Engineering Company

Alberto: All right, how we normally start off is with the mapping of the supply chain and then afterwards we move on to the questions, the prepared questions (Detlev: Mmm, mmm, mmm.) that I have. So can we start with company background. What does [The rest is not clear.]?

Detlev: Oh ja, no, (Alberto laughs.) okay, we've, the company's been around what, since, it was, was formed in 67, 1967, uh, **Engineering Company**, (Alberto: Okay.) it's my x-wife's grandfather. (Alberto: Okay.) Um, her dad took over the business in the 70s and then he passed away in the end of the 90s, um, that's when I, I, I came into the business and, um, and then eventually bought out, I think it was just, um, her, my wife's aunt, she was the remaining shareholder, (Alberto: Okay.) we bought her out, I think in 2006.

Alberto: And always been an engineering concern, doing machine shock [The rest is not clear.]?

Detlev: No, absolutely, no, it was machine shocks specialising in machining, [Word not clear.] machining, (Alberto: Okay.) um, and at the time Eric was sort of 1 of the first guys, person that brought in, uh, 4 axes turning machines and all that. So it was, you know, when, when the CMC machines came in that they were always at the forefront of that. So when, and in, (Slight pause.) in the 80s we started designing and manufacturing pumps, so late 70s, late 70s, 80s, um, [Word not clear.] pumps (Alberto: Okay.) and then, um, about 5, 6 years ago we started getting into, you saw the poster there, [A few words are not clear.] pumps, (Alberto: Yes, ja.) so we started manu, uh, designing and manufacturing those as well.

Alberto: What industry do those go into?

Detlev: All, all in the mining industry. Look, there are industrial applications, (Alberto: Mmhmm.) so it's all [A few words are not clear.] so 95, uh, 90 percent goes, goes into the mining industry and dewatering of mines. So the eumatic pumps are the ones that are, they, they use at the face, at the face [A few words are not clear.] and all that, (Alberto: Mmm.) get the water to the holding dam (Alberto: Okay.) and then the [A few words are not clear.] pump it to a main dam at shaft, at the shaft rise and then you've got the big multi stage pumps that pump the water out the mine. (Alberto: Okay. All right.) So that's the, the, the, the flow of the pumps. And that business has been increasing over years in terms of the machining we do work for (Alberto: Okay.) Joy Manufacturing, (Alberto: Okay.) a lot of work for them, (Alberto: Mmm.) we also do work for Armscor (Alberto: Mmm.) or Denel nowadays DLS, and, um, motor industries, we used to do motor industry work but it's a mission and it's not, it doesn't pay, you know, it's, you know you getting a cheque every month but the hassles and everything that goes with it is not worth it.

Alberto: Ja. (Detlev: Ja.) Okay. All right, so if we go straight on to then, as you've already highlighted, (Detlev: Mmm.) some of the, what, when we, when we map the supply chain we obviously look at the supply side (Detlev: Mmm.) so your suppliers and then going on to (Detlev: Mmm.) demand side. So what would you say are your key inputs into your business, your ...

Detlev: Castings and, and steel. Steel, steel round, steel bar, plate and castings.

Alberto: So, um, castings and, um, let's say material.

Detlev: Ja, steel, ja.

Alberto: Steel. All steel or different types of steel or ...

Detlev: Or mainly carbon steels, mile steels, any kind of steel. (Alberto: Okay.) Sometimes aluminium or whatever.

Alberto: Okay.

And then obviously electricity.

Detlev: Oh ja, ja and labour and all those things but ...

Alberto: And any, anything else besides that?

Detlev: Uh, minor obviously tooling, you know, I mean, in terms of that is obviously your machines [A few words are not clear.] capital equipment, um, and then consumerables.

(Pause.)

Alberto: So in terms of your castings, how long have you been working with your ...

Detlev: Foundries.

Alberto: Or do you have more than 1 foundry or do you have ...

Detlev: Ja, no, we've got a few foundries (Alberto: Okay.) that we deal with, ja.

Alberto: And for quite some time or ...

Detlev: And it varies, ja, some, (Slight pause.) 15, 20 years some of them, ja.

Alberto: Ja. And do they, generally do the foundries come to you or if, with a proposal or are you recommended by your end-supplier ...

Detlev: Both, both, you know, I think to some extent, uh, often we get approached more by foundries looking for work (Alberto: Okay.) and then, and then obviously if our customers looking for work and then we say, well, let's try those, or in some, in rare cases, I mean, like with all our pumps, we select the foundries ourselves obviously.

Alberto: Yes, ja.

Detlev: And, um, in rare cases that the customer then says use a foundry. In that case, most of the time, we can get the material free issue. So we get a lot of free issue material (Alberto: Mmm.) and it's a casting that the customer's paid for and we do all the machining on the casting.

Alberto: Okay. (Pause.) Um, (Pause.) and your steel, more than 1 supplier or basically ...

Detlev: Ja, no, no big ones, ja, depends, mainly sort of like Macsteel and, and Trydens, those guys as well as, and into the list, as well as forging, forgings, ja.

(Pause.)

Alberto: And there you buy from them based on availability and pricing, I guess, ja.

Detlev: Ja.

(Slight pause.) Look, the forging is obviously not, it's the same supplier because they've got dyes (Alberto: Ja.) so sometimes high value dyes that they do, so then you, you stick with what you, but, but plate and bar stock you just buy at price, [Alberto says something that is not clear.] rigid price, ja.

Alberto: Okay. Electricity you get straight from Eskom or you on ...

Detlev: No, on [Word not clear.], ja.

(Pause.)

Alberto: Tooling?

Detlev: The, the Capex and the CMC machines ours are all a Q9, they from Japan. (Alberto: Okay.) I think we got, I think we've got about 20, 25 machines now.

(Slight pause.)

Alberto: And your, well, your tooling that goes on the machines will go under consumerables.

Detlev: Yes, ja, (Alberto: Okay.) ja.

(Pause.)

Alberto: And suppliers for your, your tooling?

Detlev: Uh, we've got a couple of main suppliers, you know, Iscar, Mitsubishi.

Alberto: Uh, and the reason for the different guys? Different specialities or ...

