

# Newsletter

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# 1. FOREWORD



## BT&R Executive Manager Mr Justice Tshifularo

It is with immense pleasure that I introduce you to the first edition of the Business Turnaround and Recovery Programme (BT&R) newsletter in 2023. Last month, we celebrated Nelson Mandela Day which was observed on 18 July 2023.

*I find it appropriate to start my welcome note to this newsletter with the great icon's quote that reads **"...it always seems impossible until it is done"**.*

It feels like yesterday when in June 2020, the Deputy Minister of the Department of Employment and Labour (DEL), Ms Boitumelo Moloi, and DEL entity the Unemployment Insurance Fund (UIF) revived Productivity SA's BT&R programme with a mandate to support 174 distressed businesses.

Productivity SA is an entity of the DEL. Productivity SA's BT&R programme is aimed at preventing job losses through the implementation of turnaround strategies to support companies facing financial and/or operational difficulties which may result in the companies contemplating retrenchments.

Productivity SA reinstated the BT&R programme (formerly known as the Turnaround Solutions Programme) in July 2020 at the height of the COVID-19 pandemic. The programme had been suspended in 2018 due to a lack of funds. At the time of reinstatement, the Chairman of the Board of Productivity SA, Prof. Mthunzi Mdwaba, said DEL through the UIF pledged over R104 million to turn around ailing enterprises countrywide.

Fast forward to today and the programme has assisted South African enterprises and exceeded its targets with over 16 250 jobs saved.

The BT&R programme is open to all sectors of the economy for applicants who are in good standing with the UIF and the South African Revenue Services (SARS).

The main objective of the programme is to implement business turnaround and recovery as provided for in Section 2(1)(a) and (g), Section 32(g) and Section 7(1 - 3) of the Employment Services Act. The BT&R Programme aims to save jobs and create conditions conducive for job retention and job creation. The programme seeks to inspire enterprises to be more vigilant about issues relating to job retention, to mitigate on-time performance/productivity decline that increases the likelihood of job losses.

The programme provides non-financial assistance to different organisations and companies to increase productivity, profitability and service as well as retain jobs. The intervention delivers turnaround and contingency plans for companies that are faced with the risk of financial ruin, extensive job loss and sustainability challenges.

To fully understand how the programme can assist your enterprise please read the three cases studies of companies that have implemented BT&R covered in this newsletter. The three case studies outline how BT&R assisted the companies to attain higher profitability and sustainability. I hope you enjoy the first version of the BT&R newsletter. The newsletter will be published quarterly.





## 2. PRODUCTIVITY SA PUTS JOBS FIRST THROUGH BUSINESS TURNAROUND AND RECOVERY PROGRAMME

### Background

Productivity SA, (previously known as the National Productivity Institute, and re-branded in 2006/07), was formed in 1969 as a Section 21 Company with the aim of promoting and enhancing productivity throughout SA. Productivity SA is established in terms of section 31 of the Employment Services Act, No. 4 of 2014 as a schedule 3A Public Entity of the Department of Employment and Labour, responsible for promoting employment growth and productivity, thereby contributing to South Africa's socio-economic development and competitiveness. The entity is required to enhance the productive capacity and operational efficiency of enterprises throughout the business lifecycle to contribute to amongst others, job preservation or minimising the retrenchment of workers.

The Business Turnaround and Recovery Programme (BT&R), which is funded by the Unemployment Insurance Fund (UIF), provides non-financial support to enterprises facing financial and/or operational challenges. BT&R identifies solutions to restore the businesses' future sustainability, and prevent job losses. BT&R is one of Productivity SA's flagship programmes and the programmes' Business Turnaround and Recovery plans are in response to the provisions of Section 2(1)(a) and (g), Section 32(g) and Section 7(1 - 3) of The Employment Services Act of the Employment Services Act and the provisions of section 5(d) of the Amended Unemployment Insurance Act.

### Productivity SA 's approach

Productivity SA's approach to improving productivity is to diagnose, advise, implement, monitor, and evaluate solutions within enterprises. The ultimate aim is to improve South Africa's sustainable growth, development, and employment through increased competitiveness of its enterprises.

The entity's three enterprise development and support programmes are:

- Business Turnaround and Recovery (BT&R), which deals with distressed enterprises, and provides support initiatives aimed at improving enterprise development thereby preventing job losses.




- Competitiveness Improvement Services (CIS), with emerging, and sustainable enterprises and is structured to promote a culture of productivity in the workplace.
- Research, Innovation and Statistics (RIS), which supports the business of both the organisation and its clients by maintaining a database of productivity and competitiveness systems and undertaking productivity-related research.

