

# Grant Thornton's Global Research

South African mid-market survey:  
Business insights and outlook

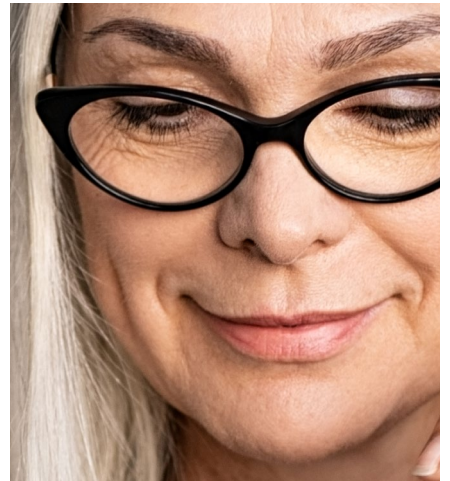
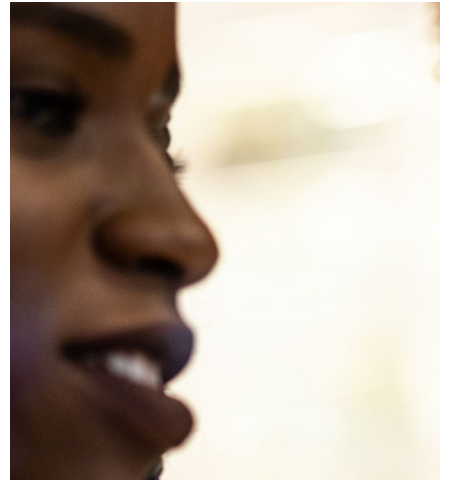
Second Half-Year (H2) Period 2021



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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. Participating companies have between 50-500 employees and target respondents are chief executive officers, managing directors, chairmen or other senior decision-makers.

# Our message to you

“Despite the ongoing Covid-19 pandemic, global economies have seen improvement over 2021. The World Bank estimates that Gross Domestic Product (GDP) grew in 2021 by 5,7% compared to the dismal -3% in 2020. Similarly, South Africa is estimated to have seen marginal gains of 4,6% from -6,4%. There has been a slight upturn in the economy, but we’re not out of the clear yet. 2022 GDP forecasts show a gloomy retraction of this to 4,4% for the world and 2,1% for South Africa.”

Similarly, according to the consumer price index for December 2021, annual inflation was 5,9%, up from 5,5% in November 2021. The consumer price index for November 2021 increased by 0,6%.

The half-term of 2021 showed a decline despite our optimistic views. Alarmingly, we saw a decrease in investment from the second half of the year. The assumption is that this negative impact is as a result of cost of products due to the rising price of crude oil and global supply chain challenges.

It is interesting to note that companies may be able to combat the squeeze on profit by raising prices. Globally, the percentage of companies expecting to raise prices in the second half of 2021 climbed by 5 percentage points, while in South Africa, the increase was just 2 points. There are some countries that have still not removed their border restrictions from South Africa, which has also resulted in increased economic and social impact, making travel for business as well as for leisure more challenging locally and globally.

According to the survey results, the number of red tape and regulations increased from -57,3 in the first half to -59,7 in the second half. Reduced barriers to competition and regulatory restrictions can reduce barriers to entrepreneurship. Lack of infrastructure improvement also hinders economic growth. Because of the increase in unemployment, the expectations for newly acquired skills have decreased as well.

By interpreting the index as a predictor - we can only be hopeful that adversity will eventually give way to recovery.

Our South African business pulse has mapped the opportunity landscape for mid-market businesses, will not only shape the future for our clients, but also transform it, by going beyond business as usual.

\* 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 one period of positivity since the onset of the impact of the Covid-19 pandemic in H1 2020. This setback was driven by a combination of optimism, conditions and investment all weakening which ultimately dragged down the outlook and overall health of the index.

