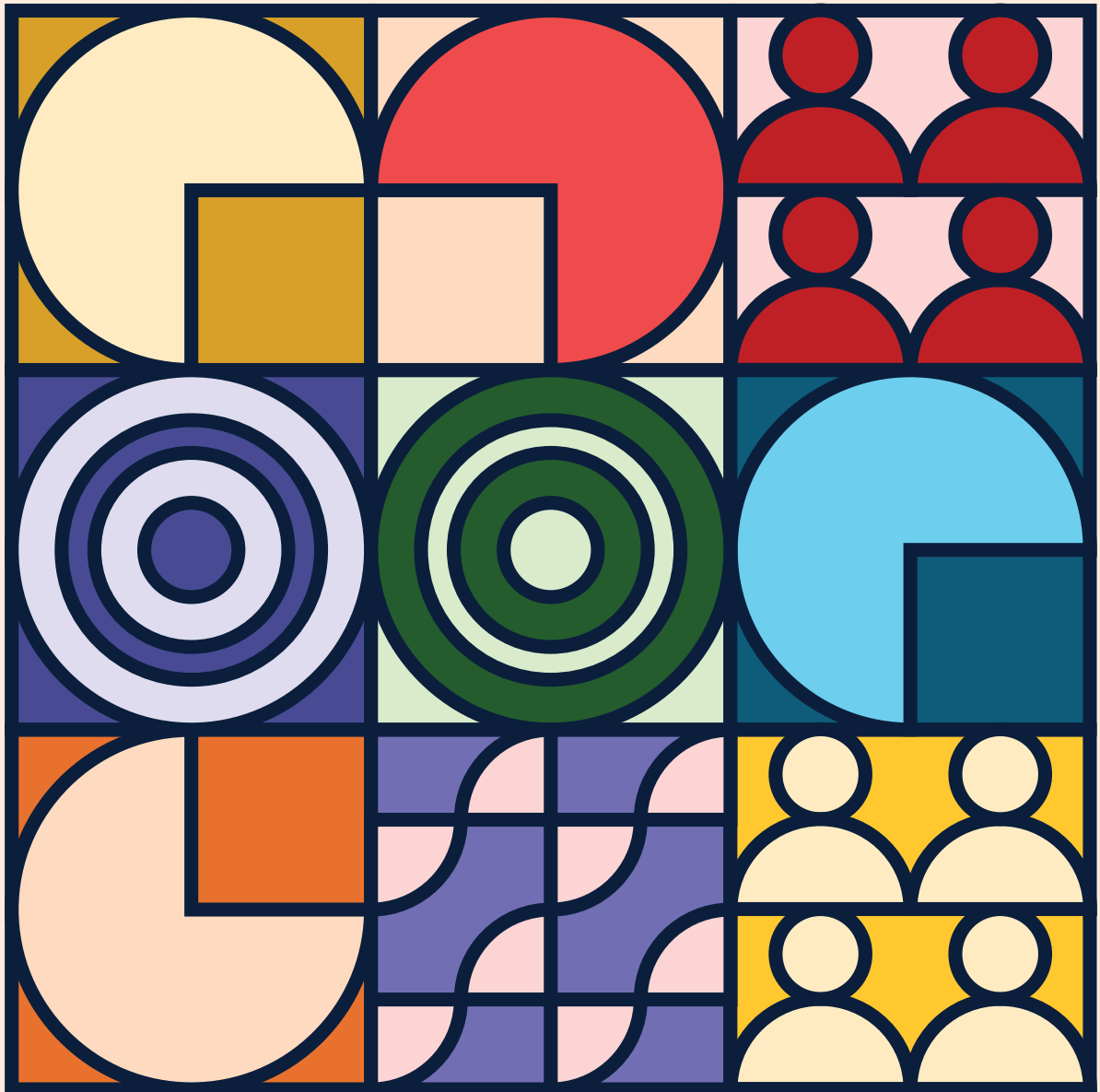


SMALL BUSINESS PULSE

Issue 01

Quarter 3 2018



Getting a feel for South Africa's small business climate.



Contents:

Why The Small Business Pulse?	5
How it works?	6
Who answered the survey?	6
The Small Business Pulse	8
Deep Dive - Access to Small Business Funding	17
Who is Yoco?	22



The success of our economy lies in small business. Already, they constitute a disproportionate number of formalised businesses, contribute around one-third of GDP and provide employment to millions of South Africans.

There's power in small.

Our small business community is a resource that must be nurtured, so we make selling easy for anyone with the entrepreneurial urge.

Our payment technology is easy to access and simple to use, giving entrepreneurs the tools they need to start, run and grow their businesses. By enabling people to thrive, we create more jobs, build resilient communities and drive our economy forward. It's how we're trying to make the world better, through open commerce.

