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***Small business supplier development in retail, how to get it right?***

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# Executive summary

South Africa is experiencing a challenge with unemployment which is currently at 25% and one of the main contributors is the poor support and opportunity afforded to entrepreneurs and specifically the Small Medium Enterprises (SME’s). Some of the challenges that these SME’s face include, Access to finance, barriers to entry into retail, Red tape and bureaucracy.

According to our estimates, if we can find a solution to simplify accessing buyers in major retail outlets; train and develop the soft skills and technical knowhow of SME’s; and support SME’s through ease of accessing funds, we would improve the South African economy by creating jobs and reducing unemployment.

Proposal

During our literature review and research, we engaged with many stakeholders in the industry including retailers, government, educational institutions, small business, and the Consumer Goods Council of South Africa (CGCSA) who are very instrumental in the solution we will be proposing.

Step one will be to create a portal that will be hosted and managed by the CGCSA. This portal will allow small business access to the market, a better understanding of the administrative and legislative requirements, skills development and a seamless process to access funding. The next step will be to drive awareness of the campaign and the benefit that the retail businesses will realise through the amended set of BBBEE codes. These benefits will drive added training for the SME’s and encourage the retailer to purchase more products from locally manufactured suppliers. Step three will be to work with CGCSA and government to drive awareness through a Made in South Africa campaign and encourage the support of locally manufactured goods. Government can drive the change in behaviour by considering an incentive for retailers who stock these locally manufactured goods.

To address the above problem we propose the following:

* Purchase and install a pilot system that will allow us to test the new system without any risk on current retail, supplier or government operation.
* Arrange a forum to be held at Gordon Institute of Business Science (GIBS), this forum will present the findings and proposal to industry, drive awareness and allow for input and debate on the proposal.
* Present a final implementation plan to the industry at the 2016 CGCSA conference.
* Once implemented, the Enterprise Development (ED) ministry will need to engage with small business and retailers to drive the required behaviour.

Risk

Once the SME has a product and makes the retailer aware of the product, encouraging retailers to meaningfully engage with small business and local manufacturers and more importantly, encourage retailers to procure and support small business will be the biggest challenge. The risk lies in the amount of work required to ensure the supplier is ready to trade and not much of the buyers time is spent on each supplier getting to a certain standard (legislatively, administratively, quality, etc). This vetting process will be controlled centrally by CGCSA to mitigate this risk.

If the supplier’s product does not do well in retail as customers are just not responding, it is important that, the buyers job is made as painless as possible and the problem is resolved speedily by the supplier and the support stakeholders. In order to mitigate this risk, product failure must not be responsibility of the retailer and supplier alone.

# Introduction

This assignment reviews the theories and research on Small Business Supplier development in Retail and suggests a proposal on how to get it right. We therefore look into the previous research conducted on the aforementioned subject and related fields, available case studies as well as posing key questions to retailers, SME's, and industry leaders on the topic. Our research will culminate in a framework that will give clear direction on how to get small business supplier development right in retail.

The interrelation between retail business and suppliers precludes a discussion of either in isolation; supposed that there won’t be a fully functioning retail business without a reliable sustainable supplier base. In fact it is becoming ever important for retail business to partner with small business suppliers in South Africa in order to stimulate economic growth and employment. It is therefore crucial that retail business, takes it in its stride not only to procure goods from established suppliers, but to get involved in developing small business suppliers who can in turn add value, create employment and sustainable business.

* 1. What is small business development/Enterprise and Supplier Development (ESD)

“Enterprise and Supplier Development (“ESD”) is not a South African concept, but rather a global movement that has proven its ability to stimulate economies, diversify supply chains and create jobs. The spirit of Enterprise Development is embodied in the growing of small and medium sized businesses through the provision of finance and support. This support can help these businesses overcome obstacles, and increase their competitiveness in the market, with the end result being job creation and poverty alleviation.

Supplier Development is a global term, but as per the B-BBEE Codes, Supplier Development in South Africa is defined as Enterprise Development that happens specifically in the supply chain of the Measured Entity. The Measured Entity has the ability to substantially increase the revenue stream to the ED beneficiary through the provision of new or extended contracts. As such, Supplier Development is regarded by many ED practitioners as the ‘sweet spot’ of Enterprise Development, as it has the potential to alleviate one of the most critical constraints faced by small business – market access. As guaranteed contracts are often a key requirement for funding, being part of a Supplier Development Program often unlocks funding opportunities for the beneficiaries.

The Enterprise and Supplier Development (ESD) component of broad-based black economic empowerment (B-BBEE) has been brought into sharper focus with the Department of Trade and Industry (DTI), Revised Codes of Good Practice. While it is still intended to drive the transfer of skills and resources from large companies to smaller black-run companies, the emphasis will now shift to black owned suppliers. The Department of Trade & Industry's (the dti) Codes of Good Practice rate a company on a mix of monetary and non-financial support of both small Black owned suppliers (2% of Net Profit After Tax for 10 points) or emerging black owned businesses (1% of Net Profit After Tax for 5 points). Spending the equivalent of 3% of Net Profit after Tax gets a company 15 of the 105 points on the scorecard.
Further motivation for companies to assist the development of new and further develop their existing black owned suppliers is found in the preferential procurement section of the ESD scorecard. Here there is a target of 40% of total measured procurement spend on black owned suppliers - worth nine points!
ESD is also a priority element, in this case meaning that failure to meet the minimum requirements of this element will result in a one level drop in the measured company's overall BEE recognition.

* 1. What is Entrepreneurial Acumen

According to Rommin Adl (BTS 2015, p2), he describes business acumen as “*an almost intuitive and applicable understanding of how Your Company makes money*.” It also plays in the way business is managed or geared for growth and value creation.

# Objective

The objective of this assignment is to understand how to get small business development right in retail, in the assignment we look into the following factors including a **Local market analysis** with reference to case studies and interviews to better understand what has been done right and where we can work to improve. We will also review the literature on a **China case study** to better dissect the international Market best practice. Through our interviews and observation of Local and international examples, we will produce a **Gap analysis** that will inform our understanding of the current best practise. We will also follow a similar process with the **major retailers** who are currently investing in enterprise development. Once a view is formed on the challenges and successes between Small business and Retailer, the collaborative industry body being **CGCSA** will assist us in unpacking the feasibility of their organisation being the conduit for this supplier development process. CGCSA will also help to create awareness of the drive from industry and help increase the small businesses pool of suppliers in South Africa.

# Research Questionnaire we aim to Answer:

The following questions are integral and anticipated in addressing our topic and in understanding the current status quo with regards to small business supplier development from a retailer and small business perspective:

* Is there a benchmark on how the South African Retail manages small business development?
* Is small business development part of the retail business strategic goals?
* What is the role of government in enforcing BBBEE Codes and promoting small business?
* What opportunities can be explored in addressing this area?
* How ready is South African retail in partnering with small supplier business (especially the top retailers in the country)?
* Funding Model used and conditions attached?
* Availability of information for new start ups?
* What size is my business supposed to be in order to be considered for supplier Development in terms of turnover and number of employees?
* What will the payment terms be e.g. 7 days, 30 days or 60 days.
* Which small businesses are considered for supplier development, existing business or start-ups?
* What is the short and long term plan and requirements?
* What are the shortfalls with regards to Retail involvement in developing small businesses?
* How’s the programme evaluated during the period?
* Is there exclusivity in the way the process runs, i.e. am I allowed to deal with other retailers?
* What assistance is given to boost the small business supplier performance?
* What is the funding model and how is it payable?
* Is the performance of the small business supplier linked to the company score card?
* Is the programme at large part of the company strategy/vision and reviewed at board level?
* Who is responsible for running the programme in the organisation and what are her/his kpi’s.
* What are the key deliverables of the programme?

Based on these questions there are firm recommendations that must be implementable, achievable, must be practical, and adaptable. In fact the objective is not only to answer these questions but to make a difference and tangible mark by improving and broadening the participation of small business base, creating employment and boosting economy. We must be clear about the term **creating employment**; Defining of the term job creation in relation with developing or giving an opportunity to a supplier that is already in operation, this initiative must create new jobs that were not there before.

# **Business Case Deliverables**

The final deliverables of the project take a form of a case study whereby we will take a “certain small supplier” through a pilot process to test the concept using our learnings based on the recommendations and have a practical proof of concept, this to affirm the case study in order to “sell” this project to the key stakeholders. The case will include an approximate 40 page structured business case incorporating an executive summary, an introduction to the problem with a brief history, best in class, an explanation of the importance of the problem to the industry, it will cover all the objectives and scope of the project by highlighting the challenges, whilst providing proposed solutions, this together with the outline of the research methodology and research outcome will be presented at the CGCSA Annual Conference in October 2016. The uniqueness of this case study is that it will be implemented and tracked from inception to fruition. Members of this ALP team have committed to volunteer their time to this process and post implementation to ensure the proposal is successfully implemented.

# Project Scope

Our scope will focus primarily on major retailers who are currently part of the Consumer Goods Council of South Africa, this will make the process of gathering information easier as these companies work together under one organisation, with an objective to drive collaboration and derive value on non-competitive areas of business. Once the initiative is launched the other retailers will be in a better position to tap into the resource available via the CGCSA. The project will focus on local retailers simply because of the unique challenge of unemployment in South Africa, which is different from the rest of the world. We will look into some of the success stories of small supplier development as well as the failures. This will include stakeholders such as DTI, CGCSA, IDC, Seda and the Small Business Ministry.

# Assumptions/Limitations and exclusions:

While research will be based on major retailers that contribute towards the CGCSA namely: Pick ‘n Pay, Shoprite, Massmart, Spar, JD Group and Woolworths, it will be limited to global best practice implementations, due to the complex and unique environment faced by South Africa – specifically taking into consideration the BBBEE Laws, unemployment rate, changes in the current South African market in terms of Government Policy, Technological changes that are dependent on SA infrastructure and systems, legal limitations, and economic conditions. The training of the small supplier development won’t form part of the scope but will be merely form part of the recommendations, based on the outcome.

# Project team

The formation of this small yet dynamite team and coordination is as follows:

|  |
| --- |
| Thulani Masina Chair/Team Builder/ Finisher/Communicator Blue/Red |
| Shelton Timm Ideas Person / Finisher/implementer Blue/Red/Yellow |
| Zoleka Nhlapho Shaper/Facilitator/Contact Person Blue/Red |
| Prinolan Shunmugan Team builder/Critic/Coach Yellow/Green |

# Research Methodology

The research method being used for this study is Interview and observation (mainly with the supplier base). The sample size of the retailers will be seven major retailers; we will also interview and observe 1 small business supplier who will undergo the pilot, we will also visit a factory of a local small business to see their operation first hand and understand their challenges. We will review the literature available on suppliers that have gone through a supplier development programme best in class and also look at the least successful small suppliers. In total we will cover a sample size of approximately eighteen; using Notes, Photographic material, video recordings and this material will form part of the data gathering process. We chose this type of methodology due to the nature of the study and for the intended purpose. We need a one on one discussion with the parties as well as physical observation, as we are using structured questions, unstructured questions and evidence.

# 9.1 **Pilot and Case Study**

We are working with Karishma, who is an engineer turned business women. She, together with her business partner, manufactures a product which they intend selling into the beverages industry. Her product is not listed in any retailer currently, but has sold her product to an independent business in Eastern Cape, who is exporting their product to Zambia. She has sold 10 pallets to this independent business, but she has no idea as to how well the product sold at the final destination.

We will be working closely with Karishma to understand how she has managed the initial business relationships with the national retailers and what challenges were experienced to finally obtain a place on the shelves at major retailers. Currently Shoprite is busy with the on boarding process; our aim is to work closely with her through the entire process until she’s at a point where her products are on sale and she is able to approach the next retailer/expand the products to the next region.

