

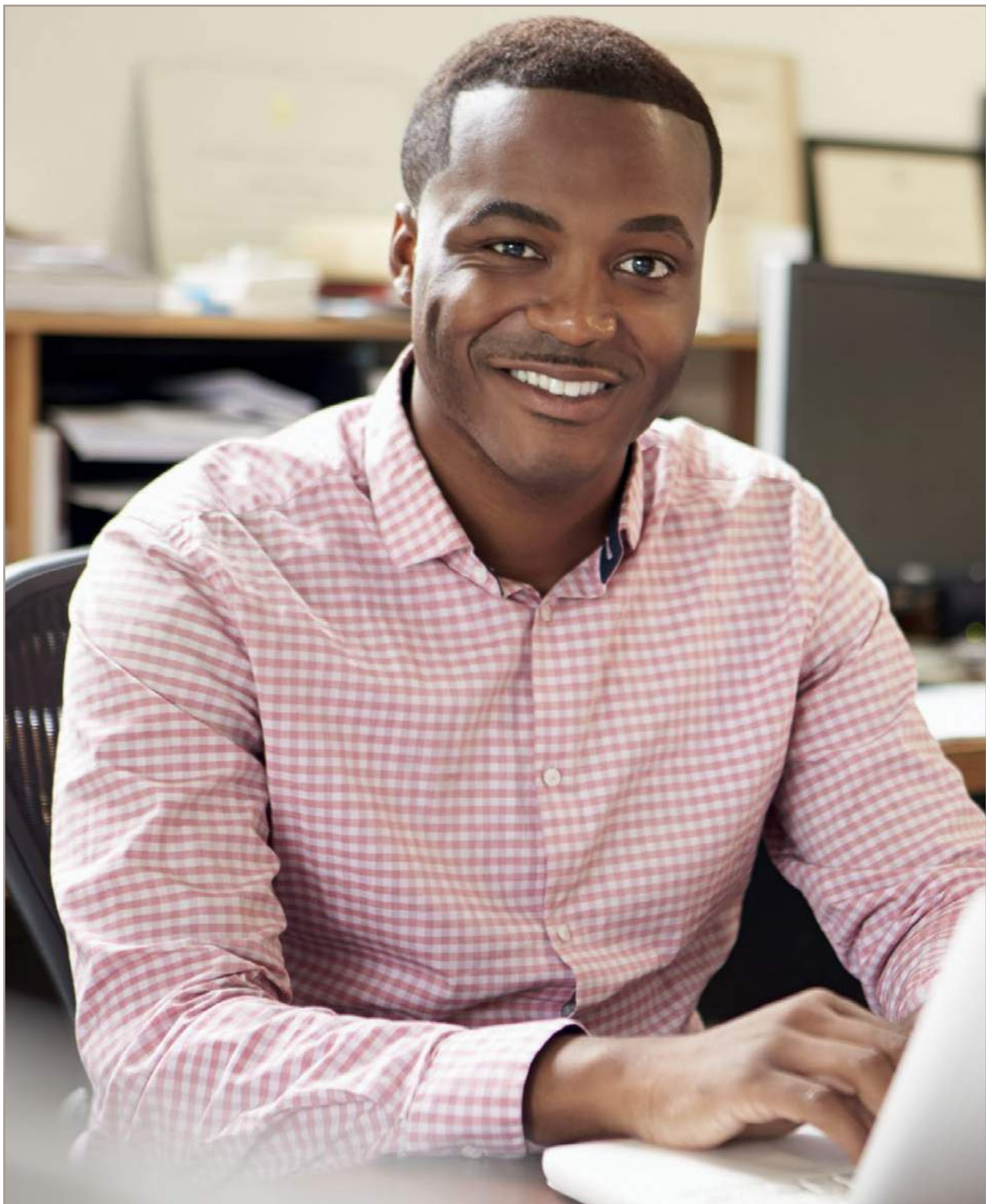
Working together, moving forward

Emerging companies and the ecosystem



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an inspiring place to do business



City of Tshwane offers new bouquet of free Wi-Fi products

empowers, entertains, educates



In August 2013, the City of Tshwane announced an ambitious project to provide free Wi-Fi in public spaces throughout Tshwane. Starting with a capacity of 25 000 users, Wi-Fi sites were spread across five locations in Soshanguve, Mamelodi and Atteridgeville. In 2014, the average growth rate for usage was more than 40% per month, with astounding growth of almost 185% between June and July 2014 alone.



Today, the Tshwane free Wi-Fi project has reached unprecedented heights with 720 000 unique users. The City currently has coverage across all seven regions of Tshwane with at least one free Wi-Fi site in each of its 96 wards. An additional 40 sites went live in July 2015, bringing the total of Tshwane free Wi-Fi sites to 673.

The recent introduction of Tshwane Wi-Fi Voice, Wi-Fi Chat and Wi-Fi Drive-in has opened up the digital realm for Tshwane's residents and visitors, making the capital city a savvy hub for digital users.

To find your nearest Wi-Fi hotspot or more information about the new Wi-Fi products, visit www.tshwane.gov.za.



www.tshwane.gov.za



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Where it all began



The vision for this publication was one of collaboration:

Alexandra Fraser, then Chairperson of the Silicon Cape Initiative, shared her thoughts with us about undertaking an entrepreneurial ecosystem survey to create a deeper understanding of the environment she and other emerging entrepreneurs operate in. At the same time, PwC had already begun to collate the beginnings of a research project on emerging companies. And so, this collaborative project was born between the Silicon Cape Initiative, PwC, Microsoft BizSpark, City of Tshwane and Wesgro.

Alone we can
do so little;
together we
can do so
much.

- Hellen Keller

Introduction

Global megatrends such as technological breakthroughs and shifts in global economic power mean that future economies will need to embrace partnerships between stakeholders in order to overcome challenges and achieve common goals. This project is based on such collaboration principles between various stakeholders – PwC's Accelerator, the Silicon Cape Initiative, Microsoft BizSpark, Wesgro and the City of Tshwane.

Up until now, we have seen numerous surveys on start-ups and SMEs in South Africa, often regionally focused and too frequently only scratching the surface of this complex topic. We are therefore especially grateful for the support of other stakeholders, including CiTi, FNB, Entrepreneur Traction, Innovation Hub, Invotech, BizFarm, SmartExchange, Endeavor SA and Launchlab, which ensured broad participation of companies in our survey.

Much has happened in the entrepreneurial and emerging company space in the past few years and we felt it was an appropriate time to carry out in-depth and up-to-date research that included a detailed national survey that explored the challenges and opportunities facing emerging companies in South Africa in the current environment. Survey findings are enriched by interviews, relevant case studies and other research pieces conducted previously.

We trust you will find the insights shared here informative and wish you happy reading.

Liesbeth Botha

*Strategic Digital Transformation
Leader
PwC Africa*

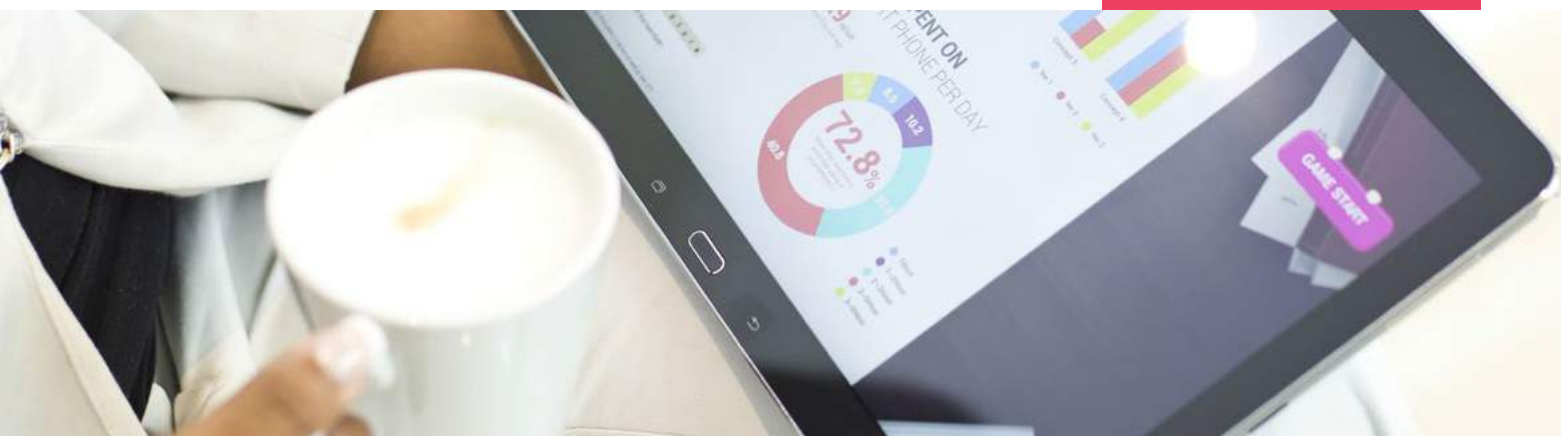
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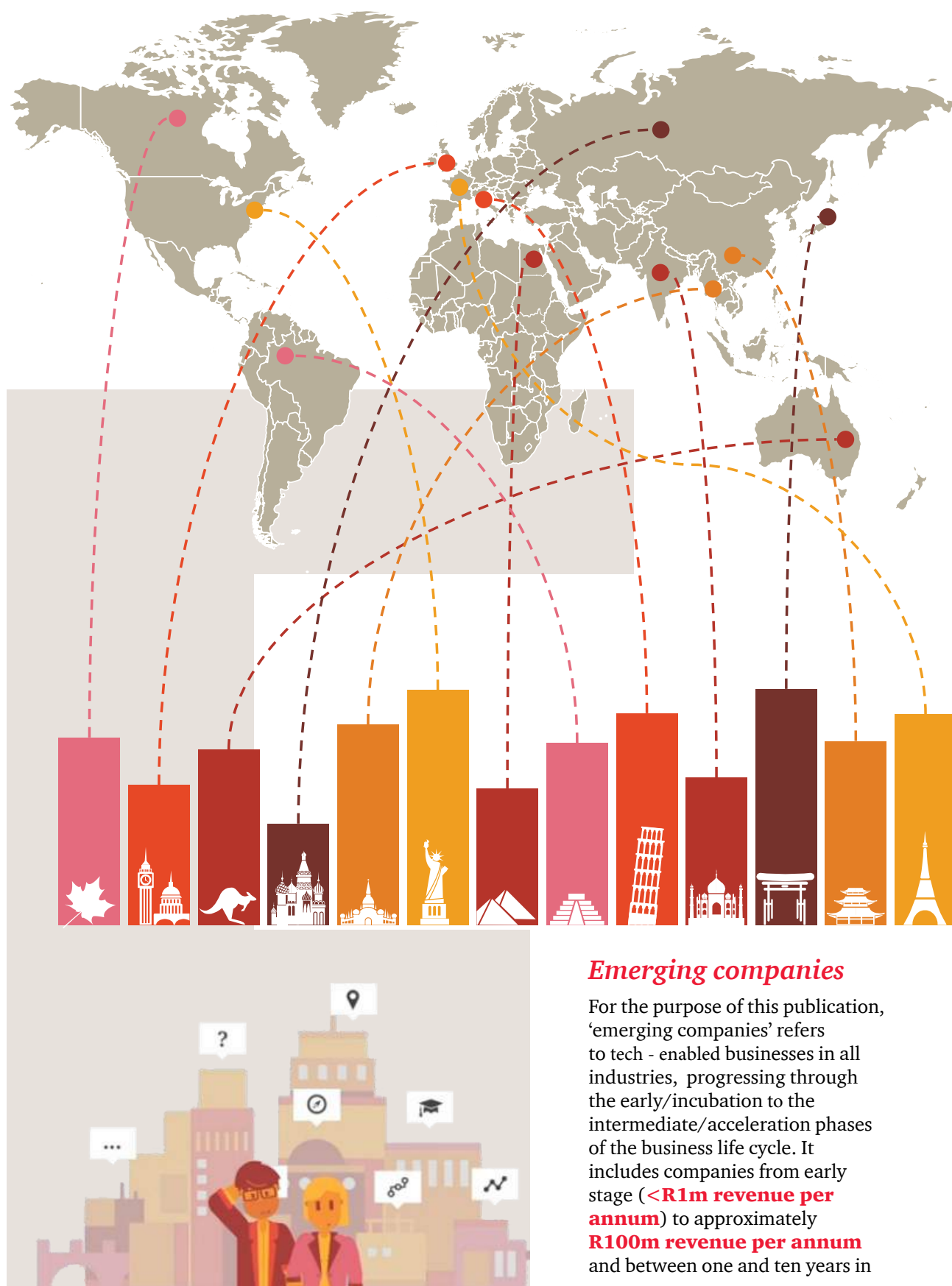
*Western Cape Deals Leader
PwC South Africa*

Maija de Rijk-Uys

*PwC Accelerator
PwC South Africa*

...we felt it was an appropriate time to carry out in-depth and up-to-date research that included a detailed national survey that explored the challenges and opportunities facing emerging companies in South Africa...





This innovative service offering focuses on assisting emerging companies to lay sound foundations and accelerate their growth strategies by providing services tailored to meet their unique needs. In South Africa, PwC's Accelerator is part of a global network, which allows us to draw on global resources to accelerate local clients' (inter)national expansion and assist international inbound clients to navigate the South African business landscape. In 2013, PwC opened an office in Cape Town's tech space, the Bandwidth Barn, to provide support to start-ups and work together with emerging businesses. This office now forms part of the support that the PwC Accelerator provides to emerging businesses.
www.pwcaccelerator.com/pwccaccelerator/pwc-acc-south-africa.html

PwC's *Accelerator*

The Silicon Cape Initiative is a non-profit, community-owned and-driven movement, which aims to improve the entrepreneurial environment by creating more emerging companies, creating higher-quality start-ups and increasing access to capital. Silicon Cape is the largest entrepreneurial network in South Africa and is passionate about entrepreneurship and the role entrepreneurs have to play in the future of the country.

www.siliconcape.com



Microsoft BizSpark is an international network of entrepreneurial start-ups and partners that provides technology, support, visibility, and community to promising start-ups and entrepreneurs.

www.microsoft.com/bizspark/

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Partners and Sponsors

The City of Tshwane Metropolitan Municipality was established in 2000 through the integration of various municipalities and councils that had previously served the greater Pretoria area. The City of Tshwane regards itself as a leader in providing affordable industrial sites, office space, education and research facilities. An estimated 90% of all research and development in South Africa is conducted here by institutions such as Armscor, the Medical Research Council, the Council for Scientific and Industrial Research, the Human Sciences Research Council and educational institutions such as the University of South Africa and Tshwane University of Technology.
www.tshwane.gov.za



Wesgro is the official destination marketing, investment and trade promotion agency for the Western Cape, located in Cape Town. Wesgro is the first point of contact for foreign buyers, local exporters and investors wishing to take advantage of the unlimited business potential in the Western Cape region.

www.wesgro.co.za

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The importance of entrepreneurship in the current landscape

“The state of entrepreneurship in South Africa is not good, especially when compared to our sub-Saharan African neighbours. Early-stage entrepreneurial development remains the lowest in the region and we are losing more businesses than we are establishing. And yet, South Africa has everything going for it in the form of natural resources, motivated people, a wonderful climate and an excellent tourist destination. Government doesn’t seem to be taking this seriously. They have new millennium plans, many of which are unattainable, and some of their actions seem to directly hamper economic growth. For example, the new visa requirements for tourists entering South Africa act as a deterrent for people wanting to come here. Decisions are made without due thought for the ramifications.

We need change in thought and a new way of approaching things that will encourage entrepreneurship and not hamper it.”

– Mike Herrington
Executive Director of the Global
Entrepreneurship Monitor

Entrepreneurship has the potential to be one of the most critical contributors to South Africa’s economic growth. It has a pivotal role to play in supporting the country’s development through job creation, stimulating culture and innovation, and economic and social upliftment.

Since negative sentiment around the current economic state of the country is pervasive, it is vital that the importance of entrepreneurship is repeated, reiterated and re-emphasised consistently to all stakeholders.

Some recent stats that have fuelled negative sentiments



South Africa lagging behind other developing countries in entrepreneurship with a marked decrease in entrepreneurial activity in recent years – driven partially by low levels of overall education (particularly maths and science), social and cultural factors that discourage entrepreneurship as a career path of choice, and a challenging regulatory environment – you’ve heard this before.

(Source: Global Entrepreneurship Monitor)



2.9%

Established business rate of just 2.9% – fourth-lowest in the world. (source: GEM)



61 of 189

Ease-of-doing-business ranking for starting a business is 61 of 189 – our overall business environment is considered unsupportive.

(source: <http://www.doingbusiness.org/data/exploretopics/starting-a-business>)



75%

South Africa has one of the highest business failure rates in the world at 75%. (source: SME Research)



Although not an ecosystem statistic, recent Eskom capacity issues are certainly hampering economic growth within the ecosystem.



Our history

did not provide for adequate preparation to become an entrepreneur, especially amongst disadvantaged groups not equipped with technical or entrepreneurial skills and/or opportunities.

Sources: Global Entrepreneurship Monitor, Doing Business, SME Research



South Africa's emerging companies are at the centre of the discourse around economic growth.

In his 2015 State of the Nation Address, President Zuma identified entrepreneurship and business development as important building blocks for a growing, sustainable economy.



The Ministry of Small Business Development was set up in May 2014 to support micro enterprises and SMMEs, assist them in meeting compliance requirements and raise awareness of regulations that directly impact on their ability to do business.



90%

Aligned to this, South Africa's National Development Plan (NDP) states that about 90% of jobs in South Africa will be created through SMMEs by 2030.

In order for the economy to treble in size over the next 15 years, it needs to **grow** by at least



5.4%

per annum.



SMMEs are seen as a pivotal player in making this growth happen.

NDP targets and jobs calculator

To meet the NDP target of creating 11 million jobs by 2030, South Africa needs either:



49 000

scalable SMMEs, growing at a rate of 20% per annum; or

8.2m

small and micro enterprises (i.e. businesses operating on a very small scale) to create the same number of jobs

Enterprise supplier development

Government has included private sector support of SMEs as part of the new B-BBEE Codes of Good Practise which came into effect on 1 May 2015.

Enterprise supplier development (ESD) is one of the three priority elements in the new Code, with a 40% minimum target compliance threshold. The 'qualifying contributions' that fall under the new ESD definition include preferential procurement terms, grants, minority investments and interest-free loans.

ESD success stories





Telkom's FutureMakers Programme – a practical example of ESD

FutureMakers is Telkom's ESD initiative that serves the national vision for broadband and ICT development. The programme supports SMEs through Telkom's national footprint of products, services and resources by providing funding, business development and telecommunications services.

The programme identifies and grows entrepreneurial opportunities across the ICT industry and within Telkom's supplier value chains.



FutureMakers pillars

			
Telkom FutureFund	Telkom FutureHub	Telkom FutureProof	Telkom FutureSource
The fund supports suppliers and enterprises in the ICT sector.	The FutureHub offers virtual and physical business incubation for SMMEs, coupled with business development support.	Strategic relationship with key industry players helps Telkom to promote innovation, drive broadband uptake and improve ICT usage in the SMME sector.	Supplier development and sales opportunities (third party distribution, connectivity, broadband uptake, small business targeting solutions) are enhancing the Telkom value chain.

Source: Telkom FutureMakers

“We want to enable, empower and inspire entrepreneurs to stretch their ambitions and make their business visions a reality. By growing entrepreneurial opportunities within ICT, we can create jobs, improve access to technology and develop a stable and competitive supply chain”.

– Sipho Maseko, Telkom CEO

Focus

- Driving innovation in the ICT sector by growing access to technology and by offering long-term support to its beneficiaries.

Telkom investment

- Initial investment of R100m to extend financial support to SMEs that supply Telkom or that work within the broader ICT sector.
- Fund form: working capital, loans and equity.
- Managed by development fund managers.

“We hope other corporates will emulate Telkom’s example of giving practical expression to the national agenda of building strong and sustainable small businesses and co-operatives that will be engines of economic growth and job creation...The need to support SMEs and co-operatives is a responsibility of both government and the private sector.”

– Lindiwe Zulu, Minister of Small Business Development

Source: Telkom website; IT News Africa - <http://www.itnewsafrika.com/2015/05/south-africa-telkom-set-to-drive-ict-innovation-and-growth/>



Enterprise development

Timekeeper Trading: With support from Shanduka Black Umbrellas, this protective clothing supplier grew its revenue by 500%, from R1m to R5m, in two years. The number of full-time staff employed grew from 0.5 to 5 during this time.

Source: Shanduka Black Umbrella

De Fynne Nursery: With support from Woolworths, this business grew from a backyard operation to one employing 25 staff and producing 600 000 plants per year.

Source: Defynne Nurseries

Supplier development

Biscotti Biscuits: Massmart's R6.5m investment in the company allowed it to upgrade its factory, double the number of staff and expand the customer base with new corporate clients.

