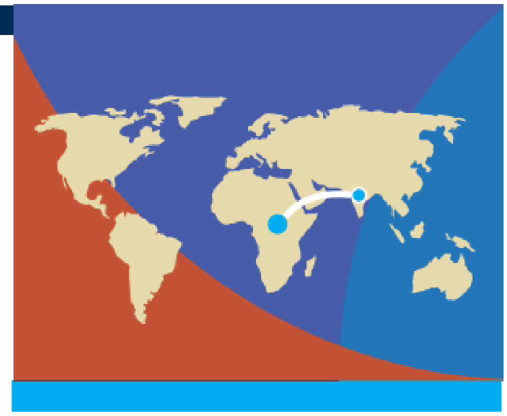
Expanding the business into Africa through "Strategic Alliance"



Many a times, it may not be the best idea to expand the business in a new geography by setting up own operations in the form of wholly owned subsidiary or new firm. This route to expand to Africa would require a considerable amount of capital investment and a medium to long term lag period when the business starts getting returns from Africa operations.

While expanding the business from India to Africa, an inclusive business can also face challenges like language and cultural barriers, lack of access to distribution network, obtaining regulatory licenses and certifications etc. In such scenario, partnering with a local counterpart who has better understanding of the business environment and is better equipped to lead the front in the Africa can be a better choice. Inclusive Partnership can be of many forms such as trade partnership, Licensing, strategic alliance, joint Venture and franchising.

This document provides an initial checklist of assessing if an enterprise is ready to partner and things to consider while opting for "Strategic Alliance route".

UNDERSTANDING "STRATEGIC ALLIANCE"

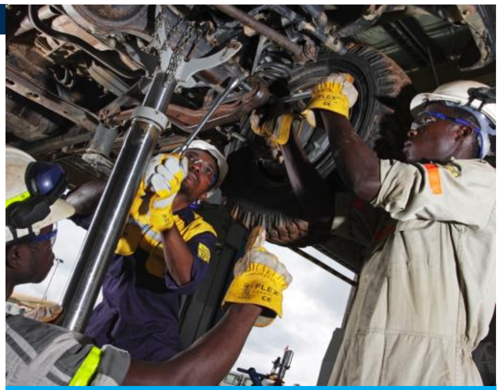
A "Strategic Alliance" is a kind of partnership when the two parties decide to pool in resources to carry out joint business activity with a common objective. The involvement of two business partners in a strategic alliance is more than that of a trade partnership but less than that of "Joint Venture". Strategic alliance is a form of legal agreement in which two partners agree to share resources, technology and trademarks without forming a separate company. Thus, the two business partners retain their autonomy in a strategic alliance. A strategic alliance in Africa can help a business wanting to expand in Africa in many ways such as understanding customer needs, gaining market access, and gaining a competitive advantage over its competitors in Africa.

WHEN IS STRATEGIC ALLIANCE BEST MODE OF BUSINESS REPLICATION IN AFRICA?

There may be several, business model, organizational and macro environment level dependencies which make it imperative for a business to opt for "strategic alliance" with an African partner, in order to succeed in African market. Some of these dependencies have been explained below:

Organizational Capacity Related Dependencies

- *When access to capital is limited for Africa expansion: leveraging on already established network of partner in Africa can help overcome this organizational constraint*
- *When management lacks region specific expertise: In this case also organization can leverage the expertise that an local counterpart management can bring in and hence reduce the learning curve for themselves while entering African market*



Aquagri - Leveraging Strategic Partnerships with International Organizations in Kenya

Established in 2008, Aquagri Processing Private Limited develops new technology to cultivate and process natural sea plants

In 2013, Aquagri expanded entered in a partnership with USAID for promoting use of organic fertilizers in Kenya. It also built strategic relationships with international organizations such as ICRISAT and Syngenta Foundation to help it facilitate field trials and understand the local market. Aquagri utilized the established channel partners and networks of ICRISAT and Syngenta Foundation to increase market coverage of their products. By building partnerships with international organizations, it reduced operational cost and lead time to establish its product in Kenyan market. The idea behind the strategic alliance was also to test market first and to establish full grown operations later on based on the success of this first step.

Business Model Dependencies

- *When the product is new and there is a need of market creation: In cases when the target customer base is not aware of the product and there is no direct demand of the product, marketing the product through a local partner who has trust built in within the target community can help creating the need of the new product.*
- *Customer base is geographically dispersed: In such scenario, it may not be commercially viable for the enterprise to establish distribution network of its own. Instead, leveraging the existing local presence of the partner organization can be a more cost effective option.*
- *When the business model is affected by cultural sensitivities, language barriers: Since a local partner would have workforce from the community itself, their last mile workforce is integrated with the community at better level and hence would be better placed to sell a product or offer services in Africa.*
- *When the model has high touch requirements with consumers as a result of which regular engagement with customer is needed: For example, inclusive businesses producing off grid solar systems require regular customer education. In such cases working with local partner having resources living within the community will be more feasible*
- *When dealing with country government is part of the business model: In such case having strategic alliance with partner which has prior experience of working with government will be beneficial than going alone as the partner will have better understanding of government and laws of land and therefore will be better placed to manage matter related to government. Also, it reduces revenue risk for the inclusive business as the partner bears the risk of payment default by government and not the Indian business*
- *When consumer requires financing support to buy the product: Local partner having good network with micro finance institutions can mitigate the problem of consumer financing in inclusive businesses with high cost products*

