

HYUNDAI IS MORE THAN A BRAND

WITH OUR CARS, CUSTOMERS HAVE PEACE OF MIND.

Melkamu Assefa
CEO & Managing Director, Marathon Motor

Marathon Motors, established in 2009, is the leading importer of Hyundai brand cars into Ethiopia. Recently, after extensive talks and collaboration with Hyundai Korea, the importer opened a car assembly plant in the country with an investment of half a billion birr. The first cars rolled off the line in October 2018. Even though production has been relatively slow so far, the plant has a full production capacity of 36 cars a day. Hyundai and Marathon are making cars available to the Ethiopian market that have been specifically engineered for the country's climate, altitude and driving conditions, without compromising safety features. However, Marathon's journey to building the plant, and indeed the whole company, has not been an easy one. Their path has been dogged by issues of electricity provision, government support and foreign currency shortages, as have many businesses in the country. The Company's founding CEO & Managing Director, Melkamu Assefa, discusses the decade journey of the company and the brand he represents.





Hyundai recently started automobile assembly in Ethiopia at Marathon Motors. What are some details about the project?

Melkamu: Well, we planned to start assembling Hyundai automobiles in 2010. However, the negotiation with the Hyundai Company in Korea took some time. Hyundai is one of the leading brands in the world, so it wasn't easy to fulfill their requirements to start the plant. Access to land took several years. In fact, we received 30,000 square meters on the outskirts of Addis Ababa in February 2017, six years after we submitted a request. On top of that, the technical and logistical preparations took so long that we started assembly last October. But the construction of the plant was finalized in just a year.

There are some African countries which assemble Hyundai vehicles, so we assessed their experiences and technology. Most of these assemblers manufacture passenger vehicles. We decided to start assembling both commercial and passenger vehicles with the next level of technology. So, we have the capacity and will start assembling electric vehicles in a year.

Aren't electric cars more expensive?

Yes, their initial investment is more expensive. But their running cost is much cheaper than conventional cars. Besides, they are environmentally friendly, as they have no carbon emissions. We ask the government to reduce excise taxes on electric vehicles to reduce fuel consumption and pollution.

How much was invested to start the assembly plant?

It's half a billion birr. As our business includes assembly and complete service lines, i.e., sales of automobiles; supply of spare parts and also maintenance services, it needed a huge investment and facility.

Where did you get the finance; from loans or through raising additional capital?

We used our retained earnings. Marathon was established with ten million birr in 2009. We have been growing ever since and now our paid up capital has reached well over two hundred million birr.

Marathon is a national company; most of our profits are reinvested. That's why it has grown faster than its peers. You can see the cumulative effect of our growth and expansion in the taxes we pay. So far, we have paid over a billion birr in cumulative taxes.

When we started representing Hyundai, there was only grey importing and almost no established maintenance service providers for Hyundai. As a result, the resale value of the vehicles was low. However, with the opening of Marathon and provision of complete service, the resale value of Hyundai cars in Ethiopia has grown greatly.

Hyundai is a leading global brand. It produces almost fault-free vehicles with almost no recall his-

tory. Their accident rates are also minimal because the vehicles' safety and other features are very reliable. Their fuel consumption is very economical. That has contributed to the growth of the brand.

Many of the cars imported to Ethiopia are old second hand vehicles that have sometimes been driven for over twenty years. Why?

It's because of the country's rules. The government heavily taxes new cars. Second hand cars have high fuel consumption and need spare parts. They also emit more carbon. On the other hand, even most of the imported new cars are technically wrong for Ethiopia. Vehicles are continent-specific. The altitudes of different continents differ, so the engines in cars of same brand for different continents differ. Hyundai for example has specifications for Europe, North America, Middle East, Asia, and Africa. In fact the specifications



market?

It's around 3,500 cars on our side. There are more Hyundai cars imported through the grey market. Hyundai has a 40 year history in Ethiopia. I think about 30,000 cars have been imported since then.

How many cars have you assembled so far?

So far, around 50 cars have been assembled. We will produce all models of Hyundai including trucks. The plant's annual capacity is 10,000 cars, which is 36 cars a day. But the foreign currency to import parts is a big problem. Given the macroeconomic situation, we can produce maybe 1000-1500 cars annually. It all depends on the forex issue. We have skilled technicians who have been trained here, and with Korean experts abroad.

What challenges did you face while establishing the assembly plant?

The currency devaluation was severe. We were also hit by labour shortages because of the country's security issue. Issues with raw materials were also critical. This project was finished with a lot of trouble. But because we are an Ethiopian company, we waited patiently; foreign investors would have probably left under such circumstances. We waited more than a year to get electricity. In fact, the first car was assembled working with a generator.

Prices for construction materials also rose drastically. The metal sheets we bought for ETB90 when we started construction jumped to ETB330.

We also had a lot of involvement from the Korean side because it was a brand project. We were often sending the design of the plant to Hyundai for comments, and they followed the project very closely. The back and forth cost us some time.

What was the government's support like during the construction of the plant?

The Addis Ababa Investment Agency was very cooperative. But there was a lack of cooperation between various other government offices.

How many job opportunities have been created by the assembly factory?

