EY's attractiveness survey

Africa 2014

Executing growth

Summary

EY

Building a better working world

Attractiveness

EY's attractiveness surveys

EY's attractiveness surveys are widely recognized by our clients, the media and major public stakeholders as a key source of insight on foreign direct investment (FDI). Examining the attractiveness of a particular region or country as an investment destination, the surveys are designed to help businesses to make investment decisions and governments to remove barriers to future growth. A two-step methodology analyzes both the reality and perception of FDI in the respective country or region. Findings are based on the views of representative panels of international and local opinion leaders and decision-makers.

Our Africa Business Center™

Today, we are able to navigate through the complexity that our clients are experiencing across the geographies. We do this through our Africa Business Center™. Its sole purpose is to help clients make their investment and expansion decisions in Africa.

Our Africa integration benefits our clients through:

- A network of people across Africa and the rest of the world, enabling us to coordinate our resources to provide clients with a single point of contact
- Pre-eminent thought leadership and events such as the Africa attractiveness survey, the Strategic Growth Forum Africa and the Africa Tax Conference
- The unique Growing Beyond Borders™ software — an interactive map-based tool that visually maps data through the lens of the continent's geography
- A proven methodology for supporting the development of growth strategies for Africa

EY Strategic Growth Forum™

Africa 2014: realizing the possibilities
8-9 October 2014, Sandton Convention Centre, Johannesburg, South Africa

Among the key topics that will be explored this year:

- Africa 2030
- Building capabilities for growth in Africa
- Realizing Africa's human potential
- The future of infrastructure in Africa
- Innovation
- Financing Africa's growth and development
- African success stories

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The Emerging Markets Center is an EY Center of Excellence that quickly and effectively connects you to the world's fastest-growing economies. Our continuous investment in them allows us to share the breadth of our knowledge through a wide range of initiatives, tools and applications, thus offering businesses in both mature and emerging markets an in-depth and cross-border approach, supported by our leading and highly integrated global structure.

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Cover: A view of the EY Africa flagship office in the Sandton business district, Johannesburg, South Africa.

EY's attractiveness survey: Africa 2014

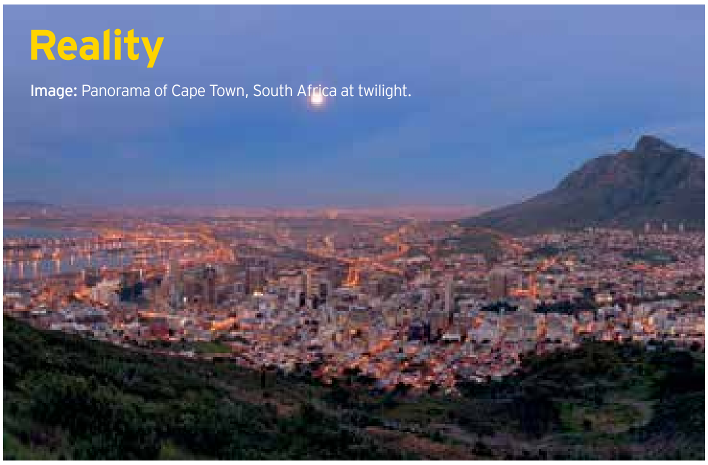

Image: Panorama of Cape Town, South Africa at twilight.

Image: Panorama of Port Louis, Mauritius.

Image: Downtown Nairobi, Kenya.

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This is a summarized report of EY's *2014 Africa attractiveness survey.*

To download the full report, go to:
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Foreword

Investing in the African opportunity

Jay Nibbe
Chair of Global Accounts Committee, EY

Ajen Sita
Chief Executive Officer, EY Africa

We welcome you to the fourth edition of the annual *Africa attractiveness survey*. When it was first decided to embark on this project in 2010, as part of EY's series of attractiveness surveys spanning over a decade, it was somewhat experimental. However, the response to our first and subsequent editions has been so overwhelmingly positive that this has now become an ongoing annual project. This response demonstrates both the increasing levels of investor interest in the continent, and the great need for reliable data and thought leadership that can support decision-making.

In 2010, we had just hosted the first FIFA World Cup on African soil. Despite pretournament concerns about the ability of an African country to prepare for and host a World Cup, it was widely hailed as one of the best organized and most successful tournaments ever. Over the past four years, this perception gap has been a consistent theme in our reports. Despite the tremendous progress the continent has made in the post-Cold War and postapartheid era, and despite consistent economic growth over the past decade, perceptions about the continent often remain stuck in the past. The good news this year is that this appears to be changing. Among our survey results, what really stands out is the perception of Africa's attractiveness as an investment destination relative to other regions: from being ranked 8th out of 10 regions in our first survey, to 5th in each of the last two years, Africa ranked 2nd overall this year. This remarkable progress in a short space of time shows how the image of Africa has begun to change.

However, at the same time, the number of greenfield and significant expansion (brownfield) FDI projects in Africa in 2013 declined for the second year in a row. Perhaps the shift is not quite as dramatic as the improving perceptions suggest? It is important to go beyond this headline,

"... we remain convinced that the African growth story is a compelling one"

In remembrance
Nelson Rolihlahla Mandela

18 July 1918 - 5 December 2013
To the dedicated freedom fighter. Son. Husband. Father. Grandfather. Great-grandfather. Friend. Activist. African. Attorney. Amateur boxer. Nobel Peace Prize winner. Orator. Peacemaker. First black president of a democratic South Africa. Recipient of over 250 global awards. Hero. Moral and political genius. 46664. Consensus builder. Liberator. Negotiator. Symbol of human rights. Statesman. We pay tribute to Nelson Rolihlahla Mandela, uTata Madiba, a man who will never be forgotten.

and to distinguish between trends in North Africa and sub-Saharan Africa (SSA). While FDI flows into North Africa have declined significantly, those into sub-Saharan Africa continue to grow — by 4.7% last year, and at a compound annual growth rate (CAGR) of 19.5% since 2007. Regional hubs, such as South Africa, Nigeria and Kenya, together with emerging high-growth economies, such as Ghana, Mozambique, Zambia, Tanzania and Uganda, are at the forefront of rising FDI levels.

Given all the positives that we have observed and analyzed over the past four years, we remain convinced that the African growth story is a compelling one, and it should be attracting even greater numbers of FDI projects. Africa's share of global FDI projects has grown steadily in the past decade, but remains at less than 5% of global flows. Over this period, India alone has received a higher proportion than the entire continent of Africa. The perception gap continues to slow the acceleration of FDI flows into Africa, and it is illustrated once again this year by the marked contrast in perceptions between those who are already doing business in Africa and those who are not yet. Those already active on the continent are more positive than ever about its prospects, and rank it as by far the most attractive investment destination in the world today. Those who are yet to invest are far less enthusiastic, ranking Africa as the least-attractive investment destination in the world. The gap could hardly be wider.

To further dispel some of the persistent myths, and to bolster the confidence of those considering investing in Africa, we shine a light this year on 14 companies that we consider to be among the continent's growth leaders. This group includes some of the largest and most admired companies in the world, as well as several home-grown African multinationals. Some of these companies have roots in Africa that go back over a century, most have been operating here for decades, while a few are relatively new entrants. A common theme among them all is that they are investing in new opportunities, creating jobs and executing growth strategies in Africa. Since 2007, these companies have invested in over 200 FDI projects that have created about 33,000 new jobs with a combined value of close to US$20b.

Companies like these are embracing Africa's uncertainty, complexity and volatility, understanding that these are common challenges across most emerging markets. They are actively balancing the three tensions that all companies face in doing business in emerging markets: namely, long-term versus short-term focus; profit-taking versus sustainable growth; and managing the whole versus optimizing the parts. Most importantly, these companies are establishing strong competitive positions in key markets and are poised to benefit from the continued growth we anticipate over the next decade.

