

The business of BEE

How can businesses be improved through BEE?

K eith Levenstein, chief executive officer of EconoBEE, comments on the lack of understanding of black economic empowerment at grassroots level, and how small start-ups can benefit from the Broad-based BEE Act.

In a recently published business article, the author commented that while big corporates generally have a good understating of BBBEE, people in townships and rural areas have very little understanding of BBBEE issues and how the government's BBBEE policies can actually assist them when engaging in business.

Although it is called BBBEE, for ease of use we tend to call it BEE, but always remember that we are referring to broad-based black economic empowerment.

I have the great opportunity of speaking at business workshops and conferences for corporates through to small businesses, and have often been asked the following question by black people: "I want to go into business" or "I am already in business – how can BEE help me?"

This article addresses black-owned businesses or black people who want to go into business.

BEE, or more accurately BBBEE, is an economic policy of the government that encourages economic growth and redresses the inequalities inherent in the economy.

As a policy, it has the broad intention of improving all our lives and the economy. It is a macro-economic policy, not a micro-economic policy aimed at assisting a specific person.

Many people who ask me, "How can I access BEE funds, or benefit from BEE", do not realise that BEE is slowly (in my opinion,

too slowly) benefiting the economy and them indirectly.

What some business people want to see is a direct link between, for example, being black and business flowing their way. The perception is that some black business people know how to benefit from the system and others would like the same recipe.

Personally, I would like to know Bill Gates' secret so that I, too, can become half as successful. Unfortunately, it does not work that way in real life. Most of us have to work very hard in order simply to survive.

The few who do succeed beyond your wildest dreams are special people – Bill Gates, Richard Branson, Raymond Ackerman, Patrice Motsepe, Brian Joffe, and no doubt they are hard working and extremely competent people.

BBBEE is not a recipe for everyone to become as successful as the above-mentioned people. It does, however, contain policies that encourage South African businesses and the government to support certain businesses over others.

The best way to try to benefit from BEE is to understand how BEE works so that you can design the business plan around benefits that your business can offer to your customer.

BEE works by encouraging businesses to increase their BEE scorecard – to become more compliant. In order to benefit from BEE, you need to understand the seven elements that go into building up the scorecard and see how your business or proposed business can help other companies improve their scorecard.

Ironically, the government does not follow BBBEE, so it is impossible to benefit from



BBBEE via government policies. You can potentially only benefit from companies that are intent on building up their scorecard.

(The government has announced a plan to reconcile the Preferential Procurement Policy Framework Act with the BBBEE Act, at which point BBBEE principles will apply.)

This is not to say that black businesses do not benefit from government policies, they simply do not benefit via the BBBEE Act.)

If your business can offer ways of helping businesses earn those additional points, you will have a good opportunity of getting assistance and indirectly benefiting from "BEE".

The seven elements that are built into the BEE scorecard and how you can benefit are as follows:

Ownership

This refers to the ownership of the organisation. The BEE Codes encourage black ownership up to 25%, and particularly favour black women.

The Codes award extra points for fulfilling the sale of the shares and paying for them in full. This, of course, is why some companies favour doing deals with people such as Cyril Ramaphosa, who has the finance to be able to pay for the shares (notwithstanding his excellent track record as a business person).

Businesses can also earn points via taking in a black partner, via selling shares in their business or merging with an existing black-owned business.

If your small business is reasonably attractive to the bigger business, then being black-owned will be even more attractive, and the more likely that the business will want to sell you shares, perhaps at a discount, or offer to purchase shares in your business.

Management

This refers to the management of the organisation – the directors and top management.

The Codes encourage the appointment of black directors, particularly black women.

Anyone who falls into this category is potentially more likely to be appointed by companies looking for suitable applicants.

If your black-owned company has strong management, then there is greater potential on a takeover or merger, as your business will help companies earn points via both ownership and management.



Employment equity

This refers to all other employees in an organisation, and has no real impact on a black-owned company that wishes to go into business.

Of course, a recruitment agency that specialises in recruitment of black management and staff could be very successful.

Skills development

This refers to training of existing staff.

The same comments are relevant as for employment equity.

Again, it is interesting to note that any business that specialises in training of staff could be successful due to the extra emphasis placed by the Codes on skills development.

Preferential procurement

This refers to all spend by companies on procurement of goods and services.

Businesses earn points by spending their money with other businesses that have a good BEE score i.e. that have complied with all seven of the elements being discussed here.

It must be noted that black-owned businesses do not necessarily earn more points than, say, white-owned business, or that black-owned businesses are exempt from all forms of BEE.

However, a start-up business is exempt from BEE and is automatically allocated level 4 (a good score).

A black-owned start-up business is allocated level 3 (an even better level).

The requirement to produce a scorecard only kicks in once the business's turnover exceeds R5 million per annum. So, being a black-owned start-up business will benefit your customer's own procurement score substantially.

In addition, the procurement calculation offers additional points to companies that purchase from black-owned (50%), and particularly black women-owned (30%) businesses. Most large companies cannot reach their targets in purchasing from black-owned companies and therefore lose up to five BEE points. Being black-owned will make your business more attractive to support.

I strongly recommend that any black-owned company explain the potential benefits the customer can get by supporting your business, as in many cases your own customers are confused as to the benefits that accrue.

Many tenders from businesses specify that a vendor must have reached a particular BEE level and sometimes lay down requirements for black ownership. Eskom has a procurement policy aimed at following the BEE Codes and supporting black-owned business.

Indirectly therefore, BBBEE can help a black-owned business by encouraging its customers to support it. It is very easy to identify potential business areas or services to offer simply by talking to big companies and looking at their own BEE scorecard and see where they are losing points.

Enterprise development

This BEE element encourages big companies to spend 3% of their net profit after tax supporting small black-owned businesses.

This is closely aligned with element 5 – procurement.

Many black-owned businesses have benefited by the support of larger businesses that have assisted them in various ways – cash grants, discounts on products purchased, loans, and loans with preferential terms, shorter payment periods to suppliers, coaching and mentoring,

professional services provided, even encouraging investments in the smaller black-owned business.

Socio-economic development

This BEE element refers to contributions towards socio-economic development and has no direct benefit to a black-owned business.

Conclusion

It should be recognised that BEE will not directly help a black-owned business in getting started. It is a policy that indirectly encourages businesses to partner with and support black-owned businesses.

There is no official BBBEE fund that allocates money, and there is no official database of black-owned businesses that can register with BEE.

However, banks do have specialised units and do offer preferential terms to black-owned businesses. Various agencies such as the Small Enterprise Development Agency and the Youth Portal also try to assist. There are other funders such as Business Partners, the Industrial Development Corporation, and the National Empowerment Fund, among others.

For more information on benefiting from the BEE Act as an SMME or SMI, contact Econobee on (011) 483 1190 or visit www.econobee.co.za

