SDP Research Report
First Draft
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1. **INTRODUCTION**

“The Small Enterprise Development Agency (Seda) is an agency of the South African Department of Trade and Industry (the 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).”

In order to fulfill the mandate and mission outlined above Seda has embarked on various research programmes. 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. Through discussion with Seda management (those working on the SDP) it was agreed that a current gap in the small business arena that needs to be addressed is the supply of goods and services by SMME’s to large scale corporates (big business). As there is no publically available information on this area, the focus of this research project is to ascertain the challenges that SMME’s face in being able to supply corporates as well as the problems that corporates face in working with SMME’s.

The outcomes of the research project can be categorized as follows:

1. Assess the current situation regarding the supply of goods and services by SMME’s to big business in South Africa
2. Assess the willingness of big business to work with Seda in creating access points for SMME’s to supply big business with goods and services. Further what is the BBBEE score card of these companies
3. Provide recommendations on how the SDP can be developed so that SMME’s can effectively and efficiently access corporate input markets.
4. Provide recommendations of how the advisors/practitioners can be capacitated in order to help SMME’s with point 3 above

The report is structured in 4 major sections. The first section (following the methodology) assesses the current literature (at an international and national level) dealing with challenges faced by SMME’s, The second and third sections then contain the data that has been gathered and analyzed through interviews with SMME’s as well as big business; while the last section of the report then pulls together all the information presented in the earlier sections to provide a succinct set of conclusions and recommendations.
2. METHODOLOGY & LIMITATIONS

In conducting this project FEM Research has used a methodology that aimed at generating data through primary research. The initial steps of the methodology entailed meeting with Seda to ascertain the exact outcomes from the project. Following this FEM Research then developed two types of questionnaires one aimed at SMME’s that have or are currently supplying corporates within South Africa; while the second questionnaire was aimed directly at big business.

Once the questionnaires had been approved by Seda and piloted the field work phase of the project begun. It was agreed that due to time restrictions interviews would take place on a telephonic basis where possible interviews would be conducted face to face. The data bases that were used for interviewing purposes were as follows:

- A combined data base of SMME’s provided by Seda and FEM Research was used. The data base consisted of approximately 3000 SMME’s spread across the country. Through the interview process it was found that only 200 (7%) of all SMME’s had supplied or were currently supplying bid business of which 150 (75%) agreed to participate in the interview process.
- Regarding the corporate sector a list of all publically listed companies was used (companies listed on the JSE) including a list of companies generated by FEM Research (These were unlisted companies with turnover in excess of R25million and over 200 employees). The database used had approximately 650 listed companies of which only 20 (3%) agreed to be interviewed.

Following the interview process all data was then captured and analyzed. The results of the data analysis have been presented in later sections of this report. Note a copy of the questionnaires used has been provided in the appendix to this report.

In respect of limitation of this project, a major limitation was time. Due to the timeframes imposed only the above sample sizes could be reached. While the samples generate are sufficient to provide results that can be used for effective decision making it would be beneficial to have greater sample sizes (especially within the corporate sector).
3. CHALLENGES FACING SMME'S

3.1 INTERNATIONAL LITERATURE

In assessing the current challenges faced by SMME's it would be prudent to begin by looking at various international studies that have been conducted on the problem. This section begins by providing the results of various internationally published papers and is followed by a section that looks particularly at the challenges facing SMME's within South Africa.

According to Keats and Bracker, there are many factors governing the fate of a small business, including:

- Individual characteristics of the entrepreneur
- Motivation in the company
- Environmental influences/challenges and how they are handled,
- Strategic management and practices and how they can be adapted and implemented
- Industrial and economic factors.

These fundamental factors of the SMME's ultimately influence their performance when faced with obstacles and challenges and could prove to be either their biggest strengths or most difficult challenges. It is said that the failure of many small enterprises is not attributed to specific events or factors, but how they are handled by the company and the entrepreneur - defined by the aforementioned characteristics.¹

In other research, Star and Massel found that business failure was most common in smaller sized businesses, businesses in rural areas, businesses with low-priced merchandise, and businesses operating as sole proprietorships.² These potential failure risks indicate that a combination of internal characteristics as well as external forces influence a small business’ fate.

One of the foremost and most common risks a small business will face is that of financial problems. Financial factors which indicate danger for SMME's include debt and debt interest, overdrawing capital savings, poor financial management and declarations of bankruptcy. Although financial challenges are clearly some of the most dangerous to an SMME'S, many other risk factors influence the potential success of a small business. It is suggested that 30-50% of business failures are attributed to economic factors - this means that 50-70% of failures can be attributed to factors other than finances.

