Modes of market entry and strategies for South African Companies doing business in Tanzania

A thesis submitted

by

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Abstract

This research identifies modes of market entry and strategies adopted by South African companies doing business in Tanzania. Data was collected through one-on-one semi-structured interviews with South African company executives in banking, retail, manufacturing, financial services, and hospitality and engineering construction sectors. The study found that the mode of market entry was related to the degree of commitment of resources irrespective of the industry sector. The mode of market entry for the banking sector was influenced by the degree of politicisation as this is highly regulated. Acquiring state owned firms in privatisation partnership with government had the obvious advantage of being close to the pulse of policy thinking. Business in Tanzania thrived on relationships, partnering with locals using joint ventures or acquisition as modes of market entry mitigated risk. Greenfield investments in the retail sector were largely unsuccessful due to a lack of knowledge about retail supermarkets by locals, a fragmented sector and fierce informal market competition.

Tanzania is as an entry point into the wider EAC that includes Kenya, Uganda, Rwanda, Burundi, DRC, Malawi and Sudan. Regionalism has resulted in significant gains for SA companies in Tanzania. Operational challenges in Tanzania were similar with what the literature proposes on emerging market economies: lack of skills, exchange rate volatility, corruption, regulatory burdens, poor infrastructure, thriving informal markets, and lack of law enforcement, thefts and anti-SA sentiments all adding to the cost of doing business. This study further proposes a model that SA companies can consider as part of their strategic planning process for internationalisation of business in the East African Community.
Declaration

I declare that this research project is my own, unaided work. It is submitted in partial fulfilment of the requirements of the degree of Master of Business Administration for the Gordon Institute of Business Science, University of Pretoria.

It has not been submitted before for any degree or examination in any other University.

Tawanda Mushuku (Ph.D.)

14th November 2006
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God Bless!
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<tr>
<td>ABSA</td>
<td>Amalgamated Banks of South Africa</td>
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<td>ADB</td>
<td>African Development Bank</td>
</tr>
<tr>
<td>COMESA</td>
<td>Common Market for Eastern and Southern Africa</td>
</tr>
<tr>
<td>CSA</td>
<td>Country Specific Advantages</td>
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<td>EAC</td>
<td>East African Community</td>
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<td>DBSA</td>
<td>Development Bank of Southern Africa</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>IB</td>
<td>International Business</td>
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<td>IDC</td>
<td>Industrial Development Corporation</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<td>JSE</td>
<td>Johannesburg Stock Exchange</td>
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<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
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<tr>
<td>FSA</td>
<td>Firm Specific Advantages</td>
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<tr>
<td>M&amp;A</td>
<td>Mergers and Acquisitions</td>
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<tr>
<td>MNC</td>
<td>Multinational Corporation</td>
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<tr>
<td>NGO</td>
<td>Non-Governmental Organisation</td>
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<tr>
<td>OLI</td>
<td>Own, Localise and Internalise Model</td>
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<tr>
<td>PESTLE</td>
<td>Political, Economic, Social, Technological, Legal, Environmental framework</td>
</tr>
<tr>
<td>SAA</td>
<td>South African Airways</td>
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<tr>
<td>SADC</td>
<td>Southern Africa Development Community</td>
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<td>WB</td>
<td>World Bank</td>
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Chapter 1: Introduction

The new millennium has seen the desire to make this the “African Century” and initiatives such as the African Union and the related New Partnership for Africa’s Development have attracted either a good deal of enthusiasm or scorn (Whitehouse, 2004). The debate has centred on the role of large South African companies. There have been two schools of thought, one being that they are not doing enough to revitalise the continent whilst the other suggests that they have become the new colonial masters of the continent (Jonah, 2006).

The South African economy is experiencing a process of accelerated globalization with the private sector making rapid strides in moving offshore since 1994. These are still early stages of progress as South African companies re-integrate themselves into the global economy. Political change, to a certain extent has been the enabler to this process. Another fundamental shift is occurring as South African businesses move away from traditional to emerging market economies (Davies, 2005). Global growth is now being driven by emerging markets that offer new commercial opportunities as well as competitive challenges for South Africa. While we seek co-operation with our peers in emerging markets, they undoubtedly pose the greatest commercial competition as well.

Geographical proximity has made South Africa the gateway for doing business in Africa placing South African companies in the best position to take advantage of African opportunities. South African investors need to capture opportunities by doing
their homework and basing entry on solid market research, analysis of competition and risk assessment (Nwankwo, 2000). South Africa has a vested interest in the development of the rest of Africa and has become Africa’s economic powerhouse and a major player in the continent’s economy. The result is that the country’s destiny is tied up with that of the rest of the African continent (Jonah, 2006).

South African investors could capture the opportunities by following a portfolio approach, not putting all their eggs in one basket but investing in multiple countries over time and expanding market size through regional integration and encouraging regional growth (Davies, 2005). The decision to enter a specific country must be based on doing homework. The products and services must be tailored to the needs of the market. Products and investment approaches have to be changed completely since operating in Soweto us not the same as operating in Accra, Nairobi or Dakar (Jonah, 2006).

Most importantly consideration has to be taken in taking the best teams out there but, also investing in developing local talent that is identified as quickly as possible (Coleman, 2006). The crucial difference is that businesses in Africa thrive on relationships and having the right local partners with contacts and access is crucial to the success of any investment in Africa. With the help of local partners adapting to cultural differences and business practices is made easier. The local knowledge the right partner brings to accessing vital information for business reports, market research and the analysis of competition, is invaluable (Jonah, 2006).
Many companies have rushed head-on into emerging markets eager to claim prospective consumers that have been liberated from planned economies and protectionist barriers. These companies quickly realize that local consumers do not reciprocate their enthusiasm. The path to entry into emerging markets are littered with failure if companies transfer products or marketing ideas from their home markets and wait for emerging market consumers to evolve towards them. Emerging markets are different and successful business models have relied on consistent and basic functionality of the products and/or services, low margins and more adaptable brands for localization (Chattopadhyay and Dawar, 2004).

Clearly, each emerging market has a unique profile and the right strategy for a company will depend on the nature of the industry and its capabilities among other factors. However, too many companies remain captive to the products and strategies that have served well in the past missing the opportunity to win new customers (Coleman, 2006).

1.1 South African companies doing business in Tanzania

Local companies have invested R 200 billion since 1994 in operations in the rest of Africa, making South Africa one of the five largest global investors on the continent (Piliso, 2006). According to Games (2004), South African companies have invested aggressively in franchising, transport, retail, finance and telecommunications and are also investing in long term projects. South African companies operating in Tanzania have based investment or project decisions on the merits of each individual case and
more importantly the desire for Tanzania, country specific advantages, to attract foreign direct investment into the country (Pillay and Oludele, 2003). South African investments to Tanzania topped US$600 million—a country that few years ago had virtually no trade links with South Africa (Nyirabu, 2004). The need to be in the international environment, whether by exporting, investing or undertaking projects has been driven relatively high growth rates in some neighbouring countries with Mozambique, Angola, Tanzania, Uganda and Mauritius recording growth in excess of 5 to 10% (Whitehouse, 2004).

One of the most noticeable points of evaluating the evolution of the market entry into African countries is primarily those countries that have undergone substantial and positive political and regulatory reforms. Tanzania has been able to attract investment by South African companies as a result of opportunities and a revised regulatory environment. The environment in Tanzania is described as stable and workable. Financial analysts list Tanzania as the new investment destination of choice (Naidoo, 2006). The current trade between Tanzania and South Africa is in a healthy state. Exports from South Africa to Tanzania have grown from R901 million in 1997 to over R2 billion in 2003 (Pillay and Oludele, 2003).

Trade with East Africa has been showing steady growth given the strong ties between business cultures as well as the relative proximity of East African countries to South Africa. However, the endemic corruption in Kenya, the biggest market in East Africa, but one of the continent's worst performing has pushed out South African
business people who are reluctant to compete in a business sector through patronage and corruption (Kabelwa, 2002; Games, 2004).

South Africa was ranked fourth on the list of top investors in Tanzania (Pillay and Oludele, 2003). South African Airways invested $20 million for a 49% stake in Air Tanzania which it hopes to build into a strong regional airline. SAA is pivotal to the increase in business and aims to develop Tanzania as regional hub exploiting refuelling stops. Absa acquired a 55% stake in Tanzania’s biggest retail bank, the formerly government owned National Bank of Commerce (Games, 2004). Absa has taken over local networks in Tanzania and coupled with new IT systems in local banks has helped to strengthen their competitiveness in terms of product offerings and efficiency. AngloGold is mining in Tanzania and considers the country to be among the safest for mining investment. Indirect investment to date has been $185.3 million and direct investment $15.8 million (Nyirabu, 2004; Kabelwa, 2002; Musonda and Madete, 2002; Games, 2004).

Standard bank’s head of Africa Research, Razia Khan says Tanzania will achieve a sustainable growth of 6%. The growth rate is attractive to investors and they will become more comfortable with risk. A sustainable growth rate is mainly because of macro-economic reforms, more political stability and privatization (Khan, 2006). Shoprite Checkers one of the largest retailers in Africa has more than 600 outlets in 16 countries including stores purchased from the main competitor, Pick & Pay in Tanzania.
SABMiller is steadily expanding through Africa and boasts brewing operations in nine countries and bottling plants in 10 countries through the subsidiary ABI. The countries that contribute to SABMiller’s annual turnover of R1.9 billion include Botswana, Tanzania, Ghana, Lesotho, Zimbabwe, Zambia, Uganda, Swaziland and Mozambique (Naidoo, 2006; Piliso, 2006).

Vodacom in Tanzania invested $142 million and start up growth was beyond the company’s expectations. Vodacom anticipated 36 000 subscribers in the first year: after only eight weeks it has 38 000 (Games, 2004). Vodacom was fourth into the market and by mid 2003 had more than 50% of market share. Vodacom recently launched a third generation (3G) network in Tanzania, making it the second country in Africa with the wireless technology. According to Vodacom CEO, “Vodacom will spend $1.3 million (R8 million) extending its network in Tanzania and build a 3G cell phone network in Dar es Salaam. This will allow users to surf the web on their phone. Vodacom will build an earth station to cut the costs of international calls” (Craig-Knott, 2006).

Other SA companies doing business and seeking opportunities in Tanzania include consumer goods distributor Metro Cash & Carry, financial services company Alexander Forbes, Africon Engineering International, De Beers, the Protea Hotel Chain, Murray and Roberts Construction Company.

The financial parastatals have played a key role as they have acted as levers for South African investors in the Tanzania. The IDC and DBSA are both critical
repositories of research and information of the region that adds a valuable body of knowledge and support services that can be used by South African private sector companies (Whitehouse, 2004). This role cannot be overlooked as a key constraint and failures in Tanzania has traditionally been the lack of reliable verifiable data. Portnet, the South African parastatal in charge of port development has invested heavily in the upgrade of the Dar es Salaam harbour making it one of the best harbours in the East African region (Games, 2004).

The Johannesburg Stock Exchange (JSE) has been working with the Tanzania Stock Exchange to help improve their operational, regulatory and technical capabilities, increase market liquidity, enhance trading, promote development of efficient and transparent securities markets making them more attractive to both regional and international investors (Games, 2004).

1.1.1 The role of the government of Tanzania

The increased South African presence has led to “The East African” calling the process “the South Africanisation of the Tanzania Economy” (Nyirabu, 2004). What is interesting is that the government of Tanzania has come out in the open supporting South African investment in Tanzania. Opening a tourism conference in Arusha, former President Mkapa urged Tanzanians to accept South Africa as a partner in development “Those of you who follow events in this country will not have missed the criticism in the media and in certain political circles levelled at my government concerning increased South African investment in Tanzania. I have only one answer
to such criticisms. I wish we could have more South Africans investments in this
country ……. We would be patently foolish not to access South African capital for our
development. Post apartheid South Africa is our friend and our partner in
development – bilaterally as well as in the context of the SADC, the Africa Union and
economic programme, NEPAD” (Nyirabu, 2004).

President Kikwete endorsed a new package of investment incentives for Tanzania
setting the stage for a new business climate for the country. Known as the Blue
Book, the new arrangements commit the country to implement specific measures to
support the private sector (Munaita, 2006). The measures include a commitment to
improve the administrative support to commercial courts, develop performance
charters for agencies in charge of business regulations and inspections and enhance
transparency in tax administration. Tanzania will be required to bring into force the
East African Community double taxation treaty and to issue, jointly with Kenya and
Uganda, the East African Community member state business visas (Wahome, 2006;
Munaita, 2006).

1.2 Definition of the research problem

Foreign direct investment is still in its relative infancy in Tanzania and data available
on FDI and the specific modes of entry by South African companies doing business
in Tanzania is rare. South African businesses are relatively poorly positioned in
emerging market economies in general and Africa in particular.
There have been notable exceptions and include SABMiller, Anglo American, Shoprite-Checkers, Standard Bank and MTN as first movers (Davies, 2005). However the majority of South African companies have not adequately mapped their modes of market entry and engagement strategies for emerging markets. Successful operations in emerging markets are those that are able to modify their strategies to suit local business environment without compromising their fundamental values and principles. Execution often needs to be innovative (Coleman 2006; Jonah, 2006).