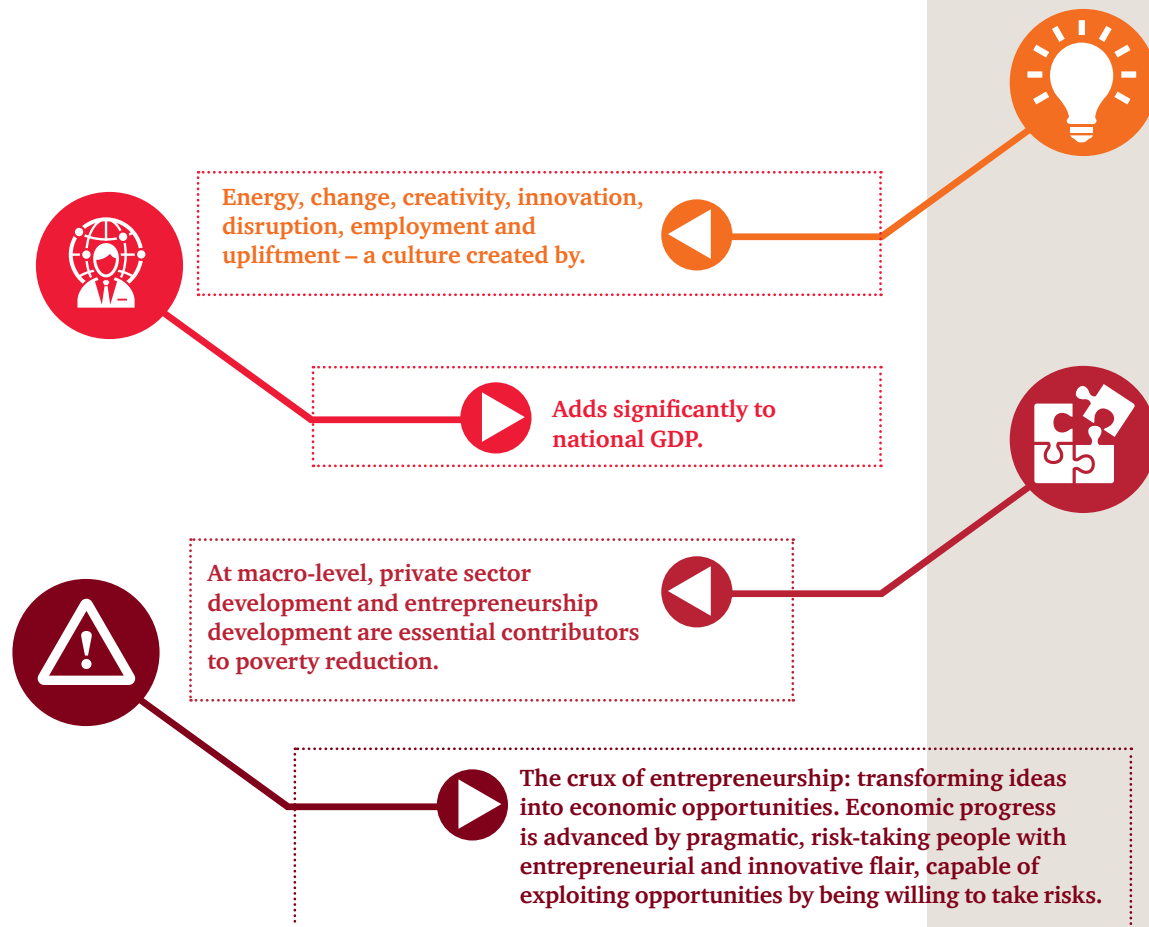
Source: <http://beeinsight.co.za/supplier-development-success-story/>

The power of entrepreneurship

“When entrepreneurship takes root and grows in a region, it is an incredibly powerful force which has multiple effects, including employment spin-off, wealth creation and tax contribution and acts as a catalyst for innovation, social awareness, and philanthropy. The vital importance and contribution of entrepreneurship in both economic and social development should never be understated.”

– Dan Isenberg, Professor of Entrepreneurship, Babson College Executive Education

Benefits of entrepreneurship

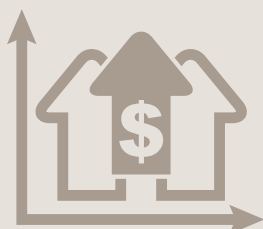
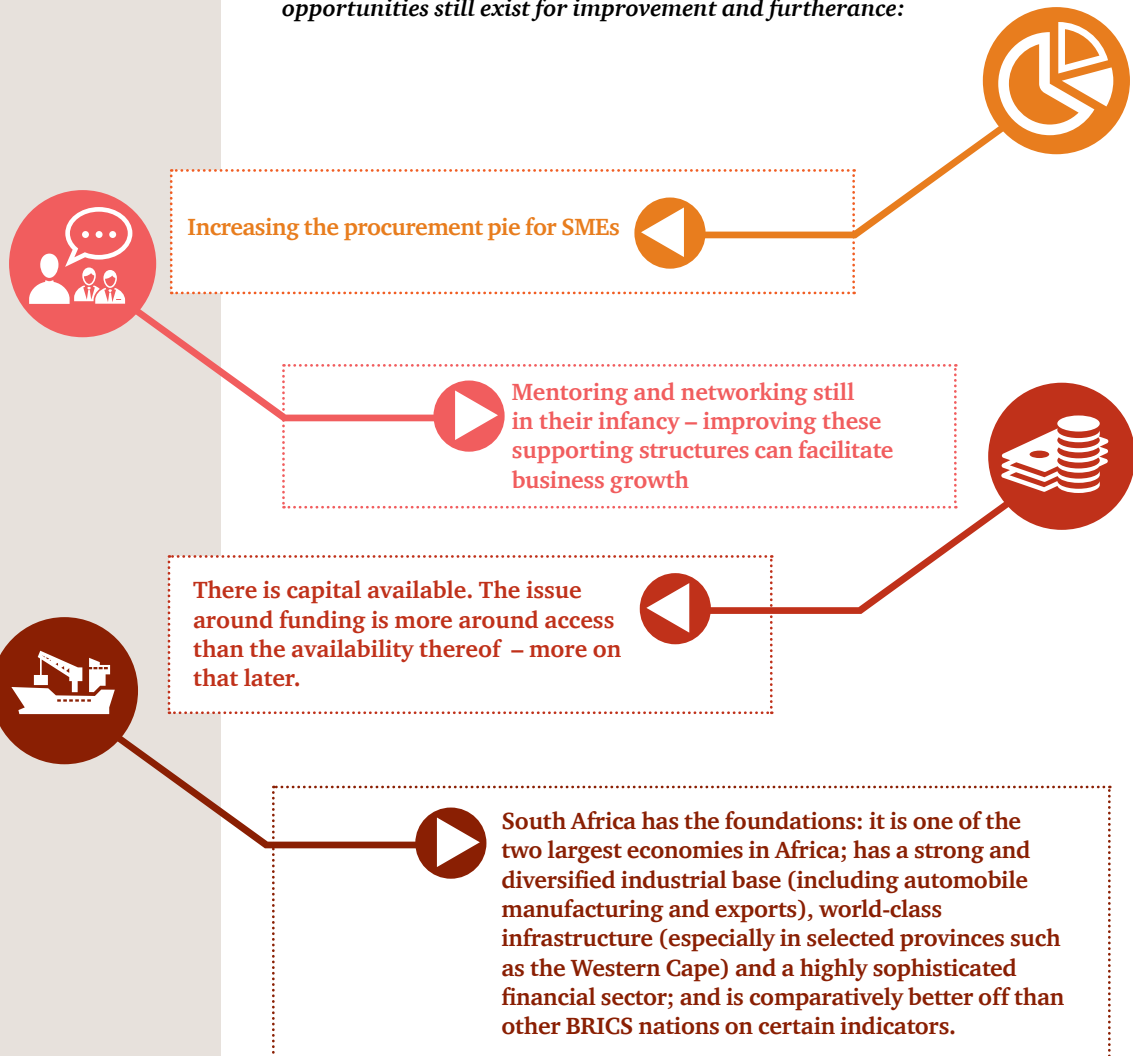


In South Africa, SMEs contribute 55% to GDP and are estimated at **>2m** in number.

Source: AdCorp, Impact Trust

The good news

There is still good news, especially when comparing South Africa to other developing markets, an important comparison often ignored. Various opportunities still exist for improvement and furtherance:



It should be exceedingly clear – we need flourishing SMEs to:

- ✓ Boost growth
- ✓ Uplift society
- ✓ Move South Africa forward

We all need to do our part

So who does 'we' comprise?

A recent report by the industry-led SiMODiSA Association identified 25 constraints to entrepreneurship in South Africa. The Association is using these findings to engage with government decision-makers/departments/agencies towards shaping a relevant and focused policy agenda and to work together to improve policy to develop the entrepreneurial landscape. A more defined collaborative effort is required between the private and public sectors, focusing on addressing the 25 constraints identified.

Stakeholders in the entrepreneurial ecosystem



Entrepreneurs

have a vital role to play in South Africa's development and upliftment through job creation, poverty alleviation and integration.



Government

has a responsibility for easing the business environment, minimising red tape to foster new businesses and growth, and incentivising investors to take more risks.



The private sector

needs to actively support SMEs through active supply chain integration, procurement and monetary support via appropriate funding support vehicles.



Investors

should consider including impact investing as part of their investor mandate, even if only on a small scale. Also, investors focusing on technological and innovative companies don't just disrupt existing market players but adding value to the economy.



Tertiary institutions

need to instil entrepreneurial culture and promote entrepreneurship as a career choice.





SILICON CAPE INITIATIVE

“Silicon Cape, established in 2009, is the largest entrepreneurial network in South Africa, founded by entrepreneurs to unify, catalyse and grow a vibrant sustainable tech industry. Silicon Cape exists because we as an organisation believe that tech-enabled companies are a powerful enabler of economic growth, job creation and knowledge and have the ability to alleviate many of the current challenges faced by South Africa.

The only way we as an organisation and as an industry, can achieve this is through collaboration and developing strong partnerships with all stakeholders – entrepreneurs, government, investors, large corporates and universities – both locally and internationally. This is a core philosophy of Silicon Cape. By developing a cohesive ecosystem, we can work together to address many of the challenges faced by entrepreneurs, as well as highlighting our success stories and creating a culture of entrepreneurship.” Chairperson, Silicon Cape Daniel Guasco

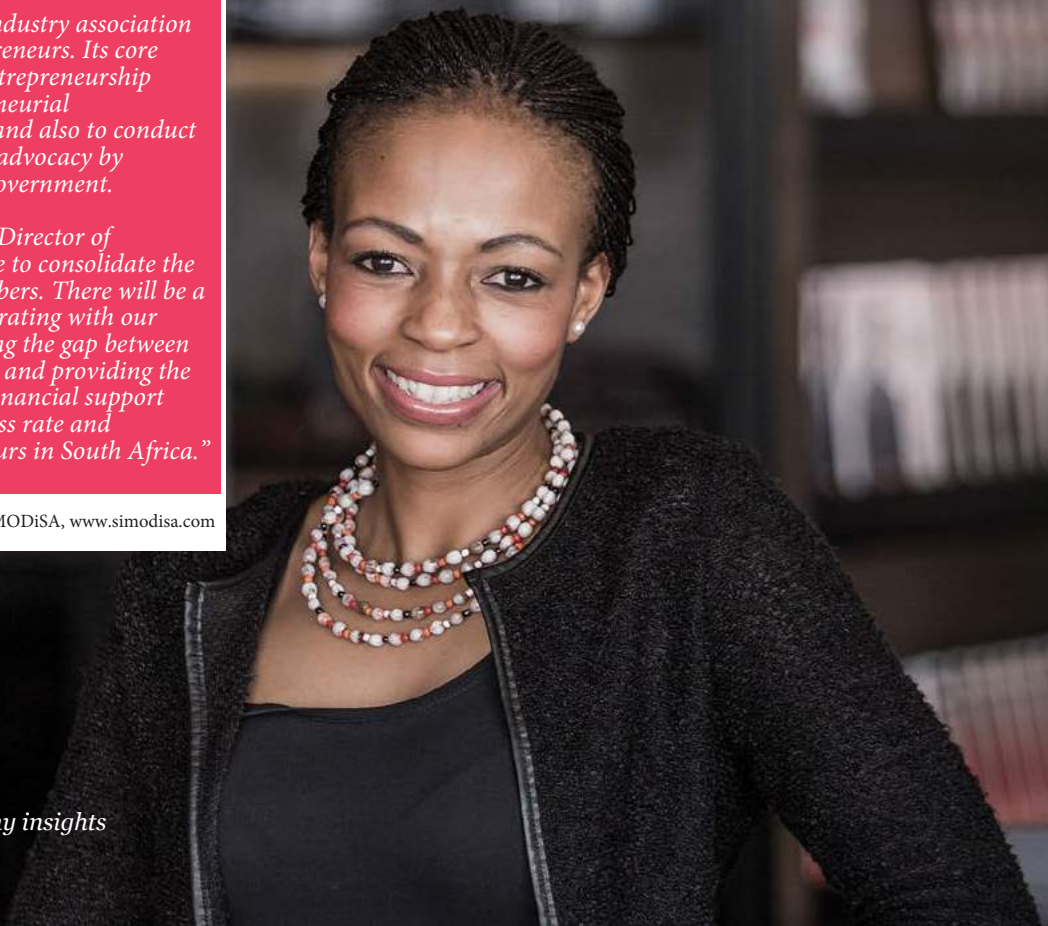
SiMODiSA START-UP

Connecting the dots

“SiMODiSA is a dynamic industry association for entrepreneurs by entrepreneurs. Its core purpose is to catalyse the entrepreneurship ecosystem through entrepreneurial amplification programmes and also to conduct research, policy review and advocacy by engaging directly with the government.

As the incoming Managing Director of SiMODiSA, my focus will be to consolidate the efforts of the founding members. There will be a greater emphasis on collaborating with our industry partners on bridging the gap between investors and entrepreneurs and providing the toolkits, training and non-financial support needed to increase the success rate and sustainability of entrepreneurs in South Africa.”

– Matsi Modise, CEO SiMODiSA, www.simodisa.com



A brief glance at the respondents

743 total participants...of which 534 took part in our online survey.

58%

of respondents weren't part of any start-up support programme.

30%

of respondents were involved with Microsoft BizSpark.



Contributing insights include a national cross-section of emerging companies spanning all industries with technology-enabled solutions, from early stage to approximately R100m revenue per annum, as well as investor / other ecosystem stakeholders' views.

Respondents include companies not traditionally included in the information and communications technology (ICT) definition, but which have some form of technological enablement to them: this is a broad concept and includes software, data, new processes, advances in manufacturing, biotechnology, devices and disruptive innovations that allow businesses to rapidly scale, compete and succeed, irrespective of whether this technology is proprietary or licensed.

Response types



emerging companies

85%



other ecosystem stakeholders, including government, tertiary institutions, incubators and accelerators

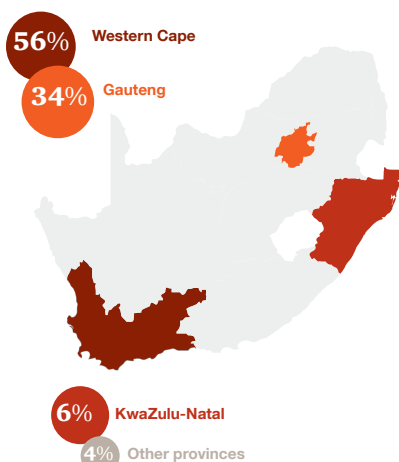
12%



investors

3%

Regional HQs of companies



Regional split

Local / Global revenue split:



87%



13%

Business type

60% +

of respondent companies are involved in non-traditional businesses, primarily app development, mobile applications, ecommerce/online, digital advertising and big data.

Myths?

Various surveys have been carried out in the entrepreneurial ecosystem. The common themes explored in these surveys have included sector, demographic and people profiles as well as an examination of funding sources, constraints, talent and existing support structures.

This survey also considers these themes, but seeks to provide deeper insight in critical areas. This section highlights those findings that are surprising, unexpected and engaging.

There are anecdotal mumblings about entrepreneurs' experiences in South Africa which many of us automatically assume to be true. However, our survey results suggest otherwise. Let's take a look at a few of these myths:

#1 Myth: Funding is the biggest challenge

1

Myth:

Funding is the biggest challenge

Myth: Funding is the greatest challenge faced by entrepreneurs – not only did we believe this, so did the investors partaking in this survey. What we found:

22%

of entrepreneurs chose access to markets and customer as their primary challenge. Funding was the second-largest challenge identified, followed by revenue generation and talent/skills.

Finding: Market access, not funding, was cited as the largest commercial challenge by the majority of respondents.

Let's unpack this:

The Entrepreneurial Dialogues: State of Entrepreneurship in South Africa, published in association with the Gordon Institute of Business Science in 2010, suggested there was an abundance of funding in the market, with access depending on what segment a business operates in.

Five years later, our research yielded similar results, with the majority of respondents with revenues below R3m recognising funding as their biggest challenge, whereas companies with revenues above R3m see access to market as their principal challenge.

A recent Silicon Cape survey (2015) found the overwhelming challenge of emerging businesses being access to markets and customers.

A recent Ventureburn survey focusing on tech companies with revenues below R20m found that nearly half (43%) of South Africa's tech start-ups find access to funds their biggest challenge – 88% of survey participants had annual revenues of less than R1m.

To read more about the financing gap, see the section on funding, incentives and exiting.

“The funding gap for entrepreneurs in South Africa has more to do with packaging investment opportunities in a way that is accessible to risk funders than it is about the complete lack of funding availability. Our year-long Grindstone Accelerator entrepreneurship development programme supplies scale-up businesses with knowledge, networks and funding readiness through growth measurement, gap analysis and deep interventions designed to build a foundation for growth, transfer skills, create relevant business networks and enable these companies to take advantage of market access opportunities and funding interest.”

– Andrea Bohmert, Director, Knife Capital

Interestingly enough, for established small businesses with a 10-15 years track record, the stats aren't as negative as expected:

13%*

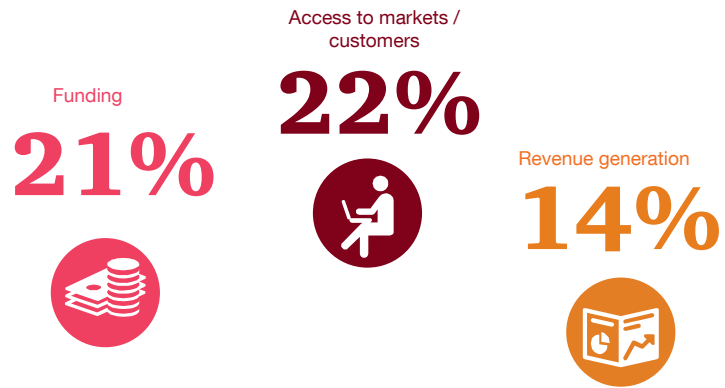
Proportion of credit and overdraft applications by SMEs rejected

10%*

Share of bank loan applications by SMEs rejected

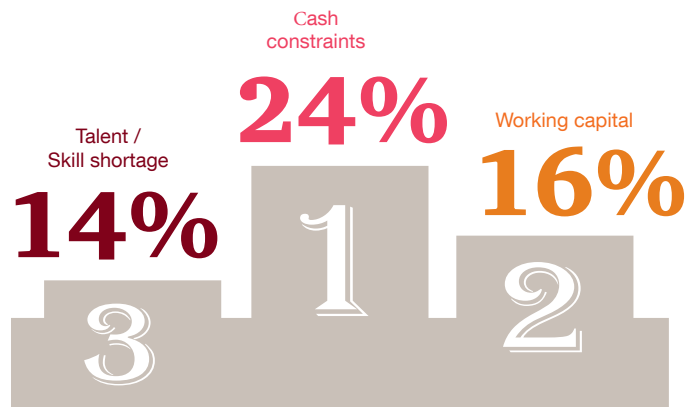
Source: SME Growth Index

Top 3 commercial challenges of emerging companies



Base: All respondents

Top 3 inhibitors of business growth for emerging companies



Base: All respondents

Revenue generation was recognised by 14% of respondents as one of the three most significant challenges in the past 12 months, with a consistent level of concern being seen among respondents from all provinces.

Ecosystem stakeholders chose regulatory hurdles as the second most significant commercial challenge, while entrepreneurs' largest challenge, market access, only ranked third overall.

According to a 2013 start-up survey performed by Silicon Cape as well as a more recent 2015 survey conducted by the Seed Academy, funding is one of the top constraints to growing a business. It needs to be borne in mind that both of these surveys primarily focused on early stage companies.



A moment with Daniel Guasco and Wayne Gosling, co-founders of Twangoo

(Twangoo, an online group buying club, was subsequently sold to Groupon)

GROUPON®

Q What were the largest challenges you experienced when setting up and building Twangoo?

DG Given we were instrumental in creating an industry, finding experienced talent was our biggest challenge, especially in non-traditional roles. Given the infancy of e-commerce at the time, getting investor and industry buy-in to what we were building was probably our second-biggest challenge. In both cases the success of what we built, along with the growth of the industry, changed both over time.

Q What was the largest opportunity in setting up a business in South Africa vs what you have observed in other international markets?

DG Because of the developing nature of South Africa, its consumers and businesses face different challenges. Challenges bring opportunity and coupled with the disruptive nature of technology, this allows one to leapfrog traditional industries and developed markets.

Q Based on your experience from your global business travels, in which other emerging country would you have set your business up if you had the choice? Why?

DG China has a booming economy that has adopted technology and continues to grow. While complex, there are a vast number of opportunities if one can get it right.

WG Southeast Asia – Malaysia, Singapore or South Korea. These nations had similar GDP to us 20 years ago, but back then their governments encouraged technology and innovation as their primary focus. They are now nations that are amongst the most innovative, and are large consumers and exporters of technology (with far higher GDPs than us too).

Q What website do you purchase from the most frequently and why? (Apart from Groupon of course!)

DG Cybercellar.co.za. Collecting wine is a hobby and Cybercellar provides a great range with excellent service.

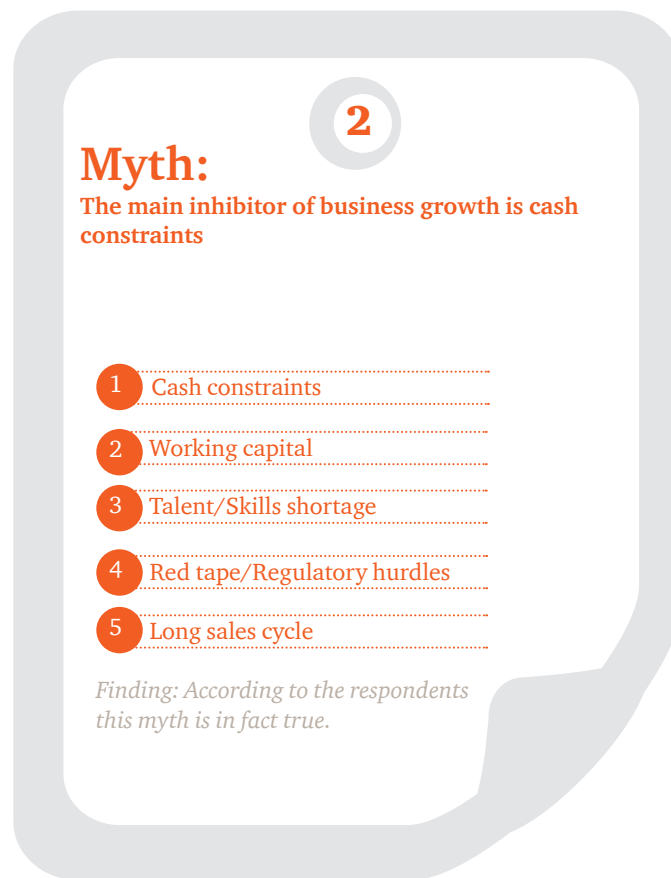
WG Booking.com – a ton of accommodation inventory and a super user-friendly site for my travel needs, and Aliexpress – a marketplace with large amounts of inventory at incredible prices.

Aliexpress

Booking.com

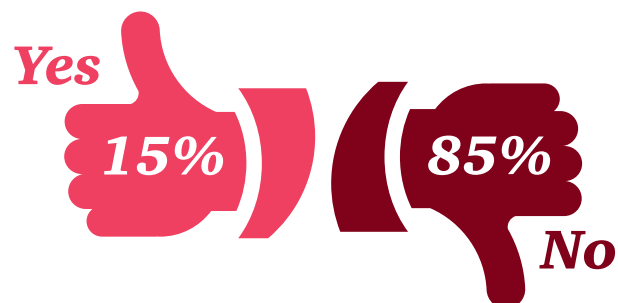
CYBERCELLAR
WIDEST SELECTION, BEST PRICES - SINCE 1998

#2 Myth: The main inhibitor of business growth is cash constraints



If you have raised funding before, did you appoint a professional adviser to assist with the fund raising process?

