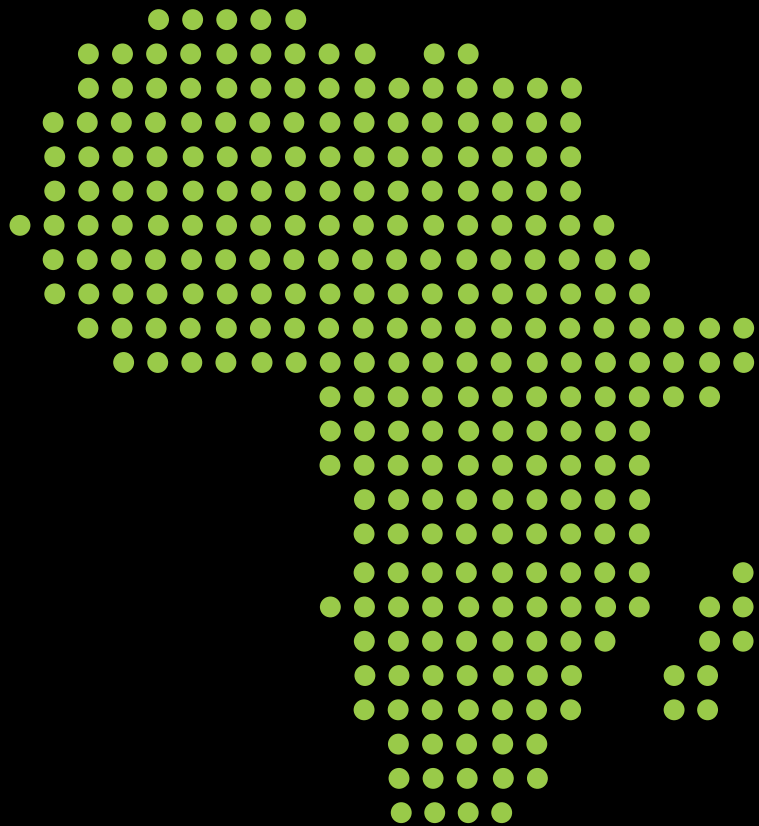
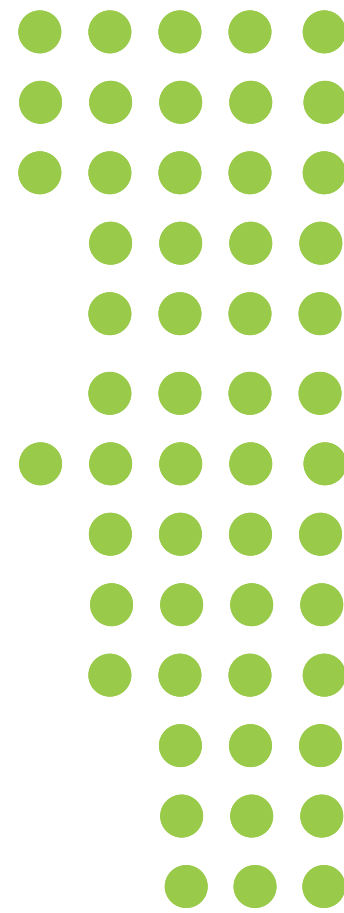
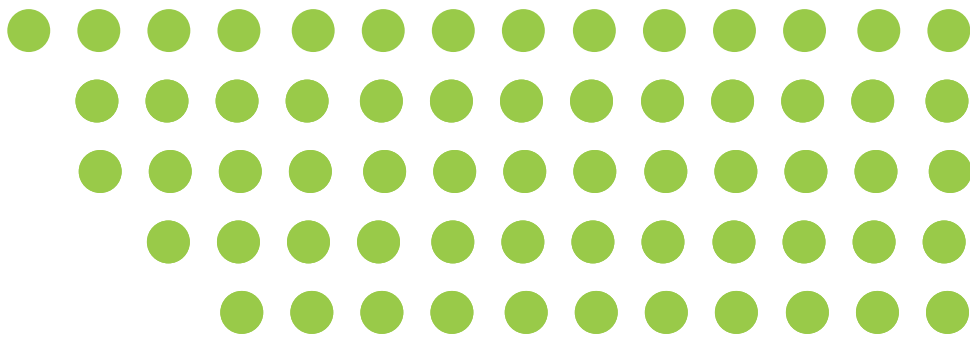


A person in a dark suit and tie is visible on the left side of the image. The background features a world map graphic composed of dots, with the African continent highlighted in a light green color. The text is overlaid on a white rectangular area in the upper right.

