The Africa Business Agenda

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Doing business in Africa – from the perpective of CEOs and PwC executives on the continent

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2. The agility agenda

Anne Eriksson

Regional Senior Partner for PwC's East Market Region in Africa and the Country Senior Partner of PwC Kenya

+254 (722) 516 992
anne.eriksson@ke.pwc.com

Business agility in Africa

Confidence is very strong among Africa's CEOs. Confidence is inspired by growth potential across every industry sector and in every market in Africa. Even so, there is a great deal of variation among companies that wish to harness this potential. The main underlying factor allowing companies to realise their full potential in Africa is agility.

These companies may have some exposure to risks, but they have designed their responses, procedures and safeguards effectively. They implement deliberate growth strategies based on an evolving understanding of the places where they operate, their customers and supply lines. And they employ the best and the brightest to achieve their objectives. Not only that, but their high-potential talent tends to stick around.

Not every company gets all of this right all of the time. But what we have found in our Africa CEO Survey and in subsequent in-depth interviews is that agility in response to change, challenge and opportunity is the deciding factor between companies that thrive in Africa and those that are merely doing business.

What does agility mean in practice? When it comes to evaluating opportunities, it means not only understanding market dynamics as they are now, but also understanding the ability to see around the corner and anticipate changes in customer preferences and changes within economies that will drive growth. For example, we know from our survey that roughly a third of CEOs in Africa are focused on new product and service development, while another third say that organic growth in their existing domestic market is their main growth opportunity. The remaining third are split between organic growth in existing foreign markets, new foreign markets and new business relationships like mergers and acquisitions, joint ventures or strategic alliances.

To understand this better, we need to look at specific markets and industries. In Rwanda, for example, an overwhelming 73% of CEOs say that new product or service development is the main growth opportunity. Clare Akamanzi, Chief Executive Officer of Rwanda Development Board, tells us that 'companies are responding to customer needs with new products and services that go beyond the conventional'.

The economy is becoming more sophisticated very rapidly, there is more competition between segments and 'customers want to choose', she says. Ms Akamanzi relates a story about a major multinational retailer with East African origins that stocked its shelves in Kigali with imported high-end products, and watched as they were snatched up in record time. The retailer had guessed right that Rwandans would want more choices, even if it meant paying a premium.

Deeper market insight in Africa

It is not enough to know your customers, CEOs say. Instead, you have to anticipate what they will want tomorrow—perhaps even before they know themselves. This helps to explain why 46% of our survey respondents are concerned about shifts in consumer spending and behaviour. We find that in most of the fastest-growing markets in Africa, companies are comparatively more conscious of shifting consumer preferences; CEOs in Rwanda (87%), Ghana (82%), Congo-Brazzaville (80%) and Botswana (78%) are far more concerned about shifting consumer preferences, for example.

Among CEOs who cite organic growth in existing domestic markets, we find that this is consistent with the 85% of CEOs who expect their operations in Africa to grow this year. Growth opportunities vary by market, industry and region. There are a few trends, however, that show how agile companies are growing their market share at home.

First and foremost, companies in our survey are focused on growing their customer base. In many markets, a large pool of underserved customers means there are significant growth opportunities. Customers located in rural, sparsely populated areas and the youth are the most difficult to reach (or retain as loyal customers, in the case of younger populations), but they also represent the next frontier for many companies seeking growth.

Reaching new populations of consumers is not the same as serving them well, however. In our survey, we also asked CEOs in Africa whether enhancing customer service is a top-tier investment priority. Many said yes, but we found that in several markets, like Nigeria, a significantly smaller percentage of CEOs are focused on this area.

Emmanuel Onyeje, Managing Director of Microsoft Nigeria, explains that many companies in Africa are focused on a large pool of underserved customers which creates an opportunity to increase the size of their businesses. 'If the market was more mature, they would go deeper with customer service,' he says. This trend is not uniform, since even in Nigeria companies like Microsoft must compete on service due to the nature of their relationship-based, service-oriented and technology-intensive businesses. Still, Mr Onyeje's comments provide insight about a market dynamic that shapes investment priorities for many companies in Africa.