Detlev: Yes, also, I mean, obviously the, it's, they carbine inserts so there's a lot of [Word not clear.] that takes place, you know, that, that they last longer (Alberto: Okay.) and speeds and all that, (Alberto: Okay.) so there's, there's a lot of competition in the tooling suppliers to, to supply, uh, better quality tooling, you know, so they, you know, they will come along, you will try something or test it or specific material that's difficult to machine, they will research it and come up with something like that. So they, they continuously improving on their, on, on the tooling that's available, (Alberto: Mmm.) you know, so it's actually a big difference over the years that you see, there's, there's continuous, um, improvement on what they supply.

Alberto: Okay. And outsourcing? Anything that you guys contract out that can't be done in-house? Um, the normal 1 is, um, what's it? Powdercoating, the guys normally send their powdercoating out.

Detlev: Ja, not really, it serves as treatment but it's, it's minimal, you know, (Alberto: Okay.) it's a small, small portion of that. (Slight pause.) They very small, I mean, we, you know, sort of anodising or, or blackening and that but that's like almost negligible as in .000 of a percent (Alberto laughs.) in terms of, in terms of cost.

Alberto: Okay.

Detlev: Heat treatments is actually quite a big 1.

Alberto: In-house?

Detlev: Sorry, no, no, (Alberto: Okay.) external, external heat treatment, that's, that's quite a big portion of, of, that, that will come into this section over here or subcontracting (Alberto: Ja.) is heat treatment, that's a big portion of, of, um, (Slight pause.) our expense, ja.

(Slight pause.)

Alberto: Do foundries have their own heat treatments?

Detlev: Uh, some of them do, (Alberto: Mmhmm.) ja, so some we will machine it and send it back to the foundry, uh, but normally the steels there, there we will send it for heat treatment. (Slight pause.) Also value stable suppliers, I mean, been around for 20, 30 years.

(Slight pause.)

Alberto: Okay, and, um, you don't deal with anything let's say further back than that, you know, you will never get involved further?

Detlev: No.

Alberto: Everything, that way is there, (Detlev: Ja.) their problem.

Detlev: That's right, ja.

Alberto: Okay. And on your, on your demand side, um, industries that you supply into? You said, uh, pumps.

Detlev: Ja, that's the pumps on, on the mines but that's right across down coal, coal, platinum, right across the mining industry. (Slight pause.) But what we do there is we've got distributors so we don't deal directly with mines, (Alberto: Okay.) so, and also partly because you've got to, um, you know, to deal with the mine now you have to have 26 percent black partner, you can't deal directly with the mine. (Slight pause.) So there's a lot of, well, you deal with distributors who you've got in-between you then you deal with the mine. (Alberto and Detlev laugh.) It's quite hectic nowadays.

Alberto: Ja, and all the percentages add up (Detlev: Mmm.) to make your 26. Um, ...

Detlev: Ja.

(Pause.)

Alberto: Um, ...

Detlev: But what you find that the, the mine will actually want the contract with the OEM even though they buying from a, a black empowerment company. (Alberto: Okay.) So we in a situation where either we, like we sell, we sell directly to anybody, uh, as well as [A few words are not clear.] (Pause.) There's no crash so ... (Alberto and Detlev laugh.) Um, then, um, with the distributors they get a discount, they get discounted this price, so they can sell at this price as well, so, (Alberto: Yes, ja.) so that's the advantage that they've got. And, but you will find that the mines where we do have contracts, the contracts will be with us, the OEM, and then we s, we select a vendor to the mine.

Alberto: Okay. And then does that include servicing of units or on ...

Detlev: Well, we do, we do do repairs but, but generally the, it's obvious you want to repair it as close to the mine as possible. (Alberto: Ja.) So, um, all our big distributors do repairs on, on our pumps. In fact, repairs is, is, is half, is half the business, you know, especially the platinum mines, all the mines are quite, you know, the environment is quite aggressive, you know, [The rest is not clear.].

Alberto: Mmm. (Pause.) Any other industries besides the mining industry that you supply?

Detlev: Us directly, obviously, um, Joy Manufacturing, you know, they, they manufacture coal mining equipment, they, they 1 of our bigger customers. (Pause.) Um, then Denel, Armscor, those, I mean, those are the 3 main, main customers.

Alberto: And Denel, you supply straight through to Denel, (Detlev: Yes, ja.) there's, there's no on in-between? Okay. And then you said walk-in business as well?

Detlev: Yes, ja, (Alberto: What's ...) general, just general manufacturing, just general manufacturing, jobbing. (Slight pause.) Most probably about 10 percent of our business.

(Pause.)

Alberto: And in that case there you don't know who the end supplier is.

Detlev: Um, some of them are, are, are railways, Spoornet, (Alberto: Okay.) Transnet, ja.

Alberto: Okay.

(Pause.)

Detlev: Then, um, Iscor or Mittal and who else? There's, some of them who also then, then again into the mining industries, they manufacture equipment for the mines as well.

Alberto: Okay. (Pause.) Okay, I think that's about it then. And, um, anything else from the input or from the contracting side or the subcontract side that you can think of? Nothing else.

Detlev: Not really, there's, (Alberto: Okay.) you know, I mean, on a month to month basis those, the, those are that most, I mean, we will, you know, you will have software supplies and that but that's minimal, (Alberto: Mmm.) it's once off (Alberto: Mmm.) every couple of years but that, these, these are month, these are all monthly, (Alberto: Okay.) you know, that we, that we supplied from them.

Alberto: Ja. (Slight pause.) So the majority is the mining guys, (Detlev: Mmm.) basically, mining and manufacturing. Okay. Obviously for, when this goes into the report, none, none of the names will appear, (Detlev: Ja.) it will be blotched out. (Detlev: Mmm.) Okay, then we can start with the questions, uh, some of which you've already answered (Detlev: Okay.) but I'm going to ask you again (Detlev: No, that's fine.) so that when we transcribe we can have everything together.

Detlev: Ja.

Alberto: All right. Uh, company background, how long has the company been in existence for?

Detlev: Since 67, 1967.

(Slight pause.)

Alberto: What industry or manufacturing sector do you specifically consider yourself a part of? Well, I suppose that would be manufacturing [The rest is not clear.].

Detlev: Manufacturing, ja, CMC machine manufacturing.

(Pause.)

Alberto: How long has your company been trading its current product range?

(Slight pause.)

Detlev: Okay, well, the, the, the pumps, I mean, pumps has been what, 70, so it makes it about 35 years, 40 years as well as new products as we go along, you know, (Alberto: Ja.) we continuously adding products.

