



SABS

South African Bureau of Standards

Status Update on the SABS Turnaround Plan – 17th March 2021

A presentation to the Portfolio Committee on Trade and Industry on the implementation of the SABS Turnaround Strategy

Jodi Scholtz – Lead Administrator

Our legislative mandate

The SABS was established by the Standards Act, 1945 (Act 24 of 1945)

The SABS exists as a public entity under the Standards Act, 2008 (Act 8 of 2008).

The objectives of SABS are as follows:

- Develop, promote and maintain South African National Standards (SANS)
- Promote quality with respect to commodities, products and services
- Render conformity assessment services and matters connected therewith

International Membership



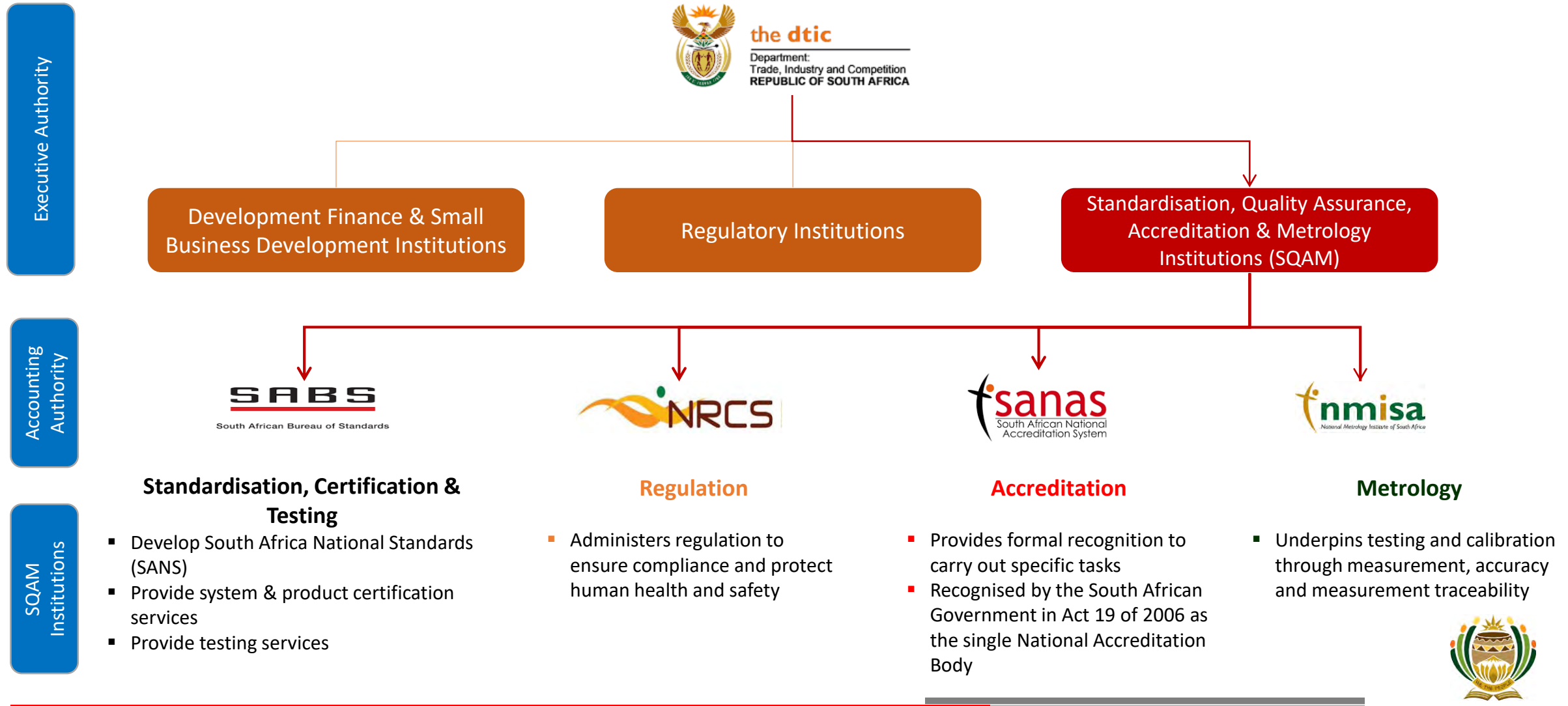
Accreditation of SABS



South African National Standards (SANS) are voluntary standards and are not prescribed by law



Our shareholder



Announcements

Acting Head of Sales - Lungelo Ntobongwana

Acting Head: LSD – Thabo Sepuru

FSSC suspension – emerging risk

- The FSSC Foundation is the scheme owner located in the Netherlands through which the SABS is licensed to audit and certify food products on their behalf.
- The SABS has 143 certified customers to this scheme with an income of R9.1m per annum.
- The decision was taken by the FSSC Foundation to suspend the License Agreement with SABS Commercial SOC Ltd for (3) three months. The suspension is effective on 1st March 2021 and was published on the FSSC 22000 website on that date.
- It is expected that SANAS will also suspend SABS' accreditation for this system once they have been informed of the suspension by FSSC. RvA have indicated that they will conduct their own assessment as part of their annual audit commencing in April 2021.
- Failure to comply with any of the above conditions in the indicated due dates and/or any new sanctions issued can result in the Termination of the License.
- Management has put a corrective action plan in place inclusive of an investigation into the root causes of the suspension and intends to implement consequence management once the investigation is complete.



