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A Growth and Development Model for Retail Fashion Accessories Micro Enterprises in the Cape Town Metropole in South Africa

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Abstract:

Despite efforts by the South African government to create a favorable environment for entrepreneurial growth, high failure rates among start-up ventures persist. This paper investigates the growth processes of fashion accessory micro-enterprises within the Cape Town Metropole. Using a qualitative approach, the study drew a sample of fifteen small fashion accessory retail micro-startups via snowball sampling. Data was collected through semi-structured interviews and a focus group, and analyzed using ATLAS.ti software for content analysis. The find-ings suggest that the growth of fashion accessory micro-enterprises is most effectively supported through three key cyclical activities: re-search and planning, implementation, and review. These activities should be consistently engaged in during the business's establishment, operations, and growth phases. Based on these findings, a growth model is proposed for micro-entrepreneurs in the fashion accessory re-tail sector, aimed at guiding their strategic growth and reducing failure rates.

Keywords:

Micro Enterprises, Small Business, Growth, Growth Model

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Introduction

A thriving small, medium, and micro enterprise (SMME) sector is a hallmark of a dynamic global economy. In South Africa, the SMME sector accounted for 36% of the nation's Gross Domestic Product (GDP) in 2015, showing slight growth from 2007's 35% contribution. SMMEs are critical to socio-economic development, generating employment and fostering innovation (Bureau for Economic Research, 2016). This paper focuses on the growth dynamics of fashion accessory micro-enterprises in the Cape Town Metropole and aims to propose a growth model that can enhance their development and reduce failure rates.

Research establishes that many micro-enterprises in developing nations start small and fail to grow beyond the micro stage (Reeg, 2013). In South Africa, the survival rate for start-ups is concerning: only half of businesses make it past five years, and just 9% last beyond ten years (Maye, 2014). According to the 2016/2017 Global Entrepreneurship Monitor (GEM) report, South Africa faces an alarmingly high start-up failure rate, coupled with declining entrepreneurial activity (Herrington et al., 2017). The South African National Development Plan 2030 projects that small businesses will generate 90% of the 11 million jobs expected by 2030, emphasizing the need for a better understanding of the growth processes that influence start-ups (South Africa. National Planning Commission, 2012). There is a clear gap in knowledge regarding the stages and factors influencing the growth of these enterprises, which is essential to boosting their success (SBP, 2014).

Literature Review

What are Micro Enterprises?

This paper adopts the official South African definition of small businesses, as outlined in the Revised Schedule 1 of the National Definition of Small Enterprise in South Africa (2019). Micro enterprises are defined as distinct business entities, including cooperatives, that are managed by one or more owners, and are classified as micro, small, or medium enterprises based on the sector of operation (South Africa. DSBD, 2019).

Small Business Growth in South Africa

The Retail Fashion Accessory Industry, a Global Perspective

Global fashion industry sales are steadily growing. Growth in the sector was said to have been 1.5% in 2016, and 2.6% in 2017 (Amed et al., 2017). Growth in this sector is prevalent in emerging markets such as Asia-Pacific, Europe, and Latin America, where economic conditions are favourable to business growth (Amed et al., 2017). The growth of fashion industry sales in these regions is fueled by a rise in

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consumer spending, resulting from economic growth. Apart from innovation and flexibility, an important factor propelling continuous growth in Asia European, and American fashion retail accessories markets is the strong online presence of the businesses, which gives them the capacity to reach a wide range of consumers (Amed et al., 2017).

The Retail Fashion Accessory Market in South Africa

In Africa, the retail fashion accessory industry is relatively young compared to Europe and is still evolving with most businesses largely dependent on traditional outlets (Gregorio, 2017). The industry comprises both large and small enterprises, some well-established, some owner-operated, formal and informal micro-enterprises. However, there is potential for growth in the African fashion industry based on the growing interest in African designs from other continents around the world, and the continuous adoption of online retailing making the industry an attractive investment opportunity for African entrepreneurs (Gregorio, 2017).

Small Business Growth

Literature on the growth of micro-enterprises is severely lacking. Consequently, most of the literature reviewed relates to the growth of small businesses in general.

Business growth is important as it contributes to market competitiveness and the provision of diverse goods and services and introduces competition in monopolised industries or those with minimum competition (Rauch & Rijskik, 2013; Machado, 2016). The increase in return on investment to the business owners arising from business growth (Dobbs & Hamilton, 2007; Rauch & Rijsdijk, 2013) has a trickle-down effect on the communities in which they operate in terms of employment creation and therefore improved livelihoods.