# RESEARCH PLAN



# Flight Plan



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# Current Retail Practice (As Is)

12.1 The contribution of the Retail Sector to the GDP of the country.

According to Statistics S.A 2013 report the retail sector is the 4thlargest contributing sector towards South Africa’s GDP.The highest contributing sector is Finance and Services contributing 21.5%, Manufacturing sector contributing 15.2%, Government sector with 13.7% and Retail and Wholesale contributing 12.5%. The survey conducted showed that general dealers, other retailers and retailers in textiles, clothing, and footwear and leather goods are the major contributors to the increase in retail trade sales for the year 2013.Amongst the retailing sector we will be looking at the foods industry which is dominated by the following major groups namely:

* Massmart
* Shoprite
* Pick ‘n Pay
* Spar Group
* JD Group
* Woolworths

Source: Statistics SA



Looking at the contribution of the retail sector to GDP in relation to small business supplier development, we have investigated the processes followed by each of the top 6 food retailers in South Africa in dealing with the small business development. We have selected to do our investigations on food industry based on the fact that most of our food products are locally produced and only a small percentage is made out of imports. The government requires all retailers to contribute or use 3% of their profit after tax in developing small business suppliers. There is evidence that the top retailers are involved in small business development based on the interviews that were conducted however there is no information that is readily available that deals with supplier development in retail except for one to get from the retailer upon asking.

Also there is no benchmark to measure on how each retailer uses the 3% allocated for small business supplier development. Each retailer is following their own processes when selecting small businesses which will be supplying to their own stores. As we have determined from the interviews conducted that the recruitment criteria and requirements differ from retailer to retailer based on their individual requirements. Each process is unique to its retailer and once a small business supplier has been taken in on a development programme that SMME cannot go and supply another retailer. The reporting structure on the progress of small business development is also not consistent; it differs from each retailer to the other. Some retailers report on a divisional level e.g. The Spar group whilst others report on a board level e.g.Woolworths, Massmart, Pick ‘n Pay the progress made thus far.

As it is the case at the moment it is difficult for a small business to get into the supplier development programmes as the small business have to undergo a rigorous selection criterion (these includes product selection, vetting of the company in terms of compliance, financial viability to name but a few), to see if they meet the required standards of that particular retailer. After a small business is selected they then no longer are in a position to supply the opposition. This is not conducive to the growth of the small business as their products will only be available in one retailer which promotes competitiveness amongst retailers and compels customers to visit that retail if they are looking for that particular product. Each retailer develops a small business to supply to their chain stores.

The fact that there are small businesses which do not make it to the development programmes of a retailer for not meeting the required standard is a problem. Enterprise and Supplier development programmes should also be able to assist a small business in order to reach the required standard in order to get a listing in that retailer. According to Handfield and Krause et al (2000, p33), “believe that the best way to view supplier development is a long term business strategy that is the basis for an integrated supply chain within the business.” The current process involved for small business suppliers in order to be selected for the programme depends on:

* Category Strategy based on the need of the organisation or the buyer
* Scale of value based on the company needs
* Opportunity presented based on the need of the service or product
* Cost, complexity and duration of value attainment
* Risk analysis

Most retailers require small business to have had a business running before they partake on the programme which means for start-ups it’s difficult to penetrate the market, also retailers prefer to deal with suppliers that understands the trading terms (pricing models, rebates etc..) supplier must have listed the product and aligned to safety standards with a barcode. Performance management is part of the agreement both the retailer and supplier enter into when the deal is signed and gets evaluated on an ongoing basis (the KPI’s differ from the various retailers). The retailers usually support the suppliers financially, and in terms of training (technical and business related training).

# Government Intervention

**DTI Summary of B-BBEE scorecard measures to increase Supplier and Enterprise development initiatives with Big Business**

The is no doubt that government is trying all angles to address the issue of inclusive business and work with BIG business in addressing the enterprise development and supplier development agenda through the new BBBEE codes introduced recently this year and are in force effective May 2015. The main goal of these codes is to promote Enterprise Development beneficiaries to a Supplier Development level. There is even a bonus point available on the ESD scorecard for promoting one or more Enterprise Development beneficiary to a Supplier Development level. Therefore the new codes sets out the ground rules and basis to achieve the following development objectives.

* Supplier Development and Enterprise Development
* Industrialisation
* Localisation
* Job Creation
* Skills Development

The key principle of the code is that companies must assist in enterprise development by way of contributing 3% of their bottom line profit towards enterprise development which include skill development and infrastructure assistance.

There is no governing policy for Retailers to comply currently except for being discounted by 1 if all codes are not adhered to. Number one prize would be to get Government to legislate in order to force compliance in assisting Small Businesses.

Enterprise development is recognised as small business but not yet fully developed from a capacity point of view. Enterprise is defined as per the DTI “as up and coming Supplier but not yet fully developed”. Only after Enterprise has been developed will they be recognised as supplier and then fall under the Supplier category. Currently the B-BBEE scorecard is looking at developing small business with Black owners. This report that we are working with and our topic is not based on B-BBEE. However the codes forces business to develop small suppliers through the use of the B-BBEE hence the correlation of the extent of our Topic of “Small Business Supplier Development in Retail and how to get it right?” as we are looking at a broader view of getting recommendation’s out on this topic. Furthermore there are other interventions that our government has initiated to bolster small business development and start-ups. The promotion of entrepreneurship and small business remains an important priority of the South African Government. In March 1995, the Government released a White Paper on National Strategy for the Development and Promotion of Small business in South Africa, in which an elaborate policy and strategy framework on small business development was delineated. (www.dti.gov.za/sme\_development/docs/strategy.pdf).Below are some of the Government initiatives in assisting small businesses.

i. SEDA

“Small Enterprise Development Agency (Seda) is an agency of the South African Department of Trade and Industry (DTI). It is mandated to implement government’s small business strategy; design and implement a standard and common national delivery network for small enterprise development; and integrate government-funded small enterprise support agencies across all tiers of government. Seda’s mission is to develop, support and promote small enterprises throughout the country, ensuring their growth and sustainability in co–ordination and partnership with various role players, including global partners, who make international best practices available to local entrepreneurs (Seda 2010).” Seda supports the growth of small business. People can go to Seda for help to start a business or, if they already have a business, to make it stronger and more profitable this project in particular is aimed at assisting the design and development of the “Supplier Development Programme” which is focused on linking buyers with sellers.

ii. The DTI incentive schemes.

 One section of the Department of Trade and Industry (DTI) incentive schemes deals with the small, Micro- and Medium-sized Enterprises (SMME) development incentives which promotes black business supplier development.

Some of The DTI incentives dealing with supplier development include the following programmes:

* Black business supplier development programme (BBSDP) which is a cost-sharing grant offered to small black-owned enterprises to assist them to improve their competitiveness and sustainability in order to become part of the mainstream economy and create employment. It provides a grants to a maximum of R1 000 000 (R800 000 maximum for tools, machinery and equipment and R200 000 maximum for eligible enterprises to improve their corporate governance, management, marketing, productivity and use of modern technology.
* The Co-operative Incentive Scheme (CIS) which is a 90:10 matching cash grant for registered primary co-operatives (a primary co-operative consists of five or more members who are historically disadvantaged individuals).The CIS is an incentive for co-operative enterprises in the emerging economy to acquire competitive business development services, and the maximum grant that can be offered to one co-operative entity under the scheme is R350 000.The programme assist co-operatives with their start up requirements, improve the viability and competitiveness of co-operative enterprises by lowering the cost of doing business; Build an initial asset base for emerging co-operatives to enable them to leverage other support and provide an incentive that supports broad-based black economic empowerment.

Incubation Support Programme (ISP) which is a grant to develop incubators into successful enterprises with the potential to revitalise communities and strengthen local and national economies. The ISP encourages partnerships in which big business assists SMMEs with skills transfer, enterprise development, supplier development and marketing opportunities. (The DTI Incentive Schemes brochure version 3.indd 44).

iii. Umsobomvu Youth Fund.

 This is a South African government initiative which was setup in 2001, which aims to assist Youth Entrepreneurs with the setup of businesses, promoting entrepreneurship, job creation, skills development and skills transfer among South Africans between the ages of 18 and 35.

This Youth Fund assist the youth through the following programmes:

* The Franchise Fund which helps the youth to start and maintain their businesses. Through loans and a voucher system, it helps young people to access business support.
* Entrepreneurship Education and Training: This training is aimed at helping young people understand the concepts and principles of entrepreneurship and business.
* Entrepreneurship Education Training: This training is aimed at helping young people understand the concepts and principles of entrepreneurship and business.
* Graduate Development Training: This is a training programme for unemployed graduates to enhance their life and professional skills.
* Business Consulting Services Voucher: These are services designed to help youth set up, expand or develop their businesses.

iv. Clothing and Textile Competitiveness Improvement Programme (CTCIP)

This is a grant designed for the clothing and textile manufacturing industry. It is directed at the international market for quality and affordable clothing. This grant is aimed at individual companies or clusters (a group of manufacturing companies).The programme cost-sharing grant ratio entails that investment is given to RSA ordinary clusters in the ratio of incentives given of 75:25. The grant cannot be used for machinery, equipment, commercial vehicles, land or buildings. The grant is capped at R25 million over the period of the programme implementation. (gaaaccounting.com/government-funds-available-to-smes-in-south-africa)

v. Bavumile

The object of this grant is to empower South African women in the arts and crafts sector. This fund is to ensure the quality production of commercially viable products by women with the relevant skills.

Isivande Women’s Fund

This fund is managed by the DTI. Its purpose is to promote the economic empowerment of women. The grant is allocated to a company owned and managed by women (60%) which has existed for two years. The loan is from R30 000 up to R2 million.( gaaaccounting.com/government-funds-available-to-smes-in-south-africa)

vi. The National Empowerment Fund (NEF)

The National Empowerment Fund (NEF) is established by the National Empowerment Fund Act, 1998 (Act No. 105 of 1998). The NEF is a driver and thought leader in promoting and facilitating black economic participation by providing financial and non-financial support to black empowered businesses, and promoting a culture of savings and investment among black people. The NEF provides business loans from R250 000 to R75 million across all industry sectors, for start-ups, expansion and equity acquisition purposes.

The NEF is an agency of the dti mandated to grow black economic participation. Accordingly, its funding mandate is directed by the Codes of Good Practice on Broad-Based Black Economic Empowerment, as well as by the Industrial Policy Action Plan. The NEF provides business loans from R250 000 to R75 million across a range of sectors, for start-up, expansion and equity acquisition purposes. A key requirement for NEF funding is for the investees to be directly involved in the operations of their businesses.

( National Empowerment Fund Trust (established by Act 105 of 1998) IT: 10145/00. [www.nefcorp.co.za](http://www.nefcorp.co.za))

vii. SEFA Funding

SEFA provides direct funding to businesses in the form of loans between R50 and R3 million in three main ways: Directly to business owners, via retail finance intermediaries, and through banks using credit guarantee schemes such as Khula.

Types of direct funding include:

* Bridging loans which is used to finance day to day expanses e.g. stock purchases etc
* Term loans – loan of a specific amount with a specified repayment schedule, amount and fixed interest which is used to finance assets e.g. furniture
* Structured finance-Which can be repaid over a five year term. Provided through a debt facility and tailored to the unique requirements of the project.

# Best in Class

The most popular economic sector in which small to medium sized enterprises operate is the business & finance services sector. Many business processes are outsourced to smaller companies, creating an opportunity for many SMMEs. The next most popular economic sector for SMMEs is the tourism sector- South Africa is a major tourist attraction and, as such, provides many business opportunities for SMMEs. Retail, exports and Transport are the least popular economic sectors for SMMEs as these sectors can be capital intensive and hard to access at an entry level.



