



## Understanding the small business market in Gauteng: Findings from the FinScope small business Gauteng pilot survey

Judi Hudson 31 October 2007

## FinScope small business syndicate members



## Objectives and contribution of the study

- Aim? To quantify the small business market using a sample that is representative of *all* small business activity in Gauteng;
- Key innovations – Business Sophistication Measure (BSM) segmentation modelling to capture diversity in small business market;
- *And*, spatial mapping: BSM data aggregated to municipal boundary level

## Methodology

- \* Sample design guided by Prof D Stoker + the HSRC
- \* Respondents aged +16
- \* International Labour Organisation approach
- \* 3 degree sampling: enumerator areas, then household, then enterprises
- \* 2 001 small business owners interviewed















## Key findings

- \* Total number of small businesses estimated to be 1 053 818 or one in six adults
- \* In 78% of cases, income generated the only source of income for the small business owner
- \* Provide employment for 1,3 million people
- \* Trading businesses account for two thirds of sample
- \* Some 7% specifically add value to the products they sell on, women more likely to add value than men.



## Key findings contd.

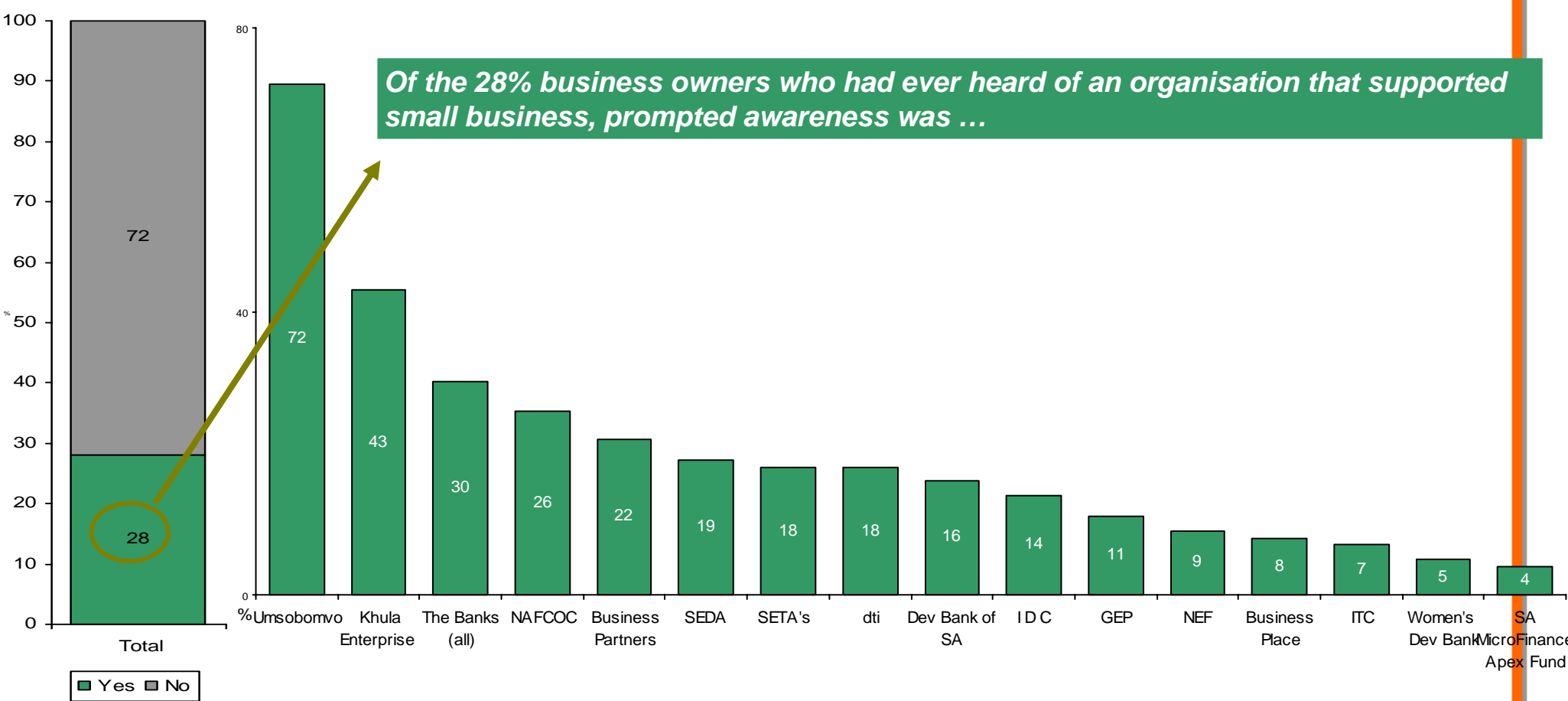
- Half of Gauteng's small business owners are youth
- 8% are non-SA citizens – 70% male, 78% informal, 2 in 10 will employ other people, more negative outlook on life
- Majority of customers are private individuals (96%). BSM 7 other clients emerge – wholesalers, government, co-operatives + retailers. BSM 6 & 7 most likely to have service level agreements + long term contracts.

## Key findings contd.

- 69% of small businesses are home-based businesses – home, a back yard, a garage
- Only 27% have plans for taking advantage of 2010
- Approximately 7 in 10 business owners are not aware of any organisations that provide support, back up, advice or training to small businesses. 8% usage of govt. support mechanisms.



## Awareness of business support



n=2001

## One size fits all? Introducing the BSM lens








**BSM provides lens to view the very different needs of small businesses with different levels of sophistication along a continuum – from informal street vendors to more sophisticated businesses**

**Using business characteristics – eg: location, pays taxes, contracts of employment with employees, access to finance issues - BSM identified 7 segments plotting the growth of small business**