Core reasons for the decline of the SABS and how management has addressed the identified issues (*Restoration of the SABS*)



Core reasons for the decline of the SABS

- Policy decisions such as the **stopping of partial testing** which resulted in customer complaints and a subsequent **loss of customers** and decline of revenue
- **SANAS suspension** March to June 2016 – Estimated loss of revenue was +/-R50m
- **Lack of investment in technology and infrastructure** which led to an organisation that lost its competitive edge
- Exacerbated by **operational inefficiencies** (lack of defined processes/manual way of working) which resulted in a significant loss of customers – 5305 customers in 2014/15 to 4047 customers in 2019/20. +/-R100m loss in revenue over the same period, of which R+/-R55m can be attributed to the stopping of partial testing
- **Unfunded bargaining unit benefits** which cost the SABS +/-R60 million per annum
- **Poor stakeholder engagement**
- **Poor performance management** across the organization and a decline in organizational culture led to fear and mistrust
- Labour case by middle management against the SABS which results in a **poor performing middle management layer** in the organization



How did the SABS address these challenges?

Policy decisions such as the stopping of partial testing which resulted in customer complaints and a subsequent loss of customers and decline of revenue.

- Reinstatement of partial testing (customer specific requirements testing) when the SABS was placed under administration in October 2018. To date R 7,6 m in revenue has been realised by the reinstatement of partial testing, slow recovery pace.

SANAS suspension March 2016 (4-11 March 2016)

- Accreditation dashboard maintained to track status of findings to ensure they are timeously resolved, to ensure no further suspensions



How did the SABS address these challenges?

Lack of investment in technology and infrastructure which led to an organisation that lost its competitive edge.

- Funding received from the dtic to support the investments required by the SABS
- 2018/19 – R100 million received (R5 million allocated to LCV). R82 million EX VAT allocated to infrastructure.
- 2019/20 – R129 million received (R90 million (EX VAT) allocated to infrastructure and R21.7 million (EX VAT) allocated to fund operating costs related to infrastructure spend e.g. project managers; consultants)
- R92 million spent to date, on infrastructure, on the following: upgrade of facilities to support the laboratories; laboratory equipment and digitisation
- R9 million of the R21.7 million OPEX grant to support infrastructure, spent to date
- Funds remaining – Infrastructure – R80 million remaining – Various projects relating to the laboratories; facilities; digitization, etc. underway. Expected completion date is March 2022
- Funds remaining - OPEX relating to infrastructure – R12.7 million – directly linked to capital spend and utilisation will follow the same trend



How did the SABS address these challenges?

Operational inefficiencies (lack of defined processes/manual way of working) which resulted in a significant loss of customers – 5305 customers in 2014/15 to 4047 customers in 2019/20. +/-R100m loss in revenue over the same period, of which R+/-R55m can be attributed to the stopping of partial testing.

- Significant progress has been made in addressing operational inefficiencies throughout the organization.
- Investment in digitization to automate process. Created a centralized certification operating model called C4
- Business Plan to regain customer base:
 - Developed a Go To Market strategy
 - New solutions development
 - Customer engagements plans (top 20 lost customers) developed, and implementation is in progress
 - Rest of customers allocated to Customer Managers and Senior Managers
 - Customer retention plan (top 20 high value customers) developed, and implementation is in progress
 - Rest of customers allocated to Customer Managers and Senior Managers



How did the SABS address these challenges?

Unfunded bargaining unit benefits which cost the SABS between R55 and R60 million per annum

- Ongoing negotiations with labour. Letter to the dtic's Collective Bargaining Forum (CBF) communicating the SABS's inability to pay any salary or benefit increases/additional benefits

Poor stakeholder engagement

- Sector focused Customer Managers
- Allocation of key customers to Exco members
- Collaboration with industry associations and key customers
- Sales and Operations monthly forum created to unlock bottle necks and monitor progress on engagements



How did the SABS address these challenges?

Poor performance management across the organization and a decline in organizational culture led to fear and mistrust

- Recruited for mission-critical positions
- Developed a new Performance Management policy
- Implemented structured performance planning and appraisal processes
- Automated the performance management processes
- Continuous training of managers on the performance management methodology
- Training managers on the management of discipline at the workplace
- Developed a Culture Rollout plan through Employee Focus groups
- Introduced an Innovative Ideas Development Scheme
- Introduced regular staff feedback sessions
- Initiated regular meetings with labour representatives



How did the SABS address these challenges?

