

Are SMEs strong enough to stimulate economic growth in a post-Covid world?



By [Evan-Lee Courie](#)

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For as long as we know, SMEs have always been the lifeline in South Africa's economy. A strong contributor to GDP and employment. In fact, according to a 2019 [report](#) by Small Enterprise Development Agency (Seda), employment provided by SMMEs increased to 10.8 million in 2019 Q1, accounting for 66% of economy-wide employment.



Sean Jackson, head of Business Cash Solutions at Investec Bank

But things have shifted. Debt, low confidence and stifled economic growth, further compounded by Covid-19 - has seen enormous pressure being placed on small businesses, one of the hardest hit by the pandemic.

Sean Jackson, head of Business Cash Solutions at Investec Bank, provides some insight...

■ ***There is no doubt that Covid-19 and the national lockdown has impacted many businesses. What are the shifts that you are seeing happening now?***

Of course, we know that the Covid-19 pandemic has had a massive impact on business in SA, and specifically small businesses. The SME sector really struggled in the initial stages of hard lockdown.

Debt, low confidence and stifled economic growth previously experienced were further compounded seeing enormous pressure being placed on small businesses. Even as the country has progressed and lockdown has eased, this sector is still facing some serious challenges – most notably around cashflow.

“ In fact, one of the biggest shifts seen with SME business is a focus on cashflow. Those that still have access to some sort of cash reserves are now examining ways in which to ensure these reserves are more available to them. ”

This has meant examining shorter-term products as opposed to longer-term investments, as they not only want, but need, access to cash, and quickly.

Unfortunately, for those that are not as fortunate and that don't have access to cash reserves, their challenge is access to finance. While some banks and corporates have offered payment holidays to help ease current cashflow pressure - an attractive option for any SME that is struggling to pay salaries – it is important to understand that payment holidays are not interest free, and therefore the debt obligations for the business owner may become larger. Unfortunately, this is their only option, outside of government relief programmes.

“ Another shift taking place is more focus on innovation. ”

Businesses are evolving and shifting to examine new strategies, for sales, cash and sustainability to adapt their business models to weather the storm – everything from technology adoption internally, to e-commerce offerings externally, is now driving innovation for SMEs far more.

■ **What is the biggest challenge for SMEs? How can they overcome this?**

Given that South Africa is still on partial lockdown, means that SMEs and all business are still experiencing the impact from a resource and economic perspective.

“ The reality is that in partial lockdown not all business-to-business organisations can operate at full capacity, which is a substantial challenge to their sustainability and supply chain. Additionally, we must remember that not all businesses can operate remotely – and this has placed an even larger burden on those who are unable to do so. ”

Take for example the alcohol sector, which has not been able to operate at full capacity. Not only has it impacted immediate businesses but has had a negative impact on the supply chain. The wine industry alone employs approximately 500,000 people and the inability to support this sector will influence a host of different industries. We are seeing a shift, where overseas countries and companies are prioritising and ordering SA wines, in order to support this sector in some way.

Our business environment operates as an eco-system and therefore a change for one, is a change for many. Unfortunately, this means there is no one solution that will help with this burden, but rather the sum of all parts must work together to help and given that we are likely to see slow recovery in some sectors and knock on effects in others for many months to come – the challenge around cashflow and access to funding remains a high priority.

■ **How hopeful are you that SMEs can once again be a strong contributor to GDP and employment?**

Even with the impact of the pandemic at the moment, we remain optimistic. If we take for example that many large companies are themselves struggling and we are seeing hundreds of salaried workforces being retrenched, I believe this may open the country up to far more entrepreneurs.

“ People need to eat and survive, and to do so many of these historical salaried employees may turn to opening and running their own business to do just this. ”

Even, if just a handful of entrepreneurs start a new business and they employ one or 2 people - think of what that can do. The ripple effect down the line is the growth of a stronger and more active sector for the GDP.

If SMEs and business owners get access to far more support and funding, and real focus is placed here, their GDP contribution could become much stronger, within the next 18 months, even to the pre-Covid figures, which in 2019 Q1, accounted for 66% of economy-wide employment.

■ What trends are we seeing in this space?

As mentioned previously, the biggest trend is access to cash flow. However, innovation in this sector is a very prevalent. SMEs and business owners who did not embrace technology and e-commerce in the past have now shifted their focus and adapted their business models more swiftly. Furthermore, the emergence and acceptance of remote workforces is massive.

We have read about the global economy moving towards what is called a 'gig economy or workforce' for a while now and organisations locally are adjusting for this. Going forward, it is unlikely that employees will become 'full time' salaried employees for a company. Rather, they will be contracted to perform a set task or job and when completed, paid for this and then they may either move onto another task within the company or to a different organisation altogether.

“ People will now likely be paid for their outputs as opposed to being paid for time spent fulfilling a specific role within the organisation. ”

Investec itself recently introduced a flexible work policy, where we no longer have any set leave days within a year and our hours are not contracted. We are paid to do a job, and if this takes 6 hours, as opposed to 8, then we can use the 2 saved hours for something else. Covid is likely to push this type of thinking within many companies, where productivity and output becomes your determining factors for success.

“ What's more, the work from anywhere concept, enabled by technology, has now become preferred in many cases and post Covid, I believe we will see the acceptance of this gig workforce concept far more, but it will be balanced. ”

Employees require the flexibility of time to be able to construct their week in the most efficient manner, however, they also want a sense of community and culture - company touch points to brainstorm and grow. As a result, locally we may see a hybrid of the two emerge.

■ In terms of finance and cash investments – what viable options are available to small businesses?

From a cash investments perspective, any small business owner that does have surplus cash must make sure that their cash is working for them, now, more than ever before. This means that business owners and SMEs are examining products that protect their capital and delivers the best possible return on that cash, while still allowing flexibility for the business.

As a result, most small businesses are shortening their cash investments and there are a wide range of products available to them for this.

However, any investment made today must ensure the capital is protected from market risk, especially given the volatility of the exchange rate and equity sectors – so they need to examine something safer. Certainty now is key.

Of course, from a cash finance perspective, we are seeing that the banks are doing quite a lot around their finance

packaging and of course there is also government relief funds available. However, as with any finance option, do not get yourself caught in a debt trap.

■ ***For those looking to capitalise on growth opportunities – what should they be considering?***

The most important thing when relooking/changing or buying into a business is to examine whether the existing (or new business) solves a customer need.

“ If you examine any truly successful entrepreneur, they have been successful as they have built a business that solves a customer need. ”

And building this business has not resulted in short term cashflow, so do not be swayed by this prospect. If a business understands their market and can solve a business need for the long term, then the profits will come. Never chase quick profits.

■ ***Do you think now is a good time to start a business?***

It is a difficult balance, but as I mentioned previously, given that the corporate landscape is retrenching much of its salaried workforce, people have now been forced into finding new revenues. And it is this type of environment that fosters small business growth opportunities.

Alternatively, we will see businesses examining ways to adapt existing business or revenue streams to get through the pandemic, and this may create new business opportunities and markets.

■ ***Lastly, any words of advice and encouragement for SMES?***

My hope is that entrepreneurs continue to show resilience. South Africa has weathered this Covid 'storm' over the last few months, but its going to be a long journey to recovery, so do not expect quick returns. Continue to show grit and that uniquely South African spirit.

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