IMPACT OF GREY IMPORTS ON BRAND NEW CAR DEALERS:

- THE CASE OF MALAWI AND BOTSWANA -

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Abstract

Title Impact of Grey Imports on Brand New Car Dealers: The Case of Malawi and Botswana

Background Rapid change in technology causes frequent improvements in durable goods like cars. Planned obsolescence and strict legislation make most car owners in rich countries like Japan to dispose off their cars and get new ones. This has led to growth of the market of gray imports in many Third World countries like Malawi and Botswana because the main consideration in purchasing a car by average income earners is affordability.

Purpose The purpose of this paper was to find out if the increase in gray imports market has affected the brand new car dealers negatively by being substitute products to brand new cars. The study sought to answer the following questions. It sought to answer the following questions, a) What is the impact of grey imports on brand new car dealers’ sales in Malawi and Botswana?, and b) If the impact is negative, what strategies are they using in reaction to that impact?

Findings The market for brand new cars is mainly fueled by bank loans, government loans and the government is the main customer (in Malawi and Botswana). OEM and OCM have great influence in South Africa that treacles down and affects the market of gray imports. Gray imports did not have a huge negative impact on brand new cars.

Conclusion Gray imports affected sales of volume brands because gray imports have positive cross elasticity of demand and are therefore substitutes to low-level volume brands. Economy and premium brands have hardly been affected. Dealerships that have been affected mainly engage in strenuous marketing of back-up services to convince people to buy entry level (volume brand) brand new cars than going for gray imports that do not have back-up service and warranties.

Key Words: Used Car, Motor dealers, Toyota, Toyota Malawi, Used Car dealers, Malawi, Botswana, Marketing, Car exporters, Used Cars from Japan, Second-hand cars, grey imports, Motor Centre
Acknowledgements

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But I cannot forget to thank my supervisors Jan Svanberg and Eva Wittbom for their consistent advice, encouragement and pushing me on to the take strenous steps to this finishing line.
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1. INTRODUCTION

1.1 Background

For quite so long, cars have been considered luxuries in many sub-Saharan countries. Two decades ago, an average income-earner would only dream of owning a car. He/she could save for a long period of time to afford even a second-hand car. It was almost impossible for individuals to import cars from overseas, even used cars.

Now, conditions, facilities and systems have been improved in the sub-Saharan region. An average individual has the ability and access to import used cars from Japan and other faraway places in many ways even using the internet. They can order a vehicle from internet and even pay on the internet through credit cards or bank drafts at the bank. The vehicle can be delivered at almost their ‘door step’ like pizza.

A dream, once distant, has mainly been made realizable mainly because used Japanese automobiles are exported to several countries especially where right-handed cars are driven on the left-hand side of the road like several countries in the south-eastern part of Africa. A 2004 Wall Street Journal report of 8th January claims that about one million used cars worth $2.7 billion are exported every year from Japan. These cars are not only exported to south-eastern countries of Africa but also Japan’s neighbours like Australia and New Zealand; United Kingdom and Cyprus (Clerides 2008).

The evidence and some of the impact of an increased influx of used Japanese vehicles in this region became apparent from 2004. In Malawi and Botswana, the evidence and impact has been clear in many areas. Congestion used to be an issue of peak hours but now is a continuous phenomena experienced throughout the day. Auto trucks ferrying brand new cars were occasionally seen on the roads in Malawi or Botswana but auto trucks laden with used cars are a common spectacle.

Probably the presumable aggregate impact on the economy would be accelerated growth as treacle down effect in better performance due to increased mobility in firms and individuals that were limited from perform better because of lack of motor vehicles. What would be the industry-wide impact of the influx of grey imports in the motor vehicle industry? Thus, how would grey import sales affect sales of brand new vehicles?

1.2 Problem Formulation

There are no car manufacturers in Botswana and Malawi. Therefore, we will assume that the motor vehicle market is comprised of brand new car dealers and used car dealers. Brand new car dealers get their cars from car manufacturers in South Africa, China, Korea, UK and Japan. Markets of used cars are easily created because of the rapid change in technology, design and shape of motor vehicles. Change in technology, design and shape of cars can cause consumers to change their taste and preference and go for a high technology car with better design and shape. Every year, car manufacturers produce new design or new shape of the same brand of cars with better technology. This is to say that a new model or later version of the same brand may have some improvements.

Car owners can dispose off their car to an individual or franchise reseller (for cash or in a trade-in arrangement). This also allows the buyers who cannot afford or who do not want to
buy brand new cars to buy used cars. However, there are other factors that have a great bearing in creation of markets of used cars like strict regulation in testing which can drive car owners to sell their used cars. The car market in every country is of great importance due to the immense bear upon public policy, trade flows, business cycles, energy demand and air pollution (Berkovec, 1985).

Japan puts strict regulations on air pollution, has high carbon taxes and other strict regulations that makes ownership of a car of more than six years very expensive (Janischwes, 2003). This encourages owners to sell them on auction and they end up in Africa as grey imports. This study concentrates on brand new car dealers and grey import dealers. Any mention of used car dealers hereinafter will specifically be referring to grey imports dealers.

Two decades ago, brand new cars were the main feeder of the motor vehicle industry market while imported used vehicles were very negligible contributors to the growth of motor vehicles in the two countries.

The auxiliary feeder has grown and the market has grown probably due to the growth of the auxiliary feeder.

Substitute products are goods that have a positive cross elasticity of demand. For example, when price of product A goes up, demand of product B goes up because consumers who buy A switch to product B. A substitute can also be a cheaper alternative that has come to the market. For example, product C, which serves the purposes of A and is cheaper, can be a
substitute. A complimentary product is a product with a negative cross elasticity of demand. This means that the demand of one product can increase when the price on another has been reduced and vice versa. Independent products are products that do not affect one another in terms of changes in price and demand and have zero cross elasticity of demand. If products D and E are independent products, changes in the price of D would not affect the demand of E (Keat & Young, 2003).

This research endeavors to determine whether brand new cars and grey imports are substitutes or complements or independent products with positive or negative or zero cross elasticity of demand respectively. If brand new cars and grey imports have negative or zero cross elasticity of demand, then the impact of grey imports would be positive or neutral. While if brand new cars and grey imports have positive cross elasticity of demand, the impact will be negative. If the impact of grey imports is negative, have the brand new dealers taken action or developed any strategies to deal with the negative impact.

![Diagram](image_url)

**Figure 4**

Impact of Grey Imports on Brand New Car Dealer’s Sales (if Grey Imports $[Q_A]$ are Substitute, Independent or Complementary to Brand New Cars $[P_B]$)

### 1.3 Research Questions

Section 1.2 above can be summarized in two questions. The first one guides in diagnosing brand new car dealers in order to determine if they have experienced any negative impact from grey imports while the second question is dependent on the first one.

a) What is the impact of grey imports on brand new car dealers’ sales in Malawi and Botswana?

b) If the impact is negative, what strategies are they using in reaction to that impact?
1.4 Purpose of Study

The purpose of this study was to determine whether grey imports have impacted negatively brand new car dealerships in Botswana and Malawi. It also investigated the short-term and long-term strategies that brand-new motor car dealers use in response to this impact.

1.5 Value of Research and Imminent Problems

In 2004, when the first wave of used Japanese cars arrived in Botswana from individual imports (there was not even one used car dealership), brand new dealers exerted their influence to increase import tax in order to discourage importers. Despite the increase in import duty, grey imports still turned out as a cheaper alternative.

Today, even in the midst of controversies and high tariffs and business levies, there are over fifty used car dealership in Gaborone alone. The used car dealership provides a wide variety of choices to the buyers. They sell the cars at reasonable prices. They provide employment to numerous people. They rent places and warehouses, which once stood vacant. The sale of car accessories, tools, tires, batteries, oil and lubricants has greatly increased.

Increased mobility is a positive impact of grey imports in Malawi and Botswana while congestion is a negative corollary impact of grey import affecting the increased mobility. There are both positive and negative effects of grey imports. One can easily say that this or that effect has been brought about by grey import without substantive proof.

There is a dire lack of data, information and research materials on used cars. It was hard to find necessary data. There are no websites which provide statistics that can help to build arguments and make inference from. The government departments like customs could not provide information on how many used cars have been imported into Botswana or Malawi since 2004. The Roads Departments does not have information on how many cars have been registered since 2004 and the classifications like how many were used or brand new. They do not have this information compiled together. It is scattered and needs strenuous effort to put together.

The National Association of Automobile Manufacturers of South Africa (NAAMSA) is the only important source of information about the motor industry in sub-Saharan Africa. However, this body is mainly concerned with brand new vehicle sales and not sales of grey imports. It is not possible to access sales information for other countries like Botswana and Malawi as an individual on their website. Top executives of brand new car dealerships can access sales statistics of different sub-Saharan countries from NAAMSA’s site.