Use of an advisor during fundraising

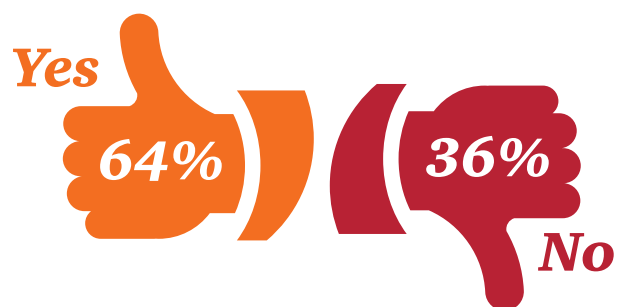


Why respondents haven't used advisors to assist with the fundraising process



Would you consider appointing a professional adviser for your next round of funding?

Use of advisor in next funding round



While only 15% of respondents had used professional advisors to assist with the fundraising process, 64% said they would use a professional advisor for their next funding round.

Do advisors have a viable role to play?

There are many advisors in the market, advising across a spectrum of ecosystem-related topics*: some good, some bad and some opportunistic. Using advisors for relevant circumstances can be vitally important to increasing the success rate and sustainability of emerging businesses. In order to contribute to improving targeted outcomes, engaging the services of an expert that has ‘done it before and seen it before’ and who has relevant networks and contacts may be the right route to follow.

What to bear in mind when choosing an adviser for your needs

Evaluate whether an advisor is needed.



What do you need help with and can help be sought through your own networks and mentors? If the area of advice/assistance is specialist, weigh up the time your resources would spend trying to reach the outcome vs paying someone who can enhance the success of the outcome/guarantee the outcome.

Time is money.



Weigh up the opportunity cost of spending time on specialist or non-core activities and remain focused on what you do best.

Do your homework.

Choose an advisor or specialist with a solid reputation and track record.



Benchmark fee amounts and structures.

Choose the relevant fee structure for the advice or specialist area you are seeking: fixed-fee structures vs success-based fee structures.



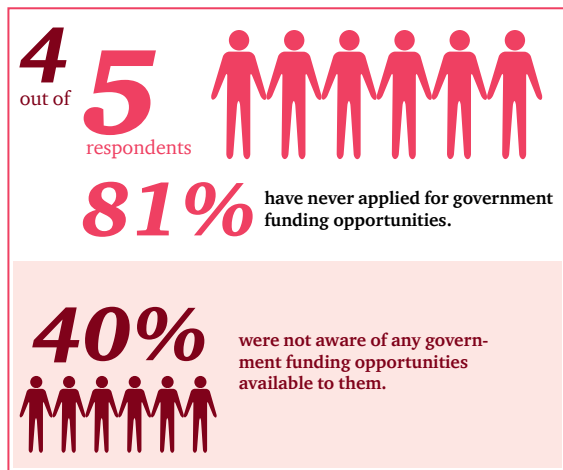
Align the advisor type to the specific mandate for which advice is required.

Drafting complex international shareholder agreements should ideally be performed by legal experts with international experience. Similarly, raising capital from international sources will most likely show more success if an advisor with an international footprint and network is used. Engaging an advisor to assist with accessing government grants or incentives is likely to be quicker and more successful thanks to their detailed understanding of the process, knowledge of the documentation requirements and formats, and access to appropriate government contacts.



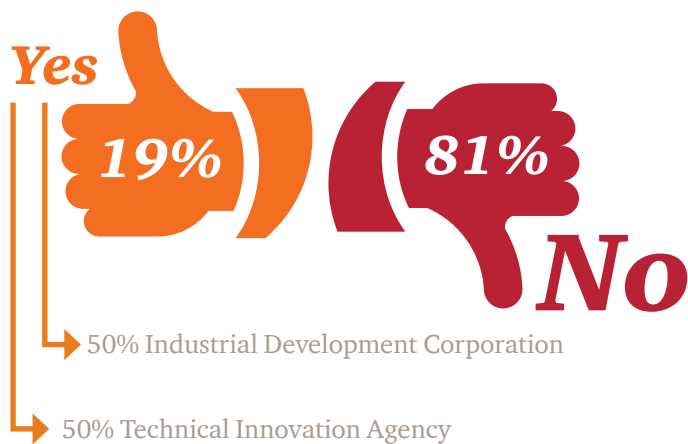
* For example: fundraising, business plans, strategy, acceleration, tax structuring, due diligence

Accessing government funding

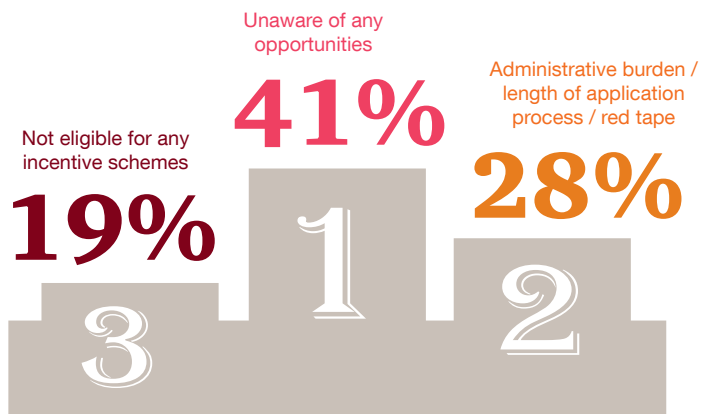


The majority of government funding applications were not successful, with the majority of fund seekers having tried to perform the funding administration without professional help.

Have you applied for funding from government agencies?

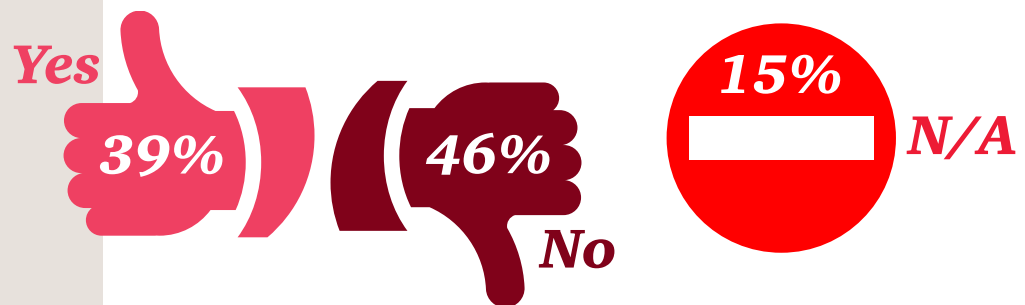


Top 3 reason for not applying to government agencies for funding



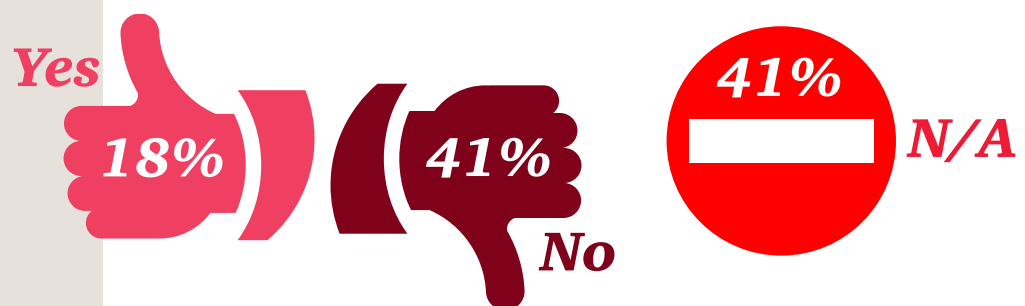


Were any of your applications to government agencies successful?



If you raised government funding before, did you appoint a professional advisor to assist with the process?

Use of professional adviser for government funding



Applicants appear to be less successful in raising funding without professional assistance. With regards to government funding, tapping into this source of capital should not be an arduous and complex process requiring costly assistance. Steps that could improve the situation include:

- Increasing visibility (online and offline) and marketing of government funding opportunities, as the majority of SMEs are not aware of the government funding opportunities that exist; and
- Simplifying the funding application process and cutting processing time.

Cutting red tape

The Western Cape Government established its Red Tape Reduction Unit in 2011 to cut red tape and remove bureaucratic blockages, making it easier and more cost-effective to do business in the Western Cape. The unit says it has made great strides in reducing red tape and has a resolution rate for cases logged with its helpline above 90%. If initiatives like this prove to be effective, government should consider rolling out similar schemes in other provinces.

Working with government

In the SME Survey 2014, business owners were found to be more positive about dealing with government than might have been anticipated.

38%

of respondents said they had used government services in the last 12 months, while 17% said they had done so more than three times.



84%

of those who had used government services reported being somewhat or very happy with them.

Red tape

Positive views disappeared for the most part when it came to red tape, though.

53%

of respondents viewed the performance of business registrations as either less or highly unfavourable.

42%

of those surveyed viewed PAYE administration as unfavourable or highly unfavourable.

47%

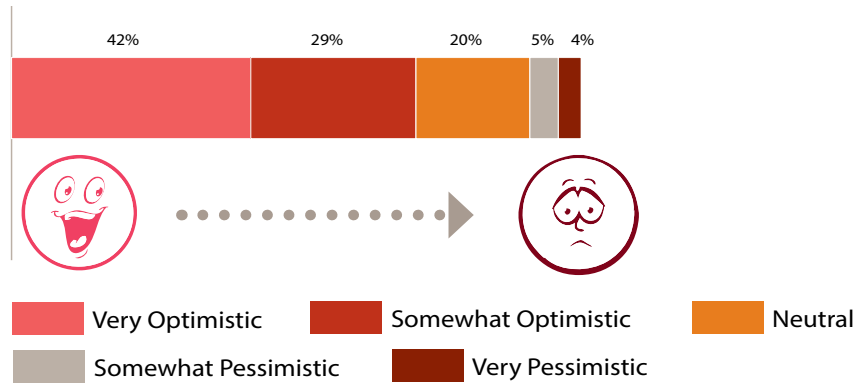
considered VAT administration either unfavourable or highly unfavourable.

44%

% of respondents expressed high confidence in using these government services, and the survey notes that there has been a dramatic improvement in the perception of government services in the past ten years.



Entrepreneurs' business outlook for the next 12 months



Source: Seed Academy's startup survey results 2015
http://seedacademy.co.za/wp-content/uploads/2015/05/SeedAcademy_StartUpSurveyResults_2015.pdf

#3 Myth: Red tape is stifling SMEs

3

Myth:

Red tape is stifling SMEs

Finding: Although red tape was cited as a growth inhibitor by entrepreneurs, it only ranked fourth out of ten as a growth stopper, with only 9% of respondents choosing this option.

When asked about the top challenges they face, only 8% of entrepreneurs recognised regulation/legislation as a significant problem.

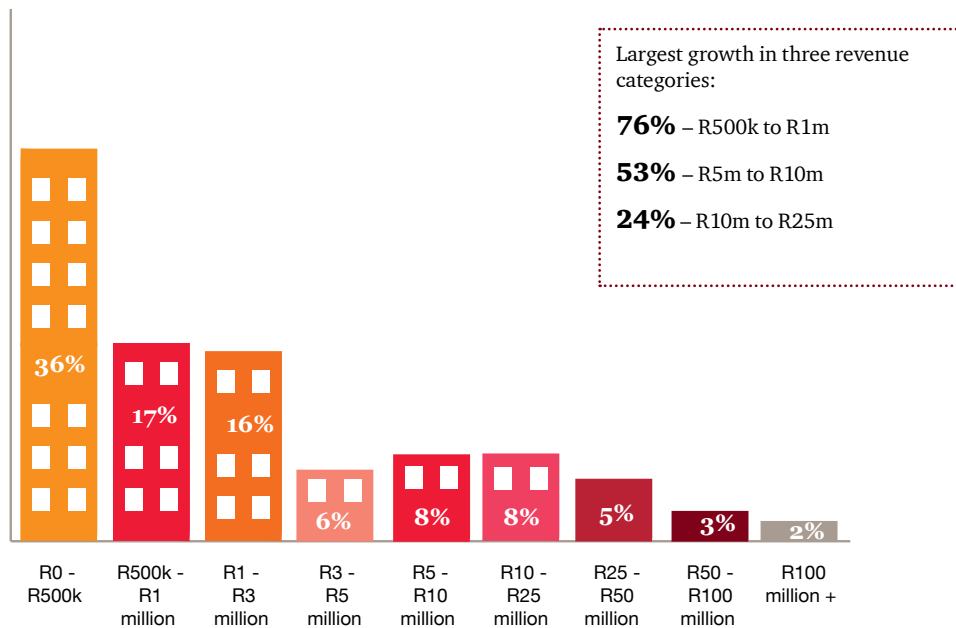


Number of working days per month spent by companies dealing with red tape. Even though our respondents didn't rank red tape as their primary growth inhibitor, this figure brings into question the opportunity cost of dealing with regulatory compliance and how much more successful SMEs could be if they could plough these additional hours into developing their businesses.

Source: SME Growth Index, Growth & Competitiveness For Small Business In South Africa 2014 <http://smegrowthindex.co.za/?p=444>

Progression of *emerging* companies in South Africa – the way we see it

Turnover of emerging companies – Current year



“One of the main reasons for the premature failure of small businesses in South Africa is that they are started as survivalist ventures. It is almost inevitable for them to fail because their owners do not have the skills, experience or resources to build a sustainable business.”

– Ravi Govender, Head of Small Enterprises, Standard Bank.

> 2/3 (69%) of respondents are early emerging companies with a turnover of <R3m.

→ Of these companies, 65% anticipate being either loss making or profitable up to R500k per annum for the current year.

→ For the next financial year, only 41% anticipate being in the same revenue category.

1 in 5 (21%) companies was in the >R3m-R25m revenue category

→ >70% of these having revenue above R5m.

Close to 10% of respondent companies fall in the >R25m revenue category.

→ Companies in this category anticipate 50% growth in EBITDA from the current year to next year.

With the business failure rate in South Africa believed to be above 70%, is clear that the largest amount of support is required in the early-stage business category. Some of the reasons for early business failure:

Passion is not a substitute for experience



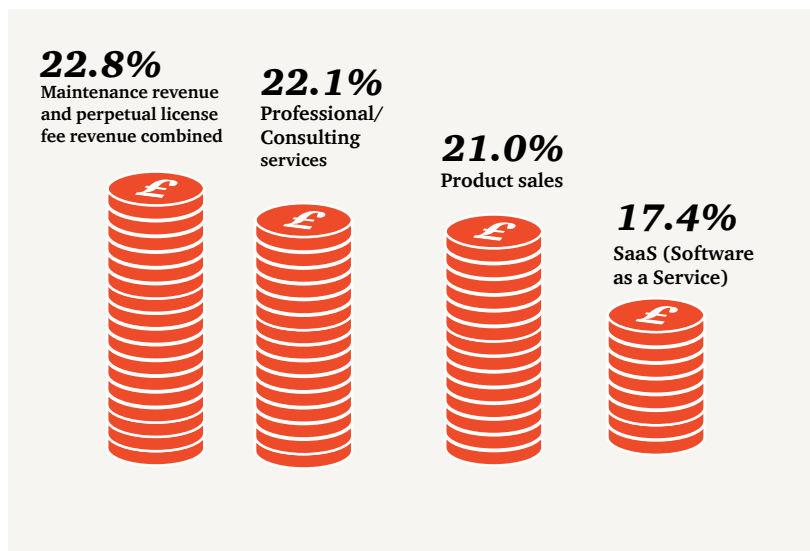
Lack of skills and experience in managing a business with all the factors it involves, not coping with the array of responsibilities, poor planning

Lack of financial expertise

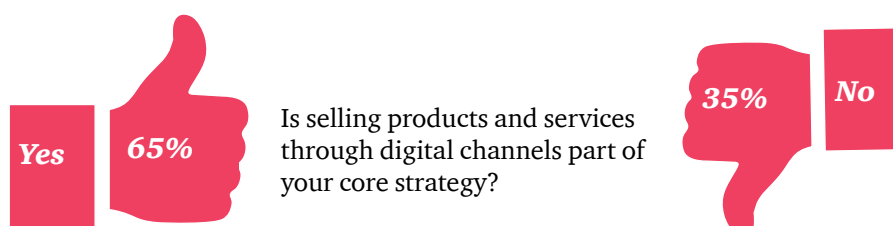
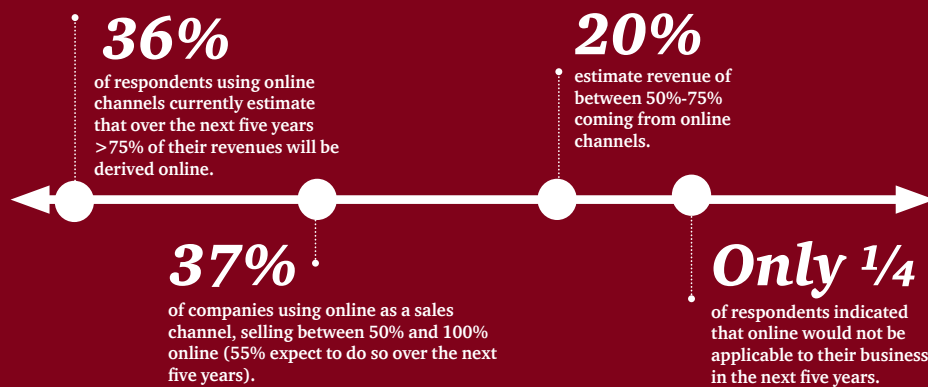


Financial management issues often lead to businesses' demise (poor stock control, cash-flow issues, pricing models; failure to differentiate between personal and company accounts, leading to confusion on true profitability). Nearly one in three (29%) companies that participated in a Silicon Cape start-up survey in 2013 failed due to 'running out of cash'.

Top 4 sources of revenue



Online channels





A few minutes with Michael Jordaan

Michael Jordaan is the former CEO of First National Bank and founder of Montegrays Capital, a private investment company that invests in disruptive technologies and business models.

Q South Africa is not an easy place for entrepreneurs. Although government has put enabling initiatives in place, we have seen little tangible improvement for SMEs. How can innovation assist government in effectively and practically stimulating entrepreneurship?

MJ Call it 'innovation' if you want to make it sound sexy or 'basics' if you want to be critical, but the best government can do is to make it easy to start and operate a business. Regulatory requirements ranging from FICA documentation to VAT registration to BEE validation take up an inordinate amount of time and could be streamlined. Ideally, we should have incentives to create jobs. A good start would be to stop taxing wages, which is what SETA contributions effectively do.

Q If there would be one thing you could change right now (legislation, political, ecosystem support, education, etc.) to stimulate local entrepreneurship, what would it be and why?

MJ The restrictions around externalising intellectual property prevent many IT start-ups from accessing foreign venture capital. It's sad when a company has to close down locally because of forex considerations that do not apply to other start-ups around the globe.

Q What is the wisest piece of advice you have received in your career and lived by?

MJ Surround yourself with people better than yourself and empower them to get on with it.

Raising capital

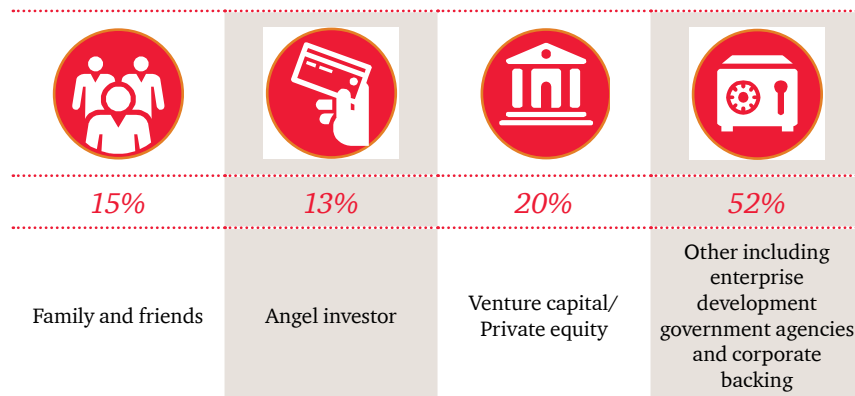
43% of respondents did not raise capital in the last 12 months, but plan to do so in the next 12 months.

While raising capital was identified as a challenge by many respondents, a **significant number are finding funding, with 24% having successfully raised capital in the past 12 months.**

Just over half (53%) of businesses that recently raised capital are having to bootstrap and privately fund their growth. Angel funding, which accounted for just 7% of capital recently raised by respondents, raises questions around the funding gap and the possible need for more education about approaching these funding sources.

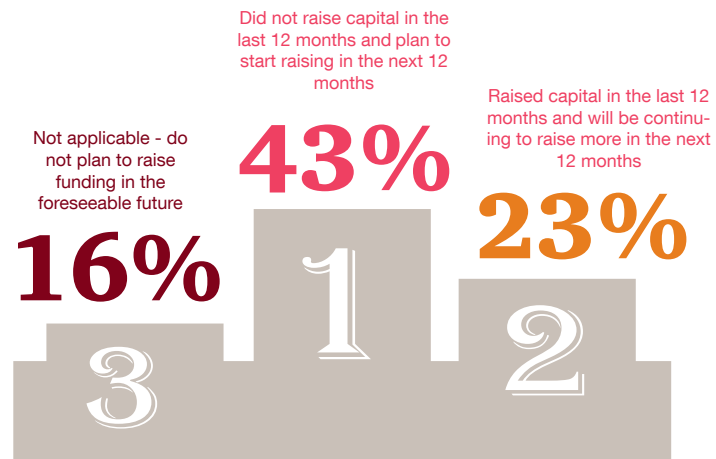
1 in 5 (19%) respondents who had not raised any funding to date identified a lack of funding in the marketplace and a lack of fundraising experience as issue. A further 32% of responding companies have not raised capital due to their product being either too far along or too early in its life cycle to attract investors.

