Manufacturing Insights 2023

Scalability
Emissions
Water crisis
Offtakers
Chemicals and pharmaceuticals
Imports
Risk mitigation
Industrialisation
Exchange rate
Exports
Energy intensive
Yield
Critical thinking
ISO
Product
Social
Recovery
Trade
Collaboration
Early adaptors
Environmental
Demand
Foreign direct investment
Efficiency
Electrical equipment
Zones
Value chain
Legal
Globalisation
Machinery
Lead time
Wood, paper, printing and publishing
Downstream
Textiles, clothing and leather
Unit price
Culture
Recycling
Industrial development
Ecosystem
Furniture
Finished goods
SA Bureau of Standards
Governance
Maintenance
Smart manufacturing
Business cycle
Tax
Skills development
Food and beverage
Sustainability
Special economic zones
Problem-solving
Key performance indicators
Plastic and rubber

Welcome to

Manufacturing Insights 2023

When contemplating everyday products and services, it is impossible to overlook the indispensable role that the manufacturing sector plays in our lives. Indeed, the sector remains one of the largest industries in the South African economy, contributing 13% to the country's GDP. However, the sector has been facing prolonged struggles, with significant shocks being a recurring theme over the past 15 years.

In today's dynamic and ever-evolving business landscape, the ability to navigate uncertainty is vital to achieving success and paving the way for growth. Starting and operating a manufacturing entity in the South African business landscape is not for the faint-hearted, and there are many decisions that need to be considered.

To gain a competitive advantage, manufacturers need to have a proactive attitude towards continuous improvement and a willingness to invest in innovative technological capabilities. It is also important to understand opportunities for expansion into growing sectors, such as the green energy value chain, and the rest of Africa through initiatives such as the African Continental Free Trade Area (AfCFTA).

Thank you for taking the time to look at our Manufacturing Insights 2023. We hope that this document provides you with valuable information and supports your decision-making process as we enter 2024.

With a relationship management-driven approach to business, at Absa, we understand that manufacturers have a unique set of needs, and we are able to support your business through all phases of your business cycle. We value your business as much as you do.

Please reach out to our team of specialists at ***manufacturing@absa.africa*** and let us walk the journey with you.

Automation
Value-added
Investment
Infrastructure
Upstream
Cashflow
Margins
Production costs
5G
Resilience
Energy intensive
Electricity
Data security
Constraints
Innovation
Social
Circular economy
Manufacturing
Unit price
Artificial intelligence
AfCFTA
Load shedding
Product
International standards
Competitive advantage
Raw materials
AGOA
Supply
Transport costs

Design

Input raw materials

Fabrication process

Rigorous quality control measures

Storage/ Sale of final product

Manufacturing is the process of transforming raw materials into finished products and involves meticulous planning at each stage.

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Manufacturing subsectors

The diversity of the South African manufacturing industry is reflected in its 10 subsectors, with various interlinkages.

1. Food, beverage and tobacco
2. Textiles, clothing and leather
3. Wood, paper, printing, publishing
4. Petroleum, chemicals, pharmaceuticals, rubber and plastics
5. Glass and other non-metallic mineral products
6. Basic metals and fabricated metal products, machinery and equipment
7. Electrical machinery and apparatus
8. Radio, TV and communication equipment
9. Automotive
10. Furniture and recycling

Each plays a significant role in contributing to the country's economic prosperity.

1 Resilient manufacturing sector going green to sustain operations

Hugo Pienaar
*Chief Economist, Bureau for Economic Research**

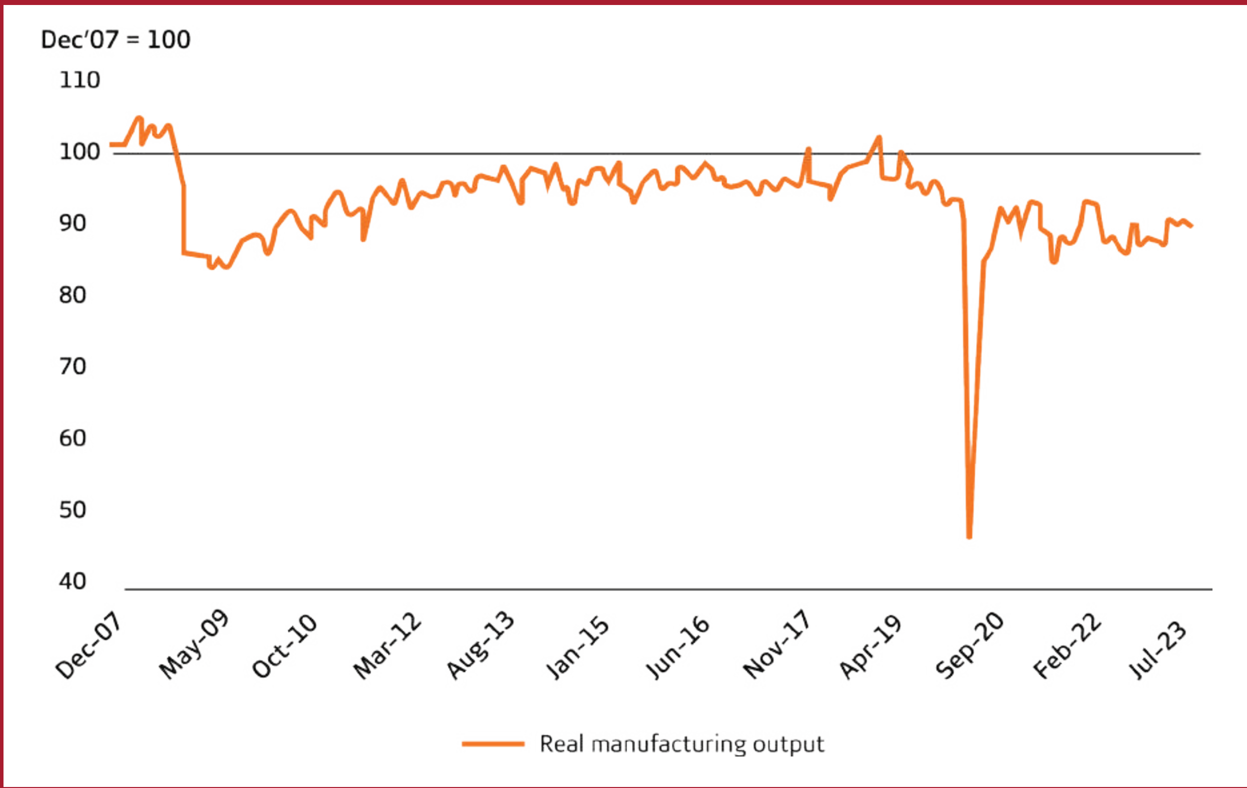
The South African manufacturing sector, which has been hit by numerous and overwhelming shocks over the past 15 years, registered decent output growth in the second quarter of 2023. However, the 4.2% year-on-year increase came from a low base in 2022Q2, when vehicle manufacturing in particular was heavily disrupted by the devastating floods in KwaZulu-Natal. Furthermore, the underlying weakness in the manufacturing sector is emphasised by the fact that, in level terms, real manufacturing output was still below that of the first quarter of 2022. This indicates that manufacturing production has still not fully recovered from the flood-induced decline in the second quarter of 2022.

Incomplete recoveries from significant shocks have been a recurring theme of the manufacturing sector, which remains one of the largest industries in the South African economy with a GDP contribution of 13%. The prolonged struggles of the sector are clearly illustrated in Figure 1.1, which shows that by July 2023, the level of real manufacturing output was more than 10% lower than in December 2007, i.e., it remains down from before the onset of the great recession that accompanied the 2008/9 global financial crisis (GFC). It has to be said that the post-GFC recovery was interrupted by a multitude of adverse events, culminating in the COVID-19-induced production crash in 2020. Having said that, the lacklustre performance predates the COVID-19 crisis. Indeed, by December 2019, i.e., before the hard COVID-19-induced lockdown and 12 years on from the pre-GFC peak, real manufacturing output was still below what it was at the end of 2007.

Absa is a proud sponsor of the quarterly Absa Manufacturing Survey conducted by the BER

A sad state of affairs for factory output since the global financial crisis (index of real output)

Figure 1.1

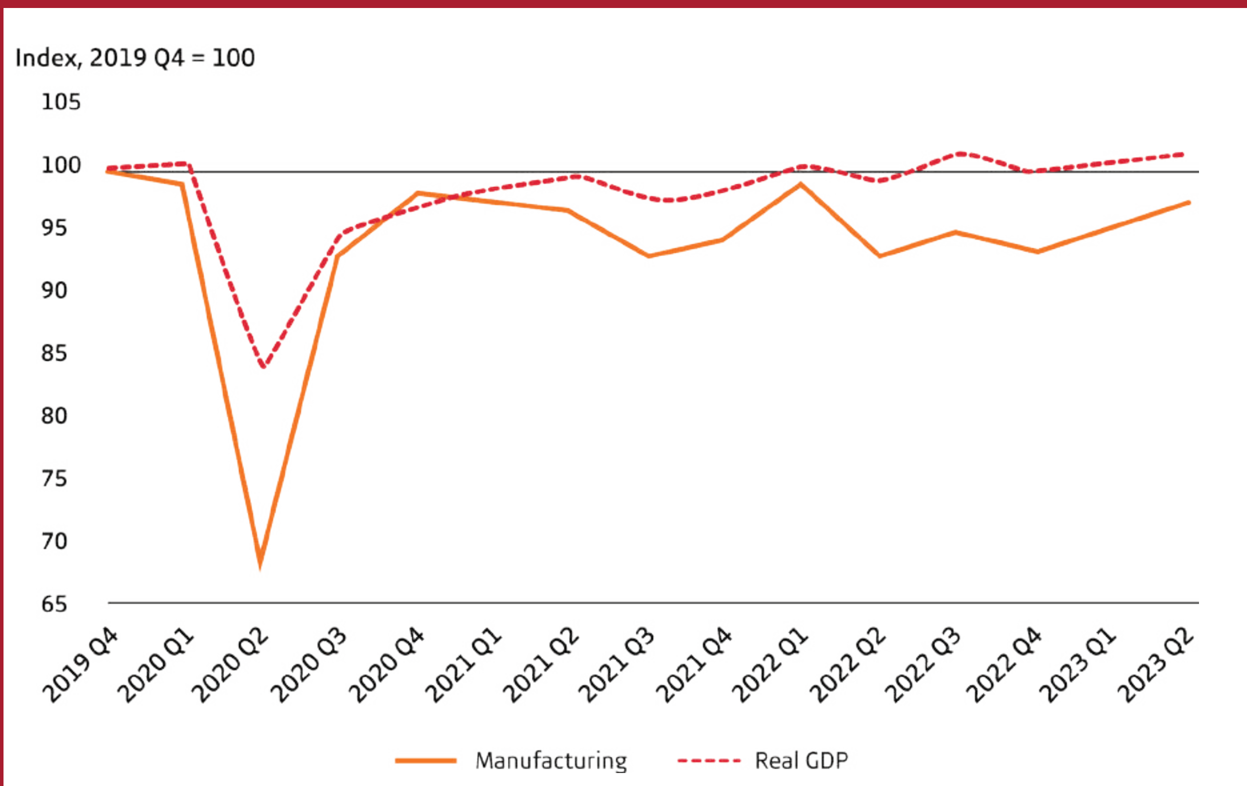


Source: Stats SA

The protracted and incomplete post-COVID-19 recovery in the manufacturing sector is also illustrated in Figure 1.2, which shows that while the level of real GDP was back above pre-COVID-19 levels by 2022Q3, manufacturing value added is yet to return to that level. To be sure, the level of output in the manufacturing sector was still almost 3% down on the pre-COVID-19 level in 2023Q2.

