

4 August 2020

Dear Valued Member,

Relaxation of costly regulatory compliance requirements to stimulate business growth

Excessive red tape and unrealistic compliance costs in an over regulated business environment are stifling sustainability and growth in many business sectors, particularly in the retail automotive sector.

Jakkie Olivier, Chief Executive Officer of the Retail Motor Industry Organisation (RMI), representing almost 8 000 businesses in the automotive aftermarket sector, believes that with so much pressure on the commercial sector right now to remain financially viable and to preserve jobs, it is time attention started to be focused on the regulatory factors which employers are struggling with.

Olivier says late last year RMI commissioned IQ Business, the largest independent management consulting firm in South Africa, to conduct research into the Cost of Compliance and its impact on commercial sustainability in the retail motor industry. The report found that the 3rd biggest risk for businesses in 2020 was in fact changes in legislation and regulation.

Olivier says there is no doubt that businesses operating under the current severe Covid-19 circumstances are far more likely to be even worse off and threatened by compliance costs. "Many of our business owners find themselves worried about the cost of compliance on commercial sustainability. Even before lockdown, 23% of business owners overall had considered closing their business on account of compliance costs. A recent poll puts this percentage closer to 30% at the end of June," he says.

Smaller businesses, categorised with a turnover of less than R30 million, will most likely be the hardest hit when it comes to compliance. Olivier cites a member businesses in the body repair sector by way of example. A business with turnover under R30 million is calculated to show a NP margin of 14% when not compliant and only 5% when compliant. "This phenomenon will inevitably serve as a barrier to non-compliant SMMEs that are considering becoming compliant. It begs the question if there is therefore not scope for the compliance obligation to be relaxed somewhat for businesses?" questions Olivier.

He says no one could have predicted the catastrophic impact a pandemic of this magnitude would have on the industry and notes that even the RMI's larger employers are finding themselves under extreme pressure.

There is little debate that regulatory considerations for business owners in the retail motor industry space are multi-faceted, complex and ever-evolving. Prescribed wages, irrespective of the poor state of the economy and forced business optimisation measures are resulting in unacceptably high

business closures and job losses. Depending on the size of the business, wages and wage related costs do make up a substantial portion of operating expenses.

Across the automotive sector there exists an almost consistent view that labour-related matters are over-regulated with many business owners expressing the view that the highly regulated dispensation disproportionately negatively impacts on their ability to survive financially. “Lockdown has exacerbated this problem. Given the financial stress businesses are experiencing one almost has to question if it is better to employ two people at a lower rate than only one person at the stipulated rate? It is a question that we feel can only be ignored for a very limited time and I am sure we are not the only industry feeling this pressure,” says Olivier.

Olivier says one only has to consider the very high unemployment statistics in SA, (and still growing daily in the automotive retail industry) to appreciate on the one hand the desperate need for employable persons to find work under these extreme circumstances and on the other, the challenges employers are facing. The Government’s financial relief package of R350 for the needy, and the very long queues of people to access this financial support initiative, is testimony to the fact that most of the unemployed would in all probability be willing to work at a more competitive wage. This could ease the financial burden on financially distressed employers and contribute to the creation of value, security and jobs.

“If jobs are to be retained, we have to find a way to reduce the cost for the employer and this goes much broader than just the wage debate only. Government’s plan to introduce projects which provide employment is commendable, but what is the point of creating on one hand when you are simply losing on the other,” concludes Olivier.

