THE REAL STATE OF ENTREPRENEURSHIP SURVEY 2018

OVER 1000 ENTREPRENEURS SURVEYED!

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THE REAL STATE OF ENTREPRENEURSHIP SURVEY 2018

Contents

Foreward

This is the fourth year that Seed Academy is presenting the results of the State of Entrepreneurship Survey. We now have a time series of data that has been collected over the years which allows us to start getting a better understanding of what's really happening with entrepreneurs in South Africa. Much like 2017, we had over 1000 respondents who participated in the research.

Over the years we have gathered data that shows us that men and youth (per the National Youth Act 1996) are the highest represented groups in our sample. This result is aligned to what the The Organisation for Economic Co-Operation and Development (OECD) (pg. 106) says in their South Africa report, where the opportunities for men and youth are higher than other groups.

The better educated are more likely to be entrepreneurs according to the OECD and this is aligned to our findings over the years 2015-2018. As a country compared to our African neighbours, South Africa has a very low level of entrepreneurial activity. The OECD and Global Entrepreneurship Monitor (GEM) South Africa reports describe the environment from a strategic level and we have asked the entrepreneurs themselves what their views are. We have seen a trend of more discussions around the difficulty of the operating environment not only from a policy perspective but also regarding the presence of crime and corruption that is impacting entrepreneurs. This has been highlighted in the latest Corruption Watch report released on 7 August this year. Bribery in South Africa sits at 28% with procurement irregularities up from 12.7% in 2017 to 16.9% in 2018.

Building on last year's survey, we wanted a better geographical spread in our sample group of respondents and this is gradually improving over time. Much like last year, we have a much higher number of women entrepreneurs which is encouraging given South Africa's challenge of creating an inclusive economy.

The data gathered over the years has captured some interesting trends that we hope have informed meaningful conversations in the ecosystem. Building on the support required for entrepreneurs to thrive that we explored last year, we decided to delve into understanding participants' involvement in Enterprise and Supplier Development programmes and what value is being created for entrepreneurs. We have concluded that not only are South African entrepreneurs facing a challenging economic climate and unique economic conditions but also the policy framework that intends to help entrepreneurs seems to be failing them. The OECD report as well as the Catalyst for Growth (C4G) report highlight the areas of misaligned definitions, the fact that government activities for entrepreneurs are located in several government departments and entities rather than being centralized and are often too difficult for entrepreneurs to access. This is very much aligned to the GEMS South Africa report which further highlights the difficulty of setting up and doing business in South Africa relative to our peers.

Once again, we hope that we offer thought provoking findings that will be used to build the ecosystem and inform decision making. We hope that one day, South Africa will have a robust and interactive ecosystem for entrepreneurs free of red tape that provides easy access to opportunities and resources.

Donna Rachelson
Group CEO, Seed Engine incorporating Seed Academy and WDB Growth Fund

Limitations

of the study

This is the fourth year that the study has been undertaken. This year Seed Academy decided to focus on understanding what is happening in the area of Enterprise and Supplier Development.

- The respondents who participated in the responses on ESD are all undertaking varied ESD programmes and that makes it difficult to draw uniform conclusions in the reporting;
- The groups of entrepreneurs are across all areas of business from startups to mature entrepreneurial businesses. As a result, the success of the Business Development Support (BDS) programmes is assumed against the offering and responses but does not focus on areas of improvement;
- While we measured created jobs we did not do this against the results of the BDS investment;
- No questions were asked about technical support for those businesses of a technical nature and a few entrepreneurs highlighted that this was their area of greatest need;
- While some entrepreneurs made comments about specific service providers and their like or dislike of the programme, Seed Academy did not ask specific questions about service providers.

ABOUT THE ENTREPRENEURS

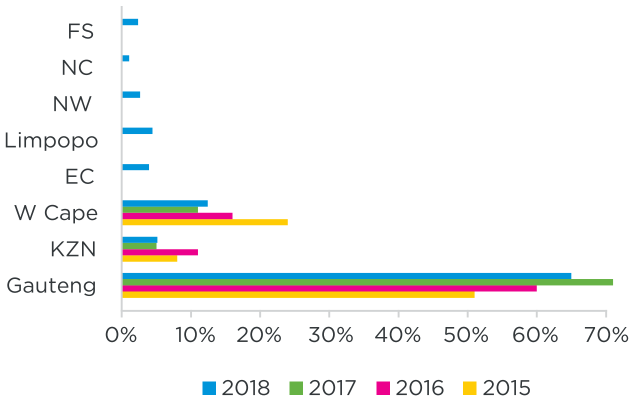
Geography

Where are the respondents from?

This year, unlike previous years, we had less respondents from the three major metros.

We did, however, have an increase in respondents from the less economically active provinces with the majority being from Limpopo and Mpumalanga. We ascribe this to Seed Academy cultivating a number of collaborative partnerships around the country. The provinces which had the most respondents were Gauteng and the Western Cape and aligned to the areas with the highest economic activity in the country.

Geographical Spread



CLOSER LOOK

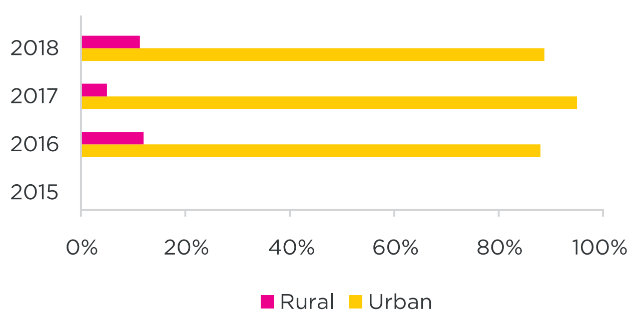
The Bureau for Economic Research (BER) reports that 24% of formal businesses in the country operate outside of Gauteng, Kwa-Zulu Natal and Western Cape. This is evident in the results as there has been an increase in respondents from Limpopo and Mpumalanga.

Dwelling

Regarding urban versus rural, the response remains largely unchanged compared to previous years.

The majority of the respondents live in urban centres with only a small percentage (11.25%) from rural or peri urban areas. Last year we reported the challenge of reaching entrepreneurs in the rural areas and this trend persists this year. It would seem that entrepreneurs that are being reached outside of the major metros are as a result of a major project or development in a geographical area that requires Enterprise and Supplier Development contributions.

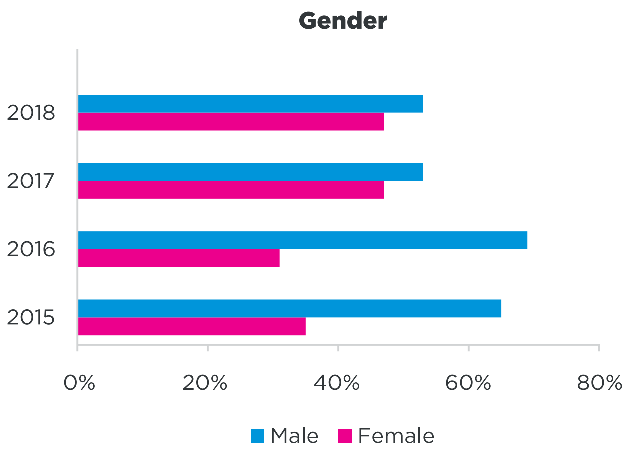
Dwelling



Gender

The split in gender over the years still reflects that the entrepreneurial community in the sample group is overwhelmingly male.

However, as with last year, it is apparent that the gender gap is closing. When one analyses this against the GEM South Africa country profile, it would seem that the opportunity ratio for men to women does favour men.



DID YOU KNOW?

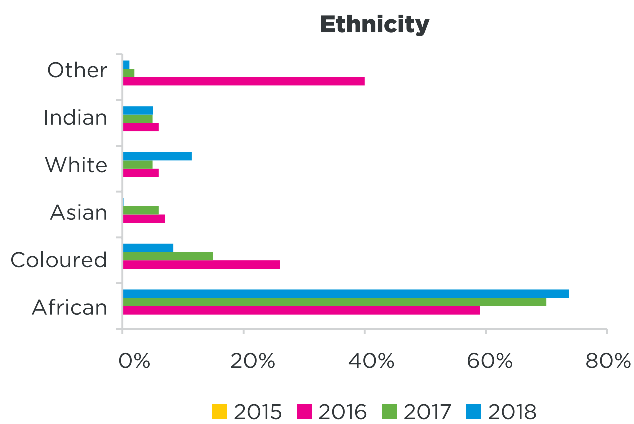
Seed Academy runs an AccelerateHer programme that focuses specifically on women owned businesses and offers high impact business development support and mentorship.

CLOSER LOOK

Female representation in this survey remains the same as last year at 47% and there has been a gradual increase over the years. The 2017/2018 GEM report states that, on a global scale, the ratio of female entrepreneurs to male entrepreneurs has increased by a staggering 6% since 2016.

