AMEU Convention 2018

Paper Title: A call for operational efficiencies…

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Food for Thought!
Mr. Phakamani Hadebe, then Interim Chief Executive of Eskom said “Eskom’s technical performance is excellent: however its financial performance is a serious concern”

The paper was put together in order to:

1. Demonstrate this phenomenon;
2. Determine what causes this phenomenon – High TP vs Low FP;
3. Determine what needs to be done to avoid this situation.

• **Operational efficiency** is defined as the capability of an enterprise to deliver products or services to its customers in the most cost effective manner possible while still ensuring high quality of its products, services and support.

• It calls for a balancing act between technical and financial performances of a firm for the benefit of both the firm and its customers.
Key concepts

**Technical performance** – two customer-based indices that are used in the Distribution MV space are:

- **SAIFI** – System Average Interruptions Frequency Index – 10 of 1000 customers;
- **SAIDI** – System Average Interruptions Duration Index – 10 hours of 1000 customers;
- A good technical performance requires that these indices must reduce!!

**Financial performance** – the four categories of ratios

- **Liquidity Ratios** – firm’s ability to meet its maturing financial obligations;
- **Activity Ratios** – how well the firm manages inventory;
- **Debt Ratios** – relative amounts of funds supplied by equity and debt;
- **Profitability Ratios** – firms efficiency in generating profit.
Key Concepts (cont’d)

- **Profitability** - Melissa Horton defines Profitability as “a measurement of efficiency – and ultimately the measurement of success or failure of a firm”;

  - The Operating Profit Margin (OPM) measures the percentage of each sale remaining after all costs and expenses other than taxes and interests are deducted – a 10% OPM implies that for every one rand of sale, the business earned 10c profit (after all costs and expenses deducted);

- **Energy Losses** – these are defined as the difference between energy purchased and the energy billed to customers. The international benchmark is for total losses (technical plus non-technical) not exceeding 12% of the energy purchased.
Suppose one owns a fleet of five taxis to (1) generally ferry commuters and (2) ferry learners to and from school during term (special trips).

- A good **Technical performance** of the taxis will be for them to remain on road as far as possible (driver-hours) and in a good operational condition;

- The **Cost of Operations** of the taxis will comprise the combined cost (1) of fuel, (2) periodical service and (3) of breakdowns;

- **Revenue** per taxi will be the combined income received from (1) the adhoc trips and (2) the transportation of learners;

- The Operating Profit, from where the **Operating Profit Margin (OPM)** is derived, is the difference between the Revenue and the Cost of Operations.

- **Overcapitalization** – e.g. allocating a 22-seater taxi to transport 10 learners in a year. Or implementing too many gadgets. Or purchasing unnecessarily too expensive fleet.

- **Operational efficiency** will be a balancing act between the drive-hours vs the OPM. This can be tracked per taxi per month/year.
  
  - A high TP but Low FP could mean that the drivers are keeping the taxis on the road with very low occupancy or there is theft. **Problem**: This is not sustainable for the business.
  
  - A high FP but Low TP could mean that the taxis are not reliable either break on the road, do not pitch on time and thus getting commuters late to their destinations. **Problem**: It will be a matter of time commuters will desert this business.

- Admittedly not all taxis will be profitable every week, month, year and **thus cross subsidization** but this approach will ensure that both Head Office and especially the driver are aware of the trend.
In order to investigate the phenomenon of technical performance vs financial performance, two case studies were analyzed known as Feeder A and Feeder B;

- **Feeder A** – 22 kV, 22 km line comprising 4511 (mainly residential) customers;
- **Feeder B** – 22kV, 99km line comprising 5886 mainly residential customers

- The analyses looked at data for five years in respect of the:
  - **Revenue** = Sales;
  - **Cost of Operations** = Operating expenditure which comprises both costs of preventative and breakdown maintenance excluding Overtime Costs;
  - **Technical performance** – SAIFI and SAIDI
The Case Studies – Feeder A

1. Consistently poor financial performance – except for 2015;
2. Consistently improving technical performance
3. **Class**: High technical performance but poor Financial Performance
1. 1\textsuperscript{st} half good financial performance and 2\textsuperscript{nd} half poorer financial performance
2. Consistently poor technical performance
3. **Class:** Poor technical performance but “High” Financial Performance
The Matrix

Feeder B
Bad for Customers

Feeder Ideal;
Win - Win

Feeder A
Bad for the Business

Financial Performance

Technical Performance
Conclusions and recommendations

- The authors understand that the utility business is not as simplistic, however the learnings from these case studies are aimed at fostering a holistic business mindset at all levels of the business – *the driver of the taxi must be aware and understand*;

- In all businesses, there are good and poor performing units (*cross-subsidisation*), however the culture must be created that all workers across the spectrum share a thinking that supports the sustainability of the business while delighting the customer;

- Many utilities have developed project justification models for new assets, the authors recommend that financial prudence must be ushered into the refurbishment and or maintenance spaces;

- Operational efficiencies is the responsibility of ALL in the business, from the *Cleaner / Taxi Driver* to the Chairman of the Board.
It is a balancing act

Network Performance – for the customer!

Financial Performance – business sustainability!
Thank you

Questions are guaranteed in life; Answers aren't.