



# COVID-19

## IMPACT ON SOUTH AFRICA'S SMMEs

APRIL 2020



22 ON SLOANE

# Numbers!

Over 55 000 SMMEs will NOT survive the pandemic.

At least 42 350 people working for these SMMEs will lose their jobs.

At most 423 500 people working for these SMMEs will lose their jobs.

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# 1. INTRODUCTION

The COVID-19 lockdown has negatively impacted the South African economy, which is already in recession.

Small Businesses, Start-ups and Stakeholders across South Africa have been severely affected.

It is of the utmost importance that the National and Provincial Government, Solidarity Fund, International Organisations and Corporates, respond appropriately to support these businesses.

22 on Sloane has conducted an online survey of 120 Small Businesses, Start-ups and Stakeholders to understand their sentiments and what they expect and need during this pandemic.

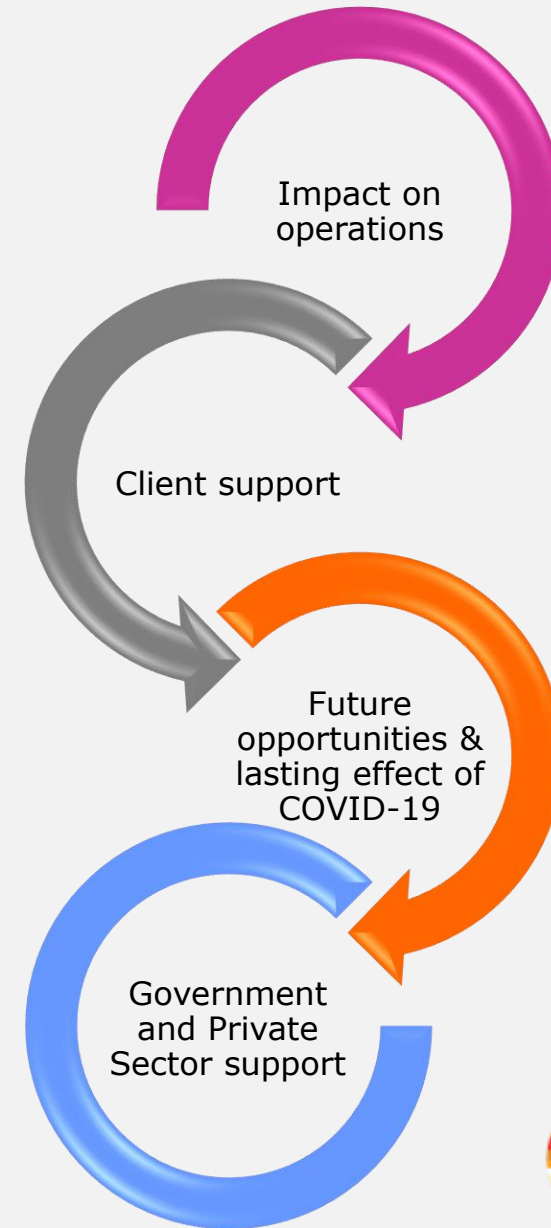
# 2. RESEARCH OBJECTIVE

## Research Objective

The world as we know it has changed. The way entrepreneurs operate will also change. This research aims to understand how COVID-19 has induced these changes and its impact on SMMEs. This study is a purposive sample intended for drawing insights.

## Key Considerations

The limitation therefore is that it cannot be generalised. It is now necessary to mount a bigger representative survey to support this current study. One hundred and twenty respondents participated in the survey, which was conducted between 23 - 28 March 2020.

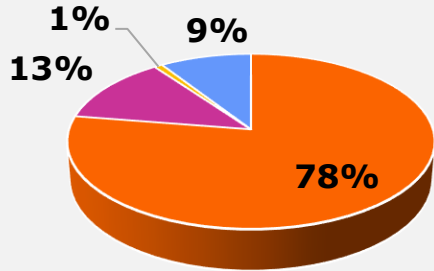


# 3. SMME PROFILE

The sample includes mostly small businesses and a handful of ecosystem stakeholders. Business owners are aged between 31 and 40, a range capable of contributing to the economy on a massive scale. Although 83% of respondents are located in Gauteng province, some have operations in surrounding provinces and neighbouring countries. Services mainly include necessity-driven activities such as retail, consulting, ICT and media.

