

A Work Project, presented as part of the requirements for the Award of a Masters  
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Field Lab in Entrepreneurial Innovative Ventures

INTERNATIONALIZATION OF RESUL TO NAMIBIA

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## Executive Summary

RESUL is a Portuguese SME growing through the supply of equipments for electricity distribution networks abroad, particularly to developing countries. Still, it was recently challenged by its high dependence on the Angolan market, leading it to define as its foremost objective risk minimization through diversification. This internationalization plan assesses the attractiveness and optimizes entrance into Namibia, which is placing a strong bet in developing its power industry and has large short and medium-term investments planned. Opportunities and threats were assessed with a PEST analysis while the industry structure and rivalry through the 5 Porter Forces. Competitors were compared according to target needs and the VRIO framework revealed the competitive potential of RESUL's resources and capabilities. Internal and external factors were portrayed in a SWOT and combined in a TOWS, used as guide for business model optimization, mode of entry and competitive strategy, whose implementation is presented through the 4Ms framework. Potential risks were addressed as well. RESUL will target the price sensitive *Regional Electricity Distributors* and compete with South African distributors, in highly competitive industry. Yet, sustainable differentiation and cost advantages will lead to its success, sourced by a well-diversified portfolio; a flat and small organization allowing for quick client response; a local agent permanently close to clients; and the participation in production combined with flexible profit margin policies enabling it to under price competition. Market entry will happen in June 2012, with the contract with the agent already signed and RESUL should belong to the target clients' supplier list by the end of the year. Target revenues totalize €50k in 2012; €150k in 2013 and a 20% annual growth rate onwards while annual implementation costs amount to €14k in the 2012 and €23k thereafter.

## Introduction and Company Description

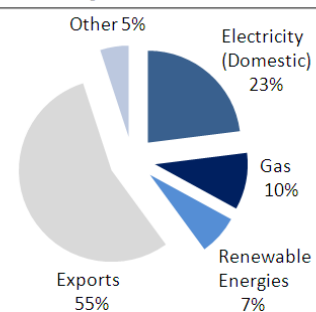
This Internationalization Plan addresses the expansion of a company's business - RESUL, Equipamentos de Energia SA (hereafter "RESUL") - into a new target market, Namibia. RESUL is a Portuguese SME established in 1982, based in Lisbon, certified by IAPMEI as a *Leading SME* since 2007 and included in the *5000 leading Portuguese SMEs* list by Diário Económico (2010). The company is a distributor of equipments for the utilities sector (see Figure 1 and mission below) and has been growing due to the early adoption of the following 3 chief strategies.

### 1. Internationalization

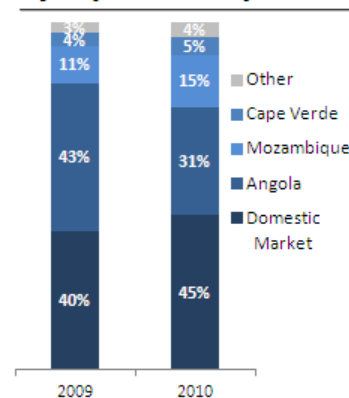
Besides growth and solidification within the domestic market, RESUL focuses its strategy on foreign markets (Figure 2): exporting to 27 countries, investing in commercial structures in the main foreign markets (Angola, Cape Verde and Mozambique; each attributed to a Portuguese delegate) and in one assembly line in Mozambique (Annex 3). Foreign markets have been key for RESUL's success, representing 55% (around €9.6M) of its total turnover (about €17.3M) in 2010, (Figure 3) while

shielding it from domestic hardships, but also entailing significant risks. As shown in Figure 4, Turnover, EBITDA and Net Income have been following an upward trend, but underwent a sharp drop in 2010. This occurred because Angola, RESUL's most important market, ran out of funds and suspended tenders for public works for some

**Figure 1:** Turnover by Business Area, 2010  
[Total: €17.3M]. Source: RESUL

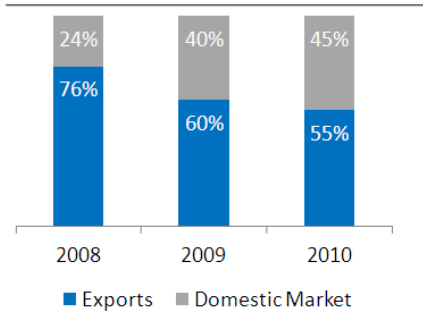


**Figure 2:** Turnover by market: Domestic and Exports [Source: RESUL]

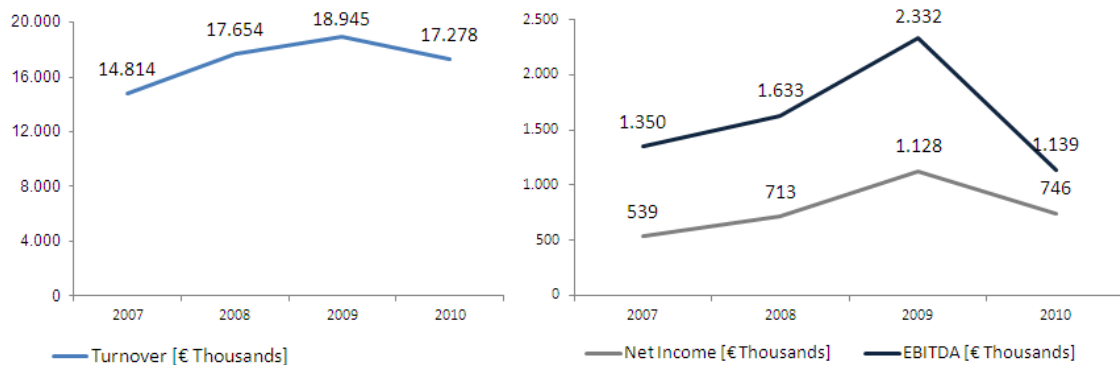


months until March 2011 (note that this was also reflected in the weight of exports on RESUL's turnover). In 2011, exports are expected to bounce back, amounting €12-13M and thus representing 60-65% of total turnover (€20M).

**Figure 3: Exports' Weight on Turnover**  
[Source: RESUL]



**Figure 4: Turnover, Net Income and EBITDA** [source: SABI - Iberian Balance Sheet Analysis System, 2011]



It is also noteworthy that 92% of exports' turnover (2010) regards the electricity sector, in particular, the distribution activity and, in a minor portion, the transmission activity of the electricity industry value chain (Annex 1). Moreover, RESUL focuses on a niche market: developing countries with unsophisticated grids covering only a small part of their territory, thus requiring equipments for installation (rather than maintenance) to increase their coverage (Africa Electricity Industry: Annex 2). Power distribution markets in these countries portray attractive growth rates while the developed world is stable. Additionally, provided quality standards are met these countries value primarily the price, thus not making a point on buying the latest innovation.

