going international: What South African companies should know

The emergence of China and India, as well as an increasingly competitive global environment is putting a lot of pressure on South African companies at home. For South African companies to survive and prosper, they need to explore markets and investment opportunities beyond South Africa’s borders.

The benefits of South African companies going international are numerous, and include the development of new markets, the growth of their business, and possible access to new and innovative technologies, to name a few. Unfortunately, only a few South African companies have been able to achieve this successfully, such as SAB Miller, AngloGold Ashanti, Standard Bank, and DeBeers. There are many South African companies that would like to go international but do not know how.
Does your company really want to go international?

Going international for any business, even multinational corporations is no mean feat. The challenges are onerous but so are the benefits. Thus the decision by any South African company to go international should not be made on the spur of the moment.

Going international for the sake of it or to increase the prestige of the company could result in the demise of the company or it might face huge losses in such a quixotic effort. Going international for any company should therefore be a conscious decision undertaken by the board or the majority shareholder(s) after consultation with their appropriate advisers or inner circle and indeed board members.

Thereafter, it is important to undertake a vigorous debate or discussion about the proposed international foray. It should be a “no holds barred” and frank discussion looking at the pros and cons and at all the “what-ifs” as well as the “what-shoulds” of going international. Once all options have been considered and the decision is taken to go international, it is now that the heavy lifting begins.

Obviously, a specific country or countries that the company intends to enter would be the target. The requisite resources to fund and sustain the venture until it is profitable should also be an important issue to consider. The strategy of how to enter a said market outside of your own should also be carefully considered. For example, could the entering of a foreign country by your company be through the acquisition of a similar company, a turnkey project or joint venture? All such decisions are entirely left to the top management of your company and it is a strategic decision that they should take after a thorough cost-benefit analysis and taking all the necessary due diligence issues into account.

Where should you start?

The first thing to do is to research the proposed country or countries. The Internet is a good tool to start with as many countries today have some presence on the Internet. However, the initial research should also include the World Fact Book or the CIA Fact Book as it is commonly referred to.

You could also get information from the numerous embassies and diplomatic missions in South Africa. The trade and investment divisions of most of the diplomatic missions in the country can also offer the information that your company will need to help you with your initial preparations. Whilst at these foreign missions in the country, ask the preliminary questions and request to follow up with more questions to help your company make the decision of entering their market.

Most of the embassies in South Africa are mandated to promote trade and investments of their respective countries and to explore export markets. They are therefore receptive to businesses that may have an interest in investing in their countries. In most cases, they have a trade attaché as part of the diplomatic staff to deal with trade and investment issues.

Information provided by the respective trade and investment officers should be cross-checked and verified with your own research. Also undertake a PEST analysis of the country or countries you plan to enter, which comprises political, economic, social and technological research about the country. This research could reveal information that could influence your decision of whether to enter the country or not.

You should also make a quick visit to Department of Trade and Industry (DTI) as this will offer additional information that could be helpful. A visit to the Industrial Development Corporation of South Africa (IDC), a national development finance institution established to promote economic growth and industrial development, is also advisable.

It is also important to contact the Export Credit Insurance Corporation of South Africa (ECIC), especially if you are a South African exporter. ECIC underwrites bank loans and investments outside of South Africa to enable foreign buyers to purchase capital goods and services from the country. You must also find time to visit the chambers of commerce of some countries in South Africa. If South Africa has diplomatic representation in the country you intend to enter, a phone call or e-mail to the trade attaché or representative could add more information to your research and could provide you with a contact person at the South African embassy once you enter the country.

Countries such as the United States have international trade offices in different states and in big cities, one finds international trade centres. Should there be a similar officer in your province, approach them during your preliminary research.

Obviously, if you are entering into a joint venture or partnering with another company in a foreign country, you should do a thorough due diligence of the company. When it comes to due diligence, it is better to be safe.
than sorry. Ensure that you are dealing with a credible partner so you don’t find out later that you have been fleeced by a smart con-artist, or a fly-by-night company. According to the Economist magazine, many business people have lost their shirts in their efforts to enter the booming China market.

Once you have done your preliminary research and you are well informed about the country or countries you intend to enter, you have to decide whether to send a representative to visit these countries to experience the place. A first-hand view can expose issues that you would not catch otherwise. A keen and an observing eye can expose some sub-rosa or hidden issues that could affect your type of business and that you might have missed in your research. This could save you a big headache and losses in resources down the line. Alternatively, it could give you ideas on how to position your business vis-à-vis the competition in the foreign market or give you ideas on how to get your business off the ground once you get in there.

The most important step once you have made up your mind, based on good research, is to undertake a SWOT analysis of your business. If you are an individual business person you should undertake the same analysis on yourself and your business for your proposed venture. A SWOT analysis measures your strengths, weaknesses, the opportunities (cost and benefits to you and your company for going international) and the threats that you or your company may face when you go international.

A SWOT analysis will help you or your business to develop a strong business strategy that emphasises your strengths (core competencies) and how you can use those strengths to benefit from the opportunities that may arise. Hence, it is important to ask yourself what the strengths of your business are as you consider going international. Do a thorough analysis of your strengths and be extremely honest with yourself about it.

The opposite is also true; your businesses weaknesses could lead to its poor performance. Some of these may include, obsolete equipment, poor image of the company’s products, its heavy debt load and poor management, to mention just a few.

Opportunities here refer to current or future conditions in the environment you may be going into, which the company can turn to its advantage. For example, if you were in the shoe industry and you enter a market where you find most of the people not wearing shoes, this could point to an opportunity of potential increased sales in footwear. Others may not see that as an opportunity but rather a people who cannot afford shoes. It all boils down to your thorough understanding of your business and its future trajectory.

Threats are the current or future conditions in the environment that can harm your business or the company. It is important to undertake such an analysis before you start your set-up in the foreign country. But at the end of the day, you will still have to put in place your 4Ps of marketing (product, price, place and promotion). You must make sure that they are consistent with each other and your internationalisation strategy.

Any attempt to gloss over a SWOT analysis can be suicidal. Imagine that you are a big fish in a small pond, venturing into the ocean. Not only are there bigger fish than you are out there in the sea waiting to eat you alive, but the other dangers are equally numerous. You must therefore have your wits about you before you take that plunge.

The Disney cartoon, “Finding Nemo” comes to mind. Not only does it serve as a testimony to this point, but it also points to pride and arrogance, a condition which is part of being human. Alexander Pope writing about pride and arrogance and how that becomes the domain of fools has this to say in his Essays on Criticism: “Of all the causes which conspire to blind man’s erring judgement, and misguide the mind, what the weak head with strongest bias rules, is pride, the never-failing vice of fools.”

South African businesses who want to go international should be aware not to fall into such a pit.