Elements of a transformed Free State economic structure: the automotive sector, a case study on the aftercare market

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FREE STATE PROVINCE

i. DISCLAIMER

This report focuses on the elements of a transformed Free State economic structure: the automotive sector, a case study on the automotive aftercare market. The findings are based on research and do not represent the opinion of the Department of Economic, Small Business Development, Tourism and Environmental Affairs (DESTEA).

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SECTION A: BACKGROUND AND THE RATIONALE

1. Introduction

There is consensus amongst economists, policymakers, and industry experts that small, medium and micro enterprises (SMMEs) are the key drivers of economic growth. The automotive industry is South Africa's most important manufacturing sector. Approximately one-third of the value addition towards the gross domestic product (GDP) derives either directly or indirectly from vehicle assembly, and automotive component manufacturing activity, positioning the industry.[1] Despite its contribution, there is not much research conducted on the automotive industry in South Africa, and especially within the township areas. Instead, research on the automotive sector primarily focused on barriers to entry experienced by SMMEs. The term *automotive* includes all business activities related to the maintenance of automobiles, automobile repair shops, and backyard mechanics (Wise & Chiloane-Tsoka, 2015). The Free State Department of Economic, Small Business Development, Tourism and Environmental Affairs (DESTEA) ensures the promotion of economic development while striving to create an enabling environment for job creation. Through this, DESTEA has developed the Enterprise Development and Support Programmes to facilitate enterprises in formalising their businesses, gaining access to markets, and creating job opportunities. Furthermore, DESTEA seek to support priority sector by providing enterprises with financial and non-financially. Therefore, this research will look at the automotive industry as an element that could transform the Free State economy. Section A provides the reader with the background, requirements, problem statement, objectives, and research methodology. Section B provides a global, national and provincial perspective to orientate the reader on the industry along with the literature review compiled using published government documents, academic journals, and articles that were cross-referenced with the primary data collected. Section C discusses the findings from the primary data collected, recommendations, and concludes this research report.

[1] South African Automotive Master Plan 2035. Accessed from: (https://www.afsa.org.za/Downloads/SA_Auto_Masterplan.pdf).

2. Problem statement

The South African Automotive Masterplan has set out key developmental objectives for the year 2035. These objectives are identified to help realise the aim of the South African automotive industry, however, for this research, only one objective is relevant namely; transforming the South African automotive industry through the employment of Black upskilling individuals, empowerment of dealerships, and authorised repair facilities as there are growth opportunities.[2] The Competition Commission of South Africa has received numerous complaints in the past decade about allegations relating to anti-competitive conduct in the aftercare market value chain. There are allegedly exclusionary agreement between OEMs and Approved Motor-body Repairers. The foreclosure of the ISPs and HDIs in the markets for the service, maintenance and Mechanical Repairs for In-warranty Motor Vehicles are the allocation of work by Insurers, restrictions on the sale of Original Spare Parts, great barriers to entry that purposely exclude SMMEs and the lack of choices available for SMMEs in the sale and fitment of spare parts.[3] Stakeholders in the aftercare market have mobilised themselves and joined the Right to Repair Campaign (R2RC), which primarily advocates that SMMEs should have a choice on who they consult for aftercare market, access to service, and repair of their modern vehicle's equipment, software and multiplex networks.[4] Hence, the department saw the need to investigate the nature of the aftercare market in the Mangaung Metro Municipal (MMM) area. This research seeks to determine whether stakeholders in the MMM area are affected by issues listed by the Competition Commission and the R2RC.

[2] South African Automotive Master Plan 2035. Accessed from: (https://www.afsa.org.za/Downloads/SA_Auto_Masterplan.pdf).

[3] Competition Commission South Africa. (2020). Guidelines for Competition in the South African Automotive aftercare market. Accessed: (https://www.compcom.co.za/wp-content/uploads/2020/12/Guidelines-for-Competition-in-the-South-African-Automotive-Aftercare_markets_10Dec2020_Final-1.pdf).

[4] Right to Repair South Africa. Accessed: (https://www.right2repair.org.za/services/).

3. Research Aim & Objectives

This report aims to research the automotive industry with special reference to the aftercare market. To achieve this aim, the objectives identified are as follow:

- Provide a literature review on the automotive industry in South Africa;
- Determine the challenges faced by township enterprises in the Mangaung Metropolitan Municipality (MMM) automotive industry; and
- Make recommendations to the department based on literature review and feedback from participants.

4. Research Methodology

This research report makes use of a qualitative approach, and the instrument used was a survey, where information is obtained directly from the participants. The survey consists of both close and open-ended questions. This report is exploratory with the use of primary research methodology, and an in-depth understanding of the challenges that were/are experienced in the automotive industry's aftercare market. [5]

5. Population profile

Mangaung Metropolitan Municipality (MMM) consists of 888 000 people, which represents 1.5% of South Africa. The Free State's population has an average annual growth rate of 0.65%, while the MMM's population is 1.55% per annum, which is approximately double that of the province. MMM represents 30% of the total population in the Free State and the most populous region as of 2020.[6] The focus is on the MMM as it is the only metro in the Free State province consists of numerous townships and

[5] Exploratory research: Definition and characteristics. Accessed from: (https://www.questionpro.com/blog/exploratory-research/).
[6] Statistical Overview: Mangaung. IHS Markit Regional eXplorer version 2175.

settlements areas in Botshabelo, Thaba 'Nchu, and Bloemfontein.[7] The township sample size consisted of owners/ managers of the automotive body repair enterprises. A total of n=50 of survey were distributed in Phase 7, Heidedaal, Turflagte, Namibia, Joe Slovo, Bochabela, Rocklands, Mafura, Freedom, Ratlou, Sellosecha (Thaba 'Nchu) and H-section (in Botshtabelo). A total of n=48 of surveys were completed by the participants.

