

# **CONVERSATIONS**

with JSE AltX entrepreneurs

## About the author

Siyabonga Mapoko (Siya) graduated from UCT with a BSc (Hons) in Chemistry, in 2002. In 2003 he spent some time doing research for his MSc thesis at GlaxoSmithKline in England. His research focused on contrast agents for Magnetic Resonance Imaging (MRI).

In 2005, Siya joined Investec Asset Management as an Equity Trader. While at Investec Siya was also a financial markets reporter on SAfm for the Vuyo Mbali Show.

Towards the end of 2006 Siya left Investec to start iCaptive Corporate Network, a digital signage company.



# CONVERSATIONS

with JSE AltX  
entrepreneurs

Secrets of business  
success that you  
won't get from an  
MBA ...



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## Dedication

This book is dedicated to all South African entrepreneurs and all those who know that what lies behind us and what lies ahead of us is nothing compared to what lies within us.

I sincerely hope this book helps you.

*Carpe diem!*

# Acknowledgements

As always with a project of this nature there are many people who have helped enormously and to whom I would like to extend my sincere and heartfelt thanks.

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# PREFACE

This is a book where South African entrepreneurs trade "war stories". Pulling no punches, they share business lessons learned from the trenches. There are some amazing stories here:

- One CEO turned a R20 000 personal cheque account overdraft into a company with an annual turnover exceeding R100 million.
- Another CEO looked across the seas, from London to South Africa, and came to this country to pioneer an industry. He built a company with a turnover of R220 million a year in less than 5 years.
- Read about a 63 year old CEO who was almost bankrupt 12 years ago whose company now makes over R300m a year.
- Another CEO had the "crazy" idea of starting another no-frills airline in 2003. Now this entrepreneur is posting annual sales of over R700m ... in just four short years!

These are but a sample of the interviews contained in this book.

Entrepreneurship provides one of the greatest frontiers of opportunity in any economy. Most people think that succeeding in business has something to do with finding the secret formula. The CEOs featured in this book disagree with this view; instead they all seem to agree with Oprah Winfrey who said, "The big secret in life is that there is no big secret. Whatever your goal, you can get there if you're willing to work."

Although all the CEOs featured here operate in different industries they seem to have common attitudes and principles. When I interviewed them, I could feel and see their passion. It is my hope that you too will hear their

voices and feel their passion as you turn these pages. It is also my wish that this book will be a guide to achieving success in business, whether you are just starting up or are ready to list on JSE AltX.

As I was writing this book I was taken aback by the incredible information these CEOs have shared. They tell the stories of their journeys and generously offer invaluable clues to success. I thank them for their willingness to be part of this project.

Siyabonga Mapoko  
March 2008

*If I wanted to become a tramp, I would seek information and advice from the most successful tramp I could find.*

*If I wanted to become a failure, I would seek advice from men who had never succeeded.*

*If I wanted to succeed in all things, I would look around me for those who are succeeding and do as they have done.*

— JOSEPH MARSHALL WADE —

## FOREWORD

# Bill Gibson CHAIRPERSON, KNOWLEDGE BROKERS INTERNATIONAL SA (PTY) LTD

Bill Gibson is one of Siyabonga Mapoko's mentors. He is the Chairperson of Knowledge Brokers International S.A (Pty) Ltd. a company with offices in Canada, South Africa and the Middle East. He is the author of the book *Boost Your Business in any Economy*, the author/developer of the *25 Module Complete Sales Action System*, the *8 Module Managing Complex Business Relationships System* and the *Business Success Series* including *Turning Entrepreneurial Spirit into Business Opportunities*.

As a business speaker, author, marketer, entrepreneur and sales specialist Bill has spoken to over one million people worldwide. He is a Canadian who, since 1994, has spent 95 percent of his time in South Africa where he assists in the development of entrepreneurs and in the re-engineering of the sales teams of

dozens of South African multinational corporations. His clients include the likes of ABSA Bank, Nedbank, First National Bank, Sanlam, BMW S.A., Siemens, Standard Bank, Vodacom, Africon Engineering and the South African Presidency's Communications Research Directorate Team.

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**YOU CAN STOP LOOKING RIGHT NOW.** You don't have to look any further. This is it! Everything you need to know about what it takes to turn your business and yourself into a super success story!

Here they are, the rules of the road for extraordinary business results from 12 top successful JSE AltX entrepreneurs! Right now, in your hands you have got 12 of the best mentors, coaches and "models of possibility" giving you all the proven "real world" tools to create the business results you've always dreamed of. All you have to do is start turning the pages.

In this amazing book you will find "no nonsense how to's" to rapidly grow your business, raise capital, franchise your business, gain market share, become a great leader and develop the personal success qualities possessed by successful entrepreneurs and intrapreneurs.

These 12 South African entrepreneurs "tell it as it is". This business building book is not from the world of academia, it is from those that have done it themselves. You are learning from those who are at the "coal face" of business and are the "real deal".

For example, if you own or run a business there will come the day you have to retrench some staff. Have you ever heard this advice before? "The typical thinking is to retrench the cleaner or receptionist and leave in place the managers. It doesn't work like that. If you have to retrench, you retrench a vertical slice ... from top to bottom." This is a quote from John Barrow – Chairman, B&W, an Electrical and Instrumental construction business with a turnover of R300 million in 2007.

"On average we opened one store every twenty two days and this went on for 6 years". That is rapid growth. Carlo Gonzaga, CEO of Taste Holdings, with 115 Scooters franchise outlets and 28 Maxi's Restaurants, tells you how he managed rapid growth ... in South Africa.

Lots of budding South African entrepreneurs believe the fancy cars, the

designer labels and the big house impact their success? Here is what Ian Lourens of PostNet, with 221 franchises countrywide, has to say, "You are foregoing instant gratification. Take the resources you have and plough them into the business. Don't worry about status symbols." That's real world advice from a real world entrepreneur!

Jason Drew, CEO of Dialogue, a business process outsourcing company turning R220 million a year says this: "It is easy to lull yourself into a state of belief that your business is what you want it to be. Every time you think something is as it ought to be, try to prove it wrong."

Endless innovation and improvement are two of the hallmarks of successful entrepreneurs and business leaders. This book is your resource library for unlimited wealth and success in both your business and personal life.

It is the entrepreneur's "Acre of Diamonds" for not only start-up and small business owners, but also the step-by-step guide on operating and succeeding while at the helm of a "High Growth Company". Whether we are at the top of an economy, on the way down, at the bottom or on the way up, this book will work for you because every one of these 12 entrepreneurs has successfully worked through all of these phases of economic or personal business cycles.

Remember, information is not Power. Information in Action is Power! My suggestions ... buy a 4 ring binder or set up a specific entrepreneur development file on your laptop. Write down or transfer to your file every good idea, tip or "how to" you read about in this book. Then place them under categories such as staff motivation, retrenchment, sales, marketing, raising capital, BEE, personal motivation, hiring, balancing your business life and family life, and whatever other topics pop up. In addition set up an index for the information.

From there, I suggest you regularly review these valuable nuggets of information with your partners and teams. Also, whenever you need guidance in these areas or personal inspiration or motivation, go to your file and sift through your Entrepreneurial Acre Of Diamonds. Learn and use this business building GPS System that came from the Real World Business School of Hard Knocks and shorten your distance to the top of the business success mountain.

On a final note: 18 months ago (October 2006) while touring the country speaking to small business owners sponsored by Nedbank Small Business Services I was approached by a young, sharp entrepreneur. He immediately purchased my Audio CD and Manual Program, *Boosting Sales and Profits with Focus Selling*. Within weeks he followed up with feedback to me on how he was implementing the information. A few weeks later he met me on a trip to Cape Town at 11:00pm. On another trip he came to see me at 7:00am. Before I knew it I was one of the main business mentors to this young, dynamic, sincere business owner – Siyabonga Mapoko.

During our many telephonic conversations and face-to-face meetings I shared with Siya *17 Different Ways to Raise Money without going to the Bank or the Government*. He has used virtually everyone of them. With tenacity, innovation, creativity, honesty, integrity and 80 to 90 hours per week of work, Siya has successfully launched iCaptive here in South Africa, while still writing this phenomenal book to help other business owners and entrepreneurs make their dreams come true.

Keep your eye on Siyabonga Mapoko! Move over Tokyo Sexwale, Brian Joffe, Lazarus Zim, Patrice Motsepe, Raymond Ackerman and Herman Mashaba and make room for the next generation of South African entrepreneurs that will include Siyabonga Mapoko!

Remember: "If not now then when? If not this way, then what way, and if not you, then who is going to do it?" Take charge, capitalise on the learnings of others from the real world of business and create your own reality. Use this book and may the trade winds of success support your journey to the top! Read on! It just may be the best investment you have ever made as an entrepreneur or business leader.

Bill Gibson  
March 2008

# The JSE's Alternative Exchange (AltX) – exceeding expectations

Noah Greenhill – Head of Marketing and Business Development, JSE



*Every worthwhile accomplishment, big or little,  
has its stages of drudgery and triumph;  
a beginning, a struggle and a victory*

– MAHATMA GANDHI –

### **Opposition from the start**

A significant number of world stock markets runs smaller exchanges alongside the main board. One of the best known is the Alternative Investment Market (AIM) which operates parallel to the London Stock Exchange.

This smaller exchange plays a vital role in promoting and facilitating the growth of small and medium-sized businesses. It provides a platform for fledgling companies to raise capital needed for expansion or acquisitions that can take them to the next level of development. It also offers a mechanism for founders and financiers of the business to partially or fully exit their investments. In addition it encourages entrepreneurship. Specific to South Africa, such an exchange would give Black Economic Empowerment (BEE) investors a platform to raise much-needed capital.

South Africa had the Development Capital Markets (DCM) and Venture Capital Markets (VCM) on the main board of the JSE, launched in 1985 and 1989 respectively, with the purpose of encouraging smaller companies to list and help fulfill their growth aspirations. Although during their heyday they attracted many companies and were therefore successful in this sense, these boards became a bitter disappointment when they were hit by the emerging markets crisis of 1998 and the bursting of the dotcom bubble in 2000. They became thinly traded (on average four trades a day) yet volatile. Several companies experienced regulatory or accounting problems, businesses did not deliver on over-optimistic profit forecasts and they generally under performed. These companies weren't always built to last and would certainly not pass the overhauled quality checks the JSE has in place today. Some directors were more interested in off-loading large chunks of their shares and becoming superbly wealthy overnight. With the wisdom of hindsight, the JSE's sentiment is that a "flood of rubbish" had listed on these boards.

So a much-needed and hopefully more successful listing alternative for younger companies was sought and the decision of the JSE to officially launch AltX (the Alternative Exchange) in October 2003 was heralded as the solution.

The hostility and scepticism of the financial community and the media towards this new platform was surprising. Noah Greenhill, appointed as Manager of AltX, was charged with the launch of the new board and had his work cut out for him in convincing the market that this was the right way to go.

The job of selling the young exchange to both candidate companies and investors required faith and optimism. Back in 2003, when Greenhill's sole responsibility was establishing the AltX platform and rounding up potential listings before the launch of trading, the ambient background and market conditions were not ideal. Small capitalisation exchanges around the world were having a torrid time, especially the Neuer Markt in Germany, which had closed. There had been a so-called "flight to quality" in the early 2000s as investors bolted for safety in large cap stocks.

Doubt abounded in the investment world when AltX was announced to the market. Some had no hesitation in declaring it doomed from the start. After all, this was now the third attempt by the JSE to establish a small cap exchange. There were even strong cynics within the JSE itself who needed persuading and the eventual go-ahead for AltX was a long time coming. Greenhill and JSE CEO Russell Loubser had to convince the market that future small cap listings would be of a much higher quality than most of the ones that populated the DCM and VCM. They insisted that this time round, with AltX, things would be different. The AltX pay-off line – Exceeding Expectations – was certainly going to have its work cut out simply to live up to expectations.

Greenhill worked tirelessly to emphasise this but it made little impact initially. When AltX opened its doors in late 2003, it didn't have a single company lined up to list. This didn't seem to faze Greenhill.

A move which added to the cynicism and criticism around AltX was the

JSE's attempt to close the VCM and DCM. This was seen as a move to populate AltX by requesting that the remaining DCM- and VCM-listed companies migrate to AltX within a certain time if they met the new board's requirements. DCM and VCM companies threatened the exchange with litigation and demanded that the JSE withdraw its ultimatum, which it eventually did. Ironically, the very first AltX listing was one of these migrations from the VCM – soap and cosmetics group Beige Holdings. And others from these boards and even main board listings have since moved to AltX.

### **Exponential Growth: October 2003 to December 2007**

Over the past four years, AltX has proved to be what can only be described as a resounding success in terms of the number of companies listing (both new and migrations of existing listings), and extremely pleasing in terms of liquidity and tradeability statistics.

At end of the first complete calendar year, December 2004, there were 10 companies listed with a combined market cap of R1 billion. The following year-end there were 15 companies capitalised at R1.9 billion. At the end of 2006, there were 40 listed companies with a market cap of R9 billion. By 31 December 2007, the exchange boasted 75 companies with a combined market capitalisation of R30 billion.

In the earlier days, junior miners and ICT companies tended to dominate AltX. But that has changed and by December 2007 construction was the dominant sector, with around one third of total market cap, followed by financial services. The South African construction boom in the wake of government's decision to embark on a massive fixed investment spree has sparked great interest in construction stocks generally. This will inevitably change in the future as the economic cycle shifts and other sectors will have their time in the spotlight.

Many of the individual stocks have increased significantly in value and by the close of 2007 there were some with market caps over the R2 billion point. This would be a decent market cap for many of the smaller main board stocks that have been listed for many years and highlights the interest and returns that AltX stocks can generate, given the right circumstances.

In April 2006, AltX launched its own index which easily outpaced the growth of its big brother, the JSE's all-share index (ALSI), followed by the introduction of the AltX Top 15 in October 2007.

During its short life so far, the exchange has seen some controversy as a handful of its listed companies experienced operational and accounting problems, but these have not managed to compromise the success of AltX or halt its growing momentum. The general quality of listings is superbly high, thanks to the standards set by the AltX Advisory Committee, the compulsory directors induction programme and designated advisors. The companies coming to AltX are solid and real, with an average operating history of at least five years. Some of them have a much longer pedigree, with decades of good performance behind them. They have had to survive economic downturns and have gone through full and challenging business cycles.

### **The Listings: Who, Why, How, and then What?**

AltX mainly targets young and fast-growing businesses across all sectors including start-ups, family-owned operations and BEE enterprises, as well as junior miners. There is no prerequisite of a profit history although a minimum share capital of R2 million is required. Greenhill says that one cannot set an arbitrary number or benchmark in terms of financial history that keeps potential listings away. "It's rather about the quality of the business, its management and prospects. A company may have a brilliant new product or innovative design that will clearly take off. It needs an opportunity to raise funding and get off the ground. It would be a pity to let great ideas die because there is no operational track record."

In selling the platform to potential candidates, the usual and many benefits of listing are cited. These include access to long-term development capital; a stronger balance sheet; the funding of acquisitions through the issue of new shares rather than cash; better bargaining power towards financiers; the opportunity for founders to realise capital gains; the facilitation of transference of family-held shares; expanded business relationships; enhanced status among stakeholders such as customers and suppliers; liquidity in shares; an effective pricing mechanism for shares; an improved public image and reputation and the ability to attract quality staff through the use of share options.

Greenhill emphasises that the reasons for a listing are unique to each company and a business will approach AltX with its own specific ambitions. He observes that most companies (and their directors) come to the AltX board with a certain amount of humility and do not carry around the aggressive hype of the 1997/98 listings boom. "There are some true entrepreneurs among them," Greenhill says. "They are comfortable with their success and let a rising share price do all the talking. They get on with running their businesses efficiently and through a quiet leadership style they surround themselves with good people. The age profile of directors is probably older than what we saw in 97/98. They also continue to hold significant stakes in their companies after the listing and remain committed and locked in. It is not the 'get rich quickly and exit' approach of the young Turks of the 1990s."

One of the greatest mindset changes for these directors is that they are now publicly accountable. Their businesses, financial results and even salaries are part of the public domain. They are restricted on share dealing at certain times of the year and are bound by rules regarding communication of price-sensitive information.

Greenhill says this new accountability to a wider range of shareholders and other stakeholders is usually the biggest shock. "In terms of additional regulatory compliance, the listing requirements are really the only extra burden and these are not onerous. It is the transparency that goes with a listing that is the big factor they have to get their minds around, but successful, quality companies don't have a problem with this."

Greenhill says the entrepreneurial spirit of the directors and senior management does not disappear overnight as the company becomes more "corporatised" on listing. "These people would be successful whether running listed or unlisted businesses. The good ones also work at their listings and take them seriously to gain maximum long-term benefit. The listing is merely a means to an end and many companies expand via future rights issues and continued capital-raising."

Over the past few years, while AltX has been building up its numbers with new listings, the other end of the spectrum has seen Enalen Pharmaceuticals migrate from AltX to the JSE's main board. Although

Greenhill was naturally sorry to see this company going, he knew it signalled a major success for the company itself as well as for the small cap exchange. If Enaleni could migrate to the main board, so could any other company, given time. This is the ultimate reward for an AltX company – to grow to the extent that it finally migrates to the "big board" where it can be better served in its more mature form.

Greenhill says that the migration of only one company to the main board over a four-year period is most certainly not a failure for AltX or the companies listed there. "The AltX platform is an incubation phase for developing companies and there is no standard time limit in which they should move on. There is no pressure to migrate and they should only do so when the time is right and when they will be better served by being listed on the main board."

### **Who's Buying?**

One of the objectives over the past four years has been to stimulate investor interest in the high-growth quality companies listed on AltX. Greenhill took the view that if investors would not come to AltX, then he would take it to them. He organised presentations around the country, where companies could showcase themselves to the audience, and this worked like a charm in attracting retail investors. These presentations still continue and Greenhill says that the demographics of the audience have changed significantly over the years, with more female and black attendees now showing interest. Investors eventually started clamouring for AltX, and getting a chunk of shares before the listing – either through a public offering or private placement – is becoming a highly sought-after rarity.

In the main, investors on AltX are private clients, obviously not looking for high dividend-yielding stocks, as profits are usually retained in the early years to fund growth. But the small-cap funds of the institutions are showing increasing interest which is pleasing, considering there is little or no sell-side research from the stockbrokers on AltX stocks. Some of the smaller local stock-broking firms do have analysts who monitor AltX companies, but their generally small market capitalisations and trading values make it difficult to justify the costs of researching them.

There seem to be no mandates in place that exclude fund managers from buying into AltX companies, and inclusion in a portfolio then depends on investor appetite and the profile constraints of size, liquidity and risk.

The expectations put on AltX companies and the investor returns they should render must be realistic, says Greenhill. "AltX is another financial market, subject to the same rules of investing as all the others, and vulnerable to similar risks. Investors need to buy into the fundamentals of the company, not the share and not the specific exchange."

The Stock Exchange News Service (SENS) announcements from AltX companies previously had to carry an alert as to the special risks associated with companies listed here. But this "health warning" is no longer required as investors conducting proper research will (and should) know for themselves the unique risks associated with smaller or younger companies in a high-growth phase. Although AltX does its best to minimise investor risk through ensuring good corporate governance practices in these companies and rigorous market surveillance of share trades, the usual potential market vagaries and risks of investing are always present.

The dynamics that affect investor interest on the AltX are somewhat different to those on the main board of the JSE. Because so much of the JSE's market capitalisation is accounted for by large, dual-listed stocks like Anglo American, BHP Billiton and SABMiller, global events have a very large bearing on the JSE. But AltX has a collection of much smaller companies, three of which are dual-listed stocks with assets in Africa, so AltX tends to be driven primarily by local dynamics.

With hindsight, AltX was launched at exactly the same time as the start of a prolonged bull market, beginning in September 2003. Market dynamics were fortuitously on its side and it has effectively been a "fair weather" market, rendering great returns to investors.

### **Cornerstones of Quality**

The AltX mantra remains one of quality, quality and quality. The JSE will not negotiate or compromise on standards and if this means fewer companies listing, so be it. Greenhill cites the three cornerstones of AltX,

and the main factors contributing to its reputation and success as being: the compulsory requirement to appoint a Designated Advisor (DA); the AltX Advisory Committee that screens listings' applications; and the requirement that all company directors attend an induction course. Ironically, two of these founding cornerstones gave rise to some of the teething troubles of the new exchange. The requirement that the company have a DA at all times, not just for corporate actions, was viewed as being a rather costly and unnecessary expense, and directors with years of experience found the induction course requirement patronising. But the view on these requirements has since changed dramatically and they are now applauded.

The first cornerstone of AltX requirements is the designated advisor, or DA, who must be pre-approved by the JSE. The DA has many functions including providing an assessment of how appropriate a listing is, advising on the different methods of listing, compiling documents and providing ongoing assistance with listing requirements.

In the earlier days of AltX, a few DAs did test the system and brought along companies which weren't up to scratch. "They were basically taking a chance," says Greenhill. "But now the DAs have far more respect for the exchange and the listing process and will not bring a poor quality company before the AltX Advisory Committee."

Screening applications is the second cornerstone of AltX. When a company wants to list on this exchange, the first stop is when the application goes before this panel. Greenhill says the Advisory Committee's approval process is far more than just ticking the boxes and the company's Board of Directors and the Designated Advisors have to fiercely defend the quality of the application.

Applications may be refused, says Greenhill, but the company then has the opportunity to revisit the weaknesses or problem areas specified by the committee. Greenhill emphasises that a refusal does not automatically mean the company is of a poor quality. "It can sometimes mean that an AltX listing may not be appropriate at this stage of development. The composition of the board of directors may not be strong enough, BEE credentials may not be in order, or the company might need another year of

trading to become more sustainable. If we let a company that is not quite ready list on the exchange, it could regrettably find itself vulnerable to takeovers."

The procedure is that the applicant can present twice to the Advisory Committee. If it fails on the second application, it can ignore the recommendations of the Advisory Committee and still proceed by lodging documents with the JSE's listing division. But Greenhill says the outcome is unlikely to be different and the application will in all probability be turned down by the listings division for the same reasons. This is not the end of the road and there is yet a further right of appeal to the Listings Advisory Committee, but at this stage in AltX's history, no applicant has taken the protest this far. There have been some borderline cases where companies have been allowed to list, but with specified conditions that needed to be met within a certain period of time.

The third cornerstone of AltX is the induction programme that both executive and non-executive directors have to attend. These are sponsored by the Department of Trade and Industry and form part of its broad strategy of encouraging entrepreneurship and small business in South Africa. The external funding assistance from the DTI also eliminates any cost pressures on the companies listing.

Greenhill says that these programmes, run by the the Business School of the University of the Witwatersrand and the Institute of Directors, educate directors in matters such as the JSE listing requirements and insider trading rules. "At this point, directors realise the seriousness of the path they are on. Some experienced directors unashamedly acknowledge they should have been on such a training course many years back in their careers as it adds tremendous value."

The course also includes basic financial management, corporate governance, functions of the board and media/investor relations. It offers significant networking opportunities as directors from several companies attend the same four-day sessions.

## The World's Greatest Optimist

Although one should steer away from crediting a single person with the success of AltX, the market inevitably sees the baby *bourse* and Greenhill as inextricably linked. "Weaker men would have given up under the pressure," they say.

Greenhill himself had a very low profile prior to AltX. Having worked for Dimension Data, he also ran an ambulance service and sold medical emergency equipment. He says that with AltX, he just happened to be in the right place at the right time, but did have an interest in financial markets, having done an MBA research report in over-the-counter stocks.

It was fortunate that he carried no preconceived ideas into the job except the sheer belief that it would work. He was not deterred by the disappointments of the VCM and DCM and had unwavering faith that South Africa was ready for something like AltX. The enormous success of London's AIM spurred him on.

John Burke, the JSE's Listings Director, frequently tells a story (usually on the golf course) that perfectly sums up Greenhill's innate and endless optimism. "If Noah went into a hostile meeting and emerged with cuts and bruises on his face and was asked how the meeting went, he'd say, 'Great!'" says Burke.

Greenhill (who now has a broader mandate as general manager of marketing and business development at the JSE) says that with hindsight, the JSE would not have done anything differently, not even the attempt to make VCM and DCM companies move across. "At that time, it was a genuine attempt to offer them a reasonable alternative. The only thing that we would perhaps have liked was that in the initial stages things could have moved a little more quickly."

One unfulfilled goal Greenhill acknowledges is the lack of genuine BEE companies on AltX. While most AltX companies have good BEE credentials, only a few of them are truly black-controlled or managed. As at close of 2007, Ideco, Vunani and SAB&T were the only three BEE companies on AltX. Greenhill says he would love to welcome more grassroots BEE entities

onto the platform but this objective is constrained by the BEE Charters and Codes whereby black businesspeople can buy into already-established operations instead of having to start from scratch.

### **Where to from here?**

AltX is now a model showcase for other stock markets, particularly those in Africa, wanting to set up their own fledgling platforms, and the JSE is more than willing to share its knowledge and technologies.

Although the platform does make money in its own right, certainly more than the DCM and VCM boards, it remains a small contributor to the JSE's overall financial position. But the AltX board has a broad impact on society through the multiplier effect of its companies and their customers, employees and BEE partners.

Greenhill acknowledges that AltX is not for everyone. "As the name says, it is an alternative – for the company or for the investor. Businesses may be able to realise their goals via other more suitable routes. You only come to this exchange when it is right for you."

For those coming to the exchange as listed entities or investors, Greenhill says there will be a time in the future when the number of AltX listed companies will far exceed those on the main board itself. "It's a logical result, more representative of the broader business landscape, considering we have many more small- to medium-sized companies in the South African economy.

"To reach this goal, the JSE needs to be even more proactive in promoting AltX, while always maintaining the quality of the listings. If it takes longer than expected, so be it. Quantity will never be allowed to override quality. That's a given."

For further information about AltX:

[www.altx.co.za](http://www.altx.co.za)

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Tel.: 0861 00 ALTX or +27 11 520 7323

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# Ian Lourens

CEO, ONELOGIX GROUP LTD

## Company background:

**Founded:** October 1999

**Activity:** Niched Logistics

**Branches:** Main offices in Kempton Park, Midrand, Edenvale and Johannesburg.

Branches in Cape Town, Port Elizabeth, East London, Durban, Beit Bridge, Harare and Lusaka

**Franchisees:** 221 countrywide

**Employees:** 850

**Listed:** September 2000

**Turnover:** R500m

## Profile background:

Ian was born and raised on the East Rand. Upon leaving Wits University in the late 1970's he spent three to four years working in the marketing departments of multinational branding companies. Ian started his own companies in 1981 in mining supplies and distribution, thereafter in property development, broking and valuation.

Ian established PostNet (with colleagues) in 1994 which was then sold into the newly established OneLogix in 1999. Ian is presently CEO of OneLogix Group Limited.

Ian is married to Penny and they have two daughters. His general interests include reading, writing, sport and the outdoors.



*I'd rather attempt something great and fail,  
than attempt nothing at all and succeed.*

– ROBERT H. SCHULLER –

**SIYA:** Could you take us back to the very beginning, Ian? Why did you start PostNet? What were the circumstances and did you have any fears about it at the time?

**IAN:** To put everything in context, Siya, I must start by saying that I've been an entrepreneur for most of my working life. When I left Wits with a degree I first worked for a company called Beecham and then for Hoechst, a German multinational, for three or four years. I worked in the Marketing Department, doing brand management and launching new products. At that stage I was about 25 years old. I soon realised that I was not the sort of individual who could work for others. I wanted to work for myself.

An entrepreneur has a very clear profile, which I, upon reflection, recognised in myself. It involves having a certain level of pigheadedness, fierce independence and a strong belief in one's own abilities. The more people say his ideas won't work, the more an entrepreneur is determined to prove them wrong. They don't enjoy working for others or taking instructions. Their ego, determination and resilience are exceptionally strong and, in a sense, they like to be in the limelight. In a way, an entrepreneur has many rather unflattering characteristics!

I somehow recognised these characteristics in myself from an early age. So I went out and started my own business. Actually, while talking to friends recently, I realised that I have started 15 businesses (almost all of which were started with my own capital) over the years, nine of which have been successful.

Their ego, determination and resilience is is exceptionally strong and, in a sense, they like to be in the limelight. In a way, an entrepreneur has many rather unflattering characteristics!

So by the time I started PostNet in 1994, I had already been involved in a number of businesses.

I found that I was very good at generating an idea, starting the business and building it up to the point where it required what I call “maintenance management”. That’s when I’d look to sell it to the professional managers. I never really saw myself as a professional manager. I am an initiator, an ideas person and I have a strong self-belief that I can make things happen. I’d gather the information, build a vision, get people around me, develop it and then look to sell it when it became a fairly mature business. This whole entrepreneurial process requires a fairly different mindset to that of the traditional professional manager.

It takes about four to five years to get a business going, develop it to some degree of maturity, then sell it and start a new one. That’s the pattern of production. But with PostNet, I became more deeply involved and stuck around longer than I normally would have. I started the business, with colleagues, in 1994 and, based on my track record, we should have sold it by about 1998. But I think in principle you get more involved when it’s a franchise. A very interdependent relationship develops with the people you work with. I felt that I owed it to the franchisees to make it work. I was morally involved and responsible to the franchisees and thought to myself, “Hey, I can’t move out now. We have to make this business more profitable, bigger and better.” At the end of the day, the profitability of the franchisee reflects our company’s profitability because we levy a royalty on the franchise network.

This interdependent relationship was very compelling and I stuck around, which was completely uncharacteristic of me. Now, some 13 to 14 years later, I’m still involved with PostNet. PostNet has since been incorporated into a listed entity called OneLogix. I am presently the CEO of OneLogix and the chairman of PostNet.

You asked whether I had any fears in starting PostNet. Of course, you’re always apprehensive when you start a business. You worry about a whole host of things. But I was quite a seasoned entrepreneur by that time, and I had started a lot of other businesses before PostNet started. PostNet is in

fact an international concept, which we brought to South Africa in 1994. The timing of starting this business was quite unique.

We opened in April 1994, which was when the first democratic elections took place. Many people were concerned about the future of South Africa at that stage. Was there going to be an outbreak of violence? Was there a future for the country? Surely not the time to invest a considerable sum of money and energy into starting a new business. In the middle of that turmoil and potential upheaval, we were cleaning windows, packing shelves and generally getting ready for the business to start. I think our action represented an apt metaphor for the way entrepreneurs work. We just believed that whatever happened, we'd make it work anyway. We exhibited the unconquerable self-belief which is so characteristic of entrepreneurs. It was great fun. The best part about starting new things is that every day is different and it feels fantastic to overcome the challenges each day presents. If you are enthused by challenges, you should become an entrepreneur.

Funnily enough, I don't think financial reward was ever a primary driver. I've always seen financial reward as a spin-off of starting my own business. I didn't say, "I'm starting my own business so that I can be a millionaire." I said, "My purpose in life is to start businesses. That's how I've been made. So let me go and fulfill my purpose." It was almost an aside that, if I did it properly, I'd make a reasonable living. People who say, "I want to start a business so that I can make money" have actually put the cart before the horse. I think one should say, "I'm starting a business because this is what I have to do in life". Your purpose, your design and your psychological make-up should be such that you just have to do it.

I remember a fantastic article I read many years ago about someone who went to Barbara Streisand and asked, "Please advise me, I want to know if I should become a professional singer." Barbara basically said, "No, you shouldn't!"

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The very fact that you're asking me that question means you're not driven enough to do it. That question shouldn't be asked. You just know that you have to be a singer!" I believe the same applies to every successful entrepreneur. I suppose that my proposition is empirically untested, but I think it would make an interesting thesis for a degree. What drives entrepreneurs? Why are they doing it? I suspect I'm right; entrepreneurs are simply doing it because they have to, they know no other way.

As I mentioned, that's why I started all my businesses and also why I started PostNet. I've never really been overwhelmed by my fear. I've been apprehensive, which is good. For me, it was like running onto the rugby field; you're a bit nervous, but you're prepared. Fear for an entrepreneur can never be debilitating, because you just have to do it!

**SIYA:** Ian, you've touched on a number of important points, one being the belief in self. It's true that when you're starting a business and dealing with people, if you don't believe in yourself, who will?  
How did you choose the team of people that worked with you?  
Obviously they were not necessarily all entrepreneurs.  
So how did you inspire them to join you on this venture?

**IAN:** Often in life, things don't necessarily go the way you planned them. But sometimes it somehow all falls together and works out. If you get involved in something with your whole being, you manage to make it happen and hold it together. It takes a huge degree of passion. Passion is a word that gets grossly overused, but it's really the only way to describe one of the required basics you need to succeed.

As for choosing my team, I had some colleagues who started with me. We were all like minded. Others were subsequently employed by the business. Of course, PostNet also had franchisees. The big thing was to sell everybody the vision. They needed to be compelled by the vision, have faith in us as the leadership and believe that they would have great fun, they would grow as individuals, that the business would succeed and they would be part of that success. I had to be a motivator and a visionary. It's also important to engender trust because, at the end of the day, a leader is someone who finds people who believe in them, their vision, their credibility and authenticity. You can't call yourself a leader if nobody

follows you. This applies to leadership across the board, whether you're a professional manager, entrepreneur, sportsman, scientist – whatever. A leader inspires people to do things they never dreamt they were capable of. A leader allows people to grow and develop. Leaders never take their position for granted; they know they are in that position because their followers are prepared to be led by them. They are in effect given permission to lead.

As you sell the vision and create excitement, you build up a fantastically close-knit team where you become like a family. Each person feels that they are realising their potential within that family and they want to belong. The problem comes when a business gets bigger and needs to be professionally managed. As it becomes systemised and, in a sense, bureaucratised, this family spirit has to change. I've seen many businesses killed because that change cannot be made by the leadership or the organisation.

In the early days of starting a business, nobody has a typical job description. If I asked you to go and buy lunch for someone we were meeting with, you'd do it, even if you were the financial person. Nobody says, "This is not my job". But the bigger a business becomes in time and size, the more bureaucratised it has to become. That's just a function of the growth and complexity of bigger businesses. At that point a whole different dynamic comes into play.

**SIYA:** I can imagine how frustrating that must be to an entrepreneur, when all you want is to get things done.

**IAN:** In my opinion, it's very rare that an entrepreneur either wants to or can make this change from being the sole visionary, the sole driver, the sole passion and the setter of the standards. A Harvard Business Review called

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it ‘scaling-up’, but I think that’s the wrong choice of word. I’m sure they were referring to the greater scale of the business, but the word ‘scaling-up’ presumes entrepreneurs to be on a lower level than professional managers, which is not the case. Entrepreneurship and professional management in many ways are very different from each other.

But the question is, how does this entrepreneur, this person that we’ve said sometimes has unflattering personal characteristics, who has a driving passion and overwhelming enthusiasm, and who creates a family, suddenly adapt to having a big business that is listed on the Stock Exchange, where there’s corporate governance and all sorts of things that are completely alien to the original concept and to the inherent characteristics of the entrepreneur? In my experience there are very few entrepreneurs who are able to make this transition.

**SIYA:** Earlier you mentioned that you’ve started fifteen businesses and nine of those have been successful. There’s really no question that that is success. But to you, what does “success” mean? How would you define it? What would you say it means to be successful?

**IAN:** That’s a profound question! I think success is probably about realising your dreams and fully realising your potential. Different people have different dreams and, of course, different potential. Not everyone is an egocentric megalomaniac who wants to control the world. Many want to be teachers, for example and they want to become the best teachers in the world. There are many people who want to be the best sportsmen in the world. Others want to be academics. So, it’s really about your dream. If you can start achieving those dreams, then you’ll be successful.

I firmly believe that action is better than inaction. In action there’s great power. Just do something! Richard Branson says, "Just do it!", because in the process of doing, you learn a hell of a lot about yourself and what you’re capable of.

I have young daughters who are trying to figure out what they want to do with their lives. I keep saying to them, "Find out about what makes you most happy and fulfilled. When do you feel you are realising God’s purpose for your life?" And of course my daughter says to me, "When I’m doing

nothing, sitting in the sun reading a book!" Unfortunately, I think they can't relate to what I'm saying. They don't have enough life skills yet to clearly understand. But I tell them, "I don't mind if you want to be a singer, if that's what you're meant to do. Go and do it, because I know you'll do well. You'll be happy and then you will be successful."

I find a lot of young kids these days are thinking in a very linear fashion. They are taught by the system, their peers and by social pressure that they must do well in business, get a big car, a nice home and have some status. And, as I said earlier, I think if that's your dream, you're most likely to have a nightmare. In a sense, those things have to almost be unintended consequences of what you're achieving. Don't make the material things your goal in life.

**SIYA:** So are you saying that it's important for people to try to find their purpose early in life and to pursue that going forward?

**IAN:** Yes, and I can't emphasise this enough; you only find that purpose in action. It's only by doing things that you'll discover "This is not for me" and "Yeah, I like this". You can't just think, "Well, I'd like to be a game ranger". It's romantic and lovely; but when you actually go and do it, you find you're scared of lions! Then you're not cut out to be a game ranger. But you're only going to find that out when you actually do it. That's why I say there is great power in action. Don't be scared to do things. Don't sit on the fence.

**SIYA:** So action is key! But what about ambition, goals and planning? In your view, where do these things fit in – being an ambitious person, setting goals and actually planning your path?

**IAN:** Siya, I think this statement is all encompassing: Dream with your eyes wide open, and then go and achieve that dream. Ambition is the energy and the will that you need to achieve your dream. It's a very strong prerequisite. You can't let your ambition be derailed by setbacks. Every setback means that

Ambition is the energy and will that you need to achieve your dream. It's a very strong prerequisite. You can't let your ambition be derailed by setbacks.

you're one step closer to reaching your dream. It's like running the Comrades Marathon – it's going to be a long run. Don't be upset by the first hill that you encounter; go through it! If you have to walk or rest, then do it. But don't say, "I'm going to chuck it in", and let your ambition go to waste.

Ambition is the determination and endurance that you have to exhibit in order to realise your dream, and your goal is the articulation of that dream. For instance, if you want to be a pilot, there are certain things you must do in order to get there. But the most important thing is to know in your heart of hearts that you are cut out to be a pilot. Because if you become a pilot and discover that's not what you really wanted, you'll have wasted time.

If you have an ill-defined goal and you haven't really articulated your dreams clearly, your ambition will be wasted.

**SIYA:** Let's talk about language and the words people use. Everyone has an idea of what they want their lives to be and what they would like for themselves, but somehow they think they cannot achieve those things. Often they actually communicate that they cannot do this or that. In your opinion, how important is the language we use?

**IAN:** Language is incredibly important because, in many ways, it defines meaning. It also expresses the essence of your mind and soul. You can often determine the state of mind of people by examining the words that they choose to explain themselves. You know, a spectator at a sports event thinks he's the best player. He always knows what everyone on the field should do. He's full of bravado. You can differentiate between the talkers and those who will or have achieved. The real test is when you actually have to do it. People say you can go to any bar in the world and you'll find guys with fantastic dreams. But dreams are a dime a dozen. Millions of people have dreams, but very few actually realise their dreams.

I think that's why ambition is so important. I don't know whether it can be taught. I've had long debates with people who think you can be taught ambition and even taught to become an entrepreneur.

**SIYA:** These days there are entrepreneurship schools, for instance.

**IAN:** Yes, I notice that some universities and schools offer degrees and courses in entrepreneurship. There is no harm in this, but I'm not sure about their potential success. This is because entrepreneurship is an inherent, almost God-given gift. There are many gifts and entrepreneurship is just one of them. It's not that entrepreneurs are God's gift to the earth! It's just that they know, in their heart of hearts, that this is what they are compelled to do.

I think, to a certain extent, you can teach or encourage people to start believing in themselves. But they will need to be nurtured, both emotionally and financially, the whole way. And maybe that's what we have to do in this country, because we desperately need entrepreneurs who can create jobs. But I think the true entrepreneur just does it because they have no option. They believe in themselves and that's just how they were born.

I think the true entrepreneur just does it because they have no option. They believe in themselves and that's just how they were born.

I would find it very hard to teach somebody to be an entrepreneur. It's like teaching somebody to play a musical instrument if they have no skill. They have to feel the rhythm; they have to have the predisposition to do it. If I'm trying to teach somebody to play the piano when they're never going to play it properly, well, I'm just wasting my time.

But I suppose we must still attempt to create entrepreneurs in whatever way we can. I believe, as I said, that it is more productive for us to create an enabling environment wherein natural born entrepreneurs can flourish.

**SIYA:** Also, I think that the self-belief you mentioned earlier starts from within.

**IAN:** That's true. I think it all comes from our social structure. I mean, my mother thought that her little bright-eyed and bushy-tailed son could do anything! She instilled in me the belief that I could do it. This is quite philosophical, but I think if we can create the right kind of strong, nurturing

social, financial and statutory environment, we can help people to believe in themselves and have confidence. That environment is one in which the integrity of the family is important and moral values actually become cornerstones of our society.

I think that's what this country really needs to do. I think it's going to be a prerequisite. I could elaborate on this well beyond the scope of this interview. But I would rather spend time creating that environment, even though it's for the longer term.

**SIYA:** Many people like to blame their circumstances and end up doing nothing. The other side of the coin is someone taking action, which is critical as you said, but finding they made an error in judgement. I know that entrepreneurs encounter these situations. Let's talk a bit about these two kinds of people.