Future funds to be raised

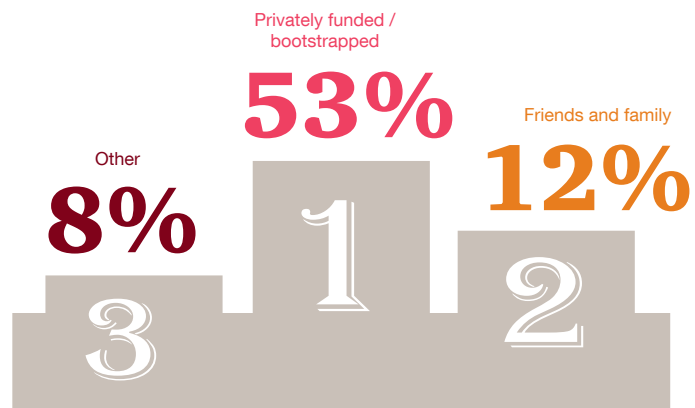


Just over a third (34%) hope to raise up to R500k in their next round of funding, **while only slightly fewer (28%) are looking at bringing in R5m-R10m.**

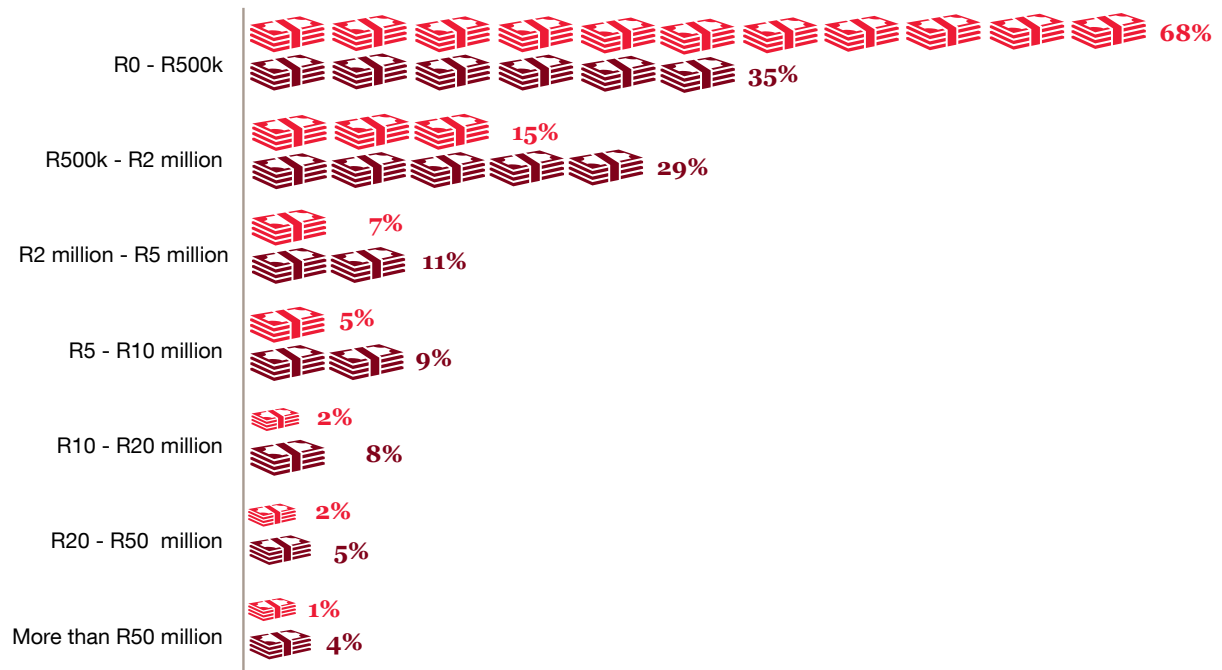
Top 3 stages of funding





Top 3 sources of most recent capital raised

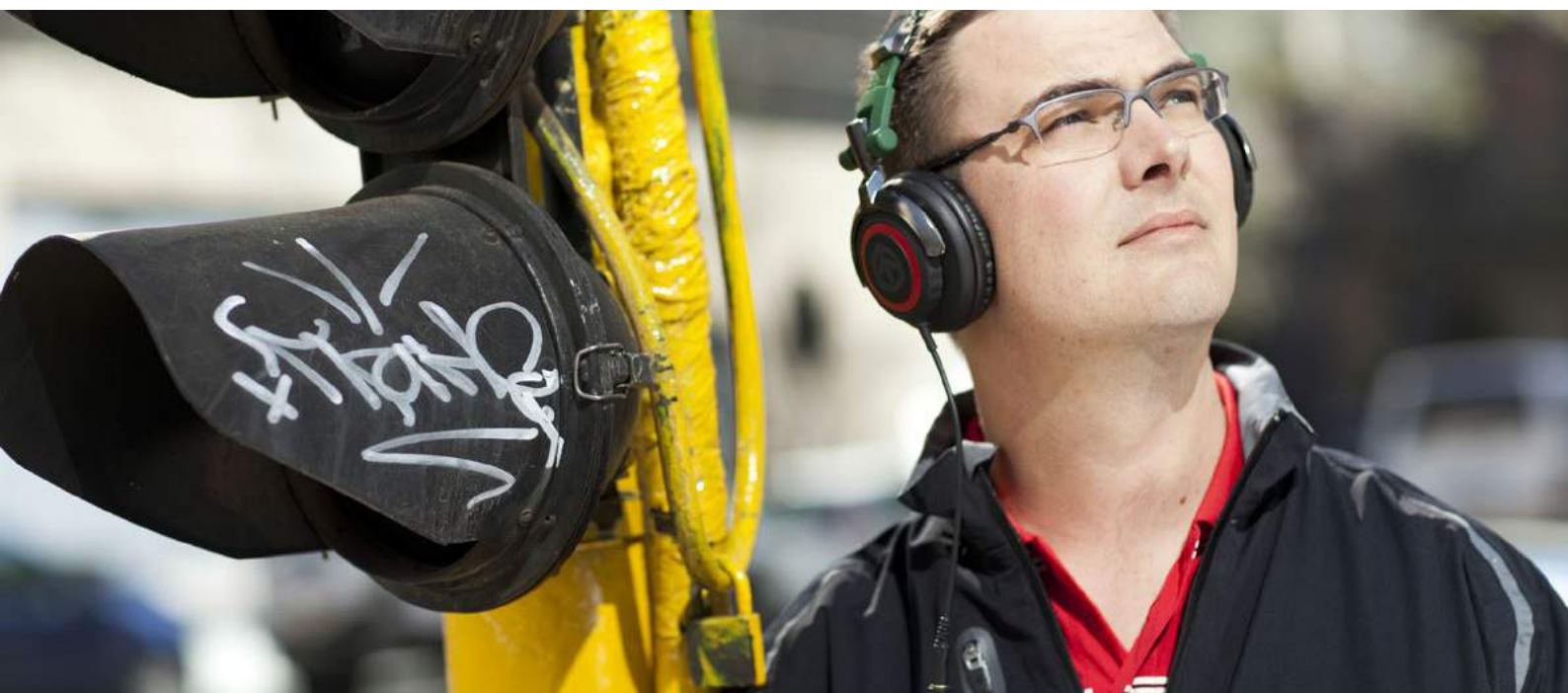


Amount of capital raised



 Last round of fundraising

 Next round of fundraising

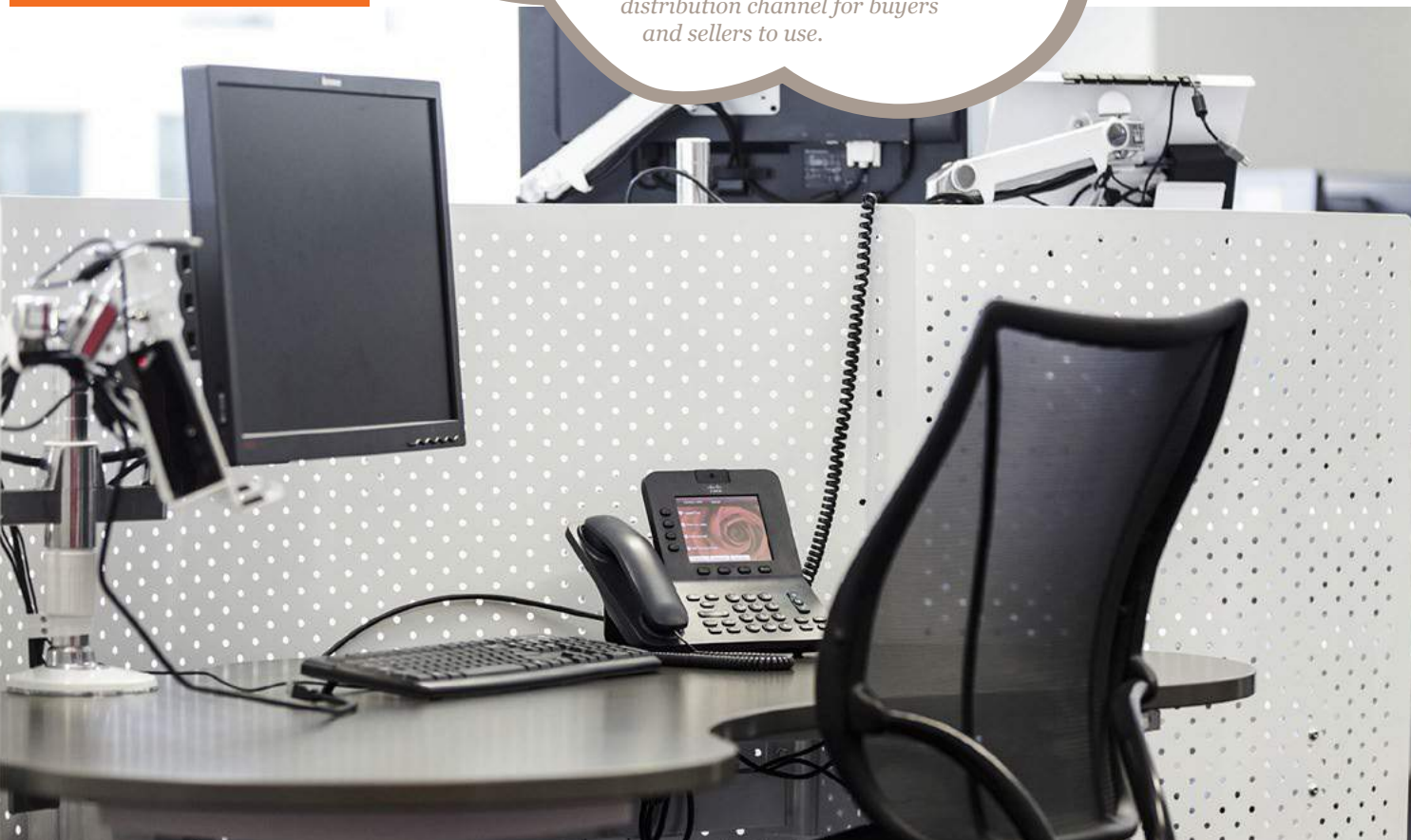


The Internet of Things: Communications enabler, transaction and collaboration tool

South Africa is poised on the brink of a digital revolution. Research carried out by Internet consultancy World Wide Worx in 2012 showed that the Internet economy had already contributed 2% to South Africa's gross domestic product (GDP). It is expected to reach 2.5% by 2016. The total spend by consumers, SMEs and the Government on products and services via the Internet, as well as on Internet access and infrastructure, was R59 billion in 2012. This places it almost on a par with South Africa's agricultural sector.

Defining digital

'Digital' is a collective term that refers to an integrated and collaborative platform that allows consumers, suppliers and organisations to transact using various electronic devices and technologies. It brings together emerging technologies, including social media, cloud, analytics and mobile, to provide a cost-effective and convenient distribution channel for buyers and sellers to use.

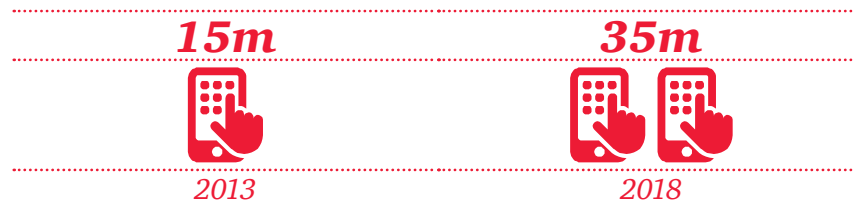


According to the same study, roughly 150 000 SMEs in South Africa would not be able to survive without their web presence, with as many as 1.6m jobs directly tied to businesses with an Internet presence.

South Africa's emerging companies are responding to the changing landscape. **65% of respondents in our survey are using digital channels as part of their core strategy.** Most emerging companies are using digital channels, including social media, to sell products and services and educate their customers about both their products and their brands. The growth in these digital channels is bringing companies closer to the market they intend to serve, allowing them to communicate with and relate to the needs of their customers.

World Wide Worx research suggests that e-commerce in South Africa is growing at a rate of around 30% a year. This is endorsed by survey respondents, **55% of whom expect to sell more than half their goods online in the next 5 years. The majority believe they will be selling 75% -100% of their products online in the long term.**

Respondents' outlook is supported by the fact that more and more South Africans are accessing the Internet via their mobile phones. Not only is the mobile phone a device for transacting to buy, it's predominantly used for entertainment, information access and money transfers.



Source: PwC's Entertainment and media outlook

While emerging companies still have various challenges, digitisation has opened up new sales channels to these businesses, which they can and are starting to exploit.

Digital matters to consider for emerging businesses

Serious about adding digital as an additional sales channel? Invest in a focused and purposeful way into this channel but know that it requires expertise and skills to manage the often large investment required to maximise the returns. Once online traction has been gained, the benefits will be reaped, provided that you hire or outsource the right expertise to run the process for you.

Digital as a new sales channel: Really?

We tested the online presence of survey respondents that expect >½ of their sales to come via digital channels within the next five years. The methodology applied to test this was twofold:

- Searching for keywords relating to the business-specific industry/product and testing whether the brand came up on the first page of Google search results; and
- Checking whether the key brand words had been bought via Google Adwords.

Our findings show that **four of the five respondents have clearly not been actively targeting digital as a sales channel**, and still have a lot of work to do in achieving this.

Two of the largest barriers to shopping online

#1 Abstractedness of the experience: no touch and try; returning product and refunds

#2 Delivery options and associated cost

Ever thought about this?

Why don't we see more pop-up 'try-out' shops or 'one-man show' stands in shopping malls, market locations and airports?

Why don't more e-commerce sites offer collection points as a delivery option?



A craft beer with Andrew Smith

Andrew Smith is Managing Director and co-founder of Yuppiechef, an online kitchenware retailer and food community.

Q How is the Internet enabling start-ups?

AS The Internet gives start-ups and small businesses access to a national and international market from very early on. In our case, we could sell to the whole of South Africa without having to open stores in malls across the country. Likewise, we expanded to Namibia, Botswana and Mauritius without needing a physical presence in those countries. We have now started selling online video cooking courses, and have had users from 90 countries across the world.

Small businesses also have access to the world's best tools for running their operations. We use an accounting package from New Zealand, an email marketing system from Australia and video hosting from America. Most of these services have free or low-cost tiers for start-ups, which then scale with your growth.

Q What have your observations been of the South African e-commerce space over the last five years?

AS E-commerce in South Africa has definitely been taken more seriously in the last five years. When we started in 2006, e-commerce was a barren landscape with a few pioneers and very little choice for customers. We were saying ten years ago that SA's problem was not the lack of broadband access or payment facilities - it was that there was nowhere to shop online.

In recent years there has been a lot of activity from venture-backed companies like Groupon, Zando and Takealot, the traditional retailers like Mr Price and Woolworths, and many niche players within specialist categories. If a customer has a good experience with any of these stores they are more likely to look online for their next purchase. On top of the official growth numbers, we are also hearing more and more friends and family talking about how they have shopped online for the first time in the last year.

All this being said, it is still a difficult landscape to be operating in. The enforcement of 3D Secure for payments, despite most e-commerce stores pleading and demanding that another solution be found, is an example of how we are fighting an uphill battle to grow a fledgling industry.

Q What do you regard as South Africa's largest e-commerce success story?

AS I think we're still waiting to see real success in South African e-commerce. It's fairly easy to make a name and grow sales with deep discounts, but almost no e-commerce stores are profitable, which makes it hard to call them a business success. Traditional retailers are making sales, but it's still an almost insignificant part of their turnover. Daily deals sites worldwide are struggling to find their long-term place and many are closing down after an initial burst.

Perhaps the most impressive South African e-commerce success story is Woothemes.com. They develop software that runs hundreds of thousands of e-commerce stores around the world, and were recently purchased by Automatic. Woothemes has employees around the world, but its roots are in Cape Town and it has a large office there.

Q What are the three key ingredients that made Yuppiechef succeed?

AS Our single biggest key ingredient was timing. We were fortunate to start at a time and in a country where e-commerce was only just emerging, so we could claim our category and grow without much competition. We also stumbled into kitchen and food as it was getting a boost from the trend to cook and eat at home, fuelled by Jamie Oliver and the MasterChef TV shows.

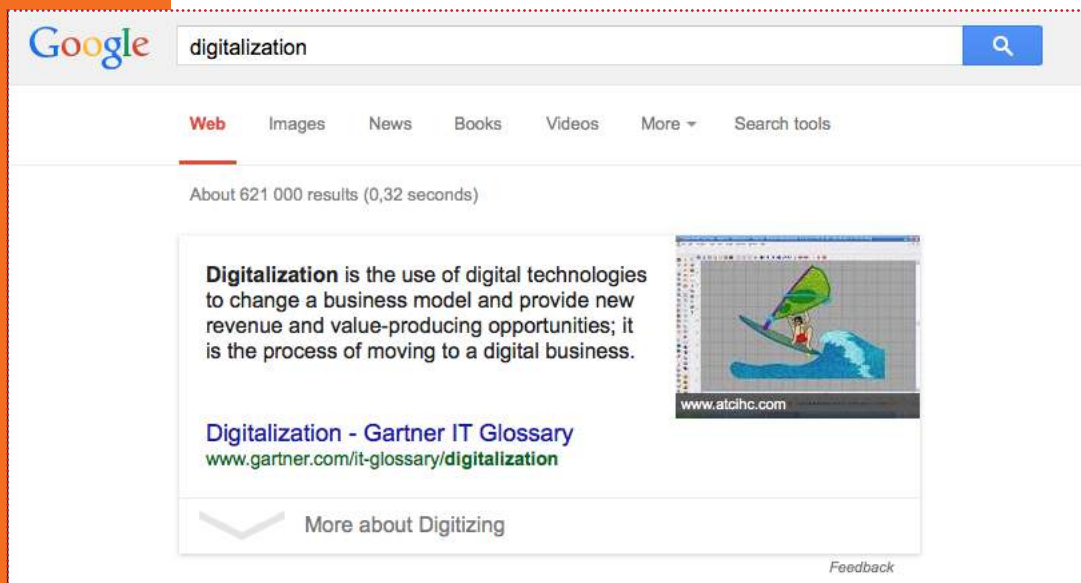
The founding team had the backgrounds and capabilities to get the company off the ground without having to hire or outsource to expensive experts. As we grew we were able to attract an incredible group of passionate and talented team members who could take us to the next level.

In the nine years since launching we have often been tempted to expand too broadly, but our focus on our category has kept our brand unique in a market that is growing crowded and increasingly price-focused.

Q: What is your favourite SA website (apart from your own of course)? Why?

AS Simfy.co.za for streaming music. For R60 per month you get unlimited access to 27 million songs, and it has changed the way I listen to music.

Digitalisation



Examples:

“Digitalisation is an emerging business model that includes the extension and support of electronic channels, content and transactions. Various businesses are embracing digitalisation to transform their businesses, while balancing electronic capabilities with traditional business practices (e.g. the need for printed documentation and correspondence, face-to-face interactions, and call centre volume).”

The new Apple watch

The introduction of technology with phone, messaging and internet capabilities.



Online tax returns; virtual filing

The screenshot shows the TaxTim website interface. At the top, there's a navigation bar with links like Home, About Us, How It Works, Pricing, Blog, Ask a Tax Question, Help, Calculators, and Students. The main heading is "Make Tax Quick and Easy". Below this, it says "Answer Simple Questions -> TaxTim Completes & Submits your Tax Return to SARS for you". A green button labeled "Get Started Now" is prominent. To the right, there's a form with a cartoon character of a man in a suit. The form asks for the amount spent on medical aid contributions (R 13,200), whether the employer pays for medical aid (Yes), and how many members are covered by the medical aid scheme (1). A "Save" button is next to each question. At the bottom, there's a section titled "2015 Tax Season is Open! TaxTim makes doing your Income Tax Return Quick & Easy. Start Now ->". Below this, there are three columns of text describing the service: "Anyone can chat to Tim online", "Simple and fast", "Professional and secure", and "Tim submits to SARS for you". Each column includes a small icon and a quote from a user. At the bottom left, there's a section titled "Get SARS Tax Dates and Deadlines in your inbox" with a text input field for an email address and a "Remind me" button.

Older examples of digitalisation





The essence of digitalisation and how it can benefit SMEs

- It's about doing business faster, simpler, better and more efficiently – meaning lower costs to SMEs, with manual processes being digitised using simple software.
- Especially for medium enterprises, digitalisation forms part of and heavily supports the theme of innovation. South African CEOs agree that technology will be the most important megatrend transforming their businesses, industry and society over the next five years, with numerous opportunities arising to generate value in new ways.
- It may cost in the short term, but doing nothing could cost more. Cost can also be misleading. For example, using a cheap, simple accounting software tool to record all finances could be far more cost-effective than employing a bookkeeper.

PwC's 17th Annual Global CEO Survey found that while South African CEOs recognise that digitalisation and innovation are critical to their remaining relevant and to support growth, there is a glaring gap between aspiration and action, with only 31% having started or completed the changes required to become more innovative.

Similarly, at 'The Great Digital Migration – CxO Debate 2015', hosted by Telkom Business in Cape Town in May 2015, **64% of the audience (mainly CxO level) surveyed didn't have a formal digital strategy**. This is probably because it's still too abstract and inaccessible to many and still not fully understood.

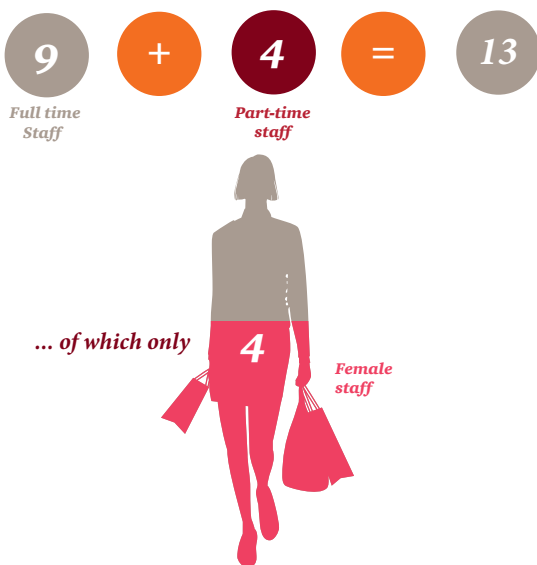
***“You don't need a digital strategy for your business.
You need a business strategy for the digital age.”***

– Carlo Gagliardi, Co-Leader of PwC UK's Digital Practice
<http://www.worldinbeta.com/blog/business-strategy-digital-age>

Where are the women?