6. Definitions

This section will provide the reader with some clarification and definitions used in the automotive sector to orientate the reader before reading the literature review.

6.1 Agreement: any form of consensus, a contract, arrangement, or understanding between two or more parties, which in turn establishes a relationship. This can either be legally or not legally enforceable, however, is binding.

6.2 Automotive Aftercare market: this refers to the after-sale market, which includes maintenance and repair services and related value-added products, mechanical repairs, structural repairs, and non-structural repairs to motor vehicles. In addition, it refers to the sale of motor vehicle spare parts, tools, and components and sales of motor vehicle insurance.

6.3 Dealer: refers to enterprises, who are in the retail sector of new and/or used motor vehicles, the sale and resale of spare parts, and service, maintenance, mechanical repairs of motor vehicles. However, it excludes motor-body repairers. Dealer refers to someone appointed by OEM.

6.4 Historically Disadvantaged Individual (HDI): refers to persons that have been unfairly discriminated against because of their race.

6.5 Independent Service Providers (ISP): refers to all dealers and motor-body repairers that have not been officially appointed as an Approved Dealer or Approved Motor-body Repairer.

[7] Mangaung Metropolitan Municipality. (2013). Notice: Naming of Different Areas, New Townships and Settlements, Features and Public Places. Accessed: (http://www.bloemfontein.co.za/2013/10/02/notice-naming-of-different-areas-new-townships-and-settlements-features-and-public-places/).

6.6 Motor-body repairers: refers to enterprises that provide structural and non-structural repairs of motor vehicles, excludes dealers.

6.7 Non-structural repair: refers to the restoration of the damaged interior and exterior parts of a motor vehicle, which does not include mechanical functioning, plastics, steel parts, and aluminum.

6.8 OEM refers to the original equipment manufacturer and any legal person, which has direct or indirect control. Additionally, also refers to someone who is an importer of motor vehicles.[8]

SECTION B: SECTORAL OVERVIEW

7. Literature review

7.1 South African Automotive Masterplan 2035 vision

The automotive sector plays a significant role in the South African economy. However, research conducted to compile the South African Automotive Masterplan (SAAM) for 2023 indicate that the industry faces numerous challenges. South Africa is a marginal player on the global stage, despite the industry's critical role in its totality and concerning the manufacturing element and value chain. The deficiency in South Africa's automotive industry relates to the recent poor domestic market performance, imports into the market, and deteriorating regional market circumstances.[9] To address those challenges, the SAAM 2023 has set out key objectives and its estimated impact on the industry as summarized in table 1.

Table 1: Summary of SAAM objectives and estimated impact

Objective	Estimated impact on SA auto industry
1. Increase SA vehicle production to 1% of global output.	• CBU production to 1.39m units annually (129% higher than 2015 levels). • Increase vehicle production value to R314bn.

[8] Competition Commission of South Africa. (2020). Guidelines for Competition in the South African Automotive Aftercare market.

[9] The dti. (2018). South Africa's automotive industry masterplan to 2023: a report of the South African Automotive Masterplan Project. Accessed: (https://www.afsa.org.za/Downloads/SA_Auto_Masterplan.pdf).

2. Increase local content in SA assembled vehicles to 60%.	• Increase local content R135bn on 2015 levels. • 55% more local content per assembled vehicle.
3. Double employment in the auto value chain.	• Aggregate employment to 224,000.
4. Improve industry competitiveness to leading international competitors.	• Ensure comparative price and non-price competitiveness. • Sustained export competitiveness.
5. Transformation of the South African automotive value chain.	• 25% Black-owned involvement at T2/3 component levels, and in dealerships and authorised repair facilities. • Amplified skills development. • Enhanced employment equity at senior management and technical professional levels.
6. Deepen value addition within SA's auto value chains.	• Growth of auto component exports and production for the aftercare market at the same rate as CBU local content increases. • Growth in R&D/other innovation metrics within the SA auto value chain.

Source: NAAMSA & NAACAM Presentation, (n.p).

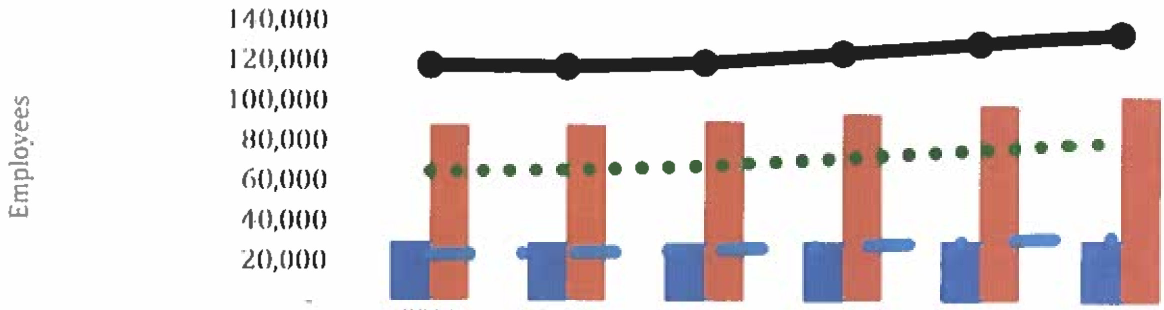
7.2 South African automotive industry

The South African automotive industry contributed 6.4% to the gross domestic product (GDP) in 2019. Of which, 4.0% is from manufacturing and 2.4% is from retail and accounts. The automotive industry is South Africa's fifth-largest exporter and accounts for 13.9% of the total exports. In terms of employment, the manufacturing segment employs approximately 110,250 people across the different tiers of activities.[10] The 2020 data on the automotive industry indicates that the industry contributed a mere 4.9% to the GDP of which 2.8% was from manufacturing and 2.1% from retail. This is an indication that the automotive industry declined from 6.4% in 2019 to 4.9% in 2020, which could be attributed to the outbreak of Covid-19. Employment in the industry was also affected in the vehicle and component production, indicating a decrease from 110 250 in 2019 to

[10] Competition Commission. (2020). Guidelines for Competition in the South African Automotive Aftercare market.

