
MARKET ENTRY TO SOUTH AFRICA



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ABSTRACT

This thesis was made possible by the connect-project which was started in January 2012. The project's main objective is to support growth and speed up internationalization of Finnish renewable energy SMEs to developing countries.

The purpose of this thesis was to concentrate on market entry, the entry modes, present status on wind energy sector in South Africa's business culture, the business environment, the current energy situation which will include small scale and large scale wind turbines.

And also aspects on regarding the market entry which might make it possible for companies interested in doing business in South Africa, by finding out the possibilities of doing business there. So my thesis will shed a light on the Market analysis and the market entry strategies. The aim of this thesis is to get familiar with the wind energy market and to give Finnish SMEs the best recommendations on the further actions to be taken when entering this new market.

Keywords wind energy, developing economies, market entry strategies.

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1 INTRODUCTION

The author had no idea about energy but decided to learn something new; the topic looked interesting and the author had the chance to discover something worth to knowing about. And since the author is also familiar with the South African culture the author thought this would be much easier to understand.

This thesis was made available by the connect-project which was started in January 2012. The project's main objective is to support growth and speed up internationalization of Finnish renewable energy SMEs to developing countries. They don't have specific Finnish energy companies, due to the fact that there is more the one company for which research is conducted.

The project focuses on developing countries in Asia and Africa, for example in Africa Nigeria, Kenya, and South Africa. These are just some of the target countries that they are interested in. They have collected documents from 9 African countries on their business environment and energy markets based on work done by staff and students

The purpose of this thesis was to concentrate on the present status of Renewable energy in the wind energy sector in general and in South Africa, which will include small scale and large scale wind turbines. Also aspects on regarding the market entry which might make it possible for Finnish energy companies interested in doing business in South Africa, by finding out the possibilities of doing business there.

In addition it also gives the best recommendations to be concluded by Finnish SMEs that are looking for the best ways to enter a new markets .So the thesis will shed a light on the Market analysis and the market entry plan.

1.1 Research Question

The research question for this thesis is “What is the best strategy to enter the energy market in South African?”

Aims of the thesis

1. To get familiar with the wind energy.

2. To analyze market in the following areas:

-The current wind Energy Situation in South Africa: present status on wind energy sector in South Africa, which will include small scale and large scale wind turbines

-Energy Production and Consumption

-Market entry in general level .To also describe concept of market entry and market entry modes.

-Market entry to South Africa .To get to know the South African market since it is the target market.

1.2 Research Method

The research method of this thesis is a combination of different methods. The internet is one of the most important ways to get information. There are all sorts of information one needs in order to get the right information in one place. Research also included reading as many related books and articles as possible.

The approach has been selected to achieve good overall results. Even though this is second hand information but it works both ways. Most of the data I need is online, books and also not forgetting the actually internet. It has not been easy; a lot of thought has been part on this thesis.

2 THEORETICAL FRAMEWORK

The theoretical framework of this thesis includes wind energy from the first construction of the mills to the changes of the year. It will also include market entry and its market entry strategies.

2.1 Renewable Energy

Renewable energy is not something new even though most people think that, Humans have depended on renewable energy for centuries. The food that we consume is provided by the means of energy which was built in the early civilization (Chiras 2011.)

Most developed nations are now lean toward renewable energy as it becomes affordable, clean and reliable compared to fossils fuels.

2.2 Wind Energy

Wind turbines or wind mills have been used for a very long time; it has been 3000 years to say the least. It was used for pumping water. In both distant and recent times wind turbines were a fundamental part of the economy.

The use of wind energy can be found from way back in the nineteenth century with the 12kw direct current wind mills generator which was constructed by Charles Brush in the USA. Even though during twentieth century wind energy was not used so much because it was not the priority.

One of the noticed wind turbines that were developed was the 1250kw Smith Putnam wind turbine constructed in the USA in 1941 (Burton, Jenkins, Sharpe, Bossanyi 2011.)

This wind turbine was a striking creation with steel rotor 53 meter in diameter, full span pitch control and flapping blades to reduce loads. It was the largest wind turbine manufacturer for years. More wind energy kept developing over the years.

The notable part about the wind energy is its variability geographically and temporally. Most climate regions are different some are windier than others.

The regions are dictated by the latitudes which affect the whole process; each climate region is slightly different on a smaller scale because they are recorded by the physical geography, sea, the size of land masses and plains and so on. The best places where wind energy works perfectly well are places where the climate experiences a lot of wind, more wind is normally experienced on the top of the hill than on the lee high grounds or in sheltered valleys (Burton, Jenkins, Sharpe, Bossanyi 2011.)

2.3 The Change

The increase in oil prices made other governments want to fund the wind energy projects. Countries like Sweden, Germany and UK pursued the development of wind energy. Because of the oil prices increasing even more in 2006 this caused concern for more energy supplies to further their interests in the wind energy, to encourage this Policy measures were placed in many countries.

EU declared a policy that 20% of the energy should be renewable sources by 2020; this was done in the year 2007. There are many difficulties in using renewable energy especially when it comes to transportation and heat which implied that in some other countries 30 - 40% of energy should come from renewable energy, which leaves wind to be the major player in all this.

As shown in figure 1 in the 90s wind energy was not even competitive, but production increased over the past few years (Burton, Jenkins, Sharpe, Bossanyi 2011.)

Market Entry to South Africa

GLOBAL CUMULATIVE INSTALLED WIND CAPACITY 1996-2010



Figure 1 (Energyandcapital 2013)

As you can see for the figure on top the changes over the years, on the installed wind capacity from 1996-2010

In some countries wind energy is being used more rapidly and developed, compared to other countries, but this cannot be explained because there are different wind speeds everywhere.

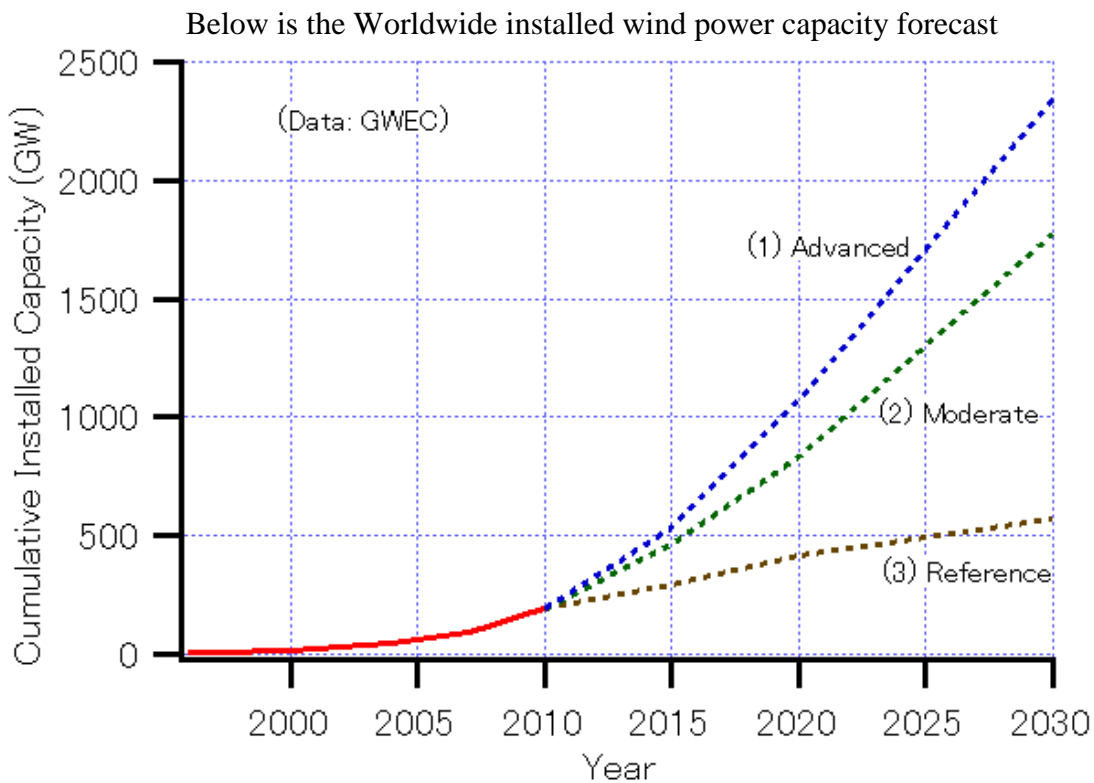


Figure 2 (Gwec 2013)

