

SMALL BUSINESS PULSE

Issue 02

Quarter 4 2018



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



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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 35 000 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 their 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.

"Starting a business in South Africa is hard in the beginning, but if you get your momentum, you can't stop."

- Small business owner in Johannesburg

How it works

A quarterly survey was sent out to more than 35 000 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 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 Q4 2018 survey focuses on the use of technology within small business in South Africa, shedding light on the needs and barriers that business owners face when dealing with technology.

The businesses in the sample consist of micro, small and medium enterprises. 85% of them having an annual turnover of less than R1 million. 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 is heavily weighted towards larger corporates and listed companies.

Who answered the survey?

The Yoco Small Business Pulse was run at the beginning of December 2018. Survey responses were received from 3 393 small businesses in Yoco's merchant base, 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 four or less employees and has an annual turnover that is below R250 000. 22% of the businesses surveyed are based in the Western Cape, 23% are based in Gauteng and the remainder is located across the country.

The small businesses were spread across a wide breadth of industries, including Food, Drink & Hospitality (23%), Health, Beauty & Fitness (20%), Retail (21%), Professional Services (13%) and various other sectors.

The demographics of the business owners showed that the majority (42%) of respondents fell between the ages of 35 and 49. There was almost a 50/50 split between female (54%) and male business owners (46%).

Industry:

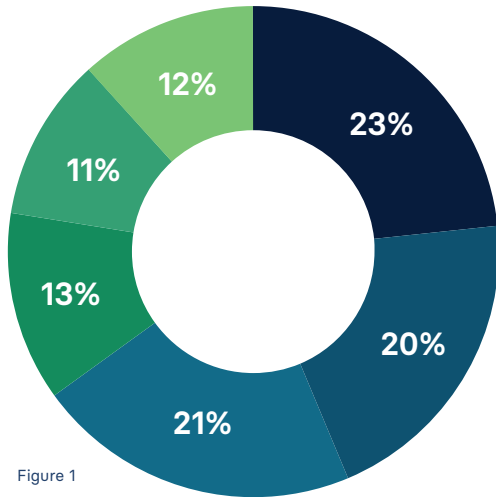


Figure 1

Annual Turnover:

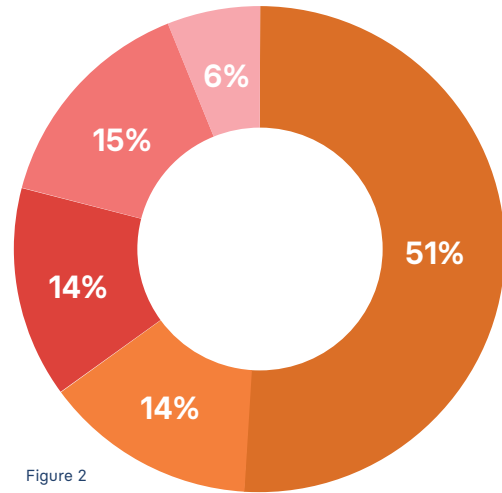


Figure 2

- Food, Drink & Hospitality
- Health, Beauty & Fitness
- Retail
- Personal & Professional Services
- Leisure, Travel & Entertainment
- Other

- R250 000 or less
- R250 000 - R500 000
- R500 000 - R1 000 000
- R1 000 000 or more
- Prefer not to answer

Geographic Coverage:

Gauteng:	1 543
Western Cape:	1 519
Kwa-Zulu Natal:	678
Eastern Cape:	583
Mpumalanga:	540
Free State:	517
Limpopo:	496
North West:	479
Northern Cape:	431

