

WHITEPAPER

The Resurgence

A year into COVID, small businesses and accountants are ready to try again – with resilience, readiness, and confidence for whatever's coming next.

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Getting back out there

Challenging times present the greatest opportunity for reinvention.

It's been over a year since COVID-19 brought the biggest disruption the world has seen in decades. The pandemic made markets aware of the fragility of supply chains, customer loyalty, and social systems – and how quickly and easily they can be disrupted.

Sage interviewed 1,947 South African small businesses – the majority of which offer accounting and bookkeeping services – to find out how they're coping in the new world of work. We were curious to know what they're doing to strengthen their defences against the next disruption, and how optimistic they are about the future – and we were pleasantly surprised.

Although small businesses and accounting practices took a significant financial blow during lockdown, almost all of them are confident that they will return to trading after the pandemic, albeit at different levels of profitability.

Significant areas of concern reported by small business decision-makers and accountants are: more COVID waves (27%); increased competition (23%); cash flow and liquidity problems (22%); reduced demand from customers (20%); and keeping remote employees engaged together with the possibility of losing talent (14%). And, although most decision-makers understand the crucial role technology plays in restarting their operations, many don't have the funding, time, or skills to commit.

It is increasingly apparent that accounting firms are experiencing higher pressures compared to pre-COVID. To meet this demand, while still protecting their margins and market share, 60%



Viresh Harduth
Vice President: Small Business
at Sage Africa & Middle East

of accounting firms increased their investment in technology and enabled work-from-home strategies, and 53% increased investment into their businesses. Despite this, they've developed the courage to continue. Small businesses in South Africa have learnt the hard lessons from COVID and are now focusing on building their resilience, capability and ability to withstand and recover from future disruptions.

The decisions that small business owners make when times are tough can help them create a competitive advantage that would be tough to beat when the markets recover. A resilient business culture, supported by the right tools, can instil the confidence that people need to face the next disruption.

In this white paper, we've provided tips on how to build resilience. However, it's important to remember that true business resilience begins in the heart, mind, and soul of you, the entrepreneur.

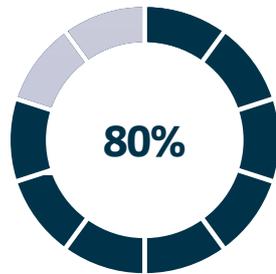
The research is clear: South African accountants and small business owners are ready to dust themselves off and keep going.

We hope you will find our findings beneficial in your resurgence journey, as you move from good to great.

The more things change, the more others stay the same

The **Sage Practice of Now 2020** research identified an industry on the brink of positive change. Completed just before the Coronavirus outbreak, key findings were that, globally, customers increasingly expect more than bookkeeping services. They also want business and strategy advice, as well as guidance on finance and accounting technologies. The caveat? They didn't want to pay extra for this consultancy.

A year later, not much has changed. Since the outbreak, accounting firms face the same challenges, only intensified:

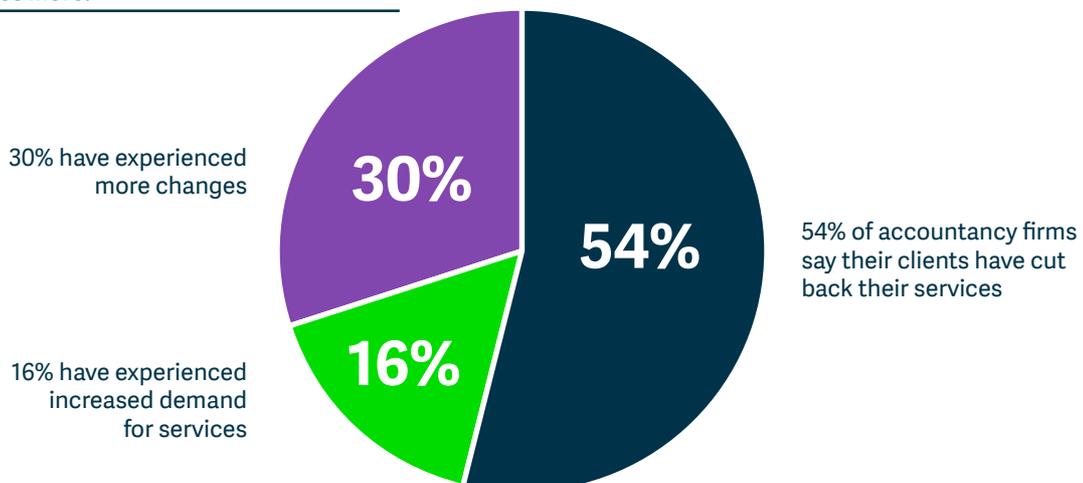


Of accounting firms are experiencing higher pressures compared to one year ago



Say clients are making increased demands as part of their accountancy services

What's more:



Accountants experienced a net decrease in demand for their services over the last year, yet they were under more pressure to:

Maintain the quality of their services during lockdown

45%

Prioritise employee motivation and wellbeing

31%

Manage greater demands from clients

29%

Keep up with new rules and regulations from COVID

27%

To meet this demand while still protecting their margins and market share, 60% of accounting firms increased their investment in technology and enabled work-from-home strategies, and 53% increased investment into their businesses.

