The Economist Corporate Network

2017 African business outlook survey

The long view: Reflections on commercial performance and prospects

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Contents

Preface

The long view: Africa-based commercial performance and prospects is an Economist Corporate Network (ECN) report. It is based on the findings of an online survey of 150 executives, supplemented by one-on-one interviews with leaders responsible for their firms' Africa-based commercial operations. Bain & Company sponsored the report. The ECN performed the research and wrote the report independently. Herman Warren, ECN Africa Director, was the author of the report. Gareth Owen was responsible for design. Wai Lam was responsible for the cover design. The cover is by iStock.

Special thanks are extended to all respondents and interviewees who shared their time and provided perspective on this important topic.

March 2017

Executive summary

African governments are actively seeking to diversify their economies, to encourage investment and to move beyond a dependence on low value-added commodity exports. Nonetheless, the recent softening of the commodity price cycle has impacted the region's rate of economic growth: 2016 was the first year in over a decade in which Africa's economic growth (1.4%) did not exceed the rate of global GDP growth (2.2%). The Africa-rising narrative has thus taken a knock. However, the setback is likely to be only temporary, particularly as global commodity prices are forecast to stage a modest rebound in 2017. Moreover, the region is large and there are some countries within it that are still growing strongly. In 2017 nine African countries are expected to be among the 20 fastest-growing economies in the world. Even in countries that have experienced below-trend growth (for example, South Africa), or have fallen into recession (for example, Nigeria), promising commercial opportunities exist. Companies headquartered within and outside the region have taken note, focusing on what remains an attractive destination for investment.

Companies operating in the region are already reaping rewards that compare favourably with those of their operations elsewhere. For example, 63% of respondents in our survey indicated that their firms achieved similar or higher margins from Africa-based operations in 2016 when compared with other regions of the world. Respondents indicated that their firms' East Africa-based operations were the most profitable. In 2017, regardless of region of operation, respondents, in the main, expected their firms' profit margins to improve. The Sub-Saharan countries with the three largest economies—South Africa, Nigeria and Kenya—were cited as the top three markets for respondents' firms. These markets were expected to remain the top three over the next six years; however, respondents expected Nigeria to overtake South Africa as their single most important market by 2022.

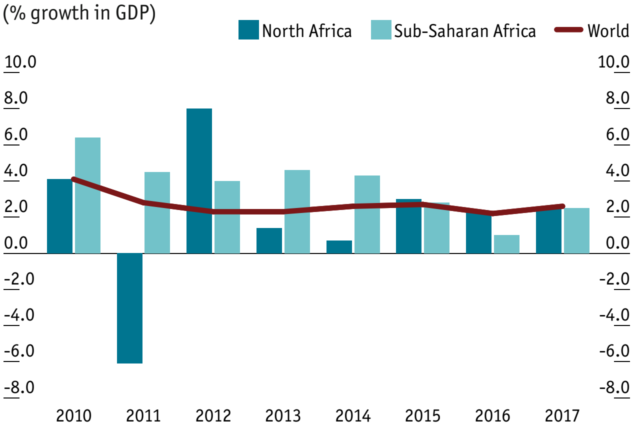
Despite these positive commercial outcomes and prospects, operating in the region is rife with challenges. Respondents cited regulatory, macroeconomic, and currency- and skill -related challenges as being the areas of biggest concern. Moreover, respondents whose firms were headquartered outside Africa faced the additional challenge of engaging their senior management, far removed from Africa-based markets, on local opportunities, with their various nuances and requirements. This may explain, in part, why 39% of respondents indicated their firms were not investing at the correct rate to achieve their organisations' growth expectations.

Over 63% of respondents indicated the major drivers of their firms' revenue and profitability growth would come from their core business, as well as by offering new products and services. Around 87% of respondents indicated their firms' service/product offerings were well adapted for and considerate of their Africa-based customers' needs. Nonetheless, interviewees indicated that much of their product innovation and design was conducted outside of Africa and then adjusted for African markets. In this regard, there may be gaps in the market for companies to establish businesses and/or grow their share of the market for products and services that are designed from the start to meet local needs.

The 2017 African Business Outlook Survey
The long view: Africa-based commercial performance and prospects

Africa & world economic growth, 2010-17

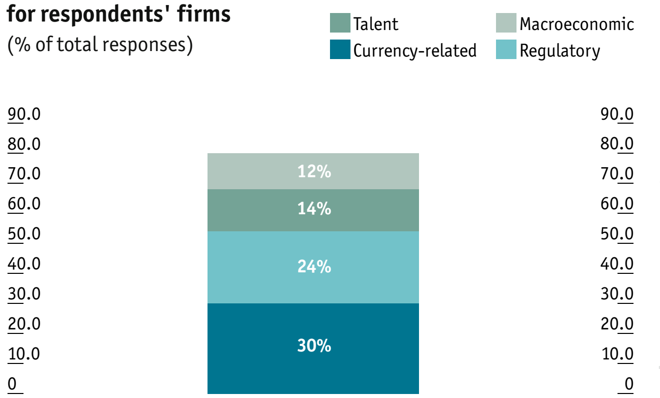
(% growth in GDP)



Source: The Economist Intelligence Unit.

Africa-based commerical challenges: macroeconomic, currrency-related, talent and regualtory challenges among top for respondents' firms

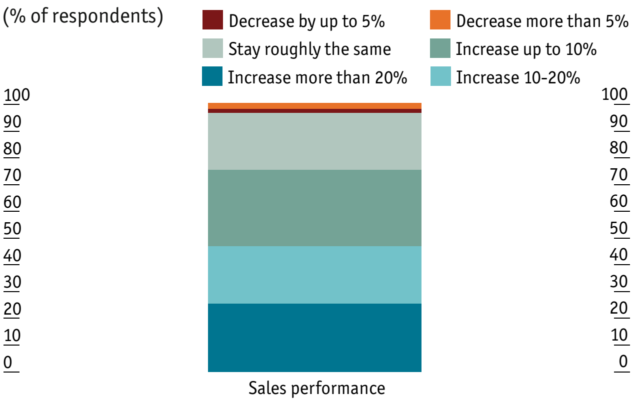
(% of total responses)



Source: ECN, 2017 African Business Outlook Survey.

What are you expecting for your Africa sales performance in 2017, relative to 2016?

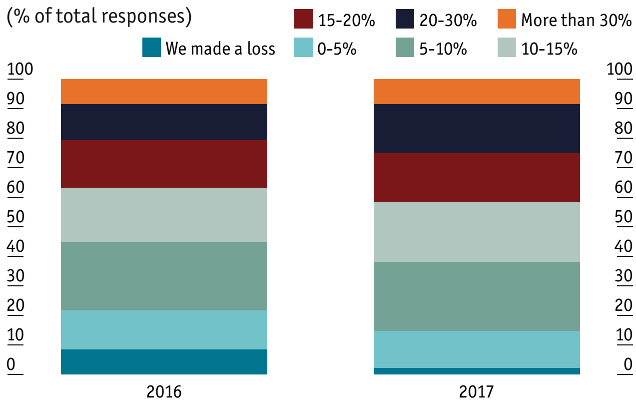
(% of respondents)



Source: ECN, 2017 African Business Outlook Survey.

Operating profit margins: 2016 performance and 2017 expecations

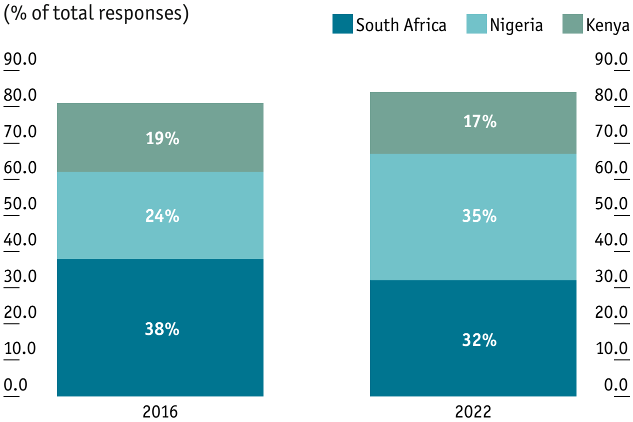
(% of total responses)



Source: ECN, 2017 African Business Outlook Survey.

Top Africa-based markets by firm revenue, 2016 vs 2022

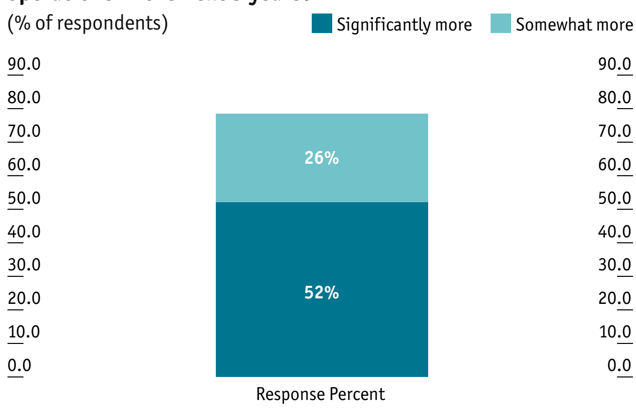
(% of total responses)



Source: ECN, 2017 African Business Outlook Survey.

Firms digitalisation investments across Africa-based operations in the next 5 years?

(% of respondents)



Source: ECN, 2017 African Business Outlook Survey.

Respondent overview

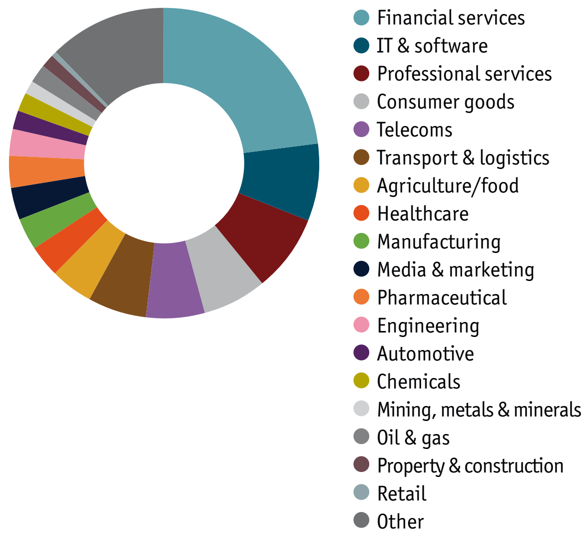
Industry representation

Respondents to the survey worked for a cross-section of industry sectors, ranging from agricultural to water and sanitation. Around one-quarter of all respondents worked in the financial services sector, and an additional 8% indicated that they worked in the broader professional services category.

