



South Africa: drive to survive

Notes from the road

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**“Amidst
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“Don’t get tired tomorrow!”

It was with this translation of a Xhosa saying¹ that political heavyweight Helen Zille kicked off an excoriating assessment of South Africa’s recent past. Sat listening to Zille, the ex-Chair of the Democratic Alliance (DA), on a cold morning in Cape Town, just four days prior to her being nominated as the DA’s mayoral candidate for Johannesburg, it was very clear that she viewed the road ahead, for her and the country more broadly, as far from straightforward. Now is not the time to flag.

As a first-time visitor to South Africa, I had already been adjusting to the confronting contrasts that underpin life in the country. Amidst staggering natural beauty, vast riches and profound poverty sit side-by-side in brutal juxtaposition.

On the subject of juxtapositions, the country’s current political landscape encapsulates a rather strange one. South Africa’s two main political parties and long-time adversaries, the African National Congress (ANC) and the DA, currently share power as part of a multi-party “Government of National Unity” (GNU). This unlikely marriage of necessity, forged when alternatives were too difficult to contemplate for some, has already reached a first anniversary that many doubted it would see. While far from a happy union, the GNU has survived tests that may have felled other coalition governments; coalition politics are a difficult beast, and this particular coalition is more complex than most. It may be uncomfortable, but the fact that neither party has filed divorce papers yet is testament to the resilience and pragmatism that much of South Africa has had to draw on for many years.

¹ A South African indigenous language.

In amongst the discomfort, there have been bright spots. Pockets of improved execution are evident, with the Home Affairs department, and its overhauls in areas such as business and tourism visas, consistently held up as the example of what can happen if government execution improves. Loadshedding has also been largely relegated to a secondary, rather than primary, topic of conversation. Overall, the formation of the GNU has created an internal peer pressure for all participants to do better. By and large, however, South Africa is still waiting to see the GNU bear fruit, and patience for many risks wearing thin. We hear from a co-lead of Operation Vulindlela, a governmental initiative to implement structural reforms, and the shopping list of improvements being tackled, and crucially, still to be tackled, is lengthy. Energy, logistics, water, local government, spatial inequality and digital transformation are the headline acts, each of which have lengthy and time-consuming workstreams sat underneath them. While progress is underway, it is clear the finish line is some way off.

Resilience becomes an overarching theme of our trip. Domestic issues have left South Africa with an anaemic growth profile and economic environment that would stifle many businesses, not helped by a 30%+ formal unemployment rate². Many South African corporates tried venturing overseas in the 2010s, with mixed success. Ultimately, they have had to find a way to get by in tough home conditions. These conditions have helped hone the strong management teams that we meet during the course of our stay. As long-time investors in South Africa, we are well aware of the quality of management that many of the country's biggest businesses house. Operational excellence has not been a luxury, it has been a necessity, and the calibre of our meetings remind us how so many companies have been able to execute and innovate despite the challenging backdrop.

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That anaemic growth profile rears its head in most of our meetings. While there are definitely hopes for a better future, with green shoots and low-hanging fruits still abundant, the 3%+ GDP growth figures that were bandied about in the heady aftermath of the GNU's formation are referenced with deep scepticism. “We talked about 3%+ for about five minutes, and then forgot about it and got on with it”, says one CFO. Conversations one evening turn to positive developments for the country and more light-hearted topics, including the potential arrival of a South African F1 event in the future. From a growth perspective, however, it may be slower and steadier progress to the chequered flag.



Out and about in Cape Town.

Outside our meetings with corporates, our stay in Cape Town includes a day in one of the city's shopping centres, as part of our 40-plus store visits during the week. Retail is among a slew of sectors that have been out of favour and largely ignored as part of a resource-driven rally in the South African equity market this year. All that glitters has been gold – and platinum, both of which have seen prices soar.

