

The
Economist

Corporate
Network

Africa is the horizon

2015 African Business Outlook Survey



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Preface

Africa is the horizon is a report from The Economist Corporate Network (ECN). It is based on a survey of 206 executives with responsibility for African commercial operations. Philips sponsored the report. The ECN performed the research and wrote the report independently. The findings and views expressed in this report are those of the ECN alone and do not necessarily reflect the views of the sponsor.

Herman Warren was the author of the report.

Special thanks are extended to all survey respondents.

March 2015



Africa is the horizon

The 2015 African Business Outlook Survey

Contents

Introduction: Africa is the horizon	3
Africa: Huge size exacerbates challenges of diversity	5
Lower the gaze, reach the horizon	5
Not just a commodity play: Profile of survey respondents	5
Africa revenue contribution	7
2014	7
2020	7
Revenue contribution by company size	8
By region: 2013 vs. 2014	9
By region: 2015	9
Economic and political reforms: Progress (almost) everywhere	12
Growth expectations realistic, overall	14
Steady, on-track investment...	15
...But not-insignificant operational challenges	16
Business in Africa remains risky	19
Firm profitability: On balance, tips towards the positive	21
Profit performance by year and by region	23
2014	23
2015	23
Investment by region: Largely focused east, west and south	25
Top markets by revenue: Nigeria, South Africa and a rising Kenya	26
2014	26
2020	27
Priority markets by respondent location: 2014 vs. 2020	28
Local needs: Aligning business models and offerings	33
Scant board and management representation from Africa	34
Most functional teams are based in region	37
Employee turnover on the rise in most dynamic economies	39
Reporting units: Africa stands alone	40
R&D in Africa still not significant	41
Conclusion	42
Appendix	43



Introduction: Africa is the horizon

For the past twenty years, the centre of the global economy has been shifting from the developed to the developing world. Today, growth rates in developing economies are many times higher than in developed economies. Africa, in general, and Sub-Saharan Africa, in particular, are two notable cases in point. In 2015 Sub-Saharan Africa's GDP is expected to grow at 4.5%, making it the fastest-growing economic zone in the world, outpacing Asia's regional average of 4.3% annual growth. Obviously, in terms of overall market size, Sub-Saharan Africa is still quite a bit smaller than Asia, but, when considering the longer term, continued steady growth in Africa will result in an economic bloc with global impact over the next two decades.

World economic growth, 2015
(GDP real % change, year on year)



Source: The Economist Intelligence Unit.

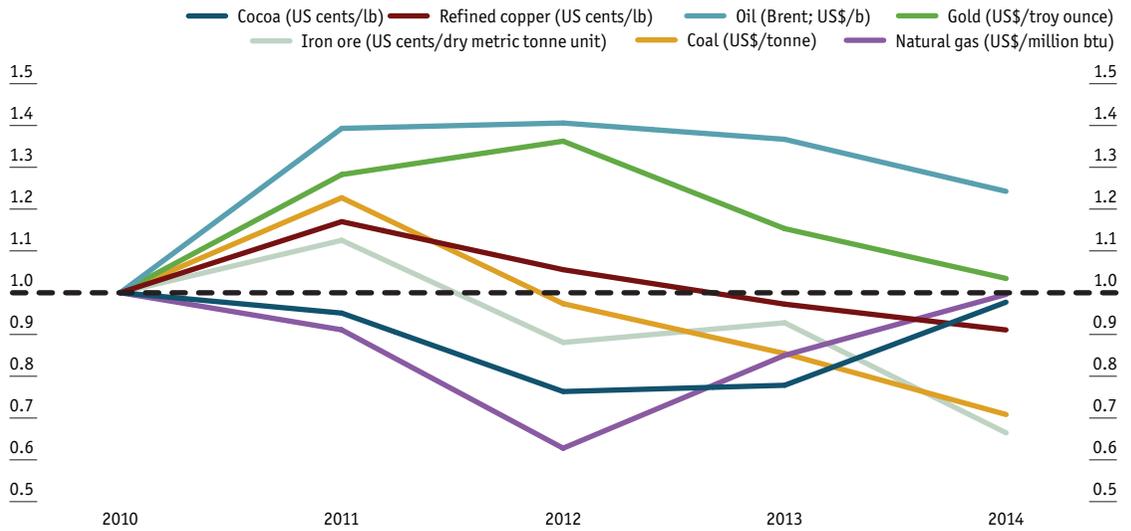
Commodities play an important role in many African economies. As such, the recent softening of prices for oil, iron ore, coal and other commodities has impacted the fiscal health of a number



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The 2015 African Business Outlook Survey

of countries. The government of Angola, for example, depends on oil revenue for two-thirds of its funding.

Commodity Price Index 2010-14

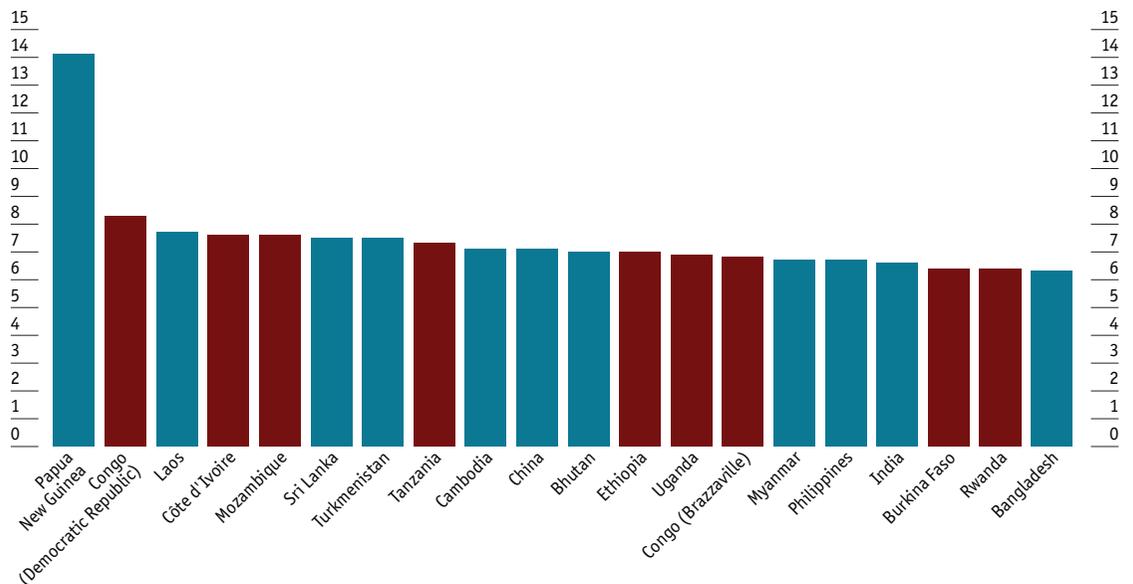


Source: The Economist Intelligence Unit.

As economies mature in the region, other, non-extractive industries, such as financial services, tourism and telecommunications, have become more important, contributing employment, enlarging the tax base and offsetting losses from commodity price drops.

World's 20 fastest-growing economies

9 in Africa; % growth in GDP



Source: The Economist Intelligence Unit.



Africa: Huge size exacerbates challenges of diversity

Africa is a geographically large and diverse continent. It is so large, in fact, that it would be possible to fit India, China, Japan and the UK into the landmass occupied by Sub-Saharan Africa alone, leaving room to spare.

Given its size, companies operating in Africa must understand regional and local dynamics—and, in particular, how those dynamics impact on operating conditions. Legal and regulatory frameworks are different across countries; infrastructure varies and can hamper strategic and operational planning, and there are cultural and language differences across and within countries.

This diversity is echoed in the various levels of economic development in the different countries. The region's two largest economies—Nigeria and South Africa—together compose over 63% of Sub-Saharan Africa's total GDP, yet their prospects vary considerably. The Nigerian economy is expected to grow over 5% this year, while the South African economy is forecast to grow by 1.6%. These growth-rate differences reflect, in part, the current state of infrastructure in each country, as well as the breadth, depth and stage of development of the formal economy in each country.

Lower the gaze, reach the horizon

Macro-economic data are valuable to corporate leaders in identifying target markets, better understanding pricing issues and forecasting demand. However a “grass-roots” understanding of a market or region is also critical. There are numerous instances in Africa of a product or service that soared in one country, but barely achieved lift-off in another.

For example, M-Pesa, a mobile money platform, is doing phenomenally well in Kenya, but not in South Africa, despite the fact that mobile-phone penetration is higher in South Africa than in Kenya, and there is some commonality of context (for example, in financial exclusion rates) between the two countries. The divergent fortunes of M-Pesa in the two countries underscores the importance of an informed, on-the-ground market perspective where official statistics may be inadequate or unavailable.

It is against this broad backdrop of regional diversity that The Economist Corporate Network launched its inaugural African Business Outlook Survey. The objectives of the survey were to:

- 1) Collect data and insights about recent performance of companies operating in Africa
- 2) Analyse the issues that impact growth and profitability of those operations, both overall and in different countries

Not just a commodity play: Profile of survey respondents

In total, 206 executives participated in the 2015 African Business Outlook Survey. Most of the executives were based in the four biggest Sub-Saharan economies—Nigeria, South Africa, Angola and Kenya. The remaining responses came from others based across Southern, East, Central, West and North Africa.

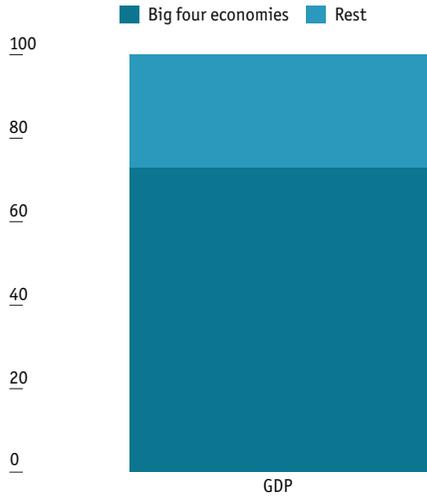


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2014 GDP mix—Sub-Saharan Africa

Nigeria, South Africa, Angola and Kenya represent the majority of Sub-Saharan African GDP
(% of total 2014 GDP in 2005 US\$)



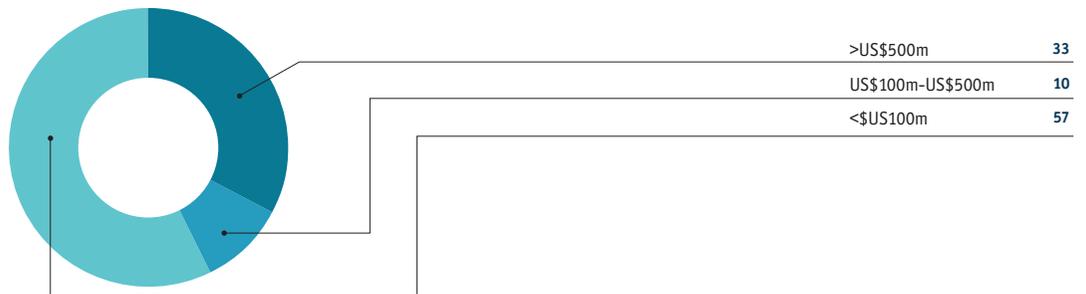
Source: The Economist Intelligence Unit.

Much as the African economy has been diversifying away from the extractive and other commodity-based industries, our survey respondents also reflect this diversity. In total we surveyed executives from more than twenty-five industries, with 42% of the respondents working in services, either financial or information, communication and technology (ICT).

A sizeable minority—43% of the respondents—work for firms with annual global revenue over US\$100m, and, of these, the majority work for firms with over US\$500m in annual global revenue.

Size of firms

(% of respondents)



Source: 2015 African Business Outlook Survey.



Africa revenue contribution

2014

In 2014 around 60% of respondents reported that more than 40% of their companies' annual revenue came from Africa.

What percentage of your firm's global revenue came from Africa in 2014?
(% respondents)

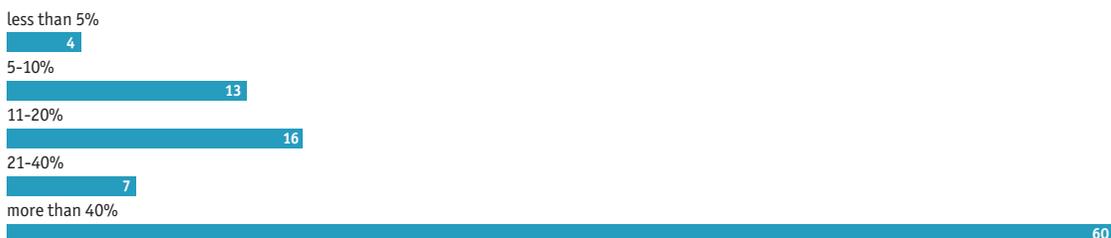


Source: 2015 African Business Outlook Survey.

2020

In the next five years, a number of respondents expect a significant shift in the revenue contribution from Africa. In 2014, 18% of respondents reported that Africa-based revenue composed less than 5% of their firms' global revenue. In the next five years, around 4% of respondents expect less than 5% of their firms' global revenue to come from Africa. This suggests that the multi-national companies—certainly among the largest firms in our survey—will begin to gain real traction in the region.

What percentage of your firm's global revenue do you expect to come from Africa in five years' time (2020)?
(% respondents)



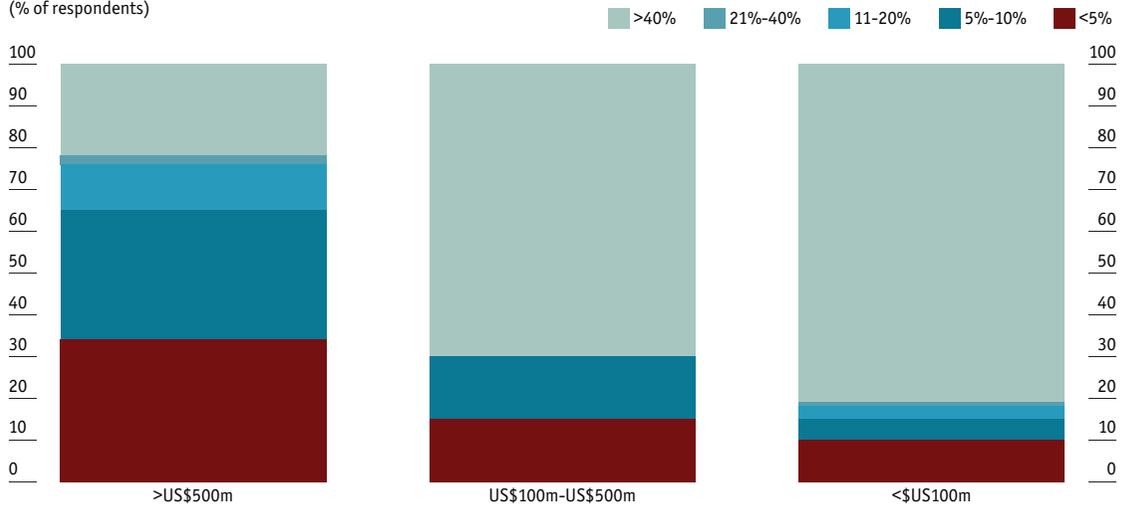
Source: 2015 African Business Outlook Survey.