# The Landscape of Small Business

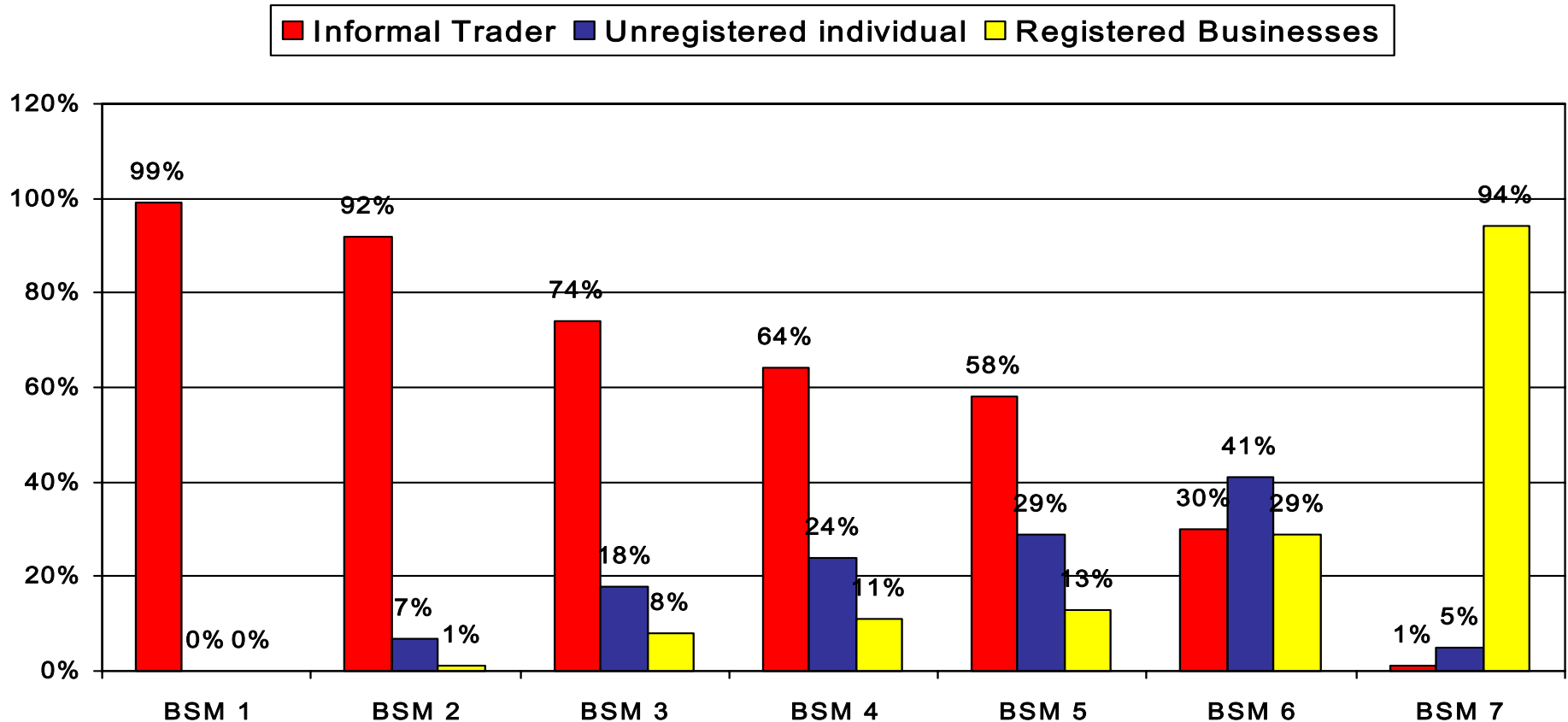
The BSM identified 7 different segments plotting the growth of business sophistication

						
1	2	3	4	5	6	7
12%	9%	26%	23%	10%	10%	9%
123 522	97 370	278 291	247 075	110 512	100 171	96 876

Total Market Size 1 053 818

Top Line Breakdown of Business	BSM1	BSM2	BSM3	BSM4	BSM5	BSM6	BSM7
Informal Vendors	100%	92%	74%	64%	58%	30%	1%
Unregistered Individuals	0%	7%	18%	24%	29%	41%	5%
Registered Business	0%	1%	8%	12%	13%	29%	94%

## Market Continuum












# Location of businesses

On a footpath 76%		From home 53%	From home 57%	From home 63%	From home 59%	
50%	On a footpath 39%					From home 43%
	From home 37%	On a footpath 11%	Back Yard 10%		Garage 13%	Shop in small complex 18%
Office Block 11%						
BSM 1	BSM 2	BSM 3	BSM 4	BSM 5	BSM 6	BSM 7
						

n=2001

High percentage of home-based businesses in all BSMs, except for BSM 1 where there is no fixed location

# Business facilities

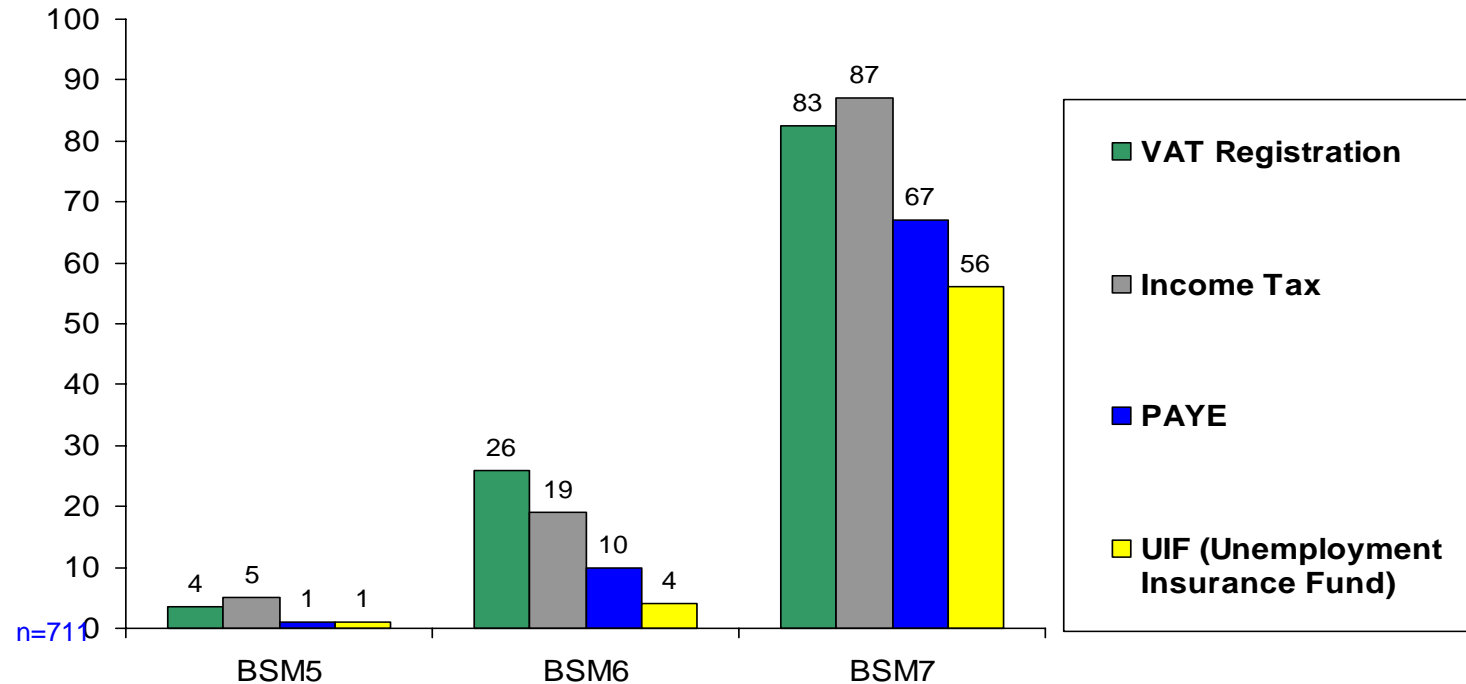
No Electricity		Electricity 64%				Storeroom 63% Internet / e-mail Business Budget 57% Fax 55%
50%	Cell Phone 44%	Kitchen 43%				Up to date accounting records Security 46% Marketing Plan 36%
No Water	Toilet Facilities Outside Business 28%		Toilet Facilities Inside 26%	Landline Telephone 27%	Business Budget 27%	Reception 27% Credit Card Machine 23%
	Running Water Outside Business 27%	Running Water Inside 13%	Hot Running Water 15%	Business Budget 14%	Company Car 27%	
BSM 1	BSM 2	BSM 3	BSM 4	BSM 5	BSM 6	BSM 7
						

