*Cover story*

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# view

## *Competing for African markets*
Strategies to win new business now

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**By Harry G. Broadman**

Harry Broadman is PwC's chief economist and leader of the firm's Emerging Markets practice.

*From a business perspective, Africa is on the move. While the US and Europe attempt to recover from the bruising one-two punch of the 2008 financial crisis that engendered a deep cyclical drop in output, incomes, and job growth—and exposed the fragility of the Eurozone—sub-Saharan Africa has sustained average GDP growth rates of more than 5 percent. The trend of strong economic growth in sub-Saharan Africa—which dates back two decades—allowed the continent to better withstand the effects of a trough in the global business cycle. In fact, the International Monetary Fund predicts that between 2011 and 2015, seven of the world's top 10 fastest-growing economies will be African.*

*Longer term, the African Development Bank forecasts average annual growth of more than 5 percent over the next 50 years. So, how do savvy multinational companies (MNCs) share in the vast potential of this largely untapped market? By complementing normal business practices with innovative approaches. As emerging market expert and Africa authority Harry G. Broadman contends, successfully exploiting the market opportunities and mitigating the risks in Africa require a business model that marries local know-how with new global strategies that leverage stakeholder relationships both on the ground and around the world.*

The future for Africa has never looked brighter. Over the next several decades, sub-Saharan Africa will continue to attract the highest rates of foreign direct investment (FDI) inflows per capita of any developing region.[1] Business case studies on the continent suggest that risk-adjusted returns for new investors on the continent have never been higher.

Perhaps counter-intuitively—since most US and EU companies still think of Africa as only a natural-resource commodity play—growing consumer demand, including at the retail level, is becoming the main catalyst for this investment bonanza. By 2030, countries in Africa with large populations—such as Ethiopia, Nigeria, and South Africa—could spend as much as $2.2 trillion on consumer goods, about 3 percent of worldwide consumption.[2] Trade with Africa has been steadily on the rise: Between 2000 and 2010, trade between African countries and the rest of the world increased by 200 percent.[3]

Today, there's real muscle behind the "trade, not aid" refrain. In 2011 alone, trade exceeded aid by $7 billion.[4] Social venture funds, which used to be seen as pioneering

1 United Nations Conference on Trade and Development, *World Investment Report 2012: Towards a New Generation of Investment Policies*.

2 Calestous Juma, "Africa's New Engine," *Finance & Development*, December 2011.

3 "The Sun Shines Bright," *The Economist*, December 3, 2011.

4 Charles Kenny, "Get an MBA, Save the World," *Foreign Policy*, May-June 2012.


in Africa, have increasingly become routine, combining the best elements of aid and trade to invest in health, sanitation, energy, housing, and agriculture in Kenya, Tanzania, Uganda, Rwanda, and Ghana.

As Ann MacDougall, Chief Operating Officer of the Acumen Fund—one of the more innovative social venture funds—recently noted, "We invest in sustainable, scalable businesses that illustrate both financial *and* social impact." She explains, "We use the term 'patient capital' to describe our long-term objective. Entrepreneurs have up to 10 years to achieve financial sustainability—and, hopefully, lasting social impact."[5]

Even Bob Geldof, who founded Band Aid and Live Aid in the mid-1980s to raise money for Africa, now heads a private equity fund looking to invest $450 million in African agribusiness, financial services, and telecommunications.[6] In fact, access to high-growth economies with large populations, rising affluence, and the potential for innovation makes a presence in African markets essential for many companies. This is especially true for the consumer goods, telecommunications, and financial services sectors—industries that many multinationals don't typically associate with Africa.

## The shifting global business landscape

Despite the data, not everyone has jumped on the Africa bandwagon. Surprisingly, among many of the most sophisticated international businesses and investors—even some of the keenest of the geopolitical Africa-watchers—there is scant recognition of its growth.

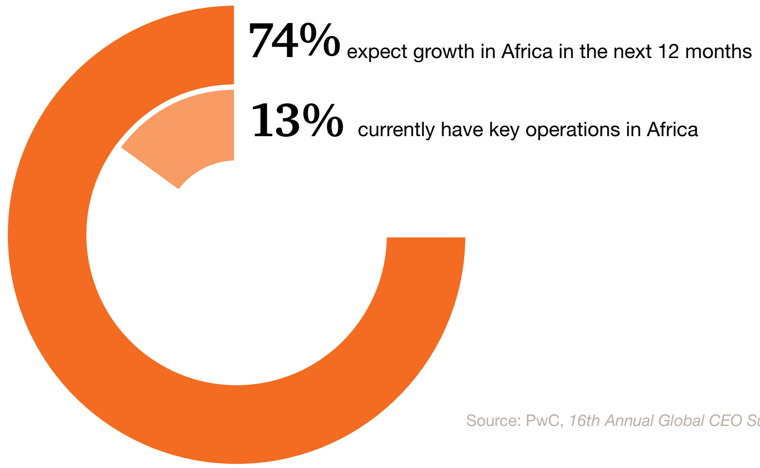
However, as American and European companies look for new global growth opportunities, they are beginning to reverse long-held views about Africa. In fact, 74 percent of respondents to PwC's *16th Annual Global CEO Survey* said they expect to expand their operations in Africa going forward.[7] (See Figure 1.)

As Maria Ramos, Group Chief Executive of financial services company ABSA Group Ltd., South Africa, a division of the Barclays Group, says of her global clients, "The question we get asked all the time is 'Can you help us do business in Africa?'"[8] The question is straightforward, but oftentimes the answer is not.

