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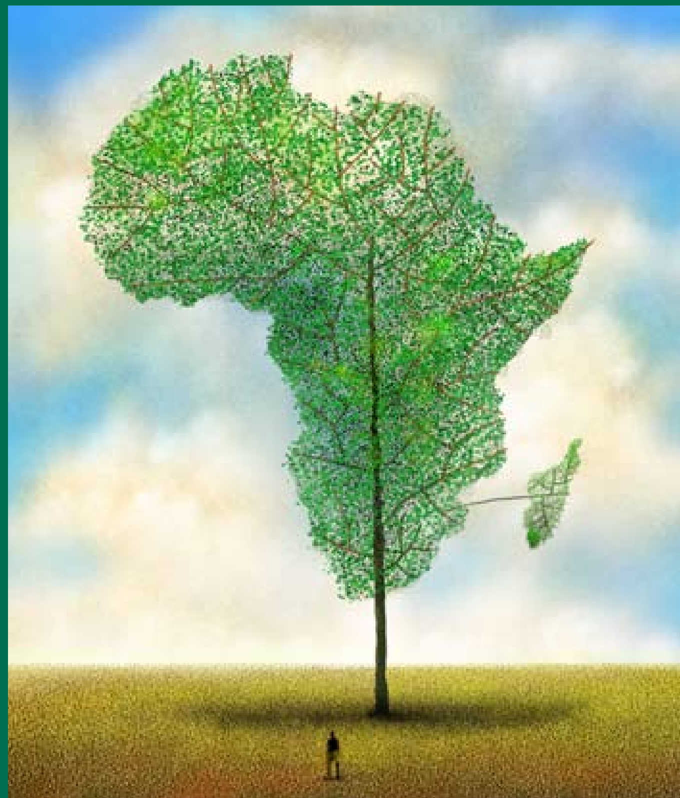
The African Challengers

Global Competitors Emerge from the Overlooked Continent



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The African Challengers

Global Competitors Emerge from the Overlooked Continent

The African economy is overshadowed by Asia to the east and, to a lesser degree, by South America to the west. Over the last decade, however, Africa has begun to emerge. Hidden in plain view, scores of African companies have been competing and rapidly expanding in the global economy. Their ambitions may be larger than their revenues, but collectively they are making a mark.

To spotlight the economic awakening of Africa, we have identified 40 fast-growing African companies with global aspirations—the African challengers. There are certainly many more than 40 noteworthy African companies, but we wanted to highlight a relatively small number in order to understand their specific strategies and challenges and the evolution of African capitalism.

A Fresh Perspective

The conventional view is that Africa—with 20 percent of the world's land and 15 percent of its population, but just 4 percent of global GDP—has been down so long it will be hard for it to ever rebound. This view is understandable—but out of date. Between 2000 and 2008, Africa's annual GDP grew by 5.3 percent (adjusted for purchasing power parity), compared with 4 percent globally. The rise in commodity prices partly explains this performance, but exports and local demand also played strong roles. Over that same period, most African equity markets also outperformed global indexes, sometimes by wide margins. Egypt's market, for example, returned 39 percent annually, compared with 2 percent for the MSCI World index.

While the Great Recession shrank most economies, Africa's was able to grow. In 2009, the continent's GDP expanded by 2 percent, while GDP dropped 4 percent in the United States, 2.8 percent in the European Union, and 1.5 percent in Latin America.

Averages are always suspect, but they are especially misleading in Africa. Five countries (Algeria, Egypt, Morocco, Nigeria, and South Africa) account for 60 percent of the continent's GDP. GDP per capita ranges from $330 in the Democratic Republic of the Congo to almost $15,000 in Botswana. During the past decade, the GDP of many countries, such as the Central African Republic, Côte d'Ivoire, and Guinea-Bissau, remained flat, while Angola's expanded by 13 percent annually. These contrasts reflect the realities of a continent that is rich in natural resources but also rife with poverty, health problems, geopolitical risk, and the lingering effects of colonialism.

But despite these challenges, the top African economies—which we call the African Lions—are doing relatively well.[1] The Lions comprise Algeria, Botswana, Egypt, Libya, Mauritius, Morocco, South Africa, and Tunisia, and their GDP per capita exceeds that of the so-called BRIC nations of Brazil, Russia, India, and China. In 2008, the GPD per capita of these two groups was $10,000 and $8,800, respectively. Great diversity exists among both the African Lions and the BRIC nations. But the development model for all of them rests on similar pillars: political stability, rule of law, property rights, access to capital, and public investment in education, health, and social services.

In terms of life expectancy, literacy, education, and standard of living, the African Lions are comparable to the BRIC countries and the Asian Tigers

1. The Lions were selected on the basis of socioeconomic factors, including GDP per capita, standard of living, ease of doing business, political stability, and public investment in a safety net.

(Indonesia, the Philippines, Thailand, and Vietnam) as measured by the International Monetary Fund's human development index. The political stability of the Lions is on a par with that of the BRIC nations and is much greater than that of the Asian Tigers, while the ease of doing business is roughly similar in all three groups of countries, according to the Economist Intelligence Unit.

