

Location affects SME profitability

One of the surprise findings of the SME Survey 2014 is that businesses in cities, or headquartered in cities, are more likely to be profitable than those located in smaller towns or rural areas.

The finding goes some way in confirming the old principle that the three most important factors for property (or by extension, the position of a business) are location, location and location, agrees principal researcher and MD of World Wide Worx Arthur Goldstuck. "Despite the increasing availability of telecommunications and Internet services which in theory allow people to work from anywhere, successful SME offices are still best placed in urban areas."

Results

Of businesses located in a city:

- 26% are strongly profitable • 44% are just profitable

Of businesses located in towns:

- 11% are strongly profitable • 47% are just profitable



The widest gap is that between strongly profitable city businesses and strongly profitable SMEs in towns. The disparity points to a degree of opportunity being present in towns, but a greater challenge in translating that into a profitable business.

A picture has also emerged of where most South African SMEs are located: 43% are headquartered in cities and 55% in towns; the balance is located in villages or rural areas where, Goldstuck points out there simply is not much opportunity to run a big business. "Cities provide better access to resources and customers; this drops off for towns and more so in rural areas."

There is a further implication that telecommunications and technology tools, which provide the theoretical ability to locate offices and people anywhere, have their limitations. "Of course, it depends on what any given business is doing; however, this finding implies that necessity for the personal touch is still a component of a successful business. It's also something many SME owners will instinctively understand."

Driving urbanisation

The findings provide a glimpse into the reasons behind urbanisation: more people means more commerce.

"The tools we have today, including smartphones, tablets, laptops and the many services they carry, provide a greater degree of independence and freedom of movement. However, better resources and greater markets are available in cities. On the other hand, the fact that some businesses in towns are still highly profitable shows that the gaps left by large business do translate into opportunity."

Lusapho Njenge, chief strategy and information officer at the Small Enterprise Development Agency (Seda), says the organisation has established a network, which is equitably spread between urban and rural areas. "This network is particularly well positioned to assist rural small businesses to close the apparent gap. Key to the success of rural enterprises is their ability to harness local opportunities that are unique to a particular area, rather than competing with big businesses that have more a favourable environment, such as closer proximity to markets and suppliers."

SME Survey is the original and largest representative survey of SMEs in South Africa and has contributed groundbreaking research into the forces shaping SME competitiveness and sustainability since 2003. The Small Enterprise Development Agency (SEDA), Business Connexion and Microsoft sponsor SME Survey 2014.

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