

CHARTERED ACCOUNTANTS

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MoneyTalk

Are you BEE Competitive

Most businesses have been asked the question, "Are you BEE compliant?" The question is not so much whether anyone is compliant, but whether BEE is an issue of compliance at all?

When looking at most of the other legislation governing business (Labour Relations Act, Basic Conditions of Employment Act, Skills Development Act etc.) the pattern is generally the same. These acts are sometimes hundreds of pages long, describing a detailed set of rules. If you abide by these rules, business continues as usual. However, if you fail to comply then some sort of punitive measure is taken such as a fine or a trip to the CCMA or the Labour Court. These pieces of legislation are definitely about compliance and have encouraged the business community into the habit of thinking that any law or regulation that comes from Government is something that needs to be complied with or else face the consequences.

The BEE Act is different. It requires no compliance at all. All the Government expects a business to do is to have their contribution to BEE measured according to a set of criteria defined in the Codes of Good Practice. All you would have to show for this is a certificate with a BEE score on it. It is your customers and not Government (unless they are a customer) who will then want to know what your score is as it will contribute to their score. If you don't get a score, there are no fines or any other punitive measure it will simply mean that it will become more difficult for you to do business in this country.

This is like writing Matric. Nobody has to write the matric exams, but if you want to continue your education at a university you will have to pass the exams at a certain level. Also, in a situation where there is a course which is oversubscribed, only the applicants with the best matric marks would get in. Similarly if your company is in a government tender situation where you offer the same price as a competitor, whoever has the higher BEE score will win the tender. In the private sector your score will count towards your customers' score and so it will be your customers who decide whether your BEE score is acceptable.

The question therefore is not whether your company is BEE compliant, but rather:

"Are you BEE competitive?"

What BEE score do I need to get?

There is no specific answer to this question. It depends on each company's individual situation. In a free market system, businesses compete around price, quality and service. The art of business is finding a balance between these elements. In this country, BEE has now been introduced as a further element and so the balancing act has become a bit more complex.

As a starting point there are three questions you need to ask to get an idea of what sort of target BEE score to set:

1. What do my customers want?
2. What are my competitors doing about BEE?
3. What are my organisation's BEE capabilities?

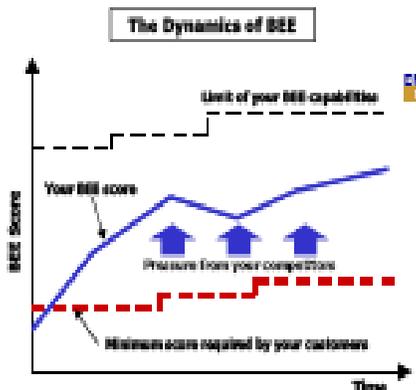




Customers

Since it is your customers who will be asking the most questions about your BEE score, you should start talking to them about this already. Many organisations are sending out multi-page questionnaires in an attempt to find out about the BEE status of their suppliers. Others send suppliers to verification agencies to get a certificate. While this might seem to be the most correct way of getting an organisation's rating, it must be remembered that at present the Codes are in draft form and there are no officially accredited verification agencies. Therefore any score that a company might be given can only be considered as indicative at this stage.

It is advisable that if you receive enquiries about your BEE status from a customer or potential customer, that you find out from them exactly what they expect from you. Are they simply gathering information? Are they in a process of rationalizing their supplier base? Are they looking to draw up minimum criteria for doing business with them in future? This information will begin to point you in the direction of the kind of BEE score you should be aiming to achieve. It should at least tell you what your minimum target level will need to be – as illustrated by the bottom line in the diagram.



Competitors

Your competitors will probably give you the best indication of the target you would need to aim for, but as price, quality and service are also a part of the competitive equation it is not simply a matter of matching their scores. For example if you are the low price leader in the market and you have a BEE score of 50%, while most of the competitors are scoring in the high fifties and sixties you will probably find that this is enough to remain competitive. However, if everyone else is scoring in the eighties then you will probably have to look at raising your BEE score. You could also look at improving on one of the other elements of competitiveness (price, quality and service) to compensate if raising your score proves too difficult. As shown above, your competitors will always be putting upward pressure on your BEE score.

