

SMALL BUSINESS PULSE

Issue 04

Quarter 2 2019



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



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Key takeouts

The Yoco Small Business Pulse score dropped by one point.

The Pulse score measures the business confidence of small business owners in South Africa. Here is what we saw from April to June of 2019:

On a scale from -100 to 100, with 0 being completely neutral, the overall Pulse score is 26 – one point less than the Q1 2019 (read more on page 10).

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This one point drop follows a significant softening of the Pulse score in Q1, from 32 to 27.



The further drop in the Pulse is in contrast with Yoco stats that show an 8.14% increase in average card transaction volume per merchant relative to the same time last year.



The Leisure, Travel & Entertainment industry is the most pessimistic with a seven point drop in Pulse score. This correlates with findings from [Statistics SA](#) that shows the number of tourists visiting in South Africa has dropped by 3%, from Q2 in 2018 to Q2 in 2019.



The top three challenges small business owners are currently facing is the poor state of the economy, cash flow issues and poor access to finance.



The percentage of businesses that are struggling with poor access to finance has increased, from 22% in Q3 2018 to 35% in Q2 2019.





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 45 000 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.

“We’re experiencing trying times. Business owners have to rise above and plan, forge forward and produce the success for our own future and that of our dependents, family and friends.”

– Retail business in the Eastern 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 July 2019. Survey responses were received from 2 917 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 three to four years, employs less than four employees and has an annual turnover below R250 000. 33% of the businesses surveyed are based in the Western Cape, 37% 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 (26%), Health, Beauty & Fitness (29%), Retail (20%), Personal & Professional Services (16%) 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 (53%) and male business owners (47%). The demographics of this sample are very similar to previous Pulse samples and therefore it is comparable to the results from previous quarters.

Industry:

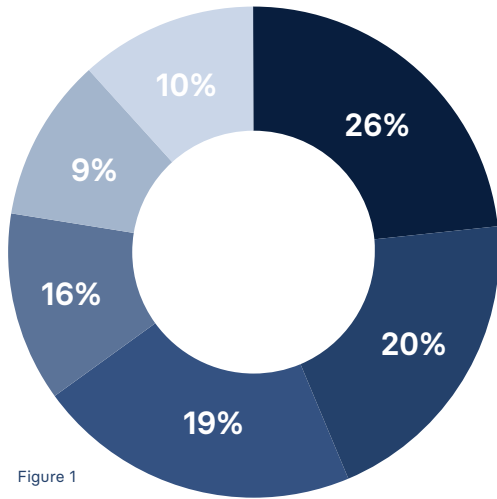


Figure 1

Annual Turnover:

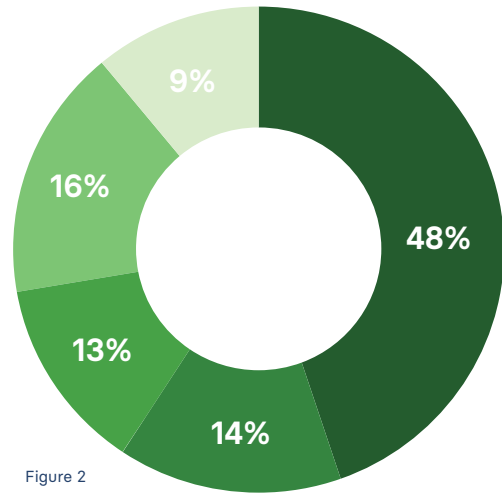


Figure 2

- Food, Drink & Hospitality
- Retail
- Health, Beauty & Fitness
- 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:

