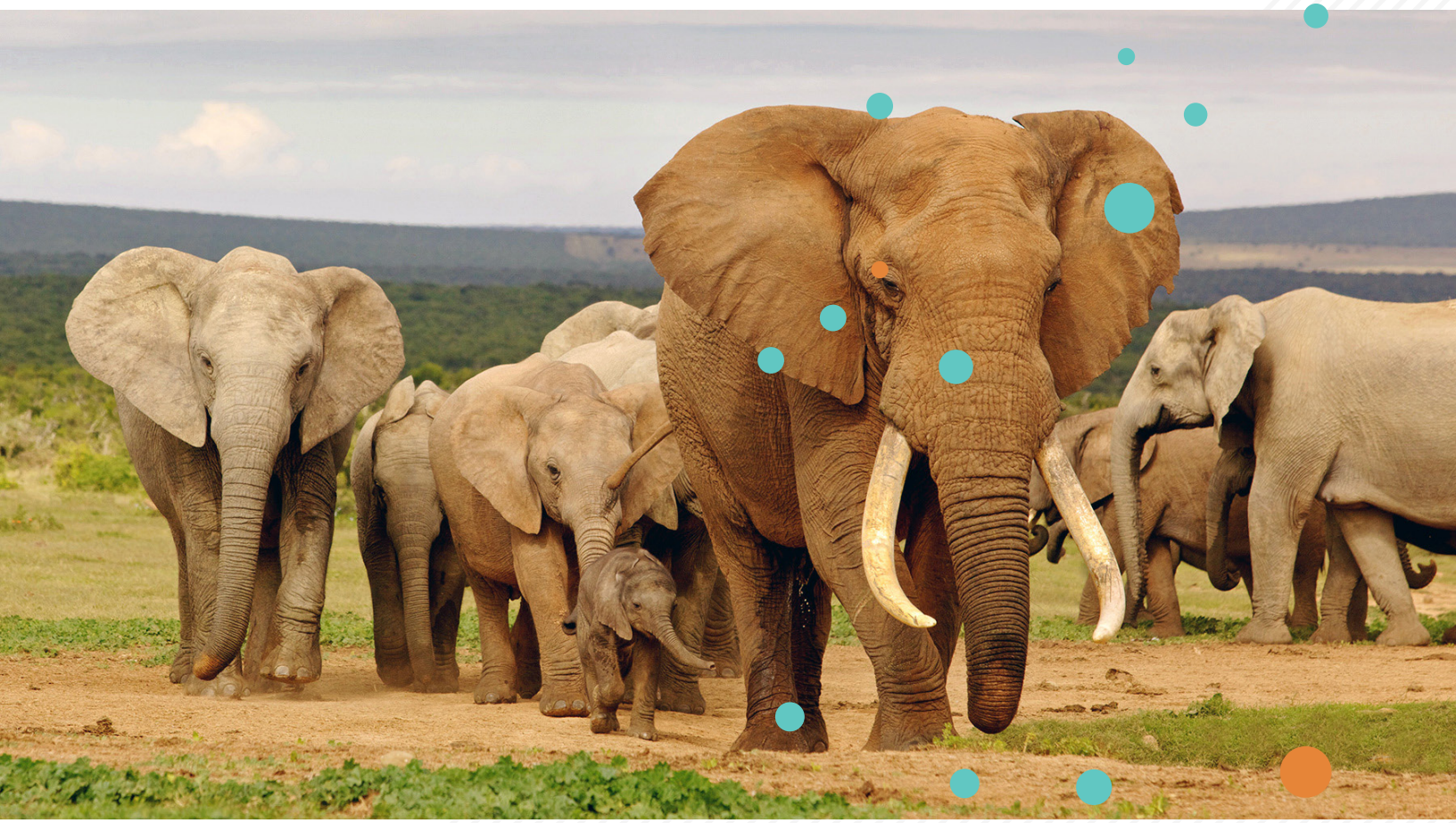
ELEMENTS
GLOBAL SERVICES

EXPANDING YOUR BUSINESS INTO AFRICA:

WHAT YOU NEED TO KNOW



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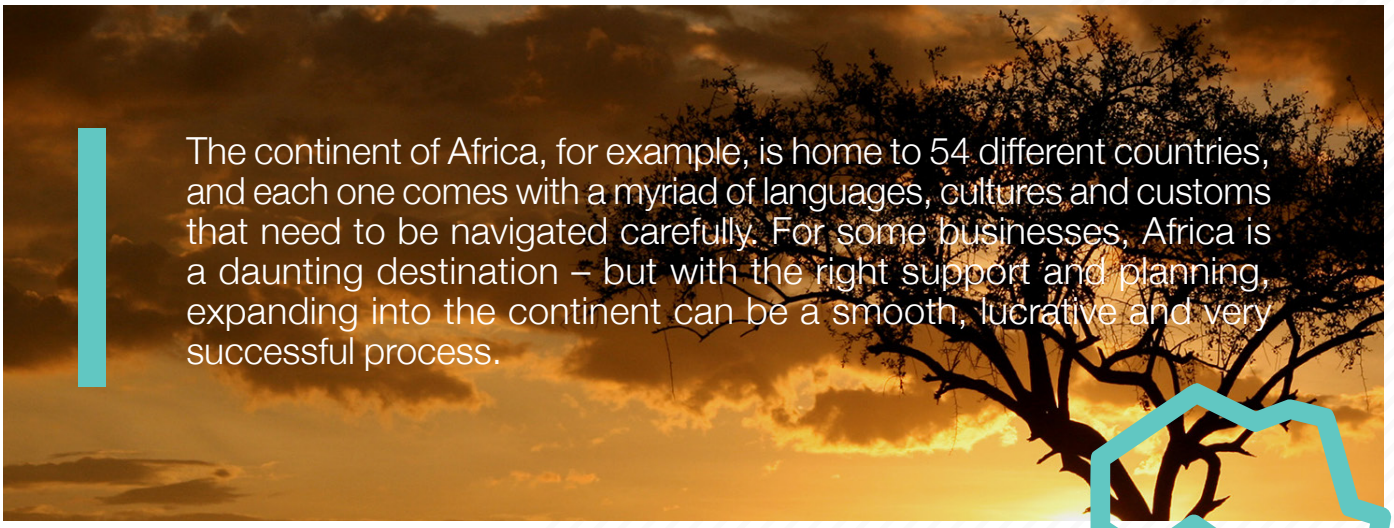
INTRODUCTION

A growing business needs new markets to expand into and explore. This period of expansion is an exciting and often challenging time: every new country presents untold opportunities – as well as unique compliance requirements and potential obstacles when it comes to managing new staff.



The continent of Africa, for example, is home to 54 different countries, and each one comes with a myriad of languages, cultures and customs that need to be navigated carefully. For some businesses, Africa is a daunting destination – but with the right support and planning, expanding into the continent can be a smooth, lucrative and very successful process.

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Elements Global Services has helped many businesses realise their business expansion ambitions across every continent – including Africa. In this whitepaper, we take a look at Africa's economic growth and what it means for businesses looking for new markets. We'll also discuss the challenges you need to be aware of, and how your business can embark on its African expansion plans with efficiency, cost-effectiveness, and speed.

WHY IS AFRICA A CONTINENT ON THE RISE?

A burgeoning middle class

In the last decade or so, modern shopping centres have sprung up in many African cities to cater to a growing middle class. This signifies a rise in consumer spending power like never before and businesses have been quick to capitalise on this economic growth. And, as more people move to urban areas for work and start earning higher wages, the demand for new products and services will only continue to increase.

A growing workforce

Rapid urbanisation combined with a young population has created a large labour force. With more than half of the current population under the age of 18, McKinsey & Company estimates that Africa's workforce will be 1.1 billion strong by 2034; larger than that of either China or India. This gives businesses expanding into the continent access to a large pool of local talent that are hungry to learn, work and develop their skills.