When it was still in the project phase, there were around 2000 people working there. However, these employees were



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even get down to the country level. So an automobile produced for one country may not operate at its best in another country. Globally, vehicles are manufactured and imported based on vehicle identification numbers (VIN). Their spare parts are produced based on that. Marathon keeps a stock of spare parts only for cars manufactured with VINs for Ethiopia.

How are country specific cars of the same brands produced?

We send sample fuel to Hyundai, and based on that and other conditions, such as climate, altitude and road conditions, the motor is designed and produced. The automobiles we import are all made for Ethiopia. Cars imported from Dubai or Europe are made for other countries, so they don't operate at top condition in another country. Their safety, fuel consumption and other elements decline quickly. That's why it's advisable to buy new cars from the right importer.

But new cars are very expensive for most

Ethiopians

This is because of the excise tax levied by the government, which for some cars is more than 70Pct of the final price tag. If government reduces the tax, of course the price will reduce.

The government thinks that it will lose revenues if it reduces taxes. However, it will get more as the volume of cars increases. Some officials even think that fuel consumption at the national level will increase if the government bans the import of second hand cars and reduce taxes on new ones. This is wrong, because it is old cars that consume more fuel, spare parts and emit more carbon.

There is a lot of traffic in Addis. Is this because of too many cars or too few roads?

It's because of poor road efficiency. Addis has fewer cars than many of its peers. However, our cars are not road worthy because most of them are old. Technically unfit cars are worsening traffic congestion more than the size of roads.

Getting back to Marathon, how many cars have you so far introduced to the

temporary. At full operational capacity, we will need up to 1500 employees. At the capacity we have now, because the letter of credit we get is small, we employ around 140 people in the plant. Marathon Motors has a total of 340 employees. We started with three people.

What is the difference between the cars assembled here and the imported ones, in terms of quality, safety and price?

These days, what is important is not the “Made in” but “Made by” concept. When

Coming to the engine, the fuel specs and fuel quality are taken into consideration. If there is a high lead content in the fuel, that is taken into consideration while designing and manufacturing the engine. If we don't pay attention to this, then we can't offer good warranties, and the Hyundai brand will suffer too. It is better not to compromise on these fundamental issues because of the road conditions and the altitude.

The difference comes in the price. We have spec 1, spec 2, and spec 3 options.

steering wheel on the correct side. These are regulations that were enacted a long time ago by the Transport Authority. When we went to get an import permit, these were the requirements.

What are the tax benefits that you get for assembling cars locally?

We get a tax holiday of one or two years. The custom duty on the completed cars is 35Pct, but is five per cent because we semi assemble here. However, the excise tax, which is what makes cars expensive, is still the same.

Why should people buy Hyundai over other brands?

Frankly speaking, first, it's because they will enjoy the specs. We have a low recall rate globally. The cars are reliable. The running cost is good. There are parts available, like for like. It costs 20-30Pct less for spare parts compared with other brands. To see if a car is economical, you have to look at the money you spend on driving the first 100,000km. Our brands are very competitive in these parameters.

With our cars, customers are having peace of mind, and leisure. Driving shouldn't be a chore. It should be peaceful and enjoyable. That is why our sales people aren't pushy. They take into account the customers' needs. Soon, we will display all that customers need to know about the car they buy in our showrooms. Nothing will be hidden, including service costs. The customer needs to have all the information to decide. The price is not the most important thing about a car because we



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we talk about 'made in' it is the country of origin. 'Made in' is fading away gradually. Because our cars are made with Hyundai engineering and the plant has been approved and inspected with their standard and specifications, there is no issue with quality,

Of course, there is a difference in price. For example with the Creta1600 CC model, comparing like for like between the ones assembled here and the imported ones, there is a 15-18Pct difference in price. It's similar for other models.

In many developing countries, we see efforts by car brands to lower prices to match consumers purchasing ability by adjusting the materials and options, sometimes even compromising safety features, even if the brands are globally established. What about Marathon Motors and Hyundai?

There are things that you can compromise on, and things that you can't. There are major parameters, like the engine. The two most important things about a car are the chassis (the frame) and the engine. There is more focus on these things. There is something called the Harsh Road package, specifically for this country. It includes a high altitude compensator, so you don't lose power as the altitude increases. You wouldn't find this in cars in the UK for example. The suspension, the radiator and the frame are all heavy duty.

So for example, airbags are mandatory for the driver and passenger side. In other countries, there are airbags for the back seats as well, which would increase the price if we did it here. In Europe, there are leather seats available. In Ethiopia, I don't think leather seats are useful, as we are in a tropic environment, so they will be uncomfortable. Air condition (AC) used to be an option, but now that there are more emissions, people drive with their windows closed. AC is fundamental. Driver and passenger airbags are also fundamentals.

The tyre rims (wheels) in other countries are made of alloy, but in this country, they are made from steel. All these things,



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of course, add to the price. To be competitive and affordable, there are models with and without these features.

But we also see brand new cars imported without airbags. Why don't the regulatory agencies stop this?

The big thing for the regulators is that cars we import have seatbelts and the

sell more than just a car. We sell a brand and a package of course.

When there is a foreign currency shortage, I don't worry about not importing new cars. I worry about importing parts for my customers because they rely on our spare part supply. Our philosophy is to have sustainable lifetime partnerships with our buyers.