ENTREPRENEURS

High-profile backup

Successful entrepreneurs **offer a helping hand** to start-up firms

Yeigo's Lungisa Matshoba, Wilter du Toit and Rapelang Rabana Getting the nod

A Silicon Valley venture capitalist, the chairman of US fast-food chain Burger King, the CEOs of Discovery, Amalgamated Appliances and Taste Holdings, and a local venture capitalist have been locked in debate for the past 40 minutes.

They are discussing whether the company formed by Rapelang Rabana, Lungisa Matshoba and Wilter du Toit should be accepted into the Endeavor programme for entrepreneurial development. To be accepted, a unanimous decision is required and at this point — the final panel discussion follows 60-minute interviews by three different selection panels — unanimity seems far off.

What value can Endeavor bring to the entrepreneurs? Will their technology succeed? Is their strategy the right one? Can their passion be steered? These are among the many questions being asked.

The trio concerned — former UCT computer science students who formed Yeigo in 2006, fresh out of university — has developed a voice over Internet Protocol (VoIP) application for cellphones.

This is the technology of the future because VoIP calls are cheaper than calls on fixed or mobile phones, explains Silicon Valley venture capitalist John Hamm. He should know. He sits on the board of Sylantro Systems, which supplies software platforms to telecom operators.

WHAT IT MEANS
- **Corporate support for entrepreneurs needed**
- **International network opens doors**

The panellists agree that Yeigo has a first-mover advantage in SA and an early-mover advantage globally. But the model has not been tested, and the young company has only one customer — Vox Telecom. Going global at this point in the company's life cycle entails significant risk. And so the debate is waged.

Ultimately the passion and drive of the entrepreneurs proves too compelling. "Why do entrepreneurs quit?" asks Hamm. "Not because they fail, but because no-one supports them. These guys are going places."

Discovery CEO Adrian Gore agrees: "This is a great team, I'd back them." And so slowly, gradually, consensus is achieved.

"Though entrepreneurs arrive at different stages, with different opportunities and needs, our experience has shown that they can be grouped into profile types, each with specific risks and rewards," says Endeavor cofounder Linda Rottenberg. "If we wanted a guaranteed business model with pliable entrepreneurs, we wouldn't select anyone."

There are two other panels made up of similarly high-profile business leaders: the likes of David Frankel, RMB director; Joanna Rees, founder and MD of VSP Capital; and Craig Lyons, co-founder of Mvelaphanda Investments.

Together the three panels have evaluated 12 SA companies (whittled down from 100 candidates), as well as three international candidates put forward by Endeavor subsidiaries in Egypt, Brazil and Chile.

They selected nine companies to join the Endeavor programme. SA companies, other than Yeigo, are:

- ❑ EDH, which designs 3D radar tracking systems for the military and sports industries — in particular tennis and golf;
- ❑ Trainiac, which develops picture-based learning solutions;
- ❑ i5, a software company that enhances Microsoft customer relationship management products;
- ❑ UniNet, the company that built wireless communication networks for the Cape Town and Knysna municipalities; and
- ❑ @Source, which supplies new types of dried fruit products to the SA market.

Endeavor was founded 10 years ago by Rottenberg and other like-minded entrepreneurial evangelists. "We believed there was a need for an organisation focused on the underserved job creators and innovators in emerging markets," she says. "They are the ones caught in the gap between microfinance assistance and private equity finance that is targeted at established companies."

A nonprofit organisation, Endeavor targets high-impact entrepreneurs, the ones that have big ideas and ambitious plans and earn between R3m and R300m in revenue or have raised some capital. Once selected, the entrepreneurs are provided with coaching and mentoring services, and strategic support and input from MBA students studying at institutions like Harvard and Stanford.

"These are people whose fees would usually run up to R150 000/month," says Endeavor SA MD Greg Durst. "All the entrepreneurs pay for is their transport."

Endeavor will also assist companies to raise capital, taking them on roadshows to meet venture capitalists, but that is not always the most pressing priority. "People think that access to finance and coping with red tape are the biggest problems facing entrepreneurs," says Rottenberg. "They're not — even in SA there are angel investors and some VC investors. It's about strategic, emotional and moral support. "

"Entrepreneurs are by their nature full of beans, lively, arrogant and sometimes naively optimistic — those are virtues," says Gore, who is chairman of the Endeavor board of directors in SA. "Our job is to add value, drawing on the experience and contacts within the network."

