



# ABANTU ABAMNYAMA



## The Black People

### Expansion into Rest of Africa

|                    |
|--------------------|
| 1. LERONE PRIOR    |
| 2. PAPI RAPOLAI    |
| 3. MA-AVEYA MOOS   |
| 4. ZAKITHI KHUMALO |
| 5. ANGIE MAHAMMAD  |
| 6. INNOCENT SUKAZI |



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# ABANTU ABAMNYAMA

## The Black People

We have chosen to call our team Abantu Abamnyama – The Black People. We came up with this name quite organically; initially as an informal name for our team. This seemed to stick based on the fact that we were indeed a group of proud black South Africans learning about the amazing opportunities in Africa as well as having been allocated the project on the challenges of retail expansion in Africa currently. Our team name resonates with us and we all identify with it strongly.

On further investigation we realised that Abantu Abamnyama (Lapha Bavela Ngakona); which means The Black People and Whence They Came; is in fact the title of the first Zulu language book written by a Zulu, Mageba Fuze in 1922. In itself pioneering at the time and pioneering is what our team aspires to be.”



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## Team Charter

|                         |   |
|-------------------------|---|
| <b>Project Title</b>    | Expansion of SA retailer's activities into Africa.  |
| <b>Team Objectives</b>  | Our main objective is to systemically unpack African opportunities in a collaborative cross functional manner leveraging off wealth of combined team experience. We aim to effectively demonstrate our understanding through our final report and presentation. |
|                         |   |
| <b>Role</b>             | <b>Name</b>   |
| <b>Team Leader</b>      | Lerone Prior  |
| <b>Team Coordinator</b> | Angie Mohammad  |
| <b>Other Members</b>    | Innocent Sukazi   |
|                         | Papi Rapolai  |
|                         | Ma-aveyah Moos  |
|                         | Zakithi Khumalo   |

### 1. Team Process Management

We begin each meeting with a PACE (*Purpose, Agenda, Code of Conduct and Expectations*)

Purpose of the meeting: Identify the Purpose of the meeting.

Agenda: The team agrees on items to be discussed or follow on from previous agenda

Code of Conduct: Arrive or Dial in time  
Stick to the Agenda  
Equal contribution from team members  
Allocated tasks to be submitted on time

Expectations Expectation levels are set at the beginning of every meeting

### 2. Communication

The team progress meetings will take place weekly through Skype teleconference calls. Other forms of communication to be used include what's app group and email communication.

Each team member will share written progress on task allocation via email.

Each member is expected to read and feedback with comments prior to submission date.

Quick response to messages and enquiries from one another is expected.

In the event where the team member is unable to deliver task as allocated to them, they must inform the team in advance so that alternate arrangements can be made.



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## **Team Roles**

- **Team Leader** has been appointed and will be responsible for providing guidance through meetings, assignment allocation and summarizes key meeting outcomes and next steps
- **Team Coordinator** will set up meetings, take minutes where necessary and perform time keeping duties.
- **Team Members** will keep track of time against the agenda.

## **3. Decision Making Procedure**

The team consists of members from various backgrounds ranging from finance, sales, marketing, logistics and distribution.

Open discussions and brainstorming techniques will be used to solicit ideas from each team member. When this process is complete, the team members will group all ideas and work towards group consensus.

In the event of loggerheads on a decision to be made, a democratic vote will be taken with the team leader having a deciding vote in the event of a tie.

## **4. Expectations of Team Members**

### **I. Attendance of meetings**

On time attendance of every meeting is compulsory. If a member is absent, tasks will be allocated of which on time delivery will be expected.

### **II. Participation**

Full Participation is expected of all members.

### **III. General Courtesy Respect**

Members will respect each other. Discussions that deviate from the current topic and objective will be avoided. The team leader will bring the focus to the topic at hand.

### **IV. Fun**

Members hope to work together in harmony and have fun at the same time during this W&R SETA experience.



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## **Introduction**

According to the International Monetary Fund (IMF), Africa is a continent with a GDP of US\$2 trillion and a projection of US\$29 trillion by 2050. As a trading bloc, Africa will have a working age population of 1.3 billion people. The continent shows strong economic growth, a growing urban middle class population and a massive trend towards more formalized retail. Sub-Saharan Africa, particularly, is considered by many international and African retailers as the “next big thing”. This is no surprise considering the unique factors that characterize the region, including:

- Increasing urbanization faster than any other region in the world, currently at a rate of 3.61% (Sub-Saharan Africa’s next big frontier <http://newafricanmagazine.com/retail-sub-saharan-africas-next-big-frontier>, 25 June 2014)
- Growing middle class
- Increasingly wealthy consumers are embracing western brands, products and lifestyles
- GDP has grown impressively over the past few years, albeit GDP per capita remains low at \$1400 (D Hattingh, B Russo, A Sun-Basorun and Arend van Wamelen 2012).

