



Exploring the feasibility of using internationally based literature theory to formulate emerging market strategies for Africa

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degree of Master of Business Administration.

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ABSTRACT

This study set out to explore the feasibility of using international based literature theory to formulate emerging market strategies for South African companies looking to expand into Africa's emerging markets. The level of confidence with which South African companies can base their African emerging market strategies on the literature and studies done on international emerging market strategies is what will be explored in this study.

The scope of this study includes methods of identifying emerging markets, optimal strategy choices for emerging markets, effective distribution channel selection methodologies and appropriate diversification options. To ensure the studies relevance across the broader spectrum of both South African companies as well as Africa's emerging markets, the companies studied were selected for their collective representation.

The research design employed for this study was qualitative and exploratory in nature. The findings based on the eight South African companies studied over the period point to the conclusion that the international theory contained in the literature is indeed relevant to both South African companies as well as Africa's emerging markets and that it can be used effectively and confidently to formulate efficient and sustainable expansion strategies for these markets.

KEYWORDS

Africa, Strategy, Emerging Market Strategy, Distribution Channel Methodologies

DECLARATION

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other University. I further declare that I have obtained the necessary authorisation and consent to carry out this research.

Steven Sutherland

Date

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TABLE OF CONTENTS

ABSTRACT	i
KEYWORDS	ii
DECLARATION.....	iii
ACKNOWLEDGEMENTS	iv
1 Chapter One - Introduction to Research Problem.....	1
1.1 Research Title	1
1.2 Research Problem.....	1
1.3 Research Objective	2
1.4 Research Scope	3
1.5 Research Aim.....	3
2 Chapter Two – Literature Review	5
2.1 Market Selection Strategy - Identifying Suitable Emerging Markets	5
2.2 Optimal Strategy Choices.....	6
2.3 Distribution Channel Strategy - The Distribution Channel Concept.....	8
2.4 Strategic Channel Design - Transaction Cost Analysis versus Natural Channel Selection	9
2.5 Corporate Diversification Strategy - Vertical or Horizontal Integration...	11
3 Chapter Three - Research Questions	13
3.1 Research Question 1.....	13
3.2 Research Question 2.....	13
3.3 Research Question 3.....	13
3.4 Research Question 4.....	14
4 Chapter Four - Research Methodology.....	15
4.1 Methodology	15
4.2 Scope and Units of Analysis.....	15
4.3 Research Process and Sequence of Events	16
4.4 Population	17
4.5 Size and Nature of the Sample.....	17
4.6 Data Collection	18
4.7 Data Analysis	19
4.8 Research Limitations	19
5 CHAPTER 5 - Research Findings and Results.....	21
5.1 Introduction.....	21
5.1.1 Selected Market Sectors and Representative Companies.....	21

5.1.1.1	Financial Services Sector.....	21
5.1.1.1.1	Introduction to Alexander Forbes – Risk, Insurance, Financial and Investment Services.....	21
5.1.1.1.2	Introduction to Rand Merchant Bank – Investment Banking	22
5.1.1.1.3	Introduction to Standard Bank – Investment and Retail Banking ..	23
5.1.1.1.4	Introduction to Nedbank – Universal Banking	24
5.1.1.2	Construction and Civil Engineering Sector	26
5.1.1.2.1	Introduction to Murray and Roberts.....	26
5.1.1.2.2	Introduction to Aveng Africa	27
5.1.1.3	Fast Moving Consumer Goods Sector	27
5.1.1.3.1	Introduction to Pick n Pay	27
5.1.1.3.2	Introduction to Tiger Brands.....	28
5.2	Findings Relating to Research Question 1	29
5.2.1	Financial Services Sector	29
5.2.1.1	Alexander Forbes.....	29
5.2.1.2	Rand Merchant Bank	30
5.2.1.3	Standard Bank	33
5.2.1.4	Nedbank.....	34
5.2.2	Construction and Civil Engineering Sector	35
5.2.2.1	Murray and Roberts	35
5.2.2.2	Aveng Group.....	36
5.2.3	Fast Moving Consumer Goods Sector.....	38

5.2.3.1	Pick n Pay	38
5.2.3.2	Tiger Brands.....	39
5.3	Findings Relating to Research Question 2	40
5.3.1	Financial Services Sector	40
5.3.1.1	Alexander Forbes.....	40
5.3.1.2	Rand Merchant Bank	41
5.3.1.3	Standard Bank	42
5.3.1.4	Nedbank.....	44
5.3.2	Construction and Civil Engineering Sector	45
5.3.2.1	Murray and Roberts	45
5.3.2.2	Aveng Group.....	46
5.3.3	Fast Moving Consumer Goods Sector.....	48
5.3.3.1	Pick n Pay	48
5.3.3.2	Tiger Brands.....	49
5.4	Findings Relating to Research Question 3	50
5.4.1	Financial Services Sector	50
5.4.1.1	Alexander Forbes.....	50
5.4.1.2	Rand Merchant Bank	52
5.4.1.3	Standard Bank	53
5.4.1.4	Nedbank.....	54
5.4.2	Construction and Civil Engineering Sector	55
5.4.2.1	Murray and Roberts	55

5.4.2.2	Aveng Group	57
5.4.3	Fast Moving Consumer Goods Sector	58
5.4.3.1	Pick n Pay	58
5.4.3.2	Tiger Brands.....	59
5.5	Findings Relating to Research Question 4	60
5.5.1	Financial Services Sector	60
5.5.1.1	Alexander Forbes.....	60
5.5.1.2	Rand Merchant Bank	62
5.5.1.3	Standard Bank	64
5.5.1.4	Nedbank.....	65
5.5.2	Construction and Engineering Sector	65
5.5.2.1	Murray and Roberts	65
5.5.2.2	Aveng Group.....	66
5.5.3	Fast Moving Consumer Goods Sector.....	67
5.5.3.1	Pick n Pay	67
5.5.3.2	Tiger Brands.....	67
6	CHAPTER 6 – Discussion of Findings.....	73
6.1	Introduction.....	73
6.1.1	Research Question 1.....	74
6.1.1.1	Discussion of Research Question 1	74
6.1.1.2	Conclusion of Findings Relating to Research Question 1	75
6.1.2	Research Question 2	78

6.1.2.1	Discussion of Research Question 2	78
6.1.2.2	Conclusion or Findings Relating to Research Question 2	78
6.1.3	Research Question 3	81
6.1.3.1	Discussion of Research Question 3	81
6.1.3.2	Conclusion of Findings Relating to Research Question 3	82
6.1.4	Research Question 4	84
6.1.4.1	Discussion of Research Question 4	84
6.1.4.2	Conclusion of Findings Relating to Research Question 4	84
6.2	Conclusion – Discussion of Findings	87
7	CHAPTER 7 - Conclusion	88
7.1	Conclusion Relating to Consolidated Findings	88
7.2	Recommendations for Future Research	91
8	References	92
9	APPENDICES	95
9.1	Appendix 1 – Interview Guideline Questionnaire	95
9.2	Appendix 2 - Research Interview Transcripts	97
9.2.1	Murray and Roberts Interview Transcript	97
9.2.2	Rand Merchant Bank Interview Transcript 1	102
9.2.3	Rand Merchant Bank Interview Transcript 2	108
9.2.4	Pick n Pay Interview Transcript	112
9.2.5	Tiger Brands Interview Transcript	117
9.2.6	Standard Bank Interview Transcript	120
9.2.7	The Aveng Group Interview Transcript	125
9.2.8	Nedbank Interview Transcript	130

9.2.9 Alexander Forbes Interview Transcript	133
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1 Chapter One - Introduction to Research Problem

1.1 Research Title

Exploring the feasibility of using internationally based literature theory to formulate emerging market strategies for Africa.

1.2 Research Problem

Since the early 1990's, developing countries have been the fastest-growing market in the world for most products and services (Jaworski, Robles, & El-Ansary, 1988). Africa's emerging markets are also open for business, and besides attractive economic growth, African countries have made an effort to improve their appeal as a business destination. The World Bank's *Doing Business 2009* confirms that Africa had a record year for regulatory reforms that makes it easier to do business in Africa (Gavin, 2009).

The fact that opportunities exist in Africa's emerging markets for South African based companies, corporations and businesses that are looking to expand their operations is not in question. The level of confidence with which these South African companies can base their African emerging market strategies on the literature and studies done on emerging markets which fall outside of the African continent (Aithal & Vaswani, 2005; Anderson & Coughlan, 1987; E & M, 1993; Griffith & Ryans, 1995; Griffith, Chandra, & Fealey, 2005; Jaworski et al.,

1988; Khanna, Palepu, & Sinha, 2005; Kumar & Bergstrom, 2008; Wren, 2007) is what will be explored in this study.

1.3 Research Objective

It is the objective of this study to determine whether the selected single sample of South African organisations have successfully expanded into African emerging markets using their own unique emerging market strategies or whether their strategies reflect some or all of the theoretical elements contained and discussed in the selected international literature (Aithal & Vaswani, 2005; Anderson & Coughlan, 1987; Anderson, Day, & Rangan, 1997; Coughlan, Anderson, Stern, & EL-Ansary, 2001; E & M, 1993; Griffith & Ryans, 1995; Griffith et al., 2005; Jaworski et al., 1988; Khanna et al., 2005; Klein, Frazier, & Roth, 1990; Klein, 1991; Sharma & Dominguez, 1992; Wren, 2007), and further to establish whether there is a clearly identifiable and replicable recipe for successfully venturing into Africa's emerging markets.

Stated differently, notwithstanding the fact that the majority of the models discussed in international literature have been derived from research focused on United States based multinationals expanding into non-Africa based emerging markets (Griffith & Ryans, 1995; Griffith et al., 2005; Kumar & Bergstrom, 2008), it is the objective of this research to determine, whether these can also be applied to the African emerging market context and whether

or not these need to be adjusted or amended completely to cater for Africa's wide and varied markets.

1.4 Research Scope

The scope of this study has been largely determined by the four focus areas that were derived from the international literature reviewed namely, methods of identifying emerging markets; optimal strategy choices; distribution channel selection methodologies; and diversification options. To ensure the studies relevance across the broader spectrum of African emerging markets and to account for the ever increasing variety of market segments within these markets, the companies selected for the single sample were chosen specifically for their collective representation.

The scope of African emerging markets considered was therefore determined by which markets were penetrated by the single sample of South African companies interviewed. This inference also applies to the strategy data collected in that its scope has also been confined to those companies, industries and market segments represented by the sample.

1.5 Research Aim

The main aim of this study is to determine whether international emerging market strategy theory can be used effectively by South African organisations to

formulate their African emerging market expansion strategies, thereby producing sustainable results.

2 Chapter Two – Literature Review

The literature and theory considered in this section has been divided into four areas: methods of identifying emerging markets; optimal strategy choices; distribution channel selection methodologies; and diversification options. The order in which these areas are discussed is also pertinent as it follows the natural order in which these events, and therefore, strategic decisions usually occur in practise. The insights obtained from the literature cited will provide the theoretical frame work against which the emerging market strategies employed by the single sample South African companies will be compared.

2.1 Market Selection Strategy - Identifying Suitable Emerging Markets

The attraction of emerging markets is often the potential profits that can be made from doing business there. For this reason companies often base their globalisation strategies on an analysis of a country's composite indices, such as its GDP and per capita income growth rates, its population composition and growth rates, and its past, present and projected exchange rates and purchasing power parity indices (Khanna et al., 2005). To further complete the picture they may also consider the country's standing on the World Economic Forum's Global Competitiveness Index, the World Bank's governance indicators, and Transparency International's corruption ratings; its weight in emerging market funds investments, and even its political stability prospects (Khanna et al., 2005).

Although these indices are useful in identifying lucrative opportunities, they should only be used as a basis of one's strategy if there is an alignment between one's home and target country's institutional contexts (Khanna et al., 2005).

As doing business is all about buying inputs in the product, labour and capital markets and selling outputs in the products or services markets, understanding how these work, or don't work is key when selecting a target market or country (Li, Ramaswamy, & Pécherot Petitt, 2006a). Along with these essential market factors, one also needs to consider those macro factors which determine the openness or degree to which a country welcomes foreign investment together with the prevailing socio-political systems which both affect and influence all of these markets (Kumar & Bergstrom, 2008).

Companies who take the time and make an effort to understand the institutional differences between countries are able to choose the best markets to enter and can select the most optimal strategies.

2.2 Optimal Strategy Choices

Companies considering adapting or tailoring their strategies to individual market contexts need to compare the benefits of doing so with the additional coordination costs that are likely to be incurred (Khanna et al., 2005). This exercise will essentially present them with three options. They can adapt their business model while keeping their core value propositions constant, they can

try to change the contexts, or they can stay away from markets where adapting their strategy may be uneconomical or impractical (Griffith et al., 2005; Khanna et al., 2005; Wren, 2007).

Adapting strategies successfully entails modifying ones business models for each market, and yet at same time retaining core value propositions in order not to lose the advantages of global scale and branding (Khanna et al., 2005). This loosely translates into not making too radical a shift away from that which has ensured success in the company's home territory.

Many multinationals are powerful enough to alter the contexts in which they operate. They can force dramatic change in local markets through the products or services that they offer. Their entry into foreign markets can transform quality standards, introduce new service standards and competencies, elevate the standard of education and skills development and effectively help the host country to fully develop their potential (Khanna et al., 2005).

Staying away is a strategy choice when it has been determined that it may be impractical or uneconomical to adapt to the particular market.

While the same strategies cannot always be used in all emerging markets, certain synergies may be developed where different markets can be viewed as part of a system, each providing certain key elements which when combined make up the entire value chain (Khanna et al., 2005).

2.3 Distribution Channel Strategy - The Distribution Channel Concept

Coughlan and Anderson (2001) describe a distribution channel as “the set of interdependent organisations involved in the process of making a product or service available for use or consumption” (Coughlan et al., 2001).

Distribution channel literature can be divided into two subject areas, channel design and channel management. Channel design research focuses on the organisation of the distribution channel system, including the rationale behind having intermediaries and whether these should be a sales-force, agents, distributors, wholesalers or retailers (Rangan, Menezes, & Maier, 1992)(Rangan et al., 1992). Channel management research, examines how channel systems can be managed once they have been established (Rangan et al., 1992).

Distribution channel design elements can be organised into either internal or external variables (Griffith & Ryans, 1995). Internal variables are those which are under the control of the organisation whilst external variables are those which are determined by the market and to which an organisation must adapt.

The importance of channels of distribution to an organisations operations are well documented (Anderson et al., 1997; E & M, 1993; Klein et al., 1990; Klein, 1991) (Aithal & Vaswani, 2005; E & M, 1993)

Understanding the factors or variables that are influential to distribution channel strategy is becoming increasingly significant as competitive intensity increases

(Griffith et al., 2005)(Griffith et al., 2005). This is no more evident than in the movement toward a globally competitive environment and the expansion of South African operations into Africa's emerging markets.

Studies into the strategic approaches of large United States based multinationals in respect of their channel distribution strategies for emerging markets (Griffith & Ryans, 1995; Griffith et al., 2005; Kumar & Bergstrom, 2008), reveal two distinct models or paradigms, the Western efficiency or economies of scale model, transaction cost paradigm, and the natural channel selection concept or non-standardisation paradigm.

For the United States based multinationals, the transaction cost analysis model has superseded the natural channel selection model in most cases (Griffith & Ryans, 1995).

2.4 Strategic Channel Design - Transaction Cost Analysis versus Natural Channel Selection

Transaction cost analysis proposes that firms choose to operate according to the criterion of minimising production and transaction costs (Klein et al., 1990)(Klein et al., 1990). Production costs are the costs of actually performing a marketing-distribution function (Klein et al., 1990)(Klein et al., 1990) and transaction costs are the costs of governing the system (Klein et al., 1990).

Cost efficiency and standardization are two forces that dominate and drive international distribution strategy (Verwaal & Donkers, 2002)(Verwaal & Donkers, 2002). The transaction-cost paradigm proposes that organisations choose between markets and hierarchies according to the criterion of minimizing costs (Griffith & Ryans, 1995). Although this paradigm provides a useful method of analysis, used exclusively, it may be suboptimal for understanding and designing distribution channels in a global market context, given local contextual issues (Griffith et al., 2005).

Although transaction cost analysis assists in determining which lower cost activities are able to be performed internally and which will rely on other providers who have certain local cost advantages (Klein et al., 1990), it may not necessarily provide for a level of customer service and satisfaction that the product offering may require, and could therefore lead to an ineffective design (Anderson et al., 1997).

Natural distribution channels evolved through the utilization of natural resources contained within that specific area of trade, thus the term natural channel (Griffith, Chandra, & Ryans Jr., 2003). Natural channel selection therefore involves the surveying and selection of the most appropriate and effective resources to produce the desired end result within any given area or region.

It can therefore be considered a more macro-environmentally driven model than cost efficiency based as in the case of a transaction cost analysis model. Owing

to the vast environmental differences that exist between different countries and regions and the numerous external and internal factors that are brought to bear on distribution channels, the natural channel selections open-systems approach, which allows for the influence of macro-environmental variables could be considered most beneficial (Griffith et al., 2005), and yet a natural channel selection model by its nature may not always provide for the most cost effective approach to a particular market. Also the power or control structures in a natural channel model are weighted more towards the distribution channel and less in favour of the organisation (Wren, 2007).

2.5 Corporate Diversification Strategy - Vertical or Horizontal Integration

Under ideal conditions, a market entails the exchange of goods and services via demand and supply mechanisms (Khanna et al., 2005). However in emerging markets such conditions seldom prevail, instead extra-market mechanisms such as regulations and other factors usually introduce some friction into the exchange. For this reason corporate diversification strategies are employed in an attempt to mitigate these inherent shortcomings in the market.

Vertical integration is an internalization strategy (Li, Ramaswamy, & Pécherot Petitt, 2006a; Wren, 2007). The literature suggests that when the business environment is highly volatile and more prone to asset risk from things such as opportunism, firms will become more internally oriented (Wren, 2007). The

rationale for this is that risks can be reduced or offset by taking control of as many processes as possible.

Horizontal strategies entail branching into multiple product groups or industries (Li, Ramaswamy, & Pécherot Petitt, 2006a), this allows firms to utilize the same distribution channel for all their various product offerings and also facilitates the use of a common umbrella brand as a proxy for value.

In emerging economies, potential product and skilled labour market failure will generally push some companies to internalise key activities as long as the internal administrative costs are lower than the external transaction costs (Li, Ramaswamy, & Pécherot Petitt, 2006a). Other organisations that have access to a more favourable product, but less attractive managerial labour and capital market may choose the envisaged safety offered by a more horizontal strategy (Li, Ramaswamy, & Pécherot Petitt, 2006a).

3 Chapter Three - Research Questions

The research questions not only divide the study into four key areas of focus namely, methods of identifying emerging markets, optimal strategy choices, distribution channel selection methodologies and diversification options, but have been specifically arranged to follow the natural order in which these events usually occur in practise. This will further help to identify whether or not South African companies follow the literature and if and at what point they may choose to deviate from it.

3.1 Research Question 1

What criteria do successful South African organisations consider when selecting suitable African emerging markets?

3.2 Research Question 2

What strategy choices do successful South African organisations favour when considering expanding into a particular emerging market?

3.3 Research Question 3

How do successful South African organisations design and operate their distribution channels in emerging markets?

3.4 Research Question 4

What diversification strategy do successful South African organisations implement in African emerging markets?

4 Chapter Four - Research Methodology

4.1 Methodology

The research design employed for this study was qualitative and exploratory in nature. Zikmund (2003) describes exploratory research as that which clarifies and prepares a subject for further research. In order to determine whether South African companies are following the international theory, models and examples or whether they have derived their own unique set of rules for engaging Africa's emerging markets required a better understanding of these activities and therefore some exploratory research into these endeavours was justified and appropriate.

4.2 Scope and Units of Analysis

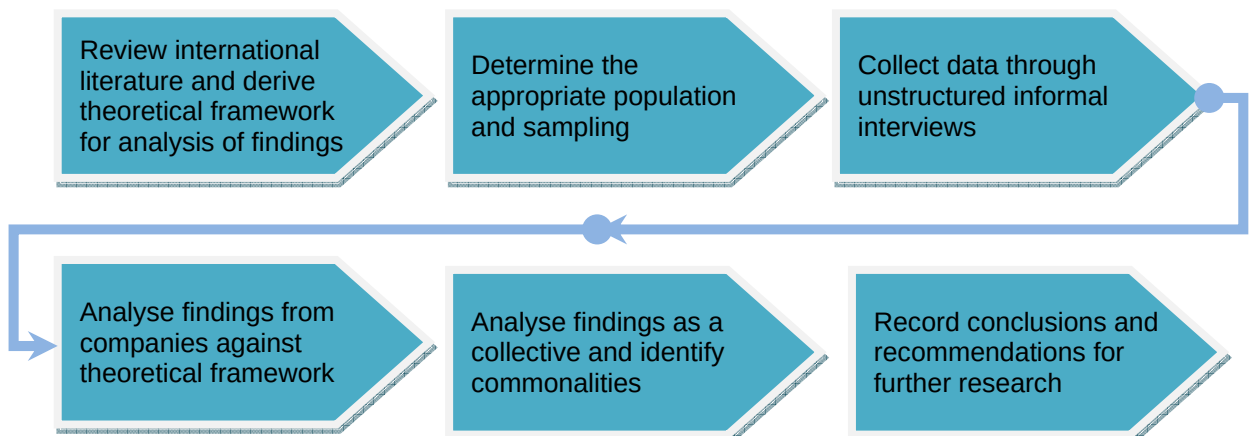
The scope of the study was largely determined by the four focus areas that were derived from the literature reviewed namely, methods of identifying emerging markets; optimal strategy choices; distribution channel selection methodologies; and diversification options. To ensure the studies relevance across the broader spectrum of African emerging markets and to account for the ever increasing variety of market segments within these markets, the companies selected for the single sample were chosen specifically for their collective representation.

The scope of African emerging markets considered was therefore determined by which markets were penetrated by the single sample of South African companies interviewed. This inference also applies to the strategy data collected in that its scope has also been confined to those companies, industries and market segments represented by the sample.

The units of analysis were those specific elements and attributes which were determined to have had the decisive influence on the sample company's direction with regards to each of the four prescribed areas of emerging market strategy identified and elaborated on in the literature review.

4.3 Research Process and Sequence of Events

Figure 1 – Research Process Flow Chart



A theoretical framework was derived from the international literature reviewed in chapter two.

The single sample of South African companies was interviewed and their strategies discussed, especially the detail in and around the four key areas being considered in this study.

The findings were analysed against the theoretical framework in order to determine whether there was a clearly discernable alignment or similarity between the strategies used by these successful South African companies and those theories being discussed in the international journals.

4.4 Population

The population of relevance was all South African based nationals and multinationals that has successfully expanded their organisations into one or more emerging African markets.

The companies must have established a sustainable presence in their chosen markets for periods exceeding a minimum and unbroken period of at least one year.

4.5 Size and Nature of the Sample

The eight South African organisations interviewed were representative of a cross section of industries and business sectors. The eight companies interviewed and business sectors represented were as follows:

- Financial Services Sector
 - o Alexander Forbes – Risk, Insurance, Financial and Investment Services
 - o Rand Merchant Bank – Investment Banking
 - o Standard Bank – Investment and Retail Banking
 - o Nedbank – Investment and Retail Banking
- Construction and Civil Engineering Sector
 - o Murray and Roberts
 - o The Aveng Group
- Fast Moving Consumer Goods Sector
 - o Pick n Pay
 - o Tiger Brands

4.6 Data Collection

Unstructured, extensive interviews were conducted with all the relevant respondents from each of the companies selected. Answers to the interview guideline questions listed in appendix 1 were probed in order to gain a deeper understanding of why particular courses of action were chosen above other alternatives. The interviews were recorded and the relevant answers and responses were transcribed for the analysis of the findings. Only senior representatives of each of the sample companies were interviewed in order to ensure an accurate accounting of not only the final decisions and directions taken, but also the processes that were followed.