There are 3 risk factors facing small businesses- economic factors (related to the economy in which the business operates - this does relate to finances as well as the general economy), industry based risk (the economic sector in which it is operating and associated risks) and firm based risk (these risks are unique to the individual business itself).³

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Risk factors can be classified as “endogenous” or “exogenous”. Endogenous risks for failure are internal risks—coming from within the company, for example, lack of skills or training which can endanger the performance of the company. Exogenous risks for a small business are external factors which influence the performance of the business e.g. economic factors.

Another of the biggest difficulties for SMME’s is the process of internationalisation. SMME’s in both developed and developing economies face problems in entering foreign markets. In developing economies, SMME’s find it hard to develop a product or service to the point of competing in an international market for various reasons, including product quality issues in receiving countries and transport& logistics management problems. SMME’s in developed countries experience some similar problems, for example logistics management issues, as well as unique problems, such as business risk factors in working with less developed countries. Both would experience general issues of country differences, language and cultural barriers and economy and currency changes. All of these factors influence the internationalisation of business for SMME’s.

Assessing SMME’s that operate within the export sector international studies has shown that SMME’s Exporters from developing economies are more likely to succeed if they have previous knowledge of the export market and processes independent of their decision to export their product.

Many factors influence the success or failure of a product in a foreign economy. An “export business model” needs to be developed, incorporating strategy for export business as opposed to domestic business, taking into consideration the foreign market and consumer. Products must be adapted for foreign countries- quality, materials, design, etc. and marketing needs to change. It is a big challenge for small businesses to have a detailed understanding of the many export laws, processes and challenges, and to trade successfully internationally, mainly because of capacity and resource constraints.

3.2 SOUTH AFRICAN EXPERIENCE

According to the Global Competitiveness Report by the World Economic Forum (WEF) South Africa has an efficiency-driven economy, compared to factor-driven and innovation driven economies. This is based on the GDP per capita and the share of exports including primary goods of the country.

The country’s economy type has an impact on perceptions, societal attitudes and intentions surrounding entrepreneurship. These in turn have a direct link to the failure/success of SMME’s in the country as they affect the effective functioning of SMME’s within the economy.

**PERCEPTIONS**

All entrepreneurs start out as potential entrepreneurs, as such individuals have the beliefs and abilities to enter the into entrepreneurship but may still decide against it. Measures for these beliefs and abilities include: 1) believing that one has the capabilities to start a business; 2) perceived opportunities in one’s area; and 3) feeling undeterred by fear of failure when seeing opportunities.

Compared to the other 23 countries with efficiency-driven economies considered in the GEM Report, South Africa scored

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4 SMME’s exporting challenges in transitional and developed economies NeupertK.E., Baughn C.C., Lam Dao T.T.
• below average (42.8) on Perceived Capabilities,
• above average (40.7) on Perceived Opportunities, and
• below average (24.5) on Fear of Failure.

**SOCIETAL ATTITUDES**

Society attitudes are another factor that may have an overall influence on the entrepreneurial sector in a country. These attitudes influence key stakeholders, such as customers, investors and suppliers, which in turn may impact negatively or positively on the entrepreneur. Measures include:

1) Perceptions about entrepreneurship as a career choice; 2) the status of entrepreneurs; and 3) media attention entrepreneurs receive.

Compared to the other 23 countries with efficiency-driven economies considered in the GEM Report, South Africa scored:

• above average (72.7) on Entrepreneurship as a Good Career Choice,
• above average (72.1) on High Status of Successful Entrepreneurs, and
• above average (73.5) on Media Attention.

**INTENTIONS**

One of the measures for potential entrepreneurship in a country is the intent to start a business within the next three years. In South African Entrepreneurial Intentions scored below average (14.5) when compared to the other 23 countries with efficiency-driven economies considered in the GEM Report.

3.3 CONCLUSION

The review has identified various factors that affect the development and functioning of SMME’s. As outlined in the international literature there are both endogenous and exogenous factors that affect SMME’s. Internationally the management of cashflow, debt and access to markets that have been identified as key challengers; while at a South African level the necessary skills and the ability to implement (fear of failure) have been identified as critical shortcomings.

It is important to note that while entrepreneurship in is viewed very positively (socially) the willingness of South Africans to start a business is below average when compared to other countries. This speaks directly to the research problem outlined in the introduction section of this project i.e. “SMME’s are not able to access input supply markets with big business” hence the hesitancy amongst individuals to establish a business.
4. SOUTH AFRICAN ORGANISATIONS AND SUPPLIER DEVELOPMENT PROGRAMMES

This section of the report looks at three South African organisations that support SMMEs and enterprise development through various programmes and initiatives.