A growing number of African countries are distinguishing themselves from other emerging markets with newfound resilience to global economic shocks. They are

5 Ann MacDougall, telephone interview with *View* magazine, October 30, 2012.
6 Ian Birrell, "Bob Geldof's Obsession with Aid Hurt Africa. But Now Trade is Healing the Scars," *The Independent,* May 28, 2012.
7 PwC, *16th Annual Global CEO Survey,* 2013.
8 PwC, *15th Annual Global CEO Survey,* 2012.

**Figure 1: Global CEOs see explosive growth in Africa**




Source: PwC, *16th Annual Global CEO Survey*, 2013

also standouts as major targets of MNCs from other emerging markets, for example, Chinese and Indian businesses that invest in Africa. This trend reflects the explosion of so-called "south-south" commerce, a term used to describe trade and investment between emerging economies, in contrast to the traditional "north-south" pattern of commerce, that is, multinationals from the advanced countries (for example, the US and EU) investing in emerging markets.

Although many African countries have made greater strides in economic, social, and political reforms over the past two decades than most investors realize, they continue to be dominated by nascent institutions, weak governance structures, poor infrastructure, and underdeveloped health care and educational systems.

Which means doing business successfully in Africa will involve innovative approaches to identify rapidly emergent—but not yet fully apparent—new market opportunities. Those include competing with non-traditional MNCs, leveraging national-level and regional markets to find economies of scale, and nurturing local talent.

## Africa's resilience

The steady evolution of Africa's political reform progress is among the primary reasons behind Africa's economic resilience. Over the past 20 years, the number of democracies in sub-Saharan Africa has increased almost eight-fold.[9]

In Ghana, for example, the transition of power from the recently deceased president occurred without incident. A stable democracy, Ghana has held peaceful elections for more than a decade. But Ghana is not alone. With several decades of multi-party democracy under its belt, Botswana has made huge progress in fighting corruption. And recent tax reform in Rwanda has decreased tax preparation time with a lower total tax rate and fewer total payments.

As depicted by the World Bank's *Doing Business Index* (DBI), 36 of 48 economies in sub-Saharan Africa have enhanced their business environments over the past year. And since 2005, the average DBI throughout the region has more than doubled.[10] Part and parcel of these changes is greater economic diversification; for example, resource-rich countries like Gabon, Nigeria, and Angola have begun significant growth in their technology, services, and manufacturing sectors to reduce their dependence on commodity prices.

9 John Arlidge, "The Lion Kings," *The Sunday Times,* February 26, 2012.

10 The World Bank and the International Finance Corporation, Doing Business 2012: *Doing Business in a More Transparent World*.

## Benefits of south-south commerce

While companies from the US and Europe have a decades-long tradition of investing in Africa—90 percent of the existing *stock* of FDI accumulated in Africa originates from companies based in the "north"—Chinese and Indian multinationals and other businesses from the "south" now dominate the rates of new flows of FDI into Africa.[11]

Africa's south-south trade flows are also growing rapidly. India's two-way trade target with Africa is $90 billion for 2015, up from $3 billion a decade ago.[12] China, meanwhile, is now Africa's largest trading partner, having surpassed the US in 2009. Bilateral trade between China and Africa tallied $160 billion in 2011, up from $10.6 billion 10 years ago.[13] (See Figure 2.)

Technology has played a role in this new wave of "south-south" commerce. Up-to-the-minute tracking of raw materials and finished products allows companies to import raw materials from one destination, process them in another, and then ship them to a third. Ghana and Kenya already have a reputation for apparel manufacturing while Tanzania specializes in food processing, and South Africa is well known for manufacturing automobiles.

As noted by Hussein Hachem, CEO, Middle East and Africa, for shipping and logistics company Aramex, "In the next three to four years, we will have active operations in at least 20 African countries. Many multinationals are talking about coming to Africa, but not many are moving into Africa. I think that will change. Because of the economic situation in Europe and in the US and because of China as a major trade partner with Africa, people will invest more in Africa so they can capitalize on that trade route."[14]

Of course, "northern" companies with an established presence in Africa are also beginning to reap rewards. General Electric (GE), which had a sales office in South Africa more than 100 years ago, began actual operations on the continent about a decade ago. It is now in 22 countries and expects to grow approximately 15 percent a year in Africa over the next few years, given the continent's infrastructure needs.[15] The World Bank estimates that sub-Saharan Africa needs to spend $93 billion a year on infrastructure over the next decade.[16]

11 Harry Broadman, "China and India Go To Africa," *Foreign Affairs,* March/April 2008.

12 "India, Africa Set Trade Target of $90 billion by 2015," *The Economic Times (India),* March 17, 2012.

