

U.S. Companies Race to Catch Up in Africa

By [JAMES R. HAGERTY](#) And [WILL CONNORS](#)

During a series of trips to Africa last year, Tim Solso had a realization: China was beating him at his own game.

So the chief executive of Cummins Inc., a maker of truck and machinery engines, vowed to catch up. He plans to quadruple the company's sales in Africa to about \$1 billion within five years, investing \$15 million annually to train staff and build sales offices from Johannesburg to Casablanca. The company recently installed in South Africa an executive to oversee Africa operations, previously supervised from Europe and Indiana.

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Cummins has ramped up sales of generators to clients such as this bottler in Nigeria.

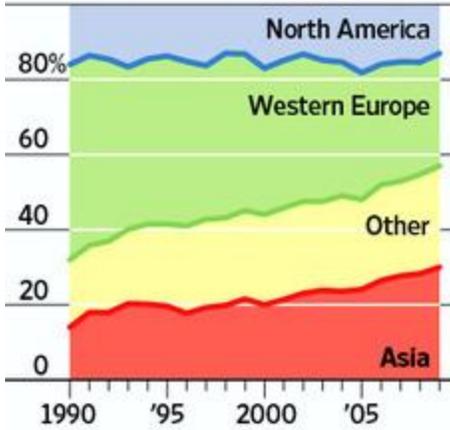
Cummins joins a growing number of U.S. companies vying for a stronger foothold on the continent. Caterpillar Inc., the giant maker of construction equipment, is selling more trucks to Mozambique and Zambia. Harley-Davidson Inc. is opening dealerships in Botswana and Mauritius. General Electric Co. has its first aircraft-leasing office in Ghana for Central and West African airlines. Google Inc., Archer Daniels Midland Co. and Wal-Mart Stores Inc. are among the dozens of other U.S. companies moving in or expanding.

Until now, "Africa has been just a rounding error for us," says Brady Southwick, Cummins's new head of Africa operations.

U.S. companies' game of catch-up shows the perils of waking up late to the next big frontier market, Africa. The continent's economy is forecast to grow to \$2.6 trillion in 2020 from \$1.6 trillion in 2008, fueled by booms in mining, agriculture and development of ports, roads and other infrastructure, according to McKinsey Global Institute. The middle class is growing, and total household spending now exceeds that of India.

Market Fight

Composition of sub-Saharan African trade by trading partner



Source: McKinsey Global Institute; IMF

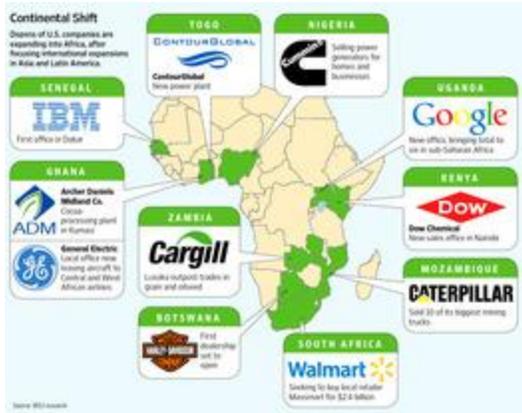
Getting in early to a developing market allows companies to build up strong brands and sales channels that can reap big profits in the long run. That's what China has done in Africa over the past two decades. It has aggressively promoted trade and investment, courting countries by offering aid in exchange for favorable trade terms. China's government has provided funds to build a telecommunications network in Ethiopia, the Merowe Dam in Sudan and railways in Libya and Nigeria, among many other projects.

While most U.S. companies focused international expansions on Asia and Latin America, China was leapfrogging America in Africa. China's exports to Africa last year totaled about \$54 billion, up from \$5.6 billion a decade before, according to the IMF. U.S. exports to Africa totaled \$21 billion last year, up from \$7.6 billion in 2000.

Chinese consumer-electronic products, processed food and pharmaceuticals are popular in Africa, while auto and truck makers from China are starting to build up market share. The country is a major builder of airports, roads and other infrastructure, and China's Huawei Technologies Co. is a leader in installing cell-phone transmission networks.

Western European companies, many of which had lingering business interests in Africa from colonial days, also took their eye off the ball. Western Europe's share of overall trade—the sum of imports and exports—with sub-Saharan Africa dropped to 30% in 2009 from 52% in 1990, according to McKinsey. The share of China and other Asian countries in Africa trade more than doubled to 30% from 14% in the same period, while North America's share slipped to 13% from 16%.

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Many of Africa's one-party national governments find it easier to deal with the Chinese government. The U.S., under the African Growth and Opportunity Act of 2000, grants preferential trade terms only to African countries deemed by the president to be "reforming" in such areas as supporting market-based economies, the rule of law and protection of human rights.

China makes no such demands. In a policy paper published last September, China's State Council, or cabinet, extolled the mutual benefits of doing business in Africa, including "promoting economic development and social progress."

Some U.S. business people say they could use more assistance from American embassies in Africa, which can help companies gather information and find their way through local bureaucratic mazes. But the number of commercial staff members at U.S. embassies and other offices in sub-Saharan Africa has dropped to 38 from 61 a decade ago because of budget constraints, the U.S. Commerce Department says.

Even so, U.S. companies increasingly see opportunities in Africa. Caterpillar recently got an order from Mozambique for 10 of its biggest mining trucks, behemoths that can carry 400 tons of ore and typically cost more than \$6 million each. The Peoria, Ill.-based company says it sees opportunities for sales growth from copper mining in Zambia, iron ore in Congo and gold in South Africa, among others.



