of the research. The findings will be discussed briefly in tables to give a quick picture to the reader.

Chapter 7 - Conclusion and recommendations

This chapter includes the conclusion and recommendations based on the above finding and the results of the processed data. It briefly highlights what type of influences globalisation has on automobile manufacturers in South Africa and what strengths the latter have to react to and escape from those influences. It further highlights the strategies they must pay more attention to survive in the long run.

1.10 SUMMARY

Automobile manufacturers are facing a number of challenges in the modern business world and they have to operate in a highly volatile marketing environment in this electronic era. Sophisticated technology plays an important role in the business environment's day to day operations in the world. Giant firms can win any market in the electronic world by applying dynamic means such as technology, well-developed human resources, huge investments, updated research, and

development. This would, however, weaken or defeat the small firms in developing countries, while those giant companies could even simply absorb them.

Automobile manufacturers must have sufficient knowledge about the background of globalisation and its trends and nature in this era. The globalisation process through the trade liberalisation policy has a significant influence on the performance of automobile manufacturers in all developing countries, including South Africa. It is essential to assess the influence of globalisation continuously. Decision-makers must build their capacity and ability to react to and meet the challenges in the context of globalisation. No automobile manufacturer could ignore the changes that are occurring in the business world environment. Every single change will reach and affect any part of the world through modern communication and technology. A shortage of any kind of capacity and ability would lead to an adverse impact by globalisation.

The next chapter will discuss in depth the business environment of automobile manufacturers in South Africa since the 1920s. It will give a broad insight in the history, development, trends and nature of automobile manufacturers in order to understand the changes that have been taking place in these operations for the last decades before and after the trade liberalisation policy in South Africa.

CHAPTER 2

THE BUSINESS ENVIRONMENT OF THE AUTOMOBILE MANUFACTURERS IN SOUTH AFRICA SINCE THE 1920s

2.1 INTRODUCTION

This chapter focuses on the key components of the business environment of the automobile manufacturers of South Africa since 1920s. Firstly, it will discuss the national economy of South Africa as well as the national objectives of automobile manufacturers, briefly providing an overview of the contribution of automobile manufacturers to the national economy. Secondly, a brief history of automobile manufacturers in South Africa will be provided. This discussion includes the number of manufacturers, the history of production and its character, capacity utilisation, economies of scale, technology, rationalisation and its related aspects. Thirdly, human resources and developments and its nature in the South African automobile manufacturing industry will be discussed briefly. The next section concerns component manufacturers and the price and quality of the locally produced components. Next section includes market-related aspects such as the structure and development of the automobile market in South Africa that comprises of the total vehicle market, the market share of various manufacturers, factors determining the market volume of automobiles in South Africa and important aspects regarding the market. The final section of this chapter expresses the government policy, local content programme and Motor Industry Development Programme (MIDP).

2.2 THE NATIONAL ECONOMY OF SOUTH AFRICA

First of all, it is essential to understand the economic growth crisis in South Africa in order to obtain a broader insight into the background of automobile manufacturing industries connected with the economy and market. The total area of South Africa comprises 1,127,200 square km with a total population of 44.7 m in 2000 (a detailed breakdown was given in Chapter 3). The total labour force was 15.8 m in the mid-1990s and the unemployment rate was 37.5% in 1999 and 40% in 2000 (Proietti 2002:1332; Barnes, 2002:145). South Africa represents the leading economic power on the African continent. The gross national product (GNP) of this country amounts to more than

three times that of the rest of Africa together. At the end of the 19th century the discovery of gold and diamonds led to the industrialisation of the country as well as to structural changes in the labour pattern of the so far agrarian-based economy (Bendix, 1977:1.2). During the period of 1945 to 1974, the economic growth rate was generally both more rapid and more stable in South Africa (Gelb, 1991:1-4). In the decades 1963 to 1973 the gross domestic product (GDP) per capita of the country in real (1995) terms rose by a total of 25.2%. For the next ten years (1973-1983) it rose by only 2.7%. This was due to the oil price rise of 1973 and 1979, the gold price drop in 1981 and the capital flight cum sanction experiences of 1976 and 1985. The 1980s were marked by stagnation in output growth, inflation-entrenched at over 13% per annum. South Africa entered the 1990s with a number of economic problems (Gelb, 1991:1 & 6) and the 1983-1993 real GDP per capita fell by a total of 10.7%. From 1993 to 2000 it turned around and rose by 3.8%. The country's gross national income between 1993 and 2000 in real (1995) terms rose every year at an average of 2.5% (Berman, 2000:10-11). There was a fluctuation of economic growth rate in South Africa, for example, the total real GDP slowed down during 1997 and the first half of 1998 and turned negative in the third quarter of 1998. It recovered again slightly in the fourth quarter of 1998 and throughout 1999 to an annual rate of 1.9% in the first quarter of 2000 and to 3.9% in the third quarter. It again slowed down slightly to 3.2% in the fourth quarter (Burger, 2002: 137; Hutcherson, 2002:933). The real GDP of South Africa grew by 3.1% in 2000, the highest growth rate since 1996. The economic growth, after a satisfying rise of 2.5% in 2000, now scaled down from the previous estimate of 3.5% to 2.8% for 2001/ 02 as the effect of the global economy slowdown began to impact on the South Africa economy (Proietti, 2002:1332).

However, since 1970, the country has been continuously facing balance of payments problems. The manufacturing sectors were affected and experienced the South Africa's economic crisis. The economic slow-down influenced all manufacturing sectors as well as the output and employment levels (Black, 1991:56). During 1960 large amounts of foreign investments came to South Africa because in that period South Africa had rapidly growing domestic markets and relatively low wages. During that period the direct investments contributed to the rapid economic growth of the country and the manufacturing sectors enjoyed high profits. However, in the 1970s a decline in foreign investments and the output of capital in 1980 caused the turning point of the economic slow-down of the country (Black, 1991:159). One of the major reasons for the economic crisis in the country that started during the 1970s, was that the manufacturing sectors of the country had been highly dependent on the import of technologies and that the other sectors had also not generated the necessary export volumes (Black, 1991: 162).

The economic conditions in South Africa will affect the overall performance of all manufacturing sectors in the country. The supply and demand of any product depends on the economic situation of the country. South African automobile manufacturers are no exception from the effects of economic conditions. The economic strength of and conditions in the country will determine the purchasing power and decisions of customers of the automobile manufacturing sector. The economic growth of the country has a direct influence on the performance and growth of automobile manufacturers in South Africa.

2.2.1 The importance of transportation in the economy

The Commission of Inquiry into the Policy Relating to the Protection of Industries (SA,1953:48) suggests that there is a close relation between the development of a country and its means of transport. Transportation plays a vital role in the exchange economy of every country and is indispensable for economic growth. Efficient transport facilitates social functioning, regional promotion, political co-operation within and between countries and uplifts civilization (Viljoen, 1985:24-28; Kok, 1990:2). The availability of good transport provides greater mobility for goods and people. Transportation enables goods and passengers to be transferred between and within production and consumption centres (Viljoen, 1985:33).

The road network is also one of the important factors that enables a country to promote and develop a good transport system. Until around 1949, most of the roads in South Africa still had gravel surfaces and only the national road from Pretoria to Komatipoort was tarred as far as Witbank. By 1952, cars could drive on a tarred road all the way from Johannesburg via Bloemfontein to Cape Town (Schnetler, 1997:41). By 1995, 331,265 km of roads were classified, including 1,142 km of motorways, 59,900 km of main roads and 147,828 km of secondary roads. Some 41.5% of the road networks was paved (Hutcheson, 2002:969). Some 128, 777 km of untarred roads, some of the remoter parts of the country, became impassable in wet weather (Proietti, 2002:1339).

The infrastructure facilities are very important for a country in order to promote its economy. Infrastructure includes transportation and road networks and is vital factors in a country. A well-developed infrastructure will enable the manufacturing industry to increase its contribution to the economic growth of the country. In the case of automobile manufacturers in South Africa, the transportation and road networks not only facilitate the increase of their contribution to the national

economy, it is also essential because there is a direct connection with the increase in the demand for vehicles in the domestic market. There is an interconnection between transportation and road networks and the contribution of the automobile industry to the national economy of South Africa.

2.2.2 The contribution of the automotive industry to the economy of South Africa

The automotive industry is one of the most forceful powers in the South African economic development. The industry uses a large variety of raw materials, generating many employment opportunities. It plays a vital role in the commercial and service sectors (Swart, 1974: 62). The automotive industry is the third largest sector in the South African economy, after mining and agriculture and accounts for about 28.5% of the manufacturing output of the country (NAAMSA, 2001a: 6).

In 1973 the total production of the country was valued at R640 m, the automotive industry alone contributing 5.7% of the total output of all manufacturing industries in that year (Board of Trade and Industry, 1977:12). The contribution of the industry to the GDP peaked at R1.064 m in 1981 but declined at a rate of 9.2% per annum to 1985. The industry had a turnover of R14, 964 m and contributed 4.5% to the GDP in 1993 (Duncan, 1997:27). The GDP again increased at the current price to R887.8 b in 2000 from R795.5 b in 1999. However, the contribution of the automotive industry to the GDP remained at 5.4% without any increase. In 2000 the automotive industry contributed R32.6 b, that is 5.4%, to the GDP of the country (NAAMSA, 2001a: 6). GDP has increased to 975.1 b in 2001 from 887.8 b in 2000, but the industry's overall contribution to the domestic production of the country increased a little to 5.7% (R38.7 b) in 2001 from 5.4% (R32.6 b) in 2000 (NAAMSA, 2002b: 9). This data suggests that the improvement in the contribution of the automotive industry to the country's economy has not been sufficient for the last five years. The contribution rate of the South African automotive industry to the national economy indicates that the growth condition of the automotive industry in South Africa is insufficient.

2.2.3 National objectives in the motor industry

Each government has some major objectives when it starts to develop the automotive industry in a country. For this purpose, governments carefully monitor the automotive industry to obtain the

intended objectives (Swart, 1974: 165). These objectives are:

- **Saving on foreign currency:** The importation of vehicles will consume a large amount of foreign currency. Therefore, most developing countries establish an automotive industry as an import substitution in order to stop / reduce vehicle importation to save foreign currency.
- **Generation of employment:** Automobile and component manufacturers can act as large employers, generating a large number of employment opportunities at various levels in the country. This is the one of most important objectives that enables developing countries to substantially reduce its unemployment rate.
- **Raw material consumption:** Automobile as well as component manufacturers require a large variety of raw materials for production and services. In South Africa, automobile and allied manufacturers consume a variety and abundance of raw materials. In some cases raw materials are supplied by external sources.
- **Encouragement of local technology and investment:** The local automotive industry brings technology and investment to the country. This technology will contribute to other manufacturing activities, the economy, as well as social development in the country on the long term.
- **Base for exports:** The establishment of the local automotive industry in a small domestic market must certainly take into consideration the possibility of exporting motor vehicles and components. Export activities will increase the foreign currency for a country.

Good performance by the automotive industry in this country brings about and improves the skills and knowledge and develops expertise. This will indirectly provide a substantial contribution to the South African economic development. Utilisation of resources and labour is another significant contribution that is expected from the automotive industry. It is expected of the industry that it will enable a favourable balance of payment and uplift the quality of the life of the people of the country. Despite the slow-down in economic growth and the recent recession that had severe consequences for the industry, the automotive industry is still contributing to South African's economic and industrial progress. This industry also contributes to other industries such as steel, iron, aluminum, copper, rubber, plastic, chemical, machinery and electrical products by consuming large amounts for production purposes (Nieuwenhuizen, 1977:32; Board of Trade and Industry, 1988:56).

In the post-apartheid democracy, South Africa has woken up from its dream. In this transitional period, the pressing concerns of economic reconstruction and development now command the attention of business people and politicians alike. The government is focussing on the automotive industry as it has a long-standing position at the heart of the South African economy, while it has been identified as one of the larger producing industries. After the implementation of the local content programme of the government, the industry has become a rapidly growing manufacturing sector in the country, This industry has come to be recognised as vital to the South Africa economy as a whole (Duncan, 1997:27).

The automotive industry is one of the most important sectors in the South African economy. There are high hopes and expectations for the contribution of the automotive industry to promote the national economy and quality of life of the people. This sector has large networks that include various allied manufacturers and service sectors as described in next section. All these sectors are interconnected in contributing to the national economy and development.

2.2.4 Description of the automotive industry in South Africa

The Department of Trade and Industry (DTI) in South Africa has divided the automotive industry into three categories, namely manufacturers of motor vehicles, manufacturers of motor vehicle bodies and manufacturers of motor vehicle parts (Department of Trade and Industry, 1999:1). The South African automotive industry comprises motor vehicles and motor vehicle component manufacturers (Board of Trade and Industry, 1988:54; Boxall, 1989:1). However, this study mainly focuses on the automobile manufacturers in South Africa, especially on car manufacturers and assemblers. Road passenger vehicles will be classified nationally into the following seven categories:

- 1- **Motor cars:** vehicles designed or adapted to carry not more than 5 passengers plus a driver
- 2- **Micro-busses:** vehicles designed or adapted to carry not more than 9 passengers plus a driver
- 3- **Mini-busses:** vehicles designed or adapted to carry not more than 15 passengers plus a driver
- 4- **Mid-busses:** vehicles designed or adapted to carry not more than 25 passengers plus a driver
- 5- **Busses:** vehicles designed or adapted to carry more than 25 passengers plus a driver
- 6- **Double-decker:** vehicles consisting of two passenger decks and designed or adapted to carry more than 100 passengers plus a driver

7- **Bus trains:** vehicles designed or adapted to carry more than 100 passengers plus a driver (Viljoen, 1985:75).

The motor car includes cars, station wagons, jeeps and other vehicles with a four-wheel drive that are equipped to transport passengers (Gardiner, 1985:49). The cars can be divided into three sizes: small cars (below 930 kg), medium cars (931– 1250 kg) and large cars (over 1250 kg) (Board of Trade and Industry, 1988:18).

Supporting the automotive industry, there were approximately 5,500 garages and filling stations with service workshops, 3,300 specialist repairers, 1,100 new vehicle dealerships holding specific franchises, around 850 used vehicle outlets, about 350 motor vehicle component manufacturers, 450 specialist tyre dealers and retreaders, 500 engine reconditioners, 80 vehicle body builders, 650 parts dealers and around 280 farm vehicle and equipment suppliers in 2002 (NAAMSA, 2002b: 25). All these businesses have a direct and indirect connection between them and the marketing and economic activities of the country.

2.3 A BRIEF HISTORY OF THE AUTOMOBILE MANUFACTURERS IN SOUTH AFRICA

This section briefly explains the history of automobile manufacturers in order to understand the various aspects and fundamental factors of the industry. In 1830 a daily stagecoach began running between Cape Town and Wynberg, the first horse-drawn omnibus introduced for transport purposes. After a few years the tram system of transport was introduced in Cape Town. This comprised trams drawn by horses at the breathtaking speed of six to seven miles an hour. On 6 June 1897, the first electric tramway was ceremoniously opened at Port Elizabeth (Gill, 1961:14-28). This is the beginning history of transport in South Africa before the automobile come to the scene.

On 4 January 1897, the first motor car, a Benz Velo, was introduced to South Africa in Pretoria. A week later the car was sent by rail from Pretoria to Johannesburg for public demonstration on the Wanderers grounds. Paul Kruger, State President of the South African Republic, presented the first car to Mr. J.P. Hess, a Pretoria merchant. Mr. Hess sold the motor car for a substantial sum to Mr. A.H. Jacobs, a leading tea and coffee merchant who intended to use the car for advertising purposes.

The second petrol-driven vehicle arrived in the country in October 1898. It was a tubular-framed affair on bicycle wheels, powered by the well-proven De Dion single-cylinder air-cooled engine but without a clutch or gearbox system (Johnston, 1975:15-17; Louw, 1972:589; Schnetler, 1997:1; Duncan, 1997:3). After the demonstration of this second car, it was offered for sale at a reasonable price. In 1899, Joseph Shillito, a mechanical engineer, and Jack Rose, a champion racing cyclist, imported similar machines made by the Ariel Company. Another Enfield and two loco mobile streamers were imported in 1900. The following year petrol and two motorcycles were imported. In 1902, Alldays cars, Peugeot delivery vans and Daimler lorries were imported to South Africa (Ringrose, 1966:34; Johnston, 1975:18-19). In the beginning many of the automobiles came from France. In 1902 the Johannesburg Motor Car Company was established, the first motor business in the Transvaal to import cars. During this period Karl Benz in Germany continued to produce a great number of carriages but only a few were bought by South African pioneers (Johnston, 1975:26).

By 1910, the importation of cars had increased (Johnston, 1975: 50). South Africa had imported 1,279 cars from the United States of America in 1913. The figure had increased to 1,610 in 1914, but in 1915 the imports declined to only 605 units due to the First World War (Schnettler, 1997:16). In 1913 the government introduced a provincial motor ordinances laying down regulations for motor vehicle registration, licensing fees and driving licences, all coming into effect on 1 January 1914. Thereafter South Africa imported 2,859 American cars in 1916 and 3,423 in 1917. The majority of these cars were Fords. Only 12,763 passenger cars and 3,503 commercial vehicles were registered in South Africa in January 1920 (Schnetler, 1997:16). By 1920 a number of automobile clubs had been established by motorists throughout the country in order to protect their benefits and safety. A large number of car models and motorcycles were imported from various countries such as Germany, France, the USA and the United Kingdom (Johnston, 1975:114).

2.3.1 The location of automobile manufacturers in South Africa

Sir Rufane Donkin officially founded Port Elizabeth in 1820 with the arrival of 4000 British settlers. However, its history as an industrial town goes back to 1811 when a pioneer businessman, Frederick Korsten, arrived in Algoa Bay to establish a tannery and smithy (Ferreira, 1969:60). A number of initial motor car production sites were located in two major metropolitan-scale territorial areas. The first, the Port Elizabeth-Uitenhage industrial region and the Pretoria area, perhaps too seldom recognised as a major industrial concentration, have been on the rise since roughly that time. The

industry also played an important role in the industrial structure of other metropolitan areas, notably Durban and the Witwatersrand areas (Bloch, 1993: 48).

2.3.2 Automobile manufacturing plants in South Africa

It is difficult to give an in-depth account of the automobile manufacturing history in South Africa, as it is long and complicated history, running over approximately 80 years. This section tries to focus on the important parts of the history of automobile manufacturers of the country so as to understand the background and current trends of the industry.

2.3.2.1 Ford Motor Company of South Africa (Pty.) Ltd.

In 1903, Henry Ford founded the Ford Motor Company in the United States of America, which was “to place the world on wheels” (Stark, 1960:15). Only two years later he was thinking of South Africa as a market for his motor cars. Within a short time, Ford found a firm willing to take over the agency, Arkell & Douglas of Port Elizabeth, who was appointed as wholesale representatives for Ford in Southern Africa in 1905. A distribution system was also established for retail sales in different parts of the country. The Ford car became the most popular car in South Africa. In 1923, the Ford assembly plant was established in Port Elizabeth. Ford cars and trucks were shipped in the form of loose parts from Canada to Port Elizabeth and distributed as finished products to dealers throughout the country (Stark, 1960:15). In November 1923 the first assembly line was erected and assembly operations began on 19 January 1924. The Ford Model T was the first South African-assembled vehicle (Duncan, 1997:7; Ford Motor Company of SA Ltd., 1973: 17, Rothmyer, 1979:12; Johnston, 1975:185; Ferreira, 1969:26; Adler, 1993:41; Viljoen, 1972:587; Ringrose, 1966:34; Schnetler, 1997:20). The company had an executive and office staff of 21 and 70 men (all Europeans) in the assembly plant. In the first 12 months of operation, 1,446 units were produced. Output had increased from 1,446 vehicles in 1926 to 1,991 cars and 666 trucks in 1925 with 2, 069 cars and 1093 trucks in 1926. By 1929 the annual production had reached 3,876 cars and 1,422 trucks. The Ford assembly operation moved to a new factory in Harrowes Road, Port Elizabeth in 1930 in order to extend its operations, which covered an area of 70,320 square feet - nearly two acres, costing 55,525 Pounds to build. Again the company extended the area of 113,880 square feet for manufacturing at a cost of 70, 235 Pounds in 1934. Ford’s third factory opened for operation with 1100 employees on 1 October 1948, highlighting the silver jubilee of Ford South Africa.

In 1954 an administration block was built in front of the factory at a cost of R500, 000 (Ferreira, 1969:74). In this way Ford extended its buildings and building areas many times with an increased number of employees to increase its production capacity (Ferreira, 1969:69-74; Ford Motor Company of SA Ltd., 1973:17; Finemore, 1984:88). During the 1980s Ford disinvested as a result of political pressure. Ford has now re-invested in South Africa and established closer links with the South African operation but is reluctant to source vehicles from South Africa on a significant scale (Black, 2001: 19).

2.3.2.2 General Motors South Africa (Pty.) Ltd.

General Motors (GM) is the largest corporation in the automotive industry in the world and the largest industrial enterprise (Bloomfield, 1991:42). In August 1912 the Union Motor Garage Co. of Johannesburg announced that they had taken the agency for Cadillac cars over from General Motors. The first eight-cylinder Cadillac cars were imported in 1915. The Buick model, Buick trucks and other models of cars, namely Oaklands, Vauxhall, Opel and Chevrolet, were imported to South Africa from 1912 (Rosenthal, 1976:7-8). The first vehicle assembly plant of GM was opened in 1926 in an old wool and hide warehouse in Port Elizabeth. GM South Africa (Pty.) Ltd. was a subsidiary of the international GM Corporation with headquarters based in the USA. In October 1928 the company acquired its own premises in Kempston Road where an assembly plant was built. All activities were transferred to this site early in 1929. Buick, Oldsmobile and Pontiac models were also being assembled in South Africa. The first Chevrolet Safari truck was built in 1929, while Opel trucks were built in 1930. By 1929 Chevrolet had been built after only 37 months (Rosenthal, 1976:31; Johnston, 1975:186; Viljoen, 1972:587; Ringrose, 1966:34). A parts and accessories warehouse was added in 1939. After a long gap in 1948, the new assembly plant was opened and the old building converted into a manufacturing plant. Manufacturing started with Delco batteries in 1948, truck cabs, Frigidaire refrigerator products in 1950, and leaf springs, mufflers and Frigidaire stoves in 1952. Manufacturing of tail pipes started during 1954. The vehicle assembly plant had increased from 407,428 square feet by 1954. Again the manufacturing plant was enlarged by 103,000 square feet in 1955. General Motors purchased 395 acres of industrial land in 1963, the biggest industrial land in Port Elizabeth at that time. An engine manufacturing plant was completed and assembly commenced during 1965 (Ferreira, 1969:78 & 79; Rothmyer, 1979:7-11; Finemore, 1984:88).

When production resumed after the Second World War in 1948, GM was basically producing the models available in 1942. The Chevrolet fleet line went from 1948 through till the end of 1950, while the new Chevrolet Impala was produced and available in 1960. This model was replaced by the Caprice in 1967 through to 1969, while the Opel Record soon also became available in caravan form. The Record was destined to run through until 1971. During this period a number of vehicles were sold in neighbouring countries, giving South Africa the added benefit of useful foreign currency. In addition to cars and other commercial vehicles, GM established a diesel-electric locomotive assembly plant next to the engine manufacturing plant at Aloes in 1974. GMSA supplied their first order of 20 of locomotives to the South African Railways during 1966-1967. During 1974 GMSA successfully tendered on three different occasions for a further total of 250 locomotives to the South African Railways. Bulldozers, crawler tractors, towing tractors, buckets and cabs for Terex and wheel-loaders were also produced by GMSA. By 1976 GMSA was manufacturing a wide range of passenger cars, commercial vehicles and trucks. By 1979, GMSA was one of the pioneers of the motor industry in South Africa, the largest manufacturing and assembly facility in the Republic. It had an aggregate staff of 6,000 employees and a plant area covering 918 hectares, of which 17 hectares were under roof. In May 1976 GMSA celebrated its 50th birthday (half a century) in South Africa (Rosenthal, 1976:61-85).

General Motors disinvested in the 1980s due to political pressures. However, it has now re-invested in South Africa and established good relations with the South African operation. GM is reluctant though to source vehicles from South Africa on a significant scale (Black, 2001, 19).

2.3.2.3 Volkswagen of South Africa Ltd.

South Africa Motor Assemblers and Distributors (SAMAD) Ltd. were founded in 1946 to assemble Studebaker vehicles. Studebaker production commenced in a modest plant on a fifty-acre stand at Uitenhage in 1948 (Finnemore, 1984:88). In 1950, the first year of operations, 2,400 Austin passenger and commercial vehicles were assembled under contract at Uitenhage. The average daily production was 12 units and the company employed 350 personnel. Production of these vehicles continued until 1955. In August 1951 the first Volkswagen vehicle was assembled in South Africa. Since the beginning of Volkswagen it has played an important role in the progress of the company and of the motor industry of South Africa. R1 m was spent on a new administrative block in 1957 (Stark, 1960:70). Some 9,245 units were assembled and approximately 750 people were on the

payroll by the end of 1957. The new inspection laboratory was opened in 1963, a milestone in the history of Volkswagen South Africa (Ferreira, 1969:89; Duncan, 1997:22; Schnetler, 1997:36). SAMAD changed its name to Volkswagen in 1966 and in 1974 VW had become the sole owner of Volkswagen SA (VWSA) (Finnemore, 1984:88). A workforce of 900 was producing 45 cars each working day by 1957. By 1989, VWSA expanded production to 350 cars per working day by a total of 8,500 employees. VWSA grew tremendously in the late 1970s and 1980s with the introduction of the Golf (Smith, 1990:226). Most of the parts came from its parent company in Germany as the local content programme was not imposed and legislated in the 1950s. The industrial infrastructure in Uitenhage provided a supply of skilled white workers to the VWSA plant (Maller, 1992:92-93) and the Eastern Cape regional economy depended heavily on the motor industry during the 1980s. The VWSA is still operating in South Africa.

2.3.2.4 Rover South Africa Manufacturing (Pty.) Ltd.

The Rover Company of England marketed Rover cars in South Africa through a limited number of established companies as sole distributors before and after World War Two. Rover cars were imported in the form of fully assembled vehicles and this procedure was continued until 1948. The South African government introduced import control, which seriously limited the importation of both Rover cars and Land Rovers for three to four years. The earlier distributor of Rover cars, Mr. Harold C. Leon of Johannesburg, was invited to join the Rover Company in August 1955 in order to start a South African subsidiary for the sole importation and distribution of Rover products in South Africa and South West Africa. The following month a new company was formed in the name of Rover South Africa (Pty.) Ltd. In January 1956 the company started the distribution of Rover cars and Land Rovers through newly appointed additional retail distributors in all the main centres of South Africa and South West Africa. A further subsidiary of the Rover Company was established in May 1960 entitled Rover South Africa Manufacturing (Pty.) Ltd. in Port Elizabeth. It was found necessary to double the size of the original plant in Port Elizabeth as a result of successful manufacturing and marketing operations. In July 1965 further extension was completed and almost 400 local workers were employed (Ferreira, 1969:93).

2.3.2.5 Car Distributor and Assembler

The distributors of Nash vehicles set up an assembly operation called Nash Distribution Assembly

in East London (later the name changed to Car Distributor and Assembler (CDA). CDA established a plant in 1950, which produced a broader range of vehicles, including models of Auto-union, Mercedes Benz, Jaguar, Alfa Romeo and Renault (Duncan, 1997: 22).

2.3.2.6 Toyota South Africa (Pty.) Ltd.

In 1960 Dr. Albert Wessels obtained an import permit for 10 Toyota Stout bakkies from Japan and delivered the first consignment in 1963. Sales increased to 2,332 units and Toyota shares were sold to the public. For the first time, in 1966, Toyota built its locally produced Corona Sedan. By 1968 Toyota had become the largest producer of commercial vehicles in South Africa. In 1971 Toyota SA sold its 100,000th vehicle. A year later, Toyota SA's motor assembly plant was enlarged at a cost of R8 m and the number of dealers increased to 320. In 1975 cumulative sales reached 250,000, the same year the Corolla was launched locally. In 1978 the Toyota Cressida range was launched and by 1980 Toyota had become the leader of South Africa's total vehicle market. In 1981 Toyota SA celebrated its 20th anniversary and was renamed Toyota SA Manufacturing. It became the number one in passenger car sales in 1982 and increased its sales of cars, commercial and utility vehicles. Dr. Wessels signed a new long-term agreement with Toyota Japan in 1984 and launched its front-wheel driven Corolla in that year. In 1986 the millionth Toyota was sold in South Africa. Toyota SA won various awards, among them the South African Rally Manufacturer's Championship in 1981, the same award a second time in 1982 and the first Car of the Year Award in 1986. In 1988 the new-generation Toyota launched the Corolla and Conquest ranges and in 1990 enjoyed its 10th year of market leadership in South Africa. The innovative Toyota venture People Mover was introduced in 8-seated and 6+4 configurations in 1991. Some 1.5 m vehicles were sold from the assembly line of Toyota SA. The Toyota Camry replaced the Cressida range, while the Hilux reached 400,000, making it the second most popular car in 1993. The 500,000th Corona was sold in 1994. In 1998 Toyota SA achieved its record of producing its two-millionth vehicle. In 2000 Toyota celebrated its 21st year of overall market leadership with a market share of 23.3% (Toyota. 2002; Furlonger, 1997:24).

2.3.2.7 Some other assembly plants in South Africa

The history of assemblers established in South Africa is concluded with some other assembly plants in the country. The third assembly plant, **National Motor Assemblers Limited**, was established in

1939 in South Africa on a contractual basis to produce cars for a variety of overseas manufacturers (Nieuwenhuizen, 1997:10). In 1936, **Stanley Motor Limited** began importing completely knocked down (CKD) motor vehicles for assembly in Johannesburg. In 1939 a pilot plant was established in Eloff Street and started assembly of both passenger cars and commercial vehicles on an experimental basis (Stark, 1960:65-70). The **Rootes Group** was one of the manufacturing and exporting giants of the British motor industry. In Britain it produced Humber, Hilman, Sunbeam, Singer, Commer and Karrier. On 1 January 1950 Rootes (Pty.) Ltd. was established in Cape Town, South Africa. All assembly activities of Rootes for South Africa were taken over by Stanley Motor Ltd. and a full range of Hilman, Sunbeam, Humber and Singer cars were assembled for the first time in the country. **International Harvester Co (SA) (Pty.) Ltd.** was established on 23 March 1927. The company expanded its operations in 1930 to the motor truck field. The final development of the company's building expansion in Durban occurred in the middle of February 1956. In 1949 **Premier French Automobile Makers** was established in South Africa, Renault arranged for the assembly of their vehicles in the Union of South Africa. The first Renault car was assembled in this company in 1950, which left the assembly lines of car distribution assembly (CDA) limited in East London. In 1958, **Renault South Africa (Pty.) Ltd.** was established in Johannesburg. **Mercedes-Benz Assembly in South Africa** early in 1958 commenced its assembly in East London with a first successful South African-assembled Mercedes Benz car. The plant assembled both diesel models such the 180 and 190D, with the petrol models 180, 190, 219S and 220S with Hydrak transmission. **Fiat Assembly in South Africa**, an Italian automobile company, produced some of the most famous Italian cars in South Africa and thousands of these units can still be seen on the South African roads today. Early in 1950 Fiat established its local assembly plant in South Africa (Stark, 1960:65-110). In 1959 the first 60 Nissan vehicles were imported and assembled in Durban. In 1963 an assembly plant was established at Rosslyn, Pretoria. In 1964 **Datsun-Nissan SA** was formed and by 1976 the company had become the local market leader in vehicle sales. In 1983 Datsun-Nissan SA changed its name to **Nissan SA** (Furlonger, 2000: 44). The following section will discuss the assemblers still existing in the country, those companies that had left the operation and companies that had merged with others.

2.3.3 The number of automobile manufacturers in South Africa

During the Second World War period, the local assembly of vehicles was virtually non-existent because the government introduced import control in the late 1940s in order to save foreign

currency. This import control led to the establishment of a number of locally-owned assemblers in South Africa (Duncan, 1997:7; Duncan, 1992:55). After 1946, companies entered the field on a contractual assembly plant basis. The assembly plants together formed an association known as the National Association of Automobile Manufacturers of South Africa (NAAMSA). NAAMSA is a trade organisation committed to the principle of free enterprise and is the protector and promoter of the interests of South African vehicle manufacturers and the South African motor industry (NAAMSA, 2001a: 1). By 1967 fourteen assembly / manufacturing companies located in the Republic of South Africa had membership in NAAMSA (Ferreira, 1969: 27).

There were two types of assembly plants. The first were non-contractual plants that operated as subsidiaries of overseas manufacturers and imported and assembled the vehicles for distribution. The second type was contractual plants, which produced vehicles on a contractual basis, i.e. CDK materials were imported from overseas source factories for independent local assembly and subsequent distribution to franchised dealers (Ringrose, 1966:40; Ferreira, 1969:28). Up to 1960, all assembly operations were dependent on imported components. Therefore most of the assembly plants were located in coastal areas to enable them to use the harbour facilities for their importation of components from abroad (Ferreira, 1969:28). During the early 1970s, South Africa had twelve car manufacturing plants, producing sixteen different makes, among them Leyland, Ford, GM, Volkswagen, Citroen, Chrysler, Fiat, Toyota, Mazda, Volvo, Renault, Mercedes-Benz, Alfa Romeo and BMW. The local motor industry was at its peak by 1973 and car buyers could make a choice between 27 makes from nine countries, available in 199 different versions (Schnetler, 1997:50).

There were 12 separate assembly operations in South Africa in 1973 (Duncan, 1997: 8). According to Swart (1974:164-165), Vaughan (1982:17) and Nieuwenhuizen (1977:61), there were 16 manufacturers and 13 assemblers in that year operating in this country. By 1974, some 14 manufacturers were producing upwards of 40 models in South Africa, sharing only 237,000 cars between them (Southall 1985:311). According to the Board of Trade and Industry (1977:8), by end of 1976, a total of 22 companies were members of NAAMSA engaged in manufacturing or assembling motor cars or other vehicles or heavy vehicles manufactured under franchise. Only fourteen companies were manufacturing and assembling motor cars, while others were engaged with commercial vehicles.

Since 1970 the South African automobile manufacturing industry has experienced many problems, such as political sanctions against the country, the speed limit introduction in October 1973, and the rise in the oil price. Due to these problems car sales fell drastically in 1977 and sanctions and disinvestment became an ever-growing threat for the local automobile manufacturers. During this period many vehicle producers withdrew their investment and stopped their operations in South Africa, while some of them merged with other manufacturers. By 1980 there were only ten manufacturers in South Africa left. They were Alfa Romeo, BMW, Datsun-Nissan, Ford, GM, Leyland, Mercedes-Benz, Sigma, Toyota and Volkswagen (Schnetler, 1997:51; Sinclair, 1982:61). There were too many producers, while no less than 220 different models being produced during 1981. Merger moves by producers to improve their efficiency occurred, with Chrysler becoming part of Sigma and Fiat and Volvo withdrawing altogether. The political and economic factors with the increasingly prohibitive cost of local content protection brought a reduction in the number of vehicle assemblers in South Africa. In 1976 Chrysler and the multi-national mining house Anglo-American merged to form Sigma, which took over production of Peugeot and Citroen. Then Fiat disinvested in 1980 and Leyland pulled out gradually between 1982 and 1987. Alfa Romeo left in 1985, while Ford closed its Port Elizabeth assembly operation and sold out to a new Anglo-owned firm called Samcor. GM was handed over to local management in 1987. By that year the country had only seven motor manufacturers left operating locally (Duncan, 1997:30; Southall, 1985:312), resulting in a small oligopolistic type of market for passenger cars (Jones, 1987:30). According to NAAMSA (2002b:1) there are now fifteen member companies, including seven major car manufacturers. These manufacturers are Toyota SA, Volkswagen SA, BMW SA, Daimler Chrysler SA (Mercedes-Benz and Honda), Auto Maker SA (Nissan and Fiat), Delta SA (Opel and Izusu) and Samcor SA (Ford, Mazda and Mitsubishi), while the rest of the companies are commercial vehicle manufacturers.

2.4 PRODUCTION HISTORY OF AUTOMOBILE MANUFACTURERS IN SOUTH AFRICA

From the outset of the establishment of Ford and GM assembly plants in Port Elizabeth in the mid-1920s they have adopted and copied same satellite assembly operations, which method was in practice in the USA (Duncan, 1997:112). They had to cater for a largely untrained workforce to assemble the vehicles as most of the parts were imported from its origin countries.

The assembly plants were relatively slow-moving processes in South Africa before the pre-war period. In the mid-1920s the term mass production became familiar to the South African public. It enabled producers to increase the production rate, decreasing the cost of production. Dedicated machinery were introduced and encouraged in the assembly plants. By 1950 the South African assemblers faced the problem of small-scale volumes of production while automated assembly lines were introduced in overseas plants. In the early 1960s the government introduced the local content schemes. The South African motor industry was required to develop a whole new range of skills to meet these schemes. During this period South African assemblers practised the classic production method and deployed much larger numbers of employees to achieve production efficiency through dedicated machinery (Duncan, 1997: 117).

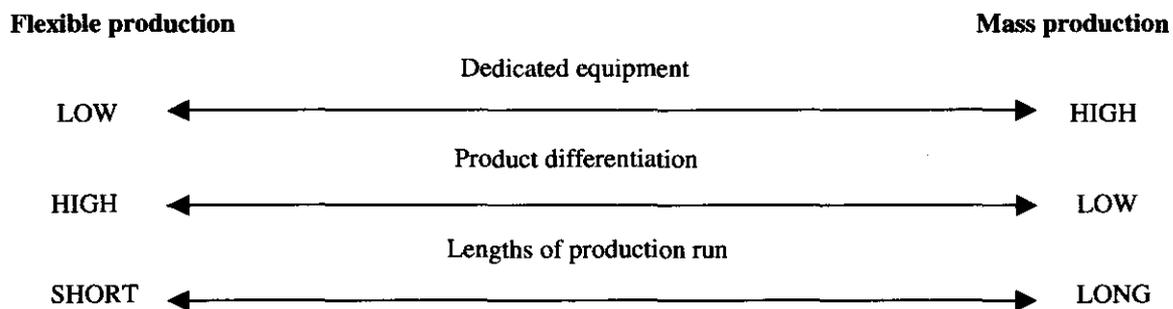
The South African industry could not keep up with the levels of innovation with its inefficient production processes and small and stagnant market after other giant companies introduced the wide model ranges, especially the Japanese manufacturers after the 1970s. Major Western vehicle manufacturers began to globalise their products during this period. By the 1950s, lean production and just in time (JIT) methods were introduced by Japanese manufacturers, which were copied by most of the other manufacturers in the world. JIT production methods were introduced in Toyota South Africa (TSA) in the early 1980s. The Toyota Motor Corporation of Japan became more willing to assist TSA in applying the principles of the Japanese production methods. Toyota SA requested their suppliers to deliver components according to their schedule in order to apply the JIT principle. TSA reduced the numbers of suppliers as the part of the integration. The progressive and new method of production of Toyota forced other manufacturers to make attempts to adopt the same method to compete in and ensure their market share. Japanese production methods are now adopted at most South African car assembly plants although they take on a different form in each company. However, productivity levels are very poor in many assembly plants (Duncan, 1997:186).

Lean production and the JIT system help a company to reduce the cost of production (Anstey, 1997: 25). For example, Toyota SA had reduced its labour force to 495 by 1984 by applying the JIT system, a further production area, storage space and inventory cost. Some other manufacturers also adopted the Japanese production methods, such as Nissan SA, which introduced the labour participation and relation system, known as green areas. Under this system at Nissan the foreman uses a pre-set agenda to discuss quality, targets, housekeeping, safety and absenteeism. However, in most car manufacturing companies lack of expertise is an equally serious problem in order to

implement the Japanese production method. Automobile manufacturers face a number of problems in fully implementing the JIT production system in South Africa (Duncan & Payne, 1993:21).

Lean production is a superior way for humans to make things. It provides better products in a wider variety at a lower cost (Womack *et al.*, 1991:225). They must design their long-term strategy to totally apply flexible production. In the highly competitive market, product differentiation is on the supply side, with growing diversity of tastes on the demand side. There are only three invariant dimensions of difference between mass production and flexible production (Williams *et al.*, 1987: 415). The following figure indicates the differences in these production methods.

Figure 2.1 Differences between flexible and mass production



(Source: William *et al.*, 1997: 415)

Black (1994:73) argues that South African manufacturers have not yet adopted the lean production practice, while the JIT system is also not well developed in this country. Black (1994:75) says that there a number of problems facing the automobile manufacturers, creating a hindrance in implementing the JIT system in South Africa. The same argument has been expressed by the Department of Trade and Industry (1999:8), namely that in South Africa motor vehicle assemblers and component manufacturers lag behind in terms of lean manufacturing benchmarks such as quality, cost, cycle time and inventory levels. The South African automobile industry is still behind in appropriating flexible or post-Fordist production methods. “It is unlikely that South Africa will be world class in quality - it cannot steal a march on the lean producers in Europe and Japan” (Duncan, 1997:186).

According to Black (1994:29), vehicle assembly is a complex process, which consists of three basic processes: welding the body, painting it and the final assembling it. In a developed plant these three processes take 15 hours of direct labour hours up to final assembly – six hours for body

construction, four hours for painting, and five hours for assembly. A high level of automation is one of the important conditions for obtaining a high productivity performance, but it is not a condition. Very low and inefficient volumes of production are a critical problem among South African automobile manufacturers. A high degree of automation is essential to reach economies of scale that enable the assembler to reduce unit costs and create greater specialisation of labour and management functions, which could also increase productivity. Automation entails those techniques introduced by American car manufacturing plants and by means of which work is transferred from one machine to another without the intervention of any person, i.e. automatically (Ringrose, 1966:26). Coetzee (Furlonger, 1997:43; Furlonger, 2000:35) highlights that automobile manufacturers in South Africa have to make tough decisions with regard to the degree of plant automation because these manufacturers have been working in a more labour intensive way than many overseas companies. The level of automation is very low in South Africa and most local plants still functions manually (Black, 1994:77).

Intelligent Production Strategy (IPS) plays a vital role in all kind of manufacturing. It enables the company to increase productivity and promote efficiency. IPS consists of separate components of human resource development, work organisation, skill upgrading, the remuneration system as well as plant level governance and collective bargaining. It creates good co-operation between the workers and management to enhance productivity, while labour is improved through the education and training process, the procedures for consultation, information sharing and negotiating (Joffe *et al.*, 1995:44). Manufacturers of automobiles in South Africa must take a series of actions to apply IPS in their companies in order to increase productivity, quality, and the efficiency of workers to compete with global competitors.

In the case of automobile manufacturing, world class manufacturing is the combination of low cost and high quality according to Coetzee (Furlonger, 1997:38). In February 1976 the Expert Group Meeting (EGM) on the manufacture of low-cost vehicles in developing countries was held in Melbourne, Australia in order to promote the manufacturing of low-cost vehicles in those countries. The opinion of the EGM was that the exchange of automotive expertise between developing countries should be promoted and also that different production patterns and techniques had to utilised in order to create opportunities. Every country wishing to promote both production and sales of low-cost vehicles was thus faced with a real problem. The solution was not simple though. Very few countries were producing low-cost vehicles, although there is evidence that India was producing

such vehicles. Indian manufacturers have paid much attention to improving production processes so as to reduce production time and costs (UN, 1978:12-23). So far, South African automobile manufacturers could not reach this objective to produce low-cost vehicles in order to increase market opportunities domestically or regionally.

The method of production is an important aspect in the context of globalisation and each manufacturing company must pay sufficient consideration to product and process innovation. Product innovation occurs when a company introduces a new or significantly altered product to the market place. Process innovation entails a combination of scientific, technological, organisational, financial and commercial activities. In this method changes may take place, such as new equipment or production organisation, or both. Process innovation can include changes in the use of inputs such as labour, materials, energy or information and organisation of inputs such as JIT, TQM or flexible manufacturing methods. South African manufacturers unable implement this system even though they have made a number of attempts to introduce such methods in their manufacturing practice. The reason for this is labour strikes, the low level of participation in management initiatives with regard to productivity. Another reason is that workers are reluctant to take part in this method because they think this system may be profitable to the company but not directly beneficial to the workers himself (Black, 1994:77). Under the rapid liberalisation of the global market, South African automobile manufacturers have for the last two decades had to compete in the liberalised local and international market (Blanley, 1997:X1-6).

Teamwork is another important aspect in the production process of automobile manufacturers world-wide. Multi-skilled labourers are used for this purpose. Highly skilled team workers contribute significantly to a process of productivity improvements. In 1990 in Japan, for example, over two million suggestions were submitted by workers to management in the Nagoya Toyota plant, and 97% of them were implemented (Natrass, 1991:85).

The Department of Trade and Industry (2001a: 9) indicates that South African companies must adopt “knowledge-based economy” strategies in their production because the world economy is rapidly becoming a knowledge-based economy. This means that the value embodied in products is increasingly derived from the knowledge embodied in the products rather than the value of the materials. Communication technologies are changing the nature of products and innovated products have to be offered for the sophisticated taste of customers.

The newly elected government of South Africa is making efforts to bring structural reform in the economy through post-Fordism. The structural reform agenda includes industrial restructuring to include almost all features of the flexible specialisation model. It entails a reorientation of the trade and investment policy aimed at the attainment of high tech, higher value-added, beneficial export, the integration of the education and training system to produce a high-skill workforce capable of teamwork, multi-skills, increased quality control and product innovation. However, the required extent of diffusion of new technologies and managerial techniques is largely not available in South Africa at present (Kraak, 1996: 41-45). All automobile manufacturers must pay sufficient attention to incorporate the above-mentioned methods of production in order to compete in the competitive global market.

2.4.1 Productivity

Many factors have contributed to poor manufacturing performance as is common in South African manufacturing industries. Raising productivity is the heart of any industrial strategy in any country (Joffe *et al.*, 1995:21). In South Africa most of the manufacturing industries have higher costs and enjoy lower profits (Joffe *et al.*, 1995:21-25). The Comprehensive Labour Market Commission (Ray, 1997:24) says that improved productivity is the major key to the growth of a company as well as job creation.

Efficient productivity is one of the important conditions to attract sufficient investment. Labour skills have to be improved in order to enable manufacturers to obtain the optimum productivity. However, the skills base in South Africa is far from competitive. The major reason is because the basic standard of education in the country is much lower than that of most other competitive nations. There is an argument that South African workers are the same as other workers. If we train them and use them correctly, they will be productive. Samcor's Boyd (Viljoen, 1996:19), who says that the low level of skills among South African labour is no reason for not attaining productivity equal to the First World, shares the same view. Proper and sufficient training and the right equipment must be provided to achieve productivity, says Shires (Viljoen, 1996:19). Productivity levels in South African automobile manufacturers, however, remain low compared with other countries (Department of Trade and Industry, 1999:8). In 1998 labour productivity decreased to 9.3 units per employee per annum, compared with 9.8 units for 1997 and the same in 1994. However, in Japan, around 120 cars per employee per annum are achieved (Department of Trade and Industry, 1999:8).

According to Toyota, productivity lies in the attitude of mind of the workers (Dewar, 1990:251). According to a survey by the Department of Trade and Industry in 1994, vehicle productivity per employee increased by 27% from 9.5 units to 12.1 units over the period of 1992-1995. However, the actual improvement in productivity was small. Again the productivity declined sharply during the 1996s (Department of Trade and Industry, 1999:13). Black (2001:16) highlights that the low level of automation and the complexity of assembly plants producing a range of models in relatively low volumes are the major reasons for the poor productivity in South African assembly plants compared with assembly plants in other countries.

Poor productivity will affect the profit level and keep the industry far behind the global competition for a long time. This low level of productivity will result in the increase of the cost of production, wastage of fix assets and human resources in a company. Manufacturers must improve their productivity in future so as to compete in the globally competitive market place.

2.4.2 Capacity utilisation levels in the motor vehicle manufacturing sector

The percentage utilisation of production capacity of automobile manufacturers in South Africa has decreased continuously over the last decades. The following table indicates the average annual motor vehicle manufacturing capacity utilisation levels for the years 1984 to 2001.

Table 2.1 Motor vehicle industry average capacity utilisation levels (%) (Selected years)

Vehicles	1984	1985	1986	1995	1996	1997	1998	1999	2000	2001
Car	68.5	53.1	60.9	84.3	78.9	77.3	64.3	64.6	66.1	72.2
Light commercials	68.7	48.2	63.1	81.7	75.9	59.6	59.1	57.5	60.2	62.6
Medium commercials	66.2	50.0	52.6	81.3	80.0	77.6	73.6	96.7	64.2	69.8
Heavy commercials	45.8	46.8	48.1	81.9	68.3	74.2	69.3	61.9	74.8	78.1

(Sources: Board of Trade and Industry, 1988:17; Department of Trade and Industry, 1994:35; NAAMSA, 2001a: 6; NAAMSA, 2002b: 8; Department Trade and Industry, 2003a)

The inordinate number of models produced also affects the production capacity, which results in a lack of economies of scale. The Department of Trade and Industry (DTI) survey indicates that assemblers did not reach the 30,000 level of model sales volumes during 1998. Production levels per model by world standards were in the order of 70,000 units per single model. The capacity

utilisation of South African manufacturers was also well below the global average capacity utilisation (Department of Trade and Industry, 1999:4). Capacity utilisation rates express the condition of the domestic production and export market. Capacity utilisation has declined continuously, with a general improvement in 2000 and 2001. The vehicle manufacturing capacity utilisation of South Africa still remains below the global average capacity utilisation rate though. Some companies closed their heavy commercial vehicle assembly operations due to significant import duty reduction (NAAMSA, 2001a: 6). The low levels of capacity utilisation impacts negatively on production costs, profits and productivity of automobile manufacturers in South Africa.

2.4.3 Economies of scale

Economies of scale means that the minimum output of cars should be produced economically by means of efficient production techniques. When the output reduces below this level, it will necessarily have a market effect on unit costs, bringing an undue burden onto the South African public (Ferreira, 1969:38).

Generally, the South African manufacturing industry, including automobile manufacturers, has a poor manufacturing performance that does not make good use of the plant, equipment and labour employed in production (Jofee *et al.*, 1995:10 &11). The major car manufacturers in South Africa produced 11 different makes with 39 different models of passenger cars and light commercial vehicles. Just over 40,000 passenger cars and commercial vehicles were produced by the local average assembly plant per annum, an extremely low volume by world standards (Department of Trade and Industry, 1994:38). According to Black (2001:3), the structural problem in automobile manufacturers, namely limited rationalisation, has remained even though rapid structural changes have taken place. According to WTO obligations, trade liberalisation has brought different kinds of impacts on this sector, such as domestic demands influenced by lower priced products and structural changes, which might impact on investment and increased competition. All these aspects will impact negatively on economies of scales and a small number of global companies control and dominate the global production and domestic and global markets (Black, 2001: 4).

It is argued among manufacturers in South Africa that local plants are able to survive only if they are high-volume, export-oriented. Ironically, Matsushita (Furlonger, 2001c: 44), managing director

of Honda SA, argues that Honda has had a lot of experience in small factories. In Turkey, India and Brazil, for instance, there are factories that build only 10,000-15,000 cars a year and are still profitable. This indicates that an experienced and well-organised factory system is essential to attain the level of profits and meet the targets of manufacturers. According to the above statement, Honda could do the same in South Africa. Honda's overall strategy for Africa may take 10 years, or it might take 50 years. It is not necessary to make big profits straight away because all we are doing at the moment is to build a foundation, says Matshushita (Furlonger, 2001c:44). This obviously suggests that global companies have long-term strategies to capture the South African and Sub-Saharan African market for their cars by means of a well-organised factory system. Law (1991:8) argues that flexible machines are an important tool to increase the competitiveness of the automobile industry in the increasingly fierce competition of the global market. A flexible plant with computer-controlled machines could have a programme that would change quickly so that a particular machine could be used for multi-purposes or tasks. This kind of machine can be changed quickly to respond to changes in demand. This flexible machine reduces the need of economies of scale, enabling a small company to compete with large companies in the market place.

The rapid mergers and acquisitions in the global motor industry over the last few years underpin the necessity for economies of scale. The trick is also to reduce production costs by sharing components between models. For example, Volkswagen produces over 50 models on four platforms. Likewise, Ford uses its Lincoln, Mercury and Mondeo platforms in its Jaguar range. Some companies also share their components, for example, Jaguar uses a Mercedes-Benz gearbox (Wright, 2001:3). Economies of scale in the automobile manufacturing industry in South Africa are important to reduce the cost of production and to offer lower-priced products to customers than global competitors are offering in the competitive global market.

2.4.4 Technology

Various ranges of new technologies were incorporated into new automobile designs during the last twenty years over the world as a result of significant investments in research and development (R & D)(Jones & Womack, 1985:401). The automobile manufacturing industry in South Africa has a number of weaknesses with regard to technological capacity. Overall spending on R & D is low, especially when compared to East Asian new entrants such as Taiwan. South African automobile manufacturers are highly dependent on foreign technology, which is costly in terms of royalties, the

restriction on export and poor linkage with governmental and other research institutions (Black, 1994:117). The main ways of technology transfer are through foreign investment and licensing in South Africa. Manufacturers who produce under incentives have to pay large amounts as royalty payments and face restrictions on exports, a serious problem in the South African automobile industry (ANON, 1989:10). Shires (Viljoen, 1996:17) says that technology is one of the important factors for automobile manufacturers to take into account in this country. Up-to-date technology is significant in order to compete globally. Companies could only have access to technology either through local development or through technological agreements. Companies must produce at the same level and standard in South Africa as elsewhere in the world and local automobile manufacturers did not have marvels of modern technology in the past decades (Schenetler, 1997:66).

Expenditure of R & D in any company plays an important role in technology creation and the increase of economic growth (Julius, 1982:92). South African automobile manufacturers therefore have to pay sufficient attention to develop their own R & D activities to create new technologies to provide innovative and world standard products to equal that of their global competitors. The initial investment may be high for R & D, but in the long term it will save manufacturers large amounts in the form of royalty and fees to foreign companies. Own technology will also give them the opportunity to act as independent world class manufacturers and avoid the control of parent companies on their activities in the long term.

2.4.5 Domestic vehicle production

The total domestic vehicle production declined significantly by 19.6% in 1998 compared with the previous year, despite the fact that export had increased. The reason for this decline was the market crisis, instability in the international financial market, high domestic interest rates and a depreciation of the rand that impacted on the economy. Consumers' demands and sophisticated tastes with regard to small and cheaper entry-level cars also offer manufacturers lower profits margins (Department of Trade and Industry, 1999:3).

Domestic production reached around 360,000 units in 2000, after peaking at approximately 380,000 units in 1996 and hitting a low of 312,000 in 1998 (Automotive Industry Development Centre (Pty.) Ltd., 2001). The total domestic production was 389,476 units in 1995, 386,311 units in 1996,

362,104 units in 1997, 312,055 units in 1998, 326,065 units in 1999, and 357,364 units in 2000 and 407, 036 units in 2001 (NAAMSA, 2002b: 5). The total production did not show a satisfactory growth from 1996 except the year 2001.

2.4.6 Rationalisation

Rationalisation is a method to increase the volume of production, which enables a company to reduce unit cost (Department of Trade and Industry, 1997:12). Altogether, 31 models declared by manufacturers under phase II as “Manufactured” models, achieved the 55% local content at the end of 1969 (Nieuwenhuizen, 1977:16). Proliferation of models under various phases of the local content programmes posed a problem in South Africa. Local manufacturers produced the following models: Phase I (1960) 24 models, phase II (1970) 43 models, phase III (1976) 39 models, phase IV (1980) standstill period, phase V (1987) 20 models, and phase VI (1993) 34 models (Black, 1994: 65). A large number of models were manufactured in South Africa over the next few years, namely 1994 -18 models, 1995-21 models, 1996 – 21 models, 1997 - 22 models and 2002 - 27 models (NAAMSA, 2002b: 16). One of the major objectives of the Motor Industry Development Programme (MIDP) is to encourage assemblers to rationalise the industry. However, after four years of MIDP, rationalisation has not yet taken place to any significant extent. Twenty-one models were produced by local manufactures in low volumes (Department of Trade and Industry, 1999:8). The volume of production per model remains low by world standards, even though rationalisation of the number of models in production was an important objective of the MIDP in 1995.

The proliferation of makes and models has raised the production costs in assembly both directly and indirectly through its impact on component production costs (Black, 1994:71). In South Africa there are still too many local models available. Companies are very slow in rationalising, because some companies say that they cannot write off the hundreds of millions of rands invested in the existing models (Furlonger, 1997:3). Even Toyota is facing the same problems, says Coetzee (Furlonger, 1997:40). Despite cutting down on variants of some models, the company still has a wide variety of both high and low volume models. Toyota SA must concentrate on fewer products, says Coetzee (Furlonger, 1997:43). The significant decline in new vehicle sales as a result of the weak domestic demand and increased competition will put severe pressure on the industry to rationalise operations and reduce costs (Department of Trade and Industry, 1999:8).

2.4.7 Investment of automobile manufacturers

Capital investment is the lifeblood of an industry (Duncan, 1997: 41). Heavy capital investment is required in plant and its equipment for a modern motor manufacturing establishment. Today's automotive industry can be categorised as a capital-intensive industry. A Company must spend enormous amounts of money on equipment and at the same time it must also develop competitive new products every year. The investment in R & D has become so enormous that it exceeds investment in production facilities. Recently, even the labour force has come to be considered a target of capital investment. Strength of labour can also be categorised as a true asset. The cost of educating engineers and training shop-floor workers to competently utilise high-tech equipment can also be viewed as capital investment (Kawahara, 1997: 87-88).

The motor manufacturing industry of South Africa has evolved into a multi-billion Rand industry since its inception in 1924 (Vaughan, 1982:15). At the outset of the vehicle assembly plants, 11,000 Pounds were invested in South Africa in that year (Duncan, 1997:41). During the period of 1966, the total capital investment was R154.5 m. At that time South Africa had the 13th highest car population in the world (Ferreira, 1969:4). Investment levels of the assembly industry have increased since 1993. In 1992 Delta Motor Corporation opened the first new assembly plant built in South Africa and other companies significantly increased their investment programmes in order to introduce new models. However, the capacity of plants still remains significantly lower with regard to investment and production capacity than other developing countries such as Brazil, Argentina and Thailand do. Foreign investments in the assembly industry in South Africa have since increased. Ford, Nissan and Toyota have taken stakes in local operations. The aggregate capital expenditure of new vehicle assembly plants over the past seven years are given in detail in the following table 2.2.

According to the Department of Trade and Industry (1999:7), domestic investment in the vehicle assembly industry increased to R 1,342 m in 1998. Foreign investment in the assembly industry is also increasing in the form of global integration by parent companies. Recently Daimler Chrysler announced a R1.4 b investment, Volkswagen announced an investment of R200 m for its large export order of Golfs to the UK and Fiat's invested R350 m for the introduction of its new model. BMW invested R1.2 b in the manufacturing of the new 3-series

for the world market (Department of Trade and Industry, 2000:61). The figures in the table show that total capital investments have increased continuously since 1994. The total investment has increased to R2, 078.2 m in 2001 from R1, 561.5 m in 2000. However, the production and productivity rate or volume did not increase according to the increase of the investment level.

Table 2.2 Investment expenditure by South African motor vehicle manufacturers (Rand Million)

	1994	1995	1996	1997	1998	1999	2000	2001
Product, local content and export investment	243.7	388.5	586.1	729.7	734.5	1170.4	1108.7	1072.1
Plant, machinery and production facilities	105.1	345.3	409.6	294.9	409.1	143.7	202.5	727.9
Land and building	76.8	34.9	46.2	129.1	60.0	81.5	109.7	33.9
OEM support structure	66.6	78.1	129.4	111.6	138.5	115.4	140.6	244.9
Total	492.2	846.8	1171.3	1265.3	1342.1	1511.0	1561.5	2078.2

(Source: Department of Trade and Industry, 2003a; NAAMSA, 2001a: 5; NAAMSA, 2002b: 8)

Ironically, the total production from year to year declined, while investments increased rapidly. Due to the increased import, the profit margin of the automobile manufacturing industry fell, which will impact negatively on both the motivation and capacity to invest in the industry (only in 2001 the profit level showed an improvement in the automobile industry). Local manufacturers are losing their market position, which will be a hindrance to achieve the economies of scale on production with regard to investment. The major decisions on investment are made outside South Africa by the global parent companies according to the strategic concerns related to market share, profits and the requirements of global production networks (Black, 2001:15). Investors will not spend their money unless they perceive at least the possibility of profits in the medium to long term. The South African motor industry shows a trend of investment and disinvestment in its history (Duncan, 1997: 41). Barnes and Kaplinsky (2000b: 213-214) argue that the low levels of investment in the South African automobile manufacturing industry were not sufficient to develop and upgrade the new capacity. During the eight-year period 1992 – 1998, the combined investment on both South African auto assemblers and component manufacturers totalled around \$1,250 m. This amount was small compared with other developing countries, for example, over \$4 b was invested in India for the assembly sector only during the same period and \$ 9 b in Brazil in the five years

between 1996 and 2000. Automobile manufacturers have to concentrate on their investment strategy to improve their methods of production and technology according to the level of other competitors.

2.4.8 The ownership structure of automobile manufacturers

In 1977 there were 12 assemblers operating in South Africa, nine of them owned by overseas companies and another three by South African interests (Nieuwenhuizen, 1977:58). There are two different types of source companies among South African automobile manufacturers. Firstly, there is a German one, which is wholly-owned, while the others are locally owned with very little foreign investment, according to Shires (Viljoen, 1996: 17).

BMW and Volkswagen	= wholly-owned foreign subsidiaries
Mercedes-Benz	= majority-owned foreign subsidiary
Toyota SA	= locally-owned
Samcor	= majority-owned by Anglo-American, producing Ford, Mazda and Mitsubishi vehicles
Nissan SA	= owned by the financial house Sanlam, producing Nissan and the Fiat Uno
Delta	= management-owned, producing Opel and Isuzu

From mid-1980 there were still seven automobile manufacturers operating in South Africa. Four of the seven were South African-owned and others partly South African-owned. Changes took place on the ownership structure of the automobile industry over the last few years with the launch of MIDP in 1995. The following table clearly indicates the changes in the ownership structure that took place among the automobile manufacturers before and after the MIDP introduction.

The table 2.3, according to the ownership structure, indicates that only the German subsidiary OEMs has maintained their ownership profiles. Other all-domestic OEMs are now at least partly controlled by MNCs. Toyota SA has the lowest level of foreign equity at 27.8% (Barnes, 2000b: 405; Mthimkhulu & Furlonger, 2001: 42). These changes of ownership after the MIDP in 1995 suggest that the automobile manufacturing sectors of South Africa are gradually going under the control of MNCs. Production, technology and marketing activities will be decided on by their parent companies outside South Africa.

Table 2.3 Ownership changes at South African automobile manufacturers

South African automobile manufacturers / OEMs	Vehicles manufactured	Present ownership	Ownership early 1990s
Toyota SA	Toyota	72.2% local (listed on the Johannesburg Stock Exchange with Wesco as main shareholder, 50%), 27,8% Toyota Motor Corporation (Japan)	JSE-listed (100% local)
Volkswagen SA	Volkswagen, Audi	Volkswagen AG	Volkswagen AG
BMW SA	BMW	BMW AG	BMW AG
Mercedes-Benz	Mercedes-Benz, Honda, Colt (Mitsubishi)	Daimler Chrysler	Daimler Benz (50%), Local (Volkswagen - 50%)
Samcor	Ford, Mazda, Mitsubishi	55% Anglo American, 45% Ford (but has management control)	Anglo American 100%
Auto maker	Nissan, Fiat	Sankorp (Local) 37%, Nissan Motor Company (Japan) 50%, Nissan Diesel Motor Company (Japan) 4.3%, Mitsui (Japan) 8.7%	JSE-listed (87% local)
Delta	Opel, Isuzu	51% local management, 49% GM	100% local

(Source: Barnes, 2000b: 405; Barnes & Kaplinsky, 2000a: 799)

2.5 HUMAN RESOURCE DEVELOPMENT IN THE AUTOMOBILE MANUFACTURING INDUSTRY IN SOUTH AFRICA

Human resource and its development are one of the imperative assets of the automobile manufacturing industry. It has a high relation with the production, service, administration, marketing and after-sales service of a motor vehicle company, not only in South Africa but all over the world. No company can produce without successful and skillful human resources in the automobile manufacturing company.

Anderson (1998:11) argues that agricultural and general labour is classified as “unskilled”, while labour from the industry is classified as “skilled”. In the case of skilled labour, different companies have different proportions of skilled and unskilled labour according to the nature of the business (Anderson, 1998:22). According to Ringrose (1966:10), there are three main groups, namely skilled, semi-skilled and unskilled. A fourth grade is super-skilled workers. Skilled artisans, are those workers who have served an apprenticeship or similar course of training, Unskilled general workers perform work that requires no expertise. Semi-skilled workers are generally at the upper levels and include workers who started but did not complete an apprenticeship (Ringrose, 1966:10).

In South Africa, according to Borat (2000: 439), the economically active population was 8,114,248 in 1970 and 12,741,868 in 1995. Generally the percentage increase in employment is inadequate. There is a poor employment performance in the secondary sector, particularly in the manufacturing industry. The key sectors created only 400,000 job over 25 years and this trend clearly indicates that industries are struggling. There are hot arguments that imports of final-demand commodities are being substituted for higher priced local goods, which causes employment losses among local automobile manufacturers. Tariff liberalisation is the major factor impacting on the trade flow of South Africa and has directly affected the labour market in recent years. Employment losses have increased from 1980, specifically since the beginning of South Africa’s tariff reduction programme, with the last four or five years representing the start of the formal GATT-linked tariff phase-down process (Bhorat, 2000: 457).

Many commentators have argued that education is a prerequisite for the economic growth of any country (Pillay, 1991:98). According to Maller (1992:2), the management-of-workers approach is essential to improve the quality of working life, focussing on environmental factors as well as job design, work group organisation and supervisory practices. Humanisation at work has emphasised the provision of opportunities for social contact and worker co-operation as well as a degree of worker autonomy and control over the working environment. These approaches were incorporated in German and American industries in the 1970s and enabled these companies to increase the quality of their product and performance. The employ-share ownership approach is another method to involve employees in the growth of a company. The employee ownership method will help a company to undermine the trade union and its activities. Worker participation on the factory floor and in the decision making process are in their infancy in South African companies. Maller (1992:7) argues that worker participation is increasingly recognising the need to draw on workers’ formal and

tacit skills as well as their innovative capacities to improve the quality of products as well as the productivity of work in a more competitive international market. According to the Automotive Industry Development Centre (Pty.) Ltd. (2002), human resources development is one of the important aspects to be considered by automobile manufacturers to meet the global challenges in the automotive industry. A survey conducted by the Automotive Industry Development Centre (Pty.) Ltd. in order to identify the skills of human resources, a suitable centre of competence to aid in the development and nurturing of the local automotive industry has to be recommended. The needs of human resources in the motor vehicle assemblers and component manufacturers are categorised into four main areas, namely training at worker level, lack of technical skills, training at engineering level and improvement of management skills.

Wolpe (1991:10) argues that education and training at school level is important to produce the technical skills required by the labour market, while vocational education is essential to provide the best possible basis for training in occupational skills. According to Kraak (1991: 39), formulating a coherent education and training policy is imperative for the post-apartheid South Africa. A stronger relationship between education, training and work is very important in the post-Fordism time of production for economic organisation. Flexibility and innovation require a highly skilled workforce with substantial responsibility on the factory floor. Education and training is the only tool to shift the labour force from a single-tasking group to multi-skilling team work, which rely on new technology and interdependent computer-linked work stations (Kraak, 1991:41-43; Joffe *et al.*, 1995:189). There is a direct and indirect connection between education and training and local technology research and development. In South Africa the high cost of imported technology and the lack of a local technology research and development infrastructure are a few of the obstacles in the transition towards post-Fordism. Education and training are significant to reduce the labour time on each machine, which will enable the company to reduce the cost of production. It has serious implications if post-Fordism were being considered as a strategy for South Africa. The current education and training system in the country is fragmented in a number of ways where the present system could be described as training for narrow occupationalism. This narrow approach to training is highly prevalent throughout the South African vocational training system. This narrow system only enables the trainee to do a limited number of tasks in a routinised production environments (Kraak, 1991:52). There is a need to formulate an alternative model to the present education and training system in South Africa. Botha (1991:85-87) argues that vocational skilling of workers in the form of worker education must be designed to improve the productive capacity and efficiency of the labour

Employment opportunities were created satisfactorily from 1990 to 1995. Some 37,845 people were employed in 1990, 36,895 in 1991, 38,731 in 1992, 37,160 in 1993, 37,489 in 1994, and 38,612 in 1995 in the South African motor vehicle manufacturing industry. However, the employment level significantly increased and was sustainable compared with the employment level of after the implementation of MIDP in 1995 (NAAMSA, 2001a: 28). The total employment level began to decline from 1996 after the implementation of MIDP.

The following table expresses the decline of the employment level after the implementation of the MIDP. After the introduction of MIDP employment in the sector including assembly plants, spares and tyre manufacturers and motor trade declined (Van der Kooy, 2000a: 26). The following table expresses the decline of the employment level after the implementation of the MIDP.

Table 2.4 South African motor vehicle industry employment

Sector	1995	1996	1997	1998	1999	2000	2001
Assembly industry	38,600	38,600	37,100	33,700	32,000	32,300	32,700
Component industry	81,000	89,000	78,000	70,000	60,000	59,500	58,500
Tyre industry	11,000	10,000	9,500	9,100	9,000	8,600	8,500
Motor trading	178,000	180,000	180,000	170,000	175,000	175,000	180,000
Total	308,600	317,600	304,600	282,800	276,000	275,400	279,700

(Source: NAAMSA, 2001a: 5; NAAMSA, 2002b: 7; Department of Trade and Industry, 2003a; Black, 2001:170)

The table clearly indicates that the total number of employees in each sector has declined significantly after 1995 when MIDP was introduced in South Africa. Total employment in the automotive industry (included assembly, component industry, tyre industry and motor trade) had increased from 308,600 in 1995 to 317,600 in the peak year 1996, which decreased to 279,700 in 2001. In the case of the assembly industry alone, the total employment level has decreased continuously from 1995. South Africa industries have to create job opportunities to solve the high level of unemployment in the country. The employment level was also affected by the introduction of the free trade policy. In effect this means that the automobile manufacturing industry did not create job opportunities as was expected by implementing the MIDP.

2.5.2 Remuneration and labour relations

Hindson (1991: 228) argues that generally, the economic recession in South Africa and the structural reorganisation of the workforce have substantially altered the pattern of labour demand in the country during the last three decades. In 1986, the total remuneration of employees of the seven manufacturers in the phase period amounted to R389 m. The average remuneration increased by 16% annually from 1981 to 1985. Both average salary and average wages in the phase V over the period 1981 to 1986 have increased continuously. Salary increments have taken place each year in the automobile manufacturing sector (Board of Trade and Industry, 1988:14). However, there is a continuous dispute between the labour unions and manufacturers with regard to salary and wage fixing.

Good labour relations in a company are very important to achieve the objective of the company. A good remuneration and reward system enables the company to keep a stable labour force to produce high quality products and excellent services to its customers. For example, Toyota keeps a relatively stable labour force. In order to maintain labour relations, the implicit bargain, job security and profit / productivity bonuses in return for workers' co-operation, dedication to productivity growth and agreement to work overtime when necessary. Toyota Japan regards the essence of harmonious industrial relations to be that employment is understood by both labour and management to be a life-time affair (Nattrass, 1991:86). In Japan, the best ideas from workers are usually rewarded with drinks to be consumed by the work group during the lunch break or after work. In Durban, South Africa, workers are presented with a Toyota key ring or with T-shirts after suggesting improvements (Nattrass, 1991:87). Automobile manufacturers in Japan have a systematic way of providing financial rewards for suggestions of workers, which are implemented in the company. These systems encourage workers to take part in increased productivity and quality enhancement (Hoffman & Kaplinsky, 1988:137).

From the beginning South African automobile manufacturers have failed to create and maintain a good relationship with workers and their unions. A number of strikes by the unions brought a greater loss of human hours, production and profits to these automobile manufacturers. In late 1979 a strike was held at Ford's Struandale plant in Port Elizabeth, while prior to this strike, there was a two-day strike by 1,500 workers at Sigma's assembly plant in Pretoria in May 1978. But so far motor unions have not played a distinctive role in the mounting challenge posed by black workers (Southall, 1985:

317) and a number of strikes have taken place in South Africa. For example, in 1982 a strike was held in VWSA for five days, which created a 195,212 man hour loss with the participation of 5,276 workers. At Ford a 10-day strike brought about 192,981 man-hours lost with the participation of 2,422 workers. At the GM plant 7.5 days of strike caused an 118,020 man-hours loss with the participation of 1,967 workers (Finnemore, 1984:123). It was the first strike in the history of the automobile manufacturing industry where workers went on strike simultaneously in all the plants (Southall, 1985: 317-321). Strike and labour disputes are continuing in all automobile manufacturing sectors, which in turn affect productivity. Another example, recently in 2000, work stoppage took place at VWSA. The company dismissed 1,300 workers who had ignored its ultimatum in February 2000 (Daniels & Mahlangu, 2001:6). Automobile manufacturers must pay much more attention to avoid strikes and labour disputes in the industry as companies are becoming highly competitive in the global market place.

Absenteeism is the another problem faced by automobile manufacturers in South Africa compared with other countries. This high absenteeism rate will affect production, will result in a loss in working hours and the performance of a company as a whole. Absenteeism should include absence of the worker from his work when he is expected to attend, for any reason at all, medical or otherwise (Mets, 1979:94).

2.6 COMPONENT MANUFACTURERS IN SOUTH AFRICA

It is necessary to discuss briefly the component manufacturers of South Africa and their role in the automobile manufacturing industry and their relationship with automobile manufacturers. Together with technology application, quality and competition with foreign competitors these are significant aspects that will provide a broader insight into the management of the automobile manufacturers. The performance and quality of components have a greater influence on the automobile manufacturers with regard to cost of production and quality of motor vehicles.

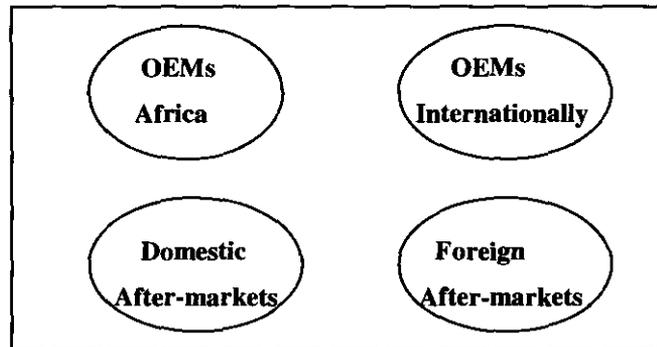
According to Barnes (1997:5-6) and Walker (1990:42), component manufacturers can be divided into two categories - first tier and second tier component manufacturers. First tier means those companies that supply components directly to motor manufacturers. Second tier manufacturers means that they sell their products (components) to after markets. Rubenstein (1991:119) and Froggatt (1991:17) argue that motor vehicle part producers can be categorised into two groups.

One is known as original-equipment manufacturers (OEMs) and these companies sell parts intended for assembly in new cars. OEMs may be independent companies or subsidiaries of the large car makers. The other group makes replacement parts designed for sales to individual motor vehicle owners and is called the after-market. Many components (original equipment) are supplied not to final vehicle assembly plants but to plants manufacturing subassemblies and subsystems (e.g. engines, braking system, gearboxes, clutch, assemblies). Subassembly plants are owned and operated both by independents and by the vehicle builders themselves. In most cases the subassembly operation is owned and integrated as part of the vehicle assembler. Most vehicle assemblers themselves supply a substantial proportion of the component parts of vehicles from their in-house manufacturing to assembly plants. Most of the car assemblers have subassembly factories but are often housed on physically separate sites (Frogatte, 1991:158). Therefore, generally automobile manufacturers are called original equipment manufacturers (OEMs). In other words, automobile manufacturers and original equipment manufacturers are the same.

In South Africa, a large number of companies are categorised as being both first and second tier suppliers. Most of the South African automobile manufacturers (OEMs) source components from a multifarious number of suppliers. A significant proportion of component manufacturers was established before the 1960s (Barnes, 1999b: 9). The establishment of component companies was started in 1930 due to the establishment of the GM and Ford operations in the Eastern Cape in the 1920s. In South Africa the component manufacturing industry grew rapidly from 1960 when the government introduced the compulsory local content programme on automobile manufacturers. By 1973 the component industry employed over 30,000 people (Duncan, 1997:56). The local content programmes encouraged vehicle assemblers to source from local component manufacturers (Adler, 1989: 416). In 1990, 73,000 people were employed in the components sector (Duncan, 1997:57). By 1999, there were approximately 280 component manufacturers in South Africa (Department of Trade and Industry, 1999:9). Today In South Africa there are approximately 350 (including about 150 others supplying the industry on a non-exclusive basis) component companies who forces a full range of components for the domestic and exports market (Black, 2001:5; NAAMSA, 2002b: 25).

Component manufacturers are connected with one of the following market segments. The following figure indicates the four market segments.

Figure 2.2 Markets for South African automotive component manufacturers



(Source: Barnes, 1997:9)

2.6.1 Price and quality of components

According to vehicles manufacturers, imported components are cheaper than local components, while some executives continue to express doubt about the quality of local components (ANON, 1989:13). Barnes and Kaplinsky (2000a:805) highlight that South African automobile manufacturers are reluctant to use locally produced components because not only is the price not appropriate, components are also not at acceptable quality levels. The following is expected for companies to have confidence in long-term innovative capacity and financial viability: delivered reliability, flexibility of supply, conformation to specifications and packaged adequately.

Barnes (1999b:25) mentions three important measures of quality, namely customer return rates, internal defects and re-work rates. Customer return rates are an essential measure of quality and highlights the customer satisfaction level regarding the quality performance of a particular company. According to Barnes (1999b:25), most of the component manufacturers in South Africa have to improve their quality performance significantly. Further, his research highlights that a United Kingdom companies had a customer return rate in 1997 of 344 parts per million, whilst the South African companies customer return rate was 80,000 ppm (Barnes, 1998:26; Board on Tariff and Trade, 1995:18). According to the research of Barnes (1997:11), the market share of component manufacturers will be eroded by foreign competition in future because local component manufacturers are not competitive with regard to quality, price, delivery reliability and standards. The main aim of the MIDP is to improve the automotive industry by exposing it to international competition via tariff restructuring, further impacting on the market of the domestic component

manufacturers. Automotive component manufacturers failed to perform adequately in order to compete with their foreign competitors in any of the market segments (Barnes, 1997:13). A number of foreign suppliers feeding into the domestic market are more competitive than the component manufacturers of South Africa. Inventory levels, inflexibility, value-adding, inadequate human resource development, high defect rates, poor supply and chain management are issues identified as reasons for the inadequate performance and lack of competitiveness of South African component manufacturers in the global market (Barnes, 1997: 16).

Component manufacturers have come under severe pressure under the MIDP due to easier and cheaper imports into the South African market. The result is that profitability of the component industry has decreased (Black, 2001:9). The importation of components has increased over the last years due to the tariff reduction and rebate on import duties by the new MIDP policy of the government. The domestic market for local components are one of the most sensitive parts of the MIDP, even though the rand value depreciation gave some added protection to component manufacturers. Now component manufacturers are also facing greater international competition (Department of Trade and Industry, 1997:5). Profit levels of the component manufacturers declined sharply during 1996 in contrast to the substantial increase from 1992 to 1995 (Department of Trade and Industry, 1997:10).

2.6.2 Co-ordination between assemblers and their component suppliers

Co-ordination between assemblers and their first tier component suppliers is important and has to be developed to maintain the quality of production and reduce the cost of production. Both the parties must co-operate on R & D, the upgrading of technology and advancement of products. In South Africa the situation is very different though and there is little co-operation between component manufacturers and assemblers. Most component manufacturers do not obtain significant assistance and guidance from assemblers and also do not have a close relationship and co-operation (Black, 1994: 78). A good relationship and co-ordination between component and automobile manufacturers is very essential to improve competitiveness. But in South Africa, component companies have lost contact and co-ordination with automobile manufacturers because their international parent companies have lost the global contract with the automobile manufacturers due to the poor performance of the South African operation (Barnes, 2000a: 60).

