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So, Nigeria is the
largest economy in Africa
Now what?

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Why Nigerian CEOs have to re-think their strategies

The Nigerian economy has been growing at an impressive average 7% per annum over the last five years and it is clear that size matters

What's in it for Nigeria?

In April 2014 the statistics bureau of Nigeria confirmed what many people already knew – the rebasing of the Nigerian economy's gross domestic product (GDP) to \$509.9-billion placed it well above South Africa's nominal GDP of \$322-billion and elevated Nigeria to the position of the largest economy in Africa.

Simple logic would have got most people there well before the official announcement – 170-million Nigerians is a large market and it is over three times the size of South Africa's population. The result is that the re-based economy is now one and half times the size of South Africa's.

The advantage for Nigeria now is that it will make the job of politicians and businessmen that much easier to "sell" Africa's largest economy and the most populous market to investors. A large GDP means investors will pay more attention to Nigeria. Investors, attracted by the sheer scale, have warmed to other emerging markets such as China and India and Nigeria can expect a similar result.

This is especially relevant when one considers that despite improved global financial conditions and reduced short-term risks, the world economy continues to expand at a subdued pace. After a marked downturn over the past few years, global economic activity will slowly gain momentum with a low-growth pattern expected to persist for at least several years. The growth prospects of Nigeria stand in stark contrast to established European and North American markets.

The Nigerian economy has been growing at an impressive average 7% per annum over the last five years and it is clear that size matters. But as Nigeria finds itself on boardroom agendas across the globe, there remain massive implications for companies already operating in the economy. As global competitors enter the Nigerian market so too will the inadequacies of domestic players be exposed. Ghana and neighbouring country economies will also be impacted by the developments in Nigeria.

South African businesses discovered after the fall of apartheid and the entry of global competitors into their hitherto protected domestic market that they were less than competitive. Technology, skills levels, access to capital, governance, operating models, to name a few, will all come into sharp focus in an increasingly competitive domestic market.

Nigerian CEOs have major challenges ahead

Africa is expected to grow by 5.3% per cent in 2014 with sub-Saharan Africa forecast to grow by 6.1% in 2014 and 5.8% in 2015

The macro environment in which Nigerian executives must learn to operate will become increasingly complex. Developing strategies to successfully steer companies through a rapidly changing, uncertain and complex environment will be critical in a re-based economy. Executives will need to find ways to navigate this environment by taking advantage of the growing role and impact that technology has in influencing business trends.

But it is not only in Nigeria that CEOs are struggling with complexity.

In a recent global Deloitte CEO survey, 87% of CEOs are saying that they face deeper and faster cycles in their businesses than ever before with each subsequent revolution happening faster than those before. Shakeups like the European financial crises were felt worldwide and Nigeria was not immune from the shock.

Contending with such a remarkable range of economic risks, executives are becoming increasingly accustomed to volatility with 86% of global CEOs saying that their business environments are becoming more uncertain.

The degree of complexity is also increasing. More variables are salient to business decisions than ever before, and the interrelations between them are increasingly non-linear. 88% of global CEOs say their business environments are becoming more complex while less than 50% of them feel uncertain about how to cope with that change.

Above any other external factor (including the economy), technology is anticipated, by most global executives, to be the primary driver of change in organisations over the next 3-5 years. Technological advancements have driven a sudden convergence of digital, mobile and social spheres, resulting in a new dynamic in stakeholder relationships by connecting customers, employees and partners in new ways to organisations and to each other.

Executives recognise that this newly connected era is fundamentally changing the way in which people engage and are looking for ways to take advantage of the multiple opportunities that have arisen for innovation and growth. Leaders have also begun to make changes in talent management strategies. Over 75% of global CEOs described collaboration as the number one trait in employees critical to organisational success and as a result are shifting their emphasis towards creating more open and collaborative cultures and encouraging employees to connect, learn from each other and thrive in a world of rapid change.

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Despite a particularly uncertain regulatory environment in Africa, companies cannot ignore the substantial growth prospects that the continent offers. Africa is expected to grow by 5.3% per cent in 2014 with sub Sahara Africa forecast to grow by 6.1% in 2014 and 5.8% in 2015. African growth will be driven by increased output in the natural resources sector, underpinning rising fiscal expenditure, especially in infrastructure projects and expected increases in Africa's trade and investment ties with emerging and developing economies.

Rising incomes and urbanisation are supporting growth in domestic demand which is helping to decrease the exposure to external economic shocks and increase diversification into service sectors such as construction, financial services and telecommunications, which will create a more solid growth profile and contribute to continued economic expansion.

Companies looking to operate on the African continent cannot be guaranteed long-term certainty or a high degree of predictability as the continent offers unique challenges. These markets are characterised by several challenges that contribute to the perception of Africa as a risky destination for business. Poor governance, the prevalence or perception of corruption, tenuous legislative frameworks, fragile security of tenure and unclear royalty and tax regimes make strategic decisions difficult on the continent. Furthermore, longstanding issues such as civil unrest, insurgency and a history of ethnic conflict pose additional operational risks in certain countries. Infrastructure also remains a significant barrier for African operations.