Deloitte.

Becoming an African Champion
Ingredients for business success





Africa is the global economy's last frontier.

African economies are increasingly attracting the interest of a range of multinational corporations (MNCs) looking for untapped consumer markets for their products and services. After decades of paying little attention to Africa, MNCs have started to change their attitude towards the continent and are trying to get a slice of the 'Africa Growth Story' cake.

However, in the regular absence of MNCs and their competitive pressure, local African companies have managed to establish and grow across the continent and have developed skills, expertise and scale to compete as intra-African multinational champions.

As early entrants, African Champions have a home ground advantage and deep understanding of the ins and outs of African markets, as well as the agility to adapt quickly to the challenges and ever evolving business environment on the continent. While foreign MNCs might have deeper pockets and more global international supply chains and support networks, African Champions are more than capable of teaching companies from the rest of the world a lesson or two about doing business in Africa.

As an organisation with deep roots in Africa's frontier and emerging economies, Deloitte Africa has unpacked some of these success stories in what follows, and 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. Deloitte is now assisting the rise of Africa's new champions.

Dr Martyn Davies
Managing Director: Emerging Markets & Africa
Deloitte Africa

Alain Penanguer
Managing Partner
Deloitte Francophone Africa

Is there a universal recipe for success in Africa?

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.

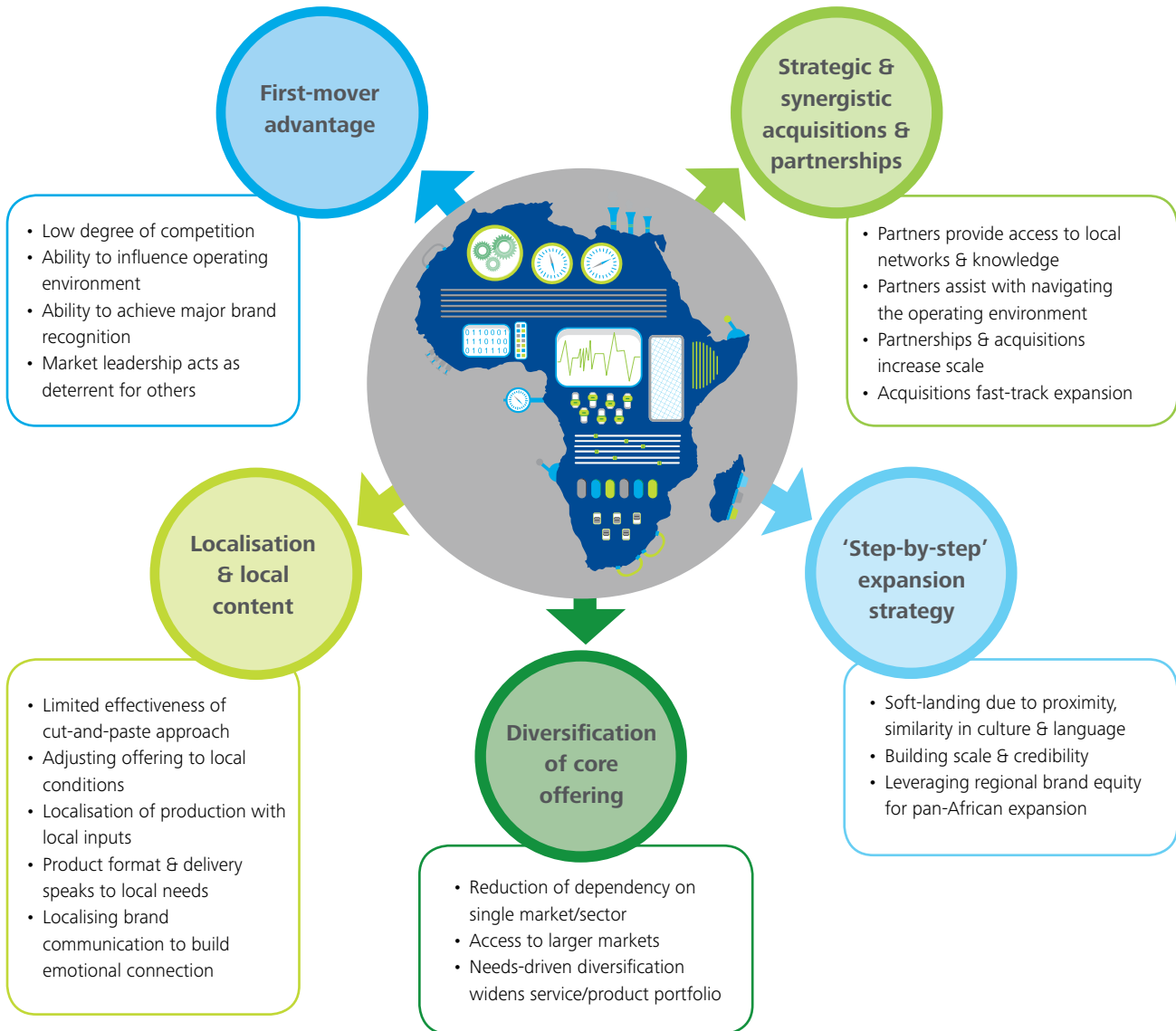
While this is by no means unique advice for building winning businesses in Africa, as it applies to entrepreneurship and expansion strategies throughout the world, Africa is unique in the sense that it is arguably the one developing region in which the gap between perception and reality of business conditions remains to be the largest.

