

**A case study determining the relevance of motor
body repairs focusing on niche markets outside
the insurance industry, to establish a position of
competitive advantage**

by

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ABSTRACT

When one thinks of motor vehicle accident damage repairs, one often thinks of unscrupulous operators and a scurrilous industry. While this is regrettably often the case, there is a counterpoint, being the significant number of motor body repair firms that have invested significant sums in establishing accredited and certified motor body repair outlets, and who offer a premium service.

The industry is one that is regulated by the South African Motor Body Repair Association, a body that seeks to dictate a standard of repairs by dictating membership eligibility relative to investment in equipment. Most unfortunately, this stipulation does not adequately take into account the flow of work that there may be from the motor vehicle insurance industry, and many repairers find themselves having to resort to nefarious means to ensure that business comes their way.

The author of this report is a co-owner of an advanced major structural motor body repairer. Rather than stooping to unethical practices, the owners have sought to undertake a position appraisal and gap analysis with the intention of uncovering the strategic alternatives available to their firm. The firm has implemented the strategic choices highlighted by this report to good effect and has enjoyed enhanced revenue streams and business competitiveness as a result of undertaking this exercise. This report serves to document the highlights of that process.

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1.1 Background

One has often associated the motor repair industry, with a ruthless and unethical operation. It is not uncommon to hear of tow operators hitching a vehicle whilst the injured are still within the vehicle, or the all too often heard the moans of motorists who have been duped by poor and substandard repairs to their vehicles.

However, scant regard has been paid to the motor repairers and no known research has been conducted in this particular segment of the motor industry. The South African Motor Repair Association, hereinafter referred to as SAMBRA, regulates the motor repair segment of the motor industry. This regulation has proved in practice to have introduced perhaps as many ills as improvements though, not least of which is the practice of motor body repairers fallen victim of economic hijacking by the insurance companies, who have used SAMBRA's grading system as a lever for specifying top grade repairs through graded repairers, while paying substandard rates that condemn the repairers to a vicious cycle of constant upgrading, in an attempt to obtain more insurance work, in order to generate adequate revenues.

In the absence of prior investigation and reporting within this sub sector, it is intended with this report to undertake some preliminary investigation into the determination of a strategically aligned approach to business by a SAMBRA regulated firm considered to be representative of the industry.

The report is in fact the culmination of an investigation by the owner of the firm in question. The owner specifically sought at the outset to apply a rational process of decision making to

determine whether blind adherence to the SAMBRA advocated approach to doing business in the industry segment was appropriate, or whether there was greater relevance in reassuming responsibility for the firm's business fortunes.

Organizational competitiveness is dependent upon the ability to change, and reinvent itself, with turbulence in the industry a common occurrence (Scott & Morton.1991). This is the key to survival. The motor repair industry is at a critical point, with extensive rivalry, and as a result, the economics of the repair is often ignored. Many companies undertake work at cost or subsidize repairs due to ignorance with regard to costing. Intense rivalry, without any thought of profitability, is the result. These smaller profit margins are due to annual increases in labour costs and consumables.

Prescriptive and never increasing labour rates from the insurance industry (no increases in five years) has also contributed tremendously to the low profitability. Auto and General/Budget allow rates far below the norm, and consequently, do not have the better caliber of repair shop on their panels. Pirate parts are a prerequisite for these repairs. Very few of the better caliber of repairers undertake work for this insurance company, as the profits, if any, are minimal.

Corruption in the towing sector has resulted in certain firms getting work, as many of the firms are paying up to ten percent of the cost of repairs to the tow truck.

SAMBRA should be the watchdog of the industry. The main problem is that SAMBRA needs to get the firms together and make some type of stand, to get recognition from the industry.

The whole strategic and logistic approach will have to be reengineered, with the primary concern being national recognition and credibility. This will then alleviate many problems within the industry. The position that we find the industry in today is a direct result of the non-formal strategy and the promotion of the committee members businesses only. The future vision must pertain to the industry, as a whole, with trends being a basis for analysis.

1.2 Purpose

The purpose of this report then is very simply stated as an investigation into the value of a rational planning model in a small business environment, specifically in the South African motor body repair industry. The value of such an approach would be validated if, through a process of investigation and analysis using the tenets proposed by proponents of rational business decision making, the investigation culminates with a statement of strategic intent that on the face thereof, can be expected to place the case firm in a more competitive position.

1.3 Method

In the first instance, the study seeks to establish - by a review of the literature - the scope, nature, principles and process of a rational directional planning model. The study then select a representative firm from the SA motor body repair industry and, using the process established as component of the planning model, compares the manner in which the strategies pursued by the operator prior to implementing a rational planning model, are deficient – at least in outlook - relative to the strategic outlook crafted through methodical planning.

It must be noted that motor body repair operators have since 1984 enjoyed representation and regulation, by the South African Motor Body Repair Association (SAMBRA). This body has

by proxy, delineated the strategy of its constituents by contriving a means of establishing distinct levels of operators subscribing to a rigid formula of capital equipment and staffing standards.

It is anticipated that by noting the impact of such an approach to the performance of SAMBRA members, and by contrasting this with the forecast performance of an operator where a strategic direction has been crafted using a rational planning model, that the benefits of the latter approach can be illustrated.

It is recognized that the weakness in this methodology is the possible lack of representivity of the selected “case firm”, of the remainder of the sector. Where possible the report seeks to elaborate upon the profile of the case firm, to provide clarity with respect to the profile of the typical sector operator.

This does not invalidate the investigation and findings, although it is conceded that the methodology cannot be construed as reliable. However, the intention of the report is to establish some pioneering thought in the scope and process of strategy formulation in this sector, characterized as it is by a dearth of methodical strategic intent.

1.4 Structure of the report

The second chapter of this report investigates the principles and processes of a rational planning model for the formulation and implementation of a business strategy in commercial organizations. This is achieved through isolation of the principles underlying the application of Porter’s five-forces and value-system models respectively, as rational investigative

measures that can be applied by smaller firms in the process of investigating environmental conditions, and business resource capability.

Having identified the foundations of rational planning models, chapter three identifies the motor body repairer selected as object of the investigation, and establishes the firm's resource capability. This capability is noted as at least in part a function of adherence to the regulations of the regulatory body governing operator representation in this sector, which one might expect is the manner in which the small businesses characterizing this sector may be expected to develop resilience and stability in the face of a customer group characterized by financial muscle in the form of the country's insurers.

Chapter four examines the firm's external environment and determines the interplay between typical operator profiles and resource competencies and environmental operating conditions and outlook, to establish the broad areas from which a specific strategy may be expected to emerge in order to capitalize on operator strengths, and exploit environmental opportunity.

Chapter five then seeks to compare and contrast the strategy inferred by the actions and presence of the industry regulator, to demonstrate this strategy is at odds with a rational approach to profit maximization, largely due to the Machiavellian ethos of the regulator.

The value of the report is embodied in the encapsulation of the findings in chapter six, concluding the report and providing a measure of substance for similar operators to follow. It is expected that the investigation will demonstrate that while regulation and industry parameters dictate a strategy of revenue growth through asset acquisition and capacity

enablement, that this is fundamentally flawed and that industry conditions, the very situation the regulators are meant to mediate, is in fact being aggravated by the cavalier methods and policies employed by the industry regulator. Furthermore, the introduction of a planning regimen by operators in this sub sector is anticipated to demonstrate an invaluable input of clarity and purpose into operators' businesses.

2.1 Introduction

This chapter seeks to expose different authors' views on strategy formulation, concepts, stimuli for planning and processes of planning. While this may be criticized on one hand as an unstructured approach to isolating a particular methodology to utilize in strategy formulation, it is noted that the objective of this report is to demonstrate the value of rational planning frameworks for small businesses in a particular business sector – there is consequently limited relevance in isolating endless approaches to strategy planning. The value after all lies in illustrating a simple approach that can be easily adopted by industry operators.

2.2 What is strategy and why is it important?

Strategy is a value creating process. Strategic thinking is the creative activity through which you design the future. It is the total stream of thought and action that allows firms to be where they are to where they want to be (Manning :1998).

By ignoring strategy, many companies have undermined the structure of their industries, hastened competitive convergence, and reduced the likelihood that they will gain competitive advantage (Porter:2001).

Strategies are simple rules about being different. This difference does not result from tightly linked activity systems, or from leveraged core competencies, as in traditional strategy, but

from focusing on key strategic processes and developing simple rules to shape those processes.

Campbell and Alexander (1997:42) are of the opinion that trying to develop a strategy without insights is dangerous, as it leads to unrealistic plans.

Simons (1999:85) states that many companies may have growth and profits, but there may still be internal risk within the company. He has developed a risk exposure calculator to gauge the company's likelihood of being surprised by errors, or breakdowns that could threaten the company's strategy.

Growth:

| | | | | | | |
|--------------------------|---|-------------------|---|---------------------------|---|-------|
| Pressure for performance | + | Rate of expansion | + | Inexperience of employees | = | SCORE |
| Score 1 to 5 | | Score 1 to 5 | | Score 1 to 5 | | |

Culture:

| | | | | | | |
|---|---|----------------------------------|---|-------------------------------|---|-------|
| Rewards for entrepreneurial risk-taking | + | Executive resistance to bad news | + | Level of internal competition | = | SCORE |
| Score 1 to 5 | | Score 1 to 5 | | Score 1 to 5 | | |

Information Management:

| | | | | | | |
|-------------------------------------|---|---|---|---------------------------------------|---|-------|
| Transaction complexity and velocity | + | Gaps in diagnostic performance management | + | Degree of centralized decision-making | = | SCORE |
| Score 1 to 5 | | Score 1 to 5 | | Score 1 to 5 | | |

Scoring: one is low to five, which is high

Score analysis:

9 to 20:

The safety zone. This low level of risk does not pose a threat, and there are not sufficient threats to lose the business.

21 to 34:

The caution zone. Most companies fall into this category. Managers should be alert for high scores in two categories. There is still reason for concern.

35 to 45:

The danger zone. Alarms bells should be ringing. Fast action is required here. Use levers of control: belief systems, boundary systems, diagnostic control systems, and interactive control systems – coupled with traditional internal controls – to protect your business from disaster. This system serves as an early warning system, not only for low economic growth but also for high growth and good profits.

