



# SME SURVEY 2014

## Executive Summary

## Cloud grows, government does better, location is key and a gender surprise

South African small to medium enterprises (SMEs) are steadily moving to the cloud, have a generally positive perception of government services and are more likely to be profitable if located in cities and owned by women. These are the headline findings of SME Survey 2014, which tracks the perceptions and concerns of small business owners in this country.

The proportion of SMEs using the cloud is 27% overall, substantially up from 9% in 2012. Some 24% indicated social media as an online service being used, lower than expected, given the hype surrounding it.

What's surprising is not that one in four are using it, but that three in four aren't. One might expect more to be using social media, but that may be due to SMEs realising it's a fad, while they also need a clear value proposition.

Of those not yet using cloud, when asked if they expect to take it up, just 2% gave a definite 'yes'; digging deeper, another 20% said it depends on business needs. If these 'possibles' join those companies already using cloud, adoption moves closer to 50%. A further 30% are unsure; in effect, this means there is a possibility that cloud adoption could double in the next 12-24 months. It is all about the value proposition.

In terms of perceptions of government relations, SME Survey 2014 throws up a surprise: business owners are more positive than might be anticipated. Some 38% of respondents said they had used government services in the last 12 months, while 17% have done so more than three times in this period. Exactly half of those who had used these services reported being very happy with them, with a further 34% somewhat happy.

The one area where the generally positive view fell was in registration of entities, with some 36% viewing performance as unfavourable and 17% as highly unfavourable. PAYE also received 36% unfavourable, but a lower level of being highly unfavourable, at just 6%. The inevitability of tax

notwithstanding, some 29% considered VAT unfavourable, with 18% viewing it as highly unfavourable. However, 44% of respondents expressed high confidence in using these services.

SME Survey has seen dramatic improvement in the perceptions of government services in the past decade in which these have been tracked. Such improvement tends to follow changes to the services, showing that generally most tinkering has had positive outcomes.

### Location, location, location

The survey reveals that businesses in cities, or headquartered in cities, are more likely to be profitable than those located in smaller towns or rural areas.

The finding goes some way in confirming the old principle that the three most important factors for property (or by extension, the position of a business) are location, location and location. Despite the increasing availability of telecommunications and Internet services, which in theory allow people to work from anywhere, successful SME offices are still best placed in urban areas.

Of businesses located in a city:

- 26% are strongly profitable
- 44% are just profitable

Of businesses located in towns:

- 11% are strongly profitable
- 47% are just profitable.

The widest gap is that between strongly profitable city businesses and strongly profitable SMEs in towns. The disparity points to a degree of opportunity being present in towns, but a greater challenge in translating that into a profitable business.

A picture has also emerged of where most South African SMEs are located: 43% are headquartered in cities and 55% in



towns; the balance is located in villages or rural areas where there simply isn't much opportunity to run a business. Cities provide better access to resources and customers; this drops off for towns and more so in rural areas.

There is a further implication that telecommunications and technology tools, which provide the theoretical ability to locate offices and people anywhere, have their limitations. Of course, it depends on what any given business is doing; however, this finding implies that necessity for the personal touch is still a component of a successful business. It's also something many SME owners will instinctively understand.

The findings provide a glimpse into the reasons behind urbanisation: more people mean more commerce.

### **A minority, but women SME owners more successful**

One of the startling findings of the survey is that a small business owned by a woman has a better chance of being profitable than one owned by a man.

Equally surprising is that those companies owned by couples or a mix of genders are substantially less likely to be profitable than those operated by either male or female owners.

While this result may seem like a big win for women, it comes with an immediate qualifier: the level of female ownership is exceptionally low.

To provide perspective on profitability and gender differences, the overall picture of South African small business shows that they are doing reasonably well, although only a small proportion – less than one in five – is thriving: 17% of SMEs surveyed are 'strongly profitable' while 45% are 'just profitable'. However, this does leave a significant percentage under some distress: 38% are not making a profit.