Post-COVID-19 recovery in manufacturing lagging the overall GDP revival

Figure 1.2

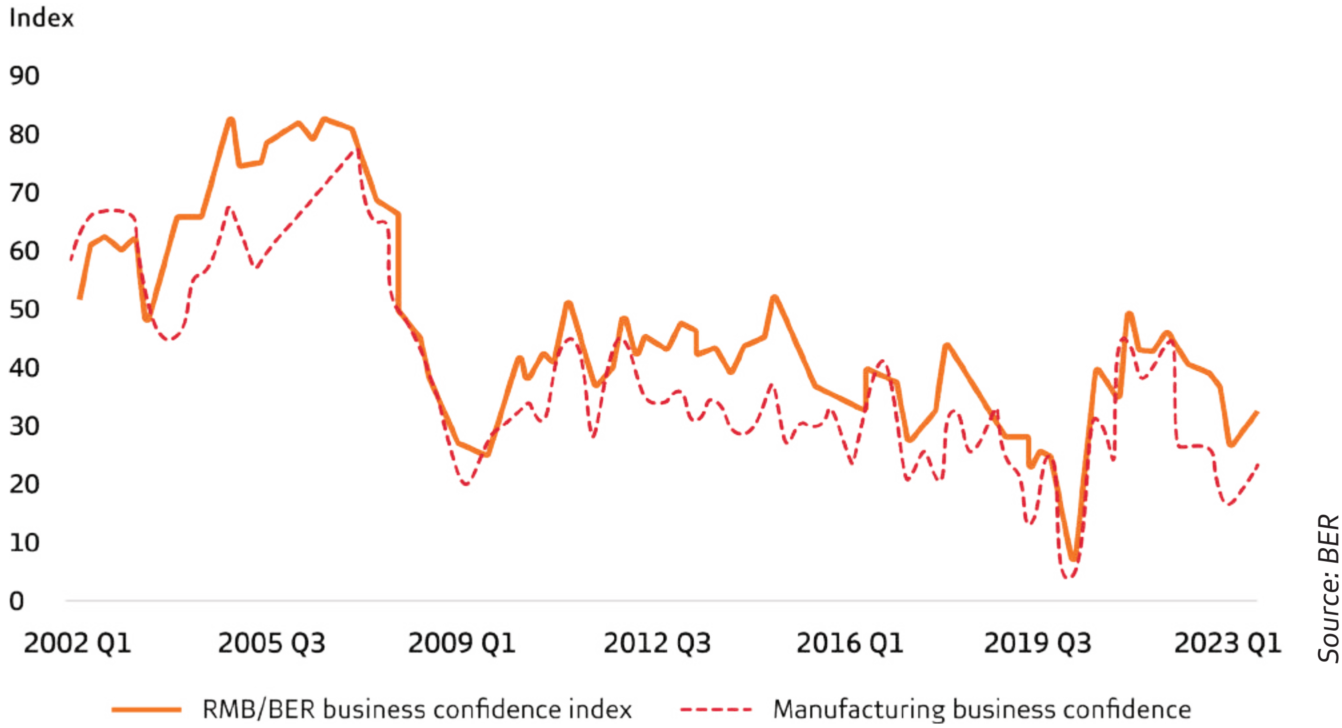


Source: Stats SA

With this in mind, it is not surprising that business confidence in the sector, as measured in the quarterly Absa manufacturing survey, has lagged behind that of the other sectors surveyed by the Bureau for Economic Research (BER) since early 2022. Relative to overall business confidence in SA, subpar sentiment in the manufacturing sector has been a feature since the GFC (Figure 1.3).

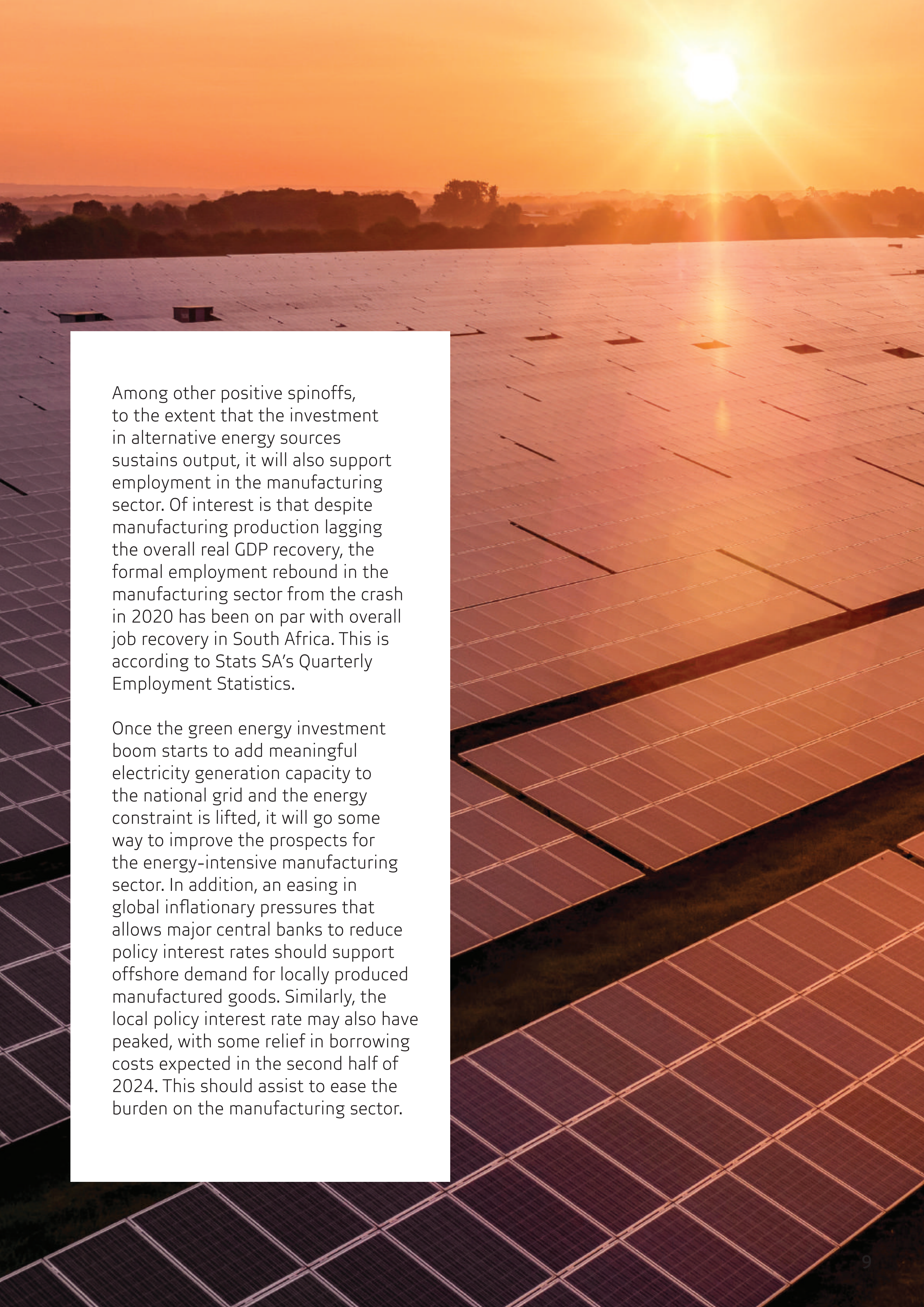
Manufacturing sector sentiment more downbeat than overall business confidence

Figure 1.3



Several factors help to explain the underperformance in factory sector output, as well as the lower confidence in the manufacturing sector relative to the wider economy. Top of mind is the high cost of doing business in South Africa that disproportionally impacts manufacturing. The power constraint is a case in point. Although all sectors of the economy are adversely impacted by this, large parts of the manufacturing industry are very energy-intensive. This suggests a high level of vulnerability to power shortages. Because the manufacturing sector is also export-focused, worsening domestic logistical constraints, as well as the nature of the global business cycle, also have an outsized impact on the sector.

To their credit, several firms in the manufacturing sector are taking steps to sustain their businesses. Fixed investment data from Statistics South Africa (Stats SA) suggests that firms are taking proactive steps to shield themselves against the lack of reliable power supply from Eskom. From a low base, fixed investment by the manufacturing sector increased by 8.5% in real terms during 2022. This outpaced overall real fixed investment growth of 4.8% during 2022. Indications are that manufacturing sector fixed investment growth remained subdued during the first half of 2023.



Among other positive spinoffs, to the extent that the investment in alternative energy sources sustains output, it will also support employment in the manufacturing sector. Of interest is that despite manufacturing production lagging the overall real GDP recovery, the formal employment rebound in the manufacturing sector from the crash in 2020 has been on par with overall job recovery in South Africa. This is according to Stats SA's Quarterly Employment Statistics.

Once the green energy investment boom starts to add meaningful electricity generation capacity to the national grid and the energy constraint is lifted, it will go some way to improve the prospects for the energy-intensive manufacturing sector. In addition, an easing in global inflationary pressures that allows major central banks to reduce policy interest rates should support offshore demand for locally produced manufactured goods. Similarly, the local policy interest rate may also have peaked, with some relief in borrowing costs expected in the second half of 2024. This should assist to ease the burden on the manufacturing sector.

2 Manufacturing plays a critical role in economic growth and development

Chennelle du Toit
Manufacturing Analyst,
Absa Relationship Banking

When contemplating everyday products and services, it's impossible to overlook the indispensable role of the manufacturing industry in our lives. The sector is the backbone of innovation, economic growth and job creation, making it a crucial component of both national and global economies.

In the second quarter of 2023, the manufacturing sector contributed 13% to the GDP in South Africa (Stats SA), highlighting its significant impact on the country's economic landscape.

Dr Iraj Abedian, founder and Chief Executive of Pan-African Investment and Research Services (Pty) Ltd, with a PhD in Economics, emphasises the positive multiplier effect of manufacturing in the positive multiplier effect of manufacturing in his report titled 'Revitilising SA's manufacturing sector 2022' This underlines the industry's pivotal role in job creation, economic growth and industrial development, particularly as manufacturing becomes more capital-intensive and automated, requiring an enhanced skill set, allowing for higher salaries to realise higher quality of life for the workforce.

With every R1.00 invested resulting in R1.33 value created within the economy.

A 10% increase in manufacturing investment can yield a 13% boost in the economy, a 9% increase in fiscal revenue and an 8% rise in job creation.

The manufacturing industry is a dynamic and integral part of the global and South African economies. By understanding its multifaceted elements and addressing all aspects meticulously, entrepreneurs can navigate the complexities of starting and running a manufacturing business successfully. The industry's contributions to innovation, job creation and economic development underscore its importance in driving progress and improving the quality of life for communities at large.

To secure and enhance the manufacturing sector, reindustrialisation efforts are crucial. Effective partnerships between government and the private sector are necessary for infrastructure provision programmes, localisation initiatives and reducing bottlenecks. Increasing the value added of manufactured products can ensure a sustained competitive advantage.

