

Managing growth

Africa Agribusiness Insights Survey 2017/2018

December 2017



A series of thought leadership articles that provides insights on the opportunities and challenges for agribusinesses in Africa through the eyes of their CEOs

First edition
Managing growth



www.pwc.co.za/agribusiness

A word from Frans Weilbach

PwC Africa agribusiness industry leader

As the global population grows and a shortage of food becomes a reality, Africa is well positioned to become the breadbasket of the world. Agribusinesses in Africa already play a pivotal role in driving the economy of the continent and this role is expected to increase exponentially in the future as food security becomes more and more important.

When doing business in the agri space in Africa, it is important to fully understand the boundaries of the playing field, the external factors that have an impact thereon and the ever-changing rules of the game in order not only to survive, but thrive and be leaders in the field.

PwC is proud to present this first article in a series that will be focusing on agribusinesses operating in Africa. In previous years the findings of our surveys were presented in one publication. This year the content has been broken down into bite-sized chunks and presented as a number of short articles, each focusing on a specific theme.

The insights we bring through these articles will be a combination of feedback from our latest survey among CEOs of agribusinesses in Africa, our interpretation of the findings thereof and general information available in the public domain.

The first article will look at how agribusinesses ***manage growth***.

We trust the content will be interesting and thought-provoking and that it will help you grow as an agribusiness operating in Africa, or teach you more about this sector if you are a wider stakeholder or an interested bystander.

Growth in the sector

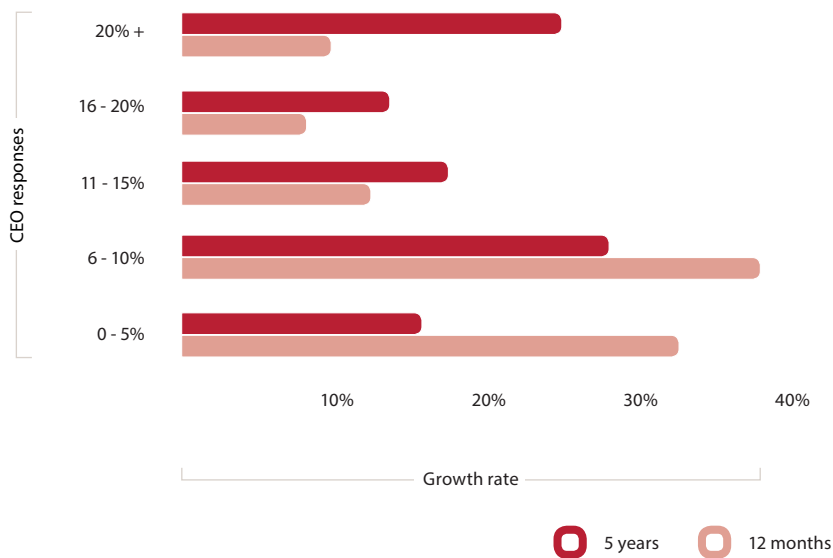


Agribusiness as a sector is critically important for Africa’s economic growth. According to the United Nations Industrial Development Organisation (UNIDO), agribusiness drives 65% of the continent’s employment and 75% of its domestic trade. The continent is boasting a growth rate of 5% per annum, which could result in its gross domestic product (GDP) tripling by 2030. If it keeps growing at this rate, Africa’s GDP might surpass that of Asia by 2050. Given its backward and forward linkages to the rest of the economy, agribusiness and the related agro-processing industry may just be the much-needed catalyst to drive this level of growth in Africa.

Looking at our own survey respondents, it is important for us to understand their expectations around growth. Most CEOs expect revenue growth in the next 12 months to be between 6% and 10%, which seems to be sustainable in the short to medium terms, with a significant number of CEOs expecting an optimistic 20% + growth rate.

This response is certainly more bullish than the one received a year ago. The respondents also hold a very similar view on growth over the next five years.