Beyond socio-economic and political complexities, the lack of appropriate infrastructure across the continent is a further barrier for companies operating in industrial and service sectors. The required infrastructure capital is far more than the current infrastructure spend, leaving a substantial spending shortfall. This development constraint leaves investors with little confidence that public-sector infrastructure development will improve sufficiently to facilitate easier operations. African governments are turning to companies in individual sectors, such as mining companies to accelerate infrastructure development and these multi-billion dollar foreign investments are likely to have a far greater impact on African infrastructure development than public-sector spending.

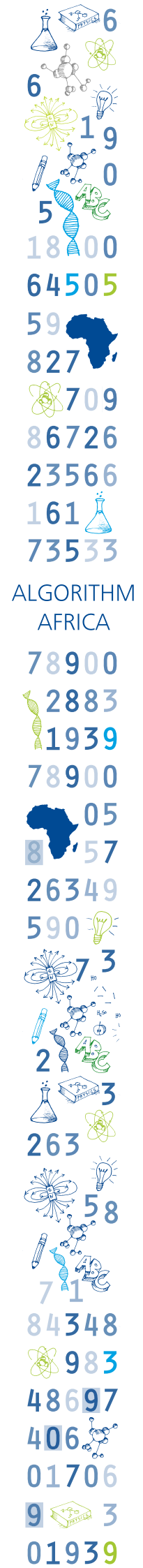


The strategy of decision-making

Strategy is about making choices

Strategy is about making choices. Companies choose to do certain things and choose not to do other things (as opposed to tactics, which are about how to execute on the choices made). The complex operating environment in which Nigerian companies operate results in choices that are difficult to make. This necessitates a deep understanding of the factors that influence profitability, as well as the factors affecting the company's reputation and relationship with stakeholders.

Adopting a structured approach to making choices at a corporate and business unit level is necessary. Strategy is an iterative process and involves an integrated set of choices that includes both strategic positioning choices and strategic activation choices. A clear and powerful framework for thinking about those sets of choices can provide a helpful foundation for leaders looking at improving their business strategy.



Winning strategies

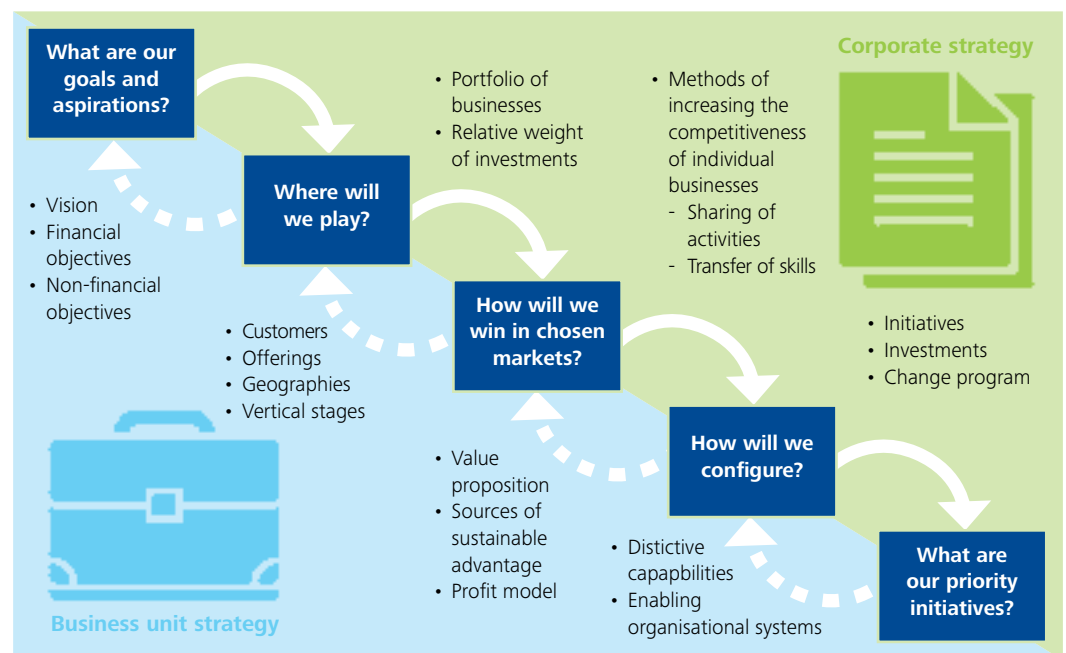
Companies must choose the playing field on which they plan to compete

Winning strategies require conscious choices. Poor strategy is often characterised by the failure to make choices. Asking the right questions allows companies to successively focus on key aspects of their high-level and operational strategies which collectively form the basis for long-term strategic planning and short-term prioritisation. Monitor Deloitte assists companies to make difficult decisions based on a series of cascading choices, as shown below.

Companies should be able to answer each question successively, working down the cascade. Where a question leads executives to re-evaluate their initial propositions, they can track back up the cascade to redefine aspects until the strategy is cohesive.

What are our aspirations?