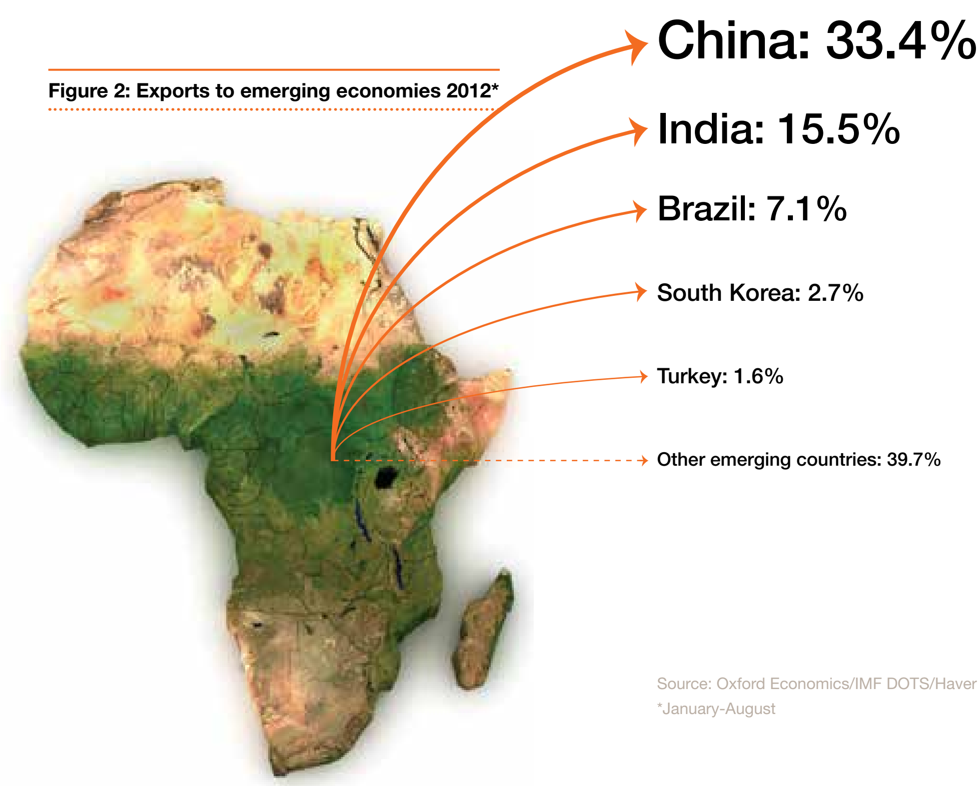
13 "China Trade, Investment Grows in Africa," *Voice of America,* August 1, 2012.

14 PwC, *15th Annual Global CEO Survey,* 2012.

15 Tom Nevin, "Profile: Jeff Immelt," *African Business,* March 2012.

16 Vivien Foster and Cecilia Briceño-Garmendia, Editors, "Africa's Infrastructure: A Time for Transformation," *Agence Française de Développement and The World Bank,* 2010.

**Figure 2: Exports to emerging economies 2012***




Source: Oxford Economics/IMF DOTS/Haver Analytics

*January-August

# *The benefits of frugal innovation: Opportunities in markets—new and old*

Africa is rife with opportunities—particularly opportunities that target new, and sometimes old, markets through innovation. The following companies demonstrate that a cookie-cutter approach to product development for emerging markets is no longer effective. Through frugal innovation—that is, doing more with less—they have innovated successfully, based on a detailed understanding of the markets they wish to serve.

### eRanger helps to save lives

Emergency vehicles are ubiquitous in developed economies, a necessity residents take for granted. However, in the rural interiors of low-income economies—countries with a gross national income per capita of $1,005 or less—emergency vehicles can be harder to come by. Yet, they could save millions of lives: Millions of infants and children die each year in sub-Saharan Africa.[1] Meanwhile, close to 60 percent of global maternal deaths—representing more than 250,000 women—occur in the region. However, the majority of those deaths of women and children are medically preventable.[2]

Today, the eRanger—designed by British engineer and motorcycle enthusiast Mike Norman—helps bridge some of those gaps in infant, child, and maternal medical care. More affordable and designed with better shock absorption than a four-wheel drive vehicle, the eRanger is a motorcycle with a specially built sidecar that works as a stretcher to transport critically ill patients.

Like other products in developing economies, the eRanger was designed to fill a specific need within its particular environment: affordable medical transport that is sturdy enough to withstand rough terrain. It typifies frugal innovation or frugal engineering, which describes the process of designing a functional, low-cost product for developing economies.

eRangers are now in use in more than 15 countries in Africa, as well as in Afghanistan and Haiti. Local governments, in conjunction with international organizations like the United Nations, the World Health Organization, and Doctors Without Borders, fund and administer eRanger programs.[3]

In Malawi—where the government has received accolades for its motorcycle ambulance project—maternal deaths have decreased by 60 percent since the eRanger was introduced in 2005.[4]

### Vscan fills a void

Sometimes, the products introduced in developing economies make their way back to the developed world, like General Electric's Vscan, an imaging device the size of a cell phone. The hand-held Vscan, which uses ultrasound technology, is inexpensive: a mere 15 percent of the cost of a traditional ultrasound unit. It is also portable and easy to use. After 10 years of trying to sell its traditional products in China, GE realized it needed a better understanding of local market needs.

