



ACCESS

South Africa

*A Guide to doing business
in South Africa*

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1. Introduction

With a population of more than 50 million and onward access to 900 million in the Sub-Saharan African market, South Africa has seen dramatic and extraordinary transformation in its fortunes since democracy in 1994. Since then the country has seen unparalleled growth. During 2011, this growth continued at 3.1%, supported by a rise in global demand – for minerals especially – and a recovery in domestic demand. The Economist Intelligence Unit estimates growth of 2.5% for 2012 and is forecasting expansion of 4.1% between 2013 and 2017.

South Africa is the continent's economic powerhouse, accounting for 24% of total GDP. It is an attractive market in its own right, and is ranked 35th out of 183 countries for ease of doing business by the World Bank. Foreign investors have been attracted by the political and economic stability in the country, and the onward access it provides to other countries in the region. It is a gateway to the extensive Sub-Saharan African region; that holds true for Irish companies with the appropriate scale to meet these opportunities directly, or by working with local clients and partners that are looking to expand their own business into Nigeria, Ghana or Uganda, for example. At the 2011 World Economic Forum in Cape Town, it was reported that five of the top 10 fastest growing global economies are on the African continent. In short, Southern Africa's time has come.

Purpose of the report

The objective of Access: South Africa is to give practical and up-to-date information on the market for Irish companies. Here you will find useful, easy-to-digest advice on the critical aspects of doing business in South Africa for companies at all levels in their business development within the country. This guide covers:

- how to get started in the market
- the business culture and how it significantly differs from Ireland
- routes to market, analysing all the options, including selling directly from Ireland to partnering with local providers
- key legal issues, tax and visa considerations
- how to sell to Government.

How it was compiled

This report is based on the practical experience and knowledge of highly successful people in the market, by specialists in areas such as taxation and marketing. It is informed by the lessons learned by the many Irish business people who have succeeded in South Africa. The report also includes commentary from a number of these people.

Access: South Africa is intended to be of use to a wide audience; from companies thinking of exporting to South Africa for the first time, to those already selling in the market and wishing to examine strategic options for further growth.

When it was written

Enterprise Ireland's Access series of reports is regularly updated to ensure the information remains up to date and accurate; this edition of Access: South Africa was prepared during September and October 2012.

CRITICAL SUCCESS FACTORS



2. Critical Success Factors

“The South African market is an extremely exciting one. It is an economy that has been growing rapidly and provides very significant opportunities for both B2B and B2C companies coming from Ireland.”

Bernie Cullinan, CEO, Clarigen

Introduction

South Africa is well managed with a financially sound structure. It is one of the world's youngest democracies and has a stable and growing economy with a GDP of €323 billion. A recent report from Merrill Lynch rated South Africa as one of three countries with the most promising growth forecast over the next decade. Ongoing infrastructural investment and healthy consumer spending are driving this trend.

South Africa is classed as a middle-income country with an abundant supply of resources, well-developed financial, legal, communications, energy, and transport sectors. Its modern infrastructure supports efficient distribution of goods to major urban centres throughout the entire region.

Commercial opportunities are plentiful in a range of sectors, particularly finance, software, education, telecoms and pharmaceuticals. Irish companies are investing heavily in South Africa, with 200 Enterprise Ireland clients currently exporting to this market. Some 30 of this number have taken the step of establishing a local presence. Irish companies employ in excess of 13,000 people in South Africa.

Business Culture

The Republic of South Africa is frequently referred to as The Rainbow Nation owing to the population's multicultural diversity. Understanding its culture and how it is emerging from its troubled past is essential to making a success of your business there.

South Africa can be incredibly rewarding for a business but it is also a market that demands a planned approach. Patience is the key; while individual sectors vary, you can expect to spend a year or longer from making initial contacts through to closing the first deal.

English is the primary language of business in South Africa and many of the customs around legal and tax affairs are based on an Anglo-Saxon model, but the market is nonetheless very different to our own and you will need to be acutely aware of those cultural nuances as you are likely to encounter people from a variety of ethnic backgrounds.

- Networking and relationship-building are crucial to doing business in South Africa
- In South Africa, personal relationships are valued and initial meetings are often used to establish a rapport and to gauge mutual trust

- Whenever possible, schedule face-to-face meetings to discuss business in preference to communicating by email, letter or telephone
- Schedule business appointments in advance, ideally a month or more prior to visiting – this is crucial if you will be flying from Ireland
- Confirm appointments by calling the day before
- It may be difficult to arrange meetings with senior-level managers at short notice
- Avoid scheduling meetings from mid-December to mid-January or the weeks surrounding Easter, as these are prime holiday times
- Many South Africans have a relaxed approach to timekeeping. While you may be kept waiting, you should make a point of arriving for meetings on time
- Business hours are typically 8/8.30 am to 5pm, Monday to Friday
- Some South Africans start the working day early, and may be in the office before 7am
- Respect for elders and seniors is a crucial part of African culture. Failure to show this is considered offensive
- Greeting styles in South Africa vary according to the person's ethnic heritage
- Common practice at a first meeting is to offer a firm handshake and to maintain eye contact
- English-speaking South Africans tend to adopt a polite and formal manner of address
- It is good practice after a meeting to send an email summarising what was decided and the next steps.



NEED TO KNOW

Crime is an issue in South Africa, although official statistics show a reduction in serious offences over recent years. Some parts of the country are safer than others; similarly Johannesburg is not unlike many other major cities that have areas suitable for travelling and other sections that are best avoided. Nevertheless, as a rule, Irish visitors should consider their personal safety with care and take sensible precautions such as: not walking around unaccompanied with a mobile phone out or with a wallet on display. Don't carry any unnecessary valuables – leave them at your hotel or apartment where possible. If you are robbed, the best advice is to be co-operative, hand over the money and under no circumstances attempt to reason with your attacker. Then, report the incident to the police. Limit walking where possible and drive a car if you must travel; many Irish companies hire a driver for the duration of visits from staff. That still should leave room for the social side of business development – a good approach is to ask trusted local business partners or contacts for hotels, restaurants or bars they recommend.

Getting ready to export

While South Africa is a growing market and receptive to companies investing in it, the proviso is that there must be a key differentiator about the business, whether around service, product or delivery mechanism. The key to becoming established in South Africa is to be innovative, particularly in the knowledge-based sectors such as information technology. The place to differentiate is in niche spaces such as call centres, IT, e-learning, whereas well-established sectors like banking generally provide fewer opportunities to do so.

- Me-too products that compete purely on price are unlikely to be well received – South Africans prefer to give their business to an indigenous company
- Do differentiate on professional service, better back-up services and more innovative products
- Be clear on what your proposition is
- Understand the structure of Government, and the critical role of local partners in business development or achieving sales.

Negotiating the deal

- South Africans typically prefer to do business with people they have already met
- Introductions from a known third party can help to reach key decision-makers
- Initial meetings are unlikely to lead to decisions; they may be attended by a large number of people and it may be difficult to gauge who in attendance has the final say
- In South Africa, the pace of business is slower – do not show frustration if progress stalls
- Do not speak loudly or interrupt a South African while they are speaking
- Include delivery dates in contracts, as deadlines are often viewed as fluid rather than commitments to be honoured
- Start negotiating with a realistic final figure in mind
- Avoid aggressive bartering over price
- South Africans seek consensus and win-win situations where all parties gain.



NEED TO KNOW

Generally, communication styles in South Africa will differ according to the individual's cultural ancestry. Many English-speaking South Africans are often reserved and conservative in how they speak, with the aim of avoiding conflict. People from an Afrikaaner background can be more direct and even blunt, which they consider as being forthright and honest. This means that they will often not hesitate to say "no" to others in public.

Advice from successful exporters

Many Irish companies are successfully selling to South Africa and that number is growing. We asked a selection of these exporters some questions:

- How did they become established in the market
- What did they learn
- What do they know now that they wish they had known then.

Here are their responses:

Adaptive Mobile, Brian Collins, CEO and Adam Crooke, VP of Sales

Adaptive Mobile is a world leader in providing security software for mobile and fixed networks, enabling mobile operators to provide a trusted environment for the transaction of services and for delivery of data services. Currently almost one billion subscribers are under its protection worldwide.

www.adaptivemobile.com

Why South Africa?