Location of company headquarters

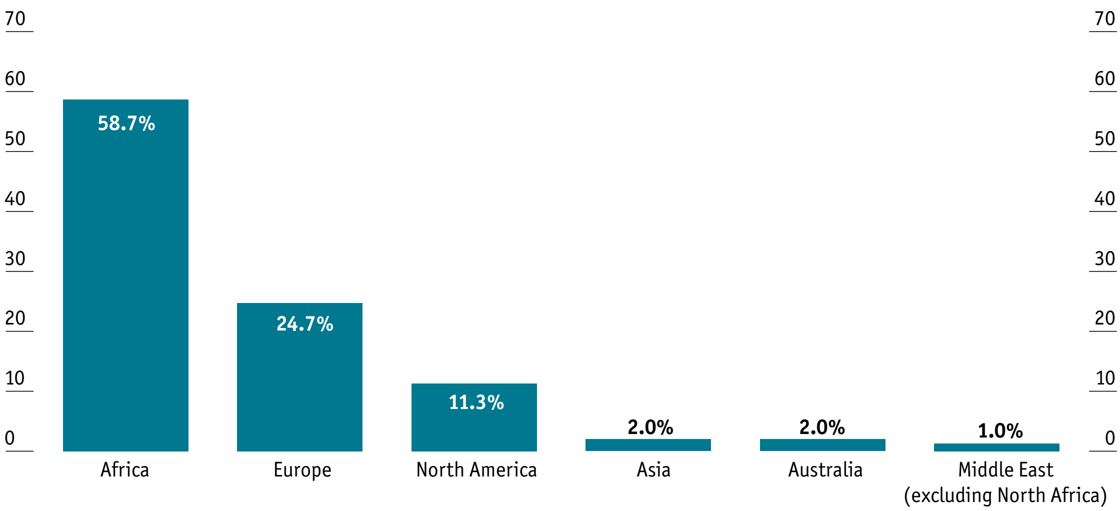
Around 59% of respondents' firms are headquartered in Africa. For those whose firms are not headquartered in Africa, around 36% were headquartered either in Europe (25%) or North America (11%).

What sector do you operate in?
(% of respondents)



Source: ECN, 2017 African Business Outlook Survey.

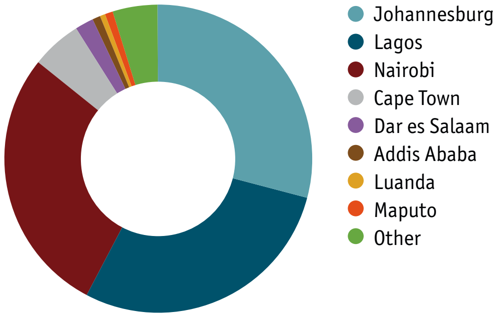
Where is your firm's global HQ?
(% of respondents)



Source: ECN, 2017 African Business Outlook Survey.

Location of respondents

Where are you based?
(% of respondents)



Source: ECN, 2017 African Business Outlook Survey.

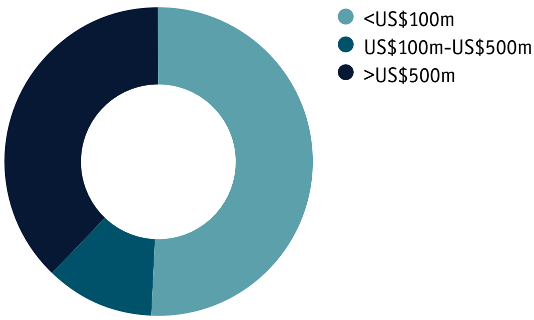
Respondents to the 2017 African Business Outlook Survey (AfBOS) were weighted towards those based in the largest commercial centres in Africa. Over 91% of respondents were based in cities in one of three countries: South Africa, Nigeria and Kenya. The combined GDP of these three composed around 46% of Africa's overall GDP in 2016. The differing economic performance of these countries in recent years demonstrates that Africa, while offering dynamism, growth and opportunity, is not a region where a one-size-fits-all approach will succeed.

Revenue profile

Firm size by revenue

Around 51% of respondents' firms generated annual revenue under US$100m. A significant number (38%) generated annual revenue over US$500m.

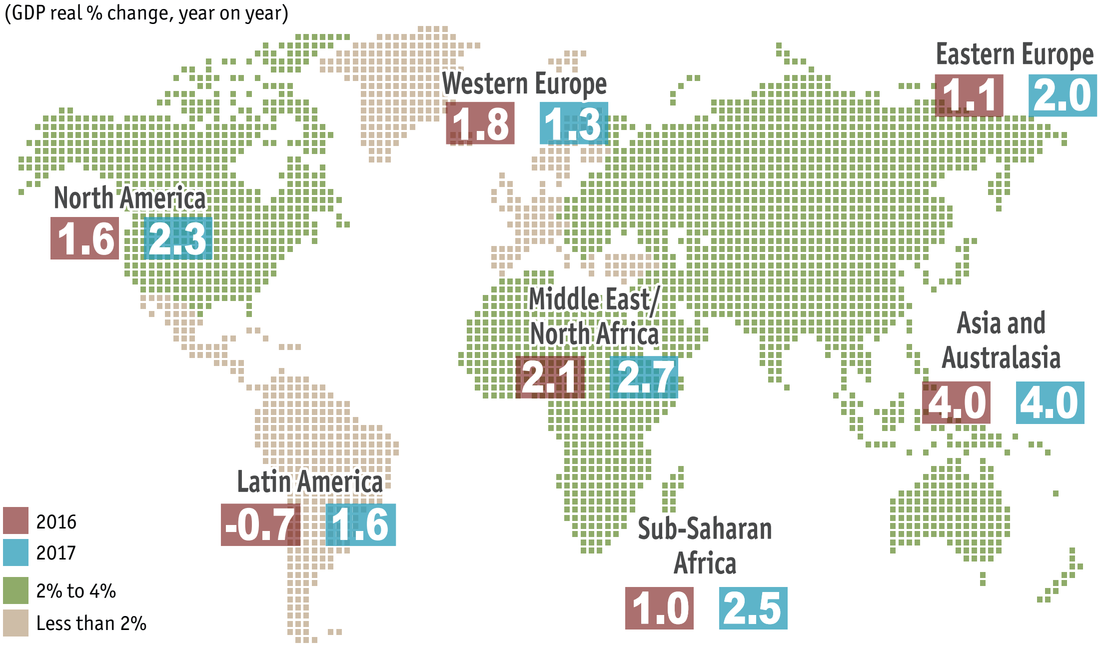
Size of firms
(% of respondents)



Source: ECN, 2017 African Business Outlook Survey.

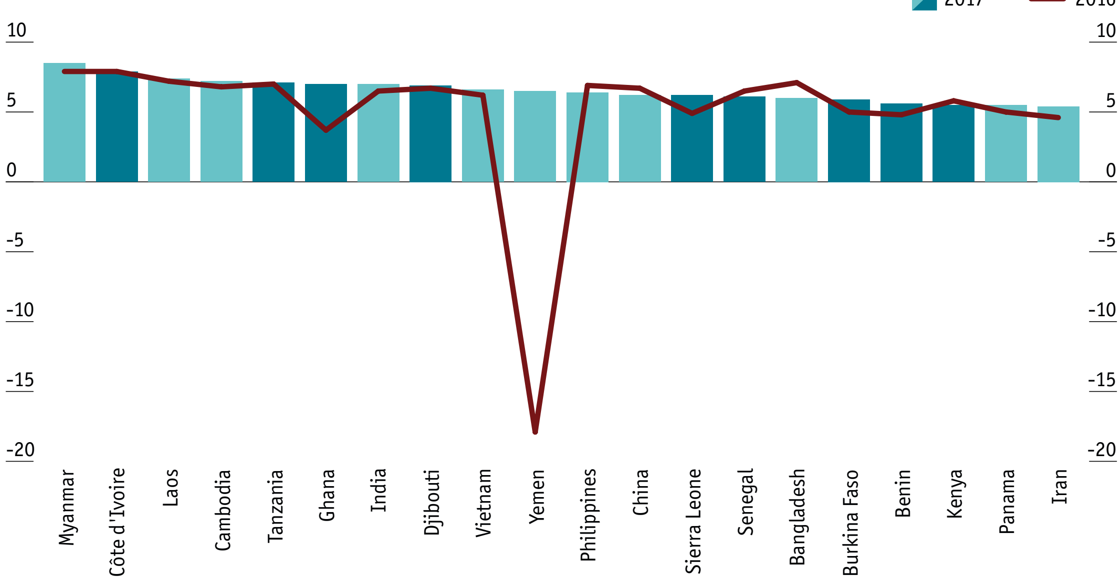
Markets move at different speeds

World economic growth, 2017
(GDP real % change, year on year)



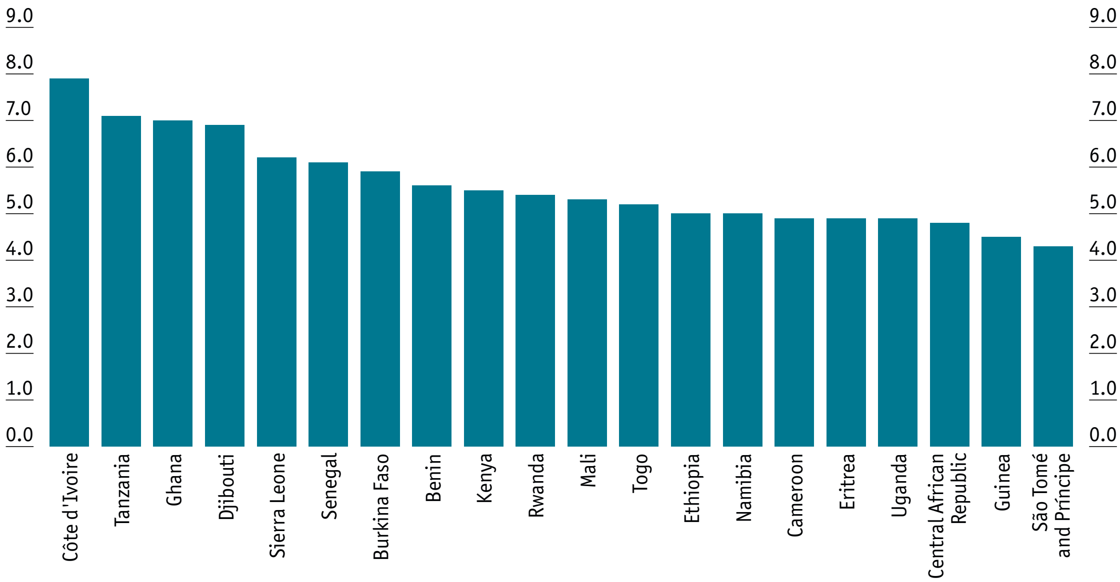
Source: The Economist Intelligence Unit.

World's 20 fastest growing economies, 2017
(% growth in GDP)



Source: The Economist Intelligence Unit.

Sub-Saharan Africa's 20 fastest growing economies, 2017
(% growth in GDP)



Source: The Economist Intelligence Unit.

According to The Economist Intelligence Unit, in 2016 Africa's GDP—North and Sub Saharan—grew at its slowest pace (1.4%) in over a decade. This notwithstanding, there are countries in the region that were among the fastest-growing economies in the world. This trend is set to continue: in 2017, nine out of the world's top 20 high-growth economies are expected to be in Africa.

East Africa: moving at pace

Kenya is one of the countries forecast to be among the fastest-growing economies globally in 2017. The country forms part of the East African Community, a regional grouping of countries, excluding Ethiopia, whose economies are forecast to grow significantly faster than the Sub-Saharan Africa average. Respondents' firms with operations in the East Africa region benefit from regional integration, a growing middle class, and growth supported by investments in the build-out of infrastructure. Nonetheless, challenging issues include regulatory uncertainty (for example, in Tanzania) and interest-rate caps (for example, in Kenya), infrastructure gaps (for example, Uganda), inadequate access to foreign exchange (for example, in Ethiopia) and a rapidly evolving competitive landscape.