(Pause.)

Alberto: How many people are employed in your company?

Detlev: Uh, I think it's 35 at the moment. Sorry, no, no, ja, 35.

Alberto: Okay. And what size business do you fit into according to the South African Business Act's definition?

Detlev: I think we a medium, what's a medium?

Alberto: Uh, total full time is 200 people, total turnover 40 million, total fixed asset value ...

Detlev: Is that medium? No, then small, (Alberto: Okay.) small, I, I read 1 yesterday. The small is?

Alberto: Total is 50 (Detlev: 50.) and 10 million turnover, 3.75 fixed asset value.

Detlev: Okay, you see, that, (Alberto: Probably in-between.) okay, employment and, and the medium is? What's the turnover? Is it up to ...

Alberto: Up to 40, ja.

Detlev: Ja, you see ...

Alberto: Well no, from 40 upwards, I think.

Detlev: Okay, no, then we, then we small, ja. (Alberto: Ja, okay.) We get about 20, 20, 25 million turnover.

Alberto: With 35 people, that's quite good going.

Detlev: Ja, well, it's, it's high value, it's, it's high value, uh, in terms of CMC machining.

Alberto: Yes, ja. Do you want to grow your company further?

Detlev: Ja. Well you, growth it's, it's not necess, I mean, growth is [Word not clear.], either you, either you got to change, rather change than grow, it's not necessary, if you can't, you can't carry on doing the same thing forever. (Alberto: Yes, ja.) So, and invariably change does include growth, so the, the growth isn't necessary a target but, but, but, uh, (Alberto: Combined product, ja.) continues, continues to prove, uh, continuous improvement or change is (Slight pause.) which then eventually ends up in growth again.

Alberto: Are your constraints for growth in-house or outside factors? So what's preventing you from growing faster than you would like to?

Detlev: Um, well I suppose it's, um, okay, it's outside factors in terms of obviously the economic environment plays a major role and then, and then skills, people skills, you know?

(Slight pause.)

Alberto: I would say business environment. (Slight pause.) Further to the above, would you prefer to increase your net profit over market share and turnover, i.e. keep the company the same size yet increase its returns?

(Slight pause.)

Detlev: Oh yes, ja, I mean, that's any, anybody.

Alberto: (Alberto laughs.) I was going to say (Detlev: Ja, anybody.) that's the general answer.

Detlev: That's a no brainer that, hey?

Alberto: (Alberto laughs.) Ja. Are there numerous competitors who compete in the supply of the same product range that you currently supply?

Detlev: Yes, there are.

Alberto: What are your competitors competing on, price, quality, service or anything else that comes to mind?

Detlev: Uh, generally price.

Alberto: Again, that's the answer everyone gives. (Detlev: Mmm.) I suppose it's the economic climate at the moment.

Detlev: Well, we, we, I mean, we compete, ours is quality, you know, we, we, we don't, we don't try get a, we don't try get price, so that's our product, that's the quality and you've got to pay for it. You know, we've had a reputation for good quality and once, once you compromise that you've got a problem. (Alberto: Ja.) So we, we compete on quality rather than price.

Alberto: Obviously China's affecting as well.

Detlev: Not really because, you see, also that we in a niche market because the, you see, a lot of the pumps we produce you can't really import them, you know, it's not that easy to import, well, look if the Chinese got into it but I think the market's too small because it's a specialised market, (Alberto: Okay.) so the [A few words are not clear.] is quite a small market, (Alberto: Mmm.) it's, it's sort of a local mining market, (Alberto: Mmm.) so it doesn't justify them getting into it. Um, so there, there's not, there's not much competition there but also the mining environment's, it's very, it's very rugged, so a lot of stuff that comes, even locally produced stuff, doesn't stand up to the requirements of the mining industry. (Alberto: Ja.) So, you know, that's where, you know, the quality comes into it. And our magnetically driven pumps we can produce it cheaper but then the quality isn't that good. Up until now we've, we've said, you know, we maintaining our quality and we've often thought about changing that but, um, saying, well, if the guy doesn't have, if he's got R40, he's only got R40 so he can't buy a R50 pump. (Alberto: Ja, it's true.) So if you can make a R40 pump then say, if the customer's constrained he's there, he doesn't have the money, (Alberto: Mmm.) then you have to consider making a cheaper product but the quality isn't there. Like if you've got to get to Durban and you, and you can buy a car that's half the price, you going to buy it because you want to get to Durban, (Alberto: Yes, ja.) so you not, you going to say, what the heck, you can only go to Durban a couple of times but at least you've got to Durban, and that's, that's the issue we facing more and more is that they, they, the, the constraint is on, on, on the available resource that you buy the product.

Alberto: Hmmm. So how close are you to making a cheaper alternative?

Detlev: Well, no, you see, but it's again, it's, it's when we started doing, we got into the vertical spindle market, you know, so that, that included the growth where our, where our air pump market declined, (Alberto: Okay.) um, because of pricing we concentrated on, on, on, on the, we took the view that it's a basket of products so once the distributors have got a basket of product (Alberto: Mmm.) then it's again easier if you've got the logistics, if you carting a small pump around you've got to put all the transport [Word not clear.] on that pump. (Alberto: Ja.) So once you be carting to scale then again you can make it cheaper because it's, it's sort of a secondary product. (Alberto: Mmm.) So, but it's a long-term, it's a long-term approach. I mean, 1 mine, for example, we've got, we contracted on the big pumps and now they looking at going on to contracting the small pumps because they established in a certain brand and then you wait, and eventually something happens and they not happy with the supplier or there's quality issues, (Alberto: Ja.) and then again, you know, a lot of mines you, it takes, they, they commit to 2, 3 year contracts and you can only get in when they reviewing a contract (Alberto: Yes.) and that's, and that's when you have got to have your ducks together and, and make sure you've got the right, you know, what they need.

Alberto: Ja. What are the main risks that your company experiences or could possibly experience? Uh, strike action, financial, competition, service, expertise, information, anything else that comes to mind?

