

Turning Point

A regular newsletter from Productivity SA's Business Turnaround and Recovery Programme



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DECEMBER 2024



Editor's note

Some words of welcome from the Business Turnaround and Recovery Programme Executive Manager

Hot on the heels of our first issue of Turning Point, we welcome you to the year-end edition after what has certainly proved an eventful and exciting year, not only in the world of the Business Turnaround and Recovery (BT&R) Programme but across the globe. There was never a dull moment in the runup to elections in both South Africa and the United States. Local artists notched up successes on the world stage, most notably the phenomenal Tyla. And, of course, there was the unparalleled performance of Siya Kolisi and his team, which again was one for the record books.

At BT&R, we, too, had much to celebrate. As an integral part of the job creation value chain that devotes all its efforts to preserving and creating jobs as the backbone of a thriving economy, we continued identifying and transforming businesses with potential but that had run into operational and/or financial problems. From 2020 to end-November 2024, we saved 21 738 jobs and created 1 879 new opportunities. To date, 271 companies have joined the programme.

In a country of chronic unemployment, this contribution is much needed. According to Statistics South Africa, the unemployment rate reached 32.1% in the third quarter of 2024. While this is an improvement from the 33.5% of quarter two and brought an increase of 294 000 in the number of employed persons to 16.9 million and a decrease of 373 000 in the number of unemployed persons to 8 million, the figure remains unacceptably high and is a perennial government priority.

Those aged 15 to 34 are particularly vulnerable, but a very small glimmer of hope was seen in the third quarter, when unemployment among this group decreased to 45.5% from the 46.6% of the previous quarter. This is a drop of 171 000 to 4.8 million. The number of employed youth increased by 66 000 to 5.8 million. The independent geopolitical analysis and consulting firm Oxford Analytica cites the combination of high unemployment and low growth as a major challenge. In October, National Treasury adjusted its February growth forecast for 2024 from 1.3% to 1.1%, with a projection of 1.8% over the

next three years. Given that a 3% growth rate is regarded as necessary to keep pace with the 500 000 annual entrants to the labour market, unemployment is likely to keep rising until 2026 at least, the company states. However, resolution of the country's logistics problems plus additional capacity from new energy investments could raise the growth rate to 2.8% in 2025 and 3.6% by 2027. While this is welcome news, the business environment will continue to be challenging and 2025 looks set to be an even busier year for our team, as companies struggle to maintain bottom line health and competitiveness.

As the year winds down, it's not only our cellphones that need charging. We need to recharge our minds and bodies to prepare for the tasks ahead. Thus, the BT&R Programme will shut up shop on 13 December and reopen on 2 January 2025.

We wish all our stakeholders — including our hard-working and dedicated employees — peace over the festive season and the gift of time to spend with family and friends, rejoicing in another year well lived.

Join us next year, when Turning Point will share more accounts of our work to turn companies' tribulations into triumphs and help to build a buoyant economy befitting this wonderful country we call home.

Miriam Makeba once commented '...if you cannot turn the world the way you want, you can at least get out of the way so you won't get run over'. Working together with our beneficiaries, we are confident that we can turn the world the way we want.

Justice Tshifularo

Justice Tshifularo
BT&R Programme Executive Manager

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CASE STUDY

HELPING ELEESE TO EASE ITS BUSINESS WORRIES



Clothing company Eleese has sewn and tailored a niche for itself in the premium clothing market, supplying garments to leading South African clothing retailers since 1984. Thus, when it hit a few snags, it was fitting that the BT&R Programme step in with advice and solutions.

Owned by Hassan Cassim and Mahomed Motala, the company built its name on men's apparel, adding women's attire to its portfolio only recently. Its inhouse design and production management teams conceptualise and market ranges to customers such as The Foschini Group, Edgars and Woolworths.

An initial assessment revealed where the fabric of the company had developed flaws. While investment in operating assets to generate R1 000 of sales dropped to R971 between 2020 and 2021, due to a decrease in assets except inventory, other not-as-auspicious factors came to light. First, a huge skills development gap was obvious, pointing to a need for leadership and productivity awareness training. Lean manufacturing principles were absent, as were waste elimination measures.

Problem-solving platforms were identified as important. Lack of control in manufacturing resources such as time and labour needed to be addressed through a manufacturing database that could also offer traceability.

