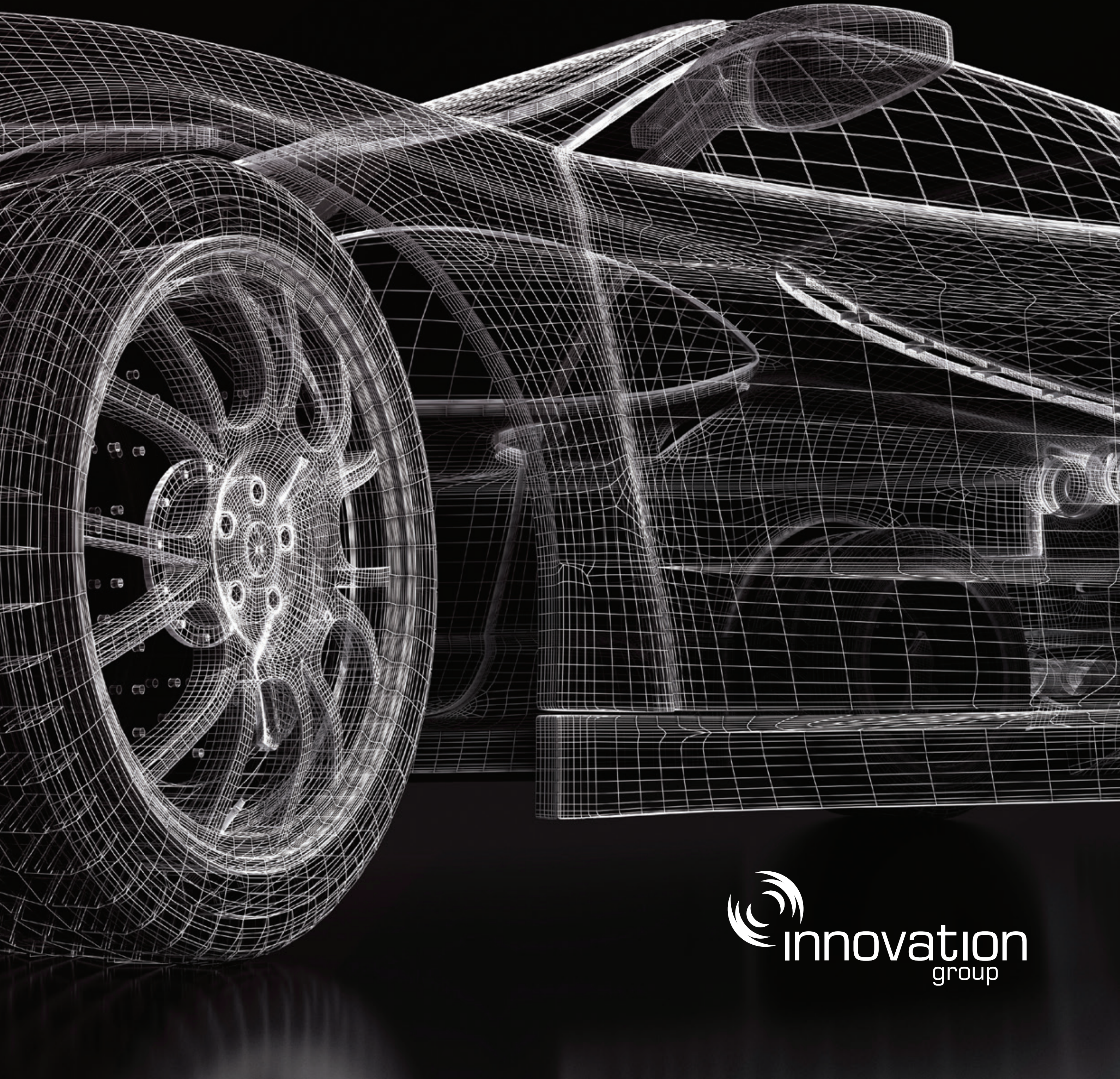
AUTOMOTIVE
FUTURE NOW REPORT 2016

Preparing the automotive
industry for the next decade



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Foreword

In today's current economic climate, both locally and internationally, the age old adage of "Business as Usual" no longer applies. The Automotive industry is entering an era of unprecedented change with cars as we know them about to change forever. It's time to start challenging the status quo, and embrace the challenges and opportunities that exist.

The purpose of this research report is to give a comprehensive, qualitative analysis of automotive trends, forecasts and predictions to enable automotive and business executives to prepare for, and navigate, the complex, challenging and digitally disruptive, service-centric terrain in 2016.

To facilitate the research process, Innovation Group enlisted the services of Knowledge Executive, a specialised research enabler. After 6 months of qualitative research, counter research, and in-depth round table and one-on-one interviews with C-Level automotive executives, we are excited to present this 2016 market intelligence report on the future of the global, regional and local automotive sector.

We would like to thank the various C-Level automotive knowledge leaders who have contributed of their time, intelligence, knowledge and wisdom for this report. We have greatly benefited from their insights on both personal and professional levels which enabled this market intelligence report to reach the breadth, and scope, that it has. A special word of thanks is extended to Gavin Maile, Head of Automotive at KPMG Africa for his assistance and input during the compilation of this report.

We trust that the insight provided will be useful and will assist you in becoming Future Ready.

Glen Mollink
Chief Executive Officer
Innovation Group South Africa

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Knowledge Executive

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Executive Summary

Automobiles have not only shaped the global economy but also how millions of people work, commute and live across South Africa. Today's connected cars – with their intelligent, autonomous drive-by-wire electric systems and drive assistants – are creating a richer driving and mobility experience for consumers.

The worldwide automotive industry has been enjoying sales and profitability gains over the past couple of years, but there is still uncertainty about the future. Global vehicle sales reached 85 million in 2014 and are expected to continue to grow in 2016 to about 90 million, with the USA, UK and China all recording record sales, amongst others. In contrast, new vehicle sales in South Africa declined from 644 259 units in 2014 to 617 927 total vehicles sold in 2015 – a 4.1% decline reflecting the challenging local economic environment. Total vehicle exports, however, increased from 276 936 units to 337 748 units in 2015 – an encouraging 20.5% growth due to continued recovery in these export markets.

Whilst it is clear that 2016 presents a tough economic climate in which to grow vehicle sales and businesses in South Africa (and most "emerging" countries), there is nevertheless a degree of hope that 2017 will see some settling and improvement, although these factors are outside of the industry's control. An improvement in GDP growth is a prerequisite. In the meantime, as the automotive industry prepares for a belt-tightening year, the focus is on smarter strategies for both streamlining costs and gaining and retaining customers in a service-centric environment. There is also a need for an increased focus on a new data driven business model which the traditional automotive industry is somewhat unprepared for in comparison to other industries, such as companies from the information and communication technology sector (ICT).

Digital disruption is a reality that affects car manufacturers, marketers, and dealerships. Consumers are demanding more interactive services and mobile apps that plug seamlessly into connected vehicles. Different markets – and diverse brands – respond differently to this disruption and there is no one-size-fits all strategy.

Urbanisation and the growing middle class are creating a stronger car ownership culture in South Africa. The focus is on **affordability** with cost effective finance and preferential interest rates, innovative warranty, maintenance and insurance solutions, and fuel-efficient vehicles. Yet within the South African market particularly, there is room for many alternative **mobility solutions**.

The purpose of this research was to explore the South African Automotive sector both within the context of international and regional trends as well as the unique local challenges and opportunities expressed by key industry executives as 2015 drew to a close and 2016 arrived.

The **South African Automotive Future Now** report presents a qualitative analysis of the conversations held with local automotive industry executives. It describes the frustrations and hopes of a diverse industry and its impassioned business executives. It explores the impact of international automotive manufacturing trends on the local market and stresses the importance of strategic preparation for meeting the future now.

We hope that the collective and individual voices of the industry provide insightful reading.

Gavin Maile
Head of Automotive
KPMG Africa

GLOBAL FUTURE NOW TRENDS

The global automotive industry is entering an era of far-reaching and extensive transformation facing strict regulatory requirements, unpredictable exchange rates, a taxing economic environment and shifts from a product-centric past to a customer-centric future.

Connectivity - in particular the connected car relating to digitisation and interactivity within every automobile - remains a global trend. Distraction while driving is a concern, and thus there is an equal focus on **safety** and some **autonomous driving features**.

OEMs have different ways of responding to the demand for connectivity. In the US, for example, General Motors decided to co-operate with Apple to create a product called Car Play that manages information exchange and entertainment functions, interfacing between the iPhone and the car. This is combined with GM's On Star to provide the overall digital experience in the car. The risk they take is releasing access to the car's automotive data (people have learnt to 'jail break' the iPhone), which could lead to sensitive vehicle and personal information being compromised.

European manufacturers are taking a very different approach – for example, all the German carmakers pooled their money to buy the map system called 'Here' from Nokia for $3.1 million in order to ensure that they have their own navigation system.

> *"It's inspiring to see cutting-edge automotive technology that has already been developed in key, global markets. I've experienced pre-production models at Jaguar with their amazing new virtual instrument displays and Tesla's 17-inch capacitive touch screen, while testing full autonomous driving cars with driver and pedestrian safety features. Future automobiles will generate a whole new emotional paradigm."* Michiel Nel, Head of Motor Warranty UK and Europe, Innovation Group Limited.