As you can see from above the global wind power market has become the next big thing it has dominated over the past few years and now it's becoming one of the big markets', there are three major markets: Europe, north America (US) and Asia(China and India) these markets have a t least 86% of total installed capacity at the end of 2009.

As for Africa they might also rise to challenge the top three markets, at this moment there are 80 countries operating now in commercial wind farms. This will benefit for developed and developing countries. With this kind of energy you are secured, you have a stable power price and the economic development for interested invests. This opens new doors for jobs for those in need of one (Burton, Jenkins, Sharpe, Bossanyi 2011.)

2.4 Market Entry

Market entry is related to or defined as bringing a product or service to a different target market or different customers that a company or organisation has never targeted before.

During that process the company will analysis the barriers to entry, the costs, sales, who are there main competitors, delivery and what should be expected when entering the market.

Market entry is about studying and the analyzing the market status of the target by studying how good the market is, the potential, economic

growth, resources, the labor, the risks, trade barriers, strengths and weaknesses and the potential opportunities and competition when entering a new market (Dolcera 2013.)

The most important thing of an entry is to get to know to markets, make money in the process and turn it into profitable trade in order to achieve the best sales by entering a market. Below are some of the market analyses.



Figure 3

(Docstoc 2013)



Figure 4 (Docstoc 2013)

2.5 Market Entry Modes

The market entry modes differ; a successful entry can be achieved by the following four.

- Exporting
- Licensing
- Joint venture
- Direct investment

2.5.1 Exporting

Exporting is one of the market entry strategy used by most companies when entering market. The reason is that it's one way of reaching a foreign market this is quite straightforward. Exporting includes the use of

agents or distributors. These two are different and it's important to a new acknowledge that difference.

An agent is one that works individually on behalf of company to sell their product in another country market that has been selected. A distributor buys than resells product (Quickmba 2013.)

Exporting requires four players

- Exporter
- Importer
- Transport provider
- Government

2.5.2 Licensing

Licensing is another alternative of market strategy modes that is used. It permits or gives the right to market the products. During proceeds the company needs a lawyer present, it is very important to require legal assistance during these agreements.

During these proceeds price agreements are negotiated with the licensee who ends up paying a fee in order to achieve the rights to certain things (Quickmba 2013.)

2.5.3 Joint Venture

Another important strategy used when entering a new market is having a JV, a local partner if the company is able to find a good one. A joint venture is more like an agreement made by two parties or more of the some interest or goal. They are both responsible for loses, profits and cost.

Joint Ventures have the following objectives; risks, market entry, sharing technology and joint product developing and conforming to govt regulation. Joint ventures also have other benefits that they bring to the table, like having distributions channels and political connections (Quickmba 2013.)

These alliances work better when:

- Partner's strategic goals are to achieve a union and while there competitive goals differ.
- When these partners are able to learn from each and reduce their unnecessary skills.
- when these partners market power, recourses and size are differentiated to industry leader

These companies have certain things to consider like how long the agreement is for, price, control, and ownership and so on.

These joint ventures also come with their own disadvantages like not being able to trust each other, conflicts over certain business disagreement, culture differences if they are from different back groups or country this usually happens all the time, when to actually end there agreements (Quickmba 2013.)

2.5.4 Direct investments

Foreign direct investment (FDI) is one of the many strategies used by companies, it's when a company invests in another company in a different country or having ownership of a company in a target market.

This strategy may involve a lot resources considering it's in another country which means that the company may need to transfer its own work force, other technology and also require capital.

Other advantages are that the company gains a lot of control in that actual operation, and the ability to know there consumers and also there competition (Quickmba 2013.)

2.6 Comparison of Foreign Market entry modes

Table 1 (Quickmba 2013)

Mode	Conditions Favoring this Mode	Advantages	Disadvantages
Exporting	Limited sales potential in target country; little product adaptation required Distribution channels close to plants High target country production costs Liberal import policies High political risk	Minimizes risk and investment. Speed of entry Maximizes scale; uses existing facilities.	Trade barriers & tariffs add to costs. Transport costs Limits access to local information Company viewed as an outsider
Licensing	Import and investment barriers Legal protection possible in target environment. Low sales potential in target	Minimizes risk and investment. Speed of entry Able to circumvent trade	Lack of control over use of assets. Licensee may become competitor.

Market Entry to South Africa

	country. Large cultural distance Licensee lacks ability to become a competitor.	barriers High ROI	Knowledge spillovers License period is limited
<i>Joint Venture</i>	Import barriers Large cultural distance Assets cannot be fairly priced High sales potential Some political risk Government restrictions on foreign ownership Local company can provide skills, resources, distribution network, brand name, etc.	Overcomes ownership restrictions and cultural distance Combines resources of 2 companies. Potential for learning Viewed as insider Less investment required	Difficult to manage Dilution of control Greater risk than exporting a & licensing Knowledge spillovers Partner may become a competitor.
<i>Direct Investment</i>	Import barriers Small cultural distance Assets cannot be fairly priced High sales potential Low political risk	Greater knowledge of local market Can better apply specialized skills Minimizes knowledge spillover Can be viewed as an insider	Higher risk than other modes Requires more resources and commitment May be difficult to manage the local resources.

