How organisations re-imagine their inclusiveness and localisation agenda to drive business value

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The number of people without work in South Africa will grow by an additional 1 million people over the next 3-5 years. The gap between the ‘haves’ and ‘have-nots’ will widen, placing a higher burden on society and the economy to support those without incomes. This will take place in a socio-political context where expectations of a better life, from a rapidly growing population continue to dominate policy makers’ priorities. As government and the private sector endeavour to respond to being forced to do more with less, the national focus on supply chain inclusiveness and localisation will intensify.

Large businesses operating locally will be compelled to demonstrate higher levels of commitment to driving objectives of transformation, localisation and the development of small black owned businesses, often within their direct value chain. This will force a more radical shift towards inclusiveness and localisation and away from pure total cost of ownership of the supply chain. Organisations which ignore this increasing trend risk falling foul of increasingly unforgiving government stakeholder and face significant compliance pressures from consumers.

We have already seen these trends impacting the M&A and operations expansion interests of multinationals and local players. The ‘public interest package’, outlining significant investment in inclusiveness and localisation opportunities emanating from these deals, has become a standard feature for multinational and local businesses trying to operate in this market.

As a result, inclusiveness and localisation will become a competitive differentiator for organisations, with high performers targeting business value creation together with economic impact delivery. Organisations which redefine their inclusiveness and localisation strategic framework, refocus their approach and revise their delivery model have an opportunity to meaningfully contribute to the local economy in a way which makes business sense.

The case for change

Inclusiveness and localisation is not a ‘flavour of the month’ topic. It has been a national priority over the last two decades. South African government policies collectively aim to inject ~R20bn annually into driving localisation and inclusiveness as the main vehicle for job creation and economic growth.

In spite of this effort, sustainable impact creation has been disappointing. Significant amounts of resources channelled into this area aren’t delivering the intended economic upliftment. R6bn per annum of private and public sector spend does not deliver the intended effect. Furthermore, 55%-65% of small businesses being supported by large business supply chains fail within the first two years of operation.

The current approach to driving supply chain inclusiveness and localisation has failed. Today, most organisations drive their inclusiveness and localisation agendas based on legislative compliance aspirations and aim to reach a pre-defined B-BBEE scorecard level to demonstrate their commitment towards government regulations. Low risk organisational spend areas are targeted as businesses look to mitigate the associated cost and risk of compliance.

The problem with targeting low risk spend categories is that these spend areas generally translate into products and services which are low in complexity (e.g. cleaning, catering). They also typically account for the least amount of organisational spend and generate minimal levels of sustainable local economic value.
Local supplier bases in these areas become quickly saturated and marginal sustainable job creation in the economy is achieved. Corporates end up with significant spend wastages due to SME failure and miss crucial opportunities for gaining any competitive supply chain advantages. At best, corporates are able to buy their way to legislative compliance with minimal return on their investment. The current approach does little for the economy and even less for shareholder value creation.

But how do organisations navigate the tricky road of building local supplier bases in areas where little capability currently exists? How do they do this in a financially viable way? And more so, how can they deliver on the national imperatives while creating organisational value?

Organisations need to rethink their strategic response towards supply chain inclusiveness and localisation. A shift from focussing solely on driving shareholder value, to driving ‘shared value’ within the communities they operate must be the foundation. And they must do this in a way which aims to enhance their competitive position. Creating a win-win for both themselves and the local economies they play in.

To do this, organisations must:

1. Redefine - their strategic inclusiveness and localisation framework,
2. Refocus - employ a more deliberate inclusiveness and localisation approach,
3. Revise - their inclusiveness and localisation delivery models.
Redefine – the inclusiveness and localisation strategic framework:

Organisations need to redefine their inclusiveness and localisation strategic framework. Viewing this topic not just as a local compliance requirement, but rather as an opportunity to unlock organisational value. To do this, organisations must adopt value centric principles as part of their inclusiveness and localisation agendas. These principles must aim to drive local economic development together with greater returns from spend on inclusiveness and localisation. A value centred framework can enable organisations to not only demonstrate local compliance and build their licence to operate, but also enable their efforts to contribute to strategic business priorities and drive their license to grow.

Cascading these principles to key supply chain functions (e.g. procurement, supply chain etc.) is the first step of evolving a business response towards inclusiveness and localisation. Organisations which go one step further, driving these principles across other parts of their businesses (e.g. product development – design for local) stand a greater chance of unlocking business value and improving their competitive position.