Other differences in global markets are also apparent. In the US, while connected cars receive a lot of press, they are not the biggest factor driving sales volumes. In 2015, the US sold more **pick-up trucks** than ever before in history. The focus is on fuel efficiency, rather than on electric cars. **Electric cars** are available in the US and all agree that it is exciting technology, but with the vast driving distances across the country, and the cost involved in setting up the infrastructure of charging stations, amongst other things, it isn't foreseen that the electric vehicle will really take hold in the short to medium future. Much the same view is held of **autonomous, or self-driving cars**. Google and Mercedes are running tests and it will initially be limited to certain highways. But with 300 million cars on the US roads it is going to take a long time to cycle through to a large enough driverless community to really change the landscape, and for the average US citizen to let go of their psychological love of driving. In Europe, with it's relatively shorter driving distances, autonomous and electric cars are a little closer to their radar.

A GLOBAL PERSPECTIVE

"People want to do the right thing in terms of the environment, but I don't think it is the main driver for how they act and the cars they purchase. A much bigger driver is the connected car. This whole topic is not so much about driver assisted vehicles and autonomous driving (although it will get there) but for the consumer, it is more about digitisation and interactivity within the car. Music, messages and basically how the smart phone/device is mirrored on the screen in the car. This is the next big thing. And the markets all have different ways of responding to that."

Joerg Waelder, Senior Executive, KPMG Germany.

The US market has also reached its peak in terms of the age of fleets and cars – people have been holding onto their cars for as long as possible, but this is now starting to change. A similar optimism is seen in Europe. All of this new technology, however, is expensive, and will remain so until mass scalability brings the cost down. Even then, there is a need amongst emerging markets for more **basic vehicles as affordability is decreasing in these markets as their growth slows**.

Regulatory conditions such as EU6 emissions requirements and safety features are also top of mind for OEMs, coupled with the need to monitor and control their carbon footprint more stringently.

Automotive CEOs are confident of generating higher revenues in the short- and longer-term: 75%* expect to do so in the next 12 months, and 92%* in the next three years. They have their sights set on China, India, the US and Germany as sources of growth *(*Source PwC)*.

Forecast:

For future growth and profitability global OEMs cannot simply turn to their traditional toolbox. Expect to see their strategy planning, investments and resources focus on getting the balance right between complexity and costs while integrating innovative technology and digital channels into the driving experience. Over the next five years the global automotive industry faces a reduced market growth, down from an annual 3.1%* (between 2007 and 2014) to an annual 2.6%* between 2015 and 2021 (*Source: AlixPartners).

DIGITAL DISRUPTION IN EUROPE

As car ownership becomes less important, mobility providers are starting to fill that gap with online mobility services, encompassing more than just cars but also bus, rail and plane to name but a few. Daimler invented 'Car-to-Go', but the next generation of that in Europe is MOOVEL (100% owned by Daimler) – that aims to provide transport services regardless of brand or type. One of the strongest car brands in Europe is in the process of giving up its brand to something they consider much bigger – the brand that provides transport solutions. They are the first-movers laying their bets on the table and could certainly become the "Amazon's" or "Microsoft's" of the automotive world. Daimler clearly wants to be one of the big, final transport marketplace providers.

BRICS FUTURE NOW FORECASTS

Worldwide, economists are less enthusiastic about the emerging markets than they have been in the past. Analysts and OEMs agree, however, that there will be growth in the BRICS automotive markets with India, and to a lesser degree China, offering the most potential.

Brazil's economy is disappointing, with GDP contracting by 2.6% in 2014 and forecasted growth of only 1.1% in 2016. Public spending has surged, inflation is high and thus debt payments eat up more than 8% of output. At the same time, the government's inept industrial policy short-changed the private sector and business confidence slumped.

The Russian economy also experienced its worst contraction in six years in Q2 of 2015, with forecasted growth of only 0.7% in 2016. Even China, with expected GDP growth of 6.9%, is slightly on the wane now due to overcapacity and insufficient global demand, yet it remains a stalwart market for OEMs. Wider market forecasting indicates that China will account for almost one-third of annual new worldwide vehicle sales by 2020.

India's economy, on the other hand, is the fastest growing major economy from the last quarter of 2014. The GDP grew by over 7% in 2015 with forecasted growth of 7.9% in 2016. Much of this growth, however, is coming from the services and software sectors, with industry maintaining a constant contribution to the nation's output.

As can be seen from this report, South Africa's position within this is uncertain: whilst the GDP figures are not shrinking as per Brazil and Russia, the growth rate of 1,5% is miniscule, and slower than had been expected.

The shift in the axis of automotive power and manufacturing will, over the longer term, move to some key BRICS markets in an effort to utilise these countries as hubs to springboard into key regions. Global analysts forecast that between 2015 and 2020 the proportion of cars made in the BRICS will rise from 38% to 45%.

Wholly owned BRICS automotive companies, particularly from China and India, are also demonstrating their ambitious international expansion plans, and are more likely to raise their investment levels in every major emerging market.

Forecast:

There will still be a strong focus on emerging markets where the share of global sales will rise from around 50% in 2012 to up to 60% by 2020, while onshore manufacturing will also shift to some key markets such as China and India.

SOUTH AFRICA AUTOMOTIVE FUTURE NOW REPORT

CURRENT MARKET CONDITIONS

ECONOMIC LANDSCAPE

As South Africa enters 2016, the economic outlook and business climate is still somewhat uncertain, according to economists, financial analysts and business executives. Second quarter 2015 GDP figures demonstrated a 1.3% decrease year-on-year, with marginal growth in the 3rd quarter staving off a recession. Real GDP for 2015 demonstrated a nominal increase of 1.5% with a forecasted growth, according to the World Bank, of 2.1% in 2016. These slow growth figures, combined with a devaluation in the exchange rate to around R17.00 to the US Dollar (compared with R6.50 just five years ago); infrastructure costs growing beyond the rate of inflation; a degree of political uncertainty based on the ability to provide consistent electrical, water and human resources - all contribute toward an atmosphere of economic pressure.

PRESSURE	POTENTIAL
Slow GDP growth	Burgeoning middle class
Devaluation of the Rand	SME growth with sound business skills
Increasing infrastructure costs	Better engagement between political leadership and business strategists
Inconsistent supply of electrical, water and human resources	Focus on the basics: power, water and education

Most importers are worried about the value of the Rand and the impact it is going to have on the South African automotive market. With regards to the export market, globally, there is also some uncertainty: expectation of growth may have been over-estimated and the International Monetary Fund (IMF) has indicated that the world is not going to recover from the recession of 2008/9 as quickly as had been predicted.

Worldwide, the cost of production is also rising, but unlike the South African and other emerging markets' economies, there is some return to optimism in Europe and the US, although the stock markets do show signs of occasional nervousness. If the world 'catches another cold' our exports may also be affected.

Forecast:

Poised between hope and disappointment, there is nonetheless agreement that a period of severe belt-tightening lies ahead for South Africa in 2016. Despite this, the terrain still contains the inherent potential of its natural resources, pockets of savvy business acumen and its newly emerged middle class. Given the right combination of political leadership and private business engagement, 2017 may start to see some recovery.

"I think the cost of production is a global issue. The double whammy of a volatile currency is more unique to us."

Keith Dye, Head of Vehicle and Asset Finance, Standard Bank.

"For a while in Europe and the US, people were looking at smaller cars with reasonable gas consumption, but now, especially US customers, are back to the 'old behaviours', and the big automobiles are the best sellers again."

Joerg Waelder, Senior Executive, KPMG Germany.

BUSINESS CLIMATE

Although there are indications of very small growth or flatlining for some segments within the automotive industry, the majority report new car sales figures that were revised down at the close of 2015. With each passing month, forecasts and figures published by the National Association of Automobile Manufacturers of South Africa (NAAMSA) **demonstrate increasing declines and this is expected to continue into 2016**. Overall, analysts expect to end the year between 8 to 10% down on the previous year. **New vehicle exports** in October 2015 also registered a decline of 13.9% compared to October 2014, although NAAMSA anticipates that new car exports will remain on target – possibly even reaching record highs - and will help to offset the country's balance of payments. **Used car sales** are also somewhat counter-cyclical and will likely show an increase through 2016.

There is no doubt that both the economic and political climate of uncertainty is contributing towards a lack of consumer and business confidence in South Africa. Business confidence reached its lowest level in 5 years in the final quarter of 2015 as activity in the new vehicle, retail and manufacturing sectors slowed. Rating agencies such as Fitch (BBB and BBB+) and Moody's (Baa2) do not see the nation's long- and short-term foreign currency sovereign credit ratings improving based on 2015 figures, and Standard & Poor's (BBB-/A-3) recently revised the country's outlook from stable to negative. Many are adopting a 'wait and see' approach, especially with regards to the purchase of high-cost items (such as automobiles) and investment.

Forecast:

While the current local business climate is tough, many recognise the cyclical nature of down swings and are focused on finding smarter strategies for sustainability and future growth. This period of intensive business challenges may also produce previously unforeseen opportunities and innovations that will start to emerge or blossom in 2017, provisional on a stable, responsive and more engaged political environment.

LABOUR FORCES

Potential investors in South Africa often cite their greatest reason for not investing in the country as the fear of labour intervention that disrupts continuity and profits for any given year. Strikes in South Africa tend to be commercially driven, so that the cost of labour in the country is no longer competitive, especially in comparison to countries such as China, India and Thailand. Labour has had close to a double-digit increase in recent years in South Africa. Certain manufacturers have indicated that continued strike threats in 2016 could force the closure of their plants, as it would no longer be viable to continue operations. The domino effect of this on the core automotive industry (vehicle, component manufacturing and assemblage) would quickly be felt, resulting in a loss for the secondary and related industries too, from mining and agriculture through to the service industries.

