



Beautiful business

The State of South African Small Business

Technology, innovation,
and unlocking growth in 2019

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Introduction



*Introduction by Colin Timmis,
Xero South Africa Country Manager*

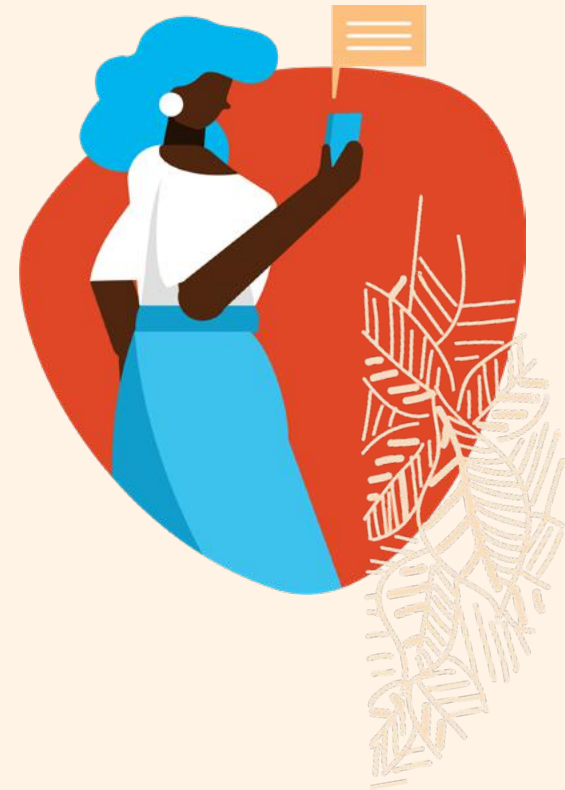
At Xero, we're all about the cloud. We see the difference it can make to small businesses every day.

But we also know that the cloud is a platform – and a platform is only as good as what's built on it. Adoption is just the beginning, and South Africa's small businesses must do more than just 'get on the cloud'; once they're on it, they need to think about how they can reach even higher.

Artificial intelligence and machine learning have the potential to revolutionise the country's enterprise environment. Embracing these innovations (alongside the cloud tools that are already available) will be essential for small business owners and accountants. But is South Africa's SME community ready to drive change – now and in the future?

We've reported on the state of the small business and accounting sector in the country for three years. Each time, we've uncovered new insights into the challenges, rewards, and mindsets of South Africa's entrepreneurs and accountants. From a socio-political perspective, the last two years have been a time of dramatic change, and even upheaval: the economy has slowed, presidents have come and gone, and business – as ever – is caught in the middle.

So how does a smaller company move forward in a time when uncertainty is the only guarantee? In a country where it's estimated that SMEs make up 90% of formal businesses and contribute around 34% to GDP, it's a critical question.



To answer it, our latest report surveyed 200 accountants and 400 small business owners. We focused on three areas:

- **The challenges facing South Africa's SMEs.** How are issues such as poor internet and load shedding affecting these businesses and their accountants?
- **Accessibility to (and adoption of) new technologies.** Technology may be transformative, but that doesn't mean it's always available. How are small businesses using these tools – if they can use them at all?
- **The future.** What lies in store for the country's small businesses – and what might their future relationship with technology look like?

Read on to find out what we uncovered.



The barriers to business success



Xero Customer
The District, Johannesburg

The barriers to business success

To understand small businesses, it's necessary to understand the daily challenges they face. What keeps entrepreneurs and accountants up at night? What problems come with the territory, and which problems are unique for South African businesses? Above all, what stands in the way of their success?

Fighting the power

It comes as no surprise that the majority of respondents cited 'load shedding' as a major issue: 59% of respondents claim that scheduled power outages by the national supplier posed a significant challenge for their businesses. This, unfortunately, is not something that can be solved at the small business level.

