

The Synergy between Preferential Procurement, Supplier Development and Enterprise development



One of the five elements on the revised B-BBEE scorecard is Enterprise and Supplier Development. What is the synergy between preferential procurement, supplier development and enterprise development?

The name of this element is misleading as the element does not consist of only two sub-elements, but in fact three, namely:

- Preferential Procurement;
- Supplier Development; and
- Enterprise Development.

Why were these three sub-elements grouped together? What exactly is the synergy between them?

To answer these questions, let's have a look at the description and purpose of each of the three sub-elements.



Preferential Procurement (PP)

The purpose of PP, from a B-BBEE perspective, is to encourage the use of black-owned entities as suppliers. PP is the driving force behind the spread of B-BBEE from customer to supplier. PP will also dictate whom an entity's suppliers will be in future.



Supplier Development (SD)

The *Chartered Institute of Procurement & Supply* defines SD as “the process of working with certain suppliers on a one-to-one basis to improve their performance and expand capabilities for the benefit of the buying organisation”. From a B-BBEE perspective, one must remember that the development of only certain qualifying suppliers will lead to *points on the scorecard* but not necessarily the development of all your suppliers.



Enterprise Development (ED)

The purpose of ED on the B-BBEE scorecard is to promote the economic growth of qualifying small, medium and micro-enterprises (SMMEs) in general. This is done by growing current entities or establishing new entities so that they can become competitive in the market.

The synergy explained

An entity must make use of SD to grow their current supplier database (PP) to fulfil its supply chain needs. If there is no supplier capable of fulfilling a supply chain need, where products are imported or where a current supplier's performance is not up to standard, an entity (the "contributing entity") can make use of ED to address this issue. The contributing entity will have to identify an existing or start-up SMME which is not currently a supplier to the contributing entity. The contributing entity will then have to develop and grow the business of the SMME to the point where the developed SMME can become a supplier to the contributing entity. In this way the contributing entity can ensure that there are future suppliers that not only fulfil the entity's supply chain needs, but also have the added incentive of good B-BBEE credentials for the contributing entity's PP scorecard.

It is therefore evident from the above that ED and SD can be used as a feeding ground for PP. Thus, by developing the right entities, the contributing entity can improve its PP score with the added advantage of creating a supplier which provides goods and products to the specific needs and specifications of the contributing entity. To protect the "investment" made by the contributing entity in the ED beneficiary, the contributing entity may hold a minor shareholding (equity) in the ED beneficiary. This shareholding may also later be sold at a profit accruing to the contributing entity.

SERR Synergy assists businesses with the development and *implementation of B-BBEE strategies* by taking all the B-BBEE scorecard elements into consideration.

About the Author:

Danel Gous is a Law graduate from the University of Potchefstroom for Christian Higher Education. She also obtained her Master's Degree in Import and Export Law at the North West University, Potchefstroom. Danel is an admitted High Court attorney, conveyancer and notary with more than ten years legal practice experience. She joined SERR Synergy's B-BBEE Department in 2016 where she currently holds the position of Project Manager.

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