BSM1 have no water or electricity to run their business

Business budget and technology come to the fore in BSM 5 upward, penetration of insurance products only starts in BSM 6

Only 10% of all small businesses have access to a computer, only 22% of these have a website

# Regulations matter



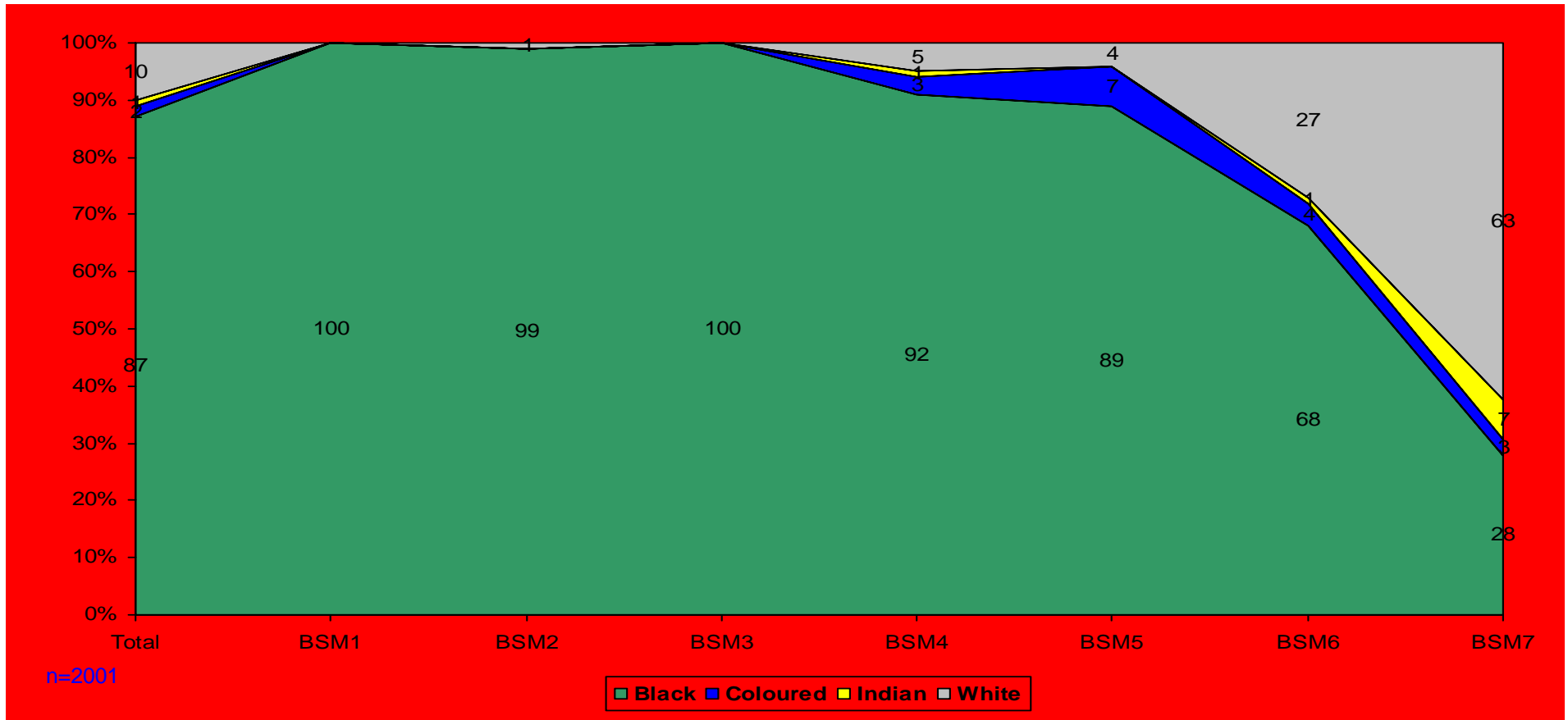
VAT Registration starts in BSM 5. Lack of time and the size of the businesses are the primary reasons for non-compliance.

Regulations felt to hinder small business most are income tax (25%) and VAT (16%) as the cost of compliance is too high