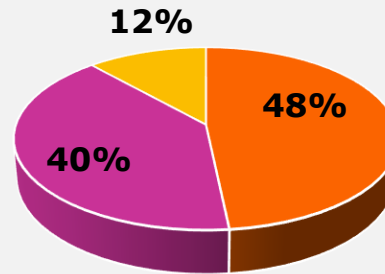
**Type of business**

- Start-up/Small Business
- Ecosystem Stakeholder
- Other
- No response



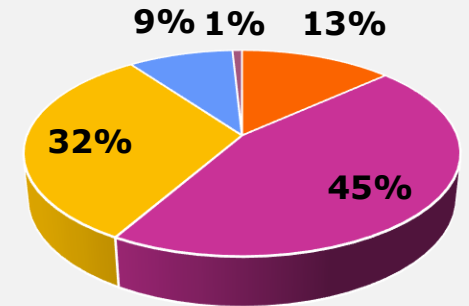
**Gender**

- Male
- Female
- No response

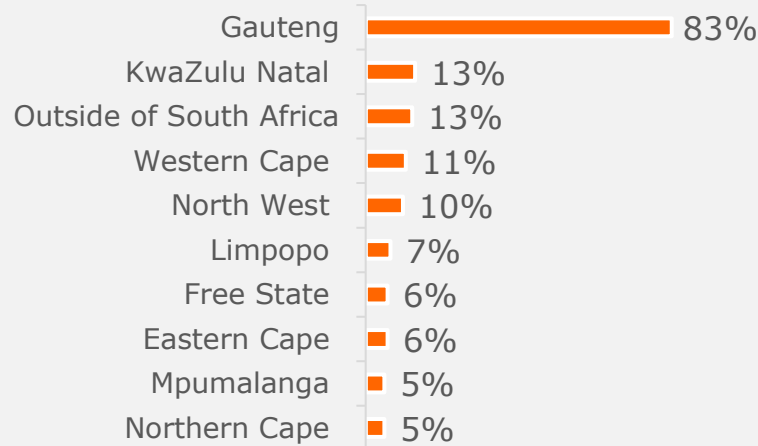


**Age Group**

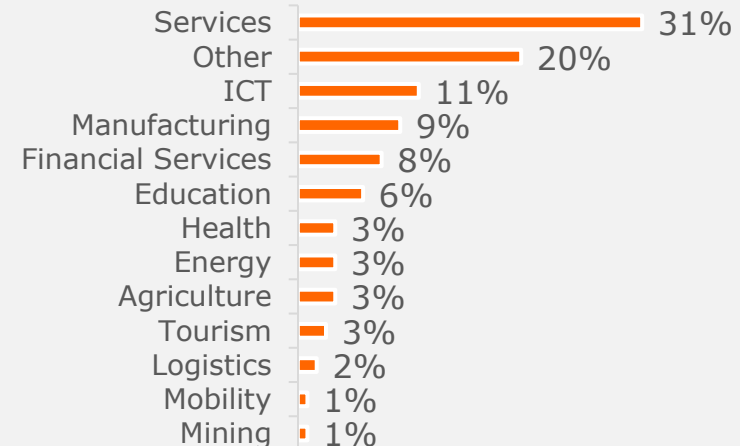
- 15-30
- 31-40
- 41-50
- 51-60
- Over 60



**Region**



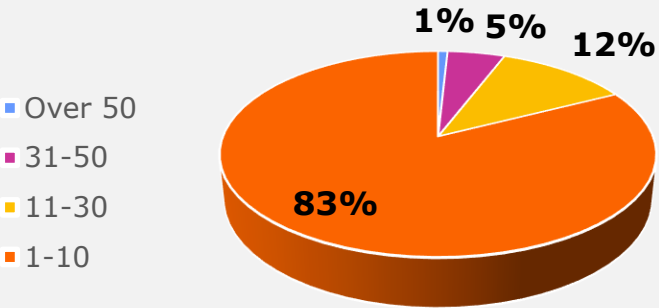
**Sector**



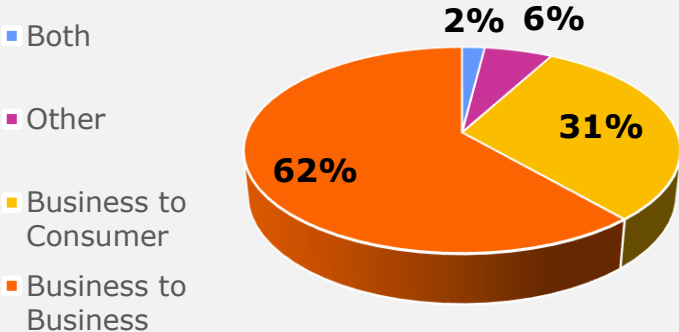


Small businesses are considered to be 'job creators'. The majority of businesses surveyed (83%) is those with 1-10 employees, which tend to operate directly with other businesses (62%) as well as consumers (31%), offering a wide range of products and services. Their annual revenue ranges between R100 000 and R10 million, which would make a significant contribution to economic development.