Revenue contribution by company size

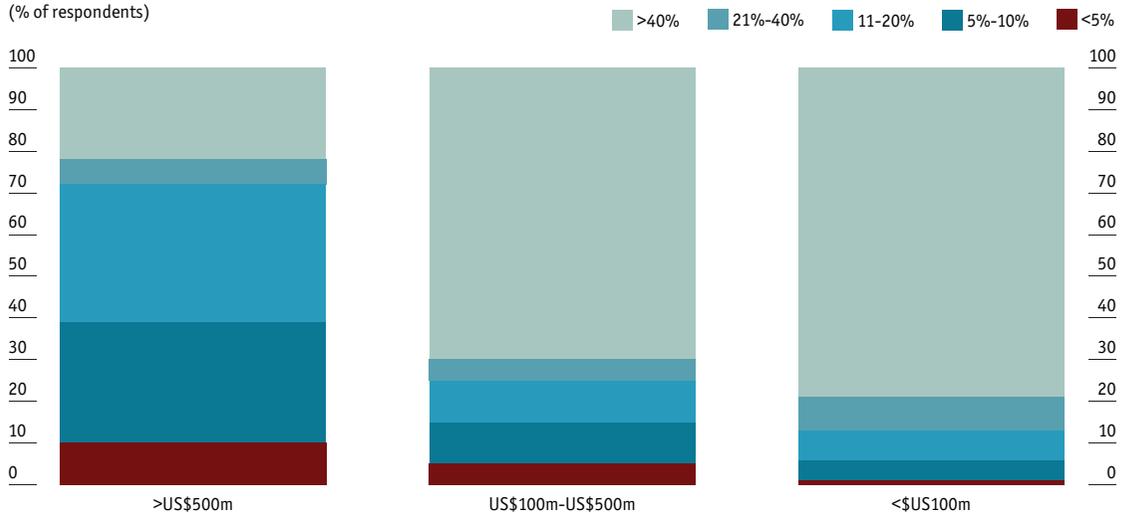
Over 34% of the executives in businesses with US\$500m or more in global revenue indicated that their African operations currently contribute more than 10% of total revenue. Again, based on our survey respondents, this would appear to be the multinationals.

African revenue contribution, 2014
(% of respondents)



Source: 2015 African Business Outlook Survey.

African revenue contribution, 2020
(% of respondents)



Source: 2015 African Business Outlook Survey.

Looking ahead to 2020, the expectation, particularly among businesses with at least US\$500m in annual revenue, is that the percentage that African operations contribute to their firms' global revenue will increase significantly. Over 60% of all respondents expect that 11% or more of global revenue will come from Africa.

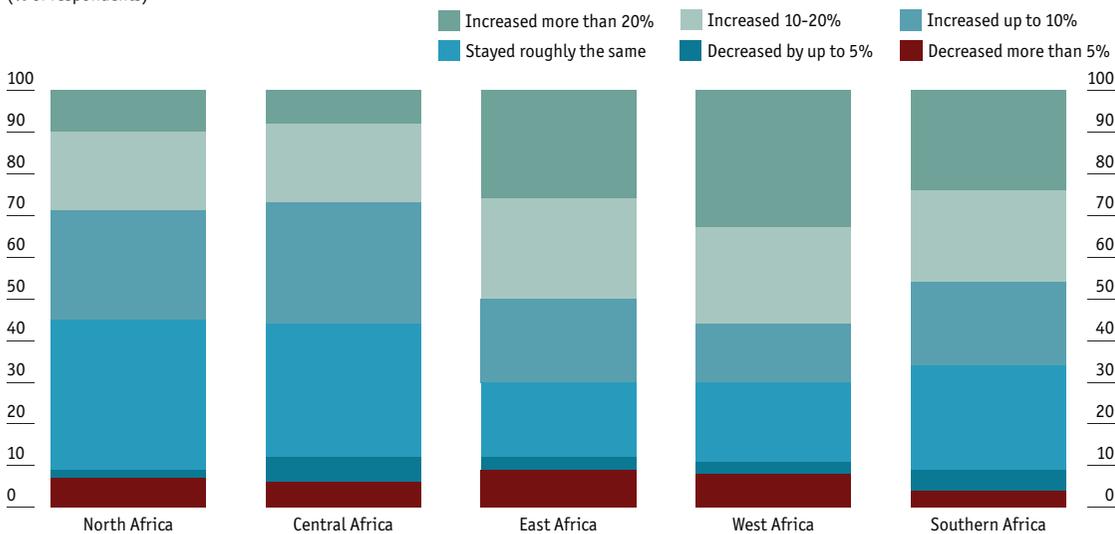


By region: 2013 vs. 2014

The majority of executives reported sales growth across every African region between 2013 and 2014. The regions that reported the highest levels of year-on-year growth were West, East and Southern Africa. Well over 30% of respondents reported that revenue from West Africa increased by more than 20% in 2014.

North and Central Africa reported the highest percentage of flat sales. East, North and West Africa had the highest percentage of respondents who cited a year-on-year sales decrease of more than 5%.

How did your sales in Africa perform relative to 2013? (% of respondents)



Source: 2015 African Business Outlook Survey.

By region: 2015

The majority of executives' expectations for revenue growth have either remained unchanged or improved over the past year.

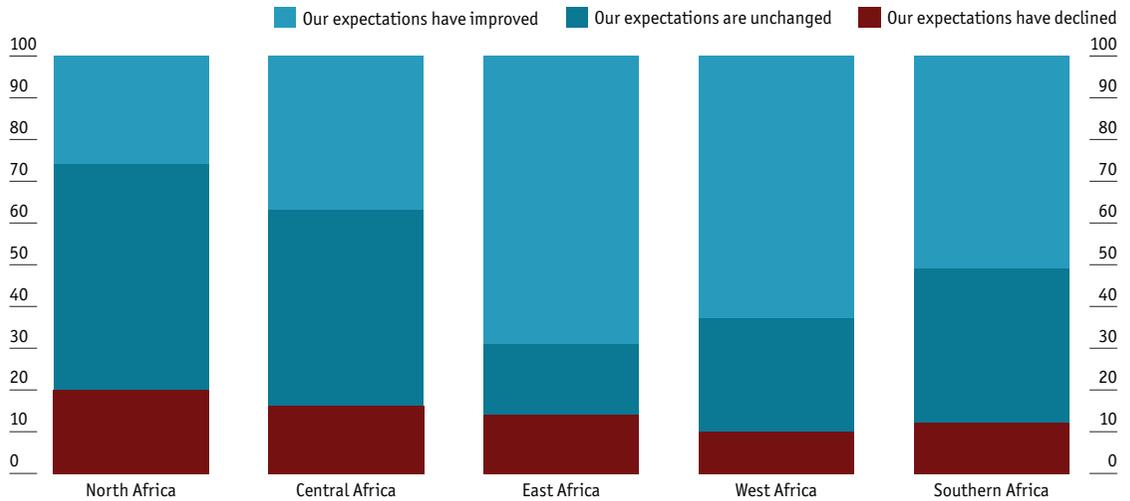
Regional sales from East, West and Southern Africa are expected to perform the best in 2015 when compared to 2014. Executives are most optimistic about regional revenue from East and West Africa.



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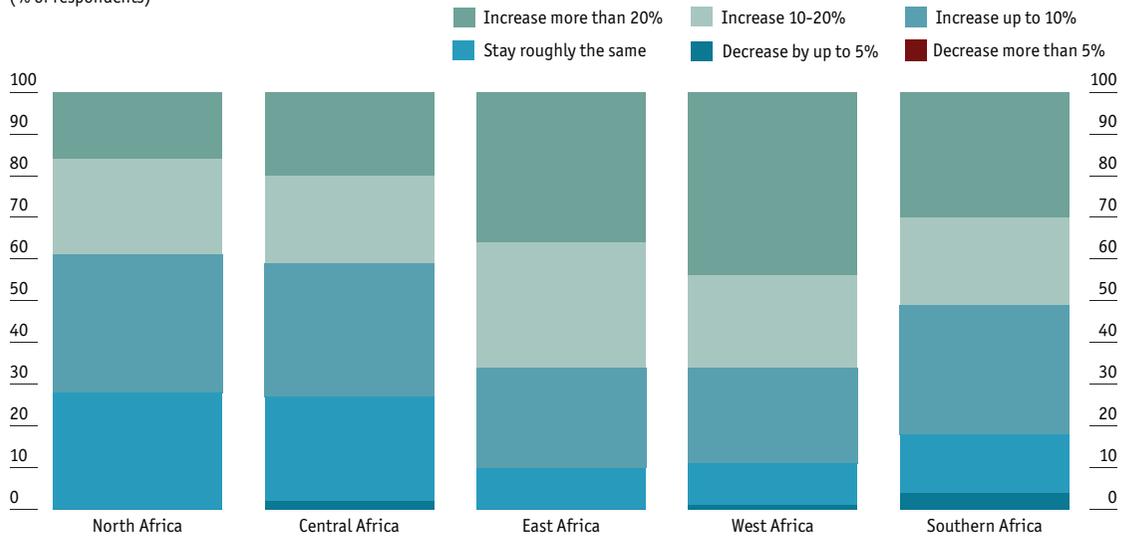
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Over the past year, have your firm's expectation for revenue growth in Africa improved, declined or stayed the same?
(% of respondents)



Source: 2015 African Business Outlook Survey.

What are you expecting for your African sales performance in 2015 relative to this year?
(% of respondents)



Source: 2015 African Business Outlook Survey.

The majority of executives surveyed indicated that they expect sales in 2015 to either stay flat or to increase by less than 10% in the North and Central African regions. With multi-year lows in the price of oil, political instability and social unrest experienced in a number of North African countries, as well as rebel movements and armed insurgencies in the DRC, South Sudan and Uganda, their caution is understandable.

Yet West Africa also faces many of these same challenges, as well as a few others. An Islamist terrorist movement, Boko Haram, has established a reign of fear in the north-eastern part of Nigeria that has led to the postponement of the Nigerian national elections, and the unrest has spilled into



Cameroon, Chad and Niger. The Ebola virus has hit the region hard too, infecting over 20,000 people across at least five West African nations.

Softer commodity prices, in particular of oil, are impacting government budgets, consumer sentiment and the overall commercial environment in a number of West African countries. Ghana's currency, the cedi, depreciated over 36% against the US dollar in 2014, and the Ghanaian inflation rate is expected to average 14% in 2015.

Nevertheless, executives by and large expect revenue in West Africa to grow in line with corporate forecasts or to perform better than initially anticipated. This suggests that executives may have already factored these risks into their forecasts and feel confident in their firms abilities to overcome them.



Economic and political reforms: Progress (almost) everywhere

In 2014 the World Bank evaluated countries according to the ease of doing business in each, and ranked several African countries higher than several European ones; for instance, South Africa was ranked higher than Italy. Other important indicators, such as the level of media freedom, also look relatively positive in a number of African countries. Reporters Without Borders, a non-profit organisation that promotes freedom of information, reports that Ghana has a freer media than the UK, for example.

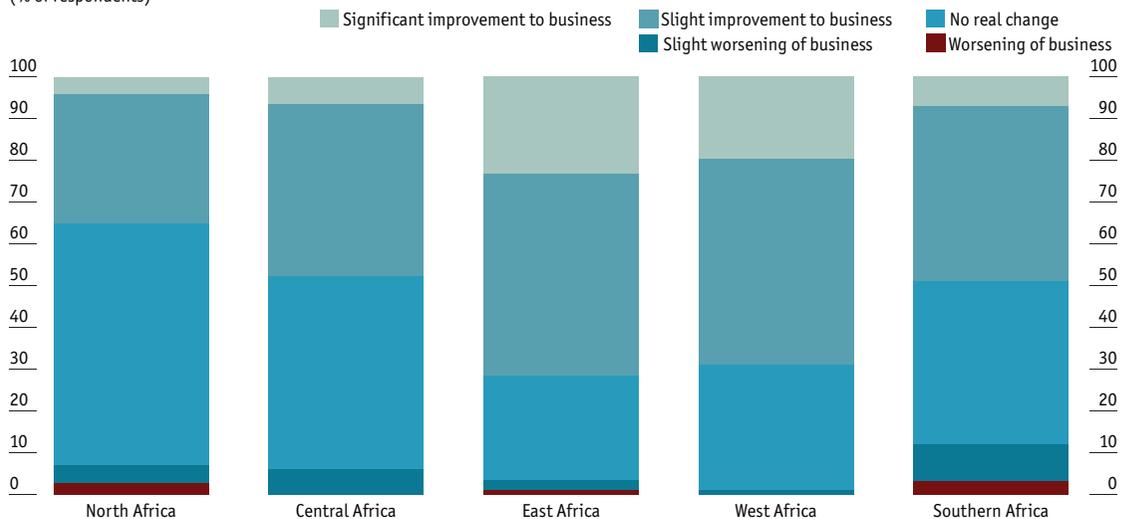
Beyond political freedoms, we note that inter-government organisations, such as the East African Community (EAC), the Economic Community of West African States and others have made progress towards increasing levels of competitiveness and economic integration of member states.

To be sure, much remains to be done, but progress is being made.

Our surveyed executives appear to have taken note of this progress. One notable exception has been North Africa, where state intervention in the economy remains an obstacle to progress.

Many parts of Africa have launched major economic- and political-reform programmes in recent times. What impact do you expect these reforms to have on your business over the next year?

(% of respondents)

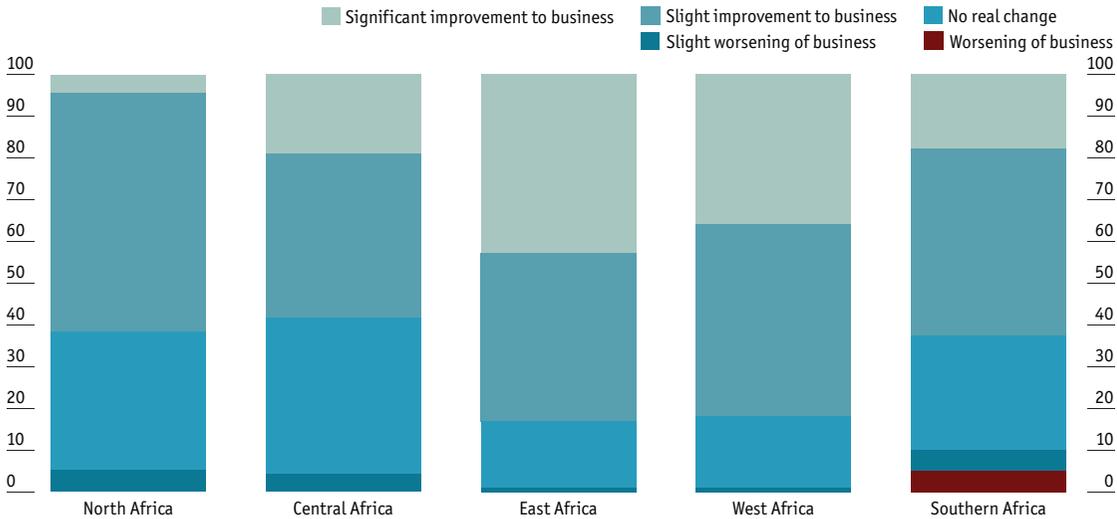


Source: 2015 African Business Outlook Survey.



