

Rethinking the African business opportunity

Hopes are high for Africa's long-term growth, driven by technology and basic services rather than resources. Survey respondents in Africa report more optimism—and better business practices—than peers elsewhere.



With expectations of technological growth, high demand for infrastructure, and rapid urbanization, respondents to a McKinsey Global Survey on business opportunities in Africa are confident about the continent's long-term economic prospects.¹ In fact, respondents in Africa and in other regions believe that 20 years from now, its combined GDP will be among the fastest growing in the world. But the results also suggest that on-the-ground knowledge is key to capturing this business potential. Respondents in Africa report higher revenue and profits there, as well as higher expectations for future growth and a more nuanced outlook on the specific countries where the best opportunities lie.

It is therefore no surprise that local respondents are more likely than their peers elsewhere to work for the highest-performing companies.² Results from respondents at these companies suggest that to meet the perceived challenges of doing business on the continent—most commonly, political instability and corruption—success in Africa requires direct investment in a company's own business ecosystem. Other best practices among the high performers include a more active approach to developing talent, a formal strategy for growth in Africa, and a quicker embrace of mobile and digital technologies to support that strategy.

Betting long on Africa

Optimism about Africa's long-term prospects is widespread and decisive across regions. Two-thirds of all respondents predict that Africa's combined GDP will be among the fastest growing in the world over the next 20 years—more than three times the share who believe that its GDP growth will stagnate. What's more, half of respondents expect most African households to join the consumer class within the next two decades, compared with 37 percent who believe the opposite. Looking ahead, respondents are also more likely to say that educational performance in Africa will improve significantly than to say it will still be far behind other regions.³

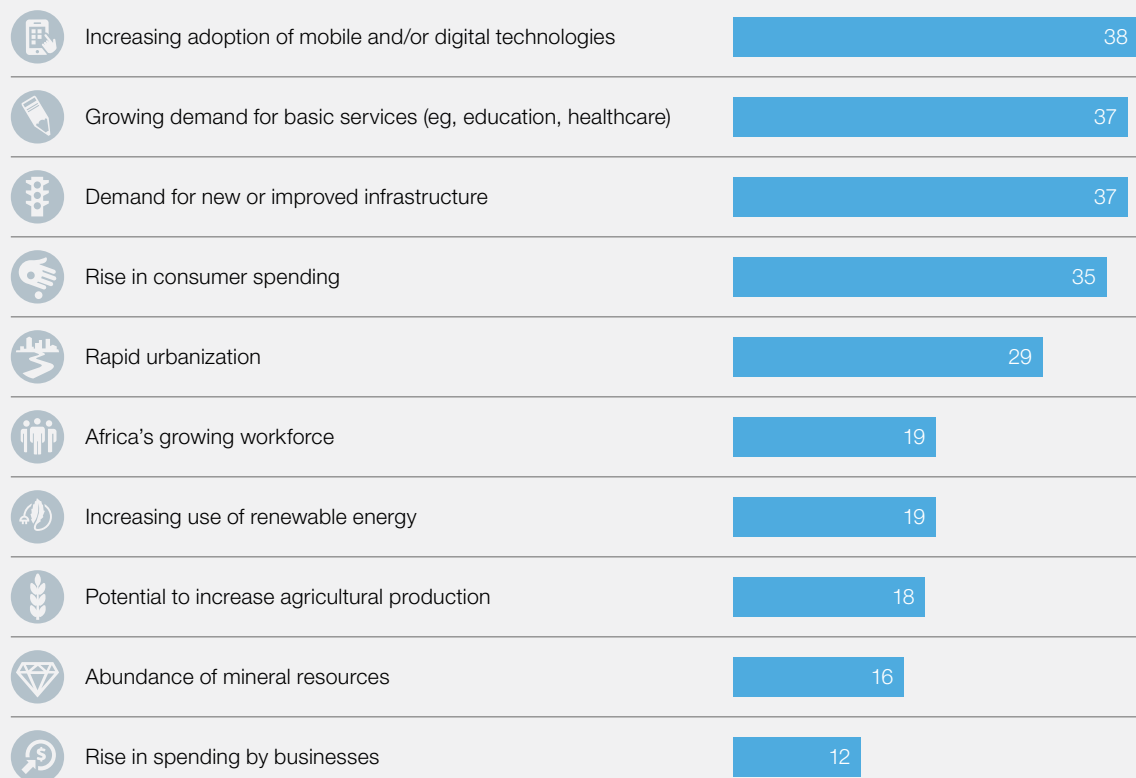
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When asked which trends and forces will drive growth over the next 20 years, respondents both inside and outside Africa most often cite the adoption of digital technologies and demand for basic services and infrastructure as the region’s biggest opportunities (Exhibit 1). Among respondents in Africa, rapid urbanization (cited third most often) is especially top of mind; they are also more likely than others to cite the potential for increased agricultural production. Taken together, these results hint at expectations for a more diversified African economy in the years ahead. While respondents across regions largely agree that the resource sector in Africa will contribute significantly to its long-term growth, the abundance of mineral resources is regarded as a lower-order opportunity for growth.