106 726 in 2020.[11] NAAMSA (the automotive business council) and the National Association of Automotive Component and Allied Manufacturers (NAACAM) recommends that employment in the value chain should grow at 14% (>16,000), while the youth employment is targeted to grow from 55% to 60% as indicated in figure one.

Figure 1: NAAMSA & NAACAM employment within value chain targets



	2018	2019	2020	2021	2022	2023
OEM employment	29,960	29,374	29,411	30,124	30,855	31,603
Component employment	87,991	88,086	90,054	94,180	98,495	103,007
Total employment	117,951	117,461	119,465	124,305	129,350	134,609
Youth employment	64,991	65,895	68,215	72,221	76,446	80,900
Female employment	23,472	24,549	26,163	28,466	30,915	33,518

Source: NAAMSA & NAACAM Presentation, (n.p).

Figure one indicates that NAAMSA and the NAACAM seek to grow the total employment from the 2018 number of 117,951 to 134,609 employees by 2023. In terms of youth employment, the 2018 number of 64,991 should increase to 80,900 by 2023. The female employees, which was 23,472 in 2018, should increase to increase to 33,518 by 2023.[12] To focus the literature review the proceeding section will unpack the automotive aftercare market. These figures indicate how the automotive sector has performed and is anticipated to perform in the future. However, it does not provide a breakdown of the automotive aftercare market, which will be discussed in the next section.

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[11] *The dtic.* (2021). South Africa Automotive Master Plan: Progress on Implementation. Accessed: (http://www.thedtic.gov.za/wp-content/uploads/Auto_Master_Plan.pdf).

[12] *NAAMSA & NAACAM 5 Year Automotive Sector Business Plan. Accessed: (https://slideplayer.com/slide/17104331/).*

7.3 Automotive aftercare market

In 2005, the automotive aftercare market consisted of 665,000 companies of which 650,000 were small and medium-sized enterprises (SMEs) and 15,000 were manufacturers of automotive components supplying to the ISP. As of 2005, the sector employed 3.5 million people in the 27 Member States, (including South Africa's Right to Repair Campaign) and in the European Union. The aim of the automotive aftercare market Right to Repair Campaign (R2RC) are as follow:

- Enhancing the visibility and understanding of the independent automotive aftermarket aftercare market;
- Ensuring the legal right of access to technical information, tools and equipment, parts and skills development is upheld;
- Enhancing a regulatory environment that safeguard the interest of small and medium-sized companies; and
- Ensuring that motorists' rights are reserved to have their vehicles serviced at any workshop of their choice.[13]

The automotive aftercare market industry in South Africa has shown strong growth since the 2000s and is expected to grow at an annual rate of 5.5% until 2023. In 2017, the aftercare market saw increased levels of investment into the sector as well as new entrants into the sector especially by small-sized enterprises, which contributed $6.6 billion to the sector.[14] According to the Competition Commission, there are approximately 1800 service providers in the market for motor body repairers and service centers. This should be read in conjunction with the statistical fact that only 30% of the cars in South Africa are insured or still under warranty, while 70% of vehicles are not insured or under warranty. This implies that independent service providers (unauthorized panel beaters)

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[13] Right to Repair South Africa. Accessed: (https://www.right2repair.org.za/).

[14] Research and Markets. (2019). South Africa Automotive Aftercare market Industry, 2019-2023 – Right to Repair Policy & Online Retail Will Force OEMs, Dealers, and Suppliers to Reimagine Business Models and Forge New Partnerships. Accessed: (https://www.globenewswire.com/news-release/2019/03/27/1773795/0/en/South-Africa-Automotive-Aftercare-market-Industry-2019-2023-Right-to-Repair-Policy-Online-Retail-Will-Force-OEMs-Dealers-and-Suppliers-to-Re-imagine-Business-Models-and-Forge-New-Partne.html).

could compete to service the 70% segment of the market, which is not insured or under warranty. [15]

Despite, the contribution made by the automotive aftercare market industry and the 70% room for competition, small and medium enterprises operating in this sector continue to face certain challenges related to closed networks that make it difficult for their businesses to grow. These challenges include; *(1)* when a customer buys a new vehicle in South Africa, the new vehicle comes with a warranty from the OEM. Customers purchase a motor plan/ service plan. Therefore, to ensure those customers' vehicle warranty remains valid, all parts, maintenance, and repair work must be obtained from the OEM-approved service provider. If a customer goes to a non-OEM approved service provider, the OEM is unlikely to honor their warranty agreement. In addition, if a vehicle under warranty is fitted with car parts from an independent part supplier (non-OEM approved), then the warranty on the vehicle will be invalid.

