



# Enterprise Development

Strategies and Models for managing ED in  
the South African Context

**edge**  
leading explosive growth

# Contents

1

***ED Strategy - Understanding Enterprise Development impact on your business***

2

ED Strategy - A practical approach to move towards best practice - setting up for success

3

ED Management - Examples and types of best practice South African ED organisational models

4

ED Delivery - Examples and types of best practice South African ED delivery partners

# ED Strategy - Understanding Enterprise Development impact on your business

- It is crucial to pick ED projects strategically: every project has very different ED outcomes
- There are many sources of business value
- As a result, there are several potential ED strategies
- The only sustainable strategy is one which prioritises broad-based impact (i.e. job creation) and corporate returns

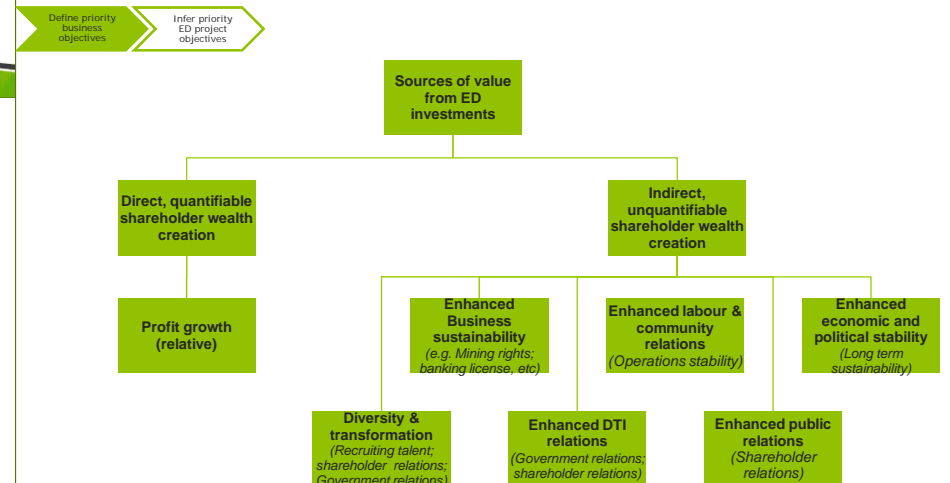
2 steps to determine the types of ED projects to prioritise



- Of the potential sources of business value, which are most important to your business?

- What sorts of ED project impact must be prioritised, in order to maximise this form of business value to you?

ED investments can add value through the following seven business drivers; which are important to you?





# Contents

1

ED Strategy - Understanding Enterprise Development impact on your business

2

***ED Strategy - A practical approach to move towards best practice - setting up for success***

3

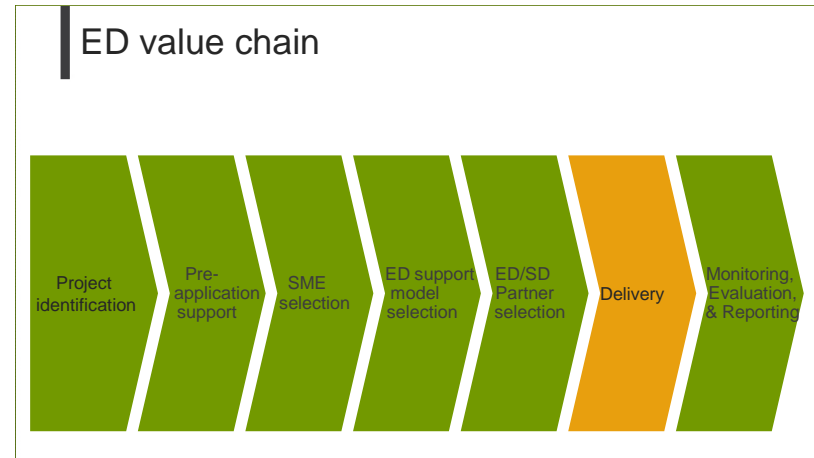
ED Management - Examples and types of best practice South African ED organisational models

4

ED Delivery - Examples and types of best practice South African ED delivery partners

