

SMALL BUSINESS PULSE

Issue 05

Quarter 3 2019



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





There's power in small.

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.

But running a small business in South Africa can be a difficult and lonely experience at times. When the going gets tough, it can be comforting to know that other small business owners are going through a similar experience.

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 50 000 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 influential factors on a quarterly basis. 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.

Contents

Key takeouts	5
The Yoco Small Business Pulse	6
• The Pulse breakdown	7
• Business challenges	10
A year in review	12
How it works	18
Who answered the survey?	18
Who is Yoco?	20



Key takeouts

Over the course of the year, business confidence has fallen across all indices; the [RMB/BER](#), the [SACCI BCI](#) and the [Yoco Small Business Pulse](#). Although the RMB/BER and SACCI BCI indices continue to fall this quarter, Yoco merchants seem to be a little more optimistic about the business environment.

The Yoco Small Business Pulse score rose by 2 points since last quarter, although compared to the same time last year, it has dropped by 4 points. It now sits at 28 on a scale from -100 to 100, where 0 is neutral.

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

- This rise follows a significant softening of the Pulse score in the first half of the year, from 32 to 26.
- The two-point rise in the Pulse correlates with Yoco stats that show a 13.13% increase in average card transaction volume per merchant relative to the same time last year. Up from an 8.14% increase last quarter.
- All industries have increased their Pulse scores from Q2 to Q3 in 2019. Although when compared to the same time last year, the Pulse score fell by an average of 4 points across all industries. Food, Drink & Hospitality industry is particularly positive, with a 5 point increase over the quarter. The Leisure, Travel & Entertainment industry remains the most pessimistic, even though they have increased their Pulse score from 17 last quarter to 20 in Q3 2019.
- All province Pulse scores have dropped since the same time last year – on average, by about 6 points. While almost every province has increased their score from Q2 – the average provincial increase over the quarter is 4 points.
- The top three challenges small business owners are currently facing is the poor state of the economy (54%, up 1% from Q2), cash flow issues (44%, down 4% from Q2) and political uncertainty (34%, up 3% from Q2).

The Yoco Small Business Pulse

The Pulse rises by two points

On a scale from -100 to 100, with 0 being neutral, the overall Pulse score for small businesses in Q3 2019 is 28 – two points more than the Q2 score and. [Click here to view previous Pulse reports.](#)

Despite the two point rise this quarter, positive sentiment has fallen by four points from the same time last year. This is a significant drop and can be attributed to many negative influences over the course of the year, such as loadshedding,

the elections, a rise in petrol prices and increased strikes. This quarter's Pulse score is slightly more positive than the RMB/BER report, which showed a major decline in business confidence index to 21. This score is the lowest recorded score in 20 years. The SACCI business confidence index shows a negative turn in sentiment with a 2.8 drop in business confidence from Q2 to Q3.

Business confidence index recordings

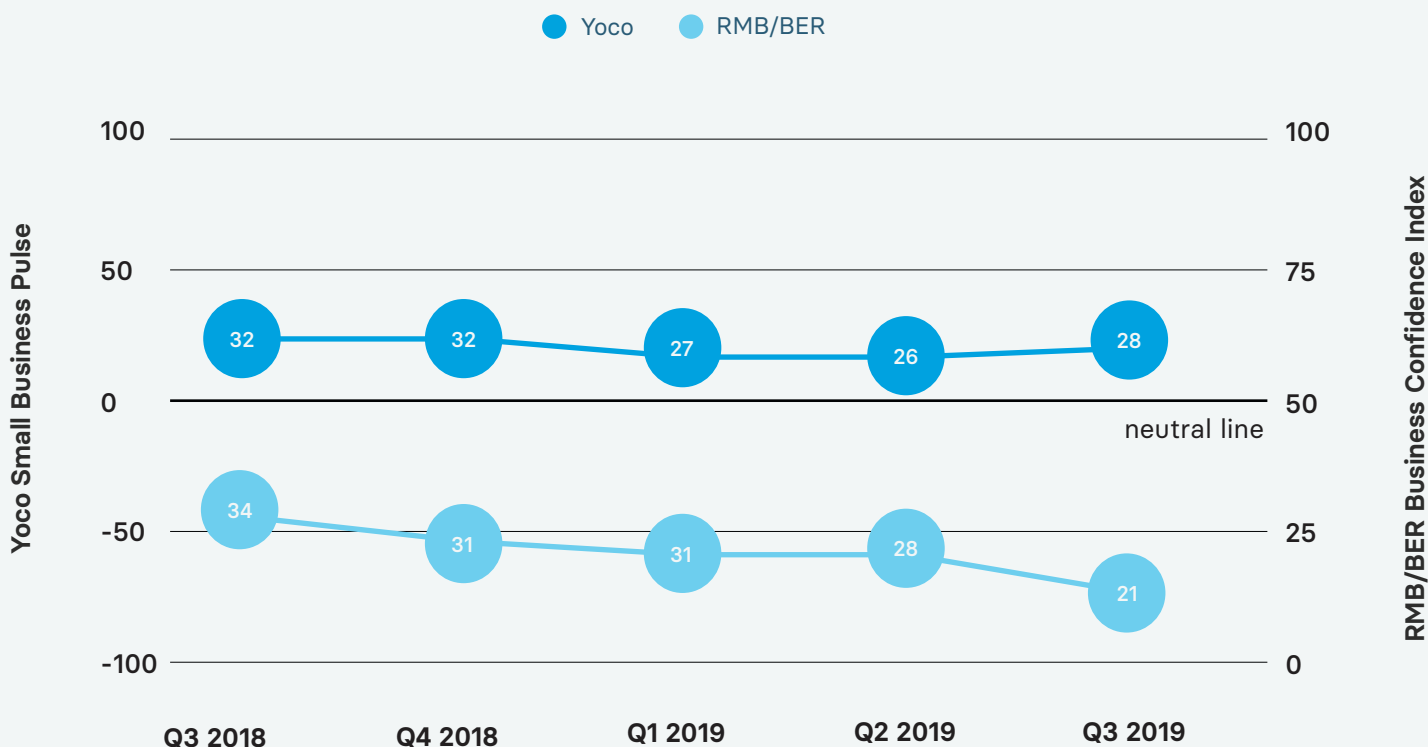


Figure 1

* 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.

