

Wholesale & Retail

LEADERSHIP CHAIR



*"Collaboration opens the window
to a world of opportunities."*

Informal and SMME Retailers in South Africa

Project 2014-02

Mlenga Jere

University of Cape Town
Graduate School of Business
mlenga.jere@gsb.uct.ac.za

Albertina Jere

Cape Peninsula University of Technology
Department of Retail Business Management
jerea@cput.ac.za

Jonathan Aspeling

Cape Peninsula University of Technology
Department of Retail Business Management
aspelingj@cput.ac.za

APPLIED RESEARCH
LEADERSHIP DEVELOPMENT
SERVICE TO RETAIL COMMUNITY

Informal and SMME Retailers in South Africa

Prepared by:

Lead researcher

Mlenga Jere

University of Cape Town
Graduate School of Business
mlenga.jere@gsb.uct.ac.za

Research team

Albertina Jere

Cape Peninsula University of Technology
Department of Retail Business Management
jerea@cput.ac.za

Jonathan Aspeling

Cape Peninsula University of Technology
Department of Retail Business Management
aspelingj@cput.ac.za

15 December 2014

Wholesale and Retail Leadership Chair
Cape Peninsula University of Technology
Cape Town

Copyright, Cape Peninsula University of Technology. 2014.

No part of this report may be published in part or in whole, reproduced, stored in a retrieval system, or transmitted, in any form or by any means, unless permission has been obtained from Cape Peninsula University of Technology.

All reasonable care has been taken in collecting data and in the resultant interpretation of this data. Cape Peninsula University of Technology, the Wholesale & Retail Leadership Chair, and the author(s)/editor cannot accept any liability for any direct or indirect loss that might result because of unintentional errors or omissions in the data and interpretation thereof.

The opinions and conclusions in this report are those of the author/s and the W&R Leadership Chair, and are not necessarily those of Cape Peninsula University of Technology.

ISBN

978-0-9946545-4-0 (Electronic)

978-0-9946545-5-7 (Print)

This report is available online at: www.wrhc.org.za

TABLE OF CONTENTS

TABLE OF CONTENTS	iii
LIST OF TABLES	v
LIST OF FIGURES	vi
LIST OF APPENDICES	vii
EXECUTIVE SUMMARY	viii
CHAPTER 1: INTRODUCTION	1
1.1 INTRODUCTION	1
1.2 REPORT STRUCTURE	2
CHAPTER 2: LITERATURE REVIEW	4
2.1 INTERNATIONAL TRENDS	4
2.1.1 Role of retail SMMEs	5
2.1.2 Challenges facing retail SMMEs	6
2.1.3 How small businesses are responding to the challenges	8
2.2 SMALL BUSINESSES IN SOUTH AFRICA	10
2.3 INFORMAL BUSINESSES IN SOUTH AFRICA	11
2.4 GEOGRAPHICAL DISTRIBUTION OF SMALL BUSINESSES	15
2.5 CONTRIBUTION OF INFORMAL AND SMME BUSINESSES	15
2.6 FACTORS THAT INFLUENCE START-UP, SURVIVAL, AND GROWTH	17
2.6.1 The role of entrepreneurship in business development	20
2.6.2 Success factors and challenges in the retailing environment	21
2.6.3 A value chain perspective to the SMME challenges	24
2.7 CONCLUSION	25
CHAPTER 3: METHODOLOGY	27
3.1 RESEARCH TYPE	27
3.2 SAMPLING (DATA SOURCES)	27
3.3 THE RESEARCH INSTRUMENT AND DATA COLLECTION	27
3.4 DATA ANALYSIS	27
3.5 VALIDITY AND RELIABILITY	28
3.6 CONCLUSION	29

CHAPTER 4: FINDINGS AND DISCUSSION	30
4.1 INTRODUCTION	30
4.2 IMPEDIMENTS AND ENABLERS	30
4.2.1 Stakeholder perceptions	30
4.2.2 Trader perceptions	33
4.2.3 A comparison of stakeholder and trader perceptions	37
4.3 VALUE CHAIN BOTTLENECKS AND OPPORTUNITIES	39
4.3.1 Stakeholder perceptions	39
4.3.2 Trader perceptions	39
4.4 SUPPORTING THE INFORMAL TRADERS	40
4.4.1 Stakeholder perceptions	40
4.4.2 Trader perceptions	41
4.5 INFORMAL AND SMME BUSINESSES IN RETAILING	41
4.6 INTERNATIONAL TRENDS	41
4.6.1 Stakeholder perceptions	41
4.6.2 Trader perceptions	42
4.7 CONCLUSION	42
CHAPTER 5: CONCLUSION AND RECOMMENDATIONS	44
REFERENCES	49

LIST OF TABLES

Table 1: World Bank SMME definition	4
Table 2: Environmental factors affecting SMMEs	6
Table 3: General classification of retail small businesses	10
Table 4: Nature of small businesses	11
Table 5: Small business size and contribution to employment	16
Table 6: Impediments and enablers of SMME and informal businesses	18
Table 7: Determinants of SMME and informal businesses success	20
Table 8: List of entrepreneurial actions that affect growth of businesses	21
Table 9: Profile of the trader participants	33
Table 10: Value chain bottlenecks and opportunities according to traders	40
Table 11: Supporting the informal sector according to stakeholders	41
Table 12: Findings and recommendations	48

LIST OF FIGURES

Figure 1: Informal sector contribution to GDP	12
Figure 2: Geographical distribution of small business owners	15
Figure 3: Retail landscape	22
Figure 4: External impediments (threats)	31
Figure 5: Internal impediments (threats)	32
Figure 6: External enablers (opportunities)	33
Figure 7: External impediments (threats)	35
Figure 8: Internal impediments (weaknesses)	36
Figure 9: External enablers (opportunities)	36
Figure 10: Stakeholder and trader perceptions of external impediments (threats)	37
Figure 11: Stakeholder and trader perceptions of internal impediments (weaknesses)	38
Figure 12: Stakeholder and trader perceptions of external enablers (opportunities)	38
Figure 13: Value chain bottlenecks and opportunities according to stakeholders	39
Figure 14: International trends	42

LIST OF APPENDICES

Appendix 1: Research instrument	54
Appendix 2: Thematic framework: Stakeholder participants	58
Appendix 3: Thematic framework: Trader participants	59
Appendix 4: Letter of information and consent	61
Appendix 5: Ethics approval	62

EXECUTIVE SUMMARY

The subject of small business development continues to receive attention from both practitioners and researchers because it is acknowledged that they play an important role in priority areas such as employment creation and poverty alleviation. However, despite the support extended to the small business sector in South Africa, the growth and survival rates of small businesses are lower than expected. This report investigates the factors that impact on the start-up, survival, and growth of small businesses. It focuses on small and informal businesses involved in retail activities. It is estimated that about 79% of small businesses in both the formal and informal sectors involve an element of retailing.

A qualitative research design using semi-structured interviews was employed for data collection from samples of stakeholders (i.e., managers from institutions involved in small business development) and traders. Framework analysis was used to analyse both sets of data. Based on the four criteria of trustworthiness, the study's validity and reliability were acceptable.

The findings show that both the stakeholders and traders consider the lack of support and funding as the major external impediments to the growth of small businesses but had different perceptions regarding customer demands, lack of shelter and facilities, lack of access to markets, and the business registration process. The two groups shared the same view on internal impediments. Though the two groups identified skills as the main internal enabler of small business development, there was no commonality regarding external enablers.

To address the main external and internal impediments, recommendations relating to skills development, shelter and service provision, business development resources, mentorship programmes, collaboration, funding, and business registration are presented.

CHAPTER 1 INTRODUCTION

1.1 INTRODUCTION

According to Jones (2013) in the South African *Financial Mail* (13 June 2013), despite the many support programmes (e.g., dedicated government agencies, funding, training, and private sector involvement), the growth and survival rates of small businesses in South Africa are lower than expected. Research suggests that 70-80% of small business start-ups fail in their first year (Nobel, 2011; Ligthelm & Cant, 2003). Even so, the National Development Plan suggests that about 90% of jobs in South Africa could come from the small, micro and medium enterprises (SMMEs) by 2030 (SMME, SME, small business, and small enterprise are used interchangeably). The *Financial Mail* article goes further to offer a number of reasons that could account for the poor state of affairs regarding the growth and survival rates of small businesses in South Africa. These include the following:

- The needs of SMMEs are ignored
- Good programmes are working at a small scale for impact
- Resources are channelled to ineffectual programmes
- The high burden of compliance with both local and national regulations
- Rising costs
- Unfavourable labour laws
- Red tape
- Uncertainty regarding the supply of services
- Unfavourable economic conditions
- Poor access or lack of access to business advisory services and finance
- Uncoordinated SMME support programmes, and
- Lack of skills

The *Financial Mail* article demonstrates that the issue of SMME development is topical and important in South Africa. This report aims to take this discussion further by addressing the issue of SMMEs with a focus on informal and SMME retailers in South Africa. More specifically, the report seeks to:

- a) Define the nature, market size, contribution and characteristics of informal traders and SMMEs in the South African retail sector,
- b) Explore the contribution of informal traders and SMME's to job creation and GDP,
- c) Identify factors impacting on the start-up, survival and growth by analysing the external

and operational environment with specific reference to

- The legal environment,
- Support structures at all levels of government,
- Development constraints,
- Threats,
- Sustainability and skills, and
- Evaluating the SMME internal operational environments with specific reference to the value chain pertaining to this sector, and

d) Explore international trends relevant to the South African situation.

To realise the research objectives, a mixed methodology involving desktop research and qualitative interviews with participants from small business support institutions and from small business owners were employed. Desktop research covered South African and international journals, government documents and policy statements, and practitioner publications. Twenty six small business owners and eighteen individuals from the stakeholder institutions were interviewed. The samples employed in the study were purposive and influenced primarily by the participants' involvement in SMMEs and SMME development. The sample sizes of twenty six and eighteen participants for business owners and stakeholders are considered adequate for the purpose of this study for two reasons. Firstly, by the time the twenty sixth and eighteenth interviews were conducted, data saturation was evident in that additional data did not generate new findings on the subject under investigation (Glaser & Strauss, 1967). Secondly, the sample sizes are above the minimum recommended by Bertaux (1981:35) who suggests 15 as the minimum sample size in all qualitative research and Mason (2010) who recommends sample sizes ranging from 10 to 40.

1.2 REPORT STRUCTURE

This report is organised as follows. Chapter 1 is the introduction. Chapter 2 presents the literature review which is organised into six parts as follows:

- The first part looks at international trends in retailing; including the perceived role of retail SMMEs and informal traders, challenges facing retail SMMEs and informal traders, and factors relating to market concentration and competition. It also explores how SMMEs are responding to the challenges.
- The second part looks at small businesses in the South African context. In addition to definitions, this part also looks at the nature of business activities that small businesses are involved in.

- As some small businesses operate in the informal sector, the literature review also explores the informal business sector.
- In the fourth part of the report, the geographical distribution of small businesses in South Africa is presented.
- The nature, size, contribution, and characteristics of SMMEs and informal traders are presented in the fifth part of the report. In particular, the contribution of SMMEs to job creation and GDP is presented.
- Finally, the last part investigates the factors that influence the start-up, survival, and growth of SMMEs and informal traders (external and operating environment, support structures, internal operating environment). In investigating these factors, this section looks at the role of entrepreneurship in formal and informal small business development and success factors and challenges specific to the retailing environment. The chapter closes by exploring value chain bottlenecks and enablers faced by SMMEs and informal traders.

Chapter 3 describes the research methodology employed. Specifically, it describes the research type, sampling (data sources), the research instruments and data collection, and data analysis procedures. The chapter also addresses issues of research validity and reliability. Chapter 4 presents the findings. It starts with the participants' perceptions of internal and external impediments to, and enablers of, the start-up, survival, and growth of SMMEs and informal traders. Perceived value chain bottlenecks and opportunities and support for informal traders are also presented. The chapter ends with a section on international trends. Finally, chapter 5 presents the conclusion and recommendations.

CHAPTER 2 LITERATURE REVIEW

2.1 INTERNATIONAL TRENDS

Internationally, there is consensus on two things: that there is no universal definition of SMMEs and that a universal definition would not be relevant to the varying nature of SMMEs operating in different economies (Gibson & Van Der Vaart, 2008). Definitions differ in terms of the criteria used at national government level as well as at multilateral development institutional level. The most commonly used criteria in defining SMMEs are the number of full time workers employed, annual turnover, the value of the total net assets and the level of investment in the business (Ayyagari et al., 2007). The World Bank definition of SMMEs is presented in Table 1.

Table 1: World Bank SMME definition

	Employees, up to	Total assets, up to	Annual turnover, up to
Medium	300	\$15 000 000	\$15 000 000
Small	50	\$3 000 000	\$3 000 000
Micro	10	\$10 000	\$100 000

Source: Adapted from Ayyagari et al. (2007)

The differences in SMME definitions are said to be affected by business interests seeking to influence the official definition in order to benefit from small business support programmes (Gibson & van der Vaart, 2008). Consequently a country such as Switzerland with a higher per capita gross national income has a lower upper limit for number of employees compared to Vietnam which has a lower per capita gross national income (Gibson & van der Vaart, 2008).

Though there is no convergence on what exactly constitutes the informal sector or informal economy, Ligthelm (2013) proposed that “the informal sector is collectively defined as small unregistered businesses operating as street vendors and in-home businesses established on residential sites (often termed as ‘spaza shops’ or ‘tuck shops’ in South Africa)” (Ligthelm, 2013:59). Pretes (2002) on the other hand defines informal businesses as those that have fewer than five employees, are not registered or licensed and do not typically pay tax. This is in contrast to small formal businesses which are defined as “businesses operating from fixed building structures located on business stands demarcated as such by local government (municipal) town planning regulations” (Ligthelm, 2013:59). The limited consensus on what constitutes the informal sector or how to measure its impact accurately (Yu, 2012) leads to large reporting discrepancies in the levels of activity in the informal sector. By definition, informal businesses are largely unrecorded (Ligthelm, 2004), hence the dearth of reliable

statistics on the informal sector. The informal sector is an important factor in business development in developing countries such as South Africa (Ligthelm, 2013). According to the ILO General Conference resolution (2002), the informal sector serves as “an incubator for business potential and an opportunity for on-the-job skill acquisition” (ILO, 2002).

2.1.1 Role of retail SMMEs

According to Coca-Stefaniak et al. (2010), in 2003 SMMEs represented more than 99% of all retailing companies in Europe and were the second largest employer with a workforce of 16 million. Although large retailers dominate the sector, SMMEs provide more employment opportunities across Europe and have a larger proportion of the market share in some countries (Coca-Stefaniak et al., 2010). In the late 1990s, for instance, there were an estimated 3.7 million small businesses in the United Kingdom accounting for 44.3% of total turnover and 51.2% of total employment (Schmidt et al., 2007). Figures for the retail sector were expected to be even higher with a contribution to total employment of 64% (Schmidt et al., 2007). With the economic reforms in China, the SMME sector has expanded rapidly, contributing significantly to economic development and job creation such that by the end of 2001, 90% of the jobs in the wholesale and retail sector were provided by SMMEs (Chen, 2006).

In addition to the traditional role of supplying goods and services to consumers and employment generation, a variety of other roles played by SMMEs have been identified including:

- Providing diversity, colour and choice in a sector which is increasingly becoming standardised in terms of the format and product offerings (Smith & Sparks, 2008)
- Performing a social role in their respective communities (Coca-Stefaniak et al., 2005; Schmidt et al., 2007; Bennison & Hines, 2003; Smith & Sparks, 2000)
- Providing a sense of location and locale and being part of the “ways of life” and social and community infrastructures (Smith & Sparks, 2000)
- Providing a sense of identity, and being the focus for interaction for community members without which social exclusion and isolation, particularly for the poorer community members, would spread (Schmidt et al., 2007)
- Enabling social inclusion for consumers with limited mobility (including the aged and low income households) (D’Andrea, Lopez-Aleman & Stengel, 2006; Schmidt et al., 2007), and

- Contributing to community preservation and serving the specific needs of their customers with whom they have personal relationships (Schmidt et al., 2007; Bennison & Hines, 2003; Smith & Sparks, 2000).

Depending on their location, retail SMMEs may also be the only place where purchases can be made or they may be the only providers of specialised goods and/or services (Smith & Sparks, 2000). For retail SMMEs to perform this role, they have to be embedded in the community and have a sense of belonging to the community fabric (Coca-Stefaniak et al., 2005).

2.1.2 Challenges facing retail SMMEs

Howe (1992) identified macro and micro environmental factors that affect SMME retailers as summarised in Table 2 below.