# ED Strategy - Moving towards best practice (1/2)

- Delivering ED with impact is about more than just delivery: it requires managing an entire value chain effectively
- Hence, delivering effective ED requires a significant investment in an effective organisation (either in-house or outsourced)
  - Benchmark 10% of annual budget for start-up, and 20% for ongoing budget
- If impact is our goal, there are 3 broad organisational approaches to set up for success: in-house; specialised ED unit; or outsourced
- Which model you choose depends on your business objectives



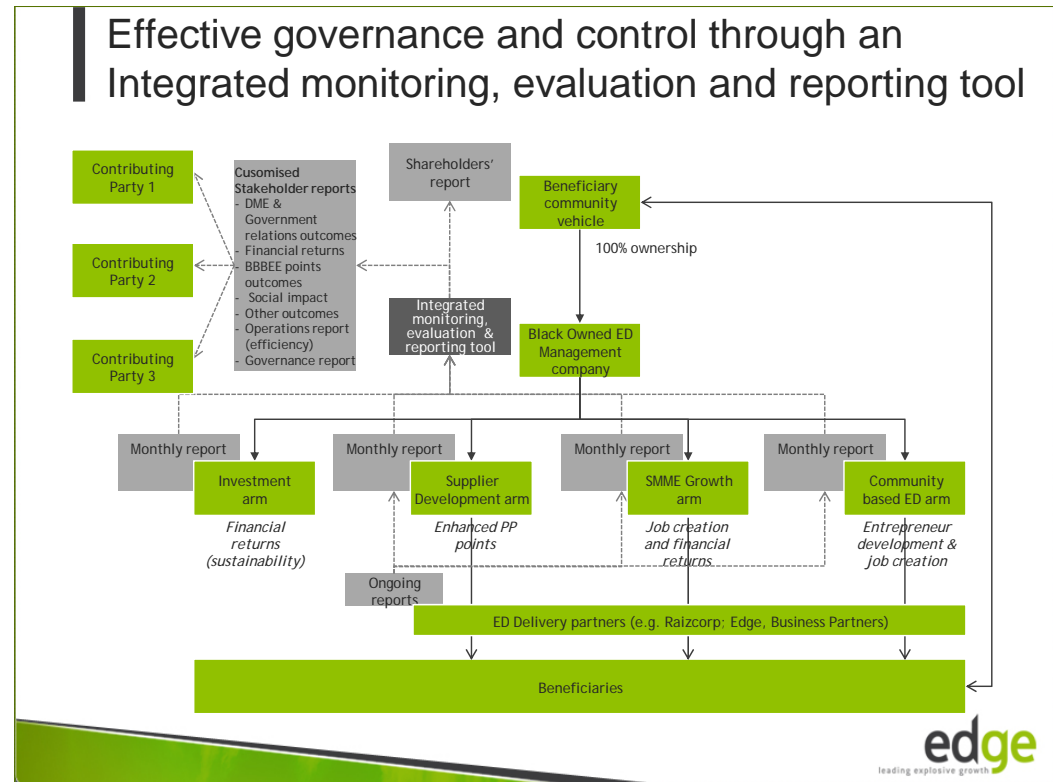
Which model you choose depends on your business objectives

	Outsource to ED management company	Build ED organisation
<b>Description</b>	<ul style="list-style-type: none"> <li>• Channel ED budget to an ED management company which will execute against ED mandate</li> </ul>	<ul style="list-style-type: none"> <li>• Build a specialised ED division / business unit to execute against ED mandate</li> </ul>
<b>SA Examples</b>	<ul style="list-style-type: none"> <li>• SED Alliance</li> <li>• National Enterprise Development Platform</li> </ul>	<ul style="list-style-type: none"> <li>• Anglo (Anglo Zimele)</li> <li>• Sasol (Chemcity)</li> </ul>
<b>Advantages</b>	<ul style="list-style-type: none"> <li>• Limited effort</li> <li>• Immediately obtain ED points</li> <li>• Obtain scale (especially if ED budget is &lt;R10M)</li> </ul>	<ul style="list-style-type: none"> <li>• Ability to customise entire ED program</li> <li>• Ability to integrate with core business operations (supplier / distributor development) and generate business returns</li> <li>• "Sunk cost"</li> </ul>
<b>Disadvantages</b>	<ul style="list-style-type: none"> <li>• Limited control over impact of ED funds</li> <li>• Limited ability to generate business returns from ED funds</li> <li>• Intermediaries typically not focused on net-positive job-creation impact</li> </ul>	<ul style="list-style-type: none"> <li>• Only obtain ED points after funds have been spent / interventions implemented</li> <li>• 3 – 12 months to set up effective organisation</li> <li>• Some of ED budget to be invested in set-up costs</li> <li>• Only makes sense with budget &gt;R10M</li> </ul>



