



Rosslyn is manufacturing 3 Series Sedan cars for important export markets including the US and Japan.

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BMW warns South African leather suppliers

*High-end automotive brand **BMW** has warned suppliers to its Rosslyn plant in South Africa, including tanners, that it will look outside the country for alternative sources of material and components if performance does not improve.*

It can come as a surprise even to enthusiasts of premium car brand BMW to learn that it established its first wholly owned subsidiary outside Germany in Rosslyn, in the South African province of Gauteng. BMW has had a presence in Rosslyn since the late 1960s when it set up a joint venture and began assembling its cars there. It acquired the plant outright in 1975 and still puts together its 3 Series Sedan cars there today. The Rosslyn site employs around 2,000 people directly and produced 46,000

vehicles in 2010, giving it one of the smallest outputs of all the factories on the company's production landscape.

But the 3 Series Sedan is a popular model and the BMW factory in South Africa is making right-hand- (Japan, Australia, the UK, New Zealand, Hong Kong) and left-hand-drive (the US, Taiwan) versions for export to some of the biggest economies in the world, as well as selling just over 20% of the vehicles it produces in the domestic market.

Earlier this year, however, BMW said

“declining competitiveness” among its suppliers in South Africa, including suppliers of upholstery leather, was causing it concern. The company's board member with responsibility for purchasing, Dr Herbert Diess, made the comments to South African media at the end of question-and-answer session during the BMW annual results press conference in Munich in March.

According to the automotive company, 53% of the material going into its South African-produced cars is from South Africa.



The South African government has said it wants automotive manufacturers active in the country to source locally at least 70% of the material they use so that a greater proportion of the added value benefits various sectors of the domestic economy.

BMW has said bluntly that it does not expect to meet this target in the near future because of what Dr Diess referred to as “a deteriorating level of competitiveness” in suppliers in South Africa, mostly because of rising labour costs. But he also said specifically that sourcing leather in neighbouring Botswana instead of in South Africa was one of the ideas the company was looking at.

Government concern

It is a suggestion that will have provoked alarm in the South African government as well as among suppliers of upholstery leather to the Rosslyn factory. Some months before Dr Diess's remarks, the country's trade and industry minister, Dr Rob Davies, told manufacturers of automotive components that he knew the economic downturn of 2008 and 2009 had hit them hard, to the extent that the government had agreed to provide “bridging finance” for distressed companies.

He went on to say that the automotive industry remains “the largest and leading manufacturing sector in the domestic economy”, with strong links to suppliers of raw materials (and the minister, too, made a specific reference here to leather), but affecting companies in softer sectors as well, including financial services and advertising. Dr Davies pointed out that the automotive industry represented 10% of South Africa's manufacturing investment and 16% of its exports. It employs 135,000 people directly and has “a very high positive multiplier effect on the rest of the economy in terms of value-added manufacturing, employment, investment, balance of payments and net revenue generation”. In short, automotive is a big deal in South Africa, and BMW is an important part of that.

Local value addition

Just over two years ago, in an attempt to make sure the industry can enjoy a successful future, the government launched a new Automotive Production and Development Programme (APDP), with full implementation scheduled for 2013. “The programme underpins the vision that the long-term development of the sector will

The interior of a 3 Series BMW. The company has expressed concern about the efficiency of suppliers of materials, including leather, to its factory in South Africa.

be best served through significant increases in production volumes and accelerated growth of the local components industry,” the trade and industry minister explained.

The programme includes an initiative under which manufacturers will receive support to help encourage increased levels of “local value addition” along the automotive value chain, with positive spin-offs for employment creation. The push to increase the amount of locally sourced material in South African-assembled cars is part of this.

“There remains a huge opportunity to increase local content of vehicles produced by the industry,” Dr Davies continued. “Such a localisation effort will benefit the growth of the industry locally, increase exports and create an enabling environment for more jobs. We welcome recent investment commitments by several original equipment manufacturers (OEMs) as a positive step towards the realisation of the APDP's objective of attaining higher production volumes and higher levels of local content, which will lead to a deepening



The BMW plant at Rosslyn, South Africa, employs 2,000 people directly, but is an important player in the country's automotive industry.

of the domestic component sector.”

BMW was one of the automotive companies he singled out here, saying that its commitment to the industry in South Africa (alongside similar gestures by Ford, General Motors and Volkswagen) would create a combined total of 4,000 new direct jobs, but had also given component manufacturers the confidence they needed to create a further 20,000 jobs. “These figures highlight the greater labour absorption capacity of the auto components sector and the strategic importance, therefore, of increasing local content,” the minister concluded. “We are increasingly being recognised as a world-class manufacturer of automobiles, and the government is working as a partner to push this potential forward.”

Unsympathetic ear

Comments Dr Diess made at the Munich event about the BMW supply chain in general and Rosslyn's particular situation, may have dampened this enthusiasm. The BMW director certainly hinted at little sympathy from his company for the position of the South African companies that supply Rosslyn.

He explained that BMW's supply chain costs across the board have been consistently higher than its direct competitors have achieved and that the company has found itself playing catch-up. It has been working hard, therefore, to bring the amount of money it pays its suppliers to the same level as Audi, Mercedes, Lexus and so on. He said: “As far

as materials and production costs are concerned, three years ago we had a lot of work to do to catch up. We have achieved our targets; we now have purchasing prices that are adequate and our margins are about on the level of our competitors, so we also have a competitive level of production costs.”

He said BMW felt it could now finalise its “catching-up programme”, and added: “On a global basis, suppliers are always

trying to enhance their efficiency, but you can also see when you look at the figures that many of our suppliers have come out of the crisis in a strong position. There has been a lot of consolidation going on, and a lot of money is being made in the supply community.” ☺



Dr Herbert Diess, BMW purchasing director, believes supplier companies have emerged from the global economic downturn in a strong position.