



Manufacturing Bulletin

Quarterly review . First Quarter 2016

MANUFACTURING CIRCLE
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OVERVIEW

The first quarter of the 2016 (Q1 2016) Manufacturing Circle Survey indicates a challenging period for manufacturers marked by falling sales, rising unsold inventory levels and increasing costs. As a result, many manufacturers reflected a deterioration in sentiment. The weaker Rand against the US dollar has not as yet had a marked effect in influencing local competitiveness, but rather pushed imported costs higher, thus negatively impacting the sector.

Respondents to our survey showed that manufacturers acted to meet the challenges they face, including, unfortunately, reducing their workforce. They also increased the use of technology, and other efficiency measures to stay competitive. The experiences of local manufacturers, as reflected in their responses to the survey, are consistent with declining global and local economic conditions.

The Manufacturing Circle continues to work with stakeholders to identify opportunities and support mechanisms to assist the local manufacturing sector in remaining competitive and contributing to job rich economic growth. This bulletin includes insights and analysis on inclusive growth which, we argue, requires renewed determination and collaboration. Tribute is also made to one of the Manufacturing Circle's founding members, the late Bertie Lubner, whose vision of cooperation between business and government, and a focus on Public Private Partnership initiatives is needed now more than ever in our fractured low growth South Africa.



TRIBUTE TO BERTIE

During April we were saddened by the passing of Bertie Lubner. The local and international business community have fittingly paid Bertie many well deserved tributes. Bertie was an exceptional example of what humanity can be, and balanced his business life with being an outstanding benefactor to the underprivileged, and indeed to anyone who needed help. Bertie was a wonderful example of what good can do for all stratas of South Africa's society.

The Manufacturing Circle owes much to Bertie's support in its formative years. Bertie had a firm belief in Public Private Partnerships and believed that South Africa desperately needed these symbiotic relationships to lead the improvement required on both an economic front and to address the wealth poverty dichotomy in the country. At the same time Stewart Jennings was very concerned at the severe reduction in manufacturing activity, in a country where manufacturing once made up over 20% of GDP in the 1980's, it was falling to below 15%. This erosion in manufacturing was having a significantly negative effect on overseas investment, technology transfer, unemployment and the trade balance of payments. They both saw the strong exchange rate (at the time), lack of focussed government support for manufacturing, and the influx of unfair imports from Asia, as the key negative factors. Bertie and Stewart arranged in 2006 for a few likeminded industrialists to get together and they formed a group which was to grow into the Manufacturing Circle. Initial members included Mike Arnold from Consol, Colin Little from Hulamin, Stavros Nicolaou from Aspen and Guy Harris from Bell Manufacturing. The group soon grew to 60 members and began its engagement with government. They found in Minister Rob Davies a strong ally who supported their initiatives, particularly on working towards a more competitive Rand, and nurturing SA's manufacturing through appropriate tariff measures. The Reserve Bank was next with Governor Gill Marcus receptive to regular contact and meetings, and finally the Treasury, who initially was reluctant to meet, but subsequently made regular contact with the Circle. Minister Gordhan who initially set aside an hour for the group ended up spending 3 hours at the first meeting, and this led to regular contact and better understanding on the challenges facing manufacturing. Bertie was always at all the government interactions with enthusiastic support and championing his Private Public Partnership vision. His consistency, credibility and track record went a long way to opening doors and seeing that the Circle gained ground in influencing government action on a number of fronts. Most importantly his continued support and empathy with the Circle's initiatives and members will always be remembered.

Bertie's vision of cooperation between business and government, and a focus on Public Private Partnerships initiatives is needed now more than ever in our fractured low growth South Africa. He has left behind a number of great legacies for our country (as witnessed in the many obituaries) we now need to work on his PPP mission more than ever to achieve his vision, which is absolutely essential if SA is to move into a growth phase.

Bertie, the Manufacturing Circle will never forget your kindness and support and the instrumental role you played in the early days of the Manufacturing Circle's inception.

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GLOBAL ECONOMIC REVIEW

A mixed picture for growth

In our last bulletin (Fourth Quarter 2015), we reflected on the downward trend in economic activity being experienced in developed and developing countries. We noted that “despite the initial positive momentum in developing markets during the first three quarters of 2015, economic indicators for the last quarter of the year suggest that global economic conditions have turned – now showing a trend of deterioration”.

At that time, the United States, and Germany (Europe’s largest economy and leading driver of economic activity) were facing contraction in industrial production. We also noted that economic conditions in developed markets had an effect on developing or emerging markets, thus debunking the long held view that these two groupings had ‘decoupled’ – meaning that developing markets could grow independently.

Over the first quarter of 2016, which is this bulletin’s focus, we have seen a more mixed and uneven picture within and across regions. For example, the US has experienced a loss of momentum, while Japan saw a sudden recovery. Germany, on the other hand, is experiencing a deterioration, which seems to be a defining characteristic of the region. In emerging markets, we have seen a rebound in production, with leading indicators suggesting that the upward trend could be sustained.

Developed markets growth struggling to take hold

Since the global financial crisis, the US has experienced a strong economic recovery. This has led to expectations that the monetary stimulus introduced to ignite growth might be withdrawn and interest rates would start to rise. However, the recent turn in economic fortunes has led monetary authorities in the US to postpone tightening policy, as initially indicated, given that data showed that the economy was still fragile.

Industrial production, for example, fell by more than expected in March, recording a contraction of 0.6%. This means a fall of industrial production in the US of 2.2% in the first quarter, indicating a broad and sharp decline in economic growth.

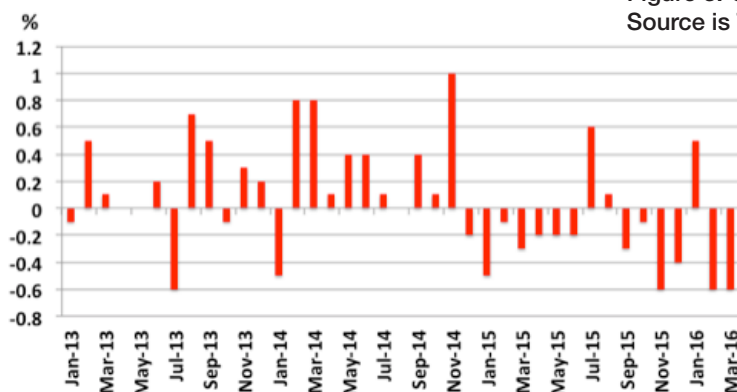


Figure 1: United States Industrial Production.
Source is US Federal Reserve

In Japan, industrial production has dropped the most since the March 2011 earthquake, led by weakness in the motor manufacturing industry. Japanese output fell 6.2 % in February after rising in January, putting a damper on growth for the first quarter of this year. However, manufacturing production (despite poor conditions in the mining sector) saw a sharp rise during this period as demonstrated in figure 2 below.