Over the next three-year period, the majority of executives anticipate economic and political reform to be beneficial at best and, at worst, to bring no real change across all regions.

Many parts of Africa have launched major economic- and political-reform programmes in recent times. What impact do you expect these reforms to have on your business over the next three years?
(% of respondents)



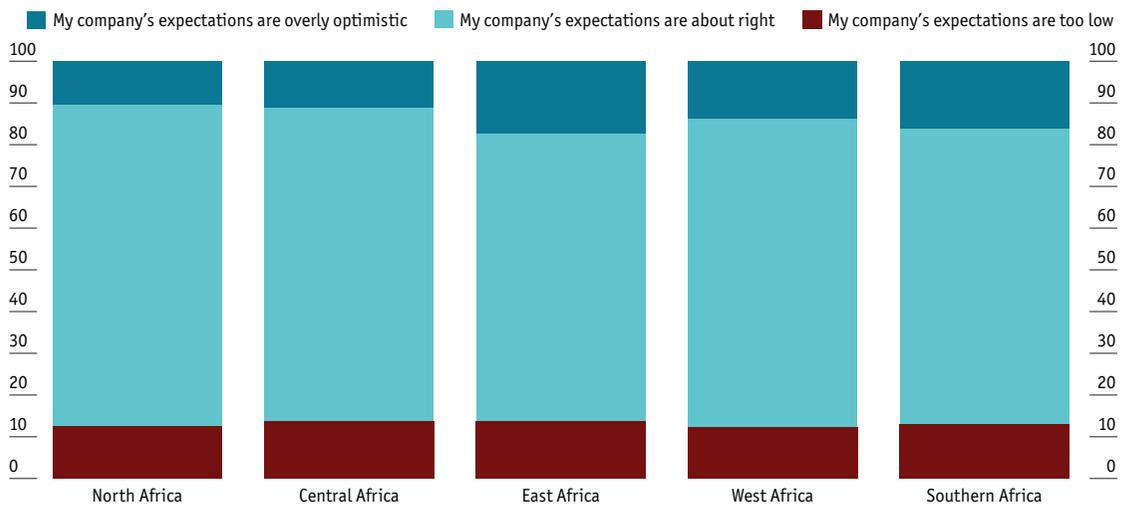
Source: 2015 African Business Outlook Survey.



Growth expectations realistic, overall

The vast majority of executives surveyed believe their firms' expectations of growth in Africa are about right. Yet a significant minority—between 12% and 14%—think expectations may be too low, depending on the regional focus. This suggests to us that, in general, locally based executives are able meaningfully to convey the opportunities, although there is still room for improvement.

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: 2015 African Business Outlook Survey.



Steady, on-track investment...

Perhaps unsurprisingly based on the relatively close linkages between expectations, 58% of executives believe investment has been appropriate to the market opportunities. Still, there is room for improvement, as a full 38% feel that investment has been out of pace with opportunities.

Is your firm investing in Africa at the right rate to achieve your growth expectations?
(% respondents)



Source: 2015 African Business Outlook Survey.



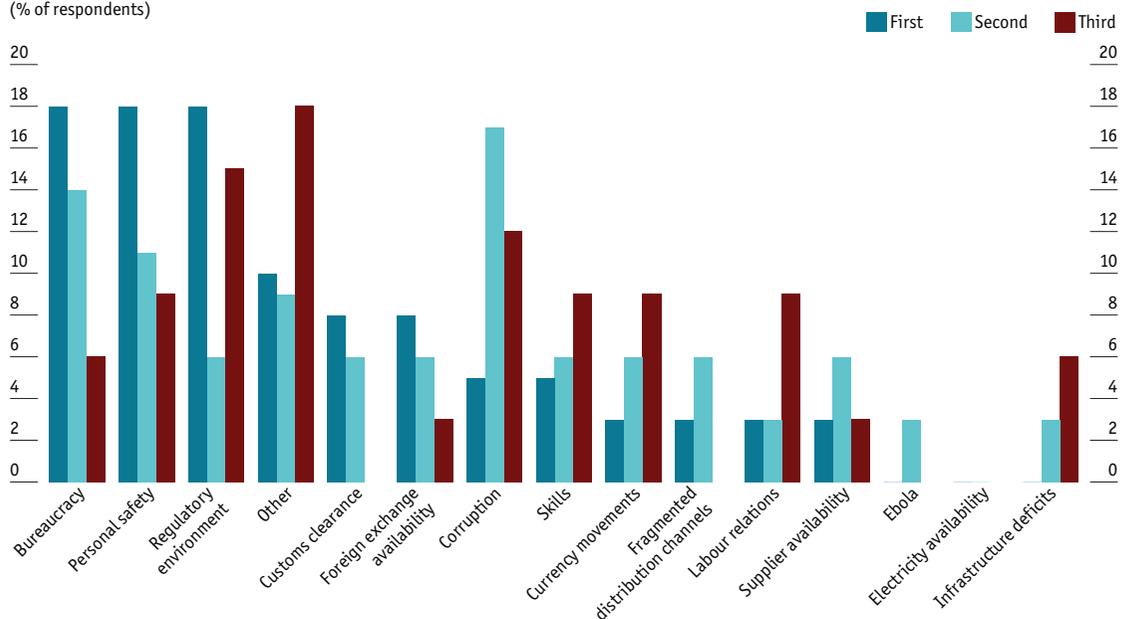
...But not-insignificant operational challenges

According to executives surveyed, the biggest operational challenges were:

- 1) Corruption
- 2) Bureaucracy
- 3) Infrastructure deficits
- 4) Regulatory and legal environment
- 5) Skills
- 6) The personal safety of local employees

The weightings of these challenges varied from region to region. Corruption was the top-rated challenge reported for East, Central and West Africa, whereas, in Southern Africa, nearly one in five respondents ranked bureaucracy or skills shortages as their biggest operational challenge.

What are your top operational challenges? - North Africa
(% of respondents)



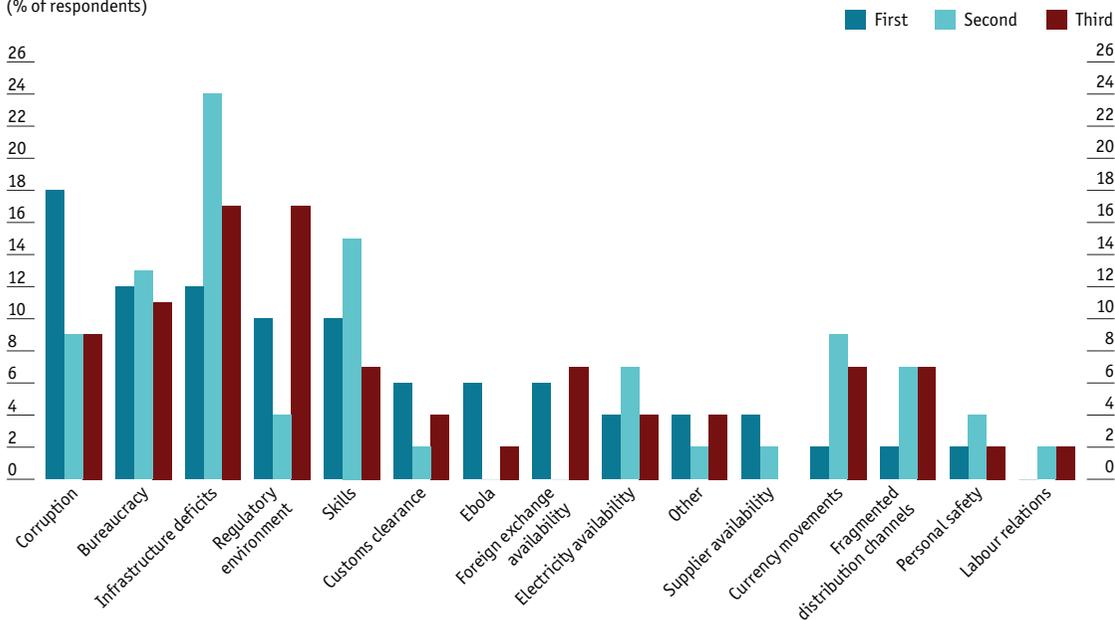
Source: 2015 African Business Outlook Survey.



Interestingly, the Ebola virus did not emerge as a significant operational challenge, even in those areas where outbreaks occurred.

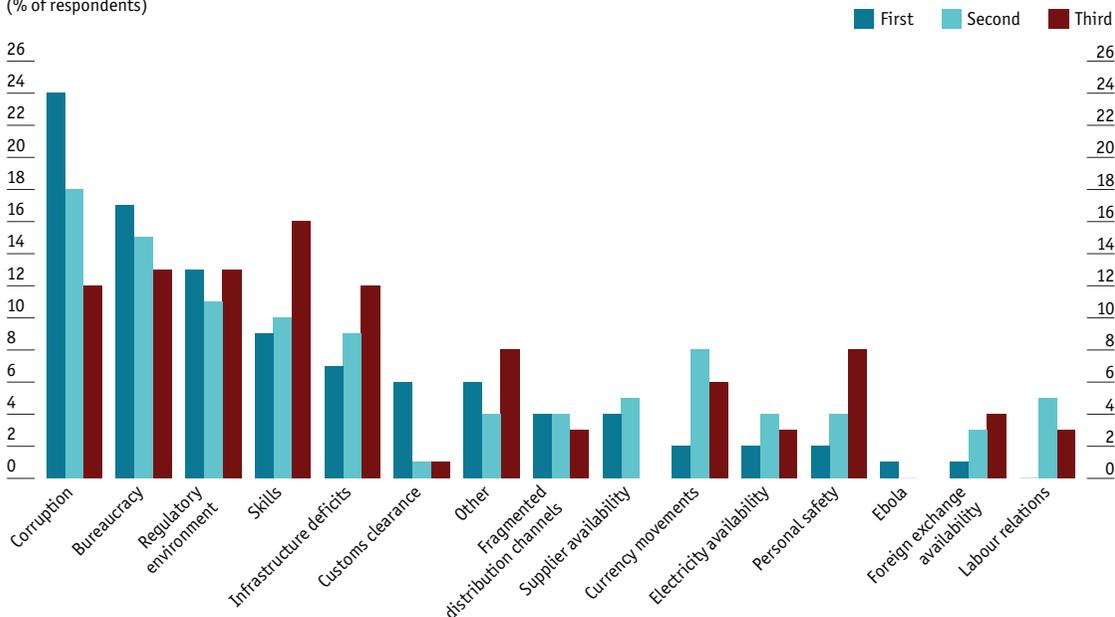
In North Africa, the top challenges overlapped with those of its Sub-Saharan neighbours; however, the relative weighting was different. For example, the regulatory environment, bureaucracy and personal safety garnered the greatest concern in North Africa. However, bureaucracy, skills and corruption were of greatest concern in Southern Africa.

What are your top operational challenges? - Central Africa
(% of respondents)



Source: 2015 African Business Outlook Survey.

What are your top operational challenges? - East Africa
(% of respondents)



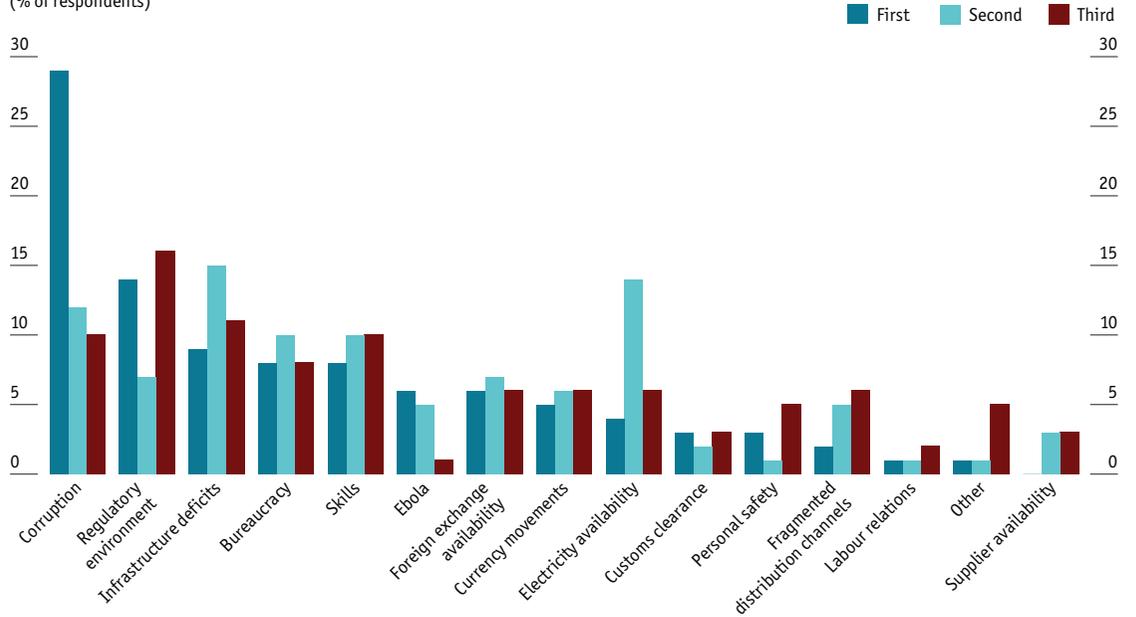
Source: 2015 African Business Outlook Survey.



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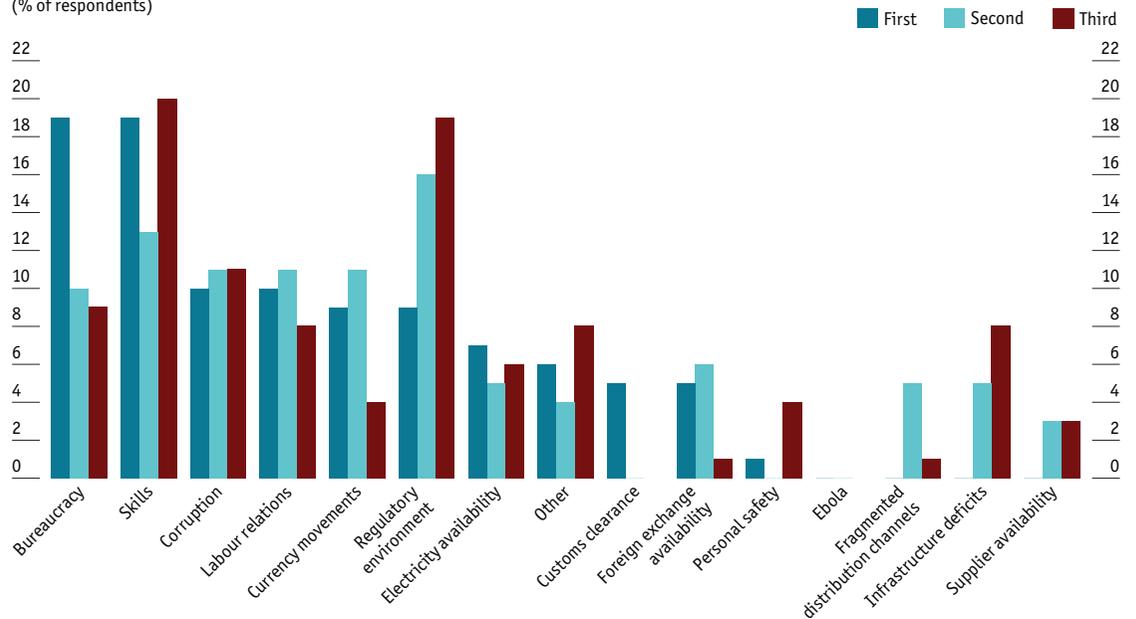
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What are your top operational challenges? - West Africa (% of respondents)



Source: 2015 African Business Outlook Survey.