I was given a graph showing sales statistics for Botswana of passenger cars from 2001 to 2009 by one executive I interviewed. He wanted to illustrate the impact of grey imports on brand new cars. The graph gives only an overall abstract of the situation because I was not given the key to identify the different passenger cars.

With lack of information like this, a research paper like mine will be substantial in that it will be a source of verifiable information about the impact of grey imports on the sales of brand new cars in the region. The results of this research can be used as a starting point of further research or evidence for enacting policies.
Doing field work in two countries was quite a challenge. There were challenges of establishing contacts, making appointments, visiting and being told to come the following week when I was flying off in the same week. Sometimes the chosen respondent could not put themselves in the researcher’s shoes and have the same feeling about the importance of the data to the researcher and the exigency thereof, and they wanted to provide it at their convenience and own time which was not convenient for the researcher.
2. RESEARCH METHODOLOGY

2.1 Grounded Theory

Validity and reliability of primary and secondary data is very important in developing theory and inference of study. Validity is very essential because the research conducted need to be valid so as to answer the research question. A research which fails the validity test would scarcely count even though it is reliable (Blumberg, Cooper and Schindler 2005). An excellent research is one where the requirements of validity and reliability have been satisfied. Therefore, in order to convert the theory that was developed into a valid and reliable theory, grounded theory was used in this study.

Grounded theory was used in this research because it is a qualitative, naturalistic, contextual, historic and intersubjective methodology that could enable me to understand peoples’ responses and experiences in the car industry from different angles (Wilson and Hutchinson 1991). I also used one type of phenomenological research called interpretive phenomenological analysis (IPA) because phenomenology pertains to the way things appear in experience and experience is subjective because what people experience in life is phenomenal rather than a direct reality. My reasoning was that as staff (whom I interviewed) undertakes their job in the motor industry, they get in contact with people, circumstances, incidents and objects and interpret these things according to how they appear to them.

IPA is a variant of hermeneutic phenomenology. Hermeneutic phenomenology works in a way that things appear as they are. It is a descriptive methodology but at the same time it is interpretive as it allows things to speak for themselves (Moustakas 1999). I used these two methods because grounded theory guides into practical steps while hermeneutics supplies deep personal understanding of aspects of phenomena to create a dialogue and begin a conversation (Wilson and Hutchinson 1991).

2.2 Data Collection

Primary data was collected mainly through interviews with staff of brand new car dealers. Other primary data was collected through observation. Empirical data was collected from brand new dealerships in Gaborone, Botswana and Blantyre, Malawi. Secondary data was collected from academic journals, corporate reports, business magazines and the internet because Bryman and Bell, 2007 argue that retrospective archival material from virtual output like internet resources, mass media like newspaper articles and public documents can be used for research purposes.

Since grounded theory is an emergent technique to building theory in qualitative research practice, I built my theory concurrently with iterative and integrative processes of data collection (Duhscher & Morgan 2004). These processes were note-taking, coding, memoing, sorting and writing until I reached a saturation point and Figure 5 shows the iterative processes interacting at a point ‘C’.

The process was iterative. I was going into the field to get data that would enable to me to build up the theory. As data was collected, it was analyzed and conceptualized to see if it would add to existing categories or it would form a new category. When further data could not give new information or create new category, field work stopped because I considered this to be a saturation point.
2.3 Sampling

Theoretical Sampling

The initial sample was defined by the choice of my research, brand new car dealers. A further analysis of brand new car dealers led me to narrowing down to passenger cars. I had to define the properties of the categories as they emerged from data. My purpose was to beef up the emerging theory. Theoretical sampling enabled me to decide where to pick the sample next (Urquhart, Lehmann, & Myers, 2010).

Purposive Sampling

After theoretical sampling of dealers, I targeted members of staff who are involved in sales and marketing of motor vehicles and know the trends in the business over a period of over three years. I purposively sampled these staff because I was very sure that they had the features or data that I was looking for (Moustakas 1999).

2.4 The Respondents

The respondents that were sampled were sales managers, CEOs and directors. They were visited formerly at their offices and not informally. Most CEOs and directors were very busy as to spare some time for interviews. The primary criterion was knowledge of the yearly sales of the business for a period of over three years and ability to interpret trends of sales. Other added criteria were qualification, number of years in the motor industry and number of years at the respective dealership.

Length of employment in that particular field

The period that the employee had been engaged by the company backs the substantiality of the data that was given for that dealership. The number of years at the current dealership was important because a person who has been holding their position for a few months cannot clearly explain and interpret events that happened in their absence better than the ones that were present in the period of incidence. Number of years in the motor industry was an add-up because it gave more understanding of the constituents of the motor industry.

Knowledge of their field

How long they have been practicing in their field of expertise was seen as a factor which qualified them to interpret business trends and sales trends. The importance of qualification was that it showed inherent capabilities of an individual in understanding and interpreting phenomena.
<table>
<thead>
<tr>
<th>Dealership</th>
<th>Country &amp; City</th>
<th>Gender</th>
<th>Qualifications</th>
<th>Position</th>
<th>No. Yrs in Motor Industry</th>
<th>No. Yrs at Co.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Barloworld Motor</td>
<td>Botswana, Gaborone</td>
<td>Male</td>
<td>Mechanical Engineering (Bsc)</td>
<td>Sales Manager</td>
<td>22</td>
<td>7</td>
</tr>
<tr>
<td>2. Motor Centre Botswana</td>
<td>Botswana, Gaborone</td>
<td>Female</td>
<td>Marketing Management (MBA)</td>
<td>Sales Manager</td>
<td>11</td>
<td>11</td>
</tr>
<tr>
<td>3. Broadhurst Motors</td>
<td>Botswana, Gaborone</td>
<td>Male</td>
<td>Business Administration (MBA)</td>
<td>Sales Manager</td>
<td>18</td>
<td>14</td>
</tr>
<tr>
<td>4. Gonow</td>
<td>Botswana, Gaborone</td>
<td>Female</td>
<td>Marketing (BA), Sales Management (Diploma)</td>
<td>Sales Administrator</td>
<td>6</td>
<td>4</td>
</tr>
<tr>
<td>5. Naledi Motors (Pty) Ltd Botswana</td>
<td>Botswana, Gaborone</td>
<td>Male</td>
<td>Marketing Management (BA), Chartered Institute of Marketing (CIM)</td>
<td>Brands Sales Manager</td>
<td>12</td>
<td>12</td>
</tr>
<tr>
<td>6. Zambezi Motors (Pty) Ltd Botswana</td>
<td>Botswana, Gaborone</td>
<td>Male</td>
<td>Mechanical Engineering (Bsc), Sales Management (Certificate)</td>
<td>Sales Manager</td>
<td>26</td>
<td>12</td>
</tr>
<tr>
<td>7. Lesedi Motors (Pty) Ltd Blantyre &amp; Lilongwe</td>
<td>Male</td>
<td>Mechanical Engineering (Bsc), Marketing Management (MA)</td>
<td>Sales Manager</td>
<td>13</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>8. Capital Motors</td>
<td>Botswana, Gaborone</td>
<td>Male</td>
<td>Electrical Engineering (Bsc), Marketing Management (certificate), Sales Management (Diploma)</td>
<td>Sales Manager</td>
<td>31</td>
<td>13</td>
</tr>
<tr>
<td>9. Great wall Motors (GWM)</td>
<td>Botswana, Gaborone</td>
<td>Female</td>
<td>Marketing (ABE)</td>
<td>Sales Director</td>
<td>10</td>
<td>4</td>
</tr>
<tr>
<td>10. KIA Auto Distributors</td>
<td>Botswana, Gaborone</td>
<td>Female</td>
<td>Marketing (Diploma)</td>
<td>Sales Manager</td>
<td>18</td>
<td>8</td>
</tr>
<tr>
<td>11. Toyota Malawi</td>
<td>Malawi, Blantyre &amp; Lilongwe</td>
<td>Male</td>
<td>Mechanical Engineering (Bsc), General Management (MBA), Mechanical Engineering (Msc)</td>
<td>National Service Manager</td>
<td>38</td>
<td>12</td>
</tr>
<tr>
<td>12. City Motors</td>
<td>Malawi, Blantyre</td>
<td>Male</td>
<td>Marketing Management (Msc)</td>
<td>Sales Manager</td>
<td>19</td>
<td>10</td>
</tr>
<tr>
<td>13. Mike Appel and Gatto</td>
<td>Malawi, Blantyre</td>
<td>Male</td>
<td>Sales (Diploma)</td>
<td>Sales Manager</td>
<td>21</td>
<td>18</td>
</tr>
<tr>
<td>14. Stansfield Motors</td>
<td>Malawi, Blantyre</td>
<td>Male</td>
<td>Business Administration (BA)</td>
<td>Sales Executive</td>
<td>13</td>
<td>13</td>
</tr>
</tbody>
</table>

2.5 The Car Dealers

Over fourteen brand new dealerships were visited in Malawi and Botswana but I have included in this paper findings from only fourteen because though others were visited, the saturation point had been reached and they did not give any new information or their data could not add new categories to the research. The car dealerships and the location of the showrooms that were visited are listed in Table 1 above.