African companies have been able to take advantage of these positive trends. Since 1998, the revenues of the 500 largest African companies outside of the banking sector have grown by 8.3 percent annually. Exports have helped power this increase, surging from 3 percent annual growth during the 1990s to 18 percent annual growth since 2000. This expansion is similar to rates in China, India, and Russia and is greater than that of Brazil. African companies have also started to invest abroad. Direct foreign investments by African companies have risen by 81 percent annually since 2002, more than double the growth rates for Latin America and Asia.

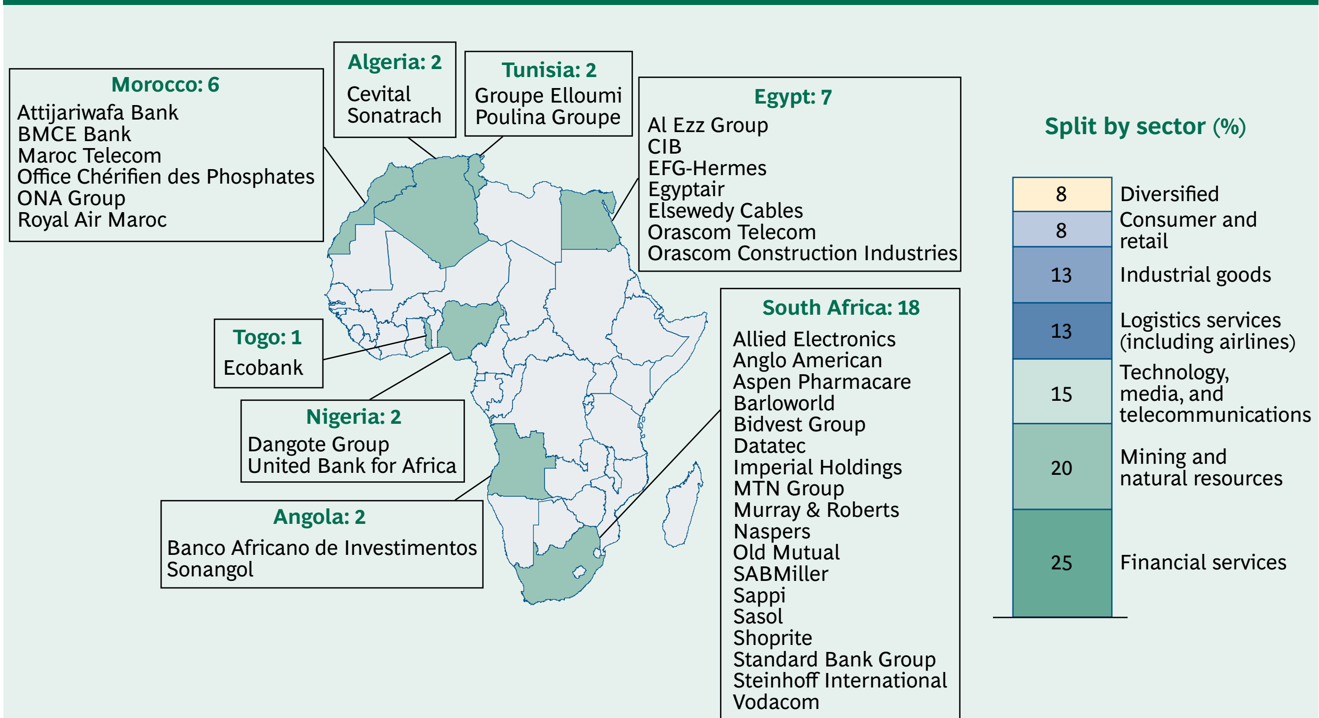
Despite these trends, Africa is frequently neglected in international rankings, league tables, and other public totems. This publication is meant to correct such oversights.[2]

African Contenders

The 40 African challengers range in size from $350 million to $80 billion in annual sales; they all display strong growth, an international footprint, and ambitious plans to further expand overseas. Three countries of origin dominate the list: South Africa (with 18 companies), Egypt (with 7 companies), and Morocco (with 6 companies). (See Exhibit 1.)

2. The Boston Consulting Group publishes an annual list of 100 companies from developing economies that are seeking to become global players (see *The 2009 BCG 100 New Global Challengers: How Companies from Rapidly Developing Economies Are Contending for Global Leadership,* BCG report, January 2009). That list, however, is devoted to large, already global companies, whereas this report focuses on companies seeking global reach. For a similar look at Latin American companies, see *The 2009 BCG Multilatinas: A Fresh Look at Latin America and How a New Breed of Competitors Are Reshaping the Business Landscape,* BCG Focus, September 2009.

Exhibit 1. South Africa Is Home to Nearly Half the Challengers



Sources: Company annual reports; press reports; *Jeune Afrique,* 2008; BCG analysis.
Note: Percentages do not add up to 100 because of rounding.

The nine remaining players come from Algeria, Angola, Nigeria, Togo, and Tunisia. These eight countries represent 70 percent of Africa's GDP. Several industries are well represented on the list: financial services (10 companies), mining and natural resources (8 companies), technology, media, and telecommunications (6 companies), logistics services (5 companies), and industrial goods (5 companies). (For details on how the challengers were chosen, see the sidebar "BCG's Methodology.")