Ethnicity

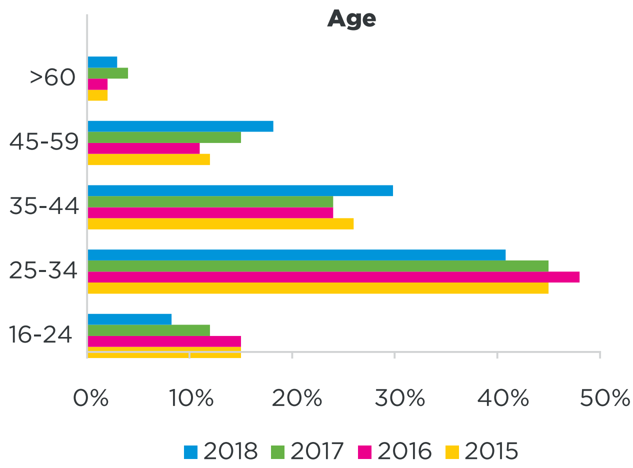
This year the overwhelming majority of respondents were black Africans with a marked decrease in the number of white respondents and the other ethnic groups remaining largely unchanged from last year.



Age

As with previous years the majority of the respondents fall into the youth category.

The age of the entrepreneurs has been an interesting trend over the years. The youth seemed to dominate in previous years of this survey, but for the first time we have a larger spread amongst the other age categories. There are a number of assumptions that one can make about the youth being the least risk averse and about a career in entrepreneurship now being seen as desirable in South Africa. The GEM South Africa study not only confirms the desirability of entrepreneurship but also emphasizes the high status of entrepreneurship. The OECD takes this further and highlights that skills, networks and capacity all have a role to play in the ability of people to be entrepreneurs and absence of any of these impacts entrepreneurial appetite.

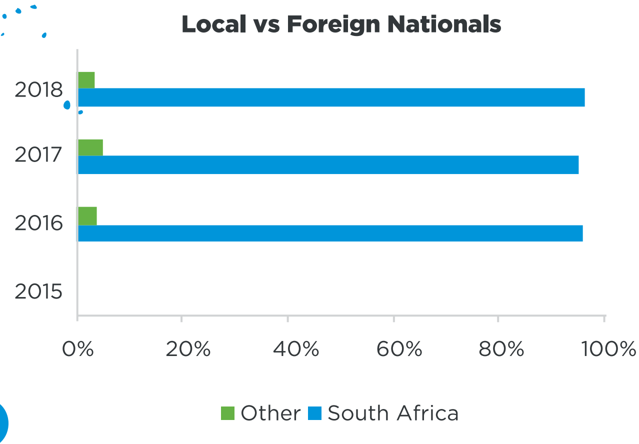


FOOD FOR THOUGHT

While government focuses on youth entrepreneurship, research shows that older entrepreneurs are more successful. According to a study conducted at North Western University, older entrepreneurs have had years to build their business, leadership, and problem-solving skills, as well as to accumulate the social and financial capital needed to get a business off the ground. The report highlights that even companies like Apple and Microsoft that were founded by exceptional young entrepreneurs didn't achieve their most rapid market capitalization growth until later, when their founders were older. The iPhone entered the market when Steve Jobs was in his 50s.

Citizenship

Once again, the split of local to foreign businesses would suggest that there is an interest from foreign business owners to play a role in developing the South African economy.



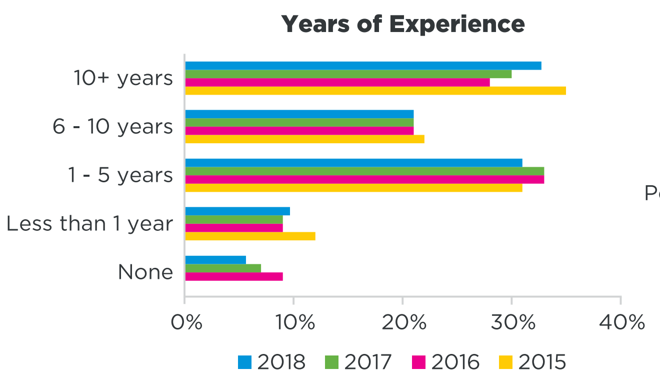
FOOD FOR THOUGHT

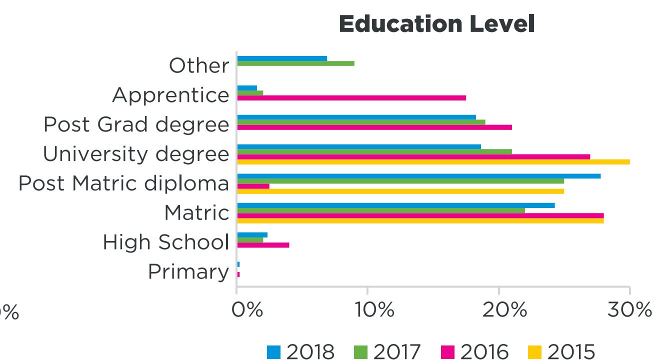
In his thesis, Raphael Chaskalson used regression theory through an analysis of the EAP (economically active population) of South Africa to find that in most instances immigrants to South Africa – the vast majority of whom are from other African countries – add value to the South African economy through job creation on the ventures that they undertake but the overall impact of immigrants on jobs lost is low.

Education & Experience

Over the year education levels and skills have varied.

However, we have seen a trend that the majority of entrepreneurs are educated and have a number of years work experience. This is aligned to the OECD report which states; "Critical success factors to entrepreneurs are education, skills and networks". In addition, a key insight this year is that entrepreneurs who responded are becoming more business savvy and understanding the keys to business success better. This is highlighted in the section on ESD.

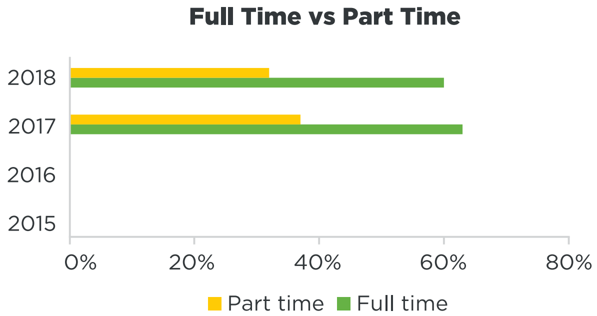


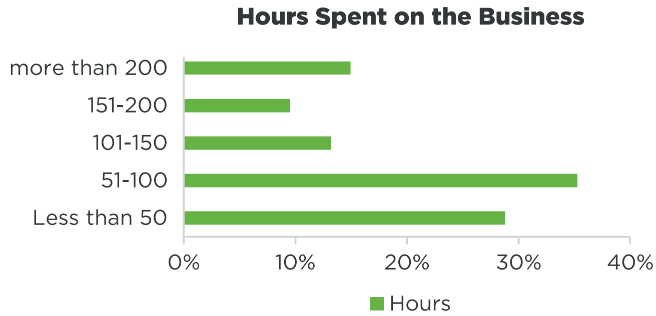


Full time vs part time entrepreneurs

On answering the question '**what type of entrepreneur**, are you?'...

In the sample group, 60% responded that they are full time entrepreneurs and 31% said they are part time – this is defined as they have a full-time job where they are employed elsewhere other than the business they are involved with. Consequently, when we asked the entrepreneurs who are part-time entrepreneurs how much time they spend on their businesses – the majority replied 50-100 hours a month.





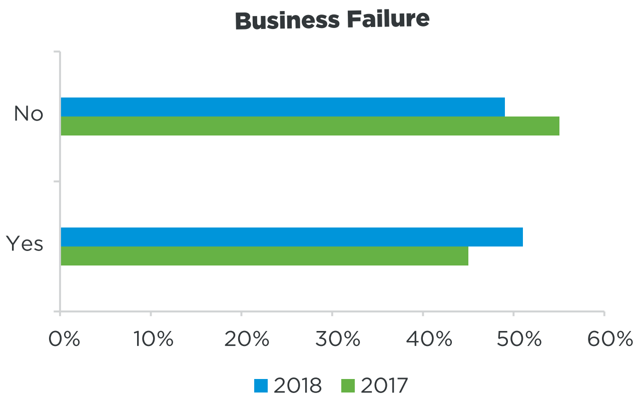
PLANTING THE SEED

Of the part-time entrepreneurs, 31% of their businesses are post revenue and 86% are self-funded. One might question, are part time entrepreneurs, keeping their full time jobs to self-fund their businesses?

Business failure

Half of the entrepreneurs have experienced failure in business.

We do not believe this is a bad thing as research tells us the most successful entrepreneurs are the ones who have failed and tried again. The key is to' fail fast'.

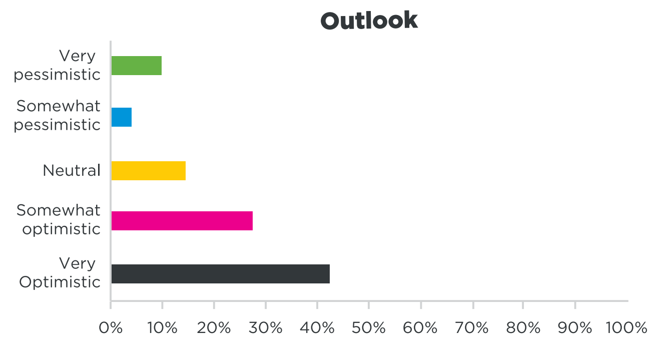


CLOSER LOOK

Lack of business support is seen as the main reason for business failure, followed by lack of access to markets and poor business planning. This is similar to last year's findings.

