

SMALL BUSINESS PULSE

Issue 03

Quarter 1 2019



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



Contents:

Key Takeouts	3
Why the Yoco Small Business Pulse	5
How it works	6
Who answered the survey?	6
The Yoco Small Business Pulse	10
Who is Yoco?	19

Key Takeouts:

The Yoco Pulse score dropped by 5 points

The Pulse score measures the business confidence of small business owners in South Africa. Here is what we saw in the first quarter of 2019:

- On a scale from -100 to 100, with 0 being completely neutral, the overall Pulse score is 27 – 5 points less than the Q3 and Q4 score of 2018 (read more on page 10).
- This 5 point drop represents a significant softening of the positive small business sentiment that has characterised the previous two quarters, and is in line with reports from RMB/BER and SACCI business confidence surveys which fell by 3 and 1.6 points respectively in March 2019.
- Correlating to the softening sentiment, there has been a -1.8% decline in average card transaction volume per merchant relative to the same time last year.
- Older and larger businesses are more negative than newer and smaller businesses. Businesses with an annual turnover of less than R250 000 scored a Pulse score of 30 - a 4 point reduction. The score drops to 18 for businesses with over R1 000 000 annual turnover, 9 points down from their Q4 score.

Loadshedding dimmed more than lights for small businesses:

- Loadshedding was the number one challenge facing small business owners.
- 65% of all respondents cited loadshedding as the key obstacle to growth. The state of the economy (52%) and political uncertainty (31%) also saw large spikes in Q1 (read more on page 14).
- 44% of small businesses felt that they had been severely affected by loadshedding with 85% stating that it has reduced their revenue. 40% of small businesses lost revenue of 20% or more during the loadshedding period.
- 20% of owners say that if loadshedding were to continue at similar levels to Q1, they will have to consider reducing their staffing levels or closing their business.

***“Business in South Africa is tough at the moment,
but with hard work and perseverance one
can grow and be successful.”***

– Health, Beauty & Fitness business in Gauteng



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 Yoco 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. More than 40 000 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.**

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.

There are definite challenges, but hard work and coming up with innovative solutions to challenges will always pay off. As an entrepreneur I think we need to see challenges as opportunities instead of obstacles. The world is full of examples of people who have known success despite unfavourable economic (or other) situations.

– Leisure, Travel & Entertainment business in the Western Cape

How it works

A quarterly survey was sent out to more than 40 000 business owners within the Yoco merchant base.

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.

The businesses in the sample represent small business in South Africa. 73% 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 businesses that are under-represented in traditional South African business reports. This is mostly due to the high market concentration of 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 April 2019. Survey responses were received from 3 984 small businesses in Yoco's merchant base, with the study conducted by independent research agency, Beyond Insights.

The sample set is a diverse representation of small businesses in SA. The average respondent has been in operation between one and five years, employs four or less employees and has an annual turnover below R250 000. 35% of the businesses surveyed are based in the Western Cape, 34% are based in Gauteng and the remainder is located across the country.

The small businesses are spread across a wide breadth of industries, including Food, Drink & Hospitality (23%), Health, Beauty

& Fitness (20%), Retail (20%), Professional Services (14%) and various other sectors.

The demographics of the business owners showed that the majority (30%) of respondents fall between the ages of 30 and 39. There is almost a 50/50 split between female (56%) and male business owners (44%).

The demographics of this sample is very similar to previous Pulse samples and therefore is comparable to the results from previous quarters.

Industry:

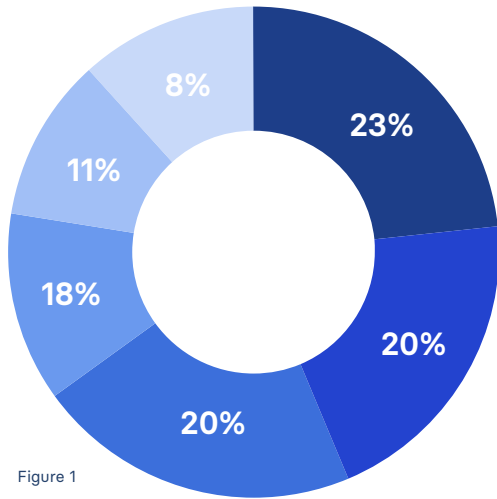


Figure 1

Annual Turnover:

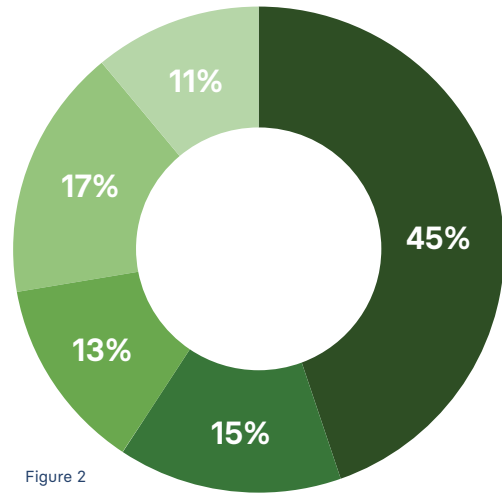


Figure 2

- 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:	1 270
Western Cape:	1 293
Kwa-Zulu Natal:	297
Eastern Cape:	194
Free State:	130
Mpumalanga:	109
Limpopo:	101
North West:	100
Northern Cape:	48

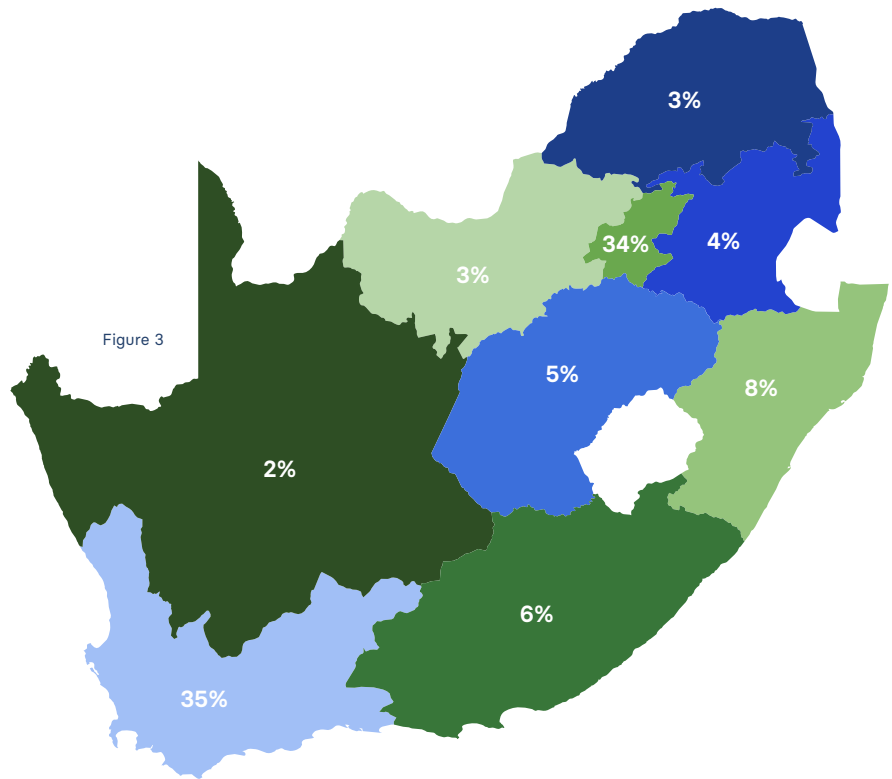


Figure 3



South Africa has so much potential. Business owners need to stay positive, take risks and expand, in order to grow.

– Food, Drink & Hospitality business in the Eastern Cape





Yoco Small Business Pulse

The Pulse Falls

On a scale from -100 to 100, with 0 being completely neutral, the overall Pulse score for small businesses in the first quarter of 2019 (Q1) sits at 27 – 5 points less than the Q3 and Q4 score of 2018.

This is in line with reports from [RMB/BER](#) and [SACCI](#) business confidence surveys which fell by 3 and 1.6 points respectively in March 2019.