In 2017, South African small businesses contributed between 56% and 61% of private sector employment (SEDA, 2017). Although small businesses are considered a vital source of employment creation, it is important to remember that the sustained level of contribution to new employment by these businesses depends on their survival and growth (Gupta et al., 2013).

Hurdles to Small Business Growth

The government of South Africa has introduced policies and support organisations to provide opportunities for small business growth. However, small businesses continue to face various constraints, such as fluctuating economic conditions, burdensome regulations, political instability high cost of labour, and access to finance (Abor & Quartey, 2010; Cant & Wiid, 2013; BER, 2016).

In their GEM report for 2016/2017, Herrington et al. (2017) indicate that access to funding for entrepreneurs at all stages of their business remains a problem in South Africa. Conservative financial

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institutions' requirements of a proven business track record, collateral, credit history, or having a proper business plan is a financing barrier for the majority of small businesses (BER, 2016; Herrington et al., 2017).

Opportunities for Small Business Growth within the Retail Fashion Accessory Market in South Africa

Common growth opportunities for small businesses have been identified as arising in the changes or a gap in the market and the use of information and communication technologies (ICT). Some market opportunities include growth in demand, changes in customer needs, market consolidation, and changes in the supply chain (Moderandi Inc., 2013). Market opportunities can be derived from strengths, weaknesses, opportunities, and threats (SWOT) analysis and a marketing plan (Moderandi Inc., 2013).

The adoption of ICT increases operational efficiency in a business and provides an opportunity for the business to conduct its operations on scale (Cant et al., 2015). Small businesses that make use of ICT can more effectively respond to changes in dynamic markets such as the Retail Fashion Accessory industry and in doing so gain a competitive advantage. Although technology presents a huge opportunity for growth, many factors hinder small businesses from effectively benefitting from the use of technology, such as a lack of adequate finance, relevant information, and skills (Apulu & Latham, 2010).

Theoretical Framework for Small Business Growth

Several theoretical frameworks have been developed to understand the phenomenon of business growth. Dobbs and Hamilton (2007) divided the theoretical frameworks into six categories: stochastic, deterministic, descriptive, evolutionary, resource based and learning frameworks. Two frameworks, the deterministic framework and descriptive/stage model were used in this study.

The deterministic framework aims to uncover the causes of growth in a business by using multivariate statistical techniques on a large data set. The framework aims to identify a set of internal and external factors that contribute to small business growth (Dobbs & Hamilton, 2007; Farouk & Saleh 2011).

According to the deterministic framework there several factors that affect the growth of startup business venture. The factors are split into categories namely; Management strategies, the characteristics of the owner and the characteristics of the business which are internal factors, while environmental factors are external factors, over which a business has limited control. Research shows that there is a long list of determinants of business growth and no single factor necessarily predominates (Dobbs & Hamilton 2007; Leitch, Hill & Neergaard, 2010).

Interestingly, the descriptive/stage model presents the growth process of a business as following the successive stages of existence, growth, take, and maturity. The stages are characterised by

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opportunities and challenges that need to be dealt with successfully for the business to progress to the next stage (Levie & Lichtenstein, 2010).

In this paper, elements of the deterministic and descriptive/stage models were adopted to create a framework for the study. The aim was to combine all the aspects of these frameworks which are relevant to fashion a model for the growth of Retail Fashion accessories small businesses.

The deterministic framework is relevant to the paper's aim of investigating the factors affecting business growth. The descriptive/stage model was considered useful for organising the phases and dynamics within the processes expected to be uncovered in the small business analysis. Combining all the useful features from the models helped to offset their limitations and create a comprehensive model.

Growth Strategies for Micro Enterprises

A business can grow organically or inorganically. Organic growth is a gradual internal growth process resulting in increased output/sales, it can occur over years. Some common organic growth strategies adopted by small businesses are market penetration, market development, product development, and diversification (Kumar, 2010). Inorganic growth is associated with substantial investment in the business from external sources.

Organic growth is the most common strategy adopted by small businesses because it is associated with lower up-front costs and less risk of losing control compared to inorganic growth strategies (Davidsson et al., 2010; SBP, 2011).

Business Growth Indicators

Business growth can be perceived in terms of an increase in sales or employees (Achtenhagen et al., 2010; Gupta et al., 2013). The change is usually a result of various internal factors, which lead to an increase in demand for the business's products and services. In turn, the business adapts to the changes by increasing its capacity to cater for new customers (Dobbs & Hamilton, 2007; Machado, 2016).