2.3 Differing viewpoints regarding strategic thinking

Eisenhardt and Sull (2001:116) state that strategy arises from focusing on key strategic processes to develop simple rules that shape those processes. They propose three simple approaches to strategy. One can build a fortress and defend it; one can leverage unique resources; or one can flexibly pursue fleeting opportunities within simple rules.

| | Position | Resources | Simple Rules |
|------------------------------|--|--|--|
| Strategic Logic | Establish position | Leverage resources | Pursue opportunities |
| Strategic Steps | Identify an attractive Market Locate a defensible position Fortify and defend it | Establish a vision Build resources Leverage across markets | Jump into the confusion Keep moving Seize opportunities Finish strong |
| Strategic question | Where should we be? | What should we be? | How should we proceed |
| Source of advantage | Unique, valuable position with tightly integrated activity system | Unique, valuable position inimitable resources | Key processes and unique simple rules |
| Works best in: | Slowly changing well structured markets | Moderately changing well structured markets | Rapidly changing ambiguous markets |
| Duration of advantage | Sustained | Sustained | Unpredictable |

| | | | |
|-------------------------|--|--|--|
| Risk | It will be too difficult to alter positions as conditions change | Company will be too slow to build new resources as conditions change | Managers will be too tentative in executing on promising opportunities |
| Performance goal | Profitability | Long term dominance | Growth |

Porter (1998) suggests that companies that focus myopically on improving organizational effectiveness jeopardize long-term success when they fail to develop a sustainable strategy. He states that the essence of strategy is choosing to perform activities differently than rivals do and that companies must consider a strategic positioning and strategic fit when crafting strategies.

However, Porter (2001) goes on to add that the Internet technically provides better opportunities for companies to establish distinctive strategic positions than did previous generations of information technology. Well-established and positioned companies have been thrown off track with the introduction of the Internet into industry. IT has resulted in the standardizing of activities and the speeding of competitive convergence. It is much easier to customize packaged Internet applications to a companies unique strategic positioning. This will result in platforms across the value chain, to build truly integrated and customized systems that reinforce the ‘fit’ among activities.

Christenson (2001:206) comments that companies find it difficult to change strategies for many reasons, but one in particular stands out: strategic thinking is not a core managerial competence at most companies. He suggests a three-stage method to conceive and implement strategy by managers themselves.

Stage one: identify the driving forces that the company needs to address

Stage two: formulation of the new strategy, aligned with the companies resources

Stage three: implementing strategic change for competitive advantage

It is proposed that this approach does not differ materially from Porter's approach and that Porter's models provide tools for small businessmen to use in determining strategic positioning.

2.4 Small company strategy

The future of the South African economy is very dependent upon the small businesses.

Strategy merits separate consideration for small businesses for reasons pertaining to vulnerabilities and advantages over other rivals. Small businesses have little room for error in the strategy choices that they make. Small firms that initially succeed, often discover that they do not have the resources to weather a sudden downturn in the market performance, as seen currently in South Africa.

These smaller companies are also more vulnerable than the larger enterprises to the moves of rivals, customers and suppliers. They do not have the 'power' to negotiate as the larger firms do, due to their size and scale (Duhaime : 2001)

In a small company, or family owned business, the owner/manager is responsible for the development and implementation of the market strategy, as well as the continual reassessment of the competitive environment.

The underlying reasoning for planning, as established by the author, is encompassed by the following list:

- to manage risks
- to identify and exploit current strengths
- to minimize and eliminate weaknesses
- to highlight opportunities
- to be warned early of possible threats
- to align and coordinate activities

The initiation of the planning process, and perhaps more painfully the implementation process, has always been a dilemma. Timing is everything. A Machiavellian approach seems to be the only approach applicable – that is, to recognize situations as they are, and not as we would like them to be, and to calculate actions to achieve specific ends. The success of the endeavor is tied to the foresight and the virtue of leadership (Roar:1998).

2.5 The two basic views of strategy:

The first being (the environmental view) an assumption that the firm is the prisoner of its environment; that external forces determine what we can and cannot do. Porter is the chief advocate here. The second, (the resource-based view) assumes that the real constraints are inside. This view embraces ideas from Hiroyuki Iatami (Mobilizing Invisible Assets), Gary Hamel and C.K. Prahalad (Competing for the Future) Peter Senge (The Fifth Discipline), and many others.

Further elaborating on this theory, Porter produced the concepts of 'generic strategy', and the ideas of the 'five force analysis', and 'competitive advantage' were generated. He argued that then firm had limited choices of strategy (cost or differentiation, and a degree of market focus), and that the profitability of a firm depended on the conditions of the industry. The performance of the industry was also greatly affected by its geographic location.

As competition and turbulence increased and profits slumped, managers sought alternatives. This led the way to the resource-based view (RBV), or core competence and competing on capabilities.

Here reengineering, downsizing, and price cuts were the order of the day. The use of internal resources was used to attain impossible results. This RBV view started the idea that people really mattered. This fits in well with the IT revolution that made knowledge management a growing source of advantage. The problem with this view is the so-called boundaries and barriers that the similar resource –based companies encounter, whilst others do not. This must then be surely based upon leadership, and future vision.

Porter (1998) suggests that competition is the basis of any industry. A competitive strategy aims to establish and maintain a profitable position within particular industry.

Two central themes are imminent, the first being the attractiveness of the industry for long term profitability, and the second, being, competitive strategy relative to competition.

Industry analysis assumes importance because of the considerable evidence that the industry environment in which business operates has been a strong influence on its economic performance. A substantial body of research indicates the profit potential of an industry is not

a matter of luck, but dependant upon many variables, structural attributes and strategies adopted by players within the industry.

Porter's five-forces model for industry analysis establishes five key areas for assessment.

This business model takes suppliers, new entrants, buyers, substitutes, and the threat of new entrants and competitive rivalry into account.

1. The degree of rivalry

A set of attributes that influence rivalry will be the industry's basic conditions, the number and size of the competitors and behavioral determinant, e.g., high exit costs.

2. The threat of entry

Potential as well as actual competitors can influence industry profitability. To fully understand this area, the complexity of entrance barriers must be understood. These barriers exist whenever it is difficult for an outsider to copy the position of the existing firms, and to act to prevent an influx of firms into the industry, when profitability increases. Entry barriers often arise from irreversible resource commitments.

3. The threat of substitutes

This threat that this poses to the industries profitability depends upon the relative price-to-performance ratios of the services or products that customers can choose from, to satisfy their basic needs. The threat of substitution is also affected by switching costs.

4. Buyer power

This allows customers to squeeze industry margins by compelling competitors to reduce prices, to increase levels of service without increasing prices, and to add features to the product or service.

The most dominant feature of this area would be the size and concentration of the customer.

5. Supplier power

This is the mirror of buyer power. It focuses on the size and concentration of suppliers relative to the industry participants, and the degree of differentiation in the inputs supplied.

The ability to charge the customer different prices in the value created for each of them, usually indicates higher buyer power.

Relationships with buyers and suppliers have cooperative and competitive elements. This is discussed in the value net (an interactive five forces diagram)

2.6 A Machiavellian view of strategy

Another radical view from Pfeffer and Sutton (1999:135) is that many executives have been to business school, and hold MBA degrees, which has allowed them to talk smart, which pays. They propose that the company should have avoided the trap, and rather have five consistencies, namely that:

- they must have leaders who know and do the work
- they should have leaders bias to plain language and simple concepts
- they frame questions by asking 'how' and not just 'why'
- they believe that experience is the best teacher
- they have strong mechanisms that close the loop

Manning (1999:180) states that Focus (application of the 80/20 rule for maximum value), Value (the attraction of new customers) and Costs (reduction of costs) are the first principles of hostile competition.

Further to this, one must ensure that the following basic principles are observed:

- If you don't make a difference, you don't matter. The value you add must be clear to your customers
- You can't make a difference to everyone. Aim critical mass of resources at critical mass of opportunity.
- You have to keep defining your value proposition. You must ensure that customers have a continued reason to buy from you.

2.7 Conclusion

Strategic management is essential for longevity and future operational analysis. It appears advisable to be acutely aware of one's position relative to the external forces of the industry, as well as taking account of one's resource capability; that is, the respective views of Porter, and Prahalad and his peers.

It is the author's view that in the context of small businesses, where a relative (to large business) dearth of resources may be found, and where industry position may be peripheral, that a Machiavellian approach is advised with leadership and vision crucial components of successful business positioning and performance.

3.1 Introduction

The objective of this chapter is to introduce the motor body repairer selected as object of this report and the preceding investigation. The firm is profiled and the resource capability of the firm is established. However, it is essential to first note the operating context of the firm, primarily characterized by the industry watchdog, the South African Motor Bodies Repair Association (Sambra). This body has been instrumental in establishing the 'ground rules' for the case firm, as it has done for all other formal sector operators in the industry. Hence the sketching of this background provides a frame of reference within which the case firm can be introduced and better understood.

3.2 Industry regulation

The South African Motor Bodies Repairers Association (Sambra) was formed in 1984 as the eleventh constituent of the Motor Industries Federation, now known as the Retail Motor Industry (RMI). It was felt that it was the best way to address the concerns of those engaged in the collision industry, was to establish a separate association to accommodate the aspirations and needs of those repairers. One of the objectives of Sambra is the promotion, protection, and encouragement of the interests of the consumers and members, by ensuring those high standards of workmanship, service and ethical trading practices are maintained and enhanced.

Sambra have established entry and membership levels. The following criteria are membership requirements:

- To register, the firm must have been in operation for at least six months
- A biannual independent audit is compulsory
- The minimum guarantee on a repair is for twelve months
- paint guarantees are for three years, and up to a lifetime, exceeding factory guarantees

3.3 Work Categories:

3.3.1 Development Group

Most of the previously disadvantaged businesses fall into this group. They are only allowed to repair vehicle scrapes, small dents and cosmetic repairs. This is based upon their limited skills, and lack of sophisticated repair equipment. No structural repairs are to be undertaken.

3.3.2 Advanced Structural Repairer

These are allowed to repair vehicles with structural damage based upon the skills and equipment available, with the insurance assessors' agreement. Skills must include qualified panel beaters and spray painters. Major repairs may be done to vehicles that are no longer roadworthy, if their repair equipment is sophisticated enough.

3.3.3 Advanced Major Structural Repairers

These are allowed to repair any type of damage without any limitations, which includes just about resurrecting the dead. The skill level is much higher than that of your usual qualified panel beater. Due to their high technical standards and superior equipment, they are able to repair a vehicle that has been extremely damaged, back to factory specifications, and 100% roadworthiness.

SAMBRA grading requirements are illustrated in appendix A to this report.

3.4 Business set-up costs

The cost for setting up a small category 1 'development group' venture is minimal. The capital required for category two 'an advanced structural repairer' already exceeds one million rand and category three, 'advanced major a structural repairer' has the larger players investing around thirteen million rand.

3.5 Size and turnover of the national industry

There are more than 4000 panel beaters in South Africa, of which only 1100, or 25% are registered. The industry's turnover is unknown, but the larger firms have a breakeven point in excess of R25 000 per week. Turnover can exceed R100 000 a month – the larger firms' monthly turnover can easily exceed R1 million.

3.6 A brief description of the firm

Sambra has a Kwazulu Natal membership of 191 motor repair shops, of which 83 are NSR (Development Group), 58 are ASR (Advanced Structural Repairer) and 50 are MSR (Advanced Major Structural Repairer). The firm appears in the MSR range, but does have vast financial backing, nor is it dealership funded. It was founded some thirty years ago on the coast north of Durban by two artisans. In the first twenty years after inception the firm grew to one of fifty personnel, but this has been reduced through technology and capital investment to a staff complement of twenty-two.

