

Wholesale & Retail **LEADERSHIP CHAIR**

Collaboration opens the window to a world of opportunities



Informal and SMME Retailers in South Africa A SUMMARY

INTRODUCTION

Small business development plays an important role in employment creation and poverty alleviation. But despite support, the growth and survival rates of small businesses are lower than expected.

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It is estimated that about 79% of small businesses in the formal and informal sectors involve an element of retailing. The National Development Plan suggests that about 90% of jobs could come from small, micro and medium enterprises (SMMEs) by 2030. Thus, about 70% of new jobs by 2030 will be created by small retailers. But research suggests that 70-80% of small business start-ups fail in their first year.

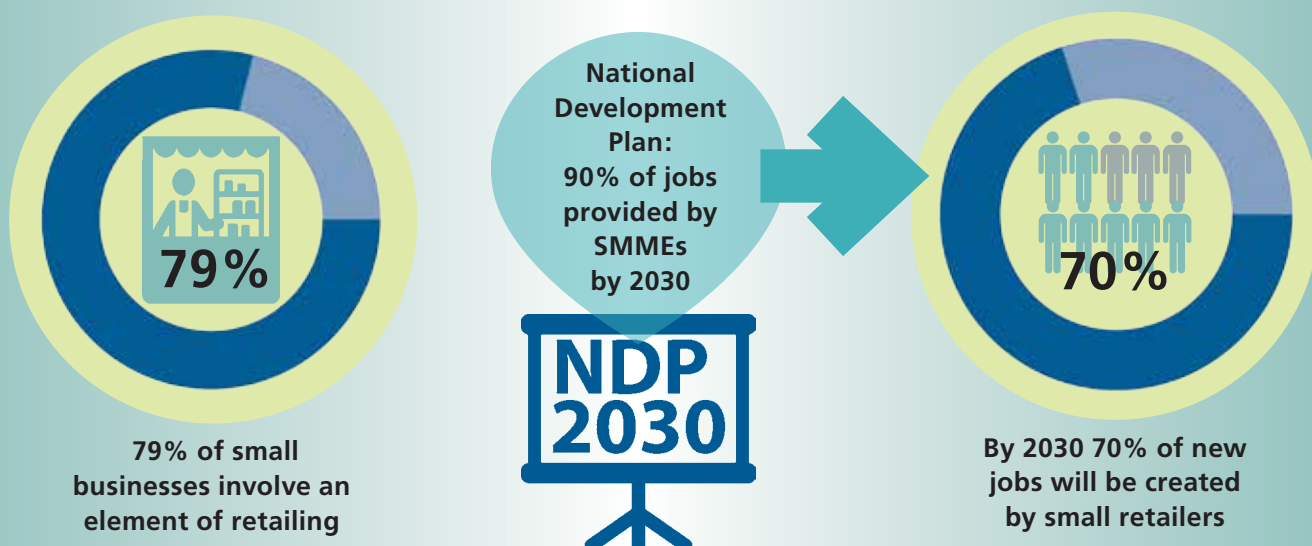
Lead researcher Mlenga Jere of the University of Cape Town Graduate School of Business and researchers Albertina Jere and Jonathan Aspeling of the Department of Retail Business Management at the Cape Peninsula University of Technology investigated the factors that affect the start-up, survival, and growth of small businesses in the retail sector.


The researchers sought to:

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

Participants from stakeholder institutions and small business owners were interviewed with a focus on:

- Identifying the impediments and enablers to the start-up, survival and growth of retail SMMEs,
- Identifying value chain bottlenecks and aids to foster competitiveness,
- Understanding perceptions of the role of business development support services.



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METHODOLOGY

Researchers used a mixed methodology involving desktop research and qualitative interviews with participants from small business support institutions and small business owners. 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.

Participants were primarily selected because of their knowledge about the subject being researched. The participants from small business support institutions all occupied positions of authority that in part involved the promotion and support of small businesses. The participants from the small business sector had first-hand experience in setting up and running small businesses.

Semi-structured interviews guided by pre-determined questions derived from the literature were employed.

Researchers used indexing and charting to analyse the collected data. The last stage, mapping and interpretation, involved the search for patterns, explanations, concepts, and associations in the data.