## ED Strategy - Moving towards best practice (2/2)

- For organisations with a large ED budget, customised design is essential to optimise BEE points and ED impact
- Designing an ED organisation is a substantial effort and should only be pursued with an annual ED budget >R10M (preferably >R20M)
- Can take 3-12 months from initiation; “quick hits” can be implemented in parallel
- Crucial to design both the legal structures and the operational structures for maximum impact
- Also crucial to build effective monitoring, evaluation and reporting system to ensure ongoing accountability for delivering impact





# Contents

1

ED Strategy - Understanding Enterprise Development impact on your business

2

ED Strategy - A practical approach to move towards best practice - setting up for success

3

***ED Management - Examples and types of best practice South African ED organisational models***

4

ED Delivery - Examples and types of best practice South African ED delivery partners

# ED Management - Examples and types of best practice

## South African ED organisational models

- 3 broad organisational models from which to design an organisation
  - Fully outsourced
  - Specialised ED unit (in-house, but separate business unit)
  - Fully-in-house
- The most experienced SA corporate entities use a hybrid of all 3



# Contents

1

ED Strategy - Understanding Enterprise Development impact on your business

2

ED Strategy - A practical approach to move towards best practice - setting up for success

3

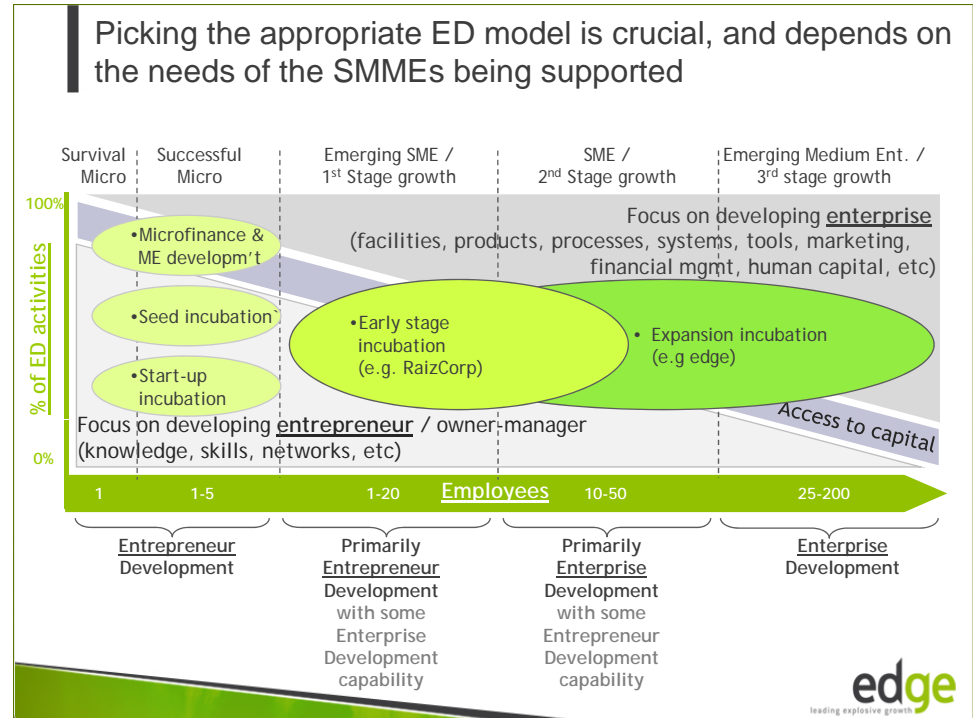
ED Management - Examples and types of best practice South African ED organisational models

4

***ED Delivery - Examples and types of best practice South African ED delivery partners***

# ED delivery models and players

- ED is complex: there are many different models for delivering ED support
- Most businesses will require some form of incubation/ holistic support
- There are multiple forms of incubation: it is essential to pick the appropriate model
- While stimulating black start-ups and entrepreneurship are popular approaches, building serious small and medium sized businesses which employ is a far more important approach in SA
- Holistic SMME incubation requires greater investment but delivers powerful job creating impact