A rise in spending power

McKinsey & Company reports that household consumption on the continent will grow 3.8% each year to reach a total of $2.1 trillion by 2025. Business spending is expected to grow from $2.6 trillion in 2015 to $3.5 trillion by 2025.

This potential growth is impressive, triggering massive investment in infrastructure in many of the major urban areas, to connect people and places far faster. This is a great time for both established and burgeoning companies with an international appetite to jump into the market. They can bring their experience and knowledge to the table, and benefit from the network as it grows.

Better technology

Technology is a critical area of investment for Africa, specifically in terms of increasing people's access to the Internet and mobile phones. As connectivity improves, more businesses will be able to set up offices and, in doing so, increase the demand for strong, reliable technology for their workforces.

In South Africa, for example, most people access the Internet via a mobile phone – but data is expensive. To counteract this economic barrier to entry, more WiFi hotspots are being rolled out across the country, with a projected total of 4.7 million by the end of the year.

As the continent's technology and transport infrastructures grow stronger, businesses across all industries will be able to access a larger, more digitally connected customer base. These middle-class consumers with disposable incomes will be keen to shop and pay online. This offers agile businesses a golden opportunity to get in on the ground now while competition is still relatively low compared to other, more established markets.

SECTORS TO WATCH

Aside from retail, businesses looking to expand into Africa can benefit from lucrative opportunities in growing sectors such as:

Agriculture: A quarter of the world's arable land lies in Africa, but it only generates only a fraction of global agricultural output. So, there is a huge opportunity for companies to move in and help the continent realise its true agricultural potential.

Manufacturing: Growth in Africa's manufacturing sector (with a particular focus on infrastructure development) has largely been driven by continued investment from countries outside of the Organisation for Economic Co-operation and Development (OECD), with China the most notable.

Mining: The continent has huge untapped resources of some of the world's most valuable materials, including platinum, chromium, gold, uranium, and diamonds. We can expect more major mining firms to establish presences in one of many African countries, particularly those in the Southwest, that offer access to these materials.

Telecommunications: As access to mobile phones, Wi-Fi and other forms of connectivity improves across Africa, the telecommunications sector is expanding and becoming more competitive. Companies like Huawei and Google are already starting to assuming large portions of market share, so smaller firms would do well to join in on the action as soon as possible.

Of course, companies tapping into these new markets will need more than just ambition, a few contacts and financial means. They will require a detailed understanding of income, geography, and development trends – as well as expert assistance with local legislation compliance and employee needs.

COUNTRIES IN THE SPOTLIGHT

Mauritius is focused on developing its IT and renewable energy sectors. This has transformed the country from a predominately agricultural-based economy into a diversified, upper-middle-class economy with thriving opportunities for a diverse group of business owners. The World Bank's Ease of Doing Business report ranks Mauritius as 49th overall – but 1st in Africa.

South Africa benefits from a middle-income market that continues to grow thanks to its well-developed financial, legal, energy, communications, and transportation business sectors. In addition, South Africa's stock exchange is the largest on the continent and ranks among the top 20 in the world. The best areas of investment for entrepreneurs moving into South Africa include education, manufacturing, and tourism.

Rwanda suffered for many years during its civil war in the 1990s. Its citizens and leaders have worked hard to heal the country and improve the economy. The country's current business climate is welcoming and efficient: entrepreneurs starting a business in Rwanda can expect to be up and running in just three days, according to reports. Plus, registration fees are minimal. The most lucrative sectors for business in Rwanda include IT, energy and real estate.

Botswana is rich in diamond and precious metal mining. However, the government continues to push resources beyond the traditional mining sector to diversify the country's economy. For example, Botswana increased its ranking on the Ease of Doing Business report by making the importing and exporting process faster by shortening the process by one week. In addition, the country ranks well in the areas of Corruption and Property Rights, making it a top African country for business.