2.6 Avoidance of Bias

Prior knowledge or knowledge that one has gathered through experience affects their understanding of an event or an object. Prior knowledge can cause bias and narrow the scope of the research if it is not taken care of because it is limited. It can close possibilities for new understanding and cause the researcher to be inductive. The hermeneutic circle opened my mind and gave me emerging understandings to develop the theory and the model in line with the data without bias. Charmaz (2006) indicated that careful coding reduces bias and the researcher should put their fears and motives way from the data. She points out that a
researcher’s prior knowledge has to earn its way into the coding but should not influence the coding.

Therefore, I created codes by what I was seeing in the data and not by preconceived categories. Fit and relevance was fulfilled by word-by-word and incident-by-incident coding.

2.7 Analysis, Interpretation and Generalizability

Analysis of Primary Data

I used Van Kaam method of analysis of phenomenological data (Moustaka 1999) to code, write and categorize the data. Below is a sketchy description of the whole process of data analysis that was undertaken:

a. **Horizontalization**: All the expressions relevant to the sales and marketing of brand new were listed and preliminarily grouped together.

b. **Reduction and elimination**: This was carried out to obtain invariant constituents. To get the invariant constituents I determined if the expressions were necessary and contained enough elements to understanding them, and it was possible to abstract and label them.

c. **Clustering and thematising the invariant constituents**: Here delimited meanings or horizons were grouped in core themes.

d. **Validation**: This was a stage of final identification of the invariant constituents and themes.

e. **Validation**: Invariant constituents and themes were constructed in an **Individual Textural Description**. Examples of verbatim experiences that had been recorded from the transcribed interview were included here.

f. **Validation**: Using the Individual Textural Description, I constructed **Individual Structural Descriptions** of each sales manager interviewed. This was a point of reflection and sinking deeper into the meanings of expressions and observations.

g. **Validation**: Individual Textural Description and Textural-Structural Description were developed into **Individual Textural-Structural Descriptions**. Individual Textural-Structural Descriptions were compressed into **Composite Description** which shows the dealership, location, impact on sales etc as shown in Appendix 1.

Interpretation of Results

Interpretation is a major part of all research. Qualitative researchers when designing their studies do not limit interpretation to identification of codes or categories or analysis and interpretation to write a report. Guided by Stake (2000), I went into the field acting like an interpreter who observes what is taking place in the car industry. I recorded observations and analyzed meanings simultaneously so as to elaborate or affirm those meanings. While endeavoring to thoroughly understand the data and while building the theory and comparing data with theory, I changed the research questions and modified research design after interpreting the data collected in the early stages of the research. As grounded theory is emergent, so my interpretation of findings was progressing. Stake (2000) call this kind of interpretation progressive focusing.
Generalizability

Qualitative research is frequently viewed as limited in terms of generalizability. Critics of qualitative research question the extent to which a study can be generalized. Can the findings from semi-structured interviews of a few people that were purposively sampled be generalized to other setting?

Respondents in this qualitative research are not supposed to be representative of a population. Rather, the results of this study are the ones that generalize theory and not populations (Bryman & Bell 2008).

So, the findings from this research can be generalized in the light of theory and not population. They can be generalized to most countries in sub Saharan Africa.
3. FINDINGS

3.1 Introduction

After getting a research position or research idea, I started collecting data. The process of collecting data, I would access literature to make sense of the data. Since this was an emergent study, it was difficult at first to know the kind of literature which could be applicable to the study. In an emergent research where grounded theory is applied, literature is emergent because I was reading to compare the literature with the emerging theory as I was collecting data and comparing the data to emerging theory too. The process was iterative data collection (reading, note-taking, coding and memoing). Literature did not have prerogative over data but both had equal standing and literature has been treated as data.

3.2 Creation of Markets of Second-hand Cars

The grey market exists because of differences in currency exchange rates, product quality and characteristics, warranties and services (Swanson 2000). Quality can influence the creation of grey markets because consumers are not just looking products that manufacturers manufacture and place in the hands of consumers. They are looking for value for their money that can satisfy wants and needs at a reasonable price (Schultz, Tannenbaum, & Lauterborn, 1996). A grey import worth US$5,000.00 in a good condition with an air bag, automatic winding windows, air conditioners, good music system with a TV screen, outside temperature sensors is a sensible buy than a brand new entry level car without an air bag, with only a standard radio (a musical player is an additional cost), probably with manual winding windows and costing over US$12,000.00 (a good example being a Volkswagen Citi Golf sedan which was replaced by Volkswagen Polo Vivo in March 2010). There are a lot of people at the bottom of the pyramid that have needs that are not satisfied.

The bottom of the pyramid is always a neglected by marketers and manufacturers even though it has great marketing potential (Hammond et al, 2007). These unsatiated needs will always find expression in alternative products available or will give way to a rise of a grey market.

Products that are durable create a market of used products because of obsolescence. Durable products are long-lasting. Technology is rapidly changing. There are introductions of new durable products that are continuously replacing the old ones (Purohit 1992). New durable products like cars with new features and improvements are introduced into the market periodically. Improvements can range from efficiency of the car to its environmental friendliness so as to go along with the lifestyle, fashion and legislation of the day.

Consumers vary in the way they value quality. When products become obsolete they are assumed to be of low quality and they are either traded-in for high value products or sold to low-valuation consumers. This creates markets for used vehicles (Waldman, 2003). Obsolescence is the main factor causing the creation of used cars because when a product becomes obsolete in one community, it may still be of use in another community depending on the needs, financial capabilities of that community and their inherent valuation.
3.3 Growth of Used Car Exports

Statistics of the period covering 1998 to 2001 indicate that approximately three millions second-hand cars were exported world-wide mainly from USA, Japan, Korea and German. During this period, most of the used cars in USA were exported to Central and South America while Korea exported primarily to Russia, South-East Asia and South America. Germany exported to Eastern Europe (Poland, the Baltic, Russia), Western Europe and Africa. Japan exported to New Zealand, South-East Asia, China, Jamaica, Peru, Sri Lanka, Cyprus, Russia, Iraq, Pakistan and Ireland Japan is a significant exporter of second-hand cars and is followed by German (Janischwesk & others, 2003).

The Wall Street Journal of 8th January 2004 estimates that used cars worth US$2.7 billion are exported from Japan every year to Australia, New Zealand, Cyprus, United Kingdom and several countries of south-eastern Africa (Clerides 2008). Countries in the northern part of Africa receive most of their used cars from Europe. For example the market of second – hand cars in Coutonou in Benin became one of the biggest trans-shipment centres for second-hand vehicles from Europe in early 2000. These cars are sold to neighbouring countries like Nigeria (Janischwesk & others, 2003).

Africa is a favourable ground for second-hand vehicles because it has already proven to be a very good market for most second-hand products even with low durability as clothes. In 2005, Oxfam research conducted by Baden and Barber on the impact of second hand clothes trade in developing countries found out that second-hand clothing imports constitutes over a quarter of the value of all clothing imports. Second-hand clothing has brought a culture in Africans of not seeing themselves worthy to afford a brand new durable product. The eventual mentality is that of valuing second-hand goods as valuable and high quality goods. Hence, it is easy for the rich nations to export any second-hand product to Africa. The second-hand clothing was a trailblazer for used cars (Hansen 1999).

3.4 Drivers of Growth of Used Car Markets in Africa

![Figure 6](Drivers of the Growth of Used Car Market in Africa)

There are different drivers that have fueled the growth of used car market in Africa. The primary drivers are planned obsolescence and legislation. These primary drivers feed
secondary drivers. They are termed secondary because on their own they cannot induce growth of the used car market. These factors are affordability, buying power and the existence of the bottom of the pyramid. Others enhancers which are least drivers of used car market are the absence of lemon laws and requirements for homologation of used cars in many African countries.

**Planned Obsolescence**

Change in technology, design and shape of cars can cause consumers to change their taste and preference and go for a high technology car with better design and shape. This also allows the buyers who cannot afford or who do not want to buy brand new cars to buy used cars thereby increasing the growth of used car market.

Alfred P. Sloan introduced annual styling changes for the motor cars at General Motors in the early 1930s. This is where the concept of planned obsolescence in automobiles came from (Rouchy, 2010). Since then, motor car manufacturers change models, designs, styling or other features of their motor vehicles every year or periodically. According to Bulow (1986), “planned obsolescence” is the production of goods with uneconomically short useful lives so that customers will have to make repeat purchases.