Why The Small Business Pulse?

Yoco is in a unique position. We're the largest provider of payments and point of sale for small businesses in South Africa. Close to 30 000 small businesses across the full width and breadth of the country make use of our services.

There is an opportunity to use our large merchant base to collect and distribute information about the state of small business in South Africa. Qualitative and quantitative data gathered through surveys to our merchant base has been used to create the Small Business Pulse; **a quarterly measure of South African small business**, accompanied by a deep dive into the key factors that influence the current state.

In this way, the Yoco merchant base acts as a powerful bellwether of the status of small business in South Africa.

Small businesses exist in a fast-moving, seasonal and unpredictable business environment. Many factors can cause growth or regression in a business with little warning. Our aim is to provide insights into key factors on a quarterly basis.

What challenges are you facing? How best to overcome these challenges? We hope to help South African businesses by providing relevant insights into the current business environment and continue to be an active partner in your growth and success.

How it works

A quarterly survey was sent out to close to 30 000 business owners within the Yoco merchant base. The survey is made up of two sections.

Section 1 is the Small Business Pulse. Business owners are asked to rate their current business conditions and their expectations for the future. We use the qualitative results from the survey and compare them to quantitative statistics from the Yoco database, such as average card transactions per merchant over time.

Section 2 of the survey is a deep dive into a positive or negative business influencer. The Q3 2018 survey focuses on access to small business funding in South Africa, shedding light on the challenges that business owners face when they seek funding.

The businesses in the sample consist of micro, small and medium enterprises. 75% of them having an annual turnover of less than R1 000 000. A wide range of trades and services are represented across the country, including market traders, health professionals, cafés & restaurants, theatres and sole proprietors in various industries.

This marks the Yoco Small Business Pulse out as a unique tool for South African businesses that are under-represented in traditional South African business reports, mostly due to the high levels of concentration in key sectors and data that's heavily weighted towards larger corporates and listed companies.

Who answered the survey?

The Yoco Small Business Pulse was run at the end of August 2018. Survey responses were received from 3 621 small businesses in Yoco's merchant base of close to 30 000 merchants, with the study conducted by independent research agency, Beyond Insights.

The sample set was a diverse representation of small businesses in SA. The average respondent had been in operation between one and five years, employed two to four employees and has an annual turnover that is below R100 000. Just under 40% of the businesses surveyed are based in the Western Cape, 35% are based in Gauteng

and the remainder are located across the country.

The small businesses were spread across a wide breadth of industries, including Food, Drink & Hospitality (24%), Health, Beauty & Fitness (21%), Retail (19%), Professional Services (8%) and various other sectors.

The demographics of the business owners showed a young set of entrepreneurs, with the majority (32%) below the age of 35. There was almost a 50/50 split between female (53%) and male business owners (47%).

Industry:

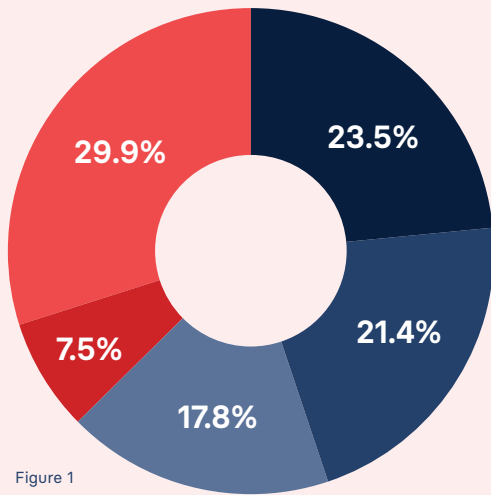


Figure 1

Annual Turnover:

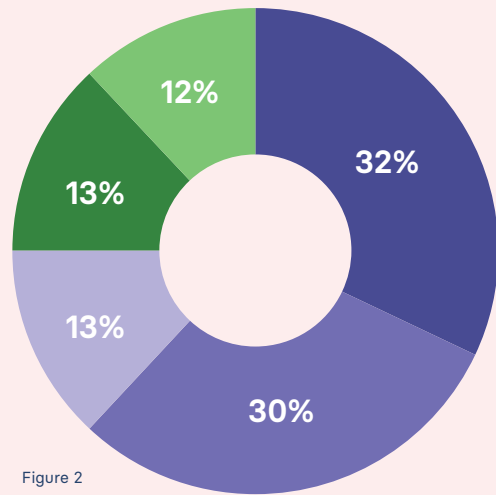


Figure 2

- Food, Drink & Hospitality
- Health & Beauty
- Retail
- Professional Services
- Other

