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BusyInternet – Case B

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ABSTRACT

BusyInternet (Busy) was an African startup providing cybercafés, office space, business service centers, restaurants, and bars. These services were in high demand Ghana’s capital, Accra, and now faced a crossroad: Should BusyInternet focus on expanding within Ghana or open offices in other African countries?

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Introduction

Mark bounded up the stairs at the BusyInternet facility in Accra, intent on solving a problem for one of his tenants. Mark's business had been up and running for nearly two years, and by all accounts it was a smashing success. The natural next challenge facing Mark was expansion. The services offered by BusyInternet were in high demand not just at his Accra location in Ghana but also in neighboring countries. Should he focus on expanding within Ghana or open offices in other African nations?

Investment Background

Mark's experience raising funds for BusyInternet's startup outside Africa were disappointing, to say the least. Despite the transparent business plan and Mark's passionate advocacy of Africa as a location just waiting to boom, U.S. investors could not shake their preconceptions of the continent as an unstable and dangerous area for capital investment. Even Mark's old friends from his Internet days in the States were unwilling to step forward with relatively small investment commitments. European investors were more enlightened about the promise of Africa, but even they were not willing to back their sentiments with cash.

The situation changed radically when Mark began seeking funds in Africa. Ghana's two main venture funds, DataBank and Fidelity, were both highly interested in BusyInternet as a for-profit venture, and between the two of them they offered \$700,000 of the \$1.7 million Mark needed for the Accra start-up. Both DataBank and Fidelity managed internationally sourced funds—notably from the IFC and USAID—for local investment in Ghana. Mark used his own funds to provide the balance needed for the start-up.

BusyInternet Booms

The Accra facility opened with all the planned components: cybercafé, office space, business service center, restaurant, and bar. The response was overwhelming. The facility was so busy that the existing septic tank had to be replaced and the air-conditioning system upgraded. The rental offices were full, with a long waiting list. A wide variety of IT-related businesses were growing and thriving under Busy's roof. As an incubator, Busy was playing host not just to Web designers but also to an enterprise called eShopAfrica.com that sold traditional African goods online, including brightly decorated hand-carved coffins shaped like beer bottles, airplanes, or fish, all designed to reflect the interests of the deceased. Another business, Data Management International Inc. (DMI), of Wilmington, Delaware, employed 37 Ghanaians to process fines for New York City. The clerks entered data from computer images of citations written to hot dog vendors caught smoking while serving, homeowners who left trash on the sidewalk, or ice cream trucks parked in a crosswalk. The fines often far exceeded the \$72 average monthly wage of DMI's Ghanaian data processors. Busy's

cybercafé buzzed 24 hours a day. Fifteen hundred people made their way through the center every day. The original business plan called for 35 employees; BusyInternet was now employing 72. Within two months the company was cash-flow positive; within six it had established an operating profit. Mark's dream of turning BusyInternet into a vital and profitable center of IT activity had come true.

Challenges

Busy's success was not without its challenges, however. Mark found that increased staffing required more supervision of cash handling. There were also challenges in improving customer service. Labor was cheap in Ghana, but low-paid workers were often unwilling ones.

On a macro level, running an IT business in Ghana had not proven easy. Apart from labor, everything was more expensive there, including travel and supplies. The environment for support, spare parts, and vendors was very poor, increasing the cost of doing business. Machines had to be cleaned frequently because of the dust that blew in from the Sahara Desert. The electricity in Accra went dead at least once a week, requiring Mark and his partners to install a \$30,000 backup generator to cover outages, plus a massive battery to keep the machines running for the 11 minutes it takes the generator to power up. Government regulation was very slow. In addition, the government lacked an IT policy and was not visionary about positioning Ghana for competition in global markets.

Expansion

Despite the challenges, Busy was in a good position to expand. One of the company's more notable accomplishments had been building a strong brand, one of the few in the Accra market. Mark was parlaying this strong brand equity into other businesses; for example, Busy planned to launch an Internet service provider in September of 2003. Busy's strong presence, coupled with the general poor level of service that most Africans endure, made expansion—either within Ghana or to neighboring countries—an inevitable consideration. Mark received letters weekly from various African countries, asking that Busy open an office there. However, he regarded expansion plans with caution. Continental expansion became exponentially harder as new business networks, regulations, cultures, and languages were encountered in each new country. In addition, there were strong constraints to private equity investment, including high management costs and the high cost of capital (for example, treasury bills at a 35% return PA). Setting up shop in another country would require a tremendous investment in hardware, real estate, and training, among other considerations. Given these conditions, Mark believed that expansion into new African markets was predicated on public/private partnerships to offset high capital expenditures costs. While Mark was willing to invest more of his own money into BusyInternet ventures outside Ghana, partnering with local investors would be key to any of BusyInternet's expansion plans, not just in terms of financial support but also in terms of building local credibility for the new enterprise.