The Pulse breakdown

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 slight drop in positivity across all of them, with an upturn in this last quarter.

Pulse breakdown by questions

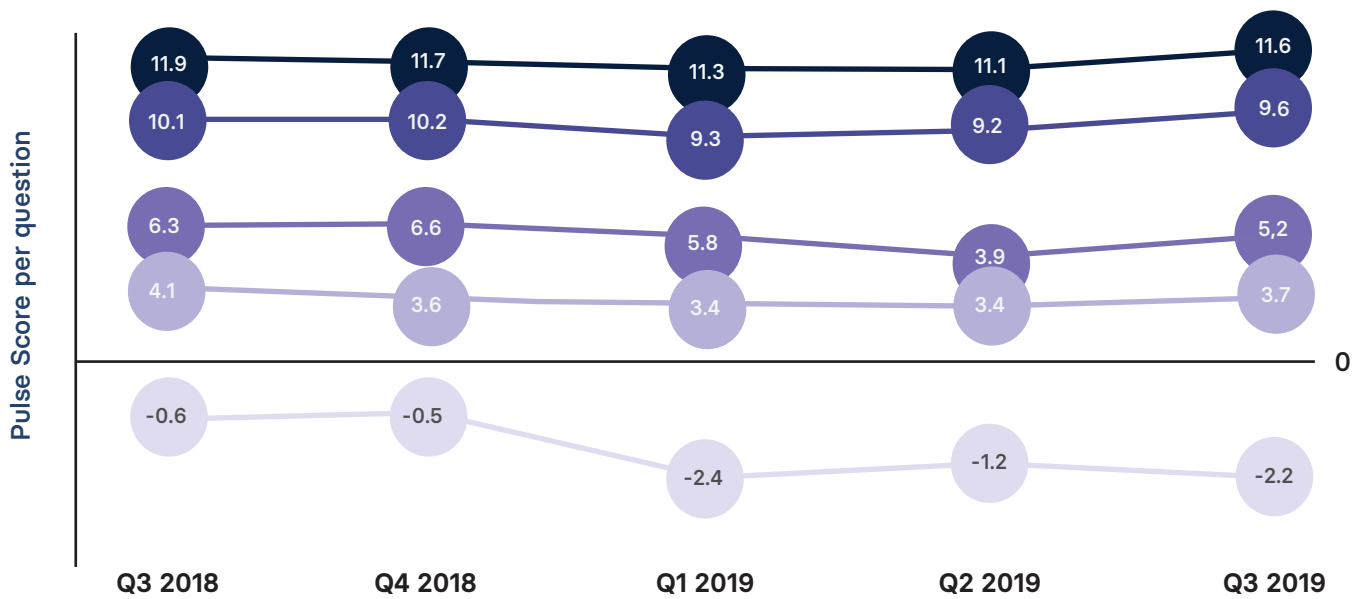


Figure 2



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?

As seen in previous Pulse reports, businesses that have been in operation for longer tend to have a more pessimistic Pulse score. Younger businesses have Pulse scores higher than ever at 41 points. A positive turn is noted for all businesses, no matter how long they have been in operation as they come out of the winter season.

Pulse breakdown by business stage

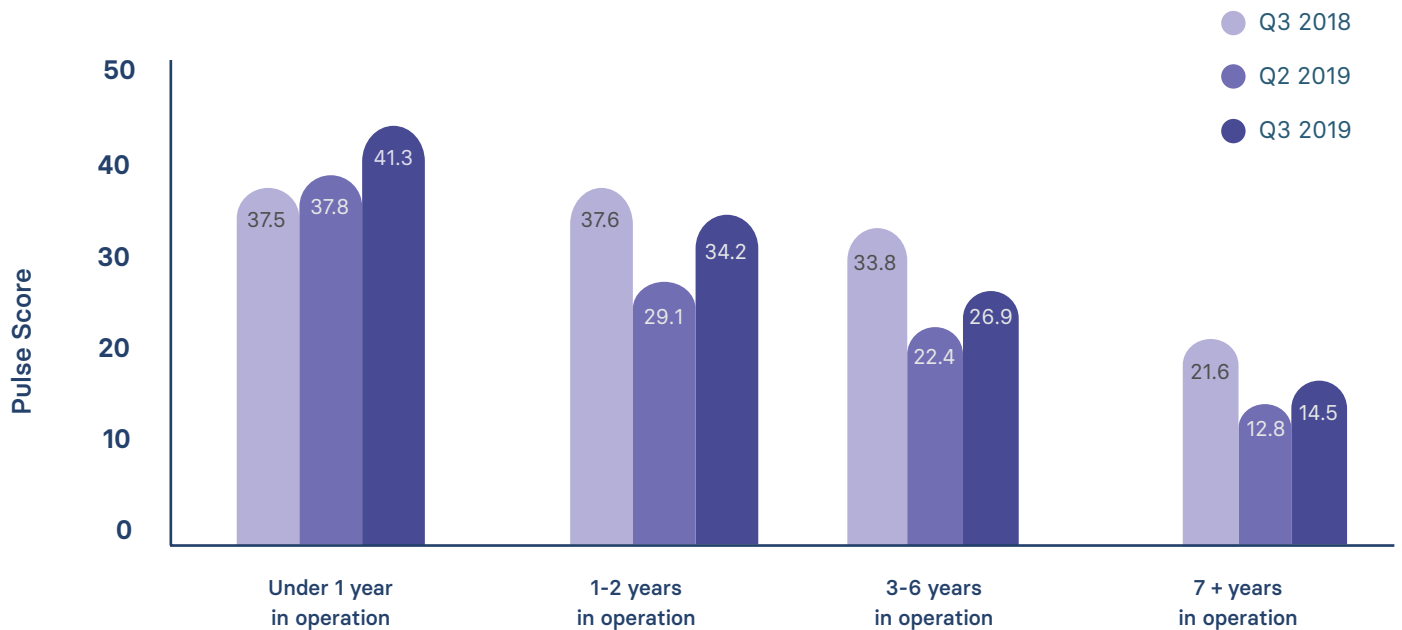


Figure 3

All industries have increased their Pulse scores from last quarter, while not reaching the same positive levels recorded for the same time last year. The closest industry is Food, Drink & Hospitality, with a Pulse score of 33, just one point off its recorded score for the same period last year. Health, Beauty & Fitness is also more positive this quarter with a score of 31. Leisure, Travel & Entertainment remains the least optimistic industry about the business environment in SA with a Pulse score of 20. This is a three point increase from Q2 2019 and hopefully the beginning of a positive increase as we come into tourist season.