- R100 000 or less
- R100 000 - R500 000
- R500 000 - R1 000 000
- R1 000 000 - R3 000 000
- R3 000 000 or more

Geographic Coverage:

Western Cape:	1 477
Gauteng:	1 310
Kwa-Zulu Natal:	378
Countrywide:	342
Eastern Cape:	264
Mpumalanga:	200
Free State:	170
Outside of SA:	163
North West:	152
Limpopo:	143
Northern Cape:	78
Total:	3 621

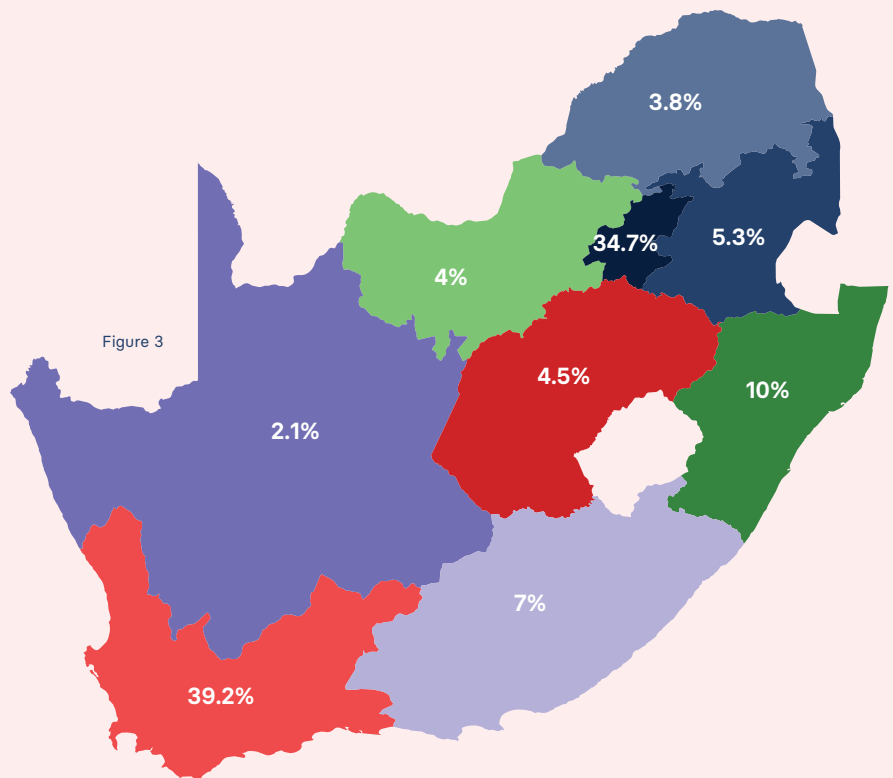


Figure 3

Small Business Pulse

A Sense of Optimism

On a scale from – 100 to 100, with 0 being completely neutral, the overall Pulse score for small businesses sits at 32. This indicates a level of optimism within the sample. More than half of small business operators stated that their businesses are performing better now than they were 12 months ago.

Furthermore, 83% expect their business to grow in the next 12 months. This indicates positive momentum within smaller entrepreneurial businesses in South Africa despite the challenging economic condition.

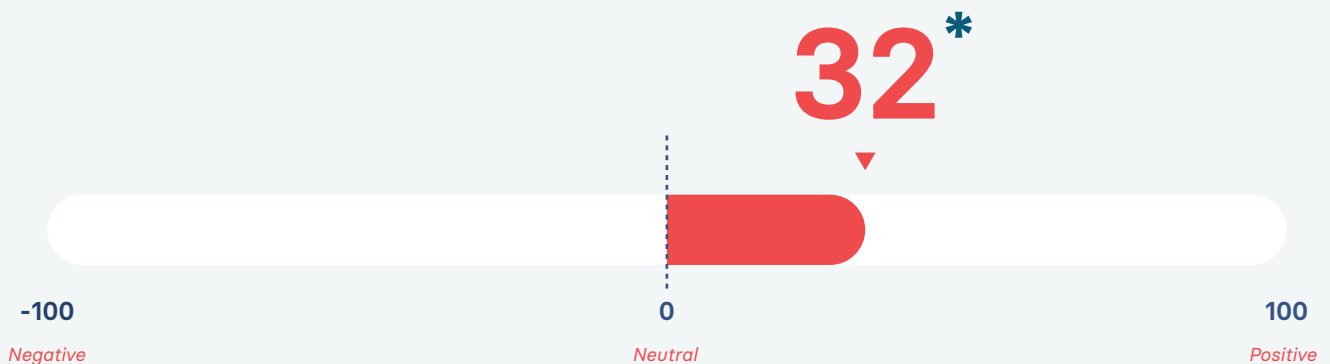


Figure 4

* The Pulse score is a composite of five questions that respondents were asked about their business environment. The questions included their assessment of their business performance now relative to 12 months ago, their prospects for business growth for the next 12 months, expectations of profitability in 12 months' time, anticipated staff levels in 12 months' time and their perception of the likely status of the general business situation in South Africa in 12 months' time.