Outlook

Despite all the challenges that business owners face and the tough economic environment, the overwhelming majority of the business owners surveyed are **very positive about the business climate and outlook for the 12 months ahead.**

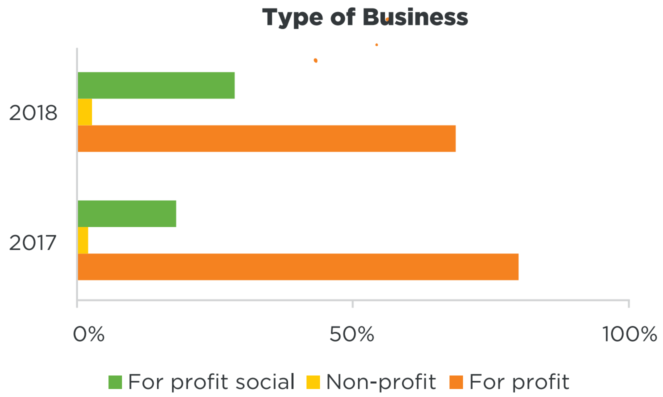


ABOUT THE BUSINESS

Type of business

69% of respondents are involved in "for profit" businesses, 29% run for profit social enterprises. Only 3% of respondents are involved in non-profit businesses.

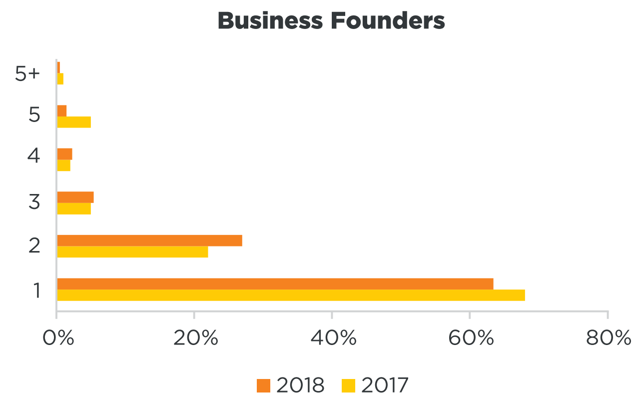
Given the social challenges that plague the country and the increased focus on social entrepreneurship, it is no surprise that there has been a 10% increase in social entrepreneurs from last year's survey.

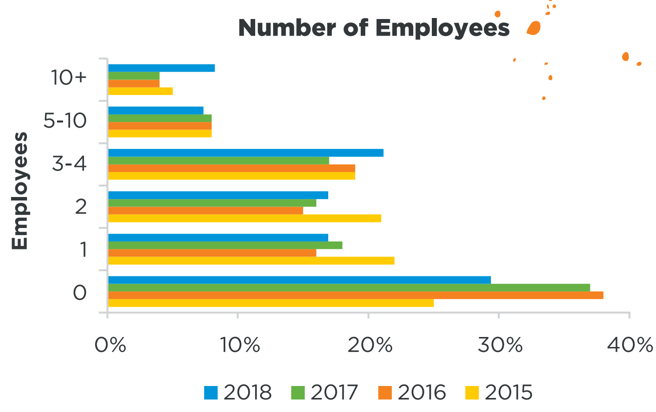


DID YOU KNOW?

The 10% increase in social entrepreneurs is in line with global trends, and developments in the rest of Africa. There is increasing interest in and engagement with social entrepreneurship and innovation in South Africa, as a mechanism for addressing complex "wicked" sustainable development problems.

Founders & employees





FOOD FOR THOUGHT

Given that the National Development Plan (NDP) suggests that SMEs should create 90% of the new jobs needed to bring unemployment to 6% by 2030, there is still a lot to be done to ensure that SMEs are supported to grow and scale and are able to compete in our economy successfully. SMEs employ far fewer people in SA than they should. While SMEs contribute nearly 98.5% of the number of formal companies in the economy, they only account for 28% of the jobs. Based on international trends, this should be about 60% to 70%. Instead, a huge 56% of jobs in SA come from only 1,000 employers, including the government — and these jobs are growing at a faster rate than what SMEs are creating. The data collected suggests a correlation between the number of years in business and the number of employees where the more years relates to the greater number of employees.

DID YOU KNOW?

Ghanian SMEs employ less than 5 people yet account for 70% of the country's work force. Similarly, Kenya's SME sector employs 3.2m people and has contributed to 18% of the nation's GDP. It is safe to say that the creation and sustainability of new SMEs is vital to the economic prosperity of a country or else it risks economic stagnation.

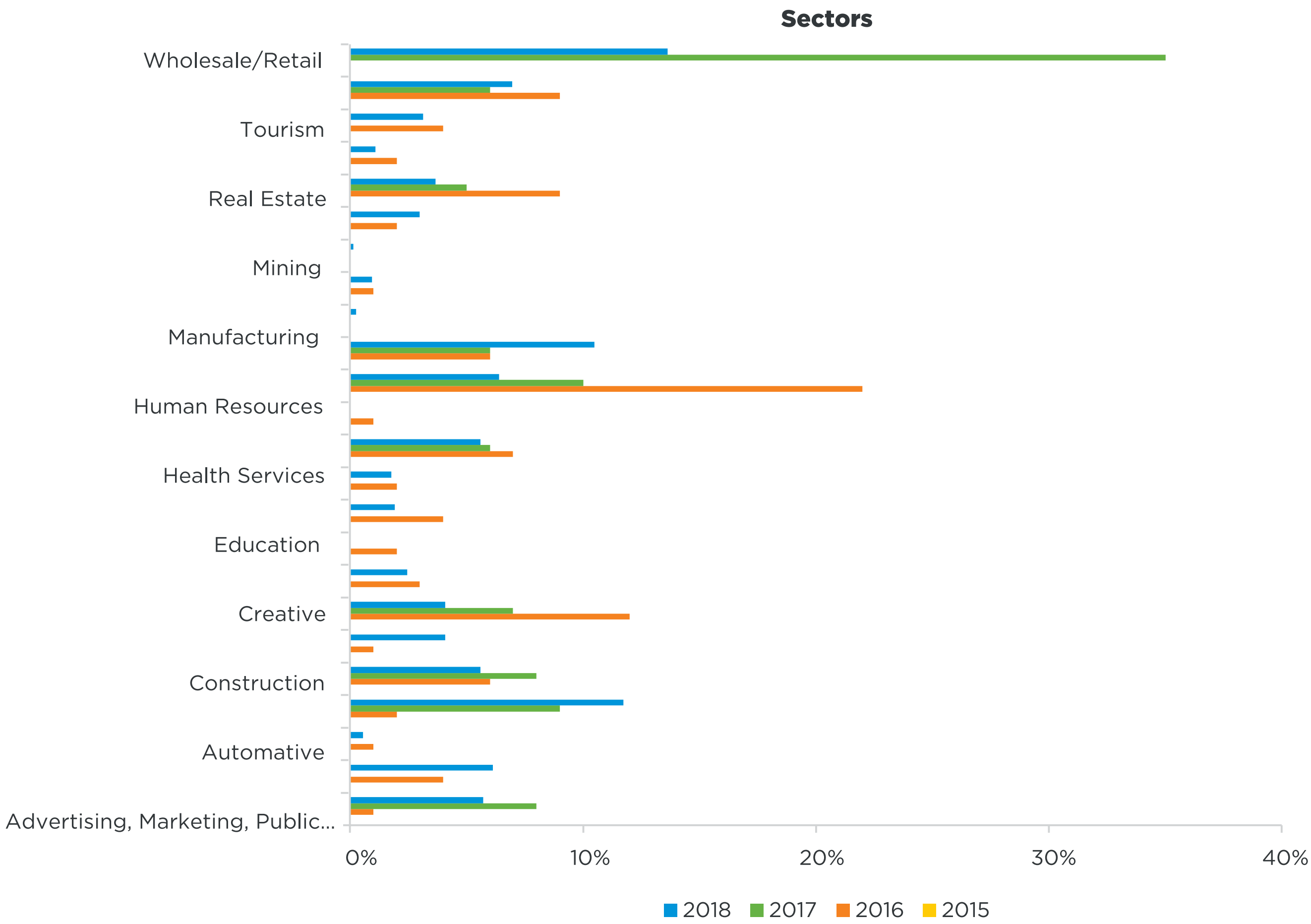
Sectors

As expected the sectors that have the lowest barriers to entry and least monopolistic players are the sectors where most of the businesses surveyed fall.