Of course, labour legislation does not just cover industrial action. Restrictive employment laws also limit growth. Our research reveals that the current labour legislation is hindering growth. It is too onerous on business and although implemented with good intentions, it does not ultimately benefit labour or the country.

"The future really depends on South Africa being able to have a really competitive cost-base through efficiencies, through incentives, through better cost management of our inputs. If we don't do that and we continue to see these escalations coupled with a weakening Rand, the local business is compromised and the auto industry won't be as compelling in South Africa."

Jeff Nemeth, CEO for sub-Saharan Africa, Ford.

Forecast:

Currently the perception is that the South African government could provide more favourable labour conditions for automotive businesses. Expect to see greater lobbying with government to relax labour laws and make them more conducive for the automotive sector, while SA competitors (such as Nigeria, India and Thailand) take advantage of this situation to entice OEMs to invest in their countries.

SKILLS AND DEVELOPMENT

Our research suggests that there is an impending shortage of the right kind of skills in the automotive industry to move it forward to the next level. It is less about new technology – employers can train in that regard – and much of the new technology comes with the equipment to maintain it. The problem lies in the shortage of qualified technicians who can be trained, as well as a shortage of the kind of customer service skills (customer focused relationship management across all aspects of the industry) that will become increasingly important. The entrepreneurial mindset is not being encouraged nor supported enough. As a result of this shortage, poaching of staff is a real problem.

> *"If the number of trainee technicians entering the retail motor industry in South Africa does not grow substantially soon, the industry will struggle to cope with new technologies and future demand."*
>
> Derik Scorer, NADA.

> *"The real base of the problem is the quality of basic education. It doesn't support job creation. Neither does the government stimulate small or medium businesses to give those people opportunities."*
>
> Jeff Hudson, After Sales Director, Volvo Car SA.

Industry contributes to the development with specialist skills training, and some of the large OEMs contribute to schools and education programmes. The concern is that scalability of this kind of industry input is not possible for the mass development that the country requires in the long term. The National Automobile Dealers Association (NADA) is also still working on initiatives to engage the Department of Education and Training, but it is a long-term project/initiative.

Forecast:

Skills and development are likely to remain an area of concern in 2016, and government and industry engagement must be initiated to determine what skills the country needs, and incentivise in those directions for the future.

GOVERNMENT SUBSIDIES AND INCENTIVES

The Automotive Production and Development Plan (APDP) programme that was implemented in 2013 is seen as an essential and necessary step in the right direction, without which the automotive industry in South Africa would barely exist.

The benefits of the APDP programme are based on export volumes and at volumes of 50 000 and above, the APDP incentives kick-in. There are, however, a number of smaller manufacturers who cannot reach these volumes.

Forecast:

It is foreseen that the scope of the APDP can be broadened to include the smaller manufacturers without compromising on the incentives already offered to the large-volume exporters. Some concern exists as to the time-frame in which this can be negotiated and dispensations actioned, as it is an urgent requirement for the smaller exporters.

STEERING AHEAD: OEMS AND MANUFACTURERS

INVESTMENT IN SA

Every country would like an automotive industry – heavy manufacturing is an excellent economic stimulus. The competition to attract capital is therefore very intense. South Africa, because of it's geographic location, has long logistics pipelines, and the local automotive market is relatively small – around 600 000 units per year. As a result, the automotive industry – as a manufacturing industry – requires significant exports. Local sales, however, must be sufficient to support the manufacturing footprint in the country.

The devaluation of the Rand does not support exports as local manufacturing relies on at least some imported parts and machinery – particularly the costly items such as engines. In addition, it adds to the price of vehicles for the local market. In order to attract investment, therefore, the country needs a healthy local market as much as a competitively priced export market.

South Africa has demonstrated, nevertheless, that it can compete. The factors that could jeopardise this are questions relating to the protection of manufacturers from strike action; the degree to which government is responsive to private business without being overly punitive; and the ability to implement incentives and other plans for education and the stimulus necessary for long-term and sustainable gain.

Some of the existing automotive manufacturers have recently announced the intention to increase investment in their existing plants, which is a vote of confidence for the local market.

> *"I've never known a company that isn't successful in its home market to be a successful export company."*
>
> Jeff Nemeth, CEO for sub-Saharan Africa, Ford.

Forecast:

There does not appear to be a great deal of new investment entering the country in the immediate future, although there is clearly an interest (if not plans as yet) and opportunity for opening manufacturing plants in the country to reduce the size of the import bill and as a springboard into the rest of Africa. This is dependent upon more flexible government legislation and incentives. Future growth has not been ruled out, despite the current downswing. Some international investment is being allocated to one or two of the existing plants, proving that the industry in the country is a viable one.

DISRUPTIVE INFLUENCES

In addition to political and economic uncertainty, **the automotive industry in South Africa is influenced by a great deal of global change**. Trends have emerged from multiple directions over the past few years, not least of which were elevated environmental concerns, consumer demand for **connectivity and digital solutions**, and advances in technology – particularly in safety features. We explore these throughout the remainder of this report; suffice it to say that the resulting cost of production has raised the question of **affordability**, especially for the local market, which is also experiencing currency pressure as well as **stricter access to finance**.

Other disruptive forces include changes in both the supply chain model as well as vehicle ownership models, **increasing urbanisation** and more demanding and discerning consumers. While the premium segment buyers – of which there is a small but solid base in South Africa (at last count about 83 000) – are driven by the changes in technology, the entry-level buyers are simply looking for **mobility solutions**.

Forecast

Digital Disruption will continue to shape and refine the global automotive industry, with innovative strategic solutions being sought and implemented over the next 5 years. For South Africa, affordability and the value of the Rand is seen as the more pressing disruption facing the industry.

COMPLEXITY AND COST DEMANDS

It is clear that the local industry faces crossroads, with no 'one size fits all' solution to survive and thrive. Complexities and demands include the increasing cost of production due to advanced technology and global minimum standard requirements; new lightweight raw materials costing more than sheet metal and less consumer spending power. Automation and robotics are being posed as ways to drive efficiencies and yet there is resistance from government who fear the knock-on labour effects (though driving efficiencies could create more jobs in the longer run). There is also more demand for high specification customisation and diversity in vehicle ranges coupled with the unsustainable costs of showroom floors, staff training and retention. All of these complexities, together with increasing competition for customers in a connected world, points towards a shrinking bottom line in the 'business as usual' scenario, as is reflected in 2015 car sales figures.

The South African market itself is also very diverse – from those seeking the 'bare bones' basic vehicles as a means to get out of the public transport system to those wanting to own the very latest and best technology. Alternative strategies to overcome market complexities may well be the norm moving into the future.

COST PRESSURES

- Decreasing value of the Rand
- Stricter access to finance
- Decreasing loyalty to brand image
- Increasing cost of production (global)
- High cost of showroom floors
- Increasing cost of staff training and retention
- Increasing competition for customers

Forecast:

We will see some changes to the traditional automotive industry model as OEMs look for smart ways to reduce costs and maximise brand loyalty. Expect to see an increase in co-operation between manufacturers, multi-brand dealerships and closer integration/interaction between OEMs and dealerships in general. Smarter ways of attracting and retaining customers will also be sought.

> *"Affordability – especially in Africa – is probably the number one driver. We need affordable vehicles. Of course there is always a market for the more luxurious vehicles that people would like to have, but affordability is of more concern to the greater market."*
>
> Calvyn Hamman, Senior VP Sales and Marketing, Toyota.

> *"In terms of volumes, I think the phase of too many consumers and not enough motor cars is over...there are now too many motor cars and not enough consumers. So the time is right for doing things differently."*
>
> Karl Bauermeister, CEO, Sizwe Asset Finance.

> *"In Europe we're seeing a big drive towards the alternative use of vehicles such as social car sharing. Social networks such as Drivy are offering peer-to-peer car rentals and BlaBlaCar are connecting people who want to travel with drivers that have empty seats."*
>
> Michiel Nel, Head of Motor Warranty UK and Europe, Innovation Group Limited.

> *I still see there is a big opportunity for South Africa to be the springboard to Africa, if the conditions are right to make investment worthwhile. And that depends largely on workforce capability as well as financial incentives."*
>
> Jeff Hudson, After Sales Director, Volvo Car SA.

> *Internationally the automotive industry is asking 'where is the next growth going to come from?' It will come from Africa and not necessarily South Africa. That is why OEMs are positioning themselves in Sub-Saharan Africa. We have an opportunity here to manufacture vehicles in South Africa and move these into other parts of Africa and Europe."*
>
> David Hughes, Managing Director, Mazda SA.

> *We will certainly see SA-based OEMs becoming involved in supporting growth into key African markets including Angola, Ghana, Kenya, Mozambique, Nigeria and North East Africa."*
>
> Glen Mollink, CEO, Innovation Group SA.

> *We will only grow some of our African markets once we get the right size engines and smaller vehicles with the right emission standards coupled with innovative maintenance plans."*
>
> Rory Beattie, Customer Services Director, Jaguar Land Rover.

AFRICA: THREAT OR OPPORTUNITY?

Automotive executives interviewed as part of the research process expressed mixed opinions on the rest of Africa. Some voiced disappointment that South Africa is falling in the African ranking, although most still believe that South Africa remains the most viable manufacturing destination on the continent. Whilst there is some indication of countries like Egypt, Kenya and Nigeria setting up at least a small manufacturing footprint, these countries have less political stability than South Africa and even less infrastructural assets, although this may change over the next 20 years.

