

# The impact sweet spot

**What is the number one political, social and ethical crisis in this country? Fifty percent of our youth are unemployed – a crisis compared to 10%-25% in all other comparable emerging economies. Our youth are and will remain jobless because there are no jobs and there is no hope of that changing right now.**

**Y**outh entrepreneurship is necessary but woefully insufficient. We need jobs – millions of them! Unemployment – and youth unemployment in particular – is our number one crisis. This is our ticking time bomb; this is what makes us think twice about raising our kids in South Africa.

Allow me to share a story of hope that hints at a trick we're missing that could substantially solve this problem.

Opti-Baby is a private education group which provides premium early childhood development (ECD) (think: private school quality crèches) through its network of ECD centres. The ECD centres employ female matriculants and provide them with training to be well-trained caregivers who are highly employable as au pairs skilled and experienced in ECD after a one-year period. Teenagers who would otherwise have a slim opportunity for employment now receive training, jobs and become employable (as local or international au pairs).

From 2003 to 2008 Opti-Baby had expanded to

seven centres around Gauteng, with expansion ceasing due to lack of capital. In 2011 Vumela partnered to unlock the capital constraint as well as providing business development support to enable Opti-Baby to bolster management structures and build scaling capability.

The past three years since the partnership have seen the company experience serious growth strain, burning through R20,3-million of cash, management burnouts and more. (Symptoms typical of high growth companies.)

Today, Opti-Baby is cash positive, has created 150 jobs and is currently the largest privately-owned ECD network with 11 centres around Gauteng. They are well positioned to scale to 25-30 centres in the next three to five years while potentially creating another 300 to 500 jobs (70% female matriculants).

With this story in mind, what is the quickest way to make meaningful progress in our job creation mission? Invest more time, money and skills in helping Gazelles (high growth, high potential ventures) grow. We need to replicate the Opti-

Baby story tens of thousands of times over. We need to find the businesses that can grow the fastest and help them do so (capital plus help), and to survive it (lots more technical business building help).

You see, governments do not create jobs. Big business as a category does not create jobs. Small businesses create jobs. But not all small businesses. Specifically, 2% to 5% of all small businesses create almost all real new jobs (not merely shifting from Peter to Paul, as most job creation schemes do, but truly creating an extra job in the economy). Those tiny categories of small businesses that create real new jobs are called Gazelles: established SMEs with revenue usually between R10m and R500m, which typically grow at 20%-50% per year for at least three to five years. Most of them are run by strong entrepreneurs or teams with significant market, industry and management experience. These Gazelles are the engine of job creation in this nation.



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Counterintuitively, Gazelles need even more help than start-ups. Despite having relatively talented teams, the failure rate among these Gazelles is as high as the failure rate in start-ups. Of companies that survive the first three years, as many will fail in the next three years as the percentage that failed in the first three years. Growth is deadly. The reason is that scaling a business is one of the toughest challenges in business leadership. In my personal experience, it is at least twice as difficult as successfully starting a company. The complexity, compounded multifaceted risk, resource constraints, skills gaps and stakes are much greater than in the start-up stage. And unlike for start-ups, there are no schools or academies, few books and little help to equip entrepreneurs for the daunting and treacherous journey.

The tragedy of Gazelles is the paradox that, on the one hand, supporting Gazelles undoubtedly delivers the highest job creation results of all enterprise development and is our only hope of solving the youth unemployment crisis but, on the other hand, it is politically undervalued, often less sexy than business plan competitions, start-up programmes etc. and receives far less than its share of policy, programme and practical attention. That’s because it just seems too

elitist, too disconnected from the noble cause of uplifting the poor. What a tragic misconception!

True, Gazelles arrive with revenue in the R10-million to R500-million range and seem well established. But they need no less help to survive and unlock growth than start-ups.

Growth firms guzzle cash and energy and strong revenue growth and a big team usually only aggravates the cash and resource constraints (read: death traps).

If we truly have developmental intent, we should ask the question: “Does this critical key to our job creation mission deserve more resources and attention?”

The answer is a deafening “yes”. Sadly, that yes is largely ignored today. But we can and must change that. The quickest way to make more progress creating jobs is to focus more of our enterprise and supplier development programmes on helping Gazelles grow. ■

By Jason Goldberg, .....



# THINK BIGGER WITH ENDEAVOR

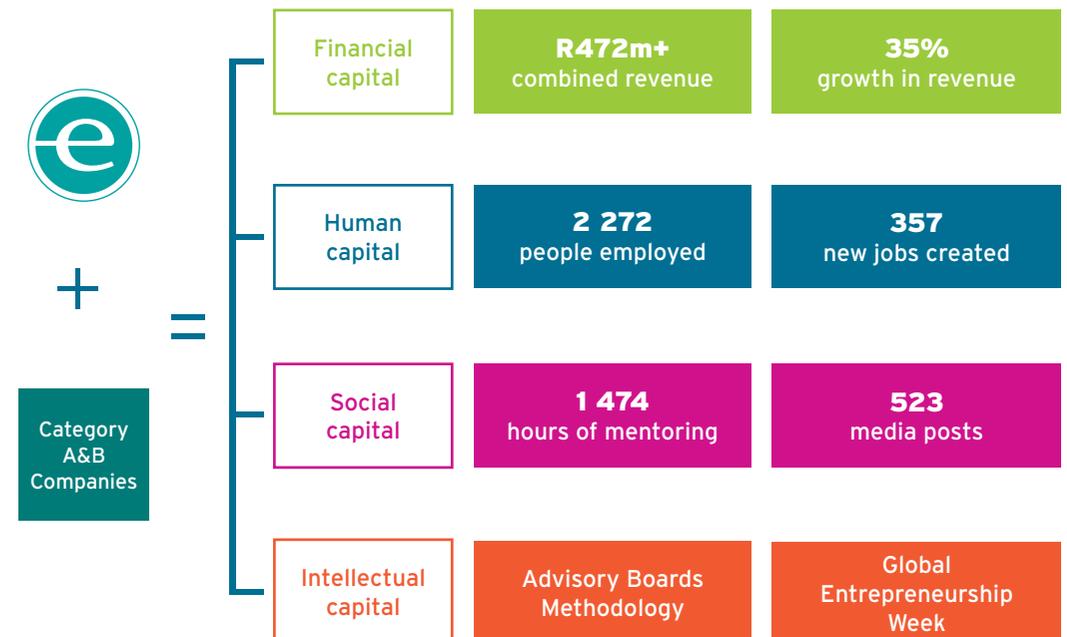
Endeavor South Africa has replicated the success achieved globally with the Endeavor model and has additionally developed a unique Excelerator programme, which is aimed at black-owned businesses. The programme applies Endeavor’s global best practices to earlier-stage businesses that have the potential to become high-growth companies within a defined timeframe. We believe that developing high-impact entrepreneurs is the best way to promote an economy that is sustainable and creates jobs.

Endeavor South Africa currently supports a portfolio of Category A and B beneficiaries, which are companies with a 25%, or more, black shareholding. They are growing faster than their peers, employing more people and making a greater contribution to the economy.

“Sustainable economies are dependent on high-impact entrepreneurship. What Endeavor does better than any other organisation is to create entire cultures of high-impact entrepreneurship...”

Reid Hoffman, LinkedIn Co-Founder and Executive Chairman

## THE ENDEAVOR EFFECT IN 2013



The statistics are only for category A & B companies in 2013. Total Endeavor portfolio values can be obtained on enquiry.

To find out more about our Enterprise Development offering please contact us on t: +27 (11) 463-0992 e: ed@endeavor.co.za | www.endeavor.co.za

