

Turning Point

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

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APRIL 2025



Editor's note

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




This edition of Turning Point comes at the end of one financial period and the start of another year of turning points for the Business Turnaround and Recovery (BT&R) programme and its assisted companies. After four issues sporting a new look and fresh approach, we hope readers have found the newsletter an engrossing read and have gleaned valuable information on business recovery solutions. We intend during the 2025/26 financial year to continue delivering a publication that illustrates the importance and benefits of continuous improvement.

As a programme of Productivity SA, BT&R's priorities remain economic transformation and job creation. Its strategic objective is to support enterprises facing economic distress and conceptualise and drive initiatives to prevent job losses. This year, we aim to onboard 75 companies and retain 3 750 jobs.

BT&R is aligned with Productivity SA's annual performance plan 2025 to 2026 and its strategic plan 2025 to 2030, which outline the organisation's responsibilities against the government's economic and social mandate to promote employment growth and productivity, contributing to the country's socio-economic development and competitiveness.

The government has emphasised its intentions to accelerate service delivery through the Medium-term Development Plan 2024 to 2029, a strategic framework that outlines state priorities and a roadmap to

translate its commitments into actionable programmes and policies. The framework's strategic priorities are:

-  Driving inclusive economic growth and job creation
-  Reducing poverty and tackling the high cost of living
-  Building a capable, ethical and developmental state.

The BT&R programme, which is funded by the Unemployment Insurance Fund (UIF), is crucial to the achievement of the first priority and the case studies we present in this issue demonstrate the way it contributes to employment protection and expansion. Enjoy these stories of productivity in motion.

Should you wish to comment on our content or join the conversation on the importance of jobs and productivity to South Africa's economic wellbeing, please send an email to turnaround@productivitysa.co.za.

Justice Tshifularo

Justice Tshifularo
BT&R Programme Executive Manager

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MONEY MAKES THE MANUFACTURING WORLD GO 'ROUND



It is said that 'revenue is vanity, profit is sanity, cash is king'. Startup funds ... means to buy materials and secure services to make and distribute products ... avenues to access additional funds for expansion and diversification – few would dispute the importance of capital to any business.







Being an old hand at financial analysis, BT&R has brought its skills and knowledge to scores of companies seeking help in tough times. A recent assessment of a small, family-run manufacturing enterprise in Cape Town proved the benefits of such an exercise.

Despite expansion into export markets, the business remained rooted in producing high-quality, specialised goods requiring hands-on, traditional manufacturing using local talent.

Under scrutiny

-  Statement of cashflows
-  True cost of sales
-  Earnings before interest, tax, depreciation and amortisation
-  Financial ratios
-  Asset use and workforce efficiency
-  Breakeven analysis
-  Risk management

Analysis findings painted a problematic scenario

-  Operating profit margin shifted from a healthy 6.6% in 2023 to -4.4% in 2024
-  Return on assets plummeted from 39.1% to -33.4% Return on equity plunged from 99.7% to -66.9%
-  Cash reserves depleted from a positive R582 117 in 2023 to a negative R134 090 in 2024, putting at risk the company's ability to fund daily operations, pay suppliers, maintain production and invest in crucial upgrades
-  Despite a slight improvement in gross profit margin (from 59% to 62.1%), overall cost structure was under severe pressure. Direct labour costs surged by more than 40% and other production costs also increased, leading to a rise in cost of sales. This misalignment between revenue and rising costs eroded profit margins, signalling operational inefficiencies
-  Asset turnover improvement from 5.9 to 7.6 times was undermined by a 43.9% decline in operating assets, suggesting underinvestment in capacity. Coupled with deteriorating workforce productivity, the company's operational performance faltered
-  Worsening profitability combined with a high level of financial leverage placed the organisation at risk. Negative shifts in both return on assets and return on equity meant the company was not only failing to generate

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profits from its assets but was delivering negative returns to shareholders, both threats to long-term financial instability.

The BT&R analysis heightened understanding of how processes were affecting costs, cashflow and profitability in an industry where margins can be tight and operational inefficiencies costly. It revealed opportunities to modernise processes, optimise resource allocation and ultimately drive sustainable growth.

