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 women 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.

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

For additional information contact
Arthur Goldstuck at arthur@worldwideworx.com
To purchase the SME Survey 2014 Report contact
Debbie Whittaker at debbiew@coolcumba.com
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Cloud grows, government does better, location is key and a gender surprise

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