Neglecting the manufacturing industry could lead to increased reliance on imports, which poses a risk as evidenced during the COVID-19 lockdown, overall creating a vulnerable economic situation. A shrinkage in manufacturing sectors would leave economic gaps and affect various interconnected sectors.

Moreover, manufacturing's influence extends beyond its immediate activities, creating demand for skills, transportation, storage and fostering innovation that spills over into other industries. Importantly, given the focus on a product's end-of-life, when designing products, it has become necessary to consider how we can extend a product's life cycle through reuse, recycle or upcycle.

Scan the QR code to watch the video on our product offering.

Top-of-mind elements to consider when starting a manufacturing business

1 Product viability

- Ensure demand by identifying the need that your product would be solving for.
- Determine the size and location of your target market – whether you will only be selling your goods locally or whether you will also export your goods.
- Take note of and adhere to any regulations, laws and standards relevant to your product and production process.

2 Product design

- Detailed product design and engineering, including research and development, with possible collaborations with external entities such as universities or government institutions, are critical.
- Importantly, you need to consider cultural, religious, geographic and social elements to ensure future demand and prevent redundancies.

3 Input material selection

- Select appropriate raw materials, focusing on material strength, durability, cost and availability.
- Keep in mind the principles of the circular economy and end-of-life cycle of your product.

4 Source of raw materials

- Consider whether you will source your raw materials from local or international sources and consider the cost implication and logistics requirements of each.
- If there are supply chain constraints, determine that there are alternative sources of your selected raw material or alternative raw material types that could support the continuity of your operations.

5 Production techniques and machinery

- There will be various production techniques, such as cutting, molding, casting or machining, that will need to be employed in the production process.
- It is important to consider which technique is best suited to your product and selected raw material.
- Determine any specific requirements needed by each production technique, specifically considering the need for specialised machinery, including whether manual, automated or a combination thereof is best suited to your desired output level and efficiency.

6 Quality control measures

Stringent quality control procedures, including inspections and testing – ensure that the highest standards are maintained throughout the production process.

7 Packaging

- Packaging not only ensures the protection of your product during distribution and sale, but also gives your buyers an important first impression of your product's quality.
- Consider the packaging process (manual or automated), type of packaging material used and factor this into your overall production cost.

8 Distribution

- Depending on your target market, your distribution supply chain may involve warehousing, transportation and/or shipping your packaged products to distributors, retailers or directly to consumers.
- Ensuring streamlined logistics can significantly save costs and improve efficiency in your business.

9 Risk mitigation

- Various insurance protection policies, such as property and maintenance insurance, help mitigate risks that may disrupt the manufacturing process.
- Additionally, if you're importing raw materials or exporting your finished product, it becomes important to mitigate any transport and logistic risks as well as exchange rate risk.

10 Commercial viability

- Once all the above has been taken into consideration, the last step is to determine the commercial viability of your business.
- To do this, you should create a comprehensive business plan to document the details around your business goals and how you intend to achieve them. This document would need to be presented to various stakeholders, including business partners, investors and financiers as well as offtakers.

Next steps:

Pointers to develop a business plan

1 Executive summary:

Brief introduction including why your business will be successful.

2 Core solution:

Detailed information about what problem your business will solve and explain your competitive advantage.

3 Market analysis:

Industry outlook and target market of customers, with trends and themes.

4 Organisation and management structure:

Indicate who will be managing your business, including any legal and finance structures. Note the key role players and the team's strengths and weaknesses.explain your competitive advantage.

5 Product line and lifecycle:

Describe what you will be producing and the overall product life cycle.

6 Marketing and sales strategy:

Explain how you will attract and retain your customers.

7 Financial projections:

Indicate the projected cashflow of your business, including all production costs and expected income over time.

8 Funding request:

If funding is required, you will need to outline how much funding is needed and what it will be used for. You will also need to indicate how you will pay back the funds that you are borrowing – include this in your financial projections.

9 Supporting documents:

Provide any additional relevant documents to support your business proposal and funding request, including, for example, the CVs of key role players, market research analysis and additional financial notes.

Scan the QR code to watch the video on our holistic solutions.

3 Empowering SME growth: Navigating challenges through strategic partnerships

Thys Tekela
Senior Enterprise Development Specialist,
Absa Relationship Banking

The South African business landscape is not for the faint-hearted, with small and medium enterprises (SMEs) widely acknowledged as the lifeblood of our economy. In the current landscape of economic volatility and market uncertainty, their success hinges on receiving the right support and guidance across the value chain of the various manufacturing subsectors and interconnected industries.

A collaborative approach to establishing a robust, diverse, agile and driven team of partners and mentors is imperative for the survival and growth of operations. Entrepreneurs must recognise their limitations, seek assistance when necessary, and be open to a cycle of unlearning and relearning to achieve sustained success.

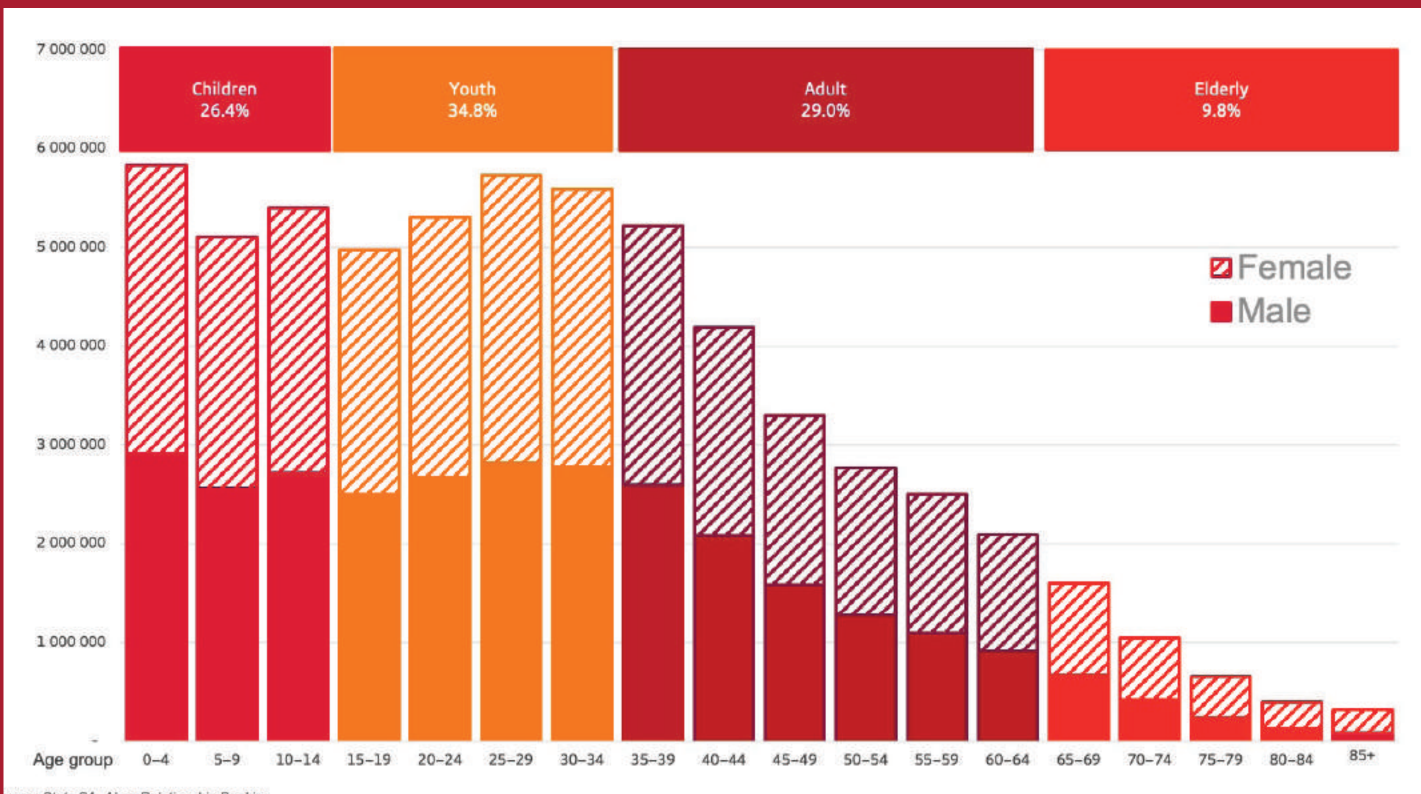
South Africa's demographics are skewed: 51.1% of the country's population are women, while 61.2% of the total population are below the age of 35. Given this and the country's high unemployment rate of an official 32.6% as of Q2 2023 (Stats SA), it is evident that massive shifts within South Africa's unemployment numbers could be possible with the right solution to encourage and support the participation of our youth and women in the growth of the economy. The youth (ages 15-34) constitutes 34.8% of the total population and faces disproportionately high barriers of entry due to the lack of awareness, inadequate education or training, limited experience, financial constraints and restricted access to networks.

> Starting and growing a business is one of the most powerful tools for **women to overcome poverty and build better lives** for themselves, their families and their communities.
>
> *- David Malpass,*
> *World Bank Group President*

Scan the QR code to view Absa's youth and women proposition.

South African demographics

Figure 3.1



Source: Stats SA , Absa Relationship Banking

Total population

51.1% female

48.5% male

SA's official unemployment rate

32.6%

Youth unemployment

60.7% Ages 15-24

39.8% Ages 25-34

Survival in business is not merely about being the fittest; it's about adaptability.

The primary challenge at the inception stage is funding. Research indicates a start-up failure rate of around 70-80% in South Africa, predominantly attributed to cashflow mismanagement. Entrepreneurs often conceive brilliant ideas, but hit a roadblock in bringing these ideas to fruition. While sales are crucial, cashflow reigns supreme, with both elements requiring mutual support. Without funds available for bulk purchases, workforce payments, machinery acquisition and facility maintenance, enterprises, especially in manufacturing, face substantial difficulties.

While the traditional view of commercial banking demands a two-year profitable track record, with financial statements, and poses a significant hurdle, the solution lies in considering alternative financing options, such as enterprise development (ED).

At Absa, we have a dedicated division that tailors lending standards to enable SMEs to access finance, recognising the limitations of their trading history or balance sheet.

Rather than relying solely on current financial strength, **ED funding focuses on the strength of an SME's financial projections, performance ability and the quality of their business model or underlying contracts.** Such an approach not only enhances SMEs' access to finance but also fosters financial inclusion.Furthermore, by collaborating with multiple corporate entities across different sectors, ED can offer access to finance for previously disadvantaged SMEs who have been awarded contracts for projects within the supply chain of these corporates, allowing for qualifying SMEs to gain access to finance without needing to provide collateral.

To simplify financial management for business owners, even those with limited accounting knowledge, Absa provides access to Cashflow Manager, an integrated accounting tool that offers real-time business analytics, online quotes and invoices and a full payroll feature. Furthermore, launched early in 2022, the Absa Mobile Pay solution enables cashflow management through cash-on-delivery accounts by using your smartphone as a point of sale (POS) device. Manufacturers can access funds immediately on producing final goods.

By recognising the need for non-financial support, ED focuses on improving SMEs' management and the sustainability of their business through targeted interventions, informed by diagnostic assessments, covering areas such as financial management training, internal controls, marketing and sales management, and operational efficiency. Emphasising the importance of digital tools, entrepreneurs can access online business mentorship and coaching through strategic partnerships.