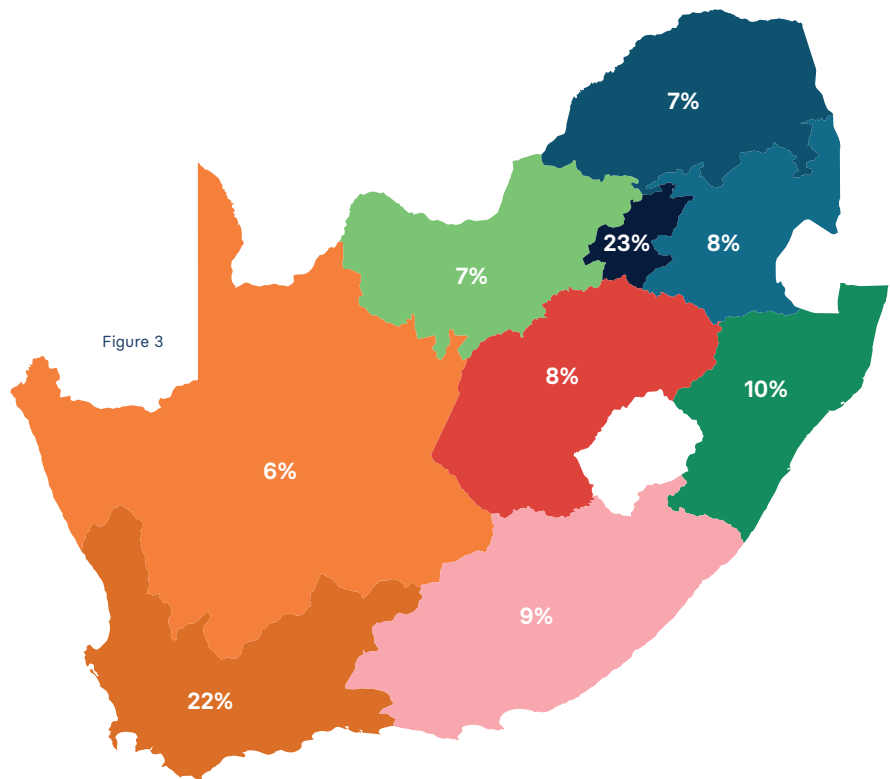


Figure 3





*"The business environment
in South Africa is constantly
evolving. Small businesses are
making a real impact."*

- Food, Drink & Hospitality business in Bethlehem



Small Business Pulse

Going Steady

On a scale from -100 to 100, with 0 being completely neutral, the overall Pulse score for small businesses in Q4 remains at 32 – the same as the Q3 reading. Therefore, small business owners retain a steady sense of optimism.

This is despite the decline in broader business confidence that has continued from Q3 into Q4, as per the RMB/BER and SACCI business confidence surveys. Like last quarter, more than 50% of businesses that

answered the survey say that their business is performing better than 12 months ago.

This consistent outlook is reflected in further stats. 83% expect their business to grow over the next 12 months and 79% expect an increase in their profits during the same period. This is similar to last quarter, indicating consistency in the economic climate for small business owners across South Africa.

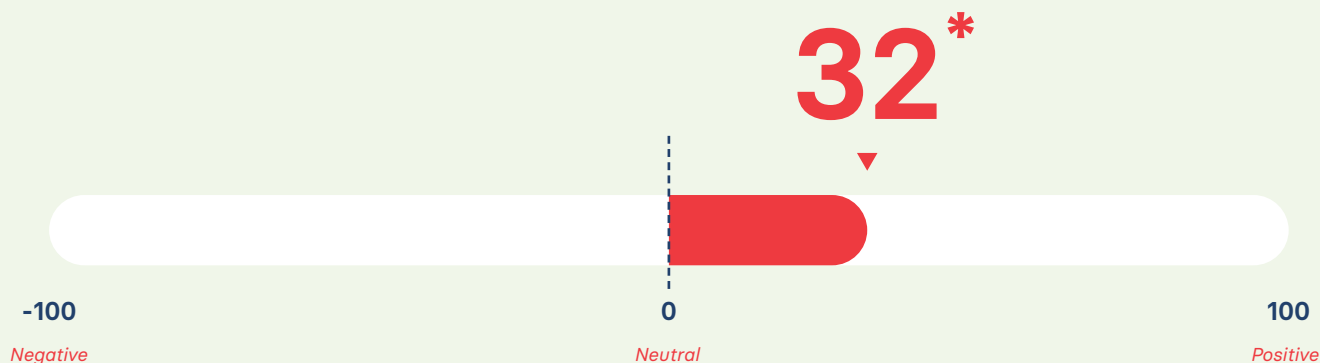


Figure 4

* The Pulse score is composed of five questions that respondents were asked about their business environment. The questions asked them to assess 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.

Though the overview looks pretty consistent, more detailed breakdowns provide clear insights into changes that did occur from Q3 to Q4.

A pattern has emerged throughout the data. Older and larger businesses are becoming more negative about the business environment, while optimism in younger and smaller businesses ensure that the overall Pulse score remains high.

