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MASTER'S THESIS  
**THE POTENTIAL FOR SLOVENIAN HOUSING INDUSTRY TO  
ENTER THE SOUTH AFRICAN MARKET**

Ljubljana, June 2014

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## INTRODUCTION

International investors, multi-national companies and small-medium sized foreign firms express their interests in South African markets, because South Africa is one of the emerging economies and is also a member of the BRICS (Brazil, Russia, India, China, South Africa) countries. The interest from internationals in South Africa is also drawn by positive economic outlook, relatively 'good' investment climate, technological progress, infrastructure development, and market size (population and land surface area) in South Africa. South Africa is one of the largest economies in Africa in terms of Gross Domestic Product(GDP) and purchasing power. According to the countries risk assessments and business climate assessment, conducted by Coface, South Africa is one of less risky economies to invest into in the Sub-Saharan Africa. One of South Africa's attractive aspects lies within its good protective legislative environment for investors (Coface, 2013).

South Africa is perceived as the gateway to Sub-Saharan Africa, serving as a landing slot for investors wary of venturing into other Southern African countries such as Namibia, Botswana, Mozambique, Lesotho, Swaziland, Angola, Zambia, Zimbabwe, etc (TE, 2013). This means that understanding the South Africa market offers foreign companies an opportunity and access to also expand to other Southern African countries. The EU-South Africa trade agreement called Trade, Development and Cooperation Agreement facilitates and encourages free trade in South Africa for EU companies, as there are no extra institutional costs needed for EU companies to establish themselves in South African markets (MTI, 2013). In addition to economic and technological factors in favour of South Africa, demographic conditions are also showing positive outlook. South Africa population has been increasing for the past decade and it is expected to continue increasing. South Africa is on the countries in the Sub-Sahara with the young population being dominant – average age at 25 years old. All these economic and demographic factors in the Southern African countries imply continuity in demand for housing at the present time and in the near future.

Though the South African general housing market has been steadily rising both in value and volume for the past ten years, the alternative housing (wooden housing units and other non-brick/concrete housing units) market has maintained a less than one percent growth (Statistics South Africa, 2012). Some economists proclaim that South Africa is the land of opportunities, while others warn that huge disparities in income inequalities hamper domestic consumption (WB, 2013). Besides other factors, income dynamics is the key contributing factor in the housing market in South Africa. In order to fully comprehend the cause-effect mechanisms and dynamics in the South African alternative housing market, it is important to investigate the market drivers in terms of demand, supply, prices, income dynamics, the consumer/buyer behavior, the role of private sector, and the role of government. We draw literature and secondary data to analyse the characteristics (dynamics and drivers) of the South African housing market.

The Slovenian housing companies find themselves mostly limited to EU markets in terms of growth. The problems in the Slovenia housing market are primarily due to economic and demographic challenges. The sluggish economic situation and aging population in Slovenia might negatively impact the Slovenian housing companies in the future. The unfavourable conditions in the Slovenian housing/real estate have led to low demand for housing, decrease in housing prices, and rental vacancies. In the year 2013, the unfavourable housing market situation was also reported by Slovenian Times, when they stated that "Slovenia's real estate market has been on a downward spiral since the financial crisis hit in 2008 and the property bubble burst, but fresh reports suggest the situation is getting progressively worse"

(Slovenian Times, 2013). Slovenian Times further reported that construction industry was also showing contraction. The reports from Slovenian Times are also supported by Global Property Guide (2014) where they reported that "Slovenia's property market is still in the doldrums, though house price-declines are slowing". Global Property Guide (2014) further reported that the economy of Slovenian was expected to contract in 2014 by 1.4%, due to weak demand, which is not favourable for the housing market. These economic difficulties have also been evident in the Slovenian housing companies' annual financial statements. Between 2010 and 2012, some Slovenian housing companies have experienced declines in revenues and profitability (AJPES, 2013).

The Slovenian economy is primarily export-oriented, thus in order for the Slovenian housing companies to increase their revenues through export-diversification in the long-term, there is a need to explore the possibility of expanding into foreign and emerging markets such as South Africa. We therefore investigate if Slovenian housing companies should use the opportunity and enter the South African housing market by providing alternative housing products/services/solutions. Therefore, the purpose of this research study is to provide an in-depth analysis of the alternative housing market in South Africa; while the goal is provide managerial recommendations regarding whether Slovenian housing companies should enter or not enter the South African alternative housing market; and if they should enter, how they should enter. The research has several objectives, among which include: (i) investigating the role of Government (South African Housing Ministry) in the housing market of South Africa; (ii) the general perceptions of South Africans towards wooden houses; (iii) the role of private sector in the housing market of South Africa; (iv) the risks and costs associated with entering the housing market of South Africa; and (v) the entry modes for entering the housing market of South Africa. We describe the problem statement, significance of the research study, and research methodology. This is followed by a summary of literature review on alternative housing market in South Africa, the discussion of the characteristics of the South African alternative housing market, and then the results and findings from the secondary data and primary data (surveys). The last chapter deals with recommendations, implications and the conclusion.

# **1 THE ECONOMY AND BUSINESS ENVIRONMENT OF SOUTH AFRICA**

## **1.1 Macro-economic Situation of South Africa**

South Africa is an open-market and dual (with a developed formal economy and undeveloped informal economy) economy. The formal economy has the sophisticated industrial and financial sectors, being the most developed. The informal economy, also known as second economy presents both potential and developmental challenges (SouthAfrica.info, 2012). South Africa is the largest economy in Africa in terms of Gross Domestic Product (GDP) (with a GDP of 279.3 billion Eur as of 2013) and purchasing power (with a GDP per capita of 8,294 Eur as of 2012). South Africa is the 25<sup>th</sup> largest economy in the world, and is ranked as a middle-income and emerging economy by the World Bank (CIA, 2013). South Africa is a member of the forum for emerging economies, called BRICS (Brazil, Russia, India, China, and South Africa). South Africa's entry to BRICS nations has drawn attention from investors and foreign companies into South African markets.