Southern and West African giants stutter or recede

According to The Economist Intelligence Unit, in 2016 South Africa's real GDP is estimated to have registered growth of just 0.5%. The country's economy is expected to grow slightly faster in 2017 (1.4%), but the overall pace of expansion remains pedestrian and below potential. Labour rigidity, legislative and regulatory uncertainty, for example in the areas of land reform, the mining sector and black economic empowerment, as well as internal divisions in the ruling African National Congress, contribute to the slow-growth economic outlook. Nonetheless, South Africa remains Sub-Saharan Africa's largest economy. While respondents expected the country's importance as a primary market to decline over the medium term, South Africa is likely to remain a key market for their firms for at least the next five years. This may reflect South Africa's importance for many companies as a springboard into the rest of the region.

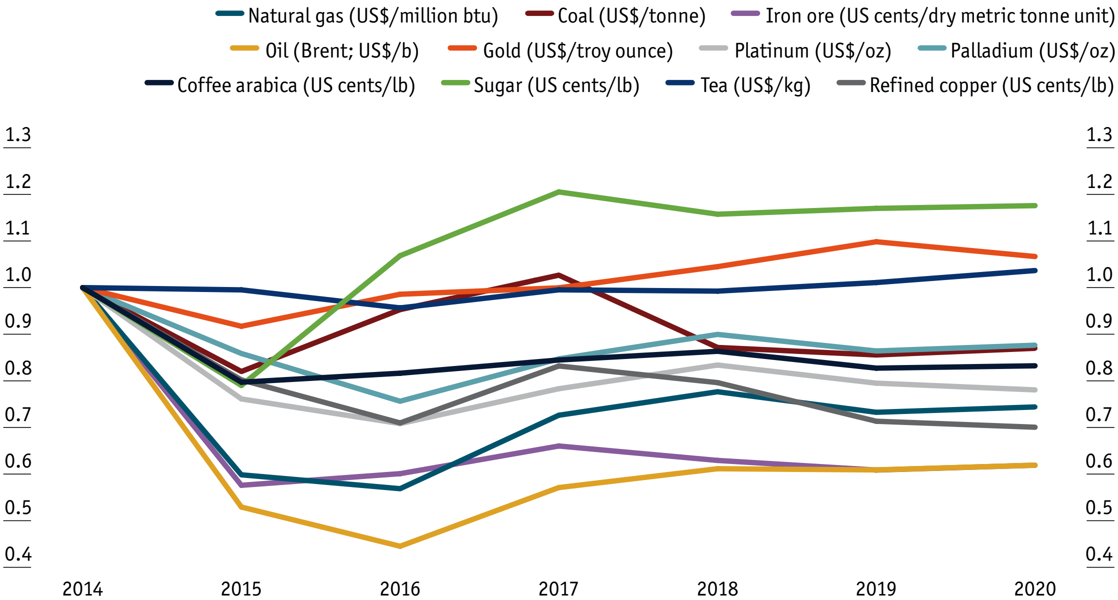
Nigeria experienced a recession in 2016; over the four-year period 2017-20, the country's economic growth is expected to average just 2.2% per annum. The nation's economy is relatively diverse; nonetheless, much of its performance is linked to the foreign exchange earned from oil exports. In 2016, oil-supported earnings were negatively impacted, not only by softer prices for the commodity, but also by lower production levels, partly due to militancy in the Niger Delta, the main oil producing region. Moreover, the Nigerian naira suffered—depreciating by around 55% against the US dollar over the course of 2016, causing inflation to spike.

The knock-on effect of a lack of foreign exchange, high inflation and a depreciating currency created a challenging environment for companies. "The operating environment in Nigeria has made life much more challenging for our clients. We have also seen a reduction in portfolio flows, given concerns about our clients' ability to repatriate funds," says Victor Williams, head of corporate and investment banking at Standard Bank, a South Africa-based firm. Mr Williams adds, "[T]he lack of foreign exchange in Nigeria has impacted on our ability to service clients; for example, we have had to put some restrictions on the overseas usage of credit and debit cards." It should be noted, however, Nigeria's slow economic growth is not shared by a number of the country's neighbours: in 2017 six out of the twenty fastest growing world economies are located in West Africa.

Commodity outlook

The prices of several of Africa's most important export-earning commodities are expected to firm over the next five years; hydrocarbons, in particular, are expected to recover from their recent lows, to the potential benefit of oil-exporting countries such as Nigeria and Angola. That said, global oil prices are likely to remain well below the peak levels reached in 2012. The firming of the natural gas price will benefit countries such as Mozambique and Tanzania. Increasing coffee and tea prices will help boost the export earnings of countries such as Kenya. The upswing in gold prices will benefit a number of countries across the region (for example in Ghana, South Africa, Senegal and Zimbabwe). The prices of coal and copper are expected to soften. This will serve to the disadvantage of South Africa (coal), Zambia (copper) and the Democratic Republic of Congo (copper).

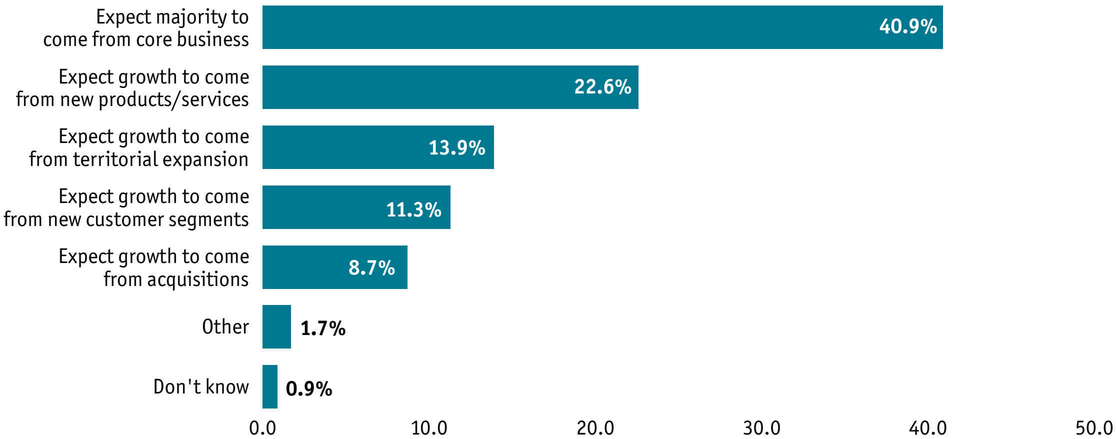
Commodity Price Index 2014-20



Source: The Economist Intelligence Unit.

Drivers of revenue and profitability

What is your firm's primary area of focus to drive revenue and profitablity growth?
(% of respondents)



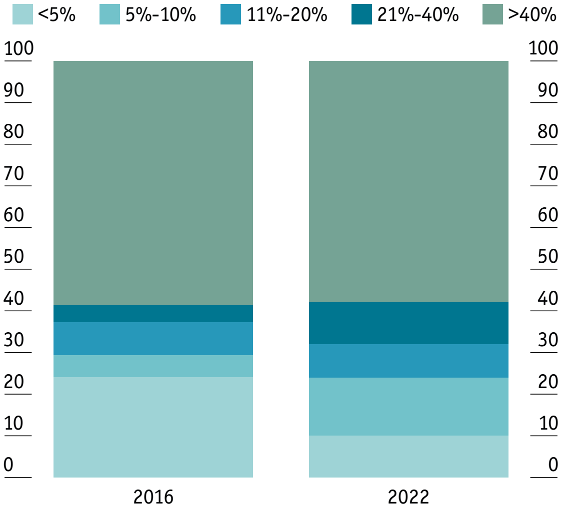
Source: ECN, 2017 African Business Outlook Survey.

Most respondents—around 64%—expected their firms' revenue and profitability to be driven by core business or the introduction of new products and services. Nairobi-based Equity bank, encapsulates this aspect of the feedback: "Our strategy is to bank the entire pyramid. In Kenya, it's deepening penetration within the entire pyramid; in Tanzania, for example, it's growing penetration in certain segments," says Bhartesh Shah, COO at Equity Bank. Equity Bank is also looking to grow by offering new products and services. "The questions are: how agile is your thinking and how agile are your systems? We started a mobile virtual network operation, and now we have 2.5m customers. In less than a year, we have gained 10% market share of Kenya-based mobile-money transactions," adds Mr Shah. Many firms are leveraging a central hub to develop products and services that then service markets around the world. "A lot of our product innovation and range are driven out of central research facilities in Europe. We're constantly innovating as a company. Many of the products we currently offer weren't available as recently as five years ago," says Richard Napier, CEO for Sub Saharan Africa at Saint-Gobain, a diversified France-based company.

Bayer has adopted a similar approach, leveraging products in Africa-based markets that are developed centrally at their European headquarters. "In agricultural science, it's about focusing on country expansion, adapting the product portfolio to cater for local customers, starting a seed business and establishing partnerships to more effectively reach and service existing and new customers," says Eric Bureau, country head for CropScience East Africa at Bayer a Germany-based company.

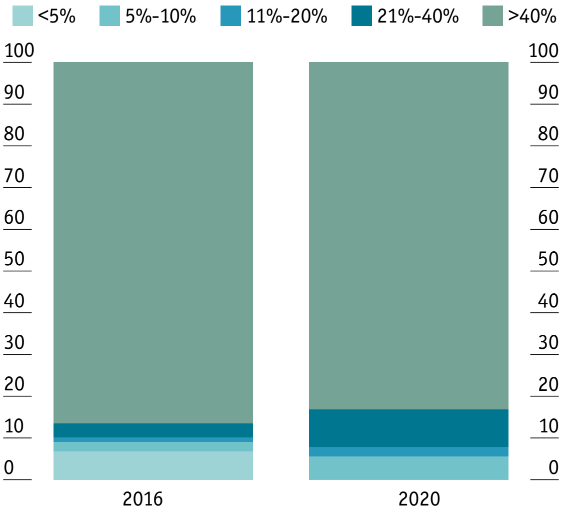
Africa-based revenue contribution, 2016-22

What percentage of your firm's global revenues come from Africa? 2016 vs 2022
(% of respondents)



Source: ECN, 2017 African Business Outlook Survey.

What percentage of your firm's global revenues come from Africa? 2016 vs 2022
(% of respondents with Africa-based headquarters)



Source: ECN, 2017 African Business Outlook Survey.

In 2016 around 59% of respondents reported that their firms generated over 40% of global revenue in Africa-based markets. Twenty-four percent of respondents reported that their firms had generated under 5% of their firm's global revenues for that year in Africa. Interestingly, around 44% of firms reporting global revenue of at least US$500m generated at least 11% of their revenue in Africa.

For the six-year period ending in 2022, respondents suggested that there would be significant growth in the importance of Africa-sourced revenue. The growth in Africa-sourced revenue as a percentage of firms' total revenue was anticipated to be strongest in two categories: 21%-40% and 5%-10%. Respondents expected these categories to more than double in size over the period.

Firms with Africa-based headquarters

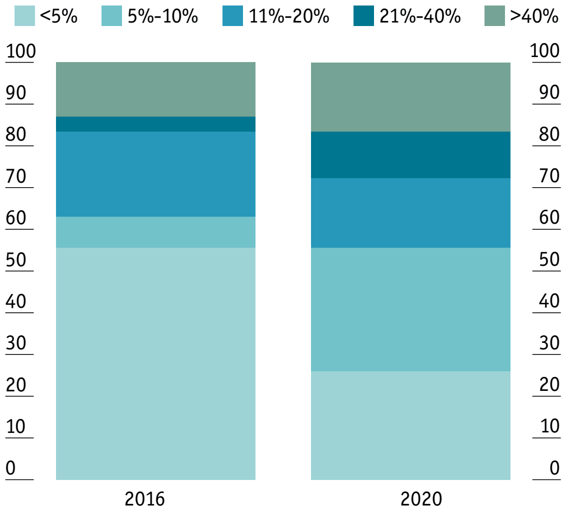
In 2016 around 85% of respondents whose firm's head office was based in Africa reported over 40% of their global revenue was sourced in the region.