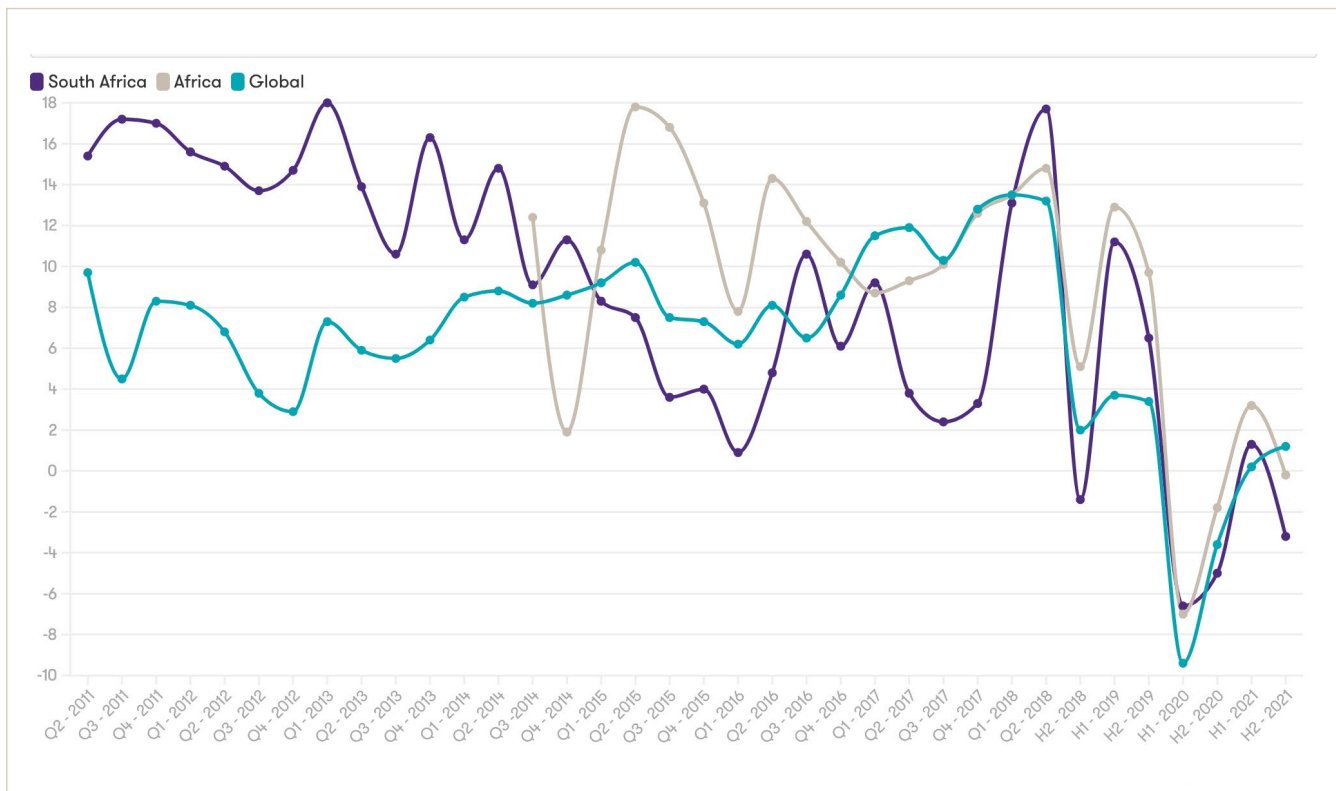
	H1 2019	H2 2019	H1 2020	H2 2020	H1 2021	H2 2021
South Africa index	+11,2	+6,5	-6,6	-5,0	+1,3	-3,2
Africa regional index	+12,9	+9,7	-7,0	-1,8	+3,2	-0,2
Global index	+3,7	+3,4	-9,4	-3,6	+0,2	+1,2

Similarly, Africa regional also fell into negative territory recording a -0,2 index score. Surprisingly though the global index showed further improvement with a score of +1,2 - signifying a prevalence of global economies inching towards recovery.

### 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.



H2 2021 SA vs regions  
2011 - 2021

# South African outlook and restrictions

Mid-market businesses did a 180 degree turn in the opposite direction showing lack in confidence and sustained barriers to growth.

### 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. Notably, optimism is low but more worryingly business conditions and investment have taken a big knock.