Today, Vscan powers GE's ultrasound business in China, while sales of portable ultrasound products worldwide have grown a whopping 60 percent. These devices are used in the developed world by paramedics as well as in emergency rooms for quick diagnoses and in pre-op procedures to guide anesthesiologists.[5]

Companies are realizing that slapping new packaging onto an existing product and hoping to succeed in selling it in an emerging market is a strategy that no longer works. Instead, they are designing products and services especially for the market that PwC research has identified as the "next four billion"—those whose incomes range from $1.75 to $5 a day.[6]

Building loyalty early within this group serves companies well as consumers acquire more disposable income. In addition to China and India, this group includes Indonesia as well as countries in Latin America and Africa, representing a combined annual market that will exceed $6 trillion by 2021.[7]

In addition to GE, many other companies—including Coca-Cola, IBM, Cisco, John Deere, and Walmart—are all creating products designed for these consumers, recognizing the collective heft of their buying power.[8]

### A product line built for Africa

Samsung recently unveiled an entire "Built for Africa" product line. The televisions and home theater systems withstand humidity, lightning, and power surges while the netbooks (small laptops) are shatter-resistant and spill-proof. The air conditioners filter out bacteria, viruses, and allergens. Samsung, which aims to reach $10 billion in sales for Africa by 2015, partners with local governments and businesses to research, market, and sell its products.[9]

Frugal innovation applies not only to products but also to processes and entire business models. It's about succeeding under severely resource-constrained circumstances.

This "turn-the-business-model-on-its-head" approach is difficult to replicate in stable, resource-abundant developed economies. That's why companies are dispatching senior executives to Africa, partnering with local organizations there, and committing for the long term.[10]

Says Hylton Bannon, managing director of Toyota East Africa Ltd., "Toyota has a philosophy that when we enter a market, we enter it for life. We'll sacrifice a short-term profit to ensure that we maintain long-term customer satisfaction."[11]

1 UNICEF, World Health Organization, World Bank, UN Population Division, *Levels and Trends in Child Mortality,* 2012.

2 World Health Organization, *Video: Saving Mothers and Children's Lives,* http://www.youtube.com, accessed October 30, 2012.

3 eRanger, http://www.eranger.com/, accessed September 25, 2012.

4 Ibid.

5 Vijay Govindarajan and Chris Trimble, *Reverse Innovation: Create Far From Home, Win Everywhere,* Harvard Business Press, 2012.

6 PwC, *Profitable Growth Strategies for the Global Emerging Middle: Learning from the "Next Four Billion" Markets,* 2012.

7 Ibid.

8 Natalie Zmuda, "P&G, Levi's, GE Innovate by Thinking in Reverse," *Advertising Age,* June 13, 2011.

9 Kate Douglas, "Samsung Developing Products Specifically for Africa's Needs," *How We Made it In Africa,* September 11, 2012.

10 Navi Radjou, Jaideep Prabhu, Simone Ahuja, "Frugal Innovation: Lessons from Carlos Ghosn, CEO, Renault-Nissan," *HBR Blog Network,* July 2, 2012.

11 PwC, *The Africa Business Agenda,* July 2011.

## New market, new business model

The complexity of Africa often requires turning conventional thinking on its head, as illustrated by South Africa-based Shoprite, the largest food retailer on the continent. Shoprite has expanded from eight supermarkets in Capetown in 1979 to 1,500 stores in 16 African countries today, thanks in large part to an automated supply chain that leverages centralized procurement—resulting in reduced costs and improved service levels.[17]

Gerhard Fritz, Divisional Manager for the Shoprite Group of companies, says, "What works in other parts of the world may not

17 Cedric Bra, "Shoprite Grows Despite Strong Competition," *Euromonitor International* podcast, http://blog.euromonitor.com/2012/04/shoprite.html, April 3, 2012.

# *How Tiger Brands doubled its top line and tripled its bottom line*

Neil Brimacombe, Executive Director at Tiger Brands, a publicly held South African consumer packaged goods company with operations throughout Africa, was a keynote speaker at PwC's 14th Annual Africa Tax and Business Symposium in Nairobi, Kenya.

Tiger Brands' four big growth markets in Africa are Nigeria, Uganda, Tanzania, and Mozambique. The company also has a presence in Kenya and Cameroon. And it exports its products to other African countries including Zambia, Angola, and Malawi as well as Asia, Australia, Europe, and North America.

Brimacombe offered the following observations, based on Tiger Brands' success in gaining a foothold within the continent.

### 1. Find a local partner

"Local partnership is absolutely non-negotiable," says Brimacombe. While Africa is a huge market with massive potential, it is not a homogenous mass of customers. Negotiating local law, regulation, language, culture, route-to-market, stakeholder requirements, and customer preferences is next to impossible without a local partner who knows the landscape.

### 2. Foster skilled middle management

While company leaders set the agenda, the quality of middle management reflects how that agenda translates into day-to-day operations. An entirely local, extremely capable management team runs the business in Kenya, which is Tiger Brands' preference. Says Brimacombe, "We continue to invest in local management teams."

### 3. Remain flexible

Flexibility is an important mainstay in Africa, especially for companies used to a more level geopolitical playing field. "We invested in Cameroon in 2008," says Brimacombe. "As part of that investment, we had a 12-year tax holiday. Well, guess what? Two and a half years later, that changed." No more tax holiday. Sometimes, political tensions flare, as they have in Nigeria. Brimacombe emphasized the importance of diligent planning for contingencies such as these, as well as the flexibility to change course as necessary.

### 4. Reserve judgment

While local communities welcome contributions to skills and technology, they don't welcome a "we-know-best" mentality. "We have a tendency sometimes to judge," says Brimacombe, advising instead a reliance on local partners to learn the ropes. "If you don't listen, it's at your own peril."

work in Africa. People in Africa have a proud heritage; they don't take kindly to others coming in and telling them what to do. Our perspective is to think of every business as local. For example, Shoprite in Nigeria is a Nigerian business. We run and compete as a Nigerian business; we follow the local culture in every part of the company."[18]

Sometimes, that requires significantly innovating traditional business models, according to Neil Brimacombe, executive director at consumer packaged goods company Tiger Brands. (See sidebar below.) A keynote speaker at PwC's 14th Annual Africa Tax and Business Symposium in Nairobi, Kenya, Brimacombe said African consumers, despite their income levels, "still have aspirations to buy and enjoy certain brands. The consumer class is expected to top 300 million by 2025. So making those brands affordable to them in everyday, on-the-go options is compelling."