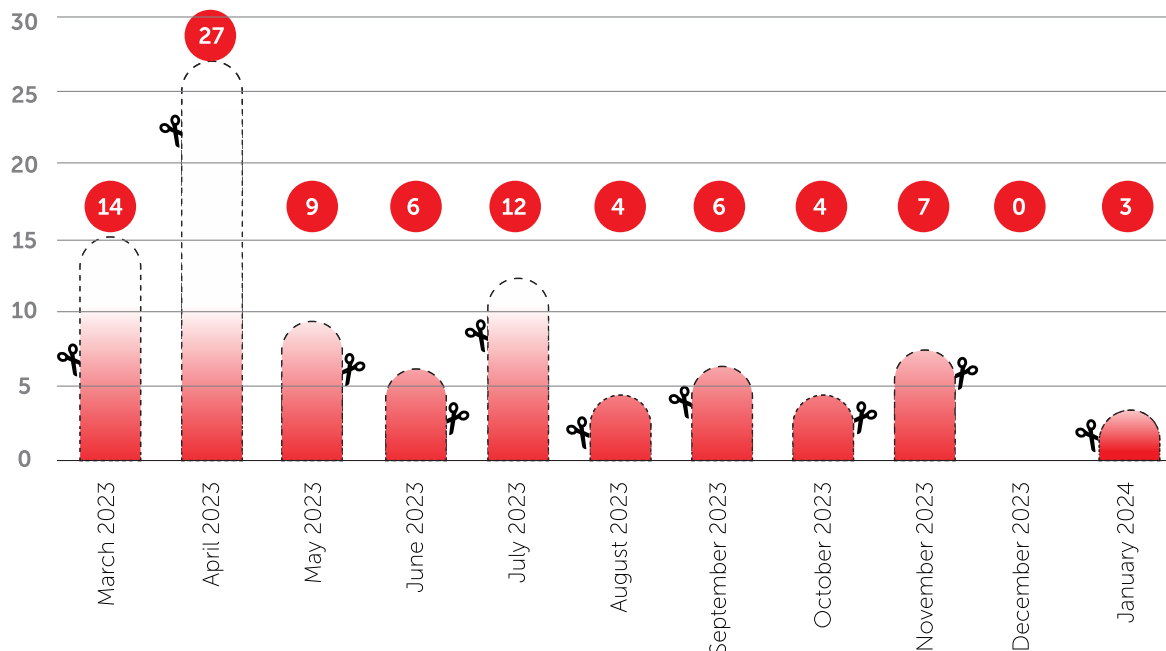
Four BT&R interventions made the world of difference:

- ⚠️ Lack of health and safety implementation and awareness and failure to comply with standards
- 💡 Management and employees were made aware of the importance of maintaining health and safety standards and given a better understanding of the mandatory requirements.

- ⚠️ Amid plans to manufacture product inhouse, the company was struggling to access funds to eliminate outsourced functions and did not have a conducive infrastructure
- 💡 Barbican Capital Consultancy was brought on board to assess the credibility of the business plan, which led to the development of a workable market growth strategy to improve asset base, competitiveness and sales performance.
- ⚠️ Ineffective website not achieving its goal of product marketing
- 💡 Website was redesigned to incorporate online catalogue, company information, link to social media accounts and a WhatsApp platform capability to facilitate immediate response to queries.
- ⚠️ Inadequate use of man, material, method and machine resources and no platform to capture nor analyse manufacturing performance. Poor leadership skills, perpetuating unproductive culture. No standard operating procedures, resulting in long order lead times and a high reject rate
- 💡 Manufacturing excellence concept was developed through which management can control and manage its resources. Manufacturing data is enabling Eleese to understand and improve its manufacturing performance. There are fewer rejects as a result of a standard operating procedure. A productivity-focused culture is being instilled.

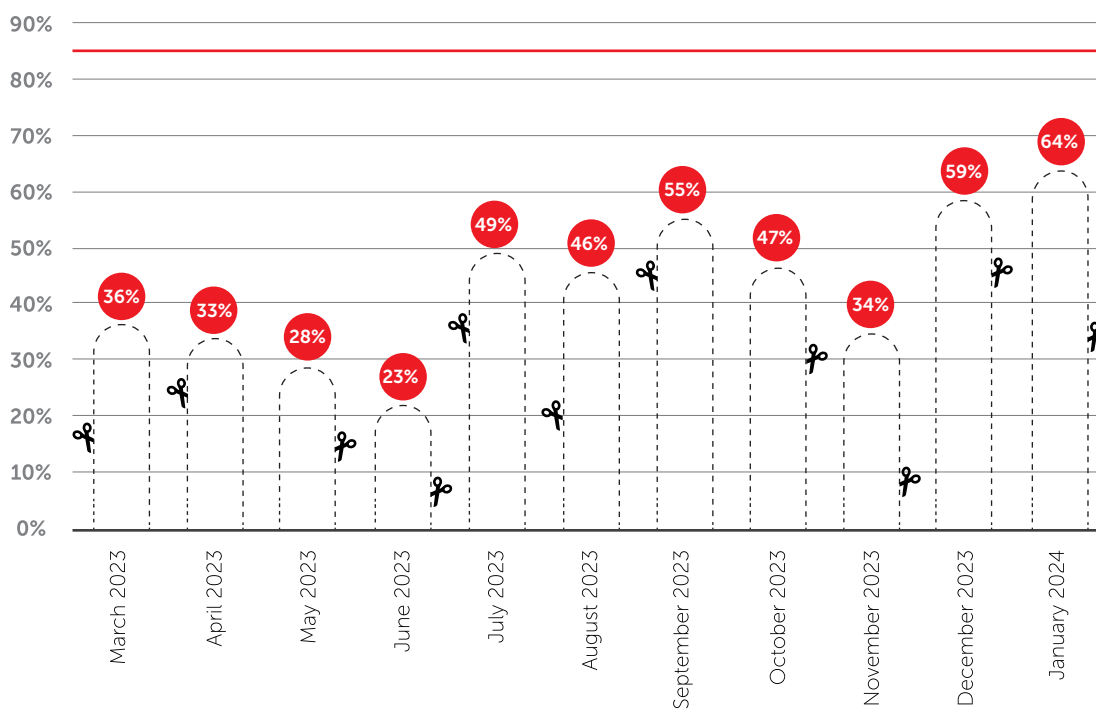
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Cutting room monthly rejects