This research seeks to identify modes of market entry and strategies adopted by South African companies that have entered Tanzania. How did they formulate their modes of entry strategies to be able to do business in Tanzania? What was unique and what challenges did these South African companies face when seeking business opportunities in Tanzania?
Chapter 2: Theory and Literature Review

2.1 Existing International Business Theory

Over the past several decades, corporations have gained increasing experience in expanding their operations in foreign markets, and the literature on emerging markets and global strategy has also grown. However, most multinational corporations (MNCs’) investments have been targeted at developed countries (Arnold and Quelch, 1998; Sachs, 1998); these countries are also the context for most IB research. For example most of the research on subsidiary entrepreneurship has focused on developed countries in North America and Europe (Birkinshaw, 1997; Frost, 2001), limiting the generalization of the theoretical stream to countries at the same stage of economic development and having the same cultural orientation.

2.2 Internationalisation models

2.2.1 Own, Localise and Internalise (OLI) Model

The Own, Localise and Internalise, OLI, “model” which has become the centrepiece of the literature on MNCs suggests that it is optimal for a firm to become a MNC and thereby locate some of its production centres outside its home country if three different conditions are satisfied (Eithier, 1986). First, the firm has to Own knowledge about the product and processes that endow it with advantage over competitors
within its industry. Dunning (1993) suggests that ownership advantages are firm specific assets and skills. Assets are reflected by the firm’s size and multinational experience and skills by the firm’s ability to develop differentiated products. According to Brouthers and Brouthers (2003), ownership advantages need to be both unique and sustainable in order to provide a firm with a competitive advantage in the selection of the entry mode.

**Location** in the host country should provide the firm some advantage like elimination of tariff costs that induces the firm to locate part of its operation in the host country, thereby internalising the process of catering to the demand in that country. Root (1987) argues that location must reflect how attractive the specific country in terms of market potential and investment risk. In addition measures of location should include similarity in culture, market infrastructure and the availability of lower production costs.

The OLI paradigm explains reasons why firms decide to invest, what the pre-conditions (firm specific advantages) are, where they invest (where are the location advantages complementing their ownership-specific advantages available) and why they select FDI out of many forms of foreign market entry. The important aspect of the OLI theory is that the location and ownership advantages are a necessary but insufficient condition for FDI. They should be complemented by **Internalisation**.

Buckley and Casson (2003) provided a theory of the MNCs’ sufficiently powerful to afford long term projections of the future growth and structure of the firm. They
focused on the existence of market imperfections which generates benefits of internalisation and recognized four sets of parameters relevant to the internalisation decision:

- Industry specific factors, related to the nature of the product and the structure of the external market
- Region specific factors
- Nation specific factors, including government policies
- Firm specific factors with a focus on the ability of the management to organize an internal market.

Rugman and Verbeke (2003) recognized the contribution in their own perspective of the MNC as an “international intelligence system for the acquisition and collection of basic knowledge relevant to R&D and for the exploitation of the commercially applicable knowledge generated by R&D”. It is also critical to observe that these authors also state that R&D should be decentralised and located closer to sources of new information, especially basic research institutions as well as “debugging” of new products and processes as well as adaptation to local market conditions, requiring proximate contacts with production and marketing people (Rugman and Verbeke, 2003).

Dunning (1988) suggests that there are three main types of international production, namely market seeking, resource seeking and efficiency seeking. Market seeking can be exploited in the host country to get access to some specific market, where as the resource seeking motivation for FDI considers market size and the efficiency
seeking argument of FDI looks at economies of scale and scope, risk reduction through product diversification and taxation. Dunning added another motivation for FDI, strategic asset seeking. Strategic asset seeking is a motivation for sequential FDI. The aim of strategic asset seeking investment is to acquire resources that are important to enhance the capabilities and advantages of an investor (Dunning, 1994).

Although the OLI theory has been applied widely into different industries, there has been also a lot of critique to Dunning’s OLI paradigm. Itaki (1991) argues that there is no need to stress ownership advantages to explain international activities of multinational corporations as they are already captured in the internalisation theory.

Another critique to the theory is the lack of causality between variables described in it. Williams argues that it is incorrect to assume that companies need ownership advantage compared with local companies already in the host country. Williams suggests that internalisation alone is enough to cover ownership advantages and further argues that based on the eclectic theory it is not possible to set up testable hypotheses (William, 1997).

2.2.2 The Transaction Cost Theory

Rugman and Verbeke (1992) state the transaction cost theory as a predictive model and these authors argue that both the form and competitiveness of the international operations of a multinational corporation depend crucially upon the configuration of three elements which Dunning (1988), provides a comprehensive overview.
Firm specific (or ownership specific) advantages (FSAs’) include both proprietary know-how (unique assets) and transactional advantages. The transactional advantages reflect the MNC capabilities of economising on transaction costs as a result of the multinational coordination and control of assets (Dunning, 1988). Hennart (1991) states that research efforts have focused on corporate capabilities to develop optimal internal coordination and control mechanisms, taking into account their costs and benefits.

Country specific (or locational) advantages (CSAs’) are benefits associated with locating certain activities in particular countries. According to Rugman and Verbeke (1992) these benefits may arise from structural market imperfections such as government regulations and the potential to economise on transaction costs by reducing risks and to benefit from local opportunities.

Internalisation refers to the relative benefits associated with different modes of entry, for example, exporting, licensing, joint ventures, FDI and other forms of investments when serving foreign markets (Rugman and Verbeke, 1992). Here market failure is the crucial reason for internalisation. It can be related to both natural market imperfections such as the public goods nature of knowledge and government imposed market imperfections. Normative decision theory suggests that the choice of foreign market entry mode should be based on trade-offs between risks and returns (London and Hart, 2004).
2.2.3 Resource Based Theory

The mode of entry and organisational capability has recently been introduced to explain entry mode choices. The organisational capability perspective is rooted in the resource based theory. According to Madhok (1997), organisational capability perceives the firm as a bundle of static and transferable resources which are transformed into capabilities through dynamic and interactive firm specific processes where individual skills, organisation and technology are inextricably woven together.

Peteraf (1993) views the resource based theory as having important implications for corporate strategy, that is, questions regarding boundaries of the firm, single business strategy to help managers differentiate between resources that might support a competitive advantage from other less valuable resources.

2.3 Modes of market entry for internationalisation of business

Entry mode has been defined as an institutional arrangement for organising and conducting international business transactions such as contractual transfers, joint ventures and wholly owned operations (Anderson, 1997). Internationalisation is part of an on-going strategy process for many businesses as the firm transfers products, services or resources across national borders (Melin, 1992). The firm has to select a country the transactions should be performed and most importantly according to Anderson (1997), the international exchange transaction modality, that is, a foreign market entry strategy represent the key strategic decision in connecting the firm’s
internationalisation. Among many factors that influence foreign direct investment operations, the mode of entry into a foreign country has been found to have a significant effect on the performance of multinational corporations (Cui, and Lui, 2005). Although some studies have found the main effect of pioneering in market share and profitability, that is, first movers achieve superior performance than their later counterparts (Luo, 1997), others have discovered that the effect of first mover advantages may be conditional on other factors such as entry mode and resource commitment (Isobe, Makino, and Montgomery, 2000).

The OLI paradigm, however, does not provide any obvious rationale as to how a MNC should enter a new market: as a wholly owned subsidiary, by way of acquisition of a local firm or in partnership with a local firm (Bhaumik and Gelb, 2003). The mode of entry by a MNC into an emerging market has important implications for its process of development. Specifically the mode of entry of a MNC may determine its willingness to transfer technology. Technology spillovers are essential on account of FDI as they are important for the process of economic development in an emerging economy. An examination of the mode of determinants of mode of entry in an emerging economy assumes significant importance (Ngowi, 2002).

2.3.1 What determines an MNC’s choice of mode of entry into a new market?

Multinational corporations are generally characterised by the need to own technology that enables it to operate profitably under different business environments. It follows that a major concern of the MNC therefore, is to ensure that it does not lose control
of this technology. Given the costs of writing perfect contracts and costs associated with monitoring, the easiest way of losing control over this technology is to enter into a partnership with a partner in the host country (Bhaumik and Gelb, 2003).

Partnership with a local firm in a host country enables an MNC to minimize the costs associated with an imperfect knowledge about the local policy and business environment as well as product and factor markets. It follows that an MNC will desire more control, the extreme form of which is a wholly owned subsidiary if its products and processes are R&D intensive (Caves 1996; Smarzynska, 2000) and if the MNC has made significant investment in its proprietary technology (Gleason, Lee and Mathur, 2002). Correspondingly it will desire less control if these are intensive in the resources that make a host country attractive as a location to set up operations (Teece, 1986; Asiedu and Esfahani, 2001).

The MNC has to balance agency costs associated with a tie-up with a local firm with the transaction costs associated with entry on its own (Gomes-Cassers, 1989). Hennart (1991) argues that transactions costs associated with acquiring resources and doing business in a country can be reduced considerably if the MNC ties-up with a local firm. Further the MNC’s decision regarding whether or not to tie up with a local company also depends on its risk appetite with respect to its exposure to the host country and on its expectations about the market potential of the host country. Specifically, the literature argues that an MNC’s choice is determined by the following factors:
- Risk associated with the policy and business environments of the host country and market potential of the host country (Kogut and Singh, 1998b; Barbosa and Louri, 2002).
- Cultural distance between the host country and the country of origin of the MNC (Kim and Hwang, 1992).
- The expected size of the operation in the host country (Gatignon and Anderson, 1998).

Further arguments in literature point out the fact that the mode of entry of an MNC to a new market or production base would depend on the experience of the MNC with respect to operating in the country concerned and/or broadly speaking, on its experience is similar countries (Cleeve, 1997).

Multinational corporations can choose between a Greenfield project and acquisition of an existing firm in the host country as a mode of entry (Gorg, 2000). Greenfield entry is when an MNC decides to enter a host country on its own and opts to incur the cost of putting together the resources that are required to build a company and the business networks required for the company to function profitably.

On the other hand, the MNC can opt for acquisition of an existing company. Under this scenario, the MNC has to incur the cost of adapting the company’s production process, organisational structure, management style and business networks to suit its own requirements. The eventual choice between a Greenfield entry and an acquisition is determined by the transaction costs associated with the two modes of entry. The literature argues that the following are generally true: acquisition is the
preferred mode of entry of diversified MNCs’ (Chatterjee, 1990; Zejan 1990); MNCs’ that are strong relative to the local firms prefer Greenfield entries (Hennart and Park, 1993); acquisitions are more likely if the growth rate of the local industry is high, if the local industry is competitive and if the size of the local affiliate is large relative to the size of the parent MNC (Hennart and Park, 1993).

2.3.2 The Brownfield Mode of Entry

A Model of Entry Mode Choice

According to Meyer and Estrin (2001), the choice of an appropriate mode of entry into new markets is a key strategic decision for international business. A Greenfield entry gives the investor the opportunity to create an entirely new organisation specified to its own requirements, but usually implies a gradual market entry. An
acquisition facilitates quick entry and immediate access to local resources, but the acquired company may require deep restructuring to overcome a lack of fit between the two organisations. In emerging markets notably, this restructuring can be so extensive that the new operation resembles a Greenfield investment. Meyer and Estrin have termed such an investment “Brownfield” and are presented in Figure 1 as a hybrid mode of entry.

2.3.3 Mode of market entry in relation to the degree of involvement

In literature, the mode of market entry is characterised by the level of control (high, medium, low) and resource commitment. Erramilli and Rao (1990) present an ordinal scale to represent the degree of involvement. Wholly owned subsidiaries, that is, Greenfield investments are characterised as having the highest level of involvement with licensing/franchising are characterised as the lowest level of involvement.

Table 1: Mode of Market Entry in Relation to the Degree of Involvement

<table>
<thead>
<tr>
<th>Mode of Market Entry</th>
<th>Resources Required for Commitment</th>
<th>Market Specificity of Commitment</th>
<th>Degree of Involvement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Greenfield</td>
<td>Very High</td>
<td>High</td>
<td>9 (highest)</td>
</tr>
<tr>
<td>Acquisition</td>
<td>Moderate to High</td>
<td>High</td>
<td>8</td>
</tr>
<tr>
<td>50:50 Joint Venture</td>
<td>Moderate</td>
<td>High</td>
<td>6</td>
</tr>
<tr>
<td>Export subsidiary</td>
<td>Moderate</td>
<td>Moderate</td>
<td>4</td>
</tr>
<tr>
<td>Direct to customer exports</td>
<td>Low to Moderate</td>
<td>Low</td>
<td>3</td>
</tr>
<tr>
<td>Export via agent/distributor</td>
<td>Low</td>
<td>Low</td>
<td>2</td>
</tr>
<tr>
<td>Licensing/Franchising</td>
<td>Very Low</td>
<td>Very Low</td>
<td>1 (Lowest)</td>
</tr>
</tbody>
</table>
2.4 Modes of entry for doing business in Tanzania

According to Ngowi (2002), the contributions of FDI to Tanzania has included employment opportunities, increased government revenues, transfer of technology, capital formation and introduction of advanced managerial and organizational skills. Dunning (1994) states that the contributions stated above are dependent on the FDI entry modes.