INTERNATIONAL TRENDS

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 and have a larger proportion of market share in some countries. With the economic reforms in China, including those in retail, the SMME sector has expanded rapidly.

In addition to the traditional role of supplying goods and services and employment generation, SMMEs also facilitate social inclusion for consumers with limited mobility and contribute to community preservation by serving the needs of customers with whom they have personal relationships.

The challenges faced by SMMEs include consumers' increased mobility and higher incomes which enable them to shop outside their neighbourhoods and customer preference for larger retailers' product variety and convenient trading hours. Due to high rent in CBDs, SMMEs are having to trade in poor areas with poorer customers.

Other challenges are crime, inadequate business/management training, degrading or inadequate urban infrastructure, a lack of a single lobbying voice for influencing policy and changing consumer behaviour. Limited managerial skills and succession problems are other internal weaknesses.

Large chain retailers with better access to resources enjoy economies of scale. They have also ventured into traditional SMME niches such as convenience stores and long operating hours, rendering neighbourhood corner stores redundant. Regulations, particularly on tax and labour, are also a major challenge. But in some countries, like China, legislation has favoured SMMEs.

Small businesses are responding to the challenges by setting up alliances or buying groups to consolidate supply volumes. Business area improvement including street cleaning, security and inner city revitalisation could benefit SMME retailers.



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SMALL BUSINESSES IN SOUTH AFRICA

Three key indicators used to measure SMMEs are the number of people employed, turnover per annum, and net assets. In retail, these range from micro enterprises (5 employees, turnover of R200 000 and total asset value of R100 000) to medium (200 employees, R39m turnover and R6m assets).

About 79% of small business activities involve an element of retailing. One in two businesses simply buy and sell products, but some grow or make what they sell.

It is acknowledged that SMMEs play an important role in employment creation and poverty alleviation. SMME development is one of government's priority areas with various support programmes in place and the contribution of small businesses to job creation is acknowledged in the National Development Plan. However, evidence suggests that despite all the effort, South Africa's performance in entrepreneurial and business activity is below average.

According to a FinScope South Africa Small Business Survey, there were 5.9m small businesses in 2010, and just 8.3% were registered. The survey found that small businesses are responsible for about 11.6m employment opportunities.

South Africa's informal sector is characterised by lower levels of education, lack of formal training and lack of business management experience. When unemployment is the primary reason for starting a business, the potential for failure is high.

Most businesses get start-up capital from private savings, stokvels, loans from relatives, retrenchment payments and bank loans.



CONSTRAINTS faced by informal traders are numerous.

They include:

- **Economy-based problems including interest rates, business cycles, policies, labour regulations, infrastructure, employment prospects and crime**
- **Industry-based problems including competition, demand and supply, and entry barriers, and**
- **Internal problems including cash flow, stock levels, transport, funding, equipment, debt, location, access to training and skills.**



OPPORTUNITIES offered by informal trading include:

- **Provision of goods and services to low-income consumers**
- **Flexibility relative to big business**
- **Development of entrepreneurship skills and confidence**
- **Limited use of start-up capital which means one can start with minimal resources.**

Informal businesses often circumvent taxation, labour laws, and administrative regulations, and though informality can lower the cost of doing business (no registration or licensing fees, no tax and tax administration, and no labour law compliance), it also has long term costs (eg. no business bank accounts and no formal business track record).

FINDINGS AND DISCUSSION

TRADERS

Traders said competition, customer demands, lack of shelter and facilities, and inadequate assistance were the main external impediments. They emphasised that customers were becoming more demanding on price and service.

The sources of competition are foreigner-owned shops and big shops operating from shopping malls.

The main internal weakness was lack of capital, while others were lack of or inadequate equipment, appropriate shelter, capacity to deliver orders and order stock from right sources, skills shortages and failure to separate the “business” from its “owners”.

The main value chain bottlenecks were the constraints of operating a business without registration. As most of the traders were unlicensed, they could not order stock and obtain trade discounts from wholesalers and suppliers, for example.

PARTICIPANTS FROM STAKEHOLDER INSTITUTIONS

Increased competition was identified by 42% as a major problem, with the main sources being foreigner-owned shops and national stores in malls. Participants suggested that many local stores owned by SA citizens could not compete due to poor business skills in areas such as procurement and failure to network and collaborate.

