

## SYNDICATE ASSIGNMENT COVER PAGE

### COMPANY SPECIFIC PROGRAMME

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<b>TITLE OF ASSIGNMENT:</b>	Final Submission

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## Result

**Lecturer Comments:**

[illegible]

**DECLARATION CLAUSE (Syndicate Assignment):**

We, the undersigned, declare that the work submitted in this assignment is our own, and has not been submitted for academic credit in other subjects or courses at this or any other institution of learning. We also declare that all of the undersigned have participated equally in the drafting and presentation of this work.

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Furthermore, I declare that team members not appearing on this list have not participated in this syndicate assignment and should receive a nil mark

 (Signed) 10 March 2014 (Date)

Was the assignment relevant to your working environment?

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**The research conducted is relevant to the current and possibly future work environments of some members of the team members.**

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## EXECUTIVE SUMMARY

The research was undertaken by a group of ILDP students in fulfilment of their program. This research project looks at the challenges that South African retailers face when expanding into other African countries, and presents possible solutions to overcome these challenges. The topic was undertaken in the background of a slowing South African economy compared to the growing economies of other African countries. In doing this research the group interviewed retailers and consultants. In addition the group also interviewed an academic, a manufacturer, a courier company, a company that does its own clearing and the Department of Trade and Industry.

The group identified six major challenges, among others, that retailers face in their quest to expand into other African countries. *Supply chain and Infrastructure* topped the challenge list followed by understanding and interpreting the myriad of *Legislation and Regulations* that exist in the various African countries. In third place were *Bureaucracy and Corruption* with the *Impact of the expansion on the Parent Company and Business Models* coming fourth. The last two challenges the group identified were *Skills Shortages* and a *Lack of Market Understanding and Culture* of the target markets.

The solutions in this research project are a blend of what was put forward by the respondents and what the group formulated. Companies need to recognise that investing in Africa is for the long run. They therefore need to prepare themselves for the longer pay back periods and the deep pockets that are required. Strong relationships with all stakeholders are a key ingredient for success and in some instances partnerships with locals are crucial for breaking some of the barriers to entry. The group agrees with the respondents that South African companies should tailor-make all their business models, processes, policies and procedures to suit the host country and not do a “cut-and-paste” exercise.

The key recommendation made by the group is that companies should conduct adequate and appropriate research before investing in any country. A critical component of this research process must be *immersion* in the target market by relevant personnel from the organisation, to get first-hand experience of the target market rather than relying solely on secondary research. It would also be folly to treat Africa as one homogeneous market. Instead each country should be assessed independently; even be aware of in-country differences. In conclusion the group found that there are real opportunities and huge rewards to be reaped by South African retailers wanting to expand into the rest of Africa, as long as they do their homework and are willing to be in it for the long run.

## INTRODUCTION

Since the year 2000 Africa has experienced impressive GDP growth rates relative to other continents, averaging 6% (Saville and White, 2013). Not only has Africa's growth been impressive but it has been consistent over the past 10 years, with some countries experiencing double digit growth rates. This growth has been fuelled by foreign direct investment and the emergence and growth of the middle class (Wood, 2013). An analysis by an economist of the IMF finds that over the ten years to 2010, six of the world's ten fastest-growing economies were in sub-Saharan Africa and based on 2011 to 2015 forecasts, Africa will grab seven of the top ten places (Economist Online, 2011). While African economies are on the rise, growth in the developed world has slowed down significantly to low single digits and has continued to decrease (Wood, 2013).

Despite the above, according to the research by Ecobank (Togo based bank), only 12% of African trade is with other African countries and the rest of the trade is with Europe and America. In contrast, 60% of European trade is within Europe. According to Principles of Trade (Kalaba), as recent as 2006 South Africa's export to African countries was only 14%, while 54% of the total exports were to the developed world.

South Africa's GDP growth in contrast to the rest of Africa has followed that of the Western world averaging around 3%; this can amongst other reasons be attributed to South Africa's reliance on trade with Western countries more specifically the EU and as a result the economic growth has somewhat been linked to the average performance of these Western economies (IMF: Selected Country Groups Data, 2013). South Africa being one of the biggest economies on the continent has failed to realize the potential of these emerging African countries and its lack of intra-regional trade on the continent could be one of the contributors to its low GDP growth.

The growth in GDP, coupled with the fact that Africa will have a larger population than both China and India by 2050 and the youngest and potentially productive population by 2020 (McKinsey Global Institute, 2012, 1-2), means that South African retailers should be actively identifying new markets and business opportunities on the African continent.

The South African retail sector is one of the biggest employers in the country contributing 13.4% to GDP and employs 23.3% of the country's active labour force (SA Retail Council, 2013). The sector is reeling from depressed consumer demand due to the effects of the recession with aggregate retail volume sales only expected to grow by 3.45% over the

period 2013-2016. This is according to a report titled “Retailers in for rough post-recession ride” (Moorad, Oct 2012) quoting PwC’s report, which is entitled South African Retail and Consumer Products Outlook: 2012-2016. This slow growth is linked to the low growth in GDP which is not contributing to employment creation. The sector is also affected by local factors such as the high cost of electricity, fuel, retail occupancy costs and wages. All of the above is putting strain on retailers, the report states.

Given the slow growth rate in the industry and the country, and the retail sector’s key role in the economy, South African retailers need to look at other strategies to sustain the sector and accelerate growth; the rest of Africa offers a clear opportunity taking into account its current growth rate and future potential. This research seeks to identify the key challenges that retailers will face by expanding into the rest of Africa and aims to produce recommendations to overcome these challenges.



## **AfRetail (Group 5): PROJECT PLAN**

### **Topic: Cross border trade in Africa – Challenges and Solutions**

Post- apartheid, South Africa has traded largely with Europe, North America and Japan more than other African countries. 2008 saw most of the developed countries being hit by the financial crisis which led to an economic meltdown, high unemployment levels and suppressed demand. On the contrary the majority of the African countries started experiencing economic growth and according to the Visa Africa Integration Index report, Africa currently has countries with the highest economic growth rates in the world. The rest of Africa is experiencing growth rates averaging 6% while South Africa's growth rate is hovering below 3%; it therefore makes business sense for South Africa to intensify its efforts to expand into the rest of Africa.

This topic is key for the survival of the South African retail industry as it aims to identify the challenges of doing business with the rest of Africa, where the opportunities lie and most importantly providing practical possible solutions on how to navigate around those challenges. By expanding into the rest of Africa the local retailers will create jobs thereby reducing poverty, and improve profitability and market share. This will also lead to skills transfer and collaboration among different African companies and countries.

#### **Definition of Key Topic Concepts**

1. Cross border: Across country borders.
2. Trade: Exchange of goods and services; between willing parties; benefitting both parties.
3. Africa: Countries within the African continent.
4. Challenges: Inhibitors; Difficulties; That which prevents flow; Problems; Barriers; Obstacles.
5. Solutions: Successes; Answers; That which enables; Leads to accomplishment and achievement; What works.
6. Retail Sector: Brick and mortar facilities where fast moving consumer goods and services are sold; Online buying and selling of fast moving consumer goods and services.

## **Boundaries**

The research will be limited to:

- Trade between South African retail companies and African countries;
- The retail sector;
- Brick and mortar retail as it focuses on physical expansion into Africa;
- The top challenges as revealed by our findings.

## **Constraints**

- Availability of data for selected countries;
- Where data is available, currency and accuracy may be of concern;
- Securing timeous appointments/ failure to secure appointments with some stakeholders due to their busy schedules;
- Non response to questionnaires.

## **Stakeholders & Immersions**

To assist in the research process, the team have identified the following stakeholders, some of whom are already doing or facilitating business with the rest of Africa:

- South Africa: Certain large retailers who wish to remain anonymous, Smollan, the Department of Trade and Industry, Project sponsor, Ministry of Transport, RTT Intelligent Logistics, Massmart, Trade Kings, Statistics South Africa, Expeditors, South African Revenue Services, Bakers Transport, any other suitable companies identified during the course of the research.
- Canada: Dr. Catherine Chandler-Crichlow (Centre of Excellence in Financial Services Education), Sebastian Distefano (KPMG Consumer Markets Partner), Hans Brenninkmeyer (Independent Consumer Goods Professional), Hudson's Bay Company, Loblaws, No Frills, Superstore, Canadian Tire Corporation, Kevin Graff President (Graff Retail).
- USA: Patrick Dolan (KPMG), Fairway Market, Wegman's, Academics (Penn State University).
- Kenya: Muchiri Wahome (Deacons), Dr Frank Aswani (African Leadership Academy).

We conducted our international and local research using the following tools / methods:

- Internet, Questionnaires, Face to face interviews.

## **Research Objectives**

- Identify challenges in doing cross border trade specifically focussing on the most common ones as highlighted by professionals, respondents and participants;
- Provide possible practical solutions to the identified challenges to assist South African retail companies to deal with the challenges of doing business with the selected African countries.

## **Questions**

Below is a list of key questions which we used as a querying framework to work towards our objectives as defined above:

- What are the challenges being faced by South African companies that are already doing cross border trade in Africa?
- How important is cross border trade in Africa to South African businesses?
- Where is the retail trade potential in Africa?
- What are the broader controlling trade legislation, regulations and policies that affect retail trade in Africa?
- How do retailers assess the viability of each country in which they plan to trade?
- What can be learned from the many South African companies that have already expanded into the rest of Africa?
- What are the captains of industry in the African continent doing to facilitate retail trade across African borders?
- What is the role of regulatory authorities in mitigating the challenges associated with cross border trade in Africa?
- What role is the South African government playing in facilitating cross border trade?
- What are the infrastructure challenges which affect retail trade in Africa and how can they be improved?
- How does an entity manage multiple border crossings in the process of delivering the goods to its destination of trade?
- What are the additional costs associated with retail trade in Africa, in comparison to local retail?
- How important is culture when considering cross border trade in Africa?

**The “Boundaries”, “Constraints” and “Questions” documented above, were based on the team’s preliminary discussions, reviews and assessments and were altered/amended as the project unfolded.**

## **LITERATURE REVIEW: Cross Border Trade in Africa – Challenges and Solutions**

### **Introduction**

This literature review seeks to evaluate the current body of knowledge on cross border trade within the African continent. The literature that will be searched will include online papers, white papers as well as research by various consulting agencies. The main purpose of this review is to see what has been identified as the barriers/challenges to doing business within Africa and what solutions have been documented. The scope of the literature review will be limited to the perspective of South African retail companies doing trade with the rest of Africa.

### **Background**

Since the year 2000 Africa has experienced impressive GDP growth rates relative to other continents, averaging 6% (Saville and White, 2013). Not only has Africa's growth been impressive but it has been consistent over the past 10 years with some countries experiencing double digit growth rates. This growth has been fuelled by foreign direct investment and the emergence and growth of the middle class (Wood, 2013). The Visa Africa Integration Index Report also quotes the following as the key drivers of Africa's unprecedented rise: Robust commodity prices and new sources of demand; improved economic management and policy platforms; Debt relief and sustained debt improvement; and Africa's "demographic dividend" (Saville and White, 2013, p8)

On the other hand growth in the developing world markets has slowed down significantly to low single digits and has continued to decrease (Wood, 2013). According to Principles of Trade (Kalaba), as recent as 2006 South Africa's export to African countries was only 14%, while 54% of the total exports were to the developed world. Given the economic meltdown in most of the developed world it makes sense for South African companies to look at going into other African countries.

In Africa Rising White Paper (Wood, 2013), the largest markets are Kenya, Nigeria, Ethiopia, Angola, Ghana and South Africa, based on GDP and demographics and the Working Paper No.23 by the Development Bank of Southern Africa (DBSA) also backs this finding.

## Challenges

Femi Adewunim in an article (Expansion into Africa: Challenges and Success Factors Revealed) lists the following challenges of doing business in Africa:

- Skilled labour
- Understanding local consumers
- Finding the right physical resources
- Regulatory requirements
- Accessing capital

This is collaborated by the DBSA working paper No.23 which also cites “poor or non-existent infrastructure; regulatory and tax uncertainty, which creates planning problems and unexpected costs; difficult and costly logistics (linked extensively, but not exclusively, to infrastructure deficiencies); a surfeit of bureaucracy, which creates bottlenecks and inefficiencies; the absence of effective legal frameworks; corruption; skills shortages; and currency fluctuations (Games, p.9).” The challenge of understanding local consumers is also highlighted in the same article as part of secondary risk due to the challenge of understanding local business and language cultures. This article concurs with Adewunim, (2011) on the difficulty of accessing capital as well as the fact that banks view Africa as a high risk territory, but argues that this is more due to a poor business case presentation by companies as well as companies requesting funding in risky sectors rather than a case of Africa being perceived as risky by banks.