Table 2: Environmental factors affecting SMMEs

Environmental Factor	Description
<i>Macro level</i>	
Social	<ul style="list-style-type: none"> • Increased mobility of consumers and higher incomes enabling them to shop further away from their neighbourhoods • Customer preference for variety of products and convenient trading hours offered by larger retailers • Rising aspirations of new generations creating a succession problem for family run SMEs
Technology	Expensive self-service and POS technology widen the technology gap between SMEs and larger retailers
Policy	Competition policy not used to defend SMEs that have been negatively impacted by changes such as Sunday and 24 hour trading
<i>Micro level</i>	
Location of competition	Large retailers targeting high income earners and locating themselves close to smaller retailers while also diversifying into products and services previously traditionally offered by the latter
Small retail outlet location	Due to high outlet rent in CBDs, SMEs are increasingly having to locate themselves in poor areas with poorer, less mobile customers

Adapted from Schmidt et al. (2007)

Other challenges that have been identified include (Parker & Byrom, 2000):

- Target of high crime rate
- Inadequate business/management training
- Progressive degradation of ageing or inadequate urban infrastructure
- Individualism and lack of a single lobbying voice for influencing policy at local, national and European level
- Distrust and cynicism towards local authorities, and
- Rapidly changing consumer behaviour

A major challenge facing SMMEs is the growing competitiveness resulting in market concentration. This trend poses a serious threat to the existence of SMMEs. For example:

- At least a third of new retailers in the USA do not survive their first year of operation. Most of the “casualties” are SMMEs (Lee et al., 2008)
- Retail SMMEs are being crowded out of central business districts by large retailers in the UK (Howe, 1992).
- There is a decline of retail SMMEs both in Europe and the USA due to increased competition from larger retailers (Coca-Stefaniak et al., 2010; Schmidt et al., 2007)

The high levels of market concentration have resulted from the phenomenon of a relatively small number of chain retailers with better access to resources enjoying economies of scale and consequently competing more favourably (Schmidt et al., 2007). This threat to SMMEs has been intensified by:

- Large retailers venturing into niches which have traditionally been a preserve of small retailers such as convenience stores and long operating hours rendering the neighbourhood corner stores redundant (Schmidt et al., 2007)
- The proliferation of large surface retailers and shopping malls offering customer convenience through combinations of diverse shopping options, leisure and entertainment
- The increasing size of chain retailers gives them more control over the supply chain which works to the detriment of the smaller retailers (Waters, 1999)
- The combined effect of changing customer preferences, increased disposable income and mobility allowing them to shop away from their neighbourhood has meant that retail SMMEs tend to be patronised more by the poorer consumers (Schmidt et al., 2007)
- Regulations, particularly those dealing with taxation and labour, are also a major challenge that SMMEs in many countries face. For example, in excess of 2000 pieces of legislation affecting SMEs are said to have been promulgated in the UK between 1997 and 2000 (Franklin, 2000; Schmidt et al., 2007) resulting in a 14% increase in the bankruptcy of SMEs due to increased compliance costs. The closure of one in every five independent retailers in the UK between 1995 and 2000 was attributed to the effects of increased legislation and market concentration (Schmidt et al., 2007). However, in some countries, legislation passed has been in favour of SMMEs. For example, Chen (2006) observed that in China, SMEs experienced significant growth from the late 1970s due to the economic reforms and development of a legislative framework aimed at supporting SME. Through these changes government initiated deliberate steps to create an

enabling environment suitable for enterprises of varying sizes and ownership. Legislation put in place related to technology innovation, taxation, financing and credit guarantee systems, management training, etc. (Chen, 2006). Some of the policies were deliberately aimed at encouraging SMEs to develop in specific aspects. For example, preferential tax rates targeted enterprises that created specified numbers of jobs, those with specific profit levels, those that were located in government designated zones or operating in government recognised underdeveloped sectors of the economy (Chen, 2006).

- Logistics and supply are another challenge affecting SMMEs. A common logistical challenge that retail SMMEs face relates to distributor minimum order sizes that are in excess of the SMME inventory requirements. Increased inventory levels result in relatively higher operating costs rendering SMMEs less competitive compared to the larger retailers (Schmidt, 2007; Smith & Sparks, 2000).
- Limited financial resources for both capital as well as working capital expenditure. To illustrate, SMME retailers may not be able to afford to invest in capital assets such as point of sale technology to give them competitiveness.
- Limited managerial skills and succession problems are another internal weakness.

2.1.3 How small businesses are responding to the challenges

Strategic alliances: One way in which small businesses, retailers included, have sought to overcome such resource constraints is by forming or joining strategic alliances. Such alliances initially started off as buying groups serving the purpose of volume consolidating in the supply function (Ghisi et al., 2008; Hernandez-Espallardo & Navarro-Bailon, 2009). However, over time the groups have evolved into a variety of formats some of which offer an array of services including operations, management, financing and marketing. Other services include promotion and brand management, employee training, and production of private labels (Ghisi et al., 2008; Hernandez-Espallardo & Navarro-Bailon, 2009). For small retailers with limited management skills and resources, buying groups are able to offer the benefits of low cost in the value chain and critical management skills at an affordable cost (D'Andrea et al., 2006; Hernandez-Espallardo & Navarro-Bailon, 2009; Jaouen & Gundolf, 2007). Ghisi et al. (2008: 516, 522) summed up the effect of strategic retail alliances for small retailers very well when they said:

An effective horizontal alliance can support the fragility, which accompanies small retailer firms by providing access and control of a market, supplying competitive information and creating first mover advantages in the identification of market gaps ...retailers can realize economies of scale and receive assistance in workforce training and development ... *it* (sic) increases market power of retailers, and leads to higher performance, shared goals, reduced costs, exchange experience; and achieves results that positively impact on competition Horizontal alliance is one of the most important routes to the competitiveness and survival of the small retailers.

Business area improvement: A growing trend in western countries that has been observed to affect small businesses is the concept of business area improvement. This concept manifests itself in various business area improvement schemes which go by a variety of names such as business improvement area (BIA), business improvement district (BID), local enterprise companies (LEC), business revitalization zone (BRZ), special services area (SSA), special improvement district (SID), quarters, and town center management schemes (TCM) (Coca-Stefaniak et al., 2005; Bennison et al., 2007; Hernandez & Jones, 2005; Hogg et al., 2003). The characteristics and impact of these schemes on SMMEs vary largely depend on how they are set up and managed. Such schemes may comprise a few blocks on a street as is usually the case in the USA and Canada (Hernandez & Jones, 2005; Hogg et al., 2003) or they may include an entire shopping mall as is the case in parts of the UK (Bennison et al., 2007; Hogg et al., 2003). Generally these schemes comprise areas within which businesses, mostly retailers, pay an additional tax (or levy) in order to fund improvement activities and projects within specified boundaries (Hogg et al., 2003). Funding of BIDs can also come from public and other private sources. Some functions undertaken by BIDs include cleaning streets, providing security, making capital improvements, construction of pedestrian and streetscape enhancements, general revitalisation of downtowns and inner cities, and marketing the respective areas. Hogg et al. (2003) observed that BIDs have the potential to benefit SME retailers that become involved particularly where they are set up and run by the businesses themselves brought together by common concerns and interests. Some of these benefits include:

- Improving the visual appearance and security of the area thus attracting customers
- Opportunity to promote and create a brand identity for the area and increase the customer catchment area
- Better coordination with the community and community groups and therefore providing SMEs opportunity to be relevant to their market
- Opportunity for SMEs to use their collective strength and influence local and/or national government
- Opportunity for SMEs to forge support networks

The improvement schemes have also been welcomed as a way of providing diversity by promoting small and medium enterprises in the retail sector with its increasingly homogenised shopping spaces (Bennison & Hines, 2003). They have also been hailed as a way for improving the lifestyle of their respective communities due to the additional services they offer (Coca-Stefaniak et al., 2005). The motto for the Gran Center in Granollers (Spain),

for instance, is “city, culture and commerce” clearly indicating the intention to serve the interests of the city holistically.

The business improvement area schemes have also served as a mechanism through which retail SMMEs could use a localisation strategy to create competitiveness for themselves against the tide of globalisation (Coca-Stefaniak et al., 2010; Bennison et al., 2007; Hernandez & Jones, 2005). Some types of BIDs have, however, been found to be a threat to SMEs, particularly where the specific interests of the latter were not put on the BID’s agenda. Some BIDs have been criticised for being hostile to micro enterprises and street vendors. It has also been observed that improvements resulting from the activities of a BID could lead to increased rentals which might be out of reach for SMEs forcing them to move to unattractive downtown areas with more affordable rentals but poorer neighbourhoods and potentially lower sales.

2.2 SMALL BUSINESSES IN SOUTH AFRICA

The National Small Business Amendment Act of 2003 and 2004 defines a small business or enterprise as “a separate and distinct business entity, together with its branches or subsidiaries, if any, including co-operative enterprises [and non-governmental organisations], managed by one owner or more (which, including its branches or subsidiaries, if any, is) predominantly carried on in any sector or subsector of the economy mentioned in Column 1 of the Schedule.” Three key indicators are used to determine a general classification of small businesses in terms of Schedule 1 of the Act. These factors are the number of persons employed, turnover per annum, and net assets. Small businesses are then classified as micro, very small, small or medium enterprises based on the three key indicators. Different thresholds are applied to determine what would constitute an SMME in each economic sector and subsector within the existing accepted standard industry classifications. When applied to retail businesses; the classification of retail small businesses is depicted in Table 3.

Table 3: General classification of retail small businesses

Description	Micro	Very small	Small	Medium
Full-time equivalent of paid employees	5	20	50	200
Total turnover	R0.2m	R4m	R 19m	R 39m
Total gross asset value (fixed property excluded)	R0.1m	R0.60m	R 3m	R 6m

Source: National Small Business Amendment Act 2003

The nature of small businesses (including informal businesses) in South Africa covers a wide spectrum of activities. But as shown in Table 4, about 79% of the business activities involve an element of retailing. This table shows that almost one in two businesses simply bought

and sold products in the same form without transforming them. However, some businesses also perform other activities such as growing or making what they sell. Myeza, Mason and Peddemors (2010) support this finding, showing that about two thirds of indigenous informal participation in the KwaZulu-Natal “sardine run” is in the form of retailing activities.

Table 4: Nature of small businesses

Business activity	% of small business owners
<i>Retailing activities</i>	78.7
Sell something in the same form it was bought	48.8
Buy something to sell, but add value before reselling	10.7
Grow something to sell	5.2
Make something to sell	5.1
Sell by-products of animals	3.7
Rear livestock/poultry and sell	3.1
Sell something that was collected from nature	1.5
Sell something that was obtained for free	0.6
<i>Service provision activities</i>	21.3
Render a skilled service, e.g., mechanic, plumber, hairdresser	13.2
Render other services, e.g., car wash, garden services, transport (taxi services), catering	5.1
Render a professional service, e.g., doctor, lawyer, accountant	1.3
Render building/construction services	1.0
Render tourism-related services, e.g., accommodation/hotel/B&B/guest house, tour operators	0.6
<i>Total</i>	100.0

Source: Finmark Trust (2010):8

2.3 INFORMAL BUSINESSES IN SOUTH AFRICA

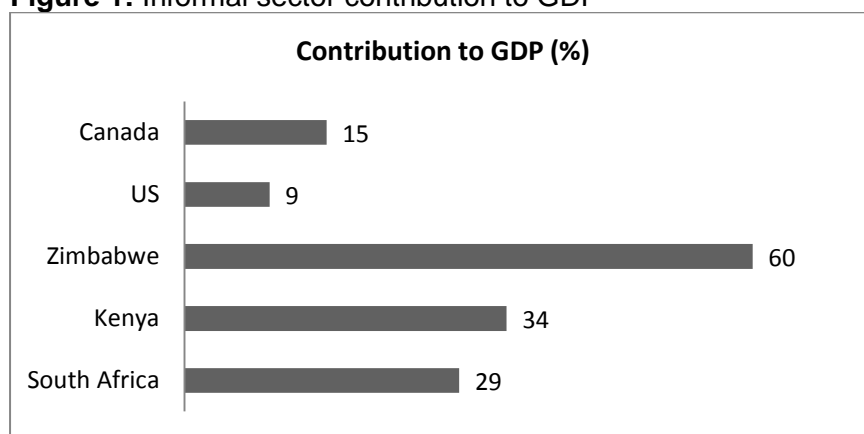
Small businesses may be formal or informal. However, informal business entrepreneurial activities may overlap with other types of entrepreneurial activities such as family firms, community entrepreneurship, and self-employment (Webb, Bruton, Tihanyi & Ireland, 2013). According to Ligthelm (2013:59), “not all forms of entrepreneurship and business formation are beneficial to economic growth and development”, i.e., entrepreneurship can be productive or unproductive.

Productive vs. unproductive entrepreneurship: Productive entrepreneurs are business types that are formed by individuals that pursue profitable business opportunities that have growth potential (Baumol, 1990). Herrington et al. (2010) refer to the individuals who invest in profitable opportunities with growth potential as opportunity entrepreneurs. Unproductive entrepreneurs on the other hand are business types that are unproductive or even destructive. These business types which are mainly found in the informal sector are formed by individuals who have no other way of making a living due to lack of opportunities for gainful employment (Baumol, 1990). Also referred to as necessity entrepreneurs

(Herrington et al., 2010), these individuals account for a significant part of business activities in developing countries in general (Schneider & Klinglmair, 2004), despite the lack of agreement regarding their contribution to economic growth and development (Ligthelm, 2013). However, consensus is that the factor that motivates unproductive entrepreneurs is not lucrative opportunities with growth potential but survival and the desire to keep poverty at bay in the absence of viable alternatives to a livelihood (Berner, Gomez & Knorrington, 2012; Banerjee & Duflo, 2011). In this context, the usefulness of small business development and support programmes targeted at unproductive entrepreneurs in the informal sector is questioned (e.g., Schramm, 2004) though the importance of the informal sector in poverty alleviation and survival in poor communities is acknowledged (Banerjee & Duflo, 2011).

Informal businesses exist in almost all economies but are major contributors in emerging and transition economies. The size of the informal sector varies across countries but ranges from, for example, 9%, 15%, 29%, 34%, and 60% of GDP in 1999/2000 for the US, Canada, South Africa, Kenya, and Zimbabwe respectively (Khavul, Bruton & Wood, 2009) as illustrated in Figure 1 below.

Figure 1: Informal sector contribution to GDP



Informality, the law and the cost of doing business: Though difficult to study, it is essential to understand informal businesses because of the significant role they play in creating employment and sustaining livelihoods. Schneider (2005:600) defines economic informality as “all market-based legal production of goods and services that are deliberately concealed from public authorities”. This definition highlights that informal businesses do not necessarily engage in criminal activity. The concealment is meant to circumvent taxation, labour laws, and administrative regulations. Therefore, though the goods and services traded in the informal sector are not illicit, their production and distribution may be illicit (Portes & Haller, 2005). And though informality tends to lower the immediate cost of doing

business (e.g., no registration or licencing fees, no tax and tax administration, and no labour law compliance), it also has long term costs for the small businesses (e.g., no business bank accounts and no formal business track record).

Controversy, contribution, and scope of activities: Informal trading is a controversial topic because there are arguments for and against it. One school of thought views informal trading as a symptom of lack of development and therefore problematic. The opposing school of thought views informal trading as an opportunity provider that facilitates entry into the economy to those that might otherwise be excluded by contributing to employment creation (Dawar, 2005). The informal economy is heterogeneous, covers a variety of economic activities, offers different employment relations, and includes activities with different economic potential. The formal and the informal are linked in that few informal operators do not have dealings with the formal economy (Skinner, 2006).

It is well acknowledged by practitioners and researchers that small, medium and micro enterprises play an important role in a number of priority areas including employment creation and poverty alleviation. SMME development is one of the South African government's priority areas (Lighthelm, 2013; Rogerson, 2013) with various programmes in place to encourage and support small business development. The contribution of small businesses to the achievement of the objective of creating decent jobs is acknowledged in the National Development Plan (National Planning Commission, 2012). However, evidence suggests that despite all the effort, South Africa's performance in entrepreneurial and business activity ranks below average (Herrington, Kew & Kew, 2010).

Small businesses and employment opportunities

National Development Plan suggests that about 90% of jobs could come from the small, micro and medium enterprises (SMMEs) by 2030 (National Planning Commission, 2012)

Though the informal sector includes a wide variety of activities (such as taxi operators, street vendors/hawkers, and spaza shops), this report focuses on those involved in the retail sector only. According to the FinScope South Africa Small Business Survey, which is a "comprehensive, nationally representative survey" (Finmark Trust, 2010:1) that describes the size and scope of the small business sector amongst other objectives, there were 5 979 510 small businesses owned by 5 579 767 small business owners in South Africa in 2010. Based on the business owners' claims, only 8.3% (465 632) were Companies and Intellectual

Property Registration Office (CIPRO) registered (Finmark Trust, 2010). This suggests that over five million small businesses were unregistered and therefore informal.

