



TRADE & INDUSTRIAL POLICY STRATEGIES

BLACK INDUSTRIALISTS CASE STUDIES

Microfinish

August 2022

The Black Industrialists Policy aims to increase the participation of black South Africans in operational management, rather than just financial ownership, of enterprises in key sectors and value chains. The programme was launched in 2015 by the Department of Trade, Industry and Competition, supported by the Industrial Development Corporation and the National Empowerment Fund.

The Black Industrialists Conference in August 2022 examined the impact of the Black Industrialists Programme and explored support measures to boost entry of black-owned businesses and producers into the mainstream economy. It also showcased the work of black industrialists. As an input into the conference, TIPS prepared nine case studies on black industrialists. Renee Grawitzky conducted the research and interviews, and TIPS provided the industry context and looked at the broader developmental objectives.

This case study profiles Microfinish, a company that manufactures parts for the world auto industry. Other companies profiled are: CapeBio Technologies; Easy Farm; Equal ELM Trading; Flat-Foot Engineering; Ikusasa Green; Pambili Media; PepsiCo ESOP; and Sindane Mining Ventures. Copies of the case studies are [available here](#).

Microfinish: manufactures parts for the world auto industry

Pinetown-based Microfinish manufactures parts, mostly valve guides and valve seat inserts, for the world auto industry. Currently it exports almost all of its production to Europe and the United States. It supplies major brands, including Volvo, Scania, MAN, Deutz, Porsche, Liebherr and Toyota. It also produces private label products for TRW, MAHLE, Freccia, Osvat, Tenneco and Motus.

Microfinish employs around 200 people. It refines its own high-grade metals from scrap in its Microcast subsidiary, then turns them into world-class auto parts in its Microfinish manufacturing plant. This kind of upstream manufacturing is a priority of the national strategy to build the auto industry, which is central to advanced manufacturing in South Africa.

Microfinish was established in 1986 as a niche market supplier of valve guides and valve seat inserts. In 2010, after it went into business rescue, it was acquired by Durban businessman Brian Naidoo, whose son Deshan Naidoo took over as chief executive officer in 2018.

The new management inherited aging machinery that had contributed to the company's failure. With support from the Department of Trade, Industry and Competition (the dtic) and the KwaZulu Growth Fund, it invested more than R100 million by 2017 to establish an internationally competitive manufacturing facility. As a result, it reduced its unit costs by around a third and significantly expanded sales and employment.

Microfinish has also benefited from close collaboration with the CSIR, especially its Technology Localisation Implementation Unit. A project set up with the CSIR, which included representatives of the National Foundry Technical Network and the University of Johannesburg's the Metal Technology Casting Station, vastly reduced the metal wasted in the production process. That was a critical step in improving the company's international competitiveness.

Today, Microfinish is exploring production of alternate precision components for electric vehicles. Electric vehicles require fewer and different parts, and South African producers need to start innovating now to maintain their foothold in world markets as the auto industry adapts to the climate crisis. In addition, Microfinish aims to increase its local sales, as its management argues it only makes sense to be producing locally for the local market.

Deshan Naidoo, studied finance and economics at the University of Cape Town and then worked for an investment management company. When he was 25, he started a holding company that provides management consultancy and investment services to small and medium enterprises and distressed businesses.

Naidoo is now the youngest CEO in the South African auto industry. While his background is in commerce, he always had a passion for engineering. He notes that the automotive sector is mainly dominated by multinational companies, with a limited number of locally owned businesses.

When Naidoo became involved in the business, he was key to driving transformation to ensure a more youth-focused and dynamic space. The majority of Microfinish employees are under the age of 35, and about 44% are young black women. Naidoo and his team are focused on internal training and upskilling. As a learning organisation, he believes in "distributed leadership" where "leadership and decision-making is delegated not only to managers, but to people working on the shop floor. Employees are encouraged to experiment and to fail, with the goal of creating an entrepreneurial culture in the search of efficiency and to reduce the cost of production." At the

same time, he says, “we are playing in an extremely competitive industry and emerging entrepreneurs must not underestimate technical expertise and the benefits of collaboration.”

Naidoo stresses the importance of government support, including efficient logistics infrastructure – notably at the ports – for a successful auto industry. Transnet’s ability to maintain seamless, dedicated facilities for the industry has been critical for its success, but reducing delays and improving the quality of transport is an on-going challenge.

Strong local companies like Microfinish are the backbone of South Africa’s industrial policy for auto manufacturing. Everywhere in the world, the industry’s success depends on a combination of strong government support combined with local companies that feed into the dominant world brands. Today, South Africa’s world-class auto assembly industry contributes a tenth of exports and creates 100 000 jobs. It supplies around 0,7% of global auto exports, ranking 25th in the world – just below Romania and above Brazil, Portugal and Indonesia. Its success results from large-scale programmes led by the dtic and rooted in collaboration with both local and foreign stakeholders. Today, a crucial objective is to promote upstream production in companies like Microfinish. That requires innovation, advanced technologies and high standards to meet the demands of global car manufacturers.

Trade & Industrial Policies Strategies (TIPS) is an independent, non-profit, economic research institution established in 1996 to support economic policy development. TIPS undertakes quantitative and qualitative research, project management, dialogue facilitation, capacity building and knowledge sharing. Its areas of focus are: industrial policy, trade and regional integration, sustainable growth, and a just transition to a sustainable inclusive economy.

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