In our first edition of the *Africa attractiveness survey*, we declared, "It is time for Africa!" We also said that there was a window of opportunity to act before others woke up to the African opportunity. That window is now narrowing, and the cost of entering African markets is already beginning to rise. Companies with an already-established presence continue to expand and entrench their advantages. In our opinion, the risk of missing this window is likely to be far greater than any of the risks you will encounter in actually doing business in Africa.

Methodology

EY's *2014 Africa attractiveness survey* is based on a twofold, original methodology that reflects:

The real attractiveness of Africa for foreign investors

Our evaluation of the reality of FDI in Africa is based on fDi Markets. The fDi Markets database tracks new greenfield and expansion FDI projects. Joint ventures are only included where they lead to a new physical (greenfield) operation. M&A and other equity investments are not tracked. There is no minimum size for a project to be included. However, every project has to create new jobs directly. Data on FDI project creation and the number of jobs created is widely available. However, many analysts are more interested in quantifying projects in terms of physical assets, such as plant and equipment, in a foreign country. These figures, rarely recorded by institutional sources, provide invaluable insights as to how inward investment projects are undertaken, in which activities, by whom and, of course, where. To map these real investments carried out in Africa, EY used data from fDi Markets. This is the only online database tracking cross-border greenfield investments covering all sectors and countries worldwide. It provides real-time monitoring of investment projects and job creation, with powerful tools to track and profile companies investing overseas.

The perceived attractiveness of Africa and its competitors among foreign investors

We define the attractiveness of a location as a combination of image, investors' confidence and the perception of a country or area's ability to provide the most competitive benefits for FDI. Field research was conducted by the CSA Institute in January 2014, via telephone interviews with a representative sample of 503 international decision-makers. Business leaders were identified and interviewed in 34 countries. Globally, of the 503 business leaders interviewed, 61% work for companies that operate in Africa.

Our survey was conducted among business leaders drawn from businesses across six regions.

The geographic representation was as follows:

- 56% European businesses
- 9% North American businesses
- 15% Asian businesses
- 6% Middle Eastern businesses
- 2% Oceanian businesses
- 2% other businesses

The business leaders interviewed are active in the following key economic sectors:

- Private and business services
- Industry and automotive
- Consumer products
- High tech and telecommunication
- Life sciences
- Real estate and construction
- Energy and cleantech
- Agriculture
- Mining and metals
- Private equity
- Aerospace and defense

Subregion classification

North Africa: Algeria, Egypt, Morocco, Tunisia, Libya
East Africa: Kenya, Uganda, Rwanda, Tanzania, Sudan, South Sudan, Ethiopia, Eritrea, Burundi, Comoros, Djibouti
Southern Africa: Angola, Botswana, Lesotho, Malawi, Mozambique, Namibia, South Africa, Swaziland, Zambia, Zimbabwe, Madagascar, Mauritius, Reunion, Seychelles
Western Africa: Nigeria, Niger, Mali, Benin, Togo, Senegal, Sierra Leone, Mauritania, Liberia, Guinea, Guinea-Bissau, Ghana, Gambia, Gabon, Cote D' Ivoire, Burkina Faso, Cape Verde, Cameroon, Equatorial Guinea, Sao Tome and Principe
Central Africa: Central African Republic, Chad, Democratic Republic of Congo, Republic of the Congo

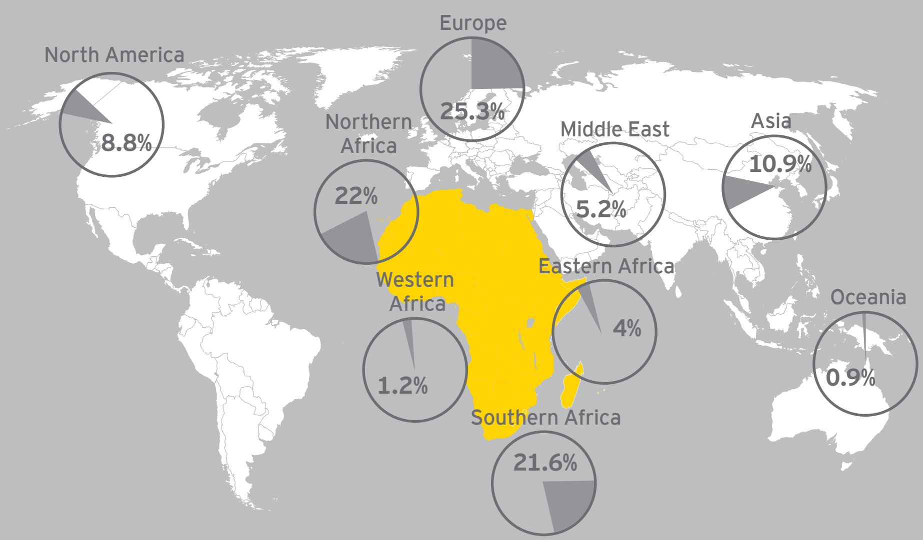
Sector classification

Sectors in this year's report have been classified based on broad EY sectors. As a result, the numbers differ from previous Africa attractiveness survey reports.

Aerospace and defense: aerospace, space and defense
Agri-products: rubber, wood products
Automotive: automotive components, automotive Original Equipment Manufacturers (OEMs)
Business services: business services
Chemicals: chemicals, plastics
Cleantech: alternative and renewable energy
Coal, oil and natural gas: coal, oil and natural gas
Diversified industrial products: business machines and equipment, engines and turbines, industrial machinery, equipment and tools, paper, printing and packaging
Financial services: financial services
Health care: health care
TMT: software and IT services, communications, electronic components, semiconductors, leisure and entertainment
Life sciences: biotechnology, medical devices, pharmaceuticals
Metals and mining: metals, minerals
RCP: beverages, consumer electronics, consumer products, food and tobacco, textiles
RHC: hotels and tourism, building and construction materials, real estate, ceramics and glass
Transport and logistics: non-automotive transport OEM, transportation, warehousing and storage

Profile of companies surveyed

Geography



Size (sales turnover)

11.4%
More than US$2b

18.9%
Between US$501m to US$2b

19.2%
Between US$201m to US$500m

34.4%
Less than US$200m

16.1%
Can't say

Job title

50%
Financial director

14%
Managing director, senior vice president or COO

11.7%
Commercial director or sales and marketing manager

7.6%
Director of development

5.6%
Director of strategy

3%
Chairman, president or CEO

2%
Director of investments

1.6%
Communication manager

4.6%
Other

Sector of activity

24.2%
Private and busines services

16%
Industry and automotive

15.6%
Consumer products

12.6%
High tech and telecomunication

10.3%
Life sciences

8.3%
Real estate and construction

7.4%
Energy — cleantech

2.4%
Mining and metals

2.3%
Agriculture

0.7%
Private equity

0.7%
Aerospace and defense

Key findings

A dramatic improvement in investor perceptions over the past four years

Africa's perceived attractiveness relative to other regions has improved dramatically over the past few years. Africa has moved from the third-from-last position in 2011 to become the second-most attractive investment destination in the world. This year, only North America ranks ahead of Africa in terms of investment attractiveness. Sixty percent of our survey respondents said that there had been an improvement in Africa's investment attractiveness over the past year, up four percentage points from the 2013 survey. Only 17% believe that conditions have deteriorated. Similarly, nearly three out of four respondents believe that Africa's attractiveness will improve further over the next three years.