BT&R provides non-financial assistance to increase productivity, profitability, and services, as well as save and retain existing jobs. BT&R develops and implements comprehensive interventions designed to set businesses on a sustainable growth path.

### Footprint and implementation structure

BT&R operates across all nine provinces, structured as Region 1 (Gauteng, Limpopo and North West), Region 2 (Western Cape, Free State and Northern Cape) and Region 3 (KwaZulu-Natal, Mpumalanga and Eastern Cape) through a three-tier structure as follows:

#### BT&R Programme Performance July 2020-June 2023

Number of Companies Nurtured	
	60 companies from Region 1 ● GP ● NW ● LP
	51 companies from Region 2 ● WC ● NC ● FS
	84 companies from Region 3 ● KZN ● EC ● MP
Jobs Saved and Created	
	16 250 jobs saved and 1 332 new jobs created resulting in 17 582 jobs retained
Future Forum Members Trained	
	1 975 Future Forum member on the business operation and how the company can be sustainable and profitable

## Legislative Mandate – BT&R Emphasis

### The Employment Services Act

- Promote employment, growth and workplace productivity, Section 2(1)(a) and (g).
- To support initiatives aimed at preventing job losses, Section 32(g)
- Retain jobs through turnaround strategies in organisations that are experiencing financial or operational difficulties that may result in an employer contemplating retrenchment Section 7(1-3).

### Amended Unemployment Insurance Act

Financing of the retention of contributors in employment and the re-entry of contributors into the labour market and any other scheme aimed at vulnerable workers, Section 5(d).

### Presidential Job Summit Key Principles

- Section 1:2-Maintaining and strengthening the social safety net.
- Imperative to defend existing jobs.
- Strengthen the effectiveness and uptake of interventions to assist firms and industries which are already in distress.
- Section 1:4 – Protecting Jobs & Tools to Avoid Retrenchments:
- Engagements with Productivity SA to develop and implement comprehensive interventions designed to divert firms to sustainable growth paths.

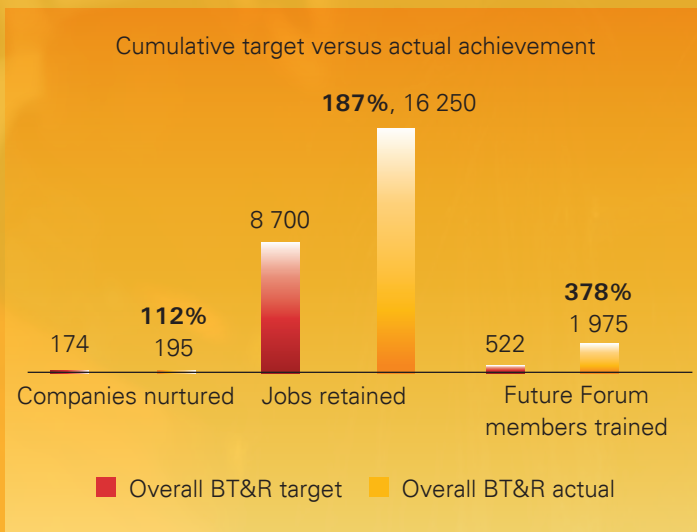
## Measuring success

Productivity SA and BT&R are driven by the fact that our client's success is a true reflection and measure of success. BT&R measures its success through the number of jobs saved as a result of BT&R interventions, the number of companies facing economic distress that are supported through the turnaround strategies to retain jobs; and the number of future forum members trained on productivity improvement solutions.

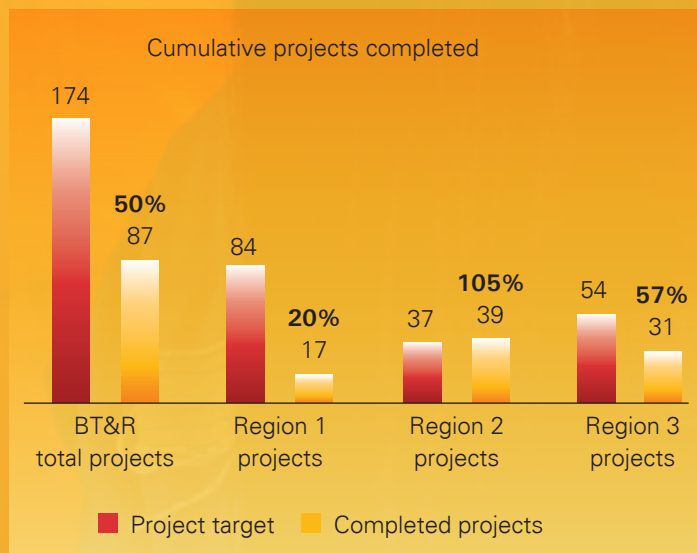
More detailed measures, which are important in terms of legislative and policy mandates, look into areas that describe the inclusive economic growth of historically disadvantaged individuals as well as the demographic breakdown of those assisted. The breakdown of companies assisted by the BT&R programme are illustrated in the figures below:



