



EBS Online Article

Edition **OCTOBER 2004**

THE SMALL BUSINESS ENVIRONMENT by Johan Giliomee



A description of Small Business In South Africa

The following is a description of Small Businesses as target market with special reference to young entrepreneurs in South Africa.

- Total staff compliment normally does not exceed 5-10 people, but can be as large as 50-100 workers.
- Business is in the first 5 years of its life.
- Accounts are not done monthly, in fact there is normally a total lack of bookkeeping other than sales and debtors.
- Very high level of personal expenditure included in the business accounts.
- The major objective of their accounting practices is to evade tax and other statutory payments.
- The business is seldom registered with the necessary statutory bodies.
- If skills levy payments are made very often no further involvement with the Seta is made and as such no benefit is derived for employees or the business as intended by the Skills development Act
- Very little separation between private and business life.
- Business is normally solely dependant on 1 or just a few people (the owner usually).
- No or little computerization of any activity of the business.
- Very few transactions are done daily.
- Very little advertising or marketing of the business.
- Business is normally very dependent on one or two major customers.
- 80% of small businesses fail within the first five years. Of the 20% that succeed, 80% of them fail within the next five years. Only 4% will survive to ten years.
- 66% of all new small businesses in South Africa are started by people who have been retrenched or who took early retirement packages.
- Professional help for small businesses is almost absent in South Africa and where it exists it is highly fragmented and of a short term nature.
- Financial assistance to people from the previously disadvantaged communities is available, but is granted without equipping the person to run a business.
- Most Small/Micro Business owners see the Skills levy as a tax, because the amount is too small to get real benefit from it, whilst the hassle factor is too high to commit them to comply.
- 75% of all recognized franchisees however succeed, indicating a higher success rate where guidance and business systems are in place.

- In the case where the business is owned by a young entrepreneur, the business is usually cash strapped, but passion and hard work keep the business going.
- The young entrepreneur is usually not aware of what services are available to the business.
- The above mentioned should always be seen as assumptions, but are generally accurate enough for purposes of designing a generic framework for developing small businesses.

Conclusion

- Less and less jobs are available in the formal sector. More and more small businesses will be started.
- A very high percentage of small businesses will fail unless help is given to them in order to systemize their businesses.
- All the knowledge in the world means nothing to a small business owner if he/she cannot afford it.

The market need

Although "small business development" has become a "buzzword" in South Africa and despite the fact that it is hoped that small business will save the economy and wipe out poverty amongst the masses, not much of this promise has been realized.

In our opinion the reasons for the lack of success in this regard are due to the following:

- Too much emphasis is placed on financial support and not enough on coaching the owner to acquire the right philosophy, skills, tools and knowledge to run the business.
- Most people involved in the education of small business owners underestimate what it really takes to develop such a person, hence mostly only support in the form of short theoretical courses presented by people who do not have the right experience in business in general. Financial support from large corporations in South Africa unfortunately reinforces this short sighted approach.
- Most people who start new small businesses, approach the venture driven by the need for survival and by not enough realism and knowledge of what it takes to succeed. They still believe that technical knowledge and hard work alone are the only ingredients required for success.
- Banks tend to lend money to small business owners without establishing

whether the person has the skills and knowledge to succeed and do not make loans subject to acquiring this input. (Maybe because of a lack of the availability of such services in South Africa and insisting on sufficient collateral security.)

Some Stats regarding Small Businesses

- Small Business contributes about 40% to SA gross domestic product.
- SME's employ in excess of 50% of labour in SA
- SME's constitute approximately 97% of the total number of businesses in SA
- Deficiencies in funds and the lack of management skill are identified as the 2 major reasons why 80% of Small Business fails during the first 5 years.
- Businesses adopting the business franchise concept have reported a success rate of 95% in the first year of operation in contrast to the 50% failure rate of those not following this model.

Are You Making Any of These 10 Deadly Small Business Mistakes?

These traps/mistakes are common to many entrepreneurs and small business owners:

1. Getting Wedded To an Idea And Sticking With It Too Long.

Don't marry a single idea. Remember, ideas are the currency of entrepreneurs. Play with many ideas and see which ones are compatible to what you really like doing and have the potential to bring financial success.

2. No Marketing Plan.

A marketing plan creates the kind of attention you need to get in front of the right types of people, companies, etc. It is what attracts people to you! There may be as many as 25 ways to market your business at no or low cost. A good marketing plan implemented effectively, efficiently, elegantly and consistently, will eliminate the need for "cold calls!" (See below for how to create a results driven marketing plan).

3. Not Knowing Your Customers.

Changes in your customers' preferences and your competitors' products and services can leave you in the dust unless you get to know your customers well, what they want now and will likely want in the future, what their buying patterns are, and how you can be a resource for them even if you don't have the right products or services for them now! (See below for low cost techniques to gather facts about

your customers and the people you'd like to have for customers).

4. Ignoring Your Cash Position.

The world (aka customers) doesn't respond to even superior products in the timeframe that you think they should. You'll need plenty of cash to sustain yourself in the meantime. (See below for how to forecast your cash needs and protect yourself from cash crisis situations).

5. Ignoring Employees.

Motivating, coaching and managing your staff is probably one of your toughest challenges as an entrepreneur/business owner today! Without your patience, persistence and "people skills," your problems can multiply quickly. Morale, productivity AND PROFITS can easily be destroyed! (See below for how to get your employees' full commitment to job performance).

6. Confusing Likelihood With Reality.

The successful entrepreneur lives in a world of likelihood but spends money in the world of reality.

7. No Sales Plan.

Without a sales plan, there's no serious way to gage the financial growth and progress of your business. You need a realistic map for where the sales will come from, how they'll come and from whom.

8. Being a Lone Ranger.

You might be the key to everything BUT you cannot DO everything and grow at the same time. Even modest success can overwhelm you unless you hire the right staff and delegate responsibility. (See below for effective delegation techniques)

9. No Mastermind.

Get an advisory board or a mentor! Sounds crazy for a small operation? It's not! The board can be family members that you trust, or friends. Ask them to be your board of directors and review your business plans and results with them. Having someone to bounce ideas off and get an objective opinion is critical.

10. Giving Up.

Some of the most successful entrepreneurs failed several times before doing extremely well. So, if you're failing, fail. And fail fast. And learn. And try again, with this new wisdom. Do NOT give up. Yet, do not suffer, either.

© 2004 Entrepreneurial Business School

EBS Entrepreneurial Business School (EBS)

P.O. Box 1712, Bellville, 7535
South Africa

3rd floor, Van der Stel Building
68 Durban Road, Bellville

Tel: +27 (0)21 948 8319

Fax: +27 (0)21 946 1638
E-Mail: info@ebschool.com
Website: www.ebschool.com