The above is also cited by Wood, 2013 who says that poor or lack of infrastructure is one of the big challenges of doing business in Africa which leads to an increase in business costs. This is made worse by critical skills shortages especially at middle and senior management for Fast Moving Consumer Goods (FMCG) companies. The few that are available become very expensive as companies compete for them further increasing the cost of doing business.

Rudi van Blerk in his working paper A Brief Overview of Intra African Trade in East and Southern Africa: Kenya, Zambia and Uganda (van Blerk, 2013) argues that although a lot has been done to reduce trade barriers among African countries, infrastructural challenges, especially electricity and road networks, and restrictive regulations such as high tariffs and customs procedures still inhibit trade. He also adds that despite these challenges some

countries like Kenya, Zambia and Uganda have made significant strides in growing intra Africa trade.

## **Solutions**

Despite the challenges, the existing body of literature agrees that there are opportunities for cross border trade within Africa provided one employs good business judgment and is prepared to rise above these challenges as evidenced by the success of companies like Unilever (Saville and White, 2013).

Wood offers clustering as a way of navigating the challenges of understanding local cultures and infrastructure whereby a company can group markets together with a lead market where it operates from and then exports to the other countries around the anchor market. Market blocs like East Africa, Southern Africa and West Africa have similar consumer habits and usually the same business language. Localization of products is another strategy offered by Wood to gain local market share, a strategy successfully implemented by companies like South African Breweries (SAB) who manufactured beer to suit regional tastes.

Although regulations can be cumbersome, Jaco Maritz in his article "*Words of wisdom for doing business in Africa*" recommends working closely with local governments to gain support and involving local people by purchasing locally. According to the Visa Africa Integration Index report the problem of non - existent or poor infrastructure can be overcome by allowing information and knowledge flow using technology.

## **Conclusion**

South African companies can definitely benefit by engaging in cross border trade with other African countries; the opportunities are evidenced by the economic growth rates tabulated in the reviewed literature. Undoubtedly this comes with challenges however these challenges can be overcome through adequate research and investment and by simply being realistic and business savvy.

## **PRESENTATION OF FINDINGS**

The pages that follow include a tabular presentation of the consolidated findings of the group's research for both the international and local leg of the study. Certain challenges were combined in summarizing e.g. supply chain was combined with infrastructure.

All the international retailers that we visited had no "African" experience and only limited insights around our research topic were gained from our discussions with the international consultants. Many of the local respondents, on the other-hand, have experience in "Africa" and were willing to share information with the research team, particularly their learning's; however the retailers notably were not willing to have their names divulged in this document.

Responses were received from KPMG consultants (international), a number of retailers, and a manufacturing company, a company that does its own clearing, a courier company, and an academic. Responses were also received from the Department of Trade and Industry. As anticipated in the constraints, a consultant who was sent a questionnaire did not respond and we were unable to find a clearing agent who was willing to participate in the research.

## Summary of Challenges and Solutions (Refer to Appendix 15 for the individual responses)

<u>Challenges</u>	<u>Solutions</u>
<p><b>1. Understanding local legislation and inconsistent enforcement of legislation</b></p> <p>Although legislation is in place the enforcement of rules is not consistent.</p> <p>There are also different laws in the various markets.</p>	<ul style="list-style-type: none"> <li>• Thoroughly research legislation and make use of local experts; avoid rushing to invest. Be aware of subtleties.</li> <li>• Liaise with local authorities; use of regional trade blocs; consider using the guidelines and assistance provided by DTI's and Embassies.</li> <li>• Build flexibility into your operating models; consider joint ventures or partnerships. Understand the potential impact and how this will affect the organisation and its ability to remain competitive in the market.</li> <li>• Make use of local clearing agents if importing any materials, equipment and machinery.</li> <li>• Meetings with law firms (particularly those that are already operating in that country), bankers, auditors/accountants, clearing agents, property developers, and general service providers are all considered valuable.</li> </ul>
<p><b>2. Lack of education and skills</b></p> <p>The necessary levels of education and skills may be lacking.</p>	<ul style="list-style-type: none"> <li>• The recruitment process should start long in advance in the new market, which would allow for effective training and skills development required to make the venture a success.</li> <li>• Send senior employees to South Africa to acquire the necessary skills first hand.</li> <li>• Depending on the operation and the relevant workplace legislation, send a trainer to the host country.</li> </ul>



<u>Challenges</u>	<u>Solutions</u>
	<ul style="list-style-type: none"> <li>• Include in the senior staff structure an employee from South Africa (legislation permitting).</li> <li>• The training structure should suit local skill levels and cannot be a cut and paste of the South African training structure and material. Include the costs of this training in the budget for set-up costs.</li> </ul>
<b>3. Supply Chain and Infrastructure</b>	<ul style="list-style-type: none"> <li>• Extensive investment in the entire supply chain system is required to ensure the availability of product and services.</li> <li>• Target investment in established malls.</li> <li>• Consider partnerships.</li> <li>• Consider buying existing businesses.</li> <li>• Consider procuring as much as possible locally; however, be aware of the potential unreliability of local suppliers and its effect on the business.</li> <li>• It is critical to employ the services of a local clearing agent who has the necessary knowledge and business relationships with the local port, revenue and customs authorities. Routes must be carefully planned.</li> <li>• Investment in technology to support the African operations is imperative.</li> <li>• Air freight is an alternative solution but does come at a very high cost.</li> <li>• Proper financial analysis must be conducted; be prepared for huge cash outflows before getting positive returns.</li> <li>• Consider having longer sell-by dates and safety stock to mitigate the effects of delays in the delivery processes.</li> </ul>

<u>Challenges</u>	<u>Solutions</u>
4. <b>Lack of Market Understanding and Differences in Culture</b>	<ul style="list-style-type: none"> <li>• Local immersions are important.</li> <li>• Proper due diligence and intensive research using professionals.</li> <li>• Build nimble structures that can adapt as experiences are gained; go in slowly and expand as the experiences are gained.</li> <li>• Learn from employees.</li> <li>• Use of SA Government intelligence.</li> </ul>
5. <b>Bureaucracy and Corruption</b>	<ul style="list-style-type: none"> <li>• Build strong relationships with all stakeholders based on trust.</li> <li>• Be candid when faced with corruption and politely refuse to offer bribes.</li> <li>• The correct documentation, and submission in advance, allows you to meet the requirements and attain the required documentation to earn a crossing.</li> </ul>
6. <b>Impact on Parent Company and Business Models</b> The additional pressure and challenges that the expansion places on existing internal infrastructure could become a stumbling block as the necessary time and effort may not be allocated to ensure success.	<ul style="list-style-type: none"> <li>• A separate business unit or department must be formed to deal with the expansion, the additional workload, and challenges; this will ensure that resources are dedicated to the area and that the focus is not lost.</li> <li>• Be prepared to wait a little longer before reaping returns on investments.</li> <li>• Manage cash flows carefully.</li> <li>• Each market must have its own tailored operating model.</li> </ul>
7. <b>Getting reliable information relating to the foreign market</b>	<ul style="list-style-type: none"> <li>• Interacting with business partners that may already have interests in the market including banks, manufacturers, private equity firms, and even fellow retailers, etc.</li> <li>• Registering with the CENTRE FOR DYNAMIC MARKETS at GIBS.</li> </ul>

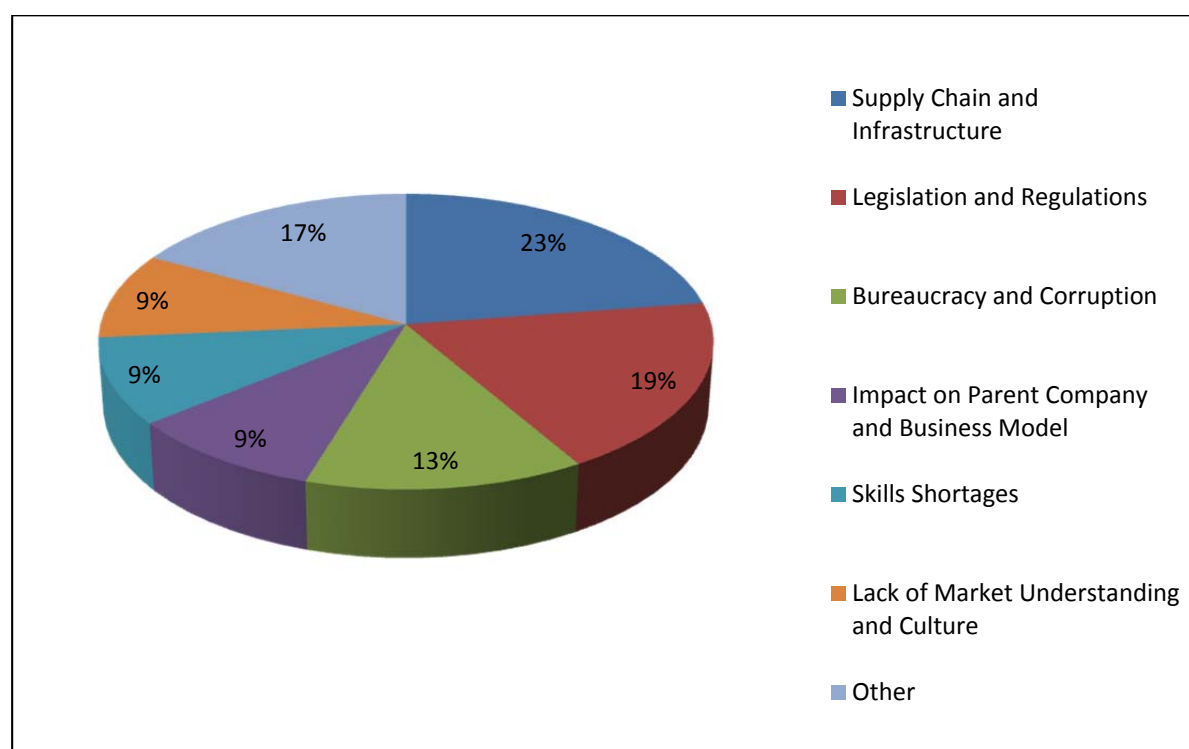
<u>Challenges</u>	<u>Solutions</u>
<p>8. <b>Political Risk</b></p> <p>Political risk and the unpredictability of doing business is a reality in Africa.</p>	<ul style="list-style-type: none"> <li>• Design a robust business disaster management plan; adequate insurance cover against incidents such as terrorist attacks is imperative.</li> <li>• In relation to the couriering of goods, it is not advisable to travel at night and during political instability and the route used has to be changed (if possible) to avoid the political unrest.</li> </ul>
<p>9. The possible impact of <b>reverse image</b> which is the tarnishing of the mother brand in the country of origin as a result of doing business in a country that has business policies that are not viewed favourably internationally e.g. the use of child labour.</p>	<ul style="list-style-type: none"> <li>• None offered</li> </ul>
<p>10. <b>Currency risk</b> due to volatility in the exchange rates between the target country and the country of origin of the company or, the US dollar and the 2 countries' currencies.</p>	<ul style="list-style-type: none"> <li>• None offered</li> </ul>
<p>11. The threat of <b>counterfeit goods</b> due to the prevalence of informal trade in emerging markets which can reduce profitability.</p>	<ul style="list-style-type: none"> <li>• None offered</li> </ul>
<p>12. <b>Health and Safety</b></p>	<ul style="list-style-type: none"> <li>• The negotiated Tripartite Free Trade agreement aims to harmonise and standardise dealing with issues related to Sanitary and Phytosanitary measures.</li> </ul>

## DISCUSSION OF FINDINGS

In summarizing the challenges per respondent group, the picture below emerges:

Challenge	South African Retailers					African Retailer	International Consultants & Retailers	Academics	Manufacturer	Public Institution – DTI	Clearing Agent	Courier Company	Count
	1	2	3	4	5								
Supply Chain and Infrastructure	x	x	x	x	x	x	x	x	x	x	x	x	12
Legislation and Regulations	x	x	x	x	x	x	x	x		x	x		10
Bureaucracy and Corruption			x	x	x		x	x		x	x		7
Impact on Parent Company and Business Model	x	x	x					x	x				5
Skills Shortages	x			x	x		x		x				5
Lack of Market Understanding and Culture				x		x	x	x		x			5
Reliable Information	x			x				x					3
Political Risks						x						x	2
Impact of Reverse Image							x						1
Currency Risk							x						1
Counterfeit Goods							x						1
Health and Safety										x			1

Using the number of times each challenge was mentioned by the respondent group, the top challenges are **Supply Chain and Infrastructure**, **Legislation and Regulations**, **Bureaucracy and Corruption**, **Impact on Parent Company and Business Model**, **Skills Shortages** and **Lack of Market Understanding and Culture**. Due to the number of challenges highlighted by the respondents only the top 6 will be discussed. The chart below shows the weightings of each challenge.