Improvement in Africa's relative attractiveness

Respondents citing an improvement in Africa's attractiveness as a place to do business

Attractiveness over the past year

60%

+4 points
Change vs. 2013 survey

Attractiveness over the next three years

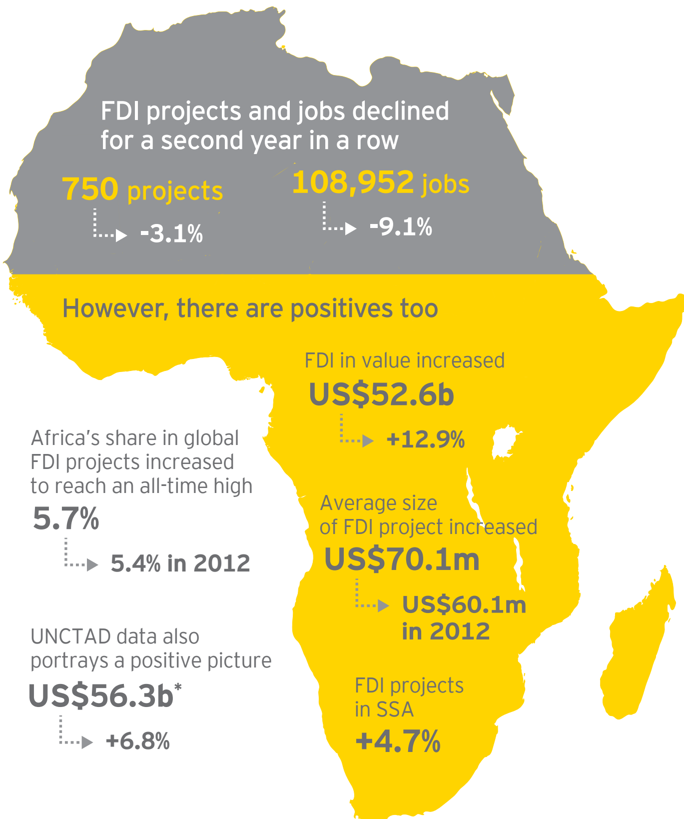
73%

+1 point
Change vs. 2013 survey

Source: *EY's 2014 Africa attractiveness survey* (total respondents: 503).

FDI numbers reveal a mixed picture

FDI in 2013



Source: fDi Intelligence
* UNCTAD.

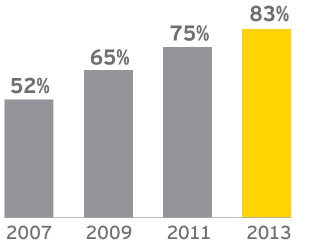
In 2013, the number of new FDI projects in Africa declined for the second consecutive year, by 3.1%. Job creation resulting from FDI projects also slowed in 2013. This was largely caused by the decline in North Africa, due to regional political uncertainty. However, more positively, the number of new FDI projects in SSA increased 4.7% in 2013. Capital investment into Africa also grew by a healthy 12.9%, with a higher average project size of US$70.1m in 2013, from US$60.1m in 2012.

Furthermore, Africa's share of global FDI flows has been improving year on year. In 2013, Africa's share of global FDI projects reached 5.7% — its highest level in a decade. And an analysis of United Nations Conference on Trade and Development (UNCTAD) FDI data also reveals a story of steady progress: companies already established in the region are bolstering their presence and reinvesting their profits for growth.

Three key trends gain further momentum

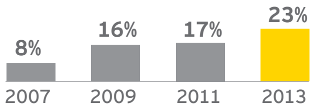
In previous editions of the *Africa attractiveness survey*, we have highlighted three broad shifts. These continued to gain traction in 2013. First, the SSA growth story has caught investor attention, with an increasing number of FDI projects now being directed to the region. This trend accelerated in 2013, with SSA's share in overall African FDI projects and job creation reaching all-time highs.

1 SSA share of FDI rises



Share of SSA in FDI projects in Africa reached an all-time high in 2013.

2 Intra-African investment momentum builds



Share of intra-African projects in the continent reached an all-time high in 2013.

3 Consumer-facing industries rise in prominence

	2003-07	2013
Technology, media and telecommunications	14%	20%
Retail and consumer products	12%	17%
Financial services	12%	15%
Business services	6%	12%
Metals and mining	13%	2%
Coal, oil and natural gas	11%	3%

Share of extractive sectors in FDI projects in Africa reached an all-time low in 2013.

Source: fDi Intelligence.

Within SSA, Southern Africa is the leading region in terms of absolute numbers of FDI projects, while both East and West Africa have experienced strong growth rates. South Africa remains the largest destination for FDI projects, with a widening lead. However, a number of other countries, including Ghana, Nigeria, Kenya, Mozambique, Tanzania and Uganda, are becoming more prominent on investors' radar. Kenya and Ghana featured in the top four rankings in 2013 for the first time, having previously ranked in the bottom half of the top 10 FDI destinations.

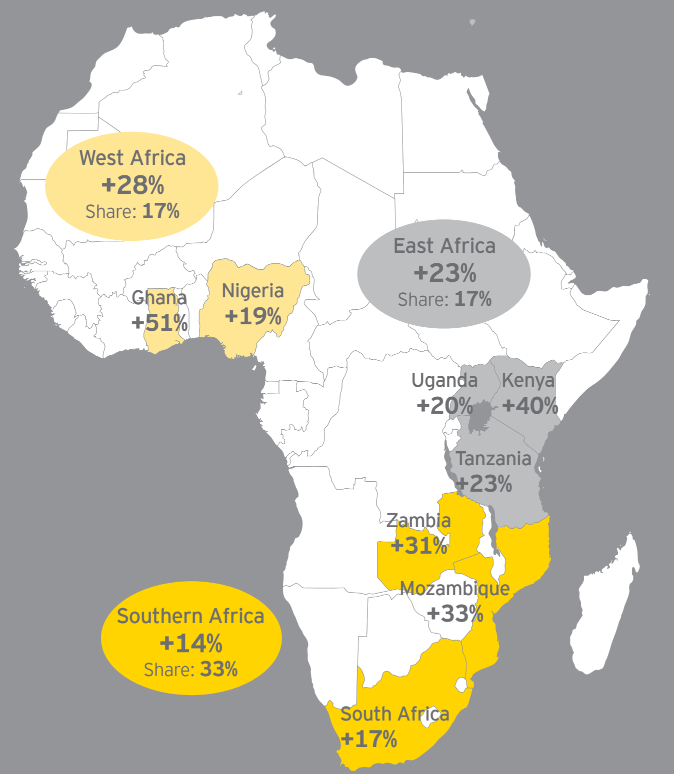
A second major shift is the growing share of intra-regional investment in Africa (CAGR of 31.5% in FDI projects between 2007 and 2013). This is encouraged by improving regional value chains and strengthening regional integration. The share of FDI projects in Africa with other African countries as their source reached 22.8% in 2013 — an all-time high. Intra-African investment is second only to Western Europe as a source for FDI on the continent. Intra-African investments are also the second-largest source of job creation on the continent. South Africa is the most active intra-African investor, followed by Kenya and Nigeria.

Overall, the US and the UK remain the top two sources of investment into Africa, while the number of FDI projects from Asian countries, particularly India, is on a rise.

The third shift is a change in sector focus, from extractive to consumer-facing industries. Mining and metals, and coal, oil and natural gas, which were previously the key sectors attracting major FDI flows, have recently become less prominent, as service- and consumer-related industries have increased in relative importance. In fact, the share of the extractive sector in FDI projects was at its lowest ever level in 2013, while the share of consumer-facing industries, particularly technology, media and telecommunications (TMT), retail and consumer products (RCP) and financial services, has been increasing continuously. This matches with investor perceptions. Although resource-driven sectors are expected to remain the highest-potential industries over the next two years, infrastructure and consumer-facing sectors are expected to increase in prominence.

New FDI hotspots are emerging in Africa

CAGR and share in FDI projects (2007–13)



Source: fDi Intelligence.

