Opportunities and Challenges for Danish Medium-sized Exporters in Africa

Lessons Learned from the DI Africanisation Project 2016–18

Hansen, Michael W.; Gundelach, Henrik

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INDUSTRIENS FOND FREMMER DANSK KONKURRENCEEVNE
The Danish Industry Foundation

DI
Confederation of Danish Industry

CBS COPENHAGEN BUSINESS SCHOOL
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INDUSTRIENS FOND
FREMMER DANSK KONKURRENCEEVNE
The Danish Industry Foundation

The Danish Industry Foundation was founded in 1898. Since then, the Foundation has undergone several mergers and adaptations. In 2009, however, it divested itself of its commercial activities and became the Danish Industry Foundation as we know it today, a private philanthropic foundation.

The Danish Industry Foundation's objective is to promote the competitiveness of Danish industry. This is done through numerous projects, programs and initiatives. The Danish Industry Foundation is particularly interested in strengthening the growth of companies by developing and supporting projects focusing on:

- Internationalisation - specifically, creating more opportunities for companies to participate in global commerce
- Creating and applying knowledge – specifically, ensuring that companies are aware of new knowledge and how to apply it in practice
- Introducing new technologies – specifically, helping companies to implement new technologies more quickly and with greater success
- Innovation - specifically, supporting companies in transforming themselves
- Ensuring that the relevant competencies are available - specifically, ensuring that companies have access to a large and highly qualified labour pool

In 2016 the foundation made a special call for new projects focusing on exports from Danish businesses. As part of this initiative ”Project Africanisation – from Næstved to Nairobi” was born. The Danish Industry Foundation makes special calls once or twice a year.

DI
Confederation of Danish Industry

The success of Danish companies in foreign markets is crucial to maintaining the prosperity of Danish society. Danish exports account for more than half of the economic foundation for Danish welfare.

Therefore, the Confederation of Danish Industry (DI) helps Danish companies every day in their efforts to win on foreign markets and convert global opportunities into successful business – locally, nationally and internationally.

We work to ensure Danish companies' ability to attract and retain the best employees from around the world. Our dedicated efforts in the EU aim to secure the best possible framework conditions for our 10,000+ member companies. From our headquarters in Copenhagen and offices around the world, we assist in every phase of Danish companies' internationalisation activities, utilising our extensive industry knowledge to help companies establish a foothold and succeed in global markets.

We advise members on topics such as international strategy, financing, export regulations and hiring foreign employees, while delivering integrated solutions for growth in foreign markets. We offer training, seminars and conferences – and we accompany Danish business leaders internationally on state visits, export promotion campaigns and trade fairs. We facilitate contact with our unique international network of sister organisations and partners, opening doors for our members and providing competitive advantages around the world.

Foreword

In 2015, The Danish Industry Foundation (IF) and the Confederation of Danish Industry (DI) published the report ”Afrikas muligheder – set I dansk perspektiv”. Among the findings in the report was the fact that Denmark was lagging behind other Western European countries when comparing per capita exports to Africa, and despite being a continent experiencing significant growth, Africa was still a difficult market for Danish companies. The report concluded that Africa is not just ONE market, and each of the 54 countries will provide individual opportunities and challenges.

Based on the report findings, DI and IF decided to design a new and larger initiative, ”Project Africanisation – from Næstved to Nairobi”. The project aimed at exploring new ways for Danish medium-sized companies to increase Danish exports to Africa. Supported by IF as part of the foundation's special focus on exports from Danish SMEs, the project has since 2016 worked on ways to accommodate the primary barriers for increasing exports and investment by Danish companies in relation to Africa.

This report encompasses the results and conclusions of the project. The detailed experiences of the 14 Danish companies participating provide an insight into both challenges and opportunities in Africa for Danish companies. As a result, it is a ”must read" for all company managements in Denmark considering initiating or expanding operations in Africa. Some of the advice is well-known, while some is new. But in both cases, the recommendations provide the reader with the requirements for increasing the chances of success in Africa. All markets have challenges, and the African markets are no exception – and often the challenges are very different from those of more mature markets. However, preparation, commitment and the right resources are still key factors for success, and in this respect, success in Africa is not all that different from other markets.

While we have over the past two years improved our ranking slightly among other Western European countries in terms of per capita exports to Africa, we are still below average. Hence, we hope this report will contribute to closing the gap further.

Mads Lebech
CEO
The Danish Industry Foundation

Thomas Bustrup
COO
Confederation of Danish Industry

Published by: The Danish Industry Foundation and The Confederation of Danish Industry
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Executive summary

In 2016, the Confederation of Danish Industry (DI) embarked on the project ”Africanisation: From Næstved to Nairobi” – henceforth the Africanisation project. Through intensive advice and network facilitation, the project would assist 14 Danish medium-sized companies in starting up and further developing export to East Africa. The Danish Industry Foundation (IF) supported the project financially. The background for the project was based on previous DI analyses which indicated that Danish companies, and here especially medium-sized companies, were not exploiting the export potential of Africa to the extent of other like countries. The project was explorative in the sense that various new export support methods were developed and implemented. An evaluation team from Copenhagen Business School (CBS) followed the project to determine progress and extract learnings. The report in hand summarizes the findings of the evaluation team.

The 14 companies selected for the project were all typical Danish medium-sized exporters (MEs); they provide niche products, either machinery and equipment or ingredients and inputs, to industrial producers; and they rarely work in end-consumer markets. Their products and services are overwhelmingly differentiated based on quality and reliability, and price sensitivity is relatively low. All 14 companies are highly seasoned exporters, but most have limited experience with Africa. They entered the Africanisation project to learn about East Africa, to kick-start an Africa strategy, and/or to consolidate and deepen existing activities. In all companies, the Africa entry reflected a strategic prioritisation and commitment.

The companies started out the project on an optimistic and upbeat note, citing the lucrative market potentials of East Africa as their main motivation behind entry. Over the course of the project, the initial optimism was cautioned by realities on the ground. Coming face-to-face with corruption, lack of infrastructures, informal business networks, or unpredictable government interference somewhat dampened the MEs' original optimism. Overall, the companies realised that although there are huge opportunities in East Africa, it takes longer time to reap any gains than in other markets and the risks and difficulties are greater.

DI assisted the companies in developing a strategy and business plan tailor-made to East Africa. It was expected that the companies would modify their products and business models in order to adapt to specific consumer preferences, regulations, infrastructures, and purchasing powers of East Africa. Hence, the Africanisation project provided services that could assist companies in business model and product modification. However, while modest modification took place, the 14 companies generally applied their known models, products, and technologies in East Africa.

The main focus and mission of the companies were to identify local partners – typically distributors or agents – because local market knowledge, contacts, and networks are indispensable to move to sale in East Africa. In this regard, the Africanisation project advised companies on entry modes and provided them with an opportunity to meet local industry representatives and potential partners on the ground. The search for partners turned out to be more challenging than expected due to the scarcity of capable local partners and difficulties in understanding and penetrating local business networks.

After two years with the Africanisation project, nine companies had entered the Kenyan market and had achieved export sales, albeit in some cases only at a modest level. In terms of entry modes, six companies had entered into agreements with a local distributor or agent, and three had established sales or service subsidiaries. The companies overwhelmingly focused their East African export efforts in Kenya, although several planned to use Kenya as a platform for sales in other East African countries. Five companies realised at various stages of the project that the East African market was unworkable for the time being. The reasons were either that markets were not mature, that expected market supporting legislation did not materialise, that corruption was too high, or that top management – for reasons unrelated to Africa – decided to stop the project.

The evaluation identified factors that help explain why some MEs succeed with exports in East Africa while others fail. In particular, five such factors were identified, in order of importance:

1. **FINDING A LOCAL PARTNER:** Danish exporters need the market knowledge and network insider-ship of local distributors and agents to access and develop African markets. But suitable partners were in short supply and those that were there, were already engaged with other exporters or major local players. MEs, therefore, need to be innovative and flexible with regards to partner choice.
2. **MANAGEMENT COMMITMENT:** A key factor behind success is whether top management and owners back up the project. To succeed in East Africa requires an upfront commitment from top management and, at the least, a sustained commitment over the three to five years it takes to develop the market.
3. **RETAINING EXPERIENCED EXPORT STAFF:** Success in Africa hinges on dedicated and seasoned export managers that can initiate, organise and oversee the entry into East Africa. It is essential that incentives are provided to attract the best export staff and ensure that they maintain their focus on Africa.
4. **CONTINUED GROWTH IN THE LOCAL MARKET:** The high growth of East African markets is the main driver for Danish MEs. But in several cases, the market segments was too small, the bureaucratic barriers too cumbersome, or the uncertainties regarding long-term market development too large to justify entry. It follows that potential exporters must engage in thorough analyses of their particular market and industry segment, and that they must be willing to abandon entry into East Africa if uncertainty turns out to be too high or market potential too low.
5. **ADAPTATION AND FLEXIBILITY:** Business model adaptation might often be necessary to succeed in East Africa due to the lack of capable partner firms, institutional voids, infrastructure deficiencies or weak financial capabilities of customers. During the Africanisation project, the Danish MEs displayed little appetite for technology and product adaptation; however, a few companies embarked on moderate business model modification, in particular of prices and channels.

Overall, the evaluation finds that patience is the overarching success factor for entry in East Africa. MEs must be willing to invest in developing long-term partnerships with local companies rather than seek short-term quick fix partnerships. Top management must be willing to support Africa entry with attention, money, and an acceptance that exports to Africa take time. MEs must clarify if they have the experienced export staff needed to oversee the entry for the duration. And MEs must be ready to embark on business model innovation in order to adapt to the specific conditions of African markets.

The Africanisation project was generally evaluated positively by the companies. In particular, the companies valued the market information and networks provided by the project. Several reported that the project had worked as a catalyst for their engagement in Africa. The systematic strategy development work helped several companies in creating a more structured approach to Africa exports. The networks with other Danish MEs were highly valued as was the feed-back from local Kenyan business people facilitated by DI's sister organisation, Kenya Association of Manufacturers (KAM). Also, the market intelligence and assistance provided by DI and two Kenyan consultants on the ground in Kenya was seen as a very valuable part of the project. Overall, participating in the project placed the Danish companies on a steep learning curve, although several participants felt that some of the momentum was lost after the first year.

The evaluation proposes various ways in which the experiences generated through the project could be utilized for developing new services for Danish industry.

First, it is concluded that the modality in its current form cannot be rolled out in new locations. It is unlikely that companies will be willing to pay an increase in fees, perhaps as much as four or five times, that would be the result if all costs were to be factored in. Instead, a modality that is more sharply sequenced and segmented could be considered by DI. Such a modality would recruit companies based on their market segment (BtB, BtC, or BtG) and/or their planned entry mode (direct export, distributor/agent, or sales subsidiary) and would allow companies to opt in and out of elements of the project as it progresses.

Alternatively, individual elements of the project can be refined and developed into specific DI services. For instance, further development of services related to entry mode and partner identification seems highly warranted as the main challenge for Danish MEs was clearly in identifying capable local business partners. Also, companies highly valued market and industry information, and in this regard, DI could consider further developing its services as related to tailor-made market and industry analysis. Moreover, as the main learning for companies appears to have been made while visiting the country, DI could consider facilitating opportunities for companies to get ”boots on the ground”, e.g., by further developing the boot camp concept.

Eventually, DI may consider establishing an East Africa office, perhaps in collaboration with its local sister organisation, Kenya Association of Manufacturers (KAM). This office could host local consultants and even provide ”Own Man In” facilities for MEs that wish to ”get boots on the ground” for a limited period of time while operations are starting up.


Photo: Vestas

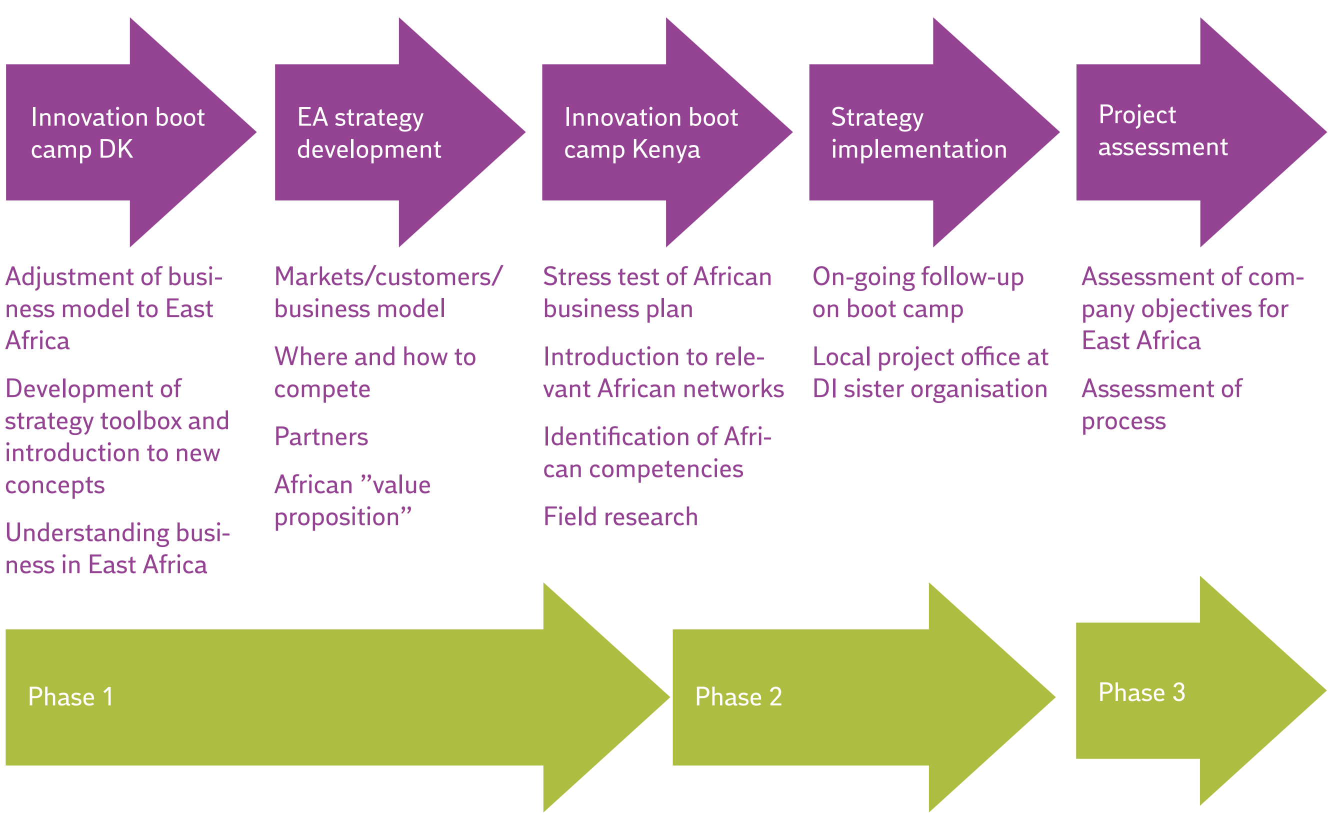
Photo: Getty Images

Introduction

THE PROJECT

For many years, the Confederation of Danish Industry (DI) has assisted and advised Danish companies when they move into emerging economies. During the 2000s, DI expanded its consultancy services related to Africa as growth in this region took off. A study of Danish export performance in Africa was carried out in 2015 in collaboration with researchers from Copenhagen Business School (CBS) and The Danish Industry Foundation (IF). The results of the study, published in the report ”Afrikas muligheder – set i dansk perspektiv”, suggested that Danish industries underperform in terms of exports to Africa. In particular, the study suggested that the ”Danish Mittelstand” – i.e. medium-sized companies – had failed to fully seize the opportunities of rapidly growing African markets. Medium-sized exporters (MEs) frequently overestimate difficulties in Africa; they often have an opportunistic rather than strategic approach to the continent, and they fail to adapt processes and business models to the particular conditions of Africa. The study further concluded that there was a lack of specific business consultancy services that can assist MEs in developing exports to Africa.