More detailed breakdowns provide an insightful overview of the climate within business stage and industry.

The business stage breakdown gives an illuminating insight into the mindset of small business owners who are still in the early stages of operation, with newer businesses significantly more positive than those who have been in operation for longer. Businesses less than four years old have a Pulse score of 37, while businesses older than 11 years only score 18 on the Pulse scale.

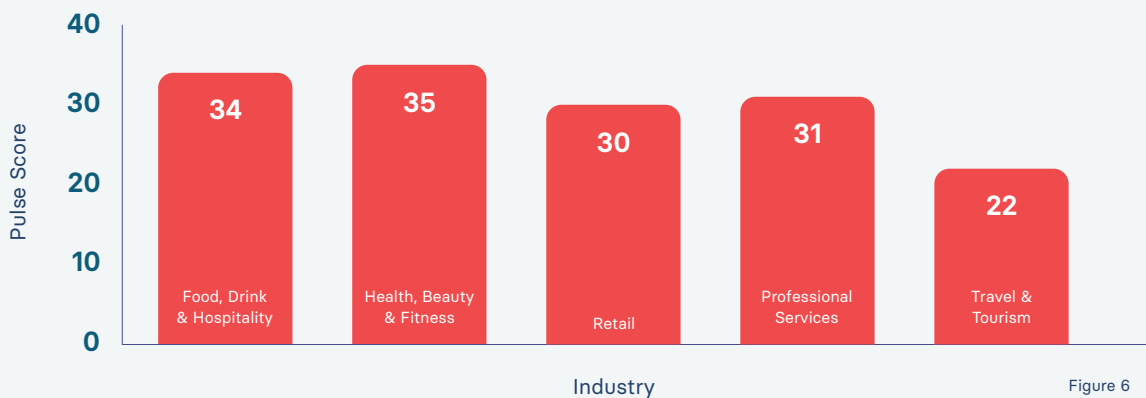
The industry breakdown is fairly constant with the majority of industries scoring about 30 on the Pulse. Travel & Tourism stands out with a score of 22, showing a more negative perception, but this could be explained by the decrease in tourism during this time of year. The three largest segments, being Food, Drink and Hospitality, Health & Beauty and Retail scored 34, 35 and 30 respectively.

The Pulse breakdown by province is also consistent, with all regions scoring between 32 and 38. Businesses in the Eastern Cape, Western Cape and Kwa-Zulu Natal are the least optimistic, all scoring 32. While Mpumalanga is the most positive region scoring an impressive 38.

