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HBR CASE STUDY AND COMMENTARY

# Where to Launch in Africa?

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## Should Benard begin his new packaging business in Nigeria or Malawi?

***Expert commentary by Ashish J. Thakkar and Iqbal Survé***

Case Study

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# Where to Launch in Africa?

The Experts

**Ashish J. Thakkar,** founder, Mara Group

**Iqbal Survé,** founder and chairman, the Sekunjalo Group

ILLUSTRATION: FEDERICO JORDAN

HBR's fictionalized case studies present dilemmas faced by leaders in real companies and offer solutions from experts. This one is based on the HBS Case Study "Mara Group" (case no. 114060-PDF-ENG), by Eugene Soltes and Sara Hess, which is available at **hbr.org**.

Benard Kenani spotted his uncle as soon as he walked into the hotel lobby. Uncle Michael was sitting at a corner table with two other men, also in suits, both of whom were laughing at one of his jokes. That was typical of Michael, a successful executive in Nigeria. Everyone loved his affable disposition. He quickly stood up when he saw his nephew.

"Welcome to Lagos!" he shouted across the room. He proudly introduced Benard to the others, referring to him as "one of Nigeria's up-and-coming entrepreneurs."

Right after the men left, Benard corrected his uncle. "You know I haven't decided if Nigeria is the place to start my business yet."

Michael shrugged off the comment. "What matters to me most is that you're finally going out on your own, *achimwene*. It's what you've always wanted."

Michael, like Benard, had been born and raised in Lilongwe, the capital of Malawi. Like many talented Malawians, he had left the country as a young man to seek opportunities elsewhere, settling in Nigeria a decade earlier. He now ran a thriving manufacturing enterprise.

Benard had left Malawi, too, after winning a scholarship to study in the UK, where he'd completed both his university degree in economics and an MBA. But he'd been drawn back to Africa by the burgeoning opportunities there and a desire to be closer to home. After six years as a manager at a packaging company in Kenya, he now felt that he had enough experience to start his own business. His uncle, along with several other friends and family members, had committed to investing in it.

Benard was in Lagos to see his uncle and seek advice about where to establish himself. Though Benard had an ambitious vision of someday running a venture that spanned the continent, he knew he needed to focus on one country at the start.

"But you're seriously considering Nigeria, I hope," Michael said.

"Yes, of course." Benard nodded as he opened his laptop. "The market is competitive, but my research suggests that there are still opportunities in some specialty packaging markets. I've run some projections."

Michael interrupted Benard, closing his computer. "You just need to look around! The BBC, the *New York Times,* the *Economist*—the whole world is talking about how fast Nigeria is growing. We're on the cusp of joining the G20. If you want to be on the forefront of Africa's growth right now, Nigeria is the place to be."

"I agree. There are lots of factors that make it an attractive market. If everything continues at this pace, I'm confident that I can be profitable in the next year or two," Benard said. "But I'm also worried."

"The political environment makes me nervous," he continued. "It seems so volatile. The growing instability could threaten the country's prosperity."

"Sure, those are risks, but you're going to find risks everywhere," Michael replied. "You also need to think about the upside of basing yourself in Africa's largest economy. Where else are you considering?" He quickly added, "Wait—don't tell me Malawi."

Benard gave his uncle a nervous smile. He had known this was coming.

"Benard, when did you become so sentimental? Your vision is so much bigger!"

"With the expertise I can bring to the business, within a year I'll be the number one packaging manufacturer there—"

Michael stopped him. "But what does that matter? Number one in Malawi?"

"That's just the start. Malawi will give me a base to launch into other East African markets—Zambia, Mozambique, Rwanda, even Tanzania—and then move into other businesses. I don't want to be stuck in one place. I want to build across markets to achieve scale," Benard said.

The apprehension on Michael's face made Benard realize he should try a different approach. "*Abambo,* remember, when you started out here in Nigeria, it wasn't such an enormous economy. As the country has grown, so has your business. There are other, smaller African economies poised for growth, and I can be a part of it. I already have a potential business partner in Lilongwe that can help me get started."

"If that's what you're concerned about," Michael interjected, "I can line you up with three potential partners here tomorrow. Just say the word." He asked Benard when he expected to make a decision.

"Soon," Benard said. He explained that he had told his boss that he'd be leaving to start a new venture and had taken the week off to finalize his plans for it.