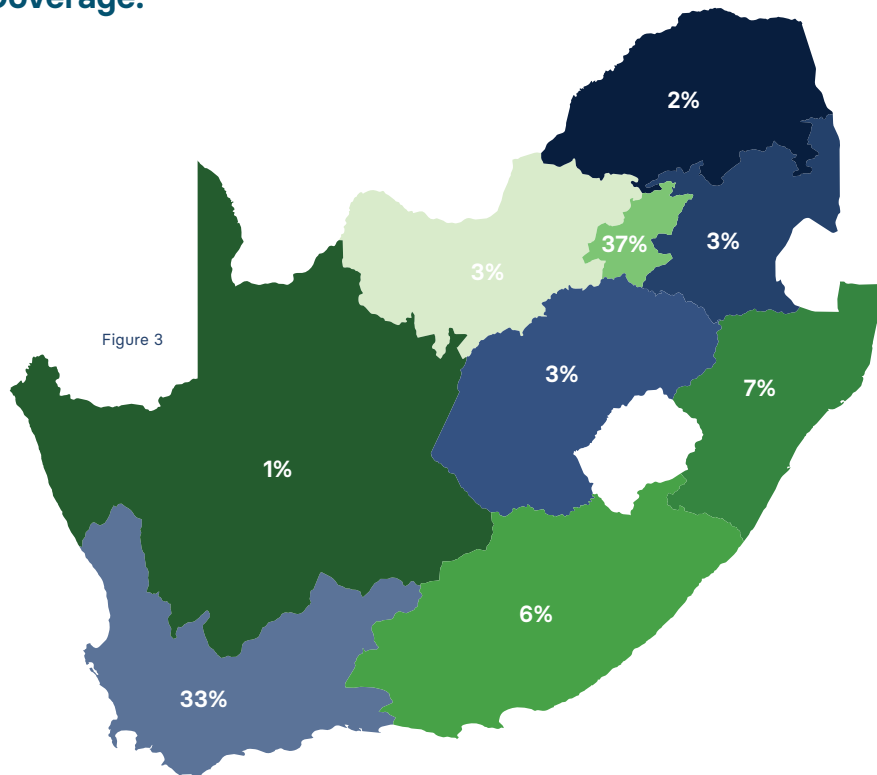


Figure 3



GUGU INTIMATES

THE NEW NAKED



"I see a lot of growth in small businesses. Owning your own small to medium business can be a success."

– Healthy, Beauty & Fitness business in the Western Cape



Yoco Small Business Pulse

The Pulse continues to fall

On a scale from -100 to 100, with 0 being completely neutral, the overall Pulse score for small businesses in the second quarter of 2019 sits at 26 – one point less than the Q1 score and six points less than the Q3 and Q4 scores of 2018. [Click here to view previous Pulse reports.](#)

Positive sentiment has fallen by six points between Q3 2018 and Q2 2019. This is a significant drop and can be attributed to many things such as loadshedding, the uncertainty around elections and the increase in petrol prices. A drop in positivity is also expected during this time of year as we settle into winter and the off-season.

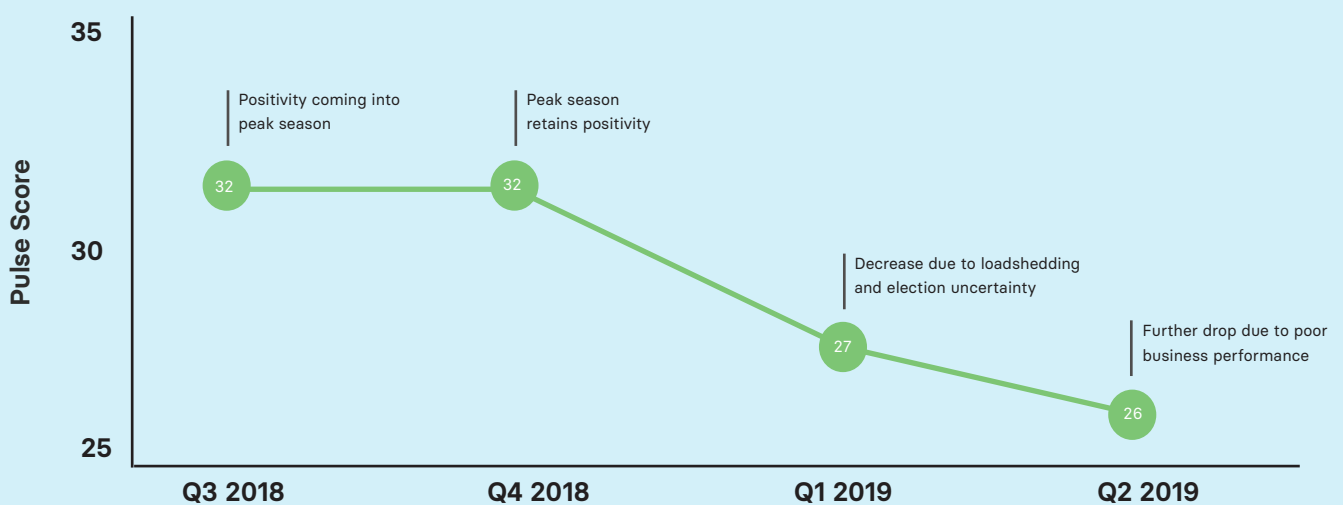
This quarter's Pulse score is slightly more negative than the [RMB/BER](#) report, which showed

