



Beautiful business

State of South African Small Business 2023

Growth in the face of adversity

Veldskoen

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Introduction



Introduction from Colin Timmis,
Xero South Africa Country Manager



Small businesses pack a big punch in South Africa. For many years, small and medium enterprises (SMEs) have served as the backbone of the South African economy, creating jobs that help families and communities put food on the table – and stimulating broader socio-economic growth. They remain the most likely vehicle to tackle the country's rising levels of unemployment, poverty, and inequality.

Yet, despite this, they face a stark reality. The list of challenges they experience continues to get longer: the lingering impact of the pandemic, high inflation, and a sluggish economy held back by ongoing power cuts.

Small businesses are determined to face the challenges that come their way with a level of optimism and resilience that continues to amaze me. I'm constantly inspired by how they have not only fought to survive, but also thrive and innovate in the face of substantial difficulties.

Our research shows that many small businesses are growing and 95% expect their business to survive the next 12 months. That in itself is heartening and indicates that it is possible for small businesses to turn their eyes to expansion and opportunity.

While a vast majority of businesses remain upbeat, over a fifth of them still suffer some degree of business stress.

This reinforces the importance of a robust ecosystem that supports our small businesses. We collectively need to create a more connected SME support system that joins the dots between SMEs, their accountants, banks, government, funders, and technology companies – the key enablers of the small business community.

At Xero, we think there's a world in which the self-made can be encouraged to participate in a collaborative environment that is ultimately for their benefit. And we are excited to be part of building that with other key stakeholders, to help harness their potential as the beating heart of South Africa's economy.

Colin Timmis

This is the sixth annual State of Small Business report, where we go directly to the nation's small businesses to hear first-hand about the challenges and opportunities they face and the support they need to thrive. We would like to thank everyone who participated and contributed to this report.

SECTION 1:

Business resilience and optimism make the economy go round

Oranjezicht City Farm



Business resilience and optimism make the economy go round

Small businesses employ between 50 - 60% of South Africa's workforce and contribute around 34% of GDP¹. That places tremendous pressure on them to be able to weather headwinds and downturns – and recover quickly from disruptions.

The good news is they have proven to be remarkably adept at rolling with the punches, adapting and responding to challenges. Political and economic instability, high inflation and costs of doing business made worse by losses associated with loadshedding, and crime and civil unrest have not held back the country's small businesses.

In fact, 74% of SMEs have grown over the past year – up from 62% last year. Growth is driving confidence and optimism about the future. More than 95% expect to survive the coming year, and almost 90% the next 5 years. This figure is down 10% from 2022, when 99% expected to survive the next five years.



¹ https://www.ifc.org/wps/wcm/connect/industry_ext_content/ifc_external_corporate_site/financial+institutions/resources/msme-opportunity-south-africa

The top tools in the small business survival kit

Although not deterred by the factors that make doing business more difficult, SME owners are not blind to the impact they have on their operations. The vast majority (74%) of small businesses rely on generators to survive loadshedding. 12% have invested in longer-term solutions like solar panels.

Beyond overcoming the disruptions posed by loadshedding, the two most significant factors that helped small businesses survive and grow in the past year were technology (41%) and their accountant (28%).

New technologies are automating manual processes, helping SMEs to operate and sell online, reach new customers and much more. Accountants provide the financial guidance that augments technological capabilities and helps businesses navigate a complex environment.

“These findings signal the grit and tenacity of small businesses in the face of incredible challenges, and how they’re equipping themselves with the tools they need to succeed and grow.”



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

Two significant factors helped small businesses survive and grow in the past year:

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SECTION 2:

Walking the technology talk – a digital stepping stone to success

Doggo Daycare



Walking the technology talk – a digital stepping stone to success

Although the use of technology has been gaining momentum for decades, the pandemic accelerated its adoption exponentially. Many small businesses had to act quickly to take their business online. This not only helped them withstand the hardships of the pandemic but has set them up well to withstand ongoing challenges.