The economy of South Africa had been steadily growing at an average of 3.2% since 1994 (the end of apartheid system) leading up to 2006. In 2007, the South African economy began to slow down due to an electricity crisis. The decline in economic growth was further exacerbated by the global economic crisis between 2008 and 2009 – GDP fell by 2%. Since then GDP has recovered, and as of 2013 the GDP is standing at 2.7%. The GDP forecast for 2014 and 2015 shows a positive outlook, and is expected to stand at 3.5% in 2014 and at 3.8% in 2015 (Ministry of Finance-National Treasury South Africa, 2013). The economic growth in South Africa has been largely due to the supportive global environment, sound economic policies, and fiscal balances. The primary key drivers of GDP in South Africa are: (i) services (contributing 65% to total GDP); industry (contributing 32% to total GDP); and agriculture (contributing 3% to total GDP) (SSA, 2012).

The inflation rate in South Africa averaged 9.5% for the last decade, leading up to 2012. As of 2013, the inflation rate is standing at 6%, and it is projected to remain within the 3-6% target band over the next three years. The Consumer Price Index (CPI) and Producer Price Index (PPI) are the two primary measures of inflation in South Africa. South Africa's economic policies have focused on controlling inflation (Statistics South Africa, 2013; Ministry of Finance - National Treasury South Africa, 2013). Consumer spending in South Africa has significantly increased over the past ten years. This has been coupled with the increase in disposable personal income, which has also been due to an increase in GDP per Capita. South Africans spend 32% of their disposable income on housing, 12% on food, and 17% on transportation (SSA, 2012).

South Africa has been a member of World Trade Organisation (WTO) since 1995; meaning that South Africa's trade with other countries also abides with international trade standards and protocols. Regarding the balance of trade, South Africa maintained a trade surplus between 1994 and 2006. Since 2007, the country has experienced significant decrease in trade surplus, and as of 2013 the country has had a trade deficit of 836.3 million Eur. The trade deficit has been due to two major factors, being: (i) a significant decrease in export of commodities due to the decrease in demand from foreign trade partners which was mainly caused by global economic crisis; and (ii) high imports of fuel, and other value added goods such as electronics and machinery. South Africa is endowed with mineral resources such as platinum, gold, coal, etc; and as such its main exports include minerals, car parts and

vehicles. South Africa's main trading partners include Japan, USA, China, UK and EU. In the year 2012, trade represented almost 60% of GDP, while exports represented 28% of GDP (SSA, 2013, WB, 2013).

South Africa is plagued with low domestic savings; therefore foreign direct investment (FDI) is one of the key sources to its economic growth. In 2012, FDI inflow was about 3,326 million Eur and accounted for 1.2% of GDP (UNCTAD Statistics, 2013). South Africa has been struggling to attract adequate and stable FDI. This may be due to investors' risk averseness due to socio-economic and business environment challenges (politics, corruption, demonstrations, income inequalities, poverty, HIV-Aids, multi-culture, global economic crisis, inefficient labour system, etc) (WEF, 2013; Coface, 2013; Doingbusiness.org, 2013). The UK, USA, EU, China and Australia are the main sources of FDI inflow to South Africa. The UK and USA primarily invest in the mining sector, and examples of big companies include Anglo-America Platinum, AngloGold Ashanti and Lonmin. The EU primarily invests in basic consumer goods, intermediate goods, machinery and equipment, while China and Japan primarily invest in infrastructure, electronics, automotive and engineering products and services. South Africa's major source of FDI outflow is Africa – though some South African companies invest in developed countries, but many South African companies invest in services in other African countries, for example MTN company has several branches throughout Africa.

South Africa's public debt increased from 27% to 38% between 2009 and 2012. The increase in public debt has been due to various factors; some factors include the negative impact of tax revenue, increase in public spending, and debt levels of public (state-owned) companies. However, according to National Treasury South Africa, the public debt remains under control, and as of 2013 the public debt is standing at 43% (% GDP) (SSA, 2013, NTSA, 2013).

The unemployment rate in South Africa averaged 24% between 2000 and 2012. In 2013, the unemployment rate is about 25%; youth (youth represent over 20% out of 51 million) being the most unemployed at 50% of unemployment rate. The black population (about 80% out of 51 million) and coloured population (about 9% out of 51 million) are the most affected by unemployment due to inadequate access to skills and education (at some extent due to the legacy of the colonisation and apartheid systems) needed for the formal economy. Furthermore, the female population is the most affected by unemployment and low levels of education (SSA, 2012). Only about 5% of the black population have high school education and about 1% have tertiary (college and university) education. The high unemployment and low levels of education contribute to poverty and high disparities in income inequalities. Only about 10% of South Africa's population is of high-income, while about 20% of the population are middle-income earners and the rest are low-income earners. About 16% of South Africa's population live below the poverty line. Consequently, South Africa is ranked as one of the most unequal societies in the world in terms of income, with a GINI Index of 63 (SSA, 2012; WB, 2013). The economic profile of South Africa is included in the appendices.

## 1.2 The Global Competitiveness Position of South Africa

Regarding the global competitiveness position 2012-2013<sup>1</sup> (out of 144 surveyed countries), South Africa is ranked 52<sup>nd</sup> and is the highest ranked country in Sub-Saharan Africa, and 3<sup>rd</sup> ranked among BRICS countries. South Africa is still in the Efficiency Phase of development, while Slovenia is ranked 56<sup>th</sup> and is in the Innovation Phase of development. South Africa's main competitiveness strengths lie within larger market size (ranked 25<sup>th</sup>) with a population of about 51 million and land area of 1,219,912 km<sup>2</sup>, quality of institutions (ranked 43<sup>rd</sup>), goods market efficiency (ranked 23<sup>rd</sup>) and financial market (ranked 3<sup>rd</sup>). Business sophistication (ranked 38<sup>th</sup>), innovation (ranked 42<sup>nd</sup>), research and development (ranked 34<sup>th</sup>) are also some of the emerging drivers of South Africa's competitiveness (WEF, 2013).

Nevertheless, South Africa suffers from weakness within the labour system, education system, and macroeconomic environment. All these areas have experienced a decline in global ranking from 2010 to 2013. Labour market efficiency is where South Africans are most uncompetitive. Some causes of the labour market inefficiency include rigid labour unions, inadequate educated labour force, and lack of state capacity. The weakness in education system has been due to a general deterioration in the quality of mathematics, science, and engineering. The macroeconomic environment was hammered by a massive decline in the competitiveness of the government budget balance and government debt, mostly brought on by dismal European performance. In 2007 South Africa had a very low debt as percentage of GDP. In 2012 South Africa's deficit was below 4% and the debt was approximately 40% of GDP. Compared with most countries in the developed world South Africa was in much better shape from a macroeconomic environment point of view, but South Africa's trade with the developed world (in recession) is the major reason for the decline in macroeconomic competitiveness (WEF, 2013; Pennington, 2013). Further weaknesses are described in the "Doing Business in South Africa" section. The summary of South Africa global competitiveness profile is included in the Appendices.