## 2. Strong investment in the industrial sector

RESUL started out as a plain commercial organization but before long it entered the production activity through interests in the share capital of three factories: Promecel and Fisola in Portugal (supplying roughly 20% of the equipments exported and sold under

the brand RESUL); and Mozul in Mozambique (an assembly unit which assembles a single product: the Readyboard<sup>1</sup>) - Annex 3. This involvement in production enables RESUL to approach customers as the producer and develop tailor-made equipments. Plus, it provides cost leadership differentiation, since often Production Associated Companies (hereafter “PACs”) work almost without margins for RESUL’s deals. This is of such a massive strategic importance for RESUL that Promecel, producer of the majority of the products sold under RESUL’s brand, had a 0% profit margin in 2009<sup>2</sup>.

3. **Finding national and international prestigious brands to represent** (see the Industry Mapping below).

### **Vision, Mission and Strategic Objectives of the company**

**Vision:** RESUL aims to increasingly place itself as a global company in its business sector, exporting to over 30 countries by 2015 and with international operations accounting for over 85% of turnover by 2013.

**Mission:** Increase economic development and sustainability through the design, development, manufacturing (through subsidiaries) and commercialization of equipment solutions for energy transmission and distribution networks as well as for other sources of social welfare (public lighting, telecommunications, renewable energy water and gas distribution), growing its business through internal and external expansion of its network of partners.

Following the path towards the attainment of the aforementioned vision, RESUL defined as corporate strategic objectives for 2013: **1)** To record turnover of €25M and Net Income in excess of €1.5M; **2)** To secure a position among the top 150 Portuguese SMEs (Exame magazine) and obtaining the SME Excellence Certificate (IAPMEI), in

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<sup>1</sup> The Readyboard is a product that coupled with an energy meter allows electrifying a very small house, making it possible for the poor to benefit from power over a lamp and two 20V outlets.

<sup>2</sup> Revenues = 2.146.005€; NI = 8.582€; Revenues/NI = 0% (**Source:** Sabi - [Iberian Balance Sheet Analysis System, 2011])

order to benefit from the resultant recognition and value perception from the market, which can help promotion in new markets and establishing new partnerships; and 3) The implementation of two assembly units, one in Luanda and the other in Maputo, which will decrease transportation costs in African markets and enable exploitation of customs-free trade inside Southern African Development Community (SADC).

### **Internationalization Challenge**

In order to support the attainment of the aforementioned objectives, the exports department intends to consolidate current markets as well as to minimize risk through diversification, exporting to 3 new markets in 2012, thus decreasing the impact of punctual one-off situations like Angola's 2010 fund shortage. Angola typically represents about 40% of RESUL's turnover, which is being revealed as highly risky. Firstly, due to its high political risk: 6<sup>th</sup> level (7: highest) attributed by COSEC; and high corporate default probability according to COFACE. Additionally, the Angolan economy is highly volatile, given its dependence on oil sales and prices, which makes up for about 50% of Angolan GDP, 80% of Government revenues and 90% of export revenues (Bloomberg, 2011)<sup>3</sup>. The risk is further amplified by the fact that RESUL is dependent on a sole potential client in Angola (state-owned monopoly) and the industry being typically highly competitive. Having electrification needs and ambitious projects and being close to other RESUL's markets already operates, exporting to Namibia (Annex 4) appeared as a natural choice for the company, with the following objectives: entering in 2012; attaining €50k turnover (f.o.b. value: *Cost before insurance and freight*) in the 1<sup>st</sup> year; and €150k in 2013 and a 20% annual growth rate onwards.

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<sup>3</sup> To illustrate this volatility, notice that according to President José Eduardo dos Santos, the Angolan Economy is expected to grow merely by 3,7% in 2011, well below the 7.6% and 7.5% initially forecasted by the initial State Budget and by the IMF, respectively. The President attributes this fall to the decline in oil production by BP, for technical reasons.

### **Namibian Opportunity – Background and Evolution<sup>4</sup>**

Namibia is a member of the *Southern African Power Pool* (SAPP), which aims to achieve at least 70% of overall households with access to electricity by 2018. Moreover, since 1991 and partnered with Nampower (power generation and transmission state-owned monopoly), the Namibia's *Ministry of Mines and Energy* (MME) has been implementing its *Rural Electrification Program*.

What is more, Namibia's Vision for 2030 consists on a prosperous and industrialized country. Industrialized nations are characterized by high electricity consumption & intensity and by high correlations between GDP growth and electricity consumption growth. For this reason, one of the Government's chief objectives consists on developing an effective & efficient *Electricity Supply Industry (ESI)*, through large short and medium-term investments in generation, transmission and distribution infrastructure. There used to be over 70 distribution licensees within the country (all public entities): Local Authorities (LAs) and Regional Councils (RCs) supplying residences and businesses; and Nampower supplying farms and mines. Most of them could not afford qualified personnel; planning, financing and sustaining electrification programs in their areas of supply; and the maintenance of the network (resulting in poor grids with urgent upgrade/replacing needs) and lacked quality and safety standards. Since these problems pose hurdles to the achievement of the Vision 2030, the MME is reorganizing the electricity distribution sector by reducing the number of licenses to 5, hold by the previous distributors consolidated in 5 private companies: the REDs (*Regional Electricity distributors*), responsible for electricity distribution and supply in their licensed areas (Figure 5). NORED, CENORED and Erongo RED are already fully

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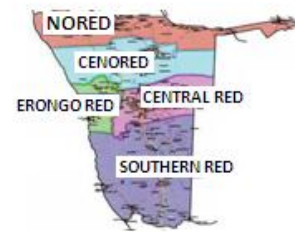
<sup>4</sup> **Sources:** Electricity Control Board (ECB), Nampower, GBI Research, U.S. Commercial Service, Namibia Trade Directory



operational while Central RED and the Southern RED (SORED) will be established in the future (there are still about 46 licensees).

The country's plans to invest in distribution network expansion and upgrade of those grids in poorer shape presents a great opportunity for RESUL, confirmed by the US Commercial Service, stating that distribution equipment fall within the products of urgent need and potential in Namibia.

**Figure 5: REDs [Source: Nampower]**



### External Analysis - Environmental Context

In order to assess the environmental context's attractiveness and understand the opportunities and risks it presents, as well as how it is expected to affect this internationalization process a **PEST analysis** was carried out.