## BT&R Programme Performance – July 2020 to 31 June 2023



By June 2023 the BT&R Programme has enrolled 195 companies thereby saving 16 250 jobs and training 1 975 Future Forum members on business operations and how the companies can be sustainable and profitable. Out of the 195 companies supported by the BT&R programme 60 of those companies are from Region 1 (GP, NW, LP), 51 companies from Region 2 (WC, NC, FS) and 84 companies are from Region 3 (KZN, EC, MP). Out of the 16 250 jobs saved, 4 457 are in Region 1, 6 461 in Region 2 and 5 332 in Region 3. From the 1 975 Future Forum members trained, 466 Future Forum members are from Region 1, 756 in Region 2 and 750 were trained in Region 3.





By June 2023, the BT&R Programme had completed 87 (50%) projects with 17 from Region 1, 39 from Region 2 and 31 from Region 3.

## Business ownership by women and people living with disabilities

Almost 30% of the businesses enrolled in the BT&R programmes were owned by women, of whom 14% were black women and this is an indication that the programme is achieving its goal of women empowerment. Twelve of the companies assisted were owned by persons living with disabilities. The majority of companies (7) assisted owned by people living with disabilities were also black owned.

## Jobs saved

In addition to the 16 250 jobs saved, BT&R created 1 332 new jobs by June 2023, resulting in the retention of 17 582 jobs. In the jobs retained, 4 829 (30%) relate to youths across the country, 897 (6%) to people living with disabilities and 7 526 (46%) to women. The majority of jobs retained relate to black people 12 447 (77%).

## Operational sectors of operation

BT&R has implemented turnaround strategies in more than forty different industry sectors since its inception, with the top ten being: Manufacturing: 47%, Services: 6%, Construction: 5%, Engineering 5%, Agriculture: 4%, Transport and logistics 3%, Hospitality: 2%, Printing: 2%, Textiles: 2%, and Security 2%.

## Eligibility for assistance

The BT&R programme is open to any enterprise in distress, irrespective of size and sector. To qualify an enterprise must meet the following criteria.

- Be in operation for at least 2 years
- Financially or operationally distressed
- Provide at least 2 years of the latest financial statements
- Provide a SARS Pin to confirm SARS and UIF compliance and validity
- Provide UIF stamped UI19 Forms/an EMP201 Full Report.

## Applying for assistance

### BT&R Programme Awareness

- Potential clients should contact Productivity SA via email at [turnaround@productivitysa.co.za](mailto:turnaround@productivitysa.co.za) or visit the Productivity SA offices in various regions.
- Once a potential client shows interest, the BT&R Practitioner will explain the BT&R Programme and qualifying criteria, provide the application document and outline how the forms must be completed. Financial statements, EMP201 Full Report and SARS Pin will also be requested.

### High-level Assessment

- A high-level assessment of the state of the business will be done to determine whether the company is viable for a successful turn-around.
- The high-level assessment may include a site visit to the company.

### Application

- Once all documents have been completed and supporting documents received, a financial assessment will be done to determine the financial position of the organisation.
- A nurturing report will be compiled summarising the root causes for distress as well as possible mitigation strategies to combat the distress and turn the organisation around.





### 3. FROM STRUGGLING SAPPLINGS TO HEALTHY GROWTH

*Case Study: African Greeneurs & Horticulture (Pty) Ltd (AGH)*

Enterprising Africa Regional Network (Pty) Ltd (EARN) is a South African organisation, established in September 2014, specifically to develop a new generation of successful African Entrepreneurs. EARN aims to work with South Africa's growing young population, develop their skills, identify opportunities, and enable them to develop and run successful businesses thereby creating a pool of a youthful and skilled workforce. This enables African youth from various backgrounds to become self-reliant.