4.1. THE COMPETITIVE SUPPLIER DEVELOPMENT PROGRAMME

The Competitive Supplier Development Program (CSDP) is part of the Department of Public Enterprises. It has been put in place with the interest of increasing competitiveness, capacity and capability in the South African supply base for State Owned Enterprises (SOE) e.g. Eskom. The aim is to improve procurement processes for State owned enterprises and to aid the suppliers of SOEs.

Through CSDP, SOEs are encouraged to consider the long-term benefits of forming partnerships with local, competitive suppliers, increase spending on national industry as opposed to international import, and improving supplier development programs so as to ensure fruitful, sustainable relationships and transactions between suppliers and SOEs. To ensure this, targets are set by the CSDP for local supply procurement, and an “SOE procurement capacity, capability and professionalism programme” has been put in place to ensure development of local supply networks.

With respect to the process followed each SOE provides a Supplier Development Program (SDP) which must meet certain targets. Note that this SDP must be approved by the department of public enterprises which in assess the SDP check that the SDP supports its medium-long term development strategy. It is encouraged that local suppliers with potential for growth and development are targeted to ensure growth and partnerships, which in turn increases competitiveness in the market, as well as job creation and skills development. These efforts to empower local supply are supported by other government bodies such as the Competition Commission- acting against monopolistic behavior by larger/ international suppliers. The Industrial Development Corporation and the Council for Scientific and Industrial Research can provide SOEs with valuable information regarding suppliers, markets, pricing and the economy to ensure that reasonable and well-planned targets and ideas are set in supplier development programs.

Through the CSDP it is envisaged that more competitive suppliers will result in bigger savings for SOE’s, and thus improved competitiveness amongst service providers too. An increase in market competition amongst suppliers also offers security of supply to SOE. Another advantage is that local supply will improve and import will be needed less; this eliminates challenges such as currency differences, long delivery times, communication barriers, etc and offers local partnership, job creation and industry growth. This initiative aims to better the local economy as well as local service delivery from State Owned enterprises through improving local competition and supply.

4.2 THE NATIONAL INDUSTRIAL PARTICIPATION PROGRAMME

The National industrial Participation Programme (NIPP) became effective in 1996. The NIPP is an industrial development program which is administered under the Department of Trade and Industry (DTI).

The NIPP applies to government and parastatal purchases or contracts, specifically regarding imported content i.e. this refers to private sector companies who import goods/services and supply
these goods/services to government. The NIPP has obligations which must be met if a supplier receives a contract from a SOE which involves imported content equal to or greater than $10,000,000. This figure can be reached either in a single purchase, multiple contracts within a 2-year period, renewable contracts, or if the same government institution imports similar goods, works or services under different suppliers which equal that value over a 2-year period.

The NIPP stipulates that any supplier who reaches this $10,000,000 threshold has an Industrial Participation Obligation, that is, they are obliged to participate in the South African economy. The commercial and industrial activity that this supplier engages in in the South African economy must be equal to or greater than 30% of the value of the imported content to be fulfilled within 7 years of the agreement. 20% of this obligation is required to be allocated for B-BBEE involvement projects.

NIP obligational economic activities are expected to be BEE compliant and economically and operationally sustainable (even after the discharge period of 7 years) so as to ensure that local economy is enriched by this activity.

The NIPP objectives include sustainable economic growth, connecting with new trade partners and markets, introduction of foreign investment, export potential for South African goods and services, job creation, HR development, technology transfer and the benefit of previously disadvantaged communities as well as local skills development. Wide benefit is gained through expertise and knowledge availability from investors, financial investment, and international trade. They are a powerful catalyst for change and growth in local industry and economy.

NIPP obligators have already played a large role in supporting South Africa’s government investment and infrastructure projects, such as the Gautrain, Eskom turbines, telecoms equipment, South African Airways, aerospace manufacturing and alternative energy resources. By 2008, the NIPP had directly created around 16,500 jobs, many for the rural poor, helping in the efforts to develop South African economy and society.

4.3. SHANDUKA BLACK UMBRELLAS

Shanduko Black Umbrellas (SBU) is a nonprofit company that supports emerging black businesses through enterprise development. These businesses are provided with a working environment and support services. SBU collaborates with partners in the private sector as well as public sector to promote SMMEs and enterprise development. The main objective of these collaborations is to provide the necessary support to ensure that SMMEs are sustainable beyond the first three years of operations.