African Champions have developed specific expertise to manage challenging business environments on the continent. These are business environments that at times mirror often similar challenges as experienced in their home environments. They have also developed expertise to mitigate business risks stemming from obstacles such as insufficient transport and power infrastructure, as well as the relatively low disposable income of the local mass market and oft challenging regulatory environment.

In this light, a number of cross-cutting factors under five broad identified themes are elaborated on, with relevant company references and brief case studies on some of the ingredients that make an African Champion.



Ingredients for business success



Unpacking the cross-cutting factors

First-mover advantage

In pursuit of new markets and consumers for their products and services, companies are increasingly looking for opportunities outside of their home markets. 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. Companies from these countries are leading the pack and have often been able to leverage their first-mover advantage as they entered un- or underserved markets at an early stage. First-movers at times have thus played a vital role in establishing or formalising their respective industries in new markets.

For example, MTN, South Africa's telecommunications giant, is an often cited example of a successful first-mover in Africa's telecommunication sector. The firm has grown into one of the leaders of mobile telephony in Africa by taking the risk and entering markets that had been perceived as unviable and too risky. African markets were often regarded as unattractive by established international mobile operators and hence largely ignored by these MNCs. MTN, however, managed to leverage its first-mover advantage and to capture the underdeveloped mobile telecommunication market in Africa and firmly position itself as the market leader in most of its geographies.

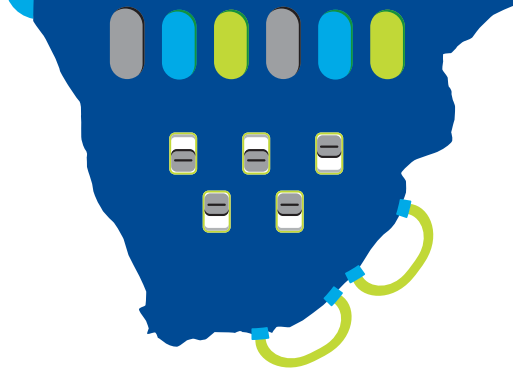
Similarly, South Africa's Shoprite Holding Ltd., Africa's largest grocery retailer, serves as a prime example of a first-mover that has been able to capture and formalise a highly fragmented sector that was traditionally serviced by small and informal grocers or open-air markets. Shoprite's expansion into the continent from 1990 onwards has led to the increasing formalisation of the retail landscape in the 15 markets where the retailer is present.

Also, as a first-mover in the satellite television sector on the continent, South Africa's MultiChoice dominates the African pay-tv market with its digital DStv service. Currently, MultiChoice services close to 4.7 million households across 49 countries in Africa and offers in excess of 100 video and 65 audio channels.