### Restrictions

2.3 ↓ pt change

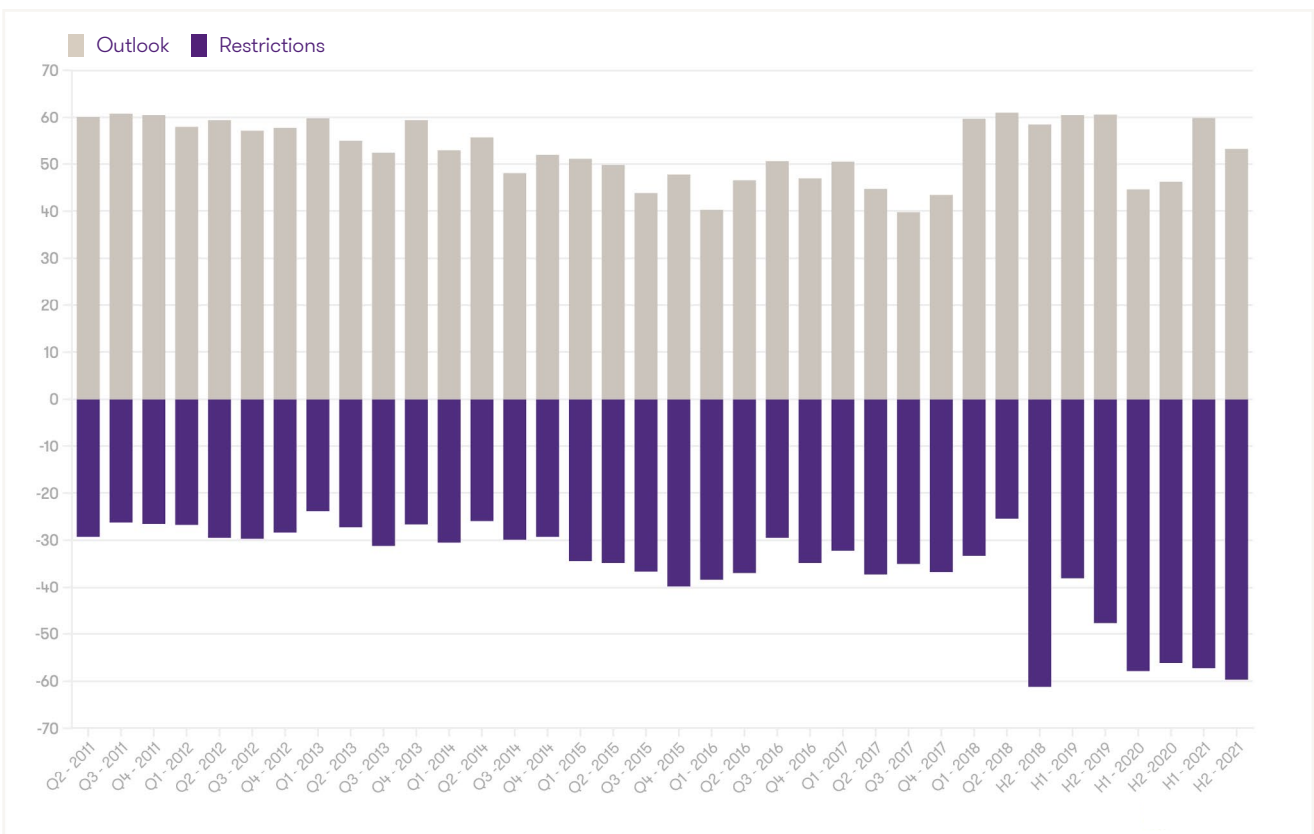


Those surveyed in the mid-market anticipate that barriers to growth continue to get worse recording a decrease of 2,3 points from -57,3 to -59,7 in H1.

### 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.



South Africa H2 2021 restrictions vs outlook 2011 - 2021

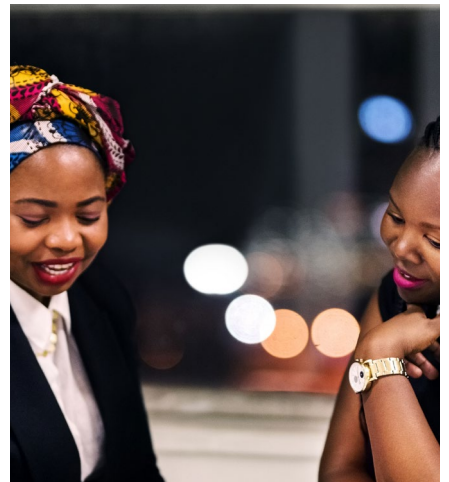
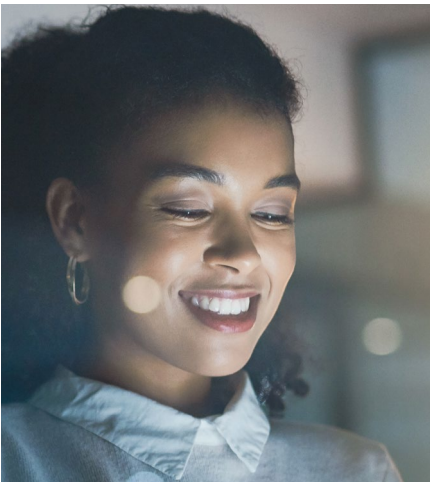
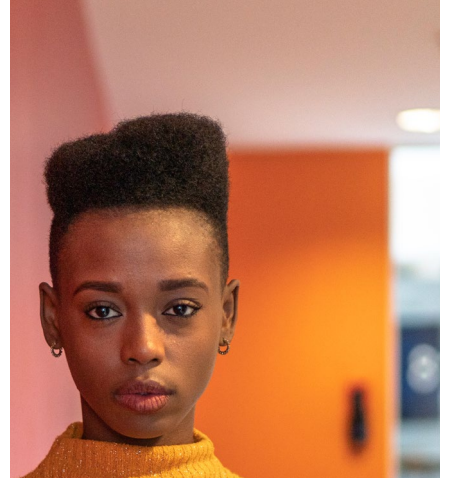
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Clearly market sentiment and confidence is highly depressed and the new wave of load shedding will do very little to improve this trend. Having said that though, this market has shown true resilience under pressing times and has learnt to cope with pretty much all that has been thrown at it. I do believe that we are on the verge of some positive news and all this market needs to boost confidence and increase momentum and a bit of respite from lockdowns and shutdowns stemming from either the pandemic or lack of service delivery be it load shedding or water interruptions etc.”

**Alex Philippou**  
Head Entrepreneurial Services









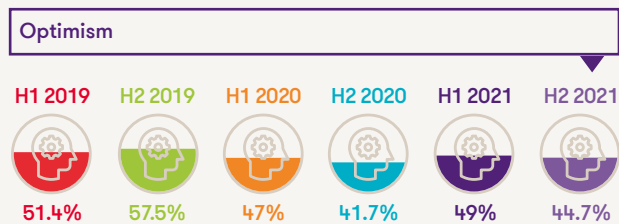
# Elements of health

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

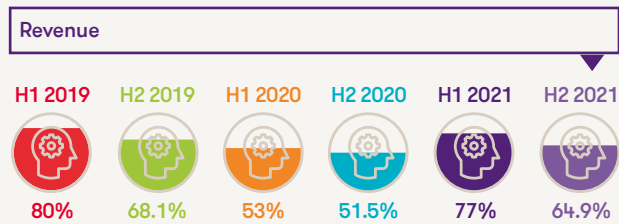
**Elements of health**  
Delves deeper into the indicators driving the outlook and restrictions.

## Key expectations:

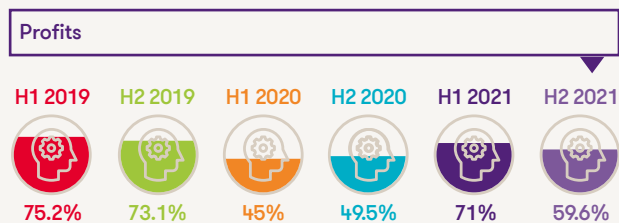
These are reported as percentage increase results as they are strongly correlated with the balance statistic. The balance statistic is the difference between the positive and negative responses.



