

How technology is reshaping South Africa's small business economy

A report produced by Xero in partnership with World Wide Worx



Introduction

Small and medium-sized enterprises (SMEs) comprise 91% of formalised businesses in South Africa, employ 60% of the country's labour force, and contribute 36% of the overall GDP. The success of these businesses makes a significant contribution to the country's growth and development.

In a time of political change and constant economic upheaval, we need to ask ourselves how this success can be safeguarded and nurtured? Technology is fundamental to this, in establishing efficiency, profitability, and opportunity. A sales team that can automate a time-consuming process has more time to pursue leads; a customer service team that employs a CRM can more effectively flag and resolve issues; an accountancy team that uses cloud software can chase payments more easily.

Embracing technology isn't just an operational concern, it's a necessary approach in an increasingly digitised world. To remain competitive in the short and long-term, small businesses should be using the very best tools available at their disposal. But are they?

Developed by accounting software company Xero in partnership with World Wide Worx, this report highlights the critical issue of small business technology adoption in South Africa.

Key stats

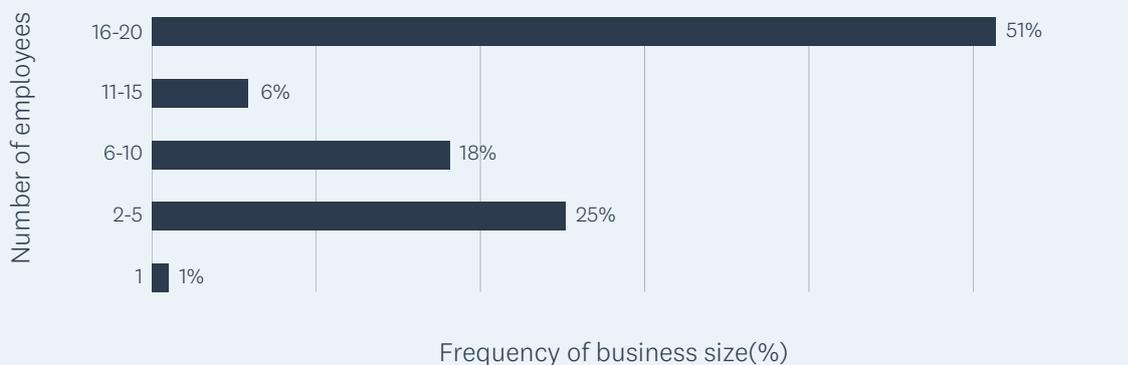
- 45% of small businesses acknowledge they could be doing more with regards to technology adoption, and 52% say they are just keeping up.
- Most small businesses (70%) that are using cloud technology are doing so because it saves time, which equates to more than 10 hours a week.
- A further 52% of small businesses are using cloud technology because it saves them money.
- 58% of small businesses stated that cloud technology features in their business plans for 2018.
- Many small businesses still use tools like Excel spreadsheets (83%), printed invoices (73%) and flash drives to transfer documents (56%).
- 41% of small businesses struggle with internet connectivity at work.

Our respondents

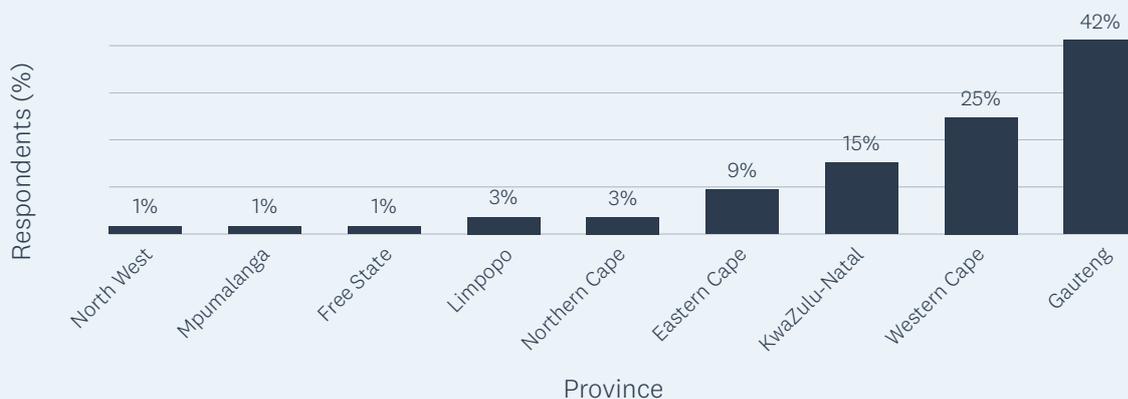
This report surveys more than 400 small and medium-sized enterprise (SME) owners across 25 distinct markets – including retail, information, technology, and transportation, amongst others. Most businesses surveyed employ between 16 and 20 people; those which employ 2-5 make up the second largest contingent; and those which employ 6-10 employees come in third. Few respondents operate as sole traders.

