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# Unlocking the **Potential** in **Egypt**



Confederation of Danish Industry

# Unlocking the Potential in Egypt



Confederation of Danish Industry

# Foreword

Danish-Egyptian commercial relations are extensive – more extensive than what first meets the eye. In fact, Egypt is the third biggest purchaser of total Danish exports to the region – right after the United Arab Emirates and Saudi Arabia. This economic engagement is built on a combination of the substantial construction works done by Danish companies in the Egyptian energy sector and port facilities, the impressive amount of Danish ships sailing through the Suez Canal, and the number of Danish tourists visiting Egypt every year.

And Egypt has a clear potential of becoming an even bigger market. With around 85 million inhabitants, Egypt's number of potential customers to Danish products is huge. Sectors such as food, health, and energy are obviously interesting, but so is the potential for green technology over all.

The Egyptian political turmoil of the last years has obviously slowed down the growth of the Egyptian economy and the ability to attract foreign investments. This creates further challenges for Egyptian governments, because the continuous stream of newcomers to the Egyptian labor market – half of the population being under 25 years old – poses a demand for high growth rates to accommodate the young Egyptians' aspirations for jobs and prosperity.

The Danish government supports Egypt through a number of initiatives that aim to foster economic growth and better work conditions through Danish private sector investments and tech-

nology transfer. Among other initiatives, the DANIDA Business Partnerships programme supports partnerships between Danish and Egyptian businesses in priority sectors with the objective of supporting sustainable development and contributing to poverty reduction in Egypt. The Investment Fund for Developing Countries (IFU), with its regional office in Cairo, offers advice and risk capital on commercial and market terms to Danish companies wanting to invest and set up a business in developing countries. The fund has over the years invested a total of DKK 267 million in 16 projects in Egypt. Also, the Danish Trade Council in Egypt promotes Danish-Egyptian business, trade, and investment relations by increasing Danish companies' awareness about the opportunities that the Egyptian market presents.

So: The potential is there, and the tools are there. Let's unlock the potential!



**Pernille Dahler Kardel**  
Ambassador at the Embassy of Denmark in Egypt

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# Doing business in Egypt

## Why Egypt is a promising market

Egypt is seen as a major emerging market and is among the "N11"; a group of eleven countries with promising outlooks for investment and future growth that, together with the BRIC countries<sup>1</sup>, are expected to become the world's largest economies in the 21st century.

### 🕒 FACT: NEXT 11

- 🕒 *N11 stands for Next Eleven and covers the next eleven big growth economies in the world.*
- 🕒 *The eleven countries are: Bangladesh, Egypt, Indonesia, Iran, Mexico, Nigeria, Pakistan, Philippines, Turkey, South Korea, and Vietnam.*
- 🕒 *The countries were selected by the international investment bank Goldman Sachs in 2005. The criteria used were macroeconomic stability, political maturity, openness of trade and investments, and quality in education.*

## Numerous trade agreements

Egypt has access to key markets through various multilateral and bilateral trade agreements, including its membership in the Greater Arab Free Trade Agreement (GAFTA) together with 22

<sup>1</sup> Brazil, Russia, India, and China

## EGYPT AT A GLANCE

|                                    |  |
|------------------------------------|--|
| Official name                      | Arab Republic of Egypt   |
| Capital                            | Cairo  |
| Major cities                       | Cairo, Alexandria, Giza  |
| Institutional system               | Republic   |
| Administrative divisions           | 27 governorates  |
| Area                               | 1,001,449 km <sup>2</sup>                                      |
| Time zone                          | GMT +2   |
| International memberships          | Arab League, OIC, UN, Arab Maghreb Union, Opec, IMF, WTO, IAEA |
| Currency                           | Egyptian Pound (E£)  |
| Official languages                 | Arabic (English and French understood by educated classes)     |
| Religion                           | Islam (90 percent), Christianity (10 percent)                  |
| Population                         | 85.3 million (2013)  |
| Urban population                   | 43.5 percent of total population                               |
| Share of population below 15 years | 32.3 percent (2013)  |

other Arab nations, as well as its free trade access to the EFTA countries (Iceland, Lichtenstein, Norway and Switzerland) and Jordan, Tunisia, Morocco, and Turkey. In addition, Egypt has entered a partnership with the United States, and its Common Market for Eastern and Southern Africa (COMESA) membership provides Egypt with free-trade access to 18 other African states, representing a market of more than 450 million consumers. Last but not least, the free trade zone between all Mediterranean countries and the European Union (EU) strengthens the trade between Egypt and its most important trade partner, the EU, whose member countries collectively account for 37 percent of Egypt's total exports and 30 percent of total imports.

Envisaged to foster trade and investment relations amongst member countries, these trading arrangements remove tariffs and other impediments to the international trade. This means that a foreign business can set up its production in Egypt and use this as a base for exports to other countries in the MENA (Middle

East and North Africa) region or in Sub-Saharan Africa, with eliminated import duties in these countries.