Expected revenue growth in the next 12 months

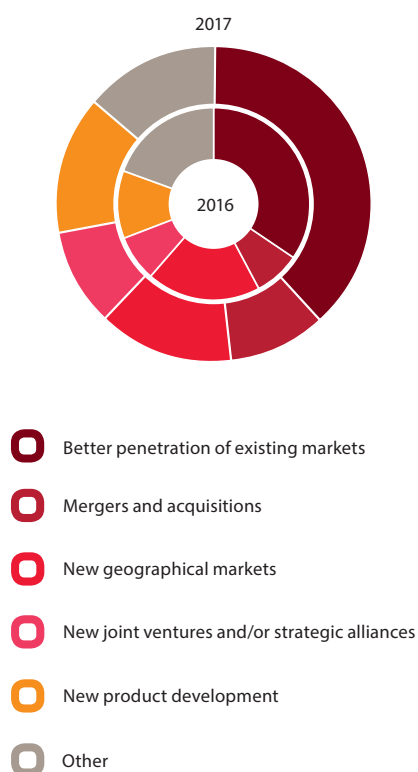


Opportunities for growth

Question:

What opportunities for business growth do you see as the main reason for your agribusiness to grow in the next 12 months?

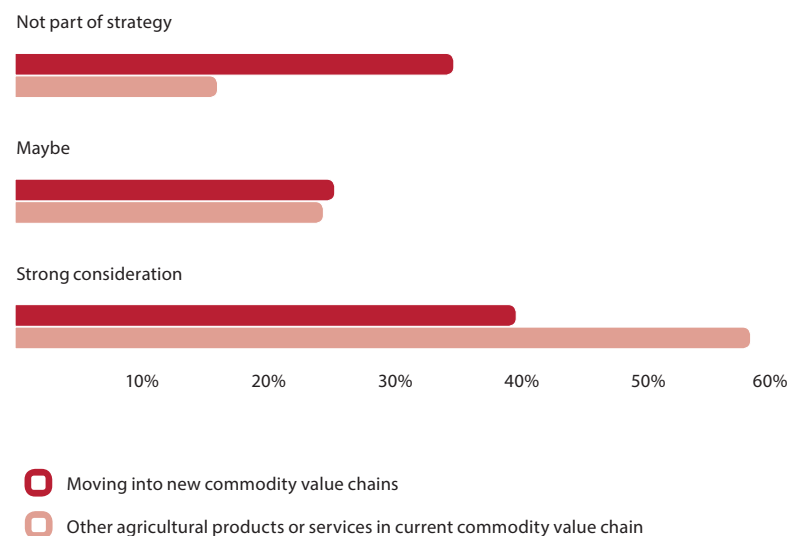
Response:



Agribusinesses were also asked to comment on options for diversification (as one of the ways in which businesses can expand). The option of **moving into new commodity value chains** was set against the option of **diversification within their current commodity value chain**. Most CEOs (58%) indicated that they would strongly consider diversification within their existing commodity value chain, which is seen as the safer option.

Diversification within the current commodity value chain may be the game changer that will set one business apart from the next, as it provides the benefit of shared technology, knowledge, finance and markets.

Options for diversification as growth strategy



Agribusiness CEOs are further of the opinion that entering new markets will not necessarily be the number one driver of growth. They see better penetration of existing markets as having a bigger impact. This implies that there is a need to better understand the opportunities already available in existing markets.

This is a clear reflection of the world we are living in today. Uncertainty around significant challenges such as government stability and policies, along with a fragile political landscape, may result in CEOs being more conservative and therefore refraining from actively pursuing new markets and commodity value chains, with a bigger focus on maximising existing markets and commodity value chains.

What is the most significant driver of growth?