The 17% who decreased investment in technology said it cost them in other areas, including revenue, client relationships, and the ability to operate effectively during lockdown.

Accountants are seeing similar patterns in their clients' businesses, although the level of risk in investing in technology varies significantly.

Among the business clients of accountancy firms, 46% are engaged in adopting new tech, 35% are cautious, and 13% are adverse. This apprehension impacts accountants' ability to offer the best customer service.



Down, but not out

COVID-19 took a massive toll on businesses in South Africa. On average, small businesses and accounting firms reported a 31% financial decline between March 2020 and March 2021.

Yet despite the profit knock, 96% are confident that they will return to trading once the pandemic is over. In fact, there has already been a slight recovery in profitability among the businesses we surveyed, and it seems this trend could continue.

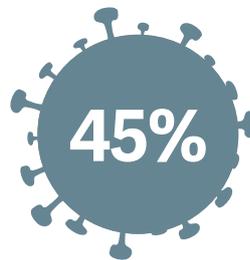
Impact of COVID on profitability:



Profitable businesses between January and March 2020



Profitable businesses between April and June 2020

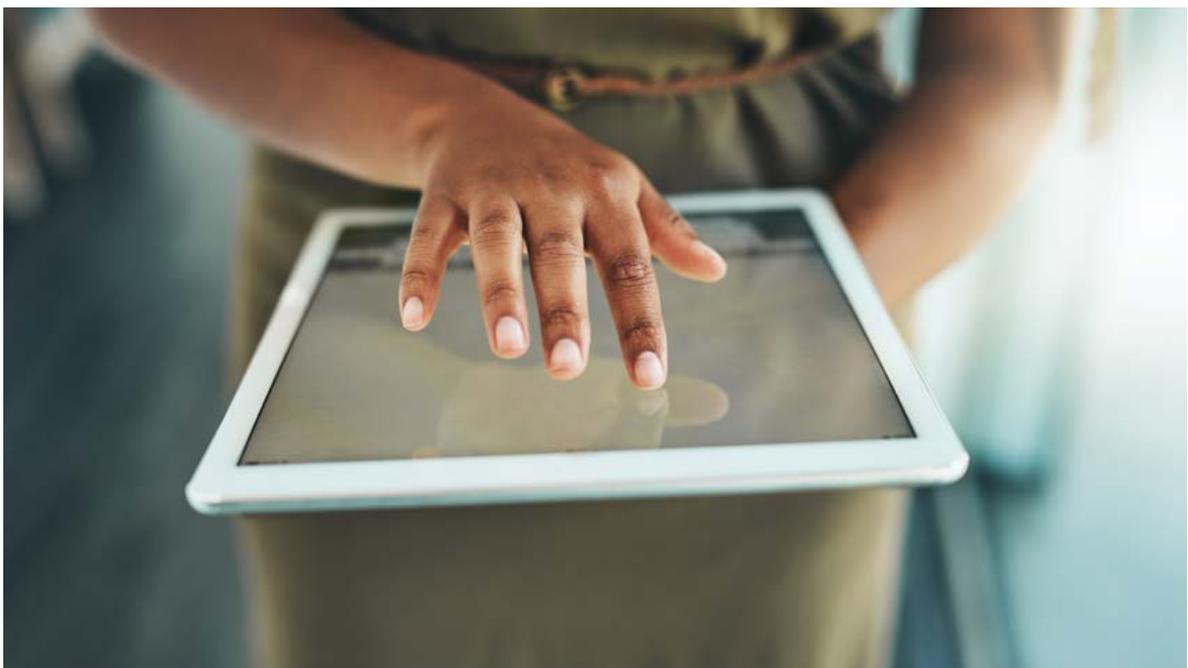


Profitable businesses between July and September 2020



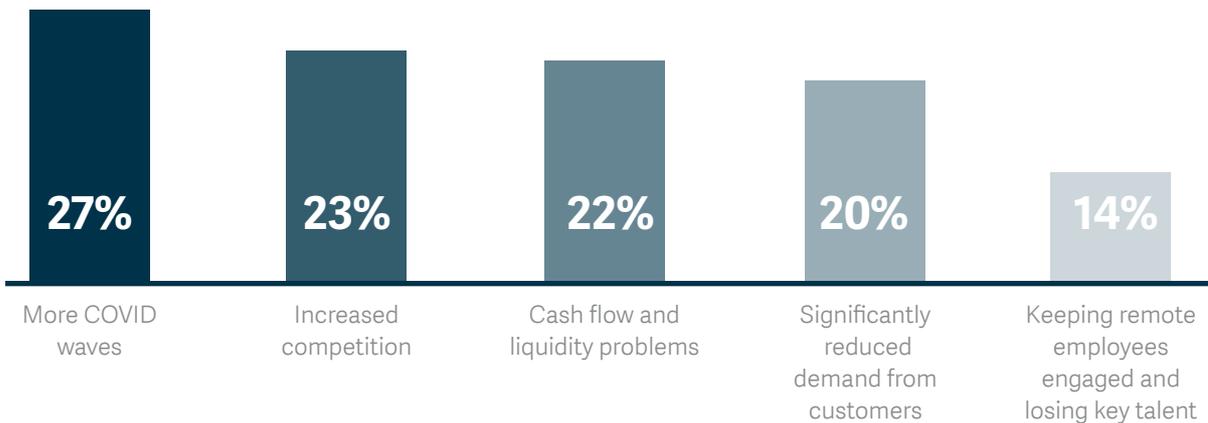
Profitable businesses between October and December 2020