a steady business confidence index from Q1 to Q2, of 28. This score is the lowest since the 27 index points recorded in the second quarter of 2017, and before that, the deep recession of 2009.

The [SACCI business confidence index](#) shows a positive turn in sentiment with a 1.9 point increase in business confidence from May to April.

The lag in the Pulse score compared to these two surveys shows that smaller businesses, earning less than R250 000 annually, are unable to bounce back as quickly from negative impacts as larger corporates and listed companies. They experience the negative effects for longer and so the Pulse score continues to fall in Q2 of 2019.

Pulse score over time



* 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.

How does the Pulse break down?

The Pulse score is composed of five questions that respondents were asked about their business environment. When we look at the sentiment for each of these questions over the course of the year, it shows a drop in positivity across all of them.

The biggest contributor to the Pulse score falling to 26 in Q2 is that the number of owners who feel that their business is performing better than it was 12 months ago has decreased. At the end of Q4, 58% of business owners felt their business was performing better than 12 months ago. That number fell to 53% in Q1 of 2019 and has fallen a further 6%, to 47%, in Q2.

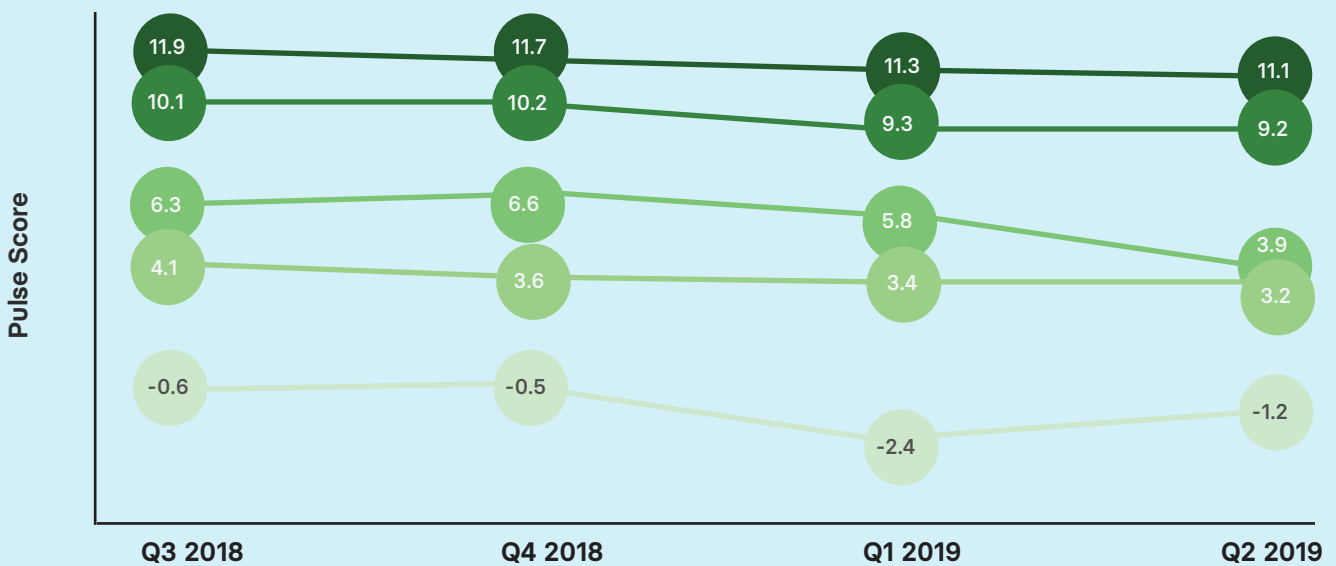
Most other aspects of the pulse experienced small drops in their mean score from Q1 to Q2.

of about 0.2 points. But if most mean scores dropped, then why did the overall Pulse score only fall by one, from 27 in Q1 to 26 in Q2?