Better penetration of existing markets

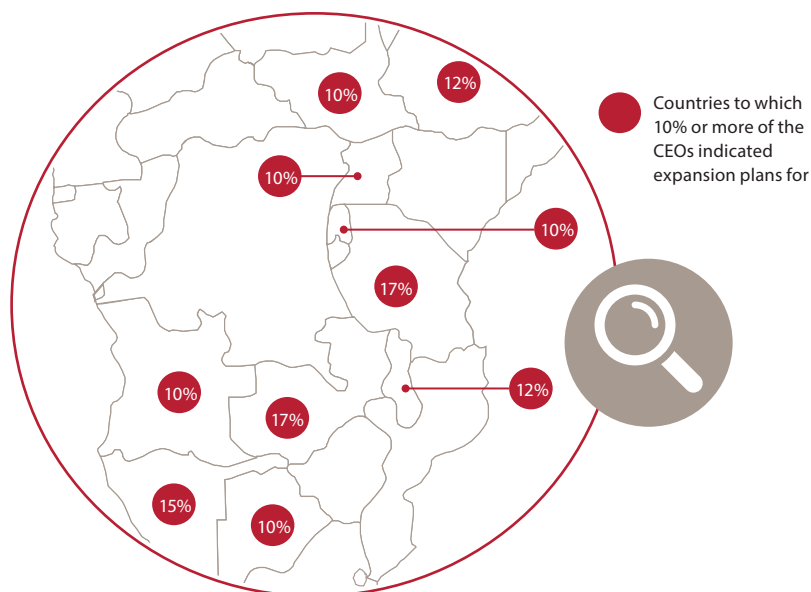
Cross-border expansion

For the 40% of CEOs with a slightly bigger risk appetite who indicated that moving into a new commodity value chain is part of their growth strategy, Africa holds immense potential. Africa is widely regarded as the future breadbasket for the rest of the world, and agribusinesses need to be alert to opportunities to improve their footprint on the continent in order to fully leverage off this.

The participating agribusinesses already have quite a substantial footprint in Africa. Although the feedback received from CEOs might suggest that African cross-border expansion is not currently seen as the primary driver for revenue growth, it is evident from the figures below that plans for expansion into Africa are still very much on their radar over the next few years.

Top 10 expansion destinations in Africa

Angola
Botswana
Ethiopia
Malawi
Namibia
Rwanda
South Sudan
Tanzania
Uganda
Zambia



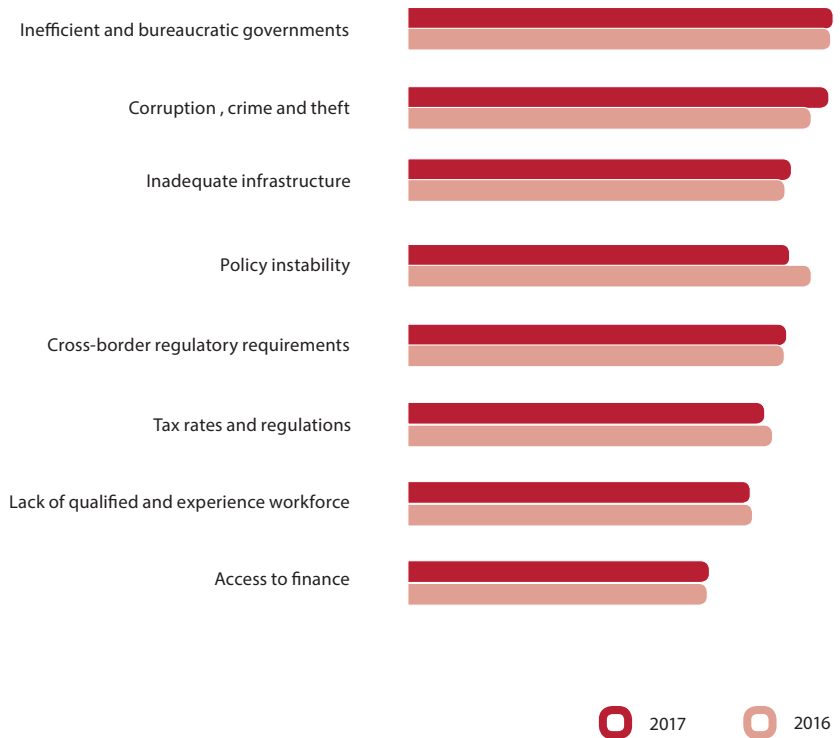
The expansion of intra-African trade can play a significant role in economic growth and development on the continent due to the advantages of economies of scale, the strengthening of commodity value chains, the opening up of new markets and the improvement of overall infrastructure.

