Supplier Development: A Global Perspective for the South African market

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1 Executive summary

The focus of this document is on best practice for developing suppliers in an emerging market. There are a number of factors which have driven organisations around the world to implement local procurement and supplier development – concepts which many companies tend to view as being almost one and the same thing. For the most part, programmes have been implemented because forward-thinking companies have recognised the long-term strategic benefit of including and integrating suppliers from local communities into their supply chain, rather than for philanthropic reasons or to comply with legislation. In fact, it could be observed that in countries with compliance requirements, companies tend to view local procurement and supplier development from a compliance mindset with all its associated costs, rather than seeing the strategic value which can be gained.

Some of the most common drivers for furthering local procurement across sectors, companies and countries are:

- Social licence to operate;
- Sustainable development driving long term profits;
- Supply Chain value driven largely through lower long term costs;
- Regulatory and governmental pressures.

However, there are typically a number of challenges to integrating these suppliers into the supply chain:

- Difficulty in matching the business opportunities within the supply chain to the skills and capacity of the SMEs;
- The large gap between the standards and skills of SMEs, and the demands and expectations of large world class organisations; and
- A lack of business, management and technical skills and experience.

In order to overcome these challenges and increase local procurement, many companies around the globe have established supplier development programmes.

Objectives of supplier development programmes

The specific objectives of different supplier development programmes differ from country to country and company to company. For example, some programmes are more focused on assisting suppliers with the tendering process, others are more focused on basic business and management skills and yet others focus on critical technical skills to drive value.

The overarching end goals of most of these programmes, however, could be summarised as follows:

- Local supplier development, where the objective is to develop local SMEs so that they have the ability to actively and successfully participate in the company’s supply chain, which indirectly also allows them to diversify their customer base, and
Local economic development, where the objective is to develop non-supply-based SMEs so that they have the ability and capacity to service other companies as well as their communities, thus building sustainability beyond the extractive operation.

Some programmes also place a focus on developing the capacity of institutional entities such as local industry bodies, government departments and enterprise development centres to support the overall growth and development of local businesses.

**Approaches to competitive and responsible entrepreneurship through development programmes**

Supporting and encouraging competitive and responsible entrepreneurship can be approached in a variety of ways using different types of multi-sector partnership models, where each partner brings different assets, resources and expertise.

These different models sit somewhere on a continuum between a fully commercial, profit-driven approach on the one extreme and a fully government-funded approach on the other extreme.

Since supplier development programmes are a key mechanism for supporting and encouraging competitive and responsible entrepreneurship, it is worth considering where on this continuum the ideal supplier development framework lies and what aspects of the different models should be incorporated.

**The need – and value – of starting with a demand side analysis**

A key initial element of preparation for a supplier development programme is that of demand analysis. Demand analysis looks at all the procurement categories in a given company and evaluates them along a range of criteria such as risk, complexity, size of demand, growth or projected decrease in demand and so forth. This helps identify areas that the company can focus on.

Although a company may start the process without this – and in fact in South Africa, many do – what often happens is that enterprise development takes place, but there is no noticeable impact on procurement spend with local SMEs.

A further benefit of undertaking a demand side analysis is that this is a key step in developing a preferential procurement strategy, of which supplier development is one of many mechanisms.

**Overview of key supplier development models**

Four models developed and operated in Africa were chosen as the flagship supplier development models due to their relevance for SME supplier development and because they were the most comprehensive models identified through the available research. The following models were evaluated at a high level:

- The ExxonMobil Supplier Development Programme in Chad;
- The Newmont Supplier Development Programme in Ghana;
- The BHP Billiton Supplier Development Programme in Mozambique; and
A high level assessment of each of the programmes is included in this report, including an introduction to each programme, the key objectives of the programme, the approach followed by the company, the participating partners and the critical success factors identified.

Key components of a supplier development framework

The report details out the various components of different supplier development frameworks (a large number of which are common to most frameworks) and explores these components to better understand the different practices and learnings from across the globe.

The components explored could be considered mainly internally-focused or mainly externally-focused and include the following:

- **Mainly internally focused:**
  - Establishing management commitment, including support from the country CEO, involvement of senior management and key role played by the internal champion;
  - Identifying and communicating with key internal stakeholders, including internal Business Units, Supply Chain, and other relevant functions;
  - Designing the programme structure, including programme finance, programme management, infrastructure requirements and an exit strategy;
  - Developing training modules and support for the operation’s tendering process;
  - Evaluation of the SDP, including programme review, learning from failures, monitoring and evaluating suppliers, integrating lessons learnt and planning for the future.

- **Mainly externally focused:**
  - Identifying and communicating with key external stakeholders, including key suppliers, communities and government;
  - Identifying and selecting partners;
  - Access to finance for SMEs;
  - SME mapping;
  - Identifying suitable participants for the programme through a rigorous grading and mapping system; and
  - SME training and development intervention, including assessing suppliers, developing work plans for improvement, approaches to training and the involvement of trainers.

Potential supplier development framework

Based on our research in this area, we have developed a supplier development framework outlined below, which forms a basis for developing a supplier development programme within any large organisation. This framework identifies four phases:

- Design;
- Preparation;
- Implementation;
- Evaluation.

The components evaluated above have each been allocated to a relevant project phase.

The detailed framework can be found on the following page.
Design

- Establish management commitment and buy-in for the programme
- Identify partner types, select partner and define roles and responsibilities
- Design Programme Strategy
  - Identify stakeholders
  - Common plan for stakeholders
- Design programme methodology and processes
  - How to select businesses and suppliers
  - How to rate suppliers
  - How to evaluate suppliers
  - Design how to develop suppliers
  - Design SME and programme evaluation
  - Access to finance
  - Infrastructure requirements
  - Roles and responsibilities

Preparation

- Establish steering committee
- Evaluate current initiatives and develop plan to modify as required
- Select partners
- Recruit and train staff
- Implement infrastructure requirements
- Engage with stakeholders and manage expectations
- Conduct demand analysis
- Undertake SME mapping (Supplier Database)
- Develop training modules
- Develop new or adjust existing tools for programme

Implementation

- Identify suitable participants for supplier development
  - Identify appropriate business segments
  - Rate SMEs
  - Select suitable participants
- Provide assistance on tendering
  - Establish awareness
  - Implement training and support for tendering process
- Implement development intervention
  - Evaluate participating SMEs
  - Develop specific plan with SME improvement
  - Identify and involve relevant experts
  - Implement training programme
  - Implement mentoring programme

Evaluation

- Assess impact of programme
  - Evaluate KPIs in supply chain
  - Evaluate KPIs in developed suppliers
  - Document findings and recommendations
- Refine framework/model
  - Integrate lessons learnt
  - Adjust programme
- Plan for the future
Critical success factors

Considering the sheer volume of information available across companies, countries and continents, there are a large number of noted critical success factors across a range of areas. This section attempts to distil the key lessons learnt into a concise list of critical success factors which are most likely to be meaningful and relevant to the South African, and African, context:

- Commitment and cooperation from key responsible individuals within the company;
- Development of key partnerships;
- Proactive community management and engagement of supplier groups;
- Understand the dynamics of local business;
- Active participation by the most appropriate SMEs for development; and
- Training SMEs.

Overcoming key challenges

In addition to critical success factors, many companies identified key challenges which they faced when designing and implementing supplier development programmes. Many challenges are also reflected through the critical success factors; therefore this section has been limited in the interests of avoiding excessive repetition.

- Achieving change management within the company by driving commitment from the top and implementing appropriate incentivisation;
- Overcoming the perceptions and often expectations of or entitlement to “aid” from within the communities and supplier groups through the way in which suppliers are engaged;
- Engaging with and managing the expectations of communities and supplier groups;
- Overcoming the obstacles of upfront costs to drive long term savings by embedding the vision for and commitment to local procurement and supplier development in procurement decision-making;
- Avoiding short-term focus on “easier” projects by proactively planning medium to long term, more ambitious supplier development projects;
- Avoiding the lack of participation and ownership by local communities and supplier groups through proactive engagement with them;
- Avoiding programmes which fail to align with key business objectives and core competencies by designing the strategy upfront;
- Overcoming a lack of transparency and clear criteria for developing suppliers; and
- Measuring impact.

Conclusions and recommendations

A significant amount of information exists globally regarding the design and implementation of SDPs, providing companies with the opportunity to learn from what works and what does not, and understand upfront what the key success factors and key challenges are.