![Figure 2: Net FDI Inflows to Tanzania 1990-2000](image)

*Figure 2: Net FDI Inflows to Tanzania 1990-2000*

**World Investment Report** (2000) Published by UNCTAD

Net FDI inflows into Tanzania have shown a steady increase from 1991 to 2000.

2.4.1 Greenfield Investments

The main channels of entry for FDI have included Greenfield investments either through sole ventures by foreign investors or in joint ventures with locals.
Participation in privatisation process is gaining strength especially the ongoing
divestiture of public utility companies. Gibbon (1999) estimated that privatisation
proceeds accounted for a third to half of FDI flows with a cautionary note on the
reliability of the figures. There has been a share of foreign acquisitions in FDI inflows
as well as joint ventures indicating willingness of potential investors to form
partnerships with local private investors. Joint ventures are an encouraging sign that
transfer of skills and technologies and the creation of other forms of linkages through
which foreign investment can enhance the local development process will take place
(Musonda, and Madete, 2002).

2.4.2 Mergers and Acquisitions

Merger and acquisition entry mode has been dominant in most of the traditional
classic colonial/neo colonial exportable raw materials. This mode of entry into
Tanzania has been dominant in import substituting or manufacturing goods that enjoy
a high degree of natural protection like beer, cement and petrol products. The
parastatals that have been involved have traditionally enjoyed monopolies. Available
data show that Tanzania has experienced more acquisitions than mergers in FDI

2.5 The East African Community

To date Africa has regional integration schemes of varying design, scope and
objectives with seven dominating the integration landscape. The Common Market for
Eastern and Southern Africa (COMESA) has 20 members, the East African Community (EAC), three members, two belonging to COMESA and one to SADC, SADC has 14 members, the Indian Ocean Commission (IOC) with five members, four belonging to COMESA and one to the SADC and the Southern African Customs Union (SACU), with five members, all which belong to SADC and two to COMESA (Nyirabu, 2004).

Table 2: Regional integration schemes in East and Southern Africa

<table>
<thead>
<tr>
<th>Integration Scheme</th>
<th>Objectives/Member States</th>
</tr>
</thead>
</table>
| Southern Africa Development Community (SADC)             | **Objective:** introduce free trade by 2008  
**Members:** Angola, Botswana, DRC, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, TANZANIA, Zambia and Zimbabwe  
**Population:** 200 million  
**GDP:** US$ 223.36 Billion |
| Common Market for Eastern and Southern Africa (COMESA)   | **Objective:** Establish a common market through a customs union, common external tariff harmonisation of policies  
**Members:** Angola, Burundi, Comoro, Djibouti, Egypt, Eritrea, Ethiopia, KENYA, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Rwanda, Seychelles, Sudan, Swaziland, UGANDA, Zambia and Zimbabwe  
**Population:** 340 million  
**GDP:** US$ 167 Billion |
| South African Customs Union (SACU)                       | **Objective:** Customs union, common market, monetary union, political federation  
**Members:** Botswana, Lesotho, Namibia, Swaziland and South Africa  
**Population:** 50 million  
**GDP:** US$176.86 Billion |
| East African Community (EAC)                             | **Objective:** Customs union, monetary union, political federation  
**Members:** KENYA, UGANDA, TANZANIA  
**Population:** 83 million  
**GDP:** US$26 Billion |
The multiplicity of regional integration inevitably results in burden of multiple membership costs, raises issues on loyalty and duplication leading to conflicts. Conflict between SADC and COMESA led to Tanzania’s decision to withdraw from COMESA in 2000. COMESA is for a common market with a common external tariff and SADC is keen on establishing a free market. Tanzania cited reasons as being greatly disadvantages to compete with economies in COMESA such as Egypt, inability to implement zero custom tariffs which would reduce government revenue (Nyirabu, 2004).

Therefore as implied by Tanzania’s decision there is need to synchronise overlapping regional arrangements because it is strenuous and even uneconomical to belong to various institutions with more or less similar objectives. Another economic reality is that there is substantial trade in the informal sector not recorded in official records. Regional integration will need to go beyond the formal sector and capture the dynamics of the informal sector (Grobbealaria, 2004).

According to Tusasirwe (2002), the heads of state of Uganda, Kenya and Tanzania signed the EAC treaty as a sign to show the determination of the people of East Africa “to strengthen their economic, social, cultural, political, technological and other ties for their fast, balanced and sustainable establishment of an East African Customs Union, a common market, monetary union and ultimately a political federation".
East Africa as a single market of 83 million consumers has become a much more serious proposition for an investor than the three separate markets of 30 – 40 million consumers each (Tusasirwe, 2002). There have been differential trends of South African direct investment in the EAC with Tanzania receiving much greater flow than Kenya and Uganda. Tanzania holds more promise as a market compared to other East African countries. There has been a decline in investor confidence in Kenya as a result of falling out with the country’s development partners (Kabelwa, 2002).

2.5.1 Country assessment of Tanzania

Tanzania comprises of the mainland and islands of Zanzibar and Pemba, covers an area of 945 200 sq.km. Tanzania is an agricultural country with 40 million hectares of arable land. The country is full of rich natural resources including minerals, flora and fauna, the Ngorongoro Crater (3,647 metres) the largest in the world and believed to have the largest concentration of animal species (CIA, 2006).

It also harbours Lake Tanganyika the longest and second deepest lake in the world, Kilimanjaro the highest mountain in Africa and Lake Victoria the second largest lake in the world. Tanzania has an unbroken coastline of approximately 800 kilometres with ports of Dar es Salaam, Tang and Mtwara providing access to landlocked neighbours. Tanzania has common borders with Kenya and Uganda to the North, Rwanda, Burundi and the Democratic Republic of Congo to the West and Zambia, Malawi and Mozambique to the South (Ngasongwa, 2005).
Tanzania received the first ever sovereign credit rating, a measure which increases the attractiveness of a country to foreign investors. At a meeting of the African Development Bank, Kalema (2006) states that Tanzania will be awarded the B category as a direct result of benefits from commodity prices and cancellation of debt owned to multilateral lenders. Tanzania, Africa’s third largest gold producer is aiming to boost economic growth to between 6 to 8% in the next four years to reduce poverty. Tanzania is growing fast, rich in mineral resources and attracting foreign direct investment, will benefit from multilateral debt relief initiative and a Fitch rating will help attract more interest (Kalema, 2006).

![Figure 3: Country map of Tanzania](Adapted from CIA report 2006)

### 2.5.2 Assessment of the country using the PESTLE framework

- **Political:** After gaining independence from Britain in 1961, this East African country opted for a socialist style economic model under President Nyerere
whose strong leadership style helped avoid destabilisation which could have crippled the political and social life of the country (Tanzania, 2005). Multi-party politics has been introduced and three successive democratic elections have been held with peaceful handover of political power. There have been no wars and there is a concerted effort to reverse the previous socialist trends and reflect the new modern global market situation that is being pursued internationally. Creating a climate for democracy attracts foreign direct investment (Due, and Temu, 2000).

- **Socio-Economic:** There have been fundamental changes to economic policies with Tanzania moving away from being a centrally planned economy. There is a visible movement towards a market driven economy. Today Tanzania’s Gross Domestic Product (GDP) is $9.8 billion with a growth in 2004 of 6.3% and with growth estimated at 8% for the next two years. Inflation is at 6% with all sectors such as infrastructure, production, services booming with the private sector playing a leading role (Tanzania, 2005). There are distinct evolving consumer dynamics with regards to increased sophistication, aspiration and consumption behaviours.

- **Legislative:** There is a new commitment to supporting commercial courts, charters for business regulations and inspections, enhanced transparency in tax administration and the issuing of business visas. There is a focus to update the legal framework and supervision of legal institutions and an implementation of a programme in the legal sector aimed at protecting economic transactions.
Corruption at the Tanzania Revenue Authority which emerged as a major concern for business is being addressed through a “whistle blowing” facility backed by hotlines (Cuts, 2002).

- **Environmental:** A new package of investment incentives for Tanzania has been endorsed by the government setting the stage for a new business climate. Known as a Blue Book with the support of the United Nations Conference on Trade and Development, there is commitment to implement specific measures to support the private sector.

### 2.6 What is an emerging market?

Emerging markets are poor countries with per capita incomes of less than $9000. On a global basis, 156 nations fit this definition, encompassing 84% of the world’s population and 75% of sovereign states (Hooke, 2001). Consumer incomes, on a per capita basis are low, ranging from $500 to $4000 per annum. Further these markets have high rates of inflation, foreign trade deficits, high costs of capital, but low labour costs (Batra, 1997). Sunje and Civi (2006) have the following definitions and characteristics that make markets to be recognized as emerging markets:

- **Lower level of economic development** (less-developed country) which is normally expressed in GDP per capita.
- **Transitional economy and society:** the government does an attempt to create a framework of a market economy and democratic society through adequate economic and political reforms. This aspect of emerging markets is a crucial
one as this emergence to a market economy and democratic society is achieved “through policies that are conducive to increased growth”.

- A huge room for future growth, which could be expressed through the difference between obtained level of economic development and an average GDP of developed countries. A driving force of every emerging market is a quality of economic and political reforms which at the same time is a highly risk area.

Emerging markets are unique but, some common characteristics could be summarized in the following way (Miller, 1998):

- Physical characteristics in terms of inadequate commercial infrastructure as well as inadequacy of all other aspects of physical infrastructure (communication, transport, power generation).

- Socio-political characteristics which include political instability, inadequate legal framework, weak social discipline and reduced technological levels and unique cultural behaviours.

- Economic characteristics in terms of limited personal income, centrally controlled currencies with an influential role of government in economic life, expressed, beside other, in managing the process of transition to market economy.

According to Batra (1997), high import duties, high levels of indirect taxation and other bureaucratic “hurdles” usually include investment controls, policy reversals, and a lack of co-ordination across government ministries and customs/import problems. Often the regulatory environment is stifling and subject to corruption coupled with inadequate physical distribution and logistics infrastructure.
2.7 Is Tanzania an emerging market?

The factors that determine whether a country is in a sustainable growth process are investment in physical and human capital, efficiency of resource allocation and technical progress. The changes achieved in these factors do in turn depend on the character of the policy environment, appropriate prices and macroeconomic stability and governance (Cuts, 2002; Hamdani, 2002). Thus some key variables to consider are the rate of investment, accumulation of skills through education, the exchange rate, macroeconomic stability in terms of budget balance, external balance and monetary stability, institutional structures and the quality of governance (Bigsten and Danielsson, 1999).

There are many factors that determine economic growth but within the context of African economies, five categories have generally been defined and widely quoted in literature as the key indicators on the concept of “emergence” in Africa. Macroeconomic stability based on sound fiscal and monetary policies have been found to be essential prerequisites for successful development (Musonda and Madete, 2002; Hamdani, 2002). International competitiveness, an indicator of whether a country has become internationally competitive in areas outside the traditional commodity exports, for example in manufacturing capabilities is another essential attribute (IMD, 1995). Microeconomic criteria will include among others, competitive domestic markets that are liberalised for efficient resource allocation and thus sustained economic growth, a stable financial system and an effective physical infrastructure.
Governance and politics are a set of requirements that ensure the functioning of public institutions such as courts. The rule of law is essential for the development of a market economy whilst growth requires good governance. It is obvious that private sector development requires a supporting institutional infrastructure. The government needs to be both non-corrupt and competent (Cuts, 2002).

There are a number of aspects to consider when determining whether Tanzania is in a sustainable growth process. Assessment of macroeconomic stability, competitive domestic markets and a free market economy, stable financial system, international competitiveness and an effective physical infrastructure indicate that there have been major improvements in the climate required for foreign direct investment (Musonda and Madete, 2002). On most of the criteria for an emerging economy, Tanzania has achieved satisfactory ratings with per capita income having increased significantly creating grounds for optimism (Bigsten and Danielsson, 1999).

The informal markets play a very important role throughout East Africa. In Uganda, the informal market account for 40% of the country’s GDP and a staggering 70% of its employment. There are no statistics currently available for Tanzania, but the trend would be very similar (Tanzania, 2005). Tanzania has traditionally been divided into the North West, North East and Southern Regions. There has been no in depth analysis into pricing behaviour of firms, but observation suggests that the pricing behaviour of large firms is highly monopolistic. These firms enjoy more market power than smaller firms do. In some lines of production such as the beer industry, to a certain extent food processing and cigarette manufacturing, monopoly power is very
significant due to limited competition. This is a result of high barriers to entry to these markets due to among other reasons high set-up costs. The high market concentration and the challenges of transforming previously state owned utilities has created typical characteristics of firms operating in a monopoly/oligopoly with the result that these companies make super profits.