From Q3 to Q4, businesses less than a year old and businesses with only one full-time employee increased their Pulse score by 3 points. This was not reflected by older and larger businesses, whose score fell by as much as 3 points.

The Pulse breakdown by province shows only a negligible difference in score across provinces, with all regions scoring between 31 and 33. Mpumalanga and Free State experienced the most significant drop in score by 6 and 5 respectively. North West

had the most positive outlook during Q4, followed by Gauteng and Northern Cape.

Pulse scores vary across industries. The highest Pulse scores belong to Health, Beauty & Fitness (37) and Food, Drink & Hospitality (35).

Leisure, Travel & Entertainment maintained the lowest Pulse score from Q3 to Q4, even though their score increased by 4 points. This is the highest jump across all industries. Seasonal fluctuation is to be expected in this particular industry due to the time of year, especially during November and December when people are travelling for the holiday period.

This insight is consistent with findings from SME South Africa, who estimate that visitor numbers could increase by as much as 20% after the “government announced that the restrictive visa regulations for foreign nationals travelling with their children would be revised.”

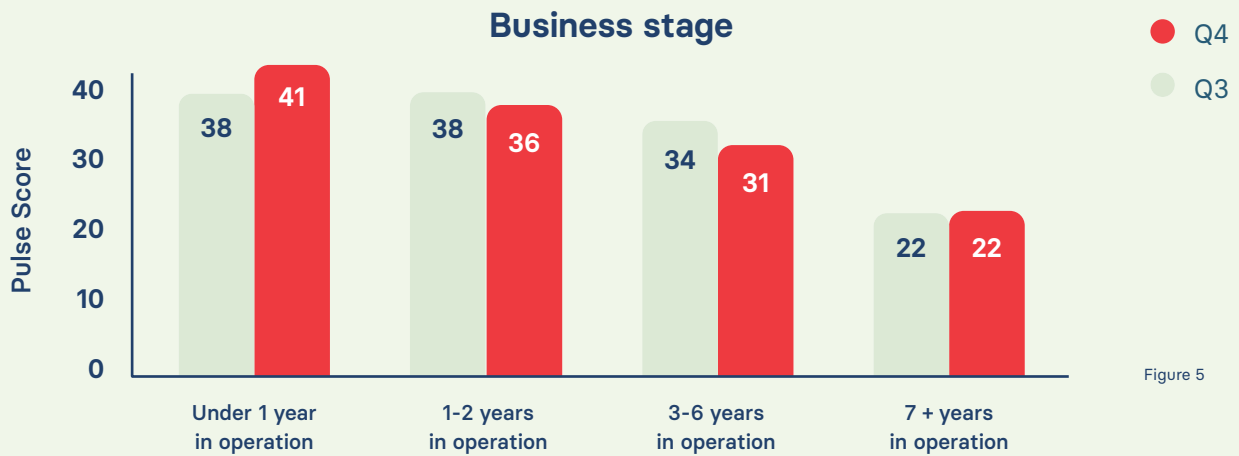


Figure 5

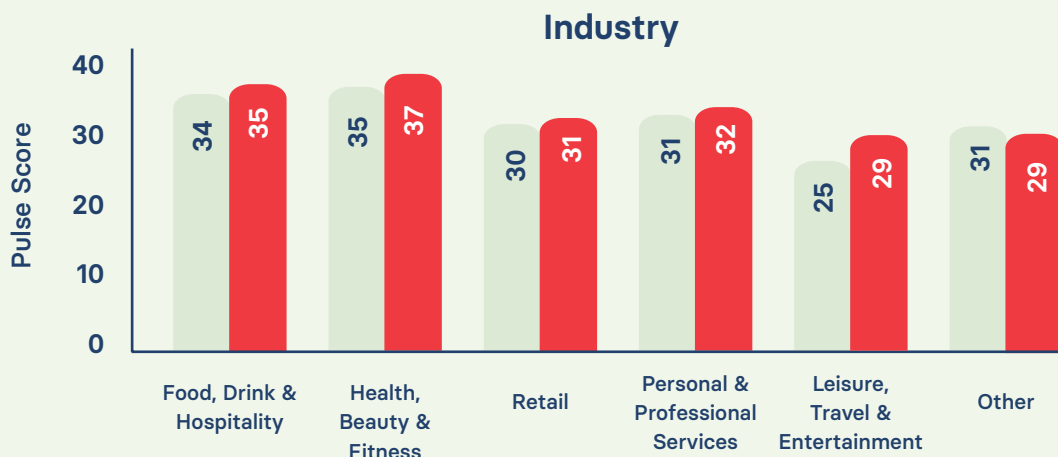


Figure 6

The Pulse breakdown by Province

● Q4

● Q3

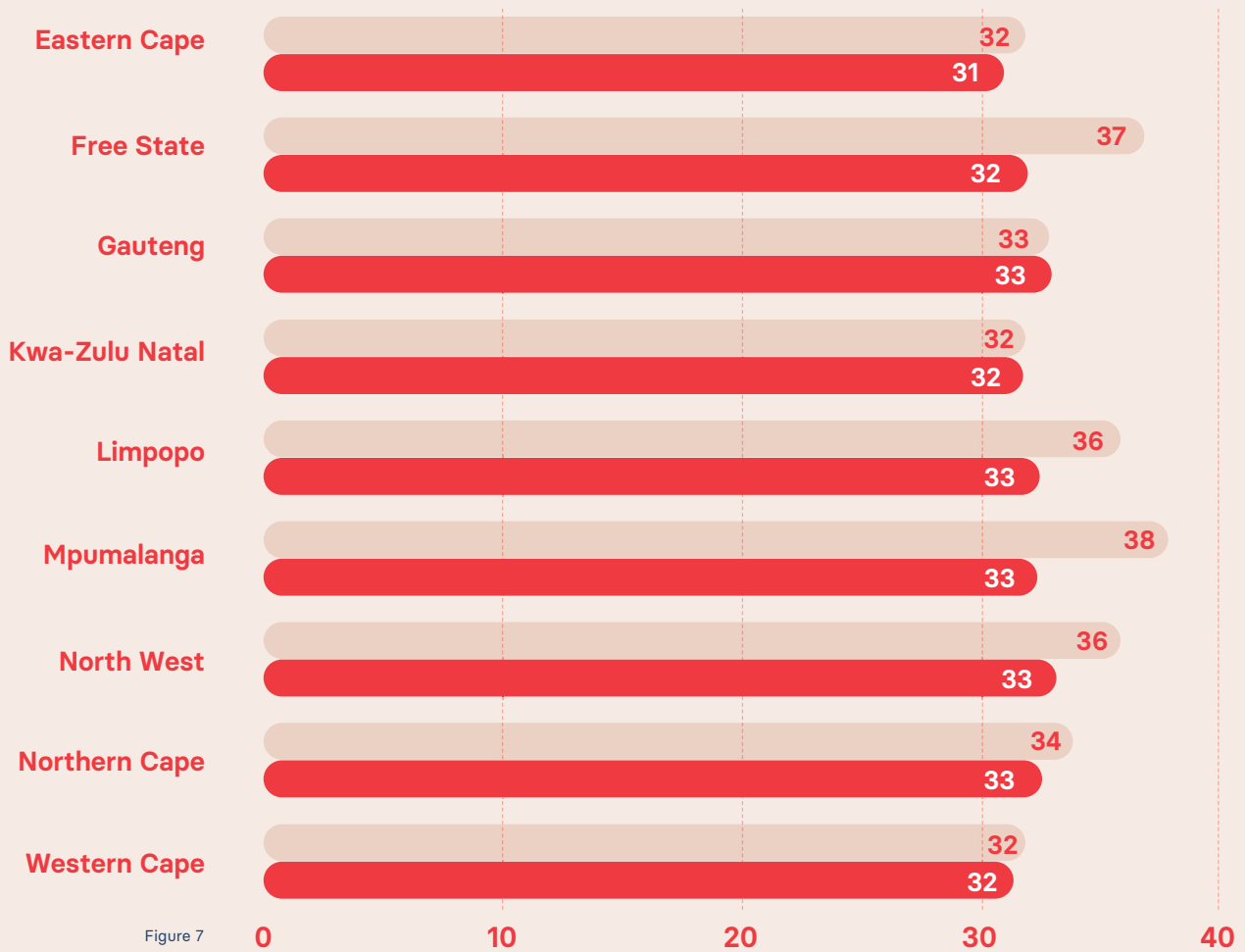


Figure 7

One key statistic that stood out was the decline in the likelihood of businesses to employ more people in the next 12 months. This decreased by 3 percentage points in Q4 – down to 34%. Again, this drop is attributed to more established businesses. They appear to be tightening their belts and keeping costs under control due to an uncertain business environment.

