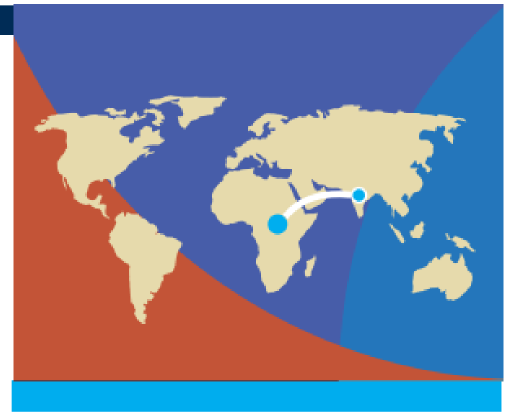
Expanding the business into Africa through "Joint Venture (JV)"



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, and region specific technical expertise 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 "Joint Venture route".

UNDERSTANDING "JOINT VENTURE"

A "Joint Venture" like 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. However, the difference between a joint venture and a strategic alliance is that in case of "Joint Venture" the two partners invest to form a separate company which is jointly owned by both parties. A Joint venture in Africa can help a business wanting to expand in Africa reduce its investment risk and combine complimentary features of both partners without altering the parent firms. A joint venture may be both for a short term project or a longer term depending upon the aims and objectives of the partnership.

WHAT CAN A JOINT VENTURE BRING TO THE TABLE?

- *Resource addition- A JV can help bringing in specialized staff such as technical, marketing and sales without incurring additional costs for the company while expanding to Africa*
- *Capacity enhancement- In a business playing on volumes, expanding the business into a new geography would mean increasing the manufacturing capacity and when business conditions requires setting up manufacturing plant in the destination country, having a JV to increase the capacity can be a good option. What needs to be seen is that the partner has necessary skills and expertise to customize production to match up with the business*
- *Access to already established distribution network and entry into new markets- This is important especially in case of businesses with commoditized product or services businesses. To make sure the business is able to reach every nook and corner of the destination country leveraging on already established distribution network of a JV partner can be a viable option go for*
- *Technical expertise- When the product or service that the business offers requires technical expertise then going for a JV with a partner with that expertise can help the business gain competitive advantage in the new market*

Astonfield: Establishing "Joint Venture" with a Partner with Better Technical Expertise

Established in 2013, Astonfield- Solesa designs and constructs solar- hybrid mini-grid power systems for the Small and Medium Enterprise (SME) segment in India and East Africa

Astonfield after partnering with Solesa Solar, an Italian firm with expertise in Solar engineering and project management skills were complimentary to Astonfield's business development, building business models to suit the regulatory infrastructure, and project financing and therefore they then strengthened their partnership by entering into a "Joint Venture"

WHEN IS "JOINT VENTURE" BEST MODE OF BUSINESS REPLICATION IN AFRICA?

The decision whether to go for a joint venture for expanding to an African country will depend upon many factors related with organization, business model, and macro environment which make it imperative for a business to opt for "Joint Venture" in order to succeed in African market. Some of these factors have been explained below:

Organizational factors that can lead to a JV

- *When access to capital is limited for Africa expansion: When the organization has only, limited capital to commit to Africa expansion, pooling in resources with a JV partner can be a good option*
- *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*
- *When management is willing to share control of business: When management is willing to share the control of business in form of a joint venture in lieu of competencies of the partner that compliment that of the inclusive business*

Business model related factors

- *Type of product or services being offered: In cases when the product or service being offered is commoditized and therefore not protected by any IP, organization can go for a joint venture*
- *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*
- *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*

- *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*

Macro environment related factors

- *When a joint venture is the only legal way to enter market of destination country in Africa: The laws and regulations in different African countries differ. It's necessary to investigate what are the different legal ways to partner in the destination country. If joint venture is the only legal way to partner, it becomes a forced choice for the business intending to enter the destination country*

FINDING THE RIGHT PARTNER FOR "JOINT VENTURE"