Despite the 5 point decline in confidence, small businesses remain more positive about their prospects than their larger counterparts. Over half of the respondents state that their

business is performing better than a year ago with only 18% feeling it is performing less well.

79% believe that their business will grow in the next 12 months; a decline of 4% from last quarter, but still a largely positive sentiment for their prospects. Likewise, 73% expect profitability to increase in the coming year, although this too is a 6% decrease from Q4 2018.

This drop represents a significant softening of the positive small business sentiment that has characterised the previous two quarters.

Pulse score over time

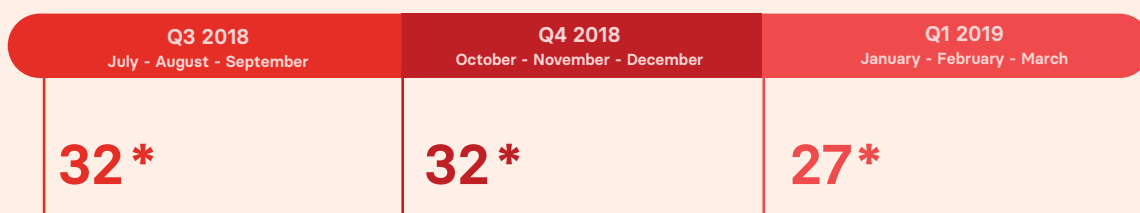


Figure 4

* 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.

Despite the declines from Q4 2018, it is important to remember that business owners still fall into the positive half of the scale.

The pattern noticed in the last Pulse continues in this one – older and larger businesses are more negative than the newer and smaller businesses. Businesses with an annual turnover of less than R250 000 score 30, 4 points down from Q4 2018. The score drops to 18 for businesses that earn more than R1 000 000 annual turnover, 9 points down from their Q4 score.

Businesses with more than five employees experience a greater drop in their score, falling by 9 points, while business that have only 1 employee fall by 5 points.

There is a drop in the Pulse score across all provinces. Limpopo has the lowest score (25) and Northern Cape and Mpumalanga share the highest score (34). Gauteng, KwaZulu-Natal and Western Cape all fall to 26 from above 30 in Q4.

Across all industries the Pulse score falls by an average of 6 points. The most positive industry is Health, Beauty & Fitness. This is consistent with findings from Q3 and Q4 of 2018. Personal & Professional Services is the most negative with a 10 point drop in Pulse score. As the tourism season comes to an end the Leisure, Travel & Entertainment industry experience a 5 point drop to 24, which is similar to their Q3 score of 25.

The Pulse score drop across all industries and locations could be the effect of a busy holiday season coming to an end. Consumers being less likely to spend money during January often cause businesses to become pessimistic when they see the drop in transaction volume.

Loadshedding and the upcoming elections also contributes to a drop in the Pulse score. 65% of small business owners listed loadshedding as a challenge, making it the number one obstacle during Q1 2019, up from only 1% in the previous quarter.

