

SME SURVEY 2015

Cloud with a silver lining

*By Arthur Goldstuck, MD of World Wide Worx
and principal analyst of SME Survey.*



SMEs will embrace cloud to meet tech needs

SME Survey is the original and largest representative survey of small and medium enterprises in South Africa and, since 2003, has contributed ground-breaking research into the forces shaping SME competitiveness.

The 2015 edition, sponsored by Standard Bank and Forest Technologies powered by Rectron, set out to address how well SMEs are coping with the rapid pace of change and what mechanisms they use to cope. It comes at a time when information technology (IT) tools ranging from e-mail to social media are becoming more complex rather than simpler.

Clearly, if SMEs are to play the significant role envisioned for them, it is critical they make the best possible use of the IT options available to them.

A core hypothesis of the survey was that the quest to choose such options would result in a real take-up of cloud services amongst SMEs and a genuine sense that they are finally waking up to the benefit of cloud-based services like online storage and backups.

The hypothesis was proven by the fact that SME uptake of cloud services was shown to have increased from 29% to 39% over the previous year, with a likelihood of a rise above 50% in the coming year.

The survey shows a definite trend towards SMEs becoming more technology-savvy and mature in the use of IT. Although service providers have been trying to target SMEs for a number of years, their approach has generally been flawed, in that their services tended to be geared towards the international definition of medium-sized enterprises, which tend to be equivalent to South African corporates. At the same time, the SMEs weren't really ready for the services being offered to them.

Now we are witnessing a fine-tuning by the service providers that sees them offering services that are aimed directly at SME requirements, coupled with the growing awareness in this sector of the importance of new technologies. This is helping to drive the uptake of cloud and similar services.

One of the main reasons for cloud having taken this long to achieve traction is that SMEs often struggle with the rapid pace of technology change. They are often simply bewildered by the multitude of options available to them. The research has shown again and again that most SMEs prefer to adopt solutions that are already tried and tested, which is why cloud is only now reaching high levels of uptake in this sector.

Of those surveyed, although only an additional 4.5% said they would definitely be using the cloud by next year, there are obvious clues that we can expect an even bigger jump in the numbers. In particular, a fifth of SMEs (19%) said their use of cloud next year will depend on business needs, and another third (35%) say they are currently unsure. We anticipate that at least a portion of these businesses will discover they either need or want the cloud. It is therefore logical to extrapolate a figure that suggests more than 50% of SMEs will be using the cloud by 2016.

Furthermore, there are many SMEs that are already using cloud services, without even knowing it. When the survey questioned SMEs about whether they were using particular services, such as online e-mail, some 83% stated that they were doing so.

Services like this could be referred to as the Invisible Cloud; online e-mail is obviously a cloud-based service, yet the majority of SMEs clearly don't see it as such.

A further 47% of SMEs said that they made use of online backups, while 37% utilised online accounting, 27% used an online project management service and 25% had an online customer relationship management (CRM) solution. This is a clear indication that there is massive uptake and yet a lack of understanding among SMEs as to what constitutes the cloud.

The disconnect in the figures between what SMEs consider to be cloud services and the actual cloud-based services that many of them are already using demonstrates that there is a lack of education about what the cloud really is and what services actually form part of it.

Clearly, discovering that many of the solutions they already use, such as Gmail and Microsoft OneDrive are part of the cloud, is a key aspect of the migration process. This is because, upon realising this, most SMEs are then prepared to go deeper into the cloud.

While it is obvious that SMEs are becoming more technology-savvy and mature in the use of cloud – even when they don't know it is part of the cloud – for more significant uptake to occur, the cloud service providers need to play a role in educating SMEs more effectively around the topic.

Ultimately, of course, the real driver will come not from whether they know certain solutions are cloud services or not. Instead, real uptake of cloud will be driven, as implied by the survey results, by selling specific applications to SMEs. If service providers are able to convince more SMEs to utilise specific solutions – like online backup, to protect against the increasing dangers posed by power failures, for example – it won't be long before they realise the benefits. This, in turn, will make them more predisposed to adopting other cloud services that could be equally beneficial. The key is to market the applications within the cloud, not the cloud itself.

