

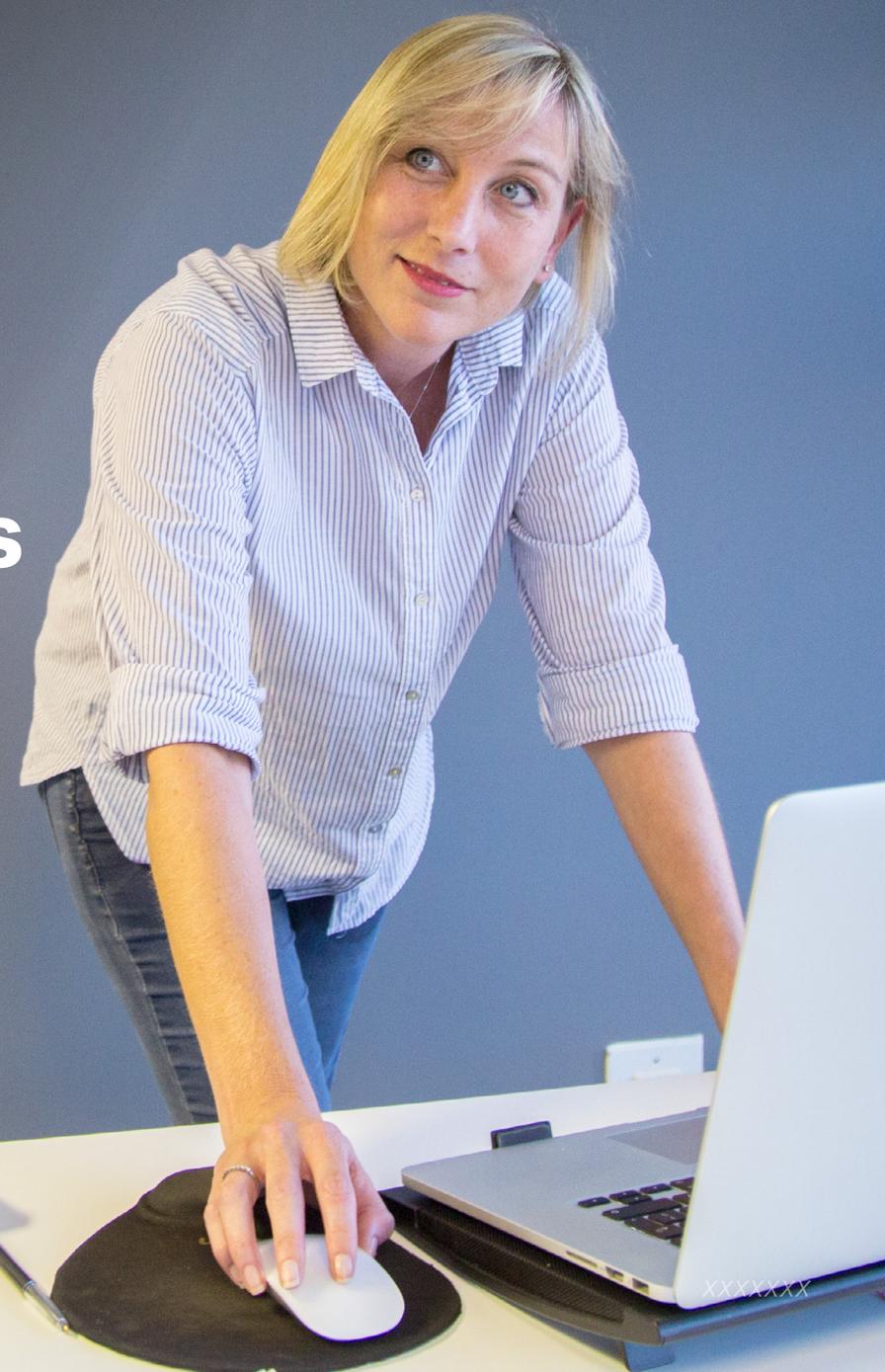


Beautiful business

RE:START 2020

The state of South African small business: The trends set to shape recovery

Shannon Weber, The District



Contents

Introduction by Colin Timmis, Xero South Africa Country Manager	3
Section 1: Building the right toolset and skillset for recovery	4
Making the most of tech	
Technology tips for life under and after lockdown	
Staffing for a new reality	
Section 2: Finances, funding and support	10
Regulation and government support	
Accountants: Today's essential partners for small businesses	
Section 3: Rebuilding for the future	14

