Agility, technology and investing in the African market

A devastating drought, local political uncertainty and ongoing global macro-economic instability have placed many businesses on the back foot as they go into the New Year.

Looking back

The past year was marked by a number of negatives for businesses, including resource scarcity as drought conditions led to water restrictions. Further, companies were hesitant to make strategic moves due to fears of credit rating downgrades. Macro-economic conditions led to increased cost pressures which placed severe pressure on bottom lines.

One example of the increased pressure on businesses is the year-on-year increase in the number of companies liquidated. A total of 181 companies were liquidated in August 2016; compared with 177 in August 2015.

“2016 was a challenging year, following an equally tough 2015. There are no signs that these challenges will abate, but commercial businesses definitely have a number of opportunities to exploit if they are well prepared and have the right structures in place,” says Karl Götte, head of commercial banking at Standard Bank.

Taking advantage of globalisation and a consequent ability to sell goods into new markets needs to be exploited.

Investing in Africa

“We believe in Africa and drive her growth, and we therefore remain committed to assisting businesses to find and benefit from exciting new markets. To do this, businesses must not rush in without a plan or an experienced partner to assist them in maximising the positive outcomes that can be achieved.

The recent McKinsey Global Institute *Lions on the Move II* report highlights many African companies grow faster than their peers in the rest of the world, and are more profitable in most sectors.

There have been six sectors identified on the continent as promising for companies to venture into. These include:

- wholesale and retail;
- food and agri-processing;
- healthcare;
- financial services;
  light manufacturing; and
- construction.
  In these sectors, it was found that large African companies were both more profitable and faster growing than their global peers. In addition, the researchers found that there appears to be significant potential for further growth given the fact that these six sectors currently remain relatively fragmented; consolidation could unleash even more opportunity for corporate Africa.

Götte mentions that it is becoming very clear that Africa needs to create far more businesses than it is currently, as it lags behind other emerging regions in its prevalence of large companies. According to McKinsey, Africa has about 60% of the number of large companies that it should have to be on par with peer regions.

“So, this is a gap that needs to be filled and it can only happen if we develop more ideas, more businesses, and more products and then the jobs will follow,” says Götte.

Potential in the energy space

Energy transformation is another area that will support commercial businesses going forward. According to research by PwC, energy transformation is being driven by technological breakthroughs; climate change; resource scarcity; demographic and social change; a shift in global economic power; and rapid urbanisation.

A number of simultaneous disruptions include customer behaviour, competition, the production service model, distribution channels, and government policy and regulation.

“All of this creates additional challenges for those businesses that cannot adapt to change in time.”

Africa-specific pressures, meanwhile, arise from an ageing, ill-maintained asset base; low rates of electrification; and scarcity of skilled labour, especially in the engineering and construction fields. However, opportunities are arising through intra-regional transmission and trading of electricity, both on a bilateral governmental basis and through regional power pools.

Paradigm shift

This means fast growing regions in Africa are reviewing and implementing different solutions as they seek to enhance and expand their electricity supply.

New business models are being established and in certain parts of Africa (such as Kenya, Uganda and Nigeria) the establishment of new market models is being driven by governments, sector regulators and businesses.

However, the future will require a paradigm shift in the way power is produced and supplied to create more efficiencies and provide a powerful base from which commercial business expansion can take place.

“A number of success stories in the energy space are being observed as more businesses begin to see the potential and receive the support to grow,” says Götte. “The use of business models focused on ‘behind the meter’ solutions (such as solar heater providers and prepaid meters) incentivise energy efficiency and revenue maximisation.”

Agility and technology

Standard Bank’s view is that agility needs to be built into many facets to ensure that a business is in a position to take advantage of changing consumer preferences and market conditions.

“Businesses that are agile enough and have the courage to innovate will be able to thrive despite the challenges in 2017,” he says.

Harnessing technology will certainly be a major game changer for commercial enterprises in the year ahead. Businesses will need to be brave, but there are definitely solutions to the challenges, Götte concludes.