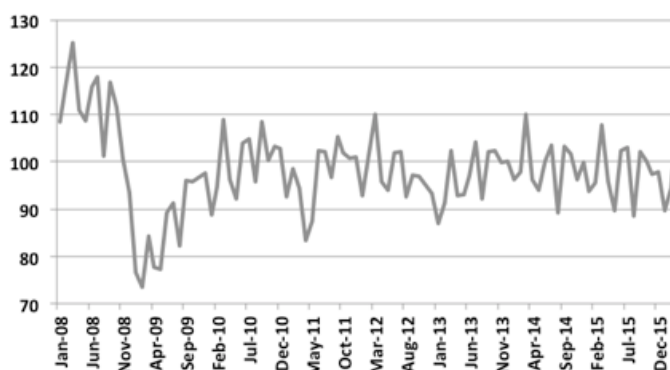


Figure 2: Japan Industrial Production (Manufacturing)
Source is Japan Ministry of Finance

In Germany, while the first month of 2016 gave hope of a recovery, conditions have turned sharply downwards, with industrial production declining for February and March of 2016.

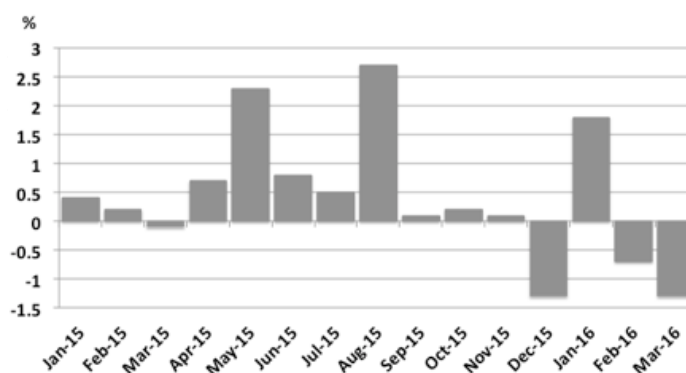


Figure 3: Germany Industrial Production,
Source is Trading Economics



Exports continue to be an important contributor to growth in emerging markets, and a good indicator for growth in manufacturing and improvement.

Confirming this decline in economic activity is the European Union (EU) Economic Sentiment Indicator, measuring economic conditions and sentiment across the region. Although having improved consistently across 2015, economic sentiment has now turned downwards for all the first three months of 2016.

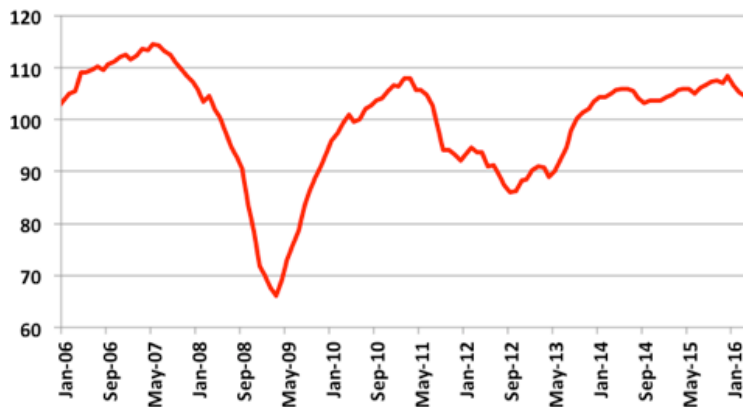


Figure 4: EU Economic Sentiment Indicator, Source is European Commission

Emerging markets rebounding

Having experienced a consistent downturn through 2015, emerging markets exports seem to be rebounding, although along different contours.

The average growth rate of exports (Brazil, China, South Africa) remains negative, although improving. Brazil has been a detractor to growth within the emerging markets bloc as it faces severe headwinds both from political tensions and an economic slump. China exports, however, have improved by an encouraging margin, while South Africa has made gains when measured in Rand, but remains weak when seen in US dollars.

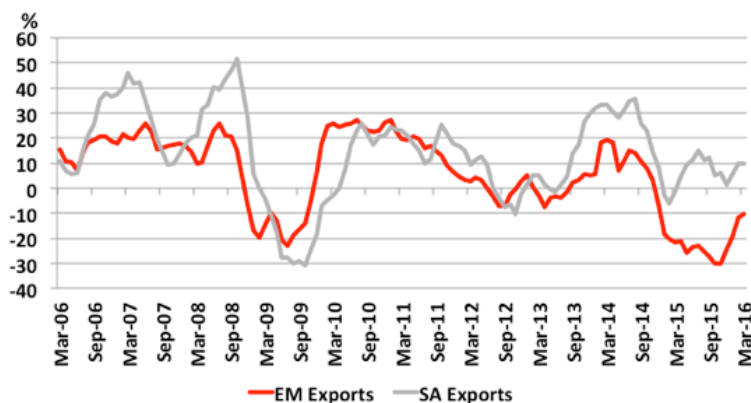


Figure 5: EM Exports growth (average of Brazil, China, SA) Various sources

China

The rebound in Chinese exports is reflected in the improvements in industrial production which bounced back in March; recording 6.8% after recording 5.4% for January and February – lower than December 2015.

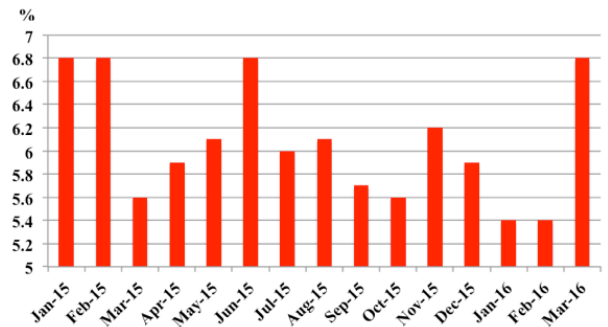


Figure 6: China Industrial Production, Source is Trading Economics

Despite the recovery in industrial production, growth failed to lift – with the growth rate in the first quarter of 2016 falling to 6.7% and thus continuing the downward trend.

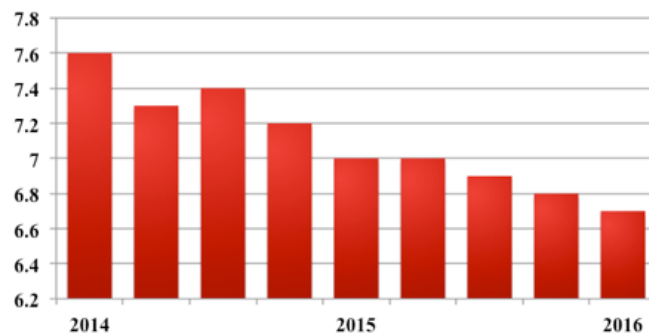


Figure 7: China Quarterly GDP, Source is Peoples Bank of China

However, while still historically low, this growth rate is in line with China's new growth target of 6.5% to 7% announced by authorities for 2016. As has been argued by many analysts, China's economy is expected to decelerate in the coming years given the exceptional growth - especially over the past decade. It is not plausible for an economy to grow exponentially indefinitely.

South Africa showing signs of life amidst pressures

Although the South African economy has faced immense pressures given the severe drought which has affected agricultural exports, there are some positive signs of economic activity in manufacturing production and exports.