The larger threat is seen in countries outside of Africa such as India, Thailand and even China - although those markets are also showing some strain and thus there is renewed interest in the US, too. There are also small growing economies in African countries such as Botswana, Namibia, Tanzania and Zambia that demonstrate relatively low corruption and a lack of over regulation on business which is more attractive than those countries whose regulation can put a stranglehold on the economy.

Forecast:

The biggest threat in Africa are second-hand cars arriving from the East. If governments wish to stimulate their own manufacturing, or to engage in co-operation between countries on issues such as component manufacture, or even to receive exports from South Africa, they would need to regulate this going forward.

ICE VS. ELECTRIC VS. HYBRID

To date, hybrid vehicles have had a slow uptake in the South African market, largely due to the prohibitive price. Once the technology becomes more affordable, it is expected that this will show future growth based on better fuel economy. Wholly electric cars are still somewhat in their infancy, in the real world, although the technology is available. Over time, hydrogen charged electric vehicles will enter the picture as the battery technology develops and as the cost becomes more affordable. These cars would cost far less to run and maintain. At the moment, the great distances that South African drivers are expected to cover make charging one of the barriers.

Forecast:

Many premium OEMs have elected to introduce hybrid engines in higher-end models. Over the next 5 years, plug-in hybrids are forecast to attract the greatest demand of any e-vehicle in global markets, which could also become the trend in South Africa.

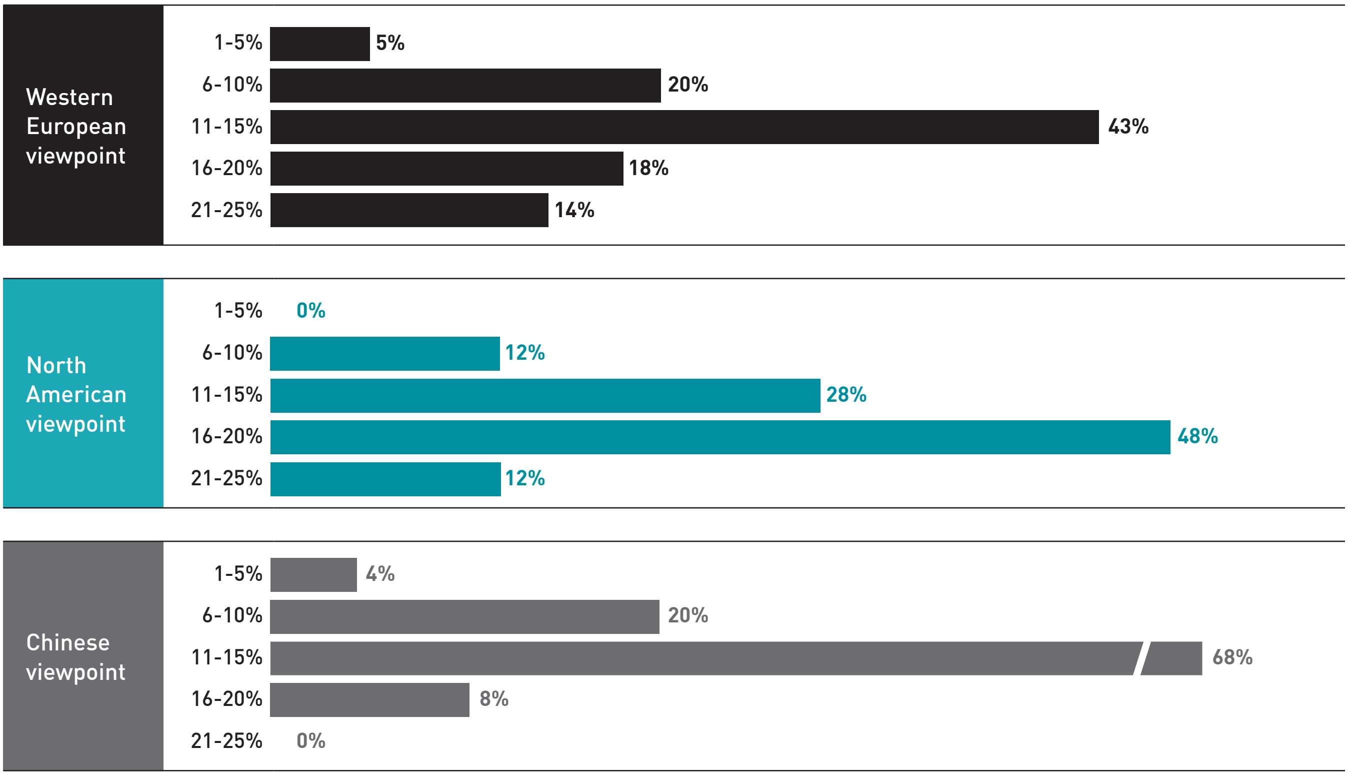
A GREENER ROAD

There is no doubt that in the future, the hydrogen-powered vehicle - whose only emission is water – would represent the ideal in a 'green economy.' For now, South African consumers are less concerned with greener emissions than they are with affordability or even just access to mobility in any form. The exception may be in the small premium segment, and even here, the greener route would only be adopted if it also represented more convenience.

Forecast:

From 2016 – 2017, improved fuel efficiency within ICE vehicles is likely to remain the trend.

At least every tenth vehicle sold in 2025 to be electric, according to auto execs' opinion



Note: Percentages may not add up to 100 due to rounding
Source: KPMG's Global Automotive Executive Survey 2015

ECO MOBILITY

The concept of **Eco Mobility**, which aims to reduce traffic congestion in urban areas by promoting alternatives such as public transport, small electric vehicles and bicycles, is dependent on the municipalities' ability to provide the necessary infrastructure and environment. Small projects may show some traction in the medium term, but the scalability and viability of such a vision remains to be tested and implemented in the future. If proven possible, it would reduce the demand for compact ICE vehicles for daily use. Small electric vehicles may become more popular for daily commutes while those requiring long-distance travel for business or weekend leisure would probably shift towards the more rugged SUVs or pickups, or even luxury sedans, possibly on an as needed/hire-as-you-go basis rather than ownership.

AN EVER-CHANGING CUSTOMER TERRAIN

Computers, the Internet and mobile devices have forever changed the way that business and customers interact. As the older generations embrace technology and the younger generations expect nothing less, connectivity (especially mobile connectivity) takes centre stage. Certainly, it has already changed the role of the sales person in the buying process and this has been explored in the dealership section of this report. The implications for OEMs, however, can't be ignored. Not only is connectivity within the car of primary interest to the new consumer – particularly in the form of apps that add convenience – but also in expectations of communication with the brand. There are many new ways of communicating directly with the connected customer – from social media to mobile apps.

> *"We are just at the beginning of exploring all the opportunities. But all of this will be through the smart phone/device. And the smart phone/device will connect with the vehicle. For example, if the vehicle is moved without your permission (stolen) your car will send a signal immediately to your phone/device to say your car is moving and your key is not in the car. This already exists. That adds value."*
>
> Calvyn Hamman, Senior VP Sales and Marketing, Toyota.

WHAT DOES THE SA CONSUMER WANT?

Premium buyers are expecting greener emissions, advanced safety and connectivity features, semi-autonomous driving capabilities, a customised driving experience and a seamless ownership experience. An increasing demand is also noted for SUVs and crossovers. This segment is less sensitive to the affordability issues facing the majority of customers.

Mid-level and aspirational buyers are expecting the cost of the new technology to become more affordable as it scales, with the latest connectivity and safety features the minimum standard in compact and fuel-efficient vehicles. They are well researched and educated online consumers, expecting a similar level of convenient service throughout the ownership experience. An increasing demand for automatic transmissions is noted. Many within this buying segment are downsizing due to affordability issues or utilizing driving services such as Uber.

Entry-level or first-time buyers are expecting an affordable mobility solution but are also more connected than ever before. They are less image-conscious and more focused on affordability, convenience and connectivity. Alternative solutions to ownership are being considered; including car-sharing, as public transport is not sufficient in this country.

EVOLVING CUSTOMER LIFECYCLE

Not that long ago, the process of browsing in the research phase of the purchase cycle involved door-to-door weekend visits to various dealerships. Today, the average South African consumer researches all available options online and knows exactly what they want at the point of first contact with the brand. They are ready for closure, not conversion. Of course, the OEM will have played a role in the initial attraction and awareness phase, but this mass-media image building is no longer sufficient, by itself, to convert or retain customers. The new generation of consumer is more likely to be swayed by conversations or reviews on social media and comparative sites **(pre-sale)**, as well as the actual convenience of the experience from purchase through to maintenance, retention and loyalty **(after sale)**. In the middle of this is the **driving experience**. How has the product delivered, or omitted to deliver, delight in that regard?

The traditional model in the automotive industry was very fragmented. The OEM built the image via mass media, with little or no contact with individual customers. The dealership represented the first direct contact with customers and the dealerships themselves were silo driven. The parts person dealt with parts. The sales person didn't know or care where the service centre was. Those silos will have to be broken down, because the customer only sees the one brand name. They don't see a difference between parts and service, or, for that matter between the OEM and the dealership. So how do you ensure that the experience the connected customer gets is the same from any staff member or across any touch-point? A seamless customer-centric driven interconnection between people, systems, processes, services, marketing, sales, after sales and CRM is required – a great challenge given the siloed business models of OEMs and dealerships.

