

Johannesburg, 17 July 2020

COVID-19 Pandemic Creates Uncertainty for the Future of Small Business in South Africa

Financial distress caused by the effects of the COVID-19 pandemic has seen the majority of small, medium and micro-sized enterprises (SMMEs) come under severe strain, with their future survival uncertain. Newly released research by TransUnion (NYSE: TRU) shows that nine in ten (90%) small businesses in South Africa are struggling or temporarily closed as a result of the impact of the COVID-19 pandemic. Just 9% report that they are operating as normal and less than 1% of businesses say they are thriving. 96% of small business owners reported a decrease in revenue, with 78% saying they have seen a significant decrease in their business revenues since the start of the COVID-19 pandemic.

With cash flows being hit so hard, one in three (32%) small businesses report that they will be able to operate for less than three months at the current rate, and one in two (50%) reported extreme concerns with being able to fulfill critical payment obligations. Nearly two thirds (59%) said they will have to cut staff salaries, 44% said they will be unable to pay rent, and 33% said they will have to start downscaling monthly services such as telecommunications and insurance in the next two months. Nonetheless, small business owners remain optimistic about their ability to continue, with 53% indicating that it is likely that they will recover from the impact of the pandemic.

Lee Naik, CEO of TransUnion Africa, said the research is designed to help better understand how small businesses have been impacted by the pandemic, the changes they have experienced, and their expectations for how the crisis would affect their operations and subsequent ability to meet their payment obligations.

“The current global crisis has caused major economic and financial distress for consumers and businesses everywhere. For the estimated 2.5 million SMMEs that form the backbone of the South African economy and represent our best hope for economic growth, many jobs have already been impacted as consumers rein in spending,” said Naik. “Coupled with government funding and grants from the business community and private individuals, the SMME community has avoided mass liquidations thus far. But with almost half of all SMMEs uncertain if they will survive for longer than six months, it suggests that cracks are starting to form.”

To adjust to the current environment, small businesses report that they have had to increase their efforts around work-from-home (WFH) technology, marketing, business IT/infrastructure, innovation and other online capabilities. And a substantial portion reported to have allowed arrangements to accommodate the financial distress that their customers are facing by granting payment holidays, changes in payment terms, and discounts.

Businesses that report they are operating normally (9%) despite a drop in revenue have been preparing for longer-term sustainability to adapt to the shifting economic dynamics. They are employing sound business principles and enforcing stricter credit management controls. When compared to the struggling businesses (90%), these businesses reported being twice as likely to invest in research and development, three times more likely to invest in equipment and machinery, and five times more likely to invest in stock and inventory, three times less likely to agree to payment holidays and almost half as likely to offer discounts. Small businesses that were primarily operating on digital/online platforms before COVID-19 also appear to be less affected by office/facility closures.

The Small Enterprise Development Agency. (2019). [online] Available at: <http://www.seda.org.za/Publications/Publications/SMME%20Quarterly%202019-Q1.pdf>

Government, business and private-relief funding have proven relatively successful, with only 27% of businesses not receiving some form of relief – primarily as a result of not applying, or receiving a response and not meeting required criteria for government-funded relief. Businesses in operation for more than ten years have been more likely to receive support compared to businesses in operation for five years or less, although the younger businesses are 1.5 times more in need of funding to sustain their business.

Looking to the future to understand what support these small businesses need to survive, most owners cited access to funding, cash flow and new revenue generating customers as their key needs. “Revenue generating customers and secure cash flow are, however, in very short supply with consumers under severe strain and delinquencies on the rise. This potentially places an unsustainable reliance on external funding sources to support the SMME community,” said Naik.

The study suggests it is inevitable that liquidations will become more widespread and that SMMEs will continue to operate in a very difficult environment for the foreseeable future. It suggests that in order to survive, small businesses will need to be extremely vigilant in their credit management practices. Each customer, whether existing or new, should be approached with heightened levels of scrutiny before credit is extended. In the SMME market, which has traditionally relied on trust-based relationships, this will require a very different customer engagement strategy.

For more information, visit [TransUnion’s SMME Survey webpage](#) and [South African Consumer Financial Hardship Study webpage](#).

Research Methodology

The online survey of 659 small businesses in South Africa was conducted from 21 May - 15 June 2020 by TransUnion, in partnership with third-party research provider Qualtrics® Research-Services. Surveys were sent via email and survey questions were administered in English.

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