

Grant Thornton's Global Research

South African mid-market survey:
Business insights and outlook

Second Half-Year (H2) Period 2021



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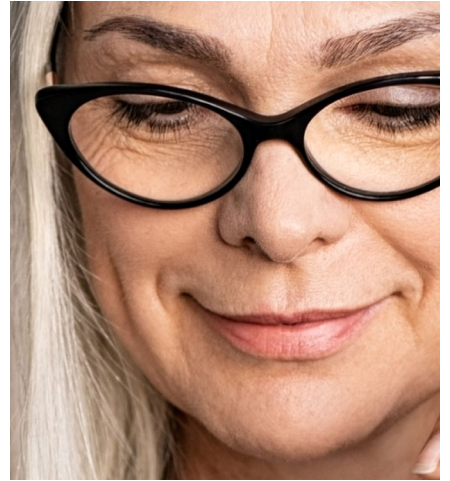
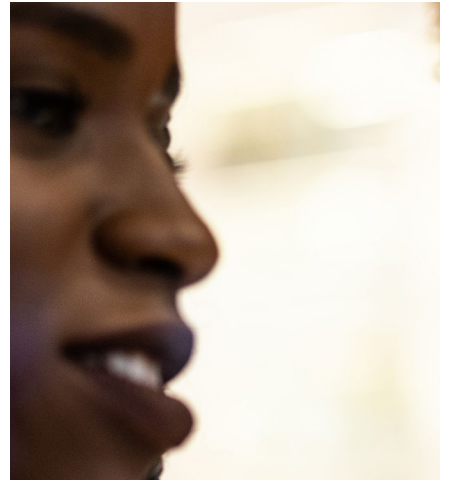
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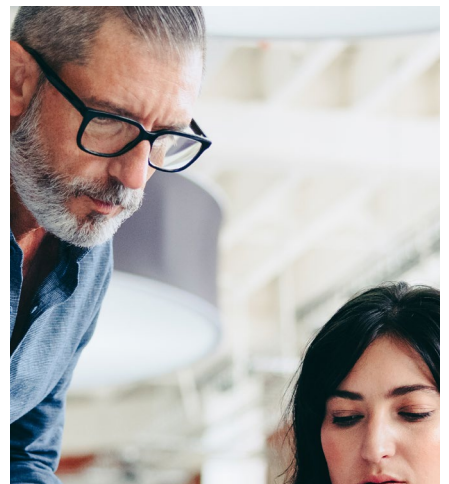
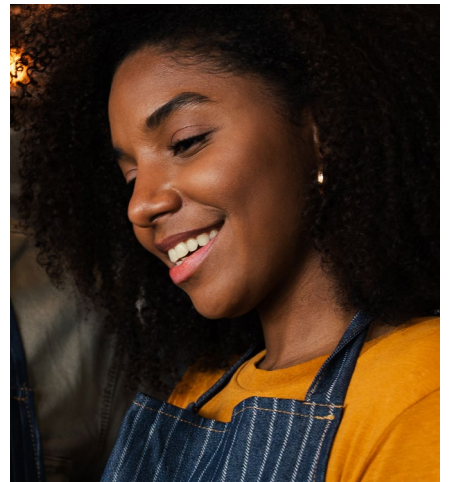
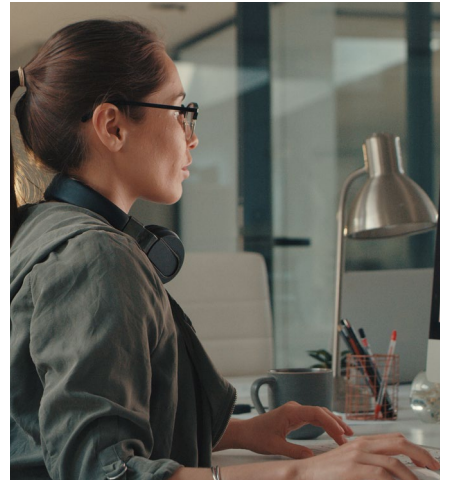
About the survey

Grant Thornton's business pulse is the first index to track the health of mid-sized companies at a global, regional, country and sector level.

Developed in partnership with Oxford Economics, this index is **calculated every six months** and draw on the world's largest and longest running research study into the mid-market, which **interviews around 10,000 mid-market business leaders across 29 economies annually**.

The index provides a complete view of mid-market health and prospects at a global, regional, sector and country level, **while sub-indices provide a view of several dimensions that contribute towards this health**.

In South Africa, about 100 business leaders across different industries are surveyed to provide insights on the views and expectations of the South African mid-market businesses.