Against the overall result, it emerges that of the male-owned SMEs:

- 20% are strongly profitable
- 49% are just profitable

While of the jointly-owned SMEs:

- 16% are strongly profitable
- 37% are just profitable

And of the female-owned SMEs

- 15% are strongly profitable
- 63% just profitable

This equates to a total of 78% of women-owned businesses being profitable, well ahead of the 70% for men.

But the most considerable difference is recorded in jointly-owned organisations, where just 53% are profitable. This arguably shows that there are additional challenges which

come with owning a business together with your spouse or partner, or where joint owners have different personal agendas or management styles.

In terms of overall ownership, men dominate, with 48% owning SMEs, while jointly-owned businesses account for 44%. Just 8% of South African SMEs are female-owned businesses.

Women entrepreneurs and company owners going it on their own are therefore in a small minority in the SME environment.

There is a massive gender imbalance in entrepreneurship. This tells us that women are not given enough encouragement or support to become entrepreneurs.

Previous editions of SME Survey provide another clue for the imbalance.

We've seen in the past that best training for entrepreneurship and business ownership is on the job experience. There is a further implication, therefore, that not enough women get opportunities in the workplace to start with.

Government is the exception that proves this rule. Parliament is the one place where we've seen gender equality implemented, but the approach certainly hasn't been filtering through to rest of economy.

According to the Small Enterprise Development Agency (Seda), while government has recognised and acted to correct gender imbalances inherited from patriarchal societal conventions, it is clear that more needs to be done in the private sector.

Women continue to be marginalised as far as small business ownership is concerned. The problem appears systemic; it therefore has to be addressed at a systemic level, starting at school and extending through the workforce to give women not only the skills, but the confidence to start their own businesses.

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## CONTENTS:

### Definitions and sample frame

Definition of an SME  
Industry sector representation  
Contribution to the economy  
Methodology

### Executive Summary

Cloud grows, government does better - and a gender surprise  
Location, location, location  
A minority, but women SME owners more successful

### Profile of SMEs

Position of respondents  
Age of company  
BEE ownership  
Size of company  
Ownership by gender  
Age of owner  
Highest level of education of the business owner  
Industry sector of company  
Province  
Reason for starting business  
Status of business  
Profitability  
Turnover  
Core target market  
Business well-diversified  
Environmental sustainability importance

### Profitability

Profitability: total  
Profitability by urban-rural location  
Profitability by age of business  
Profitability by company size  
Profitability by BEE ownership  
Profitability by gender of owner  
Profitability by age of owner  
Profitability by education of owner  
Profitability by experience of owner  
Profitability by industrial sector  
Main office location  
Profitability by company type  
Profitability by ownership type  
Profitability by status of the business  
Profitability by founding motivation  
Profitability by target market  
Profitability by diversification level  
Profitability by environmental awareness  
Profitability by frequency of government agency intervention  
Profitability by confidence in government agencies  
Profitability by mentor involvement  
Profitability by competitive intensity  
Profitability by competitor strength  
Profitability by marketing channel  
Profitability by bank account holding  
Profitability by bank of choice  
Profitability by turnover  
Profitability by website use  
Profitability by cloud use

### Cash flow

Cash flow by sector  
Cash flow by urban-rural location  
Cash flow by age of business  
Cash flow by company size  
Cash flow by BEE ownership  
Cash flow by age of owner  
Cash flow by education of owner  
Cash flow by experience of owner  
Cash flow by company type  
Cash flow by ownership type (family vs franchise)  
Cash flow by status of the business  
Cash flow by founding motivation  
Cash flow by customer type  
Cash flow by diversification level  
Cash flow by environmental awareness  
Cash flow by frequency of government agency intervention  
Cash flow by frequency of government agency confidence  
Cash flow by mentor involvement  
Cash flow by competitors  
Cash flow by competitor strength  
Cash flow by marketing channels  
Cash flow by bank account holding  
Cash flow by bank of choice  
Cash flow by turnover