Supplier development is not unique to South Africa and it can and should be used strategically wherever local content requirements exist and/or supplier capability is insufficient. South African companies should take note of the fact that supplier development is a global phenomenon with best practice benchmarks. These best practices should be incorporated in the design and implementation
of SDPs to ensure that they create sustainable commercial value, and avoid simply becoming a “box-ticking” exercise with little value outside of appearances.

2 Context and background

The focus of this document is on best practice for developing suppliers in an emerging market context, where there are historically few or no capable suppliers in key sectors and where there exists some form of legislation or policy mandating procurement from local companies.

Although originally written specifically for South Africa, due the significant imperative in this country to engage in Preferential Procurement, we have used global case studies and global best practice in such a way that the information will be applicable to any company wishing to learn more about supplier development in any emerging market context.

A wide variety of information, research documents, case studies and other resources were sourced, evaluated and used as input into this research. The research focused on a broad range of companies operating in different sectors, with a particular focus on the extractives sectors, including mining and oil and gas. The research ranged from within South Africa, to Africa, to other developing countries (particularly in Asia and South America) to first world economies.

Some research documents and case studies have considered local procurement at a national economy level and were focused on developing new and competitive industries within certain countries. Other companies have adopted a holistic and strategic approach where in the short term, they focus on building a foundation with SMEs, in the medium term they focus on leveraging technology through bigger investments in larger suppliers, and in the long term they focus on global competitiveness, requiring significant investment. Supplier development therefore happens on multiple levels and we will examine several of these in this document.

2.1 Global context for local content and supplier development

In the modern world no company is an island, and no matter how big or small, an efficient and effective supply chain is a key determinant of competitiveness.

Globally, some procured goods and services are specialised in certain regions and countries and are provided by a few players, while others are generalised and have many suppliers in each locale around the world. Although no country, or company, would want to completely restrict imports, ensuring a good local economy means ensuring that many core items for key industries can be acquired within the country context itself. This helps maintain low transport costs, keep high quality standards through more control, and of course means that the money made in a given country will multiply within that context.

For developing countries then, the big question is how much procurement expenditure by key companies will be through contracts with suppliers and subcontractors that are either resident, owned by, or tax-registered in the country in which this expenditure is invested. This percentage of procurement expenditure spent with local companies is termed local content, and is an area that can be utilised as a means to strategically develop national industries and generate employment. It is for this reason that many developing countries around the world have local content regulations and
policies in place across all or several key sectors. As an example, Brazil, Trinidad and Tobago, Kazakhstan, Indonesia, Nigeria and several others all have established local content regulations.

The classic drivers of procurement are to secure goods and services at the right price, right time, right quality, right quantity, and from the right place. These ‘rights’ often act against one another and result in the need to make the required tradeoffs. Companies therefore need to be strategic and minimise the tradeoffs through planning their procurement strategies effectively.

Local content regulations and policies have a direct impact on the procurement strategies of companies, as they place greater emphasis on the right place. Understandably, where there are little or no local suppliers – or the local suppliers are of poor quality – meeting local content requirements can be difficult and investment in supplier development becomes a necessity. Although often costly in terms of time and money, supplier development can ensure that the local supply chain becomes efficient and effective and that the procuring company can therefore take advantage of the other cost advantages of working in a developing country context. In order for this to work, however, the supplier development process needs to be well-planned and implemented.

2.2 South Africa context: Preferential Procurement

Although the South African government is increasingly looking at creating local content regulations, and has already put these in place for large tenders in sectors such as rail and renewable energy, procurement in South Africa is also governed by the Broad-Based Black Economic Empowerment (B-BBEE) legislation in the country.

The racially exclusive and prohibitive policies of South Africa’s previous regime created a large degree of inequality and hindered development in the country. As a result, the new government put in place various B-BBEE policies designed to help address the historical issues and create a more inclusive economy more reflective of the country’s demographics. The B-BBEE Codes of Good Practice are an example of such legislation and they require companies to meet certain compliance targets in 7 elements: Ownership, Management, Skill Development, Employment Equity, Preferential Procurement, Enterprise Development and Socio-Economic Development. Recent changes in these Codes have also merged some of these elements and in fact further introduced supplier development as a formal requirement.

Preferential Procurement, as one of the elements of the Codes as well as of other Preferential Procurement legislation in the South African context, is similar to local content regulations in other countries in that it forces companies to procure from local suppliers. The differentiator is that these local companies must also be black owned or have a very good level of B-BBEE compliance, making Preferential Procurement even more restrictive than just local content requirements would be.

2.3 Supplier Development

Supplier development is one of many strategic tools available to companies across the globe that help to ensure sustainable local content or to simply improve supply chains. In the South African context, supplier development helps achieve high Preferential Procurement targets, by ensuring the development of capable suppliers in key areas, and is also encouraged by separate targets for enterprise development.
There are a number of factors which have driven organisations around the world to implement local procurement and supplier development – concepts which many companies tend to view as being almost one and the same thing. For the most part, programmes have been implemented because forward-thinking companies have recognised the long-term strategic benefit of including and integrating suppliers from local communities into their supply chain, rather than for philanthropic reasons or to comply with legislation. In fact, it could be observed that in countries with compliance requirements, companies tend to view local procurement and supplier development from a compliance mindset with all its associated costs, rather than seeing the strategic value which can be gained.

Some of the most common drivers for furthering local procurement across sectors, companies and countries are:

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However, there are typically a number of challenges to integrating these suppliers into the supply chain:

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- The large gap between the standards and skills of SMEs, and the demands and expectations of large world class organisations;
- A lack of business, management and technical skills and experience.

In order to overcome these challenges and increase local procurement, many companies around the globe have established supplier development programmes.
3 Global business case for a Supplier Development Programme

There are a number of factors that drive organisations around the world to implement supplier development programmes (SDP). In many cases in emerging markets, these programmes are increasingly implemented because forward-thinking companies have recognised the long-term strategic need to do so, rather than for philanthropic reasons or to only comply with legislation. Even companies which initiate programmes through external legal and governmental pressures can ultimately realise the business benefits of doing so, if the programmes are implemented correctly.

Some of the most common drivers for supplier development across sectors, companies and countries are noted below.

3.1 Social licences

Companies operating in industries such as extractives, and often located in remote regions, are becoming increasingly aware of the need to earn a social license to operate beyond the legal rights typically awarded by governments. Host communities need to be involved and happy, since they have a lot of power to hinder operations. The development of suppliers from host communities localised to the operation is one way to create a greater sense of participation and benefit for these communities, thus ensuring the social license.

3.2 Sustainable development

Companies proactively adopting sustainable development practices have realised that there is more long term value in a business which is still operating in 30 or 40 or 50 years’ time, than in a business which exploits its various resources for short term profits.

Furthermore, there is a clear link between sustainable development and social licences, where the long-term sustainability of a region’s economy beyond the life of the extractive operation is seen as a critical component of a social licence.

Governments are keen to promote supplier development as a form of longer terms sustainable development due to the fact that when engaging in enterprise development in general, securing a market can be difficult. Supplier development starts with an available market, but it is for this reason that the procurement of a given company must be first analysed in order to determine where the opportunities truly lie.

3.3 Supply chain value

A supplier development programme can lead to significant cost reductions in the long term, if executed properly. Cost reductions can be realised through the suppliers’ proximity to the operation, improved lead times, service delivery, reduction in transport costs, reduction in risk and so on.

Not only can increased local procurement, enabled through supplier development, ease operational issues for the company, it also can help to stimulate the local economy and build the capacity of local SMEs by making them more competitive and prepared for future challenges and opportunities – often to the ultimate benefit of the developing company.
ExxonMobil estimated that substituting local suppliers for external suppliers, especially in delivery of services such as catering and construction (road, labour, basic buildings), could lower these total costs by 10% to 15% in the long run.

In South Africa, where skills in critical areas are often low, this type of development also has important knock-on effects of improving the skills pool in the country and in particular with disadvantaged groups.

3.4 Regulatory environment and Government pressure

South Africa is not the only country that experiences Government pressure and regulatory drivers to encourage local or preferential procurement and supplier development. Many Governments put pressure on organisations to establish SDPs as part of their objectives to stimulate the economy and reduce poverty. Some examples of where direct government pressure and/or regulatory regimes have driven the development of SDPs include the Chevron programme developed in Angola after the civil war, the Rio Tinto programme developed in Canada and the BHP Billiton programme in Mozambique.
4 Typical objectives of supplier development programmes

The specific objectives of different SDPs differ from country to country and company to company. For example, some programmes are more focused on assisting suppliers with the tendering process, others are more focused on basic business and management skills and yet others focus on critical technical skills to drive value.