The list is top-heavy, with the five largest companies representing 55 percent of the sales of all 40 challengers. Many of the smaller and midsize companies, however, have significant international operations. Groupe Elloumi, for example, is one of the smallest companies. Its subsidiary, Coficab, is the second-largest supplier of automotive wires in the Euro-Mediterranean region and one of the top five globally. Coficab aspires to be the global leader in this business by 2012, and has facilities in Morocco, Portugal, Romania, and Tunisia. A subsidiary in Germany is planning further expansion.

On the basis of their export sales and foreign assets, we divided the 40 challengers into five groups: big local players, exporters, regional players, multicontinental players, and global players.

> The five largest companies represent 55 percent of the sales of all 40 African challengers.

- *Big Local Players.* These companies have reached critical mass in domestic markets and have started international campaigns. Their assets and sales remain more than 90 percent domestic, but international activity is picking up. Collectively, these three players—ONA Group, the largest Moroccan conglomerate; CIB, an Egyptian bank; and Cevital, an Algerian food company—have $8.4 billion in annual sales. ONA is close to breaking through the 10 percent ceiling in export sales and taking its international ambitions to the next level.

- *Exporters.* The vast majority of the sales of these five companies are exports, but their assets are largely local. They tend to be mining and oil companies, such as Sonatrach, the Algerian government-owned oil company; Office Chérifien des Phosphates, a Moroccan mining company and the largest global exporter of phosphates; and Sonangol, a government-owned oil company in Angola. Sonangol has started to expand into other businesses, such as banking, and has assets in Brazil, Iraq, and elsewhere. The other two exporters are Dangote Group, a conglomerate based in Lagos, Nigeria, and Al Ezz Group, a steel company based in Cairo. Collectively, the exporters have more than $100 billion in annual sales.

- *Regional Players.* At least 10 percent of the assets of these 12 companies are located outside of their home country but within Africa. The regional players understand local markets but also leverage scale. Their collective annual sales are about $30 billion. This group includes such companies as Maroc Telecom, the main Moroccan telecom operator, with operations in Mauritania, Burkina Faso, Mali, and Gabon; Ecobank, a bank based in Togo that serves western and central Africa; and Shoprite, a South African food retailer with

BCG's Methodology

We examined almost 600 companies covering all economic sectors in order to pick the 40 African challengers. To make the first cut, companies had to meet the following minimum threshold: $300 million in annual revenues for banks and $500 million in annual revenues for all other companies. In addition, companies with less than $1 billion in sales had to show double-digit revenue growth over the past five years. We excluded from consideration subsidiaries that had never been freestanding indigenous companies.

About 70 companies met these requirements. We examined them with respect to the following factors: revenue; one-, five-, and ten-year growth rates; cash flow; leverage ratio; and level of globalization as defined by exports, foreign-based employees, foreign assets, and foreign acquisitions and partnerships. The companies we chose as challengers were those with the most dynamic international presence. When there were two strong companies from the same country within a single sector, we selected only the leader in order to increase the list's diversity.

Banking on Mergers

Attijariwafa Bank, the largest bank in Morocco and the third-largest in Africa, was created through a merger in 2004 and has since acquired eight other banks. Its goal is to become a global bank with a presence mainly in western and northern Africa, the Middle East, and Europe. The bank has about $35 billion in assets and offices in Abu Dhabi, Barcelona, Brussels, Dubai, London, Madrid, Milan, Paris, Shanghai, and Tripoli. It has 10,000 employees, more than 1,500 branches, and 4.5 million customers. Attijariwafa's strategy rests on four pillars:

- Become the retail leader in all market segments
- Consolidate dominance in project finance, M&A, asset management, and capital markets
- Reinforce and raise the bank's international presence and capture synergies among regions
- Explore new markets such as low-income consumers and Islamic consumers

stores in 17 African countries.[3] (For a brief profile of one regional player, see the sidebar "Banking on Mergers.")

- *Multicontinental Players.* These companies have at least 10 percent of their assets outside of Africa. Many were originally regional players that expanded overseas, but others, especially those based in South Africa, never built a continental business. This group consists of 17 companies with nearly $100 billion in sales. Banco Africano de Investimentos, the leading Angolan bank, has expanded into Europe and, more recently, Brazil. Orascom Telecom, based in Egypt, has operations in Bangladesh, Europe, the Middle East, North America, North Korea, and Pakistan. Bidvest Group, based in South Africa, is an international trading and distribution company with more than 100,000 employees. Aspen Pharmacare, also based in South Africa, has become the largest generic drug maker in the southern hemisphere.[4] (See the sidebar "Branching Out from South Africa.")

- *Global Players.* The three global players have more than one-half of their assets outside of the continent and are a global sales presence. They were all founded in South Africa but are now headquartered in London and listed on the London Stock Exchange. Anglo American, a natural-resource company, is the world's largest producer of platinum. SABMiller is the world's largest brewer, and Old Mutual is a financial company that reaches into more than 30 countries. Collectively, they have about $47 billion in sales.

These groups are, of course, fluid. Today's regional players will be tomorrow's multicontinental players, which will be global players the day after that.

Globalization connects all five groups of African challengers. Since 2003, export growth has expanded by 24 percent annually among these 40 companies, almost 10 percentage points more than Africa's average export growth. These companies have also significantly increased their level of cross-border mergers and acquisitions.

