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Enterprise and Supplier Development

Much has been said about how bad the amended codes are. They are badly written, full of spelling and grammatical errors and interpretation issues. Having said this we must be aware that much the same was said about the current codes when they were released in 2007. The DTI has indicated they will clarify certain issues, but we are not sure when or if this will happen. The amended codes will not go away, so we need to apply them and start looking for opportunities to use them to our best benefit.

Enterprise and Supplier Development, especially the Preferential Procurement section, provides both the largest risk and some benefits to business. Special care must be taken with Enterprise and Supplier Development as businesses run the risk of not only scoring poorly, but also of losing a level if the subminima of 40% of the target points for each of Preferential Procurement, Enterprise Development and Supplier Development are not met.

Let's look at the risks under preferential procurement first:

- Suppliers must be Empowering Suppliers before businesses can claim procurement from such suppliers when preparing their B-BBEE claim. A certificate from a non-Empowering Supplier is worthless. In certain industries such as service industries, it will be very difficult to be an Empowering Supplier.
- The points mix for procurement has been changed. Under the existing codes up to 12 points out of 20 are available if the business procurement from B-BBEE compliant suppliers is 70% of total procurement. Under the amended codes the points available for total procurement have been reduced to a maximum of 5 out of 25 points if 80% of procurement was from B-BBEE compliant suppliers. The main emphasis under the amended codes has shifted to Exempted Micro-Enterprises (EME), Qualifying Small Businesses (QSE) and to majority black owned businesses. This can be problematic for entities with highly specialised procurement, or only a limited number of suppliers.
- Companies with turnover of less than R35 million are termed Qualifying Small Enterprises under the existing codes. They are required to comply with 4 of the 7 elements, and compliance levels are relaxed. Under the new codes, QSE must comply with all 5 elements, and the relaxed compliance has been removed. Businesses which are less than 51% black owned, or are majority white owned, will face additional compliance requirements, such as the need to find black owners, and are likely to face significantly increased verification costs. It is believed that significant numbers of such entities will decide that the costs of B-BBEE outweigh the benefits of a BBEE certificate. DTI has indicated that an updated QSE scorecard will be issued but when is unknown.

The areas of potential benefit are based upon the following:

- The amended codes state that businesses may decide to:
 - Adopt the amended codes from 11 October 2014; or
 - Early adopt the amended codes.
- The maximum turnover for EME's has been increased from R5 million to R10 million:
 - EME which are 100% black owned are automatically level 1 suppliers;
 - EME with greater than 51% black ownership are level 2 suppliers; and
 - Other EME are automatically level 4 suppliers.

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- All EME are automatically Empowering Suppliers
- EME do not need to supply a B-BBEE certificate, but only need to obtain an affidavit annually stating their black ownership and turnover.
- The turnover band for a QSE has been increased from R5 million to R35 Million to between R10 million and R50 Million:
 - QSE which are 100% black owned are automatically level 1 suppliers;
 - QSE with greater than 51% black ownership are level 2 suppliers.

Actions required:

- Companies must review their suppliers, identify in which category they fall and then take the following actions:
 - All EME must be required to obtain affidavits stating their turnover and black ownership;
 - QSE that are more than 51% black owned must obtain the required annual affidavit.
 - Such affidavits can be used in verifications under the old codes if the businesses have early adopted the new codes, an acceptable practice.
- Entities need to identify businesses which are less than 51% black owned. It is anticipated that there will be a reduction in such companies obtaining B-BBEE certificates due to the additional requirements and cost of obtaining such certificates. These suppliers need to be identified and given clear instructions that future business is dependent upon their obtaining B-BBEE certificates.
- Supplier B-BBEE certificates and contribution levels need to be carefully managed to ensure the target levels are achieved and maintained. Customers require companies to achieve acceptable levels so it is only fair to pass this on to suppliers.
- B-BBEE levels must be considered when making purchasing decisions. Suppliers with better levels must, where possible, take precedence.
- Management of suppliers' Empowering Supplier status is as important as management of their levels. Businesses must identify suppliers, especially large suppliers, which will not be Empowering Suppliers and then engage them to ensure that steps are taken to attain Empowering Supplier status. We are in the process of developing a calculator to determine Empowering Supplier status and expect to complete this within the next two weeks. Please contact us if you would like to receive a copy.
- Black owned EME and QSE must be identified for development under both Enterprise and Supplier Development. It is better to develop businesses which directly impact your business than develop others which have no business value for you. Such businesses must be EME or QSE with at least 51% black or black female ownership. Larger companies will need to identify and develop large numbers of such businesses. This process needs to start as soon as possible to ensure appropriate actions are taken and targets met.
- The mix of procurement must be measured on a regular basis to ensure that, if possible, procurement can be adjusted and qualifying suppliers used to ensure points are maximised. In general companies will need to ensure that significant amount of procurement must be from 51% black or 51% black female owned businesses. This will prevent unpleasant surprises under procurement when the verification is performed.

Many businesses, especially those with certificates due for renewal in early 2014, are opting to perform a second B-BBEE verification in late 2014 with the certificate issued before the commencement date of the new codes. This extends the transition period for the amended codes to almost 2 years. There are certain elements of the amended codes which require historical information (for example the absorption of learners for the Skills development bonus point, and the black employee levels for the Empowering Supplier calculation). Companies need to ensure that this information is verified before the implementation of the new codes.

It will be almost impossible for businesses to switch from the existing codes to the amended codes without prior planning and strategy setting. This means that businesses need to start planning now for the implementation of the new codes. We have held a number of such strategy sessions and they have all proved very useful. These sessions can be depressing as much of the effort over the last 5 years has been nullified. Companies that started at low levels have been moved to levels 3 or 4, but will now be taken back to the starting gates. This can be overcome through careful planning, strategy setting and implementation, together with targeted spending to maximise points.

Should you have any queries, ore wish to hold a strategy session for your business, please do not hesitate to contact the writer on 083 440 2130.

Yours faithfully

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