*Top 6 Challenges*

It is interesting to note how retailers and consultants cite similar challenges in cross border trade with the exception of **Impact on Parent Company and Business Model**. Considering that the retailers interviewed are currently trading in a few countries in the continent, it confirms that the research done by consultants and academics is spot on.

### **Supply Chain and Infrastructure**

The academic has quoted a staggering R93 billion as the estimated amount required to improve Africa's poor infrastructure. This amount is just to fix roads and ports. All respondents agreed that there is a huge initial investment that must be factored into the set up costs to overcome this challenge. However, this is only to cover buildings and power requirements for use by the investing companies. For any operation to be truly successful, companies must assess the impact of poor infrastructure to the whole supply chain and adjust the business model in line with the new environment. The matter of adequate funding

and return on investment becomes an issue as the payback period in most of these projects is longer due to the high initial investment. A case in point is Woolworths's investment in Nigeria and how, based on media reports, it pulled out very early citing low returns.

Although some retailers offered the solution of choosing to operate in well- established malls this eliminates only some of the infrastructural challenges but not all. The fact that a mall in a country is "up-market" and has good infrastructure does not preclude it from the effects of the poor infrastructure in other parts of the supply chain like the roads, rail, ports and telecommunications that supply goods and services to that mall. This is a narrow view of the supply chain and its effect on a business.

### **Legislation and Regulations**

Legislation plays a huge role in determining the success or failure of an organisation operating in a foreign country and especially in Africa. Not only are there a multitude of rules and regulations but interpretation and enforcement differs from country to country and sometimes within regions. In addition, stability of policies can be an issue. The movement of goods, equipment and people into a country for the efficient operation of a business is governed by legislation and so do employment contracts, financial transactions and all facets of conducting business. It is therefore imperative that legislation is thoroughly researched and understood by retailers wishing to do cross border trade. The fact that in some countries different rules apply to local and foreign companies (Zimbabwe is a case in point) makes it very difficult for South African companies to be competitive in the rest of Africa.

All respondents who cited this as a challenge emphasized the importance of using experts to navigate this hurdle due to its complexity. One of the retailers is relying heavily on its local staff in order to comply with the legislation. This strategy can have its pitfalls as staff can take advantage and enforce selective compliance. Although the experts can advise on the legislation and its interpretation there is no solution offered on the inconsistent enforcement of the legislation. It is one aspect that companies will just have to deal with when it happens.

### **Bureaucracy and Corruption**

All the groups interviewed mentioned bureaucracy and corruption as major stumbling blocks in cross border trade. Although respondents tried to offer solutions on bureaucracy very little was forthcoming regarding how to deal with corruption. Only one retailer offered a solution in the form of being upfront that they are not prepared to be involved in corrupt activities. However this solution has pitfalls as the corruption is not always blatantly expressed and may come in very subtle actions. Also, it will not be considered business savvy to make such

a brazen statement in a foreign country where one wants to do business; therefore the practicalities of this solution are questionable. From the responses it is clear that the level of bureaucracy increases the cost of doing business with the rest of Africa. There is however some encouraging news from the African governments with the formation of the Free Trade Area (FTA), which will substantially reduce paper work and standardize processes. It remains to be seen when the FTA is in place whether its aims will be translated into action on the ground to facilitate cross border trade within African countries.

### **Impact on Parent Company and Business Model**

Expansion into the continent places additional pressure on the existing internal infrastructure of the investing company. This could become a stumbling block as the necessary time and effort may not be allocated sufficiently to ensure success. A clear expansion strategy and a dedicated team must be established to ensure that adequate focus is given to the project and ongoing operations.

### **Skills Shortages**

Three retailers mentioned skills as a challenge as well as the consultants and the manufacturing company. One glaring observation is that the academics did not mention lack of skills as a challenge when doing business with the rest of Africa, which poses the question whether this is a perception from retailers or a lack of understanding of the differences in skills between South Africa and the rest of Africa by the academics. Yet the academics are experts in this area. This is an interesting point given the level of skilled migrants in South Africa from other African countries.

A possible explanation is the fact that South Africa is more technologically developed than most countries in the rest of Africa. Therefore, the local staff might not have had exposure to the information technology systems and operating processes and procedures that the company will have set up. This poses a further question of whether the retailers are operating appropriately by cutting and pasting the South African business models into the markets that they go into; do those markets and customers really require those kinds of complex structures? Given the buying power in some of the African markets and the nature of competition (counterfeit goods and informal traders with very low overheads) this model is likely to increase the cost of doing business and thereby reduce competitiveness. Only one retailer (Retailer 5) takes cognizance of this in their recommendations by cautioning companies not to use “cut and paste” methods but rather look at coming up with store structures that cater for local needs while, the rest of the respondents offer training of staff in South Africa as a solution to this challenge.

## **Lack of Market Understanding and Culture**

Cultural differences pose a huge challenge when going into a foreign market. It is interesting that 4 of the retailers (Retailers 1, 2, 3 & 5) did not directly mention culture as one of the challenges in cross border trade. This could explain why some companies fail when they try to go outside South African borders; because they do cut and paste exercises and impose South African tastes, processes and structures on the rest of Africa. This was emphasized by academics and consultants as one of the biggest mistakes companies make. South Africa has traditionally been the big brother in Africa because of the size of its economy and level of infrastructural development and it looks like this has seeped into how companies approach their African expansion strategy.



## PROPOSED SOLUTIONS

Of the solutions provided by the respondents, these are the ones that the group believes will work for South African retailers wanting to do cross border trade with the rest of Africa, together with some solutions from the group.

The group agrees that by building strong relationships with all stakeholders within the country, and making use of various relevant arms of the South African government such as the Consulates in the concerned countries and the Departments of Trade and Industries, bureaucracy can be minimized. However, the retailers need to take time to research who the relevant stakeholders are that can assist in making the wheels turn faster. Companies must realize that bureaucracy is a reality that must be dealt with if they want to do business in Africa. Businesses should have clear policies dealing with bureaucracy and corruption, if they do not already have them, when entering these African markets. Although companies cannot completely route out corrupt activities, they could counter its prevalence by not taking short cuts in their business deals and by being very clued up with the legal nuances in the countries they intend to operate in. Being thoroughly prepared, through adequate research and planning i.e. not doing things at the last minute, as well as having followed all the relevant channels, limits the need to then be caught in a situation where one needs to offer bribes to have paperwork processed. They must be aware of the unforeseen costs related to bureaucracy and corruption and how this will affect their competitiveness in the market place; the viability assessment must adequately account for this cost in determining whether or not the venture is worthwhile. It is recommended that specific strategies are identified to deal with bureaucracy so that it does not lead to corruption. The trading blocs' initiatives to harmonise custom procedures will also attempt to reduce the bureaucracy and corruption. The establishment of the Tripartite Free Trade Area (SADC, COMESA and EAC), planned to be launched in October 2014, will also ensure that there is effective flow of goods between the existing Blocs. If foreign companies doing business in the same country collaborate and form associations where they all have a code of not offering bribes and adhere to it, then the practice will in time die down.

Infrastructural challenges such as rail, road, port and power can only be improved if all companies play active citizens roles by joining hands with local companies and lobbying the governments to upgrade and maintain infrastructure. Companies also need to engage in public private partnerships to develop and maintain key infrastructure. An example of this model is the partnership between the city of Toronto and the financial sector to develop and strengthen the financial sector in the city, which has been very successful. For this to

happen the private sector should not see it as Government's responsibility to develop and maintain key infrastructure; they should put proposals on the table and the government should view the private sector as a strategic partner rather than a source of tax. Awareness of infrastructure constraints and its impacts on the business are key as this may be as far reaching as rethinking the business model to adapt to these infrastructure challenges. Existing supply chain models must be scrutinized in the context of the new market, as what is currently working may not be the most efficient way in these new markets. This may lead to some tweaking of these models to attain the required efficiencies. To illustrate this, Muchiri Wahome of Deacons in Kenya, explains that due to poor infrastructure and the logistical delays, goods departing from the Durban port will reach Mombasa in 15 days and will take a further 18 days to cover the 500 km's to Nairobi by road. These types of problems have resulted in all goods being flown to Nairobi from South Africa to mitigate the delays. This does however come at a very high cost and results in a Free on Board (FOB) shipping ratio to cost as high as 15 to 18%, whereas world standard is around 7%. Finding alternative sources locally will not only have a positive effect on the business but also the market. Deficiencies in any of the different modes of transportation could prompt that alternative modes and/or hybrids be identified. All this could impact replenishment cycles and the amount of goods that are being purchased and shipped at a time. Throughout our research, employing the services of a local clearing agent who has the necessary knowledge and business relationships with the local port, revenue and customs authorities was cited as key to overcoming supply chain challenges. When selecting a clearing agent it is important to assess the capacity of their business especially relative to the volumes you intend on moving.

A comprehensive understanding of legislation as well as keeping up to date with any changes will be crucial and can potentially save businesses from incurring additional costs, having goods confiscated or delayed. This can either be done internally or outsourced as there are companies which will specifically focus on the countries' legislation allowing the business to focus on its core competencies. On the issue of legislation nothing beats proper research and understanding of the intended destination country instead of hastily going in and then violating legislation resulting in facing hefty fines, or worst case, expulsion, or pulling out prematurely without achieving the return on investment. Companies should take a decision not to invest in countries where they know that they will not be able to comply with some legislation rather than be lured by the rate of return and take the risk and hope things will somehow turn out in their favour. Many South African accounting and auditing firms offer free emailed updates to their clients on changes in legislation and regulations. Ernst and Young for example provide "Tax Alerts" to their clients, which summarize changes in tax

laws, as and when these change, in many countries across Africa. The full tax alert is also available in their email communication. The Department of Trade and Industry also provides guidelines to trade legislation of various countries and, companies should use this resource to familiarise themselves with critical legislation of the countries it intends to trade in. There is also a law firm in Cape Town who, through a subscription model, offers access to a comprehensive database of legislation and publications of industry regulators for both South African and African countries. The cost of subscription depends on the services subscribed to. These services include a daily email update of any legislative changes or publications issued including a link to a “nutshell” summary of the implications and a link to the actual publication.

The group agrees with the respondents on how to handle cultural differences which is research, immersion before investing to experience the local culture, partnering with locals and formulating country specific strategies. This could potentially affect trading times and days, as well as the way contracts of employment are approached. Over and above these recommendations the group also recommends that retailers, after due diligence, trial their business at a small scale in their country of interest, gain hands-on experience and then make incremental expansions if the business model allows, instead of just going for the full scale investment at once. This approach will allow the companies to tweak their business processes as they go along using the learning’s gained. This will prevent huge costly mistakes. Regular visits by senior members of business prove valuable in understanding first-hand, the nuances related to the foreign markets and cultures.

If a retailer finds opportunity in a country that has skills as a challenge, the solution as proposed by the respondents is training but not necessarily bringing them to South Africa to be trained here, as the South African market and consumer is not necessarily the same as that of the host country. This cut and paste approach assumes that all African markets are homogenous which is not true. Companies need to tailor-make their business processes to suit the needs of the host country in a profitable way, and then address the skills gap based on this. Local trainers who understand the learning styles and cultural nuances of the host country are better positioned to impart knowledge and skills to their own people if they are available.

The fact that retailers are still very far from collaborating with one another within the African context was clearly evident throughout our research. However, responsible collaboration, obviously without divulging trade secrets, has to be the way forward. Examples of this would

be the knowledge sharing and potential cost savings related to the collaborative “bulk” shipping of goods and the potential power of collaborative negotiations with regulators.

Despite the numerous challenges and hurdles within the African continent, proper due diligence and investing for the long run will ensure that South African retailers become successful in the rest of Africa. This can be seen from local retailers like Shoprite/ Checkers that have invested in the long run and seems to be way ahead of any other retailers in these markets. They started their African expansion in 1990 and have built their African footprint across 16 African countries. Deloitte's Global Powers of Retailing 2013, names The Shoprite Group as the largest retailer in Africa.

