



# DISCUSSION DOCUMENT

## Accelerate Cape Town Enterprise & Supplier Development (ESD)

November 2017



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# Introduction

SA desperately needs jobs and economic development but with government coming under increasing pressure to reduce its wage bill, and the corporate sector similarly pushing for greater efficiency in a recessionary economy, the only remaining hope for job growth is the SME sector. In order to significantly grow SMEs, we need to provide them with access to market opportunities, finance, technical support, and mentorship.

Since the revised B-BBEE codes came into effect, many corporates have ventured down the path toward becoming Enterprise and Supplier Development (ESD) champions. However, apart from a handful of notable success stories, this has largely proven to be a frustrating exercise with limited impact on emerging black-owned SMEs. Successful ESD has the potential to substantially drive real and lasting change in South Africa but we need to start respecting the intention of the legislation, develop platforms for collaborative ESD initiatives, and move away from the notion that ESD is merely a compliance exercise.

ESD has been identified by a number of ACT members as a key pressure point and concern going forward. This is primarily as a result of *Enterprise and Supplier Development* being identified as one of three priority elements in the amended B-BBEE scorecard, gazetted in October 2013, which came into effect in 2015. The other priority pillars are *Skills Development* and *Ownership*. In terms of the B-BBEE Revised Codes of Good Practice, ACT members are classified as Generic Enterprises (an annual turnover of more than R50 million), and a minimum of 40% compliance is mandatory for these priority pillars. Generic Enterprises that cannot achieve this minimum requirement will drop at least 2 B-BBEE levels.

## B-BBEE Points for ESD

The ESD category holds the greatest change in structure and weight in scorecard points to companies. With a possible 44 points out of 100, ESD is certain to become the main focus of all companies looking for a competitive B-BBEE score.

Large enterprises such as ACT's corporate members, are encouraged to invest at least 3% of NPAT toward developing emerging suppliers in order to maintain and/or improve their B-BBEE rating. Support may be in the form of monetary or non-monetary contributions. The supplier and enterprise development portions of the scorecard encourages companies to assist their suppliers who are not fully developed with support and mentoring to ensure they become sustainable and viable businesses.

## Problem Statement

ACT members have expressed difficulty with respect to the following issues:

- Risk associated with procuring from emerging suppliers who may not be sustainable
- Identifying suitable (risk averse) supply chain opportunities for emerging suppliers
- Finding suitable suppliers that could be developed
- Lack of in-house capacity to provide SME training
- Ability to maximise B-BBEE points through ESD Spend.

On the other side of the equation, emerging suppliers have the following challenges:

- Access to suitable market opportunities
  - Multiple clients to improve sustainability

- Access to finance for upscaling
  - Right finance at the right time
  - Ability to develop business case & meet funding criteria
- Access to technical support required for upscaling
  - Long-term interventions & hand-holding
  - Specific interventions for individual challenges
- Access to mentors
  - Strategic guidance
  - Network connections

## Accelerate Cape Town ESD Programme

The ACT ESD initiative seeks to address challenges experienced by both members and emerging enterprises. The programme would include the following aspects:



### 1. Shared Services Hub

The Shared Services Hub is a key value driver for ACT members participating in the ACT ESD initiative. It seeks to provide a high level of standardised ESD interventions and Business Development Services (BDS). The current proliferation of ‘ESD specialists’ makes it difficult for corporates to be assured of the best available services with respect to developing their suppliers through ESD activity. A significant portion of ESD spend is consumed by these service intermediaries, often to the detriment of the intended recipients, viz. emerging suppliers.

The Shared Services Hub will be populated by ACT's professional services firms, as well as emerging professional services firms, thereby ensuring a level of empowerment within the Hub in addition to servicing suppliers nominated by ACT corporate members.

A number of successful methodologies have been identified that have proven to be successful when developing SMEs. The intention with the Shared Services Hub is to source best-of-breed solutions and based on those, to develop a methodology that provides the highest standard of service possible. Corporate members participating in this initiative are therefore assured of the best possible interventions and long-term support to their suppliers, thereby mitigating the risks associated with supplier sustainability.

As a number of ACT members are professional services firms, this initiative affords those firms the opportunity to provide services on a pro-bono or discounted rate basis, thereby earning ESD points themselves. Corporate members that utilise this service are therefore assured of the best available BDS interventions for their suppliers, but provided at below market-value rates.

