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**RESUL, Materiais e Equipamentos de Energia, S.A. –
Internationalization Business Plan to Botswana**

José Miguel Fernandes Monteiro

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under the supervision of:

Professor Filipe Pamplona de Castro Soeiro

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1) Executive Summary

The development of this Work Project Report will be based in the study of the potential business expansion through direct exports of the Portuguese company “*RESUL, Materiais e Equipamentos de Energia, S.A.*” to the country of Botswana.

The firm is totally focused in the commercial area, presenting a wide range of solutions, commercializing specific products for 7 different areas. In 2011, the firm reached a total turnover of 20M€. The solutions for electricity represent 92% of the external market for RESUL, being the electricity field the core business of the firm and the external market the main focus. In this line, regarding the objectives for the firm, it aims for a sustainable increase of the external market weight in the total turnover (which was 65% in 2010) and the immediate goals for the market pass by registering the firm as certified supplier, getting a experienced and high-level sales agent and achieving a turnover of €150.000 at the end of the 1st year of activity. The firm considers that it has a vocation to do business in Africa and it wants to explore markets with low electrification rates (Botswana: 39%), with a lot of potential, where everything has to be done still, but where high electrification expectations for the future exists, being Botswana a natural choice. The mode of entry will follow the same internationalization strategy of other markets, maintaining the approach based exclusively on exportation.

In terms of competitive advantages, the firm presents a sustainable competitive advantage based on its price competitiveness as also temporary advantages based on its products' quality, expertise in networking, knowledge regarding the entering markets and risk diversification (wide presence with wide range of products commercialized).

The firm should be able to capitalize its price vs. quality relation to enter in this new market, being this entrance also good to increase its presence and therefore to potentiate the risk diversification. Also the knowledge regarding the entering markets allied with the expertise in networking, can be very useful since there is mainly a client to reach,

the Utility, being the networking very important in order to win the tenders.

In this WP was quantified the success of this entrance, being concluded for the first 4 years of activity, in a normal scenario, a NPV around €14.5 thousand with an IRR of 39%, a cost of capital of 9.1% and payback estimated for the third year of activity, being therefore expected that Botswana will represent itself a very rewarding opportunity and a successful expansion for RESUL.

2) Business Description

2.1) History

The natural markets for RESUL are those where the electrical energy grid is in the initial stages of installation, or even, where that installation is still non-existent. In that sense, the country of Botswana matches exactly what the company is looking for in a potential entering market since its electrification rate is around a mere 39%.¹ Botswana is a middle-income country with around 2 million people and is today one of the most dynamic economies in Africa, maintaining one of the most impressive economic growth rates since its independence from United Kingdom, in 1966.²

RESUL has always had a big preference for the African Market and there are two crucial explanations for that: firstly, because the linguistic connections with Portuguese-speaking countries and secondly, the “African vocation” that the Portuguese have always had, which was gained with the colonization in Africa, being the Portuguese characterized as people who know how to do business in Africa. Moreover, as referred above, RESUL is attracted by markets with undeveloped electric grids and that scenario is current in Africa making the continent a very feasible target.

In fact, this “African vocation” is clearly patent if we notice that there are only three subsidiaries of this Portuguese Company, and all the three are situated in Africa.

¹ Electrification rate in Botswana in <http://www.africapedia.com/AFRICA:-ELECTRIFICATION-RATE>

² Information taken from World Bank website, in <http://www.worldbank.org>

In that sense, taking into account the healthy relationship that the company maintains with the African market, the entrance in a new country in this continent would probably be an opportunity to explore, sustained by positive rates of economic growth, despite the permeability to shocks and fluctuations, particularly in Botswana's main weapon exporter, that is the diamond sector (it represents 27% of the total exports).³

Due to the fact that all Portuguese speaking African countries have already been studied by the company, there is a need to explore even more of the continent that is so much well known by the company. Thus, the managers' experience, contacts, knowledge and local partnerships accumulated through the years in several African countries, beyond the existence of three RESUL subsidiaries in Africa; contribute to demonstrate the "African vocation" of the RESUL team which could be a key factor to keep succeeding.

As was referred before, Botswana has restricted access to electricity and this rate becomes even smaller if we take in consideration only the rural areas. However, the electricity consumption has increased over recent years⁴ and taking in consideration that Botswana is at a final stage of a rural electrification process funded by Swedish Banks, the project's contractor being Eltel⁵, a Swedish partner of RESUL in markets such as Ghana, Tanzania and Mozambique, Eltel could play an important role by establishing the relationship between the firm and Botswana's market.

Other important factor is that, with the construction of new power plants in Botswana, the struggles against the energy shortages imposed specially by South Africa (three quarters of the energy consumed in Botswana is imported from South Africa) will be lessened, and that will mean a important development for the country.⁶

Moreover, the fact that Botswana is geographically close to the subsidiary of

³ Central Intelligence Agency: <https://www.cia.gov/library/publications/the-world-factbook/geos/bc.html>

⁴ Evolution of the electricity consumption in Botswana within the period between 2001 and 2010; in <http://www.indexmundi.com/g/g.aspx?c=bc&v=81>

⁵ Source: Eltel Contractor website (<http://www.eltelnetworks.com/en/News/Eltel-completes-electrification-of-100-villages-in-Botswana/>)

⁶ Information taken from <http://allafrica.com/stories/201005261102.html>

Mozambique (in which a factory is located, MOZUL) could be an important asset for the company since the structure already settled in Mozambique would help to support the entrance in Botswana for RESUL, taking advantage of the connections developed in Mozambique and trying to spread them to our target-market. In fact, this spread may be enhanced by the current relationship between Mozambique and Botswana in the energy field, since Mozambique is the second leading provider of electricity to Botswana (after South Africa) (**see annex 1**). Notice that Botswana, South Africa and Mozambique make part of S.A.D.C. that is a free trade area composed by 14 countries.

It should be noted once more that RESUL is a Portuguese company and in 2010 Portugal was the 6th largest importer of electrical equipment of Botswana, and it should be also noticed that since 2001 the values have been quite significant (**see annex 2**). However, it has to be mentioned that electric equipment is a very wide category and it goes far beyond the core business of RESUL. Although, these values are illustrative for the recognition of the quality of Portuguese products in this field, as well as the competitiveness in matters of price, showing the chance for RESUL to take advantage of this “affection” towards the company’s success in Botswana.

In terms of regulations in the energy sector in Botswana, the existence of a fair and independent market regulator is needed and it would be important in order to “clarify the roles of various players in the energy sector, especially the role of the private sector”⁷ in which the participation in the energy field has been low. As so, by introducing an impartial regulator in the energy sector, it could stimulate the sector and consequently the electricity market, representing an opportunity.

So far, almost everything related with the electricity market is controlled by the

⁷ Source: “National Energy Policy for Botswana”, in March 2009, by AECOM International Development and USAID/Southern Africa

Botswana Power Corporation (BPC), which is the public company responsible for the power generation and distribution, having its certified contractors for the construction of the distribution networks. Regarding the electric equipment, which is RESUL's market, despite not being involved with the construction of the networks, BPC requires that the materials used to build the electric networks have to conform to specific features in accordance with its "Standard Requirements"⁸. In this sense, by entering the market RESUL will have to pay attention to the specificities of the products in order to export without any concern.

2.2) Value of Proposition

By providing energy equipment to markets where electricity networks are not yet totally installed, RESUL would be giving its costumers, that is, the companies responsible for the construction of the electricity networks, the opportunity to have access to quality materials with a competitive price, from a company that is spread worldwide and has deep knowledge about each of the markets it has business with.

Quality represents a strategic point for RESUL and that quality policy is illustrated in the company's Vision, Mission and Objectives for the market. Since RESUL does not have a Mission and a Vision, it was adopted a Perspective Vision and Mission.

Regarding the Perspective 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".

Addressing now the Perspective Mission, "RESUL wants to increase economic development and sustainability through the design, development, manufacturing (through subsidiaries) and commercialization of equipment solutions for

⁸ This is a **key document** for RESUL, since it is possible to have access to the names of all the firms which already provide materials and equipment to BPC as also have access to all the conditions and the specifications for purchasing materials by the Utility; in http://www.bpc.bw/doc/SRDS_contractors.pdf

energy transmission and distribution networks as well as other sources of social welfare growing its business through internal and external expansion of its network of partners”.