Through-out our project, we have made reference to “Africa”. We must however, point out that each country in Africa is unique and must be seen as such in every aspect of business expansion.

There is no one correct solution and retailers would have to carefully weigh up how they will approach these markets, whether by acquisitions, joint ventures or starting on a smaller scale and expanding from this base.

## OUR KEY RECOMMENDATION

The challenges associated with retailing in Africa are real. Our proposed solutions on pages 25 – 28 are aimed at assisting retailers with navigating those challenges and reducing risk. In formulating our solutions, the team realised though, that there was one key common-thread recommendation which formed the basis of successes in Africa. The "*conduct of adequate and appropriate research*" was raised as a critical success factor throughout our research, irrespective of the challenge being faced.

We questioned whether something so elementary could really be the critical ingredient to success. As a result we used a decision making matrix as a tool to assess 5 of our proposed solutions. This process involved ranking the 5 proposed solutions against a selected set of business decision making criteria that supports the strategic and operational objectives of going into the rest of Africa. The decision making criteria applied were:

- does the solution positively affect the return that your business will generate,
- is the solution implementable, and
- is the solution cost effective.

The solution with the highest score was then selected as it best met the business strategic and operational objectives. (Refer to Appendix 16)

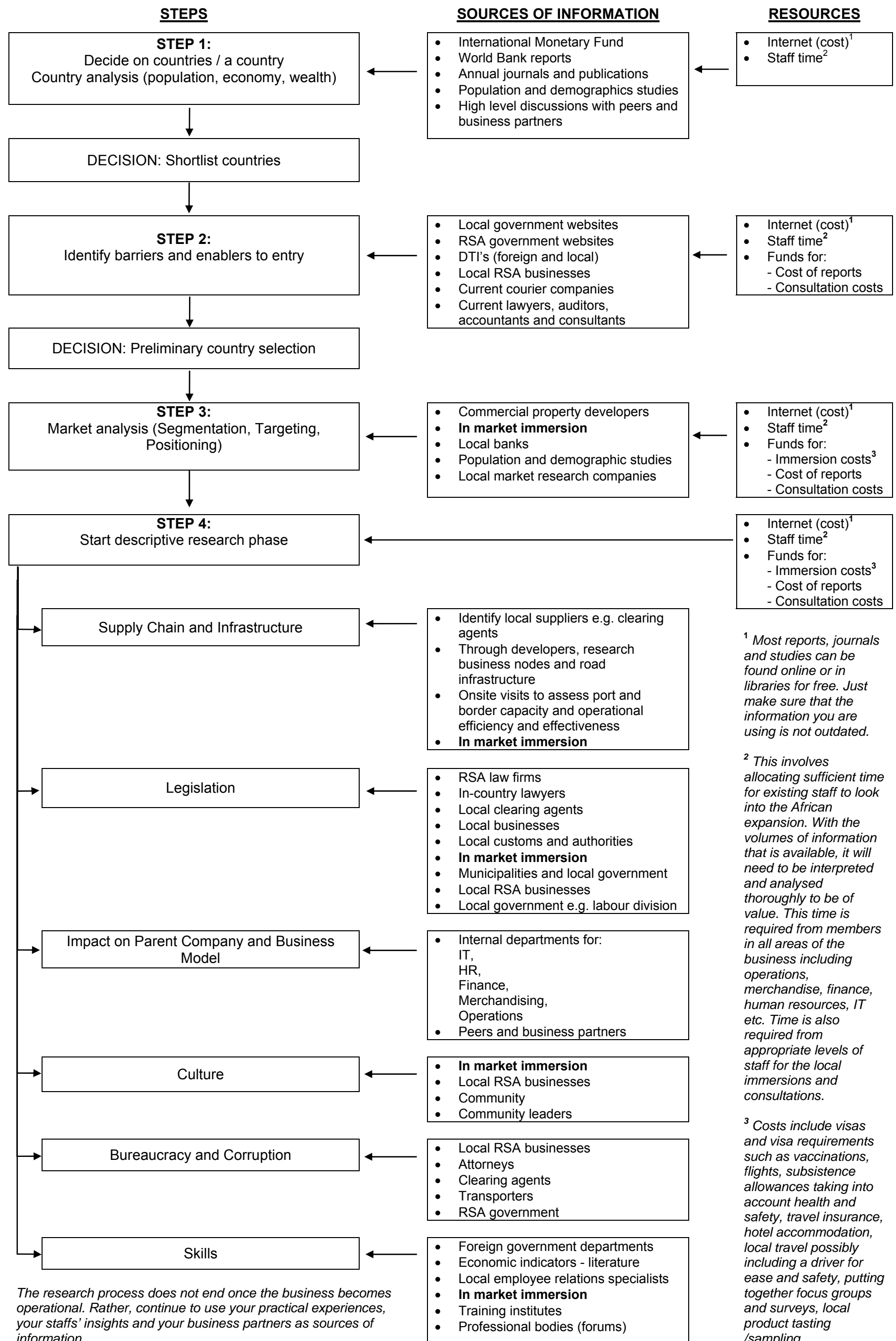
The alternative solutions were going into partnerships, ensuring that the company has the right skills, investing sufficient financial resources and tailor-making the local business model to meet the requirements of the chosen market. All of the alternatives hinged on having conducted adequate and appropriate research. In order to decide on a partnership strategy a company first needs to have researched whether this is the best entry strategy for the chosen market. Furthermore, in selecting their business partner, the company must have conducted adequate research around the potential business partners prior to binding themselves to a relationship. Similarly, to determine the skills required, research first needs to be performed on the market culture and the best way to meet the needs of that market. To determine the right amount of financial resources needed, a company has to start with researching the capital outflows required to service the target market taking into account factors such as additional infrastructure related costs, labour related costs etc., all based on sufficient research. Likewise, without adequate research a company cannot determine whether cutting and pasting its current business model into the new market will work or if they will need to tweak it. Having considered all the alternatives the group was in no doubt

that any successful strategy for a retailer wishing to go into the rest of Africa, be it strategic, operational or tactical, would have to be based on adequate research. The exercise confirmed the value of conducting research throughout the process, from exploratory research when deciding on a target country, to descriptive / more focused research when assessing the feasibility of the venture. The research process should be ongoing, and should continue even once the business becomes operational.

We reflected on our own research conducted, and realised that many of the mistakes made and costs incurred by the retailers and business partners who participated, could have been avoided or minimised if they had conducted more descriptive research. This forms the basis of our business case on pages 32 - 34.

As a result, we have designed the process flow on page 31, which provides a 4 step approach for retailers to follow when conducting their research. At the same time, we have provided, for each stage of the research process, the possible sources of information.

Based on our literature reviews, interviews and surveys conducted, it must be noted that although there are a number of sources of information for research, *local immersions by the appropriate individuals in the business* is crucial and should never be substituted by the other sources of information.



The Business Canvas				
As mentioned on page 29, when it came to one key recommendation the group identified <i>adequate and appropriate</i> research as the critical factor for success when selecting where to trade, specifically citing local market immersion by the right level of people in the organisation. Below is a business model canvas of the recommendation.				
Key Partners	Key activities	Value Proposition	Customer relationships	Customer segment
<ul style="list-style-type: none"><li>• Academics</li><li>• Government Departments</li><li>• Other Retailers</li><li>• Clearing Agents</li><li>• Suppliers</li><li>• Transport Companies</li><li>• Legal Experts</li><li>• Accountants / Auditors</li><li>• Staff</li><li>• Potential Customers</li></ul>	<ul style="list-style-type: none"><li>• Immersion</li><li>• Consultation</li><li>• Feasibility analysis</li><li>• Collaboration</li><li>• Reading</li><li>• Interviews</li></ul>	A 4-step guideline coupled with sources of information, for researching cross border trade, leading to educated decisions and reduced risk around cross border trade into Africa.	<ul style="list-style-type: none"><li>• Solid, sustainable, mutually beneficial and profitable relationships</li></ul>	<ul style="list-style-type: none"><li>• Target Markets</li></ul>
	Key Resources		Channels	
	<ul style="list-style-type: none"><li>• Time</li><li>• Internet</li><li>• Seminars/talks/forums/conferences</li><li>• Funds</li></ul>		<ul style="list-style-type: none"><li>• Internal team meetings</li><li>• Collated document</li></ul>	
Cost Structure		Revenue Streams / Savings		
<ul style="list-style-type: none"><li>• Local market immersion cost: Examples would include visas and visa requirements such as vaccinations, flights, subsistence allowances taking into account health and safety, travel insurance, hotel accommodation, local travel possibly including a driver for ease and safety, putting together focus groups and surveys, local product tasting/sampling.</li><li>• The cost of time: Allocating sufficient time for existing staff to look into the African expansion that could have been used to focus on the local business. This time is required from members in all areas of the business including operations, merchandise, finance, human resources, IT etc. and includes time from senior members of business which is generally “expensive”.</li><li>• Consultation costs: with legal, cultural, supply chain, and labour experts, and relevant government and local authority bodies.</li><li>• Seminar/talks/forums/conference fees.</li><li>• Less expensive costs relating to internet, mail, telephone etc.</li></ul>		<ul style="list-style-type: none"><li>• There is a growing middle class in Africa with more disposable income and a taste for luxury goods and services resulting in a profitable market.</li><li>• A growing size of young population who will enter the job market soon providing a sizeable market. This young population is exposed to the internet and social media and are well aware of global trends, creating an appetite for global goods and services.</li><li>• The average economic growth of 6% with most countries achieving double digit growth rates means more disposable income and an appetite to consume.</li><li>• The reduction of costs associated with inadequate research. e.g.<ul style="list-style-type: none"><li>- loss of sales resulting from stock being impounded, or being closed down for some period of time due to not having followed licensing requirements,</li><li>- using in-optimal routes to get the stock to its destination,</li><li>- having to mark down stock and incur waste on fresh produce,</li><li>- carrying inappropriate range/SKUs and having to mark it down,</li><li>- paying fines and penalties e.g. for breaches of laws or for violating health and labour regulations, and</li><li>- pulling out prematurely before realising ROI due to operating with the wrong business model, or unexpected huge cash outflows.</li></ul></li></ul>		



The above business model can be used to determine the Return on Investment (ROI) of the *research activity*, through connecting the dots between the different sections of the canvas and profitability. According to Wikipedia, “Return on investment (ROI) is the concept of an investment of some resource *yielding a benefit* to the investor...” ([http://en.wikipedia.org/wiki/Return\\_on\\_investment](http://en.wikipedia.org/wiki/Return_on_investment)).

In the context of the definition above and in relation to our canvas, “*investment of some resources*” relates to the time, costs and other resources involved in the identification of key partners, execution of key activities, usage of resources and channels to communicate findings with internal stakeholders. All of these are investments which results in cash outflows and do of course affect the bottom-line on the income statement. These are necessary costs during the research process in order to get quality, meaningful and relevant information to use for selecting the country to invest in, which products to offer, the market segment to target and the business model to operate with. We’ve noted previously in this document that although Africa is viewed as one continent it will be a huge mistake to view it as a homogenous market separated by colonial imposed borders, as even within the same country there can be huge differences, Nigeria being a case in point. Therefore, for South African retailers to be successful they need to incur these expenses to gain proper insights, to help them chose where they are going to play and how they are going to win.

Furthermore, “*yielding a benefit to the investor*” relates to the canvas sections on customer relationships and revenue streams. These show how the money will then come into the business, where it will come from and for how long. We know from our research that since the year 2000 Africa has experienced impressive GDP growth rates relative to other continents, averaging 6% (Saville and White, 2013). Not only has Africa’s growth been impressive but it has been consistent over the past 10 years, with some countries experiencing double digit growth rates. In our example, by building sustainable customer relationships through giving them what they want (based on adequate research), will result in customers who then buy the retailer’s products not once but on an ongoing basis creating sustainable income flows that will be able to pay back the investment. Thorough research enables the retailer to appropriately align its product offerings and prices with the target markets’ needs/wants and thereby benefit from the money that there is to be made in Africa. By identifying the revenue streams (again based on adequate research), enables the retailer to determine upfront whether these will generate enough revenue to offset the costs. If the revenue streams do not generate enough revenue to offset the costs and the viability assessments are not favourable, then the retailer should not go ahead with the project.