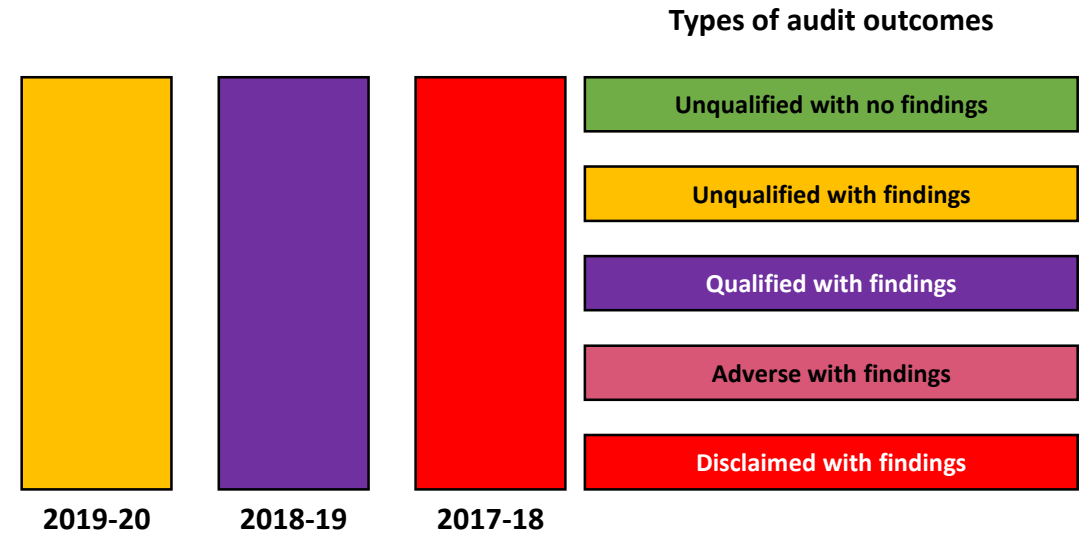
Labour Court case by middle management against the SABS which resulted in a poor performing middle management layer in the organization.

- Established a management forum to discuss all issues affecting the management staff
- Enrollment of managers for leadership development programmes
- Involving managers in the various management structures in the organisation
- Empowering managers on conflict management, staff development, motivation and discipline



Improvement in audit opinion

- There has been significant improvement in the SABS external audit opinion by the Auditor-General of South Africa (AGSA)
- The SABS has moved from a *disclaimer* to an *unqualified audit* report with findings in FY2019-FY2020
- Continuous improvement in processes and policies to ensure a return to clean audit status.



Financial Overview



Financial performance – January 2021

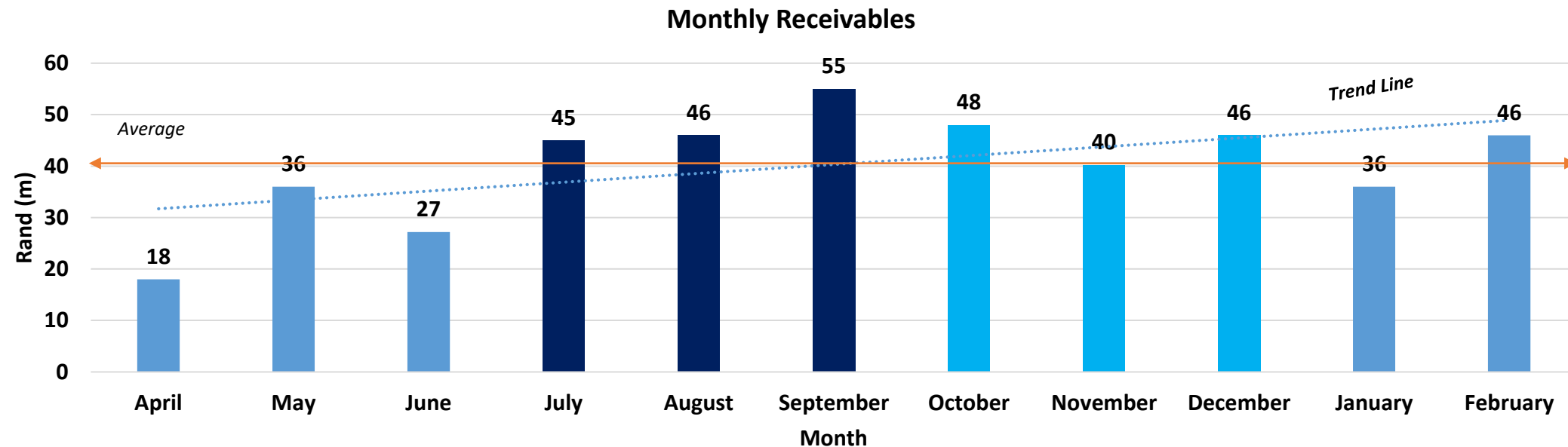
Poor performance management across the organization and a decline in organizational culture led to fear and mistrust.

- The SABS has not escaped the brunt of the Covid-19 lockdown as there were less activities from end of March 2020 which slowly increased toward the period under review
- Lack of full operations from the SABS point of view and lack of activities from the client's perspective has negatively impacted revenue generation activities during the lockdown period
- The SABS Group has achieved year-to-date January 2021 loss of R74 million which is below the year-to-date budgeted loss R132.6 million
- The SABS Group has not achieved the revenue targets set for the period under review and is significantly below budget by R26.9 million (8.6%)
- Most of the 8.6% variance is from Laboratory Services Division, the Training Academy and from Standard Sales, which contributed 24.3% (R19.3 million), 151% (R5.3 million) and 18.8% (R4.1 million) towards the total variance respectively
- Certification revenue on the other hand exceeded year-to-date budget by R3.1 million
- There has been no increase in total administrative and operational costs