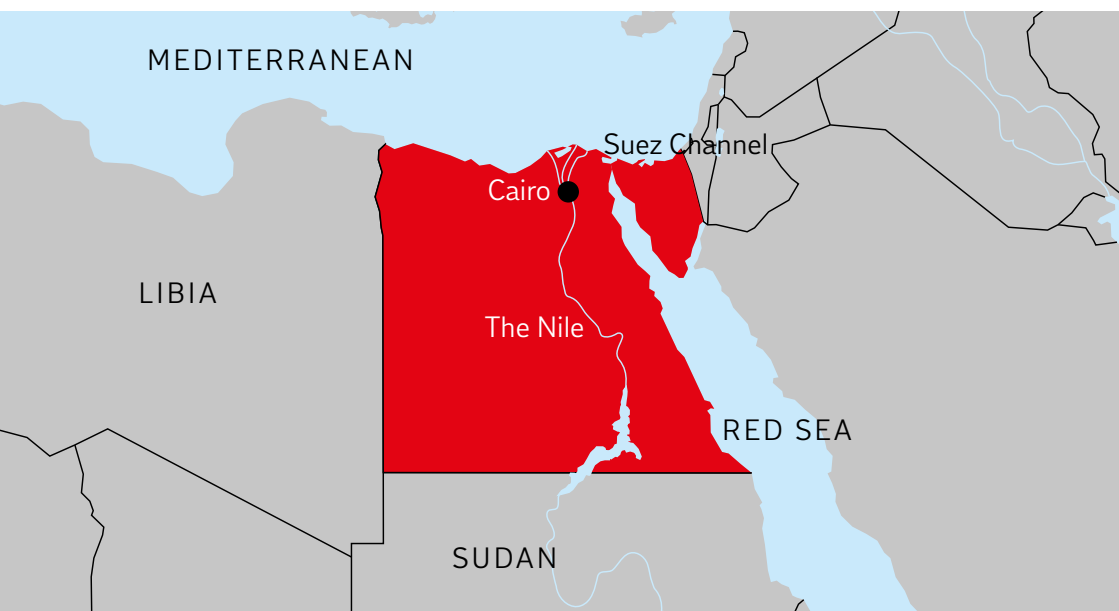
### **A strategic location**

One of the reasons Egypt is seen as a major emerging market is its geographical location. Egypt is strategically located at the intersection of the Mediterranean, Middle East, North Africa and Sub-Saharan Africa, and is as such placed at the "center" of the World. At the same time, Egypt is the keeper of the Suez Channel, through which 8 percent of the world's seaborne trade flows. The channel is especially important for the international energy markets and is a key source of income for the Egyptian government. Foreign companies can benefit from Egypt's location by using it as a stepping stone on their way to Sub-Saharan markets.

### **A growing population and strong consumer market**

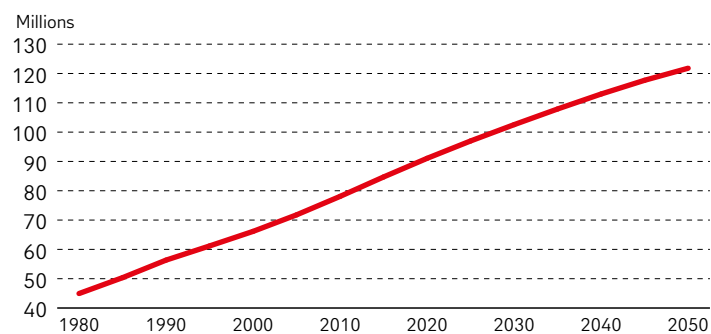
Egypt is the most populous country in the Middle East and the second most populous country in Africa (after Nigeria). According to UN data forecast, Egypt's population will exceed 100 million people by 2020. While approximately one out of four Egyptians lives below the national poverty line<sup>2</sup>, there is still a strong consumer market, especially in and around the major cities. Therefore, Egypt is considered to be the largest and fastest growing consumer goods market in the MENA region, which is witnessed by the arrival of global brands and a sharp expansion of retail sales.

The average total disposable income and consumer expenditure in Egypt is forecast to grow at an annual average rate of 5.7 percent during the period of 2012–2020. Manufacturers can reap the benefits of the expected income rise by targeting the middle youth (aged 30–44), who typically have the highest disposable income among population groups. Accounting for 21.4 percent of the total population, this group will represent Egypt's largest consumer segment by 2020.



<sup>2</sup> The World Bank, Data by Country, 2011

## Population of Egypt



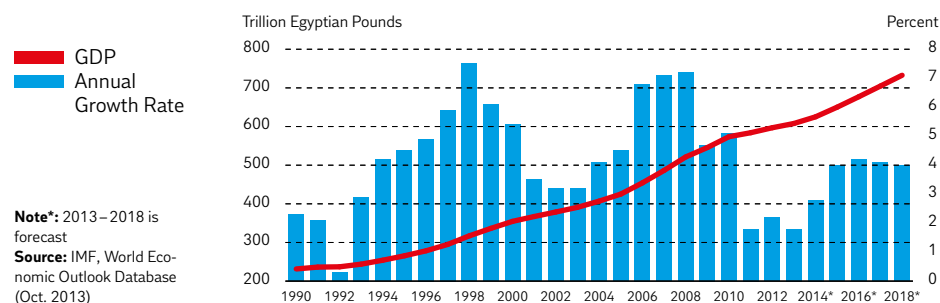
Source: United Nations, Department of Economic & Social Affairs, World Population Prospects: The 2012 Revision

## Better economic outlook

Egypt's economy was making good progress in the years leading up to the revolution. The country weathered the global financial downturn well by global standards, keeping GDP growth around 5 percent throughout the crisis. The revolution caused Egypt's economy to stall, and growth is currently still on the slow side. However, the country has started its transformation back to a stable economy.