Our message to you

“It might seem like global economies, including South Africa, have been hit repeatedly by tragedy since the outbreak of the COVID-19 pandemic. The virus is still prevalent in our lives; however, the vaccine roll-out brings new hope in the fight against this global pandemic. Let us not forget that tough times helps us to build resilience.”

COVID-19 especially has impacted us on various fronts. We have been navigating these uncharted territories since March last year. Bearing in mind the spread of the COVID-19 variants, widespread deaths, trade restrictions and permanent business closures to name a few. However, rest assured our resilience will propel us forward.

The South African business pulse overall index shows that the second half of 2019 saw a short-lived but extensive dip in mid-market business health. This reached an all-time low in the first half of 2020 gradually rising back into positive territory in the first half of 2021. This is a tremendous achievement given the strong correlation with real GDP change pointing to possible moderate economic recovery. Supporting this sentiment, the World Bank forecasts a GDP growth of 3,5% for 2021 rebounding from the dire -6,9% for 2020.

When comparing the South African business pulse index to the ABSA Purchasing Managers Index (PMI)* a similar pattern emerges for the average of the six month periods

since 2019. At a glance though, we should brace ourselves for this upcoming second half of 2021 as July saw a dramatic decline in the PMI as a result of the COVID-19 resurgence, adjusted level 4 lockdown restrictions and social/political unrest in parts of the country. This decline was attributed to the decrease in business activity and new sales order. Thus recording a low that was close to that which was experienced in the height of the hard lockdown in April 2020 followed by an upward trend. Using this index as an indication of what is to come - we can be hopeful that this adversity will eventually be replaced by recovery.

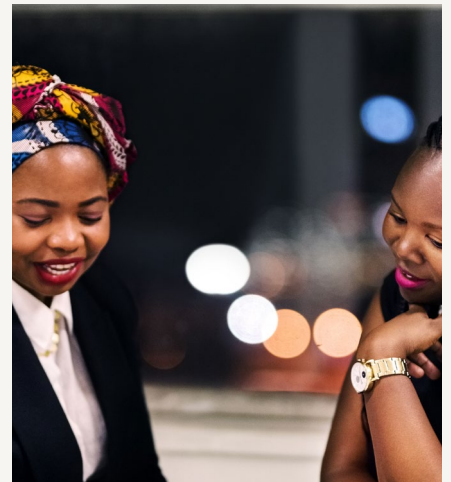
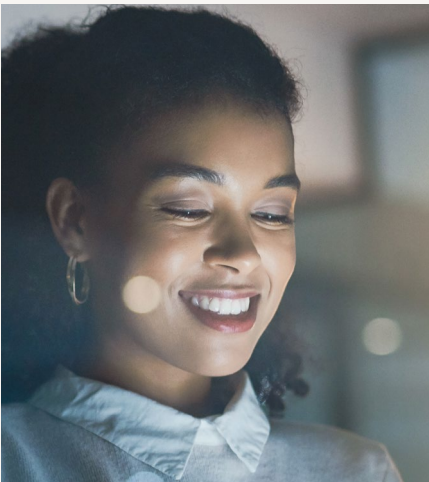
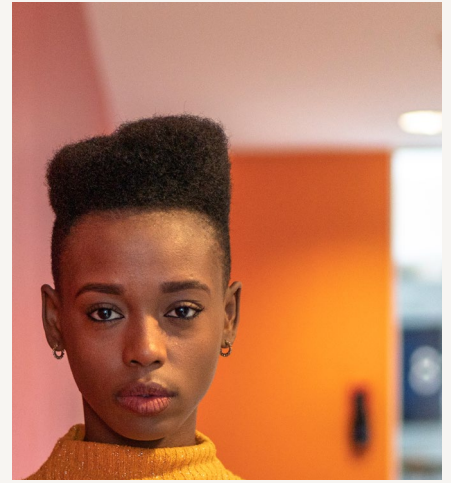
According to our survey, business optimism is on the rise notwithstanding barriers hindering this growth.

We hope you will find the results of this report, based on survey findings from mid-market business leaders in South Africa, insightful.

* The Purchasing Managers Index (PMI) is a measure of the prevailing direction of economic trends in manufacturing conducted by the Bureau for Economic Research (BER).



Victor Sekese
Chief Executive



South African Business Pulse

The index

The South African index fell back into negative territory after experiencing only 1 period of positivity since H1 2020 which represented the onset of the impact of the Covid-19 pandemic.

Africa regional also fell into negative territory recording a -0,2; however, the global index showed further improvement with +1,2.