The ability of the network to open doors for entrepreneurs is one of its great strengths. Take Henri Johnson, a six-sigma engineer and the CEO of EDH. He has made huge inroads into the international market — the PGA Golf Tour Superstores and the ATP tennis tour in the US are customers — but he still has some way to go. "Golf in the US is dominated by 20 individuals," says Hamm. "Henri knows three and I can introduce him to 10 more."

Operating in SA since 2004, Endeavor has 19 companies on board, apart from the new recruits.

Sasha Planting

It hurts too much

The sharp rise in medical aid tariffs shows no sign of slowing next year. Mostly to blame, say industry leaders, are surging medical costs at private hospitals.

Since 2000, tariffs for the medically insured — an estimated 7,1m people at present — have risen 90% to R8 200/person a year (when the effect of the newly established Government Employees Pension Fund is stripped out). The annual increases have been in double digits, with the low-cost options of most schemes showing higher rises.

"Some members won't be able to keep up with rising premiums and will drop out," says Humphrey Zokufa, MD of the Board of Healthcare Funders, the umbrella organisation for the medical aid industry. It's one reason why schemes are losing members, says Zokufa, ascribing the trend to two main cost drivers: hospital and specialist fees.

In 2006, members paid R51,3bn or 12,4% more in medical benefits. This year the increases were up by about 10% with a further 10%-15% increase expected in 2008.

Discovery and Bonitas members with low-cost options experienced a 14% rise in premiums this year; next year doesn't look much better. Spectramed members have been warned that they will pay an additional 11,5% across the board, which comes within the estimated industry-wide range of 10%-15%. At Liberty the increases are steeper; for the lowest-priced option the spike in monthly premiums will be as high as 33% against 11% at the upper end.

Liberty principal officer Andrew Edwards ascribes the jump to private hospital fees. "There's no correlation between medical inflation and hospital inflation. That's why government is looking at transparency in hospital prices; regulatory intervention had an impact in medicine prices and it's now time to look at hospitals."

Discovery principal officer Jacky Mathekga also blames hospitals and specialist doctors for high fees, though Discovery in particular has been accused of sharp increases in nonhealth-care bills and management fees. Monthly premiums for members in Discovery's top-end option will jump 10% next year; members in its low-cost foundation option are in for a 46% surge.

Mathekga admits to "negative changes" in benefit structures, but believes monthly premium hikes for Discovery's 2m members compare "favourably" with the market.

Since high fees are a barrier to access, such increases have pushed poor households out of medical aid and are likely to lead to greater state intervention in the running of private medical aid schemes.

In its latest annual report, the regulatory Council for Medical Schemes says "the absence of meaningful negotiations between health-care providers and schemes" has resulted in uncontrolled cost hikes, and notes that the total private hospitals bill rose 13,6% to R17,7bn in 2006.

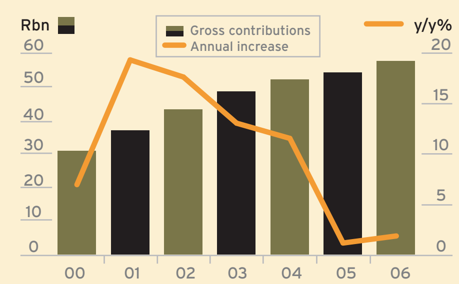
Private hospital operators are defensive. Medi-Clinic funder relations head Roly Buys doesn't agree locals are paying a lot for private care. But he adds: "Pricing is a universal problem. The burden of disease and a changing profile are pushing utilisation and admission [length of stay]. Medical aid schemes should introduce ways to lower utilisation . . . like prevention and wellness programmes."

He ascribes the higher costs to the skills shortage, with salaries of health-care professionals, nurses and specialists rising sharply, and administration and broker fees.

Shoks Mzolo

THIS IS WHAT YOU PAY

Medical schemes gross contributions



SOURCE: COUNCIL FOR MEDICAL SCHEMES