

Gauteng challenges Silicon Cape as SA's startup capital

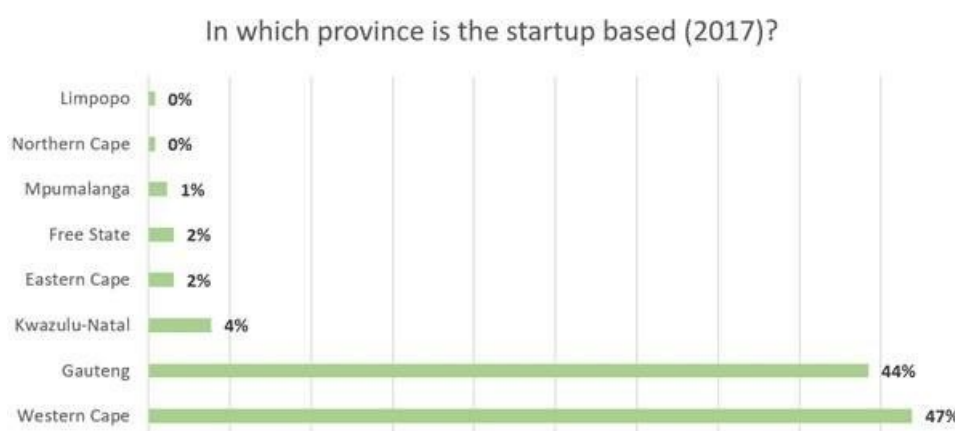
According to the 2017 Ventureburn Tech Startup Survey, while the Western Cape remains the most popular region in South Africa in which to run a tech startup, Gauteng is gaining ground. 44% of the 260 founders surveyed said they operated in Gauteng, only slightly behind on the Western Cape's 47%.



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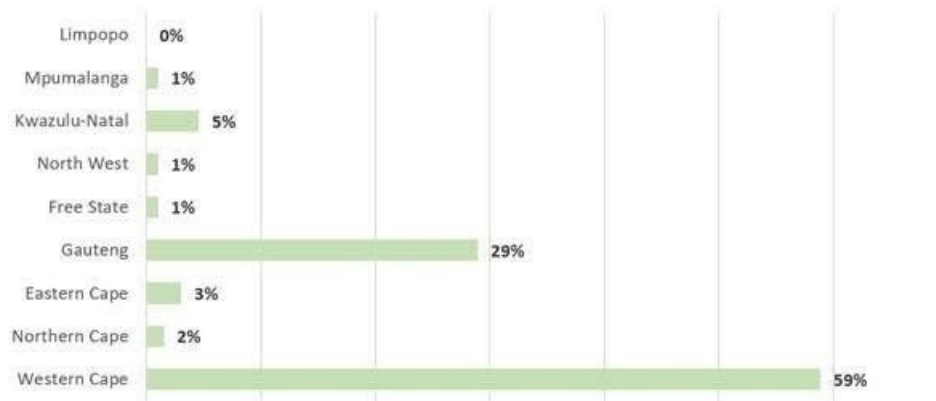
Among its other key findings, the survey, sponsored by Telkom Futuremakers, uncovered that:

- The percentage of black startups has risen from 26% in 2015, to 50% this year.
- Just 3% of black tech startups turn a profit, versus 16% of their white counterparts.
- Over a quarter of startups plan to raise angel or VC funding, but only 8% receive such funding.
- Almost a third say they pay market-related salaries, but pay is the top reason for employees leaving.
- Successful startup founders are most often white males from the Western Cape.



The percentage is up from 29% in a 2015 Ventureburn survey of 197 founders (see below graph) and is just behind the 47% who reported in the latest survey that they operate in the Western Cape (59% in 2015).