**Political – Legal:** Namibia is a Republic, with a stable and democratically elected government, to which COSEC assigns the 3<sup>rd</sup> **political risk** level (7: highest) and COFACE attributes quite acceptable on average corporate default probability. It is also important to mention that, in what regards the easiness of resolving a commercial dispute, World Bank Doing Business rankings (2011) place Namibia in a good position (40<sup>th</sup> easier in 183 countries: Annex 5). In setting prices to be charged in Namibia we ought to consider the SACU Common External Tariff (CET), collected at the Namibian customs and applied to the f.o.b. price of the goods imported into Namibia as a result of its membership in the *Southern African Customs Union* (SACU). On this matter, RESUL will be in disadvantage relative to the SADC and SACU members since these are exempt from customs. Nonetheless, due to *Economic Partnership Agreements* (EPAs) between the SACU and the EU, custom tariffs have been declining and some of RESUL's products are already exempt from customs (Annex 6). Prices will also have to

reflect the Value-Added Tax (VAT) of 15%, charged after the f.o.b. value being uplifted by 10%. What is more, according to World Bank's 2011 Doing Business Report, 7 documents and an average of 24 days will be required to import a product into Namibia (Annex 7). The Namibian client will have to obtain an import license from the *Ministry of Trade and Industry* (MTI), most of which are automatically granted (which according to our research applies to the case of RESUL's products). Corruption is still an ongoing concern in Namibia, as the country was ranked 57<sup>th</sup>/183 countries in the *Transparency International 2011 Corruption Perceptions Index*, with a score of 4.4<sup>5</sup> (see country comparison in Annex 8). This makes lobbying power crucial for the success of this internationalization plan.

**Economic** (Annex 9): Economic prospects are attractive in regards to the market entry, as GDP level (US\$12,239M in 2010, Euromonitor 2011) is expected to grow around 4.2% over the forthcoming years and the inflation rate is expected to be moderate, around 5% (IMF, September 2011). Namibia's economic openness is also appealing, as the country presents a Trade-to-GDP ratio of 97.7% <sup>6</sup>(2009); as well as the sophisticated banking sector, closely linked to the South African system. Still, there is the South African threat and the ***Exchange Rate Risk***. Even though Namibia gained independence from South Africa in 1990, the countries still keep a close link, with South Africa being the 1<sup>st</sup> Namibian export market (31,8% vs. 17<sup>th</sup> Portugal: 0,6%) and the 1<sup>st</sup> import market (67,8% vs. 41<sup>th</sup> Portugal: 0,1%), including the sector in which RESUL operates, thus embodying a large chunk of the competition it will face. Furthermore, due to the membership to the *Common Monetary Area* (CMA), the Namibian dollar (NAD) is pegged (1:1) to the South African Rand (ZAR), which

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<sup>5</sup> [10: highly clean – 0: highly corrupt nation]. Source: Transparency International, [www.transparency.org](http://www.transparency.org) (12.01.2011)

<sup>6</sup> Imports + Exports / GDP (importance of international trade). Source: African Economic Outlook, 2011

mitigates exchange rate uncertainty and incentivizes trade and investment flows between the 2 countries. While exporting to Namibia, RESUL will generate revenues in NAD, which will have to be converted into Euros. By checking variations of the Euro currency against the ZAR, we ensured that they depict a reasonably stable evolution (Annex 10). However, the exchange rate may fluctuate from the day the price is agreed to the payment dates, which may lead RESUL to incur in losses<sup>7</sup>.

**Socio-Cultural:** The Namibian population (2.2M, expected to grow 0.87% in 2011) is characterized by very low density (3/sq Km vs. 115/sq Km in Portugal) and only 38% living in urban centres, making it difficult for the Government to increase welfare in rural areas, resulting in the majority not having access to electricity. Additionally, social tension derives from highly inequitable income distribution - 0.7 GINI coefficient in 2010 - and very high unemployment - 51.2% in 2010 - (Africa Economic Outlook, 2011); as well as from more than one-fifth of the population being infected with HIV/AIDS (Euromonitor, 2011). While problems are being addressed by the Government, there is always a small chance of political unrest, which could prevent RESUL from exporting to Namibia altogether. Moreover, according to the U.S. Commercial Service, certain cultural aspects should be taken into consideration by RESUL when contacting with the Namibian Client. In order to do business in Namibia it is crucial to have a local presence and to establish business relationships before tender participation. English is the country's official language and personal relationships are important for Namibians, being greetings part of their culture; hence it is important to first exchange pleasantries with trade counterparts before discussing business.

**Technologic:** Africa's top-ranked road, rail and port infrastructure (the port of Walvis Bay being one of the most efficient with no loss of cargo, low crime and low

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<sup>7</sup> In 2009 RESUL recorded a gain of €34M from exchange rate exposure while in 2010 it incurred in a €35M loss.

congestion) and planned transport infrastructure investment of over €234M during 2011-2013 (Annex 11); and the developed communication system (for those who can afford it) are favourable to the implementation of this internationalization plan.

#### **Namibian Electricity Distribution Market Attractiveness (Annex 12)**

<b>Size</b>	14,378km of distribution lines (2008), connecting only 34% of total households to electricity, figure that the State is committed to increase. (GBI Research, 2011).
<b>Value</b>	In 2010, the Electrical Machinery & Apparatus (product category where RESUL's portfolio is inserted) represented 6.9% (AICEP- <i>Agência para o Investimento e Comércio Externo de Portugal</i> , 2011) - US\$364.9M - of total Namibian Imports, US\$5,288.3M (Euromonitor, 2011).
<b>Growth</b>	Electricity generation in Namibia (1,598GWh, 2010) is expected to increase at a 29.8% CAGR <sup>8</sup> (2011-2020), to 4,633GWh in 2020 while electricity consumption (11,545GWh, 2010) is expected to grow at a 5.4% CAGR (2011-2020), to 19,622GWh in 2020 <sup>9</sup> . If generation and consumption increase, networks to connect those two points will also have to increase. Source: GBI Research, 2011.
<b>Potential Clients</b>	Distribution licensees: 3 established REDs (owned by LA, RC and Nampower) and the remaining that will be consolidated in two in the future.

Among African Countries, and considering the power industry's specific parameters as well as ease of doing business and operational risk, GBI ranked Namibia 7 regarding the attractiveness of the electricity industry, ahead of Angola and Mozambique, where RESUL already operates (Annex 13).

Having as frame of reference the distributors of equipments for power networks supplying Namibia, we assessed the industry structure and rivalry through the **5 Porter Forces framework**. The threat of entry is medium, mainly due to the same incentives being given to national and foreign investors; the industry being growing, the tariff and bureaucratic barriers faced by exporters and the importance of price competitiveness. As most distributors are backward integrated and orders tend to be few and large, supplier power is regarded as low, as well as the threat of substitution since no relevant

<sup>8</sup> Compound annual growth rate

<sup>9</sup> Consumption highly surpasses Generation because 56% of Electricity consumed is imported. Generation is expected to grow more than consumption due to the capacity expansion projects to respond to the expected drop in South African Imports.

substitutes were found. On the other hand, the buyer power was classified as high, because there are few potential clients who purchase large quantities, impose product specifications, are highly price sensitive and buy through the tender system. Finally, the internal rivalry is also high since there are several large distributors fighting for large and infrequent sales and that, after product specifications are met, compete mainly on price. The conclusion drawn was that these two last forces hurt profit margins in this industry, but the chance of winning large sales deals makes it still attractive and distributors are thus more concerned with turnover than with profit.