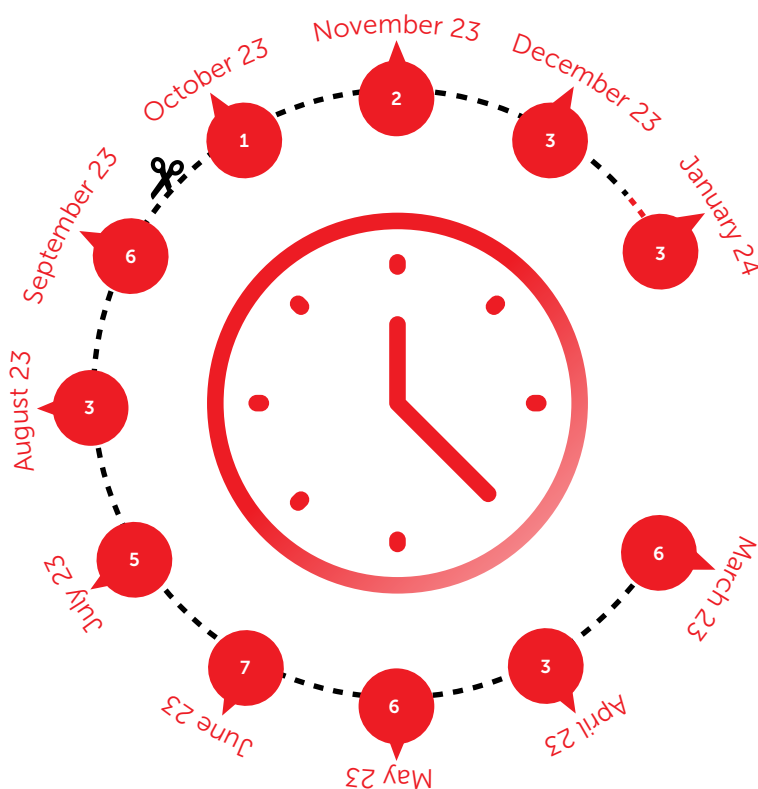
Leadership training for trunk line supervisors has had a positive impact on the measurement of productivity, as can be seen below. The scoresheet requires production staff to be accountable and responsible for their own performance.

Trunk line monthly productivity rate



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To prevent elevated costs, the turnaround time for manufacturing has to be measured to reduce the number of days the order spends on the production floor.



Project standouts

- Reduction of order turnaround time, reducing internal operating costs
- Weekly measurement and evaluation of manufacturing data
- Standardisation in the manufacturing chain through lean processes to increase competitiveness or add value to existing products or services
- Introduction of a manufacturing database as a tool to review manufacturing performance
- Clear communication channels established through meetings and discussions involving management and teams.

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CASE STUDY

SOLOMON REGAINS ITS METTLE



Since 1988, Solomon Coating has specialised in shotblasting and powder-coating services for the metals sector, operating from its Blackheath, Western Cape factory.

Founded by Tommy Solomon in 1988, who was joined later by his daughter Leonie Finch, the company enlisted the help of the BT&R Programme after three years of declining financial performance starting in 2018. Sales and operating profit margin were following suit.

An evaluation of the company by the BT&R Programme revealed:



Lack of formal budgeting



Communication and planning deficiencies



Need for accurate costing for legacy clients



Poor communication between management and staff



Handling and transportation inefficiencies



Unclear reporting structures and job descriptions



Inadequate wet-spray area



Absence of clear quality standards

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Budget dictated that not all issues could be dealt with, thus the BT&R team prioritised three activities that would have the most impact in turning around the company's performance.

