

# Aliko Dangote

## The richest man in Africa

**Phil Waterhouse** provides a case study of the Nigerian cement entrepreneur, who is one of the 100 richest people in the world

**W**hile countries such as China have experienced rapid economic growth in the last 30 years, many African countries have struggled to match these rates. However, this is changing. With over 1 billion people living in more than 50 countries, the growth opportunities in African markets are attracting interest from around the globe. Africa is a resource-rich continent, and China has invested heavily in the area over the last decade.

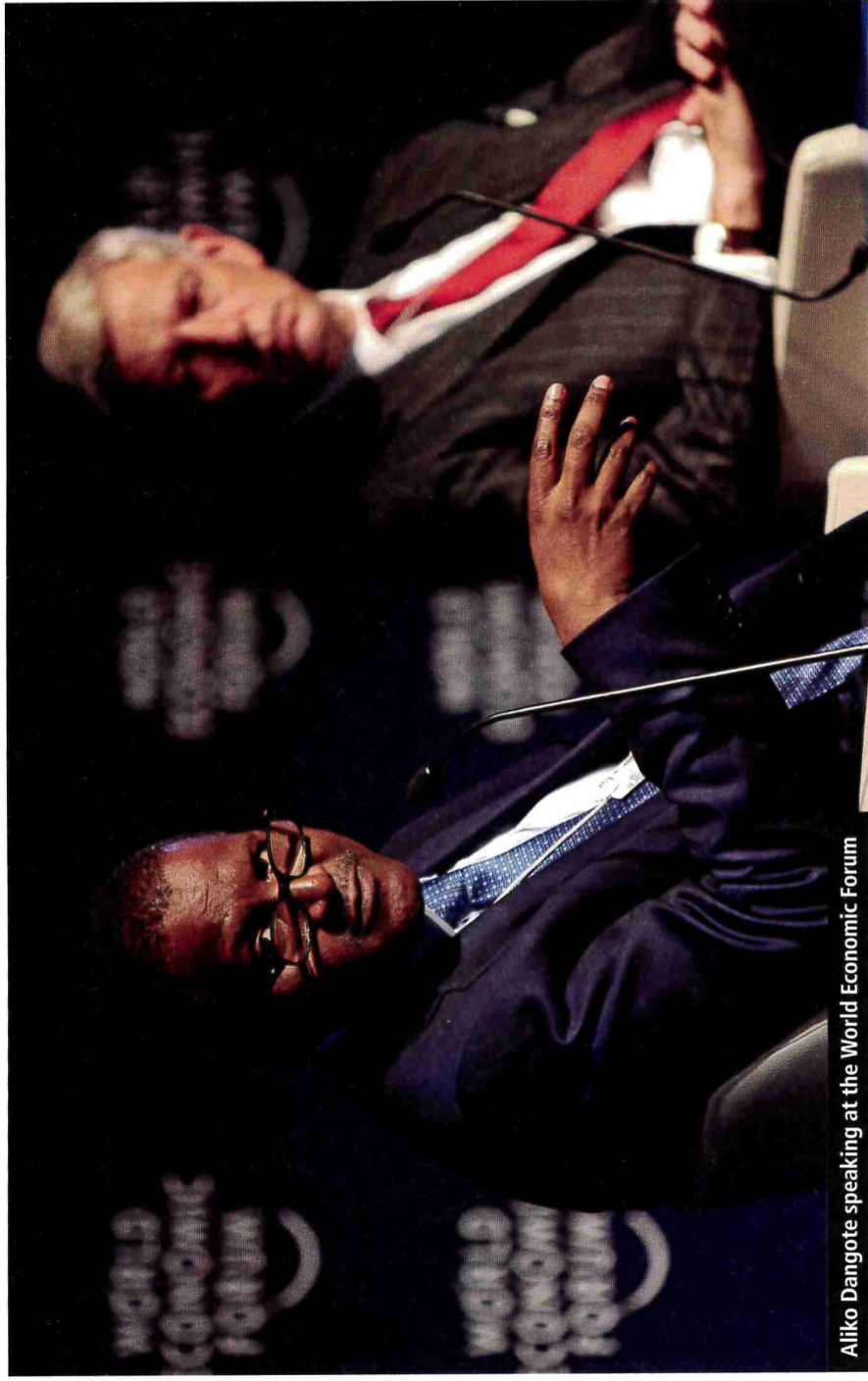
Currently, the combined gross domestic product (GDP) of all the countries in Africa is about 30% of that of the USA. But with average growth rates of around 5%, African markets are becoming increasingly more lucrative for outside investors. It is estimated that the combined GDP of the continent will top \$30 trillion by 2050.

### **Building a business**

Multinational corporations are often criticised for exploiting less-developed areas of the world and sending the profits back to their head offices in already-rich developed countries and tax havens. Therefore, the rise of the Nigerian entrepreneur Aliko Dangote is significant. The Dangote Group was founded in 1981 and has built up an extremely successful business based around a fundamental building resource, cement.

Dangote owns five cement plants in Nigeria, Senegal and Tanzania and they are some of the largest in the world. Each plant can produce enough sacks of cement to fill over 1,000 trucks a day.

In the cement market, transportation costs are significantly high due to the bulky nature of the finished product. In some



Aliko Dangote speaking at the World Economic Forum

African markets cement can cost up to \$10 a bag compared with a global average of just over \$3. Dangote Cement has been accused of using predatory pricing to ward off potential competition, and this has meant that the company has one of the most significant monopolies in the world. This is a strong position to have and exploit, and this monopoly has led to Dangote Cement having considerable dominance within African markets.