Considering it as a group of regional markets changes how the world views this opportunity. These indicators represent a very lucrative region for global retailers looking for growth outside of their home ground. While there are huge opportunities for retail expansion into sub Saharan Africa, there are many challenges with “setting up shop” in these regions. The following, albeit not an exhaustive list, include some challenges to be considered:

- Legal and political system
- Ease of doing business
- Market size
- Market saturation
- Infrastructure
- Availability of land
- Existing competition
- Urbanization
- Language and cultural differences

Notwithstanding these challenges a number of South African retailers have gone into sub-Saharan Africa. Some retailers have had more success than others; Shoprite notably the most successful of the South African food and grocery retailers. Many of these retailers have aggressive expansion plans across the region in the short term.



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Partnerships with property developers have facilitated the entry into these African markets in creating the retail space in the form of shopping malls. The growth of shopping malls in sub-Saharan Africa is indicative of how demanding and sophisticated the urbanized African consumer has become.

African consumers are demanding better quality products at affordable prices and there is a significant appetite for well-known brands in both the food and apparel sectors. The lack of any major local brands within these countries creates an opportunity for South African retail expansion into the region.

From the above it is clear that expansion into Africa is a lucrative opportunity for South African retailers seeking growth, market share and better margins in a relatively saturated market.

### **Problem statement**

Currently growth in the South African retail market is becoming a challenge with margins getting smaller in a highly competitive environment; in particular the food and apparel sectors. The lack of sales growth coupled with weakening profitability is a real concern for local retailers.

The 2014 BMR (Bureau of Market Research) retail sales prediction shows that retail sales are anticipated to increase by only 2.81% in real terms. The slowdown in retail sales is anticipated against a slowdown in final consumption expenditure with retail sales of nondurable goods and services anticipated to slow down the most. [BMR, Retail Trade Sales Forecast For South Africa, 2014 Research Report No 443]

In the last few years lower growth and margins in the local retail market have been aggravated by a number of northern and southern hemisphere retailers entering our market. Global retailers with the likes of: Zara, Cotton On, Top Shop, Wal-Mart, have successfully entered the South African market increasing competitor activity. Quality of goods and the best prices have again become a fight amongst retailers with a further squeeze on margins and profitability.

Over and above increased competition there is also a consistent decrease in consumer confidence resulting in decreased consumer spending. The following local risks have affected consumer confidence:

- Increased strike action, resulting in a further loss of confidence in the South African economy.
- Electricity shortfall and load shedding. This could result in a loss of confidence, a loss in production and slower economic growth.



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- A relatively large budget deficit. The latest budget deficit figure of 4.3% of GDP (2014) could increase if government expenditure increases in excess of the increase in tax income.
- Increase in inflation.

The current market saturation, growing competitive environment and the less than favorable economic outlook provides very little assurance for acceptable growth and profitability in the foreseeable future.

### **Goal statement**

Our goal is to expand into the Sub-Saharan African market as an avenue for sustainable future growth and profitability. We aim to do this by segmenting Sub-Saharan Africa by trade bloc and establishing respective business hubs in order to leverage off regional market size. These regional hubs will be set up taking the specific cultural and linguistic requirements into account.

The idea is that the regional hub will facilitate and serve as a conduit into a specific trade bloc; i.e. facilitate and manage the “blue print” for entering the sub Saharan market. We anticipate stronger economic cooperation from countries within the respective trade blocs and we would like to dominate within those geographic sectors. This geographical diversification of our business will mitigate the risks in the current South African retail market.

It is our goal to set up an operational hub in the following trade blocs over the next 5 years:

- ☐ *SADC*
- ☐ *EAC*
- ☐ *COMESA*
- ☐ *ECOWAS*
- ☐ *ECCAS*



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## Information approach

We have gathered information in the following way:

### Literature review

- Deloitte on Africa Collection, Issue 1. *The Rise & Rise of the African Middle Class*. 2013
- A report from McKinsey's Africa Consumer Insights Center. *The rise of the African consumer*. October 2012
- Vijay Mahajan. *Africa Rising: How 900 Million African Consumers Offer More Than You Think*. September 2008

### Online Journal Articles

- The story of the African Consumer  
<http://www.bizcommunity.com/Article/196/19/114227.html#topstory>, 3 June 2014