Detlev: I think the biggest risk, I mean, the, the biggest risk is labour, the, the, the, the stability of the labour market. I mean, and there's, there's big things happening at the moment, the industry's eventually said, you can say to the unions, you can't go any further and then the unions recognise themselves, it's that, everybody's painted themselves into a corner and they can't, when the minimum wage is R35 an hour, the guy who sweeps the floor here, I mean, I was chatting to somebody's got a, owns a Wimpie franchise, he's, he's manager earns almost what my guy sweeping the floor earns and the waiter earns R12.50 an hour and the guy sweeping the floor here earns R35 an hour and you can't be competitive (Alberto: No, you can't.) and you can't, you know, it's a big thing, what comes first, the chicken or the egg, you know, um, we, especially let's say with cleaners and all that, (Alberto: Mmm.) you'd rather, you'd rather employ 3 cleaners at R12 an hour than 1 cleaner at R36 an hour, (Alberto: Mmm.) you know, and it adds a lot more value. (Alberto: Ja.) Where with a machine those guys are highly paid and there's a skills shortage, (Alberto: Ja.) you know, and, and exactly what you said is, is, if, is people, you know, they expecting things fast and easy and they not going into the engineering industry, you know, it's, it's not, you know, it's, it's hard work, you can do well but it's hard work (Alberto: Ja.) and a lot of people don't want to do that (Alberto: Mmm.) and they expecting everything quickly and, and the abilities are there. And also if you've got a, you've got a big expensive CMC machine, you can't put somebody that's not skilled on it because it costs you a lot of money if something goes wrong.

Alberto: Ja. And you start making scrap.

Detlev: No, you will be damaging the machine, hey, you know? (Alberto: That too, ja.) It, it, it only does what you tell it to do, (Alberto laughs.) if you tell it to go through somewhere it's going to go there. If a truck's in the way then it's still going to try get there, hey? It has happened, hey? (Alberto: Really!) Look, obviously newer, the newer machines you can programme and save the areas that it's not going to do that but the older machines, you know, even, even though the programmers have made mistakes but not to part out the machine. We had an incident where the part was very small and it ran into the chuck, you know, and smashed the turret and a couple of rand later ...

(Alberto and Detlev laugh.)

Alberto: Okay. Um, how long have you been working with your 3 biggest customers?

(Pause.)

Detlev: Joy Mining must be also 30 years, ja, all of them 30 years plus.

(Slight pause.)

Alberto: Do you have a good working relationship with them?

Detlev: Ja.

(Slight pause.)

Alberto: Do they convey to you who a customer is for a specific job?

Detlev: Mmm, no, not necessarily but it's not, it's not an issue, you know, it's not, um, ...

Alberto: To you it doesn't matter.

Detlev: Ja, it doesn't matter where it goes. I mean, you do know what, you, you do know it's going into a mine (Alberto: Ja.) but whether it's Anglo or Sasol or whatever it's, you know, it's not really relevant.

Alberto: Are you aware of other products and services that are offered by your customers to their customer? So you know everything that Joy makes for all of their customers.

Detlev: Yes, ja, ja.

(Slight pause.)

Alberto: Obviously Denel is a different story because I'm sure that's a bit more confidential ...

Detlev: Well, look, you do know, I mean, I worked in the industry many years ago so there's, there's a certain degree that you, that you know of but also there's 2 sides of it and we fortunate, we lucky that those customers generally come to us because of our ability to, (Alberto: Mmm.) you know, I mean, Denel, they don't care what your BEE rating is because it doesn't help, if you can't make the part, you can't make it. (Alberto: Ja.) So they come to us because we can produce the quality that they require. (Slight pause.) You know, it's a fortunate position to be in but it's, it's not, I mean, it's part of the strategy that we there, (Alberto: Mmm.) you know? I mean, even to the extent that, I mean, this morning I, I, I quoted and they've asked me could I, could I revisit the quote and reduce it because I'm the only person quoting, you know, to some extent maybe other people are quoting but they can't, they can't, also I, I mean, I with a lot of, a lot of manufacturing industry I say, everybody knows if I buy something I know what it should cost, (Alberto: Yes.) so quoting, you know, I think a lot of industries or businesses, um, have a wrong approach in terms to, um, I mean, the other day they got new, they got a new person manager to join (Alberto: Mmm.) and I got an e-mail where they copied, I think, 50 companies to get a price on something, I didn't even bother, bother quoting because I'm not in that business. (Alberto: Mmm.) If you buying from me you buying because of our quality and not at pricing, because people do that. (Alberto: Ja.) And if every, if every Tom, Dick and Harry can make a part, I don't want to compete against them. So, and we've been fortunate as well as we've got, we've got the, the pumps but in a situation like that with Denel they said, just as long as you have a BEE certificate, it doesn't matter what your score is because they've got to tick the box that says you've got BEE (Alberto: Okay.) so they tick the box, you know, because they've got to pick the person with the highest score, (Alberto: Yes.) so we've got the highest score even though it can be a low score it's still the highest score because nobody else can make the component, you know?

And a lot of areas it's happening and, I mean, that's why Eskom's in such a mess that it is, purely BEE because they put people into positions that aren't competent, (Alberto: Don't know what they doing.) and that's it, that's a recipe for disaster, you know?

Alberto: Very sad actually. (Detlev: Mmm.) Very, very sad. (Detlev: Mmm.) Um, okay, so just referring to the previous question of do you know what other products and services are provided by your customers, (Detlev: Yes, ja.) further to the above, would this information be of use to you knowing what other ...

Detlev: Not, not really, not really, no.

Alberto: If large contracts to reputable companies were available, would a company, such as yourself, be open to creating a fully transparent working relationship?

Detlev: Absolutely! (Alberto: Okay.) Ja, and that's why I said a buyer should know what, what he should be paying for a product. (Alberto: Ja, ja.) You know, I say to them, this is, it, this is the time that it spends in the machine, the machine costs X amount per hour, the labour costs that much, there's nothing to hide, I'm a business to make money, (Alberto: Mmm.) you know, you go buy a machine for 3 million and then you can do the same, you know, there's no ...

Alberto: Lower price, ja.

Detlev: Ja, you know, that's it. There's a certain return that you want from that, (Alberto: Mmm.) you know, and then to a certain extent is the skill, the skill of producing a product that you need.

Alberto: At the right quality, (Detlev: Mmm.) ja. Um, further to the above, if there were no contracts, well, no large contracts involved, would it be beneficial for you to be more transparent in terms of level of communications in a normal course of business?