## 1.3 Doing business in South Africa – the Business Environment and Culture

Regarding the 'Ease of Doing Business'<sup>2</sup> rankings (out of 189 countries), South Africa is ranked 41<sup>st</sup> and is expected to maintain the same rank in 2014, while Slovenia is ranked 31<sup>st</sup>. South Africa's "ease of doing" strengths lie within protecting investors (ranked 10<sup>th</sup>), getting credit (ranked 28<sup>th</sup>), paying taxes (ranked 24<sup>th</sup>) and dealing with construction permits (26<sup>th</sup>). South Africa ranks better than Slovenian in all the above indicators. However, when it comes to starting a business (ranked 64<sup>th</sup>), registering a property (ranked 99<sup>th</sup>), getting electricity (ranked 150<sup>th</sup>), trading across borders (ranked 106<sup>th</sup>) and resolving insolvency (ranked 80<sup>th</sup>) South Africa ranks poorly, while Slovenia is ranked better than South Africa (DB, 2013).

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<sup>1</sup> The Global Competitiveness Report 2012–2013 is a comprehensive assessment of 144 economies. The report contains detailed profile of each of the economies with global ranking covering over 100 indicators. The report is prepared and published by World Economic Forum with headquarters in Geneva, Switzerland.

<sup>2</sup> The World Bank conducts the Doing Business research and in 2013 it included 185 economies. Each economy is carefully evaluated through a series of statistical data, legislative procedures, and other institutional obstacles, including non-transparent practices. In total, it evaluates 11 aspects of 'doing business:' starting a business, dealing with construction, permits, getting electricity, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts, resolving insolvency, and employing workers (Doing Business, 2013).

Clearly, South Africa's business environment is embattled with challenges of business regulations when it comes to doing business.

The most problematic factors for doing business in South Africa involve: (i) inadequately educated workforce; (ii) inefficient labour system; (iii) inefficient government bureaucracy; (iv); inadequate supply of infrastructure; (v) corruption; and (vi) poor security situation (WEF, 2013; Coface, 2013). These factors contribute to high business costs and risks for doing business, and negatively impact South Africa's competitiveness image. The disparities in income inequalities also contribute to difficulties in doing business in South Africa, because the majority of the population find it hard to afford premium or high-priced goods because of their low-income. High unemployment, poverty and inequalities are the major sources of social risk (criminality and demonstrations). One of South Africa's weaknesses lies within its economy being sensitive to the European economic situation and to Asian competition, and also depending on volatile foreign capital inflows (Coface, 2013). Nevertheless, South Africa is rich in natural resources and minerals. The mineral resources in South Africa include platinum, gold, diamond, rare earths, coal, etc, and mining plays a crucial role for the economy. South Africa also benefits from its well developed services sector (especially financial services), control over public spending, and protective legislative environment for investors (Coface, 2013).

Regarding culture in general and business culture, there are significant cultural differences between Slovenia and South Africa. The two countries drastically differ in Hofstede cultural dimensions. Hofstede's cultural dimension analyzes cross-cultural communication, based on five different dimensions: power distance, individualism, masculinity, uncertainty avoidance, and long-term orientation (HC, 2013). This means that business culture between these two countries also differs. For example, South Africa is more masculine than Slovenia, meaning that women in South Africa do not share the same high level of equality as they do in Slovenia. Also, business meetings are less formal in South Africa unlike in Slovenia whereby formality is always a priority. South Africans consider 'remain calm' during the negotiating process as one of the important aspects in business. Interrupting a South African counterpart during meetings/negotiations can be seen as rude and being over eager. In South Africa, decisions tend to be made from the top down and can take awhile to be reached (CC, 2013). Table 3 in Appendix provides a summary of South Africa's profile on doing business in South Africa. Figure 3 in the appendix provides a summary of the most problematic factors for doing business in South Africa. The summary of cultural differences-dimensions between South Africa and Slovenia is included in the appendices.

## **1.4 Future Challenges and Prospects**

The 2014 national and provincial elections (polls) will in no doubt impact the economy and business environment of South Africa. The ruling party African National Congress (ANC) is expected to have its majority in parliament and in decision making reduced due to two new and strong political parties that have emerged in 2013; namely: Economic Freedom Fighters (EFF) and Build South Africa (Agang). The EFF advocates for the nationalisation of mines, banks and other strategic industries, and also 'calls for' expropriation of land without compensation so that all land could be owned by government and resources could be equally distributed to all South Africans, thus reduce inequalities, create employment and eliminate poverty (EFF, 2013). Some political analysts and economists proclaim the EFF policies could



discourage investors to South Africa, and also put South Africa into an economic collapse. In a nutshell, the policies taken after the 2014 election will likely be the determinants of South Africa's economic future.

South Africa is advancing, but failing to fully achieve its considerable potential. On the positive outlook, per capita incomes are growing, public services are expanding, health indicators are improving, and demographic trends are favourable (NTSA, 2013). The New Growth Path, and The National Development Plan Vision 2030 'call for' an economy that is more inclusive and dynamic, and that targets reducing the unemployment rate to 20% in 2015, 14% in 2020, and 6% in 2030. The plan also 'calls for' (i) transition to a low-carbon economy; (ii) inclusive and integrated rural economy; (iii) improving the quality of education, training and innovation; (iv) building safer communities; and (v) fighting corruption (PMSA, 2013).

However, on the negative outlook, the EU crisis continues to impact the economy of South Africa, because South Africa also depends on EU for exports and FDI. Socio-economic problems (continued corruption, crime, unrest, unemployment, inadequate educated and skilled labour force) continue to undermine the economic growth and development in South Africa. The HIV-AIDS remains a major challenge, particularly to the labour force. The disparities in income inequalities continue to hamper domestic demand, especially for premium-priced goods. Output growth is sluggish compared to most other middle-income economies. Environmental challenges such as climate change and water scarcity threaten the sustainability of economic growth, while high current account deficits represent a point of macroeconomic vulnerability (NTSA, 2013; WB, 2013).