2.8 Operational challenges and strategies for companies doing business in emerging markets

Emerging markets are assuming an increasingly important prominent position in the world economy. The growing importance of emerging economies is reflected in an upsurge of strategy research on the topic (Wright, Filatotchev, Hoskisson, and Peng, 2005). This has been accompanied by the rapid pace of development and government policies that favour economic liberalisation in these economies. Most countries are in transition from centrally planned economies, often called “transition economies” (Bigsten, and Danielsson, 1999).

When emerging markets became attractive during the globalization process of business, it was initially the large multinational corporations mostly headquartered in advanced markets that tried to take advantage of the benefits of operating in these then unfamiliar overseas markets. Whether the driver was the search for cheap labour, outsourcing opportunities or foreign direct investments to expand the business from saturated markets to new regions of trade, these multinationals with
accumulated experience in marketing, management and financial strength felt that they were sure to succeed (Dawar, and Frost, 1999).

According to Peng (2001), most research by management scholars on firm strategies in emerging economies suffers from a similar limitation: a pre-occupation with strategies that seek to overcome the lack of a Western-style business environment. When operating in emerging economies the challenge is that the rule of law is often poorly enforced (Hoskisson, Eden, Lau, and Wright, 2000). However, research and evidence clearly shows that the perceived success has not been sustained and their entry strategies needed to be modified.

Research on strategies of companies entering emerging markets sheds increasing doubt on the success stories once taken for granted. Some of these companies transplanted the existing products with minimal investment into new markets (Dawar and Chattopadhyay, 2002). Lack of market knowledge and insufficient adaptations in marketing and management related strategies have proven that standardised global strategies do not always work.

Most MNCs’ confront unfamiliar conditions and problems. What most developed countries companies would regard as basic marketing infrastructure is largely absent in emerging markets. There is little or no market data, non-existent or poorly developed distribution systems, few communication channels, lack of regulatory discipline and a propensity to change business regulations frequently and unpredictably (Wright, et al 2005). Emerging markets are characterised by high levels
of product diversion within or between countries, widespread product counterfeiting and power and loyalty structures within complex networks of local business and political players (Arnold and Quelch, 1998).

Due to lack of developed infrastructure in many emerging markets, multinationals have created innovative distribution processes or product packaging. Products are value engineered to be affordable, easy to use, reliable under tough environmental conditions and easy to maintain. Unilever expanded primary demand for detergents in emerging markets by developing local brands in Brazil and India (Arnold and Quelch, 1998; Khanna, Palepu, and Sinha, 2005).

Research and development with marketing interface is an important process for new product development in emerging markets. The consumer tastes and preferences are complicated by culture. The company needs to gain insights into local market characteristics to achieve a fit between its product offerings and the diverse needs of its target customers (Li, 1999). The process also allows the company to understand the current market dynamics but, also permits it to learn their potential needs and future market trends. Thus, a company needs to invest in new technology development and the effect of this will be performance across several sources including a greater capacity to conduct internal market research, a wider avenue to technology on the market and a better access to the talent pool in the industry (Day, 1994).
In emerging markets consumers generally have low incomes and tend to purchase basic, functional, long lasting products rather than continuously innovated products. For pricing in emerging markets, large volumes and low margin drive profitability. Companies would do well to consider different pricing models. Price promotions in emerging markets yield large volume gains, but those sales boosts are rarely sustained. Consumers generally use a “local basket” gauge, measuring the price of a good or service against the price of a basketful of local purchases when assessing the value of a good or service (Dawar and Chattopadhyay, 2004).

Human capital or labour is another challenge in emerging markets. There are few or no search firms or recruitment agencies. Companies scramble to identify the local talent that is available and there is no way for companies to tell which schools produce skilled potential employees. Multinationals have trouble recruiting managers and other skilled workers because the quality of talent is hard to ascertain (Khanna, et al 2005).

The establishment of relationships with government can result in tangible benefits such as granting of one of a limited number of licenses or permits. Executives familiar with emerging markets stress the great importance of personal relationships with key local players in both the public and private sectors (Arnold and Quelch, 1998).

Corporate governance is also notoriously poor in emerging markets. Companies are faced with a situation that they cannot trust their local partners to adhere to local laws and joint venture agreements (Khanna, et al 2005). The reliant on a local partner or a
distributor for market knowledge can sometimes result in marketing disasters often from a breakdown of relationships. The local partner becomes a repository of local marketing knowledge made necessary by the company’s lack of local marketing knowledge and operating capability. As a result many companies cut back their expansion plans and can withdraw from the market altogether (Arnold and Quelch, 1998).

Coleman (2006) states that the winners will be companies that go into emerging markets and become extremely competent in how to enter and participate in new markets. Successful companies identify employees with the best talent and they develop them.

The ability of South African companies to create and deliver value in Tanzania in particular will depend on the different strategies that they adopt and manage. Knowledge about customer and consumer needs and requirements is crucial. Closely related to market contact is market access which is the nature of the infrastructure including the skills and resources required to build and manage distribution channels. South African companies need to acquire a new set of competencies and have long term strategies in place that take more than adjustments to existing products/services, lowering prices and buying new sales channels.
Chapter 3: Research Propositions

The modes of market entry and strategies for South African companies doing business in Tanzania will be evaluated. This will entail gathering data around opinions, insights, as well as strengths including operational experiences of South African companies that have taken the initiative for the “Scramble for Africa”.

An assessment of different sectors of industry to include banking, manufacturing, retail, hospitality, financial services and engineering construction will be used with the result that the mode of market entry and strategies for each of the chosen companies will be combined and contrasted. An analysis of how different companies penetrated the market will provide an interesting piece of original research where threads of similarities or differences will be noted across different industry sectors.

The following research propositions seek to provide insights that relate to the mode of market entry and strategies that South African companies have to consider when doing business in Tanzania.

Research Proposition 1: Mode of Market Entry

South African companies intending to do business in Tanzania have different modes of market entry to choose from. Each entry mode has advantages and disadvantages and executives need to consider these carefully when deciding which one to use.
Research Proposition 2: Human Resource Requirements

Executives will need to rethink how they recruit, develop, deploy and connect the skilled employees from South Africa with the local employees in Tanzania. Tanzania faces shortages of skilled labour. Strategies must include providing additional training to the less skilled local employees.

Research Proposition 3: Establishing relationships with the right local partner and acquiring deeper customer knowledge

Having the right local partner with contacts and access is crucial to the success of doing business in Tanzania. With the help of the local partner adapting to cultural differences and business practices is made easier. The local knowledge the right partner brings to accessing vital information for business reports, market research and the analysis of competition is invaluable. South African companies need to invest the resources required to gain deeper understanding of the requirements of customers in Tanzania. Countries are different and the needs of customers within a single country can vary widely.

Research Proposition 4: Adapting Marketing and Sales

To do business in Tanzania South African companies have to consider carefully their approach to marketing and sales. Companies with fairly standardised products will rely on brokers, agents, and alliances to quickly create distribution channels.
Companies with more complex offerings instead will need to develop their own sales force or seek partnerships to reduce risk.

**Research Proposition 5: Country Specific Advantages**

South African companies have to assess the desire for Tanzania as a host country to attract foreign direct investment. This is an important aspect for any emerging market as a market economy and a democratic society, achieved through economic and political reforms, creates an environment conducive to foreign direct investment.

**Research Proposition 6: Operational Challenges in Tanzania**

There are key operational challenges that South African companies, irrespective of the sector of the industry, need to be aware of and subsequently overcome to succeed in Tanzania.
The research sought to identify modes of market entry and strategies for South African companies doing business in Tanzania. It was felt that a qualitative research methodology was best positioned to address the research problem. Qualitative research rather than traditional quantitative empirical tools was particularly useful for exploring implicit assumptions, examining new relationships, abstract concepts and operational definitions (London, and Hart, 2004).

Welman and Kruger (2001) further stated that qualitative research methods did not allow the researcher to identify cause-and-effect relationships but rather described actions within a specific setting. While quantitative research attempted to control variables, qualitative research was open minded and facilitated research opportunities that led the researcher into unforeseen areas of discovery.

Leedy and Ormond (2001) stated that qualitative research studies served one or more of the following purposes:

- A description to reveal the nature of situations, settings, relationships etc.
- Interpretation to enable the researcher to gain insights about the nature of a phenomenon, to develop new concepts or theoretical perspectives about the phenomenon, or to discover problems that exist within the phenomenon.
- Allowed for the verification of a researcher’s assumptions, claims, theories or generalisations within the real world contexts.
• Provided a means through which a researcher was able to judge the effectiveness of particular policies, practices or innovations. The approach taken for this research was similar to that of Johansson and Wiedersheim-Paul (1975) who studied four Swedish firms in the development of their theory of stages of internationalisation. Perry (2001) suggested the use of an interview guide where “probe questions formed the major part”.

4.1 Research objective

The objective was to conduct an analysis of South African companies’ modes of market entry and strategies for doing business in Tanzania. This approach would help in building theoretical frameworks on how South African companies would succeed on entering this business environment. More specifically, this included collecting data on the background and success of each business, modes of market entry and strategies used once in Tanzania to include knowledge transfer and sharing with locals in Tanzania. Operational challenges for succeeding in this business environment would naturally be highlighted during the data collection stage.

4.2 Population of relevance

Thirteen executive managers of South African companies operating in banking, financial services, manufacturing, hospitality, retail and engineering construction sectors were interviewed for collection of data for this research study. The Director of Business in Africa Project, a project sponsored by the Danish Embassy in Pretoria
was also interviewed to gather insights and opinions from an independent research organisation.

4.3 Size and nature of the sample

Ten South African companies doing business in Tanzania were selected using non-probability sampling for this research. According to Welman and Kruger (2001), the probability that any element (unit of analysis) will be included in a non-probability sample cannot be specified. In some instances, certain members may have no chance at all to be included in such a sample. However, the advantage of non-probability samples is that they are less complicated and more economical in terms of time and financial expenses than probability samples. Further non-probability samples may be especially useful in studies in which a preliminary questionnaire has to be tested (Welman and Kruger 2001).

The data collected consisted of opinions, insights, including operational experiences of South African companies operating in Tanzania. The data was gathered through semi-structured interviews and discussions with executives of South African companies doing business in the banking, financial services, manufacturing, hospitality, and retail and engineering construction sectors. Useful insights were also obtained from The Director of Business in Africa Project, a project sponsored by the Danish Embassy in Pretoria.
4.4 Research Method

The research data was collected by conducting one-on-one semi-structured interviews face to face with the interviewees. Semi-structured interviews were found to be a useful data collection method as the respondents came from divergent backgrounds and sectors of industry as in this case. Semi-structured interviews offered a versatile way of collecting data as this allowed the researcher to use probes to clear up vague responses and always, the researcher asked for elaboration of incomplete answers (Welman and Kruger, 2001).

4.5 Interview Guide

An interview guide, Appendices I, was used in semi-structured interviews. The Interview Guide was constructed around the research propositions that needed to be answered in this research. The questions involved aspects of the theme(s) and although all the respondents were asked the same questions, the researcher sometimes adapted the formulation, including terminology to fit the background and flow of the interview process. The order in which the interviewer broached the themes varied from one person to the next. Welman and Kruger (2001) stated that this depended entirely on the way in which the interview developed.
4.6 The interview process

Interviews and discussions were held with executive managers of South African companies doing business in Tanzania. The data was collected through face to face interviews with these managers in their places of work. Setting up the interviews typically involved the following steps:

- The researcher searched for the company contact details on 1023 and sometimes with the assistance of the research supervisor the contact details of the company were made available.

- The researcher then called the company, negotiated and justified the need to speak to a senior company executive. This normally ended with the Personal Assistant and further discussions ended with an interview time and date being scheduled.

- Once agreed a GIBS letter that introduced the student was faxed to authenticate the need for the interview. On rare occasions these appointments were cancelled or a request for more information was requested. None of the executive managers needed the interview questions in advance.

- The interviews lasted on average 60 minutes and were conducted in English. During the interview process, there was no disruption to the process. The researcher took notes of the participant responses with a view of writing a more complete report afterwards.

- At the end of the interview session the researcher thanked the participant for granting the time and the session was closed. At this point what was quite
intriguing was that all the executive managers the researcher interviewed requested a final copy of this research.

4.7 Data Analysis

Welman and Kruger (2001) stated that content analysis is applied in systematic observations of personal documents and mass media material. Content analysis can also be used with semi-structured interviews to make qualitative analysis of the essence of the contents of such interviews. Content analysis was done which involved the contents of interviews being examined systematically to record the frequencies of responses to the interview guide questions and the ways in which the themes were portrayed.

4.8 Potential limitations

- Securing data from South African companies currently operating in Tanzania was a problem due to the confidential nature of the individual company strategies.
- The interviewer should have been properly trained to ensure consistency in the formulation of questions during the interview process.
Chapter 5: Results

In this chapter are presented responses from the interviews conducted with executive managers of South African companies doing business in Tanzania. To gain insights into the research problem, data collected consisted of opinions, insights including operational experiences of South African companies operating in Tanzania based on the research propositions. Useful insights were also obtained from The Director of Business in Africa Project, a project sponsored by the Danish Embassy.