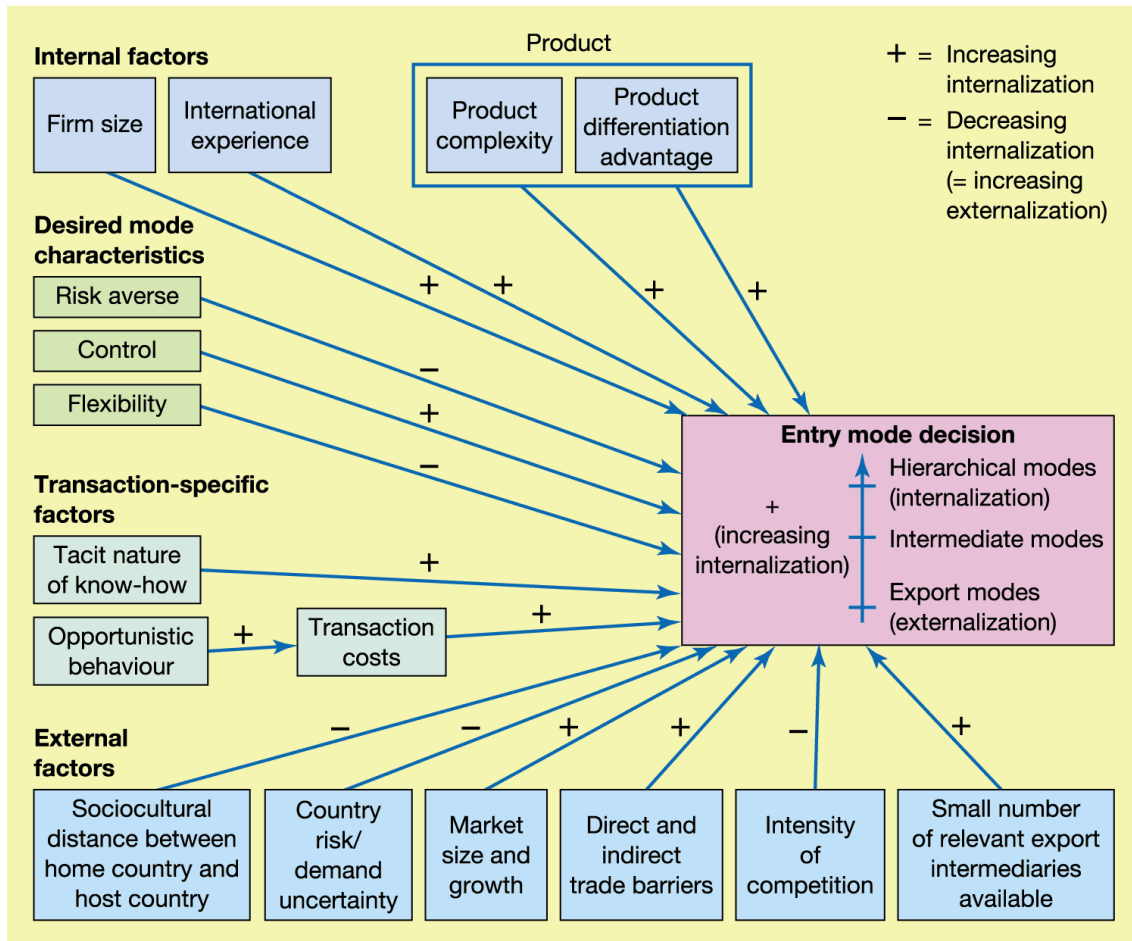
2.6.1 Factors affecting the market entry modes

There are factors that affect the entry modes decision these are called internal and external factors. This might depend on the company; at the end they decide which of these factors affect them. Internal factors include the product, firm size, the experience all these factors are very important. External factors include socio and cultural, country risks, market size and growth, the trade barriers and let's not forgot the competition and so on.

Below figure 5 you can see all the factors that affect the entry modes.

Figure 5

Figure 9.1 Factors affecting the foreign market entry mode decision



Factors affecting the foreign market entry mode decision (Hollensen 2007,298)

2.7 Internal Factors

The Company Size

(Koch 2001) quotes that the size of a company and resources can influence the company's choice of market entry mode. If the company happens to be small it has limited resources, the smaller the companies the fewer market servicing options they may have. Having limited resources may permit, or may not favor some market entry modes.

The theory is also confirmed by (Sock knitter). Due to the fact that the company is lying in the SME's category and because for the lack of resources they don't have a company's own subsidiary.

(Sock knitter) also explains about the importance of the size and resources when penetrating or entering foreign market. They explained that huge companies with resources and sizes better opportunities in selecting of market entry mode better than smaller companies with less opportunity while marketing the selecting of entry mode because of limited resources.

(Koch 2001) and sock knitter both have the same opinion concerning the size of resources affecting the selection of entry mode.

International Experience

Hollensen (2004) explains previous experience in international markets gives companies an opportunity to increase possibility in applying additional resources in decreased markets.

Having experience makes it easy for the company to operate in the international market; this may mean problem solving and also how to avoid problems.

Products

The physical features or characteristic of service and product such as weighs ratio or value, composition are very valuable when deciding where the product is located.

The nature of the product can influence channel preference because of product vary so widely in there characteristics (Hollensen 2010.) Having shipments to host markets far away would be not affordable to the firm, due to high transportation costs (Hollensen 2004.)

2.8 External Factors

Trade Barriers

Trade regulations, standards and also the selection of local suppliers, affects the operation decision and mode of entry. The preferring of local suppliers sometimes inspires a company to think about a joint venture or even other arrangements with a local company. Having a local partner might help or make things easier when it comes to negotiating sales, creating local contacts and establishing distribution channels, and also spreading the foreign image (Hollensen 2010.)

Trade regulations, product and customs formalities inspire the modes that concern local companies, which eventually supplies information and contacts in local market and can be free to access (Hollensen 2010.)

Accordingly to Hollensen 2010 quote “net impact of direct and indirect trade barriers there is likely to be a shift towards performing various functions such as sourcing, production and developing market tactics in local markets”.

Social and Cultural Environment

Accordingly to Hollensen 2010 quote “socioculturally similar countries are those that have similar business and industries practices, a common or similar language and comparable educational levels and cultural characteristics.”

“Sociocultural difference between a firm’s home country and its host country can create internal uncertainty for the firm which influences the mode of entry desired by that firm”. Hollensen 2010

There are elements of culture that Hollensen mentions

Language: is the key that defines the culture of a country it is one element that cannot be over looked, learning the language means also getting to know the culture. Many people prefer using their own language that is why this should be seen as a benefit. By being the best one must be part of the market rather than just being aware of it. Language becomes very valuable when one needs to gather information and communicate.

Manners and customs: getting to know the manners and customers can become very valuable when negotiating due to the fact that just by the way one may act may conclude something worry or give the wrong impression.

Technology and material culture

Social institutions

Education

Values and attitudes

Aesthetics (refers to attitude towards beauty and good taste in the art)

Religion

(Hollensen 2007, 221)

Market size and growth

Market size and growth may establish the market entry mode. “The larger the country and size of its market and the higher the growth rate, the more likely management will be to commit resources to its development and to consider establishing a wholly owned sales subsidiary or to participate in a majority-owned joint venture”(Hollensen 2010.)

Having to operate in a small market may be difficult due to shortage in resources, and companies would not need to bring their own technology or equipments (Hollensen 2010.)

Country risks and uncertainties

Foreign markets are regularly said to be riskier than domestic markets. There is number of risks that a company might come cross is a function not only for the market itself but also its methods of involvement there. Besides all this the company risks inventories and receivables.

Before doing anything the company should analysis the risks that’s involved in both the market and it method of entry, this all should be done when planning it is method of entry. Exchange rate risks are another variable. These risks are not only political there are also economic.

If it happens that the country risk is high the company would do well to reduce it is exposure to risks by confining its resources commitment in the actual domain, when risks is said to be high the company prefers entry mode that associate with low resources commitment (Hollensen 2010.)

Intensity of competition

Firms should prevent or avoid internalization, when the intensity of competition is high in a foreign market, due to this, such markets maybe less profitable and also they do not require too much resources. Therefore the more the intensity of competition there is in a host market the more the company will benefit from the entry modes that associate with low resources commitments (Hollensen 2010.)

3 INTRODUCTION TO SOUTH AFRICA

3.1 Geographic location and climate

South Africa is of southern –most country in Africa. It is divided in nine provinces, has about has 2,798 kilometres (1,739 mi) of coastline. Its neighbouring countries are Namibia, Botswana and Zimbabwe; to the east are Mozambique and Swaziland.

Below shows just where it is located:



Figure 6 (SouthAfricamaps2013)

Three sides of ocean surround South Africa, to the west, south and east and have a coastline of about 3 000 km. Two ocean currents sweep the coastline.

There is also one interesting thing Lesotho is a country surrounded by South Africa. South African is one of the largest countries in the world. It has population of about 51 million people. They have eleven official languages (South Africa maps 2013.)

