The 3 most common challenges facing SA's entrepreneurs

By Ben Bierman , issued by Business Partners Limited

6 Nov 2023

Along with the vast amount of opportunity, the South African business climate also presents entrepreneurs with a great deal of challenges. This has been particularly true within the context of the past two years, which have been characterised by the impact of a persistent economic downturn. Pressures such as the ongoing energy crisis have been exacerbated by the rising cost of fuel, amidst other headwinds including adverse weather patterns and spates of civil unrest and violence.

Through our interactions with entrepreneurs from across the country, and via our quarterly survey, the Business Partners Limited SME Confidence Index, we've identified the three most common challenges faced by local entrepreneurs.

1. Keeping the lights on: the issue of energy security

Energy security is one of the main concerns of South African entrepreneurs. Ongoing and worsening loadshedding has had a massive impact on the operations of businesses across multiple sectors. In the most recent Q1 2023 SME Confidence Index, over 40% of survey respondents reported having been impacted by ongoing loadshedding. And while almost as many businesses claimed to have the funds to invest in alternative power sources, almost 30% of business owners reported not having access to funding for this purpose.

Given that loadshedding may very well be a part of the South African reality for a while longer, small businesses need to make contingency plans to avoid large-scale disruption to their operations. For some small businesses, this could mean co-investing in a back-up energy source. This is an ideal solution for businesses that are situated within the same complex or which are adjacent to each other. Another option could be to implement a hybrid, flexible working schedule that allows employees to manage their schedules around the loadshedding schedule. You could also look into introducing a loyalty programme where customers earn points or discounts for supporting your business during loadshedding. This could go a long way in encouraging repeat business and customer loyalty, while helping you build your database for marketing purposes.

2. Combating rising levels of crime

Another challenge faced by entrepreneurs in South Africa involves the rising crime rate. At least 24% of entrepreneurial businesses are affected by crime on an annual basis, with almost 12% experiencing crime on a monthly or even weekly basis. This is according to the 2023 State of Entrepreneurship in South Africa Survey by the Entrepreneurs' Organisation (EO) South Africa chapter. Prime examples of how businesses have been impacted by this include the aftermath of the 2021 July riots which took place in pockets throughout KwaZulu-Natal and Gauteng. Many small business premises were destroyed or looted, causing widespread damage and massive stock losses. The University of the Free State estimates that 4,000 businesses were affected over this period, endangering around 150,000 jobs.

To mitigate the risks associated with crime, small businesses need to leverage their relationships with insurers and advisers. In the case of public unrest, Sasria can provide financial compensation to registered small businesses, which can greatly reduce the possibility of financial devastation in the event of a strike or riot. Insurance companies also offer flexible terms and cover options that can suit different budgets. Many also offer advice and guidance on the best geographical locations for businesses and the systems needed to safeguard a small business against crime.

Some of these risk mitigation measures could include installing trackers on company vehicles, installing CCTV cameras and electric fencing with an adequate back-up power supply, registering with an armed response unit and making sure that staff have access to emergency service numbers when needed.

3. Rising interest rates and the cost of credit

The SME Confidence Index has also identified rising interest rates as one of the factors that have stood in the way of entrepreneurs accessing the level of funding they may need to get off the ground or expand. Small businesses often rely on loans and credit to fund their operations, expansion or working capital. As interest rates rise, the cost of servicing existing debt or obtaining new loans becomes higher, putting additional financial strain on businesses.

A greater level of awareness needs to be raised around the different options that are available to entrepreneurs when it comes to funding. This is where proper market research can make a world of difference because new financing solutions become available from time to time as we are seeing with the recently launched Short-Term Finance at Business Partners Ltd. While traditional, bank-funded loans may be less accessible to entrepreneurs, there are other, more flexible options available. Entrepreneurs could explore options such as business incubators and accelerators which provide funding, mentorship and resources to startups in exchange for equity.Some non-profits and foundations also offer grants to businesses that align with their mission or focus areas.

These grants may be available for projects supporting community development, education or social innovation. Non-bank lenders may also be more open to taking on the risk of an early-stage venture and could be open to structuring a financial agreement based on terms that suit the financial forecasts and wellbeing of the business. In an environment where interest rates have remained high for a sustained period of time, entrepreneurs need to put in the legwork and find creative ways of funding their ventures and making sure they stay afloat during the foundational first few years of business, which will either set them up for success, or result in business closure.

- **New SME survey results reveal upcoming national elections a deep concern for SA small business owners** 25 Apr 2024
- **30 years on, entrepreneurs are making the most of SA's enduring miracle** 24 Apr 2024
- **3 ways SME owners can cultivate a culture of human-rights in their businesses** 25 Mar 2024
- **SA entrepreneurship event sheds light on the need and the value of women in business** 14 Mar 2024
- **4 ways to turn your business idea into a thriving business** 12 Mar 2024