Breaking down the components of profitability – such as escalating direct labour costs, rising overheads and inefficiencies in operational cashflow management – created a roadmap for interventions.

BT&R recommendations



Optimise receivables collection and inventory management. Strategies such as renegotiating payment terms and implementing just-in-time inventory systems could help enhance liquidity



Control costs by streamlining production processes, introducing automation and realigning labour use



Renegotiate supplier contracts to reduce raw material costs and protect the gross profit margin



Cost containment and revenue optimisation to improve earnings before interest, taxes, depreciation and amortisation. Monitor liquidity and leverage ratios to avoid over-reliance on debt and ensure long-term solvency



Strategic reinvestment in crucial assets, with performance-based incentives and workforce training to enhance both capital efficiency and labour productivity



With breakeven sales rising from R127.6 million to R140.6 million and breakeven days remaining nearly a full year, reduce fixed and variable costs. Sustain cost management and grow revenue to mitigate risks (using risk models such as Altman's Z-score and Springgate's score). Adjust pricing strategies and cost structures to increase the margin of safety and ensure resilience against market fluctuations.

Next steps

Analysis findings will be considered during the in-depth assessment phase so that implementation can begin to restore profitability, improve liquidity and ultimately position the organisation for sustainable growth and enhanced competitiveness.

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If this company's challenges resonate with you, Productivity SA's BT&R team is just a call away. You may qualify for a comprehensive financial analysis to reveal distress and indicate remedial actions to drive efficiency, bolster profitability and secure long-term growth.

Financial performance terms to know

Asset turnover: revenue generated per unit of asset investment. It indicates how efficiently a firm uses its assets to produce sales.

Breakeven days: the period of a financial year needed for a company to cover its total costs. This shows how long the business operates at a loss before breaking even.

Breakeven point: level of sales at which total revenues equal total costs, meaning the company neither makes profit nor incurs loss.

Breakeven sales: total revenue required to cover all fixed and variable costs – crucial for assessing the impact of cost structures on profitability.

Capex (capital expenditure): funds used to acquire, upgrade or maintain physical assets such as property, industrial buildings or equipment – essential for sustaining production capacity and long-term growth.

Cost structures: the composition of a company's fixed and variable costs. Managing these costs effectively is key to protecting profit margins and ensuring financial resilience.

Earnings before interest, taxes, depreciation and amortisation: a company's operational profitability excluding non-operational expenses and non-cash charges. This provides a clear view of core business performance.

Liquidity ratios: metrics such as current ratio and quick ratio that assess a firm's ability to meet short-term obligations using current assets.

Margin of safety: percentage difference between actual sales and breakeven sales – indicates how much sales can decline before the company starts incurring losses, serving as a buffer against market fluctuations.

Pricing strategies: methods used to determine product prices, considering production costs, market demand and competitive positioning to ensure profitability.

Resilience against market fluctuations: a company's ability to maintain profitability and operational stability despite changes in market conditions, often driven by effective cost management and strategic pricing.

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Risk models: quantitative tools such as Altman's Z-score and Springgate's score that assess a company's financial stability and the likelihood of financial distress.

Return on assets: ratio that measures how effectively a company uses its assets to generate profit – calculated by dividing operating profit by total assets.

Return on equity: measure of profitability relative to shareholders' equity – indicates how effectively a company uses the funds invested by its owners to generate profit.

Weighted average cost of capital: average rate of return a company is expected to pay its security holders to finance its assets, based on proportions of debt and equity in its capital structure.



POINT TO PONDER

'Cash is king' is the belief that money (cash) is more valuable than investments such as stocks or bonds. It can also refer to the balance sheet or cashflow of a business – substantial cash on hand is normally positive, while strong cashflows allow a company more flexibility in business decisions and potential investments. A third use of the phrase refers to businesses demanding cash rather than credit card payments.

Said to have been popularised by Pehr G Gyllenhammar, then chief executive of Volvo, after the 1987 stock market crash, it appeared much earlier in George N McLean's 1890 book 'How to do business or the secret of success in retail merchandising'. The author advised readers as one of his 12 wise business maxims to 'avoid credit, remembering that cash is king, credit is a slave'.