For a clearer insight into how your customers will perceive the BEE score, see the Preferential Procurement section of the BEE scorecard later on.

Capabilities

If competition is what drives you to increase your company's BEE score, then your capabilities are the limiting factor (The top line in the above diagram). For example if you are in an industry that requires a high skill level, such as IT consulting, financial services or other professional services, the chances are that there is a limited supply of black qualified individuals. Consequently, you will find it difficult to score highly under Employment Equity on the scorecard. If you have only a small number of black employees as a percentage of the total, you will find it difficult to realistically spend enough on their training to score under Skills Development.

Your organisation's capabilities are also not an absolute factor. Most companies have the



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potential to score quite highly if they make the effort. The question is how much effort are you willing to make?

The diagram earlier illustrates how these elements work together to pretty much determine what your BEE score needs to be. Basically it says that your BEE score will fall somewhere between any minimum requirements of your customers and the limit of your capabilities and will be under continuous upward pressure due to competition. All of these factors can also vary over time.

There are no hard and fast rules as to what BEE score you need to achieve. You may want to start off with moderate improvement, see how this fares in the marketplace and then decide whether you want to improve further or not. The first step is to ascertain what your customers require, what your capabilities are and what your competitors are likely to achieve. Your decision on a target score will probably come out of a mixture of this information and an intuitive feel for your position.

Here it is important to point out that *The Codes of Good Practice for BEE* has not been made official yet as they are still being developed. **Therefore you should realise that everything we are discussing here could change by the time the Codes are completed.**

In the latest draft of these Codes, the scorecard to be used will now be related to the size of the entity being measured. There are three categories:

- Larger Companies use the generic scorecard
- Qualifying Small Enterprises (QSE) use the QSE scorecard
- Exempted Micro Enterprises (EME) do not need to be measured and will be considered as a Level 4 contributors to BEE (See Preferential Procurement below). If the turnover of the enterprise is

below that of the VAT threshold (R300 000), it qualifies as an EME

The following table lists the maximum size of Qualifying Small Enterprises (QSE) by sector. An organisation needs to be below the turnover listed below in order to qualify as a QSE:

Criteria to be a Small Business

Personnel Services	
Community, Social and Services	R 8 mil
Finance and Business Communications	R 12 mil
Transport, Storage and Office Trade	R 12 mil
Contract Accommodation and Agents and Allied Services	R 8 mil
Wholesale Trade, Commercial Retail Services	R 25 mil
Retail Motor Vehicle and Construction	R 8 mil
Electrical, Gas and Water	R 8 mil
Manufacturing	R 12 mil
Mining and Quarrying	R 10 mil
Agriculture	R 3 mil
Sector	Turnover

The BEE Scorecards

Scorecard Element	Generic Weighting	QSE Weighting
Ownership	20%	20%
Management	10%	20%
Employment Equity	10%	20%
Skills Development	20%	20%
Preferential Procurement	20%	20%
Enterprise Development	10%	20%
Social Investment	10%	20%
TOTAL SCORE measured out of:	100	For 5 elements – 100 (ownership increased by 25%) For 7 elements – 125 reduced to 100



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In the table earlier, the middle column is the scorecard for medium and large businesses. The right-hand column is the scorecard for Small Enterprises(QSEs).

The weighting for each element of the QSE scorecard is 20 points and a business can choose any 5 of the 7 elements to be measured under. If ownership is chosen, the ownership score is automatically boosted by 25%. If you feel your business can be measured against all 7 elements, there is an added advantage of being measured out of 125 instead of 140. (All scores are then finally reduced to a score out of 100). So it is possible to score more than 100.