When determining the research activities, businesses often solely focus on the costs associated therewith, without accounting for the “savings” that could be generated from it. During our project research, respondents commented many times on how thorough research could have mitigated risk and saved them from the costs associated with expensive mistakes. Our business case therefore strongly suggests that these “savings” be included in the definition of “*yielding a benefit to the investor*”. To further substantiate this, the following examples were revealed during our research:

- Excessive markdowns resulting from inappropriate product offerings, due to not having adequately researched and understanding the target market/customer. Exporting the product back into South Africa is a cumbersome process and therefore the products have to be offered at severely reduced prices, even below cost.
- Legal costs and fines and penalties incurred for breaches of laws due to ignorance.
- Stock being impounded for indefinite periods because containers included prohibited or “frowned-upon” goods, also due to lack of research and knowledge e.g. Nigeria and bags or display units made out of wood. Not only may this attract fines, such delays, especially in the case of fast moving goods, also affects the ultimate selling price (markdowns) of the goods if it reaches the store too late. It could further result in “stock-outs” and therefore potentially lost sales.
- We met a retailer who, only after the fact, realised that the route/port taken to get their goods to its destination was in-optimal. They realised after some research that, in terms of time and costs, better options were available.
- Media reports cited high rental costs and a complex supply chain as the reason why Woolworths pulled out of Nigeria. Whether or not this is fact is debatable, however the feasibility studies performed by many businesses does not adequately account for such costs, resulting in closure. The costs of set-up and operations are then written-off. Surely adequate upfront research will result in more informed feasibility studies.
- Another retailer had its store closed for several weeks due to complexities, which were not fully understood, around obtaining a trading license. This ultimately impacted selling prices and markdowns as the stock aged. In addition, several costs, which perhaps could have been avoided if the conditions were fully understood upfront, were incurred in having to send senior executives there to resolve the matter.

When calculating ROI it is therefore critical to account for both the incremental sales *and* incremental savings, bearing in mind that in Africa, ROI must be measured over an extended period as the payback period is expected to be longer than in South Africa.

## CONCLUSION

Any ambitious South African retailer should have the rest of Africa in its growth sights. The markets are close, active, growing fast with the promise of continued expansion over a long span of time. The obstacles en route to reaching these markets loom large, and are intimidating. With the correct amount of investigating they are easier to predict, identify, avoid, plot around and navigate through. The gathering of related information *from other sources*, though it plays a very important part in the possibility of success, will never present a comprehensive foundation for achieving such success when trading in Africa.

An unmoving commitment to follow through a first-hand immersion into the market in the country of choice is our recommendation as key to success. Investment in your own resources to “walk the floor” in the target country – from end to end, covering all aspects of your planned operations, with an ear to understanding all transactional aspects in *that* country – is a must. All this before any operations are started.

The return on this investment will only start once trade begins. However, the rate of this return will benefit from, and have a direct correlation to, the comprehensiveness of the preparation applied in the efforts of the immersion.

## Appendix 1: Action Plan

Action Item	Deliverable	Responsibility	Due Date	Resources
Literature search	List of articles on selected areas	All	02/08/2013	Internet & GIBS Information Centre
Literature review	Selection of relevant articles	All	05/08/2013	Electronic copies
Develop survey questionnaire	Questionnaire for: Government Retail companies Transport companies Clearing Agents	Ian Zamira Naseem Wasfie	31/07/2013	Guidelines from Bonita on how to draw up effective questionnaires
Literature review	Write up on selected articles	Antoneta/Wasfie	19/08/2013	
Conduct international interviews	Completed questionnaires	All	9/10/2013	
Complete & Submit Progress Report	50% Progress Report with scope, literature review, research methodology, findings & discussion of findings	All	10/10/2013	
Conduct local interviews	Completed questionnaires	All	15/11/2013	
Complete & Submit Progress Report	80% Progress Report with the above plus possible solutions	All	10/01/2014	
Complete & Submit Progress Report	95% Progress Report with above plus recommendations & action plan	All	15/02/2014	
Complete & Submit Report	Final Report	All	10/03/2014	
Work on presentation to stakeholders	PowerPoint presentation that can be delivered in 20 minutes	All	25-27/03/2014	



## Appendix 2: International Research Plan

Research Audience	Research questions	Who is responsible?	By when?
Retailers	As per questionnaires Appendix 11	All (Minute taker, interviewer, and support)	End of tour
Consulting Companies			
Academics / Subject matter experts			
Manufacturers			

### Appendix 3: South African Research Plan

Research method/ instrument	Research audience	Research questions	Who is responsible?	By when?
Interviews & Surveys	Retailers	Appendix 5	Zamira Mowzer, Tshepo Tiba & Thembinkosi Kosopi, Wasfie Adams, Ian Pietersen	15 November 2013
Interviews	Consulting Companies (Smollan)	Appendix 6	Antoneta Tiribabi	15 November 2013
Interviews	Academics / Subject matter experts (Lyal White)	Appendix 6	Antoneta Tiribabi & Thembinkosi Kosopi	15 November 2013
Surveys	Manufacturers (Trade Kings)	Appendix 7	Naseem Khan	15 November 2013
Interviews	Public Institutions (Jabu: DTI)	Appendix 8	Ian Pietersen	15 November 2013
Interviews & Surveys	Clearing Agents	Appendix 9	Wasfie Adams	15 November 2013
Interviews & Surveys	Logistics Companies	Appendix 10	Naseem Khan	15 November 2013

## **Appendix 4: Introduction to Questionnaires and Interviews**

To Whom It May Concern

We are a group of seven delegates on the Wholesale and Retail SETA's 2013 International Leadership Development Program in association with the Gordon Institute of Business Science.

As part of the program, we have been tasked as our Action Learning Topic, to look into the challenges and solutions relating to cross-border trade in Africa. We will therefore highly appreciate your assistance in this regard by answering a few questions as outlined or attached.

Should you need any further information about the program please do not hesitate to contact the Action Learning Program Coach below. Furthermore, should you have any queries regarding the questions, kindly contact the writer?

Thanking you in anticipation,  
*(Details of writer)*

**Action Learning Programme Coach:** Bonita Lee-Shew – [bonita@d4coaching.co.za](mailto:bonita@d4coaching.co.za) or 0836299525



## Appendix 5: Questionnaire for South African Retailers

1. How did you assess the viability of each country in which you trade e.g. research, visits?
2. Where did you find accurate data during your analysis phase?
3. If you conducted visits to those countries, who in your company conducted the visits i.e. level of management?
4. Which local authorities and business partners did you meet with? How did you arrange the meetings with them?
5. How did you approach your African expansion from an internal infrastructure perspective i.e. did you create dedicated teams / did you engage in secondment arrangements / did you add the tasks to existing roles?
6. How did you familiarise yourselves with the relevant in-country legislation, regulations and policies?
7. How do you ensure that you remain abreast on an ongoing basis of the current legislation, regulations and policies?
8. What was your approach to managing in-country i.e.:
  - 8.1. Are your Managers local or South African?
  - 8.2. Are your staff entirely local / South African / or both?
  - 8.3. Was there a skills transfer arrangement in place, and if so, how?
  - 8.4. How do you approach ongoing training?
9. What are the typical additional costs that need to be considered for cross-border trade in Africa?
10. Can you describe the challenges that you faced during your African expansion as well as the challenges that you may face on an ongoing basis?
11. Can you describe the solutions that you may have formulated to address the challenges described above?
12. What learning's, not yet described above, can you share with other retailers?
13. Have you learnt anything new about retailing from the other countries, and if so, can you share those learning's with us?

## **Appendix 6: Questionnaire for South African Consulting Companies and Academics**

1. What are the top challenges that South African companies face in cross border trading?
2. What would you define as possible solutions to these challenges?
3. What should Africa do to maximise intra-regional trade opportunities?
4. What are the critical steps that companies should follow when assessing cross border opportunities in Africa?
5. What role is the South African government playing in facilitating cross border trading?
6. What role are the trading blocs (e.g. WTO) playing in facilitating cross boarder trading?
7. Does legislation hinder or support cross border trade?
8. What role does culture play in ensuring the success of cross border trade?
9. Are there any business formats (e.g. Joint Ventures, Mergers and Acquisition) that will guarantee successful cross boarder trading?
10. Where do companies get accurate data to assess business opportunities across the border?

## **Appendix 7: Questionnaire for South African Manufacturers**

1. What challenges do you face in getting your product across the border?
2. What determines your decision to produce certain products in certain countries?
3. If you operate in a foreign country, what skills, technological and, legislative challenges do you face?

## Appendix 8: Questionnaire for South African Public Institutions

1. How does SA Government view their retail trade position with regards to the rest of Africa?
2. What initiatives, in relation to SA expanding retail trade into African countries, does the government have:
  - a. Currently running?
  - b. Planned?
  - c. Under consideration?
3. With regards 2(b), what are these targeted effective dates?
4. What limit(s) does the SADC indirectly place on retail trade in regard SA and the rest of Africa, especially those countries outside of SADC?
5. What accelerators are in place to assist a retailer expanding their retail trade into SADC countries?
6. Are there any trade agreements between South Africa and other African countries outside of SADC?
7. What platform does government provide for an expanding retailer who finds a stumbling block in government derived legislation?
8. Where can one find a simple government legislative guide to use when considering expanding retail trade into Africa?
9. What support does government provide once a retailer is established in Africa?
10. What financial assistance is in place with regard expanding retail trade into Africa?
11. What financial liaison assistance is in place with SA and any identified African “partner” country?
12. What are government’s concerns and subsequent controls with regard a retail trade:
  - a. Creating employment opportunity
  - b. Generating profit outside of South Africa by initiatives started inside South Africa?
13. What are the preferred commodities that government would list in regard growing retail trade into Africa?
14. What are the commodities that government would list as discouraged from retailing in / into Africa?
15. How can government assist a retailer considering trade into Africa?
16. Who in government has a portfolio closest in link to that which a retailer would best be directed for advice / conversation?
17. What does government think about SA retailers trading in Africa?

## **Appendix 9: Questionnaire for South African Clearing Agents**

1. What do you think is the trading potential between South Africa and the rest of Africa?
2. How would you compare the trading volumes between the rest of Africa and other non-African trading countries?
3. What are the infrastructure challenges that you face both in South Africa and when dealing with the rest of Africa?
4. What are the controlling trade legislation, regulations and policies that affect free trade in the rest of Africa?
5. What impact does the cultural and language barrier have on cross border trade in Africa?
6. How does bureaucracy affect cross border trade with African countries?
7. How do you think these challenges can be mitigated?
8. How do non-African countries deal with these challenges?
9. What impact would solutions to these challenges impact on your organisation?
10. What is your learning thus far when dealing with countries in the rest of Africa?
11. Which countries do you think shows the greatest potential, and the reasons for your answers?
12. Is it easier to trade with some countries than other, what are the reasons for this?
13. Are there any initiatives by industry or government that has assisted with cross border trade in Africa?
14. How long does it take for a product to get to the shelves from one African country, through customs and into another African country? Please provide a practical example.
15. How does this particular process compare if the other country is not an African country? Is the process different? If so how and why?
16. What is your (Customs, clearing agents) role in facilitating cross-border trade? Please explain the process.
17. Why is your existence important? Or What makes your role essential to the process?
18. Are there corruption/illegal activities that take place in this space? (Please provide a practical example)

## **Appendix 10: Questionnaire for South African Logistics Companies**

1. What documents are required for the goods on the truck?
2. What documents are required for the vehicle and driver?
3. How are the goods sent? In pallets, containers or break – bulk?
4. What are the conditions of the road like?
5. How long does it take at the South African border post?
6. What is the security like at the border post?
7. What is the theft like on route, e.g. hi-jacking, theft of goods, theft of diesel?
8. What is the travelling time to the border?
9. At the drop-off point are the companies organised?
10. Does your company do point drop off to a warehouse or do they go into the central business district?
11. Are the goods offloaded by hand or by machine?
12. Is it necessary to offer bribes to get things done quicker?
13. How does the condition of the road affect the wear and tear of the truck?
14. Are there rest points for the driver?
15. How many drivers does the trip require?
16. Are the goods and vehicle insured?
- 16.1 Does your insurance house see cross border delivery as a risk?
17. Are there sufficient fuel stations or do the drivers need to carry extra fuel in containers?
18. How much cash on hand does the driver require for toll fees or do you have toll cards?
19. What is the procedure for break-downs?
20. How long does it take for documentation to be processed? E.g. SARS etc.

## **Appendix 11: Key Questions – International Research**

*Below is a list of key questions which we focused on during our interviews abroad. The answers to these questions and related findings are summarised on pages 48 to 54 of this document.*

### **Academics**

- What are the top challenges that companies face in cross border trade?
- What would you define as possible solutions to these challenges?
- How can Africa maximise intra-regional trade opportunities?