Firms with Europe- and North America-based headquarters

Around 56% of respondents whose firms are headquartered in Europe and North America reported their organisations generating under 5% of their 2016 global revenue from Africa. However, many of these companies have ambitious plans to grow their revenue contribution from African markets. For example, Mr Napier says, "[B]y 2019 we are targeting

What percentage of your firm's global revenues come from Africa? 2016 vs 2022

(% of respondents with North America- and Europe-based headquarters)

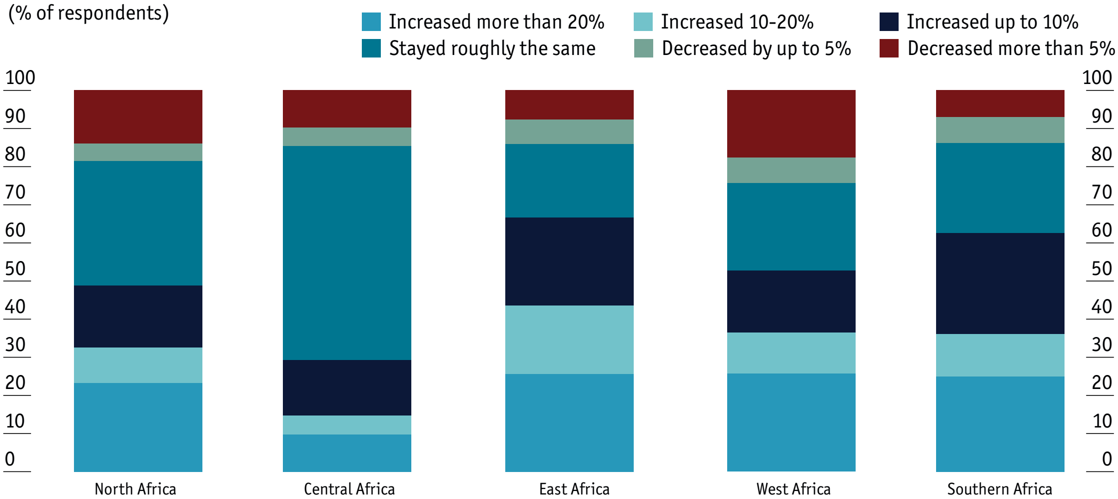


Source: ECN, 2017 African Business Outlook Survey.

€500m in Africa-based sales." Bayer is also focusing more on Africa. "Commercial growth in the region is above the company's average; however, in terms of total revenue contribution from the region, it's likely to remain below 5% for a number of years," says Mr Bureau of Bayer.

Revenue performance and outlook by region

How did your sales in Africa perform relative to 2015?
(% of respondents)

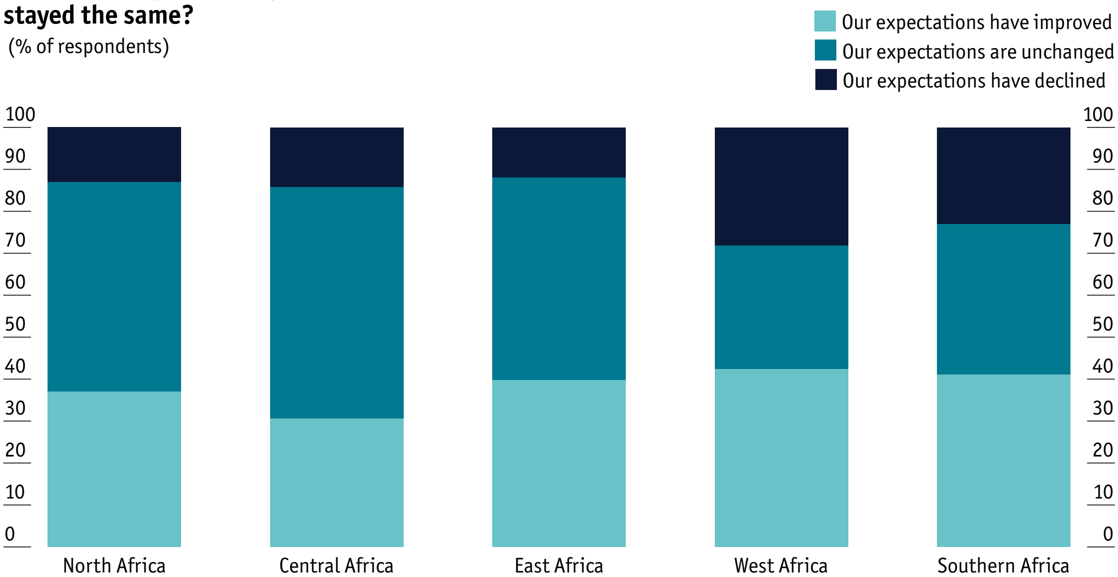


Source: ECN, 2017 African Business Outlook Survey.

2015 relative to 2016

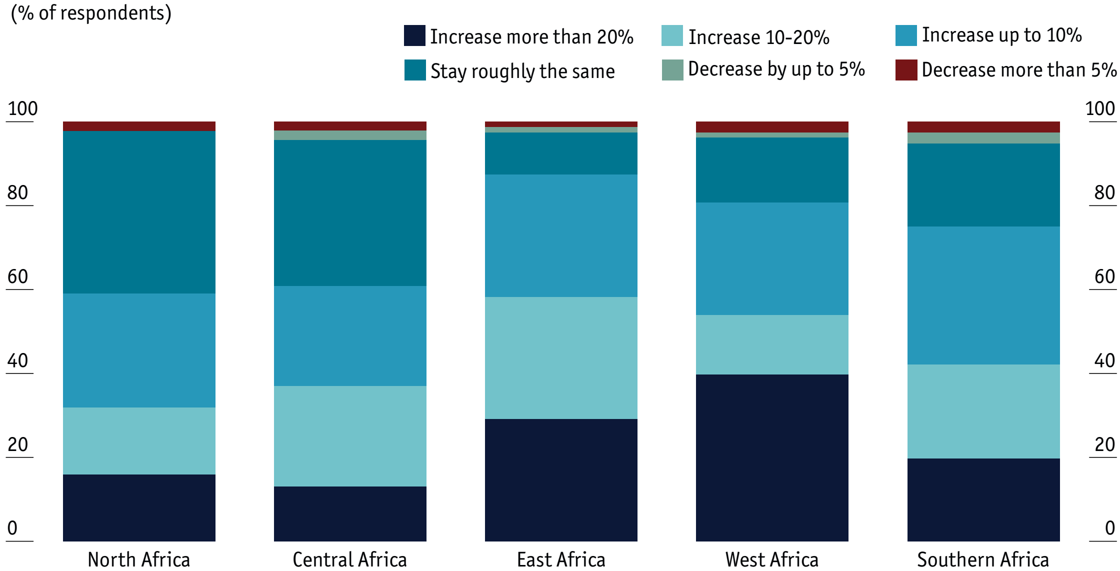
The highest rate of growth in year-on-year sales (10% or more) was reported for the East Africa region. Respondents cited Central Africa as the region with the highest percentage (56%) of flat year-on-year sales. West Africa was reported to have the highest percentage (24%) of sales that declined year on

Over the past year, have your firm's expectations for revenue growth in Africa improved, declined or stayed the same?
(% of respondents)



Source: ECN, 2017 African Business Outlook Survey.

What are you expecting for your Africa sales performance in 2017, relative to 2016?
(% of respondents)



Source: ECN, 2017 African Business Outlook Survey.

year. The reported sales performance for West Africa, was undoubtedly influenced by the challenging macroeconomic situation in Nigeria.

Sales growth expectations

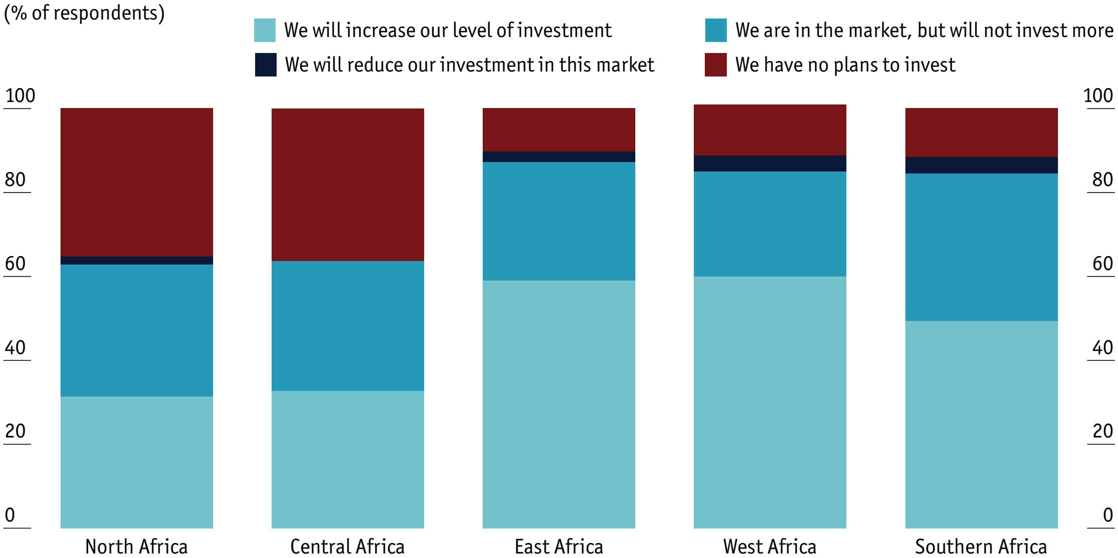
Over 70% of respondents indicated that their firms' expectations of revenue growth across African regions had either improved or remained the same over the previous 12 months. Southern and West Africa were the regions where declining revenue expectations were most significant. Around 30% and 23% of respondents' answers for West and Southern Africa, respectively, indicated a decline in revenue-growth expectations. In the region's two largest economies—South Africa and Nigeria—the macroeconomic environment has filtered into expectations. "From a strategy position, generally, we aim to bank successful clients more than we bank markets. So, in that context, based on the performance of our clients, we've seen good performance across the continent this year, relative to the overall macroeconomic performance," says Mr Williams of Standard Bank. However, the overall performance of the larger economy matters. Stannic, Standard Bank's subsidiary business in Nigeria, for example, has been impacted by the overall performance of the Nigerian economy. "The commercial environment is tough in Nigeria. We haven't seen many committed investors pull out of the market. Obviously, however, we have seen a slowdown in deals," says Adeniyi Adeleye, head of real estate finance West Africa at Stanbic.

2017 sales expectations

In 2017 respondents generally expected their firms' sales performances to improve. The East Africa region is expected to maintain the highest percentage of year-on-year sales growth greater than 10%. Respondents expected the West Africa region to post one of the biggest changes in positive growth: around 81% of respondents indicated their firms' West Africa-based sales will grow in 2017, up from only 53% in the same category in 2016.

