



IS AFRICA THE LAND OF BUSINESS OPPORTUNITY OR PAIN?

THE BENEFITS AND CHALLENGES OF OPERATING IN THE WORLD'S
SECOND-LARGEST CONTINENT

By IMD Professor Leif Sjoblom

IMD
Chemin de Bellerive 23
PO Box 915,
CH-1001 Lausanne
Switzerland

Tel: +41 21 618 01 11
Fax: +41 21 618 07 07
info@imd.org
www.imd.org

With growth stagnating around much of the world, businesses often look to new markets to find opportunities. BRIC countries were previously thought of as the global El Dorado by many companies but Brazil, Russian, India and China largely turned out to be disappointing, as their economies have stagnated and continue to present significant hurdles to entry.

What about Africa? Its growth rates have been touted as among the highest in the world. Well, the problem is that data from Africa is often unreliable because so much of its economy is undeclared. But, what that means is there is actually a lot MORE money in the continent than what is on the books.

So how can you tell if the growth rates are real or not? One of the best indicators is to look at how many construction sites are underway. By doing this we see that Africa is booming.

With this growth in building has also come a boom in the number of middle class families and increasing stability.

Yes, the business environment in Africa is complex but many opportunities are there to be seized.

Just look at Heineken whose recent profits on the continent have been more promising than anywhere else in the world for the company.

Low hanging fruit the size of watermelons

As a good friend of mine, the former President of Dow Africa, Stéphane Paquier, says: "in Africa the low-hanging fruit is the size of watermelons".

Despite its potential, North Americans and Europeans often have a negative perception of Africa. But this bias, influenced by factors like the media, needs to be overcome if Westerners want to reap the benefits that Africa's opportunities can potentially offer.

In Africa one of the most important business factors is speed. This tends to be a problem for Western companies because they often have their headquarters in the US or Europe and micromanage their decisions from there. This slows them down and reduces their capacity to act fast.

On the other hand, the necessity for speed is an advantage for businesses from developing countries. These companies tend to be used to acting fast and generally perceive Africa as less risky than businesses from developed countries might.

Another mistake that Western companies often make is to rely on one pan-African strategy, which is a recipe for failure. The continent is enormous – bigger than China, Western Europe, the United States, India and Argentina combined! Companies don't use the same strategy for all of those markets so why would they do it for Africa?

So how should a Western company do business in Africa? Companies often struggle with this dilemma. A common approach is to draw a line across the Sahara and then ask – where do we start? More often than not the typical answer is South Africa due to its similarities with Europe and the US. While it's a great place for a vacation, it doesn't make sense to set up shop only there.

When big companies do business in Africa, it is difficult to avoid Nigeria, which is likely to be the biggest market for many businesses.

However, there are some other up-and-coming markets that have a lot of potential and will offer great opportunities in a few years, like Ethiopia. Angola is another, and it is currently a hotspot for oil companies.

The fastest growing population in the world

But oil, what most people think about when they think about business in Africa, is not the most important growing sector. Customer facing industries like Fast Moving Consumer Goods are rising rapidly thanks to a growing middle class and the fact that the continent is home to the fastest growing population in the world.

Since it is growing so quickly, the population is skewed towards being young and low-income, which makes for very demanding customers! When you only have a few dollars a day, you want to make sure you get the best value for your money.

Trade is also picking up in Africa. The continent boasts 90% mobile phone penetration and it is the location where 80% of the world's mobile payments take place. So there will be a number of ways tech savvy companies can make their mark.

In addition to these opportunities there are also a number of challenges facing companies which want to do business in Africa. While it is improving, there is still widespread corruption and political instability. Bureaucracy can be daunting and infrastructure is lagging behind – some places don't even have electricity 24 hours a day, for example. The growing middle class is a very positive thing for Africa but it also has strained the capacities of the continent's infrastructure. People whose buying power has grown in recent years are rushing to buy cars and this shows on the roads; traffic jams are more and more prevalent. When I go to Africa to do business these days I have to schedule fewer and fewer meetings because of the time it takes to get around in some clogged cities. Talent is also highly sought after in Africa and there is major competition to attract the best workers. Last but not least, securing local financing can also be difficult as trust levels are lower than in other parts of the world.

35 African countries are less corrupt than Russia

But all this bad news is relative. In the "ease of doing business" ranking, 14 African countries rank ahead of Russia, and in the corruption index, 35 countries are less corrupt than Russia. Very few multinational companies would think twice about doing business in Russia, so why do it for Africa?