27.5%

*unemployment rate
in South Africa*

34%

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

These findings are consistent with the latest unemployment figures by Stats SA that were released for Q3 – “South Africa’s unemployment rate rose to 27.2% in the second quarter from 26.7% in the first quarter and now sits at 27.5%.”

DESCRIPTIONS OF THE BUSINESS ENVIRONMENT:



Figure 8

When asked to describe the business environment in South Africa, responses were tinged with negativity. Many business owners described the environment as **tough, challenging, difficult, volatile** and **uncertain**. Other concerns brought up included **politics**, the **government** and **corruption**.

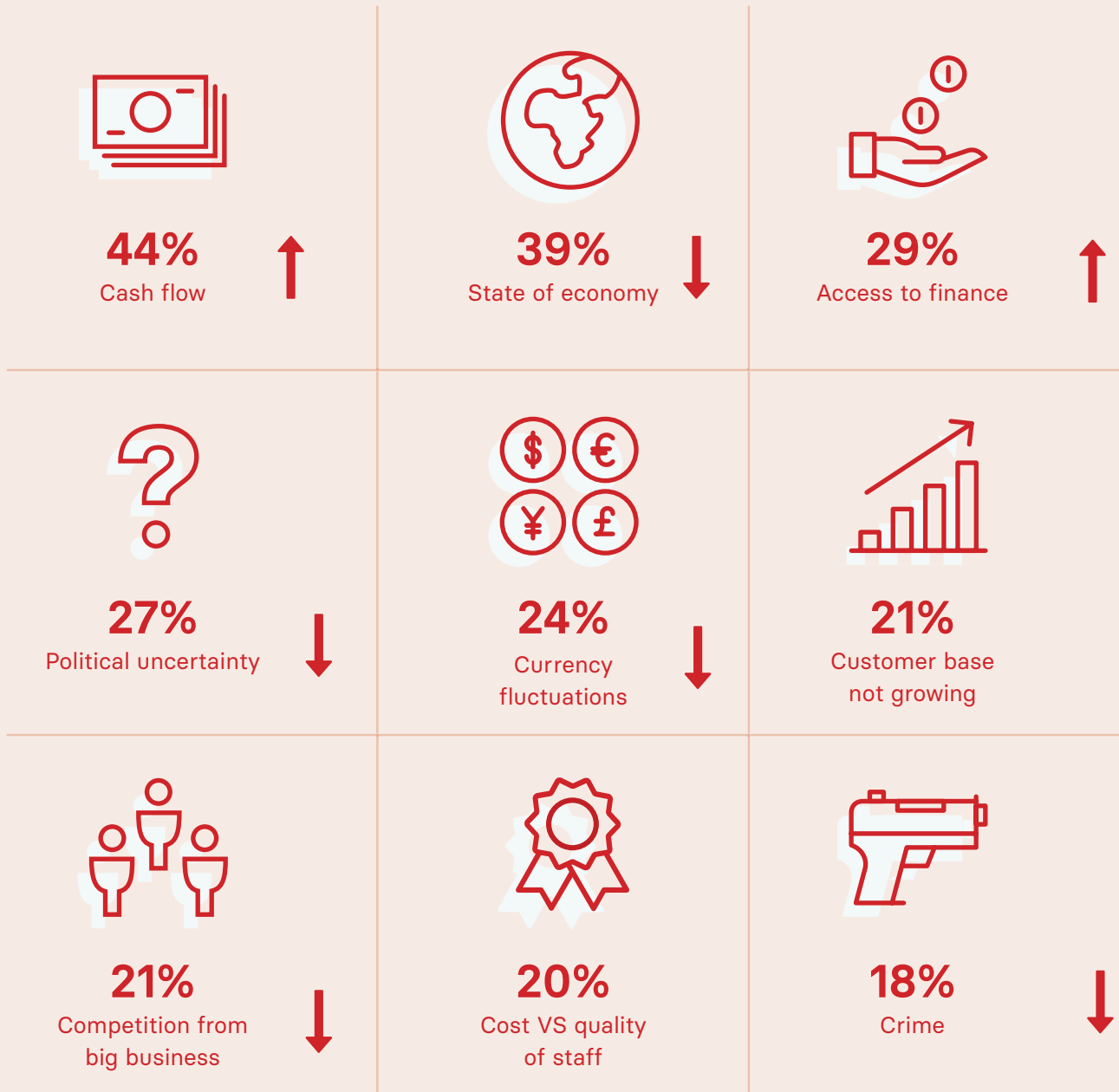
Positive words were also used to describe the

business environment, however. These included **growth, good, opportunities, better** and **increasing**.