Manufacturing production recovered 1.9% in February 2016 after it had collapsed 2.6% in January. This growth was as a result of petroleum, chemical products, rubber and plastics, as well as a surge in radio, television and communication apparatus and professional equipment. These categories recorded growth rates of 4.7% and 23% respectively.

Signaling that this growth might be sustained, the BER Purchasing Managers Index (PMI) rose to its highest level since August 2015. Increasing to 50.50 in March from 47.10 in February of 2016. As a leading indicator, the PMI gives an indication of short-term expectations and activity of manufacturers, and the March 2016 reading (at a level above 50) suggests expansion.

Exports also showed further improvements, recovering again in March for the second month in a row, after falling in January. Cumulatively, exports growth was up 10% for the first quarter of the year. Contributing to exports growth was a rise in mineral products and base metals, while prepared foodstuffs fell by 9%, unsurprisingly given drought conditions.

South Africa recorded a trade surplus of R2.9 billion in March as exports rose to R96.1 billion. This surplus in March was double that of March in 2015, indicating that exports rose an average of 10% for the first quarter of 2016.

With regard to imports, it appears that the weaker Rand has had a negative effect. Textiles imports fell 23% while vehicle and transport equipment tumbled 22%. This dynamic may suggest that the weaker Rand is leading to import substitution, where consumers are looking for locally manufactured goods, as imports become more expensive.

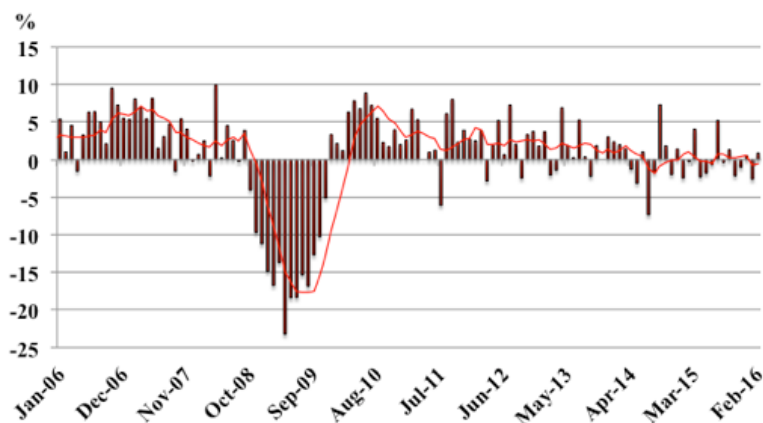


Figure 8: SA Manufacturing Production,
Source is Statistics SA



Figure 9: BER Purchasing Manufacturers Index (PMI)

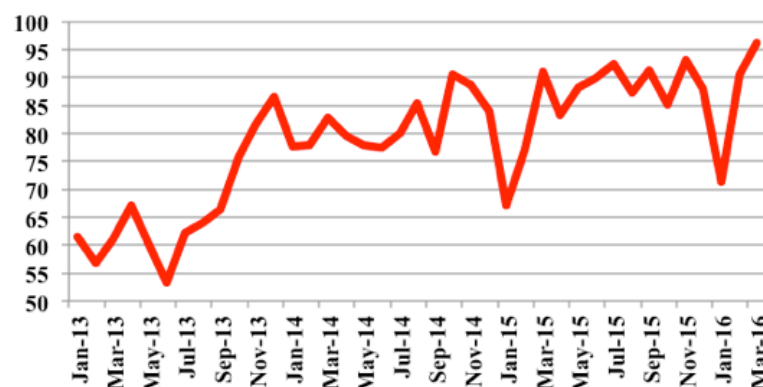


Figure 10: South Africa Exports, R'billions,
Source is South African Revenue Service

These are the signals we will be looking to in terms of growth in manufacturing, especially in emerging markets.

Summary Outlook

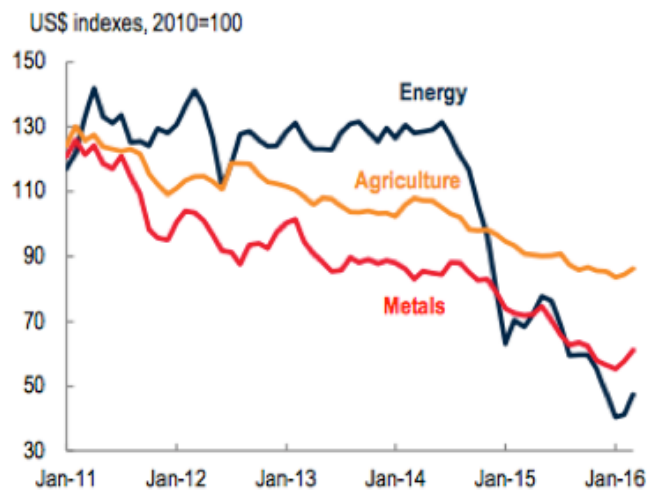
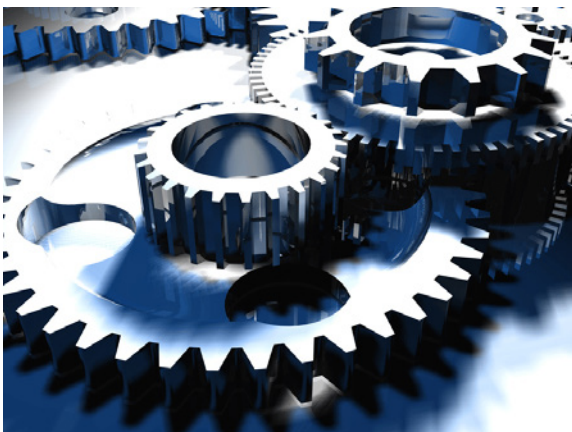
We have before referred to the World Shipping Index (Baltic Dry Index) as an indicator for growth, especially in exports. Over the past quarter, the index has shown improvement, perhaps indicating signs of life in the global economy, especially in trade.

We have also seen improvement in the prices of raw materials and commodities, as shown by the World Bank's commodities indices. Since the start of 2015, raw materials and commodities have been in sharp and consistent decline across a variety of metals and raw materials, nearing levels not seen since the 2008 crisis. However, since January, a generalised recovery in commodity prices has been evident.

These are the signals we will be looking to in terms of growth in manufacturing, especially in emerging markets. Growth in South African exports, and a rebound in Chinese exports over the past two months may be proof of new life. This can also be seen in industrial production numbers in China, South Africa and Germany as mentioned earlier. Although the uneven path of growth remains a concern, there are positive signals on the horizon.



Figure 11: Baltic Shipping Index



Source: World Bank.

Figure 10: World Bank Commodities Indices

THE MANUFACTURING CIRCLE SURVEY

The respondents of this survey are predominantly small and medium enterprises, mainly in the metals and automotive sectors of manufacturing.

The intention of this survey is to gauge various developments in the manufacturing sector, focusing on sentiment and operating conditions, economic performance and profitability, labour issues, and company level competitiveness.

RESPONDENTS

57 manufacturing enterprises responded to this edition of the Manufacturing Circle Survey for the first quarter of 2016. This is below the long term response average, and perhaps highlights the pressures many manufacturers face, which is evident across many areas of their work.