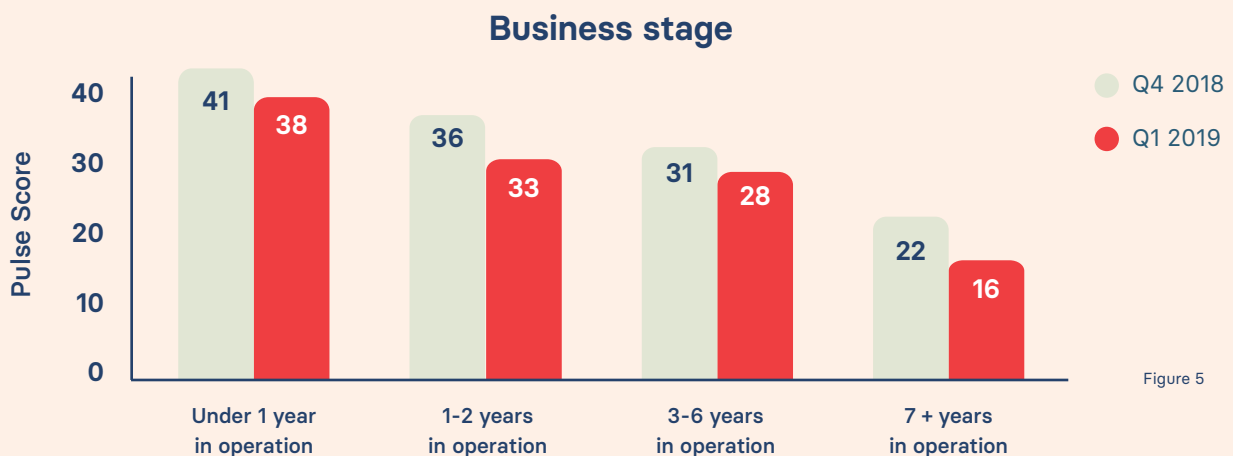


Figure 5

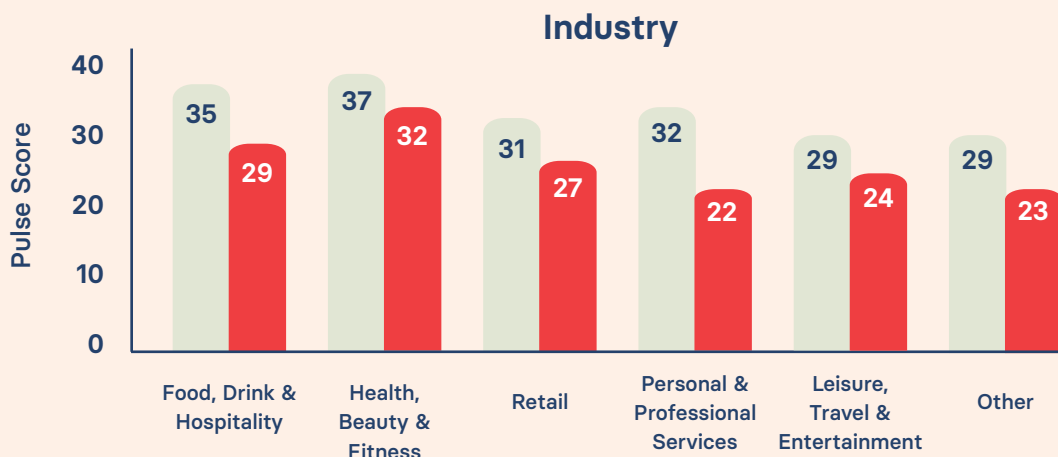


Figure 6

The Pulse breakdown by Province

● Q4 2018

● Q1 2019

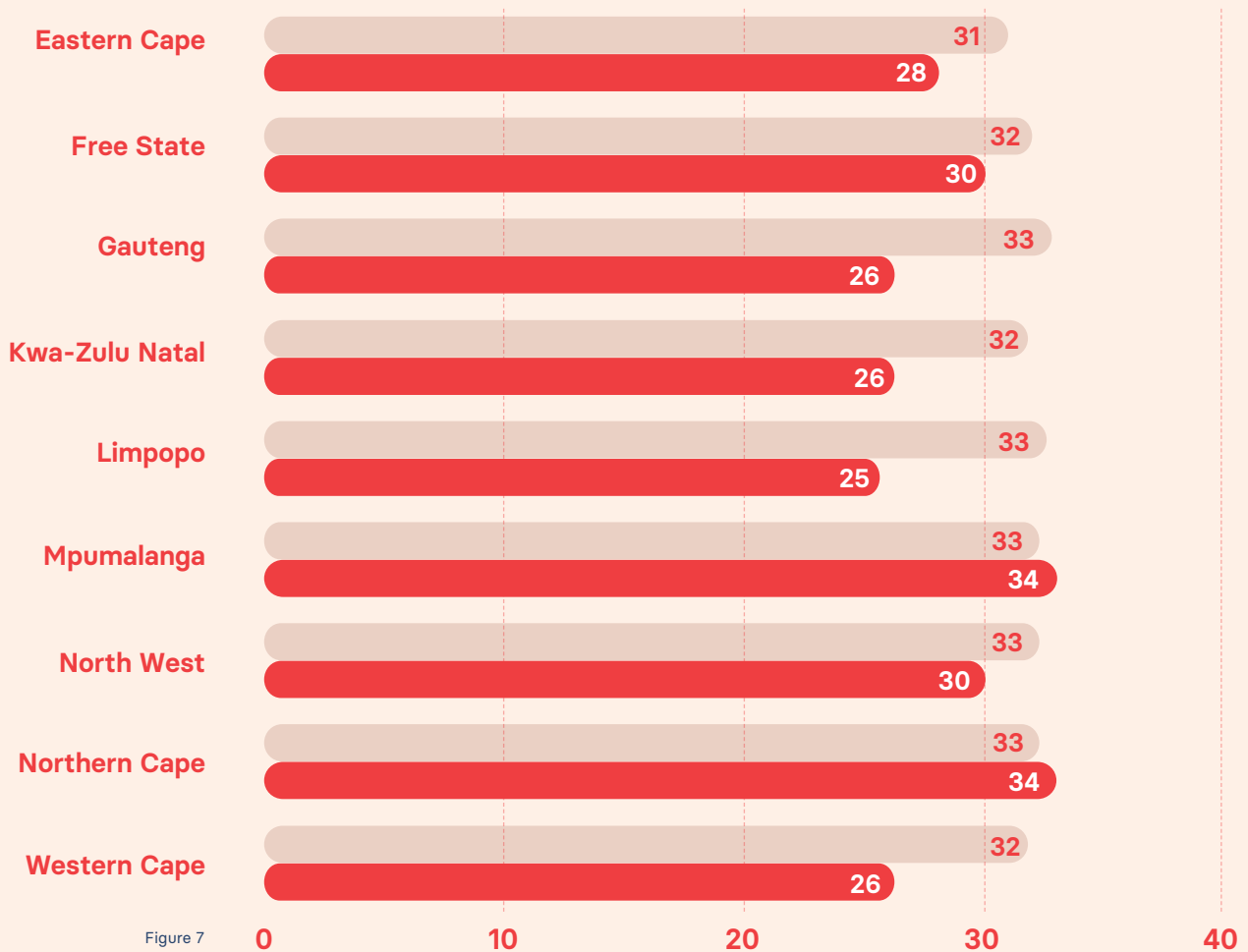


Figure 7

In the last Pulse report we noticed a 3% decline in the likelihood of owners to employing more people over the next 12 months, from 37%. This trend persists with another 2% fall, to 32%. This time the drop is attributed to businesses more than 7 years in operation, of whom 71% say that they plan to keep their staffing levels the same over the next 12 months.

This seems to be caused by owners being less optimistic about their expected profit in the next 12 months than they were in the previous two quarters. Only 60% of businesses expect their profit to increase over the next 12 months – 8% less than Q4.

32%

*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 feel less optimistic. Across all industries the average value of card transactions per merchant in Q1 has decreased. It shows a negative growth rate of -1.8% relative to the same period last year. This is significantly behind the current CPI inflation rate of 4.5%.

Food, Drink & Hospitality are faring the worst of all industries with a -19.6% drop in card transaction volume. Other industries that see declines include Personal & Professional Services (-2.0%) and Leisure, Travel & Entertainment (-1.4%). Health, Beauty & Fitness and Retail have grown slightly since the same period last year with an increase of 3.4% and 1.7% respectively.

It's interesting to compare these stats to the Pulse score for each industry. Food, Drink & Hospitality, Personal & Professional Services

and Leisure, Travel & Entertainment experience the largest drop in both the Pulse scores as well as their average value of card transactions per merchant. Health, Beauty & Fitness and Retail also experience drops in both, but not to the same extent. This correlation confirms the validity of a drop in the Pulse score and proves the hardship that small business owners are currently facing in South Africa.

The average value of card transactions per merchant in Q1 has decreased by -1.8% relative to the same period last year.