**IAN:** There is a clear definition along those lines. I've said that action is critical. That means saying, "I'm not scared to engage. I'm going to give it a go. I don't want to watch the guys playing soccer; I want to be on the field myself. And by doing it I'll find out if I'm a goalkeeper or a centre forward or whatever the case might be. If I make a mistake, so what? And if I get knocked down in the process, so what? I'll get up and I'll come back again!"

I don't want to watch the guys playing soccer; I want to be on the field myself. And by doing it I'll find out if I'm a goalkeeper or a centre forward or whatever the case might be. If I make a mistake, so what? And if I get knocked down in the process, so what? I'll get up and I'll come back again!"

As for the other group, some won't even start. When the first knock comes, they run and blame somebody. "Because you did this, or you did that ..." They are the archetype of the victim. They don't look at themselves and say, "Hang on. Maybe I did it wrong", or "Maybe I'm not cut out to do that. Maybe I should try something else".

I can't really relate to people who blame circumstances and other people, the self-proclaimed victims of society. They enter into the action anticipating failure and, while they're doing it, they're already asking themselves, "Who can I blame?" I have great difficulty in understanding "victims".

Entrepreneurs on the other hand have a large degree of self-awareness, even if they can't articulate it properly. They have a well developed understanding about what they're good at. And to a large extent, an entrepreneur first looks to himself when confronted by failure. He analyses what happened and asks himself, "Where can I be better? What should I have done differently?" Of course some people have better circumstances than others, but I still need to understand my own strengths and see what I can do with those strengths. I can only test my strengths through action, by doing something.

**SIYA:** So, the first question I should ask myself is, "What can I do? What am I passionate about?" And I must find the answers within, instead of saying, "Look at my situation; what could I do?"

But what would you say to someone who says, "Okay, Ian, I hear you. You're saying people must take action and all that. But in your case your circumstances were better. You had already started a couple of businesses before you started PostNet. You had money. Look at me; I'm in a rut, I'm lost, I have nothing!"

**IAN:** When I started my first company, I was in the same position. I had no capital and there was no queue of people wanting to support me, financially or in any other way.

You have to be a realist and not do foolish things. You need a strong understanding of how the world works, what can and can't be done, and how you fit into that. You need to know how to manoeuvre through this difficult minefield. Clearly I haven't emphasised this enough; you have to have a strong dose of realism and pragmatism, because there are certain things you can and can't do.

I think entrepreneurs are prepared to forego instant gratification. In one of

my first businesses, I worked from home. I did all the work myself. I worked long hours and I didn't have money. But I knew what I was doing and I knew that, if I did things right, I would get money. Nobody was prepared to lend me money. Actually, even when we first started PostNet, nobody was prepared to lend us money. They thought the vision was far too ambitious and foolish!

That's why I keep on saying that this idea of being wealthy is an end-product. I'll be speaking to someone this afternoon who is starting a business. They already have smart offices and lovely business cards and letterheads, and two or three more people than I think they should have. This before they have any customers! They have all the trappings and they've spent a lot of their money on things they possibly don't need at this stage.

Starting a business requires a large degree of pragmatism. When you're new to the game and don't have resources, you have to make a plan that's appropriate. Don't think you have to be driving a flashy, big car so that

everybody can see you're a success, when you're not. Drive a small, beat-up car. It doesn't matter! Maybe you can't dress as nicely as your friends who draw a salary. Tough luck! You are foregoing instant gratification. Take the resources you have and plough them into the business. Don't worry about status symbols.

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**SIYA:** I think those are exactly the critical errors that young entrepreneurs make, especially in the early days. They want to have nice offices, fancy business cards and drive a BMW right away.

That leads me to the question of discipline. In one of his books,

Jim Rohn says, "We must all suffer one of two things: the pain of discipline or the pain of regret or disappointment." He also says that discipline weighs ounces and regret weighs tons. What can you say about discipline?

**IAN:** Well first, that's dead right and very insightful. No success, in any field, is attained without massive self-discipline. Obviously you can relate to that, Siya, considering your own achievements. If you have a goal and a dream that you believe in, it almost follows logically that you are going to be disciplined, because nothing is going to put you off, and by the same token not a lot is going to come easily to you. You will be prepared to forego certain material benefits and things like having enough sleep, because you're working to achieve something you believe in.

But discipline also comes from self-knowledge. That's why I keep saying "Know yourself", because you must know what you're good at and what you're not good at. When you're not good at something, you can get advice. But if you're good, you can do it yourself. Analysing your own skills is also a type of indispensable self-discipline.

As for the pain of regret, I think that's so true. I must agree with your observation: you should never put yourself in a position where you regret that you did not do something. That, I think, is doubly painful. Many people will say, "I wish I'd done this" and "I wish I'd done that". In a way, they are also victims. Don't get yourself into that position! Do things if you feel you're compelled to do them, but do them with discipline. Dream with your eyes open, as I said earlier.

**SIYA:** I know another one of your passions is franchising. Correct me if I'm wrong, but it seems that getting into franchising, especially as a franchisee, is a good opportunity. Almost everything is already set up for you and you have somebody covering you in key areas where you would have found yourself stuck had you started from scratch.

What would you say about franchising and the general perception about it? Do you think people are taking advantage of the opportunities that are available?

**IAN:** I think franchising is a practical business model that is very suitable to South Africa because, by definition, it's empowering in the real sense of the word.

A franchisor develops intellectual capital, a brand amongst other things, and a business format. Then somebody buys into their vision. Statistically and empirically it's been proved that there's a massive increase in the possibility of success within a proven franchise concept. People who start their own businesses have somewhere in the order of a 10 percent success rate. But people who become franchisees have about 90 percent chance of succeeding. The comfort of buying into a proven system and being assisted is very empowering. I think that's what South Africa needs right now.

The franchise system is a good starting point for somebody who thinks they may be an entrepreneur, but doesn't have enough risk capital or even a propensity for risk to go it on their own. In a sense, with franchising, you're in your own business but you're not on your own.

There are many cases of entrepreneurs who have been nurtured in a franchising environment and have then sold the store and gone out. The person who started News Cafe was our very first franchisee. One of the founders of Enaleni was involved in food franchising. The person who now runs Taste was himself a franchisee. That's just three of the many I could mention. So, it could be argued that the franchising system can nurture and allow potential entrepreneurs to realise their potential. Even if you're not an entrepreneur, it allows you to develop your own business within the framework of a bigger brand that's already established.

I particularly like franchising because it's a team effort. You're neither dependent nor independent; you're in fact in an interdependent relationship.

I particularly like franchising because it's a team effort. You're neither completely dependent nor completely independent; you're in fact in an interdependent relationship. There's a very clear role for a franchisor and a franchisee. The franchisor articulates the promise of a brand and the

franchisee delivers the promise. Behind the scenes, you've got to work together to enable the promise.

For me, that whole scenario is quite compelling. I find that I'm naturally drawn to being a franchisor. I can articulate a vision, which, at the end of the day, is what a franchisor typically does. A franchisor is constantly articulating a vision, re-evaluating the customer proposition, sourcing new products and suppliers, negotiating better prices, analysing the market needs and how customers are behaving, and finding ways to better satisfy them. You are literally always inventing and re-inventing the business and then selling the vision to the network – the franchisees. I think that suits my personal profile.

Franchising, as a concept, is extremely powerful. It's empowering by its very nature and has many positive spin-offs. I think it's under-utilised in this country where it could be used quite extensively.

**SIYA:** That brings us to the question of empowerment. What are your views on Black Economic Empowerment (BEE)? Are you happy with the way it's being executed? If not, what would you suggest?

**IAN:** Let me say at the outset that conceptually BEE is absolutely the right thing to do. I hope that those involved from a policy-making perspective are looking to improve upon the concept. The issue is that it must be broad-based and the question of course is what skills are being brought to the table. Our country's heritage is such that there is not a particularly broad-based skills level. Therein, I think, lies the issue.

When asked, "What is the biggest issue facing this country right now?" people raise issues like crime. But to me, while combating crime is very important, the most testing issue facing our society is education. In the broadest possible sense, starting from the pre-school level, good quality education is what this country so urgently requires. I know that's going to take time, and time is not something that politicians really have the luxury of. It's demanded of them to find instantaneous solutions. But I think education, in its broadest possible sense, is going to be the biggest factor that will enable empowerment, in the broadest possible sense, to succeed. That must be our long-term strategy.

There are lots of things we're not great at, by the way. But there are lots of things in which we've exceeded requirements because we know that's what's good for the business and we know why we're doing it.

In my opinion, broad-based Black Economic Empowerment is generally well-conceived. But I would like to see it enter the hearts and minds of people who are involved, so that they will join willingly in the process. Unfortunately, legislation is necessary because there are so many reluctant participants. I believe if there were a compelling vision and an all inclusive plan, it would be a lot easier for people to willingly abide by the ethos of BEE. They wouldn't have to be score-carded and cajoled into doing things. People

have an amazing capacity to make things happen and work. Human beings are hugely inventive. I know it sounds a bit idealistic, but I think if we can create a political environment where South Africans can understand that these things have to happen to everybody's advantage, and the quicker the better, then we'll make it happen.

But for now you have to have the carrot and the stick, like tax incentives, etcetera. I'm busy with our score-card right now and that to me is a 'stick'. There are lots of things we're not great at, by the way. But there are lots of things in which we've exceeded requirements because we know that's what's good for the business and we know why we're doing it.

There isn't enough time to talk about some of the specifics. But I think we should concentrate on education and a common South African vision that actually compels people to buy into BEE. There are some practical things that need to be considered. But to be quite honest, I think we're on the right track. We're not far off.

**SIYA:** Let's talk about the decision to list in 2004. Why did you decide that it was time for listing and why was this important? How has it helped your business?

**IAN:** We listed OneLogix (of which PostNet is part) on AltX in 2004,

although we had listed on the main board in 2000. Between 2000 and 2004 we downscaled our business significantly, to the extent that it became a micro-cap. So we've had experience of being listed since 2000.

The circumstances evolved to the point that listing appeared to be the most viable option for the business. We wanted to grow the business, we needed access to more capital and we needed a credible profile that a listing would give us.

For me it was a massive learning experience because I'm not really a corporate animal. But I learnt a lot about finance that I'd never been exposed to before. It was brilliant, learning all these new things. I found that I could make the difficult transition from being an entrepreneur to being somebody that macro-manages a business. I've already said I don't like the word, but I found that I could 'scale-up'.

I now have a far greater authority to delegate, a concept which was previously alien to me. We've built a team of people who complement each other. I'm a leader who embraces and empowers people. In fact, at OneLogix we've got a triumvirate of management that runs this business and we each operate to our strengths. Once again, I believe that you should do what you're good at, and if you're not good at it, get somebody else to do it. I'm not a dominant, do-all leader. That hands-on type of leadership might have been required when we first started the business, but it's not required right now. Thankfully I was able to make that change. But, I'm still the one who enthuses and creates the vision, because that's what I've always been good at. I find that it works in this environment as well.

**SM:** What about growth? Now we're talking Rands and cents.

**IAN:** Oh yes, we're growing. We grow organically and we're growing very well. We are, of course, also looking to grow by way of acquisition.

**SIYA:** And the listing, being a public company, has that helped?

**IAN:** It's raised our profile which has many consequences, not least of which is that it will allow us to make acquisitions. It also facilitates credibility with all our other stakeholders such as suppliers, staff and even

shareholders. By definition we're high profile and transparent. People read our annual report and know what we're doing. It allows for things you could never do in the private domain. So, there's a big benefit in being listed and it's worked fantastically for us.

**SIYA:** Wonderful! This has been a really inspiring session and I now have only one question. You've set your goals, you've achieved them, and you've even surpassed some of them. What still drives you?

**IAN:** You know, you change as you get older. I see my role now as a mentor, to identify talent and to grow it. I really enjoy doing that. We have five businesses in the group now, of which PostNet is one. Each business has both a formal and informal programme in which we identify young talent and nurture it, and I love to do that myself. That enthuses me.

I'm also enthused by the general strategy of the business. When you have a fairly high-profile business that, whether you like it or not, is in the public domain and in the spotlight, you have to plan your strategy very carefully and articulate it clearly to a whole host of stakeholders. I love doing that.

And I love working with our leadership team, because they're exceptionally good. I'm blessed to work with a team like that and it's fun to work out strategies. Of course, when you're successful you have more fun. When it's not successful it's very stressful and you don't enjoy it. But thank God, at this stage we are successful and we're enjoying it. Those are the main things that keep me going.

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# Jason Drew

CEO, DIALOGUE HOLDINGS GROUP

## Company background:

**Founded:** 2003

**Activity:** Business Process Outsourcing

**Employees:** 3 600

**Listed:** September 2006

**Turnover:** R220m

## Profile background:

Born in London, Jason is 42 years old. He has lived and worked all over the world, most recently in France for four years before moving to South Africa. He has two sons aged ten and eleven who live between school in London and South Africa.

He has held leadership roles in a number of international businesses from General Electric, to BUPA (the UK's largest healthcare organisation), and Egg (The UK's leading on-line bank) before leading the start-up of what is today Africa's leading outsourced services provider.

He collects medieval English pewter and contemporary South African art and enjoys riding, flying and fishing amongst other sports. He enjoys classical music and opera as well as rock.



*The entrepreneur in us sees opportunities everywhere we look,  
but many people see only problems everywhere they look.*

— MICHAEL GERBER —

**SIYA:** Your story is an amazing one. How many years has it been now, Jason – three or four?

**JASON:** Nearly five years – time flies!

**SIYA:** I remember from the email you sent me that you started with about 30 people and now we're talking about 2 000 – it's amazing! Please tell me briefly about the Dialogue Group.

**JASON:** Let's go back to the very beginning and ask, "What is outsourcing and why do people outsource?" Outsourcing is really the subcontracting of non-core activities from a company to a specialist provider. My view is that people have been outsourcing since the beginning of time. Early people didn't make their cartwheels – they outsourced them. They didn't shoe their own horses – they gave this to a blacksmith to do ... and I can't think of any modern corporation that manufactures all of its tools of production. Every company outsources its cell phone requirements to a mobile-phone operator, their travel to a travel agent or an airline. They don't own all the means of production themselves. So, it's only how far down this line you can go. One of my favourite examples is British Airways (BA). Take a BA flight from Cape Town to Johannesburg. They don't build or own the plane, they don't fly the plane, they don't staff the plane, and they don't make the food. They don't do the advertising or the ticketing –

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They don't just make cars, they define the experience of owning and driving one. They run smart brand advertising campaigns and contract more and more specialist providers around the world to assist in their manufacture.

experience of owning and driving one. They run smart brand advertising campaigns and contract more and more specialist providers around the world to assist in their manufacture.

Globally, outsourcing has turned into an enormous \$200-300 billion industry. Of that global outsourcing marketplace the industries that constitute most of what we know as the mainstream call centre outsourcing market globally are the telecommunications and financial services industries. If you look at how the outsourcing industry started, it was American financial services businesses followed by their UK counterparts that outsourced non-core activities locally, just down the road in big cities like New York and London. Then they moved to the outskirts of cities because the centres became too expensive.

Having gone a short distance, they then thought, "Well, okay, let's try somewhere else." Both the American and British governments had pockets of unemployment that they wanted to alleviate in the north of Scotland and west coast of America, and through tax incentives, employment was shifted there. The Americans first went offshore to Canada just over the border. They had already gone 3 000 miles; why not the extra 20? But that leap into another currency and another country was huge and sparked the creation of the global outsourcing marketplace we know today.

that's outsourced to ad agencies and travel agents. They define the customer experience and manage the cash flow around the customer experience. Everyone thinks it's a British Airways flight! It is – sort of. Now that's an intelligent company! You think Mercedes-Benz make cars in Germany? They may well be designed in Germany but they are manufactured in part at least through outsourced plants, some of those plants are here in South Africa and with components made in outsourced factories in Japan or China. They don't just make cars, they define the

The British went to Ireland, which was nearer than Scotland. Again that was a bigger move, mentally, than going to Scotland. Then there was only one question left: "Where can we get this resource most effectively, anywhere on the globe?" One of the greatest legacies of the dotcom boom that nobody really understood was the proliferation of fibre-optic connectivity in the northern hemisphere. Many infrastructure companies were expecting the whole world to be run on the Internet within three and a half weeks and – funded by cash-rich investors – they built enormous connectivity. When many of them went bust, other companies picked up those superb infrastructures for almost nothing and created effectively what is now the real Internet boom, with real people really using profitable services across real networks at very low cost.

If you look at the physical cables, they all run around the northern hemisphere above the equator in a circle connecting cities in Europe, India, China, Asia, and back to America. That's why India got a head start in 1995 ... they had massive connectivity, and to put somebody in India or in Canada made little difference in terms of connectivity costs. The Indians were just as educated and using their resources cost a twentieth of what a similar first world resource did. Then the Americans shifted en masse to the Philippines and the British moved en masse to India preferring the more English accent.

This business started in the early 1990s in India, but it didn't really take off until 2000. So successful was India that from 2000 to 2007, several multi-billion dollar outsourcing corporations emerged: WIPRO and TATA Consulting to name two – those types of businesses didn't really exist in 1990 and are now multinational outsourcing enterprises.

India has attracted between 400,000 and 500,000 jobs from European and American destinations in a few short years. That's an extraordinary levelling of the world. It's more wealth redistribution than communism could ever have achieved. The world's becoming flat, and the competition is no longer your next best classmate from Harvard – it's the person who is marginally brighter than you and works or lives in China at a twentieth of your cost. You now see investment banks in London shifting their research facilities into India. Why? Because you can pay the great people there a

fraction of what you would have to pay them in London. So it is now not only low value but highly specialised and technical resource that is being outsourced globally.

As India becomes highly successful, the UK's dependence on India for resource to operate UK financial services businesses presents an increasing issue for risk committees of those banks. If for a technical or political reason India were to go down, the British banking system could be in severe jeopardy as it has so much of its support network based in one location at the end of some thin cables running across some interesting parts of the world. Having sat in risk committees of financial-services businesses in Europe for a number of businesses, I was convinced there had to be another location to mitigate this risk.

To me there was only other one location in the world where there were the essential ingredients: under employment, good education and clearly spoken English. It wasn't Eastern Europe – which some of my colleagues at the time thought it would be – because I guessed that post accession to the EU and the advent of the free movement of labour in 2005, many people who spoke good English in Poland and other previous eastern bloc countries would move to London, and that's been the case. So, sub-Saharan Africa was it for me – and I would start with South Africa because it had the best infrastructure, in the same way that the Asia-pak had started with India, before moving some resource to Pakistan and Bangladesh as alternative nearby locations. That belief coincided with the delivery of SAT3 in 2003, a fibre-optic cable effectively connecting Europe through Portugal to South Africa under the sea. This gave South Africa, for the first time, full access to the digital world at what were then, and still are, outrageously expensive prices, but at least you could do it. Previously, using older satellite technologies, with their transmission delays you couldn't have a communications or data businesses running across those distances.

**SIYA:** So was it a coincidence?

**JASON:** It all came together, like all things do. But the world is a funny place: when you commit to anything, the world changes around you and conspires to help you in ways that you never thought possible before you

made that commitment. The world has only ever been changed by one thing and one thing only – commitment – and nothing else, not luck, not good luck, not very good luck, just commitment. President J F Kennedy stood up in the 1960s and said, "We're going to put a man on the moon." If he hadn't made that commitment, we would have never put a man on the moon.

I've learnt a lot about commitment and how it changes things for people. I had a vision three or four years ago and committed to it. I then exited my business in France, turned down a very senior job in a large UK financial services institution and I thought, "Now – I'm going to commit and I'm going to go and change my bit of the world ... change my reality." Commitment is what changed the world, commitment to myself and between the few of us who started the business. There were fewer than 50 of us in the first year, 500 in our second year, to the 3 600 we are in the group today. We are now at the end of the beginning. Now the real work starts, in terms of our desire to expand into a marketplace we've created and we're going to take that right through Africa in the next few years.

Commitment is what changed the world, commitment to myself and between the few of us who started the business.

**SIYA:** And what was the call-centre industry like at the time, before you guys came in?

**JASON:** There were well-established local in-house local call-centre operations but there wasn't any real outsourced activity. The major banks said they would never, ever, ever outsource. I went back to them and said, "Guys, when you decide to outsource like every other bank in the rest of the world we'll be here waiting for you." And we've done nothing more intelligent than ruthlessly study history.

If you look across the world, all the major banks outsource between 40 and 60 percent of their non-core low risk activity and capacity. My best bet was that the same would happen in South Africa, because the world is the same

everywhere, driven by consumers: everyone wants a pair of Nike shoes – it's only a question of when they get them, not if. South Africans want to be just like every European – with a rail infrastructure, public transport infrastructure, the wealth that many of those countries have. And they will be. It's just a matter of timing. I used to exploit that timing gap for General Electric between the US and the UK sharing best practice across the Atlantic and between businesses.

The UK in the 80s was 10 to 12 years behind the US – there was a McDonald's on every single street corner in the US and not one in London. And you tell me there's not going to be one in London? It would be a brave man who'd bet against a proven mass marketplace somewhere else. And then when there was a McDonald's on most high streets in the UK – are the French that different? No. Nobody's really that different! They'd like to think they are; in reality we're just the same as everybody else. Too busy to cook? Go to McDonald's! When I first arrived in South Africa in mid 2003, South Africa seemed like Europe six or seven years earlier in terms of business practices. The difference today is probably less than 18 months.

**SIYA:** When you say, "First arrived", what do you mean? How well did you know South Africa before that time, before you started the business?

**JASON:** I'd never been to Cape Town! I just got on a plane with a great friend and ex-colleague and said, "Let's go see." On my first night I said, "I can't believe that all these people are walking around looking at the ground and can't see that the ground is littered with diamonds!" There were more opportunities than anywhere I had ever seen in the world ... a sea of opportunity with no shores and no bottom to it, and yet nobody could see it. That's often the way when people don't open their eyes and look around them.

**SIYA:** And I'm sure that when you first came here and you told people what you wanted to do, I'm sure they told you, "This is South Africa, it cannot be done in this country. Some have tried before you and have failed."

**JASON:** And the more people told me I couldn't do it, the more I knew it would work. Because that's the reason that there were diamonds on the street and nobody could see them. They said, "It's not possible. It'll never happen and it can't be done." I had to explain to our corporate lawyer what a call-centre was and how we were going to run one in the UK from South Africa, and he just didn't get it, probably still doesn't to this day. All I did was copy history and

best practice from around world. The first businesses to outsource were the credit card arms of the major banks. The next businesses were the retail financial services arms of retailers, who in fact are pure outsourcers anyway – they just design stuff, get it made somewhere else and sell it to the public.

And the more people told me I couldn't do it, the more I knew it would work. Because that's the reason that there were diamonds on the street and nobody could see them.

If you follow those trends through, all that's happening here is exactly what happened in the UK and Europe 10 to 12 years ago. So, four years ago South Africa was seven years behind the rest of the world in terms of business practice. Now it is three years behind the world. Next year it will be a year behind. So those gaps are shrinking exponentially as the speed of communication and knowledge sharing increases year on year. When I came here, there was no direct underwriter like Outsurance today. It blew my mind. One of the most successful business models in the previous 15 years in the UK was Direct Line, that had made multimillionaires out of its founders. I couldn't believe direct underwriters didn't exist here. If I'd had the bandwidth, I'd have started one up as well. Now of course everyone thinks Outsurance is a given. If you go to Uganda, or a country like Kenya, between them they have as many cars as South Africa, and there isn't a direct underwriter there and no Outsurance model. You would have to be a brave man to bet me there's not going to be one there within the next three years ... a very brave man indeed. And if you did bet, well, I'd just take the money because it's going to happen. The world's flat!

People in South Africa think that big things that are happening in other parts of the world won't happen here. We have to unlock in South Africa

this nonsense that anybody is different or second rate. You are as good as you want to be, and nothing else. If you think you can or you think you can't, you're probably right. There's a big shift in thinking needed, it's not getting people to think out of the box, it's getting people to understand that there is NO BOX. A box is a thing you put there yourself, so let's get rid of this whole nonsense, a box is a thing of the past. There's this whole new way of thinking that we need to get into South Africa to get entrepreneurial people moving. Some people get it, people like Given Mkhari, a great young black South African entrepreneur and non-executive Director of our company. Working together we are getting our people to think they can – and when they do – they will.

**SIYA:** You mentioned that commitment is the main ingredient of success. But what is it that holds people back in your view? Because everybody has an idea, but very few want to take the leap ...

**JASON:** It's a fear of failure and, actually, as soon as you understand that success is merely a series of small failures along a journey to major success, the sooner you get off this fear about making mistakes.

**SIYA:** But what happens? People stop somewhere! They fail once, then they ... they are scared to get up and try again?

Life is not easy; business is harder and you have to expect failure and failure, like tears, is just in the nature of things. All you have to understand is how to overcome that seeming impossibility.

**JASON:** They're not committed. There is no such thing as 'No'. 'No' is the best starting point for a conversation. Life is not easy; business is harder and you have to expect failure and failure, like tears, is just in the nature of things. All you have to understand is how to overcome that seeming impossibility. Our bankers at first would not lend us money to cover the fact that they were paying us late on our outsourcing contract with them – and that nearly caused us to fail. We never gave in and now work well together in great partnership.

**SIYA:** That's a good example ...

**JASON:** So, how did we change that? We went back to them and said that they need to pay us before month end for the work that we're doing because we can't get terms from our largest supplier – our staff. They argued that they paid all their suppliers in 60 days. "We're really not interested in what you do with other people. You're a bank – you lend money to people. We're not a bank, but you're asking us to lend you money? Surely that can't be right." We changed the paradigm and got payment terms no one else did. When we still couldn't bridge the end-of-month gap, we moved our staff pay date to the 7th of the following month. Everybody told me it couldn't be done so we did it. Our customers pay us somewhere between the 30th and the 5th, and we have the money in time to pay our staff – rather than borrowing money to fund our payroll. We could never have grown as a small business unless we changed the paradigm. So time and time and time again, we changed accepted business practice, ripping down barriers to the growth we had committed to.

**SIYA:** So, what I'm getting here is that it's about continuing to expand your thinking? I remember that Einstein said something like "We cannot solve our problems with the same thinking we used when we created them." Is it something similar to that?

**JASON:** Correct. Another thing is understanding when you have reached a blocking point. Then you sit down and work out how to get around, under, over or through. There is always a way!

**SIYA:** Is there always a way?

**JASON:** There is always a way! The only constraint to finding a way is conventional thinking. And if there isn't currently a way, it's only a matter of time and clever thinking before there is, so keep trying!

Unless you're ruthless, prepared to take away the barriers that stand in front of your business and personal growth and always will, you'll just come to the ceiling that you put there. The only thing that takes you beyond those barriers is commitment to an end goal. And the beauty about

absolute commitment is never changing that goal. On day one we said we would be 1 800 people in three years, from start up. We never changed that goal, ever, ever, ever. In the first two years, people still thought it was impossible, but I never wavered and held them to their commitments. That absolute focus of never changing the end-goal is what keeps achieving the impossible possible.

Let's say our business is to sail from South Africa to London and we get blown off course and find ourselves in New York. When you change your commitment and you say let's go to Greenland instead it looks easier – that's when confusion sets in, commitment wavers and you end up going nowhere. All you have to do is remind your crew that they committed to sailing to London – reset your sails and you will end up where you wanted to be. As long as you never change that focus everyone knows where to go and in which direction, and life is much easier. But you can't change your goals halfway through. You can only commit to one thing – absolute commitment, then deliver on that commitment. That's it!

**SIYA:** You're bringing me on to another point about human imagination. People starting a business can imagine it but at the same time they don't believe it can be achieved. Can you just expand on the power of visualisation – especially with reference to your business and other big brands and businesses that started from nothing?

**JASON:** You have to decide what it is you want to be. When we started out we said we'd be 1 800 people in three years. Some of our competitors probably thought they would too but never really mentally committed to being more than 250 people in three years. You know where they are? They're 250 people. I wanted to run a big business and that is what I set out to build. I know exactly where I would like Dialogue to be five years from now. It comes back to my previous point about commitment: know where you want to go, commit to it and it'll happen. But you have to know where you're going. If you walk up to somebody in the airport, carrying two heavy suitcases and ask them where they are going and they don't know, you'd think the person was not well! You have to know where you're going; otherwise you certainly won't get there!

**SIYA:** Before you came here, you spotted an opportunity for a call-centre and had a vision of what you wanted to create. And you came to a country that has so much unemployment and created a business that is designed for a country like ours. How does that make you feel?

**JASON:** I think I feel extremely pleased with the way in which we've grown our business. There are lots of things I didn't understand about South Africa when I came here at first, but we've grown our business in a very inclusive manner. I think 98 or 99 percent of all our management staff and the majority of our board are all historically disadvantaged individuals. We often spend as much as 18 000 hours a month training our teams, investing in their and our futures.

Anybody who comes into our business has a great career opportunity. If they leave our business to go somewhere else, they have equally fantastic opportunities because of our commitment to their training. Training and education are the only things that matter especially training in an inclusive, empowering corporate culture. This can deliver great benefits for South Africa. From a business perspective, the more international knowledge we bring here ...

Training and education are the only things that matter especially training in an inclusive, empowering corporate culture. This can deliver a great benefits for South Africa.

that things can be done, must be done, will be done ... with clarity of focus, clarity of purpose ... the faster South Africa will transform into what it will be: the first African First World Country.

**SIYA:** Everybody – I'm sure it's the same all over the world – wants to be wealthy. Deep down we have an underlying belief that, "If I had money, this is what I'd do." But then you find some people saying that money is the root of all evil! What do you think?

**JASON:** You can only call yourself a rich man if you can carry your happiness to the grave. Nothing else matters.

**SIYA:** Okay, expand on that.

**JASON:** Well, why do you want to make money? Because you think it'll make you happy? Money doesn't necessarily make you happy, nor does wealth. Happiness makes you happy! You can only genuinely be happy when you carry that with you all the way to the grave. So, the only truly happy man is a man who has lived a good life and then dies happy and there aren't enough of those in the world!

**SIYA:** Now, let's tie wealth, poverty and happiness. Someone would say, "I'd rather be wealthy and unhappy than poor and unhappy."

**JASON:** There will always be a distribution of wealth and the only question is how unfairly it is distributed. We go through cycles. We saw, in the European context, great creation of individual wealth in the 1700s, 1800s and 1900s. We then saw a sharing of that wealth during the two great wars. In the recent decades we have seen the emergence of the mass wealthy – entire countries with high levels of wealth. But then, these countries ran out of people to do things for those with money to spend. This in turn has created a huge influx of previously poor people into the UK from other countries in Eastern Europe and from around the world.

There will always be a perpetual differentiation of wealth or benefits, in any society, between the have's and have-not's. What is important is to create a fairer society in which these differences are less apparent and there is equality of opportunity. Being a capitalist, I believe that the only way to do that is to create the wealth first and distribute it later, because if you try spreading wealth when it hasn't really been created, all you end up with is nothing for anybody.

I think ... again getting back to the South African context ... when I meet the young people working for us they are bright, they don't have constrained thinking and they are people of the modern world. If you look at their parents, that is not necessarily the case. Through the history of the apartheid era, they had no idea of the possibilities through education that their children now have, and above all the hope and the ability to move forward. I also think South Africa has an obligation to the rest of Africa to

succeed, because if South Africa doesn't succeed, this entire continent may fail.

**SIYA:** Does South Africa have what it takes to succeed?

**JASON:** Without question. Everybody has what it takes to succeed – it's whether you believe it or not.

**SIYA:** Where would you say the limitation is?

**JASON:** The thinking of the leadership – that's always where the limitation is, because these are the people who create the boxes that people need to think out of.

**SIYA:** That's interesting. What about habits? What habits do you have that made you who you are today?

**JASON:** An endless quest for information and knowledge. I read and take in everything around me and try to look at things differently to most people. I also try to collect different experiences. So, the desire to acquire information and the patience to sift it are, without question, two of the most important habits. You have to understand, as clearly as you can, the world in which you live. You should try everything, even things you don't like or don't want to try. My view is you should try everything once – apart from suicide! Otherwise you cannot understand the context of the world in which we live and work. If you don't understand the context ... and it's an increasingly complex world ... the chances of survival in it are very low. It's the ability

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Otherwise you cannot understand the context of the world in which we live and work.

It's the ability to join up different groups of thinking of people and processes and bring them together, and that only comes through increasing your knowledge in all areas – the arts, the business world, the communities, the structures, the cultures.

to join up different groups of thinking of people and processes and bring them together, and that only comes through increasing your knowledge in all areas – the arts, the business world, the communities, the structures, the cultures. You have to understand and immerse yourself as much as you can. I have often taken taxis to work, rather than driven, because that's what all our staff do. How can you run a business with thousands of people in it, if 98 percent of them take a taxi every day and you've never been in one? Take one every week, then you'll know what is happening in your world! You have to be real.

**SIYA:** I want to go back to the point you mentioned about information, about reading a lot. I can relate to that and I know a lot of people who have got libraries of books in their homes and they read. They've got all this information: but action ... there's no action taking place! A person can quote every single page of a book! How important is action to you?

**JASON:** It's next on my list after commitment. Read a lot, commit to an outcome, and then put it into action. First define your commitment, then ask, "What do I need to do to make this happen tomorrow?" Then start doing it today.

**SIYA:** Please repeat that.

**JASON:** You have to decide where you're going to, decide what actions you need to take to move in the direction that you're committed to, and then start doing it today.

**SIYA:** Don't wait for tomorrow?

**JASON:** No. Tomorrow is long term if you want change. If you just sit down for one minute and say, "Right, what can I do in the next hour? What phone calls can I make? What things can I do to change the week ahead?" then you can achieve more in an hour than in a whole week of tomorrows.

**SIYA:** I want you to go back to something you spoke about earlier about the universe: the moment you start taking action, how the universe conspires to make things go your way. Can you expand on that?

**JASON:** As soon as you commit, the world changes around you and conspires to help you in ways you never thought possible. So, when I committed to come to South Africa, sent my farewell emails and set up my first office under an umbrella at the Ambassador Hotel in Bantry Bay, I started getting phone calls from people because they'd heard I'd committed to come here and they said, "Ah, that's interesting. I know some people there, go meet so and so", or "Well, we have some capacity in India. We never thought of South Africa. We'll give it a try. If you're really saying all these things about South Africa, perhaps we should try it too." So those people changed in their perception because I made a commitment, and moved. Physical movement is one of the important things too. Whenever I want to get change in a business, I move people physically – from floor to floor, office to office, environment to environment – I have never had an office because offices are just boxes that people need to live out of, not just think out of!

**SIYA:** I take it you don't have an office?

**JASON:** I don't have an office but prefer to share space with colleagues. We have "break-out rooms". If you need to make a private phone call, that's fine. But why would you not want to share everything in a business sense you're doing with your colleagues in that business? In a fast-moving world information has to flow even faster.

**SIYA:** How about being the boss, and everybody seeing that "I'm the boss here", with a glass office that's nicely located in the corner?

**JASON:** This boss notion is ... it doesn't work for me. One needs to do and lead – like the guy that leads in a jazz ensemble – doing – not directing like a conductor of an orchestra – hands on leading and close to the ground. If you lead people from too far out front, they may follow you but only out of curiosity, which is a bad thing.

**SIYA:** On this issue of people, what about recruitment? I mean, just look at what you've done in such a short period of time! How did you start? Where do you begin to recruit such a lot of people and what sort of skill does one need to have to start with that first employee and expand a team?

**JASON:** You have to find out what's inside people. It's not what's on the outside. We use a lot of different and innovative methods for recruitment, from radio shows to adverts to open-day recruitment sessions. Something we always do is to have one of our directors present at every recruitment session. We are asking people to commit their careers to us – we should match that commitment. On one occasion we needed several hundred recruits in a short space of time. So we ran some adverts and set up stalls in our canteen for the various campaigns that we wanted to recruit for within our organisation. A young father was bringing his daughter along to one open-day and as we were outside welcoming people, one of us said,

"What are you doing here? "

"I'm bringing my daughter," he said.

"Have you got a job?" he was asked.

"No, I haven't," he answered, "but I'm not young enough."

"Well, come in anyway – you must have a wealth of experience."

And, he ended up working for us!

**SIYA:** That's quite a story!

**JASON:** Two of our staff, whom we'd hired as cleaning ladies, are now successful consultants in our business. We don't put barriers in front of anybody. One of these ladies started work and, as we moved into running South African programmes, we needed Xhosa speakers and she said, "I heard you're recruiting for Xhosa speakers." I had seen her for months. She'd been selling popcorn to agents while cleaning the floors as well. She

said she'd like to try out for an interview and I said, "Well, why do you think you can do it?" She said she had sat down and listened to agents taking calls during every lunch hour for the previous five months. She said, "I've listened to more phone calls in this business than you have. I think I know what a phone call takes." I said, "I think you know what it takes to be a team leader, not just a call-centre agent."

So there's no barrier to growth in our business. We find people hear about us and they want to come into a different environment where we're not traditionalists. The last person to call me Mr. Drew was my headmaster when he called me to his office to give me a hard time, and ever since then I've been allergic to it! It's just first-name terms for everybody. You get into our lifts and you find that everybody talks in them ... not this sort of silent up-and-down. We communicate, that's what we do. We're a communications business. When we need more people we communicate and people come to us. Unlike India, we haven't focused on just putting graduates on our telephones. You don't need a degree to answer somebody's query and tell them what their credit card balance is. We have also recruited people of all ages, from their 60s to their 20s, because that's who we're talking to – people in their 20s to their 60s. Why would you exclusively want to talk to 20-year-olds if you're 60? So we've created a community within our business and I think that's very important.

We communicate, that's what we do. We're a communications business. When we need more people we communicate and people come to us.

**SIYA:** I'm sure in an environment like that, motivation and staff morale are not issues as in most hierarchical organisations where there's a big boss at the top and then the middle management and then everybody else. To me, it looks like there are open lines of communication?

**JASON:** There are and they're as open as you think they are. So, even though you think you run the most open organisation, the truth is, the

What you need to look for is people who haven't come to talk to you and go and talk to them and find out what they're thinking. It's easy to lull yourself into a state of belief that your business is what you want it to be. Every time you think something is as it ought to be, try to prove it wrong.

people who are more extrovert and outgoing will talk to you, so you think everything is working. What you need to look for is people who haven't come to talk to you and go and talk to them and find out what they're thinking. It's easy to lull yourself into a state of belief that your business is what you want it to be. Every time you think something is as it ought to be, try to prove it wrong.

**SIYA:** Everybody loves to say their business has an open-door policy but I don't think it means the same thing to everybody?

**JASON:** You shouldn't have any doors! That's the first point. I mean, why would you walk up to the 15th floor of a

large South African multinational and walk into a CEO's office? Nobody will – it's rubbish! Now the modern CEO sometimes has lunch in the canteen with everybody else, but when the CEO goes to sit down next to people he doesn't know and has never spoken to before, that's when you're starting to get real feedback in a structure.

When you think it's working, and you're sitting in the canteen surrounded by people you know, question it again. Look at the other end of the canteen. Look for people you don't know. Go and talk to them. Then you'll find out what's happening! You can't believe your own senses; you have to question all the time.

**SIYA:** Let's go back to that example you made about your bankers. What do you think banks' perceptions or their views are on entrepreneurship, especially when they have to partner with an entrepreneur and put up those funds?

**JASON:** Banks are not in the business of taking risks. They will only lend

money to people who don't need it. Very rarely will a bank ever lend money to a person who really needs it. It's quite a harsh comment, but it's very true. So you might get some start-up capital from the bank if you put your house on the line. If you haven't got a house to put on the line, it's very tough. And why is it tough? Because most businesses fail and banks know that. I don't know in what proportions but I guess the majority fail rather than succeed.

**SIYA:** I think it's three or four out of five in South Africa, within the first five years.

**JASON:** So you can see the banks' reluctance to lend in that type of environment. Banks and risks don't go well together.

**SIYA:** With all the challenges that South Africa is facing, and the perceptions and unhappiness in some quarters regarding BEE equity deals, wouldn't you think, in an environment like this that start-up business should be supported, or real empowerment should start, at that lower level where start-ups can be created and people can create jobs?

**JASON:** My view on start-ups is that they are only created by entrepreneurs and entrepreneurs are created by education and attitude. Anyone who thinks business is easy needs to go back and read the book about how hard business is before they start out. So that would be the first bit about start-ups.

The second thing about start-ups is that the only thing that ever matters in any business is cash. Nothing else matters. My boss in the early days used to say, "Don't tell me about how much profit you made this year, tell me about how much cash is in the bank on Friday, last Friday and next Friday, and if one is more than the other, your business is fine. Whenever it's less, your business is in trouble. I don't know where, I don't know why, I don't care but it is. Now go and make cash!"

**SIYA:** Cash is king!

**JASON:** It's the only thing! Most businesses do not go bust because of lack of profitability, but lots of businesses have gone bust because of a lack of cash. "Yes I made a profit, but my customer never paid me." Then you go bust and

I think it's entirely appropriate to include those people who deliver employment equity, as with all employees in terms of equity ownership. I think the wider spread equity is among employees, the better.

as with all employees in terms of equity ownership. I think the wider spread equity is among employees the better.