Forecast:

It is clear that there will need to be a closer integration between brand image, the buying experience, and service and maintenance in order to apply a consistent, convenient and relevant experience for the customer throughout the ownership lifecycle and at every customer touch-point.

> *"As consumers we all want to be connected. Vehicles are now becoming an extension of a person."* David Hughes, Managing Director, Mazda SA.

AUTOMOTIVE CRM

Customer Relationship Management (CRM) recognises the evolving customer lifecycle and seeks to optimise revenue through customer delight. It recognises that on-going nurturing and engagement are necessary and this requires consistency across all aspects of the customer's ownership experience. This focus on customer-centricity requires knowledge of the customer - who they are and what they want throughout the journey. **Data collection and enrichment** is the necessary foundation, but what the brand does with that data in order to add convenience is the differentiator.

Forecast:

Direct contact with the customer, as an individual, in a richly personalised, beneficial manner is now possible. If the customer's experience of this is intrusive, it will be rejected. If the experience enhances the customer's life or lifestyle, it will be welcomed.

INFINITI SA: A CUSTOMER CENTRIC APPROACH

Infiniti South Africa, a division of Nissan South Africa (Pty) Ltd, operates within the premium automotive segment in South Africa. The company has a clear vision with regards to Customer Relations Management (CRM) and Customer Experience Management (CEM) with the goal of consistent inspirational brand advocacy. In order to achieve this, Infiniti needs accurate and rich data to understand and leverage the emotional terrain of both existing and potential customers at every touch point in the customer lifecycle. It also requires that all brand representatives are able to have meaningful, sincere and personalised conversations with customers.

Until 2014, CRM was integrated with the Nissan contact centre located in Rosslyn, Pretoria. In order to connect better with both existing and potential customers and shift into a deeper customer centric mindset, Infiniti SA decided to collaborate more closely with its CRM marketing agency, Innoviate Centricity, and established the management and operations of a new Infiniti Customer Centric Centre (CCC) in Midrand, utilising CRM strategists and customer centric specialists.

The CCC environment is being cultivated for Customer Centric Executives (super agents) to live, breathe, and embody the Infiniti brand. In addition, the type or nature of data captured within this environment is more focused on rich, lifestyle or service-driven lifecycle-centric activities.

"The customer is key to our business and every customer counts on an individual level," says Vinola Pillay, Head of Marketing for Infiniti South Africa. "We wanted to get to know them better by giving them beneficial, personal attention which is why we took the strategic decision to set-up the CCC."

Today, the Infiniti CCC uses Salesforce CRM linked with the Innoviate CRM & Campaign Management platform to give the CCC a complete view of customer communications, information, events, promotions, campaigns and interaction. Through phone calls, campaigns, mini polls and surveys additional lifestyle and personalised lifecycle-focused information is captured (with the permission of the customer) to create meaningful and beneficial engagements and a greater customer experience. New systems, KPIs and processes focused on customer centricity, empathy and quality have been developed and deployed.

Training and development of the Customer Centric Executives is on-going and the feedback cycle between customers and Infiniti is far closer to the seamless experience that consumers expect across a connected multi-channel environment.

VEHICLE FINANCE

South Africa's relatively new middle class has been through a learning curve in terms of over-extending their debt and as a result, the National Credit Act has necessarily become stricter. Credit extension from banks is tight. The **cost of ownership is becoming more prohibitive and people are holding onto their cars for longer**. Contracts are extending towards the absolute maximum in order to try and keep monthly premiums down, with the resulting balloon payments of less concern than the immediate affordability issues. A lot of the middle tier buyers are trading down in order to afford the monthly premiums.

First time buyers are finding it harder to access finance at all. Even in the higher income brackets, a lot of people today are not cash-rich, but are asset-rich. This state of non-liquidity in an economy (anywhere in the world) is an alarm bell.

Rental and leasing options may allow access to finance for people who have been barred. Dealers may connect with new financial institutions with a different perspective on how these things work. There may be new entrants in the financing area. Anyone who has the structure to collect the debt may be considering this.

On the other hand, the more conservative models have the experience and longevity to continue with what is essentially a fairly simple process, while considering refinements in the area of customer ease of doing business, like online requests and approvals.

Forecast:

Strategically, some financial institutions will become more creative in their attempt to help the customer achieve mobility as the competition for credit-worthy customers increases (noting that this creativity falls short of 'fancy schemes' which sound too good to be true, but is rather geared towards a seamless, value-added or more convenient customer experience). Others will 'ride the storm' as Used Car finance helps to offset the drops in New Car finance in the short term.

"We've got to stop talking customer centricity and actually do more about it! We say we are customer centric, but we are actually more product centric."

Valerie Webley, Automotive CRM Strategist.

"We are 'over' legislated to a certain extent because we are making it too difficult for customers to deal with us."

Karl Bauermeister, CEO, Sizwe Asset Finance.

"A substantial amount of vehicles are now being financed out of micro loans and personal loans."

Glen Mollink, CEO, Innovation Group SA.

VEHICLE OWNERSHIP

Traditionally, the South African market has preferred vehicle ownership to renting or leasing models, regardless of international trends showing a growing preference for them. This will likely remain the case in the medium term, but there is some indication that alternatives to vehicle ownership are being considered by the younger generation, particularly with access to transportation solutions such as Uber or car sharing (Locomute has recently been launched). These upcoming, new consumers are less likely to display their 'mating feathers' in the form of a car, and more likely to do so with smartphones and clever mobile applications.

The public transport system in South Africa is not seen as a sufficient transport solution. Public transport is currently not co-ordinated and represents a fragmented and unreliable option for daily commuters. Although there is some development in this area (such as the Gautrain), the cost of updating infrastructure is immense and the government has little room for spending.

Although the South African road network is the largest in Africa, it has not been extensively updated in the past 20 years and provincial roads are in a state of disrepair. Taxis transport about 15 million commuters daily and this industry is notorious for health and safety issues, with a track record of accidents and poor driving.

Forecast:

Although car ownership is still the preference in South Africa amongst those already in the market, preparation for the new and upcoming generation of customer is likely to be on the agenda for the longer term and this includes more mobility solutions. A need for safer taxis is also noted.

MANOEUVRING FRONTWARD: DEALERSHIPS AND RETAIL

EVOLVING DEALERSHIP MODELS

Prospective automotive customers in South Africa no longer spend days moving between dealers to see what is available. Most of this browsing is done online. And where once a customer would order a vehicle and expect delivery only months later - in whatever colour was available - now the customer expects almost immediate possession with the precise specifications they require. Even with regards Used Cars today, within 5 minutes, the customer can find 30 or 40 of the colour they want, within the mileage range and price range they are looking for, and in their area, and simply punch in an online request to each of them and within minutes have dealers fighting over their deal. The dealerships are prepared to compromise on price, bring the vehicle to the customer's house, or give them test-drives overnight – the market is incredibly competitive. Connectivity gives customers massive choice.

Similarly, unless the dealership and finance aspects are all owned by the OEM, application for finance can be sent out electronically from the dealership and financial institutions then respond with competitive offers online, from which the customer can choose. Dealers are highly qualified with various NCA and FICA requirements in order to do this. Nevertheless, in **South Africa, affordability is still very much a factor**.

Forecast:

The cost pressures facing dealerships in this competitive environment are immense, and many question the sustainability of massive, luxury showrooms as well as the ability to carry a huge range. SA has one of the highest number of automotive derivatives available in one market anywhere in the world - at last count there were about 57 different brands and more than 1,500 models and derivatives. Platform simplification is foreseen.

ONLINE VS. BRICK 'N MORTAR

Most automotive executives acknowledge that a car purchase is still an emotive and tangible experience, requiring a large investment that isn't likely to be purchased directly online. Nevertheless, Internet leads are increasing worldwide. In Europe, where the real move is toward Internet buying, they measure the number of deals concluded against digital enquiries. A year ago, those figures demonstrated 3.2 concluded deals against 1 Internet enquiry. Today those figures are 1.1 to 1 – for every 11 Internet enquiries they do 10 deals. In South Africa, those figures are about 7 enquiries to 1 deal (Source: NADA).

> *"Online won't remove the need for people to visit dealers - it will change consumer behaviour. Dealerships need to be a destination. If you can create that then the investment in bricks and mortar will pay itself off very quickly."* Rory Beattie, Customer Services Director, Jaguar Land Rover.

Forecast:

Perhaps South Africa is a little slower than some other markets to adopt it, but it is foreseeable in the future that one model would include a dealership that becomes a warehouse that houses stock, and the whole transaction can be done at the customer's home or place of work. Vehicles will also be collected from the customer for service requests. And all the information the customer wants will be available online.

REFINING THE SUPPLY CHAIN

While some don't see the existing automotive supply chain model in South Africa changing much in the foreseeable future, closer integration between the various stages is being considered by some seeking to offer a 'cradle to grave' solution.

As all modern businesses are finding, the silo approach doesn't suit the connected consumer. Systems and processes are slowly adapting from the previously product-centric approach to customer-centric touch-points. There are many different ways of achieving this, but the ultimate goal is towards customer-lifecycle-centricity and enabling the customer to 'live the brand' at every touch-point – and within new channels of engagement.

Forecast:

Expect to see more state-of-the-art automotive retail concepts such as brand experience centres or 'pop up' stores that create buzz with multimedia visualisation tools.