Understanding the long term and short term goals from JV

- *It is the first step towards forging a partnership. A partnership should have shared business goals and offerings that complement each other. Having clear understanding of what are the businesses weaknesses that an able JV partner can bring in can help in looking for right partners. As discussed above in the document, resource addition, capacity enhancement, technical expertise and access to already established distribution network and entry into new markets are some of the offerings that a JV can bring in*

Astonfield and Solesa: Mission Alignment - Key Ingredient of their Joint Venture for Foraying into Africa

Established in 2013, Astonfield- Solesa JV designs and constructs solar-hybrids mini- grid power systems for the Small and Medium Enterprise (SME) segment in India and East Africa

Both Solesa and Astonfield wanted to expand into African market. Solesa Solar didn't want to get into business development and regulatory part of the business and on the other hand Astonfield had good enough experience in same. On the other hand Astonfield was looking to share financial risk of entering into Africa market, which Solesa offered to share. Thus the core objectives of both partners were aligned and thus they were able to forge a successful "Joint Venture" for venturing into East Africa.

DECIDING ABOUT "WHO" THE JOINT VENTURE PARTNER SHOULD BE

- *For a successful JV, it's necessary that strengths of two partners complement each other. Every category of partner-NGO, local business, MNCs 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 JV 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 JV. Also, because of their prior on ground work, they more are 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*
- *Local businesses bring in experience of working with the end consumer, understanding of their requirements, 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.*
- *MNC's- By tying up with an MNC, an inclusive business can gain benefits like strong brand equity, technical expertise, standardized product and services 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 JV 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.*

Dividing responsibilities in as per the strengths of both partners

- *In a joint venture it is essential that partners divide responsibilities based upon each other's strengths. If the need be, they should consider redistributing the responsibilities , if they think the other partner can better execute the particular responsibility as against what was decided earlier as illustrated in the example given below:*

Sevamob: Redistributing Partner Responsibilities in African "Joint Venture"

Established in 2011, Sevamob offers integrated healthcare services to customers at the bottom of the pyramid. Bundle of services consisting of healthcare consultations, medical supplies and health insurance are delivered through a mobile clinic against an annual subscription fee. The model is supported by a 24x7 call center and software technology that captures patient data to map progress in health outcomes

Having established presence in 4 Indian states, Sevamob tried replicating the model in the form of a joint venture with a local partner in Liberia in 2013. The best practices and software technology were licensed to the partner and the partner was responsible for the service delivery. However, in their second joint venture they are tweaking the partnership model to ensure that the service delivery is managed by Sevamob rather than the partner. The view is that this will help ensure more efficient implementation.

RISKS ASSOCIATED WITH A JOINT VENTURE AND WHEN A JOINT VENTURE MAY NOT WORK?

- *There is lack of clarity on objectives of the JV: In cases when there is confusion about the very objectives of the JV and the message had not been clearly communication to the workforce at every level, there are high chances that JV may not be a success*
- *The partners do not have alignment on objectives from the joint venture: When the objectives of two JV partners are in different directions there may be a possibility that JV doesn't bring out the desired outcomes. Thus its necessary to have mission alignment in a JV*
- *There is an imbalance in levels of expertise, investment or assets brought into the venture by the different partners: Often a JV between equals will work. In scenarios when there is imbalance between levels of investment made by the partners, technical expertise brought by the technology partner is not at desired level, there is likelihood of a dispute. Thus the JV partner must make sure that the potential JV partner has the right kind of technical expertise that it requires. It can be done by assessing its past work, communicating with the existing or past partners and clients of the potential candidate for the JV*
- *The different cultures and management styles result in poor integration and cooperation: Since here we are referring to a JV between companies not just at different geographies but also belonging to different cultures, it's necessary to do thorough due diligence on compatibility of work culture and management styles of the two partners. It could be done by testing grounds by establishing a strategic partnership as a precursor to the JV*