In response, DI designed a project aimed at addressing some of the issues and problems facing MEs in Africa. The project – the Africanisation project - focused on East Africa as the interests, and potential of member companies seemed largest in this region. Moreover, DI had long-standing experience in both Kenya and Tanzania and it had close links to local



industry associations there. The Danish Industry Foundation (IF) decided to fund the project with DKK 2.6 million.

The project was implemented through an intensive two-year process where MEs considering entry and/or further expansion into East Africa received individual and collective advice and support, as well as opportunities to get rapid on-the-ground experience. The project was sequenced into:

1. a preparation phase with development of an Africa strategy and a business model
2. a field trip phase (boot camp) taking place in Nairobi, with workshops and meetings with local business people
3. a strategy implementation phase with support from local DI consultants
4. an evaluation and lessons-learned phase

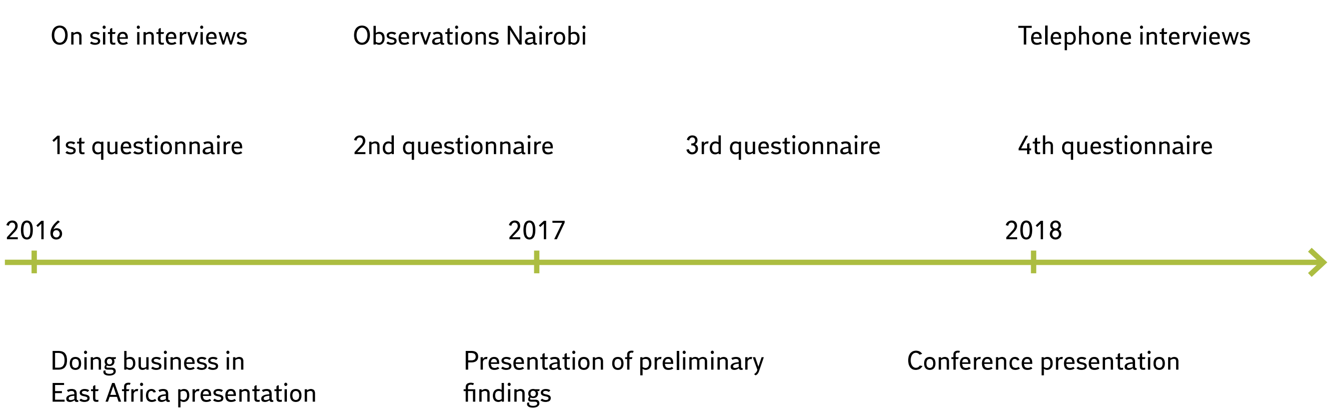
Two Kenyan consultants were hired to ensure an African anchoring of the project. The consultants referred directly to DI in Denmark but were contractually employed by Kenya Association of Manufacturers (KAM) in Nairobi. DI recruited 14 companies who agreed to engage in the project and pay the upfront entry fee of DKK 25,000.

THE EVALUATION

The Danish Industry Foundation emphasised from the start of the project that an evaluation should be an integral part of the project. The purpose of the evaluation would be to examine if the intended objectives were achieved, what were the lessons learned, and what were the possibilities for replicating and scaling-up the project.

A team of researchers from CBS's Center for Business and Development Studies were engaged to design and carry out the evaluation. The evaluation was real-time and participatory. Hence, the CBS team participated in all joint events and made presentations to DI and the project companies on project progress. All companies were interviewed at the beginning and end of the project. The team had the

EVALUATION SEQUENCE AND OUTPUTS



opportunity to participate in actual sales meetings with the companies in East Africa. At four points during the project period, the companies were asked to respond to a questionnaire that related to activities, strategies, results, and impressions of the Africanisation project.

The evaluation is unique in the sense that it followed 14 companies closely over two years and that the evaluation team experienced more or less unhindered access to the companies. Where much of the analytical work on Danish Africa exports adopts a generic economic perspective, the evaluation adds value by analysing Danish Africa exports from the perspective of export practitioners. The evaluation took place real-time which meant that feedback to DI project management was possible as the project progressed.

Generalisations to all Danish MEs from this evaluation must, obviously, be made with great care as they are based on the experiences of only 14 companies and as such, the sample of participating companies may be biased. For instance, most of the participating companies are relatively large compared to the population of Danish MEs. They are all operating in either machinery or food processing and not in such industries as services or transport. All 14 companies are very mature, each at least 30 years old, and all have long-standing international experience prior to the project.

Nevertheless, the evaluation findings can to some extent be generalised, especially in regard to generating a better understanding of the challenges and opportunities that face MEs in difficult export markets, as well as in regard to assessing the feasibility of the export promotion methodologies adopted in this project.

It should be noted that the findings, conclusions and recommendations of the evaluation report in hand are those of the evaluation team, not of DI, IF or CBS.

PROJECT AFRICANISATION EVENTS

1. Workshop in Fredericia, two days, June 2016
2. Two local consultant hired in Nairobi, August 2016
3. DI team visit to all participating companies, five days, September 2016
4. Workshop in Copenhagen, one day, September 2016, Business Partner Selection
5. Visit to Nairobi, six days, November 2016
6. Workshop in Nyborg, one day, December 2016
7. One of the consultants in Nairobi leaves, March 2017
8. Workshop in Copenhagen, one day, June 2017
9. Official end to Project Africanisation, July 2018
10. Project Africanisation conference, Copenhagen, November 2018

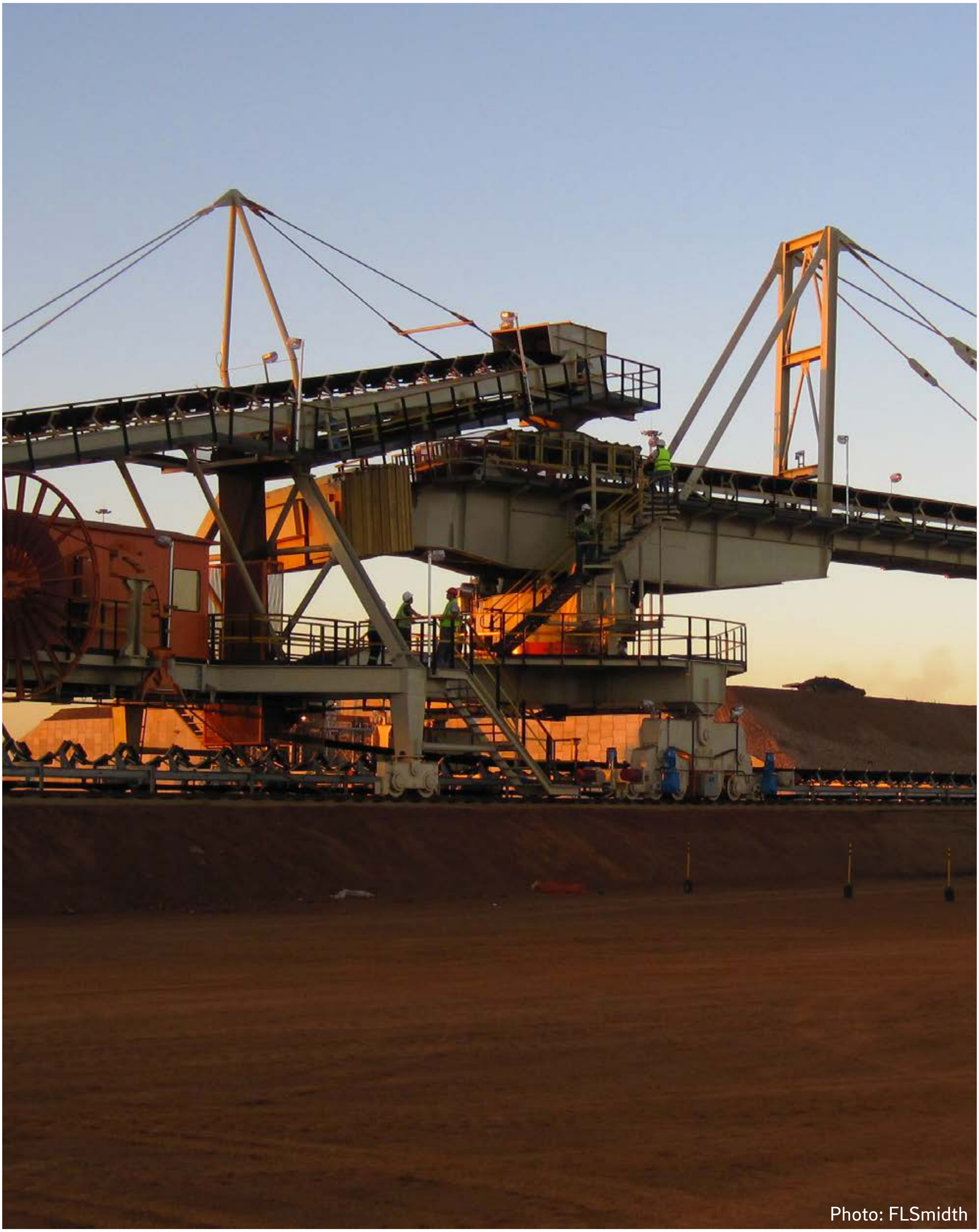


Photo: FLSmidth

Danish exporters in Africa

OPPORTUNITIES AND CHALLENGES IN AFRICA

The gravity of global economic activity has recently tilted toward emerging economies, and they now produce 60 percent of the world's GDP. During the financial crises, emerging economies have also been the main growth engines of the world economy. The growing importance of emerging economies represents huge export opportunities for Danish industry. There may be a large pent up demand for Danish products and services in the rising consumer markets of these emerging economies. Relatively low competition in many market segments may offer opportunities for Danish exporters to gain first mover advantages. But business in emerging economies is also riskier than in more mature markets. Emerging economies are often characterised by economic fluctuations and political instability. Exchange rate collapse or political unrest can, from one day to another, turn a promising export market into a liability. Widespread institutional failures can result in difficulty getting approvals and certificates from governments, a high degree of uncertainty regarding regulations and standards, and difficulty enforcing contracts with business partners. Widespread market failures mean that the related and supporting services and inputs that exporters depend on are difficult to find, e.g. competent distributors and agents, market intelligence agencies, transport and logistic services, or financial services. Therefore, the opportunities of emerging economies must be weighed against the challenges of doing business there.

Among emerging economies, Africa south of the Sahara has surfaced as the next frontier for Danish exporters. The previously mentioned report, "Afrikas muligheder – set i dansk perspektiv", projected that Africa could very well become the world leader in economic growth over the next five years because of high growth in private consumption and a rising middle class. Over the last decade, Africa has grown faster than other regions, with growth rates in excess of 6 percent in large parts of the continent. This growth is supported by improved business environments and by trade and investment liberalisation.

Foreign firms play a vital role in the development of African economies, partly as investors providing the capital and technology needed to develop industrial, extractive and infrastructure sectors, and partly as exporters filling pent-up demand in Business-to-Business (BtB), Business-to-Government (BtG) and Business-to-Consumer (BtC) markets. Africa offers opportunities for many types of Danish exporters: For instance, in some African markets, the industrial sector is booming, increasing the demand for the high quality equipment and machinery that many Danish companies can deliver. Several African countries are developing their extractive sectors, and especially in the food and agricultural sectors, there is a clear match with Danish competencies. Across the continent, a middle class with increasing purchasing power is evolving, providing business opportunities for Danish companies selling fast moving consumer goods (FMCGs). In many African countries, massive infrastructure investments are undertaken in areas such as energy, water and communication, providing opportunities for Danish energy, construction and consultant companies. Finally, high growth rates in services in African emerging economies offer opportunities for Danish companies in logistics, tourism and finance.

However, although there are large opportunities for Danish exporters in Africa, the aforementioned DI report also shows that while many European countries are storming to Africa, Denmark is falling behind. In fact, Danish exports to Africa have been sluggish when compared to the EU15 average, and export growth has been significantly lower than that of other small open economies. If Denmark could get on the same level of export as the EU-average, it could increase exports to Africa by DKK 7 billion in just one year.

There are several plausible explanations for the lack of Danish exports to Africa, e.g., that Denmark does not have the colonial-age ties with Africa that many European nations have or that the industry composition of Danish industry – with the typical company being involved in high quality niche BtB markets – is a bad match with the demands of Africa. But a main explanation is probably that small and in particular medium-sized companies, which are relatively important in the Danish industry structure, may be disproportionally hard hit by the challenging African business environment.