In terms of Objectives, RESUL establishes three major objectives regarding the entry in Botswana: register the firm as a certified supplier in 2012; visit the market and get a sales agent with experience in the electricity field, also in 2012; and get the first order to the market in 2013, reaching a turnover of 150.000€ by the end of the year.

Regarding the products with which RESUL operates, the company commercializes specific products addressed for 7 areas of energy transportation and/or distribution⁹, the electricity field representing 76% of the turnover.

In its very beginning RESUL targeted only Portuguese clients but over the time it has assumed an important international role and the external market is now the priority.

3) Business Environment

Botswana, as referred before, is finishing a rural electrification process in order to increase the electrification rate in the country. Notice that part of this rural electrification process has been done by Eltel which is a partner/client of RESUL in other markets, again highlighting the importance that this partnership can assume on the integration of RESUL in Botswana, where Eltel maintains good relations with BPC. The expectations regarding the electrification are high since in only 7 years the electrification rate in Botswana increased from a 22% in 2002¹⁰ to 39% in 2009, and taking into account the recent electrification projects, it is expectable that this rate will continue to grow in the following years.

In order to confirm these expectations, Botswana is now building a new power plant (Moropule Power Plant B), with the capacity of 600MW, which is an extension of the

⁹ Areas: electricity distribution networks, gas distribution networks, water distribution networks, telecommunication networks, lighting networks, renewable energies and central heating.

¹⁰ Source: <http://www.allbusiness.com/specialty-businesses/minority-owned-businesses/4097971-1.html>

existent one, the Moropule Power Plant¹¹ and it is predicted to be concluded in 2013. Furthermore, an independent project named Mmabula Energy Project, which will supply 300MW to Botswana, is also expected to be concluded in 2013, contributing also to the self-sufficiency of Botswana in terms of energy¹² (**see annex 3**).

Hereupon, by reducing the importations of energy and increasing the production, it will allow both the government and all the related economic agents to focus their resources on the next step, that is, the distribution of the energy, and on the construction of the electrical grids to increase the electrification rate of the country. Assuming that by increasing the production capacity in large scale (**annex 3**), the possibility of extending the electric grid will be higher and it could be highly attractive for RESUL to commercialize its products in Botswana as it will present more opportunities.

3.1) Market Analysis (see annex 4 – “PEST Analysis”)

The sector where RESUL is inserted is a very peculiar one, since the company assumes that there is no firm which commercializes as many products as RESUL and at the same time is present in so many markets as the company is. Thus, considering RESUL commercializes a wide range of products and taking into account that all those products belong to the category “electric components and electric equipment”, we can see on the **annex 1** that, in Botswana, importations on this sector have been increasing constantly during the last years, leaving this sector with a considerable weight on the total importations of the country. However, we should consider that this sector’s scope is wider than the one commercialized by RESUL and therefore we should have some reserves when comparing directly the total imports flow of the sector and the firm’s product range.

¹¹ This plant is a 132MW coal-based power plant and it is actually the main source of energy of the country

¹² Source: “The Road of Financial Close” submitted by CIC Energy Corp. in Zambia, 17th July 2009

In order to take advantage of the potentialities Botswana can offer in terms of electric components for RESUL, the firm should start to study the market and do all the research during the year of 2012, so it can have its entrance prepared by 2013, to better take advantage of the growing electrification rates. From here on after, as we can see on **annex 3** the demand of electricity is expected to increase as are the opportunities for energy distribution and the construction of electric grids, as stated before, this represents a possible opportunity for RESUL in the near future. However, RESUL needs to transform this possibility into a real opportunity and in that sense the company has to realize what factors will help to make it a successful entrance.

RESUL is a Portuguese company and, as we had the opportunity to see in **annex 2**, Portugal has been successful over the years. This fact shows the recognition of the Portuguese companies is solid in this field, which could be an advantage for the firm.

Moreover, the firm can capitalize the partnerships they already have in nearby countries, such as South Africa and Mozambique using them to sustain its entrance in Botswana.

Besides, RESUL is an active shareholder of the electric components producers FISOLA, PROMECCEL and MOZUL, having the possibility to acquire their products at lower prices than those practiced on the market, and therefore becoming more competitive. Furthermore, the quality of the products and the deep knowledge of the top managers in the African market allied with the capability of acquiring partners to reach the potential clients (that are mainly the Utility of each country), make us assume that RESUL is a strong competitor in this continent and it could become a potential supplier in Botswana, if it capitalizes its potential advantages.

Regardless of the fact that the advantages referred above could be applied for the 7 segments for which RESUL produces to, it becomes important to understand that

Botswana is a market to explore in terms of electricity distribution networks, and that should be the focus of RESUL. It becomes essential to reach two agents: the contractors responsible for “turnkey” projects and most of all, the Utility (BPC)¹³. For the firm, the electricity field represents 92% of the external market turnover.

In terms of key drivers, Botswana has the least political and economic risk in Africa (see **annex 5**), ranked as Credit A2 by Moody’s. “The foreign investment is welcomed in the country, as the foreign exchange controls were abolished in 1999”¹⁴, “presenting now an inviting corporate tax rate of 15%”¹⁴, with “no prohibitions on foreign ownership of companies, and so, presenting itself as a very attractive market in Africa”¹⁴. Besides, “the country was ranked as the Africa’s least corrupt country by Transparency International in 2010, ranked as the 33rd country out of 178 countries considered, being ahead of many European and Asian countries”¹⁴. In this sense, we should consider Botswana as a country situated in Africa which presents figures of developed countries, being compared in times with the Asian Tigers. “Botswana has been constantly ranked by international organizations as one of the freest economies in the continent”¹⁴. Moreover, “in December 2007 Botswana signed an Economic Partnership Agreement with the European Union”¹⁴, this being also a key factor to help in the integration of RESUL in Botswana.

It is a fact that the country has a poor technological level with high costs of inland transportation due to the fact that Botswana is landlocked and is obligated to use foreign ports (e.g.: South African ports)¹⁵; this situation is common to all landlocked countries.

Lastly, it is important to remark that RESUL is from EU, meaning that the firm only has to face tariffs when exporting to Botswana (commonly of 1.3%) exclusively for a few

¹³ BPC not only acquires the components from firms such as RESUL but also establishes the specifications and the requirements for each electric component intended to be acquired.

¹⁴ Copied from the U.S. Department of State website (<http://www.state.gov/r/pa/ei/bgn/1830.htm>)

¹⁵ From the report “Doing Business 2011 – Make a difference for entrepreneurs” by The World Bank, 2010

categories of products. (See annex 6 – “Customs and Excise Tariff in Botswana”)

3.2) Market Dimension

3.2.1) Size

Botswana is a country with approximately 2 million people and only an expected 39% of the people have access to electricity. However, around 1.2 million people don't have access to electricity. It is a fact that RESUL is a B2B firm and its potential clients are the BPC and the contractors responsible for the distribution of the electric grid but these 1.2 million people, in an indirect way, represent the size of the market of RESUL.

3.2.2) Value, Growth rate and Trends

As mentioned before, the components commercialized by RESUL are part of the category “Electric equipment”; however, this area is wider than the products that the company is focused in and therefore it becomes difficult to analyze exactly the value and growth rate of the sector. As so, we should consider simultaneously the imports of electricity and of electric equipment to have a more realistic approximation of the true growth rate of RESUL target sector. According to the **annex 2**, we can see a positive growth trend of electric equipment to Botswana since 2001, excluding the period between 2004 and 2006, being the value imported in 2010 of US \$384 million, and the growth rate when comparing to 2009 close to 10%. It is important to refer once more that Portugal is the 6th largest exporter in this field to Botswana, showing the recognition of quality of our products and the “African vocation” of our firms.

Regarding the electricity, the consumption has grown since 2002 (1.45 billion kWh) up until now (in 2010 the consumption was of 2.65 billion kWh).¹⁶

The supply capacity available in Botswana in 2011 is around 400MW, and it is expected that, with the construction of the already referred power plants, the value in 2012 to

¹⁶Information of the evolution of the electricity imports in Botswana (2001 – 2011); in <http://www.indexmundi.com/g/g.aspx?v=83&c=bc&l=en>

reach almost 500MW, 800MW in 2013 and almost 950MW in 2014 (**annex 3**).