Although many small businesses and accountancy firms are not confident that they can absorb another significant drop in revenue, the majority (70%) are coping as well as can be expected, and 63% say they're better prepared for the next disruption.

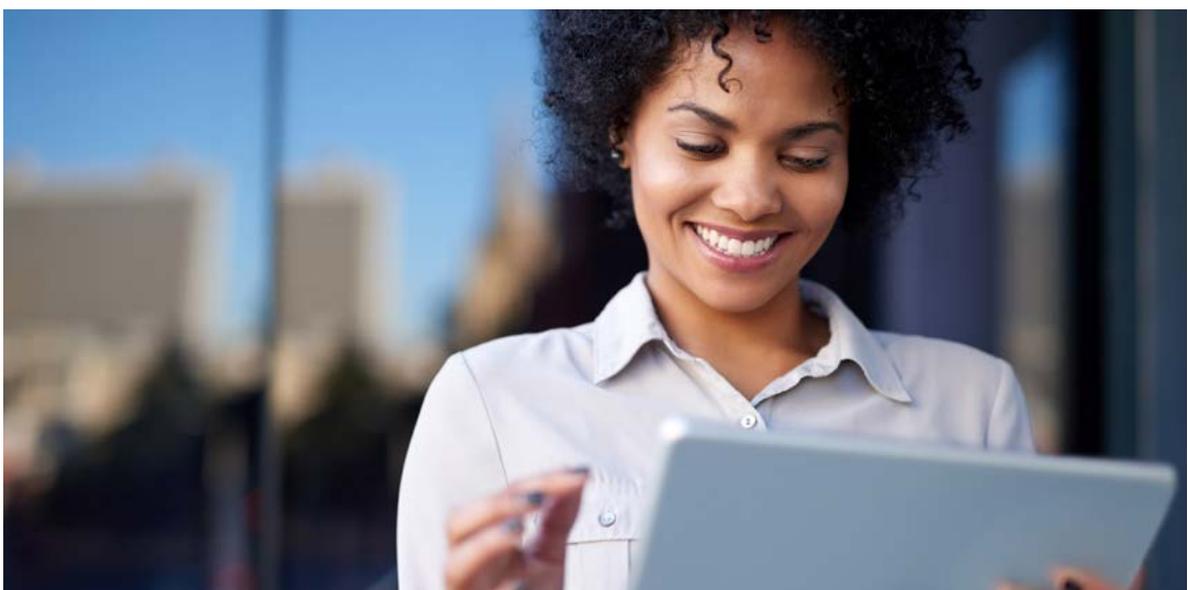
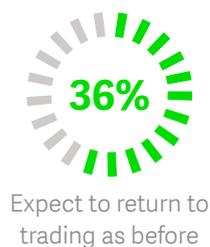


Cautiously optimistic

Few businesses were prepared for COVID, but respondents told us that they learnt valuable lessons and are optimistic about their ability to withstand future disruption. As they find their footing in the new reality, % are most concerned about:



Despite these concerns, most respondents are confident that they will continue to trade after the pandemic, albeit with mixed profitability expectations:



Building resilience: The courage to continue

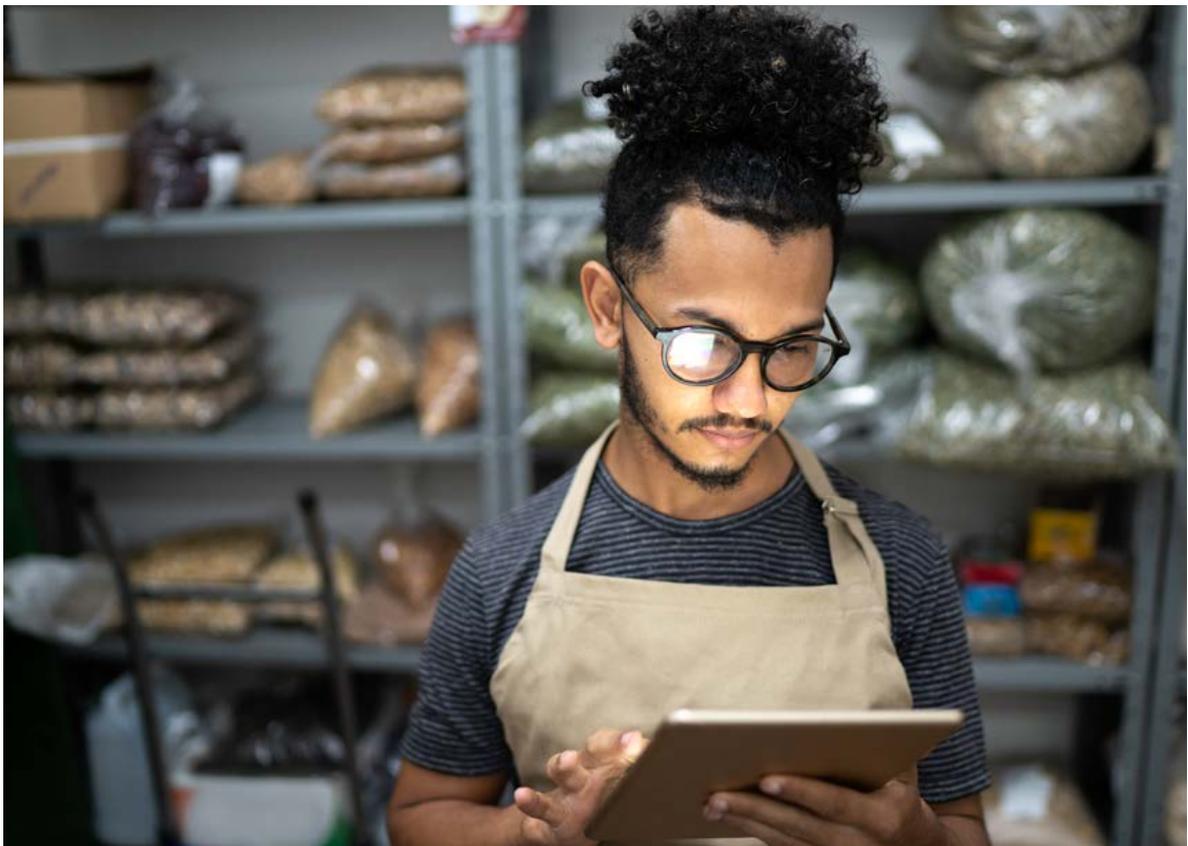
Resilience is generally accepted as a business's ability to bounce back from disruption and failure. It's the ability to absorb environmental and market stress, and even turn it into a competitive advantage where possible.

But that's only part of it.

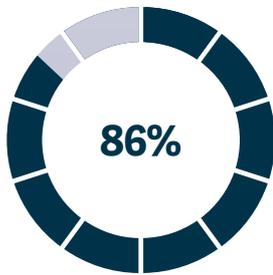
It's about accepting your new reality, even if the one before was better.

When building resilience, businesses must also strengthen the defences that allow them to better withstand knocks, as well as the systems and processes that give them the ability and agility to learn and recover quickly.

Key takeaway: To be able to operate through complexity and uncertainty, businesses and accounting practices must accept that resilience is a never-ending, iterative learning process.

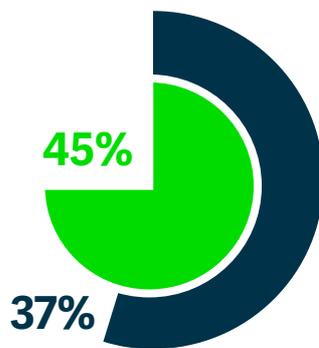


How to build resilience

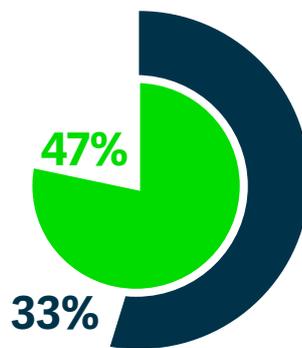


The percentage of South African businesses that are already prioritising customer relationships post-COVID, or plan to do so in the near future.

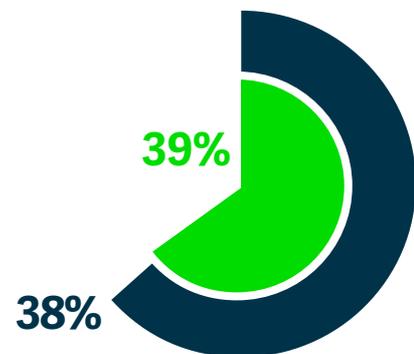
Small business decision-makers and accountants understand the importance of building resilience to prepare for future disruptions. Some are already taking action, while others have plans to enhance their resilience by:



Reducing operational costs



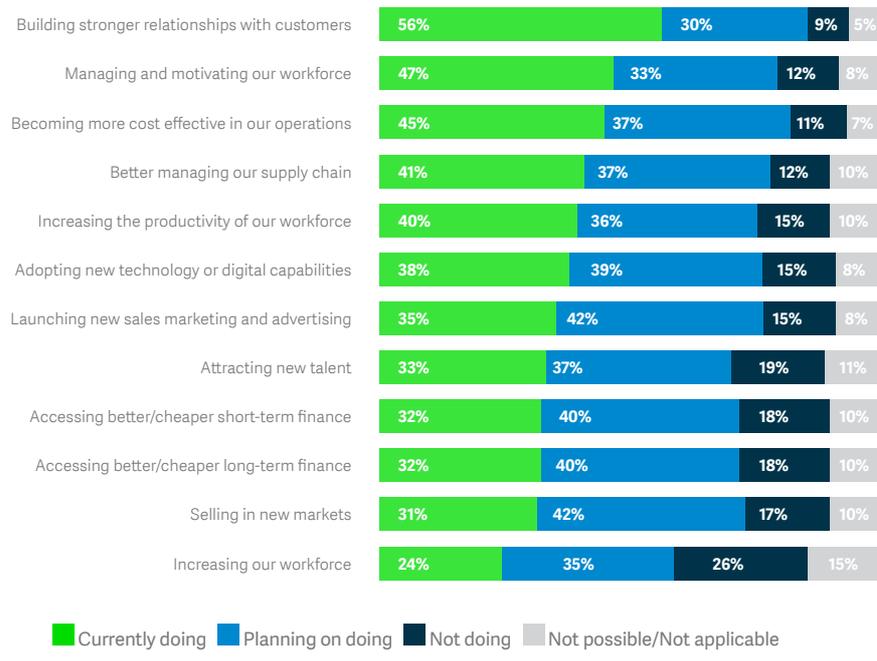
Better managing and motivating their workforces



Adopting new technology or digital capabilities

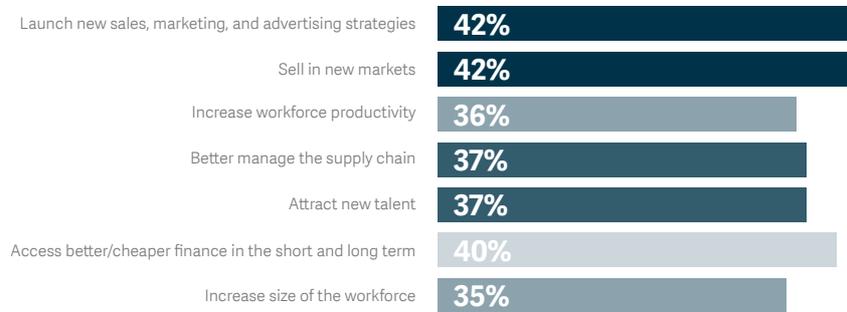
 CURRENTLY DOING  PLAN ON DOING

Although few know where or how to start, respondents have some ideas about how to build resilience.

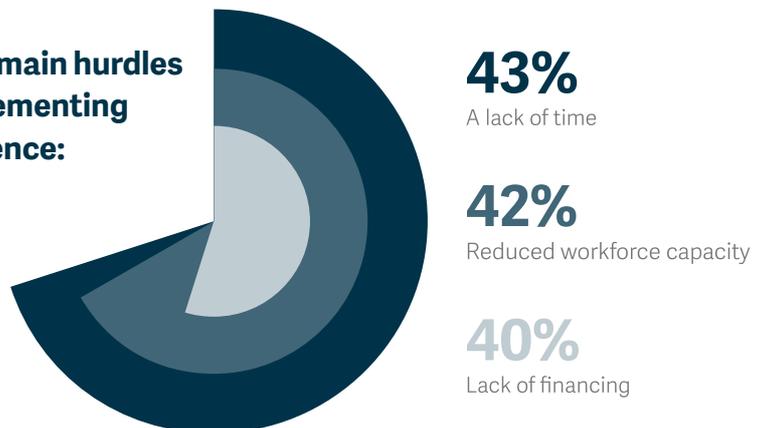


Base: 1,947 small business decision-makers

Other ways small businesses and accounting firms plan to increase their resilience:



However, there are three main hurdles stopping them from implementing change and driving resilience:



Resilience starts with people and culture



When people are empowered to use their imagination, initiative, and tenacity to solve problems and own their actions, they develop the readiness, confidence, and ability to deliver outstanding customer service in unusual or abnormal circumstances.

Resilient from the inside out

Jasper Basson, CEO of tax and accounting services firm Dryk Holdings and founder of Entrepreneur SA, says building business resilience is a long-term game, and it begins in the mind, heart, and soul of the entrepreneur.



Many entrepreneurs went through very dark places during the COVID lockdown. A lot of them wanted to give up and sell their businesses. My question to them was, 'What then? What will you do? It might be a short-term solution, but do you really want to work for someone else? This is your time to grow; to grind, dig deep, and fight for your business. Winter times are the best times to finetune our businesses, as we tend to overlook that in the summer season when everything is easy.

That means letting go of the things that no longer serve you. It means understanding that your purpose comes from your pain, and that the thing you are most afraid of doing is exactly what you need to do.