# SA business models and players

## Summary description

## SA Examples

	Summary description	SA Examples	
Primarily financial	<b>Venture capital</b>	<ul style="list-style-type: none"> <li>• Investment funds which invest alongside management in young, rapidly growing companies with potential to become significant economic contributors</li> </ul>	<ul style="list-style-type: none"> <li>• HBD Venture Capital</li> <li>• IDC Venture Cap SBU</li> <li>• Anglo Zimele</li> </ul>
	<b>Development finance</b>	<ul style="list-style-type: none"> <li>• Fund managers (usually government or ODA funded) which provide finance to entrepreneurs and businesses in competitive industries, to promote national socio-economic development</li> </ul>	<ul style="list-style-type: none"> <li>• IDC</li> <li>• Khula / Ntsika funds</li> </ul>
	<b>SMME Finance &amp; microfinance</b>	<ul style="list-style-type: none"> <li>• Small banks which provide finance, transactional banking services, and sometimes other business development services, to micro-entrepreneurs and small businesses unable to access funding from commercial banks</li> </ul>	<ul style="list-style-type: none"> <li>• Grofin</li> <li>• Wizzit Bank</li> <li>• The Business Partners</li> </ul>
Primarily non-financial services focus	<b>Business Centres</b>	<ul style="list-style-type: none"> <li>• Walk-in entrepreneurial centre that offers non-financial services, mostly facilitating business start-up and early stage growth, on a commercial, subsidized, or free basis</li> </ul>	<ul style="list-style-type: none"> <li>• The Business Place (Investec)</li> <li>• SEDA</li> </ul>
	<b>Business Incubators</b>	<ul style="list-style-type: none"> <li>• Business centre that offers start-ups and young businesses premises, facilities, and access to a suite of on-site services to address constraints to growth (excludes finance). Sometimes sector focused</li> </ul>	<ul style="list-style-type: none"> <li>• Raizcorp</li> <li>• ChemCity (Sasol)</li> </ul>
	<b>Virtual Business Incubators</b>	<ul style="list-style-type: none"> <li>• Companies that offer SME's of any size a holistic business services solution to enable aggressive growth management (excludes facilities and finance)</li> </ul>	<ul style="list-style-type: none"> <li>• Edge</li> <li>• ChemCity (Sasol)</li> </ul>
	<b>Entrepreneur development</b>	<ul style="list-style-type: none"> <li>• Companies that provide young entrepreneurs with primarily personal development services, (including entrepreneurial, management, functional, and personal training / coaching / consulting) and facilitate learning, networking and linkages to resources</li> </ul>	<ul style="list-style-type: none"> <li>• Endeavour (NGO)</li> <li>• SAIE (NGO)</li> <li>• Enablis (NGO)</li> </ul>
	<b>Focused Service Providers</b>	<ul style="list-style-type: none"> <li>• Companies that provide a discrete set of business services (out of the large universe), including management, functional (e.g. finance, marketing), and technical support, delivered through training, coaching, mentoring, consulting/advisory, or technology</li> </ul>	<ul style="list-style-type: none"> <li>• The Business Partners (Mentoring)</li> </ul>
Holistic models	<b>Sector development</b>	<ul style="list-style-type: none"> <li>• Consulting organisations which support the development of a particular SME sector by addressing constraints at and sometimes beyond enterprise level for a vertically integrated group of enterprises concerned with the same product</li> </ul>	<ul style="list-style-type: none"> <li>• Technoserve (esp. rural)</li> <li>• AIDC</li> </ul>
	<b>Business linkages</b>	<ul style="list-style-type: none"> <li>• Customised model which decisively addresses all 3 areas of dominant SME need (financial, market, and operational), through performance-based growth contracts (between large businesses and either suppliers or distributors) and holistic managed growth support</li> </ul>	<ul style="list-style-type: none"> <li>• Edge</li> <li>• RaizCorp</li> </ul>
	<b>Hybrid models (many varieties)</b>	<ul style="list-style-type: none"> <li>• Any of the dominant typologies, with some added features from other models, but still not able to decisively address all 3 areas of dominant SME need: financial capital, market access, and operational development</li> </ul>	<ul style="list-style-type: none"> <li>• Edge</li> <li>• RaizCorp</li> </ul>