Sources: investopedia and wikipedia

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CASE STUDY

COUNTRY LODGE REGAINS GLORY AFTER COVID-INDUCED DIP



100% of jobs existing at project inception



After a stellar start 24 years ago in the picturesque town of Tzaneen (in Limpopo — region three) — often referred to as 'basket of hills' — Covid exacted its toll on Tzaneen Country Lodge. Initially classified as a country commercial lodge, the establishment travelled the tourism trajectory to become a four-star country hotel graded by the Tourism Grading Council of South Africa.

By the time it enlisted the help of Productivity SA's BT&R in 2021, the business had developed brands within a brand offering — the well-known Baobab Restaurant and Mama Jo Cocktail and Ladies Bar. It also had a 600-seater conference centre and had become one of the most sought-after wedding venues in the area.

But, as its financial woes deepened, it was time for a three-pronged turnaround centred on the identified needs outlined below. In partnership with BT&R and with the determination of all involved to make a go of it, the work got underway.



Strategic goals and targets for an organisation with no strategic management practices and lack of alignment across structure, policies, processes and systems



Strategic goals, key performance indicators and targets set



Management and leadership tools and techniques, leadership and coaching techniques, team motivation and empowerment, change management capabilities, positive work relations and effective communication (shortfalls possibly through lack of leadership skills and premature advancement of young managers)



First-line managers trained and equipped to apply leadership and management tools, techniques and frameworks and to delegate effectively

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System to track and manage food inventory, storage, movement and supply



System implemented for restaurant back-of-house operations to track food prices, manage supplies, provide insights into menu profitability, enable smart procurement and ultimately improve production planning. Causes of food shrinkage identified and corrective measures instituted. Food inventory turnover managed within acceptable limits

Delivery beyond expectations

84%

Increase in sales

91%

Reduction in operating loss due to effective software programmes

75%

Fewer customer complaints

The retention of jobs was the cherry on the top of the lodge's turnaround cake – or more fittingly, the mango, given Tzaneen's status as South Africa's most important subtropical-fruit-producing area.



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CASE STUDY

KEEDO CONTINUES TO KEEP SOUTH AFRICAN KIDDOS FASHIONABLE AFTER SNAG SHRINKS PROFITS



100% of jobs existing at project inception



For 32 years, Keedo International has outfitted local infants, toddlers and tweens in designer gear. The brainchild of Nelia Allandale, the business was acquired in 2017 by Cape Union Mart and is currently based in Paarden Island, Cape Town (Western Cape — region two).

With more than 30 Keedo Kids retail outlets across the country and supplying products to Old Khaki and Poetry, the enterprise can proudly display the 'successful' label. Adopting a vertically integrated approach from the outset, it owned several stages of its supply chain, from raw materials to product distribution. This route, which reduced costs, improved efficiency and ensured effective quality control, enabled Keedo to grow its staff complement to more than 200.

But recently things started to unravel slightly despite a year-on-year increase in sales delivered by the well-established range of child and adult leisure wear and textile homewares for brands in the Cape Union Mart group.

Financial performance faltered and BT&R expertise was sought to resolve the shortcomings listed below. An assessment by the team earmarked areas for improvement and both parties set to work to reverse the worrying trend.



Improved quality system to resolve the high repair and reject rates affecting production and revenue



Quality control and contributors to poor quality analysed and corrected



Improved changeover and setup process to avoid reduced productivity



Revised changeover, setup and preproduction processes and procedures instituted



Training and development for machinists as skills flexibility was deemed low



Structured learning, training and review process implemented



Basic machine maintenance training for machinists to avoid loss of capacity due to downtime



Training plan introduced for machinists



Skills development for maintenance team to resolve low skills flexibility that created machine delays and downtime



Training plan devised for maintenance team to fill critical skills gaps

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2.6%

Significant improvement in the 'planned vs actual minutes' metric, boosting production efficiency from 56.4% to 59%

0.4%

Drop in reject rate

QUALITY

Quality improvements that demonstrate a clear commitment to enhance product standards

EFFICIENCY

Initiative to reduce average changeover times — initially hampered by measurement inaccuracies — gained traction, resulting in better planning and operational efficiency

The BT&R/Keedo journey has been one of dedication to improvement and innovation across operations that has resulted in a skilfully designed pattern for continued success and transformation.