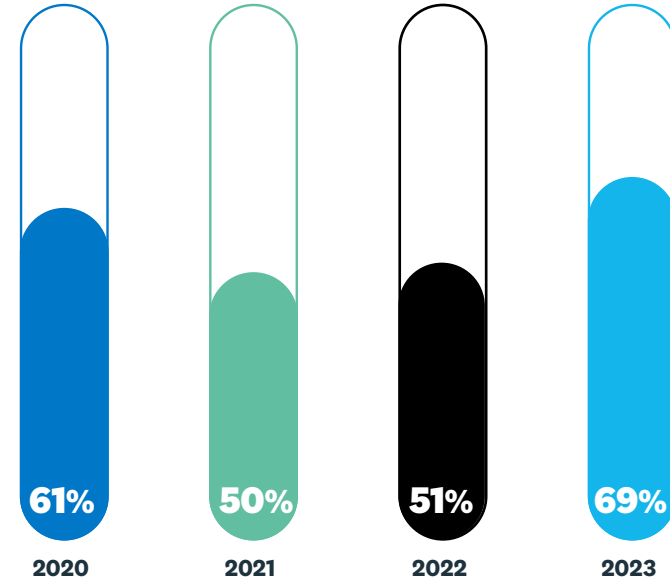
Realising the benefits of technology

Nearly three-quarters (74%) say the importance of technology has increased in their business, with 43% reporting that tech has enabled them to reach new customers. That's a 13% increase from last year (30%). Over two-thirds (39%) say technology has made a significant positive impact on their business profits.

As a result, 56% of small business owners have increased their investment in tech over the last 12 months and 40% are planning to build on the investment in the coming year.

Many are embracing the cloud, with 69% using cloud-based technology in their business because of the flexibility it offers to work from anywhere, and its ability to streamline and improve operations, collaboration with their accountant, and financial processes.

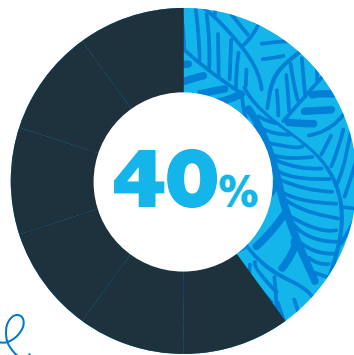
Cloud adoption within SMEs:



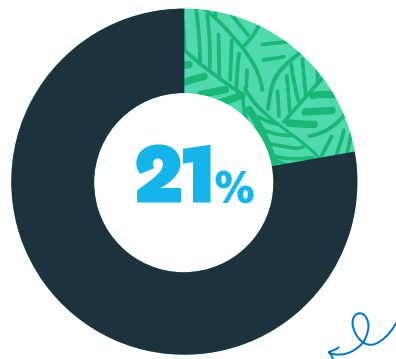
Cost and training preventing further adoption

Small businesses still face challenges that prevent them from harnessing the full potential of technology. While 60% say they get enough access to support or training to adopt new technologies, 45% find integrating it into every aspect of their business challenging, and 28% say they lack the right skills.

The good news, however, is that small businesses plan to invest more deeply in upskilling staff (40%) improving operations with technology (21%).



of small businesses plan to invest more deeply in upskilling staff



of small businesses plan to invest more deeply in improving operations with technology



of small businesses say they get enough access to support or training to adopt new technologies

“Recognising the need to invest in technology – and the expertise and skills to use it is a trait resilient small businesses have in common. But so is choosing the right external partners to guide and support them in their journey.”