	H1 2019	H2 2019	H1 2020	H2 2020	H1 2021	H2 2021
South Africa index	+11,2	+6,5	-6,6	-5,0	+1,3	-3,2
Africa regional index	+12,9	+9,7	-7,0	-1,8	+3,2	-0,2
Global index	+3,7	+3,4	-9,4	-3,6	+0,2	+1,2

The recent social/political unrest that took place in July 2021 may have reversed some of these gains made by mid-market companies especially in KZN and Gauteng; however, we expect mid-market to regain and recover lost ground.

How the index scoring works

A score of +50 would represent perfect health with no restrictions and an ideal outlook, and the likelihood of high growth in the future.

A score of -50 would represent dire health, with crushing restrictions and an appalling outlook, and the likelihood of decline in the future.



“

National and Provincial government working with the relevant agencies in the public sector and the private sector have come together to provide temporary relief to businesses affected by the unrest. Permanent measures dealing with the root cause of the unrest will be crucial to the continued growth of the mid-market.”

Khanyisa Cingo-Ngadu
Head of Tax

South African outlook and restrictions

Mid-market businesses are hopeful that growth will continue; however, they recognise the rise in restrictions.

Outlook

6.6 ↓ pt change



As compared to the first half of 2021, growth expectations from mid-market businesses have dropped by 6,6 points in the second half. This survey was conducted shortly after the Local Government election and after the President altered the composition of his Cabinet which may have had an impact on the future outlook.

Restrictions

2.3 ↓ pt change

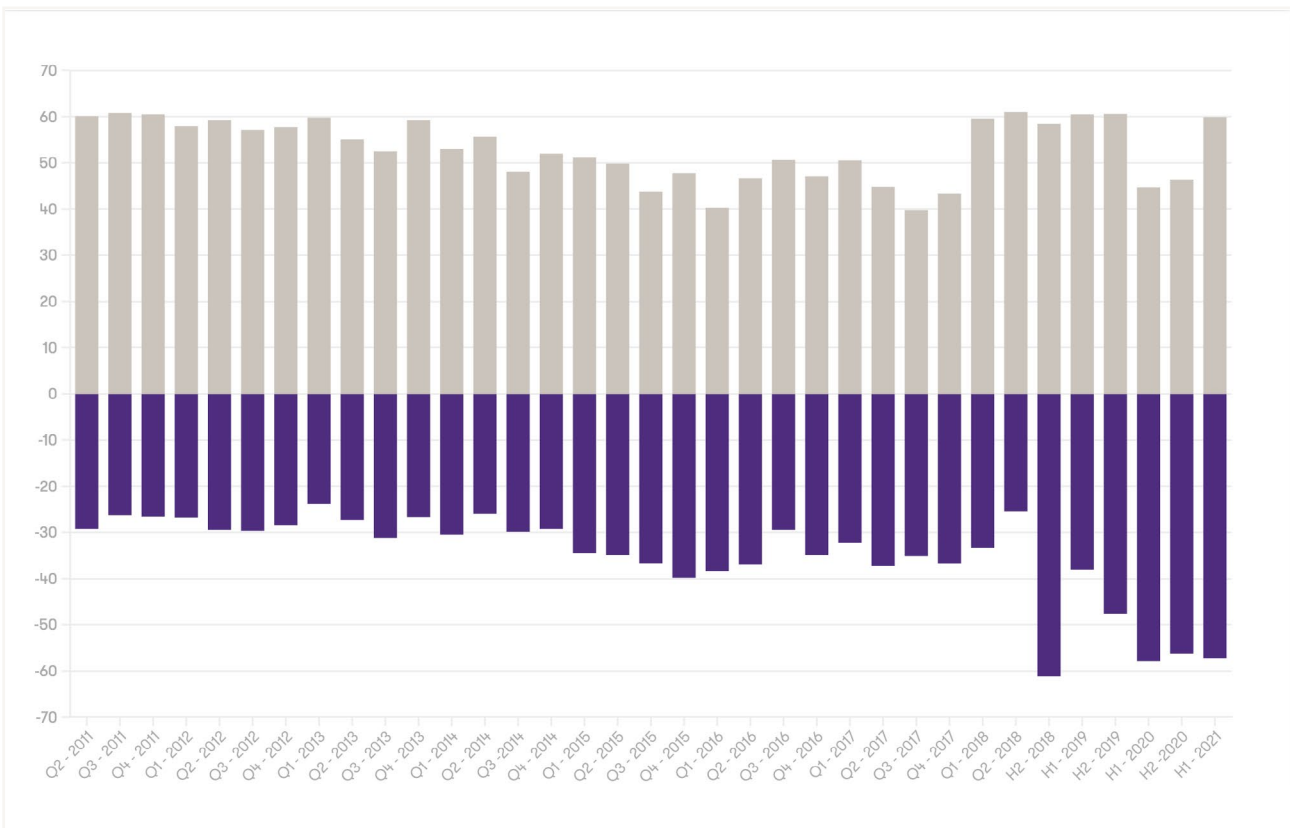


Those surveyed in the mid-market anticipate that barriers growth continue to get worse recording a decrease of 2,3 points from -57,3 to -59,7 in H1.