### **Manufacturing Companies**

- What are the top challenges you face in getting your products across the border and why?
- What determines your decision to produce products in specific countries?
- What skills and technological challenges do you face?

### **Retailers**

- For the foreign countries in which you operate, what are the top challenges you experienced and how did you overcome them?
- What were your criteria for selecting the countries in which you currently trade or plan to trade?

### **Consulting companies**

- What are the key factors that companies must look at when they expand internationally?
- What are the most common challenges in cross border trade?
- What are the possible solutions to these challenges?

## Appendix 12: International Research - Canada

*The Canadian visit was undertaken with concern that whatever cross border trade Canada took part in, the challenges and solutions experienced and applied may not be aligned with or appropriate for an (South) African retailer; this especially so as we were attempting to glean insights from an advanced market for application to an emerging market.*

### Culture

Canadian companies celebrate the Canadian heritage and everything that they do is done the “Canadian way”. This culture is so entrenched in the way in which they do business; which relates well to their direct market in Canada, but falters when applied to foreign markets, even that of the USA which is not too dissimilar from their own. This has led to many failed attempts at entering the US market - the Canadian Tire company had to sell its USA division 5 years after it expanded into that country in 1980. Those that have succeeded have only done so due to acquisition of American businesses. This is evidenced by the success that The Hudson Bay Company has had with the purchase of the Lord and Taylor fashion retail outlet in the American market.

### Skills

The retail companies in Canada invest heavily in the up-skilling and training of employees e.g. The Hudson Bay Company sends its shoe department associates to the Shoe University. The aim is to ensure that the associates are experts in their field. In addition, the government forms part of the discussion forums with a view to improve the overall performance of the industry for example, by ensuring that the education system is aligned to the needs of the business industry. It is equally important that companies that are planning to trade across borders, have the necessary skills especially to deal with the culture of that country.

### Logistics

Access to and the use of technology is the key focus for most Canadian companies in a pursuit to achieve cost and operational efficiencies. The Canadian Tire Company has introduced a collaborative supply chain model that allows it to track the location of a shipment at any point in the supply chain. This allows it to manage demand planning effectively. Access to and the use of technology is perhaps *more* critical for companies trading across borders as the ability to track merchandise and analyse data is often a key success factor. In these instances, technology may even assist in selecting the most effective and cost efficient route to get the product to market.



## Infrastructure

There is massive investment behind infrastructure and the construction of roads and office buildings in Canada. There is also a swift movement of goods and services between USA, Mexico and Canada driven by collaborative effort between the three countries (NAFTA).

## Appendix 13: International Research - USA

*The USA discussion with KPMG followed the Canadian one, which reinforced our concerns about cross border trade in advanced markets having very different challenges and solutions to those of emerging markets.*

### Culture and its diversity

It was recommended that any business entity planning to expand into other countries must first immerse themselves into that destination country to get to understand the culture of the people and the market. Their approach/point of reference was one much like a Research & Development program i.e. a comprehensive understanding of where you plan to trade and who you plan to trade with.

### NAFTA (North American Free Trade Agreement)

The NAFTA<sup>1</sup>, which exists between Canada, USA and Mexico, was highlighted in the KPMG seminar. The initiative aims to make trade across the related borders easier. They further highlighted that the NAFTA posed concerns for some industries as these industries could potentially lose market share if a more cost effective competitor came from across the border and entered the local market.

### Specific Cross Border Trade reference

In the context of considering cross border trade from South Africa to other African countries and in response to our question on what they would rank as their top concerns and/or challenges, the following was indicated:

- *Customs and customs' controls policies* need to allow for cross border trade and also needs to make trade across borders easy to navigate.
- *Legislation/Regulation* needs to exist between the countries being considered for cross border trade. Such legislation should be aligned on a business level which encourages

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<sup>1</sup> The provision of NAFTA is recorded at [http://en.wikipedia.org/wiki/North\\_American\\_Free\\_Trade\\_Agreement](http://en.wikipedia.org/wiki/North_American_Free_Trade_Agreement) as:

The goal of NAFTA was to eliminate barriers to trade and investment between the U.S., Canada and Mexico. The implementation of NAFTA on January 1, 1994 brought the immediate elimination of tariffs on more than one-half of Mexico's exports to the U.S. and more than one-third of U.S. exports to Mexico. Within 10 years of the implementation of the agreement, all U.S.-Mexico tariffs would be eliminated except for some U.S. agricultural exports to Mexico that were to be phased out within 15 years. Most U.S.-Canada trade was already duty free. NAFTA also seeks to eliminate non-tariff trade barriers and to protect the intellectual property right of the products.

and facilitates cross border trade. In terms of concerns, this was indicated to be a top priority.

- *Compliance* with the relative legislatures in the destination countries must be thoroughly researched.
- *The labour pool in relation to the effective demography* of the destination country needs to be favourable to the business being established. There needs to be an available and skilled labour pool that is aligned to the type of business being considered e.g. retail outlet. Where such a labour force does not exist, consideration must be given to up-skilling locals. Attached to this is an absolute need to know and practice the *labour laws* under which the labour pool would be employed.
- *Infrastructure* (road, rail, telecom etc.) capabilities and challenges need to be comprehensively known.
- The *product* being introduced into other markets must be compatible with the needs of that destination market for it to be a success.
- *Reverse image* is the process whereby the image of a company will be affected by the activities of its suppliers e.g. the use of child labour by suppliers. The impact of reverse image tarnishing the company and/or its brand needs to be considered.
- *Currency Risk* i.e. the volatility of currency exchange rates would also influence the decision on whether a country is viable for cross border trade or not. The more stable the economy and its exchange rates, the more attractive the country would be for trade consideration.
- The *geopolitical*<sup>2</sup> *landscape* needs to be considered to favour cross border trade between the considered countries.
- The *business model* being decided upon needs to be properly researched to identify which may work best. These business models could vary from Greenfields to Joint

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<sup>2</sup> Geopolitics traditionally studies the links between political power and geographic space, and examines strategic prescriptions based on the relative importance of land power and sea power in world history.  
(<http://en.wikipedia.org/wiki/Geopolitics> )

Venture to Franchise. There was a lean towards Joint Venture being the preferred consideration.

- The *level of corruption and/or integrity*, as the fabric of the community being considered as trade partners, would need to be properly considered in the evaluation of business risk and subsequent successes.
- A *comprehensive financial risk analysis* needs to be performed before embarking on the venture. Besides the standard financial calculations there also needs to be a consideration of shrinkage/loss/theft (as may be prevalent in the community being entered into) versus the “bottom line” (i.e. the net outcome of the ultimate spend versus the accumulative losses).

The KPMG representatives added that they now view “Emerging” markets as “Emerged” markets which make extending retail trade with them more appealing. They are also looking beyond just the BRIC S (Brazil, Russia, India, China, and South Africa) countries.

Further mentioned was the concern of a perception that informal markets bring about easy counterfeiting which could negatively impact business.

Specific mention was made of the key challenges faced when doing cross border trade from USA with neighbouring Mexico. These key challenges were:

- Delays at border
- Corruption
- Hijacking of vehicles
- Infrastructure.

## **Appendix 14: International Research - Kenya**

*Our international part of the research included a planned visit to the capital city of Kenya, Nairobi. Unfortunately due to the attack that happened a week prior to our visit at the Westgate Mall we could not undertake the trip. We were however very fortunate to get a perspective from one of Kenya's most seasoned retailers, Mr Muchiri Wahome, the CEO of Deacons, and Dr. Frank Aswani the Vice President of the African Leadership Academy. The insights hereto, as summarized below, are from our interviews with both Mr Wahome and Dr. Aswani.*

### **Political Risk**

Deacons lost 20% of their business as a result of the terrorist attack that took place in September 2013 at the Westgate Mall, which is indicative of the political risk and unpredictability of doing business in some of the African countries. This kind of attack, which might not be isolated to Kenya, places a lot of strain on the business and tests the robustness of the business disaster management contingencies e.g. insurance cover for terrorist attacks.

### **Population**

Africa has the youngest population on the planet and 60% of the Kenyan population are under 25 years old, which present numerous opportunities as these youngsters enter the market.

### **Technology**

Globalisation and technology has also had an impact on Kenya's market, as consumers are more informed about what is available in other markets. The concept of first to market no longer guarantees sales, as customers are now expecting the same quality, price and service as experienced in other more developed markets.

### **Culture**

The suggestion is that initially companies should not "go big" i.e. go in with a limited range and only increase the size or mix of that range once you understand the market in which you are operating. The second option in understanding the customers in foreign countries is to have strategic partnerships with companies that are trading in foreign countries. Deacons have collaborated with partners such as Woolworths where retail experience and knowledge could be gained by sharing of information. According to Dr Frank Aswani, across Africa, successful businesses are built based on relationships i.e. relationships drive business. He

further states that one cannot enter markets in Africa from a South African perspective; rather, you have to understand the market and the culture of the people i.e. local intelligence is critical.

#### Skills development challenges

There are 97 universities in Kenya and currently, for every job there are 700 available graduates. Talent is not a problem.

#### Success factors contributing to Kenya's intra-regional trade

Kenya is ranked 1<sup>st</sup> in terms of intra-regional trade driven by the following reasons:

- Mombasa is acting as an entry point for land locked countries like Uganda, Rwanda, and East Congo;
- New leadership in these countries has also seen the introduction of new trade policies placing more emphasis on intra-regional trade rather than western based trade;
- The breaking down of trade barriers, free movement of trade and people and less need for travel documents for people in east Africans.

#### Infrastructure challenges

Due to poor infrastructure and the logistical delays, goods departing Durban port will reach Mombasa in 15 days and will take a further 18 days to cover the 500 km's to Nairobi by road. These delays have resulted in Deacons flying goods from South Africa to Nairobi. Air freight comes at a very high cost and results in a FOB ratio to cost as high as 15 -18% whereas world standard is around 7%. This places additional strain on the business to maintain margins whilst still keeping goods at an affordable price to consumers. On a positive note, according to Dr Frank Aswani, great investment and effort is already being channelled into infrastructural projects by the government of Kenya.

#### Role of Legislation in Kenyan Retail

Legislation must create a level playing field through proper design and enforcement. Although there are some very good legislation the lack of enforcement creates grey markets, dumping from western countries under the guise of social programmes which becomes commercialized due to lack of enforcement. Most countries have good laws however, the implementation thereof is poor.

## Appendix 15: Summary of Top Challenges and Solutions based on Interviews and Questionnaires

### South African Retailers

#### Retailer 1:

<u>Challenges</u>	<u>Solutions</u>
<p><b>1. Inconsistent enforcement of regulations</b></p> <p>Although regulation is in place the enforcement of the regulation is not consistent.</p> <p>It became difficult to remain competitive when you have to compete against organisations that are subject to better regulatory conditions.</p>	<ul style="list-style-type: none"><li>• Understand the potential impact and how this will affect the organisation and its ability to remain competitive in the market.</li></ul>
<p><b>2. Impact of foreign market expansion on existing business</b></p> <p>The additional pressure and challenges the expansion places on existing internal infrastructure could become a stumbling block as the necessary time and effort may not be allocated to ensure success.</p>	<ul style="list-style-type: none"><li>• A separate business unit or department must be formed to deal with the expansion and the additional workload and challenges; this will ensure that resources are dedicated to the area and that the focus is not lost.</li></ul>
<p><b>3. Lack of education and skills</b></p> <p>The necessary levels of education and skills may be lacking.</p>	<ul style="list-style-type: none"><li>• The recruitment process should start long in advance in the new market, which would allow for effective training and skills development required to make the venture a success.</li><li>• Consider the possibility of sending people back to the home country to acquire the necessary skills first hand.</li></ul>

<u>Challenges</u>	<u>Solutions</u>
<b>4. IT requirements</b> The organisation's current IT system cannot handle the additional demands of trading in a foreign market.	<ul style="list-style-type: none"> <li>• Development of an IT system that can handle cross border trade such as product cost and currency conversions, the purchase of foreign exchange, consolidation of financial information and reports.</li> </ul>
<b>5. Legal framework</b>	<ul style="list-style-type: none"> <li>• Legal issues must be investigated in depth and potential issues must be resolved before business commences.</li> </ul>
<b>6. Supply chain infrastructure</b>	<ul style="list-style-type: none"> <li>• Extensive investment in the distribution system is required to ensure the availability of product and services.</li> </ul>
<b>7. Getting reliable information relating to the foreign market</b>	<ul style="list-style-type: none"> <li>• Interacting with business partners that may already have interests in the market including banks, manufacturers, private equity firms, etc.</li> </ul>



