Business development and mentorship

– critical success factor after funding enterprise development (ED). The importance of offering more than "mere funding" to ensure sustainable ED.

All too often I come across the situation where organisations or institutions want to remove, or drastically reduce, the level of business development support they have been providing to an ED beneficiary after that beneficiary has been successful in receiving funding.

The view is often based on the misinformed opinion that funding alone will ensure the growth and sustainability of the businesses and that most of the work of a business development support provider is to get the SME to a point where it can access funding, and then move on.

This is definitely not the case and, in fact, it is often more important to provide business development support after the SME has received funding. Failing to this can, in fact, jeopardise the sustainability of the SME.

Before I go any further, let's define what is meant by business development support. There are many interpretations to this, and as many names to go with it – BDS, mentorship, coaching and guiding are all names you will hear used in the industry. At Edge Growth we define business development support as the process of working with an experienced, independent mentor to proactively identify and implement customised "business building" activities. These activities generally do not happen while the entrepreneur is running the business on a day-to-day basis and having to make "urgent versus important" trade-offs all the time. This trade-off comes at the cost of long-term sustainability and value creation to the business.

These business-building activities are determined by assessing the life stage which the business is in, as well as the level of capacity and potential which the entrepreneur demonstrates and thus each business will have a customised set of activities.

Now, coming back to the tile of this article – why is it so important to continue to provide this business development support after funding an ED beneficiary?

The reality is that after receiving funding the entrepreneur often has to manage and grow a more complex business. In the ED space this is often the first time the entrepreneur has dealt with this additional complexity and getting it wrong in this phase can have dire repercussions to the business and entrepreneur personally.

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To put it simply, the business now has a liability in place as most funding will come in the form of a loan. The entrepreneur will probably have signed personal surety against this loan. Added to this, most times funding is provided to accelerate a growth opportunity in the business, often following a bigger contract. With this bigger contract the entrepreneur has to manage more people, more equipment, cover high overheads and higher cash flow pressure to name a few – all under higher delivery expectations from customers. This is the phase where most small growing businesses fail.

Entrepreneurs in this phase benefit greatly from the appropriate type of business development support to help navigate through these dynamics successfully. It also makes sense for the funder to continue providing this support as this goes a long way towards protecting the capital which the funder has outlaid in the form of a loan.

I will put some flavour to these comments by highlighting a real example of this which I have come across recently.

Edge Growth was asked by one of SA's large corporates to try to rescue a small black woman-owned business which was in their supplier development programme.

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The business manufactured industrial chemicals on a small scale, and the owner had built up a nice little business over a five-year period after leaving a corporate job. On entering the supplier development programme the business was given a contract to manufacture and supply industrial chemicals; the value of the contract was 10 times the size of their previous biggest contract and current capacity. However, no business development support was provided through the programme.

The entrepreneur, who is a technical specialist, secured funding to build capacity to deliver on the contract, entered into long-term contractual agreements with suppliers and employed more staff. In addition, she was also managing a substantially bigger and more complex operation without the experience, information and support required to do so. In the long run this led to quality and service delivery issues to the point where the contract was cancelled. The entrepreneur had not contracted well with suppliers and so the loss of her contract triggered legal proceedings by suppliers. Also, she had signed personal surety for the funding. The business used up all its reserves while trying to resolve all these issues but was unsuccessful. In the process 20 jobs were shed and, as I write this article, it seems as though the business may be liquidated by the suppliers.

Everyone in this situation is a loser – the funder, the corporate, the SME employees, the entrepreneur who has regressed backwards to prior even having the contract, and the suppliers.

While business development support cannot guarantee success, in this instance – as in most instances post-funding – the provision of appropriate support would have helped the entrepreneur to navigate this situation proactively and avoided this outcome.

By Stuart Townsend, ...

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