

**Pilot Study
Survey Highlights
including BSM Model**

**FinScope Small Business™
Gauteng 2006**

Background to the survey...

Small businesses have been identified as powering an increase in South Africa's economic growth.

The National Small Business Act and the Accelerated and Shared Growth Initiative of South Africa (AsgiSA) are two initiatives intended to bridge the gap between the first and second economies and to address the inequalities that exist therein.

The related government strategy is broadly to:

- curb unemployment through job creation,
- alleviate poverty, and
- redistribute wealth.

Resolving issues such as access to finance, preferential procurement, effective communication with, and support of small enterprises is critical for achieving the sector's potential.

Despite government's efforts to increase support to small business in the past two years, the SMME Business Confidence Index, a survey of SMME perceptions, suggests that these initiatives are not working well.

Reliable and accurate information about small businesses is lacking, and this makes assessing and servicing these diverse entities extremely difficult.

To assist in rectifying this, the Gauteng Enterprise Propeller (GEP) and the FinMark Trust commissioned African Response to research the small business sector in Gauteng.

Why a Gauteng pilot?...



Although geographically the smallest of nine provinces, Gauteng contributes more than 38% of South Africa's Gross Domestic Product (GDP), 60% of fiscal revenue and generates 9% of the GDP of the whole African continent.

GEP is keen to develop targeted support and development initiatives to stimulate small business participation in the mainstream economy.

Survey objectives...

The survey is intended to deliver a comprehensive understanding of the small business market in Gauteng, through:

■ **Market sizing and benchmarking:**

- Quantifying the small business market
- Understanding the market and potential for growth
- Facilitating year-on-year tracking

■ **Effective market segmentation:**

- Understanding entrepreneurs
- Determining the impetus to become a small business owner
- Identifying success and failure drivers
- Developing a continuum of small businesses through effective identification of market segments
- Enhancing the identification of opportunities for innovation in service and product provision to small businesses
- Determining policy and regulation impacts

■ **Market needs analysis:**

- Determining the extent of access to finance and the related issues
- Measuring the impact of support initiatives and government assistance
- Informing policy and regulation
- Determining the role of education and training in the business success cycle
- Understanding the competitiveness elements in the sector

Survey sponsors...

The study was funded and supported by the following entities:

the dti

ENTERPRISE INDUSTRY
DEVELOPMENT DIVISION
SOUTH AFRICA



A division of FirstRand Bank Limited



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These parties co-operated and gave of their time, insights and knowledge in the strategic intent, questionnaire design and feedback processes of the survey's development.

The intention is that the findings will inform new small business sector development initiatives and innovations within both government and the private sector.

Sampling methodology...

The challenge

Challenges in establishing the best method of sampling were:

- being able to determine a scientifically valid universe of small businesses from which to select the desired sample profile
- the complexity in determining an agreed definition of small business, compounded by the myriad of existing terminology and classifications of “small business”
- enabling robust weighting of the findings to provincial level (Gauteng) and ensuring that the sampling methodology would be valid for a possible national survey

The sample design for the survey was informed and guided by Professor DJ Stoker and the Human Sciences Research Council.

The solution

A mixed household and enterprise survey approach was used.

The Household survey approach

An area stratified probability sample of 6 000 adults was taken. Of all Enumerator Areas (EAs) listed in Gauteng, 600 were selected with probability proportional to the estimated number of households in each EA. Twelve dwelling sites were systematically chosen from each EA to allow for refusals and non-contacts.

In each selected household, a responsible adult, either the main income earner, head of household, or another senior household member was chosen.

In the 6 000 households sampled, 12 422 adult contact interviews were conducted. Demographic information was gathered about all adult household members.

Special attention was paid to work status as well as to general household data. The demographic information was necessary to weight the dataset to the Gauteng adult population.

A screening questionnaire ensured the identification of household members who had their own small business. The questionnaire also sought to clarify which household members worked in the same small business or businesses and those members that had one or more small enterprises.

The Enterprise survey approach

After the household screening survey was completed in the relevant dwellings, an enterprise survey to identify small businesses was conducted amongst eligible respondents.

Qualifiers for the enterprise survey were based on information gained in the household screening survey.

The core criteria for qualification were:

- owning and
- running own business

AND

- employing less than 200 employees in the business – in accordance with the definitions in the Department of Trade and Industry (dti) Small Business Act.

The actual number of small business owners interviewed was 2 001.

Small Business Sample Summary

Detail	Sample achieved
Household screening survey	6 000
Enterprise survey	2 001

Weighting the findings...

Household sample:

All adults in the household sample were weighted up to, and benchmarked against the Census 2005 estimate information, based on gender, age and population group.

Enterprise sample:

The weights for the enterprise sample are the same as those used for the household members.

Survey Benchmarking

Benchmarking validated the survey findings:

FinScope Small Business Survey 2006	6 635 000
Reference Survey	Survey Finding
Census 2001	6 432 053
FinScope South Africa 2006	6 634 162
AMPS 2005/2006	6 360 000

Data collection...

Quantitative face-to-face interviews were conducted using African Response's CAPI technology. CAPI technology allows the questionnaire to be programmed onto a computer and for the interviewer to record responses directly as the interview progresses.

The CAPI technology was critical in the questionnaire routing procedures. The diversity of small business makes it necessary for varying questions to be asked of respondents as not all questions are relevant to all small businesses. This technology ensures a standard and consistent method of routing and posing questions to the correct level of respondent.

The average interview took 60 minutes to complete. Fieldwork was conducted between June and July 2006.

Questionnaire content...

- Background to the business, experience and training
- Demographic and personal details
- Business start-ups
- Full time, part-time and seasonal business
- Partners and shareholders
- Financial record keeping
- Franchises
- Subsidiaries and international affiliations
- Imports and exports
- Credit and loans
- Tendering
- Laws, regulation and compliance
- Previous and or other businesses
- Support available and used for small business
- Attitudes, beliefs and aspirations
- Professional services and assistance
- Banking and finance experiences, needs and access
- Insurance

Segmentation...

The small business market is so diverse that it requires moving away from a one dimensional sizing of the market that purely looks at the formality, size or legal status of the business. The survey findings were used to develop an enhanced way of viewing the market.

Business Sophistication Measure

A Business Sophistication Measure (BSM) was developed to depict the segments of small business from informal street vendors to the more sophisticated and sustainable businesses.

The BSM was initiated by SAtoZ, Professor Jacky Galpin and Dr Clive Corder were responsible for the statistical modelling.

Full technical details on the methodology used for creating the BSM model are available from FinMark Trust.

Below are some of the questions used for developing the BSM. These were chosen in consultation with the FinScope Small Business team:

- A5: What type of business is it?
- A6: Do you sell the goods as you buy them or do you add value or both?
- A13: Do you have a written employment contract for your employees?
- A15: What type of premises do you operate your business from?
- A16: Do you own, rent or just use the place where you trade / run your business from?
- A17: Services and equipment?
- E1: Partners or shareholders?
- E3: Do you have a written shareholders/partnership/ members agreement?
- F1: Keep financial records or accounts?
- F2: Do you keep these financial records yourself/-internally or does someone from outside help you?

- F3: Are your financial records audited?
- G1: Is this business a franchise?
- H1: Is your company/business a subsidiary/part of another company?
- H2: Do you have any affiliations with international companies?
- I.1: Do you do any business/trade with anyone outside South Africa?
- I.3: Import/export/both?
- J1: Offer goods or services on credit?
- J2: Credit management?
- L1: Pay taxes?
- L3: Compliance with acts?
- P2: Business functions handled by staff?
- Q2: Banks used?
- Q9: Type of banking services?
- Q16: Do you have any loans for your business?
- Q17: From where did you get the loan?
- Q20: Types of insurance paid for by the business?

Psychographic segmentation

- Attitudinal factors and certain financial behaviours were used to develop a psychographic segmentation. Full details will be available once the relationship with the BSM has been defined.

Survey highlights...

Economic and social contribution...

MARKET SIZE

- The survey established that Gauteng Province has an adult population (16+) of 6 635 000
- Total number of small business owners in Gauteng is estimated at 1 053 818
- This means that approximately 1 in 6 individuals are involved in small business

THE CLASSIFICATION OF SMALL BUSINESS

- Traditional classification of small business is typically “informal”; “unregistered” and “registered” business. This broad-banding, underpins the need for enhanced segmentation to support effective market analysis
- The BSM brings new insights and finer classifications



Segment size:
Informal businesses
64%
673 576



Segment size:
Unregistered individuals
18%
195 250



Segment size:
Registered businesses
17%
184 992

THE LANDSCAPE OF SMALL BUSINESS BY BSM

The BSM identified 7 segments plotting the continuum of business sophistication

Total Market:

Informal businesses	673 576
Unregistered individuals	195 250
Registered businesses	184 992

By BSM Segment



BSM 1

Segment size: 123 522 **12%**

Informal businesses	99%
Unregistered individuals	1%
Registered businesses	0%

- Stall traders
- Operate on a footpath
- No ownership of facilities in business
- Some high school education
- Employees 0.1
- Annual turnover R9 113
- 79% unbanked (personal)



BSM 2

Segment size: 97 370 **9%**

Informal businesses	92%
Unregistered individuals	7%
Registered businesses	1%

- Stall traders
- Operate on a footpath
- Have a cellphone
- Some high school education
- Employees 0.14
- Annual turnover R10 723
- 64% unbanked (personal)



BSM 3

Segment size: 278 291 **26%**

Informal businesses	74%
Unregistered individuals	18%
Registered businesses	8%

- Sale of goods
- Home based business
- Electricity in business
- Some high school education
- Employees 0.23
- Annual turnover R16 793
- 62% unbanked (personal)

Note: Percentages are rounded off.