Staff profile by gender and race

Average staff numbers per company - current year



So what does that mean?

38%

of employees are previously disadvantaged

31%

of company employees are female

27%

of companies that took part in the survey had a female co-founder



A disheartening statistic: the number of previously disadvantaged female founders only made up 15% of total female founders. On the upside, however, previously disadvantaged male founders came close to half at 42%.

The benefits of having women in leadership positions

Fortune 500 companies with the highest representation of women board directors attained significantly higher financial performance, on average, than those with the lowest representation of women board directors, a report by diversity NGO, Catalyst, has found.

The report found higher financial performance for companies with a higher representation of women board directors. Other significant findings include:

- Stronger-than-average performance at companies with three or more women board directors when looking at return on equity, return on sales, and return on invested capital;
- Strong correlation between corporate financial performance and gender diversity;
- Well-managed diversity produces superior results; and
- Smart companies appreciate that diversifying their boards with women can lead to more independence, innovation, good governance and maximisation of company performance.

Return on equity

On average, companies with the highest percentages of women board directors outperformed those with the least by

53%

Return on sales

On average, companies with the highest percentages of women board directors outperformed those with the least by

42%

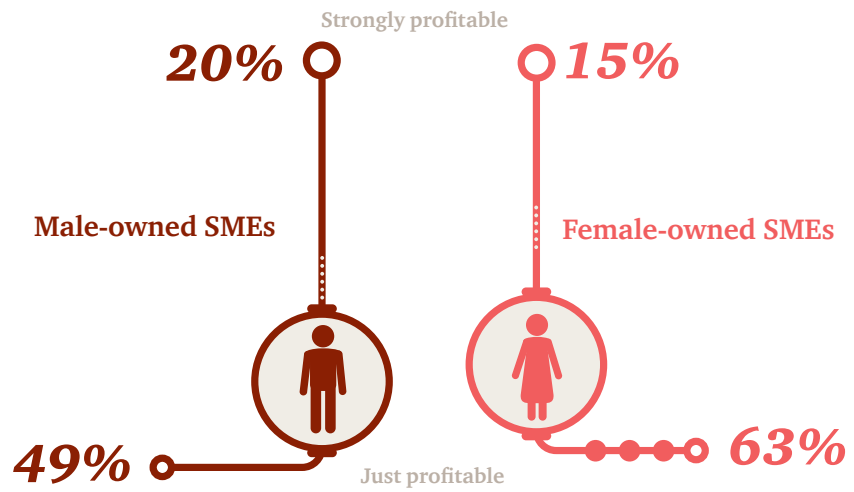
Return on invested capital

On average, companies with the highest percentages of women board directors outperformed those with the least by

66%

Source: Catalyst.org, 'Companies With More Women Board Directors Experience Higher Financial Performance, According to Latest Catalyst Bottom Line Report' <http://www.catalyst.org/media/companies-more-women-board-directors-experience-higher-financial-performance-according-latest>

Catalyst's findings strongly echo those made by Arthur Goldstuck in the SME Survey, which found that although a minority, women SME owners are more successful. The findings were that a small business owned by women has a better chance of being profitable than one owned by a man.



= a total of 78% of women-owned businesses being profitable, well ahead of the 69% for men





South African women business leaders in tech:

Professor Tebello Nyokong Director of the Nanotechnology Innovation Centre at Rhodes University.

She won the Africa-Arab State 2009 L'Oréal-UNESCO Award for Women in Science for pioneering research into photodynamic therapy.

She is the third South African scientist to receive this award.

Emma Kaye Co Vice-Chair of the Mobile Entertainment Forum EMEA Board, a body that represents the region's interests within the global trade association.

After founding several successful ventures in mobile entertainment, she is now the South African CEO and Founder of Bozza, a mobile application that allows communities to see and share life through local music, videos and images.

Thoko Mokgosi-Mwantembe CEO of Kutana Investment Group with vast experience in South Africa's telecommunication industry.

She has held several senior positions, including divisional MD for Siemens, CEO of Alcatel SA and CEO of Hewlett-Packard South Africa.

She serves as an independent non-executive director on the boards of Vodacom, Absa, Paracon Holdings and Knorr-Bremse SA.

Barbara Mallison Co-founder of Obami, a South African-based social e-learning platform used by hundreds of schools and organisations across Africa, Europe and America.

One of Cape Town's top ten women in business and the only African on the advisory board for Mobile World Capital, a global initiative driven by the city of Barcelona and the GSMA.

Annette Muller Founder of DotNxt, a company that creates, develops and delivers software, mobile, social and other digital projects for South African companies.

Founded in 2011, DotNxt has >20 corporate clients, including Nedbank, Primedia and Graham Beck.



Q&A with Julie Caldicott

Julie Caldicott is Managing Director of Pinewood SA, which resells, implements, trains and supports Pinnacle, a market-leading management software system for auto dealerships.

Q *What's been your biggest challenge with the set-up and running of this business?*

JC Access to the source code, which is covered by escrow, is a risky area of the business and a complex issue to grapple with. Also, the fact that we are dependent on a development team based overseas for local software iterations and requirements can be frustrating, due to different priority gradings that software updates and changes have locally for us vs globally at head office. We may want something changed now, but our request requires to be prioritised between all other international businesses that Pinnacle owns.

Q *What's the best thing about working in a male-dominated industry?*

JC The respect earned once my customers realise I know what I am talking about. As well as the good relationships I hold with my customers.

“In the future, there will be no female leaders. There will just be leaders.”

– Sheryl Sandberg, Lean In: Women, Work, and the Will to Lead, <http://www.goodreads.com/work/quotes/21865596>

It all boils down to education

75%

of respondents have tertiary qualifications

of which **2/3**

hold a post graduate degree of some sorts

This may be partially attributable to the channels used to disseminate the ECI survey.

Of the total respondents, **25%**
held bachelor's degrees

12% held a Matric as their highest qualification.

The recent Seed Academy start-up survey showed similar results with very few founders not having a tertiary education. However,

28%
ranked higher on Matric-qualified respondents.

30%
ranked lower on university-educated respondents.

This in turn aligns to the Global Entrepreneurship Monitor (GEM) findings that the majority of early-stage entrepreneurs in South Africa have at least some secondary education.

Entrepreneurial education

According to the recent SiMODiSA report on the top 25 constraints to entrepreneurship, there is still “inadequate formal entrepreneurship exposure and education”. Internationally, formal education systems play a pertinent role in furthering the culture of entrepreneurship and positioning this as a viable career path. South Africa needs to do more to include entrepreneurship in the school curriculum, starting at a young age. Its current absence is stifling the foundational growth of entrepreneurial culture.



Start with the basics



Schools should be mandated to allow for entrepreneurs to speak to pupils once a month about their story and how they got started.



The SME Growth Index found that overall, the successful - (i.e. established) SMEs have founders that are by far better educated than the workforce as a whole. For example, as part of their study, **40%** have a bachelor's or post-graduate degree vs **5.5%** of the total adult population. In our research, we found virtually all respondents also had previous work experience, with medium to large firms being the most common. This correlates with GEM's findings that work experience is a key contributor to how an entrepreneur perceives his/her competence to start a new business.



¹ <http://impacttrust.org.za/wp-content/uploads/2015/04/Download-3.pdf>

What money can't buy

Leadership skills and knowledge development

49%



identified networking and mentorship/coaching as the primary activity engaged in to develop leadership skills and industry knowledge

13%



cited incubators/accelerators as leadership development tools. This opinion, however, does not consider that networking, mentoring and coaching can be largely provided in an incubator/accelerator-type set up.

In terms of the opinions of the ecosystem stakeholders, **64% of entrepreneurs lack commercialisation expertise** and **55% agree that South Africa lacks serial entrepreneurs**. However, only 27% believe that South African CEOs/founders are not hungry enough/don't have a global vision.

Top four things to consider when starting a business :

- 1 Build something you believe in – that's the first step to building a great brand.
- 2 Prepare to be copied. Don't start unless you'll survive imitation.
- 3 Build up reserves of money and energy for bad luck and mistakes.
- 4 It's a marathon, not a sprint.

² Seth Goldman and Barry Nalebuff, Mission in a Bottle – the story of honest tea, Crown Business (2013). <http://missioninabottle.net/>

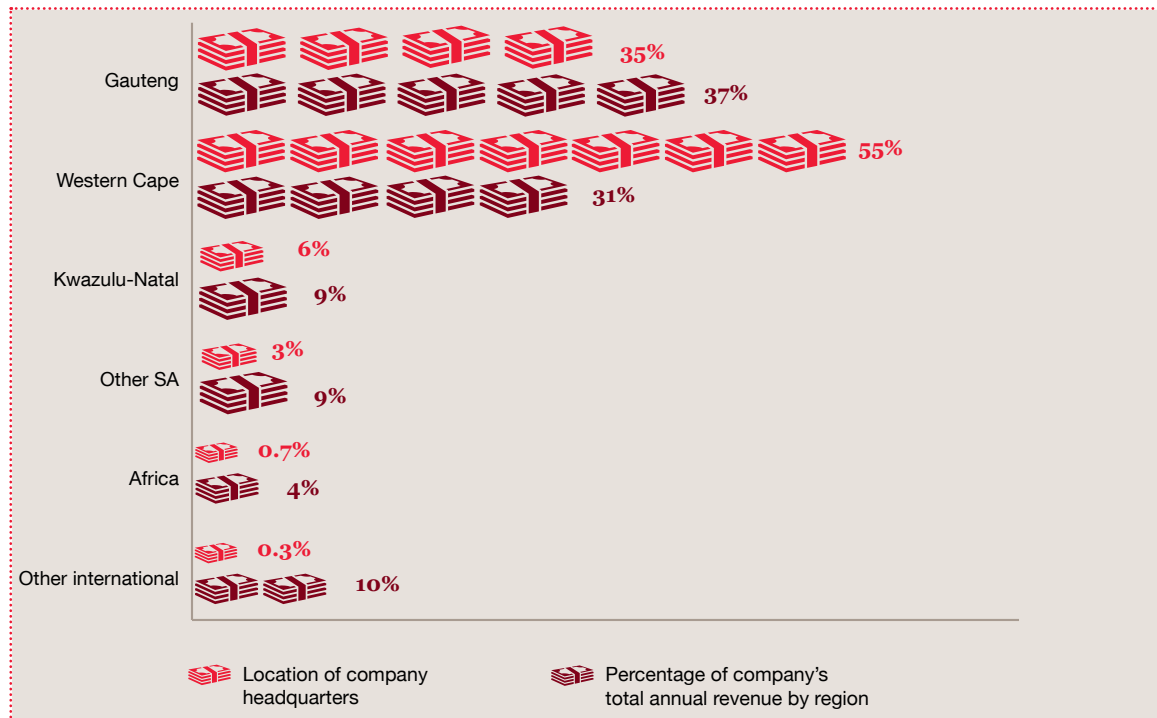


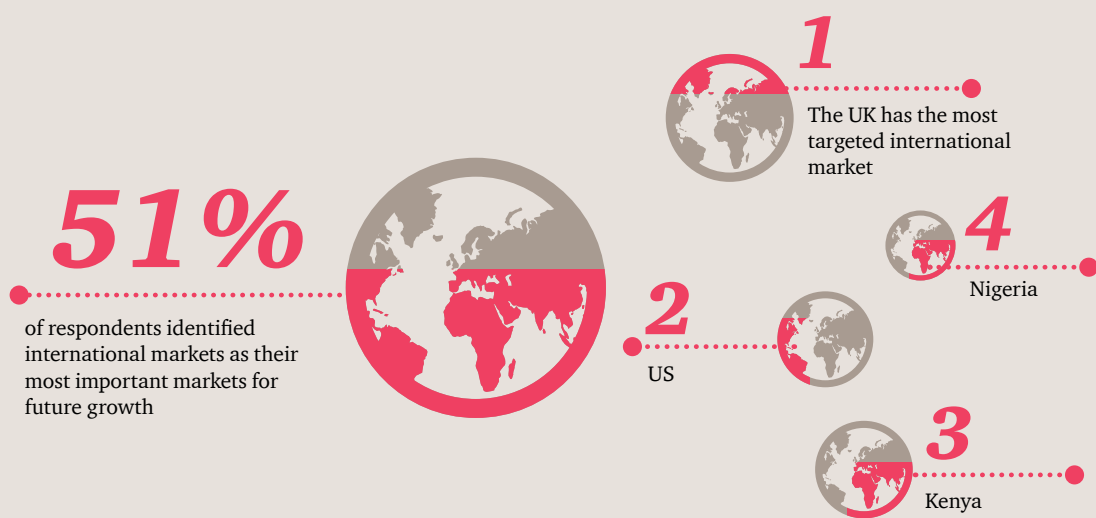
Further insights



A few more stats

Location of company headquarters and percentage of companies total annual revenue by region





The Western Cape registered more emerging company headquarters than any other South African province in the survey, which is in line with the visible initiatives that support small business development and innovation (especially in the technology sector) in the province. A registry of these structures can be found in the section on Talent, Education, Training and Support.



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International expansion: Not an easy task; challenges and room for improvement

Internationalisation can be a strong value driver for any company with a relevant product and capacity to go global with. But there is a BIG but: it comes with a host of complications, distractions, complexities and increased business risks. Furthermore, it can be a lengthy process that can distract a business from its core operations at home if not handled correctly from a strategic and operational point of view.

Q&A

Walter Penfold, Managing Director of Everlytic

(Everlytic was founded in 2004 as a company that Walter describes as “doing Internet-based work – anything legal for money”. The company has evolved into offering cloud-based email and SMS marketing solutions. The FNB Vumela fund has invested in Everlytic and the outfit is also a finalist in the FNB Business Innovation Awards 2015.)

Q *Does Everlytic have an international expansion strategy?*

WP We went through a capital raising a few years ago for this exact purpose: to focus on a large international drive. To be totally frank, we made a “right hash of it”. That said, we learnt an incredible amount from this exercise. We subsequently scaled back and decided to re-focus on the SA market. Next time round, when we embark on strategic focus beyond our borders, we have a wealth of experience to reflect on and apply, to make it a success. We do have single - digit sales from international sources currently (resellers in Chile, Argentina and Kenya) but it’s not the current focus.

Q *What’s Everlytic’s motto?*

WP ‘Confidence with humility.’ It’s pervasive in everything we do.

www.everlytic.co.za





Snapshot of key challenges pertaining to entrepreneurs



- ❏ Lack of access to skilled labour, barriers to entry and operation, and education legacy.
- ❏ Inability to access a slice of the procurement pie.
- ❏ Complex, costly regulations, especially the arduous process of starting a business in South Africa.
- ❏ Uncompetitive labour rates are damaging small businesses – due to collective bargaining, smaller businesses are forced to pay above median wage rates irrespective of affordability, which can lead to their demise.
- ❏ Gap between entrepreneurs' expectations and finance sources available; entrepreneurs not matching funding needs with investors' mandates.
- ❏ Lack of supporting entrepreneurial culture in South Africa.
- ❏ South Africa's existing labour laws and staying abreast of compliance with them.
- ❏ Exchange control regulations, and research and development restrictions.
- ❏ Inadequate infrastructure.

Some questions to think about....

- Should Government not differentiate between small and large companies and have small and large company policies that apply different levels of bureaucratic requirements, creating a more enabling environment for small businesses?
- Why does Government not introduce 30-day payment terms for SMMEs?
- How can we create a more flexible environment for entrepreneurs to fail and start again? What additional support mechanisms are needed?
- Closing the financing gap: Why aren't private institutions incentivised more to finance SMMEs?





The good news: room for improvement

There was consensus amongst participants in the recent SiMODiSA study on the top 25 constraints on entrepreneurship:

“South Africa presents significant talent and potential for entrepreneurship. However, the entrepreneurial ecosystems operating in the country are sub-optimal, inhibiting the successful attainment of potential for innovation, enterprise development and successful small business growth.”

The good news here is, there is massive room for improvement:

- Accessing capital is less difficult than believed. Rather, a lack of knowledge about where and how to access funding remains a challenge.
- South Africa’s infrastructure is not ‘entirely’ unacceptable and still very favourable compared to other emerging regions.
- Increase of the procurement pie: Ample opportunities exist for corporations to provide entrepreneurs with increased access to procurement opportunities/integration into enterprise development strategies – again, it boils down to more collaboration and working relationships between the private sector and South Africa’s entrepreneurs.
- Mentoring and networking are still in their infancy in South Africa: Improve these and facilitate business growth.
- Comparison to other emerging regions: SA currently ranks 43 out of 189 in the Ease-of-Doing-Business Index rankings, ahead of the other BRICS countries (Brazil ranks at 120, India at 142, China at 90 and Russia at 62).
- The foundations exist:
 - SA is one of the two largest economies in Africa due to its strong and diversified industrial base (including automobile manufacturing and exports).
 - World-class infrastructure; a highly sophisticated financial sector dominated by banking, insurance, the mortgage industry and the stock market.
 - Ranked 56th out of 144 economies in the World Economic Forum’s Global Competitiveness Index for 2014/15 (China: 28, Brazil: 57, India: 71).
 - SA ranked by the World Bank as an upper middle-income economy with income brackets of US\$4 126-12 735.

Source: SiMODiSA, “Accelerating the Growth of SMEs in South Africa”. <http://impacttrust.org.za/wp-content/uploads/2015/04/Download-3.pdf>



A brief chat with Professor Neil Rankin, Department of Economics, Stellenbosch University

Q *Is there any feel-good news you can share with us around the SME space in South Africa?*

NR There are companies doing some very interesting and innovative things, very successfully. For example, there is a South African world leader in stair lifts and a company licensed to supply Burger King with kitchen equipment.

This is partially driven by specific South African demographics: There is a group of entrepreneurs with a solid education, networks and access to capital (often within these networks) that allows for the growth of their businesses. We must bear in mind that in South Africa, our history has systematically hampered 80% of the population from becoming entrepreneurs – South Africa has a massive catch-up game to play.

We have seen that the most successful entrepreneurs come from 'older' age groups, once a certain level of work and industry experience has been achieved. We should start seeing some of the previously disadvantaged entrepreneurs, who have now gained this experience, coming through the ranks.

In his annual State of the Nation Address in 2015, President Jacob Zuma noted:



“...Small business is big business.

Government will set aside 30% of appropriate categories of State procurement for purchasing from SMMEs, co-operatives as well as township and rural enterprises.

We will also continue to promote opportunities for the youth. The National Youth Development Agency has disbursed 25 million rand to 765 youth-owned micro enterprises in the last financial year nationally.

The Agency has also partnered with the IDC and the Small Enterprise Finance Agency in a three-way partnership that has resulted in a 2.7 billion rand fund for young people.

The year 2015 will mark the beginning of the first phase of broadband roll out. Government will connect offices in eight district municipalities.

Government has also decided to designate Telkom as the lead agency to assist with broadband roll - out....”

State of the Nation Address, February 2015. <http://www.gov.za/president-jacob-zuma-state-nation-address-2015>

How does this translate?



Transforming our economy – project

Three-point plan proposal (elaborate)

Working on initiatives such as SEDA, SBDI and Department of Small Business Development; some provincial government enterprise and supplier development initiatives.

Target of SME contribution to employment opportunities set at 90% by 2030.

Government recognition of the critical importance of decreasing unemployment – the commitment with the National Planning Commission to halve unemployment in South Africa

".... Our goal for 2020 should be to create one million new businesses rather than five million jobs. It is the only way to create that number of jobs. Big business has changed its employment model and now subcontracts all its non-core activities to other companies; the Government doesn't have the money to create five million extra civil servants; and public works programmes are a temporary solution."

- Clem Sumter

"...entrepreneurs have been the driving force for growth in countries around the world. Their ability to see opportunities, to see order amongst chaos where others see only issues, problems and disorganisation, has helped transform communities and economies."

- Sir Richard Branson

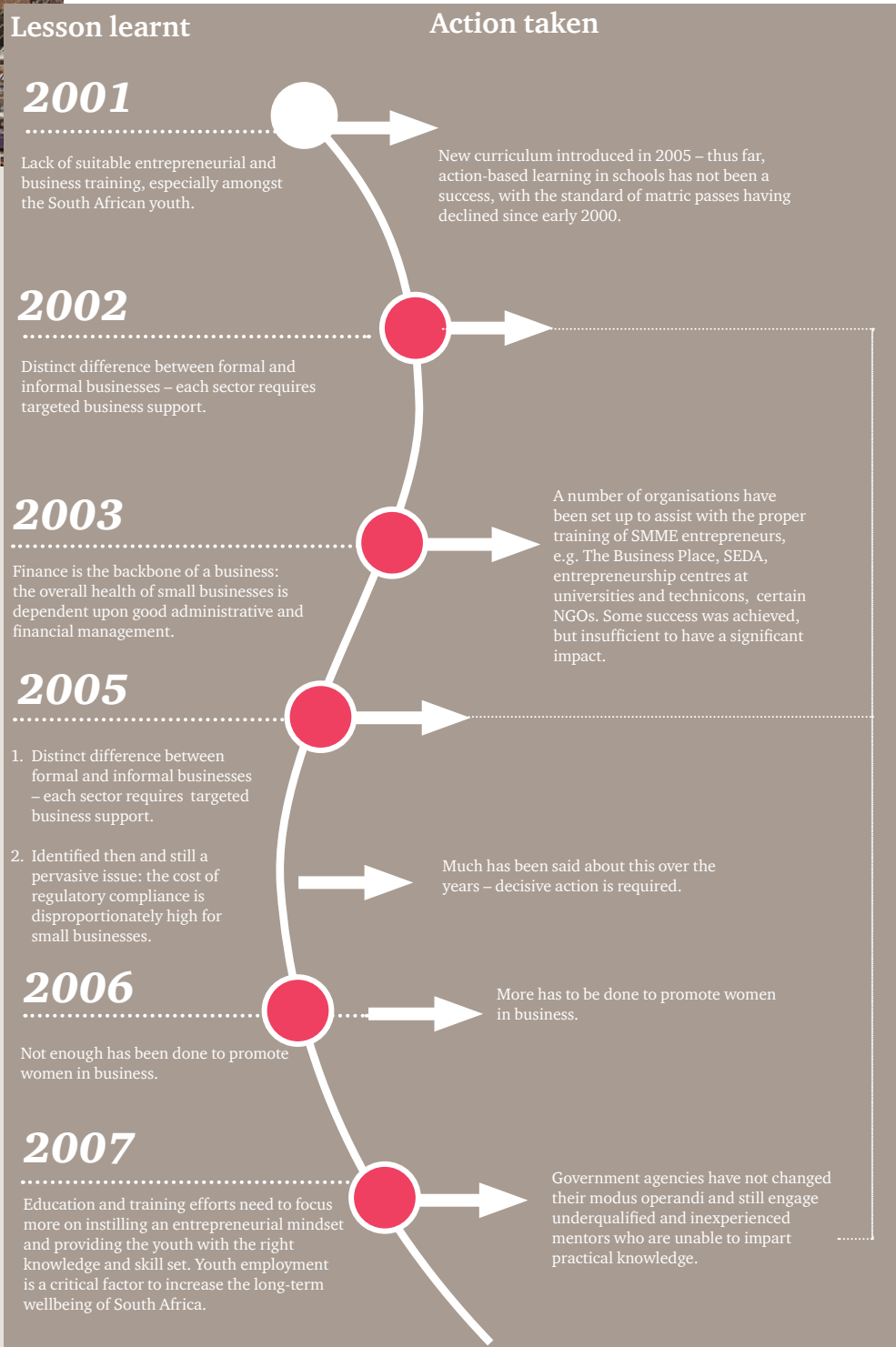
We need to bear in mind the findings of the Stats SA Labour Force Survey.