MULTI BRAND DEALERSHIPS

Opening stand-alone brand dealerships is not viable, so it is foreseen that there will be an increase in multi-brand franchises for some of the smaller importers as a means of cost saving. The large OEMs prefer to retain a focus on their own brand, which does not exclude a different structure for the dealership and premises, but does require a specific focus. They expect dealership sales staff to be fully immersed in their brand. To take note of this, many dealerships are sectionalising their display areas with dry walls to enable them to separate, and focus on, various brands on the same site. Dealerships are also refining and streamlining their operations, systems, parts, service and pricing models. The focus is on driving efficiencies while raising profitability.

Forecast:

For smaller brands, multi-franchising models will increase. Larger brands, while finding ways to streamline their models, are not likely to consider multi-brand dealerships.

INTEGRATION WITH OEMS

Although some OEMs don't believe this will happen, the majority do see a closer integration between dealerships and OEMs as they become more involved in retailing. Many of the manufacturers in Europe are already operating in precisely this way. Dealers expect this means the OEMs will become more officious in terms of defining what the model is and the standards that need to be met.

The advantage to both, of course, is enhanced sales and customer loyalty when the focus is on the individual customer journey all the way from brand introduction (possibly on the Internet or via campaigns) through to after sales and then repeat purchase, rather than on just brand image (from the OEM side) or just pushing a sale (from the dealer side).

Forecast:

Expect to see further integration and interaction as many OEMs and dealers recognise that a closer relationship enhances sales and customer loyalty by providing a seamless customer experience.

DAVID SCORER OF NADA DESCRIBES SOME OF HIS VISITS TO OTHER MARKETS

I think creative activity in the digital space will drive Dealership activity in future. In a recent visit to the USA, I visited a group of Nissan Dealerships there that are using new ways of 'going to market.' They focus on immediate transaction and delivery supported by large vehicle stock and choice. In many of these deals issues like finance are handled post delivery with affordability being a big factor driving the buying decision. These Dealerships focus on getting the customer behind the wheel and delivered.

Smaller showrooms with strict 'walk in' management and comprehensive inventory intelligence ensure clients are matched with the appropriate vehicle effectively.

The strategy driving traffic to these Dealerships – vehicle sales, parts sales and service business – is their activity in the digital space. This activity uses all available platforms to invite and drive prospects to the Dealerships – this back office operation can in some cases consist of upward of ten professional 'call centre' operators prospecting for new and repeat clients.

On a trip to India, I went to a showroom in the centre of Mumbai – a Ford Dealership – with only 1 car on the showroom. This Dealership delivers upward of 300 new vehicles per month. An urban tax prevents delivery in the city centre causing most Dealership activity to take place outside the city centre. So who sells these vehicles from this tiny city office? A staircase leads down from the showroom to the basement where there are 40 people in a crowded contact centre. All the Dealership parts sales, service sales and vehicle sales are concluded from this centre.

DEALER CRM

While OEMs are more likely to initiate strategies for nurturing the customer relationship beyond the sale, it is foreseen that dealers will take on more of this role moving forward, but with the support and oversight of OEMs. Most dealerships recognise today that the cost of losing a customer and finding a replacement is far greater than the cost of retaining one.

While South Africans have tended to be more brand loyal than other markets, the increasing choice in a connected world, as well as the younger generation's focus on convenience (more than image), suggests that brands need to focus on the practical applications of the customer's entire ownership experience to build loyalty.

Service levels in the industry are monitored and the IPSOS surveys show incredibly high standards are being met in the very competitive dealer environment. There has been steady improvement over the past decade. It is worth noting, however, that this measures 'service as usual' rather than innovation in Customer Relationship Management (CRM) strategies in a changing environment. The survey measures the customer's experience of the sale and then of the first service, as well as the experience of driving the car itself in between.

So currently, after the sale, the dealership doesn't expect to have further communication with the customer until their first service is due. The after sales communication process is somewhat neglected.

Forecast:

Staying in touch with the customer over time and tracking them through their lifestyle requires good, relevant, actionable data. Currently, data accuracy is an issue, although this will improve and change, creating real reasons for interaction and sustained customer relationship management at dealer level.

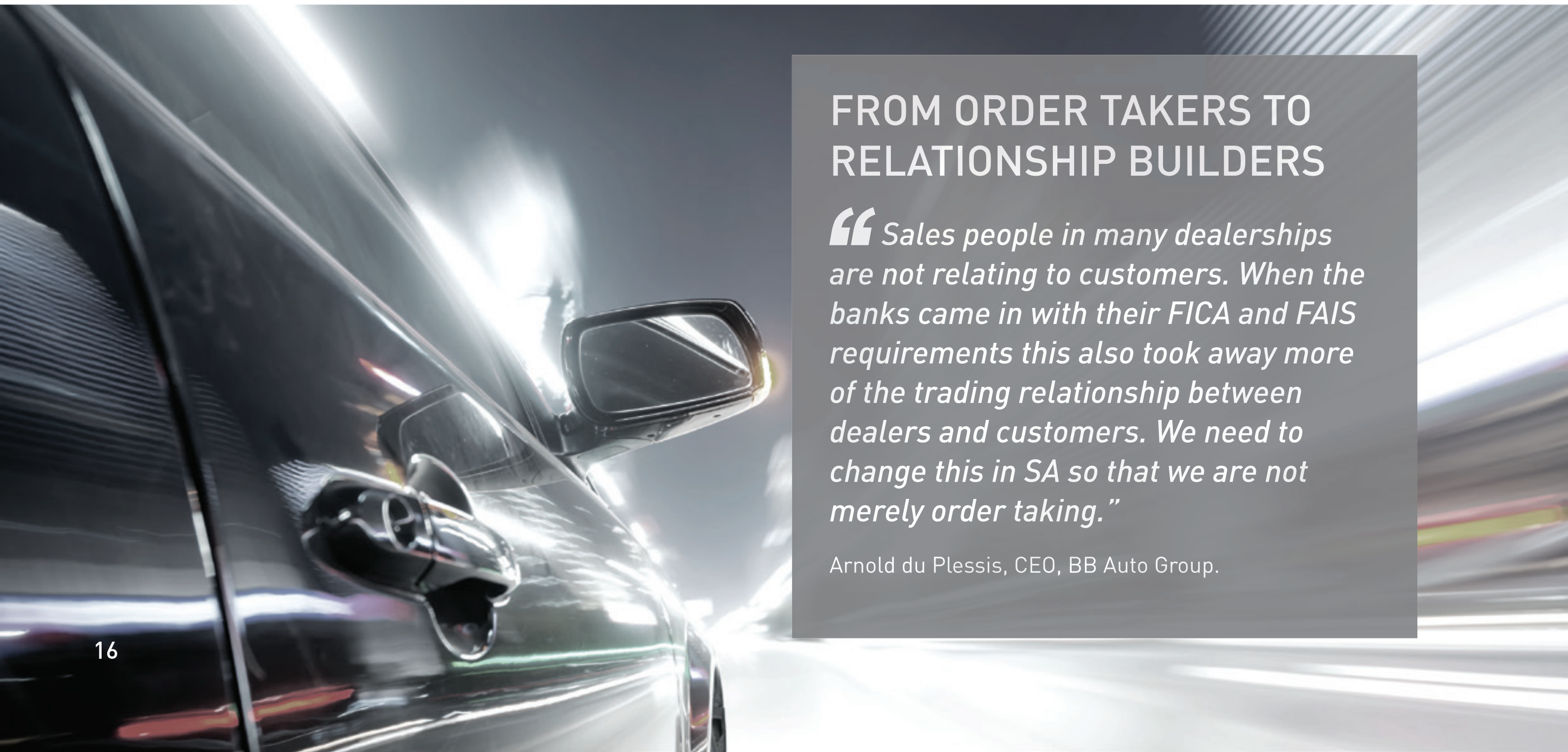
NAVIGATING FORWARD: MAINTENANCE AND SERVICE

ENHANCED VEHICLE LIFESPANS AND CONSUMER DEMANDS

According to KPMG's Global Automotive Executive Survey 2015, more customers are now seeking vehicles with longer lifespans, rising to become the second most important factor influencing buying decisions. OEMs are therefore faced with achieving the fine balance between quality and cost optimisation. Customers still have high expectations of fuel efficiency, safety and comfort, and in South Africa, the question of affordability underscores this problem even further, suggesting a need for more basic models that meet quality standards. The global survey is based on a middle class that has a relatively higher income than the equivalent here, as well as the fact that South Africa has a large lower income market simply seeking access to mobility.

Although Chinese manufacturers have sought to fill this need with simple models, they have not gained traction in South Africa – partially because of their lack of history in the country and as such, there are questions relating to company visibility resulting in less trust. Some have raised concerns over quality too, although it is noted that the Korean and Japanese models faced similar barriers when they entered but have now built trust and gone on to become some of the best sellers.

In addition to building vehicles with more focus on longevity, there is equally a need for correct maintenance and service in order to meet this demand. Many expressed concerns that the proposed Right to Repair campaign does not actually protect the consumer as the machinery, tools and skills required to maintain and repair the new technology can't be monitored if 'corner shops' are involved. Because of advanced technology, modern cars are no longer a simple, mechanical structure but are more complex as well as digitally driven. It is possible that safety is compromised and ultimately, OEMs cannot guarantee the car longevity or safety under these conditions, raising questions on warranties.



FROM ORDER TAKERS TO RELATIONSHIP BUILDERS

"Sales people in many dealerships are not relating to customers. When the banks came in with their FICA and FAIS requirements this also took away more of the trading relationship between dealers and customers. We need to change this in SA so that we are not merely order taking."