### **Competitive Assessment**

RESUL competes with other quality focused distributors of the same equipments rather than with Chinese distributors which have unbeatable prices, but do not meet technical specifications that are crucial in this industry. Due to RESUL's well-diversified portfolio, several competitors are expected and direct rivals can only be identified with recurring tender participation. Nonetheless, for our analysis we considered as frame of reference the 9 main distributors which are focused on equipments for the power distribution networks and that are already present in Namibia or claim to be suppliers of the Southern Africa (Description of each one and comparison table: Annex 14)<sup>10</sup>.

The conclusion drawn was that RESUL will compete essentially with South Africa's distributors or with subsidiaries of multinational distributors located there, all found to be highly focused on quality and to have the required product certifications. Moreover, most are backward integrated, claim to be highly customer oriented (providing high service, technical assistance and follow-up) and to have qualified staff. In what regards the price, RESUL is in a highly competitive position. Even though RESUL is the smallest of the firms analysed, thus not benefiting from the same economies of scale in

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<sup>10</sup> Information gathered from websites of competitors (e.g.: [www.sicame.co.za](http://www.sicame.co.za)) and RESUL's experience in other markets.

production and procurement, most of those large competitors pursue high investments in R&D and have rigid pricing and margin policies, which make them end up submitting higher tender prices than RESUL. The fact that most competitors are large and highly hierarchical multinationals with slow decision making processes and having to comply with rigid corporate selling policies, also gives RESUL a relative advantage in quickness of response to customer requirements. Moreover, there are only three competitors supplying multi categories like RESUL and only one has an equally wide portfolio. However, competitors are perceived to be ahead of RESUL in technology innovation (with strong investment in R&D). Though, due to the unsophisticated nature of the Namibian market, it is not essential for the client to buy the latest innovation.

### Internal Analysis - Competitive Advantage

In order to infer about the competitive potential of RESUL's resources and capabilities in Namibia, we used the **VRIO framework**, according to which, to be a source of competitive advantage, a resource/capability has to be *Valuable* (able to exploit an opportunity or neutralize a threat), *Rare* (control is in the hands of a relative few), *Costly to imitate* (*Imitability*) and *Organized* (the firm's policies and procedures being able, organized and ready to exploit it).

Resource / Capability	V	R	I	O	Competitive Implication
<b>Well-Diversified Portfolio</b>	✓	✓	✓	✓	<b>Sustainable Advantage</b>
<b>Recognized Brands and advanced technologies</b>	✓	✗	-	-	<b>Parity</b>
<b>Ability to purchase products at production cost (from PACs) without incurring R&amp;D costs</b>	✓	✓	✓	✓	<b>Sustainable Advantage</b>
<b>Good quality / price ratio</b>	✓	✓	✓	✓	<b>Sustainable Advantage</b>
<b>Location/ Proximity</b> (Angola and Mozambique)	✓	✗	-	-	<b>Parity</b>
<b>Human Capital (electrical engineers, continuous training, high motivation and experience dealing with African markets)</b>	✓	✗	-	-	<b>Parity</b>
<b>Quick decision making and agility responding to client demands + flexible margins (⇐ flat and small organization)</b>	✓	✓	✓	✓	<b>Sustainable Advantage</b>
<b>Backward integration (⇒ guaranteed supplies and customization)</b>	✓	✗	-	-	<b>Parity</b>
<b>Permanent presence close to customers, nurturing the relationship and understanding needs.</b>	✓	✓	✓	✓	<b>Sustainable Advantage</b>

Conclusion: Hybrid Competitive Advantage	
DIFFERENTIATION ADVANTAGE	COST ADVANTAGE
<b>Sources:</b> <ul style="list-style-type: none"> <li>Well-diversified portfolio</li> <li>Quick decision making and agility due to flat and small organization</li> <li>Permanent presence close to customers</li> </ul>	<b>Sources:</b> <ul style="list-style-type: none"> <li>Ability to purchase products at cost (from PACs) without incurring R&amp;D costs</li> <li>Flexible profit margins</li> <li>Good quality / price ratio</li> </ul>

RESUL's financial situation is healthy. The 1.5 current ratio shows that the company is able to pay its current liabilities with its current assets (liquidity) while the 0.8 solvency ratio suggests it can repay all of its long term debt in less than 2 years (Annex 15).

### Internationalization Business Model (Annex 16)

#### Value Proposition

**Target:** The 3 REDs already established (REDs' description: Annex 17) due to higher financial resources, more and larger electrification projects and centralized purchasing for each RED signifying larger sales opportunities. It is also important to maintain contact with Nampower since it has influence inside the REDs and it may also open tenders for transmission equipments which can be of interest for RESUL.

**Target Needs<sup>11</sup>:** The REDs buy through the tender system and seek to acquire high quality products at the lowest price, encouraging local suppliers through 3-20% preference (which is not such a menace as most competitors are not Namibian but rather from South Africa). It is also important to mention that there are two types of tenders: tenders solely for equipment supply and tenders for turnkey operations (that include the installation service). All supplies ought to abide by the requirements of the appropriate SABS (*South African Bureau of Standards*) specifications, or if these do not exist, to relevant other national/international recommendations. The supplier's capability and financial resources (so that it is able to supply the contracted equipments at the agreed

<sup>11</sup> Information found regarding the Erongo RED and assumed to be similar for the other REDs since the nature of the shareholders, the organizational structure and the activity are the same and they are regulated by the same entities. Nampower's needs are also alike.

prices) also fall into the evaluation criteria of tender participants. Furthermore, within the 12 month period after delivery, the RED requires the supplier to remedy or substitute equipments proven to be faulty, having inferior quality or not being strictly in accordance with the contract, free of charge. Delivery deadlines and conditions are defined by the RED in the tender document, being the supplier responsible for the safe delivery of the goods with regard to quality, quantity and condition.

**Product & Service Offering:** Widest variety of quality equipments for distribution power networks (Product categories: Annex 18), including advanced and almost unique technologies and prestigious brands. RESUL's products comply with IEC (*International Electrotechnical Commission*) standards rather than with SABS but, in fact, there is usually an IEC norm equivalent to each SABS norm and, thus product adaptation will not be necessary. Product quality and conformity tests will be performed whenever required by the client<sup>12</sup>. Service will include follow-up (contacting the client to assess satisfaction and needs for technical assistance), delivery and installation (partner), for turnkey contracts. Also, the ISO Certification 9001-2000, obtained in 2003, allows RESUL to show credibility and pass the initial assessment by the client.