**BSM 4****Segment size: 247 075****23%**

Informal businesses	64%
Unregistered individuals	24%
Registered businesses	12%

- Unregistered individuals
- Home based business
- Hot running water
- Matric
- Employees 0.47
- Annual turnover R24 710
- 47% banked (business)

**BSM 5****Segment size: 110 512****10%**

Informal businesses	58%
Unregistered individuals	29%
Registered businesses	13%

- Unregistered individuals/Sole proprietors
- Home based business
- Landline telephone
- Matric
- Employees 0.85
- Annual turnover R27 841
- 64% banked (business)

**BSM 6****Segment size: 100 171****10%**

Informal businesses	30%
Unregistered individuals	41%
Registered businesses	29%

- Unregistered individuals/Sole proprietors
- Home based business
- Computers
- Post matric qualification
- Employees 1.78
- Annual turnover R66 597
- 81% banked (business)

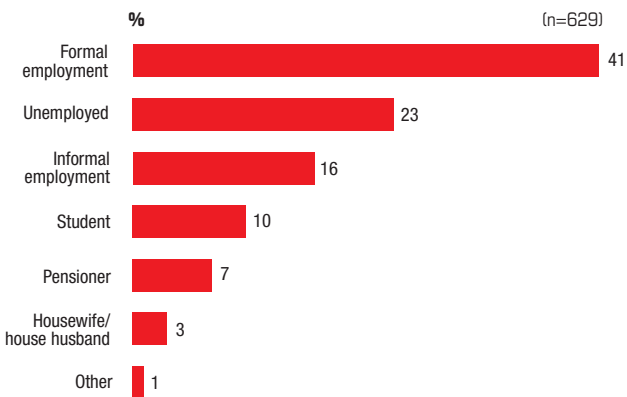
**BSM 7****Segment size: 96 876****9%**

Informal businesses	1%
Unregistered individuals	5%
Registered businesses	94%

- Close Corporations/partnerships
- Office block
- Shop
- Credit card machine
- Post matric qualification
- Employees 8.88
- Annual turnover R463 747
- 97% banked (business)

EMPLOYMENT LANDSCAPE

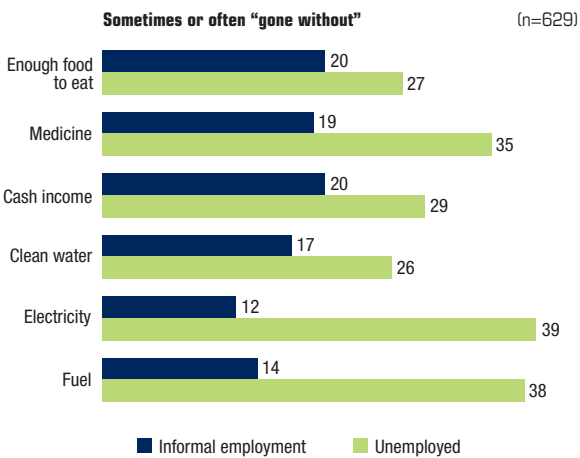
- 41% of the population claim to be employed in the formal sector
- 23% claim to be unemployed
- 16% of the population claim to be employed in the informal sector



Source: FinScope 2006

SOCIAL CONTRIBUTION OF THE INFORMAL SECTOR

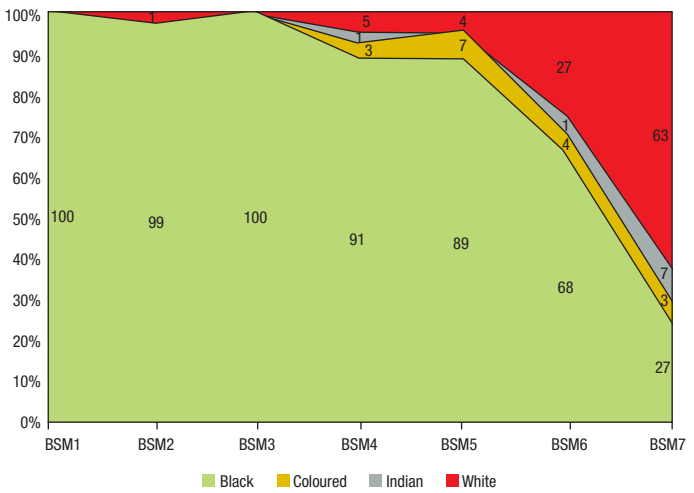
- Approximately 1.1 million people are employed in the informal sector in Gauteng
- Around 1.5 million people are unemployed in the province
- The chart shows the relative impact between the unemployed and those employed in the informal sector across a number of poverty related variables
- Those employed in the informal sector have a slightly better quality of life than the unemployed. Without informal business activity poverty would be exacerbated



Source: FinScope 2006

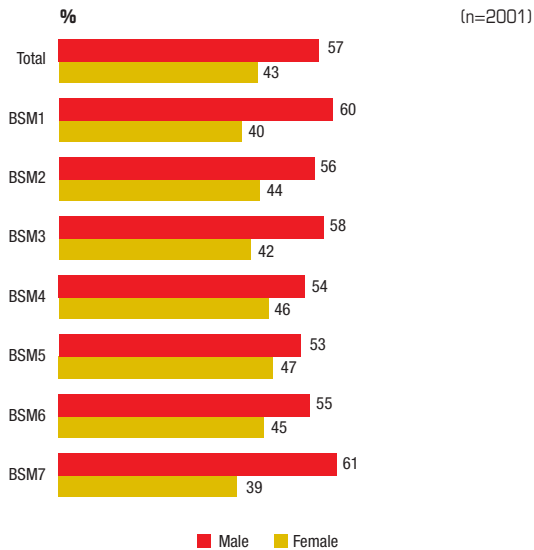
SMALL BUSINESS OWNERS BY POPULATION GROUP

(n=2001)



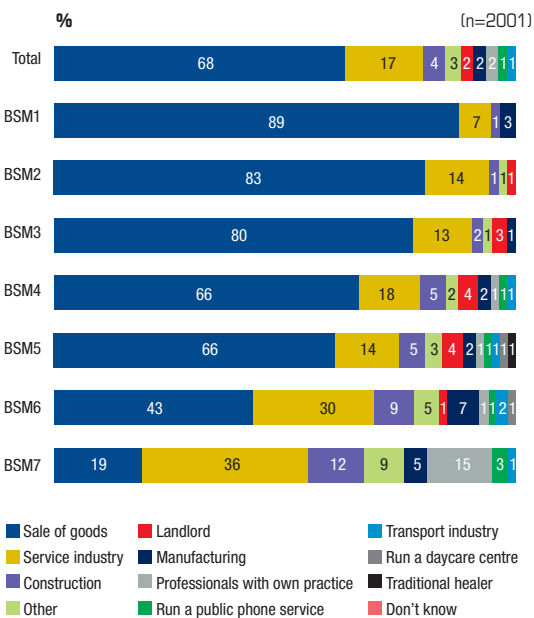
- Although 28% of BSM 7 businesses are black owned entities, 32 % of BSM 7 entities describe themselves as Black Economic Empowerment (BEE)

OWNERSHIP BY GENDER



- Men on average are more active than women in small business activities
- Women are more likely to start a business because they cannot find other employment
- Women start their businesses with less capital than men
- Men are more active in the suburbs and hostels whereas women are more active in the townships
- Women are inclined to keep businesses smaller
- Men are more inclined to hire staff than women
- Men earn almost a third more than women with an annual turnover of R73 012 – (R6 084 per month)
- Turnover of women is R47 099 annually (R3 925 per month)
- Men are inclined to be involved in transport, construction and the service industry
- Women are more involved in trade (sale of goods)
- Men are more likely to take risks in order to be successful

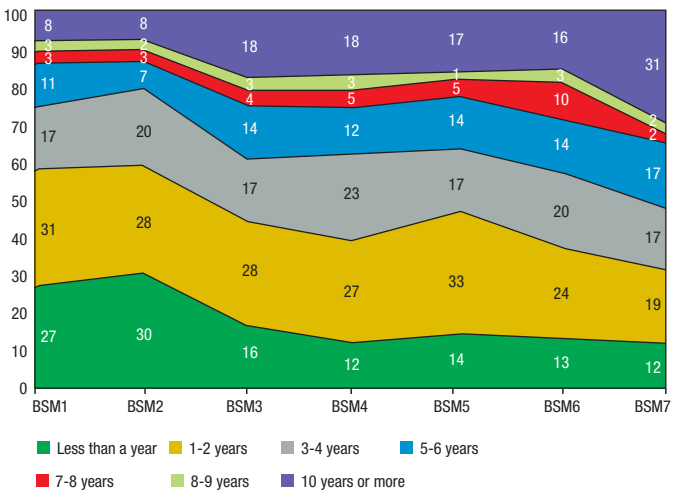
INDUSTRY SECTOR PARTICIPATION



- Entities involved in the sale of goods, mostly fail to add value to the items being sold. This impedes market differentiation and increases their vulnerability