Ethel Nyembe, Head of Small Enterprise at Standard Bank, agrees with this approach: "Cloud-based products can provide small and medium business owners with efficient, simple and cost-effective business management solutions, thus saving the enterprise time and money, which is vital for prosperity. For example, cloud-based HR applications are more economical than tailored in-house systems, as they involve no upfront costs and are adaptable, thus giving the entrepreneur the time needed to focus on innovation."

Elaine Wang, Microsoft Business Unit Manager at Rectron, says: "While it is incredible to watch the uptake of cloud services skyrocketing due to the inherent benefits that it offers to SMEs, they should still consider all possible alternatives in deciding which solutions to implement as well as how to get it done. The results of the research indicates that there is a fuzzy line between consumer and commercial solutions. Therefore, SMEs need to ensure that they are taking full advantage of the security and features behind the commercial solutions, and are choosing the right partner to take them forward."

Financial services

Another key focus of SME Survey 2015 is on the role of the financial services sector. SMEs require an increasing amount of access to financial expertise in respect of the structuring and operating of their business finances.

Nyembe says that, in an ever-changing, dynamic business world, the focus has to be on offering SMEs a comprehensive financial management system.

"It will be valuable to get insight into whether SMEs are satisfied with the support they get from the financial services sector, how this actively assists them in overcoming challenges, such as access to affordable credit, business management skills, infrastructure costs, regulatory requirements and access to markets."

Findings from SME Survey 2015 indicate that not much has changed in SMEs' experience of the services provided by financial institutions. However, the SMEs themselves have difficulty in articulating what they require from the financial services sector.

In this year's survey, when respondents were asked a question around which of their needs were not being met by the banks, it was left open-ended. Respondents weren't given a choice of options, but were expected to come up with their own answers. The answers were quite intriguing, as few SMEs were able to be specific about what services they felt the banks were not providing.

The majority of respondents said they were happy with the services they were offered. However, once they reached the question of where they actually obtained their funding for starting and running their businesses, banks were missing in action.

The research showed that banks were the least likely place for an SME to go for financial help. SMEs clearly do not see banks as a source of funding for their business.

In fact, the single most likely source of funding – as indicated by 57% of respondents - was their own capital, suggesting that the majority of SMEs tend to be used to pulling themselves up by their own bootstraps.

The next most likely source of funding, indicated by 28% of those questioned, was from business partners, while 10% claimed to obtain funding from family members. Only 2% said that they rely on banks for funding. It is obvious then, that there is a huge disconnect between the banking services used by SMEs and the kind of support that the financial institutions could be providing.

This is an issue that has been of concern to the financial services sector for some time too, according to Nyembe.

“The large banks are well aware of the size of the SME sector and the potential market it opens up for us. What we need to be clearer on is what types of services are most in demand from SMEs.”

In this context, an interesting result from the survey was that a number of SMEs make use of overdraft facilities that form part of their current account. So in effect, some SMEs are using the bank to fund their business, but crucially, they do not see it that way.

The results of SME Survey 2015 clearly demonstrate that banks need to become more SME-friendly and, in particular, need to be more funding-friendly. The current scenario for SMEs to obtain funding requires significant organisational resources just to comply with the rules, legislation and red tape involved. This is obviously a huge issue for an SME, so it is obvious that banks need to look to develop and market more SME-friendly offerings in this space.

Threats

Finally, but most significantly, owners of small and medium enterprises (SMEs) were asked what keeps them awake at night. The findings of SME Survey 2015 showed that finance, competition, and crime were some of the most pressing issues. However, crime no longer claims first place, as it has in every previous edition of the survey that posed this question.

Instead, frequent and prolonged power failures rank as the most concerning issue for SMEs.