These yearly or periodical changes make the earlier models obsolete. Planned obsolescence has a propensity to cause owners of previous models to trade-in or sell their vehicles so that they can buy latter models. Planned obsolescence therefore automatically creates grey markets due to repeat purchases. Owners of old cars climb the technological ladder to acquire latest technology vehicles and dispose of their old vehicles to consumers on the lower rung with lower income which is not sufficient to acquire high tech cars.

There are different types of obsolescence. Van Nes, Cramer & Stevels (1999) identified technical and economic obsolescence. Planned obsolescence falls in both technical and economic obsolescence category.

**Legislation**

The car market in every country is of great importance due to its substantiality in different sectors of the nation like public policy, trade flows, business cycles, energy demand and air pollution (Berkovec, 1985). Therefore, some countries put strict regulations that affect the car industry like regulations on air pollution like carbon taxes. There regulations can even affect car ownership in that it can drive car owners to sell their used cars.

Japan has strict rules of testing for motor vehicles and most owners of motor vehicle prefer to sell their cars after five to seven years which is the time when the second or third compulsory test is due. In Korea automobile manufacturers like Daewoo and Hyundai support the export of second-hand motor vehicles in order to stimulate the sale of new cars in the country (Janischwesk & others, 2003).

**Affordability, Buying Power and Bottom of the Pyramid in Car Market**

“In any market, affordability plays a big role. This is true of the car market. If I want to drive a car and I cannot afford a brand new one, I will look for any other alternative that I can afford. So, yes, there has to be a market of grey imports in Mogoditshane for people who cannot afford our cars or brand new cars in general,” the sales manager of Broadhurst Motors said while explaining why people go for grey imports.
Purchase of a car takes detailed planning and savings where car loans are not available. Even where car loans are available, one has to plan how much they will be paying back every month on the loan and calculate how that will affect their monthly earnings or how it will add to their already existing expenses. Majority of Africans fall in the low income category as evidenced by the low GNP per capita. The World Bank estimates that of the world’s 6 billion people, more than 1.2 billion live on less than a dollar a day and about 6% of the people living on less than a dollar a day live in South Asia and Sub-Saharan Africa (World Bank).

An analysis of prices on the brand new motor dealers that were visited during the study shows a range from BWP 80,000.00 to 1,400,000.00. On the lower end are VW Golf (Citi and Chico) while on the higher end are third generation Land Rover Range Rover model year 2010 (MY2010). On the other hand, grey imports prices range from BWP 10,000.00 to 280,000.00. The cars on the very low end are usually dilapidated cars or scraps while in the range of 20 thousand to 50 one can find a comfortable car that they can use for up to 3 years without doing major service or having any major problems. From 100 to 200 are big engines or high profile cars like Prado, Jaguar, and BMW.

The average total cost of importing car in both Malawi and Botswana can be less than US$ 3,000.00 (US$ 1 = BWP 6.5)\(^1\) while for a big car like Pajero, can range between US$ 6,000 and US$ 10,000.00 depending on the engine size, year of manufacture and model. These costs are quite affordable for the average income earner in Sub-Saharan Africa.

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\(^1\) Average exchange rate of United States dollar (US$) to Botswana Pula (BWP) was US$ 1.00 = BWP 6.50 between October 2010 and February 2011
to spend on basic needs. Motor vehicles were once seen as a luxury but now they are a basic need in Africa. The greatest buying power at the bottom of the pyramid in Africa resides in the lowest tier of income earners who get annual income of US$1,000 (Guesalaga & Marshall, 2008). Car manufacturers have long neglected the bottom of the pyramid in that they have not provided this sector with affordable and quality brand new cars. Therefore, this sector has found solace in grey markets because they are highly affordable. There is huge buying power at the bottom of the pyramid due to affordability.

**Lemon Rule**

Lemon laws are made to protect buyers from buying ‘lemons’. They safeguard consumers from buying goods which are not of ‘merchantable quality’ or which do not meet the required touchstones or level of performance (‘lemons’). There are no lemon rules for grey imports in Malawi and Botswana. The principle of caveat emptor applies. The buyer has to beware when purchasing the motor vehicle because the cars are usually purchased on ‘as is’ basis. Thus, the buyer and seller make their transaction on the present condition of the car and there are no other implied conditions or warranties. Some car sellers in Japan have introduced car inspection at a fee and others insurance of accessories that can be stolen in transit like radios or stereos.

“As one who has been involved in the car industry for many years, I was involved by the Roads Department to investigate an incident, a complaint rather about grey imports,” narrated the Sales Manager of Capital BMW. “On one of my investigation trips in grey import Mogoditshane, I witness a very pathetic scene. One guy had bought a car, paid for it fully and was driving it out of the dealer’s yard. It broke down at their gate. They just helped him to push it out clear of the yard and he had to call his own mechanic to fix it: there are no lemon laws here to protect our people here” he continued.

The absence of lemon laws in the used car industry in Malawi and Botswana has made it less complicated and easier in the sense that buyers deal with defects ‘contentedly’ by seeking the services of mechanics or panel beaters. They take the experience as a learning point to beware the next time they buy a used car.

There is information asymmetry in grey markets of used cars (Kim, 1985). Sellers of grey imports have more information about their merchandise than their buyers. The lemon model assumes that owners/sellers of used vehicles have an information advantage over potential buyers. The lemon model assumes that buyers are incompletely informed about the quality of the car they buy, but with time they get to discover the actual condition of their car and subsequently unload their mistakes on other buyers (Emons & Sheldon, 2009).

When buyers come to the grey market, they know and expect that they are going to buy a low-quality vehicle (Akerlof, 1970) than that of authorized dealer but they do not know how low the quality will be. They get disappointed when that low quality exceeds their preconceived low quality and rejoice when the low quality of the car is above their gestated low quality. They are aware that there are no warranties for the cars.

**Homologation**

Homologation in the car industry is the process by which car models are checked if they comply with the rules, regulations and safety standards of a state or country in which they are going to be used and is conducted by an accredited body in that state or country (The Economic Times, 2008). The same manufacturer can produce cars for different markets. For
example Toyota can build a Toyota Corolla XLE for Southern African market and another for European market. The one for Southern African market can withstand high temperature where as the XLE for European market if it is driven in Southern African countries like Botswana, with high temperatures, the engine may have problems withstanding the heat and may overheat and boil over because it was made to adapt to a cold climate not a place where temperatures may go as far as 38 degrees Celsius.

If cars are going to be sold across different markets, adaptations have to be limited because it reduces the engineering work especially in testing of parts for their suitability, durability and reliability to ensure that they meet performance requirements. The process of homologation is costly and need plants to be carried out (Humphrey, 2003).

The gray imports that are sold to Africa are not homologated. Some cars were built for cold weather but they are sold and are used in hot climates. Some people have had accidents while driving with winter tires in the hot summers of Botswana and now many people are clever to change all the tires of their gray import soon after purchase. As there are no requirements for homologation, there is no need of investing in plants before importing any gray imports or when entering in the business of gray importing. This makes it easier for average people to be in this business and for the prices of their cars to be low because there are no heavy overheads.

3.5 Parallel Importing and Grey-market Goods

Rubin (1992) defined grey imports, grey-market goods or parallel imports as goods that are manufactured outside the target country and they bear trademarks of the country in which they were manufactured. Maskus (2000) defined grey-market imports as goods that were authentically manufactured under trademark, patent or copyright protection and put into circulation in one market and then imported into a second market without authorization of the local owner of the intellectual property.

Therefore, grey are automobiles that are manufactured in another country other than where they are sold but are legal imports that came into that country using dealerships that are unknown and unrecognized in distributorship of the product by the local manufacturer.

The researcher follows the train of thought by Swanson (2000) in discussing the categories of grey imports and how they come about. Grey imports can pose as a threat to authorized distributors of the same line of products because they may be substitute goods and directly compete with the authorized dealers’ products. According to Swanson (2000) and Friedman (1998), grey products can be put in three categories as “unintended” goods, “licensed” goods and “distress” goods. Unintended goods are the goods that are authorized for sale in one country but they get redirected to another country and when they enter into circulation of that country, they directly compete with authorized distributors in that country. Licensed goods are products manufactured in agreement with a trademark license but sold through unauthorized channels. Distress goods are the goods that are dumped by a dealer who is authorized in the circumstances that they have excess supply or the goods are outdated.

Imported used vehicles from Japan fall in the category of unintended goods as they are manufactured in Japan and are intended for the Japanese market but because of strict legislation in road tests and in environment (which makes it very costly to dispose of the vehicles), after six years, they become very expensive to maintain (Janischwes, 2003) are sold to other countries. Grey imports are beneficial to the consumer because they are
relatively cheaper than the goods from authorized dealers. The grey market of used vehicles also provides consumers with a wide variety of vehicles fit for their taste and pocket.

