The State of South African Small Business in 2017

A report produced by Xero in partnership with World Wide Worx
It’s been a difficult year for South Africa’s enterprise community, and I say that as a card-carrying member. As economic turmoil has intensified, the challenges facing businesses of all sizes have multiplied – with small businesses especially being affected.

Xero’s 2017 report is a thought-provoking examination of the country’s entrepreneurs, and their attitudes to the challenges ahead. More than that, however, it serves as a barometer of South Africa’s small business community: how they’re approaching current and future adversity, what they fear and hope for, and ultimately, whether they’re in a condition to survive and grow in the midst of unstable and uncertain times.

Happily, this report reveals that South Africa’s entrepreneurs are more than up to the task. Technological nous, agility, and adaptability will be key to navigating the choppy waters of the next few years, and the country’s small businesses have those qualities in droves. It’s not altogether surprising that they’re not only looking to stay afloat; they’re actively pursuing growth.

Of course, making this pursuit a success will take some work, and ambition always needs to be tempered with pragmatism; and growth is never assured. South Africa’s small businesses have some way to go – this report highlights several current obstacles, and it doesn’t discount the possibility that more may arise.

But the country’s entrepreneurs are capable of making the journey towards sustainable, long-term success. Whether they take the first step is ultimately up to them.
Small businesses are the foundation of the South African economy: they create jobs, they contribute millions in tax revenue, and they nurture great ideas until they blossom into game-changing innovations. South Africa’s entrepreneurs are critical to its success. But who are they, what are they thinking, and how are they tackling the challenges in front of them – and what’s changed since last year?

To find out, we surveyed more than 400 businesses across 25 markets including retail, information technology, and travel and tourism.

Small businesses in all nine South African provinces were surveyed with the majority of respondents being located in the Western Cape (32%) and Gauteng (30%).

The businesses surveyed ranged in size from 1–20 employees. Businesses with 16–20 employees made up 33% of the sample, followed by those with 2–5 employees (29%).

Respondents by province

**Businesses surveyed by employee count**

- 1 (6.81%)
- 2-5 (28.95%)
- 6-10 (19.71%)
- 11-15 (11.92%)
- 16-20 (32.60%)
The Results
For South Africa’s small businesses, technology is growing in importance: where 19% said it was essential last year, that number has increased to 49% in 2017.

That said, many are struggling to make use of valuable tools and recognise market-changing trends. Only 43%, for example, know what digital transformation means in the context of small businesses; 57% do not. Meanwhile, well over half of South Africa’s small business community (60%) don’t use mobile apps for business. This varied by sector – 100% of logistics firms, for example, use them, with surprisingly low uptake among telecommunications (66%) and IT (61%) firms – but there is still a significant majority of non-adopters.

Where cloud technology is concerned, small business owners have a range of views as to its main benefits. According to 81%, backup and recovery functionality is the chief advantage. At 55%, ease of collaboration is a distant second, with the ability to do business anywhere (54%) coming in third.

Of course, some may be struggling to access these benefits in the first place: cloud technology requires a reliable internet service, and 30% of small business owners say that connectivity in their area is restricting their use.
Financial Management

South Africa’s small business owners are growing in confidence when it comes to managing their finances. Some 89% of those surveyed consider themselves confident when it comes to managing their company’s finances – an improvement of 2% on 2016. What’s more, this self-assurance is supported by diligence: 92% have not missed a tax deadline.

When it comes to managing their financial records, 15% still rely on manual spreadsheets and 68% report using desktop software, while 13% have adopted cloud software.

89% of small business owners who said they were very confident in running their business finances also rated technology as “essential” or “very important” to the running of their businesses.
The last year has been a challenging one for South Africa’s small businesses: political and economic turbulence have only compounded the everyday issues that come with running a company.

When asked what their key business challenges were, 68% of small businesses put economic volatility first. Cash flow and competition were in second and third place – both were cited as the biggest obstacle by 23%.

But what really torments South Africa’s entrepreneurs? When asked what keeps them up at night, 54% of South Africa’s small businesses responded with ‘economic volatility’ and 35% said ‘cash flow’ – the same top two issues that represent the biggest business challenges. Additionally, 23% of small business owners are kept awake worrying about future sales.

The economic instability of South Africa has become a recurring bugbear for the nation’s entrepreneurs – as the results of our survey demonstrate. Some 62% of small businesses have already noticed reduced customer demand this year.

A critical issue for many South African entrepreneurs is the way government has supported – or not supported – their business endeavours. Where the small business sector is concerned, 89% say it has not helped. Where government in general is concerned, respondents were less overwhelming in their negativity, though they were far from uniformly positive: 48% would like to see more funding assistance from the government, 44% would like to see less red tape, and 43% want the government to introduce further tax breaks.
Biggest worries of small businesses

- Economic Volatility: 53.8%
- Cash Flow: 34.5%
- Future Sales: 22.9%
- Tax Increases: 16.1%
- Competition: 13.4%
- Crime: 11.9%
- Access to Finance: 8.3%
- Cost Increases: 6.8%
- Staff Issues: 5.1%
- Skills Shortage: 4.1%
- Red Tape: 4.1%
- Business Image: 3.4%
- Data Security: 2.4%
- Health Stress: 1.5%

Where government could help

- More Funding: 48.0%
- Less Red Tape: 44.3%
- Tax Breaks: 42.8%
- Improved Access to Finance: 35.8%
- Education Investment: 22.3%
- Streamlined Government Processes: 16.0%
- Better Mentorship: 10.0%
- Flexi Repayment Structures: 6.8%
- More Information for Startups: 6.5%
- Broadband Coverage: 5.8%
- Easier Employee Termination: 1.8%
Despite adverse business circumstances, South Africa’s entrepreneurs maintain a certain optimism about the challenges ahead: 40% still expect company growth over the coming year, while 45% expect their organisation to stay the same size. Though they anticipate trouble, they believe they can weather any coming storms.

This is evidenced by their spending intentions: South Africa’s small businesses are looking to improve their products, their operational tools, and their promotional capability. Some 36% intend spending on marketing to be their biggest investment over the next year, 23% say equipment, and 22% are looking to increase their expenditure on product development.

Economic difficulties have negatively coloured perceptions about the state of small businesses in South Africa. Optimism about growth is lacking compared to last year, and given the volatility – and the lack of governmental support available – it’s not altogether surprising.

That said, South African small businesses are resilient and there are positive signs. They are growing in confidence and competence when it comes to managing their finances, and they are increasingly aware of the importance of technology. They’re also doing a great deal to protect their businesses and build them further – many entrepreneurs are investing to grow, and 40% of those surveyed fully expect to.
Conclusion

South Africa’s small businesses face an uncertain and turbulent future. With GDP growth remaining low, it would be easy for the country’s entrepreneurial community to accept that their future is essentially out of their hands.

To their enormous credit, South Africa’s small businesses are choosing not to take a fatalistic attitude. Though change may be awkward, they’ve decided to adapt. They’re allocating more money to technology. And far from sitting on their laurels, they’ve chosen to act: they’re not just trying to weather any coming storms, they’re aiming to grow in the midst of them.

In trying times, South Africa’s small businesses remain optimistic, realistic, and relentlessly focused. Whatever happens, their future is still theirs to decide.

Source: An online survey was fielded to 400+ small business owners in South Africa by World Wide Worx in July and August 2017.
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 500 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 ground-breaking 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.