**Revenue Model:** Since sales opportunities are expected to be few and large, prices will be set on a deal by deal basis. Whenever RESUL wins a tender, it is entitled to the tender price it had submitted for the equipments sold less the 5% of the f.o.b. value which is paid to the Agent. Payment conditions will include a down payment of 20% prior to shipment and 60/90 days (negotiable) credit for the remaining 80%. On account of the *Commercial Risk* resultant from the little knowledge and confidence with the client, sales contracts should define payment conditions thoroughly and the method of

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<sup>12</sup> Whenever product certifications are needed or the client needs a proof that the equipments comply with the specifications, inspection and certification entities, such as BIVAC and SGS, come to RESUL's facilities to perform product tests.



payment ought to be the letter of credit<sup>13</sup>, irrevocable and confirmed, in order to protect RESUL against the possibility of client default [*Credit Risk*].

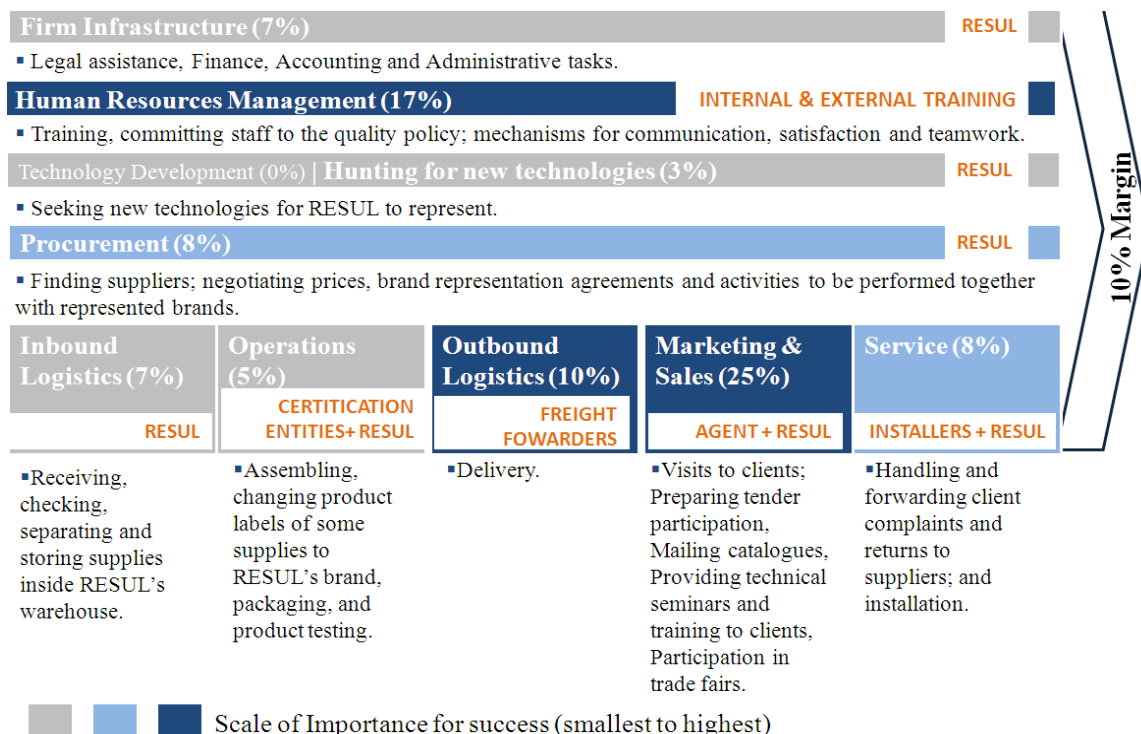
## Operating Model

### Cost Model

VARIABLE COSTS (vary with sales volume and sales force activities)		92%
▪ Costs of Goods Sold (COGS)		79%
▪ Operating Expenses: Gas, Communication, Transport Insurance, Travel & Accommodation, Product transportation and Promotion, etc.		13%
FIXED COSTS		8%
▪ Payroll		7%
▪ Operating Expenses: Rents, Lawyers' fee, Cleaning, Electricity, Security, books and technical documentation, etc.		1%

Based on data from SABI [Iberian Balance Sheet Analysis System, 2011] and Conservatória do Registo Comercial

As RESUL is essentially a distributor, production costs at the suppliers' facilities (79% of total costs) were omitted and a **Value Chain Analysis** was performed in order to point out the remaining activities that will add value to this internationalization process, their relative percentage cost contribution and split among RESUL and its partners.



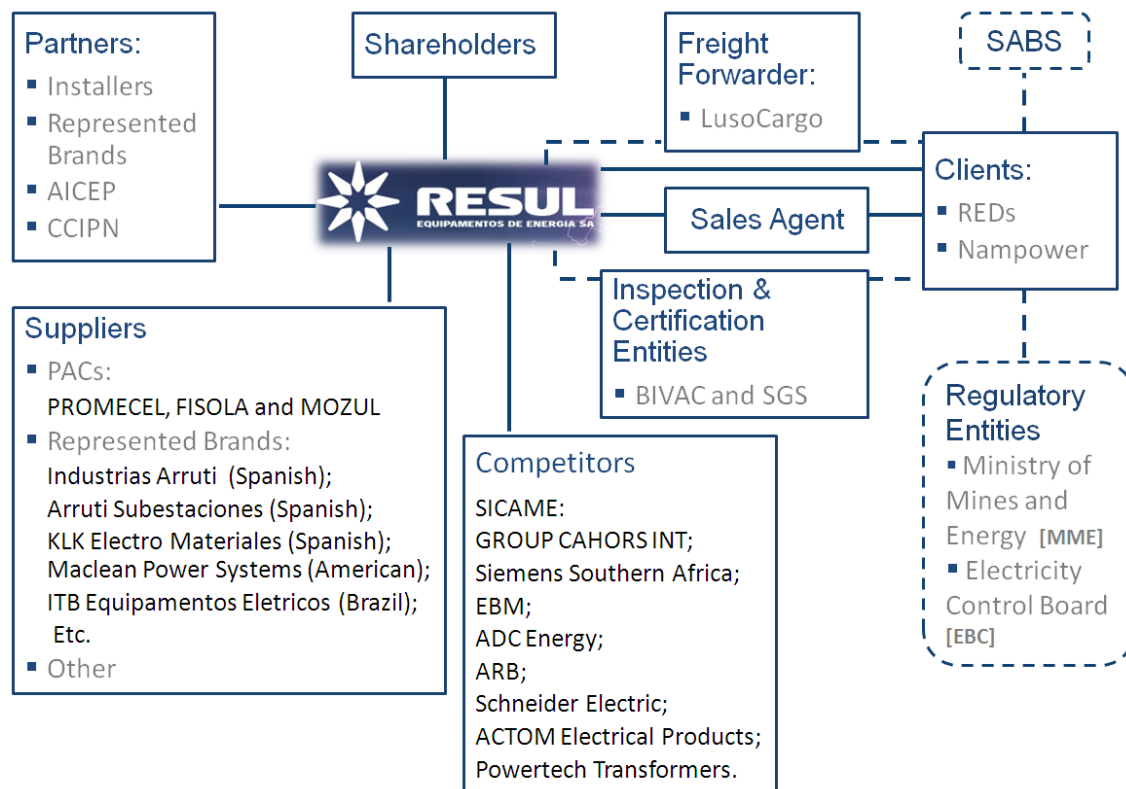
**Note:** we opted for the EBITDA Margin (EBITDA/Turnover) since, by excluding depreciation and amortization, it provides a cleaner view of RESUL's profitability.