In geographical terms, all nine provinces are represented, but the largest number of businesses are concentrated in Gauteng (where 42% of respondents are based), the Western Cape (25%), and KwaZulu-Natal (15%).

Size of the business



Business location



Executive summary

It's been an uncertain time for South Africa's small business community. In the wake of economic upheaval, it's crunch time. In 2018, only the fittest will survive.

This report gives a candid view of the role of technology in reshaping small business and safeguarding survival.

Without adopting the right technologies, businesses simply won't prosper.

Cloud technology is one such digital competency that has huge potential to improve business output. It's encouraging to see that 44% of South Africa's small businesses are already using cloud technology and benefiting: 70% of those that do use it say the cloud has saved them time – with many claiming to have clawed back more than ten hours per week – while 52% assert that it's saved them money.

This is promising, but the report also shows barriers to adoption. Against a backdrop of economic uncertainty, it's pertinent that there is still a relaxed attitude towards technology. Over half (52%) of small businesses admit that they're only just keeping their head above water, while 45% acknowledge that they could be doing more.

Awareness is nothing if it's not a prelude to action.

So, what's holding South African small businesses back from reaching out? For many, fear of the unknown means that they're using outdated tools. A large portion (83%) of the businesses questioned are still using Excel spreadsheets, while almost three quarters (73%) are still printing invoices.

What individual businesses have before them is a very straightforward choice: they can move with the current, or be swept away. If they don't act quickly, then the decision will be made for them.

One way or another, tech adoption is inevitable: South Africa's businesses may as well take control of it.

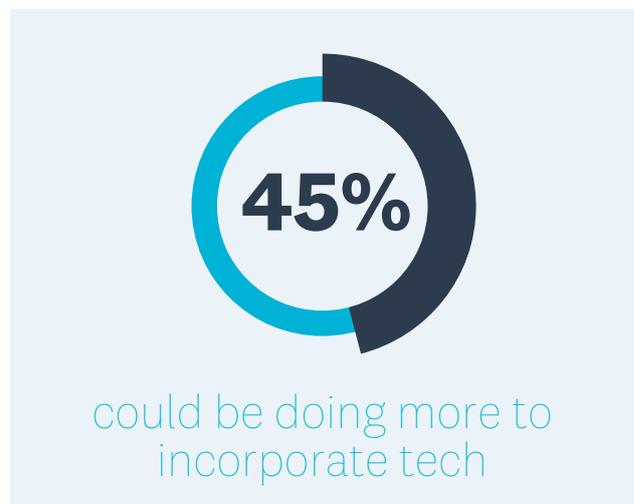


Gary Turner, Managing Director, EMEA, Xero

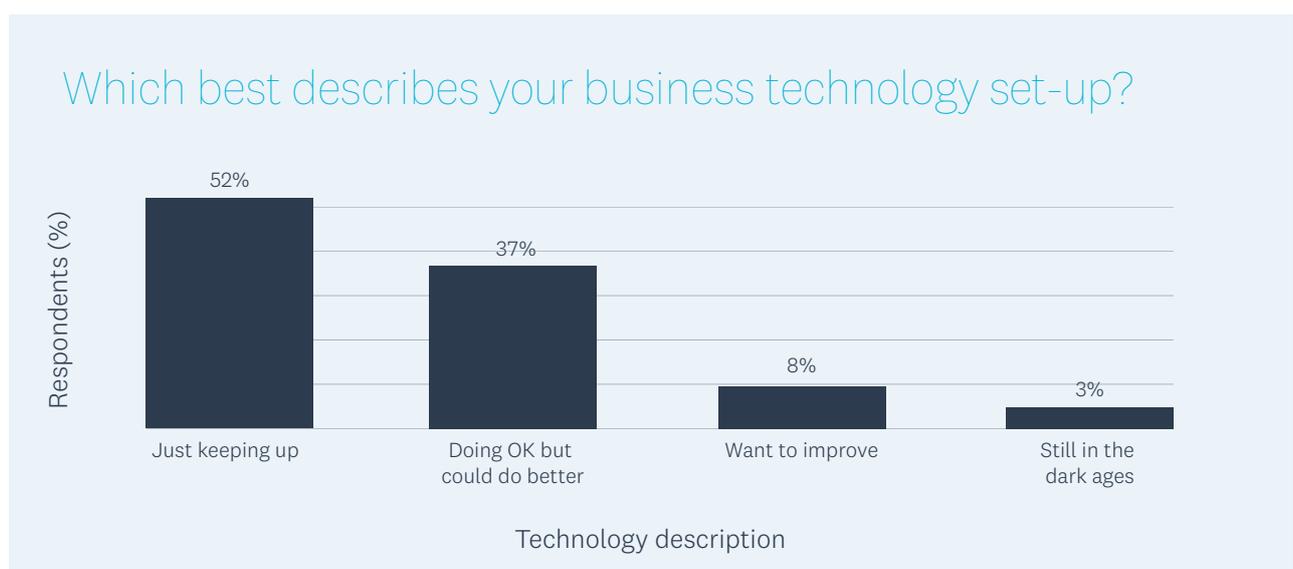
Adoption of technology by small businesses in SA