What are your top operational challenges? - Southern Africa (% of respondents)



Source: 2015 African Business Outlook Survey.



Business in Africa remains risky

We asked executives whether they believed certain risks were serious enough to consider relocating their operations or reducing headcount within the next two years. The main risks cited were safety, infrastructure, talent or other factors.

Of the 44% of executives that responded, safety concerns loomed particularly large across three regions. Over 33% in North, East and Central Africa indicated that these risks are serious enough to consider reassessing head count and the location of operations. About one in five respondents cited similar concerns for Southern Africa.

Safety concerns in South Africa were primarily linked to crime. In Kenya and parts of North Africa, safety concerns included violent political and ideological conflicts. Executives are surely aware of the September 2013 attack on the Westgate Mall in Nairobi by the terrorist group Al-Shabab, which killed 67 people.

Elsewhere in Africa there have been attacks by Boko Haram; according to the United Nations Human Rights Council, this has led to 153,000 Nigerians fleeing into Niger, Chad and Cameroon since May 2013. In North Africa, a number of countries have been confronted by violent social and partisan uprisings, for example in Libya. Understandably, executives are taking these issues seriously.

Infrastructure was another important issue facing executives and appears to be one that will take some years to resolve. The World Bank estimates that addressing Africa's infrastructure deficits will require at least US\$93bn per annum. There is a funding gap that runs into the tens of billions of US dollars, annually. Fundamentally, the infrastructure deficit serves as a significant drag on economic growth and potential.

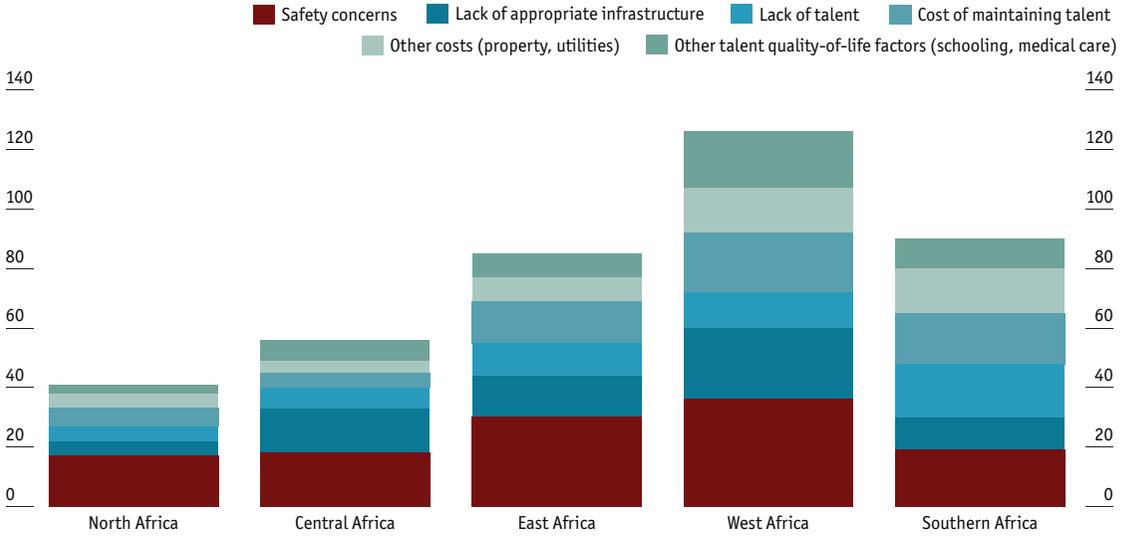
Finally, challenges in finding suitable talent are also a significant risk for executives. Over 42% of executives across all regions indicated that the lack of talent and the cost of keeping skilled employees weighed heavily on their near-term view of their African business operations.



Africa is the horizon

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Are any of the following issues serious enough for you to consider relocating operations from, or reducing headcount in, any of these locations in the next two years?
 (number of respondents)



Source: 2015 African Business Outlook Survey.



Firm profitability: On balance, tips towards the positive

We asked executives about the impact of a range of factors on their firms' profitability. Some factors were clearly favourable, including economic growth, high levels of technology adoption—especially widespread uptake of mobile phones—the growing size and spending power of Africa's emerging middle class and foreign direct investment (FDI). On the negative side, respondents cited corruption, high levels of crime and terrorism and civil/political unrest.

In terms of demand factors, again we note that commodities play a vital role in African economic growth, even as many economies diversify. Exports are key foreign exchange earners for African countries. However, intra-African trade accounts for only 11% of total trade value (compared with 53% in Asia, for instance), according to the United Nations Conference on Trade and Development (UNCTAD). It is thus the case that the health of Africa's major trading partners' economies' impacts the export-led growth of African economies. In this respect, the North African nations have been particularly impacted by a slowdown in the EU. In addition, many North African nations are dealing with high levels of youth unemployment, the aftereffect of popular uprisings (for example, in Egypt and Tunisia), rebel movements (for example, in Libya and Algeria) and tensions between radical Islamist and secular groups.

In Central Africa, infrastructure deficits, human-capital challenges and flashpoints of armed conflict have made it more difficult and costly to do business.

We note that the risks to operating in Africa can be overblown or misunderstood. For instance, during the 2014 Ebola outbreak, South Africa, which was Ebola-free, saw business conference and holiday cancellations due to fears of contagion.

Perhaps unsurprisingly given anti-corruption policies, one of the biggest concerns related to corruption, with 71% of executives noting that corruption has had a negative impact on their profitability. Transparency International, the non-governmental organisation that generates a corruption index each year, consistently ranks Sub-Saharan African countries at or near the bottom of its list of countries.

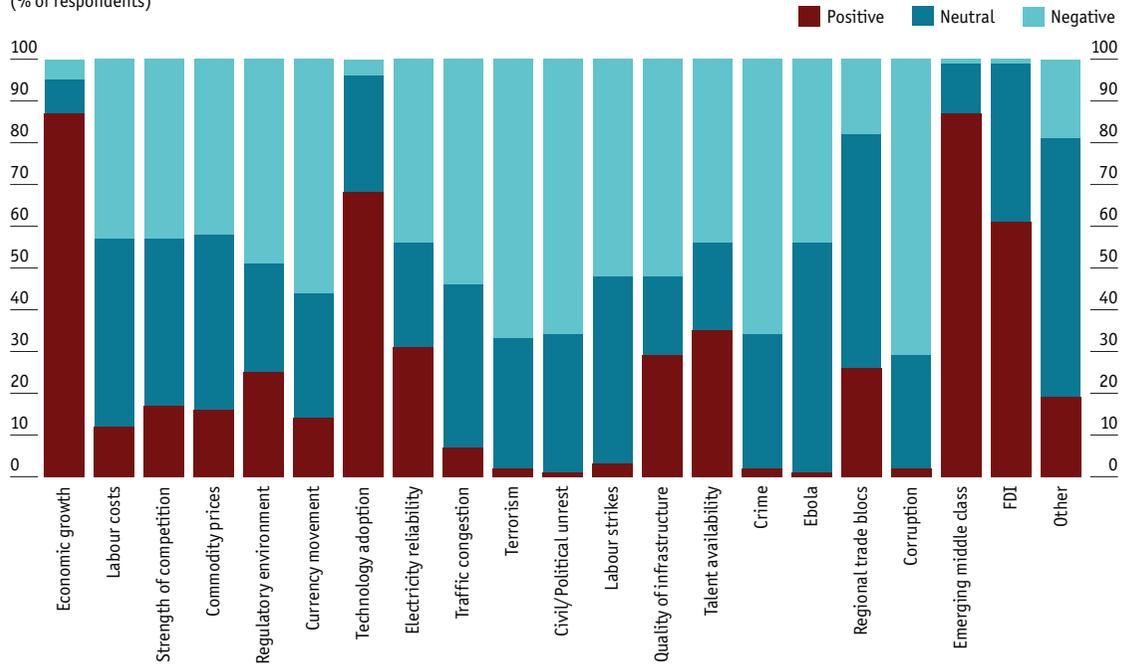


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What impact are changes in these conditions having on your profitability?

(% of respondents)

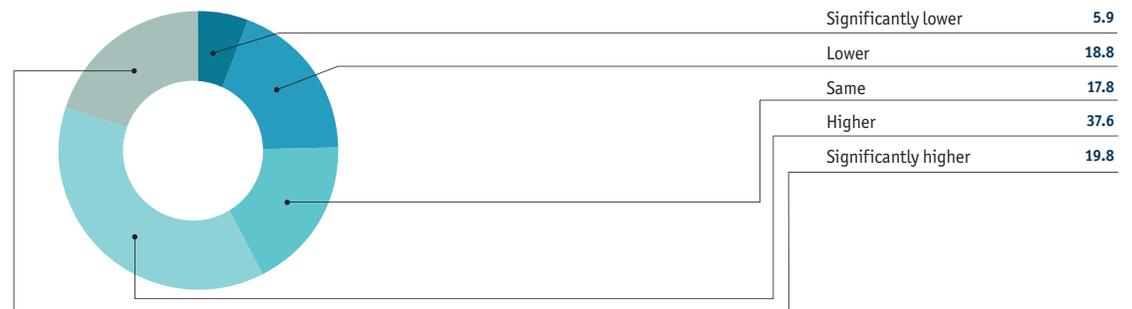


Source: 2015 African Business Outlook Survey.

Despite these challenges we note that 75% of respondents reported operating margins in African markets that were the same or better than their companies' global averages, and 57% of respondents reported that operating margins were higher or significantly higher than their firms' global averages.

How do your operating profit margins in Africa compare to your company's global average?

(% of respondents)



Source: 2015 African Business Outlook Survey.

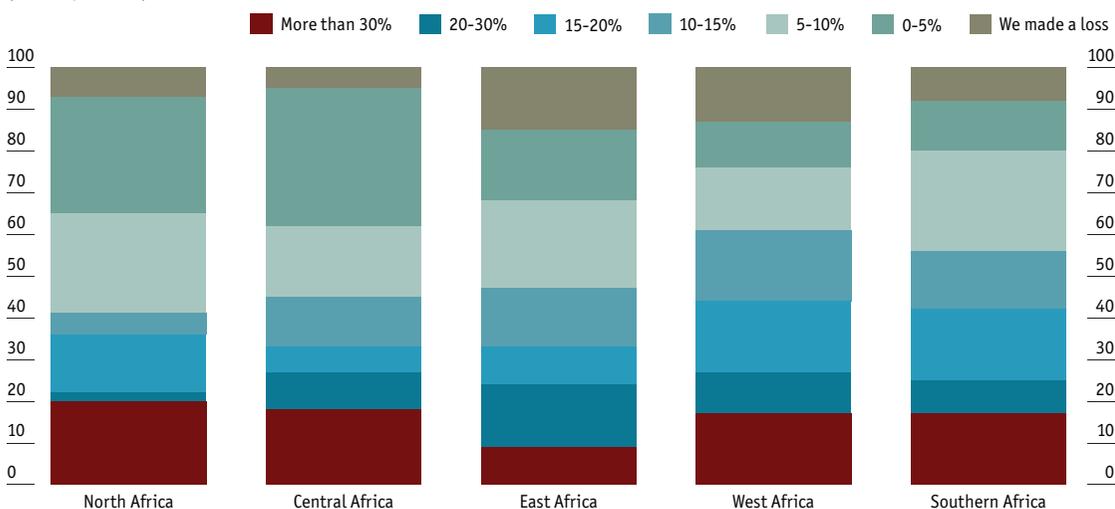


Profit performance by year and by region

2014

The region with the highest reported 2014 profit margins was West Africa. Over 60% of respondents reported an operating profit of 10% or more, and 26% of respondents reported an operating profit margin higher than 20%. The next most profitable region is Southern Africa, where 57% of respondents reported an operating profit margin above 10%. Executives reported East African operations as having the highest percentage of losses, at 15%. Nearly one-third of executives reported that their North African operations had profit margins of 5% or less, while 37% of respondents doing business in Central Africa indicated that their business operations there were either loss-making or generated an operating profit margin of less than 5%.

What were your operating profit margins in 2014? (% of respondents)



Source: 2015 African Business Outlook Survey.

2015

Looking ahead to 2015, respondents expect Southern African business operations to generate the highest comparative returns across the five regions. They forecast operations in North and Central



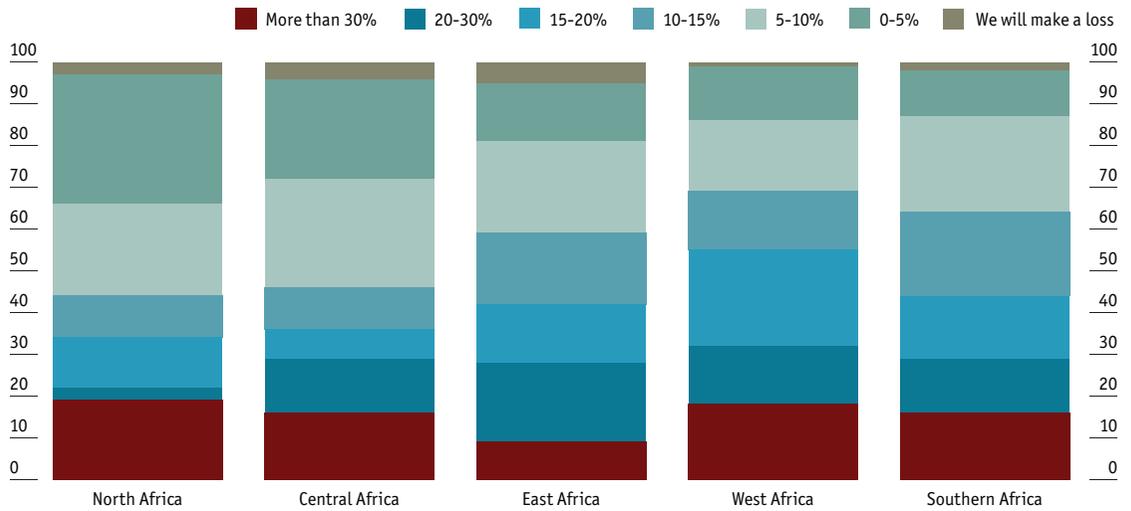
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The 2015 African Business Outlook Survey

Africa to remain weak, with these regions having the highest percentage of operations generating marginal returns, no higher than 5%. However, overall, fewer respondents expect their regional business operations to be loss making. Indeed, across the regions, respondents expect a dramatic reduction in the number of loss-making operations.

What do you expect your operating margin to be in 2015?

(% of respondents)



Source: 2015 African Business Outlook Survey.