## Egyptian GDP

Constant prices, 2002



Note\*: 2013 – 2018 is forecast  
Source: IMF, World Economic Outlook Database (Oct. 2013)

## Egypt in Numbers

|                               |                              |
|-------------------------------|------------------------------|
| GDP                           | 260 billion USD (2012)       |
| Average GDP growth            | 4.2 percent (5 past years)   |
| Inflation                     | 7.1 percent (2012)           |
| Average inflation rate        | 11.72 percent (5 past years) |
| Exports of goods and services | 21.0 percent of GDP (2012)   |
| Imports of goods and services | 26.2 percent of GDP (2012)   |

### Main importers of Egyptian goods (2012)

|               |             |
|---------------|-------------|
| Italy         | 7.9 percent |
| India         | 6.9 percent |
| United States | 6.8 percent |
| Saudi Arabia  | 6.2 percent |
| Turkey        | 5.3 percent |

Sources: IMF; World Economic Outlook Database; The World Bank; CIA World Factbook

## Share of Egypt's Total Imports by Country

| Country            | Percentage of total imports |
|--------------------|-----------------------------|
| China              | 9.4                         |
| USA                | 7.6                         |
| Germany            | 6.7                         |
| Russian Federation | 5.7                         |
| Ukraine            | 5.5                         |
| Turkey             | 5.0                         |
| Italy              | 5.0                         |
| Brazil             | 4.0                         |
| Saudi Arabia       | 3.9                         |
| Kuwait             | 3.9                         |
| France             | 3.3                         |
| India              | 3.2                         |
| Rep. of Korea      | 2.5                         |
| Belgium            | 2.4                         |
| Japan              | 2.3                         |
| Rest of the World  | 29.7                        |

Sources: UN Commodity Trade Statistics Database; Confederation of Danish Industry



## **Business Conditions**

In the World Bank's 2014 Doing Business report, Egypt is ranked number 128 out of 189 listed countries worldwide, dropping back one place since 2013. While Egypt outperforms the average rank for the MENA region on areas such as starting a business and trading across borders, it is evident that the overall score could be better, and thus there are a number of societal factors that businesses need to be aware of before heading for the Egyptian market.

### **Political instability**

The biggest concern of foreign investors is the political instability and turmoil on the streets in Egypt. However, there have been very few disturbances like that in the past year and there is peace in general. The revolution affected some businesses, mainly those working with the government, as these agreements and payments were put on hold. The hardest hit sectors were tourism, manufacturing, and construction. Apart from this, the revolution has had fairly little influence on daily business.

As for the business environment in general, the unpredictable government policies make Egypt a challenging place to do business, especially after the Arab Spring.

Despite its political consequences, it was not the lack of political rights or democracy per se that initiated the Arab Spring – it was the barriers to inclusive economic growth and employment, set up by authoritarian regimes that did not grant small and medium sized businesses the needed enabling private sector environment. The success of the revolution and the transition to democracy are therefore very much dependent upon the successful creation of jobs inclusive economic growth.



## Security and corruption

The ranking of Egypt as number 114 out of 175 countries<sup>3</sup> in the Corruption Perceptions Index testifies the fact that corruption is still a serious problem in the country. Foreign companies will most likely experience this first-hand when doing business in Egypt, as bribery and various kinds of money under the table are widespread methods in both the private and public sector.

The Egyptian system for protection of intellectual properties is not as extensive as in many western countries. The rules are not clear, and the system is not very safe, resulting in many counterfeit products on the market. Consequently, it can be hard for a foreign company to enforce its rights, even if it is in position of a patent.

Finally, very little is known about how much of the economy is owned or controlled by the army, but recent estimates suggest that the army accounts for minimum 10 percent and up to 40 percent of the economy<sup>4</sup>.

## A challenge to find the right workers

Egypt is a demographically young country and the Egyptian labor pool continues to grow at a rapid rate. This is one of the reasons why unemployment remains a problem in Egypt.

Egypt's education system has grown rapidly during the last two decades, and Egypt now has the largest education system in the MENA region. However, university graduation rates are low, particularly in agriculture, science and engineering as well as manufacturing and construction. As a result, skill shortages are high in these areas. In recent years, the government of Egypt has given great priority to increasing Egypt's human capital base through improved education, but there is currently still a scarcity of skilled workers and managers.

<sup>3</sup> Transparency International, The Corruption Perceptions Index 2013

<sup>4</sup> Euromonitor, Country Profile, 2013

With 73.9 percent<sup>5</sup> of the population above 15 years being able to read and write, the literacy rate in Egypt is high compared to other countries in the region. The labor force is also relatively competitively priced, especially when compared with the wage level in western countries. The minimum wage for a 19-year old Egyptian worker is 113 USD/month<sup>6</sup>. This means that despite the challenged education system, it is possible for a foreign company to find highly skilled labor in Egypt, as long as it is prepared to spend more time finding the right local employees.

There are currently great differences in the literary rates and educational levels of the rich and the poor.

## Inequality of income

There are huge disparities between urban and rural areas in Egypt. The top earning population group is located in and around the biggest cities. Businesses that target the middle class as well as the group of wealthy people can find a very lucrative market in Egypt.

The Base of the Pyramid markets in Egypt, catering to the 25.2 percent of the population living below the poverty line and thereby at the lowest base of the economic pyramid, have to date not been targeted by larger companies, especially not Western companies. The main reasons for this are probably the uncertainty about the market potential and the perceived high risks associated with selling to a customer group that is largely unchartered territory.

<sup>5</sup> CIA World Factbook, 2012 estimate

<sup>6</sup> The World Bank, Doing Business 2013



# RENEWABLE ENERGY: A Sector with Promising Potential

With several wind farms along the Gulf of Suez and a large-scale solar-gas hybrid plant in operation, Egypt is already a regional pioneer of renewable energy. However, the country's energy demand has been growing continuously for the past two decades, contributing to a vast renewable energy potential.