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CASE STUDY

FRESH STRATEGY SEALS THE TURNAROUND DEAL FOR MANUFACTURING BUSINESS



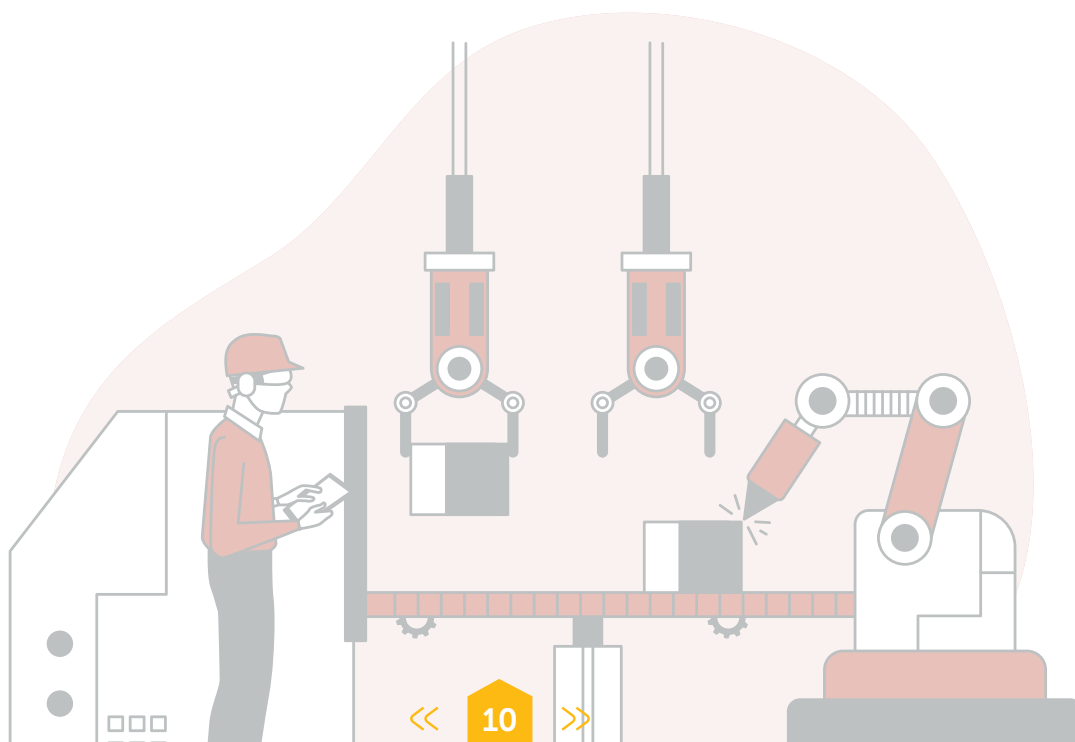
100% of jobs existing at project inception





Following a marked decline in revenue, exacerbated by the business disruption of Covid-19, the only way for Sealtron SA was up. And 'up' came with the welcome arrival of Productivity SA's BT&R programme, which conducted an analysis of the company's financial years ended February 2020 and February 2021. This revealed an urgent need for a growth-focused business plan driven by outcomes.

Founded in Mount Edgecombe, KwaZulu-Natal (region three) a mere three years ago, Sealtron SA is still a corporate newbie. Yet it employs almost 80 people to manufacture, assemble and distribute its electronic, electrical, electromechanical, automotive and medical products.

Key items include kettles (18 000 sold to date) and two-plate stoves. Working closely together, the parties devised a plan that identified the company's market position, its vision and goals and how to realise these by reducing costs, boosting efficiency and pushing up productivity.



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<p>Intervention 1: Strategy</p> 	<p>Issue</p> <p>Lack of a business plan hampered business growth</p>	<p>Action</p> <p>Detailed business plan developed mapping out strategy and steps to access funding to expand and move to larger manufacturing facilities. The plan outlined opportunities, business model, human resources, and marketing, operational and financial plans</p>
<p>Intervention 2: Efficiency</p> 	<p>Issue</p> <p>Existing enterprise resource planning software – Sage Pastel Partner – was limited in its capabilities and focused more on the enduser than on a manufacturing environment</p>	<p>Action</p> <p>Xperdyte installed to track movement of inventories, issue job cards and support and inform management decision – making on procurement and stockkeeping</p> <p>Training facilitated</p>

Having secured the livelihoods of its employees, Sealtron SA plans to source finance to expand its team to allow it to capitalise on the large market potential for electromechanical components expected from increased construction and building activity.