4.7 Data Analysis

The data collected from each of the interviews was analysed against the theoretical framework derived from the literature reviewed in chapter two. The findings were further analysed to determine their level of influence or overall impact on the final decisions made and directions taken. Once all the data was analysed for each of the individual companies which made up the sample selection, the data was analysed as a collective in order to determine any significant or apparent patterns or trends for each of the four areas and again for the strategies as a collective. Further analysis was done in order to determine any commonality across the eight companies that were involved in the study and those aspects which were common to all was highlighted separately final results and conclusion section of this study.

4.8 Research Limitations

The following limitations need to be taken into consideration when reviewing this study:

- As qualitative research is subjective in nature, the measurement process was at the sole discretion of the researcher.
- All interpretations were based on judgement; no rigorous mathematical analysis was used.
- This exploratory study used a relatively small sample size and may therefore not be representative as the participants were not selected on a

probability basis, but rather according to their accessibility and willingness to participate in the study.

- Researcher bias may also be present and for this reason transcriptions of the interviews have been attached as appendices to this study.

5 CHAPTER 5 - Research Findings and Results

5.1 Introduction

This section presents the findings derived from interviews conducted with various senior representatives from each of the eight South Africa based organisations who have been selected owing to them having successfully expanded into Africa's emerging markets.

The findings for each of these companies are discussed individually under each of the research questions in turn and a summary of the results in relation to the theoretical frame work derived from the literature is captured in four tables at the end of the chapter.

5.1.1 Selected Market Sectors and Representative Companies

5.1.1.1 Financial Services Sector

5.1.1.1.1 Introduction to Alexander Forbes – Risk, Insurance, Financial and Investment Services

Alexander Forbes was established in 1935, when Emile Levy and Company, a South African merchant, established an insurance agency in which Price Forbes (a London insurance brokerage established in 1893) acquired a stake. In 1950, Price Forbes acquired the balance of the equity in the local business, which subsequently changed its name to Price Forbes (Africa). In 2007, private equity

investors, (comprising Actis, Caisse de de'pot et placement du Que'bec, Ethos Private Equity, Harbourvest Partners, LLC and Ontario Teachers' Pension plan), acquired control of the Group, which was then delisted from the JSE Securities Exchange of South Africa.

Alexander Forbes is one of the world's leading providers of risk services and employee benefits. The Group's primary operations are based in Africa and the UK and their 4500 personnel deliver employee benefits, risk management and insurance services to small, medium and large organisations, as well as individual clients.

AfriNet is the name and registered trade mark of Alexander Forbes' network of offices and correspondents throughout Africa. It is managed and coordinated from South Africa by Alexander Forbes AfriNet Investments. From modest operations in Namibia and Swaziland, Afrinet now represents the most extensive network of its kind in Africa, providing local service to clients in more than 40 countries across the continent.

5.1.1.1.2 Introduction to Rand Merchant Bank – Investment Banking

Rand Merchant Bank was started by entrepreneurs Paul Harris, Laurie Dippenaar and GT Ferreira, as a niche, structured-finance house. The founders transformed this business into one of South Africa's leading investment banks.

RMB is a diversified financial services brand encompassing investment banking, fund management, private wealth management and advisory services. All businesses in the RMB brand stable form part of the wider FirstRand Group.

RMB trade off FirstRand Banking Group's balance sheet, through its parent company FirstRand, RMB is a signatory to NEPAD (New Partnership for African Development) and as such play an active role in the ongoing economic transformation of the continent. RMB covers the covers the continent from its South African base, providing a full spectrum of investment banking services to all industries, funding development projects in over 30 Africa countries.

5.1.1.1.3 Introduction to Standard Bank – Investment and Retail Banking

In 1862, The Standard Bank of British South Africa was established, operations commenced immediately in London and by January 1863 the bank's agents in Port Elizabeth were discounting bills. "British" was dropped from the name in 1883 and in 1962 a subsidiary company was formed to carry on the business in South Africa and what was then known as South West Africa, now Namibia. The name Standard Bank Limited was adopted for the holding company in England, which subsequently became Standard Chartered Bank Plc.

A holding company in South Africa was establishes in 1969 as Standard Bank Investment Corporation, now known as Standard Bank Group Limited, the holding company of The Standard Bank of South Africa Limited, which listed on the JSE in 1970.

The holding company is publicly owned, headquartered in Johannesburg, South Africa and is listed on the JSE Limited (share code SBK) and on the Namibian Stock Exchange (NSX) (share code SNB).

•Standard Bank Group is the largest South African bank by assets and earnings. The Standard Bank of South Africa, Standard Bank - Africa and Stanbic Africa Holdings (in some countries), Standard International Holdings, Standard Bank Offshore Group

- Represented in 33 countries: 17 in Africa and 16 in five other continents.
- Over 600 branches in South Africa and over 400 outside of South Africa.
 - Employ more than 50 000 people worldwide, of which 34 891 are in South Africa.
 - Liberty Holdings (53.7%)

5.1.1.1.4 Introduction to Nedbank – Universal Banking

Nedbank traces its roots right back to the establishment of the Cape of Good Hope Bank in 1831, but only officially became known as Nedbank after a name change in 1971 from The Netherlands Bank of South Africa. This, even though the South Africa shareholding had already increased to 100% by 1969. Nedbank Groups was formed in 1973 from a merger of Syfrets South Africa and Union Acceptances and Nedbank.

In 2006 Nedbank expanded into Namibia and 2008 it established an alliance with Ecobank in a move to strengthen and expand its African presence.

Nedbank is also present in Zimbabwe, Malawi, Lesotho and Swaziland.

The principal banking services offered by Nedbank Group comprise business, corporate and retail banking, property finance, investment banking, private banking, foreign exchange and securities trading. Nedbank Group also generates income from private equity, credit card issuing and processing services, custodial services, unit trust administration, asset management services and bank assurance.

Nedbank Group's headquarters is in Sandton, Johannesburg, with large operational centres in Durban and Cape Town which are complemented by a regional branch network throughout South Africa and facilities in other southern African countries.

The Ecobank Nedbank alliance

The Ecobank Nedbank alliance is the largest banking network in Africa, with more than 1 000 branches in 33 countries. It was formed in 2008 by Ecobank, which has a presence in more African countries than any other bank in the world, and the Nedbank Group

The alliance offers Ecobank and Nedbank clients a 'One Bank' experience across Africa

Ecobank, whose official name is Ecobank Transnational Inc., is a pan-African banking group. It is the leading independent regional banking Group in West and Central Africa, serving wholesale and retail customers. Currently operating in 25 countries has the largest geographic banking coverage in Africa in terms of number of countries and operates mainly in West, Central and East Africa, including Ghana, Nigeria and Kenya.

5.1.1.2 Construction and Civil Engineering Sector

5.1.1.2.1 Introduction to Murray and Roberts

With a history spanning 100 years, Murray and Roberts is a group of companies serving the global value chain. Murray & Roberts is primarily focused on resources driven construction markets in industry & mining, oil & gas and power & energy and offers civil, mechanical, electrical, mining and process engineering; general building and construction; materials supply and services to the construction industry; and management of concession operations

As a public company listed on the JSE Securities Exchange, Murray & Roberts generates more than half of total revenue from global markets and holds a significant investment in separately listed transport and logistics group, Unitrans Limited.

Employing over 15 000 people in its core operations in South and southern Africa, the Middle East and the United Kingdom, Murray & Roberts serves more than 50 countries around the world.

5.1.1.2.2 Introduction to Aveng Africa

A history spanning more than 100 years, listed on the JSE (since 1999) employing approximately 30 000 people and working actively in more than 25 countries Aveng Limited is a South Africa-based company engaged in the construction and steel beneficiation. Operations include construction and engineering, opencast mining, manufacturing and processing. The primary subsidiaries of the Company include Aveng (Africa) Limited, Trident Steel Holdings (Proprietary) Limited and Aveng Australia Holdings Proprietary Limited. Its business segments include construction and engineering. On July 1, 2008, McConnell Dowell Holdings (Pty) Limited acquired 75% interest in Built Environs Holdings (Pty) Limited (BEH). On July 1, 2008, the Aveng Group acquired 100% of Keyplan (Pty) Limited, which provides engineering services in the water management market in South Africa.

5.1.1.3 Fast Moving Consumer Goods Sector

5.1.1.3.1 Introduction to Pick n Pay

The Pick n Pay Group is one of Africa's largest retailers of food, general merchandise and clothing.

In 1967, Pick n Pay was founded as a family controlled business with four small stores in the Western Cape. The next year, the company listed on The JSE Limited Securities Exchange, Concentrating on food, clothing and general merchandise, the Pick n Pay Group is managed through three divisions: Pick n Pay Retail Division, the Group Enterprises Division and Franklins Australia. Each division has its own management board.

The Pick n Pay Group has a total of 775 stores, made up of Hypermarkets, Supermarkets and Family Stores (which are franchise stores). Pick n Pay employs over 38 000 people, and generates an annual turnover of USD6.76-billion.

5.1.1.3.2 Introduction to Tiger Brands

Tiger Brands Limited (Tiger) is engaged in providing branded consumer packaged goods to its customers. The company operates through four divisions, namely, domestic food, consumer healthcare, fishing, and exports and international. Tiger Brands has direct and indirect interests in international food businesses in Chile, Zimbabwe, Kenya and Cameroon . The HPC division is a leading manufacturer, distributor and marketer of personal care, baby care and homecare brands. The Domestic food division is a leading manufacturer, distributor and marketer of food brands. Grains, Groceries, Snacks & Treats, Beverages, Value Added Meat Products, Out of Home: Food service and home meal replacement homecare brands. Oceana is involved in the fishing,

processing, marketing and trading of a wide variety of marine species and cold storage operations.

5.2 Findings Relating to Research Question 1

What criteria do successful South African organisations consider when selecting suitable African emerging markets?

5.2.1 Financial Services Sector

5.2.1.1 Alexander Forbes

According to the respondent from Alexander Forbes, “Alexander Forbes’ Africa thrust has been driven from the insurance broking side for risk and insurance, because this is where clients need assistance on the ground and consequently why they require a local presence. The other services can be done from anywhere”.

One of Alexander Forbes’ reasons therefore for entering Africa’s emerging markets has been as a result of their rationale to follow their clients. This has however not been done blindly, but rather in accordance with the companies governance regarding emerging market opportunities. Included in those criteria mentioned, were an acceptable return on investment, a suitable regulatory environment and in particular the insurance regulatory environment, acceptable

foreign shareholder limitations and a reasonably stable looking future political climate.

For reasons of practicality and logistics, Alexander Forbes has also chosen to focus on neighbouring countries and those which are relatively close to South Africa, and with the exception of Mozambique, have predominantly looked at the Anglophone countries. Alexander Forbes' respondent specifically stated "we have really steered clear at this point in time of the francophone and Lucophone countries because they are alien to our culture and have different ways and models of doing things". The example cited in respects to these markets was Angola, where it was indicated that owing to local companies operating in an exclusive or monopolistic manner, certain whole market segments were not easily accessible.

Repatriating dividends was also mentioned as a critical consideration and Zimbabwe was a case in point, along with all the risks associated with their indigenization program. Further to the mitigation of risks, the respondent concluded "other risks could include those such as environmental, political, legal and social, and all of these would need to be looked at before one makes the ultimate investment decision.

5.2.1.2 Rand Merchant Bank

Rand Merchant Bank's selection criteria is layered, the first layer to get attention is the macroeconomic indices to which their research respondent adds to an

already extensive 101 macro-economic criteria, certain demographic and sector specific considerations. Listed amongst the more important high-level macro criteria are the usual suspects, size of GDP, GDP growth, nominal GDP and population size.

The next layer to be considered is the regulatory environment on which they are heavily dependent and look to global surveys conducted by the World Economic Forum and World Bank for guidance. The local South Africa regulator also plays a large role in relation to which markets a bank may venture into, Zimbabwe for example is a no-go from the regulators perspective regardless of what opportunities exist from a banking perspective. The factors determining these prescriptions are largely politically orientated and therefore the past, present and future political landscape is carefully and thoroughly researched.

Another critical layer is that of foreign domestic investment or the inflows and out flows of the country. This is of particular importance as it is a fairly good indicator of investment sentiment. This is closely linked to the amount of foreign aid coming into and going out of the country as this is a clear indication of the country's indebtedness.

The viability of an African market is also judged on the basis of its port or harbour infrastructure as this speaks volumes to the country's ability and maturity with regards the movement of goods both in and out of its economy.

A country's mineral wealth and other natural resources take a prominent place in the decision tree, this is one criterion which will often take precedence in the weightings, even at times over certain critical safety and security considerations.

Although population size is sometimes a deterrent factor with regards to the economic growth of the local market, it does not appear very high on the list of indices being evaluated by the bank. The sophistication of the market however is one, and special attention is given to the agricultural sector's contribution to GDP, as this is another indicator of how developed and productive the country is.

Something that has not previously appeared prominently on the radar in the past, but something which is now being focused on quite intently are a country's indigenization policies and whether these are formal or informal.

Finally attention is given to the state of the health industry and although the levels of HIV and how these are being managed is a criterion, closer focus is being given to tuberculosis and malaria which are more prevalent.

Notable are also the similarities and differences between what an investment bank and retail bank would be looking at from a research perspective. Although the macroeconomics of a market are of equal interest to both, Rand Merchant Bank is more inclined towards size in terms of GDP and individual transactions with a trend towards resources, whereas First National Bank look at what the

other retail banks are doing, focusing on growth, population and disposable income.

5.2.1.3 Standard Bank

Standard Bank has a research department and an economics desk which are responsible for providing the relevant information into the rest of the business. They look at all the macroeconomic indicators and trends together with the in-country currency stability and fluctuations, global market predictions, ease of doing business and the political environment.

Regarding GDP being criteria that is considered when evaluating an emerging market opportunity, Standard Banks respondent had the following to say, “yes, we would look at GDP, there is not necessarily a strong correlation between GDP and size of GDP and I mean total GDP and not GDP per capita, we seriously would want to access the size of the economy because that gives you your base from which you would operate.”

Despite the conventional business rule of first “ticking all the boxes”, Standard Bank focus on the business opportunity, even seeing the political climate as secondary or as the respondent puts it, “we find ways to manoeuvre around the volatility, we take the view that there will be many challenges, but will find ways of overcoming them.” On this point, the respondent uses Angola as an example. Standard Bank has been the first international bank to be granted a banking license in the country. “It was not easy,” he said, “but we forged ahead, we

always look at things firstly from, can we do the business? Is the economy big enough? Then we go for it.”

When evaluating a possible market Standard Bank also take into account that there are two sides to their business, one being corporate banking and the other the more traditional personal banking business. From the investment perspective, they look for those investment opportunities which best suit their core investment products, these being in power, infrastructure, mining and minerals, telecommunications and oil and gas. They also pay close attention to the agricultural sector, which according to the respondent “has become a focus for investment banking.”

5.2.1.4 Nedbank

When it comes to researching the markets and collecting the relevant information, Nedbank relies on a combination of their own research efforts and that which is derived from their partner and client networks. This gives them a relatively accurate sense of what is actually happening on the ground.

They pay close attention to the economic profit pools within each country and ensure that they have a good understanding of the in-country banking sector. Understanding what the returns would be and where these are likely to come from is important especially as the bank needs to create shareholder value from their banking operations.

The political stability and environment of a country is relevant where Nedbank owns a majority share of the operations, these include countries such as Malawi, Namibia, Swaziland and Lesotho. This would also be true of countries where Nedbank would be looking to purchase an existing bank. The current alliance with Ecobank provides Nedbank with access into twenty-nine African countries without the inherent risks related to having a wholly presence in these countries.

Nedbank has a formal risk management policy and code of ethics which prevent involvement in deals or doing business in countries which are on the sanctions list. The company was the first bank in Africa to sign the Equator treaties which is a set of international guidelines for banks to ensure that the projects they finance are developed in a socially responsible and environmentally sound manner.

5.2.2 Construction and Civil Engineering Sector

5.2.2.1 Murray and Roberts

The Murray and Roberts' respondent began by positioning the construction industry as a very project based industry and as such, decisions are taken largely on a project by project basis rather than on any strategic directive related to a specific market or markets.

With this being said however, the respondent went on to say that “more established businesses have perceptions of what they expect in a market place where they do business, they expect a certain degree of order, transparency and accountability, that the rule of law exists, respect for property, etcetera.” In which markets projects are accepted is also largely determined by where their investment would be protected, where property rights exist and where their staff would be considered safe and would prefer to work. Bribery and corruption as well as health risks are also considerations for Murray and Roberts.

An overriding factor with regards to any of the above mentioned negative considerations would be their willingness to follow their clients. In cases where the relationships are strong and the financing is supported by reasonable terms and conditions, fair consideration will be given.

In order to mitigate as much risk relating to a particular project as possible, careful consideration is given to the jurisdiction in which the contract is applicable, what laws will apply, who the partners are and where the financing will be coming from.

5.2.2.2 Aveng Group

With The Aveng Group, being exactly that, namely a group of companies, the entry criteria for each company, owing to their different disciplines, is also varied. As a whole however they consider the size of the pie beyond the

borders and which countries present the most opportunities across their competencies.

With the group in mind they start by carefully analysing the ongoing potential, the current opportunities and where these are, the political climate and the corruption index. These indices identify whether the market is worth further attention. Once they are happy that there is a demand for their competencies, they look at those criteria which determine whether the market can support them. They endeavour to gain an understanding of the in-country competitor environment and the cultural aspects relating to the opportunities available.

They have also changed their focus from an initial project based or opportunistic focus to a country focus based on areas where they can add value, this obviously makes the countries ease of doing business rating an important indicator for the group. On this point Aveng's respondent says, "Every country offers a lot of opportunity, but in some instances, for example residential housing, being a relatively easy market, there are already a large number of local players present." The respondent went on to say that, "the opportunities must be understood in the context of where the company can add value and still realize profits despite the competition."

The further a project is from their home base operation the more difficult it is to implement and manage and therefore the more likely to fail. As this is largely

due to logistics, these are areas that receive a lot of focus during the consideration and tender phases.

Aveng also consult with the banks before tendering in any of Africa's emerging markets, the respondent said that "it is pointless looking at large capital investments if you do not understand the markets and market trends."

5.2.3 Fast Moving Consumer Goods Sector

5.2.3.1 Pick n Pay

In the initial stages of Pick n Pay's expansion, proximity was an important consideration. Being close to South Africa was important in order to ensure ease of logistics with regards to getting goods into the various countries and into their respective stores. Once they had established and were confident that they could effectively service stores outside of South Africa, they then turned their attention further afield.

When they started looking further afield they particularly looked for economic growth from a macroeconomic perspective and a relatively stable political environment (five years). It was also important to determine whether they would be able to move money in and out of the country.

According to Pick n Pay's respondent however, "it is really about consumerism in numbers, people need to eat, so even in the poorer areas you can do well as

long as there is a large populace, you can be successful.” Owing to the low margins associated with this industry, volume is important and the specific criteria looked for in this respect is whether the market, and specifically the area or location of the store has the potential of generating the required levels of spend. Poorer communities generate a lower spend per person and therefore need to be well populated to justify the costs. In heavily traded markets this is even more of a critical criterion as the competition segments the market even further.

A large amount of research also goes into consumer behaviour, where it is important to ascertain what products they are accustomed to buying and in what quantities. Pick n Pay gets this information by sending buyers into these prospective markets two to three months before a decision is made, to meet with local suppliers and to talk to consumers. They have also accumulated data and experience from stores within the informal sectors in South Africa.

5.2.3.2 Tiger Brands

For Tiger Brands, who are currently in Zimbabwe, Kenya, Cameroon, Namibia, Botswana, Swaziland and Lesotho, the fast moving consumer goods sector requires that one look at population, growth potential, ease of doing business and the laws and legislation surrounding the movement of funds into a country and the repatriation of revenues back to South Africa.

Opportunities are evaluated in terms of their potential success and what it would represent to the business. Owing to this opportunistic approach, even the ease of doing business index becomes less of a “go-no-go” factor and more of a decision tree criterion between “green fielding” and looking for a local partner. “Green fielding” obviously where the market is accommodating and using local partnerships where the ease of doing business index is less attractive.

5.3 Findings Relating to Research Question 2

What strategy choices do successful South African organisations favour when considering expanding into a particular emerging market?

5.3.1 Financial Services Sector

5.3.1.1 Alexander Forbes

When making reference to Alexander Forbes’ African focused business, AfriNet’s strategy, the respondent used the words “work in progress”. This was in part supported by the fact that the AfriNet business was in the throes of a restructure in order to more effectively identify and leverage cross selling opportunities across the various disciplines.

Strategies are varied in order to maximise the specific needs identified in that particular market, the respondent explains “Kenya, Nigeria, Swaziland, Namibia and Botswana have been identified as markets suited to the likes of employee

benefits, not all markets are, because in many of the countries there are national security funds as well as national pension and medical aid funds.” He went on further to elaborate, “although most policy offerings and structures are alike, there are occasions where you have a different focus in specific countries.”

Alexander Forbes has a huge intellectual property reservoir both in the form of specialist human resources as well as best practice procedures, standards and guidelines. This is a key differentiator in the African market where these skills are not readily available and the complexities associated with doing business exponentially increase the risks. With the introduction of these specialist skills into these emerging markets Alexander Forbes is able to change the context specifically with reference to those industries where they participate.

In countries where brokers are not recognised or where there is a state of unrest, Alexander Forbes will endeavour to work closely with insurance companies already established in those countries when they are required to assist clients, rather than establishing an intermediary service presence. These countries were very euphemistically described by the respondent as “those who are very challenging from an insurance perspective”.

5.3.1.2 Rand Merchant Bank

Rand Merchant Bank through its First National Bank operations has already established a significant footprint in Africa with a presence in Namibia, Zambia,

Mozambique, Swaziland, Lesotho and Angola. Historically, Rand Merchant Bank which is also part of the First Rand Group has been pursuing an opportunistic strategy, focussing largely on doing deals in these countries without actually establishing a presence, an activity referred to as “suitcase banking”. On this subject the respondent referred to it as “a culture of doing deals, doing them well and then moving onto the next one.”

Since 2005 however this strategy changed and became more client focused, thinking more strategically in and around their objectives and expansion plans and what transactional banking services they would be looking for. For the last two years they have been aligning themselves with First National Bank’s endeavours’ into Africa looking to exploit the robust footprint that has already established.

The current strategy can therefore be described as a “follow the client” strategy. The respondent summed it up well saying, “We now see South Africa playing a greater role in the African continent, there is only so much runway in the South African market and we would like to be able to offer all of our products to all our clients across Africa.” By implication they are saying that if they don’t someone else will.

5.3.1.3 Standard Bank

From the outset it is important to note that Standard Banks entry into Africa was largely on the back of the purchase of a portfolio of banks from ANZ Grinlays.

According to Standard Banks respondent however, although this “bundled package” to a large extent determined in which countries they acquired a footprint, it would not have looked much different had they established their presence through an alternative means. With retail banking being largely branch based, acquisition is the one of the quickest strategies for not only establishing a presence, but more importantly for expediting growth.

Being representative in a number of African countries does not always make a big impact on the overall profitability, especially when this translates to being big in the smaller economies and small in the bigger economies. Standard Bank is therefore focusing on scaling up in those markets, and especially the larger markets, where they already have a presence, rather than looking at expanding their footprint into areas where they don’t currently do business.