### Interview

- An interview was conducted with Debbie Millar: MD Africa – Edcon on the 13<sup>th</sup> of June 2014 in order to garner practical experience over and above documented literature.
- This enabled us to review Edcon's strategy on SADC and West Africa expansion from inception to execution
- The below framework was discussed during the interview and we gathered some valuable entry pointers:

| 4. Measured implementation  |                |         |       |        |
|---|----------------|---------|-------|--------|
| Ghana is the highest SSA priority, with opportunities being explored in Nigeria, Kenya and Angola   |                |         |       |        |
| Factors for prioritisation of opportunity   | Top priorities |         |       |        |
|   | Ghana          | Nigeria | Kenya | Angola |
| - Size of market  | ✓              | ✓       | ✓     | ✓      |
| - Growth and profit potential   | ✓              | ✓       | ✓     | ✓      |
| - Ease of doing business  |                |         |       |        |
| - Legal   | ✓              | !       | ✓     | ✓      |
| - Political stability   | ✓              | !       | !     | ✓      |
| - Tax / Customs / Duty  | ✓              | !       | ✓     | !      |
| - Availability of formal retail space   | ✓              | ✓       | ✓     | ✓      |
| <b>Priority</b>   | ①              | ②       |       |        |
| <ul style="list-style-type: none"> <li>• Ethiopia, Uganda, and Tanzania are secondary priority because there are significant challenges to doing business in these markets (e.g., repatriation of profits from Ethiopia)</li> </ul> |                |         |       |        |
| <div> <span>✓ Highly attractive</span> <span>✓ Attractive</span> <span>! Risk</span> <span>²</span> </div>  |                |         |       |        |



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## **Key Insights**

### **1. Increased Population growth**

According to the study conducted by the United Nations (Mckinsey Report:2012), Africa is the world's fastest growing population and is projected to account for more than 40% of the global population by 2030. As a result of rapid growth the working population will increase resulting in opportunities for retail companies who specialize in apparel, grocery and other sectors.

### **2. Business Growth**

Sub-Saharan region continues to drive growth in the African continent, posting average annual GDP increase of around 4.7%, according to World Bank data. The bank expects growth 5.3% this year and 5.5% in 2016, supported by strong demands in domestic and international investment (R Holmes: 2014).

### **3. Technology**

Good quality operating systems required to improve productivity and market access. A lot of people have access to the internet.

### **4. Social Development**

Some of the companies that have been successful in doing business in Africa have worked with the local people to understand culture and what the customer needs. As a result some store formats have been modified to align with the current environment.

### **5. Supply Chain**

The opportunity exists to form local partnership with companies that have footprint in the market in an effort to benefit from current infrastructure. This will help improve product availability to the market.

### **6. Appreciation for good quality products and brands**

Consumers are willing to spend more money and try new brands and shopping experience,

### **7. Customer Centricity and Segmentation**

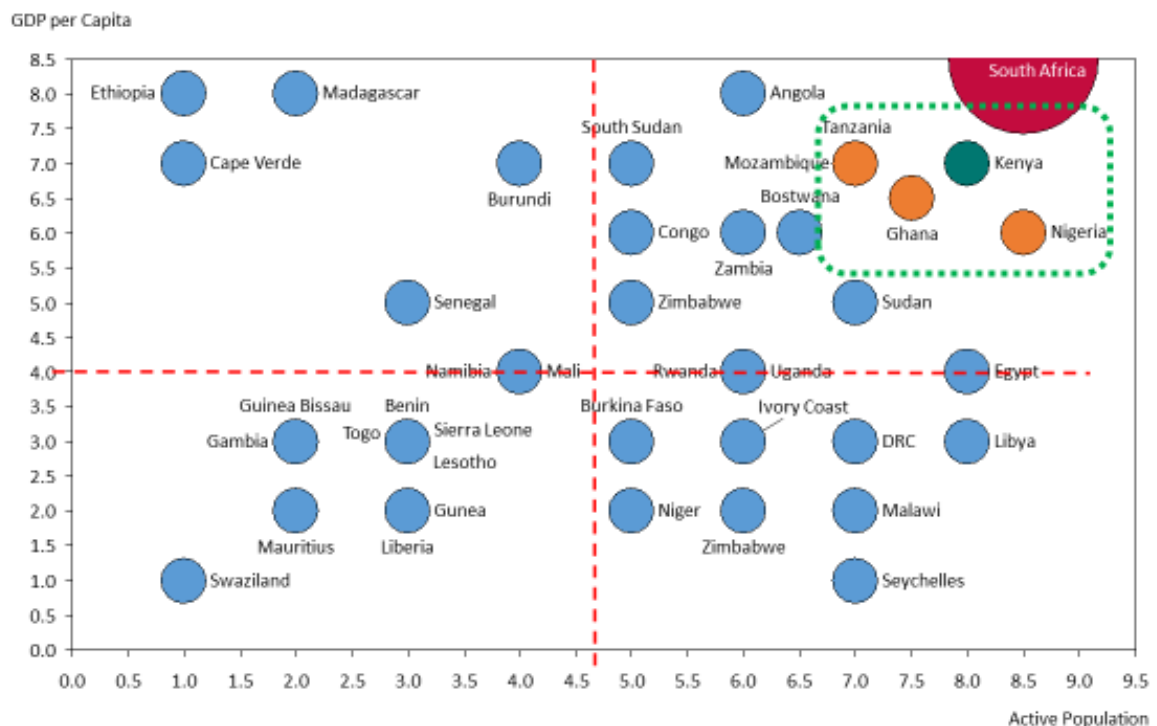
Focusing on meeting customers expectation by improving the experience



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## Evaluation of different alternatives

In an effort to continue meeting its strategic growth imperatives and deliver incremental value to its stakeholders, Abantu Abanyama completed an assessment of African markets to identify regions strongly matching its value proposition, illustrated below.



