

2013 B-BBEE codes of good practice

How to pro-actively prepare your supply chain function to be compliant with the amended codes

In October 2013, the DTI promulgated the revised B-BBEE codes. The objective of the codes is to advance economic transformation and promote the economic participation of black people in the South African economy. Entities impacted by these codes were given a period of 18 months to prepare and put strategies in place as a proactive response to the revised codes. During the past 10 months, many organisations have embarked on a journey towards compliance with the proposed changes.

However, our experience dealing with a number of clients across various industries shows that many established entities that have been operating under the old codes are aware of the implications and understand what is needed to address the requirements of the new codes, with the exception the area, Enterprise and Supplier Development (ESD). With the revised codes, two of the old B-BBEE measurement elements; Preferential Procurement and Enterprise Development have been merged to form ESD.

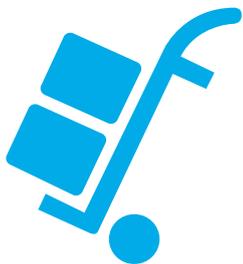
Enterprise and Supplier Development is not a mere combination of the aforementioned elements, instead the combination sets out far reaching requirements. The ESD element sets out requirements for increased promotion of black-owned and black-women-owned suppliers, increased local procurement, job creation, raw material beneficiation and skills development outside of the measured entity. The codes define black-owned as 51% ownership (or more) under the control of black people and black-women-owned as 30% ownership (or more) to be held by black women. Increasing the stakes significantly, the new codes have preferential procurement component of ESD making up 25 points, plus two additional points, where designated groups are being developed and 13 of the 25 points being dedicated to procurement with black owned and black women-owned entities.

The fundamental reason why many entities will find it difficult to comply with ESD is due to the entity's dependency on their suppliers' B-BBEE rating and black ownership patterns. The codes encourage preference to be given to suppliers who are compliant on both B-BBEE rating and black ownership. Entities that procure from non-black-owned and poorly rated suppliers will score poorly in ESD, which will in-turn negatively impact the entity's overall B-BBEE rating. Entities risk further downgrades if they do not achieve 40% or more of the ESD compliance targets (i.e. equal or more than 10 of 25 points).

However, not all is doom and gloom for entities that have non-black-owned suppliers as well as those that are heavily reliant on non-compliant international suppliers. Our experience in assisting local and multinational clients prepare for the revised codes, shows that organisations that integrate their ESD strategies with global Supply Chain Management best practices such as; strategic sourcing and supplier relationship management practices yield the best value while achieving B-BBEE compliance.

The process of developing a sound ESD strategy requires entities to apply an analytics-based assessment of their readiness to comply with the ESD requirements as set out in the revised B-BBEE codes. Coupled with the analytics-based assessment, entities should review the frameworks used in evaluating and adjudicating suppliers.

Best practice strategic sourcing principles recommend that supply chain functions define weighted and objective evaluation criteria that cover elements such as; quality, security of supply, speed of delivery, on-time response, after-sales support, total cost of ownership and development factors such skills transfer to internal resources. Integrating B-BBEE into the standardised supplier evaluation framework means that the entities can harmonise and standardise not just B-BBEE response within their organisation, but will be enabled them to realise increased value from suppliers in all crucial dimensions of the organisation. This approach will ensure that organisations integrate sustainable development practices into their supply chain environment.



Preferential Procurement Components of ESD now making up 25 points

+ two additional points where designated groups are being developed

B-BBEE Implementation Framework

1. Set and Cascade Transformation Targets

- Set and monitor Preferential Procurement targets per year.
- Cascade targets to category level and customise based on category complexity.
- Targets proposed to be accompanied by key initiatives per category.

2. Embed B-BBEE into Sourcing Approach

- Integrate B-BBEE qualifying criteria and incentive structure into sourcing strategy and bid evaluation criteria.
- Execute identified supplier development opportunities in partnership with Incubation agencies.

3. B-BBEE data

- Conduct a B-BBEE data verification to ensure accuracy of B-BBEE supplier information.
- ERP changes to be implemented to allow for the new B-BBEE requirements.



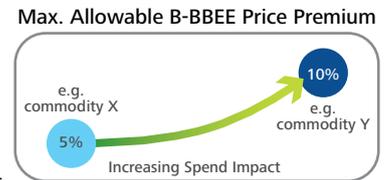
Minimum B-BBEE Thresholds



Integrate B-BBEE into Bid Evaluation Criteria



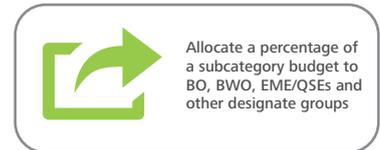
Set Max. Allowable B-BBEE Price Premiums



Preferential Contracting Terms



Set Aside



Deloitte's approach for integrating B-BBEE requirements into supplier evaluation, serves as a foundation for continuous integration of ESD considerations into an entity's supply chains processes. Over and above this, an entity needs to come up with innovative solutions to drive Enterprise and Supplier Development compliance.

One of our clients in the heavy engineering industry took this process further by pursuing consolidation of spend from multiple international suppliers to create multibillion rand black-owned suppliers which will provide integrated importation and logistics services. We assisted our client identify and qualify opportunities in categories that historically would be considered risky and normally excluded from B-BBEE initiatives e.g. imported input chemicals, highly specialised production machinery and road transport services.

As the readiness period draws to a close, entities need to proactively prepare their supply chains by defining strategies to integrate the B-BBEE requirements into their supplier selection and management processes.

For more information about defining B-BBEE strategies contact:

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