The reasons behind the increasing demand are the growing population, the urbanization, the growing industrial sector, and the per capita electricity consumption, which is estimated to increase by around 18 percent from 2012 to 2016. Furthermore, Egypt's national gas reserves are expected to be depleted within the next 57 years. With the rapidly growing demand for electricity in Egypt, the need to develop alternative power sources is becoming urgent, and the private sector will be instrumental to Egypt's ability to meet the future demand.

Egypt has huge land areas, many sunny hours, and high wind speed – all components that make Egypt attractive for wind, solar, and biomass investment. Currently, renewable energy accounts for 12 percent of the total energy supply in Egypt, and the state plans to supply 20 percent of its power needs from renewable sources by 2020. This target is expected to be met largely by scaling-up of wind power projects, with which wind power by 2020 is expected to account for 12 percent of Egypt's total electricity generation. Biodiesel will also represent a fair share of the new energy production, and both of these renewable energy technologies are supported by Egypt's abundance of land and the country's stable climate conditions.

## ➔ 2020 TARGETS

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Co-funded by the World Bank Group, the African Development Bank and others, Egypt has set the following targets for year 2020:

- ⊙ 20 percent of the projected 60 GW in demand must come from renewable energy.
- ⊙ 12 percent of total electricity generation must come from wind – equivalent to a capacity of about 7,200 MW – 2,500 MW of which is to be provided by private mills.
- ⊙ Biomass must generate an expected share of 1,500 MW worth of electricity.

The renewable energy sector offers significant business opportunities for foreign companies who possess superior technological solutions, and the Egyptian government is striving to minimize risks connected with the industry, making investing more attractive to private companies.



## ➔ INVESTOR-FRIENDLY INDUSTRY

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With the aim of boosting private investment, renewable energy equipment is exempted from customs and tariffs. Furthermore, the Egyptian government has developed an investor-friendly incentive system and has taken a number of other initiatives, including to:

- ⊙ Introduce a feed-in tariff scheme in the development of wind farms, a competitive bidding process for projects, and a seamless licensing process with swift handling of paper work.
- ⊙ Reduce the cost of infrastructure investment for foreign renewable energy companies by identifying logistically suitable areas and at the same time providing the locations with connection access to the national grid.
- ⊙ Construct a high capacity transmission system from the wind farms in the Gulf of Suez to serve heavily populated areas such as Cairo.
- ⊙ Carry out several feasibility studies and create an overall strategy for the renewable energy sector in collaboration with the EU.

The implementation of a renewable energy technology is mainly dependent on how commercialized the technology is. In this context, Egypt sees immediate opportunities in biodiesel and especially in wind, partly because the Suez Canal area has one of the highest consistent wind speeds in the world at 10m/s.

As for solar energy technology, the demand is expected to be very high by 2020. The high intensity of direct solar radiation (2,000 – 2,600 KWh/m<sup>2</sup>) in Egypt shows great potential for solar energy development, especially in Upper Egypt. This huge resource can be used both in distributed photovoltaic systems and in large central solar thermal power stations, whereby both rural and centralized urban demand can be covered.

**Sources:** Egypt's General Authority for Investment (GAFI), the National Renewable Energy Authority (NREA).



# The Lessons Learned in Egypt – Case Studies

A number of issues make foreign companies – large and small – think twice before entering the Egyptian market. Uncertainty is common when it comes to return on investment, how to reach potential customers, finding the right partner, etc. The following three case stories aim at outlining experiences made by foreign companies in Egypt with the purpose of providing inspiration and practical advice on both market entry and local operations of a business in Egypt.



# Grundfos:

## Egypt is a stepping stone to other North African markets

Grundfos is a multinational company with 18,000 employees, known for its pumps and water application systems. Grundfos has been active in the pump market for more than 60 years, and is represented by 80 companies in more than 55 countries.

### Grundfos in Egypt

Grundfos started out carefully with one local agent in Egypt. After a successful period of time, the company decided to expand its local network from one to four distributors. In 2002, Grundfos opened a representation office in Cairo, from which four employees handled all of Grundfos' activities in Egypt.


The outlook for Grundfos' business in Egypt was promising, and hence the company undertook a feasibility study to determine the benefits of establishing a subsidiary. In 2009, Grundfos Egypt was established as an Egyptian company owned by the Grundfos Group in Denmark and Switzerland respectively. When establishing the company, Grundfos used two lawyers – one to get a first opinion, and a second to confirm the rightness of the first. This was necessary due to the cumbersome legislation in Egypt.

The launch of its Egyptian company represents the first step of Grundfos' plan to focus more on the North African region. One of the reasons for choosing Egypt as the location for the regional headquarters was the very skilled workforce available in the country. Another reason was the strategic geographical location of the country.

Today, Grundfos Egypt employs 24 people – 22 Egyptians and two Libyans – who together are handling all sales, after-sales, and marketing activities for Egypt, Libya, Sudan, and South Sudan. 55 percent of Grundfos Egypt's sales are still carried out by local distributors, but the physical presence in Egypt enables Grundfos to manage bigger sales projects as well, including sales to local authorities and the government. In addition, Grundfos can secure technical support to its distributors via its local presence, which is crucial due to the complexity of its products and service solutions.