Nigeria and Kenya are two examples of where Standard Bank is looking to “scale up” as the respondent puts it. In Nigeria in particular, they are participating in the “distressed banking process” in terms of acquiring something that will allow them to “get to scale” quickly. As an indicator as to just what this means in the Nigerian context, Standard Bank currently has 120 branches, the bigger banks run 700 branches, therefore Standard Bank would not consider themselves a real player in this market until they reach the 400 branch mark.

Having said this however, Standard Bank would never ignore or remove from the radar any country that may offer a reasonable rate of return, and are

currently looking at the francophone and Maghreb regions for their medium to long term strategies.

Much of Standard Banks venturing into Africa has been through acquisition, but Angola provides an example of where they are following a “green fields” approach. Although they are forging ahead with this venture the respondent admits that building a bank from scratch is more difficult than buying an existing operation, especially in Angola where the president’s daughter is already invested in seven of the existing nine banks.

Standard also vary their strategies to suit the environments wherein they operate. The respondent referred to three strategies, one for investment or growth markets which he referred to as “milk the opportunity, but don’t invest too much,” and then a “maintenance” strategy for those which are profitable, but where the economies are small and finally an exit strategy, of which they currently do not have any, not even for Zimbabwe.

5.3.1.4 Nedbank

Nedbank is a South African bank servicing South African clients. It has however recognised the need to service their clients who are expanding into Africa and who therefore require their services in those countries into which they are moving. Their strategy can therefore be best described as a “follow the client” strategy.

With regards to their in-country strategies, these vary in accordance with the needs and requirements of the market. Nedbank operates in a very complex environment with regards to its South African operations, but according to their respondent, “Africa tends to have shorter deal tenors and less complexity in the deal structure.” The respondent went on further to say, “Financial services in South Africa is complex, highly regulated and the JSE is a liquid stock exchange. Our products are therefore more diverse, more complex and we offer a wider range to our clients, Ecobank operates in an environment with liquid capital markets, short deal tenors, and large unbanked populations and therefore does not have the same degree of complexity in the product suite.” The Ecobank Nedbank alliance enables clients doing business in Africa to leverage the experience of the in-country banking operation and Nedbank’s experience in dealing with more complex, structured products, and of course their larger balance sheet.

5.3.2 Construction and Civil Engineering Sector

5.3.2.1 Murray and Roberts

When it comes to construction and engineering projects, economic viability determines not only which projects are selected, but also which strategy to follow.

Apart from using a well honed business management tool to analyse the key criteria, Murray and Roberts Chief Executive Officer uses a maximum of twelve

hour travel rule to minimise the risks associated with accessing these difficult to reach regions. The scarcity of flights and complexities in and around logistics are prohibitive to running economically viable projects.

The size of a project and required expertise and resources determine whether a partner strategy will be adopted and the presence and participation of other global players in the tendering process determine which partner will provide the required leverage in order to compete favourably.

A supporting acquisition strategy has also allowed them access to markets where they may not have previously been able to operate, either cost effectively or from a logistics perspective owing to their twelve hour rule. An example of this is again Cementation, which was a Scandinavian company with an operation based in Canada. This acquisition gave them a vehicle from which they could gain access to Chile.

Where projects no longer meet the requirements for economic viability, these are aborted or sold off, which again points to a project based “go-no-go” methodology. There is therefore no blanket “no business policy,” but rather, projects are weighted according to their individual merits.

5.3.2.2 Aveng Group

The Aveng Group's strategies endeavour to cover three important areas which relate directly to both current performance as well as future sustainability. The

first, is that of being able to keep the machine running and to grow revenues, which results in happy shareholders. The second is that of following their clients, this applies especially to their mining operations, as their clients move into Africa looking for further opportunities, so Aveng follow. The third, which looks more to the future competitiveness of the group, is that of establishing strategic defence mechanisms. The respondent explains, “one can say that we don’t want to work in these countries, but in a year or two, the likes of those companies operating across our borders will begin to encroach on the South African market and we will be unable to compete.”

Further to this point, the respondent goes on to recommend, “South African companies can focus on their home turf, but they also need to build defence mechanisms by going out and partnering with these foreign companies.”

A strategy that is both effective and also an efficient utilization of resources is one which Aveng are using quite successfully, and that is instead of centralising everything at an Aveng Group level, once they have identified what their value add in that specific market is, the key accountability for growth within that market is assigned to that division which can deliver that value. They are then responsible and must take the lead in identifying further opportunities for the rest of the groups companies in that market.

In market sectors that are already congested they look at alternative areas to leverage off of. An example given to better explain this was a country where the

real estate sector offered huge opportunity, but it was also over crowded by numerous local contractors. The Aveng group was able to leverage off of their capabilities in the rail sector in this market in order to acquire the business.

An organisational alignment strategy is preferred by Aveng to that of issuing compliance directives as these are seen to inhibit creativity and entrepreneurship which are just as important for winning business.

5.3.3 Fast Moving Consumer Goods Sector

5.3.3.1 Pick n Pay

Pick n Pay's strategy is quite simple, they position themselves as close to their clients as possible and then source as much of their product as they can from the local markets, especially with regards to fresh produce. These ratios are at times as high as 40% local and 60% from South Africa. They are community dependant and therefore promote a very community orientated culture which is supported by an excellent customer service reputation.

Their strategies have evolved over time and that which best supports their community based value system is the franchise model. Franchising helps them to get closer to their market and to understand it better and franchisees are usually already established business people in these countries.

5.3.3.2 Tiger Brands

With reference to expansion strategies, Tiger Brands respondent said that, “there are different ways of looking at expansion and it becomes tricky in terms of how large you want to go, as all countries are not the same.” He went on to expand on this when discussing the key differences between services and product, “selling services is easier as product needs to be exported, has different market demands, requires transportation, storage and in most cases is subject to expiration dates, this usually translates to a more complex, intensive and costly logistics process.” For these reasons they need to not only be flexible with regards to their expansion strategies, but need to apply these on a country by country basis, and be prepared to change these when the markets require them to do so.

Being flexible in their product offering strategies has allowed them to influence the context of certain markets. In Kenya for example the introduction of their Purity brand created a market segment which had not really existed until then. New market segments however introduce new entrants and their strategy needs to adapt from being the monopoly supplier for this segment to being able to compete with these new entrants. In line with this the respondent added, “The markets are definitely competitive and the competitors are vigilant with respects new activity.”

Also with Tiger Brands being more expensive from an export perspective, they have had to be innovative on both the packaging as well as the pricing side of things, but it is this willingness to be flexible that also underlines their success.

5.4 Findings Relating to Research Question 3

How do successful South African organisations design and operate their distribution channels in emerging markets?

5.4.1 Financial Services Sector

5.4.1.1 Alexander Forbes

Owing to the expense associated with a “Greenfields” type approach to establishing a presence in another country together with the importance of having local contacts and relationships, Alexander Forbes prefers to identify companies who themselves are significant players in their local market, but who have potentially reached their plateau locally and lack international exposure, and then acquiring a shareholding in these companies. This not only provides Alexander Forbes with the in-country platform they need, but also as the respondent highlighted “the partners are now able to compete on the larger national and multi-national accounts in their own countries”.

Further to the point of acquiring a stake in an existing company the respondent went on to say “it’s a win-win, they have Alexander Forbes as a shareholder

with all the resources and muscle that come with us and if we choose correctly, we have a locally based company with a good reputation, providing good service and this combination will see the business grow exponentially over a short period of time. This is to a large extent what has happened in many of the countries we have invested in.”

Even though Alexander Forbes has the ability to influence market contexts, it is still mindful of the importance of allowing local markets to determine the pace at which these may happen, the respondent put it in these words, “we keep it fairly loose as well, we try not to be prescriptive on the basis that very few risks are the same.”

A similar approach is taken with regards to markets where it is not viable to have more than a representative presence owing to the limited amount of business coming from these countries. In these instances, Alexander Forbes will have a correspondence agreement which covers such principles as income sharing, responsibility for errors and omissions and the like. With regards to these distribution channel types, Alexander Forbes “adopts a more informal approach,” according to the respondent. Africa’s francophone countries are accommodated in this way with the exception of Mozambique which is seen as having strategic importance being a neighbouring country.

5.4.1.2 Rand Merchant Bank

Being part of group who already have an established footprint in Africa has made most of the distribution channel decisions fairly academic for Rand Merchant Bank. In those countries where there is an established First National Bank operation it has almost been as simple as taking a Rand Merchant Bank trained resource and placing them at the First National Bank offices to market and sell investment products. The respondent describes this process, “we have seconded people into Namibia, Botswana, Mozambique and Tanzania, this becoming our model in terms of South Africa in Africa.” Albeit that the process has been rather simple, Rand Merchant Bank appreciate the necessity to bring First National Bank closer to themselves and to increase the communication between the two entities.

Rand Merchant Bank has also deployed treasury operations in those areas with the intent of passing on the relevant knowledge through training and up skilling to a point where they can run these effectively from South Africa as according to the respondent, “there is no point in them replicating what we have already done here.” With regards to structure therefore, they apply South African mechanisms and frameworks through their existing First National Bank operations and up skill and train local staff by seconding home based resources to those countries where they are establishing their services.

In those markets where the group has not established a First National Bank operation and where Rand Merchant bank does not therefore have a readymade platform, as is the case in Nigeria, the approach needs to be a little different. The distribution model in Nigeria's case is the second of two choices, the first is where the First National Bank operations provides them with the transactional banking platform necessary for their treasury model, and therefore the ability to buy and sell foreign exchange. The second is purely an investment or briefcase banking model where through representatives the bank can do deals immediately, this is of course only in those markets where this is permissible by the regulator and does not contravene any of the regulations governing their banking license.

5.4.1.3 Standard Bank

Standard Bank prefers to establish a solid and well representative "on-the-ground" presence in those markets in which they have elected to operate. From a retail banking perspective this means establishing a highly visible and accessible branch network. Even from an investment banking point of view they avoid the suitcase or briefcase banking methods often employed by even such international players as Goldman Sachs.

Distribution of its products and services are conducted through this branch network, especially in the case of retail banking and in particular with respects to the personal banking side of this business. The business believes that they

need to run a universal bank in these emerging markets and manage the interplay between the two sides of the business in order to achieve a symbiotic or cooperative advantage. They have managed to accomplish this quite successfully from both ends. An example of this is where they introduce their group schemes into a company, providing such facilities as mortgage and retirement funding and when these are large enough they introduce a mobile teller three afternoons a week by arrangement with the employer in an effort to encourage the employees to bank with Standard Bank. As this in turn grows them then go back and offer their payroll management solutions. The one side of the business almost becomes a distribution network for the other and vice versa.

Standard Bank, especially in markets such as Zimbabwe would favour a joint venture agreement with a reputable and well established bank that is already in the country, even if this meant a minority stake, rather than face the problems associated with vigilante entrepreneurs who do not know banking and who could impact their reputation and credibility.

5.4.1.4 Nedbank

Nedbank has two different distribution channels with regards to its African operations. Nedbank Africa has operations in five countries, Malawi, Zimbabwe, Namibia, Swaziland and Lesotho which are with the exception of Zimbabwe accommodated under the Nedbank brand. They also have the strategic

Ecobank Nedbank alliance which extends their reach into a further twenty-nine countries within sub-Saharan Africa.

The strategic agreement with Ecobank not only provides Nedbank with a more than satisfactory African geographic footprint, but there are also definite synergies between the two partners. Nedbank's respondent highlights, "we are both strong in the corporate and merchant banking space. Ecobank was originally a merchant bank. We are looking predominantly for solutions for our wholesale banking clients, so we were looking for someone who was also strong in that space."

Although Ecobank has retail operations, retail banking is seen as being country specific with the leverage in this area being knowledge, experience and expertise rather than potential end user clients. With regards to the look and feel of the various branches in Africa they are comparable with Nedbank's regional branches in South Africa.

5.4.2 Construction and Civil Engineering Sector

5.4.2.1 Murray and Roberts

Murray and Roberts determine their markets based on the project opportunities that exist at the time. Owing to this, cost efficiencies become a key driver, not only when initially considering the projects viability, but also during the implementation and delivery phases. In some cases Murray and Roberts have

sold off their interests when continuing would not be considered to be economically viable. Of the two instances that could be recalled, one involved the selling off of interests to the incumbent partner and the other to the client.

Where they have ventured into new countries they have done so mostly with partners or as the respondent put it, “we rarely have gone into new environments without partners.”

Partner selection is not governed by some strict selection criteria, but rather on a clear understanding of what the partner can contribute to the opportunity. Leveraging off of a partner’s competencies in an effort to take advantage of an opportunity that on its own, Murray and Roberts would not be capable of is essentially what it is all about, even if this means partnering with a competitor. The respondent goes on to say in this regard, “there is no easy formula, each instance is processed at the get go and is decided on its merits.”

In the case of Murray and Roberts acquisitions are themselves opportunistic, but these companies are aligned to Murray and Roberts in terms of the principals and values that they hold dear. Much effort is taken to ensure that the necessary changes are only visible internally, even with regards to the implementation of the Murray and Roberts management system which ensures that only projects which fit the Murray and Roberts profile and which are safe to undertake are considered. Externally, those idiosyncrasies which maintain the local identification or flavour are retained. Case in point is Cluff, on the inside

they conform to the Murray and Roberts' ideology, but on the outside they are still recognised as Cluff.

5.4.2.2 Aveng Group

Distribution channel strategy is an area which varies through the Aveng group, depending on which entity is being discussed at the time. The commonality with regards to the choices being made is that these are project based decisions. Partnerships are mainly entered into out of necessity rather than design, this could be where the local market policies prescribe a certain percentage input or participation by local companies or where the material required for the project is more logistically cost effective when sourced through a local partner. Construction equipment is very often outsourced, especially where these requirements are small and therefore not worth the hassle or cost of transporting them to the location or purchasing them in-country.

Even where the use of local partners is not prescriptive, the respondent indicates that, "even if they don't, it is better to include local content in the project rather than go it alone because these initiatives will assist you with your future expansion efforts into their local markets."

The respondent alludes to the realisation that partnering with an in-country or local partner may not be critical to securing the project initially, but when it comes to the implementation and delivery a local partner could mean the difference between a profitable venture and a costly exercise.

With regards to the structure of these entities, Aveng have no fixed frameworks other than to ensure that of the three to five key operational management positions provided by Aveng the financial controller needs to one.

Where Aveng has made acquisitions they have allowed these companies to retain their local identity. Of their Australian acquisition the respondent had the following to say, “Here was a company with a long history of Australian management, we made a few changes, but the business continues to be perceived as though it were an Australian concern.”

From a mining perspective the strategy is again different, in construction for example there are a lot of local players, whereas in mining the company has to leverage international companies who know the country and on whom you can also leverage the risk associated with this sector of the industry. Here, low risk models and successful partnerships are best.

5.4.3 Fast Moving Consumer Goods Sector

5.4.3.1 Pick n Pay

For Pick n Pay the franchise model is the preferred choice of distribution channel into Africa’s emerging markets. Pick n Pay’s respondent says on this point, “we find that if there is ownership it is better, you can do your best to incentivise store managers, but with franchising there seems to be a better focus on making it work, it is more personal, there is a social responsibility on

the part of the owner and we want to replicate this.” They have also found that the levels of service in their franchise stores is sometimes better than it is in their corporate stores and it also supports their “taking the market to the people” strategy.

To support these franchises their strategy is to establish regional distribution hubs in order to reduce the time and distances required to replenish these stores. They are further supported by having Pick n Pay specific training as well as having experience Pick n Pay resources working with them in the beginning. This ensures not only a skills transfer, but also a transfer of Pick n Pay’s culture and values which is so important to their brand.

When looking for a suitable franchisee, their criteria not only include the usual business acumen, retail experience and financial security, but also entrepreneurial spirit and the energy and desire to want to do the business and make money.

5.4.3.2 Tiger Brands

Local partners are selected based on their influence, standing, credibility and integrity in the local market. They need to have mutual interests and have obvious profit potential. The approach is however one of assistance and working towards the implementation of processes that have mutually beneficial outcomes and objectives.

In order to reduce the necessity of having to move people around Tiger Brands' due diligence processes focus on the operational efficiencies, human resources and information technology platforms within their prospective partner operations, ensuring that they are in good shape before any business commences. Another reason for looking into these aspects of prospective partners is that Tiger Brands endeavour to maintain consistency with regards to these functions across all their operations. This is important especially with regards to accounting processes and practises.

From a distribution channel perspective, Tiger Brands would seem to favour a partnership model over the alternative "green fielding" approach, as these provide an immediate platform from which to market their products.

5.5 Findings Relating to Research Question 4

What diversification strategy do successful South African organisations implement in African emerging markets?

5.5.1 Financial Services Sector

5.5.1.1 Alexander Forbes

Alexander Forbes is diversified across a number of Africa emerging market countries. This according to the respondent is critical, "the risk factor becomes greater if you are hugely reliant on one country." He went on further to justify

their position on this, “it is important to have a good spread of investments so that we can almost hedge our bets so to speak if a problem arises as in the case of Zimbabwe, where we have not been able to repatriate dividends for many years, at least we have ten other countries where we are realizing good dividends.”

Alexander Forbes is cognoscente of Africa's legacy perception that South Africans are arrogant and South African companies want to dictate how business is done. Although they consider the ideal world scenario to be that where people from the home country run the local business so as to ensure continuity of company values and culture, they are also well aware of the costs of relocation and of ex-pats in general as well as the importance having local business acumen and in-country relationships.

The ideal structure, according to the respondent is “that you have a local Chief Executive Officer and a South African Chief Operating Officer, so that you always have a number two guy who from an operational perspective can ensure that there is as much standardization as possible, and in the bigger countries where we have large investments, this has worked well for Alexander Forbes.”

Instead of sending ex-pats to other countries, they are encouraging the various operators to send staff to South Africa for training and cross skilling. Although this has not been something that they have been hugely successful with to date, it is considered to be a work in progress.

5.5.1.2 Rand Merchant Bank

For Rand Merchant Bank, expansion into Africa is itself viewed as a diversification strategy, but more with a view to diversifying its earning space from being purely South African based to being more Africa based. Diversification in those countries where they have a presence has followed a vertical strategy in that they have resourced internally, either by seconding South African resources into the existing First National Bank structures or by training and up skilling internal staff in order to develop the required competencies.

In those countries where they do not have the convenience of a First National Bank's transactional banking platform onto which they can build a treasury model, they prefer to limit their product and services portfolio to investment banking activities only, rather than apply a horizontal strategy to acquire the required currency trading capabilities.

Consolidation of their administration activities back into their South African operations is less of a local labour and required skills issue as it is an unnecessary duplication of what can already quite effectively and efficiently be done from their South African operations.

Capital markets on the other hand are largely responsible for the profitability of these emerging market ventures. Not only are these African markets more accessible to Rand Merchant Bank, but capital can be deployed into these

markets at a very opportunistic rate owing to their even worse capital ratings. This together with a measure of political persuasion as leverage ensures lucrative business opportunities for Rand Merchant Bank in these markets.

Further diversification from a Rand Merchant Bank point of reference would be to go down the credit scale and this is not even considered to be an option. This essentially disqualifies by and large diversification into the consumer end of the market with Rand Merchant Bank choosing to focus on the corporate arena where they have proven to be successful. Another sector where they are happy to expand is the public sector where according to the respondent, “these are in the strategic interests of the country and the government will inevitably stand behind them.” The view of public sector loans into emerging markets is that they are less risky owing to the fact that the repercussions of defaulting on a loan of this kind have more far reaching international consequences than those made to other entities. The example cited by the respondent in this case was Zimbabwe.

Structuring debt and selling this to international investors who have an appetite for Africa’s emerging markets is also something that Rand Merchant Bank believe they can do well and have already successfully sold a good yield property fund in Ghana to international investors. Ghana’s relative stability together with Rand Merchant Bank’s reputation was perceived to equal the risk to the client.

5.5.1.3 Standard Bank

Within the banking sector a lot of what is done is generic, this is just as true in Standard banks case, where diversification merely translates to offering those products and services which are most appropriate for the particular market from their current product and services arsenals. Where they do require specialisation they import the necessary skills in order to service that particular requirement. They are also answerable to both a home as well as host country regulator and these can at times impede any innovative or competitive strategies that they may come up with from time to time.

The labour markets have not been such that they have dissuaded Standard bank from entering a market. They believe that they can effectively manage in any of Africa's markets. The importance of critical skills is always a challenge and so are the processes associated with getting expats permissions and work permits, but they have managed to work around these top date. This is sometimes less of a problem when you are a new entrant as new entrants are given dispensation in order to encourage investment. Where the organisation has been established for some time the pressure is on to employ locals, but if you have planned for this and up skilled the relevant people it is less of a problem. Standard Bank employs 13,000 people outside South Africa's borders of which only 110 are expats.

Capital markets are one of the core strategic thrusts for the banking sector. Growth in this area would be accompanied by the explosion of a middle class consumer with serious disposable income. This is perceived to be a future growth stimulant for Standard Bank's retail banking business.

5.5.1.4 Nedbank

Any diversification with regards to products and services is only within those already being offered by Nedbank or their partners. The extent to which any of these products and services is diversified across these partnerships is usually dictated by the in-country demand or by those of their South African based clients who have ventured into those particular countries and who now require these specific products or services.

Knowledge and skills transfer is usually on a deal by deal basis with information being disseminated as and when required. No serious diversification strategies are evident and most products and services are governed either by the regulators, the accounting codes and the code of ethics.

5.5.2 Construction and Engineering Sector

5.5.2.1 Murray and Roberts

Murray and Roberts have horizontally diversified through acquisition; this has been done either with the purpose of gaining a commanding presence in a

particular field of endeavour as in the case of the purchase of Cementation, which has allowed them to dominate in the fields of mining and engineering, or to provide them with an entry into new industries as with the takeover of R.U.C Mining and Cluff, which gave them access the oil and gas market.

Partnering with locally based partners also provides Murray and Roberts with easy access to that country's labour market. They provide the high levels of expertise and either their partner or client is responsible for the unskilled and semi-skilled labourers. Only in their local South African market do they involve themselves in this side of the labour market.

5.5.2.2 Aveng Group

Across the group of companies Aveng is already quite diversified and this is used to their advantage. Whilst one of the companies may be busy tendering or delivering on a project they are also looking to leverage opportunities for the other companies in the group. Diversifying of knowledge with the group is also a key strategy, Aveng are leveraging their competency in desalination gained from their Australian operation into the African markets and at the same time transferring their African rail skills back into their Australian entity.

Labour and the relevant skills levels is also the product of project requirements. In most cases the skilled engineering resources is provided by Aveng from their South Africa resource pool with the unskilled and semi skilled labour being sourced locally. The respondent does however indicate that this is becoming a

fine balance and that even outsourced skilled resources are becoming available in-country, which is an attractive option especially where the South African resources are expensive.

5.5.3 Fast Moving Consumer Goods Sector

5.5.3.1 Pick n Pay

For Pick n Pay diversification means extending their coverage through different store configurations, using hyper store configurations in the density cities, supermarkets in the more suburban areas and smaller stores in the rural and township locations. They have also further diversified their market by introducing express stores on filling station forecourts.

Where the market requirements differ they adapt their models to suite, for example in South Africa the liquor outlets must be separate whereas in the rest of Africa liquor is sold in store. Diversification with regards to product offering has merely been with regards to the languages on the packaging and this has been accommodated by their suppliers.

5.5.3.2 Tiger Brands

Diversification has come more in the form of packaging configurations rather than an aggressive change with respects to product offerings. The company has found the market in South Africa to be very formal when compared with the

rest of Africa's very large informal sectors, but have managed these differences successfully by leveraging off of Africa's established and well positioned "Cash and Carry" type operations.