With a focus on the United Nation's Sustainable Development Goal 2 (Zero Hunger), EARN set about developing young African men and women into successful agripreneurs through its agriculture subsidiary, African Greeneurs & Horticulture (Pty) Ltd (AGH). By 2020, the subsidiary employed 130 people at its Elandsfontein farm near OR Tambo Airport in Ekurhuleni. Its range of healthy produce, including peppers, tomatoes, and baby spinach, and its high-quality deco and spray chrysanthemums, sunflowers and lisianthus soon attracted not only local, but also international clients, with 65% of sales accounted for by exports to the Middle East and Australia amongst other global markets. AGH ran a thriving business however the nationwide lockdown in March 2020 due to COVID-19 put brakes on their successful venture.





The COVID-19 lockdown came at a time when AGH had just acquired Rolf Farms. As international flights were cancelled and the lockdown period extended, international sales came to an abrupt end. AGH suffered huge losses and at least a staggering R9 million worth of flowers alone, in various growing stages, had to be discarded.

Post-lockdown, as AGH began to pick up the pieces again, it found itself in a desynchronised operational situation, with unutilised resources in some areas, low-capacity utilisation in other areas, operational inefficiencies, and reduced customer base. This dire situation necessitated for business recovery and turnaround interventions and AGH turned to Productivity SA's BT&R programme for assistance to steer their business towards recovery.

Although AGH is currently implementing BT&R, significant progress has already been made. Turnaround interventions were undertaken with the consent and inputs of employees who are set to become members of a Representative Forum that will serve as a springboard to implement strategies. A business plan was developed during a series of workshops with key management and staff members. Strategic alliances were facilitated by engaging with target companies, arranging site visits, holding meetings, and submitting proposals. Production efficiency improvements were initiated through investigations and constraints analysis using the Theory of Constraints (TOC) diagnostic tool.

Workforce and management training will be conducted as part of the final deliverable using custom-made training programmes, and management training will include strategic topics such as production, processing, marketing, and people management. Interim feedback meetings will be conducted with the future

Representative Forum to keep the forum updated on developments and progress.

The business and expansion plan developed have provided the blueprint and strategies to get AGH back to full profitability. To date, new strategic alliances and partnerships have resulted in future sales amounting to R8 million per year.

Team members undertook the optimisation of the greenhouse planning system, for both food and flowers. This is critical to the success of the overall achievement of business growth. The plans are reviewed on a daily basis before the start of each shift, which creates the opportunity for constant updates and checking relevance. By investigating production efficiency, optimisation has resulted in a reduction in production costs, the expansion of production, and production security. The changes have paved the way for increased throughput, optimisation of resource allocation and synchronised operations. The strategies implemented are geared towards uplifting the corporate culture as well as improving employee behaviours, attitudes, capabilities, and commitment, thereby motivating AGH teams to perform better.

In terms of expansion, AGH is planning to develop a state-of-the-art, economically viable AGH Central Hub to support agripreneurs by providing training in commercial agriculture production. The Hub is critical for the successful growth of the business, with the main aim being agro processing in line with the business expansion plan.

Thus far, the project has achieved notable successes which has contributed to the future viability of AGH as well as the potential for future co-investment in infrastructure expansion and upgrades.

## 4. FASHIONING BUSINESS FOR A SPORTING CHANCE

### *Case Study: Fabi Fashion*

Fabi Fashions CC is a clothing manufacturing company with its factory located in Somerset West, Western Cape. Fabi Fashions was established in 1988 – and its primary business focus is within the fashion industry. In 2000, the company decided to shift its range to sportswear manufacturing after realising a gap in the sportswear market. Fabi Sportswear serves the school, corporate, and leisure-related markets such as fishing and sports clubs. The school market, however, constitutes the largest part of the clientele base as it covers both sportswear and school uniforms. Following the shift towards sportswear manufacturing, the business soon gained substantial market share in mostly private schools, particularly in the Western Cape and Gauteng.

In the initial stages of the shift to sportswear, the business undertook only pattern design and the cut, make and trim components (CMT) were contracted out to CMT plants. In 2004, the company began its own production, and continued to use CMT plants for capacity extension as and when needed. This arrangement continued, but it slowly became apparent that the approach to use CMT had various shortfalls. By the time the COVID-19 pandemic struck, the business was already in a weak position due to operational challenges that led to operational losses. The restrictions imposed to contain the spread of COVID-19 saw the closure of schools in the country for an extended period and thus Fabi Fashions's market share reduced significantly. This amplified the already financially distressed business, necessitating for the company to apply for business turnaround through assistance by Productivity SA's BT&R programme.