Grundfos has created a Danish environment in its Egyptian office, where frequent communication with the Grundfos Group's headquarters and closely linked HR procedures keep employee loyalty high and show employees that they are an important part of a bigger organization.

Grundfos Egypt is witnessing increasing interest towards its products and the company as a whole, which its Facebook page with more than 120,000 followers testifies. The company uses social media strategically as both a marketing channel and an employer branding platform, and as a result receives many enquiries. In general, creation of brand awareness locally is one of Grundfos Egypt's focus areas.

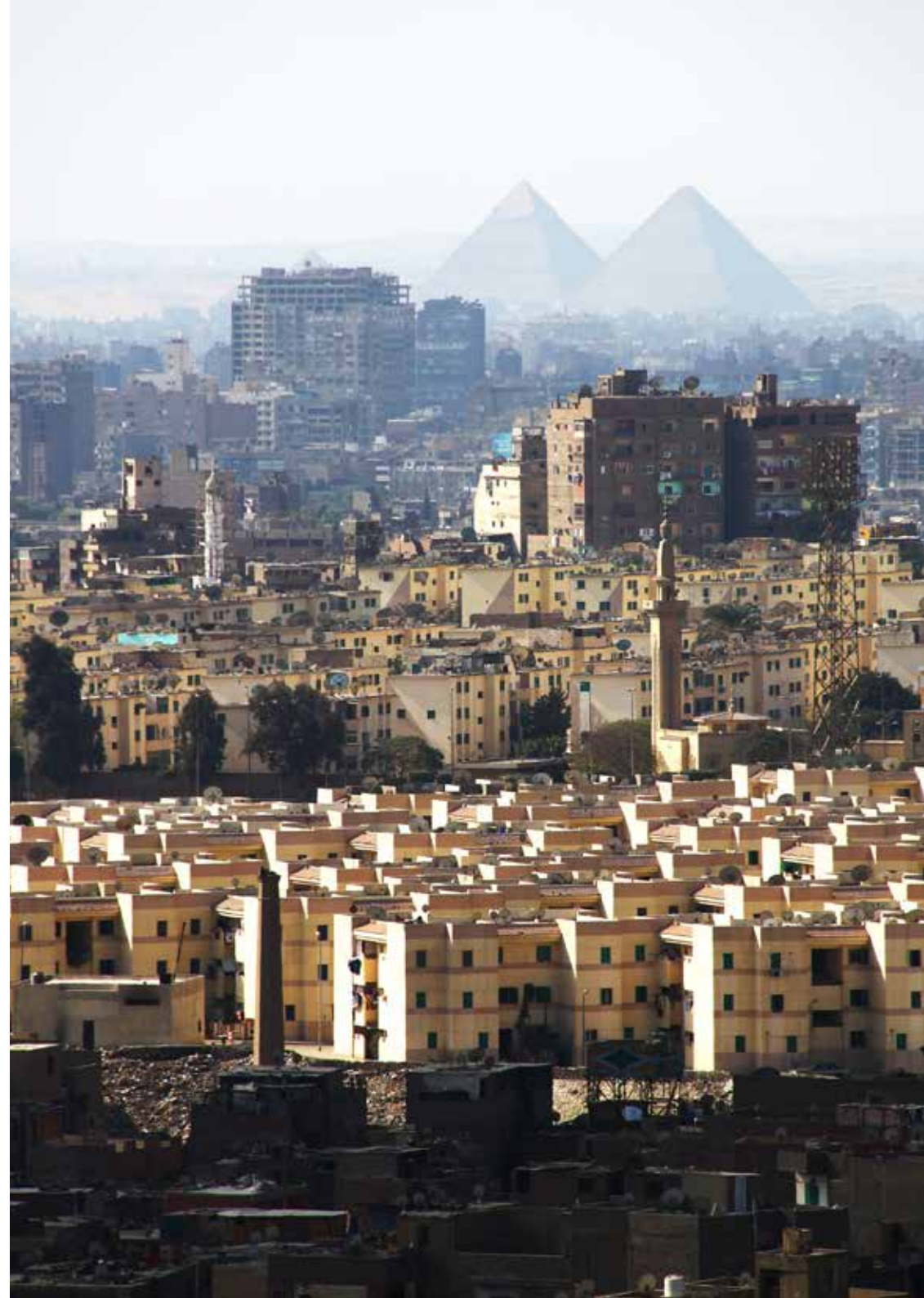
 **We try to avoid being in a direct deal with the government. Instead, we use a contractor or distributor as a link between us and the government. In this way, we don't have to deal with payment conditions and risk a bad cash flow”**

*Mr. Ehab Eshak, General Manager in Grundfos Egypt*

Grundfos currently owns 10–12 percent of the Egyptian market. Its ambition is to expand the team and keep on investing in Egypt resulting in a 30–40 percent market share, while also strengthening its position in North Africa in general.

### Recommendations from Grundfos

- ⊙ **Keep track of your performance.** Measure your activities continuously and adjust your expectations/KPIs on a quarterly basis to avoid any surprises.
- ⊙ **Prioritize training.** Preparing the local employees to the meet the company’s international standard level requires resources, but will pay off.
- ⊙ **Remember your company culture.** Creating a “foreign” environment at your Egypt office can secure unity between the local team and your employees at home.
- ⊙ **Consult lawyers.** The communication from the Egyptian government can be unclear and confusing for a foreign company who wishes to enter the market. It is better to use too many lawyers than too few.
- ⊙ **Prepare for cash flow challenges.** Late payments are normal in Egypt. Especially payments from the government can take several months or up to a year.
- ⊙ **Trust needs to be built.** Businessmen are often skeptical about other businesses’ promises, since there is a risk that these might not be kept. Try to create trust between you and your business partner through relationship- and mutual interest building.
- ⊙ **A good differentiation strategy can get you far.** Having a high-quality product with a high price is not a problem, as long as you make the added value visible to the customers, ensure superb after-sales support, and promote the durability of your product.



