

Franchise businesses should invest in solar power

Since 2007, Eskom tariffs surged 653%-five times that of inflation. Load shedding is set to double in the next five years and franchise businesses must act fast to counter these threats for survival.



Source: www.unsplash.com

This was the overriding message shared by Karl Götte, chief operating officer of Infinity Brands, at the latest Franchise Executive Forum, hosted by Nedbank in partnership with Franchise Coaches.

Unpredictable

“From January to May 2023, South Africa experienced as many kilowatt-hours of load shedding as the whole of 2022,” says Götte. ‘The trouble is that it is unpredictable in terms of stages, so businesses are unable to plan and have no choice but to find an alternative solution.’”

While many companies are relying on generators to provide that alternative solution, Götte points out that these are noisy, very expensive to run and damaging to the environment. ‘A 100 kVA generator, for example, uses approximately R500 worth of fuel per hour. If you need to power your business through six hours of load shedding per day, that’s costing you R3,000 per day, which equates to R1m a year. That’s not taking the cost of buying or maintaining the generator into account. This is a substantial expense to add to your bottom line and is simply not sustainable.

“At Infinity Brands we believe the only long-term answer is alternative energy, and the most accessible option is solar. South Africa is ideally suited for solar, with plenty of sun and plenty of space. European countries produce more solar than South Africa even though their estimated solar photovoltaic (PV) power generation potential (PVOUT) is much lower than ours – and they don’t have the Eskom issue to “encourage” a move to solar,” he says.

Long term benefits

Although solar is expensive to install, Götte says that its long-term benefits far outweigh the initial capital outlay. Providing an uninterrupted power supply, solar has negligible running and maintenance costs, increases the value of your property, is scalable, and provides earning potential for the owner. It also has a life cycle of about 25 years, compared with the life of a generator, which is around 10 years.

Götte adds that new tax incentives for businesses make installing solar an even more attractive option. "Businesses can now deduct 125% of the value of the solar project in the first year – that is the cost of the project plus an additional 25%. This means that a business with a positive taxable income, which spent R1m on renewable energy, could deduct R1,25m taxable income. At the current

corporate tax rate this deduction could reduce the income tax liability of a company by R337,500 in the first year, effectively making the solar installation a R662,500 investment. This incentive provides a substantial saving and will be granted for new projects that are brought into use between 1 March 2023 and 28 February 2025.'



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Also having spoken at the event, head of sustainability and Climate Resilience Strategy at Nedbank Commercial Banking Mark Boshoff said that BusinessTech had reported that 800 businesses in South Africa had closed their doors this year as a direct result of load shedding, and that investing in alternative energy goes beyond simply mitigating against unreliable power and escalating energy costs helps to ensure climate resilience for your business. 'Climate resilience is now a major focus area for businesses, with a business's carbon footprint now being part of its social governance requirements and becoming incorporated into accounting practices.'

Climate change

Another consideration is that businesses cannot operate in isolation and cannot succeed in a society that is not thriving. 'Riots are caused by environmental issues, with communities demonstrating because they have no water, and with droughts expected in much of the country this summer, food security could also become an issue.

Young people are also more concerned than older generations about climate change and environmental risks, and millennials and Generation X are becoming an increasingly influential demographic. So, pressure is mounting on businesses to do the right thing, while also providing a potential new client base. Done right, efforts to build resilience will help businesses avoid economic losses, ensure business continuity and yield positive economic and wider social and environmental benefits,' says Boshoff.

Götte advises that businesses wanting to apply for renewable energy finance should shop around for suppliers, equipment and solutions as they would when buying any large asset: "Research different technologies, pricing, guarantees and post-sales maintenance. Obtain quotes that provide a proper needs analysis and a detailed comparison report between current electricity cost and possible savings. Linking this with finance options from a reputable financial institution can result in a win-win for all and at times even result in a net positive cash flow depending on the specific installation and finance specifications."

When applying for finance, Boshoff says that the specifications, invoices, agreements or contracts supplied by the installer

should accompany company financial records and electricity bills to facilitate the application.

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