CHALLENGES TO MEDIUM-SIZED EXPORTERS IN AFRICA

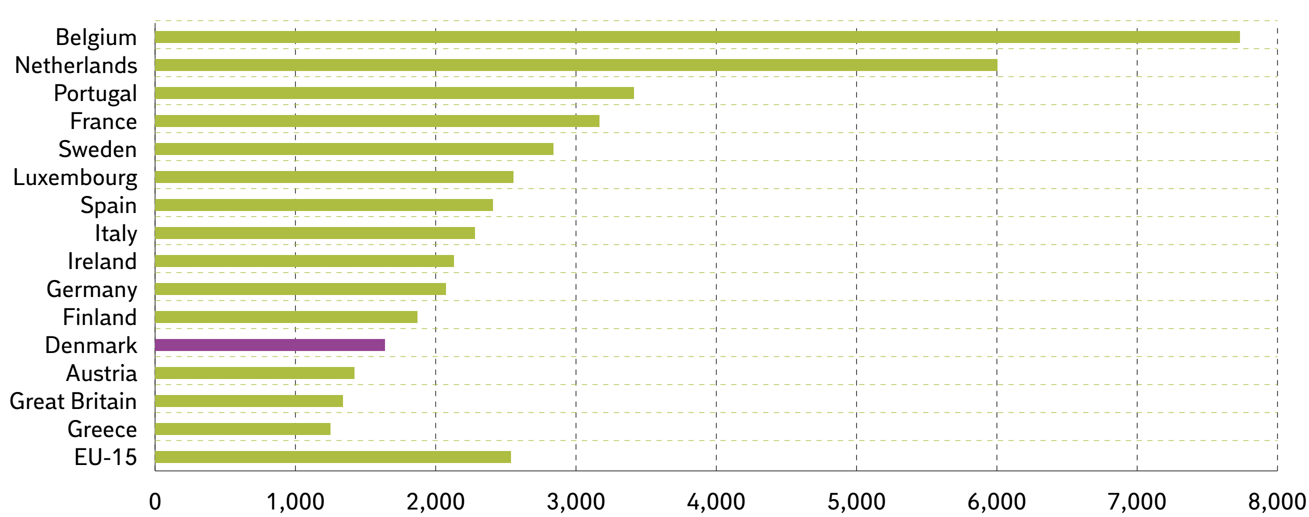
Export sales are important to many medium-sized companies, and they often have long standing international experience. Coming from a small open economy like Denmark's, exports are typically in the DNA of medium-sized companies as the Danish home market is limited and quickly saturated, especially when companies operate in niche markets.

Danish medium-sized exporters (MEs) have recently moved into emerging economies, to follow their industrial customers and to cater to rapidly growing BtB and BtG markets. As Africa has become the next frontier in emerging economies, this region has also entered the radar of Danish MEs. Many MEs contemplate entering Africa, lured by high growth rates in parts of Africa, improved business environments, low levels of competition in some segments, and maturing BtB markets. But the opportunities of Africa must be balanced against the challenges faced specifically by MEs. These specific challenges derive from the combination of difficult African business environments and MEs' limited resources.

Entering a new export market is challenging for any exporter! The exporter needs to collect reliable

DANISH EXPORT IN AFRICA IS TRAILING BEHIND EU AVERAGE

Export per capita, average 2012 – 2017 (DKK)



market information, ship samples, contract with and monitor partners, obtain permits, establish transport and logistics systems, organise on-site visits and arrange for visits of potential customers and partners etc. Export into African markets may be particularly challenging due to difficulties in obtaining reliable market and industry information, problems of shipping and clearing goods, bureaucratic obstacles related to permits and licenses, in-transparent local business networks, lack of credit facilities, corruption, currency fluctuations, political instability, and underdeveloped distribution and marketing channels. These business environment challenges may hit MEs particularly hard when compared to larger companies due to MEs' more limited resources. The MEs may lack experience from other difficult emerging economies that they can draw on for assistance in Africa. They may lack the skilled staff that can support a time consuming export promotion in Africa. They may lack the financial and engineering capabilities required to undertake the technological and business model innovation that is needed to succeed in Africa. And they may lack the capital to finance a prolonged export promotion in Africa. Overall, the psychic distance to Africa – i.e. the cultural, administrative, geographical and economic distance – may discourage MEs to even consider entering Africa. The DI Africanisation project is precisely about exploring how MEs can be assisted in overcoming the challenges deriving from the combination of limited internal resources and a highly difficult African business environment.

MEDIUM-SIZED EXPORTERS: THE "MISSING MIDDLE" IN THE INTERNATIONAL BUSINESS LITERATURE

Much of the recent literature on international business focuses on companies that establish themselves abroad through foreign direct investment (FDI). FDI is typically seen as a higher order form of internationalisation than exports, and exports are seen as a preliminary internationalisation step on the way to international production based on FDI.

However, many medium-sized companies, including several of the Africanisation project companies, are highly internationalised but have never considered moving toward FDI; they are "eternal exporters'. Such eternal exporters are poorly understood by the international business literature.

Moreover, some markets – such as many of those in Africa – may not be suitable for FDI due to their limited size and unstable business climates. Exports may, for many foreign companies, be the only feasible way to service these markets. Again, this type of "constrained" internationalisation is poorly understood by the international business literature.

Hence, there clearly is a need to understand the medium-sized exporter in emerging economies from an academic perspective. This evaluation report may contribute to such an understanding.

Photo: Grundfos

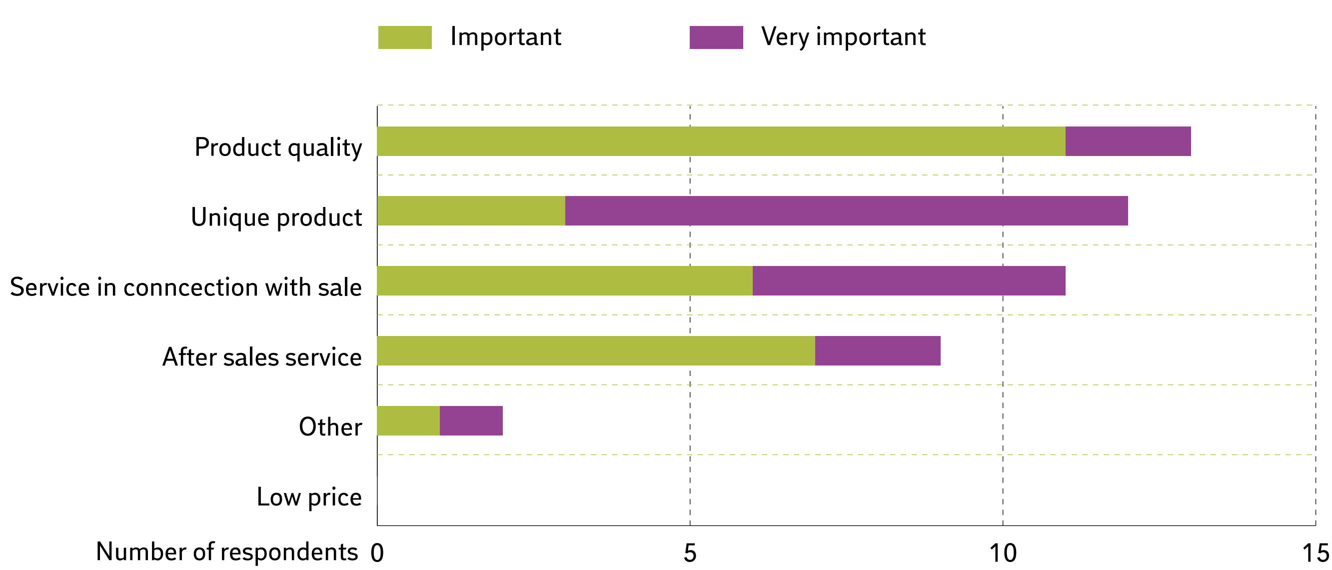
Experiences of 14 Danish medium-sized exporters in East Africa

PROFILE OF THE EXPORTERS

14 companies participated in the Africanisation project. Their sizes span from 60 to 3,500 employees and from EUR 10 million to 700 million in turnover. What unites these companies is that they are specialised in BtB niche markets, and they do not have well-known consumer brands. Most of the companies have a limited resource base, especially related to export to emerging economies. The 14 companies are far from start-ups; the youngest company is around 30 years old. In terms of industry, the companies are overwhelmingly in machinery and equipment, the exception being two companies that sell ingredients to the food and beverage industry. All the companies differentiate themselves on uniqueness of products, quality and service, and none has low price as a competitive advantage.

The companies are typically specialised producers that export a majority of their products because the Danish home market does not have the size to support sufficient sales. Hence, all the companies are highly experienced exporters, typically with an over 90 percent export propensity. Some operate mainly in nearby markets, but most have experience with distant markets, i.e., emerging economies. Eight of the companies are not only exporting from Denmark but also producing abroad, thereby supporting their exports with FDI in production around the world.

COMPETITIVE ADVANTAGES IN EAST AFRICA



The export managers participating in the project are highly experienced; eight of the managers are above 50 years old, and only three are below 40. Eight of the managers have mainly commercial backgrounds (i.e., sales), four have mainly technical backgrounds, and two have other backgrounds.

Nine companies had experience in Africa prior to the Africanisation project, although typically with South Africa, Egypt and Morocco. Four had prior experience in the Kenya market specifically, however typically with sporadic sales. One company had longer experience and a subsidiary established in Kenya. This was, however, for another product line than the one that was part of the Africanisation project.

AMBITION IN AFRICA

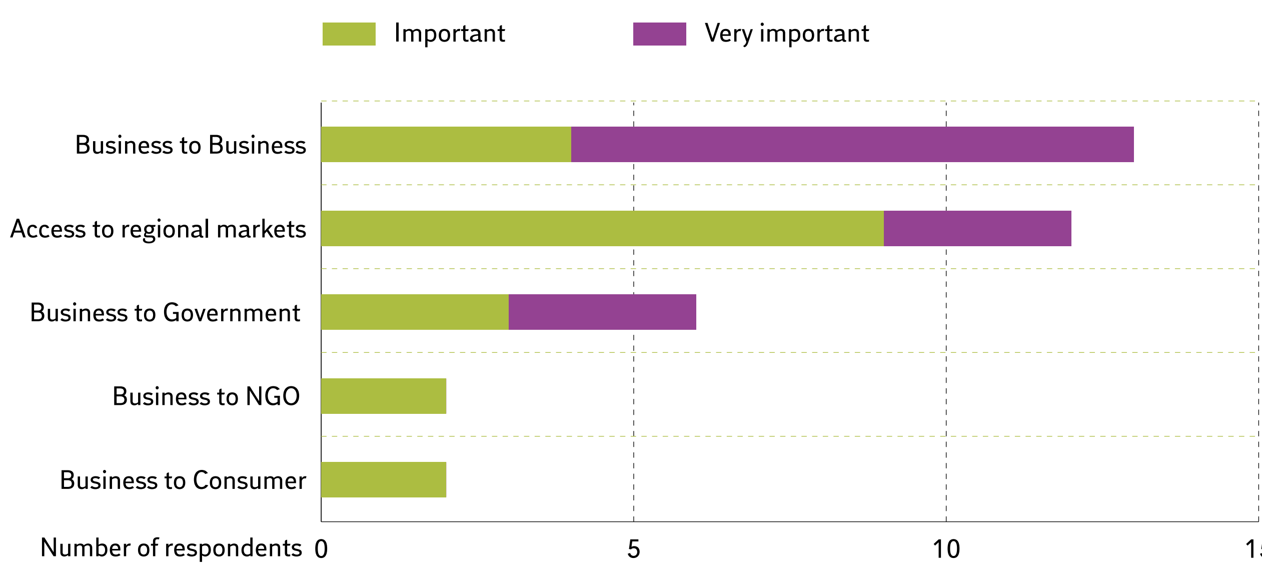
Almost all companies reported that they wanted to enter BtB markets when they were asked about their motives behind entry into East Africa. Typically, they looked for business customers not only in Kenya but also in neighbouring countries such as Uganda, Tanzania and Ethiopia. In that sense, companies planned to use Kenya as a hub or entry point for the wider East African market.

The participation in the Africanisation project had high priority in all companies; in six cases the project was initiated by the managing director, in four by the owner/CEO, and in three by the export manager. Reflecting the high-level involvement, 12 companies reported that Africa entry is part of their strategy. Ambitions in terms of sales were high at the start of the project; the ambition was that sales to Africa would double over the coming three years.

OPPORTUNITIES AND CHALLENGES IN THE AFRICAN MARKET

At the project's start, the companies had high expectations for the African market. In particular, the

WHY MOVE INTO EAST AFRICA?



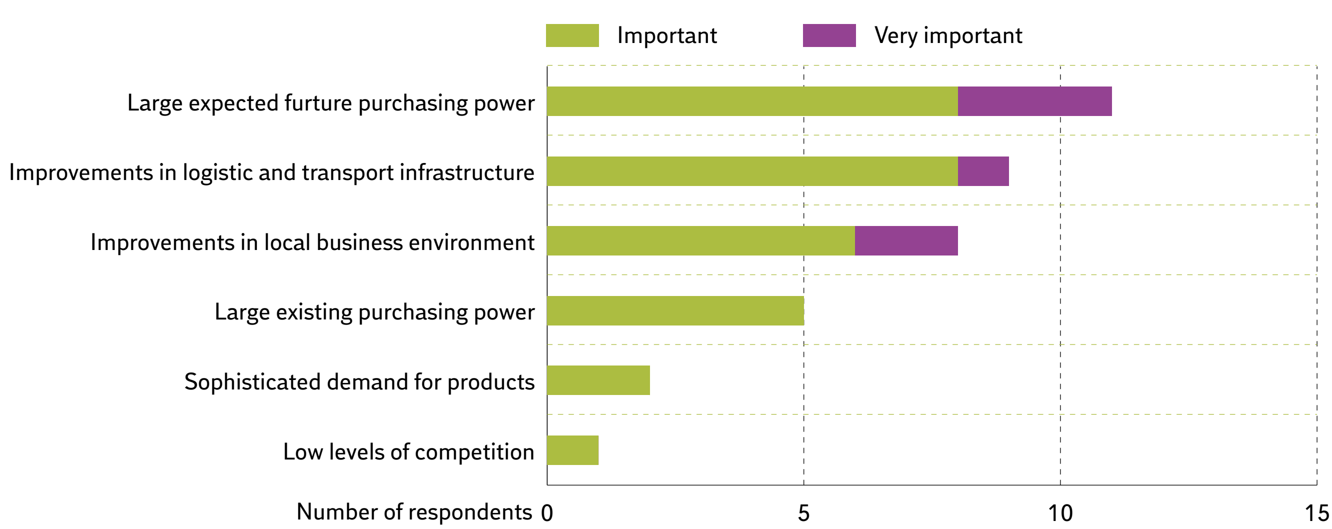
expected future purchasing power – rather than existing purchasing power – attracted companies toward Africa. Also, companies noted improvements in logistics and transport infrastructure, as well as in the local business environment, as good reasons to engage in the East African markets. For instance, one company reported that the necessary services to support exports and sales were available in Nairobi, services such as warehousing, distribution networks, office hotels, banks, control firms, etc.