Summer begins in October and ends in March, temperatures during that time about 15 degrees at night and 35 degrees at noon.

Winter, start in April to September, with temperatures from 0 degrees or less at night to 20 degrees at midday.

Even though there is a difference in temperature in different regions, the climate is regularly mild all around the year in South Africa.

Even though some snow can be found on the highest peaks, South Africa is an arid country and has many warm sunny days.

Annual rainfall of about 502mm.

KwaZulu-Natal experiencing a subtropical climate with a humidity level was important.

The southern part of Mpumalanga knows it, very hot summers with occasional torrential storms (Arroukatchee 2013.)

Figure 7 (South Africa maps 2013)



South Africa is one of the best and exciting places to do business; it being one of the developed countries in Africa makes it a very good place for business. With the right business it's easy to turn a profit as it not an easy place to make an honest living or buck. But this all would not be possible without a little history.

The arrival of the Dutch 1650s, they settled on the tip of South Africa which they made a permanent home. This stop became known as the Cape Town (Cape of Good Hope), this was because the sails for example Dutch, French, British and Portuguese used this stop coastline for fresh supplies on route to the East and Netherlands (Rissik 1994.)

In 1806 the British took ownership of the cape and forced the Dutch to move northwards. And in 1800s the discovery of diamonds and gold which brought wealth on that part of the region (Rissik 1994.)

The British and the Boers disliked each but after the Boers war they united together to rule South Africa from the year 1910. In 1948 the introduction of apartheid, led to the rise of African national congress and Anti – apartheid movement. In 1964 Nelson Mandela leader and some of the members of the ANC was sentenced to life in prison (Rissik 1994) and (Lowtax 2013.)

A lot of the black South Africans were offended which cause them to protest .And Mandela and his other members where later freed in 1990. In 1994 apartheid come to an end, which brought about the majority black rule?

3.2 Language & religion

The official languages of South Africa are isiZulu, Sepedi, Afrikaans, English, isiNdebele, isiXhosa, Sesotho, Setswana, SiSwati, Tshivenda, and Xitsonga. The main languages that are used in professional environment and business purposes are English and Afrikaans. South Africa just like most African countries has more than 2 official languages, Even though the country has many languages people can still understand each other because some of these languages are almost similar and you can easy relate.

South Africa's population last year in July 2012, was estimated to be about 48.81 million. The groups according to the race (this was in July 2009) African were (79.3%), White (9.1%), Coloured (9%), and Indian/Asian (2.6%). African in particular are very religious compared to some European countries for example (Finland) (SouthAfrica 2013.)

The majority results of religion 2001 census was Christianity (82.6%, including Zion Christian (11.1%), Pentecostal/Charismatic (8.2%), Catholic (7.1%), Methodist (6.8%), Dutch Reformed (6.7%), and Anglican (3.8%)), with 1.5% as Muslim, and 2.3% as "other" (Lowtax 2013.)

3.3 Political factors

South Africa is a constitutional democracy. It has three main bodies of government: national, provincial and local governments. South Africa is a democratic state. It is divided into nine provinces, and each province has its own provincial legislature. These government structures derive their powers and functions from the Constitution of the Republic of South Africa (Lowtax 2013.)

3.4 Government

South African's National Assembly is the supreme law-making body. The Laws made by the South African National Assembly are applicable throughout the country. This also goes for policies made by the Cabinet of the National Government. The National Assembly shares its legislative authority with provincial legislatures, while there are place while exclusive legislative competence. Parliament includes of two Houses: the National Assembly and the National Council of Provinces (Lowtax 2013.)

The elections for the National Assembly are held every five years and include of no fewer than 350 and no more than 400 Members. The Members are elected in accordingly to the electoral method, based on the same votes, and with the minimum age of 18 years that are allowed to vote.

South Africa has a flexible multiparty political system 13 parties represented in the National Assembly of Parliament.

The majority party is African National Congress (ANC) which has about 264 of the 400 National Assembly seats. The ANC party controls eight of the country's nine provinces. ANC might control 8 provinces but they don't control the Western Cape where the democratic Alliance won the majority in the 2009 national elections. The ANC also controls five of the six metropolitan municipalities (SouthAfrica 2013.)

3.5 Doing Business in South Africa

South Africa is one of the best and exciting places to do business; it being one of the developed countries in Africa makes it a very good place for business. With the right business it is easy to turn a profit as it not an easy place to make an honest living or buck (Rissik 1994.)

South Africa rank 32nd out 181 accordingly to the survey that was done in 2009 for ease of doing business. This study was done by World Bank it was titled the Ease of Doing Business

There are quite a lot of benefits of doing business in South Africa for example labour costs extremely lower than other emerging markets. It is also quite favourable when it comes to corporate tax rate compared to other emerging markets.

Other costs are: rent, cost of labour, land, human resources, transportation and general living expenses do vary from province to provinces. (Why invest in South Africa 2013.)

3.5.1 Current Situation in South Africa

While other developing countries are staggered in the current wake of the global financial situation, South Africa have been able to manage and stand of its feet and this is due to fiscal and monetary policies.

South Africa has a stable political system and a well capitalized banking system, has a lot of natural resources, a well developed regulatory system and an established manufacturing base and also development capabilities.

The World Bank ranked it as an “upper middle-income country”, it is largest economy in Africa – it remains rich and it has a lot of promise. Accordingly to southafrica.info it was it was admitted to the BRIC group of countries of Brazil, Russia, India and China (known as BRICS) in 2011.

Global Competitiveness report of 2012-13. Accordingly to southafrica.info South Africa was ranked second by World Economic Forum, in the world for the accountability of its private institutions, and third for its financial market development, “indicating high confidence in South Africa’s financial markets at a time when trust is returning only slowly in many other parts of the world”. The country's securities exchange, the JSE, is ranked among the top 20 in the world in terms of size (Southafricainfo 2013.)

South African’s economy has continued to grow it has been driven by its domestic consumption; the growth rate has slowed than previously forecast. It is projected to grow at 2.7% in 2013, 3.5% in 2014 and 3.8% in 2015 (Southafricainfo 2013.)

According to figures from the National Treasury, total government spending will reach R1.1- trillion in 2013. This represents a doubling in expenditure since 2002/3 in real terms.

The South African government is putting in measures to strengthen the efficiency of public spending and to root out corruption accordingly to

southafrica.info (Southafricainfo 2013.)

“Under its inflation-targeting policy, implemented by the South African Reserve Bank (SARB), prices have been fairly steady. In January 2013, the annual consumer inflation rate was 5.4%, dipping from December 2012's 5.7%. Stable and low inflation protects living standards, especially of working families and low-income households” (Southafricainfo 2013.)

Currency code: ZAR

Exchange rates: rand per US dollar - 6.4597 (2004), 7.5648 (2003), 10.5407 (2002), 8.6092 (2001), 6.9398 (2000)

(Geography. About 2013)

South Africa has a diverse economy, with key sectors contributing to GDP

- Agriculture: 2.2%
- Mining: 10%
- Manufacturing: 12.3%
- Electricity and water: 2.6%
- Construction: 3.9%
- Wholesale, retail and motor trade: 16.2%
- Transport, storage and communication: 9%
- Finance, real estate and business services: 21.2%
- Government services: 16.7%
- Personal services: 5.9%

(Southafricainfo 2013)

Challenges

South Africa's best challenge is Unemployment, which is now at the rate of 25%, it remains on big problem: it is at the top of government priorities and at the heart of its economic policies. It is one priority that the government hopes to fix (Southafricainfo 2013.)