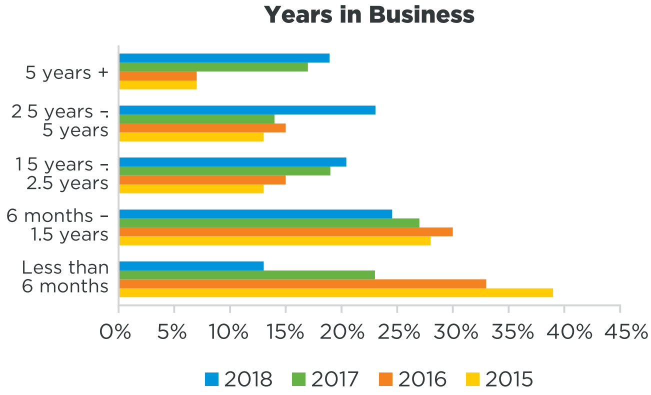
There is a high representation in non-financial business services at 68%. One of the unique things about the current structure of the South African economy is that historically there have been perfect monopolies and this hasn't changed much over time. This makes it difficult for businesses, especially smaller ones to compete. If one looks at the sectors represented below, and given the BEE legislative environment, the sectors that are also the least transformed are sectors with very few entrepreneurs represented – for example tourism.

CLOSER LOOK

When one analyses the Industrial Policy Action Plans (IDAP), Black Industrialists programme and NDP the sectors that are focused on, with respect to entrepreneurship, are manufacturing, industrial, agricultural and technology based sectors.



Age of business



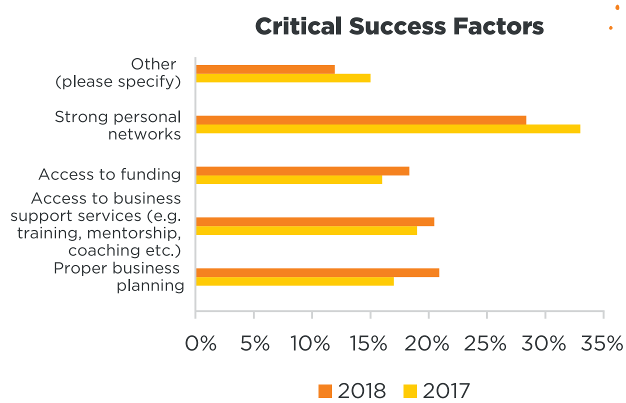
The **business age** aligned to the findings of the C4G and OECD reports and shows that the entrepreneurs are not startups or new to business. The highest number of responses this year being in the 6 months to 1.5 year category followed closely by the 2.5 year to 5 year category.

Main factors for business

longevity

This also relates to perceived critical factors for business survival highlighted by entrepreneurs in our sample group.

These are aligned to what has also been highlighted by the GEMS and OECD study. While the entrepreneurs themselves say that business development support is a critical success factor, we will see later that although these are made available,they don't always lead to business success.

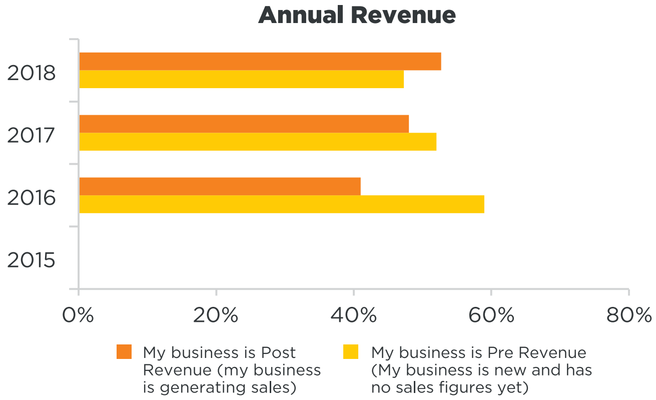


FOOD FOR THOUGHT

Research suggests that networks are an important aspect of entrepreneur success. Studies indicate that networking allows entrepreneurs to enrich their knowledge of opportunities; gain access to critical resources, and deal with business obstacles (McFarlin, Coster & Mogale 1999:65). Networking is also referred to as entrepreneurs' social capital base and social capital is crucial to entrepreneurs and is critical for business growth (Low & MacMillan 1988:14). In order to be a successful entrepreneur, is it what you know or who you know?

Annual revenue

47% of respondents highlighted their business pre revenue (i.e. no sales in the business as yet) while 53% highlighted their business was post revenue. This finding is concerning given that 60% of entrepreneurs sampled are full time entrepreneurs and not yet earning revenue.

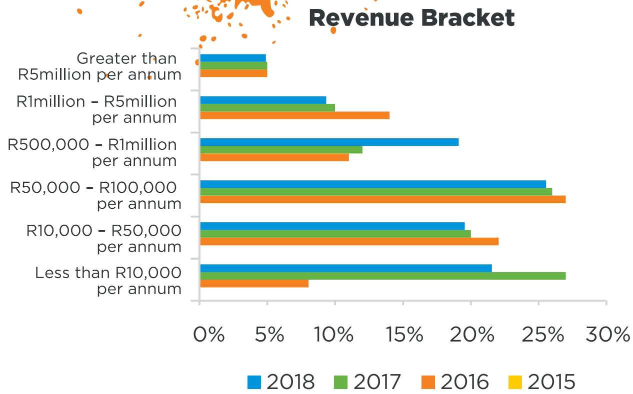


CLOSER LOOK

Over the past 3 years there has been a gradual increase in businesses that are post-revenue.

Revenue bracket

Of the businesses that are post-revenue, only 5% have a turnover of greater than R5m, 22% of entrepreneurs have revenues of less than R10k per annum; and the majority of entrepreneurs, 26%, have revenue between R50 – 100k per annum.

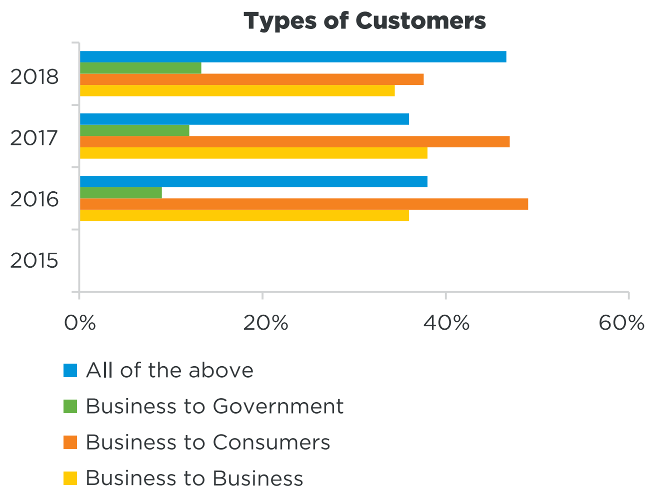


FOOD FOR THOUGHT

Comparing revenue generation of male and female owned businesses

Revenue	Female	Male
Less than R 10,000 p.a.	23%	20%
R 10,000 – R 50,000 p.a.	18%	19%
R 50,000 – R 100,000 p.a.	28%	24%
R 500,000 – R 1million p.a.	21%	18%
R 1million – R 5million p.a.	6%	12%
Greater than R 5million p.a.	3%	7%

Types of customers



When we look at the nature of businesses, our sample tells us at that 34% are Business to Business (B2B), 38% are Business to Consumer (B2C) and 13% are Business to Government (B2G); the concerning stat coming out of the survey highlights that 47% are engaged in B2B/C/G at the same time.

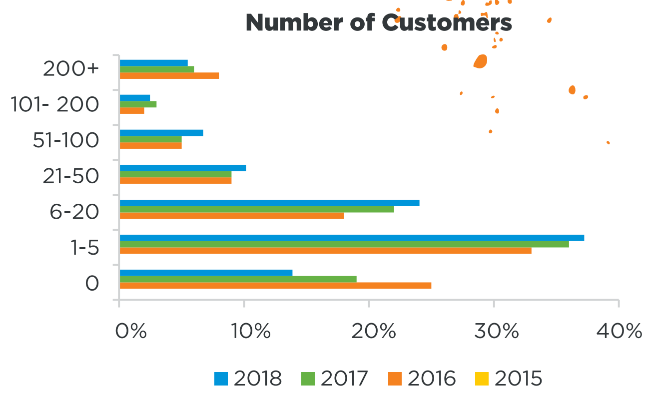
This highlights that our entrepreneurs may not be focused and are diluting business success by wearing too many hats and serving too many markets.

FOOD FOR THOUGHT

Entrepreneurs are drawn to B2B and B2G markets as these markets prefer a sales process where the entrepreneur explains the benefit and cost of the product or service as opposed to a consumer who wants instant gratification. In addition, these markets offer entrepreneurs contracts with "secured" income.

