# Creating value in Africa

By Danette Breitenbach

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A competitive advantage in African markets will come from a capacities driven strategy which will also make companies more coherent. This finding was released at a briefing held at the African Pride Hotel at Melrose Arch, by PwC's strategy consulting capacity based in Africa, Strategy&, formally known as Booz.

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The finding is from the unit's new study, Creating Value in Africa, which was presented by Jorge Camarate, partner with PwC South Africa in Johannesburg and Peter Hoijtink, an Associate Director with PwC South Africa. Both work in Johannesburg in Strategy&. Camarate leads the financial services practice for the continent while Hoijtink leads the consumer and retail practice for the continent.

Expanding into Africa is probably on the list of most companies' strategy today the two say as the forecast of the International Monetary Fund (IMF) is that, while the hype around Africa is no longer there, the long term growth forecast is still higher than in other regions in the world.

"While it is obvious why Africa would be on the table, what needs to be equally obvious is the challenges to doing business on the continent especially in light of the fact that your competitors are also eyeing the continent. The question is not whether you need to be in Africa, but how to be there and be there successfully."

The study examined this by studying 82 deals of significant value that took place in the period 2007 to 2013 in sub-Saharan Africa.

The conventional strategy is to use the market as a starting point and opportunity you can pursue says Camarate. "We suggest a different starting point and we have termed this approach Leverage. This entails looking at what made your company successful originally and then using these as opportunities to build your business. We appreciate that this is different to how most people are approaching it, but it considers the notions of capabilities such as people, processes and technology."

Most companies have three to five capabilities that drives their success. The combination of these are normally difficult to copy and replicate. An example in Africa of a company having unique capabilities and leveraging them in Africa is RCA Foods and their cold chain logistics.

The second approach, Enhancement, builds on the first approach and involves capability enhancement which is adding new capabilities to fill in the gaps. For example Sanlam has strong technical capabilities, but a lack of understanding of the customer in other markets finds partners to work with in these markets.

The third approach is a Limited Fit, which means the company has very little in common with the company and the market, but concluded a deal for other reasons, such as diversification and control of attractive assets.

While the results of the study show that deals that have a strong fit of capabilities outperform expansion strategies that do not or have limited commonality, it also showed that an enhancement strategy does best in Africa, in contrast to markets in such as the United States (US).

This is actually intuitive because the Africa market is too diverse so the opportunity for a company to expand in all the markets is virtually impossible. "Therefore one of the above approaches allows for a company to be more efficient. We suggest you look for markets similar to the ones you already operate in to start off with."

For example Shoprite is very strong in South Africa and in its neighbouring countries because they are very similar to the local market. Expansion is easiest with a single market type, where you can still leverage your capabilities.

The message is to start from a position of strength and with what you are good at; not with market opportunities. "It is always easy to expand into markets that have the same profile as where you operate already, but it is important to grow beyond that. Therefore you need to be clever in how you make it work," adds Camarate.

The next step is execution and this requires developing local talent, forming local partnerships, and balancing central control with local entrepreneurialism. "Develop local human capital and transfer skills. Build personal relationships and partner across the value chain. Run your business through local entrepreneurship not centrally," says Hoijtink.

The growth of the middle class makes Africa compelling for brands, and despite the slowing of its growth, it still has a growth forecast that is greater than others markets across the world, they conclude.

## ABOUT DANETTE BREITENBACH

Danette Breitenbach is a marketing & media editor at Bizcommunity.com. Previously she freelanced in the marketing and media sector, including for Bizcommunity. She was editor and publisher of AdVantage, the publication that served the marketing, media and advertising industry in southern Africa. She has worked extensively in print media, mainly B2B. She has a Masters in Financial Journalism from Wits.
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