Introduction



*Introduction by Colin Timmis,
Xero South Africa Country Manager*

For the past five years, we've been tracking the state of South Africa's small business community through our annual research. We've heard from small businesses about the biggest challenges they've faced, the technology driving their growth and the support they need to thrive.

2020 has been a year like no other and it's been a particularly tough time for small businesses. Our national economy was already in recession before the impact of Covid-19, and the unemployment rate was at an all-time high. The current crisis and impact of lockdown has only worsened the situation for SMEs.

Despite the bleak outlook, there is hope. We've seen many small businesses ready to take on these challenges. For many, this period has revealed a radical new approach to work and to running businesses, proving that we can always find ways to adapt to any situation we face.

At Xero, we believe that with the right support, small businesses can and will recover. This will require collaboration between the government and many across the private sector including fintechs, financial institutions and accountants. Accountants have proven themselves to be invaluable advisors and champions of small business throughout this crisis - and their role will be vital as we map the road to recovery.

This year's State of Small Business research shows that technology adoption is continuing to grow, but we need to see it accelerate further. Businesses that have been traditional at their core are now discovering that digital processes offer far greater scalability and resilience for the future.

We conducted the survey just before Covid-19 hit, but it still provides a detailed picture of the areas that SMEs need support in. The challenges raised in this survey will only have been exacerbated by Covid-19. We've used the findings alongside advice from industry experts to map out the key areas small businesses need to focus on for recovery. We hope you find this report helpful.

Section 1: Building the right toolset and skillset for recovery



Building the right toolset and skillset for recovery

Our latest report surveyed 200 accountants and 400 small business owners. Some of the biggest concerns and challenges facing small business owners were: lack of government support (32%), load-shedding (32%) and political uncertainty (16%). Each of these was identified as threats to their long-term growth aspirations.

All of these challenges have been amplified by the pandemic. Inability to access government support could lock businesses out of stimulus funds, load-shedding makes remote work even more challenging and cash flow issues pose an even greater danger to the survival of a business.

Does today's economic and political climate mean that small businesses in South Africa are destined for failure? Absolutely not – but to make it, they will need the right tools and resources to overcome these challenges.

USING TECHNOLOGY TO STAY AFLOAT:



“In our recent Heavy Chef survey, a quarter of SMEs indicated that they were still doing business in some form during lockdown. E-commerce, messaging and video conferencing platforms, among other technologies, are helping businesses to continue operating during the lockdown. More than half the survey, 54%, are making use of tech to work remotely and run their businesses.”

Fred Roed, the CEO of Heavy Chef.

Some of the biggest concerns and challenges facing small business owners were: lack of government support (32%), load-shedding (32%) and political uncertainty (16%).



How to make the most of essential tech

TIME TO UPGRADE?

Almost all (97%) of small businesses said they invested in new technologies in 2019. This investment is clearly paying off - just over half (53%) of businesses we surveyed found that adopting technology resulted in 'somewhat big' or 'big' increases to their profitability. Meanwhile just 7% reported only a 'small' or 'somewhat small' increase in profitability.

We've seen technologies like the cloud rise rapidly over the last year, with many small businesses now seeing it as essential for everyday work, with 97% of businesses believing that tech was at least 'useful'.



A third (33%) of small businesses say they are being left behind due to the latest tech developments

In 2017, just 13% of respondents used the cloud for accounting, rising to 22% in 2018. This year, it sits at 61% of businesses - an increase of nearly 50% over three years - which means that more than half of businesses should be able to manage their finances remotely during the lockdown. The second most common accounting method is using spreadsheets (27%) followed by offline software (6%), which has fallen significantly from its position as the most popular option a decade ago.