In addition to the northward expansion by South African banks such as Standard Bank and FirstRand, West and East African banks have rapidly expanded in their respective regions and across the continent to gain early access to underserved markets. Among the most prominent and successful first-movers from West Africa is Togo-based Ecobank Transnational Incorporated which has expanded into 36 African countries since its formation 30 years ago, making it the largest pan-African bank by geographic footprint.

Mali's Azalai Group Hotels, the first privately owned hotel chain in West Africa, is a first-mover in the hospitality industry in some of the more challenging West African markets, which are regarded as too risky and not viable by international competitors. The company, which was established in 1994, operates hotels in Mali, Benin, Burkina Faso and Guinea-Bissau and is looking at further expansion in the region.

In Kenya, low-cost private education provider Bridge International Academies, have been pioneers in providing quality to base-of-the-pyramid pupils in Kenya since establishing in 2008. Leveraging a vertically integrated system, technology and scale, Bridge International Academies service more than 100 000 children in Kenya and Uganda. This first-mover in the low-cost private education space has attracted financial backing from organisations and individuals including Bill Gates, DFID, IFC, Omidyar Network and Mark Zuckerberg.



Other prominent first-movers include companies such as Nigeria's e-commerce platform Jumia which is present in 10 countries across the continent or iROKOTv, the world's largest Nollywood movie on demand platform, and Kenya's Safaricom, a pioneer in the mobile money transfer sector.

Being an early entrant to a market or sector presents unique challenges and opportunities alike. On the one hand, the new market is uncharted territory for the company and none or only a very few have 'walked the walk' before. Hence, first-movers are not afforded the luxury to learn from other companies and their mistakes. On the other hand, due to the absence of established competitors, first-movers often enjoy an initial monopoly status in the new markets and gain major brand recognition from being the first in the market. This dominant position can serve as a deterrent for other companies considering market entry.



Panoramic view of Nairobi



Localisation & local content

African consumers are not too dissimilar to consumers in other emerging markets. As their emerging market peers, African consumers value and demand good quality products and services at an affordable price and are often very brand-conscious as prominent brands are perceived to be better able to deliver on their promise of quality, compared to less known brands. Yet, it has proven insufficient to apply a 'cut-and-paste' approach and just introduce products and services that have succeeded in home countries or elsewhere in the world.

Also, 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.

A number of companies and entrepreneurs have built successful businesses addressing some of these key challenges in the market. For example, Safaricom, Kenya's leading telecommunication provider, developed a service offering in order to bridge a gap in the financial market. Given Kenya's underdeveloped financial sector, but high demand for money transfers among people, Safaricom launched its mobile money transfer service called *mPesa* in 2007. Since the inception of the service, it has grown into Safaricom's second largest revenue earner accounting for close to 20% of the firm's H1 FY2016 revenues. As a first-mover in the mobile money sector, *mPesa* is virtually unrivalled in Kenya. In addition to the expansion of the service to countries including Tanzania,

South Africa and Afghanistan, the *mPesa* model has been applied by Safaricom's competitors in other markets.

A range of companies have also successfully penetrated markets by localising their products and developing local brands that are more affordable compared to international brands.

In order to penetrate the low income mass market, SABMiller, the world's second largest brewer, has launched specific brands targeting the mass market with a price-competitive product. In Uganda, for instance, the brewing giant launched a locally produced beer under the Impala brand in 2011. Impala is made from domestically sourced cassava and is sold at a competitive price point. A similar strategy was followed by SABMiller when it introduced *Chibuku*, a low-cost sorghum or maize-based beer from Zambia in 10 additional markets in 2012. Both brands serve as examples of how what is now an MNC with roots in South Africa, identified an opportunity to introduce a localised product to low income consumers by offering an affordable but higher-grade alternative to informal or home-made beers. Using local ingredients allows SABMiller to keep costs down and to appeal to the taste of local consumers.