Pulse breakdown by industry

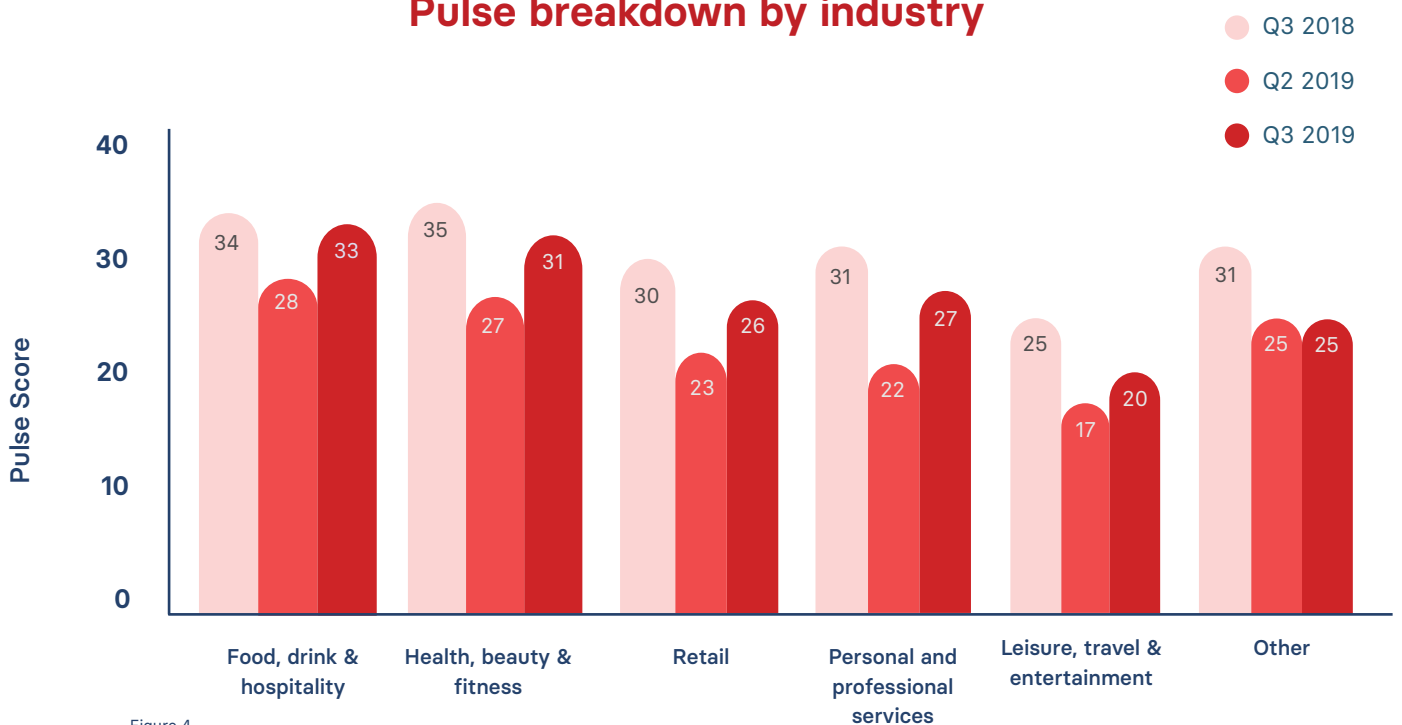


Figure 4

As seen with industries, most provinces have increased their Pulse score from last quarter, but are, on average, six points less than the same period last year. The most optimistic province about the business environment in SA is Limpopo (36), followed by North West (32) and Mpumalanga (31). The Eastern Cape is the least optimistic province at 23 Pulse points. This score is unchanged from Q2 2019 and, but nine points less than the same period last year.