These "Cash and Carry" operations not only provide the levels of product diversification required by their individual end user markets, where Tiger Brands can easily slot in their product offerings, but also offer an extensive footprint throughout Africa's informal sectors. An added benefit of using these established channels as described by the respondent is that they "take some of the pain for us on the debtor's side and assist with regards to money collection."

The labour markets have not compromised their expansion activities and although they have at times needed to bring in skills, these have not necessarily always been from South Africa, they prefer to use resources that have both the relevant industry experience as well as experience in doing business in the African markets. The example cited is that of the managing director in Cameroon who is originally from Senegal, and who acquired his experience whilst working for Nestle.

Table 1 – Summary of Findings for Question One – Criteria for Selecting Suitable African Emerging Markets

Company	Macro Indices Eg.GDP	Population Composition, Size/Growth	Exchange Rates Past, Present & Projected	Competitiveness Index	Governance & Regulatory Environment	Corruption Ratings	Investment Weighting	Political Stability	Institutional Contexts
Alexander Forbes	√	X	√	X	√	√	√	√	√
Rand Merchant Bank	√	√	√	√	√	√	√	√	√
Nedbank	√	X	√	√	√	√	√	√	√
Standard Bank	√	√	√	√	√	√	√	√	√
Murray and Roberts	√	X	X	√	√	√	X	√	X
The Aveng Group	√	X	X	√	√	√	X	√	X
Pick n Pay	√	√	X	X	√	X	X	√	√
Tiger Brands	√	√	X	X	√	√	X	√	√

Table 2 – Summary of Findings for Question Two – Optimal Strategies

Company	Adapt Business Model	Change Context	Stay Away
Alexander Forbes	√	√	√
Rand Merchant Bank	√	X	√
Nedbank	√	√	√
Standard Bank	√	√	√
Murray and Roberts	√	√	√
The Aveng Group	√	√	√
Pick n Pay	√	√	√
Tiger Brands	√	X	√

Table 3 – Summary of Findings for Question Three – Distribution Channel Strategies

Company	Western Efficiency Economies of Scale Model	Natural Channel Selection Model
Alexander Forbes	√	√
Rand Merchant Bank	√	√
Nedbank	√	√
Standard Bank	√	√
Murray and Roberts	√	√
The Aveng Group	√	√
Pick n Pay	√	√
Tiger Brands	√	√

Table 4 – Summary of Findings for Question Four – Diversification Strategies

Company	Vertical Integration Internalization Strategy	Horizontal Integration Externalization Strategy
Alexander Forbes	√	X
Rand Merchant Bank	√	X
Nedbank	√	X
Standard Bank	√	X
Murray and Roberts	√	√
The Aveng Group	√	√
Pick n Pay	√	√
Tiger Brands	√	√

6 CHAPTER 6 – Discussion of Findings

6.1 Introduction

This chapter endeavours to link the findings presented in chapter five with the questions posed in chapter three in order to determine whether or not the inferences made in the international literature reviewed in chapter two have any relevance to South African companies considering expansion into Africa's emerging markets.

The extent to which the international literature is relevant will be determined by how closely the sample South African companies adhered to the principles and guidelines as put forward by the literature in their own individual endeavours into Africa's emerging markets. Should there be a recognisable pattern between what the literature proposes and what these successful companies have done in practise, we will be able to conclude that the international literature is applicable and credible for South African companies to consider when determining their strategies for Africa's emerging markets.

This chapter will discuss each of the research questions in turn, their relevance to the literature and how closely the findings in chapter five adhere to the literature. A conclusion will be drawn for each of the questions in turn, with a final summation at the end of the chapter.

6.1.1 Research Question 1

What criteria do successful South African organisations consider when selecting suitable African emerging markets?

6.1.1.1 Discussion of Research Question 1

Research question one endeavoured to establish whether the South African companies interviewed were evaluating their prospective emerging African markets in line with those country composite indices identified in the international literature (Khanna et al., 2005) and whether or not they extended their analysis beyond the countries performance figures to include amongst other things, their global competitive ratings, World Bank governance indicators, corruption rating and the stability of their political environments (Khanna et al., 2005).

It was the further intention to extrapolate from the findings, just how much weighting was placed on the results derived from the research and whether these statistics were used as a definitive go-no-go indicator, a measure of the levels of risk that would be encountered or a determinant for the most appropriate strategy option for that particular market (Khanna et al., 2005).

Attention was also given to just how much effort was directed towards gaining an understanding of the workings of the markets in question and what the key influences on these markets were in each case (Li, Ramaswamy, & Pécherot

Petitt, 2006a), together with what due consideration was given to the openness or degree to which the proposed host country welcomed foreign investment (Kumar & Bergstrom, 2008).

Whether these factors were used by the companies in question to derive an optimal strategy for these markets was of specific interest as this provides the link to question two.

6.1.1.2 Conclusion of Findings Relating to Research Question 1

The findings for research question one is consistent with the literature review.

All of the companies interviewed indicated that an analysis of the macroeconomic indices were key to the formulation of their African emerging market expansion strategies.

In addition to this, all of the companies interviewed extended their analysis beyond the standard macroeconomic indicators in an endeavour to formulate a clearer understanding of the markets that they were venturing into (Li, Ramaswamy, & Pécherot Petitt, 2006a).

What is evident from the findings is that the appetite for risk is directly proportional to the perceived business opportunity. All of the companies interviewed had followed the academic methodology with regards to obtaining all the relevant macroeconomic and country performance statistics, but in most

cases the business opportunity took precedence over risk mitigation, the greater the business opportunity the greater the appetite for risk. This was not something that was identified in the literature reviewed.

Further, on the view of risk in Africa's emerging markets, it was largely inferred that risk within any emerging market is inevitable, but that by and large these could be managed and accommodated and over time they would abate whereas the risk associated with trying to grow market share and profits in the largely saturated South African market were bigger with little chance of the situation getting any better. This was a key motivating factor in the search for suitable expansion markets and why risk is subjective.

In most of the cases it was quite evident that regardless of how much research had preceded the venture, the organisation really only started to learn the nuances associated with their new environments after they had arrived. This was not found to be necessarily always as a result of the failing or inaccuracy of the research process or data obtained, but rather as a consequence of the erratic and ever restless environment that is Africa.

This was not always viewed as a complete negative, through experience Pick n Pay has learned to leverage off of this phenomenon. They now approach unpredictable markets using the collective of both experience and corporate muscle and establish a corporate store in the environment initially. Through this they are able to experience the idiosyncrasies of these markets and gain an

understanding of the institutional differences before opening it up to their franchisees and therefore ensuring the selection of the most appropriate strategy and a better rate of success.

The literature reviewed made the point that understanding how the markets work, or don't work was the key to selecting a target market or country (Li, Ramaswamy, & Pécherot Petitt, 2006a), what it didn't recognise or give any cognisance to was that the most effective way of gaining the required knowledge is by being there and more important actually testing your intended business model in the prospective market.

If it is not possible to experiment with your business model in-country and the business opportunity is overwhelmingly attractive, equipping yourself with at least those macroeconomic indices together with the country specific performance indexes and indicators highlighted and discussed in the literature will ensure that you at the very least are in the same position that the companies interviewed were in when they first ventured across the border and you can therefore take inspiration from their examples and their successes. (Li, Ramaswamy, & Pécherot Petitt, 2006a)

6.1.2 Research Question 2

What strategy choices do successful South African organisations favour when considering expanding into a particular emerging market?

6.1.2.1 Discussion of Research Question 2

Research question two speaks to the strategy choices made by successful South African companies and what their motivations were behind these strategy choices.

Particular attention was given to whether the companies under consideration adapted or tailored their strategies in order to achieve their goals (Khanna et al., 2005) and whether these changes involved adapting their business models whilst keeping their core value propositions constant, endeavouring to change the context or staying away from uneconomical or impractical markets (Griffith et al., 2005; Khanna et al., 2005; Wren, 2007).

Of particular interest was just how far these companies were prepared, if at all, to shift away from that which ensured their success in their home territory.

6.1.2.2 Conclusion or Findings Relating to Research Question 2

The findings for research question two is consistent with the literature review.

All of the companies interviewed have adapted or modified their business models and strategies in one way or another, most of the companies interviewed have changed the context in at least one of the markets they have entered and all of them have chosen to stay away from at least one of the emerging markets they had initially intended entering (Griffith et al., 2005; Khanna et al., 2005; Wren, 2007).

A key finding with regards to adapting strategies successfully and modifying business models, especially when this is done across a multiple of different and inconsistent markets, each requiring different adaptations to ones strategy and variations to ones business model, is to be sure to retain ones core value propositions and not too deviate too far from what has ensured success in one's home territory (Khanna et al., 2005).

Also notable from the findings and especially for those companies canvassed which have diversified product or service offerings were that their strategy choices did not only vary from market to market, but also across their individual product and service offerings. Some service offerings require, and even necessitate dedicated in-country skilled resources whilst others are quite effectively managed remotely by experienced resources in the home country, and other services still are not even offered in certain territories. This was particularly evident in the construction and civil engineering as well as financial services sectors.

With regards to products, whether these are individual items or entire product ranges, careful attention to suitability and relevance can mean the difference between acceptance and failure in some markets and yet introducing something completely different or foreign in others can alter the context to such an extent that you create a new segment in the market or at the very least change consumer buying patterns. Tiger Brands managed to achieve this with the introduction of the Purity brand into Kenya. The resulting changes did not only affect their business, but that of their competitors as well.

It is also good to reflect on those facets which although alluded to are not always immediately apparent or definitively measurable. These pertain to the resulting impact that one's emerging market strategies have that go beyond the contexts of one's business, even to extent where these assist the host country or even just the immediate communities to fully develop their potential (Khanna et al., 2005). Skills transfer initiatives and those services which introduce efficiencies into these emerging markets and further stimulate the local economies have far reaching effects.

These trends were consistent across all the companies interviewed and sectors represented.

6.1.3 Research Question 3

How do successful South African organisations design and operate their distribution channels in emerging markets?

6.1.3.1 Discussion of Research Question 3

Although the decision of which distribution channel mechanism to employ is largely a strategy decision, it has purposefully been separated from question two as there are a number of nuances that would get lost if it was to be combined in the overall strategy discussion.

When considering the findings in and around question three, one of two distinct distribution models were being looked out for as well as any variations or combinations of the two. The first of the two models is based on cost efficiency and standardization, which are two forces that dominate and drive international distribution strategy (Verwaal & Donkers, 2002). The Western efficiency or economies of scale model proposes that organisations choose between markets and hierarchies according to the criterion of minimizing costs (Griffith & Ryans, 1995). Companies who have determined their distribution channels purely based on cost would fall into this category.

The second model, the natural channel selection concept proposes that natural distribution channels evolve through the utilization of resources contained within the environment of trade (Griffith et al., 2003). Companies who have selected

their distribution channels by using the most appropriate and effective resources from within the immediate operating environment or market would fall into this second category.

6.1.3.2 Conclusion of Findings Relating to Research Question 3

The findings for research question three is not consistent with the literature review.

Whereas the literature reveals two distinct models or paradigms (Griffith & Ryans, 1995; Griffith et al., 2005; Kumar & Bergstrom, 2008). The findings reveal a consistent preference, across all eight companies interviewed, for a combination of these two models. Whether this is a derivative from or product of these two models is not quite evident, but what is clear is that it is a prerequisite for sustainability in Africa's emerging markets.

The transaction cost paradigm contributes to the combination in the form of cost efficiencies and profitability, whilst the natural selection paradigm ensures local market acceptance and immediate access to local intellectual property and important consumer information.

By far the preferred and most common distribution strategies across all the companies canvassed have involved partnerships and joint ventures with, or acquisitions of, existing in-country operations. Even where market entry was achieved through an acquisition the acquired entities, in most cases, were not

transformed to the point where they were no longer recognisable within their operating environments. According to the findings this variation from the literature with regards distribution channel strategies have not only resulted in a shorter time to market, an instant and extended footprint across a number of markets and an opportunity to share the associated risk (Griffith et al., 2005), but also have proven to be the more cost effective and sustainable option when compared to the alternative single dimension or green fields approach.

Owing to the results recorded in the findings it can be concluded that the more macro-environmentally driven the distribution strategy is and the more one allows these macro-environmental variables to influence one's model, the more beneficial (Griffith et al., 2005), even though, and possibly because, it lends more power and control to the distribution channel and less in favour of the organisation (Wren, 2007).

6.1.4 Research Question 4

What diversification strategy do successful South African organisations implement in African emerging markets?

6.1.4.1 Discussion of Research Question 4

Diversification is a strategy that is employed by businesses who are attempting to mitigate some inherent shortcoming in the market. Question four investigates whether the companies in question have employed either a vertical integration strategy, which is internally oriented (Wren, 2007) namely, taking control of as many processes as possible or a horizontal integration strategy, which involves branching out into multiple product groups or industries (Li, Ramaswamy, & Pécherot Petitt, 2006a).

The actions and activities of each of the companies interviewed has been analysed in order to determine which of the two strategies can be recognised and if not what they have done if anything with regards to diversification.

6.1.4.2 Conclusion of Findings Relating to Research Question 4

The findings for research question four is consistent with the literature review.

In order to contend with the needs and demands of their local home country markets, the South African companies covered by this study were already quite

diversified in respects to their individual product and services offerings. Although this did not translate into multiple replications of their organisations into all of the markets they chose to expand into, it did give them a broader appeal and provided a wider range of opportunities across these markets.

Although the literature points to failure of, or poor labour and capital markets as being the drivers for vertical and horizontal integration strategies respectively (Li, Ramaswamy, & Pécherot Petitt, 2006b), this did not come through strongly in any of the interviews conducted. Diversification was identified to be more in the lines of how these companies took their products and services to market. In respects of the fast moving consumer sector, Pick n Pay for example, has diversified store configurations, each accommodating and appealing to a different market segment and Tiger Brands has comprehensive and diversified product ranges to take to market. In the financial services sector, organisations employ a diversified combination of on the ground, branch based services, remote services and even suitcase based offerings, each with varying degrees of complexity. The construction and civil engineering sector incorporate a host of diversified and specialised skills and competences in order to extend their services across a wider range of opportunities.

Again, as was identified with regards to distribution channel strategy, variations of combinations of both vertical and horizontal integration initiatives were seen across all of the companies and sectors studied. Pick n Pay and Tiger Brands by nature of their businesses utilise single distribution channels for a variety of

products, but this was also evident in Rand Merchant Bank who are using their group's in-country First National Bank branches to offer their products and services. The Aveng Group uses the various companies within their group to leverage the services of the other companies, especially where these are already entrenched or have an established presence or favourable reputation and track record.

Vertical integration being a more internalization strategy is found within these same organisations, but focused more towards their human resources, specialised skills and intellectual property and asset risk areas (Li, Ramaswamy, & Pécherot Petitt, 2006b; Wren, 2007). This was evident in a number of the companies and especially where it involved acquisitions, takeovers or joint ventures. The first areas that would be addressed and where organisational people were deployed would be those responsible for the operational efficiencies of the venture. Alexander Forbes' respondent, when discussing an ideal in-country structure, even went so far as to support an in-country COE, so long as the COO was someone from inside the organisation. Murray and Roberts are prepared to leave the external aspects of their acquired entities in tack, but migrate their internal management systems and processes over to their strategic platforms and ideologies. Even Pick n Pay deploys experienced resources into new franchise ventures to school them in the values and culture and processes that will be utilised going forward.

6.2 Conclusion – Discussion of Findings

The eight successful South African companies studied have successfully expanded their operations into a number of Africa's emerging markets. They have succeeded through actions, activities and initiatives which complement these new environments to the mutual benefit of both parties.

The conclusion to the findings for all four areas have all been well in line with the literature reviewed pertaining to international strategies for emerging markets albeit with a few variations with regards to actual application.

This would then hold that the findings, being in line with the literature reviewed, supports the relevance of internationally based literature to strategy development for South African companies and organisation looking to expand into Africa's emerging markets.

7 CHAPTER 7 - Conclusion

7.1 Conclusion Relating to Consolidated Findings

This study set out to explore the feasibility of using internationally based literature theory to formulate emerging market strategies for South African companies looking to expand into Africa's emerging markets. The findings based on the eight successful South African companies studied over the period of this project point to the conclusion that the international theory contained in the literature is indeed relevant to both South African companies as well as Africa's emerging markets and that it can be used effectively to formulate efficient and sustainable expansion strategies for these markets.

Although there is no “flop proof” recipe that can be offered with respects to developing a successful and sustainable strategy for expansion into Africa's emerging markets the theoretical elements contained and discussed in selected international literature reviewed in chapter two (Aithal & Vaswani, 2005; Anderson & Coughlan, 1987; Anderson et al., 1997; Coughlan et al., 2001; Coughlan et al., 2001; E & M, 1993; Griffith & Ryans, 1995; Griffith et al., 2003; Griffith et al., 2005; Jaworski et al., 1988; Khanna et al., 2005; Klein et al., 1990; Klein, 1991; Sharma & Dominguez, 1992; Wren, 2007), can be used with confidence.

It would be good to remember that merely applying these strategies will not be a substitute for the need to have a marketable product or service in the first place

and that the companies included in the study had already established themselves firmly in the local South African market before venturing across into Africa's uncertain emerging markets.

The Standard Bank respondent summed it up well when he said, “Understand your market with all its wrinkles and warts, don’t build an unrealistic business case with frosting, which will ultimately disappoint, it is tough. Look very carefully at the local versus global balance and depending on your industry be prepared to take on a local component and possibly be “seen” as a local business. Also ensure that your financial guys play a very active role, they don’t have to be South African, but they need to have the company’s best interests at heart and work ethically.”

Some of the most finite learning’s came out of the interviews and discussions with the senior respondents for each of the companies studied. The findings recorded in chapter five contain as much of the relevant data as was necessary in order to draw the required conclusions for chapter six, but the overall value of these sessions cannot be contained in the narrow context of this document. It is however recommended that anyone looking at expanding into Africa’s emerging markets, first speak to those who have successfully negotiated these waters and then together with the information and guidance contained in the literature formulate your strategies.

It is also appropriate to again draw attention to one of the findings highlighted earlier in this study and that was that the literature reviewed made the point that understanding how the markets work, or don't work was the key to selecting a target market or country (Li, Ramaswamy, & Pécherot Petitt, 2006a), what it didn't recognise or give any cognisance to was that the most effective way of gaining the required knowledge is by being there and more importantly actually testing your intended business model in the prospective market.

The opportunities on offer in Africa's emerging markets and available to South African businesses and organisation who are willing to venture outside of their comfort zones are numerous and compelling. Not considering these to be realistic and tangible opportunities to expand one's organisational contexts and at the same time grow revenues and profits would be short sighted. Moving into these markets without first looking at what it all entails is just as dangerous and so is blindly imitating what everybody else is doing without considering the specifics and the effects that this will have on your home country operations.

Ignoring these markets because of the inherent risks or waiting for these to abate will just mean that someone else will take advantage of the opportunities on offer and those who remain undecided will have to try and eek out an increased market share in the already saturated markets back in their home territories.

It would be better to take encouragement from the examples cited in this study as well as the others who have already taken the leap and are enjoying the fruits of these actions. These markets are not only attractive to South African companies, but they do have the advantage of proximity, if however this is not used as an immediate advantage, it will be lost to those who are prepared, and have the budgets to travel the distance.

7.2 Recommendations for Future Research

This study used a relatively small sample of South African companies and a limited number of industry sectors as its basis for comparison. It also only focused on four of the key aspects contained in the literature; future research could expand on either of these two areas.

This study also primarily focused on successful South Africa companies who have expanded into Africa's emerging markets. This does not take into account those who have successfully expanded into international emerging markets or those who have failed in their expansion attempts into either of these. It would be interesting to see whether these companies and if so why they failed.

The role played by government whether host or home, in the successes and failures of emerging market ventures was also not examined and neither was much emphasis placed on the impact of indigenization on company's decisions. Both of these aspects would make for an interesting research study.

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9 APPENDICES

9.1 Appendix 1 – Interview Guideline Questionnaire

No.	Questions
1	What motivated your decision to expand into Africa's emerging markets?
2	What criteria did you use for selecting a particular country or market?
3	What indices were used in your market evaluation matrix?
4	What institutional contexts were identified in each of the markets that you reviewed and how did these influence your strategy choices?
5	How did your strategies evolve, over what period and what motivated the changes?
6	Were you able to change the context of any of the markets that you have expanded into?
7	Did you decide to stay away from any specific markets and what prompted this decision?
8	What market research did you do prior to selecting your markets?
9	How do your home country organisations compare with your cross border organisations?
10	What distribution channel(s) are you using?
11	How were these channels selected?
12	What were the main considerations when determining your distribution channel strategy?
13	What would you consider to be the most important criteria for making a strategy decision?
14	Do you apply the same strategy to all the markets that you

	approach?
15	Did you consider diversifying and if so what were the reasons for this?
16	Please describe the maturity of the product markets in the countries where you have managed to establish a presence?
17	Please describe the maturity of the labour markets in the countries where you have managed to establish a presence?
18	Please describe the maturity of the capital markets in the countries where you have managed to establish a presence?
19	Please elaborate on the extent to which you have vertically integrated your organisations and what the main motivation were for doing this?
20	Please elaborate on the extent to which you have horizontally integrated your organisations and what the main motivations were for doing this?

