RISK-MITIGATION STRATEGIES USED BY RETAIL COMPANIES EXPANDING INTO AFRICA

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A research report submitted to the Faculty of Commerce, Law and Management, University of the Witwatersrand, in partial fulfilment of the requirements for the degree of Master of Business Administration

Johannesburg

December, 2005

THE ABSTRACT

The expansion of South African retailers into the rest of Africa incurs business risks that are different from normal business risks and the risks of doing business in other emerging markets. The literature on retailers focuses more on growth through globalisation and, to an extent, very generally on emerging markets. Africa presents its unique risks and characteristics for businesses that would like to expand into the rest of Africa. The report attempts to analyse critically the reasons behind South African retailers' expansion into the rest of Africa. The report also analyses risk-mitigation strategies undertaken by South African retailers who are expanding into Africa. The report also examines what would make doing business in Africa easier for retailers.

DECLARATION

I, Eric Poulton, declare that this research report is my own, unaided work. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration in the University of the Witwatersrand, Johannesburg. It has not been submitted before for any degree or examination in this or any other university.

Signature

Eric Poulton

15 December 2005

ACKNOWLEDGEMENTS

I wish to express my sincere thanks to:

- Geoff Heald, my supervisor, for his patience, time and effort;
- Andisa Capital, for their financial support;
- Barbara English of *Wordsmiths English Consultancy* for her editing and advice;
- My mother for motivating me to initiate post-graduate studies, and for leading by example;

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1 INTRODUCTION

1.1 Context of the Study

The world economy is globalising and capital is becoming more mobile. As a result, valuation of companies is gaining in importance in emerging markets. The issue is that valuation is much more difficult in emerging markets than in established markets because of the risks and obstacles that companies face when they expand. Major risks and challenges include high levels of macroeconomic uncertainty, illiquid capital markets, inadequate controls on the flow of capital in and out of the country, and high levels of political risk. There is no agreement on how to address the challenges among academics, investment bankers, and industry practitioners. Methods vary considerably and often involve making arbitrary adjustments based on limited empirical evidence and gut feel (Copeland, Koller & Murrin, 2000).

Over the past few years, interest in expanding businesses into Africa has grown among South African companies, because of the mix of high growth opportunities and impressive profit margins. Investing in Africa, however, is not without substantial risks (Nkontchou, Bunyi & Furman, 2003:1).

Although the financial press refers frequently to the northward movement of South African companies (for example, Katzenellenbogen, 2003), mention is also made of these risks:

> *IDC (Industrial Development Corporation): with 60 projects under consideration or in progress in 17 countries, its portfolio, outside SA, stands at $5bn. Investing in the rest of Africa isn't without challenges. Each country has different regulatory systems, governance, business culture, language and skills shortages.* (Singh, 2002:46)

1.2 Purpose of the Study

The study aims to establish the risk-mitigation strategies that retail companies use when expanding into Africa, and to compare these against the theories related to doing business in emerging markets.

1.3 Problem Statement

What are the risk-mitigation strategies used by South African retail companies expanding into Africa, including the additional factors these companies take into account when doing feasibility studies for expanding into Africa?

1.3.1 The sub-problems

- The first sub-problem. The first sub-problem is to identify and explain the risks that have an impact on doing business in emerging markets and, specifically, in Africa.

- The second sub-problem. The second sub-problem is to establish what additional risk-mitigation strategies South African retail companies consider when looking for growth by expanding into the rest of Africa.

- The third sub-problem. The third sub-problem is to analyse and critique the risk-mitigation strategies used by South African retail companies to the literature.

1.4 Delimitations and Limitations

- The researcher has focused on selected retail companies listed on the Johannesburg Securities Exchange (JSE), such as Massmart, Shoprite, Edcon, Woolworths, Spar and Ellerines. Privately owned South African retail companies, such as Stuttafords, were also included.

- Owing to the size of Africa, the researcher will focus on the economically larger African countries within Central Africa, the Indian Ocean Rim, North East Africa, North Africa, SADC, and West Africa.

- There are accounting standard differences across Africa, which will be noted but not examined in detail.

1.5 Significance of the Study

The significance of the study is threefold:

- It aims to identify the key factors that need to be identified for investment in emerging markets, particularly Africa.

- It aims to contribute to the discussion on investing in emerging markets by comparing the actual criteria that selected South African retail companies use for their expansion into Africa with the theory of companies expanding into emerging markets.

- The results from this study could be used to contribute to improved decision making for South African companies that are evaluating the viability of expanding into Africa.

1.6 Assumptions

The following assumptions will be made in this study:

- Investing in Africa is comparable to investing in other emerging markets, such as those of South America, Eastern Europe, India, China, and Russia.

- South African companies have a better understanding (than other first world countries) of expansion into Africa because of their experience and understanding of the risks of doing business in Africa.

2 LITERATURE REVIEW

The first part of the review will discuss the literature on investing in emerging markets, both from a business perspective and a retail perspective. The second part will discuss the literature concerning the specific risks of doing business in emerging markets, and the third part will profile African countries and their specific risks. The fourth part of the review then identifies the research questions that this particular research report has focused on.

According to Pereiro (2002:2) the World Bank defines an economy as emerging "if its level of wealth creation, measured as gross national product (GNP) per capita, is below that of developed economies".

An emerging market is defined by Poillon (2000) as a financial market of a developing country, usually a small market with a short operating history, which has been or is in the process of globalising through opening its borders to a flow of international trade and investment and also to world-class management practices.

According to Pereiro (2002), the term "emerging market" is used to describe a national economy that is:

- Attempting to order its national accounts, privatise state companies, and deregulate economic activity;
- Stabilising its political systems, moving from more autocratic regimes to liberal, democratic rules; increasing public interest in solving the most pressing social problems;
- Rapidly dismantling the barriers to foreign trade and investment, thereby quickly increasing its share in the world economy;
- Being flooded by foreign capital, hard technologies and new advanced managerial practices as multinational corporations enter its territory;
- Experiencing a profound change in the structure of entire industries and individual companies, both large and small, based

on a sudden forced increase in productivity, thereby pushing firms to approach international standards of competitiveness;

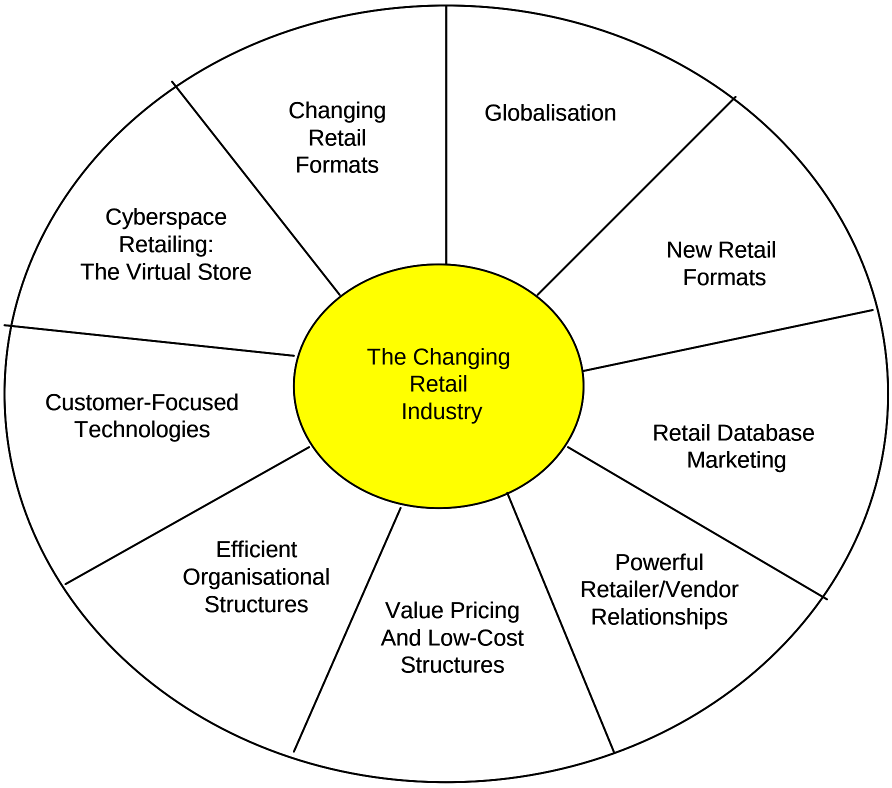
- Reporting a growing rate of activity in mergers and acquisitions, joint ventures and the establishment of wholly owned subsidiaries – also called Greenfield operations – and large-scale corporate reengineering and divestments;
- Boasting a growing, more active and fairly sophisticated stock market, which beckons international financial investors; and
- Expanding influence to other neighboring economies, which in turn, start to open to the world.

According to research conducted by Farrell, Remes and Schulz (2004), governments in emerging markets are eager to get a share of foreign capital, along with the technology and management skills that accompany it. Foreign companies can initially receive tax holidays, import duty exemption, subsidised land and power in efforts by developing countries to attract multinationals. One of the biggest benefits of foreign direct investment is its ability to raise local standards of living. Carrefour (a large global retailer), for example, is opening stores in Brazil. Local consumers benefit as they enjoy lower prices and/or a better selection of goods and services. In Mexico, Wal-Mart's "everyday low prices" ended a long history of hefty margins for the country's leading retailers.

"European and US consumer goods makers, confronted by slowing growth at home, are turning to the fast-growing countries of Africa, Asia and Latin America. In 2002 the top 20 consumer goods companies spent more than $10 billion to expand their share of these markets, which now account for nearly 40 percent of all worldwide sales of clothing and grocery products." (Duarte de Abreu Filho, Calicchio & Lunardini, 2003:1)

Figure 1 shows that an element of the changing retail industry is globalisation. In this way, retailers are expanding internationally to take advantage of volume discounts, logistics efficiencies, faster turnover and lower corporate overheads (Hasty & Reardon, 1997:610).

Figure 1: The Changing Retail Industry

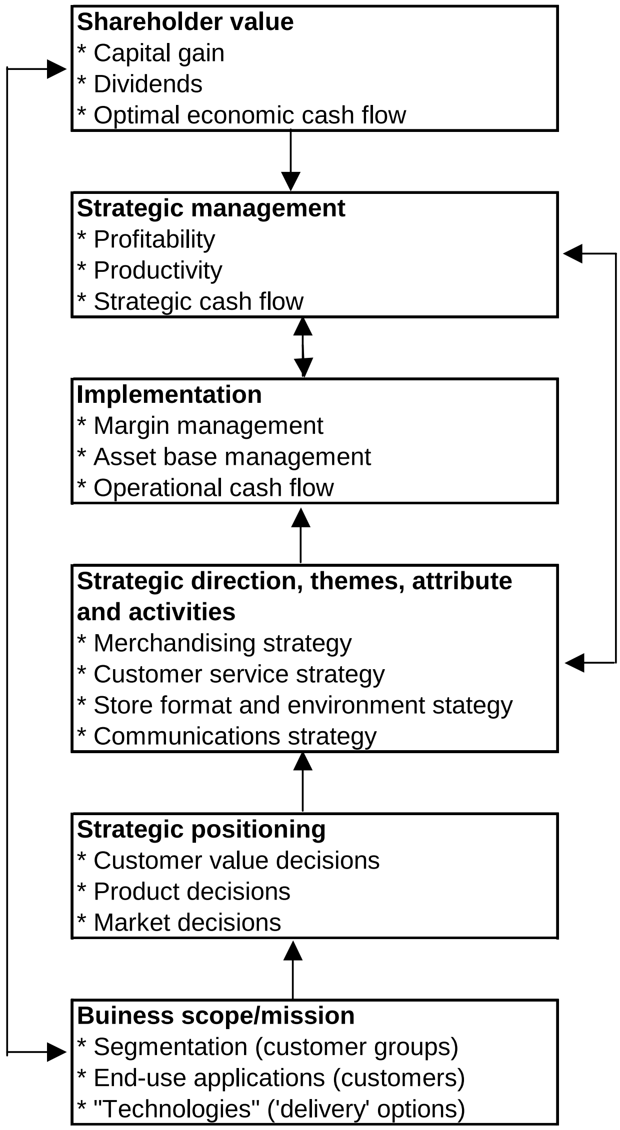


Source: Hasty & Reardon (1997:609)

Incandela, McLaughlin & Smith Shi (1999:84) see the main reasons for the globalising of the retail business as being "an expanding consumer arena, technological advances, deregulation and the retailers' need to grow".

A retail planning model (refer to Figure 2) is a generic model. This model represents a cohesive "top/down – bottom/up" approach, whereby the top/down influence is the need for the business to satisfy shareholder return requirements, while the bottom/up defines the scope of the business within the context of customer focus (Walters & Hanrahan, 2000). Applying this model to an emerging market – as opposed to a developed one – brings with it additional risks, requires additional return to shareholders to compensate for the risk, and the customer focus is often different from that of developed markets.

Figure 2:   A Retail Planning Model



Source: Walters & Hanrahan (1997:23)

2.1 Existing Studies

While it is easy to acquire strategic analysis and information on major countries, companies and markets, acquiring the same information on such emerging and re-emerging places as Brazil, Chile, India, Israel and Turkey is far more difficult (Journal of Business Strategy, 1994:6).

According to Hooke (2001:45), the importance of emerging markets includes there being suppliers of raw materials such as oil and minerals, providers of low-cost unskilled labour, and markets for Western goods and services.

Features of emerging markets include:

- Oligopolies that dominate the principal industrial sectors;
- Emerging market legal systems, where courts lean heavily towards local interests;
- Intellectual property rights being loosely enforced and possibly resulting in royalties not being paid for products such as patent protected drugs;
- Physical infrastructure such as roads and power grids being poor;
- Undeveloped social services and education; and
- A poor work ethic related to capital equipment, training being below standard, and unmotivated employees.

In emerging markets, market research and government statistics either do not exist or are not tracked properly. Often forecasts need to be pieced together from sundry bits of information whose reliability is questionable. Supply and distribution systems may not be efficient because of limited transportation infrastructure, storage facilities and logistical networks. Furthermore, banking systems tend to be unsophisticated and subject to undue political influence, currency is frequently unstable, tariffs and import licences protect local companies, and there is a tendency for personal relationships to assume an inflated importance (Hooke, 2001).