Notice also that with the Government of Botswana and Swedish and Norwegian agents' efforts to accomplish the Rural Electrification Plan in the country, 100 villages were totally electrified between 2007 and 2010, which is part of the “Country Development Plan of 2016”. This means there is pressure to keep the rural electrification a key investment for the future and with the investments on electricity generation and equipment importations, the electrification trend could be enhanced and represent an opportunity. Thus, it is expectable that when the power generation of a country increases, opportunities related with distribution appear. As so, considering the electric equipment imports data, the electricity generation data and the rate of people without access to the electricity, it is expectable that opportunities to explore will appear.

4) The Industry Mapping (see annex 7)

Regarding the main key stakeholders, we can identify 5 major groups: the suppliers, the competitors, the customers, the regulatory entities and the firm partners.

Addressing the **suppliers**, there are three different kinds of agents which are part of this group: The RESUL Group Manufacturers (PROMECEL, MOZUL and FISOLA); the manufacturers which are represented by RESUL in certain markets, where RESUL is obligated only to sell the products produced by those manufactures, with an exclusivity agreement, being these agents considered not only as suppliers but also as partners; and finally, the manufacturers which only take the role of “pure” suppliers, which do not have any partnership with the firm (only suppliers).

Regarding the **competitors**, RESUL has no direct competitors since the firm commercializes simultaneously a wide range of products and it covers a wide range of markets, being this “combo” hard to reach by any other firm. However, it is possible to

identify potential competitors already present in Botswana which commercialize some of the products that are part of RESUL’s portfolio, such as CBI Electric or SICAME.

One of the weaknesses of RESUL is the lack of ability to do an effective competitive assessment. Therefore a reduced number of potential competitors was chosen in order to build a **possible / potential competitive assessment**.¹⁷

	Commercial Flexibility*	BPC supplier	Wide range of products	Company from SADC**	Quality certified	Flexible Payment Conditions
Aberdare Cables	✗	✓	✗	✓	✓	✗
CBI Electric	✓	✓	✗	✓	✓	n/a
SICAME South Africa	✗	✓	✓	✓	✓	✗
“Chinese Companies”***	✓	n/a	n/a	✗	n/a	✗
RESUL	✓	✗	✓	✗	✓	✗

* Flexibility of the firm to get low profit margins, practicing lower prices than the ones practiced in the market
 **Firms from S.A.D.C. have favorable business conditions within its community (including in Botswana).
 *** The Chinese firms are considered as a whole, since the majority of them are in the same level and have the same behavior.

In terms of **customers**, there are 2 main types of customers. The Utilities of each country (in Botswana is BPC) represent the main client for RESUL and the contractors responsible for the construction of the electric grids (e.g.: Eltel). The latter ones are important mainly in cases of “turnkey” projects.

The Utilities of each country are responsible for decisions of which firms win the public tenders regarding the purchasing of electrical equipment, material and components, and therefore they are the most likely **regulators** of the market. However, in Botswana there is no regulator for the Utility and the pressure for its creation has increased.

Lastly, regarding the **partners**, RESUL has as main partners the other firms which belong to the RESUL Group (RESUL Angola, RESUL Cape Verde and RESUL Mozambique, as well the producers: PROMECCEL, FISOLA and MOZUL). Moreover,

¹⁷ The Competitive Assessment is totally based on interviews with the company as also on the document from BPC regarding the approved suppliers, referred in **footnote number 8**.

the producers represented by RESUL should also be considered as partners (e.g.: SUNITECH). Moreover, the contractors assume also the role of partners and not only the role of clients. Without them, RESUL would not be able to respond to “turnkey” projects. Entities such as AICEP and IAPMEI also make part of the partners of the firm.

5) Porter 5 Forces Analysis

Regarding **the threat of entry of new competitors**, the barriers of entry are high since certifications by the Utility Company are needed in order to operate in the market. Moreover, as referred before, RESUL operates in many countries and with a lot of different products which make us affirm that the possibility of appearance of direct competitors is unlikely. Other important factor is the fact that to enter the market the firms need strong partnerships with the contractors (mainly for turnkey projects), manufacturers (contracts to represent them) and also with governmental agencies (lobbying). Thus, we are able to conclude that the threat of potential entrants is **low**.

In terms of **substitute products**, the standards requirements for the products have to be fulfilled in order to be accepted by the Utility and therefore the products have to obey to strict specifications. Also, the products which do not need any kind of distribution networks (as the hydrogen pills and the photovoltaic energy) are not credible in the short-term. In this sense, we can conclude that the threat of substitute products is **low**.

In this market, **the bargaining power of customers** is **high**. The main client is the Utility of each country and therefore almost the whole market in a given country is concentrated in a single company. The rest of the market is concentrated in the contractors, existing in them a high dependence in order to be nominated the supplier in cases of turnkey projects.

Taking into consideration now **the bargaining power of suppliers**, part of the

manufacturers of RESUL is integrated in RESUL Group, restricting somehow the power of these agents. However, the external suppliers are, normally, the same in every deal signed by RESUL. Thus the suppliers maintain a good relationship with the firm, and some being represented by the firm, being therefore strategic for RESUL to maintain the suppliers as much as possible. One of the competitive advantages of RESUL is its price, and the possibility of acquiring the products from the same suppliers at a competitive price allows also RESUL to practice a low price. In this sense, it is considered that the power of suppliers is **medium**.

Summing up, there are no direct competitors since any other company is present in so many markets and sells the variety of products sold by RESUL, showing this on one hand the inability of the firm of doing an effective competitive assessment. Moreover, the firm is well known by its good relation between quality and price, having RESUL the ability to gain low profit margins (commercial flexibility) in order to win the tenders (price competition), leading us to conclude that the **Internal Rivalry** is **medium/high**.

As so, given the results above, it is predictable that the price positioning in Botswana should be the same that the one that has been adopted already by RESUL in other African countries, being predictable for the firm to maintain the same gross margin range that has been practiced in new markets, which is usually between 8% and 12.5%.

6) Business Model and VRIO Analysis

6.1) Business Model (see annex 8)

In this chapter, it will be analyzed every component which makes part of the Business Model framework: the Environmental Context, Competitive Advantage, the Value Proposition and the Operating Model.

In order to have an overview of the **Environmental Context**, it should be consulted the Business Environment chapter (**Chapter 3**).

Regarding the **Competitive Advantages** of the firm, two of the most important competitive advantages of RESUL are its competitive price (by practicing flexible profit margins and/or in some cases enjoying cost advantages situations) and its products' quality (in 2003, the firm obtained the ISO 9001:2000 certification). Notice that the relation price/quality is crucial to the image of the company.

The production from RESUL Group manufacturers allows the firm to buy the products at lower prices than the markets' (cost advantage); however, it is important to remark that this "integration" with the manufacturers is very common and therefore this should not be considered a competitive advantage *per se*, as will be verified in the VRIO.

On the other hand, other competitive advantage is the firm's expertise of networking, that is, the ability to make the right connections, crucial to later reach its potential clients in the best way possible. The firm's potential clients are the Utilities which are normally public, becoming mandatory for RESUL to establish a good relationship with the government of the country in which the potential client is settled. In that sense, RESUL has the ability to get the best partners inside each market and it is usually successful in establishing those connections and relationships.

Also, when exporting, RESUL normally puts a lot of effort in research and studies about the potential entering market, so it can accomplish deep knowledge about its characteristics and functionality, in order to avoid future uncertainty, being also able to build contingency plans, enforcing the competitiveness of the company.

RESUL is also characterized by the constant follow-up after each sale and this is also appreciated by the clients and it should be also considered as a competitive advantage.

The firm presents itself as a strong company with a good reputation in Portugal but mainly abroad, where it is concentrated around 65% of the total turnover expected for

2011. The company has had a growing success through the last years despite the global crisis related risks. Since it commercializes a wide range of products and it has a global presence and, therefore, a proper risk diversification, the decrease in sales has been low.

Regarding the **Value Proposition**, we should consider three aspects: the target market, the products offered and the revenue model. Regarding the target market, RESUL is a B2B firm where the clients are the Utilities and the Contractors responsible for the construction of the distribution grids (mainly in turnkey projects). In terms of products offering, RESUL's products in Botswana will be addressed exclusively to electricity distribution. Considering the revenue model, there are three sources of revenues: by representing some manufacturers in strategic markets (selling their products), by buying the products from the “pure” suppliers and re-selling those products to the clients and from the sales which come from the production of RESUL Group manufacturers¹⁸.