In addition to localising products by sourcing ingredients locally and by doing so containing costs, successful players in African markets understand that, for instance, the packaging format or even the product itself has to be adapted to local conditions. Promasidor, a pan-African FMCG company, which sells products ranging from dairy and soy products to beverages in more than 25 countries on the continent, has adapted their products to local conditions. Its milk powder, for instance, contains



City skyline of Cairo

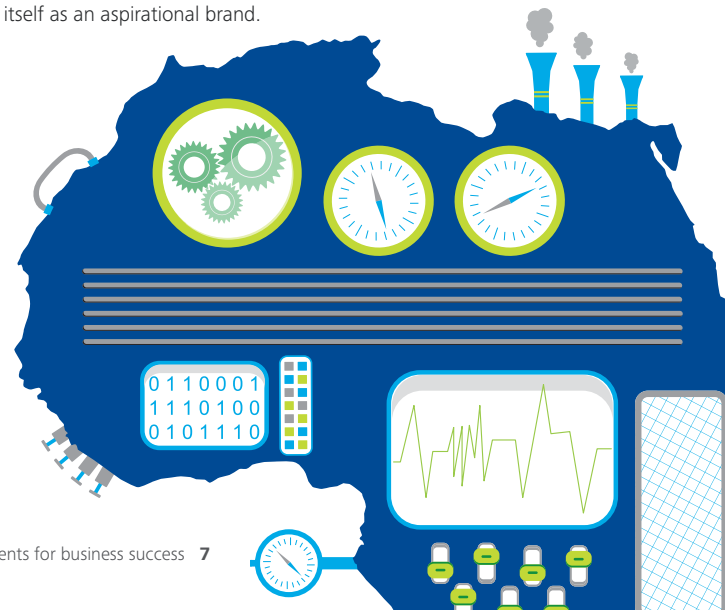
vegetable fat instead of animal fat and is offered in small sachet sizes. The small package size and cutting out the animal fat reduced Promasidor's dependency on reliable cold chain logistics and hence enables the firm to target consumers in remote areas without access to consistent electricity supply.

Due to local challenges such as insufficient distribution infrastructure and logistics, low penetration of electronic payments and a lack of trust in online payments, e-commerce platforms such as Nigeria's Jumia and Konga have invested in logistics capabilities as well as developed pay-on-delivery solutions. Jumia has also partnered with MTN in Nigeria in order to improve access to its online platform. The partnership entails free mobile data for MTN subscribers to access the Jumia platform in that country. Understanding the local market conditions and tailoring the service offering and distribution model towards the market conditions enabled these e-commerce platforms to attract funding from international investors and to grow into leading e-commerce players in their respective markets.

Localising brand communication and marketing campaigns has also proven to be an important ingredient in capturing local consumers and creating a relationship with the same. Tailoring a marketing campaign to local conditions, tastes, culture and aspirations, allows companies – both international and local – to position themselves as part of the community. The use of vernacular language instead of lingua franca to target specific regions within a market enables firms to build an emotional connection with the target market. Furthermore, successful brands understand using local heritage and culture to localise the brand and to build a connection with local consumers. For example, in

Nigeria and Ghana, SABMiller has been successful with using local heritage and nostalgia to market its *Hero* and *Club* brands, respectively.

One of SABMiller's competitors in Africa, Diageo has developed a strong presence in a number of key markets on the continent with its iconic brands including Guinness. In 1963, Nigeria was chosen as the first market outside of Ireland and the UK for a Guinness brewery. Due to the long heritage in the country and the strong brand equity built through localised brand communication, the brand is deeply rooted in the country and Nigeria has emerged as the largest Guinness Stout market in the world by net sales value. In its multi-award winning 'Sapeurs' advert, Guinness is leveraging the popularity of and admiration for the so-called 'Sapeur' movement in Congo Brazzaville. The campaign uses local culture and trends to create a strong emotional connection with 'the man in the street' and by doing so positions itself as an aspirational brand.





City scene in Dar es Salaam

Strategic & synergistic acquisitions & partnerships

Given the complexity of many markets in Africa, partnering with experienced local partners 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. These partnerships may stretch from geographical and technical expertise to access to networks, channels and decision makers in the local market or sector that a new entrant might not have. Local partners are well positioned to guide market entrants to better understand the local business etiquette and culture. These “softer” elements to doing business are however crucial to succeeding in new markets, helping to form relationships with authorities and potential business partners as well as customers.

While hiring local staff is one option, partnering or acquiring local firms allows firms to fast-track the access to local expertise and networks. Strategic acquisitions also enable firms to diversify their portfolio and to move into new sectors.