International expansion has helped the African challengers grow more

3. The other regional players are Attijariwafa Bank, BMCE Bank, EFG-Hermes, Egyptair, Elsewedy Cables, Poulina Groupe, Royal Air Maroc, United Bank for Africa, and Vodacom.

4. The other multicontinental players are Allied Electronics, Barloworld, Datatec, Groupe Elloumi, Imperial Holdings, MTN Group, Murray & Roberts, Naspers, Orascom Construction Industries, Sappi, Sasol, Standard Bank Group, and Steinhoff International.

Branching Out from South Africa

Aspen Pharmacare's revenues have been growing by 37 percent annually for the past decade, powered increasingly by foreign business. The international share of its revenues rose to 44 percent in the fiscal year ending in September 2009, from 24 percent in the previous year. Aspen shows no signs of slowing down in this fiscal year. In December 2009, it acquired eight medicines, a German manufacturing facility, and the right to distribute GlaxoSmithKline's drugs in South Africa. In return, Glaxo took a 19 percent stake in Aspen. Besides the German facility, Aspen has manufacturing operations in East Africa, India, Latin America, and South Africa.

swiftly than established players in developed markets. Between 2003 and 2008, the annual revenues of the group rose by 24 percent, compared with 11 percent for S&P 500 companies, 9 percent for Nikkei 225 companies, and 10 percent for DAX 30 companies. The African challengers are also more profitable, with an average operating margin of 20 percent, compared with 15 percent for the S&P 500 and 10 percent for both the Nikkei 225 and the DAX 30. A $100 investment in November 2000 in a hypothetical African challengers index would have grown by 25 percent per year and have been worth more than $900 in November 2009, compared with $303 for a similar investment in the MSCI Emerging Markets index and $92 for an S&P 500 investment. (See Exhibit 2.)

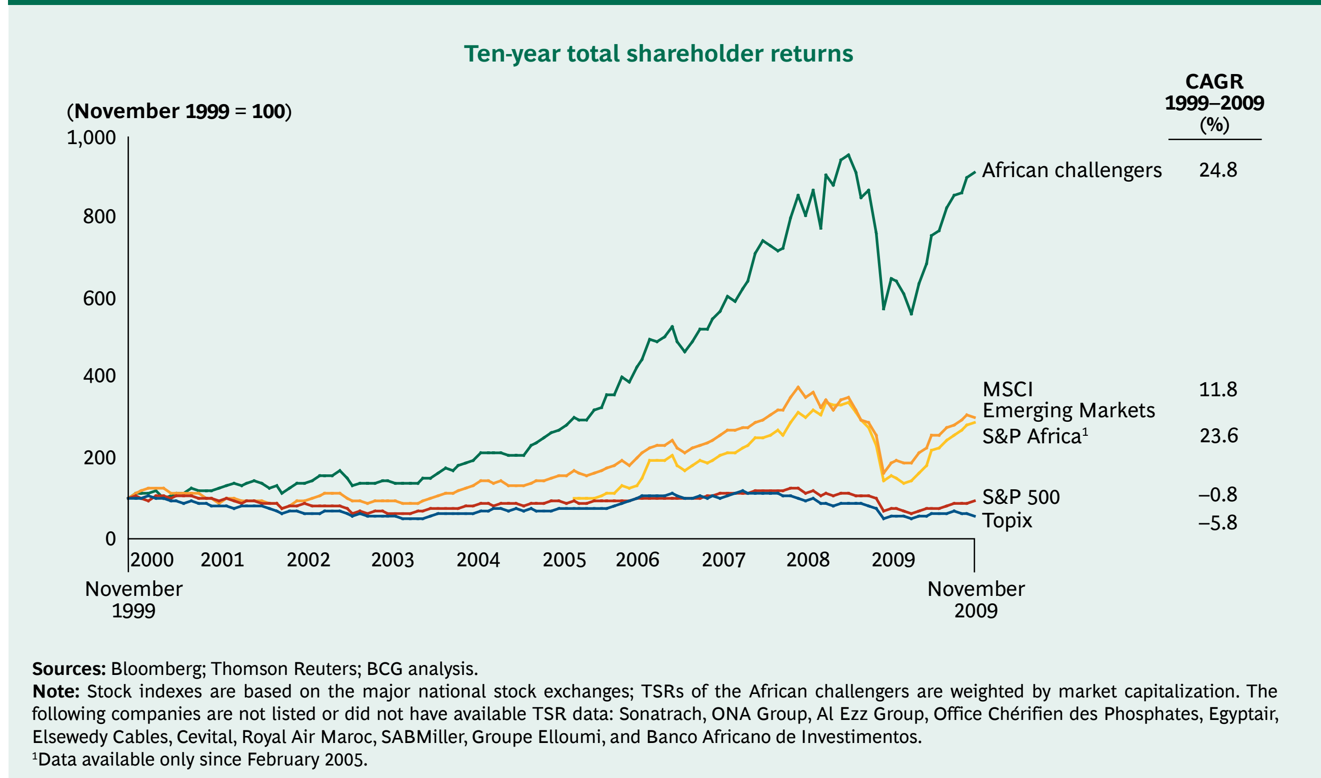
Keys to Success

The African challengers share several characteristics that have allowed them to prosper. First, they benefit from doing business in a place with many native advantages, including natural resources, cheap labor, and a fast-growing population that is unencumbered with legacy technology and systems. Second, they enjoy a beneficial business environment that includes market deregulation, national economic-development policies, and commodity prices that, for most of the past decade, have been rising. Finally, they share the challenger mindset—a willingness to be bold and to recognize that a challenging economic environment is an opportunity to be creative and expand globally.

