Three key activities for sustainable businesses

Good management and business practices will remain the key disciplines for South African businesses that are currently facing challenges presented by labour issues and reduced activity and productivity in key sectors of the economy.

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This is according to Craig Polkinghorne, head of Commercial Banking at Standard Bank. "Commercial businesses with an annual turnover between R300m and R1.2bn, should focus on three key activities to ensure that their businesses remain sustainable during the economic downturn, which may only begin to make an impact during the third and final quarters of the year."

Polkinghorne says during times like these, it is essential to have a strong and experienced management team that can address, manage and reduce risks through strong governance, policy and practical operational changes. This may include stock control through reducing and managing volumes, improved logistics and production, which plays a huge role in reducing day to day costs.

"In a time fraught with labour unrest, it is also essential that considerable management investment is made in garnering the trust of employees. Rather than shutting down and addressing challenges at board level, communication with staff should be increased, so that all remain fully informed of the challenges ahead."

Business essentials

Furthermore, all business activities should be centered on the business essentials of controlling the working capital cycle, as well as the tightening and management of cash flow, and the financial disciplines that contribute to maintaining a business on an even keel during tough economic conditions.

"Although there is no doubt that the third and final quarters of the 2014 calendar year will continue to reflect a downturn in the manufacturing, wholesale, retail motor and transport sectors, a recent announcement by the National Association of Automobile Manufacturers of South Africa stressed that while vehicle sales were declining, the industry at large was confident of holding its own. This was encouraging," says Polkinghorne.

Standard Bank's research indicates that year-on-year declines in commercial sectors will be:

- finance from 3.3% (Q1: 2013) to 2.0% (Q1: 2014);
- transport from 2.1% (Q1: 2013) to 1.7% (Q1: 2014); and
- an unchanged figure of 2.1% for wholesale, retail and motor sales (Q1: 2013, 2014), which points to strain on consumer spending patterns ahead.

"Combined, these sectors contribute 8% to the nation's GDP. However, it can be expected that a significant slowdown will occur. The industry is less confident that the 20-year National Development Plan (NDP) that seeks to boost the country's economic growth rate to 5% by 2019 will be realised, considering that the economy contracted an annualised 0.6% in Q1 2014 as mining output dropped 24.7%," says Polkinghorne.

Revised forecast

This is in sharp contrast to Q4 2013's robust growth of 3.8%. The revised forecast growth estimate for 2014 and 2015 is 2.1% and 1.9% respectively. This falls short of the 5% growth rate required to reduce the unemployment rate from 25% to 14% in 2020 and 6% by 2030, according to the NDP.

Polkinghorne says a majority of business leaders in South Africa are pragmatic and robust in their approach to business. "We are confident that the majority will take the management and financial steps necessary to remain sustainable in the long-term. Those that act prudently will be well-placed to take advantage of the opportunities presented when the economy rebounds."