Impact of Covid-19 – Revenue Collection

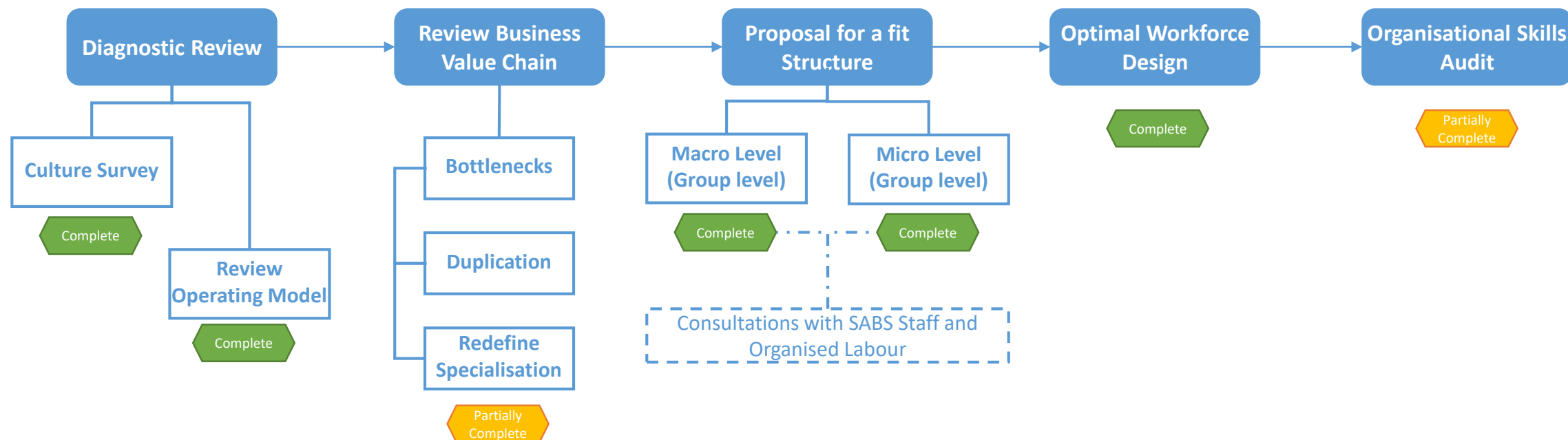
- Both revenue and cash collections were impacted by Covid-19. Under normal circumstances the SABS collects monthly receivables of between R45m and R55m per month.
- Cash collections were severely constrained by the national lockdown in the first three months and the eighth month of the financial year
- Management expects cash collections from customers to stabilise at roughly the same levels for the last quarter of the financial year.



Update on the Turnaround Strategy

The stabilisation phase

Turnaround Strategy



- Installed Building Management System
- Completed Plantroom upgrade
- Disaster Management Regulations (100% compliance)
- Installed new High Voltage Switchgear testing equipment
- Upgrade of HVAC in Q-Block
- Transitioned to Labware LIMS v7.0
- Implemented online tracking system (Supply Chain Management)
- Cleared backlog in Materials and Installations (80%) & Cement (60%) labs
- Purchased new laboratory equipment for testing of ventilators & masks
- New IT Systems (Magento 2 & Genesys Engage) rolled out
- Retained Accreditation



Capital Expenditure - Labs

Investment in laboratory infrastructure and equipment of R15,6 million spent as of 31 December 2020

R41,4 million is committed, as at 31 December 2020, and is currently in the Purchase Order (PO) phase

Planned Capex in the Radiation Protection Lab of R60 million over three years as part of revenue protection

- Specification documents issued in October 2020.
- Site briefing conducted with potential service providers in November 2020.
- Evaluation of tender submissions resulted in bidders not meeting the specifications. Specifications were amended and tender was re-advertised and closing on 6 April 2021.

Testing of Personal Protective Equipment

- Capex for testing of ventilators approved.
- In January 2021, approval was granted by National Treasury for SABS to partner with CSIR in establishing a ventilator testing facility.
- Procurement process to be initiated and concluded within three months (subject to response from the market).

Refurbishment of Secunda laboratory - scope of work in progress and to be issued by February 2021

Ad hoc projects approved Capex but not spent

- Purchased laboratory equipment for testing of ventilators (R6,4 million), spent Capex for Condom lab and Materials & Installations (R6,0 million) and laboratory equipment for testing of masks (R4,9 million).



Operational Improvement - Labs

Upgrade and refurbishment of laboratories:

- Plantroom refurbishment project completed in December 2019 – however still experiencing power outages from theft of municipal cables
- Building Management System (BMS) pilot project installed in the New Electronics Lab

Update on Cement lab:

- New mixer and moulds delivered in November 2020 and December 2020 respectively.
- Purchase Order for two pressers issued and delivery expected in February 2021.
- Subcontracting of samples to an independent lab for compression strength testing on going.

Labware LIMS was recently updated:

- Platform upgrade from version 6.0 to 7.0
- Sourcing of required resources (industrial engineers and business analysts) concluded
- Sourcing of LIMS developers in progress. Proposal received and evaluation underway.

Other operational improvements:.

- Project (data quality enhancement) aimed at improving the response rates of customer satisfaction surveys sent to clients was initiated end of February 2021.
- Weekly operational meetings held with laboratory Business Unit Managers to monitor progress on lab testing turnaround times
- Service provider for forecasting and planning tool appointed and contracting is in progress.



