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HEIGHTENED PRICE SENSITIVY PREDICTED AS SA ECONOMY RESUMES

Already under pressure pre-Covid-19, the South African economy is expected to shrink substantially this year. Nine in ten businesses reported reduced turnover during the first impact survey covering the period 30 March to 13 April, while a second survey covering the period 14 April to 30 April, showed that 90% responding businesses' turnover was lower than their normal expected range. Industries surveyed included: electricity; gas and water supply; mining; community; social and personal services; trade, transport, storage and communication and manufacturing. This, according to statssa.gov.

What's more, according to investec.com, the pandemic coupled with the hard lockdown, is going to result in much higher price pressure going forward across almost any category where the purchase item is relatively big for the consumer.

As for the automotive sector, another report, released by Deloitte in April, paints a grim picture for this important market segment which accounts for 6.8% of gross domestic product (GDP) - (2018 figures). The auto industry – also considered a major manufacturer – employs around 110 000 people, with the broader automotive segment accounting for 457 000 jobs.

In order to ensure the continuity of this important market sector, government has allegedly created the Automotive Industry Transformation Fund (AITF) into which close on R6bn has allegedly been allocated to support primarily, black participation in the automotive supply chain. In addition, according to Deloitte, the government is contemplating establishing a 'National Disaster Benefit' fund that could potentially draw from the R30bn capitalized Unemployment Insurance Fund (UIF).

In the meantime, the Deloitte report states that with the collapse in demand and an uncertain outlook, the automotive industry will likely experience rapid consolidation, something that is evident in our own industry, if the number of casualties in the market are anything to go by.

Add to this a consumer that is more hard-pressed than ever before, and the prediction made in the aforementioned investec.com article rings true. The assumption that purchase items deemed 'big' for the consumer are likely to feel the pressure, is not all that far-fetched.

According to encanews, PayCurve has conducted a survey, which shows that a staggering 80% of people are relying on loans to survive month-to-month.

If motorists were previously running their tyres down to the wire (literally), the number of dangerously worn tyres on our roads is likely to multiply. After all, tyres are already considered a grudge purchase, an inconvenient, albeit necessary expense that seems to creep up on you at the most inopportune time, according to the man on the street.

On this subject Riaz Haffejee CEO of Sumitomo Dunlop had a word of caution for South African motorists: "Annually South Africa experiences around 14 000 road traffic deaths. In January 2020, Fikile Mbalula, the Minister of Transport, reported that this comes at a cost of R168 billion to the country. We are concerned that the increased economic pressure consumers and businesses are under, as a result of COVID-19, may result in the delay of the purchase of replacement tyres and may lead to road users considering purchasing second hand tyres, believing that these are a more cost-effective alternative to buying new.

The lack of regulation enforcement in the second hand tyre industry is of great concern and could lead to far greater cost, exposing consumers and road users to potential hazards."

Added Haffejee: "A tyre is considered waste and must be mutilated and disposed of by the Waste Agency if it does not conform to the Road Traffic Act which states that a second hand waste tyre is a tyre that is not safe-for-use (or resale) and should be mutilated by the tyre reseller, as described by Section 6 (2) of the Waste Tyre Regulations of 2017. A second hand tyre is not safe to use when the tread depth across any part of the tyre is below the level of the tread wear indicators (set at 1.6mm), has no tread wear indicator as this may be due to carving the rubber on tyres to create more tread depth (regrooving, has damaged rubber that exposes fabric or cord, or cuts, lumps or bulges in the sidewall of the tyre. This is the law.

"Tyre dealers are also required by law to mutilate waste tyres. This is to protect consumers to ensure that tyres cannot be re-used. Resale or use of a tyre that is considered a waste tyre is illegal. As part of Sumitomo Dunlop's commitment to safer roads, Dunlop dealers are equipped and trained to identify a safe part-worn tyre and one that should be scrapped as waste.

As such it is important that consumers be made aware of what constitutes a waste tyre vs a safe to reuse tyre," he stated.

In terms of Regulation 1 of the Waste Tyre Regulation, a "part worn tyre" means a used tyre, which can be safely returned to its original intended use. This is a tyre that has the right tread depth and no damages, cuts, bumps or no regrooving. This is a safe to re-use tyre.

"We estimate that second-hand tyres account for between 1.5 million to 2 million passenger tyres in the market. Of these, according to our surveys, annually more than 1 million tyres are sold that are illegal (61% of all second hand tyres for sales currently) and should not be on the roads. As an industry we have a responsibility in ensuring that the practice of selling unsafe, ill-suited, and illicit second-hand tyres to unsuspecting and uninformed customers," continued Haffejee.

"The basics are that dealers have a duty to scrap tyres that are considered not safe for use on the road, by mutilating them and preventing them ending up back on the road, consumers should not buy second hand tyres from the side of the road and should buy from reputable tyre retail outlets that can advise appropriately. We also urge the Dept of Environment, Forestry and Fisheries to enforce the regulations vigorously for the protection of consumers."

Of course, such sobering statistics coupled with illicit practices in the market, not only affect the consumer, they also impact the retail trade. Several store owners we spoke with said they were under extreme pressure to stay afloat. Remarkable discounts and offers are doing the rounds in a bid to entice the consumer into their shops. So, while this might be a good time for motorists to visit their nearest tyre store for that long overdue tyre rotation or wheel alignment, store owners are growing concerned over their ability to meet their financial obligations.

"Obtaining credit coverage through the likes of Credit Guarantee Insurance Company (CGIC), is becoming increasingly difficult," said one store owner. "They have implemented another downgrade for the majority of stores which will not assist us going forward. Reducing credit ratings will further compound an already precarious situation."

The reduction of credit ratings is a hot topic at the moment, with both dealers and suppliers voicing their concerns over their insurers' decision, which they claim, does not take their needs into consideration during this difficult time.

> "CGIC has had to adopt a cautious approach to its business due to the growing number of business failures and insolvencies –
> *Gideon Bochedi*"

What's more, according to our sources, CGIC have indicated they intend downgrading credit ratings further in the coming months, with some suppliers claiming insurance cover with them was becoming unsustainable, and that they were looking at doing their own in-house finance cover.

In response, Gideon Bochedi, General Manager Claims at CGIC said: "In the first half of 2020, many business failures and insolvencies have been recorded due to Covid-19. However, during this time, CGIC has paid a significant number of credit insurance claims in support of our small business clients. CGIC has therefore had to adopt a cautious approach in taking on new credit insurance business, especially in 'non-essential' sectors from where a large proportion of these claims have come. Government-sponsored relief measures have been put in place for these sectors, and we encourage small business to make use of this.'

"CGIC tends to stereotype all businesses, and this shouldn't be the case," countered a second grieved store owner. Especially during this time, dealers should be assessed on their own merit and payment history. Financial institutions, in general, are unwilling to take any type of knock, even during this unprecedented time of the global pandemic which no one could have prepared for," he said.

"Be careful when it comes to offering specials at this time," warned a third tyre store owner. "Bear in mind that as the dealer, you are only eligible for a small GP or rand value per tyre. Expenses are not coming down, so reducing GP or rand value could end up as a loss that could find you opening yourself up to having to sell double the volume you would normally have to sell, to meet your monthly running costs."

As for whether any of the so-called available relief measures referenced by CGIC earlier, apply to, or can be capitalized upon by our industry, remains to be seen. In the meanwhile, the situation in the marketplace remains tense as traders scramble to survive.