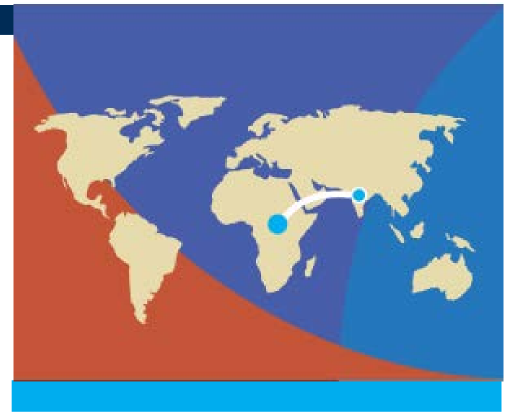
Expanding the business into Africa through "Trade Partnership"



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 "trade partnership route".

WHEN IS TRADE PARTNERSHIP BEST MODE OF BUSINESS TRANSFER TO AFRICA?

There may be several, business model, organizational and macro environment level dependencies which make it imperative for a business to go for trade partnership way, in order to succeed in African market.

Characteristics of the Product to be Marketed

- *When the product is commoditized: When the product to be introduced in African market is more of a commodity and does not require customization and thus, can be marketed through a local distributor with good distribution network, trade partnership can be an option to expand business to Africa*

Organizational Capacity Related Dependency

- *When access to capital is limited for Africa expansion: leveraging on already established network of partner in Africa to market its products 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 Africa market*

Global Easy Water Products (GEWP) - Expanding into Kenya through Trade Partnership

GEWP manufactures and sells affordable micro-irrigation kits to small and marginal landholder farmers that results in water savings between 30% and 50%, improves crop yield between 30% and 70% and reduces small holder farmers' electricity consumption by 50%. It currently operates in nine Indian states and exports its products it Kenya.

In early 2012, through a market scoping study, GEWP realized that while there was Market potential for low cost irrigation kits, setting up a manufacturing unit in poorly developed rural areas in Kenya would drive up their business costs substantially. It would also involve substantial investment, in terms of time, money and management bandwidth. As a result, they decided to establish a trade partnership with a local distributor, Impetus Africa, which understood the local context and had relationships and networks to sell their low cost irrigation products to small farmers.

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 local partner having sales personnel from the community will be better placed to sell the product than the Indian entity*
- *When the product is commoditized: When the product to be introduced in African market is more of a commodity and does not require customization and thus, can be marketed through a local distributor with good distribution network, trade partnership can be an option to expand business to Africa*

Business Model Dependencies

- *When substantial number of regulatory clearances and licensing requirements are needed for business to operate in Africa: Businesses in some particular sectors may require regulatory clearances and licensing requirements to operate. In such cases gaining the market access through trade partnership may be a better option*

FINDING THE RIGHT TRADING PARTNER

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*

Deciding about "who" the trade partner should be

For a successful partnership, it's necessary to know the strengths of the trading partner. Every category of partner-NGO, local businesses, multinationals have different strengths. The characteristics of the business model would determine who the right trade partners should be. The typical strengths that an Inclusive business intending to expand into Africa would look for in its trading partner are: level of outreach in Africa, understanding of the target market, access to right distribution network etc. Therefore the inclusive businesses would require to do sufficient due diligence in deciding the partner. Some of the strengths of each type of potential partners are listed below:

- *NGOs- When products requires the distributer to possess last mile connectivity, hands on experience of needs of bottom of pyramid population base, micro financing to support to consumers, NGO's can be the right trading partners*
- *Local businesses- When product selling requires experience of working with the end consumer, understanding their requirements, connectivity with distribution channel players*
- *MNCs - Brand equity, larger geographical footprint, standardized product and services*

Envirofit India - Gaining Market Access through Trade Partnership in South Asia

Envirofit India designs, manufactures 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 and create market for Envirofit products in rural and peri urban areas. Working with like-minded partners has allowed Envirofit India to enter and thrive in challenging frontier markets where much larger and more mainstream companies tend to struggle.