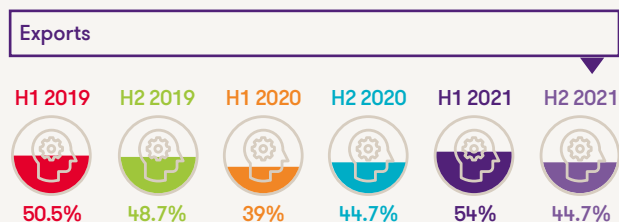
Optimism for the outlook of the country's economy over the next 12 months is down again reaching 44,7% - well below the global average of 70%.



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.



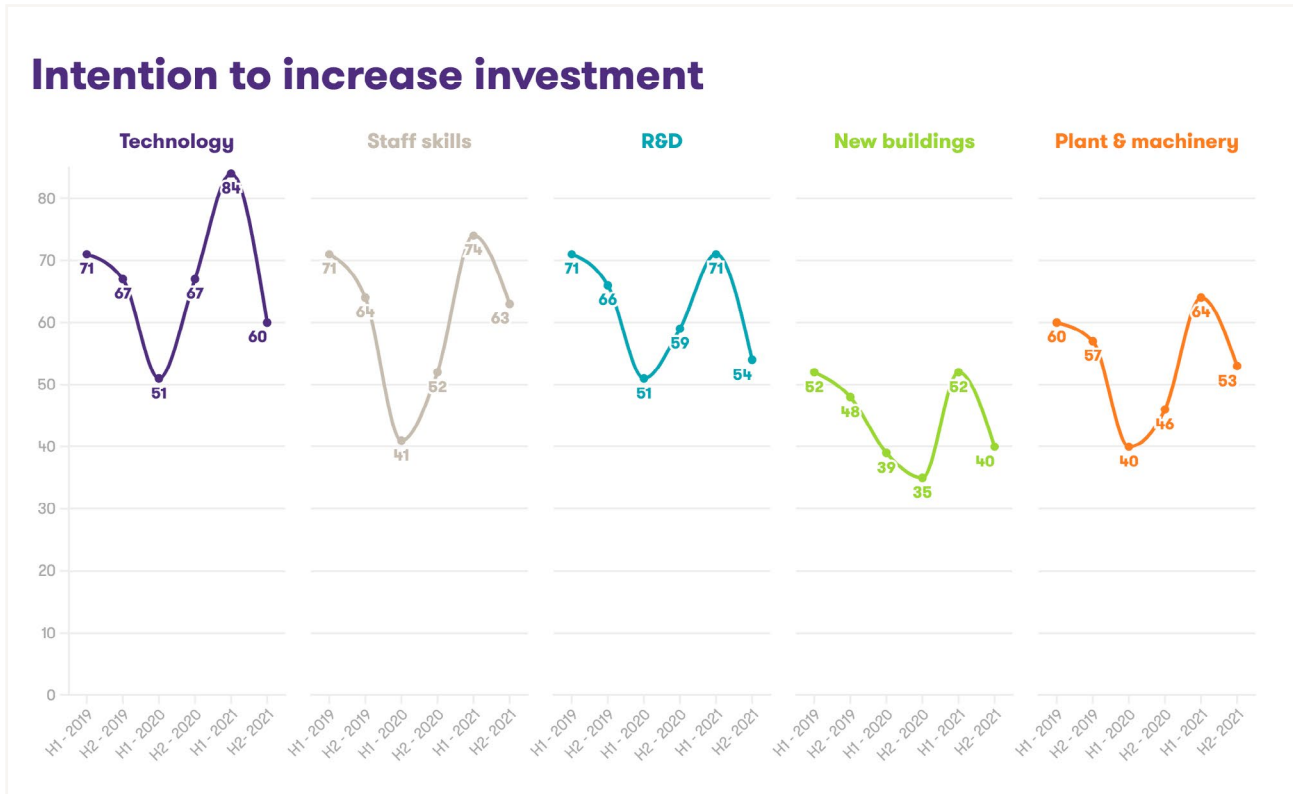
Profit expectations have plummeted greatly in the second half of 2021, from 71% to 59,6%. Though confidence remains higher than recorded in 2020, it still the lowest since the survey began.



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 showing the opposite movement required to bolster business processes and ensure recovery.



H2 2021 SA Intention to increase investment 2019 - 2021

“

In line with the declining optimism and lower expectations for both revenue and profits, we saw a decline in intentions to increase investment. This reflects the uncertainty that mid-market businesses experienced. This uncertainty was partly driven by aspects such as slowing growth at a macroeconomic level, rising inflation, and the political uncertainty related to elections.

Furthermore, various industries were negatively impacted by the advent of new Covid-19 variants that prolonged the global supply chain shortages as well as travel restrictions. The lack of investment in new buildings was particularly noticeable, reflecting a move to a hybrid way of work. Across the other investment areas, there were some green shoots particularly in financial services, oil and gas, mining and technology, media and telecoms. This reflects a belief in the long-term rebound of the economy.”