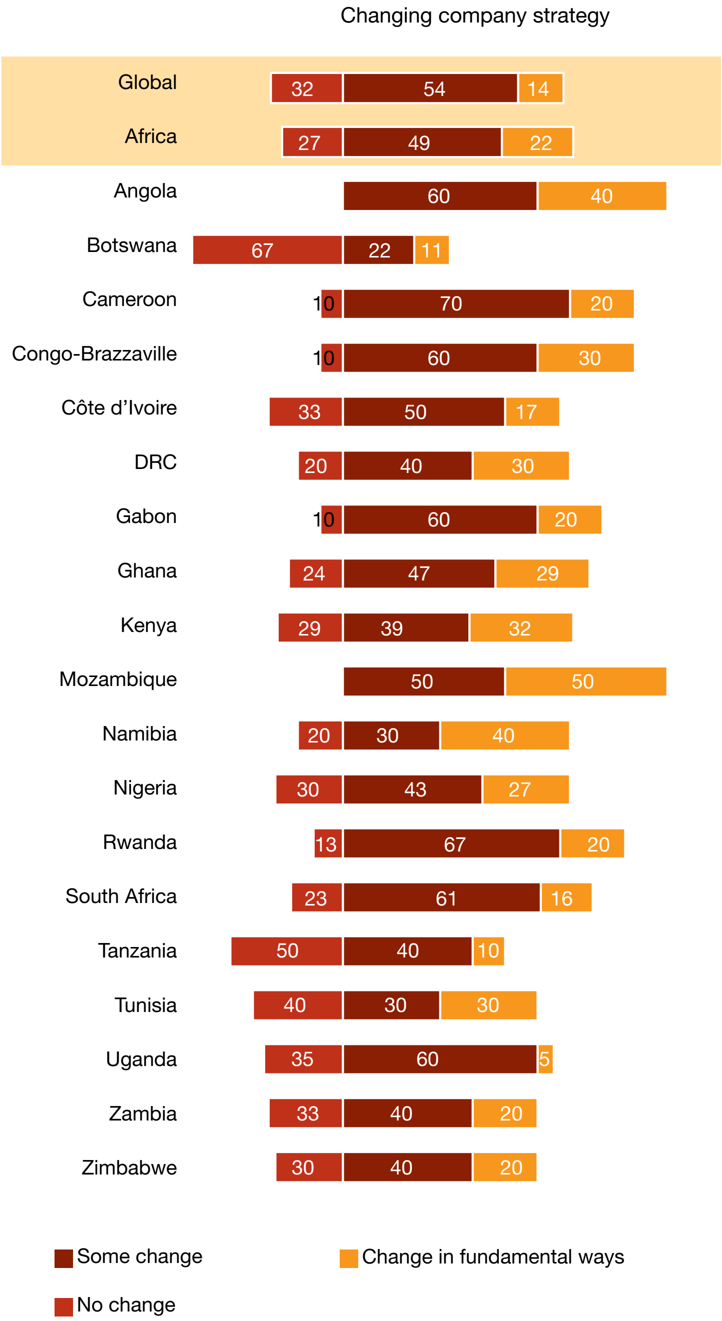
Maintaining market share

Another aspect of agility is how organisations maintain market share, especially where competition is strong or growing. In our survey, we ask if CEOs feel that 'new market entrants' are a threat to growth and 48% say that it is.

We find that this is particularly true in markets that are part of strong regional economies, like among member states of the East African Community. A total of 65% of CEOs in Uganda say that new market entrants are a threat to growth, for example. But in South Africa, which has a much more dominant position in the SADC community, 43% of CEOs say that they are concerned. Over the last three years of the survey in South Africa, that percentage has risen 18%, however. New market entrants in Africa are sometimes African in origin; many are global players and increasingly they are from other, larger emerging markets like India, China and Brazil.

Figure 3: Most CEOs plan to change their company's strategy

Q: To what extent do you anticipate your company's strategy will change over the next 12 months?



Most CEOs anticipate changing their company's strategy over the next 12 months. Angola (100%), South Africa (77%), Kenya (71%) and Rwanda (87%) lead, while CEOs in Botswana (67%), Tanzania (50%) and Tunisia (40%) plan to make no change to their company's strategy over the next 12 months.

Inward focus on agility

Building more agile organisations is also an inward exercise. CEOs told us about organisational efficiency and outsourcing as well as strategy and decision-making processes. Three-quarters say that they anticipate changes to their organisational structures this year and 32% have recently outsourced a business process or function.

Frank Ireri, Managing Director of Housing Finance in Kenya, a leading provider of mortgage financing, anticipates that his company's strategic change programme and new core banking system will have a fundamental impact on operations. He points specifically to how this strategy will impact employees at Housing Finance, who need modern systems to execute the company's growth strategy. Not only do these systems improve operations but they also impact employee morale. People want to work for organisations that deploy the most effective technologies, systems and processes—especially young people, he says. Increasingly, these systems and technologies will be available as mobile applications so that Housing Finance staff can access databases and close customer deals on the move.