Some aspects of the policy and regulatory environment were highlighted as stumbling blocks to SMME development. In particular, centralised business registration and the registration process itself were found to be onerous and discouraging, as were labour laws. Some participants said better coordination between government departments dealing with small enterprises would contribute to improving the policy and regulatory environment.

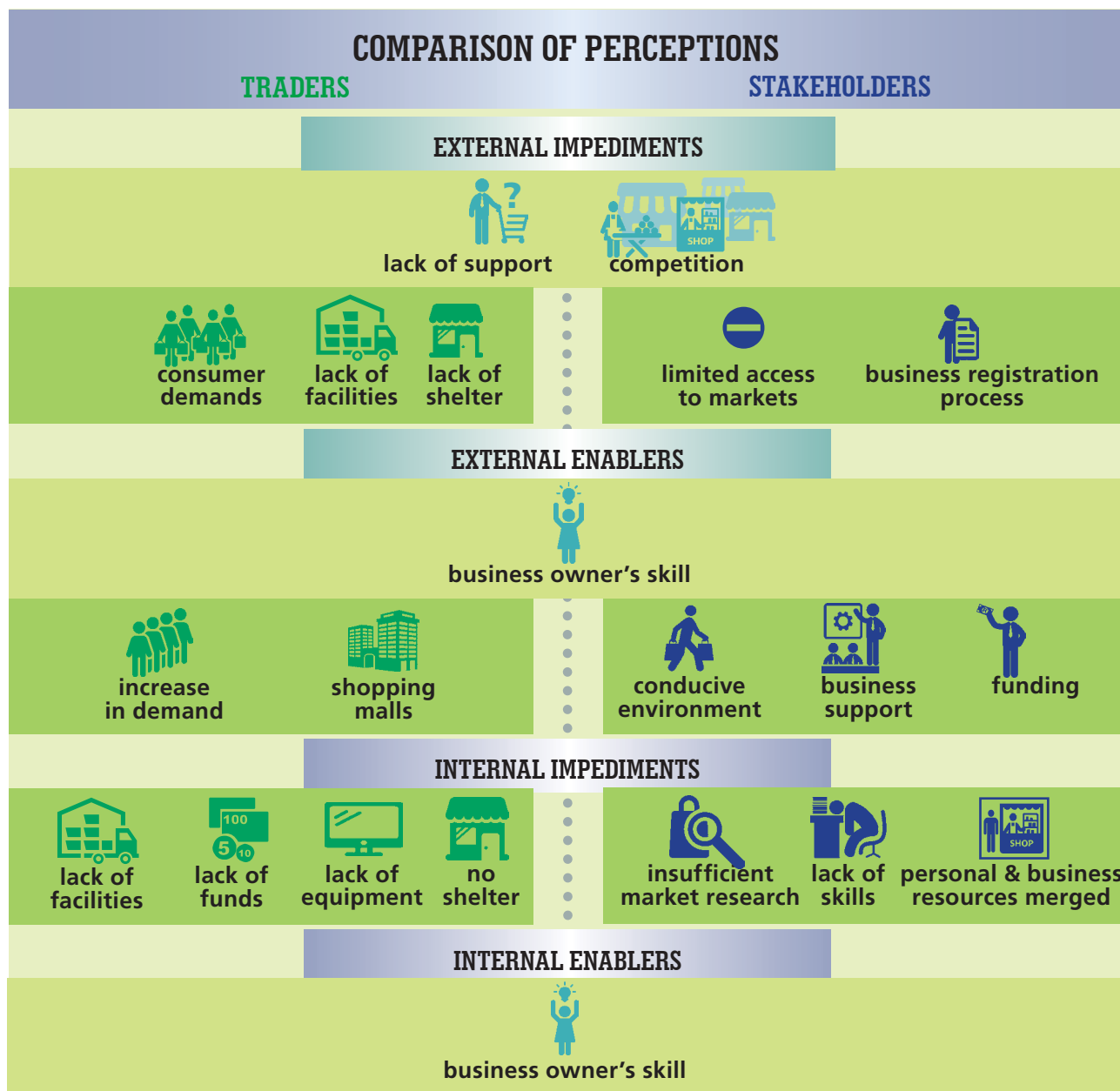
The major internal obstacles identified were inappropriate or poor skills in the areas of entrepreneurship, finance, business management, business development, networking skills, productivity, planning, marketing, and leadership.

