

The Status of Africa's Construction Industry and Its Porter's Five Forces Analysis

Kanakulya Edwin Kirabo^[a]; WANG Jinzhao^{[a],*}

^[a]Shenyang University, College of Business Administration, Shenyang, China.

* Corresponding author.

Received 9 January 2017; accepted 3 March 2017

Published online 26 April 2017

Abstract

With the increasingly stable political situation in Africa, economic construction has developed steadily. According to the African Union's 2012-2020 Africa Infrastructure Development Plan, a priority action plan, the African construction market has great potential. This paper first analyzes the background and significance of research, and then provides the relevant information about the state of the construction industry in Africa. Finally, the paper provides development ideas and management information for the African real estate developers and project contractors by using the Porter Five Forces analysis.

Key word: Construction industry; Status; Porter's five forces analysis

Kanakulya, E. K., & Wang, J. Z. (2017). The Status of Africa's Construction Industry and Its Porter's Five Forces Analysis. *International Business and Management*, 14(2), 50-53. Available from: <http://www.cscanada.net/index.php/ibm/article/view/9611> DOI: <http://dx.doi.org/10.3968/9611>

INTRODUCTION

Background

At the mention of Africa, usually people think of poverty, hunger and war. In fact, however, with the steady development of the African political situation, there has come a steady development of economic construction and the continuous improvement of investment environment thus Africa is becoming a new investment hotspot. A

number of multinational groups have called Africa "the world's last investment frontier".

Africa is one of the continents with the most deposits natural resources in the world. However, there is still under utilisation or exploitation of these resources and one of the reasons for this is the lack of the necessary infrastructure to access, harvest, refine or add value and then make them available to the world market. The construction industry plays a major role in the development of the necessary infrastructure that would ensure the proper utilisation of Africa's resources.

It is an open secret that Africa by itself does not have the capacity to develop the infrastructure needed for the utilisation of her resources. The construction industry in Africa is still very small in relation to what it should be like. Therefore it is necessary for more firms to enter into Africa's construction industry.

Significance of the Research

The Porter's five-force model was proposed by Michael Porter in the early 1980s. He suggested that there are five forces in the industry that determine the scale and extent of competition, which together affect the attractiveness of the industry as well as the competitive strategy of existing enterprises. The five forces are the competencies of existing competitors in the same industry, the ability of potential competitors to enter, the substitutes for alternatives, the bargaining power of the suppliers, and the bargaining power of the purchasers. "Porter's five forces model is an analysis tool that uses five forces to determine the profitability of an industry and shape a firm's competitive strategy". "It is a framework that classifies and analyzes the most important forces affecting the intensity of competition in an industry and its profitability level."

The truth is that many investors both local and foreign are picking interest into the construction industry of Africa because of its un-doubtable potential to be very profitable. However, such investors, especially the

foreign investors, need to first understand the status of the construction industry now in order for them to make an informed decision on whether and when to enter into the construction market of Africa and also what to expect upon their entry into the Africa's construction industry. This article will to give a general overview of the status of Africa's construction industry market and also an analysis of the industry using the Porter's Five Forces Analysis. The significance of this article is to use Porter's Five Forces model to analyze the African construction industry and provides a development train of thought and management information for real estate developers and international engineering general contractors who intend to enter the African construction industry. Also, from the Porter's Five Forces analysis, the potential investors can be able to make an informed decision and develop the best strategy to apply upon entry into the market so as to have a competitive advantage.

1. THE STATUS OF THE AFRICAN CONSTRUCTION MARKET

The infrastructure construction situation is very grim in Africa. None the less, in recent years, foreign investors have significantly increased their interest in infrastructure investment in Africa. Africa's infrastructure investment focuses on energy generation and distribution and transportation facilities. According to the African Union (AU) 2012-2020 Africa Infrastructure Development Plan, priority projects in the area of infrastructure development include energy, transportation, water resources and communications. The total investment is estimated to be \$ 67.9 billion , of which energy and transportation investment scale were 40.3 billion US dollars and 25.4 billion US dollars, respectively, accounting for 59.35% and 37.4% respectively. In regard to energy generation and distribution, hydropower stations and thermal power plants are the focus of construction. Region wise, East Africa and Central Africa are expected to invest in 23.3 billion US dollars and 21.5 billion US dollars accounting for the continent's total investment is 34.31% and 31.66%, respectively, and they are the key areas for the African continent infrastructure investment.