Positivity remains, but owners are still facing significant challenges. Two of the greatest challenges that small businesses faced in Q4 were Cash Flow (44% – up from 40%) and Access to Finance (29% – up from 22%).

Worries about the state of the economy dropped from 51% to 39% – a significant decline – aligned to South Africa exiting a technical recession in Q4. Although the extent of the drop is surprising considering the difficulties that the economy continues to face.

Business Challenges



↑ Up from Q3

↓ Down from Q3

Figure 9

Closing statement

Even as broader business confidence in South Africa continues to decline, small business operators remain positive about the potential for their business to grow and become more profitable.

A steady Pulse score of 32 from Q3 to Q4 confirms this, as well as the fact that 83% expect their business to grow in the next 12 months.

This positivity appears to be driven by internal factors more than a fertile external business environment, although both 'state of the

economy' and 'political uncertainty' have decreased in the Business Challenges ranking. The most positive business owners are those just starting out on their entrepreneurship journeys, yet these owners face the biggest hurdles in terms of cash flow and access to finance.

With sales indicators pointing to a good peak season for most industries in our merchant base, the effect of the expected slowdown in sales in Q1 2019 will be fascinating to note on the first Pulse score of the year, which will be released in April 2019.



"At the moment, the business environment in South Africa is blooming!"

- Travel & Tourism business in Struisbaai





Deep Dive – The Use of Technology in Small Business

Every quarter, we use the Yoco Small Business Pulse surveys to better understand a key aspect of small business in South Africa. This quarter, we used the survey to better understand how small businesses use technology to start, run and grow.

We were particularly interested in the adoption rate of technology in South African small businesses, the tasks businesses use technology for and the barriers small businesses face when dealing with tech. We also wanted to find out if access to technology increased the growth rate or Pulse score of a business.

The survey showed that there is a high adoption rate of technology in small businesses. This bodes well for the future. As does the fact that the vast majority of respondents are extremely comfortable with tech.

Some of the most interesting results came in when we compared respondents' answers in the Technology section to the answers in the Small Business Pulse section. We found

that businesses with a higher adoption rate of technology are more positive in the Pulse and many of the measures going into it. Another strong indicator of positivity and growth amongst small businesses is their access to the internet – those with better internet access tend to have higher Pulse scores.

Overall, the high level of adoption and the increased growth rate due to access to technology shows the potential to stimulate growth in the economy and jobs sector by making technology more accessible to small businesses in South Africa.

“Running a business can be highly competitive, which forces us to be innovative.”

- Food, Drink & Hospitality business in Johannesburg

Adoption of Technology in Small Businesses

Technology has become commonplace in the lives of small business owners. 89% state that they use technology 'often' or 'all the time'. With that in mind, it makes sense that 78% of small business owners are comfortable with technology.

Overall, just 4% of respondents felt uncomfortable when dealing with technology.

When asked of the importance of technology in their business, 78% of owners said that technology was important in order to start, run and grow their business. Two-thirds felt that their business had become more dependent on technology over the past 12 months, with the remainder of respondents saying that it had remained the same. This was the case for businesses across all industries and geographies.

One group of businesses proved more dependent on tech than the rest – those with annual turnovers of more than R1 million. A higher dependence on tech is expected in larger businesses. They have more staff to monitor, complex finances and require sophisticated stock control systems.

78%

*of small business owners
are comfortable with tech*

65%

*of small businesses have become
more dependent on technology
over the past 12 months*

*“There has been lots of technology
improvement because there are so many
new, young entrepreneurs.”*

