Tolaram: Innovating Africa
Managing the Innovation Process; Group E Case Analysis

March 30, 2017 – Samer Fawaz, David Klimesch, Simone Konrad, Shakee Messina, José Antonio Morales, Teresa Nogueira, Nishok Tressler, Rodrigo Volio
1. Company Overview

2. Framework Analysis

3. Country Analysis

4. Recommendation
Company Overview

- Founded by Seth Tolaram in Malang, Indonesia in 1948
- HQ in Singapore; presence in 18 countries
- Privately owned

**Vision:** to be “aligned with its values” & to make sure their products are affordable and available to everyone

**Sectors:** Textiles, manufacturing, real estate, infrastructure, banking, retail, and e-commerce

**Values:** Trust, respect, commitment, courage and humility
Tolaram’s history and success drivers at a glance

Milestones and main pillars of success

**Milestones in the Tolaram’s history**

1. **1st textile MFG 1970**
2. **Indomie into Nigeria 1988**
3. **Vertical Integration 2000s**
4. **Founded in Indonesia 1948**
5. **Diversification begins 1980s**
6. **JV w/ Salim Group 1996**

**Main pillars of success**

1. **Perseverance & Patience**
   - 10 years to become profitable
   - Competitors left due to low volumes
2. **Adaptation**
   - Product selection
   - Vertical integration when needed
3. **Human Capital**
   - Large investments in HC
   - Strong CSR
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A market analysis toolkit was utilized to better understand the decision making process

5C’s Analysis

<table>
<thead>
<tr>
<th>Context</th>
<th>Company</th>
<th>Collaborators</th>
<th>Customers</th>
<th>Competitors</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Expansion relies heavily on inter regional communities.</td>
<td>• JV in 1995 for rights of manufacturing, brand, and sell in West Africa.</td>
<td>• 20,000 employees</td>
<td>• $1 billion industry market (2015, Nigeria)</td>
<td>• Started with no competitors</td>
</tr>
<tr>
<td>• Urbanization rate</td>
<td>• Created and produced the noodle market in Nigeria.</td>
<td>• The Salim Group; together created De United Foods Industries Limited &amp; opened first instant noodle factory in Nigeria.</td>
<td>• Working mothers</td>
<td>• Now 17 competitors brands in Nigeria:</td>
</tr>
<tr>
<td>• LT investments ignoring any possible political instability.</td>
<td>• Vertical Integration of operations</td>
<td>• High investment in human capital</td>
<td>• People living in urban areas</td>
<td>➤ Dangote Noodles (1%)</td>
</tr>
<tr>
<td>• Female participation in workforces</td>
<td>• 6.5% Mkt CAGR since 2011</td>
<td></td>
<td>• 75% of the market share, limited growth</td>
<td>➤ Honeywell Noodles (1.5%)</td>
</tr>
<tr>
<td>• Young &amp; growing population</td>
<td>• Dominant player = premium</td>
<td></td>
<td>• Limited expansion opportunities</td>
<td>➤ Mimee Noodles (1.7%)</td>
</tr>
<tr>
<td>• Increasing spending power</td>
<td></td>
<td></td>
<td></td>
<td>➤ Cherie Noodles (6%)</td>
</tr>
</tbody>
</table>

- Dangote Noodles (1%)
- Honeywell Noodles (1.5%)
- Mimee Noodles (1.7%)
- Cherie Noodles (6%)
- Golden Penn Noodles (5%)
- Chikki Noodles (9%)
- Tummy Tummy Noodles
# Porter’s five forces analysis for the noodles industry in Nigeria

<table>
<thead>
<tr>
<th>Force</th>
<th>Sector characteristic</th>
<th>Result</th>
</tr>
</thead>
</table>
| 1 Supplier/buyer | High supplier power if no Vertical Integration  
Low buyer power in the segment | Low entry barriers  
- High exogenous barriers as CapEx  
- High endogenous barriers as Economies of L |
| 2 Substitutes  | Many potential substitutes  
However low actual threat | Relatively low forces  
- Low power of suppliers *(if VI)* and buyers  
- Low power of substitutes in the segment *(price)* |
| 3 Competitors  | Traditionally low level of competition in segment  
But increasing competition *(17 new competitors)* | Increasing net revenues  
- Dominance in market commanded a premium |
| 4 Entrants     | New entrants through new major trends  
High ex-ante but low ex-post entry barriers | Medium post entry competition  
- Low ex-post barriers in the segment |

"Top Dog" sector
The noodle industry is very challenging for new entrants but very comfortable for occupants.
Tolaram’s strengths and weaknesses and the opportunities and threats they face

**STRENGTHS**
- Complete value chain integration (manufacturing plants for all major raw materials, retail shops, logistics, ventured into infrastructure, energy and digital services)
- Capability of working in emerging/informal market
- Private ownership (risky decisions can be made)
- Values: trust, respect, commitment, courage, humility
- Know-how African businesses