Tendering in BSM 6 & 7



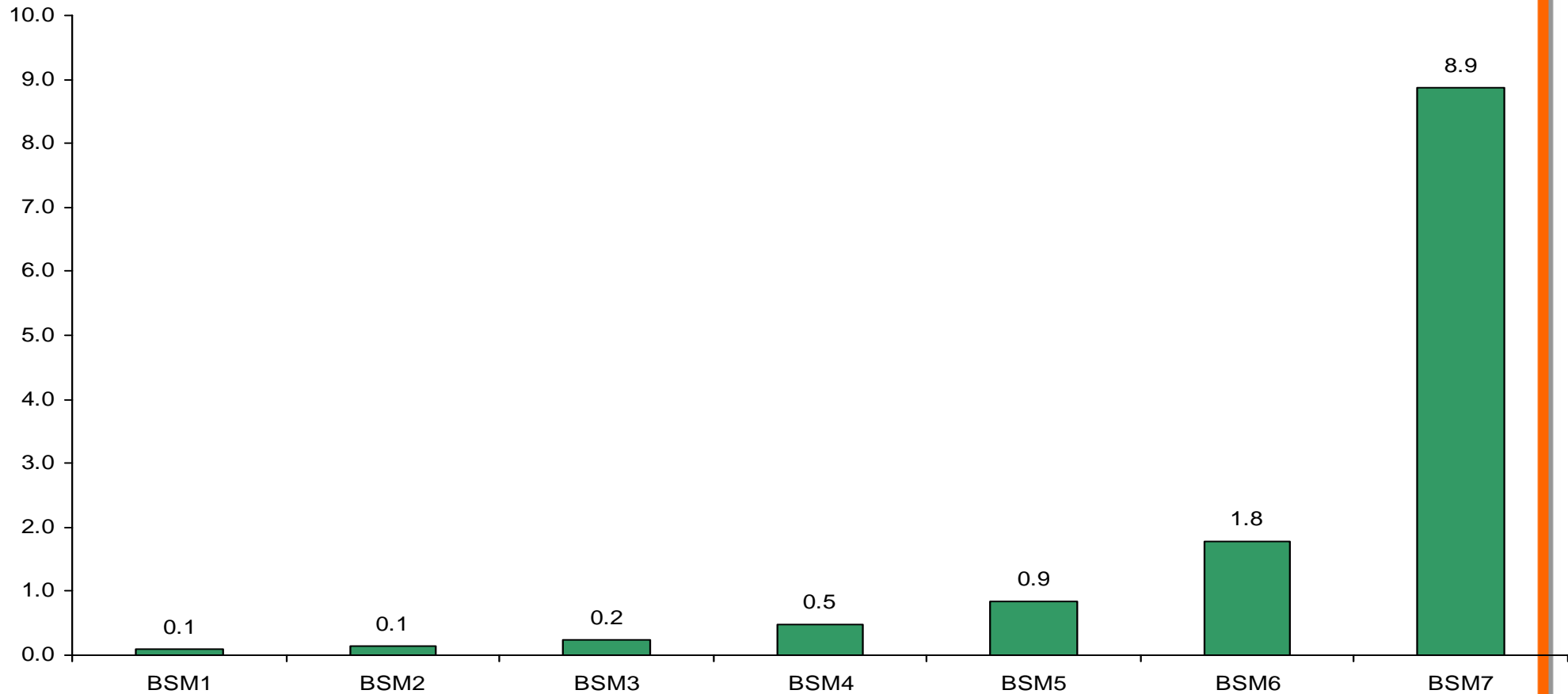
# Population group



87% of all small businesses are black.

BSM 7 dominance of white businesses (63%)

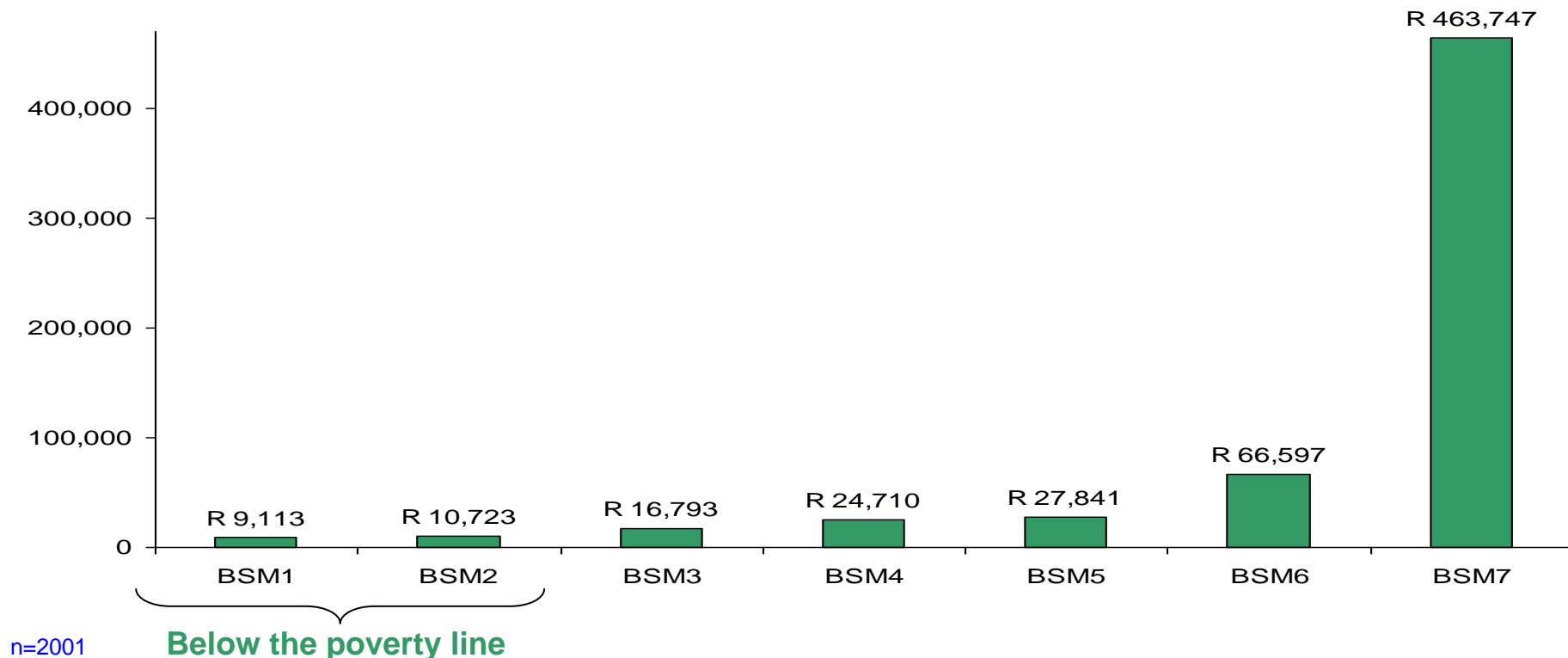
# Job creation



The average number of jobs created by small business is 1.3. Importantly, there is a significant skew towards the upper BSM tiers.

70% of all small businesses do not create any jobs, BSM 5 + 6 start employing staff.