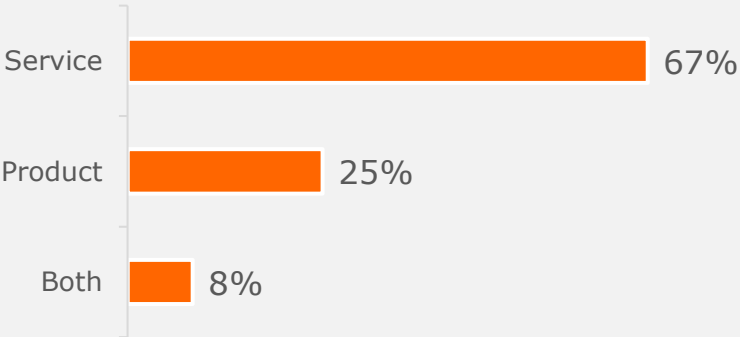
**Number of Employees**



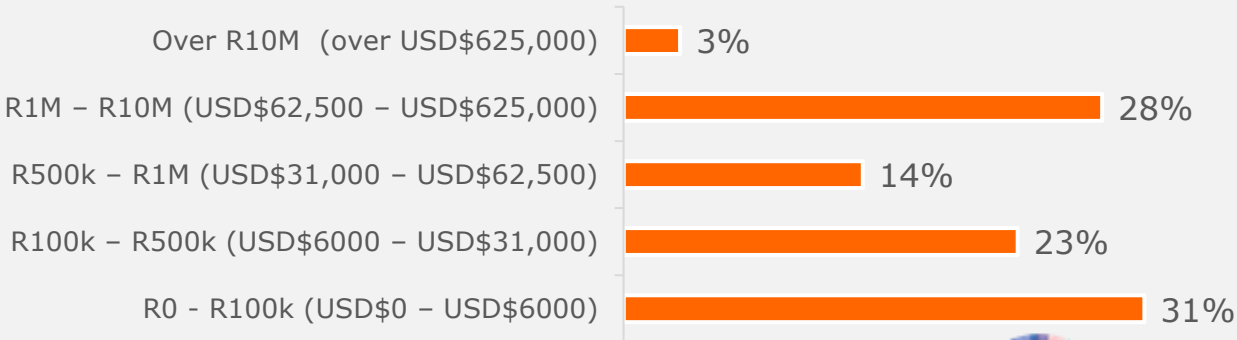
**Business Type**



**As a business, do you provide a product or service?**



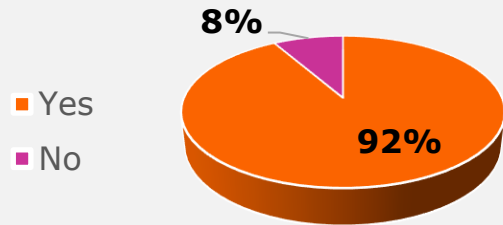
**Annual Revenue Range**



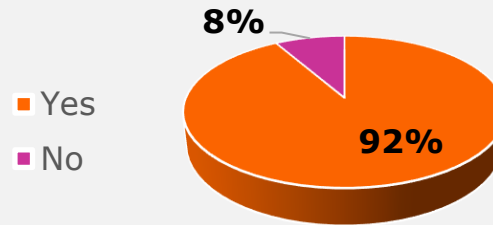
# 4. IMPACT OF COVID-19

COVID-19 is impacting many facets of our society and entrepreneurship is one of them with 92% of small businesses' operations affected. Although 63% of businesses can provide their products and services virtually, contact with clients is still very important (92%). Types of support to reduce the negative impact include payment deferments (20%), obtaining credit facility on goods (15%) and rental subsidy (13%). Twenty percent (20%) do not have alternative support mechanisms.

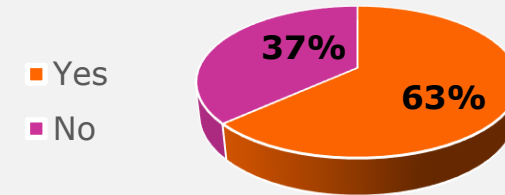
Has COVID-19 affected your operations?



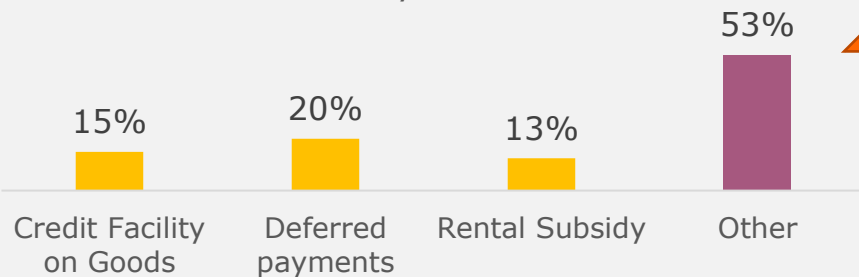
Does your business involve contact with people?



Are you able to provide your product/service virtually?



Are there ways your clients can support you?



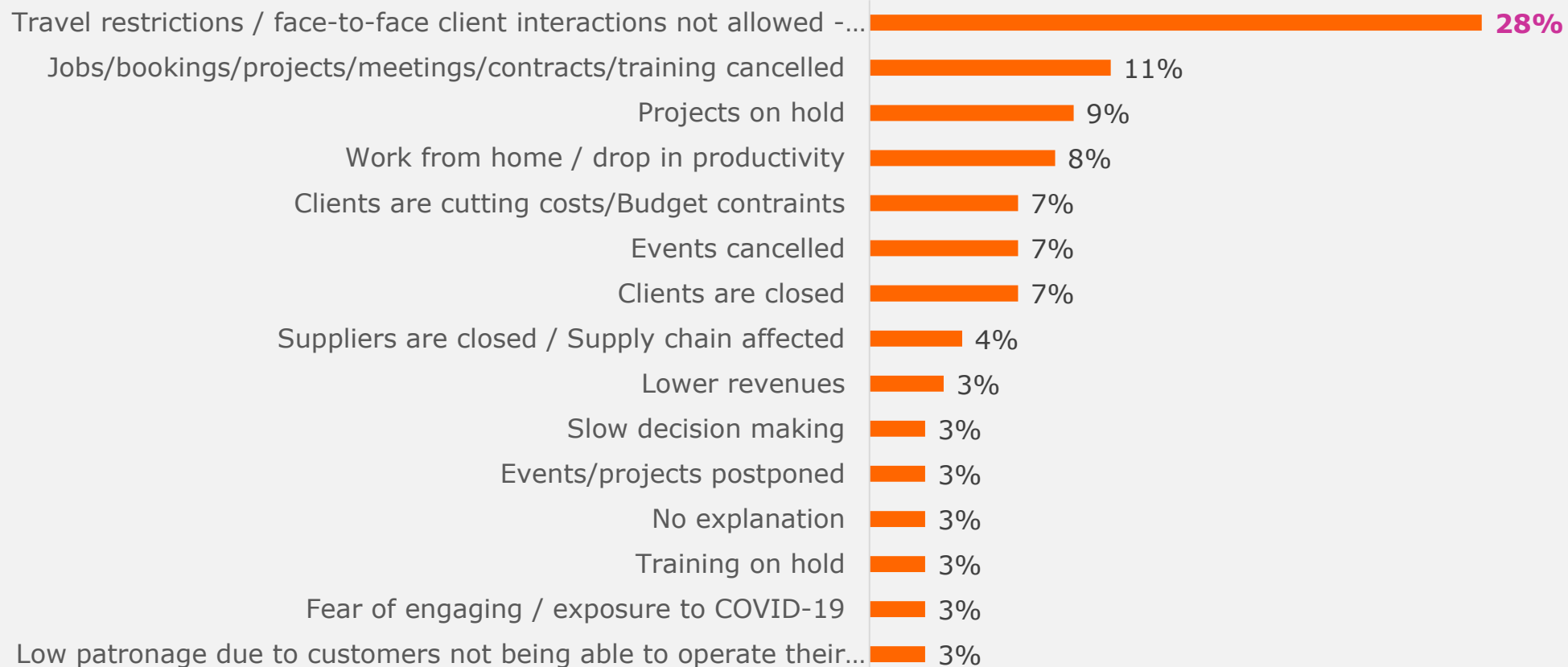
Are there ways your clients can support you? Other specify	
Base size	63
No	39%
Pay outstanding invoices / pay on time / faster payment cycle	6%
Embrace new way of working / online working during lockdown	6%
Prepaid / Upfront deposits	5%
Order online	5%