(2) OEM manufacture car parts and appoints certain manufacturers to manufacture those OEM brands. OEM also specifies that all maintenance and repair work on vehicles can only be done by a qualified technician employed or approved by the OEM. *(3)* This implies that independent manufacturers and panel beaters (who largely consist of historically disadvantaged individuals [HDI]) are isolated from operating on customers' vehicles that are under warranty if they are not pre-approved by an OEM.[16] Therefore, the Free State Department of Economic, Small Business Development, Tourism and Environmental Affairs (DESTEA) must investigate the challenges faced by small and medium enterprises operating in the automotive aftercare market industry.

[15] Competition Commission South Africa. (2017). Background – automotive aftercare markets industry. Accessed: (http://www.compcom.co.za/wp-content/uploads/2017/02/Background-%E2%80%93-automotive-aftercare-markets-industry.pdf).

[16] Competition Commission South Africa. (2017). Background – automotive aftercare markets industry. Accessed: (http://www.compcom.co.za/wp-content/uploads/2017/02/Background-%E2%80%93-automotive-aftercare-markets-industry.pdf).

7.4 CCSA Requirements and guidelines

The final guidelines for competition in the South African automotive aftercare market set out by the National Automobile Dealers' Association (NADA) state that owners of new vehicles in South Arica will have the right to repair or service their vehicles at an independent service provider of their choice. These owners will not be locked into the restrictive embedded motor or service plans, and vehicle manufacturers will not be allowed to void warranties if owners choose to go with an independent service or repair provider.

Below are some key changes set by NADA;

- **Dealerships and manufacturers cannot lock you in** – Car manufacturers cannot obstruct you from seeking service, maintenance, or mechanical repair work for your new motor vehicle at an independent Service Provider (ISP) of your choice.

- **Unbundling of plans at the point of sale** – There will be an unbundling of maintenance and service plans at the point of sale from the purchase price of the motor vehicle. This will allow SMMEs to exercise their choice regarding whether or not they want to purchase the maintenance or service plan from their dealership or an ISP.

- **You can fit non-original parts** – SMMEs will be able to fit original or non-original spare parts, whether by an approved dealer, motor-body repairer, or an ISP, during the in-warranty period. The quality of these parts will be dealt with in line with consumer protection laws, as well as existing warranties.

These guidelines will require Original Equipment Manufacturers (OEMs) to:

- Adopt strategies and develop business models that will allow ISPs and historically disadvantaged individuals (HDIs) to undertake service and maintenance while a vehicle is still in warranty.
- Disclose certain information to SMMEs, such as the price of any pre-included service and maintenance plan, extended warranty, or scratch and dent product, to enable them to make informed choices about the required future maintenance of their vehicles.

SMMEs and stakeholders should understand that law, meaning they cannot be enforced, does not set out those guidelines. Instead, the guidelines are a series of non-binding applications for use by the Competition Commission of South Africa (CCSA) in interpreting certain sections of the Competition Act as they relate to the automotive aftercare market. SMMEs will need to communicate with the relevant dealers to understand what is and what is not possible concerning respective OEM processes, procedures, and terms and conditions. Moreover, when these guidelines take effect, SMMEs will be in a position to choose to undertake servicing and maintenance work at a workshop of their choice, including the ISPs. By doing so, there will be certain obligations and consequences as set out in the guidelines such as possible voiding of parts of the warranty.

"If an ISP or any entity wishes to become an approved dealer, the OEM must have fair and transparent selection criteria. If the ISP meets those full terms and conditions, and criteria, then the OEM should approve them by typically appointing a selective number of Motor-body Repairers to undertake repair work on their brand's Motor Vehicles during the In-Warranty period (i.e. Approved Motor-body Repairers). Approved Motor-body Repairers must be accredited to repair Motor Vehicles of that particular OEM. To attain accreditation and Motor-body Repairers are typically required to make large financial, infrastructure, and operational investments. OEM requirements on the size and location of premises and land are also cited as a contributor to the high start-up costs. In this market, finance is thus a high barrier to entry for ISPs and HDIs. Furthermore, the Commission has found that the application and selection process for the appointment of an Approved Dealer(s) is deemed unfair and not transparent. There have been allegations that this process is particularly biased against the HDI applicants.[17] This is vital for SMMEs to understand and is incorporated into the guidelines to protect the customer and the integrity of their vehicle. When working on the vehicle of a consumer,

[17] https://www.compcom.co.za/wp-content/uploads/2020/12/Guidelines-for-Competition-in-the-South-African-Automotive-Aftercare markets_10Dec2020_Final-1.pdf

ISPs must disclose the following because they will carry the full liability and risk for the work that they do:

- Whether they have adequate insurance to cover all liability or potential damage to the vehicle; and
- The risk in servicing at an ISP (to the warranty) and the fact that the OEM or their provider will not pay for any work done.

