

Junk status brings new challenges for SA businesses

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Business owners, senior managers and company executives need to prepare themselves for a bumpy second quarter in 2017, with the only certainty being that nobody really knows how much the downgrades by rating agencies and the weaker rand will impact on the economy.

“Managing and running a business in turbulent times is very unsettling,” says Nicola Jowell, who runs a course on Business Model Innovation at the UCT Graduate School of Business (GSB) in Cape Town. “Understanding the environment we are operating in at the moment is almost impossible as it keeps changing from day-to-day.”

Research analysts Nomura [have slashed](#) South Africa’s predicted economic growth for 2017 to 0.2% from a previous 1.1% following the axing of former finance minister Pravin Gordhan and an extensive cabinet reshuffle. While it is not yet clear how the credit downgrades will impact on businesses, [business association AHL](#) says small and medium-sized businesses will be affected by a weaker currency, higher inflation and difficulties attracting investment.

“This means that for managers, it is essential to become comfortable with the fact that there will always be a gap between what we can know or anticipate, and what we do not know or cannot even imagine yet. This can be tough but it provides excellent impetus for innovation,” says Jowell. “Responsiveness and adaptation are at the core of survival in this kind of business environment. This means that businesses need to be prepared to adapt and innovate aspects of their business models.”

Business model innovation looks at innovating on any one dimension of a business model. There are nine dimensions, explains Jowell, which include customers, the value proposition, channels (route to market), customer relationships, revenue, resources, activities, partners and costs.

Jowell says that while this may entail the creation of new markets and technologies, business model innovation can create great value without needing to be wholly transformative. “Sometimes small tweaks can bring about big change.”

Depending on the kind of business, the type of industry and its dependence on the current economic climate, the key aspects of business model innovation might be different from one business to another.

For a car wash operator in Cape Town, for instance, having to deal with a severe drought and water restrictions might mean innovating on the resources side of the business model and finding alternative ways of washing cars, such as water-less products, says Jowell.

On the other hand, businesses relying on imports or sales with international companies may want to look at the way costs or partners are structured in the business model, bearing in mind that these may undergo various changes over the next few months as the rating downgrades take effect.

“On the course I run at the GSB we look specifically at each participant’s business and the unique challenges that they face, providing them with a toolkit for implementing innovations in their company, department or section of the organisation,” says Jowell.

There is always something that can be innovated upon or changed, benefiting from a fresh perspective and a more innovative way of looking at how a business is run. Jowell believes businesses are innovating all the time anyway, but if it is a conscious process then there is a bigger opportunity to direct resources at capturing that value.

“Regardless of the scale at which you choose to imagine and design business model innovation, it is always about reviewing your current business model and assessing where and how value-creating changes can be made. Through a combination of theoretical frameworks and practical application, it lays an advanced understanding of the ways of imagining, conceptualising, designing and implementing new business models.”

As the country descends further into economic uncertainty and political tension, businesses would do well to revisit their business models and ensure their companies are able to adapt to whatever comes their way. Jowell believes, “We may not know what is coming next but we can ensure that we are better prepared and that our companies are able to survive any potential stormy market weather.”

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