2.7 STRUCTURE AND DEVELOPMENT OF THE MOTOR VEHICLE MARKET IN SOUTH AFRICA

The South African motor vehicle market was the eighteenth largest in the world in 1995, however it constituted less than one percent of the total world markets (Bechet, 1998:13). The fragmentation and differentiation compared with other developing and advanced countries are specific features of the motor vehicle market in South Africa (Swart, 1974:174; Viljoen, 1972:587). The break-up of markets take place because of the national protection policy in developing countries that is strongly connected with provision of employment, foreign currency savings, domestic industrial development, strategic aspects and non-economic and social welfare. After World War Two the international market was fragmented into small markets. The income and population increased and the volume of annual sales had to be increased because the export market is a major aspect of production of motor vehicles. A small number of global motor companies are fighting to secure market shares in the international motor vehicle market and play a vital role internationally (Swart, 1974:174).

2.7.1 The market structure of automobile manufacturers in South Africa

With regard to globalisation, trade and political relationships between countries influence the national market and production structure. The formation of regional blocks and trading corporations has influenced the structure of the market. These processes certainly influenced the automobile market of South Africa (Swart, 1974:174). In the case of the open competitive market system, the market mechanism could well rationalise because of the impact of international technology, volume of production and specialisation on the domestic market. In South Africa, under the free market, large numbers of automobile manufacturers and imports dealers are competing for a small number of customers. The regional market of South Africa was also fragmented by the entry of global companies. Every automobile company mainly concentrates on enlarging its market share for their products / models in the South African automobile market (Swart, 1974:198).

2.7.2 Factors determining market volume

There are certain short-term and long-term factors that have an effect on the demand for motor vehicles. The changes on real disposable income and per capita income of the South African

population will affect the market of automobiles in future. The disposable income of the majority of the population is one of the significant aspects in the future of the automobile market. In South Africa, spending on durable goods / assets like a motor vehicle is very expensive in terms of the family budget. Many factors such as economic and non-economic factors as well as supply and demand can be taken into account by focussing attention on the annual expansion of the automobile market. Conventionally, income and prices are the most important economic factors. Non-economic factors such as status and prestige also play an important role in the purchasing decision of a car (Nowicki, 1969:74). Alternative transport, public transport and other services tend to increase the pressure to purchase cars (Nowicki, 1969:74-84)

Nieuwenhuizen (1977:186) argues that the buyers of motor vehicles in South Africa can be divided into two, namely private households and business households. Private households include low, medium and high-income households. The high-income group of buyers does not have a problem in buying motor vehicles because of their relative wealthy position. Middle-income class buyers are more directly influenced by budgetary constraints than are the high-income classes. The price of the vehicle, maintenance cost and life expectancy of the vehicle are the major aspects that influence the decision to buy a motor vehicle of the middle-income class buyers. The motor buying habits of the lower-income classes (especially non-white group) largely buys around used vehicles. Most of the non-white population in South Africa cannot afford to buy cars due to the size of their disposable income (Nieuwenhuizen, 1977:54).

In all countries, the appeal of the passenger car is universal because of its convenience, the freedom of movement it offers and its capacity for providing enjoyment and recreation. The market penetration of motor vehicles is influenced by product appeal, customer loyalty, manufacturing reputation and public image as well as sales service and sales organisation network and outlets, advertising, production capacity, product availability, service and price in relation to competition in the same market (UN, 1969:12). In South Africa's the growth rate of real GDP collapsed in the 1980s, while the growth of personal income also declined. During the 1960s aggregate real personal disposable income had grown by about 80%, during the 1970s by about 50% and during the 1980s by not much more than 10%. It is clear that the rate of growth of aggregate personal income was slowing down over these three decades. A decline in real personal disposable income per capita on this scale has negatively affected the demand for new passenger vehicles (Mabasa, 1996:20). The low growth of the economy, fairly low average income and a very unequal income

distribution in South Africa is the major characteristics that have a high influence on the local vehicle market in South Africa (Black, 1994:104). Rising labour costs, depreciation of the rand against the Mark and Yen, under-utilisation of capacity, price collision among the assemblers and high investment costs are other important factors (Black, 1994:46). Price is the one of the most important factors that has a significant influence on determining the size of the vehicle market. Vehicle prices in South Africa have been increasing at higher levels than the increase of the inflation rate (Barnes, 2000a: 52). Car prices rose by 35% from 1985 to 1986. Inflation, the effects of local content programmes and trade union activities all put pressure on costs, resulting in an increase in car prices never before experienced in this country (Schnetler, 1997:61). In the 1990s car prices increased seven-fold (Schnetler, 1997:64). The price of passenger motor vehicles, which are locally manufactured, has consistently increased over the consumer price index since the implementation of phase VI of the local content programme in 1989 (Board of Trade and Industry, 1995:10). The price increase for new vehicles during 1999 exceeded the consumer price index for the first time in 5 years (Department of Trade and Industry, 2002a). Service is also one of the factors that has an influence on determining automobile market. According to the McLean (Furlonger, 2001d: 100), in South African car market, customers are considerably less happy with their treatment when vehicles are serviced. Salesman and technicians must treat customers properly and must pay substantial consideration to fulfil the expectations of the customers, both with regard to buying and service delivery.

2.7.3 Vehicle market trends in South Africa

Bechet (1998:13) alludes to the fact that there were 12,763 licensed passenger cars and 3,504 commercial vehicles on South African roads in 1918-1919. Five years later, with the establishment of the Ford assembly operation in Port Elizabeth, the sales had increased rapidly. After 1933, the vehicle market began to expand rapidly from 18,132 units in 1933, to the pre-war peak of 57,298 units in 1937 (Duncan, 1997: 130). The following two tables 2.5 and 2.6 indicate the vehicle market trends in South Africa.

During the pre-war era the South African vehicle market was dominated by the passenger car sector. During the war period (1939-1946) new vehicle registrations declined gradually as production was largely earmarked for South Africa's defense requirements. In the post-war period, many factors emerged that determined the market for new vehicles from 1945 to the present. Import control of the

government limited the sales volume of vehicles during the period from 1940 to 1950. Only around 46,000 units were sold per annum through the early 1950s, but this number had increased to 72,290 in 1955 and 106,793 in 1957 after the government withdrew the import control. Since 1970, the per capita income decrease, rising oil prices and gold price fluctuation affected the vehicle market (Ferreira, 1969:6-7; Duncan, 1997:132; Nieuwenhuizen, 1977:47). The following table shows the new vehicle sales for the past fifty years in each ten-year interval.

Table 2.5 Pre-war period 1928 to 1938 (Sales in units)

Years	Cars	Buses & Commercial vehicle	Total
1928	23,489	3,072	26,561
1930	15,092	3,100	18,192
1932	11,672	1,368	13,040
1934	30,830	5,625	36,455
1936	45,337	8,149	53,486
1938	37,997	8,960	46,957

(Source: Ferreira, 1969:4)

The following table shows the new vehicle sales for the past fifty years in each ten-year interval.

After 1981, the sales of passenger cars and light commercial vehicles decreased in the succeeding years with sales for the year 1986 well below the level that had already been achieved in 1969. The automobile manufacturing industry of South Africa moved into a general economic crisis after the sales of vehicles declined sharply and rapidly in 1985 and 1986. The total sales of vehicles in South Africa fell from 453,541 units in 1981 to 264,676 units in 1986 with a decline of 42%. During this period, the financial condition of vehicle manufacturers was affected to such an extent that some of them were forced to merge with others and some of them sold out to local management (Board and Trade and Industry, 1988:10).

Table 2.6 The past growth performance in new vehicle sales (units)

Years	Cars	Other vehicles	Total
1950	36,758	7,676	44,434
1960	98,779	20,385	119,164
1970	201,854	95,719	297,573
1980	277,058	127,708	404,766
1981*	301,528	152,013	453,541
1990	209,608	125,171	334,779
2000	224,122	116,960	341,082

(Source: NAAMSA, 2001a: 23; Department of Trade and Industry, 1994:21)

- The year 1981 was a peak period, where car and other vehicle sales had increased to the highest level in the past 50 years.

The following table shows the vehicle sales level from 1992 to 2001.

Table 2.7 Domestic sale trends during the period from 1993 to 2001 (units)

Vehicles	1993	1994	1995	1996	1997	1998	1999	2000	2001
New Motor Cars	195,032	191,979	236,584	249,838	239,762	203,821	189,370	224,122	239,060
Light Com. Vehicles	95,150	102,186	128,397	129,575	114,354	99,078	96,169	105,235	115,146
Medium.Com. Vehicle	2,927	3,306	4,139	5,457	5,636	5,092	4,668	5,162	5,383
Heavy.Com.Vehicles	4,942	5,598	7,664	8,110	7,123	6,419	5,568	6,563	7,310
Total	298,051	303,069	376,784	392,980	366,875	314,410	295,775	341,082	366,899

(Source: NAAMSA, 2001a: 2, 26 & 27)

- Sales by distributors are not included in the above sales.

Table 2.7 indicates that the sales of motor cars declined seriously from 1997. However, in 2000 and 2001 there came a little improvement in 2000 and 2001, although the car sales of 2001 did not achieve the level of sales of 1996. The same trend exists in the sales of light commercial vehicles (including “bakkies” and minibuses). There is a fluctuation in two other vehicle segments, i.e. medium and heavy commercial vehicles. Domestic passenger car sales were down by 15%, compared with 1997, while sales of light and heavy commercial vehicle were down by 13%. For 1998 all imported vehicles constituted 18.3% of the total domestic new vehicle market in South

Africa, up from 13.7% in 1997. These figures of new vehicle sales show the severe decline in domestic market (Department of Trade and Industry, 1999:3). According to NAAMSA (2003a), in the January of 2003, the sales for aggregate combined new vehicles were 31,832 units, a decline of 291 vehicles or 0.9% compared to the 32,123 units sold during the corresponding month of the previous year. Aggregate sales for December 2002 was 23,903 units. New passenger car sales for January 2003 were 22,056 units, a decline of 406 units of 1.8% compared to the 22,462 units recorded during the corresponding month of January 2002 (NAAMSA, 2003b). To conclude, there has been a fluctuation in new car sales through the 1920s to the present day, although with a significant increase in some years. After 1997 when MIDP was introduced, there was a continuous decline in the car sales.

2.7.4 Car park in South Africa

The size of the carpark will highlight the trends of the car market of the country. The total vehicle park means the number of vehicles operating in the country (NAAMSA, 2002b:25). More stables than the annual new car purchases are the total car population of new and used cars, known as the "car park" (Vaughan, 1982:35). In 1932, according to Rosenthal (1976:37) a rough estimate of 145,000 cars was registered (all cars) in South Africa, increasing to about 320,000 units at the end of 1937. The total vehicle population of South Africa was 1,441,000 at the end of 1965 with new registrations of approximately 196,000 during 1966 and 194,000 during 1967 (Ferreira, 1969:1).

In 1989 there were an estimated 5 m vehicles on South Africa's roads with a replacement value of more than R100 b. Prices of new vehicles have since then increased to a level that makes it very difficult for the private buyer to come into the market. There is a tendency for the replacement cycle to be extended due to the price rise and the economy and disposable income of the buyers (Financial Mail, 1989:8). The total vehicle park of South Africa comprises approximately 6.8 m vehicles, of which 3.9 m (or 57%) represented passenger cars in 2000 (NAAMSA, 2001a: 23). In 2002 it comprises about 6.9 m vehicles of which 4.0 m (or 58%) represent passenger cars (NAAMSA, 2002b: 25).

2.7.5 Car ownership trends

The car ownership pattern and its trends in South Africa indicate past and future car market trends. The population of passenger motor vehicles has gradually increased in South Africa. The following table shows the passenger motor vehicles registered according to race of owner from 1966 to 1974.

Table 2.8 Passenger motor vehicles registered according to race of owner, 1966- 1974.

(Percentage of vehicle owners)

	1966	1968	1970	1972	1974
Whites	84.6	86.3	85.4	84.3	77.7
Coloureds	2.4	2.5	3.0	3.1	4.1
Asians	2.5	2.5	2.7	3.1	3.7
Blacks	4.6	4.1	4.1	4.5	6.2
Fleet owners	5.6	4.6	4.8	5.0	8.3
Total	100.0	100.0	100.0	100.0	100.0

(Source: Nieuwenhuizen, 1977: 30)

In mid-1978 there were 8 cars per 1000 Africans in the country, 40 per 1000 Coloureds, 100 per 1000 Asians, and about 400 per 1000 whites, according to Wilking (Rothmyer, 1979:1). Sales of new cars were largely restricted to the higher income white segment of the population. By 1979, car ownership amongst whites had reached 415 per thousand, while African ownership of cars was 10.8 per thousand. In 1980, whites owned 47.06% of the total number of cars and mini-buses, Coloured, Indians and fleet buyers 29.15% and Africans 23.79% (Southall, 1985:314). In brief, the day-to-day condition of the motor industry is overwhelmingly dependent upon sales to whites. In South Africa, vehicles owned per 1000 persons range from approximately 450 for whites, 200 for Indians, 100 for Coloureds and 26 for blacks in the domestic market in 2001 (Department of Trade and Industry, 2002b). It indicates that the large majority of the total population (black population) has not been able to afford new vehicles for a long time. Automobile manufacturers must design their marketing strategy to bring black customers into their market range to increase vehicle sales.

2.7.6 Market share and competition of automobile manufacturers in South Africa

In 1958, Ford and GM owned about 70% of total assets employed in the motor vehicle industry, which accounted for the vast majority of vehicles sales in the country. In 1977, Japanese companies had made big inroads into the market. Ford and GM's position had been reduced. But these two companies still accounted for more than 27% of auto sales. The dominance of US companies had now been broken by Sigma (Rothmyer, 1979:4). By 1968, South African manufacturers had been producing around 38 different models of passenger motor vehicles. Big companies like Ford, GM, Chrysler and Leyland were losing their market share to the smaller manufacturers like Volkswagen, Datsun, Toyota and Peugeot. This excessive competition created disadvantages for automobile manufacturers in South Africa. This competition and proliferation of models of products resulted in higher units cost, low profitability and problems in maintaining the standard of tooling required by manufacturers (Nieuwenhuizen, 1977:57).

The market share for various types of vehicles in South Africa for selected years is given in the table 2.9 below. This table suggests that Volkswagen was the leader in the market in 1976 through to 1981. In 1986, there were seven manufacturers who competed in the passenger car market in South Africa.

Table 2.9 Passenger vehicle market share in selected years

Manufacturers	1976 Sales	Market Share %	1981 Sales	Market Share %
Alfa Romeo	5,371	2.9	8,211	2.7
BMW	6,070	3.3	13,442	4.5
Fiat	4,972	2.7	--	--
GM	21,254	11.5	33,204	11.0
Leyland	9,846	5.3	5,757	1.9
Mercedes-Benz / Honda	9,158	4.9	11,743	3.9
Peugeot	12,620	6.8	--	--
Samcor Ford	28,117	15.2	50,460	16.7
Samcor MMI	15,921	8.6	50,866	16.9
Toyota	18,714	9.8	46,185	15.3
Volkswagen	29,912	15.6	51,426	17.1
Total	185,135	100.0	301,528	100.0

(Source: Jones, 1987: 41)

Table 2.10 below shows the market share of the seven manufactures in 1986 during phase V and 1993. Toyota SA has been the marketing leader for nearly 20 years and its market share for 1996 was 24.6% and 27% in 1997, according to Van Zyl (Furlonger, 1997:15). Van Zyl (Furlonger, 1997:16) says that the overall markets for new vehicles - both cars and commercial vehicles - will not be booming in the near future. Car marketers had a good opportunity to increase their market when the huge black majority became a real factor in the market after 1994.

Table 2.10 Market share of automobile manufacturers in 1986 and 1993

Manufacturers	Market share in 1986 (%)	Market share in 1993 (%)
Toyota SA	28.2	24.0
Volkswagen SA	15.1	18.1
Nissan SA (Automaker)	12.4	14.3
Samcor	21.6	15.6
Delta	9.2	9.4
Mercedes-Benz SA	8.1	10.0
BMW	5.4	8.6
Total	100.0	100.0

(Source: Board of Trade and Industry, 1988: 10; Black, 1994: 47)

The following table 2.11 shows the latest market share among the competitors in 2001 and 2002. The table indicates the changes that took place in the market share among the automobile manufacturers and sellers in the South African market. VWSA had become the market leader and Toyota the second leader in the market. It shows that imported vehicles had eroded the market share from the local manufacturers over the last few years.

Competition: A number of assemblers and a number of importers compete in the domestic market. However, small lower priced vehicles still comprise a major portion of new vehicle sales and are normally purchased by private individuals. The imports of small vehicles will become more difficult to automobile manufacturers to transfer increased costs to the customer in the form of price, especially with the introduction of e.commerce (Department of Trade and Industry, 2002). Automotive Industry Development Centre (Pty.) Ltd., 2001). According to Pretorius (Viljoen, 1996:15), all local automobile manufacturers and component manufacturers in South Africa are now

facing a dilemma in the dilution of the local market by foreign products after the reduction of import duties via MIDP. This situation would become worse as manufacturers along the MIDP route of reduced duties reached lower limits in 2000.

Table 2.11 Market share among competitors in South Africa in 2001 and 2002

Competitors	2001-%	2002-%
BMW SA (Pty.) Ltd.	7.95	9.02
Daewoo Motor Corporation SA (Pty.) Ltd.	.92	.53
Daimler Chrysler SA (Pty.) Ltd.	9.92	13.23
Delta Motor Corporation (Pty.) Ltd.	8.37	7.38
Fiat Auto SA (Pty.) Ltd.	5.65	4.99
Ford Motor Company of SA	12.67	10.71
GM overseas	.09	.08
Honda SA (Pty.) Ltd.	.43	.66
Nissan SA (Pty.) Ltd.	3.53	4.45
Peugeot Motor SA (Pty.) Ltd.	.91	1.66
Renault	5.27	3.49
SAAB SA	.16	.09
Bubaru SA	.22	.29
Toyota SA (Pty.) Ltd.	20.95	20.39
VW SA (Pty.) Ltd.	22.87	22.99
Porsche	.09	.05
Total	100.0	100.0

(Source: NAAMSA Statistics, 2001b: 4 & 5; NAAMSA Statistics, 2002c: 4 & 5)

Used car market: Used vehicle sales in the market also have a severe effect on the sale of new vehicles. There is also a close relationship between new motor car sales and used-car market sales. Members of lower-income groups constitute a large proportion of the customers in this market (Board of Trade and Industry, 1977:20). In 1994, used cars sales were brighter than the sales of new cars (UP, 1994:19). The latest model used cars are selling far more than new cars in South Africa are (ANON, 1989:25). The waiting lists are long on certain models of used cars. In South Africa some companies are prepared to buy quality used cars for their executives, and therefore the sales of used vehicle have increased in the South Africa market for the last years. For example, some 251,142 used car units were sold in 1998, 257,602 units were sold in 1999, 267,195

units were sold in 2000 and 285,011 units were sold in 2001 (NAAMSA, 2002b: 6). The increasing volume of used vehicles in the South African market will directly affect the market for new domestically produced vehicles. After the introduction of MIDP, total used vehicles sales reached their highest level of this decade in 1999 (Department of Trade and Industry, 2002b).

There is a considerable market for sports cars in South Africa as motor racing is one of the most popular sports in this country. Twelve national races are held here each year. The first racing held in South Africa was in East London on 27 December 1934 in order to promote interest in motor sports and to encourage racing drivers to buy better cars (Marais, 1972:58 & 578). There is a high competition for sports cars in South Africa.

2.7.7 Dealers

Different dealership management and relationships were established and maintained by different manufacturers to increase the volume of sales over the country. For example, Toyota upgraded under-performing dealers or cancelled their franchises. This action helped Toyota to purify the dealer chains and prevent the dealers from selling vehicles produced by other manufacturers (Duncan, 1997:141). According to the Department of Trade and Industry (1994:22), all manufacturers have a number of franchise dealers over the country. BMW SA (Pty.) Ltd. has 98 dealers, Delta Motor Corporation (Pty.) Ltd. (Opel, Isuzu and Suzuki) has 199 dealers, Mercedes-Benz of SA (Pty.) Ltd. (Mercedes-Benz and Honda) has 257 dealers, Nissan SA (Pty.) Ltd. (Nissan and Fiat) has 207 dealers, Samcor (Pty.) Ltd. (Mazda / Mitsubishi and Ford) has 310 dealers, Toyota SA Ltd. has 312 dealers and Volkswagen of SA (Pty.) Ltd. (Volkswagen and Audi) has 216 dealers (Department of Trade and Industry, 1994:22). All manufacturers, except BMW SA (Pty.) Ltd. that produced cars only, supply cars and commercial vehicles. In South Africa the fact that too many vehicle dealers are chasing too few sales is one of the major problems of dealers. There was a reduction in franchised motor dealers from 1,420 in 1995 to 1,360 in 1997. South Africa's 400 franchised motor dealers were unprofitable and would be out of business in future. In the case of dealership, there is also the need for a change in the ways that dealers and manufacturers will form alliances in the future (Bechet, 1998: 26). In 2002 there were about 1100 new car dealerships holding specific franchises (NAAMSA, 2002b: 26).

2.7.8 Export

The government expects that exports of industrial products could make a substantial contribution to increase economic growth, employment and the improvement of the balance of payments. It expected that exports could make a significant contribution to a steady expansion of production and export that could bring competitive advantages and afford the opportunity to achieve greater volumes of production to reduce unit costs. However, during the period of phase V, vehicle manufacturers registered a relatively low level of exports. In 1981, the total export value of vehicles was R 0.5 m, it increased to R35.6 m in 1982, R 37.4 m in 1983 and decreased to R35.3 m. In 1985, exports of vehicles decreased sharply to R19.4 m, after having achieved a level of approximately R36 m during each of the 3 preceding years. (Board of Trade and Industry, 1988: 42-43).

During the period from 1992 to 1996, the export of vehicles was growing more slowly. Trade deficits in this sector had increased sharply to over R14 b in 1996 even though the percentage growth rate of exports had increased. The major reasons for this increase was the rising vehicle imports and rising levels of component imports resulting from market expansion as well as a small increase in the share of imported relative to locally produced components (Department of Trade and Industry, 1997:9). By 1998, the German-owned automobile manufacturers had exported a significant volume of vehicles from South Africa. BMW had an export contract for its BMW 3-series, which had exported 4,346 units and Volkswagen had exported 10,485 units from South Africa in 1998. Other companies were far behind in their position in terms of global competition (Barnes, 2000b: 410). Toyota is the most successful automobile manufacturer in South Africa. Even though it is a successful company in terms of domestic competition, it has a weakness in terms of its global networking abilities. Toyota SA's export markets are restricted by Toyota Japan even though Toyota Japan has only a 27.8% equity stake in Toyota SA (Barnes, 2000:412). The following table highlights the export trend of vehicles from South Africa from 1995 to 2001.

Table 2.12 Exports of vehicles from South Africa

Types of vehicles	1995	1996	1997	1998	1999	2000	2001
Cars	8,976	3,743	10,458	18,342	52,347	58,204	97,307
Light commercials	6,356	7,125	8,000	6,806	6,581	9,148	10,229
Trucks & Buses	432	685	1,111	748	788	679	465
Total	15,764	11,553	19,569	25,898	59,716	68,031	108,001

(Source: NAAMSA, 2001a: 2; NAAMSA, 2002b: 4; Department of Trade and Industry, 2000: 59)

The total export of passenger cars from South Africa has increased rapidly from 1999 compared with the previous years. According to NAAMSA (Berman, 2002:189), 15,764 vehicles were exported in 1995, while in 1997 some 19,569 were exported. Passenger car exports increased by 185% from the 18,342 units in 1998 to 52,347 units in 1999. For the first time, car export increased to 97,307 units in 2001 in South Africa (NAAMSA, 2002b: 3; Department of Trade and Industry, 2000:59). For the first time, export vehicles from South Africa increased to a near total of 108,000 units. Some companies like Volkswagen SA, BMW, C-Class Mercedes-Benz, Nissan and Toyota SA have increased its exports (Van der Kooy, 2000a: 26). There is argument, according to Department of Trade and Industry (1997:4), that the rand value depreciation has been a windfall for the local automobile manufacturers to increase exports over the few years.

Export to regional markets: Exports of completely built-up vehicles from South African manufacturers to regional markets are very small. For example, vehicle manufacturers in South Africa exported only 678, 599 and 678 passenger vehicles to the Kenyan, Zimbabwean and Mozambique markets respectively in 1998 (Barnes & Kaplinsky, 2000a: 804). Export of passenger vehicles and light commercial vehicles from South Africa to African countries has declined from 46% of total vehicle exports in 1997 to 27% in 1998 (Department of Trade and Industry, 1999:3).

2.7.8.1 Problems experienced with exports

South Africa was one of the first countries to explicitly adopt import substitution as a vehicle for industrialisation. The Export Development Assistance Scheme was introduced in 1972 to spur on exports.

In 1980 the authorities introduced a new, more powerful system of export incentives (Belli *et al.*, 1993: 2). But there is an argument that some serious problems remain despite the substantial liberalisation of the trade regime in the past decades. First, the system is subject to excessively frequent changes. Second, the tariff structure is overly complex. Third, the dispersion of the tariff schedule is exceedingly high. Fourth, the regime is biased against exports. The system of protection does not seek to protect any sector or factor of production in particular. Tariff is set on a day to day basis in response to requests from the business community. The above facts indicate that the tariff

structure of South Africa is one of the most complex in the world (Belli *et al.*, 1993:2).

According to Black (1994: 98), the following disadvantages encompass the assembly site of South African vehicles for export and the local market. The price of vehicles is well above world market levels, while the component supply is well below world standards, the country is also far from major international markets. The Board of Trade and Industry (1988:46-49) indicates that the most important problem being experienced with exports by vehicle manufacturers is the quality of South African-manufactured automotive components compared to that of components from the originating Countries like Korea, Taiwan and Australia. However, it is mostly not similar to the components of Europe, Japan and the USA. Furthermore, countries such as Japan, Taiwan and Korea have become professionals in exporting and their prices in the USA, Australian and European markets are extremely competitive. Most distributors in these markets stock the high quality Japanese component. The South African product is often automatically classified as a lower quality product. Suppliers are more interested in lucrative markets than selling to local manufacturers. Many companies have a lack of enthusiasm for exports due to lack of export experience and expertise. The high level of inflation rate has created uncertainty in export pricing. The major overseas market has a significantly lower inflation rate and prices are usually determined once a year. Further currency fluctuation, labour unrest and strikes, lack of long-term assurance of government with regard to export incentives, are factors that impede on meaningful investments to expand the manufacturing base for exports. In the case of technological agreements, only a limited number of license agreements are concluded, manufacturers therefore export to the developed market where the volumes are important. There are not sufficient efforts by management to make continuous contact and form relationships with customers in overseas markets due to the high cost of travelling. Often South African components are not suitable for foreign markets as a result of different road conditions, weather condition or specifications (Board of Trade and Industry, 1988:46-49). NAAMSA (2002b:9) indicates that the industry is facing specific challenges, unpredictable international economic developments and volatile financial markets which rendered business operations and planning exceptionally difficult. These conditions affecting business activity both domestic and internationally. In addition to these problems, risks revolve around the threats of global turmoil and global excess production capacity in vehicle manufacturing are also affect the export market of automobile manufacturers of South Africa for recent years (NAAMSA, 2002b: 10).

2.7.9 Imports

Passenger vehicle imports increased by 15% from 50,041 units in 1997 to 57,609 unit in 1998. Total imported vehicles constituted 18.3% of the local new vehicle market for 1998, compared with 13.7% in 1997. The total local new vehicle sales declined due to the increased import during 1998 (Department of Trade and Industry, 1999:6). The number of passenger car imports increased from 34,600 in 1996, which was 18,000 in 1995, 52,000 units in 1999, and approximately 57,500 in 2000 (17% of new passenger vehicle sales). Imports are expected to increase at 25% for new passenger vehicles by 2007. Imports of vehicles and components are consuming the large amount of foreign exchange of R22.8 b. Most of the imported cars were from Korea (22,700 units), Germany (9,809 units) and Japan (6,770 units) in 2000 (Automotive Industry Development Centre (Pty.) Ltd., 2001; Van der Kooy, 2000: 26). The total vehicle imports have increased rapidly, where 22,081 vehicles were sold in 1995, 46,318 units were sold in 1996, 56,740 units in 1997, 65,351 units in 1998, increasing to 85,064 units in 2001 (NAAMSA, 2002b: 5).

Many South African manufacturers and car dealers are still importing cars from overseas. For example, Toyota imported the Lexus and later the Previa MPV and Nissan imported the Maima QX fully built-up since 1996. Samcor imported Mazda MX5, Mitsubishi Pajero and the Ford has imported Falcon since 1995. VWSA imported the Audi A6 and the A8. Dealers such as LSM distributors (Porsche, Jaquar and Daimler) imported luxury cars. Likewise the House of Sports Cars (Lamborghini and Aston Martin), TAK motors (Ferrari and Lancia) and the McCarthy group (Rolls Royce and Bentley). In addition to these, other makes such as Chevrolet, Cadillac, Renault, Peugeot, Daewoo and Volvo were imported by various importers after the 1994 general election. Other makes such as Tavria from the Ukraine, Mahindra from India were also imported. Kia and Ssang Yong from Korea and Dacia from Rumania were imported by a number of lesser-known dealers (Schnetler, 1997: 64-65). According to Furlonger (2001e: 150), many sophisticated versions of Nissan are to be imported to South Africa in future, which include a new Primera, a hard body pick-up, the X-trail and several other vehicles. The high-performance Z car, being built in the US to replace the successful but aging 300ZX, will probably make its appearance in South Africa in 2003. Not only passenger vehicles but also a number of commercial vehicles are coming (imports) to South Africa, for example, the Hiab truck from Sweden is well-known on the South African market and has been imported since the early 1970s. This Hiab has become the country's best selling truck. In 1980, the sanctions forced the Swedish company to withdraw from the market.

Again in 1996 Hiab came to South Africa. By the end of 1998 its sales had increased to over 100 units, representing around 20% of the market share (Haler, 2000:13). Most of the global companies are investing large amounts of money to introduce their new models, while small and medium-sized cars enter the global market every year. For example, Ford would, in this year, increase by \$ 1b to \$ 8 b its annual capital expenditure on new product development. Ford accelerated the process to bring more products out sooner with higher quality (Grant, 2003). The German carmaker Volkswagen said that it would begin distributing its new Beetle Cabrio model in the middle part of this year (2003). Volkswagen expects to manufacture 60,000 Beetle Cabrios this year for sale in over 80 countries. Production at the Puebla plants is expected to rise to 350,000 units this year from 332,000 units in 2002 with the launch of the Beetle Cabrio (Department of Trade and Industry, 2003b). Nissan Motor Co. Ltd. released new models such as the “March” compact car, the new “Fairlady Z” sports car and “Cube”, which will be launched in March, in July and October of this year respectively (Department of Trade and Industry, 2003b). The frequently changed new models of cars will come to South Africa by way of tariff reduction of the MDP in the form of import at cheaper prices.

Sharan, a modern Kombi like the earlier VW, is a family vehicle that performs like a car. The vehicle has seven seats, while the back two rows of three and two can be folded down or removed easily. The new Sharan has had what VW calls a “complete makeover” from its predecessor, which was launched in South Africa in 1998. The fully imported vehicle has just arrived in South Africa to dealers’ showrooms. It is available in three versions of 1.8 turbo manual, 2.8 V6 manual and 2.8 V6 automatic in different prices. The manual version have a size-speed gearbox as standard and the automatic a tiptronic function, which allows it to be shifted manually (Furlonger, 2001a: 102). Another example of the import of modern vehicles is the import of Kangoo Express, Renault’s first light commercial vehicle that was recently imported to South Africa. It is already very successful in Europe. Renault’s international fortune in recent years, the Kangoo, is aimed at a growing niche in the South Africa market and is expected to sell at least 100 per month here. The 1.4-liter Kangoo comes with standard features like power steering, internally adjustable outside mirrors, remote control locking, an elevated seat driver airbag and even a catalytic converter. A sliding side door and a passenger seat that folds flat to increase load space are the other extra features of this vehicle (Furlonger, 2001b: 84). Further European super-luxury cars such as the Maybach, the Mercedes-Benz SLR, the new Rolls Royce by BMW and Bugatti of VW, are scheduled to arrive on the market in the near future, while the automotive industry is still willing to take risks (ANON, 2001a:13). A

Large number of new model cars are to arrive on the South Africa market in 2003 (Bentley, 2001:16-26) A long discourse about the new models of cars is given in detail in Car magazine (Bentley, 2001:16-26).

The market share of imported vehicles has been expanding over the last few years. A large number of new distributorship of imported vehicles has been established with growing completely build up unit (CBU) imports by existing manufacturers. Most of these vehicles are imported in the form of semi-knocked down (SKD) at a concessionary rate and subject to a quota. Over the last few years, the rand value depreciation has been a windfall for the domestic assembly industry to increase exports. It enabled the assembler to utilise the value of export to import of CBU vehicles as tariffs were reduced and a rebate introduced according to the MIDP of the government (Department of Trade and Industry, 1997:4). The above-mentioned import are given as an example but hundreds of new models are to be imported to South Africa after the tariff reduction implemented through the MIDP. Nell (1999:3) alludes to the fact that after the tariff reduction through the operation of MIDP in South Africa, the number of model variants available has increased from 325 in 1995 to 650 in 1999. Year after year, South Africa falls lower in its globally competitive position.

After import tariffs began to be reduced by the implementation of the MIDP, the volume of imports increased. Many global companies hoped for easy entry with their vehicles into the market and some South African manufacturers imported vehicles to replace low-volume vehicles that are no longer built here (Furlonger, 1997:16). Van Zyl (Furonger 1997:16) says that it is bad enough with seven local automobile manufacturers. The only way is that all automobile manufacturers must find new venues and avenues of export markets in order to survive in the long term. Illegal imports of used vehicles are another problem that is destroying the growth of the local industry and employment in the South African economy.

2.7.10 Comparison of imports and exports

Black (1994: 46) highlights that the motor industry has remained highly import-intensive. However, exports still account for less percentage of output of the total automobile production. The table below shows that the import level of vehicles has been increasing from the beginning and is greater than the level of export. When taking into account the import of motor vehicles alone, it was much

higher than the exports of motor vehicles in the history of South Africa's vehicle market. The following table expresses the trade balance of motor vehicles alone from 1971 to 1985.

Table 2.13 Exports and imports of motor vehicles from 1971 to 1985 (R Million)

	1971	1975	1978	1981	1985
Motor vehicle: Exports	11	21	26	75	142
Imports	97	215	201	230	244
Net balance	(86)	(194)	(175)	(155)	(102)

(Source: Board of Trade and Industry, 1988: 44)

The trade balance of motor vehicles has been showing continuously negative in South Africa, as the imports are much bigger than the export earnings of automobile manufacturers. During this period of phase V, the foreign exchange usage by automobile manufacturers was very high. The following data provide the domestic production, domestically produced vehicles and export sales and imports from 1995 to 2001.

Table 2.14 Domestic production, domestically produced vehicles, exports and imports from 1995 to 2001 (units)

	1995	1996	1997	1998	1999	2000	2001
Sales of domestically produced vehicles	373,712	374,758	342,535	286,159	266,349	289,333	299,035
Exports	15,764	11,553	19,569	25,896	59,716	68,031	108,001
Total domestic production	389,476	386,311	362,104	312,055	326,065	357,304	407,036
Exports as % of domestic production	4%	3.0%	5.4%	8.3%	18.3%	19%	26.5%
Imports	22,081	46,318	56,740	65,351	59,426	66,749	85,064
Total market (including imports)	395,793	421,076	399,275	351,510	325,775	356,082	356,099
Imports as % of local Market	5.5%	11.0%	14.2%	18.6%	18.2%	18.7%	22.1%

(Source: NAAMSA, 2002b: 3)

- Domestically produced vehicles include cars, light, medium and heavy commercials

The table expresses that total sales of domestically produced vehicles have severely declined continuously from 1996. The total domestic production has declined rapidly from 1995 from year to

year but there were some improvements in 2000 and rapid growth in 2001. Import has also been increasing since 1995 and was higher than exports, while there was a slight decrease in 2000 and 2001. (The import level was a little less than the export level in 2000 and 2001, although the import has been increasing rapidly since 1995.)

Due to the tariff reduction for the import of vehicles, the overall trade deficit of the automotive market in South Africa has widened dramatically from under R 5.1b in 1992 to R14.1b in 1996. In 1997 the deficit had declined to only R8.0 b as imports increased, while exports continued to grow rapidly (Black, 2001:11). The import of vehicles has rapidly increased with a much greater price competition and lower margins, creating a high pressure on the stagnating sales volumes (Black, 2001:14).

2.7.11 Profit levels of automobile manufacturers in South Africa

By the mid-1970s, local content protection was having an impact on vehicle prices and profitability (Duncan, 1997:45). R80 m was the combined losses of the assemblers in the recession years of 1975-7 (Duncan, 1997: 45). 1977 was a very poor year for the motor industry in South Africa. It is estimated that the industry as a whole lost \$ 55 m. Ford reported a \$8 m loss and Sigma reported to have lost about \$ 22 m. Since 1971, return on investment in the auto industry has averaged 5.5%, compared with 54% in the early 1960s and 16% in the second half of that decade (Rothmyer, 1979: 6). According to Wessels (Furlonger, 1997:4), the industry as a whole is not doing particularly well. They have big fixed costs, low volumes of production, low sales volumes and struggle to obtain profits. However, Wessels (Furlonger, 1997:4) says that Toyota SA has a successful performance and has gone through. Toyota is making efforts to reduce the price of vehicles annually by 3% and improve customer satisfaction to increase their market share further.

It is not easy to make a profit, because the price competition, falling protective tariffs, increased competition from imports and the decline of the rand value are putting local vehicle manufacturers under enormous pressure (Furlonger, 1997:9). Van Zyl (Furlonger, 1997:15) says that price competition has forced automobile manufacturers to pare price in the high-intensity entry-level market. Margins are almost non-existent as a result of the price wars in the market. Toyota's sales figures were up by 14%, while turnover was up by only 10.4%. In the whole industry together, only a 3% rise in car sales was reported in 1997, which is certainly a lower income than that of 1996.

This example indicates that most of the local auto manufacturers are struggling to survive in the competitive market place after the trade liberalisation policy was introduced to South Africa according to the General Agreement on Tariffs and Trade (GATT). In 2000, Toyota was the market leader with a market share of 25.5%. But Toyota SA has shown a loss of R 68.4 m in the six months to June 1999. Toyota management gave as reasons for this loss the poor economic conditions of the country, the weak rand against the Japanese Yen and fierce competition in South Africa (Van der Kooy, 1999: 26). The major reason is that South Africa's economy has opened up to the world, which has increased the competition in the market place. Toyota Japan's restriction of exports of Toyota SA's vehicles to Africa is another problem faced by Toyota SA (Van der Kooy, 1999: 26; Barnes, 2000b: 412).

Accumulated net profits before tax of the seven major vehicle manufacturers has increased from R328 m in 1992 to R 2,032 m in 1995. However, the next year, in 1996, profits declined sharply to R520 m on total turnover of R 29.2 b during the year (Duncan, 1997: 45). (R 547 m) were lost in 1997, R109 m in 1998, R79 m in 1999, R1, 285 m in 2000, while the profit level has increased rapidly to R3, 717 m in 2001 (NAAMSA, 2001a: 6; NAAMSA, 2002b: 9). The profit level has declined from 1995 to 1999, but an improvement was shown in 2000 and 2001. It is clear that significantly reduced tariffs and lack of protection through the MIDP is the major reason for this decline of profits (NAAMSA, 2001a: 6; Department of Trade and Industry, 2000:60). During 2000, improved domestic and export sales volumes contributed to increased profits of the industry even though two manufacturers recovered losses during that year. South African's automobile manufacturing industry's profitability and return on total capital remain is far below international norms (NAAMSA, 2001a: 6). The major reason for this decline of profits is the increased competition between manufacturers together with pressure from imports. The low-priced and small vehicles and those imported from various countries are gradually dominating the markets.

So, the MIDP has not yet succeeded in bringing in more foreign exchange than is spent. Overall profits of the motor vehicle industry has not yet achieved what they should (Van der Kooy, 2000: 27).

2.7.12 South African automobile manufacturers and their global integration

Various factors such as poor performance, low levels of production volumes and very low profits have forced the all-automobile manufacturers to integrate their operation with their parent companies. It is essential to find some alternative ways to increase the volume of their production and exports to survive on the long term in future.

The automobile industries in South Africa are presently going through a pronounced transformation. The implementation of the MIDP in September 1995 has changed the industry as an outward orientation has pulled the industry to operate in a globally operating environment (Barnes, 2000b: 413). After the trade liberalisation policy was introduced in South Africa, all seven automobile manufacturers were incorporated into global ownership, operating with their parent companies by the late 1990s. However, there are important variations in the extent to which they have been integrated into the global manufacturing operations of their parent companies. In the case of Toyota and Nissan, the parent companies treat them as separate subsidiaries in South Africa and they have not yet been incorporated into their global sourcing operations. The subsidiaries are considered as separate operations (Barnes & Kaplinsky, 2000b: 216). On the other hand, VW is using the South African subsidiary as source supply centre to the UK market. Another company, BMW, produced vehicles in the 3, 5 and 7 series. The volume of production of their BMW series is very low in South Africa. BMW has closely integrated its South African operation into its global operation. Most of the seven assemblers have to greater and lesser extents been drawn into global operations. Only Mercedes-Benz is isolated from the trends of global operation (Barnes & Kaplinsky, 2000a: 801).

Automobile manufacturers will not obtain benefits from operating in a liberalised economy and on the competition front of MNCs unless they produce truly world-class products to sell to their domestic and global markets at the same quality, price and appealing design as other global players. In the context of over-capacity of car production in the world, the MIDP tariff reduction, through trade liberalisation, enable global companies to bring various differentiated and quality products at a lower cost into the domestic and regional markets. The local vehicles are in need of improving and adapting their methods of manufacture to improve overall competitiveness (Barnes, 2000a: 59-60). Lucas (1989:16) argues that manufacturers must take cognisance of design, manufacture, supply, maintenance of the quality of products and system at competitive prices, backed up by excellent services and systems through technological innovation to satisfy customer requirements. They must

create a positive image in the markets in which companies operate and be leaders in quality and innovation. The Department of Trade and Industry (1999:2) indicates that global sales of passenger vehicles constructed 37.9 m units during 1998, approximately 1.5 m less sales compared with 1997. The total global vehicle sales for 1998 have declined to approximately 50 m units. The existing problem of over-capacity of vehicle production has worsened. Production of vehicles is around 5.5 m units more than actual global sales. All these current major problems have forced manufacturers to common platforms in order to reduce costs and shorten development time to enable them to adapt quicker to new production technology (Department of Trade and Industry, 1999:2). This change in global trends also significantly impacted on South African automobile manufacturers. As a result of the South African vehicle assemblers' close links with international vehicle manufacturers / parent companies, international developments also impact quickly on the domestic market by way of trade liberalisation (Department of Trade and Industry, 1999:3). The new globalisation situation will have its own pressures on automobile manufacturers in South Africa (Furlonger, 1997:52).

However, except for a few striking exceptions, South African companies have not shown the capacity to meet these challenges (Kaplinsky & Mahlango, 1997:59). With regard to globalisation, the internationalisation of trade in manufacturers between advanced industrial countries and the liberalisation of international trade through GATT, domestic manufacturers can only survive if they meet the conditions of international competition (Hirst & Zeitlin, 1991:41). Levitt (Parker, 2000:4) says that the time has come for marketers to adopt standardised global strategies. Today, the motor car industry has become a true world industry. The motor car industry in Third World industries currently has a backlog in terms of the global industry (Gwynne, 1991:61). Automobile manufacturers have to learn to overcome the barriers to external marketing and product support as the South African economy opened up and the import regime became less restrictive.

2.8 GOVERNMENT POLICY ON THE AUTOMOBILE MANUFACTURING SECTOR IN SOUTH AFRICA

Immediately following the year 1925, government policy concentrated on passenger cars, encouraging the establishment of body-building establishments rather than the erection of more assembly plants. This policy was revised in 1934 and permitted assemblers to import the bodies at a duty of 10%. This policy was maintained by the government consistently until approximately 1960 (Ferreira, 1969:29).

The report of the Commission of Inquiry into Policy Relating to the Protections of Industries (SA,1953: 3-5) indicates that the major purpose of industrial development of the country is essential because of affording suitable employment for its increasing population and improving its standard of living. The reduction of imports on goods creates a favourable balance of payments. South Africa automobile manufacturers experience little progress during the period 1957-1961, but most of them did not make any attempt to use or purchase domestic components. Still, they imported around 87.5% of components from foreign countries (Board of Trade and Industry, 1977:5). South Africa was faced with a serious deficit in her balance of payments during the 1930s. During this period the government was forced to improve import control on various goods. There was a greater drain on the foreign reserve of the country through the excessive importation of motor cars in the form of knocked-down or other conditions during the 1950s.

2.8.1 Local content programme

In 1961, the South African government implemented a local content programme for the automotive industry to motivate increased use of local production in the manufacture of vehicles in order to develop a self-sufficient motor industry. The purpose of this strategy of the government was to reduce import of content, save foreign exchange and promote the local industry. Because the industry was concerned, a large amount of foreign exchange as well as this programme induced a transition in the automobile industry from assembly to manufacture by introducing and increasing the local content programme in 1960 (Southall, 1985:309; Board of Trade and Industry, 1977:5; Boxall, 1989:1; Duncan, 1997:9; Ferreira, 1969:33, Ringrose, 1966:39; Keller, 1975:18; Adler, 1989:416). This study will focus on automobile manufacturing although the local content programme that has been applied to both passenger and commercial vehicles.

The local content policy is defined as the inclusion of locally manufactured parts or components in the production of manufactured vehicles, as well as the utilisation of local factors of production in the manufacturing of those parts and components. The local content policy will protect the domestic component manufacturers, assemblers and suppliers. In many developing countries, the local content policy is thus applied as an important industrial development strategy of industrialisation. This policy is playing a vital role in the long-term industrialisation and economic development process of the country, especially as this programme is most commonly applied to the automobile manufacturing industry (Boxall, 1989:6). The major concentration of the local content programme

paid on passenger cars were almost 83% of the South African vehicle market dominated by cars during 1958 (Ferreira, 1969: 34). The local content programme was implemented in various phases in six stages in South Africa.

Phase I: The first phase of the local content programme was introduced in 1961. In this phase, passenger cars manufacturers had to achieve a local content of approximately 15% to more than 40% by mass in just over two years (Mabasa, 1996:26-31; Boxall, 1989:6).

Phase II: This phase of the local content programme was introduced in July 1964 and insisted that manufacturers had to increase the local content by mass from 45% in 1964 to 55% in 1969.

Phase III: This phase covered the period from 1971 to 1979. According to this programme the net local content of manufactured models was required to rise further from 52% at the commencement of 1971 to 66% on 1 January 1977 (Board of Trade and Industry, 1977:5; Mabasa, 1996: 26-31).

Phase IV: The previous phase was followed by the two years standstill period of phase IV. The aim of this phase was to assist the automotive industry in consolidating its position following phase three, which was characterised by heavy investment, expended output and employment, as well as general development of the motor industry. The purpose was to attain the minimum local content requirements dictated by the stringent phase three regulations. The manufacturers argued and complained about shortage of capital, the shortage of labour and the pace of technological changes experienced during the previous years. The vehicle companies expected that it would be easier to obtain enough capital from abroad but this would not be true for every company. Skilled labour shortage was another major problem in the motor vehicle industry during the period of these phases (Board of Trade and Industry, 1988:5; Boxall, 1989:14).

Phase V: This phase commenced on January 1980 following an extended standstill period, and required passenger vehicle manufacturers to attain 66% local content by mass. During the period of phase five, most of the motor industries were affected by a number of socio-political factors. Labour unrest and union strike actions were one of the significant factors. Manufacturing plants were closed down and production interrupted. The introduction of new models was postponed, particularly in 1981 and 1982. Cost of production increased due to the increased wages, overtime to make up for lost production time and sales lost as a result of the backlog following production disruptions (Board of Trade and Industry, 1988:7). The severe Rand value devaluation against the Yen and the Deutsche Mark during phase five had an adverse effect on the cost of local production. The production cost for local manufacturers of components and assembly of vehicles was higher due to the exchange rate depreciation. The latter had an effect on imported components and tooling

machinery for local component manufacturers and vehicle assemblers. The production volumes of component manufacturers and vehicle manufacturers were low and under-utilisation of installed capital capacity was a major characteristic of vehicle manufacturers, which had the effect of raising unit cost. Part of this increased cost of production has passed on to the end consumer of motor vehicles in the form of high prices, while the rest were spread among the automotive industries. These trends resulted in the industries experiencing increased cost and decreased profit margins (Boxall, 1989:31).

Phase VI: According to this phase, manufacturers had to achieve, on average, a local content of 66 % by mass. This programme commenced in March 1989. Manufacturers had to incorporate a local content value of 75% in vehicle produced by 1997. The major objectives of phase six was the reduction of the import bill of the motor industry by at least 50%, saving foreign exchange. Promotion of exports by the motor and component industries created investment and employment and encouraged manufacturers to produce small, fuel-efficient affordable motor vehicles (Boxall, 1989:33). The customs duty for completely built-up (CBU) motor vehicles in terms of phase VI of the local content programme has recently been reduced in three phases from 10% *ad valorem* to the current rate of duty of 70% *ad valorem*. Motor vehicle manufacturers may import components for the manufacture of motor vehicles under rebate of the customer's duty. Motor vehicles manufactured locally are subject to an excise duty of 40%. The excise duty will be rebated according to the local content incorporated in such a motor vehicle (Board on Tariff and Trade, 1995:8). In 1989, an amendment to the structural adjustment programme announced by the government suggested that the minimum local content level had to be set at 45% where no exports were undertaken, but where exports were undertaken, the 45% minimum local content level may be made up by such exports to a maximum of 20% (Board of Trade and Industry, 1989:4-5).

The local content policy successfully reduced the drain on foreign exchange from R 145.6 m in 1960 to R 110.6 m in 1961 (Duncan, 1997:26). Pretorius (Viljoen, 1996:13) express that vehicle industry in South Africa is too familiar with the various phases of local content programmes imposed by the government during the past years, which had advantages as well as disadvantages. The creation of engineering design and development know-how and facilities was the positive consequence at most of the local vehicle manufacturers. The component manufacturers developed themselves during this period, creating jobs for thousands and gave South Africans the necessary experience to grow the quality of locally manufactured products. It was also the reason for the loss in competitiveness. The following economic benefits can be received from the higher levels of local content programme:

- The heavy fixed investment involved in the motor industry will increase the demand for the product of many other primary, secondary and tertiary industries;
- both the vehicle and component manufacturers will generate employment in the country;
- the local content programme avoids the import of completely knocked down vehicles, leading to a saving in foreign exchange; and
- it enhances economic differentiation as well as the acquisition of general engineering and industrial expertise and know-how (Board of Trade and Industry, 1988:3).

In order to achieve the above economic objectives, the Board of Trade and Industry expected that manufacturers should strive to achieve the largest possible volume of vehicles and components in order to minimise the cost per unit. Production should be concentrated on as few basic long-life modes as possible. The maximum degree of standardisation of components between different models and different makes should be achieved (Board of Trade and Industry, 1988:3). A series of local content programmes (six in total) of the government, beginning in 1961 and ending in 1995, was imposed to protect the automobile manufacturers in South Africa. This programme content of a combination of tariffs and import controls (permit) in each phase of these programmes were implemented in order to increase the degree of local content in automobile manufacturing. The government's various local content programme mechanisms forced manufacturers to purchase components from domestic component companies (Barnes, 2000b: 403).

2.8.2 The Motor Industry Development Programme (MIDP)

A new policy was introduced in the form of the Motor Vehicle Development Programme in September 1995. The major aims of the MIDP was to pick up on the strength of phase VI by increasing exports, promoting local production against the global industry and to satisfy the requirements of the GATT. According to this new MIDP, individual companies could enjoy the full tariff rebate on imports up to the value of the exports. Also, assemblers could claim a combination of fixed and duty-free allowance of up to 27% where average plant production runs exceeded the required levels (Board on Tariff and Trade, 1995:9; Duncan, 1997:33). Many changes took place at both the automobile and the component manufacturers after the introduction of the MIDP in 1995 (Barnes, 2000b: 404). According to the implementation of the Marrakesh Agreement, the automobile manufacturers would have to implement changes in order to be able to compete while receiving less protection. The Marrakesh Agreement had a considerable impact on the long-term

strategic objective of the revised customs dispensation for the motor industry. The local automobile manufacturing industry will have to improve their competitiveness materially in the global market place (Board on Tariff and Trade, 1995: 9). The major aim of this programme was to develop the industry into an internationally more competitive and growing automobile industry, contributing to the economy with regard to employment creation, investment and consumer interest, increase in export, savings in foreign currency, providing affordable vehicles, increasing production and achieving the economies of scale, integration into the global economy, rationalisation, productivity and upgrading of the production process and equipment (SA, 1999:1). It was intended to achieve these objective by applying the following the major policy instruments:

- A gradual reduction in tariff protection in order to expose the industry to greater international competition;
- the encouragement of higher volumes and a greater degree of specialisation by allowing exporting companies to earn rebates on automotive import duties; and
- the introduction of a range of incentives, which were designed to upgrade the capacity of the industry in all spheres (Department of Trade and Industry, 2001b).

Some 65% were implemented as *ad valorem* on 1 September 1995. The new revised import duty on built-up motor cars, commercial vehicles and minibuses and components for original equipment for the above vehicles was introduced under the MIDP according to the Marrakesh Agreement. It took place as follows:

Years	Built-up vehicles (%)	Components (%)
1 September 1995	65	49
1 January 1996	61	46
1 January 1997	57.5	43
1 January 1998	54	40
1 January 1999	50.5	37.5
1 January 2000	47	35
1 January 2001	43.5	32.5
1 January 2002	40	30

(Source: Board on Tariff and Trade, 1995:15; SA, 1994a: 66)

In case of local content requirements, the revised scheme announced that there would be no minimum local content requirement for vehicles (SA, 1994a: 68). A further duty-free allowance (DFA) of 27% was permitted for light motor vehicle manufacturers to import components. Those components could not be sourced locally at a competitive price. If the DFA was not fully used for their component imports, they could use the DFA to import completely built-up motor vehicles as part of their DFA. (Board on Tariff and Trade, 1995:16). Different duty methods was applicable for the heavy motor vehicles in South Africa under the MIDP, but it is not described here, as this study mainly focuses on passenger motor vehicles.

The government in March 1999 announced the mid-term review of the MIDP. The main objective of this review was to review the MIDP and to make appropriate adjustments to existing policy. According to the mid-term review, the government announced that the current MIDP was to be continued until the end of 2007. The following import duty were imposed according to the mid-term review:

Year	Built-up vehicles (%) (Light motor vehicles)	Original Equipment Components (%)
2002	40	30
2003	38	29
2004	36	28
2005	34	27
2006	32	26
2007	30	25

(Source: SA: 1999)

However, the DFA had to be maintained at its current level of 27% until 2007 (SA, 1999).

Extension of the MIDP: At the beginning of this year (2003), an announcement was made by the government in order to extend the existing MIDP, which was introduced in September 1995, up to 2012. The MIDP is to be extended from 2007 until 2012, which entails that import duties will continue to phase down but at a slower rate. Duties on light vehicles would decline from 30% in 2007 (the current level is 40%) to 25% in 2012. For completely knocked down (CKD) components, duties would decline from 25% in 2007 (currently 30%) to 20% in 2012. A key element of the

MIDP in import-export completion was designed to encourage specialisation by component and vehicle producers. This policy has encouraged a number of vehicles makers to produce fewer models but in high volumes for domestic and export markets. Through this practice, vehicle manufacturers are able to achieve economies of scale in their own plants (Department of Trade and Industry, 2003a).

According the MIDP, motor companies earn duty rebate on vehicles to the same value of earned exports that could be claimed on imported vehicles under the import-export complementation. However, the World Trade Organisation (WTO) has expressed doubts about the legality of import-export complementation under its rule (Furlonger, 1997:2). At the same time the major way to achieve these national objectives was by increasing the volume of production, gradual retionalisation of models produced domestically and encouraging the modernisation and upgrading of the automobile manufacturers in order to promote higher productivity. But production, retionalisation, growth in industry, profitability, increased volume of production, employment, economies of scale in production and technology transfer via joint ventures and foreign direct investment (FDI) have not yet been achieved by the operation of this MIDP (Department of Trade and Industry, 2001b). The MIDP introduction was an important turning point, which invited the serious impact of globalisation into the operation of the automobile manufacturing sector in South Africa.

Shires (Viljoen, 1996:15) indicates that government support is essential to improve the global competitiveness of the automobile manufacturing industry in South Africa. He emphasises that the government is too strict with respect to GATT. The government does not think in industrial and productivity terms. Government does not play an important role in terms of industrial and business ethics. For example, its allocation of public holidays, a Wednesday holiday which creates costs to the industry much more than a Friday or a Monday and too many holidays as well. There is another argument, according to Schmidt (Viljoen, 1996:17), that an attitude change is essential not only on the part of the government, but also on the part of the industry, because even today most manufacturers are still entrenched in the old ways of thinking. The government and industry should put together their heads to develop a master plan that will create an environment in which the automobile manufacturing industry could excel and become genuinely globally competitive.

2.9 SUMMARY

This chapter has attempted to ascertain the business environment and its implication with regard to globalisation in recent years in the South African automobile manufacturing industry from its inception since the 1920s to the present day. There was a growth and stagnation trend in the automobile history in South Africa. The government's local content policy was imposed in the industry for the last four decades. In the last decade, the automobile manufacturing industry shifted in the global automobile manufacturing industry, as many countries and giant companies have come to dominate world production and exports of motor vehicles. After the end of apartheid, a number of global players have become involved in deciding investments and markets in South African motor vehicles. It has forced the industry to integrate with the global market atmosphere and also increased fragmentation in the local motor sector.

From the outset to date South African automobile manufacturers have failed to achieve the economies of scale in their production and reduce the cost of production. Besides this, political instability, labour strikes and economic stagnation have influenced and provided deterrents of rapid growth towards international competitiveness.

Tariff reduction under the MIDP came in order to comply with the requirement of GATT. A number of cheaper and affordable small vehicles came in the form of imports, which created more pressure on the local manufacturers with regard to marketing their products in the domestic and regional markets. The government and manufacturers may have the intention that MIDP will enable the industry to increase export, global competitiveness and that import expenditure are compensated for by export earnings. But an important question remains whether the MIDP will meet the needs of the country in future. The recent price war at the bottom end of the passenger vehicles market have not led to any important expansions in private purchases by local manufacturers. Automobile manufacturers of South Africa have to emulate much to reach such a competitive advantage in future, as the global industry is becoming increasingly competitive.

According to the discussion in the above chapter, poor performance has forced the management of automobile manufacturers to think seriously about the strategies that they have to apply to overcome these problems in the competitive marketplace. Basically, managers

have to think and learn intensively about the strategic marketing they have to apply to provide more suitable and affordable products to customers than their competitors do in the globalised marketplace.

Therefore, the succeeding chapter will deal with strategic marketing and discuss the necessity of strategic marketing in order to identify competitors' strength and weaknesses to ascertain opportunities to achieve their objectives by providing and satisfying the customers' wants and needs in the competitive marketplace. Management should have deeper knowledge to react to their competitors to survive in the competitive marketplace in the long term.

CHAPTER 3

STRATEGIC MARKETING, IMPLEMENTATION AND CONTROL

3.1 INTRODUCTION

This chapter provides an insight into the concept of strategic marketing formulation, implementation and control. As indicated in the preceding chapter, marketing management must pay more attention when formulating effective strategic marketing to react to competitors in the competitive marketplace. This validation is essential to reinforce the concept laid down in the empirical investigation.

The marketing situational analysis is very important to each organisation to modify or formulate its strategic marketing planning. External and internal analyses are the two major components of the situation analysis. Customer-driven marketing influence, competitors' influence in the market, market analysis, and marketing environmental analysis, fall under the external analysis that enables the organisation to identify the opportunities and threats in the marketplace. Internal analysis consists of performance measurement, a value analysis of stakeholders, product quality, brand, customer satisfaction, employees' skills and attitudes, and portfolio analysis. This will enable the organisation to identify its strengths and weaknesses to formulate a suitable strategic marketing planning to overcome its competition.

For the purpose of this study, a discussion of the global marketing concept, global marketing environment, and global strategic marketing planning will be dealt with in Chapter 5.

3.2 THE MARKETING CONCEPT

According to a definition by McDonald and Keegan (2002:13), the concept of marketing is the consumer-oriented philosophy of an organisation that emphasises meeting the consumers' wants and needs. McDonald and Keegan (2002:13) point out that the eventual outcome of marketing is a relationship between the organisation and the customer, leading the organisation to long-term growth. This will include profitability for the organisation and maximum satisfaction for the customer.

Lamb *et al.* (2000:7) argues that the social and economic justification for an organisation's existence is the satisfaction of customer wants and needs while meeting. Kotler (2000: 8) defines marketing as the process of planning and executing the pricing, promotion and distribution of ideas, goods and services to create exchange that satisfies individual and organisational goals.

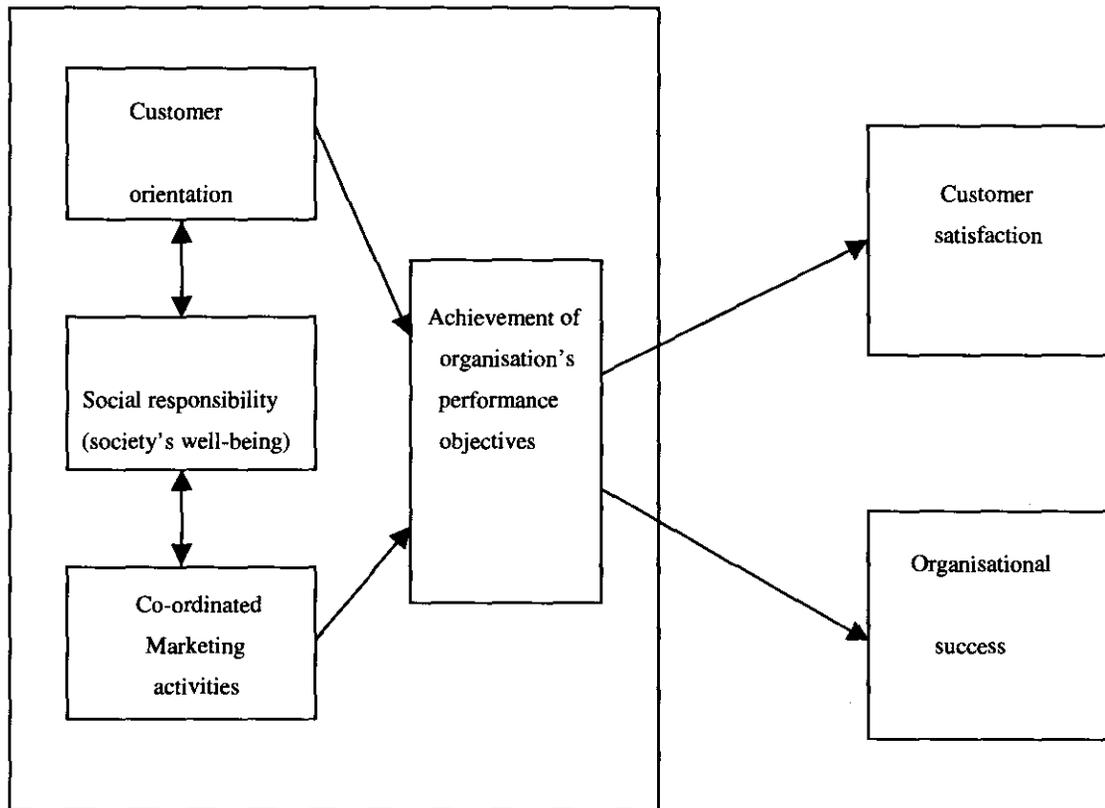
These definitions clearly address the key aspect of the marketing activities and strategic marketing planning that will enable the organisation to provide the satisfaction of targeted and prospective customers in the competitive marketplace. The final goals of the organisation, the focus of those that compete and the long-term viability of the organisation were also mentioned.

Stanton *et al.* (1992: 7) define the marketing concept as follows: marketing is the overall process of business activities formulated to plan, price, promote, and distribute the goods, services and ideas to fulfil the satisfaction of the target markets so as to achieve the objective of the organisation.

Jobber (1995:5) says the modern marketing concept can be expressed as the achievement of corporate goals through meeting and exceeding customers' needs better than competitors do.

All these definitions clearly indicate how an organisation can meet the expectations of its customers in the competitive marketplace. The entire system of an organisation should be customer-oriented, i.e. through the activities of the organisation. In this way an organisation can reach its objectives and survive in the marketplace on a long-term basis. During the last five decades many different definitions have been given for the concept marketing. According to these definitions, the company must ensure its ability to fulfil people's changing needs by incorporating new product lines and marketing strategies.

Figure 3.1: Marketing concept



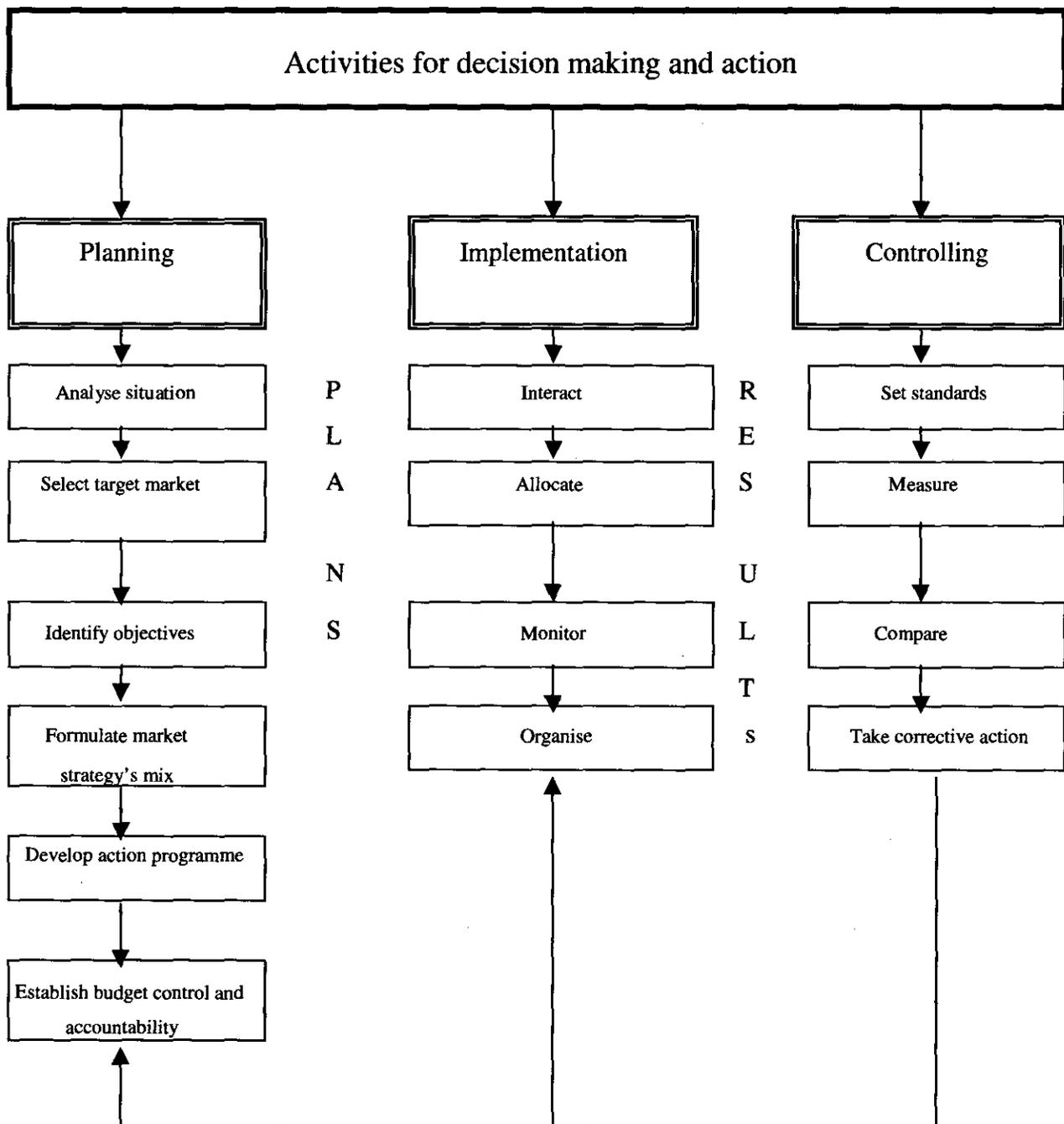
(Source: Adapted from Stanton *et al.* (1992:11) and Kotler (2000: 8))

3.2.1 Marketing management activities

The implementation of different activities is important in the decision-making process. Decision-making is essential in marketing management. The decision-making process may vary from company to company. Different activities are involved in decision-making in order to make the company successful. Generally, marketing management activities can be divided into planning, implementing and controlling (Husted *et al.*, 1993:20). Figure 3.2 illustrates the marketing management activities.

Marketing planning is the basis of all marketing strategies and decisions. Planning is the process of anticipating future events and determining strategies so as to achieve the future objectives of an organisation (Lamb *et al.*, 2000: 29). Planning increasingly consists of increasing the sales of existing or new products in a particular product line by percentage. Suitable strategies are important to secure and increase the market share.

Figure 3.2: Marketing management activities



(Source: Adapted from Husted *et al.*, 1993: 20)

In implementing, management must take the necessary measures to translate planning into action. Implementation is the process that turns marketing plans into action assignments and ensures that these assignments are executed in a way that accomplishes the objective of the plan.

The implementation of objectives may involve detailed job assignments, activity description, timelines, and communication. Communication with the personnel and monitoring day-to-day activities of the marketing planning are imperative (Lamb *et al.*, 2000: 45).

Controlling is the continuous process of monitoring and measuring the actual performance of the marketing plan. By comparing with the planning or budget, the variances between the standards and actual performance can be determined. Management can then take corrective action to remove these variances immediately (Husted *et al.*, 1993: 20).

According to the marketing concept, a company should try to succeed by utilising its accessible resources to satisfy the needs of customers or clients, doing so by means of a co-ordinated set of activities which take the company towards attaining its goal. Customer satisfaction is one of the major aims of the marketing concept.

3.3 STRATEGIC MARKETING

Strategic marketing has developed into a more integrative discipline than marketing strategy. In the present world of business, marketing strategies would include shifting market boundaries, rapid technological changes and shorter life cycles. Other facets that also need attention, would be competitive rules, which as a result would increase the holistic complexity of a business plan and the accompanying problems (Sharma, 1999:73).

The term “strategy” is derived from the Greek, meaning “the general’s art” (Boone & Kurtz, 2001:184). Many of the basic ideas relating to the formulation of strategy were developed by the military (Baker, 2000:58). Lyon (quoted by Sharma, 1999: 73) first brought the term “strategy” into business literature in 1926. According to Barlets (quoted by Sharma, 1999: 73), by 1965 marketing managers used the strategy of considering the-external environment to be integrally concerned with the internal aspects of business, production, finance, consumer-orientation and social responsibility.

The emergence of strategic market planning was connected with the industrial growth in the 1960s and 1970s. This was associated with changing strategic thrusts and capabilities and quickly became a fad (Aaker, 1995:10; Baker, 2000:92).

A well-formulated strategy helps management to allocate an organisation's resources into a unique and viable posture based on its relative internal competencies and shortcomings, anticipated changes in the environment, and contingent moves by intelligent opponents (Baker, 2000: 55)

Strategic philosophies highlight the current developments in the strategic marketing literature. Any business organisation has to achieve a dynamic fit between its internal resources and capabilities and its external market environment in order to compete effectively. Management must act as a navigator toward those who will take their company towards shared visionary goals, allowing for environmental, political and technological changes along the way to achieve their goals. Managers have to manage changes by finalising and implementing the strategic marketing plan. For this purpose, management must debate possible future acts to learn, review and revise the existing marketing strategies of their company.

In South Africa, the vehicle market has become highly competitive as a result of the increase in the number of competitors in the context of globalisation. Today, strategic marketing management should realise and identify the changing environment in order to formulate a suitable strategy to keep up.

3.3.1 Defining strategic marketing

Well-known authors give a number of definitions of strategic marketing. Some of these definitions are discussed below.

According to Zikmund and D'Amico (2001:40), strategic marketing planning is a process that refers to the entire sequence of managerial and operational activities required to create and sustain effective and efficient marketing strategies.

According to Best (2000:57), strategic marketing planning sets the strategic direction of an organisation and plays a vital role in achieving an organisation's long-term objectives of sales growth, profit performance and market share.

Best's (2000:57) definition discloses a message that strategic marketing planning, which enables management to see a broader set of customers' needs, creates the potentials of new market opportunities.

Aaker (1995:10) argues that strategic marketing planning focuses on the market environment that is facing the organisation. The key message from this definition is that strategy not only involves projections, but also an in-depth understanding of the market environment, because this environment includes competitors as well as customers.

Pride and Ferrell (1993:646) define strategic marketing planning as follows: strategic marketing planning is a process and outlines the methods and resources required in order to achieve the goals of an organisation within a specific target market. Pride and Ferrell (1993: 647) say strategic marketing planning enables marketing managers to establish a framework or guideline for a whole organisation. Through this process, an organisation can achieve its overall goals if it implemented and controlled a well-developed strategic marketing planning.

Kotler (2000:64) defines strategic marketing planning as the managerial process of developing and maintaining a viable fit between the organisation's objectives, skills and resources and its changing market opportunities. It consists of developing a clear mission statement for the company, supporting objectives, a sound business portfolio, and co-ordinated functional strategies.

Numerous other definitions and expositions of strategic marketing planning have been cited by prominent authors of marketing management theory. Examples are Boone and Kurtz (2001:184); Chee and Harris (1993: 34); Cravens (1997: 9); Bean (1993:13); Stanton *et al.* (1992:584) and Jain (2000: 32).

Strategic marketing planning obviously cannot be discussed in isolation from the strategic planning perspective (McDonald, 1992a: 5). Aaker (1995:9) argues that the terms budgeting and control, long-range planning, strategic planning, strategic management, and strategic marketing management, have similar meanings and are often used interchangeably.

From the above definitions, it appears that the strategic marketing planning process involves a situational review and the formulation of some basic assumptions about what constitutes the opportunities and threats of a company. Thereafter, objectives pertaining to what needs to be sold and to whom are set. Then management has to decide on how these objectives are to be achieved, including costing out and scheduling the actions necessary for implementation and control (McDonald, 1992a: 7).

Adding to the aforementioned definitions, it seems that strategic marketing planning is concerned with the long-term direction of the organisation to manage and overcome day-to-day management issues. It also highlights the scope of the company's activities in terms of what it will and will not do.

Strategic marketing gives suitable guidelines to the management of an organisation to optimise opportunities and minimise threats by matching the activities of an organisation to the environment in which it operates. Further, it means matching the company's activities to its resource capacity such as finance, manpower and technology.

The marketing manager has to deal with a high degree of uncertainty. He should gather relevant information about the marketing environment and process this carefully to design the optimum course of action. Management must take the necessary steps to establish clear objectives, while alternative routes should be mapped out after considering the risks and returns. A measurable yardstick can also be developed to evaluate the actual performance of the company (Brownlie & Spender, 1995: 39).

Even the most careful and rigorous market analysis and planning could be suddenly emasculated due to unforeseen changes in economic conditions, the behaviour of a client, an agent or a supplier. Therefore, ambiguity and its corollary uncertainty are always concerned with the decision-making process of the marketing manager.

Managerial judgement is an important tool to make and formulate strategic decisions on the situation of ambiguity and uncertainty prevailing in the environment.

The top marketing management's judgement depends upon the data they gather and the scope of the data. Management should have sufficient data pertaining to market shares and growth, sales trends, volume, cost and revenue, price sensitivity and stability, contribution and profitability, seasonable effects, inflation vulnerability, capacity utilisation, investment intensity, competitive position, market penetration, repeat-buying rates and sales coverage, applying suitable marketing techniques through data processing and analysis in order to make a judgement (Brownlie & Spender, 1995: 40-45).

Marketing managers have to access a formidable analytical armoury to help make decisions and reduce their reliance on judgement. The application of judgement should be a last resort in decision-making.

The nature of the automobile manufacturers' environment requires that marketers take as broad a view as possible of the macro and micro environment so as to ensure the success of the planning process and the successful implementation of strategic marketing planning.

3.3.2 The strategic marketing model

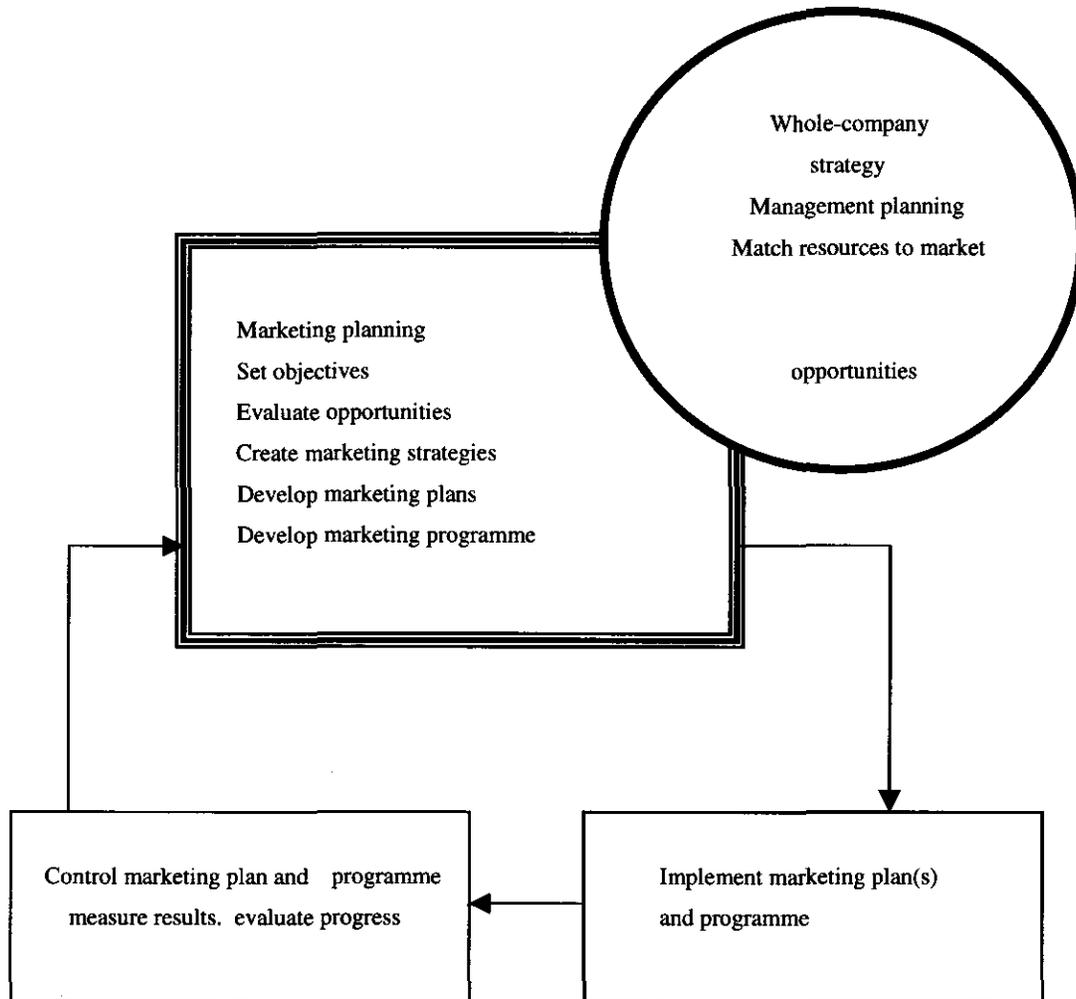
Theorists and marketing experts have introduced a large number of strategic marketing models. However, each company could create strategic marketing models on their own, according to the internal and external environment. In order to understand the process of strategic marketing planning, three strategic marketing planning models are given as examples.