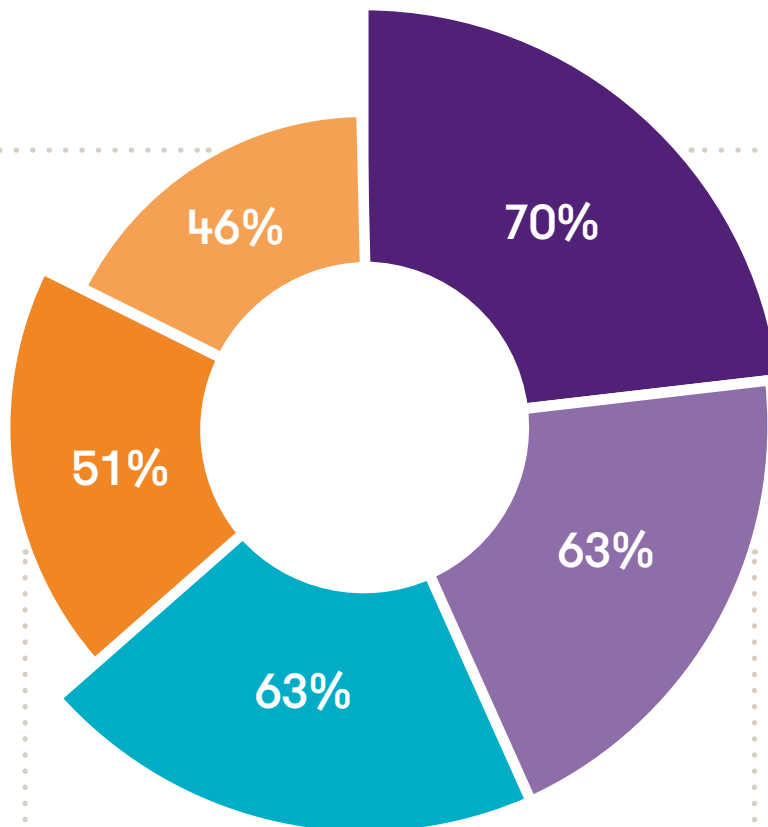
**Tebogo Mokale**  
Head of Digital and Analytics








## 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 answering 4 or 5 on a scale of 1 to 5 where 5 is a major constraint.



<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. Cost for alternative energy remain high even those the costs have decreased over time.</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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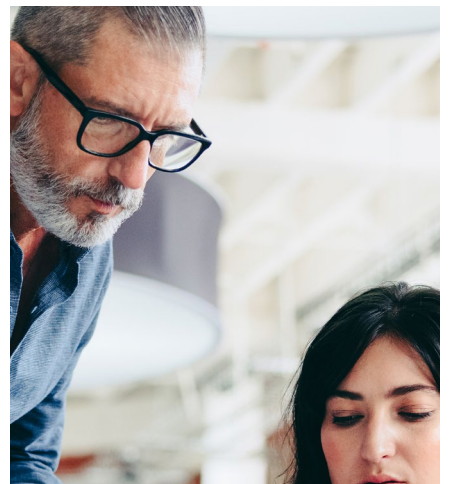
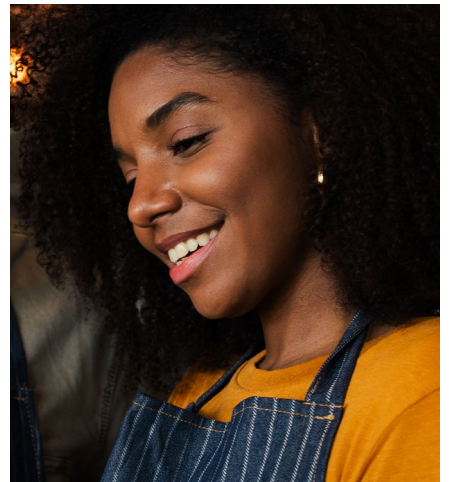
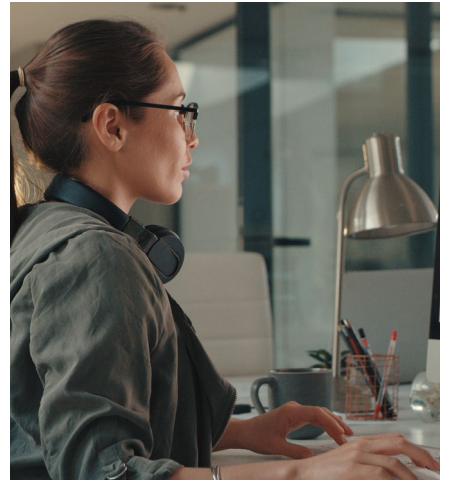


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The improvement is encouraging and demonstrating the rising confidence. The vast and rapid adoption of new tools and technologies is resulting in efficiencies. A continuation of measuring benefits achieved from investments and technology adoption will improve market confidence to avail funding”

