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The case for job creation and retention in SA's white goods manufacturing sector

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22 May 2012

South Africa's white goods manufacturing sector (fridges, microwaves, cookers, small electrical appliances, etc.) is the latest casualty of globalisation. It is shrinking rapidly, replaced by cheaper imports, with ownership of some operations recently moving to international companies that have well-established global manufacturing supply chains.

In a country in which a large segment of the population depends on the manufacturing sector for economic wellbeing, support for this sector, both from a legislative and consumer perspective, is paramount for its survival and growth.

With the economic dip, people are scaling down and, as a result, so are companies. In 2011, Nu-World, one of the largest manufacturer, importer and exporter of small electrical appliances in South Africa, shut down its local manufacturing arm, quoting both economic conditions and trade action as factors. Mellerware's kettle and toaster manufacturing operation in Cape Town employed 3000 people also has hardly any manufacturing anymore, which has an impact on 3000 employees. What's left in this sector? The larger lines (e.g., fridges and stoves) have been lost to the likes of LG and Miele, which are being imported at a cost so low that local manufacturers cannot compete without the needed regulations. Whirlpool and Defy, however, still have local manufacturing operations, albeit focussing on smaller footprint fridges and cookers for the lower-income market.

Turks buy Defy

Defy, which employs in excess of 3600 people in its East London and two KwaZulu-Natal factories, has recently been acquired by Turkey's Arçelik Group, the third-largest appliance maker in Europe. It will act as a springboard into sub-Saharan Africa for Arçelik, which has a well-established global manufacturing supply chain. Whirlpool in South Africa, which employs just under 1000 people in its KwaZulu-Natal factory, producing electronic items, including the KIC range, may also need to adapt to a changing market. In December, 2011, larger lines like fridges sold out in South Africa, kettles and hot plates, the "safety net" for local producers, didn't. This may affect local production going forward.

Globalisation may have brought us access to a greater selection of goods and lower prices, but without smart strategies in place to guide our economic growth sectors it's destroying manufacturing in South Africa. Worldwide, affected countries are taking steps to protect and nurture strategic industry sectors through a system of rebates and incentives. Emerging countries with largely unskilled populations are particularly aware of the value of a strong industrial sector and economic growth engine. For these countries, moving up the value chain from being producers of raw materials to become providers of higher-value manufactured or finished goods is vital. For South Africa, with its weak education system and rapidly wilting vision of offering value-added services to the world, a strong manufacturing sector is going to be a very important pillar of economic growth.

Rebates and incentives needed

Definite actions need to be taken with regards to providing the rebates and incentives, and policy environment needed to grow the manufacturing sector and allow it to advance. The equations are quite simple - with scale comes economy. As our local output diminishes, our influence with up- and downstream suppliers in terms of negotiating good rates wanes. It becomes easier (and less costly) to import finished components than to import raw materials and make them ourselves - and so, eventually, more economically viable to import the finished goods themselves. But the cost of "cheap" is enormous.

When our unskilled labour base loses its opportunity to earn - in the white goods manufacturing sector about 20 000 jobs have been lost over the last decade - there's a multiplier effect. Each worker supports a family, sometimes extended family.

With job losses, entire communities are affected, driven further into poverty - where meeting daily sustenance needs compromises spend on health and education. Without new jobs or opportunities to replace those lost, the next generation is affected, as is South Africa's economic growth.

A self-defeating cycle

We have entered a self-defeating cycle. South African retailers are eager to cater to the growing middle class who are demanding greater choice - and cheap imports make that possible, but it's at the expense of local brands that simply cannot be produced as cost-effectively.

Even though steel, which makes up 30 percent of the inputs for white goods manufacture, is one of South Africa's biggest outputs, raw plastic, nylon and acetyl are no longer produced in South Africa - those factories closed 15 years ago. Without the scale, local white goods manufacturers cannot establish linkages into global supply chains and cannot negotiate the cost of raw materials and components down. Local manufacturers have a responsibility to pay a fair wage and the ethics to produce safe, quality products, but they must do so with none of the rebates and incentives offered to their competitors in Asian and other countries. This makes it very difficult to compete on price.

Clothes-manufacturing sector decimated

Other retailers are targeting the low-income consumer segment. The clothing sector offers a prime example. Cheap imports have decimated the clothes-manufacturing sector in South Africa. As middle- and low-income consumers lose the opportunity to earn, however, the customer base of these retailers will dwindle. Without much concern for the havoc their opportunism has wreaked, these retailers will turn back to serving the high-end consumer segment. It's certainly time for retailers to start developing a conscience - a very good first step is to allocate a portion of spend to buying local.

Local manufacturers don't want a hand out - we want a hand up. South Africa needs to, through strategic means - be they trade, tax, employment or other rebates and incentives - level the playing field to allow the white goods and other manufacturing sectors in the country to strengthen. Like Dubai, which knows that its oil is running out and so invests massively to turn the country into a premier holiday destination, South Africa needs to wake up to the reality of what is needed for the long-term economic growth and the wellbeing of its people, before we get locked into patterns of trade that negatively affect us for a very long time to come.

The diversity and survival of our manufacturing sector depends on the right actions being taken within the next three years. Failing this, we will have lost what momentum is left in the sector to enable its revival. We will fall behind in terms of manufacturing and production technologies, losing our ability to innovate and respond to changing market demands as the relevant know-how dissipates and skilled resources leave our shores.

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