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Second Hand Car Imports: A Threat or Extended Arm to the Zimbabwean Motor Industry

By

**Chikosha Felix
Chiunye Tonderai Maximilian**

Research Article

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***Chikosha Felix, Chiunye Tonderai Maximilian**

Department of Business Management, Zimbabwe Open University, 209 Hay Road Bindura.

*Corresponding Author's Email: frixch@hotmail.com

ABSTRACT

The study sought to find out whether second hand car imports are doing harm or good to the Zimbabwe Motor Industry. Respondents were drawn from individual motorists and car assemblers in Zimbabwe. Data analysis reveals that it is wrong to posit that second hand car imports are threat to the motor industry since the car assemblers themselves do not have the capacity to produce cars at affordable prices to the generality of the Zimbabwean customers. Rather the imports have proved a relief to customers who can not afford the costly local cars. The results imply car assemblers should strive to lower the assembly costs to be able to out-compete the second hand car imports.

Keywords: Second hand cars, Car assembly, Motor industry.

INTRODUCTION

The motor industry policy in Zimbabwe is based on assembly plants totally responsible for vehicle imports and the development of local content. The country has two major car assemblers in Willowvale Mazda Motor Industries and Quest Motor Corporation. Since the early 1990' these car assemblers have been facing a lot of challenges resulting in continual shortages of certain vehicle models and high production costs translating into high vehicle prices. Against this backdrop the local assemblers are being out-competed by cheap, fully packaged, imported cars. The price differential between new cars and imported cars is substantial that customers will continue to opt for imported cars.

Literature Review

The competition that Zimbabwean car assemblers are facing stem largely from threat from new entrants when the Zimbabwean motor industry is analysed using Michael Porter' 5 forces model. According to Porter (1985), the number of new entrants into a market will be low if there are barriers to entry created by;

- Governments
- Patents and proprietary knowledge
- Asset specificity
- Internal Economies of scale.

Save for government intervention all the above barriers are difficult to institute in the Zimbabwean market. The car assemblers are operating well below capacity, so one cannot talk of increasing economies of scale. The firms are merely car assemblers so again the issue of patents and proprietary rights is out. According to Joskow (1988), asset specificity is an aspect or feature of an asset (such as specialised machine) that makes it useful for one or few specific purposes and which therefore cannot easily be sold off quickly in a fire –sale. Second hand cars are low in specificity and therefore asset specificity is not important as a barrier.

According to Porter (1985), high threat of entry of new competitors is there if the following conditions persist;

- Profitability does not require economies of scale
- Products are undifferentiated
- Brand names are not well-known
- Initial capital investment is low
- Consumer switching costs are low
- Accessing distribution channels is easy

- Location is not an issue
- Proprietary technology is not an issue
- Proprietary materials is not an issue
- Government policy is not an issue
- Expected retaliation of existing firms is not an issue.

METHODOLOGY

Study population and Sample

The relevant population for the depth interviews comprised top management of the country's two car assemblers: Willowvale Mazda Motor Industries (WMMI) and Quest Motor Corporation. Two (2) managers were purposively picked from each car assembler considering knowledge on car sales and motoring business in general. 50 motorists owning different imported car models were conveniently selected from Zimbabwe's two largest cities, Harare (25) and Bulawayo (25). Exploratory research through the use of secondary data analysis was also employed to gain insight and understanding on the state of the Zimbabwe motor industry. The secondary data sources were the Sunday Mail of 4 May 2014 and the Zimbabwe Revenue Authority's published data sources.

Measures

This section explains the study constructs and the relevant measures for each construct. Saurina and Coenders (2002) noted that "the measurement of complex concepts makes it necessary to design appropriate instruments, which involves the conceptual definition of the concepts, the identification and operationalisation of the relevant dimensions of the concept, the development of batteries of valid questionnaire items to measure each of the dimensions and the assignment of appropriate weights for each dimension".

Reason for importing car

It was particularly important to zero in on the motivation to purchase a car rather than buy locally assembled cars. Was it to save on costs, pursue superior quality cars or simply because the required model was not available.

Purpose for car purchase

The purpose for purchasing a car needed to be established in as far as it relates to how it influenced the decision to import.

Rating of car performance

It was also important to rate the performance second hand cars. Being second hand there is always a lingering thought that the cars might not perform as expected. Does the imported car really perform as expected and last the expected years?

RESULTS

Motorists Demographics

Table 1: Motorists Demographics

Demographics	n	%
Motorists Respondents	50	100
Imported car age		
<5 years	12	24
>5 years	38	76

Source: Interview Data 2014

Table 1 shows that most of the cars imported were more than five (5) years old. This may imply that people are more seized with car ownership than the state of the car.

Continued Increase in motor vehicle imports

Table 2 and 3; show a pattern of a continued increase of vehicle imports for Zimbabwe. This might save as an indication of failure to satisfy the domestic market by Zimbabwean car assemblers. Unfortunately figures for years spanning 2011 -2013 were unavailable simply because the Zimbabwe Revenue Authority could not provide them.

Table 2: Motor vehicle imports for more than 10 people

Source: Zimbabwe Revenue Authority

Table 3: Motor vehicle imports for less than 10 people

Source: Zimbabwe Revenue Authority

Motorists Responses**Table 4: Motorists Responses**

Construct	Item	n	%
Reason for Importing car	It is economical to import a car	44	88
	Model is not available in Zimbabwe	19	38
	Quality of Imported car is superior	16	32
Purpose for car purchase	For family use	24	48
	For business use	26	52
Rating of car performance	Good as new car	10	20
	Slightly below new car	40	80

Source: Survey Data 2014
n=50

Table 4 reveal that the main reason for importing a car is that it is cheaper than to purchase locally. Also there are an almost equal number of people buying cars for family use and business purposes. Lastly the generality of motorists agree that in terms of performance these imported cars are inferior to locally assembled cars.