AGE OF THE BUSINESS

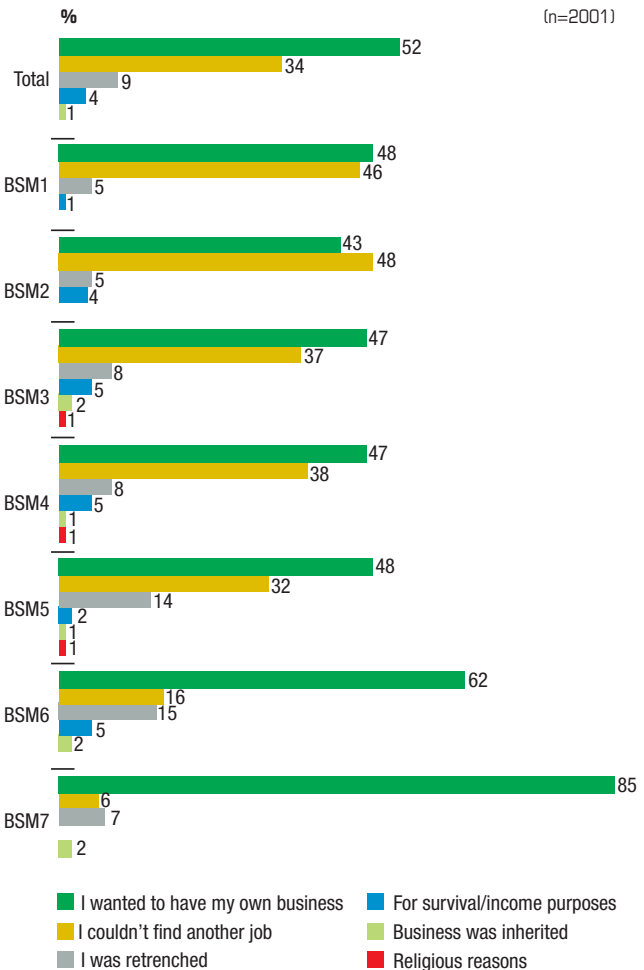
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Longevity skews towards upper BSM segments

MOTIVATIONS FOR STARTING A BUSINESS

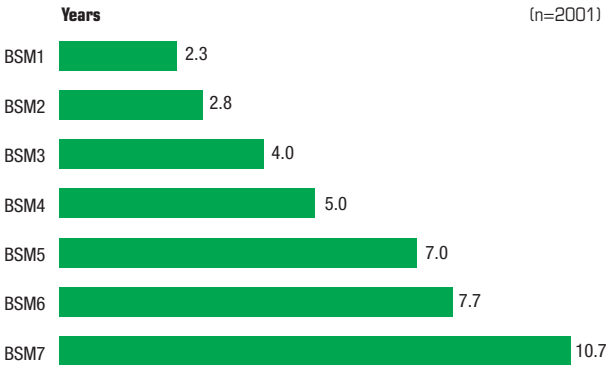
(n=2001)



- The lower sector of the market is dominated by those that could not find a job
- Most small business owners start alone
- Only in BSM 7 do 1 in 5 businesses start up as partnerships

PREVIOUS WORK EXPERIENCE

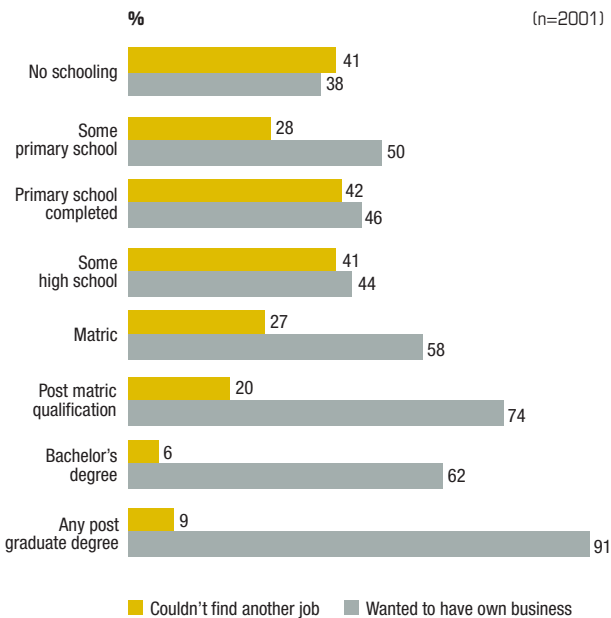
- The pattern of work experience impacting on the growth of business is also seen by business owners who are more mature and that have had the benefit of education



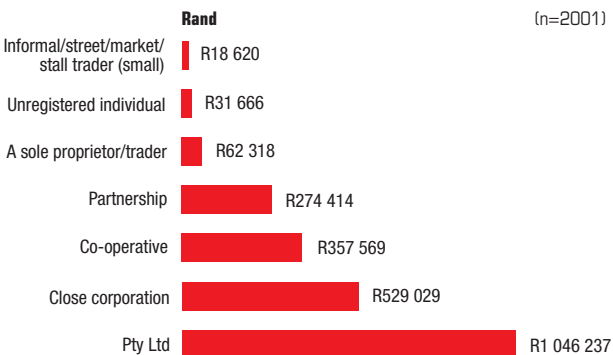
- On average the small business owner has engaged in formal employment for approximately 5.2 years before starting up his/her own business

MOTIVATION FOR BUSINESS START-UP

- The distinct difference in the motivation of survivalist businesses and entrepreneurial start-up entities appears to be affected by the qualifications of the business owners

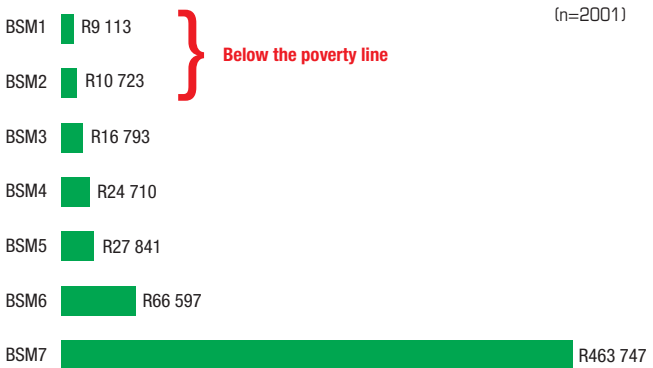


TURNOVER BY LEGAL ENTITY TYPE



TURNOVER BY BSM

- The average annual turnover is R61 799, which equates to just over R5 000 per month
- BSM Tier 1 and 2 entities operate below the poverty line, these business owners have the lowest levels of education
- Profitability is extremely difficult to measure in a survey and hence was not surveyed

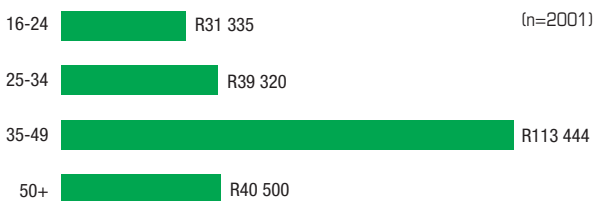


*The poverty indicators are calculated using a poverty line that varies according to household size. A household of 4 persons has a poverty income of R1 290 per month

Note: Income figures are often inaccurately reported by respondents

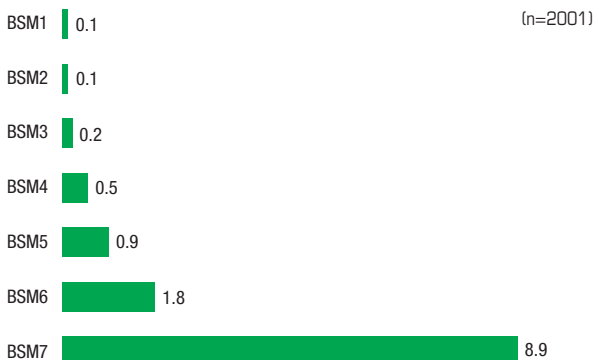
35 – 49 YEAR OLDS ARE THE HIGHEST INCOME EARNERS

- Younger business owners have above average reporting of describing their business as currently growing



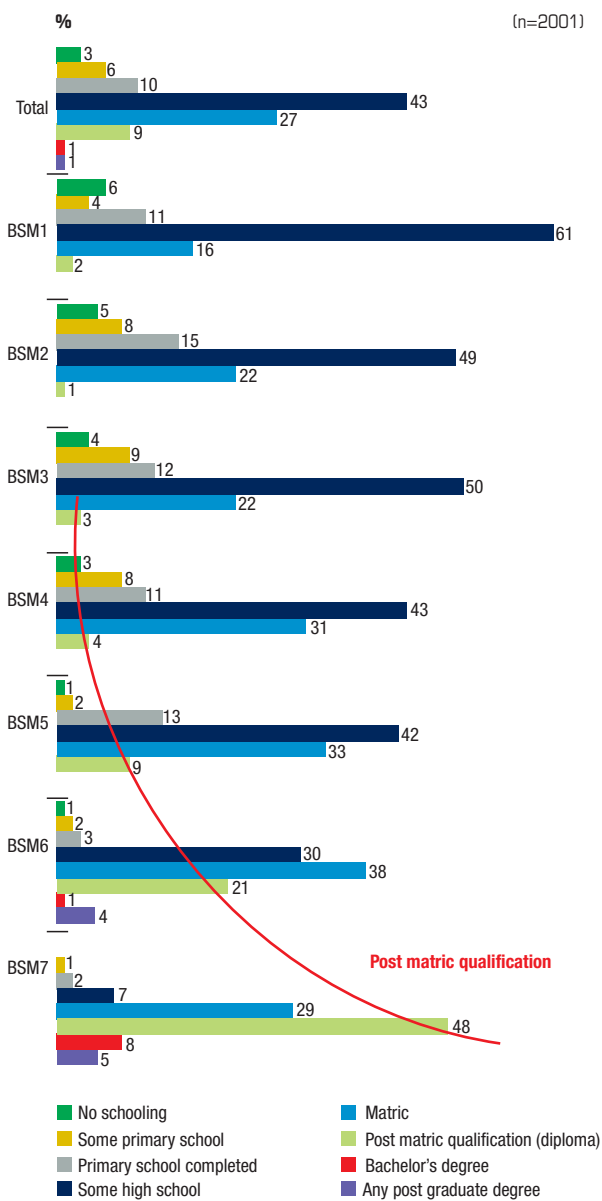
CONTRIBUTION TO JOB CREATION

- The average number of jobs created by total small business is 1.3
- Skewed substantively to the upper BSM tiers
- These figures refer to the total number of employees a business has excluding the business owner. There is no reference to paid, unpaid or family member contributions in these figures



