



# 3 Realities

*of Doing Business in Africa*

**Establishing Trust - Culture Matters**

.....

**Understanding the actual risks is essential**

.....

**Next Steps?**



**Africa Mentor**

*putting YOUR best foot forward in Africa*

by **Richard Chowning**



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# INTRODUCTION

Recent media coverage of the surging economies in many African countries has piqued the interest of many businesses and entrepreneurs. Given that you are reading this document, you may be one of those interested in venturing into the African marketplace.

You see the possibilities of making some money. You have a very good chance of doing so. While making money, you will also be contributing to the economic growth and sustainable development in Africa by creating jobs and new sources of income for African people.

Most likely, you have or will soon delve into the economic and market data, seeking out opportunities and determining the demand for your specific goods or services.

You will approach your research with one of two mindsets:

- You will assume that the African business landscape is ***similar*** to the North American or European environment and begin to follow traditional business plan development.
- Or you are astute enough to realize the ***extreme difference*** between your present reality and the African

marketplace. There is the chance that the realization of the stark difference will frighten you, and you will quickly abandon any further thought of venturing into African business.

Either way, you could be making major mistakes.

Prior to deciding if your entrance into the African marketplace is a **go** or **no-go**, I advise you to consider three factors that are very important to your decisions and planning. Hundreds of foreign investors and businesses initiating ventures in Africa have recognized the impact these three realities have on their success or failure. All three are also important in other parts of the world,



but they have their particular manifestations and effects on business in Africa.

The three factors are:

- **Trust**
- **Risk**
- **Disruption**

Without a doubt, market data and due diligence are important. You should never begin a business anywhere on the planet without understanding the demand for your product or service and your ability to meet it. Competition should be identified and serious comparisons made to reason whether or not

your products or services can be differentiated from theirs on price, utility or quality.

Your dedication to learning about trust, risk and disruption and how to work in terms of that knowledge is every bit as important.

Most cutting-edge business schools have moved away from recommending that a detailed business plan be developed before new ventures are undertaken. They now advise entrepreneurs to have a business model, a way of doing business that allows them to make frequent assessments of progress and quickly pivot into new nuances or complete remakes of their products/services or how they are delivered. This manner of operation is extremely useful and valid in the African environment that is

new to you.

Much of your success hinges on your ability to quickly make changes, or pivot, based upon your growing understanding of the realities of trust, risk and disruption in the African marketplace.

## Trust



***"I have  
heard  
about all  
the  
corrupt***

***government officials. I also get a half-  
dozen emails from Nigerian scammers  
every week wanting to give me millions  
of dollars. How can I trust Africans?"  
...A foreigner's***

### ***perspective***

***"American business people ask me for information and use it to better their entry into Africa, but do not pay me anything. I give them contact information of people that they later partner with, but they leave completely out of the loop and pay me nothing. How can I trust them?"***

***...An***

### ***African's perspective***

When foreign investors or business people meet online or in person, there is almost always some degree of distrust by

both parties. Each has assumptions or real experiences that cause them to distrust. These feelings should not and cannot be ignored. They impact relationships, and in Africa, relationships are very important. Yet concentrating on these negative truths will never serve as a firm foundation upon which to build a business in Africa. It is better to work on building trust rather than feeding your fears.

I lived in Africa for twenty-five years. Building relationships was one of my main endeavors each day. I have helped doubting Africans and foreigners build trust in each other. I have passed my understanding on to students in cross-cultural communication classes that I have taught at the university level. There are some steps that can be

taken to foster trust in you and give you confidence in them.

My advice comes from years of experience, study and observation.

Here are some ***strategic actions that knock down barriers*** to trust and instill confidence in cross-cultural business relationships in the modern African environment.

### ***Become Visible***

Africans, like many people on the planet, do not believe everything they read, nor do they readily trust people whom they have not met face to face. They are friendly and quick to participate in discussions about what you may have to offer. They may even

request more information. Some will even go as far as express a desire to see a sales agreement or ask for an invoice because they are about to make a purchase. Then, you may be surprised to not hear from them again or receive requests to get quotes on other products while not taking action on the original invoice or sales agreement they were sent.