Finally, in terms of **Operating Model**, we must consider the cost model, the partnerships and the value chain (which is totally centered in Botswanan Market).

Regarding the cost model the firm has low fixed costs (comparing with its turnover of 20M expected to 2011) and there are no production costs since RESUL Group's manufacturers are taken simply as suppliers¹⁹. The variable costs are high, which include the costs of the goods sold and part of the HR costs. Regarding the HR, there is a fixed compensation plus a variable compensation based on objectives to the employees and to the sales agents it is only based on sales (normally 5% of the sales).

In terms of organization the firm adopts a “lean culture”, with a low number of degrees of decision inside the company. Regarding the partnerships, the firm creates synergies mainly with other firms within RESUL Group; the producers (suppliers) represented by

¹⁸ The sales from the production of RESUL manufacturers represents normally less than 20% of the total firm's turnover

¹⁹ REUL is only a shareholder of the RESUL Group manufacturers with participations between 14% and 28%.

RESUL (e.g.: SUNTECH); the contractors (customers); AICEP and IAPMEI.

Regarding the Value Chain (see **annex 9**), we must first refer that the Value Chain provided by the firm had to be readapted, since the margin considered was of 28%. In this sense, the margin for new markets is between the range of 8.5% and 12% and it was assumed a conservative margin of 10% to Botswana. As so, the values regarding the contributions were recalculated in order to be in agreement with the margin considered. Following is represented a table establishing the relation between the competitive advantages and the core activities of the value chain. It is important to remark that the “Core Activities” are the activities with the highest cost contribution.

Competitive Advantages	Contribution to the Value Chain - Core Activities	
	HRM (19%)	Marketing & Sales (25%)
Competitive Price	NO	YES
Products' quality	NO	YES
Expertise of networking	YES	YES
Deep knowledge about the entering market	YES	NO
Constant “Follow-up”	NO	NO
Risk Diversification	NO	NO
Shareholder of RESUL Group manufacturers	NO	NO

6.2) VRIO Analysis

In order to test the sustainability of the competitive advantages referred above, it becomes mandatory to develop a VRIO Analysis:

	Valuable	Rare	Difficult to imitate	Supported by the Organization	Competitive Implications
Competitive Price	YES	YES	YES	YES	Sustainable Advantage
Quality	YES	NO	YES	YES	Temporary Advantage
Shareholder of RESUL Group manufacturers	YES	NO	NO	YES	Parity
Expertise of networking	YES	NO	YES	YES	Temporary Advantage
Deep knowledge about the entering market	YES	NO	NO	YES	Temporary Advantage
Constant “Follow up”	YES	NO	NO	YES	Parity/ Temporary Advantage
Risk diversification	YES	NO	YES	YES	Temporary Advantage

As we may see, only the price appears to be a sustainable advantage. Thus, the firm should focus particularly on temporary advantages to ensure its success for the future.

7) SWOT and TOWS Analysis (SWOT Analysis in “Annex 10 – SWOT Analysis”)

Starting by matching the **Strengths and the Opportunities** we may conclude the following: by mixing the S1, S5 and O1 RESUL will have to be able to use the relation quality/price as the core value to enter in such attractive market as Botswana; matching the S2, S3, S4 and O1 we may conclude that RESUL should study Botswana efficiently in order to facilitate the entrance continuing the process of risk diversification in new markets and products commercialized; the third conclusion is taken by mixing the forces S2, S3, O1 and O3, continuing the risk diversification further increasing the turnover, potentially avoiding uncertainty. Lastly, by joining the forces S2, S4 and O2, RESUL should be able to use the research done, connections, partners in all the markets to be the first to take advantage of new possible products to commercialize that were not explored yet by the company.

Regarding the match between the **Strengths and Threats**, we can take three important conclusions: by matching S2, T1 and T3, we may say that the firm should use the risk diversification regarding markets and products in order to decrease the weight of Angola in the external market turnover, which was around 55.7% in 2010, and the possible “reaction problems” in case of persistency of global crisis; the second conclusion can be reached by joining S4, S5, S6, T2, since RESUL should lower the price in order to maintain the turnover in strategic markets/sectors which have the possibility of being attacked by potential entrants, using their knowledge and reinforcing the strategies that have been used as also the connections that have been established; by gathering S1, S4, S5 and T4, we should conclude that RESUL must use

the good relation price/quality and the deep knowledge regarding each entering market in order to overpass the cultural and / or duty disadvantages from the SADC companies.

Joining now the **Weaknesses and the Opportunities**, two main ideas can be taken: by matching W1, W2 and O1, we may say that by entering in markets such as Botswana, it will allow RESUL to increase the number of customers which are Electricity Suppliers (increasing the scope of products offered when possible) which will allow RESUL to concentrate a higher turnover on the deals with the Utilities, becoming the turnkey projects less important for the revenues; by joining W1 and O2, it is possible to conclude that by increasing the scope of products offered (since the firm is constantly trying to increase its scope of products), it will allow the increase of the firm's turnover. Lastly, matching the **Weaknesses and the Threats**, we may retain two major ideas: by matching W2 and T1, it can be concluded that the exploration of new countries is mandatory to increase the number of clients of RESUL and to reduce the dependence on the Angolan market; finally, by joining W1 and T2, we conclude that RESUL should look for ways to reinforce their partnership with contractors not only to develop more “turnkey” projects, but also to increase the barriers of entry to potential competitors.

8) Internationalization Process

8.1) Mode of Entry

Through its internationalization processes, RESUL adopts the same internationalization strategy which is part of the company's culture right now and the objective is to maintain this approach for the future in the entry of new markets. Regardless of the presence of infrastructures in three countries, due to very strategic and/or legal reasons of those countries, all the other internationalization processes have followed the same strategy: exportation. In a firm such as RESUL, no other mode of entry would be more profitable and less risky. Thus, the firm will first visit the market and look for a sales

agent in order to get the right connections to reach the customers. After all the research made by the company and the connections established by the sales agent, the firm would be able to do its first sale. Moreover, the company should be open for partnerships with strong and recognized manufacturers which want to be represented. This is also considered as exportation, even with some specifications, since RESUL is obligated to export, for a given product, only the represented brand (exclusive contract).

8.2) Marketing & Sales Strategies

Product Strategy – RESUL targets mainly the Utilities and it tries to sell the most variety and quantity of components and equipment needed to an electricity distribution network. As so, RESUL does not commercialize a specific product but a wide range of products, expanding whenever possible the scope of products offered, as much as the market allows to. Notice that the products offered have to be in accordance with what is demanded by the Utility as also all standard requirements of each product have to be totally fulfilled so the firm can be recognized as certified supplier.

Pricing Strategy –Low price is one of the characteristics which are referred as a key success driver of RESUL. It is a fact that the only possible rivals in this field are the Chinese which present a very low price. In fact, they usually win the tenders firstly (namely in Africa where the governments are very price driven), but sooner or later the Utilities perceive the lack of quality of the Chinese products and the high maintenance costs which they have to incur, starting paying more attention to the quality. RESUL is a price competitive firm globally and the strategy passes to be maintained since there are no specific reasons to change the pricing approach. Hereupon, the firm checks the prices of the products of the last tenders in the country, offering in the next tender a lower price than the one **settled in the last**. Normally the firm gets a gross margin

between 8.5% and 12% in new markets, being the margin expected for Botswana within this interval, illustrating the expectation of maintenance of the pricing strategy.

Promotion Strategy – Since there is a reduced number of clients in each market, the customers' information needed is very high reducing therefore the promotion importance. The distribution of catalogs, samples and “merchandising” are part of the promotion. However, the most important promotion conducted by RESUL is related to the networking and some of that networking passes through participation in international fairs in order to be known by the clients. The “Global Expo Botswana”²⁰ and the “Botswana Consumer Fair”²¹ are examples of very important fairs in the country. Hence, to get known, RESUL relies on the constant research on networking.

Place Strategies – In its internationalization process, the firm is primarily concentrated in one single client, the Utility, BPC, which is headquartered in the capital. As so, when getting a sales agent, RESUL should look for in Gaborone. The agent has to be trained by the firm in order to realize how the firm works and also how he will perform the job. In RESUL, the products are transported following the CIF mode, which means that the firm ensures all the costs and risks of transportation. However, when paying the final price, the client has to pay the real price of the products plus the shipping (freight) and insurance costs incurred until the arrival to the final destination. The transportation costs from Lisbon to Gaborone of a container of 20 and 40 feet are €2.060 and 2.886€, respectively; the transportation time is around 40 days of transit.

