

The time is ripe for global companies to consider Africa as a viable location for low-cost manufacturing, argues **Sigi Osagie**



african promise

“MAJOR multinational original equipment manufacturers are increasingly moving their manufacturing operations to Africa, and these companies are benefiting from significant reductions in their direct costs, in some cases by as much as 50 per cent!”

If only the above statement were true. Sadly, it isn't. It does, however, give an indication of a possible future scenario, similar to what we saw when major OEMs moved chunks of their manufacturing to Latin America decades ago, and more recently to Eastern Europe and Asia. Exploiting low-cost economies as manufacturing bases is not a new idea, but interestingly the

only region that remains as yet untapped is Africa.

The reasons for this are many and varied, and also well publicised. Africa has many problems which have so far prevented exploitation of its potential as a low-cost manufacturing hub. These include the lack of physical infrastructure, poor security and corruption. But perhaps the single biggest challenge African countries face is the lack of good leadership and robust governance.

The tendency of many African leaders to plunder their national coffers means that corruption and embezzlement almost become accepted ways of everyday life across different

levels of government and industry. But there appears to be a new determination to ‘clean up the act’ across many African countries.

The recently elected Nigerian government, for example, appears to be leaving no stone unturned in its efforts to rid the country of fraudsters and financial criminals. Even government officials as high up as state governors are now being investigated and charged. Ghana is another country that is tackling financial and economic malaise, and making a success of it. So much so that Ghana now has a growing IT and call centre outsourcing industry serving many Western companies. And exactly the same thing is happening in Senegal.

So African countries may have started the long process of addressing their problems, and the timing could not be better. Africa is currently experiencing a resurgence in its global profile, especially on the world political and trade agendas, helped by the efforts of world leaders like ex-US President Bill Clinton and the current and previous British Prime Ministers, Gordon Brown and Tony Blair. There are many potential benefits to be gained by all stakeholders, not least multinational OEMs themselves.

The benefits of low-cost manufacturing boil down to lower product costs and higher gross margins. In the early days of moving manufacturing operations to Asia, some multinationals experienced a 40 per cent reduction in costs. Labour is now significantly cheaper in Africa than in Asia or Eastern Europe, so it is easy to imagine the spoils that await those that choose to brave the risks and gain first-mover advantage. A 50 per cent reduction in direct product costs? Very possible. But what are the risks and what approaches might multinational manufacturers take to mitigate these?

The risks are similar whether in Africa or Asia – distance to market, increased transportation costs, protection of intellectual property, the challenge of managing across cultural

boundaries, maintaining quality standards, and so on. Therefore, similar mitigating approaches could be adopted. I believe it is quite likely that Western OEMs could successfully implement low-cost manufacturing investment programmes in Africa, provided critical success factors are identified and properly addressed.

One critical success factor would be to work closely with the relevant national government(s) to develop implementation strategies; identify and up-skill appropriate indigenous partners, such as suppliers for locally-sourced materials; and manage development programmes for designated locations which could be local technology parks – such areas could well turn out to be Africa's own Silicon Valleys.

Another key success factor would be defining robust protocols for disbursing investment capital. This would ensure any potential financial malpractices are quickly identified and thwarted. Several not-for-profit organisations currently operating in Africa under the auspices of the UN and World Bank employ such protocols and have successfully implemented many development initiatives.

Of course, there are other key actions that would need to be taken to ensure success. And there can be no denying that such an undertaking would be demanding. But the potential commercial benefits are vast. Africa has the key advantage of having a highly-educated though largely unemployed workforce, most of whom speak one of two key languages of international business – English and French.

Any multinational OEM moving into Africa as a low-cost manufacturing location now would, I believe, reap significant first-mover advantages. Multinational manufacturers really could do worse right now than explore this possibility. ■

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