## 2. Mentorship

In March 2017, Accelerate Cape Town launched our mentorship pilot to determine how we can utilise our membership to help the sustainability of start-ups through mentorship. As the request originated from our Business and University Innovation programme, the pilot was conducted with the university incubators, LaunchLab at the University of Stellenbosch, Solution Space at UCT GSB, and Grindstone Accelerator.

The aims of the mentorship pilot were to:

- Encourage business professionals to play a role in the innovation ecosystem by supporting start-ups/SMEs through mentorship
- Determine the process that business professionals go through when mentoring and what additional support they require to effectively mentor start-ups/SMEs.

The pilot project served the purpose of providing valuable insights into the mentor-mentee relationship as this pertains to start-ups and SMEs. It furthermore resulted in the development of a significant database of highly-skilled mentors who have an interest in assisting SMEs. The ACT ESD programme intends to leverage the learnings from the mentorship pilot in order to provide emerging suppliers with access to subject matter experts who would be available to provide mentorship during the supplier development process.

## 3. Finance Hub

In order to ensure the sustainability and successful development of emerging suppliers, it becomes essential to connect bankable businesses to funders, alleviating the challenge faced by most SMEs to access suitable funding for their successful growth. Despite this being a common challenge, there is actually no shortage of funding options available. These include direct ESD spend by corporates to grow their nominated suppliers (and thereby earn valuable ESD points), Funding Intermediaries, Government, Banks, S12j VC Funds, Donor funding, and various others.

Connecting the right SME, to the right funding, at the right time in the growth trajectory is the real challenge and one which the ACT ESD initiative aims to address. It is essential for the success of both the SME and funder that they have been optimally matched.

The growth and development plan developed in the Shared Services Hub becomes a useful tool to determine the SME's funding requirements – with respect to the type of funding and timeline for funding interventions. Support for the funding application process, including the development and maintenance of bankable business plans, can be facilitated via the Shared Services Hub and will be instrumental to ensuring successful supplier development.

## 4. Corporate Marketplace

The regional SME operating space is currently characterised by limited opportunities for SMEs to engage with and supply corporates. Access to suitable market opportunities, and the ability to service multiple blue-chip clients, are key success factors with respect to improving SME sustainability.

Corporates are however, naturally risk averse and often hesitant to disrupt their own supply chain operations by engaging with SMEs that are not well known and that may not be sustainable. Corporates are also often hesitant to allow suppliers to do business with their competitors as suppliers and associated ESD activity are often considered a source of competitive advantage.

Innovative approaches are required to develop new market opportunities for emerging suppliers. It is key to successful supplier development that new opportunities be constantly identified. These opportunities often exist outside of traditional preferential procurement activity, and should be considered a strategic imperative for supply chain operations.

Market opportunities should also be more visible and accessible to emerging SMEs. In the same manner that government has made tender opportunities visible to suppliers, corporates need to collaborate in order to identify and showcase supplier opportunities. These opportunities could be with individual corporates or they could be collaborative procurements that allow for SMEs to scale more rapidly.

The ACT ESD Corporate Marketplace initiative will seek to interrogate participating members' supply chains in order to identify unique opportunities that would allow for greater SME participation. These opportunities, along with more traditional procurement opportunities, will be showcased and made available to suppliers in the form of RFQ's or online auctions.

Having access to significant market opportunities will be instrumental in driving the successful funding and scaling of SME suppliers.

## 5. Supplier Database

Finding suitable, high-growth potential SMEs remains a challenge for most corporate members of ACT. The ability to search for, and directly engage, targeted suppliers is required by procurement teams as a key factor in meeting procurement and B-BBEE targets.

Sharing suppliers between corporates significantly improves the sustainability of those suppliers, whilst also reducing time spent searching by procurement teams for appropriate suppliers. Rating suppliers assists corporates in choosing vendors as they would have some insight into the strengths and weaknesses of that particular supplier, and reduces the risks associated with future transactions.

There are currently more than 10 000 active SMEs in the Western Cape and more than 65 000 nationwide. The challenge is not the lack of potential suppliers but rather the difficulty in finding suitable ones within narrowly defined procurement criteria.

The ACT ESD initiative will create a searchable Supplier Database of active regional SMEs, accessible to all ACT corporate members. High-growth potential SMEs will also be encouraged to utilise the Shared Services Hub in order to define a growth and sustainability trajectory that allows for that supplier to be scaled up by leveraging opportunities from the Corporate Marketplace.