"I will support your business no matter what you decide," Michael said. "But you need to think about where the money is now. That's where you want to be."

## The Potential of Malawi

The following day, Benard flew to Lilongwe. He was eager to meet with Amara Desta, his potential business partner in Malawi. She had inherited a small packaging business from her father. Because she'd been preoccupied with several other successful entrepreneurial ventures, she'd done little to develop it. For the past year, Amara had been looking for ways to divest the business, ideally by finding someone to buy a majority stake from her. Benard's father had introduced them during his last visit home.

> "Everyone will tell you to go to a big market like Nigeria. But it's so competitive there. Malawi is low-hanging fruit by comparison."

"I simply haven't had the time to put into it," Amara explained as she showed Benard around the manufacturing facility. Indeed, many of the machines were outdated, and several were no longer functioning. "Luckily, we're still in the enviable position of often having more orders than we can fill. Your father probably mentioned that our customers are primarily tobacco producers."

Tobacco accounted for more than 70% of Malawi's exports, and tobacco packaging offered some of the most attractive margins among the products sold by Benard's current employer in Kenya. If Benard just made a few equipment purchases and built off Amara's existing relationships, he could get started right away. But he also realized that it was risky to set up a business where almost all the demand would come from one sector.

"You must enjoy being back home," Amara said.

"Yes, I would love to spend more time here," Benard responded, thinking about his childhood in Lilongwe. His family and many of his friends were still nearby. "But I want to make this decision objectively, based on the economics."

"Malawi has more to offer than most people think," Amara said, proudly rattling off a list of the country's recent improvements as if she were addressing a visitor, not a native. Though the 10 years Benard had been away from Malawi hadn't felt long, he understood why those who'd stayed now treated him like an outsider.

"And the demand is there," Amara continued. "The tobacco growers would love to buy packaging in country. Right now the costs to import are exorbitant. Producing domestically would dramatically lower them, and we'd quickly capture much of the market. We're perfectly situated for later expansion into other markets in East Africa too, if that's of interest to you."

Benard agreed to be in touch with Amara in the coming week and excused himself to go meet his father, Kwende, for lunch.

Kwende was eager to hear about the earlier meeting with Amara. "There's lots of potential there, right?" Kwende asked enthusiastically. "It seems like a good partnership. You both bring such assets to the table."

"It's true. But, *abambo,* I know you want me here, and I think that's clouding your judgment."

"Listen, I'm not as successful as your uncle Michael, but I've been looking into this. Start in Malawi, and after you've succeeded here move into other countries. Focusing on one of the bigger markets like Nigeria or Kenya may seem safer now, but that can always change. If you diversify into several smaller markets, you'll still have a business if there is political or economic upheaval in one place."

"I've thought about that. In fact, the woman I spoke to in Rwanda argued the same thing." Benard had been in touch with the head of the Rwanda Development Board, a government agency that was providing incentives for small-business owners as part of its postgenocide rebuilding efforts. She'd made several compelling arguments for establishing the business there, including a growing economy and reduced bureaucracy.

"She's right. While some of these other markets might be less lucrative today, as they continue to grow, so too will your business," Kwende said.

"Uncle Michael also raised the issue of a skilled labor shortage here," Benard said. "It looks like Amara has struggled with that. I need to be sure I can hire people with the right skills. If I can't find my employees locally, it's going to really increase my costs."

"Benard, everyone is going to tell you to go to a big market like Nigeria, South Africa, or Kenya. There's money to be made there, no doubt, but it's also so competitive. Malawi, Rwanda, Mozambique—they are low-hanging fruit by comparison. Sure, you're going to face some challenges—labor problems this month, infrastructure ones the next. But you're ambitious! Don't you want to be a leader and put back into the country what it gave you?"

## Back in Nairobi

One week later, in Kenya, Benard knocked on his boss's office door. After inviting Benard in, Peter Agambu, the CEO of the company, quickly got to the point: "I'm sorry that you're going to be leaving us to go out on your own. Have you decided where you'll be setting up your business?"

"I met with my uncle in Nigeria and a potential partner in Malawi. There are good opportunities in both markets. I also spoke with a government agency in Rwanda, and they've set up a 'one-stop shop' to help new businesses get all their permits. It's now one of the easiest places to start a company on the continent. So there are a lot of options, but it's hard to see the clear front-runner."