Exhibit 1

Over the long term, digital technologies and demand for services and infrastructure are expected to drive Africa’s growth.

Trends and forces expected to be the biggest growth opportunities in Africa over next 20 years,
 % of respondents,¹ n = 792



¹ Respondents who answered “other” or “don’t know/not applicable” are not shown. Question was asked only of respondents who said they have been to at least 1 country in Africa, for either personal or business reasons, and that 5% or more of their organizations’ current revenue is earned in Africa.

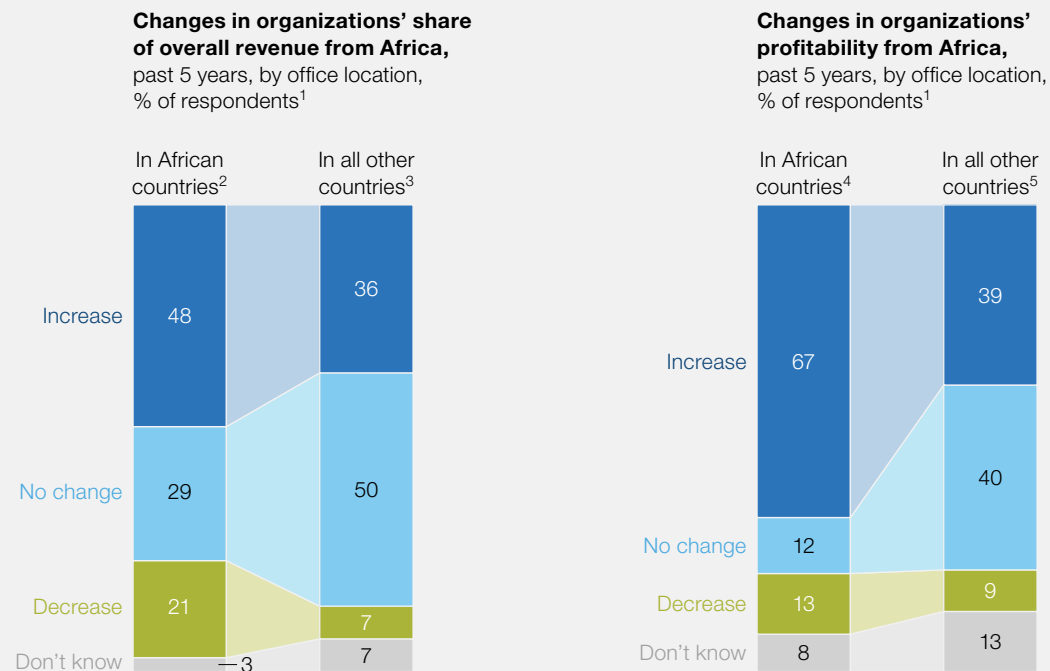
The advantages (and optimism) of being local

Despite the positive consensus on the long term, other results suggest that respondents' experience with and understanding of business opportunities in Africa vary based on where they work. Respondents on the ground in Africa report much better performance there than respondents outside the continent. For example, 48 percent of respondents in Africa report an increase in their revenues there during the past five years, compared with 36 percent of all other respondents.