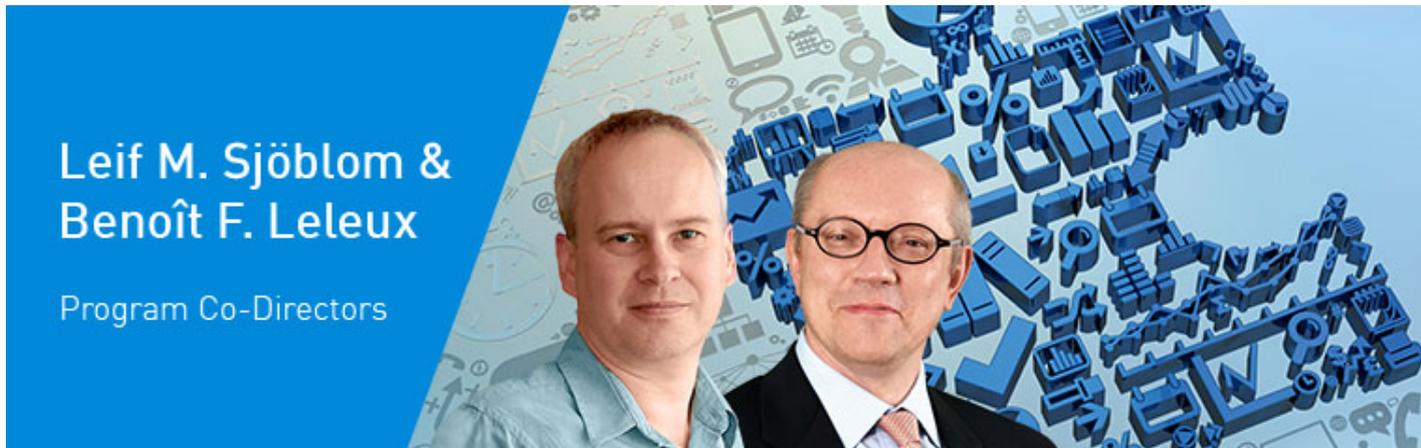
What the continent can do for itself in order to create and capitalize on the business opportunities it offers, is to continue to invest in infrastructure; so far even though infrastructure is lagging, investment levels are on track.

Many African countries also need to focus on encouraging the creation of more large and medium-sized companies in order to create more jobs. To do this, education systems, which are currently geared toward creating civil servants, have to be changed. Schooling should be more oriented toward vocational skills (carpentry or plumbing, for example) and instilling entrepreneurial values.

Until then international businesses just have to adjust to the current realities in Africa. Doing business in Africa is very different than doing it elsewhere. If you come with a European or American perspective, you probably won't succeed. But if you can adapt, opportunities abound.

[Leif Sjoblom](#) is Professor of Financial Management at IMD. He runs a number of business ventures in African countries. He is co-Director of IMD's [Foundations for Business Leadership](#) and teaches in [Orchestrating Winning Performance](#).

Related Programs

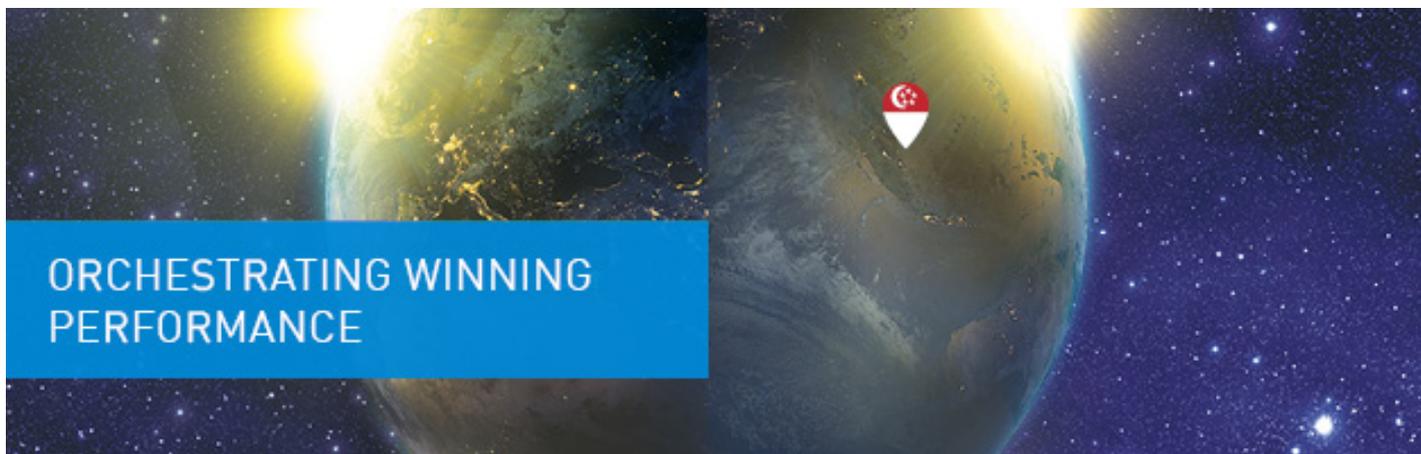


Foundations for Business Leadership - <http://www.imd.org/fbl>

Accelerating mastery of cross-functional skills

Program Directors Leif Sjöblom and Benoît Leleux

- Strengthen your knowledge and understanding of key business functions
- Become aware of how value is created by integrating functions
- Master the application of these new and enhanced capabilities to complex business issues
- A stepping stone to IMD's Program for Executive Development (PED) or Executive MBA (EMBA)



ORCHESTRATING WINNING PERFORMANCE - <http://www.imd.org/owp>

Create your own learning journey

Program Directors Michael Wade and Dominique Turpin

- Get exposed to the latest management thinking and to practical and innovative solutions for your business
- Anticipate global business trends
- Boost your performance, broaden your perspectives and expand your global network
- Design the program that suits you and your team
- Become a complete executive through activities that develop your mental, physical, and emotional health