Regional investment expectations

How will your investments in the following markets change during 2017?
(% of respondents)



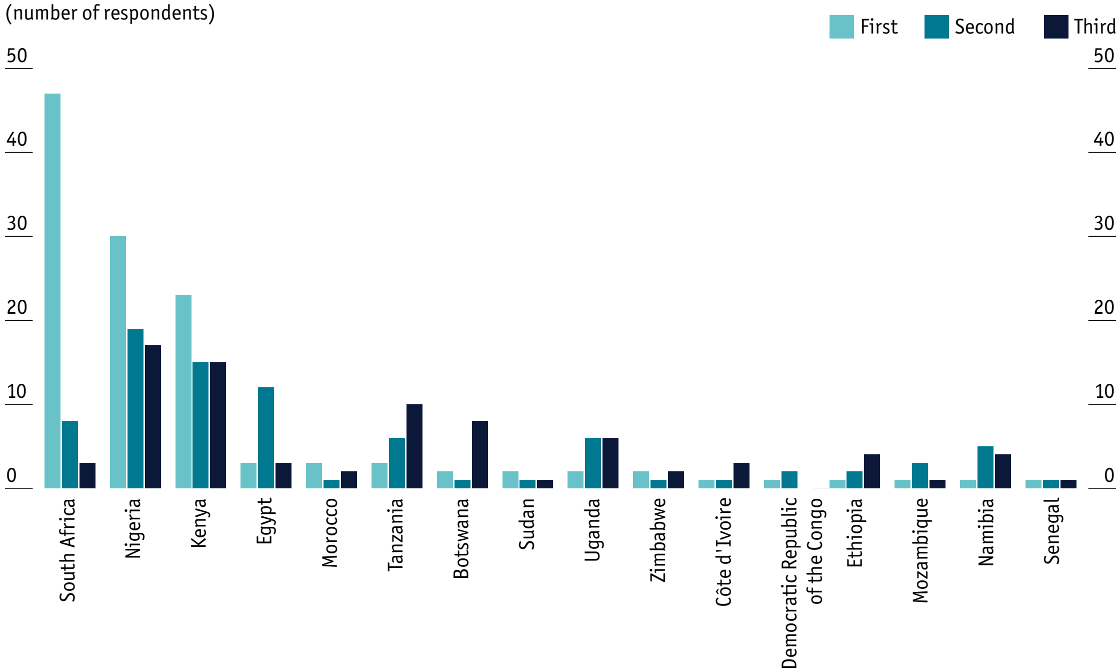
Source: ECN, 2017 African Business Outlook Survey.

In the regions where respondents' firms operated, they reported a general organisational bias towards increasing the levels of investment. The exception was North Africa, where there was an even split between respondents indicating their firms would not invest more and those that indicated the level of investment would increase. Around two-thirds of respondents whose firms had operations in East and/or West Africa indicated their organisations planned to increase their level of investment in 2017. The East and West Africa regions are getting the attention of Alexander Forbes, the Johannesburg-based financial services firm. "South Africa is likely to remain the most important country in terms of providing stable earnings for our firm. However, there are only two markets that move the needle: Ethiopia and Nigeria," says Luendran Pillay, managing director of emerging markets at Alexander Forbes.

Top African markets by revenue

2016

Top African markets by revenue, 2016
(number of respondents)



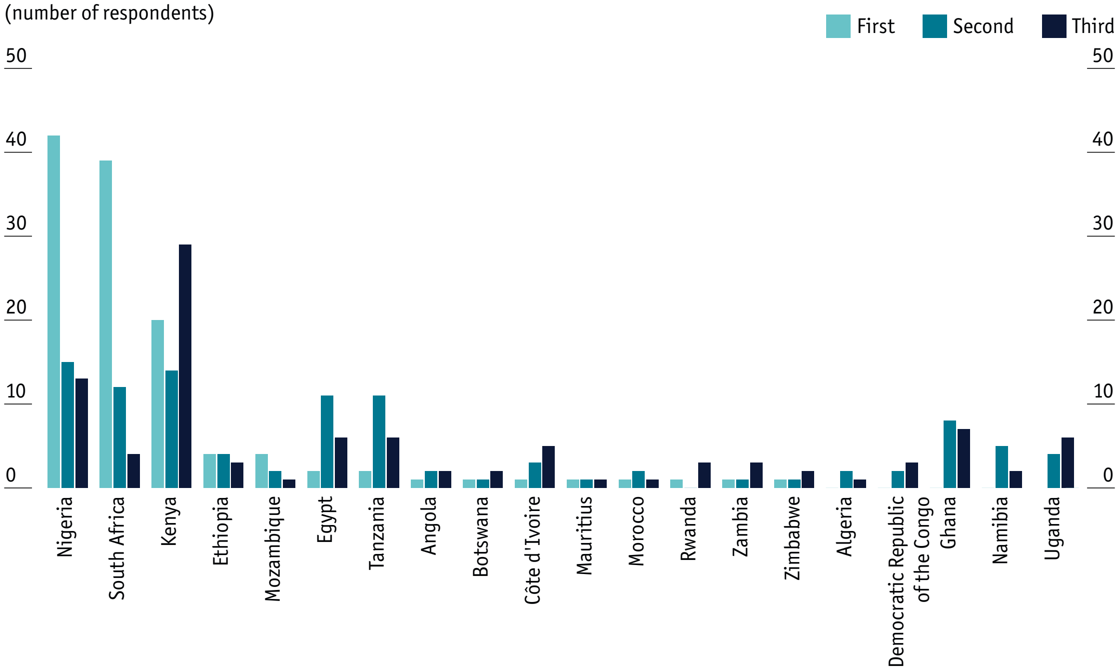
Source: ECN, 2017 African Business Outlook Survey.

The three largest Sub-Saharan African economies were the top markets by revenue in 2016, according to respondents' representation of their firms' operations. South Africa was cited most often as the top market.

2022

By 2022 respondents expected Nigeria to be their firms' top market. South Africa is expected to slip to number two, and Kenya is expected to remain in third position. Nigeria's rise in importance is expected to come at the expense of South Africa and Kenya, both of which are expected to see a decline in the number of respondents citing them as their first market of choice. However, there is a notable increase in Kenya's being cited as the third-top market from 2016 to 2022.

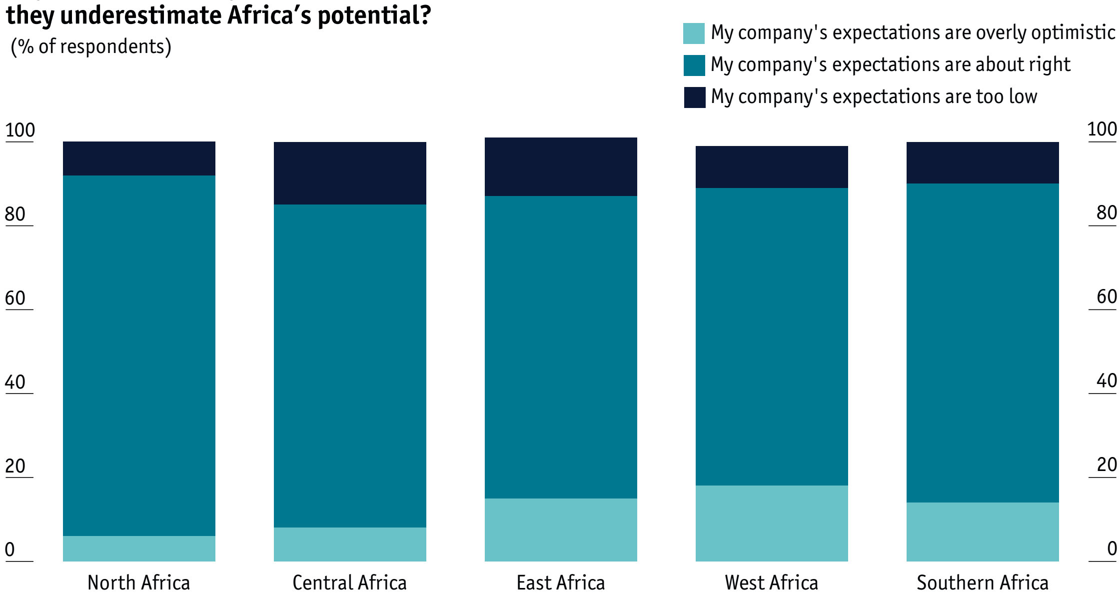
Top African markets by revenue, 2022
(number of respondents)



Source: ECN, 2017 African Business Outlook Survey.

Organisational expectations: are they realistic?

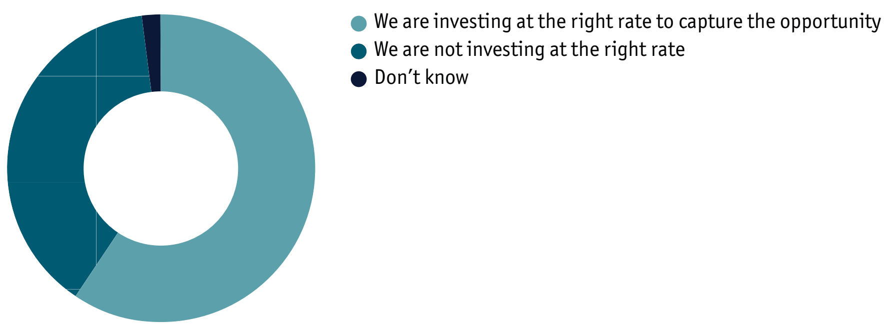
In your opinion, are your firm's expectations for growth in Africa over-optimistic, about right, or do they underestimate Africa's potential?
(% of respondents)



Source: ECN, 2017 African Business Outlook Survey.

A clear majority of respondents felt that their firms' expectations of growth in Africa are realistic. Around 40% of respondents, however, indicated that their firms were not investing at the correct rate to capture the available growth opportunities. A higher percentage—over 44%—of respondents who worked at firms with headquarters outside of Africa (for example, in Europe and North America) indicated that their organisations were not investing at a rate commensurate with the region's potential.

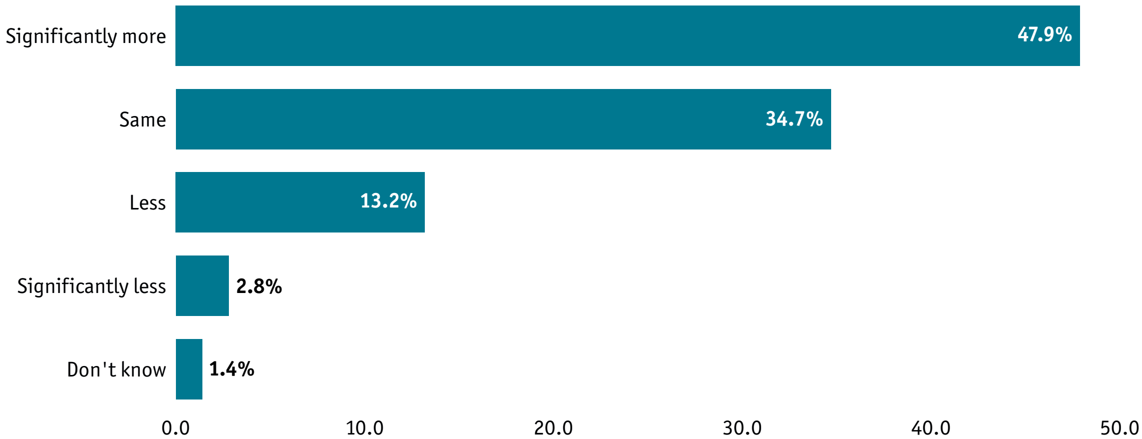
In your opinion, is your firm investing in Africa at the right rate to achieve your growth expectations?
(% of respondents)



Source: ECN, 2017 African Business Outlook Survey.