- Retail business in Hazyview

Dependence on Technology by Business Size

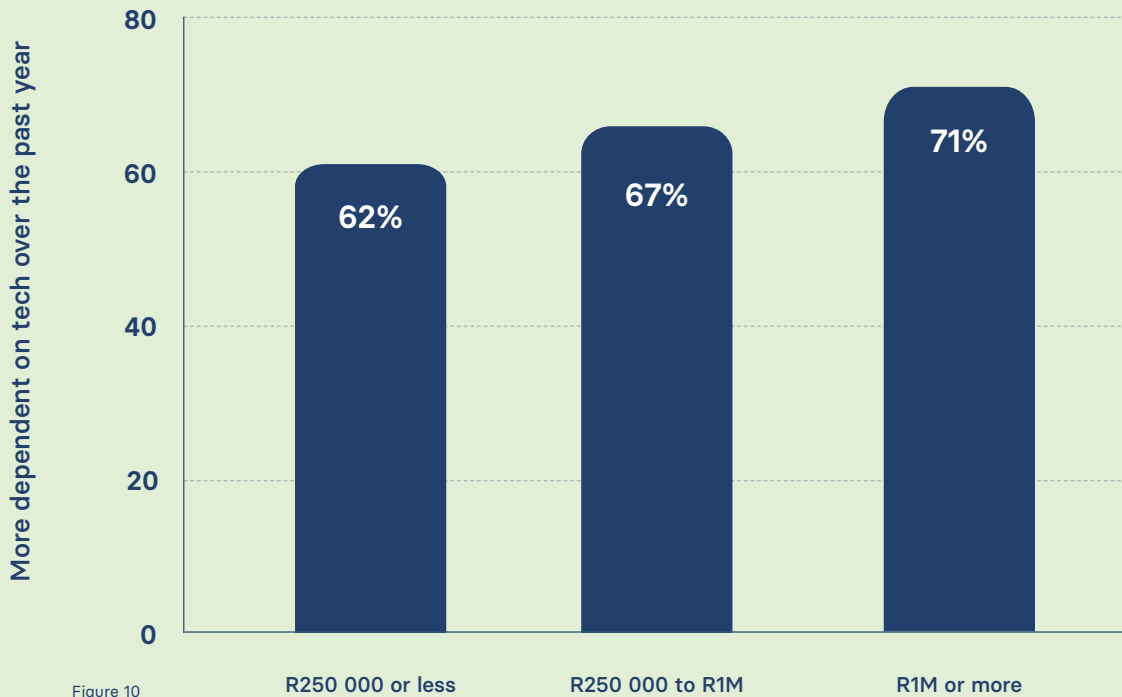


Figure 10

Small business owners have been embracing technology over the past 12 months and will continue to do so in the year ahead. 77% of owners said that they introduced new tech into their business over the past 12 months, while 79% plan to introduce new tech over the course of the coming year. This could be a positive sign that small business owners are being supported with new tools to help them run their businesses.

31% felt that they use technology in every aspect of their business. That climbs to 38% for businesses with a turnover above R1 million and is highest amongst businesses in the Leisure, Travel & Accommodation industry and those offering Personal or Professional Services (39%).

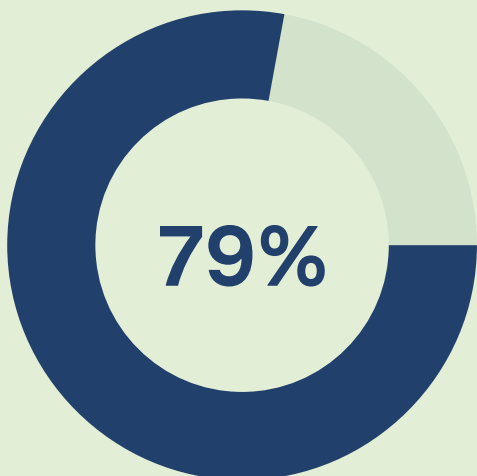


Figure 11

79% of small business owners plan to introduce new tech over the course of the coming year



Figure 12

Types of Technology Used

Compared to larger businesses, smaller businesses tend to use tech in fewer areas of their business. This makes sense, considering an increase in size results in an increase in complexity.

Based on the survey results, the most common form of technology is electronic payments, with 88% of businesses making use of them. Given that the respondents are from Yoco's database, a high number can be expected.

Social media was the second most used form of technology in business at 81%, followed by communication tools like WhatsApp and Messenger (66%). These tools are easily accessible and cannot be considered advanced tech. Therefore, the fact that they are used across all business sizes, geographies, and industries is unsurprising.

This is supported by the fact that business owners are likely to use these tools in everyday life. An understanding of platforms like WhatsApp makes it likely that a merchant would feel comfortable using them for business purposes.