Categories

In this survey, we found that respondents were predominantly in the basic and fabricated subcategory – representing over a third of the respondents. This was followed by the automotive and transport equipment sector, comprising 15% of respondents. We had the smallest categories in printing and publishing, furniture, wood and wood products - which together comprised less than 5% of the respondents.

Quarterly revenue

Based on their quarterly revenue of below R13 million, 40% of the respondents can be categorised as small to medium enterprises. In this regard, we have used a hybrid definition, comparing what is used by the Department of Trade and Industry (DTI), South African Revenue Service (SARS) and international standards. About a third or 16 of the respondents indicated their quarterly revenues were above R500 million, with 21% above a billion rand.

Employees

Using the workforce or employees criterion to measure the size of the business, we found that 53% of the respondents were small to medium enterprises (defined as 200 employees and below for the manufacturing sector).

Another important feature in this sample was the split between part time and full time employees. For the first quarter, the respondents indicated that 90% of their employees were on a full time basis while 10% were part time workers. A noteworthy observation is that this has changed from the previous quarter, where part time workers comprised 12% of the total workforce of respondents.

This may be an indication of the conditions in the sector. Manufacturers could be under pressure or facing lean times, thus letting go of their part time workers. This seems to be the case if we look at general employment numbers. We explore this later.

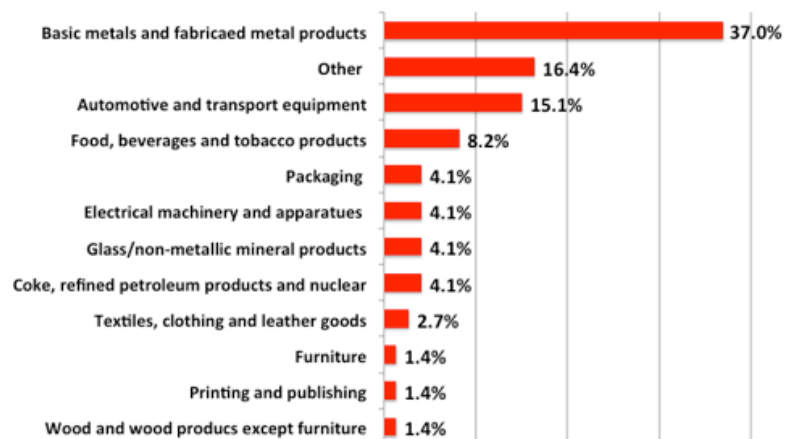


Figure 1: Manufacturing sectors in survey

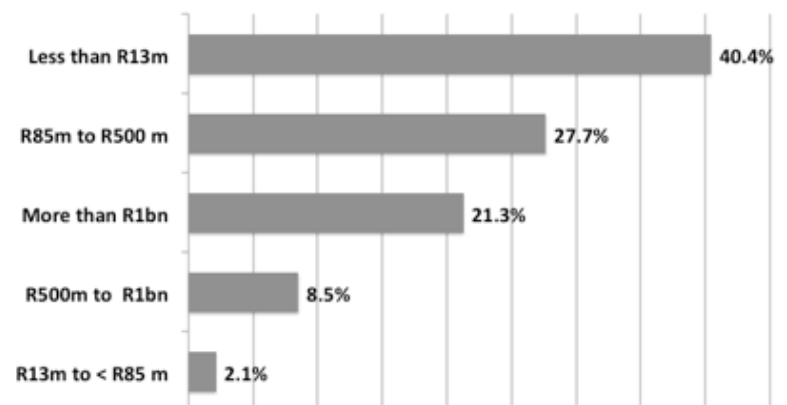


Figure 2: Quarterly Revenue (Revenue in the last quarter)

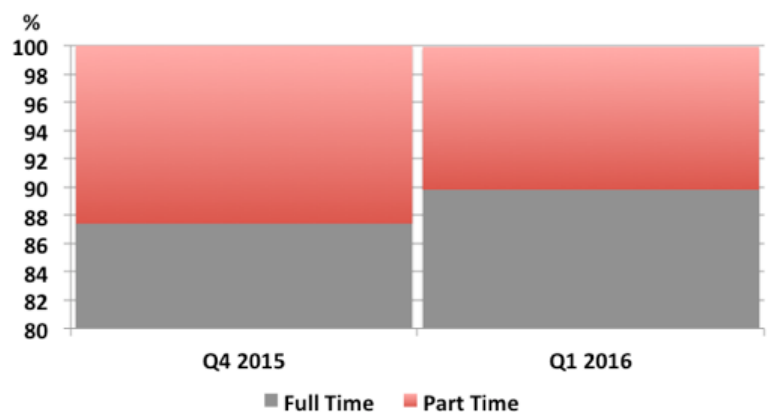


Figure 3: Employment dynamics

The general sense from this survey is that operating conditions have tightened.

SENTIMENT AND OPERATING CONDITIONS

The general sense from this survey is that operating conditions have tightened.

We see this across various indicators, where responding manufacturers noted that operating conditions have deteriorated, with debt levels increasing and interest rates on the rise, as well as difficulties being experienced in selling.

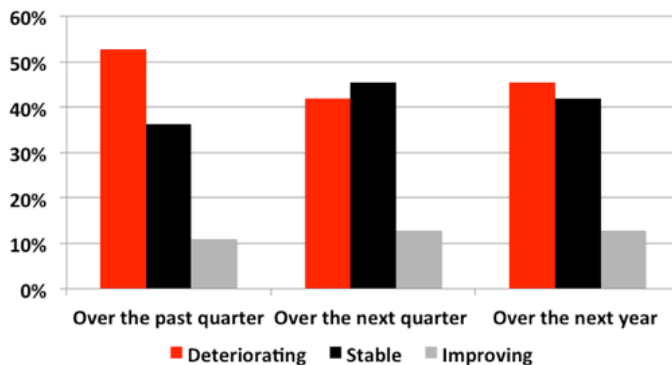


Figure 4: Views on conditions in the sector

Of the respondents to the survey, over half said they saw conditions in the sector deteriorating in the first quarter of 2016. A third of the respondents said conditions were stable while only 10% saw improvements. Looking ahead into the next quarter and next year, this picture improves only slightly, with 40% of respondents expecting stable conditions and 12% expecting things to improve. In other words, half of the respondents expect conditions to stabilise or improve in the coming year.

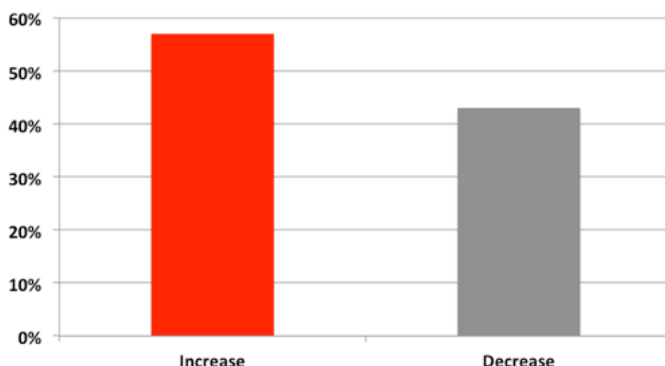


Figure 5: Debt levels

Debt levels

Over half of respondents indicated that their debt levels had increased, both on the short term and long term finance side. This could be an indication of strained cash flows, or of respondents increasing their

capacity to meet rising demand. Given that operating conditions are seen to be deteriorating by respondents, it is more likely that cash flows are strained.