Following approval to implement and benefit from the programme, Productivity SA allocated a project manager to undertake an in-depth study of the business, and consequently strategies were developed to address Fabi Fashions's ailing operations side. Strategies were developed to introduce a quality management system; a production capacity and performance management system; a pre-production planning and an early warning system; a stock control system; and a performance and attendance recognition system.



As a result of the implementation of systems, the quality of products improved. Repairs or reworks declined exponentially, from an average of 48% to an average of 15%. This decline was brought about through a combination of strategies including quality checking, standardised operating procedures, the introduction of data measurement tools, the addition of a feedback loop to the production department, and the introduction of investigation models.

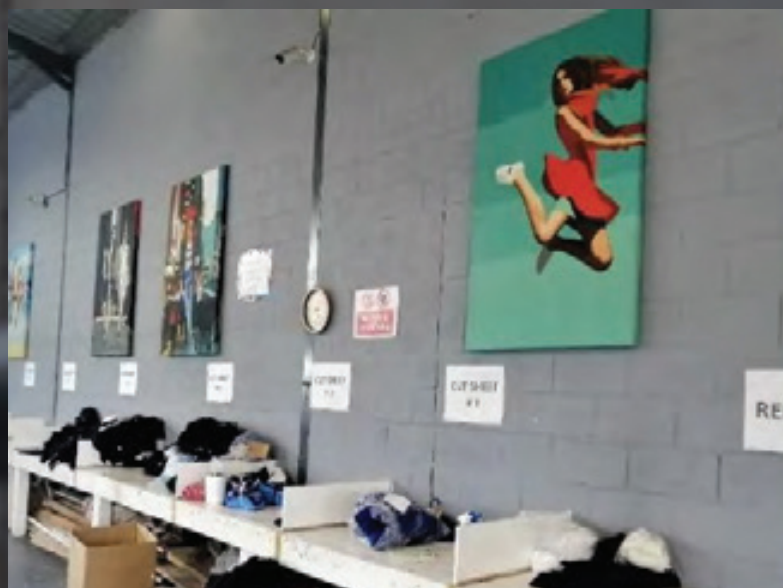
The fulfilment of orders on time and in full (OTIF) improved due to the decline in reworks, and the preproduction planning and tracking system. The production of garments to expected specifications and quality resulted in the recovery of production lost to the associated waste. This in turn increased the quantity of garments that the production lines could produce per day. Some fluctuation was observed towards the end of the year due to an influx of schools which placed orders in preparation for the upcoming academic year, but the production department nevertheless managed the situation.

Prior to the intervention, fabric re-cuts resulted in monthly financial losses. Some of the reasons behind these losses included non-quality compliant garments, lost garments within the production process, the mix up of garment pieces at the work in progress table, oil spoils and holes in garments. In April 2021 a baseline was established, and a number of strategies were developed to mitigate fabric re-cuts. The strategies developed included accountability measures incorporating quality control, enforcement of strict adherence to the bundle system in production flow, and conformance of material transfer between departments by means of supervisors' signatures. This resulted in a monthly decline in fabric re-cuts from a value of R3 500 to about R1 200.

Prior to the intervention, a lack of planning and coordination meant that the printing and sublimation machine was severely underutilised. Following the introduction of the production planning and tracking system, utilisation improved, though further improvement is envisaged.

The success of this turnaround lies in the accurate recognition of crucial points in production, the identification of key performance indicators or metrics to be captured for comparison over time, and the development of appropriate tools with which to capture and analyse the data to provide meaningful direction. The ultimate key to success, however, was ensuring that the factory personnel were fully trained on how to use the measurement tools and capable of doing so accurately.

With this training came an understanding for personnel of the critical need for Key Performance Indicators (KPIs) and metrics in the management of production operations, and production personnel became conscious and attentive to work specifications and instructions. The project instilled a culture of work accountability, the need to carry out each task responsibly, and the importance of taking ownership of the work. Through the adoption of an improved work culture, came an appreciation for personnel of their value and the importance of their roles in the success of their organisation.



The work in progress tables – before and after the intervention.



## 5. NO LOUNGING ABOUT FOR THIS MANUFACTURER

### Case Study: Zulu Lounge

Zulu Lounge SA (Pty) Ltd was established in 2016 by a team of professionals who collectively had decades of experience making furniture. The company manufactures a wide variety of lounge suites, corner sets, couches and occasional chairs in diverse designs, styles, and finishes.