# Turnover



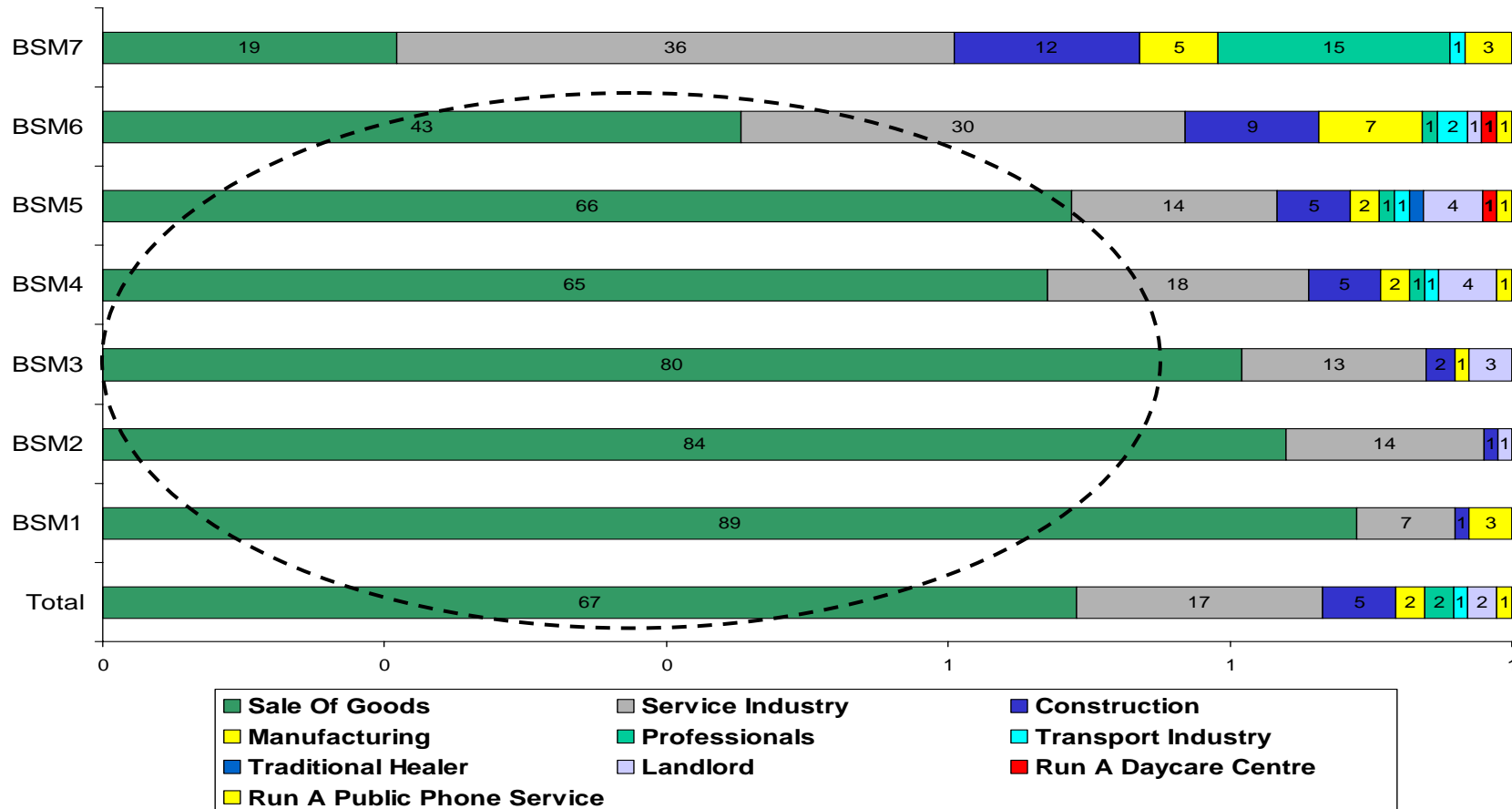
The average turnover of small business is R61 799.00, just over R5000 per month

BSM tiers 1 and 2 operate below the poverty line

\*The poverty indicators are calculated using a poverty line that varies according to household size. A household of 4 persons has a poverty income of R1290 per month - HSRC









# Industry sectors



10 times more service businesses, than manufacturing

BSM 7 – services industry outdoes trade

# Problems with start-up

<p>No knowledge on how to start a business 58%</p> <p>No Problems 42%</p> <p><b>BSM 1</b></p>	<p>No Problems 72%</p> <p>Finding Money to start my business 18%</p> <p>No knowledge of market conditions 12%</p> <p><b>BSM 2</b></p>	<p>No Problems 62%</p> <p>Finding Money to start my business 27%</p> <p><b>BSM 3</b></p>	<p>No Problems 50%</p> <p>Finding Money to start my business 28%</p> <p>Creating Awareness of Business 21%</p> <p><b>BSM 4</b></p>	<p>Finding Money to start my business 43%</p> <p>No Problems 34%</p> <p>Creating Awareness of Business 27%</p> <p>Finding a place to trade from 22%</p> <p><b>BSM 5</b></p>	<p>Finding Money to start my business 44%</p> <p>Creating Awareness of Business 29%</p> <p>No Problems 24%</p> <p>Finding a place to trade from 20%</p> <p>Finding right staff 17%</p> <p><b>BSM 6</b></p>	<p>Creating Awareness of Business 43%</p> <p>Finding Money to start business 36%</p> <p>Limited Resources 24%</p> <p>Finding staff 24%</p> <p>Compiling business plan 23%</p> <p>Finding a place to trade from 20%</p> <p>Managing Finances 19%</p> <p>Registration Requirements 16%</p> <p><b>BSM 7</b></p>
						

n=2001

The largest problem experienced across the board is finding the capital to start a business.

More problems in the upper BSM tiers - may be linked to processes involved in registering the business, finding premises.

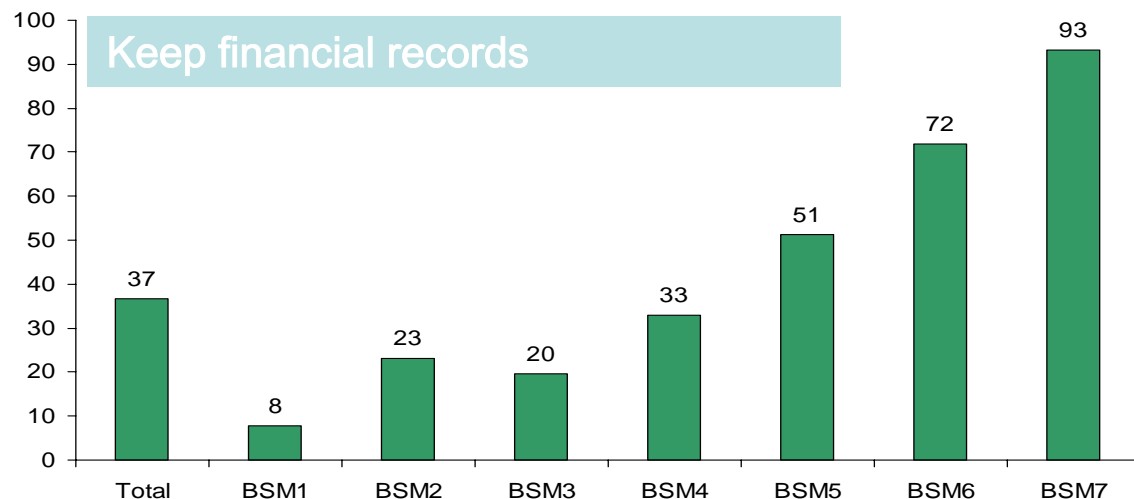
10% of youth businesses found start-up capital to be the *main* problem