“South Africa was one of the first markets we entered, primarily because the operators had significant issues in terms of security. We have been very strong in emerging markets where they didn't have a strong heritage in fixed-line telecoms and where people conduct a number of services over their mobile handset. Also, we had good contacts in South Africa. We have been active there since 2005.

How we did it

We took the route of setting up an office, but in a way that we have no formal legal entity. Our first original customer was Vodacom. We tend to do large deals but the customer base is small. We started by using partners and we've continued using partners. We run Nigeria, Ghana and Uganda out of Johannesburg but we have big customers in South Africa too. In South Africa you have unique challenges where you're forced to incur significant costs either by setting up an operation there, or you're having to use equality local partners [compliant with B-BBEE legislation]. And that can be difficult, whether you're in the telco space or FMCG.

What we learned

We went through a lot of due diligence, looking at partners who had the right outlook and a similar way of doing business and we've done that very successfully. In South Africa you have to be there all the time – in the customer's face, so to speak – to be able to develop the business. It's kind of a blended model. What was important was finding a partner who was in a similar type of business and who has delivered successfully to our customer base, or similar solutions, and more importantly has successfully continued to support that customer.

There is a lot of entrepreneurial activity, especially in the telecoms and technology sector. That means there are plenty of companies you could partner with, so you have to be very selective in your approach. A lot of companies are vying for business, so they're willing to go the extra mile. The best yardstick is to speak to the end customers and see who they recommend.

There is a perception that Africa tends to be behind Western Europe or North America in technology. Partly that's true, but partly because of that, it gives companies the

opportunity to go in and sell very 'bleeding-edge' technology. South Africa as a country is far more willing to take a risk on new technology and new types of products and services because a lot of the technical infrastructure is out of date.

Our advice

What we would do differently is, we would get more face time down there. We dipped our toe in the water, to be honest. In hindsight we should have invested slightly more, we should have got feet on the ground quicker. Things went slower than potentially they should have done. We should have got people in-country for longer and more often, to engage with customers and partners.

You will make mistakes sometimes. Try to work on a joint activity and marketing plan with a partner, and try and set numbers against that, for example: 'the revenue we can generate in this market may be X'.

We tend to do very small, focused marketing activities. We do a lot of trade shows and things like that rather than a blanket media campaign. Also, work with your partners to do local workshops where you share some of the cost. The Enterprise Ireland trade mission, for us, was great although we were already active in the market. ”

Clarigen, Bernie Cullinan, CEO

Clarigen provides an online human resources management solution, tailored for the needs of the South African market, where the company has been operating since January 2011.
www.clarigen.ie

Why South Africa?

“The South African market is an extremely exciting one. It is an economy that has been growing rapidly and provides very significant opportunities for both B2B and B2C companies coming from Ireland. So much of what we have built in the technology sector in Ireland is oriented towards process change and companies in South Africa have a great appetite for investing in such opportunities. That is what Clarigen is built on.

How we did it

A South African company, Digicall, took a stake in Clarigen at the end of 2010. Creating a base there has been facilitated tremendously by the strength of Digicall and its commitment to the success of Clarigen in the South African market. We have hired some great people, including transferring one of our team from Dublin to Johannesburg full-time, whilst I also spend a considerable amount of time here. We have made great strides from our dogged determination to succeed in this market.

What we learned

We have learned that the market is very price sensitive and also, that your competition is not just from other products targeting the sector but also, other ways of doing things. South African people are very inventive and find many different ways around process challenges. They want a considerable degree of proof that what you promote will deliver the results promised. Having said that, they are always seeking new opportunities to run their businesses more efficiently so as long as you are clear where your niche is and can deliver what you promote, you will do well in this market. One of the advantages of the South African market is that it is dominated by a number of very strong industries, particularly mining and financial services. That helps clarify your focus and ensure that you can develop a local competency quickly in your chosen sector.

Our advice

The economy is strong, and although it has been going through some challenging times recently, those challenges are not a serious hindrance to growth. The economy has the very strong underpinning of its wealth of natural resources and a very well-managed financial infrastructure.

There are excellent opportunities for companies that can supply products and services which help South African companies deliver on their regulatory requirements and also those that can take advantage of the very significant investment made by Government and organisations in increasing human capability.

So whether they are products that help reduce the administrative burden of the regulatory environment, or can increase the capability of people through supporting them to do their jobs more effectively, or provide innovative approaches to improving processes in organisations, this is an excellent market opportunity.

South Africa is a very price-sensitive market, so you must ensure that your cost structure can support this – make sure you know your true cost price and margin required before committing to investing in the market. ”

FTI Treasury, Eddie Fogarty, Managing Director

FTI Treasury is a specialist treasury company headquartered in Ireland providing treasury management, consultancy, systems and treasury training to an international client base. Its clients are corporates, banks and public sector treasuries – all entities where treasury is critical to the overall business.

www.ftitreasury.com

Why South Africa?

“We have been active in South Africa since 2006, when we undertook a large project on behalf of the National Treasury to review treasury management in 15 of the largest State-owned enterprises and to do a benchmarking exercise against international best practice. Based on that experience, we decided to pursue other opportunities, especially in the treasury systems sector. Today, our treasury system is installed in South African Post Office (SAPO) and the Land and Agricultural Bank (LandBank) and used for their treasury management.

How we did it

To support this business and pursue other opportunities, we have set up a subsidiary, Fikon Treasury and IT, and located this in Centurion. Given the geographic distance, we felt this step was important to give clients the confidence to rely on our systems, and also to meet BEE requirements [Broad-Based Black Economic Empowerment (B-BBEE) also referred to as Black Economic Empowerment]. We saw this as a better approach than just working with a local partner and also gave us better control and ultimately better financials. If you're working with a local partner, you can end up over-sharing the revenue simply to comply with BEE and that's an area to be aware of in South Africa. Our view is that we can best meet the BEE criteria through a local partnership or by having our own subsidiary or branch there. Key to success is having a local person who genuinely understands the local situation, knows how to take things forward and is pro-active in doing that. And you need to take the time to find the right person.

What we learned

We found that the most important thing was the ability to win the business, with the tax considerations being secondary. It was relatively straightforward to set up a subsidiary. The shared British-style business protocol and legal structures have a benefit when it comes to doing something like this. There are big similarities between business in South Africa and what we would be already familiar with. To help set this up, we worked with the partner company of our Dublin auditors and tax advisers.

Given the distance between Ireland and South Africa, it's probably a market that more suits software and products rather than pure services, because if you're doing consulting, in reality that means Dublin staff on the ground. Software means Dublin people on the ground some of the time, with increasing reliance on local staff being feasible.

Our advice

While it's definitely a relaxed business culture, I wouldn't interpret that to mean lax on time, standards or anything like that. The South African way of wearing a tie is to leave it on the back of your chair! Meetings tend to be large in number. It's very inclusive and it's about looking for everybody's point of view. South Africans are quite open, quite direct, and they give a lot of feedback, I would feel. Irish people are very well received. You're not dealing with inscrutable people who keep their cards close to their chest. It's a long process, though. After meetings you do have to temper your optimism; everything takes longer than you expect. Overall, we're happy with the client base that has been built up and positive about the pipeline.

We started in South Africa before Enterprise Ireland opened its office there. Now, that office is an important resource for all companies but especially for new market entrants. It makes sense for Irish companies in South Africa to network more even amongst themselves and that is something we would like to do more of. ”

Sysnet Global Solutions, Gabriel Moynagh, General Manager

Sysnet Global Solutions specialises in compliance for the payment card industry data security standard. It provides a range of services including consultancy, in addition to its proprietary web-based system. The company has customers in 35 countries worldwide.
www.sysnetglobalsolutions.com

Why South Africa?

“We started in South Africa about four years ago. We had an opportunity to do some consultancy for Nedbank – our clients are usually in banking or payment services provision. We saw our opportunity as a good chance to establish ourselves in the market.

How we did it

We set up a serviced office last year in Cape Town with two people there. Before then, we flew people down, deals were done with the Irish office and it's only lately that we've had the local people on site. We have a very select target list, we knew exactly who we were going to talk to. We questioned them about the market, how strictly enforced was the compliance issue, how under pressure were key decision-makers.