External Environment Related Dependency

- *When substantial number of regulatory clearances and licensing requirements are essential for business to operate in Africa: Businesses in some particular sectors may require regulatory clearances and licensing requirements to operate. In such cases, tying up with a local partner with good network with government and regulatory bodies can become imperative*

AYZH Chose "Strategic Alliance" route to enter Africa

AYZH is a for- profit social enterprise providing health and livelihood solutions to impoverished women in India since 2010 and in Africa since 2013. The WHO approved $5 delivery kit "Janma" provides affordable hygienic delivery solution to women who either lack access to or cannot afford institutional delivery

In India, AYZH follows a B2B model. The kits are distributed through existing distributors such as hospital pharmacies and healthcare centers. However, when they entered African Market in Ghana and Zambia, they partnered with local NGO's which had good network in rural areas. It helped them in more than one way. Since it was new product for the rural population, they needed to spend considerable effort in creating the need for the product by spreading awareness about the benefits of clean and hygienic birth. The partner NGO's long standing connection and trust with the community helped them immensely in achieving this feat.

FINDING THE RIGHT PARTNER FOR “STRATEGIC ALLIANCE”

Understanding the long term and short term goals from a partnership

- *It is the first step towards forging a partnership. A partnership should have shared business goals. Having clear understanding on what area of business is partner supposed to contribute helps in looking for right partners. A partner may help in one or more places in the business value chain such as market creation, understanding customer and spreading product awareness and consumer financing etc.*

Deciding about “who” the strategic partner should be

- *For a successful partnership, it’s necessary that strengths of two partners complement each other. Every category of partner-NGO, local businesses, MNC’s and government have something unique to offer to potential businesses. The typical strengths that an Inclusive business intending to expand into Africa would look for in its partner are: level of outreach in Africa , Management strength and experience, success of prior work done in Africa , awards and recognitions etc. Some of the strengths of each type of partner are listed below:*
    - *NGOs- Since NGO’s work closely with the community they bring strengths like social capital, last mile connectivity, hands on experience and understanding the needs of bottom of pyramid population base to the strategic alliance. Also, because of their prior on ground work, they are more likely to have connections with micro finance institutions and small banks and hence can help in consumer financing if that is the need of the business model and illustrated as an example in the next box*

- *Local businesses bring in experience of working with the end consumer, understanding of their requirements, and connectivity with distribution channel players. Since they have worked closely with the potential target market, therefore, will have greater trust equation with them. A product or service routed through them is more likely to be accepted by the target community*

Envirofit India - Gaining from "Trade Partnerships and Strategic Alliances" in South Asia

Envirofit India designs, manufacturers and markets affordable clean cook stoves for low-income customers

To enter South Asian market Envirofit built alliances with several distribution partners such as microfinance institutions (MFIs), non-governmental organizations (NGOs), corporate social responsibility (CSR) programs, and retailers for expansion process. In initial stages, these partners helped Envirofit India with understanding the market needs and consumer purchase behavior. As the firm started trading with these partners, they not only created outreach for Envirofit's products in rural and peri- urban markets, but in many cases also worked alongside the firm for customer education and market building. As an added benefit, many of these distribution partners, particularly MFIs and CSR Programs, also support Envirofit India with end consumer financing. Working with-minded partners has allowed Envirofit India to enter and thrive in challenging frontier markets where much larger and more mainstream companies tend to struggle.

- *MNC's- By tying up with an MNC, an inclusive business can gain benefits like strong brand equity and greater outreach due to larger geographical footprint and standardized product and services.*
- *Government- In certain cases, the sector in which inclusive business is working also happens to be focus sector of the government of destination country. In such scenario government can be a potential strategic partner and the business can leverage on government infrastructure, can get subsidies wherever applicable. Many development focus governments will look for working with private sector in the PPP mode of partnership to encourage private sector investments in impact sectors like healthcare, agriculture, renewable energy etc.*
- *For example in case of healthcare sector, partnering with government can provide enterprise access to primary and secondary healthcare centers, doctors, and medicines. In case of Agriculture, the business can benefit from access to farmer associations. Operations Asha leveraged upon government healthcare infrastructure while expanding its operations in Cambodia. An example of inclusive business and Tanzanian government PPP strategic alliance is illustrated*

Apollo Hospitals - Leveraging the Public Private Partnerships (PPP) Policy of Tanzanian Government

Established in 1983, Apollo Hospitals Enterprise Limited (Apollo) is among the largest providers of private integrated healthcare in India. Apollo is beginning to establish its presence in Africa by setting up a super specialty hospital through a PPP with the Tanzanian government

High health risks coupled with finite public sector resources has led the government of Tanzania to leverage the private health sector's capacity to strengthen the Tanzanian health care system by way of initiating PPP's in its national health policies and strategic plans. Leveraging this opportunity, Apollo is setting up a state-of-the-art,250-300bed tertiary care hospital in Dar-es-salaam in partnership with National Social Security Fund (NSSF), Tanzania and Ministry of Health and Social Welfare, Government of Tanzania. While NSSF is providing the infrastructure required for the hospital and supporting all local requirements in terms of logistics, the ministry is facilitating all the processes for setting up and operating the hospital and will also monitor clinical quality.

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