Interest rates

90% of respondents said they were accessing finance at higher rates. This is a marked difference as compared to the previous survey where respondents indicated that they were borrowing at relatively favourable rates.

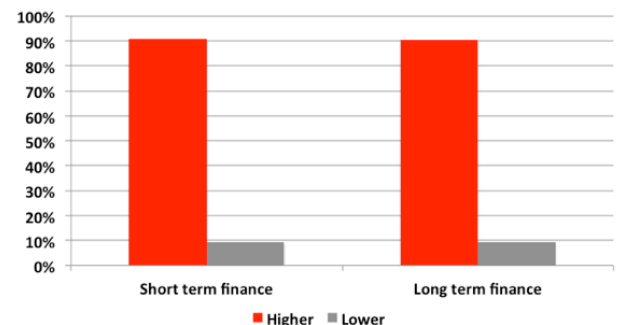


Figure 6: Lending and interest rate conditions

This difference is not surprising given the trajectory of monetary policy with the central bank increasing interest rates.

Stock

The tightening conditions under which the manufacturers find themselves is notable in the levels of their unsold stock. On average, 10% of manufactured inventory was unsold by respondents in the first quarter of 2016.

58% of respondents said less than five percent of their stock was unsold. A third said unsold stock was in the range of 5% to 25%. Over 10% of respondents said they saw above a quarter of their stock unsold. With this accumulation of inventory, manufacturers experience constrained cash flow, and are more likely to borrow money to stay afloat

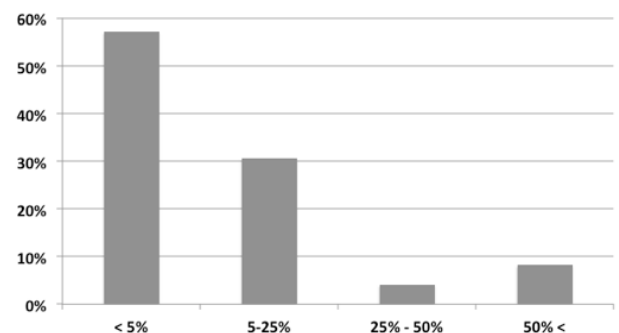


Figure 7: Stock unsold/growth in inventory

PERFORMANCE AND PROFITABILITY

Generally, according to respondents, performance and profitability declined over the first quarter of the year. Sales declined while costs were seen to increase.

Sales

Nearly half, or 49% of responding manufacturers said they saw their domestic sales volumes contract in the first quarter of this year. 16% said they saw no change, while 13% saw an increase in sales volumes above 10%.

Interestingly, those manufacturers who export their goods saw better conditions: only 20% said their sales had contracted, with the rest indicated unchanged or increased sales.

Costs

Within this context, responding manufacturers saw their costs rise by an average of 12.2%. Imported costs were seen to rise by an average of 10.6%. 60% of respondents said their total costs went up by over 6%, while nearly 70% of respondents saw their imported costs rise by above 6% in the past quarter. These are not surprising results given reported cost pressures in the South African economy, especially with the weaker Rand pushing imported costs higher.

Cost drivers

Interrogating cost drivers, we found that half of responding manufacturers said that material was the main contributor to rising costs. This is to be expected given that manufacturers tend to import a significant portion of intermediate goods. With the weaker Rand, this would push the costs of materials higher.

Labour costs contributed about 15% in the quarter under investigation. This compares favourably against the previous quarter, where over 20% of respondents said labour costs were a major driver. Utilities was also seen as a contributor by an increasing number of respondents. In the previous quarter 22% of respondents saw utilities as an important contributor to costs. In this period, this proportion is above 25% of respondents. We expect utilities to continue to climb against the backdrop of rising taxes on fuel, as well as on electricity prices.

Labour costs

For the purposes of this survey, we isolated labour costs in our enquiry. Respondents were asked to indicate the total contribution of general wages, excluding management or executive salaries.

60% of respondents' labour costs constituted about 5% - 25% of all costs, while 10% of respondents said labour costs were as high as 50% of all costs.

According to recently released statistics by Stats SA on employment for the first quarter, South Africa's unemployment rate rose sharply. The manufacturing sector also shed a large number of jobs during this period.

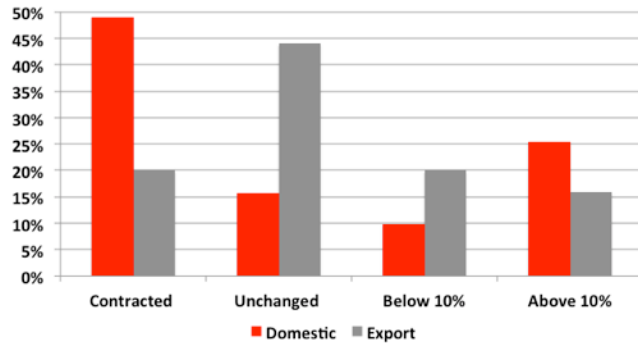


Figure 8: Change in volume sales

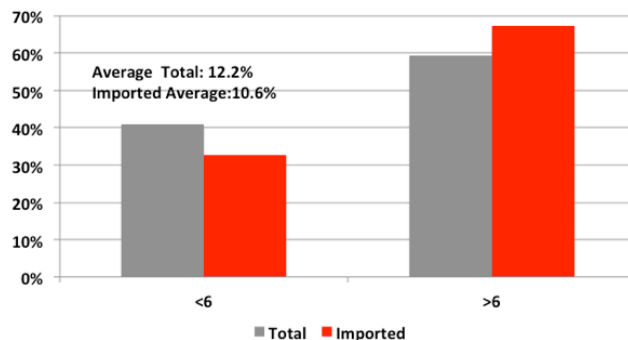


Figure 9: Change in Costs

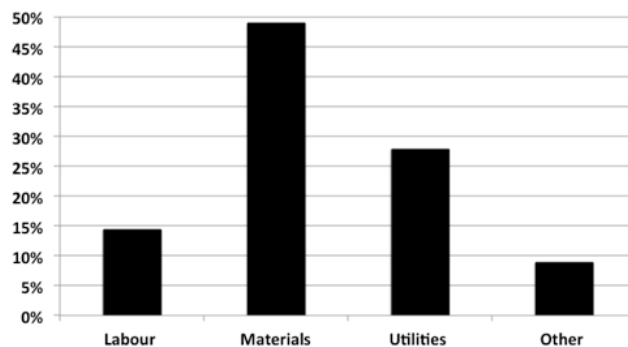


Figure 10: Main cost drivers

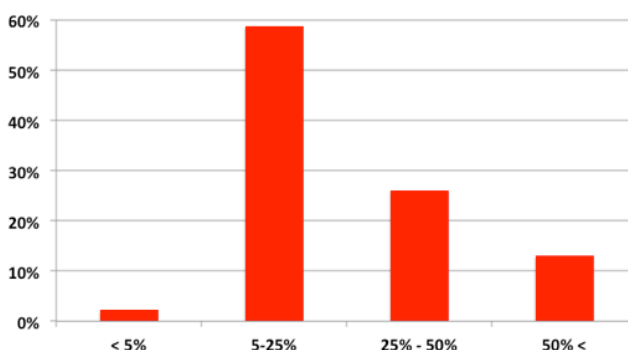


Figure 11: Contribution of wages to costs

Against this backdrop, it is not surprising to see that 25% of respondents indicated that they had reduced employment over the first quarter of the year. However, 10% said they had increased it by more than 10%