Larger businesses and those with a higher annual turnover make use of more sophisticated tools. In particular, they're more likely to use basic business tools, web design, marketing tools, cloud accounting, hiring tools and eCommerce tools.

We asked business owners the following question: What is the one business tool that you want, but don't have at the moment? Several key areas can be highlighted. The most requested tool was a better website. This was followed by better systems, with particular reference to POS, accounting, management and marketing. Improved POS stock control was also mentioned.

Role of Technology

Small business owners use technology in the following ways in order to start, run and grow their business.

Figure 13

START



RUN

Figure 14



GROW

Figure 15



Barriers to Technology

The barriers to using new technology in small businesses are not as high as we might have thought. 20% of small business owners state that they don't have any barriers to using new tech.

For those that feel differently, the main challenge is the expense of using new tech. 40% say that implementing new tech in their business is too expensive, while 12% feel that internet costs are too high.

The next biggest concern was a lack of skills. 24% of business owners feel they don't have enough experience with the tools. 20% say they don't have the time to learn and 15% claim their staff is not skilled in using tech. This makes ease of use particularly important, because 76% of respondents are primarily responsible for their

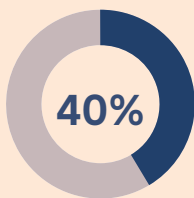
own technology. Only 8% outsource to an expert.

15% felt that their internet was not good enough to adopt new tech. This corresponds with the perceptions of their internet connections. 31% said their connection is excellent, 27% say good, 34% say OK. The remaining 8% say bad or very bad.

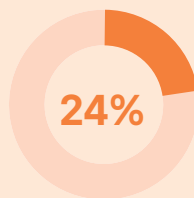
Internet access promotes a positive outlook for small business owners. Businesses that have poor internet access had a Pulse score of 24, while businesses with good internet access see that number leap to 36. These businesses are able to keep up with trends, have better insights into what their competitors are doing, and are better positioned to promote their business.

20%

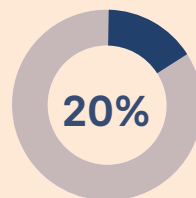
of small business owners state that they don't have any barriers to using new tech in their business.



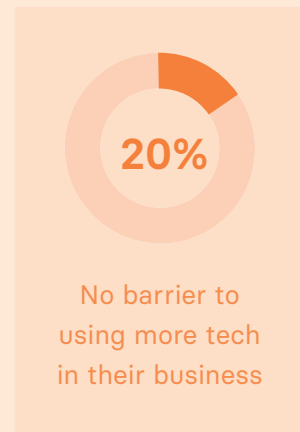
Technology is too expensive



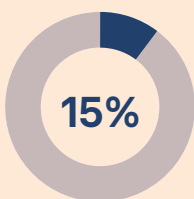
Lack of time to learn how to use new tech



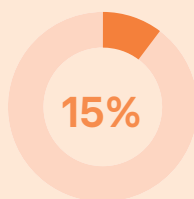
Staff is not experienced enough to use new tech



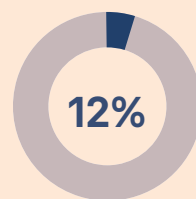
No barrier to using more tech in their business



Concerned about privacy and security



Internet is not good enough



Lack of experience with technology

Figure 16

Closing statement

Technology is playing an increasingly important role in the small business environment. While the overall outlook remains positive for small businesses, there is a clear (and in some cases significant) correlation between respondents' overall Pulse score and their tech literacy.

27% of businesses that don't use tech expect to hire more staff in the next 12 months. That number jumps to 34% for merchants that use tech in every aspect of their business.

25% of businesses that don't use tech expect the general business environment to improve over the next 12 months. Again, we see an increase when looking at merchants that use tech in all aspects of their business – up to 31%.

Finally, 37% of businesses that don't use tech expect to grow over the next 12 months compared to 45% of businesses that use tech extensively.

This culminates in the disparity in overall Pulse scores between businesses that don't use tech at all (31) and those that use it in every aspect (36) – a significant difference of 5.

As technology continues to infiltrate and disrupt the business environment, business owners that are willing and able to adopt tech are becoming increasingly bullish about their growth prospects.

As we head into Q1 of 2019, it will be interesting to see whether this optimism translates into real-world success.

What is clear is that technology's ability to empower is providing a genuine sense of hope in the world of small businesses.

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 35 000-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