Documentary evidence on decline in sales for Willowvale Mazda Motor Industry (WMMI)

Willowvale Mazda Motor Industry (WMMI) is one of the two car assemblers in Zimbabwe. Together with Quest Motors the companies are facing stiff competition from second hand car imports and are on the brink of collapse. Table 5; below show the downward fall in sales for particular vehicle types for WMMI over nine years spanning 2005-2013.

Table 5: WMMI Sales trend

Year	2005	2006	2007	2008	2009	2010	2011	2012	2013
P/CAR	254	340	355	390	77	77	10	*	*
S/CAB	882	726	908	555	330	239	331	*	*
D/CAB	262	265	584	717	578	156	497	*	*
T3500	225	237	153	55	60	0	0	*	*
SUV	0	0	0	0	12	4	53	*	*
TOTAL	1623	1568	2000	1717	1057	476	891	580	260

Source: Sunday Mail.co.zw 4-05-14page D1
*Actual data not available

Table 5 above shows a continued decline in sales for WMMI. According to Engineer Dawson Mareya of WMMI quoted in the Sunday Mail the company can satisfy the current demand of 5 373 units per year given it has an installed capacity of 9000 units per year. The problem he said is lack of supportive policies from government.

Reasons cited by car assemblers for poor business**Table 6: Reasons cited by car assemblers for poor business**

Reason	n	%
High operational costs	4	100
Government Indigenisation policies	3	75
Undercapitalisation	4	100
Cheap second hand car imports	4	100

Source: Interview Data 2014
n=4

Table 6 shows that car assemblers consider the influx of cheap second hand imports as one of the key reasons for low business. On average one needs \$6000 to land a modest family car from Japan. It would however require not less than \$20 000 to get a new family car from local car assemblers. Though the car would be new it's still an insurmountable task for the average Zimbabwe worker. On average government workers in Zimbabwe earn

around \$400 against a poverty datum line of \$556 in March 2014. Car assemblers also bemoaned the central government's indigenisation policies and high operational costs characterising their industry.

Challenges facing the motor vehicle industry by ZIMTRADE

The following challenges for the Zimbabwe motor industry were noted by Zimtrade, a national trade development and promotion body.

- Locally assembled cars are deemed expensive considering the high cost of living for the generality of the Zimbabwean consumer. According to the Zimbabwe Statistical Agency the average Zimbabwe civil servant earns around US\$500 against a poverty datum line of US \$597. Added to the costly food basket are high costs of fuel with an average litre of petrol costing US \$1.50 while that for diesel goes for US\$1.40. Besides a high electricity bill averaging US \$30 per month per household electricity supply in Zimbabwe is erratic forcing consumers to fork out more on fire wood or paraffin yet they would have bought electricity units beforehand.
- Perceived country risk which is hampering international partnerships and investment in this sector. Henceforth, exchange of technology and other developments in the sector are limited. Note that inconsistencies in the country's macro economic policies (especially on indigenization) are posing some threats to potential investors.
- The industry lost skilled and experienced people to regional countries (especially South Africa) and beyond seeking for green pastures.
- Frequent power cuts are interrupting production. Note also that, unjustified high power rates are not only a disincentive to production but add to the price of final products making them uncompetitive.
- Cheap CBU coming through South Africa, low disposable incomes, absence of bank loans and liquidity challenges in the market have contributed greatly to the depressed demand for expensive locally assembled new units.
- Absence of credit lines and high cost of short terms loans from financial institutions build to undercapitalisation and working capital challenges that has rocked the sector.
- Poorly developed infrastructure: roads, railway system have added to the production costs.
- Expensive and unavailability of steel from local producers forcing players to import from South Africa.

CONCLUSIONS

- Presently the second hand car imports are an extended arm to the motor industry. The car assemblers themselves do not have the capacity to produce cars at affordable prices to the generality of the Zimbabwean customers. Second hand car imports have proved a relief to customers who can not afford the costly local cars. Locally assembled cars are beyond the reach of the generality of Zimbabwean customers.
- Second hand car imports can only be a long term threat to the motor industry in Zimbabwe. This will only hold true if the country starts assembling or producing new cars at prices that are affordable to most of its citizens. This scenario is a far cry judging by the harsh political and economic climate obtaining in the country.

RECOMMENDATIONS TO THE ZIMBABWEAN GOVERNMENT ON WAYS TO REVIVE THE MOTOR INDUSTRY

- Capitalisation to maintain/improve quality and capacitate local content manufacturers to up-date their technology to meet today's motoring needs.
- Clear policy direction with respect to the duty structure to counter the South African export incentive programme that is enabling their motor industry to export into this country.
- Holistic and clear government economic policies that entice investors to our industry.
- There is need for an imminent resuscitation of key raw material suppliers such as Ziscosteel, Zimbabwe's steel manufacturing firm.
- Development of synergistic linkages with international players to facilitate transfers of technology, skills, and access to markets.
- Developing and promoting consistent macroeconomic policy frameworks which support investment.
- Offering attractive package incentives to human input to deal with the challenge of brain drain.
- Improve clustering within the motor industry to benefit from the supply chain management.

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