Despite the recession, business owners feel more positive about the future of the general business environment in South Africa, especially after the elections in Q1. Last quarter the uncertainty around elections caused the Pulse to drop significantly.

People are less negative than they were in Q1, dampening the drop in the overall Pulse score. However, this question in the Pulse still yields the highest number of negative responses, with 38% of respondents stating that they feel the general business environment in SA will be worse in 12 months time.

Pulse breakdown by question



Thinking about the next 12 months do you expect your business to grow, stay the same or shrink?

How do you expect your business's profitability to perform over the next 12 months compared to the same period last year?

In general how do you feel your business is currently performing compared to how it was 12 months ago?

How do you expect your overall staffing levels to change over the next 12 months?

Do you think the general business situation in SA will improve, remain the same or deteriorate over the next 12 months?

So which businesses are suffering?

So, the Pulse score is dropping. We know the main reason it's dropping – more owners feel that their business is performing worse than it was 12 months ago. Who are those owners, what type of businesses do they run and why do they feel their performance is suffering?

The first group of owners that are feeling the effects are young business owners. They are becoming more negative about their business performance. In the past, young business owners have helped lift the Pulse score with their positivity while their older counterparts have been more negative.

This has changed in Q2 with business owners younger than 34 years becoming as pessimistic about their business performance as older owners.

The number of young owners who feel their business is performing worse than it was 12 months ago has increased by 10% from Q1 to Q2, while

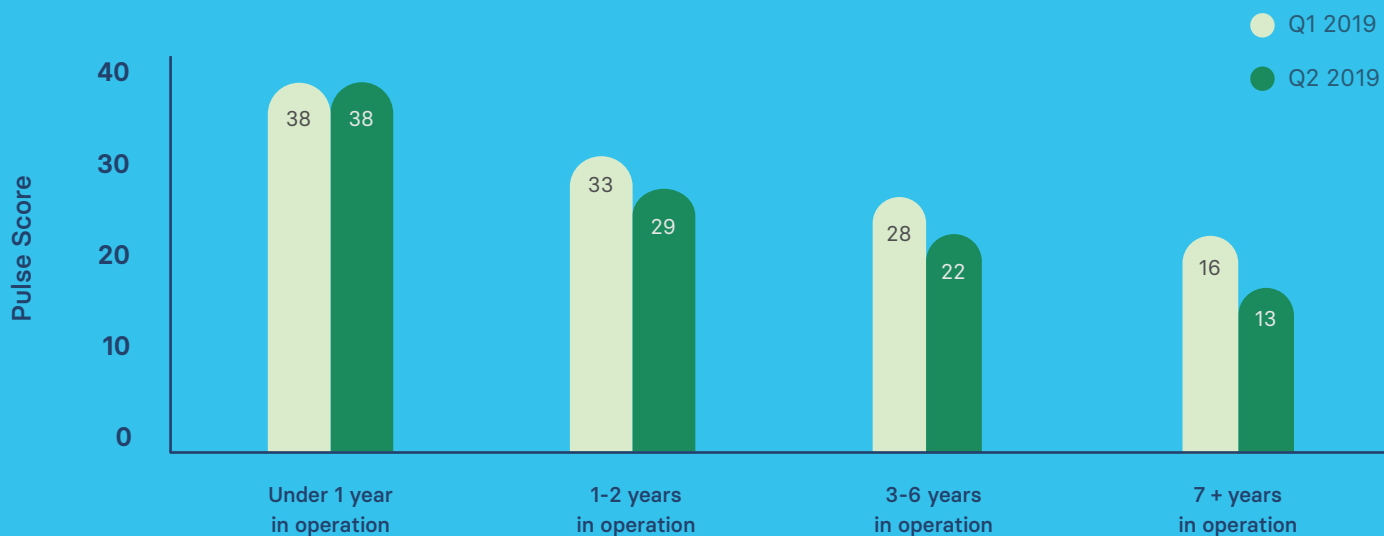
older age groups has remained constant. Now, a quarter of **all age groups** feel their business is performing worse than it was 12 months ago.

