



## VEHICLE IMPORT, DISTRIBUTION AND DEALERSHIPS REVIEW

### MATERIAL SUSTAINABILITY ISSUES

#### Issue

MANAGING ECONOMIC PERFORMANCE IN A CHALLENGING ENVIRONMENT



#### Sub-issues

- > Achieving appropriate returns
- > Defending market share

DELIVERING QUALITY PRODUCTS AND SERVICES



- > Brand awareness and reputation
- > Customer satisfaction
- > Customer health and safety

ENSURING COMPLIANCE WITH LAWS AND REGULATIONS



- > Managing compliance
- > Assessing compliance

DEVELOPING EFFECTIVE LEADERSHIP AND EMPOWERED PEOPLE



- > Employee turnover
- > Talent management
- > Training and development

ACCELERATING TRANSFORMATION PROGRESS IN SOUTH AFRICA



- > Broad-based black economic empowerment (BBBEE)
- > Promoting workforce diversity

MINIMISING THE ENVIRONMENTAL FOOTPRINT



- > Water consumption and recycling
- > Energy consumption

# MANAGING ECONOMIC PERFORMANCE IN A CHALLENGING ENVIRONMENT

The constrained consumer environment in South Africa has resulted in a contraction of the new vehicle market and a 1% decline in the Vehicle Import, Distribution and Dealerships division’s market share from 15% in June 2015 to 14% in June 2016. Around 80% of new vehicles are financed, however the ability of consumers to access credit is impacted by the credit-granting appetite of financial institutions in the face of high levels of consumer indebtedness. In addition, price increases are driven by the weakening rand against the United States dollar and the euro. The tough trading environment is expected to continue into 2017, requiring that the division defends and sustainably increases the market share of its established vehicle brands. Taking advantage of opportunities to sustainably increase market share will require new skill sets. The division performed well despite these conditions, with revenue increasing 4% and operating profit increasing 20% year-on-year due to increased selling prices.

## DELIVERING QUALITY PRODUCTS AND SERVICES

### APPROACH

#### CUSTOMER SATISFACTION SURVEYS AND TRAINING



A key factor in defending the division’s market share is the desirability of its established brands. Critical to maintaining and growing the division’s sales and customer base is the delivery of an excellent customer experience and the supply of quality products, as well as the launch of innovative new products. Customer satisfaction at point-of-sale also contributes to annuity income such as vehicle servicing and financial products.

Ongoing customer feedback and satisfaction surveys assist the dealerships to better understand their customers and meet their needs. Monthly reports on customer satisfaction are submitted to original equipment manufacturers (OEMs) as part of the division’s performance contract conditions. Training interventions for face-to-face sales and online representatives, build product knowledge and the skills required to effectively engage with customers.

All distributor brands have dedicated customer care lines to manage complaints, and complaints are tracked and reported at divisional level in monthly board packs.

#### PRODUCT AND SERVICE ASSESSMENTS, AND BUILDING STRONG STAKEHOLDER RELATIONSHIPS



Critical to brand reputation is ensuring that customers are provided with safe motoring solutions. As an example, Renault South Africa (Renault) works closely with its counterpart in France to ensure that vehicle quality and safety standard specifications are appropriate to local conditions. This has had a positive impact with Renault’s brand reputation in South Africa having improved both from a quality and value for money perspective over the past two years.

New products and services are assessed prior to launch, and current products and services are reviewed regularly to ensure adherence to safety standards and regulations. The results of these processes are presented at quarterly board meetings.

Quality control is managed together with the OEMs, for example quality and compliance at Hyundai’s assembly plant in South Africa is managed by a quality controller from Korea. Safety campaigns communicated by Hyundai Korea and India are logged on Hyundai’s MOBIS warranty system, followed by customer communication to ensure that maintenance work is carried out timeously.