### 3.6 Grey Imports in Botswana and Malawi

**Location of Grey Import Dealers**

There are over twice the number of used car dealers of substantial size as they are new car dealers in Botswana. Used car dealers in Botswana are found mainly in Gaborone, the capital city. They are concentrated in Mogoditshane Urban Village and Tlokweng Village which are about ten and five kilometers respectively from CBD (central business district). They have ‘open showroom’ where they park cars available for sale. The price of the motor vehicle is quoted in Botswana Pula (BWP) and is sometimes scribbled inside the front windshield of the car. In ‘open showroom’, the cars are parked on the available space outside the premises of the business and most business premises are located along the main roads leading to or out of CBD. They are parked during business hours and driven inside after hours.

In Malawi, gray import dealers are located in Blantyre and Lilongwe. There are also dealers who buy cars from Durban on behalf of people who send them with specific requirements and the money. These dealers get a commission after delivery of the car. Since they know the mechanics of this trade, they may go with a team of buyers to Durban who are guided and assisted by them and benefit from the goodwill they have established with sellers in Durban, customs officials at the six border posts of South Africa (out), Zimbabwe (in and out), Mozambique (in and out) and Malawi (in).

**Care, Service and Warranty**

The cars are periodically washed in order to look clean and attractive. Some dealers give a major service to used cars before selling them. This involves change of engine oil, oil filters, in-cabin air filter, engine coolant, power steering and transmission fluids; check wipers and air conditioner hygiene. Others offer after sale service like servicing the car when due. This assures the customer to some extent that they are getting a good car. The lemon rule is naturally taken care off because most used car dealers want to build a good image.

Some cars are repainted so that they can look good to fetch high/good prices. Dealers with big business have their own mechanics to work on their cars while small ones have got arrangements with freelance mechanics or garages to be coming to check on a new stock or whenever they discover a problem on their stocked cars. In Botswana and Malawi, right-hand drive (RHD) cars drive on the left-side of the road. Even if a car is left-hand drive (LHD), it is still driven on the left-side of the road. LHD cars are very rare and are usually American made cars imported from USA while some are imported from Japan. Used car dealers are not so advanced as to convert LHD vehicles to RHD or from automatic transmission to manual transmission.

Dealers sell their cars on ‘as is’ basis and when a buyer finds a fault on the car after purchase, they cannot return the car. The buyer does not have after-sale back up or warranty for their purchase. When a buyer finds a fault on the purchase they want to make, they can be offered a lower price. In most cases, mechanics do a check on the stock of cars and fix the obvious faults that cannot be hidden from customers. If a fault cannot be easily detected by a customer, it is left and not even indicated to the customer that the car they are buying
has a fault because if it is indicated, the dealer will have to fix the fault or sell at a lower price, two unpleasant options detestable to the dealer.

Used car dealers do not offer any warranty for the cars they sell. Incidents where one buys a car and it breaks down a metre or two from the yard of the seller are common. When a car breaks down like that, it is not the responsibility of the seller to help out but the buyer to hire a mechanic to work on it.

**Financial Institutions and Gray Imports**

There are a few financial institution that help people with car loans in Malawi. Most car buyers make arrangements with their employers (if they are big organizations and the employee gets a good salary) to advance money to them or save for a car. This applies usually to used cars from dealers or friends. Malawian working class hardly buys brand new cars. If they do, they must be wealthy or high level executives. High level executives are often given good cars by their employers and given an option to pay it off from their salary within a given number of years.

This is an incentive that most companies came up with and it is also a way of reducing expenditure on company cars that are used by staff because staff tends to be reckless when they are using company cars knowing that it is the company that maintains and takes care of the cars. When the executives are given that option to pay off the car from their salary, they will be compelled to take care of the car because they know it will end up in their hands.

Around 2004 in Botswana, banks were reluctant to give car loans for the purchase of grey imports. After a few years, attitudes towards changed. Banks saw gray import financing as a viable business. Many banks like Standard Chartered Bank, Stanbic and Wesbank started giving out car loans. They set up desks with their staff at major gray import dealers (like they do at brand new car dealers) to assist buyers of gray imports with processing of car loans. The major prerequisite was insurance. Insurance companies joined hands with banks and insured gray imports.

Most gray imports have hidden faults which are discovered after driving for some time. When these faults were discovered, the owners wanted insurance to fix those faults. When gray imports had accidents, parts were not readily available; they had to be imported from Japan or Singapore. This proved to be very expensive for the insurance companies and drained them of their profits. Insurance of gray imports proved a dead-end road and a futile exercise for the insurance companies and they stopped.

The policy of banks was to lend money for a gray import that was going to be insured, without insurance, the bank could not lend money because they do not have a cushion to fall on in times of accidents and similar incidents. So the banks stopped financing of gray imports.
3.7 Forces Working For and Against Brand New Car Dealerships

![Figure 9: Force Field Analysis of Forces Working For and Against Brand New Motor Car Dealerships](image)

1. **Original Equipment Manufacturers (OEM) in South Africa**

   There are over 200 multi-million automotive component manufacturers and original equipment manufacturers with plants spread all over South Africa. In South Africa, car manufacturing is the second largest industry. The car manufacturers have franchise dealership in many countries in Southern Africa whom they deal with.

   The dealershipships which were studied in Malawi and Botswana mostly get their vehicles, parts and warranty for the vehicles from OEM in South Africa except for Gonow, Land Rover, KIA, Great Wall Motors (GWM) and specific cars for dealerships in Toyota like Land Cruiser, Avanza and Quantum which they get from Japan.

   In October, 2010, OEM influenced the South African government to barn gray imports from using Durban port so that importation of gray imports should be done using other countries like Namibia or Mozambique because they claim that even though gray imports are barned in South Africa, they still find their way and they are threatening the multi-billion Rand industry. But it may have been a move to affect gray imports in other countries in SADC in which they have franchises. So, they are a force for brand new dealerships.

2. **Financing of Brand New Vehicles**

   a. **Bank Loans**

   In Botswana, several banks like Wesbank, Stanbic, Barclays and Standard give loans for purchase of brand new cars. Wesbank is a branch of First National Bank that solely deal with asset financing and they have their representatives in all the major car dealers. The representatives are staff of Wesbank working at the dealership to help customers on how to finance their car purchase. The representative can process everything and send it to Wesbank for approval.

   This is big incentive for purchase of brand new cars in Botswana. In Malawi, there are no banks which have a loan facility for purchase of motor vehicles.

   b. **Government Loans**

   The Botswana Government has loan schemes for its employees. Employees working for the government can apply for a loan from the government. The amount is awarded according to the condition of the person applying. They look at how much they earn; what other deductions are effected from the salary and how much is left
for the staff to take home; they consider also whether they are married and have children (on the amount left to take home). When all these factors are considered and the employee satisfies all of them, then they are given the loan.

The loans enable the recipient to purchase a house, a farm, land or a car. The government does not restrict or follow up how the loan was later used. If one is nutty enough to take the loan and party it out with friends, the assumption is that the government cannot fire such a one because their primary interest is on that staff being able to repay it or the government recovering it from their pension.

Therefore, having such liberty, a member of staff is free to use it to buy a certified used car, brand new (if they the money is enough or if they can top up) or a grey import. Most teachers working for Botswana Government schools used to take loans in the range of BWP 50,000 and 75,000 and buy small cars from dealerships like Barloworld. The favorite and affordable car was Citi Golf. With the advent of gray imports, most teachers switched to gray imports because with the same amount that could give them an entry level car with manual steering, manual winding windows, no music player and no air bag; they could get a gray import with an air bag, leather chairs, power steering, auto winding windows, a good music player and TV screen.

c. Government as Major Customer

In Malawi and Botswana, the government is a big customer of brand new cars. Every year, the government buys brand new cars for its projects or to replace fully depreciated ones. The government buys different makes and brands from various dealerships and not just one. So every year, brand new car dealers look to the government to purchase a huge quantity of cars at one time.

3. Recession

The credit crunch of 2008 was not fully felt in many African countries because the government cushioned it in some way. Malawi government did not suspend any of it project in 2008 and 2009. It went on to buy cars for it projects and replace old ones. In 2010, its budget was cut and it reduced spending and most car dealers felt the impact because their biggest customer did not buy as many vehicles as they expect it would. The government of Botswana had been operating on a reduced budget from 2009 and this has affected most dealerships.

When the government cut its spending, the whole economy gets affected because most sub-Saharan countries depend on the government to inject money in the economy. For example, when the government approves a construction project, the construction companies that will be involved get money from the government, they can buy new cars or employ new/additional staff and these staff can get a loan on a car (if it is in Botswana) or in some way the money from that project treacles down to affect many sectors of the economy. When this money is withheld, it affects almost every corner of the country.