Research suggests that the choice of growth indicators and periods should be based on the business context, with availability of data being a consideration (Wiklund et al., 2007; Achtenhagen et al., 2010). Some growth measures include change in sales, number of employees, equity, expanding volume of business, quality of product and market position.

In this paper, two widely recognised indicators of growth, sales and number of employees were applied because they constitute the base or initial point that propels business change. The paper applied these indicators to determine growth in successful startup business enterprises within the Retail Fashion Accessory Market, located in the Cape Town Metropole, within South Africa, established between 2005 and 2018.

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The Research Design and Methodology

The primary research study was executed in The Cape Town Metropole, within South Africa and all participants had existing offices or a store located in the Central Business District (CBD). The sample comprised fifteen participants selected using the snowball sampling method. Snowball sampling was used as members of the population matching the specified criteria could only be identified by those who knew them. The sample of fifteen small businesses was drawn from a population that comprised of owners of small fashion accessories businesses that were initially established as micro-enterprises, which have been operating for at least five years and have grown in one way or another. These businesses were established as micro enterprises with some initially as informal businesses. However, the study focused only on registered small businesses. The sample size was considered adequate being within the range of 5-25 suggested by Creswell, (1998) and Onwuegbuzie and Collins, (2007). Guest et al. (2006) agree with the adequacy of this sample size suggesting that in studies with a homogeneous population, saturation can be attained with a sample of at least six interviews. In the study, saturation was evident by the fifteenth interview as no new findings were arising from the data. Data was collected through semi-structured interviews and a focus group discussion.

The interviews lasted for an average of 90 minutes, while a focus group lasted 120 minutes. In line with the research ethics clearance granted, the participants were informed about the research, and their rights before the interviews. The focus group discussion was conducted with six of the fifteen participants interviewed. Initially, six participants with the most experience in running a Retail Fashion Accessory business were selected for the focus group discussion. However, not all of them could be available on the same day, hence the final selection was based on the availability of participants.

The study employed content analysis which provided for careful exploration of the data assembled. This was achieved with ATLAS.ti data analysis software which helped to improve the effectiveness and efficiency of the data management. Once all data was gathered, each interview was uploaded into ATLAS.ti using initial coding. Coding of the data responses was completed one interview at a time. Once the initial coding of all fifteen interviews had been completed, the researcher began a trial analysis of the codes, which led to second-stage coding as the researcher realised that some codes needed to change, and some codes needed consolidation. In the analysis phase, the researcher grouped codes. The discussion made use of these code groups to provide answers to the research questions. Some of the code groups identified were business opportunities, challenges, business functions, and growth strategies.

The reliability and validity of this study were addressed through data source triangulation and member checking, respectively. Data source triangulation was used through obtaining data from both interviews and a focus group to corroborate the findings and provide a comprehensive understanding. To validate

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the findings, the researcher implemented member checking by returning the findings to eight participants in the study for verification.

Findings and Discussion of the Primary Research Study

Micro Enterprise Owner Profile

The profile of the small business owners interviewed is summarised in Table 1 below.

Characteristic	Category	Count	%
Age of Owner	30-34	1	7
	35-40	6	40
	41-45	3	20
	46-50	4	27
	51 and above	1	7
Education Level	Matric	4	27
	Tertiary	11	73
Professional Background/Industry	Fashion	8	53
	Other	7	47
Age of Business	5-9	10	67
	10-15	5	33
Product Categories	1	7	47
	2	1	7
	3	6	40
	5	1	7

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Number of Employees	10-20	6	40
	21 and above	9	60

Table 1: Profile of the Micro Enterprise Participants

Table 1, above, describes the participants in terms of owner and business characteristics. Owner and business characteristics are among the determinants of business growth (Farouk & Saleh, 2011:4). The average age of the participants was forty-two and the average number of years in business was 9 years. Most of them had a college diploma/degree and the remaining participants had a minimum Matric. The majority of the participants had a professional background in the fashion industry, and the remaining participants with experience in retail, services, construction, government, and investments or finance. 13% of the participants did not specify which industry they had experience in before establishing their start-up business. In the first year of establishment, the businesses all operated as micro-enterprises with employees ranging in number between zero and two.