Email is an extremely valuable tool to share information and answer questions. These days, almost every African businessperson has an email address.

This email contact alone is often not sufficient to establish trust. African's do not buy from or partner with people they do not trust. To feel comfortable with you and trust you, they need to see you. They have an



impression of who you are. They want to confirm their impression.



Modern technology makes this a lot easier and affordable than putting out the time and cash for an airline ticket. [Skype](#), [Viber](#), [VSEE](#) and [Whatsapp](#) are online and mobile platforms that are familiar to most African business people. All of them have real-time video capabilities that allow you to

videoconference with would-be partners or clients on the continent.

Seeing you on their laptop or mobile device adds to your credibility, thus building trust. If you are hidden from them, they may harbor some doubt to your authenticity and reliability.

For many of the same reasons, seeing them is advantageous for you as well. Plus, you can react to their facial expressions. You can also gain a better understanding of their maturity and demeanor. Sure, appearance is not everything, but it sure is a bonus to **see** whom you are dealing with.

### ***Show Your Product or Service***

Not only does seeing each other foster

trust, but also seeing your product or service is almost essential.

Images and drawings only go so far. Yes, Africans do buy products online from eBay and Amazon.com, but for the most part, they want to handle the product or see the service in action before purchasing.

You should be confident enough in your product that you believe it could sell itself. So getting samples to them so that they can touch and experience them is an integral step in the sales process. They get to experience the product firsthand, and you benefit by learning from their reaction to it.

If you are well into the sales process and your product line has some items that are easily and quickly sent, then package a

couple of samples and send them off to the prospective customer.

Some of the international shipping firms that are extremely reliable for parcel delivery in virtually every African country are [DHL](#) and [FedEx](#). Both are highly accessible from anywhere in North America or Europe.

If you are targeting a single urban center in Africa, like Lagos or Nairobi, you might do well to ship some samples to a representative in the city and get them to demonstrate the product to would-be buyers. You can vet and hire a short-term representative very easily and at minimal expense by listing a job description in [Elance](#) or [oDesk](#).

If it is a service, not a hard product, that

you are selling, then make some examples or demonstrations of the service available. It could be a copy or summary of a report, research or recommendations you provided to another client. You could also give them a detailed outline or diagram of what will be covered in the service.

Besides the helpfulness of knocking down barriers by showing yourself and products to prospective clients or buyers, there are some other, deep-impact ***strategic actions that actually build trust.***

These trust-building, strategic actions are negotiation, compromise and sharing your knowledge. At first, it may seem that these actions would eat away your bottom line of profit. If you have these concepts in

mind at the outset of your relationship-building and sales process, you will want to prepare your approaches with plenty of padding in your price and positions so that you can back off of them and still hit your profit margin objectives.

### ***Negotiation (Come off Your Price)***

Bargaining or haggling over price of a product or service is common practice in Africa. Sure, we have it in the West; we ask for cheaper prices for cars and houses. In Africa, people haggle over the price of almost anything. To ask someone to come down in price or to change the terms of an agreement is common practice. In fact, it is expected. To not back off from the original starting quote, when asked to do so, is to be rude

and offensive.



People build negotiating room into the initial price they offer, fully expecting to back off of that price and settle for something less.

Many African business people and professionals understand that foreigners do not automatically build padding into their prices. That is why they often will ask foreigners who offer them products, "Is this price negotiable?" You will have a better



opportunity to sell to them if you can answer yes to that question.

### ***Compromise – Give Them the Win***

When it comes to partnering with African organizations or individual entrepreneurs, it is perfectly correct and even expected that you, as the foreigner, set the initial parameters for the partnership, details concerning who is responsible for what and the chain of command. However, no matter how successful or experienced you or your company are, be prepared to compromise on the structure of the partnership.

Your African partner may be self-confident enough to lobby for favorable changes at the outset. More often than not,

you will have to observe that he/she is, in fact, not performing according to the *agreed upon* guidelines and structure. After observing the deviation, you should make changes that fit the comfort zone in which they are performing. Whenever possible, let them know that you have observed how they like to work, as long as it still results in productive outcomes, and you are willing to change. Give them the win.