The administration team comprises five personnel - two managers, a systems administrator, a store man and an accountant. The panel shop comprises two qualified panel beaters, one apprentice, two strippers and assemblers, and a few multi skilled operators. The paint shop comprises a qualified spray painter, one apprentice, and four assistants. All the junior staff undergo in-house training and are required to undergo annual product training provided by the suppliers, who present them with certificates once the training is complete.

All systems are computerized, with the main emphasis being on costing and control of consumables. Equipment is the same as most operations, and very little differentiates an MSR firm from the ASR shop. The main difference would be the capital outlay on equipment, and possibly the emphasis on differentiation and customer service. The area covers chassis straightening equipment, compressors, computerized colour matching, dry flatting systems and infrared dryers.

Problems present in the form of significant working capital requirements to fund the purchase of spares and consumables, with a minimum of one hundred thousand outlaid at any one time. The payment of accounts from debtors and insurance companies have also exhausted resources, due to payment periods being extended to sometimes as long as ninety days. This results in the neutralization of profitability. This ultimately leads to the downfall of many firms.

The problem has now become critical throughout the industry, possibly due to the drivers of change discussed earlier.

The SAMBRA grading requirement, though in theory a very good idea, has placed the goalposts beyond the reach of the average repairer. This is largely due to the purchase of expensive equipment, in a failing market, with no or minimal return on investment.

The larger firms that have the financial backing, will be the ones that survive and prosper on any of the future benefits to the industry.

The main supplier of work is primarily the insurance sector, with a small portion from the larger private companies and the dealerships that supply warranty work. This type of work is primarily rust repairs and minor touch ups of scratches and dents. This work is quick and payment is guaranteed at the end of each month. The only problem, would be the unpredictability of the work associated with each dealer. We currently undertake warranty work for Delta, Ford, a portion of Mercedes and are currently negotiating with VW.

The goal of the company is to be the best repair shop on the north coast, in terms of technology, service and workmanship. Using our core competence to our advantage, and constantly upgrading our technology assist to achieve our goal. The main problem associated with this goal, is the non-return on investment currently encountered within the industry.

3.7 The firm resource capability

Reed and DeFillippi (1990) state that competitive advantage is linked to competence developed within the firm. Hofer and Schendel (1978) state that competitive advantage is the unique position a firm develops relative to its competitors through its patterns of resource deployment. Competitive advantage and performance are thus directly linked.

Value chain analysis is a useful tool to ascertain competitive advantage and to analyse resource capabilities. It also allows the understanding of how the activities collectively impact upon the business. Armistead and Clark (1978) have examined the use of the value chain in designing service operations strategy. They suggest a resource activity map that can be applied to any service operation. This has three dimensions: resources used, configuration of the resources and services process flow.

3.7.1 Inbound logistics

Superior in-house development and training of staff (accredited apprentice training facility for spray painters and panel beaters), combined with good administrative personnel (25 years experience), and the fact that management has qualified artisans with 30 years operational experience, has assisted in this aspect. A 'new' manager with management experience, e.g., marketing, operations, etc. has also assisted in the direction of the organization. (strategic plan and orientation) Human resource endowment (Schuler and Jackson, 1987)

Distinguishing core competence from dynamic capabilities, by focusing on management processes involves combining resources for advantage. Thus, an experienced manager will be needed for future operations. (Teece, Pisano & Shuen.1997)

Dr. Abedian, Standard Banks economist, stated that between 1993 and 1997, technology changes cost the country more than one million jobs. He stated that "the economy is undergoing dramatic structural transformation with 65% of the activity in the tertiary or service sector, and there is no longer demand for unskilled workers" (Daily News, 29 September 2000. Training key to jobs) This serves to reinforce the fact that training needs and

future artisan requirements have to be addressed to allow future prosperity, or only the larger firms would afford the services of the 'elite'.

3.7.2 Operations

Low defect rates as quality controls in place to reduce these areas of defects,

Quality parts sourced from agents or good second hand spares sourced (any variances in spares are returned to the operator concerned),

The use of the latest technology machinery allowing for a quality and efficient turn around time (dry flatting is costly, but minimizes labour time for paint preparation, allowing a payback period of six to eight months).

SAMBRA grading has also allowed the firm to extend to vehicle manufacturer approval and their approved warranty repairs.

Computerized colour matching allows for minimal stock loss (stock control and costing and information system, which also allows for effective colour matching.

Qualified staff employed for effective quality repairs and to assist in the development of in-house training. Thus these are knowledge-based competencies (Teece. 1994).

Competitive advantage is based on competence, and the level of competence depends upon the firm's resource base, and is linked to its performance. (Peteraf. 1994)

3.7.3 Outbound logistics

Shortened turn around time with regard to claim submission. (client assisted with the filling in of the claim forms and submission to the insurance company)

Technology and competence of workman allow reduced turn around time (clients are encouraged to visit their vehicles whilst in repair)

Organizational learning describes what happens to firms and their competitive potential because their members learn, and because these members interact with one another as with the firm's strategy, structure, culture and systems. (Fiol & Lyles. 1985)

Computerized work and management systems, in that computerized quotation systems and time management for repair is employed. Administration and invoicing done via the same system (effective four year's data captured)

3.7.4 Marketing and sales

Personal relationships are established with many clients and these lead to repeat business, computerized quotations available for insurers for new and repeat data. Courtesy vehicles are available to clients with major repairs, so as not to inconvenience them.

Good architecture as there is a good relationship between the insurance companies and the firm discussed.

3.7.5 Service

Quality repair with warranties (one year on workmanship, and lifetime on paint) highly trained staff (annually reviewed with constant on-site training), resultant value for money repairs

Follow up calls is made to clients to ensure that the vehicle has been repaired to their satisfaction, and minor fault rectification can be undertaken.

3.8 A summary of the firm's resource capability

The case firm's key resource strengths and competencies may be summarized thus:

- Quality repair with warranties (one year on workmanship, and lifetime on paint) highly trained staff (annually reviewed with constant on-site training), resultant value for money repairs
- Follows up calls are made to clients to ensure that the vehicle has been repaired to their satisfaction, and minor fault rectification can be undertaken.
- Effective management for the future needs and trends.
- The use of technology to its advantage.
- A good reputation and effective insurer relationship, i.e., brand recognition.
- Good positioning and location for the market in which it operates.
efficient skilled staff and training in place for the future, allowing for experience curve advantage. (Daily News, 29 September 2000.
Training key to jobs)
- The use of latest technology, allowing quicker turnaround time.
- Sambra graded as a major structural repairer (allowed to undertake dealership repairs).
- Totally computerized systems for stock, paint, quotations and administration.
- Old established company with a good survival chance in the present industry (Jovanic Model)
- Location on the North Coast. Very few graded firms. Differentiation advantage.
- Establish smaller business to exploit the potential growth area.

The most critical shortcomings of the firm may be summarized as follows:

- The economic downturn and slowed growth have minimized the profitability of the industry.
- The intense rivalry amongst competition has resulted in economic feasibility of the repair being ignored.
- The unethical nature of the industry.
- No appropriate return on investment for grading structures outlay.
- Legislation: the growing number of small repairers who are entering the market, and who are allowed to perform the repairs.
- Increased union activity and increasing costs.
- Price conscious customers may use substitutes.
- More strategic marketing is required for niches.
- Vulnerable to a recession cycles.
- The emergence of information technology and improved quality of vehicles, will result in a decrease of after-sales viability, and affect the future of panel shops and franchise affiliations. (D Dixon April 2000. Will franchise dealers survive 2010? Automotive refinisher)
- The inadequate supply of future artisans: due to structural changes in the economy, job losses were unavoidable. Future growth would not necessarily create jobs for the unskilled. The only labour class where technology created jobs was the skilled category, which increased by 1.7% from 1993 to 1997. (Business Day, 27 September 2000)

- Cash flow problems for small businesses.
- Values oriented marketing techniques.
- Price conscious and increasingly more demanding customers.
- The decline in the number of insured vehicles and the stagnant growth phase of the sector.

3.9 Conclusion

The main problem with the standards set by Sambra are the unrealistic grades that result in the potential closure of the firms, due to no viable returns on investment. However, a considerable list of strengths are identified and pre-emptive work can be done on the strategic shortfalls. This must be linked to strategic initiatives, encompassing the critical success factors, and future drivers of change of the sub sector. These initiatives must encompass differentiation and competitive advantage for small business operations.

The overall strategy can only be formulated once the industry analysis is complete. Future growth areas and niche markets must be identified and established for this sector. This, however, will have to be linked to the financial situation of the firm. More work and future analysis is crucial here.

CHAPTER FOUR

ESTABLISHING FUNDAMENTAL EXTERNAL FACTORS IMPACTING UPON THE CASE FIRM'S STRATEGY FORMULATION

4.1 Introduction

The purpose of this chapter is to establish the rational choices available to the case firm with respect to the interplay between the resource capacity of the firm and the environmental forces currently impacting on the firm and expected to continue doing so. This requires that the predominant trends of the firm's external environment be identified. It should be expected that the trends and concerns identified are an interpretation of the author, based on industry operating experience.

Once these views have been established it becomes possible to map the case firm's strengths and weaknesses to the opportunities and threats in the environment. The confluence of the firm's predominant internal characteristics and the prevailing environmental circumstance, establish the broad strategic options for the firm. Within this context a strategy may be crafted.

4.2 Current operations within the industry

The motor repair industry is at a critical point, characterized by extensive rivalry. As a result, the economics of the repair is often ignored. Many companies undertake work at cost or subsidize repairs due to ignorance with regard to costing. Intense rivalry, without any thought of profitability, is the result.

Organizational competitiveness is dependent upon the ability to change, and reinvent itself, with turbulence in the industry a common occurrence. (Scott & Morton, 1991). This is the key to survival.

Prescriptive and stagnant labour rates from the insurance industry (no increases in five years) has also contributed tremendously to the low profitability. Auto and General/Budget allow rates far below the norm, and consequently, do not have the better caliber of repair shop on their panels. Pirate parts are a prerequisite for these repairs. Very few of the better caliber of repairers undertake work for this insurance company, as the profits, if any, is minimal.

Corruption in the towing sector has resulted in certain firms getting work, as many of the firms are paying up to ten percent of the cost of repairs to the tow truck operator (Sambra upgrade : April 2001 : Automotive Refinisher).

4.3 Current dominant economic characteristics of the industry

The following economic factors are identified as having a dominant influence on the industry:

- Seasonal business (more business during wet weather).
- Increased competition with a downturn in the economic cycle.
- The decrease in the number of insured vehicles on the road.
- The decreased profits of the insurance companies have resulted in them tightening their budgets.
- The decrease in the number of accidents on the road.

- The high investment requirement for grading without any reasonable return on investment.
- The bargaining power of customers: This is great within the industry. They tend to be pricing sensitive with regard to location and a certain percentage increasingly more quality conscious.
- Suppliers of work: Mainly insurance companies, with the a few larger independent companies that have a fleet of vehicles. Corruption is evident here.