9.2 Appendix 2 - Research Interview Transcripts

9.2.1 Murray and Roberts Interview Transcript

Murray and Roberts - Interview Transcript	
S	The markets that MR have expanded into, apart from being motivated by business growth and increased revenues, what was the reason for expansion into those particular areas?
C	I think I will have to start in a different place in terms of answering that question, and the reason for that is to help you understand the decisions that are made /taken. I am not entirely conversant with all the dynamics when we began this expansion into Africa and Internationally, much of that occurred before I came on board, what I can elaborate on is those opportunities that we have taken advantage of since I've been here and that's important because the dynamics of a company come into play regarding their decisions to expand come as a consequence of prolonged.(1.56 min) various divisions from within the group which percolate upward, which goes to the board, who then make a decision and that decision is to go into a specific Country. I don't think that is quite the way that is the way that we do things at MR; I think much of the decision making is an operational approach. Much of the decision making is done by our CEO Brian, who largely drives the process and so it becomes more personal than corporate although obviously he is head of the group and makes decisions in the name of the group; but again it's not a decision that is made percolates within a division or based on a strategic study, it emanates largely from opportunities that he himself is made aware of and puts this forward to the board wrt the decision making, but usually Brian has already made a decision.
S	Is Brian someone who is pre-emptive wrt "sniffing out" potential markets?
C	I wouldn't be able to answer that as I am not sure how it is ultimately decided, I think having said that, how we have approached doing things, by and large from an academic or theoretical approach, companies go abroad either to beat their competition or to secure resources which are critical to their operation, or to tap into a market so as to pre-empt competitors getting there first. These are what I deem the three main reasons, namely "competitors, resources and markets." Construction is a very peculiar business, if you think about most industries there are some "Alpha dogs" at the top of the industry and everyone else basically falls into place behind them and there is always a lot of "jostling" for this position, but there is almost certainly a "top dog". Construction differs from this scenario (for example if you look at the likes of Coca Cola or the oil industry, there are major players at the top and then it drops down). The construction industry is very "local" no matter how big a company is, very few are internationally known in relation to being known as the "alpha male" of the industry. There are obviously those who stand out, but if you think about construction there are very few companies that have a global presence and one for which they are fully acknowledged as leaders in the industry. There are those who specialize in certain areas, for e.g. Black and Feech" who I used to work for and they specialize in water treatment and there are others who do nuclear development (Westing house), but by and large construction is a very "localized" business
S	Would that be localized in terms of Country?
C	Yes

C	It may be because of the nature of what is required to be in the construction business, its hands on and involves the communities in many ways that other business's don't, your business may not be one in which the community is not even aware of your presence. The service you provide to your clients is obvious, but not necessarily to the community. Everyone is aware of construction occurring due to its "physical presence" e.g. N1/N2 highways, the Gautrain. People are very aware of the activity and it becomes "localized" and often they are political because in many instances the funding for these projects comes out of local government coffers and this has an impact as to why in many instances construction companies are not more global than they are, as they are competing for the "tax spend" of that particular jurisdiction and that jurisdiction is in the majority looking after its own local businesses.
C	Where are we as Murray and Roberts? We are based in Australia, Middle East, Canada, We are in Canada because we acquired a company as part of our acquisition of "Cementation" which was a Scandinavian company and as a part of that deal we acquired "North Bay" which was a project in Canada. We now use "North Bay" as a vehicle to get us into Chile. The motivation for this was not so much to break into those international areas, but rather to acquire the company "Cementation" subsidiary here in SA which was owned by "Skanska" and which gave us a commanding presence in the mining/engineering field and as a by-product of that we acquired North Bay. In Australia, this was a strategic acquisition, we went after Kluff which is a very well regarded engineering firm, specializing in largely oil and gas and we saw a synergy, this being another example where you look at resources or markets. They did oil and gas and had no presence on the African continent, we were working in the Middle East and in Africa where we could see synergies that would work, where, with the right kind of direction and guidance, and there might be opportunities to move the work that we do in Australia into a different playing field. We haven't done much from this as they have been so occupied with "Gogun" _ which is a huge oil development on the west coast of Australia, it's monstrous. We did most of these acquisitions to diversify – hence the oil and gas. We also have R.U.C mining which is also in Australia where we have taken a small position. The Middle East was simply an opportunity; they had no construction companies, lots of money and had a huge "build" program which they wanted to undertake. I am not entirely sure as to the Middle East decision to choose SA over the larger American or British firms; it could be that the decisions were both competitive and political. In any event we were extremely successful in the likes of Emirates, Dubai, Abu Dhabi and Bahrain; we have done some small projects in Qatar. We are not investing largely, rather than doing business or having a presence, we have an operation that is responsible for the builds done in the Emirates, but they are not investments.
S	So as opposed to the activity in Australia, there were no "acquisitions" in the Middle East, it was merely a presence in relation to work executed? Which did you find the easiest, i.e. buying as opposed to presence?
C	This is a difficult question, as at the time the Middle East was throwing money at the requirement, this was easy and we were able to build some iconic projects, namely the airport, the World Trade Centre in Bahrain as these are all world class. This enabled us to establish a presence both there and the rest of the world.

	Obviously this became a little less easy in 2008 when the bottom fell out of the financial markets, then it was a question of “lessening our involvement there” Whereas with “Kluff”??? this took some time to settle and is now under control and going forward it will be a major asset to us and one that has been a good acquisition “Cementation” was a reverse issue, it was acquired from abroad with the idea of consolidating locally but we did get “North Bay” out of the deal and this offered an opportunity to look at Chile etc. This had an impact on our initial thinking where Brian’s strategy was to be no more than 12 hours from any operation, any more than this would prove too risky and difficult to manage. There were big debates as to whether MR would go into Chile for reasons of distance, but we made the decision to operate Chile out of the North Bay operations, so it is within the 12 hour spectrum.
S	Re selecting your “builds “ in the middle east, did you choose these in terms of the possible exposure (i.e. the iconic projects) or rather to attain the business.
C	No, we were after the business, by nature the Middle East build mostly extravagant buildings, so it was by default. They generally don’t do anything that isn’t phenomenal
C	Wrt to Africa we don’t make acquisitions, we have had a presence for some time now in Zim and Namibia, Mozambique, Botswana. We have done quite a lot of work in the Sadec regions the further afield we go the less satisfying business has been. We have gone into Malawi, Tanzania. Ghana, Egypt, the further north we venture, the more difficult it seems to become. Part of that is the logistics of the areas being too far away to be managing effectively and being mindful of the 12 hour rule, the access proves difficult. Flights are scarce, it’s difficult to reach certain regions and it is more difficult to do business. The other problem is more established business’s have perceptions of what they expect in a market place when they do business, they expect a certain degree of order, transparency and accountability, that a rule of law exists, respect for property.etc. This becomes to a large extent the basis on which decisions are made whether to move into particular markets, they will need to feel that their investment is protected, that possibly property rights exist, our staff will be safe. When these things start to fall apart, business becomes difficult wrt a continuum, that said, it depends on the nature of your business, if you require stability, you need to do your research wrt those countries which can offer this, however some companies may do business in instable countries where their commodity is required i.e. security, arms etc
C	One has to way up the options in each instance, for example if you had the option of doing a project in Uganda versus Abu Dhabi, i.e. who will pay, where will we have less hassles, where would staff prefer to work = Abu Dhabi,. All aspects have to be taken into consideration that could affect all areas. Bribery and corruption, health risks are also key factors in the negativity of projects.
S	Do you not see it as a risk where possibly you allow other nations to “break ground” in new countries and where you perhaps may lose on the initial upswing wrt development?
C	No, it’s not necessarily the rule of thumb in each instance, besides our own projects, we also follow clients and if those clients choose to venture into such places and we have a good relationship, good financing and reasonable terms and conditions, then fair consideration is given. We haven’t generally had good experiences in working in Africa so we tread with caution
S	Are you happy to discuss some of those experiences which were not successful
	I am happy to discuss those I know of.

	Most of the Sadec region projects went reasonably well, corruption is a big problem, I won't mention countries, but for example getting paid is an issue, there were instances where originally agreements were forged, then the environments shifts and this affects the original contracts and business is difficult to continue We have sold our interests in a number of countries due largely to the fact that continuing there would not be in our best or economic interests.
S	Was that in instances where you went in alone or where you partnered with local companies?
C	Most of the work we have done has been with partners, we rarely have gone into new environs without partners. The acquisitions are an example of this in Australia
S	In the areas where the business failed, did the partner continue the project or was it discontinued in its entirety?
C	I can't remember with certainty, in one instance we sold our interests to the partner and then in another sold to the client. In other instances there was arbitration.
S	Would you do business again if the risks were mitigated?
	We don't have a blanket "no business policy" each projects is weighted according to its merits.
S	You referred to your risk management system, which includes market and economic research, political stability focus, are there any other criteria you include in this?
	We look at whose jurisdiction the contract would be applicable, what laws apply, who the partners are, where the financing is coming from. Resources required, project managers, it includes a whole matrix which requires approval and then to board level.
S	How long would such a decision-making process take?
C	It depends on the nature and size of the project and how quickly we need to move. Generally it's not more than 2 – 3 weeks, this may vary in relation to the complexity and also how much information is on hand and how much needs to be researched.
S	In relation to acquisitions such as "Kluff" you made the observation that the local market still see the company as Kluff, did you make any changes to the structures?
C	We've aligned it to a Murray and Roberts's company in terms of principles and values that we hold dear. We have put in our management system there to ensure they take on projects that fit the MR profile and are safe for us to undertake. So yes internally we have made these strategic changes, but to the external community, they wouldn't necessarily see a difference. There are idiosyncrasies which will remain within Kluff so an "Australian flavour" will be there, but intrinsically the structure is MR
s	How to you choose to partner when commencing projects in other countries. Is the selection based on their purely having access to the project or is there focus on selection criteria?
C	The key focus is not "selection criteria, it's a bit more of having an understanding of what the partner can contribute wrt the acquisition, due diligence is followed but its more about the opportunity. It depends on the nature of the project and how the adjudication takes place if it is going to be a competitive tender where there are global competitors, then you would want the very best partner, not the smaller players who may not be able to provide you with the leverage you need to be able to compete with the major competitors.

	There is no easy formula, each instance is processed at “get go”
S	Within the industry, is it such that the competition is so fierce that you would never partner with a competitor in a bid?
C	We work a lot with competitors, we often have joint ventures.
S	How do you protect “ IP” in those instances
C	It's how you structure the consortium, you try to “ring fence” as much as possible, “IP” in the construction business differs vastly from the likes of Telecoms or IT, ours is a very fluid business wrt movement of people, staff go to competitors, we employ from competitors, it becomes difficult “preserving” human resources. It's not an area where we have huge secrecy or threat issues
S	When you split projects, are the split based on the nature of the project and areas of expertise or are it the size of the project that dictates.
C	It's generally the size of the project for example Greenpoint stadium. But there are other instances where one has more experience of the other in expertise.
S	The maturity of the labour markets in the various countries how is this handled, do you use your staff in the main and just use the locals for “labour work”?
C	By and large we use our high level expertise and most of the labour is handled by the client or the partnering company, they provide the work force/labourers we need. In SA it is different, but labour is a major component and you have to establish how labour will be sourced and dealt with, but it's not an issue we normally get involved with unless it's local.
S	Have you had any labour issues?
C	Not in the Middle East, on the west African projects we have experienced theft of materials once they have been installed like steel rods from the reinforcing etc.
S	Are there any markets that MR is going into that differ vastly from what's been done before?
	I am unfortunately not privy to this info now; it's all done at Board level.
C	Where companies are supported by their governments wrt investing into other countries i.e. China investing in Africa, there is obviously going to be a much higher closing rate/acquisition of opportunities.
S	Have MR approached the SA government wrt assistance in making inroads into Africa?
C	No, there hasn't been a concerted effort, although the SA government may imply that they would encourage a SA presence wrt business into Africa, it becomes an entirely ‘different dialogue’ when it is actually asked of them? We will look at projects regarding economic viability; this is a different focus for companies with government backing, if things go wrong they then have Government backing. We prefer to keep our decision making within the company and not rely on Government to “bail us out” our mantra is to keep the business as profitable and successful, Government backing should be a “nice to have” but not essential to our success.

9.2.2 Rand Merchant Bank Interview Transcript 1

RMB TRANSCRIPT – Interview Respondent 1		
S	In terms of an overview, the purpose of the interview is to establish the how , why and wherefore methods and strategies you use to approach developing in emerging markets,	
C	Ok, just in terms of a background, we are quite active in Africa we have operations in Namibia, Botswana, Zambia, Mozambique, Swaziland, Lesotho, Tanzania. Angola and Nigeria. If you look at most of those operations, bar Nigeria, they are all FNB operations, we are part of the FirstRand Group, FirstRand consists of FNB, RMB, Wesbank, Outsurance and Momemtum. Basically in those countries that house FNB, they set up retail banks and RMB has basically not supported those initiatives up until two years ago. RMB have been opportunistic, we have a culture of basically doing deals, doing them well and then moving on to the next one, in and around 2005 this was re-focused wrt the “client first” motto, looking at their needs, think more strategically around their objectives and their expansion plans. Africa is a big expansion in terms of corporates and it is important to be seen that we are following and supporting the corporate base, but only in terms of Transactional banking, not Investment banking products. We as RMB are little behind in terms of the market scale, but we have been very successful doing “briefcase banking” and we have a tremendous record and treasure chest of deals we have done across Africa deals which include infrastructure, resources, project financing, telecommunications, these have in the majority been “opportunistically identified” . However there are two areas that we haven’t got right wrt this approach, firstly I don’t think that we have exploited the robust footprint provided by FNB and secondly we haven’t questioned how we can leverage off this footprint. This footprint is a massive opportunity for us, for example we can go into Namibia, take an RMB person and place them at FNB to market and sell investment products, to look at treasury products at quality risk, at financial market risks. FNB Namibia is the largest company on the Namibian stock exchange and we believe that RMB can add a different dimension to the likes of FNB Namibia and at the same time take RMB business into Namibia Essentially in terms of slow expansion the local SA market has been more of our playground than the African market, which has been opportunistic in the main. If you look at Africa 2-5 years ago it did not make economic sense in terms of the visible risks, we now see SA playing a greater role in the African continent and there is only so much “runway” in the SA market and we would like to be able to offer all of our products to all our clients across Africa, so we need to follow our clients and we also need to diversify earning space from being purely SA based to being Africa based. Due to the volatility which occurred of a result of the 2008 crash, to move	

	capital off shore is very expensive, you can't deploy into developing markets, you have to look at emerging markets. We need to look in particular at the emerging markets on our doorstep, one could for example look at Indonesia, but we don't have the first idea of how to do business there, we have done a number of transactions in Brazil particularly in the agricultural commodities based markets, however being a small player in the international market one does not have much leverage as a SA Financial institution in overseas markets. The kind of opposition you face for example is one of the international banks like "Deutsche"??? putting \$500 million or a billion into the agricultural sector and if there is a default there, it basically involves a call to the President to say "would you like us to pull our investment out of your market after the xx amount of people we've employed etc. These kind of major players have a lot more leverage	
C	Whereas the likes of RMB approach the Brazilian market we are at an immediate disadvantage as we have competitor banks with much healthier balance sheets, they don't necessarily have better expertise but they have a more "holistic" offering as opposed to our "opportunistic" offering. We have found international expansion to be very laborious, tedious and challenging and we are trying to put a peg in a market which we don't understand. Having said that Africa is on our doorstep, Africa is our base, we understand it fairly well, we can deploy capital to the African continent at a "worse" rate as their capital ratings are worse than ours and we can make money this way. By the same token we understand Africa, we understand the Nuances and we can to some extent use political persuasion as leverage. The comparison here is that if you go and lend money to a Brazilian commodity company the dynamics are too complex, Africa is easier.	
S	Is it mainly those countries where FNB has a footprint that you follow	
C	Yes, with the exception of Nigeria, FNB for ethical reasons in relation to the drug scourge there will not invest. However we look at it from an opportunity perspective in relation to the population and the potential for earnings.	
C	So yes we leverage off FNB, we also believe we need to bring FNB closer to us and that there needs to be a lot more communication, from a treasury point of view, we have deployed treasury operations in those areas and what we want to do is pass on the learning, skills set and knowledge to those treasuries and then we want to run them from here, there is no point in them replicating what we have already done here	
S	Do these countries see this as a potential for them to establish the same reputation as RMB have in working with you?	
C	To be honest I don't think they see it as a positive or that they prefer it. I'm not particularly well versed on this topic, but I think African markets do perceive	

	South Africa to be arrogant in terms of International business and that we are not trying to engage with or support them, but rather that SA is trying to tell them what to do. We tend to forget that someone like FNB Namibia has us as a shareholder but they have their own board, so we also need to balance that relationship in terms of our vested interests and the nuances of having 3rd party shareholders.	
S	Would you say that the strategies have evolved in terms of country to country?	
c	Yes we have seconded people into Namibia and Botswana and Mozambique, Tanzania but not into Swaziland, but two years ago they weren't there, the Treasurer of Mozambique is from here. This is now becoming our Matrix Model in terms of "south Africa in Africa"	
s	Would you say that the people you deploy (who understand the RNB culture and ways of working) are deployed to build the business	
C	I would say that they are there to support the local staff to develop, the interesting challenge is that we are restricted by the size of our "in country balance sheet" for example if we were to identify a deal for "Nampower" and that deal is worth 100 million dollars, that is very little on our SA balance sheet is negligible, but it proves "not doable" on the Namibia balance sheet as we are regulated by borrowers limits, there are capital constraints, inflation risks etc and none of these make economic sense wrt the loan. What we can do wrt the exchange controls which is an important development which allows us leverage, from March this year they introduced something entitled "Prudential?? Limits which allows you to "externalize" 30% of your liabilities offshore	
C	This enables us to do the likes of the R100 million dollar loan in Namibia via SA's balance sheet	
S	Is this a government initiative?	
C	That was due to the relax of exchange controls (Reserve bank?) Previously there was an initiative where companies could invest up to 2 billion of your portfolio into Africa, this allows for externalization of your portfolio into Africa. What we can then do for example is then put 10 million dollars on the Namibian balances sheet and 90million on ours to do the deal, the client would not even know, but the risk is then passed onto SA.	
S	Are there any markets you avoid in Africa	
C	We have a "no-no" list for example the likes of Sudan, because of the American issues	
S	Is that the reason why, in other words you follow the Americans?	
	If we do anything that is contrary to what the USA does you are cutting your nose off to spite your face For example if you want to do funding in the USA you have to make a	

	declaration that you are not financing countries that are on the “hot list” America is an important market	
S	How is Nigeria in the scheme of things	
C	Nigeria is fine, there hasn't been an “edict issue” with them at all	
C	Where we are challenged is we don't have the capital of the likes of China or the Middle east to go up against the USA. SAfrica as a market does not have anything to offer the major powers like the States	
C	There is a “no-no” list and it may be for no other reason than that we do not understand the political landscape of those countries	
C	We have a very different situation wrt the banking industry being regulated by a banking license and we cannot do anything without going through the “regulator” and it is much the same if you follow what's going on in the banking sector in the UK where they are not very popular at the moment and are generally “soft targets” when the economy is affected. If we want to venture into any jurisdiction we have to ask the regulator whether we can open an office and have to apply under “section 52” and I think they wouldn't be too enthusiastic about certain countries in Africa over others .	
S	On the markets where you have identified potential and with there being and notwithstanding an FNB presence, is there any other research that you conduct wrt viability?	
C	We have done a huge amount of research, the political focus being one of the mains ones, the list which I gave you initially is not restricted to those countries, there are others we are looking at,. Kenya being one of them We have a whole team which researches. One of the other main criteria is the opportunity to replicate our business model.	
S	Were FNB does not have a presence would you be looking at the likes of an acquisition or establishing an RMB presence or a joint venture type op?	
C	We have a case in point where RMB is represented in Nigeria and we have some people there, FNB does not have a presence there, their business is transactional banking which includes transfer of monies, being able to do banking, which differs from ours which is “intellect and legalities and doing deals. The RMB investment banking model can go and do the briefcase banking, where as the RMB “treasury model” needs that transactional platform such as that offered by FNB because if we want to buy and sell foreign exchange we need the same systems in Nigeria as what we have there. So there are two business models within RMB there's Investment banking that can actually do deals immediately and then there is the treasury arm which needs FNB.	
C	The other criteria we look for are a good “banking regulator and governance. Our regulator “Errol Kruger” has something of a halo over his head in terms of the way the SA Banks performed through the financial crisis relative to international banks, he knows how the other banks are being managed throughout Africa and pretty much knows which countries are not suitably regulated. The regulator is a good person to use as a soundboard	

S	Do you see SA as too “risk averse” and consequently losing out on opportunities. ?	
C	There are some truths to this but you have to err on the side of caution, for example most of us were always looking at the extent to which Standard bank was expanding, but they now are retrenching a large staff compliment so they would appear to have “over extended” those plans, their return on capital is low, the cost/income ratio is high @ 95%, ours is 45%. As RMB we have been conservative, as has the Regulator, but ultimately the strategy has worked. From an FNB perspective, asset prices are going down e.g. houses, clients income is under serious strain , we have an emerging population with lifestyles are improving but everyone is generally living above their means and there is very little cash liquidity. How banks competed was to supply 100% bonds and loans for furnishing, but if they had offered 70% loans they would have immediately cut out half the market. Banks are expected to be prudent, but they must also stimulate the economy and find the balance in between. There is a huge amount of fraud happening with the amount of cards and credits in circulation.	
S	When you go into new markets is there pressure to diversify away from RMB's core competency? So that you can appeal to a wider market	
C	For example to go down the credit scale? – The answer is no. I think any prudent International expansion is based on credibility and gaining an understanding of the market and your first port of call is the banking market, hence our credibility is crucial.. The other market is the public sector as these are in the strategic interests of the country and the government will inevitably stand behind them Then the third area is the Corporate arena. Hence RMB would not go down the credit scale, and compromise our business model.	
S	Regarding loans in Emerging markets to the Government/public sector rated/viewed? Is this risky	
	It is viewed as less risky as you would not want to put a country into debt, take Zim vs. Dubai, Dubai will ensure they don't default whereas Zim has and all the doors have closed. So governments usually do their utmost not to default on loans – usually	
S	When you view a market what are the “maturity” areas you look at?	
C	We look at growth potential and key strategic focus areas - infrastructure, project financing, resources sector. We also believe that international investors have an appetite for emerging markets and we can assist by structuring debt and sell that debt to the international investor community. The international investors want “yield” which is currently not being generated by the dollar or in the UK, so Africa is looking	

	positive. We also believe from an asset based finance perspective there is “rolling stock” required, roads are needed, vehicles are required, aircraft are required, and we understand these markets. We have a property fund in Ghana which we want to sell to International investors. Ghana is relatively stable and RMB lending itself to this project equals the risk for the client.	
S	Do labour markets have any influence on your investment criteria	
C	It’s more around the stability of the labour. We have had interest from ex pats who would like to work in Africa Funnily enough SAfricans do not want to work elsewhere in Africa. We experience quite a lot of difficulty in getting the “right” people to go to the “non grata” areas such as Nigeria, the cultural and logistical obstacles are perceived as huge negatives. This is a work in progress area.	
C	The final area of importance is that the capital flow from China and India is massive, they are two different types of capital, one is commercial capital from India or business capital where returns are required, whereas the capital from China is strategic as they know what they want, their economy consumes and absorbs everything and even if they perceive they have sufficient they will then go on to “stock pile”. They don’t care about the state of an economy on entry as long as they have access to the resources, they will turn it around. That is why as an African bank, we believe it is important to capture the capital inflows and investment opportunities from both China and India. We have offices in Mumbai, and one in Shanghai and we are looking at Beijing and in doing so we will have staff who can speak the language and we have the push and pull within the countries. Standard bank is also expanding into Beijing We are looking at East Africa where I believe there are opportunities in Angola. SA has unfortunately let the Chinese in due to our poor relations with them via the Mbeki government. Kenya and Ghana are also good prospects.	