Looking ahead, 17% of respondents said they expected to reduce employment over the next three months

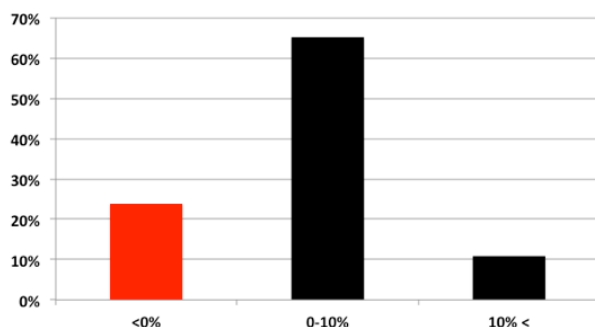


Figure 12: Change in labour/employment

and the next year. However, about three quarters said they expected to keep the same levels of employment in the next quarter to a year. Encouragingly, over 10% of responding manufacturers looked to increase their staff complement over the next year.

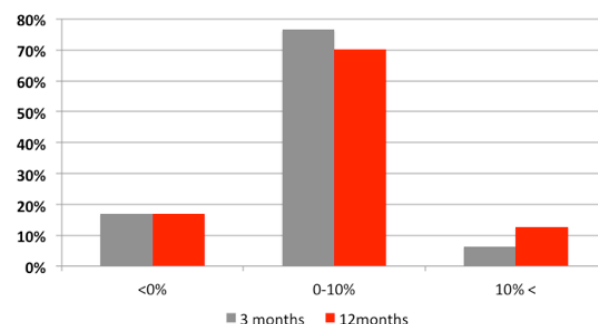
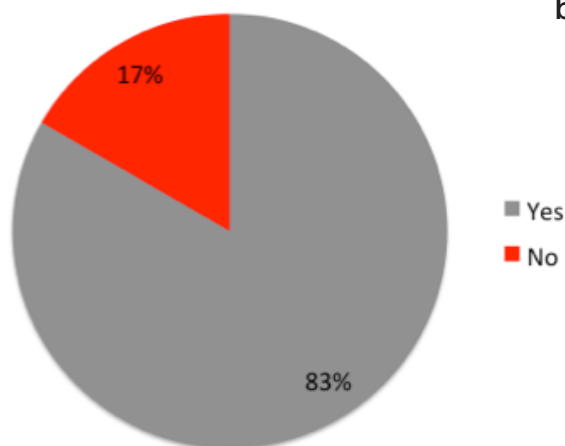


Figure 13: Expected changes in labour/employment

COMPANY LEVEL COMPETITIVENESS

Despite challenging conditions, manufactures continue to make efforts to increase competitiveness, including efforts to become more efficient and using new technologies.



An overwhelming 83% of respondents said they had implemented new methods to enhance competitiveness.

In efforts to improve competitiveness, 44% of respondents said they had worked to improve the use of resources, or work more efficiently with inputs. 20% of respondents said they had implemented new products or become more innovative. Interestingly, 17% of respondents said they had mechanized or introduced advanced manufacturing methods. In this regard, one must consider whether this influenced the reduction in employment numbers over the past quarter.

Concluding remarks

The first quarter of 2016 was arguably a difficult one for manufacturers - marked by falling sales, rising unsold inventory levels and increasing costs. As a result, many manufacturers reflected a deterioration in sentiment.

The weaker Rand against the US dollar has not as yet had a marked effect in influencing local competitiveness, but rather pushed imported costs higher, thus negatively impacting the sector.

Respondents to our survey showed that manufacturers acted to meet the challenges they face, including, unfortunately, reducing their workforce. They also increased the use of technology, and other efficiency measures to stay competitive.

The experiences of local manufacturers, as reflected in their responses to the survey, are consistent with declining global and local economic conditions.

The Manufacturing Circle continues to work with stakeholders to identify opportunities and support mechanisms to assist the local manufacturing sector in remaining competitive and driving job rich growth.

Figure 14: Implementing methods of competitiveness

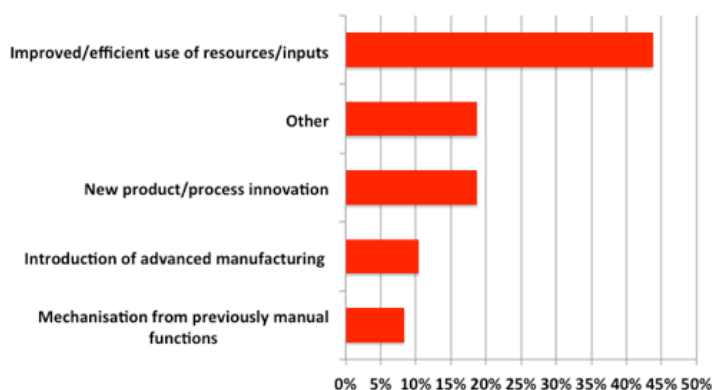


Figure 15: Methods to improve competitiveness

Industrialisation is a period of social and economic change involving the extensive re-organisation of an economy for the purpose of manufacturing



THE BLACK INDUSTRIALISTS PROGRAMME AS A VEHICLE FOR INCLUSIVE INDUSTRIALISATION

Baba-Tamana Gqubule

In August 2014, The Department of Trade and Industry (the dti) launched the Black Industrialists Programme with the aim of creating 100 black industrialists in 3 years. The programme aims to support increased productive capacity, broaden black participation, and achieve greater economic and employment growth in the productive sectors of the economy. These goals are consistent with the National Industrial Policy Framework (NIPF) in utilising, among others, Local (and Preferential) Procurement as a key lever to drive inclusive industrialisation.

The delivery mechanisms within the Black Industrialists Programme include, broadly, the ring-fencing of capital and demand that strategically supports established and emerging industrialists in prioritised value chains within industrial sectors. The initial priority sectors are the Mining, Manufacturing, Agriculture and Construction sectors.

The South African manufacturing sector has the potential to play a key role in economic growth and be a core driver of direct employment, while creating positive spill-overs through linkages to the rest of the economy. However, the performance of the manufacturing sector since 2008, relative to other key sectors, has been characterised by job losses, while its contribution as a percentage of GDP is declining. Many manufacturing sub-sectors are characterised by concentrated ownership. For instance, the processing of staple foods and beverages is dominated by a few big players - a consequence of regulation of the value chain under apartheid. In contrast, there are a greater number of small players in the equipment assembly,

clothing, and some types of food production, chemicals and plastics sectors. This points to the need for policy interventions that reflect a nuanced understanding of firm-level dynamics and the specific barriers (regulatory and technological barriers) which limit access to various markets within the manufacturing sector.