4.4 Sectoral outlook

The motor industry consists of many sectors. These sectors fall under the umbrella of the Retail Motor Industry (RMI). The area under investigation is the motor repair industry, which falls under the sub sector of Sambra.

The problem facing the current motor repair industry is that the market has undergone radical changes within the last five years. This report attempts to identify these drivers of change from the perspective of an industry operator, as well as the critical success factors within the sub sector. This identification is subjective, gathered from interview and professional association with owners of similar operations.

Sambra has to be instrumental in achieving market recognition, which will be vital for future survival of the sub sector. Insufficient regulation has been the major impetus for the current industry crisis, characterized by unethical repairers. Sambra has implemented a grading scheme in a hope of improving the quality of repairs as motor vehicle technology advances. This is sound reasoning, but the insurance companies have used this as a requirement for

work allocation. This has resulted in indiscriminate grading of too many firms in one area, with the associated poor return on investment. This phenomenon combines with a diminishing industry growth rate and penetration of the industry by new entrants.

Within this background, the case firm needs to establish the viability of the market, the future stakeholders, future trending and its potential consequences, not forgetting profit potential.

4.5 The main drivers of change over the past five years

The following factors are subjectively identified as drivers of change in this economic sub-sector:

4.5.1 ever-increasing fuel price:

people tend to drive slower and are more aware of fuel consumption, resulting in better driving.

4.5.2 drive alive campaign:

the continued presence of police roadblocks and the consequences of drunken driving has had a marked effect on the public.

4.5.3 the present declining economy:

GDP has experienced a 3% growth, with a loss of jobs. The decline in the motor repair industry is due to the fact that it is in the declining phase of its life cycle.

4.5.4 legislation:

the promotion of the small business informal sector has allowed the evolvement of micro businesses, with dire consequences to the industries established players, with high overheads, and no return on investment.

4.5.5 corruption :

the corruption of clerks, assessors, brokers and tow trucks have resulted in certain shops being favoured, with a resultant loss to the insurer. Stolen parts are also sourced, resulting in non-competitive quotations, from the ethical repairers.

4.5.6 increased competition:

the increase in the number of small and micro enterprises has resulted in a loss of work to panel shops on the approved insurer panel (Mercury, 5 October 2000. Panel beaters take insurers to task).

4.5.7 decreasing market:

the market is growing smaller, with a smaller percentage of vehicles being insured, due to cost increases in premiums. (D Woods, October 1999. Pie getting smaller. Automotive Refinisher).

4.5.8 oligopoly of insurance industries:

two major players have come to the fore, resulting in them dominating the industry in terms of direction and pricing. They are forcing the motor repair industry to subsidize their losses.

4.5.9 poor returns on investment:

the major costs of grading, without any guaranteed work, have resulted in a loss and closure of many shops. Indiscriminate grading of firms, without any future plans and projections via Sambra, has also contributed to this, i.e., twenty major structural repairers in one area, cannot sustain a good return on investment.

4.5.10 Non-visionary strategic orientation of SAMBRA:

this body has not considered any strategy for the past, present or future, nor does it have any 'clout' within the industry, or with the insurers, and has not considered the future of panel shops within the industry and the associated problems.

4.5.11 The decrease in the number of insured vehicles on the road:

this is due to many old cars on the road and the costs associated with insuring them. Mainly vehicles on locomotion allowances are insured.

4.5.12 the unacceptable labour rates:

the labour rates are sadly far below par with the industry, as mechanical repairs are allocated in excess of R200/hour, and motor repairs are in the region of R90/hour, with artisans probably earning more in the motor industry. (Ian Groat. August 2000. Case for 25% increase in labour rates. Automotive Refinisher).

4.5.13 the future threat of supply of qualified and trained artisans:

a few firms are training and developing staff to ensure a future supply of artisans (Business Day, 27 September 2000. Demand for unskilled labour drops) Sambra needs to address the issue, and place some type of moratorium on training, in the larger firms.

4.6 Analysis of the case firm's environment

The basis of the following analysis is performed using elements of Porters five-force analysis. This analysis permits an objective, holistic view of the sub sector, whilst taking all relevant variables into account.

The rules of competition are found within five forces: the entry of new competitors, the threat of substitutes, the bargaining power of buyers, the bargaining power of suppliers, and the rivalry amongst competitors. Any of these factors evolve over time within the industry, causing a resultant change in profitability.

These five forces determine the industry profitability because they influence the prices, costs, and required investment for firms, and the elements of return on investment. The strength of these factors is a function of industry structure, or the underlying economic and technological characteristics of the industry. The industry structure is relatively stable, but has changed over time. A firm can change the structure to make the industry attractive or not, by using strategies to influence the five forces. It is therefore possible to pinpoint the factors that are critical to competition, and possibly innovate new strategies to compensate for these factors.

4.6.1 Threat posed by new entrants

Government legislation, in encouraging small businesses, has allowed businesses with turnover below three hundred thousand per annum, not to register. This is a major blow to the

old and established firms, as competition is on an unfair basis. The insurance companies have put a panel together (suggested repairers), but insurers do not adhere to this notion. Small repairers, that are not SAMBRA affiliated, without any of the minimum equipment, can still undertake insurance approved repairs, sometimes with or without any waivers being signed.

The following factors make the market attractive for entry:

- legislation favouring the small repairer.
- the possibility of obtaining insurance repairs by the use of disclaimers.
- the growth opportunity for the bottom end of the market.
- unethical industry where work can be sourced from various 'contacts' within the industry.

There are, however, at least the following barriers to entry:

- high operational costs associated with insurance repair industry.
- fierce competition and rivalry.
- established firms have good brand loyalty.
- slow industry growth and the slowing economic cycle.
- the domination of the market by the insurance companies and the larger established players.
- the high costs associated with exit from the industry.
- the unethical nature of the industry for example, tows truck operators who either 'sell' the smashed vehicle or, open a repair shop.

4.6.2 Threat posed by substitutes

Substitution is “the process whereby which one product of service supplants another in performing a particular function or functions for a buyer.” Porter, (1990)

The threat of substitution is a function of three basic factors;

- the relative price/value of a substitute.
- the cost of switching to a substitute.
- the buyers’ propensity to switch.

The propensity of a customer to switch to an alternate supplier is currently affected by the following factors:

4.6.2.1 The threat of substitute franchise approved panel shops:

The large vehicle franchises are now integrating vertically, as they see the opportunity for profit. They would do all their own warranty repairs, and have the factory approve their workshop. This would result in all the work falling within a certain region, being diverted to them, if the owners want their vehicle warranty to continue. This would effectively close the door to smaller businesses, even though they are graded by SAMBRA and are on the insurers approved repair panel. This system makes sense for the franchise dealer with sufficient capital on hand, to diversify, and integrate both businesses.

4.6.2.2 The threat of larger shops with tow trucks

These firms operate a large towing fleet of 15 to 20 tow trucks to exploit a certain area. They generate work from these trucks and demand abnormally high release and storage fees for the

vehicles they have in their possession. The insurance companies eventually relent and let the repairs be done there, even if the client wants the vehicle moved, due the savings in towing associated with the accident.

4.6.2.3 Independent tow trucks

These trucks 'pick' up the accident-damaged vehicle, and "sell" them to the highest bidder/panel shop. It is not unusual for vehicle to be dropped off for a cash payment of three thousand rand (R3 000) or ten percent of the repair. The repairer, who then must either place damaged parts in the place of operative ones, or 'bribe' the assessor, must offset this cost. The costs are then offset to the insurance company, who is now not blamed for not wanting to increase labour rates.

Thus, within the industry, tow trucks are an immediate threat to the ethical trading of the industry. Future Sambra codes of conduct must encompass the realms of this operational sector. These codes must give directions for operations and discipline, for effective control and governance.

4.6.3 The threat posed by competitive rivalry

This is the most dominant feature within the industry as rivals try to outperform each other through a range of tactics:

- price cutting (sometimes without economic considerations).
- adding value for money features (e.g. lifetime paint warranty).
- shortening the repair period.
- extending the use of courtesy vehicles.

- working in of excesses (defrauding the insurance companies).

The market is saturated with little repair shops trying to survive. This area is often open to corruption in the form of insurance clerks; assessors, unscrupulous brokers and customers wanting to have their excess built in. The cost per accident will consequently increase; with the insurers being the bearer of further financial losses. So, the insurers' thinking is to let the repairers bear the losses, by fixing poor labour rates for 'approved' repairers.

The future existence of 'amalgamated' panel shops under one umbrella, is a major concern to the smaller firm, as it does not have the resources available to counter any action it may initiate. However, Kaufman (1999) has established that there will be a loss of business to the larger repair shops, but commitment must remain there, as often the larger concerns realize that that this is not their core competency, and divert to other spheres of business.

4.6.4 The threat posed by customer bargaining power

It is proposed that this factor be viewed from the reverse-angle – that is, to contemplate the buyer-value in the supply transaction. A firm creates value for the buyer that justifies a premium price through two mechanisms in industry:

- by lowering buyer cost
- by raising buyer performance

4.6.4.1 Lowering buyer costs of the firm:

This is a method of differentiation. Methods used to lower buyer costs are:

- One manager will undertake reducing the reporting infrastructure, as management and operational duties will fall into a very small vertical chain.
- procurement of spare parts done once a week in Durban, otherwise delivery costs are incurred daily by the suppliers.
- shortened turn around via the use of technology. e.g. dry flattening machines, infrared dryers, dry sanding in the panel shop, computerized paint matching, usage, control and costing systems.
- lower labour costs via the use of in-house trained staff, to progress to artisans at a later date.

4.6.4.2 Raising buyer performance within the firm:

This depends upon the understanding of what is desirable performance from the buyers' viewpoint. This will enhance the buyers' satisfaction needs. The finished product must be aesthetically pleasing, have value for money, and have minimal deviation from the new product. Further to that, it must have a cost saving from within the parameters of operation as stipulated from the insurers (cost variances in terms of savings and repairs undertaken, as opposed to new replacement; that is, use trained labour for better benefits). Integrity will be required, but as a two way stream from the insurers and the motor repair shop. Differentiation with regards to quality workmanship is also important.

4.7 Possible future industry trends

The following trends have been established through interview and acquaintance with the owners of firms of similar stature, structure and resources to the case firm.

- The medium size repairer, as described in the case, will no longer exist. The firms will be smaller (employee number), but the employees would be more skilled commanded better salaries, and be more productive. reinforced by a similar trend in the United Kingdom.
- The larger factory approved and dealer-associated firms will grow in size, due to the connection with the dealership.
- Possible dealership panel shops to be opened.
- Growth potential at the bottom end of the market, due to the fact that many people will not be able to afford the monthly insurance premiums.
- The overall workmanship standard in the industry is dropping.
- The industry to become more service and customer orientated.
- Sambra to establish credibility and come into its own, by eradicating corruption and becoming the watchdog of the industry.
- Sambra graded firms to become a prerequisite for insurance and factory-approved repairs.
- Improved repairer/insurer relationships with approved panel systems being implemented.
- The critical period over the next few years will result in the closure of the less efficient and less resource conscious firms.