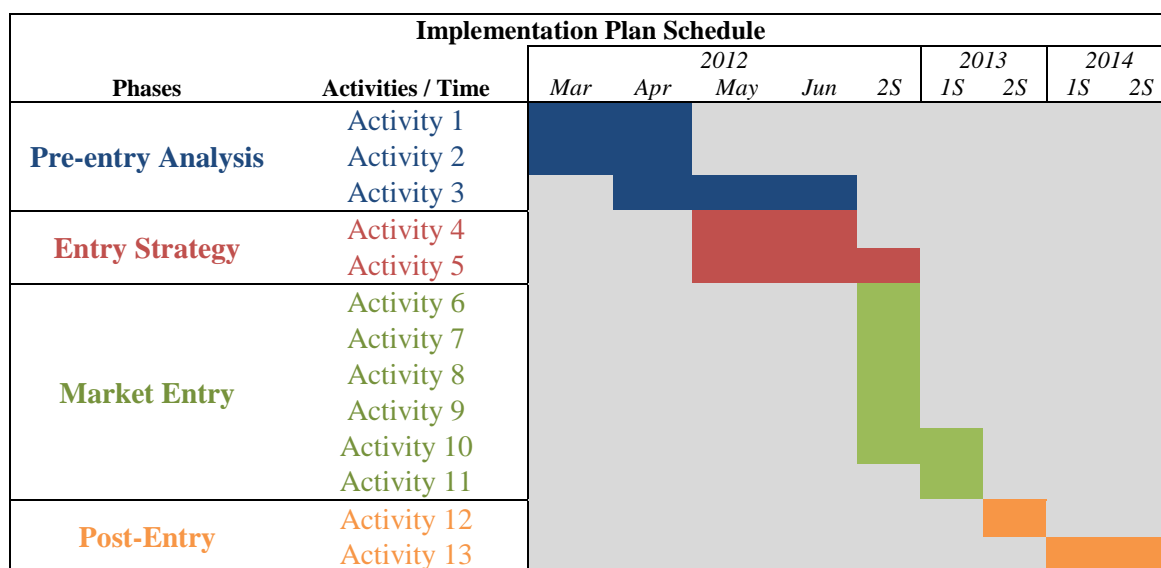
9) Implementation Plan

9.1) Implementation Steps and Implementation Plan Schedule

²⁰ The “Global Expo Botswana” is usually carried out in November. Website: <http://www.globalexpo.co.bw>

²¹ The “Botswana Consumer Fair” usually takes place in July. For more information: <http://boibus.co.bw/blog/?p=2325>

Phase	Activity order	Activity Description
Product and Market Analysis (Pre-entry)	1	First trip to find potential customers and agents in the capital Gaborone and try to get a contact to make the first company presentation in Botswana (first approach)
	2	Make a preliminary analysis in order to test whether the product or range of products that are expected to sell will be easily accepted or requires additional changes (in some cases, appear only with a product is not enough)
	3	Search and participation in trade fairs in the country, such as “Global Expo Botswana” as well as the largest fair in the country, “Botswana Consumer Fair”. Other thematic fairs should also be investigated.
Definition of the strategy for the entry	4	Planning of visits and search for local contacts
	5	Choose the agent(s)
Market entry	6	Register the company as certified supplier (become an “approved supplier” of BPC)
	7	Visit all the potential customers, agents, and present the company and the range of products to them - 1 or more visits, depending on the reality of the market
	8	Get the price levels of competing products that are on the market as well as the quality levels of those products
	9	Distribution of catalogs, samples and “merchandising”
	10	Study what payment conditions offered are more suitable and appropriate to the country (e.g.: prepayment, letter of credit confirmed and irrevocable, CAD bank transfer, bank guarantee, among others)
	11	Get appointments with potential customers and get the first order to the market
Post-entry	12	Reach a considerable number of orders with the goal of getting a turnover of €150.000 at the end of the first year of activity
	13	Visit the market in order to maintain and further increase the number of orders. (1 or more visits per year depending on the business opportunities available and found by the agent(s))



9.2) Scenario Analysis

This is a “rough” analysis, with a high number of determinant assumptions, being the model not directly applicable to reality. The “scenario analysis” was made because of the lack of data available, and also because of its volatility, becoming difficult to establish some patterns and therefore mandatory to make important assumptions.

9.2.1) Assumptions and Considerations (See Annex 11)

- The two variables modified are the **sales** and the **gross sales margins** and they vary in the same direction in the three scenarios considered. It won't be considered cases where just one of the variables is changed. The objective in this analysis is to check the extreme cases, measuring the overall effect of changing the two variables to the NPV.
- The sales values for the first year are: 85.450€ in a negative scenario, 150.000€ in a normal scenario and 220.000€ in a positive scenario (values approved by RESUL).
- It was assumed a specific growth rate of sales for each scenario: 14.4% in a normal scenario and a margin of +/- 10pp for the other scenarios. For the positive scenario it was assumed a rate of (14.4%+10pp) 24.4% and for the negative scenario (14.4% - 10pp) a rate of 4.4%. (To a deeper analysis of this assumption, please consult **Annex 11**)
- The gross sales margin assumed for the first year in a negative scenario was of 8.5% (the lowest rate practiced by RESUL in new markets); to the normal scenario was of 10% (gross margin considered along this work project); and a 12.5% for the positive scenario (the highest rate practiced by RESUL in new markets). The growth of the gross margins in the three scenarios was also agreed with the firm and based on its experience and expectations. It was assumed a stabilization of the margins in each scenario after three years of activity.
- The costs with trips and fairs are fixed and common to the three scenarios and the WACC is of 9.1%. The steps to the calculations of the costs of trips and fairs and WACC are present in the **Annex 11 – “Auxiliary Calculations”**.
- The agent earns 5% of the sales (RESUL's policy).
- The inflation impact was not considered in any of these projections.

9.2.2) Analysis and Results

- **“Regular scenario”**: **Regular sales value and growth** and **normal gross sales margin percentage and growth**

	2012	2013	2014	2015	2016
Sales	0	150.000	171.600	196.310	224.579
Sales growth			14,40%	14,40%	14,40%
Cost of Goods Sold	0	135.000	148.434	164.901	188.646
Gross Sales Margin	0	15.000	23.166	31.410	35.933
Gross Sales Margin %		10,0%	13,5%	16,0%	16,0%
Other Operating Costs					
Trips	11.200	4.198	4.198	4.198	4.198
Fairs	2.968	2.968	2.968	2.968	2.968
Agents	0	7.500	8.580	9.816	11.229
Cash-flow	-14.168	334	7.420	14.428	17.538
NPV = 14.538,21 €	IRR= 39%		Payback: 2015		

- **“Positive scenario”**: **High sales value and growth** and **high gross sales margin percentage and growth**

	2012	2013	2014	2015	2016
Sales	0	220.000	273.680	340.458	423.530
Sales growth			24,40%	24,40%	24,40%
Cost of Goods Sold	0	192.500	213.470	245.130	304.941
Gross Sales Margin	0	27.500	60.210	95.328	118.588
Gross Sales Margin %		12,5%	22,0%	28,0%	28,0%
Other Operating Costs					
Trips	11.200	4.198	4.198	4.198	4.198
Fairs	2.968	2.968	2.968	2.968	2.968
Agents	0	11.000	13.684	17.023	21.176
Cash-flow	-14.168	9.334	39.360	71.139	90.246
NPV = 133.762,58 €	IRR = 170%		Payback: 2014		

- “**Negative scenario**”: Low sales value and growth and low gross sales margin percentage and growth

	2012	2013	2014	2015	2016
Sales	0	85.450	89.210	93.135	97.233
Sales growth			4,40%	4,40%	4,40%
Cost of Goods Sold	0	78.187	80.289	81.493	85.079
Gross Sales Margin	0	7.263	8.921	11.642	12.154
Gross Sales Margin %		8,5%	10,0%	12,5%	12,5%
Other Operating Costs					
Trips	11.200	4.198	4.198	4.198	4.198
Fairs	2.968	2.968	2.968	2.968	2.968
Agents	0	4.273	4.460	4.657	4.862
Cash-flow	-14.168	-4.175	-2.706	-181	126
NPV = - 18.623,29 €					

The high volatility and the low quantity of data available allied with the high number of assumptions, result in large differences within the NPVs and IRRs presented.