The overarching end goals of most of these programmes, however, could be summarised as follows:

- Local supplier development, where the objective is to develop local SMEs so that they have the ability to actively and successfully participate in the company’s supply chain, which indirectly also allows them to diversify their customer base,

- Local economic development, where the objective is to develop non-supply-based SMEs so that they have the ability and capacity to service other companies as well as their communities, thus building sustainability beyond the extractive operation.

Some programmes also place a focus on developing the capacity of institutional entities such as local industry bodies, government departments and enterprise development centres to support the overall growth and development of local businesses.
5 Different approaches to fostering entrepreneurship and development

Supporting and encouraging competitive and responsible entrepreneurship can be approached in a variety of ways using different types of multi-sector partnership models, and where each partner brings different assets, resources and expertise.

The ultimate objective of these different approaches is to overcome the challenges faced in terms of driving business development and entrepreneurship, with particular focus on access to finance and other business services, business linkages into supply chains, and ensuring businesses adopt responsible practices in areas such as ethics, community safety and working conditions.

5.1 Individual company value chains and ‘hybrid’ business models

In this model individual corporations interact directly without any intermediaries to develop and integrate small enterprises into their own value chain. This is achieved with the assistance of government, donors, NGOs and community organisations to extend the reach and development impact.

5.2 Collective business linkages initiatives

Similar approach and use of partners to the first model, but here there is collaboration by companies in the same industry sector or based in the same location to directly develop and integrate small enterprises into their value chains.

The Oil and Gas industry is a good example of having achieved this, where BP, ExxonMobil, Chevron and Total collaborated to develop a successful supplier training initiative in Angola.

5.3 Enhanced trade and industry associations

Effort is placed on developing the trade and industry associations to enable them to work collectively to improve and develop small enterprises.

5.4 ‘Blended Value’ financing mechanisms

Here large corporations partner with development finance and financial services institutions to combine commercial and social funds to provide financial services and other support services to small enterprises in a way that is economically viable.

5.5 Institutionalised enterprise support services

This constitutes the institutionalisation of business development whereby organisations provide support services such as technical assistance, training, mentoring and finance which will assist small enterprises to access key resources, skills, information and business opportunities.

5.6 Multi-stakeholder public policy structures

A variety of corporate and non-governmental organisations form structures that focus on relevant policies and strategies relating to poverty reduction and economic development.
5.7 Model summary

These different models sit somewhere on a continuum between a fully commercial, profit driven approach on the one extreme and a fully government funded approach on the other extreme. In the South African context, BEE is a legislative requirement that often drives corporate investment in what could be considered more social development. It is important to keep this in mind as it almost artificially influences where South African models would fall on the continuum.

The diagram below illustrates where the different models are situated on the continuum between purely capitalist-funded and purely government-funded, as well as key characteristics and some Examples.

<table>
<thead>
<tr>
<th>Model</th>
<th>Key characteristics</th>
<th>Examples</th>
</tr>
</thead>
</table>
| 1. Individual company value chains and “hybrid” business models | - Individual company  
- Multiple organizational partners  
- Direct interaction with SMEs | - Large companies |
| 2. Collective business linkage initiatives | - Collaboration across sectors or based on location  
- Multiple organisational partners  
- Direct to SMEs | - Sector-based collective initiatives |
| 3. Enhanced trade and industry associations | - Effort placed on developing organizational bodies to enable them to assist SMEs | - Trade associations, business chambers |
| 4. “Blended value” financing mechanisms | - Private sector commercial capital  
- Plus social investment  
- For financing and support of SMEs | - Microfinance intermediaries, social venture capital |
| 5. Institutionalised enterprise support services | - Institutionalisation of SME enterprise development | - Business support centres |
| 6. Multi-stakeholder public policy structures | - Private sector partnering with non-government organization to influence policy at country level | - National business councils, industry charters |

Since SDPs are a key mechanism for supporting and encouraging competitive and responsible entrepreneurship, it is worth considering where on this continuum the ideal supplier development framework lies and what aspects of the different models should be incorporated.
6 High level overview of key models

Four case studies from Africa were chosen for deeper examination of SME supplier development mainly due to their comprehensive nature and relevance of key learnings. These are presented in the sections below.

6.1 ExxonMobil Supplier Development Programme in Chad

6.1.1 Introduction

The Local Supplier Development Programme in Chad is being implemented by ExxonMobil in association with the IFC and Chad’s Chamber of Commerce. The programme aims to build linkages between ExxonMobil and local suppliers using a transparent local electronic procurement system by training suppliers on how to use the system how to tender effectively and how to improve their businesses to enable them to meet ExxonMobil standards and stringent requirements.

6.1.2 Objectives

The programme aims to:

- Increase capacity, skills and technical competencies of local SMEs;
- Integrate local SMEs into the company’s supply chain using the eProcurement system that promotes a transparent and effective procurement process;
- Provide ExxonMobil with a wide pool of local suppliers from which to choose;
- Reduce long term costs and stimulate the local economy by procuring from local suppliers.

6.1.3 Approach

The programme is divided into five phases. Firstly the company needs to be prepared for the initiative, therefore this is the phase where programme strategies are developed and buy-in is obtained from all parties that will be involved in the programme. The second phase involves informing and educating SMEs prior to the tendering process, to enable them to understand the company’s procurement processes and the standards that need to be adhered to. The third phase is where SMEs are trained and where tendering takes place. The fourth phase involves feedbacks sessions for SMEs regarding successful and unsuccessful tenders, and assisting them to effectively implement successful contracts. The final phase involves impact evaluations of SMEs and the overall programme, which is then fed back into a programme enhancement process.

The diagram below illustrates this process.
6.1.4 Partners

ExxonMobil worked with a variety of partners to ensure the programme’s success:

- Development institution (IFC);
- Local business organisation;
- First tier suppliers;
- Finance institutions.

6.1.5 Critical success factors

ExxonMobil identified a number of factors that were critical to the successful implementation of the project and achievement of its objectives:

- Upfront buy-in from the company;
- Specific and appropriate incentivisation at key levels within the company;
- Commitment and motivation of supplier development implementation team;
- Transparent communication regarding tendering opportunities;
- Interest, drive and commitment to change from the participating SMEs.
6.2 The Newmont Supplier Development Programme in Ghana

6.2.1 Introduction

The IFC and Newmont Ghana Gold Limited jointly developed a local procurement and supplier development programme called the Ahafo Linkages Programme which is focused on capacity building and integrating local businesses into the supply chain. This is done through the support and development of local SMEs using a technical and business skills mentoring approach to enable them meet Newmont’s procurement standards and stringent requirements.

6.2.2 Objectives

The programme aims to:

- Build the capacity of local micro businesses and SMEs to enable them to competitively participate in Newmont’s supply chain as well as other large, regional and national companies;
- Strengthening the sustainability of the local economy and strengthening the sustainable development commitment of the company;
- Support development of local businesses in communities.

6.2.3 Approach

Newmont identified a number of key components in terms of setting up a linkages programme. These components include the following:

- Scoping phase, including an evaluation of current conditions and SME mapping;
- Programme design;
- Management commitment;
- Communication and managing expectations, particularly with communities;
- Organisational and support structures;
- Programme components;
- Sustainability.

6.2.4 Partners

Newmont worked with a variety of partners to ensure the programme’s success:

- Local expert or consultant;
- Development institution (IFC);
- External Affairs Communications Department and/or Public relations department (to develop effective communication strategies to engage with the local community);
- Local organisations and foundations.

6.2.5 Critical success factors

Newmont identified a number of factors that were critical to the successful implementation of the project and achievement of its objectives:
Aligning large suppliers of the company with the company’s strategy to develop local SMEs;

Involving a local expert and the local communities, especially in the design and scoping stage, to ensure local content is properly incorporated in the programme;

Reviewing the programme design early;

Establishing a steercom and involving management at all levels of the company to be champions in the programme, to ensure support and smooth implementation of the programme;

Establishing appropriate infrastructure (an enterprise centre) to manage the programme implementation;

Establishing a clear strategy on access to finance at the beginning of the programme;

Targeting specific sectors to optimise resources and create synergies among local companies.

6.3 BHP Billiton’s Supplier Development Programme in Mozambique

6.3.1 Introduction

In 1999, BHP Billiton, Mitsubishi, the government of Mozambique and the Industrial Development Corporation of South Africa formed a $2 billion joint venture to build an aluminium smelter near Maputo, called Mozal. Initiatives to develop SMEs and link them into the supply chain started during the construction phase in 2001 with the assistance of the IFC. On the back of this successful project at construction phase, Mozal decided to develop a supplier development programme called MozLink for the ongoing operations phase. The programme aims to create competitive SMEs with the capacity and skills, built through training and mentorship, to successfully work with Mozal and other large companies.