3.3.2.1 The strategic marketing planning model of Kotler

Kotler's (1997:81) model consists of a seven-step process (see Figure 3.3) to describe the strategic marketing planning process. Kotler commences his model by first setting the vision of the company. The next step is to address the external and internal environments. According to Kotler (1997:81), the major focus of addressing the external and internal environment is to identify all the opportunities and threats, as well as strengths and weaknesses of the company.

3.3.2.2 The strategic marketing planning model of Perreault and McCarthy

Figure 3.4: The strategic marketing planning model of Perreault and McCarthy



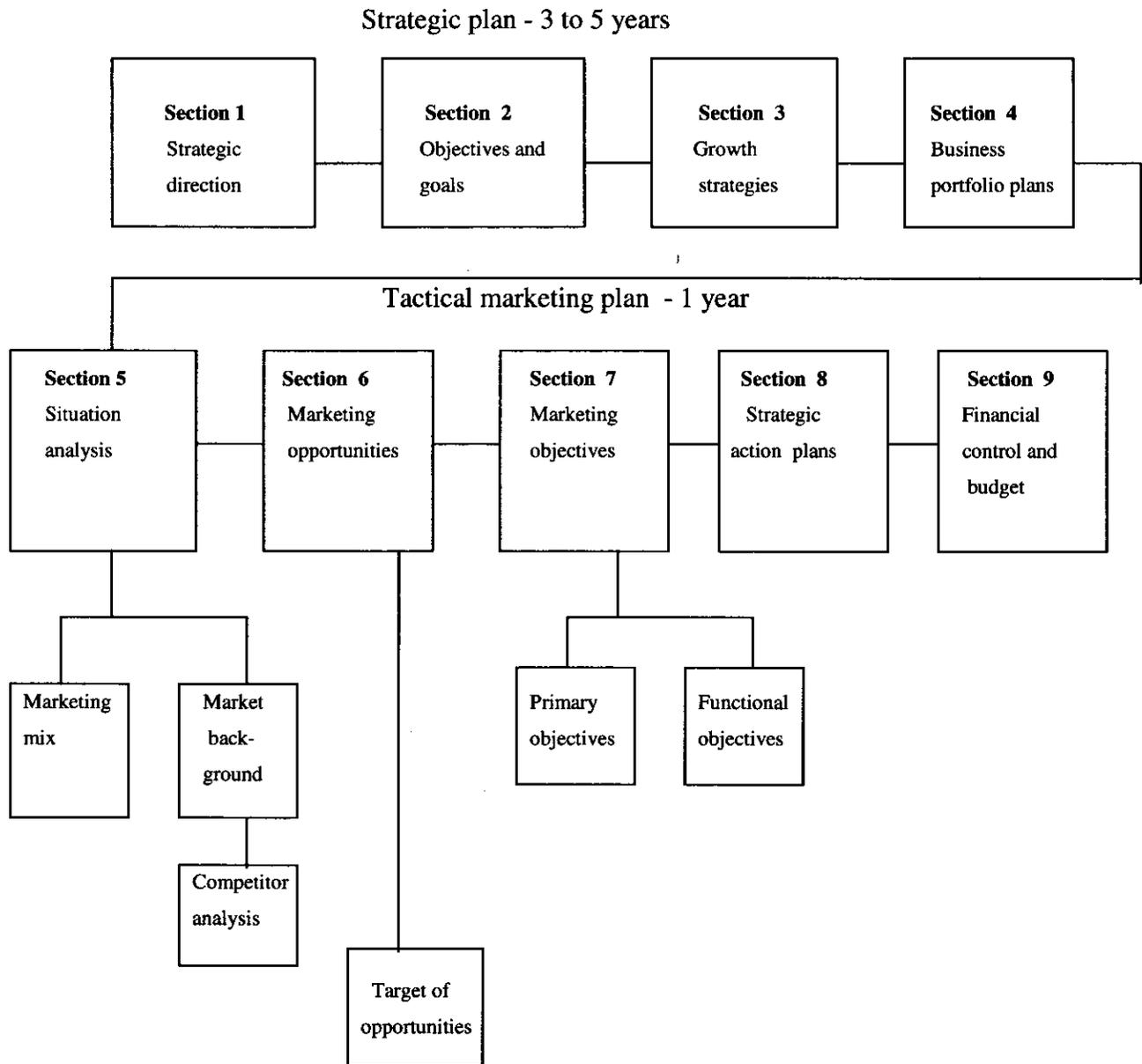
(Source: Perreault and McCarthy, 1999: 45)

This model argues that marketing managers should seek attractive new opportunities as customers' needs changes.

3.3.2.3 The strategic marketing planning model of Paley

In this model, strategy are highlighted separately by Paley (2000: 3)

Figure 3.5: The strategic marketing planning of Paley



(Source: Paley, 2000: 4)

Paley (2000:4) in the above model explains that strategic planning includes a strategic direction or mission statement, objective or goals of a company, growth strategy and business portfolio plans. The time-scale of the strategic plan is 3 to 5 years. The second stage of this model illustrates the situation analysis, marketing opportunities, marketing objectives, action plans, financial control and budget of the company. The time-scale of the tactical marketing plan is one year.

Generally, all strategic models indicate the necessity of analysing opportunities, threats, strengths, and weaknesses before finalising the vision, objectives and action plans of the company.

3.4 SITUATION ANALYSIS

Strategic marketing is a process and system that is designed to help management both precipitate and make strategic decisions (Paley, 2000:21). Information-gathering is the salient function of the situation analysis to enable the marketing management to select objectives, determine strategies, develop tactics and establish the budget needs to translate the strategy into implementation (Siegy, 1996:242). The situation analysis can be divided into two major parts - external analysis and internal (or self-) analysis.

3.4.1 External analysis

3.4.1.1 Competitor analysis

Identifying current and potential competitors is the major aspect of the competitor analysis. There are two ways to identify current competitors. The first one is to examine the perspective of the customers who have to make a choice among competitors. According to this method, competitors can be grouped according to the degree they compete for a buyer's choice. The second method is to place competitors into strategic groups on the basis of their competitive strategy (Aaker, 1995:64).

The marketing managers of a company must attempt to understand clearly their competitors and the strategies that they are applying in the marketplace. Major competitors are identified in terms of size and quality of product, while their market share must be examined carefully in a systematic way (Pitt, 1990: 29).

In competitive behaviour, the actions and reactions of competitors form the center of market strategy and practice of any company (Varadarajan & Jayachandran, 1999:125). The top marketing management should consider and attempt to account for the potential reaction of their competitors while planning and initiating action.

3.4.1.1.1 Customer choice-based identification

Identifying competitors on the basis of customer choice will be of conceptual as well as practical value. This examines the perspective of customers who must make a choice among competitors. The result is grouping competitors according to the degree they compete for a buyer's choice (Aaker, 1995: 66).

3.4.1.1.2 Strategic group-based identification

A strategic group approach is a group of firms that fall under the same strategy in a given target market. In this identification method, there are some facts to be taken into account. Firstly, the entry barriers differ for each strategic group. Next, the members of that group become its key competitor when the company successfully enters one of the groups. The company should attempt to obtain more detailed information about each competitor. Managers should know the product quality, features and mix, customer service, pricing policy, distribution, sales force strategies, advertising and sales-promotion programme and research and development (R & D), manufacturing method, purchasing, financial and other strategies of competitors. A continuous review of competitors' strategies forms a significant part in the competitor analysis (Aaker, 1995: 66).

An example to indicate how the automobile industry's strategy has evolved among competitors over the years, is that of Ford. "Ford was an early winner in the automobile market because it was successful at low cost through their mass production method. General Motors surpassed Ford because it introduced products with variety. Later Japanese companies took the leadership as they offered cars with fuel economy and high reliability" (Kotler, 1994: 230).

3.4.1.1.3 Assessing competitors' strengths and weaknesses

The unique strengths of major competitors will impact on the entire company. Management should make efforts to measure the strengths and weaknesses before setting up their strategic marketing planning. Current strategic perspectives, past performance and marketing effectiveness of competitors must be included in the competitor measurement process (Jain, 2000:161).

In the context of globalisation and new technological innovation, most companies are using e-commerce and e-retailing strategies through the Internet online system. Top marketing managers must be sharp to identify their competitors' strengths and weaknesses through electronic performance (Kleindl, 2001:116).

By measuring competitors' strengths and weaknesses, insight will be provided to the company to apply its ability to pursue various strategies. The company can pit its strength against the weaknesses of its competitors (Aaker, 1995:75). The following steps must be considered when starting to assess competitors' strengths and weaknesses.

- **Assets and skills**

Marketing managers should obtain information on the existence or absence of assets or skills of its competitors. A well-known name or a prime location highlights a strength and skill of competitors, for instance the ability to develop a strong and successful promotional programme. On the contrary, the absence or lack of an asset or skill could represent the weakness of the particular competitor in the marketplace. An analysis of customer motivation can also identify assets and skills of competitors. Management should ascertain the driving force of customers to make buying decisions that indicate the assets and skills that competitors have as well as those assets and skills that give customers value service in a particular segment of the market (Aaker, 1995:77).

- **A checklist of strengths and weaknesses**

A checklist must be developed to identify the strengths and weaknesses of competitors. These would include innovation, manufacturing, access to capital, management, marketing and customer base. Figure 3.6 represents the contents of the checklist of competitors' strengths and weaknesses.

Figure 3.6: Checklist of strengths and weaknesses

KEY ASSETS	YOUR COMPANY	COMPETITOR A	COMPETITOR B
<p>INNOVATION</p> <ul style="list-style-type: none"> • Technical product or service superiority • New product capacity • Research & Development • Technologies • Patents <p>MANUFACTURING</p> <ul style="list-style-type: none"> • Cost structure • Flexible production operations • Equipment • Access to raw material • Vertical integration • Work force attitude and motivation • Capacity <p>FINANCE-ACCESS TO CAPITAL</p> <ul style="list-style-type: none"> • From operation • From net short-term assets • Ability to use debts and equity financing • Parent company's willingness to finance <p>MANAGEMENT</p> <ul style="list-style-type: none"> • Quality of top and middle management • Knowledge of business • Culture • Strategic goals and plans • Entrepreneurial thrust • Planning / operation system • Loyalty-turnover • Quality of strategic decision-making 			

Checklist to continue...

Checklist continued ...

<p>MARKETING</p> <ul style="list-style-type: none"> • Product quality reputation • Product characteristics / differentiation • Brand name recognition • Breadth of the product line-system capability • Customer orientation • Segmentation / focus • Distribution • Retailer relationship • Advertising / Product skills • Sales force • Customer service / product support <p>CUSTOMER BASE</p> <ul style="list-style-type: none"> • Size and loyalty • Market share • Growth of segments served 			
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(Source: Adapted from Westwood, 1990: 92 and Aaker, 1995: 80)

- **The competitive strength grid**

Management should consider only the major competitors and not every single competitor that the company has in the same strategic group of competitors. The strength grid provides a good background to summarise the position of the competition with respect to assets and skills (Aaker, 1995: 81).

The competitor strength grid will express the position of each major competitor in the market. The marketing manager can assess the assets and skills from the competitor strength grid to develop and evaluate the company's strategy. The competitor strength grid for the motorcar market in the USA is given here as an example in order to highlight the assets and skills of motorcar competitors (See Figure 3.7 below for competitive strength grid).

Figure 3.7: Motorcar competitors in the U.S.A. market

	AMERICA			JAPANESE			EUROPEAN		
	Cadillac (GM)	Lincoln (Ford)	Lexus (Toyota)	Acura (Honda)	Infinite (Nissan)	Mercedes (Benz)	Volvo	BMW	Audi
Assets and skills									
<u>Key for success</u>									
New product capacity	Strong	Average	Strong	Strong	Strong	Strong	Average	Average	Weak
Product quality	Average	Average	Strong	Strong	Strong	Strong	Strong	Average	Average
Cost structure	Strong	Strong	Strong	Strong	Strong	Average	Weak	Weak	Average
Product differentiation	Average	Average	Strong	Average	Strong	Strong	Strong	Strong	Strong
Dealer satisfaction	Average	Strong	Strong	Strong	Strong	Strong	Average	Average	Weak
Market share	Strong	Strong	Average	Average	Average	Strong	Weak	Weak	Weak
<u>Secondary importance</u>									
Flexible production	Strong	Strong	Strong	Strong	Strong	Average	Weak	Weak	Weak
Financial capacity	Strong	Strong	Strong	Average	Strong	Average	Weak	Strong	Weak
Quality of management	Strong	Strong	Strong	Strong	Strong	Strong	Average	Strong	Weak
Sales force/ distribution	Strong	Strong	Strong	Strong	Average	Strong	Weak	Average	Weak
Brand name recognition	Strong	Strong	Strong	Average	Average	Strong	Weak	Weak	Weak
Advertising/ promotion	Strong	Strong	Average	Average	Average	Strong	Weak	Strong	Weak
Quality of service	Strong	Average	Strong	Strong	Strong	Average	Average	Strong	Weak
Growth of target segment	Strong	Average	Strong	Average	Strong	Average	Weak	Average	Weak
	Strong	Average		Average	Less than average		Weak		

(Source: Adapted from Aaker, 1995:83)

3.4.1.1.4 Assessing the competitor's current objective

The current objectives of the major competitors must be assessed as part of the competitor assessment. Valuable information concerning the intended aggressiveness of competitors will be derived from the assessment of the current objectives of competitors in the existing and future market. There are many different types of objectives that are concerned with the product brand of competitors, for instance growth objectives and hold objectives. All these objectives at brand level

are typically stated in terms of either market share or profits. Return on investment is at the corporate level (Lehmann & Winner, 1991: 62-63).

3.4.1.1.5 Assessing competitors' strategies

Past and present strategies of each major competitor are included in the component of competitor strategy analysis. This is important to understand the current marketing strategies of competitors when assessing their strengths and weaknesses. This assessment will be extremely helpful to management with regard to how competitors will react to opportunities and threats.

Past strategy assessment of competitors will provide the reasons and findings for the success or failure of the past in the marketplace. It is essential to evaluate how competitors carry out their strategies to achieve their objectives. Profitability measures may be difficult to come by when competitors are part of a large corporate entity. However, reliable estimation of sales and market share can be obtained at the segment level (Walker *et al.*, 1999:131). The marketing manager can receive a wide range of tactical and strategic benefits beyond simply boosting sales volumes and altering sales patterns by scanning competitors' current and past strategies (Peattie *et al.*, 1997: 780).

3.4.1.1.6 Techniques of obtaining information on competitors

Decision-makers are in need of obtaining various types of information about competitors. The necessary information must be gathered, interpreted, disseminated and used. This information will be collected on a continuous basis from various sources such as sales forces, channels, suppliers, market research firms, trade associations and also from public data that include such data as government publications, speeches and articles. Then data is checked for validity and reliability, interpreted and organised in an appropriate way.

Finally, key information from the collected data has to sent to relevant decision-makers and top management. The information-gathering system has grown dramatically as more companies need to know what their competitors are doing in the marketplace. Companies use this technique specifically to collect data about their competitors. This is done as follows (Kotler, 1994:237-238).

- **Gathering information from recruits and competitors' employees**

Interviews for jobs or conversations may be conducted for competitors' employees in order to obtain information. Companies may hire key executives from competitors to collect data or find out what they know.

- **Getting information from people who do business with competitors**

Key customers of the company can give information about competitors on the basis of competitors' product quality, price and distribution.

- **Getting information from published materials and public documents**

This includes published document and advertisements that could give an indication of technology and new product development of competitors.

- **Getting information by observing competitors or analysis of physical evidence**

Companies can investigate their competitors' products by buying it in the market to find out the cost of production as well as manufacturing methods. Sometimes companies may collect or buy their competitors' garbage or refuse to gauge the product.

Large companies may set up a formal competitive intelligence office and appoint executives to gather information about its competitors. Small companies and those that are unable to set up a formal office may assign this responsibility to a certain executive within the company to watch specific competitors on a regular basis (Kotler, 1994: 237- 238).

3.4.1.2 Customer analysis

Customer analysis is a vital part of the situation analysis for decision-makers of any company. Customer analysis consists of segmentation, customer motivation and unmet / unfulfilled needs of the customer.

No business could survive without customers. Customers are the key cause to the practice of marketing, and all activities of marketers begin and end with customers. All marketing managers have to obtain sufficient and reliable information about their customers to develop product or marketing strategies that are consonant with their needs (Lehmann & Winner, 1991:88).

3.4.1.2.1 Market segmentation

Market segmentation is the process by which a market can be divided into distinct customer subjects of people with similar needs and characteristics. These needs and characteristics cause them to respond in similar ways to a particular product offering and strategic marketing programme (Walker *et al.*, 1999: 169; Zikmund & D'Amico, 2001:210).

Marketers use segmentation bases or variables, which are characteristics of individuals, groups, or organisations, to divide a total market into segments. Single variables such as age group, or multiple variables such as age group, gender and education, can be used to segment the market. A consumer-goods market commonly uses one or more of the following characteristics to segment markets: demographics, geography and psychographics. Marketing segmentation opens the doors to multiple market-based strategies (Best, 2000:105).

- **Demographic base**

Demographic-based segmentation indicates the characteristics of the total population, such as the distribution on the basis of age and gender, fertility rates, migration patterns and mortality rates. Most marketers use this method as they are closely related to customers' product needs and purchasing behaviour. This enables marketers to easily assess the needs and wants of their customers according to their buying character (Lamb *et al.*, 2000:215; Pride & Ferrell, 1993:114).

Income, ethnic background, education, household size, occupation, and family life cycle will be considered as demographic variable to segment the market. The changing role of the aforesaid variable continues to influence the marketing strategies of many firms. Market segments tailor marketing strategies to satisfy the needs of the growing market (Skinner, 1990:113-114; Boone & Kurtz, 2001:239).

- **Geographic base**

The market could be segmented on the basis of geographic variables such as region, state, country or country size, city or city size, population density or by other geographic criteria. This segmentation is effective only if it reflects differences in needs and motivation patterns. This segmentation

method stimulates the customer group in a particular geographic area, because the needs and wants differ from one region to another. Climate, natural resources, and sub-cultural values are also variables in geographic segmentation (Paley, 2000:164; Boone & Kurtz, 2001:236).

- **Psychographic segmentation**

Skinner (1990:119-120) and Lamb *et al.* (2000:220) point out that personality characteristics, motive and lifestyles are the variables of psychographic segmentation. Personality characteristics refer to the individual character traits, attitudes and habits of a person.

Difficulties are encountered when a company attempts to segment its market on the basis of personality characteristics, as it is difficult to measure these personality characteristics accurately. However, these personality characteristics affect the buyer's decision and actions. Marketing managers must identify the personality characteristics positively according to how many people have these characteristics as well as those who would like to have them (Skinner, 1990: 119-120; Adcock , 2000: 93).

3.4.1.2.2 Benefits of market segmentation

A successful segmentation helps management to identify and classify buyers according to the different benefits that they seek from the product (Kotler, 1994:275). The segmentation process of a company offers the following benefits:

- It identifies opportunities for new product development
A careful analysis of various segmentations will obviously reveal whose specific needs and wants are not well satisfied by existing competitive offers. This identification of uncovered segments may indicate the need to develop new products or the need for an innovative marketing approach.
- Segmentation helps the design of a marketing programme and is most effective to react to homogeneous groups of customers.
- It improves the strategic allocation of marketing resources.

Some companies may cover the strategic benefits of segmentation, but it is a successful tool to allocate resources and invest in the business. Gaining long-term competitive advantages depend on powerful segmentation (Walker *et al.*, 1999:171).

3.4.1.2.3 Why is market segmentation vital in strategic marketing planning?

Only a small number of firms can afford to be all things to all people. The major aim of market segmentation as part of the strategic planning process is to enable the firm to target its efforts on successful opportunities (McDonald, 1999:131).

Gibson (2001:45) argues that segmentation is not necessary for strategic marketing because it is a descriptive and not a predictive. Schemes of market segmentation can provide the basis for a competitive advantage, although segmentation research will not help management to make decisions.

Neal (2001: 45-47) argues against Gibson (2001:45) that market segmentation and analysis of segments are essential inputs in the strategic marketing planning process. This process principally includes the market opportunity analysis, target market selection, and marketing mix strategy. Neal (2001: 45-47) elaborates that segmentation is not only descriptive but also predictive. In order to prove his argument, he adds that with regard to size, it is easy to determine and predict whether segments are growing or shrinking. This is imperative for the allocation of marketing assets and to formulate strategic marketing planning. Analysing the segments and identifying the most lucrative target market are key tools for marketing activities and also a key path to develop an effective marketing strategy.

3.4.1.2.4 Segment strategy of automobile manufacturers

Systematical research of segmentation gives a broad knowledge to marketing management of automobile manufacturers to formulate and decide on successful segmentation strategies in the context of the increasing number of competitors in the globalised marketplace. Segmentation strategies may differ from company to company in the automobile industry.

Automobile manufacturers in the USA have been introducing their cars to appeal to the target market for many years. Although manufacturers make many different cars, the USA automobile manufacturers only market where they can sell at least 800 000 cars. Small segments of customers' needs were not satisfied, although their strategies were successful (Skinner, 1990:142).

Volkswagen introduced its Beetle car, aimed at the market segment wanting a smaller, more fuel-efficient car with lower operational costs and was successful within this segment strategy. Following Volkswagen's lead, Japan automobile manufacturers spent a great deal of money on research and development to identify segment strategies to enter the American automobile market. The Japanese were able to satisfy the needs of consumers in these segments and developed cars according to small segments (Skinner, 1990:142). The success of the Japanese forced American manufacturers to change their strategies and develop cars for smaller market segments instead of mass markets.

Chrysler introduced its minivan after segment analysis that was aimed to satisfy the needs of young families. Minivans are now the most rapidly growing segment for the passenger car market. Automobile manufacturers must design cars that are distinctive enough to appeal to a particular make when they developing target market strategies (Skinner, 1990:142-143).

General Motors is working to strengthen its relationship with women, who have increasing clout in vehicle purchases. Chrysler and Ford now sell larger percentages of their cars to women than GM does (Boone & Kurtz, 2001:183).

Recently, General Motors has segmented its market on the basis of gender. It has spent considerable amounts of money on advertisements to offer its Chevrolet cars for women. However, most of the automobile manufacturers are using the multi-segment approach. In this approach, companies direct their marketing efforts at more segments by developing a market mix for each segment. Toyota has designed five different segments for its automobiles (Walker *et al.*, 1999:174). The multi-segment approach enables companies to increase their sales among more people in more than one segment (Skinner, 1990:131).

3.4.1.2.5 Establishing customer motivation

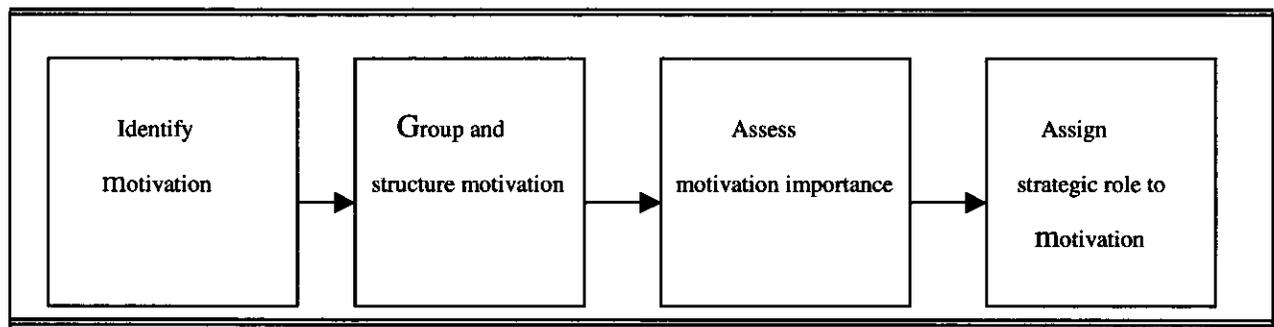
As a second step, automobile manufacturers must pay attention to the motivation of customers after customer segmentation has been done. Knowledge of these motivations will enable managers to define and develop their strategy. Some motivations may fail to define a strategy or differentiate a business, but represent a dimension for which adequate performance must be obtained or else the battle will be lost.

Identifying motivation for a particular segment is the strategy point of consumer motivation analysis. In order to identify the motivation, a group of managers must discuss with customers the product by using questions such as: “Why is it being used?” “What is the objective?” “What is associated with a good or bad use experience?” (Aaker, 1995:55)

Safety and fuel-efficiency are the important motivations for the automobile market. The respondents might be asked why safety is important for passenger vehicles. Individual or group interviews will be helpful to identify and obtain a complete list of the motivations of customers. (See Figure 3.8, which illustrates the customer motivation assessment process)

Customer motivation may be established in numerous ways, the most frequently used method being market research. Methods of market research may vary according to the information required by the organisation. Tracking customer queries, examining complaints and evaluating customer suggestions are other methods of determining customer motivations.

Figure 3.8: Customer motivation analysis



(Source: Aaker, 1995: 56)

Identifying motivation is an important task that will play a vital role in defining the strategies of the company (Aaker, 1995:55-57).

3.4.1.2.6 Identifying unmet / unfulfilled needs

This is an inevitable need for all companies that are in a competitive position in the marketplace. Identifying customers' unmet or unfulfilled wants and needs in various segments will stimulate the company to think ahead about the satisfaction of the target group of customers. Paley (2000:167-168) lists the following eight steps of a programme to be utilised by a company to satisfy customer wants and needs.

- **Define customer requirements and expectations**

Current and future expectations of customers must be identified through personal customer contact and by establishing a continuous dialogue programme.

- **Maintain a system of customer relationship management**

In an ongoing customer contact programme, management must establish a series of actions to solve customers' problems such as technical problems, services and others.

- **Adhere to customer service standards**

Product performance and customer relationships are driven by customer standards. Customers' complaints, the number of invoice errors, freight claims and product return rates are the major factors to measure these standards.

- **Make commitment to customers a company ritual**

A commitment means guarantees that include stock orders shipped the same day that they are received, technical service teams sent to customers' locations when needed, specialised training provided to employees of customers and a 24-hour hotline for support services.

- **Resolve complaints to achieve quality important results**

Customer-contact personnel must be empowered to resolve customer problems on the spot.

- **Determine what constitutes customer satisfaction**

Direct customer contact, customer audits, independent surveys, quality assurance cards with shipments, suggestions, inquiries and complaints are imperative inputs to measure customer satisfaction.

- **Utilisation of customer satisfaction results**

All functional managers should take these results into account to design customer satisfaction objectives for the following year.

- **Compare customer satisfaction level**

Customer satisfaction results have to be compared with those of competitors in order to improve customer satisfaction level.

The unmet needs of the customer are strategically important because these represent opportunities for firms to increase their market share or break into a market.

3.4.1.3 Market analysis dimension

Dimensioning of the market analysis could serve to stimulate a business, identify opportunities and threats and formulate strategic marketing planning. The nature and content of market analysis and its relevant product market will depend on context (Aaker, 1995:87). It will include the following.

3.4.1.3.1 Actual and potential market size

The organisation must measure the sales potential of the market and forecast sales. The number of products that may be purchased by specific customer groups within a specified period must be established. Usually, the market sales potential level is indicated in terms of money or units.

The sales potential of a company is what amounts/numbers of a product an organisation is likely to sell during a specific period of time. Generally, there are two methods to measure a company's sales potential, namely the breakdown approach and the building-up approach (Skinner, 1990:133). Firstly, the marketing manager can forecast the general economic situation, then estimate the market sales potential on the basis of this economic forecast for the specific period. Secondly, in the build-up approach, the marketing manager begins by estimating how much/many of a product will be purchased by a potential buyer, in a specific period, in a specific geographical area.

- **Sales forecast**

The amount/number of a product a company actually expects to sell at a specified level of marketing activities during a particular period of time is called the sales forecast of a particular company. The sales forecast and the length of time depend on the stability of the market, and the firm's objective and resources (Baker, 2000:187).

Sales forecasting, based on the optimum mix of product, price, place and promotion, will enable the achievement of maximum satisfaction at an acceptable return on investment (Worsan & Write, 1995:214). Forecasting focuses on factors that are external to the firm and that affect its markets. In

environmental forecasting, projections are likely to be based on factors such as consumer spending / Saving patterns, balance of trade surplus and deficits, government expenditures and business investment (Chee & Harris, 1993: 57).

Marketing management can use different methods to determine the market size through a forecasting process, such as executive judgement, surveys, time series analysis, the correlation method, market testing, and combination method (Baker, 2000:189). Automobile manufacturers must pay sufficient attention to sales forecast according to the environmental changes in South Africa as well as the global market.

- **Executive judgement**

Marketing managers experience resistance in the face of uncertainties generated in the context of inadequate information. There is also doubt about the relevance of available information and limited resources. The actors in the marketplace are unpredictable. Therefore the sales forecast and market size can be decided by means of the judgement of the executive (Brownlie, 1998:117). Other survey methods, such as time series, test marketing and a combination of these methods, can be used widely by marketing managers to assess the market size and to forecast sales strategies.

3.4.1.3.2 Growth markets

Many competitive followers may enter the market in the growth stage of the product life cycle. An organisation should carefully study the situation of the growth market in order to develop a strategic marketing planning for this market. This will enable the company to build shares in growth market by quickly entering and investing heavily in it. Management must consider how the market situation is going to evolve in future and whether their company can exploit the rapid growth opportunities to establish competitive advantages. If the company is a market pioneer in the growth market, market share maintenance is the most important aspect of their strategic planning (Walker *et al.*, 1999: 241).

In the growth market, the leader might use any of several marketing strategies to retain its existing customers and to capture the major portion of sales to the growing number of new customers entering the market for the first time. To achieve these objectives, the leader may cut production costs, leading to reduced prices. It may also create innovations and improvements in their product. A

challenger may apply different strategies, such as product innovation, line extension, or customer service. By offering lower prices where the leader is not well-established, existing customers may be taken away from the market leader or other competitors (Walker *et al.*, 1999: 241; Cravens, 1991: 204-205).

3.4.1.3.3 Opportunities and risks in the growth market

According to Walker *et al.* (1999: 242), the growth market provides attractive opportunities for future profits, because:

- It is easier to gain a share when a market is growing;
- price competition is likely to be less intense;
- share gains are worth more in a growth market than in a mature market; and
- early participation in a growth market is necessary to ensure that the firm keeps pace with technology.

The growth market offers good opportunities to gain a market share, as new users have not yet established their brand loyalties or supplier commitment (Walker *et al.*, 1999: 242). Established competitors will not react aggressively to an acceptable level of competition in the growth market. However, leaders may react aggressively when sales fall below expected levels whether or not volumes of sales continue to grow. Market leaders will design and apply their strategies forcefully to react only when their sales growth falls below expected levels and their market share starts to decline (Walker *et al.*, 1999:243).

Sirgy (1996: 243) argues that companies must apply the quality of life (QOL) concept to maintain their existing market share or increase their share in the market segment. The QOL organisation has to acknowledge that its primary goal is to enhance some aspect of well-being of a certain segment of the population. Offering affordable products will enhance customers' well-being, facilitating healthy focal behaviour.

3.4.1.3.4 Strategies for mature and declining markets

An annual increase in sales volume or market share, or both, is the ultimate objective of the organisation. The growth stage will move to a mature stage very fast due to innovation. By the time

a company has moved from market growth to maturity, approximately half of the potential customers have adopted the product and sales growth rates begin to decline (Walker *et al.*, 1999: 244). In this transitional period, companies or competitors will aggressively attempt to increase their sales volume to cover their high fixed costs and maintain profitability. A number of factors are involved in holding the company' relative market share. These factors are:

- **Future changes in technology or other key success factors**

New entrants may use different strategies, such as low-priced products or the sophisticated innovation of products to create a new path to capture a market share.

- **Future competitive structure of the industry**

If there existed some barriers to entry, a number of companies may decide to compete for a larger market share than the earlier entrants.

- **Future fragmentation of the market**

The market may fragment into numerous small segments if potential customers have relatively heterogeneous functional, distribution or service needs (Walker *et al.*, 1999:244).

As a result, such transition periods are commonly accompanied by a shakeout during which weaker businesses fail, withdraw from the market, or are acquired by other firms. Some companies may exit from the mature market. A primary market objective of all competitors in the mature market is to hold their existing customers so as to maintain their sales volume and profit and ensure the continued satisfaction and loyalty of those customers.

Financial success of the product during the mature life cycle stage depends heavily on the ability of a firm to achieve and sustain a lower delivery cost, some perceived product quality or customer service superiority (Walker *et al.*, 1999:267- 268; Cravens, 1991:204-205).

3.4.1.3.5 Cost structure

Demand and competition in the market will set the upper limits for the price. The cost of production will set the floor under which no company could price without losing money. Any organisation could achieve the same or better unit margins at lower prices with a lower unit cost than their

competitors. Unit cost advantages relative to competition contribute to higher levels of profitability (Best, 2000: 137). A cost-competitive advantage enables a firm to offer superior customer value. Inexpensive raw materials, creating an efficient scale of plant operations, designing products for easy manufacture, and controlling overhead costs will enable a firm to be a cost leader in the competitive market.

There are variety of ways to reduce costs, such as the experience curve, efficient labour, no-frills goods and services, government subsidies, product design, re-engineering, product innovation, and new methods of service delivery (Lamb *et al.*, 2000:284). Market share position, relative cost position, and relative quality, are the significant factors of a business to hold their competitive position in the market (Varadarajan & Jayachandran, 1999: 126).

Capacity utilisation, linkage, interrelationships, degree of integration, timing, policy choice, and location are the major drivers that seek to reduce cost. However, cost advantage on its own is not a factor to sustain and determine competition (Hooley & Saunder, 1993:207). Product differentiation could also be used as uniqueness drivers to differentiate its product from that of its competitors. Product differentiation seeks to increase the value of products or services on offer to the customer. Products may be differentiated in the form of core-product, expected product, augmented and potential product (Hooley & Saunders, 1993:208-210).

Management must obtain information about cost factors of their major competitors in the market in order to design their marketing strategies. Automobile manufacturers should concentrate on this concept in order to reduce the cost of production and increase their competitive advantage in the competitive marketplace.

3.4.1.3.6 Distribution system

Marketing channels are sets of interdependent organisations involved in the process of making a product available for use or consumption. Understanding what, where, why, when, and how target customers buy, is the first step in designing the market channel. The company should arrange its functional tasks so as to minimise total channel costs in the competitive conditions (Kotler, 2000:490).

1 Identifying the major channel alternative

Identification of the channel alternative is the major part of channel planning after the target market and desired positioning has been defined. The company must consider the best long-term profitability when searching and identifying the channel alternative. Exclusive distribution, selective and intensive distributions are the three channel strategies.

- **Exclusive distribution:** - Only a few intermediaries (typically only one per geographical area) are allowed to resell the product. The producer expects to obtain more aggressive and knowledgeable selling through this method. This distribution method tends to increase the image of the product and allow higher markups. This method is found in the distribution of new automobiles (Boone & Kurtz, 2001:400).
- **Selective distribution:** - Only specially chosen resellers are permitted to stock the product. This method involves the use of more than a few but less than all the intermediaries. Adequate market coverage and less cost than intensive distribution is the hope of the producers through this method.
- **Intensive distribution:** - The majority of intermediaries stock the products. In other word, this distribution strategy seeks to distribute a product through all available channels in a particular trade area (Boone & Kurtz, 2001:398). These distribution strategies of manufacturers place goods and services in as many outlets as possible (Czinkota & Kotabe, 2001:345; Kotler, 1997:540).

Channel strategies will vary from company to company, depending on the nature of the products and the size of the competitors in the marketplace. Evaluating the major channel alternatives, selecting channel members, motivating and modifying channels are the significant aspects to be included in the channel strategy according to the market situation. Nowadays, the distribution channels for marketing automobiles are changing as customers are shopping on web sites for motorcars.

2 Channel co-operation, conflict and competition

Channel co-operation exists when the marketing objectives and strategies of two or more channel

members are harmonious. Channel co-operation will bring greater total channel profits to the manufacturer. More effective sense, service and satisfaction of the target market could be earned by channel members through well-developed co-operation (Zikmund & D'Amico, 2001:37; Pride & Ferrell, 1993:354).

Channel conflict includes vertical channel conflict, horizontal channel conflict and multi-channel conflict.

- **Vertical channel conflict** indicates the conflict between different levels within the same channel. For example, General Motors faced a conflict with its dealers years ago when it was trying to enforce policies on service, pricing, and advertising. Several automobile manufacturers have run into conflict with their dealers.
- **Horizontal channel conflict** exists when there is conflict between members at the same level within the channel. There was some conflict between the members within the channel of marketing of Ford motorcars. Ford dealers in Chicago were confronted on advertising and pricing too aggressively.
- **Multi-channel conflict** exists where competition may be created with each other in selling to the same market when manufacturers have established two or more channels (Kotler, 2000:509-510; Bagozzi *et al.*, 1998:568-569; Boone & Kurtz, 2001:402).

Once channel members recognise conflict, they should discuss or negotiate the issues to resolve these problems before they lead to major confrontation.

3.4.1.4 Environmental analysis

Environmental analysis is one of the important aspects of situation analysis for any organisation in order to formulate and implement its strategic marketing planning in the competitive marketplace. The ability of the marketing management of a company is directly or indirectly affected by the environmental factors to develop and maintain successful transactions with its target customers. The marketing environment consists of external forces that influence an organisation's acquisition of inputs and generation of outputs (Kotler & Armstrong, 1991:56).

The input of a company would obviously include skilled personnel, financial resources, raw materials and information. The output consists of information (such as advertisements), packaging, goods, services, or ideas. Marketing management must regularly apply its marketing research and marketing intelligence system to identify the changing environment of marketing, because the marketing environment offers both opportunities and threats to the company.

3.4.1.4.1 Scanning and analysing the marketing environment

Scanning and analysing the marketing environment is the significant process of marketing management to make suitable decisions to achieve their objectives. Management needs to collect the necessary information about the forces that affect the market environment. For this purpose primary and secondary data have to be collected in the form of observations, perusal of secondary sources such as business, trade and government publication, and marketing research efforts. The related information gives a clear picture of the marketing environment to the management of the company (Pride & Ferrell, 1993:34).

The information gathered through scanning must be assessed and interpreted to facilitate a suitable decision. The findings of this assessment are essential to evaluate current environment changes. Management needs to take a series of actions to predict future changes. Through this analysis, management should be able to establish the opportunities and threats that are associated with environmental fluctuation. The findings of the analysis will help the marketing management to develop effective marketing strategies for the future that enables the achievement of the overall objectives of the company. In the context of a highly competitive marketplace, each company must have skilled and experienced managers to scan and analyse the market environment.

Kotler and Armstrong (1991:57) illustrate that the company, suppliers, middlemen, customers, competitors and public are included as forces/ factors in the micro market environment. The macro environment will affect these factors of the micro environment. Pride and Ferrell (1993:34) categorise the marketing environment into six factors, namely political and legal, regulatory, societal, economic, competitors, and technological. These authors indicate that there are large numbers of environmental factors that fall into one of these six categories.

Bagozzi *et al.* (1998: 92) point out that the marketing environment can be categorised as micro level environment and macro level environment. The micro level environment is composed of group such as customers, suppliers, intermediaries and competitors. The macro level environment includes five domains, namely economics, political and legal, demographic, social- cultural and technology.

According to Stanton *et al.* (1992:41-54), an organisation operates within an external environment that is continuously changing and generally cannot be controlled by an individual firm. At the same time its executives could generally control a set of marketing and non-marketing resources within the firm. The external factors may be divided into the following groups: - micro environment, macro environment, and external macro environment. The following six interrelated macro environmental factors have a considerable effect on any firm's marketing system: -

- Demography
- Economic condition
- Competition
- Social and cultural forces
- Political and legal forces
- Technology.

In the external micro environment: - three environmental factors influence an organisation's marketing system. These are the firm's market, producer-suppliers and marketing intermediaries. Lancaster and Reynolds (1998:13) argue that the **micro environment** includes factors that control in terms of the marketing mix. These factors can be manipulated or used to glean information in order to provide fuller satisfaction to the company's customers.

According to Lancaster and Reynolds (1998:13) the **macro environment** consists of all forces and agencies external to the marketing firm itself. Some of these forces will be closer to the operation of the firm than others are. These closer external forces are often collectively called the firm's **proximate macro environment** and include a firm's suppliers, agents, distributors and other distributive intermediaries and competing firms. However, there are other factors that may not be as close to the marketing firm's day-to-day operations but that are just as important. These factors will be collectively referred to as the firm's **wider macro environment**. This wider macro environment will include the following four factors:

- Political and legal factors
- Economic factors
- Social and cultural factors
- Technological factors

These factors are referred to as the “**PEST**” factors in the marketing environment (Lancaster & Reynolds, 1998:19-21).

Numerous marketing theorists have divided the marketing environment into different groups. Common factors falling under external environment are social, demographic, political / legal, economic, technology, resources, and competitors. These will be elaborated in the following sections.

3.4.1.4.2 Social factors

Social changes are the most difficult for marketing managers to forecast, because they influence and impact on the marketing plan of most companies. A small number of companies are prepared to analyse and forecast the social trends that affect the whole marketing function.

According to Husted *et al.* (1993:45), these factors include the values, norms and trends associated with social and cultural aspects affecting the market.

- **Social and cultural values**

Cultural values in a society are beliefs that are shared by a large number of people, leading to common patterns of behaviour (Assael, 1993:106). These cultural values can be divided into two groups, namely basic beliefs and secondary values.

The first group, namely cultural beliefs include religious beliefs, strong family ties, democracy, education and free speech. Secondary values consist of for instance current dress styles and popular products and services. In a society basic values change slowly over a long period of time, while secondary values change frequently. When marketers analyse the environment they have to pay more attention to the secondary values and trends of these changes (Husted *et al.*, 1993: 45; Assael, 1993:106-107).

- **Social and cultural norms**

The customers' actions are the key factor that influences the market. Different groups of people in a society act differently according to their occupation. Successful marketers should bear in their mind consumer differences and preferences when producing and promoting the product (Lehmann & Winner, 1991:53).

- **Social and cultural trends**

Marketers should consider cultural trends because they affect the buying power of different groups of people. Health and fitness, nutrition and the physical environment of the consumer influence what product they buy. An understanding of the social and cultural environment, enabling an understanding of the consumer's behaviour, is essential for success in marketing.

Most consumer needs and wants depend on the pattern or structure of the particular society. Some needs, such as the bare essentials of food, clothing and shelter, appear more urgent than other needs. However, there is also the need for more goods and facilities to meet the normal occurrences of life (Wilson *et al.*, 1992:177-180). Marketing creates wants by making consumers aware of their needs and by identifying specific products as a means of satisfying those needs.

Every human being has basic needs such as food, water and shelter, which must be satisfied. In addition each person has an inherent social desire to belong to a group, and although these desires may initially be vague, influence exerted by demand factors transfer them to specific and concrete needs (Kotler, 1994:174).

Every individual has moral and ethical views, age and belong to a certain gender and educational level that are closely associated with the social and cultural formation. These individual factors fundamentally determine the specific needs of the individual and can be identified irrespective of the group to which he/she belongs.

The traditional social customs, income and standard of living of the people in a certain society will vary and thus account for the differences in the buying behaviour of the respective racial, social, occupational and income groups (Wilson *et al.*, 1992:177-180).

Social factors are important in that they affect consumer behaviour and are most noticeable with regard to a nation. Automobile manufacturers must analyse in depth the trends and changes of social factors when designing their strategic marketing planning in order to increase their market share in the marketplace where the population has heterogeneous cultures and behaviours.

3.4.1.4.3 Demographic factors

Demographic factors are more important to marketing managers than social and cultural variables are. Ultimately, markets are people in the sense that the demand for consumer goods depends directly on the size of the population. The size and structure of the population is of vital concern to marketers (Baker, 2000:174). Demographics are the statistical study of human populations and their distribution. This population study includes details of age, births, deaths, and location of people in a particular region or nation. The needs and wants of the people depend on the age group, birth and death rates, and location where the people live. The age group of the population determines the purchasing power of products and services. Even lower-income seniors are remarkably mobile and well-informed when it comes to shopping for food and beverages, clothing, medical care, recreation equipment, home furnishing, and car maintenance (Kotler, 1994:154).

Age-changing patterns occurring in a population will open new market opportunities to marketers. Urbanisation creates heavy purchasers of major appliances, furniture and home maintenance equipment.

According to Stanton *et al.* (1992:43) the population of South Africa is divided into different race, religious and language groups. The different age groups of the population have different types of needs and wants. There are different life styles and fashions between the populations of white, black, Asian and Coloureds that create and influence marketers in this country. The white population has been assimilated from various countries. These people those have different tastes and needs according to their language and culture. For example, people of Portuguese descent prefer Portuguese newspaper and magazines, while those of British descent prefer to read the *International Express*, a weekly newspaper that covers British political, social and sporting news and is published in South Africa.

According to Berman (2002:124), there are 44, 560, 600 people living in South Africa. The racial breakdown of the South African population in mid-year 2001 is given below.

Table 3.1: Population by race - 2001 mid-year estimates:

<u>RACE</u>	<u>NUMBER</u>	<u>PROPORTION OF TOTAL</u>
Black	34,668,900	77.8%
White	4,533,100	10.2%
Coloured	3,869,000	8.7%
Asian/Indian	1,109,100	2.5%
Unspecified/ Other	<u>380,500</u>	<u>0.8%</u>
Total	<u>44,560,600</u>	<u>100.0%</u>

(Source: Adapted from Berma, 2002: 124)

The urbanisation of the South African population has been increasing in recent years. However, the rural population is still considerable and comprises mainly ablack people. Growing urbanisation is the important factor in a demographic study of this country. Cant and Machado (1998:28) mention that the black population group has the greatest urbanisation growth rate in South Africa. The Bureau of Market Research has predicted that the labour force of South Africa will increase to 23.1 m by the year 2011, from 13.6 m in 1991. The marketing management of automobile manufacturers in South Africa must bear in mind these changes in the demographic environment when they design strategic marketing today.

3.4.1.4.4 Economic factors

Economic factors are the most important factors in the marketing environment that influence not only marketers but also customers' decisions and activities in the marketplace. The buying power and customers' willingness to spend, spending patterns and competition, will be affected by the general economic conditions in a particular market (Pride & Ferrel, 1993:50).

Economic factors refer specifically to the pricing and promotion policy of the individual undertaking and the availability of purchasing power that converts potential demand into effective demand.

Consumption is a function of disposable income. Where income is very low, choice of product is restricted to the barest necessities. The pattern of consumption indicates the proportion of the total expenditure denoted to the respective groups of commodities and services acquired. A consumer or consumer unit with a low purchasing power will spend his income mainly on basic necessities. With an increase in income a consumer will buy from a wider range of goods and services. Each additional income unit will tend to spend a larger percentage of its income unit on goods other than basics necessities. It is therefore generally accepted that the higher the income per head, the smaller the percentage spent on conventional necessities compared to luxury goods (Bagozzi *et al.*, 1998:104-105).

Competition is also a significant part of these economic factors. A large number of firms compete for consumers' buying power. The supply of a product may be controlled by a number of competitors (Pride & Ferrell, 1993:55). Table 3.2 illustrates the competitive structure.

Table 3.2: Selected characteristics of a competitive structure

Type of Structure	Number of Competitors	Easy of entry Into market	Product	Knowledge of Market
Monopoly	One	Many barriers	Almost no substitute	Perfect
Oligopoly	Few	Some barriers	Homogeneous or differentiated	Imperfect
Monopolistic Competition	Many	Few barriers	Product differentiation with many substitute	More knowledge than oligopoly: less than monopoly
Perfect competition	Unlimited	No barriers	Homogeneous product	Perfect

(Source: Adapted from Pride and Ferrell, 1993: 60)

- **Monopoly**

In monopoly competition, a firm has entire control over the supply of the product. This particular product has no any other close substitute in the marketplace. A single marketer can erect a complete barrier to other potential competitors (Lamb *et al.*, 1994: 52).

- **Oligopoly**

A few marketers control the supply of the product in this market and each marketer must assess the market trends and reaction of other marketers in depth. These frequently change market activities. Products facing oligopolistic competition may be homogeneous, such as aluminum, or differentiated, such as cigarettes and automobiles (Pride & Ferrell, 1993: 57; Cravens, 1991:200).

- **Monopolistic competition**

To avoid a purely competitive market, marketing managers seek to develop a differentiated or heterogeneous product, which would appeal to certain segments or a market grid. If these efforts were successful, the firm in effect becomes the “industry” for this product. Since target customers recognise this product as “different”, the firm does not have to share this industry demand with all competitors. Briefly, a firm attempts to develop a differential marketing strategy to establish its own market share amongst many potential competitors (Pride & Ferrell, 1993: 57; Lamb *et al.*, 1994:53). The term “monopolistic” explains that the firm is attempting to attain its own monopoly. However, the term “competition” indicates that there is still competition. The automobile manufacturing industry in South Africa with its relatively small number of vehicle manufacturers competing in the market is an appropriate example of monopolistic competition.

- **Perfect competition**

In perfect competition a large number of competitors or marketers are available, no one of which could control the price or supply of the products. A product approaching a perfect flat demand curve is found in pure competition situations.

Such situations develop in marketers characterised by many buyers, and many sellers offering very similar or homogeneous products. There is ease of entrance for all these buyers and sellers - that is, a new firm has little difficulty to start a business and customers can easily come into the market. Such situations are usually found in many agricultural commodities, and farmers often seek government aid to assist them in a pure competitive market (Pride & Ferrell, 1993:60-62).

3.4.14.5 Political and legal factors

Understanding the political and legal factors that have shaped the marketing environment will enable marketing managers to enjoy benefits from the current marketing environment (Bagozzi,

1998:107). Ignorance or non-compliance with laws, ordinances and regulations could result in fines, embarrassing negative publicity and possibly expensive civil damage suits (Boone & Kurtz, 2001: 47). The political and legal processes influence the conduct of each company in a society. According to Stanton *et al.* (1992: 48) government regulatory agencies include the following aspects:

- **Monetary and fiscal policies**

The spending level of the government, the money supply and tax legislation obviously affect the marketing trends and system in a society.

- **Broad social legislation**

Special programmes set by the government to reduce the unemployment level and other suitable civil right laws fall into this category. Their aim is to protect the environment, while anti-pollution laws may be introduced by the regulatory agencies in a country. These types of laws and regulations impact on the activities of the manufacturers and marketers.

- **Government relationships with individual industries**

Some special government aids and subsidies, tariffs and import quotas influence rules and regulations to control the economy of the country and protect the consumer. These could seriously affect marketers in a particular country (Stanton *et al.*, 1992:48).

- **Legislation specifically related to the market**

Laws and regulations are passed by courts and regulatory to regulate and maintain competition and to protect the consumer. All marketing executives must be aware of these laws and regulations to enable them to make decisions and strategy accordingly.

According to Perreault and McCarthy (1999:107) the rights and powers of consumers have increased after consumerism become a powerful social movement. Consumerism has emerged as a major political force in the last 30 years. Today many companies pay attention to protect consumerism, because twenty years ago consumer boycotts, protest marches and media attention were connected with consumerism. Today consumers are well-informed about the quality of products and services.

Top management of companies today pays more attention to consumer concerns to satisfy their needs and wants. Consumers are well-informed and provided with enough information. They work on special projects such as product safety standards. Consumers are involved in release publications such as consumer reports that provide product and service comparisons and information on other consumer concerns (Perreault & McCarthy, 1999:107).

3.4.1.4.6 Technological factors

Kotler (2000:149) says the technological environment is the most salient factor shaping the destiny of the company in this century. The new technology affects existing products and market opportunities.

Modern technology is characterised by organ transplants, super computers, nerve gas, the Internet, e-mail, credit cards, vacuum tubes, xerography, telephones, mobile phones, and facsimile machines, all affecting the industry and day-to-day marketing. When old industries fought or ignored new technology, their businesses declined. New technology brings new products and services to consumers, improves existing products, providing better service and reducing prices through cost-efficient products and new methods of distribution (Boone & Kurtz, 2001:56). Producers or marketers can create new markets and opportunities when they apply the new sophisticated technology in their production/ industry.

Today, scientists spend most of their lives and work to produce fantasy product such as small flying cars, three-dimensional television, space colonies and human clones. All these technologies are used to challenge commercial products and services. Almost all multi-national companies spend large amounts of money on research and development to introduce and produce new technological products worldwide. The USA leads the world in research and development spending. Some giant companies are spending heavily on R & D to realise new products and service ideas. For example,

General Motors, IBM, Ford, and AT & T spend billions of dollars on their R & D process (Kotler & Armstrong, 1991:69; Kotler, 2000:150).

Research teams, rather than lone inventors, do this research, while companies are adding marketing people or experts to R & D teams to try to obtain a stronger marketing orientation. Many companies

are making efforts to introduce minor product improvement instead of major innovations. At the same time, most companies spend their money on copying their competitors' products, making minor feature and style improvements to their existing products. The reason is that they have to allocate large amounts of funds and resources to develop and introduce new technologies and products.

Technological developments come with both opportunities and threats. Management should be alert to possible use of those opportunities of the technology and investigate how these opportunities could be turned into profits. The rapid development of technologies brings not only opportunities, but also challenges for marketers or producers according to Perreault and McCarthy (1999:104 - 105). In addressing the relationship between technology and the production process, Pride and Ferrell (1993: 60) argue that market activities may be affected in different day-to-day ways as technology is introduced to the production process. Therefore, marketing managers have a high responsibility to know and assess the new developments in technology in order to enable their company to adapt and change the production process or product line strategies. This will offer better products and services to consumers to satisfy their desires and needs and improve the quality of life.

During the 1980s Japanese automobile manufacturers applied new technologies to raise the industry standards of products and performance. This was done not only by adding features such as electronic transmission and sophisticated sound systems, fuel efficiency and passenger safety, and reducing harmful emission, but by making automobiles less susceptible to collision damage and more durable (Bagozzi *et al.*, 1998:113). The influence of technology on production and the global marketing environment will be dealt with in greater detail in the ensuing chapter.

3.4.2 Internal analysis

Strategy development depends on the analysis of the strengths and capabilities of the company in addition to the external threats and opportunities analysis. Internal analysis is similar to a competitor analysis, but has a greater focus on performance assessment of the company. The internal analysis is an important step to develop a strategy to achieve the goal of the company successfully. According to Aaker (1995:130), the internal analysis includes a stakeholder analysis, performance, profitability, portfolio analysis and brand association.

3.4.2.1 Stakeholder analysis

No organisation operates in isolation. The rapidly changing environment is forcing management to identify the environmental components that should be considered during the strategic planning process. Management must be aware of the relationships between external and internal bodies that have an impact on the organisation in order to achieve its objectives.

3.4.2.1.1 The identification of stakeholders

A stakeholder analysis begins by identifying as many relevant stakeholders as possible (Rowe *et al*, 1986:107). Wheelen and Hunger (1992:67) identify a large number of groups who have interests in a business organisation's activities. They affect or are affected by the achievement of objectives of the firm. The stakeholders of an organisation include consumers, stockholders, creditors, suppliers, employees, government officials, legislators, local communities, competitors, interest groups, and the media (Starik, 1995: 208). According to Bean (1993:151), the term "stakeholder" means one who "holds a stake" in the company for one of many legitimate reasons. This author identifies potential stakeholders as creditors, customers, employees, financial institutions, the general public, the government, industries, management / executives, suppliers and unions. Whysall (2000:21) indicates that stakeholders can be divided into three groups, namely internal stakeholders (i.e. owners / stockholders, managers, shop-floor workers), marketplace stakeholders (i.e. customers, suppliers, competitors and landlords) and external stakeholders (i.e. the government, political groups, activist groups and environmental concerns). Freeman (Wijnberg, 2000:331) distinguishes between primary and secondary stakeholders. A primary stakeholder's participation or relationship with a firm is essential for the survival of the firm. Secondary stakeholders are those that are not essential for the survival of the firm. However, their actions could significantly damage the performance of the firm. Some of these stakeholders are internally rooted and others are from external sources. The firm must identify stakeholders systematically in terms of power, legitimacy and urgency (Wijnberg, 2000:331).

3.4.2.1.2 Relationship of stakeholders

The organisation must treat their key stakeholders satisfactorily. Management need to keep a closer relationship with not only their immediate internal stakeholders such as owners / shareholders,

managers and shop-floor workers, but also other wider marketplace stakeholders and external stakeholders (Whysall, 2000: 20). The various groups of a firm have their own purpose, which they try to realise in the firm. Workers of a firm expect high wage; customers expect optimal goods and service from the firm; shareholders expect maximum return on their investment, and so on. Although all members are not shareholders of a firm, management must maintain strong relationships with all groups of the firm in order to achieve its objectives (Koslowski, 2000: 139). A corporate responsibility should be established between the various groups of stakeholders and a firm (Wijnberg, 2000: 340). In business practice, it is recognised that stakeholder relationships tend to be seen as equally important by managers.

3.4.2.1.3 Value analysis of stakeholders

The process of globalisation has increased the chances to realise a higher shareholder value in financial investments. Investment opportunities increase in a global market. Shareholder value is an important means to increase the efficient allocation of investments in the global market. The profit of a company is one of the most important tools to prevent skirting in the operations of all members of the firm. The profit and value of the share are also one of the goals of shareholders. For all the other groups (stakeholders) this goal is only important as a means to secure the success of the firm as a whole (Koslowski, 2000:138). Most executives highlight that the ultimate objective of a firm should be to increase its shareholders' economic returns. Walker *et al.* (1999:41) indicate that in order to achieve this purpose, management must balance the interests of various corporate parties like employees, customers, suppliers, debt-holders and stockholders. Maury (2000:120) argues that alternative accounting and financial treatment must be given on the recognition of the interests of all groups of stakeholders of an organisation. The management of an organisation has to identify the expectations of various groups of stakeholders (Harvey & Schaefer, 2001:244). The firm's continued existence depends on a financial relationship with each of these parties. People willingly invest in any firm when they can obtain a better return on their funds without any risks. Management should design their business strategies to provide and produce sufficient value to the shareholder for the future. The objective must be targeted by the company's strategy to increase shareholder value that increases stock price or earnings per share. Alternative marketing strategies and actions must be developed to add future value for shareholders. Customer and shareholder value coverage enables the firm to enjoy a long-term competitive advantage (Walker *et al.*, 1999:42).

3.4.2.1.4 The influence of stakeholders

Each group of stakeholders has a different influence on the operation of an organisation. For example, shareholders are owners of a company. They have the right to propose any changes in policies and practices they favour and by law stipulate the voting procedures (McCabe, 2000:102). The firm needs to consider the interests of groups affected by the firm because stakeholders have the potential to help or harm the company. Stakeholders have the latent potential to significantly affect the firm and constitute any individual or group who has sufficient power to be a threat or a benefit to a firm. The firm should properly look after all groups of stakeholders even if not profitable (Gibson, 2000: 248). Management must specifically closer relationships with the key stakeholders that have direct and indirect powers over and influence on the firm. Key stakeholders include stockholders, employees, customers, suppliers, the community and society (Lampe, 2001: 166).

3.4.2.1.5 Support and satisfaction of stakeholders

The interests of different stakeholders must be incorporated into the decision-making practice to increase the moral and ethical support of all stakeholders towards the growth of the firm. Stakeholders give support to an organisation and the organisation depends on stakeholders (Kaler, 2002: 92). Strong *et al.* (2001:221) argue that management must examine the nature of satisfaction among stakeholders. In order to obtain sufficient support from stakeholders, their interests must be incorporated in the decision-making process. A balance should be pursued when developing exchange relationships with each stakeholder group. A comprehensive understanding of all stakeholders' interests is essential for an effective strategic management process (Greenley & Foxall, 1996: 106-107). Hill and Jones (1992:134) argue that managers are also the only group of stakeholders that has direct control over the decision-making process. However, some other groups of stakeholders like suppliers of capital, have indirect control on strategic decision-making. Management has to consider the claim and interest of the various groups of stakeholders when formulating the organisation's strategies. Managers must act as agents of other stakeholder so as to receive sufficient support and co-operation from other groups of stakeholders to formulate and implement effective strategies. Managers can increase their decision-making power by maintaining a good relationship and equilibrium among the various stakeholders of their organisation.

Donaldson and Preston (1995:70) argue that a firm can obtain long-term benefits when it includes a

stakeholder analysis into the decision-making process. The future success and outcome of an organisation's strategy is the collective result of all the force brought to it by its stakeholders. The validity of a strategic plan always depends on the actions and influence of the stakeholder of an organisation. The organisation must therefore consider each stakeholder group to make its strategy a success. The stakeholder analysis must be included to test the overall soundness of the strategy (Rowe *et al.*, 1986: 107). Hatten and Hatten (1987:112-113) argue that management must recognise the full range of actual and potential stakeholders' pressures and identify the objectives and strategies of particular stakeholders. This would enable management to construct effective strategies to achieve its objectives. Decision-makers have to study how that firm's strategy affects stakeholders' success and how their interest / strategy affects the firm's strategy. Management should evaluate the positive and negative effects of stakeholders into the decision-making process (Goodpaster, 1993: 234). The identification of stakeholders that are the current most important stakeholders is the first step of the stakeholder analysis. The support of the stakeholders, especially key stakeholders, is essential in order to implement a strategy in the marketplace (Hatten & Hatten, 1987: 115). The strategic plan cannot be successful without the support of the various groups of people that have stakes in the organisation.

3.4.2.1.6 Identifying stakeholder issues and conflicts

An organisation will be damaged seriously when conflict arises between it and one or more of its stakeholders. Management must make continuous efforts to identify and assess the issues and conflict between the organisation and its stakeholders in order to avoid the negative impact of conflict with stakeholders. The stakeholder analysis or management approach is essential for the long-term interests of a business to create positive, non-adversary relationships with stakeholders. Immediate mediation is needed to resolve conflict with stakeholders. The stakeholder analysis enables the firm to ascertain the basic issues with regard to disputes with stakeholders (Lampe, 2001:166). Disputes with stakeholders traditionally lead to litigation, lobbying, boycotts, labour actions and public relations campaigns, which impact negatively on the overall success of an organisation. Good co-operation and compromise are effective and constructive means to promote relationships and resolve conflict between organisations and stakeholders (Lampe, 2001:166).

3.4.2.2 Examining performance

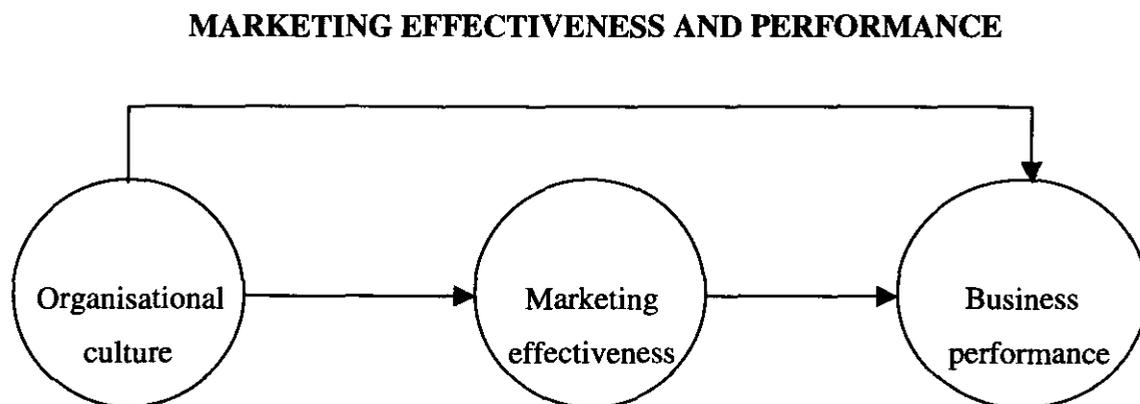
The performance of a company will be assessed by profit, sales volume, marketshare, return on investment and cash flow over the past financial years. The results of this measurement must be compared with that of major competitors (Sin & Tse, 2000:295). Performance will indicate the strength of the firm. Successful performance depends on the collective culture of the organisation, customer satisfaction, customer relationships, employee capacity, successful brand and product quality, innovation and sufficient resource allocation to all departments. These important aspects enable a firm to perform successfully in the competitive marketplace.

Kukalis (1991:145) argue that linkage of the strategic planning with performance will increase an understanding of the efforts of strategic planning on organisational performance under different factors / aspects. Marketing effectiveness could affect a company's financial performance. This section will briefly explain the relationship between performance, organisational culture and marketing effectiveness and the influences among them.

3.4.2.2.1 *The organisation's cultural value*

An organisation's collective culture could affect the marketing effectiveness by way of its impact on the implementation of company strategies. The relationship between organisational culture and marketing effectiveness and business performance is set out in Figure 3. 9.

Figure 3.9: The relationship between organisational culture



Organisational culture is an imperative tool for creating and enhancing the best interactive marketing performance needed to implement a good relationship marketing strategy. The three cultural values identified for an organisation are:

- (a) The importance of “customer closeness”;
- (b) the need for a distinct and identifiable set of corporate values represented by a belief in being the best and in the importance of people; and
- (c) an external or market-oriented focus as distinct from an internal or company-oriented focus.

(Sin & Tse, 2000; 299)

3.4.2.2.2 Customer satisfaction

Customer satisfaction is a function of perceived performance and expectation. Customer satisfaction is both a goal and a marketing tool for customer-centered companies (Kotler, 1997:40). Profit and market domination will increase beyond expected levels if a company provides good service and technical support, creating closeness to customers through motivated staff, leading to increased customer satisfaction.

The value chain is the most important tool to create more customer satisfaction through customer value. The value-creating activity consists of five primary activities and four support activities.

Inbound logistic, operations, outbound logistics, marketing and sales and service fall under primary activities. The support activities are procurement, technology development, human resource management and firm infrastructure (Kotler, 2000: 44).

3.4.2.2.3 Customer closeness and relationship management

Stone and Mason (1997:9-11) explain the difference between relationship marketing and traditional marketing. Relationship marketing takes the firm closer to the customers. Traditional marketing is just a transaction, it does not create a relationship with a customer. Therefore it fails to adequately identify and respond to market segments and was traditionally treated as a separate function of management. Relationship marketing is obviously characterised by a longer-term focus, a greater focus on the customer, and a greater emphasis on product benefits and quality than traditional marketing was. It is a specific focus on the well-being and value of the customer (Zikmund &

D'Amico, 2001:8). Relationship marketing is best conceptualised as a tool of value in the implementation of market policy.

Mature postmodern marketing strategies will be those that empower customers to become partners with marketing organisations as influential participants in the construction of experience and (self)-images when and if they choose (Firat *et al.*, 1997:97). Relationship marketing, therefore, must be taken into account when marketing executives formulate marketing strategies and it should be accepted as the heart of a marketing strategy.

Franklin (2000: 354) says in order to create a long-term relationship with the customer to compete in today's dynamic business environment, organisations need to establish a customer strategy that can have a significant long-term impact on the business. The business must change from a short-term transaction-based orientation to a long-term relationship-based orientation.

Daimler Chrysler South Africa has changed its marketing strategies in order to move closer to its customers. The major changes in supply chain management, increased level of the e-commerce and multi-brand dealership are to be transformed into one-brand dealership. These marketing strategic changes will enable customers to be identified properly and the brand / dealer / customer relationship to be vastly improved (Rypsta, 2001:18-19). These marketing strategy changes of Daimler Chrysler reveal the necessity of closeness and relationship with customers for automobile manufacturers.

3.4.2.2.4 Bargaining power of customer and satisfaction

Customers are seeking value and satisfaction through their bargaining power. Kassaye (quoted by Sharma & Krishnan, 2000:24-35) explain that customer bargaining is an intricate action of give-and-take between a buyer and a seller to arrive at an acceptable price. Specifically in automobile marketing practice, not only price-related but also warranty service-related issues are included in this bargaining behaviour.

Consumer bargaining is alive and flourishing globally. Increase in competition among suppliers, rapid obsolescence of products, Internet expansion, fragmentation of the market, the emergence of global customers, changes in the selling environment and a shift in economy from manufacturing to

service-orientation are the major factors that extend the bargaining behaviour of customers to a greater number of product categories. In the USA and other countries all over the world customers are becoming value-seekers in what they buy. The bargaining behaviour of the customer directly affects the product, promotion, pricing and channel strategies that could lead to the overall failure in performance of the firm.

3.4.2.2.5 Internal marketing and employee capacity

Internal marketing is the key tool to success in external marketing. Promoting of the firm and its products or product line to the employees of the firm is important to formulate the strategies to succeed in the external market (Greene *et al.*, 1994:5). The structure of capitalisation, professional skills, motivation and abilities of the firm are needed to compete in the local, national and global markets. The author emphasises that the internal market is significant to all industries. Employee quality and performance are the essential aspects of the internal market of the firm.

According to Baker (2000:246) the concept of an internal customer is seen as a means of increasing the awareness of external customers among the employees of an organisation. "Internal marketing can be defined as an application of the philosophy and practice of marketing to the people who serve the external customer so that the best possible employees can be employed and retained and they will do the best possible work" (Baker 2002:246). Internal marketing in this respect means marketing to employees. In other words, employees buy the job from the employer, and *vice versa*. If an organisation upgrades the satisfaction of the internal customer, it will automatically satisfy the needs of external customers (Greene *et al.*, 1994:8).

Firms that concentrate on a market-oriented strategy will enjoy a higher level of business performance (Phillips *et al.*, 2000:160). Kahn (1998:45-46) argues that traditional market orientation may not be sufficient. The firm has to focus on market orientation to meet the needs of the customer more efficiently and must offer a high-variety product line that increases customer satisfaction and loyalty.

3.4.2.3 Brand association

A brand is any name, term, symbol, sign, design, or unifying combination of these. It is an

identifying feature that distinguishes one product from another. A brand name is the verbal part of the brand (Zikmund & D'Amico, 2001:260; Baker, 2000:295). The brand is not just the physical product or service. It exists solely in the minds of the customers. It is the company's brand name that secures the customer relationship. Purchasing decisions will be made on the basis of price or availability of the strong brand (McDonald & Keegan, 2002:97).

Building a successful brand helps profitability by adding values that entice customers to buy. It also provides a firm base for expansion into product improvements, variants, added service and new countries. A brand is an entity that offers customers added value based on factors over and above its functional performance. Recently, brand has become as an important asset of a company. A successful brand is one that customers prefer to buy and will pay significantly more for (CSM, 2000:171).

- A successful brand name has sustainable competitive advantage for the firm by identifying the product and organisation.
- A firm can enjoy superior profit and market performance through the successful brand name.
- Brands are good assets in order to have a sustainable competitive advantage.

The genuine brand provides added brand values if customers believe that the product:

- will be reliable;
- is the best;
- is something that will suit them better than product X; and
- is designed with them in mind.

A successful brand meets the physical as well as emotional needs of the customers. Brand strategy, brand positioning and brand are the important component of decision-making of the company (McDonald, 1999: 164-166).

3.4.2.4 Product quality

Natarajan (2002:71) defines quality broadly as certain standards, overall superiority and excellence of product, which were set mostly by the producers themselves. The quality of the product influences the demand curve of a product. Product quality, in the competitive market, is the most

important parameter of a firm to differentiate their product from competitors' offerings. The competitive advantage of a firm relies on higher quality to help the firm to achieve a high market share and performance in the long-term.

The relationship between quality and price may be contingent on other dimensions of competitive strategies. A firm can charge higher prices for higher quality, because consumers tend to use price as an indicator of quality. The relationship between quality and performance has been a subject of considerable research in marketing planning (Varadarajan & Jayachandran, 1999:129-130).

The marketing department should work with all other departments of the firm to continuously ensure the level of quality and satisfaction of the customer. In other words, all departments in a firm must work together with a customer-focus in mind. Research and development must play a vital role to ensure quality and is of vital concern to the manufacturing department. Continuous quality improvement is important before launching a product but also during a product's life (Viardol, 1998:144-145).

3.4.2.5 New product activity

New product activity is part of the internal analysis on which the firm must concentrate. The capacity of a firm's new product development will indicate a position of competitive advantage and survival in the marketplace.

Proctor (1996: 308) suggests that the activity of new product development and introduction is a costly and risky undertaking for a firm. Acquisition and internal new product development are the two principle ways to add new products to the product range in the majority of industries. Buying other firms, buying a licence or franchise, and buying patents, all fall under the acquisition method. In-house R & D teams or outside research agencies can be used to develop a new product that satisfies conditions-generated criteria. New product ideas may also come from a variety of ways, such as customers, employees, distributors, competitors and consultants.

According to Lamb *et al.* (2000:346) a new product strategy is part of the organisation's overall marketing strategy. New products and modification consists of many aspects. For strategic purposes, the major concern is to create and maintain the competitive advantage or to reduce the advantages of

competitors in the marketplace. New product strategy will enable any organisation to maintain the organisation's position as a product innovator, defend a market share position, establish a foothold in a new market sector, pre-empt a market segment, exploit technology in a new way, and capitalise on distribution strengths.

The term "new product" could entail improvements in existing products, product modifications and new brands (Wilson *et al.*, 1992:302). Successful new product development is important to many industries to obtain sales growth and earnings. New product development programmes may be designed to implement the corporate marketing plan or to implement the marketing strategies for a given product or product line (Gultinan & Paul, 1985:181).

A new product strategy is associated with a significant degree of risk and a need for heavy and greater investment in money, skills and time, not only in the stage of product development and launching, but also through the product's life cycle. The cost, risk, financial ability, capability of staff and other resources must be evaluated in depth in order to design the new product strategy (Wilson *et al.*, 1992:303-304).

3.4.2.6 Portfolio analysis

McDonald and Keegan (2002:115) argue that a portfolio idea is for a company to meet its objectives by balancing sales growth, cash flow, and risk. In a portfolio analysis, there are two aspects to keep in mind with regard to market share and market growth. Product portfolio analysis will disclose the situation in which new product introduction would ensure continuous sales growth and profitability.

Each business unit controlled by an organisation is concerned with the portfolio analysis. Today many organisations use the concept of business portfolio analysis as an aid in strategic planning. A business portfolio consists of a variety of approaches. The portfolio matrix and product life cycle curve are necessary for developing strategy at the strategic marketing level, then incorporating them into the marketing plan. The firm must have methods to decide on its business' product line or products and how it could allocate its resources (Cohen, 2001:43).

The Boston Matrix indicates cash flow, cash usage and cash generation. The relative market share and market growth rate will be related, while the ability of the product is the key tool to generate cash to the organisation. (See Figure 3.10).

The portfolio provides the information from the Strengths, Weaknesses, Opportunities and Threats (SWOT) analysis and demonstrates the overall competitive position. It also indicates the relative importance of each product / market segment. The previous Figure 3.10 illustrates the position most effectively.

The **question mark** (top righthand box) is a product that has not yet achieved a dominant market position and will be a high use of cash because it is in a growth market.

The **star** (top left box) is probably a new product that has achieved a high market share and that is probably more or less self-financed in cash terms.

The **cash cow** (bottom left hand box) are leaders in the market with little additional growth, but a lot of stability. Cash generation is excellent and little cash is used because of the state of the market.

The **dog** (bottom right hand box) indicates that there is little future profit to be had and it could be a cash drain on the company because the market share and growth are low (McDonald, 1999:182-200).

Figure 3.10: The Boston matrix

		Relative market share			
		(Ratio of company share to share of target competitor)			
		High		Low	
Market growth	High	STAR		QUESTION MARK	
		Cash generation	+++	Cash generation	+
		Cash use	---	Cash use	---
			<hr style="width: 50%; margin: 0 auto;"/> 0		<hr style="width: 50%; margin: 0 auto;"/> --
	Low	CASH COW		DOG	
		Cash generation	+++	Cash generation	+
		Cash use	-	Cash use	-
			<hr style="width: 50%; margin: 0 auto;"/> ++		<hr style="width: 50%; margin: 0 auto;"/> 0

(Source: McDonald, 1999: 185)

A portfolio analysis that has been integrated with the SWOT analysis will give broad insights to the marketing manager on market shares, growth, allocation of resources, strengths and weaknesses in order to formulate its strategic marketing planning for existing or new products.

3.4.2.7 Mission statement

The mission statement of any organisation should articulate its strategic scope clearly. Senior management should answer fundamental questions such as: “What is our business?”; “What value do we provide to customers, employees, suppliers and other constituent groups?”; and “What should our business be in future?” A good mission statement should be driven by three factors, namely heritage, resources and environment (Bagozzi *et al.*, 1998:58). According to Dalrymple and Parsons (1995:64), a mission statement should specify the business domains in which the company / organisation plans to operate. The effective mission statement should cover the product line definition, market scope, growth direction, and level of technology.

The organisation’s mission statement must also be defined in terms of the market for their products and services. This can be expressed in geographical terms or as customer groupings. Levels and type of the technology being used by the organisation must be included in the mission statement, as technology has become an important tool to compete in the market.

The most useful mission statement always focuses on both the customers’ needs and how the firm will attempt to satisfy those needs. The mission statement explicitly identifies the current strengths and weaknesses of the organisation that reflect the market situation. Sometimes employees may overlook new opportunities or new ways of building on the company’s strengths or overcoming its weaknesses (Walker *et al.*, 1999:38-39).

Management should consider consumer satisfaction as a central point in the mission statement to reach its objective. The focus of mission statements is getting and keeping customers and installing a marketing strategy.

The mission statements of the automobile industry must usually define a relatively narrow scope for their companies, based on the current environment and its capabilities. This statement could change as the environment or the organisation changes. Periodic revision of the mission statement according

to the environmental changes of the global market is needed for the automobile industry. Automobile manufacturers' mission statements must be stated primarily in terms of deploying corporate resources and fulfilling its corporate responsibility to numerous constituencies. The development of mission statements that express external markets should be left to different divisions and subsidiaries.

3.4.2.8 Developing marketing objectives and goals

Performance goals, objectives, competitive strategy, mission and functional policies should be included in the strategic planning. This enables an explicit strategy to be communicated throughout the organisation and eventually institutionalised. After scanning and reviewing the external and internal situation, management should set the objectives for what is sold and to whom, deciding on how these objectives are to be achieved (McDonald, 1992b: 7).

According to Dorrian (2000:37) the objective of an organisation leads to better performance to beat competition in the marketplace. To establish a product in the marketplace by enjoying opportunities is an objective. Determination of sales levels (200,000 units a year), is a goal. Goals are also quantified in terms of sales, profits, market share and the return on investment of an organisation. The marketing manager should ensure that all goals and objectives fit together (Cohen, 2001:12).

Jain (2000:185) discusses the differences in terms of mission, policy, objective, goal and strategic direction. A mission (also referred to as corporate concept, vision, or aim) is defined as what it should work toward in the light of long-range opportunities. A policy is an indication of the general intention of a company or position designed to guide certain actions and decisions.

An objective is a long-range purpose of a company that will not quantify or limit the time period. A goal is a measurable objective of the firm that management judges to be attainable at some specific future date through planned actions. Strategic direction includes the content of mission, objectives and goals.

Marketing objectives are only connected with products and markets that have accepted and selected qualitative and quantitative commitment. If these objectives were to be attained, the standards of performance for a given operating period of time have to be kept up. Sales volumes, value or

profitability are elements to measure performance. McDonald (1999:249) point out that according to Ansoff's matrix framework, an objective can be developed by means of four possible courses of action, even though the range of possible marketing objectives is very wide. These courses of action are as follows:

- Selling existing products to existing markets;
- extending existing products to new markets;
- developing new products for existing markets; and
- developing new products for new markets (McDonald, 1999: 249-250).

3.4.2.9 Primary and secondary objective

Traditionally, it was accepted that the primary objective is profit maximisation. Managers often saw other objectives to be of more immediate relevance because it could affect the firm's profit-earning ability (Wilson *et al.*, 1992:149)

Management could establish more than one objective, or a main objective with additional conditions. However, management should take care to avoid conflict between these objectives. Management must spend the necessary time to ensure that the objective statement is designed and worded perfectly and all the important conditions have been incorporated.