## **2 ORIENTATION OF THE RESEARCH STUDY**

### **2.1 Problem Statement and Rationale of the Study**

The Slovenian housing companies heavily depend on former Yugoslavian markets, and other EU markets (Prasnikar et al, 2013). Some EU markets such as Spain, Portugal, Greece and Italy, just to name a few, are experiencing unfavourable market/economic conditions (Eurostat, 2013). The 2008-2009 economic crisis exposed the vulnerability of Slovenian companies for having to highly depend on EU countries (Prasnikar, et al, 2013). The Slovenian market (population size and land surface area) is small, and its negative economic outlook may hamper businesses' growth in the future (WEF, 2013; Eurostat, 2013). EU demographic changes such as slow population growth and an aging population (WPS, 2013) may also hamper business growth for Slovenian housing companies in the long-run. The annual financial statements for the period 2010 – 2012 indicate that some of the Slovenian wooden housing companies experienced a decline in revenue and profitability, while other wooden housing companies only gained a small increase in revenue and profitability (AJ PES, 2013). These factors and conditions offer Slovenian housing companies limited opportunities for growth.

To add to this the Slovenian housing market is experiencing a low demand and Slovenia's real estate market has been on a downward spiral since the financial crises hit in 2008 and the property bubble burst. Fresh reports suggest the situation is only getting worse (ST, 2013). Prices have dropped by 4% in 2014 compared to the same time last year, and vacancy rates

for offices have risen by 27% as of 2012. Regarding the future, Slovenia's economic outlook remains very bleak (GPG, 2014). There is weak domestic demand, rising unemployment, and spill-over into the housing market (ERD, 2013).

On the other ‘hand’ Africa is now the second fastest growing economy after Asia, and represents the second largest population in the world (TE, 2013). Also, BRICS countries such as South Africa had been minimally impacted by 2008-2009 global economic crisis and have quickly returned to their normal growth rates (Prasnikar et al, 2013). Most importantly, the emerging economies such as South Africa have the youngest population, with 30 years being the average (WB, 2013; TE, 2013). The young population is perceived as the target potential for consumer spending, as they are still looking forward to life prosperity such as buying houses, getting married and establishing their own families. South Africa is an attractive tourist destination for tourists from the EU, Asia and USA. Also, South Africa has become a global player for global events such as sports and entertainment, economic and business summits, arts and culture, etc. These aspects suggest ‘room’ for housing/accommodation opportunities in various segments in South Africa.

In a nutshell, the emerging markets such as South Africa are experiencing stable growth despite the unfavorable economic situation in other parts of the world such as the EU (Prasnikar, et al, 2013). This raises a ‘big question’ to the Slovenian housing companies regarding whether they should expand to the emerging markets such as South Africa. However, the answer to this ‘big question’ requires an in-depth ‘scrutiny’ of the risks and costs associated with expanding to distant markets such as South Africa. In terms of the literature review, there is little empirical research on alternative housing in South Africa. There has been little assessment carried out by companies and researchers on the potential of alternative housing market in South Africa. There is also limited research on Slovenian housing companies expanding to African housing markets. These literature drawbacks impose the ‘question’ regarding whether the South African housing market, and alternative housing market in particular is an ideal market to enter or not ideal to enter. The presence of very few foreign alternative housing companies in the South African alternative housing industry would also raise a ‘question’ of idealism to enter or not enter the housing market for Slovenian housing companies. Only two foreign housing companies have been identified to be present in the South African alternative housing market.

## **2.2 Research Questions**

The problem that Slovenian companies are faced with is limited opportunities and growth in their current-serving markets (mostly EU markets); thus the need to evaluate the potential in the emerging markets such as South Africa. The ‘big question’ regarding whether to expand or not to the South Africa alternative housing market is associated with several research questions that would inform decision making (entry or no entry managerial recommendations). The research questions are:

1. What and how big is the market potential in terms of volume, value, growth and development in the alternative wooden housing market in South Africa?
2. What are the market drivers influencing the dynamics of the alternative housing market in South Africa?

3. What are the general perceptions on the alternative wooden housing industry in South Africa from the South African working class population?
4. What are the major barriers to wooden housing becoming popular in South Africa?
5. What are the key opportunities in South Africa for Slovenian alternative wooden housing companies?
6. Would Slovenian housing companies be interested in building (using alternative solutions) low-end housing solutions in South Africa such as social housing, student accommodation, and replacing mud schools?
7. Would Slovenian companies be interested in building (using alternative solutions) high-end housing solutions in South Africa such as tourist housing, gated communities and retirement villages?
8. Where in the world are Slovenian alternative wooden housing companies interested in expanding too? and is South Africa of interest to these companies? Are Slovenian alternative wooden housing companies already present in Africa?
9. What entry modes have Slovenian alternative housing companies used in the past?
10. What and how big are the risks and costs associated with expanding into South African alternative housing market?

## 2.3 Significance

Significance of the research study defines the importance of the research study as to: who is going to benefit from it, why and how they will benefit from it. Also, it defines how and why the research study will contribute to the existing literature. This research study will serve as a 'knowledge tank' on the current drivers and trends in the alternative housing market in South Africa. It is important because it will inform the public, investors and Slovenian housing companies about the alternative housing market in South Africa. The research study will inform the Slovenian housing companies, investors, researchers or any other interested readers about the business culture and business environment of South Africa in relation to the alternative housing market of South Africa. It will highlight the important entry modes, costs and risks associated with entering the South African alternative housing market, thus giving Slovenian housing companies or investors a pictorial gauge thereof. The research study will help Slovenian housing wooden companies and other EU housing companies to understand the general perception about wooden houses from the South African population – i.e. the general attitude to buy wooden houses. In a nutshell, the research study will highlight the managerial recommendations, implications and major issues for entering the South African alternative wooden housing market; thus helping investors or foreign housing companies to make informed decisions on expanding to housing markets in South Africa through offering alternative housing solutions.