6.3.2 Objectives

The objectives of the programme are to:

- Match supply chain opportunities to SMEs with the appropriate level of competency and technical skills;
- Close the gap between the SMEs and Mozal’s world class standards;
- Develop SMEs’ standards, management skills and experience.

6.3.3 Approach

The programme focuses on repeatedly developing batches of 15–20 SMEs over a 1 year period using a training and mentorship approach. The framework is divided into 5 phases:

- The preparation phase is where the programme strategy is designed and the buy-in and commitment of all parties (SMEs, Management, Mentors act) involved in the programme occurs;
- The Assessment I and Workshop I phase is focused identifying SMEs shortfalls and correcting them using work plans and developing training modules for each specific SMEs;
- The Execution of SME Improvement Plan phase is where work plans and training modules are put into action;
- The Assessment II and Workshop II phase is where the work plans and training modules put in place are reviewed and evaluated;
- The Evaluation phase involves impact evaluations of SMEs and the overall programme.

The diagram below illustrates this process.

Source: Developing SMEs through Business Linkages – the MozLink Experience

6.3.4 Partners

BHP Billiton worked with a variety of partners to ensure the programme’s success:

- Development institution;
- Local business organisation.

6.3.5 Critical success factors

BHP Billiton identified a number of factors that were critical to the successful implementation of the project and achievement of its objectives:

- Specific and appropriate incentivisation at key levels within the company;
- Commitment and motivation of in-house supplier development implementation team;
- Interest, drive and commitment to change from the participating SMEs;
- A well planned and coordinated programme.
Mozal is currently one of the largest and most efficient aluminium smelters in the world and is often considered a technical benchmark for smelters. In 2007 the project’s annual procurement from local businesses had grown to approximately R1.5 billion from over 250 Mozambican companies, since inception in 2002. The MozLink project effectively proves that it is possible to develop local suppliers, and to build and operate a world class operation at the same time.

6.4 South African International Business Linkages

6.4.1 Introduction

The South African International Business Linkages Program – Phase II (SAIBL-II) began in 2008 and sought to promote the creation and development of a corporate-led movement that fosters supplier development as a national competitive advantage and priority. It also sought to encourage systemic change in the way corporations, black businesses and business service providers (BSPs) do business with one another, while following sound business practices and market forces.

6.4.2 Objectives

The SAIBL-II program was designed to help address South Africa’s unemployment challenge by focusing on job creation, competitiveness, sales transactions and integrating black suppliers into the supply chains of large corporations. The program provided demand-driven and integrated support to its clients through the creation of business opportunities, linkages, and new markets.

The three main objectives were to:

- Increase employment and sales of SMEs through addressing gaps and weaknesses through training and finding of export markets;
- Create corporate linkages through working with large companies to help them improve supplier diversifications strategies; and
- Strengthen associations and business development services.

6.4.3 Approach

SAIBL-II concentrated on the formation of the South African Supplier Diversity Council (SASDC) and the building of a database of sound black suppliers that are producing marketable goods and services. Its interventions were geared towards established suppliers. The strategy was having a sound base from which to build a database of certified black suppliers to link to corporations as soon as the SASDC was formed.

In order to achieve this, SAIBL-II employed a three-pronged approach:

Screening Companies: this involved screening and selecting sound and established suppliers. SAIBL-II strengthened their processes by designing and introducing the Picking Sound Companies (PSC) Tool. The tool provides a relatively quick and effective way to select sound firms by assessing the following aspects:
• bona fide black ownership and management control;
• capabilities of the owners and managers;
• financial condition of the company; and
• operational capacity and suitability as a prospective goods or services supplier.

**In-depth Company Diagnostic**: this involved identifying gaps or needed areas of intervention based on the application of a Company Diagnostic (CD) Tool. The use of the CD tool allowed SAIBL-II to gain insight into specific companies’ conditions at any point in time, and to identify areas where it can have the greatest impact in improving their competitiveness. Interventions were implemented by a domestic, SAIBL-II trained, business service provider on a cost-sharing basis.

**Training Business Service Providers**: the final step was training Business Service Providers (BSPs) in order to improve their capacity, capabilities and increase the number of affordable, quality BSPs not only to SAIBL-II clients but black enterprises in general.

**6.4.4 Partners**

A variety of partners were engaged to ensure the success of SAIBL-II, including:

• Various business associations;
• A local expert consultant;
• South African and US Government;
• South African Supplier Diversity Council;
• Business Management Organisations; and
• Corporates.

**6.4.5 Critical success factors**

The South African economy was adversely affected by the global economic crises that led to a major decline after several years of good growth. Despite this, SAIBL-II achieved fairly remarkable results in the last 4 years given the difficult economic conditions under which the program was implemented. The greatest result of SAIBL-II was leaving behind an entity, the South African Supplier Diversity Council (SASDC), as the programme’s exit strategy. SAIBL-II also registered more than 500 black suppliers and assisted more than 350 with capacity building during its run.

Critical success factors were thought to be:

• Corporate and supplier buy-in for the process;
• Having an internal champion in the organisation;
• Dealing with the highest levels of the organisations in order to achieve change;
• Setting targets and tracking progress;
• Clear messaging and communication;
• The need for a business case for supplier diversity;
• Linking incentives for procurement teams to supplier development targets.
7 Supplier Development best practice

There are various different components that make up a supplier development programme. This section looks at each of these components (a large number of which are common to most frameworks), and explores these components to better understand the different practices and learnings from across the globe.

7.1 Establishing management commitment

Almost every framework and case study evaluated makes it explicitly clear that the first and most important step to ensure the success of a SDP is securing the commitment of the most senior levels of management to the goals of the SDP. This is done by ensuring that company policies and management as well as employee incentives at every level are aligned with the goals of the programme.

In particular, the following key management levels are usually identified to drive SDP goals:

7.1.1 Country CEO

It is essential for the most senior management level in the country where the project is being implemented buys into the SDP plans and objectives and clearly demonstrates support for encouraging local procurement and developing suppliers.

This demonstration is often also driven through the company’s policies by including values that display a corporate commitment to improve the quality of life, create jobs, and stimulate growth in the region in which the company operates.

7.1.2 Senior management

Support is required at senior management level to actively drive the cause for the SDP at higher levels of the company. This is likely to be the key person within the company who gives the go-ahead for the SDP and agrees on budget and funding. This responsibility should ideally be at the highest senior management level defined in the company’s organisation chart.

The role of senior management is to demonstrate active support for the SDP by:

- Aligning employee incentives with the objectives and outcomes of the programme;
- Support for employees volunteering in linkage projects;
- Encouraging development-related activities across company departments to ensure buy-in from internal stakeholders at senior levels.

7.1.3 Internal champion

The internal champion in the company typically acts as the torchbearer for the programme, markets its importance to all the departments, and motivates them to participate. It is often the case that the role of the internal champion falls to the head of procurement, as he/she tends to work across departments.
### 7.2 Identifying and communicating with key stakeholders

Effectively managing and communicating with stakeholders is essential in driving the goals of the SDP. The importance of having a sound communications and public relations strategy for the programme cannot be emphasised enough. Since the SDP involves working with a variety of stakeholders that are new to the concept of SDP and SME development, it is essential that the programme, its purpose, and its benefits be transparent and clearly explained to all stakeholders, both internal and external.

#### 7.2.1 Internal clients – Business Units

For the programme to succeed, it is important that the relevant internal business units buy in to the local SDP. Without their alignment to the goals of the programme, and firm communication across teams, there will be a mismatch between the development of suppliers and appropriate contracting opportunities.

#### 7.2.2 Supply Chain

The procurement department of a company is usually given the responsibility of creating win-win relationships with suppliers and reducing costs over the long term. This department is therefore appropriately placed to be the interface between the company’s internal clients and the suppliers it deals with directly. The key role of Supply Chain is usually to:

- Centralise all the contracting and procurement needs of various parts of the company, so that local SMEs are aware of and included in upcoming opportunities over a reasonable time horizon;
- Ensure that all the internal clients are aligned toward the goals of the programme;
- Be the facilitator for the local SDP by being an effective interface between the business and the SMEs;
- Help translate what are often complex internal needs in relation to local SMEs.