"For me it was easy," Peter said. "Kenya was a big market, and I'm originally from Nairobi, so I knew the place well. I just had to learn about packaging."

Peter had hired Benard right out of business school and had been his mentor ever since. In Peter's view, entrepreneurs needed to focus on one country to succeed in the African marketplace. Africa was so culturally and politically diverse that a business that spanned multiple markets would need a huge centralized infrastructure. "Dreaming of a successful pan-African business is just that—a dream," he'd once told Benard.

Benard recognized the challenges. There were unquestionably significant hurdles associated with expanding into multiple markets. Nations in Africa might be geographically close, but differences in language, culture, and political systems often made them seem much farther apart. Even getting from one place to another was difficult. Countries that were practically neighbors might involve several plane connections, and travel could consume an entire day.

Still, Benard believed Africa was changing and that many smaller markets that had historically been overlooked by ambitious entrepreneurs like himself were now among the most attractive.

"I bet your uncle encouraged you to strongly consider Nigeria," Peter said. "There's certainly a lot of excitement about its growth and potential. Even those of us outside Nigeria are talking about it. While you might be fighting for a smaller piece of market share, it can still be very profitable to be a relatively small player in a big market."

"That's certainly true," Benard replied. "But there's no reason I can't build a profitable business by launching in a smaller market. Of course, the trouble is, if I start off there, I'll need to expand into other countries to gain scale. I'll be creating exactly the type of business you always cautioned against because it'll be difficult to manage."

"My strategy was my strategy, Benard. What's yours?"

Q

**Should Benard begin his new packaging business in Nigeria or Malawi?**

See commentaries on the next page.

## The Experts Respond

**Ashish J. Thakkar** is the founder of Mara Group, a pan-African conglomerate, and Mara Foundation, a social enterprise that supports African entrepreneurs.

**BENARD NEEDN'T** choose between Malawi and Nigeria—he should go after both markets as soon as possible. He has relationships and connections in both places, and that's how entrepreneurs build value in Africa.

Peter, Benard's mentor, is spot-on with his assessment of how varied the 50-plus African countries are. Even neighboring states are so different; you can never just copy and paste a business from one place to the next. But Peter couldn't be more wrong when he says that a pan-African company is just a dream. In fact, that's where the opportunity lies on our continent—in creating distinct value by showing that you can successfully operate in multiple markets despite the obstacles.

Benard is doing several things right, beginning with focusing on his connections in these markets. Partnerships are the way to go. I know this from my own experience expanding one of my companies, Riley Packaging (on which this case is loosely based), into other markets. In our case, Mara Group, Riley's parent company, would act as the local expert in a geographic market and find an industry expert to operate as its partner. Benard is taking the opposite approach: He knows packaging and is relying on people like Amara and Michael to be the local experts. This is an equally successful way to combine on-the-ground expertise and global know-how.

He's also right to think about quickly entering many countries. The more markets you're in, the more your business is worth. Mara Group is now in 22 countries in Africa, and that's what sets us apart. Even though it wasn't our initial intention to have such a large footprint, entrepreneurs like Benard can learn from the success of this strategy.

> **He's right to think about quickly entering many markets. The more you're in, the more your business is worth.**

I'm a big proponent of setting up in small markets. I agree with Benard that they often get overlooked in favor of larger ones like Nigeria. Some of my businesses are now focusing on second-tier markets, like Burkina Faso. I think it's an advantage to get in early and establish yourself before anyone else arrives. Because of this, and if all things were equal, I'd recommend that Benard seriously consider Rwanda. It's a fantastic market with a strong economy, lots of transparency, and a stable government that is receptive to new ideas. And because it's relatively small, he could dominate it early on. But he doesn't have a business partner or a helpful family member there, which could prove problematic.

When I was starting out, I chose Uganda because it was home. But I wouldn't recommend that Benard begin in Malawi, because it would leave him so dependent on one sector—tobacco—for customers. I've always tried to stay away from markets where my company's success would rely on any one type of business.

Still, Benard has to start somewhere, so if resources are scarce, I'd advise him to set up shop first in a larger market—such as Nigeria—and then quickly expand to several others, including Malawi and Rwanda. That will give him a more compelling story to tell third-party investors about his ability to grow in both East and West Africa.

It's a smart strategy to go with what you know, but it's even smarter to leverage your relationships and set up operations in as many locations as possible.