# Advantages of each ED model

	Relative <u>a</u> dvantages	Relative <u>d</u> isadvantages	Best suited to support...
Primarily financial	Venture capital	<ul style="list-style-type: none"> <li>Provide long term capital to high risk companies with limited debt access, along with strategic and mgmt support</li> </ul>	<ul style="list-style-type: none"> <li>Expect higher financial rewards, hence require lucrative profit potential and equity share</li> </ul>
	Development finance	<ul style="list-style-type: none"> <li>Provides long term debt at subsidised / reduced rate to support sectors / industries with greater developmental potential than investment potential</li> </ul>	<ul style="list-style-type: none"> <li>Typically only available to sectors with great developmental potential (e.g. high job creation)</li> </ul>
	SMME Finance & microfinance	<ul style="list-style-type: none"> <li>Small-scale finance, below commercial bank lower limits, sometimes at competitive rates compared to other alternatives</li> </ul>	<ul style="list-style-type: none"> <li>High interest rates, driven by costs</li> <li>High quality variability</li> </ul>
Primarily non-financial services focus	Business Centres	<ul style="list-style-type: none"> <li>Provide low cost access to basic business skills training and knowledge, for a broad range of SMME's</li> </ul>	<ul style="list-style-type: none"> <li>Limited selectiveness leads to investment in SMME's with low/no potential</li> </ul>
	Business Incubators	<ul style="list-style-type: none"> <li>Provide low cost facilities, basic systems infrastructure &amp; affordable access to advice &amp; mgmt development services (training, consulting, etc)</li> </ul>	<ul style="list-style-type: none"> <li>Require residence ons-ite</li> <li>Focus on HR development, not so much on enterprise development (advanced business processes, systems, etc)</li> </ul>
	Virtual Business Incubators	<ul style="list-style-type: none"> <li>Similar benefits to business incubators, without residence requirement, &amp; more balanced emphasis on enterprise. More flexible than premises-based model</li> </ul>	<ul style="list-style-type: none"> <li>Unable to provide low cost access to facilities (e.g. premises, reception, etc)</li> </ul>
	Entrepreneur development	<ul style="list-style-type: none"> <li>Deep, broad, accelerated personal development of entrepreneurs; lasting investment in human capital will benefit country wherever entrepreneur goes</li> </ul>	<ul style="list-style-type: none"> <li>Limited or no focus on building the enterprise (systems, processes, technology, etc)</li> </ul>
	Focused Service Providers	<ul style="list-style-type: none"> <li>Specialised providers able to provide deep support in specific need areas (e.g. mentoring)</li> </ul>	<ul style="list-style-type: none"> <li>Huge variation in quality and offerings; high costs of selecting most suitable provider and managing many relationships to address all needs</li> </ul>
Holistic models	Sector development	<ul style="list-style-type: none"> <li>Creates jobs through export growth/ import replacement, by making sector more globally competitive through removing constraints beyond firm level</li> </ul>	<ul style="list-style-type: none"> <li>Only has positive benefit where competitiveness is achievable (either domestically, or on global markets)</li> </ul>
	Bus Linkages - Distribution	<ul style="list-style-type: none"> <li>Potential to be more holistic model if added to finance and non-fin. services - indirectly addresses access to markets by providing access to quality products</li> </ul>	<ul style="list-style-type: none"> <li>Can only be initiated by a corporate ED partner, with potential to access new markets/ grow market penetration through growing distributors</li> </ul>
	Bus Linkages - Suppliers	<ul style="list-style-type: none"> <li>Potential to be most holistic model if finance and non-fin services are addressed, since it inherently addresses access to markets directly</li> </ul>	<ul style="list-style-type: none"> <li>Can only be initiated by a corporate ED partner, with an appetite to invest in local suppliers, at a cost</li> </ul>
	Hybrid models (many varieties)	<ul style="list-style-type: none"> <li>Varied – depends on exact nature of hybrid model (can draw on aspects of any of above models)</li> </ul>	<ul style="list-style-type: none"> <li>Varied – depends on exact nature of hybrid model (can draw on aspects of any of above models)</li> </ul>

• Note: MSE = Micro & Small Enterprises | SME = Small & Medium Enterprises | SMME = Small, medium, and micro enterprises