It is felt by the author that to counter these trends, the firm has to address multiskilling, and the associated decrease in staff for the future operation. It must ensure factory approval, and be closely linked to Sambra. It must ensure that it is technologically in the forefront, and maintain its competitive advantage, as well as on the job training schemes.

4.8 A new competitive paradigm for the industry

4.8.1 Strategy at present

The strategic objectives of the case firm include the following:

- to be proactive and predict future trends to the firms advantage.
- to establish credible relationships with insurers.
- to ensure factory approval.
- to ensure efficient cash flow via watching overdrafts and payment periods.
- investigate possible alliances/buyouts of other small businesses in lower market segment.
- Establish and differentiate niche markets for the firm.

However, the author is of the view that these objectives must be contemplated from an alternative perspective to that presently forming the norm for industry operators. The study of competitor analysis (Hamel and Prahalad, 1990; Porter, 1985) and of interfirm rivalry (Bettis and Weeks, 1987; D'Aveni, 1994) occupies a central position in any firm's strategy. A primary objective of competitor analysis is to understand and predict the rivalry between firms in their quest for competitive advantage in an industry (Caves, 1984; Porter 1980). Research has

shown that there is a distinction between interfirm rivalry, which emphasizes the conduct of individual firms, and the general conceptualization of competition, which focuses on properties of the industry, or market structure (Baum and Corn, 1994; Jacobson, 1992). This can be analyzed by studying the exchange of moves and countermoves (Caves, 1994; Porter, 1980; Smith, 1992), and the action response to it. This action response is consequential because it is at this level where competitive engagement occurs (Chen, 1992), and where the dynamic nature of strategy and competition and the mutual interdependence of firms in an industry are best captured (Porter, 1980).

An action is defined as a specific competitive move initiated by a firm, such as introducing a new product or entering a new market, that may lead to acquisition of its rivals market shares or reducing their anticipated returns (Chen and Hambrick, 1995; Chen and MacMillan, 1992).

The importance of competitive attack or the use of first mover advantage is widely acknowledged (Lieberman and Montgomery, 1988); research has shown that the greater the number of competitive moves firms initiates, the better its performance will be (Young, Smith and Grimm, 1994). Thus, attackers, or early movers, gain a market share at the expense of later starters (Chen and MacMillan, 1992), and the greater the firm's tendency to respond, the greater its performance will be (Smith *et. al.*, 1991).

This implies that in the case firm's scenario, the firm should be the market leader, by market and competitor analysis. The firm should differentiate with niche markets being sought. Chen and Hambrick (1995) found discrepancies with respect to the firm's action and response profiles: firms that were aggressive in attacking were not necessarily responsive under attack.

Abrahamson and Fombrun (1994) and Burt (1987) found that strategically similar firms were more likely to compete.

The author is of the view that a new competitive paradigm is required for successful competition in the industry. in competition needs to be addressed within the industry..

4.8.2 Strategy in the future

4.8.2.1 Increase the industry demand:

ones week's non-productive work for the insurers nationally will result in them having to 'rethink' their current position. (a national strike). This was done in the United Kingdom, with positive results for the whole industry.

4.8.2.2 Aiding market development:

By promoting the image of the repair industry, or signaling that the industry is legitimate, and promises made, will be met.

4.8.2.3 Deterring entry into the market:

- increase the likelihood of retaliation, in those competitors could use price-cutting further establishes credibility of your firm name.
- Symbolize the difficulty of successful entry, in that one can demonstrate the unprofitability of the follower position.
- block logical entry avenues, in that your firm already has market share of the large profitable work.

4.8.2.4 Good competitor tests:

Competitors must be credible, understand costs and costing and set prices accordingly. They should understand the rules of competition, and read market signals. There should exist

strong exit barriers that are significant enough to make its presence felt, to deter potential new entrants.

4.9 Conclusion

The following list of opportunities and threats summarizes this chapter. This list represents the most predominant factors the author feels must be regarded when mapping the case firm's resource capabilities in order to determine a strategic plan for the future.

4.9.1 Opportunities

- growth opportunity at the bottom end of the market.
- to be the only factory approved shop in the above-mentioned area.
- further differentiation in niche market sector.
- Non-registration of smaller companies.

4.9.2 Threats

- the economic downturn and slowed growth has minimized the profitability of the industry.
- the intense rivalry amongst competition has resulted in economic feasibility of the repair being ignored.
- the unethical nature of the industry.
- legislation: the growing number of small repairers who are entering the market, and are allowed to perform the repairs.
- increased union activity.

- Price conscious customers may use substitutes, who concentrate on price advantage.
- Vulnerable to a recession cycles.
- The emergence of information technology and improved quality of vehicles, will result in a decrease of after sales viability, and affect the future of panel shops and franchise affiliations. (D Dixon April 2000. Will franchise dealers survive 2010? Automotive refinisher)
- The inadequate supply of future artisans: due to structural changes in the economy, job losses were unavoidable. Future growth would not necessarily create jobs for the unskilled. The only labour class where technology created jobs was the skilled category, which increased by 1.7% from 1993 to 1997. (Business Day, 27 September 2000)

Thus, the firm has to address the following problems of cash flow; value orientated marketing techniques, price conscious customers, and the decline in the number of insured vehicles and the low growth phase of the sector. Core competence is advantageous to the firm. All the above issues will be crucial to future survival.

5.1 Introduction

The purpose of this chapter is to present as medium term strategic approach for the case firm.

It is noted that the determination of this approach has several 'levels'. At a grand level one may refer to the approach as one of turnaround, with the case firm's owner seeking to stabilize his position in the competitive landscape. More specifically, the strategic approach is one of a specific operating plan encapsulating an approach to doing business in the sector, in a more cost-effective fashion.

This is of greater relevance to an industry sub-sector participant for whom the rationale may seem more evident, than a reader examining the logic of the grand strategy alone. No attempt is made to present a complete account of the operations plan as this is not relevant to the purpose of the investigation.

It is anticipated however, that the emergence of a strategic approach can be seen as a tangible product of the planning process, and that one may conclude that the firm has indeed benefited from the exercise of reviewing its environment and resources.

5.2 The adaptation of the firm to its environment

Customer perceptions and value systems have to be kept constantly in mind, when creating a vision, or mission for the company. Porter's value system is thus an empirical part of the industry that seems to be heading to a condition where only the 'fittest' firms will survive. Efficient and effective management now becomes vital for operation. Visionary management

will have to be the order of the day,

The firm will have to ensure its advantage via its core competence, but also adhere to the strict criteria for MSR. Any changes to that criteria must be countered, as to allow short-term advantage of having possible dealer accreditation. On the job training must continue, allowing for a flow of skilled artisans within the ranks, countering the scarcity of artisans in the future.

Sambra affiliation will be vital of the 'acceptance' of the protocols by the insurance companies. Costs associated with grading for the various levels will have to be justified by the various companies. The degree of risk that accompanies that decision will be borne by the owners concerned, with no accompanied guarantees on investment.

Sambra must ensure that it maintains its credibility, once the protocol is accepted (the protocol is attached as appendix B). It must ensure that unethical repairers are brought to book, together with adopting a vision and goals for the future of the industry. Tow trucks and their affiliates must be brought to book, as it affects the ethical nature of the industry, and brings Sambra into disrepute.

The sub-sector will be getting smaller with multiple players within the sub sector, as seen from the drivers of change. The United Kingdom and United States markets have demonstrated that the playing fields eventually tipped in favour of a smaller number of repairers, who were larger in size than previously. The larger dealership affiliated and

insurance owned firms would prosper, due their connections for extension of vehicle warranties, and their fact that it is the subsidiary of the Mother Company.

The existing firms have to rationalize their staff and restructure its resource base, so as to allow for future trending, and accommodate multiskilling. This can be seen from the fact that the United Kingdom has undergone the same process recently. A smaller number of repairers, with multiskilled staff survived the transition. Differentiation is a source of competitive advantage. Thus, firms will have to have the spirit to cope with the perpetual transition caused by the accelerating technological change. As the tempo quickens, the champions will be the dancers who keep in time with the new beat (Sunter : 1998). This will be basis of future competitive advantage. The firms will have to restructure, address staffing issues and ensure multiskilling is in place.

Strategy is driven by perceptions. The way we read the world shapes our responses to it. Competition is fought in the mind. Conservation is the key weapon in this battle. Profitability will continue to decrease due to increases in operating expenses and general overheads, as well as non-productive labour. There is also a loss in labour sales, which is countered by a markup in the replacement spares.

The protocol to increase labour rates, as to encourage increased proportions of repair and not to replace spares, may drop the overall repair cost. This may seem to be the answer. However, there is nothing stopping the insurers to move vehicles to other repairers who have spare capacity, at lower operating costs. This protocol will have to have unanimous approval amongst insurers to be effective within the industry.

Thus, the future market looks bleak, but the only saving could be brought about via effective strategic management and tight financial control of all future operations.

5.3 The case firm's strategic intention

5.3.1 Segmentation

This is necessary to address the question of competitive scope of the firm. The firm is positioned within the realms of the motor repair industry. It is further concentrated, that it has professional affiliations to the RMI (Retail Motor Industry), members of SAMBRA and SAMIEA, and that it concentrates on the insurance industry. The firm is further graded as a Major Structural Repairer (top grade nationally), and allows approved structural repairs to be undertaken for vehicle manufacturers e.g. VW or Delta. The insurance and luxury car repair market and insurance repair is therefore the firm's target market segment.

5.3.2 Geographic location

The repairer is located north of Durban, out of the hive of furious competition, but the market segment is middle to upper class, with the competition concentrating on cost differentiation, but with minimal profits evident. The area however does have some thirty motor repair shops that are registered and also unregistered.

5.3.3 New segment identification:

It is identified that growth is possible in the bottom end of the market. This segment will use low cost products giving fairly good results that allow the perception of relative added value to the customer. This segment will concentrate primarily on the cash repairs and the taxi associations, exploiting pricing as the competitive advantage tool. The firm area allows the

speedy and not necessarily 'quality finished product', as these customers are price driven and want efficient turnaround time. Here, the area of low cost quality repairs would be the answer.

Typically motor body repairers target insurance repairs, with a massive outlay of capital. The author proposes a nominal outlay of capital, and exploitation of a potentially symbiotic relationship with the existing infrastructure of the case firm. The equipment used would be the outdated dozers for basic 'pulls', deliberately precluding major structural repairs. All major repairs would be referred to the 'mother company'. In return, the Mother Company, with all its goodwill, will send the work it could not undertake due to high basic operating overhead, to the offspring.

Costs of start up would be minimal, and the sum of forty thousand rand has been identified for basic requirements. No major equipment is used. At a later stage infra red lamps will be purchased for the quick drying of paint. This capital expense compares almost absurdly to the one hundred and fifty thousand rand for a spray booth.