3.4.2.10 Guidelines for developing objectives

The marketing planner has to take various factors into account when establishing objectives. Objectives should never be set in a vacuum. There is an intimate relationship between the setting of objectives and understanding the market environment and opportunities (Wilson *et al.*, 1992:151). Steiner (quoted by Cohen 2001:34-35) sets ten criteria to help in developing objectives. These objectives are as follows:

- Suitability - the objective must support the firm to move towards its basic purpose.
- Measurability over time - the objectives should state clearly what is expected to happen and when so that it can be measurable.
- Feasibility - the objective must be feasible.

- Acceptability - the objective must be acceptable to the people in an organisation. The necessary funds, resources and co-operation cannot be received if the objective is not accepted.
- Flexibility - the objectives should be modifiable and flexible according to unexpected contingencies and environmental changes.
- Motivation - the objectives should motivate the parties that are going to work together to reach them.
- Understandability - the objectives should be given in clear, simple language that can be understood by all.
- Commitment - management must ensure that the employees in different departments are committed to the objectives.
- People participation - people must be kept on track through the implementation of the plan. It is important to consult with all that might participate in any way with the execution of the plan.
- Linkage - the objective, naturally, should be linked with the requirements of the environment of the firm.

3.4.3 Scenario planning

A good strategy is one that plays out well across several possible future (different / alternative) scenarios. In order to find a suitable strategy, companies create two or more scenarios of the world of the future, each different, each plausible. “The purpose of scenario planning is not to pinpoint future events but to highlight large-scale forces that push the future in different directions” (Wood, 1997:45-47; Mercer, 1998:177-179).

The major purpose of scenario building is to develop an understanding of how an industry must move from the present state to each of several alternative futures. “Scenarios are in effect to get top executives out of that box and get them on a different track of understanding their industry” (Jain, 2000:320). Scenario planning will guide management to create an alternative strategic marketing planning (Jain, 2000: 320).

3.5 DEVELOPING ALTERNATIVE STRATEGIC MARKETING PLANNING

This is a free-thinking method of management to develop alternative strategic planning. Management could identify more than one way to reach their objectives. A particular way may be

better than others may. Different combinations of strategies may be required by different firms to reach similar goals. Management must first analyse its present goals and strategies carefully and recognise their strengths and weaknesses in order to formulate alternative strategies under a future set of circumstances. A situation analysis will provide alternative ideas from management and staff. All ideas must be discussed, with its pros and cons and its relative value. Finally, alternative strategies can be selected (Buell, 1984: 243-244).

3.5.1 Selecting the best strategies

A suitable strategy or few strategies can be selected by the marketing management after analysis of those alternatives that have the best chance to attain their objectives. Preferred and recommended strategies should be few in number (Jain, 2000:220).

Franklin (2000: 129), however, is of the opinion that for large-scale motor manufacturers in the USA - knowingly or not - strategy, structure and system have become the litany of managers during the early twentieth century. They have adopted a formula to achieve strategic success and attention has shifted to the importance of a soft system in the development and implementation of strategy. Strengths and weaknesses of one's culture come first and formulation of strategy comes next. Franklin (2000:129) gives preference to the culture and structure of the organisation. However, he argues that strategies always carry the risk of failure as well as success.

3.5.2 Distinction between strategy and tactics

Strategic plans are major plans for achieving major organisational objectives or goals. Tactical planning on the other hand, guides the implementation of activities specified in the strategic plan. Strategic planning has a critical impact on an organisation's destiny, because it provides long-term direction for its decision-makers. Tactical plans typically represent short-term actions that focus on current and near-future activities (Boon & Kurtz, 2001: 184).

Strategy is the overall route to the achievement of specific objectives and should describe the means by which objectives are to be reached. Tactics are the action steps that fall under the marketing strategy. Marketing strategies are the means by which marketing objectives will be achieved and are generally concerned with the four major elements of the marketing mix (4 Ps).

- Product** - Product branding, positioning, deletions, modifications, additions, design, and packaging are aspects relating to product.
- Price** - Pricing policies will be followed for the product in market segments.
- Place** - The general policies for channels and customer service levels.
- Promotion** - Advertising, sales force, sales promotion, public relations, exhibitions and direct mail, are the elements of the policies for communication with customers.

In a large organisation, marketing strategy is one of the most critical and difficult aspects of the entire marketing process. This process includes that weaknesses are to be remedied and strengths developed, and in what manner. Management, therefore, must carefully design the tactics that lead to the success of the organisation's strategic marketing (McDonald, 1999:260-270).

3.5.3 Management approval of strategies

Recommended marketing strategies and forecasts of performance must be discussed and reviewed with all functional managers of the business unit prior to meeting with top management. With strategic planning there are several benefits to be gained from getting top management to agree with strategies before proceeding to the development of tactical plans, budgets, profit forecasts and the preparation of a detailed business plan.

Corporate management may agree with the proposed strategies and concentrate on the policies, goals and strategies while teaching the details of implementation to managers of the business units. Management of business units can proceed with confidence to develop tactics to implement the strategies once these strategies have been approved (Buell, 1984: 244-245).

3.5.4 Why is strategic marketing planning necessary?

Strategic planning is necessary to all types of organisations to help them cope with the challenges in the competitive environment. It forces management to ascertain the uncertainty and flexibility of the competitive environment. New products and ideas will be created through the process of competitive environment analysis. This will provide better products and services to uplift the quality of life of people (McDonald, 1996:7).

Marketing planning is essential. A number of benefits are promised to those who invest in this process. It creates better co-ordination among individuals within the firm where actions are inter-related over time, and also increases and identifies the expected developments, with a greater preparedness to meet challenges.

Communication among executives, a reduction in conflict between individuals, systematic thinking ahead, more effective allocation of corporate resources according to the market opportunities, and continuing review of operations are the benefits received by the organisation (McDonald, 1996:10).

In South Africa, all automobile manufacturers and their executives have to study the environmental changes in depth in the context of the increased competition. The latter is connected with technological innovation and marketing promotion and can be practised through the Internet in order to develop a suitable strategic marketing planning to overcome issues in the marketplace.

Viljoen (1997:61) highlights that Nissan South Africa is applying marketing strategies that include the following aspects. This can be used as an example. Nissan's marketing strategy was based on a six-pillar approach in South Africa. These pillars are:

- The product;
- professional management services;
- availability of parts;
- customer support;
- customer protection; and
- the truck-dealer network.

The product range, availability of parts and a well-established dealer network are almost taken for granted as being part of any professional operation. Management services and added value, customer-support and customer protection require more explanation though. Regular communication with customers and assisting the customer with a financial package that suits them are provided as support functions by Nissan.

Support strategies include driver training, quarterly newsletters, owner-driver schemes, risk management, fuel efficiency and tyre management. Searle (1987:10) managing director of Volkswagen SA and president of NAAMSA says automobile manufacturers in South

Africa must consider the mentioned key factors when developing their strategic planning. These key factors are:

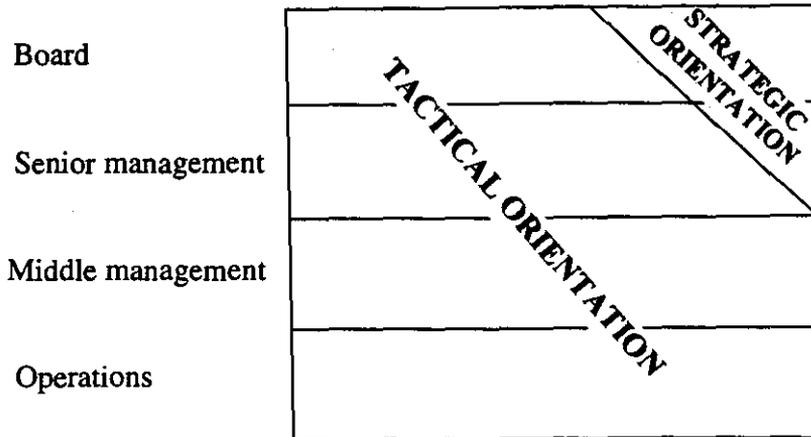
- The price of new vehicles must be brought more within reach of consumers by managing the economy, implementing innovative designs, marketing programmes, rationalising the makes and models available, increasing productivity and privatising and deregulating certain sectors.
- The importance of exports to the industry and to the economy must be recognised with long-term incentives and targets.
- The industry must accept that product quality and dealer service are important factors to car-buying customers.
- Market opportunities in the black population must be identified; and
- further rationalisation will benefit both the industry and the customer.

All these aspects are to be considered and must suit all automobile manufacturers according to Searle (1987:10). South African automobile manufacturers must bear in mind the political, social and economic future, unemployment, the decline in the standards of living and the black urban youth explosion as key factors when modifying or formulating strategic marketing (Manning, 1991:22).

3.5.5 Barriers to strategic marketing planning

McDonald (1992b: 5-8) describes the barriers to strategic marketing planning as follows, the main reason for these barriers being that lower levels of management do not get involved in the strategic formulation at all. Directors/top managers spend most of their time on operational/tactical issues. Figures 3.11 and 3.12 disclose the participation of lower-level management in the formulation of strategic marketing planning.

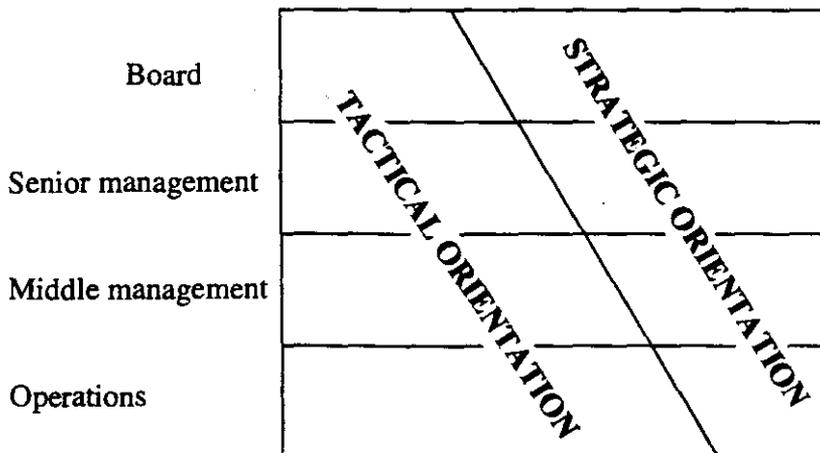
Figure 3.11: Old style company (Tactical – oriented company)



(Source: McDonald & Keegan, 2002: 20; McDonald, 1992b; 9.10)

Figure 3.11 expresses clearly that the lower level of management is not participating at all in the formation of strategic marketing planning of the organisation. There is also a lack of teamwork and participation that create a path of confusion between tactics and strategic planning.

Figure 3.12: New style of company (Strategically-oriented company)



(Source: McDonald and Keegan, 2002: 20; McDonald, 1992b: 9-10)

Figure 3.12 illustrates that the company should recognise the importance of strategy and manage to involve all levels of management in strategic formulation.

The barriers to strategic marketing planning are:

1. There is no participation of low-level management in strategic marketing formulation
2. The marketing function is isolated from operation.
3. There is confusion between the marketing function and the marketing concept, including:
 - Confusion with sales;
 - product management;
 - advertising; and
 - customer service.
4. There is also organisational barriers;
5. lack of in-depth analysis;
6. confusion between process and output;
7. knowledge and skills;
8. lack of systematic approach to marketing planning;
9. a failure of priority objectives; and
10. a hostile corporate culture.

The above-mentioned barriers, which were only briefly stated due to space, will obviously impact on the formulation and implementation of the strategic marketing planning in all types of organisations.

3.6 STRATEGY EVALUATION

Jain (2000: 234) stresses that after selecting a suitable strategy, management has to evaluate the strategy by means of the following parameters:

1. **Suitability** - Strategy will provide some sort of competitive advantages to the organisation. Management must review the potential threats and opportunities, measure the options in light of the capabilities, anticipate the likely competitive response to each option, and modify or eliminate unsuitable options to ensure the suitability of the strategy.
2. **Validity** - Strategy should be consistent with the assumption about the external product or market environment.
3. **Feasibility** - Management must examine the resources available to achieve its goals and utilise its opportunities. It is desirable for a strategist to make correct estimates of resources available without being excessively optimistic about them. 151

4. **Internal consistency** - Strategy should be in tune with the different policies of the company, the strategic business unit (SBU), and the product or market arena.
5. **Vulnerability** - Management must determine the degree of risk based on the perspectives of the strategy and available resources. It has to answer the question: "Will the resources be available as planned in sufficient quantities to implement the strategy?"
6. **Workability** - Management must assess the contribution of the strategy. The strategy must be evaluated with quantitative data to assess its workability. Identifying ahead-of-time alternative strategies for achieving the goal is another indication of the workability of a strategy.
7. **Appropriate time horizon** - Time frame is the significant factor for realising the strategy. The time horizon of a strategy should allow for implementation without creating any destruction in the organisation or mission market availability (Jain, 2000:233-234).

The evaluation of the strategy is the imperative part of decision-making to ensure the ability and implementation of any strategic planning in the organisation.

3.7 IMPLEMENTATION

Implementation is strategic planning translated into action. The company must have skillful staff to implement the strategies to achieve its major goals (Kotler, 1997:87). Once these strategies have been selected, the next task of the marketing management is to implement these decisions through marketing efforts. The market mix of product, price, promotion, and distribution are the important tools to translate its strategy from statements into efforts in the marketplace. Each of the elements of the marketing mix must be designed very carefully to satisfy the target customers and enhance the competitive advantages. Strategic planning alone is not enough to ensure the success of the company. The plan has to be implemented effectively. The first key activity of implementation is that a company should organise the people who will be doing the actual implementation of the strategic marketing planning (Stanton *et al.*, 1992:609).

Every element of strategy must correspond with the elements of implementation and the strategy to be executed, describing. Good implementation may be responsible for translating an excellent strategy into a runaway success. Sometimes the best strategy may fail because of poor implementation (Bagozzi *et al.*, 1998:687).

The marketing effort and the marketing department must be well-organised to carry out the implementation. The required staff and financial resources must be allocated to implement the strategy effectively. Function, structure and organisation are the important elements of the implementation.

The skills of the staff - those who are involved in the implementation - can be improved and extended through training programmes held within the company or through outside training agencies (Hooley & Saunders, 1993:40-41). The implementation is a transmission and transformation mechanism that is an integral part of a highly complex and interactive planning and policy formulation process. The implementation process flows down the organisation with orders being passed and obeyed from one level to the next, from superior to subordinate.

All managers and operators at all levels of an organisation must participate in the formulation of strategy as a first step of successful implementation. Successful implementation of the marketing plan requires a broad consensus among various functional areas. Timetable and selling strategy guidelines are essential for the implementation process. Deadlines indicate the time available for implementation. The marketing and sales managers are responsible for implementation through the sales force (Cravens, 1997:454-460).

Certain organisational designs and a well-developed co-ordination team of product managers and multifunctional managers are useful in successful implementation. Sales people must be encouraged by extra compensation to push a new product. Intensive schemes will, of course, encourage something more than normal performance in the organisation. Rapid and accurate movement of information through the organisation is essential in implementation (Cravens, 1997:454-460).

3.8 FEEDBACK AND CONTROL

Performance evaluation and feedback are ongoing monitoring activities of market and profit performance as well as taking corrective action where necessary (Best, 2000:309). Performance evaluation enables the organisation to re-examine its pricing, customers, channels, discounts, unit costs and marketing budget to determine if there are opportunities to improve performance.

Control is the process of comparing company-expected performance with actual performance and

taking corrective action where necessary. Once the implementation has started, the feedback and controlling system is an important tool to improve the co-ordination and execution of strategies and programmes and modifying strategies and programmes as necessary. This should be based on performance or major environmental changes, or both. Competitive reaction and customer buying behaviour may change in the marketplace. The degree of variance between the annual plan and the actual performance must be computed carefully by the implementers. Management should pay attention to the most important deviations and take the necessary steps to correct or modify the plan as needed (Pride & Ferrell, 1993: 690-692; Bagozzi *et al.*, 1998:702).

In order to establish the deviation, management could do an analysis or calculate the sales performance, cost performance and programme performance on a monthly basis. This feedback will help management to revise the annual-plan objective and marketing programme accordingly. There are some tools that can be applied to measure and control marketing efforts:

Sales analysis - Sales analysis is a helpful tool to determine the strengths and potential problem areas of the organisation through a process of breaking down the aggregate sales data.

Sales performance analysis – This is the approach of analysing actual sales data and comparing them with budgeted sales to determine strengths and potential problem areas in the organisation.

Marketing profitability analysis - This process will help the organisation to determine the profitability of the particular product sales territories, market segments, sales people, and marketing channels.

Revenue and costs can be used as parameters to assess the profit (or loss) of an organisation (Baker, 2000: 483; Pride & Ferrell, 1993:692- 699). The information that is derived from the performance computation helps to keep the programme on track. If the budget is exceeded, management will know where to cut back or to reallocate resources (Cohen, 2001:13). As the marketing strategy is being executed, the important role of the marketing department is to monitor and control the effort. Each of the elements of the marketing mix (four Ps) can be used as powerful tools to evaluate the strategy implementation in depth to monitor and control the programme (Hooley & Saunders, 1993:42).

According to Bean (1993: 235-240), the monthly executive review (MER) method will help successful strategic implementation and control. The organisation can monitor and review its progress toward implementing its strategic plan on a regular basis by using the MER as a means.

Wilson *et al.* (1992: 547-543) argue in a different line that the need for control arises because individuals within the firm are not always willing to act in the firm's best interests. A firm's strategy may fail if it has a poor control system and *vice versa*. Finally, the feedback and controlling system will therefore need to revise and review the company's implementation, programmes, strategies, or even objectives (Kotler, 1997:87).

Control is used in the sense of assuring implementation of strategies. The management control function includes making the necessary plans to ensure that strategies are implemented. Gauging the performance means not only of those factors connected with the external, but also factors internally, such as every individual within the firm as a vital part of the controlling system.

3.9 SUMMARY

This chapter provided an overview of several aspects of strategic marketing in order to formulate the strategic marketing of an organisation. It addressed a rapidly changing business environment, a critical need for analysing market behaviour and the need for formulating and adjusting strategies according to changing conditions.

The well-designed strategy will, of course, help the organisation to attain high-quality products, product increase or maintaining its market share and have a higher return on sales than their competitors. The environmental complexity will increase the need for strategic planning. The strategic planning staff has a higher level of involvement in the planning process when the environment is relatively simple. Conversely, management assumes more responsibility for strategic planning when the environment is more complex.

To obtain a background on the formulation of strategic marketing planning, a selection of literature was reviewed within the research area of strategic marketing planning. Over the last couple of decades several business firms have accelerated changes in market conditions and the rules of competition, pointing towards the need for greater integration of the different business disciplines and dissolving organisational boundaries. This has become important, as customers and suppliers are increasingly integrated into designing and producing strategic alliances.

In the 21st century, automobile manufacturers in South Africa are forced to formulate and modify their strategic marketing in the context of the increased number of competitors and fierce competition. Effective strategy formulation by the automobile industry will enable marketers to provide a product that uniquely fits customer needs. A better strategy to attempt to transform customers into loyal advocates is to increase innovated, economic, and affordable vehicles to meet the exact needs of each consumer.

Innovation has emerged as an important focus of competitive strategy research in both strategic management and strategic marketing. Successful external innovation through adaptation to rapid technological changes, with changes in products, services, process improvements, and true competitive advantages are not possible without these internal organisational innovations. In fact, strategic marketing research and study have begun to examine these internal and external linkages in product innovation.

In this century, a number of global giant companies are competing with their advanced technological products in the domestic, regional and global marketplace under the new trade liberalisation. The process of globalisation has also opened the door of free trade in the South African market. These global competitors are using different and effective strategies through their advanced technology, finance and management techniques. In today's globalised marketplace South African automobile manufacturers have to increase their knowledge of global marketing strategies to react to their competitors. For this purpose, management should firstly have in-depth insight into the nature and trends of globalisation and its effect on production, marketing and other activities. It is therefore necessary to discuss the globalisation process and its implication with regard to developing countries. The following chapter will discuss the nature and trends of globalisation to provide a fundamental knowledge to automobile manufacturers in South Africa regarding the globalisation process.

CHAPTER 4

THE NATURE AND TRENDS OF GLOBALISATION WITH REGARD TO THE AUTOMOBILE MANUFACTURING INDUSTRY

4.1 INTRODUCTION

This chapter focuses on the literature with regard to globalisation and its nature and trends, how it escalates throughout the world, especially in developing countries. The implications with regard to the automobile industry in the world and developing countries are also investigated. A definition of globalisation, tracing its history from the Cold War period to the present time, is provided. Neo-liberal thinking, changes in global production patterns, the crisis in the world economy and technological growth, are explained. This chapter further discusses the implication of developing countries with regard to globalisation trends - including Africa and South Africa in particular.

The succeeding part highlights the role that is played by the automobile industry in the global marketplace and economy. According to the objective of this study, another section briefly explains the competitive position and contribution of the South African automobile manufacturer in the field of production and marketing in the globally competitive marketplace.

4.2 DEFINING GLOBALISATION

In recent decades the term globalisation has been used with increasing frequency by scholars, politicians, business people and the media, although the term means different things to different people (Gill, 1996:210). In order to describe the globalisation process, a number of terms are used, all having similar meanings and often used interchangeably. These terms are integration, convergence, unification, concentration, centralisation and interdependence (Shafika, 1997:21).

Globalisation has become a catchword and a source of controversy in recent years. The word came into use after the collapse of the Soviet Union and the emergence of a unipolar world. Globalisation is used as a strategy of economic development in the new world order where borders of countries have become blurred - both in terms of the movement of commodities, capital, finance, technology,

ideas and information - as a mode of organising socio-economic life (Gill, 1999:66).

Kugut (1999:166) defines globalisation as follows: "Globalisation means convergence among nations and companies towards common ways of doing things." Gill (1999:70) defines globalisation as the process of increasing economic integration and growing economic interdependence between the economies of countries. Kiely (1998:3) defines globalisation as a world in which societies, cultures, politics and economies have come closer together.

According to Mittelman (1996:2), the manifestation of globalisation includes the spatial reorganisation of products, the interpenetration of industries across borders, the spread of financial markets, the diffusion of identical consumer goods to distant countries, the massive transfer of populations world-wide, and the preference for democracy. Shafika (1997:21) defines globalisation as the economic, political, social and cultural links between different countries, industries, companies, organisations and individuals of the world. It is a process that has been happening gradually for a long time, but which has developed and accelerated rapidly since the 1970s.

Cox (1996:22) mentions the following points in order to vindicate the meaning of globalisation: involvement in trade, investments and payments crossing national frontiers that were regulated by states and international organisations created by states. Production and finance were organised in cross-border networks. A number of changes have occurred in the world's capital economy since 1973. There have been changes in production, from mass production of standardised goods towards less energy and labour-intensive methods and more capital and knowledge-intensive ones. These new strategies emphasised a weakening of trade union power, a cutting of state budgets, deregulation, privatisation and priority given to international competitiveness. Advances in production and marketing and the migration of populations were accelerated in different parts of the world due to the impact of these trends on the international economic order. All these interacting and mutually reinforcing trends constitute one meaning of globalisation (Cox, 1996:23-23).

From the discourse of Hoogevelt (1997:114) it seems that the term globalisation has been fashionable since about the mid-1980s when terms such as "internationalisation" and "transnationalisation" were replaced by globalisation. The concept of globalisation covers a great variety of social, economic and political changes. It is therefore not surprising that different disciplines have assigned different meanings to the term. Internationalisation means the increasing

interwovenness of national economies through international trade, while transnationalisation is the increasing organisation of production on a cross-border basis by multinational organisations. Globalisation of economy is therefore perceived as a process in which distinct national economies and domestic strategies of national economic management have become increasingly irrelevant. Globalisation, the world capitalist system, has reached a new and higher level of economic integration. This integration not only includes production and trade, but also the flow of money. Globalisation has rearranged the architecture of the world's economic order, while social and power relations have been recast to resemble not a pyramid, but a three-tier structure of concentric circles.

Braithwaite and Drahos (2000:8) define globalisation as the intensification of economic, political, social and cultural relations across borders. Held and McGrew (1993:262) suggest that the concept of globalisation is a universal process or set of processes, generating a multiplicity of linkages and interconnections that transcend the states and societies making up the modern world system. Held and McGrew (1993:262) indicate that globalisation has two interrelated dimensions that are defined as "scope" (or stretching) and "intensity" (or deepening). Globalisation is the process by means of which the time and space of social life is ordered. Harvey (1995:2) simply suggests that globalisation signifies the modern war of capital.

A number of definitions are given here in order to understanding the dimensions of globalisation. Various theorists provide different definitions for globalisation. Generally, all these definitions attempt to facilitate social, political and economic integration on an international scale. The globalisation process that is taking place in one part of the globe affects what is taking place in other parts. The globalisation process always facilitates greater integration of markets in a way that shapes production and work methods and act as a means to protect the interest of the TNCs. The process of economic integration, interdependence between countries and interpenetration of industries across borders has been rapidly accelerating. These definitions clearly indicate that flow of capital, knowledge, information and consumer goods as well as the integration of individuals, households and communities are structures of globalisation. Individuals, households and communities in rural areas and even underdeveloped countries have become directly involved in the globalisation process. The escalation of the neo-liberal advent removed all restrictions on the market and put into place new policies. The boundaries of countries have become blurred with regard to the movement of commodities, capital, finance, technology, ideas and information, bringing about a free market. These processes require all countries to open up their domestic markets to foreign capital.

Globalisation traps developing countries into the global economy and makes it difficult for them to be a genuinely independent economy. Globalisation is widening the gap further between developed and developing countries. Developing countries are increasingly becoming aware of the negative aspects of globalisation.

This process of globalisation provides opportunities and challenges that are an integral part of this contradiction. The process of globalisation will, without doubt, affect South Africa as it becomes increasingly integrated into the global economy. The South African automobile manufacturing industry will also face the effect of this rapid globalisation process.

4.3 THE EMERGENCE OF GLOBALISATION

Globalisation in its generic and broadest sense of the word is part of the movement of history itself. In the larger movement of history, people have moved from one place to another to obtain food, in other words, moved from food deficit to food surplus regions. Sometimes they conquered the areas to which they moved, sometimes they became absorbed in them, losing their separate identities. Negative and positive sides and factors are included in the baggage of this movement (Tandon, 1998:11).

Trade between countries has been taking place for thousands of years. The first recorded international trade transaction took place over 5 000 years ago (Shafika, 1997:66). According to Hoogevelt (1997:16-17), the development and expansion of capitalism took place in four stages, namely:

- 1500 – 1800 (Mercantile phase): transfer of economic surplus through looting and plundering, disguised as trade;
- 1800 – 1950 (Colonial period): transfer of economic surplus through unequal terms of trade by virtue of a colonially-imposed international division of labour;
- 1950 – 1970 (Neo-colonial period): transfer of economic surplus through developmentalism and technological rents; and
- 1970 – post-imperialism: transfer of economic surplus through debt peonage.

Hoogevelt (1997:69) argues that three important factors increase internationalisation rapidly. These factors include world trade figures, the growth and spread of foreign direct investment through

multinational corporations (MNCs) (the definition for MNCs will be given below), and the expansion of all international capital flows and its pattern of integration.

According to Spybey (1996: 1-3) and Bishop (1999:xv) Europeans began to exert an influence on the rest of the world and implant their cultural institutions on all continents after the voyages of Christopher Columbus in 1492 and Vasco da Gama in 1497-8. Those voyages are seen as the origin of globalisation. By the last decade of the twentieth century it had become almost impossible to avoid the influences of the nation-state system, the global economy, the global communication system and the world military order. Mass production, mass communication and mass consumption emerged through assembly line manufacturing of "Taylorism" and "Fordism" (Taylorism and Fordism will be explained in detail below). This rapidly integrated the world trade and international economy. These stimuli accelerated the globalisation process, developing into giant transnational corporations (TNCs)(the definition for TNCs will be given below) of the late twentieth century.

The process of globalisation was interrupted by the victory of socialism in the Soviet Union in 1917. This victory now brought two systems to the world, which were decidedly opposed to the globalisation of the rule of capital. Some countries were able to take advantage of the Cold War era. During these years countries like South East Asia, Japan, South Korea, Taiwan, Singapore and Hong Kong were not only able to copy Western technology with impunity, but also build their industries in the 1970s and 1980s. The United States of America (USA) turned a blind eye to this process because it needed these countries to fight Communism in the Pacific. In the next tier, Malaysia, Thailand and China obtained new industries during these decades. Africa did not have such luck. South Africa was a main source of raw materials for the West until apartheid was removed. Africa never really acquired an industrial base like the Asian newly industrialised countries (NICs) have been acquiring for three decades (Tandon, 1998:13-14; Kiely, 1998:7). Haley and Tan (1999:94) argue that MNCs entered Asia over two centuries ago, although they only started to have a significant economic impact in Asia after World War II. MNC operations in Asia did not serve local markets, but enjoyed production cost advantages where world-wide products were manufactured for export markets.

Tandon (1998:12) argues that while this is the broad movement of globalisation, there were more brief movements within the broad sweep of history. The colonial conquest of most of what the West calls the Third World, was one such brief movements in a history barely 300 years old. This

movement provoked resistance on the part of the peoples of the South, resulting in a partial liberation from direct control. Western corporations control the liberated countries and most of its resources, either directly or indirectly through investment or trade. This is the important division between the “North” and the “South”. Some argue that this division no longer exists and that the whole world is now mutually interdependent. However, some countries are more equal than others within this interdependent world. Both political domination and economic exploitation are the ideology of free-market liberalism and property-based democracy.

According to Gereffi (1996:53), production processes were organised within the boundaries of nations in the period from 1950 to 1960. Raw materials were exported to industrialised countries while industrialised countries like the USA, Europe and Japan sent their manufactured goods to all parts of the world. However, since the 1960s, the world economy has undergone a fundamental shift towards an integrated and co-ordinated global division of labour in production and trade. Today transnational production systems are a major feature of industries. Gereffi (1996:53) argues that an export-oriented development system has emerged in the 1970s and 1980s. This global production shaped the Third World’s insertion into the international economy. After this era, large producers and marketers in the core countries controlled most of the exporting activities.

Shafika (1997:10) argues that the world has been experiencing economic changes since 1970. In the process of globalisation, international trade has increased substantially, while global forces now rule the global market economy. Countries depend on one another for various industrial products and service and economic integration of countries are one of the major features of global trends today. Shafika (1997:10) gives the following evidence of global integration.

- Trade grows faster;
- money flows faster;
- world communication is faster;
- production is organised globally;
- governments co-operate more;
- more international links at grass roots level; and
- more world-wide social activities.

4.3.1 The world economic crisis

By the early 1970s, capitalist expansion had reached its limits. The economic crisis began with the rise in oil prices by the oil and petroleum exporting countries (OPEC) during the early 1970s. From this period, economic growth slowed down and government debt and unemployment began to increase. This was the starting point of the economic crisis in the world economy. In the 1970s, the invention of computer technology and its application to products, goods and services - also called the computer revolution - played a decisive role in the attempts to remove the capitalist system from the crisis. During this period, the old capitalist system had to be reorganised in the form of more advanced stages of capitalism. Old ideas and political methods were discarded and neo-liberal economic strategies applied to re-organise the capitalist system. The computer revolution and neo-liberal economic strategies are the most important factors that drive globalisation and make this new form of globalisation possible (Shafika, 1997:20). Cox (1996:24) points out that globalisation and globalism emerged in the last three decades of the twentieth century.

4.3.2 Globalisation in the post-Cold War era

Globalisation is the direct result of the end of the Cold War, which effectively ended in 1990 (Kock, 1998:11). During the Cold War period the USA and the West had no choice but to allow some countries to industrialise. However, by the end of the Cold War, no such imperatives existed for either the USA or the West. After the Cold War, fundamental changes started to occur in the global economic system. Copying the technology and selling goods in USA markets became difficult because of high tariff walls and other protective measures. A new globalisation was created, becoming strongly mercantilist. This signalled the era of hard economics, much like the era of mercantilism at the draw of capitalism (Tandon, 1998: 14-15; Kiely, 1998:26).

According to Gill (1996:209) globalisation is not a new phenomenon. In the nineteenth century globalisation coincided with the development of modern capitalism. Capitalist industrialisation correlated with a policy of free trade imperialism and gold standards. There was rival imperialism with other great powers, notably the social mercantilism of Germany. The differences were between the world order of the nineteenth and that of twentieth century. Today's scientific-industrial revolution is intimately related to the globalised capitalism and is much more productive than its nineteenth century counterpart was. Gereffi (1996:54-57) highlights that the integrated system of

global trade and production gave a birth to the modern industrialisation of today. Both space and time have shrunk owing to innovated technologies in the transportation and communication of those concerned with the economy and production process. Manufacturing methods under the export-oriented intention has accelerated the process of globalisation in the last decade. The newly opened massive markets have spread all over the world, while by means of capitalism and democracy, cross-border trade has become easier as regulatory barriers to foreign investment eased. Telecommunication and transport costs have fallen due to the innovated modern technology and capital markets that have opened up (Manning, 1997:36; Hough, 1996:50).

In the present situation of globalisation, there is massive transfer of assets from a national to an international financial oligarchy. In order to accelerate the liberalisation of economy, the International Monetary Fund (IMF) and World Bank are using measures to impose further conditions on these countries. This will decrease national control and increase control over the economy by outside players. Specifically in developing countries, asset values have fallen in terms of US dollars. The social class hurt mostly by the financial collapse of the economy and the foreign corporations' controlling power is the Third World (Tandon, 1998:11; Kiely, 1998:26). Today, countries that allow the easy migration of skilled labour could specialise in any field. The USA and other advanced countries have benefited enormously from this movement (Kugut, 1999:167).

When a country violates patent rights and tariff agreements, it will be punished by the cross-sectoral sanction mechanism - the face of contemporary globalisation. Capital has become "dematerialised" and within the productive sector of capital, it has become more knowledge-intensive than ever before. The boundaries between agriculture, industry and services have become obscured. Due to the limitations within the market, there is overproduction of commodities in the capitalist system of production. Equitable distribution of income world-wide would create an effective market for these commodities, but it does not happen easily, because the private and corporate accumulation of capital does not consider the welfare of people through its distribution. This is the motive force of globalisation (Tandon, 1998:16). According to Michie and Padayachee (1997:156) South Africa has the world's most unequal distribution of income.

The emergence of globalisation, centralisation and concentration of capital enabled the birth of a corporation whose decision affected millions of people across boundaries and future economies (ANC, 1997: 60). Kock (1998:7) expresses the view that globalisation is not only an integration

process, but also a process that creates social struggles involving social disintegration and the fragmentation of state structures.

To summarise the previous theorists' findings, the globalisation process started in the nineteenth century or even before that. After the disintegration of the Soviet Union and the end of the Cold War, the globalisation process accelerated.

4.4 BACKGROUND TO AND TRENDS OF GLOBALISATION

This section provides a clear picture of the background and trends of globalisation. It is important to understand how the globalisation process has influenced various aspects in the world. Understanding the nature and trends of globalisation is imperative for the purpose of this study, because it will give insight to automobile manufacturers with regard to the global market.

4.4.1 The contradictions of globalisation

Globalisation has been a key feature in the expansion of finance and the advancement of corporate services, not simply as a means of raising profits and lowering costs as with many manufacturing industries. The main consideration was to reduce the existing regulatory role of the state (Sassen, 1996:42). The globalisation process involves contradictions both among and within countries. The social structure of the world is shaped by globalisation, taking the form of a three-part hierarchy. At the top are people who are integrated into the global economy, including everyone, from global economy managers down to the relatively privileged workers who serve global production and finance in reasonable state jobs. The second level includes those people who serve the global economy in more precarious employment. This category is segmented by race, region and gender as a result of the restructuring of production by post-Fordism. The fact that states have less regulatory powers with regard to automation, is another contradiction. To enhance national competitiveness, state and intergovernmental organisations play an important role in enforcing the rules of global economy. However, their powers of shielding domestic economies from the negative effects of globalisation have diminished. The uneven tendency towards decomposition of civil society is another contradiction of globalisation. This takes on the form of both fragmentation of social forces and a growing gap between the base of society and political leadership (Cox, 1996:26-27).

4.4.2 Neo-liberal thinking

The neo-liberal policy is a significant tool to reorganise the capitalist system again after the world economic crisis of the 1970s. The neo-liberal strategies of developed countries help to create a unified and integrated global economy (Shafika 1997:19; Kiely, 1998:33).

According to Shafika (1997:19-20), the neo-liberal agenda is based on the following ideas:

- **The market rules:** The state's involvement and control in the economy is reduced. The state is only responsible for establishing conditions and supplying the infrastructure for production.
- **Privatisation:** The state sells some or parts of its enterprises through privatisation programmes. These activities are sometimes called "restructuring the state's assets".
- **Deregulation:** fewer laws regulate the economy, with less price controls and subsidies.
- **Cuts in government spending:** Smaller amounts of money are allocated to welfare programmes in education, health and social security. It also means job losses in these sectors.
- **Competition:** Private companies compete for a share in the market; workers compete with each other for jobs; labour competes with machines.
- **Outward orientation:** The economy is organised to export goods to be sold on the world market.
- **Trade liberalisation:** Taxes on imports are cut and local industries are no longer protected from outside competition.
- **Specialisation:** The economy specialises in producing what it is best at in the world market.
- **Flexibility:** The workplace or factories will be arranged flexibly according to the needs of the market.
- **Individualism:** This entails the freedom of individuals to organise their own lives.

The neo-liberal system is the important factor that links up with universal laws of economic development in order to cross the borders from the more highly developed to the least developed countries. The neo-liberalism involves the rapid development of the world economy from an international economy to a global economy. The difference is that an international economy is one where the main actors are national economies that are linked through trade and investment. In a global economy, national economies are losing their identities and are being integrated into the global economy (Braithwaite & Drahos, 2000:9).

The major trends of globalisation are the following. Capitalism has spread all over the world, power is more concentrated, global competition is rising, while the powers of government are declining. Centrally planned economics collapsed in the Soviet Union and Eastern Europe during 1989 and 1990, leading to further expansion of the global market economy. The Soviet Union and Eastern Europe are now included in the world market, which had been closed in the past. Wealth, ownership and power are becoming increasingly concentrated in the hands of TNCs and the few rich industrialised countries that dominate international institutions like the World Trade Organisation (WTO) (Kiely, 1998:30-33; Berger, 1996:9).

According to Shafika (1997:25), governments cannot control the movement of money into and out of their countries, as exchange takes place through computers. TNCs are able to bypass governments and can move factories to different countries of the world. Because TNCs are growing, they are able to exert more influence on the national economy than national government could (Kiely, 1998:46). Under neo-liberal economic policies governments are pressured to free its trade by reducing tax on imports and to sell off their assets through privatisation. Governments can no longer exert strict control over the information that their citizens receive due to improved communication technology. National policies are affected by international institution such as the IMF, World Bank and WTO. The major nature of globalisation means that national governments are going to become absorbed into joint government groups or blocs, their policies reducing the power of governments (Gill, 1999:72; Shafika, 1997:24-25).

4.4.3 Instruments of globalisation

The World Trade Organisation is the key instrument in the contemporary phase of globalisation. It was formally established in April 1994 as part of an agreement reached by the General Agreement on Tariffs and Trade (GATT). The WTO is the chief international organisation that governs world trade. It controls trade regulations to the benefit of the international banks and TNCs and also supervises the enforcement of national trade policies. In 1995 the WTO's formation and the Uruguay Round Agreement started to play a significant role in international economics, which proved to be a historical landmark in the acceleration of the global economic system (Buthelezi, 2000:8; Ruggiero, 1998:15). In order to provide support, the IMF and World Bank also changed their constitutions and their operations for financial liberalisation. Today, financial openness is the imperative aspect that operates through the regime of privatisation and deregulation imposed by the

World Bank and IMF's structural adjustment programmes (Hoogevelt, 1997:84). G7 countries are also playing an important role in the global economy (Tandon, 1999:109; Korten, 1995:166; Gill, 1999:69). The G7 countries have considerable influence on global institutional structures and networks of political co-ordination, bringing together the world's advanced capitalist countries and acting or operating as a global directorate (Held & McGrew, 1993:272).

Capitalism in this regard means that a small powerful group of private owners are using production factors or financial resources, raw materials, machinery, land and labour (Nzimande & Croni, 1997:66). According to Cheru (1996:145), a few hundred international industrial and financial corporations are the key agents of globalisation.

Decisions are taken in the WTO on the basis of what is called negative consensus. If no country objects to a proposal or decision, it is deemed to have received consensus of members and becomes a binding decision. Many small countries from Africa cannot even afford to have a delegation in Geneva, therefore many decision in the WTO are taken without the participation of African countries (Tandon, 1999:12).

4.4.4 The Uruguay Round Agreement

The Uruguay Round Agreement is another important instrument that exacerbated trade liberalisation and world trade-related aspects over these decades. This agreement was the eighth round of tariff negotiations since the end of the Second World War. This agreement superseded all other previous rounds that were traditionally considered "trade". Uruguay brought matters such as intellectual property rights, investments, procurement and labour standards into its purview. These "trade-related intellectual property rights" (TRIPS), "trade-related investment measures" (TRIMs) as well as many other trade-related issues came about under the trading regime of the Uruguay agreement (Tandon, 1999:110-111; Braithwaite & Drahos, 2000:9; Buthelezi, 1998:31; Lai, 1998:134). South Africa is one of the signatories to the Uruguay Round Agreement and is required to reduced tariffs on its imported goods accordingly (Bell, 1997:74).

The WTO has introduced new rules regarding intellectual property rights, making the system highly monopolistic in favour of MNCs. A company has to prove that it is using a different process or technology from the one used by the challenger. The court could mandate companies to seize goods

or machinery used to produce patented products. It is therefore much harder now than during the 1950-1990 period (Korten, 1995:180; Gill, 1999:71; Tandon, 1999:119).

4.4.5 The Marrakesh Agreement

This agreement was between the members of the WTO in April 1994 in Marrakesh, Morocco. The major aim of this agreement was to free up trade in the global economy. Member countries, according to the agreement, had to reduce their tariffs by one third and some sectors had to have zero tariffs. South Africa is also a signatory to the agreement.

The South African government has to implement the following according to the terms of the Marrakesh Agreement:

- About 12 800-tariff lines will be rationalised into no more than 1000 lines.
- About 33% of industrial tariffs will be cut down in five equal annual stages, starting in September 1995.
- The clothing, textile and automobile industries will have a period of 8 years to reduce tariffs. By 2002 import duty for motorcars and light vehicles will not exceed 40%. (It was 115% in 1993).

The price of consumer products will fall because imported products will be cheaper, which could have both a positive and negative effect. For example, car prices will drop by 25%. Thousands of jobs will be lost and companies will go out of business. It is estimated that in the motor vehicle industry alone 150, 000 jobs will be lost (Shafika, 1997:85; Chossudovsky, 2000:147).

4.4.6 Multinational Corporations (MNCs) and Transnational Corporation (TNCs)

There is currently a debate about the difference of multinational corporations (MNCs) and transnational corporations (TNCs). Jeannot and Hennessey (1998:16) also refer to MNCs as global companies, transnational corporations, firms or stateless corporations. There are no clearly acceptable differences between MNCs and TCNs. Definitions by various theorists are given below. Firstly, the definition of a multinational corporation is that of an international company with international operations and subsidiaries, strongly linked to a particular nation-state where its headquarters are based. The nation-state has some control over an MNCs. Jain (1993:31) defines MNCs as having the highest level of overseas involvement, characterised by a global strategy of investment, production and distribution.

Weiss (1997:10) expresses the view that cost reduction is the driving force compelling MNCs toward a footloose career. This author argues that new transport and information technology liberates and encourages MNCs to exploit low-cost production sites, resulting in a globalisation of production.

Secondly, TNCs have changed from being multinational corporations to becoming truly transnational corporations. TNCs differ from MNCs, because TNCs have integrated its strategies on a world-wide scale rather than separate strategies on a country-by-country basis (Jeannet & Hennessey, 1998:17). According to Terpstra and Sarathy (2000:651), TNCs are the conceptual translation of the rule to think local and act global. TNCs often have products that have to be adapted according to the needs of local markets. At the same time, the size of TNCs leads to benefits from the centralisation or regionalisation of certain functions such as finance or product development.

National government cannot, however, control the TNCs and only regulation agreed upon and enforced internationally could limit the powers of these TNCs. A TNC is sometimes referred to as a “stateless corporation”. Today TNCs are highly decentralised, while their power and control over the global economy is highly concentrated (Shafika, 1997:110).

The history of TNCs can be traced back to the late nineteenth century. After the Second World War TNCs grew rapidly. The operations of TNCs expanded to developing countries in 1950s, mainly concentrating on agriculture and oil extraction. During the late 1960s TNCs started to set up manufacturing companies in developing countries because of cheaper labour and product markets. During this period it was difficult for TNCs to export to developing countries due to the high tariffs imposed by the developing countries on imported products in order to protect their economy. A number of developing countries encouraged TNCs to set up companies in their countries by forming export processing zones or free trade zones, which served as incentives for those TNCs. By implementing computer technology, TNCs have organised industrial production all over the world through their factories or subsidiaries. For this purpose they transfer technology, management techniques and work organisation across the globe (Shafika, 1997:100-105; Spybey, 1996:84-88; Braithwaite & Drahos, 2000-208).

The more powerful primary trend of globalisation is the growing effect that TNCs have on national and local economic development prospects. There are important variations in the degree of direct and indirect TNC influence on different nations, locations and actors in Europe (Amin & Malmberg, 1994:234). TNCs may not be newcomers to the international scene, but the escalation of their activities and cross-border corporate alliance has taken on a new character (Berger, 1996:6). Wade (1996:60) highlights that TNCs have become the most powerful type of economic actor, even more powerful than government. Science, technology and economy are the important factors for the interdependence of nations. After 1960, many companies faced more foreign-based competitors both at home and abroad. National economies are now much more integrated through trade and foreign direct investment (FDI) than in 1960 (Wade, 1996:62). According to Madeley (1999:3), TNCs grew rapidly in the late 1990s. In 1998 there were around 70,000 TNCs compared to 53,000 in the early 1970s. Most of them are based in industrialised countries and have over 450,000 foreign subsidiaries or affiliates all over the world. About 73 m people are employed by TNCs world-wide and about 12 m people are employed in developing countries, constituting around 2% of the work force of those countries. TNCs are boosting their FDI in developing countries and about a hundred TNCs account for one-third of all the FDI in these countries. All decisions by TNCs will be made at head office and not in the countries where they operate their affiliates. These decisions affect the people of developing countries (Madeley, 1999:5). According to the United Nations (2000:18) there are now some 60,000 TNCs with around 500,000 foreign affiliates world-wide, accounting for \$11 t of world sales with assets of almost \$ 15 t. The 100 largest TNCs control one-fifth of the global foreign assets and one-third of sales.

The 500 largest industrial corporations in the world control 25% of the world's economic output. The top 300 TNCs (excluding financial institutions) own 25% of the world's productive assets. Global trends are clearly towards greater concentration of the control of markets and productive assets in the hands of a few giant companies. The global market is becoming a highly monopolistic one where five companies control more than half of a global market. In the case of automobiles, a small number of companies are controlling nearly 70% of the entire world market (Korten, 1995:223; Gill, 1999:69). According to the United Nations (2000:119), the leading automobile TNCs increasingly consider their activities in developing countries as integrated parts of their global production strategy. Seventeen major automobile TNCs in the world are engaged in automobile manufacturing and marketing. They dominate the largest market for automobiles and account for nearly 90% of world production.

TNCs are dealing with a much larger scale of world trade than developing countries with their relatively small-scale export companies. Developing countries do not have large-scale trading and manufacturing companies with modern technology, greater capital and skilled labour to operate in this way (Buthelezi, 2000:11). Activities of TNCs have increased once again since 1994 after apartheid came to end. During the 1980s the influence of TNCs' declined significantly under the influence of sanctions against the apartheid government. Since April 1994 a number of TNCs have returned to South Africa.

TNCs and MNCs play a major role in both developed and developing countries. TNCs and MNCs are now, after the Second World War, operating in developing countries, while its economic and industrial power is deepening and expanding in developing countries. TNCs are not just a change in terminology, they are distinctly different companies. TNCs have more power and domination of developing countries' political, economic and social order. They have a different focus, vision, orientation, strategy, structure, R & D activity and policy, human resource policy, operating style, sophisticated communication pattern, sound financial capacity, sourcing policy, new innovated product development policy and investment policy in order to control the global market. TNCs are the principal instrument in the expansion of business on an international scale. TNCs and MNCs represent the highest level of overseas involvement and are characterised by a global strategy of investment, production and distribution. Thus, globalisation in its present phase, is largely for unrestricted and globalised operations of the TNCs, with uncontrolled international capital movements, international commodity flows, financial movements, globalised communications for the unrestricted propagation of Western culture and ideas. Developing countries have no option but to open their markets, embrace globalisation and attract the TNCs. The reason for this is because developing countries are facing a lack of employment creation, shortage of technology, foreign exchange, financial resources and a higher level of foreign debts. TNCs have considerable power, knowledge and experience to exploit the resources and market of the developing countries. TNCs play an important role in industrial restructuring by virtue of their size, technological powers and industrialised markets with regard to skill, capital, technology and brand, human resources and supply linkages. Their production networks dominate world trade and their presence could make it easier to enter markets and achieve competitiveness. TNCs can upgrade and restructure industrial activities in developing countries.

Automobile TNCs play an important role, especially in assembly and marketing in developing countries. Its modernisation and expansion began in the late 1980s or the early 1990s as a result of trade liberalisation in most developing countries. Large automobile TNCs have considerable political and economic powers in host countries because of their contribution to employment, exports and FDI inflow and higher level of their linkages to other companies.

4.4.7 Changes in global production patterns

Globalisation has intensified not only in the financial and trade spheres but is also characterised by the emergence of a highly innovated world-wide production structure. Various factors of production and methods of production are increasingly exchanged between the countries on a world-wide scale under the globalisation process through trade and economic liberalisation. Production processes are undergoing restructuring in order to meet the demands of a competitive global market. The nature of work and methods of production are an important part of an ongoing process of globalisation. This section will deal with changes in global production.

4.4.7.1 Origins of mass production

Before industrialisation, the majority of people lived in rural villages. They were mainly dependent on agricultural production and family members were employed for their production. Weaving, basket making and pottery activities were features of these cottage industries of the eighteenth-century Europe (Mathews, 1989:11). The majority of cottage production depended on merchants to supply people with raw materials, paying standard prices for finished work. This system was called proto-industrialisation and the present industrial system developed from this system. This system permitted capital to accumulate to the hands of merchants who had an incentive to re-invest it in manufacturing that encouraged the growth of markets, skilled workers and division of labour (Mathews, 1989:12).

4.4.7.2 The factory system and mass production

Gradually, the modern factory production system emerged between the middle of the eighteenth century and the end of the nineteenth century. Water wheels and steam engines were used for this production method. Mass production methods gained ground over its craft-production technological

rival throughout the nineteenth century. This system enabled manufacturers to reduce the cost by standardising the production or parts of production and using repetitive mechanical methods to substitute skilled labour. This method was perfected in the years after 1850 in the USA by mass production technology that actually depended on the standardisation and interchangeability of parts (Mathews, 1989:20-21; Abernathy, 1978: 22-24).

Large purchases of raw materials and large investments were required for this mass production system. According to this manufacturing method, resources and raw materials were suited to the manufacturing of one particular product and these resources would have no place when the market for this product declined. Manufacturers therefore had to create markets for their products (Kaplinsky & Posthuma, 1994:12; Mathews, 1989:21-22). In 1913 Henry Ford installed the modern assembly-line system at his vehicle plant in Highland Park, Detroit. For the first time this introduced an endless-chain conveyor for vehicle production. By 1920, mass production had spread to Europe, Japan and elsewhere. This new mode encompassed mass production, assembly-line techniques and scientific management in one or other guise. This system came to be called Fordism (Mathews, 1989:27; Abernathy, 1978: 22). In this system the various sub-parts were assembled into the whole, called mass production. This period was generally called "Fordism" in economic, political and social science literature (Hoogevelt, 1997:92). The material opportunity for this global Fordism was created by the decomposition of the production process into simple tasks that could be carried out by unskilled labour. (This itself was a key feature of the Fordist system of production generally known as "Taylorism") (Hoogevelt, 1997:46; Kock, 1998:9).

Operating time was reduced and rationalised through a high degree of mechanisation, hierarchical division of design, goods produced in bulk at low cost. Fordism was to reduce relative processes in order to stimulate mass consumption (Boyer, 1993:7). The Fordism model required decision-making to be highly centralised within a series of divisions that were solely responsible for among others design, production, personnel management and finance. Rising stock levels and slowness to respond to new consumer requirements were sanctions imposed by institutional characteristics of Fordism. Companies made efforts to reduce unit costs and increase productivity, but during the 1970s consumers expected quality, durability and effective after-sales service on products (Boyer, 1993:13; Hirst & Zeitlin, 1991:2).

A new production system was introduced that consisted of communication, multiple skills, and high-

quality production with high added value on the international market. This involved intensive restructuring of existing industries, making continuous innovation, multiple-skilled and employee support for company objectives so efficient. The new principle of production that underpins an alternative to Fordism is now widely accepted by a community of practitioners, management theorists and economists. The new production system has the ability to overcome the imbalances and difficulties that were faced by the Fordist model. Internal transfer of workers and resources to internal training during slow periods and overall reductions in working hours are some of the factors needed to improve productivity and quality. Product differentiation, the capacity to react to the market and the arrival of multi-skilled operators presuppose an alternative organisational form. The objectives would be to reconcile permanent cost reduction and quality as a marketing device, while internal production flexibility is also a major aspect of this flexible system (Boyer, 1993:28- 30).

4.4.7.3 Lean production

The disadvantages of mass production are rigidity and standardisation. Mass production cannot cope with flexibility, cyclical recessions, increased competition or changing market tastes. By the 1960s, capitalism had been reconstituted and a fierce climate of global competition required changes and a new production system (Hoogevelt, 1997:93). This need brought about a flexible production system that included flexible production, work processes, a flexible labour market and products, flexible education and patterns of consumption to the world. A new organisation of the production process invented by Toyota in the 1950s combined the advantages of mass production and craft production. Toyota is now producing a wide variety of products (vehicles of all kinds) with the same general tools, called "Toyotaism". This method is referred to as "lean production". In addition to this lean production system, Toyota gradually introduced the just-in-time (JIT) production method. This means that Toyota stopped building motorcars in advance for unknown buyers and converted to a build-on-order system. Toyota dealers developed aggressive selling techniques that involved regular visits to customers. The company goes directly to existing customers in order to create new products (Hoogevelt, 1997: 96; Tomaney, 1994: 65; White, 2002:167-174). Lean manufacturing is a philosophy of manufacturing that focuses on delivery of the highest quality production at the lowest cost in time. Lean production entails a flexible product that requires reducing capital requirements, facilitating product turnover and product differentiation, improving production quality, continuous organisational learning and involving all members of the organisation (Streeck, 1996:138-140). This production system also focuses on value stream methods. These methods include all the steps in the

production process needed to convert raw materials into a product according to customers' needs. It also develops a better relationship between component suppliers and assemblers. This enables the implementation of the JIT system in their production, inventory and distribution successfully (Liker & Chum Wu, 2000: 82; Kaplinsky, 1998:25). These new production methods have been referred to in a variety of ways or terms, such as "flexible specialisation", "post-Fordism", "systemofacture", "the new competition" and "lean production" (Kaplinsky & Posthuma, 1994:7). Toyota follows four rules in their production. These rules guide the design, operation and improvement of every activity and provide the pathway for every product and service. The four rules are as follows:

Rule: All production work should be specified as to content, sequence, timing and outcome.

Rule: Every customer-supplier connection must be direct.

Rule: The pathway for every product and service must be simple and direct.

Rule: Scientific methods are used for any improvement under the guidance of a teacher, at the lowest possible level in the organisation.

Toyota follows a specific time schedule for each activity for each worker in this production method (Spear & Bowen, 1999: 99). The following concepts play an important role in the lean production method.

4.4 7 3 1 The focused factory concept in lean production

According to Swamidass and Darlow (2002: 17) the concept of manufacturing strategy and its implementation were introduced in the 1960s. Cost, quality and flexibility became collectively attainable goals in the manufacturing strategy in the 1990s. Today the focused factory (FF) concept is one of the most important principles used in large-scale factory reorganisation. For more than a decade manufacturing cells permitted "lean", "agile" and "flexible" manufacturing. The manufacturing strategy for a plant consists of five major facets so that the products of that plant and processes are competitive. The areas are:

- **Differentiation** - technological sophistication and product features;
- **Flexibility** - to modify products to suit customers and delivery volumes;
- **Manufacturing cost**;
- **Timelines** - lead time and reliable delivery; and
- **Quality** - quality with regard to product performance, reliability and durability.

Swink (2002:25) suggests that over the years, several strategic planning frameworks have been developed that involves those associated with manufacturing competencies. The manufacturing strategy and process enable a company to differentiate its products from its competitors' products.

4.4.7.3.2 The total quality management concept

Total quality management (TQM) indicates excellence of performance throughout the total system, including design, production, distribution, service, and the involvement of all categories of employees, customers and suppliers in the quality initiative (Natarajan, 2002:69). Toyota introduced the TQM system in order to achieve its goals through the flexible method. Quality is an essential basic business principle for any product. Quality means that external and internal customers are provided with innovative products and services to satisfy their requirements. All groups of the workforce and management at all levels are involved in promoting the concepts and practice of TQM. This involves the implementation of specific quality inspection procedures and participation by managers in group quality activity (Kaplinsky & Posthuma, 1994: 85). Most organisations have to be redesigned to be able to compete with the most efficient companies. The Japanese lean production is designed to replace the old Fordism mass production of standardised goods (Boyer, 1996:29). Lean production has today become a most efficient manufacturing practice world-wide. For example, Germany has organised its automobile-manufacturing industries in order to survive international competition and has been quite successful in its own way during the restructuring period of the 1970s and 1980s (Streck, 1996:138-140; Black, 1994:11).

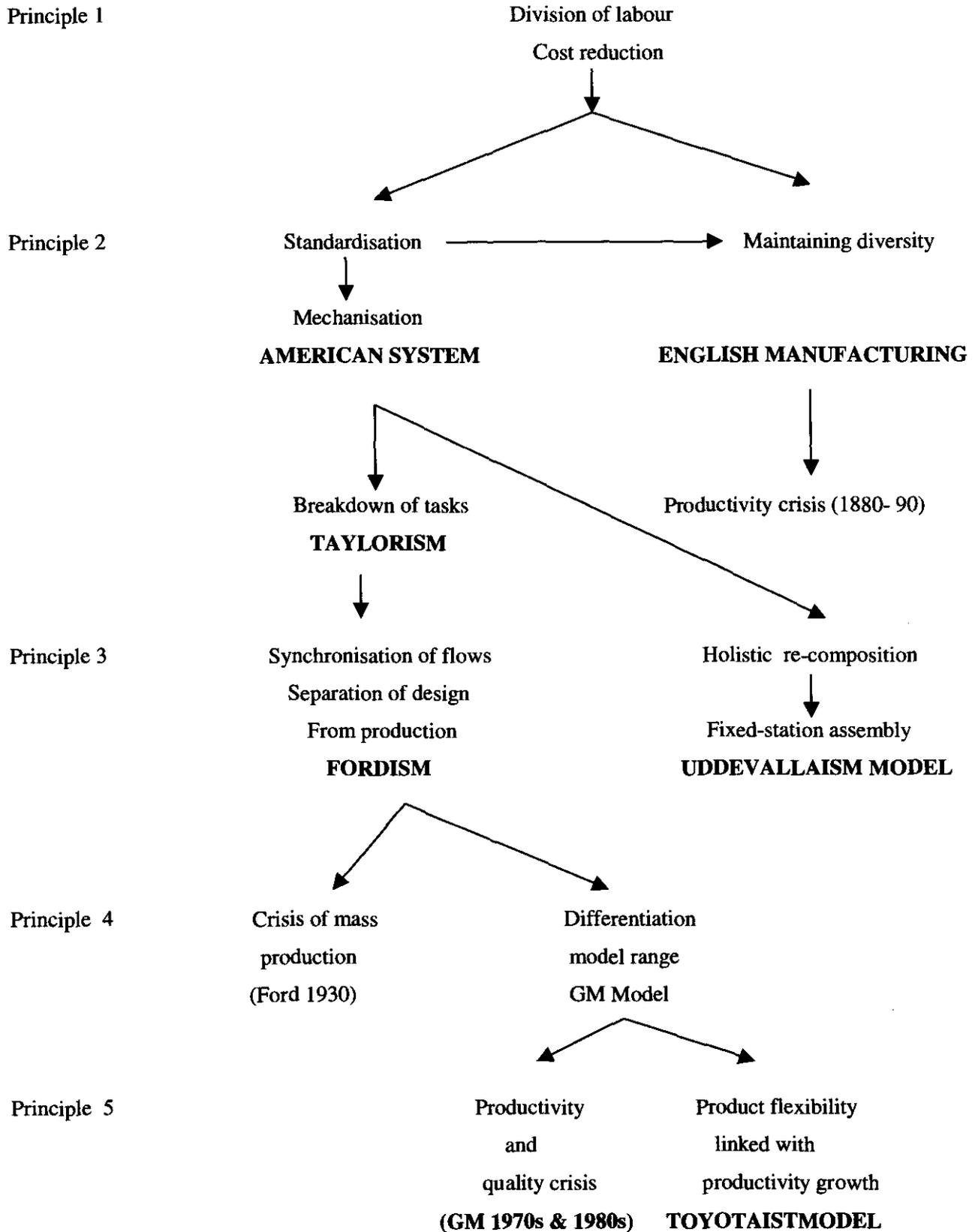
4.4.7.3.3 Computerised manufacturing technology

Computerised advanced manufacturing technology (AMT) has been introduced in the manufacturing process in factories of global companies with huge amounts of investment. The following are some of these modern technologies:

- Computer-aided manufacture (CAM)
- Computer-aided design (CAD)
- Computer-aided planning (CAP).

CAM techniques now include numerical control (NC) and computer numerical control (CNC) machine tools and machinery centres: industrial robotics and flexible manufacturing cells (FMCs) or flexible manufacturing systems. CAD techniques could vary from simple drafting aids to

Figure 4.1: A comparison of Toyotaism and Fordism



(Source: Boyer, 1993:58)

sophisticated computer systems, which test alternative designs for stress and other characteristics when they become computer-aided engineering (CAE) tools. A CAP technique includes software that links parts needed by suppliers and inventories such as manufacturing resources planning (MRP). CAP techniques also include computer-aided process planning (CAP), which routes parts through the factory in optimal ways (Mathews, 1989:43; Hoogevelt, 1997:102-103). Figure 4.1 above shows the difference between Fordism and Toyotism.

4.4.8 Communication technology

Communication technology plays a vital role in reinforcing global activities, which reduce the space, time, distance and social order in the exchange of commodities and services between countries. There is a close relation between the process of globalisation and modern communication.

Mohammadi (1997:67) argues that communication technology is one of the important factors to accelerate the globalisation process faster than other sectors of the economy to dominate the world market. The rapid deregulation policy has formed a powerful tool in the globalisation process. The new world information and communication order's (NWICO) ultimate goal is a restructured system of media to obtain greater influence over media, information, economic, cultural, and political systems of developing economies (McPhail, 2002:8; Korten, 1995:222).

Today, satellite communication systems can supposedly "shrink" distances because of its ability to cover large expanses of the earth's surface (Craig & Douglas, 2000:8). Broadcasting and communication of satellites usually cover a great many countries with a very cost-effective way of reaching large populations spread across large areas at the same time (Negrine, 1997:57). In 1965, the International Telecommunication Satellite Organisation (INTELSAT) was established to provide an international satellite communication service. The USA was the major participant in INTELSAT from its inception. It provided the satellite technology necessary to complete the global communication system that was in place by 1969. Major telecommunication operators became members and customers of INTELSAT in different countries (McPhail, 2002: 209).

McPhail (2002:12) discusses the electronic colonialism theory and how it influences the economy and mind of people in developing countries. This theory highlights the dependent relationship of developing countries and the importation of communication hardware and foreign-produced

software established by the West. This includes engineers, technicians and related information protocols to establish a set of foreign norms, values and expectations with a varying degree of domestic cultures, habits, values and the socialisation process. Mercantile colonialism seeks cheap labour, while electronic colonialism seeks minds. In recent times, the rapid development of the WorldWide Web (WWW) has accelerated the activities and functions of globalisation all over the world. The WWW, which includes storing, displaying, searching and formatting computer-based information, enables the global interconnection of personal computers (PCs). The situation will continue to escalate, as e-commerce becomes the mode of communication in the marketplace. Entrepreneurs will be of benefit for some nations, while other nations may stall or regress over time to a weakened global economic and social position (McPhail, 2002: 223-235).

There are unequal trade and economic growth both between and within countries. Until very recently, the application of modern science and technology has been concentrated in the industrial sectors in a small number of countries. Developed countries are industrialised. New challenges emerged with regard to industrial and economic policies in developing countries. The industrial sectors have mostly benefited from the introduction of a successive wave of new technologies (Kaplinksky, 1998: 3 & 19). The major goal of global communication is to make electronic colonies of large segments of the population around the globe in order to increase market share and maximise profits.

Global companies are setting up their factories not only where they can reduce manufacturing costs and where labour is cheap, they also locate their marketing staff in the most suitable and fruitful zone where efficient communication is available. These companies base their top management in countries where taxation will not affect salary packages heavily (Stones, 1998:16).

Authors like Tandon (1999:121-125); Yip (1989:2); Bell (1997:8) and Cerny (1997:256) argue that globalisation can be seen as the harbinger not simply of a New World order, but of a New World disorder. Different markets, companies and economic sectors are organised in distinct ways, and owners of capital arbitrage that provide different rates of return are the major nature of globalisation.

The above discussion has disclosed the recent trends and nature of the current globalisation clearly. The blurring of boundaries of nations imply the major trends and issues of globalisation. These changes in the world will surely impact on the local and regional vehicle market of South Africa. All

automobile manufactures must therefore have a broader insight into the nature and trends of globalisation in order to react in the global marketplace.

4.5 GLOBALISATION AND ITS IMPLICATIONS FOR DEVELOPING COUNTRIES

This section traces the implications of global activities for developing countries in the recent and present global marketplace. This part will briefly provide information on the economic and marketing conditions of industries in developing countries so as to assess their weaknesses and strengths in the globally competitive market.

First, there is a need to understand the differences between developed countries and developing countries. This will enable one to identify the role, strengths and weaknesses of developing countries in the context of globalisation.

4.5.1 The power of the developed countries

A number of different terms such as industrialised, developed, advanced capitalist, the First World, and the North (because most are situated in the Northern Hemisphere), are used to describe the developed countries of the world. Sweden, Norway, the Netherlands, Belgium, Germany, France, Italy, Canada, the USA, Japan, Australia and New Zealand, are industrialised countries. The Group 7 (G7) countries are the most powerful countries in the world (Shafika, 1997:36).

Shafika (1997:36) alludes to the following key aspects of why these countries are regarded as the developed countries of the world:

- Higher levels of technology and a more educated and skilled working population make them industrialised countries. Industrial products form a larger proportion of their economies than other sectors of the economy do.
- They have a history of organised political and economic control in comparison with other countries in the rest of the world.
- The majority of these countries have more powerful military forces than other countries do.
- Ninety percent of the world's top TNCs dominating the world economy have their headquarters in these industrialised countries.

increasing competition from expanding markets. In this era, automobile manufacturers cannot survive without expanding their market globally. Eventually they would lose their domestic markets because they will be pushed aside by stronger competitive global competitors. Automobile manufacturers in South Africa have come to realise that it is very difficult to isolate domestic economic and marketing activities from global market events. All automobile manufacturers in South Africa have been threatened in their survival as a result of global trade liberalisation. A deeper knowledge of global marketing is essential when a company competes with global competition. As far as automobile manufacturers in South Africa is concerned, they have to keep abreast of competition and maintain a viable position in increasingly competitive markets. Therefore a global perspective is necessary. This section attempts to give a brief idea of global marketing and global marketing strategy.

Braithwaite and Drahos (2000:8) argue that there are three kinds of globalisation. These are:

- The globalisation of companies;
- the globalisation of marketing; and
- the globalisation of regulation.

Perhaps the most popular topic in the globalisation literature is the globalisation of markets. Global companies in a specific territory spread its operations through corporation groups and structures to other territories. In the case of global markets, buyers or sellers can meet any one of these companies physically through agents or electronically in order to conduct transactions of goods or services. The connection between the globalisation and regulation is elaborated as follows:

- **Market globalisation without regulatory globalisation:** The gambling market has been substantially globalised, with Internet gambling and high rollers being flown to casinos under special deals to attract their custom.
- **Regulatory globalisation without market globalisation:** Here markets are not global, are for the benefit of welfare and the supply of drugs to citizens. In these regimes the state indicates the price they pay and as a result there is no global market for a product.
- **Globalisation of companies without market globalisation:** Industry is not the largest corporation and it is more globalised, with larger and many smaller markets.
- **Globalisation of companies without regulatory globalisation:** There are global media companies and global trade in audio-visual services such as the television. The regulation of the media is still a national affair (Braithwaite & Drahos, 2000:9).

because many of them are situated in the Southern Hemisphere. The “Third World” and “underdeveloped countries” are other terms used to indicate these countries. Some of these countries that have fast-growing developing economies are called newly industrialised countries (NICs). South Korea, Taiwan, Singapore and Hong Kong and those based in South East Asia that have undergone rapid industrialisation and economic growth are called the “Asian Four Tigers”, while the poorest countries are called least developed countries (LDCs). In addition to the NICs, countries like India, Mexico, Brazil, Argentina and South Africa are referred to as “emerging economies”. However, their economies have not shown the same dramatic growth as the NICs (Shafika, 1997:46).

Amin (1997:3) is of the opinion that the capacity of a country to compete in the world market is a yardstick to define its position in the global hierarchy. According to the International Labour Organisation (ILO, 1997/98:6), the growing interdependence of national economies in the emergence of newly industrialised countries has resulted in stiffer competition among states, companies and trade unions. Generally, the globalisation of the economy has been accompanied by common trends in the practising of industrial relations. The strengths and weaknesses of labour unions are an important factor in the productive capacity of an industry in the globally competitive position. Still, Africa and other developing countries mainly rely on the exports of primary products. Africa has failed to achieve competitiveness with the advanced industrialised countries in technology (Buthelezi, 1998:29). Millions of small Third World producers have been weakened by the dominant position of the TNCs through their control over both buying and selling of goods and services in international trade (Buthelezi, 1998:31).

In the context of trade liberalisation, the developing countries have to reorganise their manufacturing methods in order to improve competitiveness. There is increased interest among developing countries in the applicability of the Japanese’s production methods of JIT and TQM. The success of the manufacturing industries of Japan and Italy has increased industrial problems in developing countries. There are three types of transformation related with lean production. These are the reorganisation of production along JIT/TQM lines, the transformation of design, and the development of new relations with suppliers. Production follows the line of JIT and TQM of lean production to satisfy customers. A system of meeting needs with the minimum possible inputs reduces wastage of resources (Humpherey, 1995:149-150).

Koike (1998:92) says it is often highlighted that the low level of technology in most developing countries is the key hindrance to quality production, while transfer of technology requires a great deal of organisation and experience. MNCs are reluctant to transfer their technology to developing countries and to purchase domestic parts and components (Kagami, 1998:1). Kagami (1998:1) argues that MNCs are reluctant to buy locally produced parts and components in developing countries because the quality of the products is insufficient to satisfy the required level from a technological point of view. The primary and secondary school education system has been universally accepted as the backbone of a developed society with science and engineering as important factors in the continuous learning process. However, this level of education and vocational training has not realised in developing countries. Due to the fear of “boomerang effects”, MNCs are not willing to transfer their technology to developing countries. If a MNC transfers its technology for a certain product to a developing country, that country would be able to copy exactly and export the locally manufactured products back to the MNC’s mother country within a short period of time. Developing countries could become direct competitors of MNCs if they reach a certain level of development after stealing and imitating the new technologies from the MNCs (Kagami, 1998:10).

Developing countries do not have sufficient technology, education and capital to compete with global companies to enjoy the benefits of globalisation activities. The result of recent globalisation trends has increased the inequality of the economy in most of the developing countries as economies become liberalised under the process of globalisation.

4.5.3 Modes of technology acquisition

There are some specific routes through which developing countries receive technology from the MNCs or industrialised countries. These routes are:

- **Foreign direct investment (FDI) route:** According to this method, MNCs are opening up their factories in developing countries to produce consumer-durable goods. Factory layout, assembly lines, machines and equipment, product design, parts and components, and production technologies are brought in by the MNCs.
- **Disembodied technology route:** Inventors have to spend large amounts on new technology, so technology is not free. New technology is registered and protected in the form of patents. Host countries sometimes use this disembodied technology route for technology acquisition by

creating joint ventures with MNCs. Developed countries argue that intellectual property rights are marketable. Technology can be transferred on commercial basis on payments, while the WTO also strongly recommends this route.

- **Embodied technology route:** New designs and ideas are an important facet of new products. Importation of new products or machines is another way of transplanting new technology.
- **Domestic research and development (R &D) route:** Domestic companies and government of developing countries can develop through their R & D process.
- **Technology co-operation through official development assistance (ODA):** The bilateral co-operation between two countries is another route for technology transfer (Kagami, 1998:3-6).

4.5.4 Globalisation trends and the African conditions

Cheru (1996:145) says globalisation encompasses contradictory trends, with varying degrees of pressure on the state, society and the economy. The majority of poor African peasants and the Third World as a whole are marginalised due to the hardships of the outcome of globalisation. Two-thirds of the least developed countries (LDCs) are in Africa. Most of the countries have a lower per capita income. A food surplus continent 20 years ago, Africa now has a food deficit problem. Globalisation of Africa or the integration of Africa into the global economy from the days of slavery to the contemporary period of capital-led integration has with regard to balanced costs and benefits been a disaster for Africa. With regard to the poverty situation in Africa, it is not difficult to see the connection between globalisation and poverty. Within the process of globalisation, Africa has to use modern science and technology for the more productive use of land to provide a solution to Africa's hunger problems. However, there is the danger that science and technology have become the property of those who own capital and that it is controlled by a few MNCs. Any country would not be poor in the world today if there were free transfer of technology (Tandon, 1998:19-20; Kiely, 1998: 24).

African governments are facing increasing hunger and poverty in their countries. Indigenous farming methods are unproductive and wasteful of land. Africa is in urgent need to invest in technology to modernise the production of farming and other manufacturing to eradicate hunger and poverty. However, in Africa, MNCs who own and control modern technology have the major objective of generating profits and do not consider the welfare of people. The combination of modernisation and globalisation has therefore become lethal to the African continent (Tandon,

1998:20; Buthelezi, 1998:38). Kock (1998:6) argues that the economic plight in the Southern African region might be increasing as a result of globalisation. This region will have to come up with a strategy of creative responses to face these challenges.

Of the forty-seven countries classified as least developed by the UN, no less than thirty-two are found in Sub-Saharan Africa. Madagascar, Zambia and Zaire were added to the list in 1992 by the UN General Assembly. The differentiation among the developing countries is increasing and different communities within developing countries are one of the major trends of the world economy. The increasing differentiation among developing countries means that only a handful of African nations may be able to attract a small amount of investments, e.g. Egypt, South Africa, Zimbabwe and Kenya (Cheru, 1996:147; Buthelezi, 1998:48).

Mittelman (1996:11) argues that the effects of regional corporations as a means to enhance participation in globalisation are not known. However, many Asian countries and companies are looking at improving regional co-operation as access to a burgeoning regional market and as a sound base for sharing in globalisation. There are three trading blocks - the North American Free Trade Agreement (NAFTA), the European Union (EU) and East Asian block under the leadership of Japan. African countries have not yet made proper efforts to link up with any of the three major trading blocks and will be completely shut out from effectively participating in global trade. African nations cannot achieve any economic corporations among groups or within African nations. This is despite the fact that they have established regional corporations such as the Southern African Development Community (SADC), the Economic Community of West African States (ECOWAS) and the Preferential Trade Area for East and Southern African States (PTA) (Cheru, 1996:149; Zarenda, 1997:57-68; Buthelezi, 1998:50-51; Sheth, 1998:61).

4.5.5 Globalisation trends and the South African conditions

Callinicos (1994: 212-214) indicates that World War I stimulated industry in South Africa during the period of the war because Britain was unable to deliver goods to South Africa. Many new factories were set up in this country during this period. Many factory owners became capitalists, although the progress of the manufacturing industries was uneven and did not always develop at the same rate. By 1920, more goods were imported than before, during or after the war period. After the war when British and American factories slowly recovered and went back into full production,

fierce competition for new customers increased. Many overseas factories offered their products at “bargain prices”, while South African factories found it hard to match those prices and could not sell their products.

Terreblanche and Natrass (1994:187) illustrate that after the 1960s South Africa made efforts to move into the stages of import-substitution industrialisation, which were characterised by large factories and mass production through the use of machinery. However, South Africa was dependent on the other countries for capital, technology and sophisticated goods for its ability to industrialise. The global trade competition could therefore be regarded as having started since the end of World War I with a continuous influence on the various industries in South Africa. Until 1970, this country remained dependent on the export of raw materials and primary products. Relying on the exports of raw materials was a weak basis for economic progress. South Africa entered into an agreement with the WTO to liberalise trade in key economic sectors in order to export manufactured goods in 1995. This turning point was brought about by the report issued to South Africa by the World Bank and the GATT in 1993 (Shafika, 1997:70; Buthelezi, 1998:38).

Since the early 1980s, the aggregate economic growth of South Africa has been below the rate of the growth population. Comparatively, the growth rate is far below the rates of growth of industrialised countries and also below the rates experienced by the newly industrialised countries of Asia (Harris, 1997:93). Manning (1997:65) argues that South Africa’s future will be costly. He compares the savings rates of the country with that of other developing countries. The saving rates of South Africa are less than 18%, while that of East Asia is 35%. South Africa will be unable to find its own future without foreign involvement. Manning (1997:65) adds that loans or aid is essential because local companies cannot build enough factories or employ enough people. At the same time, South Africa is getting only small amounts of foreign investment compared with other developing countries because of increasing crime and violence rates and a reluctance to pay high wages for low productivity.

There are not enough university-graduated engineers and technicians in South Africa. The knowledge-based strength must be built to be competitive in the globally competitive market. Managers in South Africa have failed to develop the skills needed for global competition. Manning (1997:65) clearly indicates that product quality and customers service have naturally suffered because managers did not pay sufficient attention to innovation, alternative options for distribution,

foreign package designs and their competitors' intelligence service. They also could not build relationships with scientists and technology leaders (Manning, 1997:85). The unequal exchange of commodities is a facet of trade relationship between South Africa and its senior trading partners. A low level of technology is used to manufacture products in South Africa compared to the higher levels of technology used by its trading partners (Makgetlaneng, 2000:49).

Bell (1993: 82) argues that industrialisation in South Africa has taken place mainly through a process of import substitution, although in recent years there has been a sharp reaction against import protection. Support has grown for South African liberalisation in order to prompt an export-oriented trade regime. Currency devaluation is a crucial instrument of trade liberalisation. Import liberalisation often starts with the removal of tariff reduction and quantitative restrictions (QRs) on imports. Further import liberalisation through comprehensive tariff reduction under the global economic integration will increase imports, whereas any stimulatory effect on exports is likely to be delayed and possibly be weak. This increased import liberalisation has a direct adverse effect on import-competing industries and local manufacturers and will exacerbate domestic recession and unemployment in South Africa.

In the case of the globally competitive position of South Africa, international institutes for management development (IMD) reviewed 46 industrialised countries. According to the released report, South Africa's world competitive position in terms of direct investment flow, investment made into production plants and machinery or business for the long term has shown massive negative trends with only some improvements in the ranking of domestic economy and infrastructure. With regard to internationalisation, South Africa ranked 44th in 1996, despite efforts made to claim a higher position in the global village. In terms of people, South Africa was ranked lowest. This includes equal opportunities, skilled labour, unemployment and education (Klein, 1997:1). Table 4.1 indicates South Africa's competitiveness in different areas amongst the 46 countries. South Africa was placed 43rd in 1993, meaning that South Africa slips its position every few years (Volschenk, 1996: 4; ANON, 1995:21).