Pulse breakdown by province

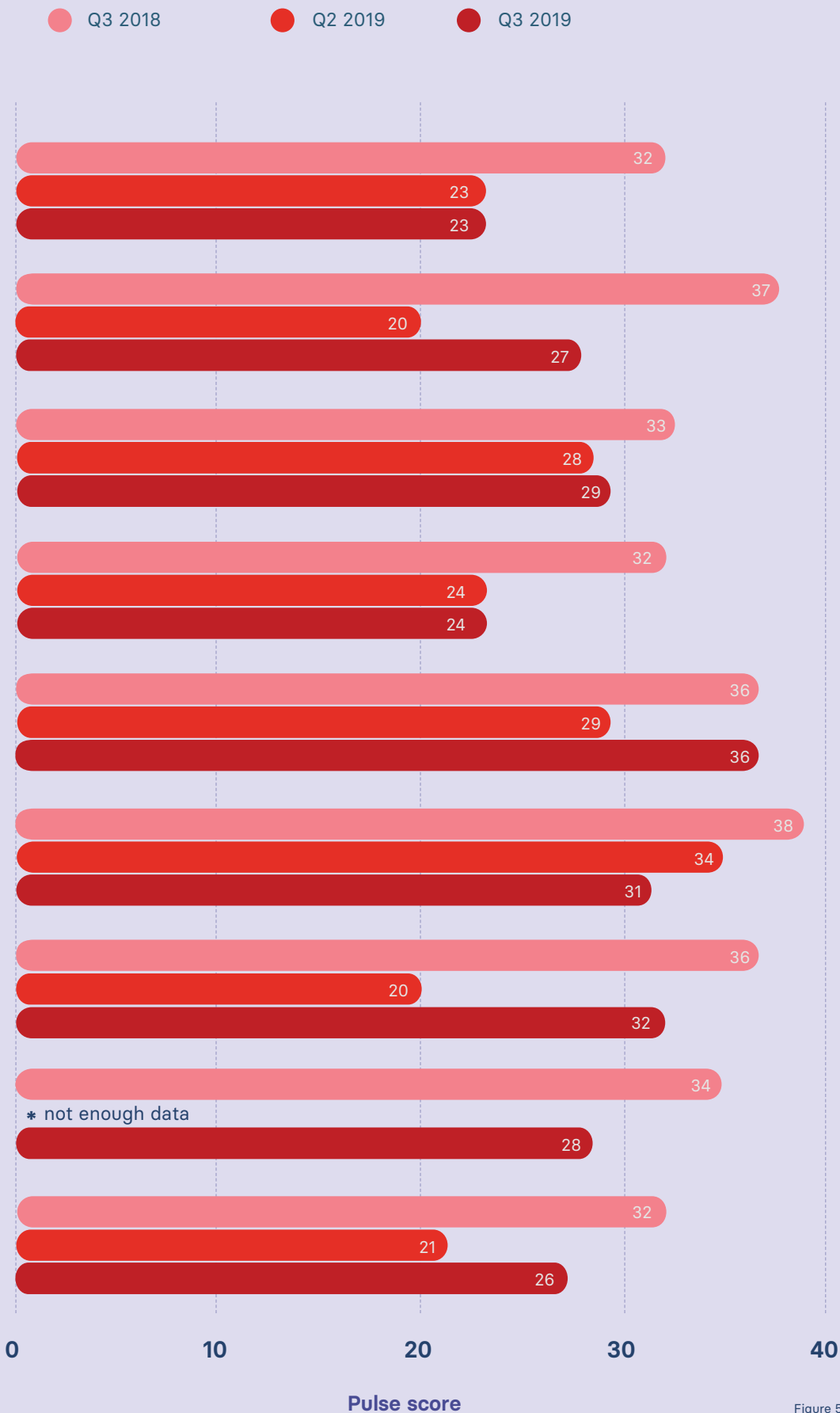
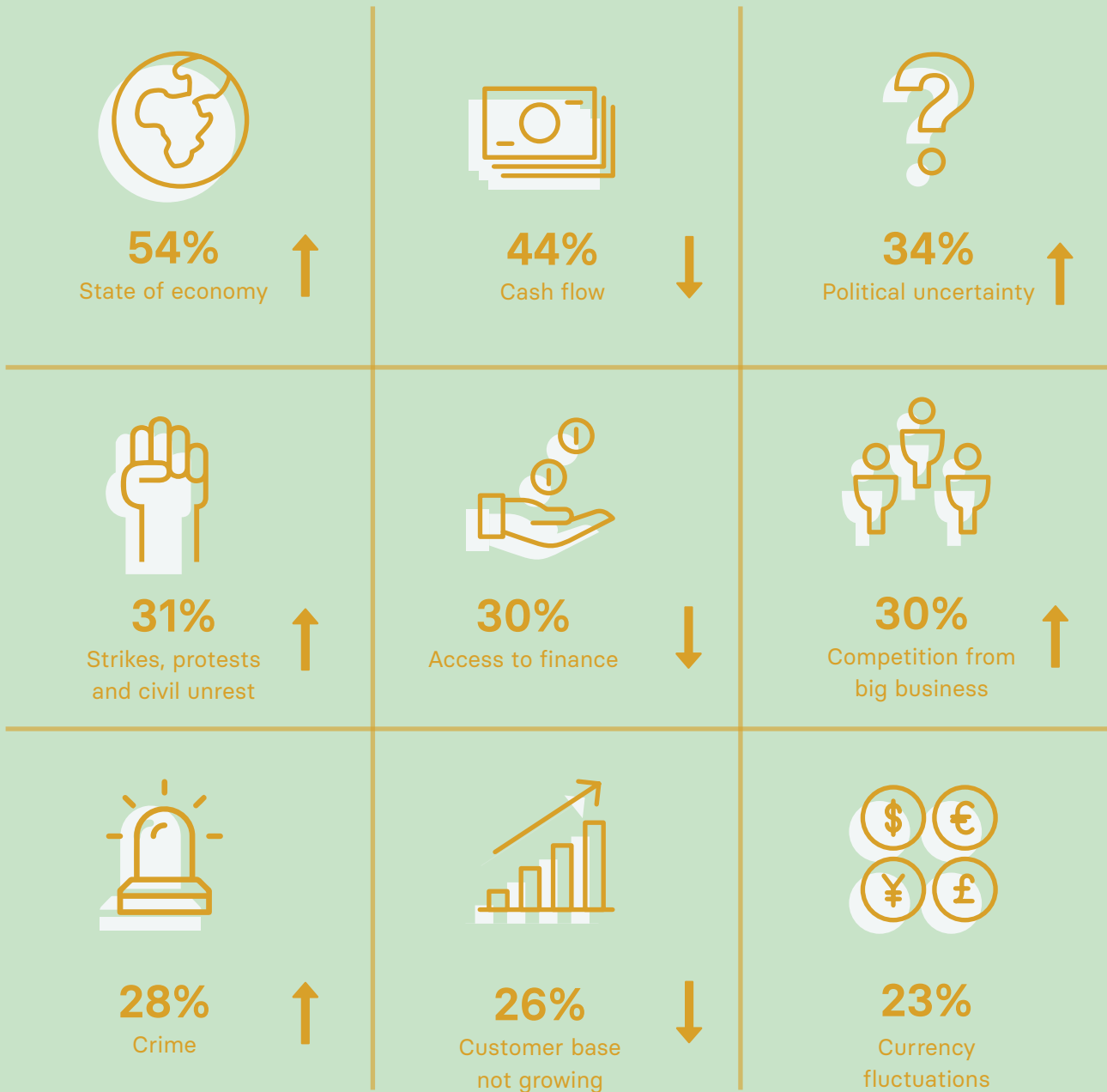