# Orana:

## Fighting conventional perceptions with a strong branding effort

Orana is a Danish B2B supplier of fruit-based raw materials. The company sells tailor-made products like concentrates for juices, fruit preparations for yoghurt, and jams for cakes to its customers, who are also actively involved in the innovation process. Orana was founded in 1984 and is today exporting to more than 40 countries.

### Orana in Egypt

In 2005, Orana entered the Egyptian market through a joint venture with a local Egyptian business contact, who Orana had already cooperated with for years. Orana teamed up with the Danish Investment Fund for Developing Countries (IFU), which functioned as a co-investor and a consultant. Today, Orana is still working together with the local partner, who knows the market very well and thus functions as a support on e.g. the local legislation. Additionally, the partner has an extensive local business network, which Orana benefits a lot from.

The establishment in Egypt includes both a factory and a sales unit, enabling Orana to both produce and deliver. In total, 44 Egyptian employees are working at Orana's office in Cairo, led by a Danish manager. Orana prioritizes training of its Egyptian employees, and the training is conducted locally by visiting employees from the company's headquarters in Denmark. Furthermore, all Egyptian employees are linked to a Danish employee,

who functions as a guide and supervisor for them, following up on tasks and supporting where needed.

Prior to its physical establishment in Egypt, Orana had been exporting its products to several different Middle Eastern markets on a more random basis. Egypt was chosen as the local base because of the fairly cheap labor, the strategic location of the country, and last but not least the country's unique trade agreements. Even though it is slightly more expensive for Orana to run its factory in Egypt compared to other countries in the region, Egypt is still the country of choice due to its trade agreements, allowing Orana to export its products from Egypt to 28 other African countries with 0 percent import duties.

Since Orana needs to import many of its raw materials such as apricots and cherries, the company is dependent on the Egyptian border inspections. As the processing time on all imported products in Egypt is generally very long, this is an ongoing challenge for Orana, and hence the local production time is not as fast as one might have wished for. However, this goes for all importing companies in Egypt, and does not threaten Orana's competitiveness.


Orana has success with local adaptation to the market, and has placed an R&D department in Egypt too. Through this department, Orana develops its products and solutions together with its local customers, and physical visits to these companies with tastings and showings of products ensure strong customer relationships and a strong brand awareness of Orana in Egypt.

Orana is continuously struggling with the common misperception that all Egyptian factories have bad production conditions. The company has experienced customers who did not want to buy its products as long as these were produced in Egypt. To combat this challenge, Orana often invites stakeholders to visit its production facilities, and always focuses on building its brand, making sure that Orana equals good quality and good production conditions.

Orana's long-term goal is to become the market leader for the entire African continent. Many African markets are still at their early stages, and Orana plans to move quickly to reap the benefits of these growing markets.

### Recommendations from Orana

- ⊙ **Budget for legal aid.** One thing you need to make sure to prioritize is lawyers, as the legislation is complicated to understand for foreign companies.
- ⊙ **Be patient and beware of corruption.** Things take a very long time in Egypt. Money under the table is normal, expected, and almost part of the culture in Egypt. Like Orana, most western companies are not willing to pay under the table, which means that it takes longer time for them to acquire licenses, certificates, and other things you need to apply for.
- ⊙ **Look for more than mere skills in employees.** Finding the right employees has been one of the challenges for Orana in Egypt. Both in terms of skills and the willingness to work hard. Make sure to also recruit on personal factors such as eagerness to learn, initiation, creativity, dedication, discipline, etc.

 **Few believe that a production site in Egypt is not as "bad" as average local factories. But we have a Danish factory on Egyptian ground, and we sometimes have to invite customers to visit it in order to ensure them of our fine production conditions"**

*Mr. Niels Østerberg, CEO of Orana*

## Schneider Electric: French determination and long-term investment to become strong local player

Schneider Electric is a French-owned multinational company and global market leader within energy management. Today, Schneider has over 140,000 employees in more than 100 countries, and focuses heavily on new markets. The annual sales figures reached EUR 24 billion in 2012 for the group, 41 percent of the revenue coming from new economies.

### Schneider Electric in Egypt

Schneider has been present in Egypt since the 1980's. The company started out by having a sales office, which has now grown into a full production facility and the North East African center for Schneider. The strategy was long-term growth and increased investment in the Egyptian market, from where Schneider could service the surrounding African markets.

Today, Schneider has both private and public customers, and deals directly with ministries. This particular segment can be challenging, as there can be a lack of funding from public customers and payments have often been delayed due to the political instability in the past years. The growth rates during and after the revolution have been slower than expected, but Schneider has managed to increase exports out of Egypt at the same time.


Schneider established production in Egypt due to the growing market opportunities as well as Egypt's strategic location to the rest of Africa. Furthermore, Schneider has built up a project de-



partment with over 100 employees in Egypt and established its central design engineering department for Africa in Egypt.

Today, the company is managed by a French CEO, but previously Schneider Egypt was led by a local manager. The company culture is a mixture of French and Egyptian. It is of high priority for Schneider to train local employees and live up to international standards in every way. The work force is highly-skilled and there is a pool of talented engineers that makes it easier for the company to maintain high standards. Despite the high level of education, labor costs remain competitive, which is a combination that secures Schneider's further investment in the market. The next step for Schneider is to establish a service center that will be able to service many other markets in complicated technical matters.