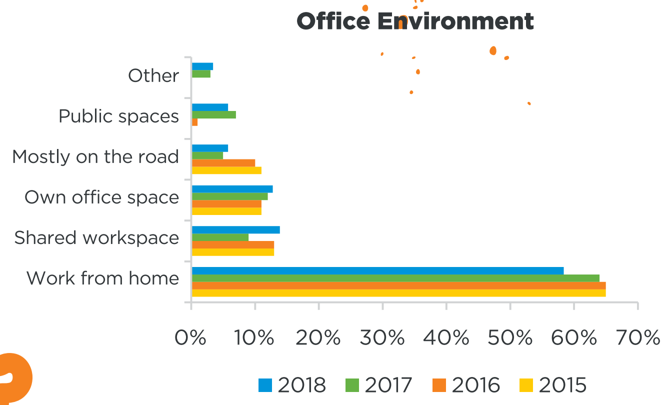
Number of customers

14% of entrepreneurs have no customers, while the majority (61%) have between 1 - 20 customers . This aligns to the low revenues that we are seeing in the businesses and highlights that business basics may not be in place.



Office environment

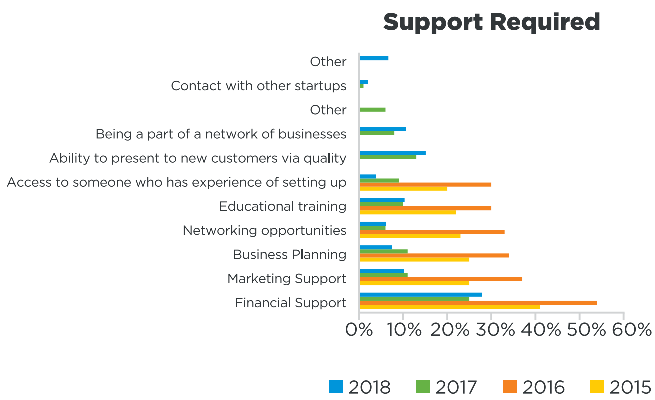
As with previous years the majority of entrepreneurs work from home, followed by shared work spaces. There has been an increase in entrepreneurs working from shared spaces over the years.



FOOD FOR THOUGHT

According to Deloitte's "Real-Estate Predictions 2018" report, co-working is rising and changing the way we are using office space. Co-work spaces are flexible and allow for collaboration. This collaborative and effective means of using space is attractive to SME's wanting flexibility. While costs and flexibility are important drivers, access to an entrepreneurial community is key.

Support required



Access to funding is still the highest need for businesses.

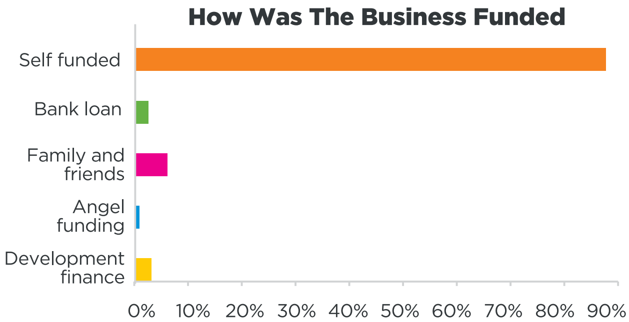
Financial support is also identified by the entrepreneurs as the one thing that they believe they require to take their business to the next level. It is clear that the entrepreneurs are spending more time assessing their needs and developing a broader business understanding. It is for this reason that we see that business planning and strategy are highlighted areas to be addressed.

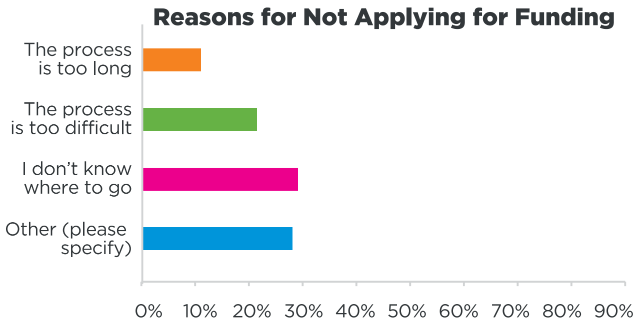
FOOD FOR THOUGHT

While the entrepreneurs themselves are telling us what they believe to be the critical success factors to their businesses, the support they require is not necessarily aligned.

Funding sources

Once again, the majority (88%) of entrepreneurs are self-funded and 78% have not applied for funding. Entrepreneurs site "don't know where to go" and "the process is too difficult" as key reasons for not applying for funding. Overwhelmingly under the category 'other', a "poor credit rating" and "collateral" were the reasons for not applying for funding.

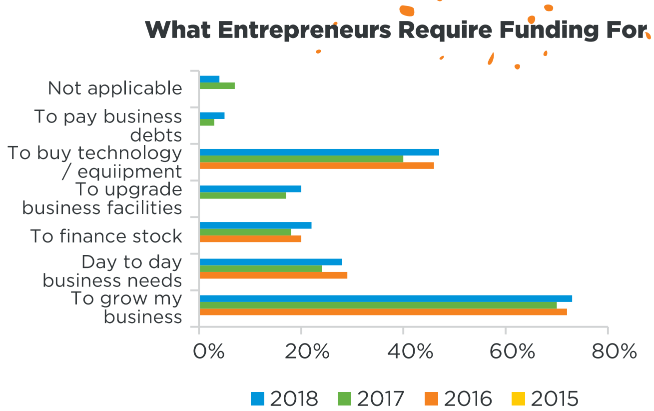




What do entrepreneurs

require funding for?

Predictably 73% require funds to grow the business, but it is interesting that 47% require funding to buy technology/equipment. This has remained consistent over the years.



How much did it take

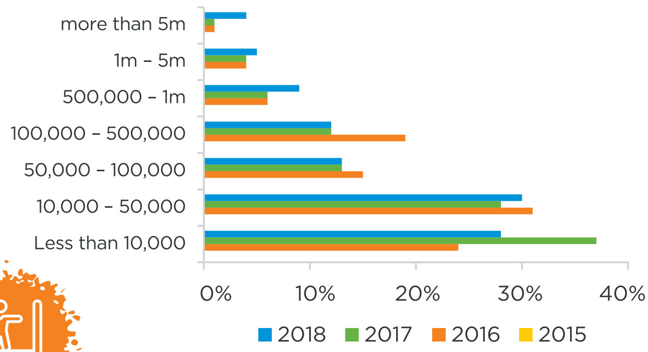
to fund the business?

The funding needs of the entrepreneur sample are not high; 28% needed less than R10,000 and 30% needed less than R50,000.

CLOSER LOOK

This finding may explain why entrepreneurs are self-funding.

How Much Did it Take to Fund the Business?



Challenges

entrepreneurs face

The top 3 challenges entrepreneurs face are: finding customers, inability to raise funds and wearing too many hats... followed closely by a lack of guidance, slow sales, customers paying late and unpredictability of business conditions.

While all of these indicate typical challenges entrepreneurs face; in the context of our other findings and previous years' findings - entrepreneurs' tend to struggle with getting business basics right, as well as focusing efforts for maximum impact!

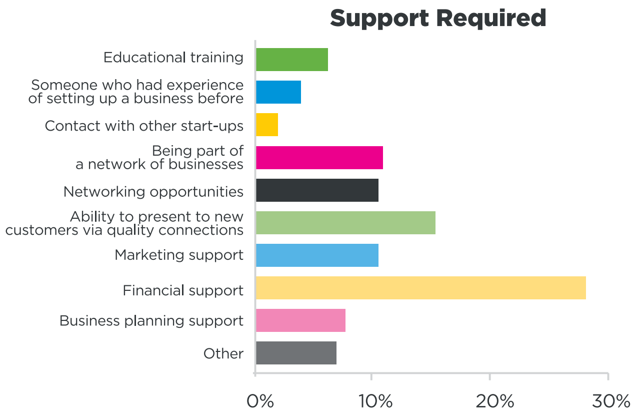
CLOSER LOOK

Entrepreneurs highlight inability to raise funds as a key challenge but have also stated they required small amounts to fund their businesses. Access to early stage funding and angel investors for up and coming businesses in SA remains a key hindrance standing in the way of entrepreneurial development.

FOOD FOR THOUGHT

Marketing, networking and business development skills remain the Achilles heels of SA entrepreneurs.

Support required to take business to the next level



Access to markets, access to networks and financial support were the overwhelmingly dominant responses.

ESD PROGRAMMES

ESD programmes

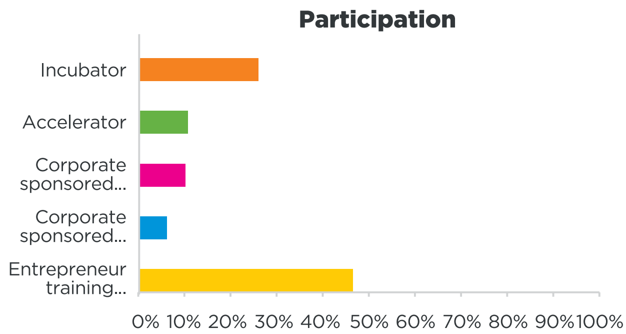
The economy, according to the recent C4G study, reportedly has R26bn in circulation for Enterprise and Supplier Development. Given the significant emphasis on ESD, we took a closer look at the impact of ESD programmes.