Starting a Business in South Africa

A few years ago to start a business would have required filing fees equal to roughly 7% of the average income per capita, and would take over 35 days. Now with a better legal changes, and now it is much easier, concern-

ing a payment of only R175 (\$21) to the Companies and Intellectual Property Commission and taking just 19 days (Oxfordbusinessgroup 2013).

Companies are taxed at least the rate of 30%. In conclusion to this secondary tax is Collected on companies for a rate of 12,5% on all income is divided by way of dividends.

“Foreign taxes are credited against South African tax Payable on foreign income. Foreign income and taxes are translated into the South African monetary unit, the Rand” This is accordingly to Gcis.gov

Value-added tax (VAT) is collected at a standard rate of 14% on all goods and services subject to certain exemptions, exceptions, deductions and adjustments provided for in the VAT Act.

When starting up a business in South Africa there is a few things that one needs to look into, the most important steps.

- Register your unique company name with the Registrar of Companies
- Register company founding documentation with the Companies and Intellectual Property Registration Office (CIPRO) in Pretoria
- Open a bank account
- Register with the office of the local South African Revenue Service (SARS) for income tax, VAT, and employee withholding tax (PAYE and SITE)
- Register with the Department of Labor for purposes of the Unemployment Insurance Fund (UIF)
- Register with the Commissioner for the Compensation for Occupational Injuries and Diseases (ImmigrationSouthafrica 2013.)

All these above are accordingly to “immigrationsouthafrica”

Macroeconomic Stability

South Africa macroeconomic stability level that has been accomplished has not been seen in the country for many years. Because of this a lot of opportunities have been created for real increase in expenditure social services and reduce of costs and risks for investors, creating the foundation for increased investments and growth.

South Africa’s government have accomplished success in ensuring macroeconomic stability by the implementation of macro-economic policies directed at promoting domestic competitiveness, growth and employment.

South Africa’s national government deficit decreased from -4.8% of GDP in 1994, to -0.6% in 2008, which will imply in over time, the government

is will not be spending more than its revenue. South Africa's national government debt decreased from "50.4% of GDP in 1995, to 23.8% in 2008, resulting in a reduction in government's liability over the years" (Why invest in South Africa 2013.)

Transport and Logistics Infrastructure

South Africa brags or boasts on that it has one of the modern and extensive infrastructures the whole of Africa. This infrastructure plays a big part in the South African economy and it is also depended upon by neighbouring states (Why invest in South Africa 2013.)

Cost competitiveness

South Africa is one of the competitive countries it was ranked 53rd as most competitive country in the world, which made it second highest in Africa and Mauritius (45th) in first place (Southafricainfo 2013.)

"In the year under review, South Africa was a strong performer when it comes to getting credit (1st), protecting investors (10th) and payment of taxes (32nd).It was ranked at an impressive 39 for dealing with construction permits, and starting a business in South Africa is also easier (53rd)"(southafricainfo 2013.)

The overall investment environment remains encouraging. A G20 country, South Africa is considered a low-risk investment destination for investors looking for a foothold into Africa. As the continent's largest African investor, South Africa sends more than 25% of its manufactured products into the continent (Southafricainfo 2013.)

"South Africa earned around R42-billion in foreign direct investment in 2011, which was more than four times the amount in 2010" (Southafricainfo 2013.)

South Africa's Wages

South Africa wages have increased in the second quarter of 2013 from what it was in the first quarter of 2013.

Maximum salary: = 23,247.69 Euros

Averages salary: = 2,078.27 Euros

Median salary: = 1,489.49 Euros

Minimum salary: = 147.476 Euros

Market Entry to South Africa

Average: 27,906 ZAR

Median: 20,000 ZAR

Minimum: 1,980 ZAR

(Salaryexplorer 2013)

3.6 Business Culture

It is very important for foreigners that are going to South Africa to do business, to be aware of certain things, like you have to gain the locals confidence, because the South Africans have been out of there arena 20 years. This makes them a little naive and could be exploited, if happened to be when doing business with them (Rissik 1994.)

South Africa Business Dress Code

South Africa is a little restrained when it comes to style they have a conservative society and it is best to be aware of what's been wore in terms of dress code. Hence, men are advised to wear a collar and tie and women to wear smart, business-like dresses or suits (Worldbusinessculture 2013.)

When meeting business associates on a social basis, it is possible to dress more casually but not too casually decent outfit is advised.

Due to the climate changes from season to season, be aware to have the appropriate weight of clothing for the time of year (Worldbusinessculture 2013.)

South African Meetings

South Africa is a diverse country. It is a little difficult on what to expect in meetings. Meetings styles will be different depending on who are meeting, "a traditional, white-dominated business, a start-up black African company or the subsidiary of a multi-national located in Johannesburg or Cape Town"(Worldbusinessculture 2013.)

It is important to at least know a few things or a few tips. Firstly for all, South Africans expect that you have knowledge of the current situation. Point out or show that research has been done and that you have adapted your policies or ideas to meet the local conditions.

Second thing is to get to know the people you are meeting to try to develop a good relationship. This comes in very handy within all sections of South African society since have a good relationship have always formed the basis of good business — regardless of cultural background.

The last is always “avoid anything that could be considered a 'hard sell' approach. It is much better to be understated and patient with South African contacts as being too pushy will probably alienate people” (Worldbusinessculture 2013.)

It is hard or difficult to arrange a last minute meeting with the high level manager, but able too with lower level manages.

It might be difficult to arrange meetings from mid December to mid January or the 2 weeks surrounding Easter as these are vacation times. After the meeting a letter should be sent to summarize what was decided at the meeting (kwintessential 2013.)

Business Negotiations

It is important to create mutual trust before negotiating.

“Women have yet to attain senior level positions. If you send a woman, she must expect to encounter some condescending behaviour and to be tested in ways that a male colleague would not” (kwintessential 2013.)

Try not to disturb or interrupt a South African while speaking.

South Africans make an effort for consensus and win-win situations.

“Include delivery dates in contracts. Deadlines are often viewed as fluid rather than firm commitments” (kwintessential 2013.)

when negotiating start with a reasonable figure. South Africans do not like haggling over price.

“Decision-making may be concentrated at the top of the company and decisions are often made after consultation with subordinates, so the process can be slow and protracted” (kwintessential 2013.)

4 THE ENERGY MARKET IN SOUTH AFRICA

South Africa's energy market is becoming demanding, because of the economic growth which is focused in industrialisation, and also the demand of electricity use in rural areas, has increased in the demand for electricity in South Africa. In 2030 South Africa's energy is expected to be more demanding and will be twice current levels (Cigrasp 2013.)

Competition

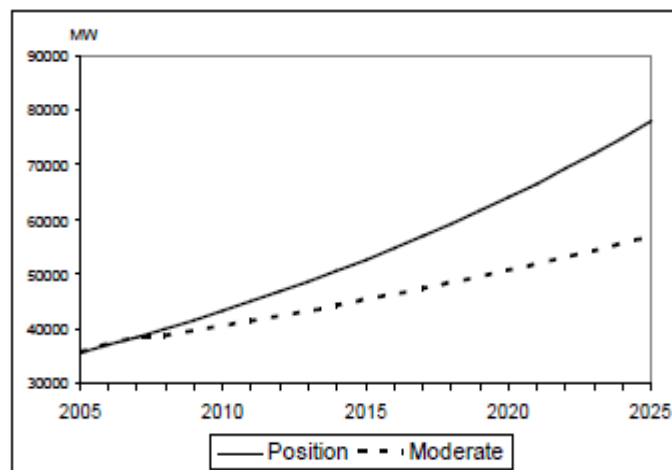
South Africa's electricity sector is totally vertically integrated due to the continued existence of ESKOM's monopoly of approximately 95% of the market which might make it very hard for competition. ESKOM controls almost every area of the electricity sector, starting with generation, transmission and retail. ESKOM generated capacity of 40,503 MW in 2009. South Africa produces 2,400 MW in districts and private companies provided 800 MW.