Native Advantages. Eight of the African challengers are mining and natural-resource companies, which generated more than one-half the revenue of all 40 challengers by taking advantage of Africa's resources. The continent has 82 percent of global reserves of platinum, 55 percent of diamond reserves, and more than 50 percent of phosphate reserves.

Labor is much less expensive in Africa than in other developing markets. The average wages of a worker in Egypt are one-half those of a worker in China and one-sixth those of a Brazilian worker. Egyptian wire manufacturer Elsewedy Cables has parlayed its access to copper and cheap labor to undercut competitors in the Middle East by 5 to 6 percent and in Europe by 16 percent.

Exhibit 2. The African Challengers Have Outperformed Both Developed and Emerging Market Indexes



Sources: Bloomberg; Thomson Reuters; BCG analysis.
Note: Stock indexes are based on the major national stock exchanges; TSRs of the African challengers are weighted by market capitalization. The following companies are not listed or did not have available TSR data: Sonatrach, ONA Group, Al Ezz Group, Office Chérifien des Phosphates, Egyptair, Elsewedy Cables, Cevital, Royal Air Maroc, SABMiller, Groupe Elloumi, and Banco Africano de Investimentos.
[1]Data available only since February 2005.

Africa's large population creates a ready-made market for the African challengers. Although most Africans are poor, the collective purchasing power of the continent is rising. Between 2000 and 2008, GDP per capita increased by 51 percent (adjusted for purchasing power parity). Several challengers, including Orascom Telecom, have acquired scale and expertise on their home continent and then expanded overseas.

Finally, many African companies are unencumbered by legacy assets and business models. Only 5 percent of Africans are served by a fixed telephone line, for example, and this is allowing operators to offer mobile-only services. Many banks are jumping into electronic banking without ever having built large branch networks.

A Beneficial Business Environment. For most of the past decade, rising commodity prices have helped the performance of mining and natural-resource companies. Between January 2000 and June 2008, for example, the price of crude petroleum, phosphate, and platinum all quintupled. After large drops in the second half of 2008, prices are once again on the rise.

Other African challengers have taken advantage of deregulation, especially in banking and telecommunications. For example, MTN Group, a South African telecom operator, has built a mobile network and captured a 50 percent share in Nigeria, a market that is doubling annually.

Several countries have undertaken active economic-development programs beneficial to the challengers. For example, Morocco's Emergence Plan, launched in 2004, aims to boost industrial growth and generate an additional 1.6 percentage points in annual GDP growth. The country has also retooled the educational system to better meet the needs of business and signed several bilateral free-trade agreements. At the same time, the country has privatized several government-owned companies, such as Maroc Telecom.

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The Challenger Mindset. There are many African companies operating in the same economic climate and the same industries as the challengers that do not have the mindset required to achieve global stature. The following are two important components of the challenger mindset:

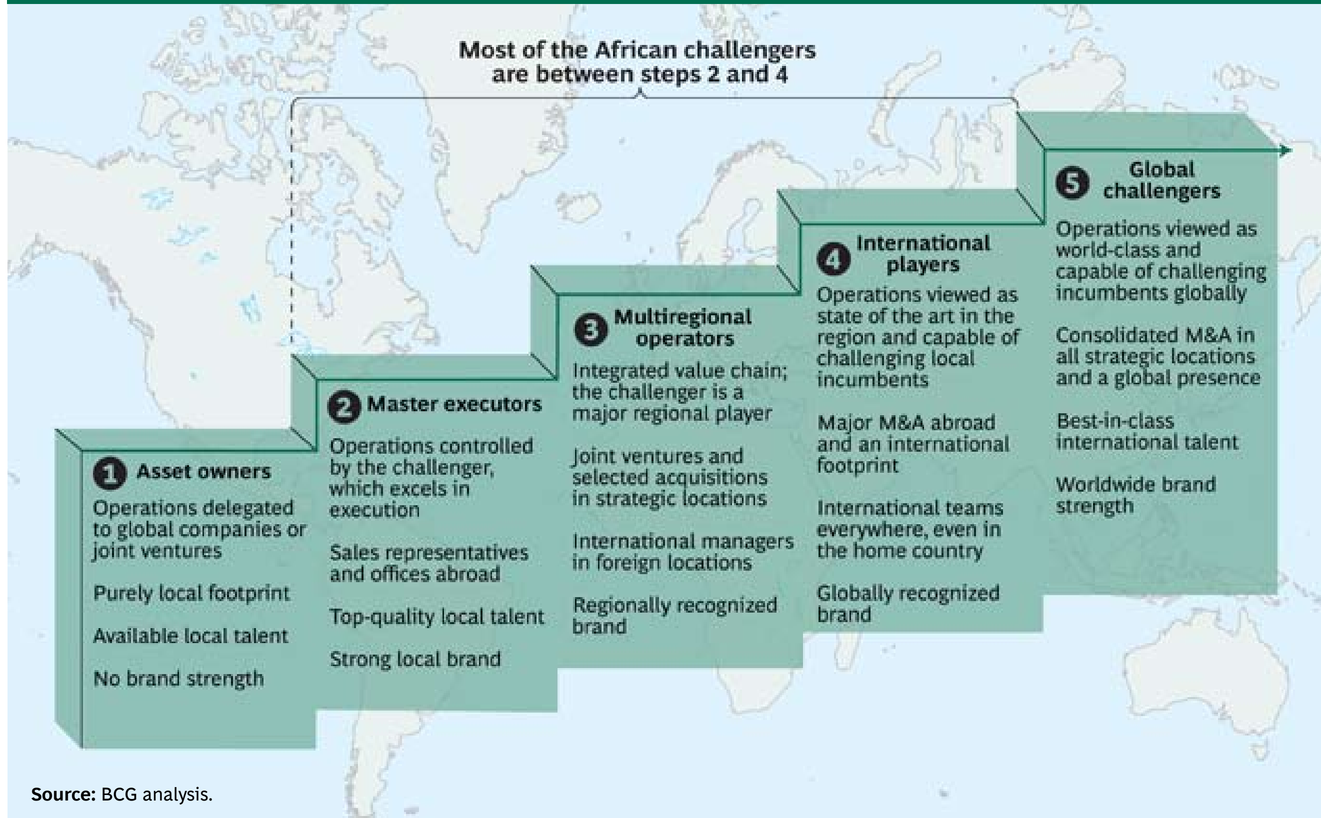
- *Long-Term Vision.* Many of the African challengers were not looking for quick profits when they expanded overseas. Fifteen percent of them are family-owned companies without the short-term pressures typical of public companies. Nigeria's Dangote Group, for example, is still run by its founder, Aliko Dangote, who has built an empire spanning food processing, cement manufacturing, and freight over 32 years. His company now has $2 billion in sales, operates in nine countries, and is the second-largest global sugar producer. Similarly, government-owned companies, which account for 30 percent of the challengers, are able to look beyond short-term shareholder return and make strategic bets overseas. Many chief executives of challenger companies have been in office for a long time, enabling them to put their long-range visions into practice. The average CEO tenure is 9.4 years at these companies, compared with 6.8 years for CEOs who run Fortune 500 companies.
- *Creativity.* The African challengers have consistently displayed resourcefulness in building businesses under challenging conditions. SABMiller, for example, developed a new beer in Uganda, called Eagle Lager, using locally grown sorghum rather than more expensive imported malt. SABMiller now offers Eagle in several countries. Likewise, MTN developed a solar pay phone in Uganda to serve fishermen on Lake Victoria.

The Global Challenge

In order to become world-class global companies able to recruit the best talent, offer globally recognized brands, and compete with multinational companies, the African challengers must continue to move up the globalization ladder. (See Exhibit 3.) Fortunately, they have a playbook to follow. They can draw on lessons learned from challenger companies in India, China, and Latin America that have created global operations. These companies have succeeded by managing volatility, raising productivity, expanding outside of their home continent, boosting their human capital, and benefiting from state support.

Managing Volatility. One of the keys to succeeding in global expan-

Exhibit 3. The African Challengers Must Move Up the Globalization Ladder



Source: BCG analysis.

sion is the ability to cope with the volatility of business and economies. Many companies have helped themselves by pursuing the following strategies:

- *Expanded Geographic Reach.* By moving their operations closer to their global customers, companies can lower transportation costs and protect themselves from currency fluctuations. The Chinese computer maker Lenovo, for example, has production facilities throughout the Americas, Asia, and Europe, which protects the company from any potential appreciation of the renminbi.

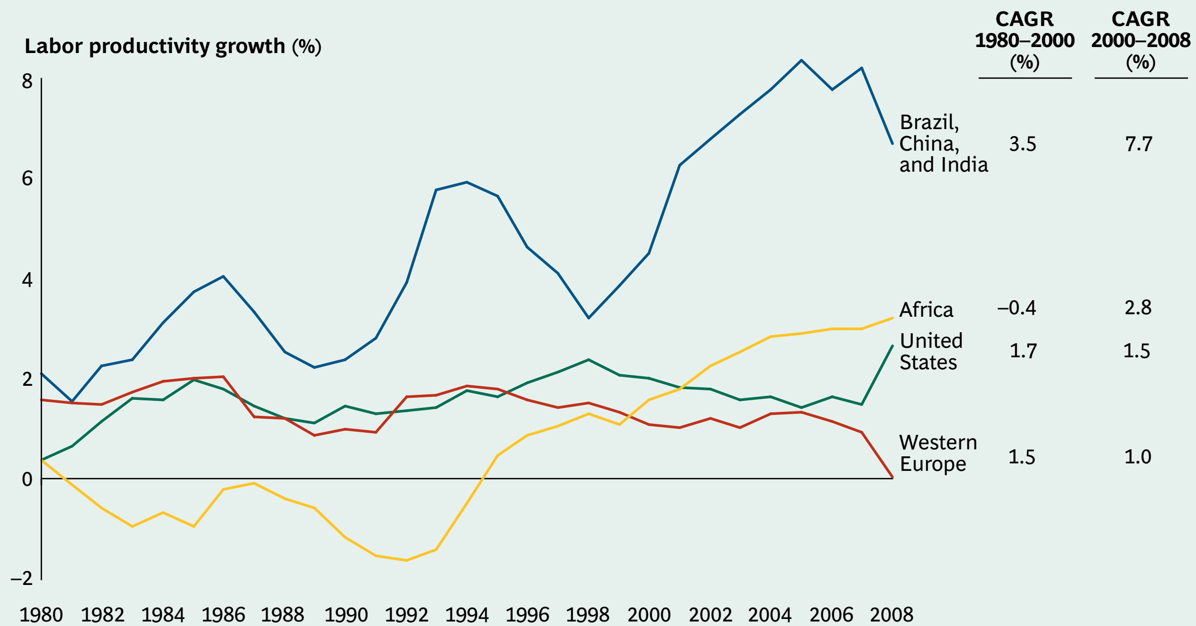
- *Supply Chain Optimization and Integration.* Companies can lower their costs and exposure to changing raw-material prices by maintaining a tight supply chain.