Coaching and mentoring

- Self-confidence
- Personal branding
- Negotiation skills
- Networking skills

Workshops and seminars

- Financial literacy
- Marketing
- Project management
- Sales technician
- Negotiation skills

Access to **business skills**

Networking events

- Women in business
- Networking events
- Youth in business events
- Franchise seminars

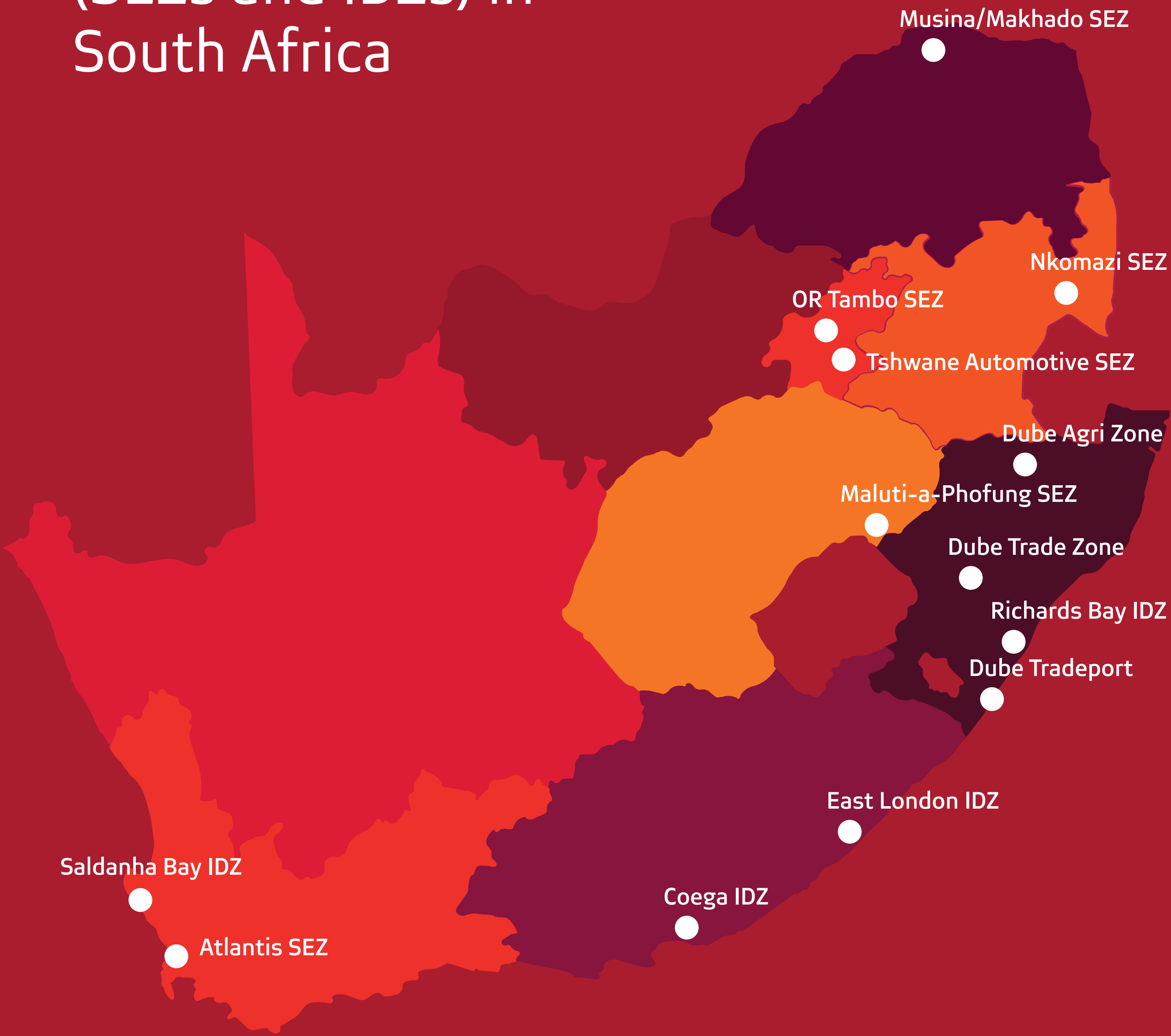
Navigating the challenges faced by SMEs requires a holistic approach that combines strategic partnerships, innovative financing solutions and a commitment to continuous learning and adaptability. This meticulous understanding of the diverse drivers within your business is vital, not only for the manufacturing process but also for comprehending how different components fit together within your overall business structure. In the dynamic landscape of business, there is no one-size-fits-all solution, especially when businesses are at various stages in their lifecycle.

At Absa, we are dedicated to fostering long-lasting relationships and providing comprehensive guidance and support to enable the implementation of effective strategies that consider various external factors before making critical business decisions, empowering entrepreneurs on their journey to success.

Scan the QR code to see how Absa can support your business.

Contact your **banker**
or email **ED@absa.africa**

Special economic zones and industrial development zones
(SEZs and IDZs) in South Africa



Atlantis SEZ

Cape Town
Established as a greentech (renewable energy) manufacturing hub.

Saldanha Bay IDZ

Cape Town
Serves as the primary oil, gas and marine repair engineering and logistics services complex in Africa, servicing the needs of the upstream oil exploration industry and production service companies operating in the oil and gas fields of sub-Saharan Africa.

Coega IDZ

Eastern Cape
Creates a linkage to the east-west trade route and African market with a focus on exports.

East London IDZ

Eastern Cape
Focuses on world-class engineering innovation, efficiency, growth and sustainability, connected to the East London seaport and airport, offering direct shipment to Africa, Asia and Europe.

Nkomazi SEZ

Mpumalanga
Creates a linkage to the Swaziland and Mozambique corridor.

Maluti-a-Phofung SEZ

Harrismith, Free State
Offers intermodal logistic solutions for the transfer of freight between road and rail and creates a logistics route for manufacturers to access Durban's port.

Dube Agri Zone

KwaZulu-Natal
As the continent's largest climate-controlled growing area under glass, it focuses on high-value, niche agricultural and horticultural products.

Dube Tradeport

KwaZulu-Natal
Brings together the two biggest seaports in Southern Africa (Richards Bay and Durban) and is linked to the rest of Africa by road and rail.

Dube Trade Zone

KwaZulu-Natal
Focuses on the manufacturing and value-add of the automotive, electronics and fashion garments subsectors.

Richards Bay IDZ

KwaZulu-Natal
Creates a business corridor for the two major ports (Richards Bay and Durban) connected to Africa and international seaports.

OR Tambo SEZ

Gauteng
By focusing on light, high-margin and export-oriented manufacturing of South African precious and semi-precious metals, the purpose of this SEZ is to develop land and stimulate economic development.

Tshwane Automotive Special Economic Zone

Gauteng
As a catalyst for employment, transformation, socioeconomic development and industry growth, it allows for increased economies of scale and scope, thereby lowering the cost of doing business.

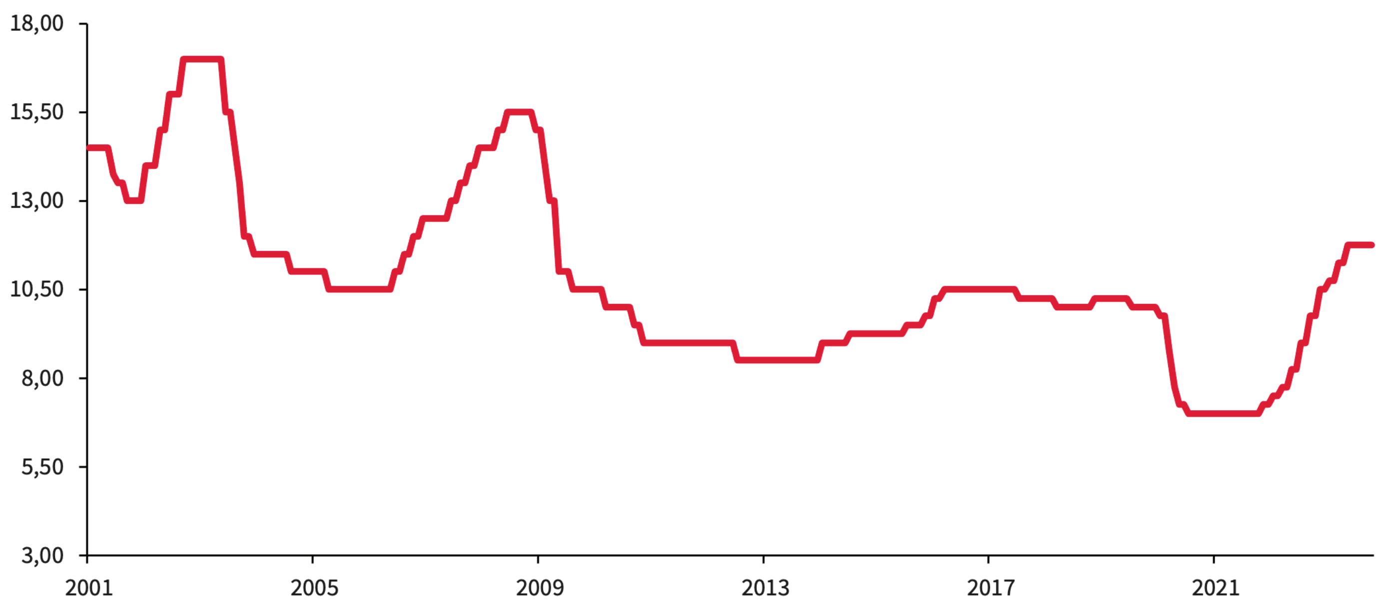
The period after the COVID-19 pandemic has been characterised by a surge in inflation rates across the globe. In response, central banks have been hiking interest rates, with domestic borrowing rates now 475 basis points higher than during the pandemic (figure 4.1). In addition, the rand has weakened significantly over the past few years and months and is expected to continue this trajectory. This presents harsh headwinds for manufacturers with negative impacts on working capital costs, input costs and market competitiveness. However, it's not all negative, as businesses can leverage this high-interest rate environment to optimise their cashflows.

4 Managing investment opportunities for optimised returns

Hilary Mangwanya
Investment Specialist Head,
Absa Relationship Banking

South African prime rate (%)

Figure 4.1



Source: South African Reserve Bank, Absa Corporate and Investment Banking

Businesses with continued growth in sales that maintain profit margins and have strong cashflow end up with a good "problem": Excess cash in their cheque account. The challenge that manufacturers face is managing this cash to their advantage by receiving the highest possible return while maintaining the liquidity needed to meet the day-to-day working capital needs of their business. It is, therefore, important to examine your cashflow cycle and determine an acceptable level of liquidity for working capital funds. This allows you to determine the optimal investment period for excess cash considering the level of risk that you are willing to assume.