IPPs (Independent power producers) contributions to electricity supply in the country may be disregarded, owing to the absence of appropriate policy and a funding model (Cigrasp 2013.)

Capacity Concerns

In 2007 and 2008 ESKOM suffered from capacity generation problems because of the demand outstripping supply. Due to outcome, ESKOM introduced “load shedding”, or scheduled black outs that try to maintain the grid when demand is too high. The power supply crisis has increased the need to invest in Eskom's energy mix and its move towards other possibilities of energy sources such as nuclear power and natural gas, as well as various forms of renewable energy (Cigrasp 2013.)

South Africa over the years has had less investment in the power infrastructure, because of this the demand of energy is increasing the leading company Eskom who is in charge of the energy generation might not be able to meet the demand. Too much demand of energy which has caused the prices to go up. Below is the long term demand forecast (SciELO-org 2013.)



Source: Eskom presentation²

FIGURE 1
Eskom's long-term demand forecast (2005-2025)

Figure 8

Figure 8 shows 'Eskom's long-term demand forecast' as presented to Parliament. The demand is expected to be between 56 710 and 77 960 MW in 2025, depending on the economic growth in the country (SciELO-org 2013.)

The more energy demand there is the higher the electricity prices. Below figure 9 shows the annual percentage increase in Eskom electricity prices 2001-2012

Annual percentage increase in Eskom electricity prices (2001-2012)

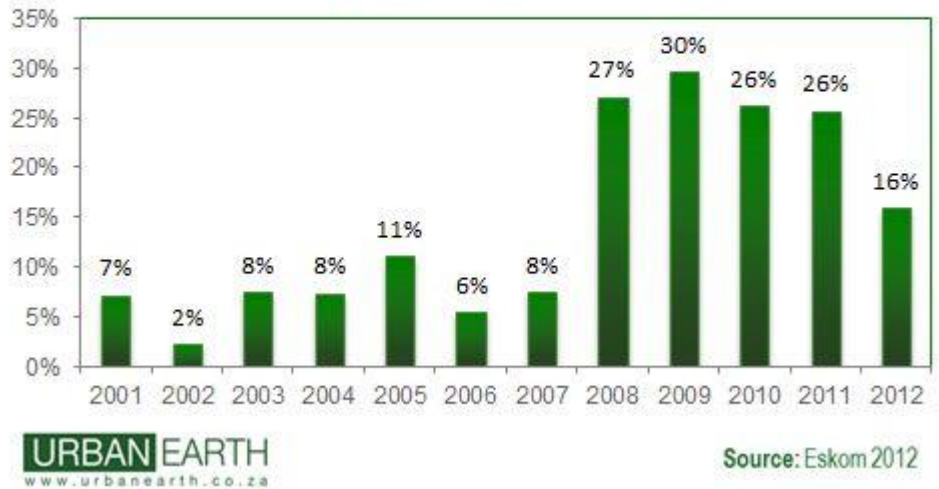


Figure 9

(Renusolar 2013)

Eskom has been considering other renewable energies below are some of the examples of energy that are being considered.

Green energy

South Africa, has always been using coal, they are now considering ways to change its power-generating capacity. The Development Bank, the Treasury and Eskom are considering on changing to renewable energy programme with independent power producers since it's cheaper.

The government has decided on supporting reasonable green energy initiatives on a national scale (Financial Times 2013.)

At least 42% of electricity generated must come from renewable resources accordingly to this 20-year projection on electricity demand and production, plan.

Different producers of power have been presented. Including projects operating concentrated solar thermal generators and solar, wind, small hydro.

Coal, fuel, oil and gas

77% of south Africa`s energy need comes though coal, this is quite a lot of coal been used to generate electricity while another comes from fuel and petrochemical.28% of coal is exported (Financial Times 2013.)

Total primary energy supply in South Africa, 2010

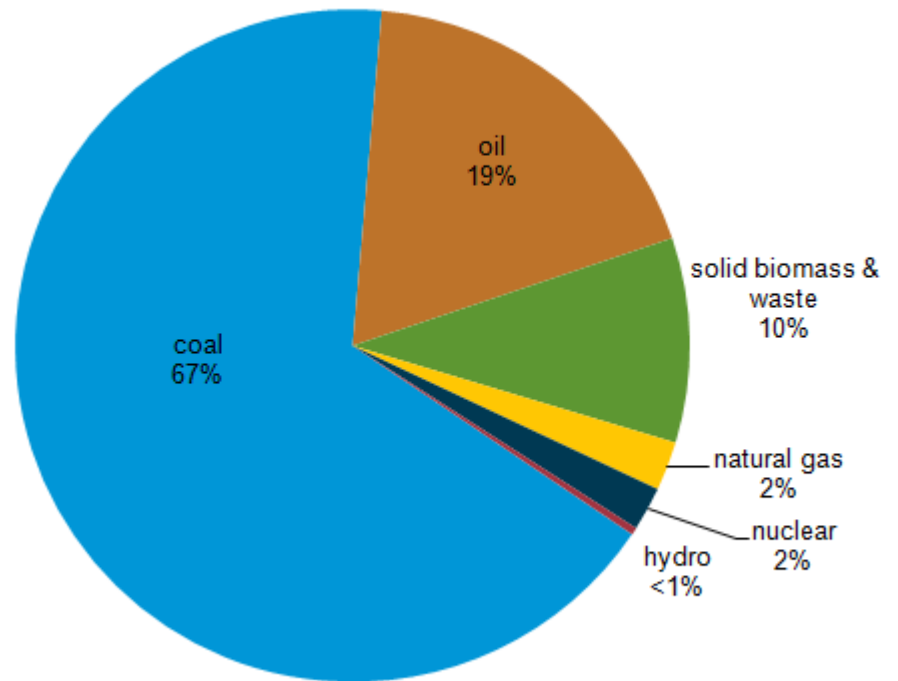



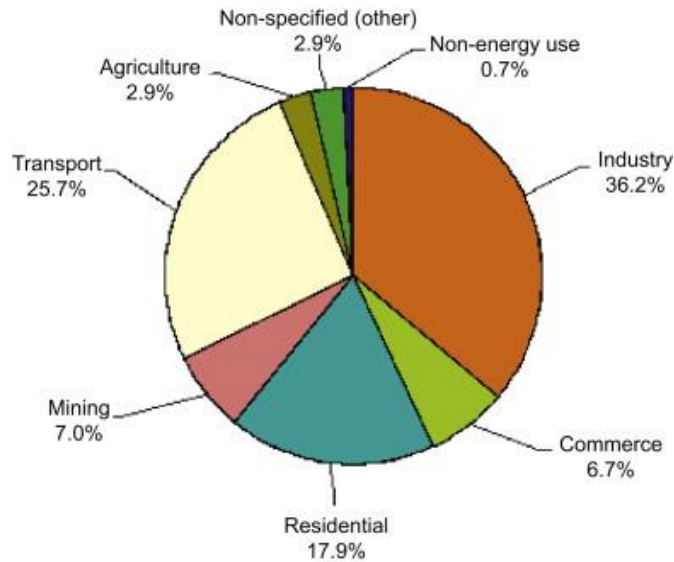
Figure 10  Source: U.S. Energy Information Administration

(Eia-gov 2013)

Above figure 10 shows the total primary energy supply in South Africa 2010, these are the South African source of energy.