Some of the challenges as outlined in the SEDA FEM Research for SMMEs working with large corporate, the findings were quite strongly weighted towards late payment/Cash flow issues / lack of capacity and resources (**Finance**) - we unpack this and the best in class below. **Red tape** was also a problem to navigate; we researched a best in class and found that in the Western Cape there is a provincial hotline for small businesses which helps them with red-tape related issues and information regarding small business start-ups. Whilst this example is specifically related to the government process, we were able to unpack this and utilise the fundamental concept to extrapolate some value for best in class. **Market penetration** and the difficulties of accessing retail was also a challenge for entrepreneurs. Clearly the retail sector as it can ascertain from the graph that it might be the fourth largest GDP contributing sector in South Africa, the fact that it is the least contribution industry when it comes to the role it plays on developing small supplier is a challenge that our topic needs to unpack and provide recommendation.

**What makes SA Tourism great in developing Small Businesses?**

According to SEFA and BUA news, the Tourism Enterprise Partnership (TEP) offers hands-on, step-by-step support, guidance and assistance to South Africa’s small and medium tourism businesses, facilitating their growth, development and sustainability to become internationally competitive.

The history and background:

The Tourism Enterprise Programme was initially launched by the Business Trust in July 2000 as a four year job creation programme in the tourism industry. Following good performance, it was extended and expanded with additional funding from the Business Trust and Department of Environmental Affairs and Tourism (DEAT) until March 2008.Since its inception the programme had been a limited duration project managed by an independent consulting agency. However, due to its success, it was decided to institutionalise the programme, thus ensuring the sustainability of support to enterprise development in the Tourism industry.The Tourism Enterprise Partnership officially took over management as a Section 21 Company on 1 April 2008.

**Funding Model:**

The organisation continues to be funded by the Business Trust, the South African Government through the National Department of Tourism (NDT), and by corporate South African organisations interested in creating a legacy of change and growth in the tourism economy in a constructive and focused manner.

**Objectives**

* Job Creation - to improve the performance and increase the profitability of tourism small business, resulting in the maintenance of existing jobs and the creation of new jobs.
* Transformation- to increase the participation of black tourism enterprises in the tourism industry, focusing on skills development, procurement, enterprise development and preparation for ownership.
* Sustainability - to stimulate innovative, demand driven small tourism business product development, coupled with the development of small business growth strategies for long-term viability.

Training and Enteprise development is the backbone of the tourism industry thus propelling every member to under go all the necessary compulsory skill development training in fullfilling the growth and development of small tourism business. Training courses offered include the following:

a. Tourism Awareness Programme

TEP’s Tourism Awareness Programme is a half day workshop for individuals who have recently opened, or plan to open a small tourism business. The aim of the programme is clarify the tourism sector and evoke passion for the industry. It provides information on:

• What the tourism sector is about

• The type of businesses that form part of the tourism sector

• Important factors to consider when starting a tourism business

• The type of people and entrepreneurs who will thrive in the industry

b. Putting the Customer First

Putting the Customer First is a day-long programme focusing on customer service. The content is based on a UK standard (Putting the Customer First) which is used to assist organisations to set standards and improve service levels.

The material is designed to help the business become a customer orientated organisation and help implement standard guidelines within the organisation. Such guidelines assist in increasing financial turnover, improving service delivery and staff etiquette, attracting new customers, providing a competitive advantage and gaining customer loyalty.It ensures that South African organisations keep themselves aligned with international markets and help to amplify tourist experiences within South Africa.

In conclusion the SA Tourism has a robust training, financing and awareness (central communication) programmes in place and enforced, which makes the industry a force to be reckoned with and no surprise they have a success full record when it comes to small business development.

SEDA FEM Research for SMMEs working with large corporate:



**Finance best in class**

*Business Partners launches $30 million African SME Fund to drive business development across continent (09 July 2014)*

Business Partners International (BPI), supports the growth of viable small and medium businesses (SMEs) in sub-Saharan Africa, has raised $30 million for its Business Partners Southern Africa SME Fund. This fund will provide risk finance to local entrepreneurs and SMEs in Malawi, Namibia and Zambia. It was launched to meet the growing demand for access to finance and technical assistance (mentorship) from small businesses in high growth economies on the continent.

$10 million has been allocated to finance SMEs in selected countries. The Business Partners Southern Africa SME Fund will replicate the South African Business Partners Limited investment model which, for the past 33 years, has specialised in investing capital, skills and knowledge in entrepreneurs. “Access to finance remains an issue for many SMEs due to local financial institutions’ reluctance to take on additional risk, and the limitation placed on businesses applying for finance due to the level of securitisation required. In response to the growing need for risk capital and quality technical assistance in Africa, BPI has a specific mandate to operate exclusively in the SME space and to invest both capital and knowledge in the entrepreneur and business, as we have done here in South Africa for more than 33 years,” says Martin. Some of Business Partners evidence of success in South Africa is the investment of $7 million into the solar business through small business initiatives, these sustainable energy systems are being installed in RDP houses using small business.

SME finance, innovation and financial risk taking are more common outside the banking sector. Only once technology has been proven do banks enter this market segment. This does not necessarily indicate weaknesses in the banking system, but does reflect, in some ways, the particular role that banks play in a modern economy.

**International best practices to promote business angels**

According to the angels resource institute, tax and other incentives were created in the UK, because it was usually very difficult for companies to raise venture capital for amounts of less than £500 000. The typical investment amount by any one individual is £50 000. The average amount raised by individual companies in this way, however, is around £265 000. The reason for this apparent contradiction is that, often, a group of individuals will come together to provide £50 000 each to a company wishing to raise sums in excess of this amount. The individuals may or may not know one another. Several co-ordinating agencies in the market effectively act as brokers. In effect, a borrower will approach a broker with a request for, say, £300 000. Similarly, individual investors will approach the broker to offer amounts of, say, £50 000. The broker will assemble the package.

Business angels in the UK obtain tax incentives from the Government through the ‘Enterprise Investment Scheme’ (EIS). The EIS is appropriate for individuals (and trustees of certain trusts) who wish to invest in higher risk small companies. An investor can benefit from capital gains tax relief by investing sequentially in unquoted companies.

**The situation in South Africa**

Compared to other developing countries, South Africa has the advantage of having a number of ‘high net worth individuals’, some of them with the potential of acting as business angels. This gives business angels a true responsibility to make up for the scarce savings available to financial institutions, and therefore fill a gap. In practice, it is reported that a number of business angels have invested in small companies on an ad hoc basis, and a few platforms have been created, in the form of NGOs or private companies, to advertise investment opportunities among them (in Cape Town, Omegamatch, Matchmakers or Promethium). In spite of these initiatives, very little information is available about the number of active business angels, the amount and nature of their investments and the functioning of their networks.

*http://www.treasury.gov.za/publications/other/Access%20to%20Finance%20in%20South%20Africa%20-%20A%20Supply-Side%20Regulatory%20Review.pdf*

**The Red Tape to Red Carpet Programme** is an initiative offered by the Department of Economic Development and Tourism. The programme assists small businesses who struggle with the time consuming, costly and complex red tape procedures related to procurement and supply chain management issues in government and corporate sectors. These processes can hinder the growth and success of SMMEs and as such the programme also serves to pinpoint areas of difficulty for small business start ups and optimize regulatory processes so as to create a better, more accessible and understandable environment for the small business start ups and thus reduce the red tape processes. “Existing and prospective small business owners can contact the Call Centre for assistance with the following:

* Advice on starting a small business.
* Advice on growing an existing business.
* Bureaucratic delays with government agencies and departments and municipalities affecting small businesses, eg business registration, EIA/HIA applications, business permits and licences and zoning applications.
* Immigration matters related to starting a business in South Africa

Entrepreneurs should have the opportunity to turn their ideas into a business. Often the first step is to formally register a company. Yet in many countries the bureaucratic obstacles and high costs imposed by inefficient company registries deter people with good business ideas from embarking on the path of formal entrepreneurship. In retail, there are many areas that create unnecessary difficulty for SMMEs, some of these areas includes difficulty in making appointments with the relevant buyers, not knowing the exact requirements for listing product and services, terms and conditions of trade, database registrations process to name but a few. Having a central department that manages the challenges and assist the SMMEs through the process, will certainly improve the process and ensure an efficient program, saving the SME time and cost. Once the administrative process has been completed, getting the product from supplier to retailers shelf and into a customer’s trolley is another process in itself. What has been great from the South African retailers is the times sacrificed to hand hold the SME to ensure their product is a success. These examples are highlighted ahead for Woolies and Massmart as the best in class.

(“Red Tape to Red Carpet Strategy 2011 – 2015” of the Western Cape Department of Economic Development and Tourism, 2011).

https://www.westerncape.gov.za/redtapereduction/content/what-red-tape

Seda research document (source)



This graph analyses the responses generated through the interviews with big business via the SEDA research first draft. They all agreed that Seda should simplify the way they fund business as this prove to be a bottleneck and as a result more business fail to acquire capital due to stringent rules, the second most popular feedback is that of market penetration or barrier to entry which is a challenge for small business, also a point to Note the majority (more than 80%) of business interviewed were from the private sector with the bulk of these companies have a national foot print. We have asked similar questions to the companies that we interviewed so as to gather understanding on what SMMEs need in order to ensure success.

The major issue continues to be cash flow and this can be addressed through various options, such as early payment terms, SME loans, finance through a bank and company standing as surety, easing the supplier into the business so they do not exceed their production capacity and outlay too much money on raw materials. Business sustainability which is often defined as the triple bottom line which is referred to profit, social and environment impact is also a challenge and a clear succession plan needs to be in place within the supplier’s organisation to ensure business continuity this also deals with issues of growth and expansion. Quality of the product is also a key challenge and SME’s need to work with regulatory bodies and the customer to ensure they are aligned to the legislative requirements and learning from the best in class. The above results were extracted from the SEDA FEM research draft report.

**Retailer best in class**

Locally Woolies has done a great job informing the potential suppliers of their program and the process involved to derive benefit. Becoming a Woolworths supplier and being considered for the retail giant’s enterprise development programme is not for the faint-hearted, but has massive pay-offs for business owners who persevere.

The retailer’s supplier development initiative is unique in that a business first has to meet its strict product requirements and successfully make it onto the Woolworths’ supplier base – even if it is on very small scale – before it can be considered for the programme.

This ensures that entrepreneurs with the biggest potential and drive benefit from Woolworths’ support which includes financial assistance, guaranteed business, skills development as well as mentorship and the assistance of experts. This also ensures that the suppliers receive guaranteed business from Woolworths.

“The Woolworths Enterprise Development (ED) programme has been designed primarily to support emerging black-owned organisations in the Woolworths greater supply chain, including primary and secondary suppliers. Based on an individual needs analysis approach, Woolworths is able to assist emerging black-owned suppliers to become truly sustainable businesses,” said Zinzi Mgolodela, Woolworths head of black economic empowerment.

The assistance provided through the programme includes shorter payment terms to boost cash flow. Mgolodela said they would also identify areas that need further development and provide interventions to fill these gaps. Finance is also available through the ED loan fund.

To ensure these businesses are truly sustainable after the programme, Woolworths provide support for a three to five year period. Currently 51 businesses are benefiting from Woolworths support, more than R27 million in loans have been approved and the programme has created business opportunities worth R650-million for these enterprises. The programme has also been a major contributor to job creation with more than 5000 people either employed or supported by these small enterprises.

Mgolodela says the first step to joining the programme was to become a supplier which cost nothing more than a call or e-mail to the buyer group and pitching a proposal. “For example Jacky Goliath of De Fynne Nursery phoned our horticulture department with her proposal.” Before giving the green light to a supplier’s products to be stocked on Woolworths shelves, the supplier must first adhere to very strict product requirements, which differ from one department to another. If Mgolodela and her team see development potential in a business beyond its means, the business then becomes part of the programme.

*How to join Woolworths’ enterprise programme*

*by Yolande Stander on 13 February 2014*

**Another company** that has successfully done this in South Africa is Walmart-owned retailer Massmart. With its supplier development programme, Massmart is using an inclusive business model to “ensure local small, medium and micro enterprises [SMMEs] are given a chance to sustainably supply its businesses like Game, Makro and Builders Warehouse”, supplier development manager Sherry-Lee Singh said.