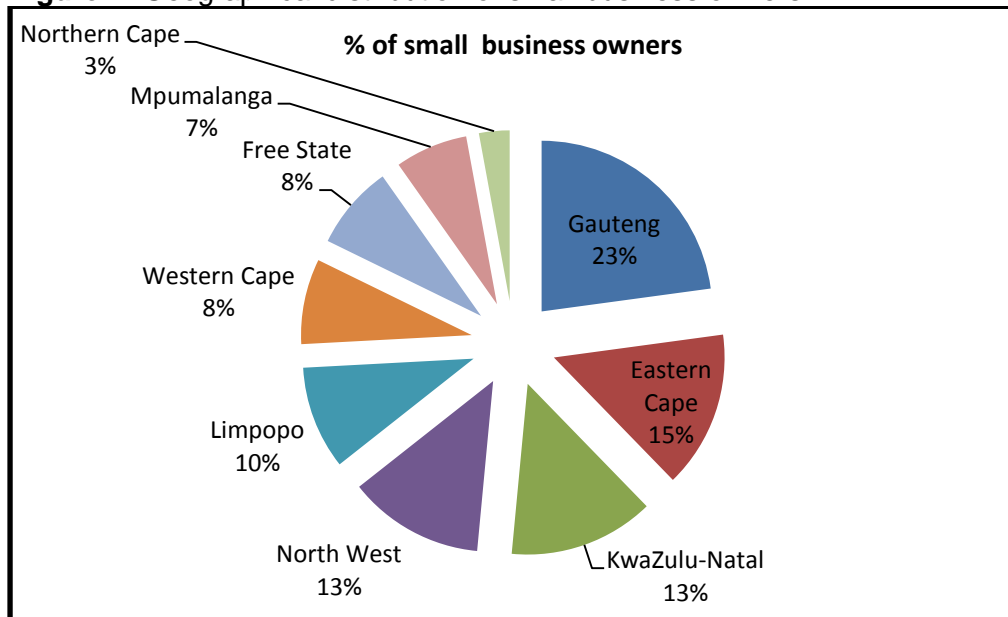
Informal sector characteristics in South Africa: The informal sector plays a central role in the economy of South Africa in part because of the widening gap between the growing population and the number of job opportunities available in the formal sector. Those that are unable to find formal employment tend to turn to the informal sector for survival. According to Ligthelm (2004), the informal sector in South Africa is characterised by the following:

- *Lower levels of education:* The majority of the business owners of the more basic types of business (e.g., hawkers and spaza shop owners) are more likely to have lower levels of education such as little or primary schooling,
- *Fulltime engagement:* More than 80% of the business owners are engaged in their businesses on a fulltime basis,
- *Lack of formal training:* About 90% of the business owners have had no formal business training (with 70% of them acknowledging that they need training),
- *Lack of business management experience:* Some of these business owners have little or no appropriate business management experience,
- *Business not first career of choice:* Though the majority of general dealers (76.8%) and spaza owners (57.2%) consider their business as their career of choice, not many hawkers (36.6%) consider business their first choice;
- *Unemployment as a driver of business start-up:* The proportions of small businesses that are due to unemployment vary depending on business type: 82.6%, 48.7%, and 32.8% for hawkers, spazas, and general dealers respectively. When unemployment is the primary reason for starting a business, the potential for failure tends to be high because it is more unlikely that appropriate feasibility studies are undertaken prior to starting the business,
- *Levels of business maturity:* Higher levels of maturity (age) are evident for general dealers than for spazas and especially hawkers. On average, 63.7% of the relatively more advanced business type of general dealers have been in existence for over five years compared to 36% for spazas and 19% for hawkers,
- *Source of start-up capital:* In all types of business, the majority of the businesses obtained their start-up capital from private savings (79.5%, 84.8%, and 82.5% for spazas, hawkers, and general dealers respectively). Other sources include stokvels (11.9%), loans from relatives (12.3% for general dealers), retrenchment payments (13.3% for spazas), and bank loans (8.8% for general dealers), and
- *Number of dependants:* Each business person has on average 4.8 dependants.

2.4 GEOGRAPHICAL DISTRIBUTION OF SMALL BUSINESSES

The distribution of small business owners (defined as individuals who are 16 years or older and consider themselves as business owners that generate an income through small business activities that employ less than 200 people) varies by province with the highest and least concentration in Gauteng and Northern Cape respectively (Figure 2).

Figure 2: Geographical distribution of small business owners



Source: Finmark Trust (2010):7, 9

2.5 CONTRIBUTION OF INFORMAL AND SMME BUSINESSES

Small business enterprises are internationally recognized as catalysts for economic growth and development.

Small businesses and employment opportunities

The FinScope South Africa Small Business Survey (2010) found that small businesses in South Africa are responsible for about:

- 11 602 292 employment opportunities (i.e., 7 935 972 employment opportunities in businesses with fewer than five employees and 3 666 320 employment opportunities in businesses with five or more employees) (see Table 5)
- Only 8.3% (465 632) of these businesses indicated that they were registered with CIPRO.

This is in a context where about 4.5 million people or 24.9% of the population are unemployed (Statistics SA, 2013).

The contribution of the informal sector to GDP in South Africa was recently estimated to be approximately 28% of the GDP or about R160 billion or about 70% of the mining sector's contribution (South African Local Economic Development Network, 2010). It is estimated that small business enterprises contribute around 50% of GDP and 60% of the labour force (Booyens, 2011; SEDA, 2012).

Table 5: Small business size and contribution to employment

Business size (defined by number of employees)	No. of employees (% of small businesses): Retail businesses	No. of employees (% of small businesses): Service businesses	Number of employees (% of small businesses)
0	72.4	49.0	67.4
1	12.7	17.1	13.6
2	7.6	11.7	8.5
3-4	3.3	11.8	5.1
5-10	3.7	7.3	4.5
More than 10	0.4	3.2	1.0
Total	100.0	100.0	100.0
Employment opportunities (rounded off)	7.672 million	3.933 million	11.607 Million

Source: Finmark Trust (2010):16

The retail sector is an important participant in the economy with a significant impact on both the formal and informal sectors (Morris, Pitt & Berthon, 1996). The size of South Africa's formal retail market is the largest in Africa and 20th largest worldwide with aggregate retail sales exceeding one trillion rand for the first time in 2011 (PwC, 2012). Informal retail trade dominates the informal sector and is estimated to contribute more than 70% of total informal sector output (Rolfe, Woodward, Ligthelm & Guimaraes, 2010) while also providing more than 45% of informal sector non-agricultural employment (Statistics SA 2013).

In recognition of the important role played by the informal sector, the South African government through the Department of Trade and Industry (DTI) has put in place a National Informal Business Upliftment Strategy (NIBUS) to provide informal businesses with business support that could only be accessed by registered businesses before. The purpose of NIBUS is to identify and train informal traders like street vendors, spaza shops, township and rural general dealer shops, and permanent and temporary markets. For spaza and general dealer shops, refurbishment will also be provided while market infrastructure will be upgraded. For informal traders' associations, organisation management skills will be offered. The NIBUS provides two types of support: Shared Economic Infrastructure and the Informal Business Upliftment Facility. Shared Economic Infrastructure focuses on upgrading buildings and other infrastructure used by informal businesses, cooperatives, and SMMEs. The Informal

Business Upliftment Facility focuses on providing business support to women, young people, and people with disabilities who own businesses in areas such as townships and rural areas. As part of the NIBUS, an Informal Traders Upliftment Project (ITUP) was launched as a pilot project in Port St Johns by the DTI and the W&RSETA in partnership (Fredericks, 2014).

2.6 FACTORS THAT INFLUENCE START-UP, SURVIVAL AND GROWTH

The SMME and informal business sector presents some opportunities, despite the constraints that SMMEs and informal businesses have to contend with. Various researchers including Willemse (2011), Finmark Trust (2010), Tambunan (2009), Western Cape Government (2007), Dockel and Ligthelm (2002), Ligthelm (2002), and Luiz (2002) have investigated the impediments to and/or enablers of SMMEs and informal businesses. These are summarised in Table 6 in chronological order.

Table 6: Impediments and enablers of SMME and informal businesses

	Impediments	Enablers
Willemse (2011)	<p>Constraints faced by informal traders include:</p> <ul style="list-style-type: none"> • Poor cash flow • Poor stock levels • Competition • Non-availability of transport • Non-availability of funding • Insufficient shelter • Insufficient services from suppliers • Non-availability of equipment, and • Location of businesses 	<p>Opportunities offered by informal traders include:</p> <ul style="list-style-type: none"> • Provision of goods and services to low-income consumers • Flexibility relative to big business • Collective bargaining or unionisation • Informal financing from social networks • Opportunity to provide for oneself and family • Development of entrepreneurship skills and confidence (due to the ability to earn and support oneself and family) • Partial access to additional income • Limited use of start-up capital
Finmark Trust (2010)	<p>Obstacles to growth identified by small business owners:</p> <ul style="list-style-type: none"> • None/nothing (19.3%) • Space to grow (16.2%) • Competition (12.6%) • Access to finance (8.7%) • Crime and theft (6.6%) • Cost of finance (5.2%) • Transportation (3.8%), and • Electricity (3.5%) • Don't know (5.3%) 	
Tambunan (2009)	<p>Constraints on informal trading include:</p> <ul style="list-style-type: none"> • Economic barriers • Sociocultural constraints • Political conditions and policies, and • Operating conditions 	
Western Cape Provincial Government (2007)	<p>The barriers that small businesses have to contend with include:</p> <ul style="list-style-type: none"> • Access to finance • Access to training • Access to infrastructure and other services • Regulatory framework • Lack of access to business support • Poor integration into supply chains, and • Poor access to markets such as government and big business 	

Table 6: Impediments and enablers of SMME and informal businesses (*continued*)

	Impediments	Enablers
World Bank (2004) cited in Western Cape Provincial Government (2007)	Perceived obstacles to business, in order of significance: <ul style="list-style-type: none"> • Skills and education • Macroeconomic instability • Labour regulations • Crime, theft and disorder • Tax rates • Economic and regulatory policy • Cost of financing • Corruption • Access to financing • Tax administration, and • Business licensing and operating 	
Dockel & Ligthelm, 2002	The challenges that small businesses face may be grouped into 3 categories: <ul style="list-style-type: none"> • Economy-based problems economy (e.g., interest rates, business cycles, growth policies, and employment prospects) • Industry-based problems (e.g., competition, demand and supply, and entry barriers), and • Firm-based problems (e.g., finance, entrepreneurship) 	
Ligthelm (2002)	South African small business owners identified the three most serious constraints they encounter in running their business as: <ul style="list-style-type: none"> • Shortage of funds (38.4%) (In this case shortage of funds did not necessarily refer to lack of access to funding as shortage funds could be due to other factors such as small profit margins and bad debt) • Overtrading (i.e., too many competitors) (33.3%) • Crime/theft (31.4%), and • Non-payment of customer accounts (bad debts) (30.7%) 	
Luiz (2002)	Luiz (2002) summarises the problem areas as follows: <ul style="list-style-type: none"> • Finance • Labour (cost and skills availability) • Trade (restrictive regulations) • Tax (complexity) • Procurement (inaccessibility) • Infrastructure (especially in townships and rural areas), and • Demand 	

Other researchers including Cant and Ligthelm (2005), Dockel and Ligthelm (2002) and Storey (1994) have approached the question of impediments to and/or enablers of SMMEs and informal businesses by investigating the determinants of success. These are summarised in Table 7.

Table 7: Determinants of SMME and informal businesses success

	Important determinants of small business success
Cant and Ligthelm (2005)	<p>Important determinants of small business success include:</p> <ul style="list-style-type: none"> • Marketing-related factors (e.g., increased competition, limited market size, ineffective marketing, lack of knowledge of competitors, and poor location) • Financial factors (e.g., problems in sourcing finance, high operating expenses, consumer credit management, poor cash flow management, and lack of financial planning) • Human resources factors (e.g., new labour laws, inability to attract and retain suitable staff, low labour productivity, poorly trained employees, and high labour turnover) • Management factors (e.g., adapting to changing business environment, time management, delegation and cooperative management, planning and prioritising, and effective control) • Macro-environmental factors (e.g., crime and corruption, inflation, unemployment, interest rates, and exchange rates)
Dockel and Ligthelm (2002)	<p>The main factors that differentiate successful business from unsuccessful ones include:</p> <ul style="list-style-type: none"> • Reasons for start a business • Access to infrastructure • Place of business • Period in business • Type of involvement (full-time or part-time) in business • Size • Financing (e.g., source of finance for start-up capital, working capital, application of business capital, and reasons for not using credit) • Demographic factors (e.g., owner qualifications, age, population group)
Storey (1994)	<p>Three dimensions need to be combined and optimised in order for small businesses to grow:</p> <ul style="list-style-type: none"> • The entrepreneur's starting resources (e.g., motivation, education, gender, prior business failure) • The business enterprise (e.g., age, sector, location, size), and • The strategy (e.g., state support, information and advice, market positioning, planning)

2.6.1 The role of entrepreneurship in business development

Entrepreneurship is an important influencing factor in the start-up, survival and growth of small business. It can be measured at a statistical aggregate level or at an individual firm level (Ligthelm, 2013). Measurement at aggregate level is based on the occupational definition of entrepreneurship as self-employment and results in a static measure of the number of self-employed individuals or a dynamic measure of the rate of business start-ups. However, aggregate measures of entrepreneurship do not reveal the entrepreneurial activities within the firm, hence the need for measures that address entrepreneurship at the firm level. Such measures may involve either behavioural approaches (i.e., what activities do

entrepreneurs perform?) or trait approaches (i.e., what traits and characteristics do entrepreneurs possess?). To understand the role of entrepreneurship in both formal and informal small business development, Ligthelm (2013) investigated the impact of entrepreneurial actions (comprising operational entrepreneurship and innovative entrepreneurship) on business performance and found that entrepreneurship plays a more important role in the performance and growth of formal businesses than informal businesses (see Table 8). Entrepreneurship is therefore a key differentiator between the formal and informal businesses. Formal businesses are more likely to implement entrepreneurial actions than informal businesses (Ligthelm, 2013). Therefore, the entrepreneurial actions listed in Table 8 are more likely to be evident in formal businesses than informal businesses.

Table 8: List of entrepreneurial actions that affect growth of businesses

Entrepreneurial actions
<i>Operational entrepreneurship (base conditions)</i>
1) Compiling a business plan
2) Updating of business plan
3) Marketing strategy for business
4) Risk analysis prior to starting the business
5) Analyses of competitors
6) Operational plan
<i>Innovative entrepreneurship (competitive factors)</i>
7) Considering an alternative venture prior to starting the business
8) Future vision for the business
9) Regular investigation of other business investments
10) Ease of venturing into a business venture
11) Not afraid to risk funds in business
12) Comfortable taking calculated risks

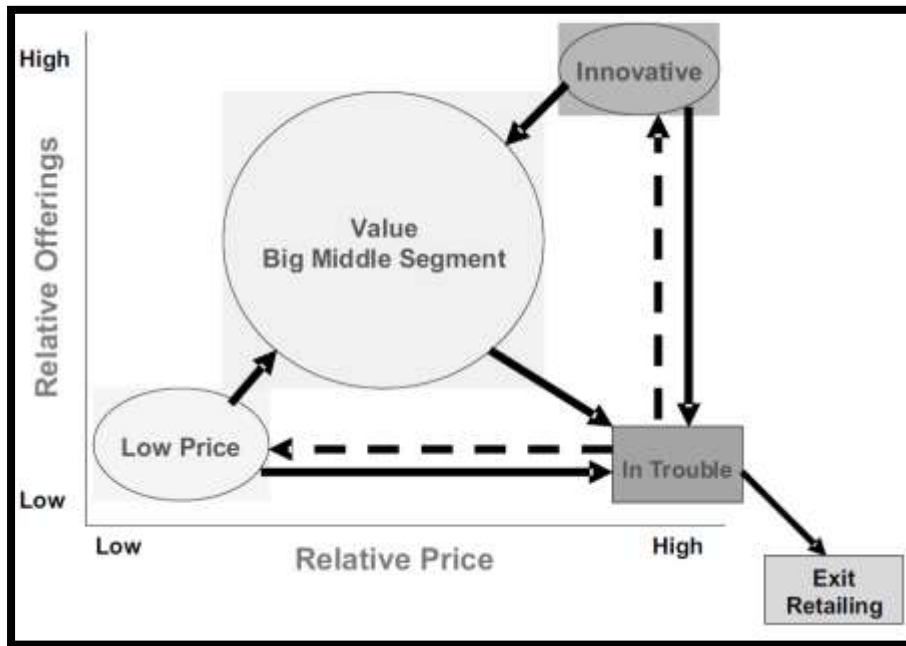
Source: Ligthelm (2013):65

2.6.2 Success factors and challenges in the retailing environment

The retailing environment is very competitive. Viability therefore depends on the firms having a clear understanding of challenges and opportunities presented by the retail environment. According to Grewal, Krishnan, Levy and Munger (2010) based on the relative price and relative offering, four types of retailers may be identified, as illustrated in Figure 3, namely:

- Innovative retailers
- Big-middle retailers
- Low-price retailers, and
- In-trouble retailers

Figure 3: Retail landscape



Source: Grewal, Krishnan, Levy and Munger (2010: 15)

Innovative retailers are those that focus on quality-conscious consumers that demand premium offerings. In contrast, low-price retailers target price-conscious consumers. Big-middle retailers are those that specialise in consumers that favour value offerings. And finally, in-trouble retailers are the retailers that cannot offer high levels of value compared to their competitors. Most retailers seek to enter the competitive but profitable big-middle segment. Small businesses are more likely to compete in the innovative and the low-price segments with some unsustainable ones falling in the in-trouble category.