Investment by region: Largely focused east, west and south

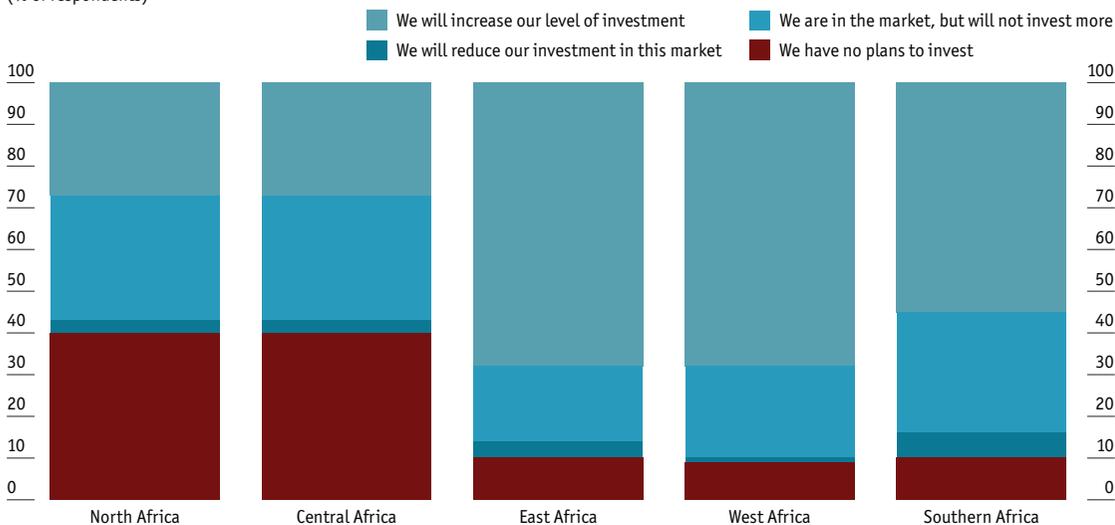
According to UNCTAD, foreign direct investment (FDI) flows to Africa rose 4%, to US\$57bn, in 2013. Regionally, these flows declined in West and North Africa, but surged by 15% year on year, to US\$6.2bn, in East Africa, and almost doubled, to US\$13bn in Southern Africa.

Our survey results largely confirmed this, as the majority of surveyed executives highlighted plans to increase investment in East, West and Southern Africa.

Executives were the least bullish on North and Central Africa. Around 40% of respondents indicated that they either had no plans to invest in these regions or would reduce investments in these markets.

While 55% of executives reported that they are increasing their levels of investment in Southern Africa, over 29% indicated that they would not invest more. This sentiment is comparable to how executives view Central and North Africa: 30% of executives reported that they would not invest more in these regions. For East and West Africa, executives citing no plans to invest more only represented 18% and 22%, respectively, of respondents.

How will your investments in the following markets change during 2015?
(% of respondents)



Source: 2015 African Business Outlook Survey.

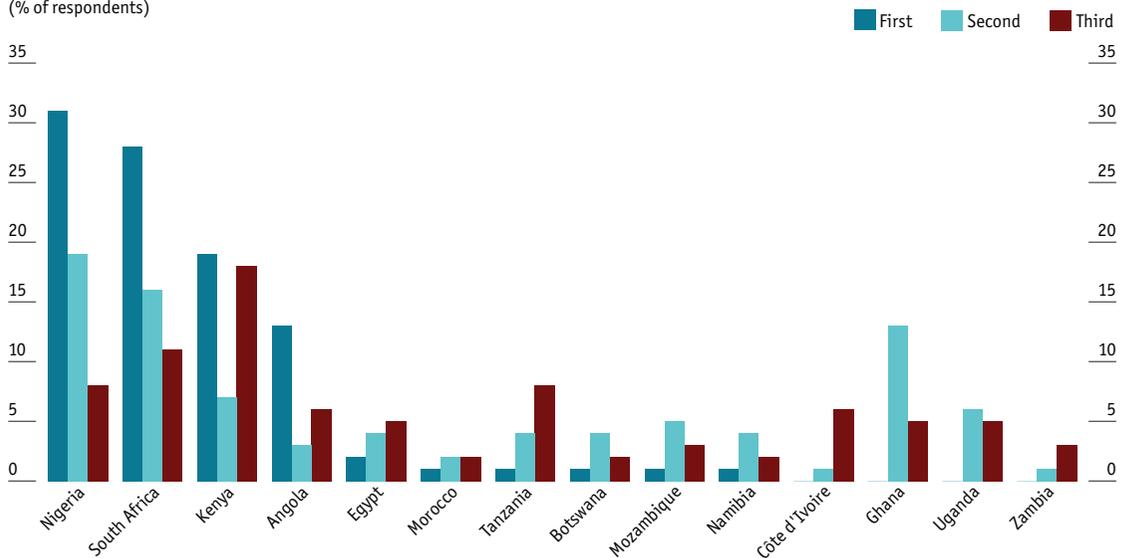


Top markets by revenue: Nigeria, South Africa and a rising Kenya

2014

Executives named Nigeria, South Africa, Kenya and Angola as their top markets in 2014. This was not surprising, given that the bulk of the respondents were based in those countries. What is surprising, and factoring in the relative size of each economy, is that Kenya appeared to punch well above its weight.

Top African markets by revenue, 2014
(% of respondents)



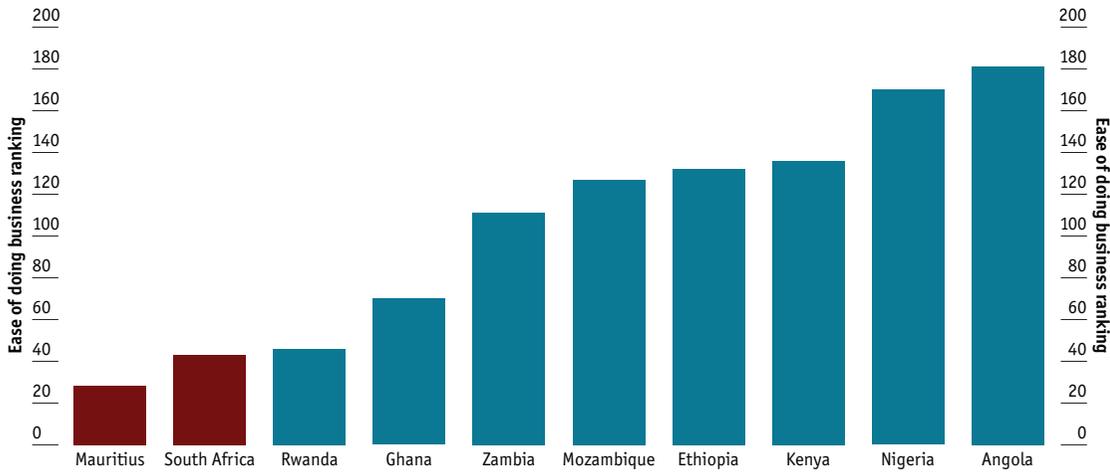
Source: 2015 African Business Outlook Survey.

Angola, which has an economy nearly two and a half times larger than that of Kenya, was cited by only 13% of the respondents as their top market, despite 17% of total respondents being based in Angola. This may again result from the specific challenges of operating commercially in Angola. According to the World Bank, Angola ranks 42 out of 47 Sub-Saharan African nations for ease of doing business and Transparency International placed it at 161 out of 175 countries globally on its 2014 Corruption Perceptions Index.



Ease of doing business ranking, 2014

The easiest places to do business in Sub-Saharan Africa are Mauritius and South Africa



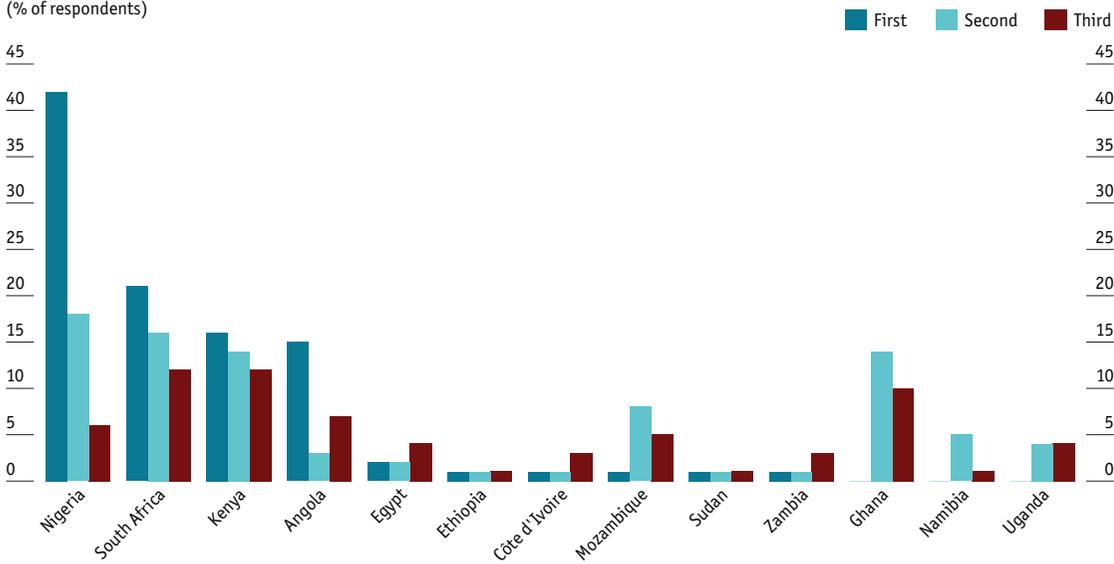
Source: World Bank.

2020

By 2020 executives generally expect their top four markets to remain the same. The relative importance of Nigeria as the top market will grow, and, although South Africa will remain the second-largest market, its relative weighting will decline. In 2020 Kenya's importance to revenue contribution will be higher than Angola's, particularly taking into account respondents' expectations for primary, secondary and tertiary market positions.

Top African markets by revenue, 2020

(% of respondents)



Source: 2015 African Business Outlook Survey.

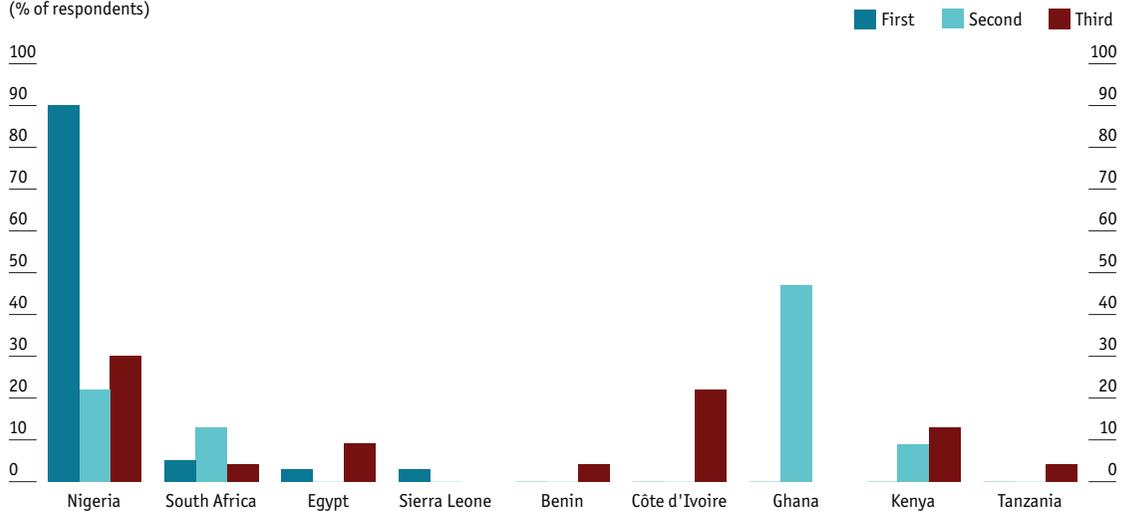


Priority markets by respondent location: 2014 vs. 2020

Nigeria

In 2014 around 90% of Nigerian-based respondents viewed their domestic market as their priority market. Nigeria's West African neighbours, Ghana and the Côte d'Ivoire, are seen as important secondary and tertiary markets, respectively. A selection of North, East and Southern African countries round out the list.

Top African markets by revenue, 2014: Lagos-based respondents
(% of respondents)



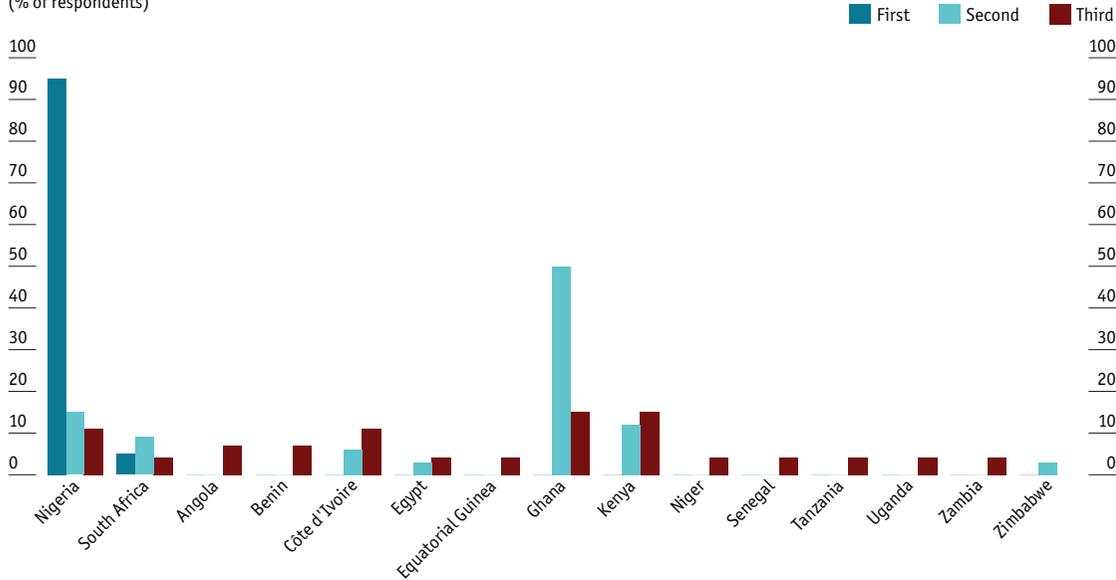
Source: 2015 African Business Outlook Survey.

The percentage of Nigerian-based respondents that expect Nigeria to be their primary market increased to 95% when looking ahead to 2020. This points to underlying, pent-up demand, Nigeria's huge size, and its continued significance regionally and globally.

Half of the Nigerian-based respondents expect Ghana's weighting to increase, to lie among their top three markets.