Most importantly, since South Africa is a gateway to Southern Africa and other neighbouring countries such as Lesotho, Swaziland Mozambique, Botswana and other countries, it would be important for readers to understand that entering the South African housing market could also imply long-term opportunities for expanding to neighbouring countries of South Africa, because South Africa has some cultural similarities with its neighbouring countries, particularly among the black African populations. The research study can also be published in scholarly journals for global access, and this would enable contribution to the existing literature on the alternative housing market in South Africa. Since there is limited empirical research carried out in past in the alternative housing market of South Africa, this search study can serve as a base or benchmark for other students` research projects or researchers` projects, who wish to research more on the South African alternative housing market.

### **3 LITERATURE REVIEW AND THEORETICAL FRAMEWORK**

#### **3.1 Literature**

The literature on the alternative wooden housing industry in South Africa is very limited. We could not find any formal research reports specifically on the alternative wooden housing industry in South Africa, therefore instead of adding onto the existing literature this report is very much a "first" on the potential for Slovenian alternative wooden housing companies to enter the South African market. It also will serve as a "first" for a report on the alternative wooden housing market in South Africa. Traditionally a literature review will look at existing literature written on the same topic, a similar topic, or a related topic and present the research methods and findings of the report. The findings of various reports are then compared and contrasted and then you need to present how your work will add to the existing literature. In our case we do not have background literature on the alternative wooden housing market in South Africa or the potential for Slovenian companies to enter, so this literature review will be somewhat unique. Our literature review will focus on the main topics in our background research and what sources we got the facts and findings from in order to come to our findings. We gathered our information from various types of sources. Our sources include reports, articles, websites, speeches, emails, presentations, and telephone calls.

The 2011 South African Census and the 2013 HMZ Third Wood Conferences are both examples of sources that provided us with crucial statistics on the size of the alternative housing industry in South Africa. Both sources indicated that the alternative wooden housing industry in South Africa makes up a very small percentage of the total housing market in South Africa. Both sources also indicated that bricks/concrete are by far the most preferred materials. Reports such as the "Current Data/Trends in Housing in South Africa" (2011) by Kecia Rust, and "The Provision of Low-Cost Housing in South Africa" (2011) by Freida Le Roux, and the 2010 General Household Survey by Statistics South Africa gave us a better understanding of the socio-economic situation in South Africa. By analyzing the reports mentioned and similar ones in our reference list we found key factors that have an impact on not just the alternative wooden housing market in South Africa, but also the housing market in general. South Africa has a large percentage of its population living below the poverty line, income disparities are drastic, and a large portion of the population cannot afford bank loans. Also, the country is facing a housing crisis due to a lack of housing and poor quality housing.

In order to gain a better understanding of the current suppliers of alternative wooden housing solutions in South Africa and how they compared to Slovenian companies we looked at a

mixture of reports and websites. Examples of sources used are the report "Supply and Demand Study of Softwood Sawlog and Sawn Timber in South Africa" (2004) by Crickmay and Associates, and websites such as the [financialsectorforum.com](http://financialsectorforum.com), [timberhomekits.co.za](http://timberhomekits.co.za), and [pinecore.co.za](http://pinecore.co.za). These sources gave us crucial information, such as that there is no monopoly or oligopoly on the South African alternative wooden housing market, and that prices are more expensive in Slovenia in comparison to South Africa when it comes to housing. In comparison, in order to better understand the Slovenian alternative wooden housing companies and their core capabilities we mainly looked at company websites such as [riko.si](http://riko.si), [rihter.com](http://rihter.com), and [jelovica.si](http://jelovica.si). From these websites we learned that Slovenian companies are superior to South African companies when it comes to engineering, architectural, and innovation services. We also were able to see what types of foreign markets the companies have entered in the past and in recent history. To get a better understanding of the costs associated with entering the South African market we also reviewed literature. Information from sources such as the World Economic Forum (2013), The South African Government Information Portal (2013), COFACE (2013), Sky Scanner (2013), and World Freight Rates (2013), gave us valuable information related to start up costs in South Africa. For example we were able to come up with estimates for internal costs, external costs, cost of market research, supply costs, and transactional costs.

Although the literature on wooden alternative housing solutions in South Africa is poor, it is possible to draw some information from other alternative housing solutions such as steel. Dewald Barnard from the University of Pretoria has some interesting findings in the 2011 paper "Light Steel Construction and Modular Homes as Alternative Building Methods in South Africa" (Barnard, 2011). He found that steel light-weight housing does not have a history in South Africa like it does in Europe, Australia, and America where it has been common for 50 years. Also, people in South Africa perceive steel structures as temporary accommodation or office space. Also, the government is not familiar with the building technique and disputes take place regarding regulations. On top of this established companies, contractors, and suppliers may see the new form of housing as a threat to business. Finally, builders are not familiar with steel building methods (Barnard, 2011). Most of the factors just mentioned about why steel homes are not popular more than likely apply to wooden homes as well. Wooden housing in South Africa is also unpopular and is more than likely facing the same hurdles.

There has not been any research done on this topic before and therefore we could not provide previous theoretical and methodological findings in this literature review, however we hope our work will serve as a starting point for future analyses. Our research findings aim to present the first report on the potential for Slovenian alternative wooden housing companies to enter the South African housing market. We also aim for this report to be a document Slovenian and European alternative wooden housing companies look at when considering the South African Alternative wooden housing market. On top of this we aim for this to serve as the first report on the South African alternative wooden housing industry. Finally, we aim for this report to serve as background literature for future reports done on the same, similar, or related topics. The full list of the literature we accessed for our initial research is available in the reference section at the end of this paper.

### **3.2 Theoretical Framework**

This research study is about assessing the possibility for Slovenian housing companies to enter the South Africa housing market, or if they should enter at all. Thus, the research study

draws from the Theory of International Trade (originally coined by David Richardo and Adam Smith, then later extended by various theorists and authors). The research study focuses on: (i) classic International Business (IB) Theory; (ii) Porter`s Theory; and (iii) the International Marketing with regards to marketing principles of Business to Business (B2B), Business to Government (B2G) and Business to Consumer (B2C). There are two main categories of international trade; namely: classical, country-based and modern, firm-based. The classical theory primarily focused on country level, rather than on firm-based level. We first discuss country level theories, and then later discuss firm-based level theories.

