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Computer Warehouse Group

COMPUTER WAREHOUSE GROUP SHIFTS STRATEGY

Nigeria's Indigenous ICT Success Has Reached a Crossroads: Which Way Will It Go?

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This case was prepared by Professor Iqbal Z. Quadir and casewriter Nicholas P. Sullivan as a basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

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Austin Okere's first job after receiving a degree in computer science from the University of Lagos in 1986 was as a salesperson at one of the foremost Nigerian information technology (IT) companies. He did well but didn't like what he saw.

"What worried me as a salesman was that we were the ones the customers saw and held accountable," said Okere, a soft-spoken and engaging conversationalist. "Customers paid 85 percent in advance on an order, which was shipped from overseas. We often failed to deliver on time and weren't keeping promises to our customers. I thought I could do it better."[1]

In 1992, Okere left the company to start his own venture, Computer Warehouse Group (CWG), which is now one of the premier information and communications technology (ICT) firms in sub-Saharan Africa, with $130 million USD in 2012 revenues.[2] "I acted on the cardinal principle that I would provide trust and integrity," said Okere, now CEO of CWG. "In many countries, that's not a differentiator, but in Nigeria in the 1990s, it was. In Nigeria, people bought goods and services from relatives and people they knew, with quality or price as a secondary consideration. I wanted to advance customer excellence, promoting value and service as sales drivers."

Okere considered himself an unlikely entrepreneur, more of an "organization man."[3] As a boy, he wanted to be a priest. At university, he aimed for medicine or dentistry, but didn't do well enough on his A-level exams in Ghana. He qualified to study agriculture, in which he had little interest. He was struggling in school and about to be asked to leave when his dean suggested he try computer science; it was a new department and had openings. Okere loved it, but the military coup of 1982 closed the university, so after only one year in Ghana he moved to Nigeria to attend the University of Lagos. He graduated and later completed an executive MBA at the University of Lagos Business School (LBS), which was then conducting the program on behalf of Spain's IESE Business School.

The "unlikely entrepreneur" made quite a name for himself over the last 20 years. In 2012, Okere was named ICT Man of the Decade by ICT Watch Africa Digital Network, and CWG was named Conglomerate of the Year. The organizers cited CWG's immense contributions toward the growth and development of ICT, youth empowerment through ICT education, and nation building. CWG was also named ICT Company of the Year by *Technology Africa* magazine.[4] But, for all of its awards, the 20-year-old CWG, like many companies in the fast-moving ICT sector, was still suffering growing pains.

THE COMPANY

CWG started as CWL Systems, a hardware company and reseller for Dell. Within six or seven years CWG had evolved into a fully integrated hardware, communications, and software company providing mission-critical systems to large companies in the fast-growing sectors of banking, mobile, and oil and gas. (Mission-critical systems backstop operations that cannot tolerate downtime, such as online banking services or automated teller machines [ATMs].) CWG was the *de jure* Nigerian reseller for Dell and Infosys and was a partner with Oracle, IBM, Cisco Systems, Symantec, and others (see **Exhibit 1**[5]). Top clients included MTN Group (a multinational telecom operator with headquarters in South Africa), ExxonMobil, Royal Dutch Shell, First Bank of Nigeria, United Bank for Africa, Unilever, Cadbury, and Nestlé (see **Exhibit 2**).

CWG had a reputation for entrepreneurial leadership, well-trained and motivated employees, and a penchant for customer service, what Okere called "customer intimacy." "We should be able to predict what customers want before they tell us," Okere said. CWG employees resided on-site with many top clients, especially at the end of the month or at the end of other key accounting cycles, which increased CWG's ability to gain domain expertise.

"A unique differentiation for CWG was its ability to manage IT complexity across the Oracle 'stack' as well as its business strength," said Lydia Smyers, group vice president of Oracle worldwide alliances and channels. "CWG was one of Oracle's top partners in Nigeria as well as Africa. Their closeness to the customer allowed them to troubleshoot complex systems."

CWG was a pan-African company, with operations in Nigeria, Ghana, Uganda, and Cameroon and the ambition to expand further. But 90 percent of revenues came from Nigeria. Overall, 50 percent came from hardware, 25 percent from software, and 25 percent from communications. CWG was the biggest systems integration company in sub-Saharan Africa, with annual turnover of $130 million (2012) and 650 employees, more than half of whom were internationally certified engineers.

CWG was governed by a six-member board, with three executive and three independent members (see Exhibit 3), chaired by Chief Willie Belonwu, formerly CFO of Mobil Producing Nigeria Unlimited. "CWG's focus on customer service and ethics was why I agreed to join the board," Belonwu said. "CWG subscribed to the Foreign Corrupt Practices Act (FCPA), as it was a representative of several leading American brands."

CWG was privately held. Okere, with a 35.8 percent share, and three others owned 97.1 percent of CWG until 2009. That year, CWG received a $10 million zero-coupon convertible loan from Aureos Capital (bought by The Abraaj Group in 2012), a leading growth markets investor. After five years, that investment could be converted into shares equaling 17 percent of CWG.

CWG was a unique entity in Nigeria; it had few competitors and partnered with many giants in the global ICT ecosystem. "The Nigerian ICT sector was dominated by multinationals—Google, Microsoft, IBM, HP—you name it," said Omboloa Johnson, Nigeria's Honourable Minster of Communications. "CWG was one of a handful of Nigerian firms with any real stature in the market."

THE ISSUE: CHASING A STRATEGY

One of CWG's main attributes was its broad IT offerings across hardware, software, and communications. But that made harmonizing a strategy that worked well for all three groups difficult. "The biggest challenge was how to deliver the ultimate benefit to our customers by breaking down the 'silo mentality' and bringing all these islands of value into one big superior value tree," Okere said. "It's what kept me up at night."

When the company started, the main objective was to land customers with better service and greater reliability. CWG had no long-term strategy, and that remained the case for a decade, as CWG grew and evolved. "We started as 'Dell in Nigeria,' then moved to the 'power of three'" (see **Exhibit 5**). When sales were strong and cash flow was good, the lack of a solid strategy was seemingly less important. "When we were young, we didn't have the maturity for a strategy," Okere said. "The big global firms in Nigeria were our customers and forced our hand, not always to our advantage."

In other words, CWG's expansion was driven by opportunity and customer demand rather than a consistent internal strategy. CWG started as a product-focused company reselling computer equipment, then veered into a service-focused company providing on-site service. "Then we made an effort to become a pan-African company, and follow our best customers to their most lucrative sub-Saharan regions," Okere said.