DESCRIPTIONS OF THE BUSINESS ENVIRONMENT:



Figure 8

The dropping Pulse score is correlated to rising concerns about the general economic environment in South Africa. 43% of business owners state that the environment for conducting business in the country will be worse in 12 months' time. This number has increased by 8% from Q4.

When asked to describe the business environment in South Africa, 8 out of the top 10 words used are negative; **difficult**, **poor** and

challenging are some of the most common. Some positive words are **good**, **opportunities** and **growth**. It is also interesting to note some of the topics that affect small business owners' view on the business environment in South Africa: **economy**, **loadshedding**, **elections** and **petrol**.

The drop in the overall Pulse score as well as the negativity around the business environment in South Africa can be explained by the compounding challenges that owners have had to deal with during the first quarter of 2019.

The number one challenge for 65% of business owners in South Africa is **loadshedding**. 90% of businesses are affected by loadshedding. Of those businesses 44% say that they have been severely affected. Only 14% of businesses say that they have not lost any revenue due to loadshedding, while 40% say that they have lost more than 20% over the past three months.

The industries whose revenue has been most affected are Food, Drink & Hospitality and Retail, both having more than 40% of businesses losing more than 20% of their revenue.

In order to mitigate the loss in revenue due to loadshedding, 25% of small business owners have installed generators, 18% switch to using gas during loadshedding hours, 26% have installed battery operated lights & equipment.

We asked small business owners what the effect on their business would be if loadshedding were to start again. 58% say that they will invest in an alternative power source. Others say that they will have to reduce the amount of staff they have (12%), increase the cost of their products (22%) or change their product offering (11%) in order to cope with loadshedding. 8% of small business owners say that they will have to close their business if loadshedding continues.

How severely has your business been affected by loadshedding?

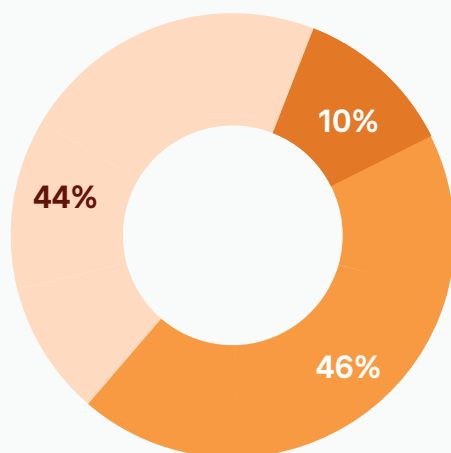


Figure 9

- It doesn't affect me at all
- I am somewhat affected
- It affects my business a lot

How businesses mitigate the effects of loadshedding?