Staffing requirements would be easily met, via the use of old staff and the mandatory use of month-to-month contracts for hiring. The problem with suitably qualified staff would be overcome via hiring an old spray painter, who has a failing business. He would receive a set salary as a paint shop manager, with all benefits, but also have a share in the new offspring firm. This allows for the betterment of the Mother Company in terms of cost saving via his expertise, as well as his benefiting from the new 'growth' area identified. He will run the offspring under guidance, as well as performing the normal daily duties. This will also ensure

a good flow of suitably trained artisans for the future, as well as allowing the development paths for future trainees.

The offspring would be situated a hundred metres from the main firm, so that controls would be easy to maintain. The market positioning of the offspring would be minor repairs with quick turnaround time, as well as the potential of 'rust and resprays' whilst not forgetting the large market potential of the taxi repair industry. The rank is within walking distance, and it is felt that this market can be incorporated within the scope of the offspring firm.

5.3.4 Advantages of this segment

- huge market size.
- not much competition.
- no good repairers in this segment.
- allows value chain exploitation – core competence used.
- low degree of risk.
- good profit potential, as there are minimal overheads.
- transfer of goodwill from the Mother Company.
- proven management ability and synergy.
- cost position to be used to its advantage.

5.3.5 New product development:

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A new system for the 'touch-up' of minute areas such as Chips Away has been developed. Minor scratches on vehicle can now be accommodated within three hours at a fraction of normal costs. This will be used via the establishment of another company, which will allow us to use current legislation to our advantage. A semi qualified and highly trained technician will be used for this venture, with the site being on the existing premises. Rental would be in terms of goodwill, in that the company would be exposed to future potential customers, as well as to undertake work that the operation could not perform. This has only been possible via the addition of new technology that allows a two square centimetre 'touch up'.

5.3.6 Signaling criteria

Signaling criteria for influencing the buyers' perception and differentiation possibly are:

- reputation very good on the North Coast
- minimal advertising
- established in 1966
- layout of workshop and operation size
- client base extensive and reputable
- market share on the coast is approximately sixty percent
- visible senior management still present in the firm
- Warranty work undertaken for many vehicle manufacturers.

The main problem would be to get the buyers to recognize the firms' name as a brand, due to the extensive competition and corruption levels evident in the industry.

5.4 The sustainability of differentiation

Sustainability of differentiation is dependant upon perception by buyers and the lack of potential for imitation by competitors. It is felt that this strategy could not be maintained as the competition would inevitably upgrade their workshops. However customer service and personal relations would be hard to counter.

Differentiation of the firm can be achieved via the following methods:

5.4.1 The firms' sources of uniqueness involve barriers

A first mover advantage as done by the firm (in the form of signaling) allows better advantage if marketed properly. Effective marketing will thus have to be done here, targeting insurance companies and vehicle manufacturers.

5.4.2 The firm has a cost advantage in differentiation

Continued training and development will ensure this, as a basis of turnaround time, by using their knowledge and experience curve effects

5.4.3 Multiple sources of differentiation

The firm must be able to sustain and develop means of differentiation from its competitors via investment in technology, continued in house training, and a continued production of qualified artisans via its ranks. The marketing and positioning aspects will have to be reviewed continually by management and used effectively.

5.4.4 A firm creates switching costs at the same time as it differentiates.

These are the costs inherent with operation, when switching suppliers. If differentiability is created via switching, then this could be sustained, and is an advantage. Using a marketing technique of lifetime warranty on work could do this.

5.5 Problems with differentiation for the firm and the industry:

The preceding sub-paragraphs have isolated the advantages of differentiation, but it is recognized that there is a set of accompanying disadvantages:

- creating uniqueness that is not valuable to the buyer.
- differentiating too much results from the failure to diagnose performance thresholds or diminishing returns in buyer preferences.
- the price of differentiation is far too high, and not sustainable.
- ignoring to signal value criteria opens the firm to attack from competitors, if he has the knowledge to use this.
- not knowing the costs of differentiation in economic terms and the returns gained from differentiation may be a loss financially.
- failure to recognize buyer segments and a strategy not focused here, and the firm will not realize profits.

Thus, the firm will be able to sustain its differentiation with respect to its core competence, but it will have difficulty being the only MSR firm in the area concerned. The firm has to concentrate on service, value perception and the effective marketing techniques of these advantages.

5.6 Congruence of the firm's strategic intention with rational planning models

Any rational planning model in a stagnant industry would aggressively cut down on overheads and operating costs. Criteria such as cash flows and return on investment are more important than growth and performance measures. Declining industries result in hostile competition, together with buyers becoming more demanding on services offered. All future expansion plans and over capacity can adversely affect the business. The larger players with financial backing have a greater chance of surviving than the smaller players without any 'clout' survive. Cost reduction and efficiency increasing methods must be established and optimized.

The case firm in contrast has contravened rational planning models by:

- expanding its asset base by adding alterations and purchasing equipment for future operation.
- This decision was made due to the future requirements of Sambra, as well as realizing that the future of the industry would not be attractive. The liquidity at that stage allowed for future purchases.
- Purchasing of smaller operational equipment that would enhance time saving and allow for the simultaneous natural attrition of staff.
- Expanded into another segment of the market (bottom end which is the growth area). This will allow for the weakening of competitors market share, and possibly jeopardize any future business.

Thus, while larger firms may restructure to minimize operational costs, the case firm's owner/managers have elected to identify growth segments and niche markets within which to operate.

5.7 Conclusion

It is determined that it is imperative to establish niche markets. The establishment of a secondary company in another segment of the market is essential. This will allow the symbiotic relationship between the two firms. The mother company will 'feed' the new firm the cheaper repair sector, whilst the larger repairs of the new firm will go to the mother company. This counters both the problems with the protocols of Sambra, as well taking the opportunity of current legislation for small repairers. Thus, the identification of the new segment may offer a better return on investment, as there will be minimal requirements for the NSR to be adhered to.

The breaking down of the company in sub-units, like bumper repair and the touch-up area, in opposition to Chips Away, will also use legislation to its advantage. Allocation of profit shares to key staff will enhance the operation, as well as getting the market exposure of knowing that they are associated with the Mother Company. This will assure the customer of quality repairs, and may enhance the image of the total 'group'.

The future of any company will be dependant upon its planning and the ability to counter future potential threats now. Vision, as in any company is vital, and essential to the future of this critically positioned industry. Sambra will have to play a leading role in the industry, but the resources available to this body could be questioned. Thus, the smaller companies must not wait for the initiatives from Sambra, but rather prepare for the future scenario. Exit costs are far too high for the average repairer; they must search for niche markets, and maintain their dominance in the area, as their playing fields are about to be redefined.

The introductory chapter to this report sought to isolate a disquieting issue for a small business operator in the motor body repair industry. While the concern is the manner in which operators in this industry sector have witnessed a decline in their business fortunes over the past decade, the research query has been to investigate the extent to which the implementation of a rational planning framework could assist in generating options for the operator, to adopt a course of action that may arrest and reverse the decline in fortunes.

The objective of the report was this established as an investigation into the value of a rational planning model in a small business environment, specifically in the SA motor body repair industry. The study undertook to investigate the principles and processes supporting a long term planning model, or strategy formulation model, and then relate this to the circumstance experienced by the case firm, selected as representative of the sector, but qualified where necessary to extrapolate the validity of the findings.

Chapter two therefore set about investigating the literature with respect to strategy formulation and implementation, investigating both the literature of the past two decades, as well as contemporary thought.

Chapter three identified the case firm with respect to the profile of the firm and its resource capability. The history of the firm since inception, and strategic actions adopted over the past five years were investigated, so as to be able to contrast these actions with the actions a rational planning exercise, might deliver in the present. The goal was to show that the

strategic actions adopted by the firm have been at odds with the rationale that is delivered by a rational planning process.

Chapter four investigated the external environment of the firm, with particular reference to the industry environment. This included an assessment of the competitive rivalry in the industry sub sector, and the regulation imposed upon the industry by its representative body, SAMBRA.

Chapter five sought to implement the principles and processes of the planning model exposed in chapter two, with a view to mapping the strengths and weaknesses of the firm as established in chapter three, with the firm's prevalent opportunities and threats, as uncovered in chapter four.

This chapter established that the rational objective of the firm is to identify and isolate a niche target market, and to pursue that segment, in defiance almost of the objectives that would be inferred by the regulation imposed by the body SAMBRA.

The general findings of the investigation are that the level of competition is exceptionally high, and it might be concluded that it will take a 'shake out' of some operators in order to reintroduce value in the sector. Simultaneously, the profile of the industry's operators is one that exhibits limited business acumen, and a reliance on the input of a regulator and representative body.

The regulation of the industry, while well intended, has deteriorated to the point where the

very situation the regulator would have sought to ameliorate, has worsened as a result of short sighted and sometimes self-indulgent manipulation.

A rational planning model, which although argued by some as a prescriptive approach and consequently inappropriate for operators functioning in a fluid, dynamic, complex and frequently unpredictable industry, provides a measured means by which a strategic approach in the first instance, can be determined.

Secondly, a rational planning model introduces consistent and reasonable decision-making, displacing subjectivism and so-called gut feel approaches to long-term decision making.

Third, a rational planning model encompasses a specific implementation regime, which it is anticipated will improve tactical decision making with respect to the allocation of resources, including personnel, inventory, and liquidity.

Finally, and perhaps of greatest benefit to sector representatives, a rational planning model encompasses the methodical establishment of many financial scenarios, isolating potential return on investment prior to commitment to a particular approach to trading, and commitment to the intensive capital investment coaxed by the industry sector regulator, shown to be flawed in its outlook.

The business operator forming the subject matter of this investigation and report, is advised to consolidate a platform upon which to pursue profit maximization by emphasizing the rated capability of his operation, lobbying the insurance industry representatives to pay higher rates,

perhaps lobbying some of the premium-priced insurance firms, and diversifying into new markets. This diversification is possible through the creation of a distinct division falling beyond the boundaries of the industry regulation and therefore enjoying a more cost effective and efficient business trading model. This enhanced economic viability allows improved profitability, even if only in the new division.

Some of the problems arising from blindly following the advice of the regulator include:

- Excessive capital investment relative to the capacity of the market to absorb the impact of a highly qualified repair firm
- The establishment of a cost structure that precludes cost containment and cost efficiencies, rendering the firm incapable of competing on the basis of anything other than qualitative factors, where the very presence of regulation has removed any trace of qualitative distinction between SAMBRA member firms.

Within this circumstance, the firm is almost 'locked into' competing on price, as the bargaining power of the customer is so high, and because the regulator has unwittingly created a mutant environment where they have introduced high cost structures, but failed to implement actions designed to limit customer bargaining power.

Niche markets are not pursued, because the framework for a strategy inferred by the regulator's influence, is to compete on the basis of offering a deemed technical competency to an aggregated market. The regulator establishes this technical competency by raising the equipment and expertise requirements for membership. However, little if any attention is paid by SAMBRA to segmenting the target market, and breaking the oligopolistic and

financial control they wield in the marketplace.