Schneider is a responsible company with a number of CSR activities in Egypt. The company has many activities related to the Bottom of the Pyramid (BoP) market, representing the poorest layer of the Egyptian society.

 **The total customer experience in Egypt is often painful, which is why there is a great opportunity in service. Excellent after-sales service is key to becoming successful in the Egyptian market”**

*Albert Fuchet, Country President Egypt & North East Africa*

## Recommendations from Schneider

- ⦿ **Emphasize after-sales service.** Make sure to improve total customer experience by offering excellent after-sales services. This is key to be able to charge a higher price for your product in Egypt.
- ⦿ **Prepare a Plan B.** Preparing an export strategy out of Egypt can save your results, when political instability slows down the domestic economy. Schneider has managed to increase exports in the difficult times.
- ⦿ **If not a local CEO, then a local Deputy.** Having a local person either on top of your organization or as the right hand of your CEO is crucial in order to secure the local network and ways to navigate your way in the market.
- ⦿ **Include late payments in your considerations.** Remember to expect challenges with late payments from customers, which is not uncommon in Egypt, especially in the public sector.





# The Do's and Don'ts

In order to give practical and hands-on advice on how to do business in Egypt, interviews have been conducted with a number of international organizations who through their years of experience have gained extensive knowledge about the Egyptian market. These include the Danish Embassy in Egypt, DI International Business Development, the Federation of Egyptian Industries, as well as a number of foreign private companies operating on the market. The advice provided by the participating organizations can be summarized to the below key points.

## **Distribution and partnerships**

- ⊙ Most foreign companies make their Egyptian market entry through a distributor or an agent. The right partner will be able to provide your company with essential knowledge of key contacts, local customs rules and regulations, and niche opportunities.
- ⊙ Finding the right distributor is very important and not easy, especially if you are in the niche market. Specialized companies have to make sure that the local partner has the right network to reach the niche customers and the muscles to achieve the agreed sales goals.
- ⊙ Expedience and competences are crucial. One of the big issues for many foreign companies when evaluating their potential future distributors is the lack of technical expertise of the company.

- ⊙ There are no transparent websites on all Egyptian companies (like the CVR database in Denmark), so a thorough investigation of the company you want to work with is important. Use a local consultant to check the potential partner's references, image, history, and financial background.
- ⊙ Distributor agreements should be highly formalized and all details must be described in a contract. Gentleman agreements are not sufficient in Egypt. Standard distributor contracts are available at the authorities (import/export authorities).
- ⊙ Foreign companies who wish to sell to the government must be aware of the fact that dealing directly with the government will increase some risks, as it is much more cumbersome than selling to the private sector. It is hard to change specifications and get approvals, and it can take up to a year before payments are received. Therefore, it is advised to use a distributor as a link between your company and the government, in order to avoid these risks.
- ⊙ Business-to-consumer companies, who wish to reach as many consumers as possible, should look for a partner with a vast distribution network. If the partner has the infrastructure to distribute in the main urban areas such as Cairo, Alexandria, along the Nile Delta, and in Aswan and Luxor in the South, then you have come a really long way, and will be able to reach at least half of the Egyptian consumers.
- ⊙ A short delivery time is important when paying in Egyptian Pounds, due to the weakness of the currency.

## Marketing

- ⊙ You can sell almost any product in the large Egyptian market. To reach the high-end customers, promoting your product and brand through events and direct marketing is a good idea. If you want to target the mass market, conventional marketing platforms are used, such as banner campaigns, communication on billboards, and newspaper ads.
- ⊙ Word-of-mouth is enormously important in Egypt. A recent investigation shows that 81 percent of North Africans gather their information from friends and family. The analysis found that in Egypt, positive product recommendations are three times as important as they are in Great Britain. Consequently, you should try to ensure a good purchasing experience, as positive product recommendations from consumer to consumer will help you penetrate the market.
- ⊙ Channels recommended for advertising vacant positions are the local newspapers or the company's own Facebook page – Egyptians are generally very present on social media, and employer branding on e.g. Facebook or Twitter can be very beneficial. For business-to-consumer companies, the social media can at the same time function as marketing platforms.
- ⊙ If you wish to target the illiterate part of the population, remember to use creative and visual marketing methods.

## Management and employees

- ⊙ It is highly recommended to hire local managers from the beginning. This will secure the most effective and problem-free management of an Egyptian workforce, and it will make the start-up period shorter. This is among other things due to the fact that foreign workers are only granted a residence permit for one year, after which they must be replaced by an Egyptian. Some companies try to escape this law by hiring foreigners on contract-free employment agreements to ensure that they can stay longer. In such cases, the workers are not covered by local insurance and do not pay taxes – a business practice which is strictly illegal.
- ⊙ Egyptians at large tend to accept rigid hierarchies of power. Within an organizational context, this means that power is often somewhat centralized.
- ⊙ Another cultural factor that foreign companies should be aware of is the collectivistic nature in Egyptian society. From a young age, individuals are taught the importance of belonging to groups, such as family, social cliques in the workplace, and society in general. Companies can benefit from this by encouraging teamwork and the achievement of collective goals.
- ⊙ Foreign companies who wish to outsource recruitment should look carefully for the right consultant. Egyptian recruitment companies or human resources consultants are not always professional enough. If possible, consider handling the recruitment process yourself.
- ⊙ Women play a much less significant role in Egyptian business life than in the West, but are more active than in the Gulf States such as Saudi Arabia. When dealing with women in business contexts in Egypt, local protocol will dictate that you keep a respectful, professional distance and do not ask too personal questions.
- ⊙ Many Egyptians have a tendency to take agreements somewhat lightly, so it can be necessary to follow up before deadlines.