Letters of Authority from the National Regulator for Compulsory Specifications (NRCS) approving the safety and technical standards and specifications of new products and vehicles is required before these items can be imported and sold in South Africa. Where required, external consultants are used to ensure compliance and to expedite the approval process which can take up to 120 days after inspection. Regular meetings are held with NRCS officials to strengthen working relationships.

#### TECHNOLOGY



The highest standards of vehicle safety and design are further ensured through investment in the latest technology. In addition, the division’s approach to sales is being adapted to account for the increased consumer trend to use digital platforms to source vehicle information and pricing. In the Imperial Select business, online used vehicle enquiries resulting in a successful sale have increased from around 33% four years ago, to 65% in the past year. The percentage for new vehicle sales remains lower at 32%, leaving significant room to grow the conversion rate of new vehicle customers enquiring online. The division is investing in the technologies required to be successful in this changing consumer context.

#### SUPPLIER ASSESSMENTS



Supplier audits are conducted regularly on product quality and safety, and the sustainability of the supply chain is assessed.



**Performance**

There were no material instances of non-compliance with laws and regulations concerning the provision and use of products and services for the reporting period.

*In 2016, Kia Motors South Africa (Kia) introduced a new tool to measure customer satisfaction with its showrooms and vehicles. All Kia dealers undergo monthly customer satisfaction testing, and the results are monitored by Kia’s aftersales department which implements corrective action and engages with dealers with low customer satisfaction scores. For 2016, Kia maintained its average customer satisfaction score of 89% against the division’s target of 90%.*

## ENSURING COMPLIANCE WITH LAWS AND REGULATIONS

### APPROACH

**MONITORING AND REPORTING**



Importer licences depend on compliance with all customs and excise legislation. Ensuring strong adherence to regulatory requirements can also provide some advantages, for example Kawasaki Motors South Africa is a preferred trader which means that due to its record of compliance, among other criteria, it qualifies for certain benefits from the South African Customs Administration.

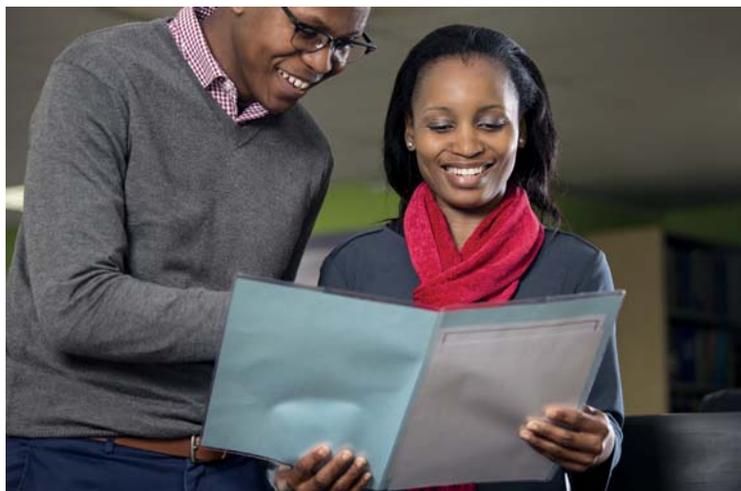
Motor-related Financial Services is impacted by an increasingly complex financial services regulatory framework, with two of its businesses operating as authorised financial service providers. Retention of financial service provider certificates and adherence to legislation relating to the financial services industry and the requirements of the Financial Services Board is managed by the division’s compliance function.

**COMPLIANCE ASSESSMENTS AND TRAINING**



Internal audits are undertaken to assess the critical compliance processes and controls within the division’s businesses. Regulated products and services are regularly reviewed, either internally or where required through the use of external legal advisors, to ensure compliance with applicable legislation.

Compliance training is mandatory for all employees. An e-Learning platform is being developed to provide compliance awareness training on issues such as know your customer, consumer protection, the protection of personal information and treating customers fairly.



**Performance**

For the 2016 financial year, there were no instances of material non-compliance with legislation, including environmental legislation, for the division.