The companies were not naïve about the East African markets, and numerous challenges in the market were anticipated. In particular, corruption and red tape were issues of concern. As stated by one company, ”The main barrier in Kenya is government regulation. We are in a corrupt country. When I receive containers, they decide to block my container with the justification that it has a wrong access code in the declaration form approved by the revenue authority. This is just intimidation to pull you back and make you frustrated. That's why customers don't want to import by themselves.”

The shortage of competent local partners was also a prominent concern and, as we will see later, a main deterrent for entry into the region.

Some of the companies were concerned that the long-term market development would not be as favourable as initially expected. This concern was amplified by the fact that the companies visited Kenya prior to and during the 2017 presidential election which significantly affected business activity in the country; as stated by one company, ”I was surprised about the election and how much it influenced the investment. Everything came to a standstill and it became very difficult to get simple answers from our partners.” Related to this, the companies were concerned that they could not access precise market intelligence in the market, which provided a problem in the internal decision-making process in the companies:

WHAT IS ATTRACTIVE ABOUT THE EAST AFRICAN MARKET?



”The problem for a business like us is to understand the reliability of the information we get; it changes all the time. Communication with our management is very difficult because we get contradicting information from customers and partners. They give us dream pictures and if we communicate them, we have negative feedback from management.”

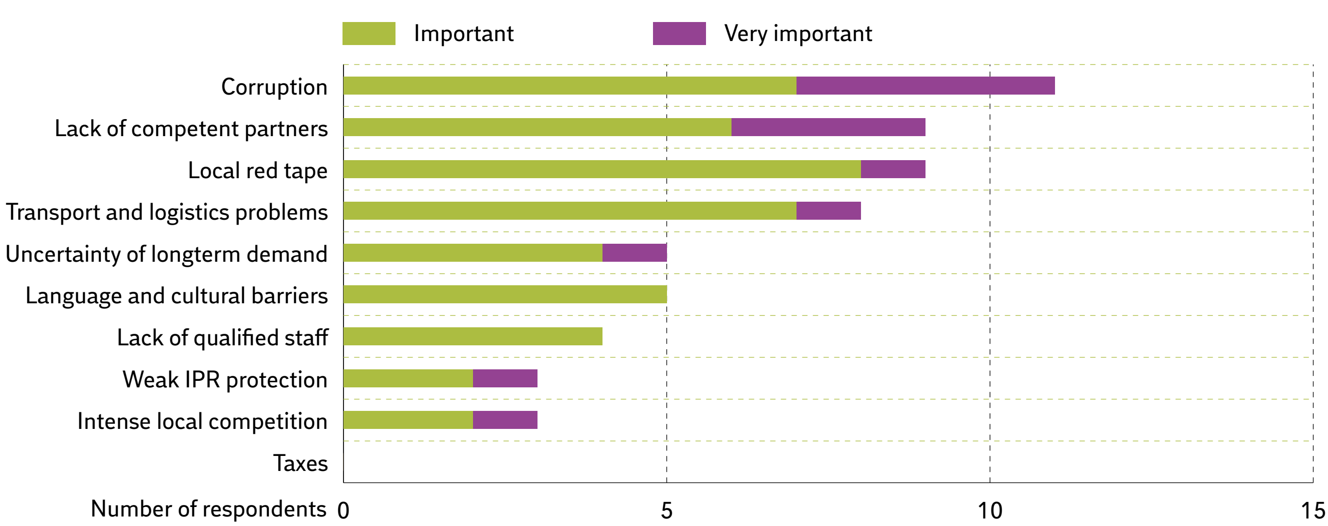
The main competitive challenge to the Danish companies did not come from local low-cost providers in the formal or informal economy but from foreign firms. This is not surprising, given the fact that Danish firms operate in quality oriented niche markets. What is more surprising is that the main competitive threat comes from Asian firms, not European or American.

When the companies were asked about what strikes them most about the African business environment, they said that they were positively impressed by the welcoming reaction they received in Kenya and the relative openness and relaxed business atmosphere there. They also reported that they were surprised at the importance of local business networks and contacts. In particular, the strong ethnic orientation of business networks in Kenya surprised companies. One company was astonished by the legalistic nature of the Kenyan business engagement: ”I was surprised how much they used the legal system to approve our contracts; they are very cautious to sign paper. But it was absolutely fair and we agreed.” And, not least of all, culture appeared essential; according to one company, ”if you don’t understand the culture, you are out of business. Culture is why you need local partner-companies.”

ENTRY MODE AND PARTNER CHOICE

A key decision for Danish exporters in East Africa is what approach to adopt to support sales. Should it be direct export, a loose agreement with an agent,

MAIN EXPECTED BARRIERS IN EAST AFRICAN MARKET



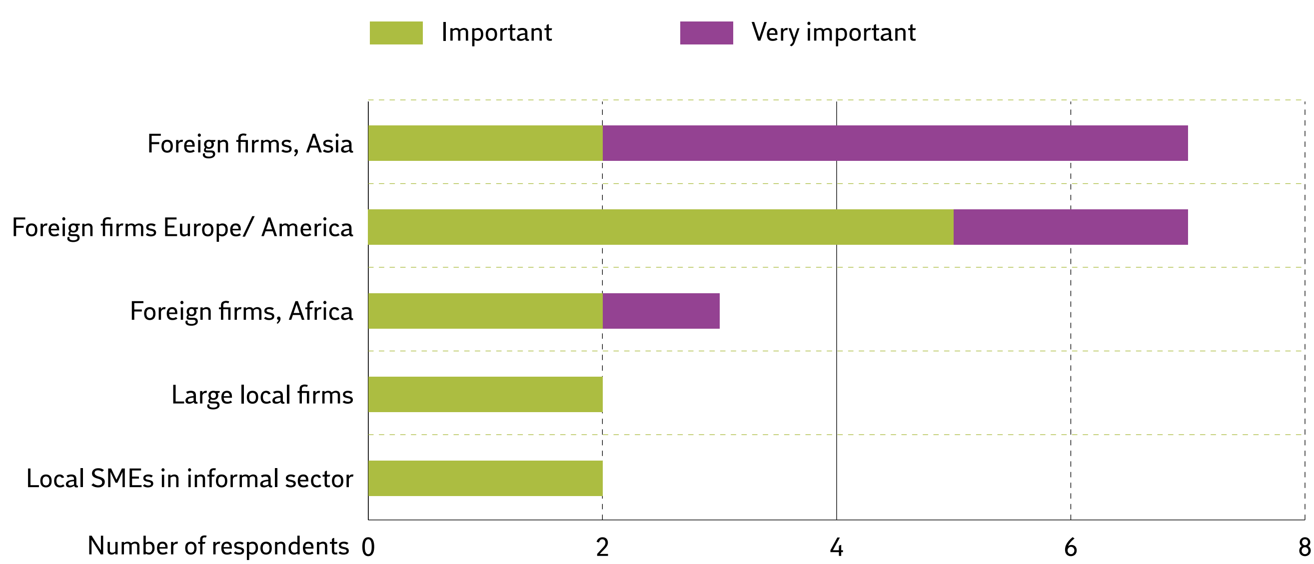
a long-term partnership with a distributor, a wholly owned sales and service subsidiary, or any combination of the above?

The first phase of Danish MEs' entry into Africa was often unplanned and ad hoc. They were, for instance, contacted by a potential buyer online or at an exhibition. This kind of ad hoc contact is often how exporters become aware of a potentially lucrative market. Several of the participants in the Africanisation project had prior sporadic contacts with the East African market, and it was often these contacts that inspired them to develop an African strategy. The next phase of market entry is to establish a more formal presence in East Africa. In this phase, companies move from a reactive export approach to a proactive approach, where substantial resources are invested in exploring and developing the local market and identifying partners. The Africanisation project reflects this next phase in export.

After the companies visited Nairobi in November 2016, the preferred planned entry mode was to enter through a distributor. Eight of the 14 companies planned to adopt this approach. Five companies planned to adopt the less extensive agent entry mode. Four wanted to service the market from a regional office which would develop and maintain contacts with agents and distributors across the region. Only one company planned to establish a sales subsidiary. Five companies planned direct export with no local contractual arrangement, typically in case of one-off, high-value sales. Often companies planned to adopt a combination of modes, e.g., having several distributors and agents, or using subsidiaries as a contact point for local agents and distributors, or in some cases using different set-ups for different product categories.

By zooming in on those companies looking for a local distributor or agent, the partner qualities companies were looking for can be examined: The most impor-

WHO ARE THE MAIN COMPETITORS IN THE AFRICAN MARKET?

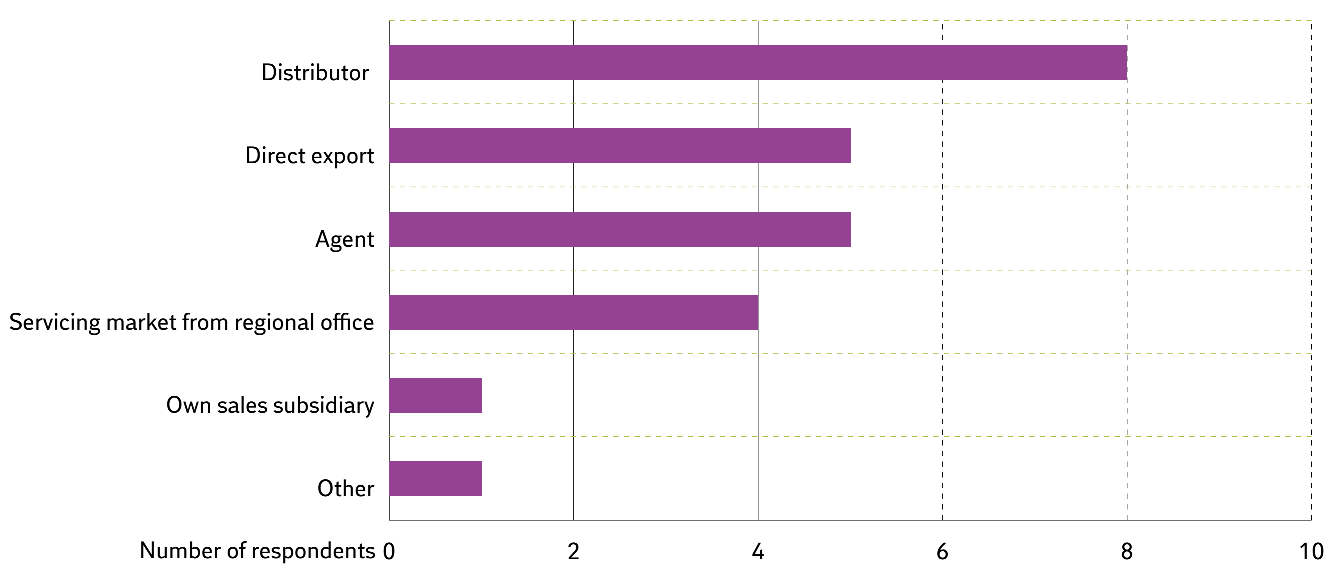


tant quality was whether the partner had access to a regional network, reflecting that the Danish exporters typically had a regional approach to East Africa rather than a country-specific approach. The MEs were also, and not surprisingly, looking for partners that were already established in the industry and had links to potential customers. Financial strength was also an important quality of the potential partner. For five companies, contacts to local ethnic networks were relevant and a reflection of the fact that, in Kenya, Kenyan-Indian business networks dominate several industries.

Finding good partners appeared as a huge challenge for the Danish MEs: In the words of one company, ”finding a distributor doing a good job is a dream situation in Africa”. And another company stated that ”we wanted to start out with a distributor which is what we normally do ... but we couldn’t really find a good distributor”. In some cases, it was difficult to establish whether the potential business partner also took part in a business network selling competing brands; some of the relevant Kenyan distributors are also engaged, contractually and through networks, with other major Kenyan business networks and conglomerates, and they form a ”network of networks”. One company stated that ”it is so difficult to source good partner companies ... It is a minefield. When you discover you have wasted your time, it may have taken a year”. In light of the problems of identifying and establishing long-term relations to competent distributors, it appeared that at least some of the Danish exporters spread the risk by engaging with several distributors and agents in less committing relationships.

The Danish MEs often faced a dilemma in regard to local partnerships. On the one hand, they need local partners to get access to local customers and networks, on the other hand, customers may not always value that foreign companies are also embedded in the local business context: ”In Kenya and other places

WHAT ENTRY MODE IS PLANNED?



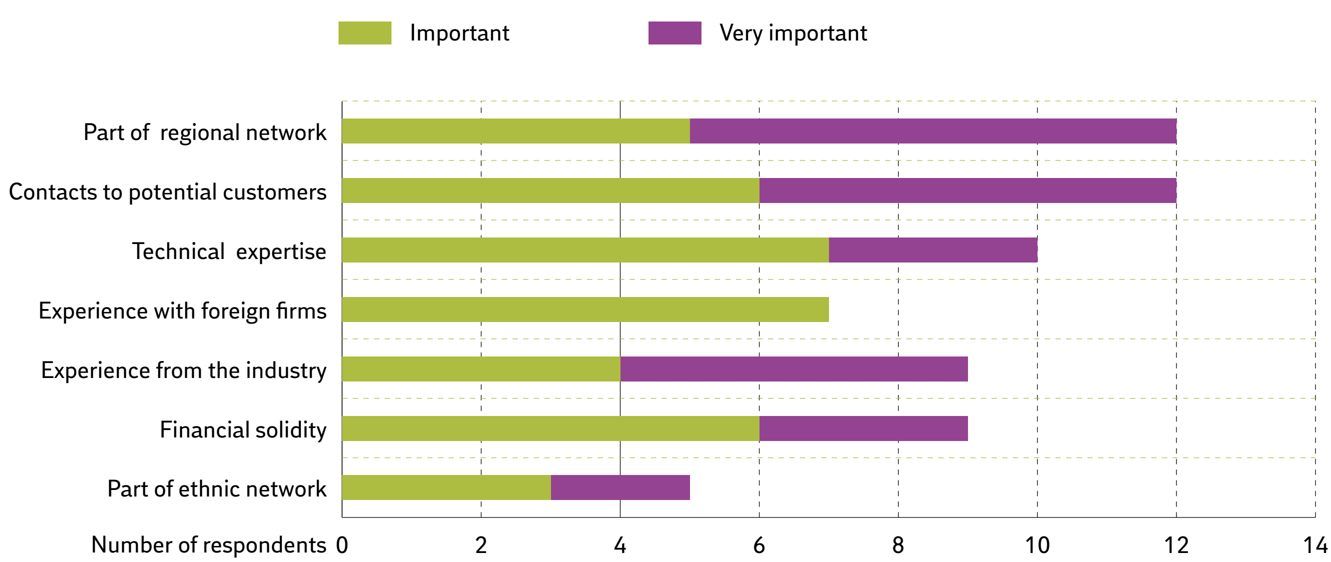
customers prefer a foreign partner. Agents are a bad word for profit sharing. Europeans are too doubtful of Africans to go direct, and Africans hate agents."