Presentation of Results

The Micro Enterprise Growth Process

Objective	**Findings**
To identify the steps the entrepreneurs went through in establishing, running, and growing their businesses	✚ Establish Opportunity: 53% of the participants established their businesses to address a gap in the market ✚ Find capital for the business: 60% of the businesses fully funded their businesses from their capital ✚ Map the vision for the business: 73% of the participants have a vision for growth through opening more branches and brand-building ✚ Make supplier choices: most participants (93%) have suppliers located in South Africa and China. The

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	choice of supplier was determined by affordability, product quality, and the reliability of the suppliers - All participants opted for organic business growth

Table 2: Steps taken by entrepreneurs in establishing, running, and growing their businesses

Most of the business owners (53%) were mainly motivated by a desire to address a gap in the market. They were familiar with the fashion accessories industry through their passion, experience, or education. One participant who operates a business that sells bags, identified that the market was full of big expensive branded bags which are inaccessible to middle-class South African consumers.

Own savings and (in some cases) family loans were used by 60% of the participants as start-up capital for their business. The participant data revealed that one of the first things implemented in their businesses was the formulation of a vision for the business to create a benchmark for measuring progress.

The primary research findings reveal that due diligence and care were taken to select reliable suppliers who could deliver good quality accessory products at affordable prices. A large proportion of the participants (93%) had suppliers located in South Africa and China. The participants indicated that their Chinese suppliers were established businesses that serviced several South African retailers and were selected partly due to their experience in operating with local businesses.

Identifying and Exploiting Opportunities

Objective	**Findings**
How micro enterprises exploited opportunities in the industry	• All participants of the study acquired knowledge of potential opportunities in the industry through learning • Knowledge was acquired through experience in the industry (53%), research and networking

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	• Most of the participants focused on market, product, and ICT opportunities

Table 3: How micro-enterprises exploited opportunities in the industry

The findings highlight that the small business owners gained awareness of the opportunities available for their businesses through learning from experience, research, and networking. For example, business owners that identified opportunities through networking and research made use of networking opportunities available in Cape Town such as the Cape Business Connect and Start-up Grind.

The research results reveal that the most exploited opportunities by the participants were product creativity and development, market development, and the use of ICT. This is in line with academic literature which confirms that market development and ICT present the main opportunities for business growth (Cant et al., 2015).

Challenges Encountered by Retail Accessory Startup Entrepreneurs

Objective	**Findings**
Challenges in the industry	The most formidable challenges that participants experienced were a lack of adequate resources and skills high operating costs and market competition

Table 4: Challenges in the fashion accessories industry

The participants were faced with several challenges, such as limited financial resources and operational costs. Most of the challenges were highlighted through business performance reviews and identifying areas for improvement. The challenges highlighted in the primary research findings were a lack of adequate resources and skills, high operating costs, and market competition. The findings revealed that most of the challenges faced by small businesses were internal challenges, contrary to academic literature which advocates that most start-up growth challenges are external (Lewis & Gasealahwe, 2017).

Two of the most cited challenges by start-up owners (60%) were high operating costs and intense market competition. According to the participants, growing a micro-enterprise incurred high upfront investments to operating costs linked to key business activities such as securing products for sale and the cost of market development. A key challenge to participants was to find ways to reduce costs whilst pursuing growth. These primary research findings support the GEM Report 2016/2017, which states that the costs to which small businesses are exposed are relatively more expensive when compared to their larger counterparts (Herrington et al., 2017).

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Market competition was cited to be the highest external challenge. Participants cited the fast-paced nature of the fashion industry, coupled with the size of their businesses as an external market challenge. Competition was encountered by small and large companies as well as against local and international businesses. According to Fatoki (2014), one of the principal causes of small business failure is the inability to meet or overcome the challenge presented by competition.

Overcoming the challenges

Objective	Findings
How to overcome challenges in the industry	✚ The participants made use of some of the elements of market opportunities to overcome strong competition ✚ The participants adopted cost cutting measures to overcome the challenge of high operating costs ✚ Most of the participants adopted the following measures: managing logistics costs, outsourcing of some business functions and adopting affordable growth strategies

Table 5: Overcoming challenges in the fashion accessories industry

Continuous business performance reviews assisted business owners with identifying challenges being faced. Thereafter, they engage in research, development, and planning to find strategies to help overcome these challenges. The small business owners employed various strategies to achieve growth and overcome the challenges experienced. A majority of the participants used product and service promotional activities to remain competitive. Investments were made into increasing the awareness of their businesses and their products, which is contrary to typical small business practices of not effectively promoting their products.