Arnold du Plessis, CEO, BB Auto Group.

Forecast:

Affordability will continue to underscore the need for much more basic automobiles that are relatively easy and cost effective to repair.

PROGRESSIVE SERVICE MODELS

South African consumers have long-since resigned themselves to the inconvenience of booking in their cars for at least a full day when a service is due. The wisdom of this from both the workshop's point of view as well as the customer's has not yet been challenged on a large scale. Today, with the increasing cost pressures facing dealerships as well as consumer's increasing demand for convenience, a fresh perspective is being explored. Some of the dealership groups are already implementing a 'one hour service' or 'while you wait' service model, while others are conducting test pilots. Whilst it requires an efficient team, it is possible to orchestrate such a model and results not only in more cars being serviced within a day (and therefore higher service revenues), but also a far less inconvenienced customer.

Forecast:

Both consumer expectation of more mobile service options and dealer cost pressures will result in the deployment of more progressive customer-centric-service models.

REMOTE SERVICING

Tesla is an example of a futuristic model already in practise. In the past, drivers would have taken their vehicles through to their dealership and left it there for the day. Today, the driver keeps the car and Tesla updates the software remotely and whilst it is in use. These routine software updates handle most issues without interruption to the drive. It works in much the same way as a smartphone (on four wheels). The electronic vehicle, however, will be slow to penetrate the South African market (except for premium pockets) for reasons mentioned throughout this report.

REFORMED WARRANTY AND MAINTENANCE PLANS

The South African market is highly penetrated with progressive warranty and maintenance plans, in contrast to other markets where few exist. Consumers often don't know, however, exactly what the service plan offers and are sometimes unaware of the value-added services in their packages.

A trend towards specific plans starting to cover other areas (such as tyres) is noted, and a definite trend towards carrying over service and maintenance plans from one vehicle into another (within the same brand) is foreseen.

Forecast:

It isn't likely that the South African market will lose appetite for progressive maintenance and service plans, but the interface between service plans, dealerships and OEMs will become more electronic as the customer and industry seeks efficiencies. The consumer will also demand more holistic service plans.

> *"We see a trend where picking up faults through connected cars will prevent failures and further enhance maintenance and service plans."*
>
> Glen Mollink, CEO, Innovation Group SA.

AFRICAN PROSPECTS

In contrast to South Africa, Africa as a whole is more under-traded with regards to warranty and maintenance plans. There is currently less servicing at franchise dealers and more self-service or corner services based on the purchase of generic parts. As the market matures, it is possible that the collection of premiums would be different than the debit order system in South Africa – possibly through the MPESA - a mobile phone-based money transfer and microfinancing service – and cellphone banking.

DRIVING THE FUTURE: AUTOMOTIVE TECHNOLOGY

TELEMATICS AND BIOMETRICS

Smart cars with telematics will continue to monitor and remind. There is agreement that the use of telematics is of great value to fleet management. Certainly, the ability to monitor driving, routes and the vehicle's health has had a positive impact on both safety and efficiency. Telematics appears to be critical to anyone offering services to the fleet business. It is not clear, however, whether private or individual drivers would accept telematics monitoring, except in certain components of it that have clear value, such as crash detection. There are also telematics products that can be purchased by parents to monitor their teenage drivers. The private adoption of telematics doesn't appear to be well supported and there still exists some concerns over privacy.

Forecast:

Telematics will remain critical for fleet management. Monitoring private driver behaviour may be seen as advantageous to the insurance industry and warranty companies, and the resulting cost saving may be passed on to consumers. Reduced premiums are certainly attractive to a market struggling with affordability. Concerns relating to privacy may legitimately be raised. Ultimately, the benefit to the consumer would need to be demonstrated in the long-term through transparency, trust and real cost saving.

APPS AND INFOTAINMENT

Delivering in-car services such as infotainment, location-based services and driver assistance apps will become more prevalent in newer models in 2016. Undoubtedly, there is increasing consumer demand for this as the younger generation enters the market, seeking connection to their smartphone capabilities. The question is whether it enhances the driving experience – especially in terms of safety and convenience - or serves as a distraction. Does simply being connected to Facebook or being able to buy a book from Amazon while driving add value to the driving experience? There are clearly opportunities, however, for connected apps and infotainment that are tightly aligned with enhancing the driving experience, and not simply because the car has a hot spot. For example, smartphone apps can detect a collision and automatically upload the crash details to an emergency centre.

Forecast:

Apps and Infotainment are an integral part of the new consumer's expectations and will flourish in the connected car, but the relevance to the driving/service experience is the key that will make them fly.

FOURTH SCREEN CAR MARKETING

No one yet owns the fourth screen in the car – for every screen; there is a dominant player. Consumers want the combination of navigation, entertainment and communication on their car screen, but automakers are taking different approaches in giving it to them.

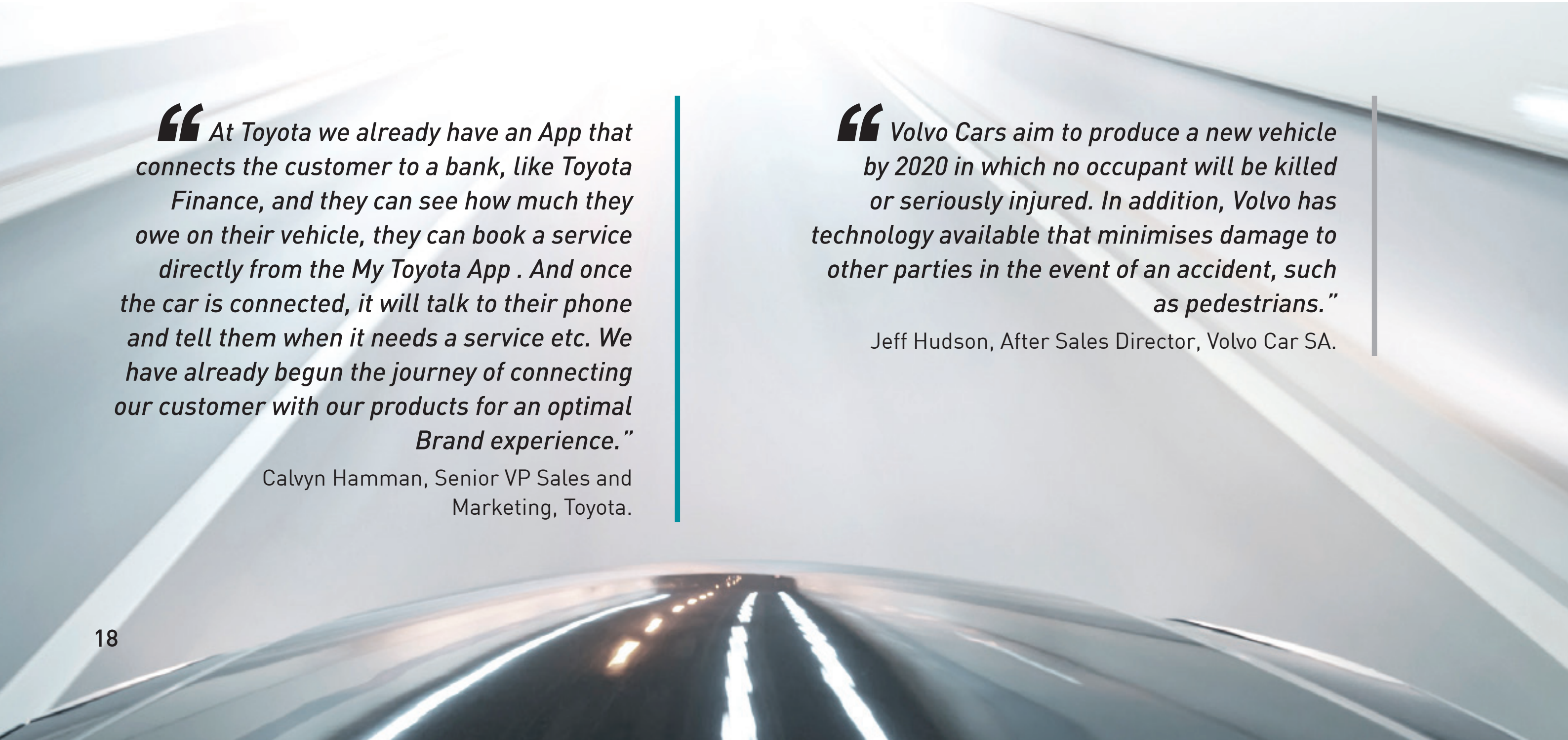
Ultimately, **the consumer wants convenience**, and not another avenue for being a target market. If applications on their car screen enhance the driving experience, save them time and positively contribute to their lifestyle, it will be embraced and sought-after. To do this requires good data applied in a relevant manner – just as with any form of mobile marketing today. Apps are particularly important for the younger generation. "There is an App for that", they say. Perhaps this is the new 'branding' that will replace traditional image driven mass media, as these consumers enter the market.

THE FOURTH SCREEN (IN CAR MARKETING)

Just as the mobile phone is driving change in business models across the spectrum, so is it driving change in the automotive industry. Consumers are expecting a seamless integration between their mobile devices and every day lives, whether that is for business or leisure. Some are viewing the car itself as one of the mobile devices in this ecosystem, ultimately emerging as the 'fourth screen' after TV, computers and mobile devices. This will be enabled by the increasing autonomous capability of vehicles, although once again, this pertains more to the premium end in South Africa whereas the mid and entry level segments are focused more on affordability and basic mobility, for now. There are many ways, however, for the automotive industry to adapt to the networked economy, all the way through the supply chain.