**Looking ahead**

Going forward it is expected that stricter environmental regulations such as the Recycling and Economic Development Initiative of South Africa’s (REDISA) Integrated Industry Waste Tyre Management Plan, as well as carbon emissions tax, may impact the division’s cost of bringing vehicles to market. Engagement with regulatory authorities on these issues takes place through industry associations.

## DEVELOPING EFFECTIVE LEADERSHIP AND EMPOWERED PEOPLE

### APPROACH

<p><b>EMPLOYEE TURNOVER</b></p> 	<p>Employee turnover in the vehicle sales environment is generally high, particularly for emerging vehicle brands. This increases costs as training must be provided for new employees and it can result in the loss of key talent, negatively impacting the division's succession plans. Customer service levels are also impacted by high turnover rates. In addition, all employees that offer advice and sell regulated financial products must be accredited which creates high barriers to entry in terms of skills and qualification.</p>
<p><b>SUCCESSION PLANNING AND TALENT MANAGEMENT</b></p> 	<p>Succession planning and talent management is covered by the group-wide Organisational Effectiveness Framework. More information on this framework can be found on page 4 of the our people section.</p>
<p><b>KNOWLEDGE AND SKILLS ASSESSMENTS</b></p> 	<p>The division requires a knowledgeable and skilled workforce, therefore employee assessments are undertaken on an ongoing basis to identify knowledge and skills gaps. Training sessions are implemented to address these gaps and assist employees in meeting the division's business objectives and furthering their own career development.</p>
<p><b>TRAINING FACILITIES AND DEVELOPMENT PROGRAMMES</b></p> 	<p>To retain talented retail employees and attract an increased volume of recruits, the Imperial Retail Training Academy provides employees with the opportunity to build focused career paths as vehicle retail professionals. The Academy offers a number of programmes from the ongoing training, monitoring and development of new sales staff to a Bachelor of Business Administration degree through the Southern Business School (the Management Development programmes) tailored to the division's needs. The annual intake to the programme is limited to 40 participants and prospective participants are selected based on assessments and interviews. Feedback from participants indicates that they find the training valuable. A 12-month certificate programme, also available through Southern Business School, aims to assess the ability of employees to cope with university level studies. Some 70% of the intake to this programme is targeted at black candidates.</p> <p>Ongoing product training is provided by the OEMs. For example, the Kia Sales Academy provides online product knowledge courses, as well as courses for sales consultants and managers. At Renault, performance is measured against set objectives for technical training and mandatory Renault-specific training for employees working in the dealerships. The Hyundai parts distribution centre is designing an on-the-job coaching and training intervention for its warehouse employees.</p> <p>Training on workshop servicing is provided by the Imperial Technical Training Academy, recognised as the largest and leading premier provider of automotive technical trades training in South Africa.</p> <p>To meet fit and proper requirements under the Financial Advisory and Intermediary Services (FAIS) Act, sales agents must have prior working experience, a retail insurance qualification and have completed the relevant Regulatory Examinations. A three-year training programme is in place to assist sales agents to meet these fit and proper requirements, enabling them to sell regulated products.</p>

*Hyundai's Care and Growth Intervention supports a leadership culture shift from being results-orientated to focusing on people and processes. The intervention aims to reduce the business' high employee turnover rate and is managed by a steering committee that includes Hyundai's chief executive officer. All middle and senior managers, as well as executive members are required to attend the programme which includes leadership audits that identify the individual's strengths and weaknesses.*

Performance

Talent management

*Succession planning for all key roles in the division has been completed and market research is being undertaken to ensure the division’s salaries and incentive schemes are competitive.*

A programme to identify talented individuals with the potential to progress into more senior leadership roles is underway, together with initiatives to ensure that these employees are recognised and rewarded for their contributions. New interventions, including mentoring programmes, are being developed to equip the division’s leaders with the skills to be future-fit and to support the growth of talented individuals. Budgeted spend on talent development has been increased for the 2017 reporting year.

During the year, all executive committee members and certain managers attended executive coaching. In addition, eight executives attended programmes at the University of Cape Town’s business school.