<sup>13</sup> It consists on a bank's guarantee that the payments will occur (usually it allows the exporter to receive the pre-established payments by presenting, at the bank, the document proof of products expedition).

## Organization and Partnerships

RESUL is a flat organization employing 43 full-time workers (8h/day). This internationalization plan will be implemented by the exports department with the support of 5 the functional departments: General Secretariat, Warehouse, Administration and Finance, Logistics & Purchasing and Technology and Innovation (Organizational Structure: Annex 19). The figure below illustrates RESUL's stakeholders specific to this plan.

## INDUSTRY MAPPING



From the previous analysis we gathered that the operating model sustains RESUL's competitive advantage in Namibia. Regarding cost advantage, the prevalence of variable costs means that, RESUL it is unable to sell, costs incurred will be small (note also that fixed costs are not specific to this target market but rather spread among all markets). Concerning the differentiation advantage: marketing & sales and HRM activities, as

well as the agent, add to the quality and frequency of the presence close to customers; the flat organization allows for quick customer response; and through working with several suppliers, RESUL assures the portfolio variety at a good quality price ratio.

## TOWS

After having analysed the external factors from the environmental context and the internal factors, including RESUL's competitive advantage, we put them together and sought out the best combinations to improve the business model (improvements already included above) and design key strategic guidelines for the mode of entry, competitive strategy and implementation plan.

	STRENGTHS	WEAKNESSES
OPPORTUNITIES	<p><b>S2&amp;O3:</b> Aggressive pricing strategy</p> <p><b>S3&amp;O2:</b> Use technical expertise and experience in Africa to provide training and technical seminars to customers.</p> <p><b>S2&amp;O3:</b> Promote the PAC's products so as to increase their share of exports and further reduce costs.</p> <p><b>S1&amp;O1:</b> Promote the Readyboard as an innovative solution to increase rural electrification</p>	<p><b>O1&amp;W2:</b> Quick market entry to start building relationships with potential clients and understand their needs in order to fulfil their immediate needs.</p> <p><b>O2&amp;W2:</b> share with local industry participants RESUL's involvement in successful projects in other African markets in order to generate interest and promote business relationships.</p>
THREATS	<p><b>S4&amp;T3:</b> Assign the market to a delegate in Angola (geographical proximity and greater local understanding).</p> <p><b>S2&amp;T1:</b> be present at all tender openings in order to learn about the prices submitted by competitors of each product categories and undercut them afterwards.</p>	<p><b>W2&amp;T2&amp;T3&amp;T4:</b> Find a local agent → presence, knowledge, networking, cultural affinity, lobbying power</p> <p><b>W4&amp;T5:</b> Partner with local installers → installation capabilities, chance of benefiting from tender preferences given to local companies.</p> <p><b>W2&amp;T4:</b> frequent visits to clients</p>

[Please consult SWOT (Annex 20), Memo and Implementation Chronogram]

## Mode of Entry and Collaborative Arrangements

The entry mode chosen is Exporting, since it requires less investment and it is less risky; more specifically, direct exports, meaning RESUL will sell directly to the Namibian customer. The company is currently in the pre-engagement phase of the export development. Eng. Mesquita e Carmo, sales engineer of the exports department,

will take responsibility for the Namibian Market, reporting to the department's director, Mr. Sebastião Pinto. Starting in January 2012, Eng. Mesquita e Carmo will be a Portuguese expatriate in the commercial structure in Angola. He will be in charge of defining the strategic approach to the market, strategy execution and business closing. A local agent was recently suggested by ITRON, RESUL's supplier from South Africa who already operates there, and will be approached by Eng. Mesquita e Carmo during his first visit to Namibia. So far, RESUL does not know much about the agent, apart from him being well-connected to Nampower's structure and having deep knowledge of the market. Prior to entering the market, RESUL shall contract the services of *Câmara de Comércio e Industria Portugal-Namibia* (CCIPN), which can assist in the arbitration of commercial disputes; establishment of contacts and business presentations; booking hotels and car rentals with preferential tariffs for CCIPN associates; guidance and information on export documentation and trade fairs; searching an appropriate agent, organizing technical seminars, direct mailing service, etc. Additionally, it should ask AICEP for market information, advices and support in approaching the REDs<sup>14</sup>. Since the RED requires the sales contract to be in accordance with Namibian laws and any dispute between the involved parties to be decided in a court of law, specialized legal counselling and support is essential. Nevertheless, RESUL already pays a monthly fee for the services of a law firm and the director of the exports department himself has a law degree and carries out several legal works (E.g.: contracts) internally, hence no significant additional legal fees are expected. In what regards logistics, the Incoterm adopted is the c.i.f. (*Cost, Insurance and Freight*). RESUL will contract the services of a freight forwarder, which will take care of the mandatory transport insurance and

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<sup>14</sup> RESUL often works alongside AICEP, having Mr. André Dias as account manager.

transport the equipments from a Portuguese port (Leixões or Lisbon) to the Namibian port of Walvis Bay and then, by road, to the delivery spot.

Concerning collaborative arrangements, whenever aiming at participating in a tender for turnkey operations, RESUL will sign a management contract with a local installer under which he will take responsibility for the installation of the equipments supplied by RESUL. Furthermore, representation agreements with represented brands will be extended in order to include Namibia and define work to be performed together (e.g.: training, visits to clients, technical seminars and market studies). Notwithstanding, no significant costs and procedures are expected to emerge from this negotiation, since, according to RESUL, most of the times it is conducted in an informal manner.

### **Competitive Strategy**

#### **Marketing Strategy and Sales Strategy**

**Product & Service** – refer to the P&S offering in the Business Model

RESUL will respond to the high internal rivalry and power of the price sensitive clients (refer to the 5 Porter Forces) by using its cost advantage and pursuing an aggressive penetration **Pricing** strategy. Due to the unawareness of the prices submitted by competitors, the price will initially be cost-based (defined by mark-ups over cost – about 10%). Then, with recurring tender participation, RESUL will gain knowledge of the prices practiced by rivals and will adapt the price to the local market in order to increase margin but still undercut the competition (competitor-based price).

The price submitted in the tender (quoted in NAD), defined by the sales engineer and the purchasing department, will include the CIF price of the goods (the freight from Portugal to Windhoek costs €3.326/20 feet container), normal VAT (15%) after the

f.o.b. value being uplifted by 10%, custom tariffs, and costs related to export documents preparation (€200) and customs clearance and technical control (€150) – Annex 7<sup>15</sup>.