1. Examine your cashflow cycle

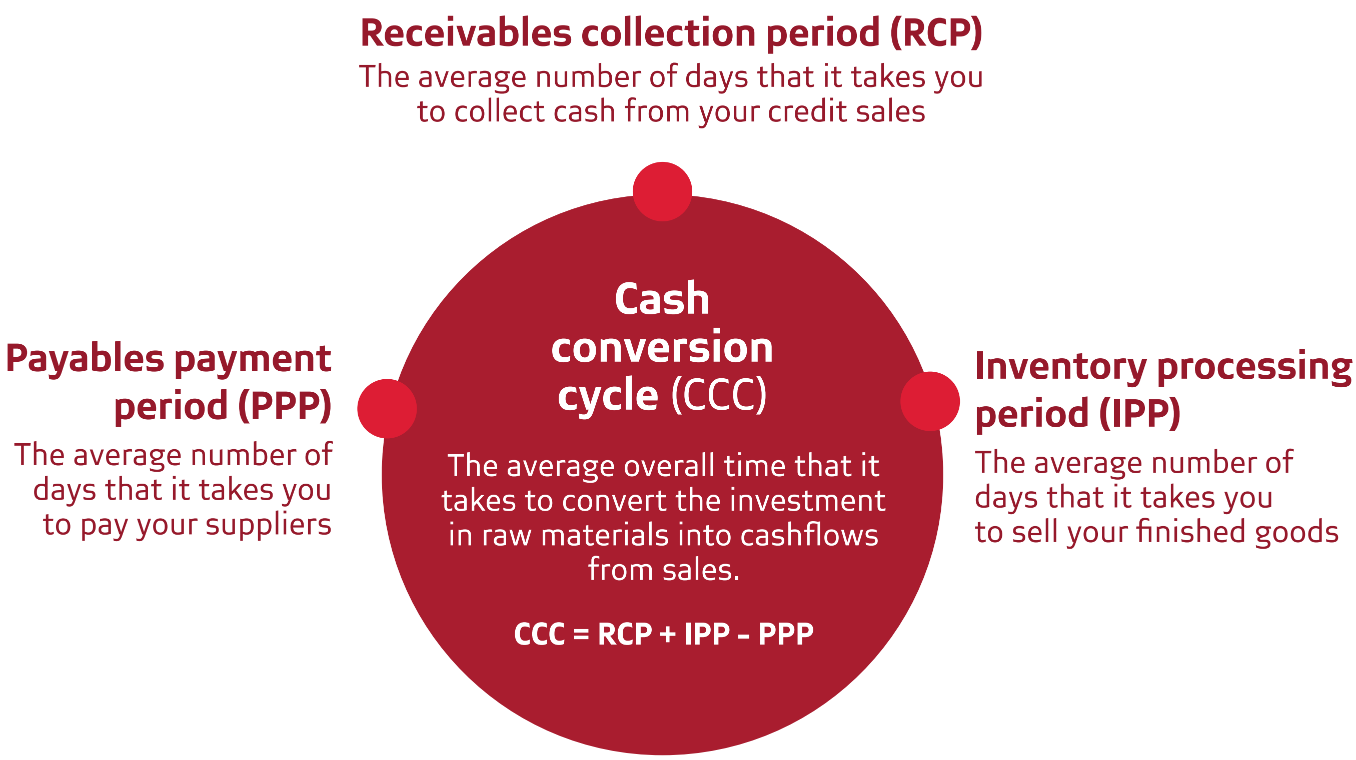
This is important because what appears to be excess cash might not necessarily be. For example, if you have collected an upfront payment for a large job, but still need to pay for materials and other costs of goods sold, the excess cash position in your cheque account is only temporary and will disappear once you have paid all your expenses.

2. Determine your required level of liquidity

This is the level of liquidity needed to meet your daily operating expenses and will vary from one company and industry to the next. One way to determine yours is to add up all your expenses over the past year and divide this by 12 to get a rolling monthly average – consider this amount your minimum account balance. You will need to take the seasonal sales peaks of manufacturers into account when determining your minimum account balance.

3. Time horizon and risk

Your liquidity needs will help you determine the appropriate investment timeframe and the level of risk that you will be willing, and able, to assume for investing excess cash. While you want to maximise potential return, it is usually more important to ensure adequate liquidity and safety of these funds. Additional risks to take into consideration could be increased costs of raw materials.



Throughout the sales cycle, a manufacturer follows a seasonal trends and may find their cashflow becoming constrained. Cashflow could be tied up in inventory, receivables (debtors) and/or payables (creditors).

Let's look at a scenario

Understanding how much of your funds will be tied up, will enable you to understand your working capital needs.

	Receivables collection period (RCP)	Inventory processing period (IPP)	Payables payment period (PPP)	Cash conversion cycle (CCC)
Manufacturing business	53 days	69 days	65 days	57 days

Working capital need = (Daily sales x RCP) + (Daily cost of sales x IPP) - (Daily cost of sales x PPP)

Annual sales	Average daily sales	Cost of sales	Average daily cost of sales	Average working capital need
R36 500 000	R100 000	60%	R60 000	R5 540 000

Suppose there was a raw material shortage which results in a 7% increase in your cost of sales. In this scenario, let's assume that you are able to pass the full cost increase onto the consumer, therefore increasing your average daily sales by 7%.

Annual sales	Average daily sales	Cost of sales	Average daily cost of sales	Inventory processing period (IPP)	Average working capital need
R39 055 000	R107 000	64%	R64 200	R68 694	R5 945 776

In this scenario, the average working capital need of the business increased from R5.5m to R5.95m.

Source: Absa Relationship Banking

Sweeping

At the end of each business day, excess balances above a predetermined minimum balance are automatically swept from the cheque account into short-term (sometimes overnight) investment vehicles.

Notional pooling

Balances are pooled together with no physical movement of funds and interest is earned on the net amount. The pooled balances can also be used to offset overdrafts in nominated accounts with interest paid on the net debit amount or earned on the net credit balance.

The next step is to look at your various investment options. These may include business call and cheque accounts, notice and term deposits, enhanced cash and fixed-income options. They may also include sweeping, pooling or balance aggregation solutions for accounts across different business entities and geographies. Sweeping and notional pooling are attractive features, because they help ensure that excess funds are working for the business without you having to micromanage the funds. **Besides offering competitive market rates, most bank deposits guarantee both the capital and returns offered.**

By agreeing to leave your money untouched for a period of time, you give up some liquidity, but the trade-off is that the interest rate will likely be higher than if you invested your money for a shorter time. Some investment options may be tailored to your specific circumstances and requirements, but these are generally offered for higher ticket investments and usually offer little interim liquidity. If you trade internationally, you may also take advantage of several options such as customer foreign currency (CFC) accounts and currency investment accounts, ideal for parking excess cash required to meet future payments for trade.

The longer you invest, the higher the return is likely to be

Operating cash	Reserve cash	Strategic cash	
Cash needed to sustain the operation of your business can be invested safely in overnight accounts so earn lower interest rates.	Earning slightly higher interest rates, reserve cash still be accessed with short notices.	Excess cash that you won't need to draw on for a longer period of time can be invested at a higher interest rate.	Offering higher returns over the long term, this also comes at the highest level of risk and should therefore be considered for very long-term investment horizons.
Call accounts **Cheque deposits with sweeping and pooling options**	**Money markets** **Notice deposits** **Currency investment accounts**	**Fixed income** **Enhanced/structured cash** **Term deposits**	**Equities or equity linked products**
Overnight funds (1 day to 2 weeks)	**Short-term funds** (2 weeks to 6 months)	**Medium-term funds** (6 months to 2 years)	**Long-term funds** (2 years +)

Increasing expected return

Increasing duration

Source: Absa Relationship Banking

With such a large range of investment options on the market, it may be confusing or overwhelming to select the one best suited to optimise your business cashflows and support your growth potential. Partnering with a bank that walks the journey with you is key to reaching your business goals.

Contact your **banker** or email **savingsandinvestments@absa.africa**

5 Simplifying manufacturing investment decisions: Cashflow versus financing power

Mbusi Cebekhulu
Commercial Asset Finance Manager, Absa Relationship Banking

What is a manufacturer without machinery or a production line? How does a manufacturer start without machinery? In the world of manufacturing, acquiring machinery stands as a critical decision for companies entering new ventures or expanding operations. While the importance of such assets is clear, how to acquire them becomes a pivotal decision – weighing the power of available cash against the strategic advantages of financing.

In many cases, if a business has sufficient cashflow to buy production assets fully, it might seem wise to do so. However, this can restrict cashflow required for vital daily processes, putting unnecessary pressure on your business's operations. **There are significant benefits to funding major capital purchases instead of immediately releasing business cashflow.**

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The strategic merits of financing manufacturing equipment

High start-up costs:
Starting a new business involves significant upfront costs, especially in machinery. While using available cashflow may seem sensible, it can strain operational workflow. Financing allows businesses to spread costs over time, ensuring that funds are available for essential elements such as production inputs, labour costs and day-to-day expenses.

Return on investment and usage:
Financing enables businesses to acquire and deploy capital assets immediately, while accelerating income-generating opportunities. This enhances productivity and efficiency and ensures a quicker return on investment.

Seasonality of business:
Manufacturing's inherent seasonality requires flexible repayment approaches. Financing provides the adaptability to align repayments with the business's cashflows, synchronising expenses with revenue generated over time.

Amortising repayments:
Structured repayment plans enable businesses to optimise the use of free cashflow over the asset's useful life, addressing day-to-day operational requirements without compromising financial stability.

Choice of product:
Choosing between an instalment sale and a lease structure empowers businesses to tailor their financing approach based on the planned ownership model and financial objectives.

Technological upgrades:
Financing through leasing enables businesses to stay technologically relevant by facilitating regular upgrades without incurring substantial upfront costs, ensuring competitiveness in a rapidly evolving manufacturing landscape.

Tax benefits:
South Africa provides tax and VAT deductions for capital asset financing, potentially resulting in lower overall financing costs.

Risk mitigation:
Financing provides access to specialists at financial institutions, especially when importing machinery, who can guide and mitigate the inherent payment risk and currency volatility risk associated with major equipment acquisitions until the equipment has been commissioned.

The considerations hold supreme significance for any business ready to acquire production or manufacturing equipment. Even when provided with the financial means to acquire equipment entirely with cash, these strategic benefits remain appropriate. Production equipment stands as a considerable financial investment. The decision-making process surrounding this investment is a crucial aspect of financial responsibility. **Assessing how such costs will echo throughout your budget is not merely advisable, but imperative.**

When contemplating the acquisition of equipment, particularly in instances where its cost threatens to pressurise working capital, an intelligent alternative emerges in the form of financing. Financing not only addresses ownership rights by providing a physical asset on the completion of the financing period, conditional to the chosen finance option, but also simultaneously facilitates a seamless integrated approach that empowers businesses to amortise costs strategically, fostering financial caution and agility.

Expanding production lines necessitates a thorough evaluation process extending beyond financial considerations. When investing in machinery for expanding manufacturing production lines, a comprehensive assessment is vital to ensure well-informed decisions.

Strategic considerations for expanding production lines

Total cost of ownership:
Look beyond the initial purchase price and consider the total cost of ownership over the equipment's lifespan. This includes maintenance, operating costs, energy consumption and potential upgrades. A lower upfront cost may not necessarily indicate the most cost-effective solution in the long run.

Energy efficiency:
Evaluate the energy efficiency of the machinery. Energy-efficient equipment not only reduces operational costs, but also aligns with sustainable and environmentally friendly practices. Some regions offer incentives for using energy-efficient machinery.

Integration with existing systems:
Ensure that the new machinery can seamlessly integrate with existing production systems and processes. Compatibility with other equipment and software can streamline operations and minimise disruptions during the implementation phase.

Supplier reputation and post-sales support:
Research the reputation of the machinery supplier or manufacturer. A reliable supplier with a good track record can provide better support, including technical assistance, the availability of spare parts and warranty coverage. Consider the supplier's response to queries and their commitment to customer service.