Kenya is focused on developing its transportation, telecommunications and energy sectors. With its high-speed internet and focus on IT, its knowledgeable workforce and proximity to Europe and the Middle East, it's a great destination for international businesses. Google recently invested $700 million in a wind power and grid infrastructure project to improve Kenya's renewable energy. What's more, to attract investment, Kenya has reduced its time to comply with tax obligations from 405 hours to just over 196 hours.

CHALLENGES TO CONSIDER

Before you embark on your expansion plan, it's important to pay attention to the following potential challenges and prepare your strategy accordingly.

Current infrastructure

While major investments are being made to improve road and rail infrastructure in many countries in Africa, it currently falls short when compared to more developed regions in the world. An inefficient supply chain has a huge impact on the transportation and delivery of goods and services.

It can also create problems that result in unexpected costs, putting undue pressure on a company's expansion plans. This can be a major frustration for many international businesses for which a more inter-connected and affordable environment is the norm.

Language and cultural barriers

Not everyone speaks English in Africa. In fact, French would be far more useful and knowing some Portuguese would get you even further. However, no matter how proficient you are in those three languages, there are about 1,500-2,000 African languages that are still spoken across the continent today.

Over and above language, it pays to recognise important gestures and customs – and know how to respond. Cultural differences have an enormous influence on key HR considerations such as benefits, salary, holiday allowances and social functions. What works for one office cannot simply be copied and pasted across all your offices; you need to be aware of local norms and respect them.

Africa is powered by relationships; putting a cultural foot wrong can easily do long-term damage to your reputation and delay your new office from getting up and running.

Access to legislation

To ensure that your business remains compliant, you need to know each new territory's rules and regulations. Unfortunately, important legislative information can be hard to come by; in some countries, it might be the care that only one hard copy of local tax regulations exists.

While some governmental departments are more sophisticated than others, digital access is few and far between. Certain data may be available online but even then, getting hold of the information is only half the challenge. Without the right local partner onboard to help you navigate the relevant halls of power, the data itself won't get you very far.

CASE STUDY: **TOPLINE COMMS**

TopLine Comms

TopLine Comms, a digital marketing agency based in London, opened an office in South Africa in 2015. As a growing SME, TopLine Comms chose to make this critical business move for a number of reasons: South Africa is home to excellent creative skills, English is widely spoken as a first language, the exchange rate is favourable, and the time difference makes collaboration between the two offices easy. What's more, the country's fintech community is developing rapidly, and many local businesses are eager for international marketing assistance.

While South Africa ticked all the important boxes for TopLine Comms' expansion plans, there were some unexpected challenges that delayed getting the new office off the ground. It took a few months to actually register the business, and that was only achieved by the CEO jumping through numerous hoops in person. Once that was done, it was 12 weeks before the company got a business bank account – and it would have taken even longer had the CEO not been able to organise one through their existing banking relationship.

The delay in business registration meant that the South African office had no payroll in place for its first six months of operation. The only solution was for the company's brand-new employees to invoice the London head office until a suitable HR company was found to process employee salaries.

"Not being able to process local payroll for half a year did not present us as very organised employers," said Heather Baker, CEO of TopLine Comms. "It also created volumes of extra and very unnecessary administration that was incredibly time-consuming. All of which could have been avoided if we'd known about Elements Global Services and its EOR solution."

CASE STUDY: **EUROFRAGRANCE**

Spanish company Eurofragance, which specialises in luxury perfumes and personal hygiene products, expanded into Africa in 2009. In particular, it was interested in the Muslim countries in North Africa, such as Egypt. With Islam being the world's fastest growing religion, and with living standards and buying power in these countries on the rise, the market for halal goods was one that Eurofragrance wanted to tap into.

However, a key challenge for Eurofragrance was ensuring compliance with Islamic commercial law – particularly in regard to selling halal-certified products. Eurofragance had the choice between working with well-respected, non-profit halal certifiers, or non-recognised, commercial-only certifiers. The latter option would lead to quicker time-to-market and sales growth, but the former option would give the company a better chance of breaking into stricter Muslim countries.