Your BEE score then equates to a BEE level (ranging from Level 1 - the best possible level - to Level 8 (a score between 30 & 40 on the scorecard).

Any score below 30 is considered Non-Compliant!

So what do all these levels mean?

The higher your BEE level, the higher the value of you to your customers because they can multiply the amount they spend on you by a higher multiplier (or count more cents in the rand as BEE expenditure.

See the table alongside for the full list of BEE levels and their value for your clients.

The following is the detailed BEE scorecard for Qualifying Small Enterprises. **Again, PLEASE NOTE that the scorecard below in all its details is likely to change in the next few months – so these targets should act only as an indication of what is likely under each element.** Each item has a target and a number of points allocated to it. If you reach the target you receive all the points allocated. If you are below the target then the points are allocated on a pro-rata basis i.e. halfway to the target gets you half

the points. You may only score a maximum of the points allocated even if you exceed the target.

Each element (Ownership, management, etc.) is allocated a score of 20 points, although in some cases there are bonus points available allowing you to score more than 20. To get to a total out of 100 you simply add up the scores for the best 5 of these elements.

SKILLS DELEGATION TOTAL	30	
Development level as a percentage of the black employees in addition to Skills Compensation Skills Development Spend on	12	50%
Application to the National Skills Fund	2	Yes
SKILLS DELEGATION	Weight	Target

EMPLOYMENT EQUITY TOTAL	30	
Black women as a percentage of total employees	4	32%
Black employees as a percentage of total employees	4	30%
Black women representation at Management level	8	50%
Black representation at Management level	8	40%
EMPLOYMENT EQUITY	Weight	Target

Bonus Points: Owner/Manager level Black women representation at Management level	5	10%
Bonus Points: Owner/Manager level Black representation at Management level	5	25%
MANAGEMENT	Weight	Target

Bonus Points: Ownership by Black Women or Broad-based Ownership Schemes	2	12%
OWNERSHIP TOTAL	30	
Ownership Fulfillment	1	Complete
Black people are employed in the Enterprise	1	25%
Black people are employed in the Enterprise	2	25%
OWNERSHIP	Weight	Target



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ПРЕФЕРЕНЦИАЛ ПРОКУРМЕНТ ТОТАЛ	30		
Total measured procurement spend recognition levels as a percentage of spend on the BEE procurement BEE procurement spend from suppliers	50	20%	
ПРЕФЕРЕНЦИАЛ ПРОКУРМЕНТ	Weight	Target	

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The following table is used as a reference for calculating the Preferential Procurement score. To calculate the score you take the BEE score for each of your suppliers and multiply what you spent with them by the relevant multiplier under the "Procurement Recognition Level" e.g. If you spend R100 with a supplier with a score of 57, then your "BEE spend" with them is R0.80 x R100 = R80. You do this for each supplier and then add up to get to a Total BEE Procurement Spend. You then divide this into the actual total procurement spend to get a percentage, which you measure against the 50% target to calculate your points.

РЕГИОНАЛ ЕГЕМЕНТ ТОТАЛ	30		
Regional procurement spend recognition levels as a percentage of spend on the BEE procurement BEE procurement spend from suppliers	50	20%	
РЕГИОНАЛ ЕГЕМЕНТ (СБ)	Weight	Target	

ЕНТЕРПРАЙЗ ДЕВЕЛОПМЕНТ ТОТАЛ	30		
Enterprise development contribution as a percentage of spend on the BEE procurement BEE procurement spend from suppliers	50	20%	
ЕНТЕРПРАЙЗ ДЕВЕЛОПМЕНТ	Weight	Target	

Level	BEE Score	Procurement Recognition Level
Level 8	<30	0%
Level 7	30-40	R1 to R1
Level 6	40-45	R1 to R2
Level 5	45-50	R2 to R3
Level 4	50-55	R3 to R4
Level 3	55-60	R4 to R5
Level 2	60-70	R5 to R7
Level 1	70-88	R7 to R10
Level 0	+ 001	R10 to R12