As we tour various stores, we see and hear evidence of retailers calling on whatever they can to keep hold of a confidence- and resource-shorn consumer. From the personality-based offering or efficiency-driven low pricing of the value brands, to the aspirational athleisure outlets or high-end shopping experiences that capture the customer with money to spend, companies are doing what they need to. We spend time with a value retailer whose fintech-based offering allows for lower-income consumers to access smartphones at affordable prices, but with added security for both customer and vendor. Retailers that operate and innovate continue to bring in traffic, and we see plenty of brands that are managing to hit their mark. Those that miss it see empty stores and flagging fortunes. This is an unforgiving environment, and our takeaway is that the centre of the retail market has been hollowed out the most. Safe, middle-of-the-road offerings that miss the cash-strapped, the downtraders, the aspirational and the affluent do not seem to be at the races.

² [South Africa Unemployment Rate.](#)

Our time in the Mother City serves as a reminder that the Cape Town's fortunes are somewhat different from the rest of the country. Infrastructure works, many residents are happy except with the weather, and overall, the city seem to be functioning. Tourism is evident, but it is hard not to think that in the near future, this scenic city, which on a global scale offers strong value-for-money, will be considerably busier.

The picture in Johannesburg is somewhat different. Upon arrival, the issues that dog the city are immediately evident. We drive around potholes, a hallmark of the deterioration of civic infrastructure, and an evening meeting sees an early departure due to a contact's desire to not risk getting caught up in any trouble on their journey home. Johannesburg remains home to most corporates in South Africa, and the city clearly has huge potential, but most agree that decline has set in that is in severe need of arresting. Our discussions also highlight the belief that in addition to improvements at national government level, fixing the municipalities is going to be key to any revival in South Africa's fortunes.

After an early breakfast meeting to discuss the finer points of the country's insurance market, we kick off our final day with a site visit to a privately-run hospital in Alberton, south Johannesburg. Healthcare continues to be a hot button topic in South Africa, with debates around National Health Insurance continuing to rage on against the backdrop of a sorely under-resourced public system. We are visiting an accredited Trauma 1 hospital that has the facilities to cope with the most difficult of medical circumstances.



Visiting a privately-run hospital in Johannesburg.

Spending time with the medical staff reiterates that the complexities of life in South Africa extend firmly into healthcare. HIV remains prevalent, lifestyle-related diseases are also increasing, and trauma injuries are all too common; it is not uncommon for cases to involve a combination of the three. We are told that we have missed an arrival by helicopter from an incident earlier that morning, and we hear from the hospital's ex-paramedic director how many medical professionals from across the globe come to train in South Africa due to the sheer volume of cases the country's hospitals face. Spending a short amount of time on a South African ward gives you exposure it would take much longer to get elsewhere. The way talent is honed in this testing setting is a microcosm of the sharp edges that the broader South African environment can give those who do battle in it.

“While the issues South Africa faces will not disappear overnight, the potential room for improvement, in a country with strong demographic and natural resource profiles, is overwhelming.”

Our final meeting of the trip saw us spend time with the management of a food producer. Conversation quickly turns to where the company is innovating and seeing growth amidst the lacklustre broader environment. We are not surprised to hear that it is in the informal market, with punters looking for smaller product sizes to sell to customers whose budgets are limited in the extreme. We hear how, despite constraints, there remains a desire from a township consumer for quality products containing real ingredients that provide genuine sustenance. The evidence is there that companies that cater well to the informal market can thrive in South Africa, and firms that take time to understand this market will succeed and be the growers of the future. As part of that, value for money is the order of the day, and the innovation that drives many successful franchises is going to be needed now more than ever.

In many ways, this last conversation crystallises some key takeaways from our week in the country. While the issues South Africa faces will not disappear overnight, the potential room for improvement, in a country with strong demographic and natural resource profiles, is overwhelming. This potential, however, hinges heavily on improving execution at both national and local government level.

If the right steps are taken, there is potential for a significant turnaround. Given where we are now, however, one thing is clear. In South Africa, there is no room for getting tired tomorrow.

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