Key findings

The key hub economies attract the strongest FDI flows — matching investor perceptions

Investors see the three regional hub markets — namely South Africa in the south, Nigeria in the west and Kenya in the east — as the most attractive investment destinations in SSA. These three countries account for over 40% of total FDI projects in SSA. Angola, which is the fourth-largest recipient of FDI projects, is similarly perceived to be the fourth-most attractive investment destination. However, investors who are not yet established in Africa are less aware of opportunities in countries other than South Africa. For instance, while 27.5% of investors already doing business in Africa express interest in Nigeria, only 13.3% of respondents with no business presence view the country as attractive.

In North Africa, too, we find that FDI flows are a reasonably close match with investor perceptions. Morocco and Egypt are seen as the two most attractive countries in North Africa, by 55% of investors. In reality also, these two countries received approximately 60% of the FDI projects between 2007 and 2013.

Key African hubs: reality vs. perception

Share

	Reality*	Perception**
SSA		
South Africa	24%	37%
Nigeria	9%	9%
Angola	8%	6%
Kenya	7%	6%
North Africa		
Morocco	30%	31%
Egypt	31%	24%

* Top countries by share of FDI projects (2007–13).
** Top countries perceived as most attractive by investors.
Source: *EY's 2014 Africa attractiveness survey* (total respondents: 503); fDi Intelligence.

FDI flows to large urban clusters in the key hubs

Africa's cities are now emerging as the hotspots of economic and investment activity on the continent. Transport corridors* and trade routes are being developed to connect these cities, transforming them into sizable urban clusters, large enough for consumer-facing companies to target. Nearly 70% of the respondents to our survey stressed the significance of cities and urban centers in their investment strategy in Africa.

In terms of perception, city attractiveness closely maps country appeal. In SSA, half of the respondents quote a South African city as their first option. Johannesburg is considered the most attractive city in which to do business, ahead of Cape Town. Nairobi and Lagos are ranked as the third and fourth most attractive cities, respectively. In North Africa, Casablanca, Cairo and Tunis are perceived as the top three cities in which to do business. Our investors also highlighted that, in order to attract greater investments, cities need to focus on the following critical factors: infrastructure (77%), consumer base (73%), local labor cost and productivity (73%) and a skilled workforce (73%).

* Transport corridors can be understood as networks of transport routes and services — road, rail, inland waterways — linking trade markets with ports.

Top 15 African states and provinces for FDI projects

(2007–13)

Sources: fDi Intelligence, EY analysis.

Africa's urban appeal

Top African cities according to survey respondents

North Africa	
Casablanca	26%
Cairo	20%
Tunis	8%
Algiers	8%
Can't say	27%
SSA	
Johannesburg	34%
Cape Town	15%
Nairobi	6%
Lagos	5%
Can't say	23%

Source: *EY's 2014 Africa attractiveness survey* (total respondents: 503).

The stark perception gap remains

While investor perceptions about Africa have improved dramatically, improvement in FDI numbers has been more modest. The most likely reason for this is the stark and enduring perception gap, illustrated in our survey by the differences between respondents established in Africa and those with no business presence in the continent. Those with an established business presence are more positive than ever about Africa's prospects, and they rank it as the most attractive investment destination in the world. These investors have concrete action plans to generate growth in Africa, and many of them are investing in growth across the continent.

On the other hand, investors not yet established in Africa are far less confident about the continent's prospects. Only 39% believe that Africa's attractiveness has improved, while only 51% believe it will improve in the future. Their less optimistic view is, however, slowly changing — improving from last year's 31.2% and 47.3%, respectively.

Respondents who ...

	... believe Africa's attractiveness has improved over the past year	... believe Africa's attractiveness will improve over the next three years	... have a specific strategy for investment in Africa
Established	73%	87%	67%
Not established	39%	51%	10%

Source: *EY's 2014 Africa attractiveness survey* (total respondents: 503).

Executing growth

Lessons from growth leaders in Africa

To further dispel some of the persistent myths, and to bolster the confidence of those considering investing in Africa, we shine a light this year on 14 companies that we consider to be among the continent's growth leaders.

Private equity	Africa Infrastructure Investment Managers (AIIM)	Diversified	GE
Consumer products	British American Tobacco (BAT)	Information and communication technology	IBM
Telecommunications	Bharti Airtel	Diversified	Mara Group
Consumer products	Coca-Cola Sabco	Consumer products	Nestlé
Logistics	DHL Express	Financial services	Sanlam
Financial services	Ecobank	Industrial	SKF
		Oil and gas	Tullow Oil

Purpose

Effectively executing an African growth strategy is a complex and challenging task. It should not be undertaken lightly, nor should it be a default because growth is sluggish in other markets. Before even thinking about the "how" of growing in Africa, it is critical to first clearly answer "why." For some organizations – including **EY**, **DHL** and **IBM** – it is primarily about following client demand. For **Coca-Cola Sabco**, specific opportunities arose in East Africa that made strategic sense for them at a time when the South African economy was globalizing; **Airtel**'s core business in India was maturing and, after a comprehensive global scan, they decided that African markets were best suited to their business model; for a resources company such as **Tullow Oil**, it is all about geology – Africa offered an opportunity via vast tracts of underexplored, high-potential territory; for consumer products companies such as **BAT** and **Nestlé**, with long histories and track records in Africa, their competitive positioning, manufacturing presence and established distribution networks position them ideally for growth on the back of the rising African consumer class. The common thread for all of these organizations has been a clear strategic reason to pursue long-term growth in Africa, rather than just a vague intent.

Allied to this should be clarity on capabilities and competitive positioning. What are the capabilities you have that are repeatable, scalable and that can enable the creation of a clear value proposition? **Tullow Oil**, for example, is very clear that its competitive advantage is built on industry-leading exploration capabilities. As a result, it has been able to go into remote territories that others may not have considered, and has had the confidence to invest billions of dollars in drilling activities. In Africa, **Tullow Oil**'s average drilling success rate (i.e., where some form of hydrocarbon is discovered) is over 70%, which is more than double the global industry average. SABMiller expanded across many parts of Africa (and beyond) from its original South African base in the 1990s by deploying small but seasoned management teams, some capital, and proven technical and marketing expertise into new markets. More recently, **Sanlam**, a South African-headquartered financial services firm, has followed a similar approach, generally purchasing a stake in existing businesses and focusing on providing technical (e.g., actuarial) and marketing expertise gained over many years of successfully operating in the mature South African market, to help drive the growth of partner companies in other parts of Africa.

Planning

Given the scale, complexity and fragmented nature of the African continent, making well-informed choices about which markets to enter when and via which mode is critical. Most organizations that are succeeding in Africa plan systematically and revisit their plans frequently to align and recalibrate. However, there also has to be an understanding that executing these plans can be complex, and that too much time and energy can be spent looking for definitive answers in a spreadsheet. It is important to strike the right balance between sticking to the plan — and, more fundamentally, to the core business purpose — and adapting to different needs and circumstances. Successful companies will enable and encourage adaptability in differing circumstances, and will even be prepared to modify elements of the business model. However, they will also apply robust and proven policies, systems and processes that are non-negotiable, and will ensure that they retain what is core to their competitive advantage, whatever the context.

This has certainly been the experience of **DHL**, which operates in every country in Africa. Across the continent, its brand is almost as ubiquitous as **Coca-Cola**'s. **DHL**'s entrepreneurial culture emphasizes the importance of being close to the market, and enables adaptation to local needs and conditions. However, in an African environment that is incredibly diverse, where there are often risks associated with bribery and corruption, and where the power of the connected network is a key differentiator, it is also critically important to be clear on what is non-negotiable. For **DHL**, the brand, critical business processes, centralized IT systems and core beliefs and values form the common ground that then enables a degree of flexibility and adaptability in specific markets.