Some of our visitors from the UK the other day said, "Well, what about BEE?", and I said, "Well, if you were about to set up a new plant in Middlesbrough in the north of England, wouldn't you do something for the community?" They said, "Yes, of course we would." I said, "Then what's the difference when you come here? It's the same thing; you're doing something for the community." If you go to set up a steel plant in the north-east of England, where there's high unemployment, you distribute some of your wealth around the place. It's exactly the same thing here. It's only because it's clouded by this issue of race that people question its logic. You just call it helping the previously disadvantaged but it's the same thing. There's nothing different. It's exactly what happens all over the world.

**SIYA:** In terms of doing business in South Africa, what do you think government can do better – to improve the climate of business?

**JASON:** Over-regulation has never helped business but appropriate legislation attempts to ensure fairness for all. The world however is not intrinsically a fair place. If you look at countries which have over-regulated employment conditions, such as France and Germany, it's hard to start a busi-

you can't pay the wages! Businesses don't go bust because of a lack of profitability; they go bust because of a lack of cash! As to BEE, I think there are several elements to it. There's employment equity and it's spot-on. It's what we went through in Europe and America in the 70s and 80s, and it was predominantly female-male, rather than race dominated, but it was the same thing. So, employment equity is entirely reasonable.

As to economic ownership, I think it's entirely appropriate to include those people who deliver employment equity,

ness there. One needs to be fair and allow the creation of wealth and look at the distribution afterwards, rather than regulate its creation which will never work.

I think, particularly in South Africa, there needs to be a very close link between government and business to deliver the change the country needs. Government needs to create the environment in which business can succeed, not regulate its components. I would argue that the government should not regulate to reduce Telkom pricing. Deregulate and the market will sort out the rest. You need to look no further than the UK. When the UK brought in a second national operator in the 70s, early 80s, prices went down 15 percent. Why did they go down 15 percent? Because more than 15 percent and you're cutting into your margins, less than 15 percent and people won't switch. It was only when the fourth operator came in that the prices fell, on average, 60 percent from where they had been. So expecting any price competition from a second operator here? It's not going to happen.

**SIYA:** So the second national operator, you figure it's not going to make a dent? Are we going to need more?

**JASON:** Sure, it's going to make 15 percent difference in pricing. You'll get all the business you want at 15 percent and all the business you can handle but why would you cut prices more, why? It doesn't make sense.

**SIYA:** Why did you decide to list on AltX?

**JASON:** It was really predominantly around credibility with our clients, who were saying increasingly that as we were performing business critical functions for them, they needed some visibility of our governance and sustainability to be confident in placing more business with us. Our peer groups around the world are all listed and whilst we had all those internal governance structures, all of our clients are listed businesses and feel more comfortable dealing with people who are closer to their peer group ... with the governance, regulatory and independent structures that listing gives you.

**SIYA:** Did that help your business at all?

**JASON:** Enormously. It helped us with our existing clients, it's helped us with our prospects and it's also helped us with our staff in enabling us to make a larger number of them shareholders. So it's very important to us.

**SIYA:** Sometimes you find that for some people there's this whole issue about control and not wanting to report to some shareholders that you've never even met. Is that an issue to you?

**JASON:** No. It's a useful counterbalance and it creates a stable environment where you have constraining demands from shareholders, employees and customers. It's a balanced environment. Where you don't have shareholders to report to, I think it's a less balanced environment.

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# Ethan Dube

CEO, VUNANI CAPITAL

## Company background:

**Founded:** 1998

**Activity:** Financial Services

**Branches:** Gauteng and Cape Town

**Employees:** 89

**Listed:** 28 November

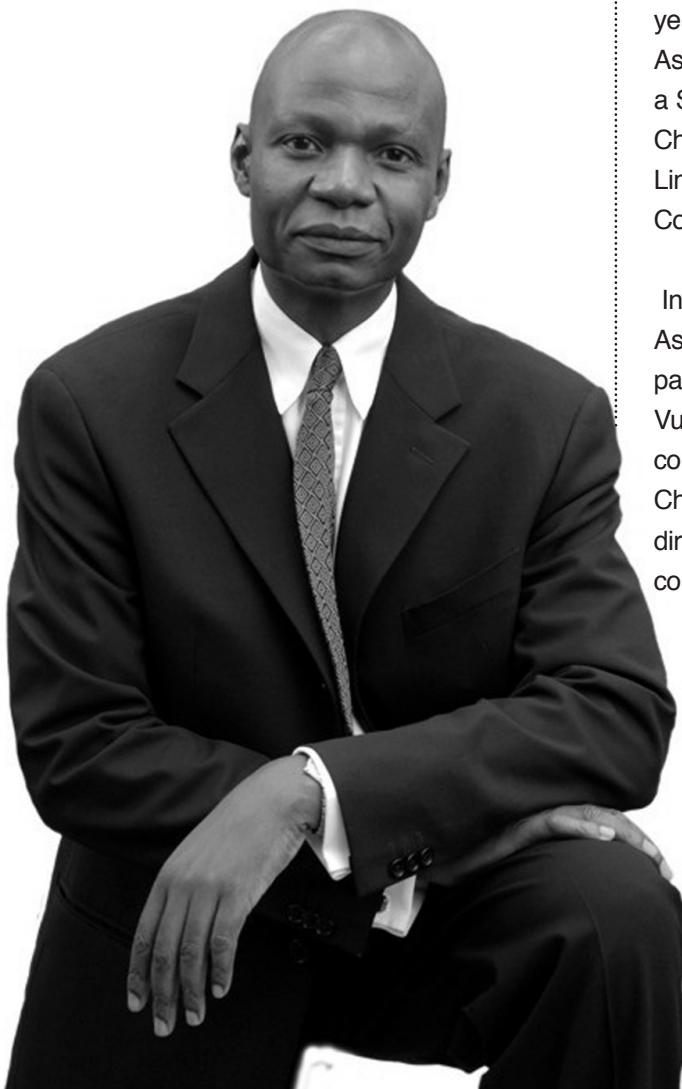
**Market Cap:** R1.1billion

## Profile background:

Ethan Dube MSc (Statistics), MBA (Sweden)

Ethan has gained significant corporate finance and asset management experience over the years. He worked for Southern Asset Managers for three years as a Senior Analyst and for Standard Chartered and Merchant Bank Limited for two years in the Corporate Finance department.

In 1996 Ethan founded Infinity Asset Management with three other partners and in 1998 he started Vunani, an investment banking company where he is the current Chief Executive Officer. He is a director of a number of listed companies.



*I have not failed.  
I've just found 10 000 ways that won't work*  
— THOMAS EDISON —

**SIYA:** Ethan. I don't know much about Vunani Capital other than that you started the company about 10 years ago and it was part of African Harvest before the management buy-out in 2002. Can you give me your background? Where did your interest in financial services start and how did this lead to the start of Vunani Limited?

**ETHAN:** I have been in the financial services industry throughout my career. I started in the central banking environment, which deals with money flows in the monetary system. I then moved to merchant banking, dealing with mergers and acquisitions, and managing money from a fund management perspective, then finally I moved to asset management. I was with Standard Merchant Bank for two and a half years before moving to Southern Life where I spent about three and a half years in fund management. I left at the end of 1996 and teamed up with three individuals to set up our own business, which was called Infinity Asset Management, a venture that was bankrolled by Gensec and in which Worldwide Investments was the BEE partner. We as management had a 30 percent interest, Gensec 30 percent and Worldwide Investments 40 percent. I stayed there for about a year and a half before deciding to go on my own. I looked for two things at that point: capital and empowerment credentials. I ended up with African Harvest, which had listed an entity and raised capital to do empowerment deals.

**SIYA:** What year was this?

**ETHAN:** This was in 1997, but I only finalised the deal with them in April 1998. That was when I went in and set up what could be considered an investment banking entity, but without a banking licence. You may recall that African Harvest had raised R1.2 billion through a listing in 1997. The entity was empowered through its other shareholders in African Legends –

I believe that the secret in business lies in having a good idea – but an idea on its own is not enough. It is imperative that you also surround yourself with the right people. I always try to recruit people who are much brighter and cleverer than me – anything short of this is a recipe for failure.

also surround yourself with the right people. I always try to recruit people who are much brighter and cleverer than me – anything short of this is a recipe for failure. So I got talented people to work with me. At the peak of the business I had 50 professionals in the areas of hedge funds, corporate finance, private equity and securities trading.

We were probably among the first companies after Peregrine to operate in hedge funds. I brought in two guys that I had worked with at Southern Life, and the hedge fund business thrived. These two individuals later moved on to set up their own successful fund business.

The corporate finance division, in spite of the relatively small size of our company, probably did some of the largest transactions in this country. We did all the restructuring work for government, mainly at Denel – when government wanted to sell Denel to overseas companies. We did some work for SAA when Swissair ran into problems and SAA was buying back the shares that had been sold to Swissair. We handled the listing of Telkom, worked on bond issues for the City of Johannesburg, DBSA, Daimler

the other shareholder was Coronation. It was opportune in the sense that they had listed in October 1997 and the market corrected downwards after that. Following the correction in the market, African Harvest management felt that they needed to have operating businesses so that the market would not view them just as an investment holding company with cash. So they had started thinking about setting up a fund management business. I then came in and set up an investment banking business, which I called African Harvest Capital. I brought in professionals to work with me. I believe that the secret in business lies in having a good idea – but an idea on its own is not enough. It is imperative that you

Chrysler and the securitisation at Eskom when they were selling the housing book, taking it out of Eskom – that was worth about R2.5 billion. We also did some private equity business. At the peak of the business I had about 50 professionals, and was generating revenues of about R100 million. I had started off with a balance sheet of about R100 million, and that grew to about R450 million by 2001. African Harvest was a success story and all the divisions did very well. Although the operating businesses did well, at shareholder level, there were some challenges.

In 2002, I led a management buy-out of the entire African Harvest assets. A year later, I took African Harvest Capital (the investment banking division) through a second buy-out. This resulted in us having to re-brand the business as Vunani Limited. This was necessary to avoid confusion in the market since the other shareholder had chosen to retain the fund management business that continued operating under African Harvest Fund Managers.

Soon after the second management buy-out, ABSA came in as a strategic shareholder with a minority interest. They have someone from their private equity division that sits on the board. Once we did that I decided to build a financial services business, being fully aware of the challenge that if you do this without a balance sheet you are destined for failure – you need a strong balance sheet to succeed. I developed a two-pronged approach in which firstly I continued to strengthen my operating divisions so that I could retain the intellectual skill and continue to grow the business producing good earnings. The second was to strengthen the balance sheet through investments. These investments are in equity and in property, and accordingly, we set up a property division to focus in property development. I recruited two guys with skills in property, one in Johannesburg and another in Cape Town, and together we set up Vunani Properties. This company does three things. It sources property re-development opportunities and develops new projects, takes a fee, sells out of the development or sometimes retains these assets. Remember that the whole idea was to create a strong balance sheet and we could only do this by accumulating assets, which were then held in Vunani Property Fund. So if we developed a building that was in a good area and had a good tenant mix and we decided to keep it, we would then sell it to the fund. This

fund is a joint venture between Vunani with 51 percent and Hyprop with 49 percent.

If you look at it, on the property side we have a property development company with guys whose sole focus at Vunani is to drive Vunani Properties because it is only through the property development that we generate earnings. If we do a housing development for example, we sell off plan and we take income. However if we do a commercial development we can decide to either keep the building or sell it. There are some commercial buildings that we have sold, for example The Decks, a huge mixed-use development in Cape Town. It has retail outlets on the ground floor, nine floors for parking and eight floors of apartments. We sold off plan and we got out. We could actually have held on to the retail space and put it into the fund, but instead, after we developed the property we opted to sell. We also invested in a company called Gensec/JHI in which we own 20 percent (the balance is owned by management and Sanlam). This is the largest property management company in the country.

**SIYA:** What's your focus on the equity side?

**ETHAN:** On the equity side we have investments in a range of companies. Our style of investing is to team up with management, unless we pick up a deal on the financial services side, in which case we cross the line and go over to the operational side – of course this is on condition that the deal is strategic. Remember the whole idea is to build a financial services business, and that a strong balance sheet will underpin a strong financial services business. So in our investments in areas other than financial services, we team up with management and do not buy 100 percent in those businesses. Our aim in teaming up with management is to provide them with empowerment credentials, and to date, since 2004, we have made about 24 investments – 12 of which are listed on the JSE. In all 12 companies, we made the investments before the companies listed, and we worked together as a team towards the listings.

We have strengthened the stock-broking business in Cape Town and Johannesburg such that we now do research, bond trading, equities and money market. We have about 12 analysts in research, covering the bulk of

the market. This business deals with all the big fund managers in the country. In corporate finance we do mergers and acquisitions. Our fund management activities include our strategic interest in Peregrine Quants, in which we own about 20 percent together with another partner.

**SIYA:** This is quite a diverse portfolio of investments.

**ETHAN:** Indeed it is. We are building a financial services business that is diversified operating in the areas of fund and asset management; investment banking – being securities trading as well as corporate finance, and debt and capital markets; private equity and property development. In two to three years, we aim to be producing good earnings from these divisions. I would not want the market to view us as just an investment trust. We want to build a proper business. When we did the second management buy-out at African Harvest, we had about 16 professionals – the number had come down from 50 at the peak of business. This is to be expected when there is uncertainty, which leads some people to decide to leave. Currently the numbers are up, with about 60 professionals working in Cape Town and Johannesburg. So we have gone past the previous levels, and we are confident that we will generate strong earnings and create the businesses that we understand.

**SIYA:** You now have the structure that you want and are growing it organically on your own terms.

**ETHAN:** Exactly.

**SIYA:** I want to go back to the beginning. Looking at the structures that you have created over the years. Where did the idea come from in terms of you wanting to start not on your own, but with partners that had some of the resources that you

We are building a financial services business that is diversified – operating in the areas of fund and asset management, investment banking – being securities trading as well as corporate finance, and debt and capital markets' private equity and property development.

needed to get started? Can you shed a bit of light on the thought process of the strategies you adopted?

**ETHAN:** By the time I started African Harvest Capital I had gained a good understanding of how the financial services market functions. You may call it banking on my experience in central banking, if you will. I also had invaluable insight into conducting corporate finance deals, and how the investment world works to create or increase wealth once you acquire money, i.e. fund management. So I had a good and well-rounded understanding of the financial services sector. That is why I said that even though we are investors in brick manufacturing companies in the construction sector, I may never really get to understand the businesses more than an analyst in those sectors can. I cannot claim that I have any of those competencies. My core competencies are in the financial services sector. However, even with these competencies, when I got the idea of creating an investment banking outfit, I realised that without the two ingredients that I mentioned earlier, I probably was not going to succeed. The first one was that I needed a strong balance sheet, and I was fortunate that African Harvest had already raised the cash. Secondly, I needed the empowerment credentials, which fortunately they also had through African Legends.

I am a firm believer in transformation, which I consider to be a pre-requisite for things to work successfully

I am a firm believer in transformation, which I consider to be a pre-requisite for things to work successfully in this country. I wasn't going to create anything which fell outside this space.

in this country. I wasn't going to create anything which fell outside this space. I also selected good people with sound experience in financial services, and if they did not have the experience, I made sure that they received the relevant training and exposure. Fortunately this was not difficult to achieve because there was cash available to allow me to buy time. I think a lot of companies that are created today without a balance sheet, struggle to keep talented black

professionals because they are very much in demand and command higher salaries in big institutions. I trained many people, who rewarded my efforts with their loyalty to the business. As I mentioned, the biggest strength is to identify what you are good at and believe in it. Secondly, make sure you recruit the right people. I was fortunate to identify something that I was passionate about and understood well, having spent a number of years working in different areas of the financial services sector. The only thing left then was to get the right people. As I said, I am not scared of employing people who are much smarter than me.

**SIYA:** So it's not an ego thing?

**ETHAN:** Certainly not. This is not an ego thing at all. If a guy is smarter than me and it so happens that he has to earn more than me, then so be it.

**SIYA:** Going back to the time when you set up your business in the areas of corporate finance, merchant banking and asset management, I can imagine that in those days these professions were predominantly white. Did you have any limiting beliefs that you had to overcome?

**JOHN:** Yes, to some extent. The challenge I would say was finding black individuals who were prepared to set up a business that would compete with other already established big institutions. Given a choice, everyone wanted to be in an established entity where they were secure, and never had to wonder from month to month whether they would be paid. One then had to find people who were strong, people who believed in what they were doing and also believed that if they were presented with the right opportunities, they would make it big. It certainly wasn't smooth sailing. There were instances when we brought in people who left us within a short space of time - but we understood the dynamics and we were fine with this. The key for us was to continue to go out there and identify strong-willed and brave people; people who believed in themselves and had the will and tenacity to run such a business.

**SIYA:** What habits or qualities do you have that have been key to your success?

The risk though is that if you identify the wrong thing, you may keep at it for 10 years before you realise your mistake. So the secret of success is to make sure that you identify the right thing. And you must test and test again to make sure that you have chosen the right thing before focusing all your effort and energy on it.

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**ETHAN:** Focus, and believing in and being passionate about what I do. My only enemy is time. I identify what I want to do, believe in it and I go for it. Although it may not happen today or the next, I don't give up. I stay at it until it comes right. So I always say to my guys that our biggest enemy is time, pointing out that occasionally what we have planned does not transpire in the time originally envisaged, but as long as we know that we are doing the right thing, then at some stage things will come right. The risk though is that if you identify the wrong thing, you may keep at it for ten years before you realise your mistake. So the secret of success is to make sure that you identify the right thing. And you must test and test again to make sure that you have

**SIYA:** Do you sit on all the boards of the companies you have invested in? And how many in total?

**ETHAN:** No, I do not. I probably sit on most of the boards, but my other colleagues also sit on some.

**SIYA:** How do you balance your life as a whole and how do you manage running two offices in Cape Town and Johannesburg?

**ETHAN:** I try to spend equal time at each office every week.

**SIYA:** In your view, is South African youth proactive and aggressive enough in approaching opportunities?

**ETHAN:** I would say yes, but of course there are limiting factors that we

have to overcome and these have to do with the past. In time I am sure we will overcome these challenges.

**SIYA:** You talk passionately about your business – it is almost infectious. Is the passion you had when you started still driving you today?

**ETHAN:** Absolutely. This is all I have and I hope to retire here at Vunani.

**SIYA:** You listed towards the end of November 2007. Why did you decide to list and what are you hoping to get out of it?

**ETHAN:** We got to a stage where the business had grown substantially and we felt that we needed to move to another level, bearing in mind that we employed a large number of very driven professionals. At some stage, when you have growth of that nature, you may find your balance sheet starting to experience some sort of pressure. We found ourselves in such a situation and we decided that we needed to raise capital to continue to do the things that we wanted to do or had always dreamed about. We had a choice of either going to one or two institutions to raise the capital that we required and continuing as an unlisted company, or to list the company, which is what we did. We listed because it allows flexibility. The other thing is that the business is based on people, and I feel it is important to incentivise people through share options so that they continue to make valuable contributions.

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# John Barrow

CHAIRMAN, B&W

## Company background:

**Founded:** 1973

**Activity:** Electrical and Instrumentation construction

**Branches:** 15 operative sites at any one time

**Franchisees:** None

**Employees:** 1 200 to 1 800

**Listed:** 5 July 2007

**Turnover:** R300m in 2007

## Profile background:

An engineer by profession, John has worked in the construction industry since graduating in 1966. After working for a number of companies in South Africa and abroad, he purchased equity in B&W in 1984.

From a small electrical contractor employing no more than ten staff John and his management team have grown B&W into the leading Instrumentation and Electrical contractor in South Africa.

With operations across Africa, today they employ some 1 500 people .

A major milestone for the company was its listing on 5 July 2007 on AltX, enabling B&W to take advantage of the current favourable climate in the construction industry.

John is married, has two adult children and enjoys reading, remodeling classic cars and, for his sins, is an ardent Lions supporter.



*More than anything else, I believe it's our decisions,  
not the conditions of our lives, that determine our destiny.*

– ANTHONY ROBBINS –

**SIYA:** Tell me a bit about your background and how you came to chair B&W?

**JOHN:** I grew up in the West Rand. After serving in the air force for a year I was granted a bursary by Eskom to study Engineering at Wits and subsequently joined Eskom for about three years. I was then recruited by an American oil construction company to work in England. A couple of years later I returned to South Africa to assist in starting up the South African arm of the same company. I spent the following 12 years travelling back and forth between South Africa and England.

I then decided to do my own thing and joined LTA Construction where I became MD for three of their companies, while at the same time studying towards my B Com degree. When I left I joined B&W, which at that stage was owned by one of its founders, who had started the company ten years earlier in Cape Town with a partner. Both were electricians.

B&W started in a small way by servicing Caltex oil refinery and South African Breweries. It was a purely industrial electrical contractor and there was really not much industry in Cape Town. When SAB started expanding, there was a lot of work from all the new breweries. I was personally involved in the Roslyn Brewery. In 1984 I acquired 50 percent of the company. In 1994 my remaining partner emigrated to Greece.

**SIYA:** What happened to his equity? Did he sell to you?

**JOHN:** I obtained his agreement to sell his shares to four others who are still with the company today. At the time they were youngsters and bought these shares collectively. This required faith, as at the time the company was facing bankruptcy – we were certain as the managers that we could

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We worked for the large industrial companies, power stations, municipalities, and the post office. In the early 90s we changed focus to concentrate on the mining industry. We won several of our first big jobs from Amplats and other mining houses. We geared ourselves towards the mining side. It's really grown from strength to strength from there and we now work underground and on the surface.

**SIYA:** At what stage did the company move from Cape Town to Joburg?

**JOHN:** In 1982. B&W was following SAB because SAB was feeding the company contracts. As soon as the company started in Johannesburg it began securing more work from industries across the board, at which time we closed the Cape Town office.

**SIYA:** What does B&W stand for and what does B&W do?

**JOHN:** The name is drawn from the initials of the two founders Baroutsos and Woods. Our core business is electrical instrumentation installation, which means we are a services rather than a manufacturing company. On the electrical side, what we do on a far larger scale, and in mines, is similar

effect a turnaround and return B&W to profitability.

**SIYA:** Before selling his shares, were the two of you still the only shareholders?

**JOHN:** Yes we were. I still remember my early days with the company when we were very small and some of our contracts were worth about R50 000 which, even in those days, was not a lot of money. If we

to when an electrician wires a new house being built, from the switches to the lights to the socket outlets into the distribution board etc. However we use thick cables suitable for 11 000 volts instead of 220 volts.

On the instrumentation side our function is similar to installing an alarm system or a remote controlled gate at home – that would be a very simple control system. On a large brewery or a mine there would need to be a very sophisticated control system with thousands of instruments leading to one control room controlled by one operator. We install all the devices and cable them back to the power source and the control room. We also train the operators. While our portion of for instance, a process plant, is very small, the capex is disproportionately large.

The total E&I market was estimated in 2007 to total roughly R2 billion – only 3 percent of that is sufficient to keep B&W profitable. Eskom is talking about spending R300 billion over ten years on power stations – R30 billion a year. 3 percent of that is R1 billion rand a year.

**SIYA:** What is your industry like, relatively, in terms of sales?  
Is it growing?

**JOHN:** I left university in 1966, and I've been in construction since then. Last year, 2007, was the first year in which the market was as strong as the early 70s. In the late 60s and early 70s, South Africa was building Sasol, power stations, new mines, roads and harbours. All that stopped in 1976 when the apartheid government started experiencing political problems and until 1993, the construction industry was dead.

**SIYA:** Was is because of future political uncertainty?

**JOHN:** The construction industry is dependent on Gross Fixed Investment (GFI) and at that stage it was only gross domestic fixed investment. We could not operate outside of South Africa. In contrast at the moment probably 30 to 40 percent of B&W's work is from across the border – countries such as Uganda, Sudan, Zambia, Mozambique and Angola.

From '76 to the early 90s, there was almost no GFI, so for nearly twenty

years there was no government fixed investment and also very little from private investors. Now the reverse is true – mines are expanding in light of resources demand, government is building infrastructure, power stations, roads, Gautrain etc. This is good news for B&W – the company is profitable now because we survived the slump.

**SIYA:** What is your market share in your industry?

**JOHN:** We estimate that last year we had roughly 15 percent of our target market and B&W is the largest in our sector. Our target market does not include domestic or commercial work. Our major markets include power generation, mining, petrochemical and other process plants like glass and cement – private sector is preferable to government whom we do not target for work. Private sector is more profitable.

Probably 50 percent of our work comes from the mining industry, 20 percent from petrochemical and the rest mainly from other process plants. This makes it easier to estimate future income, compared to for instance retail. If a company decides to build a new mine today, B&W's work will start three or four years later.

**SIYA:** Please tell me how you handled some of the obstacles you faced, especially your partner's departure?

**JOHN:** Obviously when he left it was very difficult time for B&W. The company was technically bankrupt and we couldn't pay creditors ...

**SIYA:** The way I see it, that is a defining moment for a business ... you had to start all over again.

**JOHN:** I was 52 years old – the option of opting out was not attractive as I had personally stood surety with the banks. The prospect of starting from scratch at that age was equally daunting. I approached my four target partners and motivated them to stick with the company with a long-term strategy to return to profitability.

With the company facing bankruptcy at the time, it was a leap of faith as

they didn't even know if they would get their salaries at the end of the month! I then called my creditors and offered them the option of bankrupting B&W, in which instance they would have received 20 cents, if that, on the Rand, or having faith in my ability to turn the company around in a year.

**SIYA:** What was it that you knew?

**JOHN:** I just knew I could do it. I was confident.

I then called my creditors and offered them the option of bankrupting B&W, in which instance they would have received 20 cents, if that, on the Rand, or having faith in my ability to turn the company around in a year.

**SIYA:** Given that the industry was at a low then, what view of the future did you have that gave you that confidence?

**JOHN:** You know Siya, I have always reckoned that if you know your business, you work hard at it, you are honest and you have a good team, you will win. It's not about being clever. You also have to have the guts to take the chance and then the dedication to work very, very, very hard. The additional advantage was that I had sufficient experience, having worked for so many years in America, England and South Africa.

**SIYA:** How difficult was it to sell your vision to the youngsters, especially when they could have gone elsewhere to find jobs?

**JOHN:** When we listed on 5 July 2007, Dean Nevay, the Cost and Planning Director, sent me an sms: "I remember all those years ago when we had to go sign our lives away to the bank and you said: 'Stick with me and I'll make you money.' Thank you." It was such a nice thing to hear. Dean is not even 40 yet and he and the other three have already profited substantially from their shares and have millions still invested in the company.

**SIYA:** And this company was literally worth nothing in 1996?

**JOHN:** We had a huge bank overdraft, for which the banks wanted security. The five of us took a chance and all had to stand surety for a bankrupt company, signing away our homes. At the time they all had young families. All the money they have made they deserve – each and every cent of it!

**SIYA:** So I take it that you would really emphasise the importance of finding the right people?

**JOHN:** Absolutely! Absolutely! Absolutely! You need to have people with balls, people with guts. All of them work bloody hard. Even now none of them is driving a fancy flashy car. In fact at the time I went from being a Managing Director of LTA to driving a second-hand Toyota because I could not afford even a decent standard car.

**SIYA:** Was all this due to you feeling compelled to stay true to your vision?

**JOHN:** Yes. I wanted to work for myself. My father worked as a clerk and my grandfather was a British immigrant who was a signwriter with his own business in Pretoria. I looked at my grandfather who did very well because he worked hard on his business, and I looked at my dad who had three boys and had a good job but couldn't make a lot of money.

**SIYA:** Right now there are businesses that are experiencing what you went through and can't get capital. What was it that kept you strong and helped overcome such a setback? What was the one decision that you made that helped you turn things around?

**JOHN:** I did not have a choice – I could either give my house to the bank or keep fighting. Going bankrupt was not an option, although believe me it was tempting as the simpler option. The stress was absurd – no sleeping at night, fighting with your wife, dreading every ring of the phone signaling another creditor you cannot pay, wages due at the end of the week, salaries at the end of the month and your bank manager calling continually.

I learned from my past experience – when I was with the American compa-

ny and at LTA I was sometimes assigned problem contracts where money was being lost. To make money I sometimes had to close the company or sell assets and retrench people – the most horrible job in the world. Unfortunately, there are some companies and situations that cannot be salvaged.

**SIYA:** To a young person asking for advice about whether they should go into business or not ... what would you say, based on your experiences?

**JOHN:** I've just done that with my 27 year old daughter! She did a marketing course and started a job – she then had the opportunity to start her own business in recruitment and asked my advice. I said, "Decide if it's a viable business, but don't be scared to take the chance." She's doing so well although it's not easy – she flies to Nigeria, Kenya, and Tanzania recruiting for Erikson for all their operations in these countries and in South Africa. She also works bloody hard!

**SIYA:** What are some of the key things that break a weaker guy in business?

**JOHN:** It's the hard times. The worst thing is not falling asleep until three am and then waking at four am worrying about how you are going to pay the wages, creditors who haven't been paid for two months ... it's the worrying. You realise that when you have twenty people working for you, probably a hundred people are counting on you to provide food for them that month. In construction, if you can't pay wages for one week, you are gone. The first thing you pay is your wages – your creditors can wait, your bank manager can wait, you can wait. That kind of responsibility is probably the hardest part. It's also difficult when you have to let people go.

**SIYA:** How difficult is that?

**JOHN:** It's very difficult. At the moment we have a staff of about 1 500 people – and when there's no work you can't afford to hang on to all of them or you'll

Decide if it's a viable business, but don't be scared to take the chance.

go bankrupt very quickly ... so you have to let some of them go. It's very, very, very difficult because you know a lot of them and you know some of their families. Before I retrench 10 percent of the staff in the company, I and all my directors first take a 10 percent salary cut. This makes both you and your directors very keen not to expand more than you have to during the good times and not to retrench people unless you absolutely have to.

**SIYA:** To me it sounds like accountability for everybody?

**JOHN:** The typical thinking is to retrench the cleaner or the receptionist and leave in place the managers. It doesn't work like that. If you have to retrench, you retrench a vertical slice – from top to bottom.

**SIYA:** How important are loyalty and relationships with your staff?

**JOHN:** Critical, especially in construction. There are men I trust with my life on site. There are people who have been with me since the beginning. There is one man who's been with the company longer than I have – Aaron Dlamini. He used to be my driver and he's still here.

**SIYA:** Would you say that there's a link between the decisions that one makes and the success they realise?

Any fool can make money when times are good – it's only the bloody strong who will survive as the cycle comes down.  
At the bottom of the cycle there are only a handful of competitors because it's only the strongest that survived.

**JOHN:** Business is cyclical – we don't make our money at the top of the cycle, we make our money as the cycle turns. Any fool can make money when times are good – it's only the bloody strong who will survive as the cycle comes down. At the bottom of the cycle there are only a handful of competitors because it's only the strongest that survived. Less competition and more work means margins increase, which is how we make money. By the time the cycle tops out again there is a flood of newcomers in the game who don't know

how to price. Everybody is making money and you can't even find stock. By that time, the game is getting ready to fall to pieces again.

**SIYA:** On the 5th July 2007 you listed in AltX, what was the reason for that?

**JOHN:** A couple of reasons. The first was because the company is growing by at least 25 percent per annum, contract projects are getting bigger and we needed money to finance this. Prior to listing we had been financing the company from our own pockets – ploughing back the profits. Finally it reaches a point where it's not possible to maintain 25 percent growth out of your own pocket.

A second more overriding consideration, was the challenge of our limited resources at the moment, specifically managerial staff at site management level. You have to entice and incentivise that level of people to stay with the company but as the shareholding of the company was tightly held, a listing and proper share incentive scheme was the best solution we could identify. At craft level – artisans and semi-skilled workers we've instituted an Employee Trust in recognition of their contribution. Everyone who has been with the company for four years is a member of that Trust. It also boosts BEE as the majority of beneficiaries are black. If any of the roughly 150 beneficiaries retires or dies, he or she receives a substantial amount from the Trust.

Listing on the whole had a lot of benefits for B&W. It helped with the share scheme, strengthened our financial position and raised our profile. We now do a lot of work for Australian companies, for instance, and I go to Australia about twice a year to market the company.

**SIYA:** The one benefit of AltX that has been highlighted by every CEO is profile. Clearly this cannot be over-emphasised. There are a lot of companies that could be listed but have not, and some are not aware how this can boost their profile. How would you advise them?

**JOHN:** When AltX approached us I realised that it may be a good listing platform – I had doubts though as I thought I would lose complete control of the company. I was advised that I would lose a certain amount of control

but should also think of the benefits. Both Ranjini and Noah did a good job of explaining it to me and I'm not sorry now. I think it has done our profile a lot of good and I believe it has pushed us a notch up in the construction industry.

**SIYA:** So to a business owner who is where you were before you listed, who is concerned about losing control, what would you say to him or her?

**JOHN:** I think you can only lose control if you are doing a bad job. If all of a sudden the company stops making money, some of our investors will come forward to exert some control.

**SIYA:** No one's in business to lose money.

**JOHN:** No, indeed – I think if you lose money maybe you should lose control.

**SIYA:** Would you say having those investors helps you to stay true to your vision?

**JOHN:** The listing process brings the railway lines a little bit closer to make certain that you operate between those railway lines. You can't pay yourselves exorbitant salaries or have Ferraris for company cars. Everybody can see what you are doing – transparency is absolutely enhanced.

**SIYA:** And you have nothing to hide if you are doing a good job. If it's not the shareholders that keep you in check when you are doing a bad job, the business is going to die sooner or later.

**JOHN:** If you are not honest, stakeholders will lose out, your creditors and your employees will lose out.

**SIYA:** Does listing help with BEE structuring?

**JOHN:** No, that aspect has been a bit of a disappointment. When we placed the shares we specifically favoured black investors, but unfortunately most of them sold the shares after the first two months.

**SIYA:** Did they make money that fast? How did your shares perform after listing?

**JOHN:** We listed at R1, and on the day of listing the share traded between R2 and R3.10. Now it is trading around the R2 mark. I know that some friends who bought when we listed, doubled their money and sold, but they'll wish they held onto their shares! Others are cleverly still holding on to their shares. I did not get the BEE benefit but I think I may still get it as some of the original shareholders want to sell more. If I want to sell more of my shares I would go to ten black investors and I think it would be easier to interest a black investor now.

**SIYA:** What are your views generally on BEE, and has your business been affected by the fact that you have not achieved what you want in terms of the score card?

**JOHN:** Currently I don't need a BEE rating as B&W has no real competition. There are very few companies of our size in my game. However, we want to improve our BEE platform. B&W has a Level 7 rating on the latest Broad Based Black Economic Empowerment (BBBEE) Draft Codes. The reason is the emphasis on gender equality and physical disability, and in the construction industry it is very difficult to comply with those requirements due to the very dangerous conditions under which we work.

**SIYA:** Based on that, do you think there is still some work to be done in terms of drafting codes that are more realistic for the construction industry?

**JOHN:** The Construction Industry

B&W has a Level 7 rating on the latest Broad Based Black Economic Empowerment (BBBEE) Draft Codes. The reason is the emphasis on gender equality and physical disability, and in the construction industry it is very difficult to comply with those requirements due to the very dangerous conditions under which we work.

Charter is supposed to be published. I don't know if it will make much difference though. Even before the regulation of BEE, we had been trying to mentor black contractors for a number of years. There are a lot of good black electrical contractors who are doing less sophisticated work and we have, over a period of time, identified a number of black-owned enterprises to whom we have been subcontracting, whom we have been mentoring and with whom we have been creating joint ventures. I believe this is a meaningful way to contribute which makes more of a difference in our industry as it will ensure that there is a meaningful presence of black contractors.

**SIYA:** It seems to me that you put a lot of emphasis on empowering people. Is that a fair assessment of your business approach?

**JOHN:** Yes. I think construction is like that. You sell people and management skills. My assets are people, not my bakkies and my trucks; we do a good job because my people do a good job.

**SIYA:** John, you've done very well for yourself, why do you still get up in the morning and head for the office?

**JOHN:** At 63 it's getting harder and harder but I still can't sleep after five o'clock. At five o'clock I'm up, it's become a habit, and I'm at work at seven o'clock.

**SIYA:** Do you still have the passion to do deals?

**JOHN:** It's fun, it's good fun. Everybody asks me when I will retire – I don't know what I'll do when I retire. The good thing is that I don't have to worry anymore about being able to pay people. I now have managers who do all that worrying for me. And I do realize of course I'll have to soon give the youngsters a chance.

**SIYA:** Now tell me, after everything you went through during those early days, what would you say to a young entrepreneur who is struggling to raise capital today?

**JOHN:** Be good at what you do and continue doing it. Banks are only there to help you once you've made it but unfortunately until you've made it you have to take all the risk. What did I do wrong? I worked too long for somebody rather than starting on my own, when I was forty! I should have rather worked for five years after graduating and then started my own business. And I should have somehow tapped into the stock exchange sooner. I never realised how much capital is out there for the taking. So I think in summary I'd say you can't succeed without bloody hard work, guts, tenacity, skill and good business sense.

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# Bashier Adam

CEO, SAB&T UBUNTU HOLDINGS LTD

## Company background:

**Founded:** 1994

**Activity:** Professional Advisory Services in the fields of accounting, internal and forensic auditing business consulting and intelligence, taxation, information technology and human capital

**Branches:** 10

**Employees:** approximately 300

**Listed:** 30 November 2006

**Turnover:** R100m



## Profile background:

Bashier Adam (37) is the founder and current Chief Executive of SAB&T UBUNTU Holdings Limited. Bashier's aggressive 'can do' attitude coupled with a passion for success has steered the group from an SMME focused accounting practice to one of the most prominent black empowerment professional firms in South Africa.

After completing his undergraduate degree, Bashier completed his Dip. Acc. on a part-time basis at the University of Durban Westville, before qualifying as a Chartered Accountant in 1994.

Bashier is a sports enthusiast with a leaning toward soccer and rugby. He is also a single dad with four children, aged five to sixteen.

*If there exists no possibility of failure,  
then victory is meaningless*

– ROBERT H. SCHULLER –

**SIYA:** Bashier, my knowledge of your company is somewhat limited. I know that it is a leading black empowerment accounting firm and it offers a wide range of services which include auditing, business consulting, tax advisory and various other business support services. Please tell me more about your company, SAB&T Ubuntu.

**BASHIER:** Let's go back in history to 1994 when the company started. It started in anticipation of political transformation and the potential opportunities emanating from this. Opportunities were anticipated to arise for previously disadvantaged people with drive and vision. This drive and vision, if identified and positioned correctly, would be invaluable in both the public and the private sector. As with all changes of this nature, transformation proceeded at a pace that was slower than anticipated and the newly formed business had to grow from a zero base. This made the first few years quite challenging. I recall walking into one of the major banks, who were my bankers at that point, to request funds to start the business. I was granted a R20 000 revolving credit facility – an amount that was not quite sufficient to start the business and it barely kept the pot cooking during the first few months.

**SIYA:** R20 000 is not a lot of money these days and here you are telling me that R20 000 is all that it took to start the business.

**BASHIER:** Yes. So, that's how it started. The first three years up to 1997 were rough – really rough. The work was limited to servicing SMME's as SMME's didn't have access to the big world at that time. In 1997 the tide started turning and we happened to be at the right place at the right time. I made a few phone calls to the right places and went knocking on doors saying, "Listen, you are putting big articles in newspapers about empowerment – how about using us?" In Pretoria there were a limited number of

empowerment firms, some of which were getting all the work and that didn't include us. The rest of the people acted as if we didn't exist. So I started knocking on doors. I remember a meeting I had with some of the 'big boys' at one of the prominent organisations and I said, "Guys, if I was to look in from the outside and knew that there were very few empowerment firms in Pretoria, some of which are getting all the work and we were not getting any, it would look like something is not quite fair." Bear in mind that at that time the accounting industry was demographically lop-sided. I think that the message hit home. The rest, as they say, is history. We soon started outgrowing ourselves. We started the business with two people and within four years we were 50 people. Then we started discussions with two little firms in Cape Town and Durban, both of which were slightly smaller than ours and we formed more of an association than a merger. We had cooperation agreements to work together. We had already started our first branch in Polokwane in 1997. This was a branch that we opened based purely on the potential in that area.

For nine months business was tough in Polokwane. I remember quipping that if we were pregnant we could have had a baby in that time. We had overheads of R30 000 per month with no revenue, but we had a presence. Towards the end of 1997 the first job came and I still recall quite clearly that the job was worth just R38 000.

**SIYA:** Just enough to cover the overheads.

**BASHIER:** Yes, one month's overheads. I said to the guys – if we deliver on this, the world is our oyster. We broke our backs and we delivered. From there it was mainly organic growth, but it was quick. We picked up one or two partners and their client bases and in addition sole practitioners joined us. That was typical of our growth at that time. We were not a traditional accounting firm and the fact that we became the first professional services provider in South Africa to list on the JSE (AltX) bears testimony to that.

**SIYA:** Indeed.

**BASHIER:** Our approach was to go to businesses – sole practitioners and partnerships. We targeted those that had been around for a long time but were

stagnant with little growth potential. These entities were just trudging along on a day-to-day basis. We went to the owners and suggested that they join us, purely on the basis of a shared vision and potential rather than promises of large amounts of capital. The premise was always that given their history and given their current stages of development and our aggression and innovation in the market we would, together, create a win-win situation. The underlying foundation of the strategy was that nobody would be worse off than before they joined our organization. The years went by and we added different service offerings based on the skills and abilities of the people that joined us, for instance a person that was not an accountant would join us but his or her special skill in consulting resulted in consulting being offered as a new service. In this manner we added forensic auditing, internal auditing and management consulting and have grown to own a sizeable chunk of the market in these different service lines.

