

# Position Paper

## Competitiveness: Leveraging Strategic Advantage

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Imagine a world where there where high technology, variety, and customisation along with specialist products are available to customers at dramatically lower prices; a world where the value-for-money equation offered to global consumers has been transformed. The zero margin philosophy of the Japanese companies, and the cost innovation challenge presented by the Chinese companies, are disruptive, focusing on efficient and continuous process improvement and cost reduction. This strikes at the heart of what makes many businesses in high cost-countries profitable today. It threatens their ability to earn high margins on high technology, and undermines the ability to extract a price premium by offering customers more product variety and greater customisation. It means that even if they use their specialist knowledge to move upmarket into niche segments – above the fray of low-cost competition in the mass market – they risk being blown away as the Chinese explode these niches into volume businesses.<sup>1</sup>

The RSA Cluster Group agenda is to leverage a combination of advantages to help independent businesses in the manufacturing cluster community in South Africa, to learn how to collaborate for increased competitiveness, and to create new opportunities. Unlocking potential in the Southern African Regional Value chain is our immediate target.

To answer the challenges posed by the competition is not easy. The Chinese in particular, appear to have mastered the art of competition, and have some hard to beat advantages: they have a huge local market, they have a massive low cost labour pool, their levels of math and science is superior, and their quality has improved to a level that meets global standards. Their national goal is to be the factory of the world. Shared experiences across Africa indicate that the Chinese companies: are on an expansion drive into Africa; are very competitive; and work together well, aided by a more centrist approach. This model has helped them to identify and successfully deliver large projects across the Continent.

Competing in the African markets, or at home, is characterised by the presence of foreign competitors and an increasing number of African-based competitors, offering a comprehensive mix of products and services. The Chinese influence has led to new innovations and opportunities, and responsive South African companies have benefitted.

Competition is no easy task: it is a calculated game of risk, in a constantly evolving environment, and entails multiple influencers and players. Even those businesses that appear to have worked out how to compete more effectively than others, remain at risk. Where possible, it is necessary to build-up ways to resist pressures, to mitigate against risks,

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<sup>1</sup> Paraphrased extract from *Dragons at your door* (How Chinese Cost Innovation is Disrupting Global Competition, 2007) Ming Zeng and Peter J. Williamson. Harvard Business School Press.

and to have well placed and influential friends and allies to help. Nothing should be left to chance, opening up unforeseen opportunities for others to attack or disrupt business.

## **Government Role**

Competition is much more intricate and involved than any one business could manage, involving international and local rules that are applied to help define boundaries, whilst regulators are appointed: responsible to keep some semblance of order. The South African business environment is framed by local rules put in place by the Department of Trade, Industry, and Competition (**the dtic**), and the Competitions Commission (an Agency of **the dtic**) was established to oversee competitive practices in South Africa, and to facilitate corrective actions.

The South African government, through **the dtic**, is helping to frame the competitive environment in the country, and to keep order. The environment entails the South African side of international trades (i.e. imports and exports), appropriate structures (e.g. points of entry and exit), and infrastructure. There is a standardisation of processes, to make business easier, as well as define minimum quality standards to ensure inferior or illicit products are curtailed from entering the local market. Other support provided is aimed to improve and uplift SMMEs, skills, innovation, and new technology development. Government also helps facilitate the exportation of products and services.

These activities are part of the government's role, and are there to help the South African business sector to resist pressures from external competitors, and to be more efficient competitors in the domestic and international markets. Government is an influential ally to have on your side, and to help mitigate against risks. Yet, even with help from the government, the environment keeps changing, and it remains hard to compete.

## **Industry Role**

Businesses have a key role to play in the market, as able and efficient contenders for the work that is on offer to them in South Africa, or elsewhere. It is up to them to keep providing relevant products and services to meet the market need, whilst growing their reputation and their brand. They are the competitors, each one different, distinguished by the nature and quality of the products and services they offer, and their leadership and management. Also important are accessibility to market, reliability, and prices. The impact of their collective business activities is measured by growth or decline in the economy. The environment for strategic thinking and gamesmanship is wide open, as business restrictions are few, despite the Competitions Commission. The bureaucratic red tape at a functional level should not be stopping progressive thinking, yet it does.

## **Competing for work**

In the face of stiff competition, no-one business can afford to have visible cracks for competitors to lever open, exposing the business to unnecessary risks in any market. Every effort should be taken to protect the business, focusing on product or service quality, pricing, and reputation. Poor quality, or excessive costs are not widely tolerated. Getting anyone of these criteria wrong can cause loss of business, damages (e.g. loss of jobs) and possible closure.

Despite the best business plans, good products, and outstanding people, there is a lot that can still go wrong, as it inevitably does. More strategic criteria are added, to include flexibility and speedy reactions. How quickly the business can react and recover counts, and all parts of each business need to know their role in the business, be well prepared, and attuned to the circumstances. All parts must be able to work together, as one.

