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## South African Companies Unlock Sub-Saharan Africa

**Versed in the highs and lows of emerging-market development, SABMiller, Standard Bank, and others are expanding across the continent and beyond**

By [Jack Ewing](#)

Name a global economic woe, and chances are Charles Needham is dealing with it. Market turmoil has knocked 80% off the shares of South Africa's Metorex, the mining company he runs. The plunge in global commodities is slamming prices for the copper, cobalt, and other minerals Metorex unearths across Africa. The credit crisis makes it harder to raise money. And fighting has again broken out in the Democratic Republic of Congo, where Metorex has a mine and several projects in development.

Such problems might send many executives to the window ledge. Yet Needham appears unruffled as he sits down at a conference table in the company's modest offices in a Johannesburg suburb. The combat in northeast Congo, he notes, is far from Metorex's mine. Commodity prices are still high, in historical terms. And Needham is confident he can raise enough capital, drawing on relationships with South African banks. "These are the kinds of things you deal with, doing business in Africa," he says.

That kind of resolve is typical of South African companies. All told, South Africans have plowed more than \$8.5 billion into the Sub-Saharan region, the U.N. estimates, making the country the biggest investor there. Ever since South African Breweries pioneered the African beer market—and then went on to become the global titan known as SABMiller—South African companies have led the way on risky turf. Johannesburg cellular provider MTN was one of a handful of companies to defy conventional wisdom and prove that Africa could be a huge market for mobile phones. South African retailers such as Massmart, Shoprite, and packaged-food maker Tiger Brands are bringing Western-style shopping to Malawi, Nigeria, Uganda, and other far-flung locales. And Standard Bank has opened branches in 16 African countries that in many cases lacked even basic financial services. "South African companies are more open than ever to the opportunities in Africa," says Sonal Pandit, portfolio manager for African equities at JPMorgan Funds ([JPM](#)).

Now the South Africans are taking their emerging-market expertise well beyond Africa's coastline. MTN has moved into Afghanistan and Iran. Standard Bank in 2007 bought control of BankBoston Argentina. And Anglo American, now based in London but with South African roots, has become the world's fourth-biggest mining company, with operations from Chile to Australia.

The knowhow South Africans have gained on the continent is making their companies attractive to foreigners with ambitions in the region. In March, Industrial & Commercial Bank of China bought a 20% stake in Standard Bank. Britain's Vodafone ([VOD](#)) in November took control of Vodacom, a pan-African cellular carrier based near Johannesburg. "Africa is the next China," says Malcolm Perrie, who oversees sub-Saharan Africa for U.S. auto parts maker Federal-Mogul, which aims to double its sub-Saharan sales within five years.

South Africans carry a detailed understanding of the quirks of the local market. Perrie, for instance, grew up in Zimbabwe and South Africa and knows that goods are often unloaded from trucks by hand because retailers can't afford forklifts. So Federal-Mogul ships its Champion-brand spark plugs and other parts in boxes one person can carry. Knowing Nigerians feel insulted when bank tellers sit behind bulletproof glass, Standard instead stations armed guards at its bank entrances in crime-plagued Lagos, which doesn't bother customers. And in Uganda, where many people have little access to mass media, MTN advertises its phone service by painting roadside buildings yellow and blue, the company's colors. Such common-sense solutions may seem obvious, yet South Africans have been faster than others to recognize the opportunities—and more willing to take a risk. French-speaking Democratic Republic of the Congo, for instance, might well have been a logical market for a French carrier, but South Africa's Vodacom jumped in early and is now the leader.

With so many roads in Africa leading to Johannesburg, it would be bad news for the whole continent if South Africa fell victim to global financial turmoil. There's no shortage of reasons to worry. Growth in South Africa, which accounts for a third of sub-Saharan Africa's gross domestic product, likely will slow to 3% in 2009 after averaging 5% in recent years. Mining, an important domestic industry, has been hit by the plunge in commodity prices. The rand has been sliding, creating additional price risks in a country with 13% inflation. And the African National Congress, which has dominated the country's politics since the end of whites-only rule in 1994, has split into rival factions.

Yet foreign economists seem to fret more than South Africans. They don't teach sangfroid in business school, but you may learn it growing up in South Africa, a sometimes jarring mélange of well-manicured wealth and chaotic poverty. The suburbs of Johannesburg look like Beverly Hills or Pasadena, except that the security guards are more heavily armed and the posh houses crouch behind concrete walls topped with electric fence. At a mall called Nelson Mandela Square, shoppers pass a bronze statue of the anti-apartheid leader on their way to the Crabtree & Evelyn outlet.