Indeed, despite high food and fuel prices, consumers in Africa continue to spend; the growing middle class has boosted consumption, residential construction, and private investment.[19]

Brimacombe notes the importance of understanding local participation, saying it's "part and parcel of working with subdistributors and sub-subdistributors."[20] Sometimes, the route to market is a 150-pound man hefting a 100-pound bag of rice on his shoulders; other times, a makeshift delivery cart consists of a bicycle balancing buckets of chocolate paste that Tiger produces in Cameroon as a spread for bread.

Understanding on-the-ground sensibilities allowed SABMiller to compete more effectively on price terms with locally made products. While the South African brewer competes with global brands in many parts of the rest of the world, in Africa, the biggest source of competition is inexpensive home brews. So SABMiller makes competitively priced beers from locally sourced cassava (a local root) in Mozambique and sorghum in Uganda.[21]

18 Gerhard Fritz, telephone interview with *View* magazine, October 30, 2012.

19 African Development Bank, OECD Development Center, United Nations Development Program, United Nations Economic Commission for Africa, *African Economic Outlook 2012*.

20 Neil Brimacombe, presentation at the 14th Annual PwC Africa Tax and Business Symposium, Nairobi, Kenya, September 18-21, 2011.

21 Carolyn Miller, "Brewing a Better Beer for Africa," *CNN Money*, June 24, 2011.

### 5. Change your frame of reference

In Nigeria, where Tiger Brands sells a packaged baked snack meant to be eaten on the go, the ovens used to bake the product are more than 25 years old. That means cycle times vary considerably and could affect product quality.

On a factory visit, Brimacombe asked, "Why have we not changed these ovens, given the cycle times?" The plant manager's response surprised Brimacombe at first. As Brimacombe puts it, "He looked at me like I had crawled out of cheese and said, 'They work. What's the problem?' "

That conversation prompted Brimacombe to acknowledge that the ovens do indeed work. While he was focused on a more uniform product, the plant manager had a different frame of reference, one in which the ovens work, cost very little to maintain, and produce exactly what the customer wants. "Too often," says Brimacombe, "we use a different experience curve."

### 6. Integrate with the community

"I would recommend that you spend as much time as you can, rolling up your sleeves, getting grubby in the local markets, and talking to the dukas, spazas, hawkers, and distributors," says Brimacombe. (*Dukas* and *spazas* are local terms for small convenience shops.) "Learn to integrate yourself into the various communities in which you work," says Brimacombe. "That's the way you learn."

### 7. Choose an appropriate entry strategy

Tiger Brands, which is listed on the Johannesburg Stock Exchange, uses one or more of these approaches, sometimes in combination with each other: investing in distributors, investing in joint ventures, seeking partnerships, and making acquisitions.

### 8. Be patient

"The relationships, I can assure you, are not born overnight, and in many instances, can take months," says Brimacombe. "When you're talking to potential partners, it can take up to two years. That's our experience." Brimacombe cautions that trust at the personal level is important before broaching business opportunities. "Don't be frustrated by the fact that signing an agreement in many instances is merely a license to talk more. That is reality."

"We are particularly excited and pleased with our investments on the continent," says Brimacombe. He described the company's experience in Kenya and Cameroon as "no less than phenomenal," adding that Tiger Brands has "doubled the top line and tripled the bottom line in the past three years" in both countries. "We think the opportunities are unbelievably significant," says Brimacombe, urging other companies to take a closer look at Africa.

# 82%

of Africa CEOs are somewhat or extremely concerned about the threat of availability of key skills to their growth prospects.

Source: PwC, *16th Annual Global CEO Survey,* 2013

### The role of regional economic communities

One potentially effective path to navigating some of the challenges and complexities of Africa (especially the small size of most of the national markets on the continent and the fact that many African countries are landlocked) is via regional economic communities (RECs). Many of these have established free trade areas—where tariffs on internal trade among members are at, or close to, zero—and some have even established customs unions, where all members of a free trade area also put in place uniform tariffs on imports coming from outside a REC.

Three of these RECs—the Common Market for Eastern and Southern Africa (COMESA), Eastern African Community (EAC), and Southern African Development Community (SADC)—have begun to take their cooperation a step further: They have established the Tripartite Free Trade Area agreement spanning 26 African countries from Cape Town to Cairo, although the initiative is still in the implementation process.

In West Africa, the Economic Community of West African States (ECOWAS) has helped secure much-needed infrastructure and telecommunications as well as diplomatic progress, brokering peace in many of the region's unstable economies. In Ghana, the Tema Free Zone has attracted more than 200 companies, including Nestlé and L'Oréal.

One of the most effective trading blocs, the EAC has formally established a common market, which has reduced barriers to investment and increased regional trade 50 percent by guaranteeing free movement of labor, capital, goods, and services among its member countries of Burundi, Kenya, Rwanda, Tanzania, and Uganda.