What we learned

I'm sure we've lost business in the past because we weren't locally based at the time. It is a market that rewards face-to-face contacts. Certainly in the banking and compliance industry, everybody knows everybody, and if you get a good reputation it's a lot easier to get more deals.

We established our office in Cape Town, away from the business hub, because the employees that we found were based there. It would have been more appropriate to be based in Johannesburg, so we had to fly them for meetings and site visits. It just involved clever project management in terms of making sure things were booked in advance and that we weren't just jumping on a plane the next day.

Our advice

The first piece of advice is, if you're looking for local people, get a good headhunting agency to find them for you. If we weren't headhunting, we would have to recruit and then train them. That's what we found. The second thing is you need to decide quickly if it's going to be a market that suits you. If you keep flying people back and forth, it becomes very expensive.

BEE didn't affect us but it came up as an issue. We had to fill out certain forms to be excused from it based on our current size and penetration in the market. If we grow much more in South Africa, it's inevitable that we're going to have to deal with that. In terms of tax, we were advised in South Africa from a local accountancy firm which we found very helpful. That's something you would definitely need to do, to get an understanding of the local ways of doing things.”

Intuition Publishing, Niall Darby, Chief Operating Officer

Established in 1985, Intuition Publishing supplies computer-based training to the financial markets. Since then the company has grown to become a leading provider of technology-enabled learning to a broad range of markets including the financial sector, life science and pharmaceuticals, public sector and health.

www.intuition.com

Why South Africa?

“ We have been selling into the South African market since the late '90s. As South Africa has grown as a nation and opened up, we have grown with them. We traditionally sold into the investment and corporate banking market in the UK, and some of those customers brought us down to South Africa as their spending with us increased in London. In the beginning there was one client, Standard Bank. Then we added Nedbank, Investec, ABSA and Barclays Africa. As an emerging market, it would be one of the strongest.

How we did it

We predominantly sell through existing clients and via referrals. We've sold into many of the local financial institutions there at this stage, as well as the global banks that are present in the market. We support the region through our EMEA client relationship executives and using local consultants and associates where relevant.

What we learned

Business development in South Africa is a continuous process and the client wants to have the confidence that you are supporting the region for the long term. We tend to short-circuit that sales cycle to a certain degree by engaging with the UK/US entities, where we have a physical presence, of South African companies.

South African customers like to buy best-of-breed products, they like to know you're successful in other South African banks and international banks and they are a mature buyer. You need to be sure about what you're offering and the positioning of your products and services. Having a strong track record in the region and in your industry supports the sale.

Our advice

Make sure you have done your homework before entering the market. Understand the market nuances; how your products and services are relevant to the region; what problem you are solving and how accessible it is for the client to access and use your offerings.

Sourcing local partners is important. You need to invest in your partner if this is your business model. Many companies engage directly in the region and also have a local partner in order to deal with any regulations that may become obstacles to a foreign company.

Africa is a massive continent and many organisations are looking to grow their presence into the rest of Africa. You need to be prepared for success: often companies struggle with success in a region from a fulfilment and execution angle. If you're successful in Johannesburg, your customer may offer your services countrywide, or beyond that to other countries in Africa. You need to have the resources to do that – to be able to scale up with these organisations as they scale up, because they're not just looking at the domestic market, they're looking to support a global business model. ”

Brandtone, Pdraig McBride, Chief Financial Officer

Mobile engagement specialist Brandtone works with global FMCG brands to expand their market share in key developing and emerging markets, providing consumer profiling and hyper targeted mobile marketing services.

www.brandtone.ie

Why South Africa?

“ South Africa is a natural hub from which to expand into other African markets. It's a good location to secure first business in Africa and to lead your ambitions to hub into other markets like Kenya, Angola and Nigeria. Many major brands in Africa (particularly the FMCGs, banks and telcos) are headquartered out of South Africa.

How we did it

If you are doing business in South Africa, our experience is that you must base your local office in Johannesburg, the business capital of the country. During 2011 we ran campaigns in South Africa on behalf of Kelloggs, Kimberly-Clark, SAB Miller, and Unilever.

In terms of doing business, while we've noticed no particular business etiquette – and South Africans are very straight up in terms of telling you what they really think – you can't do business over the phone: you have got to get in front of people. There are five of us on the senior management team and one to two of us would be down in South Africa every

week to support our locally-based South African General Manager and the team, and drive the business along. You have to spend time on the ground to develop relationships and move opportunities along in an organised and structured manner. Also, quick and detailed follow up is key and critical to winning credibility with potential clients and service providers. Always do what you say or commit to doing.

What we learned

In terms of doing business with, for example, FMCG clients, timing is critical. Our experience is that FMCG clients with a 31 December year-end typically budget and plan their activities for the following year in September/October of each year. You have to meet with them and work on getting into their budget plans in advance of this timing. For example, trying to speak with a potential client in May/June and get business in the same calendar year is highly unlikely. If you have not signed up to deliver the particular piece of business by the end of, say, June, it most likely will not happen until the following calendar or financial year.

Our advice

Proper planning including tax planning is very important in terms of rolling out operations into South Africa, and we invested significant time in setting up our tax structure correctly at the outset, including detailed transfer pricing analysis, to ensure we have a tax-efficient tax structure. For example, we took the specific decision to register our Irish trading company in South Africa from a VAT (only) perspective, to ensure that we avoided trapped VAT on charges between our South African subsidiary and our Irish trading company – which invested in and build out our proprietary technology. This process was complex and time consuming, but putting appropriate structures in place from the outset is key, particularly when you are invoicing and dealing with leading global companies.”

Rockall Technologies, Leslie Duckett, Global Sales Director

With 20 years' experience in the financial services technology market, Rockall Technologies specialises in Collateral and Limit Management solutions. Its software is used in multiple financial institutions from stand-alone systems to full integration with clients' existing banking software. Its flagship product STOC (Systematic Tracking of Collateral) can work across all banking areas, trade and commodities finance, commercial banking and wealth management.

www.rockalltech.com

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South African customers like to buy best-of-breed products, they like to know you're successful in other South African banks and international banks and they are a mature buyer. You need to be sure about what you're offering and the positioning of your products and services. Having a strong track record in the region and in your industry supports the sale.

Our advice

Make sure you have done your homework before entering the market. Understand the market nuances; how your products and services are relevant to the region; what problem you are solving and how accessible it is for the client to access and use your offerings.

Sourcing local partners is important. You need to invest in your partner if this is your business model. Many companies engage directly in the region and also have a local partner in order to deal with any regulations that may become obstacles to a foreign company.

Africa is a massive continent and many organisations are looking to grow their presence into the rest of Africa. You need to be prepared for success: often companies struggle with success in a region from a fulfilment and execution angle. If you're successful in Johannesburg, your customer may offer your services countrywide, or beyond that to other countries in Africa. You need to have the resources to do that – to be able to scale up with these organisations as they scale up, because they're not just looking at the domestic market, they're looking to support a global business model.



STARTING IN THE SOUTH AFRICAN MARKET

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3. Starting in the market

“Make sure you have done your homework before entering the market. Understand the market nuances; how your products and services are relevant to the region; what problem you are solving and how accessible it is for the client to access and use your offerings.”

Niall Darby, COO, Intuition Publishing

Introduction

It is important to view entering any new market as a completely new departure for your company, and go back to basics in your approach. Don't assume your sector in the Irish market is reflective of the same sector in South Africa. Undertake thorough research to gain a deep understanding of the similarities and differences between markets; this will enable you to position your service offering and maximise your potential for success.

Geography

South Africa is a vast country spanning 1,219,912 km sq and it has three capitals: Cape Town, (legislative); Pretoria (administrative) and Bloemfontein (judicial). The business and industrial hub is concentrated primarily in the Gauteng province, which includes Johannesburg and nearby Pretoria. The majority of advanced development is found in those two cities, with activity also taking place in cities like Durban, Port Elizabeth and Cape Town. Gauteng is likely to be the base of operations for many, but not necessarily all, Irish companies that set up a direct presence in the country.

Though flying domestically is relatively inexpensive, it is advisable to determine a limited geographical area as your initial target in South Africa. When deciding this you need to think of where your company is best placed to secure a South African sales reference site. Do you have relationships with multinationals in Europe that also operate in South Africa? Does a particular province have a legislative imperative making it positively biased towards your offering? Is there a particular hub in the country for your sector?