Given its rapid expansion into new African markets over the past few years, **IBM** has also had to get the balance right between, on the one hand, careful planning and control and, on the other, the ability to adapt to local conditions and to get up and running quickly. Like **DHL**, the company has a strong emphasis on being clear about what can be flexible and what is non-negotiable. So, for example, regulatory compliance is essential (country laws cannot be bent), and there is zero tolerance on any form of bribery or corruption, or anything that could tarnish **IBM**'s reputation and brand. More fundamentally, I**BM**'s core beliefs and values — its DNA — are viewed as sacrosanct, and living those values is non-negotiable. There is an **IBM** country manager (usually a local) appointed in every country the company operates in in Africa — part of their system of control — and each one is held accountable for instilling the **IBM** DNA in the organization. At the same time, the company strategically deploys "IBMers" — longtime I**BM** employees who embody the values and character of the organization — in expat roles to help accelerate the process of embedding the **IBM** values and culture as they enter new countries and hire new staff.

From an organizational perspective, some form of regional shared services center can be an important enabler of planning and effective strategic execution. **GE**, for example, has established a regional shared service center in Nairobi for 10 back-office processes and functions, including HR, communications and tax compliance. This is important because it enables the commercial people in the markets to focus on what they are meant to be doing: connecting with customers and growing the **GE** business. Similarly, to ensure consistency across the more than 30 different African markets in which it operates, **Ecobank** has created three IT hubs and three call centers, to ensure brand consistency and common systems and processes.

Portfolio

While we are positive about the growth potential in Africa, we are also realistic about the relative immaturity and risk, as well as the current lack of scale, in many individual markets. We can guarantee that there will be volatility, uncertainty and many challenges — perhaps even failures. So it is important to balance risk across a number of different markets. A sizable African portfolio provides three critical advantages:

1. It reduces the risk of political or economic instability in any one country materially impacting overall earnings.

2. It allows companies an early-mover advantage in markets that are still at an early stage of development.

3. It can provide sufficient scale to make the African portfolio large enough to matter.

A portfolio effect is likely to be particularly important for services and consumer-facing companies, for whom it may take time to build a business of a worthwhile size in any particular country or region. **Airtel**, **BAT**, **Coca-Cola**, **DHL**, **Ecobank**, **EY**, **IBM** and **Nestlé** for example, all operate across more than 20 different African markets. However, the ability to effectively build up and manage a critical mass of projects and assets across the continent has also been integral to the success of **Tullow Oil**. **Tullow Oil** drills more wells in Africa than any other oil company. For example, in Uganda alone, it has drilled more than 50 wells since 2006. This is partly what has enabled **Tullow Oil** to make by far the most new oil discoveries in Africa in recent years. Having sufficient projects at later stages of development also means that these can be monetized to fund ongoing exploration. For example, production in Ghana will generate ongoing revenue for reinvestment, while the sale of a share of its rights in Uganda (preproduction) provided an immediate US$2.9b capital boost.

Mara Group, a diversified conglomerate with roots in Uganda, has also expanded across the continent and now has operations, either directly or via its investments, in 19 African countries. Its portfolio across the continent is an important factor in positioning **Mara** as a partner of choice for foreign investors. Because most African markets still remain very small and fragmented, being able to partner with one pan-African company rather than with different ones in different countries can be a key differentiator.

Spreading risk across a range of markets can also help enable earlier entry into less mature or supposedly higher-risk markets. The importance of (and opportunity for) early-mover advantage should generally not be underestimated. Although it may require a leap of faith and should not be done halfheartedly, the anecdotal evidence suggests that, particularly for consumer-facing companies, it is worth investing ahead of the curve. **BAT**, **Diageo**, **Nestlé**, SABMiller, Shoprite and Unilever provide examples of this in different African markets. Early-mover advantage — particularly in sectors where barriers to entry can later become high — can end up being critical.

The mobile telecommunications sector, where a limited number of licenses are generally issued, provides a good example of how difficult and costly it is to gain market share once an incumbent is established. In most markets, the number one and two players dominate and make the bulk of the profit. This is why **Airtel**, for example, having stabilized its operations across Africa, is now focusing on in-country consolidation and diversification of revenue streams. Rather than looking at further expanding its footprint across the continent, the focus for **Airtel** is on entrenching its position in markets where it is number one (e.g., Malawi and Gabon), consolidating its position where it is already a strong number two (e.g., the DRC and Uganda), and becoming a strong number two in key markets where there is a dominant number one (e.g., Nigeria and Kenya, where MTN and Safaricom, respectively, dominate the market).

People

Strategies are not self-executing. Boardroom-level strategy-making can map out the most exciting opportunity matrices and solid risk mitigation measures across the continent — but their implementation inevitably turns on staff in the countries of operation. A commonly cited challenge for many companies expanding in Africa is the shortage of skills. This is particularly acute for companies such as **SKF**, a Swedish manufacturer of specialist machine equipment, which require people with quite specialized technical knowledge. **SKF**'s value proposition is built not only on the quality of its products, but also on the ongoing on-the-ground technical and consulting support it provides to its distributors and clients. Mining companies, for example, operate very sophisticated equipment that requires skilled maintenance in remote locations in countries such as Mozambique, Zambia and the DRC. Providing adequate support to these clients requires deep sector knowledge and technical skills, as well as the capabilities to transfer this knowledge to distributors and clients. However, in most instances, it is still very challenging to find people with the required skill levels. As a result, these people are very expensive to hire and are very mobile, which creates an ongoing recruitment and retention challenge.

On the other hand, there is abundant latent talent. What sometimes distinguishes the more successful companies in Africa is their ability to recognize this. For example, **DHL** has, in recent years, focused a lot of effort into developing the skills of its people across the continent. **DHL**'s view is that, while there is often a skills gap, Africa does offer enormous human potential, and **DHL** sees that the people in its organization have tremendous energy, dynamism and ambition. This is a fundamentally different perspective to the more conventional line that skills shortages are a critical challenge in Africa.

However, for many firms that are serious about developing their African investments in the longer term, success will depend on the ability to put human resource development, especially for management and technical skills, at the heart of strategy execution. Sustained achievement will depend to a very large extent on finding, training, retaining and supporting good people — in particular, local staff. At the same time, expatriates can play a critical role in establishing a strong operational foundation, ensuring consistency and cohesion in terms of organizational culture and values, and in helping to develop skills and to transfer knowledge. For example, expatriates are playing a key role in **IBM**'s expansion across the continent, in both technical and management roles. A critical dimension of this is the role of IBMers. Using IBMers in expat roles helps to accelerate the process of embedding the **IBM** values and culture as the company enters new countries and hires new staff. These expatriates also, of course, play a key role in terms of training and knowledge transfer. As much as possible, **IBM** is also tapping into the African diaspora, relocating IBMers with African roots back to Africa from other parts of the world.

GE stresses the importance of getting strong people on the ground who have "dual DNA" — i.e., an understanding both of **GE**, including its systems, culture and values, and of the local business environment. In certain markets, to develop this type of understanding, **GE** has decided to take a long-term perspective. It has begun training future **GE** leaders from scratch. The starting point is the newly created Early Career Development Program (ECDP), a 12-month leadership program designed to give recent university and college graduates challenging work assignments, training and development, and leadership experience (**GE** has now also initiated a pre-ECDP internship program). One hundred and fifty Africans have now participated in the ECDP program. This is the beginning of a 10-year journey of training, work experience and global rotation within **GE** that will ultimately provide a critical mass of African leaders across the **GE** Africa business.