Opportunities and risks in international retailing may exist for several reasons (Berman & Evans: 1992). In terms of opportunities, foreign markets may represent better growth opportunities (because of population and other trends), especially when domestic markets may be saturated or stagnant. For this reason, foreign markets may be used to supplement, and not replace, domestic sales. Owing to worldwide economic shifts, many countries are now more open to the entry of foreign firms. Also, a retailer may be able to offer goods, services or technology not yet available in foreign markets and in this way have a competitive advantage in the foreign market over existing competition or any possible new competition.

The risks of international retailing include:

- Cultural differences between domestic and foreign markets, often in terms of management style;
- Foreign government restrictions;
- Poor distribution of personal income among consumers;
- Inadequate distribution systems and technology; and
- The large range of institutional formats among foreign countries.

Other factors identified that are important in international expansion are timing, understanding the environment, paying attention to core competencies, and balancing standardisation and local market differentiation.

Table 1 identifies the different markets of different countries, from highly developed markets to high-risk markets. The characteristics identified by Hasty & Reardon (1997) of high-risk markets are: infrastructure such as communication, roads and transport; government regulations such as taxes, customs, and immigration; and entry barriers such as local ownership, premises and licenses needed. There are significant political and economic risks as well.

Table 1: Difficult-entry markets

Highly Developed Markets	Difficult Entry Markets	Markets with Economic Volatility	High-Risk Markets
United States Canada United Kingdom France Germany Spain	Japan Republic of Korea Italy	Turkey Mexico Argentina	Brazil Russia China India

Source: Hasty & Reardon (1997:23)

2.2 Issues Specific to Emerging Markets

Johnstone-Bryden (1995:37) makes the following statement about risks:

> *From the individual up to the largest enterprise, there will be a vast array of risks which will potentially threaten. It will not be possible to provide a complete counter to every threat and it may not be practical to comprehensively counter any individual threat. It is therefore important to calculate the threat probability presented by each risk and produce a priority listing*.

According to Olsson (2002:5) risk is the uncertainty of future outcomes. Uncertainty in this context has two dimensions: the range of possible outcomes; and the probability of the outcome occurring.

The factors that will influence the perceptions of risk include:

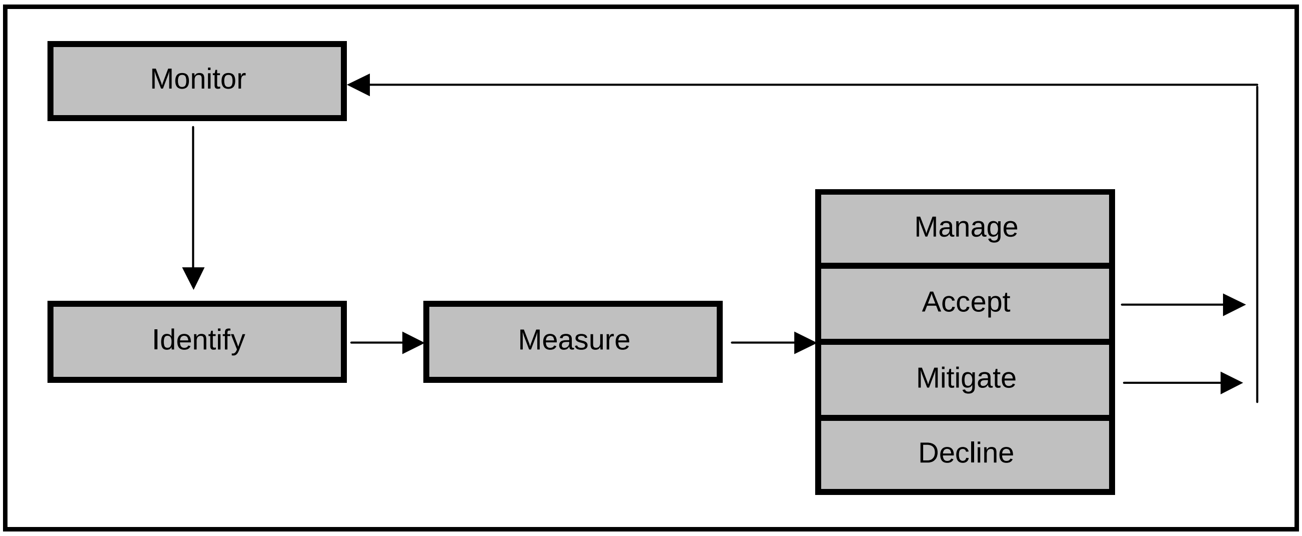
- Experience: inexperienced people do not usually see possible risks, or underestimate the odds that they could be affected by them.
- Knowledge: a difference in the level of knowledge may come about because information is deliberately withheld or simply through not asking the right questions.
- Culture: organisational, national and regional cultures have a significant impact on how risk is viewed.
- Position: risk may be viewed differently, depending on how each individual may be influenced by a particular risk.

The risk loop shown in Figure 3 summarises four key elements in the risk process. This loop is a feedback loop, which indicates that the process is ongoing.

The four key elements are:

- Understanding what risks we face;
- Measuring those risks;
- Deciding what to do (managing risk); and
- Making sure decisions remain valid (monitoring risk). (Olsson, 2002:17)

<u>Figure 3: The Risk Loop</u>



Source: Olsson (2002:17)

Appendix B (risk types and the measurement of risk) defines the following different types of risk: market, liquidity, credit, sovereign, country, industry, operational, business, accounting, political, legal/compliance, reputational and systematic.

To put the risks specific to emerging markets in perspective, it is worthwhile to identify normal business risks, as set out in Table 2. As these normal risks are identified, they may take on a completely different level of challenge in an emerging market (Hooke: 2001). These normal business risks include sufficient demand by customers, pricing, distribution (both from suppliers and to customers), staff, and sources of capital.

Table 2: Normal Business Risks

Demand	Is there sufficient demand for the business' product or service offerings?
Competition/Pricing	Will existing/future competitors provide a profitable pricing environment?
Marketing/Distribution	Can you reach the potential consumer in a cost-effective manner?
Suppliers	Can suppliers deliver quality materials, parts and services on a timely basis?
Workforce	Will the workforce perform as expected?
Management	Is experienced management available to run the business?
Financing	Will lenders and equity investors provide financing at a reasonable cost for maintaining and expanding the business?

Source: Hooke (2001:96)

The four issues specific to emerging markets are:

1) How to factor **inflation** into the financial analysis and cash flow forecasts;
2) How to deal with **exchange rate** and inflation rate gaps;
3) How to incorporate **special emerging-market** risks into the valuation; and
4) How to calculate the cost of capital in emerging markets.

(Copeland, Koller & Murrin, 2000:374)

Each of these four issues will be discussed in the paragraphs that follow.

2.2.1 Effects of inflation

Copeland, Koller & Murrin (2000:374) make the statement that high and unpredictable levels of inflation are often an important feature of emerging markets, with inflation distorting the financial statements, and making year-to-year comparisons, ratio analysis, and forecasting difficult. Similarly, and in Hooke's words (2001:108): "Emerging markets are known for repeated boom-and-bust cycles, caused largely by wrongheaded government policies and collapses of investor confidence".

2.2.2 Effects of exchange rates and inflation rate

Copeland, Koller & Murrin (2000:380) point out that in many companies in emerging markets, the individual components of the cash flows are not denominated in the same currency. "A substantial portion of a company's revenues and debt may be denominated in dollars, for example, while its expenses are primarily local." This may result in abnormal profits or losses in a volatile environment. An example would be that if expatriate staff were paid in a foreign currency that strengthened, these staff would be more expensive and reduce profitability.

Retailers are able to set prices that are in context with their value platform and industry practice (Mason, Mayer & Wilkinson, 1993). In this way the retailer can select a single-price policy, flexible pricing, or price lining. Flexible pricing allows management to make adjustments for competitive conditions and thereby avoid potential loss of sales. Price lining is when merchandise may be offered at different levels to reflect varying merchandising quality. Flexible pricing may protect the retailer's margin, as retailers change prices as necessary, but this is based on the assumption that the client will accept the changes in pricing. Should clients not accept changes in pricing, demand and profit may vary considerably.

Hedging currency risk by utilising futures contracts is usually not an option in an emerging market because of a lack of available financial markets, so multinationals use alternative tactics by focusing on export platforms or natural resource projects. Another way to limit currency risk is to finance a portion of the business with local institutions, in this way matching local investments with local sources of finance, whether this be a loan from a local bank or through raising equity locally.

2.2.3 Emerging-market risks

“Emerging market risks to consider include inflation, macroeconomic volatility, capital controls, political risk, war or civil disturbances, regulatory changes, poorly defined or enforced contract or investor rights, and corruption” (Copeland, Koller & Murrin 2000:382).

Political risk covers a broad range of uncertainties such as:

- Expropriation: whereby a local government takes over a foreign-owned operation and offers little or no compensation.
- Rapid changes in government policies: agreements can be susceptible to dramatic changes due to economic hardship, failed government efforts, and social and ethnic instability.
- Civil war and insurrection: governments can be toppled by revolutions and political instability can result in armed conflict
- Rule of law/legal discrimination: emerging markets may lack fully developed legal systems and the bodies of commercial law and practice normally found in the Western nations. Dispute resolution can be extremely slow, with the likelihood that outsiders will be discriminated against.
- Crime and corruption: bribes and payoffs (done directly or through intermediaries such as consultants, agents or advisors) increase the cost of doing business. Gangs may also target employees as potential victims of theft, kidnapping and extortion.
- Grey market/non-enforcement issues whereby copyright rules are not adhered to or duties not enforced consistently.

Measuring political risk is a highly qualitative process. There are a number of companies that provide political-risk analysis services. For hedging against political risk, it is sensible to enlist a prominent local. The best protection a Westerner has against political risk is a strong and reputable local partner (Hooke: 2001).

Another key risk is the lack of quality information available to companies, such as the size of markets and economic data, is not always on a par with that of Western countries and this gives rise to information risk. Company-specific risk information may be nonexistent. Local accounting conventions can diverge significantly from international accounting standards. One has to ensure that an advisor's due diligence process corresponds to Western standards. For industry and macroeconomic information risk, investors have to be prepared to make decisions on less economic information than is available in the developed nations. Macroeconomic data prepared by the government or outside groups may be out of date, incomplete, or erroneous (Hooke:2001).

Limiting emerging-market risks is a very important element of doing business in these markets. Table 3 indicates ways of limiting emerging-market risks. According to Hooke (2001:12), limiting political risk is about building relationships with a strong local partner, the local government, or joining a Western multinational. To limit economic risk the best strategy would be to use conservative projections, and assume business cycles to include periodic recessions or devaluations. Currency risk can be reduced by retaining the flexibility to export, storing hard currency in offshore accounts, and pushing money out of the country by paying large management fees. Information risk should be reduced by conducting extra due diligence, double-checking data sources, and extending the investigation past the normal Western disciplines.

Table 3: How a Western Company Limits Emerging-Market Risks

Political Risk	* Bring in a strong local corporate partner * Enlist the government as a partner * Recruit a major Western multinational as a partner * Utilise investment funds (or guarantees) from the World Bank, other multinationals, or ExIm banks * Buy political risk insurance * Insist on detailed legal documentation * Provide for legal jurisdiction in New York or London
Economic Risk	* Use conservative projections * Assume one severe recession/devaluation every five years in the projections * Have flexibility to export during a downturn
Currency Risk	* Invest in an export platform * Retain the ability to export * Consider local debt finance * Use offshore accounts to store hard currency * Pay large management fees to foreign stockholders to push money out of the country
Information Risk	* Be prepared to conduct extra due diligence * Double-check company, industry, and macroeconomic data sources * Extend your investigation team past the normal Western disciplines

Source: Hooke (2001:120)

Entering a foreign market can be done in different ways (Hasty & Reardon, 1997; Terblanche, 1998), with the riskiest way being "going it alone", which is organic growth and allows the maximum control in the targeted country. Acquisitions or mergers may be a way to gain desirable retail sites and acquire access to market knowledge. Joint ventures are an option when a country has a restrictive business environment or to reduce the risks of entering a market. Other ways of minimising risk are to franchise, grant concessions (leasing a space within a store), or licensing.

Entry strategies for multinationals in emerging markets are reflected in Table 4 and are a balance between the level of control and risk/reward multinationals are prepared to take. A lower commitment level is appealing for a company that is unsure of a new market, or one that does not want to risk the capital that growth requires. A "Greenfield start-up" is defined as a multinational that enters an emerging market on its own, and constructs a new operation totally from scratch (Hooke, 2001).

Table 4: Entry Strategies for Multinationals in Emerging Markets

	Strategy	Primary Advantages	Primary Disadvantages
1	Licensing Western products to locals	* Near zero capital investment * Extend brand to new market * Cheap means of accessing developing nation	* Very poor control elements * Risk theft of technology and processes * Difficult to verify sales audit
2	Export	* Near zero capital investment * Local agents handle many details	* High tariffs keep out imports, complicating this tactic * Non-official barriers discourage non-essential exports into their country
3	Franchising	* Capital usually provided by franchisee * Rapid expansion potential	* Application limited to a few industries (restaurants, retailing and some services) * Limited control over franchises, reputation can suffer * "Model" must be adapted to local tastes
4	Marketing and distribution alliances	* Capital investment needs reduced in comparison to alternatives 5, 6, 7 and 8 * Cheap means of accessing new markets * Often cancelable with few penalties	* Limited control ability * Risk of third-party theft of product knowledge or technology
5	Joint Venture	* Share expenses * Learning experience * Partner has local know-how and contacts	* Share control and profits * Theft of multinational's core competencies by locals * Agree on mutual exit strategy upfront
6	"Greenfield" start-up in local market	* 100% control * Modern processes and outlook	* Suicidal tactic without a local partner * High failure rate * Larger companies are not entrepreneurial enough to ensure success
7	Acquisition	* Acceptable if local interest is meaningful * Majority control * Instant market share and infrastructure	* The acquired company may have hidden liabilities that were not uncovered by due diligence * Strict labor laws limit U.S. style layoffs and restructurings * You're often buying market share rather than modern production/ service facilities. Lots of follow-on-investment needed
8	Privatisation	* Similar to acquisition	* Governments are difficult to deal with * Continued government ownership/ involvement can be a requirement * Not many good deals left * Otherwise, similar to acquisition

Source: Hooke (2001:71)

2.2.4 Calculating the cost of capital in emerging markets

As investment in emerging markets involves more risks than similar investments in the developed world, and a higher rate of return should be demanded from the investment to compensate for the additional risk. According to Hooke (2001), a good guide exists for minimum expected equity rates of returns. Table 5 indicates that South Africa is a "medium-risk emerging market" and would require annual equity returns of between 20% and 30%. Other countries in Africa may be "high-risk emerging markets" and require annual equity returns of between 30% and 40%.