SABMiller has a number of strategic partnerships with companies including Castel, CRE, Efes and the Coca-Cola Company. These alliances have allowed SABMiller to gain market leadership in the majority of African markets. Through its alliance with the Coca-Cola Company, SABMiller has been able to diversify its business in the non-alcoholic beverage segment and to achieve synergies stemming from the size and expertise of the Coca-Cola Company. The partnership with French Castel enabled SABMiller to enhance its exposure in Francophone markets in Africa by leveraging Castel’s expertise and experience there. Partnering with experienced businesses in a new market assists the market entrant to overcome distribution challenges and to better navigate the local regulatory environment.

Zambeef, one of the largest agro-businesses in Zambia and Southern Africa, achieved rapid growth through its strategic partnership with South African retail giant Shoprite. When Shoprite expanded into Zambia in 1994, it chose Zambeef as its partner for in-store butcheries. The growth of Shoprite in Zambia unlocked Zambeef’s growth potential as it was able to rapidly gain scale and expand its product offering across the agro-processing value chain.

Through acquisitions African Champions have been able to fast-track their expansions on the continent. Moroccan insurance company Saham Group gained market access in 12 countries through the acquisition of Colina Group in 2010. Saham Group in turn became the target of South Africa’s Sanlam in 2015, when Sanlam acquired a 30% stake in the Saham. The acquisition of existing business allows firms to expand their customer base and footprint without the risk associated with greenfield investments. Acquisitions enable firms to leverage local knowledge, skills and brand recognition in the market.



Morocco's BMCE, one of the leading banks in the country, gained a substantial foothold in a similar fashion by acquiring a controlling stake in Bank of Africa in 2010. Through the acquisition, BMCE, Morocco's second largest bank, gained access to an additional 17 countries. In 2008, BMCE's main competitor in Morocco, Attijariwafa Bank, acquired the West African operations of France's Crédit Agricole. The acquisition enabled Attijariwafa Bank to realise market growth in a less mature market. At home, the bank's future growth was limited due to the maturity of the market.

The success of acquisitions by African companies arguably has seen a number of MNCs increasingly betting on acquisitions as a growth strategy in Africa. In 2013, French dairy giant, Danone acquired 41% of West Africa's largest frozen dairy producer Fan Milk International. The acquisition of the Ghana-based company provides access to consumers in Ghana, Nigeria, Togo, Burkina Faso and Côte d'Ivoire. The remaining 51% of Fan Milk International were acquired by Dubai-based private equity firm Abraaj. The acquisition of Fan Milk International forms part of Danone's Africa expansion and follows the purchase of an additional 37% in Centrale Laitière du Maroc, which increased Danone's overall shareholding in the Moroccan dairy company to 67%.

In order to gain a foothold and expertise in Africa, global outdoor advertising leader France-based JCDecaux Group acquired a 70% stake in Continental Outdoor Media, Africa's largest outdoor advertiser in 2015. Through the acquisition of Continental Outdoor Media, which owns in excess of 36 000 advertising panels in 16 countries across the continent, JCDecaux Group became the largest outdoor advertising firm on the continent.

In contrast to the focus on acquisitions as a growth strategy, some international banks including France's BNP Paribas and Société Générale placed a stronger focus on organic growth and greenfield investments. While especially Société Générale, which has branches in Algeria, Benin, Burkina Faso, Cameroon, Chad, Equatorial Guinea, Ghana, Guinea, Côte d'Ivoire, Madagascar, Mauritania, Morocco, Senegal and Tunisia, has been able to establish a sizeable footprint in Africa, these foreign banks have only recently started to shift towards personal banking as a further growth area. Société Générale is consolidating existing marketing and innovation capacity as well as focusing on leveraging local expertise to target private consumers. BNP Paribas, which traditionally focused on corporate banking in Africa, acquired consumer finance company RCS from South African retailer Foschini and Standard Bank in 2014 in order to gain access to the consumer finance segment.



Mosque Hassan II in Casablanca



Diversification of core offering

It is common among African Champions to diversify their product and service offering. A range of African Champions have moved into new sectors to reduce the risk of being overly dependent on one industry or product. The diversification of product or service offering and geographic reach also allowed 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.

Companies that are able to find solutions to these bottlenecks have been able to gain a competitive advantage over their competitors that are deterred by these challenges and have been able to emerge as African Champions. In addition to addressing their own needs by investing in necessary infrastructure, African Champions have been able to augment their portfolio.