## Retailer 2:

<u>Challenges</u>	<u>Solutions</u>
1. <b>Managing the store set-ups and openings and continuous support without dedicated teams.</b>	<ul style="list-style-type: none"><li>• A clear expansion strategy and controlled growth;</li><li>• A dedicated “African expansion” team of resources managed by an Executive level Manager;</li><li>• Set up of clear systems, controls and processes that takes into account the requirements and risks associated with each individual country e.g. document management systems.</li></ul>
2. <b>Planning merchandise</b> for the different seasons and temperatures e.g. a 12 month summer.	<ul style="list-style-type: none"><li>• Design of a business model that is suitable for the African operations i.e. the South African business model will not simply fit the African business.</li></ul>
3. <b>IT systems</b> not suitable to handle African operations.	<ul style="list-style-type: none"><li>• Investment in IT systems to support the African operations e.g. currency conversions in the systems could be of importance.</li></ul>
4. <b>Logistical and clearing issues</b>	<ul style="list-style-type: none"><li>• It is critical to employ the services of a local clearing agent who has the necessary knowledge and business relationships with the local port, revenue and customs authorities.</li><li>• Identify these local clearing agents during your country visits and perform reference checks.</li><li>• Try to avoid having to export back – consider alternatives.</li></ul>
5. <b>Legislation</b>	<ul style="list-style-type: none"><li>• In terms of in-country legislation, regulations and policies, the research tools used include a review of the internet, discussions</li></ul>

<u>Challenges</u>	<u>Solutions</u>
	<p>with real estate developers and local banking partners, and very importantly visits by senior members of business to the prospective countries.</p> <ul style="list-style-type: none"> <li>• Meetings with bankers, auditors/accountants, clearing agents, property developers, and general service providers are all considered valuable.</li> <li>• Great reliance is placed on local staff, support partners, consultants and service providers to assist with initial and ongoing compliance.</li> </ul>
<p>6. <b>Day to day running of the operations</b> without an expat Manager at the Head Office.</p>	<ul style="list-style-type: none"> <li>• Regular visits to the countries to gain a better understanding of the environments.</li> <li>• All managers and staff of the African stores should be local to the specific country.</li> <li>• Initially train the Managers in South Africa for an extended period.</li> <li>• Thereafter, a Senior Manager from South Africa should travel to the country and assist the local Manager in training the local staff and this should continue on an ongoing basis.</li> </ul>

**Retailer 3:**

<u>Challenges</u>	<u>Solutions</u>
<b>1. Finding the right clearing agents</b> Getting the right clearing agents which would best suit your organisation and the service levels you require.	<ul style="list-style-type: none"><li>• Go and meet with prospective partners to assess the capacity of their business; and</li><li>• Don't go on superficial facts such as "they are based in a country and they profess to know the market".</li><li>• Ensure that the clearing agents have the capacity to deal with the volumes you intend on moving.</li></ul>
<b>2. Bureaucratic delays</b>	<ul style="list-style-type: none"><li>• Build strong relations with partners in the foreign country so as to ensure a good trust relation.</li><li>• Meet with individuals along the supply chain and build relations with these people. In this way, if things do go wrong you are able to get accurate information and expedite matters swiftly.</li></ul>
<b>3. Inconsistent legislation enforcement</b> The rules change from day to day.	<ul style="list-style-type: none"><li>• Build flexibility into your supply chain planning; also</li><li>• Ensure that your partners are flexible enough to adapt and change.</li></ul>
<b>4. Corporate rigidity / perceptions</b> Efficiencies in the South African market do not necessarily translate as well in foreign markets.	<ul style="list-style-type: none"><li>• A separate department or business unit must be set up to deal with the unique challenges faced when dealing in foreign markets.</li></ul>
<b>5. Different laws in various markets</b>	<ul style="list-style-type: none"><li>• Different markets must each have its own tailored plan.</li><li>• Drill down into the detail as it may seem similar on the surface.</li></ul>

<u>Challenges</u>	<u>Solutions</u>
6. <b>Operating Models</b>	<ul style="list-style-type: none"> <li>• There is no “one size fits all” model. Again, each market must have its own tailored operating model.</li> <li>• You have to accept that you are not opening stores, rather you are opening businesses.</li> </ul>

**Retailer 4:**

<u>Challenges</u>	<u>Solutions</u>
<p><b>1. Lack of understanding the culture of the country</b></p> <p>The first challenge with regards to culture is the language barrier particularly with the countries where English is not the medium of communication.</p> <p>The second challenge is that retailers will always have a knowledge gap in terms of completely understanding the taste or preferences of the new market despite intensive market research.</p>	<ul style="list-style-type: none"><li>• Retailers need to have specific strategies to address the challenges of each country.</li><li>• We are using professional firms such as accounting firms, law firms and the financial institutions to gather key economic information, particularly from those institutions that are already operating in that country.</li><li>• To overcome the language barrier we employ all locals and provide them with the necessary training.</li><li>• Despite the intensive research, retailers must accept that certain aspects about culture will be learnt through experience and the business model should be nimble enough to adapt to these cultural differences e.g. in certain countries companies are expected to contribute livestock towards the burial of the employee.</li></ul>
<p><b>2. Lack of skills</b></p> <p>There is a lack of required skills to run stores in line with our Company procedures.</p>	<ul style="list-style-type: none"><li>• We provide training to all employees in the foreign country.</li><li>• All of the senior personnel in the foreign country are trained in South Africa.</li></ul>

<u>Challenges</u>	<u>Solutions</u>
3. <b>Poor infrastructure</b>	<ul style="list-style-type: none"> <li>• Our strategy is to operate in reputable and established shopping malls/centres and operations are managed from South Africa.</li> </ul>
4. <b>Lack of understanding of the legislation of the country</b>	<ul style="list-style-type: none"> <li>• We are using law firms to gather key legislation information, particularly those institutions that are already operating in that country.</li> <li>• Without proper research, retailers may find themselves breaking some of the laws in the foreign country e.g. in certain countries retailers need to get a licence to trade on public holidays.</li> </ul>
5. <b>There is no accurate data to analyse business opportunities in the continent</b>	<ul style="list-style-type: none"> <li>• We use established institution data such as the financial institutions, IMF and consulting firms to gather information about a certain country.</li> <li>• We rank opportunities in the continent by looking at the following KPI's: <ul style="list-style-type: none"> <li>○ growth potential,</li> <li>○ availability of necessary infrastructure, and</li> <li>○ rule of law, among other things.</li> </ul> </li> </ul>
6. <b>Lots of red tape that prevents the efficient movement of goods and services between African countries</b>	<ul style="list-style-type: none"> <li>• The challenge that we face is the efficient movement of goods between SA and the destination country. To address this challenge to a limited degree, we are using the services of an external logistic company.</li> </ul>

#### Retailer 5:

<u>Challenges</u>	<u>Solutions</u>
<p><b>1. Getting money out of the country</b></p> <p>In some African countries, money is not allowed to get out of the country and that proves to be a challenge for business going into Africa.</p>	<ul style="list-style-type: none"><li>• Companies should make sure that they understand the rules around this area and have a written document stipulating how much money can leave the country and how much will be reinvested.</li><li>• They can also negotiate another form of investment as opposed to the physical cash, such as erecting infrastructure.</li></ul>
<p><b>2. Legislation with regards to permits and licenses</b></p> <p>Each province has different rules and regulations and the information is inconsistent; it depends on who you talk to.</p>	<ul style="list-style-type: none"><li>• The solution is to liaise very closely with the immediate "local" authority to familiarise oneself with the local requirements.</li><li>• Companies must also give themselves enough time in the beginning to go over such requirements as it can hamper progress at critical stages of the project.</li></ul>
<p><b>3. Staffing / Skills shortage</b></p> <p>The further up North you go, the more difficult it becomes to find competent people with the right skills set.</p>	<ul style="list-style-type: none"><li>• Companies need to be very careful and not use "cut and paste" methods to address this.</li><li>• The stores may not necessarily have to operate in the same way that South African stores do. You may require a completely different store structure to cater for local needs.</li><li>• Companies also need to familiarise themselves with the particular country's expatriate laws in terms of the number of South Africans they can bring in to work in that country.</li></ul>

<u>Challenges</u>	<u>Solutions</u>
<p><b>4. Corruption</b></p> <p>It is almost expected that you have to pay bribes to do business in the rest of Africa. Sometimes there is an explicit request and other times it's implied. The process is only quicker for those who are willing to pay bribes; the rest of the people will come later. The fact that there will be someone paying bribes makes the playing field uneven and difficult to compete on prices as well.</p>	<ul style="list-style-type: none"> <li>• Companies need to be upfront in the beginning about how they will conduct business and that they are not prepared to be involved in corrupt activities. However, one needs to be very careful in doing this as it may be found to be offensive that we are immediately implying that they are corrupt.</li> </ul>
<p><b>5. Infrastructure was not stated as a challenge</b></p>	<ul style="list-style-type: none"> <li>• In our lines of business, we do most of our business in rural areas so we were not surprised by what we found there in terms of Infrastructure.</li> <li>• We were prepared to build our own facilities where there was none.</li> <li>• Other companies may look at buying existing businesses as a way to not have to build their own infrastructure.</li> </ul>
<p><b>6. Supply Chain (Getting product into the country)</b></p> <p>It is extremely difficult and cumbersome to get product across the border. There is too much red tape and things that one has to conform to just for one truck to cross the border; dealing with multiple deliveries is even worse.</p>	<ul style="list-style-type: none"> <li>• A solution could be to procure as much of your stock as you possibly can locally. The unreliability of local suppliers can be a hindrance in this instance, which is why it's important to work very closely with local authorities to devise ways of mitigating this challenge.</li> </ul>



## African Retailer

<u>Challenges</u>	<u>Solutions</u>
<b>1. Political Risk</b> Political risk and the unpredictability of doing business is a reality in Africa.	<ul style="list-style-type: none"> <li>• Design a robust business disaster management plan.</li> <li>• Adequate insurance cover against for example terrorist attacks is imperative.</li> </ul>
<b>2. Understanding the Culture and Market</b>	<ul style="list-style-type: none"> <li>• Companies should not “go big” at the outset. Rather go in with a limited range and only increase the size and mix of your range once you understand the market in which you are operating.</li> <li>• Consider having strategic partnerships with companies that are already trading in the foreign countries; businesses should be built based on relationships.</li> <li>• Local intelligence is critical; you cannot enter an African market with a South African perspective.</li> </ul>
<b>3. Infrastructure</b> Due to the poor infrastructure and logistical delays, goods do take longer to reach its destination by road.	<ul style="list-style-type: none"> <li>• Air freight is an alternative solution but does come at a very high cost.</li> <li>• On a positive note, great investment and effort is already being channelled into infrastructural projects by the government of Kenya.</li> </ul>
<b>4. Lack of enforcement of legislation</b> Although there are some very good legislation the lack of enforcement creates grey markets, dumping from western	<ul style="list-style-type: none"> <li>• Legislation must create a level playing field through proper design and enforcement.</li> </ul>

<u>Challenges</u>	<u>Solutions</u>
<p>countries under the guise of social programmes which becomes commercialized due to lack of enforcement. Most countries have good laws however, the implementation thereof is poor.</p>	

## International Consultants

<u>Challenges</u>	<u>Solutions</u>
1. <b>Lack of understanding of the local culture of the target country</b>	<ul style="list-style-type: none"> <li>• Companies should immerse themselves into their intended market first to understand the market before setting up.</li> <li>• The business model needs to be tailor-made to suit the needs of the country as well as the product attributes.</li> <li>• Only thorough research will enable this.</li> </ul>
2. <b>Customs and customs' controls policies</b> resulting in delays at border posts thereby inhibiting the timeous movement of goods.	<ul style="list-style-type: none"> <li>• Use of regional trade blocs.</li> </ul>
3. <b>Legislation/Regulation</b>	<ul style="list-style-type: none"> <li>• Joint ventures with local companies who have knowledge of the local legislation.</li> <li>• Another alternative solution was to go the acquisition route which the Hudson Bay Company successfully used to get into the USA by acquiring Lord &amp; Taylor.</li> <li>• Also, full compliance with legislation was recommended as a way to succeed.</li> </ul>
4. <b>Skills</b> pool in relation to the type of business	<ul style="list-style-type: none"> <li>• Include the cost of up-skilling locals into the set up costs.</li> <li>• In relation to this, time and effort should be put into understanding the local labour regulations regarding employment and employee development.</li> </ul>