A third (33%) of small businesses say they are being left behind due to the latest tech developments.

Despite great progress, half of the businesses we surveyed said they could do more with their current IT set-up. And more than two in five (41%) businesses reported that they're just barely keeping up with technology - so there's still more to do.

How Kristen's Kick-Ass Ice cream is using tech to sweeten the customer experience:



“Technology has been instrumental in growing my businesses. For instance, I recently upgraded my website to include online ordering and deliveries without having to pay commission to a third party. People are more conscious of supporting small businesses now by buying directly from them. I have also converted all my systems to the cloud using Xero, Vend, Shopify and Simple Pay. These seamless solutions give me more time to focus on the future of my business, as well as an instant overview of my finances. Having a clear financial picture allowed me to safely spend the money needed to increase my online presence.”

Kristen Buttress, Founder of Kristen's Kick-Ass Ice Cream

Technology tips for life under and after lockdown



1. SPEND THE TIME TO FIND THE RIGHT TECH

With so many choices out there, picking the right technology for your business can feel impossible. Once you start looking more closely, however, a small number of solutions usually stand out from the crowd. You'll quickly recoup the time you take to think through your requirements, research solutions, pick a provider, and implement it.



4. USE TECH TO FIND FUNDING

Technology can also make it easier to apply for funding. Platforms like Xero integrate with alternative lenders such as Bridgement and Retail Capital so that SMEs can take out a loan by sharing their financial data in just a few clicks.



2. DON'T HESITATE, INTEGRATE

It's easier than ever to make new technology cooperate with your existing systems. For instance, connecting new apps to Xero can solve complicated problems in amazing ways. Our trusted [App Integrators](#) can give valuable guidance to help identify app solutions to improve operational efficiencies, growth and cash flow.



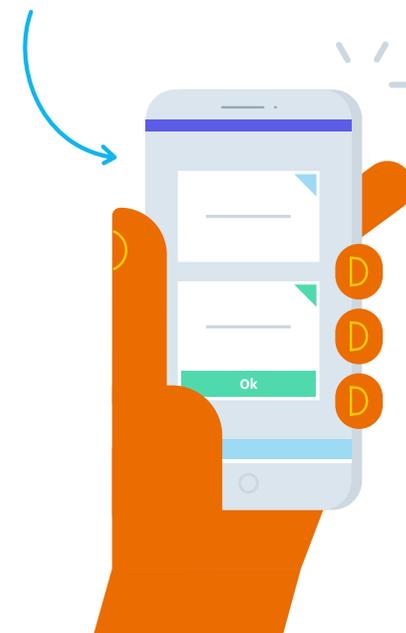
5. LET TECH TAKE THE TEDIOUS TASKS

Automation can take care of administrative tasks like accounts payable so small business owners can focus on generating value. Letting automated systems manage repetitive tasks makes the business more productive and increases the time employees can spend on commercially or operationally important tasks.



3. KNOW YOUR NUMBERS AND PLAN AHEAD

Using the right technology to get an up-to-date view of the business's cash flow makes it easier to plan, forecast and make the right decisions about their future, and these tasks will determine the success of the recovery. Modern platforms like Xero let you track cash flow in real-time and see money coming in and out of your business on a weekly basis so you can make decisions with confidence.



Staffing for a new reality

Finding staff with up to date technology skills can be tough. Before the coronavirus hit, 61% of small businesses had planned on allocating part of their budget to tech training. However, it is likely that money earmarked for training has been redirected since the lockdown.

Small businesses were also keen to bring in new staff with tech skills – 44% of respondents reported a desire to hire technically skilled staff. Upskilling existing staff, on the other hand, featured in last place with just 14% planning to do this, indicating a strong preference for replacing staff instead of training them.

This is an interesting conundrum. While companies seem to seek new talent rather than training, over two-thirds (67%) of small businesses report struggling to hire talent with the right skill. So how can businesses plug this skills gap with the right upskilling and training?