Detlev: Uh, I think, yes, it is because sometimes it's exactly that because, you know, people understand what, why they paying for something, you know, what it is you paying for, (Alberto: Ja.) so transparency does help because if a person understands why there's, there's, you paying more for a product and, um, but it's also, I mean, it's also a marketing or business approach, you know, I often, often when I, when I'm with engineers I talk engineering language and when I'm with buyers I use buying language, (Alberto: Yes, ja.) and you, and people are quite often, you know, they don't like the approach where you tell them I'm in business to make money, you know, I'm not here to give stuff away, (Alberto: No, exactly.) you know, I'm not a salesman that's going to promise you discounts and all that, that's what it costs and I, (Alberto: Ja.) and I'll prove to you why it costs that and it's a fair margin, you know, I'm not, I'm not making a fortune out of it and that's what it is. But you obviously can't, depends who you speaking to (Alberto: Ja.) when you adopt that kind of approach (Alberto: Ja.) but that's, in answering your question if people know what, what they paying for and why they paying it, they obviously feel a lot better. I mean, that's what I, often when I get quotes I just say, please explain, or that seems expensive, please explain to me why it's expensive? And then they explain to you, okay, that's fine, I'm quite happy to pay that (Alberto: Yes, ja.) as long as I know what I'm paying for, (Alberto: Ja.) you know, is there some special equipment that needs that, that's all that I'm interested in (Alberto: Mmm.) and not that some guy is making a huge margin because I'm not, I'm not educated in that product, (Alberto: Ja.) you know?

Alberto: Interesting approach. Um, okay, for this section just answer a yes or a no to each of the following items. Which of ...

Detlev: When you say that, (Alberto: Ja.) interesting approach, I mean, a lot of people, I mean, you know when you buying, you know when you buying a pair of jeans it's a pair of jeans and you, you paying for the label, you know, (Alberto: Ja, ja, that's exactly it. (Alberto laughs.)) paying, you know you paying for the label (Alberto: Ja.) and that's your choice is to pay for the label but when you running a factory a label doesn't mean, so, you know, just tell me why is it expensive, oh, the label. Well, I don't need a label. (Alberto: Ja.) You know, so that approach is, and I think, but again, generally, I mean, the people that we, our customers are educated people, (Alberto: Mmm.) you know, the buyers are educated and once you explain to them, because often he's got to go to his superior and explain why it's expensive or why there's a price increase, so if you helping the buyer, you making his life a lot easier.

Alberto: Ja, you just giving him the reason why (Detlev: Yes.) why and now go tell that to whoever, ja.

Detlev: Ja, you go to your purchasing manager and he says, why another increase? And he says but electricity that, that, that, so if you transparent in what, what it is then it makes, in fact, I, I've often found that I've used CEFSA indices to justify increases, (Alberto: Mmm.) and if I use CEFSA indices I could actually apply for a higher increase then I actually have because it generalises and, you know, (Alberto: Ja.) some areas, you know, um, you know, what happened in, in 2009 when everything was sky rocketing, material prices sky rocketed, and in a lot of areas I managed to hold my prices for 4 years because the material prices came down because the steel prices were collapsing, you know, so, I mean, we, in, in, you know, we were paying up to R20 a kilo on, on material and it was coming back down to R12, R13 a kilo. (Alberto: Mmm.) So as your, as your electricity and labour was increasing, your material price was coming down again, you know, and so you just balance that out. I mean, I think last time I applied for an increase was, I think, 2011. Only now when I revisit, because I revisit every year, (Alberto: Mmm.) the every, like on a pump we 0 base all our pricing (Alberto: Mmhmm.) so I don't, I don't take an average. So what we'll do is it, it, in September, October, every component we'll put an actual price, labour, and right across each component, so each component gets worked out (Alberto: Mmm.) exactly what that component costs, so we don't end up with a lack of increase in parts, so you end up suddenly you look at some part that you making a loss. We haven't got that many components that we can, that we produce that we can, that we can still do that. (Alberto: Okay.) You know, so each, every year each component, and also spread sheet, once you've got it done (Alberto: Ja.) you plug in labour, the difficulty is putting in the material price for each component, (Alberto: Ja.) you know, and that's where you see that it comes through that you can hardly, because foundries unfortunately have gone up and up because, you know, electricity and energy is going up, so even though the Mittal, Mittal's and that where the material prices are coming down (Alberto: Mmm.) because they were, were competing on a, on export pricing where the foundries aren't, it's local, (Alberto: Ja.) so they, they price increase. Now the Mittal's were making huge margins because they were saying, well, I either sell it locally or I export it. (Alberto: Mmm.) So they export it. So we were paying international prices for our steel where, where castings we weren't, we were paying local prices, so castings have been going up. So [A few words are not clear.] the pump, your, your, your castings have been increasing steadily between 10 and 15 percent.

Alberto: But why are the castings increasing because the number of foundries is decreasing and the guys are fighting for work, aren't they?

Detlev: Well, you see, but that's what it's not, it's, it's, it's input costs because your, your, your scrap prices, (Alberto: Purely energy.) your scrap's being exported, scrap's being imported, so the input material costs aren't, aren't coming down, (Alberto: Okay.) energy is just sky rocketing, you know, and you've got labour so labour, labour's sky rocketing as well so all, all 3 their input costs are sky rocketing and that's why they closing because they, they going out of business. Guys can't ...

Alberto: So they either have to push up the price or they close, one of the two.

Detlev: Ja, that's it, you, you try keep it, those guys will try keep the price if they folding, you know, because that's where China is, you see, because I, I also consistently, I could have bought castings from China at a reduced cost but I know what happens in China, they'll, they'll, you get the business and then you will go 3 or 4 containers down the line they will subcontract to another foundry (Alberto: Ja.) and then you've got a container of, of, of parts that arrive, and that's what I said getting back to the, maintaining the quality. Um, I could, I've, I've, I could have gone for short, short-term [Word not clear.] now, (Alberto: Mmm.) the only reason the Chinese have got their pricing is because it's subsidised. You see, if it's a subsidised price you know it's going, it's, it's not going to last forever. (Alberto: Mmm.) So you now you stop supporting your local foundries, you go to China, then the price goes up, what do you do? Now you run around locally, you try and find a foundry and they say, no, no, sorry for you, we, you know, we can't handle it, (Alberto: Ja.) or then you go, because what I found as well is if you, if you go to a supplier and they've been supplying consistently it's a lot more difficult for them because they can only go for the average increase and then it really starts hurting. If you go in, generally you will find that it's 20 or 30 percent more expensive if you come in with a new component because the guys know they under price pressure. I do that, (Alberto: Ja.) if I go for a new price, I will go for a higher price (Alberto: Ja.) because from then onwards you just going to be under price pressure, (Alberto: Mmm.) you know, so it's quite, um, it's quite a difficult, that's why I said engineering, you know, I did a, (Alberto: Mmm.) well, I did a, I did a marketing/half a BCom after engineering because I realised, you know, the finance guys are running circles around me.