To succeed in the retail sector, retailers must offer compelling value propositions and be responsive to market dynamics. To influence consumer perceptions of value, Grewal et al. (2010) suggest that retailers must manage six levers of retail success, namely; store factors, service factors, merchandise factors, price factors, supply chain factors, and technology factors.

- *Store factors* are to do with the combination of retail format and retail environmental factors. Store factors are important as a lever of retail success because customers consider both functional benefits and the overall experience offered by the physical store. Differentiation based on retail atmospherics is one way retailers add value to the shopping experience and therefore store patronage intentions. Environmental cues such as music, colours, and people are examples of factors that affect consumer experiences (e.g., Baker, Parasuraman, Grewal & Voss, 2002).

- *Service factors* concern how much attention is paid to customer service and are a key driver of retail success. Service factors can also be a significant source of competitive differentiation. An important service factor is convenience; which may be one or a combination of decision convenience, access convenience, transaction convenience, benefits convenience, or post-benefit convenience.
- *Merchandise management* as a lever of retail success involves finding and stocking merchandise that meets the targeted consumers' needs; and ensuring that adequate stock of the appropriate merchandise is available when and where it is required by customers.
- *Price* is also a lever of retail success and should be based on the value of what is being offered in the mind of the target customers. Retail success is in part dependent on the extent to which retailers understand what the customer will give up in exchange for the offering. Important aspects of the price include the monetary price, the time, and the effort the customers give up to acquire the product.
- *Supply chain management* involves the efficient and effective integration of manufacturers, suppliers, warehouses, stores, and transportation companies to ensure that the right products and quantities reach the customer at the right price and service levels.
- *Appropriate technology* at any level in the supply chain can contribute to retail success. Retailers that employ appropriate technology are more likely to perform well and be competitive in part because they are able to collect and use sales data and manage their inventory using this technology (Grewal et al., 2010).

In the context of South Africa, Greeff and Mfuni (2010) propose that the strategic drivers for retail fall into two categories namely uncontrollable factors and controllable factors. The uncontrollable factors include: political factors, social, law and order factors, economic factors, labour factors, and regulatory factors. The controllable factors on the other hand are very similar to Grewal et al.'s (2010) six levers of retail success and include: product (merchandise), service (customer), multiple products through multiple channels, price (value for money), financial services (value proposition), technology, customer relationship management, location, and leadership.

According to Grewal et al. (2010), retailers face many challenges including consolidation, value, innovation, and cost control. The last three are more relevant to the current review. Value is a major ingredient in retail sustainability. To succeed, retailers are increasingly relying on the provision of better value than their competitors. This also applies to retailers

that serve low-income consumers as well as informal retailers. Innovation is increasingly employed to enhance customer service levels. This simply means finding better ways of maximising the customer shopping experience. For example, cooperative buying by small retailers to take advantage of quantity discounts could give them a competitive edge and add to the customer shopping experience and the bottom line. Immigrant retailers in the townships, it is reported, are able to offer more competitive prices in part because of better buying practices. Finally, retailers, especially those serving low-income segments need to be efficient and effective managers of their value chains to minimise system-wide costs in order for them to meet their customers' service requirements (Grewal et al., 2010).

2.6.3 A value chain perspective to the SMME challenges

It is well known that most SMMEs do not grow or survive as expected due to reasons such as poor access to markets, poor access to business services, poor marketing, and poor bargaining power (ILO, undated b). Some of these problems can be addressed by understanding the value chain used by SMMEs and using its potential to maximise their competitiveness. According to ILO (undated a: 1), "A value chain describes the activities needed to bring a product from the initial idea and conception to its final market. These activities include design, production, marketing, distribution and support services, up to the final consumer (and often beyond, when recycling processes are taken into account)". Improvements in the value chain can offer opportunities for competitiveness. This involves analysing the path travelled by the product to reach the consumer, the market dynamics, and the relationships between the participants in the value chain. There is potential for improvements with all the participants in the market system; e.g., in the enterprise itself, in business relationships, in market structures, and in the business environment. Adopting the value chain approach would be beneficial for informal and SMME retailers because it addresses all stages in the value delivery process to identify factors that hinder or can enhance competitiveness.

Value chain development acknowledges that the final demand for a product is an important driver of success. It also assumes that consumers and customers desire high quality products, competitive prices, and temporal and distribution convenience. The five triggers for value development may be employed as a methodological framework to identify opportunities and constraints in the informal and SMME retail sector. The five triggers are system efficiency, product and quality specifications, product differentiation (competition), social and environmental standards, and enabling business environment (ILO, undated b).

- *System efficiency* is the first trigger that can be employed in the search for opportunities and constraints in the value chain. This involves seeking opportunities to reduce costs and improve efficiencies in the value chain. Given the consumer demand for better quality and value, it is imperative for participants in the value chain to consider cooperation and the coordination of their activities to improve efficiency. Though constrained by their size, SMMEs need to undertake value chain development to improve their competitiveness by, for example; producing and delivering products more efficiently.
- *Product quality and specifications* are the second trigger for value chain development. Consumers are increasingly demanding better product quality and specifications. SMMEs therefore need to understand market requirements regarding product quality and specifications and endeavour to meet these together with other value chain stakeholders.
- *Product differentiation (competition)* is the third trigger. In the face of increasing consumer demands for improved product quality and confronted by ever-increasing competition in the market, SMMEs and other value chain stakeholders can employ the value chain approach to foster cooperation and coordinate their activities with a view to differentiating their products through better quality and branding.
- *Social and environmental standards* are the fourth trigger. Social and environmental standards have become important as customers demand higher standards from businesses and the products they use. Issues like labour practices, compliance with the law, and environmental awareness may influence consumer choice and decision making.
- Finally, all businesses and value chains operate in a *business environment* that includes factors such as laws and regulations, the economy, technology, and politics. These have to be understood and taken into consideration as SMMEs plan at all stages in the value chain. To the extent that it is possible, SMMEs should endeavour to contribute to a business enabling environment.

2.7 CONCLUSION

It is evident from the literature review that the small business sector, which is predominantly retail based, plays an important role in many areas. For retail small businesses, this contribution ranges from employment creation to contributions to national income and even social inclusion in the communities that they operate in. It is also evident that these businesses face many internal and external challenges ranging from poor business management skills to changing consumer behaviour and increasing competition. However,

there are also opportunities available for small businesses including support from both private and public sector support institutions.

In the next chapter, we explain the research methods we employed to investigate what important groups of participants involved with small businesses think about the factors that influence the start-up, survival, and growth of small and informal businesses involved in the retail sector. These groups are managers from stakeholder and small business support institutions and small and informal traders.

CHAPTER 3 METHODOLOGY

3.1 RESEARCH TYPE

This study was qualitative in design. We therefore employed desktop research and semi-structured interviews for data collection from participants drawn from small business support institutions and from the small business sector. To gain access to both groups of participants, we relied on the authority of the W&RSETA Retail Leadership Chair at Cape Peninsula University of Technology.

3.2 SAMPLING (DATA SOURCES)

In light of the qualitative nature of the study, we employed purposive sampling in that participants were primarily selected because of our expectation that they were well informed regarding the subject under investigation. The participants from small business support institutions all occupied positions of authority in their organisations that in part involved the promotion and support of small businesses. The participants from the small business sector equally occupied positions that were authoritative in that they had first-hand experience in setting up and running small businesses. Altogether, eighteen participants (in twelve interviews) from the small business institutions and twenty six participants from the small business sector were interviewed for this study.

3.3 THE RESEARCH INSTRUMENTS AND DATA COLLECTION

Semi-structured interviews guided by pre-determined questions were employed. Though participants were encouraged to answer all the questions, they were informed, in line with the ethical clearance granted to the researchers, that if they did not want to answer any particular question they could do so and that they were at liberty to opt out of the interview at any point without consequences to them. The research instruments employed are attached in Appendix 1. The interviews typically lasted between 30 and 60 minutes and were undertaken in the field by the researchers. With the consent of the participants, all the interviews were voice recorded to allow for attentive and active listening by the researcher.

3.4 DATA ANALYSIS

We employed framework analysis in the data analysis (Richie & Spencer, 1994). This is a qualitative data analysis approach that is used mainly in applied policy research. Though inductive in approach, framework analysis permits the inclusion of a priori concepts in

addition to emergent concepts in the analysis. As we started off data collection with specific issues to investigate, this approach was considered appropriate. We employed all five stages of framework analysis, namely; familiarisation, developing a thematic framework, indexing (coding), charting, and mapping and interpretation.

In the first stage, the data was transcribed to extract the key messages and quotes from data. The transcripts were read several times to ensure they were correct and that they became familiar. Secondly, based on a priori issues, we developed the initial thematic frameworks to use for coding (Appendices 2-3). In the third stage, having developed the thematic framework to employ in coding, we started the process of indexing (coding). This stage involved identifying specific pieces of data relating to each one of the different a priori and emergent themes in the framework. In the fourth stage, charting, we used the headings (i.e., a priori themes initially) from the thematic framework to create thematic charts in which we populated all the main pieces of data for each participant according to the themes in which they fell. The results of this process are summarised in the count and percentage columns of the thematic framework in Appendices 2-3. Finally, the last stage, mapping and interpretation, involved the search for patterns, explanations, concepts, and associations in the data. Our focus was on identifying the different types of data falling within and outside the a priori themes. Though this study was not quantitative, this process enabled us to determine the areas and extent of commonality within and between the two participant groups.

3.5 VALIDITY AND RELIABILITY

To enhance the validity and reliability of the study, and in light of the qualitative nature of the study, we employed trustworthiness as proposed by Guba and Lincoln (1994). Trustworthiness has four different types of criteria that we took into consideration, namely, credibility (internal validity), transferability (external validity), dependability (reliability), and confirmability (objectivity) (Bryman & Bell, 2007). Credibility addresses the congruency of the findings with reality. To establish credibility requires good practice in the conduct of research such as subjecting the findings to confirmation to ensure correct understanding (Bryman & Bell, 2007). In this study, we sought to realise credibility by the use of data triangulation involving two different types of data sources, namely, small business support institutions and small business owners.

While acknowledging that it is difficult to replicate exact situations in investigations involving social interaction, we sought to mitigate this challenge and enhance transferability of findings

by providing a clear description of the context and type of informants we interviewed. Further, we voice recorded the interviews. The recordings together with our description of the context and findings can enable other researchers to make judgments about the possible transferability of findings to other similar situations.

To ensure dependability, researchers keep records of the research process (Bryman & Bell, 2007). In this case, we have ensured that the findings are auditable because while providing anonymity by delinking statements from participants, the participants are still contactable to confirm their participation. Additionally, as argued by Guba and Lincoln (1994), demonstrating credibility as we have done above in part contributes to dependability.

Finally, confirmability is concerned with objectivity and ensuring that the reported findings are those of the participants or informants rather than the researcher's. To minimize researcher bias, we employed triangulation of data sources and presented the findings and draft report to a focus group comprising of stakeholders, researchers and retail experts for validation and critique.

3.6 CONCLUSION

In this chapter, we have documented the research approach. We have explained why we used qualitative research and described the data sources (participants), the sampling method, and the data collection instruments. We have also explained framework analysis which is the qualitative data analysis method we employed. To address validity and reliability, we employed the four types of criteria of trustworthiness to assess our research, namely, credibility, transferability, dependability, and confirmability.

In the next chapter, the findings and discussion are presented. First, the perceived impediments to and enablers of small business start-up, survival, and growth are presented. This is followed by a comparison of stakeholder and trader perceptions. Finally, the findings regarding value chain bottlenecks and opportunities, support for informal traders, and international trends are presented.

CHAPTER 4 FINDINGS AND DISCUSSION

4.1 INTRODUCTION

To identify the factors that impact on the start-up, survival and growth of SMMEs, participants from stakeholder institutions and small business owners were interviewed with a focus on the following:

- Identifying the impediments and enablers to the start-up, survival and growth of retail SMMEs,
- Identifying value chain bottlenecks and aids to foster competitiveness amongst retail SMMEs,
- Understanding perceptions of the role of business development support services to informal retail businesses, and
- Identifying international business trends that would be relevant to South Africa.

4.2 IMPEDIMENTS AND ENABLERS

The main impediments were divided into external and internal factors.

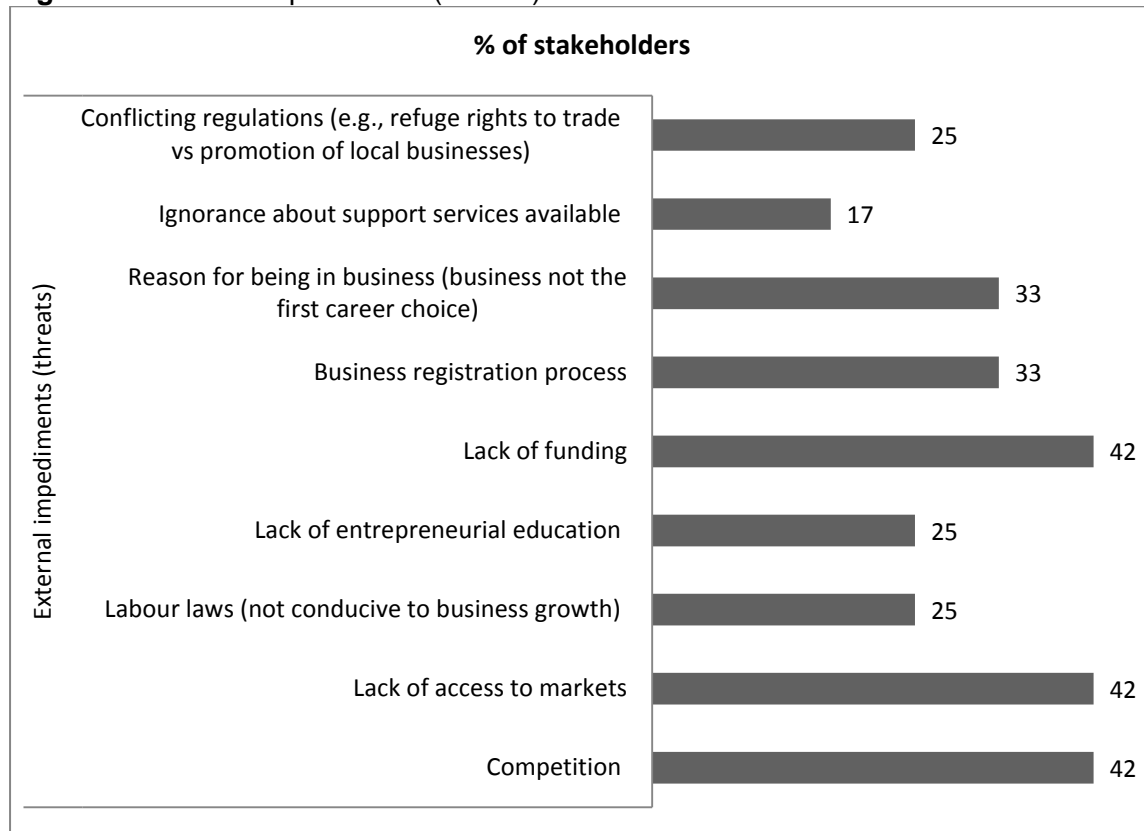
4.2.1 Stakeholder perceptions

External impediments (threats): We interviewed eighteen participants from small business support institutions (Figure 4). Forty two percent (42%) of the informants from small business support institutions identified increasing competition in the small business sector as a major problem, particularly in the retail sector in the townships and small towns. The main sources of competition identified were foreigner-owned shops and national stores located mainly in the malls. The participants suggested that many local stores owned by citizens were not able to compete favourably due to poor business skills in areas such as procurement (57%) and failure to network and collaborate with other businesses (8%).