Table 5: Country Risk/Rate of Return Tradeoffs

	Minimum Expected Equity Rate of Return*
United States	12% - 18%
Low-Risk Emerging Market	
Argentina Hungary Mexico South Korea	15% - 20%
Medium-Risk Emerging Market	
Columbia India Indonesia South Africa	20% - 30%
High-Risk Emerging Market	
Gambia Nicaragua Russia Vietnam	30% - 40%

Source: Hooke (2001:121)

The primary approach used by Copeland, Koller & Murrin (2000) is to use discounted cash flows (DCF) with probability-weighted scenarios that explicitly model the risks that the business faces. The value obtained from this approach is then compared to a DCF approach with a country-risk premium built into the cost of capital and a valuation based on comparable trading multiples. The major risks and challenges include the high levels of macroeconomic uncertainty, illiquid capital markets, controls on the flow of capital in and out of the country, and high levels of political risk.

2.3 Issues Specific to Africa

According to Beckett and Sundarkasa (2000:61) the key developments that have supported Africa’s growth include the end of the Cold War and its politically divisive influences, the new emphasis by the Bretton Woods institutions (i.e., the International Monetary Fund and the World Bank) on private enterprise and market-led growth, and the recognition by global corporations that Africa has become the world’s last economic frontier.

Africa is the least understood of the four emerging market regions (Latin America, Asia, Eastern Europe and Africa), afflicted with more than its share of poverty, political instability, health problems and natural disasters, and with pockets of progress and prosperity. It is a vast continent and the 750 million people living in it speak hundreds of languages, reside in different climates, and come from a variety of cultural backgrounds. Its natural resources include sizeable percentages of the world’s gold, diamonds, platinum, phosphates, cobalt, and uranium (Hooke, 2001).

In terms of stock exchanges, the Johannesburg Stock Exchange was the first to be established in the late nineteenth century to help finance mining ventures and financial services, directly in response to the 1886 discovery of the Witwatersrand goldfields. Since then, many former colonies have established exchanges, with Tanzania, Uganda and Mozambique being amongst the most recent and Angola, Ethiopia, Gabon, Lesotho and Madagascar having claimed that they will set up exchanges soon (Moss, 2002:10).

“Because individual country markets are so small in terms of purchasing power, the principal interest of Western investors is to utilize Africa as an export platform, rather than as a new market for sales growth. The bulk of foreign investment is dedicated to the export of either:

- Mineral resources such as oil, gold, and diamonds, or
- Agricultural commodities like cocoa, coffee and tobacco" (Hooke, 2001:249).

According to Beckett and Sundarkasa (2000) there are 11 trends identified by the Simba Fund that underpin Africa's attractiveness as an investment destination today:

- Africa's resources are increasingly in demand, especially from emerging Asian economies;
- Africa's governments are now promoting private-sector-led, export orientated economies;
- Africa's resource-based companies have become more productive and globally competitive;
- Domestic political considerations are becoming less intrusive on the business environment;
- Privatisation is reviving key sectors of the economy;
- The opening of new stock markets and the rejuvenation of existing ones are enhancing the role of capital and so broadening opportunities for portfolio investors;
- Foreign investment is returning, especially in the natural resource sector;
- Regional economic cooperation is occurring in such key areas as infrastructure, development and transportation;
- The end of the era of fixed exchange rates is allowing more realistic, market-determined economic conditions;
- Liberalisation of agricultural marketing boards is reviving export-orientated crop production (which is important since nearly 70% of the continent's labour is involved in the agriculture sector); and
- The advent of accountability in government is seeing the political appointee replaced by the technocrat; and South African corporations are now spreading their skills, technologies, products, and capital across the African continent.

2.3.1 Profiling African regions

Hooke (2001) divides Africa into four main geographic and economic regions:

- Northern Africa: The five Moslem countries bordering the Mediterranean. Northern Africa is wealthier than Sub-Saharan Africa, and the physical infrastructure of telecommunications, roads and power is superior to other African regions.
- Francophone West Africa: The Western and Central African countries that retain a heavy French influence.
- Anglophone Africa: Countries in Eastern Africa (like Kenya and Uganda) that have English influence, as well as several West African nations (such as Nigeria) that share this heritage.
- South Africa: The nation of South Africa and the surrounding nations connected to its economy

Beckett and Sundarkasa (2000) divide Africa into six major geographic and economic regions:

- North Africa: Principally involved in the export of oil and in the production of agricultural products. Tourism is also a fast-growing contributor to the gross domestic product. The North Africa region is economically the strongest on the continent and its members account for 47% of Africa’s GDP and 22% of its population.
- Southern Africa: Most of the economic activity revolves around the extraction of selected metals, oils, diamonds, gold and copper. Agriculture and tourism are also important contributors to the economy.
- Central Africa: As one of the foremost producers of African crude oil, the region has both relatively extreme wealth (in terms of per capita income) and extreme poverty.
- East Africa: Agriculture and service play a large role in the economy.
- West Africa – CFA Zone: The industrial sector in this region is relatively small. Monetary policy within this region is set by the West African Economic and Monetary Union (UEMOA).

- West Africa – Non-CFA Zone: Oil in Nigeria and gold, cocoa, and tourism in Ghana are the key contributors to the economy.

Beckett and Sundarkasa (2000) list the difficulties associated with economic development and investment in Africa, an important one of these being that markets are too small or poor. Another difficulty is that the economic development of at least 10 other countries are hampered by desert conditions, by being landlocked, or by being isolated on an island, or in an otherwise poor location.

2.3.2 Macroeconomic environment

"With the exception of a few regional African blocs, African economies remain relatively uncorrelated to one another and the global economy in general" (Nkontchou, Bunyi & Furman, 2003:1). Also, many of these economies are highly dependent on agriculture or a few commodities, which makes them highly sensitive to weather patterns and/or commodity prices. The macro-economic environment in Africa is diverse and promising, with economies on average growing faster than the South African economy – off a lower base, however (Nkontchou, Bunyi & Furman, 2003).

2.3.3 South African trade with Africa

"The new South African government has strenuously sought to develop contacts in Africa and the South in general, diversifying links which had traditionally focused on the North" (Lester, Nel, & Binns, 2000:292).

With reference to Table 6, Africa is South Africa's second most important export partner, after the European Union. Exports to Africa increased by 59% between 2000 and 2002, while increasing by a smaller 48% with the European Union.

The new South African government's foreign economic policy in the context of the New Partnership for African Development (NEPAD) is to promote investment by South African corporates into Africa, with a recent adjustment to foreign exchange policy allowing South African corporates to invest up to R2 billion per project in Africa (versus R500 million per project in any other region) with capital raised in South Africa. South African corporates investing in the rest of Africa can also benefit from the support of leading South African development institutions such as the Development Bank of South Africa. According to Nkontchou, Bunyi & Furman (2003:1) “this increased investment by South African corporates in the rest of African is therefore likely to continue to accelerate in the near future, as leading South African companies get a better grasp on the risks and rewards associated with expanding their operations in Africa.”

Table 6: South Africa’s Export Partners

Exports (R millions) Region	2000	2001	2002	Growth (00 - 02)
European Union	66,181	80,264	98,256	48
Africa	28,067	34,675	44,509	59
NAFTA	28,073	32,910	38,574	37
North East Asia	20,983	23,582	30,396	45
Chinas	8,510	10,450	13,427	58
Middle East	7,831	8,704	10,984	40
ASEAN	4,990	6,342	7,656	53
EFTA & Other	3,872	4,361	6,028	56
Pacific Continent	3,836	4,209	5,748	50
SAARC	3,526	4,138	4,876	38
Other	1,453	1,894	3,003	107
MERCOSUR	2,403	3,571	2,799	16

Source: Nkontchou, Bunyi & Furman (2003:2)

With reference to Table 7, South Africa’s top export region in Africa is SADC, followed by West Africa, North East Africa, the Indian Ocean, Central Africa and then North Africa. Within SADC, the country exported to most during 2002 is Zimbabwe; however, during February 2003 Mozambique was the country being exported to the most. This trend is likely to continue because of the political and economic instability in Zimbabwe brought on by President Robert Mugabe’s government. It is interesting to note that the growth rates for the period 2000-2002 are highest for North Africa, being 150%, with 139% for West Africa, 104% for Central Africa and 72% for North East Africa. The indication is that the level of importance of SADC will decline, relative to the other regions in Africa, as the growth for SADC in this period was the lowest, at 45%.

With reference to Table 8, the six most important products exported into Africa during 2002 were machinery and appliances, chemicals, base metals, mineral products, transport equipment, and prepared foodstuffs. These six most important products account for 71% of the total exports. Prepared foodstuffs and vegetable products account for 17% of the total exports. The 10 leading countries in order of importance are Zimbabwe, Mozambique, Zambia, Angola, Nigeria, Mauritius, Malawi, Kenya, Tanzania and the DRC. Table 8 also indicates the GDP (in Rand millions), GDP growth %, GDP per capita, inflation, and population of the 10 African countries. While South Africa had a population of 43,6 million and GDP of R907bn during 2002, Nigeria had a population of 129,9 million and GDP of R370bn, and was South Africa's fifth largest export destination into Africa. Referring back to Table 7, it is interesting to note that the growth rate for Nigeria for the period 2000 to 2002 was 286%, compared against the average of 59% for all of South Africa's African export destinations.

Table 7: South Africa's African Export Destinations

Country Name	Region/block	Export (R Millions) 2000	2001	2002	Feb-03	Growth (2000-2002)
Cameroon	Central Africa	141.9	232.9	369.5	198.7	160
Congo	Central Africa	180.0	256.3	346.7	28.6	93
Gabon	Central Africa	141.3	127.8	212.7	12.6	51
Equatorial Guinea	Central Africa	4.7	9.8	36.7	4.6	677
Chad	Central Africa	2.3	18.2	8.0	0.8	243
Sao Tome & Principe	Central Africa	4.0	1.7	2.3	0.2	-43
Central African Rep	Central Africa	3.2	4.6	-	0.1	-100
	Total	**477.4**	**651.3**	**975.8**	**245.5**	**104**
Madagascar	Indian Ocean	308.3	443.8	434.5	205.3	41
Reunion	Indian Ocean	217.5	257.9	416.5	36.6	92
Comoro Is	Indian Ocean	60.3	76.1	133.7	22.9	122
Mayotte	Indian Ocean	75.6	60.8	63.7	10.2	-16
	Total	**661.7**	**838.5**	**1,048.4**	**275.0**	**58**
Kenya	N East Africa	1,505.3	1,806.9	2,318.3	369.3	54
Uganda	N East Africa	345.3	494.0	612.9	54.7	77
Sudan	N East Africa	50.2	168.3	309.8	29.3	517
Ethiopia	N East Africa	75.2	101.4	141.7	12.0	88
Rwanda	N East Africa	43.3	82.0	82.3	7.9	90
Djibouti	N East Africa	25.0	59.2	62.6	7.5	150
Burundi	N East Africa	36.0	22.9	40.2	3.9	12
Eritrea	N East Africa	3.4	12.3	24.0	2.0	602
Somalia	N East Africa	0.5	2.7	-	0.7	-100
	Total	**2,084.4**	**2,749.8**	**3,591.9**	**487.2**	**72**
Algeria	North Africa	228.9	537.7	560.4	147.9	145
Morocco	North Africa	334.7	812.3	1,057.3	64.3	216
Egypt	North Africa	126.5	275.0	190.8	16.6	51
Libya	North Africa	48.3	30.7	69.2	2.9	43
Tunisia	North Africa	27.2	37.7	34.0	1.2	25
	Total	**765.6**	**1,693.4**	**1,911.8**	**233.0**	**150**
Mozambique	Sadc	4,996.9	5,774.1	6,418.9	1,032.4	28
Zimbabwe	Sadc	4,859.4	5,411.8	7,309.5	915.7	50
Zambia	Sadc	4,562.5	4,922.3	5,541.1	643.2	21
Angola	Sadc	1,375.9	2,621.5	3,430.4	431.6	149
Mauritius	Sadc	2,006.6	2,064.2	2,685.1	387.2	34
Tanzania	Sadc	1,326.8	1,526.8	2,016.8	302.0	52
Malawi	Sadc	1,669.0	1,902.9	2,380.4	246.8	43
Zaire	Sadc	889.0	940.3	1,631.1	147.2	83
Seychelles	Sadc	214.1	220.4	377.2	47.7	76
	Total	**21,900.2**	**25,384.2**	**31,790.5**	**4,153.8**	**45**
Nigeria	West Africa	707.3	1,648.3	2,727.8	359.4	286
Ghana	West Africa	591.8	678.5	980.0	154.1	66
Guinea	West Africa	49.1	43.4	116.9	78.3	138
Ivory Coast	West Africa	236.8	299.9	467.5	60.0	97
Senegal	West Africa	90.2	162.9	230.3	31.0	155
Mali	West Africa	245.2	165.0	199.4	29.4	-19
Sierra Leone	West Africa	13.1	43.4	55.1	7.9	320
Niger	West Africa	8.8	23.8	56.3	6.9	536
Benin	West Africa	117.7	74.0	131.2	5.0	11
Gambia	West Africa	13.4	58.6	30.9	4.9	130
Togo	West Africa	20.5	75.1	48.5	3.8	137
Burkina Faso	West Africa	31.8	26.7	21.2	3.7	-33
Liberia	West Africa	26.8	11.7	18.0	2.9	-33
Mauritania	West Africa	14.9	31.2	94.4	2.8	535
Cape Verde Is	West Africa	6.0	13.1	13.1	1.4	120
Guinea Bissau	West Africa	1.8	1.5	-	0.5	-100
	Total	**2,175.4**	**3,357.0**	**5,190.5**	**752.1**	**139**
	Grand total	**28,067**	**34,675**	**44,509**	**6,147**	**59**