10) Risk Analysis

Find the right people: The difficulty is getting local partners to reach the potential clients and also the difficulty to get an efficient agent. In order to overcome this issue, the firm should use its ability to network and it should establish partnerships with the contractors and manufacturers, allied with the deep studying regarding the market that has to be constantly done by the firm in order to facilitate these connections.

Few clients available: The success of RESUL in Botswana is highly dependent on the public tenders opened by BPC. However, since the “Standards Requirements” of the Utility are public (not very common in other countries) it will allow the company to know which competitor is selling what product and in what conditions, giving the firm precious information which allied with the firm’s knowledge of the African market, will contribute to the risk reduction. Moreover, using its expertise in networking allied with other competitive advantages, the firm would try to reach more effectively the potential clients in order to “break” the lobbying that may exist with the incumbents.

Sales uncertainty: Due to the lack of information available the future is highly uncertain and in the 3 scenarios considered the disparity within the NPVs is very

considerable, representing this disparity itself a risk for RESUL, mainly if considering the “negative scenario” as the likeliest scenario to occur.

Exchange rate risks: The major inflow of revenues for Botswana is given by the diamonds exports and according to the IMF, there is a correlation between this inflow and the real exchange rate, representing this correlation itself a risk.

However, nowadays the real exchange rate presents stable and “broadly in line with economic fundamentals”²² and does not seem to be a priority concern for RESUL.

11) Conclusions and Recommendations

R1: RESUL will have to be able to use the quality/price relation as the core value to enter in Botswana. Allied with this relation, the firm should also use its deep knowledge regarding each entering market as also its expertise in networking, in order to overpass the cultural and in some cases the duty disadvantage from the companies of SADC.

R2: RESUL should study Botswana efficiently, in order to facilitate the entrance, continuing the process of risk diversification in new markets, increasing even more the turnover, potentiating the uncertainty avoidance.

R3: Regarding yet the risk diversification, with this entry, the firm should be able to decrease the weight of Angola in the external market turnover, reducing the impact of the Angolan market to the external market turnover and to the company’s performance.

R4: Even targeting mainly the Utility, RESUL should find ways through its competitive advantage of expertise in networking, to reinforce the partnerships with manufacturers in order to represent them also with contractors, not only as a response to more “turnkey” projects, but also to increase the barriers of entry to potential competitors.

²² From the report “Botswana: 2010 Article IV Consultation”, by IMF, in September 2010

12) Glossary

B2B: “Business-to-Business”

BPC: “Botswana Power Corporation”

GDP: “Gross Domestic Product”

CIF: “Cost, Insurance and Freight price” “is the price of a good delivered at the frontier of the importing country, including any insurance and freight charges incurred to that point, or the price of a service delivered to a resident, before the payment of any import duties or other taxes on imports or trade and transport margins within the country.”

Source: <http://stats.oecd.org/glossary/detail.asp?ID=332>

NPV: Net Present Value

IRR: Internal Rate of Return

EU: European Union

HR: Human Resources

HRM: Human Resources Management

S.A.D.C.: Southern African Development Community – It is a free trade area composed by 14 countries (Angola, Botswana, Democratic Republic of Congo, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia and Zimbabwe)

13) Bibliography

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ANNEXES

RESUL, Materiais e Equipamentos de Energia, S.A. –
Internationalization Business Plan to Botswana

José Miguel Fernandes Monteiro

Number 662

14) Annexes

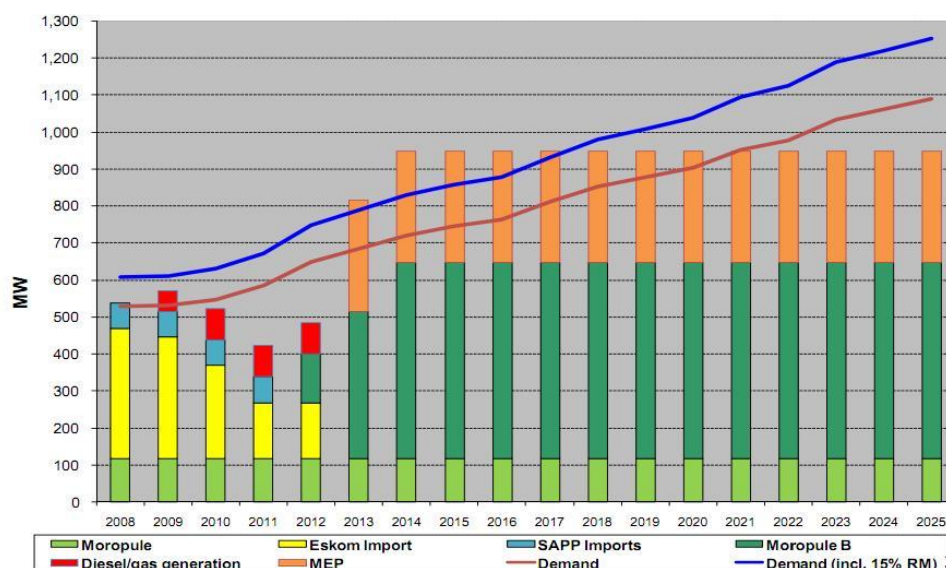
Annex 1 - The electricity importations from Botswana in thousand dollars from 2001 to 2010 – copied from www.trademap.org

Exporters	Imported value in 2001	Imported value in 2002	Imported value in 2003	Imported value in 2004	Imported value in 2005	Imported value in 2006	Imported value in 2007	Imported value in 2008	Imported value in 2009	Imported value in 2010
World	7984	6007	40195	29367	36252	42363	51812		73072	89327
South Africa	7324	6007	37707	28208	34716	36616	49346		73072	76088
Mozambique	0	0	1965	159	458	2768	1325		0	6685
Namibia	0	0	80	0	944	2142	0		0	5138
Zambia	536	0	0	0	112	760	1061		0	1007
Zimbabwe	124	0	443	0	23	77	79		0	409

Annex 2 - The electric equipment importations from Botswana in thousand dollars from 2001 to 2010 – copied from www.trademap.org

Exporters	Imported value in 2001	Imported value in 2002	Imported value in 2003	Imported value in 2004	Imported value in 2005	Imported value in 2006	Imported value in 2007	Imported value in 2008	Imported value in 2009	Imported value in 2010
World	142839	262711	322218	231127	215244	198870	275978		346814	384039
South Africa	86919	167284	223575	155087	142074	148454	182491		197891	211706
China	1447	2246	1782	1503	2034	4172	16448		31544	61250
United States of America	4158	16505	5177	22087	10167	1965	10543		12262	44577
Slovakia	0	0	0	0	0	15	0		0	7716
Sweden	620	11379	8800	12421	27169	5718	18007		26134	7664
Portugal	10258	7938	0	2005	1216	938	9566		6349	6979
Germany	1964	2654	2968	647	1202	1342	4189		19819	5366
United Kingdom	10122	11792	17741	8468	4153	3699	6793		3802	5178
Israel	12480	11965	3153	676	545	616	2833		8606	4540
France	3714	7067	28504	2222	1100	1835	4476		3497	3907
India	173	1017	696	375	786	2487	2031		1926	3452
United Arab Emirates	0	235	2987	4901	3000	2148	1222		2341	3228
Singapore	622	665	291	2601	3501	1525	721		2504	2988

Annex 3 – Electricity generation, imports and demand in Botswana – copied from <http://www.sapp.co.zw/docs/Mmamabula%20RT%20Presentation%20july%202009.pdf>



Annex 4 – PEST Analysis

Political

- Botswana has the least political and economic risk in Africa
- Botswana is a country situated in Africa which presents figures of developed countries, being compared in times with the Asian Tigers. (8.6% of GDP growth in 2010)
- The foreign investment is welcomed in the country, as the foreign exchange controls were abolished in 1999
- The country was ranked as the Africa's least corrupt country by Transparency International in 2010, ranked as the 33rd country out of 178 countries considered, being ahead of many European and Asian countries

Economic

- Presenting now an inviting corporate tax rate of 15%,
- Member of SADC (Southern African Development Community) – Free Trade Area
- No prohibitions on foreign ownership of companies, and so, presenting itself as a very attractive market in Africa
- Botswana signed an Economic Partnership Agreement with the European Union, being this also a key factor to help in the integration of RESUL in Botswana
- The country is ranked as Credit A- by Moody's

