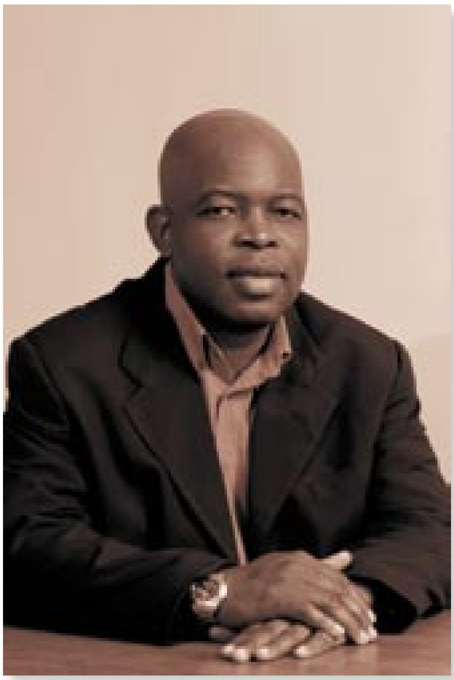

by Pumulani Ncube

anatomy of BEE Deal

On average I probably sit in five meetings a week where I pitch Jala Capital as a potential business partner for a wholly owned white company. I have deliberately decided to call ourselves a business partner as opposed to a BEE partner because BEE comprises a very minor portion of our service offering.

When MTN pitches for business in South Africa and in the rest of the world they don't market themselves as a BEE partner – so why should Jala Capital or any other BEE company do so?

I must admit, I often wonder how I would feel, think and react to a bunch of black people who I have never seen before and have no historical track record; suggesting that they buy a stake in a company that I have built over number of decades. What could they possibly know about my business and what value do they think they could add to it?

I had an interesting encounter around this issue where a family owned business had been in existence since the early 1900's. The current CEO was adamant that he would rather close the business (putting an end to a legacy) than to sell his business to a black company. This mindset and his approach bears discussion.

To start with I will avoid the inherent problem of confusing business issues with race issues and will not bother debating the matter of BEE - the process is irreversible. In fact, the BEE codes of good governance are likely to be law by the end of next year and while there is no legislation that forces anyone to be empowered; market forces will determine whether BEE is a requisite or not.

Therefore the first consideration would be not to cloud my judgement and I would ignore the fact that the potential business partners are a BEE company and focus on the merits of the business proposal being presented.

I would then, depending on the stage of my company's lifecycle, consider whether the potential partners offer me and my co-shareholders a viable exit strategy? For example, do the business partners offer me the same benefits that I would have gained if I had opted for a trade buyer in the same industry? What would best suit the business going into the future?

Don't forget that after a number of years of solid growth, most businesses reach a plateau and they need an injection of new ideas. On some occasions new ideas are simply not enough and potential business partners should have the ability to raise funding to at least justify the shareholding of their management team.

Where a company may not have succession planning in place, the business partners should offer a viable solution. Having built the company over a number of years, one sometimes loses sight of the bigger picture by being involved in micro-managing the business when one could simply be the figurehead of the company in terms of PR and product development.

The question of financial discipline also enters the equation. Most owner-managed and private businesses get to a stage where they have grown beyond merely being life style funding business and start to make serious money. Some go on to become significant players in the spaces that they operate in. In order to embark on a new growth curve the company would most probably need the financial discipline to take the business to the next level.

I would make sure my potential business partners have the ability to add that discipline to the business if it does not exist. For example, in terms of future working capital needs of the business the new partners should give the company the ability to raise funding at preferable rates where possible. The current funding space allows some companies to enjoy rates of prime less 5% when some companies can only manage to fund themselves at prime.

Unless the potential partners have a private equity fund most buyers in this market would look to the balance sheet of my company to raise the funding (such structures have been in the market long before the advent of BEE). However, in addition to this some of the business partners in the market would look to my company to sustain their investment holding companies.

My first choice would be to go with business partners that have the ability to run their businesses without relying too much on the dividend flow from my company. That being said, I acknowledge that there would be a fee payable for additional services not ordinarily associated with a non- executive shareholder.

In terms of business savvy the business partners should have a basic understanding of the industry that I'm operating in and the business drivers of the industry and the company. More importantly I would be interested in how these partners would be able to utilise their previous work and business experience in helping my company.

I would be looking for business partners who will have the ability to take the company onto a new growth path through different strategies not currently being applied in the business. One of the key considerations would be the ability of these partners to seek and identify targets for corporate action. By virtue of their composition the partners should be able to enter discussions with companies in the same industry without these discussions being viewed as hostile.

Due to South Africa's past a significant amount of time is spent on managing people issues. These vary from identification of candidates for employment and addressing motivational issues amongst the staff, race relations and skills development. Using higher remuneration levels to attract staff is a short term strategy; the new partners should give me the ability to retain the current crop of scarce talent whilst at the same time sourcing other talent in the market.

Pumulani Ncube is a director of Jala Capital (Pty) Ltd, an investment holding company targeting investments in the following industries, motor component manufactures, manufacturing in general industrial supplies and construction supplies. Further details on Jala Capital can be obtained on www.jalacapital.co.za or mail to pumulani@jalacapital.co.za

Through their experiences in the work place the business partners should be able to give me additional skills that I currently do not have in the business, this would allow me to save on the additional costs of hiring these skills.

If I was the owner of a multinational company in South Africa in addition to looking at some of the above issues there are also specific issues that I would seek clarity on. In most instances the local managers of the foreign owned entity are merely managers in that they are not incentivised in the form of a shareholding.

Any proposed equity sale should ideally take care of the local operators of the business in the form of a shareholding. On average the South African operations contribute about 5% of the total global business of most multinational companies. Strategically would it make sense for me to sell say 40% of the local operation and thereby remain with 3% shareholding and going forward still be saddled with BEE issues that at times are quite complicated for a foreign company to understand? The business partners should have the ability to put together a package that encompasses all the above issues in addition to being able to put an effective funding and integration structures.

For the record Jala Capital is a 75% black-owned black owned company. It is one of a few companies that are able to implement almost all of the above issues. If Jala Capital does not have the solution we will find someone who has the solution. The fact that we are black is a cherry on top, as it will help the target company to prepare and implement its BEE strategy by addressing all relevant scorecard elements and acquiring BEE certification from a registered BEE accreditation firm. ceo