> With the advent of cloud computing, we started offering services on a multitenancy basis from our network operating center in Lagos, where the communications group is headquartered. That's where we house all our servers, plus some customer servers (to run mobile money applications for banks), VSAT terminals and networking equipment for banks and mobile operators, along with fiber and radio links to all the banks in Nigeria. It's like a mini-telecom company for enterprise users, but with no paid voice service (except VoIP [voice over IP]). With this data center as an engine, we wanted to be the number one utility provider in Africa by 2015.

As CWG jumped from one opportunity to another, it moved beyond merely reselling and added managed services, a low-risk, high-margin business that leveraged CWG's strong cadre of engineers, many of whom had been trained by Dell. But the communications business veered from that strategy when it began developing its own satellite uplinks to sell broadband, a capital-intensive business. In 2012, big losses in the communications group almost led to the dissolution of CWG.

In 2012, when the company realized that mobile operators were selling data connectivity to enterprise customers, CWG was forced to change its strategy again. Rather than acting as a *provider* of IT (selling hardware, software, and network access *directly* to customers), it shifted to become an *enabler* of IT. As an enabler, CWG supplied mobile operators with the infrastructure and software to sell directly to their customers.

The question facing the company became, could those goals be unified into one coherent strategy?

THE CONTEXT: NIGERIA

At the beginning of the 21st century, Nigeria, the most populous country in Africa with 170 million people, was like many developing countries—both an open playing field with multiple entrepreneurial opportunities and a playing field strewn with land mines and obstacles. These included inadequate infrastructure, fragile institutions, and out-and-out corruption. "Government told us things were changing for the better, but the general feeling was that the fight against corruption could be deeper and progress at a faster pace," Belonwu said. "This perception robbed the government of the much needed human capital that could have offered their services towards greater progress."

From 1983 until 1999, the military governed the country. The economy was dependent on oil, which provided 95 percent of foreign exchange. A free presidential election in June 1993, the first since the 1983 military coup, was annulled by the military, and another coup ensued later that year, leading to riots and mass confusion.[6]

In 1999, following 16 years of military rule, a new constitution was adopted, and a peaceful transition to civilian government was completed. The constitution included provisions for a National Assembly with a 360-member House of Representatives and a 109-member Senate. Although the 2003 and 2007 presidential elections were marred by significant irregularities and violence, Nigeria was experiencing its longest period of civilian rule since independence from Britain in 1960. The general elections of April 2007 marked the first civilian-to-civilian transfer of power in the country's history.

In 2008, leaders began pursuing market-oriented reforms, first proposed by the IMF in 2000, such as modernizing the banking system, gradually removing subsidies, and resolving regional disputes over the distribution of earnings from the oil industry.

Gross domestic product (GDP) growth ranged from 7 to 8 percent from 2008 to 2012, with growth in nonoil sectors as well as from robust global crude oil prices. However, 70 percent of the labor force was still in agriculture. Nigeria's financial sector was hurt by the global financial crisis, but the governor of Nigeria's central bank took measures to restructure and strengthen the sector by imposing mandatory higher minimum capital requirements.

"The ICT sector [including telecom] grew at 30 percent the last five years and by 2013 was 5.5 percent of GDP," Minister Johnson said. "Our goal was to level the playing field for indigenous firms to compete against the multinationals."

PHASE 1: STARTUP AND EXPANSION (1992–1999)

To start CWG, Okere raised $35,000 from six friends and took out a $6,000 bank loan.[7] "My collateral was my video player and car, an old Peugeot 504." That was in 1992, a year before the disputed presidential election led to riots and a deteriorating business climate. "It was a difficult time with the riots. We were very careful with the money, and conserved the little we had to pay salaries. I used my car to do deliveries. We were not about the image, but getting the job done."

In 1993, having survived the post-election chaos with just six employees and low overhead, CWG secured a Dell reseller license (Dell had been looking for a Nigerian partner) and began supplying hardware systems to corporations such as Shell, ExxonMobil, Cadbury and Unilever. Such blue-chip brand names were clearly good for building the company's image, but Okere found that midmarket companies were better for CWG's bottom line. "The bigger and better known the company, the better able [the company is] to negotiate discount pricing. Smaller companies were usually not in the position to do that."

In 1995, driven by customer demand for other software services, CWG partnered with ExpertEdge Software, a software firm started by James Agada, one of Okere's former colleagues (who in 2012 owned 5.7 percent of CWG). This was the beginning of CWG's move from being merely a reseller of equipment to becoming a provider of integrated systems and, later, services.

Shortly thereafter, the Ford Foundation of Nigeria asked CWG to connect its Dell computers. CWG cabled a building on the Ford campus and did such a good job that the foundation asked the company to do the same in neighboring Benin, where CWG cabled three buildings for a local area network (LAN). This success with LANs led to the creation of DCC Networks, a networking communications subsidiary headed by Phillip Obioha, another former colleague, who eventually became COO of CWG.

Retaining Talent

One unforeseen consequence of the new civilian government—which had given businesses new optimism—was that multinational corporations such as IBM and HP began to reenter Nigeria (having left in the late 1970s when the government required Nigerians to hold a majority stake in all companies). When the returning multinationals started to hire, CWG's certified engineers were attractive targets. "When a young Nigerian reaches a certain skill level, it's very easy for a multinational to poach him," Minister Johnson said.

CWG had always had an entrepreneurial culture, especially on the sales side, but now Okere found that he needed to provide an incentive to keep engineers from moving to highly prestigious foreign corporations.

> The idea of an IBM.com or Microsoft.com email address is huge. I offered engineers a fixed and variable salary, somewhat similar to sales commissions, with rewards for performance on service contracts. In addition, I went to the foreign companies and suggested they were robbing a preeminent service provider that they needed as part of the larger ecosystem. That didn't make much impact on local management, but it did when I made the same pitch to international executives who were looking for a smooth transition into Nigeria.

The development of a strong cadre of internationally certified engineers was a point of pride for CWG and one of its primary assets. "Finding, attracting, and retaining top talent was tough in Nigeria, where human capital was at a premium," Okere said. "We were working with universities in Ghana, Uganda, and Nigeria to encourage the development of technical engineers with world-class skills. We gave prizes to the top graduating students of these departments, and offered employment." For CWG, addressing the skills shortage removed a barrier to its future expansion plans and created an opportunity to make a positive contribution to growing intellectual capital in an area that was crucial to Africa's future economic development.