The second group of businesses are those that have been in operation between three and six years. They are also feeling more negative. The number of owners in this category who feel their business is performing worse than it was a year ago has increased from 17% to 27% over the last quarter.

This shows that once businesses have overcome the initial hurdles to get started, they experience challenges in growing their business, which have an effect on their overall business sentiment.

This correlates to the Pulse breakdown by business stage as older businesses generally have lower Pulse scores. For tips on overcoming a sales slump take a look at [these articles](#)

Pulse breakdown by business stage



"I have so little time, I am tired and am struggling to keep up with the number of hours a week needed to grow my business."

– Retail business in Gauteng, business is 3 - 4 years old.

The industry that feels the most pessimistic about its performance over the past year is the Leisure, Travel & Entertainment industry. 28% of business owners in this industry feel that their business is performing worse than it was 12 months ago. This number has increased by 10% since Q1.

The negative sentiment experienced by the Tourism industry is warranted as the total number of tourists has decreased year on year. According to the [Statistics South Africa Report on Tourism and Migration](#) in March 2019, the total

number of tourists during Q1 has decreased from 2018 to 2019 by 3%, from 2 788 941 visitors in 2018 to 2 704 067 visitors in 2019.

Take note of the massive drop in Pulse score for the Leisure, Travel & Entertainment industry below. This drop from Q1 to Q2 reflects the negative sentiment that this industry is currently experiencing.

Pulse breakdown by industry



“Tourists are more worried about crime, pollution and poor water quality in SA”

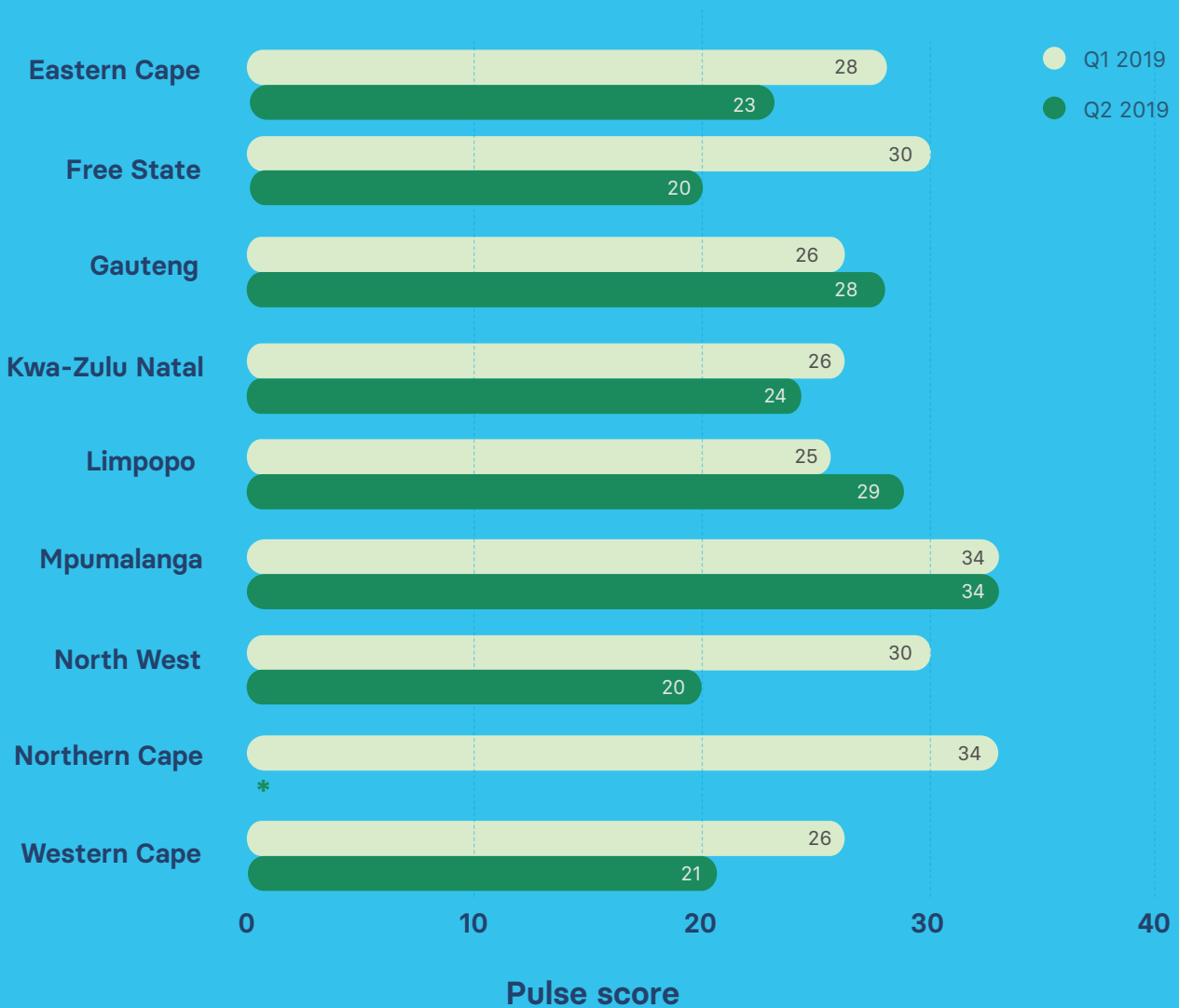
– Leisure, Travel & Entertainment business based across the country