Mr Ireri also told us about the impact of outsourcing on the financial services sector in Kenya, which is moving towards a model of outsourced customer service centres. Data processing is likely to remain in-house due to confidentiality and security concerns. Not only are markets like Kenya becoming hubs for outsourced service centres, but companies operating there are also increasingly looking at outsourcing as a strategy themselves. In many cases, their outsourcing partner could even be a neighbour—perhaps one flight down in their new office tower in Lagos or Nairobi.

These are a few of the ways that companies in Africa are leveraging agility to succeed and surpass the competition. Strategic decision making tends to be decentralised, with inputs from multiple business units. As companies and economies mature, CEOs will focus on fewer, more impactful initiatives but there is still a persistent and common understanding among all of our survey respondents that agility in the face of change is a winning strategy for growth.

Q: Why do you think CEOs in Africa are so much more confident about the growth outlook than CEOs globally?

"For me, the first reason is past experience. For the last ten years Africa has been one of the regions of the world where, together with Asia, growth has been highest. The second reason, The second reason, I believe, is that there is so much that can be done. This needs to be financed and there will be significant development of new sectors of activity and of jobs. The third reason is the demographic growth."

Roger Owono Mba, Administrator and Managing Director, Banque Gabonaise de Developpement

The Banque Gabonaise de Développement is one of the oldest Gabonese financial institutions and the only one totally dedicated to social development. Its mission is to provide its technical and financial support to any project promoting social and economic development in Gabon.

"Africa offers huge potential for any type of business. For years the untapped potential of developing Africa was jeopardized by the threat of doing business in what most companies considered an insecure environment. The international crisis which has impacted America and Europe has forced companies to go beyond their borders and experiment with the African route. I strongly believe that the satisfaction of seeing things happening when you start something new in Africa gives great momentum to most CEOs working here. Being able to tap into untapped potential gives you more confidence in growth.

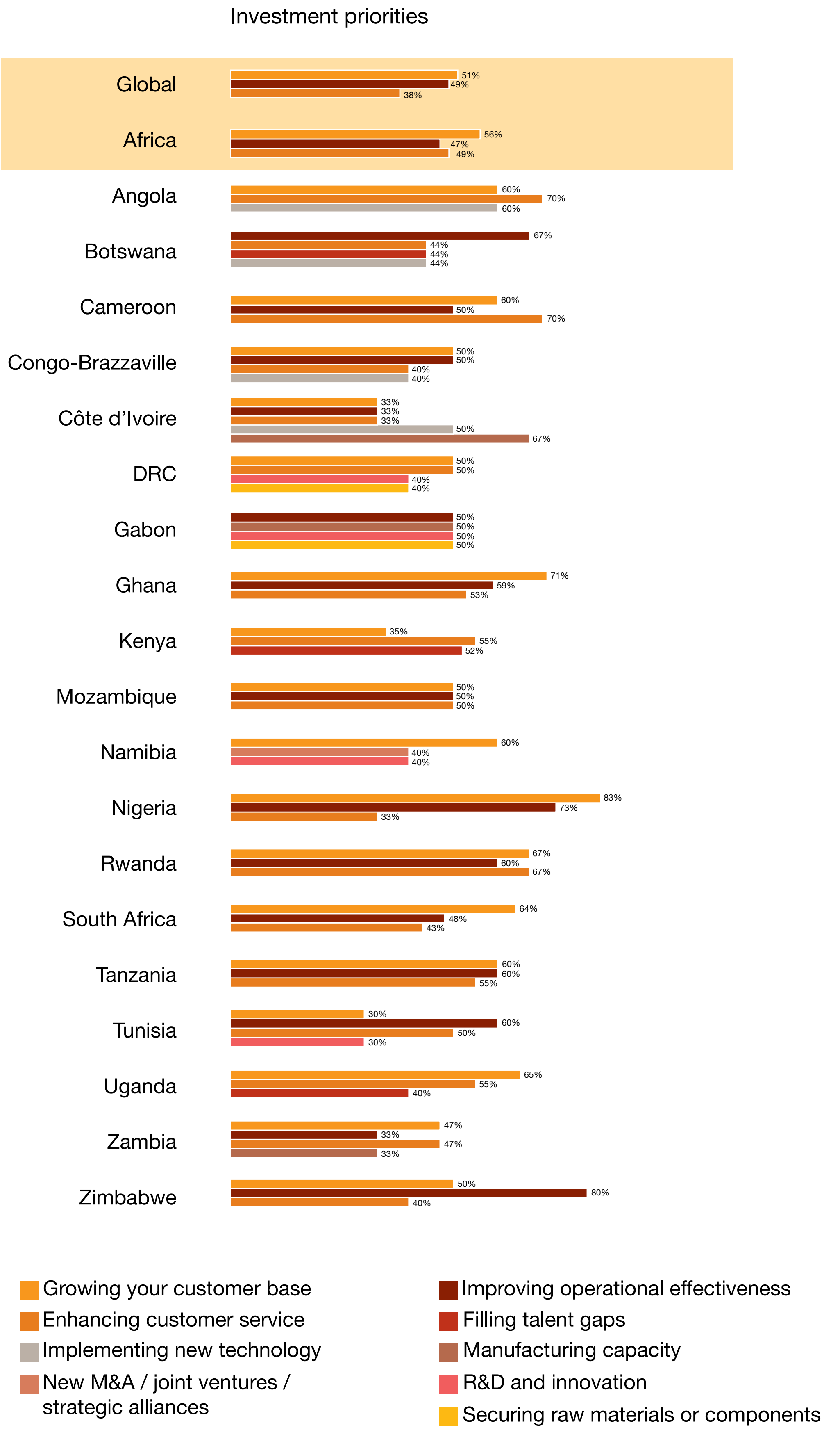
For our business, we need to maintain the leadership we have in the segment where we are category leaders. The real growth potential will be, in the short to medium term, to extend the portfolio of products by entering new segments but in the medium to long term, we need to consider the development outside of Mauritius. Improving operational effectiveness is the main focus for the coming year as, with the growing pressure on margins, we shall have to find the utmost efficiency in anything we do. Enhancing customer service is the second focus area as we need to build and consolidate partnership credibility with our different stakeholders. Building the capability of our people will be the link that will enable us to fulfil the two previous priorities."