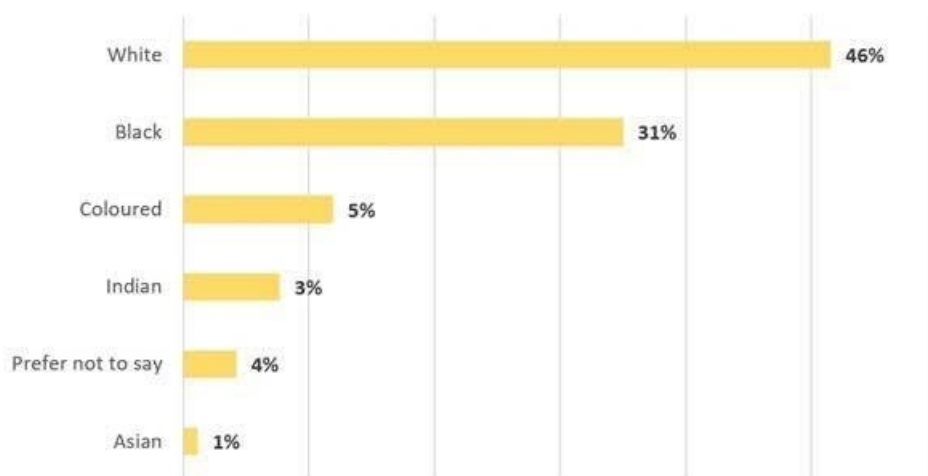
In which startup is the startup based (2015)?



The rise in Gauteng tech startups appears to be driven by the increasing number of tech entrepreneurs who are black (black African, coloured, Indian or Chinese South African) - and who now make up half (50%) of the country's tech startup founders, up from 26% in the 2015 survey.

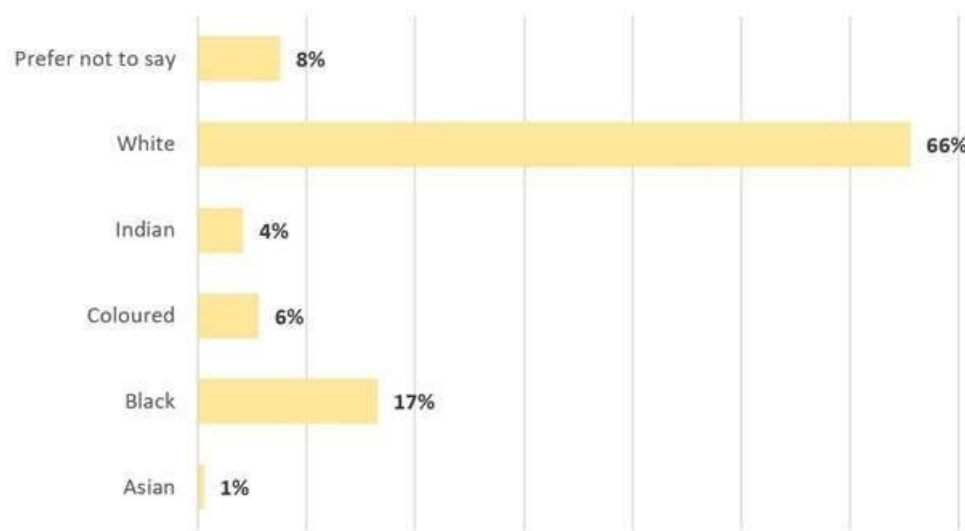
In addition, the majority of black startups (53%) list Gauteng as their base, with 42% saying the Western Cape is their home.

Race of founders (2017)



Of the 260 founders quizzed in the latest survey, 46% list themselves as white, down from 66% in 2015 (see above and below graphs). 4% chose not to reveal their race (8% in 2015).

Race of founders (2015)



The survey also reveals that while South Africa may have seen an explosion in venture capital (VC) deals of recent - with the value of such deals having increased by 134% in 2016 over 2015 (see [this story](#)) - just 10% of tech startups are turning a profit. This is down from 17% in 2015.

Black startups struggling

Black tech startups in particular are struggling. While 16% of startups founded by white entrepreneurs are turning a profit, a mere 4% of black-owned tech startups are doing the same.

Most worrying is that 61% of black startups have yet to generate an income - because they are still working on their concept or are still in the seed stage - compared to 30% of white startups.

Furthermore, just 9% of black-owned startups (and 4% of black African startups) generate a revenue of above R1m - compared to 29% of their white counterparts. Three quarters (75%) of black startups generate under R100,000 (and 78% of black African startups).

In all, white startups accounted for 59% of all those startups that reported having tapped angel funding, while 24% of white startups reported having raised R1m or more to fund their businesses, compared to just 8% of black startups (and 2.5% of black African founders).

