These are the do-or-die priorities for SME survival in the next 6 months

By Trevor Gosling, CEO: Lulalend

With 70-80% of SMEs failing within the first five years, and only 1% growing to employ more than 10 people, South African SMEs are struggling to realise their own growth potential and become active drivers of job creation. And with slow economic growth, on-going political uncertainty, and a national budget shortfall of R209-billion, SMEs seeking much-needed funding face a tough time ahead.

Following the crisis at African Bank a few years ago due to non-payment of unsecured loans by its customer base, traditional lenders largely lost their appetite for exposure to unsecured lending. This has left the majority of SMEs without access to funding via traditional banking channels. And where such loans are on offer, the application process is loaded with administrative and bureaucratic red tape that can take more than three months to work through, with no guarantee that the loan will be awarded.

In fact, in our latest survey of South African SMEs, 76% of respondents said they suffered through tedious paperwork and waited for months only to have their applications for funding denied. This is creating an environment of immense risk to SMEs.

The #1 priority for SME success

I believe access to adequate and flexible funding is the number one priority for South African SMEs over the next six months. The results from our survey showed that access to credit is the single biggest business challenge South African SMEs face today, with a further 33% listing cash flow management as a primary challenge.

A deeper look into why SMEs are seeking funding brings further cause for alarm: nearly a quarter of respondents listed "unforeseen circumstances" as their reason for seeking funding. In a time of constrained economic growth and difficult trading conditions, profits are likely minimal, meaning any event causing need for quick access to funding could spell disaster - or even ruin - should the SME not get the funding they need.

To fill the gap left by the big banks' unwillingness to expose themselves to unsecured business lending, a vibrant ecosystem of innovative fintech companies have emerged. In the Disrupt Africa Finnovating for Africa 2017 report, South Africa was found to be home to 94 fintech start-ups, 22 of which offer some form of lending support. Such tech-first lenders are able to adapt quicker to changing market needs than their big traditional peers, and are playing an increasingly important role in supporting a rather fragile SME sector. And since they are built on technology and unencumbered by legacy systems, this new breed of fintech company can process and award loan applications in a matter of days compared to the 2-3 months traditional lenders such as banks generally demand.

The role of the SME owner in ensuring survival, success

But it's not all about the banks and lenders: SME owners also need to play a more active role in ensuring their businesses are resilient enough to withstand times of hardship. Many SMEs lack basic accounting and administrative processes, leaving SME owners blind to potential weak spots or areas of opportunity.

Successful entrepreneurs are able to take calculated risks to accelerate their growth and expand into new markets, but without a solid understanding of the current state of their business, any risk they take is potentially ruinous. A lack of adequate financial reporting also limits SMEs' ability to apply for and secure funding,

Technology as enabler

Technology can provide support to SMEs wishing to strengthen their administrative and operational processes. Even competent use of something as basic as Excel could give SME owners much-needed insight into the state of their businesses. Online accounting software such as Xero gives SMEs enormous authority over their finances and helps business owners plan and strategise more effectively. In a do-or-die environment such as the one we currently find ourselves in, every slight advantage could mean the difference between success and failure, survival or bankruptcy.

SMEs should prioritise marketing their business effectively. In fact, 47% of respondents in our survey listed marketing as the biggest potential factor in growing sales and revenue, and yet only a third had a marketing budget. Technology can provide cost effective marketing opportunities to SMEs and assist with reaching and influencing key stakeholders. Google AdWords, social media profiles, LinkedIn groups, and even a basic website not only increases the SME's exposure in the market, but also gives potential lenders comfort that the business is well-supported and in a healthy state. Entrepreneurs should also seek membership of relevant associations and industry bodies to get access not only to other businesses and business owners, but to draw on the knowledge and research capacity most such associations and industry bodies produce. The better a SME owner's knowledge of the market in which he or she operates, the better they are able to adapt to changes and ensure the long-term sustainability of their businesses.

Partner, and partner well

Partners can play a vital role in supporting and driving business growth in the SME sector. Whether it is an equity partner providing much needed financing during the early stages of a business, or a business partner that provides goods or services that are complementary to an SME's core business, effective partnership is essential for long-term business sustainability.

SME owners should however take care to ensure the partner shares similar values and ethics, and strive toward building long-term trust with a view to ensuring mutual benefit between the two businesses. Our philosophy is to seek SMEs that share our passion for sustainable business growth, and to build a long-term partnership that enables us to provide on-going lending support through various growth stages.

In our current economic climate, a go-it-alone, shoot-from-the-hip approach is a recipe for disaster. SME owners should prioritise gaining access to funding, improving their financial and administrative processes, expand their marketing efforts, and seek appropriate partnerships to ensure they continue to survive and thrive.