Partnerships

The point has already been made that relationships matter, perhaps more so in Africa than in any other region, but it cannot be overemphasized. To develop relationships in Africa requires a significant investment of time and energy. Strong local business partnerships are often critical to success — an effective local partner can help a new market entrant to hit the ground running, providing support with, for example, navigating bureaucracy, coming to terms with local operating issues, and developing an understanding of consumer or client dynamics. **Sanlam**, a South African-headquartered financial services company, has a deliberate approach of entering new markets via local partnerships. Its approach is premised on the view that every new market it enters is unique in terms of culture, consumer preferences and the business environment. The company's experience has also shown that local management is best equipped to run local businesses, while **Sanlam** adds value by offering deep sector-specific technical skills, by sharing knowledge gained through many years of operational experience, and by providing capital to support growth. **Sanlam**'s business in Botswana provides a good example of this partnering philosophy in practice. **Sanlam** has a majority shareholding in Botswana Insurance Holdings Limited (BIHL), one of the top five listed companies on the Botswana Stock Exchange, with the rest of the shareholding in local hands. The company is wholly run and operated by local management teams, with **Sanlam** very much in a supporting role.

However, a more common model is to provide local shareholders with a minority shareholding. For example, **Coca-Cola Sabco** has local shareholders in every African country it operates in — other than Tanzania — with an average local shareholding of 20%. Local shareholders are either prominent businesspeople or, in the case of Namibia and Mozambique, the government; but they all generally play an active role and often chair the local board.

Some of the mature African operators have also listed their in-country operations on local stock exchanges. For example, **BAT** has a secondary listing on the Johannesburg Stock Exchange, as well as local listings in countries such as Kenya, Uganda, Zimbabwe and Zambia; **Nestlé** is listed on the Nigerian Stock Exchange; **Sanlam** has a listing in Namibia; and **Tullow Oil** is listed in Ghana.

On the other side of the relationship, the **Mara Group** has successfully positioned itself as a local African partner for several multinational investors in the continent. Mara offers its foreign partners local knowledge and networks, an on-the-ground presence in 19 countries, and has access to its own sources of capital. As a result, **Mara** has attracted foreign investment partners across multiple sectors, including IT, real estate, business process outsourcing and manufacturing.

But partnerships do not only have to be about equity ownership; they come in many different forms. For any consumer-facing company, distribution-related partnerships are likely to be a critical success factor. This is particularly true in environments where the infrastructure is often underdeveloped, there are large rural populations, distances are vast, and retail tends to be dominated by small-scale and informal traders. One model that has worked well for **Coca-Cola Sabco** in parts of East Africa is the Official **Coca-Cola** Distributor (OCCD) approach — a model whereby the local **Coca-Cola Sabco** factory partners with a number of micro-distributors, each of which is given responsibility for a defined geographical area (generally a 1km radius in an urban environment, servicing at least 500 outlets). Area sales managers, who are full-time **Coca-Cola Sabco** employees, support and assist the local entrepreneurs who own these OCCDs. These OCCDs have become a central element in **Coca-Cola Sabco**'s core distribution strategy in several countries, and are responsible for 70% or more of sales volumes in Ethiopia, Kenya, Uganda and Tanzania.

Bharti Airtel has taken the concept of partnership further than most with their Ecosystem model. In India, **Airtel**'s high-volume, low-cost model is enabled in part by its outsourcing of large parts of its IT and network operations to strategic partners, such as Ericsson, **IBM** and Nokia (and so converting high fixed costs, which were an industry norm, to variable costs). This, among other things, allowed them to significantly reduce tariffs and rapidly grow their customer base across India. The model has been more difficult to deploy in Africa, given the inherent challenges of managing relationships and providing consistent, reliable service across 17 diverse African countries, but it has encouraged service partners, including **IBM**, to to significantly accelerate their growth strategies in Africa. As part of its ecosystem-type thinking, **Airtel** has also entered into several partnerships to innovate and extend its product range. For example, **Airtel** is partnering with **Sanlam** and MicroEnsure to develop low-cost insurance and health funding products across Kenya, Ghana, Tanzania, Zambia, Uganda, Malawi and Nigeria.

Partnerships

There is also ever increasing pressure for multinationals to demonstrate their long-term relevance and commitment to local African economies as partners in a broader sense. Fostering good, proper relations across government and civil society will therefore be vital to realizing strategic aims. This may require dedicated government-relations professionals to support the efforts of management. More importantly, it requires a philosophy and culture that aligns the organization with the host country's longer-term growth and developmental objectives. **Tullow Oil** is one of several resources companies that seem to be getting this right. **Tullow Oil** uses the term "shared prosperity" to describe its commitment to contributing to long-term social and economic development in the countries in which it operates. Departing from the — more traditional — corporate social investment approach, the focus here is on the developmental impact of **Tullow Oil**'s core business. This does not, for example, mean building schools and clinics, however much goodwill these kinds of activities may generate. Instead, **Tullow Oil** has moved away from a philanthropic approach and has started viewing all its social projects as an investment; an investment in managing the impact of their projects, but also as an investment in making themselves the partner of choice in the countries in which they are working. This means changing the focus to technical skills transfer, capacity building for the local oil and gas industry, and the encouragement of foreign investment in the country. For example, **Tullow Oil**'s Closing the Gap program, together with initiatives such as Traidlinks and Invest in Africa, focuses on enabling local suppliers to provide goods and services to international standards. This helps build strong relationships with local people and businesses, and more oil-related money stays in the host country.

Consumer-facing companies such as **Nestlé** and Unilever have been among those at the forefront of companies creating opportunities for micro-entrepreneurs in African countries. As part of **Nestlé**'s My Own Business initiative, for example, the company provides vendors with a Nescafé coffee dispenser they can strap on their back, so individual cups of coffee can be sold in markets, at events and at the roadside. This initiative was launched in Nigeria in 2012 and is now also operational in Burkina Faso, Côte d'Ivoire, Cameroon, Ghana, Senegal and Kenya. It will be extended to the DRC, Ethiopia, Angola and Mozambique this year. Unilever has also introduced its direct-to-consumer Shakti distribution scheme to Africa — this has been very successful in India, providing a livelihood to approximately 45,000 Indian women who sell Unilever products directly to three million households. Beginning in Nigeria and Kenya, Unilever aims to employ tens of thousands of vendors to sell directly to consumers. Unilever provides microfinance to its vendors in order to enable them set up their businesses. In so doing, it helps to provide a livelihood for people who might otherwise struggle to find work.

Perspective

In terms of macro risks, Africa's countries and regions can be difficult places in which to do business. But our research tells us that Africa is not a more difficult place to do business in, when compared with many other parts of the world. Indeed, on some key indicators, the much-vaunted BRIC countries are more risky or more difficult than many important African markets. At the same time, however, some negative perceptions have a basis in fact. Although some African countries score relatively well on various risk-related metrics, others continue to lag significantly behind in almost all such indices. However, for companies seeking growth in Africa, it may be better not to focus on absolute rankings and other such frozen-in-time snapshots. Experience suggests that rather than trying to look for problem-free African markets, it is a better mindset to try to understand whether and where such problems are generally receding (or are changing and becoming more manageable) and adopting a perspective that tracks progress over time, rather than dismissing markets on the basis of current indices.

More fundamentally, it takes a positive mindset to succeed in Africa — a commitment to seeing the glass as half full. This has been a common theme across virtually all of the companies we have engaged with. This is not to encourage recklessness; effective risk management is critical to doing business effectively in Africa. However, it is only one factor in successfully operating in Africa — there is no doubt that, if you set out expecting difficulty and risk, you will find it easily enough, and this will probably put a brake on any growth plans. Those who have been successful in Africa have tended to first look for the opportunities, and only then to factor in risks. Hence the significance of balancing an opportunity awareness mindset with a risk management approach.

Moreover, risk and opportunity can often be viewed differently in African markets. Success can come from seeing the opportunities that are inherent in ostensible risks and constraints. For example, infrastructure deficits are typically viewed as constraints or risks to doing business in Africa. Yet meeting the pent-up demand and backlog for infrastructure projects is, as firms such as **GE** and **AIIM** are well aware, also an opportunity. However, capitalizing on that opportunity requires a perspective that does not always come naturally to global multinationals: it requires a developmental mindset that is prepared to make investments in elements of the value chain that would be unthinkable in more mature markets.