Operational Improvement - Certification

Implement a new operating model to drive centralisation:

- Achieved - improved planning, effective coordination of processes and optimal use of resources

Repositioning of Local Content Verification as a proactive measure:

- Revised approach expected to be launched during Q1 of FY2021. This initiative will ensure that Local Content verifications are proactive rather than being performed post awarding.
- Furthermore, more focus to be placed at points of manufacture using *a risk-based approach*. Key stakeholders involved among others are **the dtic**, DBSA, National Treasury & Proudly SA. To date 117 Auditors have been trained as part of bolstering capacity to execute local content verifications.

Improve collaboration externally:

- Mainly targeting National Standards bodies in the Continent in support of local Manufacturers intending to export. Improve engagement with industry associations and regulators. Have assigned dedicated teams in a form of Client Managers to cultivate new opportunities.



Operational Improvement - Certification

Development of a Certification digital system:

- First phase expected to be functional in Q1 of FY2021, operational priority will be for all management system certification then followed by product certification (SABS Mark Scheme Certification).
- It envisaged that once operational it will assist in elimination identified inefficiencies

Ensure maintenance of our RvA and SANAS Accreditation (License to operate):

- All external assessment findings that were raised by accreditation bodies have been cleared

Building and strengthening of partnerships:

- SABS have partnered with National Cleaner Production Centre (NCPC-SA). The NCPC-SA and SABS has initiated an effort to double the number of companies certified for ISO 50001 with sole aim of improving energy management in the South Africa. SABS role will be the certification of companies

System Certification (Certificates) and SABS Mark Scheme Permits:

- Management has put mitigation plans in place with view of eliminating expiries
- Certificates and permits have a validity period of three (3) years



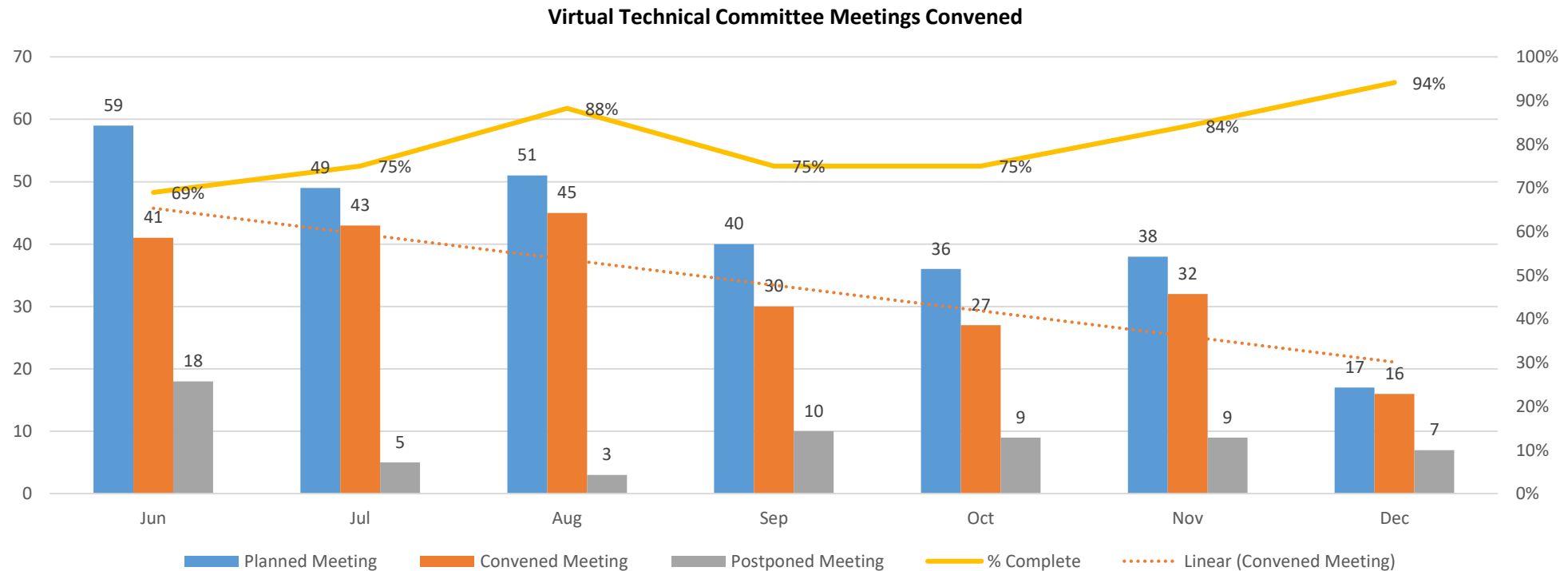
Audit Statistics for Q3 FY2020

Product Certification	Oct	Nov	Dec	Narrative
Audits Planned	518	552	334	<p>Due to the impact of Covid-19 planning had to be redone for the year, starting from July.</p> <p>Remote auditing has been adopted as one of the instruments in performing audits</p> <p>SABS continues to prepare its clientele for increasing remote audit activities. The entire backlog has been planned throughout the remainder of the year, although it gets disrupted from time to time due to COVID cases still being reported.</p> <p>Note: Monthly variance, not cumulative since it gets re-planned into later date</p>
Total Audits Conducted	485	548	322	
Desktop/Remote Audits (Included in Total Audits Conducted)	291	137	80	
Variance	33	4	12	
Rolling Variance	24*	4	12	
System Certification	Oct	Nov	Dec	Narrative
Audits Planned	249	281	179	<p>Comments same as above</p>
Total Audits Conducted	220	236	154	
Desktop/Remote Audits (Included in Total Audits Conducted)	132	142	93	
Variance	29	*45	*25	
Rolling Variance	0	14	11	Note: Monthly variance, not cumulative