Jacob Kholi, Partner at The Abraaj Group, which had invested in CWG in 2009, offered praise for CWG's training efforts (CWG ran a three-month training academy for engineers that offered practical experience): "Some economies in Africa effectively skipped a stage in their technological development. The consequence is that while cutting-edge technology was widely available, higher education institutes had not tended to commit substantial resources to teaching and developing world-class information technology skills."[8]

Another consequence of foreign entrants was that longtime CWG customers began to question their "overreliance" on CWG. This may have been inevitable given the three overlapping divisions but it was more accurately a form of discrimination against a local firm competing with multinationals. Okere made his case by pointing out that Nigerian firms were actually "over-relying" on well-known foreign firms. To Okere, this seemed to be a double standard.

Organizational Strategy for Growth

DCC, which specialized in satellite and fiber connectivity, LANs and wide area networks, and systems integration, quickly moved into the banking sector, connecting branch offices to head offices and to one another via satellite links (Nigeria had no fiber optic network at that time). At one point, DCC owned and maintained 2,200 very small aperture terminal (VSAT) ground stations with satellite dishes. "We set up DCC as a subsidiary because we didn't want to become known as a jack-of-all-trades, but as specialists in multiple areas," Okere said; he was obsessed with instituting valid "structures" to build the organization for the long term.

"If an entrepreneur starts a business [that is growing], he or she is all powerful. You command and things happen," Okere said.

> But this model limits the ability to [think clearly]. To turn a startup into an institution, you need governing "structures" to which you subject yourself. If entrepreneurs in Africa treat their staff like owners, then they shall start to see the larger picture and play like you, freeing the founder from being tied down, thus enabling him to focus on scaling strategies. The perception is that in Africa, business works because the owner is seated there counting his money.

In 1997, when Dell named CWG its "fastest growing reseller," the relationship between CWG and ExpertEdge Software had expanded to a point where a formal merger was required. CWG bought ExpertEdge, paying Agada $8,000 plus equity, and created another subsidiary.

By 1998, the outline of today's CWG had taken shape. CWG had three lines of activity: (1) to sell and service hardware; (2) to install and service software; and (3) to develop connectivity among large numbers of computing devices at disparate sites (see **Exhibit 4**). CWG's initial strategy of focusing on mission-critical systems for large corporate customers—who paid on time and were unlikely to go out of business or change vendors—was paying dividends. By 1999, the year Nigeria switched to civilian rule and adopted a new constitution, CWG was serving large banks and oil companies, providing computers, connectivity, and software.

Until 2005, the three groups (CWL, ExpertEdge, and DCC Networks) had been separately managed, in keeping with Okere's strategy of maintaining discreet specialties. A new organization, under the name Computer Warehouse Group Limited (the name had first been used in Ghana in 2003), linked operations of the hardware, software, and communications groups under one executive management team, with Okere as Group CEO. Previously, the three separate group heads were responsible for their own businesses and separate accounting systems.

"We were beginning to transition from mere suppliers into partners with our customers," said Okere. CWG had dedicated teams resident at customer sites such as MTN, First Bank of Nigeria, Cadbury and Unilever, helping the company gain domain expertise in its customers' businesses.

PHASE 2: RAPID GROWTH (1999–2004)

Infosys, the multinational, Indian-based IT company ($7 billion in 2012 revenues), approached Okere in 1999 and asked how much he was selling his software for.

> I told them we sold our software for $50,000 and charged 10–15 percent for annual support. Infosys said, "Why not sell our software for $3 million and charge 18 percent for support, and keep 30 percent of the revenues." While it was a very attractive proposition, I was concerned that CWG would lose the value in continuing to develop its own intellectual property, but the significantly higher revenues ($1m from license sales and $180,000 annual support) from partnering to sell the Infosys software far outweighed that concern.

A relationship with Infosys gave CWG's software group an affiliation with a global player, similar to the relationship the hardware group enjoyed with Dell. Infosys was a major brand, and customers trusted that it wouldn't go out of business, further enhancing the CWG brand. Nigerians instinctively trusted foreign brands more than local brands. "Infosys was the darling of IT companies globally," Okere said. "They were like the shining star of the software industry. [For example, Infosys] did big outsourcing jobs for JP Morgan.[9] When we formed a partnership, it changed our profile. We worked together to localize and customize the software for Nigeria. We got the attention of the government and international bodies."

In 1999, customers were worried about a potential (and overhyped) Y2K bug infecting the banking system and were looking to introduce more reliable CORE (centralized, online, real-time, electronic) banking software.[10] Infosys's Finacle software could do this job. Nigeria's First Atlantic Bank, Standard Trust Bank, and Oceanic Bank International quickly stepped up with multi-million-dollar installations. After January 1, 2000, passed with no Y2K malware problems, the selling continued. First Bank of Nigeria, the largest bank in the country, stepped up to a $6.5 million deal. CWG was receiving a cash infusion with very low expense or risk. The company was also locking in long-term service contracts. This led to CWG's shift in strategy to managed services.

Meanwhile, to spark the fast-growing mobile phone sector, the new civilian government in 2001 auctioned off three Global System for Mobile Communications (GSM) mobile licenses to Econet Wireless, MTN, and Globacom (the latter two became CWG customers). That opened up a major new sector for CWG. The hardware group provided hardware (computers and servers), and the communications group built and managed data centers for banks and mobile operators. Nigeria was poised for rapid infrastructure and IT growth, and CWG was poised to ride the wave. Around the same time, in 2003, CWG became a regional partner for Sun Microsystems, Cisco, Oracle, and SAP.

As mobile penetration soared, MTN became the dominant operator in Nigeria, as it was in many African countries. CWG's communications group rode MTN's coattails, selling networks and security systems. In short order, MTN became CWG's largest customer. Okere was being pressured by his partners to invest in scratch calling cards ("top-up" cards). About $500,000 was needed to build the infrastructure. "I said, 'The projections look good on paper, but let's test this with a pilot for $50,000,'" said Okere, who takes a measured approach to risk-reward calculations. "We did, and guess how many cards we sold? ZERO! We would have lost $500,000. [We had no advantage in this business;] we had no IP."