It suggests better resourced white startup founders who often have access to more capital, skills and experience and better networks are able to out-perform black startups.

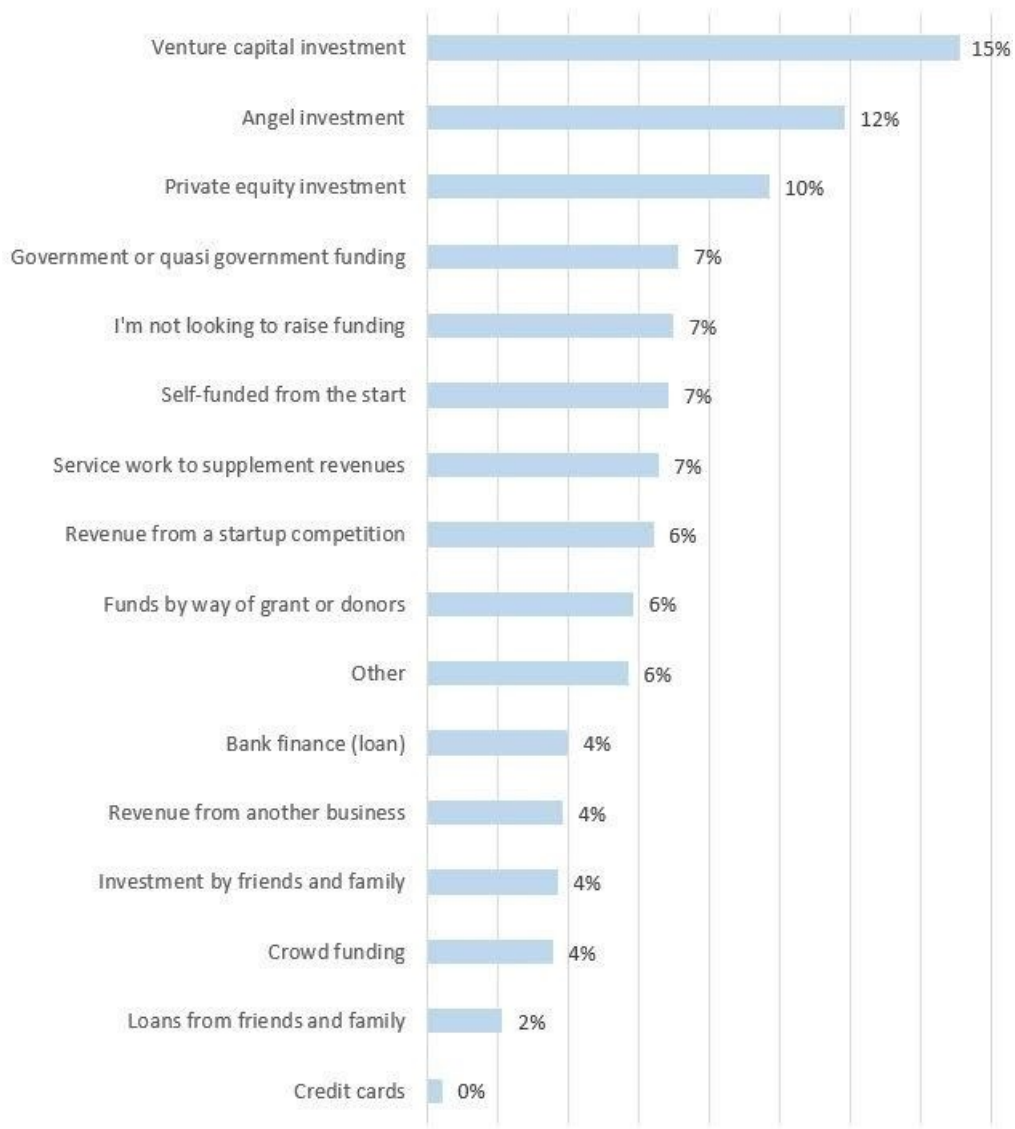
The survey also reveals that white startup founders are significantly older than black founders. Over a quarter (26%) of white founders are 40 years or older, compared to just 13% of black founders. Almost three quarters of black founders are aged 35 and younger, compared to 62% of white founders located in this age band. This raises various questions as to what is driving more middle-aged white founders to start up their own business and whether employment equity is behind this or not.