Operational Improvement - Standards

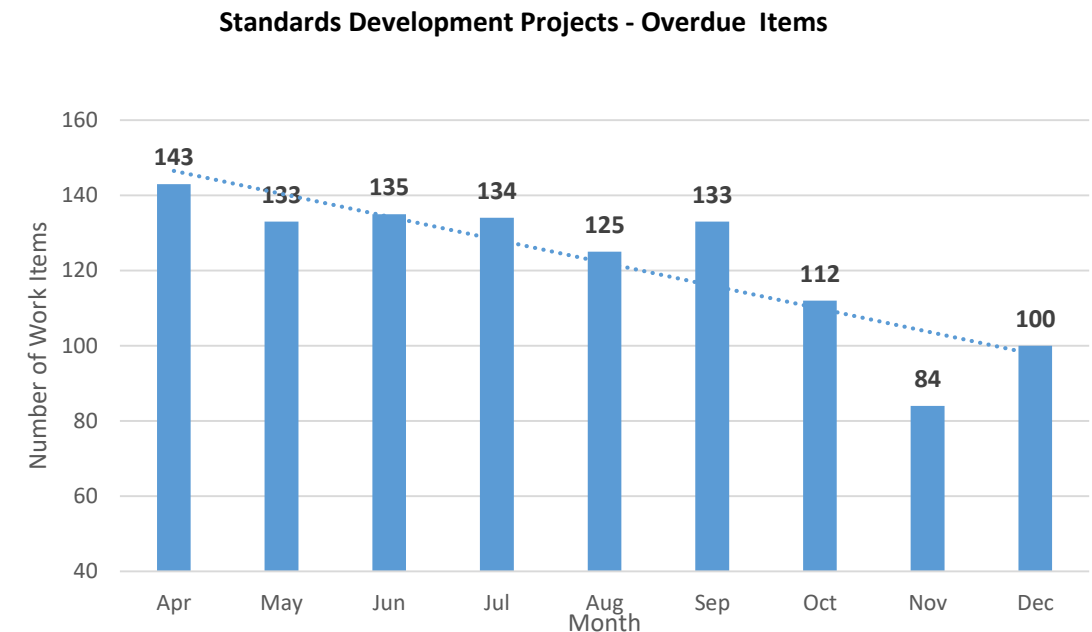
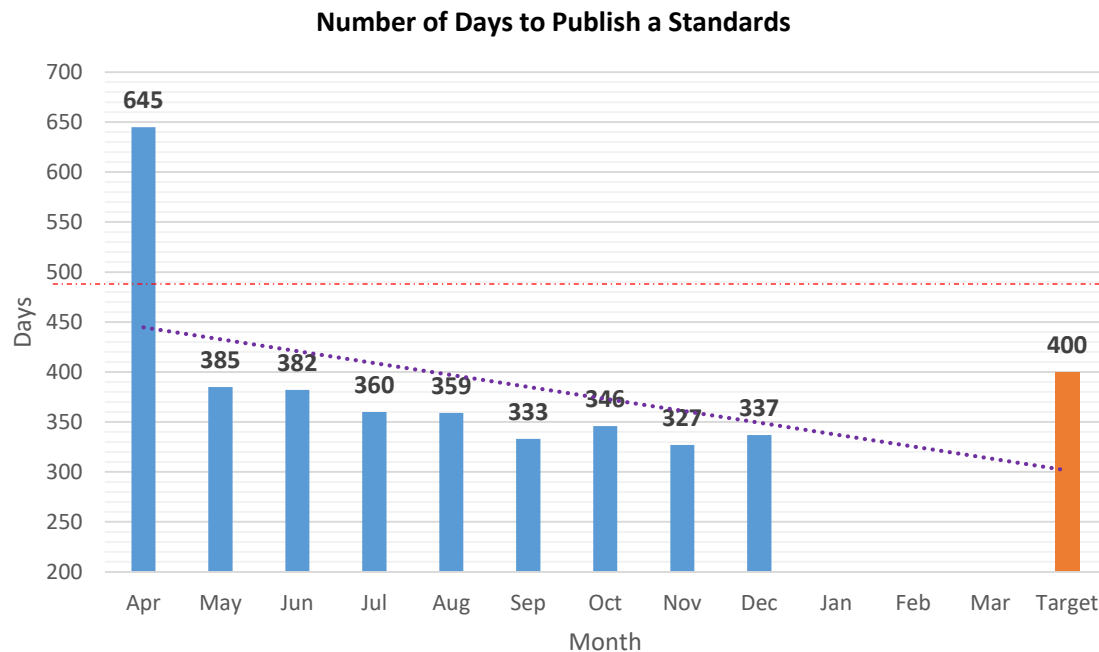
- The committee and working group meetings have been planned and convened through virtual platforms and year-to-date (Q1-Q3) 72% of the schedule meetings have occurred.
- The status will be monitored on a monthly basis in alignment to ISO and IEC communications.