– Daniel d'Arifat, Deputy Chief Executive Officer, Pharmacie Nouvelle Ltd, Mauritius

Pharmacie Nouvelle Limited forms part of the Leal Group of Companies, involved in the wholesale and distribution of pharmaceuticals, consumer goods, cosmetics, dyestuffs and chemical auxiliaries in Mauritius, Seychelles and Madagascar.

Figure 4: Customers and operational effectiveness are top investment priorities

Q: What are your top three investment priorities over the next 12 months?



In Angola (70%), Cameroon (70%) and Rwanda (67%), enhancing customer service was also highlighted, while CEOs in Zimbabwe (80%), Nigeria (73%) and Botswana (67%) specifically identified improving operational effectiveness as an investment priority.

Jacques Louw

Advisory Leader for PwC Central and Southern Africa

jacques.louw@za.pwc.com
+27 (0)11 797 4400

Harnessing technology, realising opportunity

We are witnessing increasingly more use of technological innovation to address the many challenges and opportunities faced in Africa. For the most part unhindered by legacy IT infrastructure, Africa is well placed to take advantage of new developments and leapfrog to the latest technologies. Technology enables agility and growth, helps companies to manage and address risks and impacts talent development and retention. 'Talent is key to business,' says Aliko Dangote, President and CEO of Dangote Group. 'Without the right technology, there is no way that you can grow your business beyond a certain level.'

Interest in public sector technological solutions delivered through e-Government implementations, as well as private sector solutions such as mobile banking and cloud solutions, continues to grow.

Nearly a quarter of survey participants highlighted technology as key to their business strategies. A total of 87% of CEOs in Africa say that they anticipate increasing their technology investment this year and technology is a top-three item on their boardroom agenda. But technology is also critical to achieving their other priorities. These include growing their customer base, improving operational efficiency and enhancing customer service, where technology can deliver a single view of the customer. Other priorities encompass data analytics/big data to predict trends and technology to support standardisation and automation of both back office and service delivery processes.

CEOs are interested in the outsourcing of business processes and functions, with 32% planning to do so during the next 12 months. Organisations that can deliver reliable, scalable outsourced services will be well placed to respond to increasing demand for both technology and business process outsourcing as a service in Africa.

Since most CEOs expect their companies to grow inorganically, hosted solutions and technology-as-a-service (software or infrastructure) offer an opportunity to scale up without significant capital investment following the conclusion of an alliance, merger or acquisition.

Some developments have become indispensable in supporting Africa's growth:

- **Mobile technology**
  The Financial Times recently reported that in a seven-year period mobile phone subscriptions had risen to 475 million from 90 million in sub-Saharan Africa. Mobile technology has changed not only the nature of communication, but also the state of banking, commerce and investment on the continent. From enabling access to communications via the mobile phone, to more sophisticated mobile banking, e-health and farming applications, mobile technology offers a transformative opportunity for business in Africa.