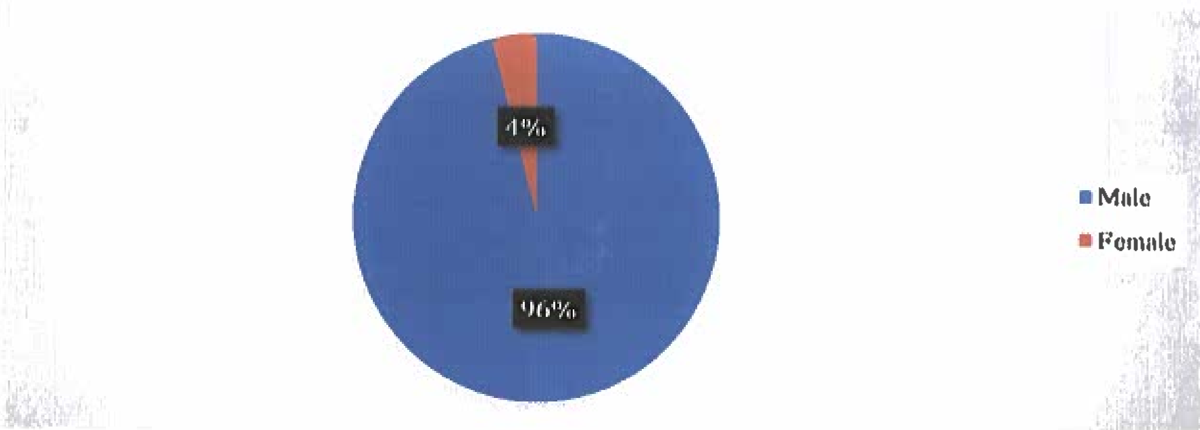
SMMEs should remain critically mindful that if their vehicle is not serviced or repaired correctly at an ISP, it could still have an impact on their vehicle's factory warranty under the guidelines. In addition, any damages to a vehicle because of work performed or non-original spare parts fitted by ISPs will be assessed by respective OEMs and either part of, or the entire warranty can be voided. The Motor Industry Ombudsman of South Africa (MIOSA) will handle any disputes and ISPs will need to ensure they are meeting their legal obligations in terms of the Consumer Protection Act. While SMMEs will invariably have more choice when it comes to having their vehicles serviced and maintained, they must make informed decisions and follow appropriate due diligence before appointing any workshop to service their vehicle.

SECTION C: RESEARCH FINDINGS AND RECOMMENDATIONS

8. Research findings

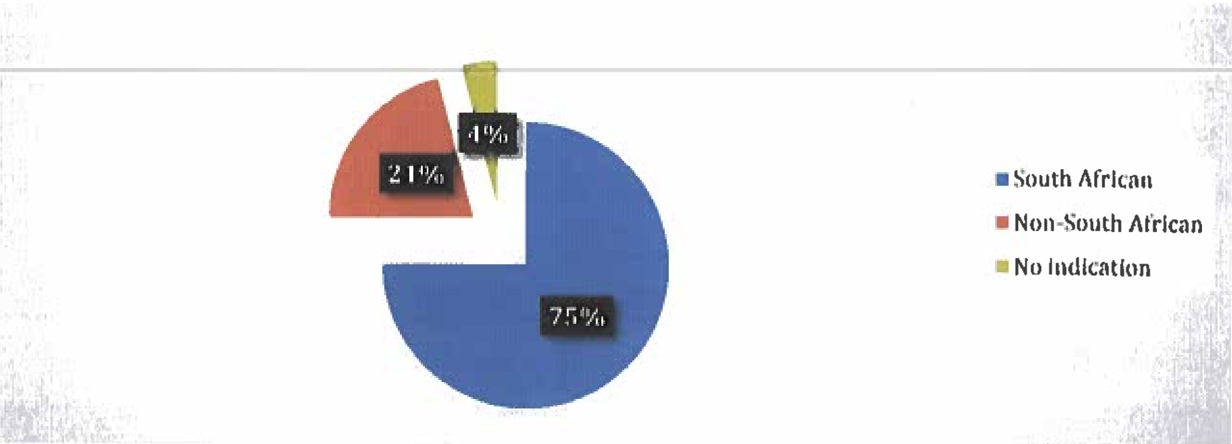
The Researchers distributed a total of n=50 surveys, of which n=48 were completed and returned. Section A of the survey seek to obtain the demographic information of the participants, which will discussed in this section.

Figure 1: Gender classification



The data indicates that the majority of 96% are male, while females represents a mere 4% of the participants. The data clearly shows low representation of female ownership/management in MMM township aftercare market. There is a correlation between the feedback obtained from participants and literature review. There is a need to increase female representation NAAMSA and NAACAM have indicated that there is a need to increase female representatives in the automotive sector, especially concerning the number of employees from 23,472 in 2018 to 33,518 by 2023.[18] Figure 2 indicates that, in terms of citizenship, 75% of the participants are South African, 21% are non-South Africans and 4% of the participants did not provide any indication.

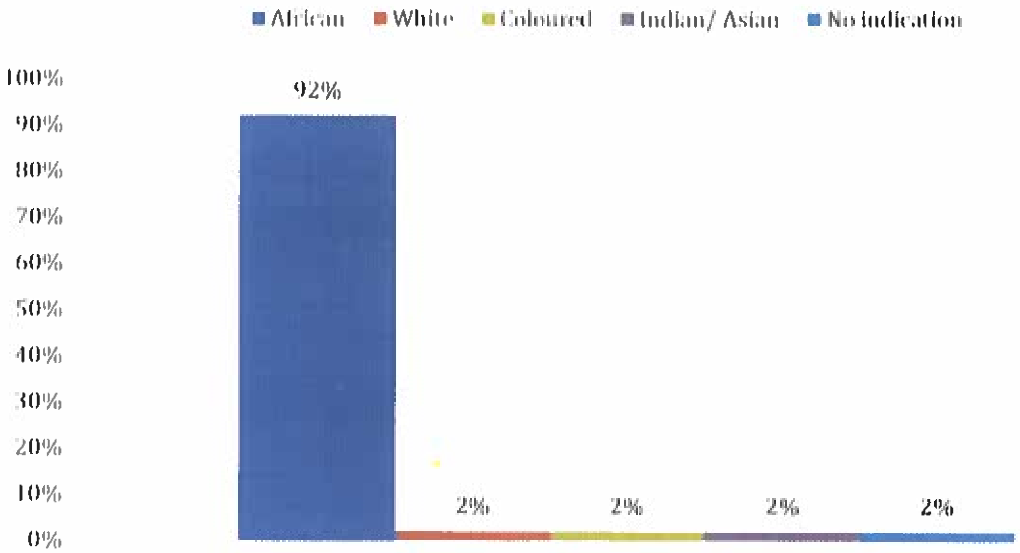
Figure 2: Citizenship of participants



[18] *NAAMSA & NAACAM 5 Year Automotive Sector Business Plan. Accessed: (https://slideplayer.com/slide/17104331/).*