Operational Improvement - Standards

Development of National Standards:

- The Standards Division has introduced various process optimisation projects and have improved their deliver time when developing national standards. The number of projects in the programme of work is 826 projects.



Operational Improvement – Human Capital

Human Capital conducted an organisational review exercise with the following deliverables:

- Reviewed the organisational strategy
- Conducted an institutional diagnostic analysis
- Reviewed and developed a new operating model for SABS
- Reviewed and developed macro and micro-organisational structures for SABS
- Consulting for buy-in and approval of the SABS organisational structures
- Conducting an organisational-wide Skills Audit exercise
- To conduct the Job Profiling and Grading exercises for new and amended roles
- To conduct Matching and Placing process to populate the new organisational structure

Stabilised the employee relations environment by implementing the recognition agreement; and conducting regular management/union engagements

Reviewed the performance management policy environment by developing and approving a new performance management policy & procedure; and automating the performance management processes

Introduced a structured Youth Development Programme and employed 20X graduate trainees

Reduced the workplace injuries to LTFR of 0.04 by implementing a robust health & safety system



Operational Improvement - Finance

Finance Team has:

- Improved the audit opinion FY2020 from *qualified* to *unqualified* has been achieved under the CFO
- Establishment of Accounting Technical Committee to strengthen technical capacity to ensure IFRS compliant financials
- Actively reducing the Intercompany loan to SABS Commercial
- Introduced working capital management strategy to ensure there is sufficient cash to pay bills on a monthly basis
- Implemented various strategies to maximise cash collections and monitoring the credit worthiness of customers effected by Covid-19 economic conditions
- Standard Sales pricing & discount exception report is completed and business has commenced ongoing review & resolution of pricing/discount discrepancies
- Building Management System (BMS) upgrade successfully been upgraded resulting in better laboratory testing conditions

Supply Chain Management:

- Implementation of online tracking system (contracts, orders, stores, tenders)
- Benchmark the SCM function and update processes to align with best practice



Action Plans - Labs

Operational planning – we have had perform a balancing act between staff safety and servicing customer demands

- 100% of required staff are back at work with restricted numbers allowed in the testing areas so as to ensure compliance with HSE protocols (Level-3 regulations)
- Clear backlogs and allocate additional Capex

Cement laboratory:

- 60% of backlog has been cleared, as at December 2020, which was a result of Covid-19 and power outages
- Working overtime to reduce backlog with weekly meetings to monitor progress.
- 222 samples (YTDFY2020) have been subcontracted to an independent laboratory for compression testing.
- Testing process definition, mapping and optimization 90% complete (progress impacted by availability of resources)

Electrotechnical Laboratory - Short Circuit testing:

- Repair of SCADA unit completed
- Installation of new batteries for the switchgear completed

Electrotechnical Laboratory – Appliances:

- Geyser test area equipment project completed



Revenue Generating Ideas – “One SABS Approach”

SAB S

Multi pronged tactics:

- Strategic partnerships and collaborations
- Customer engagements:
 - 1. Customer acquisition**
 - Inbound and Outbound Business Development and Sales
 - Go To Market strategy (lite version)
 - Top 20 lost customers
 - New solutions development and implementation
 - 2. Customer retention**
 - Top 20 high value customers (Exco allocation)
 - Sector focused Customer Managers (rest of active clients)
 - 3. Testing policy revision and implementation**
 - Partial testing adoption



Revenue Generating Ideas – Customer Acquisition

Inbound and Outbound Business Development and Sales:

- Mostly deal with inbound transactions/enquiries
- Five Sales and Business Development Managers
- Capacity and capabilities constraints
- Value of quotations issued YTD – R79 Million (end Dec 2020)
- Value of quotations accepted YTD – R29 Million (end Dec 2020)

Go To Market Strategy:

- Focused on Top 20 Certification Mark Schemes
 - *Value per Permit*
 - Total of 171 active permits (FY20/21)
 - Total revenue generated – R41 Million (FY20/21)
 - Opportunity for repeat annuity income
 - *Covers multiple sectors and industries*
- Auditing and Testing capacity & capabilities in place to service new customers
- Next steps
 - *Analysis of individual schemes*
 - *Pilot project and then implementation of sector focused revenue generation plans*



Revenue Generating Ideas – Customer Acquisition (cont)

SABS Top 20 Lost Customers Engagement Plan						
Targeted Sectors / Industries	Financial Impact (ZAR)	FY20/21	FY21/22			Comments
		Quarter 4	Quarter 1	Quarter 2	Quarter 3	
CIVIL, BUILDING AND CONSTRUCTION (3x Customers)	15 096 599	X	X			Aiming for first sessions to be held in March 2021
MINING AND MINERALS (2x Customers)	3 328 558		X	X		
SOE AND GOVERNMENT DEPARTMENTS (4x Customers)	5 273 210		X	X	X	
ELECTROTECHNICAL (5x Customers)	3 790 267		X	X	X	
FOOD AND HEALTH (1x Customer)	656 590			X		
GENERAL SERVICES (5x Customers)	2 774 908		X	X	X	
TOTAL – POTENTIAL REVENUE	30 920 231					

Source: Power BI

- Engagements are subject to availability of customer's representatives
- Engagements do not mean immediate customer's acquisition – due processes to be followed



