Africa has a history of being a poor continent but this is now changing. The economy in many African countries is growing at some of the world's fastest rates and this is attracting many international firms. The international firms bring capital, know-how and employment further accelerating the African economic growth. For the firms there is a lot to be won from getting a part of what many call the final frontier.

Doing business in new markets is a big challenge for a company and often there are many unknown unknowns that will hinder the expansion. This is even more significant on the African market because it contains many challenges that do not exist in many companies’ home market.

The Sub-Saharan region has the highest poverty in the world today, in 2010 48,5% of the population was living on under 1.25$ a day. In the last years the extreme poverty has started to decline in the Sub-Saharan region but this is still happening at a glacial pace and the goal for the World Bank which declares that it “works for a poverty free world” is still far away. At the same time as Sub-Sahara has the highest poverty it also has some of the fastest growing economies in the world; between 2001-2011 six of the world’s fastest growing countries were in the Sub-Saharan region.

The four Threshold factors
In our researched we tried to identify factors affecting businesses in Africa. By knowing which factors are the most important, firms can prepare for the African market. Being prepared increases the chances that the firms are successful in the new market. That is good for both the society and the firms. The most important factors that we found were:

Cultural distance - Cultural differences is something that is impossible to learn from distance; knowing the culture allows the firm to tailor their offer to the specific market and learn the ways of doing business in the region. Without tailoring the offer, the firm will find it very hard to sell their products.

Skills – The skillset in the southern African region is very low and there is a scarcity of highly educated people. Planning for this problem is essential to minimize its impact. This is important both when it comes to finding people to employ but also when adapting your offer to the African market. A firm cannot presuppose that the African customer will have the same knowledge as the firm’s home customers.

Financial Capital – There is a scarcity of capital in the southern African region affecting both the demand in the market and the possibility to find funding. Providing creative financing solutions is key. This is important both when the customers are institutions or governments and when the customers are private persons.

Broad-Based Black Economic Empowerment (BBBEE) - This regulatory system only exist in South Africa with the purpose to change the inequalities that emerged during the apartheid era. This system is an affirmative action that benefits the black/colored population through giving the firms advantages if they have black managers, ownership, suppliers etc. BBBEE pervades the entire South African economy.
and not having a strategy for this will be a huge disadvantage. Furthermore, these kinds of regulations are spreading over the African continent making them relevant, not only in South Africa.

**Strategies for Entry and Expansion of a firm**

The findings were interesting since this research pointed out two different ways that can be used for a company to grow its business in the southern African region.

The first path is for a firm with limited experience and financing. For these kinds of firms a joint venture is advisable since this is a way to tap into somebody else’s experience. Collaborating with somebody who has experience in the market and who is embedded in the culture is a way to leapfrog the most significant threshold barriers. Initial costs are shared with the partner and the risk is thus lowered.

The alternate path is to establish a presence through direct investment. Direct investment allows for the company to become truly embedded in the market and culture. Being embedded in the culture allows the company to perfectly tailor their offer, establish essential social networks and more effectively exploit the location specific opportunities. To be able to do this it is advisable for the firm to rely on as much local employees as possible since they are better at understanding the environment. Firms need to be aware that the learning curve in southern Africa can be long and expensive. The southern African markets are very different from European markets and this makes them hard to plan for. Therefore it is important to be ready to adapt ones strategy as ones experience grows.

**The research process**

The thesis is based on qualitative interviews with 15 persons with extensive insights in the southern African economy. This group of experienced people has been able to provide valuable information that, with our perspective and theoretical framework, gave us these findings.

**The effect and possibilities of the results**

By using the results from this thesis a firm can be better prepared on what challenges they will face when doing business in the southern African region. This research is very specific in its recommendation and therefore it is easy to grasp. The two main strategies are something that every company needs to have in mind in the entry and expansion phase. If the company also can adapt their strategy to the four threshold factors they will have an advantage since they will have a better understanding and awareness than companies who try to use the same strategy that they use in their home market. Sub-Saharan Africa is by many seen as the “final frontier” and that increases the interest in the region. This will lead to a rising inflow of capital that will open up many new possibilities and by starting the expansion now a firm might have a valuable first mover advantage when the economy spurs. By taking the time to fully master this very different region companies will have a new emerging market to profit from.

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Presentation of the Master Thesis will take place at LTH, Lund, 2014-06-10, 10:00. Please contact Per Fernström or Björn Markström for details.