The mission of SBU is to develop South Africa’s black businesses and this is achieved through the following methods;

- Promotion of entrepreneurship as a career choice for black South Africans
- Nurturing merging black owned businesses through the first three years and providing mentorship
- Creating employment opportunities through SMMEs
- Enabling procurement opportunities for SMMEs through collaboration and partnerships
- Facilitating and assisting with funding applications and processes
- Monitoring and growing the knowledge of SMMEs and the quality of services provided

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5 [www.shandukablackumbrellas.org](http://www.shandukablackumbrellas.org)
4.4. “RED TAPE TO RED CARPET” CALL CENTER- WESTERN CAPE

This is a provincial hotline for small businesses in the Western Cape which helps small businesses with red-tape related issues and information regarding small business startups. 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 startups and optimize regulatory processes so as to create a better, more accessible and understandable environment for the small business startups 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
5. DATA ANALYSIS (SMME’S)

The following sections provide an overview of the data analysis of the SMME interviews that were conducted during the fieldwork phase of the project.

5.1. AREA OF BUSINESS TRANSACTIONS

The participating SMME respondents were based in all 9 provinces. The largest proportion (40%) of SMMEs is based in the Western Cape. The lowest proportion of respondents is based in KwaZulu Natal, with only 3% of the participating SMMEs based in the province.

5.2. POSITION OF RESPONDENT

90% of the shareholders and members of the SMMEs work within the businesses, only two of the business had owners residing outside of South Africa.
The majority of respondents are the owners themselves with 63% of all respondents being business owners. The remaining respondents are in managerial roles such as members, managers or directors.

5.3. ECONOMIC SECTOR

The most popular economic sector in which small to medium sized enterprises operate is the business and 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 (particularly the Western Cape- where most respondents are based) 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.

5.4. AGE OF SMME

The majority of the businesses have been in operation for 1-5 years.
5.5. LEGAL POSITION

The majority (73%) of SMMEs interviewed are closed corporations; the remaining SMMEs are registered as Private Companies (8%) and Sole Proprietors (8%), while partnerships, NGOs and Trusts, account for 3% of the respondents.

5.6. SIZE OF BUSINESS

31% of the SMMEs have an annual turnover in the lowest bracket - R0- R150 000; the combined majority (74%) of SMMEs have an annual turnover of below R2 000 000- this is understandable given the size and nature of the small businesses.
5.7. NUMBER OF EMPLOYEES

The majority of SMMEs interviewed are very small in size - meaning that they have between 1 and 5 employees. Over 100 of the SMMEs interviewed have below 10 employees, while only 6 have over 50 employees. This indicates that there is much room for growth and job creation for SMMEs in South Africa.

5.8. EDUCATION LEVELS

The majority (64%) of the permanent employees in SMMEs have a matric level qualification. 34% of employees have degrees or diplomas while only 2% of employees have postgraduate qualifications. A large number of employees have completed matric but have not progressed further in their education.
5.9. PRODUCTS AND SERVICES

The most popular products and services offered by the SMMEs are food and catering at 18%. The 3\textsuperscript{rd} most popular are Travel and Accommodation at 14%- the popularity of these services can be attributed to the large market for tourism and travel in South Africa and the non-specialised nature of these industries. The 2\textsuperscript{nd} most popular products and services offered by SMMEs are business support and services at 15%- some of these services represent the more specialized sector of SMME services, they are often outsourced processes from corporates which offer a large market for SMMEs. Some of the least popular sectors for SMMEs include manufacturing (1%), safety and security (2%) and engineering and mechanics (3%).

5.10. CAPACITY AND VOLUME

<table>
<thead>
<tr>
<th>Spare Capacity</th>
<th>No of SMMEs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>74%</td>
</tr>
<tr>
<td>No</td>
<td>26%</td>
</tr>
</tbody>
</table>

74% of SMMEs indicate that they do have spare capacity in the company. This indicates that many SMMEs do not get as much business as they are capable of handling and this could contribute to the early mortality of many SMMEs as reported in the literature review.
5.11. RFQS AND TENDERS

SMMEs receive business through Requests for quotation more often than through Tenders. This could be because tenders generally have higher monetary value and demand SMMEs’ lower capacity and lower cash flow/ pricing makes them more suitable for RFQ contracts which are generally on a smaller scale and easier to deliver on.