Revenue Generating Ideas – Customer Acquisition (cont)

New product solutions development and implementation

- Testing of cold storage products
 - *In progress and part of sector focused revenue generation initiatives.*
- Project teams established to conduct feasibility studies and formulate business cases.
 - *Cosmetics & essential oils*
 - *Air quality monitoring*
 - *Mobile coal testing*
 - *Implementation of all projects targeted for FY21/22*
- Local Content Verification Scheme – Launch planned for March 2021
- Innovation group set up to facilitate and management revenue improvement and costs reduction idea generation process.
- Support export products through product certification and consignment inspections
 - *Signed recognition agreements with Namibia and Botswana*



Revenue Generating Ideas – Customer Retention

SABS Top 20 High Value Customers Retention Plan (Exco Allocation)						
Targeted Sectors / industries	Financial Impact (ZAR)	FY20/21	FY21/22			Comments
		Quarter 4	Quarter 1	Quarter 2	Quarter 3	
FOOD AND HEALTH (3 Customers)	10 243 517	X	X	X	X	
CIVIL BUILDING AND CONSTRUCTION (3 Customers)	12 906 708		X	X	X	
SOE AND GOVERNMENT DEPARTMENTS (5 Customers)	36 693 672		X	X	X	
ELECTROTECHNICAL (2 Customers)	4 033 496		X			
CHEMICALS AND MATERIALS (1 Customer)	2 891 705			X		
AUTOMOTIVE (1 Customer)	3 174 358		X			
ENGINEERING (1 Customers)	1 921 425			X		
MINING AND MINERALS (4 Customers)	14 470 294	X	X	X	X	
Total Revenue to be retained	86 335 184					

Source: Power BI

- Rest of active customers are allocated to sector focused Client Managers
- Progress to be reported and monitored during Sales & OpsCo and Performance Exco monthly meetings



Revenue Generating Ideas – Testing Policy Revision

Effective date - October 2018

- Notification sent to various stakeholders

Area of focus

- All sectors serviced by Laboratory Services Division
- Requests approved on a case-by-case basis (risk-based approach)
- Accountable Divisional Executive responsible for final approval

Revenue generated

- FY 2018/2029 - R5,8 Million – customers from Civil, Mechanical, Rubber, Chemicals and Mining industries
- FY 2019/2020 onwards - R1,8 Million – customers mainly from Civil, Rubber and Chemicals industries

Next Steps

- Sector focused awareness campaigns (to be planned in FY21/22)



Revenue Generation - Coordination

Sales and Operations Forum established

- SOF meeting held regularly to coordinate the delivery of- and support for all Business Development and Sales activities
- Feedback from clients shared during monthly meetings

Stakeholder engagements

- Collaboration meetings held in Quarter 2 and Quarter 3 (FY20/21) with SADC member countries (Botswana, Zambia, Eswatini, etc.) to improve relationships and identify areas of mutual interest and collaborations
- Meetings held by Senior Management with key clients and associations, operating within various industries (e.g. Manufacturing, Mining, Electrotechnical etc.)
- Collaborations with key stakeholders, such as, CSIR, IDC, Proudly SA, SALGA, SEDA, **the dtic**, GEDA, PPC etc.
- Sector focused stakeholder engagements with industry bodies/associations to be planned in the next financial year



Revenue Generating Ideas - Labs

A strategic partnership finalised with a large company in the pump industry. The partnership and investment opened various opportunities in especially testing for the broader pump industry.

- Partnership completed and equipment installed and commissioned in August 2020.
- Testing of pump samples from various manufacturers conducted effective from August 2020.
- Pump industry stakeholder engagement and awareness session to be scheduled before 31 March 2021 (Covid-19 regulations permitting)

Repair of NETFA test infrastructure opened various opportunities in the testing of medium-to high voltage transformers.

- Repair completed and equipment commissioned in September 2020
- Testing of customer samples started from mid September 2020.
- Stakeholder engagement sessions conducted with Switchgear Association and other key clients in November 2020 and December 2020.
- Relaunch of the facility to be scheduled before 31 March 2021 (Covid-19 regulations permitting)

New opportunities are being pursued.

- Testing of cold storage products - In progress as part of sector focused revenue generation initiatives.
- Cosmetics & essential oils, air quality monitoring and mobile coal testing – Project teams established to conduct feasibility studies and formulate business cases.
- Local Content Verification Scheme – Launch to be scheduled before 31 March 2021



Way Forward

Next steps

- Implementation of the turnaround plan
 - Focus on revenue generation
 - Further reductions in costs

As part of ongoing efforts to improve its poor financial situation, the SABS has been on a cost containment drive since it was put under administration. While there is progress in many areas of the business, the Compensation of Employees (CoE) remains the highest cost item, sitting at 65% of the total operating expenditure. The decline in revenue due to loss of customers has further been exacerbated by the impact of the COVID-19, rendering it unsustainable to carry the labour costs as currently structured.

On this basis, SABS has invoked the Section 189 of the Labour Relations Act (LRA) which calls for consultations between the employer and employees on possible staff terminations as a form of reducing labour costs. During the consultations, alternatives to terminations will be explored by the parties – these include among others, early retirements, voluntary separation packages, etc.

Financial sustainability cannot be realised without reducing the current labour costs..

- Phased implementation of new structure





Thank you
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