We considered Brazil and Argentina as equivalent emerging markets however a key outcome of our analysis was the conclusion that SADC, EAC and ECOWAS as trade blocs provides markets with a plethora of growth potential and that has retail opportunities that appeals to Abantu Abamnyama.



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### **Recommended approach**

Investment capital is unfortunately a major constraint and thus we cannot take advantage of all opportunities simultaneously. We selected Kenya as our country of entry. Essentially it will become a hub for the entire EAC region over a 2/3 year period. Due to the huge the potential of West Africa; in particular Ghana we will be considering it in parallel with the rest of the EAC in the same timeframe. The motivation for our country selection is as follows:

#### **Quantitative**

- Kenya
  - Population – 44m
  - Youth(15-34 yrs old) 35% of population (www.adeanet.org)
    - 67% unemployed – employment opportunity here
  - GDP per capita – USD 1 137 (2014 est)
  - Growth rate – 6.32% (2015 est)
- EAC
  - Population – 143.5m
  - GDP per capita – USD 769

#### **Qualitative**

##### *Positive aspects*

- English main language spoken.
- EAC as trading bloc – most investor friendly and sophisticated out of all other blocs in Africa.
- Infrastructure: the Government had allocated about €11 million for 2014 to 2015 towards: Constructing 3 new airports. Upgrading 2 airports. Replacing ferries (about €4.1million)
- Rail: for 2014 to 2015 the Government has allocated approximately €132 million towards standard gauge rail.
- Overall infrastructure is good with an extensive road network; a railway system that links the nations ports and major cities including neighbouring Uganda and 15 airports across the country.
- 47% of Kenyans are using the internet. By far the highest penetration of all the countries in the EAC.

##### *Constraints*

- Prevalent rate of corruption
- Unreliability of power supply
- Unskilled population
- Cost of doing business e.g. tax rates & access to finance
- Security threats



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**These risk factors are evident in all African countries as initial entry and ongoing considerations. In light of this Abantu intends on tracking these risks on the Africa risk register and proactively manage mitigation depending on severity and organisational impact.**

**We also intend to address these concerns and facilitate ease of business via lobbying:**

- Africa was recently rated as the least connected continent. For our company **\*Black people\*** to collaborate with our government and EAC/SADC government on initiatives to promote Intra – Africa Trade. The key focus areas will be around improving ease of moving people, infrastructure development, trade and finance.
  - Currently we have International Trade agreements such as AGOA & Economic Partnerships with the European Union but we need African initiatives for example COMESA community have identified border post refurbishments to improve infrastructure.
  - We are committed to working with the relevant government bodies like the embassy officials to build solid relations with government to obtain buy in.

### **Roadmap**

#### **Phase 1- Kenya**

- Rationale behind this is as articulated in quantitative and qualitative factors above.

#### **Phase 2 – Rest of EAC**

- We need to tap into entire 143m East African market and will plan entry into surrounding countries after approximately 12-18 months of trading in Kenya

#### **Phase 3 – West Africa**

- West Africa is not off the investment table, we are considering West Africa in parallel to East Africa with a specific focus on Ghana.

**We believe Kenya and the EAC is a more calculated bet and opportunity, less corruption, good growth across the region, port access and better infrastructure, highest smart phone penetration on the continent and East Africa is generally untapped from a SA retail perspective.**



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### **Store format approach plan**

Our average store size will be approximately 3000 – 4000 square meetings within a shopping mall. We will lead with cosmetics, ladies wear, kids wear and then menswear. Shop front exposure will be critical and we will drive maximum shop front to display key ranges.

Over and above the standard format mentioned above we intend delivering a number of other elements within the store as part of our format strategy in order to deliver a differentiated offer and retail experience compared to anything currently existing in Kenya or in sub Saharan Africa. We intend sending a senior management team on an international immersion to gain a deep understanding of the country and the region; including all cultural nuances as well as identifying potential solutions to some of the constraints identified above.