Business stage



Industry



The Pulse breakdown by province

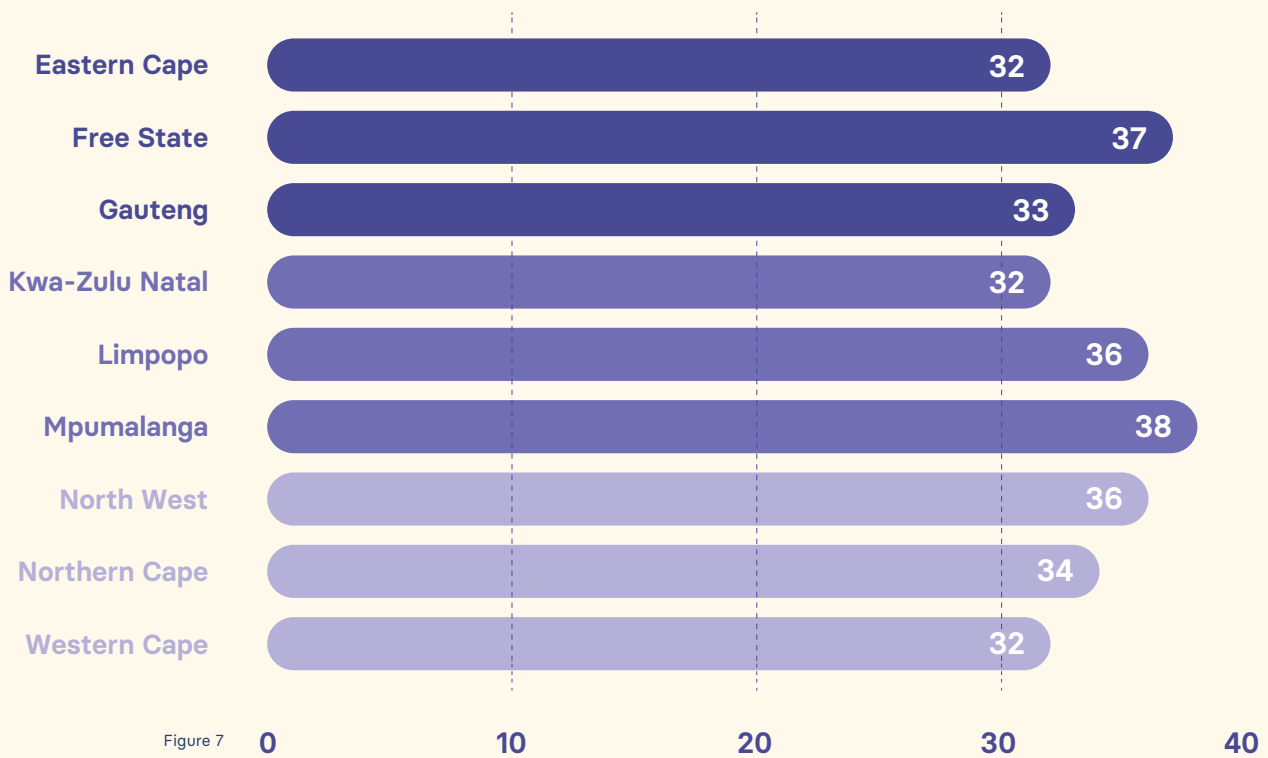


Figure 7

Their optimistic outlook is reflected in further stats. 78% of merchants expect to see more profit in 12 months time than in the previous 12 months. 37% expect to grow their staff in the year ahead, versus only 4% who predict that their staffing levels will decline. According to Statistics South Africa, the country's unemployment rate for the second quarter of 2018 was at 27.2%. Small businesses appear to offer an opportunity for employment seekers.

78%

*expect their profit
to increase.*

37%

*expect to employ more staff
in the next 12 months.*

An analysis of Yoco's internal data shows that small business operators have a right to be positive about their fortunes. The average value of card transactions per merchant has increased relative to the same time last year by 6.1%.

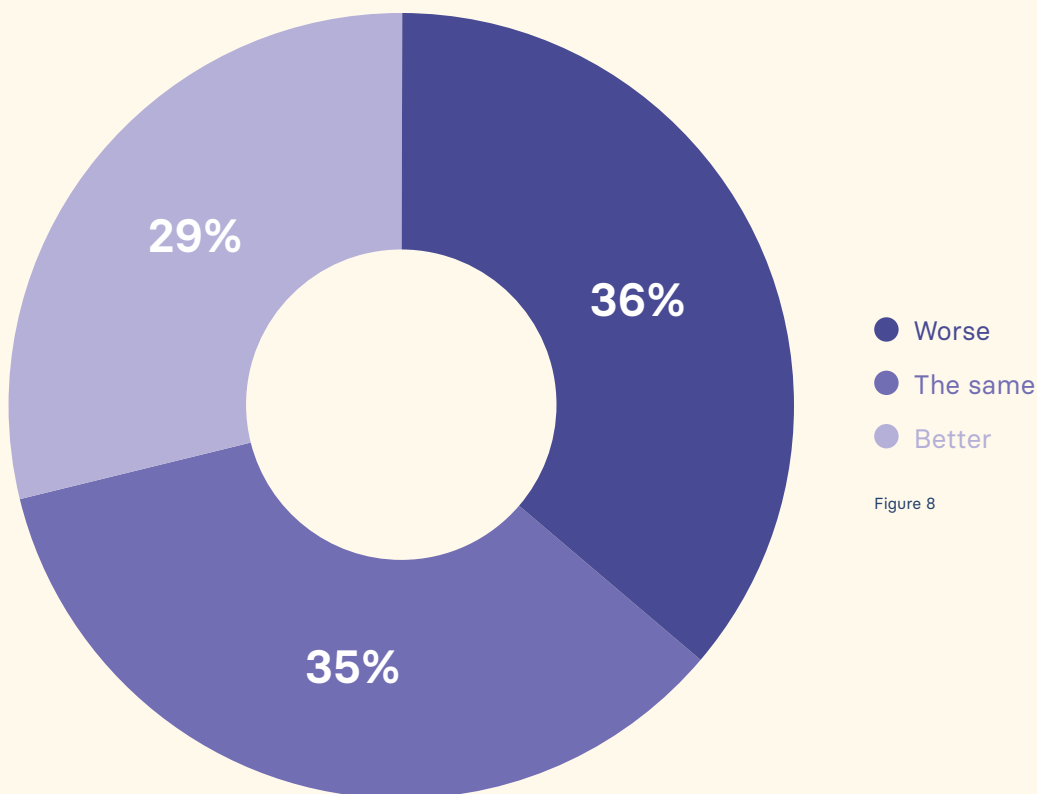
This is slightly ahead of the current CPI inflation rate of 5%, showing it is holding firm in an environment which many larger businesses are finding challenging.