The premise was always that given their history and given their current stages of development and our aggression and innovation in the market we would, together, create a win-win situation.

We did get a little bit ahead of ourselves at times and I think even today we still feel the pains of growth. This resulted in us outgrowing our infrastructure. We continuously underestimated our rate of growth and this resulted in suboptimal infrastructure development. We have recently invested a significant amount in technological infrastructure throughout the country. While we were entrepreneurial, we chose to be managed along corporate lines. We made sure that we think like entrepreneurs but that our back office runs like a corporate office. As an example, consider our listing on the AltX in November 2006. We were on a strategic and operational planning weekend in August of that same year. An informal discussion one evening after dinner led to a discussion about our exponential growth. At that stage we were already one of the top ten firms in South Africa in terms of the accounting profession and by some distance the largest empowerment firm. We had achieved all these things but the question was, "Where do we go from here?" We got into a debate and while we were debating one of the guys took his laptop and logged onto the internet and

started doing some searches. By two o'clock that morning we were debating whether or not listing was a viable option for us.

A quick decision was taken, as always, and the listing was on the cards. The next morning I called Andrew Lianos, our designated advisor from River Group. After mentioning the potential listing, his first reaction was cautiously positive. It had never been done in South Africa but it was worth giving it a try. In Australia, the UK and the US professional services firms have been listed, but it hadn't been done in South Africa. Prevailing regulations in South Africa do not make provision for the listing of statutory audit services, unlike in Australia, so we said that we would extract the statutory auditing component and list the remainder of the business. The next day, the partners party to the debate of the previous night hijacked the meeting and the agenda and focused on the issue of doing the first listing of a professional services firm in South Africa. By the time the meeting was over I had been given the mandate to investigate the listing and report back in two weeks. I did all the ground work and in two weeks' time we met on a Saturday at the airport. We booked the conference centre and all the guys flew in from around the country and 25 of us sat around a table. I presented the business case and asked for direction from the executive team. The mandate I had there was to list the company. That was end of September 2006. On 30 November 2006 we were listed. This is in my mind, one of the fastest listings in the history of the JSE AltX.

**SIYA:** That's amazing.

**BASHIER:** During a recent roadshow, I realised that we possibly got ahead of ourselves, and ahead of the market for that matter. The analysts understand us with some difficulty and the companies operating in the same industry understand us, but the average investor does not appear to understand the key revenue and cost drivers as well as the growth potential of a business of this nature. Various consultations with roleplayers and stakeholders were held, leading up to the listing, in order to understand what the potential effect of the listing could be.

**SIYA:** Was this in the period between September and November?

**BASHIER:** Yes. I must tell you that we worked tirelessly. There were a lot of people we had to thank for making it happen. No one can really comprehend how everything happened so fast. The AltX themselves tells everybody looking to list that they should not expect to be listed in eight weeks. SAB&T Ubuntu was the exception.

Another thing you will pick up in your book about the AltX is that most AltX companies have strategic BEE partners. Very few of them are hands-on black

managed and run. It's one thing to say you have significant black shareholding but quite another to be black managed and to say that your roots, fibre and fabric come from the previously disadvantaged. We identified this as one of our major differentiators. We didn't raise a lot of money from the listing – only R11 million and we spent R1 million on our professional advisors. It's not a lot of money but we needed to put a number to the business. One of the main reasons for the listing was that we needed to retain key staff, so subsequently we introduced staff share incentives. We wanted to give ownership of the company to all the people that worked so hard to get SAB&T to where it was. We also wanted to raise the profile of the business as we had established ourselves well in the local market and it was time to go beyond the South African borders. We found it easier for international companies to work with listed entities than private organisations.

It's one thing to say you have significant black shareholding but quite another to be black managed and to say that your roots, fibre and fabric come from the previously disadvantaged.

**SIYA:** Now, back again to 1994. You mentioned that the first three years were a struggle. What were some of the highlights?

**BASHIER:** Highlights? I'm sure you mean to say lowlights, Siya!

**SIYA:** Ok, maybe both. Let me rather say major milestones that you achieved during that period in overcoming those challenges and lowlights.

We started off in the garage, a makeshift office. I remember with a certain romantic fondness that this garage had a leaking roof. In times of heavy rain we were often ankle deep in water!

**BASHIER:** We started off in the garage, a makeshift office. I remember with a certain romantic fondness that this garage had a leaking roof. In times of heavy rain we were often ankle deep in water! Within three months we moved into our first offices – something we were very proud of back then. We were, and still are, very conscious of our cash position. As an example, my partner and I would take turns paying our bonds – one month we would pay my bond and the next his. We would often

wait for the dreaded call from the bank before we made payment. That's how we managed the cash flow at that time. Those were the lowlights. We did sit down with the big players from time to time to ask what business we could potentially do together. I wouldn't say I'm indebted to them as I think we have already paid our debts to them a long time ago. But yes, in the beginning we had the support of the big players. They recognized that there was no strong black accounting expertise at that time so when they needed it they used us and we reciprocated by giving them proper services. Lowlight, highlight whichever way you want to see it, back then it was literally rolling up your sleeves and doing it yourself. There was no large staff complement to do the work. There were two of us in management and we had two ladies that did data capturing. Our year-end function was lunch at a local pizzeria in Sunnyside and we even asked for a take-away.

Another lowlight was that our car's engine seized. We left the car at the mechanic for repairs and it was there for 18 months because we couldn't afford to pay for it. Nowadays we have millions flowing through our bank accounts and quite recently I reminisced with my partner that we struggled years ago to remain within our R30 000 overdraft limit. One of the biggest reasons for our success was perseverance – we knew where we wanted to go and we knew how to get there. We surpassed our own most ambitious forecasts and I think we are about seven years ahead of where we thought we would be. If you had asked me then where we would be in 20 years time, I would have said we will be where we are today.

**SIYA:** At the time you started would you say that you could see where you were going? Did you have the vision despite the challenges that you were facing at the time?

**BASHIER:** I would lie to anybody if I said that I didn't because I did. I knew exactly what I wanted to achieve. Whether I could achieve it or not, that was another question, but I knew what I saw as the end product and I think much of it has been achieved. I would like to think that we would leave behind a legacy with regard to black professionals. Years ago there were very few of us who could be classified as pioneers of transformation in the accounting profession. Siya, I need to put it all into perspective. We were fortunate. It was three years from the time that we started that the markets opened up to us. There were those before us who were not as fortunate as we were. By the time the markets opened up they were already in the twilight of their careers. We were only starting out our careers when the markets opened up.

**SIYA:** I've heard people say you create your own luck. What is it that you did differently to your competitors?

**BASHIER:** Being crude, blunt and honest I would say that we had the "balls" to go where no one else had gone. We took on the work that everyone else was scared to take on. We were very aggressive in the market and testimony to our aggression was the fact that at some point in the first ten years of our existence every one of the larger competitors had offered me some role or the other within their organisations. They wanted me to join them in a marketing and business development capacity. We ran our firm on the premise that we respected our peers but feared none of them.

**SIYA:** When you say your peers, are you talking about other accounting firms?

**BASHIER:** I'm talking about all firms, Siya, and I think although maybe one or two might not admit it and I doubt that any one of them will come out in public and say it, they have come to respect us over the years. I don't think they look at SAB&T as just another minor player in the industry.

Thinking about the challenges that we spoke of earlier, I remember

approaching one of the large role-players to explore opportunities for working together. I was treated in a very condescending manner, almost as if I was sitting in front of them asking for a job.

**SIYA:** Was it back then in the early days?

**BASHIER:** Yes. I kept quiet and left with one thought. I thought that they should remember that their organisation, as indeed any big conglomerate in South Africa, not only in the accounting profession, is where it is today because of what it has inherited from the past. I had no big name, brand and reputation that I could rely on. We literally had to go and fight for everything that is ours. It took a certain level of pride to get to where we are and you need to be careful not to lose yourself in the process. My advice to a lot of small guys is to visualise what can be done and then go and do it.

**SIYA:** Good advice in this industry. I want you to expand on something I asked earlier regarding the power of human imagination.

**BASHIER:** When I was at university I had, in my third year when I was writing for my degree, a poster stuck on my ceiling. It was there because when frustration hit, and students do get frustrated from time to time, I would tilt my chair and look upwards. I could also look at it when I was lying on my bed. It was a poster I made myself and it read: "Nothing is impossible to a willing mind". Next to it I had six zeros. I said to myself then, "One day I'll get there!"

It was a poster I made myself and the poster read: "Nothing is impossible to a willing mind". Next to it I had six zeros. I said to myself then, "One day I'll get there!"

**SIYA:** That's powerful.

**JOHN:** Yes, and literally that's what I believed in. It's what I believe now. I don't believe that there's anything that can't be achieved if you really set your mind to it.

**SIYA:** So was it a case of turning an idea you had back then into your reality and making money out of it?

**BASHIER:** Yes, that's what it is. I think the big thing was I could imagine a black organisation in this country and maybe black was a bit premature at that time but I could imagine a professional services company that could rival what the market had to offer. Many accountants sat back and became practitioners doing your accounting work and tax work. I don't think anyone sat back and said, "Hold on guys, what is Internal Audit and Corporate Governance all about?"

I believe nothing is impossible – literally nothing. What did happen from a personal perspective was that I found my own knowledge base growing because as we added services I made sure that I knew enough about that service to be able to deliver it myself. Even though we had people there for the new service, I knew enough about it to make sure that we were going in the right direction. I became a jack of all trades. That's why I never specialised on a personal level. My speciality at the moment is building and growing businesses. I'm an accountant and an auditor by qualification. We still very much have a culture of rolling up our sleeves and getting on with it.

**SIYA:** Now let's talk about passion and enthusiasm. At the end of the day nothing big has ever been achieved without enthusiasm.

**BASHIER:** We are driven by passion. This organisation is driven by passion. Everything about it is passion. When we get the message across – it's passion, when we do presentations – it's passion. I think it is more passion than peoples' technical competence. Our clients see a lot of passion in what we do and to me that's more important. Technical competence is something you can teach somebody. With the right attitude you can teach them technical competence. With the wrong attitude and all the technical competence in the world you have a liability.

**SIYA:** So it's about having a lot of passion for whatever you choose to do. For example a guy is going to read this and say, "Hang on, I'm an accountant myself and you know what, I actually hate my job, I hate what I do but I'm qualified." So a guy like that with only that technical competence is not ready to take on the challenge of being his own boss. Not without passion.

**BASHIER:** I always say a typical accountant doesn't necessarily make a good businessman. Just like at our universities for example, where the minimum qualification for a lecturer is a Chartered Accountant. Who says a CA can teach? Personally I think most CA's can't teach. They are accountants who are good at what they do, but they are not teachers.

We have a very simple policy and it's a policy that has been there from day one. We don't criticise weaknesses but utilise strengths. Everyone that works for us has got certain strengths in them and we look to get the best out of that person. We make sure that there's another person who is strong in someone else's areas of weaknesses. That creates interdependence and when you create interdependence you create teams – as long as your team works towards the same goal, they will win. We've got challenges with the whole generation X and the generation Y. These are the people born with the iPods, MXit and all the other technological goodies. It's becoming more and more difficult to motivate this generation, but I think the future is looking bright for us.

**SIYA:** I know from talking to the guys and I know from my own experience that as a start-up guy doing your thing it's easy to get stuck. A lot of entrepreneurs get stuck on a number of things. If it's not admin it's looking at the calendar and saying, "It's the 25th of the month, it's month-end and I don't even know where I'm going to earn my own salary, let alone paying the staff and a whole lot of other things." How did you make sure you moved forward day by day and got yourself unstuck?

**BASHIER:** Siya, we challenged ourselves. The more we challenged ourselves the more we rose to the occasion. To give you an idea, when we started, our salary bill, excluding the two partners, cost us R4 000 per month. We barely, for three months, managed to pay the R4 000 and what we did in month four was that we employed four more people and this took our salary bill to R16 000. If we used to battle to make the R4 000 how then were we going to make R16 000? But paying salaries was not negotiable. We were never a day late and never had to borrow money to pay salaries. The harder we challenged ourselves the more we had to do it. It's like your taxes. We had no choice – it had to be paid.

**SIYA:** What are some of the most empowering beliefs that you hold about life in general and about business?

**BASHIER:** You are the master of your own destiny. I believe your state of mind is a decision that you make. You get up in the morning and decide that you're going to have a great day or a crappy day. I don't always practise it but I believe it. Nobody can make your mind up for you. You have to live life to the fullest, you live only once. I haven't been living life to the fullest for the last 13 years, to be honest. I've been living to work. On a personal level I wouldn't say my work was all of it but it has contributed to a lot of things in my life. Implicit with the decision of listing was that there are now shareholders out there whom I need to satisfy. It's no longer just me and our guys, but we now need to satisfy a lot of shareholders in terms of what we do. That's where we are, that's where we are going. We will continue to be aggressive and take the aggressive road and we are seriously looking at the future – succession. We want to put the right people in the right places. My biggest task in the next three years is finding my successor. Not that I'm going anywhere anytime soon but I need to know that if circumstances change, the show will go on!

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**SIYA:** One thing I have learned is that in business challenges will always be there. What you find though is that a lot of people tend to focus on the problems rather than say, "Here's the problem now let's focus on the solution." What can you say about that?

**BASHIER:** Siya, you have hit the nail on the head. If you speak to any one of my staff, anyone of the 300, there are those who come to me and say,

“We have a problem.” We truly live the culture of an open door policy. Our staff doesn’t make appointments to see me. Externally I make appointments but if I’m in the office anyone is welcome to come and sit and chat to me. People work directly with me in the day-to-day running of the business and report directly to me. So if someone comes in and says they have a problem, especially if it’s a junior and you can see he or she is panicking, I will try and elicit a solution. All of a sudden it changes the whole mindset because then he or she is not thinking about how bad the challenge is but thinking about how it can be solved.

It’s exactly as you put it. You need to focus on the solution. What also happens is that what is a solution today will be a problem tomorrow. We are busy with a huge rollout with our staff wellness programme. Every three year cycle we look at our work environment and ask what it is that we can do to enhance it. What we did three years ago is just not good enough anymore. So we are busy with that whole process, but in three years’ time what we are doing now and the millions that we are pouring into our work environment for our guys will not be worth it. All those millions will be a sunk cost because we’ll have to do the next thing.

**SIYA:** You seem to have a very positive view of life and the future. When you looked at the future at the time when you started you thought that where you are today would be where you would be in 20 years. This to me highlights something that I think is a factor in business success. That is the attitude of gratitude, always looking at things from a positive angle and being grateful instead of always complaining about how bad the world is. Your thoughts?

**BASHIER:** You have to be grateful for what you have, the blessings that you have got you as far as you are. And you look around you and you realise how bad things could be.

Certainly from a business point of view I look at any scenario and I’m critical because I am probably my own worst enemy in terms of opposing myself. In the last 13 years I had one focus and one priority and that was building the business to where it could be. Siya, there was a time when the business depended on me but that has changed in the last four years and

it's changed intentionally. I couldn't go away for more than a week – whether it was leave or overseas business. Once it happened that I went away for two weeks in 2001 to Canada. I ended up spending half the day on the phone with the office. It's not healthy. Not for me and not for the organisation. What would have happened if I hadn't come back? So we needed to start looking into it and I'm glad that now we have got it right.

**SIYA:** So what did you learn from the process?

**BASHIER:** You need to surround yourself with the right people and people need to take ownership. I suppose we are all passionate but some were more passionate than the others and there was a misperception that I was always in control. The fact of the matter is that I was, not by choice, but because nobody else would take control in my absence. We went to great lengths including executive coaching and all of those things to make the rest of the people take ownership. So if they take ownership what happens? If something happens, I don't have to worry about it. So all of a sudden you spread the responsibilities and it starts impacting positively on our lives.

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**SIYA:** My next question relates to something you have already touched on which is delegation and surrounding yourself with the right people. I know that in business on a daily basis there are certain tasks that you have to do but there are also things that you want to do. How do you decide, "I'm going to do this and delegate that", especially when starting up? I can imagine that in the early days when you had to relinquish tasks to people it must have been hard. How difficult was that and what kind of thinking did you have to go through to decide?

**BASHIER:** It was very difficult, more so in our industry because it's a service and there are relationships. You can delegate a task but you can't delegate a relationship. I can't tell my PA, "Please go and do this interview with Siya." It's not possible. It's a relationship, it's a network. There is some stuff that you need to do ... I learnt that people also want responsibility and the more you

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**SIYA:** Just looking at the business climate in general, the South African entrepreneurial landscape in particular, I think it could be better than it is. A lot of start-up businesses are failing left, right and centre and one of the reasons for their failure is that financial institutions do

not understand them. What advice can you give an entrepreneur in terms of dealing with these institutions? And what kind of thinking do these institutions need in order to understand small businesses and start-ups?

**BASHIER:** Siya, certainly one thing that we need to understand is that we South Africans are a proud nation. That's who we are. It's inherent in our make-up. It does not matter who you are. It doesn't matter if you support the Springboks or not. When they play Australia you want South Africa to win because we are South Africans. With start-ups and entrepreneurs our guys think that they can do everything on their own so they don't consult with the necessary professional advisors. They don't do all these things upfront. So my advice to entrepreneurs is to consult professionals before going at it. Get the right people in your team. You will get two things from it. Yes, it costs you money and that's why some people don't do it, but firstly, you will be getting the right team on your side, and secondly, like I always say to my clients you'll have someone to blame when something goes wrong. Who do you blame if you don't have these guys? You'll have to blame yourself. Spread your risk.

I think the financial institutions need to change their mindset. I think in my view it's historical legacy that sits in the financial institutions. Financial institutions like the comfort of being able to support multinationals and the government where there's no risk involved. We need to start taking risk if we are going to take entrepreneurship to another level and make it work.

If we develop SMMEs we need to take a little bit of risk, more than we are taking at the moment. Unfortunately it's the landscape we are in. We are a developing country and being a developing country we need our financial institutions and our powerhouses to assist these SMMEs. Most entrepreneurs are not asking for long-term assistance, they are asking for start-up assistance. We work with a lot of start-ups and the way I would present a case for a start-up and the way an entrepreneur whether an artisan, merchant or whatever would, is a different thing. It's how you package your business. And you need to look in the right places and talk to the right people for funds. We have more funds than our economy can absorb.

**SIYA:** When you are starting a business financial institutions will say you don't have skills in this area. Let's say you surround yourself with the right people with the skills. You can have everything, but the one thing they are going to ask for are signed contracts. In some businesses you need the infrastructure; you need some sort of basic equipment that will enable you to present yourself to the clients. They expect you to come with signed contracts even though you have indicated that you've got the capacity and a sound business plan but need infrastructure to deliver to those clients, especially when it's a new idea where clients need to see a demo first. Do you think there's a case for saying the institutions are so used to financing deals rather than helping entrepreneurs start businesses from scratch?

**BASHIER:** As I said earlier, I was on a road show a few weeks ago and I wanted to raise R40 million. Many fund managers looked at me and said, "You are not worth our while, in terms of size." Now that's R40 million. One fund manager in Cape Town said that we don't make a dent in any of their portfolios. So if I don't make a dent, with R40 million, what could a start-up do? It's scary but I think you are right. But you see, there is another differentiating factor between us and the other accounting firms. A number of the accounting firms have got an entry level cut-off. They will not take a client whose fee for the year is less than R50 000 or R100 000 or whatever that number may be. We look at everything that walks through our door because we have geared ourselves to have one special division that deals only with SMMEs and start-ups.

**SIYA:** Because someone has to do it?

**BASHIER:** Yes, someone has to do it. If nobody else wants to look after the SMMEs, SAB&T will.

**SIYA:** And you'll be treated as an important client.

**BASHIER:** Yes of course, Siya. I think that's where the guys are shortsighted. We have seen some of the SMMEs grow from startups into some serious businesses. So if you take an SMME from the beginning and you help them grow their business, counsel them and coach them to getting the best out of their business they will be with you for life.

**SIYA:** I agree. It's looking long term, which is important.

**BASHIER:** It's sustainability. That's where sustainability comes from. Without looking long term there is no sustainability to talk about.

**SIYA:** Now looking at the time when you started and the climate as it is today would you say that government has done a lot to improve the climate for starting a business, and what more can they do? Have they done enough?

**BASHIER:** I think they have done a lot. Have they done enough? No, I don't think so, but they have done a lot. They have tried to incentivise the SMMEs through tax breaks, tax cuts, simplifying the administration particularly the tax and tax compliance of the small businesses. Have they done enough? No; very simply, the regulatory red tape just around establishing and forming a company is too much. The exchange control regulations are too much as well. I had a potential client sitting in this very boardroom probably a month ago; a Malaysian client coming into South Africa with US\$60 million in capital. I told him that we had to get exchange control approval. After a while the client eventually said that it does not look as if South Africa wants the US\$60 million! The headache that you have to go through to bring that money in is a problem.

You look at the time it takes to form a company or get a Closed Corporation

(CC) registered in South Africa and it's about a month to six weeks. But a little island like Mauritius can have a company registered in three days including having a bank account opened for it. You can't do it here. Those are impediments. When you do have your CC or company registered you need to register for VAT otherwise most people will not do business with you. If you get a VAT number out of SARS in 20 business days, that's four weeks, you've done brilliantly. But what happens in the meantime until you get your number? Your business is stagnant. Nothing happens. So what are we doing? We are actually discouraging investment. I

think that's something we need to get right. I don't say the government doesn't recognise that. I think they recognise it. I don't say there are no initiatives in place, but the pace at which it's happening is really slow.

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**SIYA:** Something needs to happen and fast. Now, back to something you touched on earlier about the role the JSE has played in your business. I know we also touched on the fact that as much as the AltX has listed companies very fast at this stage – every day there's a new listing or two – there are still a lot of companies – medium entrepreneurs – out there that could be listing on the AltX.

**BASHIER:** Plenty. AltX is the perfect platform to list family-owned businesses. The reason for this is that with the AltX you need only 10 percent of your share capital in the public which means that listed businesses can still very much control the company. There's a major pitfall in family-owned businesses generally and that pitfall is succession planning. What happens is that you have family members that start the business and it's great until someone decides to get married and then someone else gets married and so forth. All of a sudden the brothers who started the business now have wives and children to see to. It's no longer

about wealth accumulated to share with their brothers. A family business is like a wheel and if one of the spokes is missing from that wheel that wheel starts buckling. If the father or one of the brothers who started the business happen to pass away, they generally don't know what to do with the business. It creates an issue of continuity and succession.

**SIYA:** I don't know if a thought about listing had crossed your mind before September last year, but one thing I know is that some people don't even want to find out about listing. They just say, "No, no, no, it's not for me, I don't want to lose control." What do you say to that?

**BASHIER:** They don't know the benefits. There are a lot of benefits. Our profile has increased tenfold. Maybe, we are more an exception than the rule. People see us as an accounting firm that's listed. That hasn't been there before. But there are a lot of benefits, the reporting, the transparency and your extent of compliance. It definitely makes you feel good about yourself to know that your organisation complies with the best rules there are for transparency and you've got the ability to get value added service. We are fortunate; the chairman of our company is Jeff van Rooyen. Jeff is ex-chief of the Financial Services Board, so governance and transparency are non-negotiable. So these are the things that make the added advantage. I would never, if we had stayed private, have gone to the banks and raised R40 million in capital. It would be impossible. I can now go to the market and tell them that I'm placing shares. People don't see what it does to your business but it does a lot.

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# Vhonani Mufamadi

CEO, IDECO

## **Company background:**

**Founded:** 2001

**Activity:** Information Technology:

Biometrics

**Branches:** Head office in Johannesburg and a Pretoria office.

**Employees:** 60

**Listed:** October 2007

**Turnover:** >R200m

## **Profile background:**

Vhonani started his business career as a consultant with Absolute Consultants, specialising in management and diversity consultancy.

Thereafter, he worked for Norwich Life in Cape Town before joining Edward Nathan Sonnenbergs Inc. as an articled clerk. He was admitted as an attorney to the High Court in 1995, but left the legal profession in 1997 to follow several investment opportunities in consumer goods distribution, the ICT sector and infrastructure engineering.

He was one of the founding members of Ideco and served on boards and governing structures of Business Map, the Tiso Group and the University of the Witwatersrand.

Vhonani is married with four children. His hobbies include reading and watching soccer.



*Entrepreneurship is living a few years of your life like most people won't, so that you can spend the rest of your life like most people can't.*

– A STUDENT IN WARREN G. TRACY'S CLASS –

**SIYA:** Vhonani, your company, Ideco, specialises in biometric technology, can you please tell me what biometric technology is?

**VHONANI:** Siya, many people still ask this question, “What is biometrics?” and that’s possibly the best demonstration there is that we are playing in a market which is still very young. In other words the market still has a lot of growth potential, and that’s the central message we have been putting across to the market in the run-up to our listing. There’s lots of value still in it going forward, and that’s really what excites us about this business.

Biometrics, in a nutshell, is the technology that helps people to use unique physiological features that everyone of us has, for purposes of identification. Identification is something that people and organisations do for a variety of reasons and it happens throughout a person’s life cycle. From the time you are born to the time you die there is, every step of the way, a need to identify you. When you are born there is a need to make sure that you are handed to the right parent in the hospital. Sadly we still hear of cases of baby-swapping in hospitals whether for criminal reasons or just pure human error, as well as negligence.

The name you get given is really about identifying you among all other human beings on earth. In the South African system today from the day you are born, or at least from the time that the Department of Home Affairs get to know about you, they allocate you an identification number which you then carry throughout your life. When you go to nursery school, the same issue arises about identifying you as it does throughout the schooling system, and then of course when you turn 16 the Department of Home Affairs wants to issue you with an identity book (later on to become a smart card in the plans of the department) and then when you get a job your employers give you specific access rights to their buildings and computer

systems. At the very end, when the curtains are drawn on your life the relevant authorities need to issue your death certificate. It must be issued for the correct person and not someone who is still alive. Basically, the point is that identification is the reality of our lives throughout and so what we do with biometrics is to bring technology into play. For an example, fingerprints have been used for a very long time all over the world. In South Africa, for a few centuries we have used fingerprints in our criminal justice system and in our population registration system and so on. Back then they used "ink on paper", what we call the manual system, so you'd build up a huge database or library of paper of fingerprint records. This poses difficulties of usage: how do you sift through – as Home Affairs has for example – 45 million pieces of paper with fingerprints on them to find the one you want to use as you issue the ID or passport? So what technology has made possible now is that you can capture those fingerprint images, store them in an electronic format and then be able to access them electronically when you need to use them. As I'm sure you understand now, it's the many times that you need to use identification which makes issues of speed, accuracy and so on very important.

The types of biometrics range from fingerprints, which are the most common, to the iris of your eye, to your face, DNA, the geometry of your hand, the blood vein pattern at the back of your hand has also been shown to be a unique feature. So, all of these things are now usable with technology for purposes of identification. The practical uses of this identification include access control within companies to make sure that only authorised people are given access to specific areas within a building. That's what we call physical access control. There's also what we call logical access control, which is granting or withholding access to computer systems. So you do away with passwords which are very easy to compromise as people

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share them. Suddenly you don't know, for example, within the Home Affairs environment, who actually issued a specific birth certificate that was issued fraudulently. Similarly, in a big company, you can't tell who hit the final button to transfer that R17 million which was stolen! If you control access to your systems with unique things such as fingerprints people cannot repudiate a transaction because it can be shown that it was authorised with their fingerprint.

Then you move on from access control to larger systems such as the driver's license system, the ID book system, the passport book system – all of these capture and retain the fingerprints of the people to whom those documents have been issued. Many other things are being done today with fingerprints. One of our businesses is helping people do background clearances of prospective employees. They want to know if they have any criminal records. If they do what kind of records are they? Are they of any relevance to their working environment? So biometrics is also part of the employment decision making process. There's a wide range of applications.

**SIYA:** Now take me back to the very beginning, where it all started.

**VHONANI:** The genesis of it all was primarily about introducing the technology to the South African market. The fingerprint part of it in particular has been around in the world in this technology form for well over 25 to 30 years. It was largely hidden away in government databases all over the world and not really gaining much commercial use. So we had an uphill battle in the beginning, introducing this technology into the commercial environment. First of all it was not only talking to people about what it is, but also showing them that they can use it in their businesses.

**SIYA:** So you had to educate the market?

**VHONANI:** Absolutely! Much of our time was spent doing that, educating the market about the relevance of this technology and its value in their organisations. We're talking here about way back in 1989, 1990, around the time we made contact with our supplier of the technology – Sagem, a French company. It took us all of four to five years to get people to understand what the technology was and where they could use it. Some of the very early users

So we had to start thinking about not just being sales people, but actually bringing on board people with skills in electronics to open up these gadgets when they come back with faults, and to repair them.

of our technology were naturally government departments, in particular the Department of Social Development in their work of paying social security grants to their beneficiaries. They had always battled with the issue of fraud in that system, people fraudulently producing documents showing that they were entitled to receive those grants when in fact they were not. How do you make sure that is not happening in the system? So they were a natural target for us to supply the technology to because with it they

could make sure that only people entitled to the grant were receiving it. Also that they were receiving it once and not many times in a month. In that environment they were already using what they call Paymasters to pay those grants on their behalf. We went to them and suggested that they use fingerprints to positively identify the beneficiaries and we sold them the fingerprint scanners as well as the necessary software. The sales were very slow in the beginning, and soon enough the need arose to provide maintenance services for those scanners. So we had to start thinking about not just being sales people, but actually bringing on board people with skills in electronics to open up these gadgets when they came back with faults, and to repair them.

**SIYA:** So before that time did you always have to send these gadgets back to France for repairs?

**VHONANI:** Yes. There was a period when we used to ship a unit back to Paris and wait two to four weeks for it to come back. So as that became clearly unworkable we needed to think about developing that capacity locally. And today we operate the only repairs and maintenance centre in Africa for the Sagem technology. It also took a while for Sagem to have confidence that the people we were recruiting had the necessary skill to work with this technology. This is something we are very, very proud of because it signifies what we were talking about earlier, that we learned early on that we needed to be more than just distributors, that we had to develop local capacity to work with this technology in a meaningful way.

It's not surprising that, a few years on, we now work pretty much independently of our supplier and we undertake very big projects on our own with our own in-house skills.

**SIYA:** What was your exact role during this whole process?

**VHONANI:** I am one of the two founding members of the business. We were both responsible for all the selling efforts – in the beginning, one scanner here and another scanner there. It was the two of us knocking on doors until, many years later, the technology has virtually gained household name status.

**SIYA:** It has been many years since you started this company and you were relatively younger then. Did you have any limiting beliefs at all, particularly considering the fact that you were young and black in South Africa in those days?

**VHONANI:** Well, that is an important issue, I guess, in the South African context where for a long time black people were, by law, not allowed to have businesses. My specific situation was that I trained as a lawyer and I worked as one for a number of years, I think about seven years. In that process I discovered that I didn't want to work for someone else, I wanted to work for myself, I wanted to have a business. So by the time I left legal practice behind I was quite determined that I wanted to chart an independent path, so whatever obstacles there were in my way were never going to discourage me completely. I also, I guess, had the added advantage of the employment experience specifically as a commercial attorney. It gave me a lot of exposure to other people's businesses: how they run them, what they do and so forth. It was an advantage for me that I had some idea of what businesses are about. In my years as a lawyer I had seen businesses come and go so I wasn't altogether naïve about what lay ahead. I had a degree of preparedness for the challenges that I faced, and in some ways continue to face, running the business today.

**SIYA:** When did you stop practising as a lawyer?

**VHONANI:** I stopped in 1995.

I'm not a very philosophical chap, but I think I'm a very motivated person. I dream a lot, I still do, to this day, every day get new ideas about what to do with this technology and those are things that keep me extremely excited about the business.

That really keeps me going. The challenge there is to make sure that you are not just jumping from one idea to another every day and never actually bringing any of them to reality, because that's what excitement can do. It can run away with you and once you stop running you realise that there is no money in the bank.

**SIYA:** What would you say are your most empowering beliefs?

**VHONANI:** That's a difficult one Siya, I'm not a very philosophical chap, but I think I'm a very motivated person. I dream a lot, I still do, to this day, every day I get new ideas about what to do with this technology and those are things that keep me extremely excited about the business. I guess what we are doing lends itself to that. This is a technology that you can put in just about any environment so there is no limit to the number of applications you can generate – every single day brings up a new business idea.

**SIYA:** When most people think of starting businesses they think of the usual, tried and tested ideas and you didn't do that. How did you handle the nay-sayers and how did you manage to stay focused?

**VHONANI:** You know, that is a very important thing especially in today's South Africa and also specifically for black people. That there are so many opportunities that open up by way of Black Economic Empowerment, means that there is a very serious challenge to focus. Many opportunities did present themselves along the way for us to participate in this mining deal over here, that financial services deal over there, you name it. Much of the nay-saying came out of that sort of environment, in other words, "Why are you passing up the opportunity to buy five percent of this big mining company and focusing on this thing which six years on still hasn't brought you a single cent?" Indeed those did test one's resolve to stay on this, but for me personally I was always quite worried about the many BEE deals I

witnessed in our market. They always worried me particularly from an experience and practical exposure point of view – and indeed from my days as a lawyer I participated in many of those as the lawyer doing the transactions – it always bothered me that the black people getting involved weren't, in the structure of the transactions, getting involved on the practical side of those businesses and running them. So it always worried me – where were they going to get experience in running businesses? What kind of habits do transactions like those engender when all you do is sign up another deal and wait for it to mature one day? What kind of habits? And I think it is the many bad BEE habits that we know about today that get engendered in such business dealings. So I was always very keen not to be caught up in that. I was not always successful in staying focused and not worrying that maybe I've just missed another very good big deal, but somehow we made it through that period. We managed to bring our specific focus on this technology business to fruition.

**SIYA:** You managed to stay motivated and committed to your goals despite the challenges. How did your passion fuel your motivation and focus?

**VHONANI:** To me passion means that you know what it is you want to achieve and that every single day you keep a clear view of it. Even if it seems to be receding, the closer you try to get to it, you keep a clear view of it. Seeing it means that you still have belief in you that you can realise it. I think it's the day or the moment you feel a bit doubtful about it that it disappears from your view and indeed you can't have belief in it anymore and you can't have the drive to keep pursuing it. So that's what passion means for me, that practically every day I have a clear view of what that goal is. Whatever comes up along the way as a distraction or an enticement elsewhere should not sideline you, because you can see where that goal is. I always felt about this business that it will be successful and so even as it got very, very hard at times I didn't lose the belief that we would realise it one day.

**SIYA:** Are you saying that as long as one's goals still make sense one should not easily shift the goal posts or lower the bar when the trials and tribulations come?

**VHONANI:** For as long as you can still see that goal and you are satisfied that it's a sensible goal – because there are goals that, in one context or another, are not achievable – then stay with it, there's no need to change it. Just be practical about it. That there are difficulties should only mean that you need more effort and more determination, full stop. If you can still see things you need to do to get there, then those are the things you need to do. A practical example, in our case is always that many of the big projects we do we don't get

We have some very long periods of negotiations and presentations and sometimes it takes years. The person who gets it is the person who is still there at the negotiating table when it finally happens. If you leave the table you are out of the running, but if you are still there when the pen is put to paper, you are the one who gets it.

to do overnight. We have some very long periods of negotiations and presentations and sometimes it takes years. The person who gets it is the person who is still there at the negotiating table when it finally happens. If you leave the table you are out of the running, but if you are still there when the pen is put to paper, you are the one who gets it.

**SIYA:** I'm sure it can be costly at times.

**VHONANI:** Oh yes it is! That's where sensibility comes in, because of course you must not pursue a R10 business if you get to spend more than the R10 in pursuing it. You might as well leave it. However, for as long as it is sensible to do so, keep going because the person who gets it is the one who perseveres the longest. It goes to the person who

put in those hours that are needed to get the business.

**SIYA:** Earlier we touched on BEE, and habits and culture that it might unintentionally cultivate. Do you think it, to some extent, creates a belief that it is easy to get things in life?

**VHONANI:** Absolutely! Absolutely! One is not knocking the principle of it, but this country would do well to pay attention to the negative aspects of it and seek to rectify them. If you just take the issue about the sense that it's easy to

get 26 percent of a company because the relevant BEE charter says so. And that once you've got it you don't really need to do anything, you just need to hang around and one day your cheque will come. It's obvious what is bad about that. You don't need to work then. Ultimately we will get to 20 years from now and we will not have real black business people because none of us will know what it takes to run a business. What it takes to create a business and keep it alive, because we were just sitting and waiting for the cheque from the 26 percent. It creates all kinds of bad and corrupt practices around getting that 26 percent and ultimately the cheque. And indeed it's all about who you know, therefore the people who don't know anyone – they may intrinsically be very good business people – will never get in there and contribute to that business. Those are some of the bad things which I firmly believe the country will do well to pay attention to and make sure they are changed. This is not just government, it's also the business people themselves, it's all of us who need to pay attention to this and make sure that it doesn't take us down the path of indolence and laziness. It does take a lot of application to create a business and run it.

**SIYA:** When negotiating a deal, apart from looking after just your own interests, is it important to make sure that a deal is a win-win?

**VHONANI:** Without thinking of any specific environment I would say that that has to be correct because whatever the type of business you are in usually you want to do business and do it again. You want to do it today and do it again and again and again. That means that your business will be alive this year and the following year and the year after. To do that, you can't be leaving behind broken hearts and aggrieved people because you've taken everything off the table. There has to be something for everyone on a fair basis. If I am selling you a technology and we agree what its price is, you should be happy that the price I'm charging you is fair. If you feel that I have ripped you off because you don't believe that what I gave you warrants the amount you have paid me, you are not going to do that business with me tomorrow. I may have won that day but a one-sided win ensures that there is no more business the following day.

**SIYA:** We've touched on passion, persistence, focus and other factors, now I want to talk about general attitude towards life. What kind of

attitude should one adopt or nurture before embarking on a journey to business success?

**VHONANI:** I think it's really just another aspect of some of the things we've spoken about already. It needs to be there too, in the right way, this attitude thing. If your attitude is for example that at the first sign of difficulty you are going to give up, find something else to do. Not business. You are going to get many signs of difficulty, sometimes even impossibility. You are going to get those every day, even after you have achieved so called major success you are still going to see these signs. If your attitude is not right then as I said, find something else to do. You are going to have to be the sort of person that when you encounter such difficulties you look at more ways of getting past those obstacles. So that has to be your attitude, that you don't accept defeat easily. It's not to say you must be stupid about it, because of course if it's a wall, it's a wall. There's no point trying to bang your head against it. Rather find a ladder and scale the wall.

**SIYA:** Let's talk about the importance of sales. I've noticed that historically people who have been successful entrepreneurs learned very early on the importance of sales in business. As South Africans we don't rank among the most entrepreneurial countries in the world and I suspect that we don't have a very strong culture of selling. Some people, especially in small companies, never concern themselves about sales, particularly if their business card does not say 'Sales Consultant'. What can you say about sales?

**VHONANI:** I have to say that I agree with you whole-heartedly that at the end of the day sales is what business is. In the organisation whatever your station is – Receptionist, Production Manager, CEO, Non-Executive Chairman – if in any of those you do not see your contribution towards sales, again I think you shouldn't be there because you do not therefore see your relevance to what the business is about. So wherever you sit you ought to be able to see your contribution to those sales and therefore the business. You can't sit on the telephone as a receptionist and not know that if you ill-handle that caller it may result in the loss of a sale. If as a Non-Executive Chairman of that board you go and conduct yourself badly at a function it impacts on the image and therefore the willingness people have

to do business with your company, then you shouldn't be associated with that company. I am so-called Chairman and CEO of this business but I still sell everyday, just as hard as I did when it was just my partner and I starting this business. I still do. I still do because that is what this business is about. Any one of my sales people knows, that no matter what time of the day, the week or the year, they are able to say to me, "Vhonani, we are going to speak to So-and-so and we understand you know that person. Can you come with us or can you make the call?" And I'll do it.

**SIYA:** On the 30th of October 2007 you listed in AltX. Why did you decide to list?

**VHONANI:** We saw the dawn of a new phase in the development of our business. We had until then owned the business, as just my partner and I, which also meant that we had to finance the business ourselves. We saw that it had really come to another phase of growth – faster and bigger growth. We knew that we couldn't finance it ourselves so we agreed that the time had come for us to invite more investors into the business. We also, from an ownership point of view, wanted to include our employees and so everyone of them got shares at that point. We also wanted more tradeability of our shares, so that we had a bigger market than just my partner and I, and therefore value for all the investors. The mechanism was a private placement prior to the listing, so we got in a very good spread of investors between institutions and individuals. With the individuals in particular we also wanted to increase the black ownership of the business and spread it a bit, because we certainly believe in the good of BEE.

We knew that we couldn't finance it ourselves so we agreed that the time had come for us to invite more investors into the business. We also, from an ownership point of view, wanted to include our employees and so everyone of them got shares at that point.