4.1.1 ENERGY CONSUMPTION SECTORS

Figure 11 (Sciencedirect 2013)



As show above in figure 11 their energy consumption in different areas

Energy consumed by households

High living might also contribute on the consumption, Energy consumed by households is said to be about 17% of South Africa's net use. Most of the South African household obtain their energy from fuel wood (50 % household energy), primarily in rural areas, with the remainder from coal 18%, illuminating paraffin 7% and a small amount from liquid petroleum gas (Cigrasp 2013.)

Industries Energy Efficiency

Because of the energy demand South Africa has come up with a solution to reduce the demand by creating Energy Efficiency programmes. There target is to reduce the energy demand by 12% by 2015. Energy efficiency is targeting the following sectors industry and mining, power generation, and so on (Cigrasp 2013.)

Electricity - consumption:
189.4 billion kWh (2002)

Electricity - exports:
6.95 billion kWh (2002)

Electricity - imports:7.873 billion kWh (2002)

(Geography. About 2013)

4.2 Wind Energy in South Africa

South Africa is really suited for wind power development, with its abundant wind resources, ample suitable sites plus the modern high voltage electrical infrastructure.

Accordingly to cigrasp.pik-potsdam NERSA confirmed the Renewable Energy Feed-In Tariff (REFIT) to accomplish Government's target of producing 10 TWh of electricity per year by 2013 and sustain growth beyond the target, "The tariff for wind energy, 1.25 ZAR/kWh (€0.104/kWh, \$0.14 USD/kWh, \$0.17 CAD/kWh) is greater than that offered in Germany (€0.092/kWh) and more than that proposed in Ontario, Canada (\$0.135 CAD/kWh)" (Cigrasp 2013)

Energy Studies

SESSA (The Sustainable Energy Society of Southern Africa), studies non-profit organization dedicated to renewable energy and energy efficiency. This organization promotes and supports wind energy development on the African continent by making it easier for exchange of information, expertise and experience in the wind energy sector.

South Africa Consumer's Attitude toward Wind Energy

South Africa is only using 1% in total of that comes from renewable resources, even though they hope to increase the use of renewable energy to at least, 4% of the supply by 2013 (Usb-ac 2013.)

As for consumers attitude not much can be said. Even though Wind energy brings a lot of benefits the fact that it's might be more affordable that's one important fact. But this might take time for the consumers to get used to it (Usb-ac 2013.)

Accordingly to a source on an article about international research on consumer's attitude towards green products quote; when consumers are confronted with a relatively unknown product, they tend to follow a somewhat intricate decision-making process relying on various sources of information to which they are exposed.

South African's government toward Wind Energy

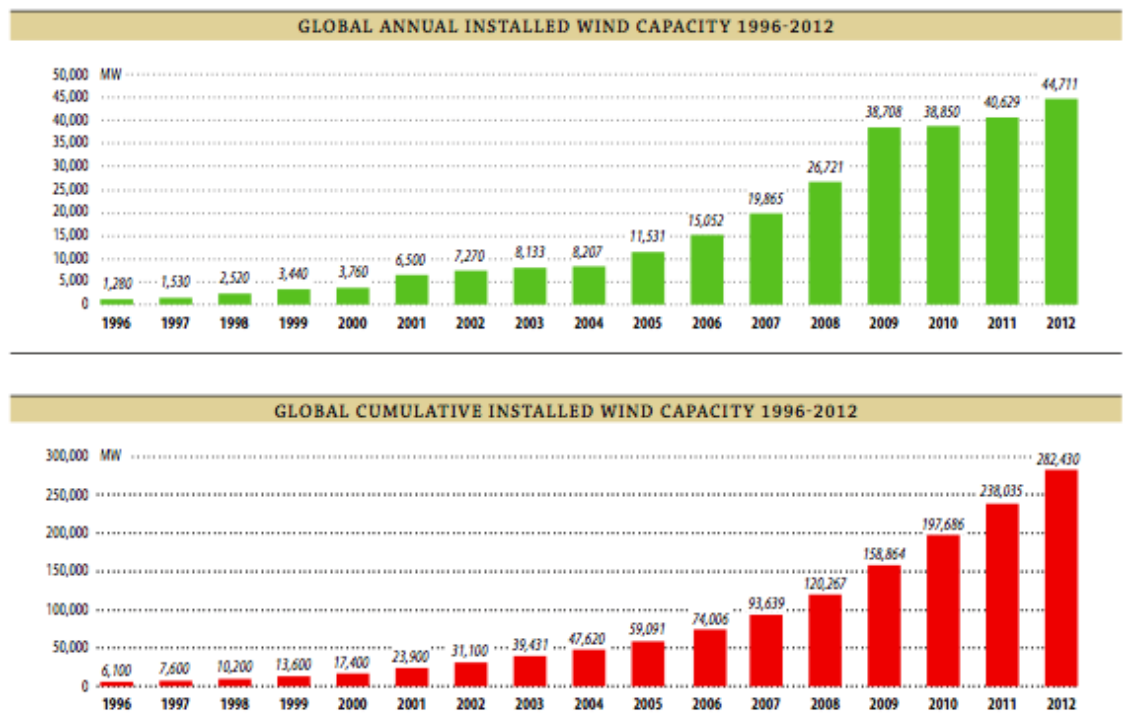
South Africa has invested \$ 125 million up to 2009 in total private investment in renewable energy, which most of it has been 2.4% wind energy,

Market Entry to South Africa

53.5% in biofuel and 44.1% in the rest in the other renewable energies. (Pew Charitable Trust, 2010).

The International Development Corporation (IDC) is financing large-scale renewable energy projects (over US \$100,000) with a budget of US\$3.7-billion investment over the next five years (Nkosi, 2011) this is happening in South Africa. The Wind energy project is under development through its financing mechanism, at least a few.

South Africa plans on having 8 400MW of wind generating capacity over the next two decades.



(Santamarta-florez 2013)

Above show is the annual installed wind capacity of the years as show there is a lot of changes.

4.3 Wind Turbines

4.3.1 Small Scale Wind Turbines

The following are a list of the small wind turbine manufactures.

Kestrel Wind Turbines

Kestrel Wind Turbines is proudly South African company they are manufacturing and selling of small wind turbines. “Eveready Diversified Products superior technology is robust and certified with European Certification and ISO Certification” (Energy-sourceguide 2013.)

They are supported in global regions by Kestrel distributors.

Business type: Manufacturer

Product types: Eveready-Kestrel manufactures complete wind systems. Including a Battery Charging system, Water Pumping system, Hybrid system and a Grid Connect system. Also, there is a Hybrid Boost system that retrofits to any currently installed small scale installation. Each system is available in the following sizes e150 (600W), e220 (800W), e300i (600W) and e400i (3kW).

Service types: We sell directly to business or private persons and are supported by our network of dealers for installation, maintenance and repairs (Energy-sourceguide 2013.)

African Wind power

African wind power is a Manufacturer of small wind turbines for off grid homes, small businesses, telecoms installations and water pumping applications. Their machines are come from Johannesburg South Africa and through dealers all over the world.

Business type: manufacturer, wholesale supplier, exporter

Product types: wind turbines (small) horizontal axis (Energy-sourceguide 2013).

Ctturbine

Ctturbine is another manufacturer of different energy products. Wind turbine 50watt to 30kw wind generator, controller, and solar panel

Business type: manufacturer

Product types: wind turbines (small) vertical axis.