POINT TO PONDER

Enterprise resource planning is a valuable tool for both small and large manufacturing entities, as it acts as a single 'source of truth', providing updated information to any department or on any process. This enables managers, supervisors and teams to coordinate and collaborate more efficiently.

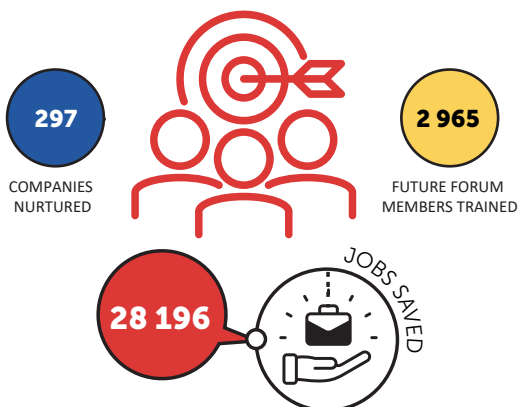
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BT&R SCORECARD



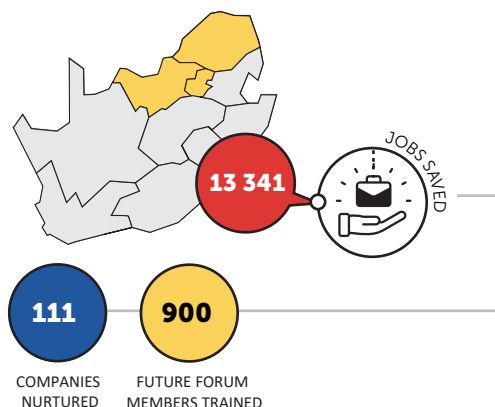
The figures presented below demonstrate the difference BT&R interventions continue to make in the lives of business owners who, for financial and/or operational reasons, have veered off track in the realisation of their goals and visions. The statistics also reinforce the impact on those already employed through saving jobs and on those seeking work by creating jobs. Statistics are for 2020 to end-March 2025.