➔ 20% of all businesses.



Operations are the engine of any business. Any impact can either induce growth or closure. The most prevalent impact was the travel restriction, which limited physical interaction with clients (28%). Due to the nature of products and services provided, the interaction with clients is important. Some indicated that due to these restrictions, a lot of activities such as training, meetings and even contracts were cancelled (11%) with some projects being put on hold (9%).

### How COVID-19 has affected operations



Below are some of the responses on how business operations are impacted:

Export and imports is what we do. Due to Covid-19 there is minimal movement and it's going to cripple the finance sector of the business. Have to take care of staff as well. To keep them safe.

Cannot travel, meet customers, orders are not being placed, decisions delayed

I can't interact with clients and the media face to face

Uncertainty over how long social-distance will last has left us with contracts that are halted and decisions pending for longer than usual.

Most of my jobs for March and April have been cancelled

Social distancing has led to us working from home meaning we can't do physical visits to our clients and potential pipeline companies. This may slow down our investment process and may negatively impact the performance of our portfolio companies.

My employees are client-facing and required to go to residential or business premises.

Less FaceTime engagements with clients and our interns are now working from home as a precaution

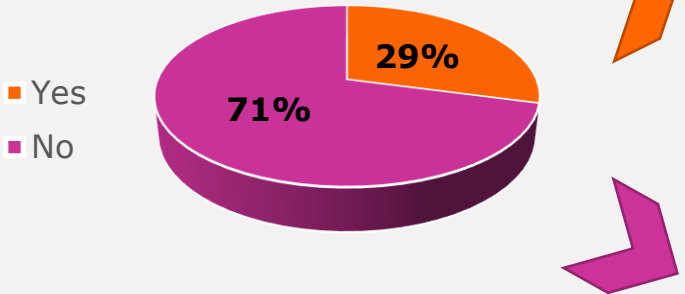
I cannot provide my regular meetings to source for business; I cannot conduct training or workshops. Companies have cancelled training sessions.

We are not generating much in revenue, early days, but meeting with stakeholders, clients etc. has come to halt - even if it's a web meeting as they all grapple with the way forward.

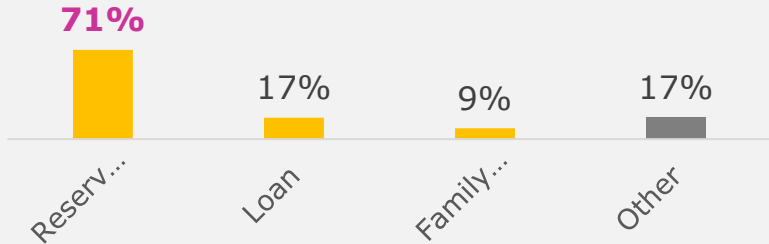
Travel restrictions and meeting with business partners restricted

The majority of businesses do not have enough cash (71%) to keep their business operational in the next 3 months, due to lack of income and measures put in place to curb the pandemic (85%). Businesses that do have enough cash will be tapping into reserves (71%) while others, capitalise on loans (17%). With overall macro economic uncertainties looming over the coming weeks, these reserves may run low. Salaries & Wages (63%) will be most affected, seeing a few companies being able to pay partial salaries due to reduced sales (59%).