HIRING AND TRAINING DURING A PANDEMIC:

Our research shows that technology adoption and reliance has increased in almost every small business, but many have realised they lack the right skills to manage their digital transition. Fortunately, businesses can maximise the value of employees they already have through training.

There are plenty of free and cheap resources online. Even if you are spending a small amount on upskilling, it's likely far cheaper than bringing in a new member of staff when you consider recruitment costs.



Over two-thirds (67%) of small businesses report struggling to hire talent with the right skill.

Small businesses see the biggest skills gaps in:

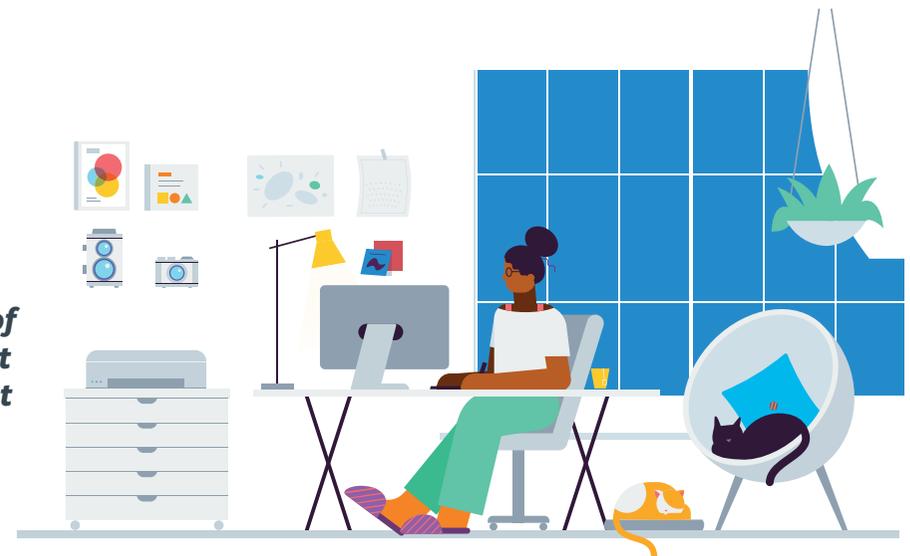
39% cloud computing skills

32% programming / app development

12% digital product management

10% digital project management

9% digital design



Tips for training (and retaining) your staff

1. SAME EMPLOYEES, NEW SKILLS

The new skills that you train your employees in depend on your business's specific needs. Consider the full range of skills an employee needs. Talk to employees to understand the skills they believe they need, since employees may have strengths or competencies that go beyond their day-to-day work. Employers need to consider how these skills can be developed with training and transferred for a wider range of activities.

2. DEVELOP A CULTURE OF OPENNESS AND FEEDBACK

Make feedback and open company discussions a priority, since this will make the company more adaptable and keep employees happy. As a leader, you can consider an open-door policy, implementing Q&A sessions and regular meetings where employees can raise concerns and suggest ideas to improve the way the company operates.

3. SHARE INTERNAL EXPERTISE

When it comes to training, many businesses assume that it has to come from outside the business. In fact, many employees have accumulated significant expertise in the area they work on, and they can share this with less experienced employees – completely free of charge.

4. MAKE USE OF FREE TRAINING ONLINE

At Xero, we have created a series of free training videos and resources on our [Business Continuity Hub](#). You can also visit Xero Central for additional learning and support materials including the contact information of our support team, trouble-shooting articles, explanations of Xero features and practical tips, professional development courses and discussions and advice shared by other users. There are also plenty of other free resources on the internet.



Section 2: Finances, funding and support

Lethu Tshabangu, Ukhamba Beerworx



Finances, funding and support

Government support and alternatives

Almost two thirds (64%) of SMEs reported that they had used their own savings to start their businesses instead of taking out a loan. That means that business owners stand to take a serious hit to their personal finances if their business goes under.

Before the coronavirus hit, lack of government support was a major concern for 32% of the small businesses in our survey. In addition to funding and grants for SMEs, the government has recently launched coronavirus response schemes – but issues persist. Specifically, many businesses are ineligible due to issues with UIF or missed tax returns and cannot access the additional funds.