**Maria Pretorius**  
Head of Business Risk Services

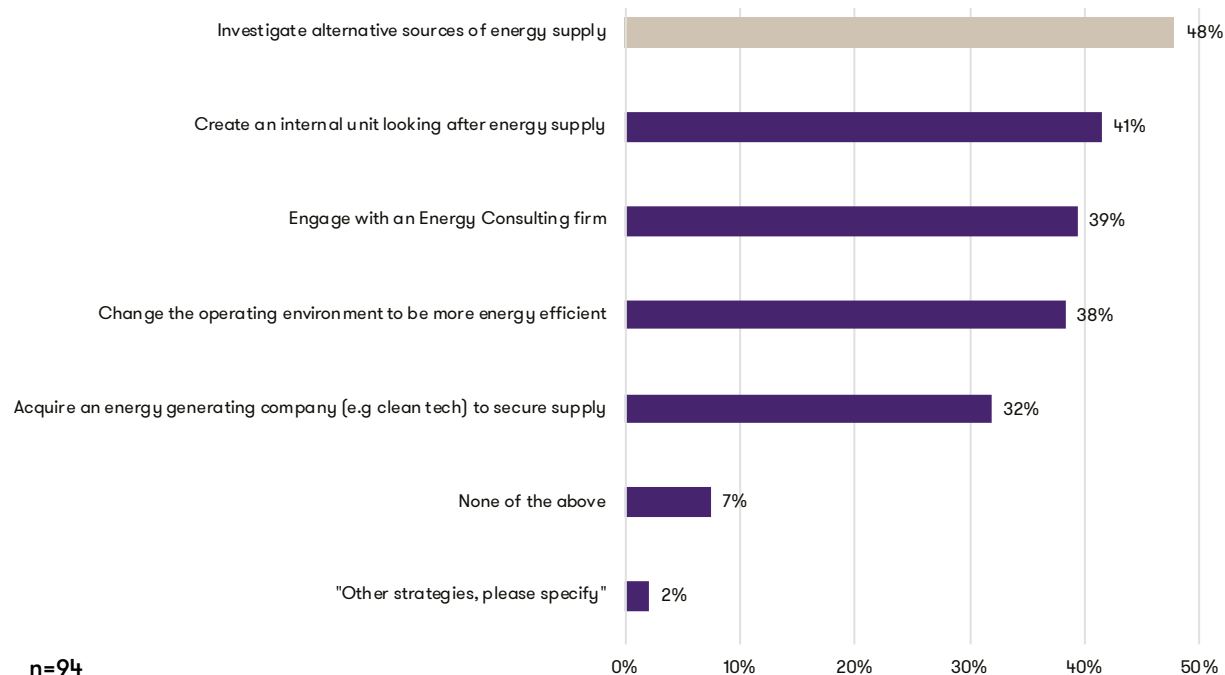




# The Journey Ahead

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.

\*n=94 (sample size)

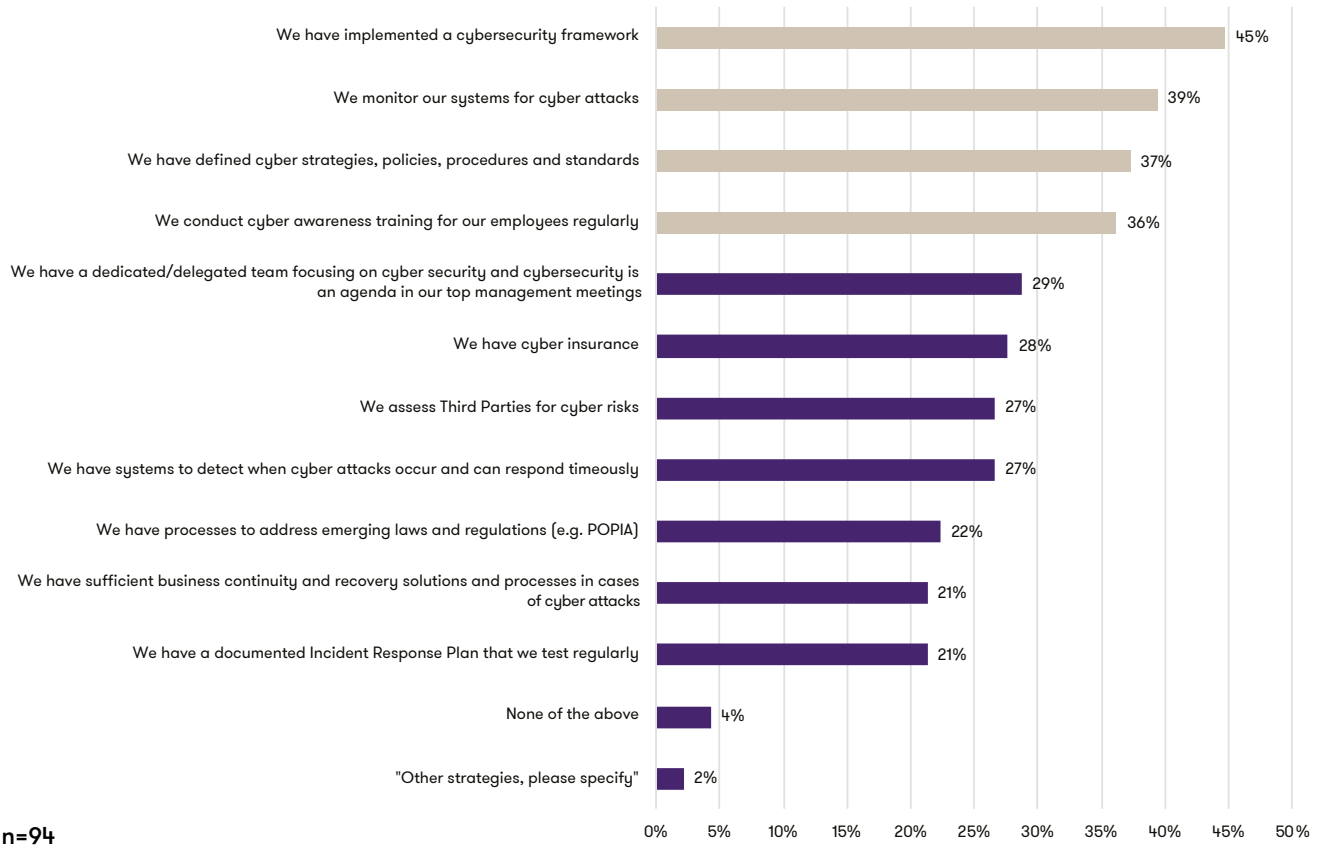


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This is an ideal time for businesses to understand how they use energy by costing the processes in their operations. Once they understand which are the significant cost drivers they can then make appropriate sustainable decisions”