### ***Give Your Knowledge Away***

Coming off your price and giving them the win are key concepts that may still allow you to make some money or hold your place in the structure of a partnership. The third strategic action is something you give entirely away: your knowledge. You will not give

away all of it, of course. You would not want to dump that whole load on anyone, especially not on someone with whom you are just forming a relationship.

You have probably been exposed to more education and a wider range of business practices than your prospective African counterpart or client. Impart some of your knowledge to them. Help them to be better business people, even if you do not end up doing business with them. When you are in the habit of sharing your knowledge, you will see trusting relationships develop more quickly.

This knowledge may be some story you read today or a video you watched recently. It could be a technique of time management or a process tool that you learned some

years ago. Take the time to explain it to them. Tell them how it helped you. Communicate to them that you are thinking of them and want to give them something that can improve their life or business.

Many of them live in an environment that is still ruled by the concept that knowledge is power "do not give it away, it is all you have."

Show them you are different. It will result in your gaining respect and trust. As an added benefit, you will often see that after you share your knowledge, they will give you some local business and cultural knowledge that will benefit you.

The end to all of these activities is to develop trust through building a relationship.

***Relationships take time to cultivate,***  
especially when distrust is the starting point.

Scammers and cheats have run wild in this international North America-Europe-Africa trade and business space. You are not starting from virgin or neutral ground. The soil has already become somewhat polluted. Building relationships of trust is going to take some time and effort, but there is plenty of profit to go around once this solid foundation has been laid.

## Risk



**"Sub-**

***Saharan Africa is dogged by poverty, humanitarian disasters and extremism, epitomized by the recent terrorist attack in Kenya."***

***...Max***

***Skjönsberg, investment reporter, CityWire***

***"I've been questioning myself about the topic 'de-risking Africa.' Is Africa risky, more risky than any other region of the world? Somebody will have to explain that to me because it looks like there's a perception about Africa which needs to be dealt with."***

***...Jacob Zuma, South African President***

### ***Change is Taking Place***

The perception that there is in doing business in Africa does have some merit. There are some realities that increase risk. Yet risk is the playing field of most

international investors. It is for sure no stranger to entrepreneurs. Africa does not have a corner on the risk market.

There are, however, many who would say that North American and European markets (except Germany) have more risk than many African countries. The downturn in Western economies over the past decade has caused many businesses to reduce their budgets and lower expectations for short to medium-term growth. The opposite is true in many African countries where gross domestic product, jobs and real economic growth are on the rise.

An expanding middle class that now has increased buying power and the rise of entrepreneurship on the continent are only two of the factors contributing to the



upswing in the economics. Other factors could be detailed, but that is beyond the scope and focus of this document.

[Skjönsberg](#), after stating the risks above, goes on to say, "But (Africa) is also home to some of the world's most compelling growth stories and untapped investment opportunities."

President Zuma added to his comments, "African leaders have collectively come together to do things that [are] going to make Africa move forward. We have collectively dealt with the issue of democracy in the continent of Africa. We are entrenching democratic rule. We have taken a decision to grow our infrastructure, to grow our intra-trade. We are moving to integrate the five economic regions in the continent."

The promised infrastructure growth will bring even greater economic growth to these already expanding economies. Currently, most African trade is taking place with players outside of the continent. Improving intra-African roads and railways will facilitate cross-border movement of goods. Businesses that have positioned themselves in one African country will find a ready market in neighboring countries.

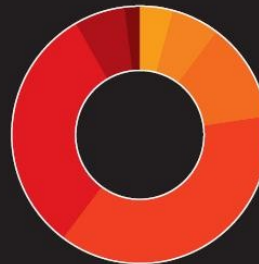
The African business landscape is changing.

### ***Mediate Corruption***

Some of the old problems continue. Corruption remains a real hurdle that foreign and local businesses must find a way to overcome.

Corruption is a reality. It often comes in the form of bribery, embezzlement and extortion. Expatriates and nationals, from the local village to the offices of the highest officials in many African countries, face it.