Summaries of key findings are presented based on research propositions presented in Chapter 3. The research results are presented as a summarised format of key points arising for the banking, financial services, manufacturing, hospitality, retail and engineering construction sectors for research proposition 1 and are combined and contrasted for research propositions 2 to 6.

5.1 South African Institute of International Affairs (SAIIA) Business in Africa

The SAIIA’s Business in Africa project is sponsored by the Royal Danish Embassy and takes as its departure point the experience of South African investors in the rest of Africa. Neuma Grobbelaar Heads the Project and a number of country studies have been published. The Tanzania study was outstanding and summarised below
are insights from the interview with Neuma on South African companies doing business in Africa with particular reference to Tanzania.

**Research proposition 1: Mode(s) of market entry**

The modes of entry have generally been industry sector specific as the drivers are different across different industries. The mode of entry must be related to the strength of management skills from South Africa as there is need to dominate changes quickly and be close to the market. Most companies mix markets seeking with strategic positioning and in most instances South African companies have set up monopolies in the markets they enter. Partnering with locals and government, bringing them directly into management has been the preferred method of market entry as this mitigates risk. The obvious advantage for this association is that this enables companies to be close to the pulse of policy thinking and understanding the long term outlook.

For the telecommunication sector, the approach to market entry has been quite different as there is a less beholding need for infrastructure requirements. Vodacom in Tanzania has been very product specific in their approach with the pre-paid billing systems reducing risk. Business success has overcome some challenges in Tanzania as there is no prerequisite for credit information, financial services and hard infrastructure. Vodacom laid down the infrastructure they needed and looked carefully at the market and discovered a lot of disposable income than recorded in formal research.
Research Proposition 2: Human Resource Requirements

Staff appointments to include local people are essential for skills transfer and also getting to know and understanding the local market better. Some South African companies have established contacts for their staff in Tanzania with labour movements in South Africa to enable the local staff to understand some basic principles of how to run a business and the role of the union in business. In Tanzania for example, it used to be a requirement to have permission from a senior government official for workers to work overtime.

Research Proposition 3: Relationships with the right local partner and acquiring deeper customer knowledge

Relationships with government allow good access to senior government people and this facilitates progress in decision making and assist in reducing the sharp divide between the public and private sector. The government of Tanzania has set up structured forums for engagement with the private sector with smart partnerships having a long term economic outlook.

Research Proposition 4: Adapting marketing and sales

Public profile for Vodacom Tanzania is very high as their marketing strategy is directed towards the young and upcoming section of the population. Vodacom has been credited with linking communities, enhancing rural and urban communication.
Tanzania Brewery Limited uses social and community based programs, billboards and sponsorship of sporting events like soccer which is hugely popular and the need to be regarded as a good corporate citizen with sponsorship of Miss HIV Tanzania and other government social programs.

**Research proposition 5: Country Specific Advantages**

Tanzania falls into the category of countries that embraced the wave of political and economic reforms, privatisation of previously owned state assets, opening up of markets and trade liberalisation. The role of government necessitates an enabling business environment. Generally there is a good understanding at senior ministerial level on the needs of business and eagerness to attract investors. The lower levels of government is where there is a fundamental lack of understanding on the needs of the private sector and a lack of capacity to deal with requirements of business.

**Regional Integration**

The East African Community (EAC) has been a primary focus area for South African companies. The pivotal economy has traditionally been Kenya with stiff competition coming from Egypt and Nigeria. In these countries there are well established companies from existing and foreign companies that have been operating in these countries for a long time.
Tanzania has been much more welcoming than Kenya to South African companies. In Kenya companies have not been highly visible and enthusiastic and extra careful as not to upset the apple card. Tanzania is much more visible dynamic country showing economic and political resilience. The EAC has been used an entry point into Sudan, DRC, Burundi and Rwanda. Regionalism is important as there is a strong political and economic need to integrate. This has meant some significant gains for South African companies in Tanzania.

**Research Proposition 6: Operational challenges**

Exchange rate volatility hurts business as most South African companies plan well ahead to back up operations in Tanzania. The cost of installing generators, building roads, sanitation and other infrastructure requirements will drive up costs of doing business if the exchange rate is not stable. Corruption is a serious issue if a company is highly dependent on customs and clearances as this can cause serious constraints. Regulatory burdens also exist for quota requirements for expatriate staff, the need to recruit local staff and renewing of licenses. There is a need to invest in good legal advice and by all means avoid the courts as this can be a long burdensome process. As a matter of principle never pay a bribe as you get stuck once you pay the first bribe. Pilfering also drives up costs.
5.2 Research Proposition 1: Mode of market entry

Table 3: Mode of Market Entry versus Type of Industry

<table>
<thead>
<tr>
<th>Industry Sector</th>
<th>Greenfield</th>
<th>Privatisation Partner</th>
<th>Joint venture</th>
<th>Acquisition</th>
<th>Export</th>
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<td>Banking</td>
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<td>Manufacturing</td>
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<td>Construction</td>
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<td>Financial Services</td>
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</table>

Table 4: Industry Sector versus mode of market entry versus the degree of politicisation

<table>
<thead>
<tr>
<th>Sector</th>
<th>Mode of Market Entry</th>
<th>Degree of politicisation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Banking</td>
<td>Acquisition/privatisation partner with government</td>
<td>High</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>Acquisition/privatisation partner with government</td>
<td>Moderate</td>
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<tr>
<td>Financial Services</td>
<td>Acquisition</td>
<td>Low</td>
</tr>
<tr>
<td>Retail</td>
<td>Greenfield</td>
<td>Low</td>
</tr>
<tr>
<td>Construction</td>
<td>Joint Venture</td>
<td>Moderate</td>
</tr>
<tr>
<td>Hospitality</td>
<td>Joint Venture</td>
<td>Low</td>
</tr>
</tbody>
</table>
Figure 4: Mode of Market Entry versus Degree of Commitment

The findings from the interviews with thirteen executives from leading South African companies doing business in Tanzania are described below for each research proposition. The mode of market entry was specified for each sector of the industry.

5.2.1 Banking Sector: ABSA/Barclays and Standard Bank

ABSA had three modes of market entry to consider, acquisition, Greenfield or privatisation of State Owned Banks. The bank chose privatisation of previous owned state bank in partnership with the government of Tanzania as the preferred mode of
market entry. This mode of market entry enabled quick access to distribution channels, the brand name and an infrastructure that was in existence.

Standard Bank has the largest footprint across Africa and the African strategy started in 1992 with acquisition as preferred mode of market entry. The government of Tanzania approached Standard Bank and offered a five year tax holiday as an incentive if they acquired Meridian Biao, a Belgian owned bank. The government did not want to put money but wanted shareholding in the bank which Standard Bank did not grant. The risk was that it normally takes a long time to build a retail bank but this was complemented with start up of corporate and investment banking opportunities in the country.

5.2.2 Manufacturing Sector: Tanzania Breweries Limited (TBL)

The government of Tanzania privatised the state owned brewery and sent the CEO of the brewery to SA for negotiations with SABMiller. SABMiller negotiated to acquire and run the brewery with a firm proposal to reduce cost of production, inefficiencies and start generating profit as the brewery was not making any profit. A key strategic decision made by SABMiller was to be a privatisation partner with the government of Tanzania. Appointed to the Board of Directors of the local company are the Prime Minister, Senior Permanent Secretary in the Vice President’s office, Permanent Secretary of the Ministry of Industry, Trade and Marketing, all representing the Government of Tanzania. The role of government has to be
acknowledged in part for the success of SABMiller in Tanzania. The government has proved to be a good partner and also a local shareholder.

5.2.3 Anglovaal Industries

AVI adopted a market test approach where they sent a company representative to find out information about the country, understand the dynamics of the market and to identify the major players in the market. AVI is using exporting as a mode for market entry. An appointed distributor owns Warehouses located in Dar es Salaam and Arusha; sales force and with distribution trucks that render services to the formalised retail sector. The product is shipped to Dar es Salaam from Durban. AVI entered into contractual agreements with re-distributors to ensure that the money spent in distribution is for their own products. The problem is that there might be no focus and the company can easily become one of the 10 principals.

5.2.4 Retail Sector: Pick & Pay and Score Supermarkets

Pick and Pay trading as Score Supermarkets contracted a local property developer who was building a shopping mall in a turnkey project arrangement in Dar es Salaam. The developer built shells leaving all the internal designs, finishes, fittings and fixtures to be done according to Pick & Pay standards. The Greenfield mode of market entry started with 3 stores in Dar es Salaam. The Pick & Pay strategy was to have 80 stores across Tanzania within three years of operation.
5.2.5 Hospitality Sector: African Encounters and Coral Rock

The strategy to enter Tanzania was based on avoiding a Greenfield entry as white males this would work against the business model for the tourism industry in Tanzania. A 50:50 equity deal with a local partner was preferred as the mode of entry. They identified a local construction company and with assistance from a Kenyan constructor started renovating and upgrading the lodge to a Hotel with international standards. The renovations were done in phases and can now accommodate up to 100 guests every night with rooms and facilities up to world class standards.

5.2.6 Financial Services Sector: Afrinet

Afrinet, formed in 1994 is a subsidiary of Alexander Forbes. The Holding Company realised that as South African clients expanded to the North there was need to provide financial and risk services under the local conditions in host countries. To minimize risk, Afrinet acquired a 55% stake in a small broking business in Tanzania that had 7% market share. Greenfield entry would have been expensive and time consuming for management time. Since the acquisition, the local company has become the leading broker in Tanzania after 2 and half years of operation.
Africon Engineering is a consulting engineering company involved with construction and supervision of projects to include transportation, water, sanitation, power and reconstruction of roads. African expansion was driven by the need to become a global consulting company and market seeking. With no examples to follow, they developed their own business model. In the EAC block they followed the donor models and government sponsored projects. The mode of market entry is dependent on the donor community, that is, the Brenton Wood Institutes, World Bank and International Monetary Fund (IMF), The African Development Bank and the European Union. If the donors are operating in a country they seek work opportunities and if donors withdraw they also withdraw.

5.3 Research Proposition 2: Human Resource Requirements

There were no employment agencies in Tanzania and generally companies appointed a local to manage staff recruitment, advertising in the local press, interviews, selection and placements. The local person had a good understanding with regards to remuneration and other local employment conditions. There was a careful selection of expatriates to run the business as a need was identified to take knowledge from South Africa into the country. There was an initial dependency on expatriates to support technical and managerial skills. Human resources skills were in short supply and the restriction to five expatriates by authorities posed a major limitation to business.
The quality of education, intellectual capital, skills, market related and business knowledge was very poor. Lack of basic management principles posed a major impediment to business practice. The concept of performance management, appraisal, reward and recognition was unknown with the general belief that annual increases are based on an across the board percentage (the same for everyone). It is an on-going focus area by all South African companies interviewed to develop local Tanzanians and elevate them to compatible market and business knowledge.

SABMiller based their human resources strategy on the SABMiller way in terms of standard practices and the transfer of knowledge. Training and development included on the job training, bursaries, e-learning and various other disciplines of which 28 employees were trained in South Africa in 2005 alone. The local human resources issue was an initial challenge as they had to be retrenchments and manpower cuts during the turnaround phase.

For AVI, who are relying on the distributor to do business, a country manager has been training local staff in retail outlets on basic principles of sales and marketing including the sales force appointed by the main distributor. Courses have been done in stock and inventory control, shelf space management merchandising and deal structuring. The local sales force has also been trained in store sampling and consumers education to stimulate demand.

In the retail sector, Pick & Pay had to do extensive training in computer and systems knowledge that was specific for Pick & Pay. There was need to train store managers...
on key management principles of stock reconciliations, inventory controls and working capital management.

The hospitality industry, the SA partner struck a deal with the International Hotel School and arrangements are currently in place where students exposed to international world class hotels in South Africa are seconded to Tanzania for three months. Negotiating for work permits has been avoided as students are granted standard tourist visas which cover the period that they stay in the country. During this period they train local managers and staff in Food & Beverages, Front Office, Hot and Cold kitchens and basic hospitality services. This strategy has ensured that there is fresh blood all the time with aspirant graduates who are keen to implement in Tanzania what they have learnt at leading hotels in SA.

For the financial services sector, human resource skills were a major risk as there is reliance on specialised skills. There was reliance on SA support for management services, queries, governance procedures and systems. Local Tanzanians had to visit SA for training and likewise SA personnel have visited the local office to transfer new products and services. The New Business development department led the professional and technical assistance required in Tanzania and supported training.
5.4 Research Proposition 3: Relationships with the right local partner and acquiring deeper customer knowledge

Business in Tanzania thrived on relationships with the right people which allowed one to understand the market and customer base. Relationships, networks, connections and speaking a little bit of the local language all facilitated getting the job done in Tanzania. Employing someone with relations and connections to a high office, for example, a police commissioner’s cousin or someone with authority made things happen when faced with problems with the receiver of revenue or licensing issues. Working with influential government leaders and regulatory authorities was critical as this resulted in business deals unknown to you.