Advance market research, along with assistance from Enterprise Ireland offices, can assist you in gaining a South African insight on your offering. Employees who are long-term South African residents can also help in this regard. Another approach worth considering is adding a South African member to your board to get that crucial market insight. This is more important in some industries than in others.



Travelling from Ireland

Flight times from Ireland to South Africa can take between 12 and 20 hours with stop-offs, and sometimes an overnight flight option is offered. There is a good selection of airlines serving South Africa via London, Paris, Amsterdam or the UAE.

Researching the market

There are several approaches to researching the South African market in order to determine whether or not it is viable for you. When undertaking market research, it is worth looking for answers to the following questions:

The Market Landscape - What is the size of the market? Is the market dominated by a few strong players or fragmented with many small competitors?

Market Trends - What are the current market trends for the sectors you will be targeting? If there is an obvious gap in the market, find out why. There are hundreds of examples where companies act to fill such gaps only to discover that they existed in the first place for good reason.

Target Market - Are you very clear on your target market? How does your target market make buying decisions? Who are the relevant decision-makers – job title and responsibilities?

Market Segmentation - Who are your most probable customers, where they are located, how and what else do they currently buy, who are their influencers and what 'need' are you fulfilling?

Market Competition - Who are your rivals in the market and how do their offerings compare with and differ to yours? How does your current customer/client satisfaction with your products or services measure up to that of the competition in South Africa?

Market Research Resources - Being abreast of local market trends, especially in your industry, will help enormously when it comes to building your knowledge about the South African market. Below are some websites that will help you to source industry-specific information.

- **Stats SA** - The national statistics organisation gathers a range of data from census figures – last conducted in late 2011 – to the consumer price index.
www.statssa.gov.za
- **The South African Reserve Bank** is the country's central bank and a useful high-level primer for the market with regularly released data www.resbank.co.za
- **SouthAfrica.info** This official website carries news, travel information for foreign visitors and a section on doing business in the country www.southafrica.info
- **Rainbow Nation** offers a useful starting point for desk-based research of the South African market through its directory of providers www.rainbownation.com
- **Independent market research firms** are actively watching South Africa and between them cover most major industry sectors: Analytix Business Intelligence has worked with clients in South Africa and Ireland www.analytixbi.com; Ipsos Markinor covers a wide range of subject areas <http://ipsos-markinor.co.za/>; IHS Global Insight is strongly South African-focused <http://www.ihsglobalinsight.co.za/>.

Advanced market research, along with assistance from Enterprise Ireland offices, will help you to gain a South African insight into your offering. Employees who are long-term residents in South Africa can also help in this regard and put you in touch with contacts that may be knowledgeable about your industry.



NEED TO KNOW

Knowledge of the competitive environment Irish companies operate in is the key to successful export growth. The Enterprise Ireland Market Research Centre offers client companies access to market intelligence in the form of company, sector, market, and country information to explore opportunities and compete in international markets. Please visit the Enterprise Ireland website www.enterprise-ireland.com for more information on the market research facilities available.

Clarifying your value proposition

Your market differentiators are what will make you stand out from the crowd and will stand you in good stead when pitching for business in South Africa. Be very clear on what your market differentiators are and why they are relevant to your target market.

Define your Unique Selling Point (USP) - Determine what sets you apart in the South African market. Why should a prospect buy from you over the competition? What makes your offering superior? Pay particular attention to framing your proposition in a South African-centric way. Communicate all the USPs not just as they relate to your business; e.g. subject matter expertise can be a USP.

Define your target markets' pain points - This may seem basic but it is essential that you communicate succinctly about how you create value for a customer and how you provide a solution to your clients' pain point that they cannot get elsewhere.

Define your message - Be specific, concrete, and never make a claim you cannot fulfil. Once you have established your USP, your job is to condense it into a few words and then communicate it at every touch point so that it can easily be communicated verbally and visually.

Define your service capabilities - As Dublin is almost 14,000 km away from Johannesburg, potential new customers in South Africa may be concerned about working with a company that is based so far away. The most effective way to tackle this concern head-on is to be very clear on how your business will service the South African market and to provide a service charter to map out your vendor capability and comprehensive service standards.

Define your positioning - An ongoing understanding of where you are positioned in the South African market and having a consistent message about your company, whether it is towards existing or potential clients, employees, investors or the public at large is critical in achieving recognition and credibility as a respected enterprise.

For further information about developing your value proposition and market differentiators, please visit the Enterprise Ireland range of practical guides to help you become export ready: <http://www.enterprise-ireland.com/en/Export-Assistance/Get-Export-Ready/Steps%20to%20Exporting/Tips-on-setting-out-your-value-proposition.pdf>

Maximising your resources

Investing in a new international market can cost substantially more than investing in a local market. It's all about researching how much money, focus and commitment you will need in order to successfully start and launch your business in South Africa. Know how much is too much but also understand that you will need to prepare for higher expenses.

Also, when looking to expand into the market, you will need to invest a lot of time and energy into finding out the right information. Don't plan to go in blind and 'wing' it from the start. Invest as much time as you believe necessary and then a bit more. Time spent preparing and planning will always find you in a better position. If you are under-resourced from the outset, it will be difficult to win deals.

Financial resources

A realistic budget for short and long-term business development strategies is an imperative for any business. A specific P&L for your South African business units should be created to monitor the resources used against target sales achieved.

Accurate sales forecasting based on sound market intelligence should be used to set targets. It's worth exploring options for financial support, including using current business surpluses and eligibility for Enterprise Ireland support.

As with any start-up, it is wise to factor in a fluctuating revenue cycle to your financial plan and to break down your targets into short-term (1 year), medium-term (1-3 years) and longer term (5 years +). This is particularly important in a market like South Africa which rewards regular visits and developing close contacts with partners and customers on the

ground – and the sometimes lengthy decision-making process. Long-term thinking is essential to setting your expectations for the market.

Human resources

In South Africa, having staff based on the ground is viewed as a sign of commitment to the market. From your company's perspective, having resources permanently in the market can greatly accelerate your progress. Leads can be followed up straight away rather than on the next trip. It will also bring you closer to the major developments taking place locally.

However, as with other markets, it is imperative that you are aware of laws regulating the rights and obligations of employers and employees in South Africa and how they apply to foreign nationals working there. These include laws regulating minimum terms and conditions of employment, leave entitlements, privacy, superannuation, taxation, unfair dismissal rights and other general workplace protections, discrimination, workers' compensation, occupational health and safety and the ownership of intellectual property.



NEED TO KNOW

It can be helpful to avail of market insiders who have experience of the South African business environment. Enterprise Ireland can connect you with resources, while the business networking group, *Business Ireland-Southern Africa* (www.businessireland.co.za), aims to foster relationships and networking opportunities between Irish people already resident in Southern Africa and Irish businesses coming to the market for the first time.

Developing your marketing strategy

As with entering any international market, it is vital to start research and planning long before you set foot on South African soil. It is essential to ensure that South Africa as a target market is part of a clear, focused business strategy.

Advance planning

As already mentioned, the planning stage is essential to determine which markets to enter, what your market differentiators are and what your market entry strategy is – and the financial implications of all this in the allocation of resources, time and money from your established business in Ireland and other international locations.

The most effective way to develop a target marketing strategy for the South African market is to go back to the fundamentals of marketing and to review your success and lessons learned to date from previous marketing and sales activities.

Once you are very clear on what you consider to be your marketing successes to date, it is then worthwhile to discuss your planned marketing approach with an Enterprise Ireland representative in South Africa or a marketing specialist with expertise at targeting the local market in order for them to review and provide feedback on what would work and what may not work.

Another useful approach is to learn from the market entry experiences of other Irish companies. Some examples are given in this guide (see chapter 2), and Enterprise Ireland can make the relevant introductions for you if you are interested.