Participation

Over 40% of respondents said that they had been part of a programme.

26% said that they were part of an incubator, 56% said they had been part of an enterprise development or training programme and 6% said they had participated in a corporate sponsored Supplier Development programme. The majority of respondents have been part of a programme that supports them in some way or another.

Given that we know that SMEs overwhelmingly are more successful when they have some form of support, it is concerning that 12% of the total sample indicated that they had not participated in these programmes.



FOOD FOR THOUGHT

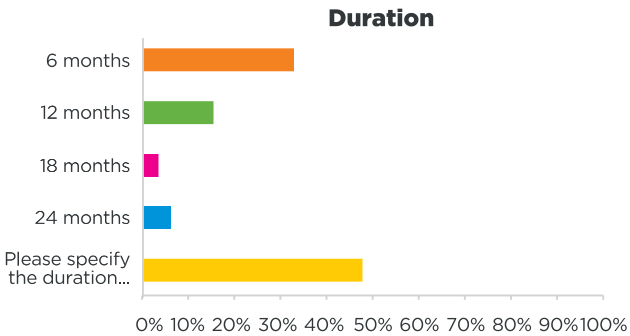
In his recent research, Ashwin Willemse indicates that a lack of training of incubation managers is of huge concern to the success of the incubators. This refers to the success of incubation as a whole but also the impactfulness and appropriateness of the support provided.

ESD programmes

Duration

The duration of the programmes also vary with 33% of respondents indicating that they had participated on a programme that lasted 6 months.

Under the "other" category 30% said that they had attended a programme that lasted between 1-4 months, 17% said that they attended a programme that lasted 3 months and 9% reported that they had attended programmes that lasted 1 month. More interesting were some of the comments received from the entrepreneurs surveyed. 3% felt the programmes were a waste of time and dropped out.



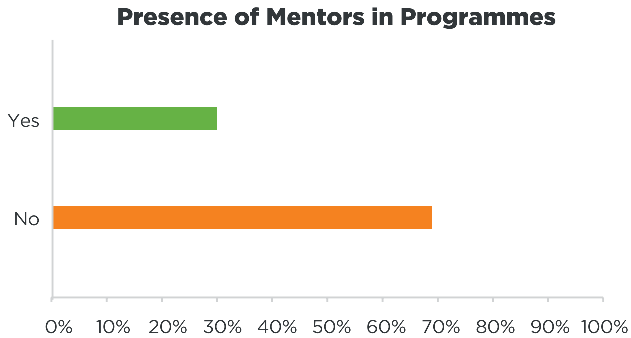
CLOSER LOOK

This is aligned to the C4G report that indicates that the lack of accountability or standard measurement of the impact of BDS offerings is a problem. One entrepreneur indicated that the business needed to scale and the time away from the business was impacting the ability to focus on business growth and development. 0.9% entrepreneurs indicated that they believed that the lack of truly 'black' incubators is a problem. 2% indicated that they did not feel that these programmes were applicable to them or their business needs. The C4G report further highlights the sentiments of our entrepreneurs that if the programmes are not tailor-made, the entrepreneurs find them to be less impactful than if they are specific to the businesses they are involved in. There is no definitive correlation between rand spent on BDS and the success of businesses. The critical success factors as reported by the entrepreneurs include appropriate business planning, access to funding and market access.

Presence of mentors in programmes

It is widely acknowledged that the presence of a mentor as a form of business support is agreed to be very positive and appropriate for business growth.

In his recent thesis, Willemse has proved using regression analysis that indeed mentorship as a form of business support is not only desirable but also a highly successful way to develop entrepreneurs. Yet of the businesses surveyed only 22% of those who attended programmes highlighted that their programme included a mentor as part of the support to their business. 30% said they have a mentor but that person is not necessarily linked to their ESD programme.

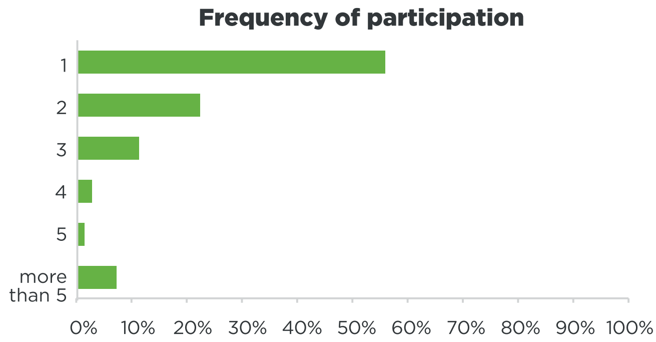


ESD programmes

Frequency of participation

The number of entrepreneurs who have been on multiple programmes is also an interesting result.

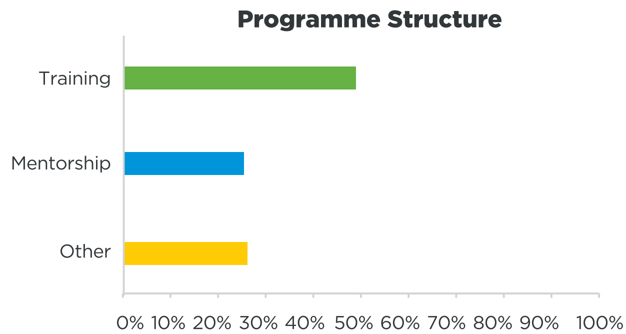
While more than 50% indicated that they have been on one programme in the last 2 years, 23% reported that they had attended 2 programmes in the last 2 years. 11% reported that they had attended 3 programmes and 7% said they had attended 5 or more Enterprise and Supplier Development programmes in the last two years.



Programme structure

In response to the question "what did the training consist of?".

The responses were fairly consistent. 50% indicated training was the method of learning. 24% indicated that they received a mentor and 26% selected "other". Under the 'other' category there was an even split between pitching the business, accessing supply chain opportunities, accessing grant funding and access to networking opportunities.

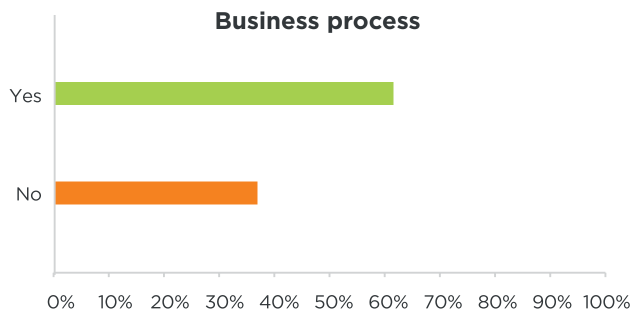


ESD programmes

Programme impact

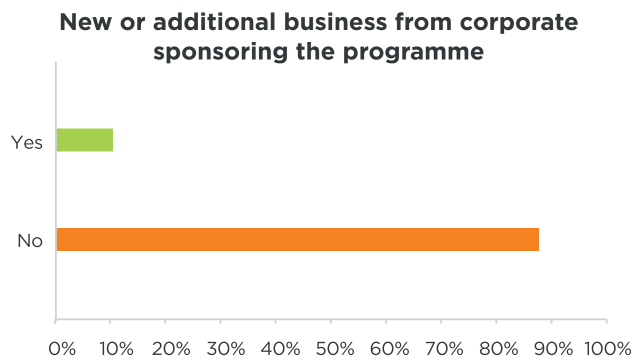
On responding to the question "Did your business processes change as a result of attending the programmes," 62% answered yes and 37% no.

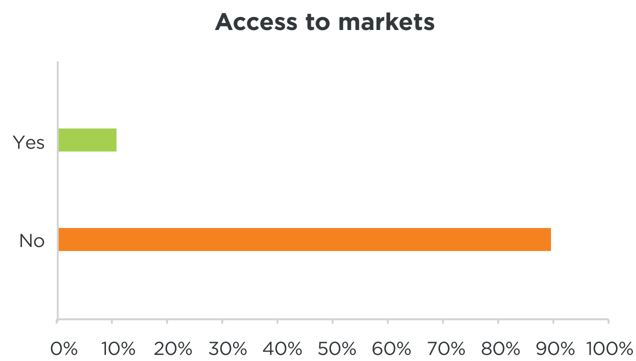
Further to this, entrepreneurs did not believe that they increased their turnover as a result of attending the programmes', implemented changes in their businesses, nor did this lead to increased productivity or headcount.



While we all acknowledge the value that we believe entrepreneurs can derive from attendance or involvement in Enterprise and Supplier Development programmes, it would appear that the programmes the entrepreneurs are attending do not have the desired outcome i.e. meaningful contracts, or focusing on the aspects that entrepreneurs need the most.

89% of entrepreneurs surveyed reported that they didn't get anything from the corporate sponsors of the programmes. This refers specifically to procurement contracts. Entrepreneurs indicated they may be able to access partners to the business sponsors for additional contracts and work, but this is dependent on access to the correct companies or individuals. This finding is concerning given the changes to the BBBEE Codes of Good Practice, which now emphasize the graduation of Enterprise Development recipients to Supplier Development.