Some aspects of the policy and regulatory environment were highlighted as stumbling blocks to SMME development. In particular, the centralised business registration at the Companies and Intellectual Property Commission (CIPC) in Pretoria and the registration process itself were found to be onerous and a discouraging factor for small businesses registering their businesses (33%). Labour laws relating to conditions of employment and the minimum wage were identified as stumbling blocks in small businesses offering formal employment (25%). Some participants pointed out that better coordination between government

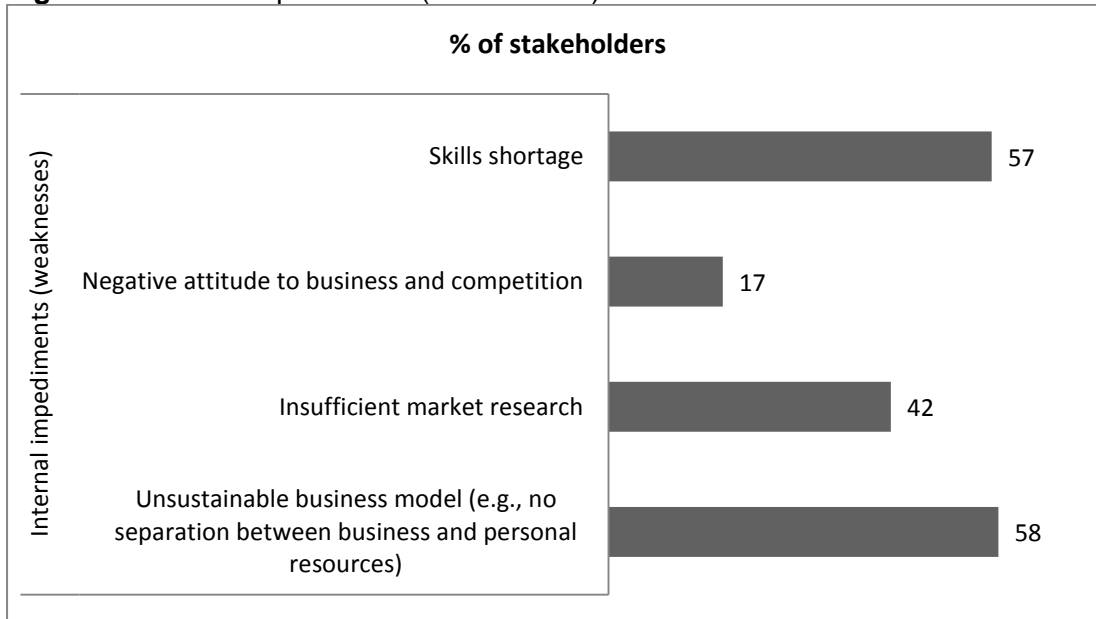
departments dealing with small enterprises would contribute to improving the policy and regulatory environment. Finally, the lack of local procurement policies at local government level was also seen as a hindrance to small business development.

Figure 4: External impediments (threats)



Internal impediments (weaknesses): Within the businesses, the major obstacle identified was inappropriate or poor skills. The inappropriate or poor skills were evident in areas such as entrepreneurship, finance, business management, business development, networking skills, productivity, planning, marketing, and leadership. In addition to skills challenges, there were other obstacles as depicted in Figure 5.

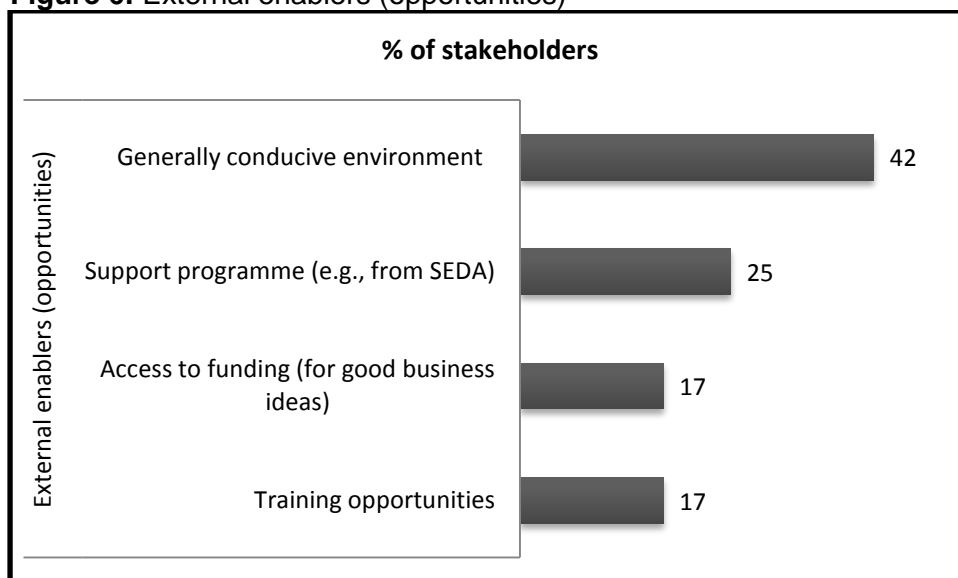
Figure 5: Internal impediments (weaknesses)



External enablers (opportunities) and internal enablers (strengths): The stakeholder participants also acknowledged that a number of factors acted as enablers to SMME development as depicted in Figure 6 and affirmed that the business environment in South Africa is generally conducive for SMMEs. For example, access to funding was available for good business ideas. Further, there were a number of business support services in place such as training, mentorship programmes, and other business development services provided by both public and private sector institutions. Within the business enterprises, success was more likely if the business owner had appropriate business management skills, an entrepreneurial work ethic, access to finance, and the right appropriate technical skills. Stakeholder 6 emphasised: *“The absence of skills is a major issue, but it is compounded by a failure to provide services for which there is a need in the community. The traders do not go out of their way to differentiate their businesses from competitors. Immigrant traders relate to customers very well, hence the moniker ‘my friend shops’”*.

To emphasise the importance of collaboration, the benefits of networking and belonging to appropriate business associations were also identified as an important internal business enabler for SMMEs. According to Stakeholder 8, *“the traders do not have a formal or informal structure to operate in...it is each on his or her own...hence they have no buying or bargaining power”*.

Figure 6: External enablers (opportunities)



4.2.2 Trader perceptions

We interviewed a sample of twenty six small businesses involved in the retail trade ranging from informal unregistered hawkers to registered grocery stores and township liquor traders as profiled in Table 9.

Table 9: Profile of the trader participants

Characteristic	Category	Count	%
Business age	0-2	2	8
	3-5	4	15
	6-10	5	19
	11 and above	11	42
	Not known	4	15
Source of start-up capital	Own resources	23	88
	Family	3	13
	Informal loan	1	4
Self-reported growth trend	Growing	12	46
	Static	6	23
	Declining	6	23
	Not known	2	8
Registration status	Registered	5	19
	Not registered	18	69
	Not disclosed	3	13
Reasons for starting the business	Desire to be self-employed	2	8
	Unemployment	6	23
	Financial necessity	1	4
	Not disclosed	17	65

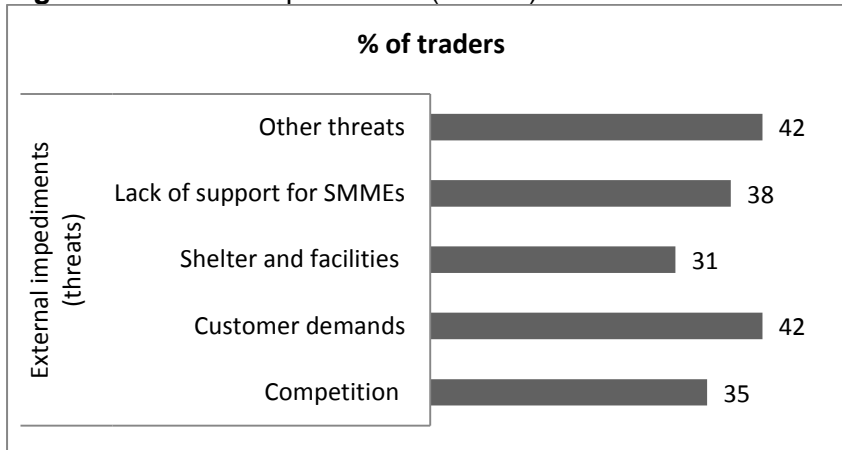
External impediments (threats): A number of external impediments or threats were identified including competition, customer demands, lack of shelter and facilities, and inadequate assistance for SMMEs (Figure 7). There was a view that customers are

becoming more demanding with regard to the prices and the level of service they expect. Some traders also perceived these customer demands for quality and good services as a threat. The traders claimed that they *“...cannot meet these price demands because prices at the suppliers are high”* (Trader 13). According to Trader 5, *“local customers are unwilling to pay reasonable prices, hence our dependence on tourists and customers from outside our township. We also take our furniture to flea markets whenever we can”*.

The sources of competition identified are foreigner-owned shops and big shops operating from shopping malls. There was a perception, however, that *“foreigner-owned shops are more of a threat than shopping malls because of their everyday low prices”* (Trader 10). On the other hand, *“shopping malls have specials every month”* (Trader 23). Other issues relating to customer demands included non-payment or late payment by credit customers and what was seen as unreasonable returns of non-perishable goods for refunds.

The inadequacy and absence of basic shelter and facilities were also identified as a major problem in the development of SMMEs. For example, because they operate in makeshift structures, some businesses owners are prone to suffering losses due to inclement weather. The absence of appropriate storage facilities means that business owners have to transport their goods and services to and from the place of operation every business day. The challenge of basic shelter and facilities is related to the perceived lack of assistance for SMMEs from the government (38%). Though Trader 6 shared this perception, he was quick to admit: *“but I once attended a business management training programme”*. For some, lack of access to capital was a manifestation of this perceived lack of assistance. To illustrate, Trader 21 stated: *“I can’t get access to capital because I cannot provide surety”*. Trader 23 claimed: *“...we don’t get (financial and training) support from our government. ...I have applied for funding but been unsuccessful; government must relax requirements for funding for small businesses”*. Other threats identified include seasonality of some businesses, dependence on tourists, rising costs of inputs, and minimum wage requirements, unreliability of short-term employees, unemployment, and security.

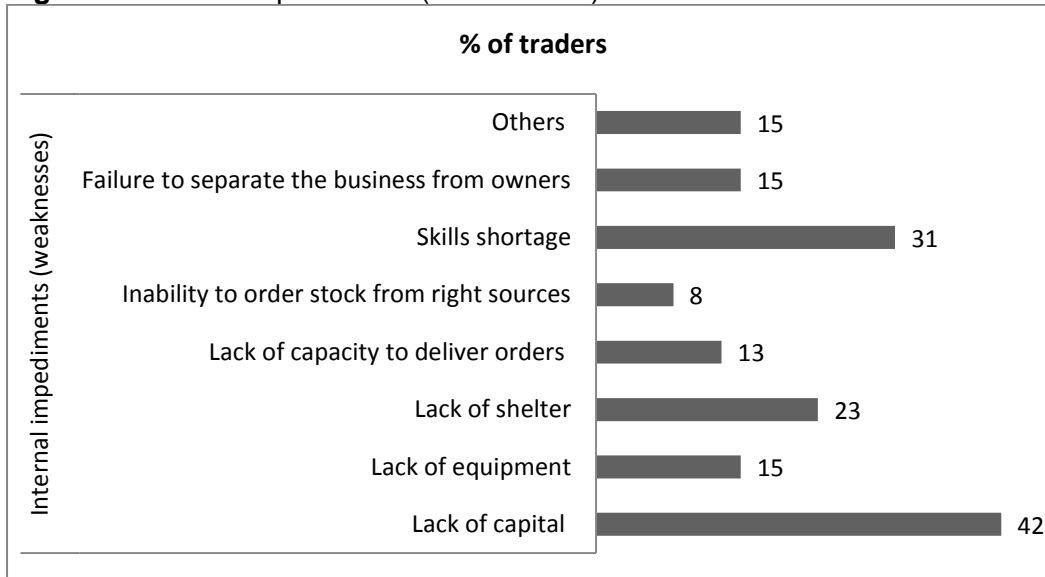
Figure 7: External impediments (threats)



Internal impediments (weaknesses): The lack of capital was the major internal impediment (weakness) identified by the traders (42%) (Figure 8). The other internal impediments were lack of or inadequate equipment (15%), lack of appropriate shelter (23%), lack of capacity to deliver orders (13%), inability to order stock from right sources (8%), skills shortages (31%), and failure to separate the business from owners (15%). Others include production capacity constraints, and uncompetitive pricing (15%). The lack of capital was manifested in various areas including the inability to order stock in the right quantities, failure to build or expand shelter, and the lack of equipment. In the words of Trader 1: *“Government must help us with money. We have tried the banks to raise capital...”* but *“The banks ask you how much you have before they help you”* (Trader 6). To emphasise that it is not hand-outs from government that they need, Trader 18 added: *“Help from government does not have to be hand-outs. Loans on good terms would help”*. Most likely due to the lack of capital, some businesses lack equipment, do not have appropriate shelter, are unable to deliver orders on time, and are unable to order stock from the right sources.

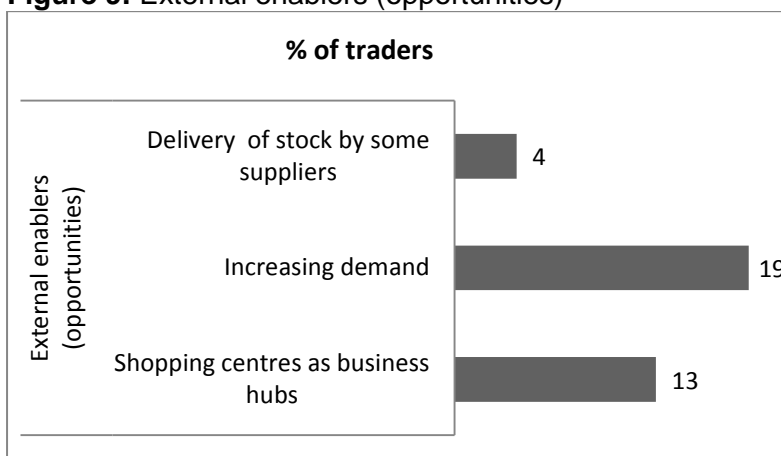
Some business owners acknowledged that lack of skills is a major weakness in their businesses. The main area where skills are lacking is in general business management. For example, businesses owners such as Trader 1 understand that their lack of marketing skills needs to be addressed: *“I don’t think or know how can I make people or keep customers not to go to Shoprite but come to us”*.

Figure 8: Internal impediments (weaknesses)



External enablers (opportunities): The external enablers or opportunities identified by the traders include increasing demand (19%), the advent of shopping malls (13%), and the delivery of stock by suppliers to some of the small businesses (4%) (Figure 9). Though some of the participants reported that their businesses were not doing well in terms of sales, some were of the view that demand for their goods and services was growing. Similarly, though some traders saw the advent of malls as a threat to their fledgling businesses, others saw this as an opportunity because malls act as business hubs and therefore attract customers, some of whom patronise small businesses. According to Trader 8, big retailers and malls *“are not the main challenge but the opportunity as I see people leaving the shopping centre and coming here to buy”*.

Figure 9: External enablers (opportunities)



Internal enablers (strengths): Most business owners did not identify any internal enablers save for their skills as business owners (19%). These included business owners who relied on their skills as carpenters and tailors, for example.

4.2.3 A comparison of stakeholder and trader perceptions

A comparison of stakeholder and trader perceptions as illustrated in Figure 10 shows that there was agreement between the two groups on what the key external impediments are on only two factors, namely, the lack of support (including funding) and competition. Similarly, regarding the key internal impediments, the stakeholders were in agreement on only two factors, namely, skills shortages and unsustainable business model (Figure 11). However, there was no agreement between the two groups on the external enablers (Figure 12). The only internal enabler identified (by the traders) was the technical skills of the business owners.