### **Key differentiators**

The following elements have been identified as market disruptors and key differentiators:

- Localization (all about the local customer) - “local is lekker”
- Enhance customer experience – loyalty programme
- Improve store experience
- “Think Green”
- Alternate distribution channel (Online site)

#### *Localization (All about the local customer) Local is Lekker*

- In an effort to capture the local customer, we will partner with local designers and introduce the concept of a store within a store. This will be done in the form of a fashion capsule in stores (20-30 sqm). Some of the advantages include incorporating local style and taste to show cultural respect and care. This will also enhance a sense of pride from the customer as they will be wearing a locally made garment.
- We aim to get involved in skills development and training to empower locals with skills and techniques to design and manufacture ethnic clothing lines.
- We aim to showcase these ethnic designs by hosting local fashion shows thereby increasing the positioning of our brand.



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### *Customer Centric Loyalty Program - “African Retail Shopper Card”*

Currently there are a lot of loyalty programs offered by retailers, the following characteristics will set us apart from other retailers:

- It is an innovative loyalty programme that speaks to the local customer.
- Our “African Retail” Shopper Card will entitle customers to a 15% discount after ten purchases.
- We will maintain a detailed record on each customer, logging addresses, their purchases, size and brand for customer follow-up and in-house promotional purposes.
- Our target location is central to our target customer base. We will also manage a direct mail program that will focus on our top 50% customers spotlighting any in-house sales and promotion.
- We will provide a large assortment of sizes to compliment the various body shapes and sizes of the ethnic community (The Fuller Figure). Currently a gap.
- Focus and attention to customer’s personal preferences and customer retention will be given high priority. Because of the high rate of employee turnover at major mass retailers, customer service and attention to personal detail has been neglected.

### *Enhanced Store experience*

- Incorporate a restaurant/café into the store. This will allow customers to relax; take a break during their shopping trip and increase overall dwell time.
- Offer in store Wi-Fi technology and cell phone storage charging stations with lockers in the store to delight our customers while they shop.
- Run a competition to optimise our stores regarding technology. This is based on the fact that Kenya is Africa’s technology “silicone valley”. The idea is to have locals develop technology to help stores be more effective.
- Introduce an “ E-Fashion” experience , whereby the consumer can log on to a computer in store and virtually try on the garments with a picture of her/himself.

### *Employ Principles of Green Supply Chain*

Global textile consumption is estimated to be more than 30 million tons per year, which causes serious social and environmental impact within supply chain sustainability. It is significantly important for fashion businesses due to consumers increasing awareness of the environment (Sustainable Fashion Supply Chain article: 2014). As a result we aim to promote sustainability through development of a sustainable supply chain.

We see the structure of a sustainable fashion supply chain as follows:

- **Eco material preparation thus promoting eco fashion** - by using organic fabrics for our local range, which are produced with less water and harmful chemicals.



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- **Collaborate with manufactures to promote sustainable manufacturing** – this relates to issues of human rights and environmental protection. All our partners must be ISO 14000 compliant and regular audits will be conducted to ensure that we are aligned to the Environmental standards.
- **Reducing carbon emission in distribution** - Partner with our transport company to look at using trucks that are fitted with fuel consumption efficiency. Source locally and utilize rail transportation to move material around. Utilize countries like Lesotho and Ethiopia to source and manufacture raw materials.

#### *Alternate Channel*

- There are several online channels that are currently being investigated in relation to our customers. The preferred method has not been finalised yet and it is scheduled to be implemented at a later stage.
- Options to be investigated:
  - Online shopping – create own in house platform (own website).
  - Use existing platforms for example: Kalahari.net and or Amazon.com – create a “My Abantu Abamnyama” pull down menu to allow consumer to place orders, check status of account, loyalty points etc.

#### **Roll out of differentiating factors**

##### **Phase 1 (Immediate – 18 months)**

1. Localisation (All about the local customer) Local is Lekker .
2. Enhanced Store experience.
3. Employ Principles of Green Supply Chain.
4. Lobbying.

##### **Phase 2 – (18-24months)**

1. Customer Centric Loyalty Program  
“African Retail Shopper Card”
2. Alternate Channel



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## **Implementation plan (including budgets)**

### **Overview**

To date, Abantu Abamnyama has identified 10 potential sites in Kenya suitable for the opening of stores in the near term (next 24 months). Specifically, it is earmarking locations in Nairobi, Mombasa and Kisumu in connection to the opening of aforementioned stores as soon as it is feasible to do so and appropriate space is available.

We are earmarking 1 May 2015 as our first trading date in Kenya and the EAC as trading bloc.

|              | Year 1 | Year 2 | Total |
|--------------|--------|--------|-------|
| No of stores | 4      | 10     | 14    |

### **Scope of investment**

#### ***Administrative, infrastructure and working capital set-up costs***

It is estimated that the upfront administration and set-up costs (to establish a local Kenyan company, pay Kenyan legal fees etc.) will amount to USD2m. In the initial feasibility study Abantu Abamnyama has estimated it would be required to spend USD15m, ex Sales Related Tax/VAT, over a 24 month period on capital equipment required to furnish and fit fourteen potential stores to a level suitable for trading to commence.