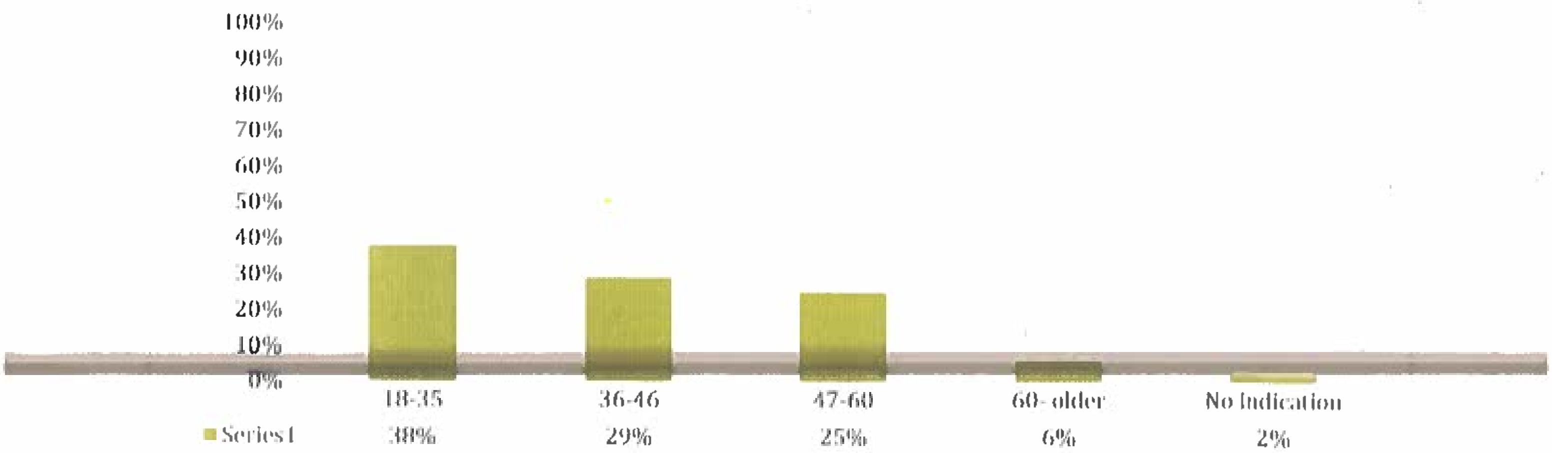
The feedback from the participants indicates that 92% are African, 2% are White South Africans, 2% Coloureds, 2% are Indian/ Asian while 2% did not indicate their ethnicity as indicated in figure 3.

Figure 3: Ethnicity of participants



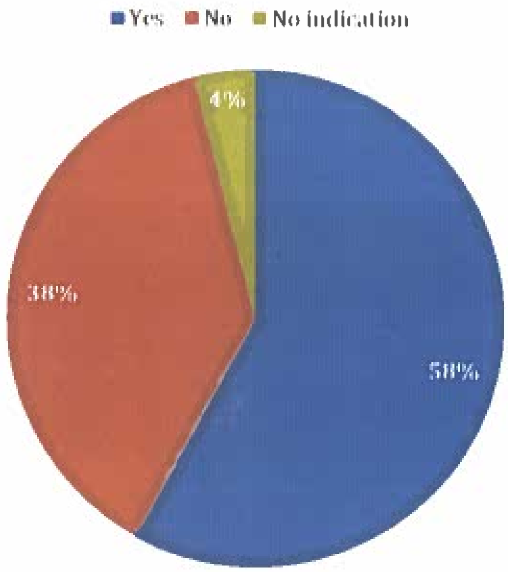
The survey seek to determine the age grouping of participants. According statistical data, 38% of the participants are aged between (18-35 years) which is positive, these participants are considered youth as per the South African definition , 29% are aged between (36-46) years, 25% are aged between (47-60 years), 6% are older than 60 years old and 2% choose not to respond to this question as illustrated in figure 4.

Figure 4: Age group of participants



The survey seek to determine how many of these enterprises are registered. The majority of 58% have registered their businesses, while 38% have not registered and 4% of the participants opted not to respond to this question.

Figure 5: Registered businesses



Section B of the survey consist of open-ended questions. This done intentionally to ensure that participants would be able to provide unlimited insight and offer deep qualitative data. These questions were mainly guided an attempt to determine the challenges/ experiences by small enterprises operating in the aftercare market.

The survey seek to determine whether businesses have been affected by unfair practices such as Mechanic repairs for in warranty motor vehicle or unfair allocation of work by insurers. A majority of 77% of the participants indicated that this question was not applicable to their businesses. 3% of the participants indicated that they experience challenges with clients' insurers. 2.1% indicated that they have experienced unfair practices, while another 2.1% of the participants indicated that they have not yet had any experience with unfair practices or unfair allocation by insurers. One of the respondents is of the opinion that he has experienced discriminated against based on the colour of his skin despite the fact he specializes in Volkswagen vehicles and is a member of a motor association See some comments below:

"Refffered [sic] to RMI business but refuses to assist cause of the skin colour. Although the business is registered with motor association, there is still unfair treatment. Specialise with Voklswagen" – AAQ2.