The total value of the 322 Africa-based large-scale infrastructure projects (above \$ 50 million) was \$ 222.7 billion, and the total value of 257 projects started in June 2014 was \$ 326 billion, an increase of 46 %. This is the reason foreign investors have significantly increased their interest in infrastructure investment in Africa and are expanding their scale. In regard to the source of funds for the projects in Africa, of the 257 projects that started in June 2014, 143 projects of them were funded by the public sector, 88 were financed by private investment while 26 were government and social capital cooperation (PPP), and most of the funds were from foreign sources.

The internationalization of enterprises is an inevitable choice for the development of an open economy to a certain stage. According to John Dunning's direct investment development path theory, per capita gross domestic product (GDP) of more than \$ 3,000 will usher in the stage of net foreign investment.

Looking ahead, Africa's infrastructure spending will continue to increase. According to Price Waterhouse Coopers' "Large-scale projects and infrastructure expenditure forecast for 2025", Africa's roads (including bridges and tunnels) are expected to spend \$ 200 billion, with an average annual growth rate of 8.2%, with the largest countries being Nigeria (\$ 1.6 billion), South Africa (\$ 43 billion), Mozambique (\$ 16 billion to transport huge natural gas found in recent years), Ghana (\$ 1.6 billion). Railways (including stations) is expected to be spent on a total of \$ 78 billion. The growth rate here is 8%, the largest countries are South Africa (\$ 32 billion), where improving the railway network is the government's top priority. Other big spenders on railways are Ethiopia (\$ 25 billion) and Ghana (\$ 86 million). Ports' expected expenditure is 25 billion US dollars, the average annual growth rate is 7.8%, the largest countries are Nigeria (13 billion US dollars), Kenya (8 billion US dollars). Airports are expected to spend \$ 7 billion, with an average annual growth rate of 7.1 percent, and the largest spending is in South Africa (\$ 2 billion) and Tanzania (\$ 2 billion).

Furthermore, with the increasing interdependence of the economies of the world, Africa will vigorously develop its infrastructure while providing new opportunities for the economic development of other countries. "Africa is no longer a burden on the international community and has become a contributor. Africa and the world will achieve common prosperity and common development".

2. PORTER'S FIVE FORCES MODEL ANALYSIS OF AFRICA'S CONSTRUCTION INDUSTRY

2.1 Competitiveness Analysis of Existing Competitors

For most of the enterprises in an industry, their interests are closely linked together. The enterprise competition strategy is part of the overall corporate strategy and its goal is to make their own business relatively more advantageous over competitors. Therefore, when the implementing their strategies, it is inevitable to have conflict and confrontation among the firms. These conflicts and confrontations constitute competition between existing enterprises in the industry. Competition between existing enterprises is often reflected in the price wars, advertising, product introduction, after-sales service, etc.

In regard to analysis of existing competitors, it mainly focuses on the real estate developers and engineering contractors. In recent years, real estate developers and engineering contractors from the United States, Japan, China, Korea, Brazil, Turkey and other countries have entered the African construction market and compete for the market with local real estate developers and general contractors. Most of the world's real estate developers have a wealth of experience, large-scale development and fine enterprise management level, which for the local real estate developers in Africa are very big challenges. Therefore, rivalry among existing firms in the construction industry of Africa is high.

2.2 Potential of New Entrant Analysis

The new entrants coming into the industry bring new production capacity, new resources at the same time, they will hope to win a place in the market share that the existing enterprises have been carved up. It is possible that they will compete with existing enterprises for the raw material and market share, eventually leading to the reduced level of existing corporate profits. New entrants may also endanger the survival of the already existing enterprises that are not doing well in the industry. The magnitude of the threat of a competitive entry depends on mainly two factors, which are the size of the barriers to entry into new areas and the expected response of existing enterprises to entrants.