Some organisations have already made the shift towards a value centred strategic framework. Telkom’s Future Makers programme aims to channel organisational efforts into supporting inclusiveness and localisation which are aligned with principles of ‘shared value’.

Under the Future Makers programme, Telkom aims to fund and support the development of local, transformed, businesses which could open up new customers and markets for the organisation. Many of these new beneficiaries target customers and markets in townships and peri-urban areas, an otherwise difficult market segment for Telkom to penetrate by themselves.

Refocus – employ a more deliberate inclusiveness and localisation approach:

Organisations must define an efficient operating model to enable the translation of strategic ambitions into business delivery. The organisational operating model must consider policies, processes and resource requirements to deliver on inclusiveness and localisation ambitions.

Making informed decisions around which business areas are chosen to focus supply chain inclusiveness and localisation efforts on are a key input to the operating model design. Key factors such as risk, cost, ability to influence, local market capabilities and internal demand for the product or service all play important roles in defining these focus areas. In addition to the product or service cost, organisations must also understand the complexity and set up requirements to establish new capabilities in the market.

Plotting the target business spend or functional area into one of four categories can help to create a more deliberate approach for organisations to drive their inclusiveness and localisation plans.

Figure 1: The Localisation and Inclusiveness Grid

Organisations can adopt the localisation and inclusiveness grid to make better decisions on which products or services they choose to focus their effort and spend on. The grid allows organisations to develop specific interventions to drive a coherent strategy in each of the grid areas. Using the grid can also help organisations to make more informed decisions around how to plan for and manage the return on investments in inclusiveness and localisation areas.

Some organisations have already begun to employ more focussed approaches in their inclusiveness and localisation efforts. SAB Miller’s ‘Eagle’ project in Uganda was set up to source raw materials including sorghum locally. The aim, to create more affordable products and drive market growth. The project was initially met with some scepticism, but it has since grown to encompass around 20,000 farmers, supporting 180,000 jobs in Uganda.
Revise – the inclusiveness and localisation delivery models:

The traditional delivery model of each organisation delivering their inclusiveness and localisation agendas on their own is obsolete. Not only does attempting this in a silo increase the cost-to-achieve to the organisation, but it also leads to a significant amount of value leakage. Value leakage is seen as an organisation’s below par return on investment of spend on localisation and inclusiveness plans.

Value leakage is also seen through substandard economic and social impact delivered by organisational initiatives. It is the result of organisations approaching localisation and inclusiveness efforts on their own, limited by the 3% net profit after tax compliance requirements.

Organisations should evolve their inclusiveness and localisation delivery models to increase collaboration and partnership within a value chain ecosystem. Leveraging technology, in a shared delivery model with partners can improve focus and deliver greater economic impact at a reduced cost.

As we move into a Digital economy, businesses are entering a more dynamic, faster evolving business landscape. Digital is disrupting competitive strategies and business models. Digital is also opening up new opportunities for businesses to interact at far greater scales than ever before. Organisations must use Digital opportunities to evolve their shared growth delivery models. Evolving to a Platform type delivery model enables collaboration, connectivity and scalability at a far greater pace than traditional models. Global trends highlight the move towards a platform driven economy, with platform based businesses stretching across multiple market sectors. Platforms allow companies to create entire eco-systems that collaborate to mutually deliver a product or service. They manage to do this in a mutually beneficial way. Introducing a platform business model is a ‘big-picture’ change that allows users to co-produce value via a network of suppliers.

Organisations that leverage a Platform approach have the opportunity to collaborate more seamlessly with suppliers, customers, and even competitors. They are able to more effortlessly merge demand and channel efforts. These organisations are better enabled to leverage technology and achieve economies of scale. They share the risk and resultant benefit of their efforts. They are ultimately able to accelerate the pace of inclusiveness and localisation and achieve greater return on their investments.

Organisations are already evolving to a Platform delivery model for their inclusiveness and localisation agendas. Transnet currently plans on deploying a Platform model to support the acceleration of Black Industrialists in South Africa. The programme will see Transnet partnering with suppliers and other government institutions to target industrialisation of targeted products. A suite of interventions are planned on being deployed, in a Platform delivery model, to drive collaboration and focus across the South African rail industry.
Driving supply chain inclusiveness and localisation in ways which creates value for both businesses and the communities they operate in, will become an important competitive differentiator. Organisations who evolve their inclusiveness and localisation strategic framework, approach and delivery model will create greater impact in the economies they operate. And reap a higher business return whilst doing so.
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