It takes a tremendous amount of stillness and reflection to not only recover from burnout or failure, but also to find your passion and to come up with ways to link it to your purpose.

You will never see better results on the outside – in your personal life or your business – than the growth that you've done on the inside. Your habits determine your reality and business results, so form good ones: journal, meditate, exercise, read, learn, be conscious about the media you consume, spend time in nature, and find a mentor who can offer both business and mindset guidance.

With the right mentors to guide you through each stage, a good amount of grit to get through the difficult times, and daily commitment to self-development, your journey will be amazing.

The tech-finance conundrum

A majority (78%) of small business decision-makers and accountants say that technology is important in their day-to-day operations, and 70% believe that technology will be crucial in restarting their businesses post-COVID.

The most common **motivations** for tech adoption among small businesses are:



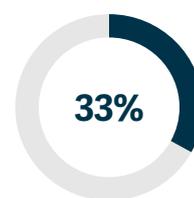
Staying competitive



Improving employee productivity



Reducing costs



Maintaining operations



Developing new products and services

And the most common **benefits** of integrating new technology are:



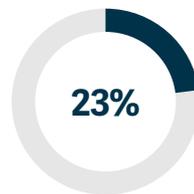
Boost productivity



Increase revenue



Improve the customer experience



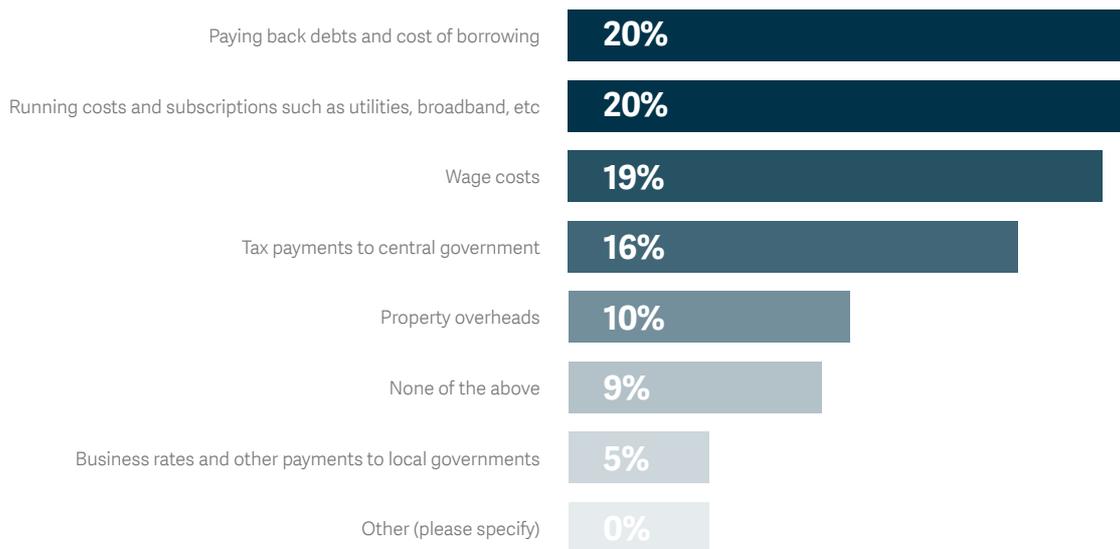
Reduce operational costs



Support remote working

Despite these benefits, 75% of small businesses are not investing as much in technology as they feel they should be, simply because they don't have the money to. A further 25% don't have the time, 22% say the return on investment from adopting new technology is unclear, and 20% are confused by the sheer amount of tools available in the market.

Plus, they have the added financial concerns of:



Base: 1,947 small business decision-makers



Money's too tight to mention

While the majority of decision-makers see the value of investing in their businesses, only 13% are currently able to invest at the right level; 41% do not currently have the finances to invest and 34% are investing, but not at the required level.

In fact, most small businesses have had to secure additional financing just to get through the pandemic.



Other sources of finance for South African small businesses include:



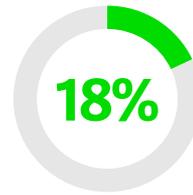
Government loans



Bank loans



Credit cards



Bank overdraft facilities

What's interesting to note is that, in a similar Sage survey of small businesses in the UK, most respondents used bank overdraft facilities and credit cards to get through COVID.

The findings suggest that South African small businesses are more self-sufficient, and therefore more resilient, than their international counterparts, a trait that's becoming crucial in an increasingly dynamic and unpredictable business environment.

“ There are other, non-traditional ways of getting funding, such as through the Skills Development Levy and tax rebates for employing apprentices. The rebates offered through these programmes can be substantial, but few small businesses know about these incentives to unlock funding at the back end of the tax process. ”

Jon Baldo, Chief Executive Officer, Bluespan

5 signs of a resilient business – and how to build one

Resilient businesses take ownership of their finance, technology, and processes, and excel in five key areas:

1. They are organised

Resilient businesses have mostly eliminated spreadsheets, paperwork, and manual processes, which are inefficient and error-prone. They use business management and accounting solutions with advanced automation functionality to accurately extract and categorise data, for a better understanding of their operations and profitability.