On the basis of the forecasts of the case firm, prepared according to a deviation in strategic outlook from the SAMBRA model, it would appear that there is distinct merit in operators in this industry sector isolating and focusing upon niche market segments, perhaps entirely distinct from the aggregated market inferred by the SAMBRA grading held by the firm.

This deviation represents opportunity to pare down operating costs, and to offer a service to financially hard-pressed customers falling outside of the formal insurance sector net. Overall profitability is assessed to improve for the operator with a formal SAMBRA graded workshop as well as a less formal job-shop. In this way the return on investment is demonstrated to improve for the operator to the point where sustaining the viability of the venture is rendered entirely achievable.

While this study was implemented to establish a path forward for the case firm operator, the conclusions are assessed by the operator to hold true for the industry as a whole. The inability of many if not most operators to achieve an adequate return on a relatively significant investment is cause for concern for the entire industry. Exit costs are prohibitive and the collapse of elements of the industry sector in the face of declining margins and profit potential, would cause an unpleasant decline in the reputation and credibility of the remaining operators. It is consequently possible to derive a simple set of recommendations for this industry sector. However, this study has not been exhaustive and these recommendations are confined to a series of observations from the perspective of the case firm operator.

In the first instance, sector operators are advised to implement a procedural long term planning regimen that will isolate the probable outlook of the actions pursued by the operator in the short term. While this regimen carries clear cost implications in the short term, it is believed that the positive spin offs of long term scenario planning outweigh the costs thereof.

It is apparent that market aggregation will never prove to be a foundation upon which sector operators can develop any level of distinction and they are consequently condemned to competing against each other by foul means, rather than fair. Market segmentation and in particular, identification and vigorous pursuit of niche markets is recommended as a means by which operators can arrest and recover the decline in their business fortunes.

It is also apparent that further investigation into the benefit derived by SAMBRA members from representation and regulation by SAMBRA is warranted. The role of the regulator and representative body should be the representation and protection where possible of its constituents - this is observed to have been corrupted over the past decade or so.

It would then also be necessary to undertake a review of SAMBRA policies and methods and strategies to determine the relative merits of these strategies with regard to the long-term outlook of the industry.

It is interpreted that one of the goals of this body should be the business education of its members in order to elevate the profile and resource capability of individual constituents. Sound business practice is no guarantee against failure, but there is sufficient evidence in the literature to establish that even small enterprises benefit demonstrably from an injection of

sound business acumen.

For the long-term benefit of the industry as a whole, it is necessary to investigate the regulation governing the tow truck sub-sector. The rampant disregard for ethical operation in this sector depresses the margins of the motor body repair sub sector, as the insurance industry passes on the costs imposed by the tow truck operators. It is iniquitous that the sub sector with the lowest barriers to entry and with the least regulation, should impose upon the livelihood of a sector required to invest large capital sums, merely to qualify for obtaining work. Once qualified to queue for work, the insurance industry – the primary customer – then dictates a tariff that accommodates the tow industry's excessive margins, as well as the minimum rate of return declared by the insurer's shareholders. The motor body repairmen, to a man, have for too long absorbed this state of affairs and the time has come to overturn the situation.

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7. Mr. Houston – Southern Panel Beaters (Sambra committee)
8. Mr. B Rose – Durban Panel Beaters
9. Mr. E Chislett – Motorglow Panel Beaters (Sambra committee)
10. Mr. G. Gailbraith – ex Sambra chairman
11. Mr. J Stuart – Classic Coachworks (Sambra chairman)
12. Sambra offices - Westville

6. THE SOUTH AFRICAN MOTOR BODY REPAIRERS ASSOCIATION

They are trying to rid "the industry of unethical and unfair trade practises, while protecting the car owner and insurance industry from exploitation". Their constitution has changed to accelerate the business

opportunities for the previously disadvantaged groups. Samba subscribes to very strict codes of conduct and ethics. On request, Samba will inspect repairs for clients and any adjustments are passed on to the insurers or the client, whichever may be the case.

6.1 Entry Levels:

Samba's entry levels are high. The following are membership prerequisites:

- To register, a company has to have been in business for a minimum period of six months
- A twice yearly audit by an independent audit company is compulsory
- The minimum written guarantee for workmanship is 12 months
- Paint warranties are for three years, up to a life time guarantee (better than a factory guarantee)

6.2 Work Categories for Panelbeaters:

There are three categories, and Samba regards the quality of workmanship throughout all three grades as crucial.

- i. **Development Group:** Most of the previously advantaged businesses fall into this group. They are only allowed to repair car park scrapes, small dents, and cosmetic repairs. This is based on the limited skills and lack of sophisticated equipment available within this type of panelbeating business. No structural damage repairs are allowed.
- ii. **Advanced Structural Repairers:** They are allowed to repair vehicles with structural damage based on the skills and equipment available within the business, with the insurance assessor's agreement. Skills must include qualified panelbeaters and spray painters. Major repairs may be done to vehicles that are no longer roadworthy, if their equipment is sophisticated enough.
- iii. **Advanced Major Structural Repairers:** They are allowed to repair any type of damage without any limitations, which includes just about resurrecting the dead. The skill level of staff is much higher than that of your usual qualified panelbeater. Due to their high technical standards and superior equipment, they are able to repair a vehicle that has been extensively damaged, to factory specifications and 100% roadworthiness.

6.3 Disciplinary Action:

Disciplinary action is taken against members when the association receives complaints regarding personal conduct and/or ethics, or warranties etc. that are not complied with. The following are some examples of measures taken against errant members in the past:

- Recently Samba forced a panelbeater to buy a car from a client whom, due to sub-standards repairs, was unable to sell the car at a market-related price.
- An errant member may have their membership cancelled or suspended for a period, which put their business at risk.

ANNEXURE "A"

SOUTH AFRICAN MOTOR BODY REPAIRERS' ASSOCIATION



NATIONAL GRADING SCHEME

THREE LEVELS OF MEMBERSHIP

| | | |
|---|---|--|
| Non Structural Repairer (NSR) | = | No structural damage repairs |
| Advanced Structural Repairer (ASR) | = | Repair structural damages of a nature which will fall within the parameters of the repairer's equipment and skills base as negotiated between the insurance company relevant to the repair and the repairer. Focus on equipment coupled to obtaining a certain minimum point value on i.e. quality, customer care, and adherence to the Code of Ethics. |
| Major Structural Repairer (MSR) | = | Repair structural damage of any nature. Focus on equipment coupled to obtaining a certain minimum point value on i.e. quality, customer care, and adherence to the Code of Ethics. |

NATIONAL GRADING SCHEME

BASIC REQUIREMENT FOR AUTO BODY REPAIR FACILITIES

FACILITIES

- 1 **Reception**
 - ❖ The customer must be received at a reception desk or counter not used for normal administration duties
 - ❖ Must display the RMI Code of Conduct and SAMBRA's Code of Ethics with the current year's membership disk
 - ❖ Must display signage as to the name of the legal entity comprising the business and the working hours
 - ❖ Housekeeping to be well maintained with reception areas being clean and tidy
 - ❖ Offices for administrative duties to be separate from reception
- 2 **Customer Waiting Facility**
 - ❖ Obligatory for all establishments
 - ❖ Must offer seating for at least two clients and include reading material
 - ❖ Customer refreshments



3. **Parking**
 - ❖ Must provide sufficient parking "off the road" in relation to the size of the facility

WORKSHOPS

1. **Floors**
 - ❖ Must be in good condition, clean and oil free
2. **Signage**
 - ❖ Sufficient signage to indicate facilities and customer / commercial restrictions
3. **Lighting**
 - ❖ Adequate lighting
4. **Ventilation**
 - ❖ The working area must be well ventilated
5. **Uniforms**
 - ❖ Must be clean and of a uniform standard and colour
6. **Covered Working Bays**
 - ❖ General business to be conducted in a workshop which is roofed and walled

OTHER REQUIREMENTS

1. **ARTISANS**
 - ❖ Register of journeymen and their journeymen qualification ID number
 - ❖ At least one qualified panel beater and spray painter
2. **APPRENTICES**
 - ❖ Register of apprentices and contract numbers
3. **GUARANTEES**
 - ❖ Guarantees on workmanship and paint to be clearly displayed in the reception area
4. **CUSTOMER FOLLOW-UP**
 - ❖ Mandatory to have a customer satisfaction follow-up system in place which must be able to be audited
5. **CAR WASH**
 - ❖ Vehicles must be washed, dried and vacuumed before delivery

ANNEXURE "D"

SAMBRA



| CRITERIA FOR AUTO BODY REPAIR FACILITIES | NSR | ASR | MSR |
|--|-----------------------------------|-----|-----|
| PAINT SHOP | | | |
| Spray booth / Oven combination | Construction with extraction unit | * | * |
| 3 Spray guns (prime/colour/polyester & rubberise) | 2 | * | * |
| Suitable compressor | * | * | * |
| Mixing bench & scale | N/A | * | * |
| In-line air filters | * | * | * |
| Respirators with fresh air supply | * | * | * |
| Paint shop stands | Optional | * | * |
| Adequate pressure hoses | * | * | * |
| Polishing machine | * | * | * |
| Short wave infra red lights | N/A | * | * |
| Mobile dry flattening system (Centralised / Decentralised vacuum system) (Dry flattening system incorporating suction bag) | N/A | * | * |
| Premier spray bay with filtration | N/A | N/A | * |
| Demarcated primer spray area | N/A | * | N/A |
| Paint mixing room with ventilation with extraction fan | N/A | * | * |
| Comprehensive paint manufacturers catalogue | N/A | * | * |

ANNEXURE "D" (Cont)

SAMBRA



| CRITERIA FOR AUTO BODY REPAIR FACILITIES | NBR | ASR | MSR |
|--|-----|-----|-----|
| REPAIR SHOP | | | |
| 2 or 4-post hoist | N/A | * | * |
| Engine hoist | N/A | * | * |
| 10 Ton press | N/A | * | * |
| 3 Ton garage jack | N/A | * | * |
| 8 Trestles or jack stands | * | * | * |
| Mac Pherson strut press or spring clamps | N/A | * | * |
| Tool trolleys / Tool cupboards | * | * | * |
| Creepers | N/A | * | * |
| Work bench with vices | N/A | * | * |
| Industrial vacuum cleaner (more than 1300 watt) | N/A | * | * |
| Domestic vacuum cleaner | * | N/A | N/A |
| Basic artisan tools as per Main Agreement for the Motor Industry | * | * | * |
| Set of working covers to protect seats for work in progress cars | * | * | * |
| Bench Grinder | N/A | * | * |
| Pop rivet gun | * | * | * |
| Power drill machine | * | * | * |
| Angle grinder | * | * | * |
| Impact cutter or body saw (mechanical) | N/A | * | * |
| Orbital sander | * | * | * |
| Ball joint tool | N/A | * | * |
| CO2 / Mig / Mag welder (either / or) | N/A | * | * |