In 2002, as part of its pan-African strategy, CWG followed MTN into Ghana to help run its operations there, sending one of its top Nigerian executives to plant the flag in a new country. CWG then landed Ghana Commercial Bank and Ghana National Petroleum Corporation as clients—following the same model of selling mission-critical systems to large customers as in Nigeria. Over time, CWG realized its Ghanaian customers preferred to deal with one of their own as country manager. When CWG opened an affiliate in Uganda, it named a Ugandan to run operations.

By 2004, the banking industry, which was still CWG's bread and butter, was changing rapidly. Nigeria changed its banking laws to require 25 billion Naira, up from 2 billion Naira, of capitalization.[11] The number of banks shrank from 89 to 25. Many of the smaller banks, which had been using low-end software, required software that was more robust. United Bank for Africa bought Infosys's Finacle for $10 million, and others followed. By 2013, 11 of 24 banks were using CWG's software, and 20 rode its communications networks. "Between 2000 and 2005, we really developed strong revenue flow, with good growth and extended contracts for hardware, software and communications," Okere said. "DCC was buying and reselling bandwidth like crazy."

PHASE 3: IN SEARCH OF CAPITAL (2005–2008)

Growth in the banking, oil and gas, and mobile sectors was good for CWG's business. But maintaining its own VSAT satellite hubs was expensive. The banks had originally owned their own VSAT hubs, but they saw no advantage in maintaining a technology that quickly became obsolete and were happy to take it as a service from CWG.

But the broadband climate changed quickly, and the slower and more expensive VSAT quickly lost ground to fiber optic networks. In 2005, Nigeria had one international submarine communications cable, with 0.6 terabytes of bandwidth. Three years later, Nigeria had three cables and 8 terabytes of bandwidth. "The telecom operators, with deep pockets, owned the fiber business, and we had no control over the pricing," Okere said. "On top of that, the operators could sell directly to the customer, rather than going through us. We didn't think VSAT would become obsolete so fast. [We thought we could take more time to make a transition] into fiber.

In retrospect, CWG waited too long to make the shift." Moreover, CWG, which had passed on several opportunities to raise money, didn't have the capital to go into fiber, which required buying land rights and laying thousands of miles of fiber optic cable in underground ducts.

CWG had first passed up an opportunity to raise capital in 2003, when a private equity firm had expressed interest in investing in the company, offering $2 million for a 25 percent stake, a valuation of $8 million. "They undervalued us, and we didn't need the money," Okere said.

In 2005, another private equity firm had approached CWG about an investment. They valued CWG at $32 million, proposing an $8 million investment for 25 percent of equity. Again, Okere demurred. At the time, he didn't think he needed the money—"funny how money chases you when you don't need it, but eludes you when you do"—and his eyes were on the bigger prize of a public offering on the Nigerian Stock Exchange.

When considering a potential investment in his firm, Okere knew that a prestigious international investor would help upgrade the organization's "structures" to prepare it for an initial public offering (IPO). In the end, he decided that the proposed new board member from the private equity firm would not bring CWG much in the way of new knowledge or contacts. "Looking back, I wonder if we should have taken the money from the U.K. firm," Okere said. "Yes, we would have given up equity, but we would have had money that we turned out to need more than I thought we did at the time."

In addition to VSAT, CWG was getting involved in another capital-intensive business—selling bank ATMs. The government, which had previously restricted ATMs to bank branches, had decided to allow them at off-site locations, such as malls, airports, and supermarkets. In 2006 and 2007, CWG bought ATMs from Wincor Nixdorf in Germany and sold them for $35 million, at a healthy margin, along with maintenance contracts. "The whole world seemed to be on a giddying roller coaster ride," Okere said.

After shunning the private equity firms, Okere realized that CWG needed capital, both to fund the ATM expansion and its entry into fiber. CWG prepared a private placement to target institutional investors and high-net-worth individuals prior to an IPO on the Nigerian Stock Exchange. "We thought the IPO would be a breeze, because foreign investment had been flowing in since the civilian government took over, but all of a sudden foreign capital dried up, and the targeted 2009 IPO was called off." But CWG was still attracting attention from investors.

In 2008, another growth markets investor, The Abraaj Group, approached CWG about a month after the private placement offer. In Nigeria, privately preselling some shares before going public was standard practice, and Abraaj wanted to buy all the private shares on offer. "We liked the company, but more structures were needed for an IPO to succeed, and we felt we could help with that, especially on tax efficiency," said Ravi Sharma, a Managing Director at Abraaj. In 2009, after a year of negotiating over the valuation, Abraaj tendered a $10 million zero-coupon redeemable bond convertible into about 17 percent of equity after five years. In the proposed "listing by introduction" on the Nigerian Stock Exchange in 2013, only Abraaj's shares (17 percent) will be entitled to liquidity preference, as per its original exit arrangement with CWG.

The year before, Okere had written a year-end note to his employees lauding the Nigerian stock market's steady gains and ability to attract foreign investors:

> We believe that taking CWG public shall enshrine a deeper culture of transparency through more complete regulatory reporting, enhance our credibility with customers and provide the opportunity to raise capital when necessary to pursue ambitious growth. This is why we have steadfastly held off

> against numerous advances by private equity investors to take advance equity in our company despite the temptation to actualize some of our sweat equity by the tempting offers.

Given the ATM bonanza, Okere's partners wanted to expand aggressively by stockpiling ATMs — not unlike the push to invest in "top-up" calling cards a few years earlier. "I said, 'This ATM craze is new, can we continue selling at this pace for three years?'" Okere recalled. In fact, they couldn't. The Central Bank of Nigeria stopped the deployment of ATMs outside bank branches, temporarily putting an end to the ATM craze. "The government's reversal on ATM policy was to the detriment of CWG," Abraaj's Sharma said. "CWG lost money in ATMs for a couple of years."

CWG had orders for 1,500 ATMs, with 400 in stock, valued at $5 million. To build inventory, CWG had borrowed money in U.S. dollars and was paying interest at 8 percent. But after the financial slowdown in 2009, banks forced CWG to convert dollars into local currency, and the interest rates jumped to 25 percent. "It would have been brutal if we had followed a growth path to increase our stock of ATMs," Okere said. "I was very unpopular at CWG [when I decided not to invest in the ATMs], but if we had expanded, I doubt there would be a CWG today." In the end, Okere's caution again prevented financial disaster.

PHASE 4: DECLINING MARGINS (2009–2011)

While the 2009 Abraaj funding was supporting CWG's growth plans, CWG had an insatiable need for further cash at that time. The networking group was struggling to transition from VSAT to fiber. After a $2.5 million profit in 2010, the group lost $1.5 million in 2011—a $4 million swing. "Without the hardware and software groups' revenues to smooth cash flow, the networking group would be gone now," Okere said in 2012. "If you decline gently, you can mitigate the fall. If you fall off a cliff, you fall hard. That's what happened."