Key to the success of the programme will be the way in which it addresses the structural barriers that, in the very first place, marginalise new black entrants to periphery positions within particular value chains. This implies that there is a need to assess how existing policy instruments and incentives currently contribute to creating an enabling environment in support of the objectives of increased productive capacity and inclusive growth. This will ensure the Black Industrialists programme facilitates the transformation of existing patterns of industrial asset ownership, raising the productive capacity of the economy, with related increases in employment.

Given the existing basket of incentives - such as industrial financing, support for quality improvements, market and export support and designated products - already available to qualifying firms, what remains to be seen is whether the black industrialist programme will deepen the inclusion of black industrialists in the context of a harsh economic climate.

INCLUSIVE GROWTH REQUIRES RENEWED DETERMINATION AND COLLABORATION

Although we have witnessed economic expansion and wealth creation since the dawn of democracy in South Africa, economic inclusion and the distribution of wealth remain a major concern.

Popular media, especially in recent years, has been consumed by growing social tensions relating to issues of economic inclusion or participation and inequality. These tensions are evident in the rise of student movements such as 'Fees Must Fall' highlighting the divide between the rich and poor in education, protracted labour demonstrations and strikes for higher wages, and indeed the rising popularity of the Economic Freedom Fighter (EFF) agitating for the nationalisation of banks and mines in order to create more jobs and deal with inequality.

While statistics show that the economy has grown over the past two decades, job creation remains constrained. Thus, while the economy is growing, people are struggling to work and participate in the economy. Further, inequality has grown to such levels that South Africa is punted as one of the most unequal societies in the world in terms of income and wealth.

If we look firstly at employment, it is clear that the South African economy is growing faster than it is creating work for the millions of unemployed and unemployable people. Since 1994, the unemployment rate has increased from 22% to 25% in 2014. This is because while the number of employed people has risen from 8.9 million in 1994 to nearly 15 million 20 years later, during that same period, the labour force – referring to people of working age who are willing and able to work - has almost doubled. By conservative measurement, the labour force has grown by 11.4 million to 20.1 million. Using the expanded method, it is as high as 23.2 million.

Secondly, while wealth creation has accelerated, so has the growth in inequality. According to official statistics, the South African economy has multiplied three times since 1994, or dou-

bled when accounting for inflation. In that time, the stock exchange (All Share Index) has created enormous new wealth- growing by a multiple of four. According to a report released by the South African Reserve Bank in 2015, household wealth has risen by a cumulative 770% to R9.8 trillion since 1994. Within this context, inequality has risen by a third. According to the World Bank, South Africa's Gini-coefficient has risen from 0.56 to 0.77. At 0, the Gini-coefficient tells us that all income is equally shared, while at 1, it is owned by one person.

The seriously concerning problems highlighted above emanate from two characteristics in the evolution of the economy. Firstly as the economy has evolved and opened up to globalisation, it has diversified to more high-skill sectors such as finance and information technology. Further, low-skill jobs such as textiles manufacturing have been lost or transferred to low-wage geographies such as China and Indonesia. Thus, those with low or no skills remain at the bottom of the income scale, while the few with skills see their incomes and job opportunities accelerate.

Secondly, the creation of wealth has been the preserve of those who have both financial and social capital. That is to say, those who have assets and money to invest, and have the social networks, which has been known to help open opportunities have thrived.





We have already seen the benefit when government shares risk with the private sector in the motor industry.

The manufacturing sector has not been immune to the issues and trends highlighted above. We have seen the sector growing, yet employment within the sector has declined. Consider for example that, while the manufacturing sector has grown by 14% over the past fifteen years, its contribution to the country's GDP (Growth Domestic Product) has declined - falling from 15% in 2000 to 13.7% in 2015. Further, South Africa's manufacturing base has become thinner over the years. Manufacturing volumes are still 10% below their pre 2008 crisis levels, which has reduced the sectors contribution to jobs from 15% to 10%.

Encouragingly, within this same context, the manufacturing sector enjoys a special advantage given its strong ability to create jobs when the right kind of strategic investment is made. Added to this, the manufacturing sector, both domestically and globally, is evolving from lower paid manufacturing jobs to higher value manufacturing of technology and luxury consumer goods. This represents a strong opportunity for South Africa, especially given discussions about 'beneficiation' and 'reindustrialisation'. These discussions have sought to focus on adding value to the primary sector – whether we are talking about agricultural produce or mineral ore.

In terms of investment and job creation, in research conducted for the Manufacturing Circle, it was shown that investment multipliers in the manufacturing sector were higher than many other sectors such as trade and information technology. It is estimated that for every one million rand invested in manufacturing, three jobs can be created through the multiplier effects given the value linkages in the sector.

Secondly, South Africa's own experience has been the erosion of low skill manufacturing jobs, and a move towards high value manufacturing. However, the skills base hasn't kept up. This has been an impediment to the success of beneficiation and reindustrialisation.

In order for the next phase of job-rich growth in the manufacturing to happen, government and the private sector will have to be partners in sharing the risk of investing in capital and skills development.

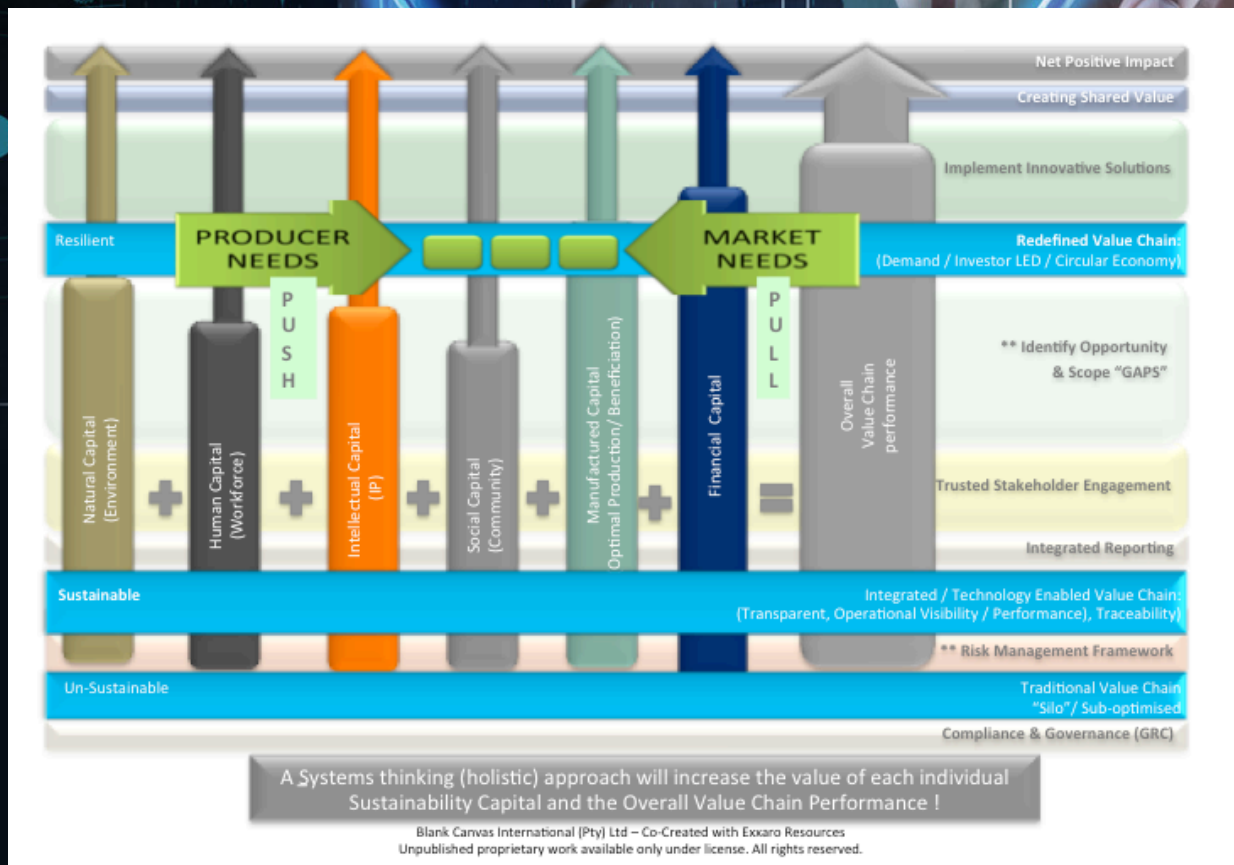
We have already seen the benefit when government shares risk with the private sector in the motor industry. Through its incentives program, the government has attracted investment in the automotive sector – creating a growing industry that has absorbed labour and increased exports income for the country.