<table>
<thead>
<tr>
<th>Percentage of T/O</th>
<th>RFQ</th>
<th>Tender</th>
</tr>
</thead>
<tbody>
<tr>
<td>Majority of T/O</td>
<td>62%</td>
<td>37%</td>
</tr>
<tr>
<td>≤50%</td>
<td>38%</td>
<td>63%</td>
</tr>
</tbody>
</table>

Tenders and RFQs are highly valued by SMMEs; more than half of the SMMEs interviewed gain the majority of their turnover through RFQs, while about a third get the majority of their turnover from tenders. This indicates that they rely quite heavily on big contracts but are less stable in the public market.
Some of the biggest challenges that SMMEs face when working with large corporates are financial issues, such as late payment (20%), cash flow issues (11%), market penetration difficulties (11%) and their lack of capacity and resources. SMMEs struggle to penetrate and survive in the corporate market because of their lack of recognition and capacity to compete on that level. Another of the biggest challenges faced is the red tape encountered when working with corporates- these challenges represent a lack of knowledge and experience regarding large business processes which makes dealing with them harder. This is emphasized by one of the other biggest problems facing SMMEs working with corporates: a high level of competition.
5.13. OPPORTUNITIES

When SMMEs were asked to identify what opportunities exist when working with corporates 29% felt that business expansion was the biggest opportunity followed by increased business exposure (28%). Only 7% of SMMEs were not sure about the opportunities that corporate contracts might offer.

5.14. DIFFERENCES BETWEEN WORKING WITH CORPORATES AND SMMEs

The main differences that were identified by SMMEs between corporates and other business dealings were payments. Although payments form corporates were more reliable and consistent, they were generally received later than other business payments. SMMEs also felt that dealing with corporates would increase profits however they also felt that they had less negotiation power when working for corporates, and as such were often forced to charge less due to the highly competitive business arena.
5.15. GOVERNMENT INTERVENTIONS

The most sought after help from government for SMMEs is related to market access and networking—government has the leverage to ensure SMMEs are included in the market and to assist in accessing these markets. Financial assistance is another intervention that was identified as many SMMEs have trouble accessing funding to grow their businesses.

5.16. SEDA

Forty five percent of the SMMEs had made use of Seda’s services and 87% of the respondents felt that they programmes were effective in assisting them.

<table>
<thead>
<tr>
<th>Made use of Seda</th>
<th>No Of SMMEs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>45%</td>
</tr>
<tr>
<td>No</td>
<td>55%</td>
</tr>
</tbody>
</table>

Of the respondents that had not made use of Seda’s services before, 66% were aware of Seda and the programmes that they offer.

<table>
<thead>
<tr>
<th>Aware of Seda</th>
<th>No of SMMEs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>66%</td>
</tr>
<tr>
<td>No</td>
<td>34%</td>
</tr>
</tbody>
</table>

Of the respondents that had made use of Seda’s services 21% felt that Seda needed to become more efficient, while 17% felt that Seda should provide longer training and more specified training to businesses.
Other improvements that could be made include, better trained staff, updating of services, providing sector specific market information and providing funding. Furthermore SMMEs felt that Seda should provide funding or at least facilitate funding applications, other programmes that were identified include business and financial management training, mentorship, market access and networking, and providing market information to SMMEs.
6. DATA ANALYSIS: BIG BUSINESS

This section analyses the responses generated through the interviews with big business. Note the majority (more than 80%) of business interviewed were from the private sector with the bulk of these companies have a national footprint.

![Graph showing area in which the major procurement center is based]

6.1. PROCUREMENT PROCESSES

Given that most big business entities have a centralised system of procurement. The graph above points to the regions were these systems are centralised; given the major economic hubs in South Africa are based in Gauteng, Western Cape and Kwa-Zulu Natal the results from the analysis tie very closely with this. Note only 15% of corporates have a non centralised procurement process.

![Pie chart showing position of representative interviewed]

The majority (45%) of the corporate representatives interviewed were Procurement Managers, followed by Operations Managers (25%), Directors (20%), and lastly CFO’s (10%). The reason why the majority of the representatives were procurement managers is because they are in charge of the
procurement system within the company and therefore decide which SMMEs’ services and/or products will be used by the company.

![Percentage of procurement budget spent on SMEs '11](chart.png)

During 2011 20% of the corporates interviewed spent between 20-30% of their procurement budget on SMME services and/or products. Correspondingly 15% spent between 11-20% of their procurement budget on SMMEs, 10% spent between 5-10%, 10% spent more than 50% and 5% spent between 30-50%. However, the majority (40%) of the corporates interviewed were unsure what the percentage of their procurement budget was spent on SMMEs. Reasons provided for this include not being in the office at the time that the interview took place and therefore did not have access to those figures, and that the audit was not finalized on the date that the interview took place and therefore the percentages spent on the SMMEs were not yet calculated.