### **Energy and enterprise**

Nigeria is rich in natural resources, particularly oil and natural gas. The oil refineries within the country are mainly owned and operated by the state. Due to the age and inefficiency of these plants, the country is dependent on imports for its own energy needs.

This is an area that Dangote is keen to exploit, as he wants to diversify away from sole reliance on the cement business. In 2013 he invested \$100 million to buy up over 2,800 hectares of land 65 km from the city of Lagos. The aim is to build a fertiliser plant and an oil refinery. If these plans turn out to be successful, the firm will move from making revenues of \$4 billion a year to over \$30 billion, equating to around 8% of Nigeria's GDP.

The land that Dangote purchased is within an enterprise zone, so it is subject to much lower regulation and taxes than other areas in Nigeria. This has led to critics of Dangote accusing him of using his political connections to effectively operate from a tax-free 'island' within the country.

While Nigeria is one of the richest countries in terms of resources and potential output, it also has extreme levels of inequality. It is the largest country by population in Africa, and over 50% of Nigerians live in extreme poverty.

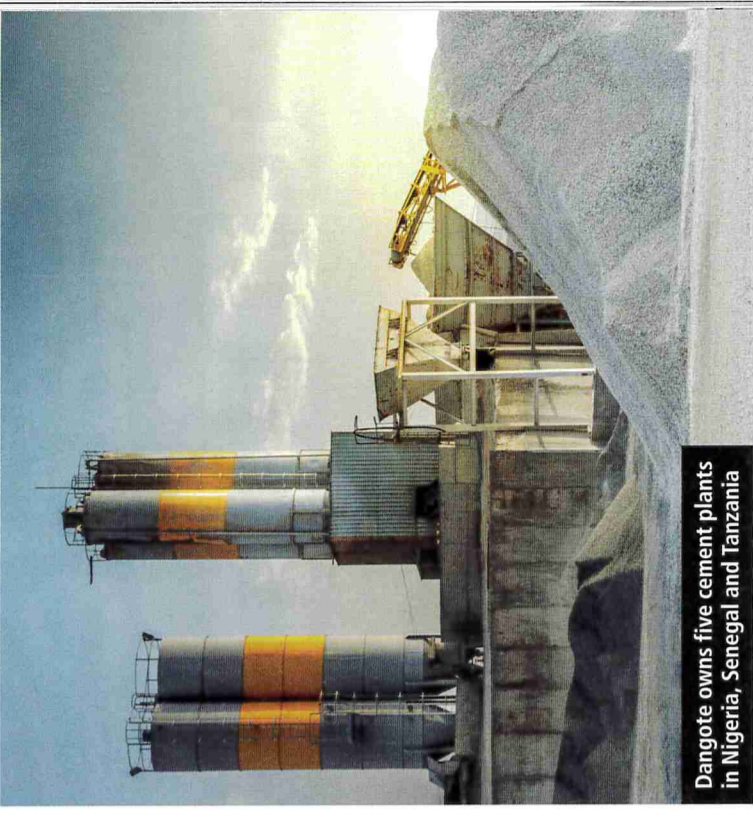
Dangote believes in the power of markets to act as an incentive for future generations. While he has expanded his cement operations into other African nations such as Ghana and Cameroon, he is passionate about growing the overall wealth of the average Nigerian and helping the country stand on its own and become less reliant on multinational organisations that repatriate profits back to their home countries.

### **Local knowledge**

The World Bank ranks countries according to how easy it is to do business in that country. Nigeria scores a lowly 53 — for comparison Kenya scores 70, South Africa scores 66 and the UK scores 83. Out of the 190 countries measured by the index, Nigeria is ranked a lowly 146th. This is due to excessive amounts of bureaucracy, poor infrastructure and an ever-changing political landscape.

Many Western companies have struggled to do business in Nigeria, and many have removed their investments from the country. However, Dangote has the advantage of knowing Nigeria's markets and how they work. He has built up his business empire into a vertically integrated company that operates across many sectors of the economy.

Even before the construction of the fertiliser plant and oil refinery, the Dangote Group made much more than cement. Over the last 30 years, the company has moved into manufacturing, initially in sugar and flour production. The group supplies over 70% of sugar to the country's soft drink manufacturers, breweries and confectioners. Dangote's sugar refinery can



Dangote owns five cement plants in Nigeria, Senegal and Tanzania

produce over 800,000 tonnes of sugar each year and is the third-largest in the world.

The group also has major investments in real estate, banking, textiles and transport. When the company bought an abandoned piece of land at the Apapa port, not only did it get approval to build a new flour plant, it was also able to use its transport company to provide the fleet of buses that brought staff into the factory. Dangote employs more than 30,000 people and is the largest industrial conglomerate in west Africa. Since 2009, the company has moved into telecommunications and has put in over 15,000 kilometres of fibre-optic cables across Nigeria.

### **Porter and Dangote**

The spreading of risk into different industries, all fundamentally providing essential services to the country, has put Dangote in a strong position. If we look at Dangote's companies in terms of Porter's five forces model, in pretty much every industry that he operates in the competitive forces are relatively low, giving him considerable potential to make huge profits. His current wealth valuation is \$17 billion, and when the oil and fertiliser plants come online his wealth is set to double. Dangote donates around \$100 million per year to his Aliko Dangote Foundation, which works on projects such as building hospitals and tackling malnutrition. He has also been linked with the purchase of Arsenal Football Club.

Dangote is keen to attract new business and economic growth to Nigeria. While it is unlikely that foreign competitors will look to take him on in his areas of dominance, companies that offer supporting services will want to 'follow the money', and this should further boost the economy via the multiplier effect.

Phil Waterhouse is joint editor of *Business Review* and head of business and economics at Bedford School.