**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.



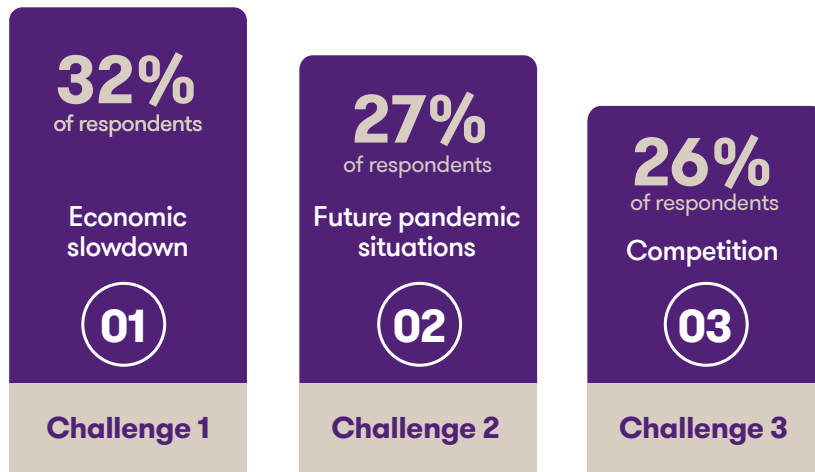
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The cost of recovery from a cyber attack or data breach and associated reputational damage to the business far exceeds the budget needed to invest in cybersecurity. Businesses need to invest in cybersecurity and implement cyber resilient strategies to adequately mitigate against cyber risk and minimise the impact of cyber attacks when they occur. They also need to implement processes to address emerging laws and regulations (e.g. POPIA).

**Kudakwashe Charandura**  
Head of Cyber advisory



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



“

It is no surprise that the struggling South African economy and prospects for growth remains. Resilience of South African mid-size business was tested to the nth degree requiring business leaders to apply agility. Some businesses survived and many have closed their shops or will do so soon.

**Oupa Mbokodo**  
Managing Director: Advisory



## When asked “What do you anticipate being your three main business priorities heading into 2022?”

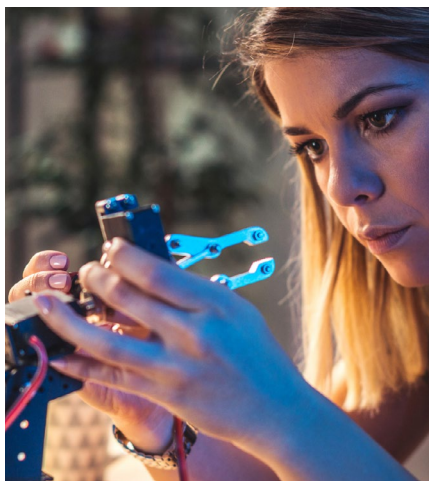
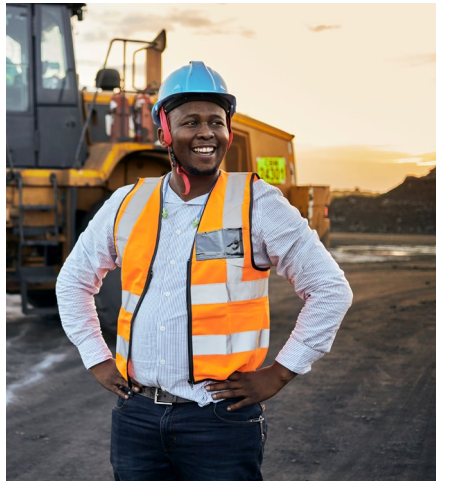
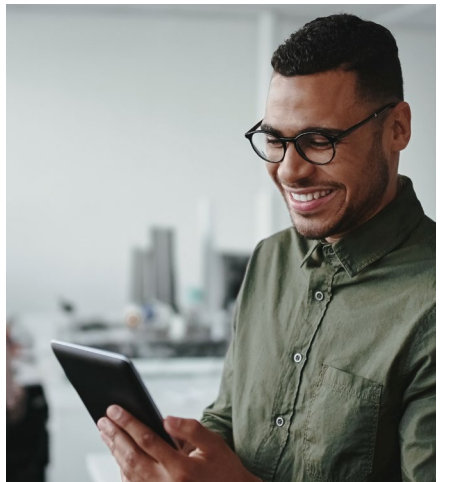


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The increasingly competitive landscape for the recruitment and retention of talented employees has significantly accelerated the war for talent over the past two years through the entrance of disruptors in the traditional hunting grounds of the talent acquisition teams. The COVID 19 pandemic provided a fertile ground for employees to intertwine their inspirational goals and aspirational goals of achieving flexible global mobility on international engagements whilst comfortably entrenched in their home countries. The key to solving the crisis lies in the timeless principles of developing and retaining highly talented people.