These show that small firms (employing fewer than 50 employees) shed over a million jobs in the five years to 2013. This trend is in direct contradiction to the global concept that small-to-medium - sized firms are the drivers of employment and is a serious point to be considered when designing new policies.



Findings from other research conducted

Major lessons learnt in the early days of democracy and actions taken by GEM



So if we know all of this, why are we still making the same mistakes and why are some of the issues re-occurring?

Should Government not consider this?

- Incentivising entrepreneurs to come up with solutions to solve South Africa's entrepreneurial issues. For example, setting up simple yet suitable e-learning platforms for basic education needs.
- Introducing "Entrepreneurship 101" at all schools from an early stage and including this as part of the teacher training (continuous support of new ideas and entrepreneurial flair).
- Allowing and supporting the private sector in furthering SMME development, in whatever manner they can do this. For example, setting up a fund to manage programmes and providing additional non-enterprise development support, whether monetary or in kind.

High-impact businesses generally produce bigger, better and faster results. **To create 1 000 jobs**, it is estimated that you would have to **support 751 new micro-enterprises** or **37 new SMMEs** or support **five SMEs** that grow into large enterprise.

(Source: FNB/ Endeavor Innovation Awards).



Endeavor SA 2014 Impact report

If one programme can show these results, let the private sector and Government support these more.

4947 + total jobs created by 22 companies



74%

of all jobs
created are EE

3652

EE JOBS

54%

of all jobs created
are youth

74%

NPS score



20+

Endeavor events

R 1.24 BN +

total revenue generated/porfolio



CAGR three years



ED credit value



Mentorship hours/ ED
beneficiaries

24%

R2.54 m+

660+



Similarly successful has been Knife capital's Grindstone programme, which created:

- **43 jobs**; average revenue per staff member increased by up to R115k.
- **R43m in revenue** and **growth of 61%** year-on-year within one year.
- As a result of the training programme, the companies saw the greatest improvement in skills relating to strategy, sales and marketing, and human resources.

"A good foundation allows for further entrepreneurial training and the development of skills, leadership and business acumen. When education – at all levels – is then supplemented with practical, relevant mentorship, we are able to build a strong culture of entrepreneurship."

- Seed Academy, Seed Academy, Startup Survey Results. http://seedacademy.co.za/wp-content/uploads/2015/05/SeedAcademy_StartUpSurveyResults_2015.pdf

Funding, incentives and exiting: Show me the \$\$\$

Entrepreneurs and ecosystem stakeholders rank the funding challenge in different priorities. Hence, it raised the question: Is the challenge more around knowledge and expectation on how and where to access funding rather than the funding itself? Why do ecosystem stakeholders and entrepreneurs have disparate views?

Prioritising funding

Entrepreneurs

22%

ranked funding as their **2nd largest challenge**. Market access was cited as their primary challenge.



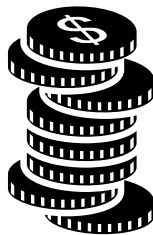
22%

Ecosystem stakeholders

ranked funding as entrepreneurs' **largest challenge**

55.4%

believe there is not enough funding in South Africa

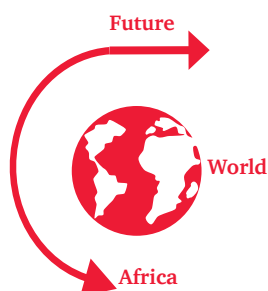


44.6%

agree that companies are looking to venture capitalists for funding too early in their life cycles



South Africa is on a par with other developing countries in terms of capital availability, and its financial system is no more reluctant in its support of entrepreneurs than those of its peers. (GEM study)



World vs Africa vs the future

Globally, the more important source of start-up finance appears to be entrepreneurs' savings and their ability to access informal investments from friends, family and colleagues, rather than formal financial institutions. (GEM report 2001-2009) This aligns fully with our survey findings, which found 66% have been privately funded (in own capacity/bootstrapped or friends and family) in the past. The numbers look a little more positive for the future, with only 15% seeking private funding.

A funder's view

“Insufficient capital available to South African entrepreneurs is a myth. There is sufficient capital looking for innovative ideas/products/businesses.

In our experience, entrepreneurs don't focus enough on the things that they can control at the early stage of their business, such as building a great product and achieving product/market fit, building a great team and getting and keeping passionate customers. Instead, they rather focus on the things they can't control like trying to raise capital from venture capitalists, angel investors and the like. Venture capitalists look for scalable, profitable businesses and unless the entrepreneurs can demonstrate how they will achieve these business basics, they run the risk of not raising capital.

Entrepreneurs need to put themselves in the investor's shoes to understand the investor's business model. They are generally looking for an IRR of +- 30% or five times money invested after 5-7 years. They also need to understand that a good idea might equal a viable business, but does not necessarily equal a venture capital investable business.

Where possible, entrepreneurs should look at bootstrapping their businesses before they try and raise institutional capital. This will help them avoid giving up too much equity too early and rather invest their initial time focusing on signing up customers and obtaining product/market fit, which will automatically increase the value of their company. Raising capital is extremely time consuming: This time could be better spent on getting customers and developing the market. Raising capital does not validate the business model, only customers do.”

Clive Butkow, Non-Executive Director, Grovest

Grovest looks at any deal from three angles and all three boxes need to be ticked:

✓	Are the entrepreneurs investable?
✓	Is the deal investable?
✓	Is the risk investable?



The funding gap

Entrepreneur's expectations/lack of awareness and preparedness

Entrepreneurs are simply not always adequately prepared for the array of red tape and the lengthy process that seeking funding can entail. Especially when dealing with private equity investors and venture capitalists, a level of financial expertise is required to convince these funder types of the business case.

Furthermore, there are entrepreneurs that believe because they are closest to their business, only they can drive the big search for funding. In reality, approaching funders such as the ones previously mentioned requires a specialist skill set and expertise in order to drive a successful outcome for what is a solid business case – this on its own will not guarantee capital injection.

Discrepancy in matching entrepreneur's mandate with funder's mandate

Matching funders' criteria with the right business can be challenging. Some of the issues we see are:

- Disparities between the economic and financial status of the business seeking capital and the requirements of the various financing options that are made available by different funding groups;
- Inconsistency between applications submitted and the funder's mandate, e.g. seeking funding from a more risk-averse funder for a risky business plan; and
- Failing to look at funding options below the traditional funding line, e.g. businesses seeking funding under R1m with the venture capital arm of the Industrial Development Corporation – this is below the IDC's equity funding mandate of R1-15 million.³

Capital injection is not necessarily the key enabler of success

Of course having enough capital is a key component of an entrepreneur's success when expanding, but it is definitely not the most critical one. Entrepreneurs operate in an ecosystem wrought with ever-changing factors that dictate the surrounding conditions. This is the only constant.

³ State of Entrepreneurship

It is the entrepreneur's foresight, skill and aptitude in identifying and working with and around these conditions that determines the business's ultimate success, capital or no capital. According to 'Growth and Competiveness Report in South Africa', South Africa's established emerging businesses are able to access the funding that they require, though smaller and younger firms tend to experience greater problems. This finding is in line with GEM's findings that ease of access to funding differs across sectors and firm ages.

Ultimately, the success of an entrepreneurial venture depends on the person behind it. There are common characteristics that most entrepreneurs share:

Personality characteristics of successful entrepreneurs



Resilience and tenacity

"Success is the ability to go from one failure to another with no loss of enthusiasm."
– Winston Churchill



Vision and risk tolerance

Jeff Bezos's vision in 1994 was to tap into the new world of electronic retailing and become "the world's most consumer-centric company." His little virtual bookstore at the time was Amazon, now the model for e-commerce businesses everywhere.



Flexibility

the ability to adapt to changes and challenges is crucial. Most successful entrepreneurs started off with an idea or product that is drastically different to the final output. Customer demand, new insights and changes in circumstances need to be accommodated in order to produce a product / service in demand.



Passion

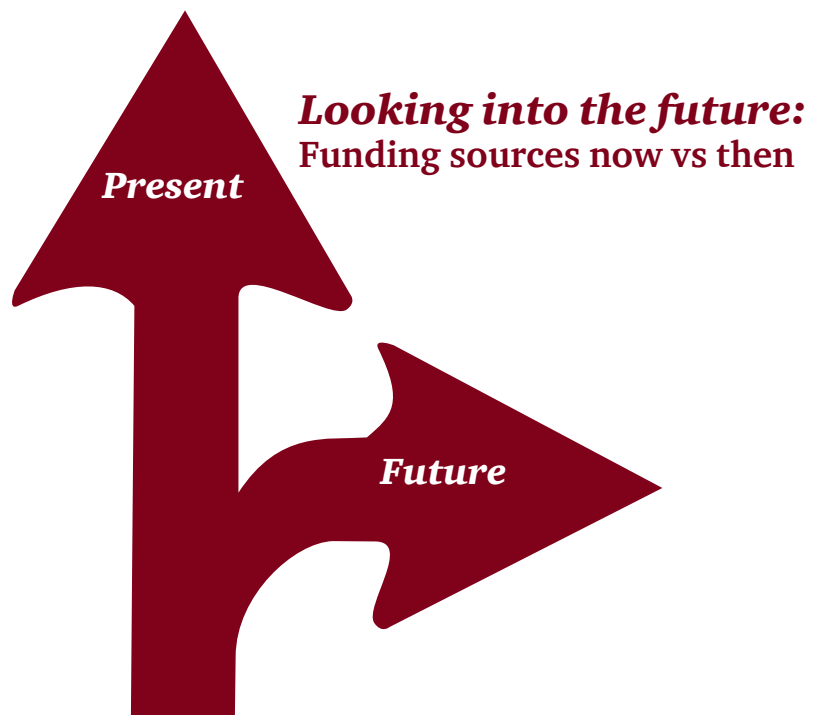
According to research conducted by Tony Tjan and co-authors Richard Harrington and Tsun-Yan Hsieh, 65% of founders have been identified as being driven by 'heart' and fuelled 'by an unshakable sense of purpose'.



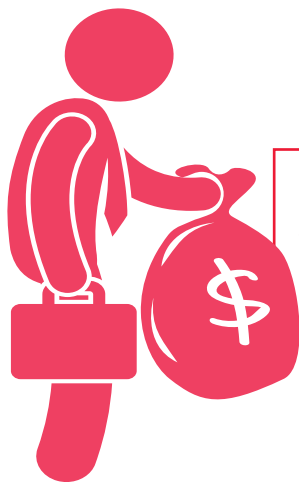
Strong sense of self

According to a study by the Ewing Marion Kauffman Foundation, 91% of entrepreneurs are confident that their businesses will be more profitable in the next 12 months.

Source: Erik Andersen, Forbes, "5 things you need to become a successful entrepreneur";
John Rampton, "Personality traits of an entrepreneur"



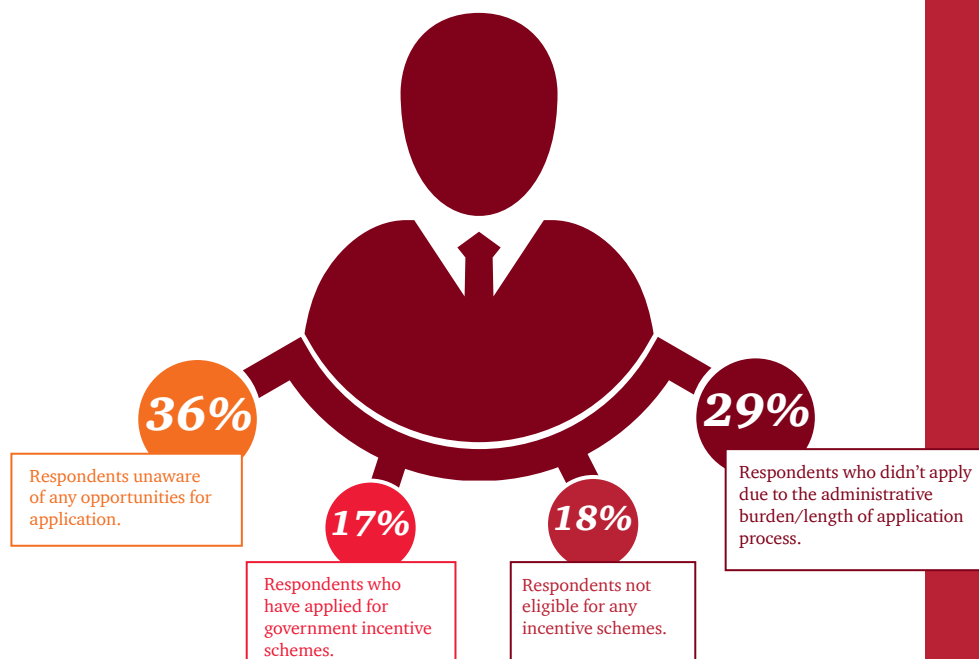
Our survey findings found 13% of respondents seek angel investment (vs 5% having raised angel funding in the past), 13%, venture capital investment (vs 2% in the past) and 12%, government agency funding (vs 5% that have received government agency support in past funding rounds).



Government funding channels: Why aren't these being used more?

The 20% of respondents that had applied for government agency funding had an approximate success rate of 60%.

Close to 50% of respondents say they would seek professional help next time when raising government funding.



Surprise?





Basic tips for fundraising often missed by entrepreneurs

- **Pitch to the right investor**

Align your funding mandate with theirs. For example, if you're raising R100 000 to start a second coffee shop, it's advisable to consider crowd funding, friends/family or a bank loan. If you're raising R100 million to expand your mobile payment platform internationally, it's best to use a corporate advisor.

- **Know the rules of the game and do your homework!**

More than a third (37%) of respondents used 'personal expectation' to place a value on their companies, while only 32% used acceptable market methods (including the discounted cash-flow method, price/earnings or revenue multiple-based method). Only 6% used professional services to value their businesses.

- **Be realistic**

Be reasonable about your business plan and upfront about your weaknesses.

- **Be clear**

Be absolutely and succinctly clear on what your business does – if you can't explain the essence in one sentence, go back to the drawing board.

- **Affordability**

This doesn't have to be an issue if you negotiate a fee structure for fundraising. For example, a risk-based contingency fee – no funding raised, no fee.

Getting out Exiting



48%

respondents who see exit as a full sale or M&A activity.

16%

have partial sale plans

23%

have no exit plans

63%

of exits are assumed to be international rather than national

$\pm 1/3$ foresee exit in the next four to six years

The top three considerations taken into account by ecosystem stakeholders in our survey before making an investment are:

- The entrepreneur's potential;
- The market opportunity itself; and
- Talent of the management team.



“The world’s largest taxi company owns no vehicles; the world’s most popular media owner creates no content. The most valuable retailer has no inventory and the world’s largest accommodation provider owns no real estate. Uber, Facebook, Alibaba, Airbnb...”

Innovation: The way of the future!

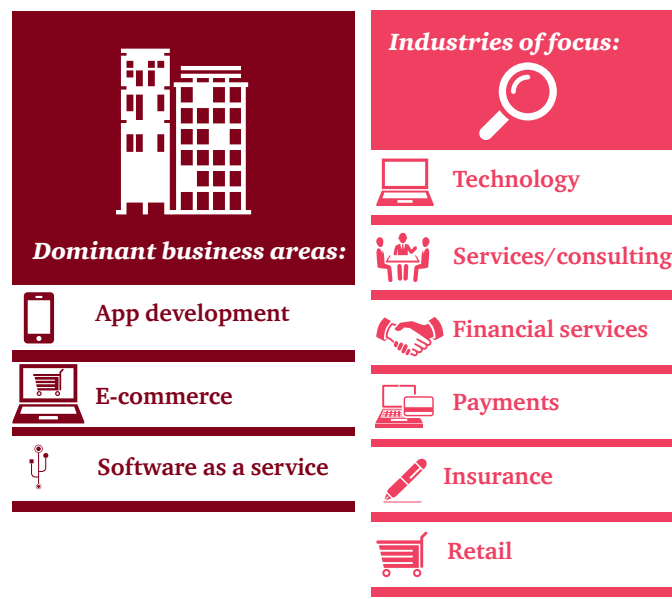
46% of South African CEOs participating in PwC’s 18th Annual Global CEO Survey are concerned about the speed of technological change as a potential threat to their organisation’s growth prospects.

71% of South African CEOs believe it is likely that organisations will increasingly compete in sectors other than their own over the next three years and they see the technology sector as the main source of cross-sector competition.

- PwC’s 18th Annual Global CEO Survey. www.pwc.com/ceosurvey

Disruption, disruption: An expected consequence of innovation and entrepreneurship

The two most cited disruptive business ventures are Airbnb and Uber. Both caused disruption in their markets by creating new business models that were simple, targeting the bottom of an established market and eventually moving up the chain to take over. They shook up the traditional business models of the taxi and accommodation industries, causing a shift in how employment markets work. Our own survey aligns to this with regard to the type of businesses that participated:



Emerging companies, irrespective of size, can be of invaluable exposure and input when working with larger, more established companies (corporates, large family-owned businesses). Merging the two, and allowing for larger, less agile businesses to understand new business models, culture and potentially breakthrough solutions have the power to influence how an organisation thinks, operates and generates new revenue streams – essential to new growth and the way of the future.

The bottom line: Whether big or small, if you aren't with it, you need to get with it.

The world is changing fast and it's accelerating as you read this. Innovation is not just a buzzword, but the reality: Economies not only grow with it, but rely on it. Businesses of all sizes are realising increasingly how important it is to make innovation part of company culture to ensure innovation is embraced at all levels and to seek financial reward.

3 *key factors vital to growing innovation within an organisation*

- Innovation cannot be delegated: the drive for innovation begins at the top – the CEO has to reward and protect the process. Establishing a culture that embeds innovation in the organisation will not only make innovation pervasive throughout all facets of the organisation but also attract and retain creative talent.
- Assigning the task to an A team: pleading for breakthrough impact can only be done with the best, dedicated team focusing on innovation pervasiveness throughout an organisation. Innovation is hard work!
- Successful innovation most often results from a disciplined process that sorts through many ideas. Think Thomas Edison - a good example of where discipline was a natural ally to innovation.

- Bill Fisher, Voxy.co.nz, "CEOs say innovation is the most important factor for growth". <http://www.voxy.co.nz/business/ceos-say-innovation-most-important-factor-growth/1861/91475>





Corporate venturing: A partial solution to bringing corporates and SMEs together?

Globally, corporate venture capital has become a standard tool for innovation during the past few years, bringing together SMEs and corporates to maximise innovation and growth opportunities by collaboration. Worldwide, the total number of corporate venture capital businesses has nearly doubled from 562 in 2008 to 971 in 2013. SAVCA reports that in South Africa, 13% of transactions are currently being recorded as being via corporate venture capital, which points to solid opportunities for growth in this area.

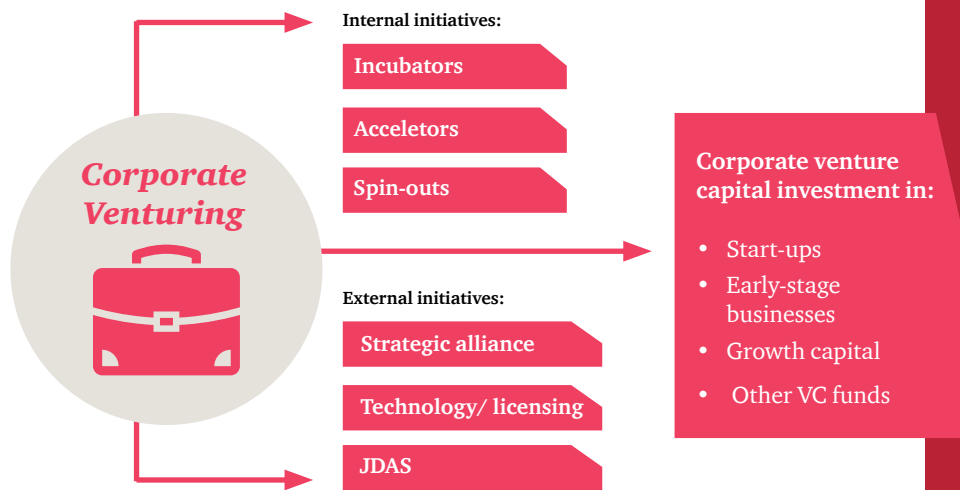
Supporting this, SiMODiSA's report on the top 25 constraints to entrepreneurship suggests there are too few 'intrapreneurship' programmes currently in South Africa. Intrapreneurship can create an entrepreneurial culture within a corporate setting and act as an effective training ground while benefiting the corporate in finding new and innovative solutions.

So what does corporate venturing entail?

Corporate venturing refers to any business development activity that aims to create or access innovation for a corporation through, for example, licensing/other strategic alliances, technology sharing, joint development agreements, and 'incubation' and/or 'acceleration' of internally generated ideas. It may or may not involve taking equity stakes in new businesses. There are broadly three types of corporate venturing, illustrated below.

Internal initiatives in corporate venturing may refer to incubators, accelerators or spin-outs. These are distinct from external corporate venturing initiatives, which involve outside parties in alliances, licensing agreements or joint development agreements.

The term 'incubator' is often used to refer to several of these internal and sometimes external initiatives. These initiatives are becoming more common globally with a few South African corporates also venturing in this space in recent times. Thus an internally incubated project generates revenue via what would be regarded as a corporate venture capital exit strategy.