AIIM is an equity investor in infrastructure projects, but it has had to make a shift away from simply investing to actually developing projects. For **AIIM,** this is arguably a more fundamental shift than geographical expansion, because it implies a different set of activities and a need for different capabilities. Conventional investment would focus on "prepackaged" opportunities — it is a relatively hands-off activity, with investment decisions being made on the basis of due diligence and a valuation. However, the challenge in many markets and sectors is that investment opportunities are at a far earlier stage than this, and require hands-on development to get them to a bankable stage. **AIIM** encountered this with both the Imoya wind project in South Africa and the Lekki toll road project in Nigeria. Both seemed conceptually sound, but they required a process of developmental structuring for them to become viable investment opportunities.

Much of **GE**'s revenue in Africa is derived from the sale of equipment for infrastructure-related projects. As with **AIIM**, however, a key challenge the company faces is that, despite the infrastructure gap and the obvious need and demand for infrastructure projects, there is often insufficient capacity and capability in the public sector to develop projects to the point at which they become bankable. Rather than wait for things to happen, **GE** has chosen to address this challenge head on by proactively engaging with governments and state-owned corporations, and by providing capacity to support the early-phase development of infrastructure projects. **GE** has also established a project development organization to help bridge the gap on infrastructure projects between concept and financial close (which is the point at which **GE** can sell its equipment). This 20-strong team works on various ideas to help develop and structure bankable projects, providing a range of value-added services to governments and state-owned corporations.

Patience

Whatever your answer is to the "why Africa?" question, there is no doubt that one of the key drivers has to be financial returns. Given Africa's economic growth over the past decade, and the fact that a number of organizations are already generating healthy returns from African operations, this is understandable. However, there is a very real danger that those back at headquarters will expect too much too soon from investments in Africa.

It generally takes time and investment to generate any kind of meaningful returns from African operations. Most of the multinationals that we have engaged with for this research have been operating in Africa for many years: **Tullow Oil** first entered Africa in 1986, for **DHL** it was in the 1970s, **IBM** 1933, **Nestlé** 1916, **SKF** 1914, and the African roots of organizations such as **BAT** and **EY** are well over a century old. Over time, companies such as these have gained skills, experience and understanding, and they have developed relationships and markets, established competitive positions, evolved operating processes and systems and built up meaningful African portfolios. There are few shortcuts, even for seasoned operators such as these. It is essential, therefore, to align the expectations of the group and of the regional management in terms of the scale of investment required, as well as the potential return on that investment. The reality is that each market will have its own opportunities and challenges, and that time lines for realizing the opportunities will often be longer than originally anticipated.

A firm such as **AIIM**, which is essentially a private equity investor, is at the sharp end of the tension between longer-term investment versus shorter-term returns. Of course, private equity investing tends to have a shorter- rather than longer-term focus, with five- to seven-year horizons fairly typical. However, unlike conventional private equity investing, equity investing in infrastructure is a long-term game, particularly so in Africa. It is necessary to take at least a 10-year view on these investments — this has been **AIIM**'s experience with investing in road infrastructure in South Africa, and this is the perspective they are adopting with the rest of Africa.

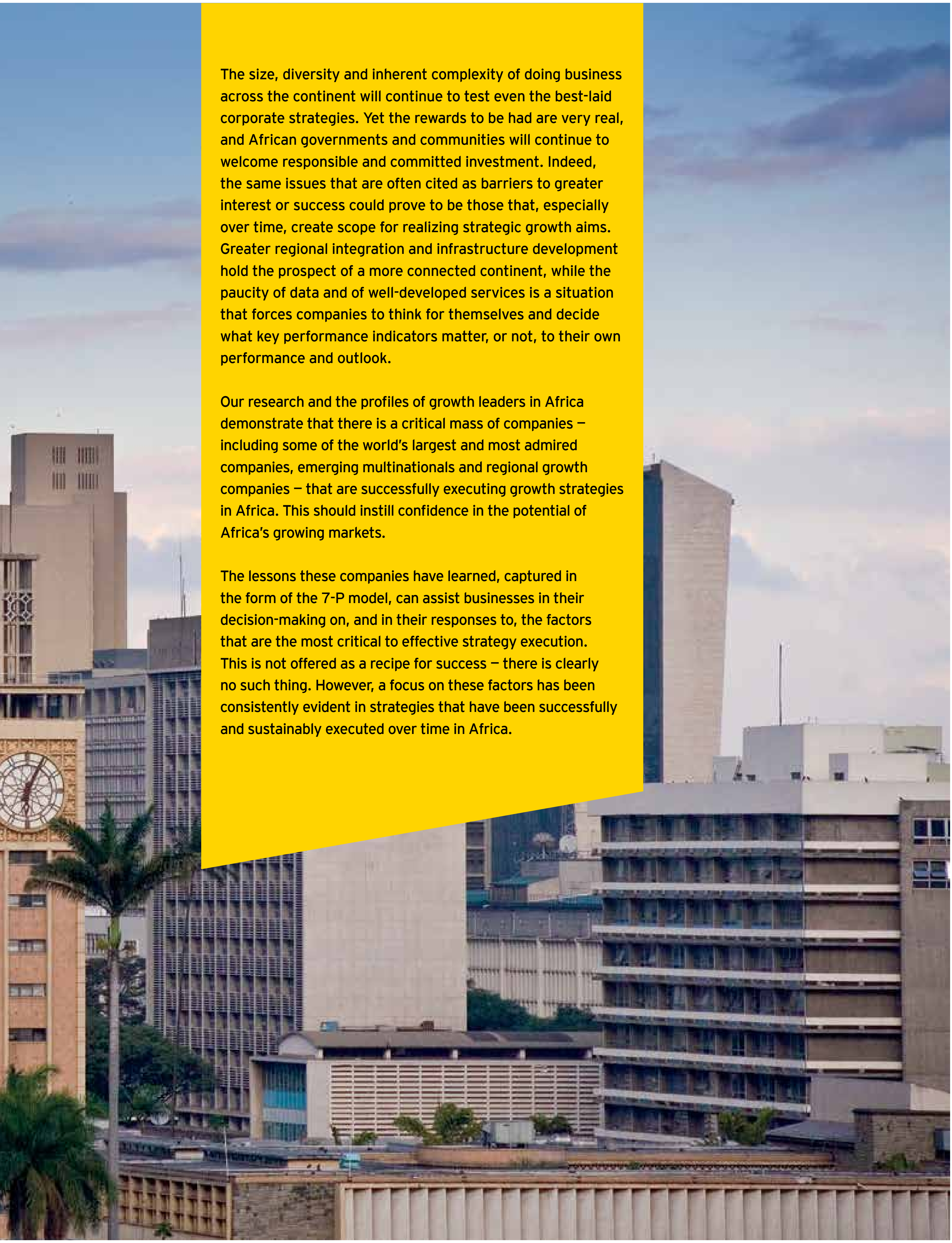
A key consideration for investors is whether policy can be separated from politics, and whether the policies in place will support the business for at least 10 years. For **AIIM**, Kenya is an example of a country that appears to be getting it right, and other countries are also learning as they execute their infrastructure programs.

Sanlam began a process over a decade ago of transforming their business from a traditional insurance company focused on the middle market in South Africa, into a diversified financial services group operating across Africa and beyond. The implementation of this strategy in the ensuing years has been steady, measured and, above all, consistent. **Sanlam**'s approach is premised on the recognition that the financial services sector is underdeveloped in many African markets, and that it takes time to establish relationships, build trust, develop appropriate products and grow a viable market.

