

Retail sector faces a two level BBBEE downgrade

The retail industry faces the possibility of a two level downgrade when the new Broad Based Black Economic Empowerment (BBBEE) codes of good practice are let loose next year. The average industry slip is from Level Five BBBEE status to a Level Seven.

This is according to the latest KPMG BBBEE survey whose results were released last month (July). When the new codes are applied onto the KPMG sample of the retail industry, the industry suffered a two level downgrade to rest at the Level Seven BBBEE status. The new codes are set to be effective in March 2015.

This is after the department of trade and industry (DTI) completed the amendment of the 2007 BBBEE scorecard in October last year. Then the DTI postponed the effective date to May 2015.

The retail industry is not alone in this BBBEE predicament. Keith Levenstein, CEO of a BEE advisory firm EconoBEE, points out that nine industry sectors, representing more than half the economy, are at risk of becoming non BBBEE compliant when evaluated against the amended BBBEE codes. The sectors affected are construction, tourism, transport, forestry, accounting profession, ICT, agriculture, financial and property.

Most of the best performers are concentrated around Level Four. These companies would have achieved a score of between 65% and 74% and include names like AVI, Foschini, Woolworths, Massmart Nestlé, Pioneer Foods, and Lewis Group. From Level Five upwards rest companies like Ellerine Furnishers (5), Pick n' Pay (6), Mr Price (6), Clover(6) and Unilever (7).

The KPMG data shows that the retail sector obtained the highest points on Socio-Economic Development, achieving 80% of the target, under both the current and the Revised Codes. The KPMG data also shows the retail sector achieving 65% against target on Preferential Procurement under the old codes. The firm added that 40% was achieved for Management control and 60% for Employment Equity of the target under the Current Codes, a consolidation of the two elements shows a target of 68% being achieved against the Revised Codes.

Levenstein warns that "Businesses could be caught with a number of suppliers having lost their BEE rating, resulting in a domino effect of downgraded BEE ratings across all the industry sectors." "It makes business sense to start implementing the new codes well in advance of the expiry date of your current BEE certificate, at least 12 to 18 months before," said Levenstein.

He added that a company's BBBEE scorecard is usually aligned to their financial year end and the certificate is valid for 12 months. Businesses with a BBBEE scorecard expiring after 1 May 2015 will have their BEE certificate assessed on the amended codes, based on the data and activities carried out in the year prior to verification.

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