Certain provinces also seem to be more negative about their performance than others. The Free State, North West and the Western Cape have all experienced an increase of more than 10% of owners who feel their business is performing worse than it was 12 months ago. Again this correlates with a massive decline in Pulse scores for all three provinces mentioned. Only two provinces increased their Pulse score from last quarter – Gauteng increased their Pulse score by 2 points, and Limpopo by 4 points.

“In towns where there are farmers we can see the effects of drought and poor prices for crops. Farmers hold back and don’t want to spend too much. Staff also work fewer hours for less money.”

– Retail business in the Free State

Pulse breakdown by province



* Insufficient responses from the Northern Cape to create a Q2 Pulse score for the province.

Does the Yoco data correlate?

An analysis of Yoco's internal data shows that collectively small business operators are doing a little bit better than the drop in Pulse score suggests. Across all industries the average value of card transactions per merchant in Q2 has increased. It shows a growth rate of 8.14% relative to the same period last year.

Only three industries have shown a negative growth rate in transaction volume this quarter; Food, Drink & Hospitality (-7.8%), Leisure, Travel & Entertainment (-4.1%) and Online Businesses (-0.8%). Even though the Food, Drink & Hospitality industry has shown negative growth this quarter, they have improved significantly since last quarter when they had a -19.6% decline in card transactions.

On a more positive note Health, Beauty & Fitness and Retail have improved their average value of transactions per merchant over the course of the year by 7.9% and 14.40% respectively.

We can also look at the average value of card transactions per merchant by province. The provinces that have experienced the highest growth since the same time last year are Gauteng (17.4%) and Mpumalanga (14.2%). While the Western Cape is struggling with a negative growth rate of -0.5%.

This is reflected in the Pulse scores provided by business owners; the Western Cape experienced a massive drop in their score, from 26 in Q1 to 21 in Q2 2019. While Mpumalanga and Gauteng have two of the highest Pulse scores in Q2 of 2019; 34 and 28 respectively. Turn to page 14 to view the Pulse breakdown by province.

Across all industries the average value of card transactions per merchant in Q2 has increased by 8.14%



“We’re experiencing trying times. Business owners have to rise above and plan, forge forward and produce the success for our own future.”