9.2.3 Rand Merchant Bank Interview Transcript 2

RMB – Interview Transcript – Respondent 2	
C	<i>Recording starts in middle of conversation -----</i>We have only really done this on an ad-hoc basis, as a starting point what we normally try to do is provide a high level overview, like a macro-economic overview . Just to give you a sense of the depth of research (from a First Rand perspective) we look at 101 macro-economic criteria, so it's pretty extensive, there is an element of demographic, macro-economic, sectoral etc. When you look at the sectors, as a starting point, people tend to look at Africa as a homogenous market and when they realize there are +52 countries, they then try and segment the markets, they generally look firstly at sub-Saharan and then the two "economic hubs" namely Nigeria and Kenya. This is probably done for a number of reasons, one being that the eastern hub has a lot of lot of focus by way of ex-pats and Diaspora from India that are living there, this being due to there being a massive amount of interest from India . Secondly countries are looked at from a "port" perspective; Nigeria and Kenya have the two biggest ports on either side. Sub-Saharan Africa is quite tricky with SA being the most developed sector, but your neighbouring countries are very underdeveloped, with the exception of Botswana and Namibia, but they are seen (especially by the UFI's) as being too small and not African, so they do not meet the investment criteria as they are too developed and they don't have a large enough population and this seems to be a large trend for a lot of the corporate, where unless you are in mining Botswana and Namibia are considered too small. On the other end of the scale, Zim has no economy to speak of, Mozambique has the weakest economy in Africa and so SA is surrounded by poor countries.
C	The other perspective is resources and Angola, DRC and Nigeria have been identified wrt this focus, although DRC is fraught with political problems, Angola is slightly better but has very strong "indigenization laws". So I think as mentioned people initially view Africa as a continent economically and then they view it as a couple of sections. Once they look at the sections, they then give RMB a couple of high-level criteria they are looking for and ask us to investigate these, however some of these are pretty key/obvious e.g. the size of the GDP, the GDP growth, (Angola is high on the list as they are double digit at this point), nominal GDP would include Egypt, Nigeria, South Africa in the top three, then they look at population size which makes Nigeria number one. And if Nigeria is #1 that makes Somalia #2 as that has the second largest population. These factors (as mentioned) would be important from an FMCG perspective but not for example from a mining perspective so the macroeconomic focus is not always the same for each are of interest.
C	The whole criteria is selection is layered, first the Macro Economics, then the regulatory environ i.e. the law and this is becoming a problem, so we try and refer back to the global surveys that are available, e.g. World economic forum, World Bank.
C	Another factor which is crucial is the FDI namely "inflow and outflows" from a country, which is a good reflection of investor sentiment.
C	Next is the amount of Aid – how much they have and how much is being given – mostly the highly indebted/poor countries.
C	Where there are countries which have a lot of potential but cannot survive on their own – like Tanzania and Mozambique the surplus/deficit in their current account is the

	focus, because no matter how much you pump in they cannot do it on their own.	
	Another indicator which is also pretty good in terms of the sophistication of the market is the percentage of Agriculture to GDP; this is a good indicator of how developed the country is.	
	To a lesser extent is the HIV rate, more so the TB and Malaria percentages	
S	What about the political status?	
C	This is a tricky one, we have come to realize that you have to have people on the ground that are in touch with the situation, the political landscape is difficult to navigate and is definitely researched on a case by case basis. The political landscape is one of the reasons why we cannot invest in Zim, albeit that there are huge opportunities, it's the largest trade partner with SA, so we have an indirect interest in it, but cannot invest – as prescribed by the Regulator. Politics is your “override button” - stay away if in doubt.	
S	Most of the indicators which you have outlined align with what most companies look at. Something which isn't on the broader list is using the Agri /GDP contribution as a measure of what the layout is. As far as research of the companies within the countries go, do you ever research this or is not too important?	
C	Yes and No, what we are finding is that during the 1940 – 1950 periods, the legal framework was very sound in most countries, which is implied “colonialisation,” subsequently it has fallen very far behind. The likes of Botswana and Namibia have JSE regulations in place (like SA) but are slightly behind. And this is mostly the case in rest of Africa, there are traces of English/French law, the English-run economies have very good laws – Kenya is excellent, Nigeria not too bad. Unfortunately the French law countries really suffer, the likes of the west coast like Gabon, Sierra Leone are very bad and no regard for the law. What we do find is when we want to go into a country, we try to clone the laws and mechanisms we use in SA. What is a common theme is that most investors still have their holding companies outside of the invested countries, either for tax or security reasons. So in general we apply SA mechanisms and frameworks.	
C	The other area of importance I wanted to mention is Indigenization, which would appear to have been adopted from SA (BEE) but most countries are 10 years behind and now the likes of Botswana, Namibia, Zambia, and Nigeria are adopting these policies and it is problematic. Angola for example Indigenization is huge, we are haggling for a 1% control, they are not prepared to do so, and this is not even based on formal but rather informal indigenization (unwritten law).	
S	Would you say this is becoming a critical focus wrt criteria for business?	
C	Yes, African countries are awakening to the concept of “empowering their people” but are not 100% sure of how to achieve this, so in many instances they are cloning the SA way of doing this (BEE) not realizing that SA has moved on, has learnt a lot but they are trying to hold onto the way they implement BEE, so for example in Namibia, they don't want SA advisors in BEE deals, so they are making all the legacy mistakes we made in SA. The same problems exist in Nigeria, they have had Indigenization laws since 2007 which cannot be implemented, and they are too arrogant to ask.	

	The corporate that are expanding into these countries are being “slapped” with indigenization clauses	
S	The fact that Indigenization has not fully taken off, is this seen as an opportunity by investors or a hindrance where it's a “wait and see” strategy?	
C	It's seen as a huge risk as they may decide to implement the indigenization clause post the investment and the investor loses a large chunk of their investment – not a healthy risk at all.	
S	Would you say this is an “African” phenomenon?	
C	I would say the developing markets have come as far as they have wrt “getting indigenization right” e.g. America and China. What we observe for example with the Chinese coming into Africa and what they Chinese Business Development person will do is be very frank and indicate for example, there must be a Chinese engineer, supplier etc so they benefit outside of their country also.	
S	On the research side of “indigenization” how do you go about assessing how entrenched/ established it is in any particular country?	
C	We have a fairly developed set of frameworks in SA, what we would do is set up a comparison between our and their framework, identify the gaps which will either be risks or opportunities and we will try and find a mechanism to structure something in keeping with what we know works in SA and what can be cloned elsewhere	
S	How to you ensure the information is kept up to date and accurate?	
C	This is also tricky, but it would appear that the “word of mouth” process is the catalyst, there are very few “written” laws, and the best contacts are the lawyers. For example we have had three opportunities via the JSE for Kenya and we have used the lawyers to assist us to validate information with the regulatory bodies in that country.	
S	Do you do research on the retail banking side also?	
C	On the retail side most of the decisions are made by FNB but we are made privy to the decisions as they are made jointly across the brands.	
S	Would you say the decisions/focus is the same?	
C	No not at all. From an RMB perspective for example large populations are not huge criteria whereas for FNB it would be. (Bankable populations) like the Cell providers For RMB it doesn't matter; it's the size of the deals.	
	The macro-economics are equally critical to both of us, from an investment banking perspective it would be size that matters in terms of GDP and transaction size, it's almost as if there is a new trend towards resources, whereas we would put an overlay of the political environ on top of this. Whereas FNB would look at what the other banks are doing, growth is a focus – population and disposable income etc	
S	So size is not the only criteria it would also be growth?	
C	Yes definitely	
S	Looking at Capital Markets and education levels, would you say that this is more important for investment banking?	
C		

	Not really unless you are trying to run a business in the country, however it would impact the likes of the FMCG investors who would have a less educated workforce which would impact production and output for example. I know we have instances where we have operations in SA, Tanzania and Kenya and the Tanzania ops struggled as the people were less educated, which equated to greater absenteeism – lack of knowledge led to a perception for example that if they work overtime, they can take the next day off.- Lower education has generally equated with lower productivity.	
S	From an FNB and RMB perspective would you say you both have different strategies wrt the outcomes of the research?	
C	Our relationship wrt the final decision is that we do have to factor FNB into the decision	
C	Regarding the FMCG sector as a matter of interest, we haven't done a lot of research in that arena, but if you take the example of the numerous SA retailers that have gone into Kenya and been badly burnt in terms of their investment, it would be interesting to know why. There is definitely a case for investigating the "what went wrongs"	
S	In terms of your research, do you liaise on any level with the respective governments in terms of their direction and strategic path.?	
C	I don't think government is open minded they generally have an attitude of "we know best" and if you do want to work jointly with them, they would want to you do so at your expense for a long period of time. This applies to the SA government also. Commonly we try to avoid the PEPS (politically exposed people).	
S	What about the areas where the SA government would look positively at investing in certain countries, would you not leverage off of this?	
C	Yes, "Investor friendly" as perceived by government is important	
S	If you take all the negatives in terms of what Nigeria generates from a risk perspective versus the positives in their population and oil rich status, would you say that Nigeria is an exception to the rule or if another country were on par, the measurement criteria would also apply as an exception?	
C	Our perspective would mostly be by way of growth potential outweighing the negatives , take for e.g. SA – its developing but has low growth, Kenya is one third the size of Nigeria and then you take Nigeria, it's hard to say you are in Africa if you are not in Nigeria. They have so many opportunities; you can't really not be there. There are so many dynamics that prove negative throughout Africa because you have to look at each country individually, Ghana is tiny, west Africa is strongly government controlled e.g. Sierra Leone, Gabon, DRC and Angola has problems the rest of SADC is not worth looking at. Once you start the process of elimination, Africa in general is difficult to do business in.	
S	Everyone generally wants to invest, but tentatively and not without reservation. If you have a look at the population of Africa, as opposed to that of individual countries, but you can't approach it as a continent, you have to do so individual to each country in terms of potential.	

9.2.4 Pick n Pay Interview Transcript

	Pick n Pay - Interview Transcript
S	On the topic wrt the motivations for expanding into Africa could you elaborate on these
C	AT the moment we have been in Namibia and Botswana for quite some time, Swaziland we have increased our presence quite substantially in the last two years. Those have all occurred as a result of their proximity (their being close by) and then about 4-5 years ago we decided we needed to look a little further than that, what we look for initially was in terms of the ease of logistics in terms of distribution mainly. We looked at Mozambique, Zimbabwe we have a presence with TM supermarkets which we have just increased that by 24% , we have 53 stores there and we opened our first store in Zambia this year. It was really about proximity wrt being able to get goods into these countries, now that we have done that we open our first store in Maputo next year, we have opened Lusaka and are opening another four in Zambia next year and four in Maputo next year. We will then go further afield, but it was basically just to test whether we can actually service those stores first. Zambia we made corporate, but our model in the other countries will be franchise, we are going to "mail master??? Franchise them we are doing this because we want people there who understand the market, that are established business people in their countries already. We can then bring our brand along, we can do the PnP specific training, we will add some PnP people into the mix but they are local
S	Are these lessons that you have learnt from establishing the other branches?
C	We have from the previous ones and also from our work in SA emerging markets in the townships where find the franchise works better because you can get closer to the communities. The whole PnP focus wrt this is to be more than just a Supermarket, we want to work closer with the communities and the franchise model assists us greatly with this. The Zambia logistics have been very smooth, our plan is to try and purchase as much locally as we can, a store opened in July and we hoped to be 30% local and 70% SA in terms of product, we have achieved 40% local and 60% SA, so this has worked very well. Local would be the likes of fresh produce, Chicken etc. We will continue with this strategy What we are looking at in terms of the countries that are further away e.g. Nigeria, Ghana etc is political stability whether you can move money freely in and out of the country, you don't want to discover that this is a problem once you have made the investment, this has happened with Supergroup in Angola for example. There must be economic growth, Mozambique is growing
S	In terms of stability, what period would you look at?
C	At least 5 years.
C	We also need to look at numbers, in retail you require volume as our margins are so low, and our net is 3%. For example you look at Nigeria that has a population of 140 million, upwards, that's exciting. We have 16 stores in Namibia which are all doing very well, we have 12 in Botswana doing well, but they only have a population of around 1.9 – 2 million. Mozambique has a population of 20 million with 2 million in Maputo, albeit that they are

	generally very poor but there has been consistent growth in the last few years.
S	The fact that Africa is largely an informal market as opposed to SA being more formal, has this made an impact?
C	No not really as we have had similar experiences in the informal sectors of SA, and we have managed to go in there. I remember when I started with PnP they thought it was a bad idea, but I was convinced that the demand for decent products would be there, once they understand that the pricing is the same this was the focus and going forward this is our drive, to ensure that price perception is positive. The look at feel of the stores tends to create a perception that we are expensive. The other side of the coin is that I want to treat the consumer with respect that we will give them the same type of experience, wherever the store is, and the products will obviously suit the specific markets but we feel that the experience must be the same. Through franchising we have maintained the levels of service, and sometimes they are better than the corporate stores, this being both a negative and positive for us, we find that if there is ownership its better, you can do your best to incentivize your store managers etc but franchising there seems to be a better focus on "making it work" it's more personal, there is social responsibility on the part of the owner, so we want to replicate this. We find Africa very exciting, there are a billion people, and politics is improving for the better. We are seconding Shoprite who have done a magnificent job. I have a bit of a different approach wrt how they have done things, PnP will put flagship stores in, but then I want smaller stores which are closer to the people, in Maputo for example we are putting in a flagship store, the second will be in a smaller one in a residential area and the third in a township. This is "taking the market" to the people.
S	Would that be the "Hyper, Super and Family" market approach?
C	To a degree, the family concept is disappearing it was initially established to compensate in the possibility of the franchise concept not working, but our experience has been the opposite in terms of the success of the franchises so it's now mainly the Hyper and Supermarkets. The Supermarket in Hurlingham is obviously a different focus, we wanted to do something else than the norm, it has a very "green focus" with solar on the roof, the robots at the intersection are powered by our solar, water is recycled. This is a trial, we will do others similar to this, slightly toned down but the new flagships will be similar in concept. We would look at Lagos and Luanda for example, there is no reason why a store like this would not work, and there is some much money there.
S	In terms of going forward, would you say the franchise model is the preferred choice?
C	Yes
S	What would be the motivation for opening a corporate store?
C	As we did in Zambia? Zambia was an experiment, and we wanted to learn the lessons in order to tell our franchisee's how to do it. We did not feel we had learnt everything from the Namibia and Zambia experiences and the other reason was our competitor Shoprite who have a huge strength in Zambia, they have about 18 stores there and we did not want a franchisee playing up against that type of strength, I don't mind Maputo, Luanda or inner Zambia which are limited. We are considering Mauritius at the moment wrt Corporate or franchise as they are very heavily traded; there is big competition and lower margins, so we would need to consider Corporate as they may require a bigger cash injection to get the business off the ground.

	We are in general going to try and stick to the franchise model as much as we can, it really works for us and we enjoy working with the partners. We both learn a lot from each other. The markets are also very different and we like to be on the ground and "do it right."
S	So essentially the strategies have evolved in terms of the initial focus being on the Corporate side then the learning process and gradually phasing in of the franchise model?
C	Yes
S	Regarding the country to country contexts would you say that you would change structures to accommodate accordingly?
C	Yes I think so, there are very few business's out there who are giving good customer service at the moment, because the customers are "there". Many stores run out of stock, we want to eradicate these problems. From a customer perspective we want to set new standards throughout the group, we also receive many compliments wrt the African stores, Lusaka for instance we receive many compliments daily on the look and feel, the cleanliness etc. A long letter praised the standard of the butchery. We don't have an A<B<C class of store, its standard throughout. The look may be different, but standards are constant.
S	Regarding the markets and the viability thereof, are there any countries you have not considered/rejected?
C	No not really, but it has been in the context of us not having looked very far, the ones we are working on being Zambia, DRC, Kenya, Nigeria which are all fine, however when it comes to the Sudan I would be a little worried or Somalia. But the numbers are there wrt the business hubs/cities, rural areas would be approached differently in terms of their potential.
S	In terms of Market research is there anything specific you look for?
C	Not really, it's really about consumerism in numbers, people have to eat, so even in the poor areas you can do well as long as there is a large populace you can be successful. The area is dependent on the spend, in other words in the likes of the affluent areas the populace is smaller but their spend bigger, whereas in the large populace are, larger groups spend less but it evens out wrt volumes. So there are no specific criteria other than the size of the populace and the ease of doing business wrt access to your money in and out of the country
S	What about the issue of location of the stores?
C	Fortunately in relation to Africa this is an opportunity, there is demand for your business, much development is taking place and developers are looking for tenants. In SA this is obviously different where key sites are limited and expensive. So wrt Africa the market is open on location at the moment which is exciting.
S	Regarding Distribution channels, how do you make decisions in relation to who you partner with?
C	What we are looking at the doing further into Africa is to establish a distribution hub as you can't distribute directly with too far distances
S	Do you have a selection criteria wrt franchisee's

C	Yes, we have about 290 franchise stores in SA; it has evolved over the years. Criteria would include, business acumen, retail experience they must be financially sound. A lot of skills transfer is done by Pnp and we put PnP people on the ground to assist in the initial stages. We have a full support team working on this. The entrepreneurial spirit of the franchisee is important, the will to do business and make money must be prevalent, we having taken a lot of younger entrepreneurs who have not been big business people and they have been successful – there is lots of energy and passion For the bigger countries and master franchises you need bigger backing and financial support + guarantees
S	Do you have a probatory period wrt the process
C	Not really, the applicants would have to present a business case for example Botswana we had about 12 groups who applied and that process took about 5 months and they submitted extensive business plans, they have to understand what the cost implications are retail is not easy, its long hours and small hours. We also need a “fit” in terms of like mindedness and they have to understand our values and our corporate culture.
S	Do you find the corporate culture difficult to apply in terms of Africa's diversities?
C	Generally we find it well accepted, it works, they like the fact that we are involved in the communities and are on the ground. Particularly in the likes of Lusaka where we found the application of this type of business model quite lacking, it really went down well.
S	If you look at PnP in terms of diversity, have you changed your structure in any way to accommodate specific countries?
C	No, not really
C	What we look at is “differentiating” like the likes of express stores in Garage forecourts; we are trying this in Maputo. But we usually experiment in SA first and then take it elsewhere. The big difference being in SA you have to have separate liquor outlets but elsewhere in Africa its combined
S	Do you have to change/alter the packaging options at all
C	No, with the exception of language regulation like in Angola where you have to have Portuguese on the labelling, but our suppliers do that for us. Most suppliers are starting to accommodate French and Portuguese on packaging where we require it.
S	How do you select products in terms of them not being perceived as “foreign”
	We do look at countries and what is selling when we do a set up, we do quite a bit of research into consumer choice and we look at our opposition, we talk to locals, we put buyers in a country 2-3 months before we open a store, they meet with local suppliers etc. There is a difference wrt the local lines or imported from elsewhere and we don't supply in SA.
S	Labour markets, have there been any compromises?

C	Not as such, Botswana is fairly union driven, but it's the type of union where one can sit down and discuss the issues and come to a resolution. In SA we are exposed to well organised and to some degree militant unions, it's much easier to work outside of the SA borders to some extent. There is also a better work culture elsewhere where jobs are viewed as priority in terms of maintaining them.
S	What would you say are the top 5 areas you would say are critical wrt establishing a business in Africa
C	That we have the right franchisees, that we have the right products on the shelf and are well stocked, the right people working for the company to deliver premium service, brand image and that pricing is competitive, that we provide value for money and are the brand of choice.

9.2.5 Tiger Brands Interview Transcript

	TIGERBRANDS TRANSCRIPT 2010
C	Tigerbrands have shareholdings in Zimbabwe, Kenya and Cameroon. Namibia, Botswana, Swaziland and Lesotho. This will expand further in the future
S	What is key to your decision making wrt entering a country?
C	Population, growth potential, ease of doing business, can you move your money in and out. Its all of those things
S	Are there any markets which would deter you from entering a country?
C	We would first look at the potential success in terms of the “opportunity” and what it represents to the business, its opportunistic in nature East Africa and West Africa are a focus as well as Sadec. Angola does not present “ease of business”, so the more difficult ease of business becomes the more we stay away from “green fielding” and look at local partnerships.
S	What do you look for wrt partnerships?
C	Influence, standing, credibility and integrity. We look at existing businesses and merge that wrt mutual interests and obviously profit potential.
S	What part of Tiger Brands do you like to see reflected in the partnership. Do you attempt to make them fully representative of Tiger Brands?
C	Yes, that is the plan and how you do that is critical as you can really “piss on their batteries”, but we do try and approach it from a helpful and mutually beneficial aspect in terms of the process implemented.
S	Is it mainly the process side that you focus on?
C	Yes we haven’t really moved people around – which is not to say we won’t, but process is the focus to date
S	Have you found that the process’s implemented to date that these make the businesses more efficient and effective?
C	Yes
S	In terms of market penetration are there any other key areas you focus on?
C	Human resources, It Support, Due diligence, business’s must be in good shape.
S	Are there any labour markets where you have found that unless you import staff the proposition will not have a high success rate?
C	This hasn’t really proved too much of a problem, We have shipped in people occasionally, but not necessarily from SA, we for example have an MD in Cameroon who was from Senegal, he was working for Nestle there.
S	In relation to your strategies, have you found that you have had to adapt these in any way in relation to the country or can you mostly apply the “Tiger strategy?”
C	We have slightly different situations in Zim where we have already invested in companies. Local partnerships are really the focus instead of green fielding.
S	Regarding the Distribution channels, if you compare these to SA are there any differences?

C	It would depend on the country for example, we do a lot of exports and the channels into Mozambique and Zambia and Zim are complicated by SA Customers being involved there, for example the Cash Carry. The route to market outside of SA in some respects mirrors SA , but for example Devlin Cash and Carry, Eurona have quite a footprint which takes away some of the pain for us on the Debtors side and money collection. They have a strong “go to market” On adjacent countries the structure is fairly complex; if you look at East and West Africa the markets are relatively informal. So I would say in comparison to SA, the markets are different. Kenya is formalizing quite quickly
S	Have you looked at diversification in terms of what you offer so as to accommodate the new sectors or do you stick to your core business and offerings?
C	We are learning a lot from the market sectors in Africa but haven't aggressively changed anything wrt product or offering. The market sector in SA is very formal compared with Africa's informal sectors which are very large, consumer goods in SA are retail/formal driven
S	Are you finding strategies change rapidly?
C	Yes, there are different ways of looking at expansion and it becomes tricky in terms of how large you want to go as all countries differ
S	What is the main difference between a services market and FMCG?
C	Selling services becomes easier whereas a product has to be exported, has different markets and demands and has to be transported, stored, marketed and also has an expiration date so the anomalies are very different. We have more intensive and complex logistics to deal with.
S	Are there any reasons why you would avoid any particular markets?
C	Somalia for political reasons, Congo, Angola is flux but we persevere
S	If you were to compare Tiger Brands in SA to the rest of Africa, what would be the immediate differences?
C	We try to maintain consistency wrt process's , the HR process's we try to keep the same, Accounting process's etc but as to immediate differences it's difficult to say unless you focus on a specific area
S	Regarding maturity of products, have you found the lack thereof has been a challenge in developing markets?
C	Yes it has been a challenge, we export a lot within the Sadec regions, we sell a lot of pesticide in Malawi for example, but not much else, we sell a lot of pasta in Zambia, mayonnaise in Mozambique etc. So there are certain products which are preferred in different countries, we have done very well with Purity in Kenya whereas it was completely unknown a short while ago. There are a lot of products on offer in most countries, Kenya has a prevalence of British offerings, Cameroon favours French products even in Congo you will find Belgian products. The colonial history has an impact on most of the African sectors, and SA has been slow to enter these markets because it was excluded from trading there for so long. I find that in Zim our products are highly visible now and in demand, this also has to do with people movement, we have a good presence in Maputo and also discovered our products selling there through other channels – Ace porridge being an example, so we

	then started to punt the products and it's doing well now. The reality is the bulk of our exports are in adjacent countries and from a “quantum” perspective, the volume up north is increasing off a small base in large volumes.
S	Would you say the introduction of specific products changes the context of the market?
C	Yes to some extent, I had a presentation from our Kenyan MD where he said that since the introduction of Purity, other competitors have come in with the same product some from UK and France and Nestle. We also introduced Tastic on a large scale and found competitors right behind us, so the markets are definitely competitive and the competitors are vigilant wrt new activity. Our products are definitely more expensive from an export perspective.
S	As part of the competitor strategy, have you yourself found possible competitor products you would look at mirroring?
C	To some extent, but more so on the packaging configurations and pricing side.
S	In terms of selecting your partners, would your criteria be a focus on those who control a large percentage of the supply chain already?
C	No, not necessarily some might not even supply any. For example our selection in Cameroon was based on the owner being bankrupt and we bought the business, but the majority of business's that are not owned by multi-nationals are largely owned by individuals or families (Indian, Lebanese, Greek) The process of finding a partner is very different in each country in terms of what opportunities they represent.