In addition, it might also explain why so few black startups are making a profit compared to white startups. Older founders are usually more experienced, better networked and have more capital than younger entrepreneurs.

Out of touch in getting angel, VC funding

But back to angel and VC funding, where it seems startup founders are out of touch with reality.

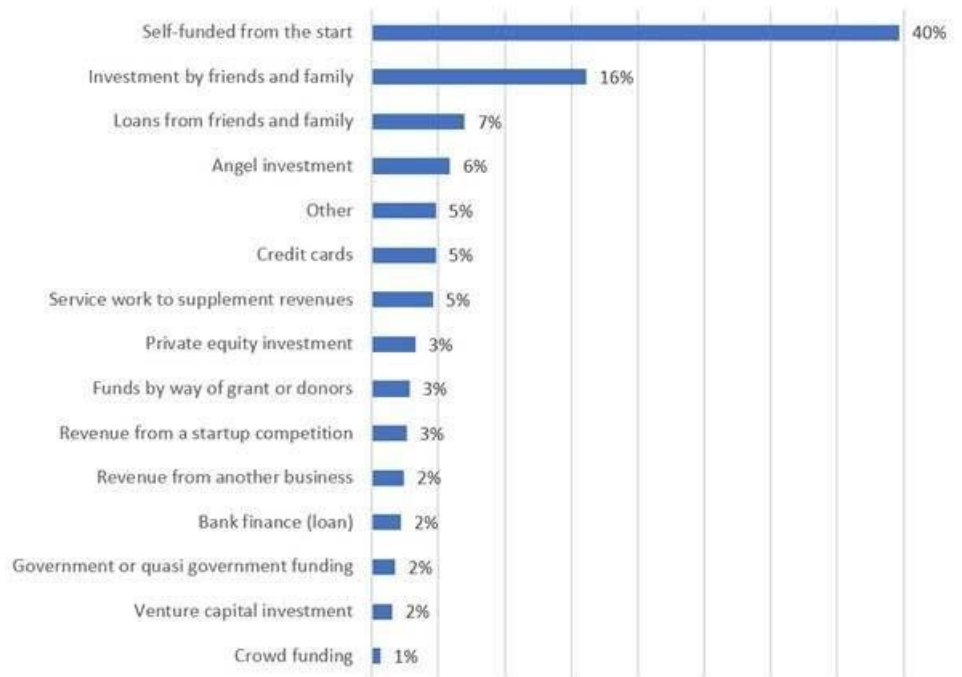
How will you raise the funds?



Over a quarter (27%) of all SA tech startup founders believe they will grow their business by securing VC or funding from angel investors - yet only about 8% report ever having been able to secure such funding, a new survey reveals (see the below graphs).

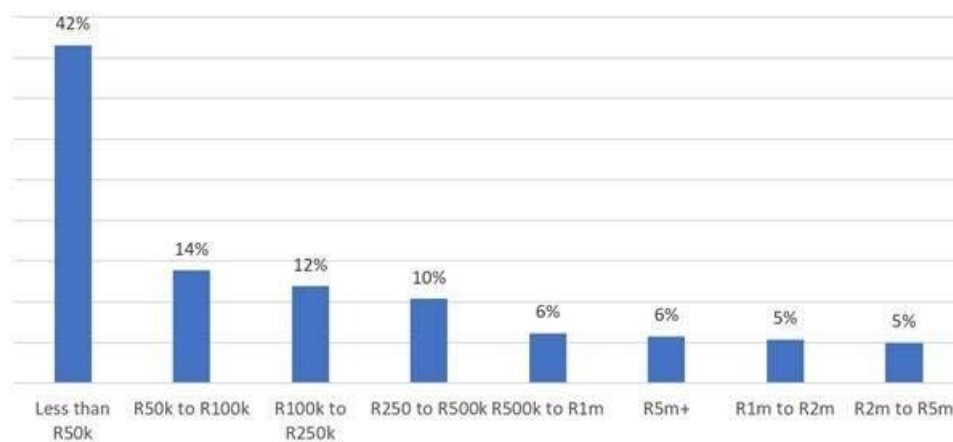
In a further hint that startup founders need a reality check, just 9% of those looking for angel investing and just 20% seeking VC funding have firms that are growing or turning a profit. The majority of SA tech startups use their own cash to fund the business (40%), followed by loans and grants from friends and family (23%).