It does this in two ways. One is to support direct supply of items through an SMME for direct sale to the business. An example in the manufacturing space includes XChem Chemicals, which supplies glue and adhesive products to Builders Warehouse, Singh said.

“The supplier has grown from a regional off-take to a national off-take and is now set up to supply through a distribution centre,” she said. Massmart recognised the talent of Xchem Chemical’s owner and her business’s growth potential “and helped her, through the supplier development programme, to effectively participate in the economy by giving her access to the company’s supply chain”.

The second way it is implementing the inclusive business model is through “indirect supply”. “An SMME, usually a micro business that does not have the ability to supply directly, is linked up with the business through a more-established supplier,” Singh said.

“An example is Pitseng Arts and Crafts, a supplier based in Soweto who manufactures clay pots and lamp shades. Pitseng has been linked – by Massmart – to two more established suppliers of potted plants and lighting equipment. The inputs from Pitseng are further assembled at the factories of the established suppliers who then supply Massmart stores with a finished product.”

The success of this approach can be shown, among other ways, in its numbers. In the past year the company has included 20 manufacturers in its value chain, Singh said, but getting to this point was no easy task.

Retail ready

“The biggest challenge is the time it takes to get suppliers retail ready,” she said. “Retail readiness involves a number of requirements such as factory and product compliance, labelling, marketing and roll-out planning, sales monitoring and in-store merchandising. It can take up to 12 months for a supplier to reach full provincial or full national distribution.”

The company overcame these challenges by putting a strong staff resource focus on targeted SMMEs. “The majority of the staff resources on the supplier development programme are targeted at supporting suppliers to be retail ready.

“Furthermore, the programme assists its SMME suppliers with access to finance, access to compliance support, access to in-store merchandising support for the first year of trading and access to in-store promotions support to ensure there is sufficient brand and product activation with customers so that sales follow.”

Moipone Molotsi, the director of the Centre for Small Business Development at the University of Johannesburg. (Oupa Nkosi)

*Change: The president of the South African Spaza and Tuckshop Association, Rose Nkoni. (Oupa Nkosi)*

*19 Dec 2014 00:00 Victoria John*

Country Policies best in class

South Africa, can learn much from Brazil in the way that it devises it small business policies which are backed by measurable targets set by its planning ministry. Also, South Africa’s planning must centre more on not only targets but a long term vision about what the country wants in terms of how its economic ownership should look, as in the case of Brazil which is already planning for a shift from wage-based employment to a more Entrepreneurial-based system.

There is also a need to simplify the government’s architecture of support for small businesses. South Africa can also learn from Brazil in the way the South American country prioritises the building of partnerships. Brazil has a number of groups that focus on small business policies: the Permanent Forum on Micro Enterprises and Small Businesses, the Working group on clusters and the presidential group on small businesses. All of these contain members drawn from both the private sector and government. South Africa could learn from this to form a national consensus and partnerships offer a plausible way to do this.

*How South Africa can boost support to small businesses: Lessons from Brazil and India 3\_small\_business\_policies\_in\_south\_africa\_india\_and\_brazil\_pg20\_-\_27.pdf*

# **Local and International Immersions**

**Diepsloot immersion:**

Diepsloot is an epitome of a free African trade system, where there is high competition. There are more informal traders, which makes the environment vibrant and alive, which promotes more informal employment. Creativity creates frugal innovation and some of the areas where we witnessed this was at a barber shop where the owner offered a cell phone charge while cutting hair, also the use of solar power in order to operate a tuck shop. This shows zealous, tenacity and passion exists among the people of Diepsloot. However there is a lack of infrastructure as well as low income, which is mainly dependent on social grants and poor education. What is also evident is the lack of technology and IT infrastructure such as wifi and computer centres, which could assist in connecting the local business to a more formalized market and enhance the business acumen and build awareness. Lack of finance is a challenge as we saw many businesses that have great ideas, good foundation and just lack the enterprise development assistance with regards to finance as well as coaching and training. The introduction of incubator systems will serve this community well in the future, as it will enable an improvement in small business development and growth.

We have realized that there’s opportunity and need to boost and improve dedicated market for hawkers in South Africa as Government in Ghana, China and India all have a dedicated market place that promotes the locally manufactured products and this gives small business a great opportunity to showcase their products and services.

**Ghana Immersion:**

Ghana is a Liberal market and traders can have their own pricing system. This price of product and services are mainly based on the conditions under which the products or service are being provided and negotiated. There are many modules of trading in the country with the recent influx of malls, which allows many products ad services to consolidate under one roof. The retail environment is mainly informal (75%) with less than 10 main regional shopping centres. However there are other avenues of trading in areas like an open market / general dealer shops, in front of house business setup, kiosks, road side selling including hawkers. Items sold at these places vary from food, stationery, cosmetics, textile garments, electronics and handcrafts. There is a 3% unemployment rate and no government subsidy and no dependency on the state, such as pension, unemployed and social grants in comparison to RSA.

Programs to regulate the retail sector:

1. Promotion of local and manufactured goods

The ministry of Ghana is promoting the patronage of made in Ghana goods and services, this is a comprehensive plan, which has been developed to enhance manufacturing of goods within the country. In addition to promoting made in Ghana products, the government introduced national Friday, where the people of Ghana wear local textiles. Through this initiative, they now have an annual exhibition where local manufacturing items are displayed and promoted through media and public to participate.

In line with promoting policies within the retail sector and boosting local manufacturing a logo has been developed for companies to place on their products or in shops as a seal of quality, this initiative is to serve as a mark of quality, excellence and boost trade in the retail sector.

1. Web based product gallery

The ministry has an online gallery (www.ghanatrade.gov.gh) where it advertising products of Ghanaian companies, the portal has various products from the industry, including beauty and cosmetics; printing and publishing; cleaning and toiletries; handcraft and gift items, garment and textiles, transport and machinery/general services and a host of others. There are over 750 products listed on the portal. This program is meant to boost online trade, increase sales of the companies and promote export of locally produced product.

1. Trading activities reserved for Ghanaians

The Ghanaian investment promotion centre act 865 provides the following policies for the retail sector in Ghana. No business owned by a non-citizen shall participate in the sale of goods or the provision of services in market, petty trading or hawking / selling of goods in a stall at any place. The operation of taxi/car hire service in a fleet of less than 25 vehicles, operation of beauty salon/barber shop, the retail of finished pharmaceutical products, the production of exercise books and other basic stationery, the production of supply in bottled water. Small business operation in Ghana is protected through this act and ensures employment for the people.

1. The business environment

Ghana currently boasts the CNN young businessman of the year custodian, Tonyi Senayah, who is a shoemaker and owns a factory and retail outlets called horseman shoe. Tonyi started the business after varsity when he went to a local shoe maker looking for a specific type of style to be made, and when his peers saw the shoe, they were very interested and started asking this young entrepreneur to source a similar shoe for them. This sparked the passion and due to financial constrain, Tonyi decided to start small and grow the business organically to a manufacturing plant that now has a national footprint within Ghana. To his credit he even had the honour of having the President of Ghana wear his shoe to the SONA gave Tonyi great exposure. He was also honoured by President Barack Obama and received the Global professional of the Year award.

**India immersion:**

India is home to 1,4 Billion people with a very young and growing population, and a very resounding market. The retail industry is truly practicing global standards with a local focus – this is seen through the way they do their segmentation. Instead of using the traditional LSM measurement, they focus on connecting with the customer and becoming intimate with them through the ethnography research. Furthermore, their focus on the concept of shopping versus the shop which essentially harnesses the customer experience through look, feel, smell and touch. Whilst many companies are worried about the brick and mortar model, India focuses on the customer and making sure they get the sale. India is also using a “lethal” combination of mastering brick of mortar, whilst enhancing and reaching the customer through convenient online and free delivery services.

We were fortunate to meet with the CEO of the family run business (Killer Jeans – www.killerjeans.com) which started small and grew organically over time, and he shared with us the foundation of their small business success, they focused on the 3S’s namely Stability, Sustainability and Scalability. This essentially means that business must have proper structure and foundation, whilst ensuring continuous improvement for growth.

According to Delloite and Touche (realignment and reforms increasing the outreach of Indian industrialization), The MSME (Micro, small medium enterprise) role in shaping the economy of India must not be underestimated, the growth of these small entities are second to agriculture and play a big role in employment. In numbers, the MSME growth since 2007 has been 1,5% of the GDP to 18,6% of the GDP in 2014. This growth is driven through exports and local supply and manufacturing, a drive, which is being termed “Make in India.” (www.deloitte.com/content/dam/delloitte/in/documents/financial-services/in-fs-cii-realignment-noexp.pdf)

We visited one of the largest slums in the world and the largest slum in Asia, which offers very cheap accommodation and is an economic hub of India in terms of small business, contributing $1 Billion to the GDP annually. This environment is self-dependent and thriving, however the conditions under which the people and business operate are not favourable, due to a lack of infrastructure development.

**China immersion:**

China epitomizes the model of a successful economy that is driven through the success of manufacturing and export with a heighten focus, assistance and support from government to grow the economy. This is also recently been enhanced through the drive of small businesses, which has resulted in a campaign that promotes entrepreneurship, which will now be a compulsory course for students at university and is now registering more than 10,000 companies a day and the government has lent 16.2 trillion yuan which is a 14.5% increase from 2014 in an effort to boost small business (according to china daily news http://m.chinadaily.com.cn/en/2015-10/12/content\_22160782.htm).

In addition China has setup incubator centres to boost start-ups this includes measures such as simplifying procedures for license application and registration, also they have reduced the operation cost for companies trading in the incubator centres. To this end, about 30 incubator centres have each fostered more than 1,000 start-ups in the sectors including Ecommerce, pharmaceutical and Internet industries.

In summary the key findings from this immersion were that we saw first-hand what South Africa should be doing, and what we should not be doing. There were some clear alignments to the challenges faced in South Africa, but financial assistance and red tape are a clear challenge in South Africa compared to other developing countries, it is also clear that our own economic challenges need to be boosted through small business and entrepreneurship. The need for training and development to improve business acumen and technical know-how is required for proper business management and compliance. There is a need for a central database that allows product to be showcased and connects small suppliers with big business. Patience is very important, as a small business growth and huge profits take time, based on our learnings, most of the successful entrepreneurs started very small and grew organically over time, and this is another area that we can take as key learning.

# Pilot and Case Study:

Introduction

The Pilot case study is based on a new startup organisation in the beverage industry. The Company: Jordipax (Pty) Ltd though registered in 2013, only began trading in November 2014. Miss Karishma Sewpersad and Mr Ndumiso Madlala at the commencement of trading were the registered shareholders and directors. Both individuals hold a BSc Chemical Engineering qualification, however Karishma’s experience was largely gained through the Mining and Metals Industry, and Ndumiso’s through the Alcoholic Beverage Brewing Industry. Neither had direct experience with Retailers.

The ALP group is grateful to Karishma Sewpersad for allowing us to use their company as a pilot for learnings first hand, the challenges and current conditions facing small business for the purposes of the study. One will see that launching a startup business under the current economic and Supplier/Retail environment is very challenging.

Background

Ndumiso had approached Karishma in October 2014, with a 100% Apple juice recipe he had crafted together with a well-established crafting house. As he lacked the commercial acumen and funding in order to take the recipe from laboratory to commercial production, he invited Karishma to invest capital for a share in the new business. The two decided to combine their respective skills in commercial and technical and in so doing crafted a range of juices under the brand name Fruit Sizzler. Karishma held the title Commercial Director and Ndumiso that of Chief Executive Officer.