Potential pitfalls

- New exporters without a track record in South Africa may have to spend more initially due to the demands of developing their brand and market presence.
- Ensure you protect your intellectual property. This may mean registering trademarks or patents in South Africa. For more information, visit www.cipc.co.za. You can check published patent applications and registered trademarks in South Africa at iponline.trevenna.net/home/default.aspx.
- Identify who your competition is and the pricing structure, and research the tariffs, customs requirements and regulatory controls around your product or service. Most of this research can be done from your desk, using the resources of Enterprise Ireland or private export specialists.
- Enterprise Ireland can work with you on agreeing the most efficient and cost-effective sales channel for your product or service. These options are dealt with in more detail in the Routes to Market section of this guide.

Communicating and marketing your business proposition

- Always customise your presentation for each prospect and remember that PowerPoint is only a support. Don't rely on it to make your presentation for you. The ability to present with impact is a prerequisite in this market; the slides you use should be brief, with key points or graphics that support what you say. For more informal meetings, presentations on tablet devices (such as iPads) are often used
- Demonstrate that you understand your client's problems and show active listening skills – what are the pain points your clients are experiencing? List the various problems in some detail in order of priority, to show you understand their business and the issues they face.
- Let your prospective client know exactly how you work in order that they know upfront what they can expect from you. What is the process? When do you start work? What do you typically do first? What are the payment terms? Don't be overly aggressive on this – In South African business culture the preferred outcome is a consensus where everyone wins.
- Emphasise and support the business case using figures and statistics. Avoid focusing solely on the merits of your capability or technical features. Be sure to address in clear terms the return on investment your proposition offers.
- Provide short case studies and relevant examples. Think through the many times you have provided similar solutions to past clients. Let the prospective client know the problem with which your client was faced, the solution you provided and the results that ensued.



NEED TO KNOW

Don't assume that your marketing approach that has worked to date in other international markets will work in South Africa.

Irish exporters who have done well in the domestic, UK or US markets may believe that their marketing campaigns used in these markets will work just as well in South Africa. This may not necessarily be the case.

Global brewer SAB Miller took the unusual step of radically adjusting its pricing strategy for South Africa, launching an affordable locally produced beer at reduced prices to make it more affordable to low-income consumers, while effectively doubling the price of premium international brands aimed at more affluent drinkers.

Building market presence

At the point of entry into South Africa, it is highly likely that your company or brand may be almost totally unknown in the marketplace. This potentially means having to spend far more on marketing than your competitors, especially domestic ones. The most effective way to invest your marketing budget is to test the South African market for a specified time limit using an integrated marketing approach from some of the following options:

Hard copy

- Corporate marketing material is important in establishing your credentials for South African customers
- Brochures do not need to be elaborately produced: some company background, a product overview and contact details will suffice.

Company website

When you are entering a new market, it is essential to update your website to accommodate international enquiries and purchases/sales. A good website will serve as your corporate brochure and prospects will usually go straight to it to check you out. The site need not be loaded with information, but should be cleanly laid out with interesting graphics and up-to-date information.

Use customer endorsements where possible and photographs to show your products or services being used. Make sure that contact details are easy to find, preferably with a direct email and a photo of the staff member. This encourages customer response rather than an 'enquiry.com' address.

Use search optimisation and search engine marketing techniques; consider setting up a local .co.za domain to make sure your site is found as quickly as possible.

A well-constructed and easy-to-navigate website provides great opportunities for Irish exporters. Maintaining an up-to-date website allows you to:

- Make contact with potential customers before leaving Ireland
- Reach South African customers in cost-effective ways

- Project the impression of a professional organisation
- Introduce, promote and demonstrate new products using video or online presentations.

Social media

South Africans are prolific users of social media, but an interesting local angle is that the most used channel is MXit, with more than 10 million active users; the world's most popular social network, Facebook, is in second place in South Africa (used by 80.7% of internet subscribers – with an estimated 2 million in Johannesburg alone). According to data from a number of sources, South Africans are the continent's most active users of Twitter. LinkedIn is growing strongly and has an estimated 1.1 million users in South Africa.

When creating a social network page for your business, make sure you manage it effectively and have someone responsible for maintaining, updating and responding to queries.

Public relations

When it comes to public relations, your first step in carving out a presence in the market should involve identifying key opinion leaders in your industry. These could be journalists, academics, industry analysts or consultants. A simple way to identify these individuals is to see who's speaking at any of the major industry conferences. Engaging opinion leaders, asking their advice and gaining their support can boost your business's credibility especially when you have yet to build your own reputation. This is especially important in advance of securing your first South African sales reference site. Though you may already be very successful in other markets, South Africans will want to see proof that your offering works in their market.

Once you have an on-the-ground presence and at least one major new customer happy to endorse you, consider engaging a public relations consultant or talk to Enterprise Ireland about putting together a media release to announce your company is ready to do business in South Africa.

There are a number of national newspapers targeting different readerships and several metropolitan newspapers per state, but opinion is divided on the merits of broad-based advertising for Irish companies looking to establish themselves. Trade magazines or online and print business publications may be a better option. It is worth underlining here again the importance of personal connections and relationships in winning business in South Africa. Getting access to pathfinders in your industry sector may ultimately prove more rewarding.

Webinars

South Africa's size can make it difficult to cover from just one base, although in practice the business hub is the Gauteng province where Johannesburg and Pretoria are separated by just 60 miles. Nevertheless, in such a vast country it makes sense to consider webinars in place of the traditional face-to-face meeting for product demos etc., in order to cut costs and time commitments. It might be easier to get prospects to agree to a webinar as a first step before agreeing to meet in person.

Webinars can also be used in a more sophisticated way to access a larger number of prospects while also building your company's presence and reputation in the market by holding an online event for your industry. This works particularly well for companies in sectors where thought leadership is important. In order to get a critical mass to tune in to the webinar you could engage a key opinion leader or a panel of opinion leaders to speak.

While this might involve paying a fee, if you can secure people of the right calibre it is a good way to launch your name on the scene and attract the right audience.

Do not forget to record the webinar to use as a marketing tool after the event e.g. on your website. If you go down this road, you should treat it like a regular event with the same amount of preparation and advance promotion.

Conclusions

- Be clear about what your value proposition is and be prepared to pitch your business
- Know the business case behind your offering
- Customise your pitch to your target client
- Understand where you can most easily get a first sales reference site and whether your company is best suited to a particular geographical area
- Engage the key opinion leaders in your industry
- Prepare and follow up appropriately to maximise your exposure at trade shows
- Breakfast briefings are a popular way of introducing your company and making contacts in South Africa
- Conferences in South Africa tend to attract senior decision-makers and are therefore useful at making initial contact with prospects, as well as for general networking.

ROUTES TO MARKET



4. Routes to Market

“ You need to be there very regularly... South Africans don’t like the idea that you swing by every six months. They like to get to know you and build a relationship and loosen up and do business. ”

Leslie Duckett, Global Sales Director, Rockall Technologies

Introduction

In this section, we look at some of the options for serving the market in South Africa.

Direct export from Ireland

While distant from Ireland – flight times can be up to 12 hours or more – the South African market can be served remotely by the early-stage exporter who does not wish to set up a permanent base at the initial stage. The time difference of GMT+2 means South Africa is only one hour ahead of Ireland. This is a key advantage for companies selling products where support services to clients in the market can be provided remotely.

Provided you have established a good working relationship with a local partner (see section below), it should be possible to manage a customer relationship at arm’s length – although based on the experience of many Irish companies already active in South Africa, regular visits to the country are still essential. You should be aware that the preference among many South African organisations is to work with locally-based providers where possible, so your options are soon likely to become a choice between working more closely with partners, or setting up either a branch or subsidiary.

Working with partners

This option is particularly important in South Africa, both because the market is remote from Ireland and because the cultural differences mean your business can benefit from an experienced firm that knows the territory and has the contacts. If you plan to tender for Government contracts but don’t have the resources to allocate full-time staff to the market, then going via a partner is a must. You will need to ensure that any partner you choose to do business with complies with Broad-Based Black Economic Empowerment (B-BBEE, also called BEE) legislation. *(This is a very important area and it is covered in more depth in the section on legal issues in South Africa.)*

When appointing a partner:

- Don’t just rely on your impressions from a meeting
- Do your due diligence properly, know who you’re doing business with
- Consider using a forensic accounting firm – there are plenty in South Africa – to examine a prospect’s books

- Check the partner's credentials with Enterprise Ireland staff in Johannesburg
- Even if your initial impressions are good, consider collaborating on a short-term engagement with measurable outcomes to gauge how effectively you work together.