All the brand new car dealers have been affected by the ripple effects of recession. People have been holding back money because their anticipation of recovery of the economies. The Botswana Pula has been depreciating in the past five years and this has automatically raised the price of the motor vehicles from South Africa because the
stronger the Pula against the Rand, the lower the prices of merchandise from South Africa and vice versa.

4. **Gray Imports**

Gray imports have affected some dealerships to some extent (at the entry-level of volume brands). Gray imports are not seen as a force to contend with because they only have a very weak impact on the brand new car industry. In Barloworld, up to 84% of sales of entry-level cars (which is less than 7% of annual sales) have been eroded by gray imports between 2004 and 2009. Gonow had 10% of its annual sales eroded by gray imports between 2006 to 2009 while Kia lost up 30% of its annual sales to gray imports. Between 2005 and 2009, Capital BMW had its sales of BMW 3 Series go down by 12% and sales of its 5 Series went down by 2% and the sales manager attributes the going down of sales mainly to gray imports providing a variety of cars.

“When they gray imports started coming in 2004, it was only small Toyotas and we did even blink at that. But around 2005/06 we saw BMWs as gray imports, soon we started feeling the pinch of gray imports,” said the sales manager at Capital BMW, and continued, “But now most people have realized how special a BMW is that you cannot just take anywhere to be fixed or for service, you have to consult authorized dealers. That is where Capital wins again.”

The sales manager at City Motors, which also deals with BMWs, said that City Motors is not afraid of imported BMWs. “If one cannot afford our product, let them go somewhere, where they can get what they can afford. All the people that are driving ‘fonkong’ BMWs are noble people, because they have looked at their budget and see that in their lifetime they cannot save enough, in their lifetime to buy from us. I am saying they are noble because they chose ‘fonkong’ and not steal money to buy from us. I am not against ‘fonkong’ because it has helped people like to drive their dreams. They are not a threat to us at all,” he continued is a stern tone.

Figure 12 shows sales information of passenger vehicles in Botswana between 2001 and 2009. It was generated by RGT for Naamsa and was accessed by one of the dealerships which I visited. It was given without a clear legend because of the sensitivity of this information. They did not want to be precise but one can clearly read the trends from the lines. Following the dark blue line, it is clear to see that they have been a drop of sales from 147 to around 140 between 2001 to 2002, to around 100 in 2003; from 100 to around 5 in 2004 to zero in 2005. Since 2005, the sales have never risen above 35.

\[^{2}\text{Derogatory name for gray imports}\]
The sky blue line shows a rise from 74 to 118 between 2001 and 2002; a drop of 118 to 34 between 2002 and 2003. From 2003, the sales further dropped to their lowest of 15 in 2005 and 2006 only to rise to their highest point of 30 in 2007.

3.8 Certified Used Vehicles

All brand new motor dealers run shops for certified used vehicles. When people trade-in old used vehicles, they are sold through a certified used car shop which is attached to the dealership and usually operates as separate company in the same premises or near the brand new dealership. In some brand new dealerships where the respondent said that they have not been impacted by grey imports, they could refer the researcher to certified used car department or company because they said, that is where the impact is being felt.

As this research was only centered at finding the impact of grey imports on brand new car dealerships, the researcher did not see fit to divert the attention to certified used cars. For example, Motor Centre sells certified used Toyotas under a trademark called Automark, Broadhurst Motors has another company located a kilometer away from its premises that sells certified used cars while Barloworld sells certified used cars on the same block where they sale brand new vehicles. Certified used car dealers may be impacted by grey imports, this paper cannot tell in more certain terms but treat such as a hypothesis that needs to be followed.
4. ANALYSIS OF FINDINGS

Marketing is the process of planning and executing the conception, pricing, promotion and distribution of ideas, goods, services to create exchanges that satisfy individual and organized goals (Kotler & Keller, 2006). Marketing is a tool that enables producers and sellers to exchange their products or services with the target market at a price that satisfies the buyer and the seller; and the transaction takes place at the right or convenient place of the parties involved.

Even though the impact of gray imports of most brand new car dealerships has been minimal, most dealerships’ marketing departments were awakened. They use different marketing strategies to compete in the market; to make marks that cannot be erased. The discussion below is on current and future marketing strategies of brand new cars and back-up services of the brand new car dealerships which were studied.

4.1 Marketing of Brand New Vehicles

Product

A product is a bundle of value that a customer treasures and is willing to part with his/her hard-earned money to satisfy their needs or wants. Kotler says that a product is anything that can be offered to a market for attention, acquisition, use or consumption that might satisfy a want or a need. The products of brand new car dealers which were studies were motor vehicles with a weight of less than 5 tonnes (e.g. an average SUV weighs around 3 tonnes).

The dealerships cannot do much to influence the quality of the cars they sell because they are manufactured by OEM and OCM but they make sure that they are always sparkling and glittering clean so as to be attractive to the customers. They have brochures and books which shows the benefits of their products. A customer who visit the showroom is given a book of the car or cars that he is interested in after showing them the car and explaining the features of that car so that they can continue reading and getting more knowledge about the product.

Dealerships also have magazines of the cars they deal in. These magazines can show the lifestyle associated with the cars, the kind of people that drive them. They can also show performance news or event like rallies which advertise how strong or good the cars are. Broadhurst Motors is the key sponsor of the 1000km Desert Race in Botswana. The event takes two days. Participants and fans sleep at a village called Mantshwabisi (75 km from Gaborone). In 2003, Nissan won the race in style (Nissan has won five times since 2002). Nissan was using Hardbody (D 22 Frontier, predecessor of Navara) and from that year Nissan 4X4 came to be called “Mantshwabisi”. The name was not giver by Broadhurst Motors but the fans.

Any person who wants to buy a car that with perform off-road is usually compelled to buy “Mantshwabisi” from Broadhurst Motors. The brand represent robust, endurance, delivery, performance and most of all, a car that can handle the desert and off-road conditions without failing.

Advertising, Promotion and Education

Most advertising of brand new dealers is done in the newspapers. Some is done on radio and rarely on television. Of course, Toyota Malawi, of all brand new dealerships, is more
advanced in its advertising. It uses all media and is very aggressive in marketing especially when it is launching a new brand. Motor Centre have been holding what the they call ‘Special Week’ where the price of a certain brand is lowered or where when one is purchasing the car through a loan, they do not pay any deposit as it is usually normal, but the bank takes care of the loan without any deposit. Most dealers have ‘Special of the Week’, which is a car that they sell at a discount.

Most dealers are going back to radio advertising to instill the niche of their brand in the people’s minds. For example, Toyota is working hard so that when people just think of reliability, they can think of Toyota cars and BMW is working on a building a picture of superior engineering in the minds of people. This is essential because it creates a niche in the minds of the people so that when a word like Toyota is mention, all that comes to the mind of the hearer is ‘reliability’ and BMW, ‘engineering’.

Toyota Malawi has its own website and a few other dealers. Most dealers in Botswana use websites of the franchise companies in South Africa. Many are considering building their own websites and advertising on social and digital media like Facebook and Twitter.

Toyata Malawi has been key in supporting immunization and HIV/AIDS programmes. While Motor Centre has donated some vehicles to charity organizations like SOS Village.

**Place and Physical Evidence**

The cars are sold in showrooms that are well-designed to create attention. The spatial design, textures, colours and scents have an effect-creating on the customer or visitor. The building, interior and the cars that are being sold in the showrooms merge in elegance and beauty like the tentacles and disc-like suckers of a giant octopus. The shining floor reflecting the flashing cars which reflect either the glowing windows or the neatly dressed staff or other scenic pieces of the interior; a classic picture of style merged with grace, taste, vogue and sophistication creating an ambiance of purity which builds an inner desire and a persuasion in one to associate with it by purchasing one of those beautiful products.

**Price**

The dealerships do not set prices for motor vehicles. OEM and OCM determine the prices of cars in all dealerships. There is a book which is produced by OEM and OCM which has the prices for all cars. There is a conversion method which the dealership uses. The price varies only because of the exchange rates but it does not mean that one can buy a Land Cruiser from Malawi or even South Africa and bring it to Botswana and be able to save some on the money they could have used to buy it from Botswana.

Prices for all the cars are standard in that if one converts the price of one brand of car to US dollars in different countries’ dealerships, they will find out that there are very minimal disparities on the prices that cannot motivate one to import a car from another country’s dealership.

### 4.2 Marketing of Back-up Services

Back up service and warranty are the major differentiating factors between brand new and used car dealers. Dealers do not give customers warranties. The manufacturer is the one who gives the customer warranty. The dealership is just a ‘middleman’. OEM have millions
worth of parts in their warehouses which they send to dealers. For example, Ford in South Africa has a stock of back up parts worth over R300 million to back up the services of its franchises in sub-Saharan region. Barloworld in Botswana has over BWP 3 million worth of parts for back up.