Source: Nkontchou, Bunyi & Furman (2003:4)

Table 8: 2002 South African Exports to 10 Leading African Countries and Macroeconomic Indicators

Products	(R million)	Zimbabwe	Mozambique	Zambia	Angola	Nigeria	Mauritius	Malawi	Kenya	Tanzania	DRC	Total
Machinery & Appliances		1,091.74	891.44	1,172.66	612.08	520.37	231.45	365.26	253.76	429.29	429.45	5,997.49
Chemicals		1,286.01	422.78	989.42	310.89	283.47	254.51	320.41	394.89	259.07	227.82	4,749.27
Base metals		670.76	941.29	506.13	340.74	300.27	361.17	205.70	676.86	268.02	101.49	4,372.43
Mineral products		541.52	1,205.15	427.43	150.82	328.24	501.20	77.41	81.72	350.91	254.28	3,918.66
Transport equipment		1,115.07	602.82	586.24	264.02	74.46	99.16	354.64	188.89	124.27	33.31	3,442.88
Prepared foodstuffs		197.24	852.44	188.66	779.56	478.35	248.86	101.65	190.11	94.03	105.93	3,236.83
Vegetable products		1,026.08	250.65	548.85	242.65	30.38	85.61	374.90	23.45	6.88	162.87	2,752.32
Plastics and rubber		557.45	198.74	390.55	167.40	339.70	149.78	172.46	230.52	178.06	68.85	2,453.51
Paper & pulp		231.03	165.36	247.58	45.68	214.80	108.21	118.07	152.14	138.17	50.23	1,471.28
Textiles		154.21	109.59	98.86	72.43	41.31	291.43	79.51	60.58	27.96	16.87	952.74
Animal products		44.01	255.28	24.98	181.88	12.12	117.42	30.23	7.76	20.81	61.24	755.74
Misc. manufactured items		42.23	113.04	90.36	95.04	43.83	28.16	42.38	27.89	31.18	36.92	551.04
Optical, medical & precision equip.		88.21	71.67	59.81	30.59	32.20	34.02	34.57	16.07	51.49	8.73	427.37
Cement, Glass & assoc products		117.61	86.53	65.95	39.86	6.53	21.77	29.36	8.10	15.93	11.17	402.81
Edible fats		42.67	50.68	58.92	3.72	0.16	16.55	40.77	2.49	0.92	38.14	255.03
Wood		26.60	50.58	14.63	29.74	4.47	40.09	6.02	7.91	7.53	1.82	189.39
Precious stones & metals		1.67	1.04	13.05	0.43	0.31	79.16	0.36	0.40	5.53	0.44	102.38
Footwear & accessories		15.98	17.63	20.81	11.41	1.31	2.49	8.00	3.51	5.12	3.12	89.37
Leather, hides & assoc articles		6.90	3.76	4.10	2.92	1.59	0.73	4.52	1.06	1.68	0.85	28.11
Other		0.30	2.28	0.08	0.02	-	1.89	0.28	0.16	-	0.00	5.02
Artworks		0.48	0.22	0.62	0.60	0.11	0.53	0.06	0.05	0.12	0.19	2.99
Original Equipment components		0.02	0.00	0.14	0.07	0.00	0.01	0.13	0.03	0.00	-	0.41
Total		**7,257.79#**	**6,292.98**	**5,509.83**	**3,382.56**	**2,713.97**	**2,674.20**	**2,366.69**	**2,328.35**	**2,016.96**	**1,613.74**	**36,157.07**
												South Africa
GDP	R million	167,155#	33,921	32,388	100,698	370,024	39,264	16,696	101,850	81,317	47,517	907,300
GDP growth	%	-12.8	9.9	3.0	17.1	0.5	5.3	1.8	1.2	5.9	3.0	3.0
GDP per capita	R	14,693#	1,730	3,252	9,506	2,848	32,715	1,560	3,271	2,187	860	20,787
Inflation	%	140	16.8	22.2	108.9	12.9	6	14.1	2	4.7	25.7	10.8
Population	Million	11.4	19.6	10.0	10.6	129.9	1.2	10.7	31.1	37.2	55.2	43.6

te: # - Official Z$: ZAR exchange rate urce: LiquidAfrica, South African Revenue Service, World Economic Outlook Database, CIA World Factbook

Source: Nkontchou, Bunyi & Furman (2003:7)

3.4 Specific risks of doing business in Africa

According to Beckett and Sundarkasa (2000), political risk is probably the greatest concern among would-be investors in Africa, and the best way to minimise this exposure is to concentrate on those countries that are more economically viable. The risk is that there could be a material impact on the valuation or performance of the business venture and, as a result of political instability, a complete loss of business due to destruction, appropriation or theft.

Beckett and Sundarkasa (2000) also discuss specific risks in Africa like legal and regulatory risk, market infrastructure risk, currency risk, corruption-related risk, SCAMS, portfolio risk, and private equity/venture capital (PE/VC) risk.

2.4 Presence of South African retailers in Africa

Table 9: Summary of South African Retail Presence in Africa

		South African Listed Retailers						Non-Listed Retailers	TOTAL
Country Name	**Region/Block**	**Shoprite [1]**	**Massmart [1]**	**Edcon [1]**	**Spar [2]**	**Ellerines [1]**	**Woolworths [3]**	**Stuttafords [3]**	
Cameroon	Central Africa								-
Central African Republic	Central Africa								-
Chad	Central Africa								-
Congo	Central Africa								-
Equatorial Guinea	Central Africa								-
Gabon	Central Africa								-
Sao Tome & Principe	Central Africa								-
Comoro Islands	Indian Ocean								-
Madagascar	Indian Ocean	7							7
Mayotte	Indian Ocean								-
Reunion	Indian Ocean								-
Burundi	North East Africa								-
Djibouti	North East Africa								-
Eritrea	North East Africa								-
Ethiopia	North East Africa								-
Kenya	North East Africa						Y		-
Rwanda	North East Africa								-
Somalia	North East Africa								-
Sudan	North East Africa								-
Uganda	North East Africa	3	1				Y		4
Algeria	North Africa								-
Egypt	North Africa	7							7
Libya	North Africa								-
Morocco	North Africa								-
Tunisia	North Africa								-
Angola	SADC	9							9
Botswana	SADC	18	8	Y	23	Y	Y	Y	49
Lesotho	SADC	6	2	Y		Y	Y		8
Malawi	SADC	10							10
Mauritius	SADC	1	1				Y		2
Mozambique	SADC	5	1				Y		6
Namibia	SADC	63	3	Y	19	Y	Y	Y	85
Seychelles	SADC								-
Swaziland	SADC	5		Y			Y		5
Tanzania	SADC	7					Y		7
Zaire	SADC								-
Zambia	SADC	18	1			Y	Y		19
Zimbabwe	SADC	1	2				Y		3
Benin	West Africa								-
Burkina Faso	West Africa								-
Cape Verde Is	West Africa								-
Gambia	West Africa								-
Ghana	West Africa	3					Y		3
Guinea	West Africa								-
Guinea Bissau	West Africa								-
Ivory Coast	West Africa								-
Liberia	West Africa								-
Mali	West Africa								-
Mauritania	West Africa								-
Niger	West Africa								-
Nigeria	West Africa						Y		-
Senegal	West Africa								-
Sierra Leone	West Africa								-
Togo	West Africa								-
TOTAL STORES		163	19	-	42	-	-	-	224
TOTAL AFRICAN COUNTRIES		15	8	4	2	4	13	2	54
OTHER EMERGING MARKETS									
India		1							

(1) Source latest 2005 Annual Financial Report

(2) Source latest 2004 Annual Financial Report

(3) Source company: November 2005

South African retailers are predominantly in the SADC region and a few retailers have stores in West Africa, North African, North East Africa and the Indian Ocean.

2.5 Research Questions

- The first research question: What risk factors and processes are used to identify and mitigate the risks of doing business in emerging markets and specifically in Africa?

- The second research question: What additional risk-mitigation strategies do South African retail companies use when they look for growth by expanding into Africa?

- The third research question: How can South African retail companies further reduce the risks of doing business in Africa?

3 RESEARCH METHODOLOGY

Leedy & Ormrod (2001) describe qualitative research as digging deep for the purpose of collecting numerous forms of data and examining them from various angles to construct a meaningful picture of a multifaceted situation.

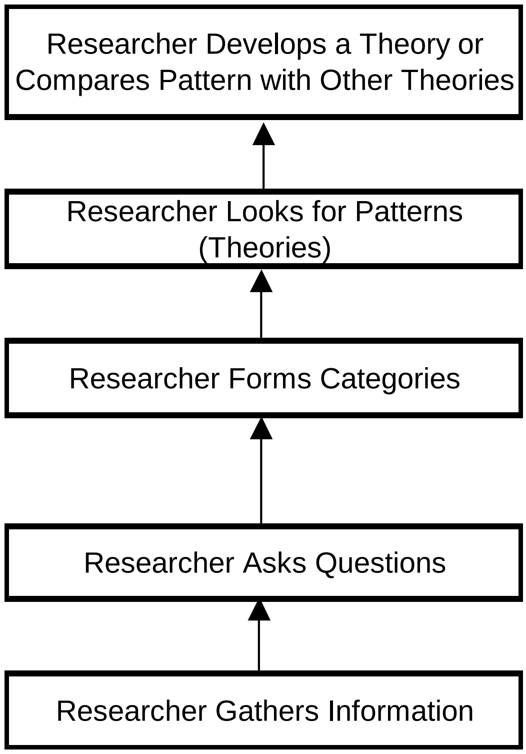
3.1 Research Method

The research method chosen for the proposed research was qualitative, with the approach and its implications on the proposed research process set out below. Qualitative research is concerned with the understanding of things rather than with measuring them (Gordon & Langmaid, 1988).

Information about the South African retailers that have the largest presence in Africa was obtained. The researcher has focused on selected retail companies listed on the Johannesburg Securities Exchange (JSE), such as Shoprite, Massmart, Edcon, Woolworths, Ellerines and Spar. Privately owned South African retail companies such as Stuttafords have also been included. The method of research used for this study was structured in-depth interviews with senior executives and experts in the field. These interviews covered the rationale behind expansion into Africa and the minimisation of risks, and data gathered will be compared with what has been found in the theory and literature review. Follow-up interviews were not necessary to clarify or expand on the original interviews.

The qualitative research is inductive in nature. Refer to Figure 4, which depicts a process that can be followed in a qualitative study.

Figure 4: The Inductive Mode of Research in a Qualitative Study



Source: Creswell (1994:96)

3.2 Population and Sample Description

3.2.1 Population

The population comprises senior managers who are employed by South African retail companies that are responsible for business in Africa and who presently occupy full-time positions. The population also includes all academics and experts in South Africa, who were involved in the field of business in Africa.

3.2.2 Interview sample

The researcher drew respondents for the study from South African retailers expanding into Africa (7), consultants (3), and investment bankers (2). The list of respondents is recorded in Table 9.

Table 9: List of Respondents

Name	Interviewee description
Andre Theron	Internal Audit Executive, Edcon, South Africa
Charles Fox	Chief Executive Officer, Stuttafords, South Africa
Cyril Konchou	Chief Executive Officer, LiquidAfrica (Pty) Limited, South Africa
Dianna Games	Director, Africa @ Work, South Africa
Evan Walker	Retail Analyst and Head of Industrials, Andisa Securities, South Africa
Grant Pattison	Deputy Chief Executive Officer, Massmart, Holdings Limited, South Africa
Joubert Van Wyk	Director: Corporate Finance, The Standard Bank Group, South Africa
Peter Hughes	Chief Executive Officer, Spar Group, South Africa
Peter Squires	Chief Executive Officer, Ellerines, South Africa
Reg Rumney	Executive Director – Information and Research Services, Business Map Foundation, South Africa
Simon Susman	Chief Executive Officer, Woolworths Holdings, South Africa
Whitey Basson	Chief Executive Officer, Shoprite Holdings Limited, South Africa

3.2.3 Sample methodology

According to Struwig and Stead (2001), alternative sampling techniques may be grouped into probability and non-probability sampling techniques.

Non-probability sampling techniques would consist of:

- Convenience sampling, which is a sample that is chosen purely on the basis of availability.

- Judgment sampling, which is a sample that is chosen on the basis of expert judgment.
- Quota sampling, where universe items are selected according to their characteristics.
- Snowball sampling, which is a variety of procedures in which initial respondents are selected by probability methods, but in which additional respondents are then obtained from information provided by the initial respondents. This technique is used to locate members of rare populations by referral.

Probability sampling techniques consist of:

- Random probability sampling, which requires a complete and accurate list of all items in the universe. This is regarded as the most accurate method of sampling, but is subject to error.
- Stratified random sampling, which requires the sample to be chosen from a section of a complete universe.
- Cluster sampling, which divides the items in the universe into groups and then selects the groups and enumerates their items completely.
- Systematic sampling, which requires a random initial point to be chosen and every nth number on the list to be selected.
- Multi-stage area sampling, which uses a combination of probability sampling techniques.

"Structured samples fall into two main types: strategic informant sampling and snowballing:

- Strategic informant sampling is selecting the people whom you think can give you the most information.
- Snowballing could be regarded as a kind of strategic informant sampling. The researcher asks a selected member of a population who else he ought to ask to obtain useful information and then repeats the process with each of those he is told about. Thus, the number of informants snowballs." (Marshall, 1997:60)

For the purpose of this research, snowball sampling was used. According to Struwig and Stead (2001), this method has a low cost and is used in special situations. The advantage is that it is useful for locating members of a rare population. The disadvantages are that there may be a high bias because sample units are not independent and generalising data beyond the sample may be inappropriate.

Iinterviewees were selected with a view to obtaining a cross section of opinions from management and experts. The specific people interviewed were selected on an access/availability basis. Follow-up in-depth interviews were not necessary.

3.3 Data Collection

3.3.1 Overview

The interviewees were contacted telephonically or electronically. During this initial phase, the purpose of the study and a brief overview of the methodology were described to them. Appointments were set up for those people willing to be interviewed. The individual in-depth interviews were carried out using a semi-structured interview schedule. All information volunteered by participants was used for analysis. All interviews were conducted in Gauteng and in person.