Many companies investing in Africa traditionally have set up hubs in larger markets, like Nigeria and South Africa, and manage regional operations from there. From these hub markets, they can leverage shared services and better source local talent. However, companies coming to Africa are now increasingly also being well served by engaging with RECs to build scale among otherwise smaller markets. They are also building relationships with the RECs' constituent individual governments to gain support and secure incentives for meaningful policies such as job creation, tax reform, and education.

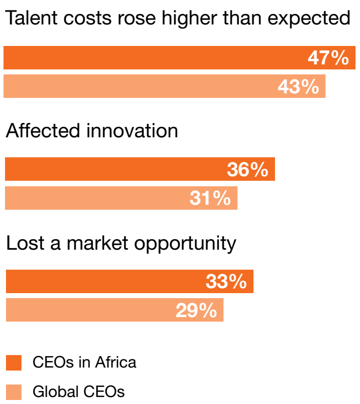
### Nurturing skilled talent

Talent shortages represent another reality in Africa: A third of the CEOs in PwC's *15th Annual Global CEO Survey* said a shortage of talent curbed innovation or stifled a market opportunity. And almost half said talent costs climbed higher than expected. (See Figure 3.) Recruitment and retention of skilled middle managers was particularly challenging for 67 percent of CEOs. (See Figure 4.)

In response, some companies actively train the next generation's workforce. In Kenya, mobile telecommunications provider Safaricom partners with Strathmore University to teach consumer insight and project viability. Safaricom also offers secondments to university lecturers in this two-way partnership of knowledge and skills.[22]

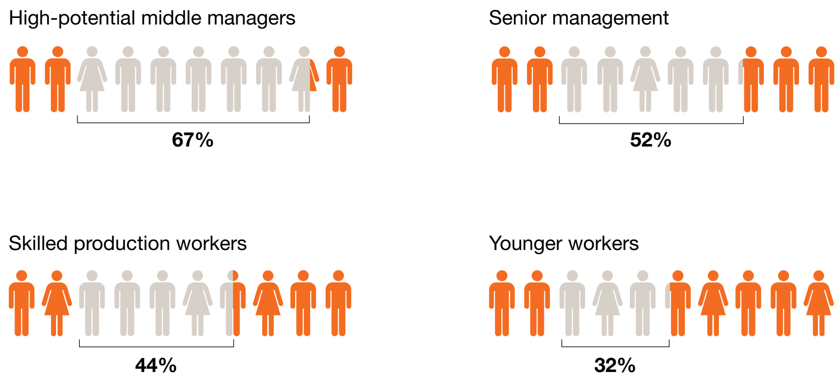
Meanwhile, Tullow Oil, a UK-based energy company, received 2,818 applicants to a call for interested students in Uganda to pursue industry-related graduate degrees at UK and French universities; 20 made the final cut. As part of the Tullow Group Scholarship Scheme, the company offers up to 110 fully paid scholarships in Ghana, Uganda, Kenya, Ethiopia, Gabon, Mauritania, and Côte d'Ivoire.[23]

**Figure 3: Talent shortages curb innovation, market opportunities**




Source: PwC, *15th Annual Global CEO Survey*, 2012

**Figure 4: The hole in the middle: CEOs in Africa face a talent gap in middle management**




Source: PwC, *15th Annual Global CEO Survey*, 2012

"We proactively engage and build relationships with local people in countries in which we operate," said Rosalind Kainyah, Tullow's Vice President of External Affairs and Corporate Social Responsibility.[24] In Ghana, for example, Tullow listed on the domestic stock exchange to ensure that local financial institutions and residents can participate in the company's success. Tullow's success has been impressive: The company has opened three new oil basins in five years in sub-Saharan Africa after rigorous analysis of local seismic activity.

After 25 years in Africa, Tullow has proven that it does not expect immediate success. The optimal approach, said Kainyah, is to "take a long-term perspective and don't expect overnight wins." She added, "African markets are no different from any other developing markets and carry with them huge opportunities for investment. Every country in Africa is different—each with its own government, infrastructure, politics, markets, and opportunities. As with investment anywhere else, it is important to do the research to find what matches your business the best."

22 PwC, *The Africa Business Agenda,* July 2012.

23 Paul Tentena, "Tullow Bolsters Oil Production Capacity," *East African Business Week,* September 4, 2012.

24 Rosalind Kainyah, e-mail interview with *View* magazine, October 26, 2012.

*Today, Africa is a complex and diverse continent requiring deep layers of insight. Its potential is unmistakable: a decade of sustained growth with several more to come.*

## Not without risk

As with all emerging markets—and even some advanced countries, as the current global financial crisis demonstrated—doing business in Africa is not without risk. Cautionary tales abound of companies stymied on the continent by myriad regulations, corrupt behavior, unilateral changes in tax policies, new cross-border restrictions, high transportation costs, power grid outages, and poor distribution channels.