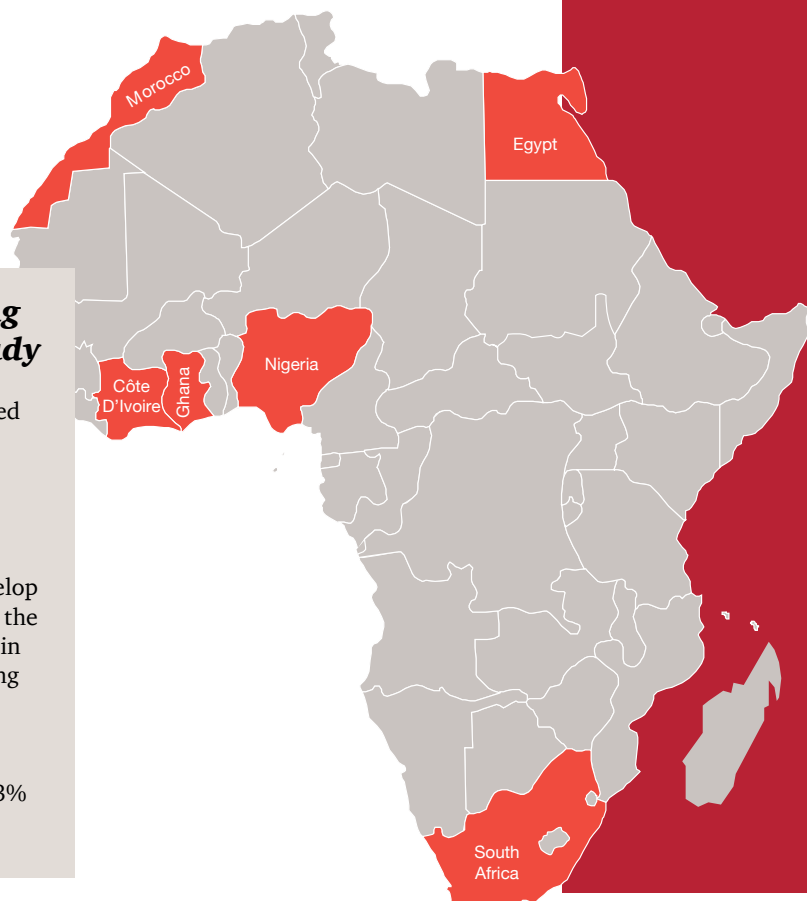


Examples of South African corporate venturing structures

- Standard Bank recently launched and funded the PlayRoom incubator by partnering with LifeCo, the University of Johannesburg and SW7, a mentor-led technology innovation accelerator. This is in line with their objective of keeping up with the rapid pace of change with innovative products and services. The incubator expects 350 innovators to pass through each year.
- MMI Holdings has invested in a global insurance accelerator run by Startupbootcamp along with a number of other global financial services companies. This provides an opportunity for them to invest in new insurance solutions using external innovation. The London-based accelerator allows for selected participation by insurance technology start-ups from across the globe, provides them with funding and connects them to the relevant communities to allow them to thrive.

Corporate venturing in Africa: A case study

Mobile operator MTN partnered with online incubator Rocket Internet and Millicom International Cellular to develop Internet businesses in Africa through Africa Internet Holdings (AIH). Set up to develop e-commerce businesses across the continent, AIH has a presence in 13 countries in Africa, including **South Africa, Nigeria, Egypt, Morocco, Côte d'Ivoire and Ghana**. MTN, Millicom and Rocket Internet each hold 33.3% in AIH.



Problems worth solving



Healthcare

Raising life expectancy



Education

Keeping children at school



Agriculture

Improving productivity



Financial services

Providing banking to more people



Digital connectivity

Providing connectivity to more people



Manufacturing

Increasing value added manufacturing



Retail

Increasing the market share of organised retail



Power

Renewable power



Urbanisation

Building smart cities



Physical connectivity

Reduce logistical cost

A recent report found that 59% of insurance executives expect their competitors to make strategic acquisitions of digital insurance start-ups over the next three years, in order to better position themselves in a changing marketplace.

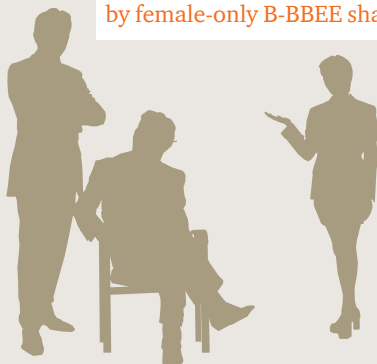
Company ownership structures

2/3

companies
privately
owned, of which
70% owned
100%

22%

held by both male and female B-BBEE
shareholders and less than 10% owned
by female-only B-BBEE shareholders



±15% venture capital/Private equity backed

7%

angel
backed



4%

government funded

2% looking to government for their next funding round

Funding rounds

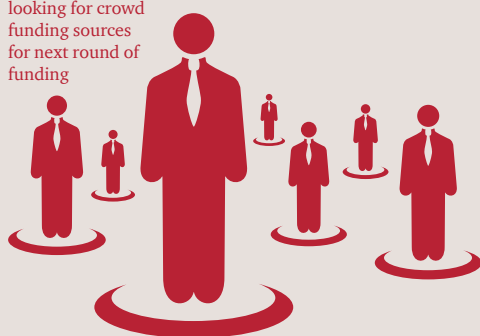
Crowd funding

5%

looking for crowd funding sources for next round of funding

2%

are currently crowd funded



Most popular funding types

32%

shareholder loans

27%

issue/sale of shares



Funding bracket R20-50 million

Six respondents raised this amount in their last funding round, while 30 expect to be in this funding bracket in their next round. The main reason for not raising capital to date was cited as product/solution is too mature or too early in its life cycle to attract investors and lack of fundraising experience.

Bootstrapping was by far the most common form of fundraising, which ties into various other surveys done over the past few years, including Ventureburn's Start-up Survey and findings by Seed Academy.

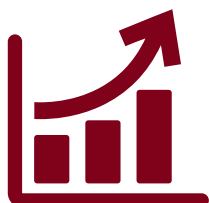
Valuing the business

According to PwC's *Valuation methodology survey 2014/15*, focusing on valuation methods used in Africa, the most popular methods employed by establish companies are:

Discounted cash flow

of respondents

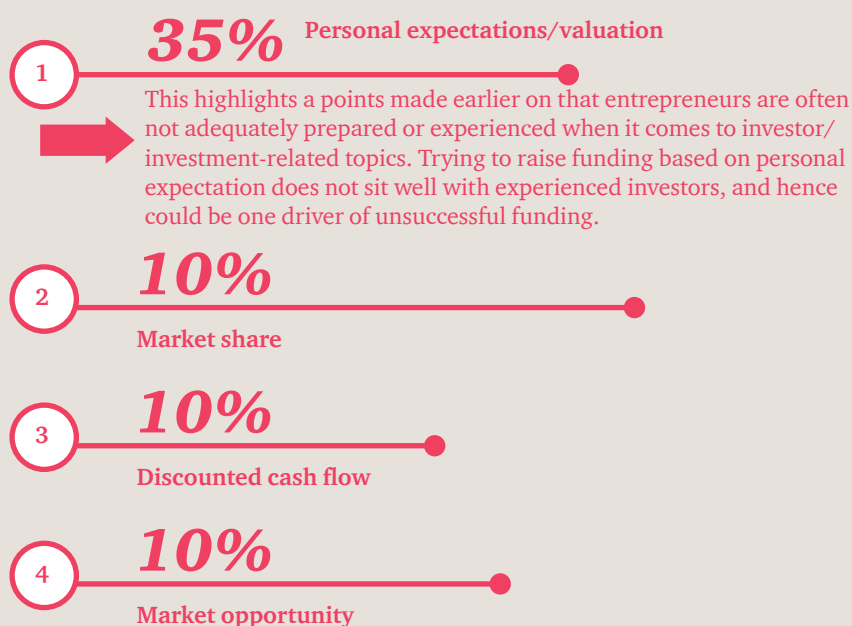
The net asset approach



The market approach (e.g. price/earnings and EBITDA multiples) . Young, high-growth emerging companies, especially ones which are not yet profitable, are often valued using revenue multiples.

Comparing these results to the respondents in our survey, there is a greater range in the valuation methods employed by emerging companies than established companies, with the most popular valuation method used being "personal expectations or evaluations".

The top four valuation methods used by emerging companies:



Ecosystem stakeholders' views on funding







LifeCo UnLtd

LifeCo UnLtd is a good example of a social impact enterprise helping other social impact enterprises and applying business sense in doing so. It also introduces one of the first social venture capital funds in South Africa.

LifeCo UnLtd South Africa is a replicable social business that employs business principles to invest in people for enhanced enterprise and life performance.



LifeCo's vision, purpose and goal

- Vision: To create a sustainable nation of champions
- Purpose: To grow social capital
- Goal: To impact one million youth, 100 000 leaders and 300 emerging (social) impact entrepreneurs by 2020



“Since 1997, LifeCo UnLtd SA has been convinced that champion mentality programmes and entrepreneurship could address the dependency mindset and culture caused by generations of oppression – which have stifled meaningful achievement and enterprise in a free South Africa.”

- Pat Pillai, founder and CEO of LifeCo UnLtd SA

LifeCo UnLtd’s primary business principles:

- Develop, find, fund and support impact entrepreneurs. This occurs in four main areas: green economy, skills and education, science and technology, and business services.
- Develop the champion mentality and critical thinking skills necessary for personal, entrepreneurial and business success (purpose-centred, high-achievement consciousness and practice).
- Sell programmes to companies, government and better-resourced educational institutions at market value.
- 100% of profits fund LifeCo’s social mission by subsidising its programmes with the poorest schools/youth/adults.
- Invest in diversified portfolio of values-aligned businesses. 100% of declared dividends fund LifeCo’s social mission subsidising the poorest.
- Establish a social venture capital fund to invest in entrepreneurs to provide early-stage capital and support.

LifeCo consists of three arms:

- The governance trust;
- The development/training arm; and
- The investments arm.

As an organisation it exists for society’s benefit and distributes 100% of its net proceeds and declared dividends back into the community.

Impact

- **55 000** beneficiaries reached nationally (youth, community and corporate leaders)
- **4 000+** young entrepreneurs reached through the schools programme
- **80** established entrepreneurs, 30 of whom are impact entrepreneurs, some with turnovers in excess of R5m per annum, together creating more than 1 000 jobs
- **50** ‘life champions’, who guide and mentor their learners and social entrepreneurs

Talent, education, training and support

It has by now become a commonplace that, in the words of Klaus Schwab, Executive Chairman of the World Economic Forum, “the key for the future” of any society “lies in the talent, skills and capabilities of its people.” United Nations Secretary-General Ban Ki-moon put it this way: “human capital... [is] every bit as important as financial capital”.

Top talent management challenges

22%



Ability to find talent with specialist skills/qualifications

17% of respondents had to fill a vacancy with foreign talent at least once in the last 24 months and 10% more than twice.

19%

Ability to provide competitive compensation/benefits

14%

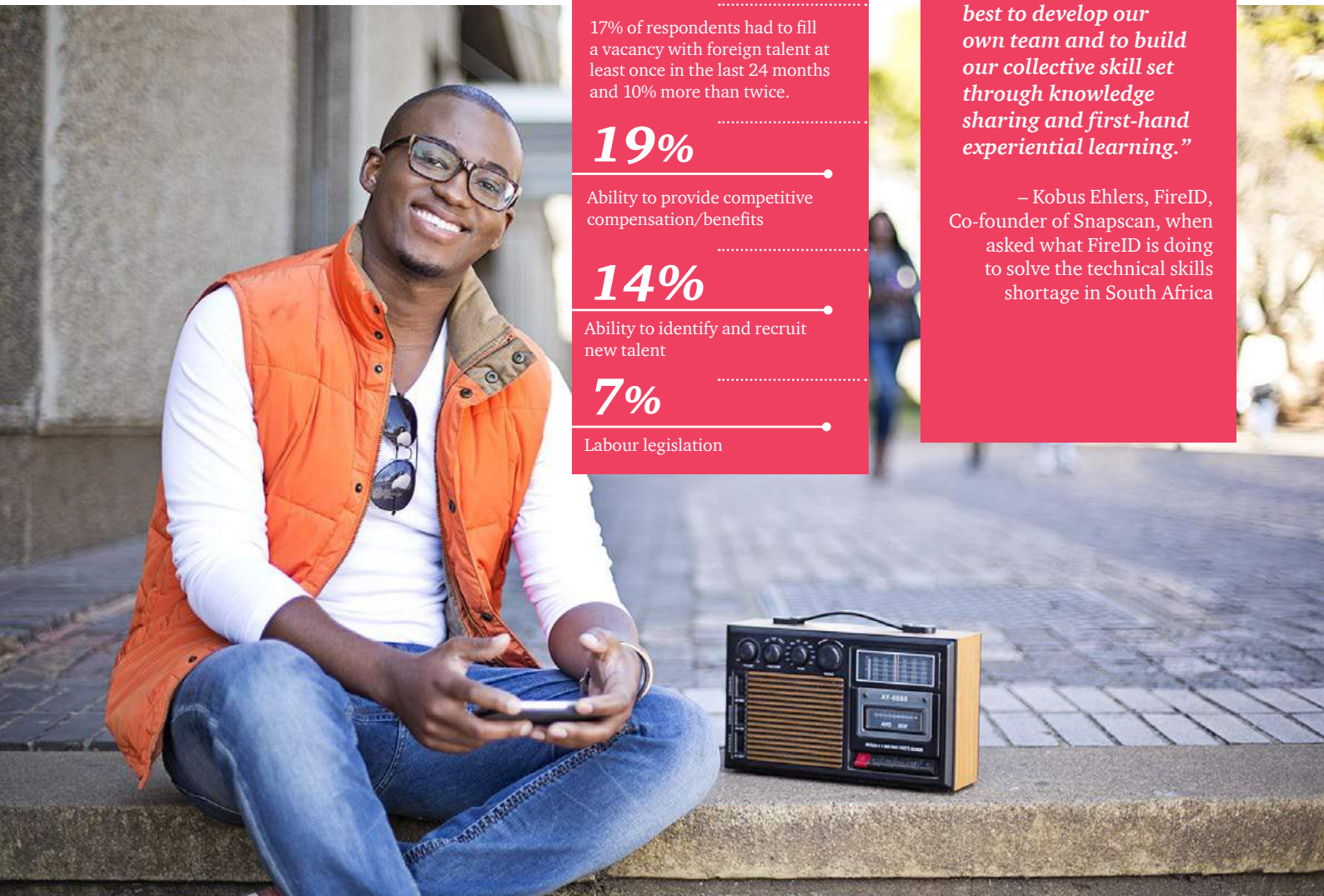
Ability to identify and recruit new talent

7%

Labour legislation

“Our approach is to create the best possible work environment, which includes a great team, offices, but also the opportunity to work on hard problems that really matter in our local context. The level of direct decision-making and autonomy we offer is unusual, especially when compared to large international employers. In addition, we try our best to develop our own team and to build our collective skill set through knowledge sharing and first-hand experiential learning.”

– Kobus Ehlers, FireID, Co-founder of Snapscan, when asked what FireID is doing to solve the technical skills shortage in South Africa



Top 5

Staff retention strategies

- 1 Growth/Promotion opportunities
- 2 Performance bonus structure
- 3 Training and development programmes
- 4 Enhanced responsibility
- 5 Defining/Improving the company culture/employee morale

Rank	Voluntary (employee's decision)	Involuntary (employer's decision)
1	Higher compensation/better benefits	Poor performance
2	New challenge/promotion opportunity	Poor skills fit
3	Difficulty keeping up with fast-paced/stressful workplace	Cost containment/economic conditions

5.8%

Recognise informal (non-contractual) share incentive schemes as a retention method

Source: Respondents

What ecosystem stakeholders have to say

More companies could be funded if valuations were more realistic

SA doesn't have enough serial entrepreneurs

SA has strong developers/tech talent, but lacks commercialisation talent



The logo for codeX is enclosed in a white rectangular box with a dotted orange border. It features the word "code" in a dark grey, lowercase sans-serif font, followed by a stylized "X" made of four green lines that intersect to form a cross-like shape.

code



Project codex

Solving the issue of short supply for developers

codeX grows highly skilled software developers to fuel Africa's growing digital economy.

It's a well-known African issue: Coding and software skills are in huge demand and very short supply. Yet the continent has many young bright minds that could benefit from these skills with well-paid jobs and problem-solving abilities to start their own businesses and grow Africa's economy.

The lack of coding skills is constraining African companies and literally siphoning off jobs to other continents. codeX finds the talent and helps develop the technical, design, operational, and business skills they need to keep and grow those jobs here in Africa, which will have the world's largest working age population by 2035.

codeX trains in all skills required to build tech careers, which goes beyond industry standard open-source programming languages such as full-stack Javascript, Python and Ruby on Rails.

codeX is focused on an agile development philosophy and the curriculum integrates critical software skills into real projects from the first day, so the coders learn not only technical skills, but also how to think about building the best product for the market in the most efficient way.

Currently based in only Cape Town, codeX has plans to expand to other centres.

www.projectcodex.co

Consider this...

Should government not be supporting more initiatives like Project codeX in order to roll out several of these simultaneously?



AlphaCode

A club for next-generation financial services entrepreneurs supported by a physical workspace and virtual platform

AlphaCode aims to create an ecosystem by bringing together entrepreneurs, intrapreneurs, industry experts and thought leaders to connect, share knowledge and shape the industry.

AlphaCode's purpose is to drive the development of next-generation financial services businesses that deliver superior, sustainable financial returns and build an investment pipeline for Rand Merchant Insurance (RMI).

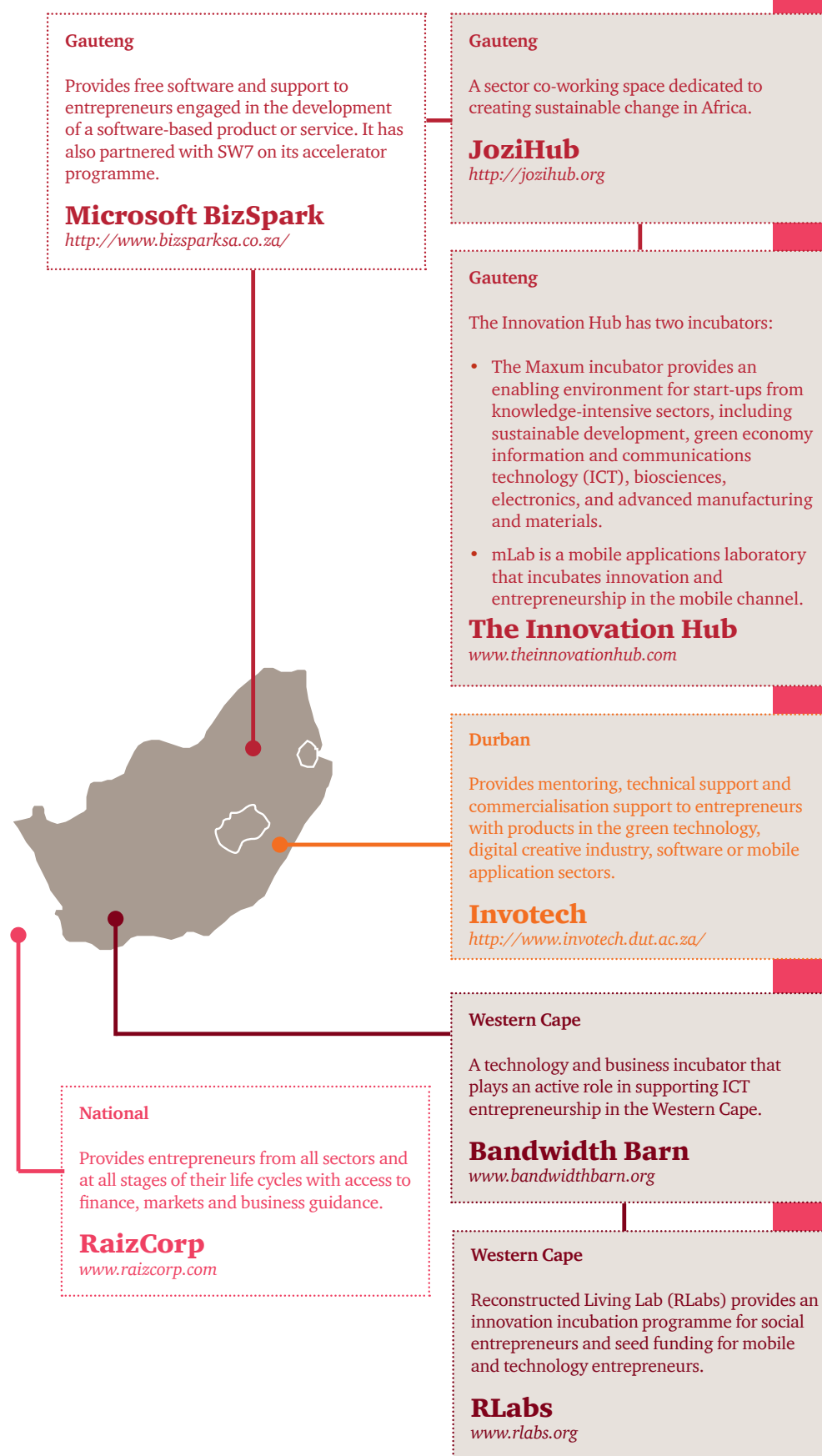
RMI's objective with AlphaCode is to have access to criteria-fulfilling entrepreneurs/companies looking for growth capital, now and in the future.