## Access to financial services

- 59% of small business owners are banked
- 42% have a separate business bank account
- 2% took out a loan in order to start the business, 63% used their own personal savings.
- Non-SAns - higher negative perception of banks – 62% personally unbanked
- Lower BSMs: hard to open a bank account; generally positive relationship with the banks in higher BSMs
- 25% found crime + theft to be major problem. Formal businesses felt crime was *the* major problem

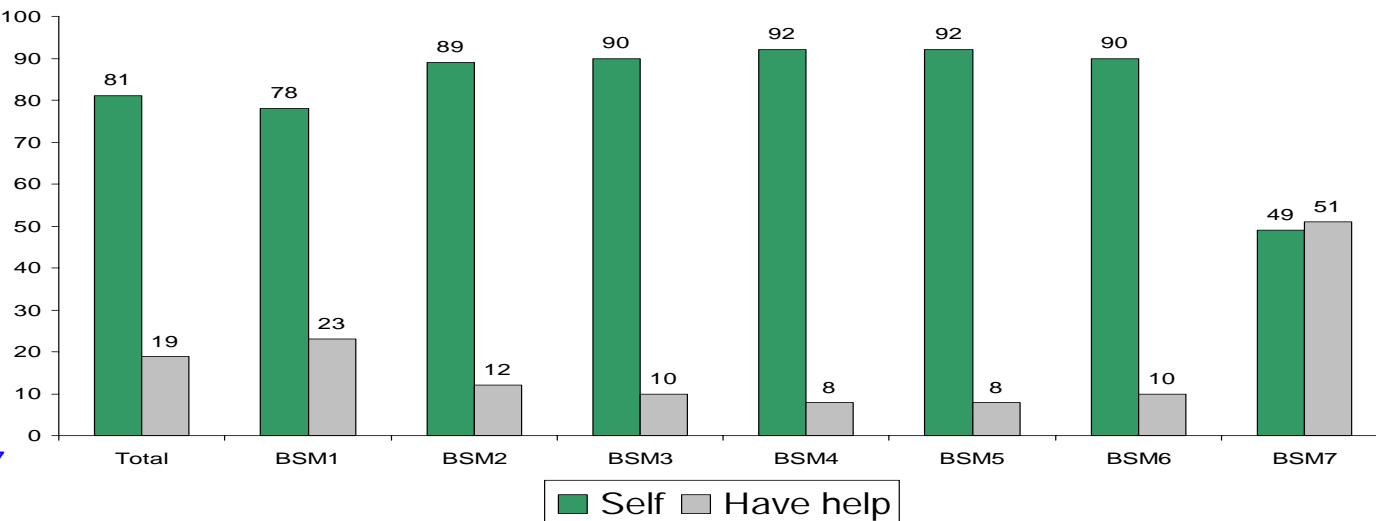


# Financial records



A surprising number in the upper BSMs do not keep financial records

n=2001



n=667

Only in BSM 7 do about half of the businesses get outside help with financial record keeping

### BSM 1

Do banking personally

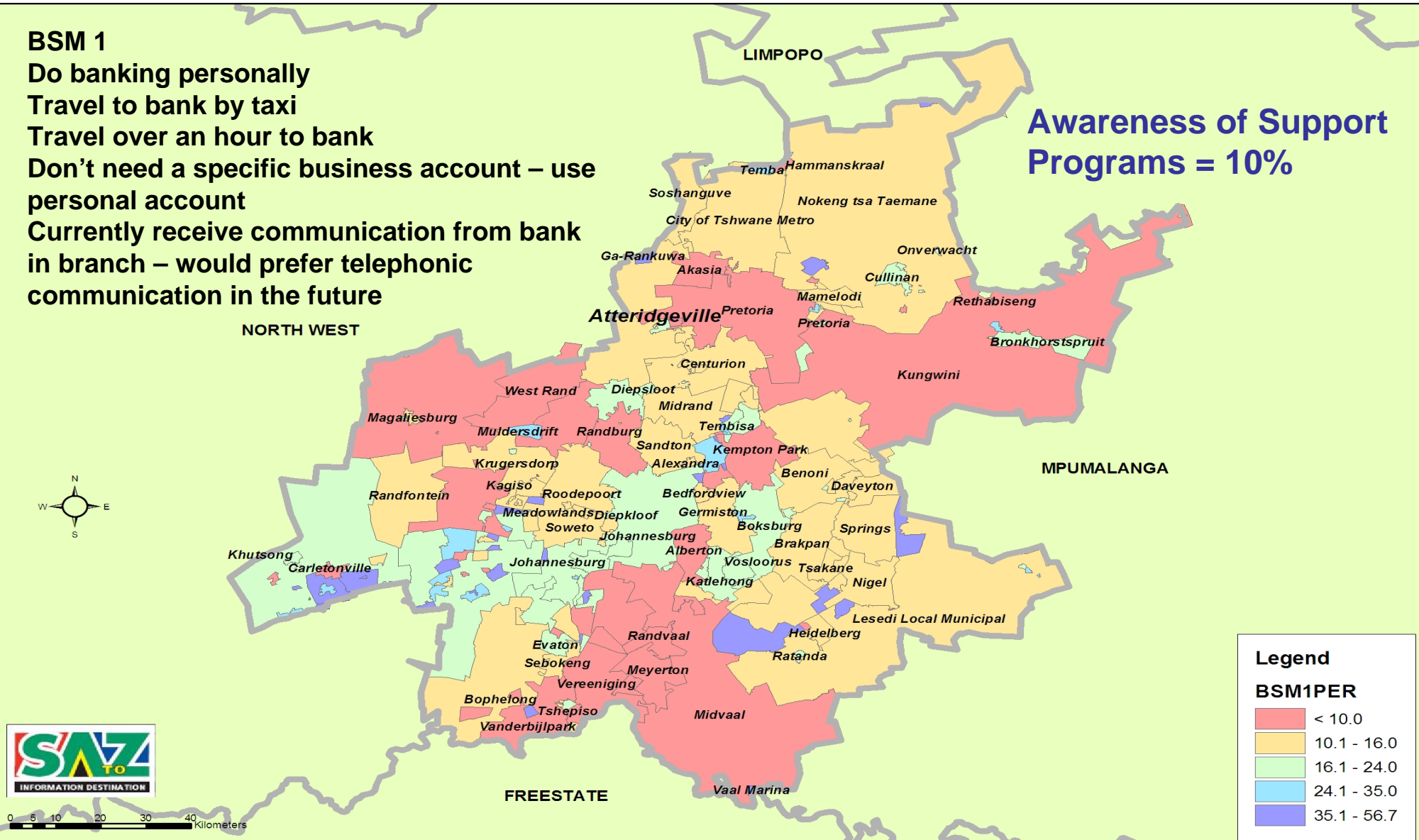
Travel to bank by taxi

Travel over an hour to bank

Don't need a specific business account – use personal account

Currently receive communication from bank in branch – would prefer telephonic communication in the future