Top African markets by revenue, 2020: Lagos-based respondents
(% of respondents)

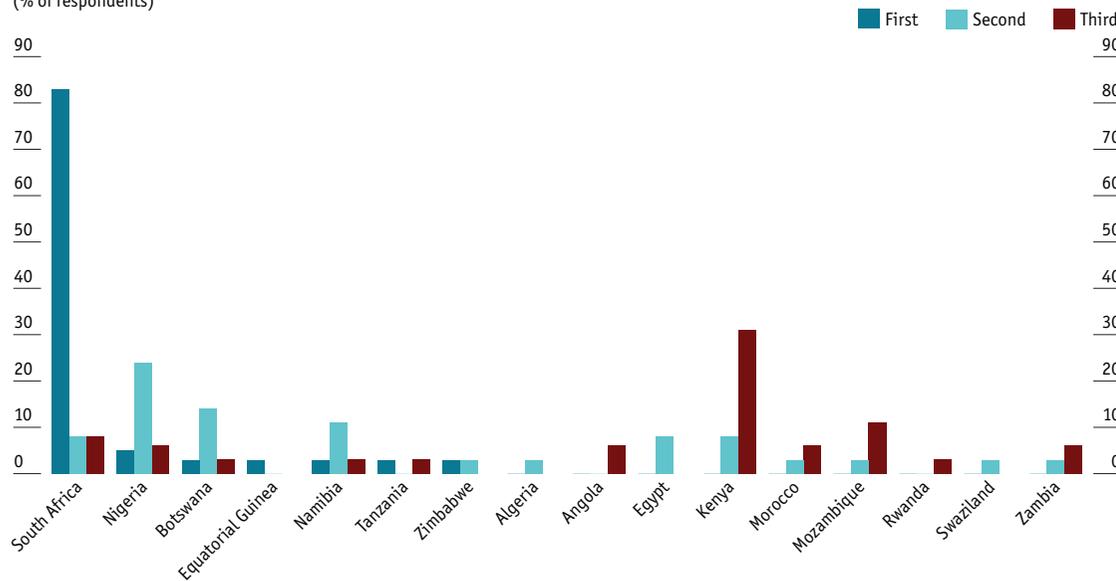


Source: 2015 African Business Outlook Survey.

South Africa

Around 83% of respondents from South Africa indicated that South Africa was their primary market in 2014. Botswana, Namibia and Nigeria also featured prominently as secondary markets.

Top African markets by revenue, 2014: South African-based respondents
(% of respondents)



Source: 2015 African Business Outlook Survey.



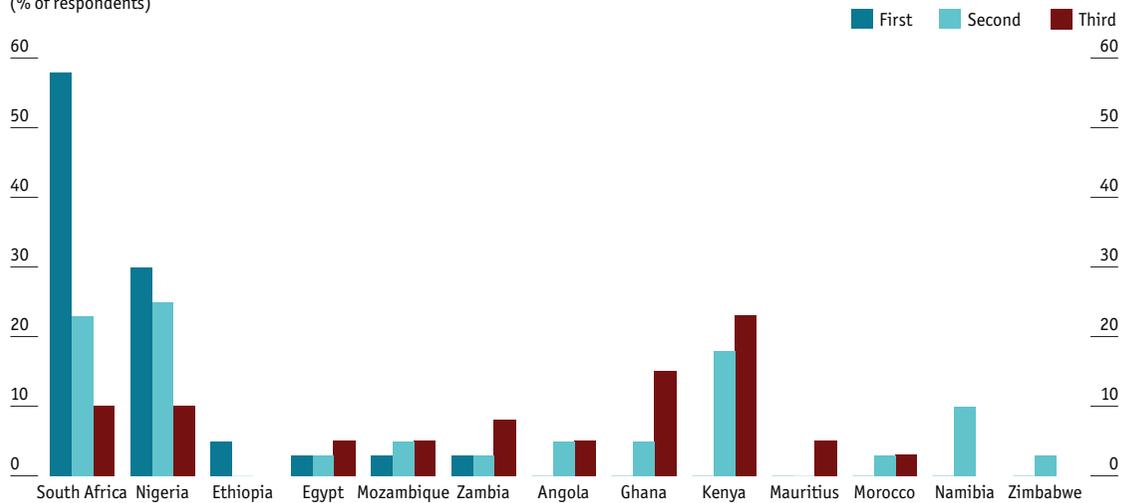
Africa is the horizon

The 2015 African Business Outlook Survey

By 2020, 58% of South African-based respondents, down from 83% in 2014, expect South Africa to be the top market, while Nigeria will increase in significance; 30% of respondents expect Nigeria to be their priority market in five years' time.

We note that Angola barely registers, with only 5% of respondents expecting it to be among their top three markets.

Top African markets by revenue, 2020: South African-based respondents
(% of respondents)



Source: 2015 African Business Outlook Survey.

Nairobi

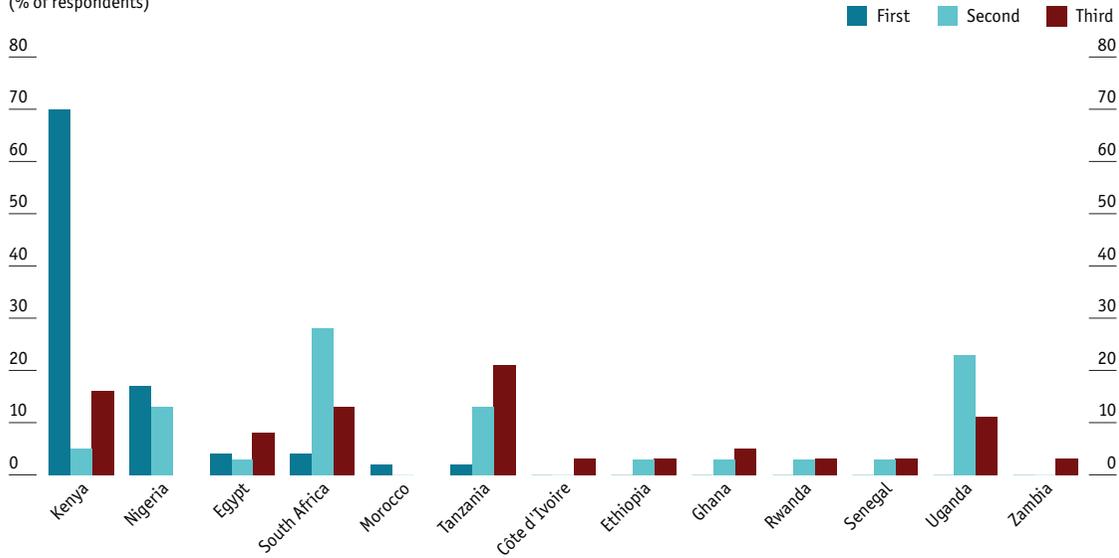
Kenya-based executives see the domestic market as being the most important, in 69% of responses. Given that Kenya belongs to the regional trade bloc of the EAC, which includes Rwanda, Burundi, Tanzania, Kenya and Uganda, we might have expected Kenyan respondents' secondary and tertiary markets in 2014 to be in the East African region generally and within the EAC member countries in particular. In this regard, Uganda and Tanzania do feature prominently; however, South Africa is currently a more important market to the Nairobi-based executives surveyed than either Uganda or Tanzania.

By 2020, 58% of executives expect Kenya to remain their top market, while 30% anticipate that Nigeria will become their top market on the continent.

South Africa's prominence within the top three markets is expected to decline for most respondents. Tanzania's contribution to revenue is expected to grow, while the contribution of Kenya's northern neighbour, Uganda, is expected to decline.

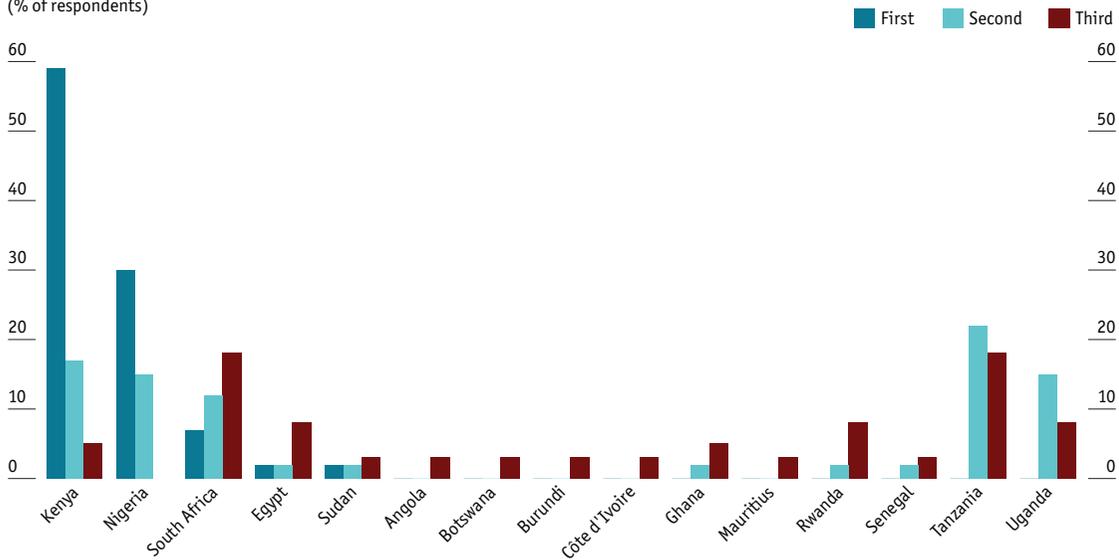


Top African markets by revenue, 2014: Nairobi-based respondents
(% of respondents)



Source: 2015 African Business Outlook Survey.

Top African markets by revenue, 2020: Nairobi-based respondents
(% of respondents)



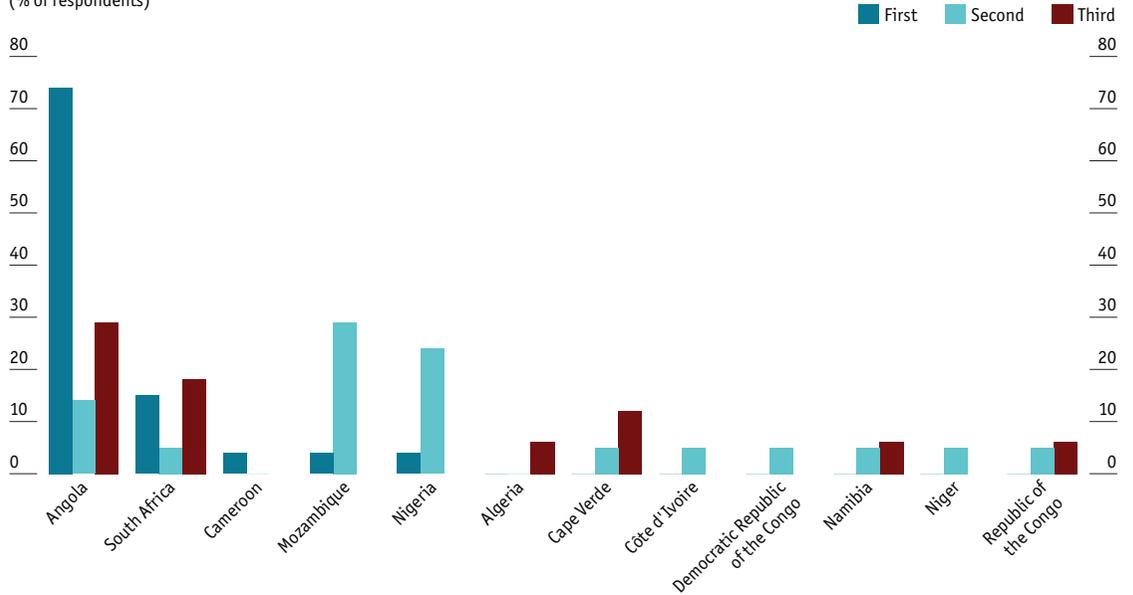
Source: 2015 African Business Outlook Survey.



Luanda

In 2014 Angola was the top market for over 75% of the respondents based in Luanda, while South Africa was the top market for approximately 15% of these respondents. Other Portuguese-speaking countries in Africa, such as Mozambique and Cape Verde, were also important markets, within the top three for some Luanda-based executives.

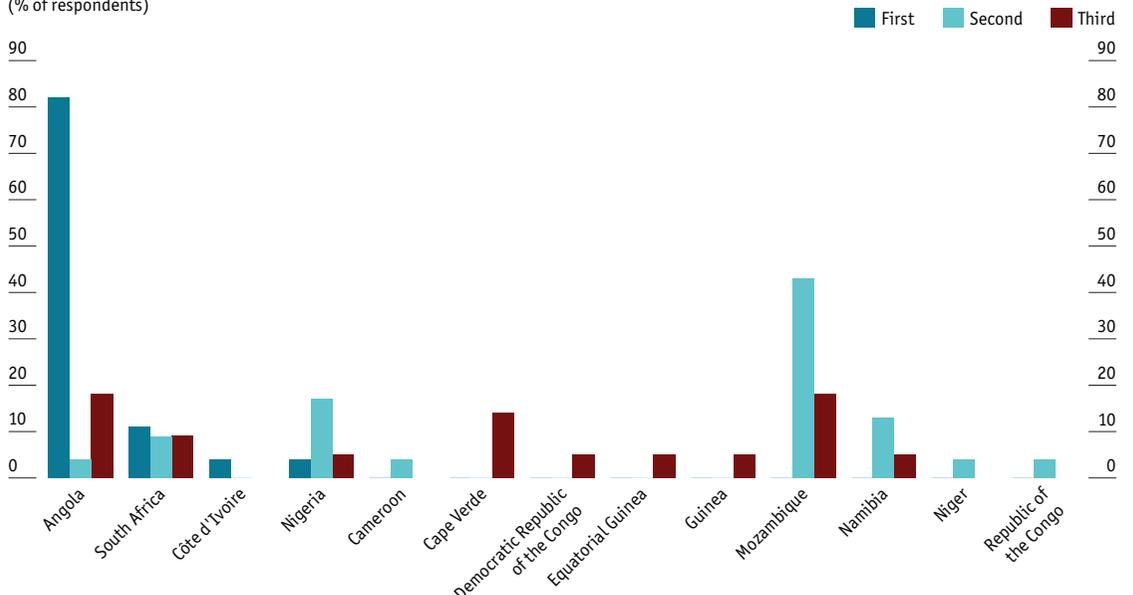
Top African markets by revenue, 2014: Luanda-based respondents
(% of respondents)



Source: 2015 African Business Outlook Survey.

In the next five years Luanda-based executives expect Angola to grow in importance. Over 82% expect Angola to be their top market. Executives also expect Mozambique, Namibia and South Africa to grow in significance.

Top African markets by revenue, 2020: Luanda-based respondents
(% of respondents)



Source: 2015 African Business Outlook Survey.



Local needs: Aligning business models and offerings

It is often the case that business models and products that succeed outside Africa do not have resonance in African markets. Companies doing business in Nigeria, including some Africa-based businesses, have learned this lesson the hard way. Woolworths, a South Africa-based retailer, found that its product selection and business model did not apply to Nigeria. Companies such as SABMiller, Procter & Gamble and Nestlé have found success in Nigeria, not necessarily by utilising different products, but by adjusting their packet sizes and pricing strategies to align with the disposable incomes of their local markets.

Survey respondents seemed to understand the importance of relevant products that target local populations. Nearly two-thirds of respondents indicate that there is a high consideration of the African-based customers' preferences regarding product and service offerings, while nearly 20% indicated that there is some consideration of the same.

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



Source: 2015 African Business Outlook Survey.