9.2.6 Standard Bank Interview Transcript

STANDARD BANK – Transcript – October 2010	
S	Steven begins by explaining basis of Theses wrt emerging markets
C	Have you found and read a lot of literature wrt this topic?
S	There is a literature on emerging markets, not too much on Africa, therefore I'm looking at an overview of my findings to find out if the theory and guiding principles used by SA countries going into Africa the same? Or is what SA countries have done been completely unique. I have chosen 5 diff sectors, banking, FMCG, communications and construction.
S	My starting point is in relation to the market selecting strategy, how do you go about deciding as to where to invest
C	It is important to go back a bit and reflect on Standard Banks investment into Africa was on the back of the purchase of a portfolio of banks from ANZ Grimbys, so we received a “bundled package” which formed the basis for our entry into Africa which is probably unusual if not unique. There would be a difference between Standard Bank and Standard Charter bank, we are two separate organisations, Standard Charter used to be a shareholder in Std Bank and disinvestment occurred at the end of the 1980's and in terms of the shareholders agreement that gave rise to that dis-investment the agreement is wherever they were as Std Chartered, we could not be Std Bank and we traded as Standard BIC bank which is an acronym for Standard Bank Investment Corporation but wherever they were not , we could trade as Std Bank. Take for example Namibia where we traded for 95 years. We operate in 16 countries outside of SA and in 8 of them we are Std Bank and in the other 8 we are StanBic Bank – this being in perpetuity. Aside from acquiring this portfolio of banks, you may ask whether we would have still gone ahead with development into Africa, either by way of acquisition or a “green fields” strategy from “get go”. This would be positive in relation to most of the portfolio, one of the things we identified a number of years ago was that we were large in the small economies and small in the large economies which is not necessarily positive. We have for example 60% market share in Lesotho and that is great, but it's a very small economy, however our performance to date has been great in terms of profitability etc, but this wont “move the needle” by being a 6% market share in Lesotho and 2% in Nigeria. With this in mind we then decided we need to “get to scale’ and become “larger” in the bigger economies; so given our footprint as it exists in terms of sub-Saharan Africa our thrust is probably is more to acquire desired scale in countries where we exist as opposed to expanding our footprint where we don't do business currently As an example we made two significant acquisitions in the last while, one in Nigeria and the other in Kenya and have identified those as growth markets; you probably are aware of the “distressed banking process” underway in Nigeria for the past two years and we are participants in that process in terms of acquiring something that will allow us to “get to scale” quickly.

	So we run 120 branches in Nigeria at the moment and the bigger banks run 700 branches, so we cannot regard ourselves as a real player in this market until you reach around the 400 mark. So if we have an opportunity to acquire an asset in that market and expand to these proportions we would certainly do this way in advance of breaking into new ground such as Rwanda or Cote de Ivoire or Senegal etc etc. Having said this, such countries are not off our radar screen and probably the next two geographic areas that we would need to do something about in the next medium to long term would be Franco-pho (west Africa) and the Maghreb the northern African region.
S	What would the indexes be, for example population size?
C	Yes, we would look at GDP, there is not necessarily a strong correlation between GDP and size of GDP and I mean total GDP and not GDP per capita, We seriously would want to access the size of the economy because that gives you your base from which you would operate. We also need to take into account that there are two sides to our business, one being the corporate banking and the other personal business banking, we would look at a country to measure (in spite of the size of the economy, where are there investment opportunities that would suite our core investment products which are power and infrastructure, mining and minerals, telecoms, oil and gas etc. So if you were to take Angola for us, this is a key growth market, population around 22million, GDP around 77 billion dollars, key in oil and gas, secondary in mining and last but probably most sustainable the agricultural sector. This becomes a focus for Investment banking Then we also need to look at how we manage the “interplay between the two sides of the business as we believe you need to run “universal banks” in these countries. A lot of the global majors opt for the “suitcase/briefcase banking” for example the Botswana government put out a tender for the marapooe power station \$1.8 billion which we won with our Chinese partners, but for the big deals like that you get the likes of Goldman Sachs arriving with 8 representatives in their Armani Suits and that’s what your are competing up against. What they had to compete with from our side is the fact that we have a “solid – on the ground “ presence and a big balance sheet with our joint venture with ICBC (Chinese) and they were prepared to give 15 year dollar funding into Botswana which no-one else was able to do. So this was a successful joint mandate
S	Would you say the Investment banking leverages off the retail banking or vice versa?
C	It probably does, but it is symbiotic, for example in the countries where we are well established, one of our core banking products called “Group schemes” whereby we go into the likes of SAB Miller and MTN and offer them a group facility which might be in the likes of some African countries, loans for housing, where there are no mortgage loans, retirement funding etc. Where they are large enough we would for example place a “mobile teller” three afternoons per week etc. We reach an arrangement with the employer to encourage the employees to bank with us and we would then do payroll management etc. Also from a funding perspective you take for example these mega finance deals which cannot be funded from the “in country” balance sheet as it is not big enough. We have SA and offshore (Isle of Mann etc) balance sheets which we leverage off. For middle of the road funding we require localized deposits and this is where you would need retail banking in the localities. Prior to the global crash, funding was not a huge issue, if you were a wholesale funder you would approach the wholesale market, but this has changed since then due to the cost of

	this funding which led to the demise of numerous banks. A downside to the global fall was that International regulators in Europe and the UK are now wanting to split the retail and Investment banking, this will create a negative systemic system where you have a retail bank and Investment bank separately which means there is no “universal bank” so the separate entities will have to go to market and get into the likes of derivatives to achieve their funding which to me is “counter –intuitive”.
S	Does your strategy differ from country to country or do you work on the principal of perhaps having a set number of strategies which you adhere to and apply these accordingly
	Our strategies do differ, we have tried to “categorise” them, and this has changed over time. We are presently talking about a loose grouping of investment countries, growth countries which is a misnomer for “milk the opportunity, but don’t invest too much” and then a “maintenance” approach. We don’t have any “exit strategies” at present, including Zim which is occupying a huge amount of time in light of the “Indigenization program” they are implementing, we are fighting this, and we do not wish to run a bank in which we have a minority stake. We would have all of the downside of our reputation and credibility being affected. There is the counter arguments where if you came to an “agreement” with an reputable, well established bank who were in a country where you wanted to make inroads and there you agree to do a joint ventures where you form a new entity in which we have the minority stake, and you wouldn’t be facing the problems of a vigilante entrepreneurs who think they can run a bank.
S	Would you say that would be “first prize” in terms of a joint strategy to gain foothold and a “quick presence” or does this change from country to country?
	We have an example of this in Angola, where we are in the throes of building our first “green fields” bank and its opening our eyes more and more, Angola is not an easy environ in which to operate, costs are high in comparison to buying a bank, we’ve e bought a number of banks, United Commercial bank in Uganda, there were the initial (one to two year) initial difficulties with integration issues. However building a bank from scratch is more difficult than we imagined it to be.
C	Each market has its own idiosyncrasies take Angola for example, the Portuguese have an absolute stranglehold on us, and the president’s daughter has basically got investment in 7 of the 9 top banks.
S	Do they not make it just as difficult to establish a green fields concern rather than buying existing?
C	I am not sure, but green-fielding is something we have chosen and we are forging ahead
S	Do labour markets have a big impact on your decision making process?
C	No, they have never dissuaded us from entering a market, maybe optimistically, but we believe we can manage in any of those markets, we know in some markets there are great difficulties in relation to permissions and work permits for ex-pats, you need critical people etc. We do believe it is manageable as long as you approach the right people with the right arguments/motivations. Having said that we often find ourselves at a disadvantage in terms of not being a “new entrant” into these markets as new entrants are often given dispensation in order to encourage the investment, and are given dispensations. So if you have been in their market for a length of time and are “part of the furniture” etc, you are basically at a disadvantage. In relation to staff you may have 3ex pats and they frown upon it and want locals, whereas the new entrants, through the dispensations can bring in for example 10 ex pats.

	We employ 13000 staff outside SA borders of which only 110 are ex pats.
S	So for Std Bank the labour market would not prove too critical, but the capital markets would?
C	Capital markets are one of the core strategic thrusts that we have, the capital markets 10 years from now will not resemble anything that they do today , I was reading something from Goldman Sachs which said that whereas the combined market capitalisation across the African continent is around 12 trillion or billion they identified Africa as being the fastest growing area globally and they said by 2020 it would quadruple One of the positives which are crucial to this predicament is that this growth would accompany the explosion of a middle class consumer with serious disposable income. This will change the economic landscape of Africa forever. Even if you divide Africa into regions the growth is exploding and borders are opening up within the regions which means “freer” movement of people and goods
S	Are there any countries which you avoid?
C	No, some are less attractive due to their size, although we are in Lesotho, Swaziland , Mauritius – all for different reasons, Namibia as you know only has a population of 2 million people and in 2009 we produced headline earnings of R320 million, - this due to bigger market share There would be some we are wary of, but we also believe that we can manage in more difficult emerging markets and this hopefully adds to our competitive ability. Zimbabwe is certainly testing us presently, but we are pretty determined to succeed and they do need a bank.
S	In terms of researching countries before you commence business, what would you say the critical areas are to focus on?
C	We have our own research capability and an economics desk so this information is readily accessible to us. They look at all the macro-economic indicators and trends, currency on global markets predictions, ease of doing business, “pestle” analysis, political risk, (this is definitely improving). They put business above all – so political unrest is secondary in their eyes, and in spite of everything they carry on. We cannot be too “squeaky clean” and eliminate business in that way you have to manoeuvre around the volatility
C	We take the view, that there will be many challenges, but how do we overcome them? We were the first international bank to be granted a license in Angola, it's as I said, not easy, but we forge ahead. Absa did a 50/50 deal this did not work and they withdrew. The conventional business school sais “tick your boxes first” we look at it firstly from, can we do business, is the economy big enough then we go.
S	I have found in my research, most of the companies do the “tick box” analysis and this tends to be the overriding trend?
C	We are learning from the Chinese how to do business completely differently from the norm, In Luanda there is a new residential development, its 55 sq miles in size, there are four phases and the first phase is being developed by “Sitik” which is a major Chinese construction company. They are in the process of completing 890 separate stand alone apartment blocks between 8 – 10 stories high. There are 60 tower cranes on site, we don't have this many in the whole of SA, 25 000 employees brought in from China – they are criticized for this. The amazing part of this story is that in May last year the Angolan government said “we will give you payment certificates

	but please don't present them for payment. As a westernized construction concern you would run for the hills with this kind of (non) prospect. The Chinese committed to continue for 14 months without receiving a cent. They were paid in July this year, so have now entrenched themselves in terms of any future business
C	The rest of the world in terms of doing business is failing to understand the strategic game that the Chinese are playing and western business has not been schooled in this.
S	On the banking side wrt diversification, do you diversify in order to fit and get the business?
	A lot of what we do is generic and where we require specialisation we import the skills in order to service the requirements You need to bear in mind that there is huge regulation of banking, We have a home (SA) and a host regulator (in country) I believe that one of our impediments is the SA Regulator, they have impeded quite a number of our competitors strategies into Africa and have stopped the flow
S	On the government assistance side – what is the situation?
C	This is worked on a country by country basis, at the moment we are being “fondly courted” in three countries who would like us to do business. In terms of our government – zip – they send faxes to us wrt prospects!
S	For any company wanting to enter into the emerging markets of Africa, what would be your “words of wisdom”?
C	Understand your market with all wrinkles and warts Don't build an unrealistic business case with frosting and which will ultimately disappoint – it's tough Look very carefully at the local/global balance and depending on your industry be prepared to take on a local component and possibly be “seen” as a local business. Also ensure your financial guys play a very active role – they don't have to be SAfrican but they need to have the company's best interests at heart and work ethically.

9.2.7 The Aveng Group Interview Transcript

AVENG Transcript November 2010	
Steven covers research questions	
C	Let us start with the criteria and motivation. Firstly one needs to look at the Aveng group as a whole, at the different Silo's, we are a large group, there is mining which is different from construction or manufacturing and we try to optimize the synergies between the areas but when you look at expansion you have to keep the different industries in mind within the group, as they will mostly have different types of "entry strategies." I will give examples of these when we cover the criteria, one of the most critical criteria's, which is not necessarily the best measure, but inherent to most companies when they take the leap, is that you look at the size of the "pie" beyond your borders when you discover that your growth within your own country is somewhat stagnant. In order to keep the machine running, to grow revenues, keep people happy (the shareholders) you look elsewhere in pursuit of revenues which is a dangerous strategy and the reason why I think this is because 5-7 years ago prior to the 2010 this group – on the construction side was in a terrible cycle, so the group looked at Africa, but winning contracts is easy, it's the "making profit" which isn't. Keeping in mind such strategies are "project based"
C	The second criteria where we can look at mining for example where Aveng has quite a strong position, here the focus is more on "following the client" and what is important here, if you look at a company like "Moolman?? They are operating successfully on a project basis, but with a "follow the client" focus for example the work they have done for "AngloGold". In the cases of deep shaft mining where we are going into Chile and Peru, we are trying to follow our mining clients like BHB and Anglo etc.
C	The third criteria, which is even more strategic, but very difficult to "cascade" within an organisation is the reason WHY you should invest in the project – whereas it is easy to say you generate more revenue or profit, this proves to be a "strategic defence mechanism." If you look around at other countries like Angola and Mozambique, there you find the likes of Brazilian and Portuguese contractors, if you look at Africa you look at the Chinese who are eating the market share. So how do SA companies approach this, one can say we don't work in these countries, however in a year or two, the likes of these companies will encroach on your home turf (SA). So in fact they "eat" your own turf and you are then unable to compete anymore. So SA companies can focus on their home turf, but you also need to build defence mechanisms by going out and even partnering with the foreign companies.
C	If one looks at the literature around other companies, there are also a number of "old" criteria that can be taken into account. Such as the likes of "leveraging knowledge" for example what we do in Australia, which is another market, but here we learnt to construct a "desalination plant" so we can leverage the likes of competency and capability within our home market and vice-versa, for instance our rail department is now going to Australia.

	This is probably one of the easiest criteria but underutilized because people are not focused. If you look at a company like CEMEX then you see that they leverage competencies by investing in Spain etc. what they also did which is also not exploited was to invest in overseas countries and they attained lower debt instruments whereas SA would have been more expensive. Australia is 1/3 of our portfolio and financial instruments are lower there.
C	Moving on to reasons for “entering” into countries, in the past we would see a tender being released in Malawi or Trinidad etc and then jumped at the opportunity. HOWEVER the lessons we learnt was that if you do this on a project basis, you lose “big time” because of the time it take time to understand the culture, the admin, the tax laws etc. Each country is different and it takes too many “experts”. We lost in the region of 5-6 hundred million on such ventures over 2-3 years. A number of our small competitors suffered hugely too. You face issues of non-payment, the cash flow cycle is too long, bribery in politics and this is unmanageable if you go in alone. Aveng now looks at countries or regions wrt construction, we looked at a number of different countries and we used a number of criteria, potential, opportunity, where the work is, political climate, corruption index. The United Nations have a number of indexes they use. You need to understand the “competitor environment” and the cultural aspects, if for example it's an English culture, this proves more successful than a Portuguese or French or you must bring in experts in these areas and languages. We looked at East and West Africa; we spoke to SA banks to see what does and doesn't work in the economical side. We decided that if we go in, it must be predominantly on a “country focus”, we need to understand the country, know the hot-spots, and you need a presence there as you would not necessarily your whole SA company strategy in a foreign land. You need to look at the areas where you can add value, this is important as every country offers a lot of opportunity but in some instances e.g. residential housing, this is an easy market, a lot of the local players are there. The opportunities must be understood in the context of where your company can add the value and realize the profits against the competitors, Aveng for instance specialize in Civil Engineering or Roads (REAL). The goal is to focus on a number of countries or regions, for example Kenya we only use as a point of entry for the East Africa market and then Ghana we would like to develop as well as Nigeria. It is a good thing to learn from your mistakes, but you don't need to get stuck and not relook at those countries, a few companies have got burnt and are now so sceptical they won't look at anything else, which is not a good strategy. Once we have realized the value-add in such countries is, we then try to establish who is accountable on a group level at Aveng to really push the opportunity forward, for example in a market like Ghana, there may be many opportunities for construction but not so many for manufacturing so the construction arm must take the lead. For example in the UAE, there are a lot of opportunities in the real estate sector, but there are also a lot of competitors, but we also have the capabilities in the rail sector where we can leverage off of. So instead of centralizing everything at an AVENG level we look at which business unit will be “key accountable” for the opportunity in the various regions and that guy will drive the

	initiatives, but at the same time keeping the whole group in mind. This is still a “work in progress area” and there are still a number of historical drivers in the “mix” for example Grinaker is large and they would like to be the drivers, but it must be shared. If you want to have key success drivers for growth within your organisation, you need to get your organisation aligned, get it prioritized, focused (including “implementation focus”) and not be opportunistic because that is the “death of everything” Even though we have a very well defined plan for the Middle East and Africa, we have divisions who have so called “pet projects” and once they start with this a lot of money is wasted. It is difficult to manage overall strategy within such a huge group, we can write directives continuously, but it is nearly impossible to enforce it constantly because it squashes the “entrepreneurial spirit” Overall the strategy is now - Find the country, find the value and find the clients who you can work with. In mining the strategy is slightly different to construction, whereas in construction you have a lot of local players in mining you leverage international companies who know the country, can leverage risk e.g. Anglo Gold leverages our risk in Guinea. The “low risk” models and successful partnerships are the best.
	Another success factor is having a good operations/organisational model, once which aligns with supporting these initiatives, it is always easy to say “go and grab” and people will do this, but if you see how it is executed its is scary. They will for example go in with a small team, but being unfocussed they try to do 5-6 countries at the same time. But the focus and capital is crucial, the “investment period” must be understood – not just “in and out”. The bottom line must be established, for example we need to create “seed capital” for growth projects, it is still being debated but I believe it is near impossible for operating groups to say “you need to grow in total new markets which are many, but you need to finance it all on your own and still make your profit.” This creates a tendency where divisions will do something to appease the head office, but they send two men and a donkey and minimal capital and the whole project comes to a standstill. I think this is a difficult mindset which we haven’t overcome as a group.” This is not to say you always have to spend huge amounts of money, you need to have the right amount of capital and human resources to ensure success. The right people with the right mindset is often difficult to achieve, Africa is difficult and companies cannot always immediately rely on their brand or reputation as they are initially “unknowns” of course if you have done large projects in Africa this helps, but you are on a par with your competitors at best. Companies must identify which staffs are suitable; can we find them internally or recruit externally? You also need the likes of “mobility programs” and cultural induction. Culture and administration are key for getting your money out of these countries. Using seasoned consultants from SA who understand the requirements for both countries and your company and having local leadership are also critical. You need to look at the likes of your local CEO and 3-5 key positioned managers, one of them being your financial manager. You can also hire a local group of good people from these countries. Many countries as you know have laws wrt the participants on deals such as SA BEE, they may prescribe the use of local partners and even if they don’t, it is better to include “local content” in the project rather than go it alone because you stand the risk of not expanding

	into their markets quickly or further.
C	In terms of deciding on DISTRIBUTION channels, we haven't taken that fully into account in terms of our strategy. We have focused more on operations and due diligence. For example when undertaking a project in the construction sector, we would go in with our own plant, the problem is erecting the plant, but we deal with it from a project perspective. So in terms of distribution channels it would be looked at on a project basis rather than a country basis, because with the current strategy we are trying to implement e.g. Kenya and Ghana we look at the business environment first and hopefully the absence of too much corruption, which will allow you freer movement wrt entry and exit points and strategies. While other countries like Guinea its more difficult. . Where little material is required the likes of Moolman for example will outsource their equipment requirements to overseas entities which are present locally like Caterpillar, Barloworld etc. Mostly you are not the only contractor there so there are other international companies who also have needs and the supply is there. The Middle East as an example, there we would procure locally as it is available. For construction vs. FMCG, procurement is probably easier, in general once they guys are on the ground and other projects are happening in parallel, the supply and demand is already there, you would not go into a country where there is nothing. Supply is very important at the tendering phase, because you need to understand the availability, cost and time factors wrt procuring materials; the problem is not getting it but the lead times. If you look at steel output in Nigeria its very low, if you look at electricity supply its ridiculously low, so you need to keep supply factors in mind and you need to understand the obstacles. Take for example a project we did in Botswana they had the goods, but they did not have water. We use the parameter "ease of doing business" to understand the complexities and this takes into many issues. The proof of the pudding is in the implementation, you can read lots of literature on the topic, but its only once you implement and are on site they you have a true understanding India for example is accessible and not too much corruption is present, but it is very difficult to obtain the building permit, so there are anomalies in each and every country and project and it is critically important to have high level resources and the support of your top management. We have also found that the further a project is away from home, the more difficult it is and likely to fail. Logistics become a nightmare. There are also the criteria of having enough money or extra money for projects, this allows you more leverage, more time, more specialist accessibility and this is one of the reasons we use consultants such as Martin who is an expert on China and he can guide us on process. Good relations with government and municipal officials (without corruption) are also key.
	Every country is different and has different needs. We need to make a call in each instance on which areas of specialisation to use in that area, based on opportunity – to use Rail, or construction or mining etc It is pointless looking at large capital investments if you do not understand the market and

	market trends,
	Lack of Ethics is a huge issue for us, we looked at an acquisition in Kenya, when we did background checks on them, issues arose and this reflected negatively, we cannot afford as a listed entity to enter into ventures which could possibly taint our name down the line. Its “flipping” difficult as the line is very thin. War stories are also a problem; projects are ‘bought” by unscrupulous investors. Ghana is a better option, Kenya is debatable, and Zambia is relatively good. It’s about balance, but we are strict on ethics and do not want to be branded with any corruption issues. We are looking at UAE and Middle East which is less corrupt, also Chile and Peru, where we are following Clients and are specializing in for example “deep shaft” mining where we have a fair monopoly.
S	Are you very influenced by the likes of labour and capital markets in the emerging sector
	Capital is not an issue, labour, due to strict BEE requirements weighs in the direction of unskilled labour which is generally BEE, so by nature it “sorts itself out” however labour is SA is becoming expensive. The need for good labour will become more important in terms of skills, we can source the engineering type skills here and the labour there, but it’s a fine balance and we have found most projects have been producing outsourced skilled guys on site. If you take our Australian acquisition as an example, here was a company with a long history with mainly Australian management, we made some changes, but the business continues to be perceived as thought it were an Australian concern. We have found the rest of the world as perceiving SAfricans to be arrogant. Although on the other side, South Africans can be found to work well on the ground with Africans whereas the Indians (as an example) could not. “Commonality” is important, take for example the Portuguese who are now working a lot in Mozambique – same currency, same language and to some extent culture -

9.2.8 Nedbank Interview Transcript

NEDBANK Transcript NOV 2010	
	Steven presents overview to client wrt reasons and strategies in Investing in Africa
C	Nedbank has two different options wrt banking in Africa; we have Nedbank Africa where we have operations in 5 countries (Malawi, Zimbabwe, Namibia, Swaziland and Lesotho) all of these fall under the Nedbank brand apart from NBCA in Zim. We majority own all of these except Zim. Then we have the Nedbank/Eco bank alliance which is where I'm directly involved, this gives us access to a further 29 countries within sub-Saharan Africa – this is a strategic agreement between Nedbank and Eco- bank who are the largest Pan-African bank wrt Geographic footprint, it originated in West Africa, it was intended to be regional but spread throughout the rest of middle Africa and now into Southern. The alliance essentially gives us access to middle Africa as the other branches are essentially Sadec based. At the moment we are not looking to expand as this gives us coverage into the rest of Africa and this allows us to give our clients coverage too as they expand into Africa
S	Do you have a follow the client strategy?
C	Yes essentially, our clients such as the likes of SAB Miller, UTI , Caltex, Engen, Shoprite are going into Africa
C	We are essentially a South African bank and here to service our SA clients, if the clients need banking in Africa, then we try and help them accordingly
S	Would there be any countries, you would avoid?
C	Yes ???? Countries (03:05) for example Sudan, we would not touch, Nedbank is a signatory of a number of treaties, and corporate and ethical issues are important and enforceable. We also will not finance any armament deals, so certain products are also excluded from any business dealings.
S	Where you do invest wrt your client initiative, what are the macro economic factors you consider?
C	We would look at the economic profit pulls of the country and we would need to understand the banking sector. If you look at these factors a lot of these are still negative in banking and mostly you break even, but you need to understand what your returns are going to be.
S	In terms of your partnership with Eco Bank would you say there are any countries where they are established that Nedbank may have chosen not to do business?
C	Yes in some instances there are, but clients do business there for example Sierra Leone, Eco-bank do a lot of business there. That is one of the beauties of the partnership, Nigeria, Rwanda, Burundi, Guinea.
S	Is Africa seen as a “big space” or do you see them as independent economic sectors?
C	From a Nedbank perspective we are mostly interested in sub Saharan Africa, the Maghreb and West Africa is more “middle East” and the cultures are very different.
S	As far as the Institutional context is concerned, was your alliance formed on the basis of “ease of business” into the rest of Africa or was it also based on similar business cultures?