Figure 5

Business Challenges



↑ Up from Q2 2019 ↓ Down from Q2 2019

Figure 6



A year in review

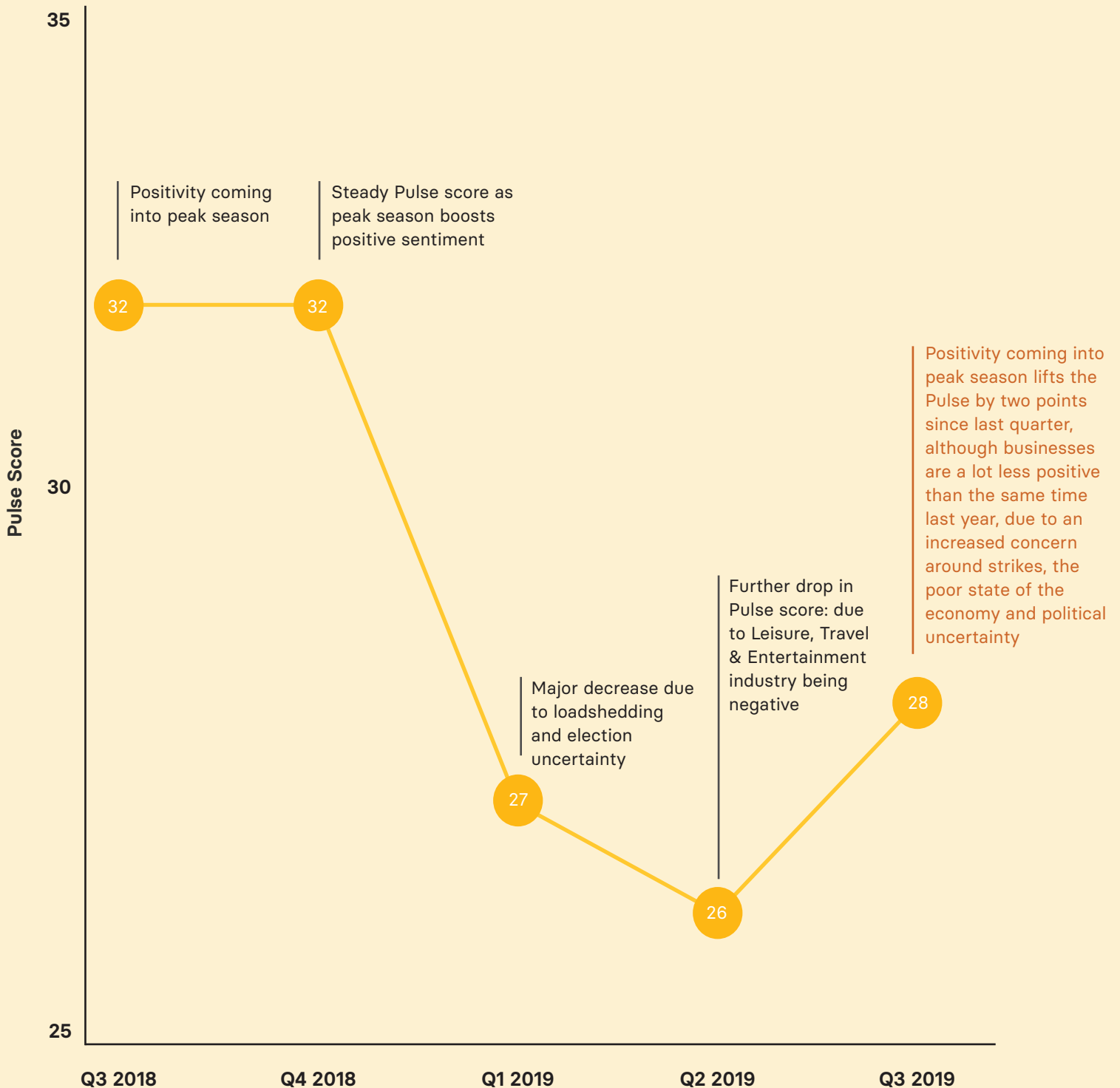


Figure 7

Demographic changes over the year

When you break down the Pulse questions by demographic data, there are some differences in how different people view the small business environment. We analysed the data based on gender, age and race and found some interesting patterns.

When you compare men and women, there aren't too many differences. Their overall Pulse scores remain similar to each other throughout the year.

Where women are slightly more positive about the things that are in their control (their business growth and business profitability), men are more positive about the general business environment in SA.

Another difference is that more men say that they are likely to hire more employees in the next 12 months, than women.