#### 7.2.3 First tier suppliers

The procurement department must ensure that all their major subcontractors are aligned toward the goal of increasing local content in the supply chains. The buy-in of the subcontractors is essential, as a large number of contracts would be under their direct supervision and key suppliers possess relevant skills and expertise which can be passed on to SMEs. The procurement department can successfully involve the subcontractors only if they want to be involved or they are mandated to do so by their contracts.

#### 7.2.4 Communities

*Lack of communication with communities is often seen as the biggest hurdle to getting more local SMEs into a large company’s supply chain.* Due to these barriers, such as language differences, often local SMEs fail to be awarded contracts. Communication is particularly necessary in communities that are more steeped in tradition, with limited exposure to market practices, different land ownership patterns, and more complex hierarchies. The failure of project employees to work hand in hand with the client’s communication team can impede efforts to improve the community’s perceptions of, and expectations about, the
benefits of the SDP. As a result, a customised approach in engaging with community members is required.

7.2.5 Government

Engaging and interacting with host governments is important to enhance relationships and ultimately increasing the impact of economic opportunity programmes. Government buy-in might result in supplier development partnerships and other large scale benefits awarding of local contract to SDP SMEs.

While Government is often seen as a key stakeholder, research seemed to indicate that Government was not often a partner in development programmes.

7.3 Identifying and selecting partners

According to most global practices, it is necessary to have not just buy-in and support from stakeholders, but active involvement through partnerships in order for the programme to be successful, to ensure that there’s adequate access to resources, and to ensure its sustainability. The vast majority of companies implementing SDPs had at least one or two partners, frequently more – irrespective of their country of location. In particular, companies found it was important for local business associations representing local companies to be fully onboard and participate.

The benefit of having different partners is that each partner has a particular role to play based on their skills, experience and expertise. The most common types of partners, their typical roles and responsibilities as well as the relevant benefits of their participation are highlighted below:

<table>
<thead>
<tr>
<th>Role</th>
<th>Roles and responsibilities</th>
<th>Benefits</th>
<th>Partner (SA context)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Implementing company</td>
<td>▪ Provide management support</td>
<td>▪ Access to tenders and contracts</td>
<td>▪ CRC</td>
</tr>
<tr>
<td></td>
<td>▪ Contribute to programme budget</td>
<td>▪ Access to resources</td>
<td></td>
</tr>
<tr>
<td></td>
<td>▪ Provide Supply Chain opportunities</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>▪ Select and mentor enterprises</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Development institutions</td>
<td>▪ Provide seed funding</td>
<td>▪ Access to financial resources</td>
<td>▪ IDC</td>
</tr>
<tr>
<td></td>
<td>▪ Mobilise funding from other sources</td>
<td>▪ Technical expertise</td>
<td>▪ NEF</td>
</tr>
<tr>
<td>Local business bodies or</td>
<td>▪ Be the platform for interaction with local SMEs</td>
<td>▪ Access to databases of local businesses and resources such as space and staff</td>
<td>▪ Chamber of commerce</td>
</tr>
<tr>
<td>networks</td>
<td>▪ Interface with government and media when needed</td>
<td>▪ Access to networks of government officials and local experts</td>
<td>▪ National corporate responsibility networks</td>
</tr>
<tr>
<td></td>
<td></td>
<td>▪ Access to sponsorship</td>
<td></td>
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</tbody>
</table>
Most companies designing and implementing an SDP make use of an external service provider to design, and in most cases, implement the SDP. The service provider can help design the SDP, incorporate the roles and responsibilities of other partners, manage the implementation of the SDP, coordinate the training, mentoring and other development activities, and also manage monitoring, evaluation and reporting. Even when an external service provider is used however, it is still critical that there is an internal leadership team tasked with SDP.

### 7.4 Designing the programme structure

#### 7.4.1 Programme finance

Having a financing strategy that supports the SDP is essential to ensure smooth and sustainable implementation. Such a strategy should:

<table>
<thead>
<tr>
<th>Financial institutions</th>
<th>Local expert</th>
<th>Programme coordinator</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ Provide the link to the financial sector</td>
<td>▪ Knowledge and understanding of local language, customs, and traditions</td>
<td>▪ Coordinate activities of the SDP</td>
</tr>
<tr>
<td>▪ Access to financing and financial products</td>
<td>▪ Understanding of the national standard of business practices and competency level of enterprises</td>
<td>▪ Facilitate stakeholder collaboration and communication</td>
</tr>
<tr>
<td>▪ Development banks (DBSA)</td>
<td>▪ Ensuring that small enterprises have a “voice” in policy making</td>
<td>▪ Organise workshops and training</td>
</tr>
<tr>
<td>▪ Commercial banks</td>
<td>▪ Meet community expectations</td>
<td>▪ Track the performance and results of the programme</td>
</tr>
<tr>
<td>▪ Local SMEs representative from the community</td>
<td>▪ Improves the quality of the programme design</td>
<td>▪ Smooth management of the SDP</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>First tier suppliers</th>
<th>Non-governmental organisation</th>
<th>Academic institutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>▪ Identify opportunities for local SMEs within their supply chains</td>
<td>▪ Access to technical and business capacity building for local SMEs</td>
<td>▪ Provide expert advice and research of best SDP practices</td>
</tr>
<tr>
<td>▪ Mentor SMEs</td>
<td>▪ Access to training and mentoring for SMEs</td>
<td>▪ Use of existing training materials and modules</td>
</tr>
<tr>
<td>▪ Access to opportunities and training</td>
<td>▪ SMEs afforded quality general and technical training</td>
<td>▪ UCT Entrepreneurship Institute</td>
</tr>
<tr>
<td>▪ Key strategic supplier</td>
<td>▪ TechnoServe</td>
<td>▪ Endeavor</td>
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<tr>
<td>▪ Youth Business International</td>
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<td>▪ Youth Business International</td>
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<table>
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<tr>
<th>Programme manager</th>
<th>Business consultants</th>
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<tr>
<td>▪ Smooth management of the SDP</td>
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<tr>
<td>▪ Programme manager</td>
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<td>▪ Business consultants</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>▪ Business consultants</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
- State the cost components of the programme;
- State the funding source (company / partner) for each component of the programme;
- Be approved by the Steering Committee;
- Form the basis of a medium term business plan (2-4 years) for the SDP.

To instil a sense of ownership and responsibility toward the programme by the SME and ensure their active participation, programmes usually encourage the SMEs to contribute via a fee to programme components such as training and one-on-one consultations. However, this has in some cases proven to be challenging and difficult. In the Chad programme, the fees paid by SMEs had to be scrapped as the SMEs that did not win contracts felt that they had been cheated into paying for the training.

In the MozLink programme, the major cost components were training, mentoring, and project coordination. Almost 60% of the cost was borne by donor funding, with the company and SMEs contributing 32% and 3% of the total cost, respectively.

### 7.4.2 Programme management

The responsibility of overseeing the management structure is usually given to a steering committee to ensure a clear line of reporting and accountability of the programme. This is essential to differentiate the roles of multiple partners involved in the programme.

A steering committee with representatives from all partners act as a higher level body overseeing the programme, and the programme coordinator, chosen by the steering committee, has responsibility for managing it.

A basic SDP organisational structure is as follows:

**Source: Developing SMEs through business linkages**
7.4.3 Infrastructure requirements

A programme office or centre from where the majority of the supplier development activities will be coordinated and carried out is required. In addition, access to computers, the Internet and any electronic procurement systems may also be required.

7.4.4 Exit strategy

Some companies adopt the approach of an exit strategy to ensure sustainability of the programme and supply development. From the outset, the company may start thinking of how the SDP can become sustainable in the long run and how the partners can exit from the ground operations.

To have an effective exit policy, there should be a plan to identify early on the entity that would take over the role played by the project. Once identified, that entity should be increasingly involved in programme implementation to start creating a sense of ownership, especially if they intend to continue the programme beyond the term of the company's participation. The areas to hand over to this entity are:

- **Programme coordination**: The lead company identifies a unit to take on this responsibility and where the Programme Management Office be housed;
- **Local economic development**: Determine what department will take on the facilitation of capacity building programmes for local companies that are not suppliers to the lead company;
- **Local supplier development**: This activity is already being streamlined into the company's regular procurement processes through the SDP.

7.5 Access to finance

Establishing a clear strategy for SMEs to access finance from the beginning is important. In most SDP cases, local companies that have improved their capacities through the SDP have an immediate need for capital to execute improvement and expansion plans. SMEs often lose bids because they fail to demonstrate sufficient financing for contract delivery.