AlphaCode's objectives:

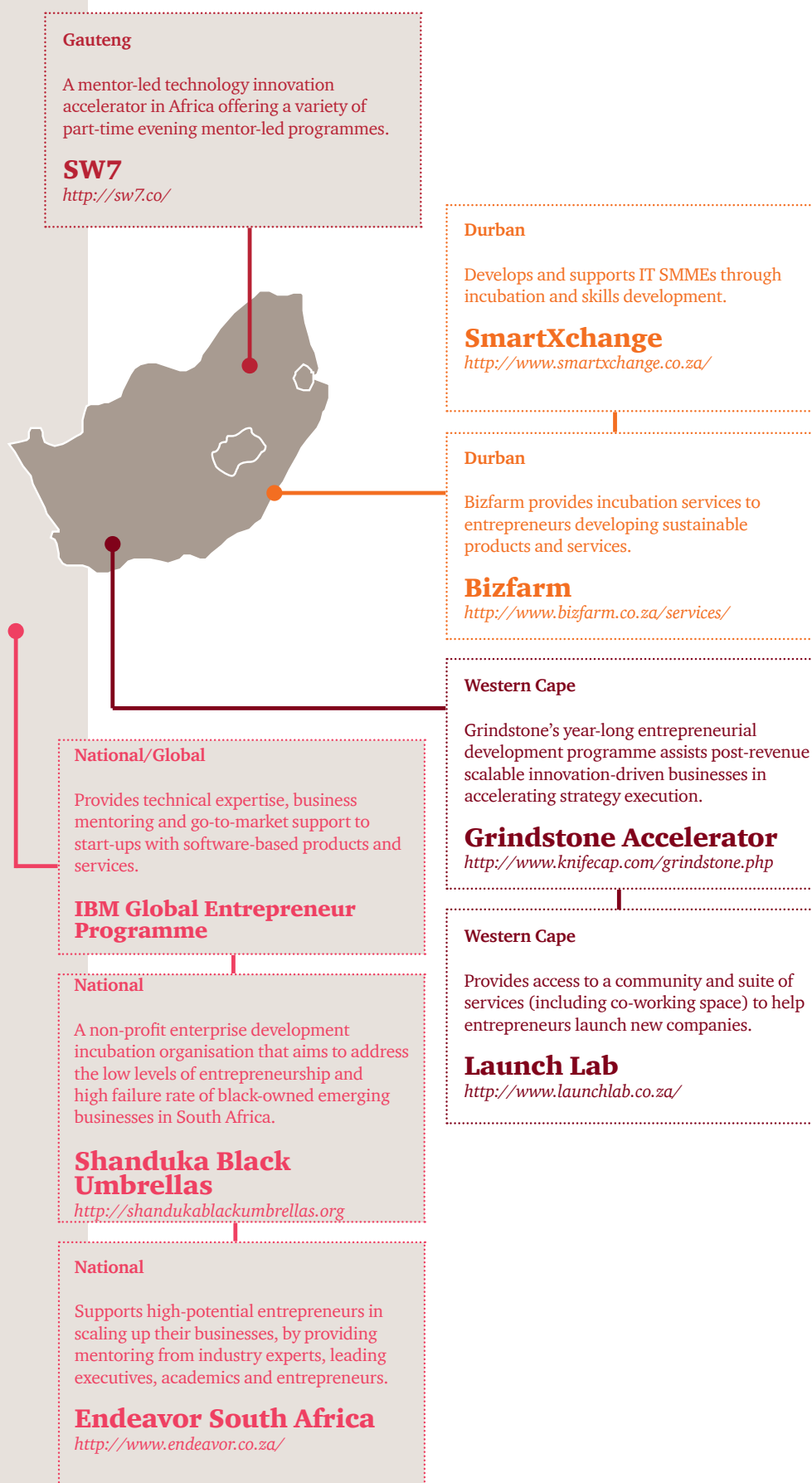
- Create an ecosystem and shape the financial services industry;
- Build an investment pipeline for RMI;
- Facilitate relevant industry dialogues; and
- Grow the financial services community.

alphacode.club/enter/about.php

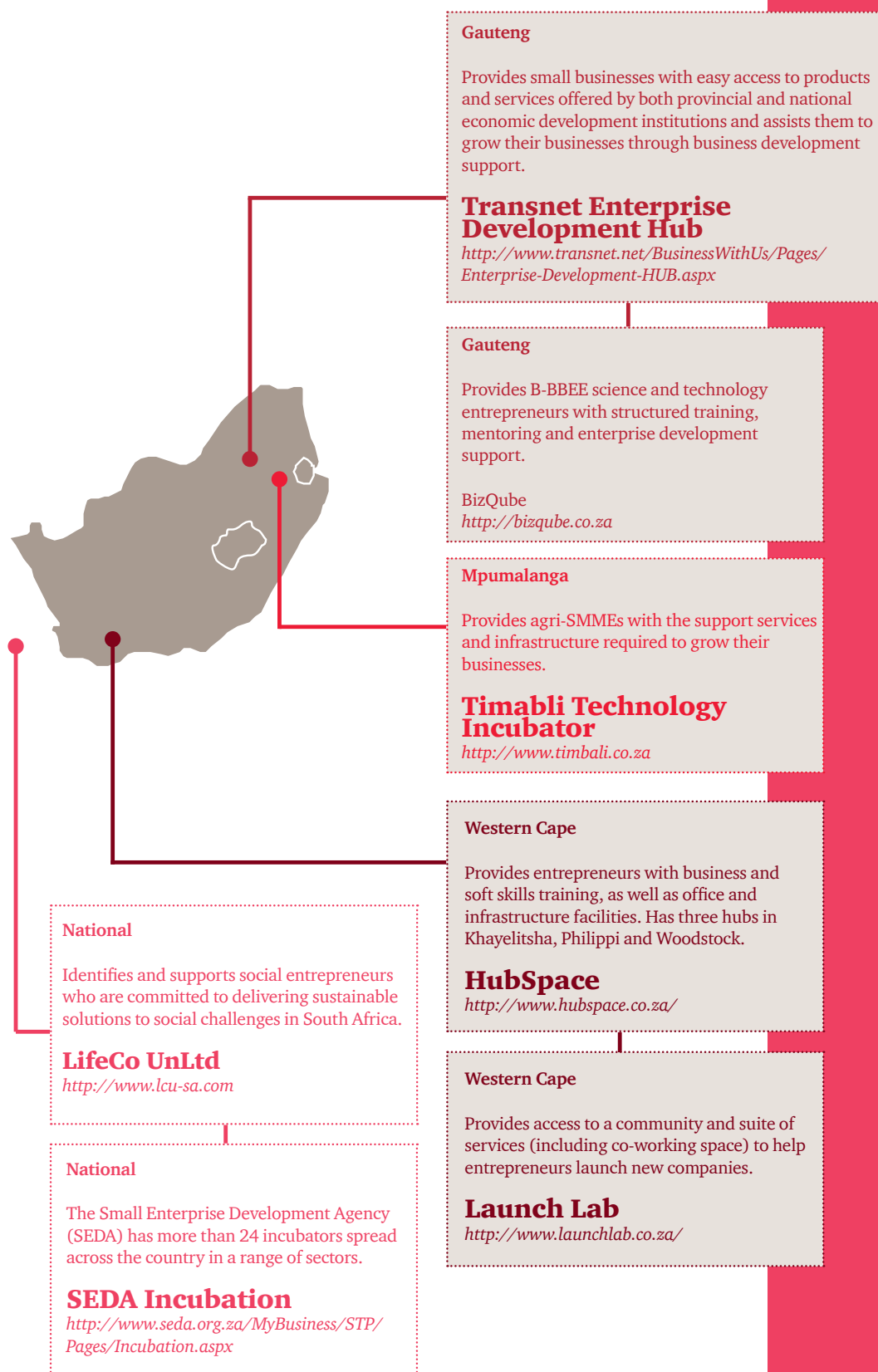
Directory of incubator and acceleration support structures in South Africa



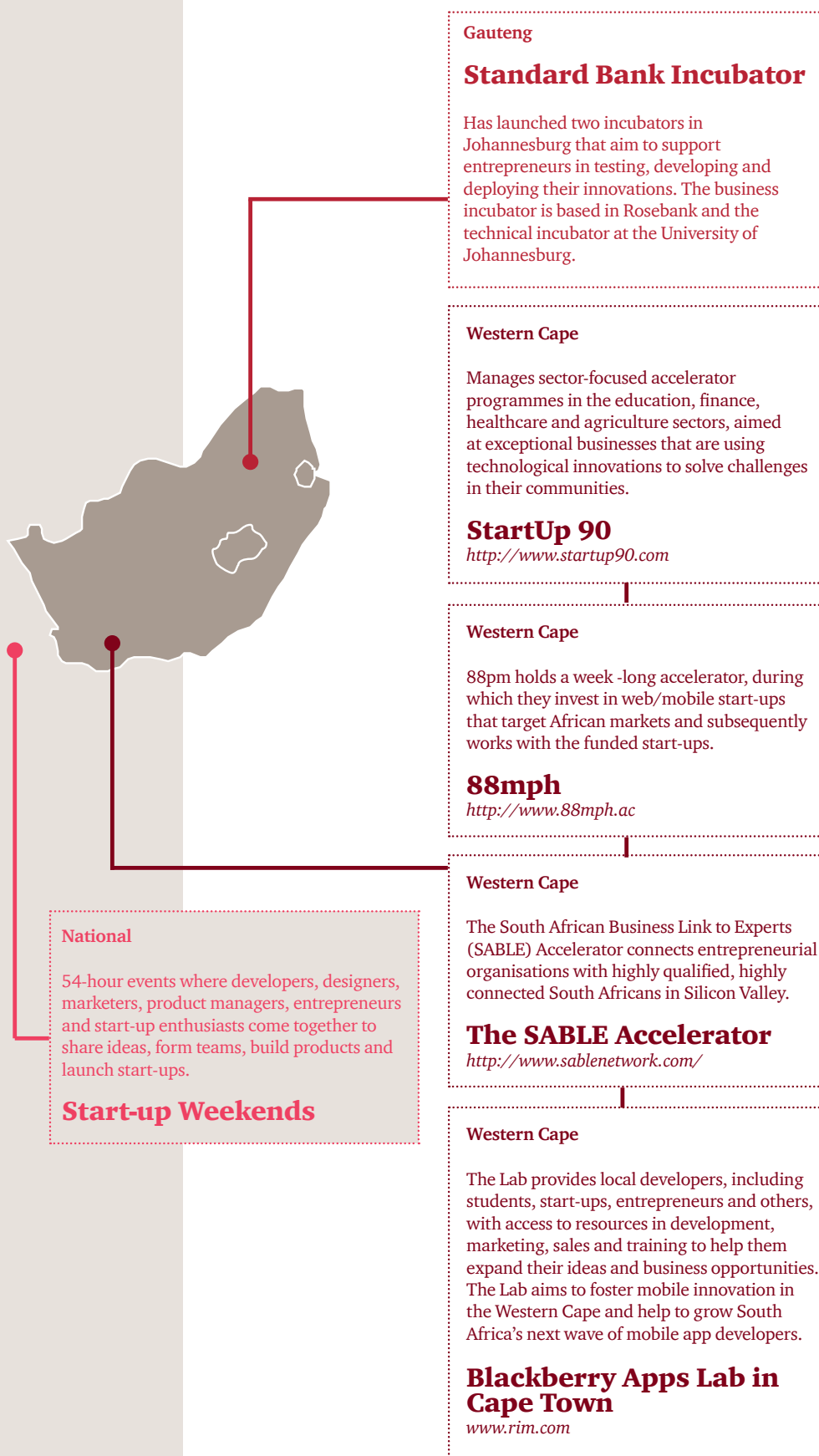
Directory of incubator and acceleration support structures in South Africa



Directory of incubator and acceleration support structures in South Africa



Directory of incubator and acceleration support structures in South Africa



Rules, rules, rules:

Legislation, regulation... the deterrent to enablement?

Can't get enough data?



64%



Respondents who had not yet formally registered their businesses for IP. Of the companies that had, one out of three had registered their IP offshore and in South Africa. Only 5% had registered their IP solely offshore.

SARB:

Of respondents that were required to register with the SARB, there was clear ambivalence around the process:

21%

claimed
significant costs

21%

claimed
insignificant costs

21%

claimed lengthy
approval process
and



17%

claimed reasonable approval process

IP assignment

Only 38% of respondents for whom IP assignment is applicable have IP assignment documents from all service providers and employees. This is a typical example of the kind of administrative issue that can hold a company back when and if it ever comes to an exit stage.

The recent SiMODiSA report on the top 25 constraints to entrepreneurship highlighted are few constraints specifically linked to legislation and regulation:

- Tick box mentality (for corporates dealing with SMEs)
- B-BBEE: compliance rather than commitment
- Exchange control – regulations being restrictive and onerous to follow
- Unfavourable labour legislation

Source: “Accelerating the Growth of SMEs in South Africa”. <http://impacttrust.org.za/wp-content/uploads/2015/04/Download-3.pdf>

According to an SBP survey titled ‘Counting the cost of red tape for business in South Africa’, SMEs spend 75 hours (eight working days) per month dealing with red tape, which includes frequent changes in the regulatory environment, information access issues and South African Revenue Services inefficiencies.

The highest overall time commitment was made by business services firms, at an average of 99 hours per month.

An entrepreneur’s story

“It’s commonly reported that being an entrepreneur isn’t easy. Over and above the challenges of building a positive reputation, bringing in – and sustaining – clients, recruiting and training staff, managing the finances and trying to maintain cash flow, there is the added challenge of admin and compliance.

Starting-up I didn’t have the experience of running all aspects of a business, and as such I’ve paid a lot of school fees – I have learnt the hard way. Despite retaining a reputable accounting firm for almost two years, I was hit with a major shock earlier this year: it was revealed that – despite my now ex accountants advising it wasn’t necessary – I was late in registering for VAT – by three cycles!

Trying to control overheads, pay my staff and take home a salary, I hadn’t accounted for the possible penalties I may be liable for because of a late submission, something which I’d tried for over 12 months to avoid. On top of this, the documentation needed for VAT verification is taxing – no pun intended – on the small business owner who doesn’t yet have the helping hands to free up an afternoon, or week, to manage such admin.

I also fear the possible brunt of the rumoured recruitment minefield. Employees have the upper hand and I am daunted by being in contravention of the labour law. I’ve not yet been able to build a financial buffer to guard against any possible contravention, be it the labour law or tax related.

Starting a business may sound attractive, but it shouldn’t be underestimated. The beauty of a start-up: pure blind faith in your idea and skills. The rest, in my case, is clumsily learnt along the way. I heard the other day that it takes five years for a small business to take hold. Now only two years old, I have a fair way to go before I am ‘out of the woods’. What I currently see is a juggle of red tape and compliance and a lot of paperwork.

Entrepreneurs are said to be the lifeblood of an economy, but it takes pure endurance, sweat and guts to get off the starting block. Hefty, unforeseen/ (mis) understood admin is definitely among its causes in my experience.”

– Rebecca Cronje, Director and Founder of Cultivate Communications

It's a wrap

South Africa has a lot of hard work ahead of it, but it's not all doom and gloom. Many essential foundational elements are in place and there are a multitude of opportunities to boost our ecosystem and increase the benefits that entrepreneurship provides.

Most significantly, these benefits will not only help emerging companies, but the country and its people as a whole by stimulating economic growth, poverty reduction, social upliftment and a cultural change. These are the elements that will move South Africa forward.

In order to begin to realise the vast potential there needs to be more collaboration between the Government and public-sector institutions, the private sector, investors and higher education institutions to allow for the opportunities the ecosystem presents to be seized:

- **Increasing the size of the procurement pie**
Ample opportunities exist for corporates to provide entrepreneurs increased access to their procurement opportunities. There is also significant scope to improve and increase enterprise supplier development integration strategies;
- **Improving mentoring and networking structures to facilitate growth opportunities**
These structures are still young in South Africa and there is great opportunity for them to grow and boost emerging companies' development;
- **Closing the funding gap**
Linking available funding sources and mandates to relevant entrepreneurs and educating entrepreneurs on exit readiness;
- **Rapid implementation and follow-up execution by Government**
The right initiatives are being set up, but these require more effective follow-through;
- **Our history allows for increased entrepreneurial opportunity**
We should start seeing some of the previously disadvantaged entrepreneurs, who have now gained experience and received increased support coming through the ranks.

Greater participation by all ecosystem stakeholders has the potential to make a big impact.

"In all the discussions about who's responsible for the woes of this country and who will lead us forward, there is one player that seems to get a free pass. I speak of big business. I believe that companies have a duty to help fix our nation - they've been shirking that duty for 20 years" - Gloria Serobe executive director of Wiphold Reimaging South Africa

This publication is the outcome of collaboration between the Silicon Cape, Microsoft BizSpark, City of Tshwane, Wesgro and PwC.



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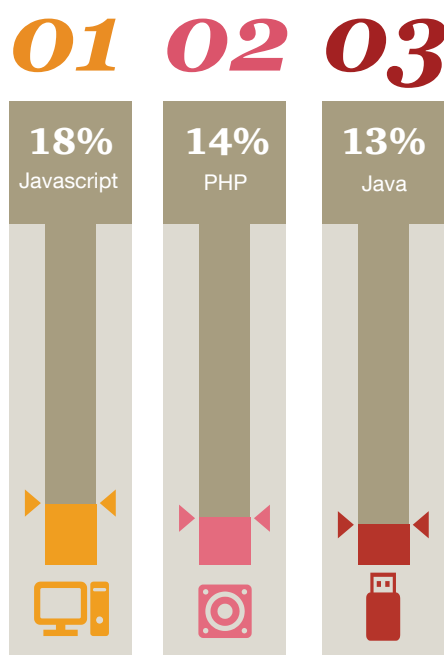
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Appendix

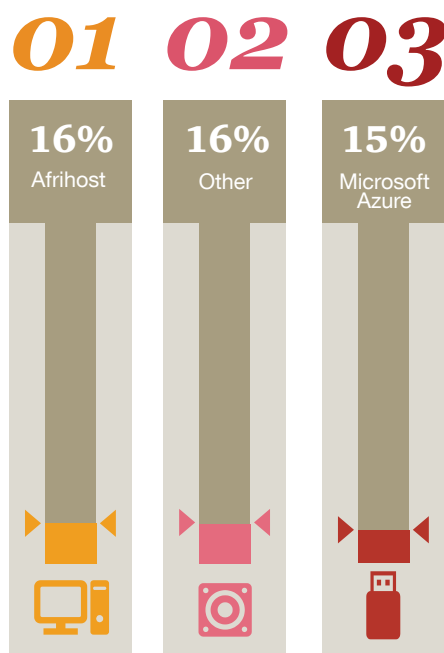
Business tools

This is a summary of findings regarding business tools used by respondents in our survey

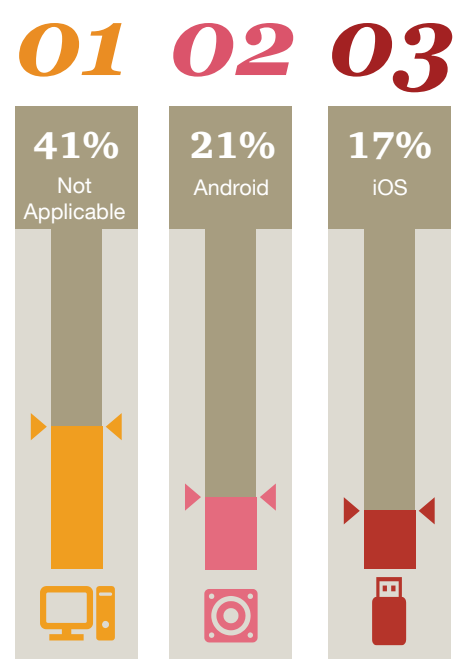
Top three programming languages used



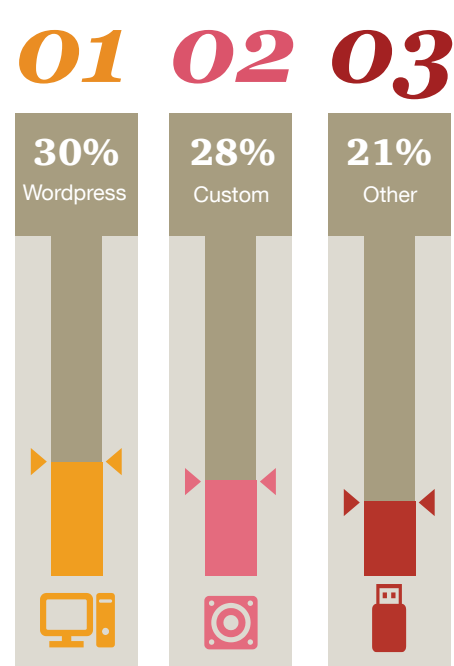
Top three cloud storage and hosting solutions



Top three platforms used for business apps

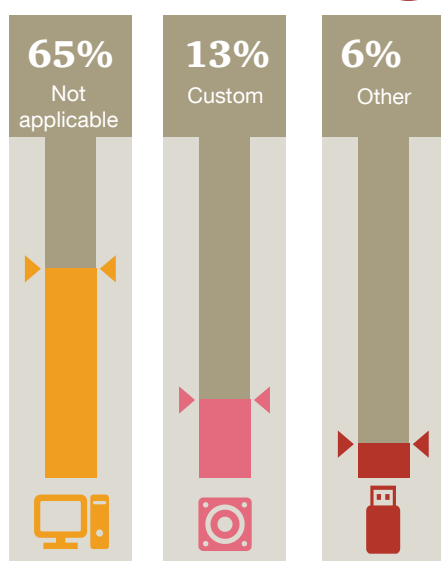


Top three website platforms used



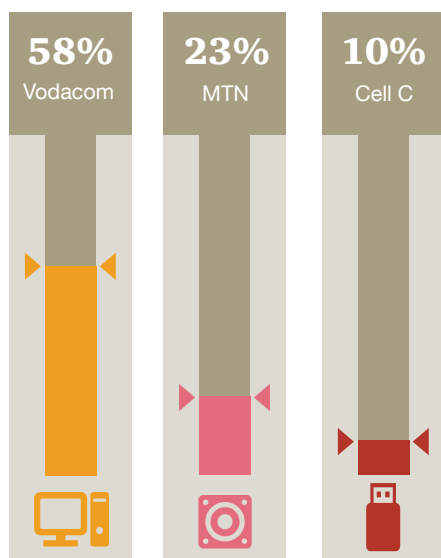
Top three e-commerce platforms used

01 02 03



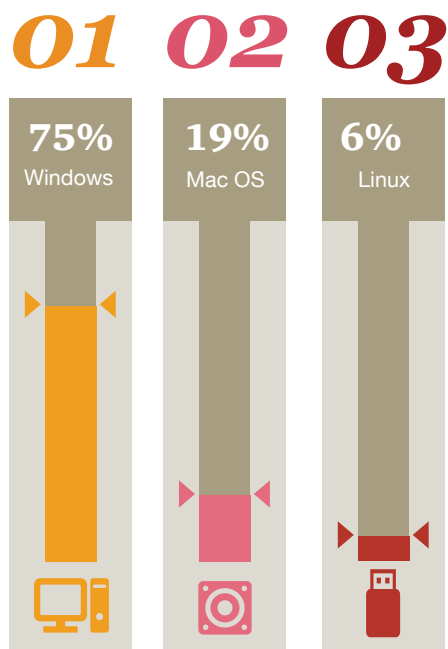
Top three mobile networks used

01 02 03

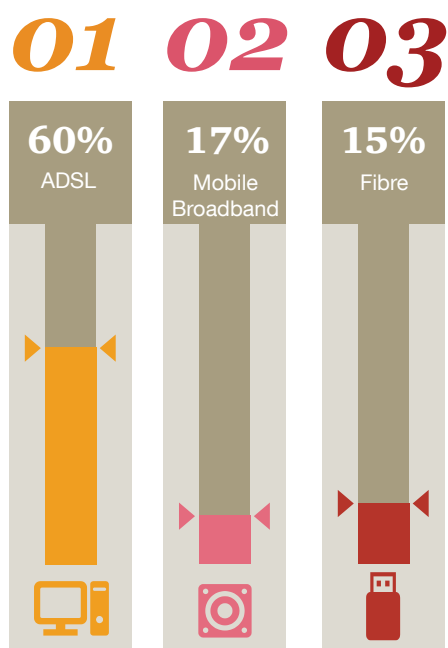




Top three operating systems used



Top three Internet connections used



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