

Opportunities for plant manufacturers in Africa: Demand for cement is growing steadily

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The Intercem Group is successfully active in Africa as a supplier of cement plants. With its parent company in Zug (Switzerland) and subsidiaries in Oelde (Westphalia), the company is one of the leading medium-sized international providers of comprehensive solutions in this field. Olaf Michelswirth, General Manager of Intercem Engineering GmbH, will provide insights into his experience on the African continent.

blog sub-saharan africa: Mr Michelswirth, how long have you been travelling in Africa on business?

Olaf Michelswirth: 25 years ago, I was asked whether I could warm to Africa and whether I would be prepared to "carry the bag" for a while and travel Africa for an experienced and extremely successful sales representative from the cement industry. Since then I have developed a great sympathy for this continent and an understanding of the African mentality. These are indispensable prerequisites if you want to be successful here. Especially for the personal access to and the contact with African customers. You also have to travel the countries regularly and meet people at eye level. Only in this way the necessary networks can be built up sustainably.

blog sub-saharan africa: What trends do you currently see in the region, especially in the cement industry?

Michelswirth: Overall, we see a strong interest in the development of less developed countries. There are actually no countries in Africa anymore that are not in the focus of investors. In view of the population growing everywhere, the demand for cement is also increasing accordingly and requires further investments. However, political and security-related issues always have to be assessed in the various countries when developing the market. What we observe in our commitments: Many of our customers already have a past as cement dealers. They then see the increase in demand and the possibility of installing a cement grinding plant as a first step. So: the first step towards industrialisation. The capacities to be installed are often chosen so that regional markets can be served. This results in a large number of smaller grinding plants in order to keep transport costs as low as possible and remain competitive.

blog sub-saharan africa: How did your current company, the Intercem Group, become involved on the continent?

Michelswirth: Until 2009/2010, Intercem's activities focused on the Middle East, which was due to the construction boom in the region and our good customer contacts there. The emerging market saturation and the cooling of the market in the Middle East then motivated us to work the continent

of Africa more consistently and intensively. Our business share for Africa is approximately 80 to 85 percent, with the focus on sub-Saharan Africa.

blog sub-saharan africa: With which focus countries?

Michelswirth: At the moment, our activities are mainly concentrated on West Africa. In the Ivory Coast or Côte d'Ivoire in the capital Abidjan and in Burkina Faso / Bobo Dioulasso, we have successfully commissioned the largest grinding plants in the countries in 2018/19. Similar projects are currently in the installation phase in neighbouring countries, such as Kamsa in Guinea, and further projects in Mali and Togo, among others, are to be realised with Intercem in the near future.

IMPRESSIONS OF THE INTERCEM-GROUP IN AFRICA



blog sub-saharan africa: What is important in customer acquisition?

Michelswirth: Personal access to investors and their acceptance are basic requirements for a successful business relationship in Africa too. The reputation of our company and its references in the region play a decisive role here. Our partnership relations with companies from the cement industry that are already active in Africa are also important. The resulting synergies strengthen our presence there in every respect. An important part of our marketing strategy is also the regular participation in trade fairs and seminars in order to maintain a long-term presence and contacts.

blog sub-saharan africa: What do your African customers expect?

Michelswirth: Our customers are interested in 'Made in Germany' and expect corresponding quality. From a technical point of view, the answer is "tailor made solutions", i.e. solutions adapted to the needs of the customer. In order to do justice to the price expectations and the competition, solutions must of course be found which also meet these price expectations. For us this means "global sourcing" for steel construction, sheet metal production and assembly services with the aim of achieving the lowest possible prices. We also expect to use our expertise to build up or train local operating personnel. In the medium term, this will enable our customer to optimize its own personnel and management requirements and produce more cost-effectively. In the long term, the business location will become more attractive for the population and further prospects will be created.

blog sub-saharan africa: What about the competition, especially the Chinese?