To this end, Chris Okeke, CEO of Nigerian Starch Mills Ltd., notes: "Money is a problem, seeds are a problem, infrastructure is a problem, input and output markets don't exist and where they do, they're primordial." Okeke advocates patience along with "chipping away slowly" at the challenges.[25]

In fact, more than half the CEOs in Africa surveyed by PwC said they wish they had more time to spend managing risk.[26] A joint report by the World Economic Forum, the World Bank, and the African Development Bank lists the top three challenges in sub-Saharan Africa as access to financing, corruption, and inadequate infrastructure.[27]

The Export-Import Bank, the US Trade and Development Agency, and the Overseas Private Investment Corporation are among the various US governmental agencies that can help companies secure financing. The Export-Import Bank has already provided a record $1.5 billion for exports to sub-Saharan Africa in the first three quarters of 2012, exceeding the total $1.4 billion provided in 2011. Demand for machinery, vehicles, parts, commodities, and aircraft fueled this growth; Nigeria and South Africa were the top markets.[28]

More efficient government goes a long way toward eliminating—or at least reducing—corruption. Bitange Ndemo, Permanent Secretary in Kenya's Ministry of Information and Communications, agrees, saying internal efficiencies in government reduce costs, creating a more productive environment for labor, thus reducing corruption. So does holding those responsible accountable for their actions.[29] As democracy continues to spread across the continent and with it, the various mechanisms of governance, corruption is likely to abate.

As in other geographies, risk is a routine part of the business environment in Africa. As Jay Ireland, President and CEO of GE Africa, remarks, "Be it violence, political turmoil, or economic instability, there is always some risk somewhere and you just have to deal with it."[30] GE uses a "flag-planting" approach to Africa. Says Ireland, "Flag planting is a process that we've done historically," referring to gradually establishing a local presence in a particular region over the long term. "What we do is go in with a few people, scout out what's there, and eventually you put in an investment and more people, resources, facilities, and really become part of the local infrastructure."[31]

## Balancing opportunities and risks

Ireland and other CEOs agree that properly managed, the risks of doing business in Africa are worth the rewards. They advocate striking the right balance between risk and reward. Shane Govender, Group Executive, Head of Tax, at mobile telephone services provider Vodacom, agrees.

Says Govender, "How do we repatriate our profits? How do we deal with exchange control issues? And withholding taxes?" Headquartered in South Africa, Vodacom serves more than 45 million customers

25 PwC, *The Africa Business Agenda,* July 2011.

26 PwC, *The Africa Business Agenda,* July 2012.

27 World Economic Forum, the World Bank, and the African Development Bank, *The Africa Competitiveness Report 2011.*

28 "Ex-Im Bank Approves Record $1.5 Billion in Financing of US Exports to Sub-Saharan Africa in First Three Quarters of FY 2012," Ex-Im Bank press release, August 9, 2012.

29 PwC, *The Africa Business Agenda,* July 2012.

30 Ibid.

31 Jay Ireland, *GE Global Growth and Operations,* Investor Meeting, March 7, 2012.

Sven Torfinn/Panos

in South Africa, Lesotho, Mozambique, Tanzania, and the Democratic Republic of Congo. Govender adds, "The IMF has said that seven of the 10 fastest-growing economies in the next five years will be in Africa—so the rewards are great."[32]

Indeed, mobile phone penetration is exploding in Africa, from 2 percent of the population in 2000 to 28 percent in 2009 to a projected 70 percent in 2013.[33] And M-Pesa, Vodacom's widely used mobile money platform—invented in Kenya—allows users to deposit, withdraw, and transfer money with a mobile device. M-Pesa continues to gain ground not only in Africa but also in the rest of the world: In a remarkable example of reverse innovation, it is now penetrating the US and EU markets.

Despite the tremendous opportunities, Govender offers a cautionary note. He says, "There are also challenges. The regulations we face are massive. Realistically, we have to balance the reward with the risk."[34]

Companies cannot do business in Africa without taking into account the risks of inadequate infrastructure—and their attendant costs. In many parts of the continent, for example, where the power grid is unreliable, companies generate their own electricity to keep their plants running.

"We have expensive systems infrastructure that needs to keep running and that needs to be protected from power fluctuations," says Nasim Devji, Group CEO of the Diamond Trust Banks in East Africa. "It is costly to have backup generators and backup servers but for us the costs of planning for this are low compared to the severe impact that system downtime would have on our business and customers. Therefore, we accept energy costs as a reality of doing business in our markets and build backup capability to ensure business continuity."[35]

## The time is today

Much of the world has been slow to recognize the substantial economic progress in Africa. However, a significant number of African countries began focusing on economic fundamentals two decades ago. Their policymakers implemented more sustainable fiscal policies, controlled inflation, and managed their debt.

Some went further: They divested from private-sector activity, opened up historically public-dominated sectors like telecommunications, and reduced public-sector borrowing from banks, which was crowding out private investment.[36]

Granted, as with most emerging markets, reform is needed across the continent—in many cases, the implementation of very significant reforms is urgent.

Today, Africa is a complex and diverse continent requiring deep layers of insight. Its potential is unmistakable: a decade of sustained growth with several more to come. In the years ahead, agribusiness, financial services, consumer goods, infrastructure, and telecommunications will continue to power growth and employment.

New products and services will require new ways of configuration to suit the distinctive needs of a young, increasingly more urban population—a population that aspires to consume more sophisticated products and services.

Companies must be prepared to invest time, resources, and talent in a rigorous, consistent approach in order to succeed. However, the rewards can be significant. Opportunities abound for first-mover advantage.

32 Shane Govender, video interview with David Lermer, PwC global tax leader for Africa, September 20, 2011.

33 Peter Diamandis and Steven Kotler, "Age of Abundance," *Discover,* April 2012.

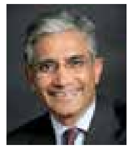
34 Shane Govender, video interview with David Lermer, PwC Global Tax Leader for Africa, September 20, 2011.