Third-party distribution

Agents

In South Africa, the terms 'agent' and 'distributor' have a very specific meaning. In the strict legal sense, an agent is a person who, for and on behalf of a principal, either introduces a third party to the principal by soliciting orders from the third party, or concludes contracts with the third party on behalf of the principal. The normal reward for an agent is a commission, which is received from the principal.

Key considerations in appointing an agent in South Africa are:

- Appoint an agent who knows your market well
- South Africa's business sector is relatively small, and companies have established methods of procurement that differ from sector to sector
- Consider national distribution. South Africa is a vast landmass divided into nine provinces. Smaller agents tend to operate provincially, as they do not have the infrastructure to support operations in other provinces
- You may need to appoint an agent in each of the larger cities – Johannesburg, Cape Town, Port Elizabeth and Durban – to cover each of the respective provinces
- Larger companies who take on agencies often have an office in each of the major centres, making any agency agreement easier to control
- Check whether your South African-based agent can handle business in other Sub-Saharan African countries on your behalf.

Distributors

A distributor buys and holds stock of a product, usually in return for exclusive rights to sell the product in a particular area or to a particular type of customer.

- In South Africa, agreements with a distributor are similar to those with an agent
- Price and delivery terms will differ because the distributor is a principal
- When appointing a distributor in South Africa, the same considerations apply as when appointing an agent.

Establishing a local presence

The advantage to setting up a direct presence is that it gives you more control over your destiny in the market from both an operational and a financial standpoint. However, when selling to certain sectors, you will be obliged to comply with B-BBEE legislation and you should factor this into your strategy and your hiring plans. If you intend to hire individuals in the country with specific technical skills, your best option is to engage with a

headhunting agency to make a suitable offer to a South African national, otherwise the onus will be on you to recruit and train the person.

Don't decide on your structure until you have considered the tax implications, and seek the advice of a professional services firm before making your decision. For more on this subject, please refer to chapter 5, Legal Issues in South Africa.

- Irish companies tend to set up as subsidiaries or branches
- Most foreign investors set up a private company (Pty [Ltd]) because there are relatively few annual formalities associated with running one
- Private companies must have at least one director and shareholder and membership is restricted to 50
- They cannot offer or transfer shares to the public
- Directors do not have to be South African residents or nationals
- Foreign companies wishing to establish a local branch office in South Africa must register the branch as an external company with South Africa's Companies and Intellectual Property Commission within 21 days of establishing an office. See www.cipc.co.za
- There is no condition that a percentage of shares be held locally and Government approval is not required
- When establishing a business in South Africa, you must obtain a business licence from the local authority, which is valid indefinitely.



NEED TO KNOW

The CIPC can be prone to backlogs, so you should factor this into your timing. However if you retain a locally-based tax advisor, they may be able to intervene on your behalf to speed up the process.

LEGAL ISSUES IN SOUTH AFRICA



5. Legal issues in South Africa

“Proper planning, including tax planning, is very important in terms of rolling out operations into South Africa, and we invested significant time in setting up our tax structure correctly at the outset, including detailed transfer pricing analysis, to ensure we have a tax-efficient tax structure.”

Padraig McBride, CFO, Brandtone

Introduction

South Africa's legal system is similar to Ireland's in many respects. The country's common law is based on a combination of the English and Dutch models. It is a highly regulated society, and you can expect significant amounts of paperwork in your compliance efforts. However, all official documents and application forms are in English and this makes your task easier. Certain key areas of legislation differ substantially from the Irish business environment, such as Broad-Based Black Economic Empowerment and exchange controls. Careful planning for these and other aspects well in advance will smooth your journey into South Africa.

Broad-Based Black Economic Empowerment

You cannot do business in South Africa for any length of time without encountering Broad-Based Black Economic Empowerment (B-BBEE, also referred to as Black Economic Empowerment or BEE). More than a piece of legislation to be complied with, it is the key instrument in the Government's strategy to redress the inequalities of the past and to drive a far-reaching change in South African society. In a business context its role is to enhance the participation of the black majority in South Africa's economy. B-BBEE has been a key driver of recent corporate activity, such as mergers and acquisitions.

In practical terms, what B-BBEE means for an Irish company looking to do business over a prolonged period in South Africa is this: whether working through a partner or establishing a representative office, there will need to be significant black involvement at all levels of the company in order to comply with the B-BBEE Act, No. 53 of 2003. Companies must obtain certification and codes of good practice are typically measured on a scorecard against seven criteria: Ownership, Management, Employment Equity, Skills Development, Preferential Procurement, Enterprise Development and Socio-Economic Development.

There are nine pieces of legislation around this initiative, which can be obtained from the Department of Trade and Industry's web portal at bee.thedti.gov.za/. The site includes the legal requirements of B-BBEE, provides help in understanding BEE scorecards, and houses a national registry of company BEE profiles. Irish businesses can also source BEE-compliant companies for networking purposes through this portal.

- Tendering for all Government work requires that your company is rated as a B-BBEE-compliant or having majority black ownership
- Achieving the correct racial ratios in projects is a key performance metric
- The Code of Practice places a lot of emphasis on employing black females
- Complying with B-BBEE is a pass/fail criterion in many business opportunities.



NEED TO KNOW

Fronting – the practice of misrepresenting black involvement in the business – is actively discouraged and may in some cases constitute fraud. Typical fronting practices include appointing black people to jobs purely for tokenism, or using companies that have favourable B-BBEE status as intermediaries.

Setting up a company

According to the World Bank, setting up a business in South Africa takes on average 25 days. South Africa's Government has removed almost all investment approval processes in recent years to focus on data collection and monitoring via registration and reporting processes. There is no limit on the amount of foreign ownership in firms, except in banking and the media. South Africa's Companies Act sets out comprehensive regulations and requirements for conduct of affairs and liquidation of all entities that operate in South Africa.

Different entity structures encounter different legal requirements. In general, you should consider the following key areas:

- Legal status and limited liability – the legal status of the entity determines the level of liability and associated risks for the entity.
- Registration requirement and penalties – penalties are enforced on companies which fail to register with the Companies and Intellectual Property Commission ('CIPC'). Investors should comply with applicable registration requirements within the specified timeframes to avoid unnecessary penalties
- Financing alternatives – different types of entity are allowed different forms of finance (debt only or equity and debt). This has a massive impact on the flexibility of the funding and total of expenses (e.g. interest expense) for the entity
- Requirement of audit – depending on the type of entity, the entity may have to be audited on an annual basis
- Annual returns – depending on the type of entity, annual returns may need to be submitted to the Companies and Intellectual Property Commission (CIPC). The annual fee varies for different types of entities.

Regulations for importers

South Africa is a member of the World Trade Organisation (WTO) and follows the Harmonised System of import classification. There is free exchange of trade between South

Africa and the four countries comprising the Southern African Customs Union: Botswana, Lesotho, Namibia, and Swaziland. There is also substantially free trade between South Africa and the EU.

- Traders are subject to exchange control approval, administered by the South African Reserve Bank
- Bonded warehouses are available at various points of entry
- South African banks can accommodate all international transactions and are situated throughout the country
- Most goods may be imported into South Africa without restrictions but the Department of Trade and Industry is empowered to regulate, prohibit or ration imports
- Import permits are required only for specific categories of goods and must be obtained from the Director of Import and Export, prior to the date of shipment
- Failure to produce a required permit could result in the imposition of penalties.

Tax

Businesses exporting to South Africa for the first time should spend time understanding the legal requirements, tax regulations, foreign exchange control and certain other statutory regulations or obligations to be met. This helps avoid unnecessary penalties and administration costs, and achieve tax savings in the long term. There are specific tax impacts on different entity set-ups. In order to establish an entity structure with long-term tax savings, an investor should consider the following:

- General principles, such as whether an entity is resident or non-resident, taxed on worldwide income or African-sourced income only, provide guidance on the type of income to be taxed
- General rate of tax is 28% for South African companies
- Branches in South Africa are now taxed at 28%, reduced from 33% previously
- Disposal of certain local assets or worldwide assets (depending on the type of entity) could attract capital gains tax
- Tax deductions such as interest, royalties, foreign exchange gains and losses etc vary, depending on the tax status of the entity
- When a foreign company advances financial assistance to a connected party in South Africa and the resident company's interest-bearing foreign debt is excessive in relation to its equity share capital, thin capitalisation rules may apply.