(Alberto and Detlev laugh.)

Alberto: Ja, that's a problem. (Detlev: Mmm.) I was actually telling my dad the other day that they don't teach the engineers enough of the non-engineering stuff.

Detlev: Look, I, I, I hear you and I agree with you but it's the same with my daughters and I said to them (Slight pause.) finance and all that you can learn after varsity, (Alberto: Ja.) you don't really have to go to varsity, you don't have to be a CA, (Alberto: Ja.) but I know, I know, it's all, it's, it's, uh, it's something that you just have to learn, it's not, you don't have, engineering's understanding (Alberto: Ja.) the rest is learning, you've just got to sit and law you learn the law, (Alberto: Mmm.) Company's Act, you've just got to sit down and there's nothing to understand, (Alberto: Mmm.) either you do or you don't. (Alberto: Ja. (Alberto laughs.)) Accounting's simple, either you pay tax or you don't, so there's nothing to understand, engineering is understanding. Sure, equipping you to deal with stuff, it's, it's not easy for you once, and you've, and at varsity you learn how to learn.

Alberto: Ja. Ja, so then it's ...

Detlev: Especially in engineering.

Alberto: Ja, but I think the, the people, the people factor is something that they didn't give us enough exposure on.

Detlev: Massive, massive, (Alberto: Ja.) massive, massive, ja.

Alberto: Because and, I mean, the majority of engineers go into a management position (Detlev: Mmm.) and now you trying to manage people and engineers don't do managing of people very well. (Alberto laughs.)

Detlev: Very well. Well, you know, we used to joke when I, when I worked at Denel, when I worked there, is they take the best engineer and make him a manager (Alberto: Ja.) which is disastrous. (Alberto: Ja, no. (Alberto laughs.)) You should take the best manager who's invariably not a good engineer. (Detlev laughs.)

Alberto: Exactly, exactly! Leave the guys to their strengths, (Detlev: Mmm.) ja. (Detlev: Mmm.) Um, information that's passed between you and your customers, if you can just say yes or no. Um, scrap levels?

(Slight pause.)

Detlev: Yes.

Alberto: Rework levels?

Detlev: Yes, we ISO listed so we, you got to report that anyway.

Alberto: Okay, all right. (Detlev: Ja.) Process repeatability?

Detlev: Yes.

Alberto: Supplier quality issues?

Detlev: Yes.

Alberto: Continuous improvement initiatives?

Detlev: Yes.

Alberto: Cost of your material?

Detlev: Yes.

Alberto: I suppose to justify the price increase.

Detlev: Yes, ja, you know, (Alberto: Ja.) I send them invoices. I said no, I will send the invoice, I said, there's the [A few words are not clear.], there's the invoice, price increase. I'm not absorbing it, hey, you know, you can't, you know, that's what, you know?

Alberto: Ja. In business to make money. (Detlev: Mmm.) Overheads?

Detlev: Uh, not, not really because it's a grey area.

Alberto: Ja. (Detlev: Ja.)

Um, subcontract ...

Detlev: The, the reason I say that is because, you know, what is your, what is your Capix worth? The machine might be paid off but it's, it's, it's still, you know, it's still worth, you know, X amount per hour which is an overhead. (Alberto: Ja.) So if you calculate, if you, you can take a 5 year pay off period or a 3 year pay off period, I've got machines that are 10 years old so after 5 years they paid for, (Alberto: Yes.) so I could, in theory, reduce my overhead by doing that but then is it it's, does the machine pay for itself or does the next machine pay for that 1 (Alberto: Yes.) and that whole, that, that's how you, so, I can ...

Alberto: You can't negotiate that with the customer that's why ...

Detlev: Well, that's it, it's, it's, (Alberto: Ja.) it's a business decision that you make, (Alberto: Ja.) you know, you can take your view on that, you know? I've got a m, I've got a machine that's paid for, do I run it at cost and make money or do I let it stand? (Alberto: Ja, run it, obviously.) You know, that's why overhead's not, not really (Alberto: Ja.) or you can, you can explain it to them but they wouldn't understand what you do either, you know?

Alberto: Subcontract costs?

Detlev: Yes.

Alberto: Um, factory cost rates?

Detlev: Sorry?

Alberto: Factory cost rates.

Detlev: What, what are you referring to?

Alberto: So, I suppose it's actually very similar to overheads, it would be your time on the machine, um, no, it would actually be the same as ...

Detlev: No, not really. Our, our cycle times I don't (Alberto: Ja.) because that's, sort of that's a skill, that's our expertise.

Alberto: Okay. Transportation costs?

Detlev: Ja, to some extent, that's not a major part, ja.

Alberto: Okay. The order receipt process?

Detlev: As in?

Alberto: Do they know, do they know, they send you a purchase order, it must go to this person and then that happen ...

Detlev: Oh yes, ja. But that's, that's all part of ISO.

Alberto: Yes. Ja, quite a few guys that we've interviewed are not ISO (Detlev: Ja.) so (Detlev: Ja, ja.) we've, um, ...

Detlev: Well, we coherent to ISO for more than 25 years.

Alberto: Shoh, ja. Um, capacity planning?

Detlev: No. Well, to some extent we do, you know, but, but on a short-term, you know, you need ...

Alberto: You need to make a plan basically.

Detlev: Ja, ja.

Alberto: Okay. Shipment process?

Detlev: Yes, ja.

Alberto: Lean manufacturing initiatives?

Detlev: No.

Alberto: Uh, inventory management?

Detlev: Mmm, yes.

Alberto: Other suppliers?

Detlev: Yes.

(Slight pause.)

Alberto: Potential ...

Detlev: As in other suppliers you asking?

Alberto: As in people who can do the same line of business. If you've, if you've run out of capacity for example, (Detlev: Mmm. Yes, ja.) would you then recommend somebody else.

Detlev: Yes, ja, we do do that.

Alberto: Potential contracts?

Detlev: In terms of?