SAFETY & SECURITY

Technology has made great advancements in safety, and continues to do so. OEMs do not hold back on the technology once it is available. ABS braking is almost standard across-the-board now, while crash-detection systems made possible with telematics are gaining popularity. Accessories like sensors in the bumper to park the car or monitor the distance of a car in front of you used to be very expensive, but are already in mass production so eventually the cost will come down. Vehicle tracking systems are being installed in most vehicles to provide an added means of security. Premium cars in South Africa already boast this technology, but it will require scalability to filter through to the mid and entry-level cars. Although some of the safety features are already incorporated at the low-end, the concern is the rising cost. The greater South African market cannot afford another 20% increase in the cost of vehicles.



"At Toyota we already have an App that connects the customer to a bank, like Toyota Finance, and they can see how much they owe on their vehicle, they can book a service directly from the My Toyota App . And once the car is connected, it will talk to their phone and tell them when it needs a service etc. We have already begun the journey of connecting our customer with our products for an optimal Brand experience."

Calvyn Hamman, Senior VP Sales and Marketing, Toyota.

"Volvo Cars aim to produce a new vehicle by 2020 in which no occupant will be killed or seriously injured. In addition, Volvo has technology available that minimises damage to other parties in the event of an accident, such as pedestrians."

Jeff Hudson, After Sales Director, Volvo Car SA.

Forecast:

Innovative safety features in cars will drive down road accidents and fatalities (a total of 1 755 people lost their lives on SA roads during the 2015 festive season – an 11% increase from 2014). Vehicle tracking will continue to be a popular value-added service in the premium market in South Africa and more insurance companies will insist that tracking devices are installed in vehicles for added security and to reduce insurance claims for auto theft.

SELF-DRIVING CARS

There is a vision, in the not-too-distant future, in which self-driving cars hold a lot of promise. The technology exists. Some, particularly in Europe, are eagerly preparing for this scenario. Others are more sceptical about the practical feasibility, especially in Africa where the infrastructural limitations (roads, electricity etc.) hold back the vision, at least in the foreseeable future.

Our research indicates that self-driving cars may only become a reality in South Africa in 20 or more years and that this may spur innovative advances in infrastructure, energy services and ultimately the look and feel of roads and cities. However a substantial investment in vehicle-to-internet communications, along with cost effective sensor- and radar-based solutions would be required. Self-driving cars will certainly usher in new paradigms for the way drivers can work and be entertained in these vehicles.

> *"Autonomous driving 1.0 is here. Not as a mass product, but the technology exists. And then we still need to reach 2.0 when all cars are equipped. But the technology for 1.0 is almost ready to go for mass production in Europe."*
>
> Joerg Waelder, Senior Executive, KPMG Germany.

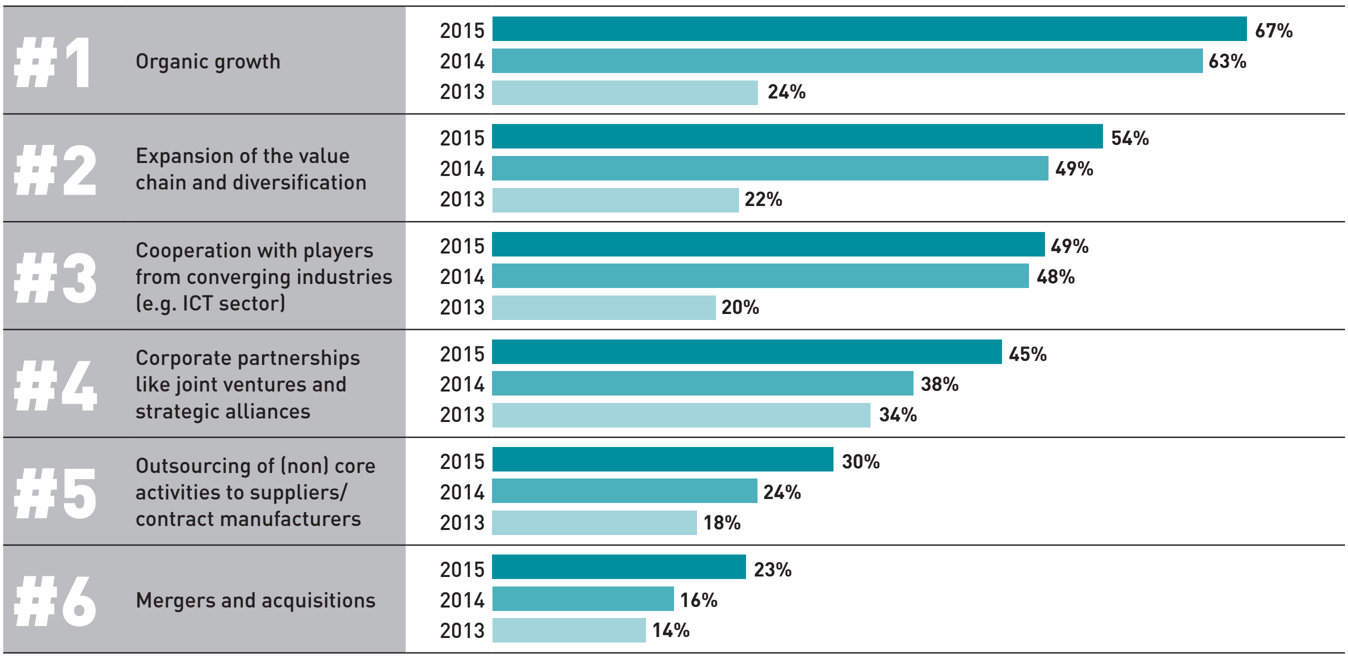
MANY ROADS, MANY ROUTES

As strategists note, one size does not fit all in an approach to changing automotive technology and the direction it is taking. What is best for an individual company depends on their market position, their skills, and on the capital they have to invest. One response to the challenge may be different to another. But overall, the automotive industry is certainly at the point of maximum complexity and pressure, requiring immediate focus on strategy, optimisation and standardisation while simultaneously focusing on connected, tech-savvy lifestyle-centric consumers who are creating a new mobility culture.

FOUR KEY QUESTIONS THAT OEMS AND DEALERSHIPS SHOULD BE ASKING:

- Where do I want to go?
- What are the next horizons for customer experience along the entire customer lifecycle?
- How much do I need to change in order to get there?
- How much money can I spend?

Organic growth considered the number one strategy for future success



Note: % of respondents rating a business and investment strategy as extremely important

Source: KPMG's Global Automotive Executive Survey 2015

ABOUT INNOVATION GROUP

Innovation Group (Pty) Ltd, a regional subsidiary of UK based Innovation Group Limited (wholly owned by The Carlyle Group), is a multi-national provider of business process services and technology solutions to the insurance, financial services, automotive and fleet industries. The group provides contact centres, process management, supply chain, claims administration, fleet management and technology solutions to support a wide array of business process services. The group employs over 2,800 people across North America, Europe, Asia Pacific and South Africa works with 15 of the top 20 global insurance markets, 16 of the top 20 global insurance companies and 3 of the world's top 5 fleet and lease management companies. The group has been a consecutive recipient of the Best Outsourcing Partnership and Best Contact Center Sales Professionals awards at the annual CCMG awards and recently won Best Incentive Scheme 2015.

ABOUT THE CARLYLE GROUP

The Carlyle Group is a global alternative asset manager which invests in companies, real estate and other assets on behalf of their own investors – many of whom are pension funds. As of September 30, 2015, Carlyle had $188 billion of assets under management.

Carlyle has expertise in various industries, including: government services, consumer & retail, energy, financial services, healthcare, business services, telecommunications and transportation, and its past and present investments include Tiger Auto, Getty Images, Hertz and Dunkin' Donuts. The Carlyle Group employs more than 1,700+ people in 35 offices across six continents, including an office in Johannesburg.

The Carlyle Group acquired ownership of Innovation Group Limited in November 2015 and will continue to drive expansion in to new business areas and geographies, building on the group's strong historic growth.

ABOUT KNOWLEDGE EXECUTIVE

Knowledge Executive is a specialist research firm based in South Africa. The Knowledge Executive team produce and create qualitative, quantitative and individualised market intelligence reports, research, surveys and studies covering Business Process Services (BPS), Contact Centres, Customer Centric CRM, Mobile & Social CRM, and commissioned reports for the Automotive, BPS, BFSI, Telecoms, and Retail sectors.

ABOUT THIS SURVEY

South African Automobile executives from OEMs, Dealerships, Insurance and Banking & Finance organisations were identified and approached to attend an initial Round Table Research Session. From this, the process for further in-depth, qualitative surveys was deployed whereby executives were interviewed within face-to-face and telephonic surveys. The data analysis of the qualitative data was processed using the observer impression. Knowledge Executive examined the data, interpreted it via forming impressions and collective trends and reported these impressions and forecasts in a structured form within this report.

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- Jeff Hudson, After Sales Director, Volvo Car SA
- Jeff Nemeth, CEO for sub-Saharan Africa, Ford
- Joerg Waelder, Senior Executive, KPMG Germany
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- Michiel Nel, Head of Motor Warranty UK and Europe, Innovation Group Limited
- Roger Houghton, General Manager/Managing Editor, Wilken Communication Management
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