Similarly, **Nestlé**'s payoff line for their long-term strategy in the Equatorial Africa Region is "walk first, run later"; the emphasis being on ensuring that the basics are put in place first. From a product perspective, for example, the focus is on first developing the existing portfolio, with a particular focus on "Popularly Positioned Products" (PPPs) — high-quality, affordably priced, nutritionally enhanced products, often in smaller pack sizes, and suited to lower-income consumers.

In terms of **EY**'s own experience, we made a decision to make a greenfield entry into South Sudan shortly after its independence in 2012 (making this the 33rd country in Africa in which we have physical operations). Several of the organization's Kenyan clients were already operating in South Sudan, and so a partner from Kenya, who had played a role in starting up **EY** practices in Rwanda and Uganda, was relocated there to build the new business. The reality, though, is that it is likely to take up to five years before this business becomes profitable — perhaps even longer, if the recent instability in South Sudan continues. However, we remain convinced that, strategically (in the context of how the East African region is likely to develop) and in the long term, this is an important market to be in, and that our early-mover advantage will pay off as the country's economy and the broader region grow and develop.

An alternative route to success in the continent can perhaps be found through a major acquisition, as with **Airtel**'s acquisition in 2010 of Zain's telecoms operations across 15 markets (at that time, the largest ever cross-border transaction in an emerging market). However, even in this exceptional case, **Airtel** has struggled to generate the kind of shorter-term returns that they had originally anticipated — the complexity of operating across fragmented markets, higher-than-anticipated costs, language and cultural barriers, and the need to adapt the business model for different local conditions have been among the key challenges they have faced. **Airtel** remains confident about its ability to generate substantial returns from its African operations, but the time lines for those expected returns have been lengthened.



The size, diversity and inherent complexity of doing business across the continent will continue to test even the best-laid corporate strategies. Yet the rewards to be had are very real, and African governments and communities will continue to welcome responsible and committed investment. Indeed, the same issues that are often cited as barriers to greater interest or success could prove to be those that, especially over time, create scope for realizing strategic growth aims. Greater regional integration and infrastructure development hold the prospect of a more connected continent, while the paucity of data and of well-developed services is a situation that forces companies to think for themselves and decide what key performance indicators matter, or not, to their own performance and outlook.

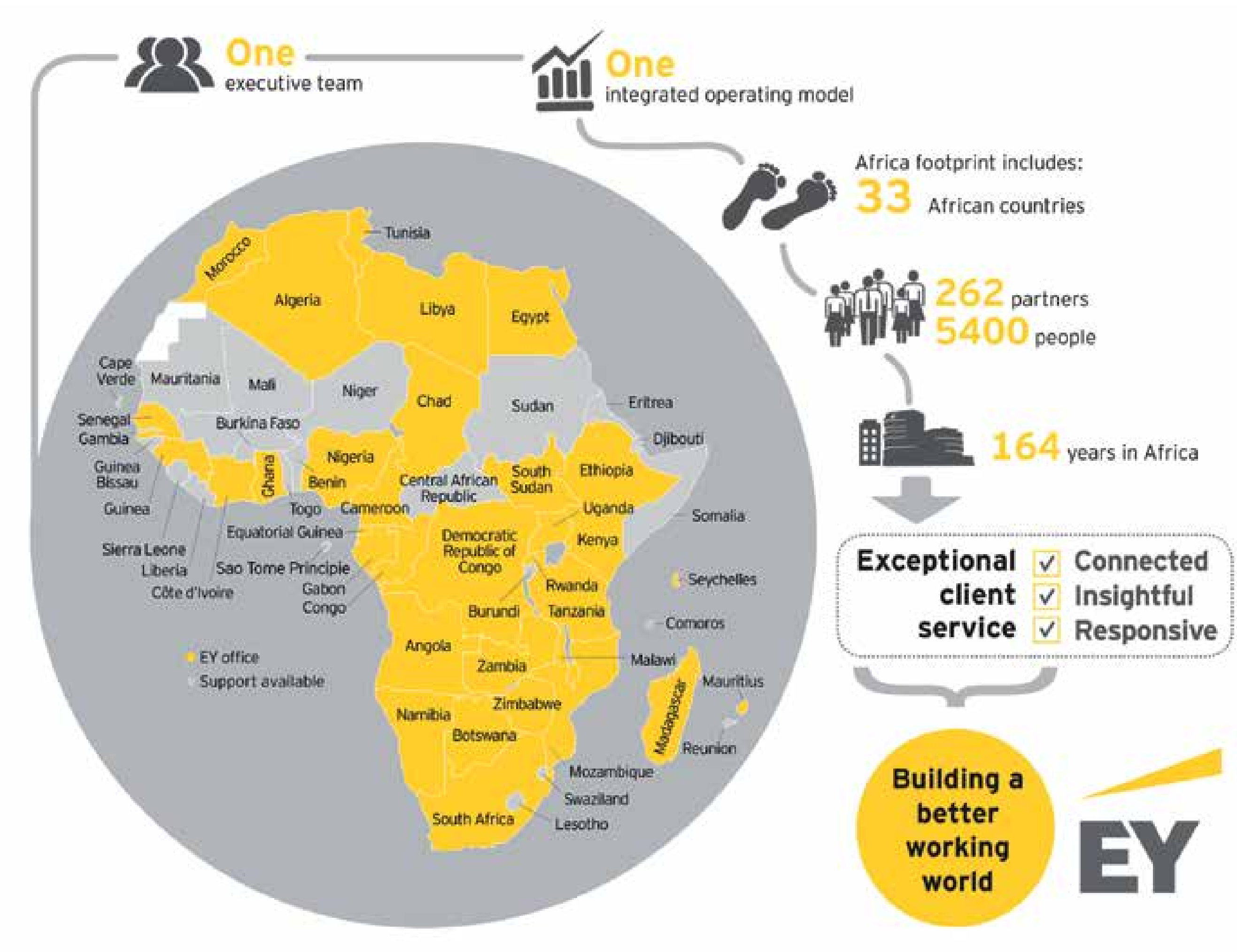
Our research and the profiles of growth leaders in Africa demonstrate that there is a critical mass of companies — including some of the world's largest and most admired companies, emerging multinationals and regional growth companies — that are successfully executing growth strategies in Africa. This should instill confidence in the potential of Africa's growing markets.

The lessons these companies have learned, captured in the form of the 7-P model, can assist businesses in their decision-making on, and in their responses to, the factors that are the most critical to effective strategy execution. This is not offered as a recipe for success — there is clearly no such thing. However, a focus on these factors has been consistently evident in strategies that have been successfully and sustainably executed over time in Africa.

EY in Africa

EY is a global professional services organization, with 170,000 people in over 140 countries around the world. EY currently has physical operations in 33 African countries, including 28 in SSA. The organization has been operating in South Africa for 164 years and in other countries such as Nigeria, Kenya and Angola for more than 50 years.

EY has had a presence in many African countries for decades. However, like all the large professional services organizations, the model was traditionally one of loose affiliation under a global brand. This often meant a situation in which individual country (and even city) practices ran independently, were often disconnected and had different capability and service-quality levels. EY is the first of the large global organizations to definitively break with this model. Five years ago, it embarked on a structured process of integrating all of its Sub-Saharan Africa practices into a single operating model.



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Invest in Africa

Invest in Africa's vision is to create diversified growth by uniting companies to address the shared, cross-sector challenges of doing business in Africa. The principle that business is a force for good that can help drive economic and social development in Africa is one that many leading businesses share; however, it can only be achieved through partnerships. It is on this premise that the Invest in Africa (IIA) initiative was launched.

Founded in 2012 by Tullow Oil, IIA recognizes the importance of businesses working together to create solutions to systemic shared challenges, such as developing local enterprise, sourcing locally and moving goods across borders. As an independent not-for-profit organization, IIA has subsequently attracted other partners from international organizations across the business community, including EY, Ecobank, Lonrho, UT Bank and Guinness Ghana Breweries.

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