Green Power & Composites

They are a Green Energy Company involved in the Production Sales & installation of Wind Turbines, Induction Cookers & Geysers

Business type: manufacturer, wholesale supplier

Product types: wind turbines (small) horizontal axis, Induction Cookers & Induction Geysers.

Service types: installation

(Energy-sourceguide 2013.)

Winglette Wind Machines CC

Winglette Wind Machines CC, is a South African based closed corporation, whose founders have been designing, and manufacturing wind machines for the last 25 years.

The Winglette W03 is a horizontal-axis wind turbine that generates 3000 watts at a wind speed of 11.7 M/s, for battery charging and grid tie applications. It also offers a complete range of hot-dipped galvanized lattice, stand alone-, and guy wired towers at heights of 9m, 12m, 15m, 18m, 24m and 30m. The total package of power, durability and good looks, make the Winglette an outstanding choice among wind generators today.

Business type: manufacturer, retail sales, wholesale supplier, exporter
(Energy-sourceguide 2013.)

Aero Energy

Business type: manufacturer, exporter

Product types: manufacturer of rotorblades for wind turbines (1-50kW).

Turbex Rotary Wind Mills

Business type: manufacturer

Product types: water pumps, wind turbines (small), wind energy towers and structures (small), wind energy systems (small).

Service types: Installation of windmill water supply systems
(Energy-sourceguide 2013.)

Wind Watts Turbines (Pty) Ltd

Business type: manufacturer, retail sales, wholesale supplier, exporter, distributor

Product types: wind turbines (small) horizontal axis, wind turbines (small) vertical axis, wind energy towers and structures (small).

Service types: consulting, design, installation, construction, contractor services, maintenance and repair services, testing services (Energy-sourceguide 2013.)

4.3.2 Large scale Wind Turbines

Not much can be said about the large scale wind turbines in South Africa that's because they don't really have big wind turbine companies. All these below are controlled or owned by Eskom.

-Sere

Sere is a wind farm, its state-owned electricity utility Eskom this is all according to the Government communication and information system. When it is complete it will be the largest wind farm in the southern.

Sere's wind capacity is estimated to be well over 10 000MW when it's ready.

Eskom has officially been granted the licence to develop the wind farm by the National Energy Regulator of South Africa.

"Sere is our first large-scale renewable energy project," said Brian Dames, Eskom chief executive officer, in a statement. "It demonstrates our commitment to reducing our carbon footprint and to investing in a sustainable energy future" (Ecoseed 2013.)

When sere is ready it will create about 170 direct job opportunities (Ecoseed 2013.)

-Darling

Darling wind farm is also part of Eskom projects, the construction of this project started in 2007 and the first wind generated energy was in 2008.

There 4 wind turbines were installed in one year (each 1.3MW) they produced 8.6 Giga Watt hours.

The wind turbines started producing power at a wind speed of only 8 kilometers an hour and reach their full potential at 54 kilometers. The actual rotation is their measured way of rotating – at the same speed of 32 revolutions per minute, regardless of wind speed. These are not the same like the steel wind pumps. When the wind speeds reaches more than 97 kilometers an hour, the computer control system shuts them down, breaking the blades (SA-Venues 2013.)

5 SWOT ANALYSIS

This SWOT analysis is for the Wind Turbines companies in Finland that are interested in Entering the South African Market.

Strengths

- Efficiency
- Engineering expertise in this field.
- High quality
- Precise way of working
- Years of experience
- They are customer oriented
- They are reliable

Weaknesses

- Less experience of South Africa market
- Lack of culture knowledge
- Lack of contacts
- Local presence needed, traveling
- Reliable partners and intermediaries
- Language differences
- Funding risks

Opportunities

- Political stability
- A robust legislative framework very attractive framework example business-related legislation.
- A strong financial network
- Good and large labour force
- A modern and extensive infrastructure
- A favourable corporate tax rate compared to other emerging markets.
- Extremely low labour costs
- Attractive climate
- Good rental possibilities
- Diversified Economy

Threats

- High levels of crime
- Traffic congestion and pollution in some towns
- Corruption
- Lack of Educated labour
- Labour laws
- Rates/taxes/devaluation of the Rand (currency)
- High unemployment rate

Conclusion based on the SWOT shows that there are quite many Opportunities in the target market and these cannot be over looked. Even though there are challenges or threats one cannot disregard them, because they come in handy when deciding if there is potential in the target market.

Overall based on the SWOT analysis above they are good opportunities for a company to have a successful business in the target market.

6 THEORY CONCLUSION

In conclusion when entering a target market one should think of the best strategy. Which then determines if the target market is worth the risk of entering it. The best strategy for the companies would be to achieve the market entry strategy modes. The reason is that it's one way of reaching a foreign market this is quite straightforward. Every company that is planning to have a business in another country should use Exporting as an entry strategy mode which includes the use of agents or distributors. Licensing is another alternative of market strategy modes should be also used.

During proceeds the company needs a lawyer present, it is very important to require legal assistance during these agreements. Joint ventures also have other benefits that they bring to the table, like having distributions channels and political connections this comes in handy if the company is in a foreign ground. Foreign direct investment have advantages like the companies gain a lot of control in that actual operation, and the ability to know there consumers and also there competition. All those entry modes are important for any company trying to enter a foreign market, without them a company might not succeed.

Even though there are factors that affect the entry modes decision these depend on the company; at the end they decide which of these factors affect them. Internal factors include the product, firm size, the experience all these factors are very important. External factors include socio and cultural, country risks, market size and growth, the trade barriers and let's not forgot the competition and so on. Overall one must study these in order to have a successful entry.

7 RECOMMENDATIONS

The author recommends the entry to South Africa but request the commissioner to also regard the threats that have been pointed out and keep monitoring the demand of energy in South Africa. The author recommends, the commissioner also to consider partnership with other companies in South Africa, Eskom owns about 95% of energy sector, at this point Eskom also might needs help because of the demand keeps growing .The other thing is have someone that is part of the company to move there and learn more. The aspects regarding market entry, was covered.

South Africa is one of the best and exciting places to do business; it being one of the developed countries in Africa which makes it a very good place for business. There are quite a lot of benefits of doing business in South Africa compared to other emerging markets. South Africa macro Economic stability level that has been accomplished has not been seen in the country for many years. Because of this a lot of opportunities has been created for real increase in expenditure social services and reduce of costs and risks for investors, creating the foundation for increased investments and growth. South Africa´s infrastructure is one of the best in the whole of Africa.

South Africa government have achieved success in implementation of macro-economic policies directed at promoting domestic competitiveness, growth and employment. This is one of the many reasons why the writer encourages the entry to this market. These facts should all be considered.

When it comes to the wind energy South Africa has a good climate, wind is not a problem. South Africa is only using 1% in total, that comes from renewable resources, even though they hope to increase the use of renewable energy to at least, 4% of the supply by 2013 Wind energy brings a lot of benefits the fact that it´s might be more affordable that´s one important fact. But this might take time for the consumers to get used to it. South Africa over the years has had less investment in the power infrastructure, because of this the demand of energy is increasing the leading company Eskom who is in charge of the energy generation might not be able to meet the demand. The energy market is becoming demanding, because of the economic growth which is focused in industrialisation, and also the demand of electricity use in rural areas, has increased in the demand for electricity in South Africa.

After all that has been said and done the author also thinks it's not a bad idea to monitor the changes of wind energy market in South Africa. The fact that people are still not used to using wind energy as the source of energy this might require a little patience.

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