Job profiling is being piloted at Kia and is facilitated through trained profilers. A completed grid of job profiles for the division is expected within the next 12 months. In addition, quarterly performance reviews were introduced across all Kia departments and

online exit interviews were started to better understand the reasons for people leaving the business.

Hyundai’s executive team have received training on the talent management framework and in April 2016 the team underwent capacity building sessions. Strategic talent reviews on the progress of Hyundai’s executive members into other roles, as well as the identification of successors for their roles, are underway.

Training and development

**R59 million**

SPENT ON TRAINING AND DEVELOPMENT, DELIVERING 12 HOURS OF TRAINING PER EMPLOYEE (2015: R42 MILLION AND 14 HOURS PER EMPLOYEE).

**44%**

OF EMPLOYEES PARTICIPATING IN A MANAGEMENT DEVELOPMENT PROGRAMME ARE BLACK PEOPLE.

**256**

APPRENTICES WERE REGISTERED AT THE IMPERIAL TECHNICAL TRAINING ACADEMY (2015: 226) AND 95 APPRENTICES QUALIFIED AS TECHNICIANS.

*Renault launched a new training programme during the year to prepare employees for managerial positions. This is assisting with a talent pipeline and improving management capability which in turn enhances the customer experience. Renault has also established a dedicated training facility at the new Renault parts distribution centre, comprising of classroom style training rooms and a state-of-the-art technical training centre. At June 2016, 18 employees were participating in a development programme and seven apprentices were employed at Renault-owned dealerships.*

# ACCELERATING TRANSFORMATION PROGRESS IN SOUTH AFRICA

## APPROACH

### TRANSFORMATION AND EMPLOYMENT EQUITY COMMITTEES, AS WELL AS EMPLOYMENT EQUITY TARGETS



BEE initiatives and performance against targets are continually monitored by the division's transformation committee and BEE scorecards are independently verified. A central employment equity committee governs all employment equity committees at business level.

Employment equity plans set out the division's employment equity targets and the initiatives in place to meet these targets. While the recruitment and promotion processes are geared towards black candidates, a shortage of the required skills set in the market and high staff turnover hamper progress against employment equity targets.

### DEVELOPMENT PROGRAMMES AND LEARNERSHIPS TARGETING BLACK EMPLOYEES



As part of the Organisational Effectiveness Framework, black employees are being identified and developed through training interventions that equip them with the necessary skills, knowledge and attitudes to take over more demanding and senior functions. In addition, a pipeline of skilled black employees is being developed through the division's apprenticeships, learnerships for unemployed black youth and graduate development programmes.

Training is provided to employees at all levels within the division to sensitise them to diversity issues.

## Performance

### BEE performance

As the division's product is mostly imported from OEMs, its BEE contributor rating is likely to drop going forward given the more stringent requirements around procurement as set out in the new Department of Trade and Industry's generic broad-based BEE Codes of Good Practice (dti Codes).

### Promoting workforce diversity

*Around 56% of the division's 2016 training spend was allocated to black employees (2015: 41%).*

At June 2016, 11% and 19% of top management and senior management respectively were black employees. Black representation at middle management level was 30% and 50% at junior management level.

The division engages on an ongoing basis with the Department of Labour to establish achievable employment equity targets.

Hyundai undertook roadshows in Gauteng and the Western Cape provinces to raise employment equity awareness. At April 2016, Hyundai's black representation at senior and middle management was 21% (2015: 11%) and 32% (2015: 30%) respectively. At

Renault Headoffice, black representation at senior management level increased from 25% in March 2015 to 45% in April 2016 due to focused recruitment policies and the active involvement of the executive in ensuring that suitable candidates are found for vacancies.

## ONLINE CASE STUDY

### SECURING THE ASSETS OF LOCAL COMMUNITIES WHILE CONTRIBUTING TO JOB CREATION

The 'Dot What U Got' initiatives hires unemployed community members as promoters of microdot technology.