The negative view of export intermediaries and the difficulties of findings competent partners may make MEs consider establishing their own sales subsidiary and building the marketing organisation from scratch. However, this may also be challenging, given the problems related to interacting with and getting approvals from the government, the hiring and managing of local staff, and the liabilities of foreignness (i.e., lack of insider-ship in local networks, lack of understanding of local institutions and regulations, cultural distances, etc.) faced by foreign investors in Africa. In any case, for those choosing to establish a sales subsidiary, patience and large investments are required: "We are very patient people, it takes three to five years to build a relationship in a market, but then it is for the long-term. We want to establish a subsidiary because it takes one to two years to train people. Distributors often forget us because we are a small part of their total sale. We want local people that have access to networks, and we have good experience with local people."

ADAPTATION OF BUSINESS MODEL

It is often argued that western companies, when entering emerging economies, need to adapt their products to the specificities of those emerging economies (labour cost, purchasing power, consumer tastes, scale of industries, infrastructure, regulations, culture, etc.). However, in the case of Project Africanisation, there was only modest interest in product modification among the MEs despite the possibilities provided by the project. Only one of the involved companies initiated some product innovation in connection with the Africanisation project; however, the innovation was not applied in Africa, as the company eventually deemed the market too small: "From the

WHAT ARE MAIN QUALITIES LOOKED FOR IN A LOCAL PARTNER?



beginning, we started up with a plan to develop a scaled-down technology. We have a test plant now, so we now have the right technology for the market. But you need a little more volume in East Africa. Instead we used the technology somewhere else in the world."

There are several reasons for this absence of product adaptation. Firstly, the companies are in BtB markets which are less sensitive to country specific tastes and therefore require less product modification. Secondly, the East African market may be too small to warrant investment in product modifications. Thirdly, the time horizon of the Africanisation project was too short; it might well be that the companies may engage in the modification of their products at a later stage of their entry into Africa.

While product modification may be costly and long-term, it is more feasible to undertake business model adaptation. Some companies reported they did just that. For instance, facing the lack of competent partners, several companies were forced to modify their usual entry mode. Also in terms of pricing, a couple of companies reported that they had had to change the pricing of their products in order to get a foothold in the African market and compensate for "short-termism" in the market. As stated by one company, "Pricing is sometimes adapted. We cannot offer another quality, but we can make strategic decisions to have different margins. There is no minimum, except I won't give it away".

In general, the Danish MEs had difficulties using their usual financial packages in East Africa: As stated by one company, "We have the problem that we cannot bring finance to projects. We have looked at EKF, but they have rated out most of the countries in East Africa. But credit is a problem in everyday work. All big projects come with a financial package. Someone should look at this; EKF tends to look at it at country level but not at project level. You can have

PRO ET CON OF DISTRIBUTOR AGREEMENTS

Making a contract with a distributor is the preferred entry mode for Danish MEs. Distributor contracts reflect a more committed engagement than agent contracts. Typically, the distributor is expected to invest in developing the market, provide inventories and warehousing, acquire product related technical skills, etc.

While a distributor arrangement can mean a fast entry in a difficult market where deep local market knowledge is required, it also has a number of disadvantages seen from the perspective of the Danish ME: Drawing up a contract with a foreign distributor can be difficult, especially in East Africa where the pool of potential distributors is limited. MEs will often realize that the best distributors (i.e. those with financial strength, facilities, contacts, reputation and reach) are already contractually tied up to large local companies. A distributor often requires substantial investments in terms of training and upgrading, investments that may be lost if the partnership breaks down. As stated by one company, "We are empowering the local partner companies so they will become important companies in their own country. We offer training courses in Denmark for partner company staff. We make written partner agreements and we include specific goals and standards of business ethics. When we select a business partner we make sure that they have financial strengths and technical expertise." Once established, the distributor agreement requires significant monitoring and control to ensure that the distributor is committed to collaborate with the Danish ME. And if the contract for some reason is breached, the Danish ME will have to enforce the contract (or terminate it) via external arbitration, something that is very difficult in East African countries.

an entity that is perfectly creditworthy, but in a low grade country".

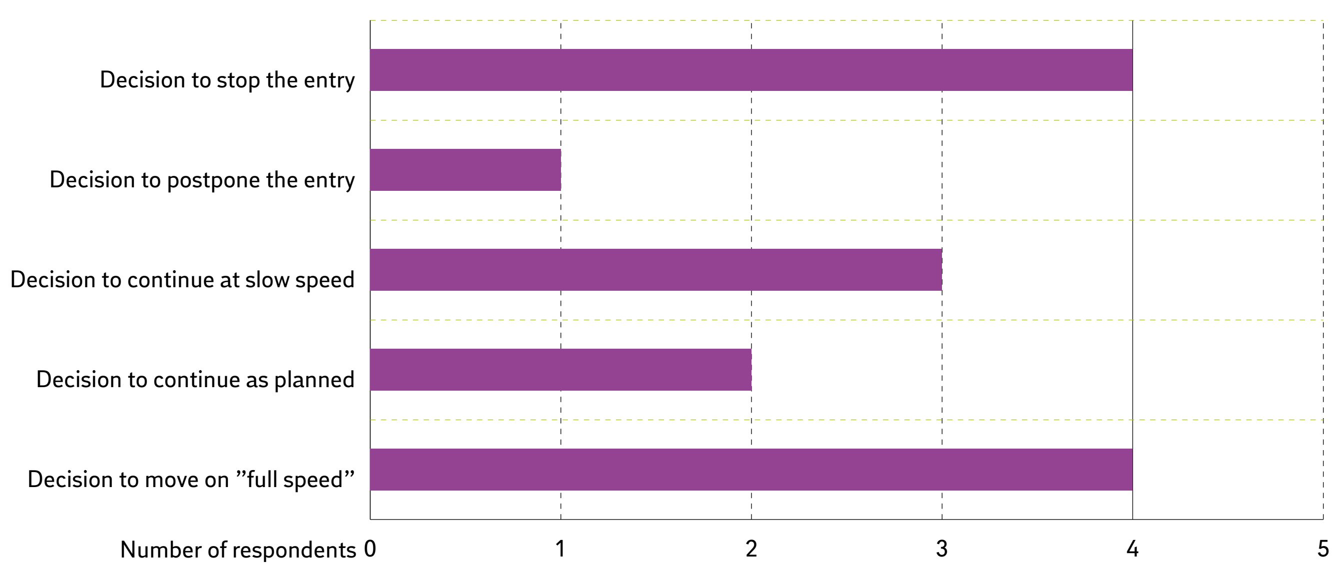
But apart from moderate adjustments to elements of the business model, it was the impression that the MEs were reluctant to change their standard approach when they moved into East Africa. Danish MEs generally entered with the same product, price, entry mode, and value proposition as in other emerging economies, and there was little adaptation taking place. In other words, it seems that standard operating procedures overruled the pressures for adaptation to the African business environment!

RESULTS AFTER TWO YEARS

By the summer of 2018, it was apparent that six companies were enthusiastically pursuing East African markets. Three companies would continue African market entry but at a lower level than originally planned. In all, nine companies maintained, in some way or another, their ambition of entering East Africa. The remaining five companies decided to either postpone their entry into East Africa or to pull out altogether.

When the project started in 2016, the 14 companies had between 0 and 5 percent of their total sales in Africa, with two exceptions that had around 10 percent of sales in Africa. Over the project period, nine companies generated, in some way or another, exports to Africa. This either by moving from no export to export, by maintaining the export level they had at project start, or by increasing export, in two cases with up to 50 percent. Looking into the future, at least five companies expect their export to Africa to double by 2021 compared to 2016.

DECISION REGARDING EAST AFRICA ENTRY AT END OF PROJECT

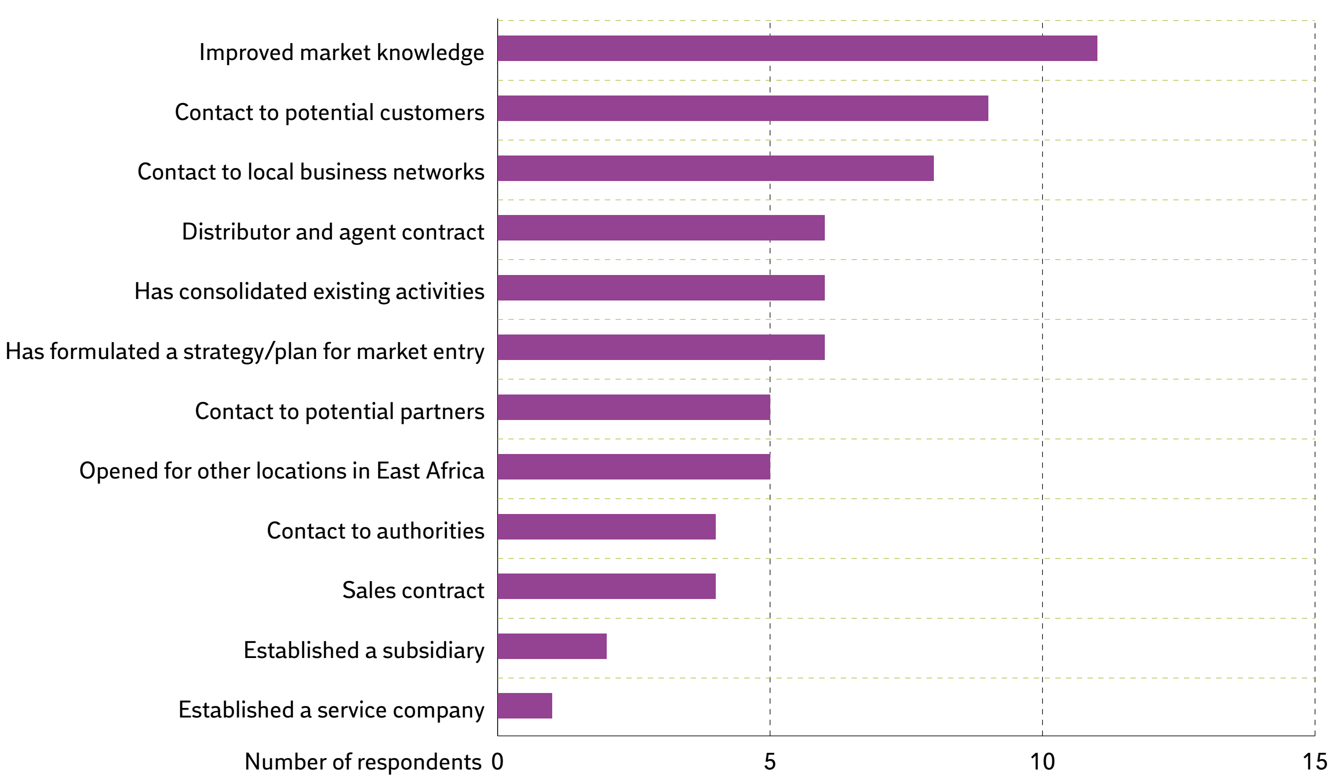


The companies' efforts through Project Africanisation resulted in more than a simple "entry or no entry" decision. The majority of the companies had obtained better market knowledge as a consequence of their participation in the project and could, based on that knowledge, make an informed decision as to how to proceed. In terms of entry mode, the final result was that two companies had established subsidiaries in East Africa, one had established a service company, and six had established agreements with distributors or agents. Crucially, most had established contacts with potential customers.

Four companies had moved to sales contracts. Four more reported that sales are in the process of happening but will happen slower than expected. In six companies, sales would happen much slower than expected or not at all. Those companies moving slowly to sales, for instance, cited stretched resources of the export manager as an important factor: "I have not been active enough, I have a lot of other things to do. If I had pushed them more, we would have moved faster. I should have spent more time there to find more partners and coached them".

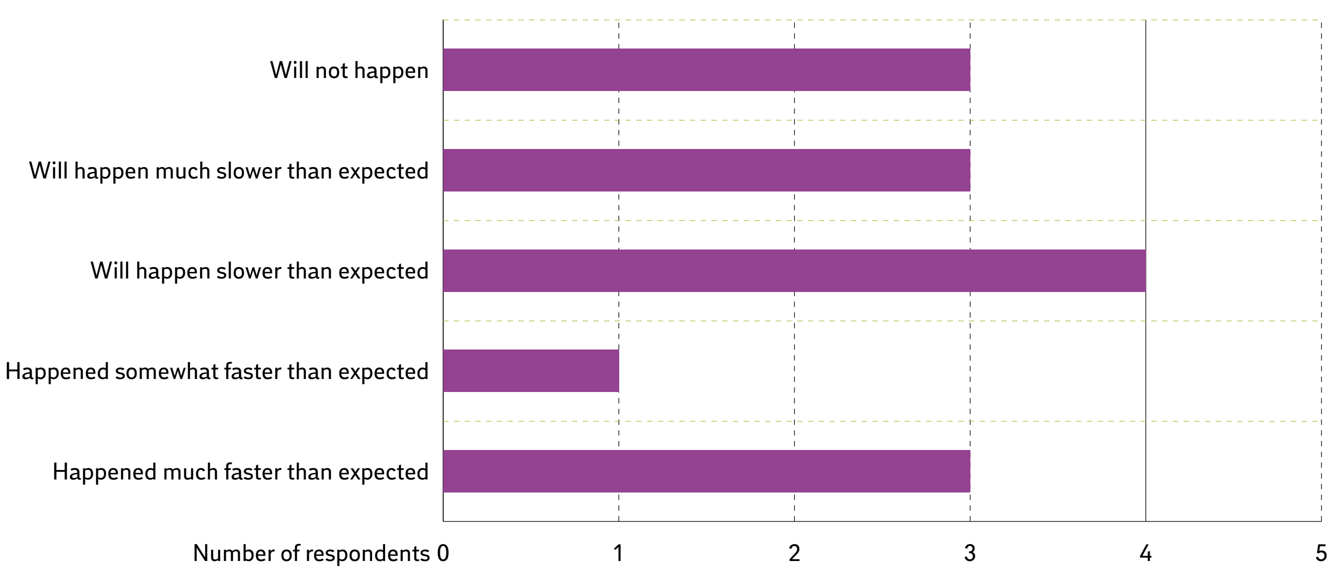
While five companies did not enter or get to sales during the project period, they had nevertheless obtained important learnings from the project and were able to make a fact-based decision as to put the entry on halt. The five companies provided various expla-

RESULTS ACHIEVED BY AUTUMN 2018



nations for their non-entry. One company was scared off by the level of corruption in BtG sales: "We knew that there were good prospects and we had meetings with local producers, but the match was not good. If we did business in Kenya, we would be unfaithful to our DNA. We will not go in in short or medium term". Another company realised that the volume, quality orientation and scale of the market simply was not there at present, but it would probably grow sufficiently within the next three to five years. Two companies reported that the regulatory environment that would pave the way for their business had not materialised. One company experienced a severe financial crisis unrelated to Africa, and the company put many activities – including the Africa expansion – on halt. There were finally personnel issues too; in two cases the responsible export managers had moved to another job, which played a major role in the decision to halt Africa expansion.