**Enough cash to operate for 3 months without sales**



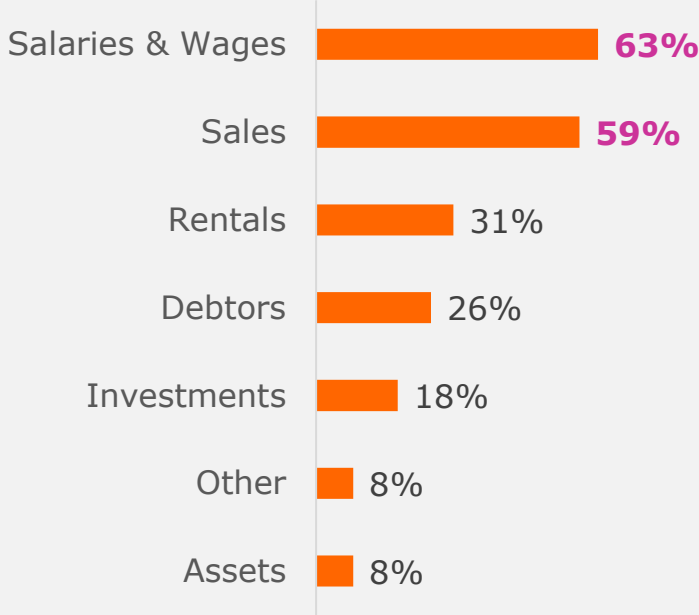
**Source of cash**



**Reason for not having enough cash**

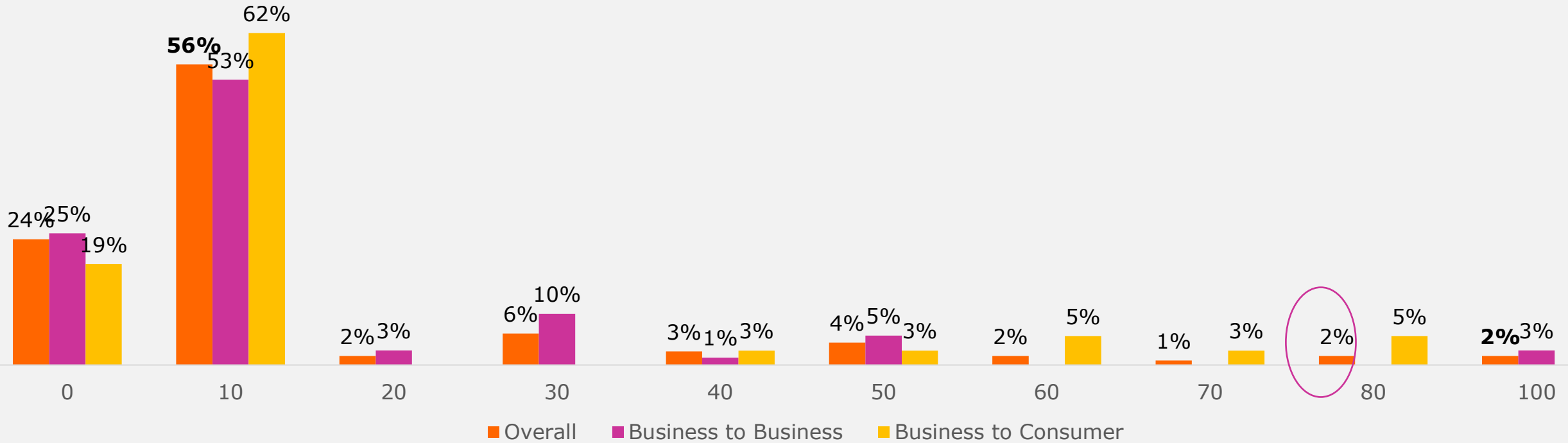


**Operations most affected**



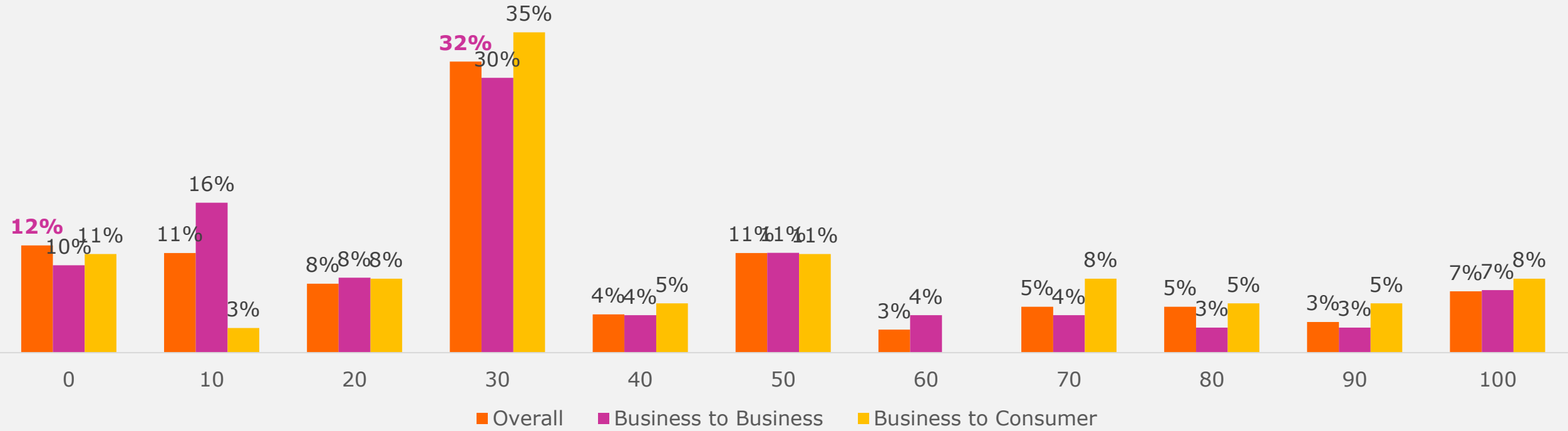
**56%** of businesses have indicated that there is at least a 10% likelihood that they might retrench due to reduced sales/lack of income to cover operational expenses. Although only 2% indicated a 100% likelihood of retrenchment, it is still a dent in the country's socio-economic development, e.g. achieving various aspects of the National Development Plan.

### % Likelihood of retrenchment. **At least...**



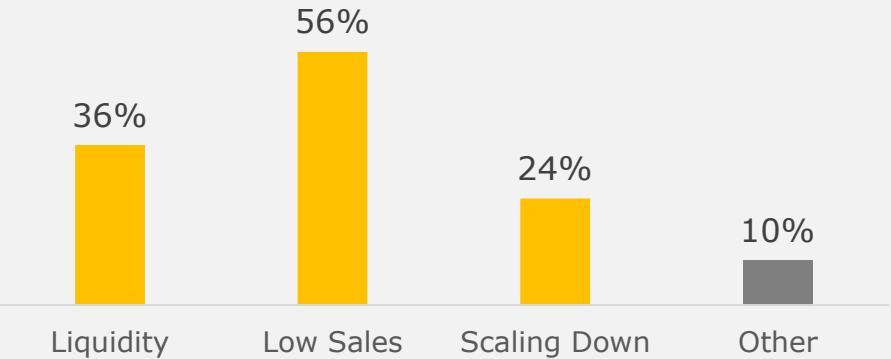
On the other hand, **32%** of businesses have indicated that there is at most a 30% likelihood that they might retrench. Despite the percentage likelihood, retrenchment seems inevitable for some small businesses.

