strategy+business

ISSUE 83 SUMMER 2016

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REPRINT 16202

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Only a few years ago, Africa was being dubbed "the next Asia," and multinationals watched with mounting interest as local economies boomed across the continent. Although a decline in global commodity demand has since ushered in a slowdown, Africa remains a promising long-term growth market. Its GDP grew about 3.4 percent in 2015, a full percentage point above the global growth rate, and is expected to increase to 4.2 percent in 2016, according to World Bank forecasts. The African Development Bank estimates that consumer spending will reach US$2.2 trillion by 2030 (up more than twofold from $680 billion in 2008). As home to seven of the world's megacities, and with 29 million youths entering the labor force each year, Africa is fertile ground for investment in such areas as infrastructure and manufacturing.

These figures paint an optimistic picture of the continent as a whole. But Africa is made up of 54 fully recognized sovereign states that cover a vast range of natural ecosystems and an even vaster range of cultures, with some 2,000 languages spoken. Unfortunately, we've seen too many multinational corporations (MNCs) take their businesses into Africa without a deep understanding of local market dynamics, skills, and conditions. They assume that success is a sure thing, and, as a result, their strategies turn out to be too broad. They revolve around growth projections rather than what individual markets actually need.

Understanding distinctions is critical. But it is equally important to know where your own strengths lie and to match these capabilities to the circumstances of each local market, or to know what capabilities you need to succeed and find partners that possess them. Either way, you'll also need to develop a network of local experts to execute your strategy on the ground. This is what companies that have established thriving businesses in Africa have done. Many are Africa-based companies that have expanded throughout the continent. MNCs based elsewhere should learn from their experience.

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Market Matchmaking

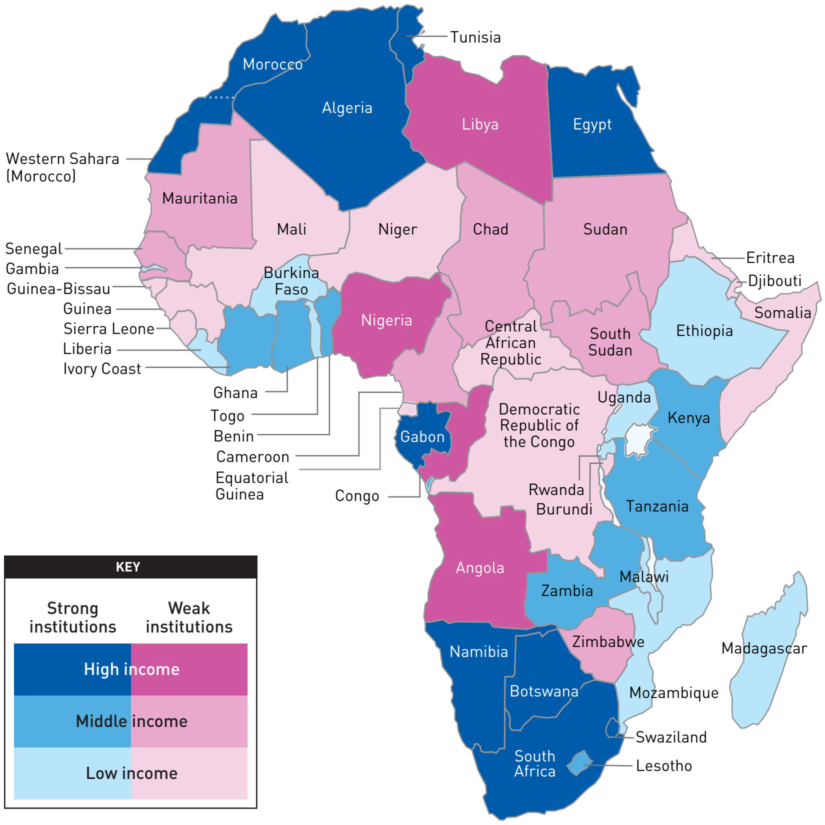
The companies that perform best in Africa tend to target countries in similar stages of economic development. The expertise that benefits their operations in South Africa would also do so in Botswana or Namibia, but wouldn't get them far in Mali or the Democratic Republic of the Congo (DRC). It can therefore help to think about groupings of countries with comparable wealth (measured by GDP per capita) and institutional quality (measured by the World Bank Doing Business Index). Based on these criteria, African countries fall into six basic categories (*see map, next page*). The first three described below offer the most opportunity; the others tend to be more challenging environments in which to operate.

Countries with *high income and strong institutions* have reliable ports, roads, legal systems, police, and educational resources. They typically have a sizable middle class, along with a skilled workforce. Companies with distinct capabilities that include world-class product, service, and technological innovation; quality management; and branding and marketing management can thrive in these markets. For example, South Africa–based First National Bank has delivered impressive profits in Botswana, Namibia, and Swaziland, based largely on its innovations in such areas as mobile applications and online banking. Such features are popular in these countries, where income is higher, infrastructure is more robust, and penetration of banking and mobile phone services is greater than in many other African countries.

Countries with *high income and weak institutions* have pockets of wealth, and therefore purchasing power. But their lack of institutions places greater demands on companies. They will need strong capabilities in managing relationships with

Africa's Markets

Analysis of wealth and institutional strength reveals six basic categories.