Companies should be able to clearly define both their financial and non-financial objectives. Winning strategies define their goals and aspirations in terms of customers. The most important choice is about which customers to win, and who to win them from. These objectives should form the basis of the company's overall vision, as they will guide investment decisions.



Winning strategies require conscious choices

Where will we play?

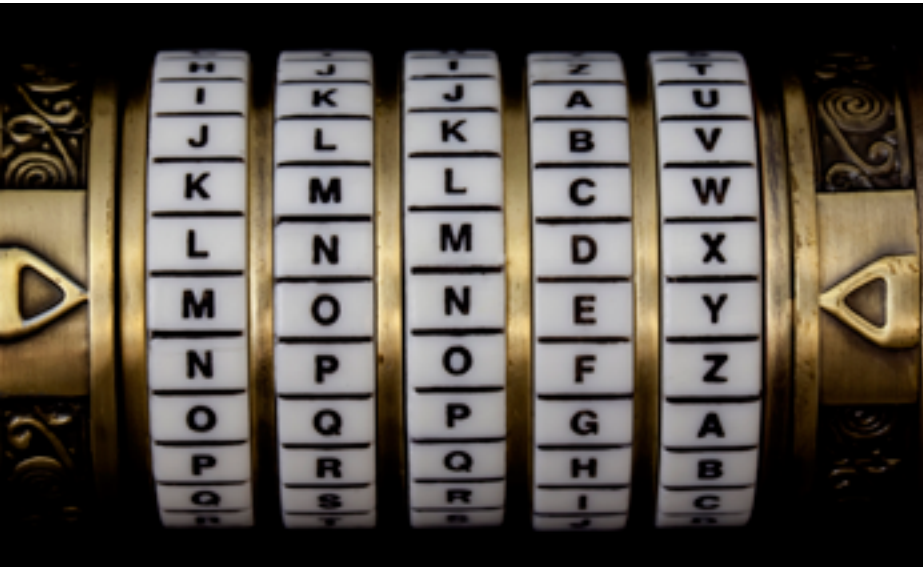
Companies must choose the playing field on which they plan to compete. This includes customer segments, product portfolios, and the geographies in which they will compete. Companies must also choose which parts of the value chain they will target, and where in the business life cycle they should enter or exit.

How will we win in chosen markets?

To win on their chosen playing field, companies need to define their distinctive value proposition that will enable them to win their target customers from their competitors. They should identify sources of sustainable advantage, and use these as the basis for business model development. These choices are necessary to achieve the goals and aspirations within the confines of where they have chosen to play.

How will we configure?

Companies should ensure that they are properly configured with their core competencies focused on their winning value proposition. They need to ensure that they have the capabilities and skills in place and that they are configured appropriately to successfully implement these strategies.



Simplifying complexity, innovating aggressively

Cutting costs to improve cost competitiveness is unlikely to result in long term competitive advantage

These choices are difficult to make given the pace of change and the levels of uncertainty and complexity described above. So how can Nigerian and other West African executives make choices that are relevant and useful, whilst navigating this environment?

Adopting a survival strategy increases the likelihood of emerging from a competitive landscape in a weakened position. Knee-jerk reactions such as cost cutting, the adoption of risk averse strategies and a defence of core businesses, can have unintended long term consequences.

Cutting costs to improve cost competitiveness is unlikely to result in long term competitive advantage. 60% of Deloitte clients found that traditional cost reduction approaches fail, 50% of companies allow costs which they 'eliminate' to bounce back, and 30% of cost reduction initiatives weaken the company by diminishing critical assets, or slowing down critical development programs.

Adopting a risk-averse strategy diminishes the potential for long term rewards. Companies that are averse to taking on any form of risk are unlikely to remain competitive in a complex and uncertain environment dictated by change, as reductions in investment, postponing of big decisions, halting recruitment, retrenching staff and cutting back on innovation are likely to diminish the potential for future growth.

Defence of a company's core business by competing within the confines of their existing industry or retaining existing market share is unlikely to ensure survival. Instead these companies are likely to fall behind innovative companies that create uncontested market space and make the competition irrelevant by pulling in a whole new group of customers who were traditionally not customers of the industry or by adapting its product offering to service ever evolving customer needs.

Innovation is no longer optional as the rate of structural change in all industries is occurring rapidly and optimising current models is no longer sufficient. Whilst most companies are challenging existing models, innovation efforts are often unsuccessful with a "normal" failure rate of 96%. What is commonly found is that most firms generate an abundance of ideas but tend to execute on innovation efforts poorly.

The attitude of successful companies is rather to go on the offensive and look to innovate aggressively. Driving higher returns, leap-frogging the competition and inspiring employees, partners and suppliers demand a focus on the right innovations by re-thinking innovation goals and strategy, using different metrics and criteria to prioritize projects, and taking fast action to realign resources. Leaders should also bear in mind that right execution is pivotal and should uncover new insights, think beyond the technology, speed time to implement through quick and inexpensive concept testing and use open innovation to tap into new resources.

Nigerian and West African companies will increasingly face tough choices around their profitability in a tumultuous future with an increasing number of global competitors operating in their backyard. Executives will need to think strategically about these issues and integrate them into a sustainable long-term strategy.

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