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[Sigi Osagie]

SOAPBOX

What next for Africa?

Africa is under-used as an offshoring destination, says Sigi Osagie. But does it have the potential to become the next major outsourcing hub?



▶ **Sigi Osagie** has held senior executive roles with several blue-chip multinationals

The major multinational companies are increasingly outsourcing their manufacturing and business processes to Africa, and these organisations are benefiting from as much as 50 per cent reductions in their direct costs.”

If only the previous paragraph was a true reflection of reality. Sadly it isn't.

It does, however, give an indication of a possible future scenario; just as offshore outsourcing to Brazil, India, China and other countries has brought significant benefits

[David Hawkins] **FIRSTPERSON**

Economic dip – a chance to shine



The media is currently focused on the doom and gloom of economic downturn, mainly driven by the problems in the financial sector.

The retail market seems to be putting on a brave face, while property is clearly taking a hit. The transition in digital technology is also taking its toll.

But what does this all mean for procurement? At first glance one might feel that as companies struggle to meet returns everyone may be under threat. But if one thinks a little more broadly then this situation should be creating opportunities for us.

▶ **David Hawkins** is director of operations, PSL

The greater the pressure on margins the greater the focus on cost. Where the supply chain is a key part of the equation, surely this presents a significant opportunity for procurement? Those who remember the oil crisis and boom of the early 1970s will recollect this was a turning point for purchasing and procurement. When demand rose the pressure was on to get suppliers to support developments. In many cases it was only the relationships of buyers that kept projects rolling.

Perhaps we should view this latest situation as a challenge to prove our value.

When margins come under pressure, costs need to be curbed and procurement should be the first port of call for many organisations. Reducing spend is an obvious target for CEOs and FCOs but the challenge will be whether this can be done without constraining output. Too

often the temptation is to reduce headcount as a first step – where the value of procurement is not recognised the threat is obvious. Those firms that see procurement as strategic will, however, be looking at innovative ways of reducing costs and maintaining delivery capability and future relationships for the upturn.

These economic trends will spread

Economic pressure presents an opportunity for procurement to underpin its strategic value contribution

to Western firms and the economies of those countries.

Outsourcing has been around for a while, although the constituents of the business model have changed over time.

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down through the supply chain so it is important to remember that while short-term opportunities may present themselves, things often happen in a cycle and working with the suppliers could be more valuable in the long run. There is a real opportunity for procurement to look at its current operations to see where it can bring in savings and value ahead of the wave. This may require a more structured approach than simply applying more pressure to the supply base.

Suppliers will see the same trends influencing their business. Exploiting this challenge could be a viable alternative to traditional top-down price pressure, which will lead to failures throughout the supply chain.

When things are going well procurement is often low on the corporate agenda, but economic pressure is a real opportunity for it to offer potential solutions and underpin its strategic value contribution.

They say one man's meat is another man's poison so perhaps the current prospects are not all doom and gloom.

Recently Eastern Europe and Asia have become more synonymous with offshore outsourcing as companies continue to seek out low-cost regions to sustain the cost competitiveness of their products and services. Even Russia and ex-Soviet bloc countries such as Estonia and Slovakia have become notable offshore outsourcing locations.

But where is missing? Examining the geographical evolution of offshore outsourcing reveals an interesting fact: the only region that has not played a major role in the history of offshore outsourcing is Africa. Why is this, especially considering the wide-ranging impacts of global trade across regional economies? How can it be that while other regions of the world have played major roles in the development of offshore outsourcing, either as a home to major outsourcing companies or as an offshore outsourcing destination, Africa is noticeable by its absence from the global evolution of this trans-regional industry?

Today, outsourcing of “service” functions, such as product design, software development and procurement, is as common as the outsourcing of traditional manufacturing processes. And the geographical footprint of offshore outsourcing has seen a shift eastwards as Eastern European and Asian countries have ridden the wave of the outsourcing boom.

A common thread running through the evolution of the offshore outsourcing industry is the drive by Western firms to transfer their business and operational processes to outsource partners in countries with low labour costs, to reduce their operating costs. With constant competitive pressures across most industries, and the continued globalisation of most product and service offerings, it



is inevitable that this search for low-cost locations will continue.

Africa may be in a position to capitalise on this. And here's why.

First, Africa remains under-used as a regional outsourcing hub, so there is significant untapped potential across the continent – that leaves a sizeable geography just waiting to be utilised more effectively.

Second, Africa is currently experiencing a resurgence in its global profile, especially in the world political and trade agendas, helped by the efforts of world leaders such as ex-US president Bill Clinton and former British prime minister, Tony Blair.

Also, some African countries appear to be making serious efforts at tackling many of their fundamental problems. Ghana, for example, has made great strides in improving its political stability and physical infrastructure in recent years. It is quite possible that all of these factors may coincide to launch Africa on to the world stage as a pre-eminent offshore outsourcing hub.

It is widely known that Africa continues to be plagued by problems usually associated with developing regions, as well as its own unique challenges.

These include the lack of adequate physical and financial infrastructure; the poor security situation; corruption;

» and the lack of economic and political stability. It is worth examining some of these issues in more detail to better understand why Africa has not benefited from the boom.