Cumulative BT&R target vs actual 2020 to 2025



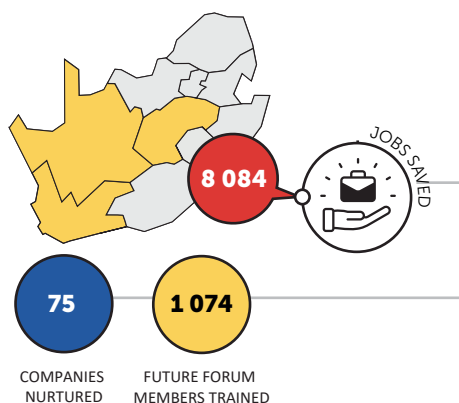
Cumulative region 1 target vs actual

Region 1: Gauteng, Limpopo and North West



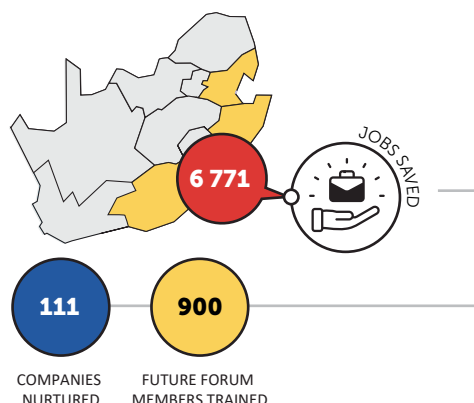
Cumulative region 2 target vs actual

Region 2: Western Cape, Northern Cape and Free State



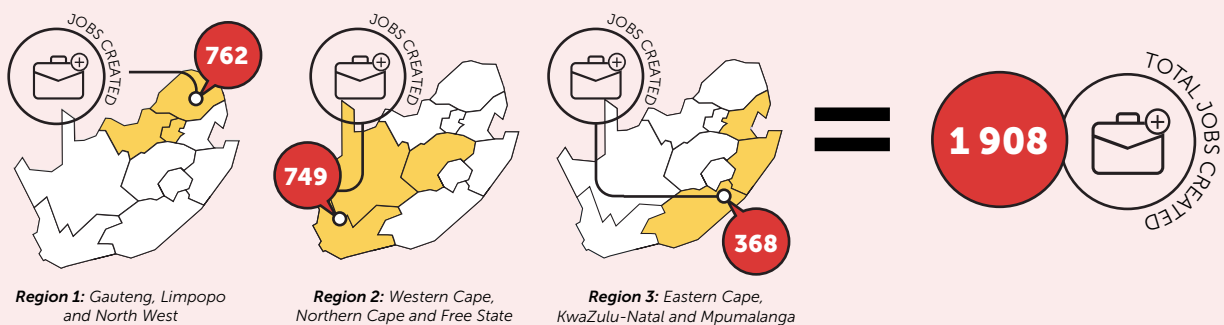
Cumulative region 3 target vs actual

Region 3: Eastern Cape, KwaZulu-Natal and Mpumalanga

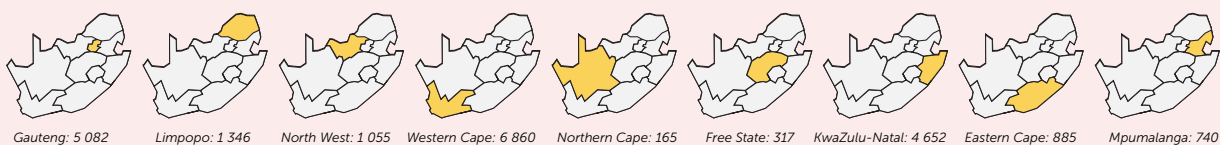


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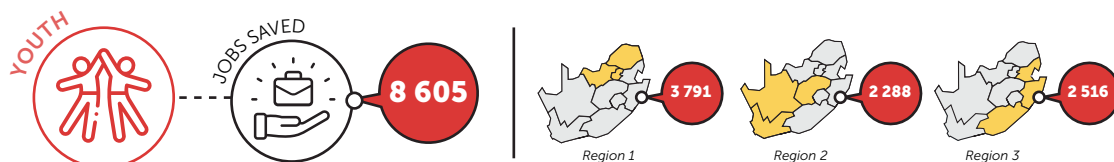
Cumulative BT&R jobs created by province 2020 to March 2025