Furthermore, a working capital investment of USD30-35m would be required to stock up the stores in readiness for trade.

Please see the schedule below for a summary of these initial start-up costs, all in USD millions.

| Description of cost   | Year 1      | Year 2      | Total       |
|---|-------------|-------------|-------------|
| Initial administration and set-up                             | 2.0         | -           | 2.0         |
| Capital infrastructure (fixtures and fittings, store IT etc.) | 5.3         | 9.4         | 14.7        |
| Working capital (predominantly stock)                         | 12.1        | 17.2        | 29.3        |
| <b>Total</b>  | <b>19.4</b> | <b>26.6</b> | <b>46.0</b> |



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### ***Pro-forma cash flow***

The below pro-forma cash flow accounts for the expected cash flow of the Kenyan company for the first five years of operations. Kenya will be run on a cash only basis for the foreseeable future.

| USD m                                | Year 1             | Year 2             | Year 3             | Year 4            | Year 5            |
|--------------------------------------|--------------------|--------------------|--------------------|-------------------|-------------------|
| Net Profit                           | -0.7               | -0.6               | 0.2                | 1.5               | 2.0               |
| Investment in Debtors                | 0.0                | 0.0                | 0.0                | 0.0               | 0.0               |
| Investment in Inventory              | -1.2               | -3.3               | -2.9               | -0.8              | -0.7              |
| Investment in Creditors              | 0.9                | 2.5                | 2.1                | 0.6               | 0.5               |
| <b><i>Net cash in/(out) flow</i></b> | <b><i>-1.0</i></b> | <b><i>-1.4</i></b> | <b><i>-0.5</i></b> | <b><i>1.3</i></b> | <b><i>1.9</i></b> |

### **Staffing**

| (# employees) | Kenyan | Non-Kenyan |
|---------------|--------|------------|
| Management    | 37     | 4*         |
| Store staff   | 129    |            |
| Total         | 166    | 4          |

\* - It is envisaged that 4 staff from Abantu Abamnyama's existing operations in South Africa would be employed in Kenya in the first year of operation to train up the Kenyan labour force.

### **Success measures**

We are looking at the following metrics amongst others to measure success:

- Top line sales vs budget
  - GP% vs budget
  - Manpower vs budget
  - Rental vs budget
  - Store EBITDA
  - Stock turn
- } Trading metrics
- 
- No of stores vs plan
  - Return on Capital Employed(ROCE
  - Internal Rate of Return (IRR)
  - Trading licence obtained
  - Actual opening vs estimated opening
- } Measure against investment plan



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## **Conclusion**

Fundamentally the key assumption upon which Abantu Abanyama's expansion plans are predicated is that the Sub-Saharan economy continues to deliver positive real growth in the next 5-7 years and that this translates into continued demand for retail clothing, footwear and textile (CFT).

The clothing, footwear and textile (CFT) retail space is reaching its maturity stage in South Africa and recently, international CFT retailers continue to invest in retail space in South Africa as part of their growth and Africa expansion plan. These new developments present challenges to our business, which has experienced slow growth and a flat market share growth over the years. This research paper thus seeks to help the company to take advantage of the opportunity that Sub-Saharan Africa presents.

The key objective is to identify and unpack these opportunities, prioritise them and develop a clear work plan that will enable the company to implement the strategy.

Africa, as demonstrated in the insights and trends section, is a diverse continent with 54 independent countries, each representing different opportunities and challenges. Naturally, our starting point was to cut the opportunity into small manageable parts in order to assess, rank and prioritise the opportunities. This resulted in the team reviewing 5 key regional trading blocs and selecting the region and country that presented the most viable opportunities. Using economic and demographic data like GDP per capita, population, market saturation and other key risk factors; the team decided on EAC bloc and specifically Kenya for phase 1 of our Africa penetration strategy.

In an effort to continue meeting its strategic growth imperatives and deliver incremental value to its stakeholders, Abantu Abamnyama concluded that Kenya and the East African Community (EAC) provide a market with a plethora of growth potential and one that has opportunities in retail segments aligned with the merchandise/product and value offerings that certain of Abantu Abamnyama's trading brands provide.

The motivation for this decision is discussed in detail in our *recommended approach* as well as the decision against some of the regions and countries that would seem obvious from the analysis in our *evaluation of different alternatives*.

Additional research is still required on Kenya, which will require a team of executives to conduct further on the ground research for 15 to 24 months in order to obtain more intimate insights about the market, the opportunities and risks identified. The team is undecided on Ghana as a potential opportunity for our business; therefore a decision has been taken to conduct further on-the-ground research parallel to the Kenya immersion.