	There are definite synergies between the two; we are both strong in the corporate and merchant banking space. Eco bank was originally a merchant bank. We are looking predominantly for solutions for our Corporate clients not retail. So we needed someone who was also strong in wholesale banking
S	Would you look at leveraging off the retail banking at any stage?
C	Eco-banking has retail operations in all the countries in which we are present, retail banking is very country specific, if you live in SA you have a SA bank account. You cannot hold a bank account in countries outside of your residence without the necessary permissions etc and this is not easy. Retail banking is more around leveraging the knowledge.
S	Does political stability raise issues?
C	If we were making a purchase wrt buying a bank it would be critical but we are not purchasing. So Eco bank does carry a certain amount of risk for us.
S	On the Strategy side wrt working with Eco bank, would you say you have any strategies that differ from them wrt doing business for the client?
C	Yes, definitely if you look at the Capital Operations we both have, they are very different, Nedbank operates in a very complex financial world, and Africa tends to be a lot simpler. Our products are more diverse, more complex and we offer a wider range to our clients, Eco-banks transactions are simpler. This is also a result of a different client base probably, if a client wants the Nedbank type offering, we do a joint deal where they can leverage off our balance sheet or our expertise whereas we can leverage off their "origination" capacities for example.
S	On the market research side, is there ongoing market research or do you use Eco banks info?
C	There is not a lot of information available wrt Africa; we do a small percentage of research ourselves, and however we rely primarily on our clients on the local network.
S	Is your division very busy and are you generating business currently in Africa?
C	Yes, there is definitely expansion
S	If I were looking to do business with Nedbank South Africa what are the essential differences between Nedbank SA and Ecobank?
C	The layout in terms of standard personnel is the same as are the offerings, the Africa branches would resemble those of our outlying/regional branches not the main centre ones.
C	In terms of transactions available most basic retail functions are available to clients like visa or MasterCard, but you would be able to deposit monies into your SA account without exchange/regulatory control approval. SA citizens cannot deposit monies without proper controls; Ecobank is regulated by the IFRS. There are too many money laundering issues.
S	How do you select your co-partnerships?
C	I don't deal with that at all
S	Is there any skills transfer that takes place?

C	Yes on a deal by deal basis, for example for us it might be finding out some of the local knowledge pertaining to the area etc, for them it would be how the complexity of the transaction or how we run our call centres to assist the clients.
S	Do you have some sort of “Knowledge bank” where you save this info?
C	No, it's really just processed and digested on a need to know basis
S	How important are capital markets?
C	Capital markets tend to be underdeveloped, if you look at the likes of stock exchanges they are quite “eliquid”?? At the moment. Eco-bank would deal with most of these areas.

9.2.9 Alexander Forbes Interview Transcript

	OCTOBER 2010 – ALEXANDER FORBES INTERVIEW -
C	To put it into perspective to give you a bit of a background into the group and what we do. Alex F is involved in 3 core businesses, one is a) Risk Managed Insurance broking and that's the area in which I am involved. B) Financial services which is everything from Actuarial consulting, pension fund administration, healthcare consulting, executive financial planning and then c) Investment solutions (asset multi- management) typically they working for pension fund, provident fund trustees, helping them manage the managers of the various funds. And those are the three business's that we have. The Africa thrust has been very much driven from the insurance broking side for risk and insurance. Because this is where clients need assistance on the ground, they require a "local presence". The other services can be done from anywhere literally.
C	This is where we started, (points our areas in Africa on map)
C	We tend to focus on those countries that are closest to South Africa, they are the easiest to access logistically and those are the countries we can better understand by the "Anglo (English) fund" countries as opposed to the "Franco (French) fund" the only exception being Mozambique (Portuguese), but because it is a neighbouring country, it is strategically important. Nigeria because it is a "hub" in Africa and we have really steered clear at this point in time of the "Franco-fund" countries because it is really alien to our culture, different ways/models of doing things. We have very good correspondents in those countries, in fact all those countries that you see marked here (pointing to map) are although where they are not Alex F subsidiary companies of ours, where we have financial interest, then we have 'correspondent relationships", so we are able to provide clients with service in over 40 countries in Africa. There are obviously a few gaps in countries like Ethiopia, Eritrea , Jabuti, Sierra Leone, Liberia and one or two other countries like Somalia, Kwatar who are very challenging from an insurance perspective, brokers are not recognised there and the countries are in a state of unrest, so we have to make other plans. Normally what we do in those circumstances is we work very closely with one or other of the insurance companies in those countries and just try and help clients on a direct basis as opposed to providing them with an intermediary service
S	What is the relationship that you have with the companies' in these troubled areas? Is it an association or just a loose? Agreement.
C	We have a "correspondence" agreement in place with certain "principals". In one or two countries where we get very few enquiries, we might have a correspondent; we tend to adopt a more informal approach to those areas. We have quite a number of major funds in the "Franco fund" countries where we have correspondents in place which basically outline the services that each party is responsible for providing and it covers income sharing, responsibility for errors and omissions, etc. We keep it fairly loose as well, we try not to be prescriptive on the basis that very few risks are the same, so you could have for instance, a major transport contractor and have a modest risk business owner on the other hand, the major contractor would required a lot more service in different areas so depending on what the requirement is we decide on what the remuneration split will be.

S	Because buss dev in Africa can be discussed ad nauseum, What I have done is narrowed the issue down to four different areas. One is looking at updating research on International models, for example some of the US companies that have done quite well and the comparison that I am attempting to draw is whether it's a good thing to have a "methodized" model or something that is "Africanized and different approach is required. That is why I am looking at companies that have been successful in going into Africa and then deciding on whether to use the models in their entirety or to extrapolate those areas which work and then customise them. The four focus areas raise the following questions a) What criteria do successful South African organisations consider in selecting suitable African markets b) What are the strategy choices that organisations favour when expanding? c) How do we design and operate within our distribution channels d) Diversification strategy?
C	What I am going to do if you are comfortable is to answer based on our (Alex F) experience and if I can add to that in terms of the experiences of some of our clients I will do that also, as one of the things that AF does is to assist clients in managing their risk in Africa
s	So that would include SA based clients that have also branched into Africa
C	Correct, and as part of this discussion it would cover some of the Insurance risks in branching out into Africa , which is merely a part of the overall risk environment, other risks could includes those such as environmental, political, legal and socio and all of these would need to be looked at before one makes the ultimate investment decision. These are areas which I quite often write articles on and present etc I think let move ahead with your questions and I will try and answer within each context
S	What motivated you to expand into Africa initially – I think this was covered by you introduction where you indicated that you were following your existing SA clients, who have needs and consequently expanded and from that you picked up clients in the various countries or do you specifically only focus on SA based clients?
C	I think just to qualify that first point, yes one of the reasons for moving into Africa was to follow clients, but we haven't done it blindly, we have analysed markets and we have tried to identify those countries where we feel we can make an acceptable return on investment. So yes we have followed clients, but done so in a very structured way, the fact that our client or a number of clients have now moved into Angola for example, did not prompt us to develop and we don't have a presence there and we won't have until we feel that it is going to be viable for us to do so. Consequently we look for factors such as the regulatory environment, particularly the Insurance regulatory environ as this is extremely important for us, We question is the playing field level?, and if one takes for example the Angolan market, it is a challenging market from an insurance perspective, as you have certain insurance companies operating in an exclusive or monopolistic manner, so for us as an

	Intermediary to move into that market would be extremely difficult because a whole section of that market for example the petro- chemical industry is handled by one insurance company and an in-house Insurance broker, so for us it would be a limiting factor and for us to really go in Angola we would have to recognise that there is currently a whole section of the market which will not be open to us, this could change to tomorrow (and this is one of the dynamics that AF Forbes faces in our industry.) In some of the other countries you have other limitations such as foreign shareholder limitations, which need to be taken into account, for example, in Kenya the maximum that we can own wrt a brokerage is 40%, which creates challenges in that AF would not have control of that entity and you for example run into problems with Snr management or co-shareholders it becomes a difficult and expensive exercise to extricate yourself from that relationship. Zimbabwe as another example, we now have to extricate our shareholding from 60% to 49% because of the “indigenization” program. So one has to not only look at the current scenario but also attempt some “crystal ball” gazing to anticipate what could happen with perhaps the current government being elected for a second or third terms and wanting to enforce more stringent measures against foreign investors or to promote indigenization, or in fact there could be a complete change of government where the new government is far less “foreign-investor friendly”. So it’s quite a complex process before you move in. So that has been our rationale, to follow clients in a very structured, objective manner, and also one of the things I felt was important was to have a good spread of investments so that we could almost “hedge” our bets so that if a problem arises wrt for example Zimbabwe, where we have not been able to repatriate dividends for many years, at least we have 10 other countries where we are realizing good dividends. So that to my mind is also critical, the risk factor becomes greater if you are hugely reliant on one country.
C	One of the areas which we perhaps haven’t touched on is “how we’ve entered those markets when we have made decisions/ what has our strategy been? Has it been to “green field” or has it been to look for an existing investment/opportunity? Again within our field of financial services, relationships are key and the approach which we have generally taken, with one or two exceptions, has been to look for an existing brokerage in a country and then to acquire a shareholding in that business and we believe that it is a combination of really good “local contacts” with the resources that we have got as a group in SA as the leader here, that should give us the edge. Very often what we do is identify companies who themselves are significant players in the market, but realize that they have probably “plateaued” because they don’t have the international connections and with AF as a shareholder, suddenly they are now able to compete on the larger national and multi-national accounts in their countries.
S	So they see this as an advantage to themselves?
C	Yes, it’s a “win-win”, they have AF as a shareholder and with all the resources that

	AF has and “muscle” that we have wrt the name and brand. And for AF, hopefully if we choose correctly, we have a locally based company with a good reputation, providing good service and this combination will see the business grow “exponentially” over a short period of time. This has to a large extent what has happened in many of the countries we have invested in. We have tended not to “Greenfield” which is expensive, there are problem areas where you perhaps cannot find the right people to bring into the business, its expensive, you have to manage it from distance and there is very little data on measurement of success. Whereas if you have an existing broker that is operating successfully in the country with a track record, that makes doing business a lot easier, and bearing in mind that we are trying to manage these business remotely/from a distance which always poses its own set of challenges
S	Do you place people into these businesses?
C	Yes and No, we have done so in some cases and in others, not, I think in an ideal world, it's great to have people who have been trained in your home country to go into these business and ensure continuity/same culture, however the reality is that it's expensive to redeploy and second “ex pats” are expensive. It depends very much on the size of the business and what one can foresee in terms of future growth, then there is of course the challenge of increasing “localization” of resources in Africa so this is challenging. In an ideal world, one would love to have your own staff as the CEO's of these business's, but because of those personal relationships “on the ground” that are so important, this is not a practical way of managing our type of business (financial services), it could probably be more successful in your type of business
S	Would you say you need to have the local content as they understand the market, you need to determine what that balance is required wrt your expertise, so this proves to be a very fine line between handing over expertise and dictating them?
C	That's correct; I think that was one of the failings of the numerous SAfrican companies who initially ventured into Africa. For example the likes of SA Breweries who perhaps adopted a very arrogant attitude initially and they burnt their fingers as a result. I think there is still a “legacy” issue in many African countries in places like Kenya for example where there is to some extent still an “anti SAfrican sentiment and they took great objection to being told how to run and manage their business's The ideal structure for me/our type of industry, is that you have a local CEO and a SAfrican COO, so that you always have a “number two guy” who from an operational perspective can ensure that there is as much standardization as possible and in the bigger countries where we have large investments, this have worked well for AF.
S	Would that be a COO via “remote Control”
C	No, they are based in the respective countries, we are looking at the “remote” model at the moment whereby we create “hubs” for example a hub for East Africa

	where you would have a main COO to whom the regional COO's would report. The point I wanted to make was that in the smaller countries we haven't taken such a decision as most of them are not large enough to justify
S	We again have taken a similar approach based on the expenses being generated over the last couple of years, we have identified those Hubs that are more profitable and are for example considering a hub in Uganda, Kenya was also considered, however their taxation laws are quite restrictive. We have also taken a calculated guess wrt the oil find in Uganda. There will presumably be quite an rejuvenation of the market
C	I think if you look at the investment trends within Arica the focus is on Tanzania, Uganda and Kenya becomes slightly secondary in relation to their ongoing political instability, they have also proven to be not entirely investment friendly and they have lost out as a result of this. I would definitely support your strategy in terms of an East Africa hub
S	Plan C would be to move the operations to Kenya if and when there are improvements, this is based on numerous conversations we have had with clients who have business interests in both countries
S	We have touched briefly on the way that the strategies have evolved this in relation to the huge growth in business potential in Africa. Would you say that your strategy has gone 360 degrees in terms of the initial drive, or has it been gradual?
C	That is a very interesting question, we are in the throes of restructuring our Afrinet business so a lot of it is still "work in progress, hence our looking at establishing hubs where we can for example more effectively identify "cross selling" opportunities because one of the big challenges that we have is that we have wonderful resources in South Africa, whether it be "risk management" or "guard risk" which is one of the largest ???? companies in the world, whether it's our construction practice, which is again the largest of its kind in SA or our employee benefits etc ; these great SA resources are not being fully recognised/utilised in SA so we see huge opportunities to use this distribution network that we have to enhance our SAfrica business. Its enhancing both business's so it's a "win win" for both parties There are a number of other initiatives that are taking place as well, a few of these fall outside of the African network, some of them are group initiatives , for example the area for which I am responsible for i.e. "global practice" my focus is first of all to make sure that the AF brand is recognised globally. We want to be seen to be the preferred partner in Africa for the independent brokers around the world, so I spend a huge amount of time 'beating that drum". I think this broaches on the question which you posed, there are enormous opportunities in Africa. Africa is probably the second most exciting continent to be based after Asia, that is my honest opinion and I find this reinforced in articles etc from the media and press almost on a daily basis now (client refers to Kinsey report and other).....Aish can't hear....lots of shuffling around and tea cups clinking..... Again for example there can be as many as 30- 40 articles generated in one week by consultants on the topic. One of the things that I have been doing at this critical time is focusing how AF can make inroads to the preferred suppliers to foreign investors and a lot of this focus

	has been on for example the Indian Corporates coming in, the Chinese, Brazilians and to a lesser extent the Russians. I was in India for a week, meeting with the large Indian multi-nationals, we have very strong ties in China, AF is trying to tap into the Chinese investor market. We are also looking at Brazil, which is not huge in terms of opp at the moments but there are some developments in Mozambique In terms of “evolution” I think SA is well placed in terms of growth with our SA Clients into Africa, this is growing in terms of indigenous business in those countries, we are well placed. I think the main opportunity for AF is “foreign direct investment” and how do we as a SAfrican Headquartered group make ourselves the preferred supplier to these markets? This for me is critical, so I spend a huge amount of my time identifying foreign investment and seeing how AF can make inroads. This requires to some extent quite large percent of high level strategizing in making sure that we are the provider of choice.
S	You mentioned wrt creating the Hubs, and taking these resource pools and expansion into Africa, which would by implication change the context of the market, has this happened already or not?
C	Yes we have seen successes, but as opposed to specific geographical areas, it has been specific industries, for example construction, in terms of a)major construction projects in Africa, we have been successful in providing resources from SAfrica, working with our local partners in winning over several projects and we are working on several of them at present. b) Risk engineering and that is anything from providing underwriting surveys or just providing risk control audits, and again I spend a lot of my time in assisting our Risk Engineering division in marketing those services into Africa. There are plenty of large organisations North of our borders who require good Risk Management advice, whether it's in marketing the risk to the Insurance market, or how to better manage their risks. These are huge opportunities for us and AF is doing some significant business. Training also forms part of this. Those are two key areas, the other area where we have significant expertise is in the area of c)mining, in terms of the mining clients we look after in SAfrica and being able to provide the same levels of advice in terms of structuring insurance programs for big mining groups elsewhere in Africa So it's all very much “IP (intellectual property)” related
S	And you find that the risk of exposing your IP is lower as these are existing clients, what about the areas where you partner with other brokers, do you feel that it is worth giving away some of your IP?
C	We aren't giving it away really, as we are showing them what we can do, but the IP is structured so that it would only prove useful to the partnership, not the individual, as each risk is different. Should they decide to use our strategy on their own, this won't really impact us, it's a big investment to get where we are strategically, we have 50 specialists in our risk engineering section, it's a big team of people with a huge silo of expertise and within Africa specifically there are very few brokerages that can contemplate that type of investment

S	I would imagine it works in the context of the brokerages seeing AF as willing to share some of their IP and if they break that, it's not a win win for them, but rather the opposite.
C	Exactly, if they need our services, they need it for a reason. They need it to actually "place the risk" because the Insurance market needs to understand the risk, they will require an "underwriting survey" or they have a client who is looking for good Risk Management advice, they don't have those resources locally, they need to bring the resources in and they would rather work with us to help them retain that account or perhaps to secure some new business.. So that is essentially the background to it. Very often we are dealing with our own offices and most of the work stems from there, however we are now getting a number of enquiries coming through from our correspondents that are looking for help, whether it be in the DRC, North Africa, Egypt, Sudan, Liberia, Libya.
S	I'm sure your Intermediaries realize that they will never be the brand Alex Forbes, and this tempers it somewhat?
C	Yes, a lot of them are small to medium concerns and they really value this high level of contribution that we can make.
S	You have covered briefly on your reasons for staying out of certain markets as well as the market research that you undertake before you enter into business.
S	The other question which intrigued me was "how does your organisations in SA compare with those "cross border" in relation to and in the context of those organisations that you have partnered with? Briefly what would you say are the biggest differences and what are the similarities?
C	In the context of AF being the dominant player in the African market, our business has become a very complex business, risks are far more complex than they were 20-30 years ago and that is where you need the input of specialists, be it Risk Engineering or construction or marine, AF has those specialists and these are lacking to a large extent elsewhere in Africa, they don't have that specialist advice in the main and that I think is the differentiator. They may be able to provide the good local service "on the ground" but they just don't have the expertise in handling literally hundreds of major construction or tens of different mining ventures and in our business you have to understand risk extremely well, better than the client does as well as have an understanding of the industry in which the client operates and that is where AF has the expertise. So we have this huge reservoir of "IP" sitting in AF which is available to our partners, which they just don't have in their own countries. Obviously there are issues such as standards and guidelines "which we call the "Forbes Way" which has been developed over many years, we have our own policy documents which are in the majority unique to each client and which meets their specific risk/other needs AF have a huge amount of "customised" information and the development of standards, guidelines and procedures has been developed over many years and which we believe represents "best practice"

	For example our standard “mining wording” for property damage and business interruption is that which is used by “Deloitte’s marketing?? Today. So if you’re a small broker operating in for example Egypt, you just don’t have the resources available to develop those products and procedures. AF has over 4000+ staff and has been in business for over 75 years – that’s our legacy.
S	In relation to the Distribution channel , when you chose a partner, are there any other criteria other than being major players in their respective markets and the fact that they are well positioned.
C	Reputation is key, the mix of the business in NB, as our focus had traditionally been on the Corporate and commercial areas, which is where our business focus is. It would not help focusing on brokerages that for example provide personal cover only, we require brokerages that literally from day one can focus on/respond to our clients needs. In addition they would need to be of a reasonable size as we are going to be spending a fair amount of Snr Management time in managing these concerns, so the business generated needs to reflect a healthy ROI. We have for example had a look at a number of business’s who for example look exciting on paper and then we have looked at their financials and spent the time and realized our error
S	In other words they are looking to you to grow their business instead of a partnership?
C	Yes,
S	Do you apply the same strategy to all markets in terms of countries instead of looking at each in their own context.
C	What I should mention is that the Insurance side of our business developed “Afrinet” as it is today. In addition to Risk, we have financial services/employee benefits hubs in a number of countries also e.g. Kenya, Nigeria, Swaziland, Namibia, Botswana. So in answer to your question we have identified those as “markets” suited to the likes of employee benefits, not all markets are, because in many of the countries there are “national security funds, national pension and medical funds” Again this is another example of really understanding the individual market before you introduce the opportunity. In Kenya for example, we have set up a “healthcare business” , this is the first country where we attempted healthcare as we saw an opportunity in that market. In Nigeria we have been trying to find a suitable “pension fund administration business” In each country there are unique characteristics and opportunities and although in the majority the policy offerings and structures are alike there are occasions where you have a different focus in specific countries.
S	How do you go about attaining your information for the specifics wrt opportunities in individual countries, e.g. The Healthcare opp in Kenya?
C	There is no shortage of data, there are for example various International publications, not all the info is up to date. There is also the individuals working in the markets, our representatives in those markets are able, through the Insurance

	regulatory body able to source that info quite easily.
S	In terms of the labour markets/structures in the individual countries, obviously as RSA we are able to supply the competent resources, how are you finding the labour markets/skills
	This poses a challenge as to find suitably skilled staff/people is not easy so this is a challenge.
S	Are you finding that you are on some levels “subsidizing those skills by providing for example the administrative infrastructure from RSA?”
C	What we try to encourage is for the various operators to send staff to SAfrica for training where they can spend time in our specialised areas and really understand what we have to offer, this is to a large extent part of our “cross selling initiative. It’s not something we have been hugely successful with to date, but it’s a “work in progress”
S	What is your focus wrt the “capital markets”
C	It’s not an area we are overly concerned about, when you analyse a broking business, the key factors are your “broking revenue”. I think we have seen in this market, that if you had to rely on investment income we would go backward. So to a large extent we don’t focus on investment income, but rather ensure that our operational profit is at a high level C Capital markets play a larger role in areas such as employee benefits
S	With their being a fair percentage of “horizontal integration” in your partnerships, as far as the vertical integration are you finding you have to take over other areas of the market to stimulate business, or is that taken care of through your partnerships?
C	I can’t think of anything \AF has done wrt vertical integration with partners apart from joint marketing strategies, e.g. the Indian development in partnering with our correspondents to meet with foreign investors/ major Indian corporations wrt investment in SA. So that has been a joint approach from a marketing perspective, to convey that we can provide senior service, by way of an Indian partner who has “on the ground” global support for them and then as far as Africa is concerned AF can provide support locally. So this would be one example, we do have relationships with Insurers in many countries, we jointly develop exclusive policies and products. This is ongoing and one of the Insurers I am talking to in SA is now looking at a joint venture to target Chinese investors coming into SA as they currently represent such Chinese investors, but they are unable to provide intermediary services. It is a multi-tiered business strategy working with a whole plethora of different networks, each working symbiotically off the other’s strengths and competencies whether it be “Africa business network” or consultants who have relationships in different parts of the world or insurance companies looking to do business here. It’s all about establishing yourself as the company of choice, we have very good relations with “Intellidex”/impardex” who have strong relations within China, so we get certain leads coming from those sources.

	We have very close ties with Hollard SA, they represent two of the major Chinese insurers , A good analogy is when you are “fishing” is it better to have one line or ten in the water? Is challenging to multi task.
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