The responses from local players also suggest that their profitability in Africa has outpaced revenue growth—and to a much greater degree than at other companies (Exhibit 2). Respondents in Africa are much more likely to report growing profitability than growing revenue over the past five years; in the rest of the world, roughly equal shares report profit growth and revenue growth. Interestingly, respondents in Africa are also three times more likely than others to report *declining* revenues in recent years, suggesting that the region presents clear business risks—which local companies may be more willing to assume—as well as opportunities.

Exhibit 2

Respondents in Africa report higher revenues and profitability on the continent than their peers elsewhere do.



¹ Figures may not sum to 100%, because of rounding. In chart on right, figures were calculated after removing respondents who answered "not applicable."

² n = 253.

³ n = 772.

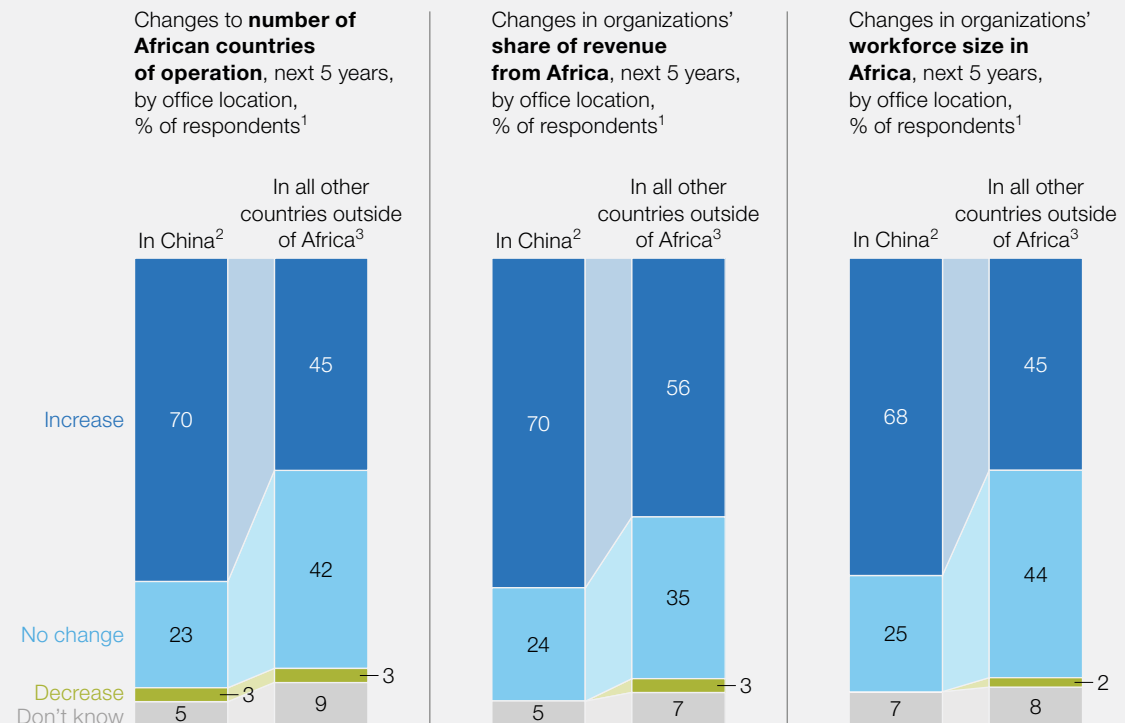
⁴ n = 237.

⁵ n = 580.