Pulse score breakdown by Gender

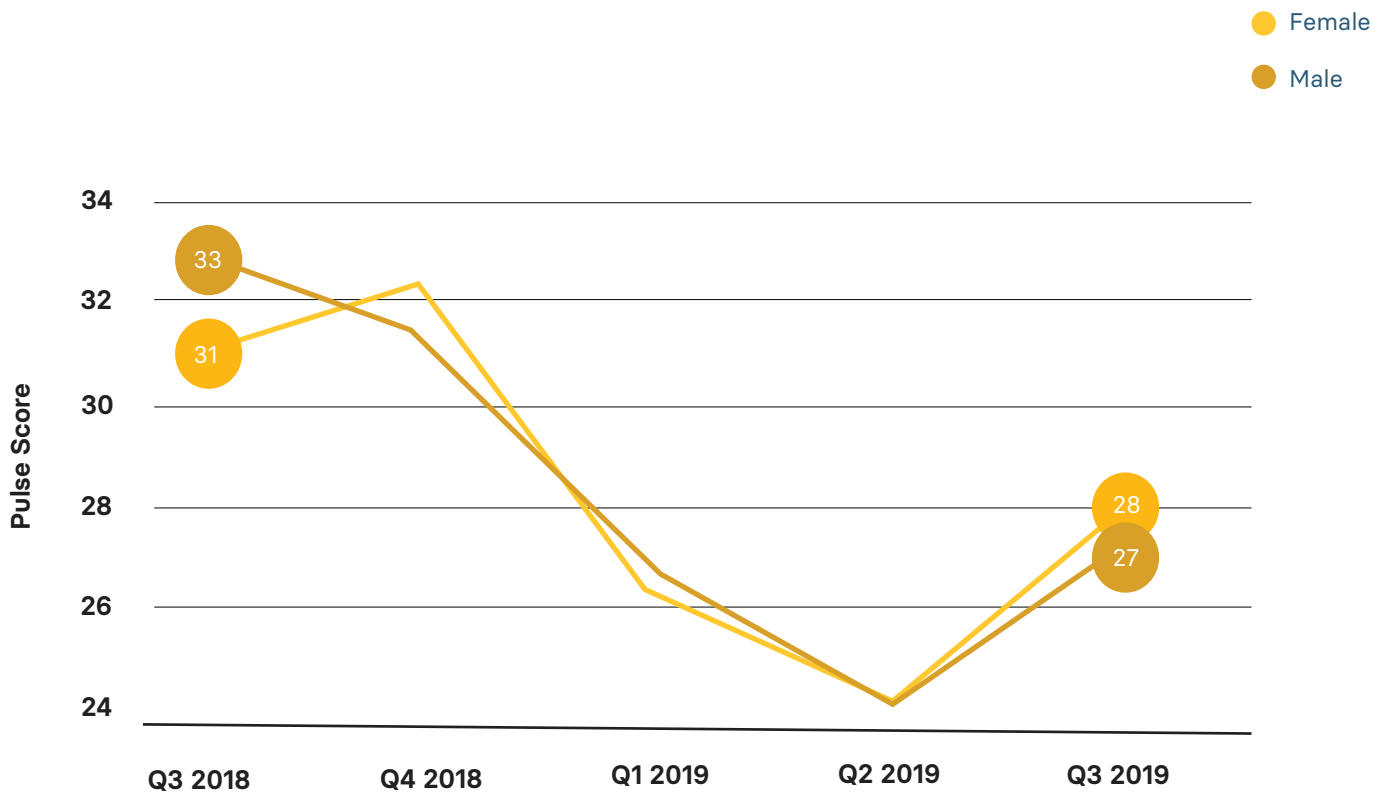


Figure 8

Breaking the data up into different age groups showed a much clearer contrast: the older the business owner, the more negative they become. The difference in Pulse score between the youngest group and the older group rose to its highest (*21 points) this quarter in Q3 2019. This contrast in sentiment was echoed across all five Pulse questions. As seen on page 7.

Pulse score breakdown by age

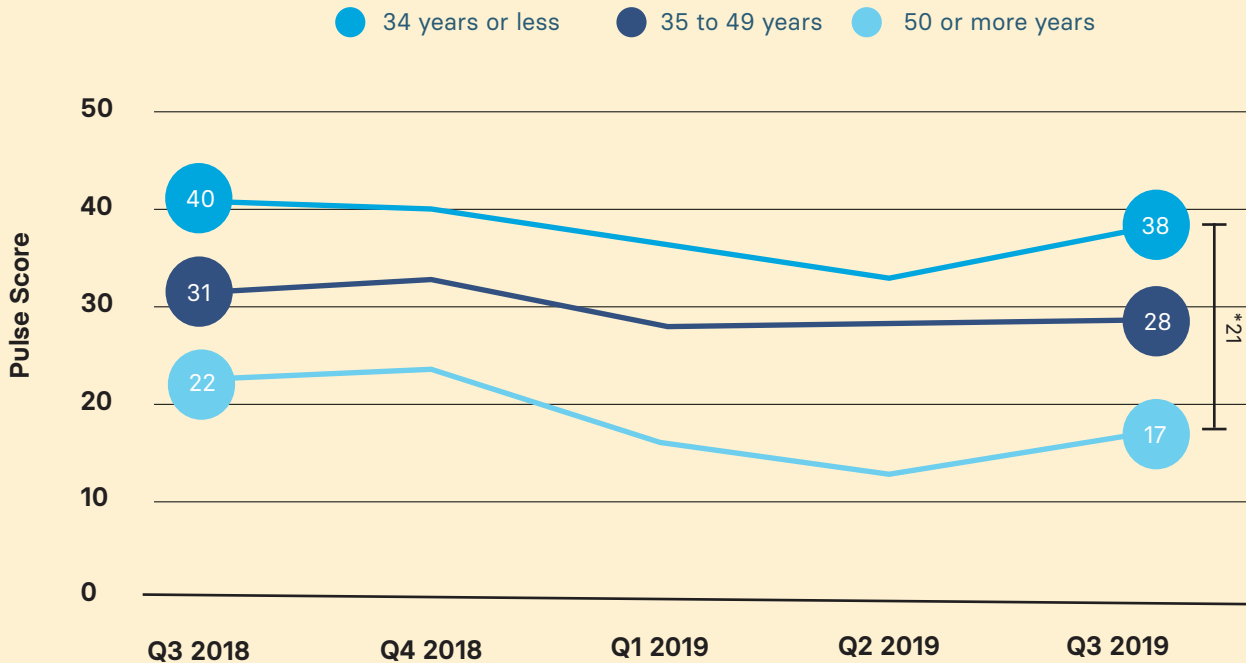


Figure 9

The third demographic breakdown of the Pulse was race. In general, black-owned businesses have been the most positive, white owned businesses the least positive and Asian, Indian and Coloured owned businesses tend to fall in the middle of the two. As seen in the age breakdown, the difference between the most positive group and the least positive group is significant. The highest difference occurred in Q1 2019 at *24 points. During Q1 there was a lot of uncertainty around the upcoming elections, negativity around increased loadshedding and peak season coming to an end.