  Market leaders such as Kenya, South Africa and Morocco are attracting global interest. For example, two well-known global technology players have established their Africa headquarters in Nairobi. This investment is leading to the development of hi-tech hubs that are tying corporates in with local tech labs and universities. We believe these hubs will further accelerate innovation in Africa and lead to economic growth.

  Opportunities: Delivery of services via mobile devices, development of Africa-appropriate applications, driving growth through innovation.

  Challenges: Penetration of mobile devices is lower than often reported and connectivity challenges remain, particularly in rural communities. Many Africans are still excluded from the benefits of growth and development.

- **Cloud technology**
  The advent of the cloud offers significant opportunities in African markets. Corporates have recognised a variety of exciting solutions for the market utilising cloud technology.

Microsoft recently launched the SME4Afrika programme, a small business solution that will provide a comprehensive package for local SMEs.

The solution includes a PC, laptop or slate, Microsoft Office 365 broadband access and a number of online services.

Opportunities: The 'pay-as-you-go' model for cloud solutions reduces technology costs to a business, enables flexibility to scale business and frees up company personnel to focus on their core business.

Challenges: Connectivity challenges for online solutions, data security concerns, regulatory requirements and the existence of and integration with legacy software solutions require companies to carefully assess their path to cloud or outsourced platforms.

- **Information management and business intelligence**
  A significant challenge in Africa is access to relevant, up-to-date information. As the internet-enabled mobile sector continues to grow, significantly more data will become available.

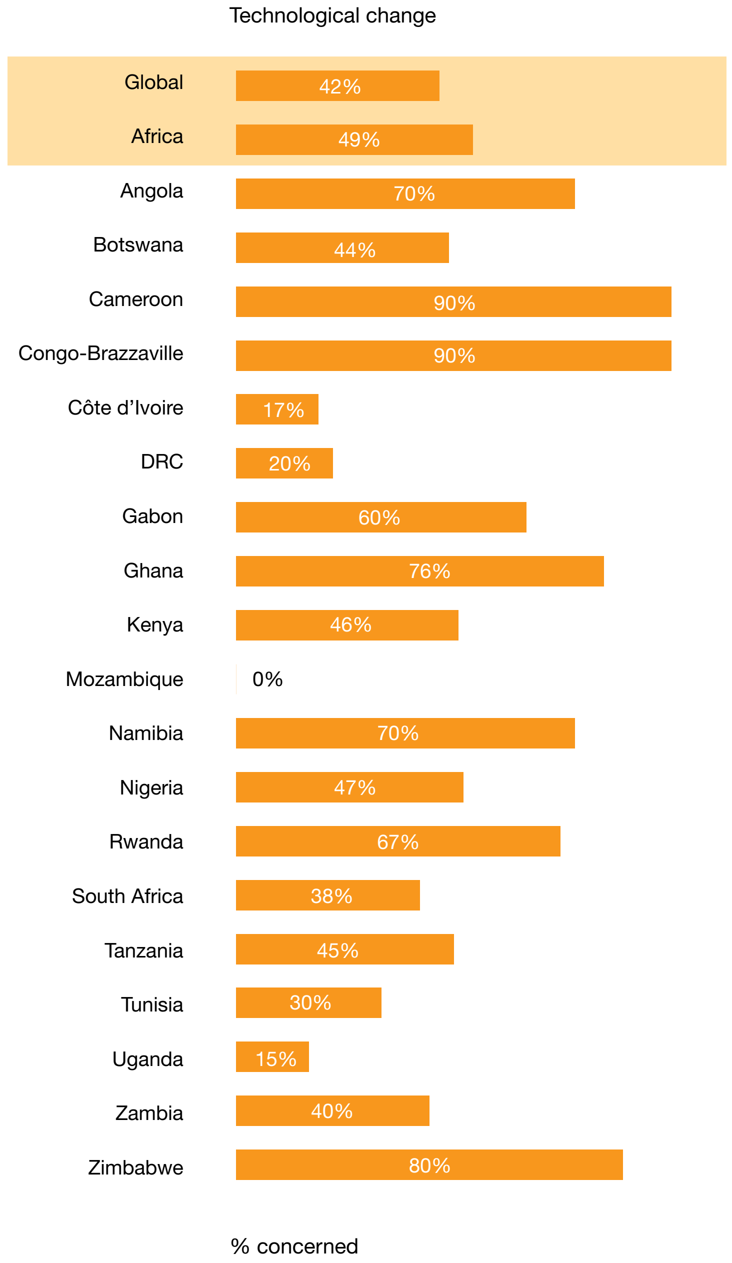
  Opportunities: Businesses that can utilise analytics to commercialise this data will be afforded significant opportunities in customer relationship management and talent management as well as operations. Similarly, the public sector has significant opportunities to manage and utilise large volumes of data for planning, service delivery and analysis.

