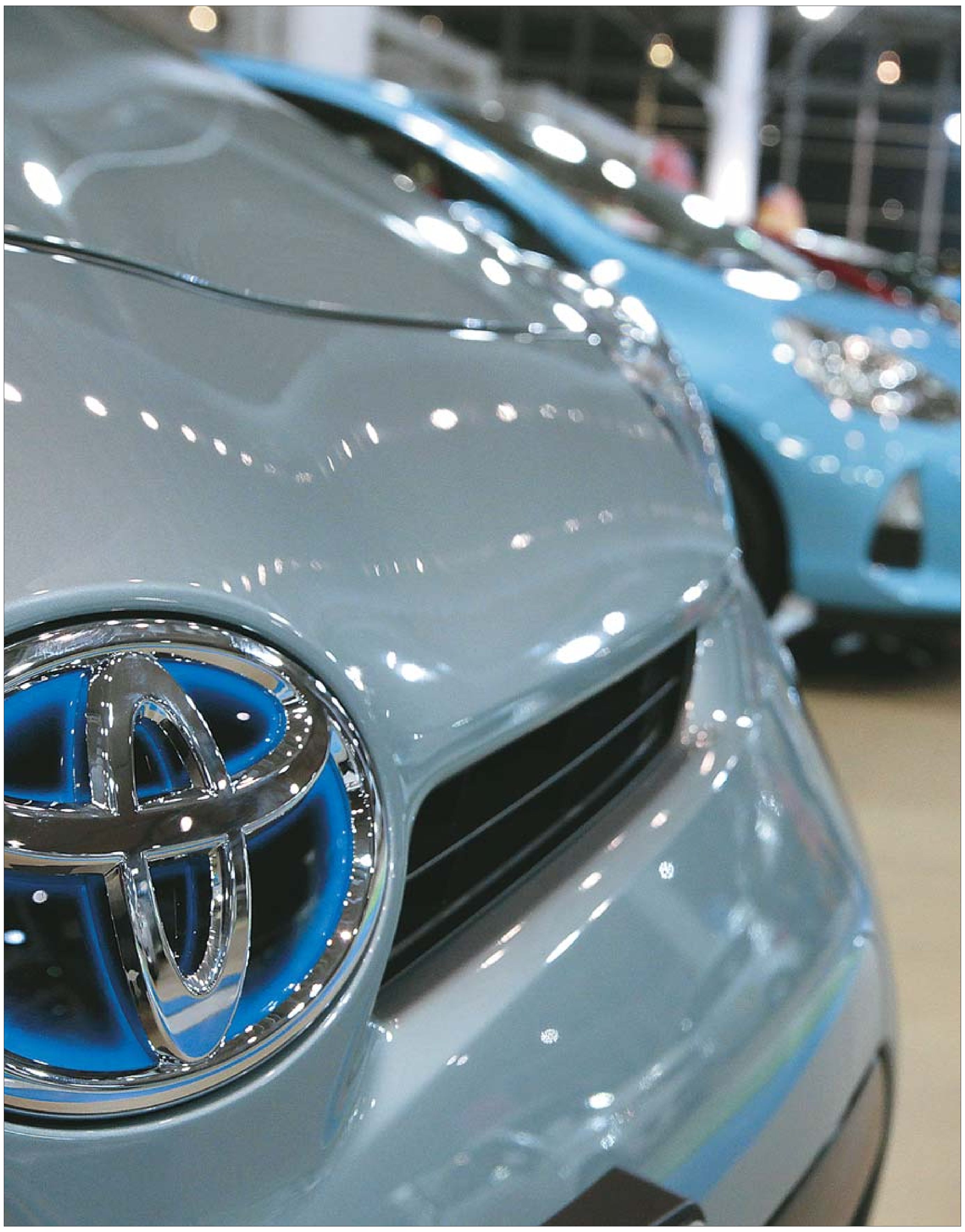
Competitive dynamics of South Africa

Last growth engine for global companies?



In the left picture, a Toyota concept vehicle is shown at a motor show in Tokyo this year and in the right picture, Chevrolet Silverado pickup trucks are displayed. GM Chevrolet introduced low-priced models at local manufacturing plants in Egypt under its slogan of "value for money," that accounts for 25 percent of the total market. Toyota has also focused its African business on South Africa, and it started operating a local manufacturing plant in Egypt in 2012. AP-Yonhap

Analysis

By Kim Kyung-hwan

In this new millennium, emerging markets have been the key drivers of global economic growth. Global enterprises strive to gain greater market shares of emerging economies, often represented by BRIC (Brazil, Russia, India and China), by localizing their business value chains such as R&D and product manufacturing. In most emerging markets, the companies that have consolidated their positions in each as unbeatable players occupied the market prior to their competitors' entry. A few examples are Volkswagen, P&G and De Beers; each company has become a champion in the auto, household goods, and jewelry businesses, respectively, in China which has risen as the biggest market in the world. These companies targeted China earlier than others based on their long-term business outlook.

While early occupancy of emerging markets tops the list of global leading companies' business strategies, Africa remains as the last growth engine among them. Africa consists of three regional markets with distinct characteristics: North Africa where European and Middle Eastern influence is significant; South Africa which centers around the Republic of South Africa, the greatest single market in Africa; and the yet untapped Sub-Sahara region. This article sets out to uncover implications for Korean companies that are undertaking business in Africa by analyzing major global auto manufacturers' market strategies there.