Fortunately, fintech companies, the government, banks and other organisations have stepped up to support small businesses. These avenues also come with issues, including regulatory compliance, but many of them can be overcome with the right technology and advice.

You can find out more about the alternative lending options in South Africa on SME Tech Guru.



“We need to focus on removing the barriers that prevent small businesses from getting the funding they need to grow. Part of this is closing the knowledge gap that exists around alternative options. There will also be several learnings from the current financing schemes the government is running in response to Covid-19. Technology, real-time data, and alternative lenders can play a key role in simplifying processes in the future.”

*Daniel Goldberg,
Co-founder at Bridgement*

Accountants: Today's essential partners for small businesses

THE EVOLVING ROLE OF SOUTH AFRICAN ACCOUNTANTS:

Nearly all (97%) of businesses we surveyed earlier this year believe that accountants have a vital role to play in supporting economic growth in South Africa.

Before the crisis hit, 37% of SMEs said they wanted their accountants to handle their finances and provide advice on improving their business, while 28% wanted them to act as a full-on business consultant. This is an increase from the previous year, when 29% wanted financial services and advice and just 11% wanted consulting.

The number of businesses calling for accountants to act as advisors has doubled, marking a radical shift from bean counter to valued counsel – and this is likely to continue as businesses face new challenges.

Accountants are adapting to this change in demand. In the future, 54% of accountants anticipate their job to be a mixture of handling finances and business advice, while 38% expect to work more on consulting. Just 8% believe that they will be purely focused on the finances in the near future.

ACCOUNTANTS AS TRUSTED ADVISORS DURING THE PANDEMIC:

When businesses are overwhelmed by a constant barrage of make-or-break decisions, complex paperwork and financial challenges, accountants are often their first line of support. Evidently, South Africa's Minister of Finance agrees, as they recognised accounting as an 'essential service' in May.



Before the crisis hit, 28% of businesses wanted their accountants to act as a full-on business consultant. This is an increase from the previous year, when it was just 11%.





***“We have seen a big increase in clients wanting to move to the cloud during this pandemic. Businesses have realised that operating in the cloud is the only way to ensure they can continue to successfully operate, be it partially or fully amidst these turbulent times and beyond.*”**

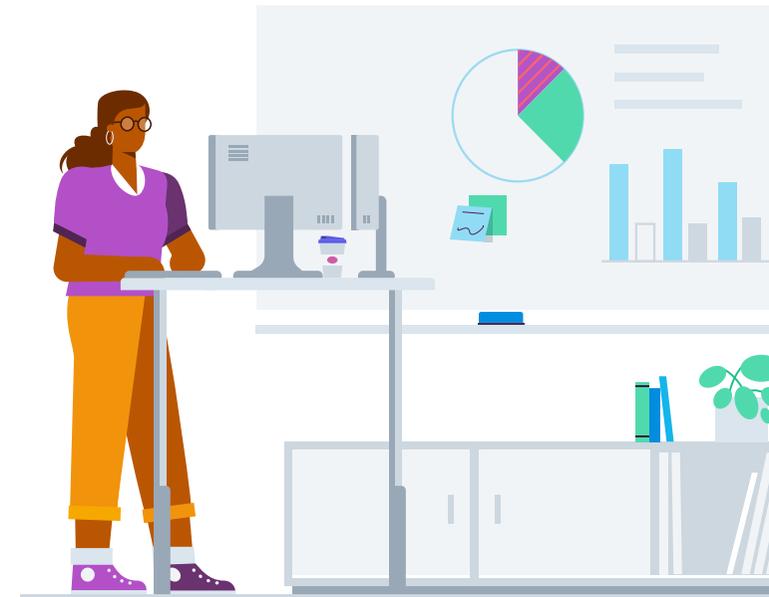
Nicole Rousseau - Professional Accountant and Head of PKF Ignite

***“For us, moving our finances into the cloud just before lockdown was perfect timing. This, coupled with incredible support from our cloud accountants, meant we had a clear picture of our finances so we could make a quick decision about changing our operations. We were able to lean on our accountants to help map cash flow regularly, plan ahead and ensure we had the cash reserves to keep our education courses going throughout lockdown. Pivoting online has meant we can now inform and inspire students all over the world, not just locally.”*”**

Maryke Musson, CEO of the Two Oceans Aquarium Education Foundation



***of businesses we surveyed earlier this year believe that accountants have a vital role to play in supporting economic growth in South Africa.*”**



Section 3: Rebuilding

York Surf



Rebuilding

Looking to the future...