Karishma resigned from her corporate role at a leading bank and came in to work at Jordipax on a full time basis. Ndumiso already being involved with Soweto Gold Brewery (a prior investment), split his time between the two. It is important to mention that Karishma as the sole funding investor in Jordipax backed a model provided by Ndumiso at the time of investment.

**Challenges**

Initially capital was spent on the design of the packaging, trays and cans. As a result of Suppliers having Minimum Order Quantities (MoQ’s). Jordipax was forced to purchase in quantities greater than the planned initial run required. This resulted in a depletion of working capital availability.

This would not have been an issue if the projected Sales volumes in the investment model had materialised. However the situation was exacerbated by the difficulty encountered in trying to set up introductory meetings with Buyers from Major retailers. As a result, the time projected for Revenue income became impossible to predict. The strain on the business was almost untenable.

At this point Karishma sought out advice from a colleague in her network base, arranged through Investec Bank. At the meeting attended by both Jordipax partners and the CEO of a major liquor outlet, they were informed that the packaging design, choice of can shape and brand name, put them in direct competition with a major juice producer. Which is probably why it was proving difficult to set up meetings with Buyers as the potential retraction of incentives through carrying a competing product could prove dampening on the Retailer’s margin? It became clear that insufficient market research had been done prior to going live with the first commercial run. This proved to be the most costly decision as it became clear that rebranding and redesigning of new packaging was the only way to go.

The response from major retailers was not positive and included statements such as, “Unfortunately our beverage market is saturated”, “We are interested in the company crafting products on our behalf, as the company seems to have excellent crafting talents; however we are not keen to carry the Apple Sizzler juice as we do not want to carry a competing juice”. Some retailers did not respond at all. A facilitator, which would have arranged a meeting with one of the retailers, would only do so on the back of an upfront cash payment. It appeared like Jordipax just could not catch a break.

It was around this time that the financial pressures began to take its toll. Karishma being the sole funder started to become concerned about the sustainability of the business in light of the new capital call that would be required for any further product launches. Coupled with the fact that she had not received any income since resigning from her last role and joining Jordipax resulted in emotional distress.

After approaching many avenues to raise a working capital facility, it became very clear that only Venture Capital firms would consider it but for a lion’s share of the equity. The Retail Banks would require at least 1 year of trading before an application could be considered. So that avenue was not an option at the time.

Understanding Retailer Trading Terms and the responsibilities of a supplier like Stock, Listing fees, Advertising and Merchandising were all alien terms which had to be accounted for by Jordipax. The lack of experience in the Retail sector showed up when pricing models had to be recalculated in order to account for this.

Arranging a VAT registration number through SARS proved to be quite a daunting, time consuming process. The application had to be made twice, to two different jurisdictions due to the Applying Company and the Production Facility not being the same. Jordipax was to utilise the services of a third party packer which resulted in the confusion. Six months later, after many visits to the SARS offices, Jordipax was awarded a VAT registration number. This was very important as no Retailer will list a company as a supplier unless it is in possession of a VAT number.

Jordipax, deciding to target alternate provinces, eventually managed to get a meeting with a buyer in Checkers KZN. Once again the Buyer raised the comment on the look of the packaging stating that it would not consider listing the product in the current form. However at the meeting the Buyer raised the opportunity of crafting House Brands as Jordipax clearly had a skill in doing so.

It is around this time that both Karishma and Ndumiso began to realise they had differing views with respect to the direction the business should take. Karishma wished to brand the company as a crafter of House brands for Retailers, whereas Ndumiso wished to develop own Private Brands. The capital required differed significantly, so a decision was made that the shareholders would part ways. Karishma retained Jordipax with all the statutory documents intact, whilst Ndumiso exited. Karishma assumed the role of Chief Executive Officer and began to position the company as a crafter and packer of beverages for the exclusivity of a Retailer.

**Opportunity**

Checkers KZN agreed to meet with Karishma again in order to revisit the opportunity of Jordipax crafting a House Brand range for Checkers KZN. After much deliberation a six variant range of juices were agreed upon. Initially Jordipax will produce a volume destined for the KZN province, however once sales volume show appetite for the product, then a National launch will be justified. Checkers has been truly supportive and patient offering guidance and direction to Jordipax.

**Way Forward**

Jordipax is currently in the process of scheduling the first commercial run for Checkers KZN Stores. The aim is for the product range to be on the shelves in time for Christmas 2015, so they can capitalise on the sale period.

# Pilot and Case Study Learnings:

Our pilot case study is based on a brand new start up Beverage Company founded by Karishma Sewpersad and Ndumiso. Karishma and Ndumiso is an Engineer by profession and they have no experience of the Retail world. They have come up with a winning recipe for a carbonated beverage soft drink as a competitor to Coca Colas famous Appetiser brand. We have been privileged enough to have followed Karishma on her journey to actually getting her product on shelf and it was no easy task as she will also confirm. She has faced many obstacles on her journey. It has been draining both physically and emotionally. Firstly was the actual design, shape, size and branding of her cans. How should her logo be designed? Where should it be situated? Would bubbles be appropriate or just simply having pictures of fruits designed on it.

Secondly it was a major problem getting appointments set up with the major retailers of South Africa. She had contacted numerous retailers with no success

The best experience with a retailer was when the small business met with the retailer, the meeting was well structured, with all parties from every department represented, i.e. Finance, procurement, logistics and buyers. They were interested in her coming up with a recipe for retailer brand label.

Thirdly the red tape with VAT registration which took too long to be processed due to Government rules and requirements, causing much delay in getting her business started. Also sourcing her cans was a problem, as only Nampak supplies this product, and they need a minimum order quantity to be met which is not favourable for a small business as the minimum order quantity is too high. Payment terms are also an issue as all her transactions were made to Cash on delivery and this puts constraints on her working capital.

Fourthly funding was a problem as banks would only finance a business if it was in operation for a year and over.

What also made it difficult for Karishma was that she did not have the know-how on policies and procedures of the retail industry. She was also unaware that she needed to get a merchandising agency to get her products packed out at store level. She was also unaware of the impact retailers trading terms had on the final cost of her product to the retailer.

Karishma however did manage to succeed in getting her product listed with Shoprite/Checkers whereby she is also receiving help and advice. In conclusion all the glitches experienced by this pilot, support the business case in that; Red tape, Funding, Lack of business acumen and Information (database where suppliers must list for retailers) is a need in South Africa in order to get our small business suppliers in retail going and contributing to the economy.

# Research Findings

Our topic attempts to unravel small business supplier development in retail and how to get it right. The relationship between Small Business Development and Enterprise Development can no longer be separated in South Africa, in fact the laws enforced in this country requires that big business promote Enterprise Development beneficiaries to a Supplier Development level. This means that the supplier must be first identified, trained, capacitated and then be developed in terms of financial boost, material. Based on the nature of our economy there is a need that the Supplier Development also contributes directly in addressing unemployment and eradicate poverty by assisting these small suppliers to grow and employ more people. Against this background, Prof André Ligthelm of the Bureau of Market Research (BMR) of the University of South Africa (Unisa) has conducted two studies in Soweto. A small business panel was selected in 2007 and revisited in 2008 to study small business sustainability and mortality among them within an increasingly competitive environment. The results are astounding as they show 56.9 % of small businesses were still operating from the same premises as in 2007, 13.4 % relocated to other premises and just less than a third (29.7 %) closed down. The aim of supplier development is to preserve small business and boost economy through nurturing and inclusive growth. We have interviewed 5 retailers (Woolworths, Massmart, Pick n Pay, Shoprite and JD Group) this including CGCSA, DTI and suppliers that are currently working with these retailers to get their input and an understanding from their point of view. Our interviews (qualitative interviews) took the form of questionnaires, voice recordings and note taking.

# Initiatives to assist small businesses

To a greater extent most of the retailers interviewed seem to vary on measures taken to assist small business, more often than not they will only assist the small supplier if they have secured their services based on the need to procure their product. They don’t seem to have a process or platform where they allow small business to freely propose their product and service to the market and assist them to develop. There are gap analysis being done by certain retailers to assist the small business on their needs by conducting site inspections.

19.1 The common process that is followed to bring small business on board

The process of on boarding is very different from retailer to retailer, so much so that the buyer seems to make the decision as to who to appoint and not the panel; the minimum requirements are set out in terms of the criteria. A business case seems to be the common document utilises to obtain or assist the supplier for funding. This process is better managed by retailers who follow a centralised buying process such as Pick n Pay, Massmart, JD Group and Woolworths as opposed to a decentralised buying process followed the likes of Spar and Shoprite as there is no documented process followed and buyers use their own discretion and this can prejudice or disadvantage the small vulnerable supplier as it is subjective process. The evaluation of the process for instance in the centralised buying format big business is managed by a governing committee and reviewed by auditors

19.2 Issues of Exclusivity

It is prevalent that some of the small suppliers have exclusive service to the retailers; this only happens if the IP was jointly developed with retailer or retailer owns the IP, this is prevalent in Foods and clothing areas. There are some retailers who still make use of exclusive clause in their contract to prevent small business supplier to do business with other retailers. This pattern hampers on the small supplier to develop and expand their foot print.

19.3 Key Deliverables and Governance of the process

Less than half of the retailers interviewed confirmed that small supplier business forms part of their strategy and they have concrete kpi’s and or deliverables in place. Especially the decentralised models (where suppliers are contracted at regional level compared to a centralised model where head office is responsible for the process of on boarding new small business suppliers) with agreement or contract in place. The process lacks governance and accountability as there is no specific person that accounts on the Enterprise Development of the small supplier, on the other hand the centralised models (head office driven) seem to work much better and are more refined and specific on goals and have well-functioning committees which meet regularly to review progress and approve funding and other related needs. The fact that the reporting line for centralised model is directly to the CEO and those roles of the ESD are independent from buying, gives the process more teeth and credence.

19.4 Small Supplier Business Sourcing process

The process of sourcing small business supplier is very different for all retailers interviewed; some retailers prefer not to use a data base as it raises “expectations”. Others send tenders out for the process and others have dedicated ESD Teams that go out and scout small suppliers and hand these to buyers who in turn then start the process. The challenge from the small business point of view is that they do not have a place where they will register on the data base and be vetted accordingly and if the retailer is looking for a potential supplier they can come to and view the list. This is a gap that has been identified across the board.

The message from the interview carries three points that threatens the growth of small business supplier development in retail. The first point revolve around the issue of data base and availability of potential of small suppliers to the retailers and unearthing of talent for nurturing and development by the retailers and also to ease the burden from retailers by getting the information with all vetting done and they can just choose based on their needs and appoint thereby cutting down the process of sourcing and save time and money. The second point is that of accountability and governance and this issue refers mainly to certain retailers who don’t have proper structures to deal with supplier development and as result the process is not sustainable ( the best in class retailers have proper structure on ESD for instance there are officers working and reporting on the progress of small business supplier initiatives and monitoring, they also report to a committee that sits quarterly and review the process and ultimately approves funding and this committee is made up of: risk, finance buying, auditors and representative from the enterprise development department). Thirdly because of lack of structures the process impedes on the small business in terms of funding and preferential payment for goods and services as the buyers are more often busy with day to day running of the business and they can’t monitor if the small business is paid on time or not and this has effect on cash flow.

# Recommendation:

In line with questions that we wanted to clarify and answer on this ALP project there are learning’s we have derived from the literature review, which will become part of our proposal, taking into account the immersion, the interviews with suppliers and retailers, the best in class across industries, best in class retailers and the Government Interviews.