Social

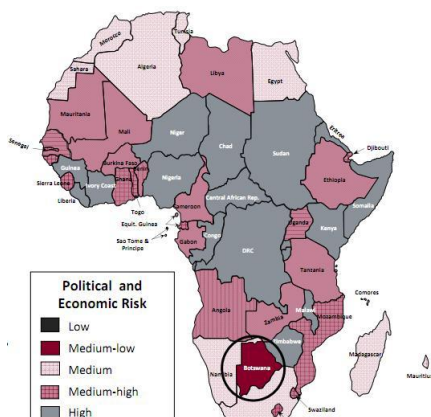
- Population around 2 million people
- Literacy rate of 81.2%
- Excess of mortality due to high AIDS rates (life expectancy of 58 years)
- 48% of the population lives in rural areas
- The highest electricity tariffs in the Southern African region

Technological

- It is a fact that the country has a poor level of technology and mainly the high costs of inland transportation due to the fact that Botswana is a lock landed country and it has to use foreign ports such as the South African ports
- The country enjoys 3.200 hours of sunshine per year; however, the contribution of the solar energy to the energy balance is insignificant.
- The percentage of the population with access to the public electric grid (electrification rate) is around 39%

Annex 5 – Botswanan Political and Economical Risk

source: <http://www.sapp.co.zw/docs/Mmamabula%20RT%20Presentation%20july%202009.pdf>



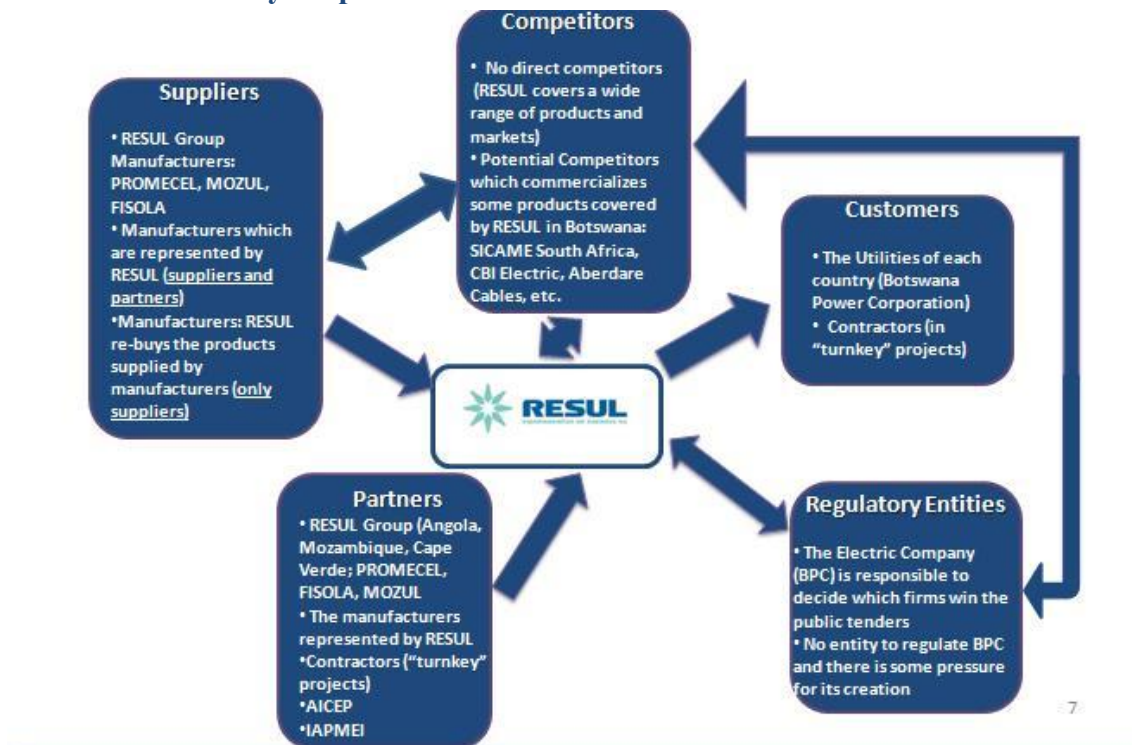
Annex 6 – “Customs and Excise Tariff in Botswana”²³

Tariff percentages in Botswana for some products considered by RESUL as representative of the firm’s scope of products in terms of rates of duty.

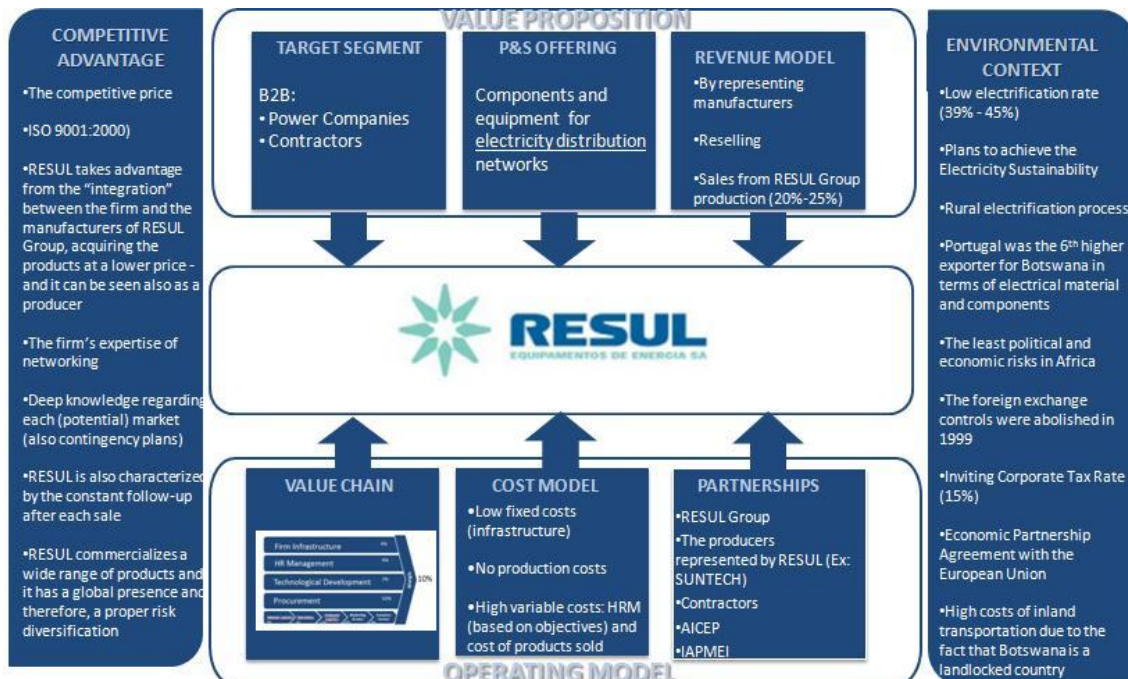
Code	Product description	Rates of Duty			
		General	EU	SADC	EFTA
85369010	“Electrical apparatus for switching or protecting electrical circuits, or for making connections to or in electrical circuits (for example, switches, relays, fuses, surge suppressors, plugs, sockets, lamp holders and other connectors, junction boxes), for a voltage not exceeding 1 000 v: Other apparatus identifiable for use solely or principally with radio, radar, television, radio-telegraphic or radio-telephonic apparatus”	free	free	free	free
85371099	“Other Boards, panels, consoles, desks, cabinets and other bases, equipped with two or more apparatus of heading no. 85.35 or 85.36, for electric control or the distribution of electricity, including those incorporating instruments or apparatus of chapter 90, and numerical control apparatus (excluding switching apparatus of heading no. 85.17)”	5%	free	free	free
85043300	“Electrical transformers, static converters (for example, rectifiers) and inductors: having a power handling capacity exceeding 16 kVa but not exceeding 500 kVa”	10%	1.3%	free	10%
85354000	“Lightning arresters, voltage limiters and surge suppressors”	5%	free	free	free
85399010	“Parts of Electric filament or discharge lamps ,including sealed beam lamp units and ultra-violet or infra-red lamps; arc-lamps”	15%	free	free	6%

²³ According with Chapter 85 of “Customs and Excise Tariff” (Botswana), 26/01/2009

Annex 7 – “Industry Map” Framework



Annex 8 – “Business Model” Framework



Annex 9 – “Value Chain” Framework



Annex 10 – SWOT Analysis

SWOT Analysis

Strengths

We may identify 6 factors which represent the major positive forces of RESUL. Firstly **(S1)**, the fact of the firm be certified in terms of quality (ISO 9000:2000); the second one **(S2)** is regarding the fact of RESUL is present in 27 countries and there are no geographic, political and economical boundaries in terms of sales, being possible for the firm to diversify the risk. Contributing to this diversification is the third force **(S3)**, which is related with the wide range of products commercialized in each business area. Moreover, **(S4)** the deep knowledge owned by RESUL regarding each entering market and consequently, easiness to establish connections and find partners is also an important strength. **(S5)** The competitive price practiced by the firm when comparing with other firms is also an important advantage for the firm as also **(S6)** the “follow-up” strategies provided by the company to the clients after each sale, which is related with the customer support.