Following its establishment, Zulu Lounge penetrated a strong network of independent retailers and major chain stores to be a supplier in South Africa and across the The Southern African Development Community (SADC) region (Botswana, Lesotho, Swaziland, Namibia, and Zambia etc.), targeting the lower to medium segment of the market. However, by 2020, business began to slow down and product costing inaccuracies resulted in over- and under-pricing of products. Inaccuracy in the bill of materials (the subcomponents and quantities of each which are needed to manufacture each product) led to difficulty in monitoring and controlling inventory levels and usage costs. Limited factory floor-space led to difficulty in moving Work In Progress (WIP) to the next production process. Production cycle times were estimated rather than fixed, leading to inaccuracies in production cycles and an inaccuracy in labour costing. No formalised job descriptions were in place, which meant that there was poor alignment between resources and tasks. Quality control, specifically inspection, was predominantly conducted only at the end of the manufacturing process, which meant that production defects were only identified at the packaging stage, leading to major reworks. The working capital of the business was above the industry norm of 60 days.

Between February 2019 and Feb 2020, sales had decreased by 15.3% compared to a lower decrease in cost of sales and overheads of 11.6% and 8.4% respectively, while labour costs had increased by 14.5%. This resulted in a negative contribution to both the gross and operating profit margins. Furthermore, the asset turnover decreased which indicated that the utilisation of assets declined and had a negative impact on the profitability of the business.

Between February 2020 and September 2020, the operating profit margin further decreased alarmingly. Sales decreased by 51.9% compared to a lower decrease in the overhead costs of 48.7%, while labour costs increased by 47.2%. This was partially offset by a decrease in cost of sales of 57.5%. Nevertheless, these factors contributed negatively to the gross profit margin. These results provided clear evidence of the absolute risk that the business might undergo financial failure leading to insolvency, bankruptcy, provisional liquidation and other challenges.

Although the business maintained low levels of debt during the period which was achieved through investments in equity by the shareholders, this raised serious concerns as to their ability to sustain the company in the future in light of the ongoing operating losses, the company's inability to cover its interest obligations, and the level of the overdraft facility.

In order to mitigate and ameliorate these challenges, Zulu Lounge SA contacted Productivity SA's BT&R programme for assistance. To put the company back on a firm footing, and sustain profitability, BT&R initially focused on cost of sales, labour, and overhead costs.

Cost of sales was examined in terms of the use of materials, to find ways to ensure that materials are acquired at the best possible prices, waste is measured, and targets set to reduce



Due to the business having a high operational gearing, changes in sales had a direct impact on the operating profit margin. To improve profitability, the value of sales was considered in light of a strategy to find new clients and ensure that the targeted contribution margins are achieved, setting monthly sales targets, and paying attention to new service offerings on an ongoing basis.

As labour is a significant resource for the business, high labour productivity is crucial to ensure optimum profitability. Labour was examined in terms of accurate work planning and scheduling to ensure availability of work, and the skill and satisfaction of the workforce.

Overhead costs such as commission paid, depreciation, electricity and water, rent expense, and repairs and maintenance were examined to explore ways to minimise these costs.

To address overhead costs, BT&R in conjunction with Zulu Lounge developed and put in place an accurate production costing model. Operational efficiency of Zulu Lounge significantly improved by establishing cycle times for factory processes, and by grouping products (lounge suites, corner sets, and couches) based on the process they follow in production. The establishment of the cycle times resulted in accurate production planning, labour costing, and improved resource utilisation. Human resource issues were addressed by developing standardised job descriptions for all staff within the company, resulting in alignment of resources with the company strategy and a decrease in customer returns.

As a result of the BT&R intervention, productivity and innovation levels of Zulu Lounge improved, and as a new product range was introduced, with accurate costing, to supplement the well-known existing products.



## HEAD OFFICE

### Physical Address

International Business Gateway Office Park,  
Cnr New Road and Sixth Road, Midrand

### Contact

Tel: +27 11 848 5300,  
turnaround@productivitysa.co.za

Any comments and queries regarding this document should be addressed to:

### Productivity SA

Private bag 235, Midrand, 1685  
Email: turnaround@productivitysa.co.za  
Tel: 011 848 5300

## CAPE TOWN

### Physical Address

Office 202, Edward III Building,  
70 Edward Street (cnr Bloemhof  
and Mispel Road),  
Tyger Valley

### Contact

Tel: +27 21 910 1591

## DURBAN

### Physical Address

Suite 201, Cowey Office Park,  
91-123 Problem Mkhize Road,  
Essenwood, 4000

### Contact

Tel: +27 31 268 9770