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Our *implementation plan* of the research paper deals with the commercial model as well as the key success factors that need to be in place to ensure a successful and profitable execution of our plan. It is estimated that the company will spend ~USD52m in administration and set up costs, capital equipment and stock for 14 potential stores. We envisage to yield positive cash flows in year 4 (USD1.3m) and year 5 (USD1.9m) on a pragmatic entry approach basis. The details are provided as an appendix.

In closing, our core business is and will remain to be in South Africa, Abantu Abamnyama will ensure that the fires keep burning in our local operations. However, given our growth aspirations, we recognize the need for Sub-Saharan African as our second engine for growth.



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## **Appendix 1**

1. Investment and Implementation plan



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## **ABANTU ABAMNYAMA expansion into Kenya – Investment and Implementation plan**

### **Overview**

Abantu Abamnyama Ltd (“Abantu Abamnyama”) is a large non-food retailer in South Africa, with extensive retailing expertise and a proven track record of retailing excellence. Abantu Abamnyama has an annual turnover of approximately USD3.0bn<sup>1</sup> and is the leading clothing, footwear and cosmetics retailer in South Africa.

In an effort to continue meeting its strategic growth imperatives and deliver incremental value to its stakeholders, Abantu Abamnyama recently completed an assessment of African markets to identify regions strongly matching its value proposition.

A key outcome of the analysis was the conclusion that Kenya and the East African Community(EAC) provides a market with a plethora of growth potential and one that has opportunities in retail segments aligned with the merchandise/product and value offerings that certain of Abantu Abamnyama’s trading brands provide.

To date, Abantu Abamnyama has identified 9 potential sites in Kenya suitable for the opening of stores in the near term (next 24 months). Specifically, it is earmarking locations in Nairobi, Mombasa, Kisumu in connection to the opening of aforementioned stores as soon as it is feasible to do so and appropriate space is available

We are earmarking 1 May 2015 as our first trading date in Kenya and the EAC as trading bloc.

### **Scope of investment**

Abantu Abamnyama is predominantly a “bricks and mortar” retailer that provides an offering of clothing, footwear, textile and cosmetics products to retail customers for use / wear in their daily lives. It has an internationally developed supply chain that sources appropriate merchandise from all over the world. These products are aggregated in three distribution centres in South Africa and then distributed to a network of 1,100+ stores distributed across South Africa, servicing the full spectrum of upper, middle and lower LSM customers. It is intended that modifications would be made to this model of operation to ensure an efficient solution is tailored for the servicing of the Kenyan retail spectrum. Currently a range of avenues, including but not limited to continuing to use South Africa as a trans-shipment hub, splitting orders and shipping directly or adopting a ship/fly model through an alternative freeport are being considered.

### ***Administrative, infrastructure and working capital set-up costs***

It is estimated that the upfront administration and set-up costs (to establish a local Kenyan company, pay Kenyan legal fees etc.) will amount to USD2m. Moreover, in the initial feasibility study Abantu Abamnyama has estimated it would be required to spend USD15m,

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<sup>1</sup> Exchange rate of ZAR:USD 10:1 used



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ex Sales Related Tax/VAT, over a 24 month period on capital equipment required to furnish and fit fourteen potential stores to a level suitable for trading to commence.

Furthermore, a working capital investment of USD30-35m would be required to stock up the stores in readiness for trade.

Please see the schedule below for a summary of these initial start-up costs, all in USD millions.

| Description of cost   | Year 1      | Year 2      | Total       |
|---|-------------|-------------|-------------|
| Initial administration and set-up                             | 2.0         | -           | 2.0         |
| Capital infrastructure (fixtures and fittings, store IT etc.) | 5.3         | 9.4         | 14.7        |
| Working capital (predominantly stock)                         | 12.1        | 17.2        | 29.3        |
| <b>Total</b>  | <b>19.4</b> | <b>26.6</b> | <b>46.0</b> |

### *Pro-forma income statement*

A summary of Abantu Abamnyama's financial projections covering the first five years of its foray into Kenya are contained in the schedule below. These streams of revenues and run-rate costs are predicated off the baseline assumption that the capital outlay of USD46.0m outlined above is made. It must be noted that these estimates are exposed to the highly variable world of retailing and thus subject to frequent assessment and revision. Moreover all numbers are ex Sales Related Tax/ VAT

| USDm                                     | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
|--|--------|--------|--------|--------|--------|
| Revenue                                  | 5.8    | 22.8   | 37.7   | 42.0   | 45.4   |
| Fixed costs (rent etc)                   | 1.6    | 5.9    | 9.0    | 9.3    | 9.7    |
| Variable costs (including cost of stock) | 5.0    | 17.6   | 28.6   | 31.2   | 33.7   |

### *Pro-forma balance sheet*



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The below pro-forma balance sheet accounts for the expected financial position of the Kenyan company at day one of trade, and at the completion of its first financial year.