Scant board and management representation from Africa

Although Africa is growing in significance for most respondents, there remains little representation of the African perspective at the board level. Over 66% of respondents do not have a main board director who is based in Africa, and 57% of respondents said there are no plans in the next four years to install an Africa-based board member.

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

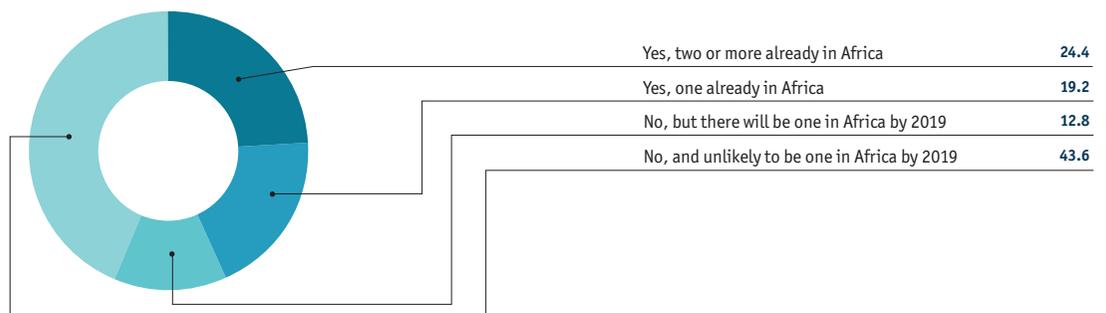


Source: 2015 African Business Outlook Survey.

Although board representation in Africa appears to be still limited, over 43% of respondents cited at least one global head of their firms' business units who is based in Africa, and around 24% indicated two or more global heads based in Africa.

Over 56% do not have any Africa-based global heads, and these respondents indicated that this is likely to remain the case in the near term.

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



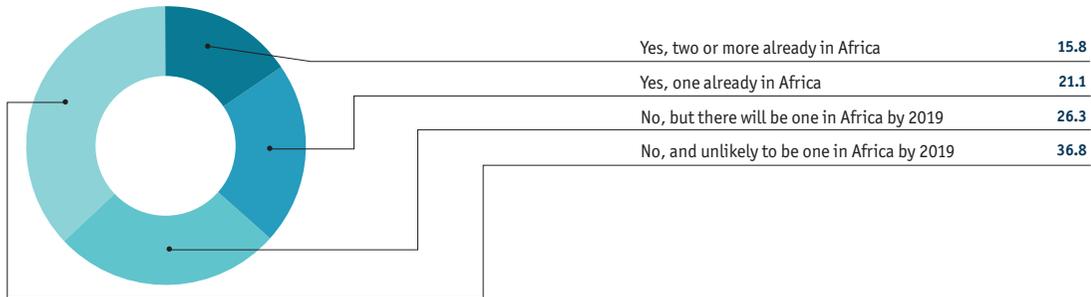
Source: 2015 African Business Outlook Survey.



South Africa

Around 37% of South Africa-based respondents have at least one global head based in Africa, and around one-quarter expect to have one in place by 2019.

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

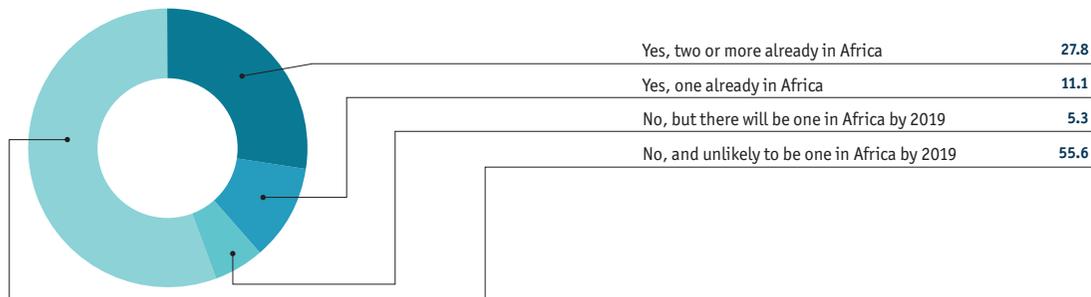


Source: 2015 African Business Outlook Survey.

Nairobi

Around 39% of Nairobi-based respondents have at least one global head based in Africa. Around 56% indicated that there was none in place, and there is unlikely to be one by 2019.

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



Source: 2015 African Business Outlook Survey.

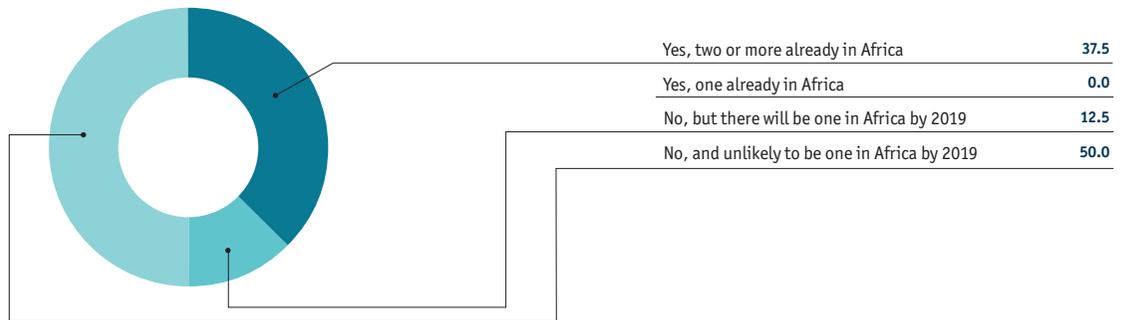


Africa is the horizon
The 2015 African Business Outlook Survey

Lagos

Among Lagos-based respondents, 38% have at least two global heads in Africa, but 63% indicated that there is not one now and it is unlikely there will be one in place by 2019.

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

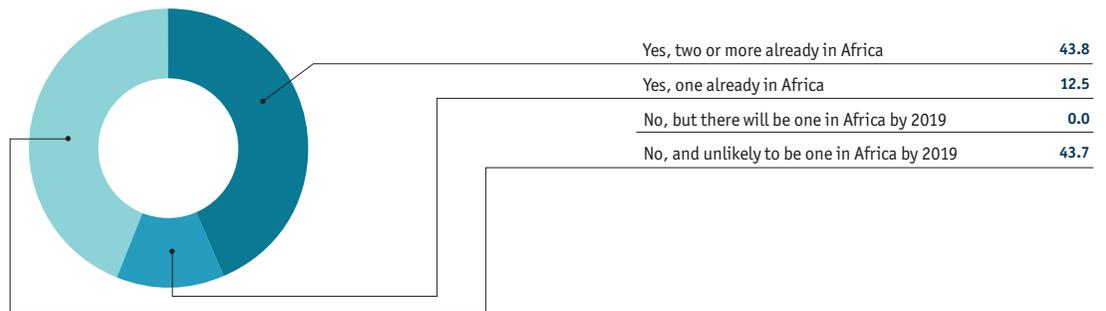


Source: 2015 African Business Outlook Survey.

Luanda

Among Luanda-based respondents, 56% cited at least one global head as being currently based in Africa, while around 44% indicated that there is not one now and it is unlikely their companies will have one in place by 2019.

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



Source: 2015 African Business Outlook Survey.

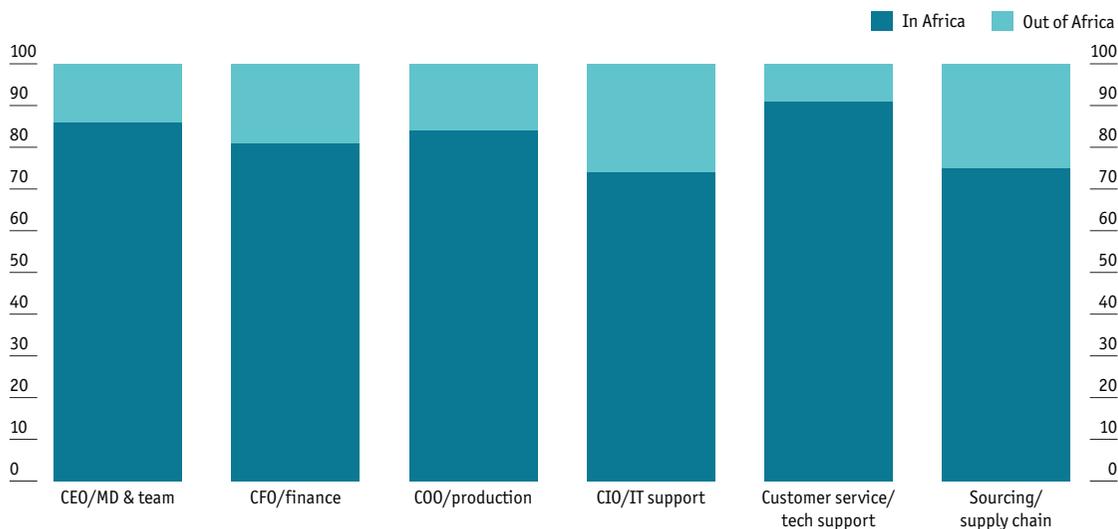


Most functional teams are based in region

There is an Afrikaans saying—“The further away you are from your business, the closer you are to your losses”—that seems to resonate with survey respondents.

The vast majority of the management teams with responsibility for African operations were based in Africa. The functional areas with the highest presence of offshore human resources are in IT and sourcing/supply chain; however, even in these divisions, around three-quarters of staff are Africa-based.

Currently, where does the majority of your management and talent for the following regional functions sit?
(% of respondents)



Source: 2015 African Business Outlook Survey.

When executives were polled as to why certain management functions were located in certain geographies, the single biggest factor cited was proximity to market. This logic even applied in the area of technology/IT support, where large businesses generally have a common IT architecture in place that can be rolled out across geographies. We note that factors related to local tax regimes, government incentives and the regulatory environment collectively did not factor as highly as legacy reasons when considering why certain operational functions were based where.

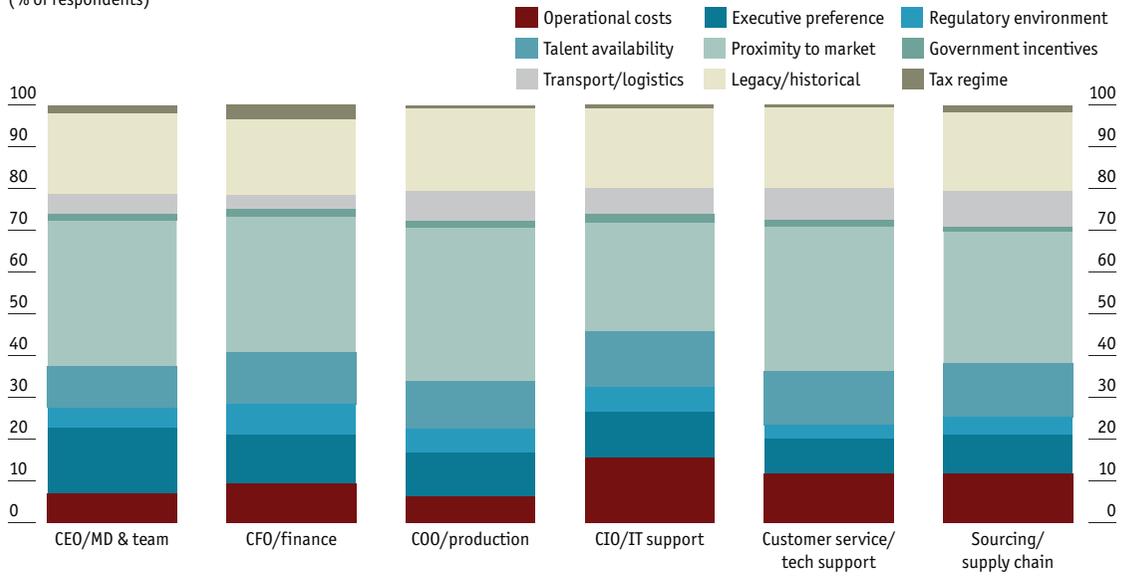


Africa is the horizon

The 2015 African Business Outlook Survey

Pick up to three of the most significant reasons you have based operational functions where you have for Africa

(% of respondents)



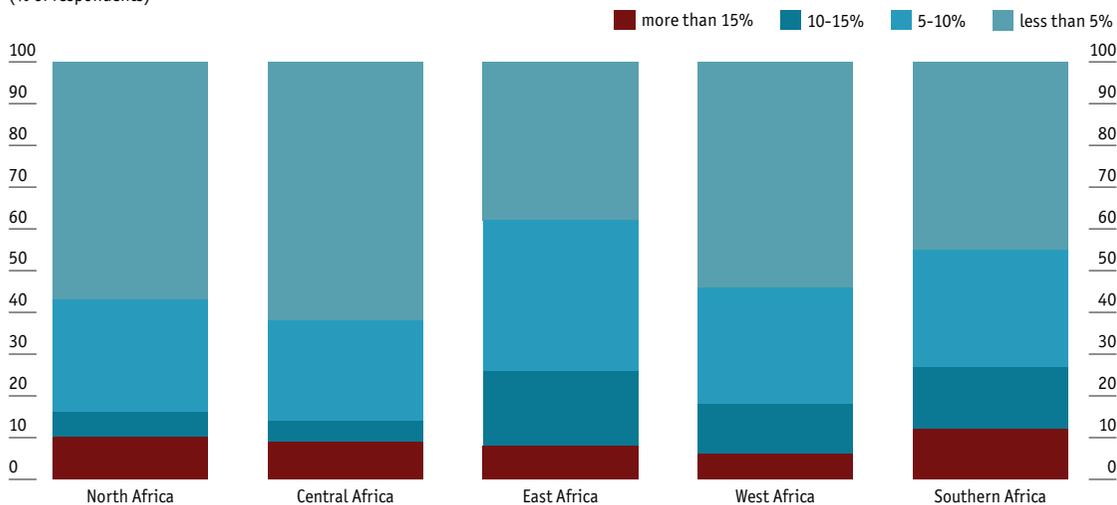
Source: 2015 African Business Outlook Survey.



Employee turnover on the rise in most dynamic economies

Annual staff turnover across regions was reported as being below 10% per annum, in the aggregate. The two regions with the highest staff turnover were East Africa and Southern Africa. Kenya and South Africa, which sit in these regions, are two of the largest and most liberal economies in Africa, leading to greater employment prospects for skilled talent. The mix, nature and size of the formalised commercial economy and the scramble for talent among businesses may also contribute to employee turnover.