However, access to capital has often proven to be the most difficult component of the programme, whether it is to fund the SMEs directly or via a guarantee, via revolving fund, or developing access to finance strategy using external partners. Thus local companies faced the usual market constraints to accessing finance, including a steep collateral requirement, high interest rates, a focus on commercial activities rather than production activities, and an absence of medium-term financial products.

Hence it is important to work with the partner financial institutions to develop access to finance strategies that are appropriate for the local SME population. It is best to develop a mechanism to evaluate the risks and opportunities for access to finance at the start of each project and to identify an implementation partner that can provide access to finance from the outset of the project.

In some cases, companies were willing to provide finance directly to local entrepreneurs. Factors influencing this include:
Where the IFC had a similar supporting investment;
Where established local financial partner exists, which enabled companies to reduce the cost of managing the funds by channeling the money to existing institutions rather than establishing new ones;
Where there was a reliable and clear mechanism for disbursement and repayment of funds;
Where the funds channeled through a financial institution reach the final beneficiaries, instead of covering the financial entities’ institutional overhead costs.

One way to bridge the financing gap for local entrepreneurs is by establishing payment mechanisms more favourable to the local contractors. For example, the current thirty-day payment period that the lead company might have for its suppliers limits the scope of work local companies can engage in due to limited cash flow. Companies managing SDPs frequently considered providing shorter payment periods to improve cash flow for smaller enterprises.

### 7.6 Demand analysis

A key initial element of preparation for a supplier development programme is that of demand analysis. Demand analysis looks at all the procurement categories in a given company and evaluates them along a range of criteria such as risk, complexity, size of demand, growth or projected decrease in demand and so forth. This helps identify areas that the company can focus on.

Although a company may start the process without this – and in fact in South Africa, many do – what often happens is that enterprise development takes place, but there is no noticeable impact on procurement spend with local SMEs.

### 7.7 SME mapping

#### 7.7.1 Prepare comprehensive SME database in the region

Developing a comprehensive database of existing suppliers in a particular area is common practice amongst companies implementing development programmes. Not only is the information gathered particularly useful to the company, it also goes a long way toward making the SDP more effective through greater outreach.

Companies use a variety of approaches to achieve this:

- Use of existing sources of SME databases should be used, such as those available from a local Chamber of Commerce, business associations, and government municipalities;
- On-the-ground surveys conducted by the SDP employees;
- On-the-ground surveys conducted by third parties to whom the task is outsourced.

#### 7.7.2 Pursue a targeted approach to identifying suppliers in specific sectors

Targeting companies in particular sectors increases the probability of positive impacts from SDP and generates internal synergies among the users. This helps focus programme activities and identifies areas in which to use technical experts effectively, in contrast to situations where entrepreneurs in diverse sectors are trained.
In addition, adopting a strategic approach to developing suppliers in particular sectors or business types which are best suited to local or preferential development (at least in the beginning) increases the success of the programme and enables the programme to focus on suppliers with maximum anticipated impact.

7.7.3 Maintain rigorous conditions for entry into the supplier SDP database

There is some evidence that companies should adopt a more rigorous approach regarding the criteria for entry of local companies into the SDP database. For example, in Ghana initially, any local company that was considered “local” by the community and had the business registration form was allowed to register on the supplier database. This resulted in a database that was very long but not very deep.

With almost 200 local companies registered and an average of five contracts to tender per month, short-listing companies for tendering processes and supplier development was found to be complex. Many of these companies were start-ups without former experience, and were not suitable for supplier development. Much information needed to be checked and crosschecked to ensure that it was correct.

One way to avoid the problem of too many potential suppliers to develop is to rate them, which the next component looks at in more detail.

7.8 Identifying suitable participants for the programme

Local SMEs that are to be part of the SDP are usually selected by the procurement department of the lead company in association with the partner business association. Often, the first SMEs to be developed through the programme are local SMEs that are already supplying to the company but need a lot of technical and business capacity building to help them reach the standards prescribed by the company, or to become stronger and more competitive.

Different companies have different approaches when it comes to methods of selecting SMEs to be part of the programme. Two particularly useful methods have been noted below.

7.8.1 General practice selection criteria

The first method is less rigorous and involves a set of key criteria which the supplier must meet in order to be considered eligible for participation. Some of these qualification criteria include that the supplier must:

- Be locally registered;
- Demonstrate the potential to be a supplier to the organisation;
- Have fewer than a certain number of employees;
- Have a low management turnover (in smaller businesses, typically owner-managed);
- Be motivated and prepared to grow and change;
- Be a facility instead of a shop.

Although most SMEs have their own manufacturing facilities, there are also SMEs that are basically shops and source their goods from various producers. Since the purpose of the programme is to build the capacities and to improve the internal business processes of local
SMEs, some companies felt it was generally preferable, so far as possible, to select SMEs that have their own manufacturing facilities.

### 7.8.2 Rigorous grading and mapping system

This is quite a strategic and rigorous approach to supplier selection, which requires a fair amount of upfront effort. However, if done correctly, the end result should be a highly successful programme.

The ultimate objective of the selection process is to identify suppliers with the most potential operating businesses, which are most suitable for local procurement, such as those with low barriers to entry and/or low start-up costs. This is done first by evaluating procurement opportunities and determining their level of complexity (easy to difficult) from a local procurement perspective. Then, suppliers are rated according to their level of competence. From here, the best rated suppliers operating in the least complex business segments are the first suppliers to be developed. These are ultimately the suppliers or potential suppliers that have the best chance for supplying the company and improving themselves.

The rating system below indicates one method of rating the competence of suppliers. Depending on the level of sophistication of the community involved, this rating system would probably need to be customised.

- **Zero star contractors.** Those that do not have the adequate level to work on the company’s contracts. They lack a structure and border on being in the informal sector.
- **One star contractors.** Base suppliers. Those that have the attributes to perform Level I services. They are established SMEs with proper administration and paperwork, but lack basic form of management tools and practices.
- **Two star contractors.** Aspiring world-class suppliers. Those that have the attributes to perform Level II services. The SME is fairly well run, specializes in specific sectors, and is managed using modern practices. At the same time, there is room for growth.
- **Three star contractors.** World-class suppliers. Those that have the attributes to perform Level III services.

This multi-pronged approach of selecting suppliers to be developed has a number of benefits:

- There is a clear distinction between the capacities of the local SMEs to ensure that SMEs with the most potential are the first suppliers to be developed;
- There is a rigorous and transparent system behind SME selection for the programme, which will help avoid challenges with the community and manage expectations;
- There is a mechanism to help the SME chart a “development path” that it can follow in order to grow and improve its rating.

### 7.8.3 Developing training modules and support for the tendering process

Usually tender applications demand documentation and answers to various questions. For example, ExxonMobil required documentation relating to the following:
Background information on the company and its employees;
- Specific contract plans, including résumés of key employees;
- Project tender amount, broken down by subcategory;
- Preapproval by a financial institution for a loan.

Typically, local SMEs have limited experience in filling out the detailed tenders of a large company. This is further exacerbated where electronic tendering systems are used. These skill gaps can be mitigated through training in tendering at the SDP Centre, conducted in association with the company’s procurement staff. This training is usually broken down into two components:

- **Narrative.** In this component, the Enterprise Centre employees discusses how to think about a tender application by presenting a sample business project to the SMEs;
- **Finance.** The finance component introduces SMEs to issues related to pricing and costing for the tender application.

At the same time, the procurement representatives are careful not to give any specific advice or feedback to the entrepreneurs on their tenders. Specific questions on the tender should be posed directly to the company employees via an online mechanism.

### 7.9 SME training and development intervention

#### 7.9.1 Introduction

Training is the most important stage for supplier development. After selecting the SMEs that would require training, the lead company would proceed to give the supplier training based on the needs identified. Often the nature of the training depends on the technical capacity of the SME.

#### 7.9.2 SME diagnostic assessment: analysis of baseline data and skill gaps

Prior to training the lead company needs to make an analysis of SMEs operations and baseline data in order to have a realistic assessment of the SMEs' current technical, business, and management capacity, and identify areas in which they need assistance, to effectively deliver products and services at the level required by the company. Sometimes this also entails undertaking a SWOT analysis to identify areas for improvement.

Training should be planned on the basis of the deficiencies detected as a result of a previously conducted evaluation of suppliers’ skills in the mapping stage.

#### 7.9.3 Training curriculum

The results from the analysis of baseline data collected from the initial assessment are used to identify common skill gaps and design a group-training curriculum for all the SMEs.