The following forms part of our six findings:

1. Funding
2. Skills Development (Technical Skills)
3. Barriers to entry
4. Legislative Requirement
5. Red Tape
6. Support (Soft Skills)

The following forms part of our recommendations:

1. Funding: This issue has come across in the research we’ve conducted, the literature review, international immersion when comparing South Africa and the rest of the countries. **Seda has a dedicated escalation process** for preferential payment when it comes small business (they have a hotline and dedicated email), This is one area to address cash flow as it seem to be a major challenge to small business. **The Sefa (Small Enterprise Finance Agency)** has direct lending facility to small business for purpose of funding enterprise projects, purchasing production machinery and working capital. Sefa also provides grants for institutional strengthening support in terms of offering stipends, pay rental and buying furniture for small business. **The Enterprise Development score card under the BBBEE Code** also compels companies to contribute to supplier development 2% of their net profit after tax and also contribute 1% of net profit after tax towards enterprise development (in total 3% net profit after tax) of their profits to develop small business both in terms of skills and infrastructure and enterprise development accounts to 40% of the total score card.
2. Training and Support: base on the case study and also the best in class (Tourism**), training of small business cannot be underestimated** as it contribute to the sustainability of the business and Tourism is thriving in terms of small supplier business development (currently ranked second highest contributor – see Best in Class section 13) their recipe for success is training and support of smme’s. There’s a need for the retail industry to have a formal training programme that is institutionalised accredited (similar to the GIBS Enterprise Training Programme in collaboration with Massmart). The voluntary mentorship programme for small business suppliers offered by retailers is also critical for instance based on the need of the small business the retailers can use their own internal departments to assist the small business i.e.HR, Finance, Risk Management, Operations.
3. Barriers to Entry – this section also speaks to internal red tape, where the supplier does not know where to go when they want to list their product and who to talk to including meetings that often does not happen as per the proof of concept study we’ve done (Refer to Pilot and Case study section 14), Therefore there’s a need to have a central Database (Portal System) which must give access to the supplier to register his/her company and also be able to do compliance and vetting of the company, the portal must have buyers contact info, electronic forms legislative information, product specifications from the retailers and all legislative information must be displayed on the portal to make it easier for the supplier.
4. Legislative Requirements: this area also stalls the progress of the business referring to our case study where the business Jordipax (see section 14) had to wait for almost a year to get their tax clearance. There must be a close cooperation between small business ministry and small business to be more efficient in dealing with such issues. We further recommend that the database registry (portal) must contain all relevant and updated legislative requirements such as SABS, Food Labelling Standards, Icasa, Popi act to make it easier for small business to obtain updated information and be compliant as well.
5. Red Tape: Business Registration, Vat Registration, and compliance is a common red tape that has come up from interviews and literature review, in one example from China whereby they register 10 0000 new business a day with an objective to stimulate growth through small business. This process needs to be part of the small business ministry and there must be an escalation line to address where there are delays and bottle necks. Also retailers trading agreement must be uploaded on the portal to make it easier for suppliers to align with retailers requirements

Final Recommendation:

The Portal (Data Base) is the central part of the solution as it forms part of the barrier to entry, it will benefit the suppliers in so many ways for instance, they will able to know what the retailers are looking, legislative requirements will also be published on the portal so that their paper work can meet the requirements and be compliant and also will give them platform to register their products and service (already happening in Ghana), on the other hand the retailers burden of looking for suppliers and ensure vetting will be eased and the buyers will able to log into the portal and find a supplier/s for shortlisting and already pre-vetted. Instead of wasting time looking for suppliers they will able to save time. We further propose that the system must be administer by Consumer Goods Council of South Africa as it is a member organisation that acts as the representative body of the entire consumer goods industry. To complete by the end of 2016, we need to receive approval on the pilot IT system that will cost in the region of R1.5 million once off with no licencing fee and a team of two people at a total cost of R600 000 annually.

The challenge regarding the proposal:

There is monetary value attached to the recommendation as the portal system needs to be procured (already sourced), the cash to buy the system had to be negotiated with the retailers and additional resources.

In terms of Budget:

Based on our engagement with a retail company already using the system which is compatible with the requirement the cost base will be not more than R1.5m with no licence fees. The resource needed has not been concluded but this is a web based system and will just need an administrators at an estimated annual salary cost of approximately R600 000 total cost

|  |  |
| --- | --- |
| System Cost | R1.5m once off |
| Labour Cost | R600 000 annually |

# High Level activity and Implementation:



If the proposal is approved by the board then the rollout plan in terms of system and specification will start and we cannot delved into it until the aforementioned process is addressed, our ALP is still not finalised until this processed is fully addressed.

High level timelines:



# CONCLUSION:

This exercise provides a good high level background on the availability of both the research that has been done to date with small business supplier development in retail, as well as the case studies. It also provides a wider view on what other developing countries are doing in developing small businesses and stimulating economy. The South African environment is unique in that it addresses the imbalance of the economy whilst seeking to boost unemployment. More work still needs to be done in operationalising the proposals and engaging the retailers including having their buy in. There are various retail industries such as furniture, clothing, food (fmcg) etc... that are not part of CGCSA , also need to be engaged so that they are fully aware of the developments on this front, but this will take place once the process has been approved. The role of the government cannot be understated in this exercise especially the ministry of small business development as well as the National Development Plan there will be continuous engagement.

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# Appendices:

**LITERATURE REVIEW**

**During the research it has become evident that our small business needs guidance on what is expected of them and the need to understand the minimum expectation on tools that are essential to propel the business forward. We have identified the most asked questions on small business, these are essential to clarify the expectation. We have identified these as the guide to what lies ahead of running and developing a small business. These questions will serve as a checklist for any new or existing business that wants to grow in their field of expertise. There is currently no specific checklist for small business that one can use to understand what is it that can guide the company in galvanising the growth. Outlined below are the most asked questions about small business development in South Africa as researched by SEDA (small enterprise development agency).**

**30 MOST ASKED QUESTIONS ABOUT SMALL BUSINESS DEVELOPMENT:**

**1. Do I have what it takes to own/manage a small business?**

**2. What business should I choose?**

**3. What is a business plan and why do I need one?**

**4. Why do I need to define my business in detail?**

**5. What legal aspects do I need to consider?**

**6. What do I need to succeed in a business?**

**- Sound management practices**

**- Industry experience**

**- Technical support**

**- Planning ability**

**7. Would a partner(s) make it easier to be successful?**

**8. How can I hire qualified employees?**

**9. How do I set wage levels?**

**10. What other financial responsibilities do I have for employees?**

**11. What kind of security measures must I take?**

**12. Should I hire family members to work for me?**

**13. Do I need a computer?**

**14. What about telecommunications?**

**15. How much money do I need to get started?**

**16. What are the alternatives in financing a business?**

**17. What do I have to do to get a loan?**

**18. What kind of profits can I expect?**

**19. What should I know about accounting and bookkeeping?**

**20. How do I set up the right record-keeping system for my business?**

**21. What financial statements will I need?**

**22. What does marketing involve?**

**23. What is my market potential?**

**24. What about advertising/promotion?**

**25. How do I set price levels?**

**26. Are some locations better than others?**

**27. Is it better to lease or buy the store (plant) and equipment?**

**28. Can I operate a business from my home?**

**29. How do I find out about suppliers/manufacturers/ distributors?**

**30. Where can I go for help?**

**31.**

**PREVIOUS RESEARCH CONDUCTED ON THE TOPIC & RELATED FIELDS**

**- FEM Research – Gap analysis - SDP (Supplier development programme – research report)**

**- S.E.D.A – ` Small Enterprise development agency ‘– tasked to implement Government small business strategy. Mission is to support, develop & promote small business and small business strategy in the country. SEDA embarks on various researches to fill the mandate.**

**- Research on small businesses by Moya K Mason**

**- In the plethora of data released by Statistics Canada each year, two numbers loom that are of particular importance to small business people: about 145,000 new businesses start up each year in this country, and about 137,000 businesses declare bankruptcy each year. It isn't hard to do the math; the ratio is almost one failure for each start up, and it begs the question: "How is it possible that entrepreneurship has so many casualties both in terms of money lost and lives often horribly upset?"**

**- The Small Business Administration (SBA) keeps the stats on business failures and claims that more than half of new businesses will disappear in the first five years**

**- Statistics show that 8 out of 10 new businesses fail within the first three years**

**- A study done by Inc. magazine and the National Business Incubator Association (NBIA) revealed that 80 percent of new businesses fail within the first five years.**

**- "Data from Statistics New Zealand indicates that 53 percent of small to medium-sized enterprises (SME) fail within the first three years. Research suggests that two-thirds of business collapse is due to financial difficulties associated with poor financial management."**

**SMALL BUSINESS SUCCESS AND FAILURE IN SOWETO: A LONGITUDINAL ANALYSIS (2007 – 2008)**

**Against this background, Prof André Ligthelm of the Bureau of Market Research (BMR) of the University of South Africa (Unisa) has conducted two studies in Soweto. A small business panel was selected in 2007 and revisited in 2008 to study small business sustainability and mortality among them within an increasingly competitive environment. Table 1 shows that only 56.9 % of small businesses were still operating from the same premises as in 2007, 13.4 % relocated to other premises and just less than a third (29.7 %) closed down.**

**A number of studies have associated exogenous factors such as the effect of policy measures, support available to the small business sector, macroeconomic factors such as interest rates and industry- or sectoral-specific factors such as levels of competition within the specific sector (for example within the retail sector due to mall development) with the growth and survival of small businesses. However, Prof Ligthelm concludes an endogenous factor, namely that the human factor and, more specifically, the level of entrepreneurial acumen embedded in a business should be considered to be the overwhelming force that determines whether or not small businesses survive and prosper.**

**REFERENCE - The report entitled SMALL BUSINESS SUCCESS AND FAILURE IN SOWETO: A LONGITUDINAL ANALYSIS (2007-2008) (Research Report no 377) was compiled by Prof André Ligthelm of the Bureau of Market**

**W&RSETA SURVEY**

**In a recent survey by Wholesale and Retail Seta (2008/2009) W&Rseta which delves in the development of skills in particularly the the research focuses developing skiils on order to stimulate economic growth and the research reveals the following:**

**SUPPLY OF SKILLS**

**Africans comprise 50,26% of the total workforce; Coloureds make up 15%, Indians represent 6% and Whites account for 16%.**

**With technological advancements, competitive pressures and faster innovation cycles prevalent in the sector, there is clearly a need to increase the flow of employees into skilled occupations. The high proportion of unskilled employees in the sector puts it at a competitive disadvantage. At the top end of the occupational structure, Africans make up 22% of managers in the sector, compared with 31% of Whites. At the bottom end of the occupational structure Africans constitute 70% of labourers and 81% of casuals, compared with 1.5% and 3% of Whites respectively. These occupational patterns, inherited from the apartheid era, are characterised by a high concentration of Whites in the high-wage occupational categories and, conversely, a high concentration of Africans in the low-wage occupational categories. The lack of reliable data about educational levels in the W&R sector makes it difficult to assess the adequacy of skills in the sector as well as the supply of skills needed in future. Most of the learnerships in the W&R sector are located in the further education and training band (NQF Level 2–4). Only the Certificate in Retail Operations Management (NQF Level 5) is a post-Matric qualification.**

**In addition to learnerships in the further education and training (FET) band, which caters for clerks and elementary workers, there is an urgent need to develop learnerships in the higher education and training band (NQF Level 5–7). As work in the W&R sector becomes more knowledge intensive, advanced skilling for managers, professionals, technicians and clerks is imperative to ensure competitiveness.**

**SKILLS DEVELOPMENT PRIORITIES**

**There is a correlation between the growth of the sector, on the one hand, and the growing demand for highly skilled people in specific occupational categories on the other. Conversely, there is a decline in demand for specific low- skilled occupations in the sector. Structural economic changes and increased knowledge intensity in the sector are bringing about major shifts in formal-sector employment patterns. These two processes are creating aggregate labour demand in skilled occupational categories and contributing to unemployment in unskilled and semi-skilled occupations. In line with prevailing trends, technological advancements mean that the ratio of skilled labour to total employment can be expected to increase, with a concomitant decline in unskilled labour. Owing to the legacy of apartheid-era education, this trend is further differentiated by race, educational level and gender.**

