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Transformation | Of Transforming Interest



DEVELOPMENT

IT TAKES A FLEXIBLE APPROACH

It has been two decades since Jules Newton had a vision; an Avocado vision. From humble beginnings, the core focus of the business was in training. In essence, empowering people to develop to their full potential. Avocado Vision has stood the test of time and as it has evolved, it has enthusiastically embraced the principles of Transformation. In 2015, Newton sold Avocado Vision to BTS, an international market leader in supporting organisations with their Leadership, Strategic Alignment, Business Acumen and Sales challenges. Avo now has the benefit of BTS's international best practice and resources, as they meaningfully continue to participate in a Transforming South Africa.

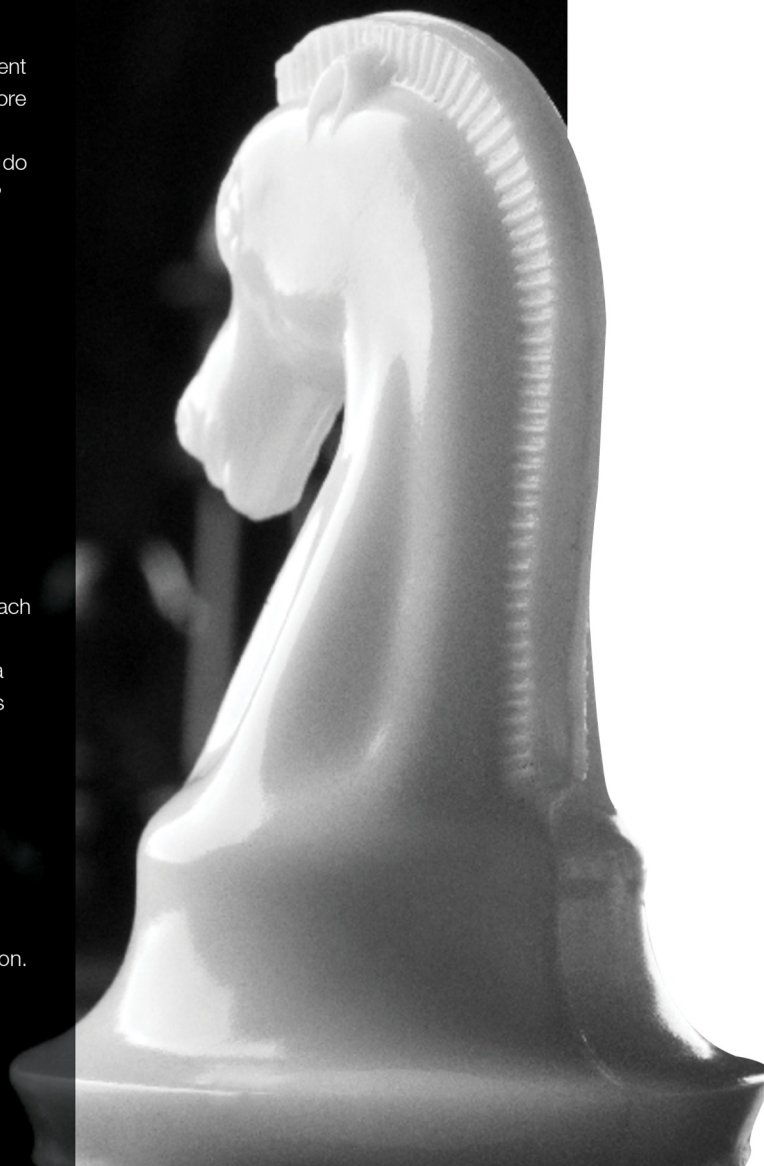


Jules Newton,
Avocado Vision

The conversation at the World Economic Forum on Africa in May had the Enterprise Development (ED) conversation resonating through almost all the sessions I attended, and probably many more which I did not get to attend! The words were on everybody's lips: How to create a conducive environment for small business to flourish? How to help them become more sustainable? How do we invite more Youth into this sector? How do we finance them? How do we capacitate them? How do we better manage their risk?

This is definitely one of the key national conversations we should be having. Small businesses mean good business for South Africa. If the sector is successful, it can employ far more people than the corporate sector, with jobs distributed across many geographical regions and communities. Therefore, fittingly, a lot of money is being directed towards developing small business nowadays, which can only be a positive thing. It is estimated that South African organisations contribute 3% Net Profit to Enterprise and Supplier Development (ESD) annually. Coupled with government's contribution to small business development, there is a chunk of serious cash out there supporting this worthy cause. However, how this money is being spent, is another question.