### **3.2.1 Country-based-macro Theories: Slovenia vs South Africa**

The classical, country based theory is an earliest theory that dealt with absolute advantage and comparative advantage between or among the countries that seek to trade with one another. Amongst other aspects, the Theory of International Trade fundamentally states that each country should strive to produce and export what it is good at. The absolute advantage and comparative advantage emphasise on the ability of a country to produce a good or offer a service or provide a solution more efficiently and effectively than another nation; meaning that the host country (for example Slovenia) must have value adding activities to the export-country (for example South Africa), otherwise it would be out of business (Carpenter and Dunung, 2012, p.3; Van Hoof, 2010, p.3). The Slovenian economy is primarily export-oriented, because the Slovenian market is small in terms of population (domestic consumption), thus small open economies like Slovenia often rely on the export-led paradigm of growth (Prasnikar et al, 2013, p.12). This would mean Slovenia should strive to be innovative while in pursuit of producing goods and providing services with differentiated value, so as to entice export-markets. This would further suggest that in order for Slovenian firms to successfully compete on the South African market they would need to focus more on innovation solutions, services, and products aimed at solving problems, as Slovenia is already in the Innovation Stage of Development, while South Africa is still transiting towards Efficiency Stage of Development (WEF, 2013). In terms of education and skilled labour force in Science, Engineering and Innovation, Slovenia is better off than South Africa (Coface, 2013; OECD, 2013).

In general, EU is already technologically and infrastructural advanced than Africa, and this is an added value factor for Slovenia in comparison to South Africa (WEF, 2013). We therefore argue that given the technological status, skilled engineering and innovative man-power that Slovenia posses, the Slovenian firms have the ability to compete (absolute and comparative advantage) in South Africa. Also, in general the EU is already more advanced than Africa in terms of Research and Development (OECD, 2013), and this is a comparative advantage of Slovenia over South Africa, which Slovenian housing firms could take advantage of when expanding to Africa.

### **3.2.2 Firm-based Theories: Slovenian Firms Entering the South African Housing Market**

Due to drawbacks in the classical, country-based trade theories, the category of modern, firm-based theories were developed. The firm-based category evolved with the growth of the multinational companies (MNCs). The country-based theory couldn't adequately address the expansion of either MNCs or intra-industry trade, which refers to trade between two countries

of goods produced in the same industry. Unlike the country-based theories, firm-based theories incorporate other product and service factors, including brand and customer loyalty, technology, and quality, into the understanding of trade flows (Carpenter and Dunung, 2012, P.4). To date, the modern, firm-based theory also applies to Slovenian housing companies. The Slovenian housing companies' main capabilities over their South African counterparts are innovation, architectural engineering and quality solutions and services (see Competition Analysis and Benchmarking to Slovenian, in chapter 6). This would suggest that for Slovenian housing companies, emphasising and promoting innovation and quality of their products and solutions would be a value-added advantage for them to successfully compete on South African housing market.

We therefore argue that for Slovenian housing companies to successfully compete on the South African market, they would need to put a strong emphasis on their innovation, architectural, engineering and quality services, since these capabilities seem to be problematic in South Africa. The capability challenges among some South African housing companies have been revealed by the fact that some of the social housing units and RDP houses built through government subsidy have been reported to be of poor quality, and some of them are leaking and cracking (MHS, 2012). Also, South Africa suffers from inadequate (educated and skilled) labour, especially in engineering, science and innovation areas (WEF, 2013; Coface, 2013); and one would argue that Slovenian housing firms are better off than South Africa housing firms in these areas.

### 3.2.2.1 Competitive Advantages for the International-foreign Markets

In the late 1980s, Paul Krugman and Kelvin Lancaster extended the theory of international trade by recognising that the importance of competition and barriers that firms face when they try to enter new markets. They clearly state that firms will encounter global competition in their industries and in order to prosper they must develop competitive advantages (Carpenter and Dunung, 2012, p.5). This is true for Slovenian housing companies, as they would face fierce competition when trying to enter the South African housing market (see Competition Analysis, in Chapter 5). The barriers to entry that firms may seek to optimize (competitive advantages) include: (i) strong research and development(R&D); (ii) economies of scale, (iii) unique business processes or methods as well as extensive experience in the industry; and (iv) the control of resources or favourable access to raw materials (Carpenter and Dunung, 2012, p.5). Most of the Slovenian housing companies already have strong in-house R&D over their South African counterparts – this is one of their strengths, for example Riko Company and Trimo Company (Riko, 2013, Trimo, 2013). Also, Slovenian housing companies have strong business processes which entail offering a complete customised solution – from: (i) customer requirements analysis stage; to (ii) technical consultancy stage; (iii) design and engineering stage; (iv) modularity and assembly – production stage; and (v) sales and ‘after-sales’ services stage (see Competition Analysis and Benchmarking, in Chapter 5). However, Slovenian housing companies do not have experience in the South African housing market, which may be a threat to them that can be optimised through partnership with a South African partner or by opting for other less risky/costly entry modes. The Slovenian housing companies have had operating/business experience in other foreign markets in EU countries and South America. Also, Slovenian housing companies have experience in building large-medium scale housing units (hotels, public buildings, village communities, etc). Since the Slovenian housing companies are small-medium sized, they may not necessarily be able to optimise on economies of scale upon operating on the South African housing market. All the above factors would enable Slovenia housing companies to compete on the South African alternative housing market.

Porter's theory states that a nation's competitiveness in an industry depends on the capacity of the industry to innovate and upgrade (Porter, 2008, Carpenter and Dunung, 2012). In the case of the housing industry in South Africa, the green movement has just started and there is an on-going implementation of 'green building' initiatives particularly in the B2G and B2B areas; meaning that innovation is being 'embraced' in South Africa. Also, the government of South Africa is constantly searching for alternative and innovative ways of housing for the low-cost housing (social and state-subsidised housing units) segment (MHS, 2013). Porter identified four key determinants, namely: (i) local market resources and capabilities (factor conditions), (ii) local market demand conditions, (iii) local suppliers and complementary industries, and (iv) local firm characteristics. In pursuit of aligning this research study with Porter's theory we have analysed the demand and supply conditions, competition rivalry and competitor characteristics in the South African housing market (see Characteristics of South African housing market, in Chapter 5).