Planning for load shedding

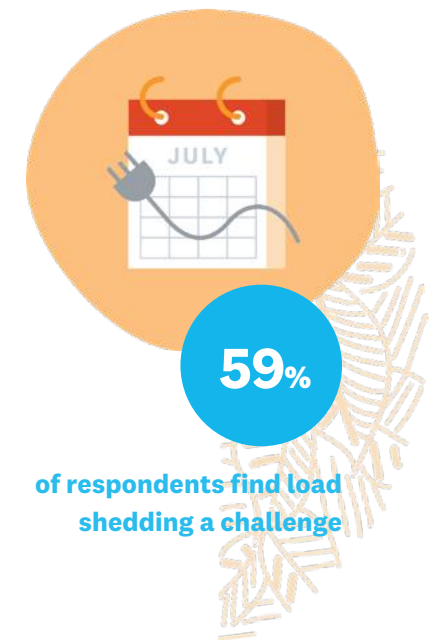
- **Know your schedule.** You can often find out when and where your area will be subject to a planned outage – so plan *for* the outage.
- **Back EVERYTHING up.** The cloud makes it really easy to create convenient, accessible restore points. Use it!

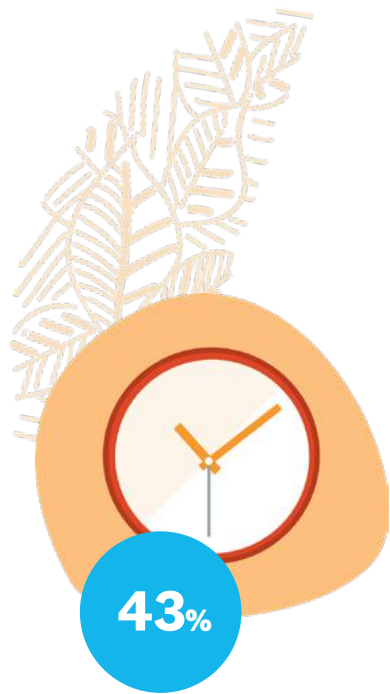
- **Get a backup battery.** An uninterruptible power supply (UPS) can turn on as soon as the mains are turned off.

Compatibility with customers

Compatibility with customers was a problem for 45% of respondents, and again, it's not a huge surprise: there's never a guarantee that end-users and suppliers will use complementary systems. If your customer is using a manual accounting process but you're using cloud accounting software, simple activities can become complicated, processes can become a nightmare, and it becomes much harder to drive sales and improve productivity.

While integrations through APIs can often help, more should be done in this area.





find their internet connection okay but not 100% reliable

New technologies

Finally, 29% are challenged by new technologies entering the market – and understandably so. More tools are available for more processes than ever before and, while keeping up with the change may be necessary, it’s rarely easy.

Small businesses want solutions that integrate with their current IT systems and infrastructure: tools that are intuitive, that work across browsers, and don’t alienate key internal and external stakeholders.

The challenges of connectivity

Businesses live or die according to the quality of their internet connections: it can affect performance, availability, and the ability to function day-to-day.

So how are South Africa’s businesses using the internet?

Preferences

Overall, 49% used ADSL connections and 37% used fibre: a healthy and improved showing, even if these connections don’t yet represent the majority.

Some 14% of businesses are connecting via wireless services such as 3G/4G phones or routers. As internet infrastructure throughout the country tends to be better in metropolitan areas, it’s likely that businesses located in rural internet ‘black spots’ or other areas of low availability are more reliant on these kinds of connections.

Quality

When asked to describe their internet connections, 45% said they were ‘great’, while 43% said they were ‘okay but not 100% reliable’.

South Africa’s been playing catchup with the internet for a while now: fibre-optic cables are still being laid in several parts of the country. This is an especially serious issue when the availability of quality, consistent internet tends to be spottier for respondents using ADSL or mobile services. Those with higher connection quality tended to use fibre connections or be based in an area with stronger 4G/LTE coverage. Overall, 57% of those who said their connection was ‘great’ were fibre users.

That said, a large number of respondents reported that they'd noticed improvements, or that their connections had stayed the same – so at least it's not getting worse. An overwhelming majority also said they had never missed an important deadline due to poor connectivity.