1

Development of a costing model whose implementation must go hand in hand with management commitment to not underquote longstanding customers and to use the model consistently. An Excel costing system was developed to:



Estimate the volume and cost of all materials required for the job/service, including direct materials and consumables. Material price changes can be updated regularly



Add a portion of overhead cost based on the direct hours needed to complete the project



Estimate the labour cost per project based on the time taken to complete each task. The efficiency of labour can also be adjusted. Changes in staff and hourly rate are updated as they occur



Allow management to select the percentage mark-up for each project

2

Introduce a stock management system to reduce inventory and bring down material costs from the just-under-30% that had prevailed for three years. An Excel stock control system was developed as a basis for a monthly stocktake. It involved:



A stocktake to establish a baseline



Issuing materials and tools using a register



Cleaning and organisation of the store. Access is controlled and the store is locked



Introduction of an order sheet to eliminate unnecessary purchases



Implementation of a stock board to record stock levels



Development and implementation of an inventory management standard operating procedure

3

Management and employee collaboration and communication enhanced through coaching and mentoring. This included:



Individual coaching and mentoring sessions with Leonie Finch to facilitate self-development that would improve collaboration



Leadership coaching and role clarification to improve bottom line, leadership decision-making and team cohesion



An assessment of company morale covering company engagement around aligned goals, constructive participation, teamwork and motivation



Alignment of vision with goals and objectives

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Outcomes



Increased control over costs



Clean up of premises for a more professional image



Better relationship between management and staff



Valuable tools and resources for increased productivity

For Solomon, a new era has dawned that is set to take it from strength to strength. Much of the credit for that goes to the wisdom acquired – the depth of wisdom the company shares with its biblical namesake.



POINT TO PONDER

A standard operating procedure such as that developed for Solomon to manage inventory ensures consistent effective and efficient internal control. It facilitates project implementation that is professional and consistent throughout the business and project administration that is timely and supported by the correct documentation.

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CASE STUDY

CONSTRUCTING A READY-MIX RECIPE FOR MARKET SUCCESS



Go2Market is proof that a concrete business idea can make a difference not only to an entrepreneur's life but to a local economy by creating employment and meeting the needs of customers seeking an affordable and high-quality product delivered promptly.

Founded in 2014 by Nosipho Mtshemla, the company in Makotsi, Limpopo supplies ready-mix concrete to the construction industry. Essentially, its product is the cement on which some of South Africa's infrastructure development dreams are being built.

The concrete is used in the construction of underground works, storm drains, houses, swimming pools, sidewalks, curbs and gutters.



Go2Market differentiates itself from traditional ready-mix operations by its capability to transport raw materials such as cement, stones, sand and water long distances and batch these at customers' sites, thus offering buyers affordability, punctuality and flexibility.

In 2022, when the company's productivity waned, owner Nosipho opted to contact Productivity SA's BT&R Programme to resolve the downward spiral. She and her 11-person team were accepted onto the programme in May 2022, having found themselves in financial and operational distress.

Finance

- Sales were down to R19.2 million in 2022 from R19.7 million of 2021, while labour costs had increased 30% and overhead costs had risen 9%
- Operating profit had dropped 10%, from -R3.9 million to -R4.2 million.

Operations

- Poor tracking of direct costs of sales and indirect overhead expenses
- Increasing fleet maintenance costs
- Raw material not closely measured to ascertain if each job consumed the correct volumes
- Reliant mostly on new sales due to the nature of ready-mix consumption by customers
- Low retention of business, making it difficult to predict future sales.

A two-fold strategy

To resolve Go2Market's challenges, the BT&R Programme implemented a two-fold strategy to:

Increase sales

- Break even
- Improve sales and marketing capacity.

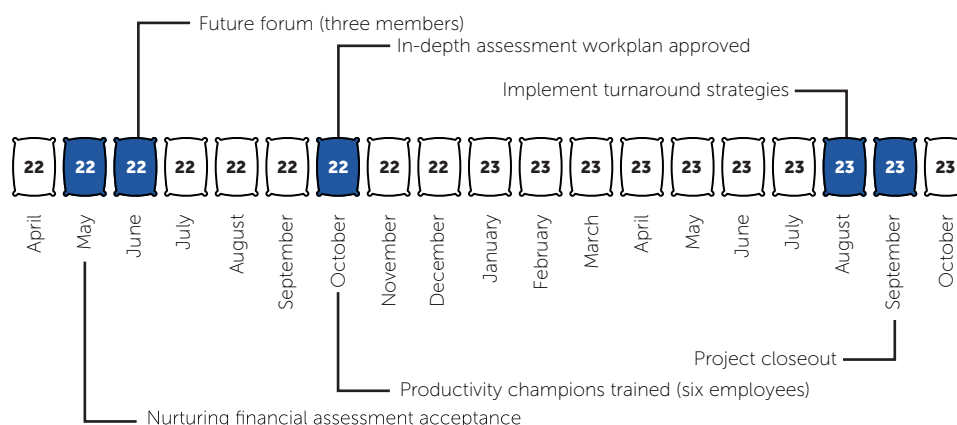
Improve productivity

- Measure and reduce waste
- Repair equipment
- Increase availability.

