

Can fintech be the gamechanger in the SME sector?

It's estimated that SMEs makeup 91% of formalised businesses in South Africa, provide employment to about 60% of the labour force, and their total economic output accounts for roughly 34% of the country's GDP. But the reality is that the overwhelming majority of small businesses fail: more than 70% within the first two years, and 96% fail to see 10 years in business.



Thomas Pays, CEO of Ozow

Thomas Pays, the CEO of Ozow (formerly i-Pay), says many South African SMEs are battling to keep their heads above water as they struggle to maintain consistent cash flow.

According to the Experian Business Debt Index (BDI), released in August, the overall debt situation for SMEs deteriorated in the second quarter of 2019, with outstanding debtors' days rising to a record 66.4.

"Cash flow is the lifeblood of any small business. It's the fuel that runs the business, and is a major reason why the staggering majority of small businesses fail within their first couple of years of operation," said Pays.

"The success of any business lies in its ability to bring in revenue. By digitising their payment systems, South African SMEs have the opportunity to not only bring down their debtors days, but dramatically increase their share of a R14bn online retail market, and grow their businesses in the process."

Another pain point for SMEs is high fees associated with payment, with costs for SMEs varying between 3% and 5% for credit card payments.

Ozow this year introduced 0% processing fees for the first 12 months, enabling new merchants and SMEs to receive payments of up to R1M per month for free.

While there are only 8 million active credit card users in South Africa - and for SMEs with small margins, relying on the credit card-carrying market alone is no longer a viable option.

“As a fintech, we bring automation and hyper scalability to our clients, so we built our platform on the banking infrastructure - allowing SMEs to transact with every consumer and business that has a bank account. There are over 49 million bank accounts in SA, presenting a much larger addressable market and more cost-effective payment opportunity for SMEs,” said Pays.



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Pays cites a growing number of local case studies that show a clear correlation between ease of payments and increased revenues, with some clients reporting revenue growth of 50% or more after adding Ozow as their digital payment option.

Providing a simple online payment platform to allow debtors and consumers to pay for products and services quickly and easily could be a game-changer for South Africa's struggling SMEs – both by improving cash flow and increasing access to the larger market.

“It's been proven over and over again: the easier you make it for your customers to pay for your products and services, the more they'll buy from you. And in South Africa, where millions of people don't have a debit or credit card, giving them another payment option opens up entire new markets,” he said.

Digital payment platforms allow customers to make immediate payments via SMS, e-mail, or even QR Code. This offers people who do not have debit or credit cards the opportunity to transact digitally – and benefit from its inherent convenience, simplicity and security.

In the physical world, this would see a shop or stall owner SMS'ing a link to a customer in-store when they want to transact. The client would either pay by return of SMS, or by opening the link via the phone's browser (no app required), log into the secure gateway with their banking details and approve the transaction.

For online products and services, customers don't have to pause their online shopping to make a manual EFT payment, nor enter debit or credit card details and go through the authentication process. The merchant gets instant notification that an irrevocable payment has been made, and can ship the goods or release the product immediately.

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