Create a business that is not just leaner, it’s more competitive too.
South African property development company, Calgro M3 Holdings Ltd, specialises in low cost, mixed use residential developments. Catering predominantly for low-income groups, one might think that Calgro is necessarily restricted to low profit margins. Yet, by employing a cost management strategy that runs through the whole business, the company’s profits have increased every year since 2011 and its share price has gone up by 4900% since June 2010, making it the best performing stock on the Johannesburg Stock Exchange. Here, Calgro’s group financial manager, Kevin Eidelman, shares some of the secrets of the company’s cost management success.

Cost strategy

Cost management at Calgro is mainly driven from the top, however we need the buy-in of all our stakeholders to effectively implement it. We also encourage our staff to find ways of managing costs in their sphere of influence.

Embrace change

In business there can be factors beyond your control that impact hugely on your finances. This requires an honest assessment of your strengths, a can-do outlook and agility to make the necessary changes. Calgro is an excellent example of this – seven years ago, 80% of its portfolio was in premium housing stock, and only 20% was low cost housing. When the economy changed, the company was quick to identify the increased potential in the lower income market. Today this accounts for 80% of our work and premium housing a maximum of 20%.

At a glance

<table>
<thead>
<tr>
<th>Company</th>
<th>Calgro M3 Holdings Ltd</th>
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<tbody>
<tr>
<td>Current role</td>
<td>Group Financial Manager</td>
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<tr>
<td>Industry</td>
<td>Property development</td>
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<td>Market</td>
<td>South Africa</td>
</tr>
<tr>
<td>Turnover</td>
<td>R 932 Million</td>
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<tr>
<td>Employees</td>
<td>101 permanent, 125 Wage and 125 in-house agents</td>
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<tr>
<td>Website</td>
<td>calgrom3.com</td>
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</tbody>
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After getting my Bachelor of Commerce Honours degree in Financial Management from the University of Johannesburg, I was employed as a CIMA intern to the financial controller at a property management company. I was responsible for cash book management and budget preparation, liaising with internal and external auditors and preparing and interpreting financial reports for 93 properties. As I gained more experience, I worked in the company’s commercial property management team, they managed residential rental units department and sectional title support services. Along the way, I volunteered for some time with the CIMA Branch Committee in the Gauteng region.

I joined Calgro M3 Holdings Limited in January 2014, starting out as financial controller. I became the group financial manager in August 2015. As such, I am fortunate enough to see the full Calgro value chain in action, allowing me and my team to provide the most relevant information at the appropriate time to all relevant parties, which in turn allows the relevant decision makers to make the best informed decision.
Keeping it in-house

At Calgro, we retain as much control of our business as we can by maintaining what is effectively an in-house supply chain. By employing land developers, town planners, architects and quantity surveyors, we cut out the 30-40% margin that outsourcing these roles would incur; we have 280 in-house sales agents who work on a 5% commission, rather than the usual 6-10% margin that an external agent would charge; we have a construction capability and cost out projects using our own builders to compare to quotes from a subcontractor; we manage all marketing ourselves, with our marketing team working closely with our finance team to decide what expenditure is to be made and how this impacts on other areas of the business.

However, we are prudent in recognising when it is worth spending the extra to outsource. For example, we are not infrastructure specialists so we will appoint an outside service provider to manage this element of a project rather than spending the capital and time to do it ourselves.

Knowing the value in your costs

We all know the saying ‘watch the pennies and the pounds will take care of themselves’, suggesting that micro-managing small expenditure paves the way for profits. But I believe that being penny wise can in fact mean being pound foolish. It’s crucial to see the bigger picture of your business costs.

It’s critical to correctly understand the value chain in your business. When you know where value is created, you can invest your resources in those areas with confidence. In climates where it does become necessary to economise, assess the impact of each cost on your business. For example, in tough times many businesses are inclined to cut investment in staff development for a quick fix. Our view is that this is a crucial and worthwhile expense. Our staff are our company – if they don’t have the most up to date knowledge and skills to enable them to deliver cutting edge solutions, we devalue ourselves.

Sell before you spend

Something that makes us unique as well as decreasing our risk is that we don’t start construction on a house until we know we have sold it and that a bank guarantee is in place for the sale. In doing so, we eliminate the risk of investing large sums of capital into a project that cannot be recouped in a timely manner. This also allows us to decrease the working capital on our books as there are no stock that we have to carry for months on end. This is particularly important on large projects, like Fleurhof in Gauteng, where we are building over 10,000 homes.

Work with what you have

Even when an asset doesn’t meet the usual quality standards required for your core business, there can be an opportunity to generate income. Calgro owns land parcels that are not suitable for residential development. With some creative thinking, we launched a new venture complementary to our core business, developing private memorial parks. Within 6 months of the initial plan taking shape, we had completed a feasibility study, obtained the necessary approvals from our board and the local council and opened the first memorial park in Nasrec, Gauteng. We have since entered into a partnership with Holland Insurance to provide affordable funeral cover, including the right to burial in one of our parks.

It’s not what you do, it’s the way that you do it

Where cost cutting is unavoidable it must be done in a planned and controlled way, not least of all to maintain the morale of the company. As management, we strive to make informed decisions, communicate with affected staff about what the changes will mean for them and put in place effective handover processes to smooth the transition. We did this recently when working on a project in Cape Town. Due to factors beyond our control, it became necessary to outsource construction to a local builder and lay off around 100 employees. We involved different parties in the decision making process, including the leaders of the local townships and communities from which the workers came and the Building Industry Bargaining Council, explaining to them that without such changes the project was at risk of closing altogether.

We entered into wage negotiations with the sub-contractor and secured their agreement to keep on 60-70% of the construction team and set out a handover procedure that would minimise disruption to the project. Although some lay-offs were necessary, we endeavoured to handle the situation in an open and collaborative way.