Life cycle planning:
Develop a plan for the machinery's life cycle, including potential future upgrades or replacements. This strategic approach ensures that the equipment aligns with the long-term goals and competitiveness of your business.

Scalability:
Consider whether the machinery can accommodate changes in production volume or scale. This is particularly important if your manufacturing business is expected to grow, and you want equipment that can easily adapt to increased demand.

Technology and innovation:
Assess whether the machinery incorporates the latest technology and innovations. Up-to-date machinery can improve efficiency, reduce operating costs and enhance the overall competitiveness of the manufacturing process.

Maintenance and reliability:
Evaluate the maintenance requirements and reliability of the machinery. Downtime due to frequent breakdowns can significantly impact production schedules and overall efficiency. Machinery with a reputation for reliability and ease of maintenance is preferable.

Regulatory compliance:
Verify that the machinery complies with relevant industry standards and regulations. Non-compliance can lead to legal issues, fines or even shutdowns, so it's crucial to ensure that the equipment meets all necessary safety and environmental standards relevant to your industry.

Training and skill requirements:
Assess the training requirements for operating and maintaining the machinery. Consider whether your current workforce has the necessary skills or if additional training will be required. This is crucial for minimising downtime and maximising the efficiency of the new equipment.

In essence, even for businesses endowed with the financial resources for complete equipment acquisition, financing is often the strategic choice for the overall continuation and success of the business. It not only safeguards working capital, but strategically integrates the advantages of direct ownership with the financial expertise to navigate costs effectively, by fostering resilience and adaptability in an ever-evolving business landscape, aligning seamlessly with operational needs, growth objectives and long-term sustainability goals.

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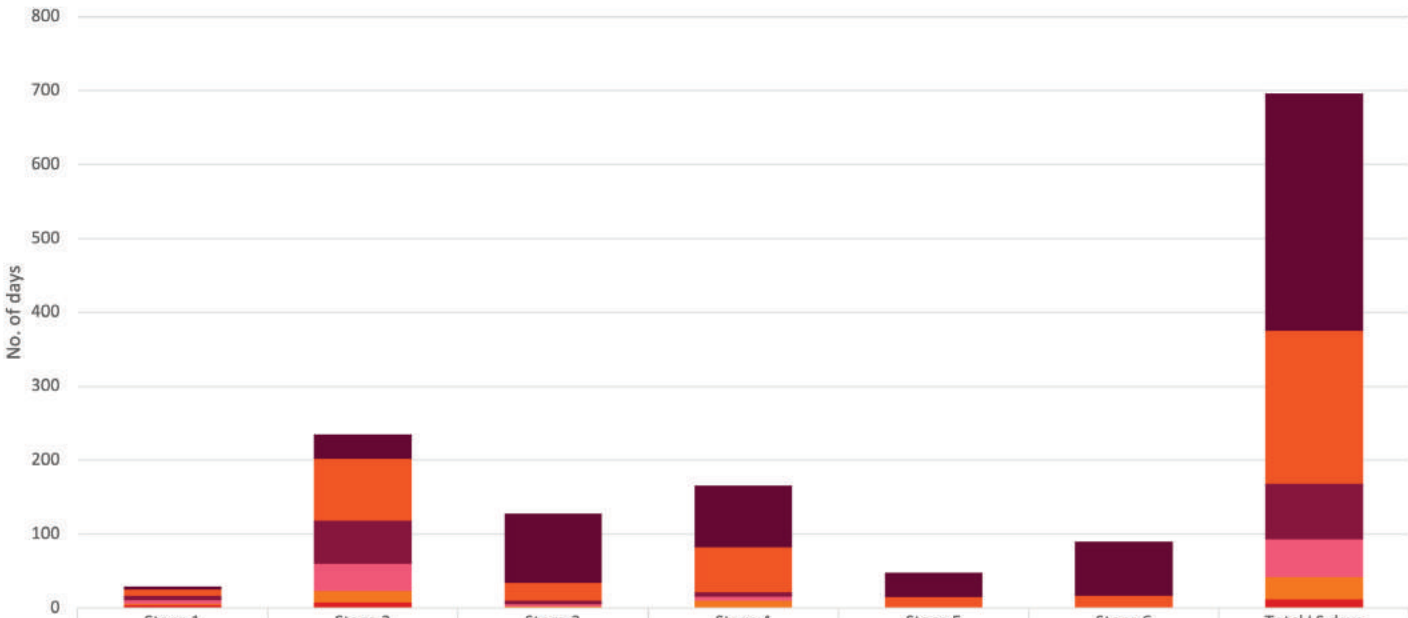
6 Energising South African manufacturing: Seizing opportunities in the renewable energy value chain

Mandisa Mkhize
Renewable Energy Analyst, Absa Relationship Banking

Over the past few years, the word load shedding has become a daily occurrence in the vocabulary of South Africans. Increased frequency and duration of power outages (figure 6.1) not only disrupt but significantly impacts the business landscape, affecting community wellbeing, economic stability and sustainable development.

Load shedding trends from 2018 to 2023 (30 November)

Figure 6.1



	Stage 1	Stage 2	Stage 3	Stage 4	Stage 5	Stage 6	Total LS days
2023	4	33	94	84	33	73	321
2022	8	84	24	60	15	16	207
2021	6	58	5	6	0	0	75
2020	5	37	3	6	0	0	51
2019	2	15	2	10	0	1	30
2018	4	8	0	0	0	0	12

Source: Absa Relationship Banking and Eskom

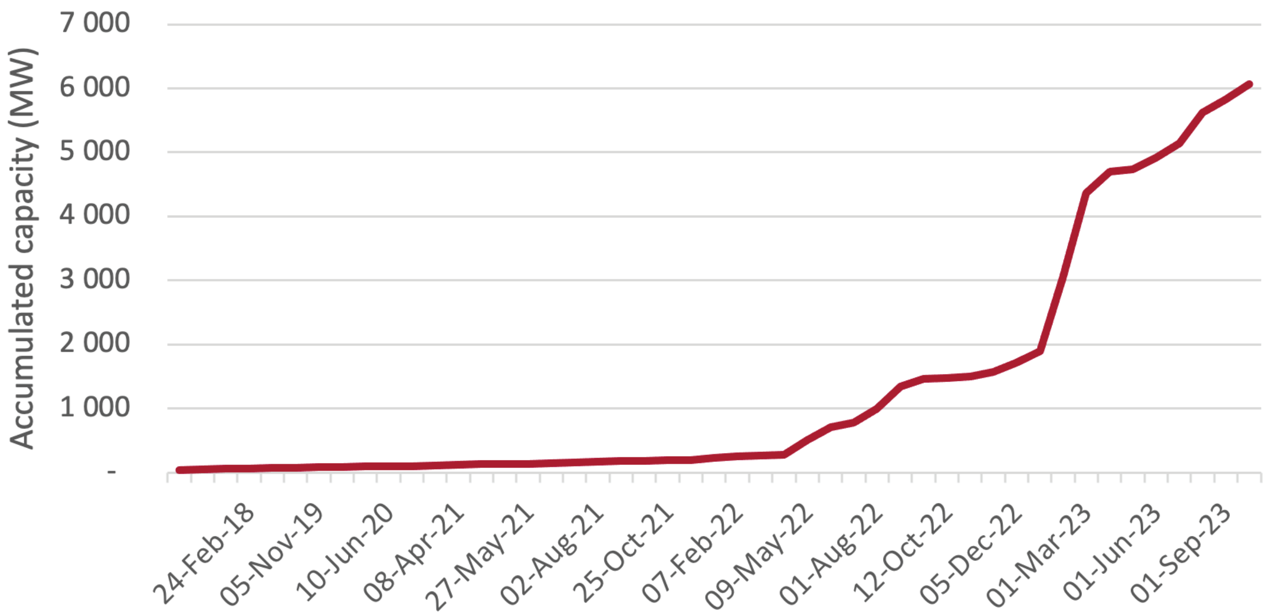
According to the CSIR, in 2022, **South Africa found itself among the top 15 largest emitters of carbon dioxide worldwide, primarily attributable to the nation's heavy reliance on coal energy constituting approximately 86% of emissions.** In that year alone, the country emitted 405 million metric tons of carbon dioxide (MtCO2) from fossil fuel combustion and industrial purposes.

Across sectors, the ripple effect of load shedding has led to reduced production and delayed lead times, increased maintenance of machinery and equipment, increased operating costs and overall margin erosion. Additionally, supply chain disruptions resulting in upstream and downstream bottlenecks further highlight the knock-on effects of load shedding. **This challenging environment, as well as the supportive regulatory environment, creates a compelling case for businesses to invest in renewable energy.**

Since 2011, the Renewable Energy Independent Power Producers Procurement Programme (REIPPPP) has been a catalyst for rapid growth in renewable energy, adding to a more inclusive and equitable society. As illustrated in figure 6.2, we have seen a sharp increase in the number of renewable energy installations registered with the National Energy Regulator of South Africa (NERSA). Furthermore, renewables represent 11% of the total generation mix; generating 91 580GWh of electricity; benefiting 27.6 million households and offsetting 93 Mton CO2 emissions.

NERSA-registered capacity in South Africa

Figure 6.2



Source: SAPVIA

Despite the success in renewable energy generation, **the growth of local manufacturing capabilities within the renewable energy value chain has not kept pace.** The majority of components, services and capabilities in the value chain are still imported, leading to a significant outflow of investment opportunities. According to the South African Renewable Energy Masterplan (SAREM), between 2010 and 2022, South Africa imported R31bn of solar panels, R53bn of inverters and R30bn of lithium-ion batteries.

In response to this, the Department of Trade, Industry and Competition (DTIC) introduced a re-imagined industrial strategy in collaboration with the Department of Mineral Resources and Energy (DMRE). This strategy shifted priority to systematic efforts to bolster the participation of local players in the renewable energy value chain, in alignment with SAREM, with the key outcome to promote the creation of jobs, improve skills development, and reduce the reliance on imported goods. **SAREM estimates that the renewable energy sector will contribute R420bn to gross domestic product and generate 36 500 new jobs by 2030.**