Figure 10: Stakeholder and trader perceptions (%) of external impediments (threats)

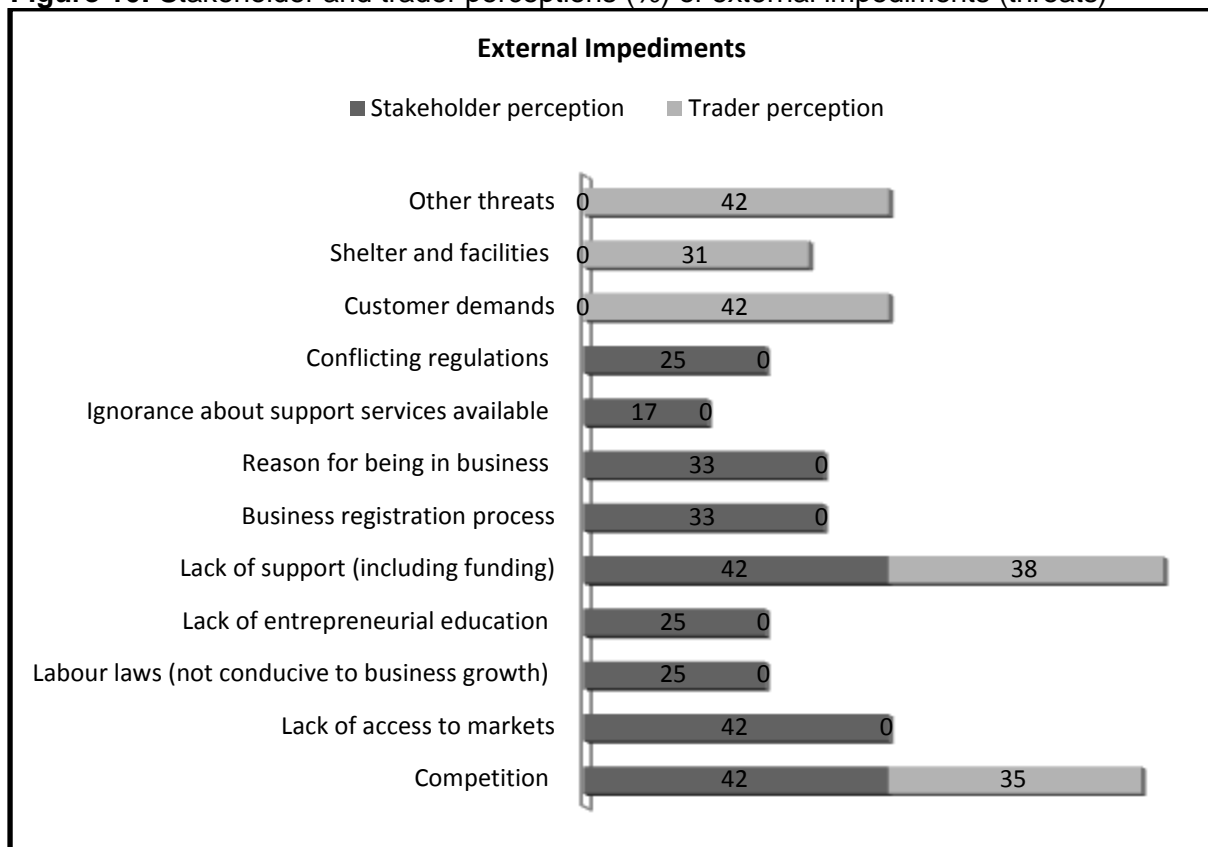


Figure 11: Stakeholder and trader perceptions (%) of internal impediments (weaknesses)

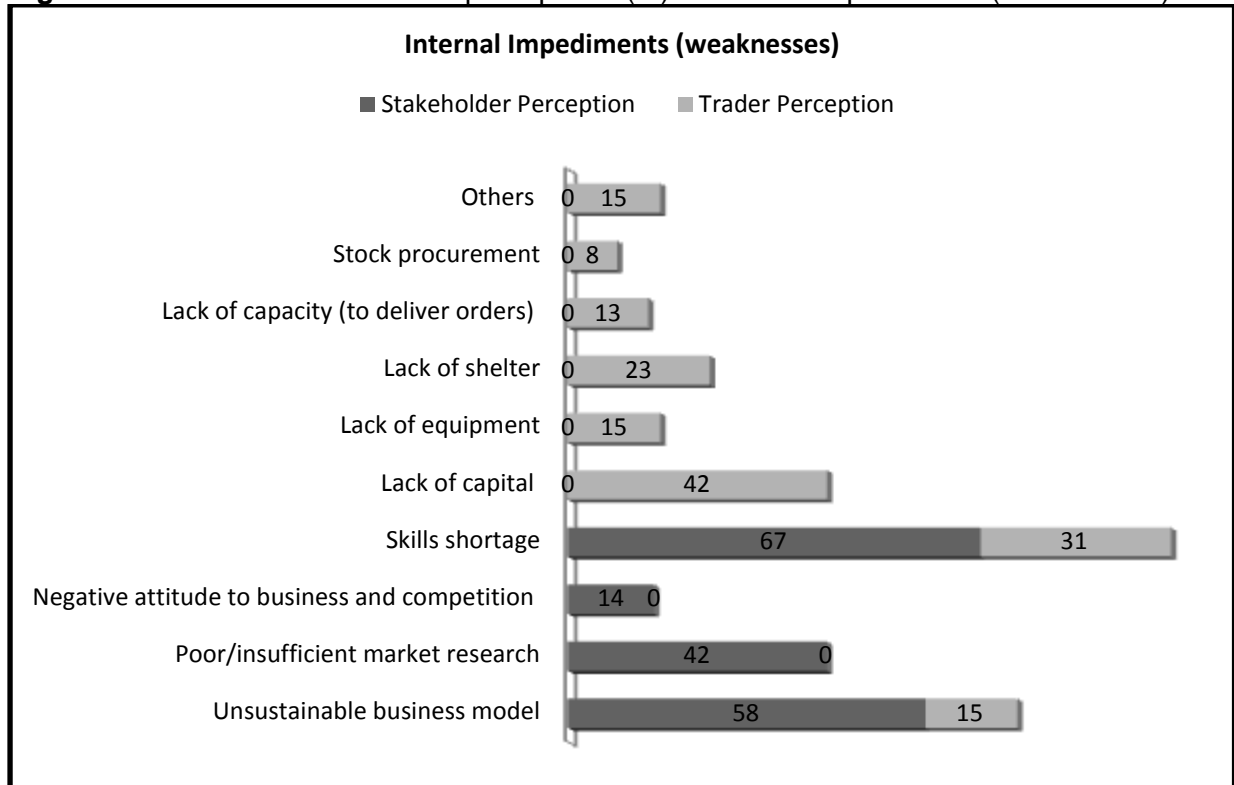
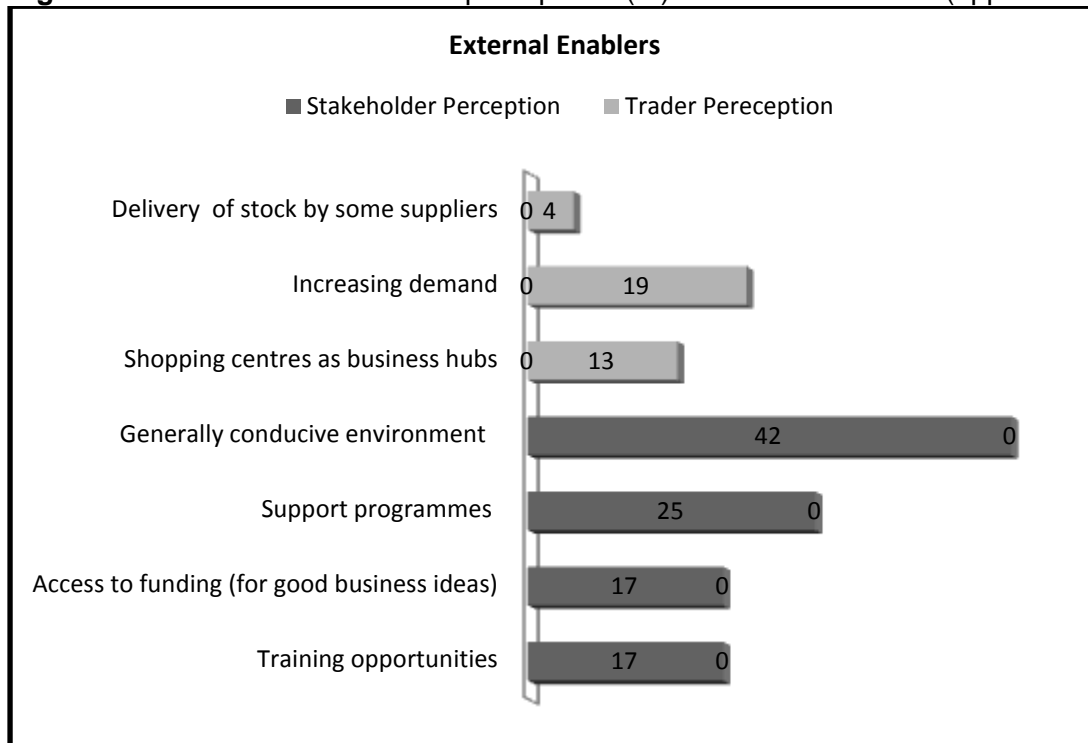


Figure 12: Stakeholder and trader perceptions (%) of external enablers (opportunities)



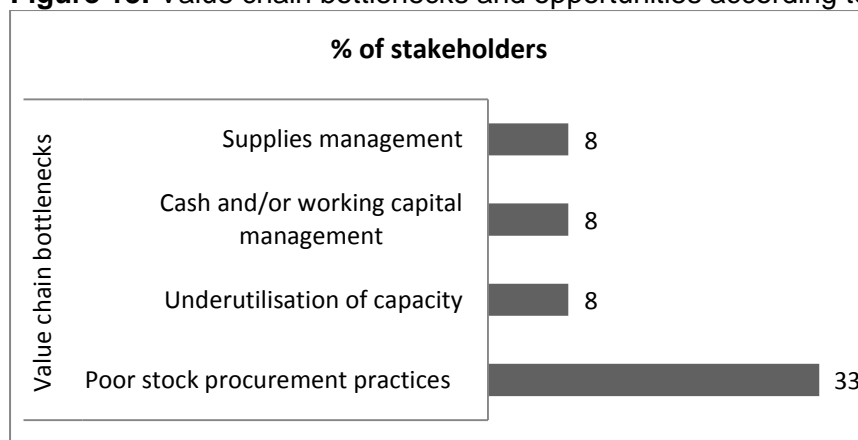
4.3 VALUE CHAIN BOTTLENECKS AND OPPORTUNITIES

Both the stakeholders and traders were asked to identify the main bottlenecks and opportunities in the value chain for SMME and informal traders. This section addresses the stakeholders' and traders' perceptions regarding value chain bottlenecks and opportunities.

4.3.1 Stakeholder perceptions

Regarding the use of the value chain perspective to seek opportunities for improved competitiveness amongst SMMEs, the main bottlenecks and therefore areas of possible improvement were identified as procurement practices (29%), capacity utilisation (7%), working capital management (7%), and supplies management (7%) (Figure 13). According to the participants from small business support institutions, there was generally little understanding of how the value chain perspective could be employed to improve competitiveness. The notable exception was the foreigner-owned retail shops whose sources of competitiveness include grouped procurement strategies.

Figure 13: Value chain bottlenecks and opportunities according to stakeholders



4.3.2 Trader perceptions

The main value chain bottlenecks identified by the traders were the constraints of operating a business without registration (Table 10). As most of the traders were unlicensed (69%), they could not order stock and obtain trade discounts from wholesalers and suppliers, for example. Further, given their small size, quantity discounts and other scale advantages were out of the question because they bought in small quantities. In the words of Trader 17, *“Because we are not licensed, we cannot buy directly from wholesalers”*. The other bottlenecks are limited capacity, use of public transport, lack of trade credit, and late deliveries by suppliers. However, some aspects of the value chain such as deliveries of

stock by suppliers operated in favour of small businesses and were therefore perceived as enablers. For some small businesses, the ability to offer delivery services to their customers was employed as a differentiation strategy.

Table 10: Value chain bottlenecks and opportunities according to traders

Theme	Key factors identified	Count	%
Value chain bottlenecks and assistance	No direct access to wholesalers and trade discounts	3	13
	Limited capacity	1	4
	Lack of skilled subcontractors	1	4
	Use of public transport to move stock	1	4
	Late deliveries by suppliers		4
	Lack of credit terms from suppliers	1	4
	Delivery of stock by suppliers	2	8
	Delivery of customer orders	1	4
Support for SMMEs	Provide to all SMMEs	2	8
	Provide to registered SMMEs only	2	8
	Incentivise registration	1	4

4.4 SUPPORTING THE INFORMAL TRADERS

The stakeholders and traders were asked whether or not business support should be extended to informal traders. This section addresses their responses.

4.4.1 Stakeholder perceptions

The question of whether or not informal businesses should receive support drew mixed views from the participants. First, some participants questioned what was meant by “informality” and argued that though many informal businesses were not registered as businesses with the Companies and Intellectual Property Commission (CIPC), they obtained permits to trade in prescribed goods and spaces from municipal offices which had their details on their databases. Fourteen percent of the participants felt that there was a need to render assistance to the informal businesses irrespective of whether or not they are registered as businesses.

According to some participants (25%), the reluctance to register is in part due to the perception amongst some informal businesses that registration would lead to increased business costs (e.g., taxation, licensing, accounting and bookkeeping) (Table 11). Further, the process of registration itself is seen to be burdensome for small businesses. To encourage registration, some participants (17%) suggested requiring registration before rendering assistance to informal businesses and linking the provision of assistance to compliance. One stakeholder argued that *“If you are not registered, it is difficult to access funding”*. But other participants (33%) were of the view that there was no need to make

registration a requirement. According to stakeholder 6, “You do not necessarily need to enforce formalisation...to offer assistance. There are costs associated with registration”. Stakeholder 8 added: “Many of the immigrants’ businesses in retail are informal, but they are run well because the owners tend to be more educated. For South Africans, such businesses are associated with the uneducated.”

Table 11: Supporting the informal sector according to stakeholders

Theme	Key factors identified	Count	%
Support for SMMEs	Provide to all SMMEs	2	17
	Provide to registered SMMEs only	2	17
	Incentivise registration (link benefits to registration)	2	17
	No need for registration	4	33
Pros of support	Access to markets and service providers	1	8
Cons of support	Fear that it will lead to additional business costs	3	25
	Ignorance of the benefits of registration	1	8
Retail sector small businesses	Not different from small businesses in other sectors	6	50
	Ease of entry attracts competitors including foreigners	4	33
	Poor customer service	1	8

4.4.2 Trader perceptions

The traders that responded to this question were divided in that while some favoured the extension of support to all informal businesses (8%), others were of the view that only registered businesses should have access to support services (8%). Some suggested there should be incentives for registration (4%).

4.5 INFORMAL AND SMME BUSINESSES IN RETAILING

Informal and SMME businesses in retailing generally face similar challenges as informal and SMME businesses in other sectors (see Table 11). However, ease of entry was noted to be higher in retail and to be responsible for the intense competition in the sector. Informal and SMME businesses in retail were also said to be more likely to practise poor customer service. The only issue expressed here was that retailing was more challenging and riskier than other businesses, especially where perishables are concerned.

4.6 INTERNATIONAL TRENDS

Both the stakeholders and traders were asked about international trends that could be adapted to the South African environment.

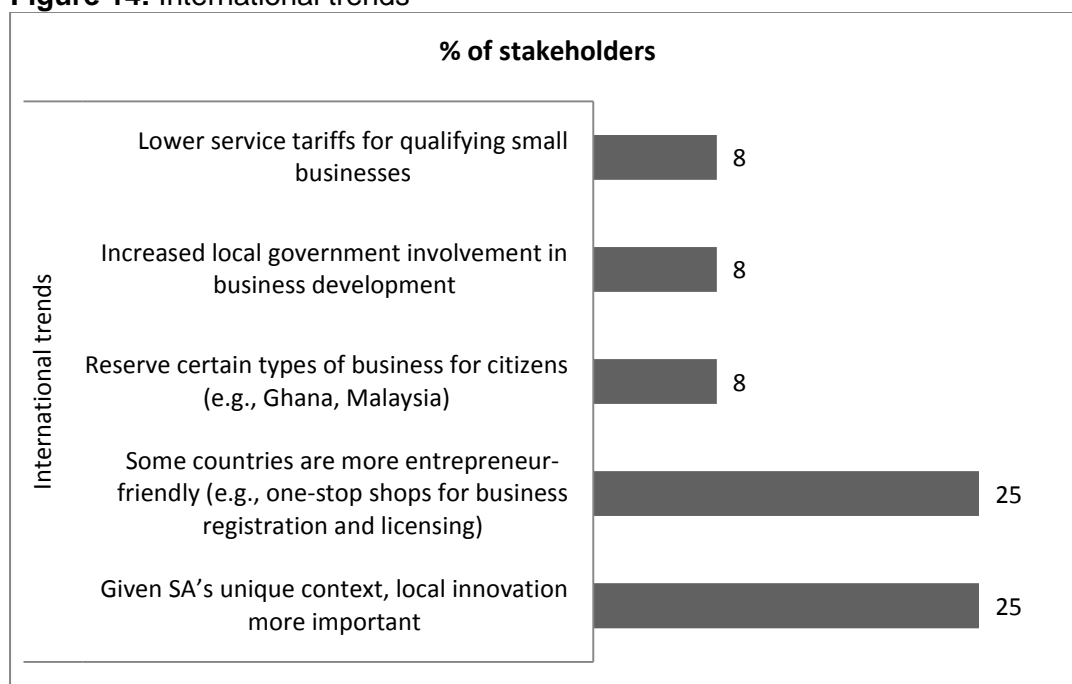
4.6.1 Stakeholder perceptions

Though acknowledging that there are many new developments in the area of small business development, twenty five percent of the participants were of the view that local solutions are

better and important given South Africa’s unique context (Figure 14). They also ventured that the business environment in South Africa is generally positive, hence the success of many foreigner-owned small businesses. However, a number of suggestions were made regarding international trends to consider. These include:

- Ring-fencing certain types of business such as small retailing for citizens only
- Introduction of decentralised one-stop business registration and advisory centres
- Encouraging and rewarding innovation
- Lowering or subsidising service tariffs for small businesses, and
- Increased local government involvement in small business development activities.

Figure 14: International trends



4.6.2 Trader perceptions

The traders did not identify any international trends that South Africa could learn from because they were not aware of any.

4.7 CONCLUSION

A comparison of the two groups of participants shows that both groups were in agreement about the lack of support (including funding) and competition being amongst the major external impediments to the growth of small businesses. However, while the traders viewed customer demands and lack of shelter and facilities as part of the top three external impediments, the stakeholders included lack of access to markets and the onerous business registration process. The groups did not share the same view on internal impediments. For

the traders, the main internal impediments were lack of funds, lack of shelter and facilities, and lack of equipment. In contrast, the stakeholders saw the main internal impediments as lack of skills, failure to separate personal from business resources, and insufficient market research.