### Distribution

RESUL will sell directly



Figure 6: Distribution Channel Structure

to the REDs, but it will also have a local agent which will grant a continuous presence and representation in Namibia; awareness of what's happening there, cultural knowledge and the right contacts within the industry. The agent can work with other companies provided it is with different products.

**Promotion** will target potential clients' key decision makers and influencers, who RESUL will attempt to reach through exhibitions at two trade fairs (with the support of AICEP and AEP-*Associação Empresarial de Portugal*): the multi-sectorial Ongwediva Annual Trade Fair and the Power & Electricity World Africa (Johannesburg). The first, a leading event in Namibia's business calendar, is likely to allow for synergies due to expected visits from potential clients from the south of Angola; while the second, the largest African annual power conference and exhibition, due to Namibia's closeness and dependence on South Africa, will grant the presence of potential Namibian clients, as well as potential clients from other neighbouring countries. Other key promotional tools (provided in English) will include mailing of illustrative and descriptive catalogues, the Website and providing one annual technical seminar together with two represented brands in the country capital, Windhoek.

### Sales Strategy and Tactics

Selling activities must be adapted to the RED's purchasing process and target the members of the decision making unit (Annex 21).

<sup>15</sup> Since RESUL's products range from very cheap accessories to highly expensive equipments which are usually sold in sets and priced according to the pricing levels of the competition in each market, we cannot provide specific figures.

We split the activities into the 5 phases of the sales process and provided a short description below.

Interest Creation activities will aim at creating awareness for RESUL and its portfolio while identifying and building relationships with purchasing influences and decision makers. Then, Commercial Lead will entail grasping a better understanding of customer needs and explaining the advantages of doing business with RESUL, rather than with competitors; being aware of the advertisements calling for tenders and preparing all documentation to be submitted annexed to the tender bid. Afterwards, Pre-Sell & Closing will refer to the completion and submission of the *RED/Nampower Supplier Registration Form* for approval (if applicable); last persuasions before tender; submitting a tender bid in a sealed envelope placed in the appropriate box and supported by the relevant documentation, and attending to the tender opening. Then, if RESUL wins the tender, it is time to close the deal and write a formal contract. Next, Post-Sale Immediate activities include collecting initial payments, sending and collecting bills, processing orders, communicating with suppliers, preparing and monitoring expedition, analysing letters of credit, informing the client about the expedition date, etc. Finally, the Post-purchase ongoing is of utmost importance in order to keep the small number of potential clients satisfied and wanting to continue doing business with RESUL. It comprises nurturing the relationship, handling complaints, presenting new products, handling reorders and payments. In essence: **keeping in touch**.

Task	Interest Creation	Commercial Lead	Pre-Sell & Close	Post-Sale Immediate	Post-Sale ongoing
Channels	Visits, Trade Fairs, Website.	Catalogues, Technical seminars, Visits, Administrative staff (exports dep.).	Visits.	Administrative staff (exports department).	Administrative staff (exports department), After-Sale office, Visits.

Before market entry, RESUL will support the costs of the agent visiting Portugal, for him to get to know the Headquarters and plants and receive product training. Technical support, promotional tools and training will be provided whenever deemed necessary. Since the suggested agent has deep knowledge of the industry, it is likely that he will not need significant technical training. The agent's goal is to get sales and his activities comprise: informing RESUL about all upcoming tenders (usually announced in local newspapers) as well as client and competitor information, regularly visiting clients, exhibit at the trade fairs, exhibiting RESUL's catalogue, attending to business meetings, etc. Since it is hard to control the agent remotely, he will be asked to send monthly reports of sales activities from the previous month and action plans and sales objectives/expectations for the subsequent month. RESUL will provide feedback on the report and a figure for the expected sales. Eng. Mesquita e Carmo will visit the country four times a year to meet with clients (REDs' headquarters: Annex 22), along with the agent, and take stock of the market situation with him<sup>16</sup>, as well as to participate at the trade fair and the technical seminar. He earns a fixed monthly salary, thus not having financial incentives tied to the results of the Namibian market<sup>17</sup>, while the agent receives a 5% commission on the sales f.o.b. value.

### Implementation

Finally, the implementation of the main initiatives from the TOWS, the mode of entry and the marketing & sales strategy is presented through the 4Ms framework, which considers human resource requirements, most relevant costs, timeline, objectives and KPIs.

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<sup>16</sup> There are direct flights from Luanda to Windhoek and either from Portugal and Angola the business visitor just need a valid passport (not an entry visa), provided the stay lasts less than 3 months.

<sup>17</sup> The only incentive RESUL provides occurs at the end of the year, if corporate objectives are exceeded, and consists of distributing financial rewards proportional to the contribution of each department.



## Internationalization of RESUL to Namibia

### MEMO

Strategic Theme	Objectives	Measurement (KPI)	Target	Initiative
<b>Financial</b>	Win the 1 <sup>st</sup> sales contract and expand revenues	Sales Total Value	1 <sup>st</sup> year: Revenues ≥50K€; 2 <sup>nd</sup> year: Revenues ≥150K€; 20% Growth thereafter	Aggressive pricing (S2&O3); Agent's financial compensation; Promotion and Sales Strategy.
<b>Customer</b>	Guide REDs through awareness, knowledge, liking & preference  Customer Satisfaction  Customer loyalty	# Customers  % Customer Satisfaction  Repeated purchases	1 <sup>st</sup> year: win the 1 <sup>st</sup> client; 2 <sup>nd</sup> year: ≥ 2 customers  100% Customer Satisfaction  2 <sup>nd</sup> sales contract awarded by the 1 <sup>st</sup> client in the 2 <sup>nd</sup> year	Trade fairs; Visits to clients; Technical Seminars (S3&O2);  Customer Satisfaction Survey
<b>Internal</b>	↑ product and service quality  Nurture the relationship with clients and ↑ client understanding	# contacts with clients  # of product quality tests  ↓ average time for processing complaints	≥ 5 contacts/ client / month  Product quality tests before each large dispatch  Max 30 days on average for processing complaints	Frequent contact with clients (W2&T4); Quality Management; Improve the system for processing complaints.
<b>Learning</b>	Local knowledge  Lobbying power  Continuously ↑ Technical and Product Expertise	Agent's performance / success  # Training Hours / Frequency	Achievement of the monthly targets  24h Product training (Agent)  Frequent training for engineers	Contact AICEP and CCIPN; Find local Agent (W2&T2&T3&T4); Product Training (Agent); Keep Continuous Technical Training (Eng. Mesquita).