**Awareness of Support Programs = 10%**



# BSM 7

## Travel to bank in own car

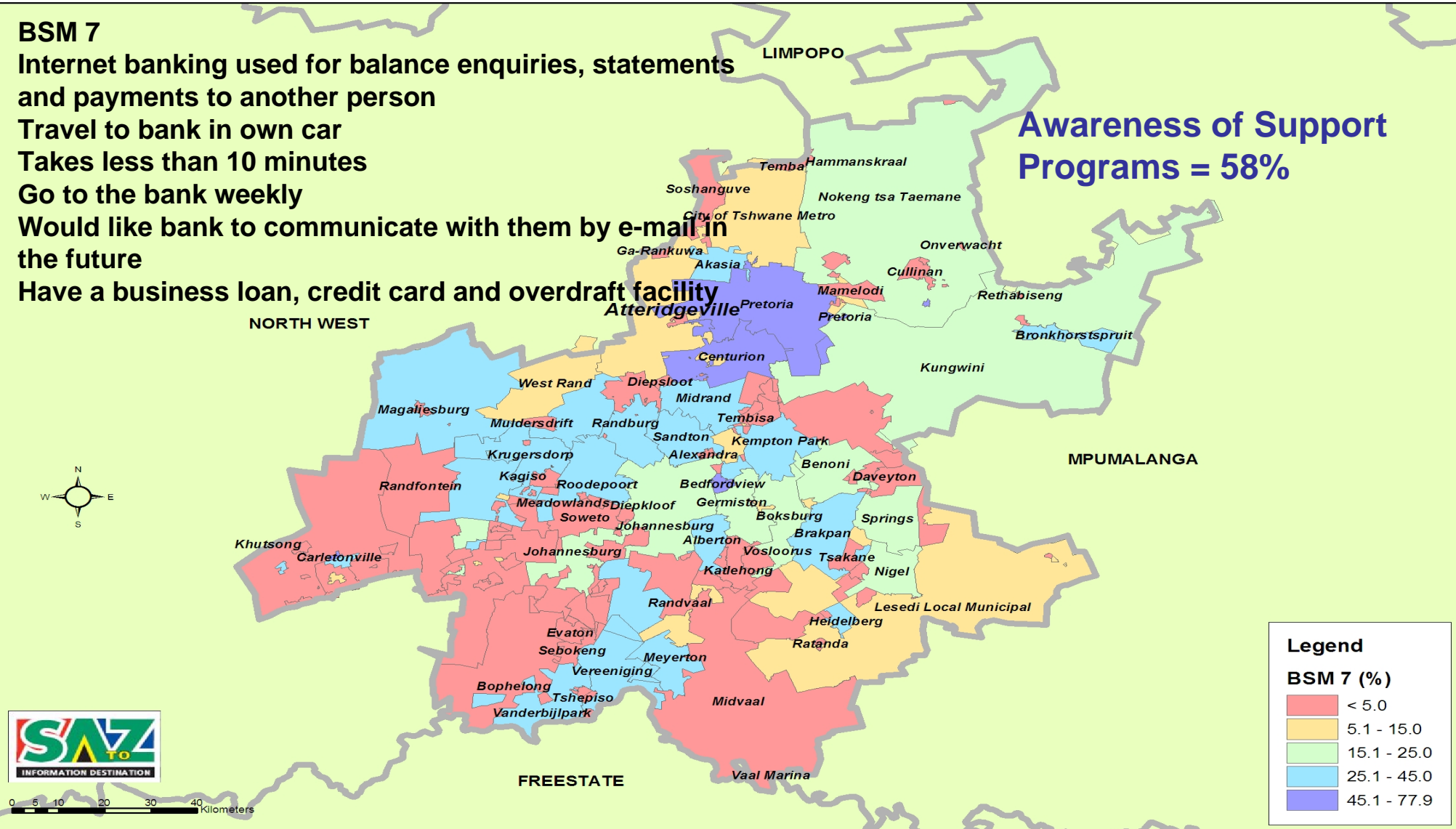
## Takes less than 10 minutes

## Go to the bank weekly

**Would like bank to communicate with them by e-mail in the future**

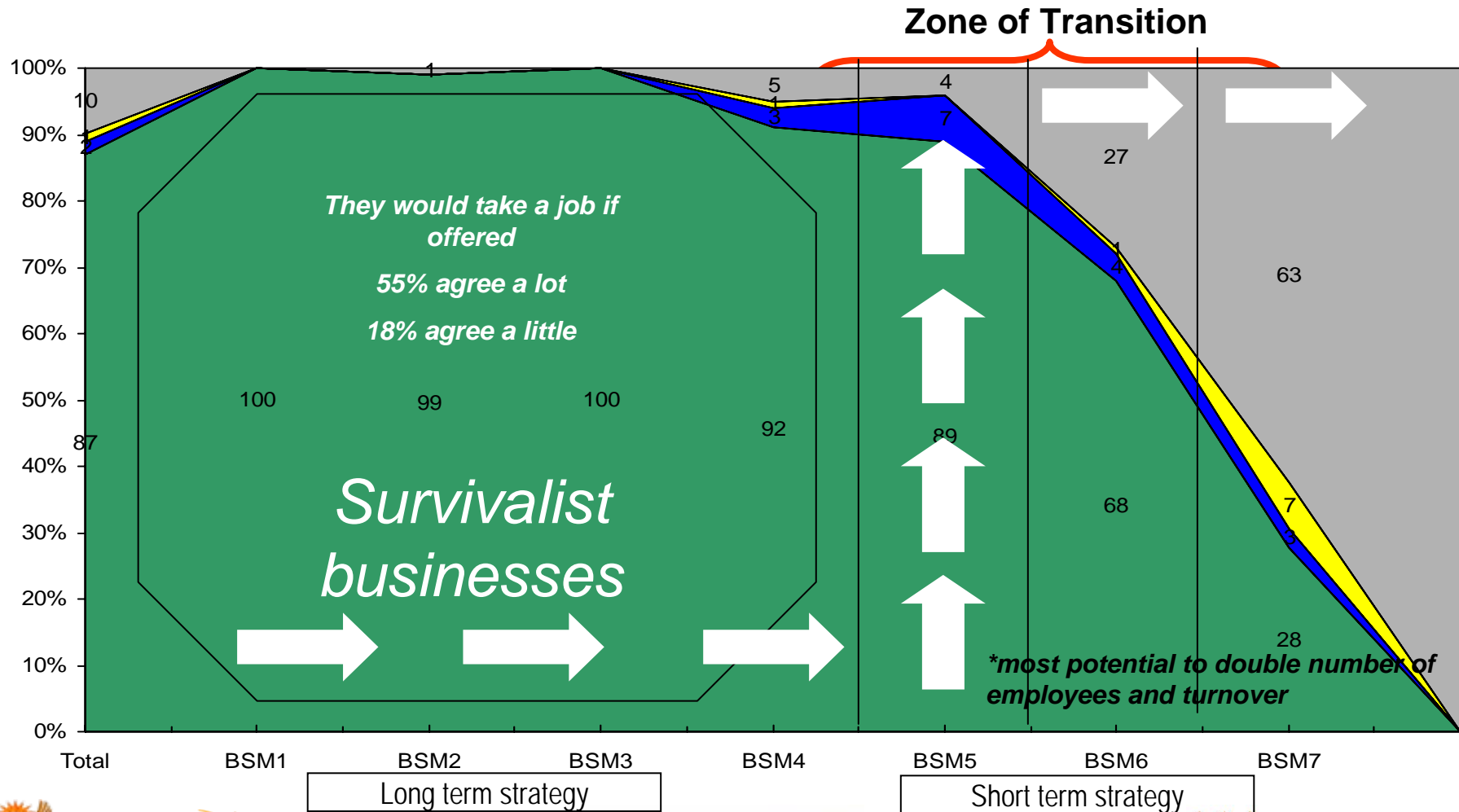
**Have a business loan, credit card and overdraft facility**