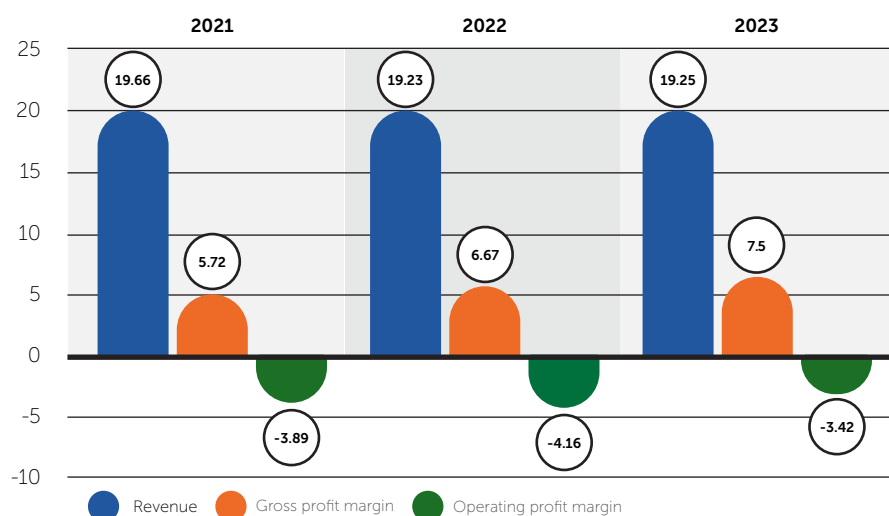
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Actions for impact

- Sales and marketing representative was trained in digital marketing
- Tools and techniques were introduced to generate leads and close deals
- The company was advised to seek strategic alliances with professionals such as architects, engineers, plumbers and subcontractors to increase market access
- Operations metrics were implemented to track performance, productivity and output.



Three-year financial figures (R mil)



POINT TO PONDER

Productivity champions or ambassadors are integral to the BT&R Programme strategy. Ideally, these candidates, who are selected from within the company implementing the BT&R strategy, should be identified by the company and be members of the future forum.

To prepare them for the role of promoting continuous improvement among employees, champions undergo three days of training encompassing sustainability, productivity and operational efficiency principles. Guidance is also provided on identifying early warning systems and managing problems proactively.

Revenue before 2021 was reportedly R25 million. A commitment was made to break even (R27 million) in three years, with expected revenue in the 2023/24 financial year forecast to be above R25 million. Improved gross profit indicates better resource use, while operating loss declined from -R4.16 mil to -R3.42.

Go2market embraced BT&R interventions holistically and welcomed enthusiastically all training, consultations and other assistance offered. As a result, the initiative achieved significant success and turned the company's fortunes around.

Through the intervention and her team's dedication, Nosipho is now looking forward to truly becoming Limpopo's 'go to' supplier for ready-mix cement.

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A MEETING OF ENTREPRENEURIAL MINDS



Research shows that most startup companies do not last beyond the first year. This is due partly to lack of access to funding, insufficient mentorship and guidance, innovation-stifling regulatory barriers and market competition.

Given these hurdles, nothing is perhaps more important than a support structure and networking platform of likeminded individuals to bounce ideas off, seek advice from and share experiences with. The entrepreneurial ecosystem is just that. Defined by marketing91 as a community of multiple factors independent of each other and interacting in a geographical area, it promotes the creation and evolution of new businesses.

A great example of collaboration at work among entrepreneurs is the Entrepreneurial Ecosystem Building Series set in motion in the Western Cape. It is an initiative of the Enterprise Development Unit of the Western Cape Department of Economic Development and Tourism in partnership with Allan Gray Centre for Africa Entrepreneurship and Stellenbosch University.

The series consists of workshops to explore the government's role in the small, medium and micro enterprise ecosystem and develop a pilot ecosystem strategy to address stumbling blocks. The initiative recently held two workshops, with BT&R Programme participation.

At the first session, on 28 August 2024, participants, including BT&R staffers Philiswa Mnguni, Mxolisi Coki and Marizanne Maritz, applied the Rainforest Canvas technique from T2 Venture Capital to visualise an ecosystem of innovation for companies.

The second workshop, on 26 November, identified entrepreneurial challenges and designed ecosystem strategies through an ideathon. It ended with a panel discussion.

The final workshop is scheduled for February 2025 and the BT&R team will continue to participate to enable sharing of information to reduce the failure rate of new ventures.

A robust ecosystem can lead to:



Increased startup formation and survival rates



Enhanced collaboration among stakeholders



Greater access to funding and resources



Improved entrepreneurial education and skill development



Stronger community support for local businesses

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Ecosystem builders and entrepreneurs pictured at the November workshop, which identified challenges and designed ecosystem strategies through an ideathon. Pictured (from left): Inam Qoma (chief executive and co-owner, Rothko Brand Partners), Kieno Kammies (co-founder, Innovation City), Rene Parker (director and co-founder, RLab), Zikhona Madubela (founder and chief executive, In2ChangeLearning), Dr Phumlani Nkontwana (panel discussion facilitator), Simone Carter (manager: strategic partnerships, Allan and Gill Gray Philanthropy SA), Roshan Isaacs (head: strategic partnerships, Allan and Gill Gray Philanthropy SA) and Esethu Cenga (chief executive officer and co-owner, Rewoven).