My in-the-field experience working within the ED sector has revealed some trends in the approach to development. There are the businesses which are set up with and supported by corporate giants. These are often used to outsource non-core operations, which could be in the form of a spin-off cleaning or security service, or printing and production operations where ex-employees are funded and supported to supply services to an organisation through their supply chain. This is a great model, as the business starts out with an existing stable anchor client and has a much greater chance of survival because of that. Another example are organisations within the construction sector that support the startup of a business that can perform specific jobs on construction sites. There are many other such examples within various sectors. These small suppliers are often run by experienced business people and have a great chance of success through value-adding relationships between client and supplier, provided the spirit of the relationship is seen as one of shared value creation, rather than pure compliance and exploitation.



However, one of the challenges to this approach, more often than not, is that these initiatives are only implemented during times of lay-offs. The consequences of organisations implementing half-thought-through schemes during times of instability, when a lack of trust between the organisation and employees is at a peak, can be dire. These collaborations suffer for a few reasons: firstly, the negative industrial relations context is where the relationship between an organisation and ex-employee begins, which often translates into negative supplier relationships. This frequently results in the small business being perceived as militant, and the organisation treating the small business owners as employees, instead of suppliers and partners who contribute to the success of their business. Furthermore, these schemes are often created by an organisation with models designed wholly to make sense to their business, without due consideration to the risks and needs of the new small business owners themselves. Consequently, the models are not always profitable enough for the small business owners to make a fair living. In addition, there is regularly a lack of alignment between these parties, which often erodes the value that could have been created. The owner-driver schemes in the transport and distribution sectors are notorious for having such issues plaguing them. The schemes seemed like such a great idea at the time, yet they have had such poor execution, yielding disappointing results.

Secondly, is the 'here's a great idea to retool our employees into outsourced suppliers' approach. The training and support of a small business in this case often leaves a lot to be desired. In my experience, many organisations implement great technical and process training, in terms of the operational business needs, but weak, well-meaning 'Business Skills' workshops. They begin with the inevitable PowerPoint slide on "The Qualities of an Entrepreneur", and then move on to "How to write a Business, Sales and Marketing plan"; "How to Access Funding to Start your Business"; and in some extreme cases, I've seen, "How to Develop a Bankable Business Plan". Most of this stuff is written by university professors, MBA graduates, training specialists, or even by people within the large organisation who are setting up the Supplier Development programme. I have literally seen 'Internal' programmes orchestrated by organisations teaching unskilled potential suppliers about business on PowerPoint presentations, showing them: 'This is an income statement'; 'This is a balance sheet', then feel like they've done the work of teaching the necessary business skills. Don't go this route. Get practitioners who are specialists in small business development. They need to understand that a small business has a different DNA from a large business and not all the MBA rules apply at the development stage of a business. Furthermore, organisations should not be encumbering a small business with onerous requirements and concepts that are not necessary until they have grown. Business Acumen is a critical part of developing a small business, and more often than not, in my experience, it is badly taught.

It is important for large organisations to rethink how they go about setting up small businesses within their supply chains. The success of a small business, which is developed within the supply chain of a large organisation, is often much higher than that of a small business that just 'starts up' in the cold. If this is done well, it can really be the most successful model for stimulating small business development in our country. The 'anchor client' model which begins a business is a huge asset. Most small businesses fail because they fail to find clients that will pay them for their work. Having an automatic client at start-up is brilliant! However, in saying that, it can be the biggest weakness for a small business, due to over-reliance on one key client. Instead of being taught about the 'qualities of an entrepreneur', new businesses in the corporate supply chains should be engaged in a mindset shift which motivates them to find alternative revenue sources as early in their company development cycle as possible. In my experience, that should be within the first six months to a year of operation.

It definitely takes a small business a while to settle into robust systems and processes; to instil reliability; professional supplier behaviour and the like. Essentially, organisations need to ensure that their procurement and supplier management teams are aware of the contribution they can make to coaching and developing their suppliers, while they are doing business together. I have found in my organisation that the internal team, who manages our small scale suppliers, spend a lot of time in that first year of operation sending invoices back for correction; coaching on invoicing cycles and meeting deadlines; pushing the small businesses to acceptable levels of quality and output. But that process is part of Supplier Development interaction and activity, therefore internal teams should be aware that this is how they contribute to the robustness and growth of their suppliers. Consequently, it is imperative that an internal team is adequately trained on how to support and mentor a small business, which will most likely yield successful relationships that create value for all. The cost of the time an internal team spends on working through these issues with their suppliers may be credibly allocated as part of Supplier Development spend, on the provision that it is properly recorded. So, setting up good working relationships can be mutually beneficial to all, and over time can contribute to the growth of both the small supplier and the large organisation alike.

It is important that large organisations carefully think through their approach to Supplier Development. It's more complex than you think it will be. It needs real commitment and a spirit of shared value and partnership to be really successful. All parties should continue to engage in dialogue, whereby the needs of all parties are considered and understood before implementation. Essentially, if all involved in the process understand that they need each other in order to secure success from the organisation that is spearheading the development of the small business, then real Transformation can be generated in South Africa.