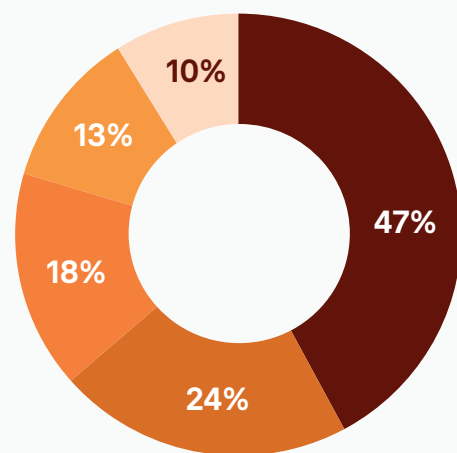


Figure 10

- No action taken
- Battery operated lights/equipment
- Generator
- Other
- Gas

Consequences if loadshedding continues

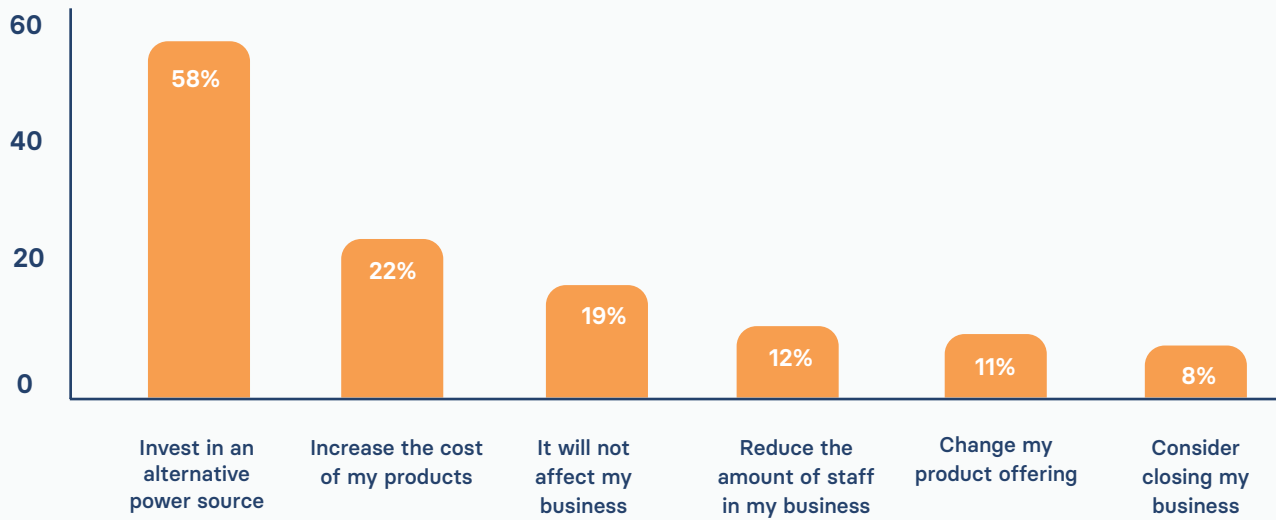


Figure 11

Percentage of revenue lost due to loadshedding

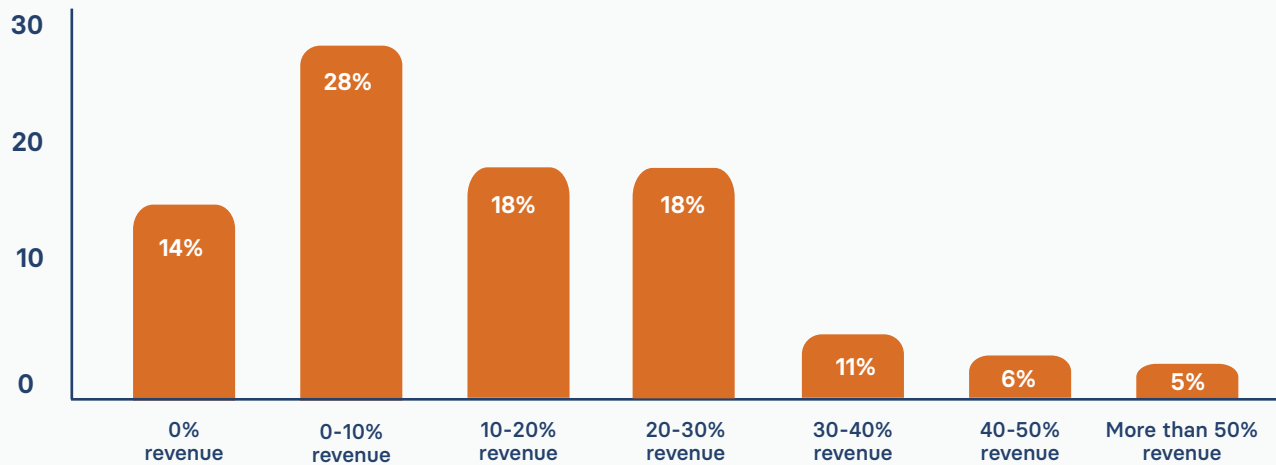
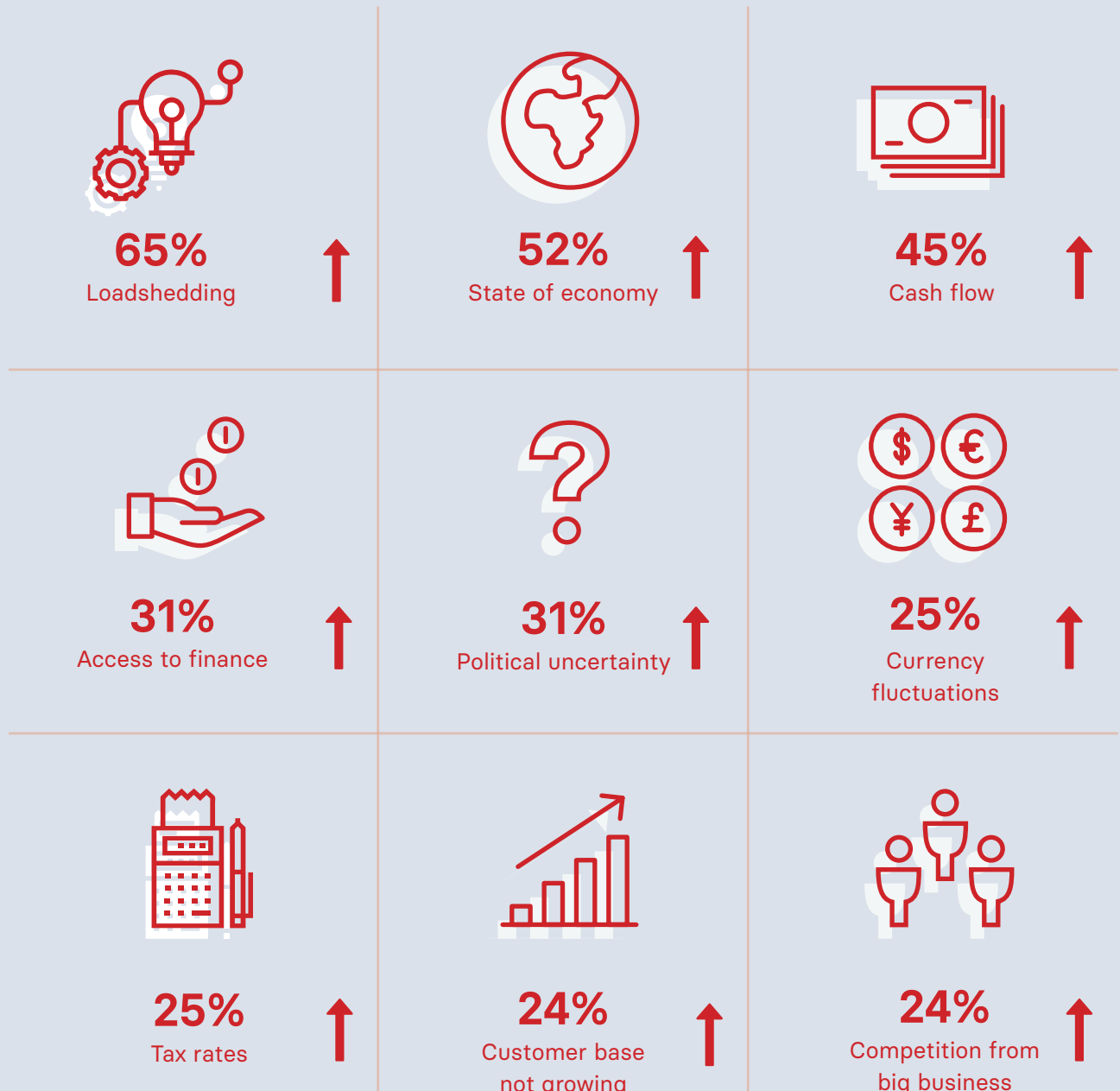


Figure 12

Business Challenges



↑ Up from Q4 2018 ↓ Down from Q4 2018

Figure 13

Closing statement

The current sentiment across small business owners in South Africa is affected by the festive season coming to an end, frequent loadshedding and an uncertain political environment due to the upcoming elections.

The Pulse score has dropped five points since Q4 2018, showing that the positivity of the previous two quarters has significantly softened. This correlates to -1.8% decline in the average card transaction volume across the base for Q1 2019 vs the same period the previous year. The drop in Pulse score is caused by the challenging business

conditions for small business in South Africa, with frequent loadshedding, rising costs, and the upcoming elections in particular driving sentiment.

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 40 000-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