Out of Africa

The growth of manufacturing in China is pushing up prices so pressure is building to look at other regions. SIGI OSAGIE looks at the potential for Africa to become the next low-cost manufacturing region.

Does Africa have the potential to be the next major low-cost manufacturing region, following in the footsteps of Latin America, Eastern Europe and Asia? It is certainly possible and quite probable as well.

But making this a reality would demand considerable effort, large investments and a healthy dose of determination. Importantly, it could have major implications for multinational manufacturers who endlessly seek new geographies as bases for low-cost manufacturing.

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 well-publicised.

Africa has many problems which have so far prevented exploitation of its potential as a low-cost manufacturing hub, including 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.

However things may be changing; we can look to countries like Ghana and Senegal for evidence that some national governments are taking action to tackle their economic and industrial malaise, and making a success of it too.

With Africa's resurgence on the world political and trade agendas this may well be the perfect time for multinational manufacturers to get involved as well – there are multiple potential benefits to be gained by all stakeholders, not least multinational OEMs themselves. Private enterprise can have a stronger impact on economic growth and prosperity than national governments in many free market economies.

Through foreign direct investment in local manufacturing plants and infrastructure, multinational manufacturers are well-placed to reap sizeable potential benefits and simultaneously support those African states already trying to revamp their economies.

The benefits of low-cost manufacturing really boil down to lower product costs hence higher gross margins. In the early days of moving manufacturing operations to Asia some multinational OEMs saw product cost differentials of up to 40 per cent (compared to manufacturing in Western countries).

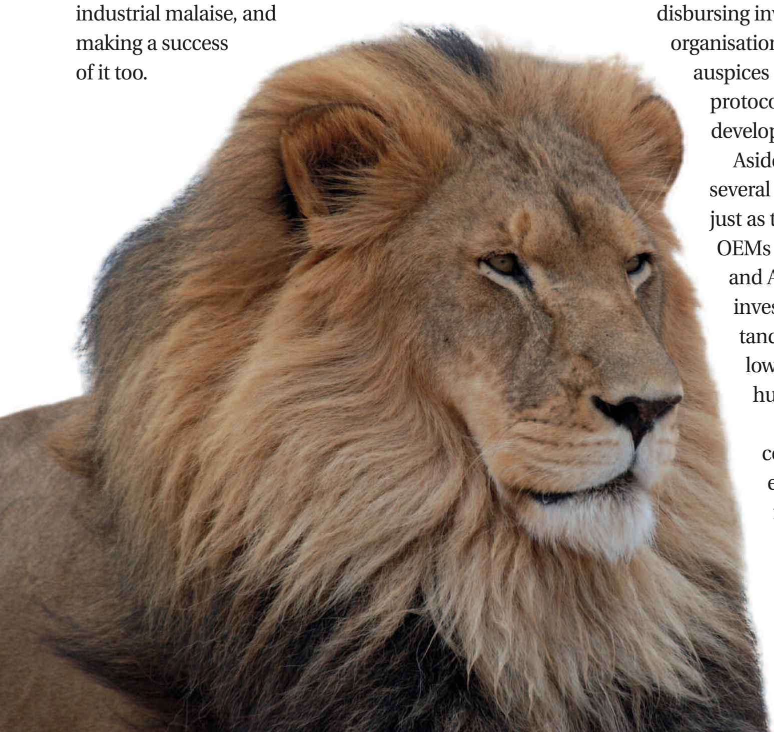
Labour is significantly cheaper in Africa than in Asia or Eastern Europe, so it is easy to imagine the spoils that await those multinationals that choose to brave the risks and gain first-mover advantage – 50 per cent reduction in direct product costs? Very possible.

Challenges

Many of the risks and challenges multinationals would face in moving manufacturing operations to Africa are identical to those they face in moving to other low-cost regions – increased transport costs, protection of intellectual property, maintaining quality standards, and so on – so similar mitigating approaches could be adopted. Fraudulent activity and financial mismanagement, by far the biggest risk with Africa, could be addressed by defining robust protocols for disbursing investment capital. Several not-for-profit organisations currently operating in Africa under the auspices of the UN and the World Bank employ such protocols and have successfully implemented many development initiatives.

Aside from effective risk management there are several other critical success factors that would apply, just as there were several critical success factors when OEMs first moved to Latin America, Eastern Europe and Asia as low-cost manufacturing regions. As most investment managers know, risk and reward go in tandem – Africa may pose a high-risk option vis-à-vis low-cost manufacturing, but it also holds potentially huge rewards.

Any multinational OEM moving into Africa now could reap significant first-mover advantages from entrenching their operations and building familiarity to leverage economies of learning. Multinational manufacturers really could do worse right now than explore this possibility.



The view from your next office window?

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