Pulse score breakdown by race

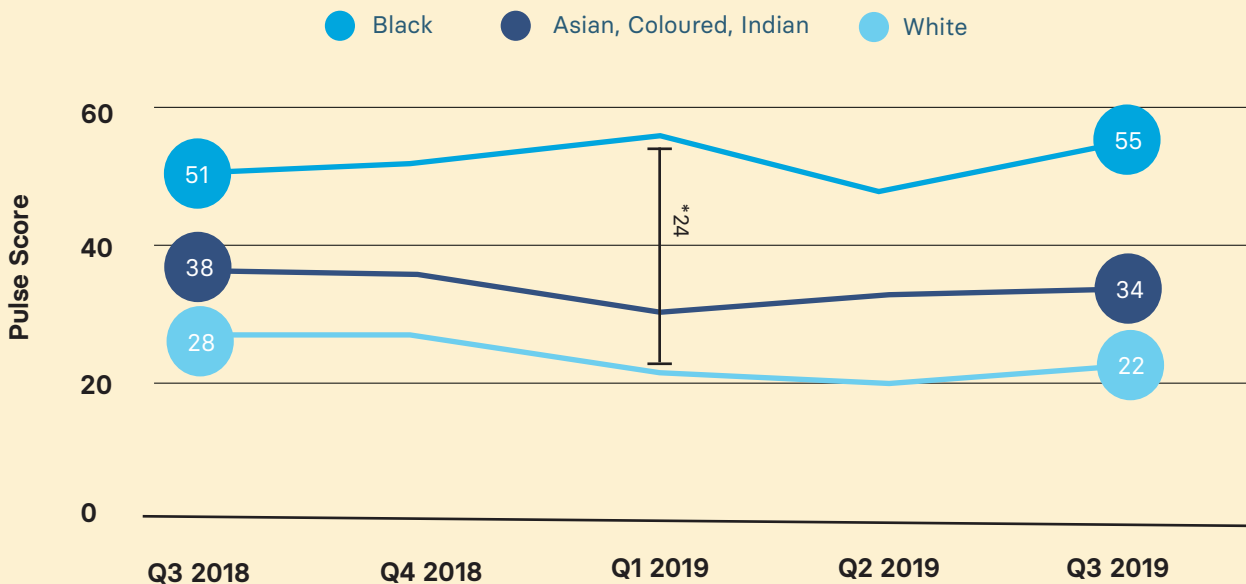


Figure 10

When we first took Pulse readings in Q3 2018, all race groups felt equally positive about the performance of their business. But as the year has progressed we have seen a split in sentiment. Black business owners feel their businesses are performing slightly better than a year ago, while the other groups have shown a decline in positivity, stating that their businesses are performing slightly less well than before.

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

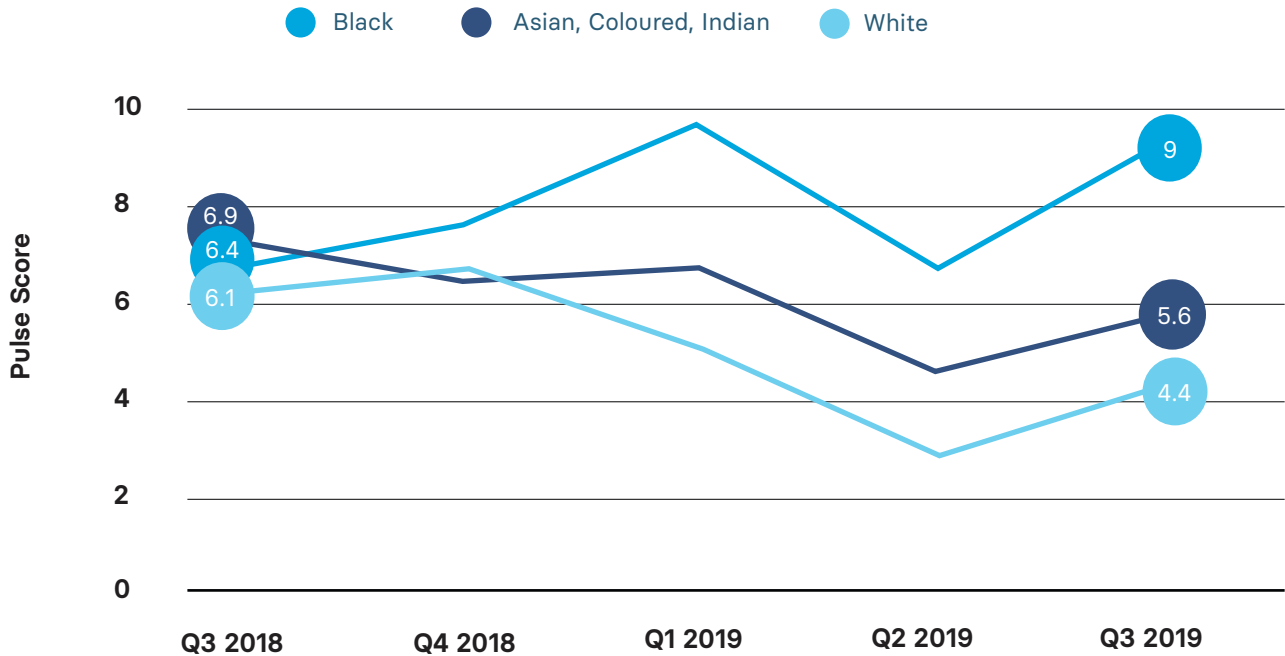


Figure 11

When you look at sentiment around the general business environment in SA a slightly different trend is noticed. While black owned businesses are positive about the general business environment, white owned businesses have fallen into the negatives – as low as -4 points in Q1 2019 during loadshedding and the elections. Asian, Coloured and Indian owned businesses maintain their position in the middle of the two groups moving between positive and negative over the course of the year.

Do you think that the general business situation in South Africa will improve, remain the same, or deteriorate over the next year.