This year has seen a dramatic shift in what SMEs consider to be the biggest external threats to their businesses. With power failures cited by 71% of respondents, the issue rates at almost exactly double the importance of crime, which came in a distant second, at 36%.

This response is obviously driven to a large extent by those concerns that are highest in the public mind – SMEs have in the past attributed their sleepless nights to crime, the high cost of fuel, or even interest rates. These results came even when power failures were featured in the survey during the first load shedding several years ago, but load shedding still came well below crime at the time.

The reason we have seen such a massive jump for this category is due to the cumulative effects of ongoing load shedding. While load shedding has been punted as a temporary problem, it is clear that business fears that it is going to be with us for the foreseeable future.

Nyembe says: “While big companies have the infrastructure, client bases and capital to cope with the challenges highlighted in the survey, many small businesses, which have the potential to be active players in the South African economy, do not have the financial muscle and resources to overcome these challenges.”

Elaine Wang, Microsoft Business Unit Manager at Rectron, adds: “With the ever-looming possibility of load shedding, there is no better time for SMEs to consider a cloud solution for their businesses. Given limited capital for expensive infrastructure, public cloud offerings are a great way to ensure that SMEs are protected against loss of data and downtime. These solutions also ensure that they are able to stay up to date with the latest in technology offerings while paying on a per user or usage basis.”

The impact of even short periods without power is greater on SMEs than it would be on larger companies that likely have generators and other fall-back options.

EXECUTIVE SUMMARY

The rising concern regarding load shedding is probably also due to the fact that its effects seem more severe now than they did in 2008 and, at the same time, the lights are off for longer periods now. On top of this, there seem to be additional challenges, such as blown transformers that occur when the power comes back on, increasing concerns for the safety of home appliances. All of this, combined, paints a very bleak picture for SMEs.

It is also essential for SMEs to play a role in mitigating the effects of load shedding, such as backing up data on their computers, which is integrally tied to a sudden loss of power.

Backing up any less than on a daily basis can prove to be disastrous for an SME, yet the figures demonstrate that the proportion of SMEs doing exactly this has risen from only 30.5% in 2014 to a still-low 40% in 2015.

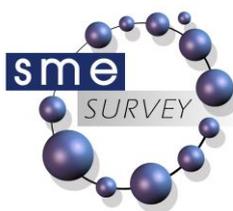
There is no doubt that, by failing to improve their policies on backing up, SMEs are flirting with disaster. In an era when electronic information is the lifeblood of a business, it is almost inconceivable that more than one out of every three SMEs only backs up on a weekly or monthly basis.

Part of the problem is that few SMEs associate power failures with the need to back up data, and yet unexpected load shedding is one of the events most likely to lead to a loss of data. However, with load shedding expected to be with us for the foreseeable future, it is anticipated that backing up will become far more of a priority for SMEs as we move forward. After all, there are already more than enough worries SMEs face, so the thought that one might lose vital business data to an unexpected power failure should be cause for concern for small businesses.

Nyembe says that big organisations are no longer the primary focus for growth and job creation. The biggest emerging economies today are driven by SMEs as key drivers for economic growth, innovation and sustainable employment. She is of the view that if South Africa is to join their ranks, SMEs need the necessary backing, namely financial assistance, access to markets, corporate and government support, business and skills development, and mentorship.

Other content

SME Survey 2015 includes extensive questions on banking services, online services, marketing strategies, target markets, Internet connectivity, data backups, and device usage. These questions are cross-tabulated against a range of SME demographics, including company size, geographic location, and profitability.



Research led by Arthur Goldstuck
MD, World Wide Worx
&
Principal Analyst, SME Survey

For additional research information contact:
Arthur Goldstuck at arthur@worldwideworx.com

To purchase the SME Survey 2015 Report contact:
Debbie Whittaker at debbiew@coolcumba.com

© SME Survey (Pty) Ltd., 2015. All rights reserved.