  Challenges: Individual data privacy concerns, institutional concern about sharing data across private and public sector, regulatory challenges.

In order to deliver technology-enabled business solutions, we can expect to see an increasing level of strategic partnerships with technology partners such as Microsoft, Oracle, HP and SAP partnering with business service providers such as PwC.

Figure 5: CEOs concerned about speed of technological change

Q: How concerned are you, if at all, about the speed of technological change?

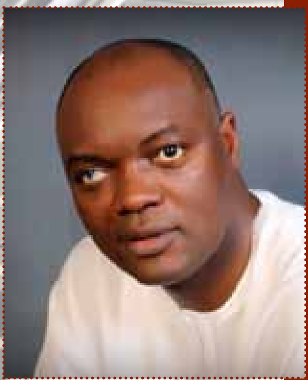


The speed of technological change was identified as an important threat by CEOs across most territories.

Q: How is technology influencing the agility agenda in Africa?

"Orange is now developing new services for the internal market: with the Groupement Orange Service (GOS, a grouping for Orange services) and the techno-platform (a platform of mutualised services in Africa) Orange is now capable of launching new services very rapidly."

Mamadou Bamba, CEO Orange Côte d'Ivoire
Founded in 1996, Orange Côte d'Ivoire was the first Groupe France Telecom subsidiary in Africa. Orange is a major economic player in Côte d'Ivoire and a leading telecommunications company, with five million clients.



"In the technology industry, we see a lot of opportunities because of the transformation that is happening in Nigeria. Infrastructure developments, electronic payment systems and broadband access all encourage growth. Whereas traditionally the public sector has been the biggest spender in this region, at least in the short term their focus is not on efficiency and transparency so we're looking at fast-moving businesses to sustain growth and in particular uptake by the financial services sector.

Investments in technology and infrastructure are top of people's minds, such as efficiencies in communications, access to reliable power and investments needed in infrastructure. The government needs to do more to make the environment more conducive to investment, but in the private sector technology is quite interesting and competitive. People see the value of it.

Companies in Nigeria are looking at how to become more cost-efficient and more scalable with regard to operations. So we find that our customers are looking to move things out into cloud services to properly scale their operations. A lot of technology investments in the past were around getting the fundamentals right. Now it's about scalability.

We're beginning to see investment in smart devices in the sense that I think companies are focused on trying to reach more customers. CEOs want to be mobile and connected to their organisations, and they want the same for their sales forces, to build a customer relationship using applications from any device anywhere they go. So we're seeing more investment in information and agility, mobility and customers.

Globally, there is a real push towards customer service and a lot of companies are trying to cut costs from an IT perspective and move towards an outsourcing model. We are still very positive about the opportunities in Nigeria even though it is not as connected as it should be to markets globally. Nigeria is a large-impact market in terms of customer service. Customers want services like consumer finance and consumer technology services, and there is a large pool of underserved customers. If the market was more mature, companies would go deeper with customer service. At Microsoft, we are focused on expanding our customer base but in the enterprise space we also have to go deeper with our customers."

Emmanuel Onyeje, Managing Director, Microsoft Nigeria
Microsoft Nigeria helps people and businesses realise their full potential through devices and services for home and work.

"We continuously invest in new technologies. It is the most important item in which advanced companies invest and yet it is the item for which the return on investment is amongst the longest. This is very important even though the delay for the integration of new technologies can be quite long."

Slim Othmani, CEO NCA Rouiba

Created in 1996, NCA Rouiba is a family-owned group with approximately 450 employees and a leader in the Algerian fruit juice market. In 1990, the company was the first to use Tetrapack in Algeria.

"We invest a lot in technology because technology helps us improve profitability. For example, in our sector technology helps in the areas of finance, human resources and recruiting software. Our DRC candidate database is a Lyon-located server. We seek candidates all over the world. The software we invest in allows us to seek candidates among the Congolese diaspora and through professional social networks such as LinkedIn and Viadeo.

Another side of technology relates to the simple investments required in computers, websites, etc. This type of investment is a priority in our sector. Our competitors have three times more employees than we do, but technology allows us to be really efficient.

Mbanzi Mumpondo, CEO Sodeico, Democratic Republic of the Congo

"Technology is a key factor to improve our performance. Intervention and operation times are reduced. Introducing computational intelligence in networks makes us more efficient. And beyond networks, the penetration of technology solutions also includes technicians' equipment. This leads to a better balance between the increase of our workforce and the introduction of new technologies."