When it comes to general technological adoption, 85% of small businesses are confident they can keep up with the latest developments, which shows a positive attitude towards technology.

However, 45% also acknowledge that they could be doing more to incorporate it into their business structures, and 52% say they're (just about) keeping up. Reassuringly, only 3% of those surveyed believe they're still in the dark ages.



Small businesses in South Africa know technology is important to their business. Many small businesses are eager to adopt new technologies.



Benefits of technology

Many small businesses demonstrate a deep understanding of the benefits of technology adoption – 44% are actively employing cloud tools and services.

The businesses that use cloud tools and services, for example, reported significant operational advantages: 70% use them to save time – with many saving over 10 hours per week – and 52% claim that they help the business save money. Of the latter camp, almost a third report significant savings, and over half claim that the technology has made a difference.

Time and money are important, but they're not the only benefits of cloud technology: some 49% of those entrepreneurs surveyed report improved efficiency, 38% indicate that it has improved their business continuity, and 33% highlight the way it has enabled remote working.



When small businesses adopt new technologies, they reap the benefits: saving both time and money. To remain competitive, small businesses that have not yet adopted new technology should do so without further delay.

Room for improvement

South Africa's small businesses are generally enthusiastic about technology adoption and understand its benefits. But this report also demonstrates that they're acutely aware of how they might improve things.

For instance, 58% of businesses claim that cloud technology features in their business plans for 2018, and 36% claim that reviewing their technology usage is a high strategic priority in the year ahead. If nothing else, it is certainly front of mind.

But, if many businesses are looking to improve their technology setup, just as many still use outdated processes and tools. After all, 48% aren't using cloud technology. Printed invoices are used by 73%, and 56% are using flash drives to transfer documents. If the enterprise community is willing to embrace the new, it is not quite willing to jettison the old just yet.

This is most pertinently demonstrated by the prevalence of Excel spreadsheets, which are used by 83% of SMEs across a number of different functions: 68% use them for accounting, 56% use them for office management, and 49% use them for financial planning.

Overall, the most commonly used technologies are desktop computers – used by 86% of respondents – followed closely by laptops (73%).

Small businesses in South Africa are proactive about keeping up to date with technology. But the predominance of outdated legacy processes and systems suggests that they have some way to go yet.

Poor internet – a problem in many areas of South Africa – certainly doesn't make adoption any easier: the advantages of technology can only be maximised when they have reliable and affordable connections.

Nonetheless, those businesses with a clear plan for technological adoption will have significantly better prospects than those that don't.

For what do you use Excel spreadsheets?



Connectivity challenges

Internet connectivity has been an enduring problem for South Africa's business community. Unfortunately, it still appears to be a key issue: 41% of small businesses report connectivity problems in their workplace, and 59% report that it is 'okay' – but could be better.

Indeed, it can be rare for businesses to enjoy an entire month free of connectivity issues: 66% indicate severe issues for 1-3 days every month, and 29% struggle for 5-10 days.