In terms of the focus on skills, government has gone some way in providing programs and incentives to promote skills development in the manufacturing and other sectors through Sector Education and Training Authorities (Setas) and government sponsored learnerships. However, feedback from many manufacturers has been that these are not sufficient or adequate. This means that stronger collaboration by the various stakeholders in developing these initiatives will have to be undertaken so as to gain better value and improve outcomes.

A strong focus on skills development will not only allow previously excluded groups to access high skilled jobs which pay more, and thereby reducing income inequality, it will support the development of new enterprises focused on high value manufacturing. Within this context, the availability of the necessary skills, as well as partnerships in investing and capital provision and incentives, will see the inclusion and participation of those previously excluded in emerging enterprises and industry.

The challenges South Africa faces are clear and present growing economic risks and social tensions. However, the solutions are within grasp. What is required is renewed determination and collaboration in order to achieve what all stakeholders agree is required; an economy which as it grows, allows all to participate and share in the spoils.

Business performance management is a set of performance management and analytic processes that enables the management of an organisation's performance to achieve one or more pre-selected goals.



RESILIENT BUSINESS PERFORMANCE FOR INCLUSIVE GROWTH – THE “BIG PICTURE”

- Raldu Nel, Founder and CEO of Blank Canvas International and Chairman of the Sustainability Summit

World-Class Manufacturing – Solid Foundation:

According to Richard Schonberger (World-Class Manufacturing expert), “manufacturing is gained by marshalling the resources for **continual rapid improvement**.” To achieve world-class status, companies must change procedures and concepts, which in turn leads to transforming relations among suppliers, purchasers, producers and customers.

Resilient Business Performance:

Building on the foundations of World-Class Manufacturing Best Practice, differentiated Manufacturing Organisations and Governments around the globe understand that a **“STEP CHANGE”** is required for the **Manufacturing Industry** to be a **“Resilient catalyst”** and **“key enabler”** of the globally adopted **Sustainable Development Goals 2030**.

Industry therefore needs to transition from creating shareholder value in the short term, to creating inclusive wealth (i.e. making a NET+ contribution) for all stakeholders in the medium to long term. This kind of **Resilient Business Performance Strategy for the Industry** will require a High Performance Leadership Culture, Business Model Innovation, integrated Supply Chain Design (Demand & Investor LED), and Collaborative Technology Innovation.

The below **“Resilient Business Performance” Framework** as applied across industry now guides **Manufacturing Organizations** to **Rapidly Benchmark Maturity (Current State)**, make informed Strategic Supply Chain Excellence decisions, as well as identify and timeously act on **Material Business Risks and Opportunities – ensuring Optimal Productivity and Competitiveness (Ideal Future State)** (see Diagram)

Businesses applying these unconventional Resilient Business Performance principles, are disrupting Industry. Examples of a Resilient Business Performance Framework include:

- **Innovation for sustainability: Exxaro’s NEXT journey**

The NEXT project forms part of Exxaro’s campaign to enhance a culture of innovation within the organisation. The process involved identifying trends and technologies which are possible for the mining industry of the future, and research was then collated into a vision of the future. The project epitomises Exxaro’s vision that “Through our innovation and growth we will be a powerful source of endless possibilities”.

- **Zara’s secret to retail success - its supply chain**

This business controls more of its manufacturing and supply chain than most retailers, leading to its competitive advantage achieved through:

- o synergy between business and operations strategy;
- o just in time production;
- o inventory management;
- o centralized logistics; and
- o a solid distribution network.

A vertically integrated supply chain enables mass production under push control, leading to well-managed inventories, lower markdowns, higher profitability, and value creation for shareholders in the short and long term.

Key Considerations for successful implementation of a **Resilient Business Performance Framework** include:

- Preparing a comprehensive stakeholder map and engagement strategy – as these will inform and focus your Resilient Business Performance Strategy.
- Understanding your Integrated Supply Chain Program Design which can similarly be disrupted by the notion of “Circular Value Chains”.
- Gearing your Leadership Team with relevant Skills of the Future, by providing Toolkits for Step Change-TM and Technology Enablement.

Access www.BlankCanvas.co.za for further information on Resilient Business Transformation and Technology Enablement and www.ThoughtLeaders.co.za for Toolkits for Step Change”-TM

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GROWING SOUTH AFRICAN MANUFACTURERS

NOTES: _____





The Manufacturing Bulletin is an initiative of the Manufacturing Circle. It aims to serve as a voice for manufacturing in South Africa with insightful analysis of trends as well as informed comment on what needs to be done to ensure that South Africa's manufacturing base is nurtured and grown.

The Manufacturing Circle is made up of a number of South Africa's leading manufacturing companies from a wide range of industries. Some of the members are South African exporters of manufactured goods, others are locally focused companies competing with imports from around the world. There is one common denominator among them and that is a passion for manufacturing coupled with a fervent belief that for South Africa to be strong, its manufacturing must be strong.

A strong and developing manufacturing sector will drive the creation of skilled and semi-skilled jobs in the South African economy – jobs not just in the large manufacturing companies but critically also in entrepreneurial small companies. New jobs go hand in hand with an increase in fixed investment in plant and buildings – a further multiplier of economic growth. Job creation is a primary objective of the Manufacturing Circle.

Manufacturing holds the key to a growing and employing South African economy and the Manufacturing Circle is playing a key role in finding that future.

Research and Analysis



Email: info@nascenceresearch.co.za

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