**% Likelihood of retrenchment. At most...**

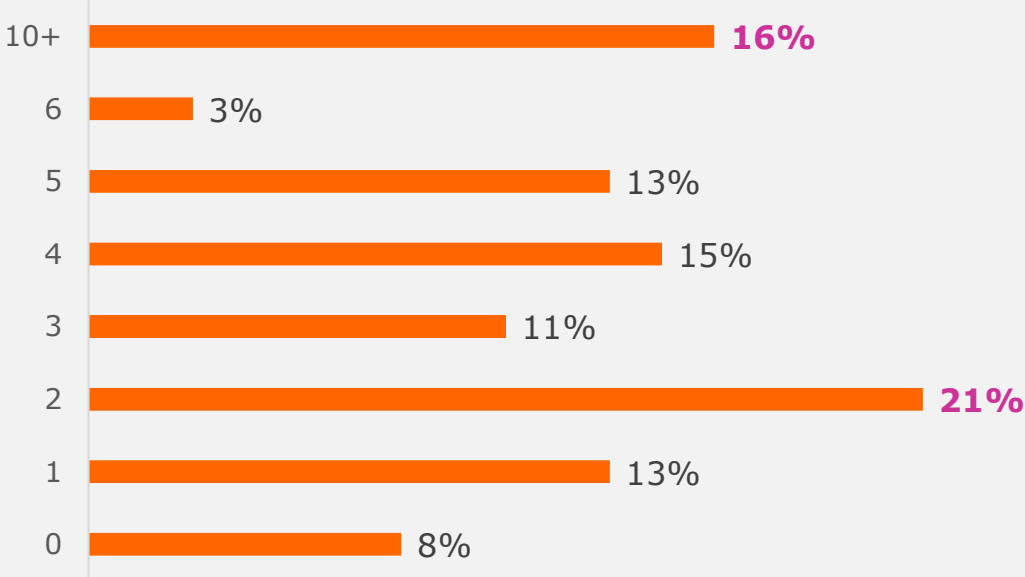


The graph below confirms that low sales (56%) is the main reason that would influence whether to retrench or not. Liquidity (36%) and scaling down (24%) are also other factors. Furthermore, retrenchments could result in 16% of businesses letting over 10 employees go.

**What businesses' decision to retrench would be influenced by**



**Number of employees who would be retrenched**

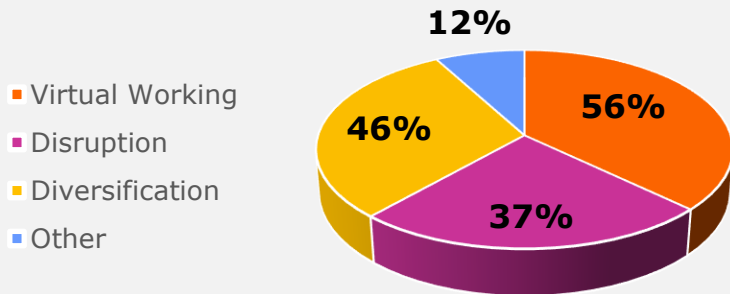




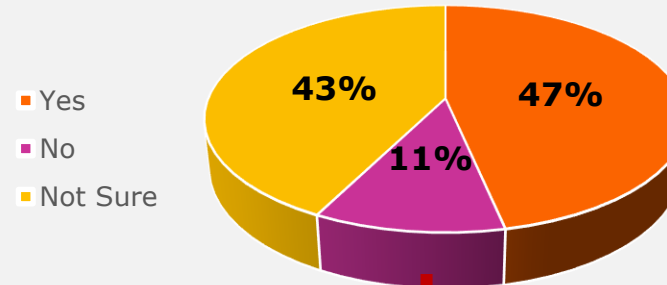
# 4. LASTING EFFECT OF COVID-19

In the midst of adversity, some small businesses indicated that they need to be resilient and agile where possible. Virtual working (56%) was seen as a future business opportunity, followed by diversifying offerings (46%) and thinking of disruptive approaches (37%). How long will the pandemic last? Opinions seemed to be divided between 1-3 months and 4-6 months. Given this range, some entrepreneurs believe they will survive during this period (47%), while others remained unsure (43%) – highlighting the uncertainty of tomorrow. Of the 11% who noted their businesses will not survive, most of them employ between 1-10 people.

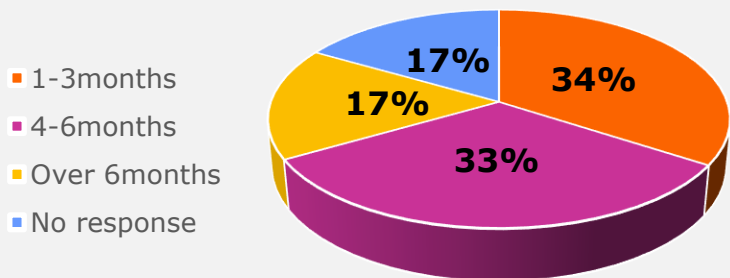
### Future business opportunities



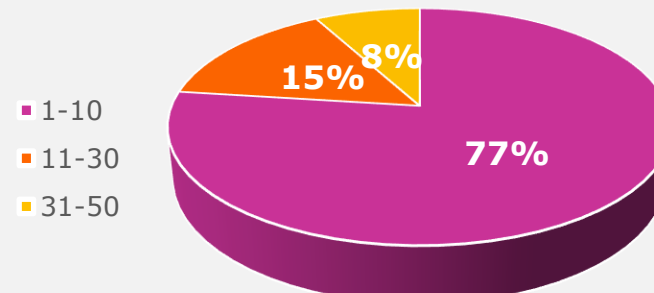
### Will your business survive?