Much of the manufacturing production done in South Africa is to produce primary or interim goods, to be used by another manufacturer to make components or parts. Without much to differentiate these products, the competition gets tougher. It is expected that the products meet basic minimum industry quality requirements, and decisions are primarily made on price and availability. Nothing more, nothing less! Price and availability determine success or failure. Global competition has access to global production, and punishes inefficiencies. For South African businesses this is a huge concern. Imports are being landed at prices well below South African cost levels. Without help, this position is not sustainable.

This is where it gets interesting. There is a lot of local debate, primarily between two schools of thought: those that think that South African producers need to compete with international products head-on from the outset; and, those that think that South African producers should be protected for a time, allowing them the opportunity to develop and grow, whilst increasing their competitiveness and ability to compete. The issues put simply: open up competition or not.

In an attempt to stabilise the economy, and to protect local jobs, thereby avoiding too much internal turmoil, the South African policy framework is an unhealthy compromise. The way that things have worked out: the protectionist views have been compromised, and buying organisations have continued to import. Local manufacturers have been compromised. Well intended actions to carve out portions of the local market for preferred groups of local businesses, have had negative and unintended consequences.

The profile of what we manufacture today has by and large remained the same for South African owned businesses. The relative lack of South African innovation, and South African businesses making globally competitive diversified products for the international markets, has meant that we have left it to foreign owned or multinational companies based in South Africa, to take the lead in developing technologies and rolling them out in South Africa. We remain out of touch and unable to favourably influence international markets to source diversified products in South Africa. South African business has not significantly changed the profile of what we produce, and how we produce it. We continue to rely on local contract manufacturing and the export of commodities, and agricultural produce, and in manufacturing, on the exports of primary and intermediate products to support the economy.

And then, businesses fight hard with one another to protect their turf.

We don't profess to know the answers. What we do know is that: something needs to happen that will positively change the ability of South African manufacturing businesses to compete; there are well accepted and efficient mechanisms that can be applied to facilitate and coordinate the process; there are initiatives that can be brought to bear by the government or industry to address challenges, and business risk; and, the indications are that new competition Regulations will be introduced to change the game, by empowering

cooperation and collaboration between SMMEs, to increase innovation and competitiveness.

### **Collaboration and Cooperation**

It is not easy for South African competitors to collaborate and work together. This has typically been frowned upon, lest collusion and other forms of unfair competition are caused to arise. Although not all activities are prohibited, collaboration between businesses for strategic advantage has been singled out and business has followed a risk aversion strategy, with the unintended consequence that collaborative actions between businesses to improve competitiveness have been effectively squashed. We think that this will change<sup>2</sup>.

There has been greater interest and familiarity in cooperatives and industry associations. Many South Africans recognise the importance of cooperatives, which are well known in local communities, and have empowered individuals to work together for strategic advantage in key industries (e.g farming). Formal business is not supported in the same way, and although it cannot form cooperatives, businesses are able to work together for strategic advantage in lesser known Cluster Initiatives.

Industry associations entail collaboration between businesses, and successfully bring businesses together around points of common interests between businesses in a particular industry, or area to address generic industry or societal needs. Many associations have a singular focus on either business relationships, employee relationships, or skills development. These associations provide services and play an important institutional role in industry, supporting business development through compliance, common values, ethics, standards and norms, and training programmes, all aimed to uplift the business in the industry. Yet, these foundational businesses support activities, are insufficient to address the challenges of increasing competition, huge cost reduction pressures, or even excessive labour charges.

Unfortunately, following a trend of influence from international business, participation in traditional structures is waning. Accordingly, it is becoming increasingly more difficult for businesses to justify their continued participation in these traditional institutions, when the real issues related to competition and competitiveness are not being effectively addressed. Businesses are looking for and choosing alternate, more attractive platforms for them to engage their stakeholders, or to improve their competitive position.

We think that South African associations remain important players in the support of local industry, with a crucial role to facilitate new business initiation, and development. Our associations need to be strengthened, and empowered to help industries to drive their developmental agendas. The government is not going to fix the game in favour of South African manufacturing businesses. They can certainly help, but they don't have all the answers, they don't have the know-how, and they don't have the means. The answers lie with industry. As good as Master Plans might sound, they are a mechanism provided by the government to help local industry to take responsibility for itself. Master Plans are flawed as

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<sup>2</sup> A recent draft document published for public comment by **the dtic** has indicated the intention of the Department to introduce Regulations, that will block exempt certain types of agreement to enable SMME to collaborate on research and development, production, and joint buying and selling, commercialisation, and standardisation.

they don't make industry leaders accountable, and fail to drive the implementation of appropriate corrective actions. The game is on, and the play is ours, yet we don't have a game-plan and are losing. Our competitors are winning. This is not a good place for South African industry to be.

