Why white goods are struggling to survive

liberalisation?

*A study of the white goods sector by **Andries Bezuidenhout** looks at whether it has adapted to the opening up of the economy since 1994 and the kind of role an industrial strategy could play.*

Prior to 1994 the white goods sector (washing machines, fridges and other appliances) appeared to predominantly produce for consumption amongst the urban white market. The main manufacturers took advantage of the benefits provided by the previous government and set up some of their operations in the decentralised areas in the former bantustans.

During the 1990s, Eskom's electrification drive expanded the market by about 50%, but compared to other countries, South Africa's white goods market remains small. In the post-1994 period, some firms have relocated their operations to the neighbouring states.

Such moves ensured they were able to keep their labour costs in check while maintaining questionable industrial relations practices. The sector increasingly employed temporary workers and little appeared to change in the nature of the relationship between workers and management despite the introduction of new labour legislation. However, this strategy – of keeping labour in line – was not sufficient to prevent the sector from facing competition from cheaper imports once tariffs were lowered. This is largely due to the fact that labour costs only account for 20% of total costs in the production of white goods while 50% of the costs relate to input costs such as components.

Composition of the sector

Globally there has been a process of concentration and rationalisation in the white goods industry. A number of very large corporations are controlling more and more of market share globally.

The structure of the South African white goods industry has also changed significantly since the 1990s. Whirlpool, a US multinational, bought a local loss-making firm and started manufacturing for the domestic and African markets. Kelvinator was temporarily saved from closing down by its management, but was liquidated anyway at the end of 1999. Simon Koch, the manager, blamed it on Masterfridge in Swaziland, who, according to him, had access to much lower wages. However, the following year Masterfridge was also liquidated. After this spate of bankruptcies, the only major remaining locally owned firm is Defy. Defy bought some of the production equipment from both Kelvinator and Masterfridge to boost its production capacity.

So the only major local manufacturers left are Whirlpool and Defy. Whirlpool only manufactures fridges and freezers locally, while Defy manufactures all the major appliances in their three factories. But local manufacturers are under increasing pressure from importers.

One could well question why management in this sector failed to tackle their cost disadvantage in terms of input costs (50% of total costs) instead of trying to compete by using cheaper labour and retaining existing work practices without considering alternative ways of responding to globalisation.

Bezuidenhout argues in his study that the local industry is very sensitive to currency fluctuations, as many of the components are imported. Secondly, from his perspective, the white goods sector is not a powerful one and is unable to influence the costs of inputs needed. This is illustrated by the fact that steel is a major input cost but the sector is unable to take advantage of potentially cheap steel produced locally by Iscor. 'The white goods industry is an example of a downstream industry that does not get the benefit of cheap

steel produced in SA,' Bezuidenhout says. This is a key issue to be considered when drafting an industrial strategy as this issue relates to the industrial structure of the economy. A further and critical factor is the power an industry exercises in the overall economy. The white goods sector has little power to influence government unlike the automobile sector, which is dominated by powerful multinational corporations. This sector was able to put in place a targeted strategy largely because it had high profile employers who are able to negotiate deals with the state. Bezuidenhout asks: 'What about smaller employers, what power do they have?'

'The white goods sector has little power to influence government unlike the automobile sector, which is dominated by powerful multinational corporations ...'

Current state of the sector

The sector currently faces rising competition from cheaper imports. About a third of local consumption is now imported, and the proportion is increasing. It is heavily affected by illegal imports, government's failure to enforce anti-dumping laws and is unable to benefit from raw materials produced locally. Bezuidenhout argues that South Africa has tariff measures, which could protect local industry, but they are not being utilised effectively. 'Domestic laundry equipment is protected by a 25% import tariff. Industrial laundry equipment can be imported at a 0% tariff. The cut-off point is whether a washing machine takes 7kg of clothing or more. Some foreign firms are importing laundry equipment with an alleged capacity of 7.2kg to get around the import tariff for domestic equipment. This sector, like many others in manufacturing, need a flexible and sophisticated bureaucracy to play the trade game. If government cannot implement and police current policies, why develop new ones?'

There is a misconception that South Africa has a strong manufacturing sector. Increases in exports are often as a result the exporting of raw or beneficiated materials such as steel. The advantages of a strong mining and steel industry should be passed on to the downstream manufacturing industry so as to strengthen local value chains where more value is added. Otherwise, there is the danger that the economy will remain a typical underdeveloped one where raw materials are exported and manufactured goods are imported from elsewhere.

In view of the situation in white goods, Bezuidenhout says, it is questionable whether the dti's most recent attempt to draft an industrial strategy addresses properly or merely pays lip service to value chain analysis. The value chain approach is at the centre of the dti's IMS, but Bezuidenhout questions whether a proper analysis has been conducted of the different sectors and how they link into each other.

LB

Bezuidenhout is a researcher at the Sociology for Work Unit (SWOP), University of Witwatersrand. This article emerges from a presentation he gave on his research during a SWOP workshop.