- ⊙ Egyptian companies are a bit more formal than e.g. Nordic companies. It is important that you do not say your opinion openly about everything. Egyptians are proud people and less direct. Going friendly is a good approach at any meeting.

## Legal issues

- ⊙ When dealing with Egyptian customers, it is important to get the paper work right. Not only a written contract is important, but also a Letter of Credit (LC) or any other important liabilities. A contract alone will rarely suffice in court, so make sure that your legal relationship with all business partners is based on a solid foundation.
- ⊙ The communication from the government is not always clear. The government does not have everything ready on paper, and sometimes confirmations on how your company can and cannot act will be lacking.
- ⊙ Make sure to consult lawyers – not only one, but two or three different ones, in order to cross-check the decisions. Working with a good local advisor will make paper work faster. Bureaucracy is a challenge in general, but a local partner knows how to work his way around it. You (or your lawyer) have to know the right people in the authorities and how to obtain the necessary approvals.
- ⊙ It can be a good idea for a foreign company to become a member of one or more relevant industry associations, as they will be able to give access to guidance, network, and valuable knowledge-sharing on e.g. complicated legislative matters that are common for all players in the industry.

# A Helping Hand in Egypt



Confederation of Danish Industry

## DI

Confederation of Danish Industry (DI) is the premier lobbying organization for Danish businesses on national and international issues.

DI provides its 11,000 member companies with access to 750,000 companies in MENA through its networks at local business organizations and chambers of commerce in the region. Its work focuses on industrial advocacy, removing trade policy barriers, proposing facilitative amendments to regulations, B2B facilitation as well as minimizing the entry-level challenges that often face small and large companies when entering new markets.

DI International Business Development (DIBD) is DI's international consulting unit; helping Danish companies navigate on the growth markets of the world. Danish SMEs are somewhat risk averse and face cultural and language barriers. DIBD assists them on how to enter new markets, providing guidance on the initial set up process and go-to-market strategy. Other services offered by DIBD include market analyses and partner searches. DIBD has facilitated more than 600 international projects in 40 countries over the last 15 years, including approximately 60 projects in the MENA region.

The MENA region certainly has a high potential, and a DI member survey on how important emerging markets are for Danish companies ranks MENA fourth after China, Brazil, and India.

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Unlocking The Potential In Egypt – HOW TO

## ECO

The Environmental Compliance Office (ECO) at the Federation of Egyptian Industries (FEI) was established in 2002 by the Egyptian Government. ECO is an independent profit based center of FEI, and its main tasks are to provide services in the areas of cleaner production, environmental management, and energy efficiency.



The mission of ECO is to promote sustainable application of Cleaner Production (CP) and Energy Efficiency (EE) in order to increase the productivity of the Egyptian industry and reduce the risk of the people and the environment. In this connection, ECO carries out policy advocacy on behalf of FEI in the areas of environmental issues and renewable energy. It also represents FEI on certain government committees related to these issues.

ECO offers a number of services for private companies, including:

- ⊙ Consultancy services to qualify enterprises for access to soft loans and assistance in the application procedures.
- ⊙ Preparation of feasibility studies related to enterprise environmental compliance and developmental projects.
- ⊙ Environmental Impact Assessment (EIA) and necessary licenses.
- ⊙ Energy Efficiency audits in different sectors.
- ⊙ Environmental Registry and relevant measurements.

ECO has no membership system and provides services to all Egyptian companies, but FEI members receive a discounted rate, and non-members do not have access to the financing services of ECO.

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# Concluding Remarks

This booklet has provided a brief overview of Egypt as a promising growth market offering great business opportunities for a broad spectrum of foreign companies.

While emphasizing the potential of the Egyptian market, the intention has also been to underline the barriers and complications that foreign companies will meet on their business' journey into Egypt.

Furthermore, the booklet has tried to disseminate some of the lessons learned by well-established foreign companies in Egypt. It has become evident that doing business in Egypt requires a good portion of patience as well as sufficient resources when it comes to recruitment and legal issues. Another essential ingredient of the formula for success in Egypt is the willingness to adapt to the local market and culture, both on a business strategy level and operationally. The company's strategy for Egypt must be a dynamic process, which means that it must be constantly developed parallel with the accumulation of experience.

It is our hope that this booklet will prove valuable for those looking to invest in one of the strongest consumer markets in the MENA region. We trust that applying the recommendations provided in this handbook will optimize the efforts on the Egyptian market.

Good luck with unlocking the potential!

This publication has been prepared by Confederation of Danish Industry (DI). DI is devoted to supporting its members in achieving success on the growth markets of the world.

As Western markets are saturating, growth is often found in difficult and very different markets than the traditional markets within the EU. This publication will function as a handbook to understanding one such market, namely the Egyptian. The handbook takes on the ambitious task of providing inspiration and concrete advice for foreign companies with interest in the Egyptian market.

The recommendations given in the handbook build on both the practical lessons learned by three case companies as well as on general information about doing business in Egypt, collected from interviews and market reports. Combined, this information offers market insight for foreign companies looking to enter the Egyptian market or strengthen current sales and operations.



Confederation of Danish Industry

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