With revenues basically flat at $90 million, CWG's EBITDA (earnings before interest, taxes, depreciation, and amortization) margins slipped from 17 percent in 2009 to 13 percent in 2010 to 9 percent in 2011 (see **Exhibit 5**). Banks had pulled back their loans, suppliers had scaled back their credit, and customers were painfully slow in paying their receivables. In the meantime, CWG was carrying inventory for projects that had been delayed as customers scaled back in a bad economy. CWG's cash flow position was dire, because money was not coming in fast enough to keep up obligations to suppliers and staff. The DCC shortfall was straining the whole company. "If we had recognized the shift to fiber earlier, we could have made [a smoother and more careful] adjustment," Okere said. "If we had taken the private equity investment in 2005, we might have avoided some of the loans that were putting pressure on us. We ask ourselves if we made the right calls."

"Bank borrowing, at interest rates between 18 percent and 25 percent, cut into our margins between 2009 and 2012," Chairman Belonwu said. In addition, CWG was paying Nigerian taxes, while many of its larger, foreign competitors were classified as "pioneer companies in communications" and were tax-exempt.

At the beginning of 2012, the situation was bleak enough that some members of the executive committee suggested selling the three groups piecemeal. "More than a few supporters emerged for this action, believing that it would provide an avenue for us to exit with our dignity intact, and also cash out with whatever we could get," Okere said. "I had a very different opinion, believing that a captain's place was firmly on his ship until he has been able to steady it. Everybody eventually came on board deciding to give it a try."

After holding firm, the situation began to improve. Revenues increased to more than $130 million in 2012, and EBITDA margins increased to 12 percent, an improvement over 2011. A key reason for the improved margins was CWG's approval as a "pioneer company" in communications, which meant it would pay no Nigerian taxes for five years, through 2016. Projections called for revenues of $203 million by 2016, with margins of 17 percent (see **Exhibit 6**).

To reach those goals, however, CWG had to change its sales dynamic (both the what and the how) as it continued its transition from provider to enabler. Okere, who had planned to step down in 2013, agreed to stay on for three more years to navigate as new strategies were tested and the company aimed again for an IPO. "We don't want to rattle the customers with a change right now," Okere said. But, with or without Okere, CWG had a strong management team that had been together for years, as well as a solid succession plan, which is one of the main reasons Abraaj chose to invest in the business.

FIVE-YEAR PLAN (2012–2016)

CWG, as it did every year, reviewed its situation and set a five-year plan. At the end of 2010, CWG had resolved to be the "#1 IT Utility Provider in Africa by 2015." By the end of 2012, it was clear that CWG was not on track and needed to recalibrate.

CWG had a long tradition of selling direct to the customer and had built up market share selling and servicing computers and storage devices (see **Exhibit 7**). But the major telecom operators, which had been CWG's traditional customers, were moving beyond voice and going after data customers in CWG's enterprise and small and medium enterprise spaces, offering cloud-based services. CWG had seen its connectivity business drop from 2,200 links in 2010 to under 750, a function of Nigeria's switch to fiber. Meanwhile, CWG was reselling fiber access from the mobile operators. But, given the telecoms' control over pricing and ability to sell direct, this was not a sustainable path for CWG.

"At our year-end meeting, the question was, 'Should we continue to compete directly with this telecom 'monster' or find a way to cooperate with it?'" Okere said. "We decided to take a strategic step back in the value chain, and position CWG as the number one IT utility *enabler*—as opposed to *provider*—based on partnerships with multinationals and telecom operators."

CWG partnered with MTN, developing "anything as a service" (XaaS) cloud-based software for microfinance banks. The software, delivered by MTN through the cloud, allowed small banks an affordable finance platform that didn't tie up their capital in expensive IT equipment or staff. "This shows that we could reposition to be a major supplier of IP and managed services to these telecom giants, which would enable them to provide services directly to the customer and make us indispensable to them," Okere said.

CWG hoped that its XaaS software would be the first of many projects with mobile operators as it looked to develop products for hospitals, hotels, insurers, and others who lacked IT expertise. In a way, CWG was playing the role of Infosys, developing software—its own intellectual property—that was delivered by a reseller (such as MTN). CWG was turning the table on the mobile operators. Rather than reselling access to their fiber, CWG was turning them into a reseller of CWG software. "MTN started by selling services to small and medium businesses, but I'm sure they will migrate to mission-critical systems for large customers," Okere said. "If we partner with MTN now, we hope we will be there when they make that shift."

CWG also partnered with Fundamo, a South African mobile-money technology provider, to develop and host a mobile-money service for First Bank of Nigeria. The service allowed people to send and receive payments through their mobile phones.

"Rather than owning the infrastructure and providing links to customers on a 'pay as you go' basis, the choice to transition out of infrastructure will make us lean on assets but enable us to benefit from being an enabler with limited risk on the infrastructure," Okere said.

CWG's evolving strategy was to continue to transition from expensive infrastructure and low-margin sales to less capital-intensive, higher-profit services. This new business model had two clear advantages: (1) it was not capital intensive, at least not in the way reselling computers, servers, and ATMS, or maintaining satellite uplinks, was; (2) ICT as a service, offered through the cloud, was much more scalable geographically. CWG wanted to move further along the continuum—beyond a reliance on episodic sales and toward recurring sales (see **Exhibit 8**).

For all its growth pangs, CWG was still a model for indigenous ICT firms in Nigeria. "CWG was a great showcase to encourage younger, smaller Nigerian firms, as we developed policies to create a stronger local presence in the fast-growing ICT sector," Minister Johnson said.

"It is said that a leader must be able to see before anyone else, see beyond anybody else and see more than anybody else," Okere said. "[In] the fast changing industry of ours . . . it [is] very difficult to do all the above."

