Report finds SA's emerging companies face significant challenges

According to a report released by PwC today in collaboration with Silicon Cape, Microsoft BizSpark, Wesgro an the City of Tshwane, South Africa's entrepreneurs' greatest challenge is finding access to markets and custome THe second largest challenge identified was funding, followed by a shortage of skills. The report provides an in depth understanding of South Africa's emerging companies and the entrepreneurial landscape.

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Liesbeth Botha, strategic digital transformation leader, PwC Africa, says: "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 compani in South Africa in the current environment. "There are also anecdotal mumblings about entrepreneurs' experiences in Sou Africa which many of us automatically assume to be true. However, the survey results suggest otherwise."

Significant challenges

Access to markets (22%), funding (20%) and revenue generation (14%) were seen as the three most significant commer challenges in the past 12 months by emerging companies.

A total of 534 participants took part in the online survey. Survey respondents included: 85% emerging companies; 12% ot ecosystem stakeholders, including government, tertiary institutions, incubators and accelerators; and 3% investors.

Botha says "Entrepreneurship has the potential to one of the most critical contributors to South Africa's economic growth. has a vital role to play in South Africa's development and upliftment through job creation, poverty alleviation and integratior The Government has identified entrepreneurship and business development as important building blocks for a growing, sustainable economy. South Africa's National Development Plan (NDP) states that about 90% of jobs in South Africa will b created through SMMEs by 2030.

According to PwC's *Working together, moving forward* report, the main inhibitor of business growth to emerging compani is cash constraints. While only 15% of survey respondents had used professional advisors to assist with the fundraising process, 64% said they would use a professional advisor in their next funding round. The majority of government funding applications were not successful, with a significant number of fund seekers having tried to perform the funding administrat without professional assistance.

"It is interesting to note that although red tape was cited as a growth inhibitor by entrepreneurs, it only ranked fourth out of ten as a growth stopper," says Botha. Furthermore, only 9% of entrepreneurs recognised regulation as a significant problem.

Progression of emerging companies in SA

Sixty-nine of respondents are early emerging companies with a turnover of R3 million or less. Of these companies, 65% anticipate either making a loss or profit up to R500k per annum for the current year. For the next financial year, only 41% anticipate being in the same revenue category. Close to 10% of respondent companies fall in the R25 million 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%, it is clear that the largest amount of support is required in early-stage business category," adds Botha.

Twenty percent of respondents estimate that revenue of between 50% - 75% will come from online channels. Only 14% of respondents indicated that online would not be applicable to their business in the next five years.

Less than half (43%) of companies did not raise capital in the last 12 months but plan to do so in the next 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 a the possible need for more education about approaching these funding sources. About 19% of respondents who had not raised any funding to date identified a lack of funding in the marketplace and a lack of fundraising experience as an issue further 32% have not raised capital due to their product being either far too along or too early in its life cycle to attract investors.

Digital channels

South Africa's emerging companies are responding to the changing IT landscape, with 65% of respondents reporting that they are using digital channels as part of their core strategy. Most emerging companies are using digital channels, includi social media, to sell products and services and educate their customers about both their products and their brands.

Where are the women?

According to the survey results, only 27% of company employees are female. 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 business case is clear for having more women on company boards. Global research has shown that companies that have diverse boards tend to outperform those with no women on their boards - th can expect higher returns and overall better financial performance.

Education and emerging companies

A significant percentage of respondents (75%) have tertiary qualifications of which two-thirds hold a post-graduate degree some sort. According to the ecosystem stakeholder that took part in the survey, 64% of entrepreneurs lack commercialisation expertise and 55% agree that South Africa lacks serial entrepreneurs.

Funding and incentives for emerging companies

Entrepreneurs and ecosystem stakeholders rank the funding challenge in different priorities. For entrepreneurs (20%) funding is seen as the second largest challenge. Market access was cited as their primary challenge. On the other hand, ecosystem stakeholders (22%) ranked funding as their largest challenge.
More than half of respondents (55.4%) believe that there is not enough funding in South Africa. Less than half (44.6%) agree that companies are looking to venture capitalists for funding too early in their life cycles.

The 20% of respondents that had applied for government agency funding had an approximate success rate of 60%. Close 50% of respondents say they would seek professional help next time when raising government funding.

Other findings of the survey include:

• 51% of respondents identified international markets as their most important markets for future growth with the UK, Nigeri and Kenya ranking top;
• The Western Cape registered more emerging company headquarters than any other South African province in the surve (56% vs Gauteng at 34%), which is in line with a number of initiatives that support small business development and innova (especially in the technology sector) in the province.

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

"Most significantly, these benefits will help not only emerging companies but the country and its people as a whole by stimulating economic growth, poverty reduction, social upliftment and a cultural change. In order to begin to realise the va 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," concludes Botha.