Though working with recognised, non-profit certifiers would cost more in the short-term, both in terms of time and money, Eurofragrance chose to go with this option. Now, the company not only has a strong presence in North Africa, but is also well-positioned to expand into key markets in the Middle East and Asia.

The key international expansion lesson learnt here is not to cut corners when it comes to compliance with cultural norms and official laws. This applies both in terms of the products and services your business sells, but also in terms of how you market your business and how you employee staff.

CASE STUDY: **SABLE INTERNATIONAL**

SABLE
INTERNATIONAL

Sable International is a London-headquartered foreign exchange, immigration and wealth management firm with offices in Durban and Cape Town, South Africa – and with a wider presence across the Southern part of the continent. The company was able to see the huge potential in Africa for the financial services industry, particularly due to growing economies and middle classes in key countries like South Africa.

Nonetheless, Sable International was cautious of the fact that several countries throughout Africa are viewed as high-risk jurisdictions, experiencing ongoing problems with crimes such as money laundering and terror financing. It was important, therefore, for the company to weigh up the viability of establishing a presence in each African country.

Andrew Rissik, Director at Sable International, said: "Many people look at Africa as a unified market; it most definitely is not and will not be for some time to come. This translates into complex regulations around financial services and cross-border transactions. So we have found that while we are determined to operate in many African countries, a very country-specific approach needs to be taken."

This case study demonstrates the importance of fully understanding a country's specific socio-economic and regulatory situations before choosing to launch a full business operation. In certain markets, it may prove wiser to 'test the waters' by working with an EOR to put staff on the ground temporarily, while avoiding the risks involved in establishing a registered business entity.

ELEMENTS GLOBAL SERVICES: SIMPLIFYING THE ABILITY TO EXPAND GLOBALLY

At Elements Global Services we help businesses realise their international expansion ambitions quickly, efficiently and compliantly. Our Employer of Record (EOR) solution enables us to onboard, manage and pay your employees in countries where you do not yet have a registered entity. Elements assumes responsibility as the legal employer, while you retain full autonomy over recruitment, employee benefits, and company culture, as well as your company's product development and strategic direction.

Our EOR solution cuts out the need for an outsourced local provider in over 135 countries. This direct approach to international employee management is far simpler and more cost-efficient than having to deal with third or even fourth-party outsourcing partners. It helps reduce unnecessary delays, eliminate any unexpected costs and crucially, overcome many of the major challenges associated with expanding a business into Africa – and any other region across the world.

HOW EXACTLY DO WE DO THIS?

Our direct EOR solution:

Ensures compliance with overseas employment and tax regulations
Elements provides you with in-house HR compliance, tax reporting and risk management services in each and every country in which you operate. Our global network of expert lawyers and accountants ensures payroll and tax compliance, while our HR specialists make sure that your company abides by the most up-to-date employment regulations.

Navigates uncertain political or economic climates
There is a lot of uncertainty in emerging markets, as well as in more established markets - thanks to political and economic shifts. The good news is you don't have to set up a registered entity in order to use Elements' EOR solution. This enables you to test the waters in new territories without exposing your business to excessive risk.

Helps onboard and manage employees
Elements handles everything involved in onboarding and managing employees in your new office(s). This includes carefully navigating local languages and cultures to avoid any translation errors or miscommunications when it comes to relaying information about key company processes. We also take care of administering culturally sensitive employee workplace benefits and compensation schemes that are in line with the law – and essential to talent retention.

Offers innovative technology solutions
Elements' HRIS technology resources streamlines your business processes into one easy-to-use system. This simplifies your procedures, enables greater agility and supports your global reach – while keeping you 100% compliant with regulations.

Our direct EOR solution is ideal for businesses of all shapes and sizes that have ambitions to expand globally.

There is no need for your expansion plans to overextend your business and expose it to risk. Rather, if you are interested in a fast and efficient expansion without the associated admin, costs and risks, **get in touch** with Elements Global Services today.