Decision-makers in resilient businesses spend little time on administrative tasks, including storing receipts, transferring data, and matching bank transactions. With an up-to-date view of their finances and all their records organised in one place, small business owners have more time to work on their businesses, rather than *in* them.



We work with consultants in accounting, HR, labour, and business coaching. Being able to call on a professional when you're stuck is crucial – it's important to have that back-up and support in business. Outsource anything that you're either not good at or don't enjoy doing, or that's stopping you from pursuing opportunities. Oh, and have a good accounting system.

Charlene Shapiro, Founder, CNC Products



2. They have a healthy cash flow

Cash flow is the lifeblood of every small business, but research shows that small businesses lose an average of 15 days a year to admin – mostly following up on the 45% of invoices that aren't paid within 30 days. Visibility into cash flow is key. Knowing who has been invoiced, when they were invoiced, and when payment is due puts businesses in control of their cash flow. Chasing payments takes up time that could be spent growing and improving the business.

Resilient businesses avoid the awkward money conversations by using comprehensive invoicing and payment solutions that make it easy to send, track, and settle invoices, while automatic bank feeds and reconciliations make the entire accounting process more efficient.



Every business needs an accounting system that gives them visibility into four critical areas: accounts receivable, accounts payable, inventory levels, and bank balance. As a business owner, these are the numbers you need to check almost every day. There should always be enough money coming into the business to ensure you never go over your credit limit and that you can pay your service providers on time.

Jasper Basson, Chief Executive Officer, Dryk Holdings



3. They have visibility across business operations

It's one thing having access to all your financial information in one place, quite another to interpret what it means. Choose a financial management solution that supports customisable dashboarding, so that you decide what information to put front and centre and what KPIs to focus on, while still having the ability to drill-down from the dashboard for an in-depth analysis of the numbers.

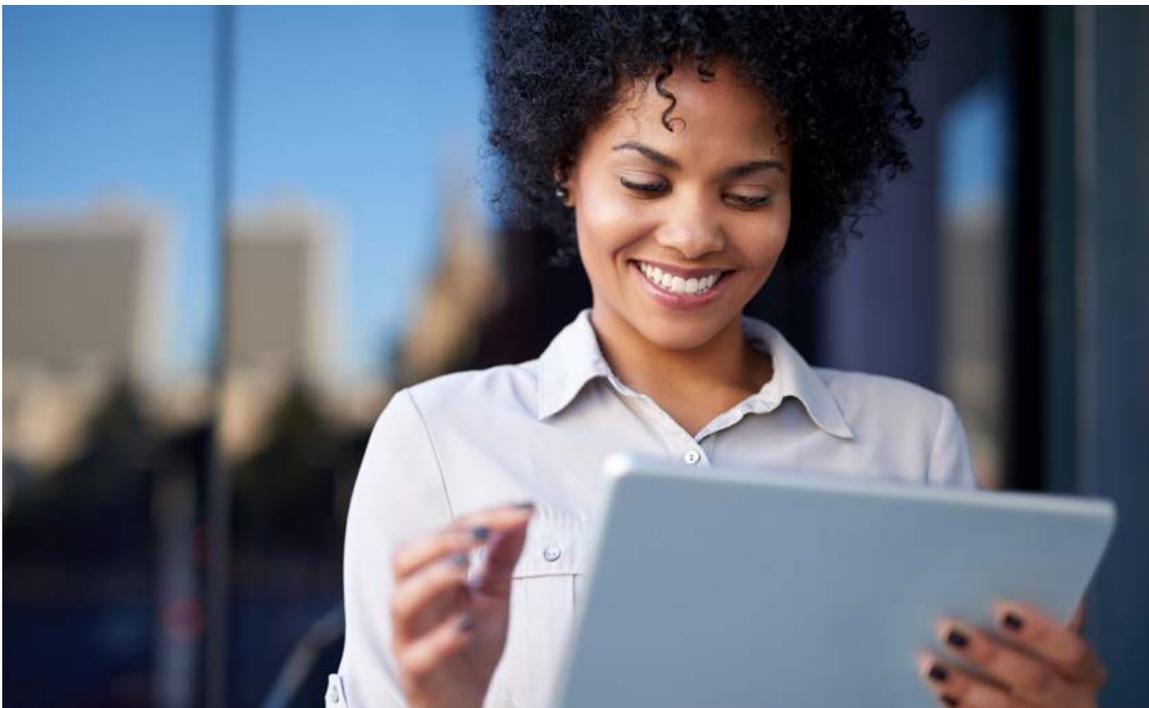
With a visual and interactive snapshot of the business on one screen, decision-makers know exactly where they stand and are empowered to take control of key decisions, confident that they're based on accurate, real-time information. What's more, businesses can also easily keep track of cash flow and quickly generate customised reports in minutes.



