Simplifying the cost of complexity in manufacturing

By Nadia Rawjee

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I attended a great session recently on the cost of complexity in manufacturing, hosted by GIBBS and presented by Andre de Ruyter, the CEO of Nampak.

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We have all, I'm sure, been reading about how the economy is not ideal for South African manufacturers and that with wage and labour issues, struggling consumer demand, power cuts and insufficient policy to support a healthy manufacturing environment, the picture looks bleak - this is the same old rhetoric we hear over and over.

What I appreciated from the forum was Andre's proactive and inward-looking approach, whilst not denying any of the above lacks challenges and struggles, these are such simple perspectives that I think businesses tend to forget.

Andre shared Nampak's rationalisation and recapitalisation strategy and mentioned that this is a common challenge in the manufacturing fraternity.

Rationalise

To become more efficient and drive profitability a business should rationalise its customers, products, suppliers and processes. I've done this exercise in the past - analysing thousands of product lines and hundreds of customers to see who is making and who is costing you money. The analysis of Pareto's 80/20 law always rings true - 20% of your customers will provide you with 80% of your profits and so on. Some of the biggest challenges were actually getting the information to make the decisions - it's a worthy but mammoth task that I must admit my analytical brain loved.

Skills are short but automation may solve the challenge

Skills have aged and are approaching retirement (if not there already), and not enough artisans have been brought into the economy - partly due to the view that being an artisan holds no prestige within South African culture and society when, in fact, it should.

Capitalise and automate

And, with this lack of skill, manufacturing business has not adapted to a more capitalised and automated model of production - and, thus, is consistently at the mercy of rigid labour laws, unproductive labour, strikes and a lack of skill that keeps us in a declining state of manufacturing.

Whilst some believe that automation will reduce the number of workers, it is expected to have the opposite effect and also to contribute to SA's competitiveness.

Through intensive recapitalisation, Nampak has increased efficiencies by rationalising its stock keeping units (SKUs) - that is products it keeps - by ±35%, saving 90% on water and significantly reducing energy consumption.

So what's the way forward? Rationalise your product, customers and suppliers to simplify your production and make use of existing policy and frameworks to support and subsidise the improvement in production - Manufacturing Competitiveness Enhancement Programme to support and subsidise production, Section 12I as a tax incentive for manufacturing businesses (new and expanding) on machinery imported, SETA apprenticeships that allow you to utilise the skills development levy you pay every month for the training of artisans (note work skills plans are due in April of each year), IDC Gro-E Fund providing job creating businesses with subsidised loans up to R500,000 per job created, etc.

With the current state of consumer demand decreasing due to disposable income being under pressure - business must look at efficiency to drive costs down in order to provide profits to stakeholders.

ABOUT NADIA RAWJEE

Nadia Rawjee is the Managing Director at Uzenzele Holdings. Nadia Rawjee has experience in industries ranging from FMCG to manufacturing and mining because of family interest and her involvement in an influential African network called Intra Business Network. Her skills lie in business analysis, business modelling and accessing developmental funding. She has a BCom degree in Finance and a BCom degree in Economics and Econometrics from the University of Johannesburg.

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