A warm welcome to delegates from John Peters of Western Cape Department of Economic Development and Tourism.



POINT TO PONDER

Among the reasons so many South African small businesses fail in their formative years are the dearth of entrepreneurial networks (such as the one detailed in this article) to share resources and information, insufficient management capacity and training, a lack of sound financial management skills, limited access to sustainable financial assistance and a poor understanding of the chosen industry.

*Stellenbosch University Business School study

For more information, visit www.marketing91.com/entrepreneurial-ecosystem/

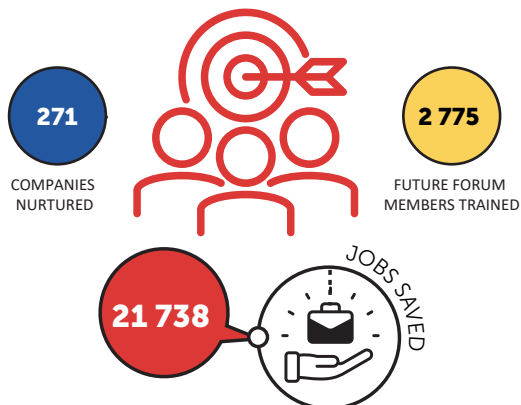
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BT&R SCORECARD



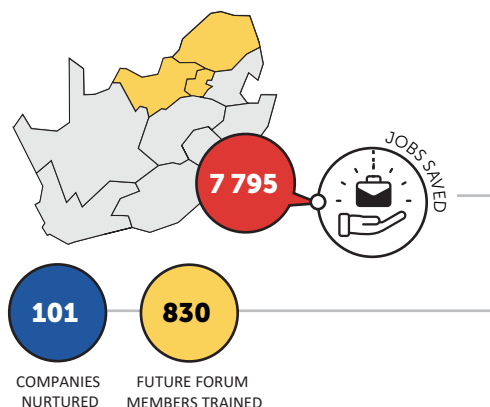
The figures presented below demonstrate the difference BT&R interventions continue to make in the lives of business owners who, for financial and/or operational reasons, have veered off track in the realisation of their goals and visions. The statistics also reinforce the impact on those already employed through saving jobs and on those seeking work by creating jobs. Statistics are for 2020 to end-November 2024.