Therefore, the emphasis is on back up and service of their cars. Dealers used to service grey imports but now they have stopped because the parts of needed to service the cars were not readily available in their workshops and had always to be ordered. In that process and period, the owner of the vehicle was given a courtesy car as they waited for their car to be worked on. The situation was that the car would the opened up and the determination of the problem and part to be replaced could be a major job by itself and they would not want to close it up and give it to the owner to be driving until they get the required part. As the number of grey imports to be serviced increased, most brand new dealership used to run out of courtesy cars and they failed to serve the people that baught brand new cars from them.

There is no brand new dealership now that services grey imports and those dealerships whose brands have been affected by grey imports like Barloworld are now emphasizing on service and back up. Following dimensions of service marketing of Lovelock & Wright (1999), the sections below will discuss how the firms are marketing their services.

**Figure 11**

Contributing Elements to Quality and Satisfying Service

![Diagram of service elements](image)

**People**

“You, as a customer cannot have a good service without having motivated people that are trained and know what to do on your car,” said the respondent at Barloworld. Recruiting competent people is the first step that most dealerships do to have a very good service department. Recruitment is followed by training and motivation. The staff are trained thoroughly so that they can be confident in handling customers’ problems and they are trained continuously as technology changes so that they are technologically up-to-date. They are motivated in order to influence them to be always eager to give their best to every customer.

“We don’t just train mechanics or people who handle spanners to give good service to the clients, we train everybody in the company, whether a cleaner or receptionist or manager to handle clients,” commented the sales manager at KIA and added, “We want the cleaner to respect our clients, and probably offer tea or coffee to them as they wait to be attended, not to tell them to move to another chair so that they can clean the one they are sitting on. We want the receptionist to smile and greet them warmly and the chain goes to man who handle spanners and fix the cars. You see my brother; it’s a long chain of courtesy that should not be broken at any link in order to get one customer satisfied.”
Process

Managers, especially marketing managers must understand how the core and supplementary services are combined to create a product offering that meets the clients’ needs so as to map the service processes in a way that makes the delivery of the service smooth. This is called service blue printing (Lovelock & Wright 1999). A service blue print shows the ‘long chain of courtesy’ like front-stage activities, customer actions, line of interaction, line of visibility, customer-contact personnel on the front-stage and at the back-stage, and support processes like information technology and service personnel.

KIA’s strategy in customer satisfaction is by “attending to every process, every machine, every member of staff and making sure that they are ready to give their best to every client at all times; not just in the morning when they are fresh or on Mondays when they are renewed but throughout the day and the week”3. Capital Motors is also emphasizing on back up service as a marketing strategy to attract people to buy brand new 3 Series BMW because grey import BMW’s are no longer serviced by them.

“From time to time, I walk through this company in the customers’ shoes and consider how I would want to be treated if I walked into this place to buy a car and nobody knows me or to service a car. I sit down and think of what would make me happy and remember Capital BMW or put a smile on my face that people will ask me everywhere I go what happened to me. And these are the issues that I raise with service manager, and everybody else in meetings in order to improve ourselves here,” the sales manager commented when he was asked about service provision.

Productivity and Quality

When it comes to quality of service, Gonow is committed to exceed customer expectations because it is a new company and Gonow is a new brand that has not yet made a name. Complete customer satisfaction is encapsulated in the provision of high quality service. Productivity is no longer measured traditionally in absolute terms but relatively. For example, productivity in terms of service is no longer measured in terms of how many cars the service department has serviced or how well they were done (in terms of returning for another small fix etc) but productivity is attributed to everyone involved in handling the clients and their vehicles; support services like information technology and cleaning.

Customer-contact personnel on the front-stage and at the back-stage and service personnel handling support processes should be productive in order to give a good service. A car that has been serviced and washed so that the customer finds it glistening will satisfy and make a lasting impression on that customer more than a car that has painstakingly and fastidiously serviced but not washed at all (with grease and more dirt added on it from the service bay).

The quality of service is defined by the customer and not the service provider. Quality service is essential for building customer loyalty. Capital BMW espouse nurturing long-term and enduring relationships with clients and differentiating themselves through quality back up service.

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3 The last part of this expression refers to people (members of staff) that they should be fresh on eagers to give their best all day and all week. It does not refer to processes and machines
Pricing

Price covers all the outlays that are incurred by the customer in obtaining benefit from service product (Lovelock & Wright 1999). Correct pricing does not mean cheap but a good follow up with quality provision of service commensurate to the price. Other people like high quality expensive things because it differentiates them from the masses. If a company offers high quality service at a high price, it will attract that class of people that are willing to pay for it. The essential element is providing quality service at competitive prices.

Place

All brand new dealers operate from a supportive and comfortable business environments that are easily accessed by client and shoppers. They are located close to tarred roads in big industrial parks unlike local mechanics who operate from a dusty yards which are usually accessed using dusty road.

Physical Evidence

The way the landscape looks outside the dealer premises combined with the architectural design of the building gives the flair of professionalism, competence and effectiveness. The interior furnishing and equipment, printed materials and how the staff look all make overwhelming influence on the customer’s impressions.

Promotion and Education

KIA Motors is concentrating on showing buyers and would be buyers the importance of warranties and back up for motor vehicles. It stages exhibitions on busy weekends in the malls in big cities like Gaborone, Francistown and Maun in order to show people that buying a car is not just buying a box with wheels. They emphasize that when one buys a car, they are buying a bundle and not one item; and the process creates a long-term relationship between buyer and brand new dealer which spans through the life of the car. “It is not like buying bread and slicing it at home and having it with a cup of tea – end of story!”

KIA strives to make its communication educational in nature because it appeals and influences new customers. They show the dangers of servicing a vehicle with a ‘bush mechanic’. Below is an extract of KIA’s educational promotion of the importance of back up and servicing at a professional dealership.

Photos have been used with permission from KIA Motors Gaborone’s Marketing Department.

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4 Photos have been used with permission from KIA Motors Gaborone’s Marketing Department
Their definition of bush mechanic is one who is partly qualified in servicing your vehicle and cannot show you their qualification but you just trust them to work on your car because you stop by and find them holding a spanner and they are dirty with grease etc but they do not have professional indemnity.
The above pictures are expressive, educational and would probably make an indelible mark on the target audience. The message is clear and portrayed in an interesting manner that the one who came into contact with that communication will be talking about the promotion everywhere they go because it was so interesting. When this happens, the promotion channel has changed to word of mouth, “one-on-one evangelism” where one person goes to their friend and convinces them of a certain concept for example, the dangers of bush mechanics and why it is important buy a brand new car at KIA and bring it to KIA for service instead of buying a grey import and taking it to a bush mechanic for service.

Further, a meeting with a sales representative at the promotional show, who explains the pros and cons of a product, can easily tip the scales towards a purchase because the person would be more enlightened about that product.

4.3 Price Elasticity of Demand

Market demand is the quantity of goods or services that people are ready to buy at different prices in a given period of time when other factors are held constant except the price (Keat & Young, 2003). Changes in demand of a product are caused by various factors some of them are changes in consumer tastes, expectations about the future, changes in population or number of buyers, changes in prices of substitutes or complementary and change in income of consumers.

Reduction in market demand for entry-level brand new cars (volume brands) caused by gray imports came into being because the consumer tastes could not be satisfied by volume brands because they have basic features while gray imports at a price comparable offered better features like air bag, air conditioner and good music systems. Therefore, gray imports were substitutes to entry-level brand new cars. In some dealerships like Barloworld, the market of entry-level cars was completely wiped out between 2004 and 2009. “Kia was affected because it has a range of simple entry-level cars. People were comparing between driving a simple entry-level brand new car from Korea versus driving a ‘good’ Japanese car, probably Toyota Prado versus our Rio,” said Kia’s sales manager.

Elasticity is the sensitivity of one variable to another or more. Thus, the percentage change in one variable relative to a percentage change in another (Keat & Young, 2003). Elasticity of demand is the percentage change in demand in response to a percentage change in one or more variables that affect demand. Demand can be elastic or inelastic. That means it can change in response to a variable that affects it or not. Many people use as a rule of thumb that demand is inelastic for necessities and elastic for luxuries. Thus, it would be expected that the demand for diamond rings and expensive cars should be more elastic than that of bread and milk. But the duality of necessity and luxury is ambiguous in that what one considers a luxury another considers a necessity (Keat & Young, 2003).
Most premium and economy brands were not affected by gray imports because they are independent products and they have zero cross elasticity of demand. “Brand new premium or economy brands are assumed as luxury by most people who cannot afford them. But in essence, they are not seen as luxury by the people who can afford them. The comfort, durability, protection and ease that these brands give is worthy the price that people pay for,” said the sales manager of Capital BMW as he commented on luxury on price and luxury goods. Volume brands at the entry-level were substituted by gray imports. Therefore, gray imports were substitutes for entry-level volume brands and they have a positive cross elasticity of demand.
5. CONCLUSION

The brand new car dealers in Botswana and Malawi operate enjoy conditions conducive to growth and long-term sustainability. Since car manufacturing in South Africa is the second largest industry it has a lot of influence in South Africa and that influence spills in other SADC countries creating favourable business environment for brand new cars. Government and bank loans help many people to own cars in Botswana. The government is a major customer in both Malawi and Botswana. It makes volume purchases of motor vehicles, which is very advantageous to brand new dealership’s growth.