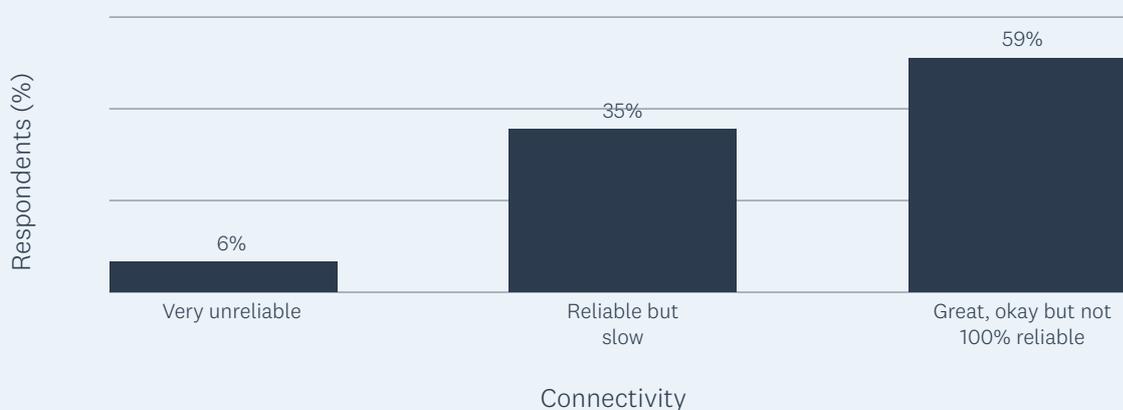
This has obvious consequences for many. Poor or unreliable connectivity is a bugbear for many businesses: 56% report lost time and 26% report frustrated employees. An erratic internet connection can negatively impact productivity and profitability, and more than a quarter of respondents claim that a better service would positively impact their business. Only 8% said that 24/7 WiFi service wasn't important to their company.

But why aren't connections up to speed?

Most respondents claim that location is the underlying reason for poor internet service. It's not hard to see why: South Africa is a large country, and cities are often prioritised when it comes to connectivity and infrastructure. But in 2018, it doesn't matter where you are: the internet is important, and if it's unreliable, it can wipe out many of the advantages of technology.

Reliable, fast internet access is an issue for South African small businesses. There are many benefits to be gained from using modern technologies. But, the sad truth is that these benefits are harder to realise when time is lost due to an unstable internet connection.

How would you describe the connectivity in your area?



Actively implementing solutions

If South Africa's small businesses are aware of the issues they face, they're certainly not wallowing in them. Many are making great progress in identifying solutions to their operational problems and are actively working on ways to implement them.

Overall, almost two-thirds (63%) of businesses admit that reviewing their existing technology setup is a high or medium priority. Encouragingly, less than one in ten (9%) say that their technology review only happens when it needs to, and over half (58%) have included cloud services in their 2018 business plans.

While small businesses are making their own efforts, the government isn't resting on its laurels. The South African Internet for All initiative was launched at the 2017 World Economic Forum on Africa. Run in partnership with business and civil society, it aims to connect 22 million unconnected citizens by 2020. Whether it succeeds or fails could determine the future of South Africa's small business community.

In the meantime, however, small businesses can beat internet connectivity challenges by embracing remote

working. Many coffee shops offer free Wi-Fi, and in large cities, like Tshwane, most government buildings and public libraries also offer free internet. By utilising new technology, businesses can easily have their staff work from these high-connectivity locations.



Conclusion

South Africa's small businesses are technologically savvy: they know what the most important tools and applications are, they know how they can benefit from them, and in many cases, they're actively working to incorporate them into their daily lives.

But adoption is lagging, and many small businesses are clinging to the software and systems of yesteryear. Whether this is due to fear of the unknown, the comfort of routine, or poor workplace connectivity, it's unwise to rely too closely on outdated technology.

The internet isn't going to become reliable and high-speed overnight. But by adopting cloud technology and remote working, businesses can extend connectivity beyond the workplace.

The key is to not just use new technology in these specific instances. Instead of deploying it on a bit-by-bit, problem-by-problem basis, SMEs should put new systems, processes, and tools at the core of everything they do. A partial adoption is no adoption at all.

When businesses fully embrace technology, they don't just improve their efficiency and profitability: they change the way they work for the better – and they prepare themselves for what's ahead.

About Xero

Xero is beautiful, easy to use online accounting software for small businesses and their advisors. The company has over 1 million subscribers in more than 180 countries. Xero boasts more than 600 third party integrations, and was ranked No. 1 by Forbes as the World's Most Innovative Growth Company in 2014 and 2015.

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.



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