Cumulative BT&R target vs actual 2020 to 2024



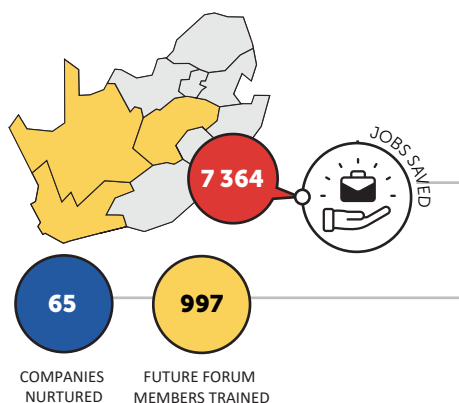
Cumulative region 1 target vs actual

Region 1: Gauteng, Limpopo and North West



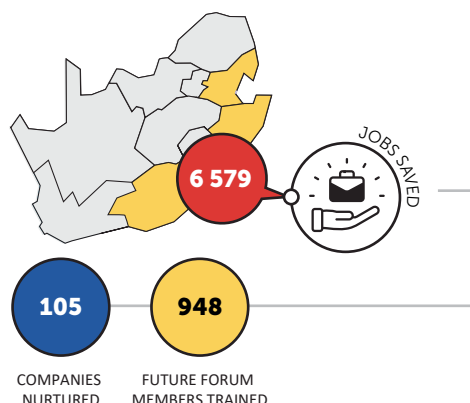
Cumulative region 2 target vs actual

Region 2: Western Cape, Northern Cape and Free State



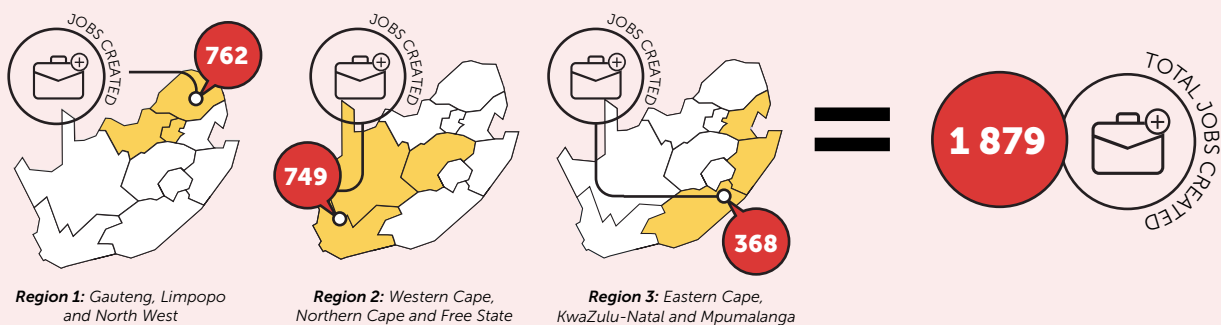
Cumulative region 3 target vs actual

Region 3: Eastern Cape, KwaZulu-Natal and Mpumalanga

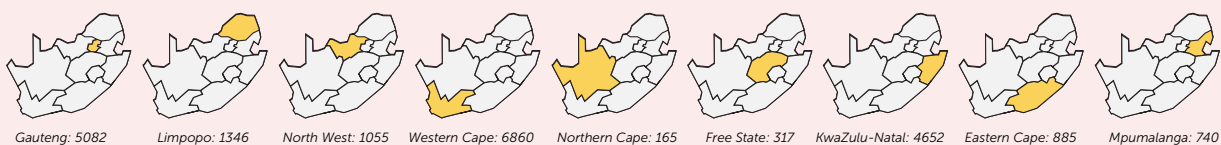


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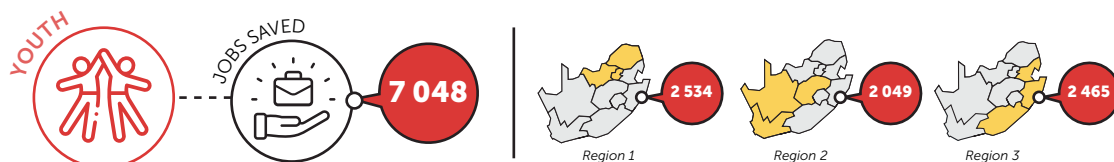
Cumulative BT&R jobs created by province 2020 to 2024