What is your staff turnover ratio (% of total staff that must be replaced each year)?
(% of respondents)



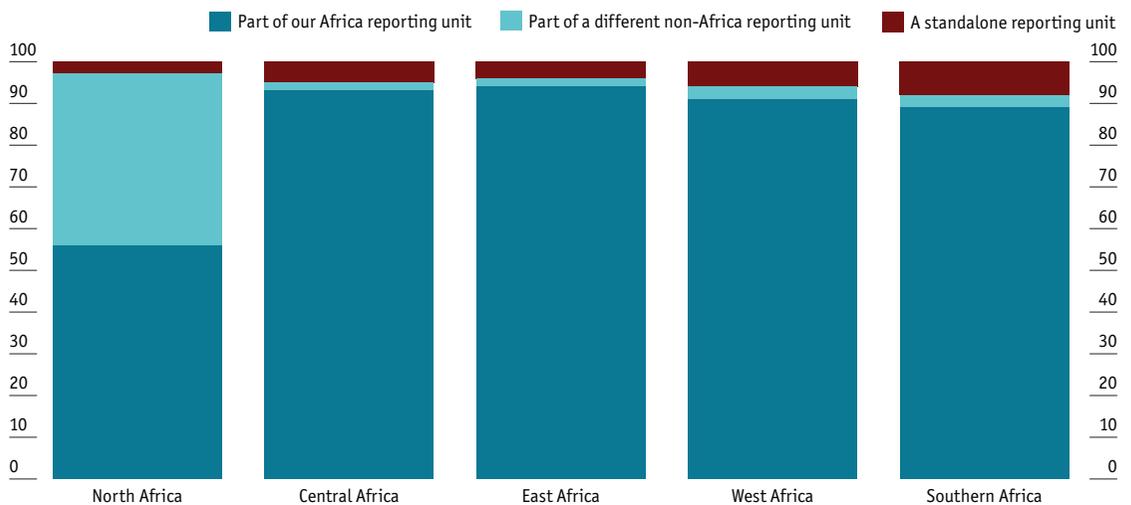
Source: 2015 African Business Outlook Survey.



Reporting units: Africa stands alone

For most respondents, East, West and Southern African countries fall within a general Africa reporting unit. Over 43% of executives in North Africa indicated that North Africa is part of a non-Africa-based reporting unit.

Which of the following regions are included in your Africa management or reporting unit?
(% of respondents)



Source: 2015 African Business Outlook Survey.

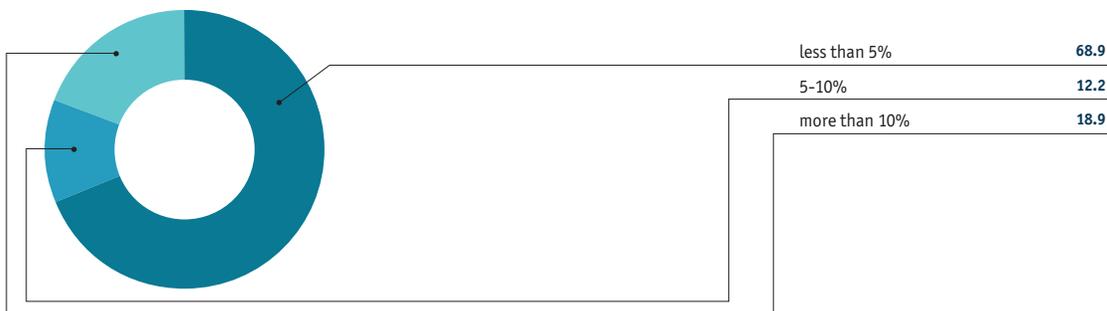


R&D in Africa still not significant

Africa-based revenue is a meaningful contributor to global revenue and profit margins for many of the executives polled; however, the Africa-based investment in R&D underpinning existing and future product and service offerings is limited.

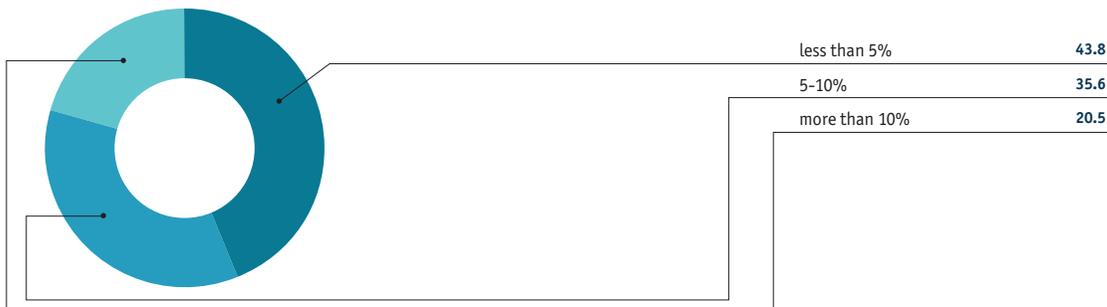
Around 69% of respondents indicated that less than 5% of total R&D spend was Africa-based in 2014. Around 44% of respondents estimated that less than 5% of R&D will be based in Africa by 2020.

What % of your firm's global R&D expenditure is in Africa today?
(% respondents)



Source: 2015 African Business Outlook Survey.

What % of your firm's global R&D expenditure will be in Africa in 2020?
(% respondents)



Source: 2015 African Business Outlook Survey.



Conclusion

Africa is one of the brightest areas of opportunity on the commercial horizon. Today there are many firms running profitable operations that contribute to the growth and development of the economies and societies in which they are based. The African-horizon opportunity requires a long-term view and perspective, coupled with an ability to respond effectively and appropriately, day by day.

Agility and a so-called “lowering of the gaze”, or a localisation strategy, are important for any firm competing in Africa. What works in one country may not work in another, at least not in the same ways. Leveraging scale appropriately and effectively applying it at local level will also be vital to success.

West, Southern and East Africa are the regions where one finds the most optimism among respondents, although risks do remain.

There are a number of interesting themes that run through the 2015 African Business Outlook Survey.

- 1) For most respondents, their local markets are set to grow in importance
- 2) Executives are also looking to increase their firms’ penetration into other African markets over the next five years
- 3) For Southern African respondents, and, in particular, those from South Africa, the local market is set to decline in importance in relation to West and East African markets

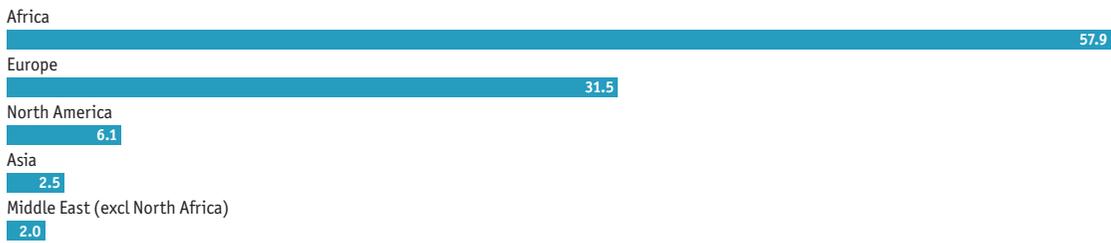
There is internal African commercial competition for growth, within and across borders. This is likely to have implications as to the cost and retention of talent and margins. What eventually unfolds will be very intriguing to observe. Undoubtedly, the race is on.



Appendix

Where is your firm's global HQ?

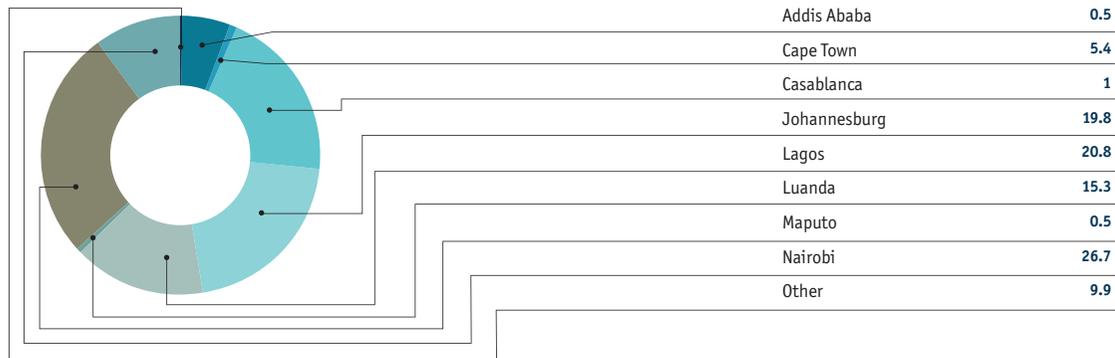
(% respondents)



Source: 2015 African Business Outlook Survey.

Where are you based?

(% respondents)



Source: 2015 African Business Outlook Survey.

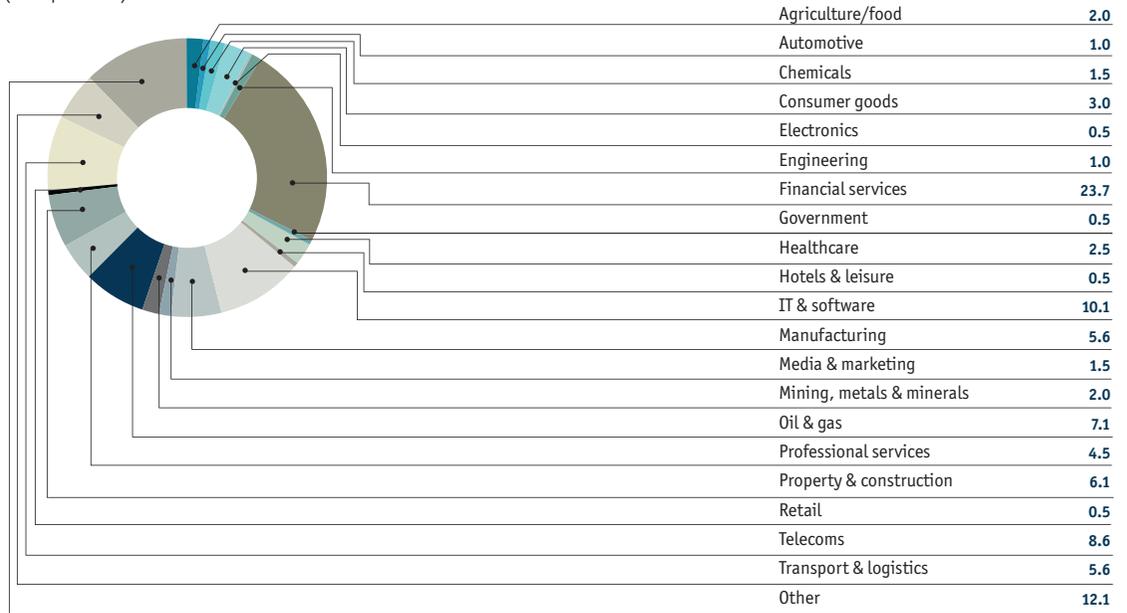


Africa is the horizon

The 2015 African Business Outlook Survey

Which sector do you operate in?

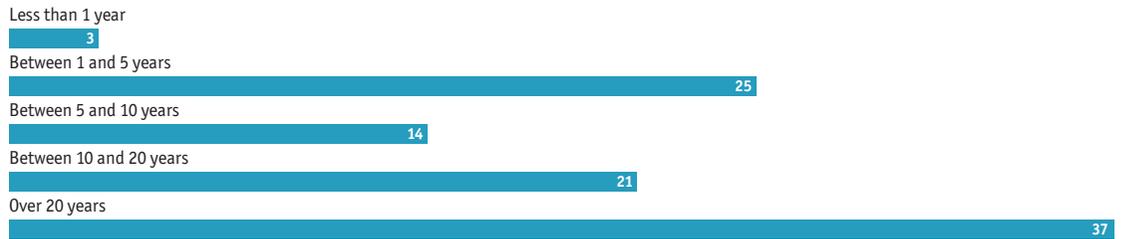
(% respondents)



Source: 2015 African Business Outlook Survey.

How long has your firm been operating in Africa?

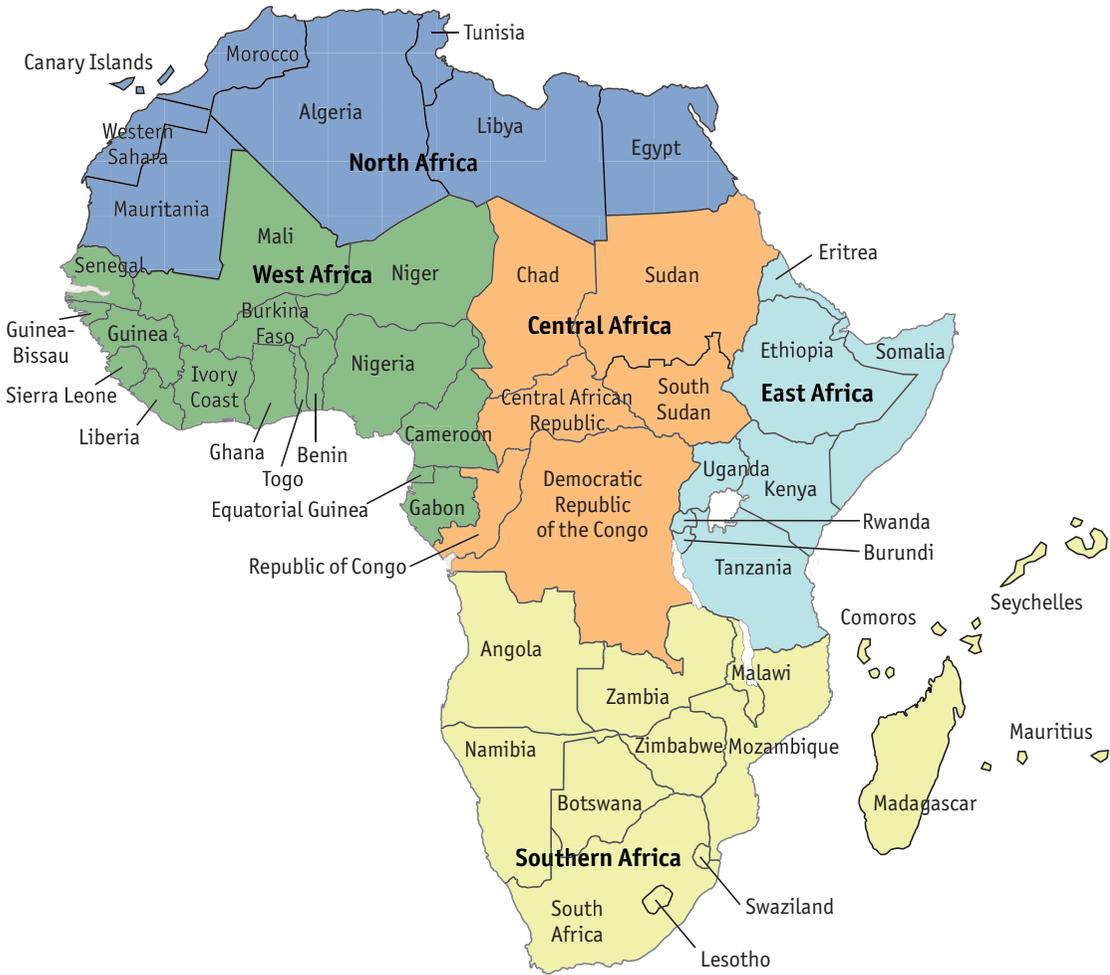
(% respondents)



Source: 2015 African Business Outlook Survey.



African regions



Source: The Economist Corporate Network.



About The Economist Corporate Network

The Economist Corporate Network is The Economist Group's advisory service for senior executives seeking insight into economic and business trends in their key growth markets. Independent and thought-provoking, The Economist Corporate Network provides clients with the information, insight and interaction they need to succeed. It is led by experts who share a profound knowledge and understanding of business issues. It has regional business groups across Asia Pacific, the Middle East and Africa.

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