Sectors related to Personal Services, Professional Services, Healthcare, Beauty and Fitness and Home and Repair have fared the best with increases of over 10%. However, there are signs of some pressure on sectors that may be considered luxuries such as Food, Drink & Hospitality, Travel and Tourism and Not for Profit companies, all of which registered declines in the average value of card transactions per merchant.

This pattern was reflected in the survey data, where the most pessimistic sectors were Travel & Tourism and Entertainment while Health, Beauty, Fitness and Personal and Professional Services had the greatest optimism about their business prospects.

Despite the confidence regarding their own prospects, small business owners do echo some concerns held by larger businesses regarding South Africa's general business environment. 36% believe that the environment for conducting business in the country will be worse in 12 months' time, while only 29% anticipate that it will improve over the next year. However, this is more positive than the picture seen in the recent Q3 RMB/BER business confidence survey.

64% of business owners believe that the general business environment will be either the same or better over the next 12 months.



Sources of Hope

The strongest levels of positivity come from businesses that have been operating for less than five years. These businesses could be more likely to find themselves on a growth curve. Those who have been in operation longer tend to be slightly more pessimistic about the business situation in South Africa. Of those who have been trading for ten years or more, almost 50% feel that the environment will be more negative in 12 months.

Positive outlooks on the business environment are particularly strong amongst younger business operators (16 to 34 years) and those who identify their ethnic background as 'Black'. With youth unemployment rates in the country well over 50%, small businesses appear to offer this particularly vulnerable group an opportunity to enter the workforce and productively impact the economy.

Owners believe that there are opportunities for growth. However, they aren't naïve about the challenges in the current market environment. Over half of the respondents mentioned that the biggest business challenge they face is the poor state of the economy. One-third cited political instability as a key obstacle. Concerns around inflation (29%), currency fluctuations (26%) and tax rates (21%) are further evidence of challenges that the economy presents small business owners.

Means of financing their businesses are also a challenge, with 40% pointing to cash flow as a barrier to business success. 22% cite the lack of access to finance as a concern. The limitations in accessing finance are of particular importance to those who have operated for less than four years.

The strongest levels of positivity come from businesses that have been operating for less than five years.

Business Challenges



51%
State of economy



40%
Cash flow



33%
Political uncertainty



29%
Inflation



26%
Currency fluctuations



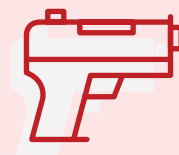
25%
Competition from
big business



23%
Poor sales



22%
Access to finance



21%
Crime

Closing statement

The current recession has created a challenging business environment. Despite this, small business operators remain positive about the potential for their businesses to grow, become more profitable and their ability to employ more staff.

This is only the first Pulse survey. We will continue to track small business sentiment in coming quarters, but it's clear that there is positive energy within the entrepreneurial space. It's crucial that government facilitates an environment that continues to stimulate this sector.



"It is tough at times due to the economic status of our country, but we stay positive and strive to do well regardless"

- Nadia Mugnaioni / *Sweet Lemon Catering*





"I feel very optimistic about my business future, because not only do I have passion for it but I keep looking at ways of reinventing our services and products" -

Andiswa Skweza / Hostess & Cook



Deep Dive – Access to Small Business Funding

More than half of the businesses in our survey stated that access to finance was important for their success, with 23% stating that it was extremely important. Access to finance is generally considered to be a barrier for business operators, with only 17% stating that it's easy to source finance for their business.

"Access to finance is important"

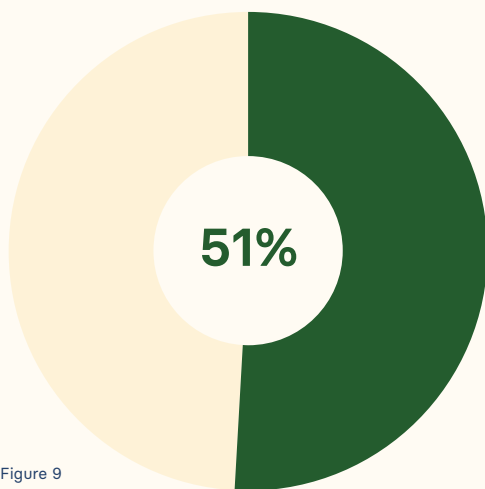


Figure 9

"Access to finance is easy"