### 6.1.1 BEE PROCUREMENT

During the procurement process the procurement manager and panel would select those SMMEs that they are planning to do business with, according to a certain criteria. Criteria used include types of SMMEs, such as BEE, Women Owned, Youth and Disabled; or competitive service and pricing provided. Overall it was found that 40% of companies used BBEEE as a criteria when selecting SMMEs while the other 60% looked at pricing.
Of the corporates that used BEE as a selection criterion, the majority (50%) also purchased from Women Owned SMMEs, followed by an equal amount (38%) of corporates that did business with Youth SMMEs and Disabled SMME’s respectively.

6.2. CHALLENGES WITH SMME BUSINESSES

Various challenges exist for corporates when doing business with SMMEs. Research results show that the most significant problem (50%) was related to cashflow problems experienced by the SMMEs which effects delivery of products and services. Secondly, various proficiency-related challenges were brought to light during the interview, 30% of the corporates interviewed found that the SMMEs they purchased from were not proficient in deliver the requested service or product; 25% of the corporates felt that quality of the products and/or services provided by SMMEs were not up to standard; 10 % of the corporates indicated that SMMEs do not have the needed expertise required to do business with the specific corporate; and 10% of the corporates felt they could only do business with SMMEs that have a national footprint.
6.3. DIFFERENCE IN BUSINESS BETWEEN CORPORATES AND SMMEs

When asked to comment on the major differences in doing business with SMMEs compared to doing business with corporates, the majority (35%) of the respondents felt that SMMEs provide more personal service and 10% felt that SMMEs gave better prices for service and/or product delivery than corporates do. Although, 20% of the corporates voiced an opposing opinion, that SMMEs services and/or products were priced too high. When commenting on doing business with other corporates, 30% of the respondents felt that corporates are more sustainable, 25% felt that corporates provided products and/or services of a higher quality, were better informed, and managed their cash flow better thus allowing them to deliver an effective product/service.

6.4. SUPPLY CHAIN MANAGEMENT AND PROCESSES

When asked to comment on whether their company has a Supplier Development Programme, 25% of the respondents answered yes, while 75% answered no.
Only 25% of the corporates interviewed had a Supplier Development Programme in place within their company; whereas 75% did not have such a programme at all or were still in the process of developing one.

<table>
<thead>
<tr>
<th>Does the company put work out for tender?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
</tr>
<tr>
<td>No</td>
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</tbody>
</table>

The majority (60%) of the corporates interviewed indicated that they put out work for tenders, whereas only 40% never do. This does show that those companies that were interviewed do SMME’s access to supply them with products/services.

<table>
<thead>
<tr>
<th>Would you company be interested in working with Seda</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
</tr>
<tr>
<td>No</td>
</tr>
<tr>
<td>Maybe</td>
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</table>

The majority of respondents indicated that their company would be willing to work with SEDA in developing a supplier development programme. Only 25% of the corporates refused to work with SEDA. Reasons provided for this response were either that they had no spare time to work on such a project or that they already had a supplier development programme in place at the time that the interview was taking place and therefore felt it to be unnecessary. The remaining respondents (25%) were not sure whether upper management would agree to work with SEDA.
7. RECOMMENDATIONS & ACTION PLAN

This section outlines both the key recommendations as well as the proposed action plan. The aim of the action plan is to provide a timeframe for the implementation of the project.

7.1. RECOMMENDATIONS

Flowing from the information provided in the literature review and data analysis section, this section aims to provide a list of practical recommendations that will assist in the development of an effective supplier development program.

1. Given the responses from both the SMME’s and big business there is definite need to develop a Supplier Development Programme. The aim of this programme should be two fold i.e.:
   a. The first should focus on capacitating the respective SMME’s so that they have the ability to do business with corporate sector entities
   b. The second area should then provide a platform for SMME’s to access potential business opportunities provided by big business.

2. Seda should also look at working with big business entities to develop supplier development programmes that the companies run in house. This is essential in that even if Seda provides the initial access there needs to be ongoing training for SMME’s so as to ensure that there is sustainability. Note that these programmes would look at facilitating and nurturing the relationship between the company and the SMME.