35 PwC, *The Africa Business Agenda,* July 2011.

36 World Economic Forum, the World Bank, and the African Development Bank, *The Africa Competitiveness Report 2011*.

**Interview with Suresh Kana**

Suresh Kana leads the PwC network of firms in Africa.



# *Local know-how essential to success in Africa*

**View: *What makes Africa attractive for companies that have never done business there?***

**SK:** Access to high-growth economies with large populations, rising affluence, and the potential for innovation make a presence in African markets essential for many companies.

Africa's collective GDP was $1.76 trillion in 2010, roughly equal to Brazil's or Russia's. Over one billion Africans will be of working age in 2040, and 50 percent of us will live in cities. There will be 128 million households in Africa with discretionary income in 2020. These are big numbers, and they all point to opportunity and growth.

**View: *What does it take for a company with no experience in Africa to succeed there?***

**SK:** Primarily, success in Africa from a business standpoint is about preparation and local know-how. There's really no substitute for engaging stakeholders and managing relationships on the ground. Companies from outside need to source reputable, local input to fully flesh out their strategic rationale for investing here.

An important aspect of that local input should be an evaluation of whom to do business with; reputable trading partners are, in the long run, worth far more than some questionable short-term profits.

Very often, companies tap into growth markets through acquisitions—largely because it is faster than a greenfield approach. But they sometimes balk at high valuations or struggle to understand—or trust—the valuation information available. Local know-how is so important, as we discuss in *Getting on the Right Side of the Delta: A Deal-Maker's Guide to Growth Economies.*

My colleague, Simon Venables, a PwC Africa Partner and Transactions Specialist, put it best when he said, "Deals are very complex in growth markets. It requires an investment in time, resources, and talent—and a rigorous, consistent approach to get it right. But once right, the rewards are very worthwhile. It is important to establish a long-term outlook and permanent roots."

**View: *How has the business environment in Africa changed in recent years?***

**SK:** The operating environment in Africa has undergone tremendous change in the last 10 years. Some of the major developments we've seen include: discovery of and access to natural resources, the growth of a large consumer base and middle class, infrastructure development and associated business services and logistics support, low growth expectations in mature Western economies, large pools of foreign sovereign wealth and corporate cash, as well as improved African governance and political stability.

Governments are also more involved than ever before, so companies need to understand government's motivation in each market in which they are planning to invest. Regulation of industries, competition, tax, and accounting have become increasingly more complex and this has had a significant impact on companies with cross-border operations in Africa.

**View: *What are some of the biggest opportunities in Africa?***

**SK:** The main factors influencing opportunities in Africa are a growing middle class and urbanization with immediate implications for fast-moving consumer goods, telecommunications, and financial services providers.

Demand, innovation, investment, and government intersect in every industry sector, in every market. Investors must realize that they can get their fingers burned if they don't have the local know-how to leverage these opportunities effectively.

**View: *How do companies measure success in Africa?***

**SK:** When we talked to CEOs for our publication, *The Africa Business Agenda,* several said it is important to measure commercial progress not just in relative terms but also against global benchmarks. It is not enough to say, "X is a really great company by local standards," because it could soon be eclipsed by global operators who measure success differently and more rigorously.

Competition is fierce and acquisitions are happening all the time in markets that are growing rapidly. A new entrant today can be a major player tomorrow. So I would say that companies in Africa—whether African or foreign-owned—need to measure progress, profitability, talent, sustainability, strategy, and risk management in meaningful ways that make sense outside of the immediate, local context.

**View:** ***PwC research found that only a third of companies believe they'll have the talent they need to keep up with growth. How are companies in Africa coping with the skills gap, especially in middle management?***

**SK:** Companies in Africa are deploying a number of effective strategies to source appropriate, competitive talent. The first is by developing the people they already have through training, secondments, competitive workplace policies, and new technologies. Providing them with attractive career propositions—and living up to those promises—helps with retention. The companies with the best talent strategies do not take their people for granted. They invest in them, support them, and encourage them. But they also cultivate a sense of personal responsibility and pride among their talent. Hiring top talent may be expensive but it has a follow-on effect; bright people tend to know other bright people, so as an employer when you hire someone special you also gain access to a broader network of high-value people.

This is particularly relevant in the age of social networking and mobile communications, which are such powerful forces in Africa. Tapping into these networks strategically helps to build a corporate culture that rewards and values talent.

**View:** ***How do companies engage the regional economic communities (RECs) in Africa?***

**SK:** Generally, I think it is important to engage with individual governments as well as the regional economic communities to build relationships and gain support for meaningful policies that achieve a balance between public- and private-sector priorities. Most of the time, I think the public and private sectors share the same socio-economic development priorities but they will often have different ideas about how to go about achieving them. For example, everyone wants to reduce poverty, and we can accomplish this in a number of ways that include both public- and private-sector participation: by creating jobs; by implementing tax reforms which are conducive to business growth and job creation; or through fiscal spending on programs like education that help to reduce poverty. These are not new issues, in Africa or anywhere else. The conversation here continues to take place at the regional and the local levels.

I discussed earlier the opportunity that Africa as a whole represents in terms of GDP and discretionary income. If we operated effectively as a region, we would have a lot more leverage in terms of that opportunity.

If you compare our progress in establishing the RECs and making them operational and meaningful, we've accomplished a lot more in less time than it took the European Union, for example. I think our RECs are a step towards an African economy that competes with and challenges the larger BRIC economies going forward.

Reinhardt Hartzenberg

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