In most SDPs, training covers the common skill gaps identified in the main business and technical categories and bring them all to a similar level of competency. The training curriculum developed on the basis of the analysis of the suppliers is therefore used to conduct the training sessions. The typical training categories covered are as follows:
i. Basic professionalism training:

These sessions cover a basic introduction to professionalism and business etiquette to orient SMEs on basic business practices. All SMEs are required to attend this basic training.

ii. Good business practices:

Good business practice would cover areas such as health and safety, appropriate HR practices and other necessary business practices which need to be in place in order for the company to be considered a suitable supplier.

iii. Finance:

Topics covered usually include budgeting, bookkeeping, cash flow and financial management skills.

iv. Management training:

Management training involves strategic planning of SMEs such as yearly planning, investment plans and management reporting.

v. Business trainings:

These sessions cover the main identified business support categories, such as general human resource topics and marketing skills.

vi. Technical Training:

There is a need to have a more structured training schedule for the technical areas as well.

These involve capacity building and may include Health, Safety, Environment and Community, Maintenance Capability and Quality Management.

Given that much of the technical training is best done hands-on in a one-on-one mentoring session on the shop floor, the technical group training (covering all the basics of the main categories, such as health and safety, maintenance, and quality) can be easily conducted in a one-day session.

vii. Once off Interventions

SDPs could also consist of implementing once of interventions aimed at closing a specific gap. Once-off interventions could include: the need for Accounting/Management information systems, implementation of strong back office processes and systems, quality assurance processes and systems, certifications that will improve market attractiveness (e.g. ISO, NOSA, and SABS), products/production improvements, marketing strategy, and IT solutions. In most instances these interventions are outsourced to business development service providers (BDSPs). Technical interventions tend to involve a specific service provider specialised in the technical area, or it may be an area where the implementing company can assist and provide expertise.
7.9.4 Develop individual improvement work plan for each SME

It is usually best to develop an individual improvement work plan for each SME, detailing all the categories and subcategories that it needs to build its capacity, the targets it needs to achieve, and the associated deadlines.

These can be arranged on a group basis, with firms combined according to their special fields and interests, or on an individual basis, with each firm treated separately. In the latter case, the employees taking part in the training should be carefully chosen so that the knowledge acquired can be passed on accurately to the remainder of the workplace.

7.9.5 Approach to training

There are a variety of approaches that companies use to develop the skills and capacity of SMEs. Some of these are identified below:

- **Public training** – Seminars that cover the common skill gaps identified among SMEs and information workshops on general topics.
- **Formal training** – This may include formal classroom training for groups, which is typically developed by the company itself rather than third party providers whose materials are often not suited to SMEs moving from the informal to the formal sector.
- **Mentoring and coaching** – Include one-on-one sessions among SMEs based on the unique training need identified on a supplier. These include technical training such as internet and general computer skills.
- **Peer-to-peer training** – Set up training sessions to allow SMEs to learn from each other and to facilitate peer networks.
- **Experiential learning** – Learning through experience.
- **Awards and incentives** – Where suppliers who are most improved achieve recognition for their efforts.

7.9.6 Trainers

As trainers and mentors selected are in general highly qualified in the field concerned—from among its own personnel, experts or enterprises affiliated to the exchange or from among bodies such as a chamber of commerce and industry, professional association, university or technical centre.

Skills to look for in a mentor/trainer:

- Experience and qualification in the field of specialty;
- Patience is vital as development would include changing mindset of SMEs;
- Passion for teaching and coaching. This quality is considered important particularly for technical trainer.

There are two types of trainers:

**Technical mentor** - typically are employees of the lead company selected to volunteer to work with the SMEs. Employees are usually selected from the department related to a category identified for skill development in the SME.
**Business mentor** - are usually external business consultants contracted to carry out the task of mentoring SMEs in developing business skills.

### 7.10 Evaluation of the SDP

The following steps are generally followed for SDP evaluation

#### 7.10.1 Programme review

A programme review can be conducted by collecting feedback from all the stakeholders, including the SMEs, SDP employees, operational team from all partners, and the Steering Committee. Once the feedback has been consolidated, the lessons learned from the programme can be distilled.

#### 7.10.2 Learning from failures

While it is tempting to simply notice and commend the programme’s successes and the winning SMEs, it is equally important to focus on what did not work and why, and learn from this. A few cases of SMEs that failed in the evaluation stage or reached the tendering stage but repeatedly failed to win should be analysed to understand what went wrong. Such an analysis might reveal gaps in the programme design or implementation and highlight areas of improvement, either with the programme, the SMEs or supply chain processes.

#### 7.10.3 Monitoring and evaluation of suppliers

To ensure that the SDP achieves its stated objective of increasing procurement and building the capacities of local companies, a monitoring and evaluation tool should be developed.

Such a tool should:

- Be devised and implemented by the Steering Committee;
- Consider the stated objectives of the programme;
- Identify key performance indicators for measuring change in the company’s procurement from local business;
- Identify KPIs for measuring the impact of the programme on the local SMEs;
- Contain a clearly-defined tracking system for each phase of the programme;
- Aim to monitor the progress of the programme using the KPIs at frequent intervals (quarterly) under the guidance of the programme coordinator;
- Be aligned with the monitoring and evaluation indicators of the development institution partners.

There are a number of key themes which might be used to assess supplier performance and which might be used as a yardstick for determining whether good practice is being achieved in specific situations. Some examples of such themes (together with their subcategories) are as follows:

- Product Quality;
  - Mean Time Between Failure
  - Percentage of incoming rejects to measure delivery accuracy
- Warranty claims
- Service Quality against agreed Service Level Agreements;
  - Call-out time
  - Customer service response time
  - Performance against agreed delivery leads times
- Relationship/Account Management;
  - Accessibility and responsiveness of account management
- Commercial;
  - Costs are maintained or reduced
- Supplier Visits to assess;
  - Personal attitudes (employee dissatisfaction, level of interest in customer service,
    level of energy, effective use of manpower etc.)
  - The condition of the manufacturing equipment
  - Quality control
- Housekeeping (general appearance of plant or factory);
- Expertise of technical staff evaluated through conversations with employees.

7.10.4 Integrating lessons learned

Once the lessons learned and areas of improvement in the programme have been identified, the programme should be adjusted accordingly to ensure that the same problems do not arise in the next programme cycle.

7.10.5 Planning for the future

It is important to start considering strategies to make the programme operationally and financially self-sustaining in the future. A large component of such strategies would involve reducing dependence on funding from development institutions and increasing dependence on local resources: human as well as financial.
8 Critical success factors

Considering the sheer volume of information available across companies, countries and continents, there are a large number of noted critical success factors across a range of areas. This section attempts to distil the key lessons learnt into a concise list of critical success factors.

The most frequently noted critical success factors include:

i. Commitment and cooperation from key responsible individuals within the company
   - Commitment from the top for the programme;
   - Alignment of employee incentives to supplier development objectives;
   - Ownership and leadership of the programme and active participation in the programme by Supply Chain;
   - Improve access to markets, which is driven through Supply Chain commitment to the programme, and addressing internal practices which operate as barriers.

Successful programmes are one which not only develop suppliers, but integrate them more fully into the Supply Chain. Most companies note that the degree to which a company’s executive management commits to local enterprise development and how this is driven down through the organisation is a key determining factor of the programme’s overall success.

ii. Development of key partnerships
   - Participation in the SDP by developmental institutions, financial institutions, NGOs and other industry bodies;
   - Access to finance, usually through the use of a specialised financial institution, particularly for growth once operational volumes have increased.

Involving other partners in the SDP leverages resources and expertise, ultimately increasing the impact of economic opportunity programmes. The inclusion of partners can also enhance relationships with local government, NGOs, and other important stakeholders.

iii. Proactive community management
   - Obtain up-front buy-in, support and involvement from communities;
   - Regular, consistent and systematic on-going consultation;
   - Setting clear expectations of engagement of local business participants;
   - Dealing with unmet or unrealistic expectations;
   - Giving communities an advisory role in all aspects of the project.

It is critical to obtain buy-in and achieve alignment of programme objectives with company and community objectives through extensive stakeholder consultations from the beginning of the programme design.

iv. Understand the dynamics of local business
   - Ability to understand the conditions that exist on the ground and to adapt to them;
   - Understanding the dynamics of local business community;
   - Involvement of a local expert who understands the community in the programme.
It is particularly valuable to have employees of the SDP who can engage with the communities in their local language and who have a strong cultural knowledge of the community. This can make a substantial difference in how a local programme is perceived, trusted, and understood by local SMEs and community members.

v. **Active participation by the most appropriate SMEs for development**

- Understanding the demand of the company and being able to match this to the available suppliers;
- Selecting suppliers to participate who have the highest probability of improving;
- Ensuring the participants take ownership for their own development, actively participate in the programme and display a positive attitude towards changing and developing their businesses.