Even so, respondents in Africa tend to be much more optimistic than others about their companies' prospects on the continent. When asked which regions represent the most attractive opportunities for their businesses, they are nearly four times more likely than respondents elsewhere to cite Sub-Saharan Africa. What's more, 72 percent of respondents in Africa, compared with 49 percent of all others, expect the number of African countries where they operate to grow in the coming years. They are also much more likely to expect their companies' African workforces and revenues to grow.

Outside the region, China is a clear exception to these findings. Respondents there are much more likely than other nonlocal respondents to expect growing footprints, revenues, and workforces in Africa (Exhibit 3). In fact, respondents in China are as likely as those in Africa to expect that their companies' footprints there will grow in the next few years.

Exhibit 3 Respondents in China are likelier than those in other non-African countries to expect their organizations will expand in Africa.



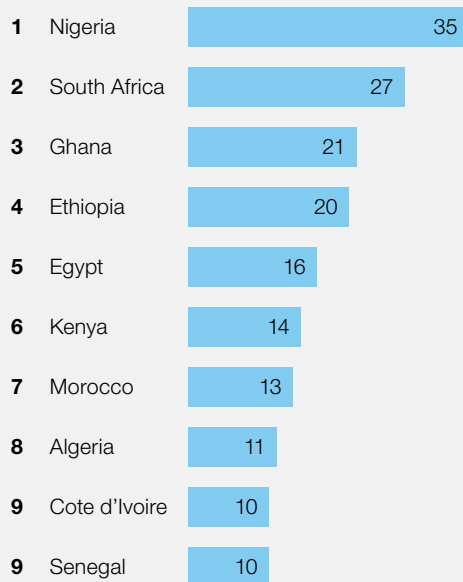
¹ Figures may not sum to 100%, because of rounding.
² n = 115.
³ n = 657.

Even at the country level, respondents with on-the-ground knowledge have a different perspective on where the best opportunities lie (Exhibit 4). Nigeria and South Africa are cited most often by respondents inside and outside the continent. But respondents elsewhere are far more likely than average to cite South Africa, while those in Africa are more likely to identify smaller—but much faster growing—economies such as Ghana, Ethiopia, and Senegal.

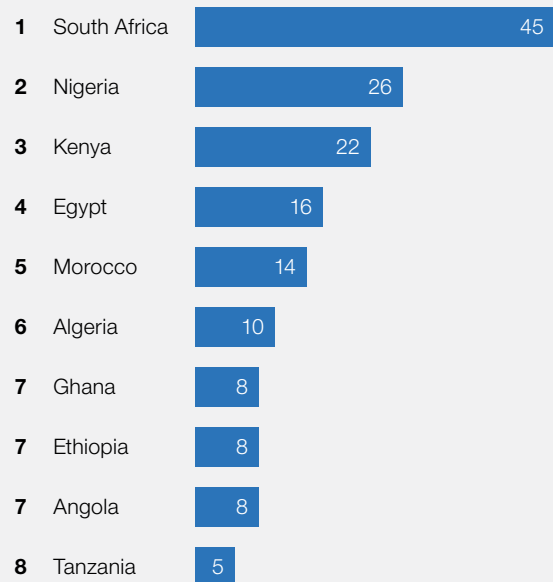
Exhibit 4 Respondents in Africa are more likely than others to cite smaller, faster-growing African economies as sources of business opportunities.

Countries expected to provide organizations with biggest business opportunities, next 5 years, rank by % of respondents¹

Respondents in Africa²



Respondents in all other countries³



¹ Respondents were asked to identify up to 3 countries, and results above reflect the 10 countries that were cited most often by each group.
² n = 252.
³ n = 540.

How the best performers are winning in Africa

Respondents in Africa—and their companies—have another clear advantage over the others, according to the results. These local respondents are nearly three times more likely than all others (30 percent and 11 percent, respectively) to report outsize growth and profits in Africa. We looked closely at these high-performing companies and how their approaches to and practices in Africa differ from the rest.