In the banking sector, relationships with government facilitated focus on monthly salaried civil servants and slowly government departments started using the bank as a means of paying and facilitating loans for their own employees for those who did not have bank accounts. SABMiller appointed “front runners” who spent times with people on the ground knowing the market, people, spending patterns, drinking behaviours and most importantly if they had a sharing culture. Another important focus was to know the route to market. Information on popular and affordable pack sizes, brands in the local market, brand equity, brand ranking and local competition was essential in customising their product offering in Tanzania.

AVI appointed a country manager to build trust and relationships as this was essential to know the market to enable ownership of the route to market. The port of
entry, the Dar es Salaam harbour was quite efficient but paper work volumes held up progress. The partnership and relationships with the local distributor assisted in faster customs clearances.

In the hospitality sector, the lodge was upgraded to a hotel with permission from the local chiefs and in turn the new owners made a pledge to support the community towards community responsibility programs. This made the locals feel empowered and many European visitors interact with the locals during their stay which is something quite different. The local partner was very useful in ensuring the success of this venture. The Hotel had to be formally registered with a hotel and liquor license. To get these would have been a long process without the local partner. He was well connected as he had a friend in government who facilitated discussions with the Directors of land, tourism, water affairs and social security all in a very short space of time.

Afrinet developed confidence with the local partnership as this had to provide top quality service to South African companies in Tanzania. The local broking business was a good business with great local people who needed an international partner to grow the business substantially. The business involved people with specialized backgrounds thus the local business was assessed for reputation, technical skills and service record through interviews with clients. The local partner was to have a reputation unblemished, ethics and the ability to treat customers well. The market potential was assessed to be 40 billion Tanzanian Shillings as there was a large population getting employed with a need for pension schemes. Expatriates in the
country also needed insurance and pension fund management. The strategy was to go there, eat, sleep, drink, meet regulators and interview key people in the country in the process they established a cultural fit.

Africon assessed whether they could get the right people from SA to be able to mix with local partners. To establish this they needed contacts, so they visited Tanzania to do the ground work and most importantly to understand the geographical construction difficulties together with the local joint venture partners. Through this process they got to know the partner. Africon employees from SA had an opportunity to mix with locals. The blending of the two enabled Africon to be price competitive. One of the most important criteria they used was to assess the skills, experience, knowledge of similar work, and reputation of the local partner as this was essential in the construction sector to win tenders.

5.5 Research Proposition 4: Adapting marketing and sales

At the time of entry into Tanzania, ABSA/Barclays made the decision not to change the brand name. The brand name, National Bank of Commerce was very strong locally and with government backing, the communication focus within Tanzania was to give recognition to the brand, telling the NBC story and fixing what was wrong with the infrastructure. This strategy has since been changed to include marketing pride, customer value propositions and an endorsement strategy for the brand.
The banking sector introduced new products and an information technology infrastructure previously unknown in Tanzania. Automated Teller Machines (ATMs’) was new technology they pioneered in Tanzania.

SABMiller communication in Tanzania included marketing and advertising. Corporate communication was driven by the government as a partner with SABMiller. Corporate communication was to be managed carefully and the government was better positioned as there were negative feelings within certain sections of the community due to retrenchments.

Communication to customers was essential for sales and distribution channels to establish route to market. SABMiller standards for seeing customers, merchandising, service packs and behaviour was to be followed. With customers, pricing consistency was emphasised and upfront negotiations on discount structures, price cuts, promotions and maintaining a constant price for a period was enforced. In turn customers were guaranteed tailored improved service, deliveries on time and given a refrigerator, encouraged to keep the place clean and serve cold beer. Beers with floaters, flat or expired would be replaced with new stock at no cost to the customer. Customers were required to act in a responsible way for doing business and through this way people drank more beer.

In the retail sector, duties are charged on products imported into Tanzania with the result that the products would retail 20 to 30% more on price compared to local products. Aggressive promotions, press, Radio, TV, know-on drops, billboards,
church and social groups were used to advertise the retail supermarket. Staff distributed leaflets in the community. There were no formal consumer forums and Pick & Pay used staff to gain better insights into consumer dynamics based on family and community based scenarios. The positive side was that locals in the stores would advice on pack formats as they had knowledge on what the people wanted and this empowered the local people.

Different pricing models with month end promotions where used to stimulate demand but, the idea of coming into supermarkets was not there. The end of month promotions resulted in increased sales but, the margins where squeezed. This was followed by a seed into the bottom end, sampling exercises, retailers’ point of purchase and tasting of products which were for free to try to stimulate on-going demand. The stores had to cater for the bulk of the population but, the concept to buy pre-packed foods in retail markets was not very well developed. Affordability, reliance on the informal market, second hand goods for shoes or even expired products was rife as the informal markets did not discard expired products.

Products started filtering into the informal sector and this forced the company to look at alternative product and pricing strategies. Affordability in terms of pricing and pack sizes necessitated the development of smaller pack formats to include loose products. Product innovation was essential to support products, packaging declarations and the legal side of new product development.
To stimulate demand and advertise Tanzania as a country, a website was set up on the international web reservation systems. Coral Rock managed to get access to 6000 sites internationally and set up relationships with travel agencies and other holiday booking businesses. Europeans booked flights online and hotels/lodges could be booked as well. Agencies were tasked to do marketing on behalf of the hotel and this worked out cheaper as they did not have marketing spend and advertising except the maintenance of the website. In South Africa advertising is done in the daily newspapers with an alliance with Gateway Travel and Exotic Vacations.

Afrinet used word of mouth advertising initially but, this has since changed to include advertisements in media, airline magazines and sponsored a Golf day in Dar es Salaam. Afrinet designed products and services with the local operation negotiating prices to suite local conditions. The local company offered pension funds and financial planning as differentiated products and services between expatriates and locals. Generic products like travel and marine insurance that have standard pricing rates and are country specific were not adapted for Tanzania.

5.6 Research proposition 5: Country Specific Advantages

Tanzania is economically attractive as ongoing financial reforms and the liberalisation of the economy has created a business environment that is friendly for investors. Economic indicators in terms of GDP, GDP per capita growth potential and macroeconomic stability drew a lot of interest from European Union Countries which
competed for work to rehabilitate roads and other new infrastructure financed by donors. Development projects are sponsored by the World Bank, IMF and the African Development Bank. The construction sector has benefited immensely as this is part of their strategy for doing business in the EAC. Banks have benefited from NGOs’, UN, IMF, WB, ADB and have people stationed in New York to manage relationships with these development agencies globally. Banking opportunities are immense especially given the large percentage of the un-banked population, poor banking penetration, lack of private sector credit and low competitor intensity.

The hospitality sector found that there was a general lack of knowledge about Tanzania despite being host to the Serengeti, Lake Victoria, Kilimanjaro and Zanzibar, some of the most unique sites in the world. The main draw card is the mystique with Zanzibar being tropical, exotic, affordable, and accessible from different parts of the world with some of the best unspoilt beaches in the world. Zanzibar was the centre of the world’s slave trade and slaves were traded at the Zanzibar market. This makes the place volatile and sometimes gruesome. The tourism industry was supporting business investments with the benefit of exemption to taxes, import duties and the government was issuing 33 and 99 land year lease periods.

5.6.1 Location Advantages

Regional integration has enabled the location of Tanzania to be geographically strategic in the EAC, creating a hub of economic significance. Dar es Salaam has the
most efficient harbour in the EAC with a lot of import and export activity. Tanzania has been used as a springboard to the extended Central and East Africa to include Uganda, Kenya, Sudan, Rwanda, Burundi, DRC and Malawi. Shipping is the preferred method of transportation of goods and equipment as road transport is complicated by border crossings with different custom and duty requirements across Zimbabwe, Malawi and the DRC.

The establishment of the SAA/Air Tanzania partnership ensured Tanzania grabbed an opportunity to pilot a regional hub in the EAC. There are three weekly flights with Air Tanzania from SA, daily flights from Nairobi and Mombasa. Tourism is growing at double digit figures with 2000 visitors in 1998 compared to over 100 000 in 2006 alone so far.

5.7 Research Proposition 6: Operational challenges in Tanzania

In retail banking the majority of the targeted customers did not have identity documents, physical addresses and lack of credit agencies further compounded the challenge as they were no records of credit history for potential customers. Standard Bank focussed on company employees who were borrowing money from employers and prioritised these employees to open bank accounts. The bank took over this function. There were no cornerstones of basic banking fundamentals with national identity systems and documentation non-existent. Growth in the banking sector is driven by mortgages and vehicle finance. Lack of security due to non-availability of credit records forced the bank not to release a huge amount of capital and equity.
The other challenge has been an increase in bank robberies. Most company risks are material damage in transit, business interruption, liability, crime, machine breakdowns, personal accidents and motor accidents.

5.7.1 Infrastructure

Poor infrastructure is posing major challenges to service the ATMs’ and inhibits retail banking in rural areas. There are electricity problems which are made worse by the drought that affected the region. Electricity, water, roads, telecommunications is very poor. However, the infrastructure is improving as other forefront investors mainly from South Africa have since come into Tanzania. The concern now has been that government has not kept with the pace of development. Roads are far from adequate limiting access to markets and depots, electricity supply has been outstripped by growth and generator power is ten times more expensive and not economic.

An interesting contrast is for engineering construction company, Africon, though they acknowledge that logistics is difficult due to bad infrastructure, the primary reason they are in Tanzania is to improve the infrastructure.

5.7.2 Skills and cost of labour

Work permits were granted for five people per company to work in Tanzania to protect local jobs. Reliance on specialist skills from SA posed a challenge as the investment in personnel including cost of training manpower was in foreign currency. Exchange rate volatility of the rand increased the cost of doing business. Pricing
models for jobs is determined by staff and employment costs. When competing with the Chinese, Indians and Pakistanis, their labour costs are lower compared to South Africa which increased the cost of competing and doing business in Tanzania.

Service levels are proving to be a major challenge due non availability of hotel rooms which are pre-booked. The locals over promise and under deliver. The maintenance of supplies and services is problematic. Air-conditioning units are proving to be a challenge to maintain as there are no qualified personnel.

5.7.3 Corruption

Corruption is a problem as it is not easy to get licences and deal with the public sector as political players demand bribes and there is lots of bureaucracy. The awarding of tenders has also been non-transparent. Some companies have adopted a strong non corrupt policy and would rather leave Tanzania than play the game. Corruption laws in Tanzania need enforcement. Lack of transport for police resulted in lack of law enforcement which was a huge impediment to business. The legal system is fragmented as there is a need for license for everything as the authorities use any occasion to make money in the best legal way. Expired stock for example, was not used as a measure to protect the community but to make money and solicit bribes.
5.7.4 Local Competition

There is growing competition both from the formal and informal sectors. From the informal sector the cost of doing business is lower as they do not pay value added tax (20%) and corporate tax (30%) In the retail sector informal markets competition is huge which offered cheaper products in bulk. Due to lack of knowledge about retail and supermarkets, the local Tanzanian people viewed retail supermarkets as being expensive.

5.8 SABMiller experiences in another EAC country

In 1998, SABMiller entered Kenya, a member of the EAC and the researcher found the highlights of the lessons learnt by the brewer in Kenya to be particularly useful as this provided a stark contrast to the success they have enjoyed in a neighbouring country also a member of the EAC.

Kenya did not socialise its economy unlike other African countries and maintained the private enterprise. Guinness that had been in Kenya since the 60s” owned East African Brewery Limited which had monopoly of the local market in a heavily government subsidised and dominated industry.

SABMiller’s mode of entry into Kenya was Greenfield where they built their own brewery in a country where they did not have history and no brand. They tried to take on a brand with strong brand equity and support from government. SABMiller did not have a local partner, nor government support and lack of a decent local brand to
endorse. This was a costly way of doing business in Kenya and in the process they upset people in the industry including the President of the country.

The local suppliers refused to supply them with key ingredients important for the brewing process. SABMiller tried to import them from Tanzania and the laws of the country including import regulations raised the barrier to entry. Corruption further made it impossible to get licenses to import raw materials into Kenya.

The experience above highlights the need to have a history of local brands and local provenance. SABMiller tried to add premium brands with sponsorships of local sporting events, widespread advertising with TV, billboards, activation on the ground in pubs and taverns. Realising this threat the government reacted as SABMiller did not understand that rules in Kenya were not the rules in SA, the unwritten rules in business. The government of Kenya owned and subsidized the industry including setting the rules for modes of market entry.

Relationships with government and the competitor would have helped with further recommendations of having to partner with a local brewing company. EABL tried the same in Tanzania and ended with the same scenario as SABMiller in Kenya. The two companies decided to leave each other and take share ownership.
6.1 Introduction

This chapter analyses the results from the interviews and draw correlations to what has been reported in literature. The analysis is categorised based on the research propositions posed in chapter 3 and therefore is geared at providing the answers to these propositions.