According to the report published in June 1997, in the overall competitive position South Africa has slid to the 45th place - that is second to the last country among the 46 countries with Russia lagging behind in the last place. The international competitiveness of South Africa's manufacturing industry

could drop even further in future. The manufacturing industry will not improve its international competitiveness in the immediate future, and even drop further (Makgetlaneng, 2000: 51).

Table 4.1: South Africa's factors of competitiveness (ranking among 47 surveyed economies)

Factors	1993	1994	1995	1996	1997	1998	1999	2000
Domestic economy	41	42	42	44	39	40	35	36
Internationalisation	32	35	38	39	44	45	42	44
Government	43	38	35	37	35	31	32	24
Finance	25	26	27	31	33	31	32	33
Infrastructure	32	37	30	32	28	35	34	33
Management	32	35	38	40	43	38	35	28
Science & technology	29	28	31	34	37	39	44	45
People	46	46	46	46	46	46	47	47

(Source: adapted from Klein, 1997:1; IMD, 1999:23; IMD, 2000: 293)

From 1999, the Institute for Management Development has started to conduct the same survey, which covers 47 countries, providing a picture of how those countries competing in international markets (IMD, 2000:19). The picture of South Africa shows that it has experiences little improvement in all factors except finance, science and technology and infrastructure. Finance, science and technology and infrastructure have shown a further decline from 1998. In terms of finance it ranks 31st in 1998 to 33rd in 2000, while science and technology ranked 39th in 1998 to 45th in 2000. In terms of infrastructure, it ranked 28th in 1997 and 33rd in 2000. South Africa's ranking in terms of internationalisation has improved from 45th position in 1998 to 44th in 2000.

The latest report of the Institute for Management Development (2001:29) briefly indicates that South Africa in terms of economic performance ranked 43rd in 2000 and 47th in 2001. In terms of government efficiency, it ranked 37th in 2000 and 38th in 2001. In terms of business efficiency, the country ranked 35th in 2000 and 32nd in 2001 (IMD, 2001:29). According to the report of 2001, South Africa's position in the economy has shown a slight improvement to 32nd in 2001 from 35th in 2000. There was a further decline to 38th in 2001 from

37th in 2000 in terms of government efficiency, but business efficiency has little improved to 32nd rank in 2001 from 35th in 2000. The Institute for Management Development (2001:300) indicates that South Africa with regard to its international competitive position in terms of manufacturing, ranked 39th in 2000 and 38th in 2001. In terms of R & D, it ranked 43rd in 2000 and 44th in 2001, while in terms of service and management, it ranked 38th in 2000 and 2001. These statistics clearly disclose that the internationally competitive position of South Africa has been declining seriously every year over the last decade.

Manufacturing industries in South Africa have become less competitive in the global market. There is no evidence that these industries will become internationally competitive in the immediate future, but, conversely, in the immediate future, international competitiveness will also further decrease (Klein, 1997:1). Bisseker (1998:1-2) argues that South Africa is facing difficulties in the global market and that sound economic policies and strategies are important if South Africa were to compete globally. The Government Growth, Employment and Redistribution strategy (Gear) is taking serious actions in order to increase and improve the country's production capacity. At the same time, South Africa has concentrated its efforts on penetrating into its regional market. However, the TNCs of the centre and other countries of the periphery also contest them, despite the fact that these markets are limited and small. The efforts of South Africa to succeed in neighbouring countries have been affected negatively by some Southern African countries to buy manufactured products from the relatively cheaper countries at the centre. These suppliers provide high-quality products more cheaply due to their monopoly in research and development and advanced science-based production methods. These advanced technology, information, management, marketing and transportation techniques and advanced science-based production methods enable the TNCs to increase and maintain their market share for manufactured product that South African industries do not have (Makgetlaneng, 2000:53-54).

The poor manufacturing performance of South Africa within the global competition is the result of its slow productivity growth. Padayachee (1997:7) recommends the following four strategies through his Industrial Strategy Project (ISP) in order to achieve the objectives of creating employment, increasing investment, raising productivity and improving trade performance:

- Industrial specialisation and movement up the value chain;
- utilisation of natural resource;
- targeting of key capabilities; and

- empowerment necessary to ensure productivity growth.

These strategies must be applied on macro economic level in South Africa to improve industries generally to compete in the global market (Padayachee, 1997:7).

4.6 THE MOTOR INDUSTRIES IN GLOBAL PERSPECTIVE

According to Barnes (1999a: 2); and Barnes, (2000a: 53), the global automobile market can be divided and differentiated into three broad segments. These are:

1. Original Equipment Manufacture (OEM), that is comprised of passenger and commercial vehicle manufacturing and sales;
2. Original Equipment Supply (OES), which is comprised of automobile parts and accessory sales through the OEMs; and
3. the independent after-marketing of parts and accessory sales, but through independent retailer and repair shops rather than the OEMs themselves.

In order to achieve the objective of this study, the author will focus on the automobile manufacturer. This comprises original equipment manufacturers (OEM) or automobile manufacturers for specifically the passenger vehicle market and how globalisation and the global market affect automobile manufacturers in South Africa. It is important to understand the challenges that are facing the South Africa automobile industry in the new millennium in view of the rapid changes taking place within the international automobile industry and its global market.

4.6.1 The brief growth record of automobile production

Daimler Benz filed the first motor vehicle patents in the mid-1880s. Internally powered personal transport vehicles for road use was built in Germany, France, Britain and the USA within a few years. Cars produced from the mid-1880s to the turn of the century tended to be large and luxurious. By 1906, German and France producers still accounted for 58% of the world's automobile production, while the total European production was still only around 50, 000 units. Henry Ford with his Model T revolutionised car production and shifted the industry's focal point from Europe to America. His Leland 1906 Cadillac boasted interchangeable parts. The three principles, namely

standardised products, dedicated production equipment and the division of manufacturing skills, were key factors for the success of Ford. A moving assembly line was installed at Ford's state-of-the-art Highland Park plant in 1913. Further improvements were effected at Ford's River Rouge plant opened in 1919. Assembly plants were established in Asia, Australia, Latin America and South Africa in the inter-war period (Duncan, 1997:3).

Before 1900 both steam and electric cars were more successful and reliable. In 1900 a gasoline-powered car was first introduced, defeating electric and steam cars in the market. The Ford Motor Company introduced a series of models from A to R that advanced progressively towards moderately priced four-cylinder cars. Ford introduced product standardisation with the Model T in 1908. Most of the evolution in body styling took place in Ford's car manufacturing between 1931 and 1942. Twenty-five years after Ford produced its Model A; a second car also bore this model's designation. Shortly after, in 1932, a second-generation Model B was introduced. After 1948 US manufacturers introduced many models, among them the front-wheel drive Oldsmobile in 1966. Many different engines and varieties of models were introduced during the period between 1960 and 1970 (Abernathy, 1978:21).

Standardised mass production of the Ford Model T for the mass market rose from 10,000 in 1908, to 300,000 in 1914 with its peak at 1.9 million in 1923. In the same year, Ford was producing 44% of the world's automobiles. General Motors started to challenge Ford's dominance in the USA and worldwide. In the first half of the 20th century American's dominance of the world automobile industry was supported by a vast domestic market (Duncan, 1997:4; Hoffman & Kaplinsky, 1988:74-75).

During the 1930s, Nissan began producing trucks after importing designs, engines and equipment from the USA. Toyota copied components from Chevrolet, Ford and Chrysler vehicles prior to World War II and then moved into small cars by disassembling and analysing several European models after 1945 (Cusumano, 1985:2). General Motors (GM) established a major presence in Europe by purchasing Vauxhall in England and Adam Opel in Germany in the late 1920s, while Ford put up its own facilities at Dagenham, Cologne and Strasbourg in the early 1930s. However, in this period, the European industry did not develop in the same way as in North America. After the war, the Europeans produced cars with a higher degree of technological innovation than the North American cars. European companies started to export cars to global markets after adding

differentiation and innovation to production. The stage was thus set for a further major transformation, which began to impact on the international automobile industry from the early 1970. Highly tough competition began and productivity and profit levels fell. From the late 1960s, the GATT was established as a protective barrier as the oil price went up. Also, most importantly, Japanese automobile manufacturers bringing new changes with their production represented serious challenges to the global automobile industry (Duncan, 1997:5; Hoffman & Kaplinsky, 1988:74-80). Through the process of globalisation the world's automobile industry now entered the international competition phase (Bergouignan *et al.*, 2000:4; Spybey, 1996: 96-97).

According to Kaplinsky and Posthuma (1994:4), the automobile industry sector remains the largest branch of global manufacturing. Historically, American TNCs dominated this industry and produced both domestically and abroad. The Japanese automobile industry started its major role in the 1950s, while its first exports to the USA in the late 1960s failed dismally. However, the progress of the Japanese producers proved to be a remarkable success in the following two decades and became a large industry. Motor vehicle manufacture became the strategic industry of mid-twentieth century industrial development. Until the 1970s, North American plants produced cars that were favoured there as well as in European plants. By 1970 the situation had changed (Spybey, 1996:96-97). By 1992 the motorcar production of Japan was 9.4 m, exceeding that of the 7 m of the North American's product. The Japanese total product was nearly equal to the combined output of European's three largest producing countries, namely Germany, France and Spain. The Japanese automobile sector introduced the adoption of electronically-based automation technologies. An effective principle for production was that of flexibility and adaptability during the 1970s and 1980s, which brought the Japanese automobile sector into dominance globally. Initially, Toyota established principles of efficient production by means of flexibility and adaptability. This rapidly spread to other automobile companies, including the automobile components sector. A few Western companies such as Ford, GM, Chrysler and Rover, adopted this system (Kaplinsky & Posthuma, 1994:5; Spear & Bowen, 1999:97). By the 1990s, Japan became indisputably the world's dominant automobile manufacturer and became one of most powerful nations by means of motorcars (Mantle, 1995:22). In the 1970s these changes drove American and European companies to develop a strategic response to the Japanese challenges aimed at achieving greater economics of scale, rationalisation and globalisation of production. In the mean time, European companies such as Fiat, Renault and Volkswagen tried to open factories in North America (Hoffman & Kaplinsky, 1988:74-

76). During the 1970s and 1980s tariffs were imposed to limit the Japanese competition. However, the major Japanese companies had invested billions in production facilities in the USA, Canada and Mexico and more recently in the United Kingdom (UK)(Duncan, 1997:5-7).

The following table shows the world motor vehicle production by various manufacturers. Motor vehicle production comprises the production of passenger cars, light commercial vehicles, heavy trucks, buses and coaches.

Table 4.2: The world motor vehicle production by manufacturers (units): 2001

Ranking	Manufacturer	Total	Cars	Light Commercial Vehicles	Heavy Trucks	Buses & Coaches
1	General Motors	7,582,561	4,663,399	2,919,162	---	---
2	Ford	6,676,491	3,699,258	2,977,233	---	---
3	Toyota-Daihatsu-Hino	6,054,968	5,021,259	984,016	45,385	4,308
4	Volkswagen Group	5,108,982	4,881,096	204,378	18,974	4,534
5	DaimlerChrysler (with Evobus)	4,364,492	2,392,992	1,784,761	171,431	15,308
6	PSAPeugeot Citroen	3,102,446	2,710,472	391,977	---	---
7	Honda	2,673,671	2,608,773	64,898	---	---
8	Nissan-Nissan Diesel	2,558,979	1,966,844	568,294	22,304	1,537
9	Hyundai-Kia	2,518,443	2,087,500	398,385	18,521	14,037
10	Fiat-Iveco (with Irisbus)	2,409,016	1,928,696	356,303	107,210	13,807
11	Renault-Dacia-Samsung	2,375,084	2,070,369	304,715	---	---
12	Mitsubishi	1,647,817	1,242,138	378,351	25,000	2,328
13	Suzuki-Maruti	1,541,103	1,161,712	379,391	---	---
14	Mazda	957,012	779,970	177,042	---	---
15	BMW	946,730	946,730	---	---	---
16	Avtovaz-Seaz	786,008	786,008	---	---	---
17	Fuji (Subaru)	569,191	478,971	90,220	---	---
18	Daewoo	503,689	469,520	25,560	2,783	5,826

Table to be continued....

Table continued...

19	Isuzu	453,554	100,959	292,959	56,739	3,230
20	Dongleng (without Citroen)	366,112	---	314,795	47,671	3,646
21	CNAIC (Changhe & Harbin)	260,246	121,288	138,958	---	---
22	Chana AG	225,399	32,328	193,071	---	---
23	Gaz-Paz	201,759	80,692	110,800	---	10,267
24	Beijing AIG (without Isuzu)	200,524	4,653	195,871	---	---
25	Tata (Telco)	175,769	54,464	56,100	53,714	11,491
26	MG Rover	163,144	163,144	---	---	---
27	Volvo	154,673	---	8,335	136,167	10,171
28	SAIC(without GM&VW)	151,591	---	151,591	---	---
29	FAW Group (without VW)	128,976	21,488	21,218	86,270	---
30	Ssangyong	128,313	100,315	27,998	---	---
31	Ijmash-Avto-Roslada	87,202	71,182	16,020	---	---
32	Paccar-Dat	75,685	---	---	74,983	702
33	UAZ	--	71,096	35,302	35,794	---
34	Navistar	69,640	---	---	20,756	48,884
35	Man-Erf-NeomanBus	68,144	---	---	61,229	6,915
36	Mahindra & Mahindra	62,020	56,380	---	5,640	---
37	Kamaz	59,946	37,837	---	22,109	---
38	Porsche	56,746	56,746	---	---	---
39	Scania	48,129	---	---	43,465	4,664
40	Hindustan	24,063	20,467	3,520	76	---
Total Manufacturers		55,609,417,952	40,852,952	13,574,383	1,020,427	161,655

Other manufacturers (China, India, Russia, Poland, Turkey....) = 715,850

Total production = 55,609,417,952+ 715,850= 56,325,267

Note: Includes production in South Africa

(Source: NAAMSA 2002b: 33).

Total world motor vehicles (cars, light commercial vehicles, heavy trucks, buses and coaches) were 56, 258,892 in 1999 and 58, 295,557 in 2000 (NAAMSA, 2001a: 31). The following table represents automobile manufacturers according to their companies and countries. Automobile manufacturers refer to companies producing the passenger cars.

Table 4.3: The world's top automobile manufacturers

Company	Country
General Motors	U.S.A
Toyota	Japan
Nissan	Japan
Ford	U.S.A
Renault	France
Volkswagen	Germany
Peugeot-Citroen (PSA)	France
Fiat	Italy
Mazda	Japan
Chrysler	U.S.A
Honda	Japan
Mitsubishi	Japan
Suzuki	Japan
Hyundai	Rep. of Korea
Isuzu	Japan
BMW	Germany
Daimler-Benz	Germany
Mercedes Benz	Germany
Kia	Rep. of Korea

(Source: Adapted from Cusumano, 1985:3; Black, 1994:12; UN, 2000: 120)

A small number of automobiles TNCs dominate the automobile industry in the world. The first big three, namely GM, Ford and Toyota, together produce 40% of the world production. These are the three TNCs pioneers in terms of design, production technology and organisational practices. The other eight automobile TNCs are VW, Nissan, Chrysler, Fiat, PSA, Renault, Mitsubishi and Honda. They account for over 37% of the world production. The third group consists of Mazda, Hyundai, BMW / Rover, Suzuki, Daimler Benz and Kia, accounting for 12% of the world production. The

two Korean carmakers were the newcomers during the last decade (UN, 2000: 121).

Fiat is one of the world's biggest industrial corporations, operating about 800 subsidiaries and affiliated in 61 countries with 220,500 employees all over the world. Fiat is the world's sixth largest motorcar manufacturer and is also Europe's second largest truck and bus builder. The Fiat group has concentrated on seven selected priority countries, where most of the countries are in free trade areas (Gadeselli, 1999:2). Black (1994:98) indicates that BMW is one of the most successful producers of motor cars in the world. It has achieved record sales of 550,000 cars world-wide in 1991. Its small plant in South Africa's assembly operation produced less than 16,000 vehicles in 1992. Germany is also one of the world's largest motorcar producer and has increased its output over the last decades. Seven Japanese companies now rank among the world's 18 major producers while the expansion of Japanese producers will increasingly take place outside Japan. VW is also taking a series of actions to reduce its high production costs and to increase its production volume (Black, 1994:11-13). South Korea has become the largest and has vehicle manufacturing plant complexes over the world, while Malaysia and South Korea are using cheap labour and the latest technology to produce mass-market cars (Mantle, 1995:163).

4.6.2 Automobile industries in developing countries

According to Black (1994:4-5) the production of motor vehicles is one of the world's largest industries. A number of TNCs have been interested in globalising their production and market in this industry. A large numbers of changes such as the introduction of new technology and development and new forms of production organisation are rapidly taking place in this industry. Many developing countries with small markets and weak technological capacities have sought to play a role as producers of vehicles and components in the context of globalisation. The automobile industry in many developing countries is seeking various forms of state support so as to play an important role in the industry and national economy. Many factors will, however, impact on the future activities of the automobile industry in developing countries. Barnes and Kaplinsky (2000b: 212) say that in the global economy, the automobile industry is one of the largest sectors playing a vital role in value added and trade flows in a number of developing and industrialised countries. In total, 63 countries are engaged in the manufacture of motor vehicles in the world (see NAAMSA 2001a: 30-31). Today there is severe competition amongst motorcar producer in the

world market. Automobile companies have chosen to invest their money according to an entirely different strategy in various countries (Taylor, 1998: 104).

The post-merger of Daimler and Chrysler will have more brands and models in more segments. Daimler has already moved into VW's bread-and-butter market, namely small mass-market cars. This will mean more trouble for VW: it now will have another potentially strong competitor in emerging markets. VW has 55% of the market in China, but Chrysler is there too, as well as Brazil, where VW has recently been losing its market share (Guyon, 1998: 100-101). GM and Ford motors are busy building huge new assembly plants in Thailand and also preparing to open up further five more factories in Southeast Asia and China. American and Japanese automobile makers are making efforts to build factories in this region. Ford has opened its new factory in Vietnam in 1997, while GM has scheduled to open its automobile factories in Thailand soon to produce less expensive cars. General Motors is negotiating for permission to add mini-van production in Shanghai and to open at least two more assembly plants in China. Ford already has factories in Malaysia and Thailand and has scheduled to bring its first pickup trucks to Thailand and the Philippines (Meredith, 1997:8).

Chrysler has dropped its plans to open a factory in Vietnam when the government allowed a dozen other automobile makers to build assembly plants, despite the country's small market for cars. Japanese automobile makers have more factories in South East Asia (Meredith, 1997: 8).

The automobile industry has played a vital role in Brazil's rapidly industrialising programme. The Brazilian government invited foreign companies to enter the vehicle market under certain conditions and a number of companies entered the car market there. Volkswagen, Ford and General Motors were significant car producers by 1970s and 1980s in Brazil. The industry in that country has been shaped by the entry of MNCs and rapid expansion of demand for low-cost cars. By 1980, the Brazilian government had introduced an export-oriented production programme (Humphrey *et al.*, 1998:120).

In India, the automobile industry was also developed within the general framework of an import-substitution industrialisation policy. The Indian government supported local companies such as Hindustan Motor Ltd. (HML) in 1948, Premier Automobile Ltd. (PAL) in 1950. All those companies produced cars in India. The transformation of the automobile industry began in 1980 in India and the output of cars and Jeeps increased from 66,800 in 1980 to 218,700 in 1990. Both India

and Brazil imports were negligible, however. Transformation took place in the automobile industry in both Brazil and India in the form of economic liberalisation in 1990. By 1994 due to the economy liberalisation, a tariff reduction on cars was introduced by the Brazilian government. This tariff reduction had a dramatic impact on the industry. Due to this impact, the government raised the tariffs again to 70%, not far below the level existing before liberalisation. Import declined from 360,000 units in 1994 to 224,000 units in 1996. According to the new liberalisation policy, a number of new companies entered with new operations, while established companies are likely to make further expansion of facilities in Brazil. By 1997, Mercedes, Audi, VW, Renault, Peugeot, Toyota, Mitsubishi, Honda, Chrysler, GM, and Hyundai started operations in Brazil (Humphrey *et al.*, 1998: 121).

The liberalisation policy has caused fierce competition in India between local car producers and foreign companies. As in Brazil, new ventures in the automobile industry are dispersed around the country. Now Maruti, Daewoo, Honda, GM, Mercedes, TELCO, Mahindra-Ford, Fiat, PAL- Peugeot, Toyota, Hyundai, and Mitsubishi are operating their factories in India. In Brazil, there was only a small percentage of the car imports, despite the revised tariff policy introduced in 1995, compared to negligible imports in India (Humphrey *et al.*, 1998:154-162; Terpstra & Sarathy, 2000:246).

The production of cars in Brazil and India has increased rapidly in a liberalised economy subject to the pressures of globalisation (Barnes & Kaplinsky, 2000b:213). India and Brazil are good examples to understand the impact of the liberalisation policy and globalisation on domestic automobile manufacturers in developing countries.

During the last three decades the assembly and production of cars have increased in developing countries. The amounts of new investments by MNCs in car producers in developing countries like Mexico, South Korea, Taiwan, Thailand, India and Brazil have increased (Black, 1994:14). Many MNCs' automobile makers founded their operation sites in Iran, the Middle East and Malaysia (Mantle, 1995:163). According to the United Nations (2000: 127), in 1990s a total of 43 new vehicle plants were located by leading TNCs in developing countries like Indonesia, Malaysia, Thailand, the Republic of Korea, China, Mexico, Brazil, Argentina, Venezuela and Turkey.

MNC assemblers are producing cars in other countries on the Africa continent, such as Botswana, Nigeria, Kenya and Zimbabwe. This significantly affects the regional market of South African automobile manufacturers (Barnes & Kaplinsky, 2000b:212). The following table shows those countries on the African continent that are engaged in motor vehicle manufacturing, with a breakdown of the motor vehicle of each country between 1999 and 2000.

Table 4.4: Motor vehicle production in Africa

Country	1999	2000	2001
Botswana	4,560	1,608	---
Egypt	76,048	59,765	61,549
Kenya	332	288	228
Libya	2,040	2,040	6,840
Morocco	21,051	19,432	21,545
Nigeria	6,161	7,384	8,090
South Africa	317,367	357,364	407,036
Zimbabwe	577	792	1,481
Total	428,136	448,673	506,829

(Source: NAAMSA, 2001a:31; NAAMSA, 2002b: 35)

Black (1994: 106) elucidates that automobile industries are growing rapidly in certain middle-income countries. There are three major reasons for this rapid growth:

- Their marketing are growing rapidly;
- they have the potential to make cars at productivity levels which approach world-best practice; and
- wage rates and some overhead costs are lower.

An intermediate economy faces major challenges in world car markets. In developing countries automobile industries are experiencing rapid transformation. Three key influences govern the change. Firstly, the global geography of the industry is being transformed by the rapid growth of automotive production and consumption in emerging markets. Secondly, relationships between assemblers and suppliers are being restructured and globalise. Thirdly, liberalisation policies have greatly freed up the flow of capital and products into and out of developing countries (Humphrey *et al.*, 1998: 117-118).

The automobile industry in developing countries have to focus on their own technological development, investment, global trends and trades, structural shifts in competitiveness, and industrial expansion (Black, 1994:4).

4.6.3 Over-capacity in the production of automobiles

Taylor (1999:12) expresses the view that there are too many automobile companies (40 companies) in the world today. Barnes (1999a: 2) and Barnes (2000a: 54) argue that the global overproduction of automobiles is the principal reason for the rapid changes that are taking place in the industry. The number of OEMs that have invested and opened up assembly operations in developing countries has increased. During the period from 1991 to 1997, the massive production growth of passenger vehicles has increased in developing countries. Barnes (2000a: 54) argues that the over-capacity problem does not only exist in developing countries. Other countries such as Japan and South Korea are experiencing the same over-capacity in the last decade.

Over-capacity is a major problem faced by the automobile industry due to international developments in the global automobile industry. Major producers have created tie-ups and joint ventures with foreign companies by means of the globalisation and international integration process (Black, 1994: 9).

Global passenger vehicle outputs among the world's major vehicle manufacturers are expected to remain relatively stagnant up to 2005. The top ten passenger vehicle manufacturers of the world sold 30.2 m vehicles in 1997 between them, and yet for 2005, they project sales of only 30.4 m units - an increase in units of 0.7 %. Production life spans of new models are now only two to four years due to global over-capacity. Automobile manufacturers are seeking new avenues to move from this pressure. They are endeavouring to improve the competitiveness (price, quality, reliability and innovative design) of their products, as the over-capacity problem is escalating in the world, so as to increase sales as well as generate profits (Barnes, 1999a: 4-7; Barnes, 2000a: 55).

Over-capacity has been a fact of life in the automobile industry for decades. Excess capacity has remained about 25% of the total production capacity (Taylor, 1999:12-13). The global industry is estimated to have an over-capacity amounting to about 20 m cars. Due to this over-capacity, some companies have started to share their platforms. For example, Golf 4 shares its chassis with

Audi. In this situation, many automobile companies use different strategies to embrace globalisation and to gain a sustainable advantage. This high-stakes race to innovate will dominate the competitive struggle in coming years. The winner will win big and the loser is likely to be absorbed (Maphologela, 2000a: 13).

Cokayne (1999:7) suggests that there will be only three major manufacturers in the world in five or ten years due to the current global over-capacity in the motor manufacturing industry. He points out that the problems facing vehicle manufacturers include too many vehicles for too few customers. His statement highlights the fact that globalisation of the motor industry will in future impact greatly on the market share and profits of manufacturers in domestic and international markets. A good example is the number of motor manufacturers in Australia that has dropped from five to three after that country liberalised its market (Cokayne, 1998:8).

4.6.4 Mergers and acquisitions

4.6.4.1 Mergers and acquisitions of automobile manufacturers

Due to this over-capacity, automobile-makers make efforts to merge with other companies. Automobile manufacturers are using an important mechanism to improve and generate economies of scale in both production and new product development through mergers and acquisitions of manufacturers. Examples are the recent merger of Daimler and Chrysler. With regard to acquisitions, Toyota and GM have a joint plant in California called Nummi. Ford's has purchased Volvo's passenger vehicle division. Rover was purchased by BMW, GM acquired Saab. Some 51% of Kia was purchased by Hyundai, and Renault's acquired 31% of Nissan (Barnes, 1999a: 7; Ghamawat & Ghadar, 2000: 65; Doole & Lowe, 1999:7). It could be argued that mergers do not always reduce over-capacity, because it often only puts over-capacity under one roof instead of two roofs (Taylor, 1999:12-13).

4.6.4.2 Mergers and acquisitions of component manufacturers

With the trend of globalisation, relationships between automobile assemblers and component manufacturers are essential in order to implement new (flexible) methods of production. A good relationship and understanding between the automobile component manufacturers and automobile

assemblers are indispensable to improve the quality and innovation of products. A strong R & D capacity must be a significant aspect of automobile manufacturers, although a number of manufacturers do not have such a capacity to meet these requirements. These manufacturers have sold out or been aggressively taken over by larger-component companies (Barnes, 1999a: 14). Table 4.5 below discloses the acquisition of component companies during 1997 and 1998 as an example.

Table 4.5: Recent consolidation in the global automobile components industry (1997- 1998)

Acquiring company (Country)	Purchased company (Country)	Value of acquisition (in US\$)
Federal-mogut (USA)	Fe-pro (USA)	720m
Magna Internat (Canada)	Steyr-Daimler-Puch (Australia)	N/A
Textron (USA)	Bazaco napri (Brazil)	70m
Lucas Varity (UK/USA)	Freios Vargo	115m
ECIA (France)	Bertrand Faure (France)	1.2bn
Masco Tech (USA)	Tri Mas (USA)	900m
Caterpillar (USA)	Varity Perkins (UK/USA)	1.33bn
Mannesmann (Germany)	Philips Car Systems (Netherlands)	N/A
Federal-Mogul (USA)	T & N (UK)	2.9bn
Textron (USA)	Kautex (Germany)	305m
Tomkins (UK)	Stant (USA)	606m
Lear (USA)	Keiper Car Seating (Germany)	235m

(Source: Barnes, 1999a: 15)

The acquisitions of component manufacturers at global level will have a direct and indirect impact on the changes in ownership of South African subsidiary operations. For example, T & N's take-over by Federal Mogul, and Mannesmann's take-over of Philip's South African operations, is now part of entirely different global networks (Barnes, 1999a: 15).

The greater scale of capital demand is one of the main characteristics of the automobile industry. Any automobile company needs a large investment to build plant and operate successfully. Automobile companies have to develop relations with numerous related sectors because an automobile as a final product consists of sixteen to twenty thousands items. Therefore, it impacts on many supporting sectors (Kashiwabara, 1998:61-62).

In the JIT supply system, component manufacturers also arrange their global operational system like the OEM. OEM and component industries are creating a closer relationship, adequate system integration and R & D capacity as they are being forced to improve their competitiveness to sell the product into the domestic and international market. Barnes and Kaplinsky (2000b:217) suggest that assemblers have to work closely with its core suppliers in the design of new vehicles in order to enhance the quality of components and products. More forecasts indicate that there will be still further consolidation amongst the groups of component manufacturers. By 2010, there will be between just 15 or 20 global first-tier suppliers (Sadler, 1999:111).

Finally, these trends suggest that more and more car companies have grown rapidly from the beginning of the 1990s. All these car companies have played an important role in the first truly global marketplace in world history. New competition emerged in the global marketplace among these new car producers (Mantle, 1995:162). Gadeseli (1999:2) says globalisation has become one of the most important issues in the motor industry of the world. The globalisation process is radically changing the structure of the automotive and component sectors in the world.

In the context of globalisation, the automobile industry is now becoming not just a hardware-driven industry, but an electronically-driven industry. There is no any choice about globalisation any more, and no automobile company could remain a national regional company (Wetlaufer, 1999:80).

4.7 THE POSITION OF SOUTH AFRICAN AUTOMOBILE MANUFACTURERS IN THE GLOBAL MARKET

While in the 1960s South Africa was the largest developing country that produced cars, it now lags far behind a number of developing countries, particularly Korea, Mexico and Brazil. Production in Malaysia, China and India has also increased rapidly (Barnes & Kaplinsky, 2000b:213). South African automobile manufacturers' position in the global market, according to Black (2001: 3-5) highlights the fact that the trade liberalisation policy has lead to a reduction in the price of liberalised products in both domestic and international markets. High production costs, a large number of vehicle models and low production volumes are characteristic of the South African automobile manufacturer. A tariff reduction programme was imposed in 1995 on both built-up vehicles and components by the WTO with decision-makers expecting import-export complementation (import-export complementation was explained in Chapter 2). However, this tariff

reduction will impact on the output of the sector as well as increase the lower priced vehicle through importation in the domestic market. All these changes will impact on investment and increase competition in the domestic market. Low levels of automation and the complexity of most assembly plants in the automobile sectors are major reasons for low-volume production and poor performance compared with assembly plants in other countries. Between 1994 and 1996 it has, however, improved with direct labour hours per vehicle being reduced by 32% (Black, 2001: 3-5)

4.7.1 The current position of South Africa

During 1999, all light vehicle plants in South Africa produced an average of only 40,000 vehicles that included 36 different basic models. This production volume is lower than relatively low-volume producers like Brazil and Australia. This is a central policy issue faced by the South Africa automotive industry (Black, 2001:17). In 1995, some 389,476 new vehicles were produced in South Africa, comprising only 0.5% of the world production. In 1996, 386,476 new vehicles were produced, comprising only 0.61% of the world production, compared with the 31% of the USA, 27% of Europe and 12% of Japan (Savides, 2000:18). The total production of South Africa was 362,104 in 1997, 326,065 in 1999, 357,364 in 2000 and 407,036 in 2001 (NAAMSA, 2002b: 5) making the production of this country much lower than that of other developing countries like China, Mexico, Brazil and Belgium. The following table is a comparison of the total vehicle production of South Africa and other developed and developing countries.

Table 4.6 highlights that in terms of total global production output, South Africa is playing a very small role. Its total contribution to the total vehicle production in 2001 was only 0.72%, compared with other developing countries like China, which has contributed 4.13%. Mexico produced 3.29% and Brazil 3.19% to the total production of the world. The production level and ranking position of South African automobile manufacturers have been far behind that of other developing countries over the last years.

Table 4. 6 Producing countries - total vehicles: 2001

Rank	Countries	Production 2001(units)	% of world production
1	USA	11,449,473	20.32
2	Japan	9,777,191	17.35
3	Germany	5,691,677	10.10
4	France	3,628,418	6.44
5	South Korea	2,946,329	5.23
6	Spain	2,849,888	5.05
7	Canada	2,535,471	4.50
8	China	2,331,776	4.13
9	Mexico	1,856,008	3.29
10	Brazil	1,798,472	3.19
11	United Kingdom	1,685,238	2.99
12	Italy	1,579,650	2.80
13	Russia	1,249,582	2.21
14	Belgium	1,187,257	2.10
18	South Africa	407,036	0.72

(Source: NAAMSA, 2002b: 32)

4.7.2 Problems experienced by automobile manufacturers in South Africa with regard to global competition

Under-performance of the local automobile manufacturing market in South Africa has caused sales to decline consistently since last years. Frequent strikes that might impact on the honouring of export contracts are trends that force foreign-based motor companies to reconsider their options to invest in South African companies (Maphologela, 1998:13). Fraser (2001:2) argues that major investors will not come to invest in South Africa unless there are export opportunities for their projects. Mahabir (2001:4) argues that motor manufacturers depend on exporting their products and making profits because of the devaluation of the Rand. The decline of the Rand against the major currencies has offered a windfall of profits in the recent years.

According to Maphologela (2000a:13), South African motor companies have undergone radical changes in the context of global economic integration, intensified competition, while mergers, acquisitions and consolidation are expected both globally and locally. Most of the companies moving quickly to join the world economy in order to enjoy the benefits of their market share and dominance have started to shrink. With regard to global competition, the emission standards of South Africa are lower than those of the industrially advanced countries (lower emission standards means more power from a given engine size). Engine size is smaller and engine management systems are different. Although aluminium products form a strong segment of the industry, South African material science is too poor to allow for the most effective utilisation thereof. World-wide modern motorcar designs are increasingly substituting low-weight plastic and aluminium for stainless steel. Car assemblers are at the cusp of an important change because they are in need to replace three-generation old products by state of the art global designs, as they become increasingly integrated into global operations. This integration into global operations will force motorcar assemblers to reduce the number of components they use from locally manufactured increasingly over the next five years (Barnes & Kaplinsky, 2000a:802-804). New vehicle prices in South African are well above the world market prices, especially for luxury models (Black, 1994:67). South African passenger car manufacturers are producing a number of different makes and different basic models that raise the assembly costs both directly and indirectly through its impact on the cost of component production. The levels of automation are obviously very low in South Africa. Automation are used in welding, painting and certain areas of final assembly such as mechanical handling in South African assembly plants, although in most of the assembly plants manual methods are still used. Low-capacity utilisation in this country's assembly plants is another reason for the high cost of vehicles in comparison with other countries (Black, 1994:71-72).

Most of the international automobile industry has used lean production in order to cut costs and improve the quality of production. The South African automobile industry has not yet adopted the practice of lean production properly and shows up poorly in this regard. The country's assembly plants are unproductive in international terms. Low levels of automation and training are a characteristic of assembly plant productivity in South Africa. Compared with other countries, the JIT system is not well developed in South Africa. The implementation of this system is hampered by factors such as the high quality of components, the reliability of suppliers, lack of high-level co-ordination between assemblers and component manufacturers, and the large distances between the various production centres. Large-scale production fluctuations and low levels of capacity utilisation

are other key aspects creating a hindrance in the adoption of the JIT system at automobile assemblers in South Africa (Black, 1994:73-76).

Steenekamp (1999:12) and Wakeford (1996:4) argue that national sales no longer give an accurate indication of manufacturing volumes, as South Africa has now become part of the global village. Richardson (1999:16) argues that industries have realised that they have to move towards international competitiveness. They realise that they have to make changes, but changing from a protected local industry to a globally competitive one has not been easy. Richardson (1999:16) points out that in 1998 ten percent of the component industries closed their doors and employment plummeted. So, South African companies need more time to face global competition without any protection. Because of the country's low volumes it is not possible to become competitive overnight in the global marketplace. Most automobile manufacturers argue that local plants could survive only if they have sufficient high-volume production and are export-oriented in future (Furlonger, 2001c:44).

As far as South African automobile manufacturers are concerned, it will be difficult for them to enjoy the benefits and profits unless they are truly world-class and capable of selling vehicles into their domestic and global markets at the same quality, price, reliability and innovative designs as other global players in the context of liberalised economic operation (Barnes, 2000a: 59). Cokayne (1999:7) explains that South Africa's development as a manufacturing base for other markets, increased investment by first-tier component suppliers, and more joint venture, technology transfer and local manufacturing agreements, are the effects of globalisation among its motor vehicle manufacturers. The globalisation of motorcar manufacturers might result in more vehicle manufacturers setting up business in South Africa. Cokayne (1997:3) argues that in this country there is still a chance to become new entrants to the motor industry. Daewoo, the highly diversified South Korean corporation, has plans to build a motor vehicle assembly plant in South Africa at a cost of \$ 50 m. Daewoo has four plants in South Korea with a total annual capacity of 1.07 m units, producing 800,000 passenger cars a year. The question is why is Daewoo interested in building a plant in South Africa in view of the small domestic market of this country. It could be because the proposed plant is going to serve not only the South African but also the broader Southern Africa market as well. Daewoo's Kunsan plant is the most sophisticated plant in the world, operating its plants with 97% automation. There are still possibilities for automobile manufacturers

to open up new plants in South Africa. The establishment of such plants would fit in with the dominating focus on the entire group-globalisation (Cokayne, 1997:3).

Under the global market competition, regionalisation and regional corporations are the salient tool to expand and retain the market share of a country. The South African market has failed to play a vital role with the rest of the African countries, although it is the largest economy in the region. South Africa has been struggling to find direction in its relations with the rest of Africa, often being accused of unfairly using its economic strength and prestige to play a leadership role on the continent, even though it is a member of the 14 nations of the SADC. Some 130 million people in the SADC are a prime market to be tapped and South African relationships with SADC are ambiguous (Mkhondo, 2001:11).

There are two phases in the liberalisation of a motor vehicle market. The first phase is that many new manufacturers enter in order to test the water and fragmentation of the market takes place. The second phase comprises that manufacturers that were in the market before liberalisation as well as new arrivals start to leave. In South Africa it looks as if manufacturers are getting to the end of the first phase with its motor vehicle industry in a crisis. The real crisis for the industry is the need to become globally competitive (Cokayne, 1998:8).

Visiting Japanese consultant Matsunagi (Mashalaba, 2000:20) asks South African companies to adapt to global changes and suggests that companies establish high targets and future strategies before searching for an answer. From his observations, he indicates that parts and component manufacturers in this country are still labour-intensive, while Japan's are oriented towards automation. He has found that the South African organisational structure is individualistic with a top-down management style and frequent resignations, destabilising technical ability and causing labour disputes. Mutual training through teamwork and an ideal model change would benefit both customers and society.

South African companies have already started to embrace innovative ways to sustain their competitive edge and to pursue an export-led production strategy. Most of them have forged a strategic alliance with key parent companies that already have a strong market share. (Maphologela, 2000b:13). The Motor Industry Development Programme (MIDP) imposed by the Government will

restructure the automobile industry so that local manufacturers can compete with the best in the world. The MIDP was discussed in depth in Chapter 2.

Due to the rapid trade liberalisation in 1995, the South African Government has announced a new proposal for the motor industry. This would introduce major tariff cuts by the year 2003, giving manufacturers just eight years to adjust themselves to a free trade environment with no state support for the necessary restructuring. This is in contrast with the 12 years agreed to by the WTO and GATT (Michie & Padayachee, 1997:20). The tariff changes through the MIDP may reduce pressure on certain parts of the industry but will keep the local motor industry even further behind in its drive to become globally competitive.

There is an urgent need to restructure the local motor industry and the economy of South Africa as a whole in order to survive in globalisation (Moledle, 1996:20). Many South African companies were isolated from the rest of the world during the period of sanctions, but the country entered a new phase in its globalisation process in the mid-1990s. Managers must have the ability to assess the global marketing environment and competitive behaviour in order to survive in the global marketplace. Companies in this country have to make fundamental changes to their operational infrastructure in order to compete in the global market. They have to improve efficiency, operate more cost-effectively and implement the JIT manufacturing method. Internet-driven economy will have a greater effect on any decision-making process and for the first time, globalisation has forced many South African companies to look outside their business for solutions (ANON, 2001b: 40-41).

The South African motor vehicle industry is facing significant challenges in terms of increasing its global market share. Education and training of workers and further automation are becoming necessary for the industry. Training, education, automation and investment in new equipment are the only ways for this country's motor vehicle industry to compete in the global market (Savides, 2000:18). New entrants like Daewoo or any other companies into South Africa will further create high competition and damage the future performance of automobile companies in this country locally, regionally and internationally. Regionalisation and regional corporations are important tools to enable trade benefits in the context of globalisation. South Africa must therefore consult with neighbouring countries in the continent to enlarge its market size and ensure a more balanced trade.

Old-industry benchmarks will not be valid in a global marketplace and automobile manufacturers must take a broader perspective and not make strategic decisions according to old yardsticks. Therefore, the automobile industry in this country must take cognisance of this trend for future planning in term of factors like capital investment and employment. In future, car sales figures will include significant numbers of imported cars that will make no contribution to the economy other than sales.

4.8 SUMMARY

In the process of globalisation, all developing nations and populations outside the major capitalist world are generally pulled into orbit. Global institutions play an important role in the process of restructuring national economics. Advanced countries and giant companies are seeking to lift any residual barriers to the movement and free operation of capital that exist within the national boundaries of the South in this global market. Developing countries depend on the mercy of the highly industrialised powers. The reason for this is that adaptation to new industrial, economic, financial and political structures becomes more difficult as a result of the growing interdependence and also the growing competition on a global scale.

Developers should undertake a review of the effects of liberalisation through globalisation on the domestic industrial sectors and overall economy and draw lessons for future trade. Regional integration and co-operation are an important tool and strategy for trade and economic development in developing countries, especially in Africa.

As mentioned earlier, TNCs enter the global market with their substantial financial resources, advanced technology, superior products, powerful brands and seasoned marketing and managerial skills. However, managers of local companies in these markets have little guidance. How could they overcome and even take advantage of their differences with competitors from the advanced industrial countries? In the competitive global market, activities and process are constantly being challenged and pushed to a higher level of performance, enabling them to continually innovate and improve. Globalisation has significant implications for the South African automobile industries as they are turning to face the global automobile companies after the termination of the apartheid system and trade liberalisation after the end of the Cold War.

Technological intensity is the major characteristic of the automobile industry in the world today. Most automobile-makers concentrate on developing their supply network, establishing long-term programmes to increase productivity, quality, lower wage scales and invest consistently in machinery and equipment. Successful use of technology innovation is expected to offer automobile industries not just competitive advantages in the market, but also sustainable competition worldwide. Merger and acquisition activities due to the over-capacity of vehicles between the automobile industries bring further concentration to the global market. Major changes at global level further underpin a direct impact on the South African automobile industry. This industry is not globally competitive, while many problems are keeping the industry from the major global market. A trade liberalisation policy and tariff reduction according to the agreement of the WTO will enable South Africa manufacturers to cope with further intensified competition from imports, especially in the long term.

Finally, while globalisation has brought opportunities, it has also brought several risks and insecurities for the South African automobile industry. The opportunities have to be availed and risks and insecurities are to be avoided through suitable and appropriate strategies. Now, from the above discussion, the necessity has arisen to automobile manufacturers to formulate their successful strategies to cope and react to global competitors. Automobile manufacturers have to enhance their knowledge in global marketing strategies in the context of this rapid globalisation process. The next chapter of this study will deal with global marketing and the global marketing strategy.

CHAPTER 5

GLOBAL STRATEGIC MARKETING AND ITS IMPLICATION FOR AUTOMOBILE MANUFACTURERS IN SOUTH AFRICA

5.1 INTRODUCTION

The saturation of many local markets and fast technological changes, together with the liberalisation of world trade, have led to increasing global competition. These major changes in the business environment have forced automobile manufacturers in South Africa to assess their opportunities and threats, strengths and weaknesses from a different perspective compared to strictly local business. This chapter discusses the factors that explain the global marketing environment, global marketing strategy and concepts of global marketing entry strategies. These factors enable the manager to appreciate the complexities of global marketing and how these activities differ from operating purely in domestic markets. This necessitates a global marketing strategy for local manufacturers in order to overcome the challenges in the global marketplace. The last section explains how managers could implement a global marketing strategy and evaluate it properly.

5.2 GLOBAL MARKETING

During the last decade of the 20th century, world economic development has been erratic. Economic interdependence has grown and new markets were created. With the ratification of the Uruguay Round Agreement, the General Agreement on Tariffs and Trade (GATT) was replaced by the World Trade Organisation. World economy moved into a new era of free trade. Many developing countries started to compete for demand in their own countries and were looking for world markets. Today, global marketing is essentially not only for the realisation of the success potential of a business, but also for the survival of a business. A company cannot survive in the domestic market without understanding the global market. This is because a company could lose its domestic market to global competitors with lower costs, greater experience, better products and more value for customers. Automobile companies have to improve their marketing activities in their domestic market as well as increase export to the world market to survive in the long term. TNCs are changing their marketing strategies and altering their organisational structures because they are confronted with

increasing competition from expanding markets. In this era, automobile manufacturers cannot survive without expanding their market globally. Eventually they would lose their domestic markets because they will be pushed aside by stronger competitive global competitors. Automobile manufacturers in South Africa have come to realise that it is very difficult to isolate domestic economic and marketing activities from global market events. All automobile manufacturers in South Africa have been threatened in their survival as a result of global trade liberalisation. A deeper knowledge of global marketing is essential when a company competes with global competition. As far as automobile manufacturers in South Africa is concerned, they have to keep abreast of competition and maintain a viable position in increasingly competitive markets. Therefore a global perspective is necessary. This section attempts to give a brief idea of global marketing and global marketing strategy.

Braithwaite and Drahos (2000:8) argue that there are three kinds of globalisation. These are:

- The globalisation of companies;
- the globalisation of marketing; and
- the globalisation of regulation.

Perhaps the most popular topic in the globalisation literature is the globalisation of markets. Global companies in a specific territory spread its operations through corporation groups and structures to other territories. In the case of global markets, buyers or sellers can meet any one of these companies physically through agents or electronically in order to conduct transactions of goods or services. The connection between the globalisation and regulation is elaborated as follows:

- **Market globalisation without regulatory globalisation:** The gambling market has been substantially globalised, with Internet gambling and high rollers being flown to casinos under special deals to attract their custom.
- **Regulatory globalisation without market globalisation:** Here markets are not global, are for the benefit of welfare and the supply of drugs to citizens. In these regimes the state indicates the price they pay and as a result there is no global market for a product.
- **Globalisation of companies without market globalisation:** Industry is not the largest corporation and it is more globalised, with larger and many smaller markets.
- **Globalisation of companies without regulatory globalisation:** There are global media companies and global trade in audio-visual services such as the television. The regulation of the media is still a national affair (Braithwaite & Drahos, 2000:9).

The term global marketing has been in use only since the early 1980s. International marketing, or multinational marketing, were wide-spread uses prior to the term global marketing (Jeannet & Hennesey, 1998:3). A brief description is given for these three terms in order to understand the differences between the terms.

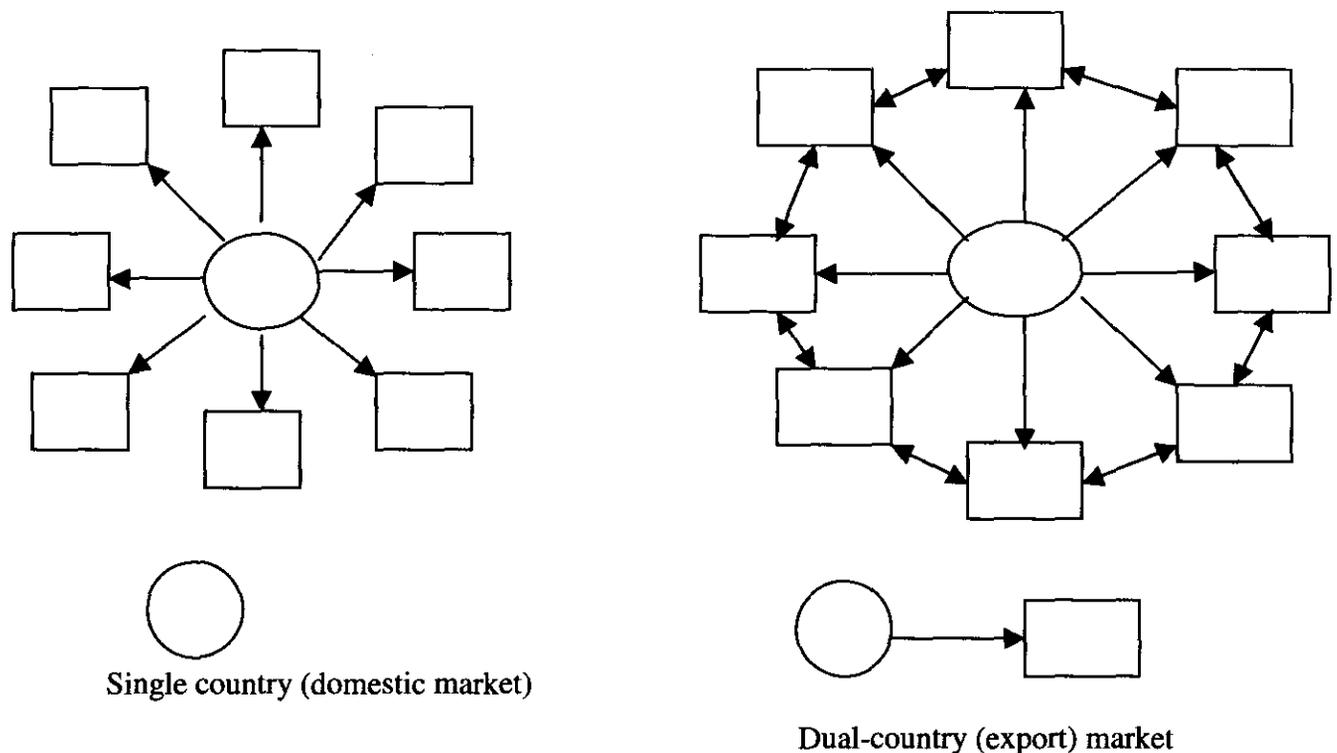
- **International marketing:** International marketing is likely to have its own sales subsidiaries and will participate in and develop entire marketing strategies for foreign markets (Jeannet & Hennesey, 1998:4). Cateora (1996:6) and Cateora and Graham (2002:7) argue that international marketing is the performance of a company's activities. These activities include formulating the plan, price and promotion, and directing the flow of goods and services to consumers in more than one country for profit. According to Czinkota and Ronkainen (2002:3), international marketing is the process of planning and conducting transactions across the borders of countries to create exchanges that satisfy the objectives of individuals and companies. These definitions indicate the difference between domestic and international marketing.
- **Multinational marketing:** Here multinational companies are characterised by extensive development of assets abroad. The concept of multinational marketing came as a result of the development of the multinational corporation. Multinational companies operate by means of many strategies, each one tailored to a particular local market (Jeannet & Hennesey, 1998:7). According to Buzzel *et al.* (1995:6), a company that has substantial operations, a significant market share and profits in several countries does multinational marketing.
- **Global marketing:** The whole organisation focuses on the selection and exploitation of global marketing opportunities and marshals arrange resources around the globe with the objective of achieving a globally competitive advantage (Doole & Lowe, 1999:10). Cateora (1996:18) expresses the opinion that global marketing is where a company treats the world, including their own market, as one market. This market coverage is the world. Keegan (1989:1) argues that global marketing is the process that focuses the resources and objectives of a company on global market opportunities.

To satisfy global customers both domestically and internationally, marketing activities within the constraints of the global environment have to be co-ordinated. This definition indicates both important aspects that are first marketing activities within foreign countries and co-ordinating marketing in the face of global competition (Terpstra & Sarathy, 2000:4).

According to Doole and Lown (1999:10), an organisation's marketing activities include the following: interests or operations in more than one country where there is some kind of influence or control of marketing activities from outside the country where the goods or service will actually be sold. The use of the word global remains unclear among many marketing academics and executives despite the fact that much conceptual work has been accomplished in global marketing (Jeannet & Hennessey, 1998:7).

Any definition may be used for the terms international, multinational and global marketing, although the basic marketing definition has not changed. Some additional explanations will be added to understand the terms of global marketing and international marketing. Global marketing is not just a new term for an old phenomenon. There are real differences between international marketing and global marketing that are of specific importance today. International marketing takes place across two or more countries, while in the case of global marketing, dozens of countries are involved simultaneously (Jeannet & Hennessey, 1998:3-8). Figure 5.1 shows the difference between international and global marketing.

Figure 5.1: International and global marketing



(Source: Jeannet and Hennessey, 1998:8)

Figure 5.1 describes international marketing (figure left) as the performance of marketing activities across two or more countries. It includes moving from a single-country decision to a multi-country decision. A company operates its market in two or more countries or across national borders to satisfy human needs and wants for profit. There is some form of marketing entry, such as exporting or regional exporting, which operates from a central office in the home country. Somewhat autonomous but key decisions are made from the central office, while manufacturing and assembly, marketing and sales are decentralised beyond the home region. Finished goods are exported outside the home region. Global marketing (figure right) looks at the world market as a whole rather than on a country basis. Global companies want to achieve across many markets with a marketing mix. Global marketing deals with the interconnection of many countries' strategies with the subordination of these country strategies under one global marketing network and framework simultaneously. Global marketing activities take place through a network of subsidiaries by TNCs in a large number of countries. Global marketing is operated through independent and mainly self-sufficient subsidiaries in a large number of countries. There is a highly decentralised organisation operating across a broad range of countries with no geographical area for any function. Each function of the company, such as R & D, sourcing, manufacturing, marketing and sales, will be performed around the world in the most suitable location for each function. They may encounter the same competitors with different sets of customers in each country. Automobile manufacturers and their global competitors are the best example of such a market.

According to the above-mentioned definitions, the basic concept and goal of marketing with regard to international and global marketing have remained unchanged. However, the major difference is the execution of these activities in more than one country with different and suitable marketing strategies according to the global marketing environment.

5.3 Global strategic marketing

Today, many forces are driving managers to globalise by expanding their participation in global markets. A deeper knowledge of global marketing strategy is imperative for the management of South African automobile manufacturers in order to enjoy opportunities to exploit globalisation and escape from the negative impact of globalisation.

In an increasing number of industries, the benefits of exploiting global economies of scale and scope increase the need for integration and co-ordination of activities. By 1980, these global trends had forced companies to consider a world-wide strategic approach and to adapt their organisational capabilities. Some seemed to be managing the transition successfully, while others were simply surviving and some encountered major difficulties (Bartlett & Ghoshal, 1987:7).

In today's intensely competitive and rapidly changing environment in the global marketplace, most companies pursuing foreign opportunities use strategic marketing planning to help them tap these opportunities, gain a market share and increase their profitability (Toyne & Walters, 1993:50). Global strategic marketing planning has become an increasingly important management process as companies have internationalised at increasingly rapid rates in the 1980s and 1990s in order to meet the demands of world-wide competition.

Chae and Hill (1997:5) argue that global strategic marketing planning is a subset of the global strategic planning process. Global strategic planning is a broader concept, encompassing not only marketing-oriented decisions, but financial, human resources, manufacturing and other functional strategies. The management of global companies must carefully consider global opportunities, threats, strengths and weaknesses in order to formulate global strategic marketing planning that maintains a match between corporate resources and marketplace development. The major aim of formalising the global strategic marketing planning process is to develop and implement effective global strategies (Chae & Hill, 1997:5 & 10).

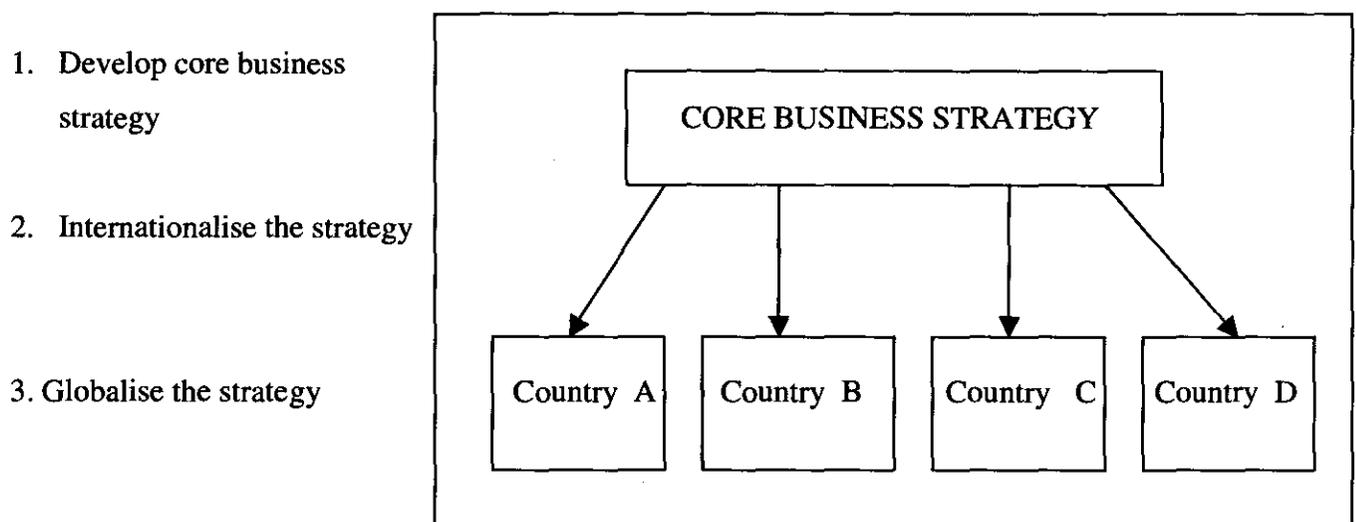
Global strategies require skills and conceptual understanding different from those required for developing domestic strategies. Strategic competence is necessary for global marketing managers to build global marketing programmes that will ensure the success of their organisation (Jeannet & Hennessey, 1998:229).

From these definitions, it seems that global marketing strategies are playing an important role in the global marketplace as a vehicle to carry out global strategic marketing planning. Global management should pay attention to design its global marketing strategic planning in order to achieve their goals in the competitive global marketplace.

Yip (1989: 4) suggests how a global company could develop an integrated world-wide strategy. He explains three steps to develop a global marketing strategy. Figure 5.2 shows the total global strategy. Three separate components are included in a total global strategy. These strategies are as follows:

1. A core strategy must be developed as the basis for sustainable strategic advantage.
2. Through the international expansion of activities, the core strategy must be internationalised and adapted to the core strategy. The company has to obtain experience and knowledge in international business before it attempts a global strategy.
3. The international strategy across countries can be globalised by integrating the strategy across countries.

Figure 5.2: Total global strategy



(Source: Yip, 1989:4)

A company needs to internationalise its core business strategy when expanding outside of its home market. Each separate business in a company needs its own core strategy. Major parameters of the definition include the types of customers served and the types of production and services offered. A company needs a globalisation strategy to overcome the disadvantages created by internationalisation. This global strategy will integrate and manage a world-wide business leverage and competitive advantage (Yip, 1989:6).

Marketing management must analyse the global marketing environment and should know how the environment impacts on a company's global marketing strategies across global markets. Assessing

and monitoring the global marketing environment is not such an easy task as the domestic marketing environment, because it is highly complex and there are controllable and uncontrollable factors in different countries and more global competitors are entering the marketplace.

5.3.1 The global marketing environment

Marketing theorists have introduced many environmental analysis models. According to Doole and Lowe (1999:11), the global marketing environment is categorised as social, legal, economic, political and technology (SLEPT). Keegan (1999:37) says economic, social and cultural, political, legal and technological forces are the environmental forces that come under the macro dimension of the environment. The economic, social-cultural, and political-legal factors are those that are included in the external environment of an organisation and that they cannot immediately control (Chee & Harris, 1998:102).

All global marketing management has to analyse the external environment of the global market in depth in order to identify the opportunities and threats and to formulate its global marketing strategy. Therefore, social-cultural, legal, economic and political factors will be analysed briefly as the important factors of the global marketing environment.

5.3.1.1 Global economic environment

After World War II, the world economy changed rapidly, because the global market and its opportunities are dependent on a country's economic condition. Each country in the global market has different stages of economic development. The gross national product (GNP) per capita provides a useful way of grouping these countries. The countries in the global market have been divided into five categories according to their income level. These are low-income countries, lower middle-income countries, upper middle-income countries, high-income countries and basket cases. The latter include low-income no-growth countries like Ethiopia and Mozambique. Global marketing managers must take into account the per capita income of the country when formulating a global strategy. The single most valuable and important indicator of potential is income. The national income of each country should be calculated on the basis of purchasing power parities. This would provide an actual comparison of the standards of living in the countries of the world (Keegan & Green, 2003: 51-62).

Infrastructure, including communication, energy and transportation, will impact on the economic development of a country. Population characteristics represent one major dimension. An assessment of the population growth, the location and age group of the population are essential factors to be taken into account by global marketers (Albaum *et al.*, 1994:48). Economic, industrial, labour and business policies of governments vary from country to country. Government policy impacts differently on the global market in each country. The review of international trade policies and activities are of increasing importance to all countries. Balance of payment is an important tool to assess the international trade and transactions of a particular country. The balance of payment will give a summary of all international transactions, goods purchased from foreign and domestic countries and the purchase of assets overseas. The deficit or surplus of balance of payments is the best indicator of a country's economic strengths and weaknesses. Large deficits could produce major problems for any economy. Surplus will appear as an indicator of success, while the deficit and surplus highlight the health of an economy. The balance of payment impacts on the export and import of a country. Other economic issues such as inflation, unemployment and investments all provide further insight to marketing managers about the global marketing situation. Marketing management must analyse the trade barriers of the country such as import quotas, tariffs, price-fixing and control. International financial institutions and systems that have a substantial influence on global marketing are the IMF, the International Bank for Reconstruction and Development (IBRD), GATT (General Agreement on Tariffs and Trade), the WTO and the World Bank. These are all involved in the administration and control system in the trade and financial administration and directly and indirectly affect the global marketing environment (Chee & Harris, 1998: 103-129).

The economic environment is a very important factor in global and domestic market potential and opportunity. The most important indicator of market potential is income. Global marketers must analyse the per capita income in the particular country or in the regional market where the South African automobile manufacturers have to operate.

5.3.1.2 Global social-cultural environment

Culture may be defined as the standards of beliefs, perceptions, evaluations and behaviours shared by the members of a social group. Taste, preferences of colours and buying attitude towards products vary and depend on the culture of the people. People in different regions and countries have different cultures. All buying behaviour occurs within the framework of culture, while culture

affects social behaviour. Global marketers must measure and determine the specific role that culture plays in the company's product markets in the global marketplace. Cultural factors determine consumers' decision-making. All these cultural factors influence business behaviour. Different nations have different ingrained cultures and there is a rich and complex diversity within national cultures. Global marketers must understand personal values and accepted norms of behaviour of their customers so as to market to them properly (Muhlbacher *et al.*, 1999: 171-172).

Keegan and Green (2003: 134-135) argue that global marketers must search for cultural universals. Universal cultural aspects provide opportunities for global marketers to standardise some or all elements of a marketing programme. There are interrelationship between the language, communication patterns and culture of a particular group of people in different countries. Cultural factors pose a challenge to marketers. In a social context, culture is a learned behaviour that is passed on from generation to generation. Global managers must learn about the culture of each country where they operate. The product must be adapted according to the cultural needs of the different national markets. Global marketing often entails product innovation. Managers must bear in mind these cultural aspects when they bring innovated products to a particular market. The various cultural factors can exert an important influence on industrial and consumer products, because these are probably more sensitive to cultural differences than industrial products are. Business and marketing relationships between parties of different cultures and nationalisation's are subject to additional challenges.

Culture is an important part of the human environment. Marketers must understand how culture in different countries or regions influence their marketing performance. Culture may well be the single most important gain to global marketers when preparing a marketing strategy. Culture influences consumers' wants and needs. Therefore marketing managers must understand their customers' culture in order to understand the influence that it has on its customers' wants and needs, especially in the global marketing environment. In South Africa, automobile manufacturers are now in need of expanding their market globally after the domestic market was eroded by a number of TNCs. Companies have to increase the ability of their marketing management to analyse the different cultures in different parts of the world in order to identify the market and customers in this global marketplace. Special efforts and study are needed to obtain sufficient understanding of a foreign culture to cope with competition. Global marketers must recognise the influence of culture and must be prepared to respond to it.

Automobile manufacturers must understand the cultural and social structure of the countries they are targeting for their market. Social classes exhibit distinct product and brand preferences for their automobiles due to the social stratification and culture.

5.3.1.3 Global legal environment

A company is not just bound by the law and order of its home country, but also by its host country and international law. The latter will affect many aspects of a global marketing strategy. For example, the sport cars of General Motors were withdrawn in the USA when the increasing difficulty of complying with safety legislation changes made exporting to that market unprofitable. In global marketing, the legal environment is more complicated than in the domestic market. These laws are divided into three types, namely local domestic law, international law and domestic law in the company's home base. Each marketing manager has to understand that these laws could have a major impact on the organisation's ability to market in the local and global marketplace. Mercedes Benz has found the lure of the vast potential of India's market somewhat hard to break into (Doole & Lowe, 1999:16- 17).

Perreault and McCarthy (1999: 107) argue that the legal environment formulates the necessary basic rules and regulations of how a business could operate in a society or country. Changes in the legal environment may create new opportunities and threats for global companies. Laws often vary from one country's market to another. Government will impose various laws in order to protect both consumer and national interests. Managers will be penalised when they violate the law and order pertaining to the operation of trade and marketing. Global marketers must know state, local and international law before setting their location and formulating their global marketing strategies.

Muhlbacher *et al.* (1999:131) expresses the view that political policies of the government will affect and create changes in legal regulations. Management must make efforts to understand the characteristics of the political and legal environment that are relevant to the product market. Because international marketers have to work with different legal systems in different local markets, there are some treaties and trade agreements among countries that provide guidelines for business relations. Several treaties and laws have been established by international regulatory agencies, pertaining to copyright, patents rights, industrial property protection, trade marks, intellectual property rights, etc.

Automobile manufacturers in South Africa must ascertain whose law prevails in a given situation, because different states have different laws and regulations. Marketers must increase their awareness of the legal environment to avoid situations that might result in conflict, misunderstanding or violation of national laws in order to increase their vehicle export to global and regional markets. The executives of automobile manufacturers have to adjust their marketing strategies according to the rapid changes of the legal and political environment in order to maximise new opportunities and minimise losses.

5.3.1.4 Global political environment

The type and nature of government will affect international marketing in general and exporting in particular in the form of restriction and control (Albaum *et al.*, 1994:61). The national government is the major actor in the political arena and government interference in business operation is the important political risk faced by MNCs. Management should consider the political instability of the country, although this is not the same as political risk. Nationalism is present to some degree in all countries, where the focus is more on national interest and security than on international business. Nationalism is also not limited to developing countries, but exists in other countries also, including rich industrial countries. The power of the home country government to control the overseas activities of domestic companies must not be overlooked (Toyne & Walter, 1993:229-230). The political environment could, of course, have a dramatic effect on opportunities at local and international level. Some business managers are developing marketing strategies successfully by studying the political environment (Perreault & McCarthy, 1999:105).

The key actors in the political arena are the host country government and international bodies or agencies whose activities may positively or negatively affect the operation of the company. The national government is the major political actor in a country. Along with the bureaucracy, it enjoys great power and has the ability to regulate, tax, set up price control, control dividend and royalty remittance, as well as regulate licensing agreements and foreign direct investment. So, in order to enjoy the benefits of the global market, automobile manufacturers have to analyse each country where they intend to operate separately. The political environment varies from country to country. Management must undertake an analysis of the political environment to identify marketing opportunities. South African automobile manufacturers should have an overall understanding of the importance of government and political parties in order to expand its marketing activities in both the regional and global market.

Automobile manufacturers must be able to understand and effectively interpret the influence and impact of each uncontrollable environmental element in the marketplace for each foreign market where they hope to operate. They must have the ability to adjust and adapt a marketing strategy to the global markets. South African automobile manufacturers have to obtain sufficient knowledge of the global environment where it is necessary to react quickly to the changes and strategies of global companies. The marketing environment has significant influence on the strategic planning process, which could differ greatly from region to region. Manufacturers have to scan the global environment and prioritise the specific country or region. Global strategy is built on an information system that analyses the global environment to identify opportunities, trends, threats and resources. Automobile manufacturers need to systematically evaluate the entire global market environment on a regular basis to identify the best opportunities, because the global marketplace is large and complex.

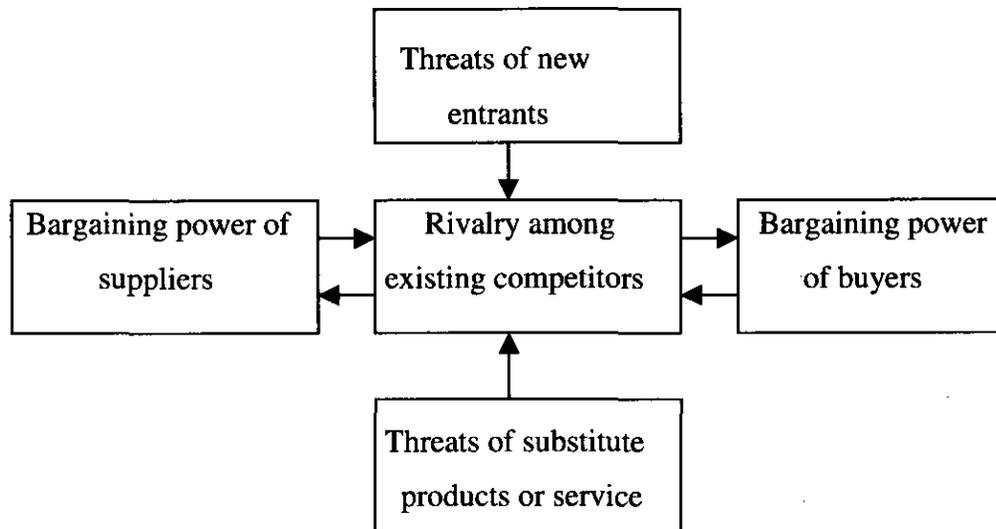
5.3.2 Global competitive analysis

Changes have taken place over recent years in the global marketplace with regard to political, economic, socio-cultural aspects. The technological environments of the global company have combined to change the relative importance of those strategies. Trade barriers have fallen, markets have globalised, consumer needs and wants have converged, product life cycles have shortened, while new means of communication, technologies and global trends have emerged. These changes and developments provide both market opportunities and threats. The global organisation has strong strategic implications and global managers are facing new challenges (Keegan & Green, 1997:239).

In the context of these changes in the global marketplace managers are forced to develop successful global marketing strategies. For this purpose, managers have to analyse the market share and market coverage of their global competitors to create a competitive advantage and identify the opportunities in both the domestic and international market. In a particular market, a group of company produces and markets products that are close substitutes for each other. The automobile industry is the best example of this. Each competitor makes an effort to obtain enough return on its investments in the competitive market. Rates of return that are greater than expected in the competitive market will result in a flow of capital either from existing competitors or from new entrants making additional investments in the market. Five forces affect competition in the global industry. These forces are:

the threat of new entrants, the threat of substitute products, the bargaining power of buyers, the bargaining power of suppliers, and the competitive rivalry (Keegan & Green, 1997:256). Figure 5.3 shows the forces that affect competition in an industry.

Figure 5.3: Forces that influence competition in an industry



(Source: Keegan & Green, 1997:256; Keegan & Green, 2003: 367)

Perreault and McCarthy (1999:98) allude to the fact that marketing managers are facing different types of competitors in the global market and cannot control these factors. They can merely develop suitable strategies to avoid or react to competition. There are four types of competition: pure competition, oligopoly, monopolistic competition and monopoly (these were described clearly in Chapter 3). Marketing managers must analyse the nature of the competition and the strategy objectives of its competitors in the market environment to enable the particular company to identify the opportunities and threats of the market. Target marketing provides a market-mix better suited to customers' needs.

The competitor analysis will help managers to identify opportunities by understanding its customers and competitors. This will enable managers not only to identify opportunities, but also the strengths and weaknesses of current or potential competitors' marketing strategies. In the initial stage of the competitor analysis, management identifies potential competitors from the viewpoint of target customers. It is easy to identify competitors if the product is similar and can be substituted. It is very difficult to attack the leader by simply using a similar strategy, because the market leader will

quickly defend and react to new competitors. At the same time, even an established leader sometimes may not be able to defend quickly if the new competitor attacks where it is weak (Perreault & McCarthy, 1999: 98-100).

Competition among automobile marketers is changing today from a domestic to a global basis. Thus, a competitive analysis must also be undertaken on a global scale. Automobile manufacturers cannot achieve their objectives without understanding their consumers and competitors and what current competitors are doing in the marketplace.

5.3.2.1 Assessing global competitors' strategies

An organisation can review its position by analysing its competitors' environment and considering the factors that influence the organisation's capacity to find an effective competitive strategy (Chee & Harris, 1998:91). MNCs such as oil, detergent and cars exist in the global market. Companies operating in those industries - such as General Motors - obtain economies of scale in production and are able also to invest in advertising and R & D in order to maintain their dominance. Management has to assess both types of competition - local and multinational - so as to identify the strategies of the competition (Chee & Harris, 1998: 91& 96). The company must focus on corporate policy, corporate strategy and management systems and operations of the identified competitors. This will enable that company to identify the objectives, profitability, strengths and weaknesses of competitors in the global marketplace (Muhlbacher *et al.*, 1999:320).

Global companies may become inflexible after several successful market entries, although they have superior resources. In general, the strongest local competitors of the global company must watch carefully and continuously to learn the strategies and moves of other countries. Global competitors engaging in global marketing operations are faced with a number of important strategic decisions. The globalisation of many industries today is a fact. Some companies have no choice but to become globalise, because once key competitors have become globalised, other companies have to follow. Global competitors are developing different types of strategies according to their strengths and experience in the global market. There is competition between global companies versus global companies as well as local companies versus global companies. This kind of competition is simple and exists in the motorcar market globally. Global companies are able to leverage their experience

and market strategy in one market for the benefit of another. Global companies are after a more potent competitor for a local company (Jeannet & Hennessey, 1998:299-302).

In today's globally competitive market, especially in the automobile market, an analysis of competitors is an important tool to react to competitors in both the domestic market as well as globally. In South Africa, tariff reduction through the implementation of MIDP, brings a number of competitors into the domestic and regional market. South African automobile manufacturers must design a proper system to undertake a competitor analysis, which includes human resources, financial and physical assets, market share and profitability of the global competitor. Manufacturers must find an answer to the question of how competitors will use the assets they have. A study should be made of competitors' production methods, cost and expansion possibilities in its present production location, their subcontract method of joint ventures and relationship with suppliers. South African automobile manufacturers are facing different types of competitors in domestic and global markets. So, they must carefully and separately analyse the marketing strategy of different global and local competitors more than ever before.

South African automobile manufacturers are facing different strategies from both global and local companies. Therefore, the marketing management has to make efforts to assess the strategies of both types of competitors in order to defend, react to and enhance its market share in the domestic and global market.

5.3.2.2 Global information system

Each company must establish an information system to identify the opportunities and threats of competitors in the global marketplace. A well-formulated intelligence system will enable management to determine the global competitiveness of the company and the role of major forces such as buyers, suppliers, new entrants, substitutes and global competitors. (Jeannet & Hennessey, 1998:221). Global market research will provide sufficient information about global competitors to assist decision-making about marketing on a global scale. Each company requires information that allows analysis across several companies, countries and markets. A world-wide marketing information system must be established to collect data from each market and country in order to expand a company's market globally and to react to global competitors in the domestic market (Jeannet & Hennessey, 1998:224).

5.3.3 Internal analysis

According to Muhlbacher *et al.*, (1999:333), once the competitor analysis has been completed, the company must start an internal analysis in order to compare the data with the strengths and weaknesses of their own company. Corporate policy, corporate strategy, the management system and operations must be included as significant factors of the internal analysis. The starting point of the internal analysis is with the corporate policy. The important factors in this regard are the ability and willingness of top management to lead the organisation in its international marketing efforts. If they were to have a global perspective, top managers should have experience of more than one culture. Top management must be committed to achieving and maintaining an international presence if the company were to be internationally competitive. Internationalisation of thinking and action is a significant value for the members of a company. Corporate cultural behaviour of personnel and traditional must be developed towards international marketing activities.

Corporate strategy: - **Management** must measure the spread of international activities, the length of the company's value chain, the configuration of business activities and its traditional competitive behaviour. The existing capabilities and resource allocation of the company must be assessed and arranged according to the international marketing activities.

Management systems: - **Managers** of companies must evaluate the company's competitive position and how the management system will fit and be able to cope with the new environment as well as the changes that they have to create in the existing management system.

Operations: Management has to ascertain the current state of its functioning and its ability to design and carry out successful operations in order to measure the competitive position of the company in the most attractive foreign markets. Management must decide where and in which market they can operate successfully. The size of the company, profitability and current market operations are indicators of the resources it has available for investment in new markets (Muhlbacher *et al.*, 1999:340).

Toyne and Walters (1993:99-100) point out that the external environment analysis on its own is not sufficient to develop the company's competitive strategies in the global market. Management must be aware of its own capabilities and the required resources to meet the challenges posed by the external environment and the identified opportunities. Management has to assess the method of business, its resource organisational structure and climate, technical and managerial skills, in order

to identify the capabilities and strengths of its resources to meet the complicated challenges in the global marketplace. The capability of the company relies on skills, capital, delivery and input. Management is forced to cross-check its technical (production, innovation and product) and managerial skills, as the ability of a company to cope with continually changing opportunities and competitive threats depend in these factors. Bergouignan *et al.* (2000:41) indicates that the new global competitive environment has forced automobile companies to review their adaptive strategies. In South Africa, all automobile manufacturers and their management have a great responsibility to make the necessary efforts on a continuous basis to identify their strengths and weaknesses through the internal analysis to design successful competitive strategies in the emergence of the global marketplace.

The competitive position of a company must be analysed in order to compare its strengths and weaknesses with those of global competitors. Automobile manufacturers must analyse the corporate policy, strategy, management system and operations of the company with regard to its internal resources to increase its competitive abilities and advantage. Management must allocate its internal resources efficiently and maintain the workflow by producing goods and services effectively in the global marketplace. The internal analysis enables automobile manufacturers to arrange its available internal resources to compete with the different strategies of global competitors.

The internal analysis enables management to identify the company's strengths and weaknesses. This will enable management to focus on and establish a suitable marketing strategy to increase its market share in the global marketplace by expanding its activities and react to global companies. Global marketers are fully aware of their strengths across as many markets as possible.

5.4 GLOBAL MARKET ENTRY STRATEGIES

A company must choose the best mode of entry after the completion of its environmental, external and internal analyses. Management must carefully select market entry models that are consistent with the company's desired position in the market to be served. Each entry option entails a different combination of risks and market control and each market under consideration may require a different market entry mode. This section briefly explains the different market entry strategies. The following modes of entry are included in global marketing entry strategies.

5.4.1 Indirect export

A company can export its products to other countries through independent intermediaries. There are four types of intermediaries. (i) **Domestic-based export merchants** buy the products from manufacturers and sell them abroad. (ii) **Domestic-based agents** negotiate and create agreements with foreign purchasers and are paid a commission. (iii) **A co-operative or organisation** is involved in exporting activities on behalf of several producers. They are partly under their administrative control. (iv) **Export-management companies** agree to manage a company's export activities for a fee (Kotler, 2000:374). But according to Chee and Harris (1998:293) and Terpstra & Sarathy, 2000:378-384), indirect exporting includes export house, export management companies, international trading companies and piggybacking.