Further information on this issue is given in a document published by KPMG, 'Information brochure on the South African tax and exchange control environment', which can be found at www.kpmg.com/Global/en/IssuesAndInsights/ArticlesPublications/Documents/thinking-beyond-borders-2011/ies-tbb-2011-south-africa.pdf.



NEED TO KNOW

South Africa has recently introduced a scheme known as the Headquarter Company [HQC] regime which is designed to allow a free flow of funds through South Africa with minimal tax incidence by treating the company as non-resident. The initiative has a double purpose, as it's also intended to further position South Africa as a gateway to Africa by providing incentives for international companies to route their investments through the country as a holding jurisdiction. While a HQC is subject to income tax at the 28% rate, in practice a number of exemptions come in to play which should result in the HQC effectively paying little tax in South Africa. What's more, any dividends declared by the HQC to shareholders – whether South African residents or non-residents – are not subject to withholding tax.

Exchange controls

Coming from Ireland, the system of exchange controls may seem unfamiliar and even daunting, but it can be managed when approached correctly. While it's not a major barrier to business, nonetheless it's an important subject to deal with to ensure money doesn't become trapped between South Africa and Ireland. For example, lending money from Ireland without the required approval would mean the South African entity would be unable to repay the loan. More information is available at the website of the South African Reserve Bank, which acts as the country's central bank:

www.resbank.co.za/RegulationAndSupervision/FinancialSurveillanceAndExchangeControl/Guidelines/Pages/default.aspx

- There are generally no restrictions on local borrowings; there are a few instances where restrictions will be applicable
- Foreign loans to a South African company require approval from the Exchange Control Authorities before acceptance
- Interest payment can be remitted abroad but this is also subject to the Exchange Control Authorities' approval
- Payment of management fees abroad is subject to the approval of an Authorised Dealer and certain fees need to be supported by a transfer pricing analysis
- Dividends can be remitted abroad to non-resident shareholders
- Repatriation of profits is subject to certain exchange control requirements
- Using South Africa as a head office for operations throughout Africa could result in numerous exchange controls being active within the group's business
- Exchange controls vary from ownership requirements to basic control of the money in and out of a country
- Exchange controls are detailed. Governments in Africa are regularly revising these requirements in the hope of attracting foreign investors to expand operations into Africa.



NEED TO KNOW

To avoid the possibility of trapped currencies, you can make a distinction in a contract between what is to be delivered onshore (e.g. services such as consultancy, installation or training) and what is provided offshore from Ireland (e.g. product development). Price separately for what is delivered onshore versus offshore to make the demarcation clearer: for example, request payment for the offshore work in euro or dollars and the onshore work in rand.

VAT

South Africa has a standard VAT rate of 14% on taxable supplies. However, VAT registration is only required if the total taxable supplies exceed R1 million (€89,437) in a 12-month period. Even though the standard rate is 14%, there are some exempt supplies and zero-rated supplies outlined in the VAT Act.

Immigration/Visa

South Africa operates a visa system. For Irish companies at an early stage of expanding into the country, initial 'interface' meetings require only having your passport stamped on entry or obtaining a 90-day visitor permit.

- Travellers should ensure their passport is valid for at least six months from their intended date of departure
- EU citizens travelling to South Africa without at least two blank pages in their passports – or with damaged documents – are likely to face immediate deportation
- If you intend staying more than 90 days for a project, you will require a work permit from the Department of Home Affairs which lasts for a year and may be extended on application.



NEED TO KNOW

The South African system is strict on allowing immigrants to enter the country and to work, where the authorities would deem the necessary skills are within the local market to fill those positions. You must identify specialist needs to the Department (www.home-affairs.gov.za/) which cannot ordinarily be filled by local staff.

GROWTH SECTORS



6. Growth Sectors

“ There is a perception that Africa tends to be behind Western Europe or North America in technology. Partly that’s true, but partly because of that, it gives companies the opportunity to go in and sell very ‘bleeding-edge’ technology. South Africa as a country is far more willing to take a risk on new technology and new types of products and services because a lot of the technical infrastructure is out of date.”

Adam Crooke, VP of Sales, Adaptive Mobile

Introduction

South Africa’s economy is expected to grow by 2.5% in 2012, and prospects beyond that are similarly positive. Several sectors in particular are poised to develop strongly in the coming years, and Enterprise Ireland has identified four key areas of opportunity where Irish companies are well placed to deliver products and services. These are outlined below. Moreover, it bears repeating that South Africa is ideally placed as a gateway for onward expansion into Sub-Saharan Africa – a market of more than 900 million people.

Telecoms and ICT

South Africa’s telecoms network is 99% digital – the largest and most advanced of its kind on the African continent. Its mobile communications infrastructure is claimed to be among the most advanced in the world.

- Africa has more mobile subscribers than fixed-line telecoms customers
- The region’s mobile market is the third largest growing globally, behind India and China
- Throughout the region as a whole there are 400 million mobile subscribers
- 18% of South Africans use mobile phones to transfer money
- Africa is forecast to reach 900m subscribers by 2020
- Fixed-line and internet penetration is currently at little more than 3% across Africa
- Mobile penetration stands at around 15%
- Africa’s stated wish to achieve 10% ‘Teledensity’ throughout the continent will require an investment of US\$11 billion per annum over the next number of years.

South Africa may be officially considered a developing market but in ICT terms it is no follower, with strong technology adoption in many sectors and many leading indigenous companies such as Dimension Data and Gijima. Deloitte has identified several trends driving ICT spending in South Africa:

- The 'bring your own device to work' trend
- Mobile device management and application management
- Security and privacy
- Desktop virtualisation
- Mobile apps
- Mobility testing suites.

Gartner has also highlighted the following developments in South Africa's ICT market:

- B-BBEE imperatives are promoting partnerships
- Customer preference for working with local vendors and open source technology
- Skills issues among end-users
- Regulatory overlap.

Opportunities for Irish companies

With the arrival of the Seacom International cable in 2009 and several others, Africa represents one of the last great developing regions for opportunities in telecoms. The fast-growing mobile market – third in the world after China and India – is a source of opportunity for Irish companies. Some have already been successful in South Africa in areas such as remote connectivity, SMS technology, infrastructure building and application software for mobile operators. Trends elsewhere indicate that where South Africa leads, the rest of the continent tends to follow.

Education and training

Africa is one of the world's fastest growing regions for e-learning and the geographical size of the market and the appetite for education crosses both the public and private sectors. There is a shortage of skilled and technically trained labour in the region, presenting one of the best opportunities for Irish companies in this sector. South Africa's e-learning sector – Government and private – is showing substantial growth opportunities for Enterprise Ireland client companies.

- There are enormous gaps to be addressed in the education sector; according to the World Economic Forum, South Africa ranked 132nd out of 144 countries for primary education and 143rd for science and maths.

Other gaps include:

- Basic business and IT skills
- Vocational training
- Collaborative programmes in higher education, especially with a value-added component
- Supply of educational equipment.

Opportunities for Irish companies

In view of Ireland's expertise and experience in e-learning, considerable opportunities should exist across the spectrum, ranging from basic business and IT skills, vocational training to collaborative programmes in higher education that have a value-added component and the supply of educational equipment. There are opportunities right across the spectrum for the under K12 market (primary schools), through to government, private sector companies and content providers.

South Africa's corporate sector to some extent is an easier sell; it is based in larger cities where internet connectivity is much more reliable and the market is, in general, as sophisticated as it is in Europe or the US.

A very different picture emerges in the public sector where many of the end-customers may be living in poverty, with limited access to connectivity. The challenge for Irish providers looking to this base is to be flexible and provide their systems in a way that doesn't rely on permanent internet access. For Irish companies, being patient and growing with the market as it becomes more technically sophisticated is the key to long-term success. This approach will also unlock further opportunities throughout the continent. Africa has a growing population whose biggest need after food is education; Sub-Saharan Africa is led by South Africa and the products it buys. Being present in the market, and supporting it as it grows from a low base, will create opportunities for the longer term.