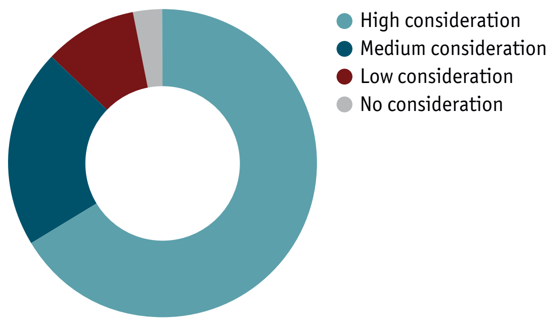
Company agility and competitiveness

How agile and responsive to market and competitive changes do you feel your company is relative to competitors?
(% of respondents)



Source: ECN, 2017 African Business Outlook Survey.

To what extent are your firm's product/service offerings designed with an Africa-based customer in mind?
(% of respondents)



Source: ECN, 2017 African Business Outlook Survey.

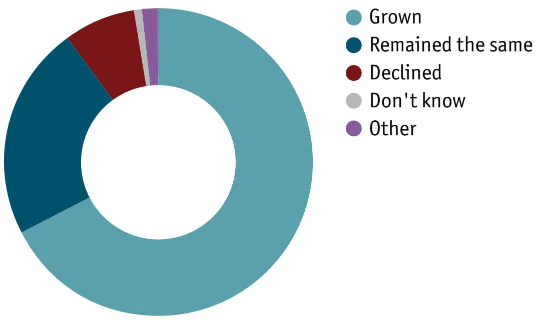
Around 83% of respondents indicated their organisations were agile and responsive to market and competitive changes. In one-on-one interviews, executives indicated that they spent time building organisational capacity to anticipate and respond to market changes. "The intellectual capacity of the organisation is focused on reinvention," says Bobby Collymore, CEO at Safaricom, a Kenya-based telecommunications company. "Traditional competitors for us are mobile network operators (MNOs); however, we see much more competition on the horizon from global players, such as Facebook, WhatsApp and Google. We spend much more of our time looking over the horizon than on what is immediately in front of us," adds Mr Collymore.

Even where firms may be leveraging a central R&D and product development facility, a high percentage of respondents (87%) indicated that a medium-to-high consideration was given to the product and service needs of their Africa-based customers.

Market share performance

Over two-thirds of respondents (68%) indicated their firms' market share grew over the last three years. However, for respondents whose firms operate across several African territories, it is not always straightforward to provide a simple summary of market share performance. "Overall, we have gained share, but it depends on the market. We've grown our business faster than many of the larger banks on the continent," says Mr Williams of Standard Bank. "Outside of South Africa, we have grown. Inside South Africa, we are fairly flat," says Mr Pillay of Alexander Forbes.

Over the past three years how has your firm's market share performed?
(% of respondents)

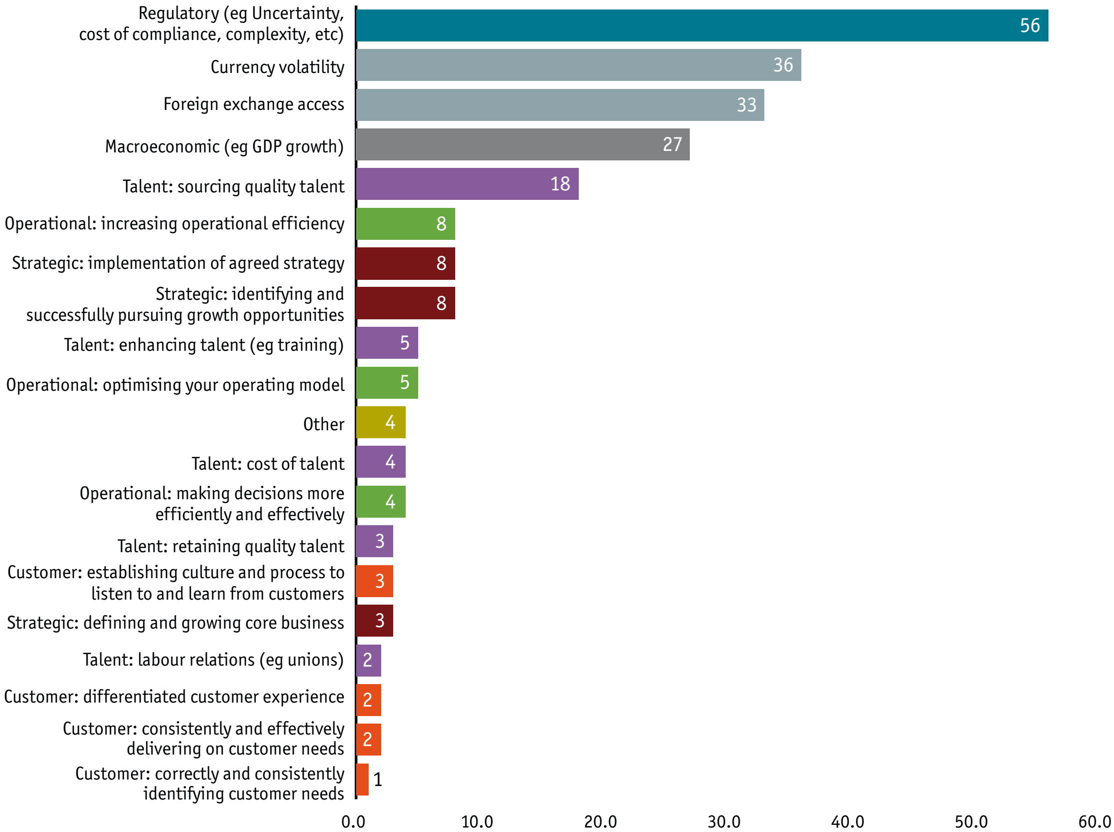


Source: ECN, 2017 African Business Outlook Survey.

Major challenges firms face

Respondents' firms face several challenges in the region. When asked to name their top two from a long list of options, around 79% of their answers fell into three broad categories: regulatory, macroeconomic and human-capital related. Some of these challenges are within a firm's ability to

What are the top two challenges your Africa-based operations face and what is the major driver?
(number of respondents)



Source: ECN, 2017 African Business Outlook Survey.

manage and influence; some, clearly, are not. For example, respondents' firms may be in a position to lobby for regulatory changes that make it easier to do business. Moreover, firms can address aspects of the talent-related challenges cited (for example, enhancing talent). However, a number of the top challenges respondents cited are macro in nature and beyond an individual firm's control (for example, GDP growth).

Regulatory

Twenty-four percent of respondents—making it the most commonly cited individual category—cited the complexity, cost of compliance and uncertainty associated with the regulations impacting their

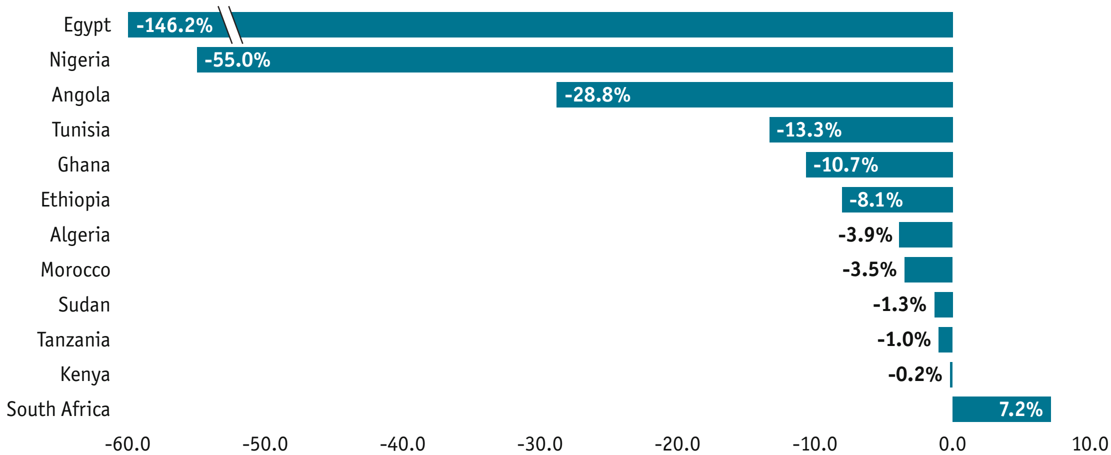
firms' operations. In Nigeria, for example, "[S]ome regulatory changes do not provide for adequate lead time; thus, implementation tends to be more challenging, as it relates to resolving and managing clients' needs and requirements," says Mr Adeleye of Stannic. "Uncertainty in government policy, particularly in Tanzania, is proving to be a challenge," says Pradeep Paunrana, managing director at Arm Cement, a Kenya-based firm.

The challenges associated with complying with indigenisation and select-population group-empowerment regulations, impacting staff mix and equity-ownership structures, come into sharp focus in South Africa. For many corporations, the latest set of broad-based black economic empowerment (BBBEE) regulations, taken at face value, are unworkable. As one executive anonymously commented, "My principals in North America are not going to approve of us essentially having to 'give away' equity to raise our BBBEE rating. We would rather run the risk of losing business [to other companies with a higher rating] for now."

The Kenya-based financial services sector provides an example of the regulatory challenges

firms must navigate. Banks in Kenya were forced to cap lending rates to borrowers when a new law came into force in September last year. The Kenyan president, Uhuru Kenyatta, signed the law despite the objections of the central bank and most of the banking industry. Surprisingly, one-on-one interviews conducted by ECN that focused on Kenya provided a different picture. "The regulatory environment in Kenya is stable and predictable," says Mr Collymore. The Kenyan regulators also appear to encourage some firms to experiment and push service and product offering boundaries into unchartered or unresolved territory. Equity Bank is listed on the Nairobi securities exchange and is working on block-chain money transfer and various innovative credit-scoring initiatives. "Ninety-two percent of our loans are done via mobile phones. We are also using social media to help determine the risk profile of an individual," says Mr Shah. "The good thing about Kenya's regulators is that, as long as they are in the loop and comfortable, they allow you to play in the sandbox," adds Mr Shah.

End of year LCU:US$ value change, 2015-16
(% of depreciation, year on year)



Source: The Economist Intelligence Unit.

Currency: volatile and, at times, inaccessible

Currency-related challenges were cited in around 30% of answers. Exchange-rate depreciation was a major factor at play in several of Africa's largest economies. From the end of 2015 to the end of 2016 the Egyptian pound depreciated by around 146% against the US dollar. Over the same period, the Nigerian naira depreciated by 55%.

"Still today, the MD and CFO positions at Bayer are usually filled by expats."

- Eric Bureau, Country Head CropScience East Africa, Bayer

The trading range of the South African rand, one of the few Africa-based currencies that appreciated year on year against the US dollar in this period, highlights another of the challenges cited by respondents: volatility. In 2016 the South African currency appreciated by around 7%; the rand's trading range with the US dollar, however, was R16.8 to R13.4—indicating a 20% swing over the course of the year. Volatility such as this adds complexity to pricing and margin management.