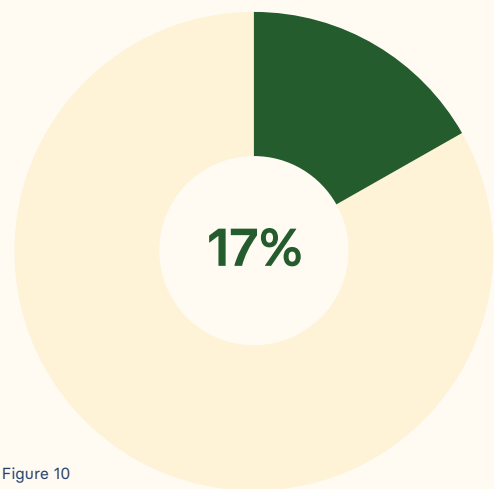


Figure 10

Despite the importance of access to finance for these small businesses, three-quarters had never applied for formal funding or loans for their business. Amongst those who had applied, only half had been successful in securing the amount of funding they were after – which amounts to only 13% of all small businesses. This drops to below 10% amongst those who have been in business less than four years, but picks up to 26% for businesses which have been operating for ten years or more.

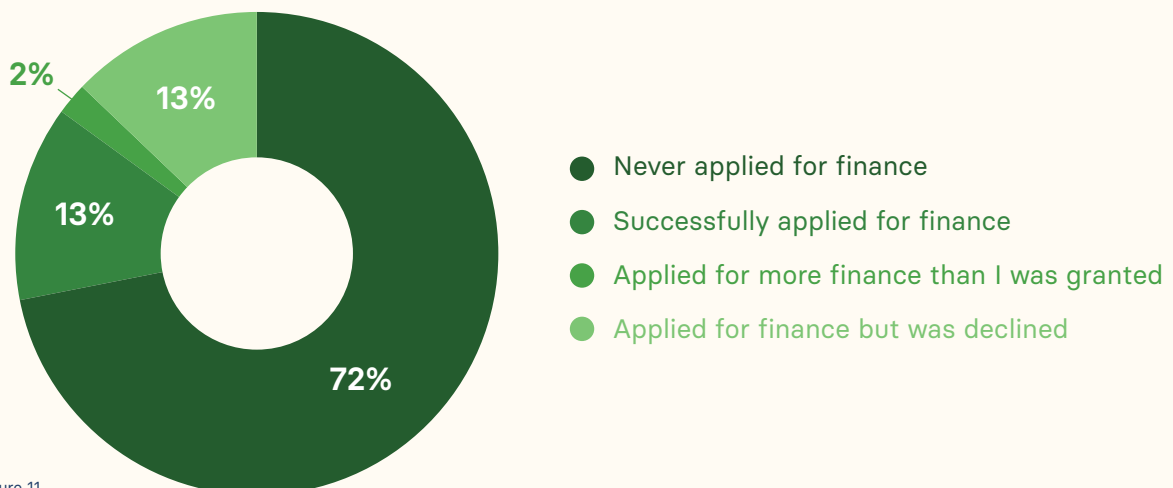


Figure 11

The top three reasons that small businesses apply for funding is:

1. To invest in equipment for the business (51%).
2. To drive business growth (35%).
3. To purchase stock (22%).

This confirms that access to appropriate funding is crucial for driving the expansion of small businesses. The other key reason for sourcing finance, particularly amongst those who have been in operation for a shorter time,

is that it's fundamental to keeping the business in operation. Aspects of this include covering cash flow and business expenses. For such businesses, access to finance may be more about keeping the business afloat than growing it.

Still, approximately 40% of business owners feel that funding is hard to get. Access to finance is particularly difficult for those who have been in operation for less than five years. 42% of those who have had finance declined in the past cite that the reason was because they hadn't been operating long enough.