Harley-Davidson

Harley-Davidson hosted Africa Bike Week in South Africa.

Harley-Davidson also is trying to expand its small share of the market in Africa, where it competes with Bajaj motorcycles from India and Chinese brands Jincheng and Lifan. Harley has dealers in Morocco, Egypt and South Africa and expects to open more in Botswana, Mauritius, Namibia and Angola. The company says more than 20,000 motorcyclists converged on the South African resort town of Margate in late April for the company's annual Africa Bike Week festival, promoting the Harley "lifestyle" and featuring a local bagpipe band, a Pretoria rock band called Black Era and snacks such as grilled springbok.

DSC Dredge LLC, a maker of dredging equipment in Reserve, La., used to sell dredges in Africa only when customers made unsolicited inquiries. "By dumb luck, people find you on the Internet," says Bob Wetta, president of the family-owned company. Now, DSC executives make several trips there each year and are considering opening an office in Lagos.

A few American companies have been entrenched in Africa for decades. Coca-Cola Co. established its first African bottling plant in 1928, in Johannesburg, and its soft drinks now are available throughout the continent.

But many other U.S. companies only now are "starting to wake up to the African opportunity," says Acha Leke, a Lagos-based director of the McKinsey Global Institute. To succeed, he says, they will need to find good local partners and send in some of their best executives. In the past, he says, some American companies "just sent whoever wanted to go there."

Mr. Southwick, who had spent eight years working for Cummins in China and Singapore, wasn't seeking a job in Africa when CEO Mr. Solso persuaded him to go there last September. The last time the 40-year-old had set foot in Africa was as a college student, when he spent three weeks touring Egypt.

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Cummins workers assemble a generator in Lagos, Nigeria.

Coming from Asia, Mr. Southwick says, he thought he was used to chaotic, fast-changing societies. But he's found Africa far more complicated. For starters, "you're dealing with 54 countries," each with different rules, and many with unstable governments, he says. During a recent trip to Angola, he couldn't get Internet access for a day and a half. Flying from Johannesburg to North Africa often requires changing planes in Europe. Getting a visa to go into an African country can take up to three weeks.

Cummins has a long history in Africa. In 1946, a Cummins sales distributor set up shop in the same building in Morocco that Gen. George Patton used during World War II as a base to march his forces across North Africa.

But for decades, Africa wasn't a priority. In 2010, Africa accounted for about \$264 million of sales for Cummins, compared with about \$1.3 billion in China and \$13.2 billion world-wide.

Cummins hopes it can now become a leader in power generators in African countries whose electricity supplies are notoriously unreliable. Nigeria, where Cummins has a 50-50 joint venture with a local company, AG Leventis PLC, is among the most attractive African markets. Cummins estimates that only 40% of Nigeria's 150 million people have access to electric power. Power outages are so common that schoolchildren sing a song when the utility company "brings light."

Many businesses and wealthy homeowners buy diesel-powered generators either as primary or backup sources of power. Generators also power cell-phone towers, street lights and various types of equipment. Some 30,000 generators were sold by various companies in Nigeria in 2010, according to Cummins estimates, bringing total industry sales in the country to about \$420 million. Of that, the Cummins joint venture has just an 8% market share, according to the company.

Expanding that share means overcoming the challenges to doing business here. In Lagos, one of sub-Saharan Africa's biggest cities, grinding traffic means service vehicles take longer to arrive at customers' doorsteps, and employees have grueling commutes.

"Just to get to work is a big challenge," says Koulis Schizas, general manager for Cummins power projects in Nigeria. "The average employee has a two-three hour drive to get here in the morning and a four-five hour drive to get home. It does affect the business."

Worries about fraud slow the sales department, and new employees have a steep learning curve. Cummins is working with universities in Nigeria and Ghana to strengthen their engineering departments. "Right now we have hawkers, not salesmen," says Usama Yousaf, Cummins Nigeria's head of sales and marketing.

Ghana, despite being smaller and easier to do business in than Nigeria, has presented its own difficulties. It took four months to get a business license in Ghana. Cummins still doesn't have a license to trade in U.S. currency, which many customers prefer, even though it applied for one on the first day of operations two years ago.

Regional logistics are a constant headache. An order for two generators from a customer in neighboring Ivory Coast, for example, was complicated by a recent political crisis in that country, where fighting erupted after last November's elections. Because the roads were impassable, Cummins was forced to air freight the generators at a cost of \$30,000.

There's also the basic issue of pricing. Cummins's high-end generators are too expensive for many customers, and CEO Mr. Solso says the company will have to start making more affordable models to crack the mainstream market.

Many Chinese companies make small gasoline-powered generators costing as little as \$500 and sold in open-air markets alongside cooking pots, ironing boards and spices. Cummins's least-expensive models available in Africa cost about \$9,000 and are diesel-powered.

Aside from price, "a big issue is brand awareness," says Usama Yousaf, head of sales and marketing in Nigeria. Only 12% of potential Nigerian buyers are aware of Cummins, a recent company survey found.

Cummins recently demonstrated its residential generators at a popular Lagos shopping mall called The Palms and plans to set up a retail outlet in the city's bustling Oregun market.

It's a start, says Mr. Solso, who says Africa in some ways reminds him of where India and China were 10 or 15 years ago: "We have a long way to go."

—Peter Wonacott and Jacqueline Bischof contributed to this article.

Write to James R. Hagerty at bob.hagerty@wsj.com