OWNERS EDUCATION LEVELS IMPACT THE GENERATION OF EMPLOYMENT OPPORTUNITIES

Entities whose owners hold tertiary qualifications tend to have the most impact on job creation

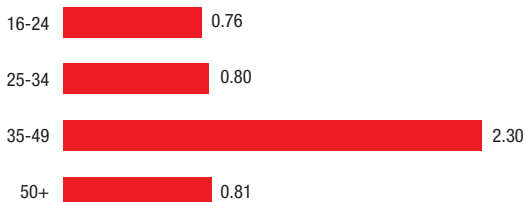


THE AGE OF THE BUSINESS OWNER ALSO AFFECTS THE CONTRIBUTION TO JOB CREATION

- The 35 – 49 year old business owners are the biggest job creators
- However, attention should be paid to the youth as they have recorded the highest growth in their employee base

Average number of employed

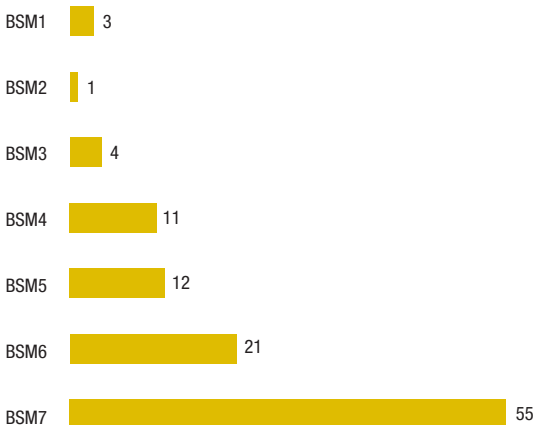
(n=2001)



BUSINESS OWNER TRAINING

%

(n=2001)



- Of all small business owners only 12.5% have had any specific business training
- Of the 12.5% that have received specific business training, “business management” and “how to start up your business” are the most common form of training received

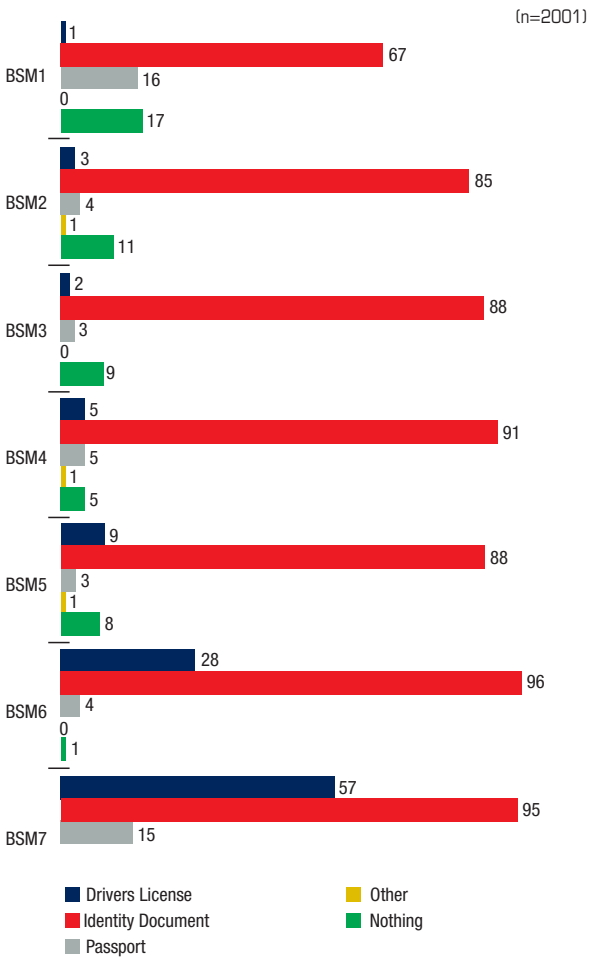
12.5% – specific training received

Business management	34
How to start up your business	32
Technical training – specific to goods/services being provided	30
Financial management (Accounting/book keeping)	27
Computer related training	27
How to market your business	21
Financial systems	15
Productivity improvement	15
How to write a business plan	14
Human Resources management	10
Tender training	10
Traditional healer	3

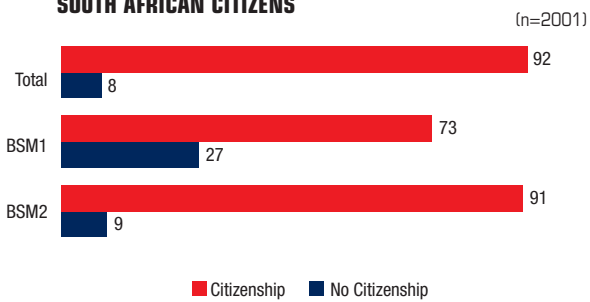
CITIZENSHIP

- 8% of the total market claimed to not be South African citizens
- 27% of BSM 1 claimed to be non-South Africans
- Only 67% of BSM 1 have an ID document

IDENTITY DOCUMENTS



SOUTH AFRICAN CITIZENS



Considerations – Economic and social contributions

With one in six adults in Gauteng engaged in small business activity, supporting small businesses should clearly be a policy priority.

A small proportion of small businesses are likely to be engines of employment creation. Only registered businesses (around 180 000 by number) are likely to be employers, employing on average five people each. Given Gauteng's importance to South Africa's economy, this is a critically important segment whose needs should be carefully analysed.

Special focus should be on the needs and characteristics of the 200 000 businesses in BSM 5 and 6, the "zone of transition", where businesses move from sole trader status into employment-generating entities of greater sophistication. This is also where business owners start to say they would not prefer a job in the formal sector but would rather stay with their businesses.

Many more small businesses are engaged in business to make ends meet. While half of small businesses make between R1 300 and R2 000 per month, a fifth of all small businesses are making between R750 and R900 per month. Life for these "breadline businesses" must be considered to be precarious in the extreme. Very few of these business owners also receive a social grant.

Comparing FinScope Small Business with FinScope SA 2005 and 2006, it is possible to speculate that there has been a significant upswing in the number of small businesses between 2005 and 2006 – perhaps by as many as 200 000.

Immigrants may well account for a significant proportion of these.

Non-South African (SA) individuals are responsible for 88 000 of Gauteng's small businesses (of which 66 000 are trading businesses). It is likely that this number is much higher as respondents may not have wanted to disclose their non-SA status. This poses a challenge for government, with the need to balance economic interests and the protection of citizens interests.

Although trading businesses (i.e. sale of goods) account for almost two-thirds of all small businesses in Gauteng, there are also 10 times more services businesses than manufacturing businesses. The question is whether this is a function of the structure of Gauteng's economy, with its high numbers of established larger businesses and salaried employees requiring services, or because manufacturing businesses typically need more start-up capital and this has not been available.

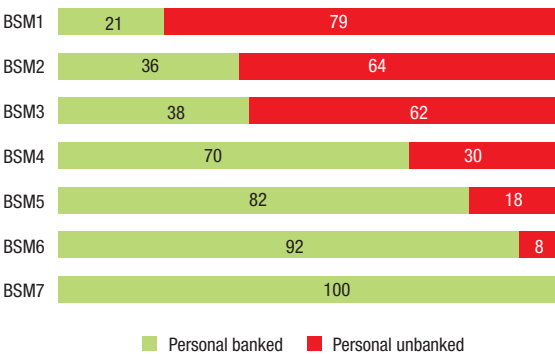
Access to Finance

- Access to finance remains one of the most critical hindrances to the further development of the informal sector
- Broad-based economic growth and poverty reduction lies in offering diversity in the financial system rather than offering traditional formal banking only
- Currently, banks are servicing the upper sector of the small business market only with a wide variety of products. The lower end of the market is only using a savings product
- Business owners are looking for financial services that are conveniently located and are prepared to bank with whoever will accept them
- The incidence of loans and borrowing from the formal financial sector is low
- Family and friends are the main source of financial borrowing
- Most small businesses claim to require a minimal amount of money for start-up. This start-up capital does not come from the formal financial sector

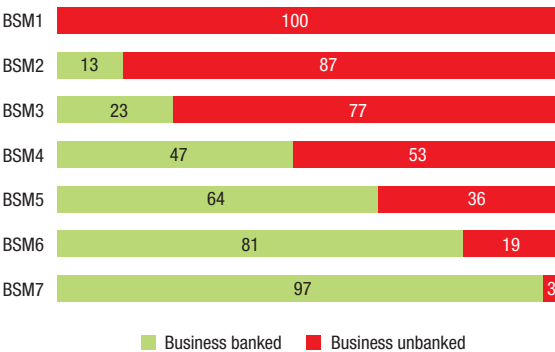
BANKING STATUS

- The survey shows that the lower BSM segments starting from BSM 1 are able to open personal bank accounts – this is usually a savings account
- Business accounts are only really significantly in evidence from BSM 5 and above

% PERSONAL BANK ACCOUNT (n=629)

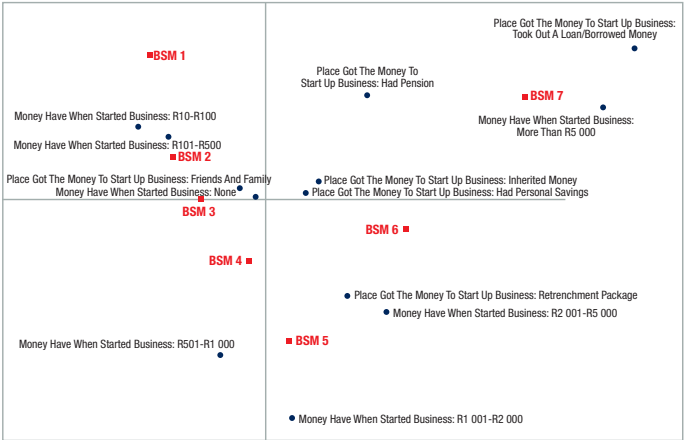


% BUSINESS BANK ACCOUNT (n=629)