**SIYA:** Who is your partner and what is his role in the business at the moment?

**VHONANI:** He is a gentleman called Albie Geldenhuys and he now lives in Switzerland and has done so for the past 12 to 15 years. The Swiss incorporated company that holds his interest in Ideco is looking to replicate our South African model of Ideco in Europe. We hope for success in Europe as well. He has less and less of a hands-on managerial role in the business, as he is now concentrating on his interests in Europe, but he remains a committed shareholder in the business, still with a shareholding equal to mine.

**SIYA:** Since moving abroad and over the period he's been there, has he still been hands-on in the day-to-day operations of the business?

**VHONANI:** Yes, he was spending a lot of time in South Africa and he's now scaling down on that. There is in fact a technology relationship between the two businesses, because in this field you have to stay abreast of technological developments. He keeps his eye on developments in Europe and feeds those through to us here.

**SIYA:** I see that you guys didn't waste time before doing your first acquisition, just a few weeks after listing. Tell me more about that acquisition.

**VHONANI:** That was actually one of the reasons we listed when we did. We wanted to raise capital to effect a few acquisitions because we see our growth going forward as both organic and acquisitive. We wanted particularly to get into complementary markets, people who are not doing what we do, because we believe certainly that in this market we are the best in what we do. We aren't interested in buying any of the smaller competitors. The first acquisition we've made is of a share in a company called Kroll Background Screening. Their customers are typically personnel recruitment agencies and big corporates with a need to check the backgrounds of the people they are employing, whether it is verifying their qualifications and/or doing criminal and credit checks. Kroll are very experienced in that area, they've been doing it successfully for many years, so that's why we bought into them.

**SIYA:** So what are the plans for this business going forward?

**VHONANI:** As I said in the beginning this industry is still very young, so there is still so much to keep us busy here at home, in South Africa as well as on the continent as a whole. We are already doing a lot of work in the Southern African region. We are very active in Botswana, Namibia and Mozambique. We keep a very close watch on the Zimbabwean market because we believe it will be a very good one when things turn around there. The listing places us in a community of investors from which to raise more capital for expansion, should this become necessary in the future.

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# Carlo Gonzaga

CEO, TASTE HOLDINGS

## Company background:

**Founded:** June 2000

**Activity:** Franchising Consumer brands in the fast food and QSR sectors

**Branches:** 170

**Franchisees:** 140

**Employees:** 47 Direct (3300 indirect)

**Listed:** 21 June 2006

**Turnover:** over R35m (System wide sales R370m)



## Profile background:

Carlo Gonzaga is the CEO of Taste Holdings Limited, a consumer-brand holding company that franchises its brands in the Fast Food and Quick Service Restaurant (QSR) sectors.

Carlo studied at the University of Natal where he obtained an LLB degree, and upon finishing, immediately became a Debonairs Pizza franchisee with his father in December 1996.

In 2000 Carlo left the Debonairs Pizza group and founded Scooters Pizza. Scooters Pizza has become the leading pizza delivery chain on the continent in just six years and the second largest chain by units, with over 115 outlets.

*Genius is 1% inspiration, and 99% perspiration.*

— THOMAS EDISON —

**SIYA:** Carlo, you are the CEO of Taste Holdings, a company that owns the Scooters Pizza and Maxi's brand. I want us to start from the beginning. Can you tell me the background to your company – when and how did it start?

**CARLO:** Taste Holdings was listed in June 2006. That was following a decision taken in February to create Taste Holdings, as a holding company for Scooters Pizza and Maxi's and then list the company.

If I can jump back a significant step, my dad and I were Debonairs pizza franchisees from 1996 to 2000. We sold our stores in 2000 and after selling them I started looking for something to do. I was going to get into black hair care cosmetics but as you can see my knowledge of the consumer would definitely not have been direct knowledge. We continued looking for other opportunities and that is how Scooters Pizza started. We ran like the wind for the first five years and had a lot of growth at that time. On average we opened one store every 22 days and this went on for about six years. In April 2005, we decided to buy Maxi's, a 23 store restaurant chain. We had taken a long time thinking about the idea of a multi-brand business and it culminated in the purchase of Maxi's in April 2005. That was the start of the multi-brand business that we are looking to extend at the moment. After a successful year of the Maxi's business and the integration of this acquisition we decided to list to raise more money to grow the business through more aggressive acquisitions than we could if we remained a private company. That was the main reason for listing. Taste Holdings was specifically

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created as a vehicle for listing and for it to be the holding company of the Scooters and Maxi's brand.

**SIYA:** Where and when did the interest in the fast food business start?

**CARLO:** I don't know. I did a law degree at the University of KwaZulu Natal. I thought I would put my law degree to good use and go work as a game ranger at MalaMala. That was going to happen the March of the year after I finished university. Instead what happened was that my dad bought a Debonairs pizza outlet in December of the year I finished university. I thought I could help out and work for a little while at the store since I had experience working in bars and restaurants, mainly as a barman.

**SIYA:** So one can say that you had some experience in the service business that you gained during your university days.

**CARLO:** Yes, very much. I was at Law School but I didn't really go to lectures very much because I also ran a bar. The bar was called Side Bar and I ran it for two years. It became so contrived that we even had intercoms in the lecture halls so you could take notes in the bar.

**SIYA:** No ways!

**CARLO:** It was wonderful! So yes, I've always been in the service type of business to some degree but mainly on the bar side of things. When my dad bought the Debonairs Pizza store I enjoyed and loved the challenge that came with it. I started helping him out while I was waiting to go to MalaMala and work as a game ranger and after about two months I realised that I was enjoying working at the pizza store. I asked my dad if he could sell me 25 percent of the business and he did. So yes, he sold me the share and I had to pay for it. That was the start and the little company that we had ended up owning four stores. I absolutely loved it. It wasn't the making pizza part of it that I loved but it was the business side of it. I was 22 then and I can say that was when our little pizza adventure started.

We were at the right place at the right time with the Debonairs pizza stores.

At that time it was enchanted territory for everyone. We projected to do a R90 000 turnover that first month. In the second month we did R167 000. None of the other Debonairs stores had ever done R167 000. We sat there thinking what we were going to do. We didn't know how to make pizza fast enough; we didn't know how to do this and that. It all sort of came intuitively, managing the flows and fixing one bottleneck after the other. It became a pattern and it was quite pioneering for us at that time. We were the first people to bring mechanical dough rollers into the country. Luckily my dad was good enough to let me make some mistakes by myself. I stuffed up a lot of things but also tried a lot of other things that worked fantastically well.

I've never had to apply for a job before. The last job I applied for was when I applied to work at the Keg in Glen Ashley. That must have been around 1990 or 1989. I got to run the bar at Law School because I was late for a Law Students Council meeting.

I've never had to apply for a job before. The last job I applied for was when I applied to work at the Keg in Glen Ashley. That must have been around 1990 or 1989. I got to run the bar at Law School because I was late for a Law Students Council meeting. I got there and all the other portfolios had been assigned except for the fund raising portfolio. I laughed and the first thing that came to mind then was running a bar. It was fun and far easier than organizing concerts and soccer events.

**SIYA:** You mentioned something interesting. You said that it was not so much about making pizza but about the business side of things. Sometimes you find people who work for companies, for example the guys who make pizza in your business, saying, "I'm good at making pizza so I might as well start my own pizza-making business." Michael Gebber, in his book *The e-Myth*, refers to these people as technicians who want to be entrepreneurs. These guys work well in an established business and are good at their jobs. How would you respond if one of your guys that make the pizza approached you and said they want to start their own pizza business?

I had the makings of an entire production scheduling process which was completely inappropriate for a pizza shop because it was far too complicated. It has turned out to be the basis for solving the problems that we have now because I can place the important things together and the production has tripled since those days.

**CARLO:** My vision is that every one of my franchisees must go and start their own successful business. I would love to see the guys that work at these stores go and start their own businesses. I really mean it and in fact the strength of our business lies in the depth of talented people that we have. The reason why we have this talent is because we give the guys the opportunities to run their own business within our business. Currently the National Operations Manager of Scooters Pizza, which is not a small job given that Scooters is the second largest pizza brand on the continent, used to be a driver for me in one of my Debonairs stores twelve years ago. We have a list as long as my arm of guys who started off as managers and now work in the

corporate environment. We gave them the opportunity to run their own business in the stores and the venture has come full circle. They have now returned to the corporate office. Yes, a lot of guys think they can run their own business and we encourage them. That is the thought I would want to add. I would love for every guy to think they can take over the world. Although I say that it wasn't so much the pizza-making part, you must realise that pizza-making is what we do and we do it very well.

I remember I went to do one of these finance courses for non-financial managers. We did a section in manufacturing and I remember being so enthralled by this because I could take some of it and apply it to a real business immediately. I went back and implemented production scheduling in the shop. I had the makings of an entire production scheduling process which was completely inappropriate for a pizza shop because it was far too complicated. It has turned out to be the basis for solving the problems that we have now because I can place the important things together and the production has tripled since those days. That is why I love

running my own business. I can take all these theories from the books and apply them to my business. There is no one that can tell me that I cannot do it. I say that it will work and if it doesn't I'll find my own way or adapt it in a way that makes it work for my business. That is what I have enjoyed most about the business aspect of it. My dad also had the foresight to give me the freedom to try all these things without which a lot of it would never have gotten off the ground.

**SIYA:** When I look at business structures, the franchise set-up is probably one of the best ways for people to go into business because it already has the support of an established system that works. However, there are always challenges in every business. Having been a franchisee for Debonairs before you moved on to start your own business, can you tell me about the challenges you faced in starting from scratch?

**CARLO:** Franchisee-franchisor relationships are always adversarial. I've been a franchisee and currently am one because I also own stores. It's just an adversarial relationship. There are a number of things that you can do to minimise that and highlight the positive aspects of it. Franchising, when it works, can be a powerful business force on the planet, but when it doesn't work it can be a most destructive force. I say this because when I was with Debonairs I was part of a group of guys that got people together and decided to take down all the Debonairs signs from our shops. Had we done that we would have killed what is now the leading pizza brand in the country and it would have been a travesty. This was all because the franchisor was managing the relationship wrongly. For two years I was the Chairman of the Debonairs Franchise Council and was fairly instrumental in the trying to take down the signs. I am glad that we didn't though and through my dad I saw that it was exactly the wrong thing to do because of the benefit of being a franchisee in a franchise system.

The biggest challenge of managing the franchisee-franchisor relationship is that this relationship goes through a couple of stages from the onset. Initially the guy is forever grateful because you show him how to make the pizza, the burgers etcetera. The store starts making money and he starts handling more money but is still forever grateful. He will tell you that

without the assistance his shop would have fallen apart. Then after a few months of royalty payments, after six or eight months you start hearing a different tune. The franchisee will ask what it is you are still doing in his business. You hear things like, "I don't need you anymore. I can do this myself. I work 12 hours a day, bust my gut and you want me to pay money for it. What for? This business is here because of me and not because of you. It's me doing all the work here."

When franchisees get to that point, and it does happen to every franchisee at some stage, you either lose them completely from the system and they eventually move out or alternatively you challenge them. You say to them, "Now you are having a good run but what will you do if interest rates go up? What if inflation goes up or what if a competitor opens across the road and you need support?" You have to make them understand that when we travel overseas twice a year, and visit new markets we do it so that we can remain competitive, remain ahead of trends and don't get overtaken by someone else. You need to get franchisees past that stage in terms of thinking that they are paying a lot of money and get them to say, "You know what, there is a benefit that I get even though it's not always tangible and one can't see it from outside". That is really the challenge, managing the franchisees' perceptions as they change over time. Initially they want operational support but five years down the line they are a lot harder to please. They understand how the system works and will be more demanding. They say, "I don't want any further training. What I want to know is how to lower my wages, how to squeeze an extra percentage from my bottom line, how to enter and penetrate a new market". The challenges change all the time which is why, like most things in life, the harder the road travelled, the greater the reward. That's why I say that if you can get franchising to work, it's simply the most powerful force in business.

**SIYA:** Now, let's talk about attitude. I have been told that there are those who are genuine entrepreneurs, who can spot an opportunity and make things happen, and then there also those who start a business because they don't like their boss and just want to be their own boss. What would you say is the best attitude to adopt if you want to start your own business?

**CARLO:** When I started out in business I had just finished Law School. I don't know if I can say I had always been an entrepreneur but before that I had always made money. My first job was stripping two stroke engines at R2.50 an hour. This was when I was 12. After that my dad and I sold bullets to shooting rangers.

I read a lot of books on philosophy and from that I always knew that I wanted to become a capitalist swine bastard which was a phrase I picked up in my reading. Ayn Rand also influenced my first thinking on capitalism, society and welfare. To this day her work still directs much of my thinking. When I started working in the first Debonairs outlet, I realised that the real satisfaction I got was from the realisation that people enjoyed working for me. I had never been through any form of business training or human resource training.

Ayn Rand also influenced my first thinking on capitalism, society and welfare. To this day her work still directs much of my thinking.

What I had learnt, in terms of the human aspect, was probably from my dad. He had extensive experience from working on the African continent. What I suddenly learnt was that the satisfaction of having people enjoying working for you was more satisfying than any financial satisfaction that I ever thought I would get. That changed my attitude. I have never been concerned about how much money I make. Not that I didn't manage the business financially but it's never ever been a concern of mine in terms of why I'm in business. In my very first store I employed seven kitchen staff, three unfortunately passed away but the other four all still work for me, and that was 12 years ago. Those were the first people I ever employed. Throughout our current system, we have had managers who have worked for me. In fact all the senior managers that ever worked for me when I had stores are somehow still involved in our supply chain.

Getting back to what you were saying, if you are chasing the money, it's like chasing a rainbow. Having money as your only objective will cloud long-term judgement and hence the sustainability of the business.

**SIYA:** So it's the passion for what you are doing. If the passion is there the money will come.

**CARLO:** You need to find something that excites you more than just the money. Eventually the money will come. Honestly, for me it's about seeing people who work for the company enjoying, loving and being proud of what they do. There are little snap shots that have happened throughout the time I've employed people. It's small things like the Pizza Olympics which Scooters Pizza runs every year where we recognize people in competitions like "the fastest pizza maker". It has become a huge thing with regional finals. We fly the regional teams to Joburg for the finals and every year some of the kitchen staff come to me and thank me and say that they had never been on a plane before. It's those snap shots that make me realise that I'm doing the right thing. We have got that same passion with our franchisees. I would like all my franchisees to become millionaires. If that happens I would make lots of money and that's fine. I was lucky to have learnt all these things I'm talking about very early in my time. There's got to be something else other than money driving you, a higher purpose or whatever the case may be, but the desire for money cannot be the sole driver of your business.

**SIYA:** You have a lot of people working for you and they are bound to make mistakes at one point or another. You mentioned earlier that your dad allowed you to make mistakes earlier in your business. How do you deal with mistakes made by the people that work for you?

**CARLO:** I have been making pizza for almost twelve years now so I probably know a hell of a lot about a pizza shop. It's very easy for me to adopt an 'I know it all' attitude. I could say, "I tried this ten years ago and it doesn't work," but that's not the attitude I want to have. Sometimes a person must learn from their mistakes. A person must be allowed to make mistakes as long as they don't break the company. There are times when I don't have an answer but invariably I'll have an opinion on the matter. One thing we try and foster in our senior managers is that you have to let people learn from their mistakes. It's genetic. If we all just learnt things as they are handed down we would never have fallen off the bicycle but yet we do. We don't, however, allow a person to make huge mistakes that will damage the business. We assist them to find answers to their mistakes by probing them in the right direction. Part of our learning has to be through our mistakes. There's far more to be learnt if a person is assisted to find an answer than if an answer is handed to them.

**SIYA:** As the leader of Taste Holdings how would you categorize your leadership style?

**CARLO:** I would say an inclusive leadership style. I started Scooters when I was 26 and had guys on my board like Kevin Utian the MD of Nandos and Trevor Edwards the current CEO of Enalen Pharmaceuticals by the time I was 27. One thing that I learnt quickly was that you cannot ‘bullshit’ people. You cannot sit in a meeting nodding your head and smiling when you actually don’t have an idea of what they are talking about. One thing that I’ve always been is very open, and I ask the questions. I don’t care if I sound stupid because I’ve always been confident enough in my own abilities. I might not know what this is today, but once I’ve asked this question, I’ll never have to ask it again. In truth what I found was that there is so much ‘bullshit’ going around that if you ask a simple question, you quickly uncover the truth. You don’t need to be a financial whiz to know whether something is wrong or right for your business. It’s the same framework that I try to develop for guys in management. I encourage the guys to ask questions and let them know that their opinions actually hold some weight. That is why I would categorise my leadership style as inclusive.

The other reason is that if we want to build a large organisation that is run by entrepreneurs, I’ve got to devolve power. I’ve got to be happy in the decision making ability of these people. So each time I ask for an opinion it allows me to understand if that person has the ability to make a decision and rationalise in a way that I think is robust. I want to know that when I leave, the person can run their own division, and as long as they think that they can, it will work out. In some cases it’s democratic and some people think it is soft and can be negative for the business. I think it’s appropriate for the longer term vision that I have. Obviously this changes between people as well. In addition, as the organization grows and we have human resources to

I don't care if I sound stupid because I've always been confident enough in my own abilities. I might not know what this is today, but once I've asked this question, I'll never have to ask it again.

draw from I still find myself rolling up my sleeves and getting stuck in. To some extent this is probably a weakness from an operational perspective because my time is valuable and can probably help the organisation in other more meaningful ways as there are guys just as capable of doing that in the workforce. I think it's something that will change over time.

**SIYA:** What would you say has been the greatest personal challenge you have ever faced in your organisation?

**CARLO:** I think the type of growth that we've had. We've been bankrupt at least twice when we were Scooters Pizza. Each time I was overseas and for three years I never managed to get through a holiday but had to come back! I think it was a natural cycle as the business was growing. There have really been so many challenges and difficult times whether we were dealing with senior guys in management who were not performing or where we were taking board members to task because of a difference of opinion – remembering that all our board members were far more senior and experienced than me. I cannot say there's one that particularly sticks out, Siya, because it's been a fairly hard road in terms of the first four years of Scooters Pizza.

**SIYA:** Okay. Now, as a franchise you have so many different stores run by many different people and one brand. How do you make sure that the customer's experience is uniform throughout?

**CARLO:** We've got a system where we visit stores monthly and sometimes weekly where we have problem stores. We have a pretty robust system. To be honest, it's not as big a job as one would think coming from the outside. It's also because we have grown like that – organic growth. We've sort of scaled it up as we grew and because we've grown and put systems in place it's just really evolved into a robust system with not much variation. A challenge would be if we bought the business now, with no sound systems in place.

**SIYA:** When people apply and want a piece of the action at Scooters Pizza, what qualities do you look for in franchisee applicants?

**CARLO:** There are two main things that we look for. The first one is customer orientation. When it comes to the businesses in the service industry it boils down to customer orientation. The second one is resilience. We do psychometric testing to test a couple of these things. I say resilience because you want people that have passion for business and want to be on their own trying to make it. Fundamentally, it's a tough environment. You will have a manager walk out on you at the end of the month, you will get a telephone call from the police at midnight to tell you that your shop has been robbed; you will have somebody steal a whole lot of

money from you at some point; you will be short of drivers on Friday night and have some who don't show up at some point. So you really require resilience in terms of getting back up on your feet and pushing through in the food business. Every one definitely has to have customer orientation. Even for us, we learn new things about the brand every day and the same goes for our franchisees. Our job is to keep them up to speed with where the brand stands. This is part of our system, the communication line to ensure that every one understands the vision and to make sure that we are all facing the same way. That is the key part of how I understand it, to make sure that everyone shares the objectives as opposed to saying, "That must go there, and that must be that big". That is a big part of what we do but in order for business to be big everyone must see the big picture.

So you really require resilience in terms of getting back up on your feet and pushing through in the food business. Every one definitely has to have customer orientation. Even for us, we learn new things about the brand every day and the same goes for our franchisees.

**SIYA:** You mentioned two things, the brand and brand equity and you also spoke about vision. Those were questions that I had next for you. Let's start with brand equity, what is it and how important is it?

**CARLO:** I'm not a marketing person so don't expect a marketing response. For us, the brand portion that drives our business is about two things. Firstly we have a very tight focus in terms of what we do which then makes

For us food is about sharing. It's about eating or sharing experiences because when you eat you put the food in your mouth which is a highly personal thing. It's not like buying Soviets or Levis. For us, in terms of brand characteristics, it has to be fun and we should enjoy what we are doing.

the whole communication of what the brand stands for very simple. Scooters Pizza is a pizza delivery business. That's just what it is. I'm going to deliver through Africa this year on a motor bike from Joburg to London. If there is any word to define a brand I would say consistent experience. A brand is built over time therefore consistency is key.

The second aspect of a brand key to us is that brands should be fun. A bank can be serious because they are dealing with your wealth. I think Kulula.com is a good example. They have dealt with airline safety issues in a fun way. For us food is about sharing. It's about eating or sharing experiences because when you eat you put the food in your mouth

which is a highly personal thing. It's not like buying Soviets or Levis. For us, in terms of brand characteristics, it has to be fun and we should enjoy what we are doing. We should have a shared value system at the support office level as well as the franchisee level. Integrity plays a big role in all of this. I know every body says it. It's very easy to control that within your head office level but difficult to try and control across 150 entrepreneurs who are running their own business. They have different agendas and purposes for buying these businesses.

So the key aspect for brand experience for us is the consistency of the brand for the consumer. And that's really what we try and build – being the consistent brand experience that will align with our consumers' expectations. Aligning with our consumers' expectation means that it changes over time. Today Scooters Pizza is about pizza delivery. It's a fun, young, energetic and young-at-heart brand. In two years time, we will not be that. There may be a need to subtly make changes. Any brand changes must be subtle. That is something everyone is particular about otherwise we would just start a new business, revolutionise Scooters Pizza.

**SIYA:** On the issue of vision. When companies start from scratch, entrepreneurs ask questions about what their vision for the business is. How important is it to figure out and develop that vision?

**CARLO:** I've thought about this a fair amount. I believe you have to have it. You must always have it. One thing that you must understand is that it is going to change all the time. When I say you have to have a vision I don't mean you should sit with a consultant and come up with the vision. Just have a goal; cross out the word goal and then call it vision. Initially that will do. Have an objective and this objective must be straight. I've found that putting these straight objectives in place works. They must be long enough so that they can last two to three years. Eventually people will start working towards these objectives. If they are too short, you will find by the time people get there, you've got to create another one because now the objective has changed. It's got to be simple. The biggest gain we have made at Scooters Pizzas is that sometime after we started the business we took a step back and asked ourselves what we were doing. We started as a pizza delivery business and two years down the line the question was "What the hell will we become now?" We were doing some promotions and you could only get them in some of the shops or only get them on counter orders. There was no delivery and we said, "That's not what we want to do." We set out to be the number one pizza delivery chain in the country. That is it. It's simple. It's pizza delivery and it's number one. It was as simple as that.

**SIYA:** Clear and to the point.

**CARLO:** You then had some people saying, "Let us add ribs to our menu." My response was simple. I asked them which part of pizza delivery they didn't understand. We had all decided that was what we were going to do so those that had other ideas were welcome to go and start their own businesses. But you must understand that it does evolve and it does change over time. My view is that vision over time should become simpler and not more complicated. So yes, you do need objectives. We had the same objective when we started Taste Holdings. Sometime when we were starting we got all mixed up. I had a discussion with one of the board members, I think we said we wanted to be a billion Rand company in sales and before we knew it that turned into a billion Rand market capitalization. A substantial difference as you can imagine but

that's what we are stuck with. Strangely enough, we'll get there by 2010. That's the objective – to be a billion rand business by 2010. If you say it often enough you start to believe it and then do it.

**SIYA:** It has to be communicated. It's one thing having a vision and another to communicate it.

**CARLO:** It should not be a short-term vision because communication takes time. It is pointless setting a vision to our franchisees and then by end of year two the vision changes. You need time to get the message across. At one of my franchisee presentations two years ago when I was really crystallising in my head what Scooters Pizza should be about, my franchisee presentation was about one of those enormous fly wheels. I think they use them to crush maize or something like that, but they're huge. I looked at this wheel and said that we all have to be in the same place and push in the same direction. Things will start off slowly but then when they start going everything will be in place. When things really start rolling with everything in place, you can never stop it. You can however change direction a little bit but it won't stop the whole process. It's a bit like trying to stop an oil tanker, you can get it to turn around but it won't turn around very quickly.

**SIYA:** That is philosophical, I like it. In the pizza business, you've got all sorts of brands. You guys just came in a few years ago. I know that you had experience but you started a whole new brand. What is it about Scooters Pizza that sets it apart from the other brands, judging by the sales and the awards that you have won thus far?

**CARLO:** When we started Scooters Pizza I recall we had this 39 minute delivery promise. Your pizza delivered in 39 minutes or your order for free. How this came about was quite strange as the key for us was "your order free" not the 39 minutes. I was thinking at the time that there's space in the market for someone who puts their money where their mouth is; someone who makes a promise and delivers on it. When the promise is broken you don't give a little discount on the side and little extra things. We said, you know what, it's on us. We understand that we may have stuffed up your entire evening. This may have been your first date and we brought your

pizza late! It could happen that you were about to go out to an award dinner and you ordered supper for your kids and you couldn't leave to fetch your award because we did not bring your food on time. We started Scooters Pizza based on honesty. We said we are an honest down-to-earth brand, we respected the promise that we had made and we kept it. We said we won't give you small promises like R5 off your next order or something along those lines.

One of the key aspects when we started in terms of brand was that everything was bright and it was in your face. The brand communication goes through stages and at the time everything we did was aggressive and we embarked on "guerilla marketing". We also gave our product time to be out there and we've always been very confident in our product. When we launched, for the first eight months, if you were in Durban and went to the rugby you got a free pizza. At the end of the game, we got hoards and hoards of pizza on the field and gave people free pizza. We did this on the back of Harleys, on horseback, with nice promoter girls and things like that. This is what we did for the brand to be out there. We said that the brand needs to be different to what Debonairs was. My brief to the agency was that I wanted red and yellow as my colours. I didn't know what the name would be but I said I wanted it to be fun. I said, "We don't take ourselves seriously but we're damn good at what we do." That evolved over time to a point where we could afford to advertise on television to better communicate the brand to a far larger audience. What we have always communicated is that we are a pizza delivery business. If I had to show you an advert now, there would not be one which doesn't say we are a pizza delivery business. Not one.

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We said we are an honest down-to-earth brand, we respected the promise that we had made and we kept it. We said we won't give you small promises like R5 off your next order or something along those lines.

**SIYA:** I can remember some of them. Judging by the awards that you've won up till now, for marketing especially, it just shows that there's a real emphasis in that you truly do believe in marketing. How would you emphasise the need for marketing, especially in the early years of the business?

**CARLO:** To put it into perspective we have a model and the way our model works is that franchisees pay a marketing royalty into a fund and we spend it. That amount is a percentage of the turnover. Initially that fund was very small when you had like ten stores contributing to it. With ten stores you can do nothing. We overspent that fund by over R4,5 million in the first four years. That should put it into perspective, how important marketing is for our business. All the shareholders' money we put in was to market the business and we marketed the absolute hell out of the business. There was no way it was going to fail, no ways. The first stores we opened, we spent over R80 000 of our money per store on marketing over the first four month period. The franchisee obviously did not put up that money. The importance of marketing varies from business to business because businesses are different. We had a vision and a goal of where we wanted to get the business. We knew that in order to sell franchises you need a brand and in order to grow sales you need more stores. It's become some sort of a self-fulfilling prophecy in terms of critical mass. The more stores that we have, the more marketing fund we have, the more marketing, the more sales we have, the more sales we have the more stores we have. In our business, if

In our business, if you don't market, you get nowhere because if your stores don't turn a profit in the beginning you won't sell any future stores. If you don't sell future stores you won't create mass and you don't have a marketing fund big enough to do anything and then the business collapses.

you don't market, you get nowhere because if your stores don't turn a profit in the beginning you won't sell any future stores. If you don't sell future stores you won't create mass and you don't have a marketing fund big enough to do anything and then the business collapses. I would say the importance of marketing does depend a bit on the type of business you are in, the sectors and the drivers of the business. In our case it was all about the brand from the beginning.

**SIYA:** That is powerful stuff. Moving slightly to more general things, I want to talk about ethics, especially for a private company. For a listed company it's different because

there are people watching. How important is it to be ethical as a private entity?

**CARLO:** I'm hardly going to tell you that I am unethical – let's cover that one. You have to believe what I say. First with a franchise network, there are two things that govern my view. One is that I'm young. When I started Scooters Pizza I took a decision to stay in South Africa and decided to let my Italian passport expire. I've just recently renewed because I decided to leave it up to my kids to decide if they want that opportunity or not. So I really took a conscious decision to stay. I'm going to be here for a long time. The sector that I am in is too small for unethical dealings. That's the one aspect, which is partly how we got to start Scooters. We started Scooters from the back of a business which would not put a mark-up on new stores' costs although we managed the process. We started the business and said that if you find the stock cheaper, as long as it is the same product, then you could buy from whoever you wanted to. So in the beginning if you were to look at our web pages from five years ago that is how we started our business. At that time franchising was going through such a poor reputation stage because you had a couple of guys, none of the big guys, who absolutely robbed people of their money.

Secondly, we learnt early on that our business is not for investors. We would sit guys down and tell them that the business that we are in is not an investment business. A guy comes to us with his entire life's savings. He's a white male who doesn't see any future in corporate life, because of BEE. He is 47 and he is now giving you a cheque of his entire family savings. That is a huge responsibility and you don't want that to go wrong. You truly, truly don't because when you are sitting across a table having made a wrong decision and a guy loses all his money you have a grown man sitting opposite you crying because he can't put his kids through private school or because he can't put them through school. You start to have a completely different view of what franchising is about. That is why I say to people that this is a really personal business and if you have other motives aside from your franchisees' wellbeing, you will not succeed. It will come back to bite you if you stay in it long enough.

**SIYA:** Moving along ... can you explain to me the rationale behind your listing on the AltX?

**CARLO:** Two reasons. Firstly, when we started raising money for the Maxi's acquisition we found that our business model was one with no assets but strong cash flows. This meant that any lending that was going to be done would have been against these cash flows that Scooters Pizza was generating. I think we approached 23 different potential funders and eventually bought Maxi's for R16 million of which we had to borrow R7 million. We had managed to put up the balance ourselves. Afterwards we said, "If this is how hard it is to get R7 million, how are we ever going to execute a multi-brand strategy as a private company?" It was never going to happen so listing became an option.

Secondly, aligned with my vision for the company is that I don't ever plan on having a real job. I don't have a real job even now. I plan on doing this for as long as I can possibly imagine. As long as I am having fun. My shareholders might not necessarily share my extreme life-long vision. In a private company it is very hard to try deal with changes in individual shareholders' timelines. By listing you are required give at least 10 percent to external parties. So what this did, aside from giving us the ability to acquire other business, was to allow shareholders that have a different time horizon to that of management, to unlock their value when they want to without being disruptive to the entire organisation.

The other reason was that we could extend our ownership base. When we started off I said I wanted 10 percent to be set aside for management. I didn't know when we were going to give it to them and I didn't know how we were going to do it, but it never happened. What listing did was to give opportunity to extend ownership to a lot of guys who were there for those five years as well as to keep them retained. Every single one of our senior management team, including our CFO, excluding me has been approached by other businesses. I'm the only one who hasn't been approached. I'm not too sure if it's because they don't have enough faith in me! Someone someday is going to put up a big enough offer on the table for one of my guys, so by giving the guys ownership, I now know that I don't have to worry about them leaving because of the money. They may leave for other reasons though. They have to work for it though. We don't just give things away. That was the third reason behind going public.

**SIYA:** You listed last year, would you say that you've become a better company?

**CARLO:** I'll be honest with you. We got sold short on a couple of things in terms of other expectations. One aspect of it is that you have pressure to always make sure you have six-monthly numbers. I don't always think in six-month cycles. You can decide to play hardball but then your stock will be stripped and the money may be invested elsewhere. There is a balance you have to maintain. On the positive side, every other thing that everyone tells you is going to happen has definitely happened. We are a much higher profiled company and that has also attracted really good talent from the outside which meant that the guys inside had to raise the bar, which is fantastic. There are other opportunities that we would not have had before but now, because we talk as a listed company, it creates a positive perception.

Being listed is really a fantastic thing but you are no better than a private company. It doesn't necessarily mean you do better business or you have better people or whatever the case may be, but it does work. One thing they always tell the guys who want to list is that their corporate profile will be raised but they never tell them that it comes with certain responsibilities and you must not stuff that profile up. We have dealt with that very well.

We are a marketing-based business; we've always dealt with the media. We have always worked from a consumer perspective. We have always been frank and honest when we had problems with stores or whatever the case may be. It was fairly easy for us to adopt that role. It was nothing new, we had to learn new vocabulary. If you don't understand that there is a role that you have to play and that role is part of transparency you can easily set yourself up for failure. If you want to go into business and deal with people's money then you owe them transparency so that they can see what

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you are doing. That's what a lot of guys in our sector couldn't do. They all run good businesses but don't have a clear understanding that with the benefit an obligation arises. You quickly find that if you sort of brush the obligation away people start to lose faith in you or in management. I'd rather people ask me questions so that they can see if I'm 'bullshitting' them. When you present to people, it's all rehearsed, slick and all nice. The PowerPoint presentation comes down when it should and everything runs. If you really want to make an impression with people, you must be open and they must be able to challenge you and see how you deal with those types of questions. We invite that more than anything else because we've got nothing to hide.

From the listing perspective, it has been good, in fact we have been privileged to be given the opportunity to list the company. Not many people get to do it. It is a privilege and when it happens you are subjected to the processes: the legal aspect, the financial aspect and everything else. It is a privilege that not many people are afforded in terms of learning experience.

**SIYA:** Just looking at it there aren't many listed companies in proportion to the number of companies out there. Do you think that AltX can do more in terms of bringing other companies on board?

**CARLO:** I think with the way the AltX is going they are going to have half of South African companies listed by 2010. Can they do more? I think that there are a lot of companies that could be listed, but as I have said to a lot of guys, you better have a strategy for listing. Establish the reasons for listing otherwise it will not make sense to you. It might end up being a burden. You don't relinquish control when you list. What you do is take increased responsibilities for your actions and you answer to a bunch of people. They don't control you but what changes is that you become increasingly accountable. We listed so we could expand on the multi-brand strategy.

I think that the AltX and the JSE are doing the right type of job in terms of promoting the equity market, showing that it is a favourable place to be for traders or for the individual to invest in this market. That is the key for new

companies listing, that there have to be people to invest in them. They are handling both quite well, in terms of supply and demand. As long as we carry on having some of the generally good runs that we have now, it will work. The cycle will turn I am sure and we will all fall through our pants. It will fall I'm sure but that's how business is. In terms of the JSE I really do think that they are doing a superb job. I was reading in the paper that they are cutting their fees and I think that's interesting. When I was doing my MBA I did my interview with Russell Loubser (JSE CEO) who was a friend of the father of one of the guys I was studying with. So about six months before I listed, I was sitting at his house doing an interview on leadership. They really are doing a phenomenal job in terms of changing perceptions of what the stock exchange is about. That is an absolute yes.

**SIYA:** What are your views on BEE?

**CARLO:** My view is an unsophisticated view. With Taste Holdings we said that we would look at increasing the ownership empowerment percentage through acquisitions of new businesses. I believe that there's a commercial benefit to the whole process by having access to certain markets and understanding those markets. We are fairly empowered at Taste Holdings through the current shareholding but it is not something we wave around and say that we are compliant. I'm concerned at how quickly it could change and it has happened to so many guys.

On the other side when I chose to stay in South Africa, I chose to live and stand by everything that South Africa needs to do and what it stands for. Strange though, most of our staff members are black women. Something

I believe that there's a commercial benefit to the whole process by having access to certain markets and understanding those markets. We are fairly empowered at Taste Holdings through the current shareholding but it is not something we wave around and say that we are compliant. I'm concerned at how quickly it could change and it has happened to so many guys.

that I picked up back when I was 22 in Debonairs was that the Zulu culture was patriarchal. I never knew about it through university. All I knew in university was from the far too many discussions we had about apartheid. In Law School we all regarded ourselves as clever so you can imagine the kind of discussions we had. Anyway, I realised that giving women an income would mean all of a sudden the family has two bread winners. It gives them some sort of financial freedom which is something that they might not have even known about. I think we have made some difference no matter how small it might be. Since we started we have created over 200 new jobs excluding the ones through the Maxi's acquisition.

In the six years that we've been doing this, I can tell you that 85 percent of our managers are guys that have come up and started as kitchen staff and been brought through the system. Part of the reason for that is that if we don't have a way of educating people in the country, there is going to be nothing, so it's not from a need to reach certain percentages or not. In the

In the franchise system so much of what we do is aligned with what BEE and reform strives to do. We transfer skills, we provide training and provide life skills training. It's just part of what a franchise company does.

franchise system so much of what we do is aligned with what BEE and reform strives to do. We transfer skills, we provide training and provide life skills training. It's just part of what a franchise company does. So we are quite fortunate in that respect. We don't wake up and say that we have ourselves a corporate social responsibility programme because that is what we do as a franchise company. It just happens naturally. When it does happen it's sustainable. We've looked around as a company to have a broad-based team with our stores and our

staff. In that way, we benefit. They work hard, because they own a small share, then my customers will benefit, franchises are built. That's the way I see it.

**SIYA:** For some people it takes a really long time to achieve some of the things you have achieved at 32. How do you keep challenging yourself and what is next for you?

**CARLO:** Siya, setting challenges is not really a problem. Our bar is so high. We are so far off to hitting our set internal marks. I've often thought how I got to this point without self-destructing in the process. There are some people that don't need a pat on the back, they are confident enough to know when they've done a good job and when they have not. They don't need that pat on the back as a reinforcement to say, well done, good job. Most people do need that though and you find that some people don't get that and they get demoralized. It can certainly be a lonely world out there in terms of knowing people and bouncing things off them. I'm definitely one of those people who don't need to be thanked because I know myself and I know what I am doing. If I am satisfying the internal objectives, which I know, then I'm happy. The same applies to goals; there are people that reach objectives but are still never satisfied. In some cases this can be self-destructive. I never have an idle moment because if I stop for a minute to think, I'll start doing something I thought about a long time ago, because now I've got some free time to do it.

We have a big challenge now which is to make this business a billion rand business. We have to integrate some new cultures. I've got a very specific vision of wanting this business to consist of a bunch of entrepreneurs. Having entrepreneurs in business and still running it on an entrepreneurial basis and not succumbing to the easy path which is the corporate line is going to be a challenge. When I say corporate I mean, the bureaucracy and having check lists for everything and giving no autonomy for making decisions lest they make a mistake. I think the challenges are many and I'm sure Taste Holdings will overcome them.

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# Glenn Orsmond

CEO, 1time

## Company background:

**Founded:** 25 February 2004

**Activity:** Airline, aircraft maintenance business and charter business

**Branches:** Johannesburg, Cape Town, Durban, East London, George, Port Elizabeth

**Employees:** Approximately 600

**Listed:** 14 August 2007

**Turnover:** R700m



## Profile background:

Glenn (44) completed a B.Com degree at Rhodes University and his CTA at the University of Port Elizabeth.

He qualified as a Chartered Accountant in 1991 after completing his articles at Price Waterhouse. After undergoing a two-year management training programme at Standard Bank, Glenn joined Bop Air as General Manager. Bop Air was successfully transformed from a Government subsidised airline to the profitable privately owned Sun Air.

Glenn joined Comair in 1995 as Commercial Planning Manager and later became Financial Director of Comair overseeing the listing of Comair in 1998 as well as the launch of the BA franchise and Kulula. Glenn left Comair in August 2003 to set up 1time with his partners.

Glenn is married with four children.

*Once you say you're going to settle for second,  
that's what happens to you in life*

— JOHN F. KENNEDY —

**SIYA:** Glenn, the story of 1time Airline is nicely articulated on your website but now I want the inside story. Let's start from the beginning, from the very conception of the idea to the day you and your partners opened for business in 2003.

**GLENN:** You often find that some entrepreneurs start very young, while still at school and continue through out their lives. In my case it was the opposite, I followed the standard approach – I went to the army, went to university, did my articles, worked for a corporate, PriceWaterhouseCoopers, worked for a listed company, Comair. As an individual you work for a salary, you sleep well every night, if you are nice to your boss you get a bonus and if you are very nice you get a big bonus. It's lekker, you learn the rules of the game and you play according to them, but at some point it gets boring. There has to be more to life than having to be nice to your boss to get a bonus. Another challenge was that there was a limitation to my progress because I was working for a family owned business. I always had this idea of one day owning an airline and with my friend Rodney James, who has always been an entrepreneur – we used to talk about it over a couple of beers. Then one day we decided to just do it. I'm not quite sure what led to it, I always say it was the beers. I went back to Comair, I told them and they understood. They said when I was ready I should talk to them and they might consider investing in it. So I left on 19 August 2003.

Rodney James, with Gavin Harrison and Sven Petersen, had a small aircraft maintenance company and I shared a desk with him. I remember thinking, "Geez, what have I done and what do I do now?" From being a Financial Director of a listed company! I had just had my fourth child, I still had a big bond on my house. I wasn't sure if a new airline would succeed – on paper it always worked, in my head it always worked, but you never know until you do it. We then drew up a business plan and we took it back to Comair.