All of the small businesses implemented continuous product development to remain abreast with industry trends to attract more customers. Product branding was used to differentiate their products from their competitors. Product branding also enhanced what the business reputation and brand promise to its customers. A well-received brand helps to build customers loyalty, was stated.

To overcome the challenges of high operating costs, most of the participants implemented cost-cutting measures such as managing logistical costs and outsourcing business functions such as human

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resources. This aligns to academic literature, which maintains that the neglect of some business functions such as logistics may cause a business to fail due to high distribution costs. However, because some business functions are too expensive for a business to perform, outsourcing such functions can assist in minimising costs whilst covering costs for key employees to concentrate on the core business (Johnston et al., 2009; Fatoki, 2014).

Furthermore, the participants adopted more affordable organic growth strategies. Adopting affordable organic growth strategies was used by all participants to address high operating costs and secure business growth over the longer term. According to Machado (2016), most small businesses adopt an organic growth strategy because it is a gradual process in which costs can be managed.

Retail Fashion Accessory Micro Enterprises Growth Model

The primary research findings suggest that the process of growth among retail fashion accessory micro enterprises can be achieved in the three phases i.e., establishment, operations, and growth. In each of the three phases sub activities are carried out which can be grouped into three phases, research and planning, implementation, and review. Fig 5.1 below is the proposed growth model for fashion accessory micro enterprises.

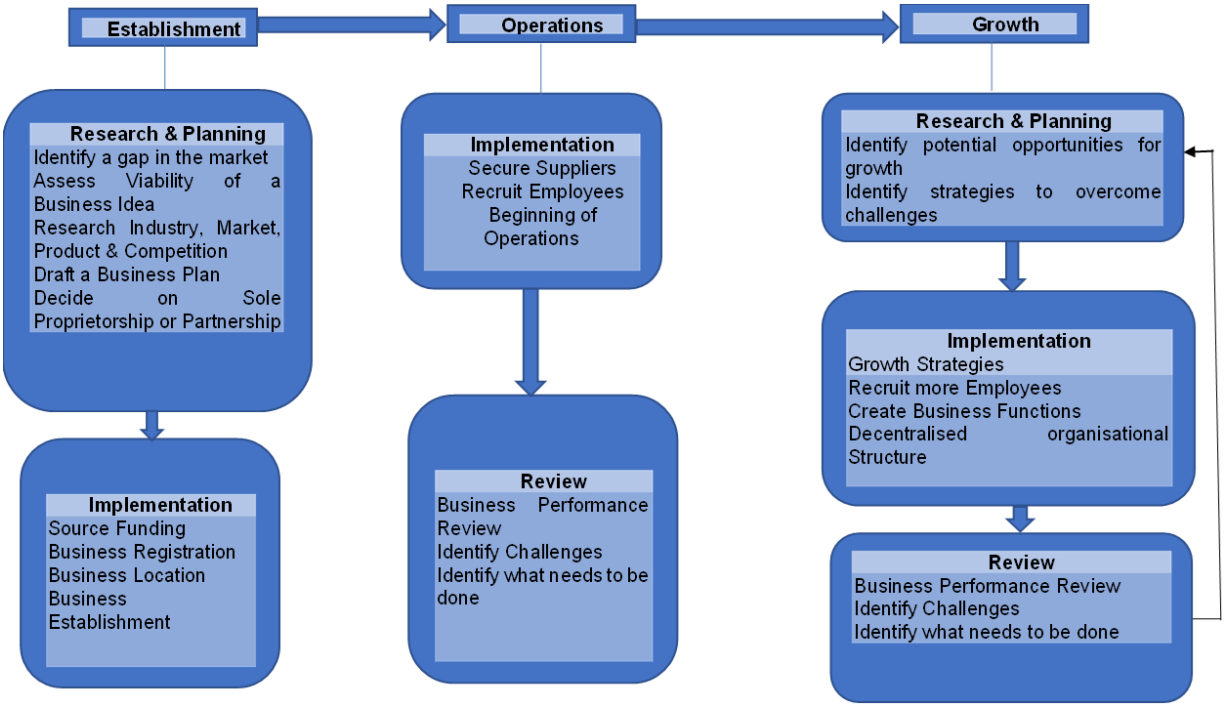


Figure 1: The proposed growth model for retail fashion accessories micro enterprises

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Figure 1, above, shows the growth model derived from the findings of this study. In the establishment phase, the potential business owner invests in research and planning to identify a gap in the market and assess its viability. Depending on the skills level of the potential entrepreneur and availability of resources, they can do this on their own or outsource the service. This research builds up to the drafting of the business plan. Most of the businesses in this study outsourced this activity in order to obtain the best possible business plan. After compiling the business plan, some would-be owners see the need for a partner – to acquire additional financial resources or access to a skill that the potential owner does not have.