However, businesses have many challenges to overcome when they move across borders into new territories. The most significant of these relate to inefficient and bureaucratic governments as well as corruption, crime and theft. Inadequate infrastructure and political instability are further concerns.





Significant challenges to cross-border expansion



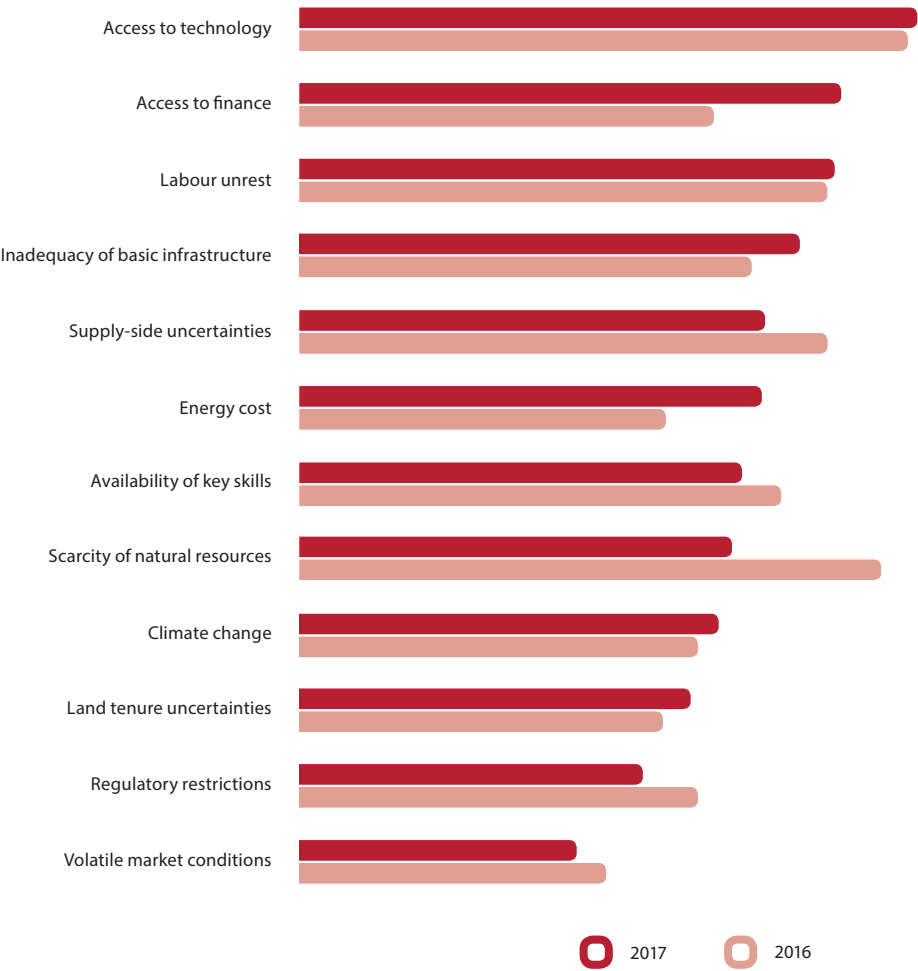
African countries will not be able to exploit the full benefits associated with intra-African trade until they eliminate these barriers. Policymakers should consider infrastructure, regional value chains, the role of corruption and the value of regional integration when identifying priorities for stimulating intra-African trade. Massive investment in critical infrastructure is essential to encourage growth, increase productive capacity and bring the needed transformation to fully unlock cross-border opportunities.

When looking at growth, whether through exploring new markets and commodity value chains or by focusing more on current markets and existing commodity value chain diversification, African CEOs listed a number of challenges, with access to technology still being the number one barrier. Fifty-three per cent of participants indicated that their business is not utilising technology at an optimal level to achieve the increased efficiencies they desire.

Concerns regarding scarcity of natural resources, regulatory restrictions and supply-side uncertainties have decreased slightly. A few others, such as access to finance, energy cost and inadequacy of basic infrastructure, have gained in importance for respondents.