Despite freeways packed with BMWs and Toyotas ([TM](#)), Johannesburg provides constant reminders that it is very much an African city. More than 70% of South Africa's 48 million people live on \$2 or less a day, and a quarter haven't even completed primary school, the World

Bank estimates. Wizened women with unwashed children on their backs beg at intersections. Men stand by highways with signs around their necks advertising their skills, looking for day work. At a McDonald's ([MCD](#)), customers munch on Quarter Pounders at outdoor tables, taking little notice of the rats that scurry around the chain's parking lot.

Understanding the twin aspects of South Africa's sophisticated economy and emerging market complexities surely gives its companies an advantage around the continent. "South Africans do well when they go elsewhere because they're not afraid," says software entrepreneur Mark Shuttleworth, a South African based in London.

Neighboring Mozambique is a good place to see how South African companies are remaking business in the region. The capital, Maputo, remains a city where most people live in houses with mud-brick walls and rusty metal roofs, and sidewalks are crammed with vendors selling everything from fresh papaya to bootleg DVDs of *High School Musical 3*. At a shiny mall next to an abandoned bullfighting arena, a motorized Santa Claus stands at the entrance to South Africa's Shoprite on a warm afternoon, greeting customers stocking up on rice, cornmeal, and fake Christmas trees. Downtown, Durban-based home furnishings retailer Mr Price sells brightly colored bedding, crockery, and furniture.

And on a bumpy road that hugs the coastline, there's a shining South African-owned big box store called Game. Aside from a few local touches—palm trees in the parking lot, signs in Portuguese, and a whole aisle devoted to ceiling fans—the store looks like a discounter in Ohio or Oregon. A mix of expatriates and wealthier locals fill their carts with Frosted Flakes ([K](#)), Hannah Montana bedsheets, and Sony ([SNE](#)) TVs.

But creating this oasis of consumerism hasn't been easy. Construction was delayed for months while officials held out for bribes. The store's spunky manager, Ana Paula Florentino, refused to pay. "If you give them your finger, they want your hand, and if you give them your hand, they want your arm," says Florentino, who as a child fled the former Portuguese colony on the eve of a brutal civil war that lasted from 1975 until 1992, making Mozambique one of the poorest countries on the planet. Rather than depending on the local phone network, she transmits sales and inventory data to headquarters via satellite. It's challenging to manage personnel in a country where many have never held regular jobs. Workers must learn such basics as the importance of laundering their company-issue red-and-white striped shirts—and skipping the traditional two-hour midday siesta.

The role model for many South African companies is SABMiller. The brewer was active in neighboring countries for decades, then began expanding aggressively after the end of apartheid, when the U.N. lifted economic sanctions. Betting that its experience in such places as Angola and Zimbabwe suited it for other emerging markets, SAB acquired beermakers in Eastern Europe, Asia, and the Americas.

The brewer, now based in London, proved South Africans could compete internationally. "SAB has been an inspiration," says Peter Wharton-Hood, chief operating officer of Standard Bank. He and his colleagues are trying to do for banking what SAB did for beer, though they admit they were slow to appreciate the opportunities on their doorstep. "We didn't take Africa as seriously

as now," Wharton-Hood says. "There was significant pessimism about the prospects for the continent."

That's an important point. News reports about Africa tend to be dominated by war in the Congo, pirates in Somalia, or chaos in Zimbabwe. In fact, Angola, Mozambique, Uganda, and other countries have grown markedly more peaceful recently, even if government institutions still leave a lot to be desired. "In the last 10 years we have seen a dramatic increase in political stability and a reduction of conflict," says Clive Tasker, CEO of Standard Bank's Africa operations.

The opportunities aren't lost on outsiders. Standard faces competition from the likes of London-based Barclays ([BCS](#)), which took over Johannesburg's Absa bank in 2005. Companies from other emerging markets are bringing to Africa their own experience in dealing with difficult environments. In telecommunications, MTN and Vodacom often bump up against Zain, from Kuwait. Brazil-based builder Odebrecht and oil company Petrobras ([PBR](#)) have been expanding in Angola, exploiting the fact that both nations speak Portuguese. And a Chinese outfit is building Congolese roads and other infrastructure in exchange for access to mineral deposits. From within Africa, Nigerian institutions such as United Bank for Africa are proving to be worthy competitors outside their domestic market.

Executives in Johannesburg, however, see the growing competition as just another hazard of doing business in the region. "South African businesspeople have managed enormous risk over the last 20 years," says Michael Spicer, a former executive vice-president at Anglo American who is now CEO of Business Leadership South Africa, an industry group. "They are incredibly flexible."