MONEY REQUIRED TO START A BUSINESS

- BSM 7 usually obtains the money to start a business (R5 000 or more) from loans, a pension, inheritance or from personal savings
- BSM 1 and 2 require under R500 to start the business and either don't have the money or borrow from friends and family
- BSM 6 tend to get the money from retrenchment packages, suggesting that they have worked in companies prior to retrenchment and are now starting out on their own



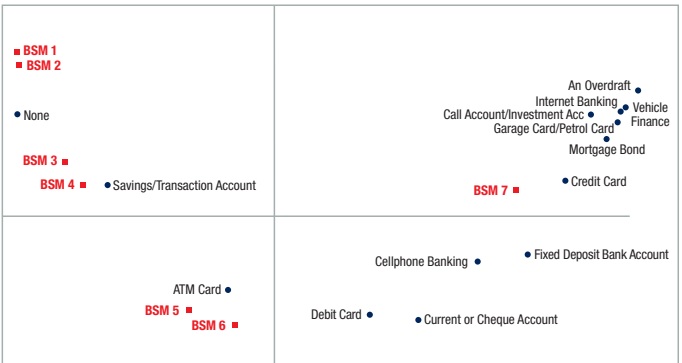
- BSM segments
- Reason to start a business

Dimensions: 1 by 2

Shown 92%

Refer to website for a larger version of this chart

BANK PRODUCTS BY BSM



- BSM segments
- Bank products used in business

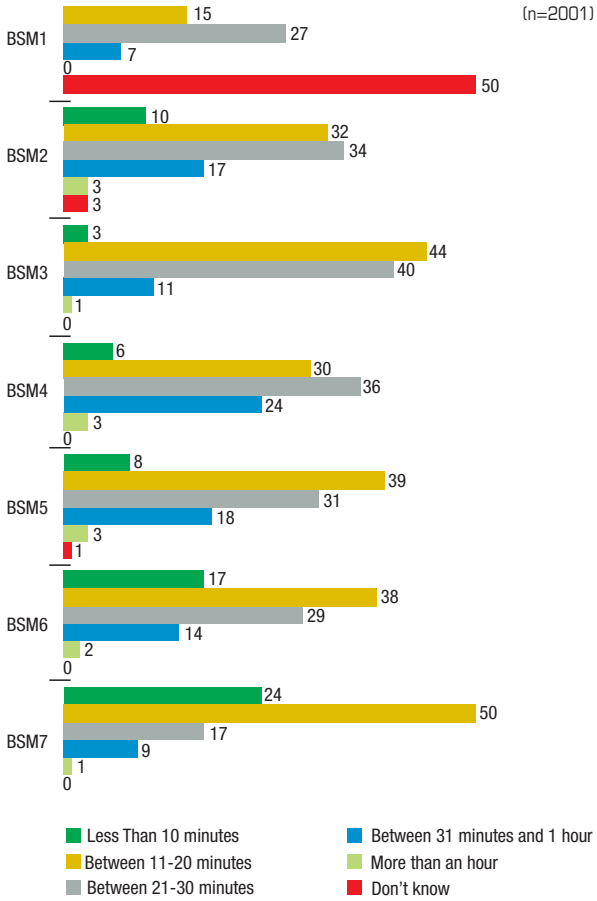
Dimensions: 1 by 2

Shown 96%

Refer to website for a larger version of this chart

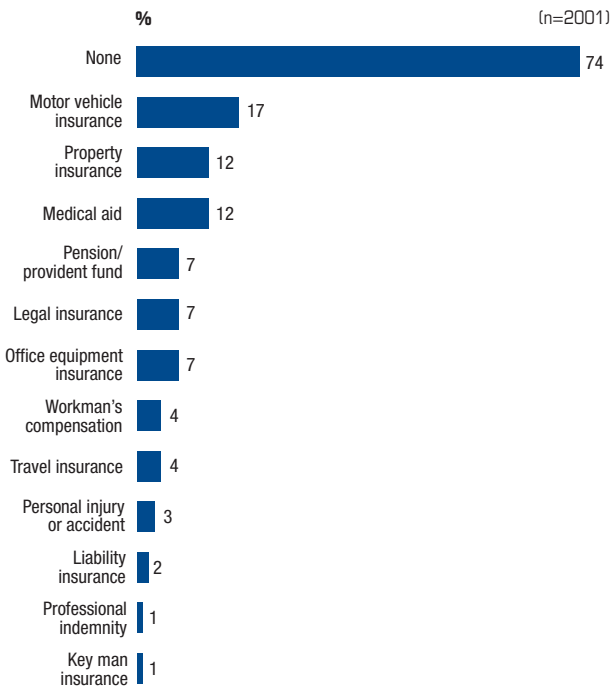
TIME TAKEN TO GET TO BANK

- The higher end businesses – BSM 6 and 7 take on average between 10 and 20 minutes to the bank
- The lower and middle category BSM segments claim to take longer to get to the bank



INSURANCE

- Outside of BSM 7, there is little evidence of insurance product usage



ACCESS TO FINANCE

- The average monthly cost to travel to the bank is R34. Ironically it costs the informal sector of the small business market more than the more formal businesses

BSM 1

- Do banking personally
- Travel to bank by taxi
- Travel over an hour to bank
- Reason for selecting current bank: its advertising and convenient location
- Don't need a specific business account – use personal account
- Currently receive communication from bank in branch – would prefer telephonic communication in the future

BSM 2

- Travel between 30 minutes to 1 hour to bank
- Biggest reason for no business account is “I don't qualify”
- Small penetration of business account – Post Bank
- Reason for selecting current bank: “they are prepared to open an account for me”

BSM 3

- Travel to the bank by taxi or walk
- Bank monthly
- Reasons for selecting current bank: recommended by a friend
- Reason for no business bank account: “my income isn't high enough”

BSM 4

- Travel to bank by taxi
- Go to branch approximately twice a month
- Get statements at the branch
- No business bank account – income is irregular
- Selected current bank because of its advertising
- Current communication by bank is in branch

BSM 5

- Travel to bank by taxi
- Use branch for inter-account transfers, for payments to somebody else and to get balance statements
- Bank currently communicates by cellphone

BSM 6

- Go to the bank in own car or company car
- Travels less than 10 minutes to the bank
- Current or Cheque account usage
- Cheque deposits at ATM
- Bank currently communicates by cellphone
- Can bank daily
- Main reason for selecting business bank is because business owner has used it previously

BSM 7

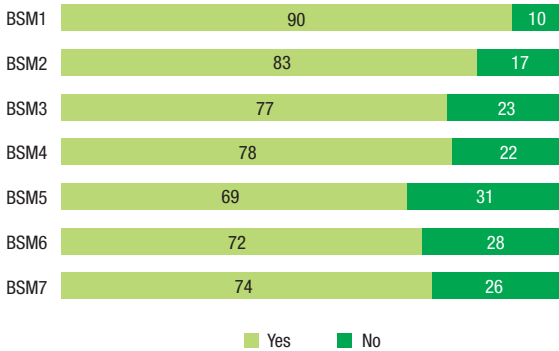
- Travel to bank in own car
- Takes less than 10 minutes
- Go to the bank weekly
- Would like bank to communicate with them by e-mail in the future
- Have a business loan, credit card and overdraft facility
- Internet banking used for balance enquiries, statements and payments to another person

(n=976)

SOURCE OF INCOME

- Sources of income other than from own business:
61% derive it from a salary
12% from government pensions
10% from child grants and
5% from investment
- Lower BSM segments depend on Government pension payouts whilst investment payouts are used in BSM 7 for additional income

% BUSINESS ONLY SOURCE OF INCOME (n=2001)



EXPERIENCES WITH BANKS

BSM 1

- Hard to open a bank account
- Manage fine without a bank account

BSM 2

- Hard to open a bank account
- Like to switch bank accounts but not sure if I'd be accepted

BSM 3

- Manage fine without a bank account

BSM 4

- Banks give you too much credit and get you into financial trouble
- Banks are not understanding if you cannot make your repayments

BSM 5

- I have a good relationship with people at my bank and they are very helpful
- When I need help about financial or business matters I usually ask my bank

BSM 6

- When I need help about financial or business matters I usually ask my bank
- I have a good relationship with people at my bank and they are very helpful
- Have products and services for people like me

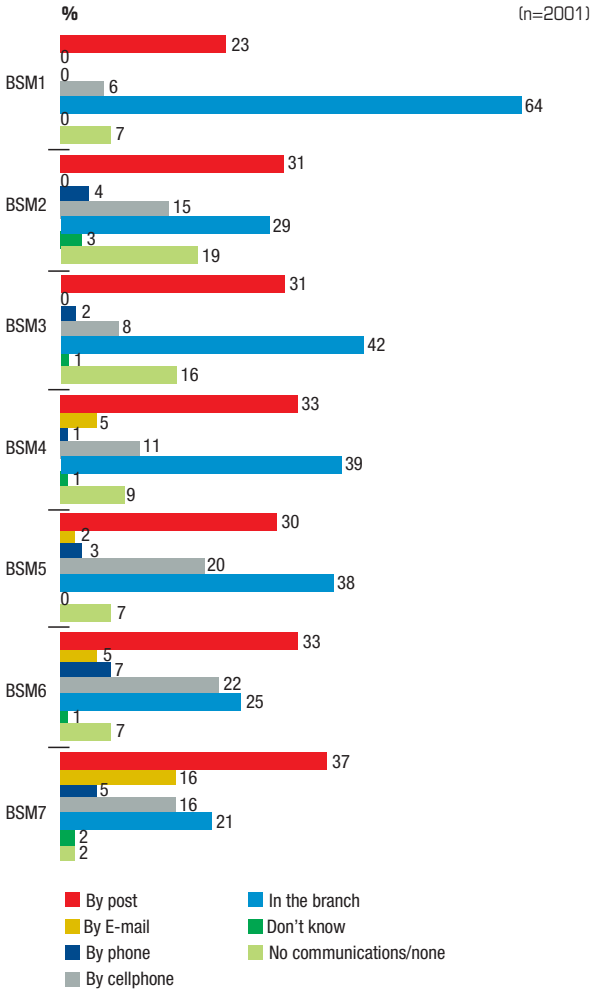
BSM 7

- Have products and services for people like me
- When I need help about financial or business matters I usually ask my bank
- Bank charges are very high
- I have a good relationship with people at my bank and they are very helpful