Weaknesses

We can identify three major weaknesses: **(W1)** the high dependence of partnerships with contractors to “turnkey” projects; **(W2)** the low number of clients available for each business area (for example: in the electricity field, the main client is the Utility company); and third weakness **(W3)** is related with the difficulty in doing an effective competitive assessment due to the fact that the company commercializes a wide range of products for each business area in 27 countries, becoming hard to know exactly which are the direct competitors of RESUL.

Opportunities

There are 3 important aspects to consider: **(O1)** Markets such as Botswana with poor or inexistent electric grids which need to be developed and therefore low electrification rates represent an important opportunity to the firm. Moreover, **(O2)** the second opportunity is regarding the fact that RESUL has always the possibility to increase the scope of products, given that RESUL commercializes all kind of products related with its business areas. Lastly, **(O3)** the third opportunity is regarding the fact that RESUL is presenting a positive performance during the economic crisis (turnover in 2008 of 13.6M€, in 2009 of 18.9M€ and 17.3M€ in 2010), and in this sense there is a prediction of a good performance for the economic recovery period.

Threats

It is possible to identify 4 major threats which RESUL should try to overcome in a near future, being the last threat highly correlated with the Botswanan market. The first threat (**T1**) is the relative dependence on Angola's economic performance to the success of RESUL's external market turnover (Angolan market represented 55.7% of the external turnover of RESUL in 2010). As second threat (**T2**) it is the possibility of appearance of new entrants in strategic markets for the firm, covering the sectors and delivering the products which offer more profit margins to RESUL. As third threat (**T3**), we must say that despite the good financial results of RESUL, there is a possibility of "reaction problems" to the world economic crisis, if it persists in continuing. Lastly, that is a threat (**T4**) which is directly related with the entering market, which is about the competition problems with the companies that make part of the SADC. In this sense, companies from SADC countries, such as from South Africa for example, could have more opportunities to win public tenders in Botswana since the conditions are favorable to the firms from the country-members of this community, being given preference from BPC to the companies from SADC region²⁴ (notice also the tariff advantage of SADC countries regarding specific products).

Annex 11 – “Auxiliary Calculations”

Annex 11.1 - Costs with the trips²⁵

In 2012, 2 trips from Lisbon with 2 employees each trip.

In the following years, 2 trips per year with 1 person in each trip:

- 1 trip from the branch office of Lisbon
- 1 trip from the branch office of Maputo (Mozambique)

According to Sky Scanner website, on average, a flight (round trip) for 1 person from Lisbon to Gaborone costs around 1800€ and from Maputo it costs around 498€.

	2012	2013	2014	2015	2016
7 nights in a Hotel ²⁶ (per person)	350€	350€	350€	350€	350€
Flight from Lisbon ²⁷ (per person)	1800€	1800€	1800€	1800€	1800€
Flight from Maputo ²⁸ (per person)	-	398€	398€	398€	398€
Food (per person)	350€	350€	350€	350€	350€
Diverse (per person)	300€	300€	300€	300€	300€
Number of trips and people	<u>2 trips from Lisbon with 2 people in each trip</u>	<u>1 trip from Lisbon and 1 from Maputo with 1 person in each trip</u>	<u>1 trip from Lisbon and 1 from Maputo with 1 person in each trip</u>	<u>1 trip from Lisbon and 1 from Maputo with 1 person in each trip</u>	<u>1 trip from Lisbon and 1 from Maputo with 1 person in each trip</u>
TOTAL	11.200€	4.198€	4.198€	4.198€	4.198€

²⁴ Document emitted by BPC describing how the suppliers may apply for public tenders. (BPC – “Tenders Regulations”); source: http://www.bpc.bw/doc/tender_regulations_revised.pdf

²⁵ Number of persons and trips according to RESUL

²⁶ A room in a hotel in Gaborone costs approximately 50€ per night.

²⁷ **Assumption:** the flight prices are constant for the period 2012-2016

²⁸ **Assumption:** the flight prices are constant for the period 2012-2016

Annex 11.2 - Costs with the fairs:

Based on the values spent in fairs in Mozambique and Angola in the last year (2.968€ and 3.557€ respectively), we will assume the value of Mozambique (2.968€) is the same for Botswana - although its market is smaller than Mozambique's more investment in fairs are needed in the first years of activity since the firm is not well known in the market yet.

Annex 11.3 - WACC Calculations²⁹:

- The Beta unlevered used for the calculation of the Cost of Equity was of 0.78, which is referred to Electric Products³⁰.
- It was assumed a market premium of 4.4% (based on the historical geometric average of S&P).³¹
- The Country risk premium was based on the risk premium for Poland, based on the fact that Poland and Botswana are credit ranked as A2 by Moody's.³²
- The Risk free is the average of the last 12 months of the 10-year German bonds.³³
- The tax rate is of 26.50% (assuming that RESUL is a Portuguese firm and it pays taxes exclusively in Portugal)
- The other values considered were based on “Bloomberg Platform”.

Rf	2,8%
Market Premium	4,4%
(1-t)	74%
Country Risk Premium	2,0%
Kd	10,00%
β unlevered	0,78
β levered	1,45
D/E	1,17
Ke	11,23%
D/(D+E)	54%
E/(D+E)	46%
WACC	9,1%

Annex 11.4 - Sales growth

According with the data from the company, we know that from 2006 to 2010, the average sales growth per year in the representative markets have been the following: **Mozambique – 12.6%; Cape Verde – 2.7%; Angola – 20.6% and Russia – 21.8%.**

In this analysis, it will be assumed **the average of these values for Botswana (14.4%)** to the regular scenario.

According to RESUL the variations and the uncertainty in the sales are very common, happening frequently high (positive or negative) variations in sales in two consecutive years being therefore very tough to make an accurate analysis. In this sense, we will consider in the

²⁹ The calculations were based on Aswath Damodaran methodology

³⁰ From the chapter “Betas: levered and unlevered, by Sector”, from the document “Finance For Executives” (INSEAD).

³¹ Source: Credit Suisse

³² Based on values available in Bloomberg Platform

³³ Source: Bloomberg Platform

negative scenario a decrease of 10pp and in the positive scenario an increase of 10pp. Hereupon, in the negative scenario, the average sales growth per year will be of 4.4% and for the positive scenario of 24.4%.

Scenario	Growth rate per year	Variation from the regular scenario	Description
Regular	14.4%	-	Average of the variation in sales in the last years in the main markets for the firm. (as described above)
Positive	24.4%	+10pp	<ul style="list-style-type: none"> - Expectation of electrification projects for the future in Botswana as also good electrification rate expectations. - Unexpected projects with high return rate (for example, in Angola from 2006 to 2007 the sales increased 54.8% and in Russia from 2009 to 2010 the sales increased 68.7%, due to this kind of projects. The same happened in other years and in other markets). (This explains the high variety in sales for each year in RESUL in different markets)
Negative	4.4%	-10pp	<ul style="list-style-type: none"> - Unexpected diamonds shock crisis - the GDP growth in Botswana is very dependent on diamonds and this crisis can affect the public investments. - Unexpected low number of opportunities in a given year (for example, in Angola in 2010 there was a decrease in sales of -33.9% and in Cape Verde of -44.8% in 2008. Like above, the same happened in other years and markets). Once more, this explains the high variety in sales.

It is important to notice that normally the variations in sales growth in the external market are smaller than the extreme ones considered above and that is why it was assumed a more conservative margin of minus/plus 10pp.