Nonetheless, reliable, high-speed connectivity is a basic requirement of running nearly any business in 2019 – and too many small businesses don't have it.

Connectivity issues

So why does poor connectivity happen?
Besides not plugging in the router?

Well, 24% identify location restrictions as a serious barrier, while 17% point to load shedding, which impacts connectivity for those businesses without reliable backups. With the possibility of even longer electricity cuts, connectivity could suffer even more in the near future.

Poor connectivity is having other consequences. Some 53% of businesses are yet to adopt cloud technology because of

connectivity issues – despite 58% previously saying that cloud technology would feature in their plans for 2018. This might be because a lot of people think the cloud uses a lot of data and bandwidth, and believe that an unreliable internet connection would prevent them from using it to its fullest extent. Some 34% said that the cloud was simply too complicated.

57% of broadband users also find that connectivity is keeping them from getting on the cloud. Beyond this, the cost of data in South Africa is considered excessive relative to other countries, which can provide another barrier. In a country where mobile broadband is the dominant form of connectivity, it's a huge obstacle to overcome. Prices are so high that they warranted an investigation into abuse. Research ICT Africa indicated that policy implementation by the government would be the only way to level the playing field when it comes to data affordability.

Access to the digital economy is all important – and it's currently restricted to those who can afford it.

Adoption, automation, and agility: how business owners are using technology



Ukhamba Beerworx, Cape Town • Xero Customer

Adoption, automation, and agility: how business owners are using technology

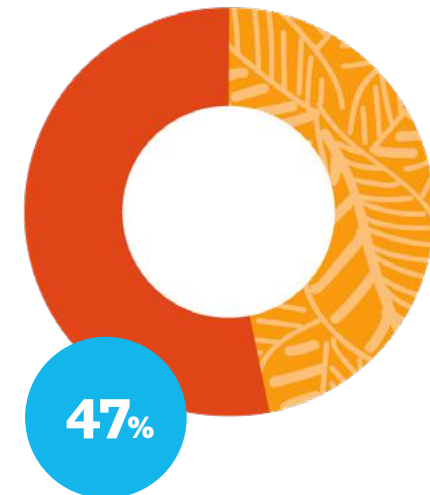
When it comes to technology, it's very much a case of 'adopt or die'. After all we're living in a world where a seven-year-old can make millions upon millions* from YouTube toy reviews – it's arguable that businesses should have developed their systems and processes before he was born.

Now, to be fair, there's a clear appetite for adoption among South Africa's businesses. This provides an opportunity to showcase the cost and efficiency benefits of new technology to both sectors.

In terms of overall technological competency, almost half of respondents (47%) said their employees were 'very savvy', and 38% said

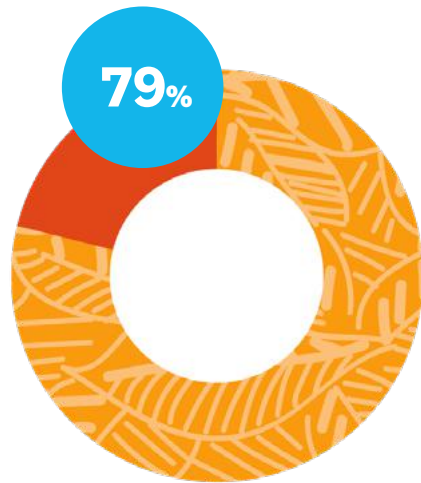
their IT set up was ahead of the curve – though 37% believe they could be doing more to improve it.

Business owners are growing more aware of these new setups and have the internal capability to give a fair assessment of the tools that they currently use. Only 0.5% believe they're in the technological 'dark ages', and in general, there are more respondents who believe that IT is important than respondents who don't. A large proportion consider it essential to their operations.



see their employees as 'tech-savvy'

*Source - Forbes Dec 2018



of small businesses claim that accounting software support is very important

New technologies

Not only are most businesses aware of the importance of IT, an overwhelming majority are confident about how they're using it. Some 58% specifically identified the importance of cloud technology and indicated their intention to include it in their future plans.