**WEAKNESSES**
- “Executives worried that the company had lost its pioneering drive"
- High commitment: Because of extensive initial investments it takes a long time to become profitable (10yrs for Indomie in Nigeria)

**OPPORTUNITIES**
- Instant noodles: Highly experimental categories with strong first-mover advantage
- Prevalence of the informal sector in Africa
- Africa: Demographic similarities to Indonesia, where Indomie instant noodles boomed
- Growing demand of instant noodles
- Africa is the second largest continent (1.1 bn people)
- Trading Blocs/Regional Communities facilitates ease of trade with low export costs (No export duties or taxes)

**THREATS**
- Nigerian market mature & future growth limited
- Political and economical instability
- Lapses in supply chain
- Poor access to electricity; poor infrastructure & education
- Growing competition in Nigeria (17 noodle brands)
- High time & effort investment needed as every country and each region within the countries differ tremendously
- High monetary investments needed
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A unique framework was created to analyze opportunities in each country the company considered.

Country Analysis – Scoring Strategy

<table>
<thead>
<tr>
<th>Factor</th>
<th>Weightage</th>
<th>Egypt</th>
<th>Ethiopia</th>
<th>Ivory Coast</th>
<th>Kenya</th>
<th>South Africa</th>
</tr>
</thead>
<tbody>
<tr>
<td>Country population (IN MILLIONS)</td>
<td>40%</td>
<td>87</td>
<td>93</td>
<td>21</td>
<td>45</td>
<td>59</td>
</tr>
<tr>
<td>Youth population (less than 15 yrs)*</td>
<td>20%</td>
<td>33%</td>
<td>41%</td>
<td>40%</td>
<td>42%</td>
<td>29%</td>
</tr>
<tr>
<td>Urbanization percentage and rate of urbanization</td>
<td>20%</td>
<td>1.564%</td>
<td>1.078%</td>
<td>0.296%</td>
<td>0.301%</td>
<td>0.336%</td>
</tr>
<tr>
<td>GDP growth of last 5 years</td>
<td>10%</td>
<td>13%</td>
<td>64%</td>
<td>23%</td>
<td>34%</td>
<td>-20%</td>
</tr>
<tr>
<td>Female labour participation*</td>
<td>5%</td>
<td>24%</td>
<td>78%</td>
<td>33%</td>
<td>62%</td>
<td>45%</td>
</tr>
<tr>
<td>Per capita GDP</td>
<td>5%</td>
<td>$3,299</td>
<td>$602</td>
<td>$1,619</td>
<td>$1,356</td>
<td>$5,932</td>
</tr>
</tbody>
</table>

* Source: World Bank 2015

<table>
<thead>
<tr>
<th>Score</th>
<th>37%</th>
<th>40%</th>
<th>9%</th>
<th>19%</th>
<th>25%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>16%</td>
<td>20%</td>
<td>19%</td>
<td>20%</td>
<td>14%</td>
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<tr>
<td></td>
<td>20%</td>
<td>14%</td>
<td>4%</td>
<td>4%</td>
<td>4%</td>
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<tr>
<td></td>
<td>2%</td>
<td>10%</td>
<td>4%</td>
<td>5%</td>
<td>-3%</td>
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<td></td>
<td>2%</td>
<td>5%</td>
<td>2%</td>
<td>4%</td>
<td>3%</td>
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<tr>
<td></td>
<td>3%</td>
<td>1%</td>
<td>1%</td>
<td>1%</td>
<td>5%</td>
</tr>
<tr>
<td>Final Score</td>
<td>79%</td>
<td>89%</td>
<td>39%</td>
<td>54%</td>
<td>48%</td>
</tr>
</tbody>
</table>

Best alternatives Ranking

| 2 | 1 | 5 | 3 | 4 |
Agenda

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The decision was made based on many different factors affecting the company’s overall strategy

The Decision – No Easy Answers

1) Stay in Nigeria; may be saturated and thus may not be able to meet the 2020 revenue goal of $2.2 B

2) Enter Kenya, South Africa & Ivory Coast
   1. Ivory Coast; current distribution, ECOWAS potential (301 M citizens)
   2. South Africa; advanced infrastructure (opportunity to develop new capabilities for the formal retail outlets), SADC potential (234 M citizens)
   3. Kenya; last to enter due to current presence of terrorism, COMESA potential (125 M citizens)

3) Only enter South Africa; ignoring Ivory Coast would be a bad strategy for Tolaram considering their current distribution infrastructure.
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2) Enter Kenya, South Africa & Ivory Coast
   1. Ivory Coast; current distribution, ECOWAS potential (301 M citizens)
   2. South Africa; advanced infrastructure (opportunity to develop new capabilities for the formal retail outlets), SADC potential (234 M citizens)
   3. Ethiopia; country analysis winner (95 M citizens)

3) Only enter South Africa; ignoring Ivory Coast would be a bad strategy for Tolaram considering their current distribution infrastructure.