Note: Map excludes the following island nations: Cape Verde, Comoros, Mauritius, Sao Tome and Principe, and Seychelles.
Source: World Bank (2014 data on GDP per capita, at constant 2005 US$); the World Bank's "Doing Business 2015" Index

government and other stakeholders, planning for and managing security challenges and crises, and creating supply chain resilience to ensure consistent service. Nigeria-based Dangote Group, one of the largest conglomerates in Africa, has built deep relationships across the country that enable its divisions to set up productive partnerships and agreements. Its cement division has benefited from this capability, while ensuring the resilience of its supply chain through vertical integration from raw material sourcing to production and distribution.

Countries with *middle income and strong institutions* have aspirational customers that demand premium products and services, but need them to be delivered at lower price points. Cost leadership capabilities are thus critical, along with cost management and low-cost service and product provision. Companies can also succeed in these markets if they offer innovative technology, especially at the distribution level, to help keep prices low. The widely publicized success of Kenya's Safaricom provides a powerful example. Safaricom pioneered the M-Pesa mobile money system, which uses a low-cost distribution network to enable subscribers to set up modest accounts with prepaid sums, then make payments out of the accounts via mobile phone. No traditional bank account is needed.

In countries in the other three categories — the *middle-income markets with weak institutions* and the *low-income markets with strong or weak institutions* — companies face more acute challenges. They need to be able to operate with limited infrastructure, less efficient and less transparent regulation, and less-skilled employees. A company going into any of these markets has to excel at crisis management, as well as end-to-end operations management that ensures self-sufficiency and operational resilience.

For the most part, companies enter these countries to extract resources, and mitigate risk as much as possible through agreements and contracts with the government, often supplemented by guarantees from multilateral organizations such as the World Bank. Other types of companies that have expanded in these countries are those highly skilled at building and operating every component of their business independent of external support. When the South Africa–based retail chain Shoprite built shopping centers in Uganda, for example, it essentially created its own infrastructure for its stores.

Think Global, Operate Local

Once a company has identified its target markets, it will need the right people on the ground to execute the strategy. In many of Africa's labor markets, companies will have to develop talent with the skills needed to run their local operations.

They should start by embedding a core team of home-country experts to oversee the new business. The 170-year-old South African financial-services firm Old Mutual, for example, has subsidiaries in the southern, western, and eastern parts of Africa. In many of these regions, the company relies on a pool of expats with relevant qualifications and experience for such functions as actuary work, an area in which local talent is generally limited. These expats are selected as much for their cultural agility as for their technical skills, to ensure that they can connect with local employees.

It is important to invest heavily in skills transfer. This often includes both conducting on-the-ground training and bringing local employees to the home office to understand the firm's culture and ways of working. After that, the challenge for many successful companies is how to prevent competitors from poaching their talent. They should develop compelling value propositions for local staff, including compensation above the market average, additional benefits such as pensions or housing, career development opportunities, and a sense of community.

Aside from developing a local talent pool, companies can seek out local businesses to partner with, through mergers, joint ventures, or simple supply arrangements. They'll need to clearly define what they want from a potential partner, and then evaluate candidates carefully against these requirements. RCL Foods, the leading South African poultry producer, takes stakes in local product manufacturers and distribution networks that will benefit from its cold-chain distribution capability. But the company has strict requirements regarding any partner's ethical reputation and track record of teaming with international players. Its stringent criteria mean that RCL, which currently has joint ventures in several countries, among them Zambia and Botswana, has to be patient. According to Pierre Rossouw, RCL's Group Africa development manager, the company turns down 95 percent of the deals it is pitched.

Sanlam Emerging Markets, a South African financial-services group founded in 1918, avoids competitive bids. The company prefers to invest 18 to 36 months in establishing a trusted relationship with a new partner and demonstrating the unique benefits it can bring to develop the partner's business — including inviting management to visit Sanlam's operations in South Africa. According to Heinie Werth, CEO of Sanlam, the company's 2005 acquisition of African Life Assurance Company was critical to enabling its expansion. African Life provided access to Botswana, Ghana, Kenya, Tanzania, and Zambia, and focused on the low-cost product offerings and mass-market distribution that were missing at Sanlam but essential to success in these markets. Sanlam has since built a direct interest in 11 countries in the southern, western, and eastern regions of Africa (as well as in India and Malaysia).

Finally, local subsidiaries won't function well if policies and processes are ill-suited to their culture. But as you loosen the reins, you must ensure that you won't be exposed to major failings of local judgment or to ethics violations. Greg Davis, CFO of Standard Bank, a leading African bank with operations in 20 countries, attributes much of the bank's success in Africa to its ability to strike a balance between regional compliance and risk oversight, and its local empowerment of decision makers. For instance, although the bank establishes a consistent corporate and investment banking capability globally, it grants country teams the autonomy to develop and execute strategies tailored to their own market.

Risk and Reward

As in all less-developed markets, companies will face challenges as they enter Africa. These might include local insurrections, underestimated costs, or overestimated consumer purchasing power. African economies are highly volatile and unpredictable, vulnerable to both commodity price swings and political instability. GDP per capita in Ghana has grown 106 percent during the last 25 years, whereas in the DRC, it has fallen 39 percent over that same period.

In the end, if you incorporate your company's expertise with the economic, institutional, social, and infrastructural realities in local contexts, you can give yourself a competitive edge. It's a worthwhile risk, because if you succeed you will find yourself in an enviable position: You could be an architect of one of the early pan-African powerhouses. +

Reprint No. 16202

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This article is adapted from the authors' Strategy& white paper, "Creating Value in Africa," Nov. 2015.

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