Outlook and restrictions

Outlook tracks the growth expectations and are scored positively between 0 and 100. The better the elements, the more positive the score.

Restrictions or barriers to growth are scored negatively between 0 and -100. The worse the elements, the more negative the score.



Elements of health

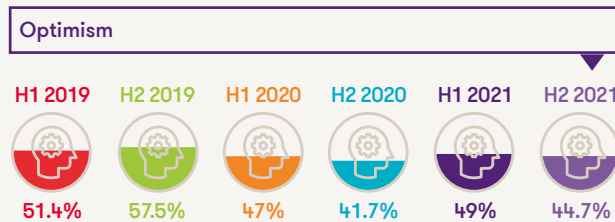
With regard to elements of health we measure both positive and negative factors affecting mid-market businesses. Notably, we report on key expectations, intention to increase investment and key constraints.

Key expectations:

These are reported as percentage increase results as they are strongly correlated with the balance statistic. The balance statistic is the difference between the positive and negative responses.

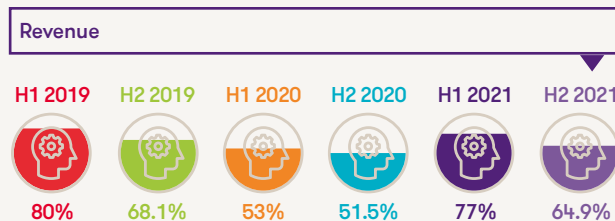
Elements of health

Delves deeper into the indicators driving the outlook and restrictions.

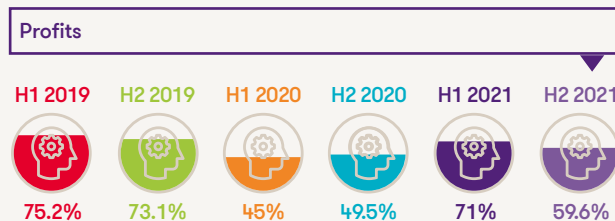


Optimism for the outlook of the country's economy over the next 12 months is up with 49% of the mid-market now feeling optimistic.

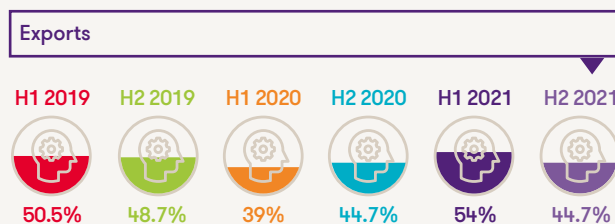
Globally, 69% of firms surveyed felt optimistic about their economies. This is promising seeing as it has risen from 57% in H2 2020 and 43% in H1 2020.



Revenue expectations have declined by 12,1 percentage points with only 64,9% of companies expecting an increase compared to the 77% in the first half of the year.



In line with the lower expectation with regard to revenue, the profit expectation decreased by 11 percentage points.



Expectations for exports have declined after a consistent increase since the first half of 2019, falling from 54% to 45% in H2 2021.

Intention to increase investment

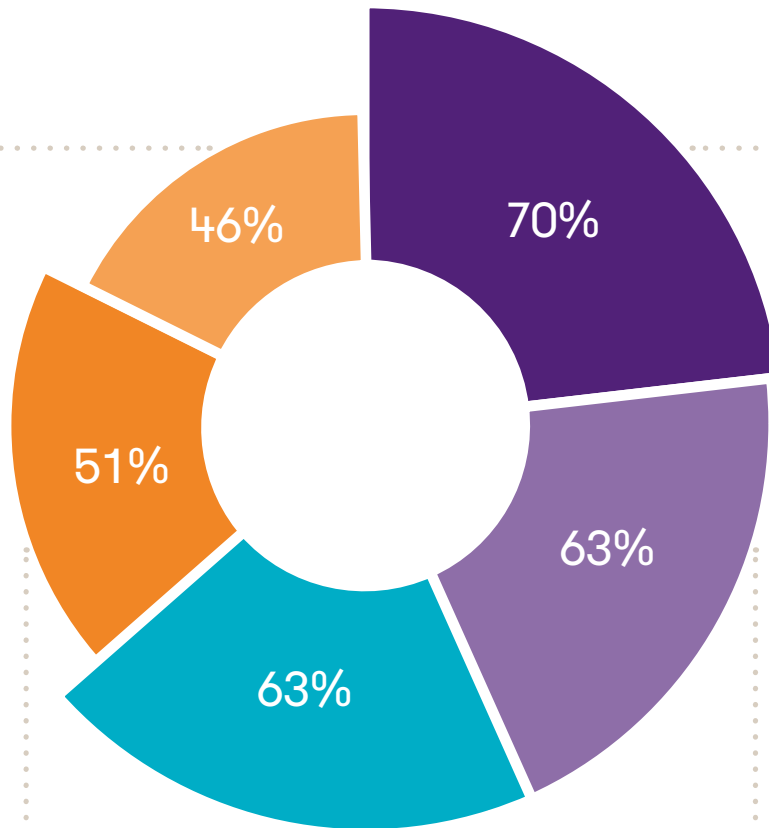
Investment intentions for the next 12 months have dropped across all categories.