(n=2001)

COMMUNICATION WITH BANKS

- The lower BSM segments don't have much communication with their bank but when they do they prefer to go to the branch
- E-mail and mobile phone communication occurs in BSM 5 and above
- Overall the two most commonly used methods of communicating with banks are by mail and in the branch

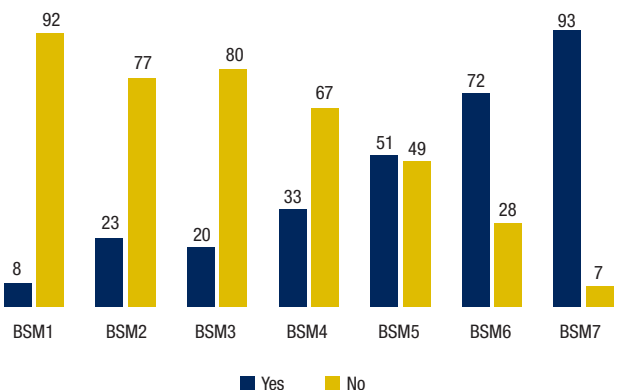


KEEPING FINANCIAL RECORDS

- Financial institutions rely on their ability to assess a business from financial records prior to granting access to financial products
- Despite their relative sophistication, a surprising number of businesses in BSM 5 and 6 do not keep financial records

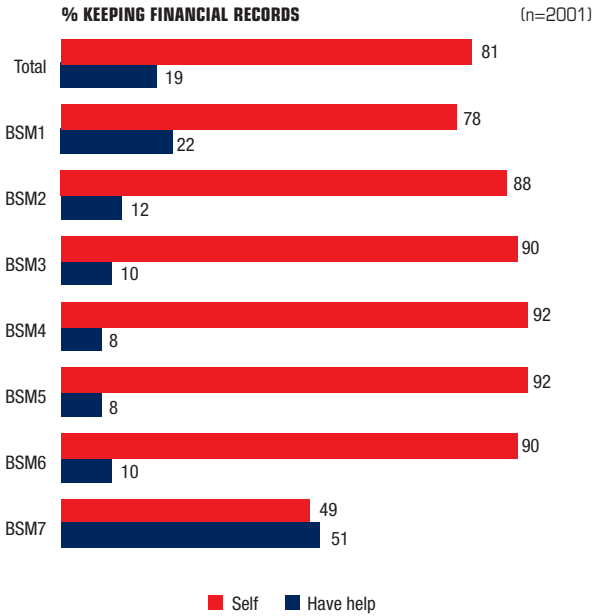
% KEEPING FINANCIAL RECORDS

(n=2001)



KEEPING FINANCIAL RECORDS

- Where financial records are kept, business owners maintain financial records themselves
- Only in BSM 7 do businesses have outside help for record keeping



Considerations – Access to finance

Credit extension to Gauteng's small businesses is extremely low – so low, in fact, that it raises questions about whether the banks will achieve their commitments under the Financial Sector Charter.

While accessing credit is unlikely to be the primary requirement for most small businesses, only 27% of unbanked small businesses claim that they do not need a bank at all.

The desire for banking services is therefore real for most small businesses and a relationship based on a range of basic banking products (cash deposits, balance enquiries, account payments to suppliers etc) could lead to credit extension in the future.

The need for capital is again cited as a primary constraint, even among trading businesses whose capital requirements are very low.

This can be read in a number of ways:

- Businesses are undercapitalised from the start and cannot support debt
- Small business owners are making a rational choice and not seeking bank debt or
- Banks are being too restrictive in their lending policies.

Although about 120 000 small business said they needed start-up capital of more than R5 000, most small businesses said they needed much less. These very small sums suggest that the provision of capital through formal sources (such as banks or venture capital) may not be an appropriate focus. Only 2% said they took out a loan to start their business.

Government should rather seek to stimulate the supply of capital from friends and family (easily the biggest source of start-up capital after own savings).

Tax incentives could boost the number of new businesses formed and also the type of businesses, perhaps skew investment towards more substantive (and employment generative) businesses.

It is noteworthy that the percentage of small business people who are unbanked in Gauteng is higher than the percentage of unbanked individuals in Gauteng.

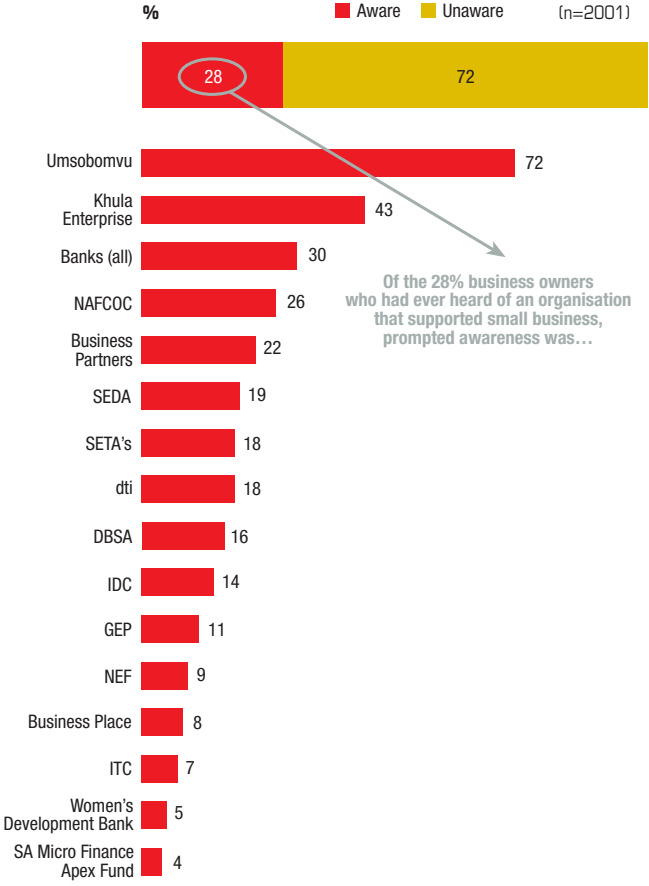
Why is this, when the needs of even basic small businesses are likely to be more complex than the needs of many individuals? The opportunity for banks is surely that, even if small business people are simply embraced as individual banking clients, they are likely to be more profitable as they will transact more.

Attitudes to banks are generally positive suggesting a potentially favourable market environment for appropriately structured services. Generally, small business owners consider that it is not difficult to open a bank account and that they have a good relationship with their bank. Only a third consider bank charges to be "very high".

Attitudes to technology are contradictory. There is a marked preference to communicate with the bank using a cellphone, but there is also a relatively high use at present of bank branches, even for balance enquiries.

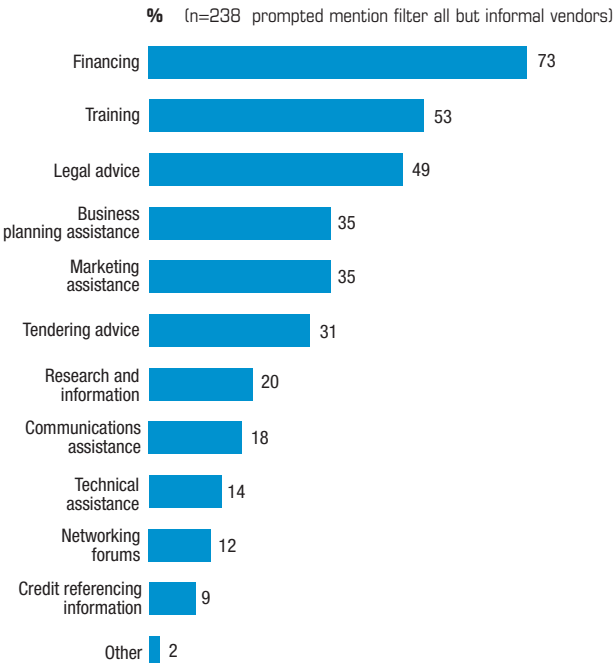
Government Interventions and support initiatives