### 3.2.2.2 Entry Modes for Expanding to Foreign Markets

Firms that are in pursuit of expanding to foreign markets often face a difficult decision for the appropriate choice of entry mode (Agarwal and Ramaswami, 1992; Kim and Hwang, 1992). Researchers often draw knowledge on 'entry modes for expanding to foreign markets' from the international business (IB) theory. Agarwal and Ramaswami also drew their literature and theoretical framework from IB Theory when they conducted their research study on 'Choice of Foreign Market Entry Mode: Impact Of Ownership, Location And Internalization Factors' by analysing the situation factors (ownership advantages of a firm, location advantages of a market, and internalization advantages of integrating transactions.) and entry modes (exporting, licensing, joint venture, etc). The classic IB theory deals with export types (direct and indirect exports), contractual types (licensing, joint venture partnerships, etc), and investment types that firms need to take into consideration when seeking to expand to foreign markets (Halleon, 2007, p.292).

The key fundamental decision that firms, including Slovenian housing companies are faced with when seeking to enter a new foreign market is whether to opt for: (i) 100% externalization, which involves low control, low risk, and high flexibility; (ii) shared control and risk and split ownership; and (iii) 100% internalizing, which involves high control, high risk and low flexibility (Halleon, 2007). An example of internalisation could be a Slovenian housing company's subsidiary (sales, production, regional centres, etc) in South Africa. Examples of shared control and risk and split ownership include joint venture, licensing, franchising, etc. Examples of externalisation include indirect export modes (for example: export buying agents, brokers, etc) and direct export mode (for example: distributors, fixed export task, etc). The costs associated with each entry mode need to be taken into serious consideration (Van Hoof, 2010, p.3); see cost estimation for entry into South African housing market in Chapter 5).

The Slovenian housing companies would have to choose from the above three entry modes (100% externalization, 100% internalizing or shared control). The key 'question' for Slovenian housing would be whether they should be part of the global supply chain or just be niche players in the South African housing market. The choice whether to be part of global supply chain or be a niche player would be informed by the assessment of various factors of entry mode selection. First and foremost, when seeking to enter a foreign market, the Slovenian firms would have to consider their size and international experience (internal factors). The smaller the size of the firm and smaller the international experience, the higher the likelihood to opt for externalization (exports, brokers, sales agents, distributors, etc) or



not enter the foreign market at all (Halleson, 2007). These arguments are also supported by (Osland, et al, 2001) when they state that company factors, such as international experience, size, appear to be most important when selecting modes of entry. They further say that joint ventures may be more appropriate for internationally-experienced firms, than for inexperienced companies. As already described previously, most of Slovenian housing companies are small-medium in size, and they do not have business experience in Sub-Saharan Africa.

The second important factor relates to the product that Slovenian housing companies would be offering – product complexity and product differentiation advantage (Halleson, 2007); in this case the Slovenian housing companies ‘boast’ themselves by being capable of offering customised and complete solution/product (housing units) with superior engineering and design and high quality. Thirdly, transaction specific factors need not be neglected. Entering a new market comes with transaction costs such as market information, negotiation, hiring lawyers, etc; and these costs would be borne by Slovenian housing companies when seeking to enter South African housing market (see analysis of entry costs in Chapter 5). Lastly, external factors play a key determinant role for firms wanting to enter new foreign markets. The external factors that Slovenian firms would have to consider include (Halleson, 2007, p.300):

1. Socio-cultural distance between South Africa and Slovenia. It is no doubt that Slovenian and South Africa differ culturally in almost all Hofstede's cultural dimensions.
2. Country risk and demand uncertainty. Though South Africa is perceived as the less risky nation among other African countries, South Africa is a riskier (politics, corruption, demonstrations, etc) market than Slovenia.
3. Market size and growth. The market size (volume and value), growth and development would serve as key determinants to entry to South African housing market. The bigger the market size, the higher the motivation to enter the market with 100% internalisation entry mode.
4. Direct and indirect trade barriers. In this case, South Africa and EU have a free trade agreement, thus the trade barriers for Slovenian firms would be almost null. However, domestic barriers such as BEE policy should not be ignored.

In a nutshell, because of the above conditions and factors, it would be highly likely for Slovenia housing companies to opt for externalisation (exports, distributors, etc) or shared control (joint ventures, etc) when expanding to the South African housing market.

### 3.2.2.3 International Marketing in Pursuit of Foreign Markets

Firm seeking to expand to foreign markets implies taking into consideration ‘international marketing’, because the foreign market may be different from the export(host) country in terms of culture, business environment, buyer life style and behaviour, government regulations and other market conditions (Czinkota & Ronkainen, 2012). Therefore the development of a marketing mix for the foreign market may be required. The host country may opt for standardization (adopting the same marketing strategy/techniques into the foreign market) or adaptation (constantly changing the marketing strategy to suit the factors of the foreign market) techniques in its development of marketing mix for the foreign market; this all depends on the culture, business environment, market structure, etc between the host country (for example: Slovenian) and the foreign country (for example: South Africa) (Mooij,

2010, p.16). The researchers when conducting research on ‘expanding to foreign markets’ and ‘development of marketing mix’ often draw their knowledge from the ‘principles of marketing’. The principles of marketing fundamentally address eight core marketing aspects, namely: market structure (geography and buyer concentration); products; buyer behaviour; buyer/seller relationships; channels; promotions; pricing; and demand. The above eight core marketing principles also take into consideration the similarities and differences among B2C, B2B and B2G (Brenna et al, 2011; Halleson, 2007). Thus, all the above aspects also ‘embody upon’ Slovenian housing companies in pursuit of expanding to foreign markets like South Africa.

### 3.2.2.3.1 Housing Market Structure

In this context, market structure refers to geography and buyer concentration in the foreign market (South Africa), and this applies for B2C, B2B and B2G (Halleson, 2007). It is important for Slovenian housing companies to understand what the housing market structure in South Africa entails. It should be noted that the formal housing market in South Africa is mostly concentrated in big cities where formal job/employment prospects, urbanisation (immigration to the cities) and black middle class are dominant – such cities include Cape Town, Johannesburg, Durban, and Port Elizabeth, just to name a few cities (Property24.com, 2013, South Africa.info, 2013). It should also be noted that these cities are very far apart from each other in terms of distance. The complexity of the housing market in terms of distance in-between the cities brings about costs of administration, communication and logistics - which should not be ignored. This would bring a ‘question’ to Slovenian housing companies whether they should be part of global supply chain (i.e. targeting the entire South African housing market in terms of geography), or just be niche players (i.e. targeting certain cities/regions/provinces). Multinational companies often target Gauteng province (Johannesburg, Erhululeni, Pretoria) and Western Cape Province (Cape Town) as their first entry market-location-segments when expanding to South Africa (SAI, 2013). Therefore, it would be likely for Slovenian housing companies to follow the ‘adaptation technique’ when developing their marketing mix in response to housing market structure of South Africa.