Michelswirth: The international competition is great. The Chinese in particular are everywhere where projects are realised. They tend to have a relatively high willingness to take risks with regard to political and security aspects. And their offer is gladly chosen by internationally active cement manufacturers to install plants in Africa. Although the Chinese plants are cheaper, they are of poor quality with a corresponding failure rate due to technical problems in particular. The purchase decisions are not made in Africa and not for Africa, i.e. profits are not invested in Africa, but dividends are paid out to shareholders. A decisive factor here is that Chinese competitors also offer financing for African investors. The advantage offered by the package of financing and at the same time a relatively small investment sum increasingly compensates for the (negative) factor of Chinese quality for investors, and this applies to the entire continent. An investment fund is being made available as part of the "Compact with Africa" initiative launched by the German government at the G20 Conference 2017. By extending Hermes' financial security to public-sector clients, which have not been covered in many African countries to date, an approach has been provided to counter the unequal competition with China resulting from the Chinese state financial security. However, our projects have shown us that so-called ECA financing, such as that provided by Hermes in Germany, takes too much time to implement. It can take eight to ten months from the time an enquiry is made to Hermes until the confirmation of cover is received!

blog sub-saharan africa: What experiences have you had so far with government agencies in African countries?

Michelswirth: Since all permits and official requirements are basically organised directly by our customers, and we only provide advice and information, our direct contact with government agencies has been minimal so far. Where we have rather unsatisfactory experiences because of the high bureaucratic hurdles, are the state biddings, the so-called tenders: These are published in local daily newspapers, where a local representative has to recognize them and buy the documents. The tenders are usually highly complex and also incomplete. On-site visits are necessary for commercial and technical clarification. Guarantees with long maturities, so-called bid bonds and performance bonds, must be provided and committees of customer representatives must approve the guarantees - all very time-consuming. In addition, indirect guarantees involving a foreign correspondent bank are extremely difficult to get back. The evaluation procedures of the offers are opaque and the results are not always respected. New tendering procedures are regularly launched. Therefore, applying for government tenders is challenging and the outcome is highly uncertain. In addition, when a contract is awarded, payments are often not secured and the overall risk for the successful realisation of projects increases accordingly.

blog sub-saharan africa: What methods do you use to secure your receivables in African countries? And what is your experience with payment morality on the ground? What differences do you observe, if any, between private and government clients?

Michelswirth: Our receivables are secured by a letter of credit (L/C), which is confirmed by a first-class internationally active bank. In individual cases partial payments are accepted in advance. The agreed performance and delivery share corresponds to the partial payment. The remaining payments are usually released by the customer and are not secured. Even if all conditions attached to them are fulfilled, experience shows that payments are received very slowly. Due to the direct access to private customers, it is always possible to find ways of settling open items in this area. However, it is extremely difficult to make open payments if they do not know who they can talk to. This is the case with payments that are not regulated in the main contract, such as supplements, adjustments or

changes that need to be released. These releases must again be decided in committees. Here the responsibilities are unclear and can also change.

blog sub-saharan africa: What recommendations can you give to German newcomers in African markets based on your long experience?

Michelswirth: Despite the supposedly inexhaustible potential of the continent, I recommend not simply rushing off rashly on your own but to join a network experienced in Africa or to seek cooperation with companies from your own industry. Together we are stronger and more efficient. In addition, you will not win African customers for yourself overnight, you need to have stamina. But when the trust is expressed, it works!

blog sub-saharan africa: Mr. Michelswirth, thank you for the interview.



Olaf Michelswirth is a trained mechanical engineer and became General Manager of Intercem Engineering in 2005 after 15 years of experience as a project engineer and project manager in supplier companies for the cement industry. Since then, he has been able to apply his expertise and experience in a wide range of projects worldwide, including the United Arab Emirates, Kuwait, Iran, Tunisia, Lebanon, Armenia and most recently in East Africa (Uganda, Tanzania) and West Africa (Burkina Faso, Côte d'Ivoire). Contact us: e-mail: O.Michelswirth@intercem.de, Internet: www.intercem.de.

(Caption: "CIMASSO - 2.0 million tpa cement grinding station in Bobo Diaoulasso / Burkina Faso" - Intercem Engineering)