- **Export houses:** These are companies that are not manufacturers, but whose main activity is the handling or financing of the export trade or international trade. There are three main categories of export houses.
 - (A) Export merchants who buy the goods outright and sell them on their own account;
 - (B) confirming houses, where they act as agents for the buyers; and
 - (C) export agents, where they act as agents for the exporters.
- **Export management companies:** These are specialist intermediaries acting as an export department for the exporting company, in fact, it acts as the exporter's agent.
- **Overseas buying offices:** Many of the major department stores in industrialised countries have buying offices. This option could be important for a company wishing to become established in an overseas market.
- **International trading companies:** These companies tend to be large-scale manufacturers and merchants and are involved in wholesale and retail distribution.
- **Piggyback export:** One manufacturer uses its established overseas distribution network to market the goods of another manufacturers alongside its own (Chee & Harris, 1998:293).

5.4.2 Direct export

A company may make efforts to reduce or minimise the risk of dealing internationally by exporting domestically produced products (Jain, 1993:39). Direct exporting is the most common mode of

direct entry. In the direct export method, a company sells its products to an overseas buyer. Foreign buyers comprise distributors, agents or overseas subsidiaries that depend on the product and will act as a representative of the manufacturer in the foreign market. According to this method, manufacturers rely on foreign distributors to market and sell their product into the distribution channel (Foley, 1999: 100).

5.4.3 Other direct exporting methods

- **Management contracts:** This method is concerned with installing management operating and control systems (Doole & Lowe, 1999:328). TNCs and MNCs will provide key and skilful personnel or managers to operate the foreign organisation for a fee until local people have acquired the ability to operate the particular organisation independently (Jain, 1993:39).
- **Turnkey operation:** This is one kind of management contract that provides not only capital plant supply, but also a management team in order to set up and run the plant for the few months of operation. Plant construction, personnel training and initial production on a fixed fee or cost basis is the major content of this contract (Doole & Lowe, 1999:328).

5.4.4 Foreign product entry method

- **Licensing:** Under the licensing method an MNC may give its assets such as patents, trade secrets, trade marks, know-how and company name to a foreign company in terms of a fee, royalties and other forms of payments. By using licensing as a method of market entry, a company could gain market presence without an investment. The licensing agreement may be assigned for a period of time. For this purpose, the licensee must have all the necessary capital investment for machinery, inventory, etc. (Jeannet & Hennessey, 1998:312; Johansson, 2000: 156).
- **Franchising:** This method is almost similar to that of licensing and a company could enter quickly with the limited degree of risk and capital involvement. Franchising is usually limited to the use of trademarks and associated marketing entry strategies. The franchiser may either sign individual contracts with a number of partners per country market or prefer a master franchise, that is, a single contract with a general franchisee in a country-market or region that sells franchises in that market. This is an effective method to rapidly expand the market with relatively little capital risk (Muhlbacher *et al.*, 1999: 464).

- **Assembly:** In any product process, assembly is the last stage of the manufacturing process. In this market entry method, most of the major components are manufactured in domestic plants or other foreign countries and those components are transferred to a foreign country for the assembly process. Today, under globalisation, most motor vehicle manufacturers are adopting this method to enter other countries (Chee & Harris, 1998:306). For example in South Africa, Europe, Japan, and Germany, car manufacturers like Ford, Honda, Toyota, BMW and Daimler Chrysler are transferring cars as completely knocked-downs (CKDs) or engines and other important parts, add local components and assemble them in local markets.
- **Joint ventures:** Foreign-company investors may join with local investors to create a joint venture company where they share ownership and control. Foreign companies are sometime unable to enter a local market due to the barriers of the host country's government, or the foreign company might lack the financial and physical resources to undertake the venture alone (Kotler, 2000:377; Johansson, 2000: 161). Most MNCs use this joint venture method to expand their global operation in many developing countries, especially in emerging markets. The foreign company will agree to share equity and other resources with other partners to create a joint venture agreement in the target country. Another method in this joint venture is a co-operative joint venture. In this method one partner does not involve any investments. For instance, one partner will provide manufacturing technology, whereas the other partner provides access to distribution channels (Kotabe & Helson, 2001:298).
- **Contract manufacturing:** A foreign company may arrange with a local manufacturer to manufacture parts of the product, or even the entire product. By this method, these manufacturers could accomplish cost-savings in a low-wage country. Manufacturers will select the country for their production where not only low wages, but also taxation benefits, lower energy costs and raw materials at cheaper overhead rates are available (Kotabe & Helsen, 2001:297). For example, Chrysler now has the contract of an Australian group to build its Jeep Cherokee model under contract at an annual volume of 47,000. The company has extended its agreement with its Australian partner to the year 2004 (Jeannet & Hennessey, 1998:315- 316).
- **Local manufacturing:** Foreign companies practise this form of entry widely. Many companies find it to their advantage to manufacture locally instead of supplying the particular market with products made elsewhere. The actual type of local production depends on the arrangements made, which might be contract manufacturing, assembly, or fully integrated production (Jeannet & Hennessey, 1998:315). The contract manufacturing entry method is an alternative to assembly

operations where a company's products are manufactured or assembled in the foreign market by another producer operating under contract (Chee & Harris, 1998:307).

- **Wholly-owned subsidiaries:** Most MNCs prefer to enter new markets with 100% ownership. It will take two routes of ownership strategies in foreign markets, namely acquisitions, where the MNC buys up existing companies, or "green field operations", that are started from scratch. Wholly-owned subsidiaries give MNCs full control of their operations. According to this method all profits go to the company (Kotabe & Helsen, 2001: 302).

There is a wide range of alternative ways of participating in global markets. Automobile manufacturers must appoint well-experienced managers who have sufficient knowledge on global market entry. At the same time, a company must enhance the knowledge of the existing management to select the ideal way of entry into the global market. Automobile manufacturers must have a high level of marketing teams that include executives from various countries with multicultural experience. Each company understands better the diverse needs, tastes and wants within the global economy. In the context of global competition, South African automobile manufactures must pay more attention to global market entry. Sourcing plans must take into account organisational resources, strengths and weaknesses, factor costs, transportation costs, conditions of market access and entry, assessment of political risks and future conditions at entry and security of investment. It is necessary to characterise the globalisation process correctly in order to understand latent demand for cars in regional and global markets to increase the market share and profit. Protective laws in small countries are less to open to foreign entry.

5.5 GLOBAL MARKETING STRATEGY

After a global company has analysed and decided on its marketing entry, the next step is to decide on and develop the global marketing strategy (or global marketing mix). The global marketing strategy is an important tool to implement and achieve the major goal of global strategic marketing. The global company must decide on how much to adopt and standardise its marketing mix globally. The marketing mix includes the production, promotion, price and place (distribution channels) strategy. This section describes the global marketing strategy that is, to a large extent, different from the marketing strategy in a domestic market. Quelch and Bartlett (1999:234) explain that managers are responsible for marketing. In the case of a global company, it has to design appropriate

marketing strategies for each national market. In global marketing each country is treated separately according to its legal, economic, political and currency environment.

5.5.1 Global product strategy

What product or service to sell in the global market is the first decision in developing a marketing mix. The company could export its existing products or adapt it to meet the requirements of foreign markets or it could develop new product for the target market. A company has to provide a suitable product to meet needs and respond to competitive challenges in the global market. The issue of product standardisation versus product customisation or adaptation is a controversial one. Product includes design and branding strategies, packaging, labelling and warranty provisions. A company must provide its product in order to satisfy customers' needs. Customers do not buy product features, they buy satisfaction and expect more value what they buy (Chee & Harris, 1998: 370).

In global marketing, the product is the centre of the marketing strategy of an organisation. There is the core product, the actual product and the augmented product. The core product stands for benefits that consumers attain when purchasing the goods or service. The actual product consists of features, brand quality, styling and packaging. The augmented product includes installations, after-sales service, warranty, delivery and credit facilities. Marketers must consider all these aspects when they compete in the global marketplace. In the case of the motorcar market, the manufacturer has to focus on excellent marketing support services (i.e. augmented product) (Chee & Harris, 1998:370).

Global marketers face the challenge of formulating a coherent global product strategy for their companies. What product and service offering will meet the target segment needs and offer suitable competitive advantages? In the global competitive marketplace, South African automobile manufacturers have to answer this question both at local level and for each regional and global market segment. The time has come for the managers of automobile manufacturers to think or to make engineers think about how they can provide better and more suitable cars of quality and durability with changes to the regional and global markets.

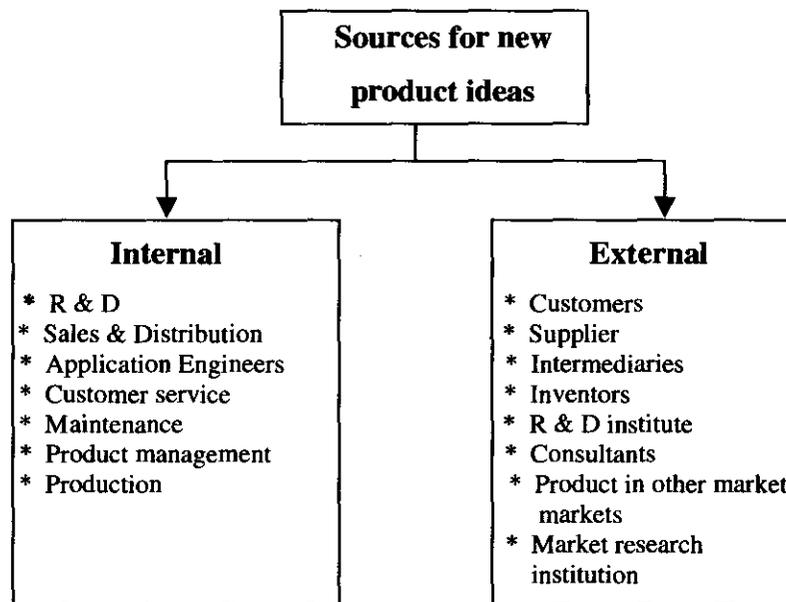
5.5.1.1 Global product innovation

A global company has to develop new products continually in order to have a balanced international

product portfolio. A new product can be provided in different ways in the global market. A new product may only be new for a specific country's market. A company would have been successfully marketing a product in some markets before introducing it in other markets.

New product ideas: A company needs several new product ideas in order to launch a single new product successfully in the global market. Management must take several different countries' markets into account when developing a new product for the global market. A company may use a number of internal and external sources to generate a sufficient number of new product ideas. Figure 5.4 shows the internal and external sources that provide the company with new product ideas (Mulbacher *et al.*, 1999: 595).

Figure 5.4: Sources for new product ideas in the global market



(Source: Muhlbacher *et al.*, 1999: 598)

Different automobile producers use different kinds of product design strategies to suit the globally competitive market. For example, Japanese manufacturers pay attention to product design, including performance, comfort, fuel efficiency, safety, environmental controls, different national regulation, differing consumer tastes and segments, computer-aided design (CAD), with shared designing across models linked to computer-aided manufacturing. Nissan has three divisions: full size, compact, and sub-compact. The company applies a merit system to promote and motivate the

younger workers with regard to product development. Toyota has a new product development committee to replace the chief examiner system: two committee chairs, a design engineer at the development stage, and a production engineer at the product preparation stage. Honda focuses on teamwork in the production, for which the employee is given the responsibility (Terpstra & Sarathy, 2000:307).

5.5.1.2 Global product and global brands

Each product of a global company is developed to meet the needs of the global market. A successful global product must have a dynamic global brand (a definition of brand was given in the previous chapter 3). A global brand has a high recognition level in world markets and could be used as an umbrella for introducing new products. Global marketers should systematically identify and assess opportunities for developing global brands (Keegan & Green, 1997:282; Keegan & Green, 2003: 403). For example a number of Japanese companies like Toyota, Panasonic and Sony have built strong global brands, while some Asian companies have also achieved such status. A global brand brings the advantage of economies of scale in production, production manufacturing and marketing. For example, Ford can afford to invest far more on suspension with expected sales of 700,000 units world-wide for its cars (Jeannet & Hennessey, 1998: 357).

An excellent global brand allows customers to identify products or services that promise specific benefits such as performance, price, quality, image, and standard, also adding value to the product. For these reasons, brand is extremely valuable in providing access to a market (Doole & Lowe, 1999:392). A particular company may use a brand name in one country that may be totally different in another country. The language may be a barrier in translating the brand name and the meaning of the translation may not be appropriate. For example, Rolls-Royce realised that it was impossible to name a new model of car “mist”, as this means dung in German (Chee & Harris, 1998:387). There is the argument that global brands cannot just be imposed on all markets. For example, a brand’s image may not be the same throughout the world. Developing global brands should not be the priority. Instead, companies should work at creating strong brands in all markets through global brand leadership (Aaker & Joachimsthaler, 1999:138). According to Boylan (Willman, 1997: 15)), most large global companies use their brand strategies in the global marketplace to increase their market share. Global brands are more important than logos and advertising campaigns. For example,

GM has chosen four global brands for its cars, namely Saab, Cadillac, Opel and Chevrolet. A single brand could not stretch from the Opel Astra to a performance car such as the Saab 9000 or a luxury saloon like the Cadillac.

Product innovation and a successful brand are the most valuable resource a company has. The brand name encompasses the years of advertising, goodwill, quality evaluation, product experience and the other beneficial attributes that the market associates with the product. Automobile manufacturers in South Africa have to spend a lot of time, energy and money on building the value of their brand in order to maintain effective brand values and market globally to an international consumer base.

5.5.1.3 Customer satisfaction

Customer satisfaction is an important factor that impacts on the long-term success of a company. Customer satisfaction depends on the quality of the product and management, which is the central process of global product management. It is based on the interaction between customers' expectations concerning the product and their experience with the product. Quality assurance is an imperative aspect of the product in the global market and it is an ongoing process that runs parallel with the total product. Quality assurance processes will focus more on material or immaterial aspects or the creation of customer value (Muhlbacher *et al.*, 1999:600-601).

5.5.1.4 Warranty and service policies

The driving force for customers in the global market is a certain performance expectation. Global marketers must consider a warranty and service policy as an integral aspect of a company's international product strategy. Foreign buyers want extra assurance that suppliers will back the product as the supplier's plant is thousands of miles away from the market. A comprehensive warranty and service policy is a very important marketing tool for global companies (Jeannet & Hennessey, 1998:366-367). In today's global marketplace, many new products and services are constantly being introduced, which has the effect of obsoleting "old" technologies and processes with little or no notice. In this global competitive market, customer service (customer service focuses on what the company can do), customer satisfaction (the measure of customer satisfaction is externally-oriented) and customer success (customer success focuses on helping customers succeed) are important aspects of global marketing activities. In today's highly competitive global

marketplace, service excellence is essential. Any service gap is an open door for the competition, enabling that company to enter the market and capture a market share (Fawcett & Cooper, 2002:37).

South African automobile manufacturers must analyse the warranty system of their competitors in order to determine that of their customers in domestic and regional markets. Warranty can also be used aggressively to promote sales. Automobile manufacturers specifically have to use a strong warranty as part of their global market entry strategy. South African automobile manufacturers must concentrate on service, which includes delivery, repair and maintenance facilities and a spare parts inventory in order to satisfy customers better than their global competitors do. Local companies can provide better services to customers than international companies could. The strong service capacity could be an effective promotion tool for automobile manufacturers in South Africa.

5.5.1.5 Standardisation versus customisation

Standardisation means that a company is offering a uniform product on a regional or world-wide market. Minor alternations are usually made in order to meet market conditions. On the other hand, a customisation policy is one in which management focuses on cross-border differences in the needs and wants of the company's target customers. According to this approach, major changes may be made in the product to match local market conditions. Standardisation enables a company to offer the product at lower cost via mass production, while customisation is a market-driven mind-set that increases customer satisfaction by adapting the product according to local needs. For example, in the triad markets - Japan, Europe and the USA - the preferred car size in terms of length-by-width has shifted towards a space of 7 to 9 square meters. The size of cars in Europe has not changed much during the last two decades, because European motorists have a common desire for reliability, safety, quality and advanced technology. However, the requirements for cars differ from country to country (Kotabe & Helsen, 2001:353; Jain, 1993:49).

Japanese companies have been more readily prepared to adapt products as they are increasingly dependent on the global market. Their central strategy is to apply small batch sizes, flexible production methods and minimum stockholding (Doole & Lowe, 1999:375). A broad knowledge about the global product strategy is important for all automobile manufacturers in South Africa. Management must analyse carefully and in depth the global market requirements for cars in order to decide on the product, quality, warranty, after-sales service and customer satisfaction through added

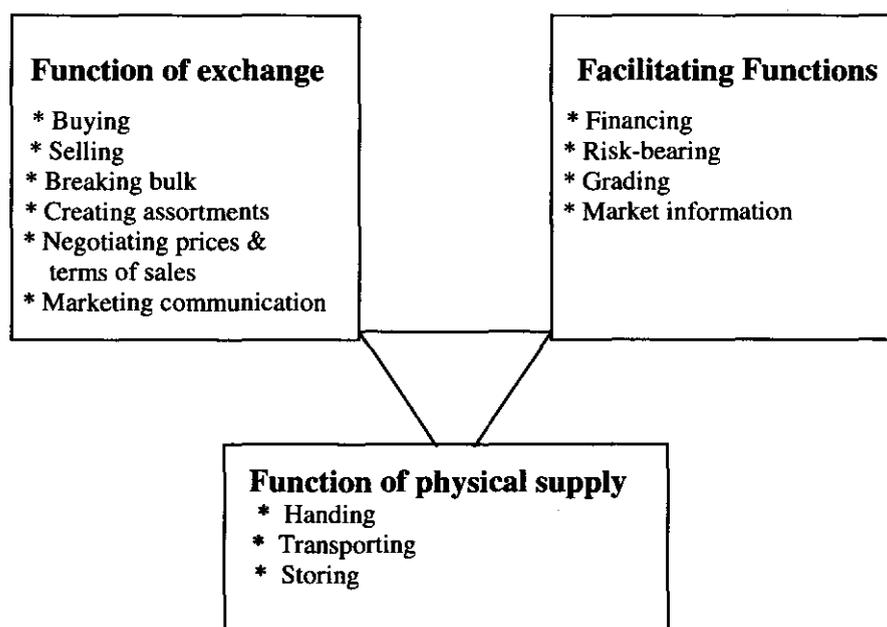
product value. This consideration is important not only to increase their export, but also to react to global competitors in the domestic market.

5.5.2 Global channel strategy

Global marketing distribution is similar to that of the domestic setting, but there are environmental influences that might lead to substantial different channel policies and options. Global marketers need to understand how environmental influences may affect these distribution policies and options.

Anderson and Vincze (2000:281) argue that a channel of distribution can be defined as sets of interdependent organisations that are involved in the process of making a product or service available for consumption. The distribution decision is one of the most significant marketing decisions and functions of any company in the global market. Goods and services can be produced, priced and promoted effectively, but sales will not occur without moving the product from the producer to the final customer through a distribution system. A well-designed distribution system is the key that creates customer value. There are certain functions of distributing that enable suppliers and customers to move closer together. Figure 5.5 shows the breakdown of the major three functions, namely exchange, physical supply and facilitating activities.

Figure 5.5: Functions of a distribution system



(Source: Anderson & Vincze, 2000:287)

Logistics are another common name for physical distribution (PD). Marketing managers have to ensure that the PD system provides utility and meet the needs of customers with an acceptable service and cost. The cost of the PD is important for both companies and consumers. PD cost varies from company to company and from country to country. Most customers would prefer very good service at a very low price. Information technology is important to improve service levels and cut costs. At the same time marketing management uses different effective strategies for different activities of distribution. Company and marketing managers must work together to decide what aspects of service are the most important to customers at the end of the channel and how to divide the specific service levels within the channel. The formulation of strategy is one of the most important decisions in marketing management (Perreault & McCarthy, 1999: 322-327).

Toyne and Walters (1993:506) suggest that a global company should develop three interrelated distribution strategies, namely (1) a set of foreign distribution strategies, (2) a cross-national distribution strategy, and (3), an integrating global distribution strategy.

- (1) **A foreign distribution strategy** is a plan of attaining a corporate objective within a country-distribution objective. It includes the decisions connected with the selection, development and control of channel members in order to meet environmental, market and competitive conditions and objectives in the host country.
- (2) **A cross-national distribution strategy** is a plan for attaining a corporate objective between country-distribution objectives. Foreign marketing activities indicate selecting and managing international channel members, sourcing, inventory and transportation decisions, development and control of a logistical system.
- (3) **A global distribution strategy** is a plan for simultaneously attaining corporate global and foreign market distribution objectives.

For example, General Motors markets its products in a variety of ways to more than 175 countries around the world. GM established an international export sale (IES) unit order to promote and coordinate its global exports, while the company sometimes modifies its product for overseas markets. GM's exports its products either as completely knocked-down (CKD) kits or as fully assembled single-unit packs (SUP). The product comes from any one of GM's global operations. IES manages GM's world-wide distribution through 11 regional offices around the world with its headquarters located in Detroit (Terpstra & Sarathy, 2000:439).

The economic order quantities (EOQ) method was previously used by management in production, storage, inventory and distribution in order to minimise costs, while in recent years the JIT method was introduced by Japanese companies for production, inventory and storage and distribution. The JIT method is more effective and efficient than the EOQ in reducing the cost of inventory, transportation, distribution and time (Albaum *et al.*, 1994:428; Kotabe & Helsen, 2001:519).

The company must analyse the logistic environment and infrastructure to design an appropriate physical distribution system in each foreign market. This distribution network should be flexible enough to adapt to its dynamic environment where government, competitors and technological parameters are changing. From the foregoing discussion, it is clear that automobile marketers must have a broad range of alternatives for developing an economical, efficient and high-volume international distribution system. Automobile manufacturers have to analyse the differences between global and domestic distribution systems.

5.5.2.1 Mode of transportation

Kotabe and Helsen (2001:517) argue that global distribution managers should understand the important aspect of different modes of transport in order to reduce its cost and to use it optionally with a value-to-volume ratio. The perishability of the product and the cost of transportation are important factors in determining an optimal mode of transportation. **The value-to-volume ratio** is determined by how much value is added to the materials used in the product. **Perishability** of the product refers to the quality degradation over time and product obsolescence along the product life cycle. The **cost of transportation** should be considered in the light of the value to volume and perishability of the product.

- **Ocean shipping:** Three options are included in this. **Liner service** is a regularly scheduled passage on established routes. **Bulk shipping** normally provides contractual services for pre-specified periods of time. The third category is **irregular runs**. Most manufacturers depend on existing international ocean carriers. Large companies like Toyota and Hyundai have their own fleets of cargo ships for global distribution.
- **Air freight:** Over the last thirty years, shipping of goods by air cargo has been growing rapidly, although the use of air shipping remains quite small. Only high-volume goods like

semiconductor chips and diamonds are likely to be transported by air. Today a cargo jumbo like the C-130 and AN-32 can carry more than 80 tons of cargo. There are super-size transport planes that are being used for global courier services such as FedEx and DHL. More than one mode of transportation is usually employed. Naturally, ships and air-shipping are the initial mode of transportation used to cross national borders. Even if the countries were contiguous, there are various rules and regulations that prohibit the use of the same trucks between and across national boundaries. Trucks, barges, railroad or aeroplanes can be used for further transport once the ship or airship has landed (Kotabe & Helsen, 2001:517-518).

Transportation modes affect the total product cost because of the varying requirements of packing, inventory levels, time requirements, unit cost, damage and pilfering losses. Automobile manufacturers in South Africa must ensure optimum distribution at minimal cost, physical distribution to final customers, delivering in terms of the most efficient use of capital investment, resources, production, inventory, packing and transportation. It is important to obtain up-to-date information on transportation methods and cost because new technologies and regulations are constantly impacting on transportation cost factors. A global marketing plan requires a global sourcing plan, which includes supplying customers with the highest quality at the lowest cost.

5.5.2.2 Warehousing and inventory

Warehousing is important in storing materials and products for the purpose of preparing for moving or transportation. For global shipment, the shipping technology or quantities may be different. Warehousing has to be dealt with differently according to the climatic situation in foreign countries. Automated warehousing systems are in practice in the case of handling, storage and shipping of goods. The inventory method significantly affects the service level of a company's logistic system. Effective and efficient inventory systems must be developed in order to reduce the cost of tied-up capital. At the same time, adequate inventory is needed against unexpected breakdowns in the logistic system. Exporters of automobiles have to analyse the distribution strategy of competitors regularly today. They must decide on a suitable strategy to reduce distribution costs and to provide the best service to customers to create new customers and have existing customers stay with them on the long run. Not only faster and sophisticated transportation, but also suitable warehouses and inventory management are imperative to bring the company closer to its customers to provide good service and satisfaction in the global market (Johansson, 2000:431).

5.5.3 Global pricing strategy

MNCs face several different problems with regard to pricing when they sell products in the global market (Kotler, 2000:383). Various factors affect the setting of prices in global marketing. However, three major factors determine the boundaries of the market price. The first is product cost, which determines the floor or minimum price. Secondly, competition in the market creates the price ceiling or upper limit of the price. Therefore international competitions almost always put pressure on the price of domestic companies. A widespread effect of international trade is to lower prices (Keegan & Green, 1997:307). Keegan and Green (1997:307) argue that fluctuating exchange rates should not create serious problems for global marketers, because a risk or decline in the home country currency's values will be offset by a positive rise or decline in domestic price levels. However, global marketers must take into account other factors such as transportation cost, middlemen, margins, taxes, the cost of distribution and various types of price control policies in various countries when setting their prices in the global market.

Global marketers use a number of different pricing strategies in global markets. The overall goal is to contribute to company sales and profit objectives. World-wide multinational companies use market-skimming pricing, penetration pricing and market-holding method pricing. Most of the international market uses penetration pricing in order to enter the global market and capture a market share quickly. This pricing method is used as a competitive weapon to gain a market position (Keegan & Green, 1997: 308-309).

5.5.3.1 Environmental influence on pricing decision

External environmental factors impact on global pricing, which is uncontrollable in the global market.

- **Exchange rate:** Fluctuations of exchange rates are one of the major variables of pricing in the global market. The company can choose its own currency, the buyer's currency, or some third party's currency. Floating or devaluation of the currency will affect the pricing decision of a product in the global market (Albaum *et al.*, 1994:323). The company could choose its own currency to avoid any foreign exchange risk, but may lose sales (Chee & Harris, 1998:486).
- **Inflationary environment:** Inflation is a world-wide phenomenon that influences pricing. Inflation always requires periodic price adjustments. An inflationary environment (Keegan &

Green, 2003: 457) will affect the operating profit margins. In some countries, inflation rates will rise to several hundred percent, leading to a reduction of the purchasing power of the currency. A company has to use either a last-in-first-out (LIFO) method of costing or a first-in-first-out method (FIFO) approach to protect itself from the eroding purchasing power (Jeannet & Hennessey, 1998:445).

- **Government control and subsidies:** Government policy and action is another real threat to the profitability of a subsidiary operation. Government is under pressure to take important actions regarding price control due to the financial balance-of-payment crisis. The government may often change its selective price control. Foreign companies may suffer from this price control because they are unable to control the price policy of the government (Keegan & Green, 2003: 458). Sometimes regulations may be applied only to specific industries. The price control system may also vary from country to country and from industry to industry (Jeannet & Hennessey 1998:446).
- **Competitive behaviour:** Competitive factors are also one of the important factors that affect constraint on the ability to adjust prices if competitors do not adjust their prices according to the rising costs (Keegan, 1999:423; Keegan & Green, 2003: 459).

5.5.3.2 International pricing policy

Price is the monetary amount a buyer pays for goods or services (Anderson & Vincze, 2000:389). In the international market it is more difficult to standardise the pricing decision than product decision or promotion activities. Competitors have different cost structures in different countries, as well as taxes and duties, while government regulations vary from country to country.

Global marketers are using a number of different pricing strategies in the global market. However, generally the following pricing strategies are used by most of the global marketers in order to contribute to company sales and profit objectives world-wide (Keegan, 1999: 411).

- **Market skimming:** Companies enter the market and sell products at high prices. They may reduce the price gradually or even abandon the market as competition increases. Companies use this method to recover high research and development costs incurred by the company (Doole & Lowe, 1999:524). Skimming may bring maximum profits for the company in the market introduction stage of an innovation, especially if there is little competition. A skimming policy

usually involves a slow reduction in price over time (Perreault & McCarthy, 1999:482).

- **Penetration pricing policy:** In this method a company introduces its product at one low price. The company may face strong competition after the introduction of the product (Perreault & McCarthy, 1999:484). Global marketers use this method as a highly competitive weapon to keep its competitors at a distance. This price will rapidly increase sales and gain a market share. The product is sometime even sold at a loss for a short period of time (Chee & Harris, 1998:484). Japanese and South Korean companies have used this kind of pricing strategy very effectively to gain leadership for their goods such as cars and electronic goods (Chee & Harris, 1998: 484). For example, Toyota's most popular model is selling internationally. The company set a lower price for its 1998 model Camry than the previous year's model. Even though Toyota is one of the major players in the global automobile industry, the company realised that competition from other Pacific Rim companies with a lower cost base was becoming more intense. Through this pricing strategy Toyota has increased its market share significantly (Anderson & Vincze, 2000: 388).
- **Market holding:** Global companies are adopting this pricing strategy in order to maintain their market share. This strategy often involves reacting to price adjustments by competitors. Market holding means that a company must carefully examine all its costs to ensure that it will be able to remain competitive in its target market. For this purpose, some companies move outside the home country for its manufacturing activities in order to reduce the cost of production. For example, German automobile manufacturers expanded their production outside Germany because they were no longer tied exclusively to German costs in their manufacturing (Keegan, 1999:414).
- **Cost-plus / price escalation:** In the cost-plus method, all costs will be added to the product, plus shipping, ancillary charges and a profit percentage. Price escalation means that the increase in a product's price with regard to transportation, duty and distribution margins are added to the factory price (Keegan, 1999:414; Keegan & Green, 2003: 449-451).

Pricing is a critical element of the marketing mix. Price is probably the marketing mix element that is most difficult to standardise because of country-to-country differences. The price must correspond with the customer's perceived value of the product and increase the customer loyalty. Global companies are driving down the price of cars and pushing up quality. Automobile manufacturers are now in need of understanding the pricing strategy in the global market in order to offer quality products at lower prices than the global competitors in regional and global markets do. There is an

argument that the price for South African vehicles is higher than in other countries. Therefore, South African automobile manufacturers must pay more attention to pricing decisions so as to enter the global market and compete with global competitors in domestic markets. Pricing strategy is one of the most important factors in the marketing mix in order to attract customers from both global competitors in domestic and global markets.

5.5.4 Global promotion strategy

Chee and Harris (1998:518) argue that promotion is the most important tool to communicate with the customer. The goal of the promotion mix is to create awareness, interest, desire and action on the part of the global consumer. The function of promotion in global markets is similar to that of domestic operations. However, in global markets it is quite a different matter to achieve the strategy due to the variability in availability, quality and scheduling of the promotional tools, which will affect the company's degree of success. Advertising, personal selling, sales promotion and public relations are the major factors included in the promotional mix. Cultures of people and different languages in each country are major barriers and limitations in global promotions.

5.5.4.1 Global advertising

In the digital age, marketers must develop effective promotion to attract customers towards the company (Bishop, 1999:37). Advertising is a key tool in global communication. This principle of advertising does not vary from country to country, although the objective and methods employed will vary in the different markets. Total advertising expenditure, advertising expenditure by industry and advertising expenditure by media are the factors that determine the promotional activities in a particular market (Chee & Harris, 1998:526).

Integrated marketing communication (IMC) of a company affects the use of advertising (mass communication). An effective advertising programme involves the determining of the target customer, the key message, and the medium to be used. Identifying the appropriate audiences is an imperative part of the IMC. In today's dynamic, well-informed and fiercely competitive market, the advertising strategy need not only be a single group of target customers, but to reach them all, because many individuals affect the buying process. The advertising message should be communicated to achieve the objective of IMC. The purpose of communicating with the customer is

to help them reach a buying decision. The message convinces the customer that the product will satisfy their needs. Determining the IMC media is part of the advertising. Management should select the suitable media to effectively carry the message to the selected group of customers. Communication methods and cost vary tremendously from one medium to another. There are various media such as newspapers, magazines, radio, television, direct mail, point-of-purchase (POP), Internet (e-mail). Miscellaneous media are used for advertising in the global marketplace (Andersen & Vincze, 2000:347-353). In electronic colonialism, advertising has a greater role and impact on foreigners' lives, values and ultimately their purchasing behaviour. Privatised radio and television are playing an important role in international advertising of products such as cars, food and beverages, credit cards, etc. Today, global advertising has a greater influence on the customers of developing countries. Some global corporations may use a single global advertising strategy. For example, Ford is seeking to consolidate its advertising and marketing expenditures within a single advertising agency that has a global reach and workforce (McPhail, 2002:244).

A more sophisticated advertising strategy is essential for all automobile manufacturers in this modern globalised era. Manufacturers have to analyse and examine the advertising strategy of TNCs in the domestic market and adjust and adapt their advertising strategy to react to the advertisement of TNCs.

5.5.4.2 Personal selling

Most companies rely on the method of personal selling for survival and progress. A well-selected, well-trained, well-compensated and well-supported salesperson can bring about a successful foreign sales volume (Albaum *et al.*, 1994:377). Personal selling is the most effective way to communicate to customers and almost every company could benefit from this method. Salespeople create a direct face to face contact with prospective customers that can attract more attention than an advertisement and display. Salespeople act as important tools and a bridge between the company and customers, obtaining information about product satisfaction and creating a good relationship with them. Marketing management must decide on how many salespeople they need, what kind of salespeople they need, what kind of sales presentation to use, how to select and train salespeople and how to supervise and motivate them (Perreault & McCarthy, 1999:412).

Personal selling is also important in the marketing mix. The company must promote those staff members that are engaged in personal selling in the domestic and global markets. Automobile manufacturers must make sufficient efforts to recruit and select, train, motivate, compensate, control and evaluate their personal selling staff.

5.5.4.3 Sales promotion

Sales promotion stimulates interest and provides motivation to customers, staff or intermediaries toward a company and its products. The general goal of all sales promotion activities is to increase sales (Muhlbacher *et al.*, 1999:768). Some form of promotion such as coupons, gifts and various types of reduced-priced labels are used in most countries. Price reduction and coupons are some of the most popular promotion tools. There are restrictions on some of these forms of promotion in most countries. Sports promotions and sponsorships is another type of promotion tool. Some companies purchase television advertising space for regular broadcasting of baseball, basketball and football events (Jeannet & Hennessey, 1998:496-498; Johansson, 2000: 474-478). Highly regulated, a large number of promotional tools are in use in different countries. Some methods are permitted in some countries, while others are not permitted (Keegan, 1999:483-484).

South African automobile manufacturers must carefully study promotion tools to identify and select a suitable promotion strategy to enjoy the opportunities in the context of a globally competitive marketplace.

5.5.4.4 Public relations

Publicity comprises marketing communication to promote and manage an organisation's products and image. Newspapers, magazines, television and radio are used as media for the purpose of publicity. The company allocates considerable time, effort and expense in order to ensure that they receive publicity. Publicity can be used as a powerful force in a marketing programme. The public generally receives sufficient information from the media that is more favourable than an advertisement (Anderson & Vincze, 2000:357). If advertising sells products, public relations sell companies. Effective international public relations are a significant tool to facilitate successful expansion in the global market (Foley, 1999:295).

Good public relations will increase the image of a company and are even more important in the global market than it is domestically. Public relations are not marketing activities, but are essential to marketing success. Public relations are essential for automobile manufacturers to attain success in the market.

Global automobile marketers effectively apply different promotional strategies to communicate to customers all over the world. In addition to these traditional tools, Internet and other tools, the electronic media plays a vital role in increasing promotional activities. South African automobile manufacturers have to take these changes into account and develop effective promotional strategies to increase its volume of exports and market shares in the global marketplace.

5.6 STRATEGY OF AUTOMOBILE INDUSTRY IN THE GLOBAL MARKET

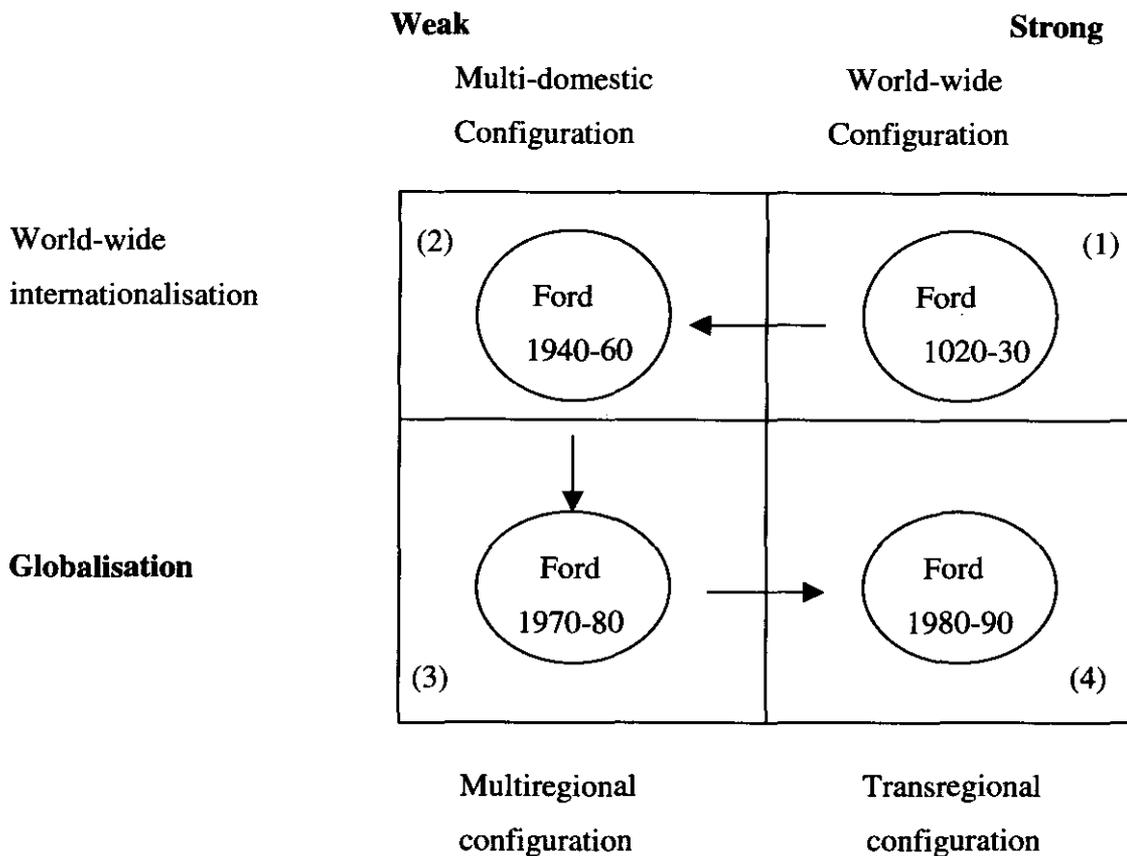
Haley and Tan (1999:96-101) have the view that culture, education and environment will affect the strategic planning process differently in different countries. The strategic planning process differs between Western countries and South and South East Asia. Strategic planning in South and South East Asia has developed into a process with an *ad hoc* and reactive basis. Bergouignan *et al.* (2000:41) express the view that the new competitive environment of globalisation has forced automobile companies to thoroughly review their adaptive strategies. It is difficult for all companies in the automobile industry to use a single identical strategy, although they operate in one and the same environment.

Bergouignan *et al.* (2000:43) argue that automobile companies are applying different hierarchical control and strategy measures according to global market changes. Bergouignant *et al.* (2000:43) explain the four configurations of automobile manufacturers to help us understand the history and strategy of the automobile industry in the changing conditions of the global environment. The following figure indicates the hierarchical control and strategy of automobile manufacturers.

Different strategies have to be adapted by different companies according to the hierarchical degree and configuration of changes in the competitive environment of globalisation. Terpstra and Sarathy (2000:182-184) briefly, as an example, explain how Ford and Toyota apply their global strategy in the competitive market. The major goal of Ford is to become the number one car manufacturer and marketer world-wide. The market share of Ford in the USA has increased from 21% in 1985 to

26.5% in 1998, while the market share of General Motors has dropped to 30%. Ford uses strategies such as leadership maintenance, market share plus product quality, customer satisfaction, return on investment, and employee moral to increase its share in the global market.

Figure 5.6: The trajectory of Ford (degree of hierarchical control)



(Source: Bergouignan *et al.*, 2000: 44)

Other key aspects of Ford's overall strategy include increased manufacturing capacity, globally focused new product development (Ford's new cars are to be built on the same "platform", using common engines in order to reduce product development cost), marketing innovation, cost cutting, and increased motivation. Ninety percent of the South East Asian automobile market is controlled by Japanese automobile-makers, one out of four car sold being a Toyota. Toyota has plans to build one-third of its cars overseas. This company has been able to develop a new vehicle in just 19 months – 8 months less than the average in-house developmental time of 27 months. Toyota is able

to design a product in a shorter time to respond to customers' tastes, reducing the time-to-production by limiting design changes. All these aspects facilitate the reduction of production costs.

Some managers of local companies with limited international exposure fear that they will be ill-equipped to face the established global competitors in an unfamiliar foreign environment. However, in the global market, managers do not have to go abroad to experience international competition. Sooner or later the world comes to each manager (Bartlett & Ghoshal, 2000:139). Dawar and Frost (1999:120) point out that MNCs are coming to the global market with their substantial financial sources, advanced technology, superior products, powerful brands, as well as seasoned marketing and management skills. However, managers of local companies in this competitive market think in one of only three ways. One is to seek assistance from the government in the way of reinstated trade barriers or some other form of support. The second is to become a partner of an MNC, while the third is simply to sell out and leave the industry. There are many options for companies to face the stiffer foreign competition. Management must think and act quickly to react to competition in the global market before they lose their market share, or even to increase their market share. For example, in the mid-1980's India opened its automobile sectors for open trade. Bajaj, the country's largest maker of scooters, confronted fierce competition with Honda. Honda, which sold its motor cycles and cars world-wide on the strength of its superior technology, quality and brand, entered the Indian market. Indian consumers always seek low-cost, durable products and want easy access to maintenance facilities country-wide. Bajaj applied its strategies to sell cheap scooters through an extensive distribution and service network of roadside mechanic stalls that fitted the Indian market well. Honda, however, selling mostly through outlets in major cities, did not defeat Bajaj in the Indian market (Dawar & Frost, 1999: 122). There are four strategies for companies in a global market. Figure 5.7 shows the different strategies.

- **Defender:** The company must concentrate on defending against MNCs when its assets are not transferable and globalisation pressures are weak in the market.
- **Extender:** The company is able to extend its success at home to a limited number of other markets when globalisation pressures are weak, but the assets of the company are transferable.
- **Dodger:** If the company's assets work only at home, its continued independence will depend on its ability to dodge its new rival by restructuring around specific links where its local assets are still valuable. However, global pressures are strong here.
- **Contender:** If the company's assets were transferable, the company may actually be able to compete head-on with MNCs at global level (Dawar & Frost, 1999:122).

Figure 5.7: Strategic marketing of companies with competitive assets in global market

		Customised to home market	Transferable abroad
Pressure to globalise in the industry	High	Dodger Focus on a locally-oriented link in the value chain, enter a joint venture, or sell out to an MNC	Contender Focus on upgrading capability and resources to match globally, often by keeping to niche market
	Low	Defender Focus on leveraging local assets in market segments where multi-nationals are weak	Extender Focus on expanding into markets similar to those of the home base, using competencies developed at home

(Source: Dawar and Frost, 1999:122)

South African automobile manufacturers will have to produce the right car for a market in a timely model. They must design cars to cut the cost with fewer parts and less labour hours to compete with global companies. They have to consider improving quality and reducing cost over the model's life. Automobile manufacturers in South Africa could have a variety of marketing strategies. Some of these strategies might be risky, but the fact remains that most of them may be attracted by a transregional configuration. They should put the maximum effort and design strategy into export markets and could cover the high volume segments of the regional automobile market. It is possible to formulate their strategies to respond to the conditions of local demand and export with modified versions towards other regions where they could target low-volume niche markets. Local adaptation strategies are also necessary to compete with global players. Simplification and commonisation entail the use of share parts and platforms. These strategies help companies to survive at a time when the growth of demand is slowing down and a price war is being waged between automobile manufacturers.

5.7 BENEFITS OF A GLOBAL STRATEGY

Globalisation and standardisation of the marketing mix provide several benefits. A company could gain the following benefits from a global strategy.

- **Cost reduction:** An integrated global strategy will enable the company to reduce cost in different ways. Pooling production, or other activities for two or more countries, would increase the benefits from economies of scale. A second way to cut costs is by exploiting lower-factor costs by moving manufacturing or other activities to low-cost countries. Global strategy can also cut costs by exploiting flexibility. Through enhanced bargaining power, a global strategy could reduce costs. A company whose strategies allow for switching production among different countries, greatly increases its bargaining power with suppliers, workers and host governments.
- **Improved quality of products and programmes:** Global strategy companies focus on a smaller number of products and programmes under a multi-domestic strategy. This concentration could improve both product quality and programme. For example, the success of the Japanese automobile industry depends on a global focus. Toyota markets a far smaller number of models around the world than General Motors does, even allowing for its unit sales being half that of GM's. Toyota has concentrated on improving its few models while GM has fragmented its development funds.
- **Enhance customer preference:** Global availability, serviceability and recognition could enhance customer preferences through reinforcement.
- **Increased competitive leverage:** A global strategy provides more points from which to attack and counterattack competitors (Yip, 1989: 33-34).

Economies of scale in production and marketing are the most frequently cited benefits. Automobile manufacturers could save money with regard to product development, purchasing and supply activities when they globalise their operations. Transfer of experience and know-how across countries through improved co-ordination and integration of marketing activities is also a benefit of globalisation. Globalised operation means reducing time frames and focusing on the importance of quality, competitive prices and innovative products. Technology is an integral part of product performance, while competition often focuses on continuing technological improvements. In the competitive global market, a company could make products less costly and technologically better. Automobile manufacturers could increasingly achieve competitive advantages in the global marketplace by offering customers a continuous stream of technologically improved products.

5.8 IMPLEMENTATION OF GLOBAL MARKETING STRATEGY

Sarathy and Terpstra (2000:660) argue that intervention from headquarters is necessary to implement the global marketing strategy. Headquarters would range from informing to persuading, then co-ordinating, to approving, culminating in directing. It means taking greater control and lessening autonomy at the subsidiary level. In the case implementing the marketing mix, greater autonomy will be given to the subsidiary. A global company should have strong and efficient local managers to implement the company's global marketing strategy. Some global companies decentralise their power and create suitable regional headquarters. Regional headquarters are not necessarily located within the region. Certain elements of the marketing mix would be given to such regional headquarters or subsidiary. Once a good global marketing strategy has been developed, the marketing management and everyone in the company must know what needs to be done to achieve the overall goal of the company. Thus, a good marketing strategy would set a suitable framework for effective implementation and control. The marketing management process includes not only the marketing strategy, but also its implementation and control. Skilful implementation is essential to fulfil the satisfaction of the customers in today's stiff competitive market (Perreault & McCarthy, 1999:536).

Chee and Harris (1998:588) argue that the marketing strategy will be implemented throughout the organisation. Organisational structure and design are important in order to implement these strategies effectively and efficiently. According to Kotabe and Helson (2001:592-595), organisational structure is not only one aspects of a global organisation. There are other aspects such as the mindset of managers and the managerial processes. Global management has to rethink the structure of the organisation to operate and implement strategies according to environmental changes. Thus, a fit between the environment and the MNC's organisational structure is not enough. Global organisation also needs flexibility. In the case of planing, decision-making and power sharing for implementation, MNCs are adopting two methods, namely centralised and decentralised systems or structures. Decentralised organisation of nationally operating companies is highly autonomous. Each local unit will act as a profit centre of the parent company. Corporate headquarters may provide guidance and advice for operation, decision making and implementation. Centralised organisation will consolidate most decision-making powers at the corporate headquarters. In practice, most MNCs are somewhere between these two extremes. Certain tasks

like finance, research and development are centralised. Other tasks like pricing, advertising and implementing are the realm of local subsidiaries (Kotabe & Helsen, 2001:594).

In some MNCs, decision-making and methods of implementation are mostly centralised. For example, Ford markets its various brands across units according to a strategy that is determined centrally (Jeannot & Hennessey, 1998:604).

Marketing managers and allied staff of automobile manufacturers in South Africa have to act on the implementation process when starting their activities from formulated global marketing strategies in a stiffer competitive global marketplace. They must design their implementation framework carefully. Day-to-day vigorous action is essential to translate the marketing strategy into action to obtain the intended benefits in the competitive situation. Global competitors are changing their marketing strategies often to react to local automobile manufacturers in the domestic market. Automobile manufacturers should establish well-organised structures to implement their global marketing strategy effectively.

5.9 PERFORMANCE EVALUATION AND CONTROL

The marketing management must take the necessary actions to evaluate its performance and obtain feedback as soon as it has started the implementation of this strategy. Management must design a sound framework to receive feedback about sales, expenses, and profit day by day and week by week. Then it must take the necessary actions to rectify the deviation. Fast feedback can improve implementation and control in the global marketplace (Perreault & McCarthy, 1999:538).

Performance evaluation measures can be categorised as either financial or non-financial techniques. Simple and easier methods of measurement must be designed to measure the performance in various countries. Controls are defined as checkpoints that are used to compare the actual performance. Management often define some standards in the planning process. Sound and strict control will help to correct the unsatisfactory performance of subsidiaries. Since an MNC typically has several foreign subsidiaries in different parts of the world, a sound central system is important to ensure that these subsidiaries move together towards a common goal, spelled out by the corporate strategic plan. A sound control system will enable the MNC to evaluate each subsidiary. Finally, a sound control system permits better strategy planning and implementation of this planning (Jain, 1993: 815-816).

environmental changes and reduce costs according to the quality and price of global competitors. Many South African companies are not ready for these challenges, however. South African

automobile manufacturers have to formalise their marketing strategy according to the global marketing strategic process to cope with these challenges, which must create a structural balance in global and local tensions. They have to employ their corporate resources, management, personnel, technologies, business know-how, funds and other assets in a more efficient and productive way to attain their corporate objectives in the globally competitive marketplace. They must explore global and regional opportunities for profits and better service to their customers. A company is faced with a number of very important marketing strategic decisions when it operates in the global marketplace. Automobile manufacturers will have to develop new skills and learn about new concepts to survive in the global marketplace.

These trends of global marketing have forced automobile manufacturers in South Africa to strive to devise global marketing strategic and operational planning, implementing and control systems. It will enable them to manage their international and domestic business more efficiently in an era of rapid changes in the globally competitive marketplace.

To assess the influence of globalisation on automobile manufacturers in South Africa, an empirical study will be conducted in the next chapter. The results will be utilised to assess the influence of globalisation on automobile manufacturers in South Africa and to examine whether these companies have the capacity and strategy to react to global competitors in order to survive on the long term in the competitive globalised marketplace.

CHAPTER 6

RESEARCH METHODOLOGY AND EMPIRICAL INVESTIGATION

6.1 INTRODUCTION

There are many useful sources of secondary data. Although this data will not provide adequate information to meet the needs of a specific inquiry or research, it will provide some important and useful information although not in terms of products, opinion or issues. The researcher needs to use both secondary and primary data to understand the problem and complete the specific research. This chapter is concerned with the different survey methods and the presentation of the primary data of the empirical study. It deals with a number of standard techniques that can be applied in the collection of data, tabulation and graphic representation of statistically analysed data. It looks at the construction of diagrams by using computer packages in order to present the collected data. The major objective of this chapter is to explain briefly the development of the questionnaire, how it was distributed to the targeted population and collected to gather data for the empirical research. The statistically processed data is then presented in the form of tables with a brief explanation of the data regarding to each question with its background literature. The objectives of the research were achieved through two phases, namely a comprehensive literature review and an empirical study.

6.2 PHASE ONE: COMPREHENSIVE LITERATURE STUDY

A literature review serves the researcher in many useful ways. Theory gives a range of facts to the researcher to identify the problem under study and too suggests a system for the researcher to improve on data so as to classify it in the most meaningful way (Cooper & Schindler, 1998:48). Literature must have an empirical indicator, however. It provides a focus for research and guidelines to collect information. The concepts and literature review help the researcher to identify items that are to be incorporated in the questionnaire. The concept clarification gives the dimensions of social deprivation. This deprivation is more specific, giving more clues about which questions to ask in a questionnaire (De Vaus, 1990:50-51). Neuman (2000: 446) expresses the view that a good literature review brings about a good body of knowledge and establishes the creditability of the research. A literature review expresses clearly to the reader that the researcher knows the research field as well

as the major issues. The literature review creates a link with prior research and how the current study is linked to it. It gives an outline of the research on a question and shows the development of the knowledge. It stimulates the researcher to obtain new ideas regarding the particular study. It also gives information to the researcher to construct a meaningful questionnaire in order to measure the attitude of the intended respondents to achieve the objective of the research.

As discussed above, an extensive literature review (Chapter 2 to Chapter 5) was conducted to establish a body of knowledge with regard to the concepts, past and present situation, issues and problems regarding the factors that have an influence on globalisation and the performance of automobile manufacturers in South Africa. This comprehensive literature study was the first phase of this research and was essential in order to achieve the objectives.

6.3 PHASE TWO: EMPIRICAL STUDY

The empirical study, the second phase of this study, was completed through the following steps in order to achieve the proposed objectives of the study.

6.3.1 Research methodology

Quantitative approach and qualitative approach: Both these styles are widely used by researchers. Both methods share the basic principles of science, although the two approaches differ in significant ways (Neuman, 2000:16). The quantitative approach describes and solves problems by using numbers. The qualitative approach describes the behaviour of people individually, in groups or in an organisation. The quantitative method can be applied to a wide range of problems. The results of this survey may be summarised in the form of tables, charts and calculated numbers. These summaries of numbers are called statistics. Trends in the economy, industry sector or market can be identified and compared numerically. The quantitative method helps the researcher to more effectively manage and solve a range of business and non-business problems (Curwin & Slater, 2000: 7-9).

The quantitative methodology was applied to complete this research. This method is very suitable to measure the influence of globalisation on the performance of automobile manufacturers in South Africa in the form of numerical scales.

6.3.2 The research design

Basic and applied research: Research can be roughly classified into basic or pure (pure research is sometime called “basic” research) and applied research. Pure research is not applied immediately, although applied research can be used immediately to solve the specific problem (Baily, 1987: 22-23). Basic research is the method of and a source that creates most new scientific ideas and ways of thinking about the world. It could be exploratory, descriptive or explanatory, although explanatory research is the most commonly used method. Basic research provides a foundation for knowledge and understanding that are generalisable to many policy areas, problems and areas of study. This method does not, however, help to solve the problem immediately. In the case of applied research, the practitioners use this research to accomplish his/her tasks as it tries to solve specific policy problems or help practitioners to accomplish tasks. The major strengths of applied research are its immediate practical use and also because it is frequently descriptive research. This applied research can be used by any business, company, government, social service agency, health-organisation or educational institution to solve their problems. For this purpose, they may employ people to conduct this method of research to achieve their objectives. This research will provide the results to the practitioners to find a solution to their problem immediately or on the short term. Applied research includes action research, impact assessment and evaluation research (Neuman, 2000: 24).

According to the objectives of this research, the researcher has to establish the impact or the influence of globalisation on the overall performance of automobile manufacturers in South Africa in recent decades. The findings of the research can be used for practitioners and decision-makers of automobile manufacturers in South Africa to solve their problems immediately. Therefore, the applied research design was used to complete the research, which was very suitable to measure the influence of globalisation on the performance of automobile manufacturers in South Africa.

6.3.3 The dimension of the research

Social research may be categorised into three groups, namely **exploratory, descriptive and explanatory research**. When the topic or issue is a new one, the researcher has to start from the beginning. This type of research is called exploratory research. The exploratory research may be the first phase in a sequence of studies. This type of research is creative, open-minded and flexible and explores all sources of information. Creative thinking is the important characteristic of this type of

research. The exploratory researcher frequently uses qualitative data to accomplish his/her research objectives (Neuman, 2000: 22). Descriptive research provides accurate quantitative information on certain characteristics of a population (Herbert, 1990:19). In the descriptive method the researcher may have a developed idea about a social phenomenon but has to describe it. A picture of the specific details of a situation, social setting or relationships will be disclosed clearly by this method. In this method, the researcher will start with a well-defined subject and conduct research to describe it accurately. It tries to explore new issue or explain why specific things happen. Surveys, field research, content analysis and historically comparative research can be used as techniques to gather the necessary research data. Explanatory research is undertaken when the researcher already knows the issue and has to describe it. The researcher has to explain and describe why something happens and actually undertakes to identify the reason why something occurs. This research is built on the exploratory and descriptive research methods (Neuman, 2000: 22; Rosnow & Rosenthal, 1996:15).

The descriptive and explanatory research methods were used to complete this study because this research sought, according to the title, to describe and express a picture of the influence of globalisation on automobile manufacturers in South Africa. The research was started with a well-developed subject therefore. It explains the social setting and relationships of globalisation in social development. The research attempts to explain the influence of globalisation and identify why it is happening and also provides the actual factors that affect the performance of automobile manufacturers in the context of globalisation.

6.3.4 The time dimension

The treatment of time is another dimension of social research. Different research questions or issues incorporate time in different ways. Quantitative research is divided into the following groups, namely **cross-sectional research, case study research and longitudinal research**. In the cross-sectional method, the researcher observes at one point in time (Cooper & Schindler, 1998:132). Cross-sectional research is usually the simplest and least expensive alternative. This method can be exploratory, descriptive or explanatory, although it is most consistent with a descriptive approach to research. Case study research is a more distinct study method of a few observations in a limited period of time. The longitudinal method is used to examine features of people or other units at more than one time and at multiple time points. Descriptive and explanatory research are used in the longitudinal approach. This approach consists of time series, panel study and cohort analysis.

- **Time series:** The researcher collects data on a group of people or other units across multiple time periods. This enables him to observe stability or changes in the features of the units over time.
- **The panel study:** It is a powerful type of longitudinal research. The researcher observes exactly the same people or group of people or organisation across a time period. It is more difficult to conduct than the time series approach.
- **A cohort analysis:** This method is almost similar to that of the panel study. However, the researcher does not observe the same people, because a different group of people may share a similar life experience in a specified time period (Neuman, 2000:32; Curwin & Slater, 2002:57).

The longitudinal time dimension was used to complete this study. The time series approach was used as a method to study the performance trends of automobile manufacturers for the past and current period of time through the literature review. This was tested by the structured questionnaire method.

6.3.5 Data collection techniques

According to Steyn (1999: 6), data can be categorised into two types, namely **qualitative data** and **quantitative data**. When the characteristics or variables that are studied are non-numeric, it is called qualitative data, for example, information on the colour of the person's eyes and attitude of a person with regard to his work. When the variable studied can be reported numerically, the variable is called quantitative data, for example, information on the age of people, the price of motor cars, fuel consumption and model year of a car. Neuman (2000: 33) expresses the view that qualitative data can be collected in the form of words or pictures and not merely in numerical form, while quantitative data can be collected in the form of numbers or numerical scales. The **qualitative data technique includes field research and historically comparative research**. In field research most researchers conduct case studies on a small group of people for some length of time. The researcher will start his research with a loosely formulated idea or topic in order to select a social group or site for the study. Historically comparative research examines aspects of social life in a past historical era or across different cultures. The **quantitative data technique consists of experiments, survey content analysis and existing statistics**. Experimental research uses the logic and principles found in natural science research. Experiments can be conducted in a laboratory or in real life. Descriptive or explanatory researchers frequently use this survey method. The researcher will use a written

questionnaire to formulate a number of questions to people in a short period of time. Content analysis is another technique for examining information or content. Content means written or symbolic material such as pictures, movies, song lyrics, books, newspapers or films. The content analysis method is used for exploratory and explanatory research but is most often used in descriptive research. With the existing statistics method the researcher locates sources of previously collected information and then organises or arranges that information in a manner to represent the research question (Neuman, 2002:35). De Vaus (1990: 3) and Huysamen (1994:139-151) argue that any one of the following three techniques can be applied to gather primary data.

- **Observation:** This can be made by human subjects, audio / visual recording, writing down or through non-human items such as equipment.
- **Interview:** This can be either structured / formal or unstructured / informal and can be carried out either as a face to face, telephonic, intercepted or group version.
- **Written questionnaires:** These could be structured or unstructured and administered on a one-to-one, group, semi-supervised basis or as a mail questionnaire.

In this study, the quantitative data collection technique was used to collect primary data from the targeted study population. A mail survey was conducted through a structured questionnaire. The structured questionnaire is the best instrument to measure the attitude of the respondents according to a numerical scale in a given statement according to the quantitative data collection technique. In addition to this, a large numbers of books, journals, newspapers, previous research reports, government publications, annual reports of the relevant government departments, the National Association of Automobile Manufacturers in South Africa (NAAMSA) and other related institutions of automobile manufacturers and various existing statistics were reviewed in the literature study in order to achieve the objective.

6.3.6 Identification of the population and sample

The research problems usually depend on the population. A researcher cannot involve all members of the population due to the large size of the population, because it is not practically and economically feasible. The research project has to rely on the data that will be obtained from a sample of the population. In research, population validity is important. The sample should be representative of the entire population to ensure validity (Huysamen, 1994:28). Selecting some of

the elements in the population is the basic concept that enables the researcher to make conclusions about the entire population. The researcher must consider the accuracy and precision of the facts in order to ensure the validity of sampling (Cooper & Schindler, 1998:15&215).

Probability and non-probability sampling methods are used for the research. Random samples, stratified samples, systematic samples and cluster samples fall under the probability sampling method. The non-probability sampling method consists of accidental samples, purposive samples, quota samples and snowball samples (Huysamen, 1994:47). The researcher should design the sampling frame properly when deciding on the sample. An effective sample may be built from a well-developed sampling frame (Huysamen, 1994:38). The sampling frame is always connected to the population. The sampling frame is a list of elements from which the sample is actually drawn (Cooper & Schindler, 1998:221; Curwin & Slater, 2002:47). With regard to the size of the sample, the sample should have some proportional relationship to the size of the total population from which it is drawn. At least 10% or more of the population must be included in the sample (Cooper & Schindler, 1998:222). There is a relationship between sample size and accuracy. Increasing the size of the sample will increase the accuracy, although accuracy does not increase the level of the size of the sample. Therefore, the absolute size of the sample is important. Normally, the ideal size of the sample is a sizable proportion of the population, that is 10% (De Vaus, 1990: 71). Neuman (2000: 217) argues that the size of the sample depends on the kind of data analysis and research plans. A large sample size alone does not guarantee a representative sample.

According to this study, all automobile manufacturers (there are 7 automobile manufacturers in the country) are the sampling frame. All automobile manufacturers were included in the study. In order to ensure the reliability of the data, the managing director and marketing director of each company were included in the study population in consultation with the supervisor of the study.

6.3.7 Development of the questionnaire

The questionnaire is one of the important devices generally used to record raw data (Cooper & Schindler, 1998:77). In order to obtain accurate information from the respondents, the researcher should consider the education level and language proficiency of the respondents. The questions in the questionnaire should be formulated in terms of words and concepts that are familiar to the respondents. Technical terms should be avoided in the questionnaire. Simple and familiar terms

were used to formulate the questionnaire in order to avoid ambiguity to obtain accurate responses from the respondents in this study. This consideration is essential when conducting a survey through the post where the respondents are left to their own devices to complete the questionnaire (Huysamen, 1994:130). Neuman (2000:251) indicates that the researcher must keep in mind the important two key principles when constructing a good questionnaire. He has to avoid confusion and keep the respondents' perspectives in mind. Good survey questions in the questionnaire provide the researcher with valid and reliable measures. The following must be avoided when incorporating survey questions in the questionnaire, namely:

- Jargon, slang and abbreviations;
- ambiguity, confusion and vagueness;
- emotional language and prestige bias;
- double-barrelled questions;
- leading questions;
- asking questions that are beyond respondents' capabilities;
- false premises;
- asking about future intentions;
- the double negative; and
- overlapping or unbalanced response categories.

Huysamen (1994:131) argues that in order to avoid ambiguity, the researcher should not consider questions in the questionnaire such as the longer a question, which takes more time to read and understand. According to Cooper and Schindler (1998:332), it is impossible to say which type of wording of a question in a questionnaire is best, but confusion and measurement errors must be avoided when formulating a good questionnaire. The above-mentioned recommendations were applied when designing the questionnaire in order to avoid confusion and ambiguity to obtain accurate data from the targeted respondents.

6.3.7.1 Objective of the questionnaire

Each investigative question must be formulated from the basis of the general research question and objective of the research. Each measurement question in the questionnaire should be incorporated carefully to obtain the specific data that reflects the objective of the study. In a survey, measurement

questions are the final questions incorporated into the questionnaire (Cooper & Schindler, 1998:66).

There must be correlation between the questionnaire and the research objective. The questionnaire should bring sufficient and ideal data to achieve the objective of the research study. According to this study, the questionnaire was designed to assess the ability and capability of automobile manufacturers in South Africa in order to react to local and global competitors in the global marketplace in terms of production, service, marketing performance in the context of trade liberalisation under the rapid globalisation. The major objective of this study was to establish the influence of globalisation on the marketing, production and other performance of automobile manufacturers in South Africa. Each questionnaire was carefully considered and incorporated in the questionnaire to obtain relevant data to achieve the objectives of the research.

6.3.8 The structure of the questionnaire

A number of techniques can be used to collect data. The most widely used technique is the questionnaire. When designing a questionnaire, the researcher must keep in mind aspects such as the selection of the area about which to question, the construction of the actual questions, the evaluation of the questions and the layout of a good questionnaire. In a mail survey questionnaire, without any influence by the researchers, respondents have sufficient time and opportunity to think about and consult the problem to answer each question in the questionnaire. Mail questionnaires are likely to be best, while face-to-face interviews encounter more problems (De Vaus, 1990:90-104). Open-ended questionnaires are not really suitable for the mail survey (De Vaus, 1990:90). A structured questionnaire (close-ended) was used for this mail survey to obtain accurate data to measure the attitude of the respondents numerically with regard to a particular given statement.

6.3.8.1 Subsections of questionnaire

A questionnaire can be divided into subsections according to the objective of the study and provide a very brief introduction to each subsection (De Vaus, 1990:90). The sequence of sections and questions are maintained in the questionnaire to enable the respondents to understand the questionnaire and feel comfortable to answer each question. The following ten sections were included in the structured questionnaire:

- **Local and global competitor analysis:** This section consists of 11 questions to evaluate the capacity and capability of automobile manufacturers in South Africa with regard to the extent that they undertake an analysis of competitors confronting with them in the marketplace in the context of the trade-liberalised situation.
- **Customer analysis:** Thirteen (13) questions were incorporated in this section of the questionnaire to assess to what extent automobile manufacturers have the ability to satisfy the sophisticated customers in the global marketplace better than their local and global competitors are doing.
- **Stakeholder analysis:** Seven (7) questions were included in this section to assess the skills of automobile manufacturers with regard to maintaining good relations with their stakeholders that have a strong influence, support and threaten the performance of these companies. The support and power of stakeholders are essential to react to the large competitors in the globalised marketplace.
- **Environmental analysis:** Nine (9) questions were incorporated in this section to assess the impact of the rapidly changing environment on the performance of automobile manufacturers in South Africa in the context of globalisation.
- **Internal analysis:** Thirteen (13) questions were included in this section to assess the internal structure, capacity of resources and management soundness of automobile manufacturers that have to compete with global competitors. This section will bring data from the respondents to the researcher to assess the ability and strength of South African automobile manufacturers to react to or overcome the challenges brought by global competitors.
- **Production method:** This section includes 18 questions to assess the nature, innovation, quality and new methods of production of automobile manufacturers to compete at the level of global competitors. The method of production is essential to any automobile manufacturer to compete in the trade-liberalised marketplace with giant and technologically advanced global competitors. This section will give insight to the researcher to assess whether South African automobile manufacturers have sufficient ability to overcome the new challenges and threats brought by these global competitors.
- **Trade liberalisation issues:** Nine (9) questions were included in this section to evaluate the impact of trade liberalisation policy, through the process of globalisation, on the overall performance of automobile manufacturers in South Africa. Inferences can be made from these questions.

- **The global marketing trends and its influence:** This section contains 11 questions to assess the impact and influence of current global marketing trends on the performance of automobile manufacturers in South Africa.
- **Government policy on automobile manufacturers:** Six (6) questions were incorporated in this section in order to assess the effects of government policies on the past and present operation of automobile manufacturers in South Africa.
- **Marketing strategy:** Only four (4) questions were included in this section to measure the attitude of the respondents regarding to what extent they pay consideration to marketing strategies in order to promote their marketing performance according to the competitive market situation.

Each question for each section was incorporated from various parts of the literature (Chapter 2 – 5). Only important concepts and themes were considered in selecting each question from various parts of the chapters according to the research area. Each question was then categorised and located in different section of the questionnaire.

6.3.8.2 Scale

The scale method is important in research to measure the attitude of the study population in order to achieve the objectives of the research. There are several attitude scales available commercially. The researcher has to choose or compile attitude scales himself to measure the attitude of the respondents. There are different types of attitude scales, such as the summated or Likert scale, Guttman scale, Thurstone scale and semantic differential scale, multiple rating list scale, staple scale and graphic rating scale (Huysamen, 1994:124:126; Cooper & Schindler, 1998:189-190).

The Likert scale is widely used and is common in a research survey. This scale usually asks people to indicate whether they agree or disagree with particular statements. This scale needs a minimum of two categories, namely “agree” and “disagree”. However, by using only two categories it creates a crude measure. It is usually better to use four to eight categories. A researcher can combine categories of scale to measure the attitude of the respondents, but should keep the number to eight or nine at most. More than that is probably not meaningful and respondents will become confused. Eventually, the choice of scale should be balanced (e.g. “strongly agree”, “agree” with “strongly disagree”, “disagree”) (Neuman, 2000: 182). Modification of the wording of the response categories

(e.g. “approve”) may also be used in the Likert scale (Babbie, 1992:184). The researcher may use a forced-choice scale system that pushes respondents to choose an equally favourable or unfavourable response (Rosnow & Rosenthal, 1996: 99).

The Likert scale was applied to design the structured questionnaire for this study to measure the attitude of the respondents. A four-point measurement scale was used in the questionnaire to gather the relevant data. It was decided to use this scale in order to force respondents to answer with a positive or negative response. According to this study, large numbers of scale point will make it difficult for the researcher to come to a conclusion or inference with regard to the influence of globalisation on the performance of automobile manufacturers. Each question has four responses, namely “strongly disagree”, “disagree”, “agree” and “strongly agree”. A numerical number is given to each of the responses, namely:

- Strongly disagree = 1;
- Disagree = 2;
- Agree = 3; and
- Strongly agree = 4

If the response “disagree” is selected, the numerical number ‘2’ is used for the statistical data analysis to measure the value of the attitude of the respondent in the particular statement.

6.3.8.3 Length of survey or questionnaire

Neuman (2000:265) says there is no absolutely proper length, but that it depends on the survey’s format and on the respondents’ characteristics. A short (3-4 pages) questionnaire is appropriate for the general population. The researcher could use a longer questionnaire for highly educated respondents and a salient topic with 15 pages. Some researchers have had success with questionnaires as long as 10 page (about 100 items). In this study, a four-page questionnaire was designed with 101 important items incorporated, because the study population comprises highly educated top-level executives in the automobile manufacturing industry.

6.3.9 Distribution and collection of the questionnaires

The questionnaires were posted to the respondents, requesting them to be completed and returned by mail. Nowadays the completed questionnaires would be faxed back or e-mailed back to the researcher. The questionnaire type of survey provides the possibility of anonymity. This kind of anonymity gives the respondents the opportunity to complete the questionnaire honestly, while the possibility of bias is also eliminated when questionnaires are mailed to respondents (Huysamen, 1990:149).

The questionnaire was mailed to the target population. A covering letter was attached to the questionnaire to explain the purpose of the questionnaire and to ensure the anonymity and confidentiality of the data that was to be received from the respondent. Fourteen (14) questionnaires were delivered to the managing directors and the marketing directors of each automobile manufacturer in South Africa. Seven (7) automobile manufacturing companies are operating in the country and a list of the names and addresses were obtained from the annual report of NAAMSA.

6.3.9.1 Follow-up and response rate

Follow-up and reminders are useful ways to increase response rates. Each successive follow-up produces more returns and researchers could achieve a high total response rate. Preliminary notification, particularly by telephone, is an effective way to increase response rates. However, the method of follow-up is a better way than preliminary notification to increase the response rate. The researcher could also use a mixed model to improve and increase the response rate (Cooper & Schindler, 1998:308).

The covering letter attached to the questionnaire made an appeal for help in the survey, as the researcher is a foreign student in the country. The researcher made continuous reminders and humble requests to all the respondents through e-mails and by telephone to receive back all the questionnaires, as the study population was so small. In order to ensure that the questionnaires reached the respondents, electronic copies of the questionnaire were sent to some respondents where the questionnaires were delayed in the post. This process was made after a telephone conversation with each respondent or secretary of the respective respondent. This was not difficult, as the number

of respondents was small. One week after the first mail-out, the first follow-up was done to all respondents by telephone. After the first follow-up, the second follow-up was made to all the respondents through e-mail in order to remind them and convey thanks for their willingness to return the completed questionnaire. After the third week, many telephonic and e-mail follow-ups were made to those respondents that had not yet responded. A record was maintained to identify the respondents who returned the questionnaire and to send follow-ups to the respondents who had not returned their questionnaires by the due date. However, the researcher had to wait some weeks beyond the due date to receive back all the completed questionnaires.

With regard to response rate, a low response rate is one of the important features of the mail survey where the response rate is frequently below 50% of the target population (Huysamen, 1994:150). Neuman (2000: 267) considers a response rate below 50% as poor and over 90% as excellent. In this survey, 13 questionnaires were received back from the respondents out of total of 14 questionnaires distributed, which means a response rate of 92.86%. Thus, according to Neuman's statement, this was an excellent response rate.

6.3.9.2 The validity and reliability of measurement

It is impossible to achieve perfect validity and reliability. However, all social researchers want their measure to be reliable and valid. Both these aspects are important in establishing the truthfulness, credibility or believability of findings (Neuman, 2000: 164). Validity and reliability assess each question or group of questions rather than the questionnaire as a whole. In a questionnaire, a number of variables may be included for measuring, some of which may be valid and reliable measures of their respective properties, while others are not. However, it is important to make attempts that the mailed-questionnaire method itself does not affect the validity and reliability of the questionnaire (Baily, 1987: 170).

Validity: The term validity means "true" or "correct". Validity is more difficult to achieve than reliability. It is impossible to have absolute confidence in validity. The reason is that we can never achieve absolute validity because constructs are abstract ideas, whereas indicators refer to concrete observations (Neuman, 2000: 167). The validity of a measure depends on how the researcher has defined the concept it is designed to measure. A valid measure is one that measures what it is intended to measure (Leedy & Ormrod, 1985: 103). There are three basic ways to assess validity,

namely criterion validity, content validity and construct validity (De Vaus, 1990: 55-56). Baily (1987: 68) mentions the following methods of validity:

- **Face validity** - this relates to whether the instrument measures what it is supposed to measure in the questionnaire and is ultimately a matter of judgement.
- **Criterion validity**- it is variously called pragmatic validity, concurrent validity, or predictive validity. The term “concurrent validity” is used to explain a measure that is valid for measuring a particular event at the present time, while “predictive validity” refers to the measure’s ability to predict future events.
- **Construct validity**- this method consists of replacing one index by another.

According to Baily (1987: 266), validity represents two parts, that is measuring instruments that actually measure the concept in a question, while the other relates to whether the concept is being measured accurately. A researcher could have the first without the second, but not *vice versa*. The mail questionnaire survey method is more valid than the interview method because respondents are more assured of anonymity to respond to the given question.

Reliability: reliability means dependability or consistency. The same things are repeated in similar conditions. In other words, the numerical results (in quantitative research) produced by an indicator do not vary because of the characteristics of the measurement process (Neuman, 2000:164). Reliability measurement means that a researcher must obtain the same results on repeated occasions. The same group of people answers a question the same way on repeated occasions. The same question may be asked to the same people at intervals, more than once, and the correlation coefficient between the answers on both occasions are then calculated. The researcher could assume that the question is reliable when correlation is high. In some research it is possible to use the test-retest method (De Vaus, 1990: 55). Baily (1987: 270) indicates that the reliability assessment is much easier in a survey that uses a structured observational format.

Two methods may be used to assess the reliability in research, namely the **alternate or parallel method** and the **repeated application method**. In the alternate or parallel methods the researcher uses two questionnaires, each using different items but designed to measure the same concept for the same group of people. In the test / retest (repeated) method the question is repeated to the same group of people at intervals, two or more times (Baily, 1987:71). Neuman (2000: 165) expresses the

view that there are three types of reliability, namely **stability reliability** (across time, test-retest method), **representative reliability** (across sub-populations or groups of people), and **equivalence reliability** (using multiple indicators to measure the attitude of the population). According to Neuman (2000:166), the following methods can be used to increase the reliability of measures:

- Clearly conceptualise the constructs;
- use a precise level of measurements;
- use multiple indicators; and
- a pilot test.

Clearly conceptualised constructs are one of the methods used to increase the reliability of the survey, including developing unambiguous and clear theoretical definitions (Neuman, 2000:166). In this study, very careful conceptual constructs were made in the questionnaire under the supervision of the promoter and co-promoter of the study in order to avoid ambiguity and confusion in the survey. Each question was designed to precisely measure the intended concepts. The structured questionnaire and mail survey was selected to increase the validity and reliability of the study. Questionnaires were submitted personally to two executives in the automobile manufacturing sector as a pilot study on a small scale to obtain suggestions and opinions regarding the wording and understanding of each question in the questionnaire. These suggestions were then considered when the final questionnaire was implemented. In addition to these, eye value (when the researcher observes the response to each question) gave sufficient confidence as to the validity and reliability of the survey. This is because each question in the questionnaire brought the relevant data and information that was supposed to measure the concept.

6.3.10 Analysis of the data and results of the empirical research

Data analysis is an important process in any research. The variables in the questionnaire have to be refined both conceptually and empirically. The methods of data processing will differ depending on the style of research - explanatory or descriptive. In order to implement the empirical research on the influence of globalisation on automobile manufacturers in South Africa, the distributed structured questionnaires were used to measure the attitudes of the respondents on a numerical basis. The gathered data was analysed by means of the relevant computer package to come to a conclusion and inferences.

6.3.10.1 Processing of the data

According to the quantitative analysis method, collected data must be set out in a manner that allows the researcher to look at it clearly and think about it. A relevant method may be used to display the data. The statistical order of data enables the researcher to analyse the quantitative data obtained from samples of observation and compare the variance of phenomena (Herbert, 1990: 69). The data analysis should be sufficient to reveal its significance and the methods of analysis used should be appropriate (Cooper & Schindler, 1998:16). Raw data will not be useful for management to make the proper decision. The researcher must reduce the accumulated data to a manageable size by applying statistical techniques. In the light of the research question and literature, the findings and recommendation will enable managers to make decisions (Cooper & Schindler, 1998:78). The process of data analysis brings order, structure and meaning to the mass of collected data. It is a messy, ambiguous, time-consuming, creative and fascinating process (Erlandson *et al.*, 1993:111).

The Statistical Consultation Service of the Statistical Department of the Potchefstroom University for Christian Higher Education did the processing of the data. The Statistical Analysis System ® (SAS) with computer software (SAS system for Window release 6.12 - 1996 version) was used to analyse the data. The major emphasis of the data processing was on descriptive statistics.

According to Lind and Mason (1994:6), organising, presenting and analysing numerical data is called descriptive data. The collected data may be arranged from the lowest to the highest scores on their scales when tabulated together with the frequency of values. The location spread, shape of distribution, application and formulas fall under the heading of descriptive statistics (Cooper & Schindler, 1998: 427).