### Business status

Business status by sector  
Business status by urban-rural location  
Business status by company size  
Business status by BEE ownership  
Business status by gender of owner  
Business status by age of owner  
Business status by education of owner  
Business status by experience of owner  
Business status by company type  
Business status by founding motivation  
Business status by customer type  
Business status by diversification level  
Business status by environmental awareness  
Business status by frequency of government agency intervention  
Business status by government agency confidence  
Business status by mentor involvement  
Business status by competitor strength  
Business status by marketing channels  
Business status by bank account holding  
Business status by bank of choice  
Business status by turnover  
Business status by profitability

### Business cause for sleepless nights

Business cause for sleepless nights: total  
Business cause for sleepless nights: total (alternate view)  
Business cause for sleepless nights: sectors  
Business cause for sleepless nights: province  
Business cause for sleepless nights: company size  
Business cause for sleepless nights: BEE ownership  
Business cause for sleepless nights: gender of owner  
Business cause for sleepless nights: age of owner  
Business cause for sleepless nights: education of owner  
Business cause for sleepless nights: experience of owner  
Business cause for sleepless nights: status of the business  
Business cause for sleepless nights: profitability

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Business cause for sleepless nights: customer type  
Business cause for sleepless nights: diversification level  
Business cause for sleepless nights: turnover  
Business cause for sleepless nights: cash flow

### Environmental cause for sleepless nights

Environmental cause for sleepless nights: total  
Environmental cause for sleepless nights: owners and employees  
Environmental cause for sleepless nights: sectors  
Environmental cause for sleepless nights: province  
Environmental cause for sleepless nights: urban-rural location  
Environmental cause for sleepless nights: company size  
Environmental cause for sleepless nights: BEE  
Environmental cause for sleepless nights: gender of owner  
Environmental cause for sleepless nights: education of owner  
Environmental cause for sleepless nights: experience of owner  
Environmental cause for sleepless nights: profitability  
Environmental cause for sleepless nights: cash flow  
Environmental cause for sleepless nights: customer type  
Environmental cause for sleepless nights: diversification level  
Environmental cause for sleepless nights: frequency of government agency intervention  
Environmental cause for sleepless nights: government agency confidence  
Environmental cause for sleepless nights: turnover

### Government support

Frequency of government agency use  
Frequency of government agency use by sector  
Government agencies used  
Satisfaction with government agencies  
Dissatisfaction with government agencies  
Confidence in government agencies  
Confidence in government agencies by sector

### Legal environment

Conducive to SME growth: UIF  
Conducive to SME growth: Income tax  
Conducive to SME growth: PAYE  
Conducive to SME growth: VAT  
Conducive to SME growth: Minimum wage  
Conducive to SME growth: Return of earnings and Workmen's compensation  
Conducive to SME growth: Basic conditions  
Conducive to SME growth: Employment equity  
Conducive to SME growth: Labour Relations  
Conducive to SME growth: SETAs and SDL  
Conducive to SME growth: Access to information  
Conducive to SME growth: Health regulations  
Conducive to SME growth: Zoning laws  
Conducive to SME growth: National Credit Act  
Conducive to SME growth: Registration of entities  
Conducive to SME growth: Summary

### Funding and banking

Source of business funding  
Confidence using bank to grow business

### Technology: Internet use

Main form of Internet connection  
Number of staff members with Internet connection  
Satisfaction with Internet costs  
Satisfaction with Internet bandwidth

### Technology: Internet service use

Internet email for business  
Internet information search  
Internet service search  
Internet news  
Internet banking  
Internet purchases  
Internet backups  
Internet accounting  
Internet mail server  
Internet online email  
Internet videoconferencing  
Internet VoIP  
Internet CRM  
Internet project management  
Internet IM  
Internet cloud  
Internet social networking  
Internet blogging

### Technology: Website and cloud

Overview  
Website use  
Designer of the company Website  
Cloud type in use  
Cloud intended use  
Criteria for selecting a cloud service provider  
Potential cloud service provider

### Technology: Device use

Device server  
Device laptop  
Device PC  
Device tablet  
Device smartphone

### Technology: IT security

IT security measures used  
Data backup frequency

### Changes from the previous survey

Changes 2012 to 2014: Comments

### Appendix: Statistical analysis

Associations between variables  
Association between variables: reduced categories  
Associated variables: cause of association  
Confidence intervals for proportions

### Appendix: Contact