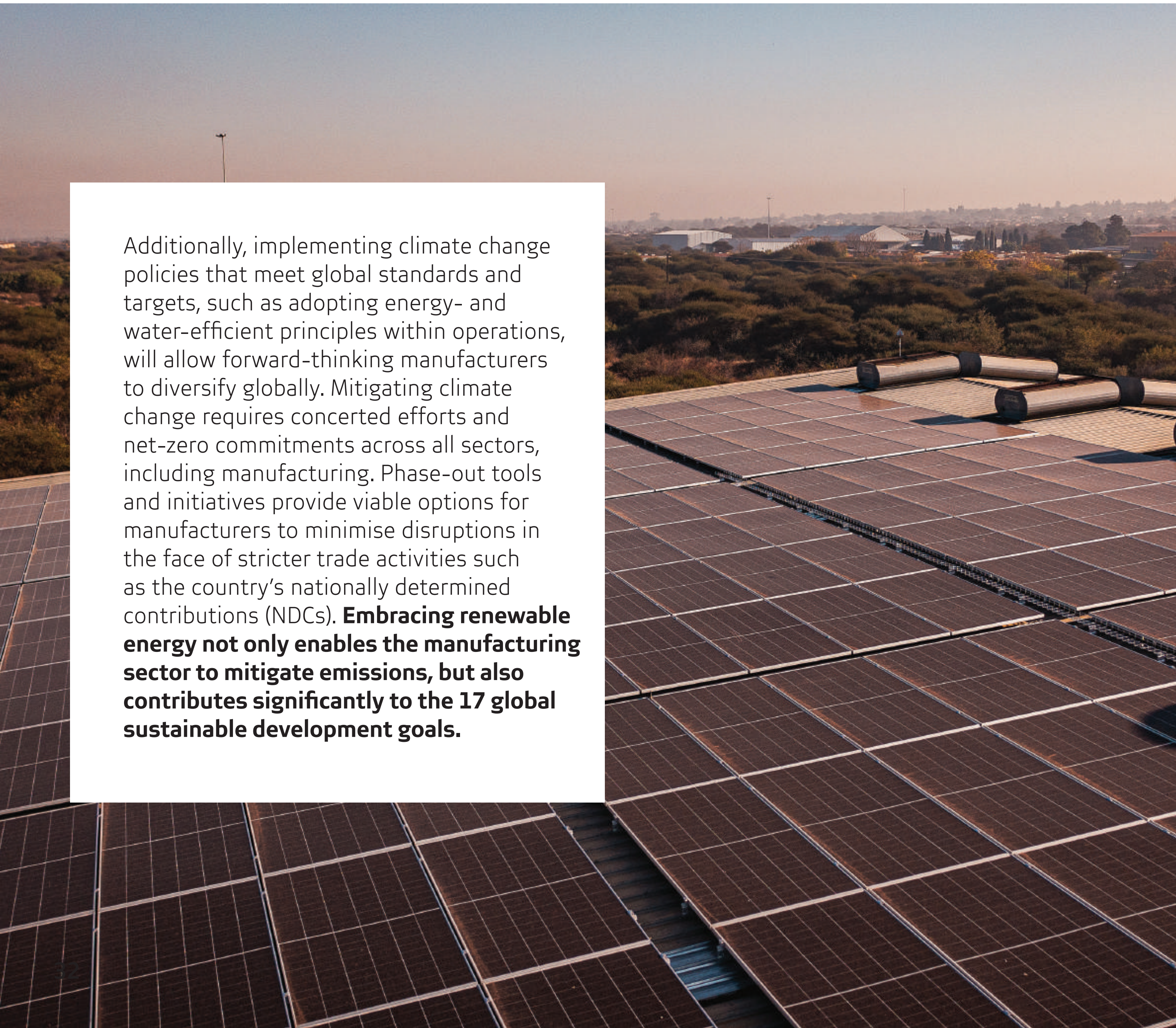
SAREM mapped out key opportunities across the value chain where local manufacturers could participate and benefit from the growing demand for renewable energy. These opportunities span from strengthening existing local capabilities to establishing new ones in the future:

Solar photovoltaic (PV) technology:
lamination of panels, manufacturing aluminium frames and electrical cables, and end-of-life management, including recycling and reuse.

Wind technology:
manufacturing wind towers (steel and concrete), assembling of motors, balancing of plant including electrical and civil requirements, and end-of-life management, including recycling and reuse.

Lithium-ion batteries:
mineral refining, casing and assembly, second-life repurposing, balancing of plant (electrical).

Vanadium-based battery technology:
mineral refining, assembly, electrolyte storage and centralised inverters.



Additionally, implementing climate change policies that meet global standards and targets, such as adopting energy- and water-efficient principles within operations, will allow forward-thinking manufacturers to diversify globally. Mitigating climate change requires concerted efforts and net-zero commitments across all sectors, including manufacturing. Phase-out tools and initiatives provide viable options for manufacturers to minimise disruptions in the face of stricter trade activities such as the country's nationally determined contributions (NDCs). **Embracing renewable energy not only enables the manufacturing sector to mitigate emissions, but also contributes significantly to the 17 global sustainable development goals.**

Decarbonisation initiatives available to manufacturers

SA Industrial Energy Efficiency project (IEE):
Established in 2010, this initiative supports industrial companies in energy conservation, promoting transformation of industrial water use, energy management training, raising awareness and the impact of energy efficiency on local industries. Notably, the programme has already achieved substantial results, saving 6.5TWh of energy, mitigating 6.4 million CO^2, and saving R5.3 billion. The NCPC-SA still offers business training workshops.

Renewable Energy Certificates (RECs):
These electronic records verify the origin of energy from registered renewable energy facilities. Manufacturers can use RECs to offset non-renewable energy consumption by engaging with independent power producers (IPPs) generating renewable electricity.

Carbon credits:
Tradeable certificates available on a voluntary and involuntary market that can be used by manufacturers to offset scope 1, 2 and 3 emissions . In the future, trading these credits, alongside RECs, may be facilitated through the Johannesburg Stock Exchange (JSE).

The renewable energy sector in South Africa is in the early stages of a promising growth trajectory. As a commercial or industrial player in the manufacturing sector, **a proactive assessment of your future energy needs, and the adoption of an alternative energy strategy are critical for long-term sustainability and resilience.** Additionally, as a manufacturing business looking to diversify either through product offerings or across borders, significant opportunities can be presented through local manufacturing to enable local content, market certainty and robust skills development initiatives.

The trifecta of escalating load shedding, rising electricity tariffs and South Africa's promising renewable energy market, presents a strategic opportunity for manufacturers to not only invest in renewable energy to ensure the continuity of their operation, but to take part in the green energy value chain.

Take the first steps towards a greener and more resilient future. Our team of dedicated renewable energy specialists are ready to assist you to embrace the future of manufacturing.

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RenewableEnergy@absa.africa

Scope 1 emissions: Direct emissions that are owned or controlled by a company. Examples include fuel burned by internal combustion engine (ICE) vehicles in the company's fleet.

Scope 2 emissions: Emissions that a company causes indirectly that come from where the energy it purchases and uses is produced. Examples include the emissions caused when generating the electricity used in the company's buildings.

Scope 3 emissions: Emissions not produced by the company itself and not the result of direct activities from assets owned or controlled by them, but by those that it's indirectly responsible for up and down its value chain. An example of this is when we buy, use and dispose of products from suppliers.

7 Navigating the future: A risk management perspective

Zinzile Gcaleka
Strategic and Innovation Head of Short-term Insurance, Absa Group Limited

In today's dynamic and ever-evolving business landscape, the ability to navigate uncertainty is vital to achieving success. For manufacturers of all sizes, risk management emerges as the compass that not only mitigates potential threats, but also paves the way for growth. Insurance serves as an invaluable shield, offering protection against the inherent risks associated with the daily activities involved in the manufacturing process. The absence of proper insurance coverage can render manufacturers vulnerable to disruptions, financial losses, reputational damage and regulatory penalties.

Operating in an environment of increasing complexity and volatility, the manufacturing sector deems risk management a critical priority to safeguard operations and protect the bottomline. As risk management paradigms evolve, businesses in the manufacturing sector must adopt an integrated insurance approach across the ecosystem, recognising the interdependencies and interconnected nature of risks. Incorporating risk management into the overall business strategy promotes a culture of risk awareness and resilience, **encouraging a proactive mindset that not only mitigates potential threats, but also actively seeks strategic advantages to excel in the marketplace.**

Insurance should be seen as a strategic asset, not just a mere expense. Recent trends indicate that manufacturers are increasingly opting for comprehensive insurance coverage extending beyond traditional policies. A significant proportion of manufacturers now incorporate risk management into core strategies, resulting in increased profitability through proactive risk mitigation efforts. Moreover, many manufacturers recognise the importance of business continuity planning and integrate it as a vital component of their operations.

Multi-peril coverage	Eliminate the need to shop for various individual policies and enjoy comprehensive coverage with just one policy that meets several insurance needs such as: • Different weather-related incidences • Crime-related incidences including money, theft and employee fraud • Accidental damage to possessions, vehicles and much more
Business interruption	Safeguards your profit, rental income and revenue in the face of unexpected loss or damage because of multiple unknowns.
Employee care	Employee coverage that goes beyond workplace injuries and provides coverage for medical bills and death.
Loss of profit due to breakdown	Covers loss of profit due to unforeseen and sudden physical damage to your specified machinery, ensuring that your business continues to thrive, even in the face of unexpected challenges.
Goods in transit	Safeguard your goods during transit with comprehensive coverage that protects against loss or damage. Whether you own the goods or have them in your care, custody and control, transit insurance provides the peace of mind that you need.
Public liability	Protect your manufacturing business and enhance your peace of mind with comprehensive liability coverage. Related to liability incidences that you might be held legally liable to pay. Insurance solution that covers third-party property damage or injury that may occur because of your business activities, whether it's on or off your premises.

Commercial insurance solutions can be tailored to meet the unique needs and challenges faced by your business, protecting your business from various risks, loss or damage while ensuring the protection of your employees.

At Absa, our commitment extends beyond providing insurance policies. It is about safeguarding your business's vitality. **We are your partner in resilience, your ally in continuity, and your guide in risk management.**

Take advantage of our depth of expertise by contacting us for more insights and information on our product solutions that meet your specific needs.

Together, we'll shape a future where your manufacturing legacy thrives.

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8 The critical role of logistics in the manufacturing industry

Maserati Ramokadi
Transport and Logistics Analyst, Absa Relationship Banking

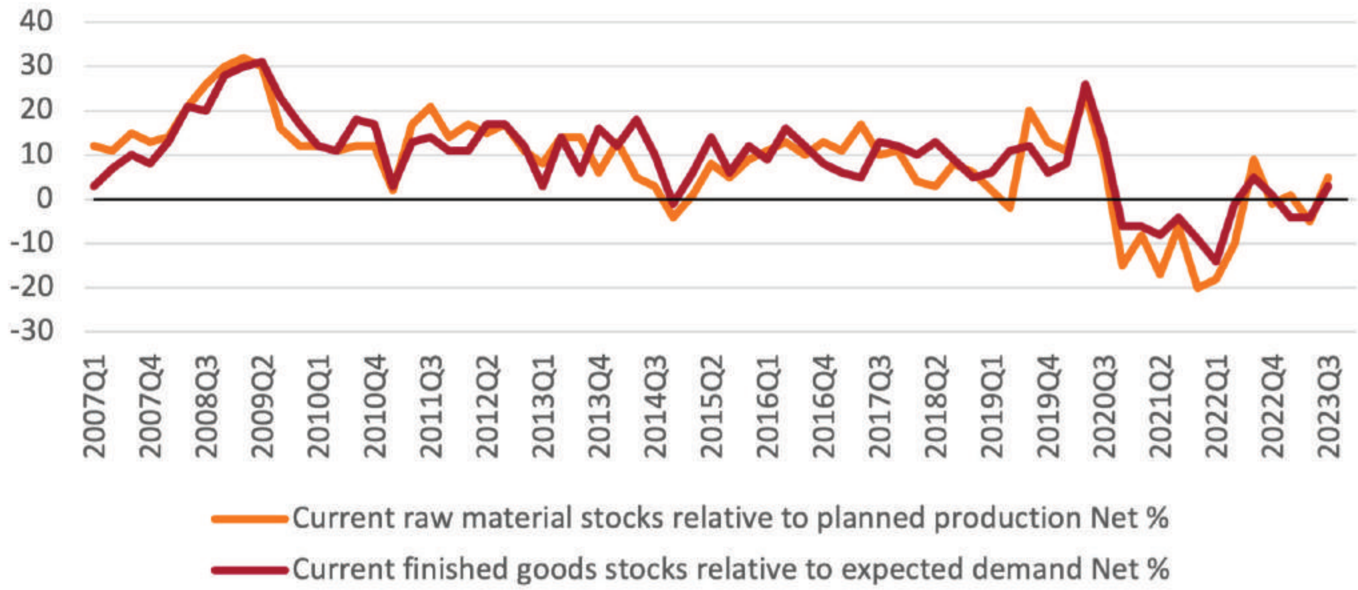
The interdependent relationship between manufacturing and logistics is fundamental, with each sector influencing the other significantly. Logistics stands as an essential pillar within the manufacturing industry, aligning the timely and efficient movement of materials and goods across the entire supply chain. It is critical for manufacturers to form strategic partnerships with logistics providers, thus enabling manufacturers to focus on their core competencies, while leveraging the expertise and infrastructure of logistics companies.