First, the high performers take a more hands-on approach than other companies to overcoming the risks of doing business in Africa. When asked to identify the most significant barriers to operating a business there, high-performer respondents cite the same issues as everyone else—corruption, as well as political and macroeconomic instability. But according to these respondents, high-performing companies are more likely than others to meet these challenges by investing heavily in their own business ecosystems: for example, providing financing to their suppliers, vertically integrating their supply chains, and developing their own sources of power and water. To manage economic and political risks, the high performers are also more likely than other companies to have local representation among their shareholders and board members (38 percent of the high performers say so, compared with 22 percent of the rest) and to invest actively in the communities where they operate (35 percent and 17 percent, respectively).

Second, the high performers take a more active approach to talent. Respondents from these companies are much more likely than the others to say they invest in training programs for existing talent, offer internship

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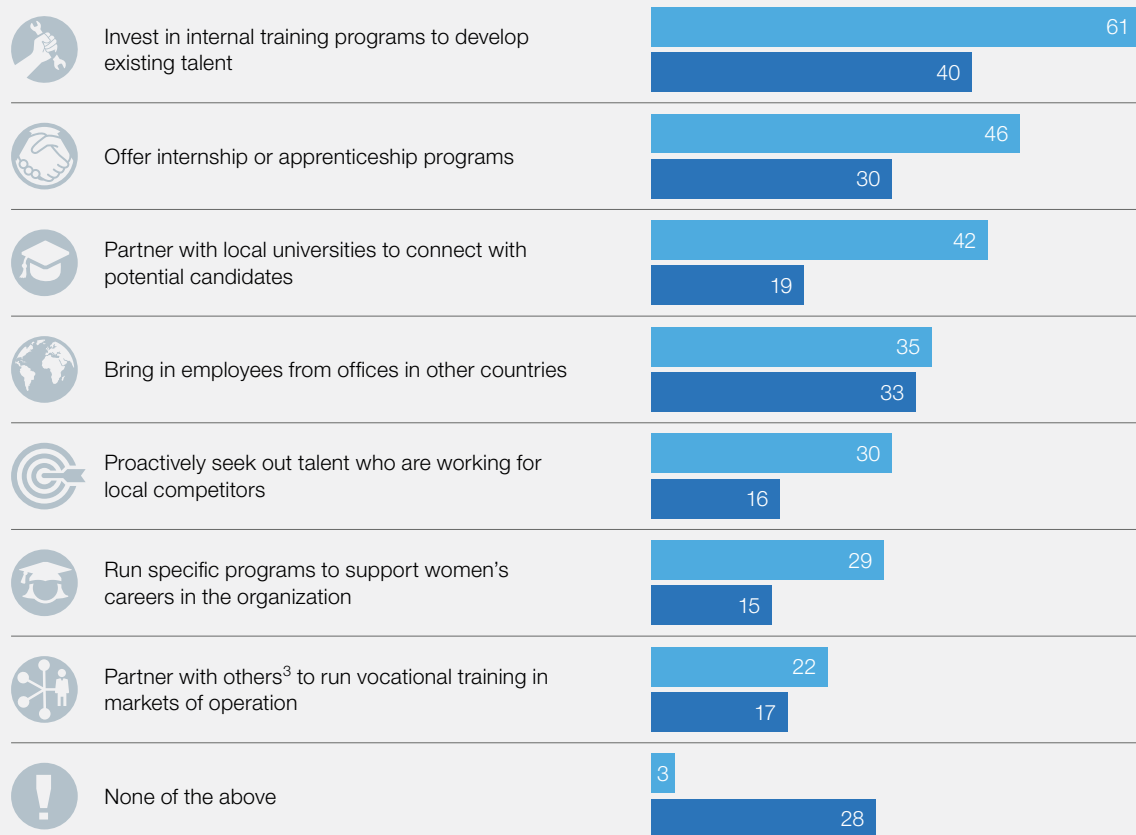
or apprenticeship programs, and follow several other critical talent-development practices (Exhibit 5). In a related finding, the high-performer respondents are more optimistic about their workforce prospects in Africa over the long term: 29 percent of them, compared with 17 percent of all others, cite the continent's growing workforce as an opportunity for their business in the next 20 years.