Key constraints

Our results gauge the perception of the extent to which particular elements constrain on the ability for businesses to expand or grow.

Relevant to South Africa, we explore regulations/red tape, shortage of finance, economic uncertainty, availability of skilled staff and energy costs. These are represented below as the percentage of businesses



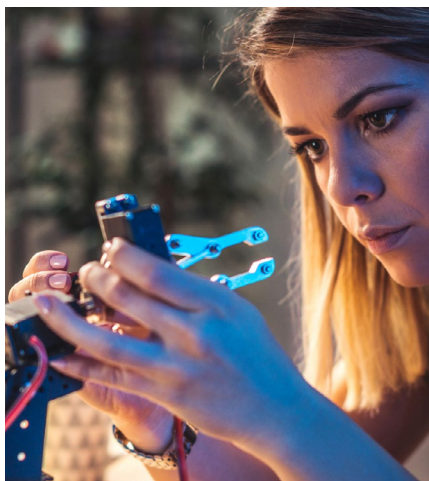
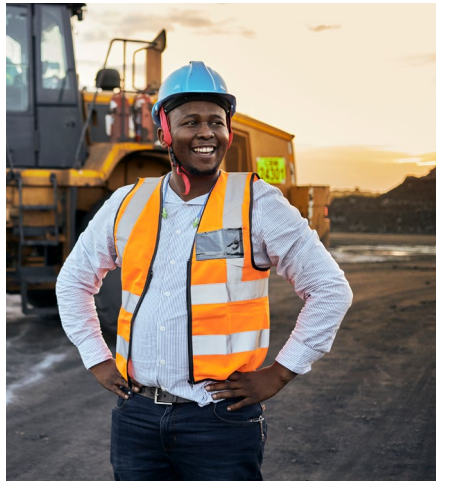
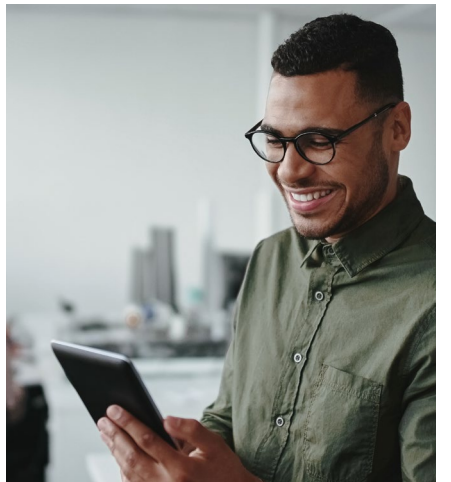
<h3>Shortage of finance</h3>  <p>Despite recording an improved percentage citing shortage of finance as a major constraint to growth (51% in the last edition), when delving into the detail the same pattern across the board emerges implying that very little has changed in reality.</p>	<h3>Availability of skilled labour</h3>  <p>Availability of skilled labour continues to be a constraining factor at 51%.</p>	<h3>Energy costs</h3>  <p>As anticipated, coupled with challenges faced by our national energy provider and the rising electricity tariffs, energy costs continue to remain a major and growing constraint for mid-market.</p>	<h3>Regulations /Red Tape</h3>  <p>Increasing levels of red tape continue to be a compliance burden for mid-market increasing from 53% in H1 2021 to 63% in H2 2021.</p>	<h3>Economic uncertainty</h3>  <p>Economic uncertainty continues to remain elevated at 70% climbing higher in the ranks when compared to other surveyed economies. As seen before, this appears to coincide with the Covid-19 pandemic volatility in terms of easing and reinstating restrictions since 2020.</p>
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Given the local constraints and lessons learnt from going through a pandemic, perhaps its time to Reset , Refocus and Reignite our businesses by developing innovative solutions to some of these constraints and using technology as well as access to the internet to reach skilled labour and untapped markets... “