## 6. ESD Online Portal

As part of the ESD initiative, ACT has commissioned an online portal to serve as a central platform to connect Corporates and Suppliers. The portal is effectively a white-labelled version of the national SCNET portal and can be viewed at <https://www.capeprocure.co.za/default.aspx> **(NB: still under development and shared for reference purposes only).**

Important to note that the portal is still under development as the original SCNET portal was designed to connect SMEs to government tenders. Further development is therefore required to replace the government tender components with the Corporate Marketplace (as described above). The Corporate Marketplace would include functionality to source suppliers by means of RFQs, as well as online auctions.

Also included in the portal is a searchable regional Supplier Database. This database will be continuously maintained and developed in order to ensure that procurement teams are able to enter their procurement criteria and be directed to the most closely matched, active SMEs in the region.

There are currently more than 10 000 active suppliers currently registered in the Western Cape, and this initiative seeks to drive greater visibility for these suppliers. The planned future development of the portal will also include a feedback loop for corporates that have done business with these suppliers so that a ratings system can be applied, for the benefit of other corporates who may want to engage and do business with that particular supplier.

The portal would also serve as the ideal platform to create access to the Shared Services and Funding Hubs for emerging suppliers that may require those services. The portal ultimately aims to become the primary resource for both corporate procurement teams and emerging suppliers wanting to do business with each other, in a manner that drives the SMEs sustainable growth whilst improving the B-BBEE performance of the procurement team.

Considerable marketing and branding opportunities exist on the ACT ESD portal. It is envisaged that ACT members would have an appetite to co-fund the further development and maintenance of this portal by utilising existing ESD funds and in-house expertise.

## 7. ESD Conference

Few would disagree that the objective of ESD is a noble and necessary one - to encourage corporates to assist SMEs with support and mentoring to ensure they become sustainable and viable businesses. And yet, few companies are equipped to effectively implement an ESD strategy that achieves this objective, with the result that ESD becomes a pressure point, and a time-consuming task relegated to an exercise in compliance. It is little wonder, therefore, that the intended transformative potential of ESD has not been realised.

This inaugural event addresses these concerns by bringing together the best thought leadership on the practical elements of ESD implementation, and by providing the forum in which to share ideas and experiences.

In addition, it will provide the launch platform for Accelerate Cape Town's collaborative ESD model, the aim of which is to drive greater economies of scale for legitimate SME support services, and in so doing, establishing a long-term approach as opposed to short-term interventions.

The event will also provide information, training and assistance to suppliers (and qualified potential suppliers) so that they are better equipped to benefit over the long term from ESD.

The one-day event comprises two distinct parts: the first for companies required to provide ESD, the second for suppliers and candidate beneficiaries of ESD (see Format below).

Accelerate ESD will be an annual event, with topics relevant to developing ESD programmes and strategies.

## Format of the event

**Part 1** will follow a conference and panel discussion format, attended by businesses required to implement ESD, and attendance will be by invitation. Presentations will take the form of addresses by ESD thought leaders and panel discussions. The afternoon session will launch the Accelerate Cape Town ESD model.

**Part 2** will be aimed at small businesses that are registered suppliers to the ACT members and therefore potential ESD beneficiaries, and will take the form of training workshops focusing on topics related to ESD that are relevant to Exempt Micro Enterprises and black-owned Qualifying Small Enterprises.

Both sections of the event will be free to attend. Part 1 will be by invitation, and attendees of Part 2 will be invited to attend as registered suppliers of ACT members and event sponsors. A cocktail party at the end of the day will be structured to provide attendees of both Part 1 (big business) and Part 2 (suppliers/small business) an informal opportunity to interact with each other and with the day's presenters and other specially invited thought leaders.

While attendance will of necessity be limited, the event will be screened online and accessible on the Global Africa Network (GAN) B2B website.