Competitive dynamics of North Africa

North Africa can be analyzed as two distinguishable markets: the region that includes Egypt and its neighboring countries, and Algeria and Morocco in which European market features have been retained. Egypt has recently shown stagnant market growth due to social instability triggered by democratic movement. Nonetheless, it is the country that has long been steering the economic growth of Africa with its solid economic development. The most conspicuous feature of Egypt's consumer market is its low income level; hence, sales prices and overall running costs of automobiles comprise the dominant factors for consideration when consumers make purchase decisions. As a result, GM Chevrolet, which manufactures low-priced models at local manufacturing plants in Egypt under its slogan of "Value for money," accounts for 25 percent of the total market share and has maintained its status as a traditional and long-standing winner in the market.

In the meanwhile, acceleration of Egyptian market entry by Toyota, Nissan, and Chinese auto makers will challenge the mainstream winners. Toyota, for instance, had focused its African business on South Africa until 2011. Beginning in 2012, however, Toyota set out to operate a local manufacturing plant in Egypt, and now manufactures and sells domestic models only. Fortuner, Toyota's best-selling SUV in emerging markets, is manufactured at the local plant. Toyota hosts off-road events to enhance its sporty brand image, and places Fortuner models in front of its showroom to maximize their exposure. Although Toyota has only 5~6 percent of market share in Egypt, its brand awareness and brand image surpass those of Chevrolet among the locals. And this is why Toyota is likely to thrive in Egypt in the foreseeable future.

Solid bi-power structure

South Africa accounts for most of Southern Africa's regional economy. The country has adhered to an open economy from its early days, and it is the single biggest market in Africa in terms of consumer goods including automobiles. South Africa also exhibits the features of mature auto markets. The implementation of marketing devices that let consumers test-drive in showrooms and the country's high utilization rate of auto financing programs, for instance, are the particular features that other African countries are yet to take on.

In South African market, Volkswagen and Toyota have been long-standing strong players, while Ford and Chevrolet have comprised a second-tier group. Volkswagen operates three local manufacturing plants in the country, and uses these plants as its base for attaining South Africa's domestic market and also neighboring countries' markets. It emphasizes its identity as a German brand and concentrates on the sale of mid-size cars such as the Golf and Polo.

Toyota has injected numerous IMV-series models, the strategic lineup exclusively for emerging markets, in South African market and sells SUV and PUP models that South African consumers prefer. It also launched low-price models to target middle-class black consumers, also known as "black diamond" and increasing in numbers, and young consumers with low income. Etios, Toyota's low-end model first launched in India, has made its debut outside India in South Africa, and Trim, the renamed version of the Yaris (small-size model) with minimum options, has also been on the market.

Untapped market in Africa

The central part of Africa, also known as Sub-Saharan Africa, remains as yet an untapped market. Although accurate data does not exist, the number of cars is estimated to range from several hundred to several thousand per country. These sub-Saharan countries have high growth potential for the auto market since car ownership rates are low and their insufficient public transportation system calls for individual ownership of automobiles. In their auto markets, evolving around secondhand trade, businesses that run fleets of vans, taxis and buses, rather than individual consumers, are what generate most demand for new cars. Similar or even greater level of demand for mid- to large-size new cars in sub-Saharan market vis-a-vis North or South African market is thus attributed to such market characteristics.

While not many auto makers have engaged in business in Central Africa with a long-term perspective, Toyota is an exception. It has been targeting Kenya as a strategic base for sub-Saharan Africa within its long-term business outlook. Toyota runs a local manufacturing plant with annual production capacity of 1,000 units, and manufactures SUVs that are in high local demand. Nevertheless, its underlying goal for running a manufacturing plant seems to be consolidating good relationship with Kenyan government by creating jobs for locals. The company also provides training in auto maintenance skill, hires local graduates at its manufacturing plant, and establishes its brand image in the market. Even though market creation is likely to take another decade or more, Toyota will probably take the initiative in the growing Sub-Saharan market with its long-nurtured market base.

Implication for Korean companies

As the overview of the African market environment indicates, African market, the last growth engine in the world, exhibits industrial maturity gap within its regions. When assessed for possible market preoccupancy, South Africa and North Africa including Egypt present medium attractiveness for future preoccupancy of market, while the untapped Central African market retains high attractiveness.

Most of success stories written by Korean companies in the global market have been enabled by their decisive move to make long-term investment in global business while their competitors were reluctantly hovering over risk factors and not-so-clear potential for returns. Companies struggle to unearth new items and new target markets that will ensure their growth each year. However, the question of whether a long-term business perspective that will prepare the company for the future has been reflected in decision-making deserves a thorough reassessment. African market requires a long-term approach that facilitates companies' preoccupancy of market, rather than a short-term marketing plan for selling low-price goods. Now is the time when companies should set out to establish their brands and tap the economic frontier in the African market.

Nomura Research Institute has been conducting numerous internal researches and consulting projects for its clients regarding the African market. The company looks forward to sharing ideas with Korean companies in developing business strategies for the African market.

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