Look Before You Leap: Diversification as a Growth Strategy

By Gavin Dalgleish, Group MD, Illovo Sugar Africa

11 February 2021: With many businesses still reeling from the last 12 months of national lockdowns and economic slowdowns, there is significant pressure to stabilise operations and secure new avenues for growth. For some companies, especially in the ICT sector, the global pandemic has heralded in an era of unprecedented progress and market gains. However, for most, it has been a time of struggle to maintain commercial sustainability, let alone keep operating at pre-corona levels.

In this changing world, business leaders are keeping their eyes open for new opportunities and are considering the 'what next' to secure growth. Diversification into new markets, new products or new services is generally recognised as a tried and tested route to take – and when it's successful, it can certainly be a high reward. However, if it is deployed without thorough interrogation, research and consideration, it can result in costly mistakes, the dilution of core products and competencies, or sometimes, even a fatal overextension of existing resources.

Finding the sweet spot

At Illovo, we see informed and deliberate diversification, whether in our product offering or customer acquisition strategy, as a foundation of our ongoing growth. We understand the role of diversification in furthering our ambitions, but more importantly, we understand that to diversify successfully, we must always first find the market that makes it possible.

Another key consideration before we leap into a new venture is to explore the regulatory environment, ensuring that there is both policy consistency and clarity around the sector we are hoping to serve. It is not worth making a large investment in something new if the political will to see it through is not supported by long-term, facilitative, regulatory frameworks.

A good example is our business in Eswatini. Being forward-looking, the country itself prioritises renewable energy as part of its energy mix and has created both legislative and financial instruments aimed at kick-starting the sector. As a sugar producer, it was an automatic choice to become involved in supporting Eswatini's energy security mandate as part of our shared value business diversification strategy. After all, the crushing of sugar cane and the generating of power are essential to the process of producing cane sugar. In fact, energy production is the closest value-add by-product we have as part of how we operate. In places like Brazil, sugar production is a significant power generator for the entire country – and mills often look more like power stations than sugar mills.

In Eswatini, we saw the opportunity to install a 25mW co-generation plant as part of a R2.1 billion project to expand our sugar milling capacity. It made sense in terms of our business and the developmental priorities in the country's national agenda. In 2013, Ubombo Sugar Limited was awarded an Independent Power Producer licence, which – through a commercial agreement with the Eswatini Electricity Company - enabled electrical cogeneration to better serve the nation. At the same time, it became a longer-term contributor to Illovo's downstream business. Today, Ubombo produces about 165 gigawatt hours (GWh) of electricity annually, of which about 60 GWh is supplied to the Eswatini national grid. Around 35% of Ubombo's annual profits now come from this diversification initiative.

Do your homework

The issue for many businesses looking to diversify, is that they often make the decision when they are under pressure or in distress. As a result, taking the time to thoughtfully deliberate about the opportunity, the rate-of-return, the potential competitor landscape, or even to develop a market-back strategy, falls away in the rush to secure advantage in a perceived gap. Our experience has shown us that it is critical to pinpoint strategic assets and apply a market led approach that identifies how diversification will add value to the business. Equally, it's really important to identify opportunities with different market characteristics. For example, while the world price of sugar remains volatile and below the cost of production, electricity markets are booming - particularly across Africa which is recognised globally as a power-insecure continent with a steep demand curve.

It's great to identify a new offering, especially if, as in our case, it is from a process that is already part of our operations – such as alcohol production and electricity cogeneration. The proximity, or sector adjacency, of the product to our core operations makes the addition of a new business easier to implement and operate successfully. With sector adjacency and existing organisational competency as key drivers, we took the learnings from our South African potable alcohol business to identify a potential customer base for potable alcohol in East Africa.

At the time, the group had already initiated a strategy to progress ethanol and molasses beneficiation opportunities across all operations with a market, a product and expertise already within our business, investment in a new potable alcohol distillery at our Kilombero sugar mill site in Tanzania in 2013, made good sense. Today, that same distillery has the capacity to produce around 12 million litres of ethanol annually - and at much higher quality than any of our other distilling operations within the group. Even better, it contributes a sizeable profit to the Kilombero business.

Even a small shift can make a big difference

We have also explored diversification when it comes to the product offering in our core busines: producing sugar. Recognising the needs of regional domestic customers to access high quality sugar, but in reduced amounts tailored to shopping habits, we introduced smaller pack sizes. This enhancement stayed true to our original product-quality signature, but offered consumers smaller 220g and 500g quality prepacks, as well as 20kg mini-bulk packs.

The time invested to understand the market requirement and diversify our product range to meet it, has seen us successfully consolidate our home market consumer footprint in Malawi, Zambia, and Tanzania. This small change in product packaging has opened up a wider regional opportunity for a target audience that until then, I believe, we had underserved. It is also a great example of how even a small diversification of our traditional go-to-market product proposition can deliver good returns, for both sales and brand.

Illovo Sugar Africa has a strong track record of diversified product earnings and we believe we understand what it takes to make it work. Our most long-standing diversification initiative is at our Sezela mill on the South Coast, which is the most diversified single sugar mill in Southern Africa. Here, we not only produce sugar, but we do so at one of the best examples of biorefining in the world, where cane-fibre residue after sugar extraction (bagasse) is used to manufacture commercial grade furfural, furfuryl alcohol, and natural flavorants.

An eye to the future

Interestingly and excitingly, we are also beginning to form an approach around the 4th industrial revolution that seeks to harness how physical and biological intersects with digital. We see this as an opportunity for furthering our carbon footprint reduction and water stewardship aspirations, where the adoption of precision agriculture will enhance our business and continue to drive down our cost base. While we recognise the potential within these emerging technologies, we believe in evaluating each opportunity on its individual merits, identifying the market it serves and the value we – and that opportunity – can add. This is part of a continuous and deliberate opportunity evaluation Illovo keeps constantly underway.

As a business, Illovo is alive to all possibilities to diversify our operations in sub-Saharan Africa and understands the critical success factors. That, we believe, is how diversification as a growth strategy of any business can deliver resilience and increased market share.

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About Illovo Sugar Africa

Illovo Sugar Africa (Pty) Ltd is a Pan-African consumer centric agri-business with roots in growing and making sugar and related products. It is Africa's largest sugar producer and has extensive agricultural operations in six southern African countries – Eswatini, Malawi, Mozambique, South Africa, Tanzania and Zambia - manufacturing sugar and downstream products from cane supplied by its own agricultural operations and independent growers. The Group is a wholly owned subsidiary of Associated British Foods plc (ABF), a diversified international food, ingredients and retail group operating in more than 50 countries. Illovo Sugar Africa employs more than 12 000 people in permanent positions across the group with a further 18 000 people employed on a temporary basis. In a recent independent socio-economic study, the company is estimated to support at least 71 443 jobs across the group and for each of Illovo's 29 663 direct employees, at least 1.4 additional jobs are estimated to be supported through grower communities and wider multiplier effects throughout the economy. Illovo has a proud history of significant contribution to local economies in which it operates and its positive social impact across this region on rural communities is substantial. Illovo's total economic impact, including direct, indirect and induced impacts, was estimated at R 23.8 billion in 2016/17