"People that come to my business are people that that are running away from insurance" – AAQ20.

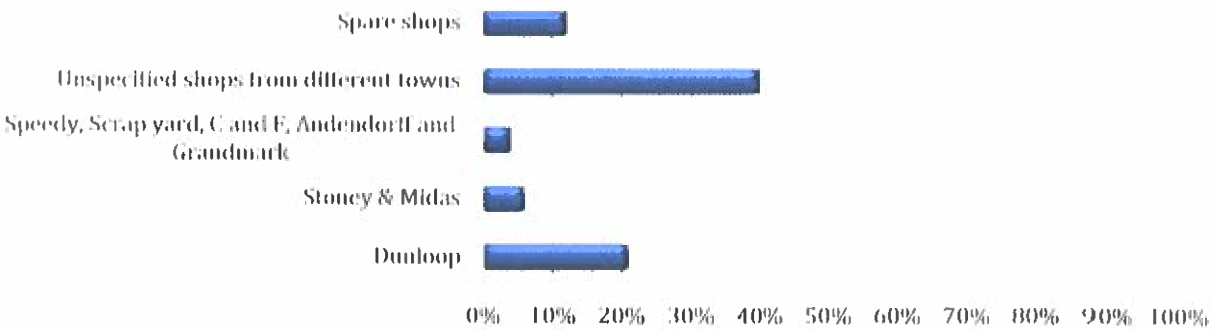
"None. Most clients do not have insurance pn [sic] their cars. Other cars are too old to be in warranty. This does not apply to us" - AAQ34.

"None. I work with older models." – AAQ40.

Another correlation was found between the literature and feedback from participants. Literature has determined that the majority of 70% of car owners in South Africans do not have car insurance. Furthermore, participants indicated that majority their clients do not have insurance and that they work with old models (some too old to be under warranty). In additional, 8% of the participants indicates that they have not experienced any unfair practices or unfair allocation of work by insurers. The remaining 15.8% of the participants did not respond to this question.

The survey seek to determine where businesses procure parts to provide services. The feedback from the participants varied; when they responded to this question, 21% obtain their parts from Dunlop, 6% from Stoney & Midas, 4% from tyre shops, spare shops, scrap yards, C and F, Adendorff and Grandmark and 12% from spare shops. While, the majority of 40% of the participants indicated that they obtain their parts form different towns, depending on availability of the products they are seeking.

Figure 6: Procurement of motor parts

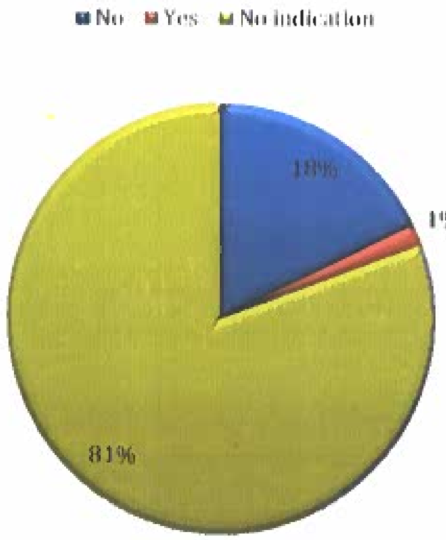


	Dunloop	Stoney & Midas	Speedy, Scrap yard, C and F, Andendorff and Grandmark	Unspecified shops from different towns	Spare shops
Series1	21%	6%	4%	40%	12%

Figure 7: Approved motor-body repair or approved dealership

The survey seek to determine the number of businesses that are approved motor-body repair or approved dealership. Furthermore, participants were requested to specify for which companies, eg. BMW, Ford, Toyota, etc. The majority of 46% of the participants indicated that this question was not applicable to them. A contributing factor to this response could be that those businesses previously indicated that majority of their clients' cars are not under warranty and that they work with older models. A mere 5% of the businesses indicate that they are registered with Volkswagen or endorsed by Bloemfontein motors or they obtained a penal beating certificate or by an association.

Figure 8: Knowledge of the Competition Commission Guidelines



The survey seek to determine whether small businesses are aware of the guidelines published by the Competition Commission for the South African Automotive Aftermarket. Irrespective of their answer, participants were requested to motivate your answer. The responses from the participants is an indication that they were not aware of the guidelines published by the Competition Commission, because 81% provided no indication. While, 18% clearly stipulated that they are not aware of the guidelines and a mere 1% have knowledge about the guidelines. Although, the South African law does not enforce the guidelines published by the Competition Commission, they are beneficial in terms of providing fairer practices for all stakeholders in the automotive aftercare sector, especially to those who are part of the Historically Disadvantaged Individuals (HDI).

The survey also seek to determine what challenges if any, small businesses experienced when they entered into the automotive sector? The participants indicated a number of challenges that they are facing. The challenges include the following:

- Limited operational space;
- Load shedding is affecting their businesses;
- Changes in weather conditions in MMM;
- Crime is a challenge

- Struggling to procure equipment and stock; and
- Challenges with customers not paying and limited customers.

Lastly, the survey wanted to determine the kind of support required by small and medium business operating in the automotive industry. The participants indicated that they need assistance to ensure that their business succeed. The participants require the following support:

- The Free State government should conduct trade tests to train the youth in the province;
- Equipment and structures that can provide shade so that we can work while it rains;
- Safety containers to store equipment and prevent it from be stolen;
- Electrical connections
- Financial assistance to purchase appropriate tools;
- The Free State government should make use of small businesses to fix government cars and ambulances; and
- Assist businesses with generators in order to continue with work while there is load shedding.

9. Recommendations

The following recommendations derive from the literature review and feedback obtained from the participants.