**THE IDENTIFIED CURRENT AND FUTURE OCCUPATIONAL NEEDS OF THE SECTOR ARE**

**Supply chain and distribution managers Storage and warehousing managers Logistics managers, IT computer operations managers and the need for seasoned small suppliers to feed the supply chain of services to the retail business.**

**RETAIL CASE STUDIES**

**As big retail businesses embark on different programs to support small businesses and develop them into active players in the market, we will be looking at different examples that illustrate the various projects that look to drive and increased SME supplier base in retail through working collaboratively to derive maximum benefit for their businesses.**

**The work done by Massmart through their programs to develop small businesses:**

**- Developing wine brands program**

**- Local farmer development programmes**

**- Training and development**

**- Expand local production capacity**

**- Improving product quality**

**- Reduce input cost through supply chain efficiencies**

 **The program was developed during the time of the Wal-mart acquisition, as a prerequisite from the competition tribunal for the deal to go ahead. The objective of the fund is to develop local suppliers, and help small and medium enterprises, or SMEs, to overcome challenges in doing business with the group, and to be competitive in dealing with our complex supply chain. There are different constraints that each SME faces and it is these small businesses that Massmart try to assist. Lack of access to the mass market; Infrastructure issues including marketing; finance; capacity; and distribution; no understanding of what the customer needs are in order for the Small business to be in a position to supply these retailers.**

**Massmart has made a tremendous progress into helping these SME’s and in some instances, listing these vendors to supply in Makro and Game stores nationwide. (Massmart Holdings LTD Supplier development fund annual report 2013)**

**Founded in 2010 by Vundade Silora , Bio lotion is a 100% black owned company selling skin care products specifically body cream and hand cream. Bio lotion’s foot print spreads across retailers, wholesalers, pharmacies and independent stores. The products were first listed in Jumbo Crown mines for a 3 month trial period from February 2013 where it was successful reaching the target in 2 months. After Jumbo the footprint was extended to 66 other stores and to top 40 Game stores. Working with the supplier development fund made it easier for the products to be listed in Massmart stores.**

**In 2012 Pick ‘n Pay spent R760m on procurement from small suppliers and budgeted to spend 13% of their total procurement of R38 billion on small suppliers by the end of 2013.One of the recipients from the fund is Goedgedacht foods which went from supplying farm stalls to Pick ‘n Pay distribution centres across the country. Rob Templeton the director of Goedgedacht foods says that the business was registered in 2003 in the Riebeeksriver Valley in the Western Cape, They process olives into table olives and extra virgin oil also manufacturing a range of fruit infused vinegars. Templeton went through a series of meetings with the buyers discussing pricing and promotional activities and he received a national listing in 2008 which then enabled him to have his brand merchandised in Pick‘n Pay stores nationwide.**

**Pick ‘n Pay along with Sunday times launched the Small business Incubator program in 2008 where the sole purpose is to try and get business owners on a level where a buyer would want to procure from them. The growth of the business is measured from turnover. The turnover needs to reach a certain level before the supplier can be considered to be ready to do business without the assistance of the program.**

**Johanna Moriti owner of JOM cosmetics started her business in 2005 and says her turnover grew by 200% since becoming a supplier to Pick‘n Pay. She formulates, manufacture and distribute natural cosmetic products. She became a supplier after her successful presentation to Pick‘n Pay. Her products were listed and available at Pick ‘n Pay stores. Moriti says that suppliers who want to do business with Pick ‘n Pay would receive mentorship, advice and funding.**

**QUESTION**

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| --- | --- | --- | --- | --- | --- |
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| --- |
| **Key Principles**  |

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|  |
| --- |
| **Description**  |

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|  |
| --- |
| **Implication**  |

 |
| Priority Element | Ownership, Skills Development and Enterprise and Supplier Development have 40 % subminimum | •QSEs to comply with at least two of the priority elements• Ownership is compulsory and either Enterprise and Supplier Dev. or Skills Development;•Large entities to comply with all priority elements• Non-compliance of the thresholds in priority elements, the overall Score will be discounted byone (1) level down |
| Enhanced Recognition Status (ERS) | Enhanced the recognition status of Black Exempted Micro Enterprises (EME) and Qualifying Small Enterprises (QSE) | • EME to obtain a sworn affidavits• Black Owned QSE only required to obtain a sworn affidavits |
| Adjusted Threshold | EME : Annual Total Revenue up to R10 millionQSE: Annual Total Revenue R10 million - R50 millionLarge entities: Annual Total Revenue of R50 million and above | Companies that are expected to comply with the generic scorecard represent 2% of all active fillers.SOURCE: SARS 2012 |

The below forms the basis of the scorecard and Enterprise and Supplier Development is equal to 40 points on the scorecard.

* Company contribution to Supplier Development is set at 2% of Net profit after tax
* Company contribution to Enterprise development is set at 1% of Net profit after tax

|  |  |  |
| --- | --- | --- |
| **Element** | **Weighting** | **Compliance target** |
|  |  |  |
| Ownership | 25 points | 25% + 1 vote |
| Management control | 19 points | (50% to 88%) |
| Skills Development | 20 points | 6% of payroll |
| Enterprise and Supplier Development | 40 points | PP = 80% SD = 2% (NPAT) ED = 1% (NPAT) |
| Socio-Economic Development | 5 points | 1% (NPAT) |
| **TOTAL** | **109 points** |  |

Enterprise and Supplier development is weighted the highest points on the scorecard at 40% is because of the urgency required for Big Companies to assist is Supplier and Enterprise development. The aim is to strengthen local procurement from B-BBEE compliance suppliers through ensuring value adding manufacturing and enhancing local supplier development programmes. A Measured Entity must achieve a minimum of 40% of each of the targets of the following categories in the scorecard:

* Preferential Procurement;
* Supplier Development; and
* Enterprise Development.
* Failure to achieve the 40% of any of the category will result in the overall achieved B-BBEE status level being discounted.

**Enterprise and Supplier Development contribution -** Beneficiaries of Supplier Development and Enterprise Development contributions:

EMEs or QSEs which are at least 51% black owned or at least 51% black women owned. Qualifying Enterprise and Supplier Development Contributions of any Measured Entity are recognisable on an annual basis.Contributions, programmes or initiatives that span over multiple years, the total contribution amount must be divided by the number of years, and the average per year is then to be utilised for the annual contribution

**NEW TRAJECTORY FOR B-BBEE**

* Change SA culture to be supportive of entrepreneurship and diversification of value chains;
* Concerted effort in linking B-BBEE with other government economic development strategies such as Industrial Policy , Competitive Supplier Development Programme , New Growth Path , etc. (the real economy);
* Empowerment efforts should result in the promotion of a culture of venturing into new territories, operational excellence and risk taking ;
* Focus on businesses and industries that result in significant job creation and addressing socio economic challenges; and
* Symbiotic relationship between the public and the private sector and amongst private sector players , and large and small enterprises to unlock opportunities

**SECTORS ALREADY DESIGNATED FOR SUPPLIER AND ENTERPRISE DEVELOPEMENT**

|  |  |
| --- | --- |
| Sectors Already Designated | Minimum Local Content Thresholds |
|  |  |
| 1. Rail Rolling Stock
 | 65% |
| 1. Steel Power Pylons
 | 100% |
| 1. Bus Bodies
 | 80% |
| 1. Canned/Processed Vegetables
 | 80% |
| 1. Textile, Clothing, Leather and Footwear Sector
 | 100% |
| 1. Pharmaceutical Products
 |  |
| - Oral Solid Dosage Tender | 70% |
| - Family Planning Tender | 90% |
| 1. Set-top Boxes
 | 30% |
| 1. Furniture Products
 |  |
| - Office furniture | 85% |
| - School furniture | 100% |
| - Base and Mattress | 90% |
| 1. Solar Water Heater Components
 | 70% |
| 1. Electrical and telecom cables
 | 100% |

**RE-ORIENTATION OF B-BBEE**

* Good Governance
* Economic Growth and Development
* Operational Excellence
* Competitiveness
* Inclusive Growth
* Productivity & Industrialisation

**AMENDED B-BBEE RECOGNITION LEVELS**

The following table represents the B-BBEE recognition level for each level of contribution towards the B-BBEE scorecard. Should businesses fail to meet requirements they will be discounted by 1 level as a penalty. This now pushes Big businesses to drive Enterprise and Supplier development or else face being discounted.

|  |  |  |  |
| --- | --- | --- | --- |
| **B-BBEE Status** | **Current Qualification** | **New Qualification** | **B-BBEE recognition level** |
|  |  |  |  |
| Level One Contributor | ≥100 points on the Generic Scorecard | ≥100 points on the Generic Scorecard | 135% |
| Level Two Contributor | ≥85 but <100 points on the Generic Scorecard | ≥95 but <100 points on the Generic Scorecard | 125% |
| Level Three Contributor | ≥75 but <85 on the Generic Scorecard | ≥90 but <95 on the Generic Scorecard | 110% |
| Level Four Contributor | ≥65 but <75 on the Generic Scorecard | ≥80 but <90 on the Generic Scorecard | 100% |
| Level Five Contributor | ≥55 but <65 on the Generic Scorecard | ≥75 but <80 on the Generic Scorecard | 80% |
| Level Six Contributor | ≥45 but <55 on the Generic Scorecard | ≥70 but <75 on the Generic Scorecard | 60% |
| Level Seven Contributor | ≥40 but <45 on the Generic Scorecard | ≥55 but <70 on the Generic Scorecard | 50% |
| Level Eight Contributor | ≥30 but <40 on the Generic Scorecard | ≥40 but <55 on the Generic Scorecard | 10% |
| Non-Compliant Contributor | <30 on the Generic Scorecard | <40 on the Generic Scorecard | 0% |
|  |  |  |  |

**ONS POSED BY SENIOR COLLEAGUES:**

**a) What is your understanding and what do you think of the topic?**

**b) How do you think it will contribute to industry/retail sector?**

**c) How do you think it will promote economic growth?**

**d) How do you think we can integrated it successfully into main stream/big business?**

**e) Is there a database (small business development) for the buyers to uses when sourcing products ?**

**f) What are the 4P’s in Business?**

**g) What is the difference between mark up and margin? Why does it affect your business?**

**h) When does selling occur? Why does it matter?**

**i) When do negotiations occur? Why is it important?**

**j) What is the sourcing strategy and quotas of your company?**

**k) Does your company allocate budget to assist supplier small business development**

**l) How’s the performance of small business development gets monitored?**

**m) What requirements are there from a small businesses perspective in order for them to qualify for the supplier development programs?**

**n) Is there education and training that is easily accessible with regards to supplier development amongst small businesses?**

**o) What are the big retailers doing to develop the small businesses in the communities they operate within?**

Forum preparation

1. Process for organising the forum
2. Forum programme
3. Invites
4. Time Slot - TBC
5. Date & venue - TBC
6. Mncane Mtunzi – availability to speak and coordinate discussion for forum
7. Funding of forum – Mncane Mtunzi
8. Who are we looking to invite – Key people/decision makers
* Shoprite/Checkers
* Pick and Pay
* Spar
* Furniture JD Group
* Massmart
* WR&Seta
* Government
* Small suppliers seeking assistance
* Small suppliers already on programme
* Bidvest
* CGCSA
* JD Group
* Parmalat
* Woolworths
* Tiger Brands
* Pioneer foods
* Unilever
* Nestle
* Clover
* Coca Cola
* Wholesale/ Independent Cash & Carry
1. Filming of forum
2. Interviews with small suppliers on programme

Interview questions – Retailer

* What are you currently doing to assist small businesses?
* What is the process you follow? Can you run us through your process?
* What is your criteria in selecting a suitable supplier
* What sort of businesses do you look for?
* What products do you look at sourcing?
* Do you assist in improvement of the products, capacity or supply chain?
* Do you have a short & long term plan? What is it?
* How do you evaluate the process?
* How long do you run the programme to develop these businesses?
* Is there alternative plans?
* Are these businesses inclusive to you only?
* What are the shortfalls with regards to Retail involvement in developing small businesses?
* Does BBBEE play a role?
* What recommendations would you suggest on the way forward?
* Have other retailers been invited to a joint venture to assist small business development?
* What is the funding model and how is it payable?
* Is the performance of the small business supplier linked to the company score card?
* Is the programme at large part of the company strategy/vision and reviewed at board level?
* Who is responsible in running the programme in your organisation and what are her/his KPI’s.
* What are the key deliverables of the programme?