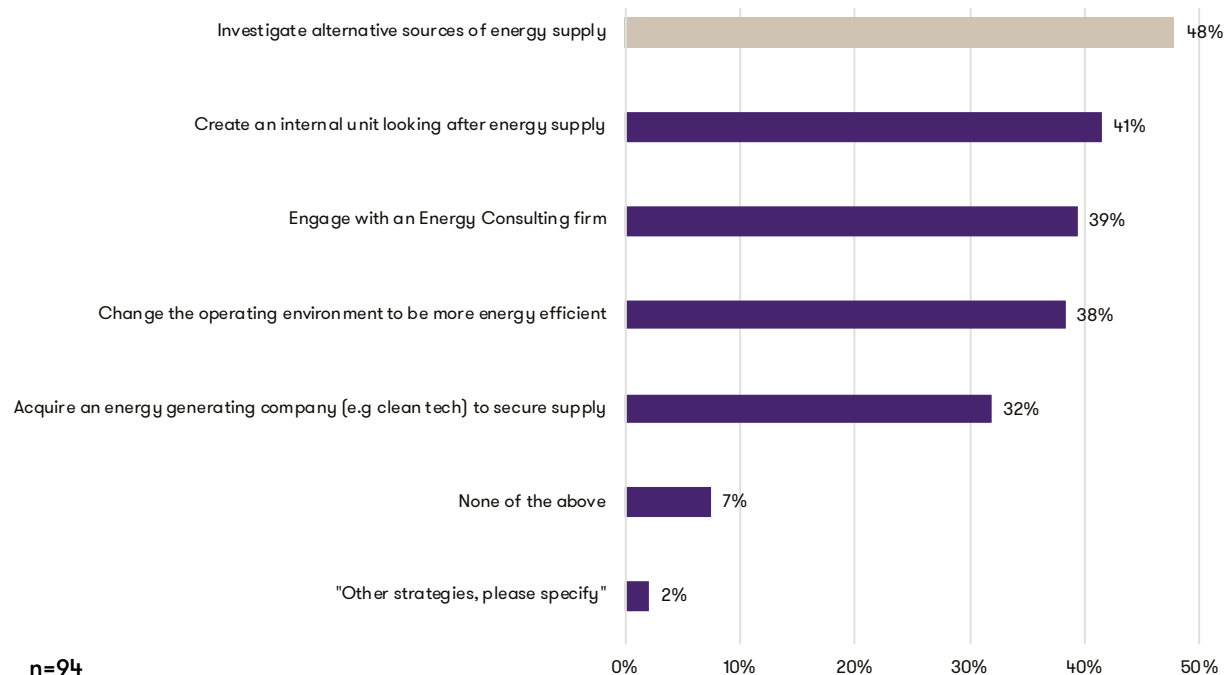
Yugen Pillay
Head of Business Consulting



The Journey Ahead

In addition to assessing overall business health and prospects, in each edition we cover topical questions to gain a better understanding of future plans or expectations for mid-market businesses.

When asked “What is your strategy to contain energy costs or secure access to energy in order to sustain your operations?”



Investigating alternative sources of energy supply ranked the topmost strategy implemented by 48% of respondents. This is not surprising given that our state-owned electricity supplier, Eskom, is synonymous with regular loadshedding and poor reliability. Other strategies not listed included the use of solar power and standby generators.