Lack of political stability almost goes hand-in-hand with the lack of economic stability. Indeed, comparing the levels of economic and political stability of most countries in the world reveals a relationship of some sort: most of the economically stable and prosperous countries enjoy a stable political base and vice versa. The most obvious examples of this are the industrialised nations of the West.

But even in Africa itself, South Africa is a good example of this. Despite widely reported problems such as crime, lingering racial tensions and unemployment, South Africa is far ahead of almost all other African nations in its development particularly in the advanced state of its economic and political structures (compared to most other African countries). South Africa's relative young age as a democracy may be pertinent here, but it does not detract from that fact.

Attaining political stability will go a long way in helping other African nations achieve economic stability. And these are both factors that significantly affect successful inflows of foreign direct investment of various kinds, including offshore outsourcing.

It almost goes without saying that a country or region that lacks political and economic stability is quite unlikely to have advanced infrastructure in place, whether that be physical or financial. Today many countries in Africa still lack good physical infrastructure, for example, decent roads, an effective transportation network, reliable



IMAGES: KEN WELSH/ALAMY/PA

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power and drinkable water supply and security. Without these basics in place, it is even more difficult to attract investment with the added infrastructure requirements that the successful development of such a sector demands, such as modern communications

networks and advanced e-commerce capabilities.

Even in manufacturing, a sector increasingly viewed as stale or unexciting, these requirements are key. For example, some firms need to be able to transfer design files from their facilities in the West to the outsource location.

It is not necessary to examine all the issues listed earlier in detail to make the point: Africa has major developmental problems that impinge on its ability to play a greater role in the global evolution of offshore outsourcing and exploit its unique position as an untapped resource.

Proponents of pan-Africanism may find these views infuriating. In anticipation of such sentiments it is worth pointing out that I am of African parentage and spent my formative years there, so I am

well qualified to comment on the virtues and ills of the region.

Also, unless there is open discussion of these issues it is unlikely they will be adequately tackled, and will therefore continue to deny Africa a place at the table of global economic development.

Thankfully there are indications that Africa can realise more benefits from the global growth of offshore outsourcing. There are some outsourcing providers across Africa, many of whom have existed for a while. Good examples are in the North African countries such as Morocco and Tunisia, which have, for years, provided reliable sources of cost-effective outsourced operations in sectors as diverse as textiles, footwear and call centres.

More recently countries in other parts of Africa, such as Kenya, Ghana and Senegal, have sprouted several companies providing offshore outsourced services to Western organisations. Another powerful, yet less obvious, indicator is the recent emergence of a renewed determination across several segments of African society to drive effective leadership and governance in the continent. This is particularly symbolic since most of the problems hindering Africa's development can be traced to a single root cause: poor leadership and governance.

Thankfully there are signs that this is changing, although it will take time.

Perhaps the most poignant sign of this change is that, while as recently as 20 years ago most African leaders were unelected and were often men in uniform, today that picture is significantly different.

Addressing the leadership problem in Africa will go a long way to ensure the continent exploits its capabilities robustly,

Addressing the leadership problem in Africa will go a long way in ensuring it exploits its capabilities robustly

including its potential as a low-cost offshore outsourcing hub.

Africa already has many advantages in this regard, including its well-educated workforce, which, in most countries, speaks two of the major business languages of the world, English and French (having been previous colonies of Britain and France). This language advantage is also one of India's strengths as a major offshore outsourcing centre, and Africa could exploit it just as well.

While it is true Africa has so far lost out on the economic gains from the growth of the global outsourcing industry, it is also evident that Africa has a number of distinct advantages that make it the prime candidate as the next big offshore outsourcing region in the world.

This potential can not be exploited immediately, but setting certain actions in motion now could ensure the timely confluence of many of the prerequisites to make this happen.

In the end, whether or not this becomes reality is down to African leaders. If this does not come to pass, it may well be as great a loss for world trade and global economic growth, as for the common man in Africa.

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Say again?

I agree wholeheartedly with the editorial "Judges' ruling" (14 February).

It is almost impossible today to read or, for that matter, hear a management topic being discussed without being drowned in management-speak. When will we learn that dressing up the simple and the obvious in flowery language only serves to obscure meaning? The recent furore caused by the Archbishop of Canterbury's use of opaque language should be a lesson to us all.

The article "Winning thinking" by Sue Preston (*Knowledge Zone*, 14 February) is a prime example of the use of psycho-babble to try and explain how to deal with people.

Incidentally, many leading American universities that I visit treat neuro-linguistic programming as derisory and lacking scientific rigour.

BARRY CLAYTON

**SENIOR EXAMINER, CIPS ADVANCED DIPLOMA
IN MANAGING THE PURCHASING FUNCTION**

A response from Andrew Davies

In "Welsh wonder" (*Letters*, 31 January), the anonymous correspondent raised a number of questions in relation to my article that I would like to respond to.

The Welsh Assembly Government does not practice or promote any form of "protectionism". We do not and cannot discriminate in favour of Welsh companies. EU legislation means all levels of government, from national to regional, must operate in an open, competitive market.

The correspondent has missed the main thrust of my article – sustainability. As a devolved administration we have sustainability at the core of our »

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VIEW**