Adopting a strategic and rigorous approach to supplier selection increases the chances of success and enhances the success achieved.

vi. **Training SMEs**

- Realistic and honest assessment of each SME's current level;
- A customised SME improvement plan with a clear schedule of targets and deadlines developed with the SME;
- Understanding the importance of company-specific tutors rather than group training;
- Coaching by professionals with significant experience in business development;
- The use of external facilitators for more formal training programmes.

Companies found that adopting an integrated approach to training on technical, operational, and leadership skills linked with hands-on business advice, venturing and contracting activities is essential to the success of the training components.

**Other important factors affecting the extent of success worth noting are:**

- Collaborating with other companies, either in the same industry or location, enabled the sharing of costs and also resulted in sector-wide capacity-building which positively impacted on both the sourcing companies as well as the local suppliers;
- Adopting a flexible approach to implementation enables the company to evaluate different types of activities and implement those with highest impact;
- Developing a clear programme strategy for local procurement, finance, management, programme monitoring, and communications;
- Focusing on SME development as a primary objective and long term cost reduction as a secondary outcome;
- Utilising incubator facilities with access to physical infrastructure and basic business development services;
- Promoting entrepreneurship, skills, and the development of social capital and networks;
- Implementing joint ventures with established supplier partners leverages the ability to develop new skills, increase their capacity and grow faster in a shorter period of time.
9 Key challenges

This section looks at a few of the most common challenges faced by companies implementing. Many challenges are also reflected through the critical success factors; therefore this section has been limited in the interests of avoiding excessive repetition.

i. Change management within the company
   - Changing the company’s business approach, changing the attitudes of managers and changing the company policies;
   - Integrating the SDP with procurement processes.

The best way to overcome these challenges is to:

   - Develop an internal communication plan which engages with relevant individuals;
   - Drive commitment from the top;
   - Ensure alignment between employee incentives and programme objectives.

ii. Overcoming the perceptions and often expectations of or entitlement to “aid”
   - Many communities, particularly in Africa, have the perception and often expectation that any assistance, particularly financial, is a “hand-out”;
   - Many communities have a mindset of entitlement, regardless of their business abilities and performance;
   - In order to achieve true buy-in and commitment for the programme from communities, they need to take some ownership of the programme.

The best way to overcome these challenges is to:

   - Drive and manage expectations through clear communication and rules;
   - Promote the use of formal business practices and foster competition;
   - Develop awareness among the community that only qualifying SMEs can participate;
   - Allow SMEs to approach the programme for assistance, not the other way around;
   - Require some kind of commitment from participating SMEs, including a nominal fee for training;
   - Finance SMEs (beyond training) on a loan basis using commercial principles (at least partly).

iii. Engaging with and managing the expectations of communities
   - Communicating effectively with local communities, particularly where a different language is spoken, different cultures exist and where there has been limited exposure to market practices. This is especially a constraint for more remote operations.

The best way to overcome these challenges is to:

   - Adopt a proactive approach to community engagement and not a reactive, ad hoc approach;
Accept that local communities have different cultures and work with this rather than against it by adopting a customised approach to community engagement;

Understand that community confidence takes time to develop and therefore the believing in the transparency of the tendering process and the value of the development training is a process;

Realise that there will always be individuals in communities who will be dissatisfied and develop good communications strategies to mitigate this.

iv. Overcoming the obstacles of upfront costs

- Managing local supplier tenders which are more expensive than established companies which have scale and efficiencies;
- Understanding pricing challenges and working with suppliers to reduce costs;
- Identifying opportunities to drive long term savings by purchasing from local suppliers, even if in the short term this means considerably higher costs.

The best way to overcome these challenges is to:

- Embed the vision for and commitment to local procurement and supplier development in procurement decision-making;
- Provide guidance through policies on acceptable levels of additional costs (e.g. some companies allow for an additional cost of up to 15% of the contract price during initial stages);
- Provide tools for Supply Chain to identify long term savings opportunities and guide decision making;
- Ensure the right behaviour and decisions are driven through appropriate incentivisation;
- Ensure the local supplier is provided with the correct guidance, support, training and mentoring to deliver the expected long term value.

Other important challenges to take into consideration include:

- Avoid focusing only on short-term projects by proactively planning medium to long term, more ambitious supplier development projects;
- Avoid the lack of participation and ownership by local communities through proactive engagement with them;
- Avoid programmes which fail to align with key business objectives and core competencies by designing the strategy upfront;
- Lack of transparency and clear criteria for developing suppliers;
- Measuring impact.
Simanye’s Supplier Development Framework

Based on our research in this area, we have developed a supplier development framework outlined below, which forms a basis for developing a supplier development programme within any large organisation.

**Design**
- Establish management commitment and buy-in for the programme
- Identify partner types, select partner and define roles and responsibilities
- Design Programme Strategy
  - Identify stakeholders
  - Common plan for stakeholders
- Design programme methodology and processes
  - How to select businesses and suppliers
  - How to rate suppliers
  - Design how to develop suppliers
  - Design SME and programme evaluation
  - Access to finance
  - Infrastructure requirements
  - Roles and responsibilities

**Preperation**
- Establish steering committee
- Evaluate current initiatives and develop plan to modify as required
- Select partners
- Recruit and train staff
- Implement infrastructure requirements
- Engage with stakeholders and manage expectations
- Conduct demand analysis
- Undertake SME mapping (Supplier Database)
- Develop training modules
- Develop new or adjust existing tools for programme

**Implementation**
- Identify suitable participants for supplier development
  - Identify appropriate business segments
  - Rate SMEs
  - Select suitable participants
- Provide assistance on tendering
  - Establish awareness
  - Implement training and support for tendering process
- Implement development intervention
  - Evaluate participating SMEs
  - Develop specific plan with SME improvement
  - Identify and involve relevant experts
  - Implement training programme
  - Implement mentoring programme

**Evaluation**
- Assess impact of programme
  - Evaluate KPIs in supply chain
  - Evaluate KPIs in developed suppliers
  - Document findings and recommendations
- Refine framework/model
  - Integrate lessons learnt
  - Adjust programme
- Plan for the future
11 Conclusion

A significant amount of information exists globally regarding the design and implementation of SDPs, providing companies with the opportunity to learn from what works and what does not, and understand upfront what the key success factors and key challenges are.

Supplier development is not unique to South Africa and it can and should be used strategically wherever local content requirements exist and/or supplier capability is insufficient. South African companies should take note of the fact that supplier development is a global phenomenon with best practice benchmarks. These best practices should be incorporated in the design and implementation of SDPs to ensure that they create sustainable commercial value, and avoid simply becoming a “box-ticking” exercise with little value outside of appearances.
12 List of terms and abbreviations

- CSDP – Competitive Supplier Development Programme
- HDSAs – Historically Disadvantaged South Africans
- ICT – Information Communications Technology
- IFC – International Finance Corporation
- KPIs – Key Performance Indicators
- LED – Local Economic Development
- LS&CD – Local Suppliers and Contractors Development
- LSD – Local Supplier Development
- MSMEs – Micro, Small and Medium Sized Enterprises
- NGOs – Non Profit Organisations
- SDP – Supplier Development Programme
- SME – Small and Medium Sized Enterprises
- UNIDO – United Nations Industrial Development Organisation
- USAID – United States Agency for International Development

13 References

This report was compiled based on the collective experience of Simanye and its team, as well as detailed research. The list of references below outlines the key documents which have been used in the preparation of this research report.

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About Simanye

Simanye Group is a cluster of entities dedicated to helping businesses, communities and the public sector find effective and sustainable solutions for transformation and economic development in South Africa, Africa and beyond. As part of this, we have established both a consulting arm as well as a social enterprise and community development arm.

Our expert consulting services and innovative solutions are financially efficient and practical to implement. They are designed to meet B-BBEE and economic development compliance targets in a way that makes business sense. Where mandated by the client, and particularly for much larger corporates with challenging targets, we generate ideas and design initiatives that go beyond compliance to create real shared value, where all parties benefit.

We have provided B-BBEE and economic development consulting services to a range of clients both big and small and have worked extensively in a wide range of sectors – including mining, liquid fuels and rail.

Through our social enterprise and community development arm, we pool B-BBEE and other funds in order to research, develop and implement holistic economic and community development solutions, with a particular focus on social enterprise models. Through this work we have forwarded micro-business, emerging farmers, urban farming, skills and youth development and a host of related projects.
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