3. Following from recommendation 1a, Seda needs to train its facilitators in the providing support to SMME’s in the following areas:
   a. Cashflow/capital management
   b. Quality management
   c. How to address skills gaps and running of skills audits
   d. How to tender for work from private and the public sector (differences & similarities)
      i. Writing of proposals
      ii. Pricing of a project
   e. How to negotiate payment terms & conditions

4. As part of the SDP Seda should also look at capacitating facilitators so that they can facilitate negotiations between SMME’s and big business. This is essential during the initial periods of contact between the SMME and the big business, as this has a direct link to sustainability.

5. Seda needs to develop an information system/portal that can be accessed by all SMME’s that will provide the following information:
   a. Available government tenders
   b. Available private sector tenders
c. Available government RFQ’s  

d. Available private sector RFQ’s  

e. Any other business leads within the public/private sector

6. In order to further assist with market access Seda should also look at conducting networking workshops between big business and potential SMME’s. These will allow SMME’s to market themselves to big business while also allowing big business to see what products and services are available.

7. As finance has been highlighted as a major concern by SMME’s and big business alike. Seda should look at partnering with other government agencies that are currently providing financial services. The aim of this partnership should be as follows:

   a. Look at providing bridging finance to SMME’s that have verified & signed contracts with big business. Term of these loans would be 3 - 6 months

   b. Look at providing finance for capital expansion for SMME’s who have verified & signed contracts with big business. Term of these loans would be longer and linked to the project life cycle.

8. In general government and state owned enterprises have a supplier data base where entities have to register directly with the specific enterprise or department. There is however very little/no supplier development that takes place. It is recommended that Seda approach these enterprises to obtain the supplier list and then work with the enterprises to put a supplier development programme in place.

   a. Seda can partner with NIPP and SBU to create opportunities for SMMEs and facilitate collaborations or partnerships with businesses in NIPP.

   b. Seda can recommend projects to be funded or implemented by the NIPP participators i.e. the development of a private sector supplier data base.
7.2. STRATEGY OUTCOME

Seda (Small Enterprise Development Agency) offers a starting point for potential entrepreneurs and a growth opportunity for existing entrepreneurs through business consulting, training and referrals to suitable specialists. Seda’s main objectives are: 1) to increase the capabilities and competitiveness of small business enterprises; 2) to ensure that all small business enterprises have equal access to support services; and 3) to strengthen the organization for service delivery. Seda provides four service categories that will enable it to deliver on its mandate. The first two discussed focus on potential entrepreneurs while the final two focus on existing entrepreneurs:

1. **Seda Business Talk**

This package includes business information and advice, small enterprise training, and assistance with business registration. Seminars offer Seda Start-up training, a basic overview of Co-operatives, Entrepreneurs, and Franchises, and other programmes. Business advisors investigate business viability, support services, business characteristics and development potential. After formalizing a strategic focus, a business plan is drawn up, consisting of:

   a) Your strategic focus
   
   b) The marketing plan
   
   c) The operations plan for the specific business type
   
   d) The staffing plan
   
   e) The financial plan

During each of these above mentioned areas a three-step cyclical planning process should be used, consisting of:

   i. Think and Strategies,
   
   ii. Test your ideas through research, and
   
   iii. Analyze and draw conclusions

Clients are helped and encouraged to implement their business plans quickly and efficiently. Seda advisors help clients decide what type of business (sole proprietorship, partnerships, CC, etc.) they will enter into and their respective advantages and disadvantages. Seda also offers the Cooperatives and Community Public Private Partnership Programme. This programme supports non-traditional organizational forms and specifically directs its focus to rural areas and the use of local resources. Key sectors for this programme are agribusiness, cultural tourism, mining and mineral beneficiation, and trading and auxiliary services.

2. **Seda Business Start**

Business Start focuses on business planning, business counseling, access to finance, and business support. Seda business start has four key areas of focus:

   a) Financing your business

Most small businesses will need capital for stock and materials, equipment, money to pay employees’ salaries, telephone bill, rent, etc. before profitability. Clients are urged to acquire necessary information for a loan themselves to ensure efficient application processes through Seda.
Seda guides all clients in creating a successful presentation for the bank that will make the loan application a success. This is achieved by focusing on three key areas, namely: Bank requirements for SMEs; reasons why banks refuse loans; and checklist for a presentation to bankers

b) Managing your business

Seda advises clients to have and understand: proper Business Financing Plans; a comprehensive plan for potential bankers; understanding of fraud and the prevention of it; knowledge of the services of the Independent Regulatory Board for Auditors; understanding of bank services; and understanding of business financial management.

c) Marketing for small businesses

Seda focuses on the four P’s of marketing to help their clients make their products more appealing to customers than that of their competition: Product, Price, Promote, and Provide. Seda provides guidance in advertising, promotional activities, customer relations, selling techniques, pricing, packaging, and the location and name of the business.

d) Franchising

3. Seda Business Build

SEDA offers “business build” services to small business owners. These services are aimed at helping small businesses to grow and improve through various programmes including: Advice for tender processes, business networking, technical business support and ISO accreditation, help with an export readiness assessment, toolkits for participating in exhibitions and trade shows, and productivity improvement.