There is no commonality regarding the top external enablers between the two groups. While some traders saw increasing demand and the advent of shopping malls as enablers of small business development, the stakeholders pointed to what they said was a generally conducive business and availability of business support programmes and funding for good business ideas as the main external enablers. Both groups only identified the business owners' skills as the main internal enabler.

The main value chain bottleneck identified by both groups are the inappropriate procurement practices used by some of the traders who on account of their size and registration status were unable to buy stock directly from wholesalers and suppliers. Regarding the provision of business support services to small businesses, a major point of difference between the two groups is that some stakeholders do not see the need to insist on registration for business support to be provided. The traders were divided on this issue between those that favoured the extension of business support services to all informal businesses and those that favoured supporting only those that were registered.

In the next chapter, we present the conclusions and recommendations.

CHAPTER 5 CONCLUSION AND RECOMMENDATIONS

This study sought to

- Define the nature, market size, contribution and characteristics of informal traders and SMMEs in the South African retail sector,
- Explore the contribution of informal traders and SMMEs to job creation and GDP,
- Identify factors impacting on the start-up, survival and growth of informal traders and SMMEs and
- Explore international trends relevant to the South African situation.

The primary research focused on identifying the impediments and enablers to the start-up, survival and growth of informal and retail SMMEs, value chain bottlenecks and aids, perceptions of the role of business development support services, and international business trends that would be relevant to South Africa. The findings from the primary research involving both stakeholders and traders were largely consistent with the literature. The main impediments to start-up, survival and growth were identified as increasing competition, inappropriate and poor business skills, lack of collaboration, and aspects of the policy and regulatory environment.

Other impediments include:

- Shortage of funds
- Poor marketing and positioning
- Unsustainable business model reflected in poor internal controls (including failure to separate personal and business affairs)
- Reasons for going into business
- Lack of access to markets
- Insufficient market research
- Failure or unwillingness to take business development assistance (such as mentorship and training programmes), and
- Inadequate or inappropriate use of technology.

There is also little understanding regarding how businesses can improve their competitiveness by examining and introducing efficiencies in their value chains. A number of enabling factors were also identified including the generally conducive business

environment, access to finance for good business ideas, and availability of business support services.

There was general support for the extension of business development support to the informal sector given the important role such support plays. Though some participants were of the view that support should be offered to registered businesses only, most felt registration should not be a prerequisite for support. In fact, support to informal businesses in the retail sector is already being provided by the Small and Micro Business Development Department and other agencies such as the Small Enterprise Finance Agency (SEFA) and the W&RSETA. And to spearhead the small enterprise development agenda, the government set up a new ministry (Department of Small Business Development) in 2014. Although the importance of competition in the economy was acknowledged, ring-fencing certain businesses and introducing decentralised one-stop business registration and advisory centres was suggested.

While emphasising the uniqueness of South Africa as a country, the participants from support institutions proposed a number of international trends South Africa can learn from including more entrepreneur-friendly policies such as one-stop business registration, licensing and advisory centres and reserving certain types of business for citizens only. The traders did not offer any views on this point. This is not surprising given their levels of education. Though we did not ask the traders to indicate their levels of education, we know from prior research that their levels of education are generally low (Ligthelm, 2004).

The literature suggests that up to 70% of small businesses fail because of internal factors. This means that addressing internal impediments to the survival and growth of SMMEs and informal business is an appropriate point of departure in making recommendations. Both the literature review and the primary research show that the main internal impediments include lack of or poor business management skills, inadequate or poor shelter and services, poor knowledge about available business development resources, lack of business management experience, lack of collaboration, and funding problems.

These impediments are discussed in more detail:

- **Skills:** The lack of business management skills emerged as a major problem and cuts across functional areas. Skills gaps were said to be evident in marketing, bookkeeping, accounting, procurement and stock management, to name but a few. This lack of skills translates into businesses being unable to survive or compete. The first recommendation

is therefore that resources be devoted to undertaking a comprehensive training needs analysis to facilitate the design of appropriate training interventions. It is notable that both the W&RSETA and the DTI are already implementing some training programmes for SMMEs and informal business such as the Informal Traders Upliftment Project (ITUP). In order to encourage more business owners to participate in skills development programmes, the focus must not only be on creating awareness of these programmes but also on incentivising attendance. For one-person businesses, attending a training programme has the opportunity cost of lost income as the business has to close while the owner attends the training programme.

- **Shelter and services:** Shelter and services for SMMEs and informal business are sometimes non-existent or not up to standard. This includes street traders, spaza shops, township and rural general dealer shops, and permanent and temporary markets. One key lever of retail success relates to store factors that consumers employ to decide on the store of purchase. Assistance is therefore required to help emergent retailers upgrade their shelters and accompanying services. It is notable too that under National Informal Business Upliftment Strategy (NIBUS), in addition to training, shop refurbishment will be included. This is with a view to making local retailers more competitive. The importance of these initiatives is reflected in the words of one of the research participants who said that providing assistance to these emerging retailers will help “move the fight from the streets to the shelves” in allusion to the protests against, and looting of, foreigner-owned shops.
- **Business development resources:** Lack of knowledge about available business development resources is also a problem. The business development resources available to small and informal business are not widely known. This is not surprising given that the majority of informal business owners have lower levels of education and lack formal business training. It is therefore recommended that appropriate measures for creating awareness be investigated. Such measures could include business fairs/exhibitions in the communities and radio talk shows on community radio stations. This also applies to creating awareness about the advantages of business registration and debunking the misperceptions about business registration. This could be done by working with community based business associations or cooperatives such as chambers of commerce, SMME desks and local development associations (e.g., Khayelitsha Development Forum). For this to be effective, organisation management skills need to be provided to these associations.

- **Mentorship:** As most of the informal business owners are forced into business by necessity, it is very unlikely that they will go into business having had some business management experience. This means that as far as business management experience is concerned, they start their businesses from a point of weakness. In addition to training, the use of mentors should be considered to help these businesses. But for mentorship programmes to succeed, the business people need to be educated about the purpose of the programme. This is to avoid business people perceiving the involvement of mentors as interference in their businesses. Encouraging the formation of trader associations and working through them to provide mentorship may enhance programme acceptance.
- **Collaboration:** The tendency to work independently of others and to consider one's competitors as adversaries works against business success. It also weakens the business people's voice as they do not present a united front regarding issues that affect them. The formation of trader associations should be encouraged to promote collaboration and reduce detrimental individualism. It is noteworthy that the DTI has committed to funding the development of organisational management skills for informal trader organisations under NIBUS.
- **Funding:** We found that 88% of the traders used their own private resources for start-up capital in their businesses (According Ligthelm [2004], between 79.5% and 82.5% of the spaza, hawker, and general dealer business owners obtain their start-up capital from private savings.) Because not all of these business owners have growth potential or the desire to grow their business beyond subsistence levels, not all of them require funding to grow their businesses. However, those that manifest entrepreneurial flair and the desire to grow should be funded and offered business management training as a condition for the funding. This funding could also be channelled through local trader associations.
- **Registration:** It is evident that there are advantages and that some small businesses can benefit from registration. But there are also perceived disadvantages. Awareness campaigns to disabuse small business owners of the disadvantages associated with business registration should be implemented, preferably in conjunction with local trade associations. However, demanding business registration before extending business support may be counterproductive because some informal businesses have neither the

desire nor the capacity to grow their businesses. For these businesses, business support should be more focused on sustainability.

To summarise, Table 12 shows the findings, recommendations and the suggested responsible institution.

Table 12: Findings and recommendations

Findings	Recommendation	Responsibility
Skills: Skills gaps were said to be evident in marketing, book-keeping, accounting, stock management, procurement, etc.	Comprehensive training needs analysis to facilitate the design of appropriate training interventions.	W&RSETA, DTI, and Department of Small Business Development
Shelter & services: Shelter and services for SMMEs and informal business are sometimes non-existent or not up to standard.	Provide and/or upgrade shelter and accompanying services.	DTI, Department of Small Business Development, and local government authorities
Business development resources: The business development resources available to small and informal business are not widely known.	Create more awareness and education about the available services and how they can be accessed.	W&RSETA, DTI, Dept of Small Business Development, local government, local chambers of commerce, business support institutions (e.g., SEDA), and trade associations
Mentorship: Some informal and SMME business owners go into business having little or no business management experience.	Support mentorship programmes linking successful business owners to informal and SMME businesses.	W&RSETA, DTI, Department of Small Business Development, local chambers of commerce, and trade associations
Collaboration: The tendency to work independently of others and to consider one's competitors as adversaries works against business success and weakens the business people's voice.	Encourage the formation of trader associations or other forms of strategic business alliances.	W&RSETA, DTI, Department of Small Business Development, local chambers of commerce, trade associations
Funding: 88% of the traders used their own private resources for start-up capital.	Traders that manifest entrepreneurial ability should be considered for funding subject to agreed conditions.	Finance institutions (DTI and Dept of Small Business Development should consider a credit guarantee scheme for qualifying businesses or business persons)
Registration: The advantages and disadvantages of registration are not fully understood.	Create more awareness and education about the advantages of business registration.	DTI, Department of Small Business Development, local government, local chambers of commerce, trade associations

REFERENCES

- Ayyagari, M., Beck, T. & Demirguc-Kunt, A. 2007. Small and medium enterprises across the globe. *Small Business Economics*, 29: 415-434.
- Baker, J., Parasuraman, A., Grewal, D. & Voss, G. 2002. The influence of multiple environment cues on perceived merchandise value and patronage intentions. *Journal of Marketing*, 66: 120-141, April.
- Banerjee, A.V. & Duflo, E. 2011. *Poor economics: A radical rethinking of the way to fight global poverty*. New York: Public Affairs.
- Baumol, W.J. 1990. Entrepreneurship: Productive, unproductive, destructive. *Journal of Political Economy*, 98(5): 893-921.
- Bennison, D. & Hines, T. 2003. Guest editorial: Retailing for communities: issues of inclusion and exclusion. *International Journal of Retailing & Distribution Management*, 31(8): 385-388.
- Bennison, D., Warnaby, G. & Medway, D. 2007. The role of quarters in large city centres: A Mancunian case study. *International Journal of Retail & Distribution Management*, 35(8): 628-638.
- Berner, E., Gomez, G. & Knorringa, P. 2012. "Helping a large number of people become a little less poor": The logic of survival entrepreneurs. *European Journal of Development Research*, 24(3): 382-396.
- Bertaux, D. 1981. From the life-history approach to the transformation of sociological practice. In D. Bertaux (Ed.), *Biography and society: The life-history approach in the social sciences* (pp.29-45). London: Sage.
- Booyens, I. 2011. Are small, medium and micro enterprises engines of innovation? The reality in South Africa, *Science and Public Policy*, 38(1): 67-78.
- Bryman, A. & Bell, E. 2007. *Business research methods* (2nd ed.). New York: Oxford University Press.
- Cant, M.C. & Lightelm, A. 2003. Small business problems in the South African context: a proactive entrepreneurial approach. Retrieved from: <http://www.itdweb.org/smeconference/documents/plenary/PI%20Berry%20ENG.pdf>.
- Chen, J. 2006. Development of Chinese small and medium-sized enterprises. *Journal of Small Business & Enterprise Development*, 13(2): 140-147.
- Coca-Stefaniak, J.A., Parker, C., Barbany, A., Garrell, X. & Segovia, E. 2005. Gran Centre Granollers-city, culture and commerce. *International Journal of Retail & Distribution Management*, 33(8/9): 685-697.
- Coca-Stefaniak, J.A., Parker, C. & Rees, P. 2010. Localisation as a marketing strategy for small retailers. *International Journal of Retail and Distribution Management*, 36(9): 677-697.
- D'Andrea, G., Lopez-Aleman, B. & Stengel, A. 2006. Breaking the myths on emerging consumers. *International Journal of Retail and Distribution Management*, 34(9): 661-673.

- D'Andrea, G., Ring, L.J. & Lopez-Aleman, B. 2006. Why small retailers endure in Latin America. *International Journal of Retail and Distribution Management*, 34(9): 674-687.
- Dawar, D. 2005. A conceptual framework for the formulation of an informal trader policy for South African towns and cities. *Urban Forum*, 16(1): 1-16.
- Dockel, J.A. & Ligthelm, A.A. 2002. Factors that contribute to small business survival. *Southern African Business Review*, 6(2): 1-7.
- Finmark Trust. 2010. *FinScope South Africa Small Business Survey 2010*.
- Franklin, D. 2000. RIP – SME. *Economic Affairs*, 20(1): 53-54.
- Fredericks, N. 2014. Port St John's informal traders get assistance. *Small Business Connect*, April, 2014, 8: 5.
- Ghisi, A.F., da Silveira, A.G.J., Kristensen, T., Hingley, M. & Lindgreen, A. 2008. Horizontal alliances amongst small retailers in Brazil. *British Food Journal*, 110(4/5): 514-538.
- Gibson, T. & van der Vaart, H.J. 2008. *Defining SMEs: A less imperfect way of defining small and medium enterprises in developing countries*. Brookings Global Economy and Development.
- Glaser, B. & Strauss, A. 2008. *The discovery of grounded theory: Strategies for qualitative research*. New York: Aldine Publishing Company.
- Greeff, H.P. & Mfuni, K. 2010. Strategic drivers for retail in SA - considerations in the controllable and uncontrollable landscape of the future. *International Retail and Marketing Review*, 6(1): 82-84.
- Grewal, D., Krishnan, R., Levy, M. & Munger, J. 2010. Retail success and key drivers. In M. Krafft & M.K. Mantrala (Eds.), *Retailing in the 21st century: Current and future trends* (pp. 15-30). New York: Springer Berlin Heidelberg.
- Guba, E.G. & Lincoln, Y.S. 1994. Competing paradigms in qualitative research. In N.K. Denzin & Y.S. Lincoln (Eds.), *The handbook of qualitative research* (pp. 105-117). Thousand Oaks, CA: Sage.
- Hernandez, T. & Jones, K. 2005. Downtowns in transition: Emerging business improvement area strategies. *International Journal of Retailing & Distribution Management*, 33(11): 789-805.
- Hernandez-Espallardo, M. & Navarro-Bailon, M. 2009. Accessing retailer equity through integration in retailers' buying groups. *International Journal of Retail and Distribution Management* 37(1): 43-62.
- Herrington, M., Kew, J. & Kew, P. 2010. *GEM: Global entrepreneurship monitor*. Cape Town: University of Cape Town.
- Hogg, S., Medway, D. & Warnaby, G. 2003. Business improvement districts: an opportunity for SME retailing. *International Journal of Retail & Distribution Management*, 31(9): 466-469.

- Howe, S.W. 1992. *Retailing management*. Houndmills: Macmillan Education.
- ILO, undated a, Value Chain Development Briefing Paper 1.
- ILO, undated b, Value chain development for more and better jobs.
- ILO. 2002. *Decent Work and the Informal Economy*, Geneva: ILO.
- Jaouen, A. & Gundolf, K. 2009. Strategic alliances between microfirms: Specific patterns in the French context. *International Journal of Entrepreneurial Behaviour & Research*, 13(1): 48-70.
- Jones, G. 2013. SMMEs in dire straits. Available at <http://www.financialmail.co.za/fm/CoverStory/2013/06/13/smmes>.
- Khavul, S., Bruton, G.D. & Wood, E. 2009. Informal family business in Africa. *Entrepreneurship Theory & Practice*, November: 1219-1238.
- Lee, S., Johnson, K.P. & Gahring, A.S. 2008. Small-town consumers' disconfirmation of expectations and satisfaction with local independent retailers. *International Journal of Retail Management and Distribution*, (36)2: 143-157.
- Ligthelm, A.A. 2002. Business success factors of SMEs in Gauteng. A proactive entrepreneurial approach. UNISA Bureau of Market Research. Research Report No. 311.
- Ligthelm, A.A. & Cant, M.C. 2003. Small business problems in Gauteng: Priorities for entrepreneurial education. *Southern African Business Review*, 7(1): 41-53.
- Ligthelm, A.A. 2004. Profile of informal microenterprises in the retail sector of South Africa. *Southern African Business Review*, 8(1): 39-52.
- Ligthelm, A.A. 2013. Confusion about entrepreneurship? Formal versus informal businesses, *Southern African Business Review*, 17(3): 57-75.
- Luiz, J. 2002. Small business development, entrepreneurship and expanding the business sector in a developing economy: The case of South Africa. *The Journal of Applied Business Research*, 18(2): 53-68.
- Mason, M. 2010. Sample size and saturation in PhD studies using qualitative interviews. *Forum Qualitative Sozialforschung / Forum: Qualitative Social Research*, 11(3), Art. 8, <http://nbn-resolving.de/urn:nbn:de:0114-fqs100387>.
- Morris, M.H., Pitt, L.F. & Berthon, P. 1996. Entrepreneurial activity in the Third World informal sector: The view from Khayelitsha. *International Journal of Entrepreneurial Behaviour & Research*, 2(1): 59-76.
- Myeza, J., Mason, R.B. & Peddermors, V. 2010. Economic and social implications of the sardine run on local indigenous communities. *African Journal of Marine Science*, 32(2), 399-404.
- National Planning Commission. 2012. National Development Plan: Vision for 2030. Available at <http://www.npconline.co.za>.