<u>Challenges</u>	<u>Solutions</u>
5. <b>Infrastructure</b> relating to roads, rail, technology, communication and power.	<ul style="list-style-type: none"> <li>Companies have to do a comprehensive financial analysis including the cost of setting up infrastructure over and above the usual cost of doing business.</li> </ul>
6. The possible impact of <b>reverse image</b> which is the tarnishing of the mother brand in the country of origin as a result of doing business in a country that has business policies that are not viewed favourably internationally e.g. the use of child labour.	<ul style="list-style-type: none"> <li>None offered</li> </ul>
7. <b>Currency risk</b> due to volatility in the exchange rates between the target country and the country of origin of the company or, the US dollar and the 2 countries' currencies.	<ul style="list-style-type: none"> <li>None offered</li> </ul>
8. High levels of <b>corruption</b>	<ul style="list-style-type: none"> <li>None offered</li> </ul>
9. The threat of <b>counterfeit goods</b> due to the prevalence of informal trade in emerging markets which can reduce profitability.	<ul style="list-style-type: none"> <li>None offered</li> </ul>

## Academics

<u>Challenges</u>	<u>Solutions</u>
<p><b>1. Lack of Understanding the culture of the country</b></p> <p>Most South African companies are using the same strategy that they are using in South Africa in rolling out products to the rest of Africa.</p>	<ul style="list-style-type: none"> <li>• South African companies must invest in proper due diligence in order to understand the culture of the country it intends to invest in.</li> <li>• Partnering with a local company is another way to get an understanding of the countries culture.</li> <li>• Strategy must be specific to each country.</li> <li>• Companies should also take time to visit the countries they intend to invest in and immerse themselves in the local market.</li> </ul>
<p><b>2. The minimum investment payback period is 5 years</b></p> <p>The investment in the rest of the continent has the highest return; however the payback period is between 5 to 10 years.</p>	<ul style="list-style-type: none"> <li>• Companies that invest in the continent must be prepared to wait a little longer before they can expect the positive return on investment. This is due to the fact that in some countries, companies have to invest in infrastructure e.g. tarred roads, sewerage systems, and power.</li> <li>• Companies need to have huge cash piles.</li> </ul>
<p><b>3. Poor infrastructure</b></p> <p>R93bn worth of infrastructure is needed to improve the poor infrastructure.</p>	<ul style="list-style-type: none"> <li>• South African companies must do proper analysis of infrastructure challenges and its implication to the movement of goods and services in the whole supply chain; and</li> <li>• Be prepared for huge cash outflows before getting positive returns.</li> </ul>

<u>Challenges</u>	<u>Solutions</u>
4. <b>Lack of Understanding of the legislation of the country</b>	<ul style="list-style-type: none"> <li>• It is very important that companies understand the critical legislation that might impact on doing business in the foreign country.</li> <li>• Proper due diligence and use of a professional organisation that deals with legislation in the foreign country will assist the company to plan and comply with the required legislation.</li> <li>• Partnerships help in navigating this hurdle.</li> </ul>
5. <b>There is no accurate data to analyse business opportunities in the continent</b>	<ul style="list-style-type: none"> <li>• South African companies that are already trading in the rest of the continent must be prepared to share data amongst each other.</li> <li>• South African companies can also apply to be a member of the <b>CENTRE FOR DYNAMIC MARKETS</b> at GIBS where companies share information.</li> </ul>
6. <b>Corruption remains the challenge in doing business in the continent</b>	<ul style="list-style-type: none"> <li>• None offered</li> </ul>
7. <b>Lots of red tape that prevents efficient movement of goods and services between African countries</b>	<ul style="list-style-type: none"> <li>• Sub regional Blocs e.g. SADC and EAC play a big role in facilitating trade between countries.</li> <li>• The AEC economic bloc has implemented a protocol that allows free movement of people, goods and services and capital between Eastern African Communities.</li> </ul>

## Manufacturer

<u>Challenges</u>	<u>Solutions</u>
<b>1. Lead time</b> The lead time from order to delivery is prolonged due to delays at borders and ports.	<ul style="list-style-type: none"><li>• Products need to have a longer sell-by date to accommodate the unexpected delays during the delivery process.</li><li>• Customers are also advised to have safety stock to act as a buffer if there are any delays.</li></ul>
<b>2. Payment terms</b> The payment term of South Africa is 30 days while the rest of Africa is 90 days.	<ul style="list-style-type: none"><li>• Cash flow has to be managed carefully to accommodate for the extra terms given.</li></ul>
<b>3. Shortage of skills</b> Technological skills are scarce.	<ul style="list-style-type: none"><li>• Equipment is procured from abroad such as Europe, China and India to overcome this challenge.</li><li>• It would be much more cost effective if the equipment was sourced locally.</li></ul>
<b>4. Infrastructure</b> The road and rail facilities available in Africa are very poor so it limits the countries which we trade with.	<ul style="list-style-type: none"><li>• The countries we choose to trade with depend on the state and type of infrastructure available.</li><li>• We try to choose countries that have a developed road system such that the costs incurred during the transportation process is minimised.</li><li>• Access to the different areas in the countries is also considered.</li></ul>

## Public Institution

<u>Challenges</u>	<u>Solutions</u>
<b>1. Trading Bloc limitations and their barriers to trade</b>	<ul style="list-style-type: none"><li>• As a member of SADC the SA government is party to the current negotiations of the Tripartite Free Trade Area (Southern African Development Community, Common Market for Eastern and Southern Africa (COMESA) and East African Community (EAC) so that goods can move freely inside and between the existing Blocs.</li><li>• The SA government constantly negotiates with countries of various Trading Blocs for Free Trade agreements which include the removal of tariffs and technical trade barriers to create Free Trade Areas (FTA) and harmonising customs procedures, standards and some regulations to facilitate free movement of goods; The planned launch date of the Tripartite Free Trade Area is October 2014;</li><li>• Working towards a common market of Africa by not entering into bilateral trade agreements other than that which will bring about the FTA.</li></ul>
<b>2. Delays at numerous border posts</b>	<ul style="list-style-type: none"><li>• Implementing the concept of one stop border posts;</li><li>• Currently SADC is busy with a program of modernising customs procedures, and a mechanism of reporting and resolving barriers</li></ul>



<u>Challenges</u>	<u>Solutions</u>
	<p>to non- tariff trade.</p> <ul style="list-style-type: none"> <li>• The Tripartite Free Trade Area will eliminate the need for a certificate of origin per Bloc per product;</li> <li>• The implementation of a uniform certificate of origin for goods moving between all countries in the Tripartite Free Trade Area.</li> </ul>
<b>3. Understanding and navigating individual Government legislations</b>	<ul style="list-style-type: none"> <li>• The Department of Trade &amp; Industry provides guidelines to trade legislation of various countries.</li> <li>• Where necessary assistance is provided by the South African Embassies in the various countries at a high multilateral level, relying on Memorandum of Understanding agreements that are in place or negotiated accordingly.</li> </ul>
<b>4. Lack of knowledge of a new country's market</b>	<ul style="list-style-type: none"> <li>• The SA Government provides intelligence with regards to dealing with local authorities, and providing lists of potential accredited partners.</li> <li>• The SA government conducts export promotions.</li> </ul>
<b>5. Health and Safety</b>	<ul style="list-style-type: none"> <li>• The negotiated Tripartite Free Trade agreement aims to harmonise and standardise dealing with issues related to Sanitary and Phytosanitary measures i.e. policies relating to food safety (bacterial contaminants, pesticides, inspection and labelling) as well as animal and plant health (phytosanitation) with respect to imported pests and diseases.</li> </ul>

## Clearing

<u>Challenges</u>	<u>Solutions</u>
<b>1. Infrastructure</b> Besides South Africa, in the rest of Africa the roads are in a poor condition.	<ul style="list-style-type: none"> <li>• The routes taken have to be carefully planned and researched such that all the alternatives are considered.</li> </ul>
<b>2. Controlling trade legislation, regulations and policies</b> Duties, quotas and documentation have been identified as factors that affect free trade.	<ul style="list-style-type: none"> <li>• The challenges can be mitigated by government being more understanding and being lenient on export policies.</li> <li>• The initiatives by government and industries which assist cross border trade is no VAT on exports, Embassies are accessible and the export of raw material.</li> </ul>
<b>3. Bribery</b> Bribery is rife at the border crossing and bribery shortens the processing of paper work and waiting times.	<ul style="list-style-type: none"> <li>• The correct documentation, and submission in advance, allows you to meet the requirements and attain the required documentation to earn a crossing.</li> <li>• The waiting times at the border post have to be factored into the delivery time of the goods.</li> <li>• It is imperative that you have patience and are tolerant during this process.</li> </ul>
<b>4. Location</b> It is easier to trade with some countries due to their geographical location, policies and the market conditions.	<ul style="list-style-type: none"> <li>• Kenya and Nigeria show the greatest potential because they have good infrastructure, stable political environments and a strong market.</li> </ul>

<u>Challenges</u>	<u>Solutions</u>
<p><b>5. Cultural and Language Barriers</b></p> <p>English is spoken in the African countries, so language is not a barrier.</p> <p>There is cross cultural understanding.</p>	<ul style="list-style-type: none"> <li>• Once you mention that you are from South Africa, the people begin to accommodate you as they realise that you are from a different country.</li> <li>• The people are friendly and tolerant with regard to business deals.</li> </ul>

## Courier

<u>Challenges</u>	<u>Solutions</u>
<b>1. Condition of the roads</b> It is narrow and riddled with potholes. There is poor lighting which makes visibility at night a challenge and the drivers have to be cautious as you find cattle roaming onto the roads.	<ul style="list-style-type: none"><li>• Drivers need to be extra careful when they are negotiating the roads.</li><li>• Night travelling is not advisable.</li></ul>
<b>2. Travelling time</b> The time spent at the border post varies according to the season. This ranges from six hours to three days.	<ul style="list-style-type: none"><li>• Trips have to be planned to accommodate delays.</li><li>• The conditions of the roads also have to be considered when calculating the travelling time.</li></ul>
<b>3. Off-loading process</b> It is done by hand and goods are delivered to warehouses.	<ul style="list-style-type: none"><li>• The off-loading process can be completed faster if extra labour is hired.</li></ul>
<b>4. Cost</b> The cost incurred by the logistics company is high as the condition of the roads adversely affects the wear and tear of the vehicles. The insurance premiums are high to factor in the risks associated with cross border travel.	<ul style="list-style-type: none"><li>• Costs have to be carefully considered when determining the landed cost of products. Unfortunately these costs have to be passed on to the customers.</li></ul>
<b>5. Risks</b> On route and at the border post it is relatively safe during the day. Political instability creates a high risk to courier companies.	<ul style="list-style-type: none"><li>• It is not advisable to travel at night and during political instability.</li><li>• The route used has to be changed (if possible) to avoid the political unrest.</li></ul>

## Appendix 16: Decision Making Matrix

	Effect on Return	Is it Implementable	Is it Cost Effective	Total
Weighting	3	2	1	
<b>Idea 1: Adequate and appropriate research</b>	$4.3 \times 3 = 12.9$	$3.7 \times 2 = 7.4$	$2 \times 1 = 2$	22.3
<b>Idea 2: Partnerships</b>	$3.6 \times 3 = 10.8$	$3.3 \times 2 = 6.6$	$3.6 \times 1 = 3.6$	21
<b>Idea 3: Adjusting the Business Models</b>	$2.33 \times 3 = 7$	$3.3 \times 2 = 6.6$	$3.3 \times 1 = 3.3$	16.9
<b>Idea 4: Skills</b>	$3.7 \times 3 = 11.1$	$2.9 \times 2 = 5.8$	$1.6 \times 1 = 1.6$	18.5
<b>Idea 5: Financial Investment</b>	$2.6 \times 3 = 7.8$	$3.1 \times 2 = 6.2$	$1.6 \times 1 = 1.6$	15.6

Total Rating = The **sum** of the Average of the team members' individual scores, scored out of 5 (rounded-up) **x** Weighting per criterion

After agreeing on the criteria the group:

- allocated a weighting to each criterion,
- rated the ideas using a scale of 1-5 on how well each idea fulfilled the criteria with 5 being the highest score, multiplied the ratings by the weighting to calculate a score.

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