HAVE THE COMPANIES MOVED TO SALE IN EAST AFRICA?



Company	Product areas	Products intended for Africa	Customer types	Customers' industry
AVK	Valves, hydrants and accessories	Valves	BtG and BtB	Water
Danespo	Breeding and trading of seed and ware potatoes	Seed potatoes	BtB	Agriculture
Dantherm	Climate control products	Cooling of electronic equipment	BtG and BtB	Telecom
Desmi	Pumps and oil spill equipment	Oil spill equipment	BtB	Oil and shipping
Dinex	Automotive exhaust systems	Exhaust systems for trucks	BtB and BtG	Automotive and logistics
Enkotec	Nail solutions for the building industry	Production machinery	BtB	Construction and packaging
Glud & Marstrand	Packaging for the food and beverage industry	Food packaging	BtB and BtG	Food and beverages
Brdr. Hartmann	Moulded fiber packaging	Packaging machines	BtB	Food and beverages
Nilfisk	Industrial cleaning equipment	Cleaning equipment	BtB	Hotels and hospitals
Orana	Fruit ingredients for the food industry	Food ingredients	BtC and BtB	Food and beverages
Palsgaard	Ingredients for the food and nonfood industries	Food ingredients	BtB	Foods, polymer and cosmetics
Triax	Telecommunications equipment	Multimedia hardware	BtB	Telecom
Vestfrost Solutions	Manufacturer of refrigerators and freezers	Refrigerators and freezers for vaccines	BtG and BtB	Healthcare and NGO
Varimixer	Planetary mixers for the food industry	Mixers	BtB	Food and beverages

	Company Established	Size (t/o in mill. EUR)	Size (number of empl.)	Export (part in percent)	Prior Africa experience	Prior Kenya experience
	1941	700	3,800	98 %	yes	yes
	1986	70	45	35 %	yes	no
	1959	775	530	n/a	no	no
	1834	110	700	90 %	yes	yes
	1982	125	1,300	88 %	no	no
	1981	n/a	65	99 %	yes	yes
	1879	225	1,100	60 %	no	no
	1917	285	2,000	96 %	no	no
	1906	500	3,500	n/a	yes	no
	1999	35	315	95 %	yes	yes
	1917	170	471	98 %	yes	yes
	1949	90	350	90 %	yes	yes
	1963	70	350	96 %	yes	yes
	1915	17	60	85 %	yes	yes

What are the factors determining success in East Africa?

Most companies succeeded in getting a foothold in Africa during the project period, but it was also evident that several decided to halt exports to Africa. The question is what explains why some companies succeeded in moving to exports where others failed? The factors determining export success are obviously to a large extent idiosyncratic, depending on the company's specific management set up, its strategy and organisation, its financial solidity, its international engagement, luck ect. However, across the 14 companies, a number of factors appear to explain export performance systematically: At three points during the project, the Danish MEs were asked to identify the factors that they viewed as crucial for export success in East Africa. While the importance assigned to individual factors changed slightly over time, the MEs were fairly consistent in citing five factors as important, discussed in order of importance in the following:

PARTNERS

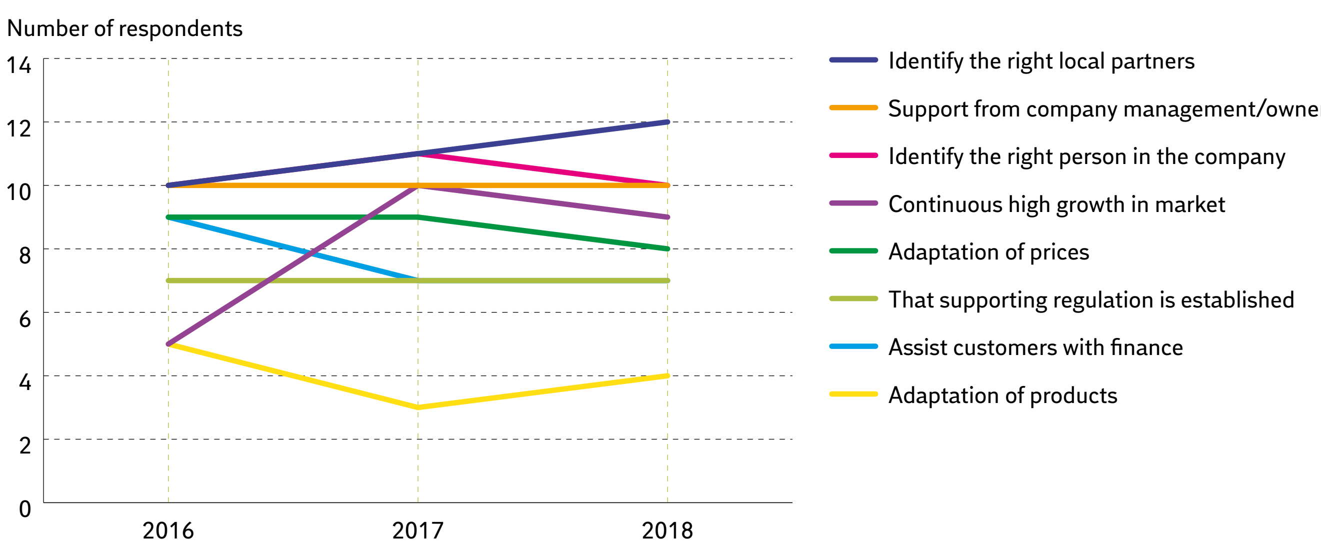
The main factor determining success according to the companies in Project Africanisation is to find the right local partner. In fact, the companies appeared to assign a growing value to this factor over the two-year project period.

In East Africa, it is difficult to find distributors that are competent in terms of industry knowledge and financial strength, and those that are competent may already be engaged with other local or foreign firms. The lack of competent local partners may, worst case, render the market entry into East Africa in-feasible, as the risk is obvious by appointing only the second-best distributor or going it alone.

The Danish companies typically adopted the entry modes that they have tested in other locations, and their willingness to try out alternative entry modes

WHAT DETERMINES SUCCESS?

Evolution in company responses during the project period



in Africa seemed limited. This could be a problem, as the entry modes that are used in other locations may not be feasible in Africa due to the quality of local partners and the specific nature of African business environments. The Danish MEs could therefore consider being more flexible in terms of entry mode and look for alternative modes that are tailor-made to the particular conditions of the East African market, e.g., developing an existing customer relationship into a distributor relationship, engage in multiple partnerships simultaneously, piggybacking on an existing distribution channel of a company offering complementary products, or even, if resources permit, considering establishing their own sales and service subsidiary.

MANAGEMENT COMMITMENT

The number two critical factor for success is reported to be a commitment from top management. The engagement in Project Africanisation was in almost all companies anchored in top management. This seems to be a key factor, as success in African markets requires a sustained and significant investment of time and resources. Any allocation of resources and time in Africa is in direct competition with resources allocated for other regions. As the upfront investments in Africa may be greater and the payback time longer than for other regions, Africa will often lose out in the cut-throat internal allocation of company resources.

Thus, success not only requires upfront management commitment but also that the initial support is sustained and followed up upon for the time it takes to establish a strong foothold in Africa. This will often be three to five years. In at least one case, top management pulled back from its commitment to the Africa project and the attempt to enter East Africa collapsed.

KEY PERSONNEL

The number three critical factor behind success was reported to be to recruit and motivate the right persons in the organisation to manage the East Africa entry. Experienced export managers are in short supply, and finding the right person that can run the East Africa operation may be difficult. Most of the participating companies succeeded in finding export managers with long-standing international experience. The export manager with this level of expertise occupies a powerful position: ”If you can convince people that you know what you are doing ...

STATEMENTS ON PARTNERS

”Without building relationships, forget doing business in Africa. It’s all a matter of relationships and gaining, let’s say, trust. And if you can get the trust, then I don’t believe you need to sell your product. Then it sells itself.”

— Jesper Bendix, ENKOTEC A/S

”We need a strong business partner in Africa to support us. And that has been very difficult to find during the project. So it has been more challenging than we thought.”

— Christina Jørgensen, Dinex A/S

”The distributor I visited in Nairobi is a super professional company, and they actually carry a lot of other European quality brands. So when I saw the company and I sensed the people and how they work, I kind of thought: OK, this is not risky business.”

— Jan Zimmermann, Varimixer A/S

and produce results … they leave you alone. My boss does not have time to listen to all these stories … this is typical for smaller company. We don't have time to go into the nitty gritty". But it was also clear that export managers' constant pressure to show results made them sensitive to the diversion of interest toward markets that can generate exports in the shorter term. The key role played by the experienced export manager obviously makes market entry into Africa highly dependent on individuals. If they divert their attention to other activities, or even move to new jobs, the Africa strategy may quickly come to a halt. Hence, it is essential that the MEs establish incentive systems that ensure that export managers maintain a focus on Africa and that procedures for collecting and sharing experiences and learning within the company are established so that the Africa strategy becomes less dependent on individuals.

MARKET GROWTH

The number four critical factor cited by the companies is that to succeed they rely on continued high market growth in East Africa. Africa offers potentially highly lucrative markets and possibilities for first mover advantages and windfall profits. However, several companies in Project Africanisation discovered that the African market, upon closer inspection, was not that attractive for their company. This was either because the market was not yet mature enough for their product, because the market was too small

STATEMENTS ON PATIENCE

"When entering Africa, you need to put on your patience hat, and then just accept that things are not always on time."

— Daniel Klitgaard, Vestfrost Solutions

"Of course, there's a huge culture difference, and that's something that you learn on the way. In Europe we if we have a meeting at 9:30, we show up at 9:30, but, well … in Africa it's different. If you want to enter Africa, that's part of the game."

— Lars Lundvang-Laursen, Glud & Marstrand A/S

"As I'm saying, things take time in Africa. There is a nice saying, some people have watches. Others just have time."

— Jesper Bendix, ENKOTEC A/S

STATEMENTS ON MARKET GROWTH

"When we get input from other companies who already have access to the African market, they say it's a huge potential in Africa."

— Christina Jørgensen, Dinex A/S

"I'd say if you have a Danish product that may fit in somewhere in Africa, definitely go for it and try to investigate how this can work out. Then try to find the right contacts in Africa."

— Daniel Klitgaard, Vestfrost Solutions

"It's just a limited market, where you actually need to have the resources to develop, so in comparison with all the other markets and all the possibilities around us, it's not just a high priority for us."

— Jan Zimmermann, Varimixer A/S

to warrant investment in setting up a dedicated sales organisation, or because the business climate simply was too difficult.

One implication of the observation that the promises of the East African market do not always hold up upon closer scrutiny is that ME market analysis should move beyond the usual headlines about the African growth miracle. They should analyse the de facto market potential in their specific product segment, as well as the level of competition and rivalry in their particular industry segment. As stated earlier, it may be difficult or impossible to acquire such data sitting in Denmark, which is another reason why companies have to immerse themselves in the market and get boots on the ground.

ADAPTATION

As stated, the companies were generally reluctant to change their products and standard operating procedures. Hence, none of the companies altered their technology or product in East Africa, and only a few embarked on business model innovation. There are good reasons for that. For instance, the relatively limited African market size makes large investments in product and business model modification unprofitable. There is also the risk that scaled-down products or simplified business models introduced in East Africa may undermine the companies' reputations and brands in other markets.

However, while product modification may be difficult to achieve in the short-term, there are affordable and less risky business model modifications that may be undertaken to adapt to the specificities of the East African markets. Hence, exporters should avoid "locking in" on standard operating procedures known from other markets and be open to adopting alternative approaches, e.g., exploring other types of partnerships and entry modes, modifying pricing and financing, or adopting new ways of distributing and marketing.

STATEMENTS ON ADAPTATION

"When they purchase expensive equipment from Denmark or Germany or Sweden, then they don't compromise on, you can say, product features and stuff around that. Then they don't want to downsize equipment. So their specification is kind of like we have in Europe."

— Jan Zimmermann, Varimixer A/S

"I think it's not so complicated. You give a price. You agree to the price, and then you have to pack it in the box and send it. So we don't change the product. I mean, there aren't that many things that we can change product-wise anyway. We do the business with what we already have."

— Kieran Cantrell, AVK International A/S

"Most of our customers want different recipes, and we are very good at meeting their demands.

But we try to keep the same go-to-market practice. The same way of working with our customers. And we use the same approach in Kenya."

— Sia Oskarson, Orana A/S

Company Cases

Daniel Klitgaard, Sales Manager, Vestfrost Solutions, about market knowledge and partnerships: ”Vestfrost Solutions has distributors all over the world. And we operate in the 80 poorest countries of the world.

We have learned a lot about the way of doing business in Africa. Now we know what is actually very important, and how to really achieve something through your network and your business contacts. We have engaged a lot more directly with the business environment in Africa, and especially the politics and government side of Africa. And that has proven to be somewhat difficult at times, especially if you’re not well connected.

We have various strong partners, and they have very strong networks in Africa. And those, to us, are very valuable. Network; that is by far the biggest thing in Africa.”

Daniel talks about doing business in Africa: ”Sometimes, you can get frustrated, but that’s due to sitting in an airport for nine hours or stuck in traffic for five hours. But that’s not business-wise. Sometimes, it’s just frustration. So time delays and the patience you need to have to do business there. That’s the only constraints, I see.