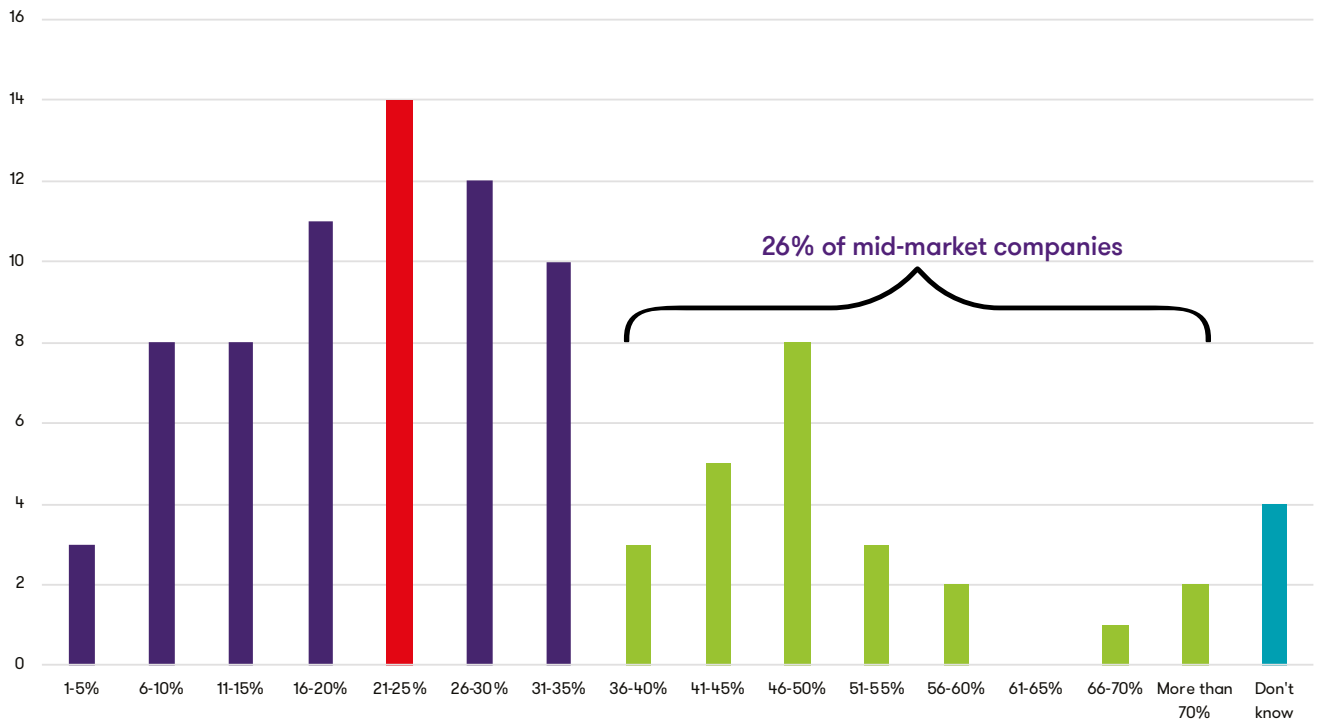
**Neridha Moodley**  
Head of People and Culture





## When asked “How much does it roughly cost for your business to comply with South African legislation including all taxes as a percentage of your revenue in an average year?”

n=94



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

“

What contributes to the cost of compliance are some of the complex provisions in the Income Tax Act in particular. One of the priorities for government is simplifying the tax legislation for ease of compliance. The proposed reduction of corporate tax rate from 28% to 27% is meant to be the first step in that direction. <sup>1</sup>There are free templates that small businesses can make use of to calculate their taxable income, capital gains tax, VAT declaration which can contribute to the reduction of the cost of compliance.

<sup>2</sup> The South African Revenue Service has made available a number of useful documents and information on their website. We encourage small businesses to make use of these free services to mitigate the high cost of compliance”

- <https://www.grantthornton.co.za/smme-growth-hub/>
- <https://www.sars.gov.za/businesses-and-employers/small-businesses/>

**Khanyisa Cingo - Ngandu**  
Head of Tax



# About SNG Grant Thornton

Let us help you Go Beyond business as usual.

SNG Grant Thornton is the South African member firm of Grant Thornton International Ltd. We have progressed expeditiously in every aspect ever since our establishment in 1985, with offices in South Africa and Eswatini.

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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# We don't predict the future. We help you shape it.

To achieve their ambitions, thousands of dynamic organisations in every industry worldwide call on our member firm's assurance, tax and advisory services.



## Audit and assurance

Our services can strengthen your business and stakeholders' confidence. You'll receive professionally verified results and insights that help you grow.

- Financial services group
- IFRS
- Audit quality and monitoring
- Global audit technology



## Tax

Our tax services help you gain trust and stay ahead, enabling you to manage your tax transparently and ethically.

- Corporate Tax
- International Tax and Transfer Pricing
- Customs and Excise Tax
- Value-Added Tax
- Tax Technology
- Global Mobility Services
- Due Diligence
- Africa Tax Desk



## Advisory

Our progressive thinkers offer services to help create, protect and transform value today, so you have opportunity to thrive tomorrow.

- Business risk services
- Business process solutions
- Business consulting
- Forensics
- Cyber advisory
- Digital & Analytics
- Corporate Finance (Transaction Advisory Services, Valuation, Recovery & Reorganisation, etc)
- Transactional Advisory Services and Valuations
- Actuarial Service

