

The importance of Commercial Due Diligence in dealmaking in Africa



Simply put, commercial due diligence (CDD) is the analysis of the external environment in which a company operates in order to assess its commercial attractiveness. This includes validating a company's business plan and future growth prospects in the context of the overall environment in which it operates.

Unlike the more traditional due diligence processes such as financial, tax, legal and regulatory diligence, which are all backward looking, CDD is forward looking and focuses on the sustainability of a company's business plan vis-à-vis current and future dynamics in the industry and geographies in which it operates. CDD aims to achieve at least one of the following:



Validate a company's business plan and financial projections in the context of the overall external environment in which it operates.



Unearth hidden opportunities in the external environment that the company has not yet exploited. Essentially this would help any potential investor to identify potential areas of value creation, such as opportunities to introduce new product lines or enter new geographies.



Reveal challenges in the external environment which could ultimately result in minimal or no future growth opportunities for the company. This could mean the company's business model and financial projections are unsustainable, and any potential investor could either walk away or negotiate a lower valuation for the business.



“CDD is key for investors to unlock future value in investment opportunities in Africa.”

CDD is not just for Private Equity or Venture Capital investors

Most deal activity involving private equity or venture capital investors will typically involve some form of CDD as the identification of value creation opportunities is a key lever in their investment decision process. Financial investors such as private equity will use CDD to be assured of the scalability of an investment and identify potential opportunities for bolt-on or buy-and-build acquisitions.

However, CDD is not just for financial investors – it can be of equal value to corporate and institutional investors too. In Africa in particular, we have been seeing growth in investments from corporate investors. For example, [Prudential plc](#) has acquired five insurers in Africa since 2014. Although it is a corporate investor, Prudential essentially must think and act like a private equity investor and identify long term value creation opportunities from its acquisitions

through thorough CDD processes in the specific markets it is targeting in Africa.

Whilst potential investors are usually the typical users of CDD services to inform their own investment decisions, there’s no reason why a company in Africa could not initiate CDD on its industry, and benchmark itself against its competitors. If anything, this shows a level of proactivity on the part of the company and demonstrates a willingness by the company’s management team to develop a deep understanding of the dynamics of the market in which it operates, and therefore exploit any additional opportunities. African companies could commission CDD not only for the purposes of raising money, but also as a tool for internal analysis and strategic planning. Doing so could unearth opportunities such as new product lines to launch and new geographies to penetrate.



“CDD results in data-driven rather than emotional investment decisions in Africa.”

CDD is critical when doing deals in Africa

Investing in Africa can sometimes be led by emotional rather than rationale decisions, especially if it seems like “everyone else is doing it”! CDD allows dealmakers to become data-driven investors, and is of particular importance when investing in Africa:



CDD translates investment opportunities in Africa from the macro to the micro level:

A lot has been said about the ‘Africa rising’ narrative, and this is usually discussed at a macro level, focusing on continent-wide drivers such as GDP growth prospects, growth of the middle-income consumer market, the population boom, etc. However, this narrative has generally not been filtered into specific sectors and countries in Africa to see how it translates into long term tangible opportunities in specific industries. CDD can achieve this at the micro level.



Access to reliable data sources is still a challenge in most parts of Africa

CDD requires quantifiable and verifiable data in order to be effective. Whilst this is still a challenge in parts of Africa given the dearth of data on the continent, there are new data and market research companies such as [Asoko Insight](#) that are addressing this problem. Although such providers are starting to bridge the gap in access to secondary research, the need for primary research in CDD cannot be overemphasised in Africa. The ability to conduct primary research, particularly with the company’s customers, suppliers, and competitors is of utmost importance as it gathers anecdotal evidence of trends in the industry that are typically not highlighted in any generic industry report.



“You can’t afford to invest in Africa without first conducting CDD.”

CDD does not have to be expensive

Commissioning CDD in Africa does not have to be expensive, although this could be true if you are using large professional firms and strategy houses who have high overheads. In fact, if you look closely you will find that there aren’t many Africa-focused CDD specialists as this is a market that the larger firms have largely viewed as not being lucrative because most investors and companies are not willing to pay the high fees. But by its very nature, CDD relies on strong local market knowledge and access to both primary and secondary sources, and therefore lends itself to be better executed by smaller and more specialised boutique firms such as [Market Intelligence Africa](#). The more specialised CDD firms have significantly lower overheads, are nimbler and more flexible, which is particularly important when doing business in Africa.

About Market Intelligence Africa

Market Intelligence Africa is a boutique research and commercial due diligence firm focused solely on Africa. Our aim is to assist investors make informed investment decisions in Africa. We have strong market knowledge across several geographies and sectors in Africa. Please get in touch if you would like to find out more about our services and if we can be of use to your business or investment process.

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