4. Seda Business Grow

SEDA’s “Business Grow” offers services which aim to achieve sustainable growth in small businesses including:

- Business assessment and diagnostic tools: assessing the business’ needs for sustainable growth and providing a solution through SEDA’s services and networks

- Business Management: Financial admin and management; coaching and mentoring; Strategic planning; business optimisation and turnaround strategies; listing on JSE and AltEx.


- The World Trade Point Federation (NGO) offers services aiming to increase SME’s participation in global trade through their Global Trade Directory System, providing a database of companies registered from 70 countries in their network. This system provides companies with networking, marketing and exposure in the Global Trade market and offers trade related information, market intelligence and other services.

- SEDA also offers an Export Development Programme to small businesses.
The long term goal of Seda is to move into assisting more developed businesses and have a 80% -20% split compared to the current split of 96%-4%. With this in mind the supplier development programme can be developed and implemented to have the following outcomes;

a. Short Term (12 months):

i. Work with identified corporates (quick wins) to develop Supplier Development programmes within their organizations; 75% of the businesses interviewed were willing to work with Seda to develop a supplier development programme and these businesses can be contacted and included in the development of the supplier Development Programme

ii. Work with public sector entities (quick wins) to develop Supplier Development programmes within their organizations and to facilitate networking between SMMEs and public sector entities in order to ensure that SMMEs have access to tenders and can become sustainable

iii. Start working on the structures for the Seda Supplier Development Programme i.e. developing the portal for SMME training and networking, training staff to be able to assist SMMEs through the portal and be able to manage the SDP, identifying further linkages with the corporate and state owned enterprises (SOE) sector

iv. Start discussion with other agencies/programmes such as NIPP to look at supplier development and formulate an action plan that can be followed by Seda and NIPP in partnership

b. Medium term (12 - 36 months)

i. Fully implemented Seda Supplier Development Programme which would include access to mentors, facilitators and online resources, an online portal and training courses are made available and accessible for small businesses to further improve their sustainability and to promote access to much needed resources. The SDP will promote market access as well as access to much needed market information

ii. Fully implemented Seda Corporate Supplier Development Programme (in house supplier development programme) to ensure that the SMME’s supplying corporates run sustainably; the Corporate Supplier Development Programme can be monitored and reviewed on a regular basis to ensure that it is run efficiently and that the SMMEs are in fact benefitting from the programme and the businesses are growing

iii. Implementation of joint initiatives with NIPP and other agencies; these initiatives will be determined and identified during the discussions with corporates and action plans will be formulated

c. Long term (36 - 48 months)

i. Through joint initiatives with NIPP the goal would be to reduce import content and increase local content within SOE’s

ii. Ensure SMME sustainability within the Supplier Development programme. This will be achieved through providing ongoing training and monitoring of SMMEs to ensure they remain competitive and productive.
iii. Conduct research on the current imports and exports of products to determine which companies and organizations are importing goods that could be supplied locally; in doing this local development can be promoted.

iv. Conduct research into the manufacturing sectors to determine skills gaps and technology gaps in the sectors; this will assist with the local production of products and potentially reduce the need for imports.

### 7.3. ACTION PLAN

In order to effective implementation of the recommendations the following steps are envisaged:

1. **Finalisation of the report and the acceptance of the recommendations**
   
a. Entity responsible: Seda & FEM
   
b. Person:
      
      i. FEM: A Bissoon
      
      ii. Seda: Various
   
c. Time Frame: 30th June 2012

2. **Meeting with entities who have indicated a willingness to work with Seda in developing either an internal SDP or working with Seda’s SDP**
   
a. Entity responsible: Seda & FEM
   
b. Person:
      
      i. FEM: A Bissoon
      
      ii. Seda:
   
c. Time Frame: 31st July 2012

3. **Developing an implementation plan for the points 3 - 7 of the recommendations:**
   
a. Entity responsible: Seda
   
b. Person:
      
      i. Seda:
   
c. Time Frame: 31st July 2012
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1SMME'S exporting challenges in transitional and developed economies Neupert K.E., Baughn C.C., Lam Dao T.T.


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