9.1 **Formalise small businesses:** DESTEA should assist small businesses operating in the automotive aftercare market with registering their businesses. The data collected indicate that 38% of the participants have not registered their businesses. Assistance should not be limited to registering businesses only. Those entrepreneurs should also obtain business management training. DESTEA should work with its strategic partners to ensure that entrepreneurs enroll for short courses at a Free State higher Learning Institution (DESTEA, 2021).

9.2 **Provide financial support:** the majority of the participants indicate that they require some form of financial assistance. The majority of the participants highlighted the need for equipment ranging from tyres to rim machines. Participants indicate that they are in need of storage units to protect their equipment. The participants highlights the need for generators, because during load shedding hours, they are unable to work. DESTEA recently conducted a socio-economic impact study on DESTEA's programmes/ projects, which recommends that entrepreneurs should receive business management training prior to financial support (DESTEA, 2021). Therefore, prior to these entrepreneurs obtaining funding for their equipment or equipment, they should undergo business management training.

9.3 **Provide non-financial support:** the participants highlights a need for non-financial support and they require workshops training that would specifically target youth in the province. Furthermore, small businesses should obtain training on how to access new target markets that are appropriate for their products and/or services. Small and medium enterprises need assistance with branding and promoting their business to increase their client list. Non-financial support should include financial management training that includes knowledge on how to manage cash flow statement, income statement and balance sheet. Project management to be included because certain parts of any business (DESTEA, 2021).

9.4 **Awareness campaign:** lastly, DESTEA should organise an awareness campaign in collaboration with the Competition Commission to present their findings and recommendations for the automotive sector in South Africa. Simultaneously the awareness campaign should include DESTEA officials presenting the department's financial and non-financial support schemes available to businesses operating in the automotive aftercare sector. DESTEA should also collaborate with its strategic partners that also have funding opportunities available for businesses in the Free State.

10. Conclusion

The reader is reminded that the aim of this study is to conduct research on the automotive industry with special reference to the aftercare market. To achieve this aim, the objectives identified are as follow:

1. Provide a literature review on the automotive industry in South Africa;
2. Determine the challenges faced by township enterprises in the Mangaung Metropolitan Municipality (MMM) automotive industry; and
3. Make recommendations to the department based on feedback from participants and the literature review.

The literature review have found that the recommendations made by the National Automotive Dealers Association (NADA) are aligned to the recommendations published in the guidelines for South African Automotive Aftermarket. The SA Automotive Master Plan 2035 clearly stipulates that there is still a need to transform South Africa's automotive value chain. Hence, they envision having at least 25% black-owned involvement in dealership and authorised repair facilities. However, literature found that in order for ISP to obtain approval, they have to make significant financial, infrastructure and operational investments in order to meet the requirements of OEM processes. Furthermore, the Completion Commission have critique on the OEM processes and found that they are not transparent and difficult for HDI applicants. Hence, it is crucial for DESTEA to assist HDI applicants in becoming OEM approved. They will require both financial and non-financial support as discussed in the recommendations. The research report achieved its second and third objectives of determining the challenges of small and medium enterprises operating in the automotive aftercare market. The recommendations provided in this report are evidence-based and will assist DESTEA in addressing the challenges faced small and medium businesses in MMM's kasis.

Annexure A: Survey

destea
department of
economic, small business development,
tourism and environmental affairs
FREE STATE PROVINCE

Automotive aftercare market: exploratory research

All responses are strictly confidential

- Please note that this survey is for **RESEARCH PURPOSES ONLY.**
- Kindly submit your questionnaire to DESTEA's Researchers.
- If you have any questions, please feel free to contact us on (051) 400 4708.
- As per the POPI Act, your information will not be shared with a third party.
- The questionnaire will take approximately 15 minutes to complete.

Section A: Demographic Information

1. Indicate your gender

Male ☐ Female ☐

2. Are you a South African citizen

Yes ☐ No ☐

3. Indicate your age group

18-35 ☐ 36-46 ☐

47-60 ☐ 61- older ☐

4. Indicate your ethnic identity

African ☐ White ☐

Coloured ☐ Multiracial ☐

Indian/ Asian ☐

Other, specify______________

5. How many people do you employ?

1-3 ☐ 4-10 ☐

10-20 ☐ 21 & more ☐

Nature of Business

6. Is your business registered?

Yes ☐ No ☐

7. How many years have you been in operation?

1-3 years ☐ 4-10 years ☐

11 years or more ☐

8. Do you belong to any association?

Yes ☐ No ☐

9. Have you ever received funding from Government or a Financial Institution?

Yes ☐ No ☐

10. Indicate the type of service your business provides

Maintenance of automobiles ☐
Automobile repair shop ☐
Backyard mechanic ☐

Section B: Open-ended Questions

1. **Where do you procure parts required to provide services?**

___
___

2. **Has your business been affected by unfair practices such as Mechanic Repairs for In-Warranty Motor Vehicles, unfair allocation of work by Insurers, restrictions on the sale of Original Spare Parts to ISP. Please share your experience.**

___
___
___
___

3. **Are you an approved Motor-body Repair or Approved Dealer? If yes, indicate for which companies, eg. BMW, Ford, Toyota etc.**

___
___

4. **Are you aware of the Guidelines for Competition in the South African Automotive aftermarket? Yes or No, please motivate your answer.**

___
___

5. **What was your experience in entering into the automotive sector?**

___
___

6. **Do you experience any challenges in your business? If so, please elaborate.**

___
___
___

7. **What kind of support is required by small and medium business operating in the automotive industry?**

___
___
___

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