The road ahead is uncertain. Small businesses need to prepare, both to make it through this crisis and to rebuild on the other side. Together with some of our collaborators, we've listed six things we believe will influence the South African small business environment in the year ahead:

PROTECTING YOUR WELLBEING



“Xero’s research shows that 79% of business owners have experienced stress as a result of work. This will have only been made worse by the challenges brought on by Covid-19. Protecting your wellbeing and that of your team is key for staying productive and resilient. Try to normalise the fact that current circumstances will impact mental health and signpost the available support to your entire workforce so that everyone knows who they can turn to. Check in regularly, create a healthy routine, listen to yourself and others and be flexible. None of us have been through this before, but we will get through it together.”

Mike Anderson,
The National Small Business Chamber



“The small business of tomorrow is also home-and-away, meaning it can function equally effectively from a home office, an office building, or from the beach. To be part of this trend, explore which of your processes, systems, services, and administration can become completely digital, stored in the cloud, and accessible from anywhere.

Connectivity is the heart of the digital future. It is no longer enough to rely on one form of broadband access for a small business. Backup, or what is unfortunately referred to by ISPs as “redundancy”, is crucial. Have both fixed-line and mobile options available at all times, so that load shedding or cable breaks don’t suddenly bring your business to a halt.”

Arthur Goldstuck,
Arthur Goldstuck, Journalist & Founder World Wide Worx

TECHNOLOGY AND TRAINING



“While businesses certainly have a lot on their plates, technological adoption and training on how to use tech effectively will both remain elevated priorities. Early on during the coronavirus pandemic, many turned to the first or easiest technological solution to allow them to continue their operations. As it has become clear that we are in this for the long haul, businesses must take a moment to consider what digital solutions are right for them in the long haul.”

Colin Timmis,
Xero South Africa Country Manager

HOW TO GET STARTED WITH TECH ADOPTION



“It is important to understand exactly what you are trying to achieve through adopting new technology. Once you have defined your goals and objectives, you should contact an expert in the field who can assist and help find the right technology for your business. Every business needs to select technology that will help them achieve their unique goals. You should map out the process properly and develop an implementation plan which is realistic and achievable. I would also recommend keeping it simple and using a phased in approach.”

Nicole Rousseau,
Co-Founder & Head of PKF Ignite

INNOVATION AND EMBRACING NEW WAYS OF WORKING ARE KEY FOR SURVIVAL



“We are noticing encouraging signs of innovation within the Heavy Chef entrepreneur community. Across the board, we’re seeing entrepreneurs adapting their businesses to the post-COVID era. We’re witnessing a remarkable resurgence of creative pivots, side-products becoming main-products, creative partnerships and new product launches. As much as this has been a harrowing year, I believe we will see some extraordinary new channels of innovation opening up as a result of the hardships we’ve faced in the entrepreneur sector.”

Fred Roed,
CEO of SME network Heavy Chef

BUILD AN ONLINE PRESENCE



“If you can, get an online presence! The majority of customers are at home looking at their phones for things to do. Spend your energy expanding your brand awareness via social media and other outlets who can create exposure for your brand. Now that we are emerging from lockdown, people are wanting to have some semblance of normal, so adapt your offering to draw people to your brand.”

Kristen Buttress,
Owner of Kristen’s Kick Ass Ice Cream

The research was conducted in April this year in partnership with World Wide Worx (WWW).
The findings are based on responses from 400 SME owners and 200 accountants.

Beautiful business