### WHAT WOULD YOU DO?

SOME ADVICE FROM THE HBR.ORG COMMUNITY

**I'D RECOMMEND** Rwanda over Malawi because of the huge strides in infrastructure and economic development that Kagame's government has made. Rwanda is closer to the larger consumer manufacturing markets in East Africa, especially Kenya, which Benard is already familiar with. The East African Community is rapidly becoming one large economic zone. Single visas, cross-border payments, cargo movement, and banking are already being—or have been—integrated. And a single currency is on the horizon.
**Niti Bhan,** *founder, Emerging Futures Lab*

**I WAS** in a similar situation when trying to expand my company beyond East Africa. While Malawi is a small market, I'd suggest Benard start there to get some Africa set-up experience. Then, before going to Nigeria, he should look at Ethiopia, which has cheap power, a corridor into East Africa, and a government that supports start-up manufacturing.
**Neil Ribeiro,** *group CEO, EAGM*

**BENARD SHOULD** start in Nigeria. I've seen enterprises start here and grow into large businesses in just a few years. The middle class—and its purchasing power—is increasing by the day. Infrastructure is improving. The government policies supporting business are the strongest in Africa. Entrepreneurs ignore Nigeria at their peril.
**Dr. Olugbemiga Adelakin,** *monitoring and evaluation officer, United Nations Population Fund, Nigeria*

**Iqbal Survé** is the founder and chairman of the Sekunjalo Group, a holding company with investments in more than 130 private and public companies in Africa, including South Africa's largest printing group.

**NORMALLY I'D** suggest that a young, ambitious entrepreneur set up his business in his home country, establish it as number one or two in that market, and then expand. But in this case, Benard shouldn't waste his time in Malawi. He should focus on Nigeria.

Nigeria is the perfect place to launch a new business. The country is where South Africa was 10 years ago: on the cusp of enormous growth. Its large, increasing population—already half the size of the U.S. population—will demand more and more products as the economy expands. When the retail industry grows, so will the packaging industry.

But it's not just that Nigeria is attractive. The other approach that Benard is considering—start in a small market and quickly expand into others—has several drawbacks. First, operating, and even winning, in Malawi most likely won't provide him with enough capital to move into other countries. Capital is crucial for African entrepreneurs. It's very expensive to set up a business in an African country that you're not from, and not just because of the bureaucracy. Look at Nigeria: It has some of the highest hotel rates in the world. And flying between countries in Africa can be costly as well.

Another problem is that the logistics of running a business across several countries are complex. Traveling from South Africa to Eritrea is not as easy as flying from Germany to France. There are more and more direct flights, but sometimes you have to make an absurd trip to Europe just to get from one African country to another. And while dealing with governance issues in one country is tough, it's even harder in multiple locations. Businesses will encounter visa restrictions, cross-border taxes, and corruption, and each country has its own currency.

The third issue that Benard will confront in Malawi is managerial capacity. When you're working across borders, you need skilled managers to help you. We've found that the best approach is to develop people from the ground up in your base country and then transplant them. I doubt that he will find enough people with the right capabilities in Malawi, whereas Nigeria will have a large pool from which to choose.

Many entrepreneurs fear that if they don't expand fast enough or don't get into a country first, they'll miss a huge opportunity. But often the opposite is true. When you move into a market later, after others have already attempted to establish businesses there, you have the advantage of learning from their mistakes. It can be beneficial to follow rather than lead the way.

**Nigeria is the perfect place to launch a new business. The country is on the cusp of enormous growth.**

My holding company has tried both the approaches that Benard is contemplating, and the larger markets have worked out better for us. We started the most successful ventures in places like South Africa, Kenya, and Nigeria; we got a foothold there and only then moved on to other countries. We've found the smaller markets to be more difficult. When we've tried to launch businesses there, they've often failed.

I can see why Benard wants to go toward what he knows—his home country, a known business partner, and a familiar industry. And he's right to consider the risks in Nigeria. (Though in my experience business goes on despite the political turmoil, no matter how extreme it seems to those outside the country.) But if Benard can make his business work in Nigeria, he can make it work in Malawi. The opposite is not true. If he starts in Malawi, he may be wasting five years of his life. To realize his ambitious vision, he should go to Nigeria, accept his uncle's help, and prove himself there before expanding.

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