ANNEXURE "D" (Cont)

SAMBRA



| CRITERIA FOR AUTO BODY REPAIR FACILITIES | NSR | ASR | M3R |
|--|---------------|---------------------------|---------------------------|
| REPAIR SHOP (Cont) | | | |
| Spot welder with dent pulling capacity | N/A | * | * |
| Welding hood | N/A | * | * |
| Spot weld remover | N/A | * | * |
| Multi-purpose spot welder with a minimum output of 5000 amps | N/A | N/A | * |
| Set of universal bearing pullers | N/A | * | * |
| 2 Wheel spanners (SAE & metric) | * | * | * |
| Lead lights | * | * | * |
| High pressure cleaner | N/A | * | * |
| Battery charger | * | * | * |
| Radiator pressure test kit | * | * | * |
| Tyre pressure gauge and pump | * | * | * |
| Headlamp setting facility | Board or Wall | Headlamp focusing machine | Headlamp focusing machine |
| Electronic wheel alignment system | N/A | N/A | Optional |
| Paint thickness gauge | N/A | N/A | Optional |
| Computer electronic protection system | N/A | * | * |
| Floor mounted or mobile chassis straightening repair frame with 10 ton pulling capacity | N/A | * | Optional |
| Mechanical 3 dimensional measuring system – no longer accepted for M3R from 1/3/2002 | N/A | * | Optional |
| Fixed bracket or universal jig system or bench system to accommodate electronic measuring system approved by vehicle manufacturers with certified operator | N/A | N/A | * |
| 2 x 10 Ton power sets and accessories | N/A | * | * |



ANNEXURE "D" (Cont)

SAMBRA

| CRITERIA FOR AUTO BODY REPAIR FACILITIES | NSR | ASR | MSR |
|---|-----|------------------------------|-----|
| FACILITIES | | | |
| Demarcated undercover quotation bay | N/A | * | * |
| Demarcated paint preparation bay | N/A | * | * |
| Storage facility for parts | * | * | * |
| Fire extinguishers with expire date | * | * | * |
| Panel shop computer management system – only those approved by SAMBRA i.e. TMS, Compmark, Dr Smash, Audatex | N/A | Compulsory from January 2002 | * |
| Availability of lift service | N/A | * | * |
| Vehicle delivery bays | N/A | * | * |
| Storage facility for vehicles | * | * | * |
| Security provided | * | * | * |
| Internal insurance | N/A | * | * |
| External insurance | N/A | Optional | * |

| | | | |
|--|----------|---|---|
| GENERAL | | | |
| 12 Month guarantee on workmanship offered in writing | * | * | * |
| Paint warranty offered in writing | * | * | * |
| Continuous training in progress (register and / or certificates) | N/A | * | * |
| Designated quality controller | N/A | * | * |
| Checklist for quality controller | Optional | * | * |



AGREEMENT BETWEEN SANTAM LIMITED

The agreement as set out below is extremely important for the working relationship between Santam, you and the client. These conditions will enable Santam to offer excellent service to its clients.

The agreement between the parties reads as follows:

GENERAL

1. It is essential that both parties co-operate at all times. It also includes internal and external assessors and members of Santam's audit team, as well as all assessments and re-assessments of clients' vehicles. Upon the request of Santam, all relevant documents pertaining to Santam's authorisation to repair, must be made available.
2. Santam does not require you to get involved in any legal action related to any policy, policy guidelines, etc. that may arise between Santam and a client.
3. The relationship between Santam's client and you must be positive and constructive at all times.
4. It is essential that you have sufficient financial backing to enable you to purchase parts immediately after approval for executing an instruction has been received.
5. As a member of the Santam family, you must at all times ensure that the image of Santam and the company is portrayed positively. You must consider yourself as extension of Santam and its marketing pledge, and you must ensure that you act ethically and professionally at all times and that you adhere to Santam's principles.
6. While the vehicle is in your possession, you must apply adequate safety measures to ensure that neither the client's vehicle nor his or her possessions are damaged. Therefore it is essential that you have adequate short-term insurance to cover any unforeseen events. Such events include damage to a client's vehicle while in your possession, poor workmanship, etc.

7. This agreement is not transferable and remains binding between Santam and you. Should the business be sold, the new owners will be obliged to apply for membership of the network.

QUOTATIONS

1. All quotations must be an accurate rendition of the repair costs. You may under no circumstances collaborate with any other repairer when preparing quotations.
2. You are obliged to permit other repairers appointed by Santam to enter your premises with a view to preparing a quotation for a Santam claim.
3. To expedite settlement of a claim, all quotations should be prepared and submitted to the relevant Santam office as soon as possible.
4. The use of alternative parts, which may effect a saving, is encouraged. However, prior approval from the relevant Santam assessor for the use of such parts must first be obtained.
5. Comprehensive quotations covering all possible damage must be prepared to avoid additional expenses from becoming necessary at a later stage.
6. You must distance yourself from any discussions with Santam's clients regarding any changes to the original quotation, as this is the assessor's responsibility. If there are any queries in this regard, the assessor must be contacted.
7. Should you have in stock the parts needed for repairing a vehicle (whether or not these are alternative-, XXX-, new- or used parts), you cannot insist on the current market price. You have to negotiate a price based on *cost plus* with the assessor. However, should you be dissatisfied with the negotiated price, you may buy the parts at the current price.
8. Should it be expected of you to submit a quotation based on parts in stock, you must identify such parts with an asterisk (*) next to the current market price as provided in the quotation. Your quotation will thus remain competitive, Santam will be aware of possible savings, but not the client.
9. You may not include the excess or a portion thereof in the cost estimate and you must ensure that no previous damage is included in the final estimated figures.

AUTHORISATION FOR REPAIR WORK

1. Only a Santam assessor or a duly appointed external assessor is entitled to authorise repair work to commence.

2. After a claim has been approved, no other Santam office or assessor may give verbal instructions for any changes to the agreed quotation. Should such verbal instructions ever be received, the Assessors Manager of the East Coast Admin Centre must be contacted for guidance.
3. All amendments and/or additional authorisation for repair work must be produced in writing from Santam Ltd. No repair work may be done unless such authorisation for repair work has been put in writing.
4. Your attention is drawn to the conditions set out on the reverse of Santam's repair instruction sheet. These conditions are legally binding and must be adhered to.
5. On signing a Santam authorisation for repair work, you bind yourself to its contents (i.e. the procedures to be followed, the parts to be purchased, and the agreed price). The time allocated for the satisfactory completion of the authorisation will be specified in the agreement. Should you exceed this period due to your own shortcomings, as opposed to the valid non-availability of parts or paint, or additional unforeseen damage, etc., you must provide the client with a suitable vehicle for use until his or her vehicle has been repaired.

REPAIR WORK

1. The repairs to be done and the services to be provided must be executed in accordance with the rules pertaining to SAMBRA, the Automobile Association's Quality Assured register, and the specifications of the respective vehicle manufacturers.
2. The service to be provided should at all times be prompt and with the objective of causing the client as little inconvenience as possible. This service should be executed in accordance with the Santam instruction slip as agreed upon. Special attention must be paid to the number of days assigned to each specific task.
3. It is essential that you have the proper equipment to ensure that repairs are executed in accordance with the vehicle manufacturer's specifications.
4. All repairs must be strictly in accordance with the agreed quotation. Any deviation from this authorisation for repair work must be faxed to the responsible assessor immediately. The amendments must then be noted on Santam's progress report. A copy of this report must be forwarded to the assessor. The procedures mentioned above must also be applied when extra work or unseen damage is discovered. It must therefore be made clear that no additional parts may be bought or procedures changed without the assessor's approval. It is fraud to amend a contract or an instruction that has been agreed to without both parties having given their prior permission for such amendments.

5. Should a Santam client discover any further defect after his or her vehicle has been delivered and proof of fulfilment signed, Santam expects that immediate attention must be given to the complaints in accordance with the authorisation for repair work.
6. Should you accept a quotation and do unsatisfactory repairs, Santam may appoint mediators to determine whether the vehicle can be repaired satisfactorily within a fixed period. You will bear all relevant costs. Should it be impossible to repair the vehicle satisfactorily, you will be obliged to buy the vehicle at a reasonable, market-related price, as determined by the mediators.

The mediators will consist of three members from the following: a suitably qualified manager of Santam, an executive member of the local SAMBRA branch, and a representative of the relevant vehicle manufacturer or the AA.

7. You must provide a one-year guarantee on all repairs and a two-year guarantee on paint work. This guarantee is applicable to all work done in terms of the authorisation for repair work, and must cover all new, alternative and XXX spare parts. Should you use any used parts and should there be any doubt as to the quality of these parts, you must consult with the assessor before starting the repairs. Details of any such decisions must be produced in writing in case a claim results.
8. Santam would prefer that you be a member of either SAMBRA or the AA's Quality Assured programme, or both. Such membership will give Santam and the network's clients peace of mind that repairs will be of the highest quality, and that there is the necessary controlling bodies that will exercise control and discipline and that they guarantee quality workmanship.
9. No storage fees may be charged for the time that a vehicle is stored or repaired. This also applies when the vehicle is not being repaired, but is taken to another repairer or scrap-yard. This condition is applicable for the first 14 days, after which a suitable charge may be levied.
10. All glass that has been used or installed, must comply with the manufacturer's and SABS requirements. You will be held responsible for any expenses if these requirements have not been adhered to and which have resulted in a claim against Santam.
11. The hourly tariff will be negotiated during the annual review of network membership. You will be informed of the tariff in writing.

ADDITIONAL REPAIR WORK

1. All additional work required must be agreed upon when the repair process is in progress and not when the vehicle is handed over. Only in exceptional circumstances will an assessor give permission for additional work when the vehicle has been handed over to the client.

INVOICE

1. All invoices must be forwarded to the Santam office indicated on the authorisation slip and all payments will be done by means of electronic funds transfer.
2. It is the assessor's responsibility to determine the relevant tow-in costs when the assessment is being done. Where applicable, the VAT on the tow-in costs must be clearly stated as a separate item. A separate invoice must be prepared for these costs and submitted to Santam immediately. These costs cannot be claimed at a later stage unless special permission has been given.
3. Accounts will be paid within 30 days of the invoice date. It is therefore important that the tax invoice contains all pertinent information such as the VAT number, claim number, etc. No account can be paid without strict adherence to these criteria.

If, however earlier payment is required, this can be done on the following basis:

- Payment within 14 days of the invoice date at a discount of 5%.

4. No invoices may be sold to credit bureaux to supplement your cash flow.

Any breach of this agreement could lead to possible forfeiture of membership of Santam's repairers' network.

If you are satisfied with the conditions set out in this agreement, kindly sign in the space provided and return the original document to Santam for safekeeping.

If you cannot fulfil any of the conditions, please contact Len Simpson Assessors Manager East Coast Admin Centre for further negotiations.

We look forward to dealing with you on a sound financial basis in the interest of our mutual clients, who provide us both with business.