The objectives of the interview process were to:

- Develop a practical understanding of the company’s involvement in Africa
    - o Where the company has expanded into Africa
    - o Where the company has decided not to expand into Africa
    - o Understand the size and return of the investment into Africa relative to local operations
- Determine what criteria the company uses for expanding in Africa
- Determine what the company does to minimise the risks of doing business in Africa

3.3.2 The semi-structured in-depth interview

One of the advantages of the semi-structured interview (Leedy & Ormond, 2001) is that the researcher has the flexibility to shift focus as new data comes to light. The main disadvantage of semi-structured interviews is that the researcher, by nature of his or her presence, may alter what people say and how events unfold. It is therefore critical that actual observations are not confused with the researcher's interpretation of them.

The semi-structured interview usually revolves around a few central questions (Leedy & Ormond, 2001), which enables the researcher to yield information that has not been planned for.

3.3.3 Administration of interviews

Each in-depth individual interview was conducted in the following way:

- All interviews were conducted in person;
- With permission from the interviewee, the interview was recorded using an electronic device that could convert the recording into .wav files;
- Each interview was transcribed and e-mailed to the interviewee concerned.

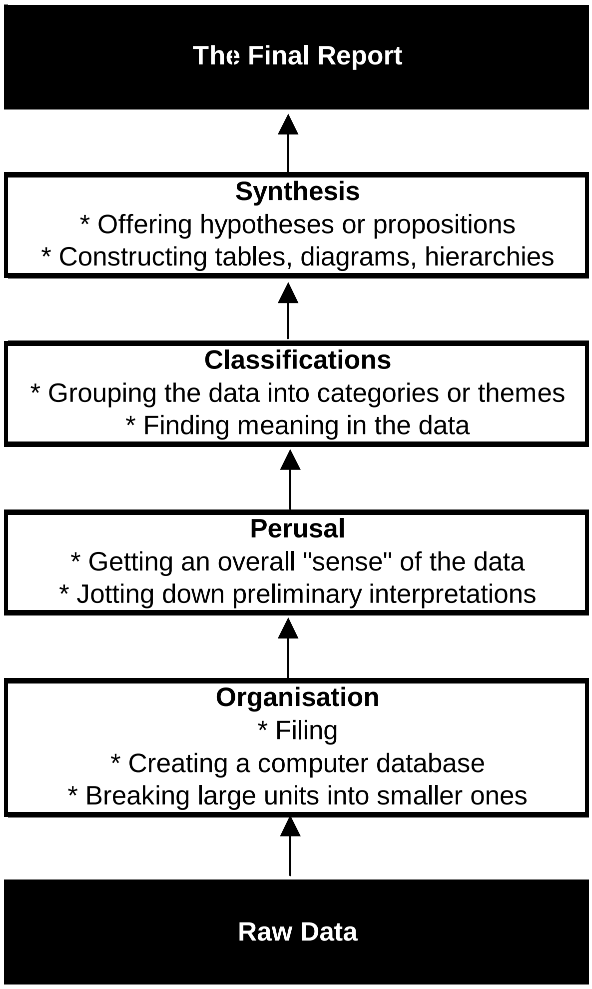
3.4 Data Analysis

The recording device is electronic and data can be transferred from it to a personal computer and saved in wav file format. Each conversation was deconstructed and saved into sections, ensuring that a backup exists of the entire conversation.

Conversations from the interviews were content analysed, with each response assessed and patterns or trends that the data reflected grouped together. These patterns or trends were interpreted and reported on in as complete and unbiased a way as possible. The information was then represented in tables. The researcher found other factors relating to expanding into Africa after scrutinising the data and these were also incorporated into the results and the interpretation of results.

Creswell's data analysis spiral was used, as described in Leedy & Ormond (2001: 161).

Figure 5: The Data Analysis Spiral



Source: Creswell (1998)

The following data-analysis steps were taken:

1. The data was organised and broken down into smaller statements.
2. The data was perused several times and summarised so that the bigger picture emerged. This enabled the data to be summarised and grouped.
3. General categories, themes, or groupings were noted, as well as sub-themes or sub-categories as they emerged.

4. Data was then re-integrated and summarised. The categories of data were correlated with the research questions.

3.5 Data Reliability and Validity

High levels of validity and reliability are very important in research. “Reliability refers to how replicable the finding is, or how dependable it will be repeated on another occasion, or by another researcher; and validity refers to how well the test actually measures what it sets out to measure or how well it reflects the ‘reality’ it purports to represent” (Ereaut, 2002:149).

3.5.1 Internal validity

“Triangulation refers to the extent to which independent measures confirm or contradict the findings” (Struwig & Stead, 2001:145). Independent researchers can be used to analyse the data and determine if they are in agreement with its coding and interpretation. Also, conflicting findings may also be used to broaden the interpretation of the data or enable the research to be viewed from a new perspective.

Findings were triangulated so that convergence could be found among sources (Cresswell: 1994), with another researcher providing an audit trail of the key decisions made during the research process and validating that they were good decisions.

Categories or themes were taken back to the interviewees to confirm if the conclusions were accurate. This ensured that the information set down matched the reality.

3.5.2 External validity

Through the interviewing of senior executives, consultants and investment bankers, a diverse group of people were represented by the research conducted. Credible sources were used to get nominations of who should be included as participants in the interview process.

3.5.3 Reliability

The researcher personally conducted all the interviews.

“In a qualitative study, the interpretation of the data will be influenced to some extent by the researcher’s biases and values, reflecting the notion of researcher as instrument” (Leedy & Ormond, 2001:162). The researcher should not have prior expectations, and should interpret the data as accurately as possible by verifying interpretations with the interviewee should this be necessary.

4 PRESENTATION OF RESULTS

4.1 Introduction

This chapter outlines the key findings of the research results. Responses to the semi-structured interviews are discussed in categories. A detailed discussion of the results of the research questions is given in Chapter 5.

4.2 Interviews

A total of 12 semi-structured interviews were conducted during 2005. The interviewees represented a variety of disciplines within the African and South African retail industry. The bulk of the respondents were drawn from senior management (seven respondents) at major South African retailers, and senior consultants (three respondents) who are well acquainted with the expansion of South African companies into the rest of Africa. The Director of Corporate Finance: Africa from the Standard Bank Group and a top-rated retail analyst from Andisa Securities were also interviewed in order that their perspectives and insights could be obtained.

4.3 Responses to Semi-Structured Interview Questions

In this section the responses to the semi-structured interview questions are set out in tabular form. Respondents are divided into two groups; retailers and non-retailers. The two groups have been separated so as to better understand if there are differences in responses to the questions asked.

4.3.1 Benchmarking against emerging markets

This section was included in the semi-structured interview to enable a better understanding of the approach that companies take to expanding their business outside of South Africa and their attitude towards other emerging markets.

Retailers:

• We looked at all the emerging markets across the world, and areas like Africa, India and China are areas that we could have a shot at. South America is too close to North America and Eastern Europe is too close to Western Europe. China we disregarded due to the difference in culture and languages.
• India we specifically targeted in the sense that part of our own group (Indian population in Natal) are very au fait with the culture and eating habits. India is also British law. It has the advantage of a big property boom, rich country, a high growth rate and very intelligent people.
• Historically, retail does not cross borders too well as there have been a lot of failures. It is very integrated into the culture of the company.
• You get Americans and Europeans looking at the countries in Africa and saying it is not really worth it as the economies are too small. We look at it and say that it might be worth it for us.
• We have benchmarked against Eastern Europe as there are a lot of similarities between Eastern Europe and Africa; especially Poland, Czechoslovakia and Slovenia. We have also interacted with counterparts from Russia, helped counterparts open in India, and looked at China. The international office has operations in 35 countries around the world.
• We have close relationships in South East Asia and South America; there is some publicly available information from Walmex in the USA, but we choose to mostly benchmark against the global companies such as Wal-Mart and Home Depot.
• We looked at globalisation and other emerging markets by looking for acquisition targets, but came to the conclusion that we want to rather be a strong regional player, and by “regional” we mean Africa.
• When global players arrive in Africa, we would like to be positioned so that they would rather see us as being a strong regional player and would rather acquire us than open up stores against us.

Non-retailers:

• South African companies tend to prefer expanding into Africa as they feel they understand the philosophy of Africa better. They prefer not looking at other emerging markets for the following reasons: - South America seems more estranged/different and we do not understand the physics. - Asia is very different, the business models and the way people think.
• Our comparative advantage is not to compete in the first world with very sophisticated systems.

	Our systems are sophisticated and well developed for an emerging market, but not necessarily for the first world.
•	Arab Africa is very different from the rest of Africa. Either they see themselves as Arabs, which means they look more to the Middle East, or if you look at Morocco and Tunisia; they look at themselves as European. They like to see themselves as part of the European Union.
•	The concept of shopping centres is still fairly new in most of Sub-Saharan Africa. In Latin America and Asia shopping centres have been around for quite a while, which makes retail business more difficult and competitive.

The strongest pattern to emerge is that there are not many opportunities in other emerging markets for South African retailers, due to the geographic distance and the non-understanding of culture, other than India; but it could still be useful for South African retailers to benchmark against other emerging markets. The biggest opportunity in Africa is the lack of interest from first world retailers and the fact that shopping centres are still a fairly new concept.

4.3.2 Expansion and business model strategy

This section was included in the semi-structured interview to enable a better understanding of the expansion and business model strategies of South African retailers expanding into the rest of Africa.

Retailers:

•	We are ahead of most South African companies expanding into Africa in terms of logistics and the retail feel of it and, in the process, are building relationships with staff, people and establishing a brand. It is important to us to have a strong brand in Africa.
•	The problem with South African companies is that that if we lose R30m or R50m, everyone has a heart attack in SA, whereas the losses of a Wal-Mart when they move into new markets can be USD100m to USD500m and it does not affect their bottom line much. So South African companies tend to grow a lot slower so as not to have too negative an effect on the bottom line. It is expensive to expand.
•	There are not many shopping centres in Africa. The areas that have shopping centres are the French-speaking ones such as Mauritius, Madagascar and, on the West Coast, Gabon, Angola and Nigeria. There are not many businesses to buy and one has to start from the ground. We try and have our operations wholly owned, except where you cannot.
•	We have developed jointly with other South African retailers in some countries in Africa.
•	We have experienced very little political risk in the countries that we are in, other than

	Zimbabwe.
•	Stores in Africa are decentralised and every country is a division that looks after itself. One of the reasons that we are unprofitable in some countries is that we do not have the critical mass yet. They make their own operational decisions.
•	The more wealthy people get in a country, the more animal proteins they buy and very few people realise the effect on the supply chain and how consumption increases. A good balance between formal and informal trading is needed. I think there is not enough formal business and this is an opportunity for us.
•	Due to the current strength of the Rand, the cost of developments in Africa is cheaper than it used to be.
•	We are in Southern Africa and do not see ourselves going beyond the equator for a long time. We go for 100% ownership and supply products from South Africa that are already packaged and tagged with a price by our suppliers. Operations are managed centrally with standardised procedures in the organisation. Our merchandise management system has given us a good advantage. Our strategy is to grow more in South Africa through acquisitions.
•	Our strategy is to have one store in every capital in Africa, except for the Arab part of Africa; provided that we are able to repatriate profits from that country. Our stores are 100% owned. We are not in a rush and are going to roll out one store at a time. Our experience is that once you are there and running it is a lot easier in terms of deliveries and people trying to take bribes. We target the upper end of the market and supply a product that is not readily available and brands that are well-known international brands. Everything is driven centrally from Johannesburg, to the extent that we ticket the garments here in their local currency.
•	Our stores in the rest of Africa are franchises; we have a fairly wide representation across Africa with about 35 stores. Franchises enable us to grow a brand across Africa. They are only allowed to source products from us. We establish a contract margin policy with the franchise operators.
•	Our strategy is to open in Southern Africa; our business model does not lend itself to going into the rest of Africa as our competency is wholesale. We have a distribution facility and then individual franchises. We supply the Southern African operations from South Africa and will invest in a distribution centre when there is critical mass. We survey the local market and arrive at a selling price that we encourage the retailer to use.
•	We initially expanded into Africa as we saw that a competitor had many stores in Africa, who subsequently had to close down because they ran into enormous currency fluctuations, logistic inefficiencies and were also hit by fraud and dishonesty. Our business strategy is to do credit business and the problem with the countries in the North is that they do not have sophisticated credit bureaus, so to pass credit we need a lot more manual intervention. Our intention is not to expand further than we already are in Africa.
•	As you move further and further into different parts of Africa, you learn different things and get better and better at it. Our strategy is to stay within South of the Sahara, including the islands in the East, namely Madagascar, Reunion and Mauritius. So we are using our experience to recognise the best model for expanding; for example if a city will be more like a Lusaka,

Gaborone or Windhoek in the way that business is conducted.
• We are expanding cautiously as we do not have a target of opening a certain number of stores over a certain number of years. We have a bunch of countries we are looking at continuously, and a bunch of sites we are working on. When everything comes together – the site, the developer, the country being stable – we open a store there.