Jean-David Bilé, VP and General Manager, AES Sonel, Cameroon

Consumerism and its related changes have an impact on distribution channels, with customers increasingly expecting a choice of channels to interact with insurers. Face-to-face distribution remains important, but the mobile phone as a channel is fast becoming more popular. This is one of the driving forces for the recent strategic distribution partnership between MMI's Metropolitan International division and Bharti Airtel. Through this partnership, Metropolitan International is able to market and sell its products directly to Airtel's customers through its extensive telecommunications networks in Ghana, Kenya, Nigeria, Tanzania and Zambia.

Nicolaas Kruger, Group CEO of MMI Holdings, South Africa

MMI Holdings is a South African-based financial services group listed on the Johannesburg Stock Exchange. The core businesses of MMI are long-term and short-term insurance, asset management, savings, investment, healthcare administration and employee benefits. MMI has a presence in 12 African countries outside South Africa, offering a wide range of products through its Metropolitan International business.

Pierre-Antoine Balu

A Partner in Advisory Services with PwC France and Francophone Africa

+33 (0)1 56 57 89 74
pierre-antoine.balu@fr.pwc.com

Tola Ogundipe

Partner and Assurance Leader for PwC Nigeria and PwC Central and Southern Africa

+234 (803) 324 4117
tola.a.ogundipe@ng.pwc.com

Operational effectiveness in Africa

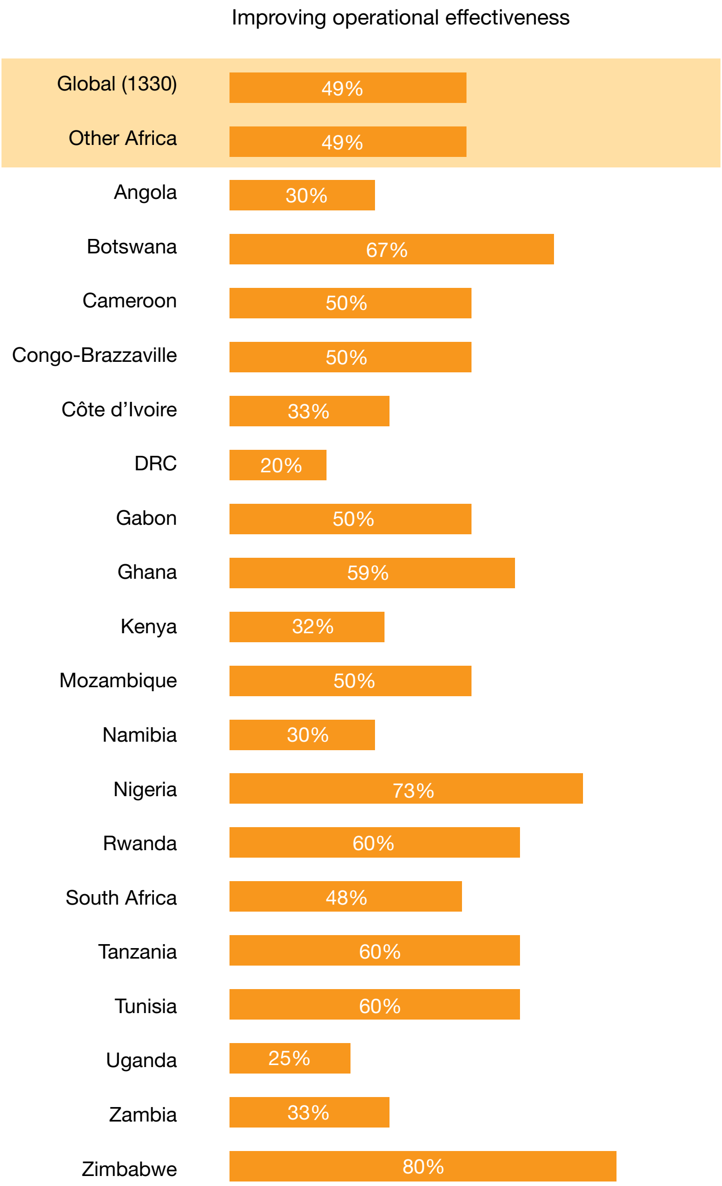
Operational effectiveness issues are often underestimated or perceived as non-urgent matters in markets experiencing major growth. In this context, it often appears more critical to gain market share by opening new points of sale or launching new products. Operational effectiveness is mentioned as the second-most-important investment priority among CEOs in Africa; over half say that improving operational effectiveness is a priority.