Reasons for being denied funding



42%
Too new



40%
No assets



22%
Insufficient turnover

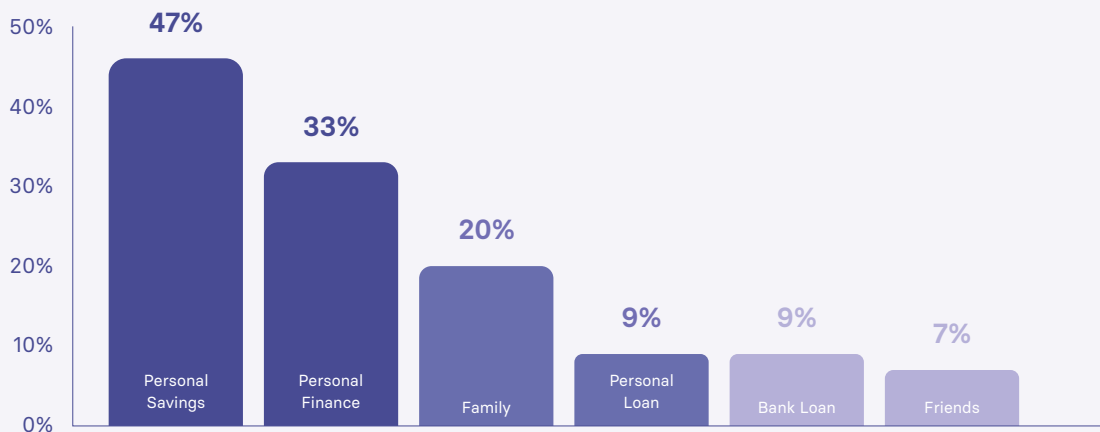


20%
No financial records

Initial Investment

Within the small business environment, 80% of businesses were started using personal savings or existing sources of finance, such as an overdraft. When starting the business, 20% had a loan or investment from family members, with a further 7% having a loan or investment from a friend.

Source of initial start-up capital



Type of start-up capital

Figure 12

Fewer than one out of ten small businesses had access to a bank loan to generate their start-up capital. Those that were able to access a bank loan tend to have been in operation longer, employ more people and have a larger turnover. This could indicate the potential for commercial financial assistance that helps small businesses scale up their operation, leading to increased employment and turnover levels.

Initial investment amount varies by business type. Those in the Health & Beauty and Retail industries tend to require lower investment, while those in Hospitality and Travel & Leisure sectors require larger amounts to start trading. Overall, slightly more than half of businesses required more than R50 000 to commence.

Therefore, the initial investment required for most businesses to start up is considerable. This is likely to provide a barrier to entry for many aspirant entrepreneurs.

Initial start-up investment

Figure 13



Looking for Finance in the Future

When looking for future funding, 40% of businesses would use existing personal sources of finances as their first channel. This could involve their overdraft, digging into personal savings or seeking a loan from a friend or family member. One-third would approach a bank as their first option.

Less than 5% would approach formal funding as their first choice, suggesting a lack of knowledge within the small business sector regarding ways to access funding outside of the traditional banking sector.

Most popular sources of funding



Funding criteria

When seeking funding or finance, the two most important criteria are the cost of financing and the interest rate, as one would expect. Almost half would consider the ability to speak to someone face-to-face as a key consideration when seeking finance, with one-third considering the ease of application as a key criteria.

Other core factors when deciding to apply for finance include the repayment period and the flexibility of the terms.

Interestingly, the institution's reputation and the customer's historical relationship with the institution are less important than costs, terms and the ability to speak to someone in person.

This suggests that there are opportunities for new entrants to the business financing sector over traditional operators.

Important criteria for small businesses when looking for funding



51%

Finance fees



49%

Interest rate



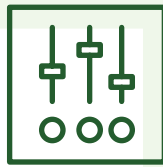
46%

Speaking face-to-face



34%

Ease of application



33%

Flexible terms



32%

Repayment terms

An Opportunity to Help

The chief barrier to other finance providers is small businesses' lack of awareness regarding where else to seek funding outside of the traditional finance sector.

Access to finance is important to most small businesses, but the majority have not accessed finance outside of their personal resources

and network of family and friends. For those who have been in business for a shorter amount of time, the ability to access finance is particularly important. However, these businesses are more likely to be declined finance from the traditional banking institutions.

A clear gap exists for more flexible lending to new entrants in the small business sector.

Closing statement

More often than not, access to funding is critical for small businesses to succeed. However, small business owners tend to struggle to access the funds they need, whether it's initial funding for the start-up process or funding further down the line to expand.

There is an opportunity to provide funding to these business owners to enable them to grow and reach their goals. Such solutions should be accessible, flexible and work in the interest of the business.

Who is Yoco?

We exist to help entrepreneurs thrive - whether they have moonshot visions or more down to earth ambitions.

Our payments and point of sale technology gives small businesses an easily accessible and simple to use platform that helps them sell their products and services, whether on a street corner or in a fancy mall. By giving these entrepreneurs the tools they need to start, run and grow their businesses - we help to create jobs, thriving communities and drive economic growth. Our 30 000-strong small business community also gives us the invaluable insights we need to create a frictionless payment experience for our customers, and theirs.

Yoco was founded in 2013 by four friends with a shared passion for smart technology and a desire to see small businesses succeed.

[Click here to view the Yoco Journey](#)



All data analysis was independently conducted and verified by Beyond Insights, a registered member of SAMRA (South African Market Research Association). Beyond Insights is a boutique insights agency that partners with clients to help inform their business strategies. www.beyondinsights.co.za