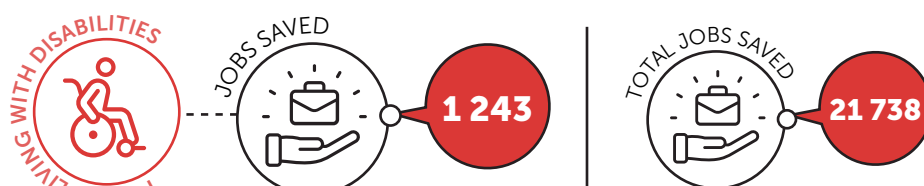
Jobs retained by provinces to date



Cumulative BT&R jobs retained for youths 2020 to 2024

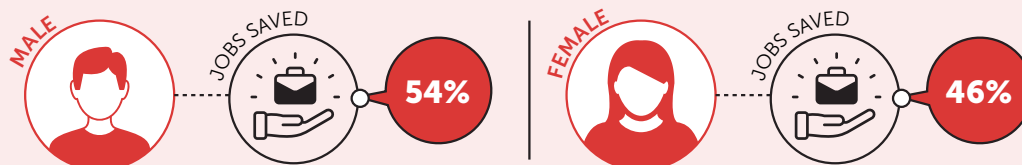


Cumulative BT&R jobs retained for people living with disabilities 2020 to 2024

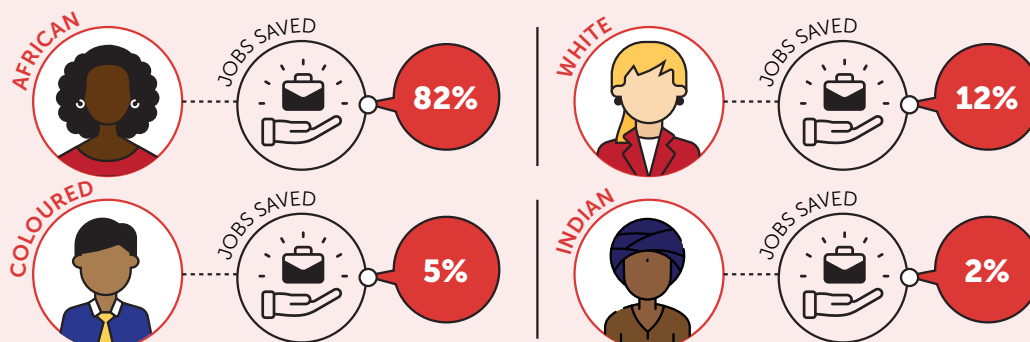


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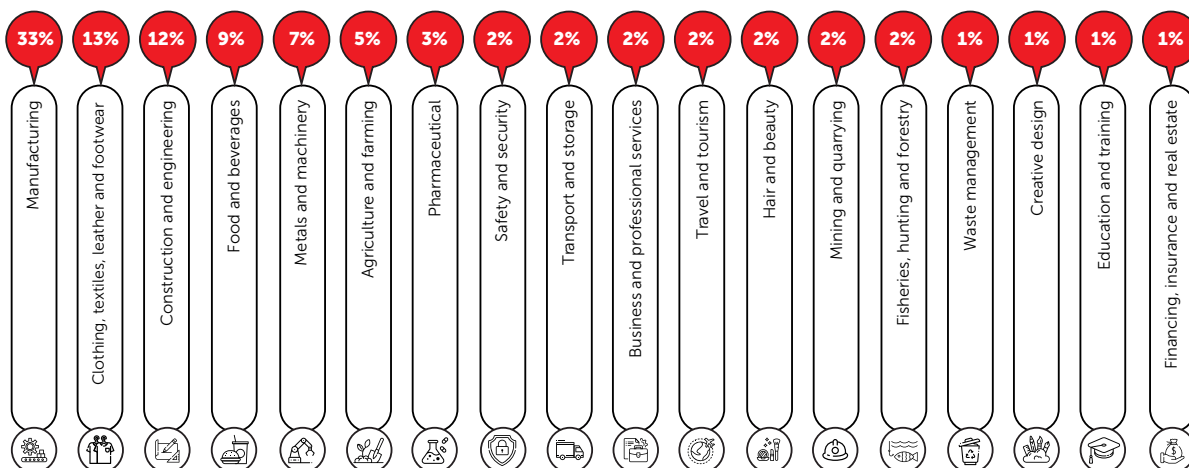
Cumulative jobs retained by gender 2020 to 2024



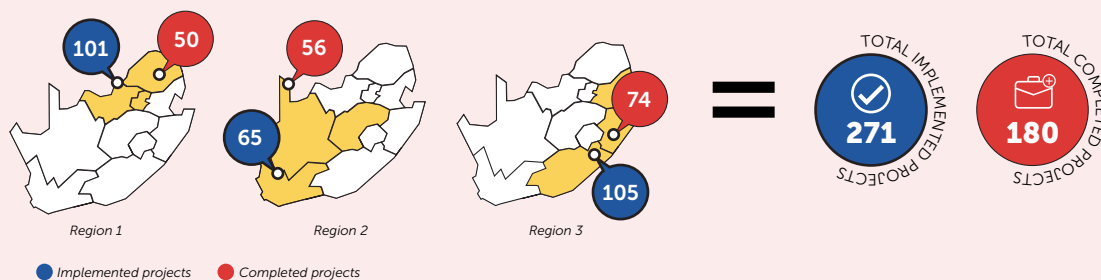
Cumulative jobs retained by race 2020 to 2024



Clients that joined the BT&R programme by operational sector to date



Cumulative BT&R completed projects per region to date

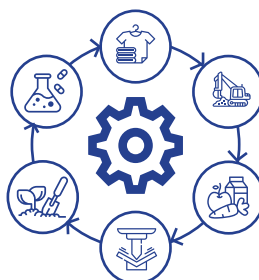


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Where we operate

The Business Turnaround and Recovery Programme works in all economic sectors in South Africa. There are no limits to the services instituted to turn around a deserving company. For instance, should skills and expertise be lacking, the programme has a database of qualified, trained service providers.



Our five top sectors

33% manufacturing
13% clothing, textiles, leather and footwear
12% construction and engineering
9% food and beverages
7% metals and machinery



Who we benefit

All businesses play a role in transforming South Africa and contributing to growth. The country's broad-based black economic empowerment strategy is to grow the economy, giving every demographic an equal opportunity to contribute.



Turnaround-assisted businesses

62% men
30% women
8% multi-shareholder companies



Businesses of people living with disabilities

43% men
14% woman
43% multi-shareholder companies



Who is eligible for assistance

The turnaround service is open to any enterprise in distress, irrespective of size, sector or town or city in South Africa. To qualify, an enterprise must:

- Have been in operation for at least two years
- Be financially and/or operationally distressed
- Provide the last two years' financial statements
- Provide a South African Revenue Service (SARS) pin to confirm SARS and Unemployment Insurance Fund (UIF) compliance and validity
- Provide UIF-stamped UI19 forms/an EMP201 full report.



Applying for our services

Potential clients should email Productivity SA at turnaround@productivitysa.co.za or visit a regional Productivity SA office as per the details below. The business turnaround practitioner will explain the programme and qualifying criteria, provide the application forms and outline how they must be completed. Financial statements, EMP201 full report and SARS pin will be requested. A high-level assessment of the state of the business will be done to determine whether the company is viable for a successful turnaround. This will include a site visit.

Once all documents have been completed and supporting information received, a further assessment will be done to determine the financial position of the organisation. Thereafter, a nurturing report will be compiled summarising the causes for distress and possible mitigation strategies to correct the situation. All this work, from beginning to end, requires full participation from the client.



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