They said yes they would be interested in being a 50 percent partner and they said we must come back again. When we went back they said, "No ways, we're not interested, there's no market for a new airline, if you start an airline we'll destroy you. We'll force you out. We'll put R100 million aside and you won't last." I worked out that we needed R30 million to start this airline and we had about R5 million among the four of us. So we started going around with the business plan seeking people to invest in our plans.

We only managed to raise another R5 million with Michael Kaminski and Sipho Twala joining us: R10 million in total. We had no other choice, we decided to just go ahead and start with that R10 million. The growth has been dramatic ever since. I think our revenue since the first year has been R150 million, R300 million, R500 million. Last year was R600 million and this year we'll make R700 million. So we've grown from zero to R700 million a year turnover in five years. In the four years we made profit in three out of the four, there was one year we lost money. It has been a rollercoaster but we've been lucky on timing and timing was the reason we started 1time. The rand strengthened, aircraft values collapsed, low fare air travel was growing in the country so we just hit it at the right time. If the timing hadn't been right we wouldn't have done it. Our growth has really been huge, we listed in late 2007 and raised another R30 million.

**SIYA:** You mentioned two things that were key to your decisions: the fact that it always worked on paper and also the timing. In your mind how clear was your vision? Did you visualise the whole process – people buying tickets online, filling up your planes, etc? Tell me a bit more about what was going through your mind.

**GLENN:** First of all, on paper it always works. Spreadsheets always work. When we did the plan I was really confident about it, I was willing to stand up for that plan because of the experience. My partners and I all had an airline industry experience. We really believed in that plan but you still don't know what's going to happen on that first day when you open for sales. It's an electronic thing and internet usage was still low in the country. You don't know whether people will buy on the internet or whether people just buy through travel agents. You feel disappointed and have a bit of a setback when people don't want to invest, saying it's too risky. The crunch

day is when you open for sale. You've set up internet sites, you've sent out advertisements about ticket sales and there's one question: are people going to buy? And they just overwhelmed us.

We had one aeroplane, and we launched it and people just bought the tickets and we were full. And we said, "Geez, what do we do now?" So we bought another plane. My plan was always that I would have liked us to end up with four planes in five years, by buying one plane a year. Now, in four years we have 12 planes.

The crunch day is when you open for sale. You've set up internet sites, you've sent out advertisements about ticket sales and there's one question: are people going to buy? And they just overwhelmed us.

**SIYA:** It sounds like everything worked out better than expected.

**GLENN:** We've also had setbacks. We've had massive competition, massive price wars and then the price of oil. When we were writing our business plan the guys said "What if the price of oil goes up?" and I said, "Don't worry, oil is \$25 a barrel. I've run a profit sensitivity. At \$30 we are okay, at \$20 we make a lot of money." It wasn't even on our horizon that oil could go to \$50 or could go to \$90. When we financed our first aircraft at Rand Merchant Bank (RMB), the credit committee wanted to meet me. It was a big step forward for us to get credit because you never get credit when you start up. The credit committee said to me, "What if oil goes to \$50?" I said, "Look guys, I'm not gonna lie to you, at \$50 we are dead! There's no way we can survive \$50." But look at us now, oil is at \$90 and we are still growing.

**SIYA:** Before you started, Comair threatened to destroy you. What were your experiences and how did you survive their threats?

**GLENN:** I've learned a lot of lessons and the one lesson is something like the famous lie that 'the cheque is in the post'! The biggest lie is this thing that people always say: "We welcome competition". The existing players hate competition, they hate it with passion because competition forces them to improve their service and lower their prices and they hate that.

Their strategy was clear, they wanted to attack us on safety and financial security and that didn't work. Four years later here we are. Never underestimate competition; never underestimate how low they'll go in a war. It's tough out there. When it comes to competition, it's amazing what some people will do.

Talk to any businessman, he wants to up his prices. So when they say, "We welcome competition, that's a lie. They'll do anything, anything! Anything! Anything!" We've had instances with our competition where they'd sent out emails to journalists, saying we were unsafe, saying we were financially insecure. Never underestimate competition. The first thing they said was, "We won't drop prices when 1time launches because we won't compromise safety." In other words they implied that if your fares are low you are unsafe. We dropped airfares and they dropped, we dropped again and they dropped, we dropped and they dropped. Their strategy was clear, they wanted to attack us on safety and financial security and that didn't work. Four years later here we are. Never underestimate competition,

never underestimate how low they'll go in a war. It's tough out there. When it comes to competition, it's amazing what some people will do.

**SIYA:** Have you ever found yourself in a position where you had to lower the bar in terms of the goals you had set for yourselves?

**GLENN:** Fortunately, at all points we were exceeding our own goals, so we were pleasantly surprised. What really surprised us was that in our first year we won the Airline of the Year Award (from Airports Company of South Africa). We were just focussing on price and service: lowest price, best service. We were shocked when we got the award. We actually learned a second lesson there, not just about competition. The second lesson is that the most important marketing is service, the product experience. If you actually compare us to SAA, Kulula, BA, they probably spend ten times what we spend on marketing. We mostly focus on our service because the most important marketing is the product experience. If the experience is good the guy is going to come back, it won't matter what you say in your advertisements: we're the

best, we're the best. People won't believe that but if the experience is good they'll come back. So all we focus on is service and price. If the price is low they'll come on board and if the service is good they'll come back. We found that 70 percent of people who are flying with us are doing so as a result of their previous experience or someone else's positive experience. We spend relatively little on marketing but we spend a lot on service. It often surprises people how big we are because we don't spend a lot of money on marketing.

**SIYA:** Without sounding philosophical, would you say there are any specific empowering beliefs that inform your approach to business?

**GLENN:** I really don't know. I'm not a deep oke you know. We just like to keep it simple: service and price. We all understand that, it's something everybody can understand. We try to simplify it and not make it complicated. I don't have these MBA diagrams, with circles, lines and arrows: none of that stuff. What we all understood was the service and price. Whatever we do, it's either we are improving service or bringing the price down. We always try to keep it honest.

**SIYA:** Were there any hard lessons that you had to learn when you were converting from being a corporate executive to an entrepreneur?

**GLENN:** The huge difference that I found is your sleep: when in a corporate environment you sleep well; when it's your own business you are always thinking about cash, you are always thinking about growth, when there's a flight late you worry. There is a huge difference, when you're an entrepreneur you are living your business; when you're a corporate it's a means to an end, you work to earn the money to pay for your lifestyle. It's not more time at the office, for instance I don't spend more time at the office than I used to. Actually I spend a lot less, but yet I'm more focussed on the business than I was. No one else out there is going to take care of you, you're on your own. Once you understand that it helps a lot in knowing your way forward.

**SIYA:** Entrepreneurs are always staring failure in the face from the word go and those who succeed, succeed against the odds. In your view is there a way of knowing whether to press on despite the odds and the noise of nay-sayers, or to quit and move on to the next idea?

**GLENN:** What kept us going was the fear of failure. We said failure was not an option, reputations were at stake. When we launched the airline all the experts said, "This thing won't last more than six months." They said, "This thing won't work, the market's overcrowded." They interviewed all the experts on TV, on radio and in print media, and they all said, "This thing can't work!" The experts were wrong. We took a different view and we said the market was overtraded with expensive seats but it had a shortage of cheap seats. When Mango launched, all those experts who were wrong about our launch, said an airline is going to fail because if the market is so small and you bring in a third carrier with unlimited government money, one airline is bound to fail. So we said, "All the experts say in a year's time we are gone, so what do we do now?" So we said, "Let's buy two more planes." We still grew 40 percent in 2007 even though Mango was in.

One of the other lessons: be bold. We were bold when we launched and we were bold when Mango came. We had to be bold. When things are tough that's when you have to be bold and follow your instincts. What you can't do is always play safe. But don't be reckless!

**SIYA:** How important is following your bliss in terms of keeping one motivated?

**GLENN:** I think you are actually spot on there. First of all you need passion. We were fortunate that all four founding guys and the fifth guy who joined us with the additional investment were all passionate. All five of us were owners and executive directors, we had passion. It was our life savings, it was everything we had. The rest of our executive director team are all people highly incentivised on profit shares. So if you take the team, there's high incentive base and a lot of passion. I always remember Piet van Hoven said to me at Comair, "There are only two motivators: fear of failure and reward for success." Fortunately here we had both: fear of failure was motivating us, we weren't going to fail and also there was a reward for the guys we brought in, if we succeeded they were going to get rewards. At the end it's all about people. If you've got the right people things are fine.

**SIYA:** Now let's go back to something we touched on earlier: customer focus. Small businesses always complain that they don't

have enough budget to market and advertise themselves and here you say the best form of marketing is quality service. At 1time you guys say "More nice, less price". Can you expand further on this?

**GLENN:** That's sort of the whole story, Siya. People often misunderstand the brand, the brand isn't how often you see the name out there. The brand is a promise made, a promise kept. It's that simple in our view. What we focus on is the promise kept – always ensure the planes depart on time, the staff are friendly etc. If you focus just on the promise kept part, which is the service part and you really keep the promise, that's how you develop a brand. It's not how much marketing money you spend, that's the easy part. If I say to the marketing guy, "Here is a budget of R20 million," he'll spend it gladly. That's making the promise. You can promise anything in advertising, just look at some of our parastatals, they make all the promises, but whether those promises are kept is another story. A brand becomes a brand by keeping the promise it makes.

A brand becomes a brand by keeping the promise it makes.

**SIYA:** Entrepreneurs are notorious for overworking themselves. How do you balance your life and sharpen your focus?

**GLENN:** I actually work a lot less hours than I did in the corporate environment. If you've got the right team you can free up a lot of your time. People tend to obsess a lot about the number of hours they work in a day. I've got four kids and I watch all the cricket matches that my boys play, I always make time for my family.

**SIYA:** So would you say then one should rather spend time carefully recruiting the right people?

**GLENN:** Certainly, if you've got the right people problems take care of themselves. We have operations in six airports, and if you have the right people running the airports there are never any problems in the airports. If you have the wrong person you'll always get complaints about late baggage, late aircraft etc. The problem is almost always the person. You can counsel

If you've got the wrong people you need to get them out because they'll destroy your business. When you've got the right people you sleep well at night. You just have to incentivise and reward them. So it's people! People! People!

That's all it is.

and do training as much as you like but the problems won't go away. Just change the person and the problems will sort themselves. The trick is to get the right ones in and the wrong ones out. If you've got the wrong people you need to get them out because they'll destroy your business. When you've got the right people you sleep well at night. You just have to incentivise and reward them. So it's people! People! People! That's all it is.

**SIYA:** How important is creativity when an entrepreneur is setting up these incentives, especially when the company is not listed?

**GLENN:** In our case we recruited people from our competitors and we offered the same salaries and then we offered them a share of profits. It was quite straightforward and agreed upfront. The guys understood it and they liked it.

**SIYA:** Most successful entrepreneurs seem to have high levels of ego-drive and empathy, which are both traits of highly successful sales professionals. How important is nurturing one's selling skills as an entrepreneur?

**GLENN:** Siya, that's all it is: selling. Everybody is selling, even if you are interviewed you are selling. The hostess is selling, she's selling the food, selling the smile; the guy at check-in is selling. The service experience is selling. That's what business is about.

**SIYA:** Do you always look for a win-win deal when getting into partnership?

**GLENN:** It's very important to have the right partners: in our case we are fortunate to have the strong partners we have in Avis and City Lodge. It's

important to share the same outlook on life with your partners. When we started our partnership with Avis it was on a handshake and trust. I met with the CEO and just spoke about it and it was done.

**SIYA:** How did the decision to list come about?

**GLENN:** When we launched we were catering for a leisure market and nowadays we are selling to corporates as well. It's very important to corporates to know that you are a financially secure company and a company of good standing. Once you list you achieve that because your figures are public and you are only accepted in AltX if you can provide a strong business case and a strong balance sheet. It's probably harder to get into AltX than it is to get to the main board. There are a lot of additional requirements for AltX. We thought that once we listed it would create that transparency in our financial position and standing for our corporate clients. We also needed more capital to fund our growth, I told you earlier about our growth over the past four years.

**SIYA:** Is the whole industry affected when there's bad publicity about one airline, particularly when safety is questioned like we have seen recently with the engine that fell off an aircraft in Cape Town?

**GLENN:** Yes, because suddenly there's a lot of awareness, even things that would not ordinarily be newsworthy like delayed flights become news on radio and print. The spotlight focuses more on the safety of air travel. An aircraft accident is very seldom a one-off event, it's generally a chain of events. We invest heavily in maintenance and training to make sure we avoid that chain of events. Safety and security are non-negotiable so we always invest whenever we need to. What's nice is that we run our own maintenance company and we've got about 15 years of experience maintaining the types of aircraft we use.

**SIYA:** How are you doing as far as BEE is concerned?

**GLENN:** When we started the airline we had a black shareholding of 20 percent but as we grew, that was diluted to about 5 percent. We now need to grow our empowerment shareholding to about 20 percent to 25 percent in the

near future. What you need in the end is the employees, the shareholding and the board reflecting the demographics of your market. We've seen a huge increase in the black market flying compared to five years ago.

**SIYA:** What are your plans now for the future?

**GLENN:** Growth! Growth! Growth! We are still seeing a lot of growth. The market has grown 15 percent a year for the last six years. I don't see a slowdown in that. We have achieved growth with high and increasing oil prices, so now imagine what it would be like if the price of oil came down. It's all been volume growth as the airfares have not grown by the same margins.

**SIYA:** What's your view on the oil price?

**GLENN:** I don't have a view, I'll leave it to the experts and all I know is that one half of the experts will get it wrong. I just don't know which one yet.

**SIYA:** Any plans or aspirations to expand beyond South African borders?

**GLENN:** Oh yes. South Africa is free skies, but Africa is regulated. It's more

Most of these airlines  
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expensive to fly to Luanda than London. It's crazy. We need to go into Africa. If they can open up African skies for African airlines I'm telling you we'd see massive, massive growth. Right now, all the countries are saying they'd rather protect the weak national airlines than look after the interests of the country. The interest of the country is growth business and tourists, it must be. Most of these airlines would have a hard time competing with us – we'd nail them on price and service. Africans want cheap fares just like everyone else in the world. The only way to stimulate growth is low fares and we can bring low fares.

**SIYA:** Has listing given you any added advantage over your unlisted rivals?

**GLENN:** I think the listing does help our profile, especially with corporates. Listing does more than that, it focuses management on running your business properly as well. As a listed entity you've got a lot more added responsibility. It focuses the mind a lot especially when you are doing deals and when you are communicating to the market. AltX is nice because it still has a lot more flexibility than the main board. It's been great for us.

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# Marius van Tonder

CEO, AFRICAN DAWN CAPITAL

## **Company background:**

**Founded:** 1998

**Activity:** Finance and marketing

**Branches:** 21

**Employees:** 180

**Listed:** 1999

**Turnover:** R110m

## **Profile background:**

Matriculated in Nelspruit 1980.

Studied Law at University of Pretoria (B.Proc).

Farming and Township

Development 1989 – 1998.

Joined the Company in 1998  
became CEO in 2002.



*The world has a habit of making room for the man whose actions show that he knows where he is going.*

— NAPOLEON HILL —

**SIYA:** Marius, please tell me about African Dawn and what you guys do – just a brief summary.

**MARIUS:** We are a niche finance and marketing company with five divisions. The first is short-term secured finance for property developers, home owners, estate agents, doctors and importers.

The second business is home-improvement finance, which was our original business. It's basically a micro-lender like African Bank and Capitec except there's one difference: we don't give money to our clients. Clients go to building-material suppliers, they purchase the material and we pay the supplier. There are important reasons why we do that. Our clients are lower risk than your average cash-loan client because they've got a property, that's why they buy building material. Another reason is that we ensure that the money is used for the right purposes, it's a production loan, not a consumption loan, so the clients are not reluctant to repay. By doing this we assist our clients in creating equity for themselves.

Every day they can see what they did with the money they borrowed from African Dawn i.e. built a kitchen or tiled a bathroom. Whereas with a cash loan, two or three months down the line they forget what they used the money for and become reluctant to repay the loan.

Cash lenders charge you up to 20 percent a month, but we charge 36 percent a year. So it's much more affordable. It's also a very high-growth area because housing supply in the affordable and low-cost housing arena grows by about 40 percent a year. Demand is ten times that, so that's a very sustainable long-term business.

The third business is cell-phone banking solutions. What we do there is

open cell-phone banking accounts – virtual bank accounts for our clients. Again, focusing on the Living Standards Measure (LSM) 3 - 7 income group because that's the cheapest banking you can get. MTN, Vodacom, they're all involved, and the banks behind them – FNB, Standard, ABSA. We focus on MTN and Standard Bank.

We do most of their marketing for them. We're successful marketers of that because we've got lots of experience. We helped ABSA to open the Sekulula and Mzansi subsidised debit card accounts for 800 000 clients to the tune of R1 500 to R2 000 a month. This was also focused on social grant recipients.

The agreement is that the government will pay the banks a monthly subsidy for those accounts and in exchange the banks will allow the end user to do a few free transactions a month.

Because we've got a strong marketing force in the rural areas, we don't focus much on the urban areas, and because of our strength there, MTN approached us to market cell-phone banking accounts for them. It serves the same purpose – very affordable banking, especially transaction fees – and is also focused on lower income groups. Once again, there's no exposure in the rural areas, everybody focuses on the urban areas. That's why we go into rural areas. You've got so many cell-phone towers everywhere and everybody's got a cell phone, so it's a very nice product to have and it's also a very safe one, especially for the social-grant recipients, for example pensioners. If you've

Because we've got a strong marketing force in the rural areas, we don't focus much on the urban areas and because of our strength there, MTN approached us to do cell-phone banking accounts for them.

ever been to a pension pay-point, especially in the rural areas, you'll have seen that people are old and they come there and they're so exposed to outside influences, because they're in the middle of nowhere.

**SIYA:** They get paid in cash ...?

**MARIUS:** They get paid in cash. They're inundated with requests to buy from the merchants there, because they're so far away from town. They end up

buying there but they pay really high prices. So some of them end up walking away with lots of goods but no money and then there's still another month to come. If you open a cell-phone banking account for them, they don't walk around with cash, so they can't be easily intimidated and they don't have to go to the pay-point every month. It's much easier and cheaper for them. We hope to do that countrywide at some time, but we have only started that now. It's a very nice product and it makes sense.

**SIYA:** And where are you currently doing that?

**MARIUS:** KwaZulu-Natal, Eastern Cape, Gauteng and Limpopo. We hope to expand into the other provinces as well, but it's going very well and I think our clients are more than satisfied with our service because we're doing well and we've got a good track record.

The fourth division is the education hub. This excites me a lot. The Financial Services Board (FSB) developed a financial literacy awareness programme. It's a booklet in a comic-book format to teach people why to budget and how to budget. It's something that you and I, with financial backgrounds, think is common sense. But if you've never heard of it, it's not common sense. Somebody must tell you that you have to budget.

The FSB developed the programme and we've got the exclusive rights to market it for a few years. We have already educated 120 000 people, and we plan to educate a quarter of a million this year. That's reliant on sponsorship funding, and we focus on our large corporates, for instance mining houses. A huge percentage of mine workers have negative "take-home" pay. Those are the people who need to be educated on why not to borrow unnecessarily, where not to borrow and how to manage their finances in general.

It's 100 percent tax deductible. For corporates who sponsor this program for their employees we've got a special benefit organisation clearance from SARS – so we try to persuade the big companies to spend money on educating their people. It's going very well and it's a nice business to be in because you're helping people. Coming from a micro-finance background ourselves, we encourage people not to take out a micro-loan because it's expensive, but if they have to, how to do it the cheapest way, which is

obviously to do it for as short a term as possible – and not to keep on repeating the process.

The market loves the product. It's easily understandable and there is such a demand for it, especially in the rural areas. We go to small villages. We speak to the community leaders, because they don't pay for it. Either the FSB or the corporates pay for it and the people flock there.

**SIYA:** So you go to the people and educate them in their own areas?

**MARIUS:** We go to the people and we tell them this is what we want to do. We ask them to give us 30 people – because we do training in groups of 30 – and they decide who they want to send. It's interesting: the people they normally send are young women of about 20 or 22 years old. They've all got secondary – and, in quite a few cases, tertiary – education but no jobs. Especially in the rural areas, joblessness is an issue. The reason they choose young women is

because these women can, in turn, educate all the other people in the areas. We only have to go to a place once, thereafter they do it themselves.

If you want to give somebody a loan, you have to educate them. Not many places are geared for that, so we hope to get the retailers, specifically, to make use of our services.

The feedback is unbelievable. We hope this will grow, especially now with the new Credit Act. If you want to give somebody a loan, you have to educate them. Not many places are geared for that, so we hope to get the retailers, specifically, to make use of our services, and that's a very nice business.

**SIYA:** And the new Credit Act ... did it come at a time when you guys were ready for it – you've been doing these things for a while?

**MARIUS:** We were prepared for it. That's the reason we bought this company a few years ago because we could see it was coming. There were quite a few articles on the subject and there was a market for it because one of the big reasons for the indebtedness especially of lower-income people

is ignorance. So somebody has to teach them what it's all about and what the results are of over-extending yourself.

The fifth division is property sales. Once again in the same space we try to focus on helping people to buy a house and again to sell it. The average house price there is about R400 000. That's for everybody earning less than R15 000 a month. That's basically our target market, so, as you can see, these five businesses are actually all interlinked.

Somebody with a stand will borrow money from us for building material to build a temporary shack until they get their Reconstruction and Development Programme (RDP) house. Somebody with an RDP house will borrow money to extend the house because the RDP houses are not big enough. Somebody who buys a new house – that's not a brand new house – will need to renovate the house or paint it or do paving, so they will borrow money. And people who sell their houses will probably come to us for bridging finance and for the agent that sells the house. So the five divisions feed each other.

**SIYA:** So it's a one-stop shop?

**MARIUS:** Because we're linked to Pam Golding the reason for that is Pam Golding's Empowerment Solution was to open up Pam Golding franchises in areas where they were not previously exposed, and we decided that's exactly where we want to be. So we bought the franchise for Atteridgeville, Mamelodi and Thembisa.

**SIYA:** So tell me more about that, about these franchises?

**MARIUS:** The consumers in the lower LSMs are very brand-loyal and brand-conscious and Pam Golding is to estate agencies what Mercedes-Benz is to vehicles – so it's South Africa's number one, without a doubt. That's what excited us. We knew that our market would grow once they got exposed to Pam Golding. Clients would then remain strong and loyal Pam Golding clients, they would keep coming back to us to buy and sell houses on their behalf, and obviously, we would have to give them a deal they're comfortable with.

The plan Pam Golding had there was quite clever, because what they did

was they didn't ring-fence, let's say, for instance, Atteridgeville and Mamelodi. They said, "Okay, let's look at previously white areas bordering those areas and we'll put them together into one franchise." So we've now got Atteridgeville, Mamelodi, Daspoort, Wespark etc. All those areas are in one and that's where you see the migration because what happens is that people who used to live in the old shacks move into their RDP houses. The people in the RDP houses, who have had them for five years, can sell them now and they can move into the previously white areas, where they've got the bigger houses, and they move into the newer developments as well. There's a whole migration. All those areas are now grey areas; it's mixed areas now: there are no borders any more.

About half a million jobs are created every year, most of them in the lower income groups. Very few are in the above-7 LSM income groups, so we've got a natural feed of new people who can afford to buy houses on that income in that price range.

There's a huge demand for housing and there will always be a demand for money. We try to focus on niche areas where there's little competition from the banks. They will not find it difficult to compete and the building suppliers don't really want to do finance themselves, especially now, with the new Credit Act.

**SIYA:** I can see your excitement there. As the person who facilitated the whole process, you made it possible for that person to have a house ... it must be really fulfilling and still be a profitable business. What would you say is the key element behind the success of your business?

**MARIUS:** One of the old clichés, "The right place at the right time", I suppose is very applicable here, simply because all the areas that we focus on are high-growth areas. There's a huge demand for housing and there will always be a demand for money. We try to focus on niche areas where there's little competition from the banks. They will not find it difficult to compete and the building suppliers don't really want to do

finance themselves, especially now, with the new Credit Act. It is not as easy any more as in the days before regulations. You have to comply with a lot of regulations. You have to have serious information technology (IT) systems. We've got all of those, so there's a market there and that's going to keep on growing.

**SIYA:** How do banks perceive you, especially in the areas where you operate? When they try to penetrate these areas themselves do they see you as a competitor or as someone who is a facilitator?

**MARIUS:** They see us as a facilitator. They partner with us because on the estate-agency side we create business for the banks. On the education side we help their lower-risk clients, who don't know how to manage their finances, become better clients. And on the niche-finance side – bridging finance etc. – we play an ancillary and complementary role. They prefer to extend us the funding in order for us to on-lend, so they see us as intermediaries and not competition.

**SIYA:** Great! And now let's go back to the beginning where the whole concept started. How did you come to find this niche?

**MARIUS:** It came about by chance. I studied law and half way through my studies, my father who was also a lawyer phoned me at university and said, "Look, I'm tired of this business. I've been there for 25 years, so I'm going to buy a farm now." There was an opportunity to buy a citrus and sugar cane farm, and I said, "Fine." And when I finished my studies I knew that I was not going to become a lawyer, because I'm the only son. So I went into the farming business with him and after a while it became a bit lonely for me there.

I did a township development in my spare time, not a big one – 150 houses – but it was the first time that I ventured into that industry. I quite enjoyed it and then I decided to move to Jo'burg. When I came here I knew about finance and I knew about property development and obviously the farming side and how to start a business.

I decided to start lending money to individuals – pretty much the Investec model when they started to lend money to professionals. I focused on auditors and attorneys and at the same time in the mid nineties the micro-

finance industry developed. I started lending money to the micro-lenders and after a few months I realised that I was taking the risk and they were making all the big margins. So I opened up my own micro-finance outlets in a few towns. Then the company that supplied my IT to me decided to list because everybody who used their IT – they had about seventy clients – wanted money and they ran out of cash because the industry was growing so fast. They needed critical mass to list their company so they asked me whether I would participate in the listing.

I agreed without knowing anything about the stock market. They listed the company and I realised soon that they weren't able to develop the company to my expectations, so I had to either lose my investment or take over the management of the company. I did the latter. I didn't enjoy the cash lending environment. It wasn't a nice place to be for various reasons: you struggle to collect money and your clients aren't happy, because they can't afford those loans. So they're reluctant customers, and many had to borrow the money to survive, not for luxuries. I didn't enjoy that space and we lost a lot of money as well because of those reasons.

Then I decided to change focus and I went to the National Housing Finance Corporation and I said, "Give me a loan to do housing loans. I

I said, "Give me a loan to do housing loans. I prefer to do that – it's the same client base, I know I've got all the systems, we've got the experience, I know how to collect money, so it's not a risky venture ..."

They gave me a R10 million loan.

prefer to do that – it's the same client base. I know I've got all the systems, we've got the experience, I know how to collect money, so it's not risky to venture into this arena." They gave me a R10 million loan and I sold all the micro-loan outlets. The ones I couldn't sell I just closed down and focused on the housing loans. From that all the others came because the same clients wanted a new house and that's where the estate agencies came in. The same clients needed a bridging loan because they needed the money upfront and not later on, and that's how that came about.

When the AltX sector opened on the JSE, I moved there because our company was listed on the Venture Capital Market, which didn't have a good name and reputation and didn't excite investors. This AltX was much more exciting. The JSE focused a lot on AltX and they gave a lot of exposure which attracted investors. We moved the listing there in May 2004 and we've been doing very well since we've been there, we've grown by more than 100 percent a year for the past four years.

**SIYA:** You can do good and still make profit! Would you say that doing good is the core of how you approach new ventures? I mean, just looking at the list that you have here ... your know-how ... there's a large 'do-good' element in it.

**MARIUS:** Yes, we try to.

**SIYA:** And you're still a very profitable business.

**MARIUS:** We focus a lot on that really, we offer affordable bank accounts, financial education and obviously, the housing-solutions via Pam Golding. The whole idea there is if your customers are happy with the product offering, they will pay you and they will come back to you for more business and they will recommend you to others. So, although you spend time and money on doing good, you will be rewarded eventually.

**SIYA:** Would you say it's important to have a vision when you are starting a new business and if so, why? What was your vision for your business when you started research and ventured into uncharted territory? Does your venture match your vision?

**MARIUS:** The vision was a general vision in the sense that I wanted to put roofs over people's heads. I could see there was obviously a need for that and there will always be – we've had such a housing backlog for 30 to 40 years already. And like most economists, I was positive about the growth potential of the macro-economy, which meant that once it filters through people will have the disposable income to buy houses. So the broader vision was to put roofs over people's heads and the ancillary businesses developed from there. That's still the vision.

**SIYA:** During the early days, what kind of obstacles did you face?

**MARIUS:** A lot! The biggest obstacle for a new venture is to get funding. You don't have a track record and you have to start a new business. Venture capital in South Africa is still frowned upon. There are very few private venture capitalists, and the banks are not prepared to even consider that, as opposed to developed economies like America, where probably the biggest business is venture capital. So that is the big problem ... to find funding for your ideas, to persuade people to buy into your ideas.

**SIYA:** I can testify to that.

**MARIUS:** Once you've got a track record it becomes easier. It's just one of those things that to turn R1 into R1 000 is much more difficult than to turn R1 000 into R10 000. It's just the way it is. Then, as in any business, the second most difficult thing is cash flow. Whether you are a multi-billion Rand company or a corner café, you have to manage your cash. That will always be the biggest, biggest issue. If you can manage your cash flow, then you will survive through good and bad times.

We overcame both of those problems and today the group's cash flow is healthy. We are able to access sufficient capital to grow the business. We've got various sources of funding, so we are quite fortunate there, but it's all based on a few things: you must be in a space that is attractive to financiers and investors and you must have a track record. The good results of the past four years have helped us a lot to show shareholders what we can do.

**SIYA:** I met a guy recently. He's got a great idea. He wants to get started. He doesn't have a track record. He just has this fire and he has this passion. What would you say about bringing in other people with a strategy to recruit some of the skills that he doesn't have?

**MARIUS:** We do that, as and when we come across people – entrepreneurs who have the same vision, but they're just not able to grow or to get going, but we like their plan. Then we try to incorporate them into our business in such a way that we don't kill their entrepreneurial spirit, but they must conform to the overall plan that we've got for the group. If we think there's a fit there, then we bring them into the fold.

**SIYA:** Back again to the beginning ... when you were starting, building the client base. What new strategies did you follow to build your client base?

**MARIUS:** Different strategies. On the loans side, we made use of agents, pamphlets, advertising in newspapers, and billboards. And obviously we had offices in strategic areas, close to taxi ranks and wherever else there were a lot of feet, where our target market were doing their buying and selling. Then on the bank-account side, we've got people to go into townships and go to villages. We pitch marquee tents. We have special days when we do pre-education and we hand out drinks and something to eat and the pamphlets and talk to the people. The idea is for them to spread the message to others and to come back. That seems to be working and that's basically word-of-mouth. Word-of-mouth is a big factor. It's a long term strategy, but once it works, it works well and it's very cheap to do it.

**SIYA:** Your management style, your leadership style ... How would you describe them?

**MARIUS:** I try to lead by example. I'm not removed from my management team. If you come to my office you will see that my office is right in the middle of the back office. So every person who works there will be exposed to me the whole day, every day. I don't have a huge corner office where the door is closed the whole day, it's an open door policy. I am strict and I expect a lot but I don't expect more from people than from myself. Because I'm passionate about the work, I work six days a week. It's easy for me to do that because I enjoy it. We try to keep a very informal atmosphere in the office. The era of formal management style, I think, is over. We try to keep the management structure as flat as possible. If you're a senior person, you don't have a bigger office than a junior person. My office looks no different from the book-keeper's office, for

I'm not removed from my management team. If you come to my office you will see that my office is right in the middle of the back office. So every person who works there will be exposed to me the whole day, every day.

The idea is a free flow of information and ideas. You must be relaxed, otherwise you can't perform ultimately – I don't believe you can. So that's basically how we try to manage it.

instance. It's all the same, otherwise people feel restricted and/or intimidated by their superiors. The idea is a free flow of information and ideas. You must be relaxed, otherwise you can't perform ultimately – I don't believe you can. So that's basically how we try to manage it.

**SIYA:** And as a business leader, how would you emphasise the importance of sales skills, recruitment skills and general leadership skills?

**MARIUS:** They are obviously all important. You need recruitment and sales skills to run and to build up volumes in a business reliant on individuals becoming interested in the product. Personally I'm not a good salesman or a good recruiter. I think I've got some leadership skills. If you don't lead, people won't be able to follow and they won't know where you are heading, so then it won't work either. It's no use having committed employees who don't know what they're doing or why they're doing it. You have to show them the way, which is not always easy. It is lonely at the top. Especially when times are hard, then you feel very lonely.

**SIYA:** Because everybody's looking at you to come with all those solutions?

**MARIUS:** And the buck stops here. You're the one who suffers most if things go wrong. If you're the owner, then you lose your estate if things go wrong. If you're the manager, then you lose your status and your title and your income. Either way, if you're leading, you've got a lot of responsibility and risk.

**SIYA:** I was talking to Ian Lourens of OneLogix the other day and, on this question of sales, he said something I'd never thought about: that if you're a business leader, your first sale is to sell the vision to the people you bring on board. So judging by the success of your business and the people that you have, clearly you sold them a good vision and they saw themselves as part of this and they came in and worked with you to create the success?

**MARIUS:** Yes I suppose I did in a way. I never thought about it like that.

**SIYA:** Would you say Marius van Tonder is successful? And how do you define success?

**MARIUS:** I think I am probably successful. Obviously there's a huge scope for improvement, because success is not about being the biggest or the best or the most influential or the wealthiest. But if you set goals for yourself, that's already an achievement. And if you can achieve those goals, then I think that you're successful. So, it's obviously a healthy balance between personal, private life and business life. It's no use having built up the biggest retail business, for instance, and then having a very unhappy family life and being terminally ill. Obviously those are things that you can't always control, but if you are healthy and you are happy and you've achieved some of your goals, I think that's success.

And obviously to be happy you must make other people happy. In business as well there are areas where you can see people really appreciating what you did for them, even people who have to pay for certain things. Education, the end user doesn't pay for, but if you sell somebody's house they pay you commission, but you can see people really appreciate what you did for them, so they pay with a smile, you know.

For the bank accounts that we open, people pay eventually, they pay us indirectly but you can see once they start using the account that they see that their transaction fees are lower and their money is in their pocket, not in somebody else's. They appreciate that. So that's nice; that's what I call success. To make somebody else's life better than the day before, you know, you've achieved something.

**SIYA:** Now let me go to the very start. There are those little voices that say, "What if I do fail?". How did you overcome this, even when going to the bank and saying, "Give me ten million Rand" and then having the responsibility of that debt? How did you overcome those pressures while you were starting out?

**MARIUS:** You don't overcome them until they're not there any more,

because you live with it. You either have or don't have the ability to be an entrepreneur, because that's what it really means to be an entrepreneur. It's a very sexy label but in reality it's not that sexy. It means you have the guts and the belief and the ability to turn nothing into something and part of that is to lose sleep over many months and sometimes many years, because you are working with other people's money and you've got this dream that's not reality yet. It's very stressful and the more you are trusted by those people, the more they expect from you and the more pressure you put on yourself. Either you learn to live with that or you're not an entrepreneur and you're not a leader. So the responsibility grows and grows but the stress becomes less and less, so that enables you to take on more and more and to perform better and better.

There's no solution for somebody who wants to start out now. There's no magic that you can tell them, "Okay, don't stress and you're not going to have any sleepless nights and you're not going to be turned down by the first hundred people you approach for funding", because it's the way it happens. You must just keep on going. If you believe in what you're doing and you've got the energy and the health to do it, then just keep on, you will succeed.

My model was whenever I got a new idea, I started that business myself, I employed the minimum personnel and I managed it myself. The moment I was comfortable that the business was viable and the model was working, then I appointed a manager for that business. Then I went on to the next one.

**SIYA:** How did you finance those early days and weeks and months? When you were growing your business, when more people were coming in, how did you manage that time to free you to focus on other areas and let people run and delegate? How did you handle these issues?

**MARIUS:** My model was whenever I got a new idea, I started that business myself, I employed the minimum personnel and I managed it myself. The moment I was comfortable that the business was viable and the model was working, then I appointed a manager

for that business. Then I went on to the next one. Obviously, halfway through that process you've already got the next idea and you start in a small way to open up the next business. But one person can only do so much, and if the whole business is reliant on one person, it's a dangerous business from a shareholder's point of view.

So as the businesses grew, I appointed senior people who were able to manage those divisions. Today the business is not reliant on me. I do strategic thinking and I do negotiations, but each individual business stands on its own feet and it's got its own management team. Very few people are able to manage 10 or 20 businesses.

If you look at somebody like Brian Joffe of Bidvest, he's one of those people. I wish I was like that but I don't have that ability. I have to have people equal or better than me who are able to manage each one of these businesses, otherwise they simply wouldn't grow big enough. The next business I start, or if I see something that I like and I'm able to buy it, then I will buy the whole team. That's one thing I learnt from him: you buy the people and the plan, not so much the business. If the business model is attractive and the right people are running it, if you're comfortable that they can, then you buy it. So that's what I try to achieve in a small way.

**SIYA:** Okay, good. And how do you manage a team? How do you manage your life, work, business, family?

**MARIUS:** The short answer is I sleep five hours a night, that's all, so I'm very busy. But I love travelling overseas. I love seeing new cultures and new ideas, other places, so I probably work 46 weeks of the year, because even if I travel, I look at new ideas.

I have to think about business the whole time. I do switch off and relax but always with the business idea in my mind. I love to look at new opportunities and meet new people because people are very interesting. I also read a lot. And I do some sport because you need to be reasonably fit, otherwise you're simply not able to perform as well as people who are in shape and healthy. But yes, I know how to relax. Travelling and reading: I do a lot of that. I don't believe in working for 11 months and then going away for a

month. I'll rather go away for long weekends or a week here or a week there, it keeps your mind sharp.

**SIYA:** Mentioning travelling with your eyes open and looking for opportunities reminds me of something in Richard Branson's book - how he got his island and the idea of owning an airline while travelling. I think people generally, when they are on holiday, think, "Just shut down. You don't have to do anything." Especially when you're running your own business. So, would you say people must always keep their eyes open, wherever they go, because they never know what they'll find?

**MARIUS:** Yes, if you've got common sense and business sense, then it will come naturally to you. You must just be aware of your surroundings and things will happen by themselves – you will see opportunities. You will see maybe a group of tourists from Scandinavia arriving here and all squinting because they don't have sunglasses. Then you will see, "Okay, there's an opportunity. They don't have issues with the sun because six months of the year, there's no sun there. Let's see where those people stay or when they arrive at the airport so I can sell them sunglasses." Now, I'm using a fictitious example but I'm talking about things like that. If you've got common sense, it's all you need – and the willingness to work. Then you can create a business out of nothing.

... if you've got common sense and business sense, then it will come naturally to you. You must just be aware of your surroundings and things will happen by themselves – you will see opportunities.

**SIYA:** What kind of books do you read?

**MARIUS:** It changes. Every few years I change. Last year and the year before I only focused on biographies, because I find people interesting. This year I read a lot about 18th- and 19th-century Europe, for instance London. There were millions of people living in London in the 1850s, but people died from cholera, for instance, in the 1700s because they didn't know that cholera came from water. A very interesting thing is that in

the late 1870s and 1880s, women were perceived to be inferior to men and how that evolved from them having to prove themselves, how men woke up one day and realised how the roles have changed. That sort of interaction and how cultures have changed and how we've evolved from where we were 200 or 300 years ago, I find fascinating. So my reading changes now and then. I think I'm going into history now, so I'm starting to read not only South African history, but, you know, history all over the world. I also read a lot of fiction to relax.

**SIYA:** For me, the idea for this book came about because I read a lot of biographies.

**MARIUS:** Have you read the biography on Paul Getty?

**SIYA:** No. Is it readily available?

**MARIUS:** You must read Paul Getty's biography. Why I'm asking you is because he was way before his time. If you're in Jo'burg again, if you can't find it, I will lend you mine. I've still got it; it's falling apart already, you know. It's a very old book, but it's one of those amazing biographies to read: how he started his business and his business model. He was the guy that made the saying famous: "You must always have the right address, even if you can't afford to live in the best hotel". When he went to America he stayed in a five-star hotel, but he had no money, so he organised himself a room in the basement next to the staff quarters.

He had only one suit, so in the morning he'd walk out into the foyer with a nice suit and people would think he was staying in the hotel. Because image is important, you must be seen to be successful. Otherwise people will not consider you to be one of their peers. That's just one of the things I read in his book. It's a very interesting one, you will enjoy it; from an entrepreneurial point of view he's very interesting.

**SIYA:** People make mistakes: you make mistakes, people you work with make mistakes. How do you deal with errors in judgment, yours and those of other people who make mistakes?

The first thing is to try to acknowledge to yourself as soon as possible the fact that you've made a mistake. The most common thing that we all do is to deny it.

**MARIUS:** The first thing is to try to acknowledge to yourself as soon as possible the fact that you've made a mistake. The most common thing that we all do is to deny it. The longer you're in denial, the worse it's going to get. So you must stop doing what you're doing wrong, the minute you realise what you have done. Once you've done that, you've already achieved a lot.