Exhibit 5

At the highest-performing companies in Africa, respondents report a more active approach to talent than their peers do.

Approaches that organizations take to source and develop talent in Africa,
% of respondents¹

■ Respondents at high-performing organizations,² n = 166
■ Respondents at all other organizations, n = 603



¹ Respondents who answered "other" or "don't know" are not shown. Question was asked only of respondents who said that they have been to at least 1 country in Africa, that 5% or more of their organizations' current revenue is earned in Africa, and that their organizations operate in at least 1 African country.

² Respondents who say that their organizations have experienced at least 6 percent growth of both its annual growth rate and profitability in Africa over the past 3 years.

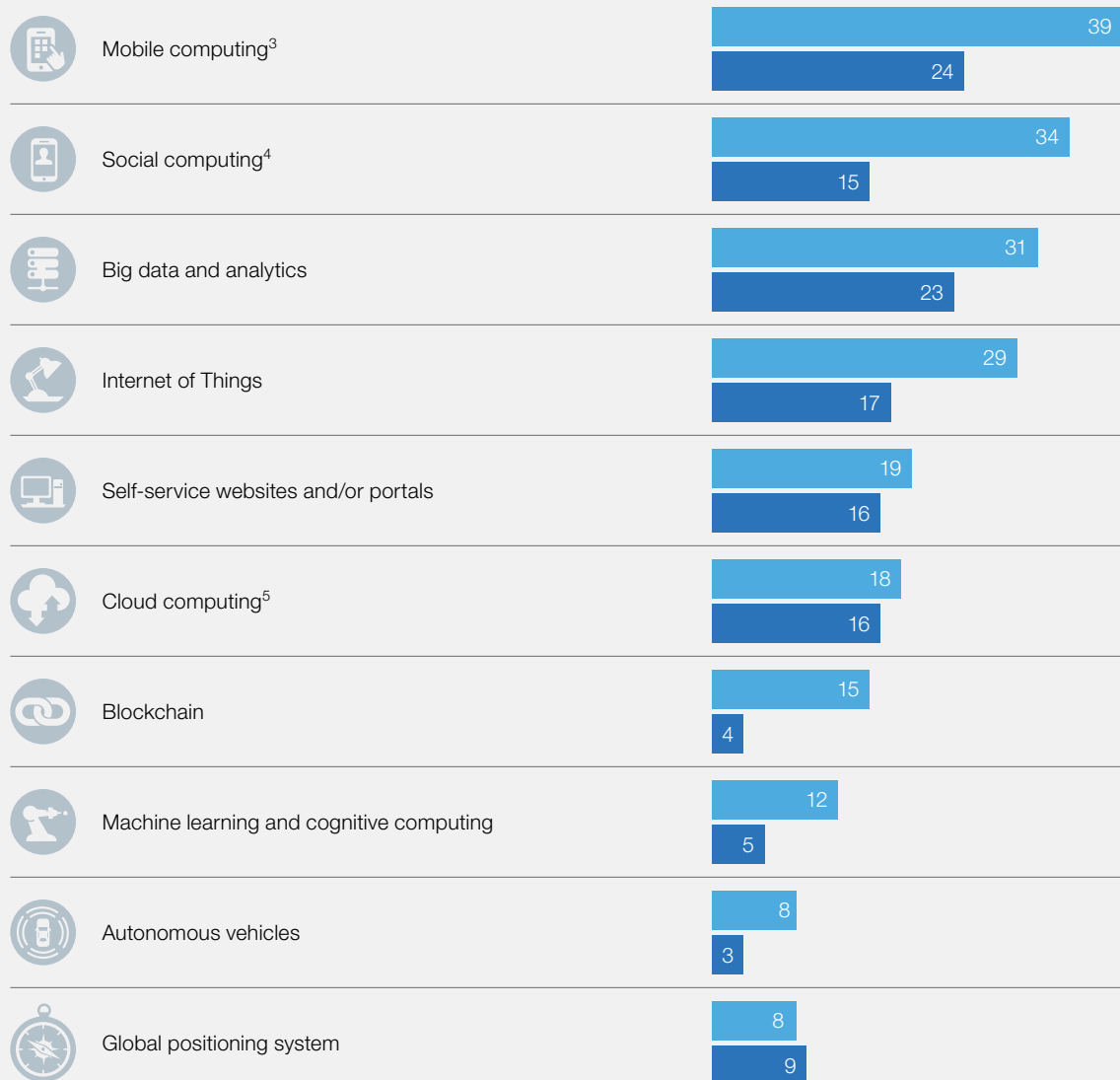
³ For example, partners with governments, not for profits, and/or other companies to run vocational training in markets of operation.