### Pandemic lifespan



### Number of Employees



Below are mixed views about whether or not the SMME businesses will survive:

We have a business continuity plan in place.

I am unsure on how long this will last and how many people within the organisation will be affected.

It will take a few months before we are on our feet again.

We will only survive 2 months without sales.

If the pandemic lasts for not more than 3 months, we will survive. However, if the situation persists, the business might collapse.

No bookings no income coming.

There is not enough data to say it won't. We are focusing on what we CAN do. We've turned into survival mode.

Though momentum would be broken, we will have to start afresh

We were able to get ahead of the virus to a degree by issuing directives to clients and creating tools that would allow them to monitor their operations. On the other hand, if the economy doesn't spring back quickly, we could see a slow down in sales as companies contend with essential operations only.

I am not sure how long this will last or what other unforeseen consequences may be coming.

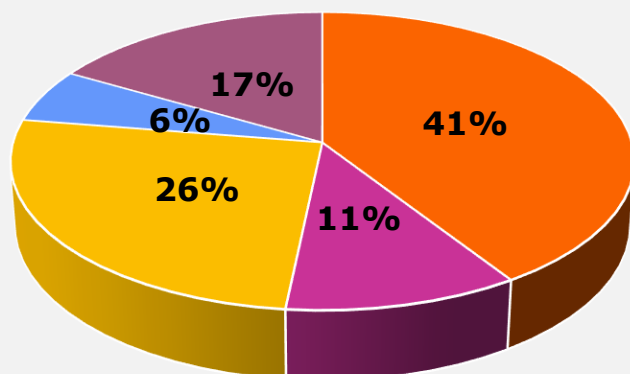
Early stage start-up, we have reserves for 12 months

# 5. GOVERNMENT & PRIVATE SECTOR SUPPORT

Over the past few weeks, the public and private sector detailed various financial relief mechanisms to assist small businesses across many sectors. Some include payment reliefs, deferred payments and grants. The respondents echoed these measures as well, identifying grants (41%) and tax exemptions (26%) as key interventions from government grants and relief funds (42%) from private sector.

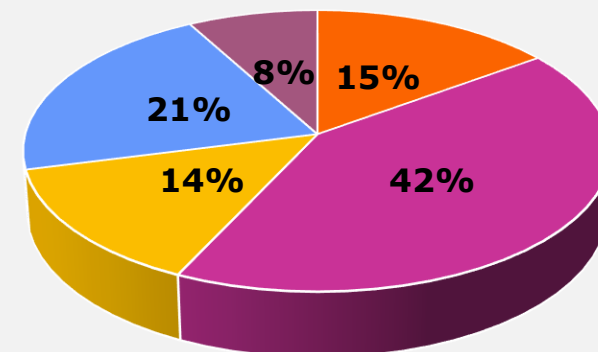
### Suggested Government support

- Grants
- Subsidies
- Tax exemptions (IncomeTax, PAYE)
- Other



### Suggested Private Sector support

- Grants
- Private Sector Relief Fund
- Rental Subsidies
- Sponsorships/Donations
- Other



## How the Government could assist:

Offer grants or suspending taxes and PAYE.

Maybe they can help with one month's salary through UIF.

Support localisation of small-scale manufacturing to reduce the need for transportation and travel by consumers.

Cash bailout

Subsidies for the next 3 months or rental and salaries subsidy.

Debt Relief and Support for a set period. The payback arrangement could include commitment to employ people when we turn the corner or some or other fair and legal approach that the labour and legal experts deem lawful.

## What the Private sector can do to help:

They can opt to choose SMMEs as their service providers. We are generally more cost effective (lower overheads) with quicker implementation times (less bureaucratic tape).

Banks should relax their loan conditions at least for two months. It is going to be an uphill battle. The prices for small business should be lower and offer small business short term loan with low interest.