The following statistical procedures were performed in order to evaluate the respective question and its statement in the questionnaire:

- **Frequency distribution method:** The processed data is presented as a frequency distribution to make the process of data analysis and interpretation more manageable and meaningful. The calculation of mean value and standard deviation is an important aspect of the frequency distribution method. This method is the easiest way to describe the numerical data to express the measuring of the collected data. This method enables the researcher to present the data in the

form of histograms, bar charts, pie charts and tables. The researcher can group the information into categories for interval or ratio-level data (Neuman, 2000:317; Lind & Mason, 1994:22). According to Bernson and Levine (1989: 92), a frequency distribution is a summary table in which the data is arranged into conveniently established numerical ordered classes, groupings or categories. The common measures of location, which are often called central tendency, include the mean, median and mode. In a normal symmetric, the mean, median and mode are in the same location (Cooper & Schindler, 1998:428).

- **The arithmetic mean:** For raw data, the arithmetic mean is the sum of all the values divided by the total number of values. In order to calculate the mean, the numbers are added together to find the total and the total will then be divided by the number of values included (Curwin & Slater, 2002:104). It is most commonly used for the averaging or measuring of the central tendency for questions or statements in a questionnaire.
- **The median:** The median is the value in the middle when numbers have been listed in either ascending or descending order (Curwin & Slater, 2002:105). The center point for such problems can be better described by using a measure of central tendency called the median. To determine the median, the data is arranged from low to high and find the value of the middle observation (Lind & Mason, 1994: 66).
- **The minimum and maximum value:** The minimum and maximum value is given in the table for each section of the questionnaire, indicating the extreme cut-off point of the distribution. Each question has a minimum and maximum cut-off point of the response.
- **The standard deviation:** The standard deviation is directly related to the mean and is the most widely used measure of dispersion. The standard deviation measure differs from the mean in that it has a larger value variation (Curwin & Slater, 2002: 124). The standard deviation is simply the square root of the value. The variance of a set of scores tell us the deviation from the mean of the score (Rosnow & Rosenthal, 1996:224). It will be calculated as a measurement of dispersion to determine the representativeness and reliability of the mean. The plus or minus value of standard deviation will be calculated from each mean for each question. For example:

Total respondents: 13

Mean = 1.38

Standard deviation = 0.50

Maximum value = $1.38 + 0.50 = 1.88$

Minimum value = $1.38 - 0.50 = 0.88$

- **Skewness:** The mean, median and mode are equal in a symmetrical distribution. Symmetrical distribution has the same shape on either side of the center axis. The mode, median and mean are located at the center and are always equal. There is no skewness in a normal frequency distribution, meaning the skewness is zero (Lind & Mason, 1994:102). As the distribution becomes asymmetrical or skewed, the relationship among the three averages changes. There will be positively skewed distribution and negatively skewed distribution. In a positively (right) skewed distribution where one or more of the observations are extremely large, the mean is influenced more by a few extremely high values than the median or mode is. The median is generally the next largest average in a positively skewed frequency distribution, in other words, the mean greater than the median or mode. The mode is the smallest of the three averages. Conversely, in a negatively (left) skewed distribution, the mean is the lowest of the three averages. The mean is influenced by a few extremely low observations. The median is greater than the mean. The mode value is the largest of the three averages (Lind & Mason, 1994:80; Berenson & Levine, 1989:113).
- **Kurtosis:** Kurtosis indicates the measure of peakedness or flatness of a distribution when presenting a set of data in the form of frequency distribution. The kurtosis expresses the characteristics of the shape of the frequency distribution. It is related to the absolute size of the gradient of the distribution curve in the vicinity of the mode (Steyn *et al.*, 1999: 99 &147). High peaks indicate that respondents strongly disagree / agree on a particular question and a great majority of responses is concentrated in a certain area of the distribution curve. A flat means the response is spread in the distribution curve.

6.3.10.2 Presentation of data

The presentation of data is essential in producing the right results in the research. It is a means of communication. The presentation of data through suitable diagrams or tables should give an insight into the business or organisation. This data will be presented in numerical form to give a brief overview of the information. The user can obtain information quickly from a well-constructed diagram or table. The choice of diagram and tables depends on the type of data to be presented. Percentage is better to present data and its results. There is a wide range of alternative means for representation in use, such as bar chart, pie charts, pictograms, histograms, tables and miscellaneous others to represent discrete data (Curwin & Slater, 2002:75-84). Three kinds of charts may be used to portray a frequency distribution, namely histograms, frequency polygons and cumulative

frequency polygons. Other charts and graphs that can be used to present data are simple line charts, simple bar charts, pie bar charts and tables (Lind & Mason, 1994: 35-48).

A histogram or a frequency polygon can be used to represent the data on the basis of frequency distribution. This method enables the reader to understand the data set quickly (Steyn *et al.*, 1999: 62). Categorical data and its value can be graphically represented in the form of bar charts according to the frequency distribution method (Steyn *et al.*, 1999: 71). Tables were used to present the results of the empirical study in this chapter. One table is given for each section of the questionnaire to see the overall picture of the results of that section and understand them clearly.

The response percentage is given for each question in the same table. The statistical results are also given for each section in a separate accompanying table. The findings and results of each question were discussed briefly with its literature background under each table in each section. The final conclusions will be discussed in the succeeding chapter.

6.4 DISCUSSION OF THE RESULTS

The results of the empirical study are reported in the form of tables in this section. Each table brings questions that are incorporated into each section of the questionnaire with its response in percentage in the same tables. A brief discussion is given for each question in each section to explain the nature of each response to each question. The statistical results will be discussed in terms of the following ten themes and concepts from the questionnaire:

- Local and global competitor analysis
- Customer analysis
- Stakeholder analysis
- Environmental analysis
- Internal analysis
- Production method
- Trade liberalisation issues
- Global marketing trends and their influence
- Government policy on automobile manufacturers
- Marketing strategy

6.4.1 The competitor analysis

The purpose of this section was to ascertain the capacity and ability of automobile manufacturers by analysing local and global competitors in the competitive marketplace. In the context of the globalised marketplace, assessing the opportunities and threats, weaknesses and strengths of competitors is essential to formulate different and effective strategies to react to and overcome the challenges brought by local and global competitors. Each automobile manufacturer has to undertake an analysis of not only global competitors, but also local competitors. The reason is that local competitors have different links with their parent global companies and some of them adopt different strategies to react to global competitors.

6.4.1.1 Local competitor analysis

First of all, it was essential to know whether the respondents were undertaking an analysis of local competitors. This is the first step to ascertain the capacity and ability of the respondents before moving on to other questions in this section. For this purpose, a general question (**Question 1**) was asked to the respondents, namely: "Do your company undertake an analysis of local competitors?" They were requested to tick the appropriate block giving a YES or NO answer. All 13 respondents answered this question with a "Yes". This is a 100% positive answer to the question. It is to be noted that no respondents indicated a "No".

6.4.1.2 Global competitor analysis

As mentioned in the above section, with the same purpose, another general question (**Question 1.1**) was asked to the respondents to ascertain whether they have a system in place to undertake an analysis of global competitors. YES or NO could be answered here in the appropriate block and they were requested to tick the appropriate one. All 13 respondents stated "Yes". This is also a 100% positive answer to the question, meaning all respondents are undertaking an analysis of global competitors.

6.4.1.3 Statements regarding the competitor analysis

In total, 11 questions were incorporated in this section (**Question 1.2**) to assess the capacity and ability of the automobile manufacturers with regard to a competitor analysis. The results of the empirical study are given in the following two tables. Each question and its results are expressed in the tables. Table 6.1 represents the response to each question as a percentage, while Table 6.2 highlights the detailed statistical results of this section.

Table 6.1: Statements regarding the competitor analysis

1 = Strongly disagree; 2 = Disagree; 3 = Agree; 4 = Strongly agree

No	Statements	1	2	3	4
01	The intelligence system of our company is not sufficient to accurately identify global competitors in the domestic market.	61.54%	38.46%	0%	0%
02	The intelligence system of our company is not sufficient to accurately identify local competitors in the domestic market.	69.23%	30.77%	0%	0%
03	We do not analyse competitors' past and current marketing strategy.	46.15%	53.85%	0%	0%
04	We do not examine the market share and market coverage of local competitors.	92.31%	7.69%	0%	0%
05	We do not examine the market share and market coverage of global competitors.	46.15%	23.08%	30.77%	0%
06	It is difficult to measure the objectives and profitability of foreign competitors.	0%	46.15%	46.15%	7.69%
07	We do not analyse technology, staff and product development of global competitors.	23.08%	38.46%	30.77%	7.69%
08	We do not make efforts to identify new foreign competitors in the global market.	53.85%	15.38%	30.77%	0%
09	We are unable to accurately identify the opportunities and threats of foreign competitors.	30.77%	61.54%	7.69%	0%
10	We are unable to accurately identify the opportunities and threats of local competitors.	46.15%	46.15%	7.69%	0%
11	We do not analyse local and foreign competitors' strengths and weaknesses separately.	7.69%	76.92%	15.38%	0%

Table 6.2: Statistical results regarding the competitor analysis

Variable	N	Mean	Median	Minim.	Maxim.	Std. dev.	Skewness	Kurtosis
1.2 (01)	13	1.3846	1.0000	1.0000	2.0000	0.5064	0.5386	-2.0564
1.2 (02)	13	1.3077	1.0000	1.0000	2.0000	0.4804	0.9462	-1.3394
1.2 (03)	13	1.5385	2.0000	1.0000	2.0000	0.5189	-0.1752	-2.3636
1.2 (04)	13	1.0769	1.0000	1.0000	2.0000	0.2774	3.6056	3.000
1.2 (05)	13	1.8462	2.0000	1.0000	3.0000	0.8987	0.3420	-1.7784
1.2 (06)	13	2.6154	3.0000	2.0000	4.0000	0.6504	0.5718	-0.3321
1.2 (07)	13	2.2308	2.0000	1.0000	4.0000	0.9268	0.2108	-0.5456
1.2 (08)	13	1.7692	1.0000	1.0000	3.0000	0.9268	0.5314	-1.7531
1.2 (09)	13	1.7692	2.0000	1.0000	3.0000	0.5991	0.0650	0.0506
1.2 (10)	13	1.6154	2.0000	1.0000	3.0000	0.6504	0.5718	-0.3321
1.2 (11)	13	2.0769	2.0000	1.0000	3.0000	0.4935	0.2618	2.5732

A brief discussion of each question that was incorporated in the above section is important. The most important information gained from the literatures was given, from which important themes and concepts were selected to choose the questions in this section. The findings and results of the empirical study from the above two tables are given briefly below.

- **The intelligence system to analyse global competitors:** As discussed in section 5.3.2.2, each company should have a well-established information system to identify global competitors in the domestic marketplace. Management must pay sufficient attention to have and establish a successful intelligence system to identify its competitors. The majority of the respondents (61.54 + 38.46) indicated that they have an adequate intelligence system in place to identify global competitors in the domestic market.
- **An intelligence system to identify local competitors:** As identified in section 3.4.1.1.6, each company must have an adequate intelligence system to identify local competitors in the domestic marketplace to gather information about its competitors. Most of the respondents (69.23% + 30.77%) have an adequate intelligence system to identify local competitors in the domestic market.
- **Competitors' past and current marketing strategy:** According to section 3.4.1.1.5, the management of automobile manufacturers must analyse the past and current marketing strategies

of their competitors in the marketplace. This analysis is essential to ascertain the strengths and weaknesses of competitors. It will help management to know how their competitors react to opportunities and threats and what kind of strategies they apply to achieve their objectives. The empirical results indicate that all (100%) automobile manufacturers analyse the past and current marketing strategies of their competitors.

- **Market share and market coverage of local competitors:** As emphasised in sections 3.4.1.1 and 3.4.1.1.2, management must examine the market share and market coverage of their competitors in the marketplace in order to identify important and key competitors. The market share and coverage of competitors depend on the product quality, features and mix, customer service, pricing policy, distribution, sales force strategy, advertising and sales promotion, research and development (R & D), manufacturing methods, and finance capacity. It is clear from the empirical results that all (100%) automobile manufacturers examine the market share and coverage of competitors in the local market.
- **Market share and market coverage of global competitors:** As identified in section 5.3.2, new challenges such as modern technology, communication and production methods are brought by global competitors. Management has to examine the market share and market coverage of global competitors to identify the competitive advantages and opportunities among a number of global competitors. The empirical findings indicate that the majority (46.15% + 23.08%) of automobile manufacturers examine the market share and market coverage of global competitors in order to ascertain opportunities and competitive advantages in the globalised marketplace.
- **Objective and profitability of foreign competitors:** As stated in section 5.3.2, global competitors are developing different types of strategies according to their strengths and experience in the global market to achieve their objectives and to increase profits. Automobile manufacturers must have sufficient talent to measure the objectives and profitability of global competitors to enable them to formulate immediate alternative strategies to increase their profitability. The majority of the respondents (53.84%) indicated that it is difficult to measure the objectives and profits of foreign competitors. Some 46.15% of the respondents indicated that it is not difficult to measure the objectives and profits of foreign competitors.

- **Technology, human and product development of global competitors:** Sections 5.5.1 and 5.5.1.1 focus on what product and service to sell in the globalised market. A company should provide suitable products to satisfy the needs and wants of customers in the global marketplace. For this purpose, different global companies provide different new products in different ways by using new technology, workers and computer-aided designs. Automobile manufacturers must analyse the technology, human resources and product innovation of global competitors in order to provide better products than the global competitors do. The majority of the respondents (61.54%) analyse the technology, staff and new products of global competitors to react to these competitors.
- **The new foreign competitors:** As indicated in section 5.3.2, new-entrant global competitors to the local market under liberalisation bring new threats to local companies. Marketing managers are faced with different types of competitors in the globalised marketplace. They have to identify these new competitors and their threats in order to formulate a suitable strategy to react to the new competitors. Most of the respondents (53.85% + 15.38%) make efforts to identify new entrants to the marketplace to design their strategies in order to react to these new competitors.
- **Opportunities and threats of foreign competitors:** As indicated in sections 5.3 and 5.3.2, management must identify the opportunities, threats, strengths and weaknesses of foreign competitors in the globalised marketplace. It is essential to formulate marketing strategies in order to react to and overcome the challenges in the domestic and global market. The majority of the respondents (30.77% + 61.54%) are able to accurately identify the opportunities and threats of foreign competitors.
- **Opportunities and threats of local competitors:** As described in section 3.3.1, in the process of strategic marketing, management must identify the opportunities of and minimise the treats to the company. In order to achieve this target, managers have to identify the opportunities and threats of local competitors to enable them to formulate suitable strategies to achieve their objectives in the liberalised marketplace. The results clearly show that the majority of the respondents (46.15% + 46.15% = 92.30%) indicated that they are able to accurately identify the opportunities and threats of local competitors.

- **An analysis of local and foreign competitors' strengths and weaknesses separately:** There is stiff competition between global companies versus global companies and local companies versus global companies. Each company has different marketing strategies according to their strengths and weaknesses (refer to section 5.3.2.1). The majority of the respondents (84.62%) stated that they have systems in place to analyse local and foreign competitors' strengths and weaknesses separately in the marketplace.

6.4.2 Customer analysis

The purpose of this section of the questionnaire is to ascertain to what extent automobile manufacturers have the ability and capability to analyse sophisticated customers in the global marketplace to satisfy them better than their local and global competitors are doing. This analysis is essential in order to attract customers and keep them for a long time without global competitors eroding the market share in the context of a globalised market. This section examines not only the ability of the respondents, but also what they are doing to attract customers from global competitors. The analysing ability and capability of respondents will give an insight to the researcher to reach a conclusion on whether automobile manufacturers will be influenced or not by the globalisation process.

6.4.2.1 A general question

Before starting the questions to the respondents in this section of the questionnaire, a general question was asked, namely: "Do your company undertake a customer analysis?" They were requested to tick the appropriate block, giving a "YES" or "NO" answer. Twelve (12) respondents (Frequency missing =1) responded with a "YES". This indicates that all of them undertake a customer analysis, which is therefore a positive response.

6.4.2.2 Statements regarding customers analysis

Thirteen (13) questions were included in this section of the questionnaire to assess the ability of automobile manufacturers in South Africa as well as how they satisfy customers better than global competitors in the globally competitive marketplace do. Table 6.3 represents the results of the response in percentage, while Table 6.4 gives the details of the statistical outcome.

Table 6.3: Statements regarding the customer analysis

1 = Strongly disagree; 2 = Disagree; 3 = Agree; 4 = Strongly agree

No	Statements	1	2	3	4
01	Our company provides a higher level of warranty and service to its customers than global competitors do.	0%	7.69%	38.49%	53.85%
02	We are more successful at maintaining long term-oriented relationships with our customers than global competitors are.	0%	38.46%	46.15%	15.38%
03	We are more successful at satisfying customers' needs and wants than global competitors are.	7.69%	38.46%	23.08%	30.77%
04	We focus more on products / models to add value for customers than global competitors do.	8.33%	16.67%	50.00%	25.00%
05	We offer affordable products to our customers.	0%	15.38%	61.54%	23.08%
06	We offer more low-priced products to our customers than our global competitors do.	16.67%	50.00%	25.00%	8.33%
07	All departments in our business are working with a customer-focus in mind.	0%	30.77%	46.15%	23.08%
08	We have reliable, valid and accurate sources of customer information.	0%	7.69%	53.85%	38.46%
09	Quality and durability are our business' core offer to customers.	0%	15.38%	53.85%	30.77%
10	We have a customer-oriented mission statement.	7.69%	0%	23.08%	69.23%
11	Our customers are not satisfied with the improvement of our products / models.	38.46%	53.85%	0%	7.69%
12	Our staff has a strongly committed relationship with our customers.	0%	15.38%	61.54%	23.08%
13	We focus on the product to satisfy customers in each segments of our business.	0%	0%	69.23%	30.77%

Table 6.4: Statistical results regarding customer analysis

Variable	N	Mean	Median	Mini.	Maxi.	Std. Dev.	Skewness	Kurtosis
2.1(01)	13	3.4615	4.0000	2.0000	4.0000	0.6602	-0.8626	-0.0245
2.1(02)	13	2.7692	3.0000	2.0000	4.0000	0.7250	0.3945	-0.7551
2.1(03)	13	2.7692	3.0000	1.0000	4.0000	1.0127	-0.0303	-1.2094
2.1(04)	12	2.9167	3.0000	1.0000	4.0000	0.9003	-0.7121	0.5327
2.1(05)	13	3.0769	3.0000	2.0000	4.0000	0.6405	-0.0532	0.0609
2.1(06)	12	2.2500	2.0000	1.0000	4.0000	0.8660	0.4409	0.2343
2.1(07)	13	2.9231	3.0000	2.0000	4.0000	0.7596	0.1356	-1.0526
2.1(08)	13	3.3077	3.0000	2.0000	4.0000	0.6304	-0.3070	-0.3173
2.1(09)	13	3.1538	3.0000	2.0000	4.0000	0.6887	-0.2033	-0.4962
2.1(10)	13	3.5385	4.0000	1.0000	4.0000	0.8771	-2.3270	5.9020
2.1(11)	13	1.7692	2.0000	1.0000	4.0000	0.8321	1.5236	3.7059
2.1(12)	13	3.0769	3.0000	2.0000	4.0000	0.6405	-0.0532	0.0609
2.1(13)	13	3.3077	3.0000	3.0000	4.0000	0.4804	0.9462	-1.3394

A brief discussion is given below to highlight the literature background that helped in the choice of each question in this section with a brief result for each question.

- **Warranty and service to the customers:** Section 5.5.1.4 expresses the idea that in today's global marketplace warranty and service is an important tool to increase sales. Many new products with different warranty and service schemes are constantly being introduced by many global companies. With regard to automobile manufacturers, customer service is an essential tool to win global competitors. Any service gap is an open door for competitors to capture the market by entering the liberalised market. The empirical study delineated that most automobile manufacturers (38.46% + 53.85%) have the ability to provide a higher level of warranty and services to their customers than global competitors in the global market are able to.
- **Long-term relationship with customers:** It is reflected in section 3.4.2.2.3 that relationship-marketing is imperative for a company to take the company closer to the customer. A long-term relationship with the customer is important to compete with global and local competitors in today's dynamic business environment. Most of the respondents (61.53%= 46.15% + 15.38%) have long-term relationships with their customers.
- **Satisfaction of the customer:** According to sections 3.2 and 5.5.1.3, customer satisfaction is one of the major aspects in the competitive marketplace. Maintaining the satisfaction of customers will help the company towards long-term growth in the competitive market. The satisfaction of the customer depends on the product quality, durability, price and service. The majority of the respondents (23.08% + 30.77% = 53.85%) indicated that they are more successful at satisfying customers' needs and wants than global competitors are. However, a significant percentage of respondents (46.15%) are not successful at satisfying customers' needs and wants compared with global competitors.
- **Added value to the customer:** Section 3.4.1.3.5 expresses the view that management must focus on product / model to add value for customers. Product differentiation and innovation are major aspects that the company has to concentrate on to add value for customers in the competitive market. According to the empirical study, most of the automobile manufacturers (75.00%) focus more on product / model to add value for the customers than their global competitors do.

- **Affordable products to the customers:** As emphasised in sections 4.5.1 and 3.4.1.3.3, most transnational companies (TNCs) offer a large numbers of affordable products to customers to control the production and global market. The company must offer affordable products to the customers to increase their market share. These aspects are essential to attract customers from competitors or prevent customers from turning to global competitors. The majority of the automobile manufacturers in South Africa (84.62%) are able to offer affordable products to customers in the global market.
- **Low-priced products to customers:** Sections 4.7 and 2.7.2 reflect that the price of new vehicles in South Africa is above the world market price. At the same time, other global companies bring low-priced vehicles to the global market. Price is one of the most important factors that have a significant influence on determining the size of the market for passenger vehicles. However, the price for passenger vehicles has been increasing rapidly over the last years in South Africa. The empirical study indicated clearly that most of the automobile manufacturers (66.67%) are unable to offer low-priced vehicles to their customers compared with global competitors.
- **Customer focus:** As stated in section 3.4.2.4, in the context of a globalised market, there is a need to provide a better production quality to satisfy the customer. Research and development can also be developed through the performance of all departments in a company. Therefore, not only the marketing department but also all departments must work together with a customer-focus in mind to achieve the co-operative objective of the company. The majority (69.23%) of the respondents responded positively to this question. They have sufficient customer focus in mind.
- **Reliable and accurate sources of customer information:** With reference to section 3.4.1.2, marketing management must obtain reliable and accurate information about the customer in order to provide suitable products to fulfil their expectation in the competitive marketplace. The majority (53.65% + 38.46%) of the automobile manufacturers have reliable and accurate sources of information on the customer.
- **Quality and durability of the product:** Sections 3.4.2.4 and 5.5.1 express the view that product quality is the most imperative parameter for a company to differentiate their products from the products of competitors in the market. Quality and durability must be the core aspects of the

product to satisfy customers in the global marketplace. The majority of respondents (84.62%) responded positively to the question, meaning that they pay attention to offering quality and durable products to their customers.

- **Customer-oriented mission statement:** In section 3.4.2.7, the customers' needs, wants and satisfaction must be included in the mission statement of the company. Management should consider the customers' satisfaction as a central point or aspects of the business mission statement to provide suitable products. The majority of the respondents (23.08% + 69.23% = 92.31%) have a customer-oriented mission statement in their company.
- **Customer satisfaction through improvement of products:** As discussed in sections 3.4.1.3.2 and 3.4.1.3.4, many new competitors may enter the market with innovative and technologically improved products in the trade liberalisation process. Competitors may invest heavily in their innovated products and technology when there is a growth market. In the case of automobile manufacturers, new sophisticated technology will be utilised as a key weapon to introduce improved models in the global market. In this competitive position, automobile manufacturers must study carefully whether their customers are satisfied with the improvement of their model or not. A strong positive response was obtained, meaning that the majority of automobile manufacturers (92.31%) responded that their customers are satisfied with the improvement of their products.
- **Staff's committed relationship with customers:** As discussed in section 3.4.2.2.2, in order to fulfil the expectations of the customer in the competitive market, all staff must be motivated properly to create a close relation leading to increased customer satisfaction. For this purpose, all staff that are engaged in different departments such as marketing procurement, technology development, human resource management and production, must have a committed relationship with customers to identify their needs and wants to satisfy them. The results of the empirical study show that most of the respondents (61.54% + 23.08% = 84.62%) stated that their staff have a strong and committed relationship with their customers.
- **Focus on the product according to the segments:** As discussed in section 3.4.1.2.4, automobile manufacturers offer different cars according to the needs of each segment. Automobile manufacturers must be able to satisfy the needs of consumers in each segment of the

market and develop cars according to the segments because global competitors offer cars according to the needs of each segment. A systematical study is essential to identify the needs of each segment in order to focus on the product to satisfy the needs of each segment. From the empirical study it appeared that all the respondents (100%) agree that they focus on the product to satisfy their customers in each market segment.

6.4.3 Stakeholder analysis

A multi-dimensional view was used to examine the capability and strength of automobile manufacturers to overcome the effects of the rapid process of globalisation in this era. Any shortage of this ability will cause a company to lose their position in the globally competitive marketplace. The major objective of this section in the questionnaire was to assess to what extent automobile manufacturers concentrate on relationships and on receiving support from their stakeholders to strengthen their ability and capability to react to global competitors with regard to decision-making and implementing their strategies successfully.

6.4.3.1 Statements regarding the stakeholder analysis

In this section, seven (7) questions were included to examine the ability of automobile manufacturers to have relationships with their stakeholders to receive sufficient support from them in order to formulate effective strategic marketing planning and implement it successfully in the globalised marketplace. The two tables below portray the results of the respondents in percentage as well as the statistical results of this section (see tables 6.5 and 6.6).

Table 6.5: Statements regarding the stakeholder analysis

1 = Strongly disagree; 2 = Disagree; 3 = Agree; 4 = Strongly agree

No	Statements	1	2	3	3
01	We identify the stakeholders of our company.	0%	7.69%	30.77%	61.54%
02	We maintain and develop good relationships with stakeholders.	7.69%	0%	46.15%	46.15%
03	We receive the support of stakeholders to develop a marketing strategy.	7.69%	15.38%	53.85%	23.08%
04	We make efforts to enhance the stakeholders' value.	7.69%	7.69%	38.46%	46.15%
05	We maintain a closer contact and relationship with key stakeholders.	7.69%	15.38%	23.08%	53.85%
06	We do not integrate the stakeholder analysis into our marketing strategy.	15.38%	69.23%	7.69%	7.69%
07	We strongly depend on investment and financial stability through stakeholders' relationships to react to foreign competitors.	16.67%	16.67%	58.33%	8.33%

Table 6.6: Statistical results regarding the stakeholder analysis

Variable	N	Mean	Median	Mini.	Maxi.	Std. dev.	Skewness	Kurtosis
3(01)	13	3.5385	4.0000	2.0000	4.0000	0.6602	-1.1906	0.6453
3(02)	13	3.3077	3.0000	1.0000	4.0000	0.8549	-1.6511	3.7648
3(03)	13	2.9231	3.0000	1.0000	4.0000	0.8623	-0.7580	0.8516
3(04)	13	3.2308	3.0000	1.0000	4.0000	0.9268	-1.2737	1.5243
3(05)	13	3.2308	4.0000	1.0000	4.0000	1.0127	-1.1075	0.2424
3(06)	13	2.0769	2.0000	1.0000	4.0000	0.7596	1.2128	3.1536
3(07)	12	2.5833	3.0000	1.0000	4.0000	0.9003	-0.7453	0.0530

The section of literature where the questions were selected from and brief results of each question in this section are given below.

- **Identification of stakeholders:** As mentioned in section 3.4.2.1.1, identifying the stakeholders is the first step of the stakeholder analysis. Stakeholders are a large number of groups that have different types of interest in a company's activities. Various groups of stakeholders are connected with the performance of the company. Some of them are internally rooted and others are from external sources. All groups have certain kinds of influences on a company. Automobile manufacturers have to identify their potential stakeholders to achieve their objectives. The empirical study showed that the majority of the respondents (30.77% + 61.54% = 92.31%) stated that they identify the stakeholders of their company.
- **Maintain and develop good relationships with stakeholders:** Section 3.4.2.1.2 proposes that management must keep closer and good relationships with not only their immediate stakeholders such as shareholders, managers and shop-floor workers, but also with other external stakeholders of the company. Different groups have different objectives and the company must maintain a strong relationship with all groups to achieve the objective of the company. The statistical results clearly indicate that the majority of automobile manufacturers (92.30%) maintain and develop good relationships with their stakeholders.
- **Support of stakeholders to develop a marketing strategy:** The company's management must act properly to receive the support of various groups of stakeholders to formulate and implement the company's marketing strategy. It is essential for the company to formulate a feasible and

applicable marketing strategy in the competitive market. The validity of a strategic plan always depends on the action and influence of the stakeholders of the company. Management must analyse the interests of the various stakeholder groups so as to receive sufficient support from them by satisfying them (refer to section 3.4.2.1.5). The outcome of the above question is that the majority of respondents ($53.85\% + 23.08\% = 76.93\%$) receive support from their stakeholders to formulate their marketing strategy.

- **Enhancement of stakeholder value:** As expressed in section 3.4.2.1.3 in the context of globalisation, stakeholders have more opportunities to increase a higher value for their shares in different investments with different companies. The company must make efforts to increase the stakeholders' value by means of the efficient operation of the company. A balance must be maintained by management to fulfil the interests of the various groups of stakeholders. There is a great possibility that stakeholders might turn towards other giant global companies to increase their value and fulfil their interests in the globally competitive marketplace. The empirical study indicated that the majority of the respondents ($38.46\% + 46.15\%$) responded that they make efforts to increase stakeholder value.
- **A close contact and relation with key stakeholders:** A company must identify key stakeholders that have more rights, power and influence, which will affect the performance, decision-making process and implementation of the company. Management has to have a closer relationship and regular contact with key stakeholders to receive their support to strengthen the performance of the company (refer to section 3.4.2.1.4). The majority (76.93%) of respondents indicated that they maintain a close relationship and contact with their key stakeholders.
- **Integration of stakeholder analysis into marketing strategy:** A company can obtain benefits on a long-term basis when it includes the stakeholder analysis into the decision-making process. The interest of each group of stakeholders must be considered to make the strategy a success. The stakeholder analysis must be included to test the overall soundness of the strategy. Management could increase their decision-making powers by adding the stakeholder analysis. Management will be able to implement the strategy successfully when they include the stakeholder analysis into the decision-making process through their support (refer to section 3.4.2.1.5). According to the empirical investigation, the majority (84.62%) of the respondents integrates a stakeholder analysis into their decision-making process.

- **Investment and financial stability through stakeholder relationship:** As indicated in section 3.4.2.1.3, strong investment and financial stability by the company depends on the good relationships with stakeholders. In other words, the investment and financial position of the company can be built with good support from various groups of stakeholders. People willingly invest in any company when they can obtain a better return on their investment without any risk. In the context of the globalised market situation, a company must carefully deal with the interests and relationships of stakeholders to maintain their financial position. A company's financial position is essential in order to react to global competitors. The majority of the respondents (58.33% + 8.33%) responded positively to the question. It means the majority of automobile manufacturers strongly depend on investment and financial stability through the stakeholder relationship.

6.4.4 Environmental analysis

The objective of this section in the questionnaire was to examine to what extent the marketing environment affects the performance of automobile manufacturers in South Africa and what capacity they have to analyse the impact of the environmental changes in the globalised marketplace. The environmental analysis is essential in order to identify the opportunities and threats to react to competitors according to the changes occurring in the marketplace. The environmental analysis enables the organisation to formulate and implement its strategic marketing planning in the competitive marketplace.

6.4.4.1 Statement regarding the environmental analysis

The fourth section of the questionnaire with its questions are given below. Table 6.7 represents the statements of the questionnaire, while Table 6.8 expresses the statistical results of the fourth section of the questionnaire below.

Table 6.7: Statements regarding the environmental analysis

1 = Strongly disagree; 2 = Disagree; 3 = Agree; 4 = Strongly agree

No	Statements	1	2	3	4
01	The demographic environmental changes impact negatively on our business.	0%	69.23%	23.08%	7.69%
02	Economic environmental changes impact negatively on our business.	0%	38.46%	38.46%	23.08%
03	Rapid technological environment changes impact negatively on our business and strategy.	7.69%	69.23%	15.38%	7.69%
04	Political environmental changes impact negatively on our business and marketing strategy.	0%	53.85%	46.15%	0%
05	Legal environmental changes impact negatively on our business.	0%	53.85%	38.46%	7.69%
06	Social / cultural environmental changes impact negatively on our business.	0%	61.54%	30.77%	7.69%
07	Scanning and monitoring the current marketing environment is a difficult process in the global marketplace.	7.69%	69.23%	23.08%	0%
08	We do not have skilled and experienced management to scan the environment.	23.08%	61.54%	7.69%	7.69%
09	Forecasting future trends is a difficult process as more global competitors are entering the marketplace.	0%	53.85%	38.46%	7.69%

Table 6.8: Statistical results regarding the environmental analysis

Variable	N	Mean	Median	Mini.	Maxi.	Std. dev.	Skewness	kurtosis
4(01)	13	2.3846	2.0000	2.0000	4.0000	0.6504	1.5755	1.8011
4(02)	13	2.8462	3.0000	2.0000	4.0000	0.8006	0.3066	-1.2820
4(03)	13	2.2308	2.0000	1.0000	4.0000	0.7250	1.1560	2.4694
4(04)	13	2.4615	2.0000	2.0000	3.0000	0.5189	0.1752	-2.3636
4(05)	13	2.5385	2.0000	2.0000	4.0000	0.6602	0.8626	-0.0245
4(06)	13	2.4615	2.0000	2.0000	4.0000	0.6602	1.1906	0.6453
4(07)	13	2.1538	2.0000	1.0000	3.0000	0.5547	0.1434	0.9011
4(08)	13	2.0000	2.0000	1.0000	4.0000	0.8165	1.0856	2.2773
4(09)	13	2.5385	2.0000	2.0000	4.0000	0.6602	0.8626	-0.0245

The findings of the empirical study to each question and the relative literature sources from which the question was selected, are given briefly below.

- **The impact of demographic environmental changes:** According to section 3.4.1.4.3, regular marketing research and an intelligence system are indispensable to marketing management to identify the rapid demographic changes occurring in the environment. The size and structure of the population will decide the size of the market in any place for any product. The age, births,

deaths, location and migration and urbanisation are important factors connected with changes of population in any nation. The rapid globalisation process has a certain level of impact on the urbanisation and labour force through privatisation in many countries, including South Africa. The empirical study reported that the majority (69.23%) of automobile manufacturers is not negatively affected by demographic changes. At the same time, 23.08% +7.69% of the respondents agreed to the question, indicating that they were been negatively affected by the demographic changes.

- **The impact of economic environmental changes:** As discussed in sections 3.4.1.4.4 and 5.3.1.1, the economic environment influences not only market opportunities but also customers' buying decisions in the marketplace. Economic changes in a country will affect the buying power of customers. Economic growth, gross national income, per capita income and disposable income of customers all have a significant impact on marketing activities. Competition structure is another economic factor that has certain influences on the marketing function. Governmental economic policies with regard to the global market tariff reduction via the trade liberalisation policy and balance of payments all impact on economic development. The majority of the respondents (38.46% +23.08% =61.54%) responded positively. This means the majority of automobile manufacturers have experienced a negative impact on their business from the economic environmental changes in the globally competitive marketplace.
- **The impact of technological environmental changes:** As emphasised in section 3.4.1.4.6, in this era, technological developments have a significant influence on any company in the context of globalisation. Rapid technological changes affect existing products and market opportunities. Technology brings new products and innovations, sophisticated services, reducing the cost of production. New methods of distribution also affect day to day market activities. TNCs spend large amounts of money to bring new products through R & D to the global market. From the empirical investigation it appears that the majority (7.69%+ 69.23%) of automobile manufacturers are not affected by new technological changes. Rapid changes in the technological environment do not impact negatively on the business and strategy of automobile manufacturers in South Africa.
- **The impact of political environmental changes:** As identified in sections 3.4.1.4.5 and 5.3.1.4, the nature and structure of the government and its policies will affect the marketing activities of

a company. The national government is the major role player and makes decisions regarding the economy, import and export, fiscal policy, money supply and legislation according to its national and international policy. These political environmental changes will have a significant impact on marketing activities at the domestic and global level. The results from the empirical study are that the majority of the respondents (53.85%) do not experience a negative impact from the political environmental changes. At the same time, 46.15% of the total respondents indicated that they experience a negative impact from the political environmental changes.

- **The impact of legal environmental changes:** As discussed in sections 3.4.1.4.5 and 5.3.1.3, the government and regulatory agencies of the country may set various laws and regulations according to national policy in order to protect customers, control competition, for economic development and to protect other groups in the country. The legal systems of the home country, the law and order of the host country and international law will all impact on the performance of a company. Changes of legal environment may bring new opportunities and threats for companies in the global marketplace. The results of the answers to this question are that the majority of automobile (53.85%) responded that legal environmental changes do not impact negatively on their businesses. At the same time, 46.15% of the automobile manufacturers agreed that they experienced a negative impact on their businesses.
- **The impact of social and cultural environmental changes:** Sections 3.4.1.4.2 and 5.3.1.2 discuss the fact that it is difficult for marketing managers to forecast social and cultural changes that indirectly or directly affect the marketing plan and activities of a company. Social and cultural trends and changes affect the buying behaviour of the different groups of people. The social and cultural formulation of different regions and countries differ. Managers must consider the cultural aspects when introducing innovated products in a particular market, especially in the globalised marketplace. The findings indicated that the majority (61.54%) of the respondents does not experience a negative impact from social and cultural changes on their businesses, while 38.46% experience a negative impact.
- **Scanning and monitoring current environments:** According to the section 5.3, scanning and monitoring the global marketing environment is not such an easy task as scanning the domestic marketing environment. It comprises a difficult and complicated process of marketing management in order to make suitable decision to achieve their objectives in the competitive

marketplace. The majority of the respondents (76.92%) said that scanning and monitoring the current marketing environment is a not difficult process in the global marketplace.

- **Skilled and experienced management:** As expressed in section 3.4.1.4.1, sufficient information must be collected about the marketing environment in order to identify the opportunities and threats to formulate effective marketing strategies. For this purpose, each company should have a skilled and experienced management team to scan and analyse the environment. The majority of the respondents (84.62%) have skilled and experienced management to scan and analyse the market environment in the globally competitive marketplace.
- **Forecasting future trends of marketing:** As mentioned in section 3.4.1.3.1, management has to predict future changes and trends in the marketing environment to enable it to establish the opportunities and threats that are connected with environmental fluctuations. Management has to forecast future sales, because it cannot wait until these changes in the marketing environment occur. The future forecast will enable management to develop effective marketing strategies for the future to achieve the major objectives of the company. The results indicate that the majority of the respondents (53.85%) said that forecasting future trends of market is not a difficult process in the globalised marketplace. At the same time, 46.15% of the total respondents indicated that it is difficult to forecast future trends in the market.

6.4.5 Internal analysis

The internal analysis is indispensable for any organisation to assess its strength and capability to compare with those of their competitors. Management must engage in an internal analysis after completing the competitor, customer, environmental and stakeholder analysis. The major purpose of this section is to examine the internal strengths and resources of the automobile manufacturer that have to compete with global competitors to meet the challenges in the global market.

6.4.5.1 Statement regarding the internal analysis

In this fifth section of the questionnaire, a total of 13 questions were incorporated to assess the strengths and capacities of automobile manufacturers, as given in Table 6.9, with the statistical results of this section given in Table 6.10.

Table 6.9: Statements regarding the internal analysis

1 = Strongly disagree; 2 = Disagree; 3 = Agree; 4 = Strongly agree

No	Statements	1	2	3	4
01	We have sufficient strength to react to local competitors.	0%	7.69%	61.54%	30.77%
02	We have sufficient strength to react to global competitors.	0%	23.08%	53.85%	23.08%
03	We have proper resource allocation for each department to achieve the major objectives.	7.69%	15.38%	61.54%	15.38%
04	We have managerial skills to defend and react to competitors in the global marketplace.	0%	15.38%	53.85%	30.77%
05	Our management has both multicultural and international experience to increase our market share and profitability.	0%	15.38%	53.85%	30.77%
06	Our management system will be able to cope with the new global marketing environment.	0%	15.38%	61.54%	23.08%
07	Our management has the capability to assess international marketing activities and globally competitive behaviour.	0%	0%	84.62%	15.38%
08	We have a well-developed organisational structure to compete with and implement our marketing strategy in the global marketplace.	0%	7.69%	69.23%	23.08%
09	We compare our corporate strategy with competitors' global strategy.	0%	23.08%	61.54%	15.38%
10	We have skilled labour in accordance with international standards.	7.69%	30.77%	53.85%	7.69%
11	We have developed and we maintain education and training programmes to build efficiency of workers to offer the best products and services to our customers.	0%	15.38%	53.85%	30.77%
12	Our management has the capability to formulate new strategy in accordance with the global environment.	0%	7.69%	69.23%	23.08%
13	We assess the performance of the marketing department on a regular basis.	0%	15.38%	46.15%	38.46%

Table 6.10: Statistical results regarding the internal analysis

Variable	N	Mean	Median	Mini.	Maxi.	Std. dev.	Skewness	Kurtosis
5(01)	13	3.2308	3.0000	2.0000	4.0000	0.5991	-0.0650	0.0506
5(02)	13	3.0000	3.0000	2.0000	4.0000	0.7071	0.0000	-0.6182
5(03)	13	2.8462	3.0000	1.0000	4.0000	0.8000	-0.8448	1.5055
5(04)	13	3.1538	3.0000	2.0000	4.0000	0.6887	-0.2033	-0.4962
5(05)	13	3.1538	3.0000	2.0000	4.0000	0.6887	-0.2033	-0.4962
5(06)	13	3.0769	3.0000	2.0000	4.0000	0.6405	-0.0532	0.0609
5(07)	13	3.1538	3.0000	3.0000	4.0000	0.3755	2.1787	3.2231
5(08)	13	3.1538	3.0000	2.0000	4.0000	0.5547	0.1434	0.9011
5(09)	13	2.9231	3.0000	2.0000	4.0000	0.6405	0.0532	0.0609
5(10)	13	2.6154	3.0000	1.0000	4.0000	0.7679	-0.4555	0.5174
5(11)	13	3.1538	3.0000	2.0000	4.0000	0.6887	-0.2033	-0.4962
5(12)	13	3.1538	3.0000	2.0000	4.0000	0.5547	0.1434	0.9011
5(13)	13	3.2308	3.0000	2.0000	4.0000	0.7250	-0.3945	-0.7551

The literature sections with regard to each question in this section and the results of the empirical results of each question are given briefly below.

- **Sufficient strength to react to local competitors:** A performance examination will indicate the strength of the organisation (refer to section 3.4.2.2). Collective culture, customer satisfaction, customer relationship, employee capacity, proper resource allocation to each department, successful brand, quality, innovation, sales volume, market share and financial strength are the important aspects of the strength of the organisation. The strength of the organisation is essential to react to competitors in the competitive market. The empirical results indicate that 92.31% of the total respondents, meaning the majority of automobile manufacturers in South Africa, have sufficient strength to react to local competitors.
- **Sufficient strength to react to global competitors:** The strengths and weaknesses of the company can be identified through the internal analysis. Corporate policy, corporate strategy, the management system and operation (various departments) will be included as important factors in the international analysis. This analysis will help a company to identify its strengths and weaknesses to assess whether it has sufficient strength to compete with global competitors or not (refer to section 5.3.3). According to the empirical study, the majority of the respondents (53.85%+23.08%) have sufficient strength to react to global competitors. However, 23.08% of the respondents stated that they do not have sufficient strength to react to global competitors.
- **Resource allocation to all departments:** As expressed in sections 3.6, 3.4.2.5 and 3.4.2.6, a company must have sufficient capability to allocate its resources to each department not only to introduce new products and innovations, but also to all existing products in its life cycle to achieve the objective. Sufficient resource allocation is essential to achieve a company's major objective in the global marketplace. The majority (76.92%) of the respondents stated that they have sufficient resource allocation to all departments to achieve their objectives.
- **Managerial skills to react to competitors:** According to section 2.5, skilful managerial staff is one of the important aspects of a company that has to compete in the global market. In the context of modern globalisation, each automobile manufacturer must have managerial staff to formulate different strategies and maximise the utilisation of the available resources to face the challenges in the competitive market. According to the Automotive Industry Development

Centre (Pty.) Ltd., there is a lack of technical skills, lack of training for engineers and inadequate improvement of management skills among automobile manufacturers in South Africa. The empirical results indicate that the majority (84.62%) of the respondents indicated that they have managerial skills in their company to defend and react to competitors in the global marketplace.

- **Multicultural and internationally experienced management:** It is reflected in section 5.4.4 that automobile manufacturers should have multicultural and internationally experienced managers to formulate suitable marketing strategies to enter regional and international markets to increase the sales and profits of the company. Management should possess experience in the global marketing environment to identify new markets, suitable segments and latent demands for their vehicles in the liberalised market conditions. From the empirical results it appears that the majority of automobile manufacturers (84.62%) have multicultural and internationally experienced management to increase their market share.
- **Management system to cope with the global marketing environment:** As discussed in section 3.5.4, an efficient management system is one of the important aspects in any company to co-ordinate its activities to cope with the new global marketing environment in order to overcome the issues in the global marketplace. The company should have a well-organised management system to communicate among executives and reduce conflict between individuals. The management system has to systematically think ahead for more effective allocation of its corporate resources according to market opportunities as well as a system of continuous review of operations in order to obtain benefits for the organisation over the long term. The empirical results show that the majority of the respondents (61.54% + 23.08% = 84.62%) specified that they have a good management system to cope with the new global marketing environment.
- **Capability to assess international marketing activities and competitive behaviours:** As discussed in section 4.7.2, South African companies were isolated from the rest of the world during the period of sanctions, but that the country has now entered the globalisation process. The urgent need has arisen to restructure their companies to cope with global competition. Management must have sufficient capabilities to assess global marketing and competitive behaviour. The results to the question express that all automobile manufacturers (100 %) have sufficient capabilities to assess the international marketing activities and competitive behaviour.

- **Organisational structure:** As acknowledged in section 3.5.1 and 5.8, a well-developed organisational structure is an essential aspect to formulate a strategy and implement this strategy effectively and efficiently. Management must rethink the structure of the organisation to operate and implement the strategy according to the environmental changes in the context of globalisation. The results of the empirical study are that the majority (69.23%+23.08%) of organisations have well-developed organisational structures to compete and implement their marketing strategies.
- **Comparison of corporate strategy with competitors' global strategy:** As emphasised in section 5.3, management must compare its corporate strategy with its global competitors' strategy in order to cope with the new environmental changes to meet the challenges brought by the globalisation process. A comparison with competitors enables management to identify the capabilities and strengths of their resources to meet the complicated challenges in the global marketplace. Strategic competence is important to react to global competitors in the domestic and global market. The majority of the respondents (76.92%) indicated that they compare their corporate strategy with their global competitors' strategy.
- **Skilled labour:** As indicated in sections 4.4.6, 2.5 and 2.4, automobile manufacturer must have a skilled labour force in accordance with international standard to offer quality products at lower prices. A skilled labour force is essential for new methods of production to increase quality and reduce the cost of production. It is argued that developing countries do not have the skilled labour force to compete with large TNCs. Successful and skilful human resources are imperative for automobile manufacturer to have successful production in the globalised marketplace. As noted from the empirical study, the majority of the respondents reacted positively to the question, meaning that the majority (61.54%) of them have a skilled labour force in accordance with international standards. The interesting thing is that another 38.46% of the respondents indicated that they do not have a skilled labour force in accordance with international standards.
- **Education and training programme to build efficiency of workers:** As identified in sections 2.5, 4.7.2 and 2.4, well-developed education and training programmes are important to build the efficiencies of the workers continuously in order for automobile manufacturers to compete in the global market. Education, training and work are some of the important production aspects in

post-Fordism. There is a need to have a highly skilled workforce to implement a flexible and innovative method of production. The empirical study indicated that the majority of the respondents (84.62%) have well-developed education and training programmes in place.

- **Capability to formulate new strategies according to the global environment:** The research indicated in section 5.6 that in the context of rapid globalisation, organisations must have the capability to adapt to and formulate new strategies to react to the global market. Management has to create different types of marketing strategies according to the environmental changes. Management must identify many options to face the stiff foreign companies in the domestic and regional marketplace. Management has to think quickly to react to the competitive marketplace before they lose their market share. Some 84.62% of the respondents indicated that they have the necessary managerial capability to formulate new strategies according to the globalised market environment and to cope with competitors.
- **Regular assessment of the marketing department:** The performance assessment of the marketing department (refer to sections 3.8 and 5.9) is important to evaluate the strengths and weaknesses of a company compared with that of its competitors. It is an essential part of the internal analysis and enables management to assess its position in the competitive marketplace. The performance analysis method enables management to formulate and adapt to strategies in order to react to global competitors in the domestic and global marketplace. A total of 84.61% of respondents indicated that they assess the performance of the marketing department regularly.

6.4.6 Production method

A total of 18 questions were incorporated in this section to assess the nature, innovation, quality and new methods of production of automobile manufacturers to compare the level of global competitors. New technology plays a vital role in the production method, changing the market and competitive conditions from day to day. The production method of automobile manufacturers is essential to compete in the trade-liberalised marketplace with giant global companies that are entering the domestic and regional market with their technologically advanced products. It enables the researcher to obtain an insight into whether South African automobile manufacturers have sufficient abilities to overcome the new challenges and threats brought by global competitors.

6.4.6.1 Statement regarding the production method

The statements of the sixth section in the questionnaire and its percentage of the responses are given in Table 6.11, while the statistical results are given in Table 6.12 below.

Table 6.11: Statements regarding production method

1 = Strongly disagree; 2 = Disagree; 3 = Agree; 4 = Strongly agree

No	Statements	1	2	3	4
01	A flexible production method is not applied throughout our production process.	30.77%	46.15%	23.08%	0%
02	The Just-in-time production and supply system is not applied properly.	53.85%	23.08%	15.38%	7.69%
03	We do not concentrate on frequent model changes.	7.69%	46.15%	46.15%	0%
04	We are unable to create innovation to our product at the level of our global competitors.	15.38%	61.54%	23.08%	0%
05	Our research and development are not sufficient to bring new and innovated products to the market to attract customers from our competitors.	38.46%	53.85%	7.69%	0%
06	We do not use light-weight material in our products.	33.33%	58.33%	8.33%	0%
07	We are unable to obtain high-quality local components of an international standard.	38.46%	46.15%	15.38%	0%
08	The quality of local components impacts negatively on the quality of our product.	0%	25.00%	33.33%	41.67%
09	We allocate less time and energy to our quality control system than our competitors do.	61.54%	38.46%	0%	0%
10	All departments are not involved in our total quality management system.	23.08%	46.15%	15.38%	15.38%
11	We have to improve automation in our production process to face global challenges.	15.38%	23.08%	61.54%	0%
12	We apply the Focused Factory (FF) concept to add more value for our customers.	0%	25.00%	62.50%	12.50%
13	We have to invest further to introduce computerised and advanced manufacturing technology.	0%	30.77%	69.23%	0%
14	We have to make efforts to increase our production volume to reach economies of scale to compete in the global marketplace.	0%	7.69%	69.23%	23.08%
15	We have to make efforts to reduce the cost of production to increase our competitive advantages.	0%	7.69%	46.15%	46.15%
16	We are in need of enhancing teamwork in our production process.	7.69%	23.08%	61.54%	7.69%
17	Our performance and volume of production are not sufficient to attract further investment.	7.69%	69.23%	23.08%	0%
18	We have good relationships with local component manufacturers.	7.69%	46.15%	46.15%	0%

Table 6.12: Statistical results regarding production method

Variable	N	Mean	Median	Mini.	Maxi.	Std. dev.	Skewness	Kurtosis
6(01)	13	1.9231	2.0000	1.0000	3.0000	0.7596	0.1356	-1.0526
6(02)	13	1.7692	1.0000	1.0000	4.0000	1.0127	1.1075	0.2424
6(03)	13	2.3846	2.0000	1.0000	3.0000	0.6504	-0.5718	-0.3321
6(04)	13	2.0769	2.0000	1.0000	3.0000	0.6405	-0.0532	0.0609
6(05)	13	1.6923	2.0000	1.0000	3.0000	0.6304	0.3070	-0.3173
6(06)	12	1.7500	2.0000	1.0000	3.0000	0.6216	0.1703	-0.0913
6(07)	13	1.7692	2.0000	1.0000	3.0000	0.7250	0.3945	-0.7551
6(08)	12	3.1667	3.0000	2.0000	4.0000	0.8348	-0.3541	-1.4473
6(09)	13	1.3846	1.0000	1.0000	2.0000	0.5064	0.5386	-2.0564
6(10)	13	2.2308	2.0000	1.0000	4.0000	1.0127	0.5992	-0.3625
6(11)	13	2.4615	3.0000	1.0000	3.0000	0.7763	-1.1138	-0.1547
6(12)	8	2.8750	3.0000	2.0000	4.0000	0.6409	0.0678	0.7410
6(13)	13	2.6923	3.0000	2.0000	3.0000	0.4804	-0.9462	-1.3394
6(14)	13	3.1538	3.0000	2.0000	4.0000	0.5547	0.1434	0.9011
6(15)	13	3.3846	3.0000	2.0000	4.0000	0.6504	-0.5718	-0.3321
6(16)	13	2.6923	3.0000	1.0000	4.0000	0.7511	-0.7840	1.2233
6(17)	13	2.1538	2.0000	1.0000	3.0000	0.5547	0.1434	0.9011
6(18)	13	3.3846	3.0000	2.0000	4.0000	0.6504	-0.5718	-0.3321

The literatural section of each question and the results and findings of the empirical study are given below.

- Flexible production method:** This production method, as defined in sections 4.7.2 and 2.4, in the modern electronic technological world, play an important role in production to reduce the cost and improve the quality of production. According to the literature study, there is an argument that South African automobile manufacturers have not yet adopted the practice of lean production properly. They show a poor level of practising this method. The empirical study indicates that the majority of respondents (76.92%) apply the flexible production method. At the same time, another group of respondents (23.08%) indicated that they do not apply the flexible method of production throughout their production process.
- The just-in-time production and supply system:** The just-in-time production and supply system as discussed in sections 2.4 and 4.4.7.3 enable the organisation to reduce the cost of

production to offer lower-priced products to the globally competitive market. A reduction in production area, storage space and inventory are the major facet of this system. There is a similar argument that South African automobile manufacturers are not implementing this practice properly even though they have made a number of attempts to introduce the practice. The empirical results show that the majority (76.93%) of automobile manufacturers apply the just-in-time method in their production and supply system. Ironically, 23.07% of respondents are not applying this method in their production and supply system.

- **Concentration on frequent model changes:** Sections 2.7.9 and 4.4.7.3.1 discuss the fact that a large number of new cars are coming to the South African domestic market through the tariff reduction and trade liberalisation policies in the form of importation. Many South African manufacturers and dealers are still importing new model cars from overseas. New car imports have continuously increased over recent years, bringing different models of cars. This increased import has affected domestically produced car sales. Advanced technology enables automobile manufacturers to change their models frequently to differentiate their products to capture the world market. Some 53.84% of the respondents indicated that they concentrate on frequent model changes. At the same time, 46.15% of the respondents do not concentrate on frequent model changing.
- **Innovation of product:** As indicated in sections 4.6.1 and 2.4, various types of innovative and differentiated products play a vital role in the global marketplace to capture and increase the market share. Many giant companies are spending large amounts of money and investment to innovate their products to meet the global demand in many developing countries. Product innovation is the most important aspect in the context of globalisation. The findings show that the majority of automobile manufacturers (76.92%) are able to create innovation in their products at the level of their global competitors. Some of the respondents (23.08%) are unable to create innovation in their products at the level of global competitors.
- **Research and development capacity:** As indicated in section 2.4.4, many global companies invest great amounts of money in research and development (R & D) to introduce new products to the world. R & D is a significant aspect in the modern world for automobile manufacturers to survive in the global market. Automobile manufacturers in South Africa have a number of weaknesses with regard to technological capacity. The industry is spending less money on R &

D, especially when compared with East Asian new entrants. According to the investigation results, the majority of respondents (92.31%) have sufficient research and development to bring new and innovated products to the market to attract customers from their competitors.

- **Light-weight material in products:** As expressed in section 4.7.2, global automobile manufacturers use not only sophisticated technology but even concentrate on the material being used in their production. The nature of the material is essential in order to enable manufacturers to reduce cost, increase fuel efficiency, quality and durability. Most manufacturers use low-weight material such as plastic, aluminum and stainless steel. The results shows that the majority (91.66%) of automobile manufacturers do use light-weighted materials in their production.
- **High-quality local components:** It is reflected in sections 2.6.1 and 2.7.8.1-that motor vehicle components play an important role in the quality of the particular vehicle. Components have a significant effect on automobile manufacturers with regard to the cost, quality and performance of motor vehicles. Automobile manufacturers should use high-quality components in their motor vehicles to ensure quality vehicles. It is argued that the quality of South African components is not equal to that of other developed countries like Europe, Japan and the USA. Production in South Africa is often classified as of a lower quality. The empirical results highlight that the majority of respondents (84.62%) is able to obtain high-quality local components of an international standard.
- **Impact of local components on the quality of production:** As mentioned in section 2.6.1, automobile manufacturers in South Africa are reluctant to use locally produced components due to the low quality of those components. Previous (refer section 2.6.1) research highlights that component manufacturers have to improve their quality of production. In today's liberalised market, global component manufacturers have eroded the market share of component manufacturers due to the quality of their products. Most of the respondents (75%) indicated that the quality of local components impact negatively on the quality of production. Some 25% of the respondents indicated, however, that the quality of components does not impact negatively on their production.
- **Quality control system:** From sections 2.7.9 and 4.5.5 it is evident that the quality of motor vehicles is one the important aspects in the competitive marketplace. Most global companies

allocate large amounts of money to their technology to bring high-quality products through their well-developed quality control system to the market. They also pay more attention to increase the quality of their products. However, in South Africa, product quality and customer service have naturally suffered because managers do not pay sufficient attention to their quality control system. In total, 100% of the respondents, i.e. all automobile manufacturers, responded that they allocate sufficient time and energy to increase the quality of their products.

- **Total quality management system:** Section 4.4.7.3.2 focused on why total quality management is important to increase the quality of products. Toyota introduced the total quality management (TQM) system in their lean production method to provide innovative products and services to satisfy their customers. According to this system, all workers and managers in all departments must be involved in implementing the principle and concept of TQM. This system enables manufacturers to provide quality products but also product design, innovation, distribution and service. The majority of the respondents (69.23%) indicated that all departments are involved in the total quality management system of their company. At the same time, 30.76% of the respondents indicated that all departments are not involved in TQM.
- **Improvement of automation in production:** It is evident from sections 4.7 and 2.4 that with regard to method, a high level of automation is one of the significant conditions to obtain high productivity performance. A high level of automation is essential to increase the volume of products and to reach economies of scale in production, leading to a reduction in the cost of production. Previous researchers on the automobile sector clearly highlight that applying automation is not sufficient for the production methods in the South African automobile manufacturing sector. The empirical results indicated that the majority of the respondents (61.54%) agreed that they have to improve their automation further in their production process to face global challenges, i.e. that they do not have sufficient automation in their production method.
- **Focused factory concept:** As identified in section 4.4.7.3.1, manufacturing strategy and implementation are imperative to reduce cost, improve quality and implement flexible production in the automobile manufacturing process. A focused factory system involves organising the factory to implement lean production. This system enables producers to differentiate their product from that of their competitors, modification of product through

flexibility, reduce manufacturing cost, create a time line, and increase quality of production. The results show that 75% of the respondents stated that they apply the focused factory system in production.

- **Investment in computerized and advanced technology:** According to section 4.4.7.3.3, computerised, advanced and robotic technology systems are applied by most automobile manufacturers with huge amounts of investment in developed and some developing countries to introduce new high-quality models to the global market. The majority of the respondents (69.23%) indicated that they have to invest further to introduce computerised and advanced manufacturing technology in their companies. They do not have sufficient investment to introduce computerised and advanced technology in their companies.
- **Economies of scale in production:** Section 2.4.3 discusses the fact that economies of scale play an important role in the reduction of unit production cost in a manufacturing business. Economies of scale will enable the company to utilise its resources maximally. It means a maximum use of plant, equipment, labour and other resources, resulting in a reduction of unit production cost and an increase in the efficiency of the company to provide lower-priced products to customers compared with their global competitors. However, automobile manufacturers in South Africa have not reached economies of scale in their production for decades. From the empirical study, 92.31% of the total respondents indicated that they have to make efforts to increase their production volume in order to reach economies of scale.
- **Cost of production:** As discussed in sections 4.4.7.2, 3.4.1.3.5 and 2.4, the cost of production is a significant factor in any production method. In today's competitive world, price is an important weapon to compete with global competitors. Many automobile manufacturers are using lean and JIT production methods in order to reduce the cost of production with an improvement of quality. South African automobile manufacturers have failed to produce low-cost products to increase sales amongst global competitors. The empirical study results show that 92.3% of the total respondents accepted that they have to make efforts to reduce the cost of production to increase their competitive advantage.
- **Teamwork in production:** Automobile manufacturers in various countries apply the lean production method in order to produce the highest quality products at the lowest cost in time.

Teamwork is essential in any manufacturing division to compete with global companies. Teamwork helps the company to focus on product value that meets the needs of customers. Most automobile manufacturers focus on teamwork in order to improve the quality and value of their products (refer to sections 4.4.7.3 and 2.4). The results indicate that the majority (69.23%) of automobile manufacturers are in need of increasing teamwork in their production methods.

- **Production volume and attraction of investments:** As identified in sections 2.4.7 and 4.7.2, heavy capital investment is the backbone of the automobile industry in any country. The automobile industry has become a capital-intensive industry all over the world today. Performance and production volume is the important tool to attract foreign investment in the automobile manufacturing sectors. In South Africa, total investment has increased over the last few years, although the performance (market share, profits and exports) and production volume did not increase to the level of the increase of investment. However, the investment level of the South African automobile manufacturing industry is not sufficient to develop and upgrade new capacity. Investment is very small in the South African automobile industry compared with other developing countries like as India and Brazil. In total (76.92%) of the respondents stated that they have adequate performance and volume of products to attract investment in their companies. At the same time, 23.08% of the respondents felt that their production volume was not sufficient to attract further investment.
- **Relationship with local component manufacturers:** As documented in section 2.6.2, a good relationships and co-ordination between assemblers and components manufacturers must be maintained in order to keep up the quality of production and reduce the cost of production. Systematic co-operation leads to an increase in R & D capacity, upgraded technology, product improvement and advancement. However, such relationships and co-operation are not maintained between assemblers and components manufacturers in South Africa. According to the empirical results, most of respondents (92,30%) have good relationships with their component manufacturers in South Africa, while 7.69% do not have such relationships and co-operation.

6.4.7: Trade liberalisation policies and its influence

The trade liberalisation policy has been playing a vital role in the economic and commercial sector in South Africa for over decade. This section concentrates on the influences and trends of trade liberalisation on the overall performance of automobile manufacturers in South Africa through the rapid process of globalisation. An important inference may be drawn from the observations in this section.

6.4.7.1 Statement regarding trade liberalisation policies and its influence

Each question is incorporated in this section and its response in percentage given in Table 6.13, while Table 6.14 represents the statistical results of each question.

Table 6.13: Statements regarding trade liberalisation policy

1 =strongly disagree; 2 = Disagree; 3 = Agree; 4 = Strongly agree

No	Statements	1	2	3	4
01	Tariff reduction impacts negatively on the output of our company.	7.69%	53.85%	38.46%	0%
02	Tariff reduction has increased the importation of products in the local market.	0%	7.69%	53.85%	38.46%
03	Importation has reduced the profit margin of our business.	15.38%	30.77%	46.15%	7.69%
04	Vehicle prices have declined because of the trade liberalisation policy.	23.08%	46.15%	30.77%	0%
05	Small and low-priced vehicles are being introduced in the local market by our competitors.	0%	53.85%	46.15%	0%
06	A number of differentiated products are coming to the local market.	0%	0%	76.92%	23.08%
07	Our domestic sales have declined in the past years due to importation.	23.08%	30.77%	46.15%	0%
08	Importation hinders the increase of our market share in the local market.	23.08%	30.77%	46.15%	0%
09	The free trade policy impacts negatively on our competitive advantages in local and regional markets.	16.67%	41.67%	41.67%	0%

Table 6.14: Statistical results regarding trade liberalisation policy

Variable	N	Mean	Median	Mini.	Maxi.	Std. dev.	Skewness	Kurtosis
7(01)	13	2.3077	2.0000	1.0000	3.0000	0.6304	-0.3070	-0.3173
7(02)	13	3.3077	3.0000	2.0000	4.0000	0.6304	-0.3070	-0.3173
7(03)	13	2.4615	3.0000	1.0000	4.0000	0.8771	-0.3006	-0.3356
7(04)	13	2.0769	2.0000	1.0000	3.0000	0.7596	-0.1356	-1.0526
7(05)	13	2.4615	2.0000	2.0000	3.0000	0.5186	0.1752	-2.3636
7(06)	13	3.2308	3.0000	3.0000	4.0000	0.4385	1.4511	0.0945
7(07)	13	2.2308	2.0000	1.0000	3.0000	0.8321	-0.4977	-1.3394
7(08)	13	2.2308	2.0000	1.0000	3.0000	0.8321	-0.4977	-1.3394
7(09)	12	2.2500	2.0000	1.0000	3.0000	0.7538	-0.4776	-0.8683

The literature reference to each question of this section is given briefly to understand why this question was incorporated in this section. The results of the empirical study to each question are then given below.

- Impact of tariff reduction on output of automobile manufacturers:** As discussed in section 4.7, the tariff reduction policy was introduced in 1995 for both built-up vehicles and other vehicles through the implementation of the Motor Industry Development Programme (MIDP) in September 1995. This tariff reduction programme of the Government has increased the lower-priced vehicles and components in the form of importation from various countries over recent years. The tariff reduction policy has significantly impacted on the output of automobile manufacturers in South Africa. The empirical results show that tariff reduction does not impact negatively on the output of companies (61.54%). However, a significant number of respondents (38.46%) indicated that tariff reduction impacted negatively on the output of their companies.
- Increased import through tariff reduction:** According to sections 4.5.5 and 2.7.10, tariff reduction is the starting point of the trade liberalisation policy. Tariff reduction under the globalisation policy has increased imports tremendously in the domestic market. Automobile manufacturers in South Africa experienced tariff reduction through the introduction of the MIDP. Imports of motor vehicles increased multiply after the introduction of the MIDP in 1995. The tariff reduction and liberalisation policy has had a direct adverse effect on the domestic market share of automobile manufacturers in South Africa in recent years, however. The results

of the responses clearly highlight that most automobile manufacturers (92.31%) agree that the tariff reduction has increased imports of vehicle in the local market.

- **Impact of importation on automobile manufacturers' profits:** The importation of vehicles has increased much more than before the introduction of the MIDP in 1995. The increased importation of vehicles brought greater pressures on automobile manufacturers in South Africa as well as a higher price competition, causing sales to decrease. All these trends lead to automobile manufacturers losing their profit margin rapidly in recent years (refer to sections 2.7.11 and 2.4.5). According to the empirical results, most of the respondents (53.84%) stated that importation has reduced their profit margin. Another 46.15% of them indicated that importation has not reduced their profit margin.
- **Price decline of vehicles:** According to section 2.7.11, the liberalisation policy has brought about a price competition, lower-priced entry level cars and a number of new competitors to the South African market. Almost all manufacturers in South Africa are struggling to survive in the price war market after the trade liberalisation policy was introduced in the country. Profit levels of automobile manufacturers have declined due to prices in the highly competitive marketplace. The majority of the respondents (69.23%) indicated that prices have not declined due to the trade liberalisation policy in their domestic market.
- **Small and lower-priced vehicles in the local market:** As reflected in section 2.7.6, after trade liberalisation, a number of manufacturers and importers started to compete in the South African domestic market for a small size of the market. A large number of small and low-priced motor vehicles are imported from various countries, comprising a large portion of the domestic market share. Nowadays, customers mostly prefer to purchase small and low-priced cars in the domestic market. The imports of these small and low-priced cars will make it more difficult for automobile manufacturers in South Africa to transfer the increased cost to the customer in the form of price in the future. The empirical study show that the majority (53.85%) of respondents indicated that small and low-priced vehicles are not being introduced in the domestic market by their competitors. On the other hand, 46.15% of the automobile manufacturers indicated that small and low-priced vehicles are being introduced by their competitors in the domestic market.

- **A number of differentiated products in the local market:** A number of new models and differentiated products are coming to the South African market after the tariff reduction through the introduction of the MIDP. The market share of imported vehicles has been increasing over the last few years. A large number of importers are engaged in the importation of various differentiated vehicles to the local market. Differentiated products create greater pressure on local automobile manufacturers and force them to find new markets at regional and global levels, as they are losing the local market (refer to section 2.7.9). In total, 100% of the respondents agreed that a large number of differentiated products are coming to the local market through trade liberalisation and tariff reduction.
- **Domestic sales decline due to importation:** Motor car sales have declined tremendously in the domestic market over the last decades, especially since 1997. Imported vehicles of all kinds constitute a significant percentage of the domestic market. The sale of domestically produced products has been lost to imported vehicles. There has been a fluctuation in car sales in the South African market over the years, while after 1997 there has been a significant decline in car sales in the domestic market (refer to section 2.7.3). The empirical findings highlight that the majority of the respondents stated that their domestic sales have not declined in the past years due to the importation of vehicles (53.85%). However, another significant percentage of respondents (46.15%) indicated that their domestic sales have declined due to importation over the past years.
- **Importation hinders the increase of local manufacturers' market share:** As mentioned in section 2.7.6, all automobile manufacturers are unable to increase their market share in the domestic market due to increased imported vehicles in the domestic market. Imported vehicles have eroded the market share of local manufacturers over the last few years. Executive automobile manufacturers in South Africa have realised that it is difficult to increase the market share of their products in the domestic market due to continued importation. The majority of the respondents (53.85%) indicated that importation does not hinder the increase of their market share in the local market. At the same time, a significant percentage of respondents (46.15%) agreed that importation hinders the increase of their market share in the local market.
- **Competitive advantage affects the local and regional market:** According to sections 2.7.1 and 4.6.2, the free trade policy has a significant impact on not only the local market, but also the

regional markets of automobile manufactures in South Africa. The free trade policy permits a number of automobile manufacturers to enter developing countries without any hindrance. The regional markets of South Africa have also been fragmented by the entry of global competitors. This free entrance has had a severe impact on the competitive advantages of South African automobile manufacturers in the past years. Many transnational automobile manufacturers are operating in African countries like Botswana, Nigeria, Kenya and Zimbabwe. The majority of the respondent (58.33%) indicated that the free trade policy does not impact negatively on their local and regional market. At the same time, 41.67% indicated that the free trade policy impacts negatively on local and regional markets.

6.4.8 Global marketing trends and its influence

Many day to day changes are taking place in the global marketing environment. Any changes in any part of the world will affect other parts of the globe due to the rapid globalisation process. A number of changes are taking place in the operation of the automobile manufacturing sectors and its market in the world. These changes will have a significant impact on the performance of automobile manufacturers in South Africa, as the country has now entered the globalisation process. The major objective of this section is to assess the impact and influence of the current global marketing trends on the performance of automobile manufacturers in South Africa.

6.4.8.1 Statement regarding global marketing trends and its influence

Statements in the eighth section of the questionnaire and its response percentage to each question is given in the Table 6.15. The statistical results of the empirical study to each question is given in the next table, Table 6.16.

Table 6.15: Statements regarding global marketing trends and its influence

No	Statements	1	2	3	4
01	Over-capacity of vehicle production in the world will affect our production volume and marketing activities in future.	0%	7.69%	69.23%	23.08%
02	Over-capacity affects our competitive position in the global marketplace.	0%	15.38%	61.54%	23.08%
03	Cheaper products affect our regional market.	7.69%	15.38%	46.15%	30.77%
04	Cheaper labour in other developing countries will impact negatively on the pricing strategy of our product.	0%	46.15%	46.15%	7.69%
05	Mergers and acquisitions among global companies create new competition for our business.	0%	23.08%	76.92%	0%
06	We have to consider reducing the number of models due to over-capacity and competition.	15.38%	46.15%	30.77%	7.69%
07	Our contribution to world production has declined due to over-capacity of production.	23.08%	53.85%	15.38%	7.69%
08	We are facing difficulties in transferring new technology from advanced countries.	23.08%	61.54%	15.38%	0%
09	Control of the World Trade Organisation and other international trade-related agreements impact negatively on our investment, production and marketing activities in the global marketplace.	0%	23.08%	69.23%	7.69%
10	Marketing activities are controlled by our parents company.	23.08%	38.46%	38.46%	0%
11	There is the possibility of future job losses in our company.	0%	61.54%	38.46%	0%

Table 6.16: Statistical results regarding global marketing trends and its influence

Variable	N	Mean	Median	Mini.	Maxi.	Std. dev.	Skewness	Kurtosis
8(01)	13	3.1538	3.0000	2.0000	4.0000	0.5547	0.1434	0.9011
8(02)	13	3.0769	3.0000	2.0000	4.0000	0.6405	-0.0532	0.0609
8(03)	13	3.0000	3.0000	1.0000	4.0000	0.9129	-0.7768	0.4407
8(04)	13	2.6154	3.0000	2.0000	4.0000	0.6504	0.5718	-0.3321
8(05)	13	2.7692	3.0000	2.0000	3.0000	0.4385	-1.4511	0.0945
8(06)	13	2.3077	2.0000	1.0000	4.0000	0.8549	0.2407	-0.0485
8(07)	13	2.0769	2.0000	1.0000	4.0000	0.8623	0.7580	0.8516
8(08)	13	1.9231	2.0000	1.0000	3.0000	0.6405	0.0532	0.0609
8(09)	13	2.8462	3.0000	2.0000	4.0000	0.5547	-0.1434	0.9011
8(10)	13	2.1538	2.0000	1.0000	3.0000	0.8006	-0.3066	-1.2820
8(11)	13	2.3846	2.0000	2.0000	3.0000	0.5064	0.5386	-2.0564

The literature review that is connected with each question and brief results from the empirical study are given below.

Over-capacity of vehicle production and production volume: In section 4.6.3 it is pointed out that there are too many automobile manufacturers operating in the world today. Rapid changes are taking place in the automobile manufacturing sectors due to over-production in the world. Passenger vehicle production has been increasing in developing countries, as many assembly operations have been opened in developing countries. The over-production problem will affect manufacturers in developing countries now and in the future. Globalisation of automobile manufacturers will in future adversely affect the market share and profits of manufacturers in the domestic and global markets. The results of the investigation are that 92.31% of automobile manufacturers said over-production of passenger vehicle in the world would affect their volume of production in future.

- **Over-capacity affects competitive position:** As mentioned in section 4.6.3, the over-capacity problem is creating various problems for automobile manufacturers all over the world. Automobile manufacturers use innovation and different strategies to survive in the market. Each company is struggling to maintain its market share in the competitive market, creating a situation where there are too many vehicles for too few customers in the world. This will affect the competitive position of small companies tremendously in future. The results expressed that the majority (84.62%) of respondents indicated that over-capacity affects their competitive position in the global market place.
- **Cheaper products affect regional markets:** The literature study indicated in section 4.5.5 that many global giant automobile manufacturers provide high-quality cheaper vehicles to the regional market due to their research and development and advanced technological production method. South African automobile manufacturers have made efforts to enter regional markets, but were affected negatively by these cheaper products of global competitors in regional markets. The empirical results indicate that the majority (76.92%) of automobile manufacturers in South Africa said that cheaper products affect their competitive position in regional markets.
- **Cheaper labour and its impact on pricing strategy:** Many global companies (as discussed in section 4.4.8) have set up their manufacturing factories in developing countries where they are able to reduce manufacturing cost by utilising the cheaper labour. Cheap labour is an important aspect in the globalisation process. Many TNCs are opening up their factories by using cheaper labour force rates in order to provide cheaper products to the global market to increase their market share in the competitive market situation. In the globalisation of automobile

manufacturers' marketing, cheaper labour will be used as a competitive weapon to achieve objectives by means of advanced technology. The results show that the majority (53.84%) of automobile manufacturers agree that the pricing strategy will be affected negatively by the cheaper labour in other developing countries.

- **Mergers and acquisitions among global companies:** As indicated in sections 4.6.4.1 and 4.6.4.2, over-capacity forces automobile manufacturers to merge with other companies as well as to accomplish new acquisitions. This important mechanism is used by automobile manufacturers to improve and reach economies of scale in production. There is an argument that these mergers and acquisitions among big companies do not reduce the over-capacity but will increase the products under one roof instead of two or more roofs. It will bring different pressures to automobile manufacturers in future. The results indicate that the majority (76.92%) of automobile manufacturers agree that the process of mergers and acquisitions among global companies create new competition for their businesses.
- **Reduction of number of models due to over-capacity:** According to sections 2.4.6 and 4.6.3, many global companies are using different strategies to increase economies of scale by reducing platforms and models due to the over-capacity problems. In South Africa, one of the major objectives of the MIDP is to reduce the number of model to increase economies of scale. However, retionalisation has not yet taken place at a significant level in South Africa. Still, a number of models are being produced by automobile manufacturers in South Africa. Some executives of automobile manufacturers have realised that they have to reduce the number of models due to the rapidly increasing competition in the market and must concentrate on fewer models. The result highlight that the majority of the respondents (61.54%) do not consider reducing the number of models due to over-capacity and competition. However, 38.46% of the respondents indicated that they have to consider reducing their number of models due to over-capacity and competition.
- **Contribution to world production:** Section 4.7.1 expresses the view that the total domestic production of vehicles in South Africa is very small compared with other developing countries. South Africa plays a very small role in the total world production. Its total production with regard to world production in 2001 was only 0.72%. The empirical results show that the majority (76.92%) of the respondents answered the question negatively, meaning that their

production contribution to world production has not declined due to over-capacity in world production.

- **Difficulties in new technology transfer from advanced countries:** Under the globalisation process, the World Trade Organisation (WTO) has a control over technology transfer to developing countries in order to protect the interests of multinational companies (MNCs). Transnational companies (TNCs) are not willing to transfer their advanced technology to developing countries, making technology transfer harder than before. TNCs have a real fear that if they transfer technology to developing countries for certain new products, these developing countries will be able to copy the same product and export the same locally manufactured products back to the origin TNC country in a short period. It will create threats and competition to the mother company (refer to sections 4.4.4 and 4.5.2). The findings show that the majority (84.62%) of automobile manufacturers do not face difficulties in transferring technology from advanced countries.
- **Control by the WTO and other international trade-related agreements:** As identified in sections 4.4.2 and 4.4.3, in the globalisation process, giant TNCs have more influence on the national economy than the national government does. Under the globalisation process governments are pressured to free up their trade through the reduction of tax and tariff on imports, with a restructuring of government assets through privatisation. National policies are affected by international institutions like the International Monetary Fund (IMF), WTO and World Bank. The WTO as the chief international organisation governs and controls trade regulations in the world. To this question, the majority (76.92%) of respondents agreed that control by the WTO and other international trade-related agreements impact negatively on their investment, production and marketing activities in the global marketplace.
- **Control of the parent company:** According to sections 2.4.8 and 2.7.8, there are seven automobile manufacturers operating in South Africa. Changes are taking place in the ownership structure of automobile manufacturers in South Africa after the MIDP was introduced. All domestic manufacturers, except German subsidiaries, are now at least partly controlled by multinational corporations (MNCs) of parent companies. Many of the South African manufacturers are coming under the control of parents companies through globalisation and the trade liberalisation policy of the Government over the last years. The exports of some companies are

controlled by their parent companies. The empirical study show that the majority (61.54%) of respondents indicated that their parents companies do not control their marketing activities.