South African multinationals, like most multinationals, have four key drivers for cross-border expansions. These include market seeking, where decisions are based on market size, resource seeking where abundance of specific natural resources, low cost, skilled labour or physical infrastructure are important factors, efficiency seeking which is linked to workforce productivity and integration of the market into regional frameworks and lastly strategic asset seeking where a company is motivated to enter a market to protect or further its competitive advantage within the global context (Dunning, 1994, 1988).

For all the South African companies that were interviewed in this research, doing business in Tanzania was motivated by market seeking and to an extent efficiency seeking giving consideration to regional opportunities in the EAC. This finding confounds expectations based on models in literature that most of multinationals involved in developing or emerging markets take advantage of cheap labour.
The research identified modes of market entry and strategies adopted by South African companies that have entered Tanzania and the relative influences on entry mode choice rather than effectiveness of alternative entry modes.

6.2 Research Proposition 1: Mode of market entry

The mode of market entry versus the type of the industry sector is presented in Table 3. South African companies established their presence in Tanzania by market seeking through a mix of entry modes which included acquisitions, acquisitions in privatisation partnership with the government of Tanzania, joint ventures, exporting and Greenfield entry. There is a general consensus that different types of entry modes require different levels of commitment and attract different levels of risk.

6.2.1 Acquisitions

Acquisitions of previously state owned enterprises to support the privatisation initiative by the government of Tanzania were prominent in the financial and manufacturing sectors. This observation could be explained by the fact that Tanzania did not have many strong private companies after the economic liberalisation policy. The manufacturing and financial sectors were poorly developed with most public companies on a verge of collapse as the government was not managing these sectors efficiently (Ngowi, 2002). The government of Tanzania has since abandoned the dominant role as owner and operator of companies and been has been a good business partner.
Afrinet, a wholly owned subsidiary by Alexander Forbes, acquired a local broking firm in Tanzania. The insurance industry in Tanzania was opened for foreign participation in 1998 and the sector was not very well developed by the government. Foreign insurance companies led by investors from India and Kenya had already established themselves with Afrinet being a late entrant (Musonda and Madete, 2002). The likely driver behind this acquisition of a local brokerage firm was to take advantage of the local market knowledge the firm had as it had 7% of the market share in Tanzania.

As stated in literature, the adoption of market based policies by emerging economy governments raises important issues for strategies adopted by private enterprises, both domestic and foreign. Privatisation is a means of increasing the number of joint ventures or acquisitions by foreign firms, with subsequent restructuring, downsizing and adaptation to Western practises (Hoskisson et al 2000). Arnold and Quelch (1998) further state national and local governments and other regulatory bodies are far more influential in emerging markets than in developed market systems. The early establishment of relationships with government can result in tangible benefits such as the granting of one of a limited number of licences. Privatisation opportunities also contributed to the ease of access to the markets in Tanzania.

Acquisition as a mode of market entry allowed immediate access to a local network of suppliers, clients and to a limited extent an immediate gap audit of skills in the particular industry sector. The added advantage of acquisition of companies made it possible to enter rapidly into both the local and regional markets as opposed to entry through a Greenfield investment.
6.2.2 Greenfield

The retail sector, Pick & Pay trading as Score Supermarkets entered Tanzania as a Greenfield investment. This mode of entry was deemed to be appropriate as the formal retail sector was a new concept in Tanzania and was not very well developed. The sector was dominated by Asian stores, street traders and the majority of the urban population having an over reliance on the informal sector. The major driving force behind this choice for market entry was the vast untamed opportunities that the retail sector envisaged in line with the policy changes that supported and promoted the exploitation of available opportunities in this sector of the economy.

6.2.3 Joint Ventures

The hospitality sector in Tanzania to include Zanzibar was in a period of transformation as the country attained political and economic stability an environment conducive to attract and resuscitate the ailing tourism sector, a major contributor to the economy as a foreign currency earner. A joint venture with a local partner allowed the company to have tax, exemption to duties and land lease rights of up to 99 years. The construction sectors entered in joint ventures with local Tanzanian people. A major prerequisite to win tenders for rehabilitation and construction work sponsored by donor agencies and sometimes government tenders it was necessary to demonstrate that the company could engage with local partners and in turn uplift the lives of the people in the areas the construction projects would be done. A joint venture with a local partner would stand in good stead with donor agencies.
6.2.4 Exporting

AVI used an exporting model as a mode of market entry. Exporting is a market test approach where a company representative jointly works with an appointed distributor to understand the dynamics of the market and to identify the major players in the market.

Table 4 is presented the industry sector versus the mode of market entry versus degree of politicisation. A key finding was that a sector of strategic importance had a high degree of politicisation. The banking sector is politically sensitive and a highly regulated industry and this impact on the economy of any nation as banks are custodians of the nation’s wealth. Banking can easily control and influence the destiny of any country and the government of Tanzania was very sensitive to foreign ownership of key strategic sectors. Another interesting finding was that in the retail sector as expected, the degree of politicisation is low in Tanzania. In Kenya for example, a leading retail store got into financial difficulties and Shoprite put a bid to take over the retail chain. Strangely the government of Kenya is running the retail chain cementing the view that the government of Kenya is very political around all issues pertaining to foreign ownership irrespective of the sector.

In Figure 4 is presented a four quadrant analysis model of the mode of market entry versus the degree of market commitment. Greenfield entry is a high risk and a high degree of market commitment mode of market entry. There is a huge fixed capital investment and financial outlay that accompanies Greenfield investments in new
markets (Erramilli and Rao, 1990). A Greenfield mode of market entry is a costly exercise with a longer lag period of realising revenue flows.

Privatisation of state owned enterprises in partnership with government is in the same quadrant as this indicates a high degree of market commitment and a relatively high risk mode of market entry. Privatisation partnerships with government has initial advantages of being closer to pulse of policy but, is high risk given the political instability, changes in the market environment and government policies in most emerging market economies. Acquisitions and joint ventures modes of entry minimise business risk as they generally assist in reducing cultural barriers with the locals and increase the company’s acceptance in a particular market environment (Kogut and Singh, 1998b; Barbosa and Louri, 2002). The risk is low as it takes time to deal with and understand the business environment variables in the country such as, cultural differences, employment conditions and legal institutions (Arnold, 2003).

AVI is using exporting as mode of market entry which is a low market commitment and low risk mode of market entry. This is a market test approach as this strategy enables the company to gain market share as they gain experience and become familiar with the market. Contracting the local distributor requires no investment in the country in form of offices, sales personnel or distribution facilities. This low risk mode of market entry and degree of market commitment minimises control as it takes time for the company to get accurate market information such as customer behaviour, market share and pricing controls (Douglas and Craig, 1997).
According to Arnold (2003), another vital distinction for companies to consider is financial risk and marketing risk. Financial risk is usually the major consideration at the point of market entry and it is financial risk that is minimised by low intensity modes of market participation. However, in the long term, risk will come at the price of low control over business strategy, so that in fact, marketing risk is maximised with the local partner making all important marketing decisions.

Commitment to a market is closely linked to the desired control as substantial financial and management commitment will increase the degree of market commitment. Chaudhuri (1988) suggest that the mode of market entry is largely determined by political instability which in turn plays an important role in risk factors. The literature further suggests that when a large amount of fixed capital is required, companies tend towards partnership with government, acquisitions or joint ventures. These modes of market entry can assist with reducing financial risk and provides the company with assistance from the local partner.

The choice of mode of entry in emerging markets is normally constrained by local conditions and is dominated by joint ventures, acquisitions of previous run state enterprises and in some instances Greenfield investments (Johnson, 2005). The popularity of acquisitions in Tanzania could be explained by the under-development of capital markets and lack of a manufacturing base in Tanzania (Kabelwa, 2002). However, modes of market entry are not fixed and literature further indicates there are significant gains to be made by customising entry modes to the local context.
Dunning further suggests that based on the OLI model, Ownership Advantages are firm specific assets and skills. Assets are reflected by the firm’s size and multinational experience, and skills by the firm’s ability to develop differentiated products (Dunning, 1993). Ownership advantages need to be both unique and sustainable in order to provide the firm with a competitive advantage in the entry mode selection (Brouthers and Brouthers, 2003).

Most South African companies have the assets in terms of size and skills to develop differentiated products. Grobbelaar 2004, states that the size of the company matters in emerging market economies, based on whether it is a strategic player or not. Governments are much more welcoming to big investors and in turn these companies have the capacity to deal with risk or regulations and can delegate legal bodies to deal with uncertainty. What is lacking for most South African companies is multinational experience and South African companies should not fail to recognise the urgency which they must respond to the new competitive environment especially in the regional marketplace. The most basic level is by harnessing the right knowledge and practices for operating in an international environment. Business schools have an important role to play in stepping up their offerings in this area.

6.2.5 Modes of market entry implications for Tanzania

Ngowi (2002), states that acquisitions as an entry mode for Tanzania has meant less economic benefits, transfer ownership and control from domestic to foreign hands, lay-offs as employees of former parastatals were retrenched in the name of efficiency
and effectiveness. This situation had to be managed through communications by government when SABMiller retrenched workers when it took over TBL. Acquisitions in Tanzania have also led to “fire sales” of companies in distress that are sold at prices viewed as abnormally low.

Kabelwa (2002) further states that complaints have also been noted from the general public on privatisation of important Tanzanian enterprises. Acquisitions in the banking, utility, beer and infrastructure sectors have left scars as they are feelings of erosion of national sovereignty and culture. Greenfield entry on the other hand does not seem to have this effect. Joint ventures indicate willingness by investors to form partnerships with locals. Musonda and Madete (2002) state that joint ventures are an encouraging sign that the transfer of skills and technologies and the creation of other forms of linkages through which foreign investment can enhance the local development process will take place.

6.3 Research Proposition 2: Human Resource Requirements

The issue of Human Resource development is of strategic importance given the role professionals play in economic development. From the interviews with managers of South African companies irrespective of the sector of the industry they operate in Tanzania, there is a concern due to perceived neglect to address the issue of skills and skills shortages. There are no systematic integrated industry wide training programmes that prepare local Tanzanian people to be professionals in industry.
The existing educational standards are fragmented with one industry manager commenting that “English is only taught in University”. The lack of sustainable and co-ordinated skills development programmes are main obstacles to both the desire by South African companies to continue with their own skills development programmes that are done at company costs and sometimes in South Africa. The managers pointed out the fact that training programmes are sometimes derailed by bureaucratic bottlenecks and other constraints such as corruption with officials vying that relatives and extended family members are always on the list of trainees or awarded company sponsored bursaries.

A key constraint in the near future that is bound to discourage South African companies aggressively supporting skills training for the local Tanzanian people is the difficulty to extract management fees from Tanzania. The locals are trained in South Africa with their costs covered by SA operations to include assistance with product and technology development. The South African Receiver of Revenue indicates there are tax implications and that SA operations must recover these costs from Tanzania which is adding complexity.

The finding on human resource requirements is consistent with observations by Khanna et al (2005) who state that in spite of the large population human capital or labour is another challenge in emerging markets. There are few or no search firms or recruitment agencies. Companies scramble to identify the local talent that is available and there is no way for companies to tell which schools produce skilled potential
employees. Multinationals have trouble recruiting managers and other skilled workers because the quality of talent is hard to ascertain.

Coleman (2006) states that most importantly consideration has to be taken in taking the best teams out there but, also investing in developing local talent that is identified as quickly as possible. The presence of South African companies in Tanzania and the training of local staff to enhance their skills and management practices to meet international standards have been welcome. The training to enhance skills enables locals to offer quality services and prepare them to take the positions of expatriates in the near future.

Kabelwa (2002) further states that South African companies have introduced modern technology that has called for skills transfer through training. The banking sector has had to conduct training for local workers to cope with modern banking technology which included ATMs’, computers and satellite networks. Technology has also been transferred in the manufacturing sector in Tanzania. SABMiller transferred technology through market channels and management techniques. SABMiller introduced management methods and principles into TBL that have provided an excellent example of progress towards best practice in the local brewing sector (Musonda and Madete, 2002).
6.4 Research Proposition 3: Establishing relationships with the right local partner and acquiring deeper customer knowledge

Relationships are the cornerstone of doing business successful in Tanzania. In the banking sector it was important to build strong relationships with the regulator and government as this is a regulated sector. What has not worked well is lack of alignment and relationships within the banking sector itself and they need to work together to fight issues of common interest. The role of government has to be acknowledged in part for the success of SABMiller in Tanzania.

AVI has benefited from the local distributor who assisted with customs clearance. In the hospitality sector, upgrading the lodge to a hotel was done after consultation with local chiefs and the local partner facilitated the granting of all operating licenses in record time as he had connections in government. In the construction sector, Africon International realised very quickly that tenders were awarded by development agencies based on having local partnership. They have in turn developed a unique business model that includes locals with an added advantage as this reduced labour costs and they could compete with Asian companies for similar type of work.

Arnold and Quelch (1998), state that executives familiar with emerging markets invariably stress the great importance of personal relationships with key local players in both the public and private sectors. MNC’s that have participated longer with local partners will enjoy stronger, more favourable relationships and get access to the best government nominated local joint-venture or acquisition partners.
This observation is similar to the notion in China of *guanxi*, which is defined as “the set of personal connections which an individual may draw upon to secure resources or advantage when doing business” that has particular importance in business matters and this has been identified as a critical success factor by executives involved in business in China (Walters and Samiee, 2003). Therefore it is imperative that senior managers need to devote considerable time and effort to cultivate and maintain a network of appropriate relationships with government and other officials at the national, regional and local levels.