Gray imports are substitute products for entry-level volume brands and they have a positive cross elasticity of demand. The empirical evidence shows that the sales of entry level brands of cars have been greatly affected by grey imports. The sales of entry-level vehicles like hatch backs (city cars), saloons and estate wagons like VW Golf, Ford Fiesta, Audi A3 and A4, Picanto, Cerato and Rio were reduced by gray imports.

Figure 12 shows a major drop in sales of mainly two brands; one from 147 to 0 from 2001 to 2005 and the other one from 118 to 15. It is clear in this figure to see that sales of a few brands have dropped drastically between 2001 and 2006 and this agrees to the explanation of dealerships like Barloworld and Kia that their entry-level market was almost wiped out within that same period. Premium and economy brands have not been adversely affected by gray imports except BMW 3 and 5 Series (8% of the sales of 3 Series in 2006 - 2009; 2% on the sales of 5 Series; 6% of overall sales of 3 and 5 Series between 2006 – 2010).

The future of gray imports looks very bleak because their only inlet port in Durban has been closed and Botswana will introduce carbon tax in 2011 which will negatively affect ownership of gray imports. Despite the gloomy picture of the future of gray imports, dealerships that were negatively affected did not just sit and wait for the extinction of gray imports. They have taken strategic steps in competing with gray imports.

Brand new dealerships that have negatively been affected by gray imports capitalize on their strength and the weaknesses of gray imports in the marketing efforts. Their major strengths are provision of back-up services and warranties; and the major weakness of gray imports is the lack of the same (back-up service and warranties). Dealerships have embarked on the marketing of back up services and revisiting the components that contribute to the provision of quality and satisfying services to customers. Promotion and education is at the core of marketing of services. Dealers go to malls during peak periods like at the end of the month to educate people of the importance of warranties and back-up services.

Dealerships also want to start advertising on social and digital media like Facebook and Twitter. Sponsorship activities is also another way that dealerships are using to make a mark in the communities to show that they care about humanity and not just profits.
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7. **Appendix 1 - Countries of Study: Malawi and Botswana**

**Botswana: Country Profile**

Botswana is a land locked country in Southern Africa. It is surrounded by South Africa, Namibia, Angola, Zambia and Zimbabwe. It has a population of 1.9 million (CIA World Fact Book, July 2009 estimate). According to a Demographic Survey done by Central Statistics Office in 2006, 59.6% of Botswana’s population live in cities, towns and urban villages. The capital city of Botswana is Gaborone which is located in the south eastern corner of the country only 15km from the border with South Africa. The other city is Francistown which is located over 400 km north of Gaborone. This is another important centre of commerce in Botswana. Maun is tucked in the north-eastern part of Botswana. It is a tourist town and gateway to Okavango Delta. It has direct flights from Oliver Tambo Airport in South Africa as well as from Gaborone but can also be accessed by road. It is 887 km from Gaborone and 490 km from Francistown.

The other towns have less commercial activities going on but are nevertheless important in the economy of Botswana. They have branches of firms and organizations that operate in Gaborone. Such town are Lobatse, Selibe-Phikwe, Serowe, Palapye, Mahalapye, Molepolole, Kasane, Ghanzi, Mochudi and Nata. These towns are very dependent on Gaborone and Francistown. For example, if one wants to buy a car, they will organize and travel to Francistown or Gaborone, buy the car and drive it to their town. There are other small towns that have great economic power because they have diamond mines like Orapa and Jwaneng. (Botswana Review 29th Edition)

**Malawi: Country Profile**

Malawi is a narrow strip of land stretching from Tanzania into Mozambique. Mozambique holds the southern and central part of Malawi like a cupped hand. Part of the western part of central and northern Malawi is bordered by Zambia. It is a land-locked country.
The capital city of Malawi is in the central region and is called Lilongwe. Blantyre is the commercial capital of Malawi and is located in the southern region 239km from Lilongwe. The third city is Mzuzu. It is 496 km from Blantyre and 282 km from Lilongwe and with an average driving distance of 600 km and 330 km respectively because Malawi is mountainous and most roads are wind through mountains.

**Historical Overview Relative to Grey Imports**

There has been an undeniable increase of motor vehicles on the roads in sub-Sahara region. In the nineties and earlier, in this region, motor vehicles used to be seen as unaffordable luxuries that an average person would only dream of driving. During that time, most ‘wealthy’ people could buy brand new cars or used cars that are in very good condition through car loans, long time saving or through company loans if they occupied top positions. Average people could only afford the old cars that have been used by rich individuals who bought them while new or in better second-hand conditions when companies were selling their old cars after fully depreciating them on their company balance sheet.

Ability to import second-hand cars was very limited because though their prices were very low than new cars, were scarce. Some people that were studying abroad could bring second-hand vehicles back home. In Malawi, it was difficult to import second-hand vehicles as an individual or even a company. There were stringent exchange controls. The closest source of second-hand motor vehicles was South Africa. The road access to South Africa is through Mozambique and Zimbabwe or Zambia and Botswana. Road conditions of Zambia roads were very poor that time. There were a lot of port holes on the road which used to cause fatal accidents to motorists who are not used to using those roads. Mozambique – Zimbabwe route was a better option until the end of the 70’s when a civil war broke out in Mozambique. Mozambique’s ports of Beira and Nacala could have been used to import used cars into Malawi but the civil war in Mozambique also affected the railway line that runs to Mozambique’s two ports of Beira and Nacala (Nordstrom 1998). The railway was constantly bombed and it made importation of goods through these ports extremely expensive.

Despite the war in the south, there was a viable option in the north, the ‘House of Peace’ (Arabic for Dar es Salaam). Dar es Salaam is the port city of Tanzania which connects with Malawi from the north. However, road networks from Malawi cities of Lilongwe and Blantyre to Dar es Salaam were very poor at this time. But, the late 80s and the beginning of the 90s saw a lot of changes favoring the import of goods. In 1988, the World Bank initiated a project called Northern Transport Corridor Project whose aim was to provide a shorter and more cost effective route to the sea for Malawi import and exports.

The project has facilitated regional trade because roads in Malawi and Tanzania were improved and rehabilitated. Dry-cargo and fuel storage transshipment facilities were built in Dar es Salaam (World Bank). The civil war in Mozambique ended in October 1992.
(Chicago Sun Times). The railway from Malawi to Beira and Nacala were repaired and now the construction of a port in Nsanje District (Southern-most part of Malawi) to link Shire River in Malawi to Indian Ocean is underway. Its completion will facilitate easy access to Beira and Nacala by water and easy importation of goods from around the world.

Botswana which neighbors South Africa did not have easy access to South Africa in the times of apartheid. Botswana was considered as one of the front-line states and trade between the two countries was hampered by the political tension that existed between the two states. However, after apartheid Botswana had easier access to South Africa and this gave Batswana leeway to buy cars in South Africa but they were expensive and there was a lot of tricking and cheating foreign used-car buyers in many cities especially Johannesburg.

In Malawi, tight exchange controls have been removed. International trade was liberalized in 1988. Since then, a lot of trade reforms have taken place (Mbekeani 2005). Positive moves towards regional integration and eradication of non-tariffs barriers have occurred in the early 90s. Southern African Development Community Common (SADC) was formed in 1992 with the aim of socio-economic cooperation and integration of 15 Southern Africa states. It has now extended its aims to incorporate political and security cooperation. Common Market for Eastern and Southern Africa (COMESA) is a preferential trade agreement (PTA) of 19 states. The trade bloc covers most countries from Zimbabwe up to Libya. It was formed in 1994 replacing an existing PTA which existed as far back as 1981.

Improved infrastructure gives easy to access to four ports of Durban in South Africa, Beira and Nacala in Mozambique and Dar es Salaam in Tanzania and make transportation of goods convenient, faster and easier. Creation of trade blocs and regional socio-economic, political and security cooperation have created a favorable atmosphere for the importation of used-cars. With these positive developments, individuals from Botswana and Malawi can handily import used cars from Asia (Japan, Thailand or Korea), Europe (UK), Middle East (Saudi Arabia) or America.

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