- National Small Business Amendment Act 2003. Available at http://www.thedti.gov.za/business_regulation/acts/small_business_amendment_act.pdf.
- Nobel, C. 2011. Why companies fail – and how their founders can bounce back. *Harvard Business School Working Knowledge*, March 7, 1-2.
- Parker, C. & Byrom, J. 2000. *Towards a Healthy High Street-Training the Independent Retailer*, Manchester: Manchester Metropolitan University.
- Parker, C., Anthony-Winter, T. & Tabernacle, D. 2003. Learning by stealth: introducing smaller retailers to the benefits of training and education in Barnet. *International Journal of Retail & Distribution Management*, 31(9): 470-476.
- Portes, A. & Haller, W. 2005. The informal economy. In N.J. Smelser & R. Swedberg (Eds.), *Handbook of economic sociology* (pp. 403-427). New York: Russell Sage Foundation.
- Pretes, M. 2002. Microequity and microfinance. *World Development*, 30(8): 1342-1353.
- PwC. 2012. South African retail and consumer products outlook 2012-2016. Available at <http://www.pwc.co.za/en/publications/retail-and-consumer-outlook.ihtml>.
- Richie, J. & Spencer, L. 1994. Qualitative data analysis for applied research. In Bryman and Burgess (Eds.), *Analysing qualitative data*. London: Routledge, pp. 173-194.
- Rogerson, C.M. 2013. Improving market access opportunities for urban small, medium, and microenterprises in South Africa, *Urbani izziv*, 24(2): 133-143.
- Rolfe, R., Woodward, D., Ligthelm, A. & Guimaraes. 2010. The viability of informal and micro enterprises in SouthAfrica. Available at <https://whitman.syr.edu/programs-and-academics/centers-and-institutes/abp/conference/papers/The%20Viability%20of%20Informal%20Micro-Enterprise%20in%20South%20Africa.pdf>.
- Schmidt, R., Bennison, D., Bainbridge, S. & Hallsworth, A. 2007. Legislation and SME retailers – compliance costs and consequences. *International Journal of Retail & Distribution Management*, 35(4): 256-270.
- Schneider, F. & Klinglmair, R. 2004. *Public policy and the shadow economy*. Johannesburg: Chamber of Commerce and Industry South Africa.
- Schneider, F. 2005. Shadow economies around the world: What do we really know? *European Journal of Political Economy*, 21:598-642.
- Schramm, C.J. 2004. Building entrepreneurial economies. *Foreign Affairs*, 83(4): 104-115.
- Skinner, C. 2006. Falling through the policy gaps? Evidence from the informal economy in Durban, South Africa. *Urban Forum*, 17(2): 125-148.
- Smith, A. & Sparks, L. 2000. The role and function of the independent small shop: the situation in Scotland. *International Review of Retail, Distribution & Consumer Research*, 10(2): 205-226.
- South African Local Economic Development Network. 2010. Informal Economy. Available at <http://www.led.co.za/topic/informal-economy>.

- Statistics South Africa. 2013. *Quarterly Labour Force Survey: Quarter 4, 2012*. Pretoria: Statistics South Africa.
- Storey, D.J. 1994. *Understanding the small business sector*. London: Thomson.
- Tambunan, T. 2009. Women entrepreneurs in Indonesia: Their main constraints and reasons. *Journal of Asia Entrepreneurship and Sustainability*, 5(3): 37-51.
- Waters, C.D.J. 1999. Changing role of the retail sector in Poland during a period of economic transition. *International Journal of Retail & Distribution Management*, 27(8): 319-327.
- Webb, J.W., Bruton, G.D., Tihanyi, L. & Ireland, R.D. 2013. Research on entrepreneurship in the informal economy: Framing a research agenda. *Journal of Business Venturing*, 28(5): 598-614.
- Western Cape Government. 2007. Western Cape Provincial Economic Review & Outlook 2007. Available at <http://www.westerncape.gov.za/general-publication/provincial-economic-review-and-outlook-2007-pero>
- Willemse, L. 2011. Opportunities and constraints facing informal street traders: Evidence from four South African cities. *SSB/TRP/MDM*, 59: 7-15.
- Yu, D. 2012. Defining and measuring informal employment in South Africa. *Development Southern Africa*, 28(1): 157-175.

APPENDIX 1

RESEARCH INSTRUMENT 1

Informal and small, micro and medium enterprise (SMME) retailers in South Africa: Stakeholders

Introduction

As explained in the attached letter of information and informed consent, I am undertaking research on informal and SMME retailers in South Africa on behalf of the Wholesale & Retail Leadership Chair at Cape Peninsula University of Technology. The research seeks to achieve the following objectives, amongst others, to identify factors that impact on the start-up, survival, and growth of formal and informal retail SMMEs by:

- Examining the external and operational environment with specific reference to the legal environment, support structures at all levels of government, development constraints, threats, sustainability and skills.
- Evaluating their internal operational environments with specific reference to the value chain pertaining to this sector.

This interview will take approximately 30 minutes to complete. We are most grateful for your time.

About you

1. What is your current role in the organization you are associated with?
-

Impediments to the formation and growth of informal and SMME retailers

2. What are the most important external environmental factors that impede the formation and growth of formal and informal retail SMMEs in South Africa?
3. What are the most important environmental factors (factors relating to the entrepreneur or his/her business) that impede the formation and growth of formal and informal retail SMMEs in South Africa?

Factors that advance the formation and growth of SMMEs

4. What are the most important external environmental factors that advance the formation and growth of formal and informal retail SMMEs in South Africa?
5. What are the most important internal environmental factors (factors relating to the entrepreneur or his/her business) that advance the formation and growth of formal and informal retail SMMEs in South Africa?

SMME value chains

6. Where in the value chain (e.g., dealing with suppliers, buying practices, inventory management, operating the stores, and dealing with customers) do you see more opportunities for formal and informal retail SMMEs to make improvements that contribute to their sustainability?

7. Where in the value chain (e.g., dealing with suppliers, buying practices, inventory management, operating the stores, and dealing with customers) do you see more threats for SMMEs sustainability?

Support for informal traders

8. What is your view about extending business support services to informal businesses?
9. What do you see as the advantages and disadvantages of providing such support?

SMMES in the retail sector

10. To what extent do you agree or disagree that informal traders and SMMEs in the retail sector face different opportunities and challenges compares to those in other sectors? Please explain.

International trends in SMME development

11. What are the key trends in international informal business and SMME development that are relevant to the South African context?

Your additional views

12. If there are any other issues you would like to share with us regarding informal and SMME retailers, you may share them with us.

Thank you for sharing your expertise, time and effort in answering these questions.

Dr Mlenga Jere
Graduate School of Business
University of Cape Town
Private Bag X3
Rondebosch 7701

mlenga.jere@gsb.uct.ac.za
084 701 4714 (mobile) 021 406 1414 (office)

APPENDIX1 (continued)

RESEARCH INSTRUMENT 2

Informal and small, micro and medium enterprise (SMME) retailers in South Africa: Traders

Introduction

As explained in the attached letter of information and informed consent, I am undertaking research on informal and SMME retailers in South Africa on behalf of the Wholesale & Retail Leadership Chair at Cape Peninsula University of Technology. The research seeks to achieve the following objectives, amongst others, to identify factors that impact on the start-up, survival, and growth of formal and informal retail SMMEs by:

- Examining the external and operational environment with specific reference to the legal environment, support structures at all levels of government, development constraints, threats, sustainability and skills.
- Evaluating their internal operational environments with specific reference to the value chain pertaining to this sector.

This interview will take approximately 30 minutes to complete. We are most grateful for your time.

About you

1. What is your gender? (*check one*)
 Female Male
2. What is your current role in the organization you are associated with?

3. How many years have you been involved with matters relating to small business or business development? (*check one*)
 Less than 1 year
 1 - 5 years
 6 - 10 years
 More than 10 years

Impediments to the formation and growth of informal and SMME retailers

4. What are the most important external environmental factors that impede the formation and growth of formal and informal retail SMMEs in South Africa?
5. What are the most important environmental factors (factors relating to the entrepreneur or his/her business) that impede the formation and growth of formal and informal retail SMMEs in South Africa?

Factors that advance the formation and growth of SMMEs

6. What are the most important external environmental factors that advance the formation and growth of formal and informal retail SMMEs in South Africa?

7. What are the most important internal environmental factors (factors relating to the entrepreneur or his/her business) that advance the formation and growth of formal and informal retail SMMEs in South Africa?

SMME value chains

8. Where in the value chain (e.g., dealing with suppliers, buying practices, inventory management, operating the stores, and dealing with customers) do you see more opportunities for formal and informal retail SMMEs to make improvements that contribute to their sustainability?
9. Where in the value chain (e.g., dealing with suppliers, buying practices, inventory management, operating the stores, and dealing with customers) do you see more threats for SMMEs sustainability?

Support for informal traders

10. What is your view about extending business support services to informal businesses?
11. What do you see as the advantages and disadvantages of providing such support?

SMMES in the retail sector

12. To what extent do you agree or disagree that informal traders and SMMEs in the retail sector face different opportunities and challenges compared to those in other sectors? Please explain.

International trends in SMME development

13. What are the key trends in international informal business and SMME development that are relevant to the South African context?

Your additional views

14. If there are any other issues you would like to share with us regarding informal and SMME retailers, you may share them with us.

Thank you for sharing your expertise, time and effort in answering these questions.

Dr Mlenga Jere
Graduate School of Business
University of Cape Town
Private Bag X3
Rondebosch 7701

mlenga.jere@gsb.uct.ac.za
084 701 4714 (mobile) 021 406 1414 (office)

APPENDIX 2 THEMATIC FRAMEWORK: STAKEHOLDER PARTICIPANTS

#	Theme	Key factors identified	Count	%	
1	External impediments (threats)	Competition	5	42	
		Lack of access to markets	5	42	
		Labour laws (not conducive to business growth)	3	25	
		Lack of entrepreneurial education	3	25	
		Lack of funding	5	42	
		Business registration process	4	33	
		Reason for being in business (business not the first career choice)	4	33	
		Ignorance about support services available	2	17	
		Conflicting regulations (e.g., refugee rights to trade vs promotion of local businesses)	3	25	
2	Internal impediments (weaknesses)	Unsustainable business model (e.g., no separation between business and personal resources)	7	58	
		Poor/insufficient market research	5	42	
		Negative attitude to business and competition (“Move the fight [for business] from the street to the shop shelf”)	2	14	
		Skills shortage	8	67	
3	External enablers (opportunities)	Training opportunities	2	17	
		Access to funding (for good business ideas)	2	17	
		Support programme (e.g., from SEDA)	3	25	
		Generally conducive environment	5	42	
4	Internal enablers (strengths)	Technical skills	1	8	
		Networking skills	1	8	
5	Value chain bottlenecks	Inappropriate stock procurement practices	4	33	
		Underutilisation of capacity	1	8	
		Cash and/or working capital management	1	8	
		Supplies management	1	8	
6	Support for SMMEs	Provide to all SMMEs	2	17	
		Provide to registered SMMEs only	2	17	
		Incentivise registration (link benefits to registration)	2	17	
		No need for registration	4	33	
		Pros of support	Access to markets and service providers	1	8
		Cons of support	Fear that it will lead to additional business costs	3	25
			Ignorance of the benefits of registration	1	8
7	Retail sector small businesses	Not different from small businesses in other sectors	6	50	
		Ease of entry attracts competitors including foreigners	4	33	
		Poor customer service	1	8	
8	International trends	Given SA's unique context, local innovation more important	3	25	
		Some countries are more entrepreneurial (e.g., one-stop shops for business registration and licensing)	3	25	
		Reserve certain types of business for citizens (e.g., Ghana, Malaysia)	1	8	
		Increased local government involvement in business development	1	8	
		Lower service tariffs for qualifying small businesses	1	8	

**APPENDIX 3
THEMATIC FRAMEWORK: TRADER PARTICIPANTS**

#	Theme	Key factors identified	Count	%		
1	External impediments (threats)	Competition	9	35		
		Customer demands	11	42		
		Shelter and facilities	8	31		
		Lack of support for SMMEs	10	38		
		Other threats	11	42		
2	Internal impediments (weaknesses)	Lack of capital	11	42		
		Lack of equipment	4	15		
		Lack of shelter	6	23		
		Lack of capacity to deliver orders	3	13		
		Inability to order stock from right sources	2	8		
		Skills shortage	8	31		
		Inseparability of business from owners	4	15		
		Others	4	15		
3	External enablers (opportunities)	Shopping centres as business hubs	3	13		
		Increasing demand	5	19		
		Delivery of stock by some suppliers	1	4		
4	Internal enablers (strengths)	Skilled owners	5	19		
5	Value chain bottlenecks and assistance	No direct access to wholesalers and trade discounts	3	13		
		Limited capacity	1	4		
		Lack of skilled subcontractors	1	4		
		Use of public transport to move stock	1	4		
		Late deliveries by suppliers		4		
		Lack of credit terms from suppliers	1	4		
		Delivery of stock by suppliers	2	8		
		Delivery of customer orders	1	4		
		6	Support for SMMEs	Provide to all SMMEs	2	8
				Provide to registered SMMEs only	2	8
Incentivise registration	1			4		
7	Type of business	Fruit and vegetable	2	8		
		Beddings	2	8		
		Clothes	5	19		
		Furniture	3	13		
		Spaza	1	4		
		Meat trade	3	13		
		Township liquor traders	4	15		
		Toiletries	2	8		
		Hardware	1	4		
		Restaurateur	1	4		
		Grocery stores	2	8		
		8	Business age	0-2	2	8
2-5	4			15		
6-10	5			19		
11 and above	11			42		
Not known	4			15		
9	Source of start-up capital	Own resources	23	88		
		Family	3	13		
		Informal loan	1	4		
10	Self-reported growth trend	Growing	12	46		
		Static	6	23		
		Declining	6	23		
		Not known	2	8		

11	Registration status	Registered	5	19
		Not registered	18	69
		Not disclosed	3	13
12	Motivating factor for starting	Desire to be self-employed	2	8
		Unemployment	6	23
		Financial necessity	1	4
		Not disclosed	17	65

APPENDIX 4

LETTER OF INFORMATION AND CONSENT

Graduate School of Business
University of Cape Town
Private Bag X3
Rondebosch 7701

6 March 2014

Dear participant,

LETTER OF INFORMATION AND CONSENT Research on informal and SMME retailers in South Africa

I am currently undertaking a research project on behalf of the Wholesale & Retail Leadership Chair at Cape Peninsula University of Technology. The study aims to identify factors that impact on the start-up, survival, and growth of informal and SMME retailers by:

- Examining the external and operational environment with specific reference to the legal environment, support structures at all levels of government, development constraints, threats, sustainability and skills.
- Evaluating their internal operational environments with specific reference to the value chain pertaining to this sector.

An important component of this study is a survey of experts in the field SMMEs. Would you agree to be interviewed for the study? The interview will take approximately 30 minutes. Depending on what is convenient for you, I can come and conduct the interview in person or I can telephone at a time of your convenience.

Participation is voluntary and you are free to refuse to participate at any time without giving reasons, and without prejudice or any adverse consequences. The information you give will only be used for research purposes and will be aggregated with other responses and only the overall average or average information will be used. Your identity and individual answers will be kept totally confidential. If any quotations are used, they will remain anonymous. Should you wish to discuss this further, please feel free to contact me or the number below, or the Wholesale & Retail Leadership Chair Professor Roger Mason on masonr@cput.ac.za or 0214603040.

By being interviewed, you are confirming that the study has been adequately explained to you, that you understand that you may withdraw from it at any time without giving reasons, and that you are taking part voluntarily.

Your assistance will be much appreciated.

Yours faithfully,

Dr Mlenga Jere
mlenga.jere@gsb.uct.ac.za
+27 84 701 4714 (mobile)
+27 21 406 1414 (office)

APPENDIX 5

ETHICS APPROVAL



P.O. Box 1906 • Bellville 7535 South Africa • Tel: +27 21 4603239 • Email: zouityf@cput.ac.za
Symphony Road Bellville 7535


Office of the Chairperson Research Ethics Committee	Faculty: BUSINESS
--	--------------------------

At a meeting of the Research Ethics Committee on 4 March 2014, Ethics Approval was granted to DR MG JERE for research activities Related to the: Retail Chair in the RETAIL BUSINESS MANAGEMENT DEPARTMENT, Business Faculty at the Cape Peninsula University of Technology

Title of Project:	Informal and SMME retailers in South Africa Researcher: DR MG Jere
-------------------	---

Comments:

Decision: **APPROVED**

 Signed: Chairperson: Research Ethics Committee	04 MARCH 2014 Date
---	-----------------------

Signed: Chairperson: Faculty Research Committee	Date
---	------

Clearance Certificate No | 2014FBREC165