Market knowledge is a local operating capability that is required for doing business and this includes knowledge of business practices, negotiating styles, cultural norms all that add up to the way people do business in Tanzania. Clearly this knowledge cannot be acquired by an outsider and that is why acquiring local customer knowledge will need local partners at the time of market entry (Arnold, 2003). There were no formal consumer forums in Tanzania and companies used local partners to gain better insights into consumer dynamics based on family and community based scenarios. Wright *et al* (2005) state that in emerging markets there is little or no market data, non-existent or poorly developed distribution systems, few communication channels, lack of regulatory discipline and a propensity to change business regulations frequently and unpredictably.

To succeed in Tanzania, companies have to adapt their product and services, work with the local people, treat people with respect and most importantly fit within the culture of doing business.
6.5 Research Proposition 4: Adapting marketing and sales

Effective marketing campaigns have involved community based social responsibility programs and support of sporting events, of which soccer is largely popular. An alternative view is that lack of adequate marketing knowledge and expertise could be barriers as to the applicability of the discipline in Tanzania. Clearly marketing as practised in South Africa, with an emphasis on inducing new needs and wants was not of prime concern to the majority of the locals. As an executive manager commented, “Tanzanian people perception of advertising was for instant justification and an expectation to be rewarded with a pen, T-shirt, or bicycle”.

The banking sector introduced new products and an information technology infrastructure previously unknown in Tanzania. Automated Teller Machines (ATMs’) was new technology they pioneered in Tanzania. SABMiller changed the brewing industry in Tanzania. Pricing consistency was emphasised and upfront negotiations on discount structures, price cuts, promotions and maintaining a constant price for a period was enforced. In the retail sector, the locals could only afford products as cheap as possible and they adapted by starting to sell local products, for pricing they looked at street traders, informal markets, and smaller supermarkets and changed the pricing model to suite local market requirements. Breaking up the packs resulted in an increase in sales volumes.

The above findings are consistent with the observation that pricing in emerging markets drives large volumes and low margins drive profitability. Consumers
generally use a “local basket” gauge, measuring the price of a good or service against the price of a basketful of local purchases when assessing the value of a good or service (Dawar & Chattopadhyay 2004). According to Arnold and Quelch (1988), emerging markets demand and certainly provide opportunities for innovation in marketing and operations and the consequent learning can be transferred to other markets. Multinationals have created innovative product packaging that is transferable to these markets.

Li (1999) further states that research and development with marketing interface is an important process for new product development in emerging markets. The consumer tastes and preferences are complicated by culture. The company needs to gain insights into local market characteristics to achieve a fit between its product offerings and the diverse needs of its target customers. The process also allows the company to understand the current market dynamics but, also permits it to learn their potential needs and future market trends. Day (1994) states that the company needs to invest in new technology development and the effect of this will be performance across several sources including a greater capacity to conduct internal market research and a wider avenue to technology on the market.

6.6 Research Proposition 5: Country Specific Advantages

The issue on regional integration has impacted South African companies positively across the East African Community which has now been expanded to include Sudan, Burundi, DRC, Malawi and Rwanda. A Regional Managing Director based in
Tanzania has been appointed by Standard Bank to co-ordinate activities in the EAC. This is essential as there is alignment and ensures that the teams work together. Regional opportunities exist as for example, Kenyan companies operating in either of countries will need banking services in those countries and vice versa. Legislation permitting, Standard Bank intends setting up a regional office, data processing centre, centralised information technology centre and brand building teams. The location of this regional centre is still under discussion.

One clear observation and finding from this research is that local familiarity and integration into regional trading hubs in this instance the greater EAC, will play an important role in the FDI process for South African companies in the near future. Regional trade and integration policies will influence location decisions and the researcher strongly recommends that policy makers in Tanzania should think more carefully about how to develop regional trade policies in the EAC. Tanzania’s geographical location is a definite advantage as a gateway to the greater East Africa and the Great Lakes Region. This expanded region and with the participation of Tanzania in multiple regional groupings gives a potential market size of over 300 million people.

Country specific (or locational) advantages (CSAs’) are benefits associated with locating certain activities in particular countries. According to Rugman and Verbeke (1992) these benefits may arise from structural market imperfections such as government regulations and the potential to economise on transaction costs by reducing risks and to benefit from local opportunities. Locational advantages reflect
how attractive the specific country is, and the attractiveness of a country has been characterised in terms of market potential and investment risk (Root, 1987). In addition location advantages can include similarity in culture, market infrastructures and the availability of lower production costs (Dunning, 1993). South African companies will in turn need to develop their modes of market entry and strategies in the context of regional trade groupings.

6.7 Research Proposition 6: Operational Challenges in Tanzania

Findings on the operational challenges in Tanzania, that is, the business environment and its impact on business strategy confirm the conventional wisdom about investments in emerging markets. For South African companies doing business in Tanzania, their overriding concern is the policy, legal and institutional environment. The responses from all executive managers interviewed revealed a general dissatisfaction about bureaucracy and corruption. The managers interviewed did not mince their continued frustration with Tanzania’s lack of an institutional environment and reported no improvement in this area. The weak institutional environments distorted significant gains made in other areas and could in the long term force South African investors to adapt to the local existing business environment rather than lobby for institutional and policy reform.

There are whispers in the South African community in Tanzania on some SA companies that have not behaved in responsible ways and have painted SA in a bad light. Lack of strong legal frameworks has allowed a large increase in opportunism,
bribery and corruption. These problems have particularly affected the ability to enforce property rights even where legislation has been enacted in emerging markets (Hoskisson et al 2000).

The findings on operational challenges in Tanzania are similar to characteristics of emerging markets as stated by Miller (1988), inadequate commercial infrastructure to include communication, transport, power generation, legal framework and unique cultural behaviours. There is limited personal income and products are value engineered to be affordable, easy to use, reliable under tough environmental conditions and easy to maintain (Khanna et al, 2005). Batra (1997) further states that the emerging markets have high import duties, high levels of indirect taxation and other bureaucratic “hurdles” usually include investment controls, policy reversals, and a lack of co-ordination across government ministries and customs/import problems. Often the regulatory environment is stifling and subject to corruption coupled with inadequate physical distribution and logistics infrastructure.

Institutional capacity building continues to be important for Tanzania and efforts by policy makers should be directed towards creation of a regulatory environment that creates more opportunities for SA companies with limited risk. The new business environment South African companies are finding themselves with Tanzania being a destination of choice, it is clear that new strategies are determining the winners. Companies that monitor and respond to the growing internationalisation of business cope better with challenges in new markets. What is required is the ability to make intelligent choices and to develop strategies in the new environment.
Chapter 7: Conclusions

This research thesis has attempted to address the following problem: What have been the modes of market entry and strategies adopted by South African companies doing business in Tanzania? The problem was unpacked through exploring the research propositions highlighted in Chapter 3.

The methodology followed, that is, interviews, was found to be the best mechanism of extracting data from company executive managers. In addition it also illustrated how tacit knowledge could be transferred if time is available, as the amount of knowledge gained through this process far superseded any information that could have resulted had the methodology been questionnaire based.

The operational experiences by all the South African companies interviewed in this research clearly indicate that the way you approach and map out your mode of market entry is crucial for business success. Engaging local partners, building relationships with local people, recognising and entering into a partnership with a strong local partner and brand, building trust in the brand as there is always brand loyalty in these markets plus gathering local market knowledge are prerequisites for businesses to thrive in Tanzania. The lessons from Kenya for SABMiller was that never go it alone, find good partners, government even better, maintain good relationships and operate as a local company.
The biggest challenge has been an under-estimation of the local competition in terms of the quality of the local industries particularly in retail and manufacturing sectors. Competition in the local market has resulted in improvements in the quality of service and products and availability of new products/services.

SABMiller grossly under estimated the local competition and ABSA/Barclays was initially very aggressive not cognisant of the different culture and way of doing business in Tanzania. Standard Bank avoided conflict with the government of Tanzania on the bid for the National Market Finance Bank, a state owned bank. The government wanted a majority shareholding with an agenda to run the bank. In the end Standard bank pulled out of the deal to avoid a potentially explosive situation.

Pick & Pay decided to pull out of Tanzania as a result of profitability issues, risks to core business, potential bad press as the company was being forced to go unethical. It was a difficult trading environment. The retail sector was fragmented and the choice of products huge and Pick & Pay failed to dominate the market. The notion that small investment will yield higher returns is the opposite for this market. High investment over a long term will yield better business results in the future and there is a lag period and need for patience.

Another concern is anti South African sentiments and perceptions as the new colonial masters. There is growing animosity if the South African investor is perceived to be taking money out of the country. To succeed in a country like Tanzania, the strategy must be to dominate and own the market, placing your own people and
changing the face of the industry whilst working hard to sustain competitive advantage.

The model presented below, Figure 5, summarises the market entry planning process the researcher recommends South African business need to incorporate as part of their overall strategic process to do business in Tanzania.

![Figure 5: Market Entry Planning for South African companies doing business in Tanzania](image)

The model represents a compilation of key factors that various companies can use in the selection of a mode of market entry based on the findings of this research. There are fundamental operational challenges in Tanzania similar to those suggested in
literature which is of immense value to any South African business intending to do business in other emerging markets in the East Africa. Being aware of these challenges and most importantly basing the mode of market entry selection and strategies to adopt in a specific market will ensure there are no surprises once investment decisions have been made.

Recommendations for future research would be an assessment of regional integration in the greater EAC and potential benefits to business. Countries within the EAC participate in multiple regional groupings, an understanding of what drives a particular country to be a member of a particular grouping and not the other or participation in both and potential areas of conflict need to be unpacked as this can have long term implications for South African companies doing business in the region.

South African mining companies, AngloGold, Tanzanite and De Beers are investing heavily in Tanzania. The threats from Asia, particularly the presence of Chinese companies seeking specific natural resources would be an interesting piece of original research in terms of how South African mining power houses are modifying their long term strategies in view of global competition. Towards the completion of this report, China Vision Resources, owned by Larry Yung bought shares in Anglo. According to Forbes magazine, Larry Yung is China’s second richest man and he heads the acquisitive Chinese conglomerate CITIC Pacific (Bain, 2006). What and/or who is next?.


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Questions

Q1: What were country specific advantages that made Tanzania an attractive choice for investment?

Q2: Why has your company been successful in expanding beyond South Africa? What have been the key drivers for the success?

Q3: What supporting data did you have available when you made the choice?

Q4: What created the burning platform for the need to go outside SA?

Q5: Did you have a strategy? Is it available? Who was responsible for the implementation of this strategy?

Q6: How did you execute the strategy? What did you do?

Q7: What were some of the key operational issues that you had to focus on?

Q8: What challenges did you face as an organization in achieving the goals, that is, what barriers have you had to overcome?

Q9: Do you believe there are factors that are specific to South African companies when they make decisions to invest in emerging markets?

Q10: Are there any differences in your opinion, between market entry strategies into Tanzania to other regions/countries across Africa?

Q11: What forms of communication were used in the host country?

Q12: Is there a formula for success that you would like to share?

Q13: What human resource strategy did you have in place for recruitment, deployment, training & development of local talent?

Q14: Did you invest in a local R&D facility with local partners? How was the interaction with established R&D facilities & people from SA?

Q15: Did you develop products/services specifically for the Tanzanian market & consumers? Was there a separate pricing model that you used?

Q16: What mode of entry did your company use into Tanzania and how did you base your choice for choosing the mode of entry?
Appendices II: List of SA companies and executives that was used to schedule and track progress of data collection

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<th>Contact Person</th>
<th>Contact Details</th>
<th>Interview date</th>
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<td>Score</td>
<td>Mr Chris Reed, MD</td>
<td>011 625 2359, 011 613 7416</td>
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<td>SABMiller</td>
<td>Dr Gert Nel, Board of TBL</td>
<td>011 407 1700</td>
<td>07.09</td>
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<td>ABSA/Barclays</td>
<td>Dana Botha MD Africa</td>
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<td>Africon Engineering</td>
<td>Mr. Louis Steyn Exec Director</td>
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<td>21.07</td>
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<td>Alexander Forbes</td>
<td>Duncan Mike MD Tinashe Mashoko MD</td>
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<td>Standard Bank</td>
<td>Kevin Wingfield Director Acquisitions</td>
<td>011 636 5298</td>
<td>26.10</td>
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<tr>
<td>Carol Rock</td>
<td>Neil Cave Managing Director</td>
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<td>South African Institute for International Affairs</td>
<td>Neuma Grobbelaar Director</td>
<td>011 339 2021</td>
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<tr>
<td>Pick &amp; Pay</td>
<td>Ryan Johnson General Manager</td>
<td>083 459 1950</td>
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<td>African Encounters</td>
<td>Roger Williams CEO</td>
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