But even with the best intentions – how are they actually using it?

Well, of the latest technologies, 56% of those surveyed claimed to make use of basic automation, whether in operational or accounting tasks. Some 25% said they were using Internet of Things (IoT) technology, followed by cloud computing at 19%.

And while AI and machine learning are some of the most hyped technologies, only a tiny proportion of respondents (0.25%) are actually using them. If there are benefits to this technology, not many businesses are enjoying them yet.

Training

A major barrier to technological adoption is training. While this wasn't reflected in our survey, it's fair to say that most employees are not hired for their cloud computing skills.

Yet 67% of businesses don't intend to allocate budget for training employees in using their essential technologies. There's an argument that these tools should be intuitive or self-explanatory, but it's not unreasonable to expect that a new invoicing software or CRM system will have a learning curve – however deep or shallow.

Putting processes in place for training employees can be costly in the short term but will pay dividends in the long term as teams upskill themselves with little supervision or additional expense. The financial impact of training an existing team is usually lower than the price of interviewing, hiring and onboarding new staff. At Xero, we've found that staff and clients alike have benefited from live and online courses, webinars, and events to help them get up to scratch and up to speed.

It's certainly cheaper than chopping and changing staff. Training, reskilling, and adjusting recruitment strategies is critical to a company's ongoing success, especially at a time when 64% of small businesses are yet to adjust their recruitment strategies to attract technologically-savvy talent.

Training matters. When employees are expected to self-teach and figure it out as they go, they run the risk of learning to work around the technology rather than with it.

Cloud adoption

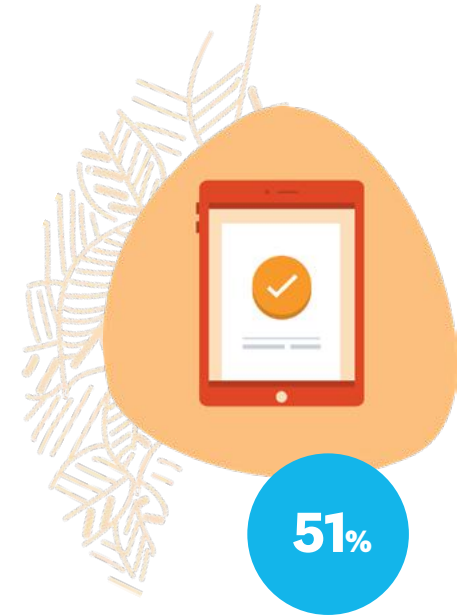
It's easy to assume that, because the cloud is over-discussed, it's uninteresting. It's also wrong.

If business owners are sick of the endless articles proclaiming the death/resurrection/rebirth of the technology – we get it. But other business owners are reporting real benefits: over half (51%) suggested that it had improved their ability to work anywhere, while 25% suggested that it had improved security.

Nonetheless, there's more work to be done in terms of communicating the technology's advantages. Overall, 33% claimed they simply did not know enough about the cloud to answer properly – suggesting that, if they're experiencing benefits, they don't necessarily know what they are.

At 98%, an overwhelming majority of businesses identified a large increase in profit thanks to adopting technology – and 99% identified an increase in efficiency.

These findings indicate that the cloud advantage is very real for those who've adopted the right tools and solutions. All that remains is for more small businesses to do so.



**suggested that the cloud
had improved their ability
to work anywhere**

Surviving Industry 4.0



York Surf, Cape Town • Xero Customer

Surviving Industry 4.0

“Finance and accounting can be complex functions for small businesses. Many entrepreneurs start companies with the aim of executing their vision – and this vision often doesn’t extend to accounts payable and receivable. Accounting technology plays an important part in relieving the burden of managing your organisation’s money.”

— Colin Timmis

The software

It’s not a huge shock that 79% of small businesses claim that accounting software support is very important.