For the real estate developers and general contractors who have already entered the African construction market, overall, the threat of potential entrants is low. Africa's engineering contracting market generally involves a variety of complex local regulations, including land laws, technical requirements, building permits, professional qualifications and environmental protection. Also the international engineering contractor qualification requirements and service quality standards are getting higher and higher. These will increasingly become the new technical barriers for engineering contracting enterprises to enter the African market. Although the African construction market has great potential, real estate developers in the market are so many which coupled with the existence of these technical barriers, it is very difficult for the potential entrants to enter the market. To sum up, I believe that potential entrants are less threatening.

2.3 Threat of Substitutes Analysis

Companies in the same industry or in different industries may be affected by the fact that the products produced by them are substitutes for each other, resulting in competing behavior between them. This competition from substitutes will affect competitive strategy of existing enterprises in the industry in various forms.

The African construction market mainly focuses on real estate development and infrastructure development. Houses are the homes for people live, and basically, this

does not have viable substitutes if any at all. Infrastructure includes energy generation, transportation, water supply, communications, etc., and these too can basically be considered not to have substitutes. Therefore, the threat of substitute goods is low in the construction industry of Africa.

2.4 Bargaining Power Supplier Analysis

The supplier mainly affects the profitability and product competitiveness of the existing enterprises in the industry through its ability to improve the input factor price and reduce the unit value quality. The supplier's strength depends primarily on the importance of the elements of the inputs they provide to the firms in the industry. When the value of the inputs provided by the supplier constitutes a large proportion of the total cost of the buyer's product, and it is important for the production process of the buyer, or seriously affects the quality of the buyer's products, the supplier's potential bargaining power is greatly enhanced relative to buyers.

From the second part of the analysis of the status of the African construction market, it can be seen that most of the development of the African construction market is concentrated on the construction of infrastructure. From this point of view, the supplier is still the government. The government will vigorously develop the economy and increase its investment in infrastructure. In addition, from the perspective of the product market generated by the construction market, suppliers can be real estate developers and general contractors.

In general, the government as a supplier of the construction market is still relatively reliable. And the government has a lot of power in the local, and has a strong control in infrastructure planning. In other words, the local government has a monopoly position in the African construction market and has the right to land and building planning. If the real estate developers and general contractors are suppliers, then their major supplier is the government. In addition, for the case of local real estate developers and general contractors, there are many real estate developers and general contractors from foreign firms from countries around the world that are very interested in African construction market and the competition is very intense. Therefore, the government as a land and infrastructure development project supplier has a strong bargaining power. While the national real estate developers and general contractors as the construction market of product suppliers, the bargaining power is very weak.

2.5 Purchaser Bargaining Power Analysis

The purchaser or buyer's main interest is lower prices to acquire higher quality product or service which affects the industry's existing business profitability. In the African construction market, real estate developers and general contractors from all over the world and Africa

are the buyers, who are mainly interested in the land of the African construction market. For the infrastructure, the products are infrastructure and houses and from this perspective, direct users are African people. Price for accessing of the basic infrastructure is fixed, so the bargaining power of the African people is very low.

Furthermore, in regard to the purchase of land and development rights, real estate developers and engineering contractors from around the world are not familiar with each other, the possibility of forming a coalition is very small. This makes their bargaining power as buyers very low.

CONCLUSION

Through the status analysis of the current African construction industry market and Michael Porter's Five Forces model analysis, we can see that the African construction industry market has great potential for development. However, in general the African construction market is not standardized thus competition is also very intense. All firms intending to enter the construction market in Africa need to conduct in-depth

research, and make an informed decision, strengthen enterprise management, formulate strategy suitable strategy so as to African Union create competitive advantages for themselves over the other firms in the African construction industry.

REFERENCES

- African Union. (2012). *Africa infrastructure development plan*.
- Liao, J. F. (2015). Brief talk on construction market and project management in Africa. *Theoretical Research on Urban Construction* (Electronic version), 5(12).
- Li, C. H., Pretorius, L., Guo, Z. L., & Nel., A. L. (2007). A brief analysis of the status and development trend of the construction market in southern Africa. *Construction Economy*, (5).
- Luken, A. R. (2014). Where is developing country industry in sustainable development planning?. *Sustainable Development*, (20).
- Miao, J. (2009). The African construction industry has entered the boom peak. *Modern Economic Information*, (15).
- Wang, L. L. (2007). African construction market: Hope and Dream. *Construction Enterprise Management*, (2).