# CORRUPTION PERCEPTIONS INDEX 2012: SUB-SAHARAN AFRICA



The perceived levels  
of public sector corruption.

90% score below 50

Top: Botswana  
Bottom: Somalia



| RANK | COUNTRY/TERRITORY     | SCORE |
|------|-----------------------|-------|
| 30   | Botswana              | 65    |
| 39   | Cape Verde            | 60    |
| 43   | Mauritius             | 57    |
| 50   | Rwanda                | 53    |
| 51   | Seychelles            | 52    |
| 58   | Namibia               | 48    |
| 64   | Ghana                 | 45    |
| 64   | Lesotho               | 45    |
| 69   | South Africa          | 43    |
| 72   | Sao Tome and Principe | 42    |
| 75   | Liberia               | 41    |
| 83   | Burkina Faso          | 38    |

|     |            |    |
|-----|------------|----|
| 88  | Malawi     | 37 |
| 88  | Swaziland  | 37 |
| 88  | Zambia     | 37 |
| 94  | Benin      | 36 |
| 94  | Djibouti   | 36 |
| 94  | Senegal    | 36 |
| 102 | Gabon      | 35 |
| 102 | Tanzania   | 35 |
| 105 | Gambia     | 34 |
| 105 | Mali       | 34 |
| 113 | Ethiopia   | 33 |
| 113 | Niger      | 33 |
| 118 | Madagascar | 32 |
| 123 | Mauritania | 31 |

| RANK | COUNTRY/TERRITORY        | SCORE |
|------|--------------------------|-------|
| 123  | Mozambique               | 31    |
| 123  | Sierra Leone             | 31    |
| 128  | Togo                     | 30    |
| 130  | Côte d'Ivoire            | 29    |
| 130  | Uganda                   | 29    |
| 133  | Comoros                  | 28    |
| 139  | Kenya                    | 27    |
| 139  | Nigeria                  | 27    |
| 144  | Cameroon                 | 26    |
| 144  | Central African Republic | 26    |
| 144  | Congo Republic           | 26    |
| 150  | Eritrea                  | 25    |

|     |                                  |    |
|-----|----------------------------------|----|
| 150 | Guinea-Bissau                    | 25 |
| 154 | Guinea                           | 24 |
| 157 | Angola                           | 22 |
| 160 | Democratic Republic of the Congo | 21 |
| 163 | Equatorial Guinea                | 20 |
| 163 | Zimbabwe                         | 20 |
| 165 | Burundi                          | 19 |
| 165 | Chad                             | 19 |
| 173 | Sudan                            | 13 |
| 174 | Somalia                          | 8  |

The 2012 Corruption Perceptions Index measures the perceived levels of public sector corruption in 176 countries/territories around the world. To see the full results go to:

[www.transparency.org/cpi](http://www.transparency.org/cpi)

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I frequently advise business people to, whenever possible, steer clear of dealing in government contracts and dealings with government officials. Bribes, not petty little ones, but thousands of dollars, can be

demanded by officials to gain access to projects. Of course, there is money to be made in public sector contracts, but you have to be very wise. Do not enter into that realm without experienced advisers.

"Bribery is part of everyday business. You cannot get around it." I have heard that from many people who speak as authorities on African business. They say you have to pay tea money, chai, baksheesh or grease the wheels to get anything done.

I disagree. I have successfully completed many deals, secured credentials and permits, processed documents and crossed borders for more than forty years without *EVER* paying a bribe.

Due to the fact that I have never paid a

bribe, in places where I am known, I seldom get asked for them.

If you succumb to the demands of an official or executive who asks for money before he will do something, then you are setting yourself up to pay every time you want them to do something for which they are already receiving a salary. In my blog post, [Bribes: Don't Let Them Bring You Down](#), I go into some detail describing the effect that giving in to this practice can have on your business over the long haul.

### ***Civil Unrest Diminished***

Another challenge to doing business in Africa is civil unrest. Wars plagued many African countries in the past. Ethnic groups

battled each other in more than a quarter of African countries from 1970-2000.