In the establishment phase, the plans are put into action through implementation. The potential owner sources funding that would have been highlighted in the business plan. They get the business registered and secure the premises if need be. Some businesses were run from the owners' homes in the beginning. Once all this is done the business is established and ready to move to phase two (operations).

The operation phase completes the implementation of the results of the research and planning. Business owner gets the business up and running by contracting suppliers and recruiting employees. The business engages in performance reviews at set periods, to identify possible challenges and solutions. As the business performance reviews continue in the operations phase there comes a time when the owner may need long-term solutions to improve the business and grow, which requires further research and planning.

This results in the growth phase, which begins with researching strategies to overcome the challenges and take advantage of the potential opportunities for growth identified in the reviews. This is followed by implementation of the strategies chosen. As the business grows through these strategies the need for more employees arises, which gives rise to the need for clearly defined job descriptions and the splitting of tasks into various key functions. The division of tasks in turn leads to a decentralised organisational structure in which the owner is less involved in the daily operations of the business. The growth strategies will also need to be reviewed to see if the business is performing better and what more can be done to keep growing. The need for changes or improvements requires a return to research and planning, and so the cycle continues. The model indicates that when a business reaches the growth stage it will keep going through research and planning, implementation and review to continue improving. Even when a business has reached a stage where growth is no longer a goal, it will still go through the same process, but now with the aim of maintaining their market position.

Business growth models within the descriptive framework discussed in section 3.6 above feature growth stages such as existence, growth, take off and maturity. In this study, three stages, establishment, operations, and growth have been identified in the growth process of micro enterprises. The findings showed that the growth phase in a micro enterprise business is a long one because most such

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businesses do not have sufficient financial resources to make massive investments in their growth at once. Hence, they adopt less expensive and gradual organic growth strategies.

Figure 1, above, indicates the activities that are important at each stage of the business. These activities were labelled determinants of growth in the deterministic framework. The deterministic framework notes that there are four factors that determine business growth: management strategies, characteristics of owner, characteristics of the business and environmental factors (Farouk & Saleh, 2011). In this study, some of the factors highlighted under the four categories in the deterministic framework were also found to determine the growth of the small businesses studied. These included the motivation for establishing the business, growth objectives, financial resources, product or market development, employee recruitment and development, and business collaboration and competition. Unlike the deterministic framework, which merely identified the factors that determine business growth, the model proposed here indicates at which phase of the business life cycle certain activities need to be carried out. Furthermore, the proposed model focuses on the process of growth and emphasises that a business owner can only know what to do next through research and planning. Of course, all the processes highlighted in the proposed model require the business to make use of financial resources, and since financial resources are not always available to small businesses, each business has to tailor the process to suit their resources. This can be done by choosing affordable research methods and growth strategies.

Conclusion and Recommendations

This study sought to understand the growth process of retail fashion accessories micro enterprises and based on this to propose a growth model. The findings from the participating businesses which evolved from micro to small enterprises show that the growth process of micro enterprises in the fashion accessories industry comprises of three main phases, establishment, operations, and growth. Successful growth of these enterprises lies in the ability of the business owner to continually research, plan, implement and review the business activities, and thereby be able to identify potential growth opportunities and choose the best strategies for the business to grow.

Based on the findings, the following recommendations are made; firstly, start-ups in the fashion accessories industry that cannot easily access funding should consider starting small with a view to growing gradually. This should help them to reduce the resource constraints likely to be faced as they seek to grow their business later. Secondly, business owners should strive to continue learning, formally and/or informally, about the business and the industry to make informed business decisions and strategies. A business owner who is aiming for growth should be actively engaged in learning through experience, research, networking and any other available avenues. The importance of this is highlighted in the findings of this study, which established that all the participants were able to identify potential growth opportunities in the industry because of learning from experience and research. Thirdly, small

business owners should also engage in research and planning to find the most eligible solution to the challenges that they encounter. The study found that businesses that engaged in research and planning were able to adopt the most suitable strategies to successfully overcome the challenges they faced.

Research, planning, implementation, and review should comprise an on-going cycle in a small business that seeks to grow. The process provides direction to a business seeking a new strategy and enables the gathering of information that can be used for decision-making.

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