

Tough global conditions suit the rise of African Champion economies, says Deloitte

Johannesburg –09 May 2016 – With Africa's positive economic outlook under pressure, intra-African multinational champions are well suited to develop the skills, expertise and scale to compete for a bigger piece of the global economy's last frontier.

The International Monetary Fund (IMF) cut Sub-Saharan Africa's growth forecasts to 3% for this year and 4% for next year in their report in April – off prior expectations of 4% and 4.7% respectively. Yet South African, Moroccan, Nigerian and Kenyan corporates have been among the most prominent and arguably most successful African companies gaining a foothold in the continent.

According to research by Deloitte Africa, which has deep roots in Africa's frontier and emerging economies, these "African Champions" are able to benefit from their home ground advantage and deep understanding of the ins and outs of African markets, as well as their agility to adapt quickly to the challenges and ever evolving business environment on the continent.

Under the theme of "Connecting Africa's Resources through Digital Transformation", the 26th World Economic Forum on Africa will convene regional and global leaders from business, government and civil society between May 11-13 in Kigali, Rwanda.

According to the WEF, there is an urgent need for economic diversification for sustained inclusive growth. In this context, it says Africa's leaders need to pursue new approaches to ignite structural transformation, particularly in the face of rapid technological changes that have the potential to create new industries and reduce inequality. According to Deloitte, which will be attending the WEF conference, building a winning business in Africa is a long-term play and there is no universal recipe for building businesses in Africa or anywhere in the world.

"It is rather the combination of various soft and hard skills paired with the right timing and a solid understanding of the market-specific opportunities and risks that enable companies to become champions in their respective sectors and geographies," says Managing Director: Emerging Markets & Africa at Deloitte Africa, Dr Martyn Davies. It is crucial that companies attempting to become "Champions," do so

with their eyes wide open, as each jurisdiction comes with its own challenges and opportunities. There are a number of “cross-cutting” factors that need to be harnessed to achieve business success.

First among these is taking advantage of their first-move advantages in markets with high growth potential.

“Companies that move first into high-growth markets can influence the operating environment and can achieve major brand recognition,” says Davies.

Meanwhile, companies that are able to adjust their service or product offering to the local conditions and environment tend to have better prospects of success in African markets.

“Given challenges such as unreliable infrastructure, limited purchasing power of large shares of consumers, insufficient penetration of financial services, offerings tailored around these challenges have the potential to present opportunities for companies with both innovative business models and service offerings,” says Davies.

Another key ingredient for success is partnering with experienced local partners, as this is vital for businesses entering a market or sector.

“Identifying the right local partners might be time- and resource-intensive, however, it is among one of the most crucial investments a market entrant should make,” says Davies.

The diversification of product or service offering and geographic reach also allows firms to grow by tapping into a larger market outside of their home market or traditional sectors.

“In addition, diversification was necessary for some African Champions in order to manoeuvre the challenging business environment and to overcome infrastructure challenges omnipresent in the majority of African countries,” says Davies.

Deloitte Africa has been working closely to assist African as well as international companies to navigate what is a complex operating environment and to develop solutions for ensuring business success across Africa, particularly in assisting the rise of Africa’s new champions. Often African Champions became national champions in their respective sectors first, before they expanded across borders, according to the Deloitte Africa research.

“Once companies have gained experience and have established themselves as leaders in their sector, they target neighbouring markets. Entering neighbouring markets provides an arguably soft landing, as

these countries often share similarities in language, culture or operating environment and are better accessible through, for instance, road or air transport than markets that are further away from the home market,” says Davies.