Biggest challenges to business growth



Access to technology remains the main inhibitor of business growth, with modern farms and agricultural operations working much differently from a few decades ago. This is primarily due to advancements in technology as it applies to sensors, devices, machines and information technology. Today’s agriculture operations routinely use sophisticated technologies such as robots, temperature and moisture sensors, aerial images and GPS technology. These advanced devices and precision agriculture and robotic systems allow businesses to be more profitable and efficient, safer, and more environmentally friendly. It remains imperative for agribusinesses to keep up with the latest technology in order to grow.

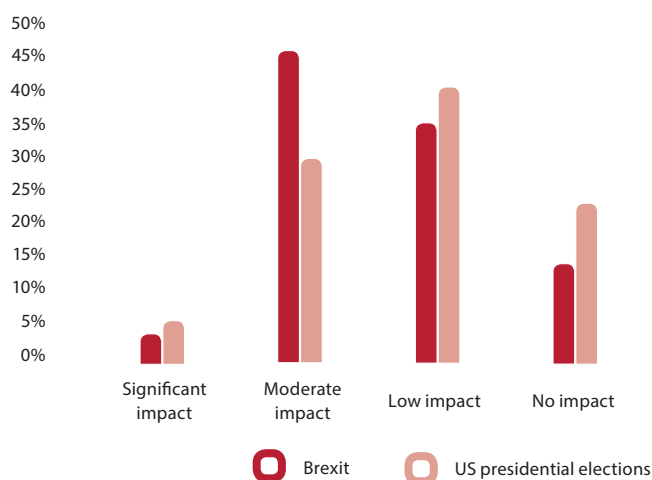


Impact of global events on growth

We do not operate in a vacuum and the impact of significant global events on our businesses is a reality. There are many incidents happening on a global scale that may be having an impact on agribusiness in Africa. We asked our participating CEOs to comment on the impact of two of these: Brexit and the US presidential elections.

The overall sentiment is that these incidents will have a moderate to low impact, with Brexit attracting slightly more attention than the US presidential elections. Agribusinesses that have a strong linkage with the UK may be affected adversely by Brexit. The real impact, however, will only be evident once a significant period of time has elapsed, and it therefore needs to stay on our risk radar.

Impact of global events on agribusinesses



Take-home messages



1

CEOs are more bullish about growth in the short to medium terms.



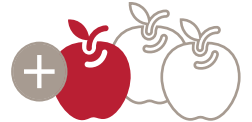
2

CEOs are first looking for diversification within their current commodity value chain before moving into other value chains.



3

CEOs are also looking for increased penetration of current markets rather than risking resources on new markets.



4

There are significant opportunities for future growth via cross-border expansion.



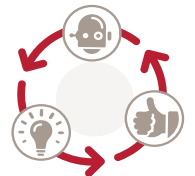
5

Africa possesses unrivalled opportunities if policy makers can remove some of the significant challenges.



6

The CEO of today understands the ability of technology and regards access thereto as a prerequisite for sustainable growth.



How can we help?

PwC's Advisory and Risk Assurance Services can assist you with your concerns regarding risk management and the more efficient use of technology.



Contact us



Frans Weilbach

Agribusiness Industry Leader for PwC Africa

frans.weilbach@pwc.com



Christo van Renen

*Agribusiness Industry Manager for PwC Africa
Project coordinator and writer*

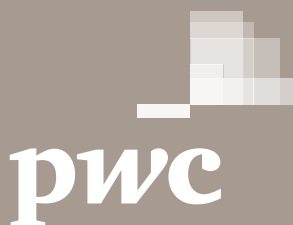
christo.van.renen@pwc.com



Sneak peak

In our next publication, we will zoom in on sustainability – a critical aspect of any agribusiness.





www.pwc.co.za/agribusiness

© 2017. PricewaterhouseCoopers ("PwC"), a South African firm. PwC is part of the PricewaterhouseCoopers International Limited ("PwCIL") network that consists of separate and independent legal entities that do not act as agents of PwCIL or any other member firm, nor is PwCIL or the separate firms responsible or liable for the acts or omissions of each other in any way. No portion of this document may be reproduced by any process without the written permission of PwC.