The Dangote Group, founded by Nigerian billionaire Aliko Dangote, initially focused on trading in cement when it was set up in 1981. The group diversified into trading of other consumables such as sugar, flour, salt and fish. In order to reduce dependency on imports and with the help of protectionist measures, Dangote Group was able to move up the value chain from commodity trading to producing these commodities.

During the last 15 years the group has moved into manufacturing and diversified its portfolio to cement,

sugar, salt, flour and semolina, pasta, packaging material, logistics and real estate. Being a local firm assisted the Dangote Group to navigate the challenging operating environment in Nigeria and to take advantage of policies that favoured local production over imports. Part of the group's diversification was needs driven, as the local infrastructure was insufficient to support the expansion of manufacturing operations. In order to provide reliable electricity for the energy-intensive cement plants, the firm has invested in gas pipelines and power generation facilities. Dangote Group's experience in providing electricity for its own manufacturing facilities lends the group credibility in the energy sector and positions the firm as a potential champion in the energy sector in Nigeria and the region.

Safaricom branched out from its core service of telecommunication, to financial services including the already-mentioned highly successful *mPesa* platform and payroll solutions. Through the *mPesa* platform users are able to access transactional services such as payment for airline tickets, utility bills and school fees. The success of Safaricom's diversification into financial services was supported by the insufficient development of the banking sector, a shortcoming that deterred investors from developing financial products for the Kenyan market. Backed by its dominant market position in the telecommunication sector and the strength of the brand as the leading telecommunication provider in Kenya, the firm was able to use this advantage to offer additional services piggybacking on its core service offering.



Through diversification of its product and service offering as well as through international expansion, Loukil Group grew into one of the largest industrial conglomerates in Tunisia. Initially established as a distributor and manufacturer of agricultural equipment in 1976, Loukil Group has business interests among others in the automotive industry, telecommunication, consulting, engineering and heavy industries. The company operates in a range of African countries including Côte d'Ivoire, Libya, Morocco and Togo as well as in Europe.

Algeria's largest privately-owned firm, Cevital led by Algerian billionaire industrialist Issad Rebrab, has its origin in the iron and steel industry. Since the early 1990s, Cevital has diversified into a conglomerate with interests in agro-processing and food, retail, media, automotive, white goods, glass and construction materials. The rapid growth through diversification has enabled Cevital to expand beyond the African continent and to acquire companies in France and Italy, for example.





'Step-by-step' expansion strategy

Building a winning business in Africa is a long-term play. Often African Champions became national champions in their respective sectors first, before they expanded across borders. 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.

This model has been followed by South African retailers, insurance companies and banks, West African banks and telecommunication providers, for instance, as well as East African retailers and North African banks and insurance companies.

So too, Botswana's largest retailer, Choppies adopted a 'step-by-step' approach when it entered neighbouring South Africa and Zimbabwe. Currently the retailer operates approximately 125 outlets in these three markets and plans to use its experience and expertise to expand into at least six more markets by the end of 2016. According to the firm, it has set sight on Zambia, Tanzania and Kenya for its immediate expansion.

Kenya's Nakumatt became one of East Africa's largest retailers by following a 'step-by-step' approach. It currently has more than 50 retail outlets in Kenya, Uganda, Tanzania and Rwanda and plans to grow its annual revenues to US\$1bn by 2017 from approximately US\$700m in 2015.

In the mobile telecommunication industry, Nigeria's second largest mobile operator, Globacom which services more than 31 million subscribers in its home market, serves as an example of a 'step-by-step' market penetrator, operating in neighbouring Benin and in Ghana and is targeting market entry in Côte d'Ivoire.

Nouvelle Société Inter-africaine d'Assurance Participations SA (NSIA), which was founded in Côte d'Ivoire in 1995, grew into one of the largest indigenous insurance providers in francophone West Africa through targeting under-serviced markets in the region. Regional expansion has been a strategic objective of the group since its founding and NSIA has established itself in 11 markets outside of its home market.

The entry into neighbouring markets enables these companies to gain scale and to demonstrate their ability to succeed outside of their home market. Both scale and a regional track-record make it easier for these firms to attract investment for pan-African expansion or to pool earnings from the regional operations to fund further expansion. In addition regional players are able to leverage their regional brand equity and clout to target markets in other regions on the continent.

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