We have, I usually call it African time. And that can be plus minus 60 minutes, often it’s plus 60 minutes. And you have that. I think that’s just how it is. It can be due to a lot of things, and often I do not think it’s engagement or will from the people you’re meeting but more it’s outside events you cannot do anything about anyways. The traffic, or force majeure, or something similar to that. So I just think the best advice would be, have a lot of patience.”

Daniel talks about the possibilities in Africa: ”And I think that would reflect in general, actually, on business in Denmark. If the knowledge were attained for the companies, and options and opportunities there is in East Africa, I think a lot more businesses would engage in those markets.

I’d say that there are opportunities that come with Africa and because Danish companies are also not very present in Africa, but products are very high valued when they comes from Scandinavia and Denmark in particular.”

Vestfrost Solutions manufactures and sells specialised refrigerators and freezers for the professional market. The firm was founded in 1963 and it employs 350 on two locations, Denmark and Hungary. Vestfrost Solutions’ offer for the African market is in particular its vaccine refrigerators and freezers specially designed for tropical use, as well refrigerators and freezers specially designed for hospitals, health clinics, universities, laboratories and pharmacies.

”We have various strong partners, and they have very strong networks in Africa.”

Mogens Berger Christensen, Vice President Technology, Brødrene Hartmann A/S, about the East African market: "I think our knowledge about the market before joining the project was very limited, but we had an idea that there were opportunities in the Eastern Africa – if there were any opportunities in Africa then, for sure, it was in the area nearby Kenya and so on.

The market for us in East Africa is Kenya, such as we see it, and we were surprised that there was not the retail and retail supermarkets, distribution, and so on. And the egg farming which is the base for our business is not as developed as we expected. Especially the egg farming, the farmers producing eggs, was not-- how could I put it? It's small farmers and the biggest farmers which we saw and the way they act was really limited. So the need for our packaging in the region is not very big.

The reason for it, of course – we need certain economic growth and welfare and middle class before you see the retail business develop. And that of course is the main reason for our interest in East Africa.

We will follow the market, and we expect within a five-year horizon to have established ourselves in the region with a customer or two, or whatever."

Mogens about getting knowledge about the market: "Of course, we were prepared to make this desk research ourselves, and of course the statistics related to the egg industry, the farm size and all that, is not really there.

You need to be there in order to get a proper feeling of the possibility, to talk to the guys in the industry.

But at that time also you have the political environment. There was an election and all that stuff up to – it's over now, I know that. But before we went there, there were uncertainties related to the stability and so on."

HARTMANN

Hartmann is a leading manufacturer of egg packaging and machinery for producing moulded fibre packaging with approximately 2,000 employees. The firm was founded in 1917 and operates world-wide. It manufactures in Denmark as well as in 11 factories overseas, and it has sales subsidiaries in 14 countries.

"I think our knowledge about the market before joining the project was very limited, but we had an idea that there were opportunities in the Eastern Africa ..."

Henrik Knudsen, CEO, DESMI Ro-Clean A/S, about marketing in Africa: ”So there are different approaches to the market that you need to adapt, and need to kind of learn how to use and change our mind-set.

I would say a part of our success is that we use only local labour … so we have in-house intelligence about how to go into the market.

One thing that we have to get used to in Africa is that Instagram, and WhatsApp, and those things, they are used for business now. So in Africa, Instagram is also used for pumps and sort of industrial, not only for fashion and baking small cakes.

You also need to use different social media channels. Where for instance, in Africa, Instagram is widely used for promoting your business and getting the word out. Whereas in other parts of the world we rely very much on a very strong website.”

Henrik about adapting to the East African market: ”We haven’t changed or accommodated products to the market. But we have made a more aggressive price policy because we need to create some brand awareness, and we need to get some products out in the field.

And also, on financing because some of our bigger projects have been in need of financing, so that has been on the agenda, as well.”

Henrik about doing business in Africa: ”A lot of things that we took for granted that would have never happened. But that is Africa.

I’ve never been doubtful about if it was a good idea or not to be in Africa, because all the facts makes it 100 percent a good idea. We are willing to invest because we have the facts in place that this investment will pay back fast.

What surprises me, or what you can be worried about, is the level of patience you need. You really need patience and a lot of time on the road visiting, and persuading, and talking, and so on. So I will say that the patience is what you need the most.”

DESMI

DESMI Ro-Clean manufactures equipment for Oil Spill Response and Clean Up. The firm is a member of the DESMI Group founded in 1834. DESMI develops, manufactures and sells pumps and pumping systems for industrial and marine applications. It employs 650 people and has subsidiaries in 11 countries. DESMI Ro-Clean has a subsidiary in Dar es Salaam in Tanzania servicing the oil and off shore industry throughout Sub Saharan Africa

”I would say a part of our success is that we use only local labour … so we have in-house intelligence about how to go into the market.”

Cai Clemen Christensen, Director Sales EMEA, Palsgaard A/S on opportunities in the Kenyan market:

"The market has not been so different from other markets. Our entry into Kenya was pretty smooth. I'm impressed by just how open-minded people here are to innovation. They're keen to discuss new ideas and are very enthusiastic about trying new things.

We've visited a number of large Kenyan food manufacturers and it's clear that the industry is highly professional. They have good quality management systems with new technologies and best practices.

Some people think that standards in the Kenyan food industry are low. From my experience this is wrong. If you don't believe me I ask you to go and see for yourself. These are solid, reliable and trustworthy companies and not one of them has defaulted on a payment in our time here. So my confidence in Kenya grows from day to day."

Cai on setting up a subsidiary in Kenya:

"There was, of course, some bureaucracy when you want to open an office in Kenya, but it was no worse than in other countries where we've done the same thing. We worked with local banks and lawyers and they helped things move along. In fact, I would say it was easy and inexpensive to establish a subsidiary in Kenya. The infrastructure you need to do so is already here. This is a developed market that is open for business.

But the key to success is finding the right colleagues and partners. I mean, to find people who know the local market, but who are also used to working with European companies. These people can be your eyes and ears on the ground. We hired local people with lots of knowledge. It was an excellent decision and gave us a foothold quickly. I would still recommend keeping in close regular contact with them and visit Kenya in person whenever possible. It's a wonderful country and a great place to do business."

Palsgaard® Heart working people

Palsgaard manufactures emulsifiers and stabilizers for the food industry, and additives for the polymer industry. The firm was established in 1908 and is owned by SCHOU-FONDET. Palsgaard employs over 400 employees and it is active on more than 100 markets internationally. The firm has subsidiaries in 14 countries world-wide. Palsgaard has established a subsidiary in Nairobi, Kenya and services mainly the bakery industry.

"The infrastructure you need to do so is already here. This is a developed market that is open for business."

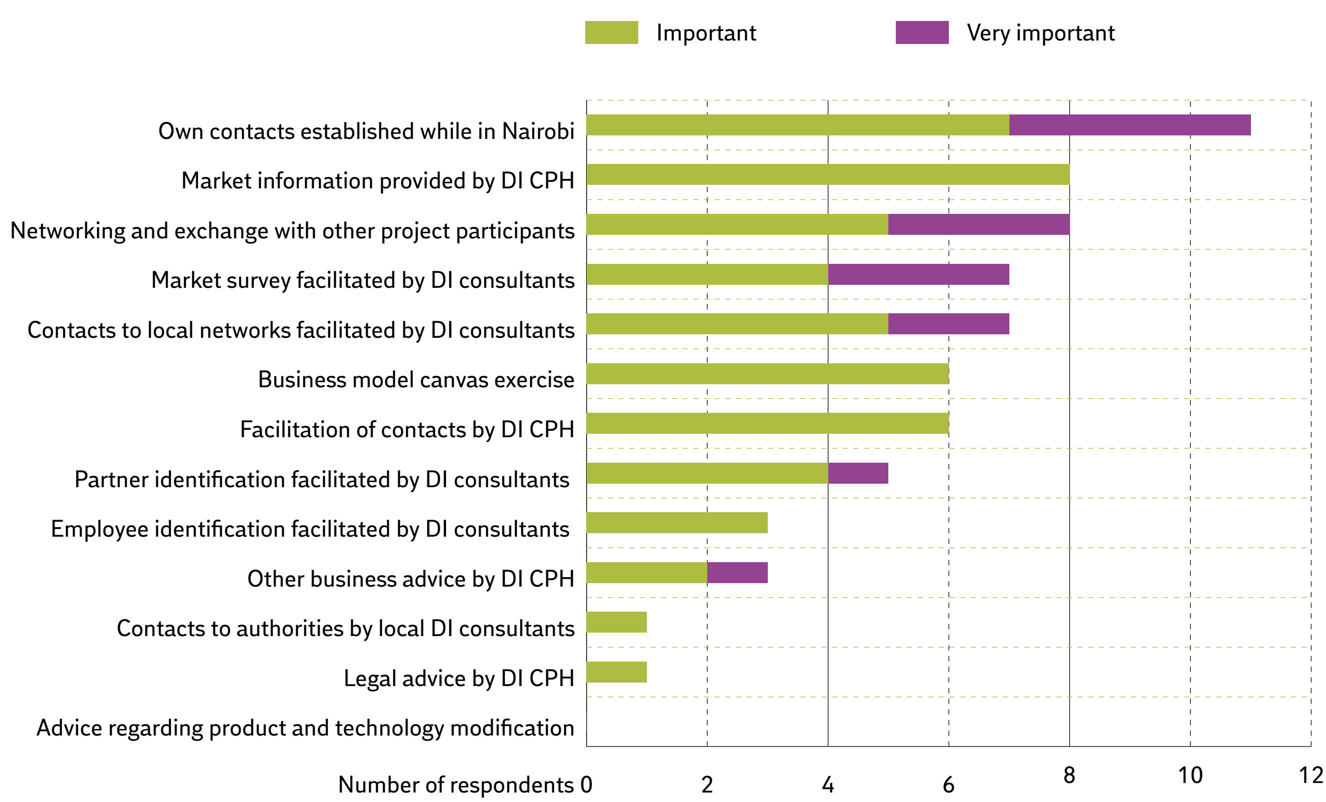
Photo: Getty Images

Companies' evaluation of the Africanisation project

When participants were asked about the most valued aspects of the Africanisation project, they noted it was bringing them to East Africa where they could explore and develop contacts with local partners and networks. These contacts on the ground were often arranged by the two local consultants engaged by DI. Visits in the market are essential as companies need to get a feel of the business environment, the industry and the potential partners and customers on the ground. As stated by one company, "You need to be active to have luck; there are opportunities in East Africa, and I think there is a lot of business going on there. I plan to go there more often and find out what is going on. I need to be there". Of course, the companies could have organised a field trip on their own, but "someone (DI) organised the practical, and you would hesitate more to go if had to do it by yourself. If someone helps you organise and survey the market it is a tremendous benefit. If we had not been part of the Africanisation project, we would have spent a lot more resources to survey Africa."

The exchange and networking with the Danish companies participating in the Africanisation project were also highly valued by the participants. The Danish MEs clearly benefitted from pitching their

WHAT IS MOST VALUED FROM THE DI AFRICANISATION PROJECT?



plans to other seasoned export managers and from exchanging experiences. One company even suggested a mentoring program for export managers be established: "They (DI) should focus on mentor companies. I would like to mentor the Danish companies. They also need to look more at companies that are here and want to go to the next level. We need a forum for East African companies." The importance assigned to the Danish exporter networking is surprising when considering that the 14 companies came from widely different backgrounds and industries.

Another value of the Africanisation project is related to generating market information. Hence, knowledge about the market provided by DI and the local consultants was considered highly valuable by the companies. Also information gathered in the country from customers and partners was considered essential. As stated by one company, "We had made desk research. But there were no statistics on firm industry level. You need to be there to get a proper feeling. You need to talk to people in the industry and to people in related industries, for instance raw material supply." When market information obtained through DI and own contacts is considered important, it is because general market and industry information is scarce in East Africa due to the absence of formalised market intelligence services.

Initially, assistance to business model development and product/technology adaptation were key elements in the Africanisation project. Several companies found the business model canvas exercise very valuable and reported that they now routinely use this methodology when they meet customers: "The canvas I am using for every single of the partners and they were extremely excited and they could understand it when we sat down with them". However, none of the companies had used the project's facility for advice regarding technology and product adaptation, and in essence, that part of Project Africanisation became inactive.

STATEMENTS ON WHAT COMPANIES GOT OUT OF THE DI PROJECT

"Allowed me to focus on Kenya. A good project. A good way to start up. A really good idea. It could be done in other markets".

"Elements could be improved, for instance the mapping could be better; more precise on customers, authorities and partners that need more attention".

"It is difficult to assess "Doing Business in Kenya" as we only went to Nairobi".

"Generally, I had a very positive trip (to Nairobi), well organised by DI/KAM, very nice social network and 'hygge' among the participants".

"The local firms that participated at KAM were very helpful in identifying potential partners".

"I could have wished for more time with potential customers and head hunters".

"Regular meetings and boot camp, makes you more focused, you will have it as part of your agenda".

"The tools they (DI) have (channels, market research) are easy to go with".

"Trip was really good, good connections. At the recruitment summit at KAM I talked to (other company) and I used that company and they, in a very short time, organised interviews. The network you are given is very helpful".

"Intense to start with, but then it eased out. More focus (needed) later on".