Alberto: So if, if Joy comes to you and Denel comes to you at the same time and you tell them, I've just taken 1 from ...

Detlev: Oh no, no, no, yes, we do. [A few words are not clear.] (Alberto: Ja.) Often you tell them that listen, either get in first because I'm, because it often happens you quote on 4 jobs, 4 things and suddenly they all come at the same time, (Alberto: Yes, ja.) And you say, no, no, no, it's 30 days, delivery's, the price is valid but not delivery, you know?

Alberto: And then your stock levels?

Detlev: Yes, ja.

(Slight pause.)

Alberto: All right. Would you like to know who your customer's customer is?

(Slight pause.)

Detlev: It doesn't really add that much value.

Alberto: Okay. Uh, further to the above, if the size of the order was conveyed to you do you think ...

Detlev: Because to some extent we dealing (Alberto: Ja.) with the end user anyway, you know, the mine is the end user (Alberto: Yes, ja.) so, you know, I don't care who he's selling his platinum to. (Alberto and Detlev laugh.) He always gets a high price for it.

Alberto: (Alberto laughs.) So he can pay the bills. (Detlev: Mmm.) Um, further to the above, if the size of the order was conveyed to you, do you think that it would assist in freeing up cash flow by allowing you to decrease stock holding and increase your lean time to manufacture?

Detlev: Yes, ja.

Alberto: Okay. Further to that, would you foresee the visibility as a possibility to earn a return in the form of higher turnover by decreasing your stock levels?

Detlev: Ja. Also, but also, you know, it's quite interesting a lot of, they teach a lot of that in terms of releasing stock (Alberto: Mmm.) but I, I actually keep it fairly, I keep quite a lot of stock and, and it's, but it's a, it's not just a case of keeping stock, if you understand the markets and the flexibilities because of, (Alberto: Mmm.) like my pump, I'll, if I've got a quiet period I'll, I'll manufacture a lot of components on the pump and then when we busy I've got stock. (Alberto: Yes.) Um, when I say I keep a lot of stock, my stock turns are on the pumps I've got 8 or 9, so it is a high stock turn. (Alberto: Okay, ja.) But a lot of, lot of parts we smooth out the demand on their side because invariably it happens that they need 1 arm and it's urgent (Alberto: Ja.) and you've lost, and the best example that I give when I, I, I was running, um, Calbeco, Doldensmit, and they supply pistons to the motor industry, (Alberto: Okay.) now I always made sure that as we delivered the 1 month's stock that the next month's was already into store at the beginning of the month.

Alberto: So it's like a can band system (Detlev: Ja.) where you just replenishing [The rest is not clear.].

Detlev: Ja, not just in time but a month. (Alberto: Yes, ja.) And, and the 1 time the truck down to PE rolled and the whole months' stock was destroyed.

Alberto: So at least you could supply ...

Detlev: And they phoned in a panic and they said, we've lost all our month's stock. What, what can you do, what can you do, what can you do? And fortunately we just had other stuff going into stores. Now calculate their plant stopping for 2 weeks, the cost of that, you know, and just in time, and I said, this is Africa, it's not, even in Europe it doesn't work. (Alberto laughs.) If you look at Toyota when 1 of their hydraulics, I think about, many years ago, I think in Japan the Toyota plant stood still for 2 or 3 weeks, (Alberto: Mmm.) it's just that whole gains that they going through, but, you see, the motor industry has also got, sometimes there you have to because it's more on volumes and it's the volumes are so huge you can't, you then, you can't really keep stock (Alberto: Yes, ja.) because in, in, in, in a lot of areas especially high, the, you see, what I do, I, I, my view is my labour and overheads is not a variable cost, so fixed cost, labour, (Alberto: Mmm, mmm.) fixed cost. So I look at the value of the material, so the, the cost, the accountants look at stock holding (Alberto: Mmm.) as what the value of the part is and not the material therein. I, I look at it and say, my true cost of holding the stock is the material value. (Alberto: Ja.) I mean, I, I quoted Denel today and I've guaranteed, guaranteed prices for 2018.

(Pause.)

Alberto: That's brave!

Detlev: No, it's not because, (Alberto laughs.) no, I've got all my capital equipment, okay, I've quoted and I'm buying all the s, I'm buying all the material now.

(Slight pause.)

Alberto: Okay.

Detlev: I'm earning 5 percent in the bank. (Alberto: Okay.) I've got cash [A few words are not clear.] in the bank, (Alberto: Ja.) so if I buy the material now it's costing me, I'm getting 5 percent, so I've escalated the material price by 5 percent.

Alberto: But there must be a minimum take off clause in that ...

Detlev: Oh, no, no, it's going to be guaranteed. (Alberto: Okay, all right.) They, I've, I've told them, they told exactly that. (Alberto: Okay.) They've told me they want X amount until 2018 (Alberto: Okay.) and they want, and I said they wanted an in, a decrease, and I said, then you better place the order for the full amount. You can't come in and say sorry, the last 20 we don't want because the only way I can do that is I could buy the material now and guarantee you a 5 percent increase (Alberto: Ja.) because that's what my money costs me and interest rates aren't going to fluctuate massively over the next couple of years. (Alberto: No.) Labour's fixed already, we know it's 10 percent for the next 2 years so there's, there's no variation.

Alberto: Oh, that makes sense. I thought you were buying material for something that you don't know what the quantities are [The rest is not clear.].

Detlev: No, no, but even that it's, it's there, (Alberto: Ja.) and everybody thinks, how can you quote, and that's, it's very simple because a lot of people don't, accountants get involved and say, no, you know, keep stock low, keep stock low. And you think buying material for 3 years, they go ballistic. (Alberto: Ja.) You can't do that. But now I, are you going to take the risk of material prices going sky rocketing or are you guaranteeing the price, (Alberto: Ja.) and I'm getting the order because I'm, I'm guaranteeing my price for 3 years and it's, and I'm escalating it by more than 5 percent, I'm giving a 10 percent escalation.

Alberto: And that's guaranteed revenue for the next (Detlev: Ja, ja.) 3 years. (Detlev: Ja.) (Slight pause.) But with all the stock holding, do you not have a theft problem?

Detlev: Ja, uh, yes and no, it's not, it's a bar, if you've got a X amount kilo bar, they not going to get away with it. (Alberto: Okay.) You know, it's, it's, it's small, small pieces, you know, it's, it's, the risk is there but then we've got like, what we'll do is finish those components, they not, they not big components (Alberto: Mmhmm.) and we'll put them in store, (Alberto: Okay.) you know, the biggest problem is aluminium and things like that, (Alberto: Ja, the light stuff.) the, the coppers and all that and the brasses, ja.