Exhibit 6

In the search for growth, high performers are more likely to embrace a range of technologies.

Technologies that will most support organizations' growth in Africa, next 5 years, % of respondents¹

■ Respondents at high-performing companies,² n = 171
 ■ Respondents at all other companies, n = 854



¹ Out of 14 technologies that were presented as answer choices.

² Respondents who say that their organizations have experienced at least 6 percent growth in both its annual growth rate and profitability in Africa over the past 3 years.

³ For example, business applications on mobile devices.

⁴ For example, social-media tools.

⁵ That is, using third-party services for networks, infrastructure, or applications.

Third, the high performers are pursuing growth through different—and more technologically oriented—means. Fully 100 percent of respondents at high-performing companies say they have in place a five-year growth strategy for Africa, compared with 65 percent of others. These respondents are also more likely than others to report that their companies are pursuing growth by investing in new facilities or operations, or by investing in new technologies, business models, and delivery models. Likewise, these companies are moving faster than others to embrace newer technologies in search of growth (Exhibit 6). Thirty-nine percent of high-performing respondents—compared with 24 percent of their peers—say that mobile technologies, more than anything else, will help support their companies’ growth strategies in coming years. They also more often cite social-media tools, big data and analytics, and Internet of Things technologies as potential tools to support their growth in Africa.



The survey results confirm that Africa offers exciting opportunities for growth to both global and local companies. Given the continent’s complexities, though, success is by no means guaranteed: thoughtful strategies are needed to translate Africa’s long-term growth trends into profitable, sustainable businesses. Such strategies should include a considered approach to its geographic footprint, innovation to address Africans’ unmet needs, the development of solutions that build resilience into business operations, and taking bold steps to nurture vocational and managerial skills among local talent. If more companies take such steps, Africa could be home to many more large, successful enterprises that earn healthy returns for their shareholders and make a difference in millions of people’s lives. ■

¹ The online survey was in the field from September 12 to September 22, 2017, and garnered responses from 1,025 participants representing the full range of regions, industries, company sizes, functional specialties, and tenures. Of these, 253 are located in Africa. To adjust for differences in response rates, the data are weighted by the contribution of each respondent’s nation to global GDP.

² We define a high-performer company as one that, according to respondents, has experienced at least 6 percent growth in both its annual growth rate and profitability in Africa over the past three years.

³ Fifty-four percent of all respondents say that 20 years from now, Africa’s educational performance will have improved significantly due to digital technologies and other investments; 36 percent say that educational performance will be far behind that of other regions; and 9 percent say they don’t know.

The contributors to the development and analysis of this survey include **Mutsa Chironga**, an alumnus of McKinsey’s Johannesburg office, **Georges Desvaux**, a senior partner in the Hong Kong office, and **Acha Leke**, chairman of McKinsey’s Africa offices. They are coauthors of *Africa’s Business Revolution: How to Succeed in the World’s Next Big Growth Market* (Harvard Business Review Press, 2018).

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