USDm

|                                     | Year 1     | Year 2      | Year 3      | Year 4      | Year 5      |
|-------------------------------------|------------|-------------|-------------|-------------|-------------|
| Fixtures and Equipment              | 5.3        | 9.4         | 9.4         | 9.5         | 9.7         |
| Inventories                         | 1.2        | 4.5         | 7.3         | 8.1         | 8.8         |
| Cash and cash equivalents           | -          | 0.1         | 0.3         | 0.3         | 0.4         |
| <b>Total Assets</b>                 | <b>6.5</b> | <b>13.9</b> | <b>17.0</b> | <b>18.0</b> | <b>18.9</b> |
| Share Capital                       | 2.2        | 2.2         | 2.2         | 2.2         | 2.2         |
| Retained Earnings                   | -          | -           | -           | 1.3         | 1.9         |
| <b>Total Equity</b>                 | <b>2.2</b> | <b>2.2</b>  | <b>2.2</b>  | <b>3.5</b>  | <b>4.0</b>  |
| Trade and other Payables            | 0.9        | 3.3         | 5.5         | 6.1         | 6.6         |
| Amounts owing to Holding Co         | 3.4        | 8.4         | 9.3         | 8.4         | 8.3         |
| <b>Total Liabilities</b>            | <b>4.3</b> | <b>11.8</b> | <b>14.8</b> | <b>14.5</b> | <b>14.9</b> |
| <b>Total Equity and Liabilities</b> | <b>6.5</b> | <b>13.9</b> | <b>17.0</b> | <b>18.0</b> | <b>18.9</b> |

### Pro-forma cash flow

The below pro-forma cash flow accounts for the expected cash flow of the Kenyan company for the first five years of operations. Kenya will be run on a cash only basis for the foreseeable future.

| USDm                          | Year 1      | Year 2      | Year 3      | Year 4     | Year 5     |
|-------------------------------|-------------|-------------|-------------|------------|------------|
| Net Profit                    | -0.7        | -0.6        | 0.2         | 1.5        | 2.0        |
| Investment in Debtors         | 0.0         | 0.0         | 0.0         | 0.0        | 0.0        |
| Investment in Inventory       | -1.2        | -3.3        | -2.9        | -0.8       | -0.7       |
| Investment in Creditors       | 0.9         | 2.5         | 2.1         | 0.6        | 0.5        |
| <b>Net cash in/(out) flow</b> | <b>-1.0</b> | <b>-1.4</b> | <b>-0.5</b> | <b>1.3</b> | <b>1.9</b> |

### Staffing

Kenyan expansion plans may initially require employees based in South Africa to commute to Kenya/temporarily relocate to ensure initial trading commences appropriately and train up Kenyan staff in the methodologies and principals of the Abantu Abamnyama way of Merchandising and Store Operations.

In as far as is possible it is envisaged that Abantu Abamnyama's future retail operations in Kenya would employ people from the Kenyan labour force (across a range of skilled, semi-skilled and manually intensive requirements). The table below outlines the anticipated staffing



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complement that would be built up over the course of the first 24 months of operation, using standardized staffing blueprints that are in effect in Abantu Abamnyama's existing store base, provided the projected store opening schedule comes to fruition for the fifteen potential stores.

| (# employees) | Kenyan | Non-Kenyan |
|---------------|--------|------------|
| Management    | 37     | 4*         |
| Store staff   | 129    |            |
| Total         | 166    | 4          |

\* - It is envisaged that 4 staff from Abantu Abamnyama's existing operations in South Africa would be employed in Kenya in the first year of operation to train up the Kenyan labour force.

### **Suppliers and Supply chain**

Moreover, it is Abantu Abamnyama's intention to make use of local Kenyan service providers (as constrained by appropriate availability thereof) to address normal operational service requirements (including but not limited to service requirements in spheres of maintenance, security banking, telecommunications, transport etc.). However, given that operations is in infancy stage during first 24 months it is envisaged that Abantu Abamnyama would obtain a selection of merchandise as part of the consolidated buying and supply chain operations in South Africa.

### **Investment risks**

Fundamentally the key assumption upon which Abantu Abamnyama's Kenyan expansion plans are predicated is that the Kenyan and the EAC economy continues to deliver positive real growth in the next 5-7 years and that this translates into continued demand for retail clothing, footwear, textile and cosmetics products from the citizens and residents of Kenya.

Whilst Abantu Abamnyama's current reading of macroeconomic factors and international demand trends is that this growth scenario is likely to play out, there is a downside risk that the uncertain economic climes in developed Northern Hemisphere countries continue in the medium term, and that this serves to negatively impact Kenya and other Southern African countries in which Abantu Abamnyama operates.

On the balance though, Abantu Abamnyama believes that Kenyan expansion options remain a risk-adjusted return proposition that should be undertaken.