Colin Timmis, Xero South Africa
Country Manager

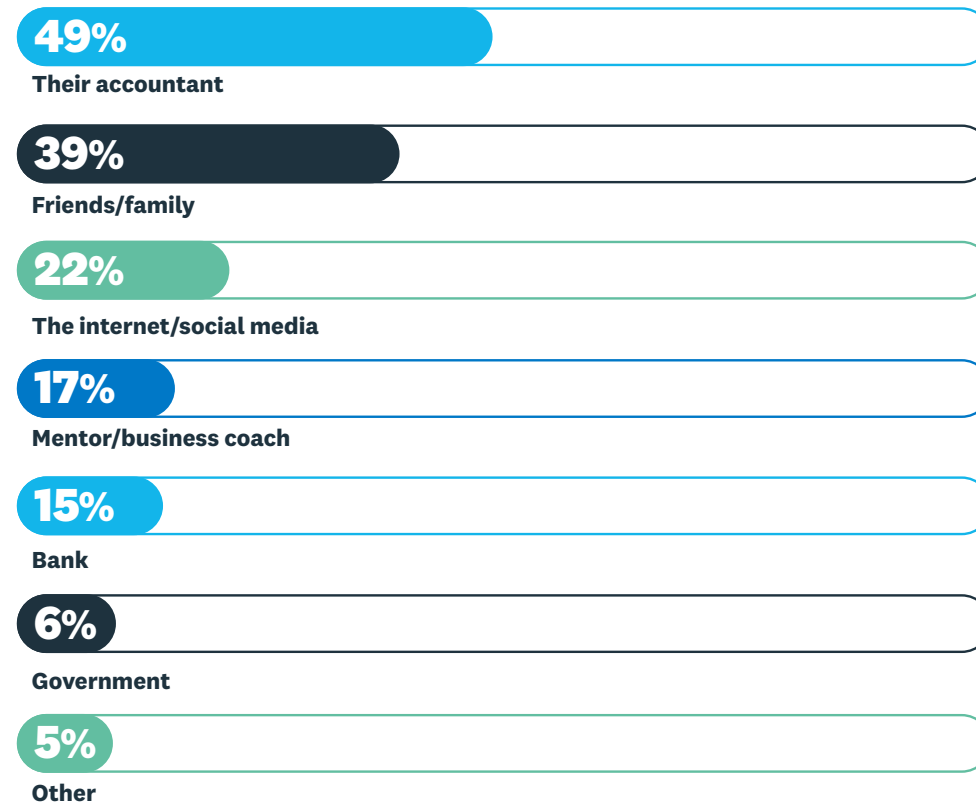
SECTION 3:

Accountants key to business survival

Accountants key to business survival

Accountants are the secret weapons of the small business world, providing advice, training, and support to help SMEs better manage their finances. They also help businesses navigate complex financial regulations and tax compliance requirements, as well as how to leverage digital tools.

Where do small business owners go to get advice and guidance?



60% of small businesses believe accountants are key to economic growth. Almost half (49%) go to their accountants for business advice and guidance, well above any other source of advice, and 23% use their accountants as more of a consultant for business growth.

Nearly a third (29%) credited their accountants as the most significant factor in surviving the last 12 months, and 38% expect to continue using their accountants to handle finances as well as provide advice and guidance on how to improve the business and make more informed decisions.

Lack of financial skills holding SMEs back

Business and financial skills are in high demand and short supply for South Africa's SMEs. The number one challenge is a lack of financial skills, which can lead to overspending, poor decision-making and difficulty managing cash flow.

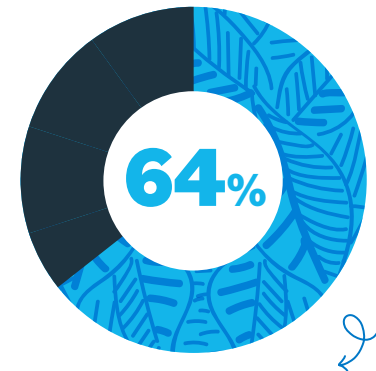
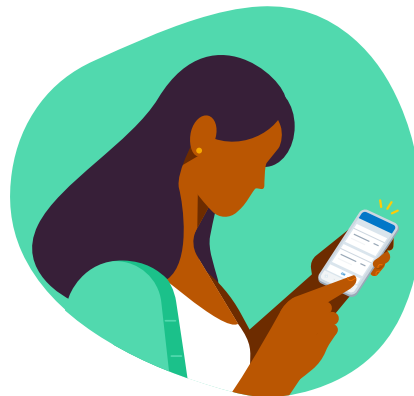
“Without a fundamental grasp of how money works, small business owners may make risky choices or incur expensive debt without contemplating the long-term consequences. Furthermore, if small business owners do not comprehend how to profit from government subsidies and tax incentives, they may be unable to benefit from them.”



Colin Timmis, Xero South Africa
Country Manager

Although accountants can help their clients improve their financial skills, the government also has a critical role to play in providing financial education and training. This includes providing access to resources and information on financial management.