The commercial environments in Egypt, Nigeria and Ethiopia, as examples, are indicative of another currency-related challenge cited by respondents: a lack of foreign exchange. "There is strong demand for our products in Ethiopia. We actually are not able to service it the way we'd like, due to the shortage of foreign exchange," says Mr Bureau of Bayer. "Angola has become problematic due to liquidity issues. In Zimbabwe, we are also experiencing challenges in repatriating foreign exchange," confirms Mr Napier of Saint-Gobain.

"The team that works in West Africa is all local."

- Adeniyi Adeleye, head of real estate West Africa, Stanbic

Talent

Human capital-related challenges ranked highly—cited in around 13% of answers. Respondents' firms grappled with issues related to finding people with appropriate skills, retaining talent, getting the balance right between local and expatriate staff, and reinforcing a culture that is client-focused, promoting innovation and flexibility.

Using local talent is the ideal

Executives interviewed by ECN indicated that they try to employ as many locals as possible and have experienced mixed success. "Lack of skills is a big constraint for us. We do have challenges in finding the right people in certain markets," says Grant Philips, CEO Africa region at TransUnion, a US-based risk information provider. "Zambia and Rwanda are presenting a huge challenge. In Kenya, the skills are available, but they are very expensive; retention is also a challenge," he adds.

"At a senior level across the group's in-country operations, generally there is a mix, but the balance skews local."

- Bhartesh Shah, COO, Equity Bank

The mix of local and foreign staff varied from firm to firm. Kenya-based Arm Cement's leadership skews towards expatriates, according to Mr Paunrana. However, other firms shy away from hiring expatriates. "We don't have any expatriates. We don't think it works," say Mr Philips. He adds, "I find that local teams on the ground, which are able to connect with local networks, are very effective. We don't parachute in senior managers for day-to-day management." Bayer's staff composition differs depending on the country in question. "Around one-third of our management teams in Kenya and the Ivory Coast are expats. In South Africa, however, the majority of the team is made up of locals," says Mr Bureau.

Beyond the generic mix of local and foreign staff are the challenges of acquiring the specific skills respondents' firms require. "We try to be as local as possible, but, in areas where there are shortages, we do import skills," says Mr Napier.

Expatriates bring benefits

The importation of expatriate skills has its advantages and disadvantages. “We shuttle people around to other countries; we believe it plays a role in developing talent. We think of diversity in a holistic manner: gender, disability, race, ethnicity and so on,” says Mr Collymore. Expatriates help to build a common organisational culture, deepen networks, and they teach, learn and grow from their temporary assignments. However, they don’t always stay long enough to harness the full potential of their postings. “Given the differences in culture, commercial context and the operating conditions, three years—the length of a typical posting—is too short,” says Mr Bureau. “However,” he adds, “opportunities are given to those with high potential, and they are not expected to stay long.”

Surprisingly, perhaps, expatriate salaries are not necessarily higher than those of locals. “The good local talent is just as expensive as expats,” says Mr Paunrana. However, this perspective needs to be treated with circumspection: it is unlikely to fully take into account the incremental costs, such as housing, travel and schooling that often come with employing expatriates.

“Moving around is not appealing to everyone, and one of the conditions for someone to assume a country manager position, for example, is to have experience at HQ and other international locations.”

- Eric Bureau, country head CropScience East Africa, Bayer

Flow and development of talent

The flow of talent is not just in one direction, from developed markets to developing markets. For example, given how software applications leveraging mobile networks and phones have taken off in Africa, some skillsets honed in Africa are in high demand in other parts of the world. “The talent we can export from here, in particular, is mobile money-related,” says Mr Collymore. In addition, companies with Africa-based operations are working with the region’s institutions to structure programmes that support the capacity build-out of the required skills. “The talent that is particularly scarce in Kenya includes data analysts and scientists,” says Mr Collymore. His organisation—Safaricom—works with Kenya-based academic institutions to develop programmes and curricula that can assist in closing the skills gap in these areas.

Macroeconomic challenges

Macroeconomic factors, such as GDP growth, were cited in around 12% of the responses. GDP performance looms large for good reason, as summed up by Mr Paunrana, who said, “[T]he underlying GDP growth rate is a primary driver of our business.”

On-line survey respondents based in South Africa are likely to have been influenced by that country’s 2016 economic growth rate of just 0.5%, coupled with an inflation rate that averaged over 6%, placing pressure on consumers and businesses alike. Nigeria-based respondents would have been influenced by, in 2016, the Nigerian economy’s falling into recession for the first time in 25 years. Some respondents expressed optimism concerning past performance and the near-term outlook when focusing on high-growth East Africa-based countries. “In 2016 Tanzania was our best-performing market,” says Mr Napier. “Over the next 3-5 years, we expect to grow annual revenues consistently in the low double digits (in US dollar terms),” says Mr Collymore, CEO at Kenya-focused Safaricom.

Whether respondents' views were influenced by dynamics in slow- or fast-growth markets, there appears to be a set of common factors at play: patience, persistence and a perception that the medium-to-long term trends point in the direction of worthwhile commercial opportunity. "Nigeria has not yet delivered yet as we expected; as a general statement, you must expect that it will take more time than you planned. This is something important to keep in mind; you need patience, and you shouldn't expect a short-term return," says Mr. Bureau. "We do believe headwinds are cyclical, and we continue to invest in Africa," adds Mr Philips of TransUnion.

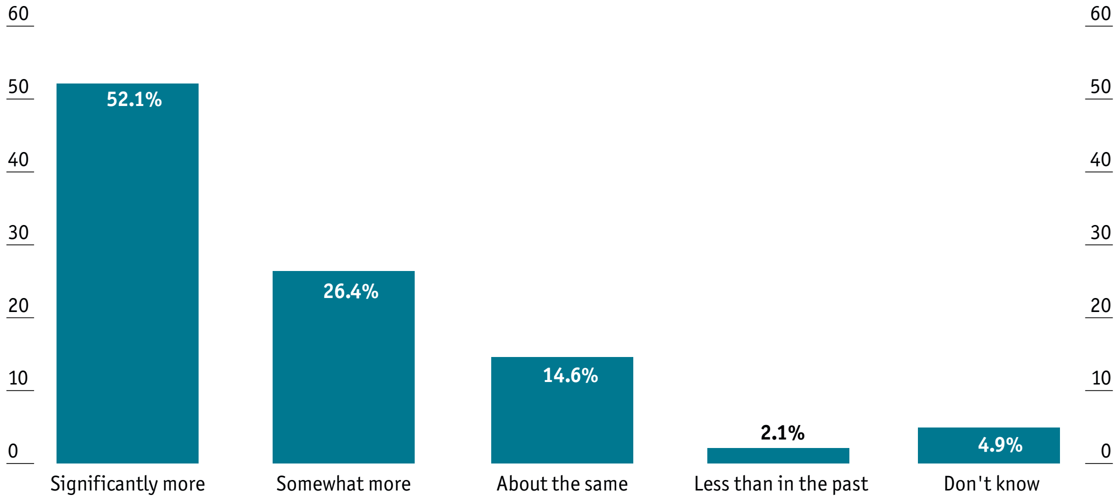
Multinationals: managing headquarters

Respondents working for firms with headquarters outside of the Africa region suggest that their firms also face a range of "upward-management" challenges: that is, their senior managers may be based elsewhere and may not be fully in touch with market needs and requirements. "One of the main challenges is a lack of appreciation for, and understanding of, the differences between Africa-based markets," says Mr Philips. It is an important point; although markets may border one another—Nigeria and Cameroon, for example, or Côte d'Ivoire and Ghana—the respective markets can differ in important ways: culture, economic growth prospects, inflation outlook, currency stability, political landscape and so on. "Very often, Africa is considered as one country, when it's composed of 54 countries; you have to be selective and not speak of it as one market," says Mr Bureau.

The executives interviewed by ECN indicated that they invest time to ensure their line managers and colleagues not based in their region understand the particularities and potential of the Africa-based markets for which they are responsible. "The challenge is to fight against preconceived ideas about Africa. Today, the region is only 1-2% of our firm's business, and it's not 'strategic' in that sense," says Mr Bureau. He adds, "[T]here are preconceived ideas about security, corruption, ease of doing business and so on. This can present challenges when engaging colleagues."

Digitalisation investment bias

How much will your firm invest increasing digitalisation across its Africa-based business in the next 5 years?
(% of respondents)



Source: ECN, 2017 African Business Outlook Survey.

Around 80% of respondents reported that their firms planned to increase spending on digitalisation over the next five years. The increased level of investment ranges across a number of different sectors, from building and construction to telecommunications. “Over the next few years, another US$250m will be invested in plant and equipment; there is a lot of automation built in. A huge component is digitally based, from digitalisation to remote management and analytics,” says Mr Paunrana of Arm Cement. The financial services sector is being impacted significantly by technology. For example, Equity Bank extends over 90% of its loans to customers applying via mobile phones. “We are investing a lot more: 90% of our capital expenditure goes towards digitalisation. I expect [this trend] to continue for the foreseeable future,” says Mr Shah of Equity Bank. “Digitalisation of personal and corporate banking is a big area of focus for us; we’re updating our core banking systems. We’re rolling out more robust digital applications,” says Mr Williams of Standard Bank.

In an environment where customer data are not structured and can be hard to come by, technology plays a key role. “We are going to spend significantly more on data analytics; the emphasis will be on clicks, rather than bricks,” says Mr Collymore. Moreover, his organisation, Safaricom, sees itself as being a key enabler of the businesses it seeks to partner. “We are moving away from just being a mobile platform to being a raft for others to realise their ambitions,” says Mr Collymore. Having the right technology—scalable, flexible and appropriate—is, therefore, a core part of the MNO’s focus.

How leaders spend their time

African markets are extremely dynamic. The leaders responsible for driving their firms' business must keep their ears to the ground and eyes fixed firmly on the horizon. Executives interviewed by ECN indicated how they juggled these competing tasks.

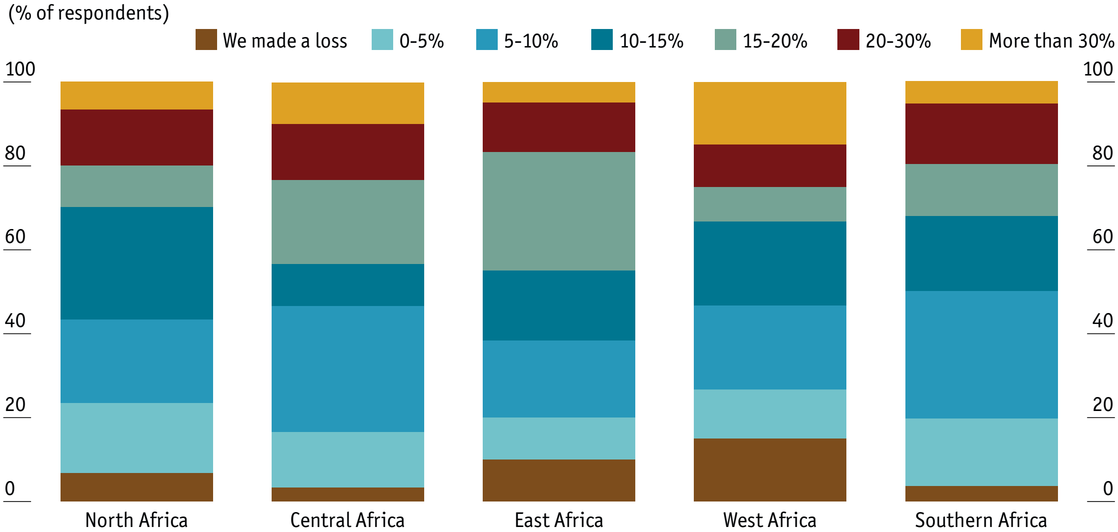
"Currently, 20% of my time is spent managing external stakeholders, 50% on operational issues and 30% is focused on strategy," says Mr Collymore. To try to anticipate both the obvious and what may be coming from left field, Mr Collymore also networks extensively with other CEOs. "I try to spend more time out of the company than in the company, and the country, in fact. I am always going to be blindsided by something, but I try to spend time with CEOs in different industries, in order better to interpret and anticipate events and developments," adds Mr Collymore.