Some of the topics to be covered include the following:

### Part 1: Corporates and mid-sized businesses that are implementing ESD:

- The success of ESD as a strategy to stimulate economic growth, diversify supply chains, grow small businesses and create jobs in other parts of the world
- The ESD legislation and its contribution to the B-BBEE scorecard unpacked and explained
- The elements of ESD: the distinction and interplay between Enterprise Development, Supplier Development and Preferential Procurement
- Flaws and loopholes in the legislation, and the consequences for ESD implementation
- The disconnect between a corporate ESD strategy and the implementation of ESD at procurement level
- How ESD can be implemented to impact a company's entire value chain
- Key skills required for a successful ESD strategy, and how to develop them in your company
- Building a long-term and mutually beneficial relationship with ESD beneficiaries as opposed to 'quick-fix' solutions to secure ESD points
- The pros and cons of using intermediaries as a channel of ESD contribution
- Case studies of successful and flawed ESD implementations, and what can be learnt
- Accelerate Cape Town's collaborative model for ESD and how corporates can utilise the model.

## Part 2: Training workshops for suppliers:

- This is targeted at Exempt Micro Enterprises and black-owned Qualifying Small Enterprises that can benefit from ESD
- The ESD legislation unpacked and explained as it applies to ESD beneficiaries
- The elements of ESD: Enterprise Development, Supplier Development and Preferential Procurement and the different opportunities they present for suppliers
- How ESD can lead to sustained and long-term benefits, rather than a short-term, once-off windfall
- How companies can manage the client-supplier relationship, and how to develop and grow a business in order to become a supplier of multiple clients
- Case studies of companies that have successfully benefited from ESD, and what can be learnt
- Accelerate Cape Town's collaborative model for ESD and how beneficiaries can utilise the model, including the Shared Services Hub, the Finance Hub, the Corporate Marketplace, and the Online Portal.

## Timing of the event

A prospective date of late April or early May 2018 has been set.

## Post-event follow-up

The online version of the event will be available continuously, and a dedicated e-newsletter for stakeholders, speakers, delegates and online followers and subscribers will allow for further interaction and discussion.

## Collaboration and Co-creation

According to the research findings from the Impact Amplifier ESD report which is to-date the most comprehensive empirical research conducted on ESD practice amongst SA corporates;

***“the corporate sector should initiate a more collaborative process for devising and sharing Enterprise Development best practices and for pooling resources to implement sophisticated, private sector initiatives. Most participants in the survey agreed that the industry would be better served by more cooperation on ED (80%) and did not feel that their companies’ competitive edge would be negatively impacted by doing this (83%). This suggests that the lack of ESD collaboration to date may be based on a misconception about others’ willingness and interest in working collectively. Once again, industry associations may be an appropriate forum to initiate the process of bringing corporate players to the table of collaboration.”***

The ACT ESD initiative will be built on the principles of collaboration and co-creation. ACT does not intend to become an ESD specialist, however, the organisation serves as the ideal platform that allows for natural competitors to collaborate around an issue that many consider to be a source of competitive advantage.

There is enormous benefit to be gained from working collaboratively, to not only benefit from economies of scale, but also leverage collective experience and best practice methodologies. Separate working groups will be created with parties interested in each of the components that make up the ACT ESD initiative. Workshops will then be facilitated by ACT with these working groups in order to develop operational methodologies and ‘rules of engagement’ for the programme.

# Sponsorship/ESD Spend Opportunities

Given the magnitude and complexity of the ACT ESD initiative, a number of sponsorship and ESD spend opportunities will be available to ACT members. These include the following:

**Shared Services Hub** – professional services could be provided by professional services firms on a pro-bono basis or at discounted rates in order to secure ESD points. The intention is also to crowd in emerging black service providers in order to ensure a level of empowerment and supplier development within the Shared Services Hub itself.

**Funding Hub** – this provides the opportunity for direct ESD spend to support development of suppliers, as per the growth and sustainability plan developed in the Shared Services Hub. ACT members from the financial services sector would also have the opportunity to provide products and services as finance intermediaries and funders. Where possible, the intention is also to crowd in existing S12j VC funders and other providers of SME funding products. The Funding Hub aims to provide as comprehensive access to finance as possible.

**Online Portal** – the portal provides significant branding and marketing opportunities for ACT members who wish to be optimally positioned for the SME and corporate ESD markets. Sponsorship of the portal will be essential in order to fund ongoing portal operations, development, and maintenance of the supplier database.

**ESD Conference** – the inaugural ESD Conference is an ideal opportunity to gain exposure as a leading ESD practitioner and supporter. It is envisaged that this event will have a tiered sponsorship structure, which includes various sponsorship package opportunities.

All of the above sponsorship and ESD spend opportunities will be further explored and developed in the various working group workshops.