This, however, leaves a substantial minority who don’t see its importance, and who would benefit from a deeper understanding of the technology’s benefits.

As for how this software is used, 78% of respondents use it to manage financial records, while 55% are using desktop solutions. Only 22% are using cloud accounting tools, which is perhaps unsurprising when you consider that 23% of all respondents are still doing their books manually.

The benefits of cloud accounting software



Anytime, anywhere, access to financial data.



A real-time view of your finances – and real-time insights into cash flow.



Easier team collaboration.



Simpler processes, stress-free finances. Focus on what matters to your business.

The people

New technologies have transformed finance. Mobile banking, for example, has made it much harder to avoid looking at your overall bank balance. They're also transforming the relationship between small businesses and their accountants.

Perceptions of accountants are shifting: they're no longer considered bean counters and number crunchers, but advisors and strategists. This is reinforced by the fact that almost a third (29%) of the businesses we surveyed want to use accountants to handle finances and consultancy, and 11% want to use them exclusively for consultancy. While 61% suggested they wanted accountants to handle the finances and the finances only, a sizable – and growing – minority are taking a broader view of the profession.

As for whether accountants are still going to be important to small businesses in the wake of all this technological innovation – well, let's take small businesses at their word on this – 81% say they'll still require accountants in the next 10 years.

The future

Accountants are clearly part of the long-term plan for small businesses – and this is reflected in the evolving nature of the role. Some 92% of accountants claimed that it had changed significantly over the same period.

This suggests that accountants have been upskilled beyond their initial qualifications in some areas – a figure reinforced by the fact that 98% of accountants agree that technology has led to high profit and efficiency increases.

We're also likely to see more integrations with other functions. At Xero, for example, we've announced new agreements with three South African digital lenders: Bridgement, Retail Capital, and Lulalend. Initiatives like these will improve businesses' access to funding – and make the accounting function more versatile and multidimensional.



of businesses identified a large increase in profit by adopting technology

Conclusion: Building beautiful business moments

While the country's small business sector and its accountants are becoming more technologically savvy, there are still obstacles blocking their path to success. An economy as developed as South Africa's shouldn't be dealing with persistent load shedding and power outages – it's up to the state to deal with this problem and ensure it doesn't become a permanent feature of the national infrastructure.

Connectivity is another problem: South Africa ranks 76 out of 200 countries for broadband speed, and the cost of data remains prohibitive. Again, small businesses, particularly those in more remote areas, can only do so much.

Business owners and accountants have more power than they may think. If they fully embrace technology, they can improve efficiency, profitability, and value – focusing on tasks that matter and unburdening themselves of tasks that require a high investment of time and energy. More importantly, once they start embracing

technology, they shouldn't stop. AI and machine learning are in the vanguard of a new wave of innovation and, with the increase of banking APIs and integrations, there's a clear opportunity to reshape the way small businesses handle the finance function.

If small businesses seize the opportunity they won't just transform their fortunes: they'll transform those of the entire country.



Footnote

About Xero

Born in the cloud, Xero is a beautiful, easy-to-use platform for small businesses and their advisors. The company has 1.4 million subscribers in over 180 countries and a thriving ecosystem seamlessly integrating with 700+ apps. On the inaugural 2018 Financial Times FT1000 High-Growth Companies Asia Pacific list, Xero was the fastest growing tech company in the \$200 million+ segment. Xero won Technology Provider of the Year at the British Small Business Awards in 2016 and was rated by Canstar Blue as Australia's best accounting software for four consecutive years, 2015-2018.

About World Wide Worx

Arthur Goldstuck heads the World Wide Worx research organisation, leading groundbreaking market research into how change is affecting business and society, and presents his findings and insights to audiences across the globe. World Wide Worx produces the most widely accepted statistics for Internet use in South Africa, and has conducted research across Africa since 2001, unravelling the complexities of operating on the continent

A report produced in March 2019 by Xero in partnership with World Wide Worx.
Front Cover: Truth Coffee Roasting, Cape Town • Xero Customer

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