Localisation offers growth and long-term value

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COMMENT

A South African Market Insight (SAMI) report on the South African manufacturing industry notes that from 20% in 1994, manufacturing is now contributing under 14% to South Africa's economy. The reasons? South African companies and overseas OEMs operating in South Africa are importing more manufactured goods, leading to less demand for those locally produced.

The solution, the article advises, is to focus on improving our 'buy proudly South African' message and to make local consumers aware of the fact that buying goods manufactured outside of South Africa leads to joblessness. Rather than increasing import tariffs, the piece suggests that "South Africans just need to be more aware of the origins of the goods they are buying and demand more locally produced or sourced goods."

South Africa's manufacturing facilities are running well below their capacity. The second quarter 2019 estimate of production under-utilisation is 18.7%, largely due to a lack of demand (62.2%) but also due to skilled (5.5%) and unskilled (1%) labour shortages. "… with one fifth of production capacity lying idle, one cannot help but wonder about the underlying health of the South African economy," suggests SAMI.

Mining is another of our shrinking economic sectors. From contributing 21% of GDP In 1980, it had fallen to below 8% by 2018. Yet we have the world's fifth largest mining sector and reserves with an estimated value of R20.3-trillion. The sector boasts high levels of technical and production expertise, comprehensive research and development capabilities and world-class primary processing facilities for gold, platinum, steel, stainless steel and aluminium. Surely another sector operating below its potential capacity?

This month's article from local OEM, Kwatani, highlights the interaction between these two sectors. Uncertainty in the mining sector has a direct knock on effect on the manufacturing sector, particularly on local manufacturers of mining equipment.

It is, therefore, heartening to hear how the localisation of manufacturing is being welcomed and adopted by South African OEMs such as Kwatani. "Localisation has become a massive drive in the mining industry because the new charter has published guidelines for local content that mining-rights holders must achieve," says Kwatani CEO, Kim Schoepflin.

Kwatani and several other OEMs are actively engaging with the DTI on ways to accurately verify the true value of locally manufactured content in every piece of equipment purchased by a mine or manufactured by a local OEM. They are striving to agree on systems so that verification can be done without massive disruption or additional costs.

"Without a clearly defined stock coding system for all inputs, we can't easily establish a broadly accepted system to certify the local content value from local manufacturers and suppliers," argues Schoepflin, later adding "at end of the day, these are simply challenges we have to face."

A local manufacturer of customised equipment that is purpose-designed and manufactured to meet the screening and feeding needs of specific minerals at specific local mines, Kwatani offers world-class products and services based in its own IP. Schoepflin is confident that, no matter what system emerges, Kwatani will remain one of the few OEMs able to achieve exceptionally high local content values.

Mayhew-Ridges, the company's COO highlights the company's research and development, laboratory testing, engineering and design capabilities, which are all local and worthy contributors towards local content percentages.

Kwatani is also proactive about local purchasing and support for its local suppliers. From a quality perspective, Mayhew-Ridges says the company has implemented a rigorous supplier vetting process to reduce the risk of introducing component quality issues and to assist its supply chain to better meet global quality standards. "A container of poor quality castings from overseas can be hugely problematic with respect to reputation and mitigation costs," says Schoepflin.

A 2018 article from the Chartered Quality Institute (CQI) in the UK entitled 'Quality and profitability' points to the findings of a survey into manufacturers' attitudes to quality conducted by the Professional division of Miele. This survey found that 78% of British manufacturers believe quality is key to delivering business growth, and nearly half of the respondents rated product quality as more important than price.

Schoepflin says: "The total cost of ownership is what really matters and, as our history proves, one of our custom designs will be much more efficient and cost-effective over the equipment lifetime than a cheaper off-the-shelf, misfit."

South Africa has the capacity, talent and experience to restore the GDP contribution levels of our manufacturing and mining industries. To do so we need to support local manufacturing, raise product quality, reduce total costs of ownership and ensure the broader value we create in terms of growth, jobs and improved standards of living is taken into account when determining local content value and whenever a cheap import is under consideration. ❑