Financial services

Backed by a sound regulatory and legal framework, South Africa's financial services sector is one of the most stable in the world. That was confirmed recently in a report from consultants PwC, which found that South Africa's four major banks – Absa, FirstRand, Nedbank and Standard Bank – outperformed their Western global peers in several key areas, including return on equity, in the first half of 2012.

- South Africa has domestic and foreign institutions providing a range of services across commercial, retail and merchant banking, mortgage lending, insurance and investment
- South Africa's financial institutions offer a gateway to Sub-Saharan Africa, as the country's banking sector accounts for more than 40% of Africa's assets
- The insurance sector in South Africa comprises more than 70% of the continent's premiums.

Opportunities for Irish companies

Despite the strength of South African banks, there is a relative absence of locally developed financial services technology, and at the same time, there is set to be a growing pressure for investment in systems; the PwC report spoke of the need for banks to respond to changes in customer expectations; this includes harnessing technology for customer convenience and improving operational efficiencies. Combined, these factors are creating gaps that Irish providers are well placed to exploit. South Africa is already the fourth largest market worldwide for Irish financial services software providers, and a number of new providers have entered the market recently.

Healthcare/pharmaceuticals/life sciences

South Africa has one of the most diverse healthcare markets in the world; rich urban areas retain many of the high-quality facilities developed under the apartheid regime, while rural areas and Black townships are only slowly beginning to establish any kind of modern health service. Although private providers are highly efficient in the South African market, the Department of Health is looking to international healthcare models for potential solutions that might be locally relevant.

- More than 90% of South Africa's medical device market is supplied by imports – mainly from the USA, Germany, Japan and the UK
- The public healthcare system faces the challenge of a shortage of healthcare workers
- A recent PwC survey revealed that medical inflation is greater than the consumer price index (CPI) and that the average increase in medical aid tariffs was above the average increase in projected salary inflation
- Given the poor state of the public hospitals, people will want to maintain the ability to go to private hospitals as long as possible. But as medical schemes become more unaffordable, some people may be forced to drop out and add to the burden of the public health system
- Around 8 million South Africans, or 17% of the population, belong to medical aid schemes (private health insurance)
- The rest of the population (83%) rely on overcrowded and often poor public health facilities
- Healthcare spending in South Africa is estimated at 8.5% of GDP.

Opportunities for Irish companies

The medical device sector is an emerging market that is showing promise for Irish providers and there are also openings to supply consumables and technology in hospitals as well as providing components such as stents.

SELLING TO THE GOVERNMENT IN SOUTH AFRICA



7. Selling to the Government in South Africa

“The public sector is large and public procurements are an important route to new business. They can be time-consuming processes, sometimes stop/start and you need to have a good tendering process to be successful. It is important to really understand the client situation and what the key people are looking for.”

Eddie Fogarty, Managing Director, FTI Treasury

Introduction

South Africa's Government sector is a major consumer of goods and services and as such is likely to be an important market for many Irish companies. It is possible for Irish firms to bid successfully for public sector business and some have already done so. In this section we briefly outline the Government structure and offer advice on successfully working with the country's public procurement system.

The South African Government estimates it will need to invest close to R978 billion in total public infrastructure during 2012 and this figure will exceed R1 trillion (€89.3bn) in 2013 across local, provincial and national levels. Most of the spending is to be allocated to what the Finance Minister referred to as 'economic services', meaning energy, water and sanitation, transport and logistics. Social services such as health, education and community facilities will also see increasing levels of spending to 2015.

Framework

South Africa is a constitutional democracy with a three-tier system of Government and an independent judiciary. The three layers in South Africa's Government are: national, provincial and municipal. All have legislative and executive authority in their own spheres and are defined in the Constitution as 'distinctive, interdependent and interrelated'. If you're trying to build a market in South Africa, it helps to understand the local structures and Government relationships.

Procurement

There are five core principles of behaviour in South Africa's public procurement process also known as the Five Pillars. These are:

- Value for money
- Open and effective competition
- Ethics and fair dealing

- Accountability and reporting
- Equity.

Tips for exporters

- Bidding for work at a national Government level can be a slow process. The municipal and provincial sectors are often faster
- IT Procurement at the National level must be done through the State Information Technology Agency (SITA) www.sita.co.za
- There is value in Irish companies being listed on SITA's preferred bidder and transversal tender listings (these involve fixed-price contracts with multiple suppliers over a specified period, to be used by more than one department or public body)
- Partners and agents can be critical in helping to progress decisions with buyers
- Provincial Government has significant spend by Irish standards
- Annual Government budgets are typically decided by October – budgets and strategic plans for all departments (Municipal, Provincial and National) are available on applicable Government websites
- From December to mid-January – South African summer time – there tends to be little activity
- Significant weighting is given to training and up-skilling local people, which can help in a sales cycle
- All layers of Government including State-owned enterprises spend significantly on IT services. Exposure to the Public Finance Management Act (PFMA) and Municipal Finance Management Act (MFMA) is critical for Irish companies looking to do direct sales with Government in South Africa
- Many of the local integrators are very strong in the public procurement market. They act as partners and trusted advisors to Government
- Many of these local companies provide not just hardware and software but consulting, change management and outsourcing expertise
- To become known in procurement circles, attending networking events is strongly advised
- Use partner-driven events to build awareness for your brand, among the partner's account executives and Government end-user customers.



NEED TO KNOW

Working with local partners is the key to foreign companies selling into the Government sector in South Africa. BEE compliance is essential when bidding for public procurement contracts – either your South African partner or your local office must have a BEE scorecard. The procurement process must be open and fair, but it also seeks to protect or advance those previously disadvantaged by discrimination.

HOW ENTERPRISE IRELAND CAN HELP YOU SUCCEED IN SOUTH AFRICA



8. How Enterprise Ireland can help you succeed in South Africa

Enterprise Ireland is committed to assisting clients in entering new markets and expanding business in current markets. A team of experienced marketing professionals in Enterprise Ireland's overseas network is ready to help.

Pre-visit support

We can provide:

- A sector overview
- A validation of the opportunity for your product/service
- An evaluation of your market entry strategy
- Suggested channels to market
- Competitor analysis
- Relevant contacts/suggested itinerary
- Summary of relevant market information resources.

In-market support

Services available include:

- Scheduled appointments with market contacts including Government
- Office facilities/sales incubator units
- Facilitation of buyer visits to Ireland
- Product launches/workshops at Enterprise Ireland offices/Irish Embassy/Consulates
- Networking opportunities at events held at Enterprise Ireland offices, or the Irish Embassy in South Africa
- Public relations support and press release service
- Trade fairs/trade missions
- Market development support to access new regions/sectors in South Africa
- Introductions to local development agencies for setting up in South Africa
- Introductions to third-party professional service providers including legal, marketing/PR and recruitment services.

Access to external expertise and advice

Enterprise Ireland has built up an excellent network of individuals in South Africa who are available to work on a one-to-one basis with Irish client companies to develop their business. They can listen and advise, suggest options, and help you to prioritise opportunities, giving you a fresh and objective perspective that is backed by significant in-market experience. Depending on your individual requirements, these contacts can advise you on all key areas of company development, including:

- Targeted sales and marketing
- Staff development and team building
- Expansion into new export markets
- Better management and financial systems
- Improved production and logistics
- Attracting outside investment
- Strategic business planning
- Management succession.

Ministerial events

Enterprise Ireland organises a number of initiatives led by Government representatives, including trade missions, trade shows, buyer lunches, press conferences, etc. These ministerial events are excellent opportunities for your company to be profiled for customers and the wider media.

Financial assistance

Enterprise Ireland client companies may be eligible to receive financial assistance with the cost of researching or travelling to the target market. For more information, speak with your Development Adviser.

DISCLAIMER

Information in this publication is intended to provide only a general outline of the subjects covered. It should neither be regarded as comprehensive nor sufficient for making decisions, nor should it be used in place of professional advice. Enterprise Ireland accepts no responsibility for any loss arising from any action taken or not taken by anyone using this material. Readers are encouraged to consult with professional advisors for advice concerning specific matters before making any decision.

This report was compiled between September and October 2012.

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While every effort has been made to ensure the accuracy of the information contained in this publication, Enterprise Ireland accepts no responsibility for errors or omissions.

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