The scope of logistics involves a spectrum of activities, spanning transportation, inventory management, warehousing, packaging and distribution. The harmonious integration of these logistical functions is paramount to the success of any manufacturing operation, by having a significant impact on productivity, cost-effectiveness and overall competitiveness. **By optimising the logistics processes through digital platforms, manufacturers position themselves to minimise costs, reduce lead times, and effectively meet customer demands** with additional benefits such as improved inventory visibility routes, demand forecasting, order management,transportation management and data analytics.

Inventory management is the process of maintaining an optimal inventory level that allows manufacturers to strike a delicate balance between excess stock or stockouts, reducing carrying costs and avoiding production interruptions and customer dissatisfaction. Effective inventory management enables the timely replenishment of materials, mitigating the risk of production delays and lost sales opportunities.

Manufacturers' stock levels (net %)

Figure 8.1



Source: BER

Choosing the right transportation mode, whether by road, rail, sea or air, significantly affects a company's cost structure, delivery reliability and environmental footprint. Specialised requirements within manufacturing are critical to keep top of mind, such as cold storage logistics for perishable goods, hazmat logistics for chemical and pharmaceutical industries and eCommerce logistics for meeting online retail demands. Efficient transportation management involves optimising route planning, combining shipments, and using technology solutions for real-time tracking. These practices result not only in cost savings, but also enable manufacturers to achieve economies of scale, ensure on-time delivery, and minimise greenhouse gas emissions.

Warehousing provides a centralised location for storing raw materials, work-in-progress and finished goods. Well-organised warehousing facilities allow manufacturers to effectively manage inventory, reduce lead times and streamline order fulfilment processes. Efficient warehousing supports just-in-time manufacturing practices, enabling an agile response to market demand fluctuations. It also helps minimise storage costs, optimise space usage, and ensure product availability when needed.

Order fulfilment is the crucial aspect of encompassing activities such as order processing, packaging, labelling and dispatching. Efficient order fulfilment ensures that products are delivered to customers quickly and accurately, requiring careful coordination between manufacturing, logistics and customer service teams. Optimising order fulfilment processes can enhance customer satisfaction, build loyalty and provide a competitive edge in the industry.

Effective logistics management with a well-optimised digital supply chain can enable manufacturers to streamline their production processes, reducing lead times and improving production efficiency. Streamlining systems to receive, store and distribute materials, can significantly reduce operational and production costs by ensuring that the right quantity of materials are available at the right time and place. This results in a reduced need for excess inventory and cuts down on storage costs. Additionally, economies of scale can be achieved through combined shipments, leading to lower per-unit transportation costs. **By optimising your transportation strategy, you can reduce freight expenses, increase profitability, and improve your competitive position.** An agile approach enables quick response to changes in demand, adaptation to market trends, and launching new products more efficiently.

In today's fast-paced and intensely competitive market, logistics plays a pivotal role in satisfying consumer demands. Timely order deliveries not only meet consumer expectations, but also provide manufacturers with a significant competitive advantage. **Moreover, logistics facilitates market expansion for manufacturing companies, enabling access to a broader customer base and new markets on a global scale.** Through efficient supply chain management and digitisation, manufacturers can seamlessly export their products to international markets, thereby increasing their revenue streams and enhancing growth prospects.

Implementing sustainable practices such as route optimisation, using fuel-efficient vehicles, implementing cleaner alternative energy sources and implementing sustainable packaging practices, can significantly reduce fuel consumption, carbon emissions and energy consumption, contributing to greener, more environmentally responsible manufacturing operations while improving brand image and meeting consumer expectations for eco-friendly solutions.

Furthermore, logistics in the manufacturing industry also plays a crucial role in risk management. With a robust logistics network, manufacturers can effectively manage supply chain disruptions, such as natural disasters or transportation delays. Having contingency plans in place and supporting strong relationships with suppliers and transportation partners can help manufacturers ensure the continuity of their operations.

The importance of logistics in the manufacturing industry cannot be overstated. It is an integral part of the overall supply chain, ensuring the seamless flow of materials and goods from suppliers to consumers. **Manufacturers who invest in optimising their transportation and logistics networks, not only achieve cost savings and improve customer satisfaction, but also enhance their production efficiency, promote sustainability, and mitigate unexpected risks and disruptions.** As manufacturing becomes increasingly digital, sustainable, innovative, globalised and customer-centric, a well-organised and adaptable logistics system will remain essential for success in the industry.

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9 Unlocking trade opportunities through the African continental free trade area (AfCFTA)

Bryan Ntambwa and Koena Masoga
Trade and Working Capital Analysts, Absa Pan-Africa

South Africa, long recognised for its pivotal role in the African economic landscape, has undergone a steady transformation of its economic profile through diversification and innovation. Over the past few years, South Africa has witnessed a gradual shift from primary sectors to secondary sectors such as manufacturing, driven by technological advancement, connectivity, infrastructure development, and policy reforms. However, South Africa has recently experienced adverse business conditions where gross domestic product (GDP) has stagnated, with manufacturing GDP remaining at 13% for quite some time, and manufacturers are looking to diversify products and services to a larger market.

As the AfCFTA takes centre stage in economic dialogues, the stakes have never been higher. Established by the African Union in 2018, **the AfCFTA aims to create a unified market, fostering deeper economic integration across the continent.** Signed by 54 out of 55 African Union nations, its primary goal is to create a single continental market for goods and services, with free movement of businesspersons and investments.

By eliminating tariffs on 90% of goods, it aspires to significantly increase intra-African trade. According to the Economic Commission for Africa (UNECA), the AfCFTA has the potential to boost intra-African trade by 52.3%.

In 2022, South Africa's merchandise trade within Africa amounted to US$40 billion, accounting for only 17% of the country's total merchandise trade. South Africa's main trading partners, constituting 51% of the country's intra-African trade, are SACU and SADC members including Mozambique, Botswana, Namibia and Zimbabwe. The AfCFTA prompts a potential shift in focus towards countries such as Nigeria, Kenya, Egypt and Ghana. The current market trends, coupled with future goals and predictions, present a myriad of possibilities for South Africa's manufacturing sector to expand globally. For South Africa, the opportunity extends beyond exporting finished goods; **it offers the potential to collaborate, develop regional value chains, and accelerate productive transformation through joint manufacturing ventures with other African nations.**

The AfCFTA also provides an opportunity to diversify your trading portfolio to a market of over 1.2 billion consumers with a combined GDP upwards of US$3 trillion. **The potential result is to lift 30 million people out of poverty and increase income by US$450 billion by 2035.** Moreover, it could enhance industrialisation, create jobs, and promote sustainable economic development across the continent.

"Let's make the African market, the market of Africans. Produced in Africa, transformed in Africa and consumed in Africa. Let's produce what we need and let's consume what we produce instead of importing." H.E. Thomas Sankara, President of Burkina Faso

The decision to interact with and expand operations into the rest of Africa, is not to be taken lightly. While offering lucrative growth opportunities, there are important complexities and unique market dynamics that need to be considered to successfully diversify and thrive. Manufacturers must adopt a strategic, informed and culturally sensitive approach.

Let's make the African market, the market of Africans. Produced in Africa, transformed in Africa and consumed in Africa. Let's produce what we need and let's consume what we produce instead of importing.

- H.E. Thomas Sankara,
President of Burkina Faso

Important considerations before branching out into new markets:

1

Understand the market:

Conduct preliminary market scans to identify new markets with a demand for your products or services, considering unique consumer preferences, spending habits and needs in each country, as some African markets may not align with your current products, capacities or business models.

2

Know the local regulations:

Be aware of country-specific regulations and agreements ensuring compliance with local regulatory framework, including local standards for quality, safety, environmental concerns and labour.

3

Collaboration:

Bringing a local partner on board to help navigate the new market, whether through distribution, joint ventures or franchising, can aid to smoothen market entry.

4

Respect the local culture:

Engage with local communities, respecting local traditions, languages and customs to foster trust, leading to higher local acceptance and brand loyalty.

5

Understand the political environment:

Understand the political and regulatory environment, sovereign risk and estimated turnaround time for trade permits and any other licensing requirements.

6

Mitigate currency risks:

Understand currency dynamics and implement strategies to mitigate currency risks, such as trade and working capital solutions, foreign exchange solutions, currency accounts, forward contracts and customised hedging as volatility of the rand can negatively impact profitability.

To realise the maximum possible benefits, African nations need to refine business legislation, invest in human capital, infrastructure, transport corridors, logistics and other necessary enablers, while improving access to credit for export-oriented manufacturing entities at both national and regional levels.

The world is looking to Africa to diversify operations due to its **thriving young workforce, resource-rich landscape and open-for-business mindset.** African countries are also investing in sustainable energy sources and **adopting low-carbon technologies to uplift social and economic opportunities** in line with policy objectives such as the sustainable development goals, net zero, the Paris agreement and COP28.

The continent could cultivate resilience by diversifying and incorporating sustainable best practices into manufacturing processes, aligned with the environmental, social and governance (ESG) agenda, rewarding businesses for incorporating ESG-positive projects into their deliverables. As the emphasis on green manufacturing is tangible, focusing efforts on decarbonisation aiming to reduce carbon footprints, **adopting eco-friendly processes and manufacturing sustainable products could potentially create approximately 3.8 million net jobs, with an expected six million new jobs by 2050** (McKinsey & Company).

Diversifying into African markets offers immense potential, and South Africa is well positioned to ride the wave of economic resurgence in Africa, but it's a venture that demands meticulous planning, cultural sensitivity and a constant willingness to adapt. Manufacturers aiming to succeed in these markets should prioritise local collaboration, ensure compliance and continuously refine their strategies based on feedback received. Partnering with dedicated specialists with an African presence, who can tailor their offering to your specific needs, is critical to unlock opportunities while mitigating risks to ensure that outperformance is possible.

South Africa's manufacturing sector is at an inflection point, and as the AfCFTA promises to reshape trade dynamics, sectors such as manufacturing hold the key to a prosperous future. Challenges exist, but **with strategic planning, technological adoption and a focus on sustainability, the rewards, in terms of growth, market share and brand loyalty, can be substantial** for those willing to invest the time and resources into understanding the intricacies of their new markets.

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Compiled by:

Paige Bowen | *Senior Analyst: Manufacturing, Renewable Energy & Transport Logistics*

Sachin Chanderdhev | *Manufacturing Specialist*

Chennelle Du Toit | *Manufacturing Analyst*