- *Reliance on Government Support.* Many companies from developing markets are able to use government support to assist their expansion plans.

Raising Productivity. Increases in productivity can counterbalance the effects of rising labor costs. Labor costs have already started to rise in Africa, with hourly costs increasing by 80 percent in Algeria, nearly 50 percent in Nigeria, and 30 percent in Egypt since 2005. To date, productivity increases have allowed African companies to stay competitive. Between 2000 and 2008, labor productivity increased at a compound annual rate of 2.8 percent in Africa, compared with 1.5 percent in the United States and 1 percent in Western Europe. But Africa lags far behind Brazil, China, and India, which enjoyed compound annual growth in labor productivity of 7.7 percent over the same period. (See Exhibit 4.)

Education and technology, of course, are the keys to improved productivity. But another, often overlooked, way to boost productivity is by creating flexible and adaptable organizational structures. Many large companies become rigid and complex and are unable to quickly address the volatility and speed of the modern economy. The African challengers

Exhibit 4. Africa Is Outperforming the United States and Western Europe in Productivity Gains



Sources: Groningen database; BCG analysis.

can avoid proliferating structures, processes, and systems—and the cumbersome command-and-control models that still dictate how many companies operate—by building organizations based on cooperation, leadership, and engagement.

Expanding Outside of Africa. The African challengers have already sharply increased their levels of cross-border M&A within the continent. But only 35 percent of cross-border deals occur outside of Africa. In contrast, more than 80 percent of the international deals of global challengers from China, India, and Russia—and nearly 60 percent of those from Brazil—take place outside the company's home continent. By following the lead of these companies, the African challengers can broaden the markets they serve, start to build a global workforce, acquire global brands, and diversify risk. (See Exhibit 5.)

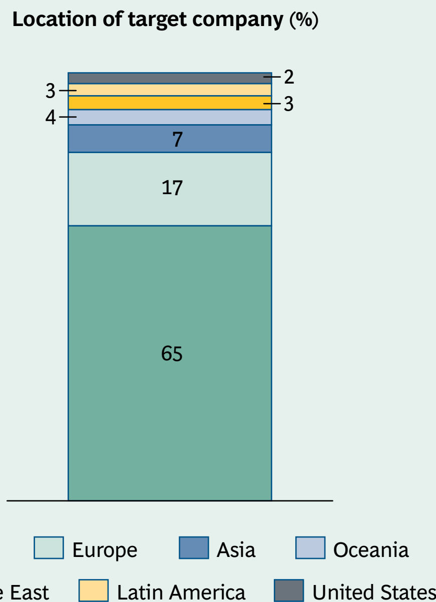
M&A is a difficult activity to master. Since the start of the 1990s, more than 60 percent of M&A deals have failed to create value, according to a BCG study.[5] Cross-border deals are riskier than most because of the potential geopolitical, cultural, and security risks. African challengers that decide to expand through acquisition must diligently manage their selection of targets and consolidation of operations.

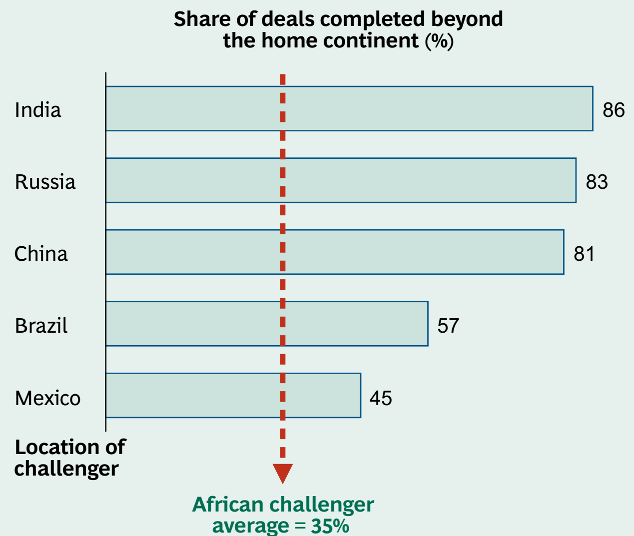
Boosting Human Capital. One of the key challenges for all companies, and especially for those in developing markets, is attracting and retaining talent throughout the organization. In Africa, with its low levels of education, this challenge is especially daunting. The proportion of the high-school-age population attending school has been steadily rising but is still woefully low. In most nations, it remains below 5 percent, and it reaches only 15 percent in South Africa and 30 percent in Tunisia and Egypt.