### MEN

**Sales Agent:** Represents RESUL in full-time and has the objective of getting sales.

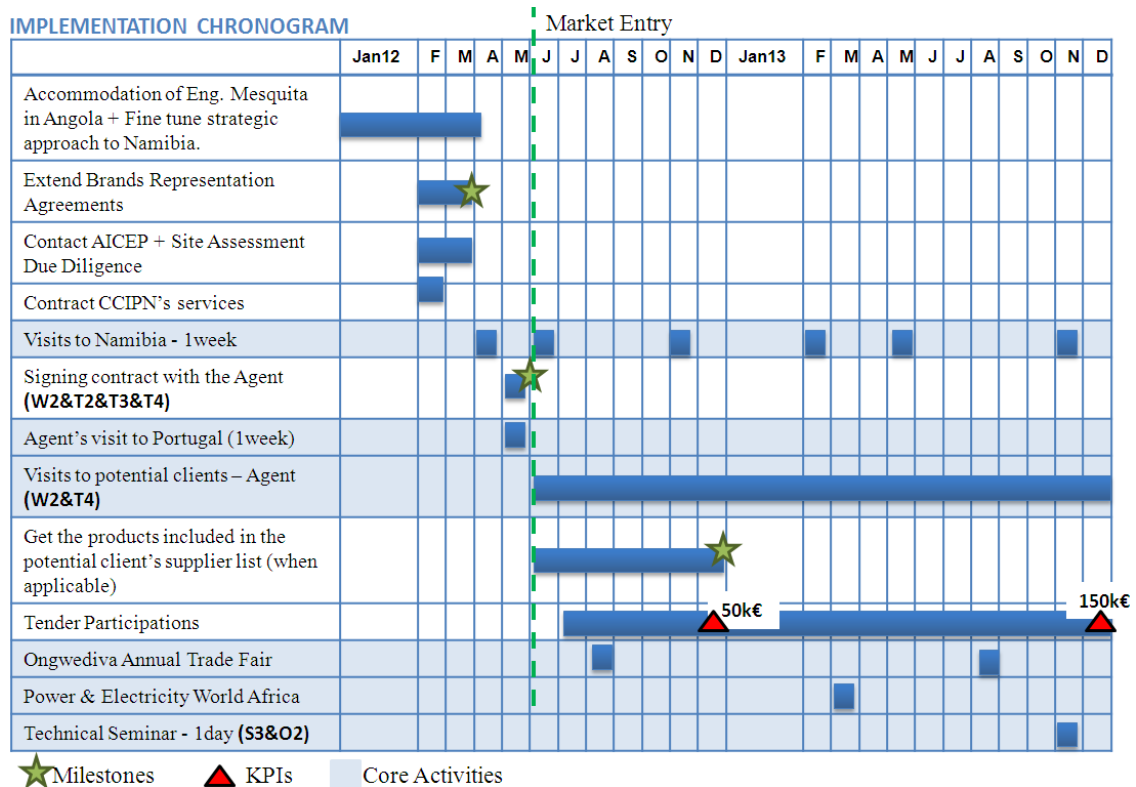
### MONEY

TYPE OF COST:	INCLUDES:	ANNUAL COST	
Initial Punctual Costs (1st year):			
CCIPN Registration	N/A	125€	
Agent's visit to Portugal	Flight, Hotel, Transport, Meals, Visits to PACs	2,271€	
Annual Expenses		2012	2013 and thereafter
Support given to the Agent	Technical and Promotional Documentation	200€	200€
CCIPN annual fee	N/A	200€	200€
Visits to Namibia (1Week)	Flight, Hotel, Transport, Meals (3 visits)	4,280€	4,280€
Ongwediva Annual Trade Fair (1Week)	Flight, Hotel, Transport, Meals, Participation Fee	4,297€	4,297€
Agent's Sales Comission	5% sales (f.o.b. value)	2,500€	7,500€
Power and Electricity World Africa (1Week)	Flight, Hotel, Transport, Meals, Participation Fee		5,074€
Technical Seminar – Windhoek (1Day)	Rent of space and equipment and catering service		1,000€
Total Expenses		13.872€	22.551€

**Computations in Annex 23. Assumptions:** Eng. Mesquita e Carmo's training is not an added cost since RESUL already provides him regular training, neither the product training given to the agent as it will be provided internally by RESUL's staff. We assumed a 10% discount in car renting and accommodation resultant from CCIPN partnership. In the following years the agent's sales commission is expected to growth 20% (f.o.b. sales expected annual growth rate)

### MINUTE – Annex 24.

## Internationalization of RESUL to Namibia



### Conclusions and Recommendations

This analysis validates the attractiveness of the Namibian market, matching RESUL's niche market and having large short and medium-term power distribution investment projects. Major threats concern the intense price competition and strong South African rivals benefiting from low trade barriers as well as geographical and cultural proximity. Yet, we feel RESUL has the necessary resources and capabilities to prevail in Namibia: the cost advantage and flexible profit margins, placing it in a highly competitive pricing position; the most diversified portfolio, enabling the company to meet all client needs whatsoever; and the quickness of response to customer demands. Entailing moderate risks and low budgets we foresee a successful implementation, and stress the importance of a well-connected and motivated agent, constantly close to clients; making the most of trade fair participations and AICEP's and CCIPN's knowledge and support; monitoring the agent and installers and replacing them if performing poorly.

**R1:** Annual **trade fair** participations should be carefully planned with clear objectives (**short-term:** contact with the target and potential partners, win clients, cut cost by contact, obtain market and competitor information; **medium-term:** nurture client relationships and increase sales.) and commercial strategy to achieve them. RESUL should send invitations to the target, participate in seminars that occur adjacently to the exhibition, concede interviews to the media, and compile a report with the contacts made, information gathered, and overall assessment of the participation. Immediate follow-up (sending thank you cards followed by personal visits to all relevant stand visitors) is crucial to maintain the contacts established and convert them into sales.

**R2:** Sales **contracts** should be written and cover all important aspects in detail: rights & obligations of each party, product specifications, prices, payments, quantities, Incoterm, currency, delivery, pre-shipment inspections, consequences for contract breach, etc. Moreover, RESUL should use its legal expertise to attempt to decrease buyer power through **contract management** (E.g.: by setting clauses that allow for price updating later on). In order to cover the risk of a drastic cost variation between the price agreement and order date [**Operational Risk**], the contract should indicate the price's period of validity and be accompanied by the phrase: "the invoice will be processed according to the updated cost at the shipment date"<sup>18</sup> (AICEP, 2011).

**R3:** In order to prevent goods from being rejected on their arrival at the importer's premises due to poor quality [**Commercial Risk**], a pre-shipment inspection should be carried out by an independent inspection company and its costs borne by the client.

**R4:** RESUL can hedge **Exchange Rate Risk** by setting, on the day the price is agreed, the exchange rate for future payments, through *call options* and *futures contracts*.

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<sup>18</sup> Also, the word "about" must be placed in the letter of credit before the monetary value as it makes it possible to increase the total amount by 10% to cover variations in transport costs or others.

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Several meetings and emails exchanged with **Mr. Sebastião Pinto, RESUL's Exports Director**

**Prof. Filipe Castro Soeiro's** powerpoint slides, exhibited at the **Work Project's Workshops**