EXHIBIT 1

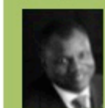
Source: Internal company documents

EXHIBIT 2

Source: Internal company documents

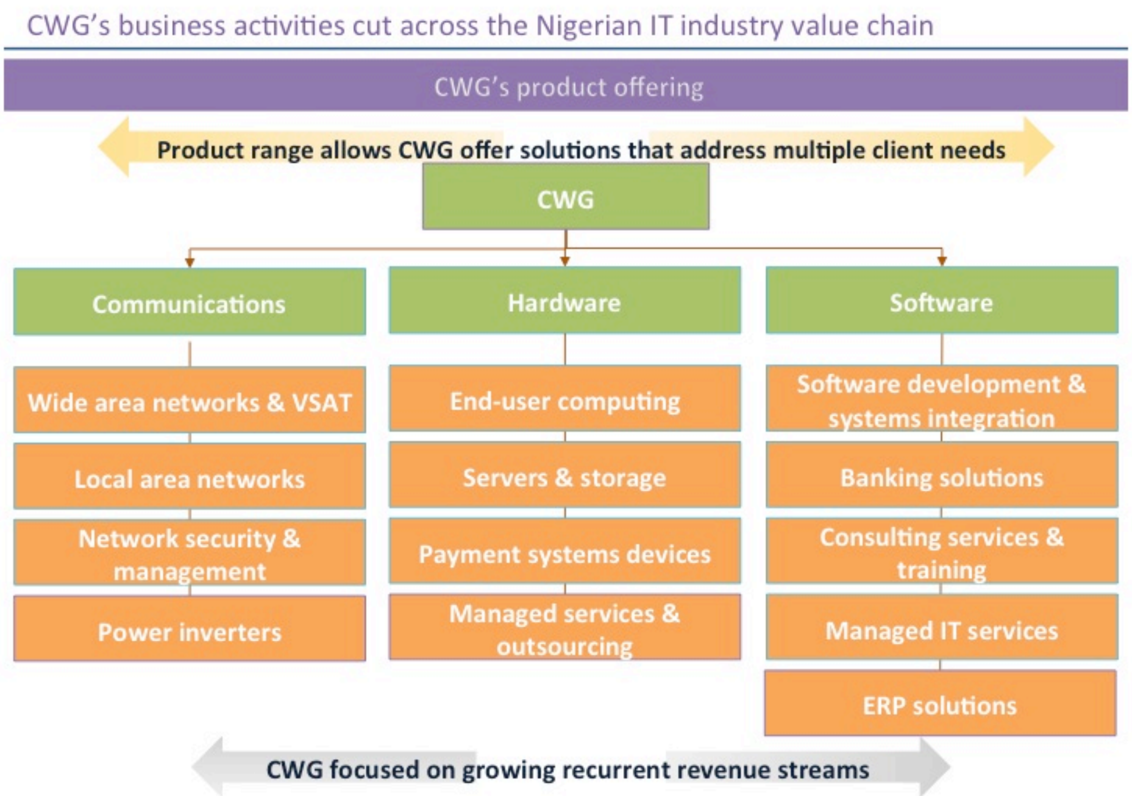
EXHIBIT 3

CWG is lead by an experienced Board of Directors

	Name	Title	Background
	Chief Willie Belonwu	Chairman	• Director at Ecobank Nigeria • Chairman of Dreamworld Leisure • CFO of Mobil Producing Nigeria until December 2005
	Austin Okere	Managing Director	• Over 20 years of experience in the Nigerian IT industry • Member of the Nigerian Economic Summit Group, Computer Association of Nigeria, and the Institute of Directors of Nigeria
	Phillip Obioha	Chief Operating Officer	• Over 20 years of extensive engineering experience that cuts across the manufacturing, information technology and the financial industry sectors • Member of Institute of Directors and Institutional of Electrical & Electronic Engineers
	James Agada	Executive Director-Head Software Division	• Spent over 20 years building a career in consulting, software development, implementation, and support • Member of Computer Association of Nigeria and Institute of Directors
	Abiodun Fawunmi	Nonexecutive Director	• Currently heads the IT systems services team at the International Atomic Energy Agency (IAEA) • Veteran engineer who spent over 30 years in the Nigerian ICT industry working for a number of international organizations
	Ravi Sharma	Nonexecutive Director	• Managing Director, The Abraaj Group • Over 10 years' experience in private banking, investment banking, and private equity