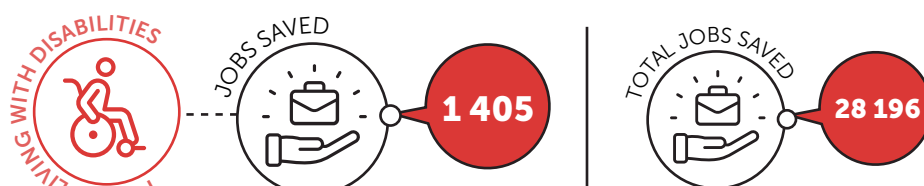
Jobs retained by provinces to date



Cumulative BT&R jobs retained for youths 2020 to March 2025

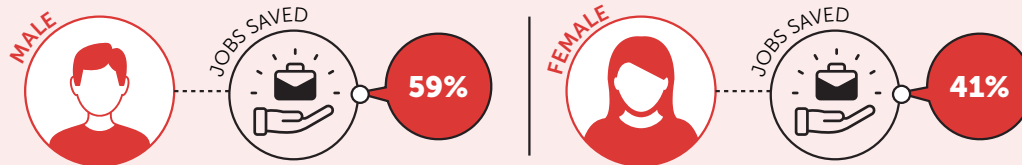


Cumulative BT&R jobs retained for people living with disabilities 2020 to 2025

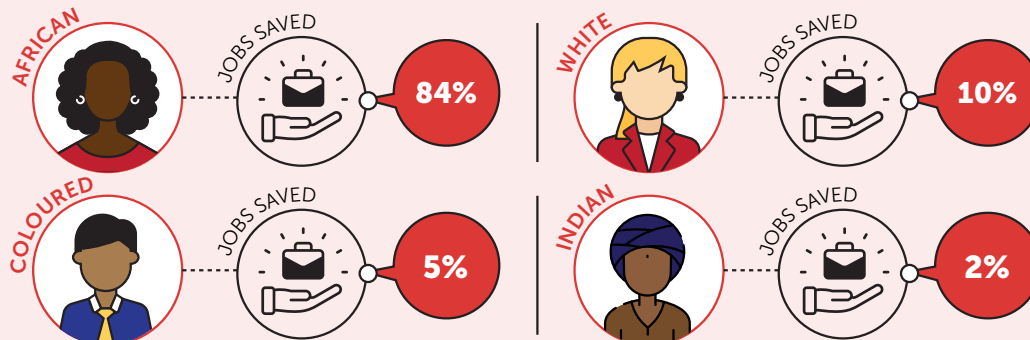


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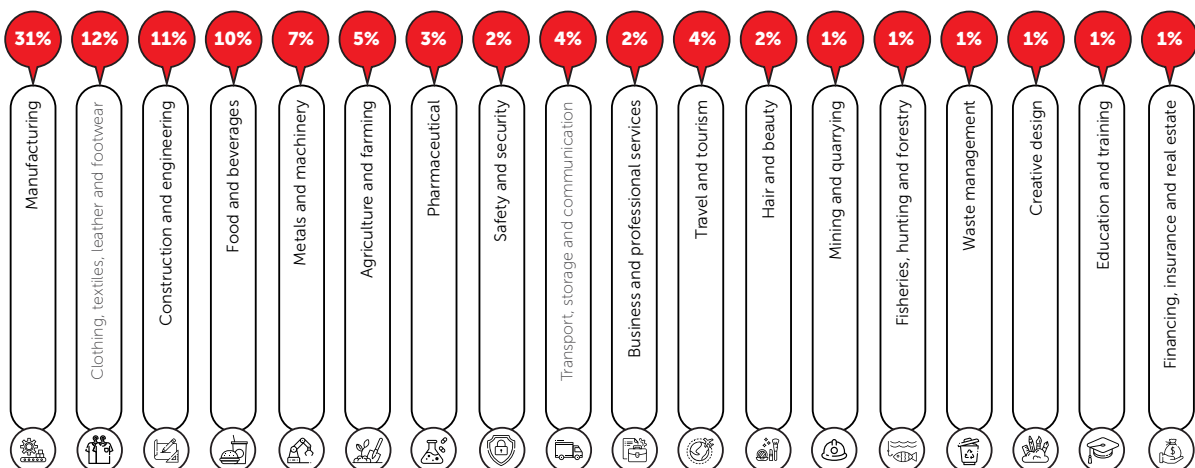
Cumulative jobs retained by gender 2020 to March 2025



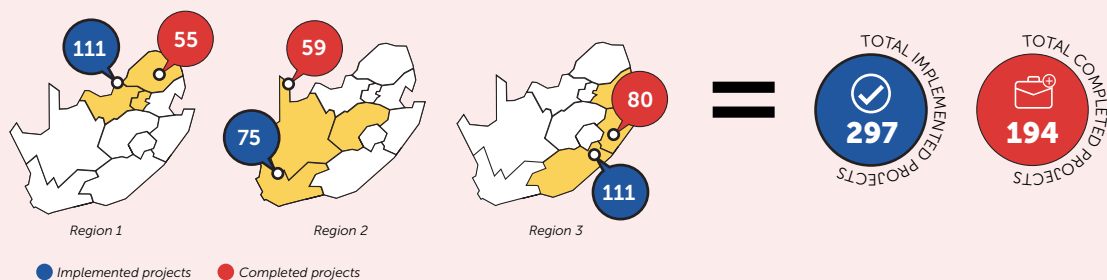
Cumulative jobs retained by race 2020 to January 2025



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



Cumulative BT&R completed projects per region to date

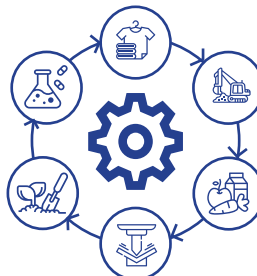


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Where we operate

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

31% manufacturing
12% clothing, textiles, leather and footwear
11% construction and engineering
10% 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

63% 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 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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