



SME Survey 2010: Executive Summary

Introduction

SME Survey (Pty) Ltd presents the findings of SME Survey 2010, which comprised 2 500 telephonic interviews with business and financial decision-makers at small, medium and micro enterprises in South Africa. The methodology is explained in detail in the report.

SME Survey Research Methodology

SME Survey 2010 is based on a randomly selected sample of decision-makers at South African small, medium and micro enterprises (SMEs), consisting of companies with from 1 to 200 staff.

However, the sample frame in 2010 has diverged dramatically from that used in the past.

In 2008 and 2009, the sample was generated from available databases comprising more than 70 000 companies, and was as representative as all the major small business databases available in South Africa. The sampled respondents matched the research requirements for understanding the impact of various factors on the competitiveness and survival of SMEs in general.

However, in 2010, the sample was drawn from two distinct sources, representing two very different types of SME. As before, the survey targeted 2 500 respondents, but in 2010 the respondent base was divided into two distinct segments:

- The first segment represented the same broad category of respondents as before, i.e. generated from available databases comprising more than 70,000 companies, and as representative as all the major small business databases available in South Africa. As such, it also represents what we refer to in this survey as the “established market”, since companies need to have the visibility of interacting in established markets in order to appear in formally available databases.
- The second segment was drawn from a database supplied by the survey’s primary sponsor, the National Youth Development Agency (NYDA). The database comprises small and medium enterprises that had either received assistance from the NYDA, in the form of funding, vouchers and advice, or had engaged with the NYDA at any stage. This database therefore largely represents companies operating in what we refer to in this survey as the “emerging market”. Most of these companies have not achieved visibility in

established markets, and therefore do not appear in commercially available databases.

Established market SMEs vs Emerging market SMEs

The new sample frame brought with it a major benefit that would transform SME Survey 2010: it would allow for direct comparisons between two very different types of formal business operating in South Africa. Comparing SMEs in established markets with those in emerging markets.

This would further allow for a clearer understanding of the obstacles and enabling environment for businesses faced with vastly different backgrounds.

SMEs in **established markets** typically operate in developed environments where infrastructure is adequate for conducting business, where access to utilities, financial services and a labour market is stable, and where they are able to serve established market businesses in turn.

SMEs in **emerging markets** typically operate in disadvantaged areas, serving disadvantaged communities, and in an environment where access to utilities, financial services and a labour market is uncertain.

The interviews

The selected sample is contacted by telephone to:

- Establish the appropriate decision-maker to be interviewed;
- Establish the willingness of the decision-maker to participate in the survey; and
- To filter out those who do not match the research definition.

Following this, the respondents are interviewed by telephone. All questions are range-based (i.e. 1-10, 11-20, etc.), scale based (i.e. select one on a scale from 1 to 5), Yes/No questions, or multiple choice questions, a structure that allows for full statistical analysis, and the use of statistical modeling techniques when necessary.

Primary research questions

The year 2010 will be remembered as South Africa's crowning glory in successfully delivering what has been called the best World Cup ever. But did the football spectacular had any effect on the small and medium businesses, which are considered to be the engine room of the South African economy?

That is one of the key issues which SME Survey 2010 set out to tackle as it gauged the sentiments and competitiveness of South African business owners.

Andile Lungisa, NYDA Chairperson, says the work of SME Survey is arguably more important than ever, given the economic challenges faced by the country. "Many jobs have been lost with the impact of the recession. By understanding how government and the private sector can influence and stimulate the SME sector, there is the potential to elevate performance and grow employment opportunities for more South Africans."

With environmental awareness elevating in the national consciousness, SME Survey 2010 also set out to gauge whether business owners agreed with the need for environmental awareness.

Key learnings

SME Survey 2010 shows that those companies that have not diversified are at more risk than their counterparts who sell to a range of customer segments.

Clearly, SMEs need to diversify more actively if they are to be more sustainable, profitable and resilient to inevitable market changes; when we recommend 'diversify', we do not mean the SME should act as a conglomerate, but rather that it should address different customer segments if possible.

The first recession to hit South Africa in over 17 years was instructive: those companies which didn't have all their eggs in one basket are the ones which weathered the storm more effectively.

It is a reasonable assumption that a level of diversity in who the customer is will have an effect on how a business fares in the face of changes to the economy.

Those businesses which have a better spread of customers are able to cope with changes. It is unlikely that all customer segments will be affected equally by any economic event, such as the recession. So, it follows that businesses which serve corporations, the 'man in the street' and public sector, for example, will do better than the company which only does business with the man in the street.

World Cup a great success for SA, but not for the SME

SME Survey 2010 reveals that the overall impact of World Cup 2010 on small, medium and micro enterprises was negligible. This is largely a factor of the policies of soccer's governing body FIFA and the complicity of government.

That doesn't mean the World Cup wasn't a success or that it didn't bring benefits to South Africa as a whole. Rather, what is clear is that FIFA locked down the economic benefits, making them available only to selected service providers. In effect, small business was frozen out almost completely.

Before the event, SME Survey showed that 86% of small businesses expected the World Cup to boost business in general. However, just 45% anticipated any benefit to their own businesses. This year's research bears that out: 92% believed the event as a whole was a success, while 42% felt that there was adequate support from business advice structures – and only 14% of SMEs say the World Cup had a material contribution to their success. In other words, just over one in ten small businesses felt the event had any direct impact on their business.

Crime and competition the biggest headaches for SMEs

Crime is far and away the most important concern for SME decision-makers. However, a higher proportion of decision-makers at established SMEs have sleepless nights over crime – 50% of these respondents – than those at emerging businesses - still high at 27%. This is probably due to the fact that emerging businesses remain more focused on getting their businesses properly established, while those that are already established make more likely targets for criminals.

After crime, the issue that causes the most sleepless nights is that of competition. In the emerging SME sector, 14% of businesses consider competition to be a major headache. The proportion is even greater among established SMEs (18%). This indicates that, in a tight economy, the same businesses appear to be fighting for a smaller piece of the pie.

Environmental awareness

For the first time in its eight year history, SME Survey asked how important environmental awareness is in business. Overall, 78% reported that it is indeed important. That's exceptionally high and almost certainly a consequence of business owners bringing their personal viewpoints of the necessity for environmentally sound practices into the workplace.

Perhaps even more surprising is that emerging businesses were slightly more concerned than established companies. Businesses in established markets came in at 77%, while businesses in emerging markets were at 80%. This flies in the face of 'received wisdom' which assumes that those businesses which are more established and enjoy access to technology and formal communications, might be more concerned about their impact on their surroundings.

Other content

SME Survey 2010 also explores additional aspects of SME activities and operations, such as financial services usage, Internet connectivity, profitability, cash flow and sources of finance, and breaks down key findings by industry sector and other demographics.

Sponsored by the National Youth Development Agency, SME Survey is in its ninth year and polls 2 500 business decision-makers on the issues they face and how they overcome these to remain competitive and sustainable in the current economic climate.

Obtaining the report

The SME Survey 2010 report is available in PDF format at a cost of R12 000 excluding VAT. To place an order, please e-mail details of company name, VAT registration number, address, phone and fax details, and name and e-mail address of both person to whom the report must be mailed and the person responsible for payment, to SME Survey (Pty) Ltd on info@smesurvey.co.za. An invoice is sent out, and the report is despatched upon receipt of payment and on publication.