- **Possibilities of job losses in the future:** Trade liberalisation and tariff reduction are major factors that impact on the trade trends and trade flow of south African automobile manufacturers over recent years. Cheaper products and increased importation have had a direct impact on the performance of South African automobile manufacturer in the last few years. It was found in the literature survey that this stagnation of performance of automobile manufacturers could lead to further job losses in future. This liberalisation policy has already affected the labour market badly in South Africa (refer to section 2.5). Section 2.5.1 indicates that the employment level in the South African automobile industry has declined significantly after the introduction of the MIDP in 1995 in South Africa due to the introduction of the free trade policy. However, according to the empirical study, the majority (61.54%) of the respondents indicated that there is no possibility of future job losses in their companies. At the same time, a significant percentage of respondents (38.46%) indicated that there are possibilities of future job losses in their companies.

6.4.9 Government policy with regard to the automobile manufacturing sector in South Africa

The South African Government has been imposing different policies on the automobile manufacturing sector from its inception. The purpose of all those policies is to obtain a significant contribution from the automobile manufacturing sectors for the economic growth of the country. Government policies have positive and negative impacts on the performance of automobile manufacturers in South Africa. The main purpose of this section is to assess how government policies have affected the operation of automobile manufacturers in South Africa in the past as well as at present.

6.4.9.1 Statement regarding government policy

Table 6.17 represents the statements of the ninth section of the questionnaire with its response percentage, while the adjoining Table 6.18 highlights the statistical results of those questions.

Table 6.17: Statements regarding government policy on automobile manufacturers in South Africa

1 = Strongly disagree; 2 =Disagree; 3 = Agree; 4 = Strongly agree

No	Statements	1	2	3	4
01	Local-content programmes of the government did not help us to improve the quality of production.	38.46%	30.77%	15.38%	15.38%
02	Local-content programmes create a hindrance to developing our own strategic marketing according to global market competition.	38.46%	46.15%	15.38%	0%
03	The Motor Industry Development Programme (MIDP) does not help us to increase our competitive position globally.	61.54%	30.77%	7.69%	0%
04	We are not able to benefit from the operation of the MIDP due to tariff reduction.	46.15%	46.15%	7.69%	0%
05	We expect further changes in government policy that is related to our business to increase competitiveness in the global marketplace.	7.69%	30.77%	53.85%	7.69%
06	Import and export compensation mechanisms do not help the growth of our company over the long term.	46.15%	38.46%	7.69%	7.69%

Table 6.18: Statistical results regarding government policy on automobile manufacturers in South Africa

Variable	N	Mean	Median	Mini.	Maxi.	Std. dev.	Skewness	Kurtosis
9(01)	13	2.0769	2.0000	1.0000	4.0000	1.1152	0.6782	-0.7595
9(02)	13	1.9231	2.0000	1.0000	4.0000	1.0377	1.2327	0.9286
9(03)	13	1.4615	1.0000	1.0000	3.0000	0.6602	1.1906	0.6453
9(04)	13	1.6154	2.0000	1.0000	3.0000	0.6504	0.5718	-0.3321
9(05)	13	2.6154	3.0000	1.0000	4.0000	0.7679	-0.4555	0.5174
9(06)	13	1.7692	2.0000	1.0000	4.0000	0.9268	1.2737	1.5243

The results of the empirical study of each question of this section are given in brief below.

- Local-content programmes and their impact on quality of product:** Various stages of local-content programmes have been implemented among automobile manufacturers over the last decades. According to sections 2.8.1 and 2.6.1, the quality of components has a significant impact on the quality of motor vehicles. Automobile manufacturers in South Africa are reluctant to use locally produced components due to the fact that these components are not of an acceptable quality. The results of previous research highlight that customer satisfaction levels regarding the quality of components are lower than for components of other developed countries. The empirical results show that the majority of the respondents (69.23%) indicated that local-content programmes of the Government did help to improve the quality of their

products. At the same time, 30.76% of the respondents indicated that local-content programmes did not help them to improve the quality of their production.

- **Local-content programmes and their influence on strategic marketing:** As indicated in sections 4.7.2 and 2.6.1, local-content programmes of the Government have forced automobile manufacturers to use local manufacturers. However, local component manufacturers are not competitive in terms of quality, price, delivery reliability and standards. Executives of automobile manufacturer argue that imported components are cheaper and of better quality than the locally manufactured components are. Inventory level, inflexibility, overvalue-adding activity, inadequate human resource development, high defect rates, poor supply and chain management, are issues identified as the reasons for the inadequate performance and lack of competitiveness of component manufacturers in South Africa. All these aspects will affect the formulation and implementing of strategic marketing planning of automobile manufacturers. Another argument in section 4.7.2 is that automobile manufacturers in South Africa need more time to face global competition without any protection. Some 84.62% of the respondent stated that local-content programmes did not create a hindrance to developing their own strategic marketing according to global competition.
- **The MIDP and its influence on the global competitive position of automobile manufacturers in South Africa:** Section 2.8.2 discusses the fact that one of the major objectives of the MIDP, which was introduced in 1995, is to promote the South African automobile manufacturers' competitiveness globally. According to the MIDP, automobile manufacturers will have to implement changes in order to be able to compete, while receiving less protection. The local motor industry will have to improve its competitive position materially in the global marketplace through increased production for export, reaching economies scales, integration into the global economy, retionalisation, productivity and by upgrading production and equipment. To achieve this objective, the MIDP provides a gradual reduction in tariff protection to expose the industry to greater international competition and a greater degree of specialisation by allowing exporters to earn rebates on automotive import duties and different incentives to upgrade the capacity of the industry in all spheres. According to the empirical study, the majority of respondents (92.31%) indicated that the MIDP does help them to increase their competitive position globally.

- **Benefits from the operation of the MIDP:** As noted in section 2.7.8, promoting the exports of automobile manufacturers is one of the important objectives of the MIDP in South Africa. Trade deficits have increased sharply, even though the percentage growth rate of export has increased. Rising vehicle imports and rising levels of component imports through tariff reduction are the major reasons for this increase in trade deficits. All automobile manufacturers, except Volkswagen and BMW in South Africa, are far behind in their exports and competitive position globally. The tariff reduction of the MIDP bring frequently changed new car models and a large number of components to South Africa in the form of imports at a cheaper price. These are some of the important reasons why local car manufacturers do not get benefits from the MIDP. There are no benefits from the MIDP except selling imported cars in the domestic market. The results indicate that 92.31% of the respondents felt that they benefited from the operation of the MIDP, even though there is a tariff reduction.
- **Expectation of further changes in government policy:** According to section 2.8.2, government support is imperative to improve the global competitiveness of automobile manufacturers in South Africa. Government is acting too strictly with regard to the General Agreement on Tariffs and Trade (GATT) and is not considering the industry, productivity, and growth of the automobile industry. Government and industry must sit down together to develop a master plan to develop an industry wherein the automobile manufacturing industry could become genuinely globally competitive. The findings of the empirical study are that the majority of the automobile manufacturers (61.54%) expect further changes in government policy that are related to their business to increase competitiveness in the global marketplace.
- **Import and export compensation and its contribution to the industry:** In section 2.8.2, it was pointed out that the Marrakesh Agreement of 1994 has had a considerable impact on the long-term strategic objectives of the revised customs dispensation for the motor industry in South African, namely a duty-free allowance that permits automobile manufacturers to import components and completely built-up motor vehicles. Under the import-export compensation, automobile manufacturers can import vehicles up to the same value of that earned by exports. According to this duty rebate, automobile manufacturers spend the money earned by export on import, with no growth in the industry over the long term. A total of 84.62% of the respondents stated that import-export compensation mechanisms help them with regard to the growth of their companies over the long term.

6.4.10 Concentration on marketing tactics (strategy)

The major purpose of this section is to measure to what extent the respondents consider marketing strategies to promote their marketing performance. Marketing strategy includes the four Ps, namely product strategy, pricing strategy, distribution strategy and promotion strategy. Only four general questions were asked to the respondents to assess to what extent they concentrate on their marketing strategy.

6.4.10.1 Statement regarding marketing tactics (strategy)

The following two tables express the statements of the last part of the questionnaire, the response percentage to each question and the statistical results to each question (see tables 6.19 and 6.20).

Table 6.19: Statements regarding marketing tactics (strategy)

1 = Strongly disagree; 2 = Disagree; 3 = Agree; 4 = Strongly agree

No	Statements	1	2	3	4
01	By concentrating on product and product design strategy, more value will be added for our customers than local and global competitors do.	0%	7.69%	84.62%	7.69%
02	The pricing strategy should encourage customer loyalty.	0%	30.77%	61.54%	7.69%
03	By selecting a suitable distribution channel, costs will be reduced and a product offered that suits customers' desires.	0%	15.38%	61.54%	23.08%
04	Modern communication and technology should be used for marketing promotion and to communicate with customers.	0%	0%	30.77%	69.23%

Table 6.20: Statistical results with regard to marketing tactics (strategy)

Variable	N	Mean	Median	Mini.	Maxi.	Std. dev.	Skewness	Kurtosis
10(01)	13	3.0000	3.0000	2.0000	4.0000	0.4082	0.0000	6.0000
10(02)	13	2.7692	3.0000	2.0000	4.0000	0.5991	0.0650	0.0506
10(03)	13	3.0769	3.0000	2.0000	4.0000	0.6405	-0.0532	0.0609
10(04)	13	3.6923	4.0000	3.0000	4.0000	0.4804	-0.9462	-1.3394

The literature section from which each question was selected as well as brief results of the empirical study of each question are given below.

- **Product and product design strategy:** As identified in sections 5.5.1 and 5.5.1.1, in the context of globalisation, management must concentrate on product strategy to provide a suitable product to meet the needs of its customers and respond to the competitive challenges in the global marketplace. Nowadays, automobile manufacturers are using different kinds of product design strategies to suit the global competitiveness. Product design, performance, comfort, fuel efficiency, safety and environmental control are designed to meet the needs of customers in different segments. Warranty and after-sales service is also an important part of products in the competitive market. South African manufacturers must concentrate on all these aspects to attract customers from their global competitors. Considering product and product strategy is important to increase exports but also to react to global competitors in the domestic market. The empirical study indicated that most (92.31%) automobile manufacturers in South Africa concentrate on their product strategy to add value for their customers.
- **The pricing strategy and customer loyalty:** According to sections 5.5.3 and 5.5.3.2, pricing strategy is a difficult factor in marketing strategy in the globalised marketplace due to the high competition. Various factors affect the setting of prices in the global marketing situation. Global competitors put pressure on the price of domestic companies because they are able to use a number of different pricing strategies. The production cost and the nature of competition in the market impact on the setting of product prices in the market. Automobile manufacturers must pay attention to all factors when setting the price for their products to increase customer loyalty in the global marketplace. The majority (69.23%) of them accepts that their pricing strategy should encourage customer loyalty in the competitive market, although another significant percentage of respondents (30.77%) responded negatively to the question.
- **Suitable distribution channels:** As illustrated in section 5.5.2, a well-designed distribution strategy is one of the important factors for the success of marketing, because it creates customer value. A distribution system should provide utility and meet the needs of customers with an acceptable service and cost. Different effective strategies must be included in the distribution activities of products to fulfil the needs of customers in the global market. Automobile manufacturers in South Africa must concentrate on designing suitable distribution channels to cover the regional and global market. They must select a suitable dealership network, mode of transport, warehousing and inventory to provide products to customers' satisfaction at lower costs. The results show that the majority (84.62%) of automobile manufacturer in South Africa

concentrate on the selection of suitable distribution channels to provide products and services at a lower cost according to customers' desires.

- **Marketing promotion through modern communication and technology:** As discussed in section 5.5.4, promotion is an essential tool to communicate with customers. Advertising, personal selling, sales promotion and public relations are major factors included in the promotional strategy. Managers must consider each of these factors carefully when communicating with their customers. Modern communication and sophisticated technologies play an important role in promotional activities in the global marketplace. Global companies use different modern media, such as the television, radio, Internet, e-mail and faxing machines to communicate with their customers. Privatised international advertising companies are playing a vital and effective role in the world with their sophisticated and advanced media technology. The empirical results indicate that all automobile manufacturers (100%) concentrate on using modern communication and technology for marketing promotion when communicating with their customers.

6.5 SUMMARY

It is necessary to summarise and present the data so that the reader can understand what is happening. A computer package was used to analyse and present the data, which will be communicated to those that have to take decisions. Presentation in the form of tables offers a quick way of summarising the large amount of data. In this chapter, tables were used to present the analysed data to explain the results of the findings. The earlier part of the chapter briefly explained the method of data collection. It is important to clarify the purpose of the research or objectives to ensure the approach. This method is capable of delivering meaningful and scientifically acceptable results. The competitor analysis, customer analysis, stakeholder analysis, environmental analysis, internal analysis, production method, trade liberalisation, global marketing trends, government policy and marketing strategy were used as parameters to assess the influence of globalisation on the performance of automobile manufacturers in South Africa. This was accomplished by using the structured questionnaire as an instrument to measure the attitudes of the respondents. All automobile manufacturers were included to the study population to ensure the reliability of the data with regard to the study. The next chapter will discuss the conclusion on the basis of the results of the data. A conclusion will follow, with recommendation from the conclusion.

CHAPTER 7

CONCLUSIONS AND RECOMMENDATIONS

7.1 SUMMARY

The major goal of the study was to evaluate the influence of globalisation on automobile manufacturers in South Africa. Five objectives were set from the literature review and empirical investigation in order to attain the major goal of the study. The first objective was discussed in Chapter 2, which gave an overview of the business environment of automobile manufacturers in South Africa since the 1920s. The second objective was to conceptualise from the existing literature the principle of strategic marketing and marketing environment, which was realised in Chapter 3. The next objective was associated with the principle of globalisation and its operational methods. This objective was realised in the Chapter 4. The fourth objective was to conceptualise from the existing literature the global marketing strategy and global marketing environment in order to give a deeper knowledge to formulate effective marketing strategies according to global environmental changes and competition. This objective was realised in Chapter 5. The last objective of the study was to identify the trends, factors and problems associated with globalisation in the automobile manufacturing industry in South Africa through an empirical study. The above-mentioned chapters that are connected with the literature study gave strong support to the empirical investigation. The empirical study in Chapter 6 realised the last objective. A brief conclusion and recommendations are given in this last chapter according to the empirical study and findings obtained in the previous chapter.

7.2 CONCLUSIONS

The following conclusions can be drawn from the findings and results of the empirical study. A brief conclusion is given for each section of the questionnaire.

7.2.1 Local and global competitor analysis

A brief conclusion is given for each question of this section from the questionnaire. The summary of the conclusion of this section is given at the end of the section.

- **The first question:** According to the empirical study, all (100%) automobile manufacturers have a very keen interest in undertaking a local competitor analysis. It indicates that all (100%) respondents pay attention to undertake a global competitor analysis.
- **An intelligence system to analyse global competitors:** All (100%) of the respondents answered that they have an adequate intelligence system to identify their global competitors. It is obvious that they are able to accurately identify global competitors in the domestic market to watch their strategies and activities.
- **An intelligence system to analyse local competitors:** According to the empirical study's results, all automobile manufacturers (100%) have sufficient systems in place to identify not only global competitors, but also local competitors. It indicates that all automobile manufacturers have sufficient capacity to identify global and local competitors.
- **Competitors' marketing strategy:** It is interesting to note that all (100%) of the respondents indicated that they analyse the past and current marketing strategies of competitors. It is clear from the empirical study that all automobile manufacturers have the capacity to evaluate past and current marketing strategies of competitors in the marketplace.
- **Market share and market coverage of local competitors:** The statistical analysis of the empirical study showed that all (100%) the respondents examine the market share and market coverage of local competitors. The inference may be drawn from the finding that all automobile manufacturers are able to evaluate each aspect of the market share and market coverage of their competitors.
- **Market share and market coverage of global competitors:** The conclusion is that the majority (69.23%) of automobile manufacturers has sufficient abilities to examine the market share and market coverage of global competitors. This enables them to improve their capacity to identify opportunities to increase their market share among global competitors. However, another significant percentage of the automobile manufacturers (30.77%) responded that they may be affected by or lose their market shares to global competitors because of not knowing the market strategies of those global competitors.

- **Objective and profitability of foreign competitors:** The majority (53.84%) of the respondents indicated that it is difficult to measure the objectives and profitability of foreign competitors. Automobile manufacturers do not have sufficient capacities and abilities to measure the objectives and profits of foreign competitors. It is difficult for them to formulate alternative marketing strategies to react to global competitors.
- **Technology, human resources and production development of global competitors:** From the empirical study, the inference is that the majority (61.54%) of the respondent are able to understand the technology, human resources and product development to offer better products or improve their capacity to offer better products than their global competitors. However, another 38.46% of the automobile manufacturers do not analyse the above aspects of competitors. This indicates that some of the automobile manufacturers will be unable to react to the products of global competitors in the globalised marketplace.
- **New foreign competitors:** The majority of the respondents (61.54%) indicated that they are paying attention to identify new competitors. The conclusion may be drawn that they are prepared to identify new global competitors in order to react to them. At the same time, a significant rate of respondents (30.77%) do not make any efforts to identify new competitors, indicating that they may lose their market share to new competitors when not knowing the products and strategies of new competitors.
- **Opportunities and threats of foreign competitors:** An extremely positive response was received from the respondents (92.31%), who are accurately identifying the opportunities and threats of global competitors. It indicates that almost all automobile manufacturers have the ability to identify the opportunities and threats of global competitors.
- **Opportunities and threats of local competitors:** The empirical study indicated that 92.31% of the respondents are able to identify the opportunities and threats of local competitors. This will help automobile manufacturers to formulate an effective marketing strategy to identify the opportunities and minimise the threats of local competitors and adopt strategies according to their parent companies to survive in the marketplace over the long term.
- **Analysis of local and foreign competitors' strengths and weaknesses separately:** According to the empirical study, the majority of the respondents (84.62%) have the capability and ability to analyse the strengths and weaknesses of local and global competitors separately. Most of them are able to formulate and implement their different marketing strategies according to the strengths and weaknesses of competitors to increase the marketing share of their products among different competitors.

To summarise this section, most of the automobile manufacturers have sufficient capacity and ability to analyse important aspects, such as past and current marketing strategies, market share, market coverage, technology, human resources, product development, opportunities, threats, strengths and weaknesses of global and local competitors in the trade-liberalised market. These capacities of automobile manufacturers enable them to formulate effective strategic marketing planning and arrange their corporate resources to react to the giant global companies. This capacity will enable automobile manufacturers in South Africa to adopt the strategies and improve the strengths to escape from and manage the negative influence of trade liberalisation under the rapid globalisation process. However, automobile manufacturers have to improve their capacity and ability with regard to an intelligence system in some areas to achieve their major objectives satisfactorily in the highly competitive market. How the intelligent system operates within the automobile manufacturing industry and what mechanisms and strategies are applied to collect reliable information in the above areas about competitors, fall under a further investigation.

7.2.2 Customer analysis

A conclusion was drawn for each question from the empirical study of this section, while a summary of the conclusion of this section is given at the end of the section.

- **From the response to the first question** of this section, all the respondents pay attention to customer analysis. This result expressed the picture that all automobile manufacturers (100%) understand what products and service they must provide to customers in the competitive marketplace.
- **Warranty and service to customers:** The empirical study indicated that 92.31% of the respondents provide a high level of warranty and service to customers compared with their competitors. Most automobile manufacturers are able to attract customers from global competitors through their warranty and service policy.
- **Long-term relationship with customers:** The empirical study shows that 61.53% of the respondent are more successful at maintaining long-term relationships with their customers than global competitors are. Some 38.46% of the respondents are not maintaining such a relationship with their customers. It can be observed from the empirical study that most automobile manufacturers understand the needs and wants of their customers through sound long-term relationships.

- **Satisfaction of the customer:** From the empirical study, 46.15% of the respondents are not more successful at satisfying customers, while almost half of the total respondents (53.85%) are more successful at satisfying customers' needs and wants than global competitors are. These results could be happier, because global competitors might attract customers from some local manufacturers in future.
- **Added value for customers:** The empirical study indicated that 75% of the respondents focus on product to add value for customers compared with global competitors. South African automobile manufacturers can add value for customers by focusing more on products than their global competitors are doing.
- **Affordable products to customers:** The majority of respondents (84.62%) agreed that they offer affordable products to customers. The conclusion is that it is not possible that global competitors would erode the market share in terms of affordable products.
- **Low-priced products to customers:** The empirical study indicated that 66.67% of the respondents said that they do not offer low-priced products to their customers compared with global competitors. This is a serious problem for local automobile manufacturers. They have to face significant influences by global competitors through the rapid globalisation process, which is bringing lower-priced vehicles to the domestic market.
- **Customer focus:** Some 69.23% of the total respondents indicated that all their departments work with a customer in mind. This result highlights that most of the automobile manufacturers in South Africa have the intention to provide quality products and service to attract customers.
- **Reliable and accurate sources of customer information:** According to the empirical study, 92.315% of the respondents have accurate and reliable information on customers. These reliable and accurate sources of information will help automobile manufacturers to gather information on all aspects regarding customers to make decisions on products, service promotion and pricing according to the desire of the customers.
- **Quality and durability of the product:** The empirical study indicated that 84.62% of the total respondents said that quality and durability is the core offer of their products. These results indicate that most automobile manufacturers in South Africa have the ability to offer quality and durable products to their customers.
- **Customer-oriented mission statement:** The empirical study indicated that 92.31% of the respondents have a customer-oriented mission statement. Most automobile manufacturers in South Africa pay attention to the satisfaction of the customer, helping them to persuade the customer to stay with them for a long time.

- **Customer satisfaction with the improvement of products:** With regard to the improvement of products, most of the respondents (92.31%) according to the empirical study, indicated that their customers are satisfied with the improvement of their products. The researcher comes to the conclusion that South African automobile manufacturers show sufficient product improvement to avoid the influence of global companies in the domestic market.
- **Staff's committed relationship with customers:** The empirical study shows that 76.92% of the respondents have strongly committed relationships with customers. Also, that most of the automobile manufacturers have the ability to satisfy their customers through their motivated staff.
- **Focus on the product according to segments:** All respondents (100%) indicated that they focus on their product to satisfy customers in each segment. Local automobile manufacturers have the ability to provide ideal products for each segment and can react to global competitors in each segment.

This section's results indicated that the majority of automobile manufacturers in South Africa have the capacity and ability to provide a high level of warranty and service. They also have good long-term relationships with customers through their motivated and committed staff. They focus on products to add value for customers in each segments, offer affordable products, have reliable and valid information about customers, while quality and durability is the core offer. The customers are satisfied with the improvement and innovation of their products. The researcher comes to the conclusion that, to a large extent, most of the South African automobile manufacturers will not be affected by the influence of global companies in terms of satisfaction of customers, quality, durability, warranty, service and innovation of products. At the same time, a significant percentage of respondents (46.15%) indicated that they are not successful at satisfying their customers' needs and wants compared with global competitors. Another serious problem is that the majority of the respondents (66.67%) indicated that they are not offering lower-priced vehicles compared with global competitors, while a number of lower-priced vehicles are being brought to the domestic market by global competitors. Most automobile manufacturers have to face the negative influence of global companies. The lower-priced vehicles of global companies could erode their marketing share in future. A further investigation is needed why South African automobile manufacturers cannot offer low-priced vehicles to their customers.

7.2.3 Stakeholder analysis

Conclusions drawn for each question of this section and a summary of the conclusion of this section are given below.

- **Identification of stakeholders:** The empirical study's results show that most of the respondents (92.31%) identify the stakeholders of their company. These findings indicate that the majority of automobile manufacturers have an interest in and ability to identify their stakeholders in the globally competitive market.
- **Maintain and develop good relationships with stakeholders:** According to the empirical study, 92.30% of the respondents maintain good relationships with their stakeholders. The conclusion is that they understand the interests of the various groups of stakeholders and that this enables them to make decisions with regard to operating the company.
- **Support of stakeholders to develop a marketing strategy:** It is apparent from the empirical study that most respondents (76.93%) receive support from their stakeholders. This brings the researcher to the conclusion that an effective and efficient marketing strategy can be formulated with the support of various stakeholder groups to react to competitors.
- **Enhancement of stakeholder value:** The results from the empirical study indicate that 84.61% of the respondents make efforts to increase stakeholder value. The conclusion is that the majority of automobile manufacturers can increase stakeholder value by means of their efficient operation that enables them to have stronger support from stakeholders to react to competitors over the long term.
- **Close contact and relationship with key stakeholders:** The empirical study indicates that 76.93% of the respondents have close contact and relationships with their key stakeholders. The capacity and strength of the company will be improved by the support of these key stakeholders to react to global competitors.
- **Integration of stakeholder analysis into marketing strategy:** From the empirical study it appears that 84.62% of the respondents integrate the stakeholder analysis into their marketing strategy. The conclusion is that the majority of automobile manufacturers are able to formulate and implement their marketing strategies successfully with the strong support of stakeholders in the globalised marketplace.

- **Investment and financial stability through stakeholder relationships:** A good relationship with stakeholders will enable the company to enjoy a strong investment capacity and financial stability to compete with big companies. The empirical study indicated that 66.66% of the respondent have good relationships with stakeholder to have a strong investment capacity and financial stability to react to global competitors.

The conclusion is that the majority of automobile manufacturers has adequate relationships with their stakeholders and obtain strong support from them to formulate and implement their marketing strategy to achieve their major objectives. It will enable automobile manufacturers to increase their strengths in many aspects and is essential to escape from the negative influence of globalisation and react to global competitors in the marketplace.

7.2.4 Environmental analysis

The brief conclusion for each question and summary of the conclusion for this section are given below.

- **The impact of demographic environmental changes:** The rapid changes in the demographic environment will affect the overall performance of the company. Age, birth, deaths, location, migration and urbanisation are important factors connected with changes. The empirical study indicated that 92.31% of the respondents do not experience a negative impact from demographic changes. It is clear that they have a favourable demographic environment for the operation of their company.
- **The impact of economic environmental changes:** Economic changes of the country will affect the marketing performance of the company. From the empirical study, 61.54% of the respondents agreed that they experience negative impacts from economic environmental changes on their business. This situation may, however, be favourable for global competitors to increase their market share in the domestic market through their low-priced vehicles.
- **The impact of technological environmental changes:** According to the empirical study, 76.92% of the respondents do not experience a negative impact from technological environmental changes. The result is that the majority of automobile manufacturers in South Africa has equal standards of technology compared with their global competitors and have the capacity to face any technological changes in the globalised marketplace.

- **The impact of political environmental changes:** From the empirical study, 53.85% of the respondents do not experience any negative impact from political changes. The majority of the automobile manufacturers will not be affected or experience a risk in operating their business as the political environment is favourable to them.
- **The impact of legal environmental changes:** The majority of the respondents (53.85%) indicated that legal environmental changes do not impact negatively on their business. It is clear that in the globalised marketplace, legal changes will not negatively affect the operation of these companies.
- **The impact of social and cultural environmental changes:** The empirical study pointed out that most of the respondents (61.54%) reported that they do not experience a negative impact from social and cultural changes. Local and global cultural changes do not have an effect on the performance of the company.
- **Scanning and monitoring the current environment:** The empirical study indicated that 76.92% of the respondents have the ability to scan and monitor the current market environment in the globalised marketplace and that they do not regard this as a difficult task. This ability will enable automobile manufacturers to formulate their strategies according to the marketing environmental changes.
- **Skilled and experienced management:** The empirical study reflects that 84.62% of the respondents have skilled and experienced management to scan the environment. Most automobile manufacturers in South Africa can get accurate information on the marketing environment to react to the negative impacts of companies under the globalisation process.
- **Forecasting future trends of marketing:** According to the empirical study, the majority (53.85%) of the respondents said that it is not a difficult process to forecast future trends in the environment. It is therefore apparent that most of the automobile manufacturers have the ability to forecast trends in the marketing environment, even though new global competitors are entering the market. However, another significant number of respondents (48.16%) do not have the ability to forecast future market trends.

A brief conclusion can be given from this above section. It is namely that demographic, technological, political, legal and social-cultural environmental changes will not affect the performance of automobile manufacturers in South Africa. All these changes under the liberalised market conditions of globalisation do not affect the performance of these manufacturers. Only

economic environmental changes have a negative influence on the performance of automobile manufacturers in South Africa where they have to face the impact of the economic environment in the globalised marketplace. Quality and low-priced products are the only solution to overcome the negative impact of these economic environmental changes. Further investigation is needed to establish what the important economic factors are which have a negative impact on the performance of automobile manufacturers in South Africa.

7.2.5 Internal analysis

The conclusion for each question and a summary of the section are given below.

- **Sufficient strength to react to local competitors:** As indicated in the empirical study, the majority (92.31%) of the respondents has the strength to react to local competitors. This strength will protect automobile manufacturers from the influence of globalisation coming through the local subsidiaries of global competitors.
- **Sufficient strength to react to global competitors:** From the empirical study, 76.93% of the automobile manufacturer have sufficient strength to react to global competitors. This strength may protect them from the negative influence of global competitors in the trade-liberalised market in South Africa.
- **Resource allocation to all departments:** Sufficient resource allocation is important to achieve the objectives of automobile manufacturers in the competitive marketplace. The majority of automobile manufacturers (76.92%) have proper resource allocation to each department to achieve their major objectives. It is an important strength to have when facing the competitive market.
- **Managerial skills to react to competitors:** The empirical study shows that the majority of the respondents (84.62%) have skilful managerial staff to defend and react to competitors in the global marketplace. Skilful managerial staff is one of the significant strengths of automobile manufacturer in South Africa to face the new challenges in the competitive marketplace.
- **Multicultural and internationally experienced management:** According to the empirical study, a larger number of respondents (84.62%) have multicultural and international experience to increase their market share and profitability. A multicultural and internationally experienced management is an important resource in the globalised marketplace to arrange companies' resources in order to meet new challenges locally and internationally in this era.

- **Management system to cope with the global marketing environment:** The conclusion is drawn from the empirical study that the majority of automobile manufacturers in South Africa (84.62%) have a good management system in place. This enables them to think ahead and coordinate among themselves in order to reduce conflicts, with more effective resources allocation to utilise the opportunities in the marketplace.
- **Capability to assess international marketing activities and competitive behaviours:** The conclusion in terms of the capability of management is that all the respondents (100%) have efficient management to assess international marketing activities and globally competitive behaviours. It is a plus-point for automobile manufacturers in South Africa and enables them to formulate their marketing strategies to increase their market share in the global market.
- **Organisational structure:** The conclusion according to the empirical study is that a large percentage of respondents (92.31%) have a well-developed organisational structure to compete with competitors and implement their marketing strategy.
- **Comparison of corporate strategy with competitors' global strategy:** According to the empirical results, 76.92% of the total respondents compared their strategy with their competitors' global strategy. It is concluded that the majority of automobile manufacturers in South Africa are able to identify their internal strengths and weaknesses from the comparison to improve the strengths and minimise their weaknesses to meet the challenges.
- **Skilled labour:** With regard to labour force standards within the company, only 61.54% of the respondents agreed that they have a skilled labour force in accordance with international standards. However, 38.46% of them do not have a labour force at such a level. A significant number of automobile manufacturers will therefore have to improve their skills and the efficiency of their labour force to provide quality lower-priced products to compete in the global marketplace.
- **Education and training programmes to build efficiency of workers:** The majority of automobile manufactures (84.62%) have a well-developed education and training policy to build efficiency of workers and to offer the best products and service to their customers. This is a good indication of the strength of the internal resources they have to compete with global competitors.
- **Capacity to formulate new strategy in accordance with the global environment:** From the empirical study, 84.62% of the automobile manufacturers appear to have a powerful management to formulate new strategies according to the global marketing environment. It also indicates the internal strengths of the companies that enable them to formulate suitable marketing strategies to meet the new challenges in the globalised marketplace.

- **Regular assessment of the marketing department:** A regular performance assessment of the marketing department will help companies to evaluate their strengths and weaknesses to improve their ability to achieve their objectives. The conclusion is drawn from the empirical study that 84.61% of the respondents concentrate on performance assessment on a regular basis.

The majority of the automobile manufacturers have sufficient strengths in terms of proper resources and its allocation to all departments, sufficient managerial skills to compete, and multicultural and internationally experienced managers to increase their sales. They have well-established management systems to co-ordinate their resources. The majority of them also have the management capacity to assess international marketing activities and globally competitive behaviours. A well-developed organisational structure exists in most of the companies to implement their marketing strategies in the globalised marketplace. They also compare their strategies with that of their competitors to adopt their strategies and identify their strengths and weaknesses. Education and training policies to build the efficiency of their workers is another important strength that they have. Assessing the performance of the marketing department regularly will enable them to take swift action according to environmental changes. The majority of the respondents have skilful labour according to international standards, while a significant number of the respondents do not have skilful labour at such a level. According to the internal analysis, the majority of the automobile manufacturers have sufficient strengths to compete with local and global competitors successfully. These strengths will protect them from the negative factors of global competitors in the trade-liberalised marketplace. But, to lesser extent, there is a weakness in terms of skilled labour. A significant number of companies do not have skilled labour according to international standards to provide quality products and service to compete with global competitors. These companies may face and will be affected by the influence of giant companies in the marketplace.

7.2.6 Production method

A brief conclusion is given to each question of this section, while a summary of the conclusion is given at the end of the section.

- **Flexible production method:** From the empirical study, it appears that the majority of the respondents (76.92%) are applying the lean (flexible) production method in their production process. The conclusion is that the majority is able to reduce the cost and improve the quality of production.

- **The just-in-time production and supply system:** With regard to the just in time (JIT) method, the majority (76.93%) of automobile manufacturers apply this method, which will enable them to reduce production costs to offer lower-priced products in the globally competitive market.
- **Concentration on frequent model changes:** According to the empirical results, 53.84% of the respondents concentrate on frequent model changes. The majority of them have the capacity to provide new models to the market. At the same time, a significant percentage of the manufacturers (46.15%) do not concentrate on frequent model changes. Almost half of the manufacturers cannot provide new models or differentiated products to the global market.
- **Innovation of product:** With regard to innovation, 76.92% of the respondents have the capacity to create innovation in their products to the level of their global competitors. However, 23.08% of them do not have such a capacity level. The conclusion is that the majority of automobile manufacturers are able to provide innovated products at the level of their global competitors.
- **Research and development capacity:** As found in the empirical study, 92.31% of the automobile manufacturers have sufficient R & D capacity to introduce new and innovated products to attract customers from competitors in the globalised marketplace.
- **Light-weight material in products:** Some 91.66% of the automobile manufacturers use light-weight material in their production, which enables them to reduce cost, increase fuel efficiency, quality, and durability. Almost all the automobile manufacturers have the capacity to use light-weight material in production to increase their competitive advantage in the global market.
- **High quality of local components:** The empirical results bring the researcher to the conclusion that 84.62% of the respondents are able to obtain high-quality local components of an international standard.
- **Impact of local components on the quality of production:** Some 75% of the respondents indicated that local components have negative impacts on the quality of their products. Automobile manufacturers will face problems in providing quality products to the globalised market. However, there is controversy with regard to the previous response of the respondents.
- **Quality control system:** According to the empirical study, all (100%) the respondents agreed that they spend sufficient time and energy on their quality control system compared with their competitors. The conclusion is that all automobile manufacturers are maintaining a quality control system at least equal to that of their competitors. They are able to provide quality products to customers to satisfy them in the globalised marketplace.

- **Total quality management system:** With regard to a total quality management system, the majority of automobile manufacturers (69.23%) have the ability to involve all departments in the total quality management system of their company. They are able to reach the best level that they intended to, to provide for customers.
- **Improvement of automation:** From the empirical study, it appears that the majority of automobile manufacturers (61.54%) have to improve automation in their production process to face global challenges. It is an important shortcoming in this sector, which will hinder the reduction of cost and the improvement of quality, production volume and sales.
- **Focused factory concept:** Some 75% of automobile manufacturers apply the focused factory system in their production, which enables them to organise their factory to implement the lean production method and to add value to their products. Their quality products will help them to compete with global competitors.
- **Investment in computerised and advanced technology:** Regarding computerised and advanced manufacturing technology, the majority of the respondents (69.23%) have to invest further to introduce these technologies in their production process. This is a significant shortcoming that keeps automobile manufacturers far behind global competitors. Their performance and sales will be affected adversely by the influence of high-technology products of global competitors in the trade-liberalised marketplace.
- **Economies of scale in production:** According to the empirical results, a large number of automobile manufacturers (92.31%) have to make efforts to increase their production volume to reach economies of scale. It indicates clearly that it is difficult to offer lower-priced vehicles to the customer in the globalised and trade-liberated market.
- **Cost of production:** Production costs are an important factor in this section. The empirical study found that almost all the automobile manufacturers (92.30%) agree that they would obviously have to make efforts to reduce the cost of production to increase their competitive advantage. The low-priced products of global competitors will have a serious effect on their sales and could cause them to lose their market share and profits in future.
- **Teamwork in production:** Regarding teamwork in the production process, 69.23% of the automobile manufacturers are in need of enhancing teamwork in their production process. The conclusion could be that the majority of automobile manufacturers are unable to increase the quality of their products, add value for customers, and reduce production costs without teamwork. It is difficult for them to implement the lean production method in a factory, indicating that lack of multi-skilled labour is a major problem when implementing teamwork in the manufacturing process.

- **Production volume and attraction of investment:** The result of the empirical study provides a picture to come to a conclusion regarding investment and performance. Some 79.92% of the manufacturers have sufficient performance and production volume to attract further investment. The results are controversial when taking into account the previous response in this section.
- **Relationship with local component manufacturers:** The relationship between assemblers and component manufacturers is essential to increase the quality of production and reduce production costs. From the empirical study, 92.30% of the automobile manufacturers have good relationships with local component manufacturers, which will help them to reduce the cost of production and realise improvement in quality and innovation in future.

To summarise this section, the majority of automobile manufacturers concentrate on important factors and concepts of new production methods in order to offer quality in production, innovation and add value for customers to compete in the globalised marketplace. Flexible and JIT methods are applied in production. The respondents also use weight-materials to increase fuel efficiency, quality and durability of products. They do sufficient R & D and are able to obtain high-quality local components, have a sufficient level of quality control and total quality management system. They have a focused factory system to enhance the quality of their products and are able to add value for customers. They maintain good relationships with component manufacturers, which enable them to improve on quality and reduce the cost of future production. However, there are some important problems facing automobile manufacturers in South Africa today. The majority of automobile manufacturers have a low level of automation and insufficient investment to introduce computerised and technologically advanced manufacturing systems. They also do not reach economies of scale in production and have to reduce production costs to increase a competitive advantage. Furthermore, they need to increase teamwork in their production.

These factors will keep the industry far behind with regard to a competitive position in the globalised marketplace because automobile manufacturers cannot provide sophisticated new models without applying computerised technology. The latter is the reason why a significant percentage of the respondents (46.15%) do not change models frequently. Lack of automation is another important problem and hinders the increase of product volume. Low production volume is the major reason why manufacturers are unable to reduce production costs and cannot reach economies of scale. They have to increase teaching and training to the workers to improve teamwork in the manufacturing process, because multi-skilled workers are essential in the implementation of the lean production

and JIT methods. Weaknesses in these important areas will be further affected by global competitors in the overall performance of automobile manufacturers in South Africa, even though they have sufficient capacity and ability with regard to other aspects.

7.2.7 Trade liberalisation policies and its influence

A brief conclusion for each question and a summary of this section are given below.

- **Impact of tariff reduction on output of automobile manufacturers:** According to the empirical study, the majority (61.54%) of the respondents indicated that tariff reduction does not impact negatively on the output of their companies. However, a significant percentage of respondents (38.46%) experience a negative impact on their outputs from the tariff reduction.
- **Increased import through tariff reduction:** A total of 92.31% of the respondents agreed that imports have been increasing in the local market as a result of tariff reduction. It leads to the conclusion that increased importation will bring pressure on the output and sales of local automobile manufacturers.
- **Impact of importation on profit of automobile manufacturers:** The profit margins of the majority of automobile manufacturers (92.31%) have declined due to increased importation in the domestic market. It is therefore clear that importation through trade liberalisation has a significant and serious effect on the sales and profits of the automobile manufacturing industry.
- **Vehicle price decline:** From the empirical study, 69.23% of the automobile manufacturers said that vehicle prices have not declined due to trade liberalisation. However, around one third (30.77%) of the automobile manufacturers' vehicle prices have decreased. A significant number of automobile manufacturers have experienced a negative effect from the trade liberalisation policy on their vehicle prices.
- **Small and low-priced vehicles in the local market:** The majority of the respondents (53.85%) agreed that competitors are introducing small and low-priced vehicles in the local market. This leads to the inference that the importation of small and low-priced vehicles has a significantly negative effect on the sales of automobile manufacturers in South Africa.
- **A number of differentiated products in the local market:** With regard to differentiated products, all respondents (100%) indicated that a number of differentiated products are coming to the local market. This could be a severe problem for local manufacturers in future.

- **Domestic sales decline due to importation:** Some 53.84% of the automobile manufacturers' domestic sales did not decline in the past years due to importation. However, at the same time, 46.15% agreed that their domestic sales have declined due to importation. A considerable number of manufacturers' (almost half) sales have declined due to importation.
- **Importation hinders the increase of local competitors' market share:** According to the empirical study, importation has not hindered the increase of market shares of a majority of the automobile manufacturer (53.85%) in the domestic market. However, almost half of them (46.15%) agreed that imports are hindering the increase of market shares in the domestic market. The importation of vehicles has a significant impact on the market share of local manufacturers.
- **Competitive advantage affected in local and regional market:** The conclusion could be that the free trade policy has not impacted negatively on the competitive advantage of the majority of automobile manufacturers (58.33%) in the local and regional market. Another significant percentage of manufacturers (41.67%) has, however, experienced a negative impact on their competitive advantage in the local and regional market. It is clear that weaker local companies have experienced a significantly negative influence by the trade liberalisation policy.

An overall conclusion to this section is that the output of the majority of automobile manufacturers has not been affected by the tariff reduction. The majority of automobile manufacturers indicated that imports have increased in the domestic market, while profit margins have declined due to importation. Small and low-priced vehicles as well as differentiated models are coming to the domestic market through the trade liberalisation policy. At the same time, a significant percentage of automobile manufacturers agree that tariff reduction has had a negative impact on their output, price has declined due to free trade, and that sales have declined due to trade liberalisation. It also appears that imports are hindering the increase of their market share and adversely affect their competitive advantage in the local and regional market. Profit margins of the majority of the automobile manufacturers have declined due to importation. The conclusion is that the trade liberalisation policy has had a significantly negative influence on the sales, market share and profits of automobile manufacturers in South Africa.

7.2.8 Global marketing trends and their influence

The conclusion to this section is briefly given below with a summary at the end.

- **The over-capacity of vehicle production and production volume:** According to the empirical study, the majority of the respondents (92.31%) said that the over-capacity of vehicles would affect their production volume and marketing activities in future. Automobile manufacturers in South Africa take this matter very seriously in order to survive in a future market under the liberalisation policy.
- **Over-capacity affects competitive position:** The majority of respondents (84.62%) indicated that their competitive position in the global marketplace would be affected by over-capacity. Many products will be coming to local, regional and global markets at lower prices due to over-capacity, which seriously affects the marketing activities of South African manufacturers.
- **Cheaper products affect regional markets:** The majority of the manufacturers (76.92%) in South Africa said that the cheaper products would affect their regional market in future. It is difficult for local manufacturers to increase the market share of their products in the regional market.
- **Cheaper labour impacts on pricing strategy:** Some 53.84% of the respondents agree that cheaper labour in other developing countries will impact negatively on the pricing strategy of their companies. Global companies will bring low-priced vehicles to the South African market, which will affect the future pricing strategy.
- **Mergers and acquisitions among global competitors:** According to the empirical study, 76.92% of the respondents agree that mergers and acquisitions among global companies create new competitors for their businesses. Automobile manufacturers will have to face high pressure by mergers and acquisitions of global companies in future, which will affect sales and profits further.
- **Reduction of number of models due to over-capacity:** A total of 61.54% of the respondents said that they are not considering a reduction in the number of models due to over-capacity. They feel that they are able to react to global competitors with their existing number of models.
- **Contribution to world production:** Their production contribution (76.92% of the respondents) to the world production has not declined due to over-capacity. Their production volume also did not decline due to over-capacity.
- **Difficulties of new technology transfer from advanced countries:** The majority of the respondents (84.62%) are not facing difficulties in transferring new technology from advanced countries and they are able to obtain new technology from advanced countries without problems.
- **Control by the WTO and other international trade-related agreements:** From the empirical study, the control by the World Trade Organisation (WTO) and international trade-related

agreement impact negatively on the investment, production and marketing activities of the majority of respondents (76.92%) in the global marketplace. This is one of the important influences of globalisation on the performance of South African automobile manufacturers.

- **Control by the parent company:** The marketing activities of the majority of respondents (61.54%) are not controlled by their parent companies. It is clear that the majority of companies can operate freely without any control by the parent companies, although some companies (38.46%) are, in fact, controlled by their parent companies.
- **Possibilities of future job losses:** A large percentage (61.54%) of the automobile manufacturers indicated that they not see the possibility of future job losses in their companies. At the same time, a significant percentage (38.46%) see the possibility of future job losses in their companies, indicating that their performance has declined.

To conclude this section, it is emphasised that over-capacity in the global market has important influences on the performance of the South African automobile manufacturing industry. Most manufacturers are able to operate with the existing models. Their contribution to the world production has not declined. They are able to transfer new technology from advanced countries without difficulties and are able to operate without control by their parent companies. They also do not foresee any future job losses. Apart from the over-capacity in the global market, they have these factors in their favour. There are significant negative impacts in terms of over-capacity that will affect their production level, market activities and competitive position in future though. Cheaper products and labour in other developing countries will bring cheaper products to the local and regional market. Mergers and acquisitions of global companies will create new competition. The WTO and international trade-related agreements have impacted negatively on investment, production and marketing activities. The current global marketing trends have a significantly negative influence on the various aspects of the automobile manufacturers in South Africa, as these trends are integrated with the global economy and have become part of the global village.

7.2.8 Government policy on automobile manufacturing sector

The following conclusion is drawn from this section.

- **Local-content programmes and their impact on product quality:** Local-content programmes of the Government did help them (69.23% of the respondents) to improve the quality of their

products. Local manufacturers are, however, able to increase the utilisation of local components in order to reduce their expenditure on the imports of components from abroad to save foreign currency.

- **Local-content programmes and their influence on strategic marketing:** The majority of the respondents (84.62%) indicated that local-content programmes do not create a hindrance in developing their own strategic marketing according to global competition. It confirms the above conclusion that automobile manufacturers are able to formulate their own strategic marketing planning to compete in the globalised marketplace when applying local-content programmes.
- **The MIDP and its influence on global competitiveness of automobile manufacturers in South Africa:** From the empirical results, some 92.31% of the respondents reacted by saying that the MIDP programme does help them to increase their competitive position globally. The MIDP programme has certain benefits also for the operation of automobile manufacturers in South Africa.
- **Benefits from the operation of the MIDP:** A total of 92.31% of the respondents indicated that they are able to benefit from the operation of the MIDP, even though there has been a tariff reduction. The inference is that many manufacturers are using the import and export compensation to help them to import vehicles to the level of the earning of exports. This benefit helps them to temporarily survive in the market. However, there has been no significant growth in the industry over the long term.
- **Expectation of further changes in government policy:** At the same time, most of the automobile manufacturers (61.54%) are expecting further changes in government policy to increase their competitiveness. It clearly indicates that further competitiveness is required and they are not fully satisfied with the current policy.
- **Import and export compensation and its contribution to the industry:** The majority of the respondents (84.62%) feel that the import and export compensation mechanism does help the growth of their company in the long term. It is not clear how the MIDP helps them with long-term growth when they spend the earnings from the exports on imports, taking into account that import is higher than exports.

The conclusion from this section is that local-content programmes do not create any hindrance in developing automobile manufacturers' own marketing strategies to operate independently in the market. The current MIDP programme also helps them to increase their competitive position and they enjoy benefits from the operation of this programme. However, automobile manufacturers are

expecting further changes in the government policy to increase their competitiveness further. The MIDP programme has positive and negative features with regard to the operation of the automobile manufacturing industry. Further empirical investigation is needed on how far the import and export compensation mechanism benefits growth in the industry in the long term.

7.2.9 Marketing tactics (strategy)

A brief conclusion from the empirical study is given below.

- **Production and product design strategy:** According to the empirical study, the majority of the respondents (84.62%) concentrate sufficiently on products and product strategy to add value for their customers compared with local and global competitors.
- **Pricing strategy and customer loyalty:** From the empirical study, 69.23% of the respondents are setting their price to encourage customer loyalty even though there is a price war among local and global competitors. At the same time, 30.77% of the respondents are not encouraging customer loyalty in this way, because price-setting is a difficult process in the competitive marketplace
- **Suitable distribution channels:** The results of the empirical study indicate that 84.62% of the automobile manufacturers have sufficient capacity and ability to select suitable distribution channels to provide the product at suitable costs according to the desire of the customers.
- **Marketing promotion through modern communication and technology:** With reference to promotion strategy, all the (100%) manufacturers have the ability to use modern communication and technology for their promotional strategy and to communicate with customers.

The conclusion from this section is that the majority of automobile manufacturers have a sufficient capacity and ability to concentrate on their marketing strategy to increase their sales and market share in the competitive marketplace. There is some problems regarding price-setting though, because a significant percentage of the automobile manufacturers could not set their prices to encourage customer loyalty.

Summary of the conclusion to the empirical study as a whole

The majority of automobile manufacturers in South Africa have sufficient capacity and ability to

analyse local and global competitors in the globalised marketplace in order to identify their strengths, weaknesses, opportunities and threats. With regard to customer satisfaction, the majority of the respondents have sufficient capacity and talent to provide quality and durable products. They can provide warranty and service with more value to the customer than global competitors do. All staff and departments work with the customer in mind, with long-term customer relationships. They are able to provide innovated and affordable products to customers according to each segment.

The majority of respondents have a good relationship with their stakeholders, including key stakeholders from whom they can receive support to formulate and implement their strategic marketing planning in the globalised marketplace. Strong investment and financial stability enable them to enhance stakeholders' value and relationships. All the marketing environments, except the economic environment, are favourable for the majority of automobile manufacturers in the globalised marketplace. Internally, the majority have sufficient strengths in terms of resource allocation, multicultural and internationally experienced managerial skills, a well-management system, well-developed organisational structure and skilled labour to react to global competitors by formulating and implementing an effective marketing strategy for the globalised marketplace.

The majority of the respondents apply the lean, JIT and focused factory production methods to offer quality and innovative products to customers compared with their global competitors. The respondents concentrate on quality control and total quality management systems to maximise customer satisfaction. The majority of automobile manufacturers in South Africa concentrate on the marketing mix to achieve their objectives with customer satisfaction in mind.

These capacities and abilities of automobile manufacturers will to a large extent enable them to react to their global competitors and escape from the negative influence of the globalisation process for the time being or in the short term. With regard to the long term, these capacities and abilities will not help them to achieve their objectives successfully. This is because there are a number of weaknesses in the industry that could result in significant future negative influences of globalisation. Those weaknesses are interconnected and will also seriously and adversely affect the performance of the automobile manufacturer if the industry were to ignore these weaknesses. According to the majority of the automobile manufacturers, they are unable to offer lower-priced vehicles compared with global competitors. Their production volume is also not sufficient to reach economies of scale

in production. They will have to improve their automation to face global challenges, while investment is not sufficient to introduce computerised and advanced technology in production, making production costs high.

At the same time, the majority of the respondents agreed that a large number of small, lower-priced, innovative and differentiated products are coming to the domestic market through the trade liberalisation policy. Their profit margin has declined due to increased importation in the domestic market over the last years. On other hand, over-capacity of vehicle production in the world market will affect their production volume and competitive position in future. Cheaper products will affect their regional markets, while new mergers and acquisitions among global competitors will bring new competition. The WTO and international trade-related agreements will impact negatively on their performance in future. Altogether, these factors are going to affect the performance of automobile manufacturers in South Africa seriously, even though they have sufficient capacity and ability to react to global competitors in the globalised marketplace. Quality products and low-priced vehicles is the only weapon to react to global competitors and escape the negative influence of rapid globalisation. The following recommendations are given briefly. It might enable automobile manufacturers to improve their competitive position to survive in the domestic, regional and global marketplace on a long-term basis.

7.3 RECOMMENDATIONS

No organisation can stop the rapid process of globalisation. However, any country or organisation can obtain good opportunities by formulating suitable regulations and strategies according to their own situation to escape from the negative influence of globalisation.

Some serious problems and shortcoming are facing the South Africa automobile manufacturers. These shortcomings are keeping the industry far behind from a competitive advantage in the trade-liberalised marketplace of today. Lack of automation in production, lack of investment to introduce computerised and advanced technology in their production process, poor production volume, being unable to reach economies of scale, high production costs and lack of teamwork in their production, are all drawbacks causing an increase in vehicle prices. The majority of automobile manufacturers overtly agree that they cannot offer low-priced vehicles like their global competitors are doing.

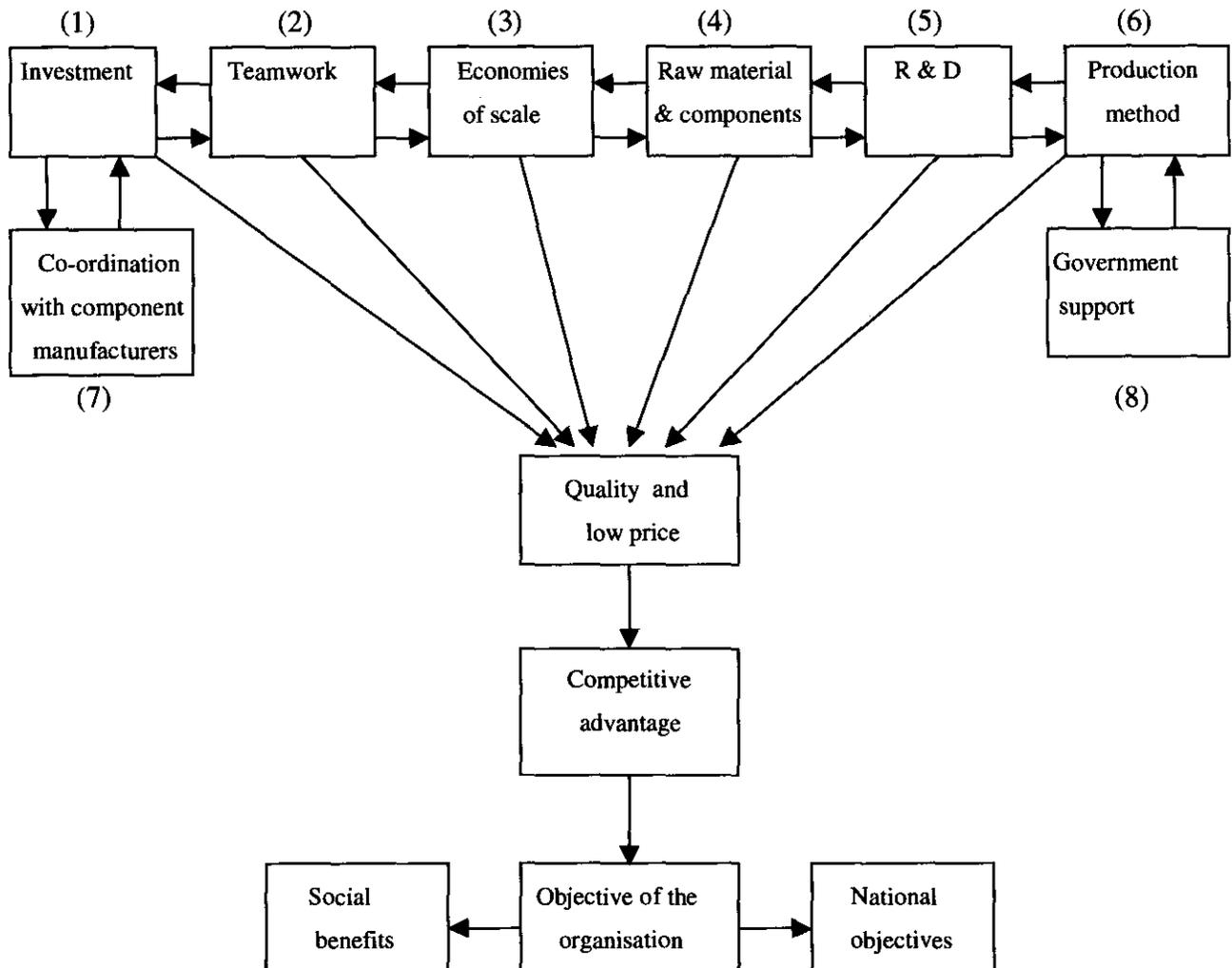
At the same time, current global market trends have a significant influence on the automobile manufacturing industry in South Africa. Over-capacity, increased imports, small and low-priced vehicle importation, a number of differentiated models with sophisticated technology that are offered by global competitors in the domestic market, will affect the investment, production volume, market share and profits of local manufacturers and severely threaten their survival in the long term.

A quality product at a lower cost is an important weapon to overcome these problems and to meet the above threats in the market place. The following areas have been identified on which all automobile manufacturers have to concentrate immediately and intensively to offer quality products at low prices. These factors are: sufficient investment, teamwork and multi-skilled labour, economies of scale in production, raw material and components, R & D improvements and advanced production methods. Government support and co-ordination with the component manufacturers are important to develop these aspects to achieve objectives. Improvement in all these areas will reduce production costs and increase production quality, which in turn would increase the competitive advantage of the company to achieve its objectives. This achievement will cover the social benefits and national objectives on a long-term basis.

According to the framework in Figure 7.1, automobile manufacturers should focus on each of the aspects (8 in total) given at the top of the framework. Successful functioning of these aspects will result in an increase in their competitive advantage in the marketplace where a number of low-priced and quality products dominate the trade-liberalised market. A successful competitive advantage enables a company to achieve its objectives. Achieving these objectives will contribute to the national objectives and social benefits, which will strengthen the survival of the company in the long term.

Some recommendations are given below to accomplish each function mentioned in the competitive advantage umbrella framework. These functions are interconnected and one function cannot reach its success level without the other functions in the automobile manufacturing sectors. The success of the function will enable automobile manufacturers to increase their competitive advantage in the globalised marketplace.

Figure 7.1: The competitive advantage umbrella framework for automobile manufacturers in the globalised marketplace



(1) Investment:

- **Structural adjustments** in the form of joint ventures or mergers and co-operation between both component and vehicle manufacturers could be created to maximise investment utilisation in these sectors. Co-ordination is essential to avoid duplication of investment for domestic and export manufacturers for both component and vehicle manufacturers. This is an important structural change recommended for automobile manufacturer in South Africa.
- **Model rationalisation** is significant in order to limit investment. Manufacturers could upgrade their current models instead of frequently launching new models. They could maximise the utilisation of their investment by reducing investment costs of model-related tooling and machinery. Automobile manufacturers must establish suitable strategies to maximise the

utilisation of the available investment. For this purpose, they can initiate a common engine plan. Manufacturers could share the platform among them to reduce excess investment, while standardisation of components is also essential to increase maximum benefits from the available investment.

- Through assessment and negotiation they could **merge some companies** that are weak with regard to several factors and are wasting huge investments. Mergers will help to reduce the number of manufacturers and increase investment levels to increase economies of scale in production, bringing down the cost of production in the country. The seven automobile manufacturing companies can be reduced to four companies. This would increase investment utilisation and wastage and strengthen the investment capacity and production volume at a minimum investment level.
- **Investment from abroad** must be encouraged without any threat to the expansion of marketing activities of South African manufacturers.

(2) Teamwork:

- A **multi-skilled workforce** is essential to increase teamwork at factory level. Teamwork is one of the important factors needed to implement the lean and JIT production methods thoroughly. Automobile manufacturer could co-ordinate with universities to produce suitable engineers and technicians to train shop-floor workers to upgrade the multi-skilled workforce to increase teamwork in the automobile manufacturing sectors.
- A **common training centre or school** could be established to produce and train the workers of automobile manufacturers to help them to increase multi-skilled workers at a lower cost. Co-ordination is essential among automobile manufacturers in South Africa to increase the practising of teamwork.
- The **management of workers approach** is essential to improve the performance of the team in the company. The employee-ownership method will help the company to encourage workers to obtain good performances and avoid negative union activities.
- **Responsibility for the production process** must be transferred gradually from the higher level of management to the factory-level labourers to increase teamwork for improvement and innovation.
- A **common management team** for all manufacturers should be extensively trained immediately to increase the knowledge and know-how to achieve good teamwork in a factory.

(1) Economies of scale:

- Manufacturers must together negotiate and put pressure on the Government to **stop imports** through a government policy in order to increase sales volumes. This would enable economies of scale in the country. Importation through trade liberalisation has never helped manufacturers to reach economies of scale in this country. Importation must be stopped through the withdrawal of the tariff reduction to boost sales in the local and regional marketplace.
- The **number of automobile manufacturers** in South Africa must be reduced in order to increase economies of scale in production.
- **Standardisation and commonisation of components, engines and platforms** constitute a significant way to reduce components, which will enable manufacturers to have larger output volumes and economies of scale in their production to reduce the cost of vehicle production.
- **Regional integration** is also an important a strategy for local automobile manufacturers to increase their market share and volume of production. Vehicle and component manufacturers must both attain economies of scale to reduce the unit cost of production.
- Managers must maintain a **continuous relationship with customers** in the regional market in order to build confidence and create an awareness of product quality, service warranty and other aspects to increase sales volumes. Economies of scale depend on the increase of sales.

(2) Raw materials and components:

- Automobile manufacturers must use **well-tested and researched components** in order to increase production quality and reduce the cost of faulty production.
- **Inexpensive, light-weight quality raw materials** could be incorporated in production to increase the quality of production and reduce the cost of production. The material's quality will increase the durability and fuel-efficiency of the vehicle. The quality of the products depends on the quality of the raw materials.
- **Wastage of raw material** must be minimised in the production departments to reduce the cost of production.
- Automobile manufacturers have to concentrate on increasing the quality of components with the **co-ordination and co-operation of component manufacturers** in order to reduce production costs. The majority of automobile manufacturers agreed that they could obtain quality local components.

- A **compulsory minimum local-content programme** must be fixed by Government regulation. Automobile manufacturers should by means of concrete and continuous co-ordination with component manufacturers and other suppliers be creative to increase quality and innovation. Local component manufacturers have the necessary know-how regarding local and regional conditions to produce the best components according to the country's road and weather conditions.

(3) **Research and development:**

- Local technology must gradually be incorporated into the product design and equipment adaptation. **Sufficient funds** must be allocated by each automobile manufacturer to increase their own R & D programme to avoid depending on foreign countries for the necessary technology that would bring fruitful benefits on a long-term basis.
- South African automobile manufacturers must create a **good links with the research** activities of the various universities in the country to improve their own research and development in the long term.
- A **common policy** for R & D must be established for automobile manufacturers to increase the number of scientists and engineers. Appropriate training and research schemes through post-graduate institutions according to the requirements of the industry will enable the industry to develop its own R & D assets in the long term. Proper long-term planning or a master plan is essential for this purpose.
- A **new and suitable technology** should be developed that will be suited specifically to the needs of regional developing countries. If once developed, the own technology could be exported to other less-developed and developing countries at lower prices, earning more foreign exchange. These earnings would help the industry to extend and improve their R & D and ensure future expansion of a technological path.

(4) **Production method:**

- **Computerised statistical process control** and **advanced computer technology** must be introduced in the production method to increase product quality and reduce production costs.
- Specific **education and training** of managers and labour at factory level must be improved to negotiate productivity issues two or three times a day to improve quality and avoid errors.
- The workers and managers must be **trained before the changes** of production take place in order to cope with these changes.

- The **lean production, JIT and focused factory systems** must be implemented thoroughly in the manufacturing process to improve the quality and reduce the cost of production.
- **Factories must be reorganised** to adopt world-class production practices / methods. They must spend more time and concentration on organising the factory to introduce new products, increase the quality and volume of production, and reduce production costs. The whole factory must be reorganised according to the flexible production method. For this purpose, the cell-factory system would enable them to reduce space, time, wastage, labour and idle machinery time in the factory, bringing down the cost of production. Factory organisation plays an important role in reducing production costs and increasing the quality of products.

(5) Co-ordination with component manufacturers:

- Proper **co-ordination must be established between the assemblers and component manufacturers** to increase the quality, innovation and reduce the cost of production.
- A **closer relationship with suppliers** is needed in order to implement lean production, preferably long-term and very tight in functional terms, with design and production of components being carried out in close consultation with vehicle manufacturers.
- The component manufacturers must **reduce defect rates, repair work and increase productivity** with lower stocks, more teamwork, less classification, more multi-tasking, reduction of throughput time, overhead costs and increasing the utilisation of fixed capital optimally to reduce production costs and increase the quality.
- They must introduce much **more automation** in the production process. All these functions must be completed in consultation with the automobile manufacturers.
- **Reorganisation of supply chains** is essential to support the lean production method. Automobile manufacturers must reorganise their component supply system in consultation with component manufacturers as well as reduce the number of first-tier suppliers. Assemblers must guide automobile manufacturers and put pressure on them to reduce costs and increase quality, creatively assisting them to use the lean and JIT production methods to achieve these objectives.
- Automobile manufacturers must **train the suppliers** in terms of quality control, workers, product design, technical norms and specifications. The quality of components must be increased similarly to that of other developing and advanced countries. The flexible production system must be improved in the component manufacturing sector to reduce the cost of production.

(6) Government support:

- **Import control** is essential to increase sales in the domestic market for local producers. Government must make efforts to stop importation by revising the MIDP programme in order to develop the industry in the long term. Importation will not help the growth of the industry in the long term. Government must withdraw the tariff reduction gradually in consultation with the WTO to increase vehicle sales in the domestic market
- Government must create **legal co-ordination** between capital, labour and the State to increase the industry's productivity.
- **Long-term export incentive schemes** must be established by the Government to increase capacity. Government could establish a common export authority to increase exports, which would facilitate an increase in quality, productivity; technological innovation and market information in order to expand export market opportunities.
- Government must make efforts to **bring inflation under control** to promote the automobile manufacturing industry.
- Government must **establish co-operation** with automobile and component manufacturers and analyse opportunities carefully to expand production capacity.
- **Co-ordination** must be established between the South African Government authorities and component and automobile manufacturer to test components and vehicles in order to reduce imports of the components and reduce the cost of production of both.
- Government must train special **trade counsellors** for Automobile South Africa in regional and foreign countries to assist exporters.
- The Government could establish **common warehousing** operations in foreign countries to assist vehicle exporters in reducing the price of vehicles.
- The Government must take strict action to **limit the activities of TNCs** in the domestic market on a long-term basis so that local automobile manufacturers are enabled to develop themselves with their own technology to compete globally.
- Government could create a **renewal fund system** to establish and develop the local R & D programme for the automobile manufacturing sectors to increase innovate abilities. A fiscal incentive scheme may be established for the R & D of automobile manufacturers.
- It is important to **increase production volume** and reach economies of scale in production to bring down the price of vehicles. This would enhance the competitive advantage in the domestic and regional market first. The largest possible proportion of the emerging local market should be

reserved for locally manufactured vehicles through government policy.

- Government must determine the **number of vehicle manufacturers** permitted to operate in the country and the number of different models they must manufacture.
- The Government has to concentrate seriously on a more **even distribution of income** among the people of the country to increase buying power and create a mass market for basic cars in South Africa.

To summarise, unity and consensus must be established officially to implement these recommendations to increase automobile manufacturers' capacity and ability to succeed in a stipulated time. Long-term strategy planning is essential for automobile manufacturers to achieve this target. Very clear decisions have to be taken to implement the above-mentioned recommendations with the support of the Government and regulatory bodies in the country. High co-ordination among all manufacturers is essential to increase economies of scale and reduce the price of vehicles in order to capture the whole domestic and regional market. This will increase the competitive advantage in the global marketplace in future. Government must create a certain time frame to practise and concentrate on this framework, taking into account the specific situation of automobile and component manufacturers in this country. Manufacturers must assess performance improvements at regular time intervals and make adjustments in their operation if necessary to immediately rectify the system and fortify the concentration until a certain level of performance has been reached in the automobile manufacturing industry. The competitive advantage umbrella framework enables automobile manufacturers to protect themselves from the negative influence of globalisation in the domestic, regional and global marketplace in the long term. The framework is named the "umbrella framework" to indicate that all automobile manufacturers in South Africa must operate under one umbrella with regard to all aspects to achieve the common objective.

The trade liberalisation policy through the globalisation process and current global marketing trends have a significantly negative influence on the performance of automobile manufacturers in South Africa, even though local manufacturers have sufficient internal capabilities and abilities to face competitors. Because the trade liberalisation policy brings a number of innovative and low-priced vehicles to the domestic market, global competitors dominate the local market of South African automobile manufacturers.

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APPENDIX A



Potchefstroomse Universiteit
vir Christelike Hoër Onderwys

K.Ishaq,
P.O. Box- 9309,
Promosa- 2530

Dear Respondent,

20th May, 2003

I am a lecturer in Marketing at the South Eastern University of Sri Lanka. Now I am on study leave to read my Ph.D. degree in the School of Entrepreneurship, Marketing and Tourism Management at the Potchefstroom University for Christian Higher Education under the guidance of Prof. L.R.J. Van Rensburg (see attached letter).

I am currently in the process of completing the thesis according to the requirement of my study that is entitled: **“The influence of globalisation on automobile manufacturers in South Africa”**. Besides conducting an extensive literature study, I am required to undertake an empirical study in this field.

I do understand that you have a very busy schedule at work. I would greatly appreciate it if you would take around twenty minutes of your time to complete the accompanying questionnaire, each question requiring only a single answer. Your answer will statistically be processed and will be used for the completion of this degree.

No reference to your name or address is mentioned anywhere in the questionnaire. You will remain anonymous. It must be emphasised that all information received will be treated as strictly confidential and it will be impossible to identify any business on the strength of the results included in the final report.

Please be kind enough to complete the questionnaire at your earliest convenience and return it to above-mentioned address by 10th June 2003. For your convenience I have enclosed a self-addressed envelope. Your response is important, as the study population is very small.

Please feel free to contact me. If you should experience any problems with the completion of the questionnaire, phone me at (018) 296 1184 or e-mail me at kisag@yahoo.com

Thank you very much for you co-operation.

Yours Faithfully.

Mr. K.ISHAQ

Questionnaire Number

**MANAGEMENT QUESTIONNAIRE
(CONFIDENTIAL)**

Research title: The influence of globalisation on automobile manufacturers in South Africa

1. Does your company undertake an analysis of local competitors? (Tick the appropriate block)

Yes No

1.1 Does your company undertake an analysis of global competitors? (Tick the appropriate block)

Yes No

1.2 If yes, do you agree with to the following statements with regard to your competitors? Kindly respond according to the scale indicated below:

1 = Strongly disagree 2 = Disagree 3 = Agree 4 = Strongly agree

No	Statements				
01	The intelligence system of our company is not sufficient to accurately identify global competitors in the domestic market	1	2	3	4
02	The intelligence system of our company is not sufficient to accurately identify local competitors in the domestic market	1	2	3	4
03	We do not analyse competitors' past and current marketing strategy	1	2	3	4
04	We do not examine the market share and market coverage of local competitors	1	2	3	4
05	We do not examine the market share and market coverage of global competitors	1	2	3	4
06	It is difficult to measure the objectives and profitability of foreign competitors	1	2	3	4
07	We do not analyse technology, staff and product development of global competitors	1	2	3	4
08	We do not make efforts to identify new foreign competitors in the global market	1	2	3	4
09	We are unable to accurately identify the opportunities and threats of foreign competitors	1	2	3	4
10	We are unable to accurately identify the opportunities and threats of local competitors	1	2	3	4
11	We do not analyse local and foreign competitors' strength and weakness separately	1	2	3	4

2. Does your company undertake a customer analysis? (Tick the appropriate block)

Yes No

2.1 If yes, to what extent do you agree with the following statements?

1 = Strongly disagree 2 = Disagree 3 = Agree 4 = Strongly agree

No	Statements				
01	Our company provides a high level of warranty and service to its customers than global competitor do	1	2	3	4
02	We are more successful at maintaining long term-oriented relationship with our customers than global competitors are	1	2	3	4
03	We are more successful at satisfying customers' needs and wants than global competitors are	1	2	3	4
04	We focus more on product / models to add value for customers than global competitors do	1	2	3	4

05	We offer affordable products to our customers than our competitors do	1	2	3	4
06	We offer more low-priced products to our customers than our global competitors do	1	2	3	4
07	All departments in our business are working with a customer-focus in mind	1	2	3	4
08	We have reliable, valid and accurate sources of customer information	1	2	3	4
09	Quality and durability are our business' core offer to customers	1	2	3	4
10	We have a customer-oriented mission statement	1	2	3	4
11	Our customers are not satisfied with the improvement of our products / models	1	2	3	4
13	Our staff has a strong committed relationships with our customers	1	2	3	4
14	We focus on the product to satisfy customers in each segments of our business	1	2	3	4

3. In our company we

1 = Strongly disagree 2 = Disagree 3 = Agree 4 = Strongly agree

No	Statements				
01	Identify the stakeholders of our company	1	2	3	4
02	Maintain and develop good relationships with stakeholders	1	2	3	4
03	Receive the support of stakeholders to develop a marketing strategy	1	2	3	4
04	Make efforts to enhance the stakeholders' value	1	2	3	4
05	Maintain a closer contact and relationship with key stakeholders	1	2	3	4
06	Do not integrate the stakeholder analysis into our marketing strategy	1	2	3	4
07	Strongly depend on investment and financial stability through stakeholders' relationship to react to foreign competitors	1	2	3	4

4. With regard to the global competitive marketplace, evaluate the following

1 = Strongly disagree 2 = Disagree 3 = Agree 4 = Strongly agree

No	Statements				
01	The demographic environmental changes impacts negatively on our business	1	2	3	4
02	Economic environmental changes impact negatively on our business	1	2	3	4
03	Rapid technological environment changes impact negatively on business and strategy	1	2	3	4
04	Political environmental changes impact negatively on our business and marketing strategy	1	2	3	4
05	Legal environmental changes impact negatively on our business	1	2	3	4
06	Social / cultural environmental changes impact negatively on our business	1	2	3	4
07	Scanning and monitoring the current marketing environment is a difficult process in the global marketplace	1	2	3	4
08	We do not have skilled and experienced management to scan the environment	1	2	3	4
09	Forecasting future trends is a difficult process as more global competitors are entering the marketplace	1	2	3	4

5. According to the internal analysis, how do you evaluate your company in terms of the following?

1 = Strongly disagree 2 = Disagree 3 = Agree 4 = Strongly agree

No	Statements				
01	We have sufficient strength to react to local competitors	1	2	3	4
02	We have sufficient strength to react to global competitors	1	2	3	4
03	We have proper resource allocation for each department to achieve the major objectives	1	2	3	4
04	We have managerial skills to defend and react to competitors in the global marketplace	1	2	3	4
05	Our management has both multicultural and international experience to increase our market share and profitability	1	2	3	4
06	Our management system will be able to cope with the new global marketing environment	1	2	3	4
07	Our management has the capability to assess international marketing activities and global competitive behaviour	1	2	3	4

08	We have well-developed organizational structure to compete with and implement our marketing strategy in the global marketplace	1	2	3	4
09	We compare our corporate strategy with competitors' global strategy	1	2	3	4
10	We have skilled labour in accordance with international standards	1	2	3	4
11	We have developed and we maintain education and training programmes to build efficiency of workers to offer the best products and services to our customers	1	2	3	4
12	Our management has the capability to formulate new strategy in accordance with the global environment	1	2	3	4
13	We assess the performance of the marketing department on a regular basis	1	2	3	4

6 Please indicate the relevance of the following statements in relation to your production method

1 = Strongly disagree 2 = Disagree 3 = Agree 4 = Strongly agree

No	Statements				
01	A flexible production method is not applied throughout our production process	1	2	3	4
02	The Just-in-time production and supply system are not applied properly	1	2	3	4
03	We do not concentrate on frequent model changes	1	2	3	4
04	We are unable to create innovation on our product at the level of our global competitors	1	2	3	4
05	Our research and development are not sufficient to bring new and innovated products to the market to attract customers from our competitors	1	2	3	4
06	We do not use light-weight material in our products	1	2	3	4
07	We are unable to obtain high-quality local components of an international standard	1	2	3	4
08	The quality of local components impacts negatively on the quality of our product	1	2	3	4
09	We allocate less time and energy to our quality control system than our competitors	1	2	3	4
10	All departments are not involved in total quality management system	1	2	3	4
11	We have to improve automation in our production process to face global challenges	1	2	3	4
12	We applied Focused Factory(FF) concept to add more value for customer	1	2	3	4
13	We have to invest further to introduce computerised and advanced manufacturing technology	1	2	3	4
14	We have to make efforts to increase our production volume to reach economies of scale to compete in the global marketplace	1	2	3	4
15	We have to make efforts to reduce the cost of production to increase our competitive advantages	1	2	3	4
16	We are in need of enhancing team work in our production process	1	2	3	4
17	Our performance and volume of production are not sufficient to attract further investment	1	2	3	4
18	We have good relationships with local component manufacturers	1	2	3	4

7. Evaluate your company according to the following features of trade liberalisation policies

1 =strongly disagree 2 = Disagree 3 = Agree 4 = Strongly agree

No	Statements				
01	Tariff reduction impacts negatively on the output of our company	1	2	3	4
02	Tariff reduction has increased the importation of products in the local market	1	2	3	4
03	Importation has reduced the profit margin of our business	1	2	3	4
04	Vehicle prices have declined because of the trade liberalisation policy	1	2	3	4
05	Small and low-priced vehicles are being introduced in local market by our competitors	1	2	3	4
06	A number of differentiated products are coming to the local market	1	2	3	4
07	Our domestic sale have declined in the past years due to importation	1	2	3	4
08	Importation hinders the increase of our market share in the local market	1	2	3	4
09	The free trade policy impacts negatively on our competitive advantages in local and regional markets	1	2	3	4

8. With regard to current global marketing trends, to what extent do you agree with the following?

1 = Strongly disagree 2 = Disagree 3 = Agree 4 = Strongly agree

No	Statements				
01	Over-capacity of vehicle production in the world will affect our production volume and marketing activities in future	1	2	3	4
02	Over-capacity affects our competitive position in the global marketplace	1	2	3	4
03	Cheaper products affect our regional market	1	2	3	4
04	Cheaper labour in other developing countries will impact negatively on the pricing strategy of our product	1	2	3	4
05	Mergers and acquisitions among global companies create new competition for our business	1	2	3	4
06	We have to consider reducing the number of models due to over-capacity and competition	1	2	3	4
07	Our contribution to world production has declined due to over capacity of production	1	2	3	4
08	We are facing difficulties in transferring new technology from advanced countries	1	2	3	4
09	Control of the World Trade Organization and other international trade-related agreements impact negatively on our investment, production and marketing activities in the global marketplace	1	2	3	4
10	Marketing activities are controlled by our parents company	1	2	3	4
11	There is the possibility of future job losses in our company	1	2	3	4

9. To what extent do you agree with the following statements?

1 = Strongly disagree 2 = Disagree 3 = Agree 4 = Strongly agree

No	Statements				
01	Local-content programme of the government did not help us to improve the quality of production	1	2	3	4
02	Local-content programmes creates a hindrance to developing our own strategic marketing according to global market competition	1	2	3	4
03	The Motor Industry Development Programme (MIDP) does not help us to increase our competitive position globally	1	2	3	4
04	We are not able to benefit from the operation of MIDP due to tariff reduction	1	2	3	4
05	We expect further changes in government policy that is related to our business to increase competitiveness in global marketplace	1	2	3	4
06	Import and export compensation mechanisms do not help the growth of our company on the long term	1	2	3	4

10. To what extent do you agree with the following marketing tactics

1 = Strongly disagree 2 = Disagree 3 = Agree 4 = Strongly agree

No	Statements				
01	By concentrating on product and product design strategy, more value will be added for our customers than local and global competitors do	1	2	3	4
02	The pricing strategy should encourage customer loyalty	1	2	3	4
03	By selecting a suitable distribution channel, cost will be reduced and a product offered that suits customers' desires	1	2	3	4
04	Modern communication and technology should be used for marketing promotion and to communicate with customers	1	2	3	4

THANK YOU FOR YOUR CO-OPERATION