International news bureaus covered the civil war between Frelimo and Renamo in Mozambique and the attempt at genocide during the Tutsi-Hutu strife in Rwanda.

Those conflicts brought business to a standstill and left demolished infrastructure and distrust in their wake.

The situation has changed significantly today. Both Mozambique and Rwanda are turnaround success stories. They now find themselves among the twenty most rapidly growing economies in the world.

According to the International Monetary Fund's (IMF) representative to Mozambique, that country's economy is expected to show growth of 8.3 percent in 2014, with only a

moderate inflation of 5.6 percent. This growth has been aided by an expanding mining industry. Rwanda, on the other hand, possesses limited natural resources, but it has a goal to transform into East Africa's most productive and indispensable services hub. As proof of Rwanda's seriousness in the service realm, the country is now ranked 32 out of 189 economies in "ease of doing business" in the World Bank's 'Doing Business 2014.'

### ***Manage Risk with Local Knowledge***

Some of the risks are real, but they are becoming more manageable. One of the primary tools for understanding and reducing risk is to partner with a local businessperson or retain a consultant with local



understanding and expertise. Sure, you know your industry, but you know it in your home setting. Africa is different; each country on the continent has its nuances. Those who have already demonstrated some success in negotiating the local business environment are valuable assets that you need to acquire.

I also strongly recommend that you visit the marketplace you desire to enter. Meet with, or take with you, someone who understands the business and cultural territory. Your eyes and ears are not astute enough to ferret out the necessary information and gain the introductions that will lead to outstanding due diligence. You will especially need a guide in the initial planning and start-up phases.

There is some risk in complying with legal requirements, such as registering your business, drawing up partnership agreements and negotiating contracts. The risk can be lowered by retaining corporate legal firms with local and regional expertise, such as [MLGTS Legal Circle](#) for the Portuguese countries of Angola and Mozambique, [Udo doma & Belo-Osagie](#) for West Africa, [KOEP Partners](#) in southern Africa and [Hamilton Harrison & Mathews](#) for East Africa.

***Manage Risk with Guarantees  
and Insurance***

Political risk guarantees (PRGs) and political risk insurance (PRI) are helpful in mitigating risk. PRGs are primarily offered by multilateral development banks to cover debt owed by commercial lenders. For a full discussion of PRGs and the agencies offering them, go to the website of the [Multilateral Investment Guarantee Agency of the World Bank Group](#). PRI is offered by credit agencies, and investment insurers protect equity investors and lenders. Agencies offering PRI include [OPIC](#), the [Meridian Finance Group](#) and the [Import Export Bank of the United States](#).

One of the easiest ways to mitigate risk is to begin small. Test the market with a [minimum viable project](#) (MVP). Learn from the experience. The idea here is not to test

the product or service and make a small amount of money, but rather to see if your business model works. As you build out, the money will be made. In this early phase, you just want to learn about the audience and the product's reception and find out what changes need to be made.

Speaking of risk, one great risk is for the world not to tackle the problems in Africa.

Without a doubt, problems do exist.

Widespread poverty and poor health

conditions also are present. Graham Mackay,

Chairman of SABMiller, in the United

Kingdom, said in his concluding statement on

the De-Risking Africa panel at the World

Economic Forum, "We must trust in economic

growth to solve the problems of the

continent. That (growth) comes from the

private sector, from business.”

To you, personally, the risk is losing out on participating in the African marketplace. As Bronwyn Nielsen of CNBC Africa puts it, “The Africa train has left the station. If you are not on it, you risk becoming irrelevant.”

## **DISRUPTION**



## ***You Are Not the First***

Many African countries are ripe for the products and services you have to offer. Despite that fact, you need to be aware that there are relatively few sectors of the marketplace that have not been previously penetrated by offerings similar to yours.

To your advantage, these first entrants into the African marketplace have only been able to capture certain finite segments of the population. Further, many of their offerings are so expensive that they are only accessible to people of the upper middle class and above. The members of that socioeconomic stratum, though increasing each year, are still very few. Other ventures

have targeted Africans who strongly identify with Western culture and values. They too are growing in number, but at this point in time, they remain a minority.

