



The “Africa” Framework for Start-ups in Tough Places



By **Loic Sadoulet**, INSEAD Affiliate Professor of Economics, and **Swaady Martin**, founder and CEO, YSWARA

After an 11-year career at GE, Swaady Martin adopted many of the strategies and tactics instrumental to its successful African expansion to launch YSWARA, an African, global luxury brand.

It is expected when entering new markets that things will be different. Strategies which made sense at home will not necessarily fit with the new environment, people will not necessarily act in the same way and regulations can require a completely different understanding. When entering emerging markets these differences reach a whole new level. But for companies that are prepared to open their minds and eyes to a different way of doing business, surprising opportunities are out there.

Whether you enter the emerging market as a corporate executive or an entrepreneur, you need an entrepreneurial spirit. It doesn't matter how sophisticated your corporate environment, operating in developing

communities requires an open and problem-solving mind-set that doesn't abide by stereotypes, embraces changes positively and adapts swiftly. Never take no for an answer and be solution-oriented, constantly.

Perspectives need to be reassessed, you have to seek out new markets, create them if necessary, innovate in every area, whether it's product creation or finding ways to get things done. Success in emerging markets depends on your willingness to be very hands-on. Not only is the environment extremely challenging, but you need to be aware that it can change suddenly and if you are not there watching as it happens you could get left behind.

When General Electric (GE), expanded its African presence in the early 2000s, very few people recognised the opportunities that were opening up. In March 2000, an article in The Economist had dismissed it as **"The Hopeless Continent"** . Unperturbed, GE, which had operated in the region for more than 100 years, assigned Yibrah Tesfazghi, and his colleagues Swaady Martin, Oswald Mkhonto and Allan Kilavuka to develop what became known as its AFRICA framework, a strategy to expand the company's interests across the continent. This involved:

Assembling the resources: Creating a "Dream Team" of GE players with passion, leadership traits, and necessary skills.

Feeling the ground: Identifying and evaluating commercial and political risks, understanding market dynamics, and making strategic connections.

Realising the winning strategy by translating data into "digestible" information for headquarters.

Influencing internal and external stakeholders by developing detailed engagement plans.

Committing to systematic execution: Turning ideas into action and executing relentlessly.

Accelerating GE's "commercial IQ" in Africa: Going a level deeper in understanding customers to better address their needs.

By following this strategy GE was able to grow its African presence; branching out of oil and gas into healthcare, power, transport and manufacturing. Within five years, revenues had trebled and GE's employees in Africa had increased from 200 to around 2,000. Success opened the way

for business model innovation, GE's African division eventually became the company's most profitable.

The concepts behind the AFRICA framework are just as relevant for start-ups looking to set up business in the region today. And it helped Martin launch her businesses, the luxury tea brand, YSWARA, and the organic gourmet brand, AKRAFO.

Just as GE had to rethink the global perception of Africans as being too poor to buy its products, the creation of the YSWARA meant quashing clichés and stereotypes about the region, rebranding Africa not just as a source of raw materials but as a place where high-end products can be produced and marketed.

A hands-on approach to market research

YSWARA had to educate its clients and rethink its perspective to fully appreciate the continent's potential. This began with a hands-on approach to market research, collecting field-based data and scoping the region for potential customers, suppliers and staff.

The African environment, like many emerging markets, is evolving rapidly. Studies conducted from a desk will not give a full picture. To truly understand the market and uncover new opportunities, it is important to get a feel for the reality, see the changes, visit the factories, observe how people operate, what they want and assess unmet needs.

Once identified, setting up new markets requires the ability to adapt and innovate. If you wait for the market to exist it is too late. Markets need to be created, new products introduced, supply chains developed and used for competitive advantage.

When YSWARA launched there was limited access to a world-class packaging supply chain on the continent. Instead of contracting European or American packaging manufacturers, the company approached local firms and specified what was needed, noting the quality that was expected and the price that would be paid for the finished product needed to be globally competitive. As well as bringing YSWARA the local product it needed, the direct approach gave local suppliers an opportunity to expand their businesses, creating high quality packaging out of cheap materials. (This is another example of how it pays to get out of the office and visit contacts in the field.)

Forging close ties with local stakeholders can also help newcomers overcome the complexity of regulatory and trading barriers, and assist in creating change in this area. It is also a reflection of the company's commitment to growing the local community.

Ubuntu capitalism

It is not enough for a start-up or expanding company to say, "We have a great CSR programme, now let's get down to business." When operating in emerging markets, a firm's purpose and commitment should merge with business. At YSWARA we have coined the term "Luxe Ubuntu" to describe our luxury business model, in which there is economic benefit for everyone who contributes to the production of a luxury. Broadly, if we expand it to all industries, we can call it **Ubuntu capitalism**. The term Ubuntu, from the Nguni people of southern Africa, roughly translates to "humanity towards others" and recognises a common bond connecting all humanity. The concept behind Ubuntu capitalism is the idea that, to operate effectively, companies must contribute to the development of their environment. This commitment stretches beyond social responsibility or a license to operate, to become something ingrained into a company's DNA.

In societies where poverty, alcoholism, disease and HIV are rife, where transportation is a perpetual problem and it is not uncommon for people to travel hours to reach work then businesses which become responsible for employees, suppliers and clients and firms need to understand the Ubuntu concept, "I am part of society and society is part of me".

Logistics barriers and talent shortages

Of course, taking on this commitment is not the only challenge. Logistics are a critical yet often neglected component of doing business in Africa. Acquiring visas or meeting importation regulations can take months. GE and YSWARA addressed the issue of poor quality infrastructure and lack of integration between economies by building strong local supplier relationships and looking at innovative ways to sell their products. YSWARA has a shop in Johannesburg and retails globally through a selective network of distributors.

Lack of talent is a common trial facing all emerging economies including Africa. The dearth of knowledge and experience curbs innovation and stifles growth opportunities. Like supply chains, talent in Africa needs to be developed. Skilled workers need to be nurtured. The cost of training workers is high, as is the turnover of skilled labour. It is frustrating but firms should

adjust their perspective and think of training dollars as a contribution to the development of the economic ecosystem.

The opportunities

Fifteen years after The Economist's shocking headline, Africa is seen in a very different light. According to **McKinsey's estimates**, by 2020, 128 million households in Africa – 600 million people – will have entered the “consumer class”. For GE, the region has become one of the organisation's most important growth areas. Billions of dollars have been earmarked for infrastructure, marketing, skills training and sustainability initiatives by 2018, with expansions into countries like Ethiopia and Mozambique. Meanwhile existing firms and start-ups, like YSWARA, are recognising the vast potential for value-added trade, both intra-Africa and globally. The most successful companies will be those that include Ubuntu thinking into their strategy; have the courage, tenacity, and resilience to overcome the challenges; and maintain an innovative, solution-orientated attitude to getting things done.

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