

SMEs can survive construction costs spike by focusing on government work

By  Roelof van den Berg

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Skyrocketing construction and operational costs in South Africa are making it incredibly difficult for small and medium-sized construction businesses to survive, let alone thrive.



Roelof van den Berg, CEO of the Gap Infrastructure Corporation. Source: Supplied

Notably, the latest [Construction Materials Price Indices report](#) released by Statistics South Africa reveals that total construction material costs had risen by 9.1% year-on-year in February – well above inflation. This can be attributed to noteworthy increases in the costs of concrete, metal roofing, electrical reticulation, and other important construction components.

Combined with the financial impacts of load shedding, these rising costs are placing extreme pressure on small and medium-sized enterprises (SMEs) in the sector, with a significant knock-on effect on the country's economic growth.

For SMEs, the rising costs of material, alongside the already high costs of labour and power, make it exceptionally challenging to remain competitive and profitable, and risks seeing a decline in the number of businesses operating in this sector.

However, diligent cost management and public-private partnerships (PPPs) can play a crucial role in helping SMEs cope with these high prices while attaining the South African government's lofty infrastructure goals in 2023.



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Combatting rising prices by lowering other input costs

There are a few simple ways companies can combat high prices and reduce costs, such as implementing efficient procurement processes. For example, to reduce material costs, SMEs can seek to negotiate better deals with suppliers or consider bulk-buying materials.

Likewise, leveraging the power of technology, such as project management software and building information modelling (BIM) systems, can help SMEs to better manage their resources and reduce expensive surveyance costs.

Modularisation can also help to reduce construction costs. Constructing components off-site and assembling them on-site where possible can minimise waste and time spent on-site while improving safety standards, as more of the construction work is completed in a controlled environment.

Public sector's role in strengthening SMEs

Another way to help SMEs improve their efficiency and resiliency against rising construction costs and other issues is by leveraging the immense power of public-private partnerships (PPPs). The relationship between government and the private sector is critical for infrastructure development, as highlighted by Public Works and Infrastructure Minister Sihle Zikalala.

Speaking at an [investment conference](#), Zikalala emphasised the importance of PPPs. “We are in discussion with the National Treasury with regard to the issue of private sector accessing funding,” he said. “We need to explore other avenues with the private sector in as far as financing is concerned.”

Streamlining and simplifying the application process for government tenders for infrastructure development projects would be a good start. Currently, the process is relatively complex and new entrants – especially small construction businesses – do not yet possess the skills and knowledge to successfully apply for a tender. Simplifying the process could help more SMEs gain access to lucrative state contracts.



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Government needs to speed up its payment processes

Additionally, government needs to improve and speed up its payment processes. It often takes multiple months for government to pay contractors for services rendered. Larger companies have the financial resources to wait out this period, but for SMEs, being forced to wait this long to pay their debtors and employees could be detrimental.

SMEs can benefit from PPPs in other ways too. For instance, they can tap into the knowledge and expertise of their private sector partners, which can help them improve their operations and productivity. Additionally, PPPs can create more jobs in the SME sector by giving smaller companies the opportunity to take on larger projects, and assisting them in building and training their workforce.

PPPs are critical to the stability and ongoing success of South Africa's SME market, with a unique opportunity to help them access additional funding and new business – a critical role in challenging times for the industry.

ABOUT ROELOF VAN DEN BERG

Roelof van den Berg is CEO of the Gap Infrastructure Corporation.

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