Participants said the business environment in South Africa is generally conducive for SMMEs. For example, access to funding was available for good business ideas and training, mentorship programmes, and other business development services were provided by public and private sector institutions. Within the business, success was more likely if the owner had appropriate business management skills, an entrepreneurial work ethic, access to finance, and appropriate technical skills.

“...foreigner-owned shops are more of a threat than shopping malls because of their everyday low prices”.



“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’”.



COMPARISON OF PERCEPTIONS

Both groups agreed that lack of support (including funding) and competition were amongst the major external impediments to growth. 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. For the traders, the main internal impediments were lack of funds, lack of shelter and facilities, and lack of equipment. But the stakeholders said these were lack of skills, failure to separate “personal” from “business” resources, and insufficient market research.

There is no commonality regarding the top external enablers. While some traders saw increasing demand and the advent of shopping malls as enablers of small business development, the stakeholders pointed to a generally conducive environment 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 traders who on account of their size and registration status were unable to buy stock directly from wholesalers and suppliers.

CONCLUSION AND RECOMMENDATIONS

The findings from the primary research involving 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.

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. 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. Government set up a new ministry (Department of Small Business Development) in 2014.

Participants from support institutions identified international trends South Africa can learn from including 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.

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Recommendations include



- **Skills:** Resources should be devoted to undertaking a training needs analysis to facilitate the design of appropriate training interventions. The W&RSETA and the DTI are already implementing some training programmes for SMMEs. In order to encourage more business owners to participate in skills development programmes, the focus must be on creating awareness and incentivising attendance.



- **Business development resources:** It is recommended that appropriate measures for creating awareness be investigated, including business fairs/exhibitions in the communities and talk shows on community radio stations.



- **Mentorship:** Business people need to be educated to avoid them perceiving the involvement of mentors as interference in their businesses. Encouraging the formation of trader associations and working through them may enhance programme acceptance.



- **Collaboration:** The formation of trader associations should be encouraged to promote collaboration and reduce detrimental individualism.



- **Funding:** Because not all business owners have growth potential or the desire to grow their business beyond subsistence levels, not all of them require funding. 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.



- **Registration:** Awareness campaigns to disabuse small business owners of the disadvantages associated with business registration should be implemented, preferably in conjunction with local trade associations.

THE W&R SECTOR

W&R is the fourth largest contributor to GDP and the 30 000 tax-registered retail enterprises employ about 20% of the total economically active workforce according to Stats SA.

The recent update of the W&R Sector Education and Training Authority Sector Skills Plan 2011-2016 says data shows wholesaling and retailing as one of the least transformed sectors.

It says about 86% of registered enterprises in this sector are small and micro enterprises, 9.5% medium size and 4.5% large companies. Only 66% of operational retail traders are formally registered and contributing to the fiscus, suggesting there are over 100 000 informal (unregistered) traders in the sector accounting for 10% of national retail turnover.

The main employment increase has been in the informal /SMME sub-sector.

Wholesale&Retail **LEADERSHIP CHAIR**

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THE WRLC

The Wholesale and Retail Leadership Chair (WRLC) at the Cape Peninsula University of Technology (CPUT) was established in 2013, based on an initiative by the Wholesale & Retail Sector Education and Training Authority (W&RSETA) to contribute towards sector research and professional qualifications development at Higher Education levels.

A national survey report entitled Priority Research Needs of the South African Wholesale and Retail Sector marked the first step taken by the WRLC towards the creation of a basis for relevant research in this dynamic business sector.



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This publication is based on research into informal and SMME retailers in South Africa. The lead researcher is Dr Mlenga Jere of the Graduate School of Business, University of Cape Town, Albertina Jere of the Department of Retail Business Management, Cape Peninsula University of Technology and Jonathan Aspeling of the Department of Retail Business Management, Cape Peninsula University of Technology.

The full report is available at [http://wrlc.org.za/wp-to-be !\[\]\(9db214d549b9aeebe72aa11d3a5c4b1a_img.jpg\) firmed](http://wrlc.org.za/wp-to-be-firmed)

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