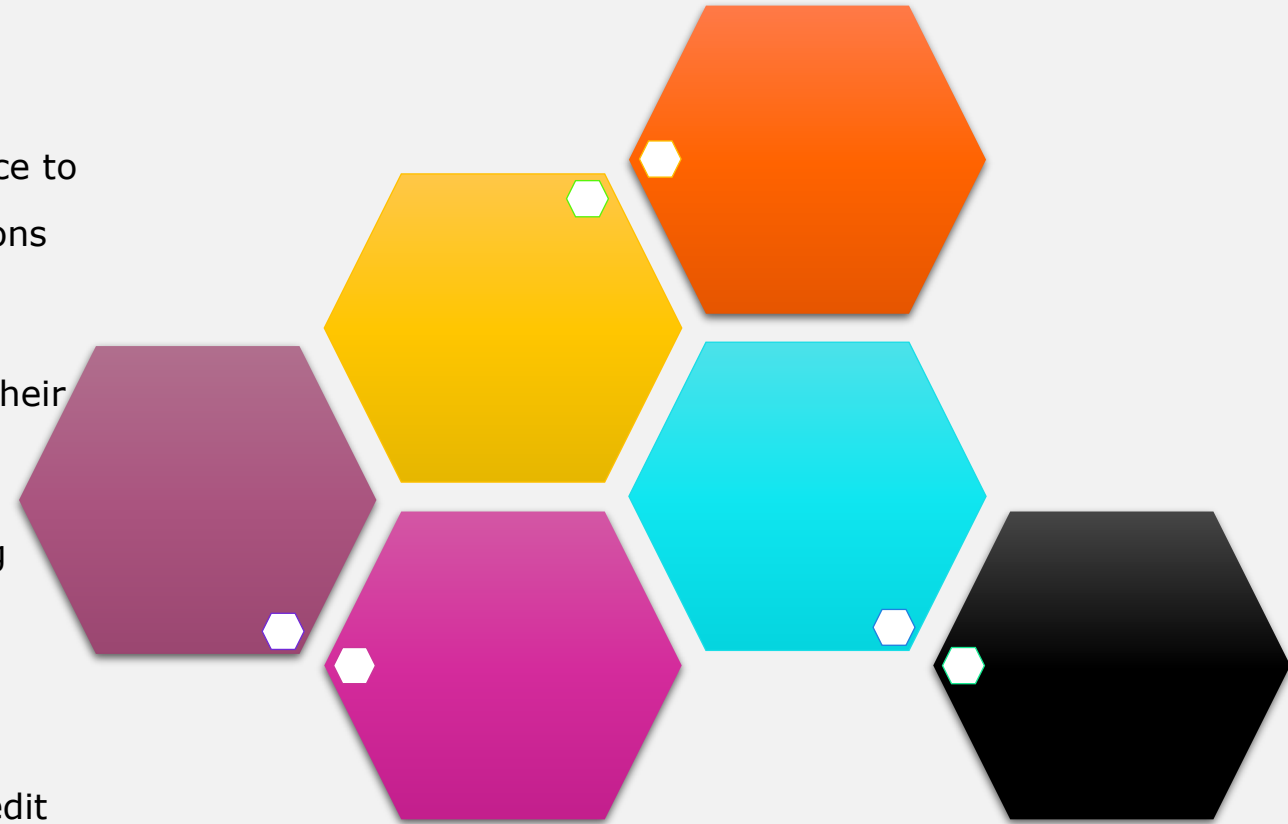
Bank Credits expansion

Avail required funding for SMME's to operate to the extent that it's possible.

# 6. RESEARCH SUMMARY

## Impact on Operations

- 92% of SMMEs' business operations have been impacted by COVID-19.
- The travel restrictions, the inability to interact with clients face to face and the cancellations of projects/meeting/training sessions have had the greatest impact on businesses.
- 71% of SMME businesses do not have enough cash to keep their business operational in the next 3 months.
- Retrenchments could result in 16% of businesses retrenching more than 10 people.
- 48% of SMMEs propose deferred payment arrangements, credit facility and rental subsidy as a way for their clients to support them.



## 6. RESEARCH SUMMARY

### Future opportunities and lasting effect of COVID-19

- Virtual working is seen as a future business opportunity for more than half the businesses surveyed.
- Opinions on the lifespan of the pandemic seem to be divided, as well as whether or not businesses will survive, which highlights the uncertainty of what the future may hold for SMME's.
- 11% of SMME's who took part in the survey indicated that they do not see their businesses surviving during this period.
- If we consider a report by The Small Business Institute (SBI), which claims that South Africa has a quarter of a million formal SMME's, there could potentially be 55 000 SMME's who do not survive this pandemic.
- Of the 11% of the SMME's that do not see their businesses surviving, 77% of them employ between 1-10 employees. This means that at least 42 350 working for the SMMEs will lose their jobs and at most 423 500 working for the SMMEs could lose their jobs as a direct result of COVID-19.



**Government and Private Sector support:** Government grants and private sector relief funds seem to be the suggested way in which SMME's can be supported during this time of crisis.



# Nine Things That Will Change Post The Pandemic

1. More and more people will be without jobs, potentially increasing the unemployment rate.
2. A lot of businesses, mostly SMMEs, will close their doors due to the nature of products & services they offer.
3. Telecommuting and online learning will increase, thus disrupting offerings in many sectors.
4. There will be increased confidence in technology as an enabler to most of our daily activities, namely improved FinTech and EdTech solutions.
5. Innovative Start-ups will be on the rise as they seek to leverage the disruption created by the pandemic, such as non-contact deliveries, telemedicine, Artificial Intelligence and big data analytics.
6. More businesses will opt for co-working spaces and virtual working, changing how we interact with physical infrastructure, such as office space.
7. More private and public sector institutions will invest in healthcare, resulting in better quality and access for citizens.
8. There will be a social change where the private and public sector will invest more in underserved communities by improving telecoms infrastructure, basic services and making hygiene practice part of our everyday lives.
9. Finally, we will all learn to appreciate life more filled with love, gratitude and hope.

# Six Things Government & Private Sector Can Do

1. Invest in research, infrastructure and technology in the healthcare sector and other key sectors in preparation to support a new type of entrepreneur.
2. Ensure that the under-served communities have basic amenities such as water, electricity and sanitation, aided by Smart Cities and IoT for improved service.
3. Invest heavily in tech start-ups that are disrupting education, health, finance, AI, mobile gaming, retail, logistics, etc., particularly at early stage and prototype testing.
4. Build co-working spaces that will cater for both necessity-driven and opportunity-driven entrepreneurs, creating new job opportunities for those unemployed.
5. Keep investing in the people by offering up-skilling and re-skilling platforms aligned to the new world.
6. Invest in formalising the informal sector.

# Five Things that 22 ON SLOANE aims to do

1. Strive to provide co-working spaces, impactful programmes and a supportive entrepreneurial ecosystem for Start-ups and SMMEs to thrive & be resilient.
2. Use Hackathons and Huddles to build a pipeline of high impact start-ups across Africa and support Corporate innovation.
3. Expand the Residency, Incubation and Accelerator Programmes for a wider virtual reach.
4. Work with public & private sector to provide access to partnerships and markets.
5. Enable the development of best policies to advance the entrepreneurship ecosystem.



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