Public investment in education, which ranges from 0.5 to 2 percent of GDP in most countries, is in line with

5. See *The Brave New World of M&A: How to Create Value from Mergers and Acquisitions*, BCG report, July 2007.

Exhibit 5. The African Challengers Can Spread Their Wings and Look Beyond the Continent





Sources: Zephyr M&A database; BCG analysis.
Note: Percentages do not add up to 100 because of rounding.

global averages in Africa, but private investment is lacking. In other developing markets, the private sector has made education a priority. In China, for example, private funds represent 80 percent of total education spending, while the proportion is 70 percent in South Korea and 50 percent in Guatemala.

In order to sustain growth, the African challengers must help improve their local educational systems—as Embraer, the Brazilian aircraft maker, did in 2005 by establishing a high school for underprivileged students. Beyond fulfilling their corporate social responsibility, African challengers that take on this task can help shape course work and programs designed to produce qualified job candidates. Lenovo has adopted this approach in China.

Creating a global workforce should be another part of a long-term plan to boost talent and human capital. The composition of the boards of the African challengers is more international than that of multinational companies and global challengers in other parts of the world, but the executive suite is much less international. Only 21 percent of the top executives at African challenger companies are foreign, compared with 45 percent at multinational companies. Foreign executives can provide African companies with capabilities that may be difficult to find in the local job market. In addition, their presence can help ensure success in cross-border M&A and global expansion.

Creating Global Brands. The African challengers may have strong brands in their home markets, but few of them are well known elsewhere. Brand Finance, a consulting firm, estimates that Standard Bank, based in South Africa, is the most valuable banking brand in Africa, ranking 82nd globally and worth $1.3 billion. The next-strongest banking brand in Africa is Togo's Ecobank, ranked 277th globally, followed by Nigeria's United Bank for Africa at 451.

Many global challengers have decided to acquire global brands rather than build them. Tata Motors' acqui-

sition of Land Rover and Jaguar, for example, gave the Indian carmaker global recognition, as did Lenovo's purchase of IBM's PC business. SAB followed this playbook when it acquired the Miller beer brand in 2002. Likewise, Royal Air Maroc offers maintenance services through a joint venture with Snecma, the well-known French aviation manufacturer. This partnership allows Royal Air Maroc to leverage the Snecma brand to build its own credibility. Few other African challengers, however, have followed suit.

Benefiting from State Support. Government support is critical. Beyond ensuring political stability and legal protections, governments can assist in several other ways. They can promote regional economic blocs, such as the Maghreb of Morocco, Algeria, and Tunisia, in order to combat the subscale size of individual country markets. In 2006, intra-Maghreb trade represented only 1 percent of total foreign trade in the region. In contrast, that same year, intraregional trade accounted for 33 percent of trade in the European Union, 11 percent in the Association of Southeast Asian Nations, and 15 percent in Central and Eastern Europe.

In addition, governments can promote exports through trade and tax policy. They can invest in development programs, provide diplomatic support, and remove barriers to investment abroad. Finally, governments can provide low-cost financing as well as educational, R&D, and other infrastructure support. State support should not, however, be a crutch. Companies need to show independence and take responsibility for defining their own strategies and growth models.

Looking Ahead

The African challengers represent a wide range of companies. A few have been global competitors for a long time, and they will need to evolve and adapt to a more volatile, competitive environment. Others are dominant in their home or regional market. They need the courage, conviction, and ambition to create a global footprint. A third group consists of relatively young companies that have already expanded rapidly beyond their national borders. Their challenge will be to consolidate and sustain what they have achieved while continuing to grow. (For the implications of the emergence of the African challengers for Western companies, see the sidebar "Opportunity or Threat?")

More broadly, the African challengers represent the growing strength of African capitalism. Capitalism produces winners and losers, and there will certainly be rough spots along the way for African companies. But as the success of our 40 challengers suggests, the future is bright for a continent only now starting to fully flex its capitalist muscles.

Opportunity or Threat?

Western companies can view the African challengers either as potential partners or as foes. Some Western companies have used their relationship with African companies to gain a better understanding of African consumers and the African market, as Vivendi, the majority owner of Maroc Telecom, has done. And two years ago, the world's largest cement maker, Lafarge, which is based in France, acquired Egypt's Orascom Construction Industries for nearly $13 billion in order to gain a presence in the oil-rich Middle East and Mediterranean basin.

At the same time, many of these African companies are—or will become—stiff competitors. MTN is a strong competitor against Western mobile operators in African markets, and Sappi, a South African paper company, has made strong inroads in Europe and North America through acquisitions. About 87 percent of its $5.4 billion in revenues originates outside of Africa, and it has manufacturing operations on four continents and sales in 100 countries. In 2008, it acquired mills in Finland, Germany, and Switzerland.

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BCG's Global Advantage practice sponsored this Focus. If you would like to discuss any of the issues discussed in the report, please contact David C. Michael, the practice's global leader, any of his coauthors, or the practice's global manager:

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