Non-retailers:

• We advise South African corporates that buy businesses in Africa, or that are interested when African governments privatise. Buying a business in Africa is often valued according to what the strategic benefit is perceived to be.
• The South African market is constrained. A lot of companies are so large in the South African market, that there is not any more room for them to expand into and so they are looking for additional growth areas. Expanding outside South Africa broadens the income base and in this way diversifies the income risk; i.e. the risk of where you are earning your revenue from.
• South African retailers have not made that many acquisitions in Africa and for a lot of the retailers it is about breaking ground in Africa as they develop their chain. There are not necessarily many chains to start off with.
• South African companies tend to expand into Southern Africa first (SADC), then Eastern Africa. The regulatory systems are closer to South Africa and these countries tend to be English speaking. Then companies tend to expand into West Africa with Nigeria being the big one. Angola is a Portuguese-speaking country that is very attractive to South African countries because of the proximity and its wealth, even though it has a different language.
• The strength of the South African retailer is that they are expanding on a bigger scale and they have the ability to source the goods at a cheaper cost. Retail operations in many African countries tend to be run by Indians, Lebanese, Greeks and the Chinese; not Africans.
• South African companies tend to expand into African countries where they feel more comfortable, as opposed to where the opportunities are. Or they look at GDP or GDP per capita, without understanding the local context.
• South African retail companies are bringing choice and quality goods, and that's what Africans want; they do not want to have to travel to South Africa to do their shopping and increasingly do not have to.
• Research has shown that growing where companies understand, as apposed to where the opportunities are, is very common and cultural ties are quite a big determinant. SADC would be an obvious choice due to relaxation of exchange controls for South African companies wanting to invest in SADC and the geographic proximity.
• The expansion strategy of a retailer is often in relation to the size of the company, and the capital availability. Someone like Shoprite has been quite happy to deploy their own capital in terms of property development. The biggest stumbling block in any emerging market is property development and the notion of dollar-based leases.
• The strategies of different retailers have more hinged on location than anything else. As more and more South African companies deploy retail space in Africa, the infrastructure will grow on

	the back of that and once there is critical mass, you'll then see a property developer coming in and building a second or third shopping centre.
•	In the next three to five years the growth in South Africa will outpace the growth outside South Africa as a result of population influx and GDP growth in excess of the rest of Africa. So you find that retailers are putting out more space in South Africa, but will focus more on the rest of Africa in the next three to eight years.
•	The franchise expansion strategy makes it easier to expand and the retailer does not have to worry about the financing.
•	The strength of the Rand has made it cheaper for South African retailers to expand into the rest of Africa, and as a result of this, Shoprite have accelerated their growth into the rest of Africa. This makes sense if the Rand depreciates against the US Dollar over time.

The strongest pattern to emerge is that it is strategically important to expand into Africa as long as it is on a relatively small scale or cautiously, and that South African retailers have to start the business from scratch because there are hardly any opportunities for acquiring existing retailers.

4.3.3 Procedures or processes for expanding into Africa

This section was included in the semi-structured interview to enable a better understanding of the procedures or processes following by South African retailers expanding into the rest of Africa.

Retailers:

•	Firstly you look at the GDP of countries; it's illogical that the numbers that are published can be remotely accurate. A lot of money is outside the banking system, the formal declaration system and the Receiver of Revenue. Statistics are years out and wrong. To evaluate a country you have to work on gut feel and private research. We send people there that count households, look at average consumption of food over a period of time.
•	We make use of property-related, warehousing and market research consultants to work with us in the African environment.
•	Before we go into a country the level of management involvement in the decision is very high. The process is similar to opening in South Africa and goes through a full team of analysts and risk advisors. The CEO goes through the whole process and then signs it off.
•	We have a senior executive that looks after new business and follows a fixed process, including due diligences; the biggest advantage is learning from previous lessons. Developers are good sources of information; we have close contacts with them.
•	We always go with a developer into a shopping centre, make use of property-related, warehousing and market research consultants to work with us in the African environment. Most

	African countries do not have much of a shopping centre infrastructure, so to a large extent we are tied into the developer.
•	The problem in a trading environment like ours, that has to do with fashion, it is not easy to do a logical analysis. The analysis is more done by feel and experience.
•	We have a business case internally, but if you wanted to apply for a licence for a country in Africa, you would take a business plan to the International Office, which is presented to the board. If the board grants a licence, it is initially provisional.
•	We have a proper development team of people that go and look at properties and would then take the head lease and sublease to independent retailers. In this way we secure the site and developers and it is very important to get involved with the tenants in the rest of the centre.
•	We start with a country evaluation; and we have some main criteria that we look for in that country which include that the country has got to: - be a democracy (an operational democracy); - have a convertible currency; - allow 100%-owned companies and allow 100%-owned retailers; - have a reasonable level of control over customs; - have a working transport system, so that we can get our stock in and out; - have a reasonable size market, which can be quite complicated to establish. We tend to look at economic data available, which is sometimes difficult to interpret and a balance of payments at least funded by donors. We look at a city and try and determine the number of: houses, ex-pats, senior government officials, diplomats and wealthy business people. We try and speak to the banks about bank accounts and average balances, and in this way we try and establish if there are enough customers.
•	We work with auditing companies in those countries; we also work with lawyers to understand the legal environment. Our properties are generally developed by property developers who are experts. We do not work with any retail consultants or management consultants or finance consultants. It is more buying technical expertise.

Non-retailers:

•	What I have seen with clients is that the people that build the models for running a business in a country are not the same as the people that end up running the business. This is called transaction risk, as the forecast people could be getting it entirely wrong.
•	The companies that tend to enter the African market for the first or second time tend to outsource the feasibility studies until they have developed the resources and knowledge internally.
•	South African companies are very arrogant and part of the reason for this is that the South Africans think they understand the industry in each country and do not necessarily do enough homework. They want to do business on their own terms, instead of understanding what is required in the local industry.
•	South African retailers tend to look at population densities and get a gut feel of what the

	potential to spend is; given the knowledge of GDP growth and the potential GDP growth that could come through.
•	Africa is a difficult environment to operate businesses in, but with the right management skills and the right management team, one can do really well in a market. It is management's ability to operate in an environment that mitigates the risk.
•	A whole lot of companies got caught up in the wave of lets expand into the rest of Africa first, not realising the difficulties. Some of the associated difficulties seem to be small things, but turn out to be big things; like finding electricians, finding people to build your shelves, power supply; which many companies underestimated.
•	South African embassies can be really helpful, but there can also be some poor people. The South African government has tried to put trade people in each country. There is a very strong push by government and also opening new offices, which I think will definitely help, because the government wants to succeed.

The strongest pattern to emerge is that published information is not reliable and South African retailers rely more on gut feel and previous learnings, while also using specialist consultants.

4.3.4 Measurement of performance of operations in the rest of Africa

This section was included in the semi-structured interview to enable a better understanding of the premium return for the additional risk of investing in the rest of Africa.

Retailers:

•	Funding costs are very high, despite the fact that inflation is down in most countries and can be up to 3 to 4 times higher than real rates that one can get in South Africa, so we invest in Rand. Most of the currencies in Africa are very stable against the US Dollar. Due to the strengthening of the Rand this year, the returns of our investments in Africa were shocking.
•	When measuring performance, you have to use your own statistical database and play market levels in terms of pricing as margins between countries differ tremendously. We are driven more by market forces than risk forces at this stage.
•	We measure the country itself in local currency, but in terms of the corporate company, we measure in Rands.
•	We measure ourselves using the McKinsey free cash flow method which is store based, and then look at the contribution to the group. We measure the investment in Rand and focus on the Rand as we invest funds from South Africa.
•	We look at the countries and assess what sort of margins we think we can get. Generally speaking we would be looking for higher margins, not excessive, but to cover the additional risk

factor. So we expect 5 to 10% higher margins outside South Africa to cover the risk. For new stores, we generally aim to break even in the second year, but you only start getting good returns in your fourth or fifth year.

- All that is relevant is how much Rand profit we are making out of the deal, but we also look at USD and the local currency.
- In South Africa we use turnover per square metre, but in the rest of Africa we focus on what is the bottom line. The higher margins are normally dissipated by higher transport costs, especially with fuel increases. Shrinkage factors are also 5 to 6 times higher than in South Africa.
- We evaluate in Rands and also invest in Rands and do not raise finance in the country invested into.
- It is not particularly useful to use standard valuation techniques for Africa because of:
    - Currency - it is difficult to take into account currencies, and currency changes over time.
    - In retail, everything is about the turnover.
- It does not add much value to find out the IRR movements, but we do calculate break-even points.
- We do measure our returns in Rands and the local currency. There was a time that we were looking at moving towards US Dollars; we found that the African countries are tracking the dollar less than they used to.

Non-retailers:

- Calculating a cost of capital is quite contentious for African operations as what you adjust it by becomes very subjective. Fluctuations in interest rates in some countries make it very difficult to really assess what the cost of capital in the country is. A retailer should rather ask itself what the return is that its shareholders demand from it, and what its basket of investments are that gets it that return.

Most South African retailers seem to measure their returns in Rands, as their investment is in Rands, while remaining cognisant of the returns on the local currency. The expectation of retailers is that returns should be greater than returns in South Africa to compensate for the additional risk of doing business in the rest of Africa.

4.3.5 Countries where South African retailers have decided not to expand

This section was included in the semi-structured interview to enable a better understanding of the appetite for risk South African retailers have and an understanding of the reasons for deciding not to expand into specific countries in the rest of Africa.

Retailers:

• Where governments are not stable, as many of them have come out of semi-socialist structure where there is not much profit incentive. • Also where we cannot get our logistics to work and in many cases we have had to create one ourselves.
• We have decided not to go into the DRC (Democratic Republic of Congo) as the banking and political systems do not work properly. We'll probably wait another 4 to 6 years for the DRC.
• There are some countries that are just too poor.
• Smuggling is very widespread in Africa and is especially big on high-duty items such as liquor and cigarettes. It is impossible to compete on those markets.
• We have decided not to expand into Mozambique due to bureaucracy and high duties. Some locals companies seem not to have to pay duties and we would not be able to compete with them.
• We looked at Saudi Arabia and we were close to doing a deal there, but we would have been up against all the international brands.
• We used to send goods into Mozambique, but as the economy collapsed and the political situation worsened, we found we could not get goods through the border posts and that there was too much black market trading.

Non-retailers:

• This would be where the perceived risks are larger than people believe they can manage or be ready for. They are not comfortable with the environment because of corruption risk, political interference risk or market risk.
• Many companies do not expand into West Africa because of the language, if you cannot speak French it is very difficult. Especially given that the companies tend to expand using their own people, which is difficult in a retail environment as you need to be more client facing.

There are many reasons why South African retailers will not expand into specific countries and these countries seem to include: the DRC, Mozambique, Saudi Arabia and where countries are too poor.

4.3.6 Minimising the risk of doing business in the rest of Africa

This section was included in the semi-structured interview as the main purpose of the research is to understand risk-mitigation strategies undertaken by South African retailers expanding into the rest of Africa.

Retailers:

• We minimise currency risk in Zimbabwe by borrowing locally where the bank rate is substantially lower than the inflation rate.
• To minimise currency risk we have fully fledged operational divisions in each country that can react to currency changes, competitors and opportunities very quickly. Often they are buying in US Dollars, converting to Rands and then to the local currency. We also try and get as much local content; in Zambia we now have 65% local content.
• To minimise currency risk on goods sourced globally, we pay when the goods hit the harbour on the other side and therefore don't have any risk before the goods are sold and can price accordingly; this is called "matched pricing".
• To minimise pricing risk, there are no labels on goods and we rely on scanning; all the countries do their own scanning and have their own operations.
• We have asked companies that supply us in African countries to expand into other African countries to supply us and in this way increase local content. There are great opportunities for our African suppliers to produce in more countries. In this way we are able to spread our basket of risks in terms of the supply line.
• We have given computers to some customs offices in Africa; the computers are linked to our computers and goods can be cleared quicker.
• We do not digress away from retail and do things a specific way across the group using processes and infrastructure. We also initially use our own people from South Africa.
• To reduce risk of inflation in Zimbabwe, we reduced our debtor's period from 6 months to 4 months and also reduced our ownership in Zimbabwe.
• We work very closely with local customs and try and make sure that playing fields are level. We are hard on our suppliers and we insist that they are certified by the South African Receiver of Revenue as importers if necessary. A big threat in Zimbabwe is the Chinese. Ethics is a major focus in our organisation.
• We use CCTV as a management tool for us in Johannesburg to see what is going on in the store, we can log in and manipulate the camera systems and look at what is going on. This means that we have a tighter control over what is going on.
• Our risks, like with most retailers, are covered with the spread and number of stores that you have and the more you have the lower the risk. If one is a failure, you can just take the knock and move on.
• We keep our debtors' book very tight and very low when compared to South Africa; this reduces the risk of bad debts. We also use fixed pricing and rarely give discounts.

• We currently do all our funding from South Africa, but see the Barclays and Absa deal as an opportunity to obtain funding locally and in this way reduce currency risk.
• Using a franchise model works well in the unknown world of Africa and means that we are not involved or aware of any bribery or corruption. The capital risk also sits in the hands of the franchise operator. Putting the right franchise operator in place is crucial to the success of the business.
• We use scanning, so we download the prices and the retailer has the ability to adjust this if necessary. In this way the risk of pricing and changing pricing as necessary is managed.
• We have aligned our leases to run and expire on the same dates so we have an exit strategy should we wish to execute that strategy.
• We produce locally, but it is a very small percentage as there is not much available in any given country. We also use bar-coding for all our products.
• We have noticed that there is better control over customs with land-locked countries than countries with ports.
• Wealthy people in many African countries seem to be prepared to pay for honest goods which are legally imported with warranties and with knowledge that the goods were not stolen; which means no-one is going to come and repossess them from you; and distribute them in an ethical way.
• Our African store managers are our best store managers and are incentivised and paid well. They are so far away that you need to trust them and they have to form local relationships with government and the community.
• We mitigate our risk quite well in South Africa and the same approach should work in Africa. South Africa is not that different; especially when you are talking about the capital city of many of the countries in the rest of Africa.

Non-retailers:

• Employing the right management in those areas and keep developing those staff, so that in time the right managers keep on coming out of the system to keep on managing those operations. The reality is these are difficult environments to operate businesses in, but with the right management skills and the right management team one can do fantastic in those markets. • It’s one thing to recognise the risk, but then it is management’s role to mitigate against the risk. You can have a great environment, but put bad management in and you can make losses. You can have a great management team in a difficult environment, and they will make you money. I think the management aspect of it is sometimes forgotten.
• South African retailers find it easier and cheaper to raise finance in South African and invest this into other African countries. South African companies also like to invest outside South Africa as they can justify taking money out of the country given that there is exchange control. In this way they diversity their assets.
• You usually do not find investors that want to put a lot of equity into the rest of Africa, so they tend to put in the minimum that is required and leverage this with local funding when it is available, such as overdraft.