– Retail business in the Eastern Cape



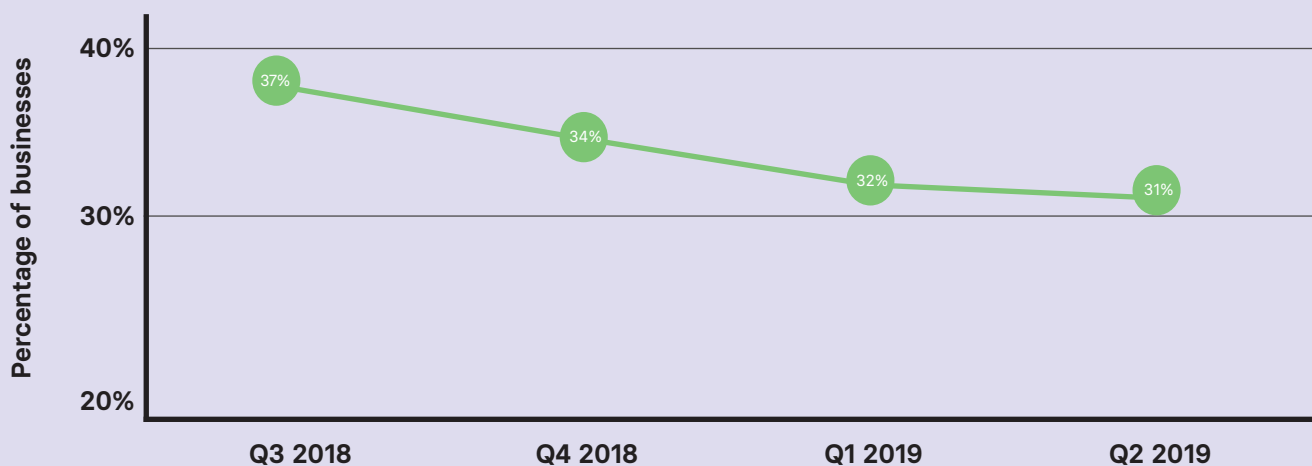
Are small businesses hiring?

Over the past year, the likelihood of owners employing more staff in the next 12 months has fallen from 37% in Q3 2018 to 31% in Q2 2019.

The length of time businesses have been in operation and the industry of the business are the two indicators that show whether a business is planning to hire more staff in the coming year, or not. More established businesses (businesses seven years or older) are 10% less likely to hire more employees. While businesses in the Food, Drink & Hospitality industry are 10% more likely to hire more employees in the coming year. This is driven by the use of seasonal staff in this industry.

This decline in the likelihood to hire more staff is reflected in South Africa's unemployment rate for 2019, as reported by [Statistics SA](#). "The unemployment rate in South Africa increased to 29 percent in the second quarter of 2019 from 27.6 in the previous period. It was the highest jobless rate since the first quarter of 2003, as the number of unemployed rose by 455 thousand to 6.65 million and employment rose by 21 thousand to 16.31 million."