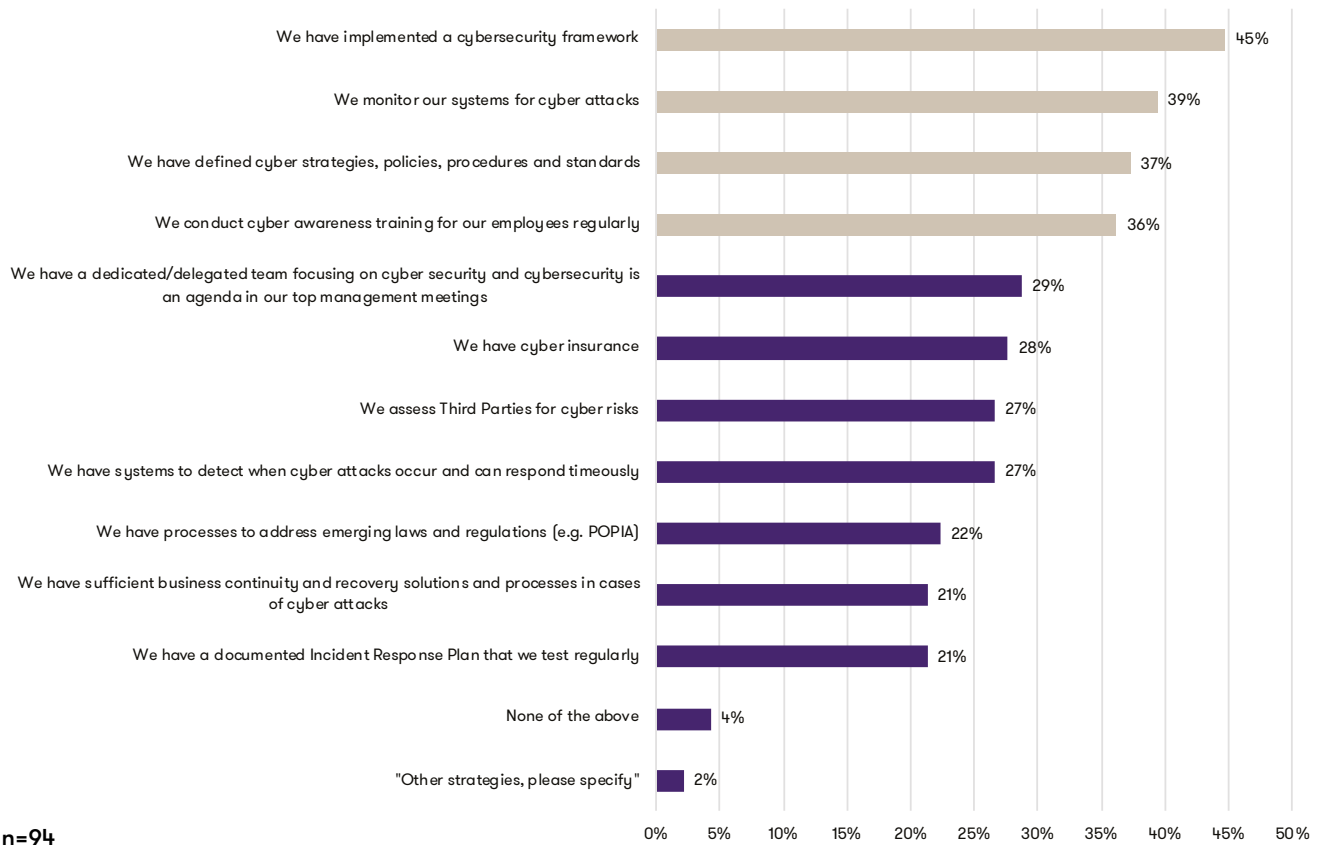


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Yugen Pillay
Head of Business Consulting

When asked “What cybersecurity strategies and processes do you have in place to mitigate against rising cyber risks?”



Due to the growing importance of cybersecurity, October is recognised as Cyber Security Awareness Month. It is observed not only in South Africa but also globally. A shockingly low percentage of the respondents surveyed implement best practice cybersecurity strategies and processes which is alarming as it is likely to make them vulnerable to cyber attacks. The survey results show that 45% of respondents have implemented a cybersecurity framework, followed closely by just monitoring their systems for cyber attacks (39%), ensuring that they have cyber strategies, policies, procedures and standards in place (37%) and conducting cyber awareness training (36%). Other strategies not listed include hiring of consultants or professional IT companies.

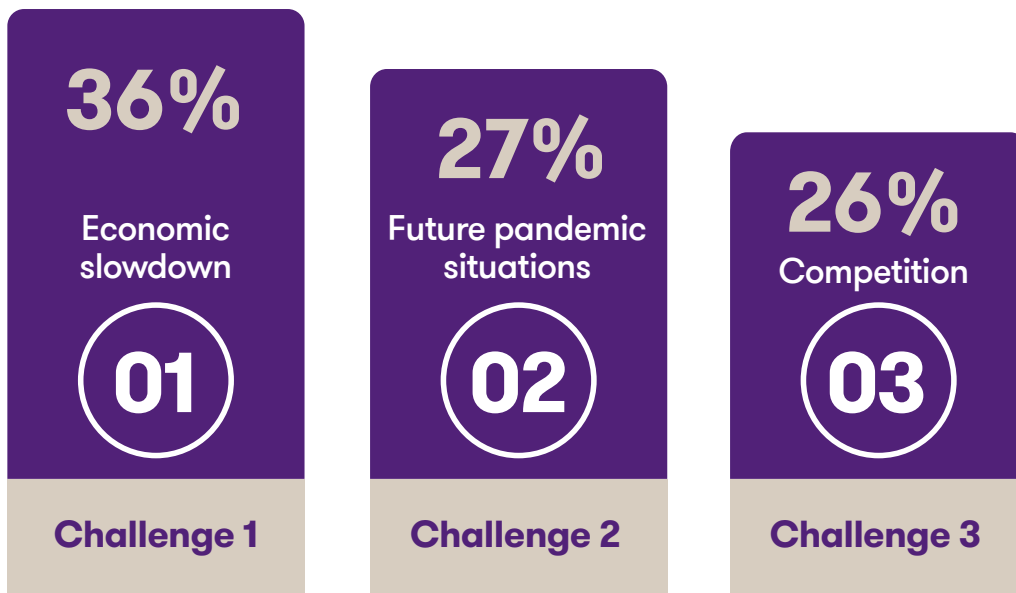
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Yugen Pillay
Head of Business Consulting