INTERVENTION – AWARENESS OF SUPPORT ORGANISATIONS



PRODUCT AND SERVICE AWARENESS

- Only businesses in BSM6 and BSM7 have utilised some form of business support

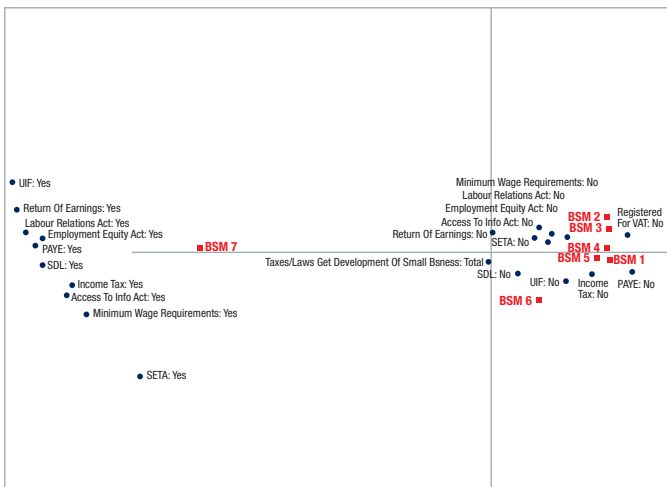


REACH OF SUPPORT INITIATIVES

- The impact of education and training is substantial – with the success and growth potential dependent on these factors. Government interventions and support initiatives need to include skills development – not only of the technical and managerial requirements of running a successful business, but also for developing an entrepreneurial mindset which is willing to take appropriate business risks to deliver business growth
- A significant number of business owners have taught themselves their current skills set – compounding the likelihood of business failure and also stressing the need for effective appropriate support, development and training of business owners and operators

REGULATORY COMPLIANCE

- Generally it is only BSM 7 firms that comply with any regulations



- BSM segments
- Compliance

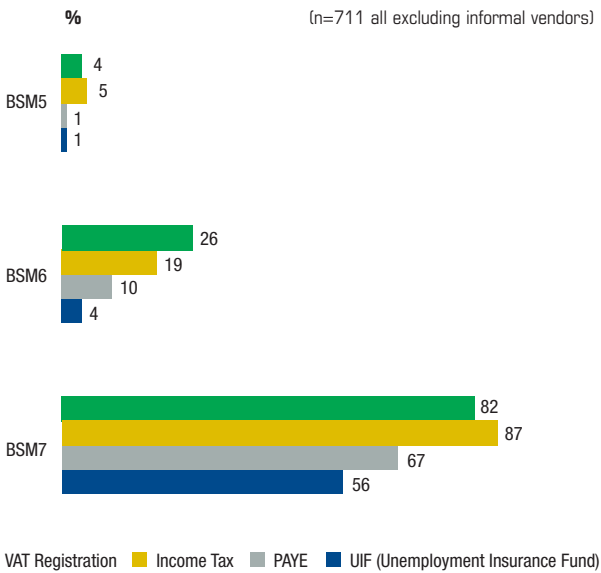
Dimensions: 1 by 2

Shown 100%

Refer to website for a larger version of this chart

REGULATORY COMPLIANCE

- VAT registration starts in BSM 5
- Not having time and the “business is too small” are the primary reasons cited for non-compliance



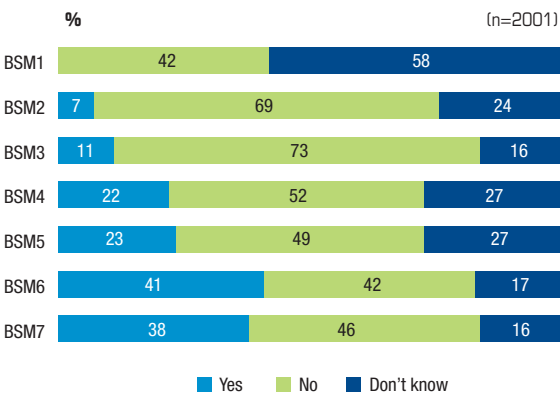
Ways in which regulations hinder business development

Costs are too high	67%
Process is lengthy	20%
Forms are complicated	12%
Too time consuming	10%
Too much control of business	19%
Other	2%

(n=711 all excluding informal vendors)

2010

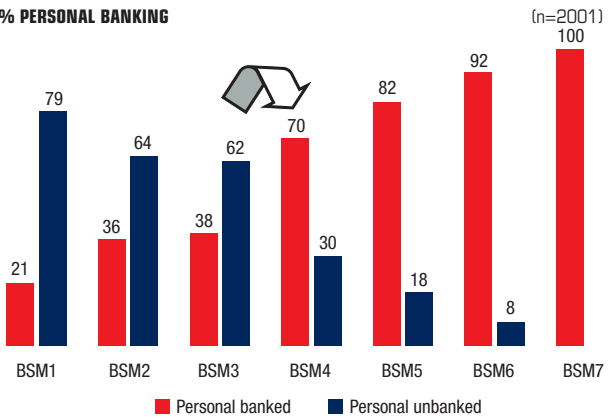
- Only 27% of small businesses have plans for how to take advantage of the 2010 opportunity. The more informal business see this simply as an opportunity to sell their wares around stadiums whereas the more sophisticated are approaching the opportunity with a variety of strategies



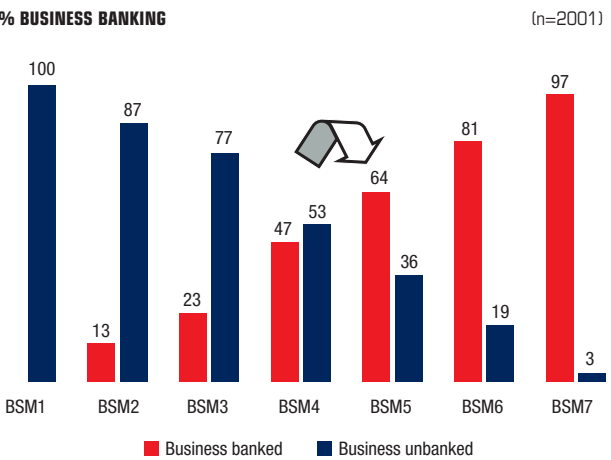
Zone of transition

- The zone of transition is an analytical concept developed to assist in interpreting data on human behaviour along any given continuum. The zone is not necessarily a static point for all human behaviour in any given market segment. The zone of transition for access to finance for small traders might be in BSM 4 while the zone of transition for cellphone ownership might be in BSM 2 or 3
- Examples from the study indicate that the zone of transition for personal banking is in BSM 3 to 4, whereas for Business banking it is in BSM 4 to 5. This understanding enables policy makers and service providers to home in on areas where the greatest impact can be made most rapidly

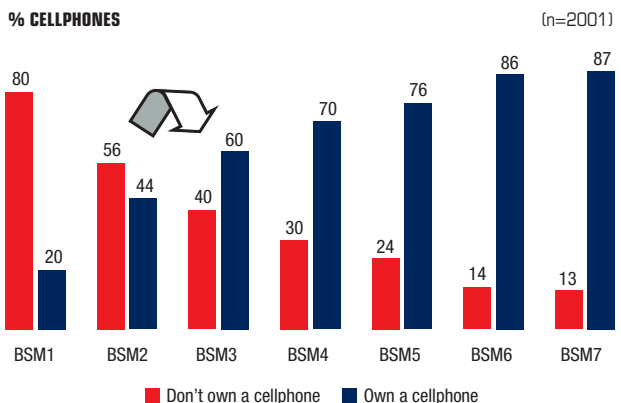
% PERSONAL BANKING



% BUSINESS BANKING



% CELLPHONES



- The zone of transition from not having a cellphone to ownership of a phone is in BSM 2 to 3

BSM CHARACTERISTICS

In overall terms, the study tends to show that the zone of transition for many of the variables lies around BSM 5 and 6. This is the point at which enterprises are likely to become more formal, be compliant and move from sole operators to employment generating entities

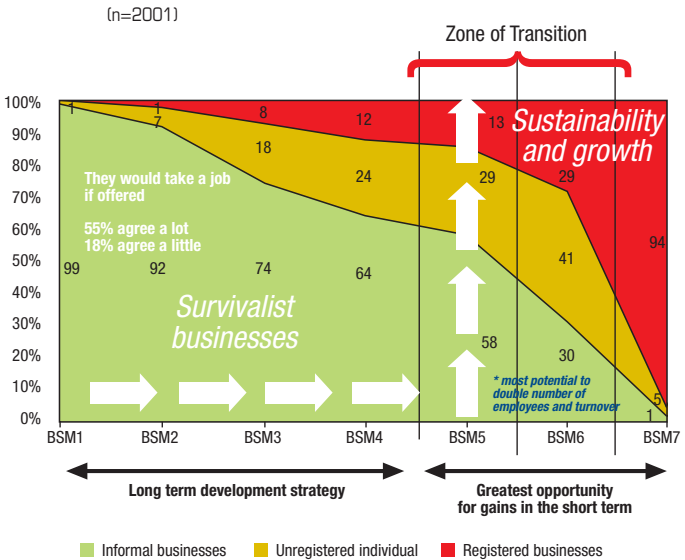
	BSM 1	BSM 2	BSM 3	BSM 4
Owner age profile	16 – 24 years 20% 25 – 34 years 49%	16 – 24 years 17% 25 – 34 years 49%	16 – 24 years 16% 25 – 34 years 40%	35 – 49 years 37% 50+ years 21%
Education	Some primary 4% Some high school 61%	Primary complete 15% Some high school 49%	Some primary 9% Some high school 50%	Some high school 43% Matric 30%
Gender	Male 60% Female 40%	Male 56% Female 44%	Male 58% Female 42%	Male 54% Female 46%
Employees	Mean 0.1	Mean 0.14	Mean 0.23	Mean 0.47
Annual Average Turnover	R9 113	R10 723	R16 793	R24 710
Location	Informal area 35% CBD 15%	Informal area 46%	Informal 33% Township 49% Hostel 8%	Township 61%
Previous work experience	None 64% 1 year 0% 2 years 11% 5 years 0% 10 years 0% 10+ years 36%	None 52% 1 year 0% 2 years 12% 5 years 0% 10 years 0% 10+ years 44%	None 48% 1 year 0% 2 years 6% 5 years 0% 10 years 0% 10+ years 47%	None 41% 1 year 0% 2 years 0% 5 years 0% 10 years 0% 10+ years 54%
Longevity	< 1 year 27% 3-4 years 18%	< 1 year 31% 3-4 years 22%	< 1 year 17% 10+ years 18%	3-4 years 17%
Sector	Trade 89%	Trade 84% Service 14%	Trade 80% Service 13%	Trade 65% Service 18% Landlord 4%
Skills	Self taught 91% Family 7%	Self taught 80% Family 13% Previous job 3%	Self taught 76% Family 14% Previous job 6%	Self taught 72% Previous job 9% At school 3%
Citizenship	Not SA citizen 27%	Not SA citizen 9%	SA citizen 94%	SA citizen 94%
Facilities	No ownership of items in the business 79% Running water 2%	Running water 27% Electricity 18%	Running water 75% Outside toilet 61%	Running water inside 42% Electricity 86%
Legal status/Registration	Traders 99% Unregistered individuals 1%	Traders 92% Unregistered individuals 7%	Traders 74% Unregistered individuals 18%	Traders 64% Unregistered individuals 24%
Premises	Own 6% Rent 4% Use 89%	Own 37% Rent 5% Use 51%	Own 59% Rent 13% Use 25%	Own 70% Rent 21% Use 8%
Business technology	Own a cellphone 20%	Own a cellphone 44%	Own a cellphone 60%	Own a cellphone 70%
Transport	0%	0%	0%	Company car 2%
Planning	0%	0%	Budget 4% Marketing plan 1%	Budget 8%
FINANCE				
Personal	Personal bank 21% Unbanked 79%	Personal bank 36% Unbanked 64%	Personal bank 38% Unbanked 62%	Personal bank 70% Unbanked 30%
Business	Business bank 0% Unbanked 100%	Business bank 13% Unbanked 87%	Business bank 23% Unbanked 77%	Business bank 47% Unbanked 53%
Business Transactions	Transaction/savings account 100%	Transaction/savings account 90%	Transaction/savings account 91%	Transaction/savings account 92%