## Awareness of Support Programs = 58%

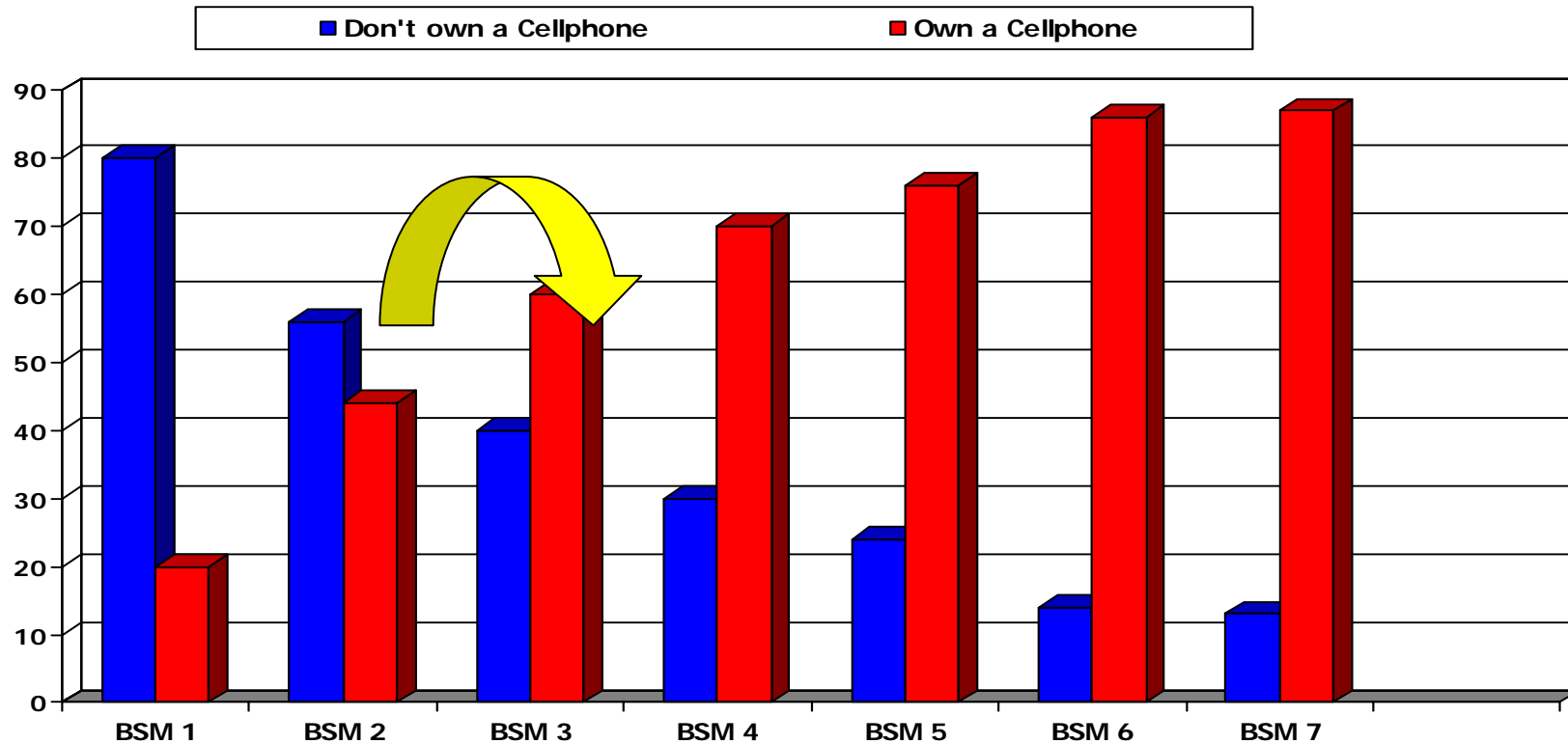




# Anybody can be an entrepreneur?



## Zone of Transition Using BSM



# Concluding remarks

- Many “survivalist” businesses, as many as 220 000 business owners generating a turnover below the current poverty line.
- Only a small percentage are job creators
- Access to finance: not the only constraint – 25% pointed to crime + theft as the biggest problem they faced.
- Small businesses need training in basic business skills, technical advice, linkages to markets and mentoring. As businesses grow, they typically require stronger management + more equity capital

## Access to financial services conclusions

- Currently banks are servicing the upper sector of the small business market with a wide range of products, insurance penetration very low
- Penetration by formal financial sector low: incidence of loans and borrowing – 2%
- The amount of money used to start a business is generally very low (below R500.)
- Consider basic insurance product to accompany a transaction account



## Policy aspects

- Government support services needs to be communicated effectively – a targeted approach drawing on segmentation models could be fruitful – using appropriate delivery channels
- High degree of informality suggests that the regulatory framework may be too complex
- Continue efforts to ease compliance burden, particularly tax, Regulatory Impact Assessments potentially useful tool
- Developing infrastructure for small business eg. water, electricity, business parks, secure trading environments

## Concluding remarks

- Strike a balance between support to start-ups + existing businesses
- Government financing support to address equity issue as well as debt.
- Govt. speed up payment processes for small businesses

- Judi Hudson  
Consultant – FinMark Trust  
[judih@finmark.org.za](mailto:judih@finmark.org.za)