When asked “What do you anticipate being your three biggest challenges over the next year?”



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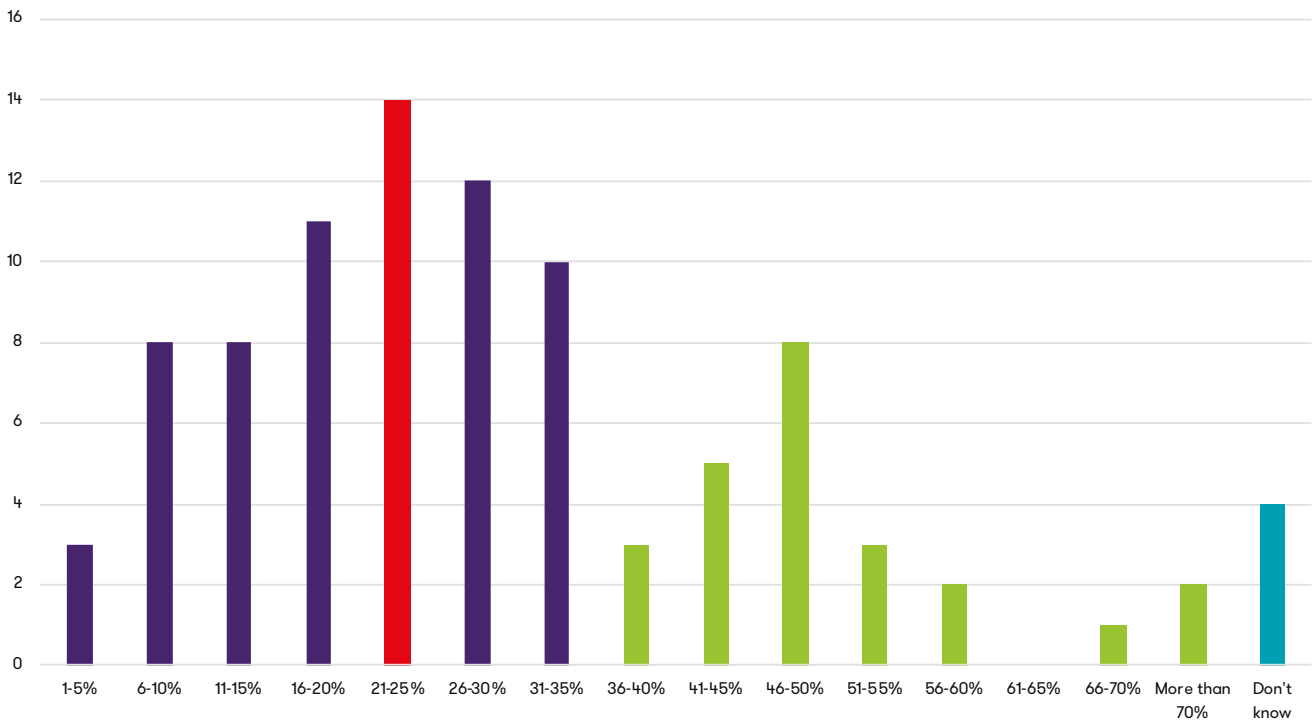


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n=94



The majority of respondents cited they spend on average 21-25% for the aforementioned. Notely, when talled, 26% of mid-market companies cite that they spend 36% or more which is somewhat disconcerting. The majority of respondents cited they spend on average 21-25% for the aforementioned. Notely, when talled, 26% of mid-market companies cite that they spend 36% or more which is somewhat disconcerting.

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Yugen Pillay
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About SNG Grant Thornton

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Proactive teams led by our approachable partners use insights and experience to understand complex issues for privately owned, publicly listed and public sector clients and help them to find solutions.

Whatever the geographic location, we apply the same insight, flexibility and relevant experience. We examine each transaction objectively and work to involve all parties to ensure you receive the highest quality advice, providing a truly distinctive client experience.

Going beyond to set the standard for quality, expertise, and innovation.



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