The second thing is to learn from that experience, because you have to sit and analyse how and where it went wrong initially. It's not always possible to do it, but if you can in most cases, determine what went wrong. "Maybe I didn't spend enough time on planning this thing. Maybe I didn't listen to everybody who said 'No' because of this and that reason."

The third thing is to overcome the mistake. It's no use sitting in the corner feeling sorry for yourself, because people will just say, "Shame, he tried but he didn't succeed."

You have to get up and start again. It's happened to all of us. You know there's no guarantee it will not happen again. I've obviously made quite a few mistakes myself, but hopefully I learnt from some of them. I think those are the three things. Analyse the issue the moment you realise it's wrong, stop it and then try and learn from it and just get up again. Don't be scared to try again, because if you're scared you're going to fail, then the venture either never gets off the ground or will fail. Don't be reckless, but don't be scared either.

You mentioned, Richard Branson's book. One thing I learnt from him is that most of us, including myself, are too scared to think big. We don't think big enough. You always think, "How's it possible for me to build up a multi-billion Rand company? I would rather think small and have my one little shop. It's impossible for me to have 50 shops." But it's nonsense! Because if you can have one, you can have 50. Or you're scared that people will laugh at you and think that you're either out of touch with reality or that you're

just a dreamer, but don't worry about that. If you believe in what you're doing, you can do it as big as Richard Branson. There's nothing stopping you, if that's what you want to do.

**SIYA:** Generally, do you think there are opportunities to start businesses in South Africa?

**MARIUS:** Yes, a lot. I don't know all the countries in the world, but I travel extensively, and if I compare South Africa to a country like Australia and all of Western Europe, we've got ten times the opportunities they've got. I think we are on par with India, China and Eastern Europe in terms of opportunities. We're very fortunate that the economy is booming, so there's a lot of money around and we've got a good infrastructure, communication is excellent, our banking system is one of the best in the world. So we probably have an advantage over them. In Eastern Europe they don't have sophisticated banking systems, communication is not as good as ours and the infrastructure is not as good either.

Obviously, in India it's ten times worse and in China it's getting better, but we've got an advantage here. So if you're an entrepreneur here, I can't see you not succeeding, especially with the positive feeling that everybody's got about the Soccer World Cup. Even if the World Cup itself loses billions, it's worthwhile hosting the World Cup, because just the positive attitude creates business opportunities and people are prepared to venture into new things and create infrastructure. That alone has already made it a success, even before it started. To get back to your question: for entrepreneurs, there are ample opportunities.

**SIYA:** Let's say you want to start a business and don't have any money at all. Would that stop you?

**MARIUS:** No, the problem is not money, because there are many places you can go to for SMME funding. That's one place where government's been quite good at creating funding structures. The problem lies with the non-governmental institutions that don't want to lend money to entrepreneurs. They struggle to communicate with their target market. The people who want the money don't know where to go for the money, and the few that get there struggle to cope with the paperwork, with the bureaucracy.

But in theory it's not difficult, because the money is there, the structures are there and we've got the need and we've got the entrepreneurs. So, it's a question of communication and education. If you've got those two right then it must work.

**SIYA:** I can vouch for what you've just said about accessing start-up finance from these institutions and about communication. I've been there myself. In fact, I received a letter from a well-known government agency. I approached them in March 2007. I received a letter in June dated 8th of April, but it was posted on the 1st of June! These days there's no excuse for no communication ... we have e-mails, there are cell phones, but they posted the letter after two months!

Is this your experience too?

**MARIUS:** That's unfortunately a big problem we've got in our country: accountability. People will not be responsible if they're not accountable, like the person that was supposed to send you that letter. If they were going to be punished or demoted or reprimanded for not sending the letter, then that letter would have been sent within a day, but because nobody's checking up and nothing happens to that person, they've got no incentive to do it.

So unless you're naturally proud of what you're doing and you want to give your best – which is probably the case with 50 percent of people, but the other 50 percent are not like that – you have to force people to become like that.

Once they do that, they realise: "It's actually much more satisfying to do my job properly, because I'm going to get promoted and I'm going to go home and feel like I contributed to something today." So it makes them feel good, but if they don't know that then they're not going to be like that. So people must be "forced" into that via education, leadership and communication. It all comes back to accountability: you must be held accountable from top to bottom. It's

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you must be held accountable from top to bottom. It's throughout the whole system, you know, I just feel that people are not accountable enough in the private and public sectors.

throughout the whole system, you know, I just feel that people are not accountable enough in the private and public sectors.

**SIYA:** And now on the decision to list with AltX. What motivated you?

The profile that your business was going get and perhaps capital that you might raise and what other things attracted you to go public?

**MARIUS:** From an entrepreneurial point of view, I always felt that if you've got a listed company and the market perceives you to be successful, then you are probably successful, because listed companies are so transparent because they have no choice. So if you get good publicity and your shareholders reward you with a good share price in an environment where you're also transparent, then you must be doing something right. That's a way of measuring whether the business is going in the right direction – I like that. There are other advantages. The nice thing about listed companies is the nature of it makes it easier to raise money, makes it easier if you want to retire, to exit the business, makes it possible to facilitate empowerment transactions.

In private business it's much more difficult to do those three things. So that's probably the other reason why I went that way. And if you need to raise capital, being listed lends more legitimacy to the business, especially if you have to go to a bank. The first thing in the bankers' minds is the credibility of the client. Obviously thereafter they look at the business plan – the viability of your business.

If you're not credible enough the bankers will be reluctant to do business with you. They assume that your financial statements are credible if you're listed, because they are scrutinised by analysts, the JSE and shareholders. Because they can rely on the numbers there you don't have to prove your credibility as much as a private business has to.

**SIYA:** On the issue of accountability, I've heard some business people say that they don't want to go public because of the accountability factor and the perception that they're losing control of their business – your comment, please.

**MARIUS:** If that's your attitude, then you must probably not list your company, because then you're somebody that prefers to stay in control of everything and you want to keep the whole pie to yourself. Nothing wrong with that it's just a different approach. For me, I don't mind owning 10 percent or 15 percent of the company and I don't mind if there is somebody else who the shareholders feel will manage it better than me. That's one reason to wake up in the morning: to show that I'm still good enough to manage the business, and although I don't control the company, I work for my stake, so my stake is my investment, my life is invested in it. That is comforting for other shareholders, because they know I work as hard for them as I work for myself because all I've got is a stake here.

I'm not scared to lose control, either. What is control about? If you are good at what you're doing and you are rewarding your investors, they won't replace you, so then you don't have to be scared of losing control. The pyramid structure is a thing of the past, I think, I believe in a flat management structure, where not one person makes every decision. Obviously somebody has to be accountable, but it doesn't have to be one

If you are good at what you're doing and you are rewarding your investors, they won't replace you, so then you don't have to be scared of losing control. The pyramid structure is a thing of the past, I think, I believe in a flat management structure, where not one person makes every decision.

person and it doesn't mean that the one person can overrule the board, because that's why you've got a board.

Certain businesses obviously don't lend themselves to becoming listed, but if you feel that you want to make all the decisions and you don't want to sit in a boardroom and discuss and try and persuade other people to buy into your point of view, then you're probably not in the right business to list or the person to be involved in the listed vehicle. I enjoy interaction with people and I obviously learn a lot from people on a daily basis, so new ideas are what I look for most in listed companies. Ten brains are always better than one.

**SIYA:** And the share price performance: how much does it influence the decisions that you make on a daily basis?

**MARIUS:** It's very in-vogue to say that management don't look at the share price and we don't manage the share price, we manage the business and the share price will look after itself. That's nonsense. I look at the share price on a daily basis. And if the price goes down, I'm reminded of the share price because shareholders phone me and say, "What's going on? What's wrong?" And the share price is a barometer of what the market thinks of your business, so the share price is important for the board, for the CEO and, because I'm a big shareholder in the company, for me as an individual as well.

The other side of the coin is if the share price goes down by 20 percent because inflation in China goes through the roof, there's nothing I can do about that because those things happen. Macro-economic issues will influence the stock markets from time to time and we're in the bull phase, so things are going well now, but there will be a retraction at some point in time and then you have to rely on the inherent health of the underlying business. If it is healthy, then you're going to make more money than you made last year. That will filter through to the share price which will recover.

It's not the end of the world if the price goes down, but you must know why. Either the market doesn't know what you do or is unimpressed with your performance, or there are outside factors that you can't do anything about. But for me it's important to have a good share price.

**SIYA:** Your share price has performed very well. What would you say have been the main contributing factors to this growth in the last year or two?

**MARIUS:** The share price in our case is a consequence of the earnings per share. We've grown earnings per share by 100 percent per year, three years in a row, and that in itself lends credibility to the business model. There is obviously belief by shareholders that we will keep on growing earnings by decent numbers, not by 10 percent or 20 percent but by 50 percent or 60 percent or 70 percent, and hopefully 100 percent again. That would be fantastic, but even if we can only keep on growing by 50 percent a year it will be great.

The bigger you get, the more difficult it becomes. My aim is to be something like Pick 'n Pay, where you've got earnings growth of 30 percent for ten years running, you know. That's a fantastic return on investment for shareholders. We believe we can achieve something similar. I think we can still grow by 50 percent, 60 percent, 70 percent a year for years to come, simply because all five divisions are high-growth areas and we don't even control 2 percent of any one of the markets that we operate in. So there's huge scope for growth. Organic growth is in the region of 40 percent a year.

It's a question of how well we manage the business and how well we cope with the growth of the business. Because you have to appoint more people, the people have to get on with each other, your infrastructure has to cope with the growth ... so that's basically the challenge.

It's a question of how well we manage the business and how well we cope with the growth of the business. Because you have to appoint more people, the people have to get on with each other, your infrastructure has to cope with the growth ... so that's basically the challenge.

There's a lot of business out there. We don't have to look for business. We don't have to worry about the flow of business. It's a question of how well we manage it and how effective it is to make more money, but I think that's why the share prices go up. This year alone, year on year, the share price is up

by about 190 percent, so again we've made good returns for shareholders.

Our share is also very liquid. Management owns about 30 percent of the shares, and the public 70 percent. Liquidity is often a problem with small companies. Even good quality companies sometimes don't get attention from shareholders because they're unable to buy or sell big amounts of shares. In our case they can trade hundreds of thousands of shares everyday, so even corporate institutions can buy a few million shares, and if they want to sell, they can get rid of a few million shares in a few days.

We are still only trading on 11 Price Earnings (PE), which is not demanding at

all. The JSE as a whole is not expensive and the average PE is about 13 to 14 percent which is still fine. It's only when the average PE is above, that it gets expensive.

**SIYA:** My last question: What does the JSE do for you?

**MARIUS:** They do a tremendous job. We have a CEO forum once every two months at the JSE, where all the CEOs of the AltX companies have an informal meeting. We had one this week. We looked at what they are doing. They set themselves targets, they physically get into their vehicles, and go and drive up and down industrial areas, where there are lots of factories, for instance, and they look at the names. They go to the people who phone them and they say, "Are you interested in talking to us about possibly listing your company?" and they go and see them. They're very proactive in that sense.

If you look at the pipeline of companies that are going to list on the JSE under the AltX list this year, I think there are about 29 that have already been approved but are in different phases of preparing to list. Three years ago when African Dawn listed, we were three companies on AltX. Now there are 42 or 43 already listed, and by the year end it will be 65, I think.

Medium-term vision is to grow to 400 companies, so the AltX sector will equal the main board in terms of the amount of listings – not the market cap but in terms of the number of companies – and that's what I see when you mention the entrepreneurs. If you can get small businesses with a good business plan – even if they are not making money, the business plan is good and you can see where they're heading – that's the way to go. It lends credibility and that opens up the doors to the financiers. Then it's up to you to sell your plan.

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# Marci Pather

CEO, ALL JOY FOODS

## Company background:

**Founded:** 1988

**Activity:** Developing and manufacturing a range of high quality branded food products.

**Branches:** 2 – Crown Mines JHB – (packing single servings and administration /sales & development) and Tarlton – Gauteng (processing & bottling)

**Employees:** 114

**Listed:** 1998 VCM Transferred 2004 to AltX JSE

**Turnover:** R60m



## Profile background:

Marci Pather was born in Durban and qualified as a food technologist in 1986 after serving his in-service training with Bromor Foods, a subsidiary of Fine Foods.

Thereafter he opened Gramas Foods in Durban, manufacturing and marketing speciality sauces and pickles to caterers and retailers. The business was sold to Crown National (now a subsidiary of the Bidvest Group) in March 1988. In August of the same year, Marci started All Joy Foods Pty Ltd.

Marci was a 2005 Ernst & Young Best Emerging Entrepreneur finalist. He has been happily married to Arthi for the past 21 years and has three children two daughters – Anastasia (21), Ariana (14), and a son Kyllian (12).

*Some people dream of great accomplishments,  
while others stay awake and do them*

—ANONYMOUS —

**SIYA:** Marci, please take me back to the mid-80s, when you left university after qualifying as a Food Technologist. Tell me about the thoughts and events that led to the creation of All Joy Foods.

**MARCI:** When I left campus, I had the opportunity of serving my in-service training with a sauce manufacturing company in Durban that was a subsidiary of a bigger business. This bigger business was part of the Bromor Foods group at that time. My responsibility as a trainee food technologist serving my internship was to gain experience, but I found that when I started working, in what was my first full time job, I was given a lot more responsibilities. I found there were great opportunities in the production of different food products and the way it was handled.

Food safety in the mid to late 80s was relatively new from a South African perspective and the fast food industry had just developed within South Africa. It was still limited to only certain groups of the population in the mid to late 80s. The fast food and convenient food sector was relatively small and there were few players in the industry. There were multi-nationals and there were small producers. At that time I took advantage of being in a company that had some very serious food safety issues and some tremendous culinary skills. I learnt quickly that if you have a combination of good culinary skills and you can apply food technology to that culinary outlook, you could package

I learnt quickly that if you have a combination of good culinary skills and you can apply food technology to that culinary outlook, you could package the right tasting foods at the right time for the right end user, be it in food service or in retail.

the right tasting foods at the right time for the right end user, be it in food service or in retail. About ten months into my 12-month in-service training, I had been approached by the Sales Manager of this company. He asked if I would like an opportunity to open a food manufacturing business in which I could get some equity. He was going to manage the sales and I would manage the production and development of different products. Being ambitious and wanting more out of life I elected to take this opportunity, and as soon as I completed my 12 months at the company I knew I had satisfied the conditions of getting my necessary certification for my profession. I could then move on to take up the opportunity that had presented itself.

The person who approached me with this opportunity was a gentleman called Graham Wilson and we developed a brand and company called Grama's which stood for Graham and Marci. We set up a factory in Glen-Anil which is in Durban and we started manufacturing ranges of different food products from pickled capers for the food service industry to barbeque sauces, tomato sauce, salad dressings, and piccalilli. My responsibility in that business was to take care of all the production, procurement and development and Graham's responsibility was to care of the sales. That continued for a period of 12 months and we experienced a fair amount of growth and success in that short period of time. The factory was about 200 square meters of processing space and we were limited to producing product only for the Durban and surrounding market. We penetrated all the different sectors – restaurants, fast food outlets, wholesalers and the retail sector. For the retail sector, which I was quite keen on growing in, we had launched Grama's tomato sauce, with success, in the Pick 'n Pay Hypermarket that had just opened in Durban. We had launched Grama's pickled cucumbers, onions and a range of bottled sauces namely Chilli, BBQ and Mustard.

That sales success continued and I felt then that this was something we should take to the next level so I spoke to Graham about approaching a third partner so that we could expand this business, which we did. We realised that we had to expand the production facility and the business had several growth needs given the opportunities. When the third finance partner joined the business, it was resolved that I would make a

presentation to the Langeberg organisation to pack bulk packs under their KOO brand on a national basis so that we could get a contract before starting to embark on developing a much bigger factory. One of our customers was Crown National, a wholesaler and distributor of a range of products to the butchery industry and we produced a range of boxed spices for Crown National later acquired by Bidvest. Crown National wanted a sauce manufacturer in Durban and an offer was made to Grama's and that business was sold. The brand continues, in the food service sector. When the business was sold I had a restraint of trade for a 50km radius from Durban. I decided to extend my horizons and traveled to Johannesburg.

**SIYA:** Which year was this?

**MARCI:** 1988. It was August 1988 when I came to Johannesburg, to explore the opportunities.

**SIYA:** At what point did the All Joy idea come up?

**MARCI:** There was an opportunity with a portion pack company called Trimpak that was a subsidiary of a business called Holpro Lovas. They had a sachet packaging business and they needed a supplier of sauces. They wanted me to manage their production. Being young and ambitious, I opted to offer them a solution, the supply of sauces. This meant that I had a ready-made client who wanted sauces in bulk. My wife had family in Johannesburg, Priscilla and Reg Jana, who introduced me to Mallies Spice Works that was and still is in Fordsburg. I took an old tannery behind the Market Theatre, in JHB. It was about 450 square meters and we spent the better part of six months, Reg (an engineer by profession) and I, rigging that premises to food safety standards that were suitable for food production. By November of 1988 we had started production trials in that factory in 111 Carr Street, Newtown. That was the start of All Joy.

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The first business that I sold was after my dad passed away. I was 14 years old. I attempted running two stalls on weekends and after school in the Durban Morning Market. I used to sell fresh tomatoes.

their fresh fruit & veg. My dad owned two stalls (concrete slabs) where fresh tomatoes and salad vegetables were displayed for sale.

**SIYA:** So was this where your passion for food production started?

**MARCI:** I suppose, you know, on a different level somehow I was always involved in this space and two years after trying to run the fresh produce stalls on weekends and after school I decided the best solution was to sell. So that was in fact the first business that I sold, for R6 000. This provided a good start for my Mum.

**SIYA:** When you started All Joy, having gained experience from your previous businesses, what was your vision? Where did you see All Joy going?

**MARCI:** I knew full well that added value products like sauces were out of reach of the consumer market in general. I grew up not eating tomato sauce so I knew first hand that millions of South Africans did not have the capability of buying certain value added products because they were out of reach. In the late 80s the brands offered by multi-nationals were 'premium product, premium price' and there were just certain convenience foods and brands that people from lower LSMs bought. So if you ask most people today, who are from the previously disadvantaged communities you will

**SIYA:** At that time you had sold your first business and...?

**MARCI:** No. I didn't sell my first business per se. The first business that I sold was after my dad passed away. I was 14 years old. I attempted running two stalls on weekends and after school in the Durban Morning Market. I used to sell fresh tomatoes. That was my dad's business. The Durban Morning Market was a fresh produce market and it was famous in the 70s, people shopped at the market-stalls to buy

find that they did not consume sauces, even if they are as young as their mid 40s today. That was out of reach, not accessible. My vision then was to produce a brand suitable to that palate and make it accessible to that market, so they could enjoy the opportunity of buying those added value convenience products under the All Joy brand. The All Joy credo since 1988 has been "Value makes friends & Quality keeps them".

**SIYA:** Let's talk about partnerships, partnering with other people in business. Is it possible for two people to have a shared vision? I ask because in some instances these relationships do not work out. Have you ever experienced anything of the sort?

**MARCI:** In the first instance I must say that although I am a team player, I have struggled in my entire 22 year career with partners. In fact I don't have too many and I know that when I started off Gramas it wasn't a case of being selective about partners. It's always been circumstantial. If you are a 'have not' and want to change your stars, you have to take what is presented to you, you have to be the person who bends to the tune of your partner given your circumstances because he's providing you with an opportunity that you wouldn't otherwise be able to access. You need to use that as a platform and build from there.

**SIYA:** So are you saying that one needs to understand that everybody has to start somewhere? If there's an opportunity that somebody can bring, something that can help you pursue your dream, you mustn't always look at it and say, "This is not perfect for me because this is not how I want to do it".

**MARCI:** Absolutely. The whole process to get where you want to go is a journey and nothing is cast in stone when it comes to how you reach your end point. It's a journey. You can't be egoistic about wanting to get your way to reach that end point. Obviously, making progress every day means you are doing well.

**SIYA:** Let's talk about the employees. When a company is new you need things done in various areas: how important is it to inspire the people that you start with and what do you look for in those first few people that you identify?

**MARCI :** When starting a business what you really need is dedication. You need people with whom you can work with and on whom you can rely on. Essentially when you start up you have very little to give the people that work with you and you expect a lot from them so, you look to get the orders out, you look to make sure that you can deliver on time, make sure you produce on time and make sure you collect your raw materials on time. Everything is very operational when you start up because continuously from that point when you get an opportunity you have to make sure you take it and deliver on it, on time when it's needed, and you can build from there. So, your first set of people must be committed and have a flexible "can do" attitude. You really need people who can be committed to the process: this must be a selection criterion in employing your staff.

**SIYA:** The first thing you do is sell your vision to people.

That's where the process of sales basically starts before you even start producing the product that you are going to sell. So, how important is it to learn different skills so that, as much as these people will focus on specific areas, as an entrepreneur you can have full understanding of what is happening in each area? Please also touch on the importance of recruiting and leadership skills.

**MARCI:** When you first start, the point is that you want this to succeed and so you make sure that you put in a 100 percent effort, regardless of the number of hours it takes from you, and from your family, and you tend to be impatient with the people that you employ. So the level of energy that you exude in the various aspects of the business, even if it's for a short period of time, spills over to the people that are working around you. The demands of a start-up are such that you've got to get it right the first time because wastage is just too expensive for start-ups. So you tend to want to produce something first and let the people around you know that it's working. You must make sure that they understand the system and allow them to come to you as many times as they want, so that they are properly empowered to do it on their own thereafter. So I would think that there is no real qualification outside your passion.

I'm not sure whether the answer to why some people are entrepreneurs and why others are not entrepreneurs is because some are born with that

extra gene. I'm not sure. My take is that we employ several people in our careers and you know the ones with a spark in their eyes. It's not about their CVs, it's about their enthusiasm and the fact that you know that this person wants to succeed. You can literally see the passion in them. We are in a continuous search for talent and in certain aspects of business you are always looking for new talent. There is no such thing as 'there are no vacancies for great people'. There are always vacancies for great people but the challenge is to identify them and make sure that you can keep them because these are the people that are on the move.

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**SIYA:** If you don't start it will never happen. So are you saying action is key and critical, to move in the direction of success?

**MARCI:** Goal setting, now that we are a listed entity comes naturally because you have reporting periods so you write goals down all the time. If we ever forget them there are enough people to remind us. But you are right, I have always set myself objectives, goals and places that I want to be. So yes, writing them down is always a nice place to start because it's a commitment that you are making to yourself. It's a real challenge if you can't review your own performance relative to the present goals that you set for yourself in terms of advancing. So setting goals is fundamental and it's always a healthy process to write them down and map them out. Again, for as long as you are making progress towards those goals you are doing well. Achieving 100 percent of your goals, 100 percent of the time is not essential, making progress is.

**SIYA:** What does success mean to you and how do you measure it?

**MARCI:** I think you must have the discipline to measure yourself against the goals that you have set for yourself and be brave enough to know that this process of success is a journey. As long as you are going forward towards the next level, moving over the next hurdle, having the benefit of getting the next contract, launching a new product, seeing your product out there, making sure that your sales are increasing, making sure you are getting better relationships with your consumers, achieving those small milestones on a continuous basis. This is how I believe you measure success. I also believe that whilst you are progressing towards those levels you feel content. You have the benefit of reflecting on where you were, where you are and what your plan is to get closer to where you want to be. Again it's measuring yourself against where you were, where you are currently and where you want to be. What is your mission? What is the programme that you have that you are going to rely on to take you to where you want to be? That's the way I have managed to measure my success. There are a lot of adjudicators of your success and that process is a roller-coaster ride. Those adjudicators who judge your success adjudicate your failure just as hard. You must have the strength to adjudicate yourself. In my view this is imperative, so that you can maintain your determination.

**SIYA:** People start businesses for a variety of reasons. Some spot an opportunity, others want to drive expensive fast cars, others want the 'bling-bling' and the good life. Society does use some of these to measure one's success. How important are reasons for starting a business and what do you think of the reasons that I just gave you?

**MARCI:** There's nothing wrong with the reasons that you gave me. The greatest motivator is wanting to be more successful and to change your stars as an individual, to get things. What are those things? I'm not quite sure. See, you go through various phases of developing an understanding of what those things are. You generally start off wanting things physically and there's nothing wrong with wanting things. If you are a person that came from humble beginnings you might want a nice car. There's nothing wrong with that. That's a reward that you must give yourself and that could be a measure of your success. A bling watch might be something you never had and always wanted. If you work hard and work towards your dreams you must reward yourself with that thing that you always wanted. You must

have the capability to reward yourself with things when you start off your career because then you are measuring your success for yourself. Later on as you advance you will find that the measurement of success becomes somewhat spiritual, it becomes somewhat inward where you find that you are succeeding in small goals that you set yourself. But, all those wants and needs must be rewarded because if you don't then you are not measuring your success. You allow others to measure your success. There's no right and wrong in saying this is the right route or this is the wrong route. There are millions of things that you can only learn through life's experiences. It is those life experiences for people that are have-not's that make them want to have that first level of emphasis, the first level of passion, the first level of trigger points that you get to take you to that level that gives you that grit to just say "I'll hang in there. I'm still going". So don't ever discount what we might think as quite frivolous. Why does he want a fancy black BMW? There's nothing wrong with it.

You must have the capability to reward yourself with things when you start off your career because then you are measuring your success for yourself.

**SIYA:** Now let's talk about the listing. Now you have to marry what you wanted to achieve for yourself, the promise that you made the shareholders and the expectations of these shareholders. How much pressure is there in moving from being a private company to a listed company?

**MARCI:** Ten years after starting the company, it was imperative to increase the profile of the business so that I could continue to grow as a branded business. The major shareholders were not in a position to support the business growth and vision.

We were presented with an opportunity to list All Joy Foods on the Venture Capital Market (VCM) in 1998. The team of advisors that took All Joy Foods to the VCM of the JSE and the JSE did not have a support system for junior listed companies. Further, the cash raised when the business was listed did not benefit the business, it paid for the expenses to list the business. The

companies listed on the VCM in the late 90s and early 2000 were not on the investment community's radar. The time spent on the VCM did not yield the company the anticipated benefits.

In July 2004 we moved to AltX. This presented new opportunities and pressures. We started the process of externalising the shareholding, to increase our spread of shareholders. This puts you under pressure to perform in a given period of time rather than performing at the appropriate time. Yes, there is pressure from shareholders to perform and yes, you must plan to perform at the right time and for the right reasons.

**SIYA:** For someone who was listed on the previous VCM and decided to list on the AltX, bearing in mind the experiences during the VCM days, what would you say is the difference if you talk to that person now? What are the advantages now available on the AltX which were not on the VCM?

**MARCI** There are a lot of advantages. The one that stands out is that there's a lot of interaction between the management of the AltX and the listed entities on a continuous basis. They strive to make sure that your business is being put out there to the investment community as a whole so that you are given exposure.

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They give you every opportunity and the platform to present your business to potential investors on a periodic basis and are also happy to initiate various forums where necessary, or discussions with potential investors. The AltX has a lot of credibility in my view, compared to the VCM.

**SIYA:** In terms of the numbers, the actual numbers of the companies listed on the AltX, would you say they (AltX) could do better in terms of having more companies listed?

**MARCI:** I think that AltX and its management have done exceptionally well. We were one of the first companies to move over from the VCM to the AltX in 2004 and there were a few companies on board. To look at the list now is amazing. It wasn't something that I expected, that is for the AltX to achieve this amount of success as well as have the number of companies that have come onto the AltX. I think we probably have one of the smallest market capitalisations today on the AltX, given the size and number of companies. Clearly AltX is an exciting division of the JSE.

**SIYA:** So how has All Joy been performing in the market?

**MARCI:** When we got onto the AltX my thinking was that we would fast-track our growth. We needed critical mass because we are a relatively small-sized business and my first instinct was to fast-track the growth by making an acquisition. We went through a very difficult period in 2005 as a result of acquisitions that didn't work out and that caused us some misdirection as a business. Our business then went into a loss situation as a consequence of taking our "eye off the ball", during that period from 2005 to 2007. We were fortunate enough that the business has very good brands and excellent relationships with existing customers, so we managed to put a turnaround strategy in place. This has started well, to the extent that in the last six months I've got sales revenue up in excess of 20 percent and it's been sustainable. I believe that's an achievement for us to get to this position and we can only go forward from here. My medium-term goal is to grow the business organically for a while, build a set of solid performances, and then rethink our long term strategy. But for now I would be solely reliant on organic growth.

**SIYA:** What would you say to someone out there who says, "I think I have got a great idea. I think I've got passion for something but I'm scared. I'm not sure if I should quit my job which pays well although I'm not happy there. I think it would be better going on my own but I still have fear." What would you say to him or her?

**MARCI:** I think realistically if you have choices your decision becomes more difficult. If you have big ambitions and you are committed to achieving and delivering on the goals that you set yourself, you in fact know the answer. That

answer would be, "If I don't start and if I don't put myself out there I'll never know." It won't be a situation of, "I have a secure job." That's the sort of mentality that entrepreneurs don't have. Entrepreneurs, I believe, are born with this special gene. You are born an entrepreneur. You don't go to school to become an entrepreneur. You go to school to develop the skills so that you can channel your energy in the right direction and that energy converts itself into the service and product that you can advance through. It gives you a medium to grow. I don't think I've met many successful entrepreneurs who did not know those answers when they were at those crossroads.

**SIYA:** People have ideas and dreams, but lack of capital, among other things, is always mentioned as an impediment. In general, is it valid to always blame circumstances for not doing something? For not pursuing your dreams?

Start small, building up creditability and a going concern. Investors and bankers are more comfortable providing capital to businesses that have started already.

**MARCI:** It is difficult for me to generalise not knowing what the person's circumstances are but a person with a dream and vision has already taken the first step towards achieving it – he or she has recognised this desire.

The lack of capital is always a challenge, so be prepared to share your business plan, accept that all the "good ideas and plans" must have a plan to raise the capital. You must be prepared to take a small "slice of the pie" and grow from there. Start small, building up creditability and a going concern. Investors and bankers are more comfortable providing capital to businesses that have started already.

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# John Wearne

MD – WG WEARNE LTD

## Company background:

**Founded:** 1910

**Activity:** Building material suppliers

**Branches:** 19

**Employees:** 900

**Listed:** February 2006

**Turnover:** R500m

## Profile background:

John was born in 1970 and educated at Grey College Bloemfontein, completing his education at Stellenbosch University with a B.Acc followed by a Hons B Compt from the University of South Africa in 1994.

He joined WG Wearne Ltd as a Senior Accountant in 1998, rising to Managing Director in 2005.

John is currently the Chairman of the South African Ready Mix Association and serves on the Management Committee of the Aggregate and Sand Producers Association of South Africa.



*If I have seen further; it is by standing  
on the shoulders of giants*

—SIR ISAAC NEWTON —

**SIYA:** I must start by asking you to tell me briefly about the history of your company, John.

**JOHN:** The company is nearly a hundred years old now. It was started in 1910 by my great grandfather, William George Wearne. Initially it started by crushing rock dumps around the goldfields of the West Rand and supplying stone to the mines' shaft sinking operations. The business saw significant growth during the mining boom in the 80s but then in the 90s when there wasn't much work on the mines and the general construction market was also going into a decline the company was forced to contract again and a lot of operations were forced to close. So yes, the company has gone through a few cycles, and with the construction activity increasing again we saw an opportunity to grow the business aggressively, and decided to take the company public. The family still owns about 60 percent of the business though.

**SIYA:** Okay. Actually that was going to be my next question because I see that on your website you say that you are a family-owned business. What is the family's involvement in the business?

**JOHN:** Yes, the family is still involved and at this stage it's my dad, my brother and myself who are the main shareholders, and then there are other family members who own a small shareholding. We still want to control the business and that's why there are only about 30 or 40 percent of the shares on the open market. Since listing, the company has grown a lot. We listed at R1 a share and we are now sitting on

... the family is still involved and at this stage it's my dad, my brother and myself who are the main shareholders, and then there are other family members who own a small shareholding.

R5. Turnover-wise the company has doubled its turnover in a year. So yes, the company has grown a lot and is still growing. It's exciting and in addition there are a lot of opportunities in the construction industry at the moment.

**SIYA:** So with the increase in Government spending on the infrastructure it must be good times for your company?

**JOHN:** Yes, the big construction projects are only happening now and we are involved with the construction of the stadiums – supplying stone as well as ready-mixed concrete. We are involved in the construction of the Nasrec stadium where the final will be played and we are very excited to be involved in that project because it's going to be an icon. So that's great for us. The real

I saw the other day that Brian Bruce from Murray and Roberts reckons that the construction industry has to double in the next five years to meet the demand.

big stuff from the Government side, except the Gautrain, hasn't started and the tenders for the Eskom and Transnet projects are only coming out now. So we are already running at full capacity and there are still a helluva lot of opportunities out there. I saw the other day that Brian Bruce from Murray and Roberts reckons that the construction industry has to double in the next five years to meet the demand.

**SIYA:** You're on the management committee of the Aggregate and Sand Products Association. What exactly are aggregates?

**JOHN:** It's basically stone and sand. In the mining process there is a lot of waste rock that comes out and we crush these waste rock dumps down to stone and sand. We then use the stone and sand to manufacture concrete. We have two of these rock dump operations and we also have our own quarries where we drill and blast the material and then again put it through the crushing plants. So aggregates are basically stone and sand.

**SIYA:** So you supply ready-made concrete? Where did the idea come from? Is this how it has always been done, or did the company spot an opportunity?

**JOHN:** The concept of ready-mix concrete supplied in the truck-mounted mixer drums has been around for a long time. We have been doing it since the early 70s. In Europe it's probably older than that so it's been around for quite a long time. In Europe 70 percent of the cement used goes through the ready-mix concrete channel. In South Africa it's a lot less due to the big amount of cement that gets consumed in the rural areas where it is not feasible to operate a commercial ready-mixed concrete operation. This is, however, changing as more people migrate to the cities. Currently the cement market is growing at 10 to 15 percent per year and the ready-mix concrete market is growing by 25 percent per year. Currently only about 17 percent of cement is consumed by the ready-mix concrete market in South Africa. So you can see there is still a lot of room for growth in that market. We also like to be invested in other downstream uses for the different sizes of stones that we produce at the crushing plants. This would be businesses like brick, pre-cast and asphalt manufacturing.

**SIYA:** So the stones are filtered based on size?

**JOHN:** Yes. Different sizes have different applications and our strategy is to invest and own companies that work with stone and sand. So anything that uses stone and sand is something we look at – your concrete pipes and culverts and all that. At the end of the day it's all a form of concrete.

**SIYA:** The company was named after your great grandfather – WG Wearne, the man who founded the company way back in 1910. What do you know or understand about the beginnings or the early days of this business then?

**JOHN:** We have a good knowledge of the history of how it all started. It basically started when William George Wearne came over from the tin mines in Cornwall in England. They came here during the time of the gold rush and came to work on the gold mines on the West Rand. He first started contracting work on the mine then got his hand on one of the waste dumps. I speak under correction but I think he had a bet with the mine captain and the deal was that if he won the bet he would get access to crush that mine dump. There are some really good old stories about those days when there were steam driven trains and trucks. So that's how the

company started crushing the dumps and William and his four sons got involved in the business and then they started to expand the business by getting access to other dumps in the Free State. So until about the 60s all our work was based on the mines, and at that time a lot of the South African economy was based on mining operations. We then opened commercial quarries in Pietersburg and Louis Trichardt and later also in Bethlehem and moved away from just crushing the mine dumps. When the gold boom of the 80s was over, a lot of the operations on the mines were closed and the company didn't really grow until about 2001 when the growth in the residential sector started to kick in.

**SIYA:** I can imagine that the smaller players in the game were crushed and went out of business.

**JOHN:** They were tough times and it was really a question of surviving but now the cycle has changed and hopefully we have a good couple of years ahead of us.

**SIYA:** During the history of the business has there been a time when a non-family member was CEO of the business?

**JOHN:** No, not a non-family member.

**SIYA:** When did your interest in the business start?

**JOHN:** I grew up in the business Siya. I went to the business with my father every Saturday. My dad was always into the operational side of the business and I'm not really a hands-on kind of person. I was an accountant. I can't say I was really excited about working in the business. I studied at Stellenbosch and did my articles and I travelled for a year and then I decided that I had to start doing something and the opportunity was there. I was staying in Cape Town and enjoying the good life. I was not so keen to go up to Jo'burg to work in the dust. Eventually I got involved and I looked after the financial side of the business.

When I joined in 1999 it was still fairly quiet but the residential housing market was starting to pick up and the business started to grow again. It

initially started with the RDP housing and we put up plants specifically servicing the construction of government housing. With the increase in building activity the business just started expanding and needed access to cash to facilitate the growth. This was when the idea of listing first came up. I had the vision of making the business a national player. I still have the vision of making the company international but we need to consolidate in South Africa first. So that still forms part of the long term strategy. Also BEE played a role through the Mining Charter and we had to do it to convert our mining licences. To achieve our BEE targets we had to bring in black shareholders. We took time to establish how this was going to be financed and what the value of the company was. It was very difficult. More so when you go to the bankers and they say that they will finance your empowerment partners but only look at the value of the company. They try to push the value down as much as they can because then the risk for them is a lot less. From our side you try and take the value up as much as you can because when trying to sell a stake of your business you want to realise value. We then decided to go public and raise the money for the empowerment that way. So by listing we created a value for the company and that also facilitated the BEE transaction. That is why we went to the market. It's a combination of factors: deciding to grow and bringing in empowerment partners.

So by listing we created a value for the company and that also facilitated the BEE transaction. That is why we went to the market. It's a combination of factors: deciding to grow and bringing in empowerment partners.

**SIYA:** What were the major challenges of bringing external parties into a family business?

**JOHN:** It was difficult, but look, it was also strategic. One has to realize that BEE is imperative when doing business in South Africa. It is one of the most critical factors in the scenario that we operate in and you have to make the right business decision that will enable you to operate under those circumstances.

The company has gone from a R100 million company to a R700 to R800 million company in just over a year.

shareholding especially if you are issuing shares in the market to finance growth. It's difficult, but what it has done is that it has allowed us to go public and we have had a great run on the share price, and it made it easier to do acquisitions. The company has gone from a R100 million company to a R700 to R800 million company in just over a year.

**SIYA:** Compared to other entrepreneurs in this book you did not start from scratch. Instead you are growing and expanding an existing business to new markets. Was there a lot of pressure in taking the reins of a company that had survived for almost 90 years and ensuring that you don't fail the family?

**JOHN:** I was very fortunate in that there was a good base when I started and the company was set up and virtually debt-free. So it was a matter of looking for opportunities out there. From that angle I would say I was very lucky but in a family set-up you also have to deal with the older people who were a bit conservative and were not always convinced that the strategy taken was the right way to go. So there was pressure in trying to convince the other family members that this was how we should do it. The older generation is always sceptical about fresh ideas and I can tell you that it was very difficult.

**SIYA:** I can imagine that, especially in this age where technology changes so fast.

**JOHN:** Yes and it was even harder to convince the guys that the business cannot operate without empowerment. Sometimes you have to bang your head explaining these things. So one can say that the guys who started the business were the real entrepreneurs but sometimes it is not easy keeping everyone happy in a family environment.

**SIYA:** Would you say that BEE has made business sense in your business?

**JOHN:** I would say it has. At this stage our BEE shareholding is sitting at 16 percent and we are still busy taking it up to 26 percent. As the business grows it's important to maintain your BEE

**SIYA:** My view is that there are different types of entrepreneurs. Most of these guys talk about the challenges they faced in business. They had to develop strategies to ensure that their businesses grow beyond the start-up stage. I think it goes beyond just starting a business.

**JOHN:** Look, it's all about growth. It's about taking something, be it from scratch or not, and taking it from wherever it was to the next level and making it bigger. You have got to go for it and make sure that you are making the right decisions. Any investor who buys shares in the company today wants to see growth. So you can't sit back and relax. You have to continuously look to grow the business and thereby put pressure on capital and staff. So there is never a comfort zone.

**SIYA:** Were there things that you wished you could change about the business before you joined, and if so have you done them and what has been the outcome?

**JOHN:** It was always a good business. My father and his father were always operating persons who were good at it. They were great at running the business but were not great at marketing the business as well as branding it. We came in and we changed the logo and the branding. We had to get out there and market ourselves more and that's what's great about being listed as well. It's building a brand. What it has done is that, except for availability of cash to grow, the leads and opportunities that have come our way have increased a lot. Work now comes to us because we are listed and people know who we are. So we are out there and are continuously building a brand and a reputation as a quality supplier. We like being involved in big projects with big construction companies. A lot of it is about technical expertise. Those projects are high-risk projects and you can't go for a supplier who can't supply and meet deadlines. They can't go wrong because there's pressure on them to complete, for example, the stadium on time. So they look for a credible supplier to ensure that they complete their projects on time. That's what we have managed to do in the last couple of years – that is, to get a lot of work from the big companies.

**SIYA:** I am sure that there are things that you know will not change and have worked the same way over the years. What has been the key ingredient to your success for the past 97 years or so?

**JOHN:** What has been the key to the success of the business up to now is the fact that the owners and the shareholders have never drained the business of cash. This is very important during the tougher times. My father kept on reinvesting money in the business mainly to settle debt and to ensure that the company stayed afloat. As soon as you start draining money out of the business, especially a private business where funding would generally come from the banks, then you are looking for trouble. It's fine when you have work but if the cycle turns and interest rates go up then

the company can really face a cash flow crunch. So the key factor has been that all the cash has been going back into the business – purchasing new assets and settling the debt. My father and his father did that to ensure that even in tough times the business could survive.