How did the startup first access funds?



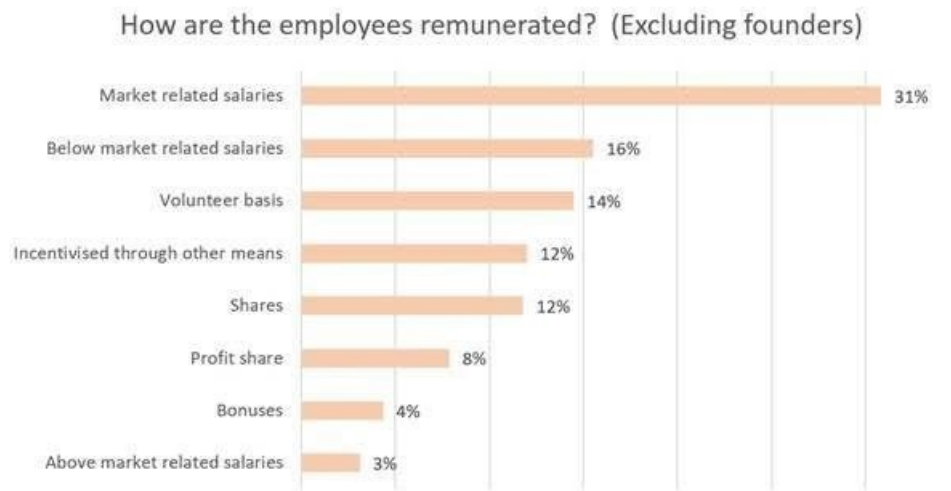
When they are able to get funding, most startups tap very little. In all, 42% of startups reported getting less than R50,000. Only 16% received R1m or more (the value at which angel investors and VC funding usually starts at). The remainder (42%) received between R50,000 and R1m.

How much funding has the startup received in total?



Findings from the survey also put into question whether South African tech startup founders really pay employees as well as they claim to. Close to one third (31%) that took part in the survey claim they pay their employees market-related salaries.

Yet the same founders list remuneration as the top reason for employees leaving their employ – 21% of founders list remuneration as the top reason employees leave.



This raises the question of whether startups are really in touch with market-related salaries or whether a good number of fibbing - particularly as 63% of founders surveyed said their startup generated less than R100,000 a year.

White founders in the Western Cape most successful

While just 10% of startups report making a profit, in all, 27% of startups can be termed "successful", in that they are generating a profit or are growing. While 27% of startups run by men say they are successful, just 18% of startups run by women can say the same.

More white founders report being successful, with about two thirds of startups who say they are successful being white-owned firms. Taken by race group, 36% of white founders report being successful, compared to just 13% of black startups (and just 10% of black-African founders).

About 32% of startup founders in the Western Cape say they are successful - compared to 22% who are in Gauteng who list themselves as successful.

Most are over the age of 40 or between 30 and 35 years old (36% of startup founders in these age groups say they are successful) and run a fintech or insurtech or a startup in the advertising and media business.

Those with a business partner and who have a startup that is already over two years old, employing more than 10 people are also more likely to report being successful. B2B startups – those that service other businesses (rather than consumers) and that tap the North American or European market.

Founders with experience

Data from the survey reveals that 33% of founders who have run one or more startups previously report being successful with their current business - not overly different from the 30% who have never run a business before and say they are successful. However there appears to be some correlation with the number of startups a founder has run as a predictor of success. Though startup founders were not quizzed on whether their past firms had been a success, 50% of those who have run five or more startups report that they are successful with their current firm - compared to 29% of those that have run one to four startups before.

It may suggest that as the country's tech startup ecosystem matures, the level of those reporting success is likely to increase. More critical however, will be to close the gap between less successful black tech startups and their white counterparts.

**Note on the methodology the survey used: In all there were 298 respondents to the survey which was conducted using an online questionnaire, by data analytics firm Qurio. Of this number, 38 respondents were found to be employees of*

startups (rather than founders) and were excluded. The survey therefore sampled 260 startup founders.

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