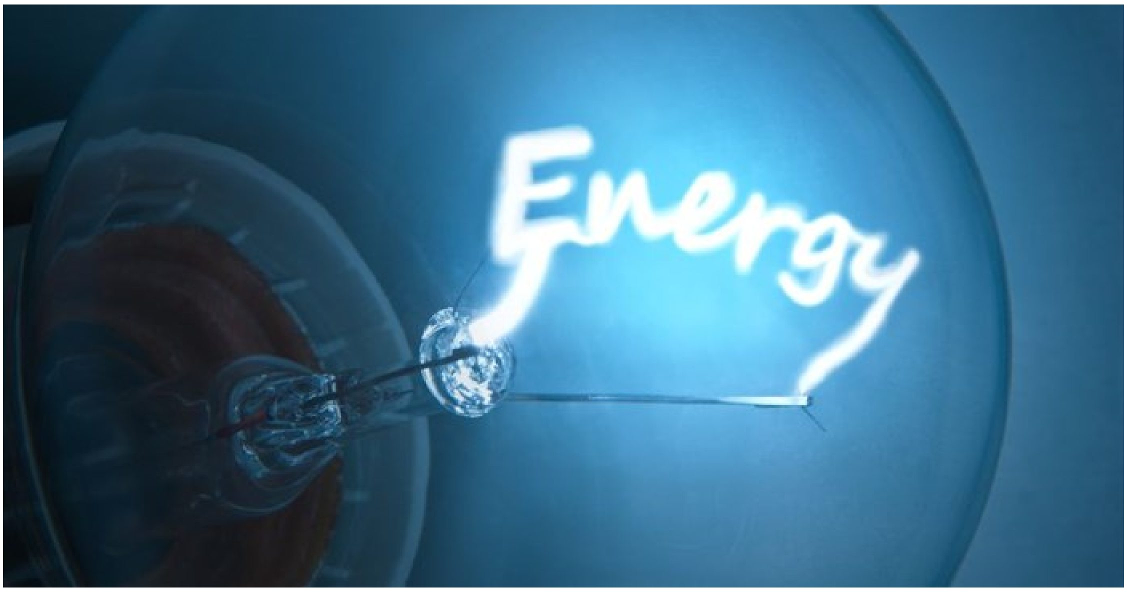
Manufacturing sector needs to manage power crisis

The next one to two years will be tough for South Africa's manufacturing sector which officially fell into a recession in June due to the power crisis. The consequences for the broader economy and businesses in general are immense.



Berrie de Jager, head of Natural Resources, Commercial Banking at Standard Bank, says a longer-term strategy is needed to look through the crisis and a good way to start is to get better at managing power shortages and harnessing new technology that can achieve savings and potentially prevent the need for businesses to consider swathes of job cuts.

"There is not much businesses can do about a decline in China or a fall in commodity prices. But they can certainly take a longer-term view and prepare themselves to benefit from the opportunities that will come their way once this crisis is over," says De Jager.

The impact of power outages on manufacturing production and revenue for small to mid-size manufacturers - these are businesses typically in the R10m to R300m revenue range - has been particularly severe as they have not had the capacity to install sufficient alternatives. With this operational pressure, the focus is not on potential growth in the future, but cutting costs and jobs in the short-term.

Disastrous effects

"Even small outages can have disastrous effects on unprepared businesses as they can significantly reduce output. Factories need machines, motors and lights to be running to function and also need long lead times to get the full production line into operation. Intermittent power outages have become the new norm and will continue to be with us for the next couple of years," says De Jager.

The manufacturing sector is an 'energy hungry' sector. Energy consumption makes up a significant portion of the costs of smelter, for example, but power outages are heaping additional pressure on these operations, including the fact that staff have to sit idle while the plant is down.

Many businesses with higher levels of turnover have 'bitten the bullet' and bought a generator, but Standard Bank is supporting smaller and medium-sized businesses by structuring loan agreements that only need to be paid over three to four years. Standard Bank also supports renewable energy solutions whereby savings achieved can be used to pay back the loans required to finance the investment. "The idea is to try and help ensure there is cash neutrality for these businesses and we have had a lot of success with this model since January," says De Jager.

Good news

But the good news is most customers in this space are people with resilience who don't sit back and accept it - they are prepared to take ownership and ask what they can do to remain successful notwithstanding these challenges. The adage of 'not wasting a good crisis' seems to apply - many are realising they can turn this into a competitive advantage if they make an additional investment now that gives them security of energy supply in the future.

According to De Jager, the first step for businesses is to plan as best as possible for outages. They must improve their alignment with sources of information, like municipality energy schedules or general apps that provide the timelines of expected outages. It is about being aware and proactive. Load shedding management in most cities and towns has improved as there is some form of notice.

"It is going to increasingly be about creating efficiencies and doing more with less energy," concludes De Jager.