FINDINGS, INSIGHTS AND RECOMMENDATIONS

Seed Academy

The state of entrepreneurship

1

The South African ecosystem remains difficult for entrepreneurs to navigate with several entrepreneurs reporting that they **don't know how to access available support.** Aligned with our findings and those of GEMS and OECD, the policy environment is not doing well in enabling entrepreneurs to find the assistance they require. **South Africa ranks 31 out of 54 nations in the GEMS study with respect to government support and 52 out of 54 for barriers to entry or regulation burdens.**

2

Entrepreneurs are not thriving (revenues are not increasing significantly; their challenges have remained the same over the period we conducted the research) and they are **not growing at a level and pace that will significantly impact the NDP.** Entrepreneurs are employing between 2-4 individuals on average. This is supported by the GEM study of 2018 where **South Africa is ranked 7th out of 54 nations with respect to job creation propensity.**

3

Entrepreneurs are starting to mature with an enhanced understanding of the aspects that need to be addressed in their businesses as well as identifying the requirement for high impact business development support. While the majority of entrepreneurs are working from home, there has been an **increase in entrepreneurs working from shared spaces and understanding the value thereof.**

4

Entrepreneurs in South Africa are **mostly educated; have prior work experience; vary in age** (not necessarily only youth) and are **driven to entrepreneurship through identifying and seizing opportunities** (as opposed to being necessity entrepreneurs).

5

Female representation is the same as last year (47%). There has been a gradual increase the number of **women entrepreneurs over the years, but the opportunities available in the market are mostly for male and youth owned businesses.** (The GEMS study reports that the female/male opportunity favors men).

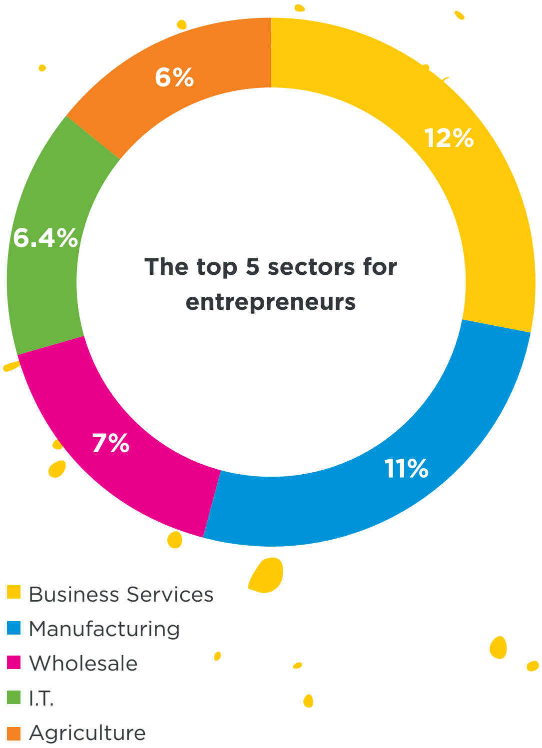
6

The key challenges our entrepreneurs face include: **finding customers; inability to raise funds and wearing too many hats** followed by **lack of guidance; slow sales, customers paying late and unpredictability of business conditions.**

Sector focus

The number of **for-profit social enterprises has increased by 10%** since 2017 demonstrating that **businesses that address social and community issues are on the rise.**

There is a strong shift in representation to **services-oriented businesses** more so than previous years.



This is a **clear misalignment to the sectors that are highlighted in key economic policy documents of National Government** such as the IPAP, Black Industrialists programme and NDP.

The key sectors highlighted by IPAP include:

- Mineral Benefication
- Green Industries
- Business Processes and Services
- Marine Manufacturing
- Aerospace and Defense
- Electro-Technical and White Goods Industries
- Automotive
- Clothing, Textiles and Leather Footwea
- Mineral Fabrication
- Capital and Rail Transport Equipment
- Agro-Processing, Forestry, Timber Paper Pulp and Furniture
- Plastics
- Chemicals
- Pharmaceuticals and Cosmetics

GEM reports that 10.3% of entrepreneurship value in South Africa lies in the business services sector.

Keys to success

1

Keys to success for entrepreneurs remain **strong personal networks**; **proper business planning**; **access to business support services** and the **ability to present for new market opportunities**.

2

Seed Academy's findings are **aligned to the C4G report** in that areas outlined for BDS in entrepreneur interventions that are the most desirable and have the most success include:

- **Business strategy**
- **Financial support**
- **People development and training**
- **Systems support or interventions**
- **Mentoring**

3

While there has been a slight decrease in the number of part-time entrepreneurs (37% in 2017 vs 31% in 2018), it is interesting to note that **31% of their businesses are post revenue and 86% are self-funded.** One might question, are part time entrepreneurs, keeping their full time jobs to self-fund their businesses?

4

Of the businesses that are post revenue, **only 5% have a turnover of greater than R5 million. 22% of entrepreneurs have revenue of less than 10K per annum** and the **majority of post revenue entrepreneurs (26%) have revenue between R50-R100K per annum.** Interestingly, when comparing the revenue generation of male and female owned businesses, in the higher revenue categories i.e. R1-5million and greater than R5million per annum, women account for half the numbers of men.

5

Our experience at Seed Academy highlights that **business focus is key to business success.** An interesting finding of the research is that **47% of businesses are engaged in B2B; B2C and B2G at the same time – thus making market focus difficult.**

Enterprise and Supplier

Development Programmes

1

Current Enterprise and Supplier Development programmes, as they are currently executed, rarely add the necessary relevant inputs to entrepreneurs' businesses unless they are **niche, specific and tailor made.**

2

Corporate sponsored programmes may **not be adding as much value as anticipated** – rarely leading to increased productivity and head count.

3

The presence of a **mentor aligned to the entrepreneur's business is a key success factor.** The number of entrepreneurs who were surveyed and have mentors through their ESD programmes is low yet overwhelmingly those who had mentors linked through programmes believed that the **mentors added significant value to their businesses.**

4

If the ESD programmes reach the right kinds of entrepreneurs then the success rate is higher – ESD programmes need to identify the correct entrepreneurs to prevent attrition.

Funding

1. **Accessing funding remains the biggest concern and challenge for entrepreneurs.** Entrepreneurs are largely self-funding and not applying for funding because they either don't know where to go or don't know how to access funding
2. Factors such as **credit ratings and lack of collateral to secure loans** is impacting entrepreneurs ability to access appropriate funding and limiting the growth and scalability of their businesses.
3. While 73% of entrepreneurs require funds to grow their business, 28% require less than R10 000 and 30% needed less than R50 000. It is evident the **risk appetite for funding early stage and perceived 'risky' entrepreneurs is low in South Africa.** In addition, the angel network and banks as funding options for entrepreneurs remains ineffective and not seen as viable options.

Key recommendations

Enhancing the Ecosystem

Create **real conversations** in the ecosystem of **what we need to be doing dramatically differently** to develop an ecosystem that is healthy and beneficial to the growth and development of sustainable businesses that can **create jobs**. Specifically:

01

The **policy and government support frameworks need to be aligned and perhaps consolidated under one department** as opposed to multiple, as is currently the case. The one stop shop approach has yet to be implemented effectively to address the needs of entrepreneurs.

02

Creating a culture where it is 'okay' to fail and it is 'okay' to grow at a steady rate without pressure of key metrics that everybody is focussing on i.e. revenue growth and job creation (over sometimes unrealistic time frames).

03

Proactively **identifying entrepreneurial opportunities** that will create opportunities for massive job creation and **developing innovative interventions** to identify the 'right' entrepreneurs with teams to actively drive these.

04

Industry collaboration to focus more on the successful entrepreneurs who can impact the industry and create massive employment (as opposed to focusing on many Qualifying Small Enterprises (QSE) and Exempted Micro Enterprises (EME) developed in isolation).

05

Ensure the support provided by the various spheres of Government for entrepreneurial development and support aligns with the support frameworks. As discussed by our entrepreneurs and aligned to the findings of the OECD study, the Aspen ecosystem report and GEM South Africa report, the current ecosystem is disjointed with very little cooperation and coordination.

06

The entrepreneurial ecosystem is still not designing interventions that are appropriate for women. As Minister Radebe identified at the Women in Energy dialogue held on 20 August 2018 "A key constraint to the effective women participation in the energy sector is lack of funding, technical skills and poor project preparation, **Special funding instruments should be developed to assist women entrepreneurs."**

Key recommendations

Enhancing the Funding Ecosystem

Funders need to play a far more active role in **'educating' entrepreneurs about their processes** and put in place **interventions that assist entrepreneurs to become 'funding ready'.** Further, funders should be **allocating a portion of their funding** that is more risk based to **early stage entrepreneurs** (together with appropriate business development support to ensure appropriate use of funds).