Pursuing this growth strategy may become risky if operational effectiveness and therefore operational costs are not properly controlled. The obvious risk is to generate non-profitable growth. Intensifying competition in markets such as telecoms or banking in Africa makes operational effectiveness capabilities a key competitive advantage.

That is why many African CEOs are now launching cost optimisation initiatives including, organisation simplification, processes streamlining, purchasing and sourcing rethinking, and HR and finance transformation.

Figure 6: Improving operational effectiveness a priority for many

Q: What are your top three investment priorities over the next 12 months?



Many CEOs across the continent feel that improving operational effectiveness is essential for growth, none more so than those in Zimbabwe, Nigeria, Botswana, Rwanda and Tanzania.

With labour costs and the tax burden rather high in some African countries, it has become essential to carefully manage all steps of the value chain and more specifically aspects relating to internal operations.

Another factor favours the adoption of operational effectiveness initiatives in Africa: foreign investors. If you want to convince investors to fund your project in Africa, you need to create the right level of trust. We know that credibility is a major challenge for African companies. To do so, companies must adopt international standards in terms of governance, financial reporting and process management. Proving that you have a good level of discipline internally and that your company is able to execute the strategy as planned makes a huge difference for potential investors or partners.

This ability to execute better and faster is also a core priority for numerous governments. In this case, we observe that technology and enterprise resource planning are often used as the spearhead of operational effectiveness. Implementing these systems is forcing the administrations to reengineer their processes, reallocate roles and responsibilities and of course reduce overall expenditure.

At the end of the day, 'profit will only grow if our operations are efficient,' says Pascal Lesoinne, Managing Director of Tanzania Portland Cement Company – a view that is widely shared. 'Rapid growth leads to operational deficiencies which could turn against you if the situation stays the same for too long.'

As African economies and companies become increasingly mature and competitive, PwC is convinced that operational effectiveness will remain a hot topic in the coming years.

Clare Akamanzi

Chief Executive Officer, Rwanda Development Board

The Rwanda Development Board works to fast-track economic development in Rwanda by enabling private sector growth. It works with and addresses the needs of companies of all sizes and both local and foreign investors.

Q: Is the operating environment in Rwanda conducive to greater agility among companies operating there?

The Government of Rwanda's plans over the next five years include an ambitious growth rate target of 11.5%. The commitment to arrive at that rate requires the private sector to drive growth. Right now we're working very hard to determine what needs to happen and develop business ideas with the private sector. Our country has the drive and vision to grow and it inspires individual companies.

Considering the macroeconomic environment in Rwanda, there is no reason to worry about growth. The economy is stable, the exchange rate is stable and inflation is at a level of 7%. There are no immediate threats that companies see in the short to medium term and it reinforces their optimism going forward.

Related to that, there is a drive to keep reforming the business environment and a sense that the best is yet to come. With a positive future growth trajectory and no immediate misfortunes, it really is up to a company to take the next step.

Q: Which investments in customers and technology enable greater agility?

There are a lot of new players in the market now so companies are thinking about how to compete for and prioritise customers. With the opportunities in the East African Community, companies in Rwanda are thinking more carefully about what they are exporting and what they produce. Other companies are looking at Burundi and eastern Congo and thinking about how to sell services and expand into these markets. A focus on quality services and the customer base together with customer input and competition are all factors that have become top of mind for businesses.

I think customers are looking for convenience and reliability with new products and services. Generally, companies are responding to customer needs with new products and services that go beyond the conventional. We're seeing the market moving away from basic demands and the consumer becoming more sophisticated so that many retailers find that items that they weren't sure Rwandans would buy are moving off the shelves. It's more than just the basics because incomes are increasing and there is more competition in the market place. Customers want to choose and because of that, companies have to think about how to keep their client base happy.

When it comes to technology, some sectors have embraced it, but not all. Technology is an expense that companies have to think about in terms of its impact on operations. As businesses become more sophisticated, they invest more in technology because it is part of the growth trajectory.

In Rwanda, technology development will be helped by 4G internet connectivity and a policy of countrywide connectivity within three years, now that the government has partnered with Korea Telecom. Reliable, affordable connectivity will allow innovators and businesses to come up with solutions for this market.

Q: Is social media requiring companies to be more agile?

Social media has become very popular in Rwanda. Almost all government institutions use social media and it has become a common way of communicating. Our President is very present on Twitter, for example. Organisations like ours also take it very seriously. If there is a comment in the newspaper about a company, the outreach and impact on perception is not as immediate as social media. Even on radio, the feedback and interactivity are not as powerful as they are on social media, which is very fast in terms of interaction. One person reads something and posts a comment and before you know it there is another and another, very quickly, and it becomes a conversation.

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