

Moving to a cashless economy could be good for the economy and entrepreneurs

As part of their ongoing efforts to help South African SMEs navigate the post-pandemic "Great Staggering" back into the new post-normal, post-lockdown world, Bronwyn Williams, partner at Flux Trends, interviewed Carl Wazen at the Alinea Retail Master Class to find out about future retail trends.



Carl Wazen is the co-founder and chief business officer of Yoco, a financial platform for small businesses. Within five years, Yoco has become one of the largest provider of payment solutions to small businesses in South Africa, with over 95,000 small businesses using its card machines and online payment products across the country. 80% of these merchants had never accepted cards before. As such, Carl is a logical expert to defer to for advice on the future of retail in South Africa.

■ ***What are the most surprising and insightful shifts in consumer spending that you have noticed since Covid sent South Africa into lockdown?***

The key problem our business is solving is giving small businesses access to payment-accepting solutions. So, some of you may not know, but roughly 80% of South Africans have a card or bank account, but fewer than 8% of businesses accept card, so we are still very much a cashless society.

From the beginning of the journey, we started off by obsessing around how to remove friction from getting a card machine. Our focus was very much on the underserved part of the market, which is where nobody really was looking. And where we knew that there was demand. So, this gives you a sense of who our customers are.

As I mentioned, 80% of our merchants had never accepted card before, which speaks to our vision of open commerce, and about the fact that everybody should be able to participate in the economy.

So, today, you can buy a card machine, on our website and start transacting the same day - no onboarding, or complex steps to take, it is simple. It has been a game changer for so many people.

And in addition to that, we've added a range of products that sit on top of the payment solutions, such as a financing solution for small businesses and a suite of software tools as well to help businesses automate their processes.

“ To bring Covid into context, as a company, up until early this year, we were doubling our revenue year-on-year consistently. Then Covid happened in the music completely stopped for a while - we were down 90% overnight when lockdown was announced, which reflects our merchants. ”

That was, you know, a big shock. And it forced us to re-examine every aspect of our business. Starting from, who we are serving, to the products that we have built to our team and how we collaborated and worked.

It was a very difficult time; but we learned a lot and emerged a leaner but stronger business because of it.

The good news is that we are seeing a promising recovery today in the small business segment. So, when the country moved into lockdown level four, we decided to make our data public, aggregated, of course, and anonymised, but we wanted to tell the story of the small business recovery in real time. So, we released something called the Small Business recovery monitor, which you can find on our website. It shows you how our merchants have been trading compared to pre Covid, which we have defined as first half of March.

Right now, if you go to the website, you will see that the monitor is sitting at between 85 to 100% of pre Covid trade, which suggests that on aggregate merchants have made close to a full recovery. That is, of course, great news.

Of course, you need to factor in that this is card data. And there is a cash to card migration effect, which is driving these numbers a bit higher. We can't exactly say you know how much that is impacting the numbers, but we do know that it's there, and might be inflating the recovery numbers, but I think that the move towards cashless is a very positive one for this country in this economy.

■ What sort of businesses are now succeeding that perhaps were not succeeding six months ago? And what shifts have you seen in terms of what sort of traders are taking advantage of your product?

So, our customer base is about 70% split across three main sectors: retail our biggest sector, the second biggest one being food and drink, and the third one being health and beauty. Together, those make up 70% of our base.

Our base is almost exclusively small and micro merchants, many relatively early in their lifecycle.

The remaining 30% of our base includes, professional services, tourism, transport, personal services, etc.

“ If you want to speak about big consumer spending shifts, I will probably say the biggest one that we found is the move to cashless and the shift to cashless because of Covid. ”

And it is, like I said, very encouraging. We have known for a while that it has been on the cards, we as a country have almost all the tools needed to go to get to cashless. Obviously, we are doing our part with card machine, but everyone has a card, and everyone could potentially be moving away from cash. But the whole hygiene factor within Covid has pushed this even further.

To look at this, we conducted a survey on over 4,300 businesses in our base in March, and then we conducted it again, with those same people in July. And what we found is that in March 8% of our base, were not accepting cash. But three months later, that number rose to 32%.

The sector that was seeing the most adoption of cashless relative to where they were before was the food and drink and hospitality; they jumped from 3%, pre Covid to 19% call it mid Covid. All the other industries were roughly between three to five times.

“ The biggest shift to cashless has primarily been driven by the contactless adoption, mainly driven by paying through tap QR codes, and then some EFT. ”

Then of course, there was also the move towards online. About 65% of those merchants who were surveyed that were not accepting cash, in July, said that they expect this to become a permanent trend. So, it is not just something that they are doing during Covid; they are seeing this as something they will sustain into the future.

So, we are talking about 20 to 24% of us of the people surveyed remaining a cashless business into the future. There are benefits an economy and society moving to cashless; firstly, people spend more when they pay digitally; secondly, the security and health risks are reduced and thirdly, more tax revenues and a more formalized economy.

I was to speak about how specific sectors in the market recovered, most sectors have recovered quite nicely.

“ The retail segment has been the most resilient. Out of the total 80,000 merchants who were, you know, being tracked during the recovery monitor, it is now sitting at about 96% of pre-Covid trade levels. ”

Our food and beverage have faced the slowest recovery.

In terms of provinces and locations, we found the more rural provinces were not at all affected by the lockdown, based on our numbers. Obviously, we have fewer merchants in those provinces than we do in the big cities. But still, it was really

telling to see that a lot of those guys were up to over 100%, from early on. Gauteng and Western Cape were the most affected, and Cape Town has been the slowest to recover, due to its dependence on tourism and hospitality.

■ ***Have you noticed more retailers or more service providers adopting your service for the first time over the last few months?***

Like many other businesses, we had to control our spend significantly when Covid happened.

That meant lower budgets when it came to investing in marketing and sales. We were quite a growth focused company, so we were investing a lot in signing up new merchants before Covid. When Covid happened, we reduced our marketing spend by 90%. However, what we did, do is add a bit of a discount on our card machines to make it more accessible to new customers, because we knew that there was going to be a really high demand for our service in this time, as a lot of people are afraid of spending cash and businesses want to go online.

The good news is that even though we reduced our marketing spend by about 90%, our new merchants coming on board monthly, only reduced by roughly 40%. So this goes to show that there was this organic acquisition drive, which was very much driven by the demand in the market primarily from consumers not wanting to pay cash, and hence putting pressure on merchants to accept digital payments.

This interview was part of the Flux Trends Alinea Mini Masterclass Series dedicated to helping South African entrepreneurs and SMEs use trends as business insights to get back to work after the manifold challenges of 2020.

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