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DEVELOPMENT

Go small or go home

Growth in micro-enterprises is an important step forward

Small businesses mean good business for South Africa. If the sector is successful, many more people can be employed than in the corporate sector, with jobs distributed across geographies and communities. With 3% of South African business nett profit going into enterprise and supplier development and government spending going to small business development, there's a lot of money being directed towards the sector. How that money is being spent is another question, though.

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In the enterprise development sector, bigger companies that are supported by the corporate giants, often as an outsourcing of non-core operations where ex-employees are funded and supported to supply services to the company, make for a great model, because the companies begin business with an existing stable anchor client. Also great are construction companies that support the start-up of companies that can perform specific jobs on construction sites. These supplier companies are often run by experienced business people and have a great chance of success through value-adding relationships.

Challenges arise when initiatives are implemented during lay-offs; when negative industrial relations translate into negative supplier relationships; when small enterprises are militant; when organisations treat small businesses as employees instead of partners; when schemes created by the corporates make sense to their business but don't consider the risks and needs of the small business owners; when the models are not profitable enough for the new owners to make a fair living; and when the lack of alignment between the parties erodes the value that could've been created.

Better education will pay off

Training and support for these new small businesses leaves a lot to be desired. Companies implement

great technical and process training in terms of the operational business needs, but weak 'business skills' workshops. The content is written by university professors, MBA graduates and training specialists with no understanding that small businesses have a different DNA from large businesses.

It's important for large companies to re-think how they go about setting up small businesses in their supply chains. The success of small businesses developed in this context is often much higher than small businesses that start on their own.

The 'anchor client' is a huge asset – most businesses fail because they fail to find clients that will pay them. But over time, this setup can also be the biggest weakness – over-reliance on one client.

New businesses should be engaged in finding alternative revenue sources as early in their company development cycle as possible.

It takes small businesses a while to settle into systems and processes. Corporates need to ensure that their procurement and supplier management teams are aware of the contribution they can make to coaching and developing their suppliers. Supplier development is more complex than realised and needs commitment to be successful.

Text | Jules Newton Photography | Miss Ty