Percentage of businesses who expect to hire more staff



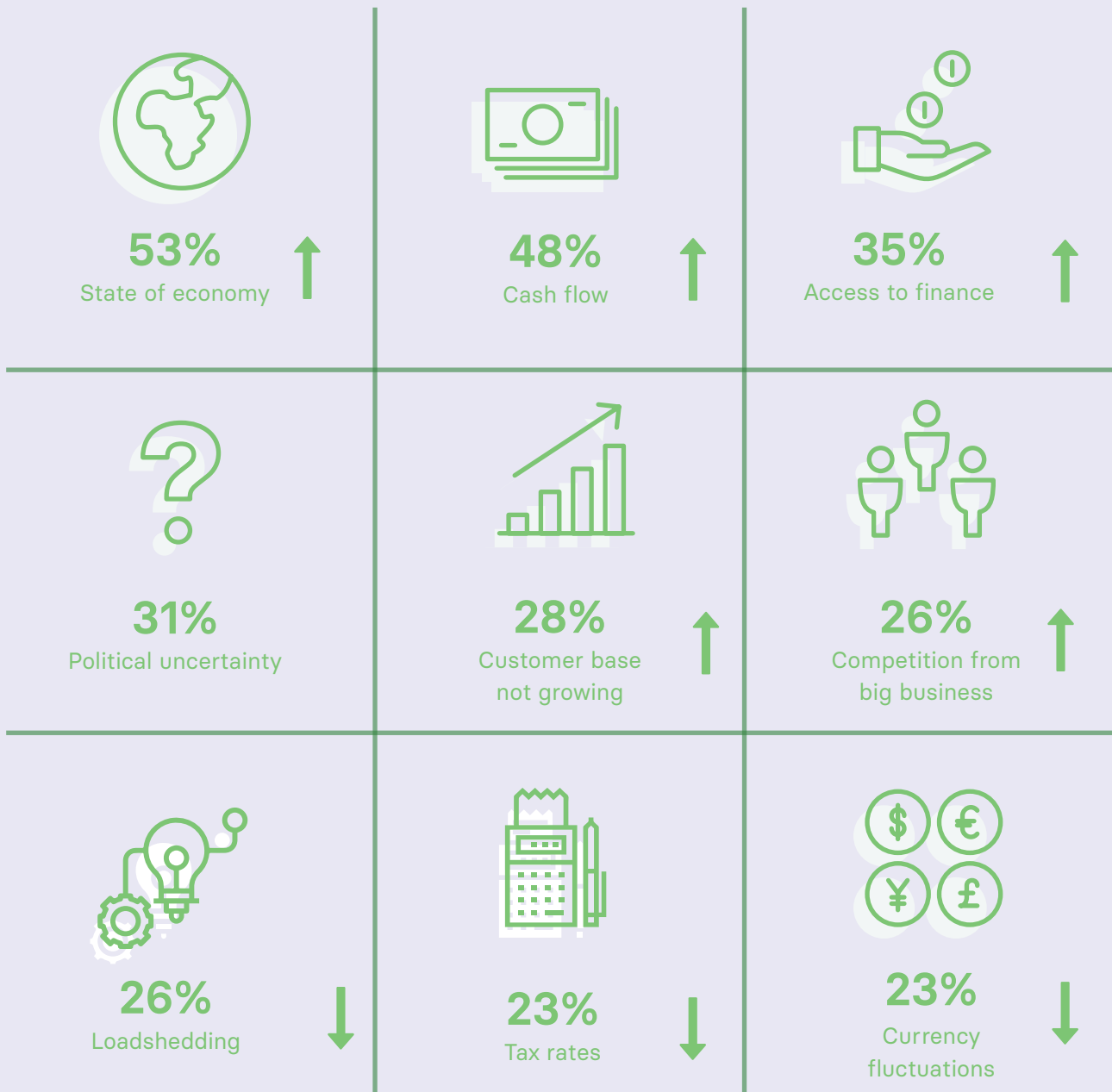
Business Challenges

The top nine challenges for small business owners has remained fairly consistent over the past four Pulse reports, except for the increased need for financial assistance.

In Q1 2019, loadshedding was the number one challenge that owners were facing. This concern has fallen to the seventh challenge in Q2, being replaced by concern for the poor state of the economy, which is followed by cash flow issues and lack of access to finance.

If you're a Yoco merchant and would like to check if you can apply for Capital, [click here](#). For some practical advice on the other challenges take a look at [The Get Started Guide](#). This is a free resource that provides the basic information on how to fund your business, how to market your business and find new customers, how to hire the right people and the best ways to grow your business.

Business Challenges



↑ Up from Q1 2019 ↓ Down from Q1 2019

Closing statement

The Yoco Small Business Pulse score fell to 26 in Q2 2019.

Small business owners are losing confidence in the performance of their businesses. This has lead to a one point drop in Pulse score in Q2 2019, after a six point fall the previous quarter.

The Pulse showed maintained apprehension about the future of small business in South Africa. This is contrasted with internal Yoco data that shows a 8.14% increase in average card transaction volume across the base for Q2 2019 versus the same period last year. Older businesses and the Leisure, Travel & Entertainment industry has been especially pessimistic about the current business environment.

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 45 000-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