Zone of Transition

	BSM 5	BSM 6	BSM 7
Owner age profile	35 – 49 years 34% 50+ years 20%	35 – 49 years 39% 50+ years 24%	35 – 49 years 40% 50+ years 29%
Education	Matric 33%	Matric 38% Post matric Qualification 21% Post graduate degree 4%	Matric 29% Post matric qualification 48% Post graduate degree 5% Bachelors degree 8%
Gender	Male 53% Female 47%	Male 55% Female 45%	Male 61% Female 39%
Employees	Mean 0.85	Mean 1.78	Mean 8.88
Annual Average Turnover	R27 841	R66 597	R463 747
Location	Township 60% CBD 12%	Township 42% Suburbs 48% Small Holding 6%	Township 13% CBD 19% Suburbs 61% Small Holding 12%
Previous experience	None 33% 1 year 9% 2 years 0% 5 years 0% 10 years 0% 10+ years 62%	None 29% 1 year 9% 2 years 4% 5 years 10% 10 years 8% 10+ years 63%	None 14% 1 year 0% 2 years 0% 5 years 0% 10 years 0% 10+ years 77%
Longevity	5-6 years 14% 10+ years 12%	5-6 years 13% 10+ years 14%	5-6 years 16% 10+ years 18%
Sector	Trade 66% Service 14% Landlord 4% Construction 5%	Trade 43% Service 30% Construction 9% Manufacturing 7%	Trade 19% Service 36% Construction 12% Professional practice 15%
Skills	Self taught 61% Family 8% Previous job 19% At school 6%	Self taught 46% Family 13% Previous job 18% Training prog 17% Mentor/advisor 3%	Self taught 26% Family 16% Previous job 39% Training prog 29% University 16%
Citizenship	Not SA citizen 10%	SA Citizen 98%	SA Citizen 97%
Facilities	Run water 81% Electricity 93% Geyser 45% Kitchen 73% Storeroom 2%	Running water 77% Electricity 94% Storeroom 54%	Run water 73% Electricity 92% Security systems 46% Reception 27%
Legal status/Registration	Traders 58% Unregistered individuals 29% Sole prop 10%	Traders 30% Unregistered individual 41% Sole Prop 15%	Traders 1% Unregistered individual 5% Close Corporation 52% Partnerships 15%
Premises	Own 64% Rent 26% Use 10%	Own 68% Rent 22% Use 8%	Own 55% Rent 33% Use 11%
Business technology	Own a cellphone 76% Landline 27%	Own a cellphone 86% Landline 46% Computers 24%	Computers 77% E-mail/internet 58% Website 20% Photostat machine 50% Fax machine 55% Credit card machine 23%
Transport	Company car 11%	Company car 27%	Company car 49%
Planning	Budget 14% Written plan 2% Strategy 4% Mission 1%	Budget 27% Financial records 10% Written plan 10% Marketing plan 6% Strategy 10% Mission 2%	Budget 57% Financial records 47% Written plan 30% Marketing plan 36% Strategy 30% Mission 19%
FINANCE			
Personal	Personal Bank 82% Unbanked 18%	Personal Bank 92% Unbanked 8%	Personal Bank 100% Unbanked 0%
Business	Business Bank 64% Unbanked 36%	Business Bank 81% Unbanked 19%	Business Bank 97% Unbanked 3%
Business Transactions	ATM 30% Cellphone Banking 5% Debit card 11% Current or cheque account 21%	Current or cheque Account 29% ATM card 35% Debit card 13% Fixed deposit account 5%	Internet 37% Credit card 38% Current/cheque acc 67% Overdraft 23% Garage card 21% Vehicle finance 19% Call/investment acc 16% Fixed deposit acc 16% Cellphone 17% Debit card 29% Mortgage 7% ATM card 43%

IMPLICATIONS OF THE TRANSITION ZONE

- Support for the lower BSM entities will require longer term strategies and significant resources, whilst the higher BSMs are likely to be adequately equipped and stimulated through shorter term initiatives. Undoubtedly all will benefit from a supportive regulatory environment



EFFECTING A CHANGE IN SMALL BUSINESS EVOLUTION AND DEVELOPMENT

- Black owned and women owned businesses are currently not able to capitalise on opportunities in the broader economy – they tend to exist on the fringe of what has been labelled the first economy – substantial initiatives will be required to effect a change for these entities
- Government procurement initiatives could be linked with support services or partnerships between big and small business. A strategy of firm linkages could assist small business in “learning by doing” and “learning whilst earning”
- Business skills need to be included in the educational curriculum to assist in changing the levels of perceived entrepreneurial opportunity. A combination of both motivation and skills is required to take effective advantage of business opportunities
- Although an entrepreneurial mindset cannot be learned, education could play a role in developing a mindset that is not averse to competition and risk-taking
- Radical innovations are required from policy makers and financial service providers to develop a beneficial environment and increase the impetus for small business
 - Free SMSs for balance enquiries
 - Tax incentives for private individuals to invest in small businesses
 - A special permit that allows non-SA residents access to financial services
 - A basic insurance product to accompany a transaction account for small business to provide some form of safety net

Considerations – Government policy and interventions

Government support mechanisms are being used by only 8% of small businesses, with Umsobomvu far and away the market leader in providing business support. Given the widespread desire for business development services (BDS), there is a need to reflect on how to make the delivery mechanisms for BDS more effective. For example, what is different in Umsobomvu's approach that makes it more successful?

With a quarter of small businesses reporting crime and theft as a problem, government needs to make business locations safer. Initiatives that allow traders to bank the day's takings in the same secure environment might be worth exploring.

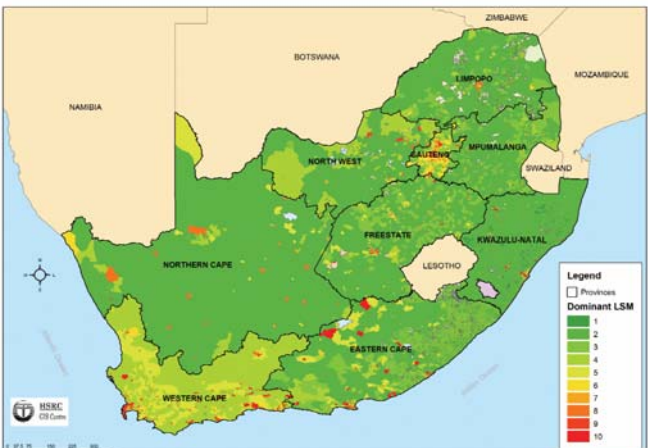
Black Economic Empowerment (BEE) awareness is extremely low. Government agencies seeking to promote BEE initiatives, for example, through procurement contracts, will want to reflect on how to communicate the BEE message more effectively – for example, through cellphones.

69% of small businesses operate from home (including garage, back room or rented accommodation). Government support for home-based businesses specifically (including the lifting of restrictions on the use of residential environments for business purposes) is paramount.

As VAT registration applies only to a small number of businesses (BSM 5 and above), the government's easing of the tax and regulatory burden on small businesses should be accelerated.

Spatial power

The survey findings will be spatially mapped by FinMark Trust in early 2007. The spatial database will provide insightful views of the market locations and inherent challenges, just as the mapping of the FinScope FSM continuum has highlighted the appetite for financial products across South Africa.



The way forward.....

This brochure depicts only a snapshot of the survey findings. Further data analysis is recommended and can be arranged at the request of users. The dataset is available free of charge from GEP or FinMark Trust.

Details of organisations who can assist in analysis and interpretation, are available on the FinMark website.

The BSM and psychographic segmentation models are to be developed further. We invite constructive input towards the enhancement of these; comments can be directed to the FinMark Trust website.

Should sufficient interest be generated from the pilot survey findings and segmentation models, it is possible that the FinScope Small Business survey could be conducted nationally. Interested parties are requested to kindly advise FinMark Trust of any specific focus areas to be considered for that study.

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