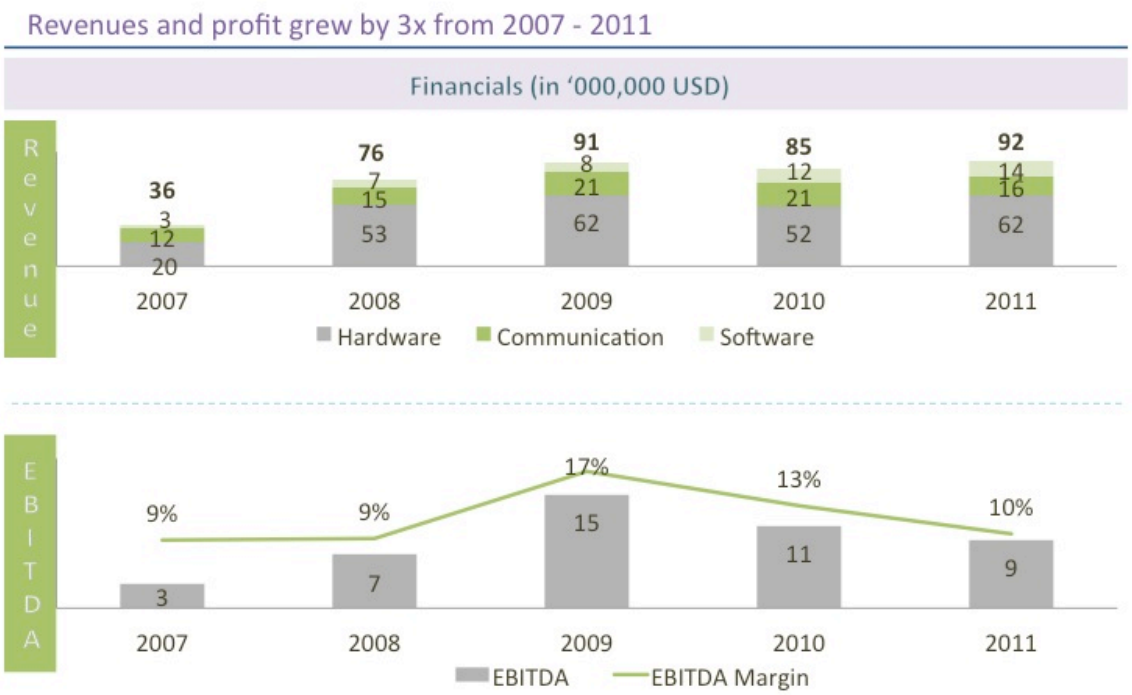
Source: Internal company documents

EXHIBIT 4



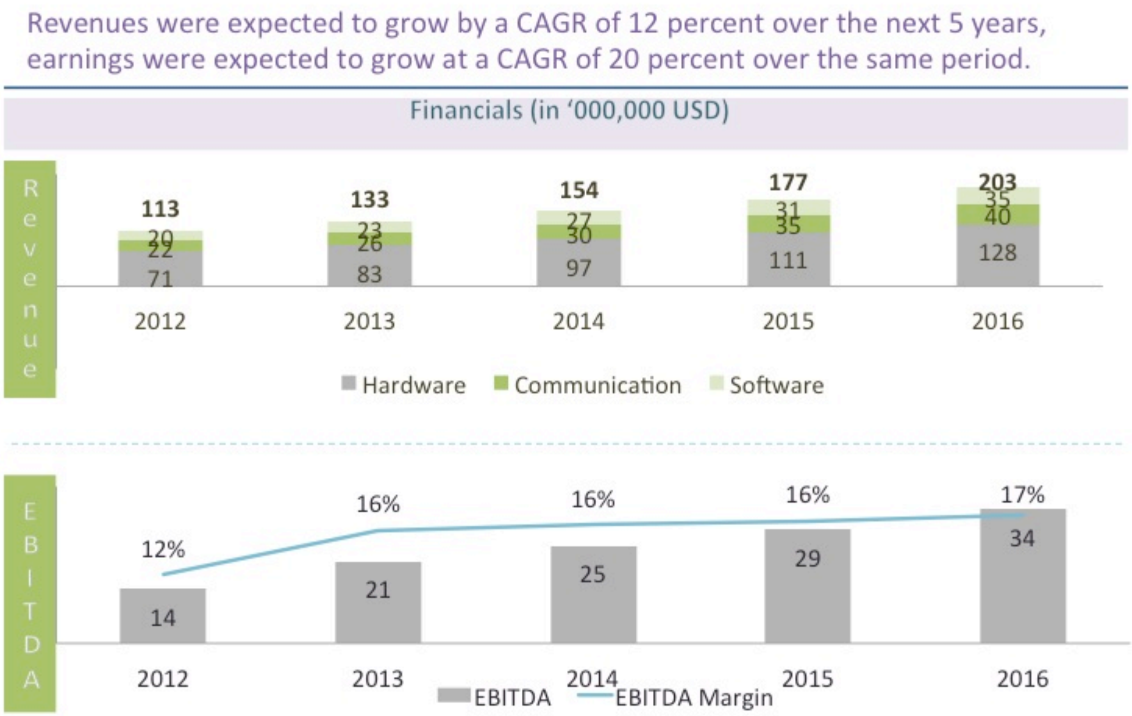
Source: Internal company documents

EXHIBIT 5



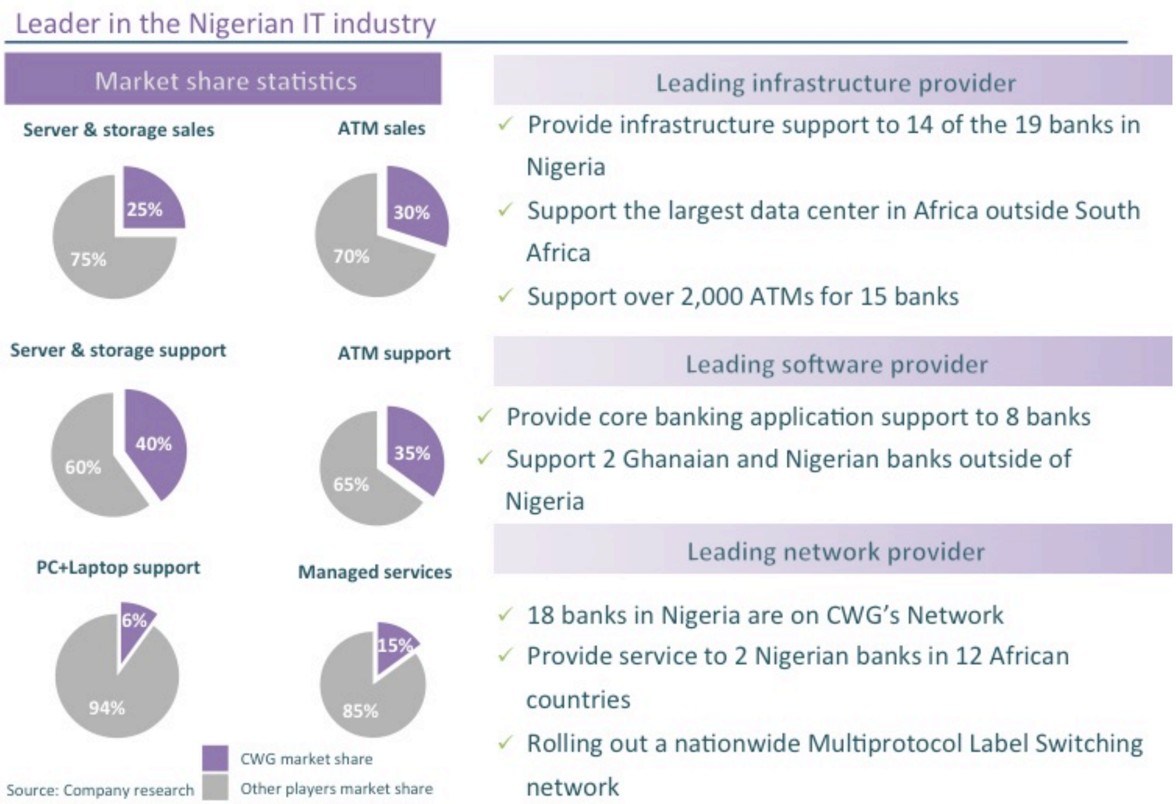
Source: Internal company documents

EXHIBIT 6



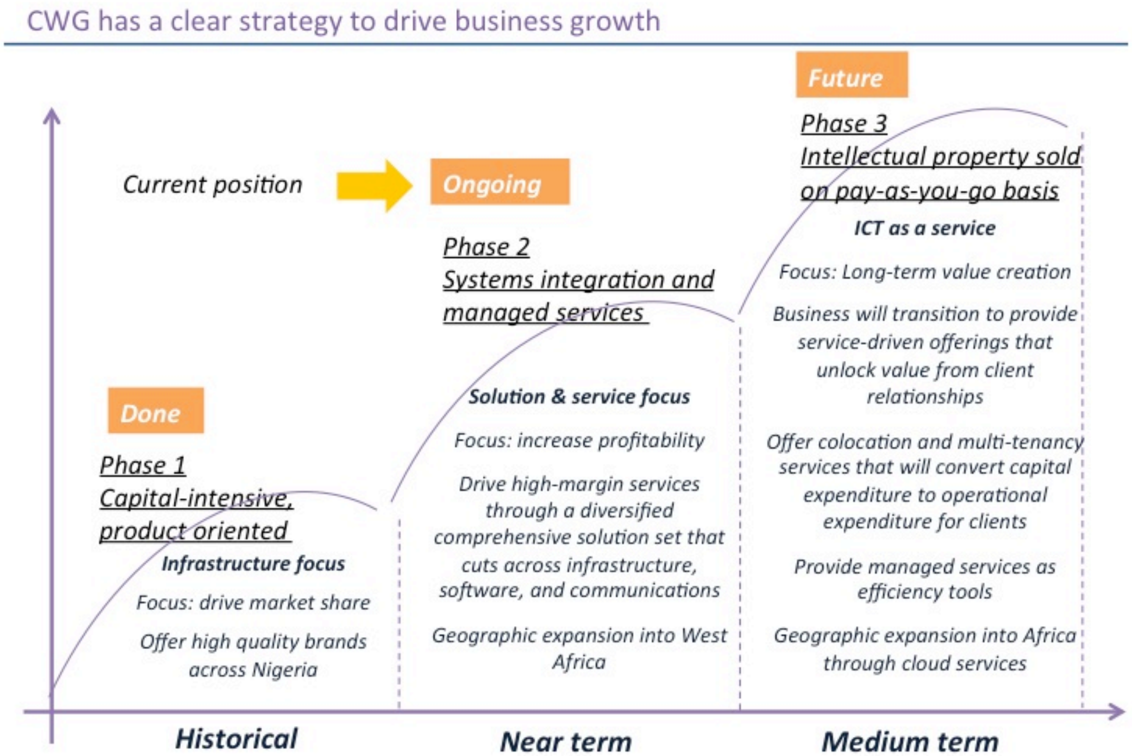
Source: Internal company documents

EXHIBIT 7



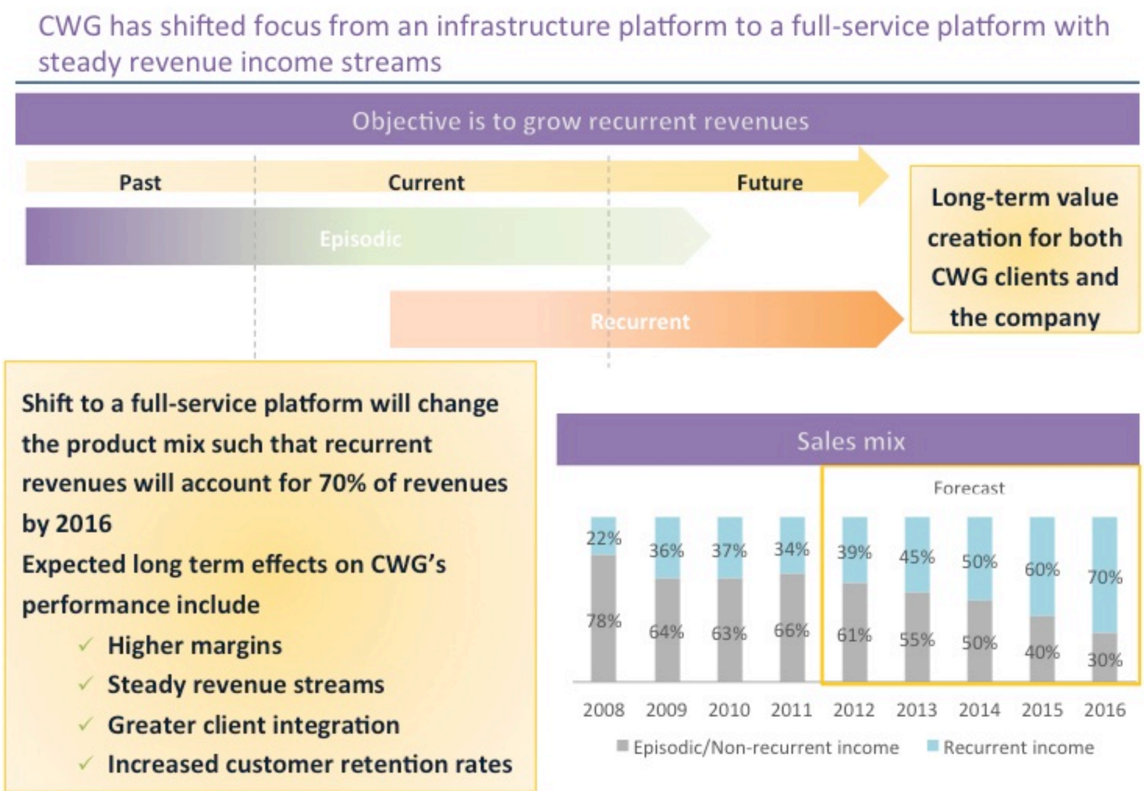
Source: Internal company documents

EXHIBIT 8



Source: Internal company documents

EXHIBIT 9



Source: Internal company documents

[1] Unless otherwise noted, all direct quotations are from participants' interviews with the Legatum Center.
[2] Unless otherwise noted, all monetary values in this case are stated in U.S. dollars ($).
[3] Onukwuba, Henry. "Austin Okere, The ICT Visionary," *Pedestal*.
[4] "Computer Warehouse Group: Sharing an African Success Story," Nigeria CommunicationsWeek, June 6, 2012.
[5] All Exhibits are from Computer Warehouse Group's "Year-End Presentation 2012."
[6] Background information on Nigeria from The CIA Factbook.
[7] "Growing a Global ICT Business from Africa," *The New Vision Newspaper*, Feb. 1, 2011.
[8] "Aureos investee companies win awards for excellence," Aureos press release, Oct. 24, 2011,
[9] Onukwuba, Henry, "Austin Okere, The ICT Visionary," Pedestal.
[10] "Finacle: The Role It Plays in African Banking," *Technology Banker*, Nov. 2012.
[11] "Nigeria's Banking Reforms," The African Economy, April 9, 2013.