• When retailers expand into the country as a group, they can reduce a lot of the risk and can negotiate a better deal with the government because of the "size of the package".
• Some companies are setting up in a country so that they can take advantage of the free trade area and tariffs associated with that country.
• Training local management in corporate governance will play a big role in ensuring that South African retailers keep the moral high ground so that consumers prefer dealing with South African companies. An example would be in Nigeria. How the Chinese and Nigerians complain about each other's ethical practices!
• The franchise model is a very good way to mitigate risk, it comes with very little risk and you can build critical mass very comfortably without risking your own capital. While the operational risk sits with the franchisee, the risk is that the franchisee will not open a store in a formidable property development with the kind of significant space that the retailer would go with.
• Another strategy to reduce risk would be to partner with local retailers, which some of the retailers have done, but I do not think this has been done properly. Obviously you lose a bit of the upside, but something that has not been thought through carefully enough.
• Some countries can be really tough markets when the retailer does not reach critical mass in the country. An example would be Tanzania where Pick 'n Pay opened and sold these operations to Shoprite after losing money and Shoprite is still battling to make it in Tanzania.
• There has been some comeback by the retailers in certain of the areas in terms of putting people out of employment; i.e. the informal traders and depending on how this is reported; there can be some retaliation. This tends to blow over very quickly, however. Retailers have found it is important to alleviate this by buying more products locally; which also alleviates the currency risk.

The strongest pattern to emerge is that the best way to mitigate risk seems to be by putting the right management in place to manage the stores and the risk. Retailers can reduce currency risk by sourcing goods locally and funding a portion of their activities locally. There are tradeoffs between being decentralised and centralised. The lowest risk option is to go the franchise route, but this does not suit most business models.

4.3.7 Factors that would make doing business in Africa easier?

This section was included in the semi-structured interview to enable an understanding of what would make doing business in Africa easier, but also to identify potential stumbling blocks that would have to be overcome.

Retailers:

• Africa's biggest problems are: - The lack of information; - The lack of infrastructure; - The lack of discipline in business and government and infrastructural interface, which, if remedied, could make operations easier.
• There can be problems with availability of foreign exchange in some countries and in terms of the way foreign exchange is allocated.
• South Africa is tighter on exchange control than most other African countries.
• Customs is a major problem, with the biggest problem being that the systems are very old. There are still countries where you have to get 10 to 12 different government departments that have to inspect. In a country like Mozambique, you have to get a permit for each import and you cannot get a blanket permit on a specific type of good; such as cans of Coca-Cola or alternatively accrediting a specific supplier or manufacturer. Because of customs, it can take 45 days to get something from order date to delivery in Maputo.
• There are different trade agreements that exist in Africa and it seems that Africa does not like to trade with itself. A common customs union and common monetary policy would make a lot of sense in Africa.
• What I think Africa does require is technical assistance in terms of governmental systems and the discipline of good corporate governance in terms of governments' handling of a problem.
• It is very expensive to fly in Africa, a return ticket to Nigeria costs R12,000 compared to R3,500 to fly to London.
• Very few of the international consultants have any experience of expanding into Africa.
• Many of the countries will not give you a visa for longer than 3 months. It can take 3 to 4 days to get a visa to Namibia or Angola.
• It can take 3 to 4 years to secure a site and title deeds can be missing. In Ghana we've been busy for the last 6 years and we've bought three sites and not built a single one. We're still trying to get the titles of the sites sorted out.
• In Angola our building costs were 2.5 times of those in South Africa and, with the cost of labour, it should be half the price. There are a lot of South African builders there, but everyone dealing in those countries is taking maximum profits.
• Due to the uncertainty of electricity in a lot of countries, standby generators are necessary

	which can cost between R 500,000 and R 1,000,000; without a generator one runs the risk of writing off a large amount of perishables.
•	From our point of view, a customs union in Africa would be a really good start in building the African economy; African countries are not really integrated at all. There could be a lot more inter-company and inter-country trade between African countries.
•	We should have opened in Nigeria already and the barriers to entry include bureaucracy, getting licences and getting your product into the country. These add to the cost of opening.
•	Countries can react very quickly with political changes; if the government is worried about imports on a certain product, they will slap custom duties at the drop of a hat.
•	Border posts can be very difficult, even to go to Namibia or Botswana; we could have 8 to 9 trucks at a border post at a time.
•	The trouble in the rest of Africa is that there are not massive pension funds or insurance businesses, so a small shopping centre could cost USD10m, with tenants prepared to sign 10 year leases; but the reality is that USD 10m is a lot of money in many countries in Africa.
•	Professional services becoming stronger, such as banking (so that we can finance the properties), strong banks in those countries that are able to raise capital and take property risk investments would be useful.

Non-retailers:

•	Low consumption capacity is a big limitation for many companies that would like to expand into Africa.
•	Setting up a forum so that retailers can share/exchange information and intelligence on difficulties they might face.
•	In most countries the Chamber of Commerce is a desk, some pamphlets and a couple of really old-faced newspapers, with maybe three people. It has been really difficult for companies to find partners or opportunities through the Chamber of Commerce.
•	A single duty structure would be very important and there has also been a lot of talk of a single currency in the SADC region. This would enable retailers to read the import and export landscape a lot better. Further of the back of that, limitations in supply lines and trucks crossing borders, there are huge back-lays in terms of getting the product through the border post.

The strongest pattern to emerge is that business in Africa would improve if governments were able to develop a more centralised approach to customs and monetary policy.

4.3.8 Other comments or learnings

This section was added to include any other comments that were useful to the research being conducted. Some of the comments were beyond the scope of the research but permitted, nevertheless, further context to be added to the interpretation of results set out in Chapter 5.

Retailers:

• It takes 3 to 4 years to transfer the duties of management to locals.
• Mauritius suddenly cut duties by 40 to 50%, so all of a sudden you have to write off millions of Rand as opposed to phasing in the reduction of duties or giving some form of notice so that companies can run their stock levels.
• Multinational companies are happy for South African companies to take their brands into Africa and reduce their risk without spending too much money.
• Everywhere we have been, with the exception of Zimbabwe, we have had very strong political support and a very warm sense of South Africa being African and being “one of us”.
• In a country like Nigeria, our biggest competition is that our customers shop in Europe all the time.
• I think that Africa is a lot more stable today than it was 5 years ago and there is stability coming into Africa, both economically and politically. There are more people wanting to invest in Africa. Currency is not as volatile as it was before and there is currency available. I think that South Africa also presents itself internationally as a springboard into Africa.
• Sooner or later the international retailers like Tesco and Wal-Mart will enter Africa as part of their globalisation and they will probably take out one of the big chains in South Africa as their springboard. They will not start from scratch.

Non-retailers:

• Often my kind of experience has been that a volatile interest environment is caused by where donors are with their funding. If the Minister of Finance is not performing in accordance with some programme, the donors withhold money and the government is then forced to borrow on the local market. The reverse is true if donors are pumping in money.
• Often South African banks have a presence in African countries, but do not always have the balance sheet for them to lend funds in local currency to South African companies.
• I think that a local listing for a South African company is more a brand-building exercise; it is not really because the local capital market is adept. It is easier to raise money in South Africa for local operations.
• Your average African consumer buys goods on the street from people that import the goods, bribe customs, and do not pay any real estate. Retailers in shopping malls cannot compete

	with this, so the shopping mall retailers are not mainstream business and tend to target the more affluent. As the population becomes wealthier, there will be more people willing to pay higher prices for comfort.
•	When South African companies expand into Africa, it is normally the resource companies that start first, then the hotel chains, followed by the retailers and the banks.
•	By expanding into Africa, South African retailers are creating what I call a "long-term gross-margin hedge". Normally South African retailers are net importers with exposure to currency fluctuations between the Rand and the US Dollar. By exporting foreign and local products to other African countries in US Dollars, the South African companies can end up being net exporters and therefore protecting their overall margins from currency fluctuations between the Rand and the US Dollar; and the protection of the overall gross margin would improve as South African companies export more into Africa. This can be explained in the following way: the incremental benefit of the depreciating Rand on the export side is normally higher then the incremental benefit of an appreciating Rand on the import side. This also allows a retailer to expand product ranges outside the scope or ambit of the South African market.

There are many themes that have emerged from these comments that are beyond the scope of this research and some have been used to make suggestions for further research, as set out in Section 6.6. The last comment about "long-term gross-margin hedge" is an interesting concept, but beyond the scope of this research and would only become material when the trade with Africa takes up a more important share of South African retailers' operations.

5 INTERPRETATION OF RESULTS

5.1 Introduction

The interpretation of the results in this research is based on findings from the semi-structured interviews, which findings are compared and contrasted with those identified in the literature review. The research questions and categories will be discussed and commented upon.

5.2 The Risks of Doing Business In Emerging Markets and Africa

The overall comment from retailers and non-retailers regarding benchmarking against other emerging markets is that it may be worthwhile to benchmark against emerging markets, specifically Eastern Europe and, in one case, South East Asia and South America. Expanding into other emerging markets is problematic for the following reasons:

- Many of the other emerging markets are very close to first world countries which would have a competitive edge because of their closer proximity. Examples are North America being close to South America and Western Europe being closer to Eastern Europe.
- China is disregarded because of the differences in culture, languages and business models (Berman & Evans: 1992).
- Historically, retail does not cross borders too well as retail tends to be very integrated into the culture of the country and company.

One favourable emerging market is India, as a result of the many Indians who live in South Africa, specifically KwaZulu-Natal, who understand the Indian market culture and eating habits. As a result of this, Shoprite has opened a store in India and Spar South Africa has assisted Spar International in opening stores in India, through training staff in its KwaZulu-Natal stores.

Most American and European retailers think that the economies in Africa are too small and cannot be used for taking advantage of volume discounts and logistical efficiencies. This point was identified by Hasty & Reardon (1997) as well. South African retailers look at African economies and think that conducting business in these economies may be worthwhile; and have systems that are well developed for an emerging market, but not necessarily for the first world. Opportunities in Africa are also created by the fact that shopping centres are a fairly new concept on the continent, but are already well known in most other emerging markets.

Retailers are ahead of most other South African companies in expanding into the rest of Africa and have gained an advantage by building relationships and establishing brands, but the size of the business in Africa is relatively small compared to their operations in South Africa. Also, retailers tend to expand cautiously. As there are not many shopping centres or existing retailers in Africa to acquire, South African retailers have to start from scratch and often develop jointly with other South African retailers. This “going it alone” approach, also known as a “Greenfield start-up”, is identified by Hasty & Reardon (1997), Terblanche (1998) & Hooke (2001) as the riskiest way of entering a foreign market, but allows the maximum control in the targeted country. One of the biggest stumbling blocks for retailers is the availability of property development and the notion of US dollar-based rental. There are some shopping centres in French-speaking countries, such as Mauritius, Madagascar, and on the West Coast in Gabon, Angola and Nigeria. There seems to be very little political risk in most countries in Africa, other than Zimbabwe.

The various business models of South African retailers expanding into Africa are explained briefly below.

- **Shoprite** has stores that are decentralised and every country is a division that looks after itself, which enables quick operational decisions. Some countries are still unprofitable because critical mass has not yet been reached. Stores are preferably 100% owned, but there are stock exchange listings in two African countries.

- **Edcon** does not see itself going past the equator for a long time as its focus is more on growth within South Africa; products are already packaged and tagged with prices before they are sent to other African countries and all operations are managed centrally from South Africa; Stores are 100% owned.
- **Stuttafords'** strategy is to have a store in every capital in Africa (except for the Arab part of Africa) provided that the African country allows profits to be repatriated to South Africa. Stores are rolled out one at a time and supply well-known international brands. Everything is driven centrally from Johannesburg, including the ticketing of garments in their local currency. Stores are 100% owned.
- **Woolworths** has stores in the rest of Africa which are franchises, which enables the growth of the brand across Africa with very little risk.
- **Spar's** strategy is to open a distribution centre and then supply to local members who are independently owned. As the competency of Spar is wholesale, this model is dependent on critical mass. Existing members in Southern Africa are supplied from South Africa.
- **Ellerines'** strategy is to do credit business, and the problem with countries outside South Africa is that there are not sophisticated credit bureaus. The company's intention is, therefore, not to expand further than it already is in Africa. Ellerines initially followed a competitor into Africa, and the competitor closed down.
- **Massmart's** strategy is to expand cautiously into the rest of Africa by looking at a cluster of countries continuously and opening a store when a site has been secured, a developer is available, and the country is stable. At this point the strategy is to not move further North than the South of the Sahara, while also carrying out some expansion in the

islands to the east of Mozambique - Madagascar, Reunion, and Mauritius.

These business models show that the preferred method is to expand into Africa relatively slowly, using the retailer's own capital and 100%-owned stores.

South African retailers have expanded into Africa as they believe that there is potential there for several reasons. First, the affluent part of each country is going to grow and would want to buy more from formal retailers, as apposed to the existing strong informal market in Africa. Second, expanding outside South Africa broadens the retailer's income base and diversifies income risk. Third, South African retailers are able to source goods globally, in high volumes and at a cheaper cost and, in this way, bring greater choice and quality of goods to the African consumer – as identified by Bermans & Evans (1992). Finally, the strength of the Rand against the US Dollar has made it cheaper for South African retailers to expand and, as a result of this, Shoprite has accelerated its growth into the rest of Africa. This strategy makes sense if the Rand depreciates against the US Dollar over time.

South African retailers tend to primarily expand into SADC and Eastern Africa because of their geographic proximity, the fact that they are English speaking, and have fairly similar regulatory systems. Secondary expansion is into West Africa, specifically Nigeria because of its size.

When companies are evaluating expanding into the rest of Africa, the use of public information such as a country's Gross Domestic Product (GDP) is problematic because it is often out of date and inaccurate, as noted in the Journal of Business Strategy (1994) and Hooke (2001). Much money remains outside the formal banking and declaration systems (Receiver of Revenue). One has to work on gut feel and private research. Shoprite counts households and looks at average consumption of food over a period of time; and also uses property-related, warehousing and market research consultants. With Spar, a business plan must be submitted to their

International Office. This is presented to the Board and the Board may grant a provisional licence.

The two main approaches relating to location seem to be “follow the developer” approach or for the retailer to lead a development, either on their own or in collaboration with other South African retailers.

It is important for executive management to be involved in the decision to expand into an African country, with the biggest advantage being learning from previous lessons. Some South African retailers are perceived as arrogant if they do not understand the local economy and try to do business on their own terms. It is important that the people (planning team) building the models at the retailer are also involved in implementing the business plan to alleviate transaction risk, which occurs when the forecasts are too academic or unrealistic. It is often management’s ability to operate successfully in a new environment that mitigates the risk. Many South African retailers expand without realising the difficulties of business in Africa, where problems exist with things as seemingly “small” as: finding electricians; finding people to build shelves; and irregular power supplies.