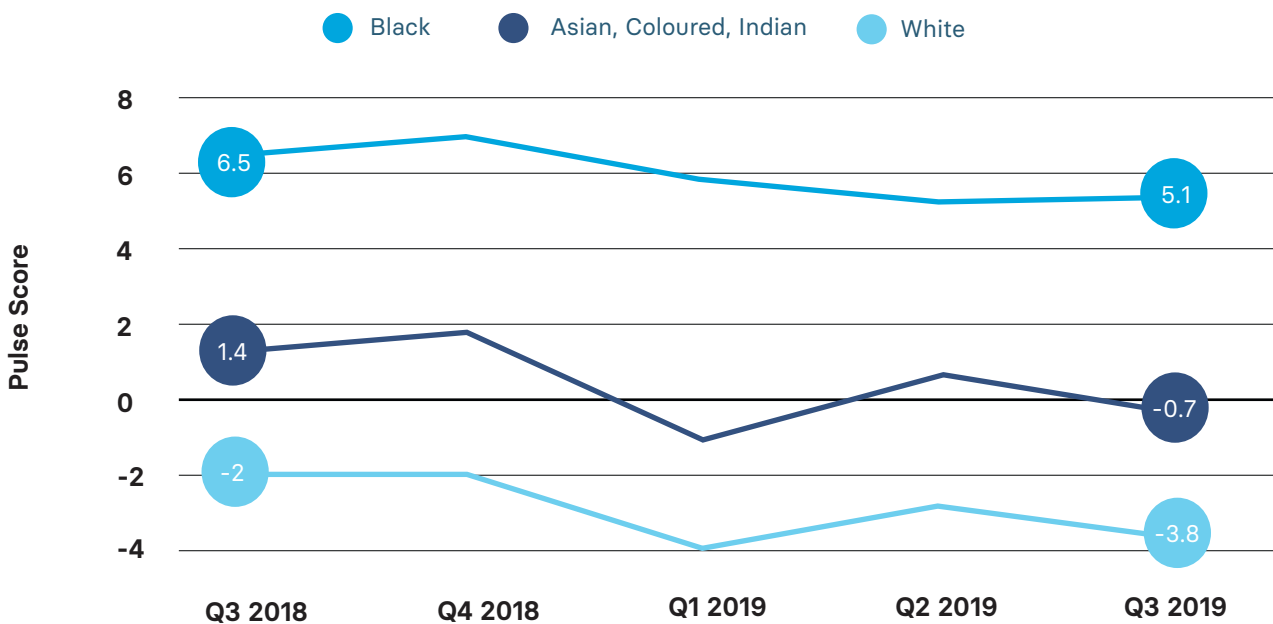


Figure 12

Closing statement

It has been a difficult year for small business in South Africa. The Pulse score has fallen from 32 to 28 over the course of the year.

Business owners are plagued by an unstable economy, cash flow challenges and political uncertainty. Despite all the negative factors, it's important to note the 13.13% increase in the transaction rate per merchant for Q3 in comparison to the same period last year. We hope the small business environment will continue on its positive trajectory shown in this quarter.



How it works

A quarterly survey was sent out to more than 50 000 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. 75% 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 September 2019. Survey responses were received from 4 905 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. 34% of the businesses surveyed are based in the Western Cape, 35% 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%), Personal & Professional Services (15%) 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 (47%) business owners. The demographics of this sample are very similar to previous Pulse samples and therefore it is comparable to the results from previous quarters.

Industry:

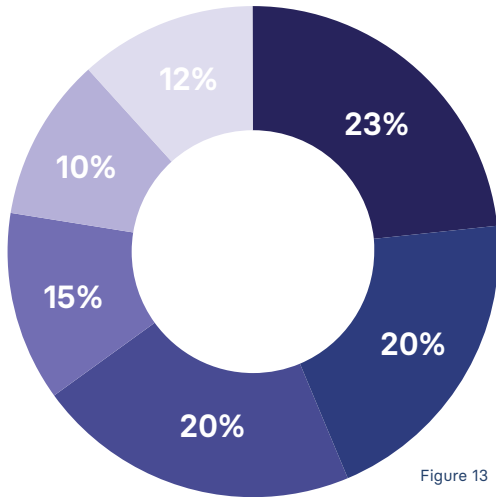


Figure 13

Annual Turnover:

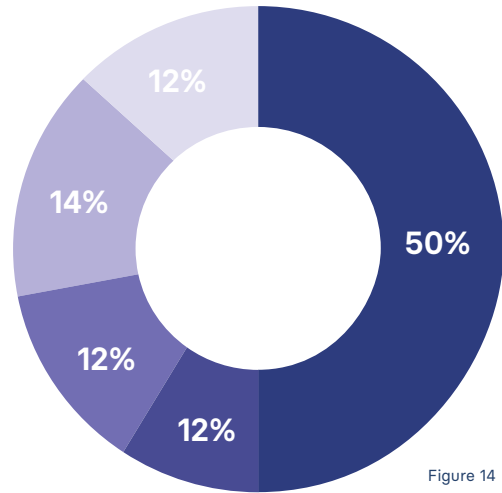


Figure 14

- 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:

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

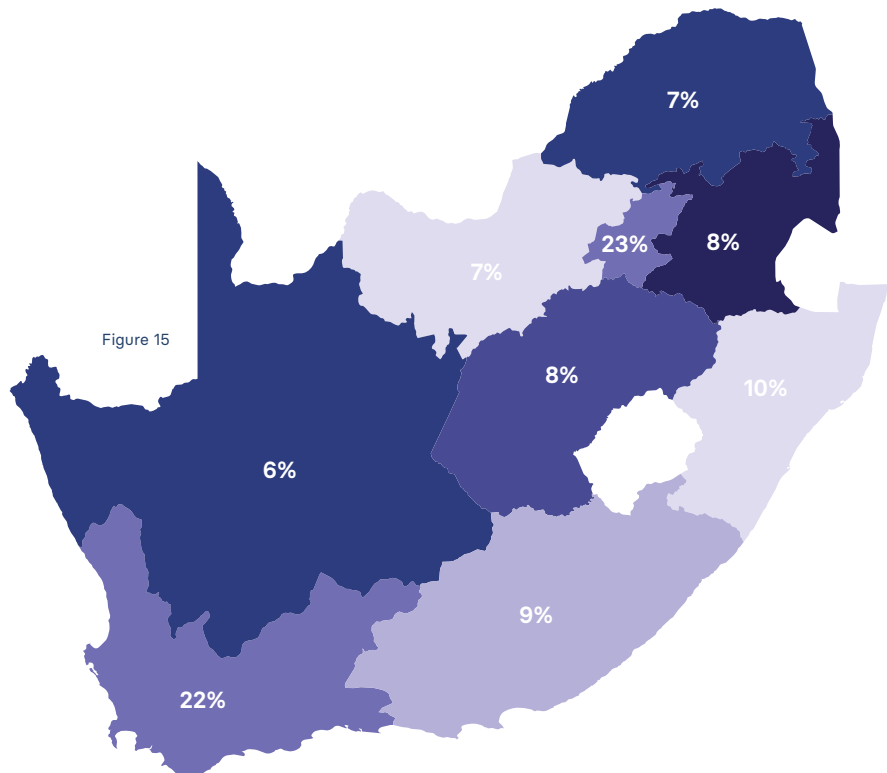


Figure 15

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 54 000-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