4. They are on top of tax and compliance

Tax and compliance can be a complicated and intimidating topic for small businesses. It's critical to understand your tax obligations from the outset, and to have some knowledge about the types of expenses you can claim. Unless you're a specialist practitioner, tax can quickly become too complex for small business decision-makers to handle alone.

An accountant can ensure that you're paying the right amount of tax and that your business complies with an increasingly complex compliance and legislative environment. Having all your financial information in one system makes this process a lot faster and hassle-free, since your accountant can generate, validate, and submit compliant VAT returns at the click of a button. It also eliminates the monthly or quarterly headache of working through receipts, invoices, and bank statements, and potentially missing something you could have claimed for. And, with a live estimate of how much tax you'll need to pay, you can confidently make the right cash flow decisions.



My top money tip for anyone starting a business is to open a separate bank account to stash your tax money. Put 20%-30% of every invoice into a high-interest savings account and forget about it. Come tax return time, you'll have enough to cover what you owe – and there's usually some left over to treat yourself or reinvest in your business or personal development.

Tarryn Giebelmann, Director, Oh My Word Consulting



5. They look after their people by always paying them the right amount, on time

The moment you employ people, you become responsible for their livelihoods. It's crucial that businesses are accurate, fair, and transparent when it comes to managing and paying people, and that they always pay their employees the right amount, on time.

Payroll adds a layer of complexity to business management and it's important that no errors – in amounts or personal information – creep into this process. Resilient businesses automate as much of the payroll process as possible, using preconfigured workflows and pre-set templates and relying on prompts and reminders when compliance tasks are due.



Why build your business in the cloud?

Preparation is the cornerstone of business resilience.

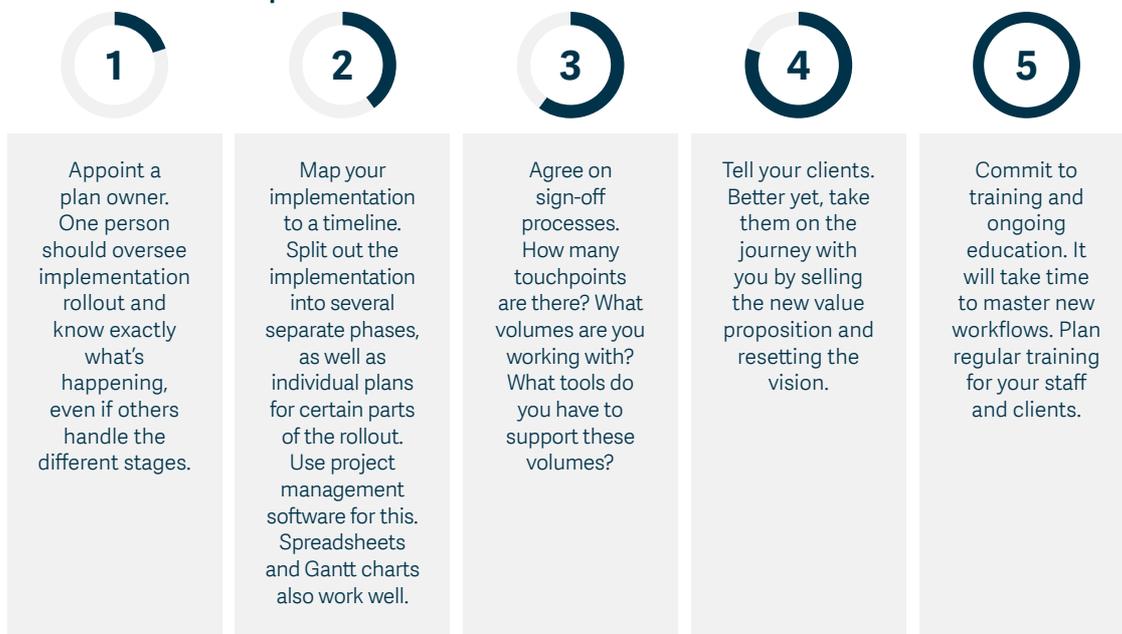
Cloud-based financial and business management software gives you an instant advantage through easier access to data, improved collaboration between remote, globally dispersed teams, and deep financial insights – available in real-time, on any mobile device.

With a customised ecosystem of tools, services, and third-party functionality, the cloud makes it easy to differentiate your business. It offers a holistic view of your financial and operational performance and creates unparalleled opportunities to better serve your customers.

5 steps to successful cloud implementation

Migrating to the cloud is not as simple as switching software packages. This is an opportunity to refine and improve virtually all processes within your business, so it pays to have a strategic plan.

Start with these five steps:



Making your business cloud-native from the start immediately sets you up for scale and success and makes it easier to adapt to changing conditions, with minimal disruption to your operations and productivity.

About the research

We surveyed 1,947 South African small business decision-makers (owners and senior managers) at businesses employing fewer than 50 people. The sample included 262 accounting firms. The online research was conducted between 12 and 17 March 2021, and carried out using a quantitative survey method.



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