These seemingly successful pioneering businesses continued to upgrade their products and bumped up their prices. The initial purchasers were satisfied with what they bought, so they do not mind paying a bit more for the upgrade. Yet these businesses have not seen any significant increase in loyal customers.

### ***Disrupt the Market***

If your similar products or services are either significantly cheaper, easier to use or more readily accessible, then you have the potential to disrupt the market and capture a

larger, untapped share of the market.

Companies focused on disruptive innovation pay attention to how consumers use products, including what problems the products solve for them. They also recognize that the masses have similar needs but are unable to purchase these legacy products because they are too expensive or too difficult to acquire or use. Finally, they develop products that the masses **can** access.

### ***African Examples of Disruptive Innovation***

A couple African examples will help you see the theory of disruptive innovation in practice.

Telephones are not new to Africa.



When I first moved to Kenya in 1972, we had a telephone out on the ranch where we lived. Half a dozen other users shared the same party line. To make a call, we had to ring the switchboard in town and ask the operator to dial a number for us. It was marvelous that we had a phone. We were seven miles away from a dinky little town. But we could afford pay, and the wires were already strung out to the ranch because the previous resident had paid an enormous upfront cost to have them put in place.

Back then, people paid sizable bribes to get on a waiting list to acquire a phone. Even in the capital, Nairobi, it was not much easier to get a phone. A year could pass from application date to finally having a phone in your home or office.

It was that way the entire sixteen years that I lived in Kenya.

Now, when I go back to visit, it seems that almost everyone has a phone. They make calls to have goods delivered to rural areas quickly. They keep up with children away at school. Rural residents can immediately consult doctors two hundred miles away in Nairobi.

A new disruptive innovation made phones available to the masses: mobile phones. They were comparatively cheap, no wires had to be laid to each phone and they are sold at the corner shop. The barriers to ownership and use had been torn down.

Automobiles were another luxury owned by just a few who could either afford to buy

a new one at twice to three times what they cost in the United States at the time or were daring enough to get behind the wheel of a used car that was completely beat up by the terrible roads.

Today, cars line the streets of even in the smallest towns in Kenya. They can be seen parked alongside of grass-roofed huts. It is not that Kenyans have become suddenly wealthy enough to afford cars.

Some Kenyans traveled or went to school abroad. While they were in Europe, they bought a pre-owned car at a rock-bottom price and had it shipped home. Friends saw the cars and asked the travelers to purchase one for them on their next trip. In a matter of just a few short years, a whole industry of pre-owned vehicle importation

was born. Almost daily, a huge roll-on/roll-off vessel delivers pre-owned vehicles from Europe and Japan to the port in Mombasa. They are affordable to a much larger base of the population.

Here is the test of a proposed disruptive innovation in products or services:

- Does it come in from the bottom (cheaper, similar)?
- Can a broader segment of the population acquire it (availability and distribution)?

## NEXT STEPS

The knowledge and advice that I have given in this document gives you a basic understanding of three of the most fundamental factors effecting business in Africa today. Taking this knowledge on board will help you plan wisely and make better decisions.

Remember that each African situation has its own nuances. Your success in profitably marketing your goods or services in Africa will depend, to a great extent, on understanding the specifics of the environment you will be entering.

I can help you gain knowledge of those specifics. I can also assist you to develop a plan for entering the African marketplace. I would love to hear about the goods or services that you want to introduce into Africa. Write me an email at [richard@afriementor.com](mailto:richard@afriementor.com), and I will set up a time to speak with you personally on the phone.

## ***Author's Bio***

I am Richard Chowning the director of [Africa Mentor](#). I am also the Director of Global Relations for [American Car Exporters](#) and a partner at [Beyond-More](#), a virtual career-training firm.

I am an adjunct professor at Johnson University and Mid-Atlantic Christian University. In addition to Africa Mentor, I own and write for four Africa-oriented websites: Religion in Africa, Africa Missions Resource Center, Stories of Africa and Terrorism in Africa.

A more detailed biography is available on the [Africa Mentor](#) website and on my [LinkedIn profile](#).