Government also has a vital role to play in supporting accountants: 64% of small businesses say more skills development initiatives are needed from the government to allow accountants to help drive economic growth in the country.



of small businesses say
more skills development
initiatives are needed
from the government

SECTION 4:

Barriers to doing business



Outsourced Finance

Barriers to doing business

South Africa's small businesses are go-getters and problem-solvers, finding creative ways to turn challenges into opportunities. But the reality remains that it's not always smooth sailing, and they continue to come up against challenges that hamper growth and development.

The main concerns keeping SME owners awake at night are:

70%

Political and economic instability

46%

Loss due to loadshedding

19%

Crime, poverty, and civil unrest

Political and economic instability replaced Covid-19 lockdowns as the top concern – up from 43% in 2022 and, interestingly, a dramatically greater concern than loadshedding. But other challenges also persist.



Late payments

Late payments are an ongoing threat for small business owners in South Africa, with 11% reporting they're currently owed money. This figure is down from last year, when over a quarter of businesses were owed money in the form of late payments. Late payments cost small businesses time and resources – 92% revealed that chasing down late payments takes them on average 1 to 2 months.

More needs to be done to reduce the burden of late payments, so that the country can effectively unlock the potential of small businesses.

Government support is critical. Our “Time to Rebuild” manifesto suggests a number of changes at the government level, including increasing the current R20,000 limit for claims to pass through the small claims court and the introduction of a bill that compels big businesses to release their payments data.

Creating a more collaborative environment

Most small businesses want to see greater backing from the government. Nearly two-thirds (64%) want to see the government investing in digital skills and innovation, 35% want more government support with tax incentives, 28% want funding, and 26% would like government-backed skills development.

The onus isn't on the government alone to provide the support SMEs need. Other players in the small business ecosystem need to play their part. Banks, for example, perform a vital role for small businesses, but most do not turn to their banks for support. Only 15% use their banks as a source of business advice and guidance.

“Only concerted, collective efforts can help small businesses navigate the challenges and complexities of operating in South Africa, and help them come out the other side stronger, smarter and more successful.”



Colin Timmis, Xero South Africa
Country Manager



SECTION 5:

Investing in your people

BillyNOW



Investing in your people

Business growth is impossible without people. It is essential to invest in and nurture this talent, in terms of both skills and wellbeing. Employees want to know that they are making a difference and working for a business that cares about its communities.

SMEs in South Africa have shown they are willing to invest in skills as a business priority and build on what they consider an already-strong technology base: 72% consider employees to be tech-savvy, but 86% invested in online or physical training courses to increase knowledge and improve tech skills. Nearly half, 48%, also allocate budget to train their team in technology use and implementation.

However, more than half (56%) identify marketing as the biggest skills gap, so findings indicate that the country's small businesses will need to intensify investment in developing these skills.

Mental health and wellbeing

Mental health and wellbeing has emerged as a clear priority for small businesses, with 99% noting its importance in the business – a 5% increase from 2022. Over half (53%) support wellbeing in the workplace by creating an open environment where everyone feels comfortable discussing and caring for their mental health.

Over a third (36%) provide employee assistance programmes, 22% invest in a better office environment, and another 22% offer wellbeing days off on top of annual leave.

There is also a strong focus on diversity and inclusion: 77% place great importance on promoting diversity, equity, and inclusion in the workplace, and 45% also felt that large companies prioritise supplier diversity when seeking to do business with small companies.



About Xero

Xero is a global small business platform with 3.5 million subscribers which includes a core accounting solution, payroll, workforce management, expenses and projects. Xero also has an extensive ecosystem of connected apps and connections to banks and other financial institutions helping small businesses access a range of solutions from within Xero's open platform to help them run their business and manage their finances. For four consecutive years (2020-2023) Xero was included in the Bloomberg Gender-Equality Index. In 2021 and 2022, Xero was included in the Dow Jones Sustainability Index (DJSI), powered by the S&P Global Corporate Sustainability Assessment. Xero is a FIFA Women's Football partner.

About World Wide Worx and the State of Small Business Report

The World Wide Worx research organisation conducts ground-breaking market research into how change is affecting business and society. 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. The research in this report was based on interviews with 300 small businesses across various business sectors in all nine provinces.

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