Something else is needed to change the progress of the game, pulling businesses together, to implement effective strategies for change. Help is needed. Industry needs a means to turn the game around, to turn the game in industry's favour. something that will enable cooperation and collaboration. Something that will help!

Take heed!

Each day that we stand-still, pondering what might change, we go backwards. Competitors are getting on with business, implementing strategies to breach open local markets, and reclaim South African gains internationally. Industry and the businesses in it, will suffer. The competitors don't care. They are getting on with business. Competition is moving out of our reach as industry dither around. Businesses don't have endless options, and should not ponder on this for too long. The competition doesn't care. They are getting on with business.

Whatever is decided, business needs to make progress and move forward.

### **Progressing the competitiveness in the manufacturing cluster**

Moving forward progressively entails a concerted, and coordinated effort.

It implies taking a **fresh look** at the South African business landscape and **working out what needs to be done**; **accepting responsibility**, the making of **a decision**; and implies actively **doing something** (i.e. taking a first step forward. Then to take another step, then another, and another) until industry has achieved its goals.

It requires inclusivity, common purpose, a clear agenda, and deliberate action. It needs accepted structures, mechanisms, and tools to enable industrial scale action, and it needs South African business to find a purpose, and get out of its apathy.

It entails:

1. Leadership.
2. Building relationships, and strengthening linkages and connectivity, between businesses and institutions.
3. National vision and local action.

and

4. Most businesses in an industry are to be involved.

In other words, businesses, and associations, are important to and need to be included.

It does not negate or make current structures redundant. Instead it exposes industry and its stakeholders to the effect and impact of competition, and improves dialogue.

The industry responsibility is not obvious at first, hidden behind traditions, and past practices. The mandate for industry responsibility remains clouded by the inward focused,

centrist thinking, that still permeates throughout society. If cannot, however, be escaped, outsourced, or postponed - Industry is responsible, and businesses should care. The future is in their hands.

As an example: big business. Often foreign owned or multinational, big businesses individually and collectively take every opportunity to lobby the government in their quest for support, advantage, and favour. They know what they want and their game plan is simple: to get what they want, as often as they can. To do this, they create awareness and buy-in for their goals, and leverage their position to bias outcomes in their favour.

As independent business knows well, what big business wants is what industry gets, and it is not always good for smaller businesses. Whilst it would appear that big business lobbies are efficient and effective, and that the cries and frustrations of other businesses are ignored, falling on deaf ears, it is clear that the impact of what a big business can do and achieve, is remarkable. Big business seem to be winning more often, and seldom disrupted from their path.

Independent business is missing a trick. They too are important contributors to the economy, and can lobby for influence, support and favour. They too should know what they want, and have a game plan to succeed in getting what they want, as often as they can. They too can create awareness and buy-in for their goals, and leverage their position to bias outcomes in their favour, but- they don't. Opportunities to improve competitiveness are lost.

### **Activating and organising business for growth**

By way of example, key challenges to grapple with and address might include:

1. how South Africa leverages its low cost labour and large youth contingent for competitive advantage; or
2. when do labour intensive processes, overcome technology, or vice versa; or
3. how are policies and practices aligned to enable business growth; or
4. why local stakeholder should support the the create a world beating hydrogen supply chain in South Africa; or
5. identifying who produces what, where.

### **Getting involved to improve competitiveness**

Interested groups are invited to meet with the RSA Cluster Group or its members, to find out why they think and act the way they do. They should question why we have Big business plans, for what we want, and why it is important to our members to let the government and others know their value contribution to the local economy, and what favours and help can be asked for in return. Enquirers should want to know why we talk to the government, and other industry stakeholders, why industry self reporting is important, why we think collaborating with municipalities helps industry, where we have important allies, and why we continuously provide insights and information to the government, lest someone else opposes our view and fills the dialogue void with a counter agenda.

The dreams and aspirations of each business in the greater community of businesses, is important to this process, and to the cluster.

For more information, please contact the RSA Clusters Group: Tel: 061 244 1234, or email: [sjardine@rsaclusters.co.za](mailto:sjardine@rsaclusters.co.za)

The RSA Clusters Philosophy regarding competition:

1. Competition is a positive energy driven by a will to succeed. This energy and effort encourages discovery, innovation, economic activity and ultimately stimulates growth.
2. Placing obstacles in the way of competition has caused large-scale lassitude (a state of physical and mental weariness) in South Africa that has negatively impacted on the ability of the economy to use resources efficiently, and constrained growth.
3. Different levels of productivity, inquisitiveness, efficiency and integrity set independent businesses aside from one another.
4. In the search for more downstream differentiated products, support institutions will play an important role to create awareness, develop technologies, facilitate innovation, and uplift skills.

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A cluster initiative is a good place for independent businesses to work together on common purpose projects to increase competitiveness by increasing productivity and opportunity.

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See also other position papers on our website.