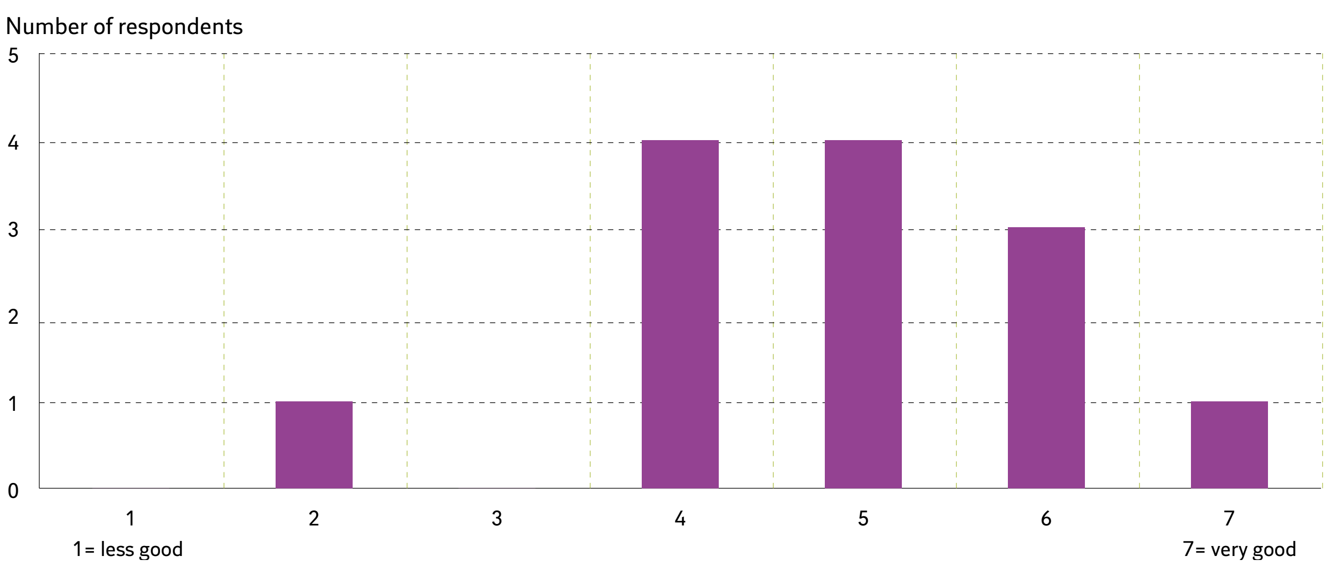
Overall, all companies, with one exception, had a favourable assessment of the Africanisation project as reflected in these company statements: ”It is a good concept” ...” It is good to have other industries who have insights in the market” ... ”It is a very good way of trying to look at a new market and entering it” ... ”The value is much higher than just going on a delegation” ... ”DI should grow this concept”. Several of the companies described how the Africanisation project had started them on a process that they had been thinking about for a long time. The Africanisation project worked as a kick starter for the Africa entry and offered a structured approach to market entry.

There were also more critical comments to the Africanisation project. One company found that the project had great momentum the first year, but then the interaction with DI and the project participants became more sporadic. Another critical comment was that the focus of the project was on sales rather than on partners. Some companies reported that they had little in common with the other participants and that the network spillovers, therefore, were limited. Several of the companies entering the project had a regional market in mind and some of those felt that the project focused too much on Kenya.

Some companies commented on the two local consultants engaged by DI. They were on the one hand highly appreciated, especially during the early stages of the project, as they assisted in shortening the list of potential distributors and customers. This facilitated a much more effective use of time and resources. The consultants helped with local recruitment, too, and in identifying logistics and storage companies. They helped generate country-specific data, e.g., product category codes or regulatory requirements.

However, as the services of the consultants became more tailor-made to individual companies after the visit to Nairobi in November 2016, various issues emerged. The lack of clear specification of the shared

OVERALL EVALUATION OF PROJECT



roles and responsibilities of the consultants and the individual companies produced some misunderstandings and caused frustration among the companies.

Contributing factors were also the cultural and geographical distance between DI in Copenhagen and the consultants sitting in Kenya. The two-stringed organisational setup with the locally hired consultants being employed by Kenya Association of Manufacturers (KAM) and in practice working for DI and the participating companies was challenging, and it did not produce optimal results during the later phases of the project.

STATEMENT REGARDING DI PROJECT

BY MISS JOYCE M. NJOGU, HEAD OF CONSULTING, KENYAN ASSOCIATION OF MANUFACTURERS (KAM)

"I think first, the project design was good the way it was brought in and introduced to KAM, and tapping into the networks of KAM members where we were able to create networks between the Danish industries and the local companies, that was well designed.

Then also, there were field trips that were done in Kenya and also in Denmark and also in East Africa, and that was really a good experience because the industries were able to have firsthand knowledge of where the industries are located and who they are partnering with, their strengths and their interests.

And then networking events ... we were able to host a few networking events where we could do speed dating for the companies, and we could then match them.

Yes, we have many learnings. One of which is culture, how do you then match the cultures between different countries? The Danish are quite straightforward ... and they're looking for unique products and also driving high-quality products. And for us in Kenya, sometimes the tendency is to go for more affordable products. So that's a learning process."


Photo: Getty Images

Recommendations

RECOMMENDATIONS FOR DANISH EXPORTERS

The questions are: What can be learned from this project in regard to Danish exports to Africa and what can be done to improve Danish MEs' trade performance in Africa? A number of general recommendations for Danish exporters can be extracted from the project, keeping in mind that they are based on the experiences of only 14 companies.

1. **GET BOOTS ON THE GROUND:** Companies should make a thorough market and industry analysis prior to further engagement in Africa. In many cases, the market and industry intelligence in Africa is limited and of poor quality, and there are few reliable commercial market intelligence services that provide information at the level of detail required by Danish niche exporters. Hence, after having obtained a preliminary impression of the market from a desk top market survey, the companies need to get boots on the ground. Only by being in the local African context will they understand the industry dynamics, the informal networks, and the actual market potentials in their specific market segment.

2. **FORMULATE A STRATEGY ANCHORED IN TOP MANAGEMENT:** Once it has been determined that the market in East Africa is attractive enough to enter into, the companies must formulate a strategy and, importantly, get it endorsed by top management. Entry into any new and distant market is difficult, but entry into the East African market is even more difficult due to the long cultural, administrative, geographical and economic distance. The African markets are possibly quite lucrative, but without a long-term strategy and commitment from top management, it will be difficult to succeed.

3. **ZOOM IN ON PARTNER CHOICE AT AN EARLY STAGE:** The defining aspect of Africa entry is to identify the right business partner and thereby engage with the most valuable local networks. Compared to other emerging economies, the identification of suitable business partners may be more cumbersome in Africa due to lack of transparency and underdevelopment of information, distribution and marketing infrastructures. Danish exporters need to be open to alternative channels and/or modified entry modes when they move into Africa.

4. **BE WILLING TO ADAPT THE BUSINESS MODEL:** Companies must be willing to change aspects of their business model. As mentioned, the optimal channel in East Africa may be different from the standard channel used in other emerging economies. But it could also be that pricing needs to be adjusted temporarily to adapt to the lower purchasing power of customers and/or the customers' (initial) lack of willingness to pay a premium for high quality. Exporters need to overcome inertia and path dependence and must be flexible in terms of pricing, channels and marketing when entering African markets. In the longer run, products may be adapted as well; however, the African markets are often too small and prospects too uncertain to warrant major investments in product development.

5. **ENSURE COMMITMENT OF QUALIFIED EXPORT STAFF:** African market entry requires experienced export staff. In order to ensure that export managers continuously maintain focus on the Africa strategy, it is important that the companies factor the longer payback on investment in Africa into the export managers' incentive and reward schemes.

6. **USE DANISH NETWORKS AS MUCH AS POSSIBLE:** The experiences of other Danish companies in Africa are valuable, even when these are in other industries. Companies should invest time in interacting and networking with other similar companies, even if the immediate pay offs seem limited. Companies may also use the broader Danish networks for export support to find inspiration, advice and complementary resources, e.g., Danish embassies, EKF, IFU, Væksthuse, and DI.

7. **BE READY TO PULL THE PLUG:** Companies should be ready to "pull the plug" if the market potential and growth in Africa turns out not to be there. It is equally, and perhaps even more, valuable to decide "not to enter" a market as it is to decide to commit long-term to a market.

8. **BE PATIENT:** The market potential is there in Africa, but it takes longer to develop the market than in other regions. More time and resources are needed to survey the local market, to identify local business partners, and to develop relations with customers. Financial and managerial patience is required and hence companies that want to succeed in Africa must have a longer-term payback horizon than what is normally required in emerging economies. The decision to enter the African market must be seen as a long-term commitment, and if the company is not able or willing to set aside sufficient manpower, time, finance and other resources for the long haul, they should think again about "The African Dream".

RECOMMENDATIONS FOR THE CONFEDERATION OF DANISH INDUSTRY

As discussed above, the companies were generally satisfied with the project. The intense first year entered the companies into a steep learning curve. They valued the approach to developing their business model and the strategy development work facilitated by DI. They also valued the insights gained from being on the ground in Kenya and the preparatory work done by the two Kenyan DI consultants.

The companies further appreciated the opportunities to network and interact with other Danish companies, even if they had very different backgrounds. The companies were advised on their export plans and business models, but they showed little interest in adaptation, and none of the companies opted for advice on the development of products and technology. Sometime after the field trip to Nairobi, the project momentum was lost for several of the companies, partly because they discovered that the East African market was not ready for their entry.

The questions to be addressed in the following are whether the entire project modality could be replicated in new locations; whether a modified modality could be envisioned; or whether individual elements of the project could be developed further?

Full modality replication

Although the majority of the participants were satisfied with the Africanisation project, it seems unrealistic to roll out the modality in an unsubsidised version. The companies paid only a small part of the total project cost. Stand-alone financing of the project would require a more than five-time increase in the payment made by companies. The companies were asked at the end of the project if they were willing to pay such an amount and those few who responded to this question reported that they would not. Hence, it must be considered if the modality can be further developed in a modified version that is sustainable in financial terms.

Modified modality

The challenge is to develop a modality that utilises as many of the innovative elements of the Africanisation project as possible while still providing a sustainable business model. Based on the experiences of the Africanisation project, DI could consider to develop a modified modality that through sharper sequencing and segmentation may achieve financial viability:

- **SEQUENCING:** Essentially, based on the experience of the Africanisation project, it seems that the ME market entry evolved through five distinct stages: 1. Market-introduction, networking and visits on the ground; 2. Business model and strategy development; 3. Partner identification and organisation; 4. Actual exporting; and 5. Scaling up and replication in other markets. In a future project similar to the Africanisation project, DI could consider having these five stages as distinct project elements that companies can buy in to or opt out of. DI could furthermore consider making the various elements, and thus payment models, increasingly company specific as the company moves through the stages of internationalisation. Hence, joint arrangements such as boot camps and business model exercises would take place at the beginning of the project, while individualised consultant services would take over at later stages.

- **SEGMENTING:** In the current version of the Africanisation project, the participants' experiences varied enormously. Some companies were already far into their East Africa entry at project start, while others were just beginning their entry. Some companies were direct exporters, others looked for business partnerships in the form of agents or distributors, and others again went for sales subsidiaries. Some companies operated in BtB markets where others were engaged in BtG markets or even moving toward direct interaction with consumers. And some companies focused exclusively on the Kenyan market while others had the region in mind when they entered the project. The current version of the Africanisation project recruited companies based on size – i.e., whether they were medium-sized or not – but as size is not a good predictor of the export challenges and ambitions of companies, it is suggested that companies, in a possible future project, instead are recruited and grouped based on criteria that are more crucial to export performance, e.g., expected market segment, experience in the region, level of regional orientation in strategy, or expected entry mode.

Developing individual elements of the modality

The Africanisation project was in several ways innovative with regard to the services that export promotion organisations can provide for MEs. A number of the elements developed through the Africanisation project could be developed further as individual services for DI member companies:

- **PROVIDE LOCAL MARKET INTELLIGENCE:** Companies valued highly the general market information provided by DI in Denmark and the specific market information provided by the two local DI consultants in Kenya. DI's analytical capacity could be further strengthened in order to be able to offer advanced information services for Danish exporters. By getting deep market and industry specific knowledge from DI and local DI consultants, many companies could make a much better and informed decision about whether to move into Africa or to stop the expansion at an early stage.

- **ORGANISE BOOT CAMPS:** The cost of setting up a trip to East Africa is large for an individual company. The Africanisation project created value for companies by reducing the costs of getting "boots on the ground" in Kenya, thereby kick-starting the companies' entry into the region. Going there, networking with other firms, and getting impressions directly from the industry were considered the most valuable aspects of the Africanisation project. In this regard, DI could consider developing this element further. Compared to traditional business delegations, which typically are more generic and involve government officials, boot camps are aimed at getting down to business fast.

- **DEVELOP PARTNER SELECTION PROGRAMS:** The project noted partner identification as the main issue for the exporters. DI could consider developing its "partner selection toolbox" further with more services related to identifying partners. In this regard, facilitating access to potential partners rather than potential customers would probably be more valuable for companies.

- **ADVICE ON BUSINESS MODEL ADAPTATION:** None of the companies undertook product or technology adaptation. However, a few companies adapted their entry mode or pricing to the East African market. The Africanisation project suggests that advice and sparring on business model adaptations clearly are needed and could be further developed into a specific service. Business model modification is within reach for most companies, not least in terms of channels, marketing and pricing. Services related to product adaptation may be less pertinent, at least in the short term.

- **SUPPORT FOR COUNTRY CLUSTER STRATEGY:** Originally, the Africanisation project was about entry into East Africa, but the project became focused on Kenya due to the pull factors of the Kenyan market and the difficulties of replicating market introduction in other East African markets. But individual African markets are often too small to warrant a specific strategy for Danish niche market exporters. However, regionally East Africa, with its 430 million inhabitants, may have sufficient volume. Based on the observation that Danish MEs typically prefer a regional strategy in Africa, it is suggested that DI further develop its services related to regional rather than country specific entries in Africa.

- **BRING IN TOP MANAGEMENT:** One of the innovative aspects of the Africanisation project is that it emphasised engagement of top management. Companies will not succeed without stamina, financial resources and managerial attention for the long haul. To maintain high levels of engagement requires continuous commitment of top management. DI services to MEs could, as was the case in the Africanisation project, work in tandem with export managers and top management.

- **FACILITATE NETWORKS OF DANISH EXPORTERS:** In general, there was great appreciation amongst the participants in Project Africanisation of the networking taking place during the project. Several companies asked for the network to be continued after the project. DI could consider creating and maintaining country cluster specific networks for exporters, e.g., an East Africa Export Network.

- **CREATE AN OFFICE IN EAST AFRICA:** Evidently, DI needs an office in Nairobi or elsewhere in the region that can be used as a hub for Danish MEs seeking entry into the region. This office could host local consultants to facilitate contacts with local business partners and networks and generate information about the market and industry in the specific segments that Danish MEs are operating in. A local DI office could also provide hosting facilities for Danish MEs that want to station staff in the region on a shorter-term basis, i.e., ”own man in”.

- **COORDINATION OF SERVICES:** Denmark is a too small a country to have many competing services for exporters in marginal markets such as those in East Africa. Hence, it is paramount that different export support organisations, private as well as public, such as the Export Council, Regionale Væksthuse, IFU, DI, EKF etc., coordinate their efforts to ensure that the various export promotion methodologies work together. In this respect, DI could consider not developing services that are already available but rather exerting its influence as a political membership-based organisation to facilitate collaboration with the other institutions in order to ensure complementarity, transparency and synergy in services aimed at promoting Danish exports to Africa.