Given the central role of digitalisation, this is also receiving a significant amount of attention from senior leaders. "A big thrust for us is digitalisation. That takes a lot of my time; which tech to use and how to deploy it, operational security and so on," says Mr Shah.

Profitability

2016 operating margins

What were your operating profit margins in 2016?
(% of respondents)



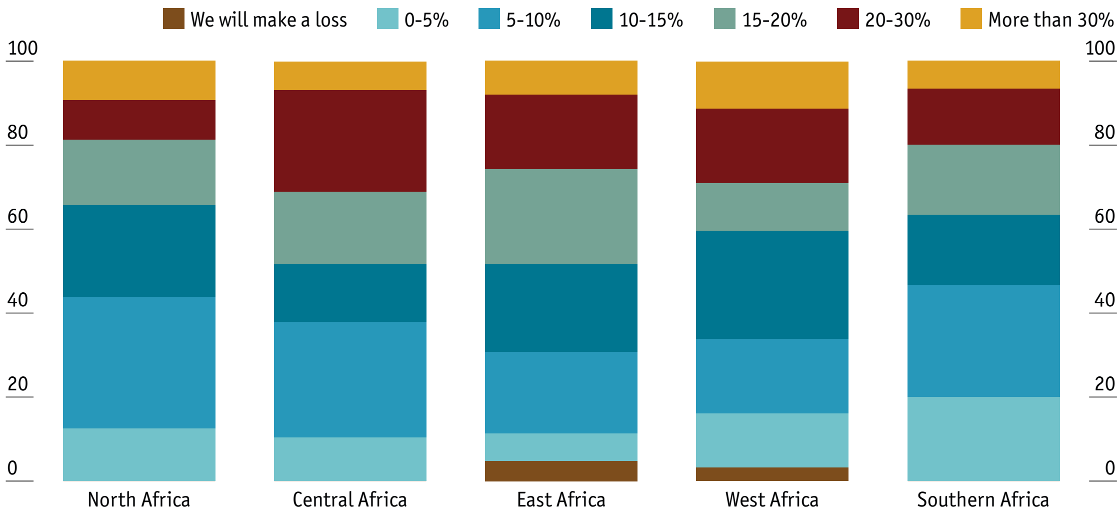
Source: ECN, 2017 African Business Outlook Survey.

Respondents indicated their firms' West Africa-based operations had the highest percentage of marginal-to-loss-making outcomes, at around 27%. Ironically, the West Africa region was also reported to have the highest percentage of operations generating margins of more than 30%. This indicates there may be significant value derived even from regions currently underperforming in overall terms. East Africa was reported to have the highest percentage of operations generating a margin of 10% or more: 62% of respondents' firms operating in East Africa generated a margin of at least 10%.

2017 operating margins

Respondents generally expected their firm's operating margin to improve in 2017. Only 2% of respondents indicated that they expected an operational loss in the year. Once again, the East Africa region stood out, with the highest percentage of respondents (69%) who expected their firms to generate an operating margin of at least 10%. Respondents indicated their firms' Central and West Africa-based operations were expected to see the biggest year-on-year growth in the category of operating margins greater than 10%.

What do you expect your operating margin to be in 2017?
(% of respondents)

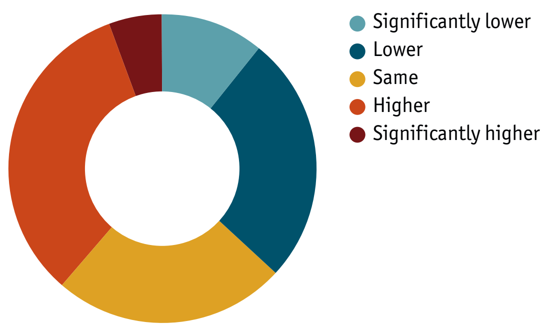


Source: ECN, 2017 African Business Outlook Survey.

Africa-based profit margins

Sixty-three percent of respondents indicated their firms' Africa-based profit margins were the same or higher than their firms' global averages. More than half of these respondents (38%) indicated that their firms' Africa-based profit margins were higher than their firms' global averages. "We don't have price conversations with our clients. We push value," says Mr Philips of TransUnion. He adds, however, "[M]argins are similar in the African region to the rest of the enterprise."

How do your operating profit margins in Africa compare to your company's global average?
(% of respondents)



Source: ECN, 2017 African Business Outlook Survey.

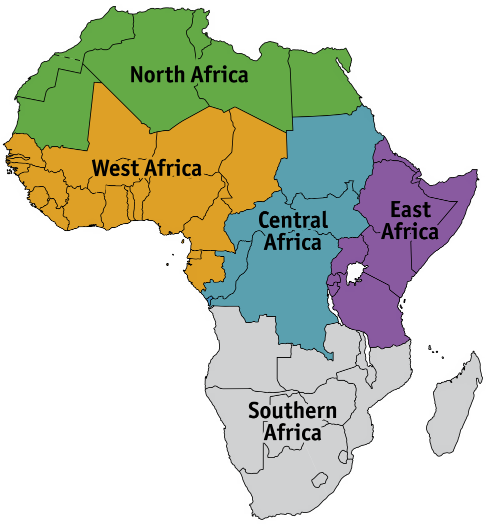
Conclusion

2016 presented a tough set of conditions in markets across Africa: currency volatility, slower (or no) economic growth, and a lack of foreign exchange among them. This notwithstanding, most respondents expect their firms' commercial performance to improve, and the market with one of the poorest economic performances and most challenging of commercial environments in 2016—Nigeria—to recover and grow in importance over the next six years.

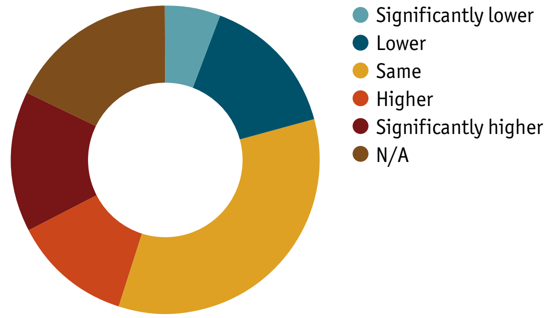
In short, the respondents are taking the long view: Africa is worth the effort and investment, because there are attractive commercial returns available. The long view should not be confused with a "slow and steady" approach. The former requires a sense of urgency—being agile and responsive, as well as proactively anticipating customer needs and market dynamics, and consistently investing in people and the right technology. In addition, the long view requires patience and persistence. The dynamic nature of the markets in Africa points to the importance of building a presence in multiple countries in the region, in order to avoid an over reliance on any one country; a strategy of developing a portfolio of markets, is the approach adopted by most of the firms interviewed by ECN. A clear, market-by-market understanding of potential is leading respondents' firms to remain undeterred and to stay plugged in. The commercial players that are likely to succeed in Africa-based markets will adopt the long view and seek to address the needs of the specific markets where they operate, rather than taking a one-size-fits-all approach.

Appendix

Geographic legend

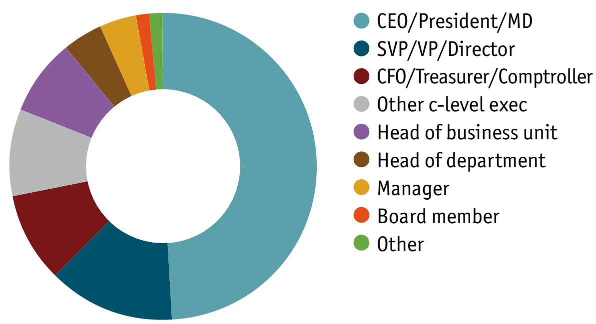


How are your firm's Africa-based operations contributing to social and environmental commitments relative to operations in other regions?
(% of respondents)



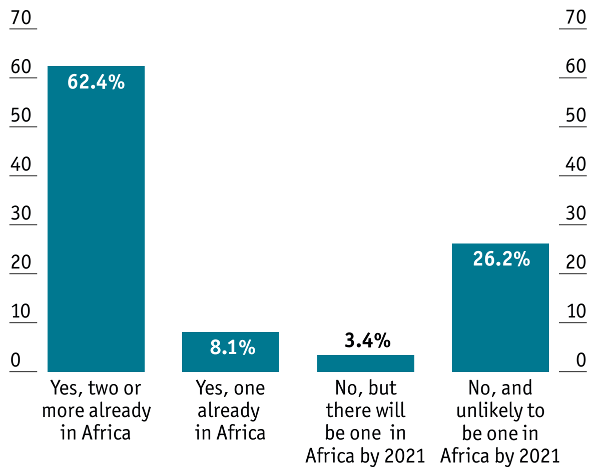
Source: ECN, 2017 African Business Outlook Survey.

Which of the following best describes your title?
(% of respondents)



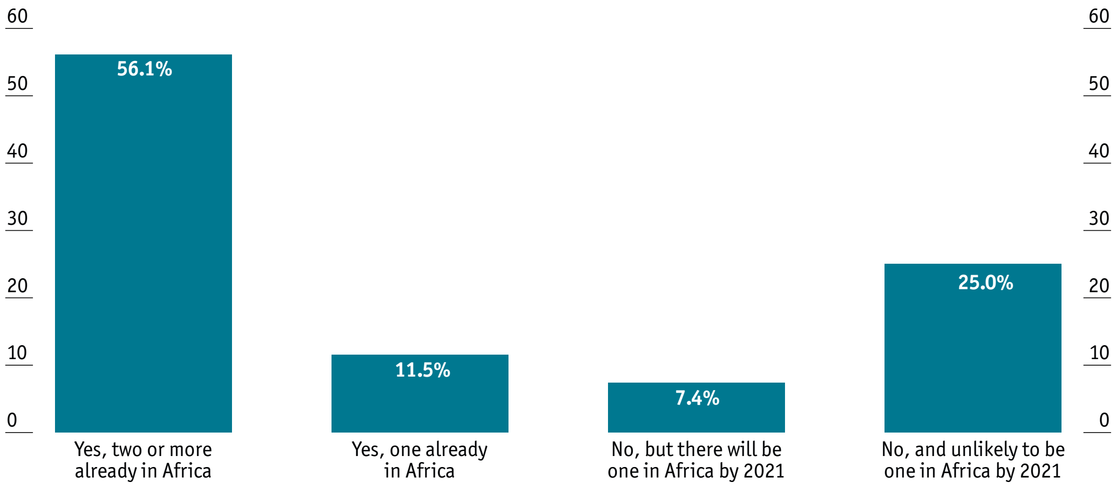
Source: ECN, 2017 African Business Outlook Survey.

Are any members of your company's main board of directors based in Africa?
(% of respondents)



Source: ECN, 2017 African Business Outlook Survey.

Are the global heads of any of your firm's business units based in Africa?
(% of respondents)



Source: ECN, 2017 African Business Outlook Survey.

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