Interview questions - Suppliers

* What are you currently doing to assist small businesses?
* What is the process you follow? Can you run us through your process?
* What are your criteria in selecting a suitable supplier? Geographic?
* What sort of businesses do you look for?
* Do you assist in improvement of the products, capacity or supply chain?
* Can they use your equipment to package their products
* Is there training provided? How do you identify training needs?
* Do you have a short & long term plan? What is it?
* How do you evaluate the process?
* How long do you run the programme to develop these businesses?
* Is there alternative plans?
* Does BBBEE play a role?
* What recommendations would you suggest on the way forward?
* Have other suppliers been invited to a joint venture to assist small business development?
* What is the funding model and how is it payable?
* Is the performance of the small business supplier linked to the company score card?
* Is the programme at large part of the company strategy/vision and reviewed at board level?
* Who is responsible in running the programme in your organisation and what are her/his KPI’s.
* What are the key deliverables of the programme?

Interview questions - SME

* Reason for starting your business?
* Did you have any business experience before starting your business?
* What business do you run?
* What is the size of your business?
* How many people do you employ?
* Have you ever looked for assistance to grow your business?
* What are you lacking in infrastructure?
* Who are your customers?

**Interviews Appendices:**

Interview - CGCSA

The problem that we are having is that all suppliers do things differently from one another.

1.What are we Team Tau trying to do? Mapules question to us.

We are trying to coordinate this supplier development and create a common platform to operate from. There are challenges and gaps that we want to identify in the way things are done with various retailers.But all retailers have their own way of dealing with this – Mapules comments.

Mcanes warned us that some of the shortfalls that you (CGCSA) face in resources and capacity in the CGCSA.Mapules comments – This platform via CGCSA could work but it means we will have a lot of work in convincing the retailers because sometimes CGCSA has to step in to get things going for some retailers. How do we as Tau Team get around the confidentiality around getting the different retailers to collaborate?

Team Tau comments – We think that CGCSA would be the best catalyst to ensure that confidentiality does not get in the way as you are a neutral party trying to do whats best to assist small suppliers.

Mapules comments – retailers see her as a protector because retailers don’t want to do this with their competitors. That’s why we as Team Tau will be able to be more successful if we document this as part of our research to get things moving. Lindiwe Zulu asked the same questions we as team Tau is asking and I told her that she must just legislate. If you legislate then retailers will comply. We as team Tau want harmony before regulation and this won’t work.

Team Tau comments – We are now trying to fact find and we are posing interview questions to the different retailers to assist us in understanding the problem. We will guarantee confidentiality to these retailers that we interview.

Mapules comments – We must speak to DTI – Vugile Nkanile as this work we are trying to do has already been done and documented and he will be able to share this info with us. Mapule has spoken with Economic development and shared her work with them and she found that she had more info than them and they were able to close the gaps on identifying most of the problems. I was able to find out where most of these small enterprises operate. To get participation from retailers as they are already with CGCSA and to get them to collaborate. We must look at presenting at the CGCSA annual summit in September were Mcane, WR&Seta are present. This is where we get the retailers to commit once we presented as there is no turning back. We must go with the members first being Spar, Woolworths, Massmart and PNP, JDG and Shoprite.

PNP SME co-ordinate is a member chairperson and he can’t refuse. We must speak to Chauke with regards to the challenges of the 3% fund and its utilization. Mapules says that retailers already say that they have started something so how much is the balance of the 3% fund available for us to utilize in this fund we as Team Tau want to create.

Team Tau comments – the 3% fund we want to break it down into 0.5% - training, admin, and 2.5% broken down into funding equipment etc.

Mapules comments – Team Tau must ask retailers to unpack how the 3% is used. Vugile will be happy to engage with us. Vugile will short circuit most of our work before we engage with any retailers. Vukiles work will be our foundation. Tap into Vukiles mind on BUSA level on what is challenges faced specifically with supplier’s development. Mapules has committed to offering subsidies on barcodes to assist small suppliers in their ventures. We must identify and trace what these businesses are supplying and where they are operating. We will be able to identify where they are doing well and were they are failing with the use of barcodes. Mapules is happy we dealing with subject as we are taking away the cushioning and we need to create job employment. We must step out the industry and of our company day to day work and push back. We need to make the informal trade formal so that they can be counted. Our strategy must not only be for this course we are studying but for a lifetime.

We must also request on our report that a report back on the 3% utilization must be reported on to find out how the project is going. The 3% needs to be put into a fund and to be measured in job creation and how the fund is growing. What has this fund done to the economy?

Job creation must be defined in our business case. We need to also look at what government is already to doing to build on our case. We must look at the NEBIS document for informal trader upliftment. To try and formalise the informal so that these jobs can be counted.

**Pick ‘n Pay Interview**

**Small business supplier development in Retail, how to get it right Interview with Pick ‘n Pay – Ms N. Ndevu Business Manager Enterprise Supplier Development 28.05.2015**

**1. What are you currently doing to assist small businesses?**

 **As part of the group strategy we have a Pick ‘n Pay Enterprise and Supplier development fund which is aimed at developing small enterprises.**

**The fund is approximately 3% of the net profit after tax and the small enterprises are assisted in 2 different forms namely:**

**-the ones that need funding**

**-the ones that need market access i.e. listings at Pick ‘n Pay**

**2. What is the process that you follow? Can you run me through that process?**

**The suppliers that need Market access some are channeled to private label structure where the following support is given**

**• Food safety guide lines**

**• Merchandising standards**

**• Design of labeling and packaging according to the legislature**

**• Mentorship.**

**• Registering on the PNP portal**

**• Delivery logistics and distribution.**

**• Product traceability**

**Funding.**

**We look and fund food security projects or businesses e.g. farms. We provide funds and support and in return the products are then supplied to PNP first before other retailers.**

**3. What sort of businesses do you look for?**

**Across the range, no discrimination except for funding where we look at for food security projects. Recruitment criteria attached.**

**What products do you look at sourcing?**

 **All products but at the moment we are looking for suppliers for honey because of the shortage in supply and turkeys because of the legislation on imports.**

**Do you assist in improvements of the products, capacity or supply chain?**

**Yes especially with the private label.**

**4. Do you have a short and long term goals?**

**Short term**

**• 15%of procurement from qualifying Small enterprises (T/O between R10m to R50m)**

**• 15% of procurement from exempt micro enterprise T/O less than R10mil)**

**• 40% procured from the businesses that are 51% black owned.**

**• 12% procured from business that are 30% black women owned.**

**• Procurement from the designated /being developed suppliers which will earn us bonus points**

**• Spend 3% of net profit after tax on enterprise and supplier development e.g.the money spent when developing these suppliers.**

**Long term**

**Assist in the creation of employment in the country and developing the economy.**

**5. How do you evaluate the process?**

**• Growth in the number of suppliers supported**

**• Number of successful referrals for funding**

**• Growth in the T/O of suppliers –both merchandising and private label.**

**6. How long do you run the programme to develop these businesses?**

 **There is no time frame we support the small businesses as much as it is required or they need.**

**7. Are there alternative plans?**

 **No because we keep the small enterprises as long as they still require our assistance.**

**8. Are these businesses inclusive to PNP?**

**No, but the funded suppliers sign a right of 1st refusal agreement which gives an opportunity to PNP to enter into a business transaction with the funded supplier before any other retailer does.**

**9. What are the shortfalls with regards to the retail involvement in developing small businesses?**

 **Articulating the WHY resistance from within e.g. Why must we have this product on the**

 **Shop floor**

**10. Does BEE play a role? Yes**

**11. What recommendations would you suggest on the way forward?**

 **Cultural change**

 **Support of the initiative by all the retailers in the country**

**12. Have other retailers been invited to a joint venture to assist small businesses development?**

 **No.**

**13. What is the funding model and how is it payable?**

 **Loans –Low interest and repayments are based on individual circumstances of the particular**

 **Supplier**

 **Grants – Not payable**

**14. Is the performance of the small business supplier linked to the company score card?**

 **Not as such.**

**15. is the programme at large part of the company strategy/vision and reviewed at board level?**

 **Yes it forms a part of the company strategy and is also represented at the board level**

 **There’s a committee called Social and Ethics which looks after ESD**

 **No review has happened in the last few years**

**16. Who is responsible for the running of the programme and what the KPI’s are**

 **Director of transformation –Suzanne Ackerman**

 **Business Manager ESD Private label –N. Ndevu**

 **ESD manger –Mishinga Kombo**

 **ESD manger –Ndivhuwo Ramaliwa –project monitor**

**17. What are the key deliverables of the programme?**

 **KPI‘s for monitoring and evaluation as in question 5 Goals as per the BEE frame work.**

**Interview - Parmalat**

**Parmalat interview with Small enterprise development Manager – Collin Gounder 25/05/2015**

**1.What type of businesses do you look to assist?**

**Distribution centres that distribute our Parmalat products to bottom end trade such as**

**Township spaza shops and vendors and all informal trade within regions.**

**2.So these are just businesses that you use to get your products out into the informal trade?**

**Yes that is how we can get to places we can’t deliver to**

**3.Have you helped any other small suppliers to get their product up and running?**

**No, that is not what we look into.**

**4.How long is this programme running?**

**Four years.**

**5.How many businesses do you currently have under this programme?**

**Currently we have 6 that are our biggest and they are growing at 20% year on year.**

**They purchase from us on average 24 million rands yearly. Some of them have massive warehouses and they have taken this to next level stuff by employing their own Reps to go into the various townships.**

**6.What are the short term goals?**

**To get our route to market correct through these business ventures.**

**7.What is the long term goal?**

**To target bottom end and acquire deeper penetration into the places that we will never be able deliver to.**

**8.Are there criteria that the company follows to choose these small businesses?**

**No, as long as they are within regional geographic of where we want to grow our consumption**

**9.What assistance do you offer from the company side?**

**We offer 25 days credit terms, preferential pricing to purchase our goods well below normal costs to other retailers. We have also donated refrigerated vehicles to some of our SMEs.**

**10.Are these development parts of the company scorecard?**

**Yes it is and it is only BBBEEE. It also forms part of my personal KPD.**

**11.Are these businesses only exclusive to Parmalat products?**

**It is supposed to be but there is no formal document binding them to us and we have found that they do distribute other supplier products as well.**

**12.What are the risks involved?**

**These businesses have no assets and financials and we have lost a lot of money with previous SMEs.**

**13.Doesn’t insurance cover your losses?**

**Not a 100%.**

**14.Do you provide any formal training?**

**No we don’t, just on the job training and product knowledge.**

**15. What are the shortfalls that you experience?**

**They are entrepreneurial in nature and just want to do business without having the basic know how on how to budget, complete admin and pose necessary controls.**

**16.What is your strategy?**

**Bottom end is our strategy.**

**The motivation behind the B-BBEE ESD focus:**

**- It propels corporates to double their efforts in finding and supporting small black and black women owned companies**

**- It allows for the spread of investment to beneficiaries who were not part of the ownership and equity deals of the early drive to narrow based BEE**

**- It stimulates support to smaller enterprises, recognising the growth of such enterprises as being crucial to job creation and economic growth**

**- It encourages the transfer of skills from successful larger businesses to newer and less skilled enterprises**

**- It creates more favourable conditions for a beneficiary's cash flow management and the securing of grants and loans**

**- It allows corporations with restricted ability to transform at an ownership level other opportunities for BEE compliance**