Entrepreneurs don't know how to access funding or understand where to go. Both the Development Finance Institutions (DFIs) and private sector providing funding opportunities need to **engage in pro-active marketing.** While online tools like Fin Find are vital to assist entrepreneurs, a more **comprehensive marketing approach** is required that utilises **multiple channels to 'reach' entrepreneurs.**

Entrepreneurs need to be more disruptive in the ecosystem. The People's Fund shows signs of being the first crowd funding fund for black entrepreneurs in South Africa. This fund which was started during the course of 2017 is a collaboration between the Hook Up Dinner, Brownsense and Pay Book. The team primarily help in one of two ways: an off-take agreement / purchase order financing or asset financing for companies 2years and older and generating R100,000 or more in revenue in the previous year.

While strides have been made to develop the **angel network in South Africa** (eg South African Business Angel Network), **Angel investing in South Africa (and Africa for that matter) is still in an embryonic stage.** This funding mechanism plays a key role in any 'healthy' ecosystem, as an effective funding channel after family and friends.

Key recommendations

ESD Interventions

1. The Enterprise and Supplier Development sector needs a 'refresh' with a **focus on what it really means to stimulate entrepreneurship in South Africa**. There needs to be rigour in the outcomes of the sector with the ability to **cater for a variety of needs and entrepreneur types** as well as ensuring that **'new' entrepreneurs are provided the opportunity for development** (as opposed to entrepreneurs attending a number of programmes with the hope of securing access to market).

2. **Non-financial support is currently not aligned to the needs that entrepreneurs require** and this requires programmes to seriously relook the intake of entrepreneurs (just because you are black and own a business doesn't mean you need a blanket ESD programme).

3. ESD interventions need to be **tailor made with appropriate mentorship** and a core focus on business and growth strategy.

4. Attention needs to be focused on **business basics** and all programmes should include a '**funding readiness' component.**

5. The industry may need some **framework to ensure quality of programmes and outputs beyond the current SETA model** (which may not have the desired outcomes).

Areas for future investigation

The types of entrepreneurs need to be disaggregated so that we can **understand the various entrepreneurs.** Where we have identified part time entrepreneurs we have assumed they are entrepreneurs who are full time employed. A part time entrepreneur could, however be defined as someone who runs multiple entities.

The **increase in social entrepreneurs needs to be understood** in more detail.


ABOUT
SEED ENGINE
Build
Grow
Scale
Seed Academy

Seed Engine

Seed Engine believes in an economically inclusive South Africa and we are on a mission to make it happen!

We do this by **building the skills and capacity of entrepreneurs**, by **funding and supporting them to grow their businesses,** and by **working with Corporate SA** to take these businesses to scale.

We are a proud Level 2 B-BBEE contributor.

Currently 51% Black-women owned through Womens Development Bank (WDB).

Seed Engine incorporates Seed Academy and the WDB Growth Fund

seed engine

51% Black-women owned WDB

Seed Academy

WDB growth fund

Seed Academy provides high-impact business development support and access to markets to entrepreneurs at all stages, helping them to build successful, sustainable businesses. Seed Academy's systematic methodology moves entrepreneurs from build to grow and ultimately to scale.

Seed Academy partners with clients to deliver real ROI based on measured outcomes combined with high levels of transparency and accountability.

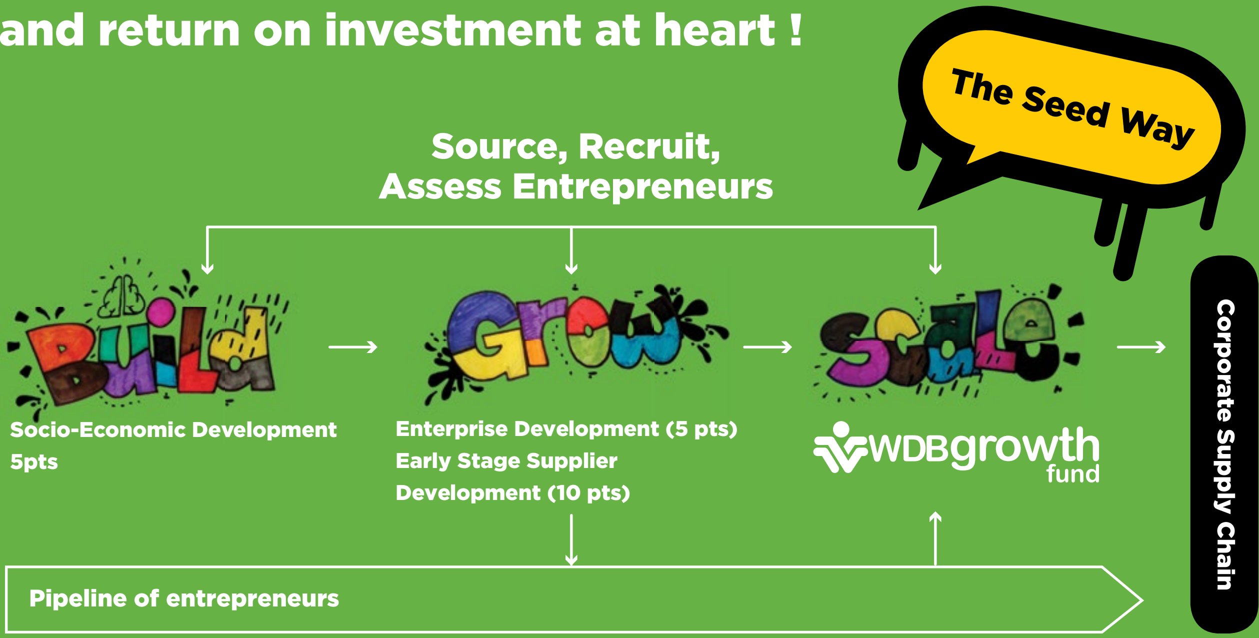
WDB Growth Fund is an impact investment Fund focused on increasing the participation of youth and women entrepreneurs in S.A.s economy.

The Fund's mandate is to address the needs of growth-stage businesses while providing investors with Enterprise & Supplier Development points recognition and tax benefits.

The Fund is a Venture Capital Company registered with SARS in terms of Section 12J of the Income Tax Act and is a licensed Financial Services Provider.

Seed Engine

We are committed to partnering with our entrepreneurs to get access to markets and funding opportunities whilst keeping our clients' transformation objectives and return on investment at heart !



Our Unfair Advantage

- Our key objective is to **help our clients enhance their impact on EMEs and QSEs.**
- We work closely with our clients to get a deep understanding of their needs across departments, how they work, their culture and values and **tailor our programmes** so the content speaks specifically to their 'way of working' thereby ensuring suppliers and potential suppliers not only have the skills and capacity to deliver but are also a **'culture and values' fit.**
- We provide the three aspects entrepreneurs need to succeed: **high-impact business development, access to markets and access to funding.**
- Our **robust model** moves entrepreneurs from **build** to **grow** and ultimately to **scale**, creating **pipeline** for the **WDB Seed Fund** and corporate **supply chains** in the process.
- Through **strong partnerships** and **networks** with clients, the ecosystem, **public and private sector** and **strategic partners** we are able to give entrepreneurs unrivalled **access to markets.**
- We have an **acceleration mindset** with a strong focus on **delivery, innovation** and robust attention to **impact measurement.**

THE REAL STATE OF ENTREPRENEURSHIP SURVEY 2018

IS PROUDLY SPONSORED BY

OLD MUTUAL FOUNDATION

OLDMUTUAL

The Old Mutual Foundation, part of the broader Old Mutual Limited Group, is an integral part of Old Mutual's responsible business ethos and commitment to caring for the communities we operate in.

Established in 1999 during the company's demutualisation process, the Foundation contributes to transformation in South Africa through effective socio-economic development initiatives in the following focus areas:

- Enterprise Development
- Skills Capacity Building
- Education
- Staff Volunteerism
- Vulnerable Communities

Through these initiatives, the Old Mutual Foundation aims to integrate marginalised South Africans into the mainstream economy, provide critical educational support to our next generation, and care for vulnerable communities. Our bias is towards rural and peri-urban communities where this need is often greatest.

The social development and transformation work of the Foundation is grounded in Old Mutual's heritage and history. Our desire is to develop the communities we serve, while also enabling and supporting millions of South Africans to save, invest and strengthen their financial future.

Old Mutual recognises the importance of Small, Medium and Micro Enterprises (SMMEs) and the role entrepreneurs play in creating jobs and contributing to economic growth and development. Furthermore, Old Mutual, through our Entrepreneurship Ecosystem, has first-hand experience of the challenges SMMEs face and the need for structured and targeted support to build sustainable businesses that facilitate job creation.

To enable better support of SMMEs, Old Mutual partnered with the Seed Academy and sponsored the 2018 Real State of Entrepreneurship survey.

The Real State of Entrepreneurship survey, now in its fourth year, remains South Africa's largest and most referenced entrepreneur survey. The 2018 survey builds on last year's survey, which looked at entrepreneurs' participation in Enterprise Supplier Development (ESD) programmes, and investigated their nature and impact.

This year the survey will also highlight changes in the behaviours and perceptions of entrepreneurs from 2015 – 2018.

Seed Academy

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