

LAUNCH PAD

SA's economic landscape may pose a deterrent for some people wanting to start a business, but aspiring entrepreneurs need to look past this and capitalise on the resources available to them

By Mark van Dijk

Every quarter, specialist risk finance firm Business Partners Limited releases its SME Index (BPLSI), charting the attitudes and confidence levels of SA's SMEs (small- and medium-sized enterprises). The Q1 2016 index revealed an average confidence level of 51% that the SA economy will be conducive for business growth in the next 12 months.

That number was nine percentage points down year on year, and unchanged from the previous quarter's sentiments.

BPL chief financial officer Ben Bierman then cited the uncertain economic landscape as a major factor behind business owners' low confidence levels. 'In 2015, SME owners faced challenges such as load shedding and the implications it brought about,' he said.



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'As if the drought and water-shedding was not challenging enough, the broader economic events such as the firing and re-hiring of the Finance Minister, and a number of international developments – such as sluggish growth in global markets, adverse exchange rates and the lack of exports – all had a notable impact on SME owners' confidence levels as they started preparing for 2016.'

The Q4 2015 BPLSI also showed a sharp decrease in confidence levels relating to the ease of access to business finance in the next 12 months, marking a decline from 51% in Q3 to 44% in Q4. Again, that number was flat in Q1 2016.

For Bierman, this is a real concern. 'From a broader economic perspective, it appears as if credit extension from financial institutions will be under pressure as a result of increased interest rates as well as the high levels of uncertainty in the economy,' he says.

'A vital part for any SME's growth and sustainability is access to funding, and these confidence levels reveal that the average SME owner is concerned about being able to access bridging capital or financing to ensure that their business can ride out this economic storm in the next six to nine months.'

Mike Donaldson, director of RMB Corvest – a private equity company that is a member of the FirstRand Group – says the current market is all about cash flows.

'The businesses best placed to manage this climate are those that have access to a capital pool and that are not over leveraged. It is very difficult for smaller businesses to compete with larger competitors given working capital requirements and the ability of larger players to offer clients price reductions. There will inevitably be price pressure and companies will be forced to reduce margins to retain market share,' says Donaldson.

He adds that smaller players typically don't have as much flexibility. 'The market dynamics will also lend itself to consolidation whereby smaller players will join, merge or sell to their larger competitors to ensure sustainability. This presents great opportunities for well-managed companies to acquire and consolidate their industry, and provide the market with a stronger player who can

compete more efficiently and compete on the international stage. To remain competitive even in SA, one needs to be able to contend with imported products and international companies,' he says.

The unsteady economy also presents an opportunity for SMEs to capitalise on gaps in the market, in a way that only a small- or medium-sized company can.

A report by Thinkroom Consulting reveals that SA currently offers people an environment that is highly conducive to starting and operating a business, despite the pessimistic mood reflected in the BPLSI.

The Thinkroom research incorporates the assimilation of key indicators from a number of credible studies across 12 African countries and its findings place SA with a conduciveness rating of 78%, just behind Mauritius with 79%, and some distance ahead of third-placed Botswana with 65%.

SA's Minister of Small Business Development Lindiwe Zulu, speaking in the National Assembly at her department's budget vote in May, cited SME statistics from yet another supporting study.

'Evidence confirms the untapped potential of the sector, as observed in the 2015 Goldman Sachs report on small business, which states, "the South African economy can grow by 5% over the next five years if government and the private sector invest R12 billion in 300 000 small businesses".'

Zulu then pointed to the government's nine-point plan, which identifies 'unlocking the potential of SMMEs, co-operatives, township and rural enterprises' as key to the economic development and empowerment of township and rural communities.

'President Jacob Zuma's initiative of bringing government, private sector and labour bodes well for the country and brings into sharp focus the importance of SMMEs,' said Zulu. 'The recent announcement by the State President on the establishment of a fund to support small business, especially black entrepreneurs, shows the commitment to growing the economy. Business further announced that they have pledged R1.6 billion. The Deputy President expressed hope that the fund could go into double digits.'

Government is not alone in its efforts to empower SA's SME sector. Several blue-chip corporates are weighing in with products, programmes and events designed to empower and upskill SA's rising generation of small business owners.

MTN Business, for example, recently introduced a range of converged business offers for SMEs, providing affordable and easy-to-understand ICT solutions designed to lower costs, improve productivity, produce higher-quality products, increase customer satisfaction and focus on core areas.

These offers include MTN Business Broadband, built on MTN's world-class internet backbone and metro ethernet access network; MTN Business Cloud, which provides a virtual server; and MTN Mobile Private Branch Exchange, which enables a mobile device to become a fully-featured call centre.

'The SME market has long been lauded as a major economic growth driver in South Africa,' says Claude Chetty, general manager for the SME segment at MTN Business South Africa. 'The key to our focus on SMEs is not to simply introduce new solutions, but to also look for innovative ways that add value and can best change the way small businesses are positioned in the marketplace so that they can effectively compete and contribute to the economic growth of our country.'

'MTN Business believes that the key to unlocking this growth is through providing leading technology solutions to enable and inspire the growth of our clients.'

Absa, meanwhile, worked with both the private sector and non-profit organisations from Gauteng in a series of 70 business seminars and workshops in late 2015. 'We are particularly proud that 65% of the beneficiaries of our seminars were youth and women,' says Banie Claasen, provincial managing executive of Absa in Gauteng.

'A total of 1 050 youth were assisted, including students and local businesses at the Gauteng South West College Entrepreneurship seminar in Soweto, and learners participating in the Junior Achievers South Africa Programme in Orange Farm.'

This year, South African Breweries (SAB) marks the 21st anniversary of its KickStart programme, which guides selected candidates through a mentorship and training programme to help them develop sustainable small businesses. 'Entrepreneurs play a vital role in job creation and providing opportunities for young people,' says Simphiwe Mntambo, SAB KickStart enterprise development specialist.

'Entrepreneurship is not only about allowing young people to follow their dreams and start their own businesses. It's also about fostering this ambition and giving them the tools to do this,' he says.

While SA's major corporates continue to empower small businesses through a variety of events and initiatives, the government has committed to reduce the levels of red tape that often hamper SME growth.

'We remain seized with the task of easing regulatory and bureaucratic burdens on the shoulders of small businesses,' Zulu said in her Small Business Development budget speech. 'We must proceed from the premise that good policies, laws and regulations are conducive to a competitive economy. However, some policies or compliance processes may have the unintended consequences of weakening the business ecosystem.'

'During the 2015/16 financial year, the Department of Small Business Development continued with the roll-out of red tape-reduction guidelines at municipal level with 81 municipalities.'

'We established a partnership with the International Labour Organisation to assess the implementation of the guidelines within four municipalities in the KwaZulu-Natal and Free State provinces. Our goal is to ease and ultimately reduce the cost of doing business.'

With assistance from their (much) bigger corporate contemporaries, and a renewed focus on empowerment by government, SA's SMEs have – in theory, at least – almost everything they need to grow.

All that's missing, it seems, is the passion and willingness of the country's entrepreneurs to see past the perceived gloom of the economy, and plant the seed. ■