

Nampak - The cost of complexity in manufacturing

Issued by [Gordon Institute of Business Science](#)

21 Sep 2015

The manufacturing sector in South Africa is under intense pressure with increasing headwinds placing the long-term viability of industry under threat. While it is government's responsibility to create an enabling environment, manufacturers must look to their own operations and decide what efficiencies they can unlock to create value, CEO of Nampak, Andre de Ruyter, told a Forum at GIBS.

"In South Africa's tough manufacturing environment, we have to be efficient, control costs and reduce working capital."

Current economic environment and structural challenges for manufacturing

Manufacturing's contribution to gross domestic product has fallen from 24% in the 1980s to 13% in 2015, De Ruyter said. Growth in the sector is lagging behind that of other developing markets due to various factors, including increasing competition from imports, increased labour costs, high energy costs, unreliable infrastructure and policy and regulatory uncertainty.

While productivity has increased enormously internationally, and wages have remained stable, South Africa's wage inflation and falling productivity has put the country at a structural disadvantage. "In order to compete in the manufacturing space internationally, we have to identify what our competitive and comparative advantages are and catch up in areas where we have a true competitive advantage," De Ruyter explained.

Regulatory environment

Consistency across all government department policies relating to manufacturing is essential to help business respond to the current structural challenges. De Ruyter said while government is trying to do a lot with limited resources, intervention was needed to remove some of the obstacles facing business, including labour inflexibility; collective bargaining; skills shortages exacerbated by visa challenges and inefficient port, road and rail infrastructure. "We need a macroeconomic environment that facilitates more capital investment locally," he said.

De Ruyter said South Africa had woefully failed to invest in artisan skills and the shortage of manufacturing skills was aggravated by the abandonment of apprenticeships and artisanal training programmes: "There is a need to return to the old, structured training and apprenticeships."

Nampak planned to increase its investment to train in-house artisans bespoke to the company's needs. "If we are to return manufacturing to its former glory of 25% contribution to GDP, it could create a million jobs. There is an enormous opportunity to encourage manufacturing and address some of our socio-economic challenges at the same time."

Manufacturing sector's response to challenges

The appropriate response from business to the difficult operating conditions was not to simply give up, but to look for efficiencies within their own operations, De Ruyter said, as "profitability and simplicity are very closely linked."

De Ruyter has led a consolidation and rationalisation process to simplify and streamline processes at Nampak since his appointment at the company in April 2014. His focus has been to encourage a culture of "everything must make money" into the business: "Manufacturers sometimes lose sight of that the fact that we must focus on innovation and addressing the needs of customers, while still making products that sell profitably."

Interventions have included a simplification of inbound complexity, including standardisation of raw materials, suppliers and transport services, which has equated to significant savings.

De Ruyter simplified the number of stock keeping units the company produces for better financial returns. Where previously Nampak produced an abundance of products, they have rationalised their product portfolio for more efficiency.

There are opportunities for growth and expansion on the African continent for Nampak, De Ruyter said. "I believe strongly in the Africa story. The current commodity crisis has caused the story to lose some of its lustre, but the underlying demographics are attractive value proposition. Africa remains a compelling destination for South African companies."

De Ruyter said the process of simplification and a return to fundamentals has ensured long-term sustainable competitiveness for Nampak. "I look forward to a far simpler business with the ability to unlock value and pursue further growth opportunities in South Africa and Africa," he said.

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