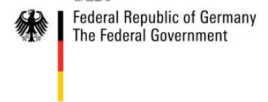




# SADC BUSINESS CASE STUDIES

Various surveys and indices have identified major business constraints in SADC. These include independent assessments of the regional business climate plus studies that specifically reflect the views of the private sector. These assessments have been undertaken over a number of years but there has been little follow up by policy makers or attempts to address the identified constraints. To assist in this regard, the SADC Secretariat in collaboration with Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) has initiated a research and dialogue project that aims at identifying the most important business constraints for the SADC region and making them more tangible by conducting firm level case studies on the identified constraints. This is one of the collection of case studies.



## A CASE STUDY ON CARLSBERG MALAWI LTD

FEBRUARY 2013

### FIRM OVERVIEW

<b>Name</b>	Carlsberg Malawi Ltd.
<b>Nationality</b>	Malawi, Denmark. Owned by Press Corporations Ltd. (Malawian) and Carlsberg International (Danish)
<b>Sector</b>	Beverages
<b>SADC countries where doing business</b>	Malawi, Mozambique and Zambia

### BACKGROUND

Carlsberg Malawi Ltd. (CML) is a beverages company owned by Press Corporations Ltd. (a wholly owned Malawian company) and by Carlsberg International. It has three subsidiary companies operating in Malawi:

- Southern Bottlers Malawi Limited (SBL): SBL produces water and soft drinks for retail and also owns the Coca-Cola franchise in Malawi which enables them to bottle leading brands such as Coca-Cola, Fanta and Sprite.
- Carlsberg Malawi Brewery Limited (CMBL): It is the only modern brewing and packaging company in Malawi. It was established in 1968 in Blantyre and was the first brewery Carlsberg International established outside of Denmark.
- Malawi Distilleries Limited (MDL): MDL is a leading supplier of quality wines and spirits in Malawi. It produces native brands such as Malawi Gin as well as distributing a wide range of globally renowned wines and whiskies.

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## BARRIERS ENCOUNTERED

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CML reported experiencing the following barriers in doing business in SADC:

- **Access to foreign exchange:** Malawi has experienced foreign exchange shortages recently and this meant that companies such as Carlsberg are unable to finance their imported inputs. Carlsberg Malawi Ltd. has access, in theory, to all of the foreign exchange it requires through the Reserve Bank of Malawi. However, the Reserve Bank of Malawi does not always have sufficient supply for the country, therefore making it difficult for CML to access the required funds. Unlike other smaller competitors in Malawi who are able to get around the system using parallel markets etc., CML are a blue chip corporate and have strict governance issues that preclude them from operating outside of the official foreign exchange markets.
- **Corruption:** The level of corruption in Malawi is high and cases of theft and fraud have led to four court cases which involved a costly investment from the company.
- **Transport:** The transport routes and infrastructure in Malawi are poor and in need of investment.
- **Fair competition:** CML does not feel that it has fair competition from others in the market and suggests that the Government could be more influential in changing this through consistent application of its regulations. One example is on the sales of spirits in sachets. The sachets produced at the company are sold for between MK 30 and MK 35 but currently there are competitor products flooding the market at MK 10. These competitors are avoiding paying duty which allows them to sell at a much cheaper price.
- **Access to skills:** In some respects it is difficult for Carlsberg Malawi Ltd. to access all the skills that it requires from the domestic population as many skills are industry specific and there are few other companies in the sector doing targeted training of individuals. There is a need for good chemical engineers and operators who are aligned with the Carlsberg methods.

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## IMPACT OF BARRIERS

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**Access to Foreign Exchange:** In early 2012, Carlsberg Malawi Ltd. (CML) struggled to function at its normal production levels owing to the shortages of foreign exchange required to purchase inputs. This was the biggest constraint to their business activities in Malawi. To comply with the rules laid out in the Coca-Cola franchise contract, all the bottles sold by Southern Bottlers Ltd. need to look the same as the Coke bottles sold everywhere else in the world. However, given the current situation they have been given permission to produce variations on the standard bottle template because they were not able to access the necessary inputs to fully comply with the international standards. The Coca-Cola bottles usually have a red crown lid but SBL were given permission to use the more easily available gold crowns. This compromised their branding. If more of the inputs were produced locally then it would be much easier for Carlsberg Malawi Ltd. to operate in the current climate.

**Corruption:** Court cases in relation to this have been very costly to the company.

**Fair competition:** The lack of fair competition in the market place makes CML products unfairly uncompetitive domestically and constrains expansion of the company.

**Access to skills:** The difficulty of access to skills domestically means that lot of CML's skilled employees are trained in Europe or in-house. The in-house training is quite extensive, costing in the region of MK100 million each year. While there is clearly a significant expense to address the skills challenges, CML is generally able to retain its skilled employees.

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## **FIRM RESPONSE TO BARRIERS, INCLUDING INTERACTION WITH POLICYMAKERS**

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Supplies of inputs have run very low because of the forex shortages. This required consideration of shutting down some of the production lines and possible redundancies. The main concern for the company's management when considering their cut-backs in operations is whether they can still deliver the after tax profit to their shareholders. Additional to this, the company is looking to export more and generate more foreign exchange earnings and they are looking to source more of their inputs from domestic suppliers to reduce their imports. Accessing more of their imports from domestic suppliers will help CML to achieve greater sustainability in the face of forex shortages.

The introduction of an internal zero-tolerance on corruption agenda means that the business adopted a system to decrease bonuses in relation to corruption levels. The employees are told the size of the potential bonus pool at the beginning of a year so they know what to aim for and any losses due to corrupt practice and theft etc. are taken out of this pool, effectively reducing the bonus payment received. The company has also instigated a mechanism for internally reporting corrupt practices in which the reporter can remain anonymous or be publicly congratulated for their moral standards. The measures have worked with great success so far owing to peer pressure and are expected to continue to do so.

The company is quite active in lobbying the Government of Malawi on different issues which they think are important in terms of the regulatory environment. The likelihood however of any interventions taking place as a result of lobbying from the private sector is uncertain because when important issues have been taken up with Malawian Government before, often nothing has changed. The firm has not raised the issues they face with a SADC government or regional body.

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## **ADDITIONAL COMMENTS AND SUGGESTIONS**

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1. The Government of Malawi needs to become more aware of the practical realities of business operations when the macroeconomic environment is hostile. They should consider what steps they can take to make the regulatory environment (in relation to the exchange rate, taxes, fair competition etc.) more favourable to private sector growth.
2. Some competitor products that are on the market are priced so low that it is impossible for them to have entered the country with the relevant import duties on top. Hence, there needs to be greater policing of revenue collection at borders for there to be fairer competition domestically.
3. There needs to be investment in infrastructure to reduce transport costs for companies and facilitate export growth. Improvements to the railway would significantly decrease the cost of CML's goods (through decreased import costs) and may open up new markets for the products because exporting goods would become more cost effective. Therefore the company is in full support of the rehabilitation efforts by Central East African Railways on the railway network connection to Mozambique.
4. Education and training initiatives should be clearly linked with the skilled required by industry.