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**SIYA:** Now let's talk about you. What is success to you and how do you define success?

**JOHN:** It's difficult to say. I would say it is acceptance by your peers. For me it's not financial. Of course we all like to live a comfortable life and make sure that we

and our families live a comfortable life. I am not driven by material things, money and all that. It's difficult to define it but for me it would have to be acknowledgement by your peers that you have actually achieved something.

I am still learning every day about people management because initially we were very hands-on and the company has grown so big now that we really have to concentrate on managing the people and not the processes. I read a lot of books about successful entrepreneurs and one of the main things I picked up from these guys is that you have to employ people that know more than you do. Surround yourself with good people. It's critical for success. Sometimes it's difficult, especially in this environment where opportunities are plenty and skills are in short supply, so it's not easy to get the right people.

**SIYA:** It's easy for someone with a big ego to have an "I know it all" attitude. So you are saying it's not an ego thing but about recognising some of your own weaknesses, and acknowledging that there might actually be a guy out there who can do better than you in a particular area. Is that correct?

**JOHN:** Yes. I think it's actually great when you have people out there who know more than you do. At the end of the day it's about having a successful team and everyone playing their part. Especially as the business gets bigger and your hands-on type of management style has to change, because you are spending about 40 percent to 50 percent of your time on investor relations – talking to the media, talking to investors and promoting the company. That's what I am doing most of the time – going on road-shows to raise money and deal with investor-related issues, which is a totally new field for me.

**SIYA:** How would you define your management style?

**JOHN:** I would like to think that I have an open door policy, to my own detriment at times, but I am not very rigid in structure. I like a flat management structure where you can have a whole lot of guys bouncing ideas off you all the time. I am not a fan of bureaucracy. I do take ideas from a whole lot of people but in the end I make the final decisions based on management's input.

**SIYA:** Who is your favourite business person in South Africa or abroad?.

**JOHN:** I have read a lot of books and I might not know the guys personally apart from what you read. There are guys like Richard Branson from an entrepreneurial point of view. What I like about him is that he follows his gut feel and goes for it. He doesn't hold back. When he goes for something he goes for it in a big way. Another interesting book is on Sandy Weill. He was the guy behind the Citi Group. He inspired me a lot with regard to mergers and acquisitions and how he grew the business. I wouldn't say I look up to him but I think one learns a lot from the way he does business. I like his style of doing business more than Jack Welch's (General Electric). I think GE has a bureaucracy type of management. There's a lot of politics and the whole story of succession. I wouldn't like to be in that kind of environment where guys trample on each other to get to the top.

If you are wrong then that's fine. We all make mistakes but then you have to go and see where you went wrong and move on from there. I don't dwell on bad decisions – all I do is focus on trying to fix them.

and I generally sleep on it and somehow the next morning I know that this is the decision that I have to take. I then go on and take that decision, and I don't look back because I have made the decision based on the information available at the time. If you are wrong then that's fine. We all make mistakes but then you have to go and see where you went wrong and move on from there. I don't dwell on bad decisions – all I do is focus on trying to fix them.

**SIYA:** So you take the lesson and move on?

**JOHN:** Yes. In any business decision, it's always based on taking the first knock and moving on. To try and fight it might result in a bigger loss later. So if you have made a bad decision write it off, take the knock, pay your school fees and move on. Some people like to fight things through court cases but I try to resolve the issue and make a commercial decision rather than go on an ego trip to see who was right. I think that it is negative energy when you are dwelling on things in the past. If there's a dispute try and settle it, take the knock and move on and look for new opportunities to grow the business further. I hate wasting time on historic stuff. If there is one guy who has inspired me a lot it is Mark McCormack from IMG, a sports management business. They own all the rights to Wimbledon and various other sports events. He was a lawyer and started a sports management business and signed on Gary Player, Jack Nicklaus and Arnold Palmer and acted as their agent in the 60s. They were his first few clients and now it is the biggest sports

**SIYA:** You mentioned something about making decisions. I think business revolves around decisions. Some people make decisions, some people postpone decisions and other people just abdicate or avoid making decisions. How do you make decisions on a day-to-day basis as well as the major decisions?

**JOHN:** Like I said, I get as much input as possible from everybody and then I make a final decision. Sometimes you get something that you are not sure of

management business in the world. In his book he is basically advising you to never allow a lawyer anywhere near the negotiating table. They tend to over complicate matters by wanting to prove that they are right and they generally stuff up the deal.

**SIYA:** How important are interpersonal relationships within your team and the employees in general?

**JOHN:** You cannot run a business without people. If you have the assets or machines without the people you will not be able to run a business. People are key to any business and I don't think there's a business that can operate without people. The challenge then is to manage them. I am not generally very good at motivating people as I drive myself to greater things and struggle to understand people who need to be pushed the whole time. However one should not forget human relations and the softer issues that come with them. It is very important and you have to make sure that a happy environment is created so that people want to work for the company, and also to attract and retain talented people.

**SIYA:** One of the challenges that entrepreneurs face as the business grows is learning to delegate. How does one decide on the delegation process?

**JOHN:** Delegating is something I don't have a problem with as such. The challenge is employing the right people who have the skills to do what you expect of them. That is a success point there. I think Jack Welch says that running a company is like having a bus full of people. You have to get the right people on the bus and then also put the people in the bus in the right place. Someone might be good manager but he is not in the right position in the company and therefore might not be delivering the right results. So you have to make sure you put people in the right places in the business to do the job that you want them to do. I like to delegate but the challenge is to employ the right people you can delegate to.

**SIYA:** So the process of recruitment is critical? It seems you need to have a good eye to employ the right people so you can trust them with whatever you want them to do.

**JOHN:** Recruitment is very important, especially the top level guys. If you get the right guy then it's great for the business and you can leave him to run the business with you only giving strategic input. You can't keep looking over the guy's shoulder all the time. If you make a mistake and employ someone who is not right for the business it can put you back six or eight months.

**SIYA:** What would you say you enjoy the most about your job?

**JOHN:** Let me tell about what I enjoy the least – the media stuff, the presentations, etc. I am not really a public speaker – it's not my strong point – but I have had to learn how to do it. I am lucky I haven't had to do many long presentations. What I enjoy is doing deals – looking to buy new companies, negotiating and trying to get the best deal for the company.

**SIYA:** What would you say is the best advice you have ever received?

**JOHN:** I can't really think who specifically inspired me but for me the critical success factor is determination and not giving up on your goals even when you have stumbling blocks in front of you. You have to keep going. When I started in 1999 it was difficult as the industry was still very depressed and there weren't too many opportunities out there. The

The moment you get a good job and you start making money then some company goes bad on you and all of a sudden you have a bad debt and you are right back where you started. You have to be determined not to give up and keep working on your goal.

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**SIYA:** Determination. I think that before people become determined it's important for them to know their goal. How would you emphasise the importance of having a clear vision as an entrepreneur?

**JOHN:** If you don't have a goal you don't know where you are going. You

have to have a vision of where you want to go and for me personally I keep on setting new goals as the business grows. You can't just have a vision and then get stuck when you get there. I'm continuously moving the goal posts. Initially we wanted to list the company and our target was to be a R500 million capitalized company, now it's a R1 billion market cap. So it's important to continuously move the goal posts. I'm not really a structured type of person where everything is rigid. I'm more relaxed when it comes to management style. Your team must have a vision and have to believe in your goal as well. You have to share your vision with them. They want to believe that they are following someone that has a goal and knows where he wants to go.

**SIYA:** So you are saying that as a business leader you must have a clear vision and communicate it to the team so that they know where you are going?

**JOHN:** That's correct. If you don't know where you are going they are going to sit there and say, "What is this guy doing?"

**SIYA:** With a busy life how do you balance everything? How do you plan your time?

**JOHN:** It's very important to have a balanced life. I have a young family and it's important to spend enough time with them as well. I can never work from five 'til ten every evening. I have to do regular exercise. Training – keeping fit is important. I get stressed if I don't train. I make time to train at least three or four times a week – running or some gym work. I also play golf. I enjoy spending weekends with my family. If I don't do this it will add to my stress levels. If I can't balance my life with regular exercise and taking time away from work, I'm sure I'll have a breakdown within a short period of time. That way I think you keep going on longer because the stresses are there, and being in the public listed environment and growing the business there's continuous pressure on you. You have to make sure you have a balanced lifestyle.

**SIYA:** On the philosophical side of success – when people start out they aspire to be successful and not everyone in the end feels that they succeeded in life. How does one attract success?

**JOHN:** For me it's a perception of how you feel about yourself, and that's what drives me as well. You have to be happy with yourself because if you don't believe in yourself then no one else will believe in you. Growing up, I struggled with this and I found that if you don't believe in yourself no one else will. I think what holds a lot of people back is that they don't believe in themselves. They don't believe they can do it and then they never do it. A lot of people wait for their ship to come in and in life it doesn't happen like that. You have to go and fetch it. And I think that is where success lies – believing in yourself. I am not successful yet. I'm still working on it, going towards it, not just as a business person but in my private life as well. For people out there talking about what they want to do, I say you have to go out and do it. You are going to encounter stumbling blocks but you actually have to go out there and chase your dream.

**SIYA:** You just highlighted my next question on taking action. Please expand on the importance of taking action.

**JOHN:** It's difficult because the process is not easy. You always doubt if you

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are about to take the right action because you always have someone looking over your shoulder saying you can't do it. I think you have to just bite the bullet and go for it. Make the decision. When we decided to list the company we weren't sure and you get advice from all these people and you go back and think, "Should we or shouldn't we?" You are never sorry about things you have done but you are always sorry about the things you didn't do. My philosophy is: rather do something than say, "I should have done it." When faced with a difficult decision you just have to bite the bullet and go for it. nine out of ten times it will come off.

**SIYA:** At those times when the chips are down how do you motivate yourself?

**JOHN:** Yes, sometimes it's difficult. When you are in a difficult situation it's like when you are on a treadmill and are training for something – it's a lot easier for you when you have a goal. You will be going through pain while you are running but you have to keep focused on your goal, working through the difficult period. You can break your goal into smaller, shorter-term goals – things you can actually achieve. Sometimes you might have a big mountain in front of you and if you focus on it you will never get to the top of it. If you focus on the next two or three meters then it gets easier. It goes back to the basics that you can only worry about things that you have control over and not the things that are out of your control. Eventually you will see the light at the end of the tunnel. You have to give it your best shot and hope for the best. If it wasn't meant to be then you need to accept it and move on.

**SIYA:** How has listing helped you? And looking back on the advice you got prior to the listing, what would you say to those that advised you against the listing?

**JOHN:** The business has grown and all you have to do is show them where you have taken the business. Everything has its positives and its negatives. There's corporate governance so you can't just do what you used to do as a private business as there are now various stakeholders. What has really helped though is the profile that the company has got, and work coming to the company because we are now in the public domain. People now want to do business with us because they know that we are a corporate player. So the listing has opened up a lot of opportunities for the company. Even from a supplier point of view, accessing finance – all those things are much better in a listed environment. When you are a private company it is always a struggle to grow the business but now it is also easier to access finance from the banks.

**SIYA:** What's the next milestone?

**JOHN:** Our initial goal was to move to the main board when we became a R1 billion company. That situation has changed with so many good

companies coming to the AltX, like Datapro who have a market cap of R2 billion and Esor – R1.3 to R1.4 billion. Now we are pretty close to the R6 share price which translates to about R900 million market cap and it has happened much more quickly than we thought. So we are about to move another goal post because I don't think even if we become a R1 billion market cap company we will move to the main board because the AltX market is so buoyant at the moment. Going to the main board has become a long-term strategy. We could go up to R2 billion market cap before moving onto the main board. The AltX has attracted a lot of investor interest. The latest stats showed that companies below R1 billion market cap get more trades on the AltX than on the main board. It's important that a company's shares trade a lot. It is also easier to grow on AltX as you can do transactions up to 50 percent of your market capitalisation before having to go to shareholders for permission. On the main board there are three categories of transactions where you have to have shareholder approval and that process costs a lot of money and is time consuming – putting out circulars to shareholders when you want to make decisions. In a growth phase it's easy for a company to grow on the AltX and that's a big benefit. So in our case we can buy a R300 to R400 million company without going to the shareholders to ask for permission. The next milestone still remains moving onto the main board, but I think that will be when we reach the R2 billion market cap mark.

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# Bernie Krone

CEO, ESOR LIMITED

## Company background:

**Founded:** 1976

**Activity:** Geotechnical Contractors

**Branches:** Gauteng, Kwazulu Natal,  
Cape Town, Luanda & Mauritius

**Employees:** 1 600

**Listed:** March 2006

**Turnover:** R1 billion

## Profile background:

Born in Halstead, England, Bernie Krone moved to South Africa at an early age. In 1975 he attained a BSc Civil Engineering at Wits University and then joined LTA Civil Engineering Holdings, moving to LTA Ground Engineering Ltd. In 1981 he joined Esor.

1991 – Jerry Jennings Award for contributions to the 1989 Code of Practice on Lateral Support In Surface Excavations.

2006 – Fellow of the South African Institution of Civil Engineers.

2007 – Gold Medal from the Geotechnical Division of the South African Institution of Civil Engineers.

Bernie is married to Martie and has 6 children – Andrew (35), Robert (33), Jessica (21), Benjamin (19), David (16), and Katherine (15). He is an active canoeist – still participating in the Dusi Canoe Marathon – and cyclist, having completed 14 Argus Cycle Tours. He enjoys birding, fishing, hiking and anything outdoors.



*Give me a single place to stand, and a lever,  
and I will move the Earth*

— ARCHIMEDES —

**SIYA:** Bernie, Esor has been specialising in geotechnical and civil engineering for more than 25 years. Please explain to me, in simple English, exactly what it is that you do.

**BERNIE:** We scratch the surface of the earth. We are not miners; we do foundation work and specialist contracting for the civil and building construction industry. We work just below the surface. In other words foundations to buildings, foundations to large civil engineering structures using piling or ground improvement techniques. We also construct small diameter tunnels – called pipe jacking or jack tunnelling – which is basically a non-disruptive way of crossing roads, rails and other services. New infrastructural services such as water, sewerage, electrical cables, Telkom cables, etcetera, can be installed under busy existing infrastructure without disruption. This technique is part of a broader field known as trenchless technology. We are only interested in the bigger diameters from 900mm diameter up to 3m diameter, that allow man entry.

Basically we work for just about anybody who is in the construction industry including engineers, architects, quantity surveyors, parastatals, and big corporates. If there's a building or a project out there, we can be involved. I'm not saying we're involved in everything, but we can be involved.

**SIYA:** In terms of distance, what's the longest distance you've covered with your pipes? For instance, do you have a pipe that covers the distance between Cape Town and Johannesburg?

**BERNIE:** The longest pipejacked contract we've completed was a 2,6m diameter, 2,6km long potable water tunnel called the Malvern Tunnel. The longest single drive completed, using a mechanised pipejacking system, was about 685m. Remember, you're pushing these pipes from the back so

it's a bit different to tunnelling, where you're always advancing the face and leaving the lining behind you; with pipejacking you're carrying the lining with you the whole way. Although 2,6km was the longest project we do a lot of short crossings, you know, 30m, 20m, 15m under roads, rails etc. It's bread-and-butter work all over the country.

We carry out work nationally through two branches in Gauteng and KwaZulu-Natal. Franki Africa is a subsidiary of ours and they operate from Cape Town, Durban and Johannesburg. They have a very good footprint in Africa, and operate in countries like Angola, Botswana, Mozambique, Tanzania and Zambia as well as the Indian Ocean islands including Mauritius and Seychelles.

**SIYA:** I know that the company has been around for over 25 years.  
When exactly was the company founded and when did you join?

**BERNIE:** The company was started in 1976 by Joachim Frederic Rose, that's where the name Esor comes from, it's his surname, Rose, spelled backwards. He started in 1976. He was an East German, educated in West Germany and then came out to South Africa, started what was then known as Esor Ground Engineering, specialising in pipejacking. In 1981, about five years after he started I joined in Johannesburg. I came from Ground Engineering Ltd, which is a subsidiary of LTA. I joined Esor Ground Engineering Transvaal to introduce the company to new techniques such as lateral support and ground anchors. Lateral support and ground anchors are used when deep basements are constructed in built-up areas such as city CBDs. Developers dig down vertically to get the maximum bulk out of the ground. When you go down vertically you need to support the sides of those excavations and hence the term lateral support. We use strong-backs or piling that we then anchor back and cover with a secondary skin of gunite or shocrete.

I launched the company into this technique in what was then the Transvaal. One of our first jobs was the South African Reserve Bank basement excavation construction in Pretoria, this was a huge excavation – 100 000 cubic metres and about 10 000 square metres of lateral support.

We have been pretty successful. Although we started off with nothing, we

have built ourselves up as we've gone along. Then we expanded into other techniques such as piling and we did a bit of conventional tunnelling. Joe Rose surrounded himself with good, competent people and ended up with the six of us and him as the headman. Unfortunately and very tragically in 1990 he was killed in a payroll heist in our Durban offices, which left just the six of us. We had a buy and sell agreement in place and we took over his share and became equal partners. In fact, that was the turning point in our, and the company's fortunes. We became six guys with equal shareholding working towards a common goal. That was the real start of Esor as a force in the market.

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**SIYA:** How many of the original partners are still with the company now?

**BERNIE:** Of those original six, Jan Jefferiss retired, Hollings Norton, my partner in Johannesburg, moved to Australia, leaving the four of us. We always had a unique policy – we never had a Managing Director, only Branch Managers, so when it ended up just being the four of us we referred to ourselves as The Four Musketeers – it was one for all and all for one. We never had a Managing Director, we never had a CEO. I ran the branch in Jo'burg and the other three directors were stationed in Durban. Mauro Trevisani was our financial director, Mike Barber the Durban Branch Manager and Arthur Field our Durban Operations Manager. Our financial headquarters were in Durban. We'd get together every month or two for management meetings and get into and out of trouble by ourselves. Anyway that's how the Four Musketeers came into existence.

**SIYA:** What would you say were the key secrets to the success of your company over these years?

**BERNIE:** Doing the work ourselves. That doesn't mean we picked up the shovels and moved the muck ourselves, but we were intimately involved in the tendering, the management and the actual running of the contracts. Our experience was not from a distance, we weren't just managers telling other people what to do, we actually did it ourselves. In terms of knowing how to tender, what sort of outputs you could use, the amount of people and resources you needed, we had first-hand experience because we ran the contracts ourselves. Although we were directors and owners of the company on an equal basis, we were also contract managers. We were in there, wearing many caps on one head. We did the finances ourselves, the tendering ourselves, the certification or measuring ourselves, making sure we got paid, industrial relations, human resources, strategic planning, succession planning – all of these things we did ourselves. And, importantly, there were no individual empires built up within the structure of the company.

**SIYA:** I can imagine that some of the required skills in these other areas were beyond your core competencies. How did you deal with that?

If you just knuckle down and do the actual work a hell of a lot of things end up being common sense. You know what's right. We've also always been fair. What's right, what's the fair thing to do? It's not just a question of taking everything for yourself, it's a question of trying to empower people.

**BERNIE :** Well, there were quite a lot of hard lessons learnt but let me tell you, hard work normally solves most of the problems in life. If you just knuckle down and do the actual work a hell of a lot of things end up being common sense. You know what's right. We've also always been fair. What's right, what's the fair thing to do? It's not just a question of taking everything for yourself, it's a question of trying to empower people. And I'm not talking about Black Economic Empowerment, I'm talking about empowering people generally. Dragging people with you, giving people that are working below you responsibilities, learning lessons sometimes the hard way. People in the

construction industry have got big balls, you get them by taking a few chances every now and then. You know what they say: "Carpe diem! Seize the day!"

Forrest Gump said you've got a better chance of winning the lottery if you buy a ticket. You must be in the game. If you haven't put your money in, you can't play the game. So, it was a case of making sure we were always around, even if we went through some bad times, making sure we would always be there when the good times came as well.

**SIYA:** Talking of the bad times, what would you say were the major setbacks, that you can recall, that you faced during this period?

**BERNIE:** We undertook a contract drilling for water in the Democratic Republic of Congo, that was almost a bridge too far for us. It's quite difficult dealing with people whose intention is not to pay you or trying to get out of paying you the whole time. That was a bad time for us, but we made a bit of money at the end of the day. It was a very nerve-racking time for us.

We also took on a very big pipejacking contract, the Malvern Tunnel I was talking about earlier. We ended up selecting the wrong machine for the contract – we got sucked into buying some German technology when we should have actually just done it the African way. That was also a bad period for us – we were financially stretched.

There was depression in the construction industry, after 1995, with the emphasis on RDP work. There wasn't a lot of big infrastructural work going on. But we still kept busy because all the services that were being put into the old townships had to cross roads and other services, so we in turn did a lot of infrastructural work in terms of pipejacking. In fact, during those periods, we did some of our largest pipejacking contracts putting in new outfall sewers and water supplies for Rand Water. Rand Water had big Capex expenditure in providing water to the north of Jo'burg and into Pretoria and other areas.

A challenge is trying to find the right people to work with you who are willing to learn, and when you've finished teaching them everything you know, they go off and start their own company.

**SIYA:** I remember reading somewhere someone saying, 'A setback is a setup for a comeback', would you agree with that?

**BERNIE:** I would agree with that because we've survived setbacks. I think with the Malvern Tunnel we were a few days from the bank pulling the plug on our overdraft when we actually got a claim settlement paid. We were in mediation with Rand Water, and they paid R10 million into our account against our claim, just three days before the bank was about to pull our overdraft. Maybe you can say that is luck, but we also made our own luck by sticking to the nitty-gritty. We carried on with the job, we stayed well in with our client. We tackled the problem together, we had the mediation, and we agreed to accept the outcome thereof. Potentially that could have been a huge setback but it ended up being positive at the end of the day.

I think that when you start a business or when you get involved in a small business, you have to define where you are and you have to reinvent yourself a few times. When you first start off, any excess expenditure is bad. You've got to continuously keep pruning the tree. You can't afford any luxuries, you have to run it lean, close to the bone and not be a fat cat. You've got to practise what you preach: if you're preaching economics to your staff, practise it yourself. But, as you go along, as you get bigger, certain things that were absolute

no-no's at that point in time, certain things that were considered luxuries at the beginning become absolute necessities later on. As you get bigger you need a few more people floating around, to soak up pressure where it exists. As you get bigger, your duties and the whole way you operate change. You can't be at the coal-face as much as you used to be so you've got to stand back and let somebody else do the work. Some people can't cope with that. You actually have to say, "It's not my job anymore to be at the coal-face. I now have a different perspective. I'm now more into strategy, overall planning, making sure that things

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move as a harmonious entity." I think it's important to recognise yourself and where you are in the evolutionary process of the company and how it operates.

**SIYA:** Now you've just brought me to a question about goal setting. How important is it?

**BERNIE:** A lot of goals end up being set for you by third parties. I was six years old when I said "I want to be a construction engineer." At that point in time I was living in the UK. My dad worked in a foundry; he was a labourer, and my mom was a housewife at home. So if I had stayed in the UK, the chances of my even going to university would have been very remote. I come from a basic working class family. But coming out to South Africa in those days I'd say was very good for me. I got a chance to go to university and I fulfilled that particular goal. There were a lot of other things that were circumstantial – my father ended up working for Frankipile as a piling foreman and I used to work with him during holidays. In fact as a result of failing two subjects in third year that I had to repeat, I ended up working for Frankipile for a whole year. That set me on this course – I was going to become a geotechnical contractor, but at the time I didn't think of that. When I finished at University I went to work for the estimating department of LTA Earthworks. I hated it! Then six months later a job came up at Ground Engineering , another division of LTA, and I moved there – that was the start of my career. So, a lot of goals can be circumstantial. I wasn't one of those people that had my whole life mapped out for me although I did say I wanted to be a construction engineer when I was six years old!

Ten years ago listing was never on the cards. But the country has evolved and we evolved with it. If you want to operate in South Africa you must have BEE - it's like paying tax, you've got to be VAT registered - you must be BEE compliant. That led us to say, "Okay let's try to sell part of the company, get in a BEE partner at the same time and also realise some wealth." We then projected forward. In this process we found out that it was more difficult to do a broad based BEE deal than we'd anticipated, and as a last resort all roads seemed to lead towards a listing. Again, it was circumstantial that the timing was absolutely perfect. We slotted in at exactly the right time. The estate agents say it's all about 'location, location, location'; with listing it's 'timing, timing, timing'. We hit the market at

exactly the right time. When we listed it was new territory for us with everyone talking about mergers and acquisitions. We said, "No – organic growth only!", because there was a lot happening at the time. No sooner had we said this than the Franki deal came across our table. We said, "No, they're too big for us, they're three times our size, we can't do this", but they were for sale. Investec were keen to divest as were the non-executive management. We knew most of the Franki management and Franki had been our strategic partner of choice with whom we've done a lot of joint ventures in the past. And suddenly it comes across our table for sale! So now having said organic growth only, we've suddenly got this whale on our plate that we can eat if we want to. Well, we managed to pull it off and it's working well. The guys at Franki are very happy and although the companies are separate we consider it a merger. We're merging our technology, our experience, our expertise, our know-how, our management skills, lessons from the past, strategies going into the future, we're doing it with a commonality.

All these events have been circumstantial and influenced by third parties. What's happening in South Africa at present is also setting our goals for us. I happen to be one of those hugely positive people. As South Africans we tend to think in five year tranches. Life goes on for five years fairly smoothly and then there's this great precipice because of an election or something similar and everyone is going to fall off the cliff, but we somehow manage

Currently everybody is talking 2010 and what happens afterwards. Why is it going to stop at 2010? 2010, although significant, is just another date on the calendar! It's a bonus which again is circumstantial.

to get across the abyss and then there's another five years and the same thing happens all over again. Currently everybody is talking 2010 and what happens afterwards. Why is it going to stop at 2010? 2010, although significant, is just another date on the calendar! It's a bonus which again is circumstantial. South Africa got it from FIFA – that's great; the supporters are going to spend a lot of money here, everyone will benefit, and I have no doubt it's going to be a tremendous success, but after 2010 we'll still all be around and life will go on.

**SIYA:** Something you touched on earlier – delegation - is one of the biggest challenges that entrepreneurs face. I think it starts with recruiting the right people. How important would you say the recruitment process is, and the art of delegation itself?

**BERNIE:** In the past we've had a very flat management structure, directors, a couple of contract managers and foremen. We haven't had a huge corporate structure. Obviously as we've become bigger we've needed more people but we've never really advertised for staff. People have basically come to us and said, "Can we work for you?" We've had to say no to a lot of people, but every now and then somebody comes around at the right time that's worth employing. The problem is that sometimes we've given them such good training that they become good enough to go off and become our opposition! Most companies have had that sort of thing happen from time to time.

Last year when we realised this boom was coming, we cut our cloth accordingly to take into account the need for new, young, well-educated people. We tried to tie this in with Black Economic Empowerment as far as possible. I've now got three very good young black engineers who work for me in the Jo'burg office, as well as a couple of young white guys. The emphasis is on youth. What we try to do is use every opportunity as a mentoring exercise. We use site meetings and our fortnightly works meetings as mini-training seminars. We involve as many of these young people as possible and try to fast-track their sharing of knowledge. It's been very successful so far and morale in the company is very high. It's about not trying to keep everything to yourself, it's about not worrying if the next guy is going to steal your job – he must, if he's good enough he must take over, that's what we want, that's what we need! I'm 54 years old at the moment, I regard myself as still young, and I've got another ten more years to go. Even after that, you can still make it as a consultant, but the idea is you've got to impart this knowledge and that's what we're trying to do at the moment. We're trying to impart that entrepreneurial spirit as well. We want the youngsters to take a few chances, to try something new. If we've been doing it like this for 20 years, it's time to come up with something new.

The other issue is safety. You cannot be safe enough but the whole safety

issue has taken over from getting the job done. Safety is pretty much about common sense. If you've got a whole lot of people that are committed to working safely, they will regard a lot of the paperwork as being superfluous. If you write down on a piece of paper that somebody's got to be safe, it doesn't necessarily mean that they're going to be safe, it's got to be a buy-in situation. Safety is an issue that takes up quite a lot of people's time.

Then we have BEE. It's not that nobody is willing to get involved and promote people who have been previously disadvantaged, it's the paperwork that goes with it. Everybody wants a form filled out and the people who have to do it are those that are busy enough as it is. We've given 7.7 percent of the company to all the staff at Esor in a broad-based share trust, and funny enough at the AltX showcases I go to I don't hear people talking about this aspect that much, they all mention their BEE credentials, but it's always outside parties. We've also got outside parties but the share trust is very important to us, so as long as you're employed by Esor, you participate in dividend flow. We have about 26.5 percent of the company allocated to BEE and of that 7.7 percent is allocated to our staff. Call it sweat equity if you like.

**SIYA:** I'm sure something like that would instill a sense of ownership in staff.

**BERNIE:** Absolutely. As I said, morale in our company at the moment is very high. It's difficult to explain this concept to people who are quite simple in their outlook. I find it difficult to understand myself sometimes and I have a degree, albeit not in finance. So, to explain it to old Piet van der Merwe, Joe Green or to Sipho Mahlangu at the coal-face is sometimes very difficult. One has to take a bit more of a simplistic angle when explaining it to people who are less sophisticated. I'm actually quite good at that!

**SIYA:** How important would you say passion is in making a success of one's life?

**BERNIE:** People come to me and ask me questions about our company. Well, what do you want to know? I don't want to structure things too much or to have to write an essay. If you want to talk to me, take notes. I'll tell you about pipe-jacking, large- and small-bore diameters, piling, working in

bad ground conditions, jacking up freeways, jacking through freeways, marine works, working under water – it's passion. Passion is there at all levels. It comes from the directors themselves, it goes down to our contract managers, foremen and even our workers. We don't have people who don't want to work. Everyone wants to tackle new work, they want to succeed at new things.

We've never had a real strike. I think we had a strike for three hours one day because of intimidation – we were working on a main contractor's site. I run the Union meetings in our Jo'burg offices personally, so there's no having to go back and caucus, we just say this is my problem or what is your problem, right there. There's no caucusing, we sort out problems within the meeting right there and then. And if there are things that we're not happy about, with regard to the workers, we sort it out. We're involved in every aspect of the company, we're passionate about it – absolutely! That's important, there's no doubt about it. You should hear Noah Greenhill – he's passionate about the AltX!

**SIYA:** What would you say are some of the most empowering beliefs that you hold about life and business in general?

**BERNIE:** You've got to take people with you. There are people who are born to be leaders and there are people who are born to follow and the leaders cannot do it without the followers. Leadership comes with responsibility, the responsibility to recognise the people who are behind you. Without good followers Napoleon could not have conquered Europe and Hannibal could not have crossed the Alps. You can't be a good leader without good followers, I think you have to understand that and say, "It's my duty to be the leader, I'll accept that responsibility", but with the understanding that it's those people behind you that are empowering you to be their leader.

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It's important not to get big-headed about these things. I mean, I'm CEO of Esor, which includes Franki, but you have to understand that it's a whole team. The guys elected me to be CEO, maybe because I'm a good talker or because I've got a gregarious personality, and I recognise that, but everyone else still has an equally important job.

**SIYA:** Just looking around at the whole climate of business in South Africa, young people feel that there are no jobs. We've all seen people toyi-toying for jobs. On the flip side you've got a guy who says, "I can see opportunities in this country and I think I can start a business and do something". Hypothetically, if you went to sleep in the 1980s and you woke up in 2007 with nothing, do you think you could make money? Would you be able to start with nothing?

**BERNIE:** Absolutely! Opportunities now are much better than they were before. I think though that there's a perception that there's an easy road to riches or to success - there isn't, only hard work gets you there. Hard work and good ideas. You may see an opening, or see a gap, but at the end of the day it all comes back to hard work. There's nobody out there who owes anybody a living – it's not natural. Nature says that you have to go out and fight for it. It's the survival of the fittest. When Mufasa, Simba's father in *The Lion King* goes around with his pride, he looks after his pride but it's a lot of hard work. The alpha ram in a springbok herd has all the ewes but it's hard work, there are a lot of perks that come with being the alpha male, also a lot of stress. So there's no easy way to do it.

We take on a lot of young people. A good way of recruiting for us is through students who can't get experiential training. We employ at least one at every

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one of our sites and the good guys shine, the bad guys – well, as soon as they're done with their period of experiential training they can go. The ones who shine are the ones we employ – that's cross-gender, cross-colour, cross-religion – if you're good, you will shine. My mother used to say to me, "Good manners and hard work are always in fashion."

**SIYA:** It's true, regardless of who you are.

**BERNIE:** It doesn't matter who you are, you must be polite, you must have a certain decorum about you, give everybody the benefit of the doubt at least once, and work hard – you don't get anywhere without hard work.

I started from a very humble background, have managed to make a reasonable success of my life and have given my kids a good education. This was all achieved through hard work. I think my children see me as a role-model but at the end of the day they will have to find their own way through life.

**SIYA:** Is it because you believe that they have everything they need to get what they want out of life?

**BERNIE:** My kids have started off on a high level, in terms of education – now it's down to them and hard work. They are no different to the rest of the youth of South Africa.

**SIYA:** Some people, I think you'll agree with me, think that somebody else somewhere out there owes them something.

**BERNIE:** Yes, which is wrong. You've got to do it though hard work. This country has got a lot to be sorry about but it can't be a millstone that's going to drag the country down forever. It's like the Boer War. When I was still at school in this country in the early sixties, the guys were still fighting the Anglo-Boer War, but I think we've finally put that to bed. I think going into the future, there's a few other things that we need to put to bed. I would say, there are some things that the government has done which are wrong. For a start, as a capitalist, I believe that people should have the right to work and not the right to strike. Anybody that says he can and wants to do a job should be given a chance to do it but if he's no good he must go. The way they work in America - it keeps everybody on their toes. It's just a personal thing but that's how I think it should be because, anybody who can, should be able to employ as many people as possible. I think a lot of the things that the government has done have destroyed jobs. They've made it very difficult to ever terminate somebody's employment once they've been taken on. It doesn't happen like that in the informal sector. If you're one of

those piece-job type plastering contractors that starts working and there's a guy who's shirking – he's out of there!

**SIYA:** So you believe that there are a lot of things that the government can do to improve the business climate of the country?

**BERNIE:** Yes, but at the moment the business climate is good. I think government has got it wrong in trying to control the economy too much – there's just too much interference. They should let it go. This country is set to take off!

Imagine in 1948, if the Nationalists had said, "We're going to educate everybody properly", as opposed to saying, "We're going to embark on the road of Apartheid" – imagine how different South Africa would be today.

But, we've got to give credit where it's due – to our tax department – SARS. Collecting the money, getting more money every year, it's fantastic. Macroeconomics, Tito Mboweni running the Reserve Bank – it's also fantastic. I just think the unions and the communist party have to realise that communism is dead throughout the world!

**SIYA:** Your industry is quite technical, how much value do you place on experience?

**BERNIE:** Well, you don't pick these people off the street. They either come from another company willingly or you poach from your opposition. If you poach from the opposition, they poach from you which becomes a vicious circle, therefore we don't do it. Experience is important but as I said earlier we have cut our cloth already and we are fast-tracking our younger guys.

**SIYA:** I want to ask you about BEE, does it make business sense in your view?

**BERNIE:** Of course, but I feel that it's a little too much, too soon. I think that within the next generation it's all going to come out anyway – previously disadvantaged people will come into the main stream of business. At the moment it's very difficult to promote somebody internally

who doesn't have the skill to become a manager because of the past. We've promoted a lot of people who were section-leaders and charge-hands to foreman level and a lot of them are very good. But because of limited education there's a ceiling. If you promote the guy too far, it's not fair on him and it's not fair on you. He's now getting into a situation where he can't quite cut it. That level of manager is still coming through the system. But as I said, we've got a few fantastic guys.

I think BEE so far has just made rich people richer. We tried to do a broad-based BEE deal with a grouping of capitalists, socialists and our staff, in terms of share trusts, but we couldn't do it because nobody was prepared to put in equity. They had to borrow the money which would have ended up as 'Broad-Based Black Debt Entrapment', you're actually trapping and locking people in for say ten years before it becomes viable, and then it must have an upside. The financial institutions want to take the upside but they want to cap the downside – so you can't win!

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**SIYA:** I like the point you just made because it's something that I've noticed with my own business. When you're looking for finance for a start-up, it is so hard to get it. These institutions, I get the sense that they are so used to funding deals, not businesses. Do you think that might stifle the start-up endeavours because institutions just want to fund ready-made deals?

**BERNIE:** That's right, if they get a customer, they get money out of it – you mustn't think these guys are philanthropists just giving their money away. I'll give you an example of my idea of empowerment: I own this company that's worth R100 million and I want to give 25 percent of it to black

homeless street kids. I'll need a BEE score because government tell me I need a BEE score; I'm going to give them 25 percent and I'm very confident that I'm going to list my company at R1 and in a year's time it will be R2. I want those guys to be able to sell it, no restrictions, and whatever they can get for it in one year's time – I want the points. You give the guys R25 million, you lend them the money, they sell it and in a year's time they get R50 million, they pay your R25 million back and they get R25 million. If there are a thousand of them they get R25 000 each – that's empowerment! That is really helping people, and government must help you to make it happen! I'm too positive to even think there could be a downside.

**SIYA:** Now let's talk about AltX. I know earlier you did say it helped you from a BEE angle, but what else would you say was positive for you, after listing on AltX? Tell me also about your perceptions of AltX before you actually listed.

**BERNIE:** I must say we ran very hot and cold about listing. Out of the four partners, there were two of us who wanted to do it and two sitting on the fence. I went down to Durban and had a meeting with the other three where we all said what we needed to say about listing. It was not a last resort but this meeting was crucial to our decision. All things pointed to a listing as being the way forward provided we were all equally happy about the decision.

I wrote down some of the benefits of listing:

- It could be an exit mechanism; nobody's going to be in business for 30 to 40 years, and then leave without getting anything out of it; that doesn't sound like good sense.
- The death of a major shareholder could be crippling to a business the bigger you get – you've got to pay out the estate their share. A listing would solve this problem.
- Staggered retirement of shareholders becomes easier in a listed environment for the same reasons.
- It makes it easier if you're a listed entity to raise cash if required.
- We could do our BEE in smaller parcels or stagger it to give us a bit more flexibility.
- Staff participation is easier.

- Succession planning – we can offer incentives in terms of share options to attract better staff.
- Raising capital - the thing about the listing is that there would be no debt in the company.

We listed in March 2006 and if we had sold then when we listed, we would have sold to somebody else who would get the benefit of the growth and the value-add that's happening in South Africa. Why should we work for 30 years and then give it to somebody else? We'd rather have the benefit of growth in the business ourselves!

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We also said that Esor, like South Africa, is unique. We analysed ourselves in terms of our competitors and we were the only company of our size that didn't have a big brother or an external company that was somehow looking out for us. And as I said, we didn't need to clean up our act, our act was already clean.

These were some of the things we looked at as being beneficial to a listing. As far as the actual listing mechanism was concerned I've never run so hot and cold on anything in my life before. Listing was something that I didn't fully understand but we had good advisors and the company has always been very well run financially by our Financial Director who is a CA. His life has probably changed the most in terms of the amount of work he has to do - requirements from auditors and having to present things to the JSE. Of course my life has changed as well because I'm the CEO and I'm the spokesperson for the company, but we're getting into it more and more – we understand it more. I think it has certainly raised our profile, our timing was good, and it has been successful.

One of the things that I believe we did right was to leave some meat on the bone which made it more attractive to prospective investors. We raised R20 million through a private placement of 20 million shares that were 60 times over subscribed so we made 30 million of our own shares available. People say, "Your shares are selling at R5, aren't you sorry that you sold 30 million of

Engineers have got a simplistic way of looking at things and getting things done!

your shares at R1 on the private placement?" And I say, "But, that's why our shares are now at R5, because we made it liquid, we put more shares out there to trade in. We left some meat on the bone, we had a good business plan, we did this acquisition with everything

we've done so far has been right. I think David Shapiro says, it's actually nice when engineers are involved in things. Engineers have got a simplistic way of looking at things and getting things done!

From a corporate side, at the moment we've got very good non-executives who are very keen on making sure that we get the corporate governance right. We have a good audit committee, some older guys involved – we have David Thomson as our non-executive chairman. Franklin Sonn is involved, but he doesn't really come to the meetings, he's got an alternate – Johan van Reenen, who really understands our business, he's really good at the corporate governance side as well. So, we are well-run, well-managed and we have very good designated advisors in Exchange Sponsors, which is a requirement of AltX. We've tried to go out of our way to satisfy our investors as well as any analysts – we have an open-door policy where people can contact us at any time to ask us questions.

So far we've had a very good run in the press as well, I think we've pretty much been flavour-of-the-day. It's easy to do things when everybody likes you and things are going well. As Gary Player says, "The more I practise, the luckier I get".

**SIYA:** As you said, one creates one's own luck.

**BERNIE:** Well this is it, if you work hard things tend to fall into place. It's like preparation – if they ask you to give a speech at someone's wedding about the bride or groom, if you haven't prepared for it it's not going to be good!

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