(Pause.)

Alberto: Do your 3 biggest customers receive beneficial pricing or credit terms?

Detlev: Yes.

(Slight pause.)

Alberto: If 1 of your 3 biggest, well, you've answered this 1 already, if 1 of your 3 biggest customers finds itself needing urgent attention or help in the form of a faster delivery or payment terms ...

Detlev: No, absolutely, you know, you [The rest is not clear.].

Alberto: And would that be based on your relationship?

Detlev: Yes, ja.

Alberto: Okay. Further to the above, if it was proven that such an act would help sustain a supply chain and actually benefit your overall position in the market, would you change your mind? (Detlev: As in?) If you, if you gave them better terms, (Detlev: Ja.) payment terms, and you see that now it starts to grow, would you keep it there?

Detlev: Oh yes, ja, ja, ja. The same as break downs those, the guys who break down they remember you forever (Alberto: Mmm.) especially the production guys, (Alberto: Mmm.) you know, if you all for them they know that you, you the go-to guys and it makes a huge difference in terms of, of, of, you see, to some extent the production guys determine the other pressures that do that but they will say, no, no, no (Alberto: Ja.) or they burn their fingers and then when they come to you then, then you say, well, this is, this is the, this is the break down price, (Alberto: Mmm.) you can't come to me when you, when you haven't given me the normal product now.

Alberto: Mmm. Um, in terms of your flexibility, does this happen to other customers that are SMEs or do you supply any SMEs?

Detlev: Not really., no

(Slight pause.)

Alberto: And does the flexibility put any sort of strain on your organisation through loss of margins? Not really because you said you tell them the, the break down price anyway or just ...

Detlev: Ja, well not, or it depends, sometime you can't do that, you know, (Alberto: Okay.) when I say they must have break downs sometimes, but, you see, the problem is if it's, you got a fixed price on a component, (Alberto: Mmm.) if suddenly they need something urgently, I, then you can quote them, if you quoting for a job then but they will come to you with a fixed price for a part, um, but what I some, what you generally do is then you say, well, if you speak to your colleague because I'm making that for your, for you, you decide, you get them to prioritise what they want first. (Alberto: Okay.) So I've committed to a delivery date on that part, if you want that now you go to your, your colleague (Alberto: Mmm.) tell him he's getting his part late, you know, you 2 decide which 1's more urgent, but they often squeeze it out [A few words are not clear.] chase deliveries (Alberto: Yes, ja.) and then they've got to decide what they want first. (Alberto: Ja.) And I said, look, you know, you booked up so I'm taking that off the machine for you. Are you prepared to do that? That's fine. So you don't, so you don't, don't get penalised for late delivery on the other part.

Alberto: Mmm. Is there a formalised system with dedicated resources for collecting information from the customers that compiles it into something useable? If you, do you deal directly with the customers or is there someone ...

Detlev: Ja. What we do is, yes, there is a formalised but again it's, it's based on ISO, you know, we do a customer feedback, (Alberto: Okay.) you've got to do customer feedback. (Alberto: All right.) That's why I like, but a lot of people think it's paperwork [A few words are not clear.] ISO, but it works for you if you use it properly.

Alberto: Well, that's the thing, if you use it properly.

Detlev: Ja, if you don't think it's a paperwork process then it's not. It's really, it does make a huge difference.

Alberto: Ja. Would you describe your relationship with your 3 biggest customers as opaque, translucent or transparent?

Detlev: Transparent.

(Pause.)

Alberto: In your view is there a level of collaboration between you and your 3 biggest customers as it stands now?

Detlev: Oh yes, ja.

(Pause.)

Alberto: All right. Um, ...

Detlev: When you, you say collaboration as in?

Alberto: As in you work together with them, you knot ...

Detlev: Well, I mean, like there the guy came back and said can you, can you, can you make a keener price, (Alberto: Mmm.) you know, it's not okay, I will give it to the cheapest guy, he's come back and said, you know, it's not in our budget, can you, can you get a better price? And that's a perfect example of that.

Alberto: And what you said earlier about sending an e-mail to 50 people asking to quote, you know that that's going to be an arm's length transaction (Detlev: Absolutely, ja.) you don't want to deal with. (Detlev: Ja.) Um, do you have fluctuations in demand, in production? Yes, (Detlev: Mmm.) it's not standard production rates.

Detlev: Um, not, not that much but we do.

Alberto: You try to standardise.

Detlev: Ja, production rates, ja. (Alberto: Okay.) Ja.

Alberto: What, sorry, so in terms of quantities of a component, will you run 10 at a time or will you ...

Detlev: We will run minimum batches even if, (Alberto: Minimum batches.) ja. (Alberto: Okay.) That's why I keep stock, I know the customer will buy it. The only thing they know that I tell them is that they mustn't come with an engineering change (Alberto: Ja.) because then you got, then you got egg on your face, hey.

Alberto: (Alberto laughs.) Do you feel that knowing your customer's customer will help smoothing demand? You said no (Detlev: Mmm.) to that already. Are you transparent with your customers in terms of your supplier's ability to supply you?

(Slight pause.)

Detlev: Yes, generally yes.

Alberto: Okay.

Detlev: Yes.

Alberto: Um, do you, are you aware of the concept of visibility in the supply chain? As in, the concept of visibility, the ability to see up and down the supply chain, sharing information about supply chain, strategy and operations between supply chain partners?

Detlev: It adds value, it does, I mean, again if you, if you go to a supplier you telling the supplier why you need it, it's not, I'm late, you know, this has happened and they understand why it is that they prepared to, you know, to go the extra mile if they understand that it's, that it's something that's happened or, you know rather just say that it's urgent and if they understand why it's urgent then you'll still, they'll, they'll, they'll go the extra mile to get it done to you.

Alberto: So then that answers the question (Detlev: Mmm.) about, um, there's obviously some level of collaboration (Detlev: Mmm.) currently within your supply chain.

Detlev: Mmm.

Alberto: Okay.

(Slight pause.) That's it.

Detlev: Okay.

Alberto: Do you mind if we take a quick walk through the shop?

Detlev: No, no, absolutely. I was going to say that.