South African embassies can be very helpful, but are not always staffed by high-quality people. The South African government tries to put trade people in each country and there is a very strong push by government to open new offices.

Africa as a business region could be improved by developing a common customs union, common monetary policy, and good corporate governance. Ways of improving consumption capacity, possibly through credit would go a long way to improving business in Africa. The Chamber of Commerce in each country could be more helpful and useful.

Expanding into countries in the rest of Africa could be improved through the availability of more accurate and timely information, an improvement in infrastructure (such as roads, electricity and telecommunications), and an improvement in the relationship between business and government. There is too much bureaucracy in terms of obtaining licences and getting products into a country. Once property sites are secured, it can be difficult and time consuming to obtain missing title deeds. Finally, building costs are excessive at up to two-and-a-half times the cost of building in South Africa.

The performance of business operations in Africa can be improved through better availability of foreign exchange, improving customs where the systems are too old, increasing the types of permits that are available, and reducing the number of government departments involved. Customs duties can change without notice. Border posts could be more efficient and not time consuming. It is also very expensive to fly around Africa, and business performance would improve if the cost of flights were more reasonable.

5.3 Additional Risk-mitigation Strategies used by South African Retail Companies

With regard to measuring the performance of operations in the rest of Africa, Shoprite feels that it is driven more by market forces than by risk forces as most currencies are very stable against the US Dollar and investment in the rest of Africa has performed poorly over the last year as a result of the strengthening of the Rand against the US Dollar. Pricing margins between countries can differ tremendously and, as a result, Shoprite first measures the country in its local currency, then measures the corporate company in Rands. Edcon measures primarily in Rands as its investment is in Rands and by looking at the overall contribution to the group. Edcon also uses the McKinsey free cash flow method to measure the value of a store. Stuttafords looks for margins that cover the additional risk and therefore expect 5 to 10% higher margins outside South Africa, which confirms the observations of Hasty & Reardon (1997) and Walters & Hanrahan (2000). Stuttafords also expects new stores to break even by their second year and to be generating good returns by their fifth year. Spar focuses on the bottom line in the rest of Africa, as higher margins are normally dissipated by higher transport costs, especially with fuel increases and with the fact that shrinkage factors are also five to six times higher than in South Africa. Ellerines evaluates in Rands as it invests in Rands. Massmart measures returns in Rands and the local currency, while focusing on turnover and free cash flow.

Countries South African retailers have decided not to expand into are excluded for the following reasons: unstable political or banking systems; inefficient logistics; insurmountable poverty (Beckett and Sundardasa, 2000); the fact that smuggling makes competition impossible; excessive bureaucracy and high duties; and, finally, competition that is too strong.

Regarding **political risk,** and in agreement with Beckett and Sundarkasa (2000), many of the interviewees have mentioned that domestic political considerations have become less intrusive in the business environment.

It seems that the **most importing risk-mitigation strategy** is to make sure the right management is in place. According to Olsson (2002), the factors that influence the perception of risk include experience, knowledge, culture and position. Both Massmart and Shoprite ensure that the store managers in the rest of Africa are their best store managers and are incentivised and paid well. These stores are far away logistically, and management needs to be trusted. For most retailers, the stores are run by South African managers in their first four to five years, with most of the remainder of the staff being locals. One South African retailer (Stuttafords) uses **technology**, namely CCTV cameras as a management tool to enable it to monitor its stores across Africa and maintain tighter control.

Most retailers reduce their **normal business risk,** as identified by Hooke (2001), by having a number of stores across the continent, so that if one store fails, the retailer can close the store without materially affecting the overall company. Stores can be seen as having failed if they are not reaching a critical mass in terms of volumes sold and making a profit within an acceptable period of time. Retailers can also reduce business risk by expanding into the country as a group (i.e. with other retailers) and, in this way, negotiate a better deal with the local government.

If **currency and inflation risk** is excessive, as discussed by Copeland, Koller & Murrin (2000), a retailer minimises this risk by borrowing locally, where the bank rate is substantially lower than the inflation rate. Methods of reducing the risk of high inflation in Zimbabwe include reducing the debtors' period from six months to four months and also by reducing ownership in Zimbabwe. According to many South African retailers, their investment in Zimbabwe has been written off. Currency risk can also be reduced by sourcing more products locally and encouraging the local suppliers to supply other African operations; in this way the goods are then priced in the local currency and are less affected by changes in the Rand or US Dollar rate. Buying and employing locally can also alleviate the concern that retailers are putting people out of employment in the informal sector. The inflation risk can also be improved by managing the debtors' book very tightly and using fixed pricing and rarely giving discounts. While most retailers invest in Rands, it may be possible to reduce the exposure in Rands by matching funding with the local currencies when banks are able to lend money at competitive rates. One retailer sees Barclays' investment in ABSA as an opportunity to raise funds locally in Africa. Ideally, retailers could invest the minimum that is required and then leverage this with local funding when it is available, such as an overdraft.

To minimise **pricing risk** some retailers rely on scanning devices and have no labels on their goods, to enable flexible pricing (as identified by Mason, Mayer & Wilkinson, 1993). Another way of minimising currency risk on goods that are sourced globally is to pay for the goods when they leave the port of origin where the retailer is importing from and therefore do not have any price risk while the goods are on the water and before or after they are sold. This strategy is called "price matching". Retailers tend to be either very decentralised or centralised. The argument for being decentralised is that local management can react to currency changes, competitors and opportunities very quickly, while also focusing on sourcing as much local content as possible, but the higher costs of being decentralised mean that being profitable is dependent on critical mass. Using a franchise model means that a retailer is not aware of or involved in any bribery or corruption and the capital risk sits in the hands of the franchise operator.

To reduce the **logistics risk** and, therefore, the flow of goods, customs officials can be trained and computers can be donated, and in this way goods can be cleared very quickly. Playing fields can also be levelled by working closely with local customs and, in this way, assist in preventing smuggling. Physical infrastructure such as roads and power grids can be poor as identified by Hooke (2001).

Reducing the **risk of bribery and corruption** can be achieved by training local management in corporate governance and initially using people from South Africa to manage the business. It is also important to ensure that suppliers are certified by the Receiver of Revenue as importers. Being certified by the Receiver of Revenue can also be turned into a competitive advantage as affluent clients seem to be prepared to pay a premium for goods that have been legally imported with warranties and are happy to know that the goods have not been stolen and cannot be repossessed. Supporting the local community and keeping local and national government involved in the business enables local support.

Information risk can be reduced by conducting independent research on countries and communities, as suggested by Hooke (2001). Often economic statistics of countries are years out of date and inaccurate as much trading occurs outside the normal banking system or tax system. Many retailers use previous learnings and conduct private research on household income and potential spend, and also use property, warehousing and market research consultants. Many South African retailers have also commented that developers are a very good source of information.

5.4 Risk-Mitigation Strategies Identified in the Literature Review and not actively used by South African Retail Companies Expanding into the Rest of Africa

Copeland, Koller & Murrin (2000) discuss financing a portion of the business with local institutions in emerging markets and, in this way, matching local investments with local sources of finance, whether this be a loan from a local bank or through raising equity locally. The comments from the semi-structured interviews are that often the local financial institutions do not have large enough books to be able to finance locally, or alternatively charge exorbitant rates compared to the rates charged by banks in South Africa. On this note, there is hope that the Barclays-ABSA investment will provide greater opportunities to raise finance locally. The comments on listing on local stock exchanges in the rest of Africa are that there is not enough liquidity on these exchanges to justify a listing, and often the costs of the listing outweigh the benefit. There are also not enough pension funds or insurance businesses to finance small shopping centres, as this is a common source of finance for shopping centres in South Africa. Copeland, Koller & Murrin (2000) also note that hedging currency risk by utilising futures contracts is not an option in emerging markets because of a lack of available financial markets, and this is certainly the case in the rest of Africa.

Hooke (2001) suggests that the best protection against political risk is a strong and reputable local partner. The comments from the semi-structured interviews are that in many cases local partners are not an option, except for Woolworths, which operates a franchise model. Among the remaining retailers the consensus is that local partnerships are not successful and negatively affect the way local stores are managed. Woolworths expends much effort in finding the right local partner that can build onto the Woolworths brand and achieve critical mass.

6 Conclusions and/or Recommendations

6.1 Summary

The key results of this study will be presented through a discussion of the research findings in terms of the two research questions that were qualitatively tested. Relevant findings from the literature will be included in the discussion.

6.2 Relevant Findings

The risks of doing business in Africa are unique to Africa and are difficult to compare to those of other emerging markets because of the more formal trading environments (shopping malls) that exist in most other emerging markets. The most common expansion strategy for South African retailers is for them to own their stores 100%, and the biggest challenge is finding developers or appropriate sites, with the easiest option being to build one's own shopping mall, preferably together with other South African retailers. This is not always possible for the smaller South African retailers, who then have to rely on independent developers. Retailers tend to expand cautiously, with their current African operations representing between eight and twelve per cent of their total operations.

South African retailers first expand into SADC because of its geographic proximity and then into East Africa, where the countries have similar language and legal systems. East Africa is then followed by West Africa, specifically Nigeria because of the size of its population and market.

The most important risk-mitigation strategy is to ensure that the best management is in place to manage the operations. Operations tend to be measured in both the local currency and in Rands. Ways of reducing currency and inflation risk include raising finance in the local currency, sourcing more products locally and managing debtors' books very tightly.

Business and expansion into Africa would improve considerably if a more consistent approach to customs and monetary policy existed, as well as improved corporate governance, improved logistics, less bureaucracy and greater consumption capacity.

6.3 Final Comments

As more South African companies expand into the rest of Africa, the pool of talent for managing their operations in the rest of Africa is going to become increasingly important. It is positive to note that South African retailers are building sustainable operations in Africa and expect the wealth of Africa to improve over time with the emergence of a larger middle class and upper class. Though this may take a long time, building the brands, people and market share enables South African retailers to be in a position of strength as Africa grows as a continent. It is encouraging to see that South African companies are treating their operations across Africa as an extension of their South African operations, while including the local communities and their ways of conducting business. In this way, South African retailers are spreading their skills, technologies, products and capital across Africa while offering the African consumer a better choice of goods and quality.

6.4 Limitations of Research

The majority of the respondents to this research are South African and have an inherently South African perspective on the subject of retailers expanding into Africa.

6.5 Recommendations

South African retailers are pioneering the development of shopping malls and formal trading in the rest of Africa and giving the African community a better choice of goods and quality. When an expansion strategy is being developed, a greater weighting should be given to where the available opportunities are as opposed to choosing countries that the retailer understands, which implies that more countries and communities need to be researched before new stores are opened. South African retailers also have a unique experience of opening businesses in Africa and could be invaluable to other industries that may want to expand into the rest of Africa.

6.6 Suggestions for Further Research

This study of the expansion of South African retailers into African countries is one of the first investigations of this nature in South Africa. Suggestions for future research include:

- A qualitative study on retailers that have expanded into other emerging markets;
- A qualitative study of other industries, such as hospitality, food and building and construction industries that have expanded into African countries; and
- A qualitative study focusing on where South African companies have either exited or decided not to do business in specific African countries.

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APPENDIX A

Draft Discussion outline

Part 1

This part of the semi-structured interview will be centred on the following questions:

- Where has the company expanded into Africa?
- Where has the company decided not to expand in Africa?
- What is the procedure followed for a business case or feasibility study?
- Does the company benchmark against other emerging markets?
- Does the company employ the services of consultants/experts?

Part 2

Determining what criteria the company uses for expanding in Africa:

- Is the primary method used the McKinsey Free Cash Flow, which implies that the cost of capital is adjusted for risk?
- To what degree are other financial investment tools used, such as IRR, Payback, Discounted Payback?
- Is the investment measured in ZAR, USD or the currency of the country of investment?
- Explain the size and return of the investment into Africa relative to local operations.

Part 3

Determining what the company does to minimise the risks of doing business in Africa?

- Are there any investigations into changes or sharing of ownership?
- How are the risks of working capital minimised/reduced?
- How is tacit knowledge of staff converted into explicit knowledge across local and African operations?

APPENDIX B

Risk types and the measurement of risk (Olsson, 2002:69)

Market risk: there are sophisticated models which measure the extent of market risk but care is needed when dealing with outputs from complex models

Liquidity risk: schedules of payments in and out in the immediate future should be available for most businesses together with a list of sources of funds which could be called upon at short notice. The longer the time period, however, the less reliable this data becomes.

Credit risk: it is easy to know how much credit you have given, plus any interest accrued but not paid. What is often not known is any additional costs that will be incurred in recovery. Also rating the risk (probability of default) involves subjective as well as objective elements. Exposures in different currencies add an extra degree of uncertainty.

Sovereign risk: as a subset of credit risk, amounts due from governments will generally be known. However, determining the probability of default is even more fraught for government entities than other counterparties.

Country risk: information on exposures to various countries should be available but there are often definitional problems and time lags in data collection.

Industry risk: it is relatively easy to collect information about specific industries – size of market, growth rates, number of companies etc – but less easy to put a number on potential developments such as innovation, regulatory change, etc which could fundamentally change prospects for the industry. Ranking is easier to do than defining an absolute measure of risk for each industry.

Operational risk: operational trigger points in manufacturing plants can usually be measured as can several areas of staff matters – overtime levels, number of vacancies unfilled, etc. Other areas such as vulnerability to fraud are not so easy to measure.

Business risk: it is relatively easy to dissect the main areas of activity of a business's sales and structure of its costs. This, combined with macro-economic data, can give some idea of the vulnerability of the business to adverse change but there are many aspects to business risk that are difficult to quantify.

Accounting risk: reliance on financial information from external parties can be determined. Dependency on the financial strength of one or a small number of counterparties (customers) will also be known. Quality of the financial information received is not that easy to determine, however.

Political risk: it is relatively easy to identify those countries where political risk is higher but not easy to describe the risk in exact terms. Again, rankings rather than absolute measures are easier to define.

Legal/compliance risk: impact of non-compliance is often readily evident, as in fines received for instance, but it is difficult to measure vulnerability to it.

Reputational risk: as with legal and compliance, measurement is difficult until after the event and even then not easy.

Systemic risk: given its very nature it is more or less impossible to measure systemic risk.