### 3.2.2.3.2 Buyer Behaviour and Interpersonal Relationships in B2B, B2C and B2G

The buyer behaviour between B2C and B2B/B2G differs significantly. In the B2C, purchasing decision are mostly made by an individual (for example in South Africa, it is mostly income-earners or so-called bread winners who make purchasing decision) while in B2B/B2G purchasing decision are made by several individuals or departments (for example in South Africa, there might be procurement officers, purchasing managers, and approval managers) (MTS, 2013; Halleson, 2007). South Africa’s housing buyers can be viewed as low-income earners, middle income earners, high income earners and Government (Statistics South Africa, 2012). For example, the low-income population mostly relies on social housing and state-subsidized housing units (low-cost housing units), while middle-income earners and high-income earners may afford standard priced and premium-priced housing units (e.g. customised housing solutions offered by Slovenian housing companies). The most common method for high income and middle income for buying homes in the formal housing market is through bank credits and other financial institutions credit (CAHF, 2012), while in the informal housing market (rural areas and townships) South Africans usually build their homes without financial credit from financial institutions.

The Government is the main buyer of low-cost housing units in the formal housing market (mostly in the suburbs and townships). The government buys low-cost housing units through

public tenders in order to subsidise the low-income earners and poor South Africans (MHS, 2013). Interpersonal relationships between buyers and sellers are very important in B2B (for example: building gated communities, retirement villages, and tourists accommodation, etc) and B2G (for example: public tenders and contracts for building low-cost housing units for low-income earners); and for a Slovenian housing company in order to succeed in B2B and B2G would mean building social capital with the stakeholders of the housing market in South Africa (see Building Social Capital in Chapter 5). Therefore, it would be likely for Slovenian housing companies to follow the ‘adaptation strategy/technique’ when developing their marketing mix in response to buyer behaviour and interpersonal relationships in B2B and B2G in the South African housing market.

### 3.2.2.3.3 Promotion, Branding, Pricing, Advertising and Communication

Product/service management (promotion, branding, advertising and communication) is a key aspect in succeeding on both B2C and B2B in a foreign market (Mooij, 2010; Halleson, 2007). Promotion and branding need a strong business model for creating value proposition (attracting customers) and value dam (keeping customers while frequently acquiring new customers). Value creation and value dam requires the critical analysis of customers needs and problems. The analysis of customer needs and problems could be performed using various methods such as consumer trends (preferences, tastes, attitudes, perceptions, etc through secondary data), surveys, observations, interviews, empathy analysis, etc (Nijssen, Frambach, 2001); and South Africa housing market would not be an exception for these methods. Strengthening brand loyalty is important for the value dam. Some of the Slovenian housing companies boast themselves with the ‘complete solution’ and ‘after-sales services’ which could be viewed as the ‘enhancer’ for promotion/branding and attracting and retaining customers (value dam). Also, some of the Slovenian housing companies have international experience with their brands; for example, Riko Hise has had brand presence in non-EU markets such as Russia and their collaboration with architectural and engineering facilities in universities is also a way of strengthening their brand (Riko, 2013). In addition to ‘complete solution’ and ‘after-sales services’ brand emphasis, the emphasis on engineering, architectural, quality and innovation as part of their brand promotion by the Slovenian housing companies would also be crucial, since they already have superior architectural, engineering, quality and innovation over their South African counterparts.

Though some of the Slovenian housing companies specialise in premium-customised (pricing) housing units, going with their premium products into the B2G segment would likely not yield success because this segment is for low-income earners who are subsidised or provided free houses by the South African Government. Therefore the workable pricing for B2G would be low-cost (adaptation technique/strategy); while in B2C and B2B the standard pricing and premium pricing would be most likely to succeed, because these two segments feature high income earners and middle income earners. Advertising and communication are also key in succeeding in a foreign market (Mooij, 2010). As already described earlier, the most efficient and effective method of marketing communication in B2G in South Africa would be through building social capital (adaptation technique/strategy) – by being (i) registered as a BEE company or partnering with a BEE company; (ii) subscribing to housing/building/construction councils such as Master Builders, Green Building; and (iii) attending government conferences, workshops and briefings pertaining to housing matters/pubic tenders in housing sector. For B2B and B2C, the standardised (same techniques applied in Slovenia) advertising and communication would like to succeed in South African housing market, because the B2C and B2B markets are driven by high income earners and middle income earners.

## 4 METHODOLOGY

### 4.1 Research Design and Approach

Research design is the overall ‘blueprint’ for relating the conceptual research problem to relevant and practical empirical research (be it with survey, secondary data, etc) (Ghauri and Gronhaug, 2005, p.56). Ghauri and Gronhaug further state that research design provides a framework for data collection and its analysis. They also argue that research design reveals the type of research (for example: descriptive, simulation, exploratory, experimental research design, etc). Therefore this research study is descriptive in design - ‘following’ the principles of descriptive methods, in which the researchers attempt to provide the description of the state of affairs (the general housing market, alternative housing market and alternative wooden housing market in South Africa) as it exists at present, and its future trends. We attempt to describe the characteristics of objects, people, environment, organisations (the alternative housing market in South Africa), i.e. trying to “paint a picture” of a situation (Zikmund et al, 2012, p.53). In the descriptive research design the research problem is structured and well understood (Ghauri and Gronhaug, 2005). The main characteristic of descriptive research is that the researcher has no control over the variables; he/she can only report what happened or what is happening (Kothari, 2004, p.3). For instance, the housing market is influenced by several macro and micro variables such as income, prices, consumer behaviours, life styles and attitudes, etc, of which we as the researchers do not have control over.

In a nutshell, the researcher attempts to discover the causal mechanism among variables, though he/she cannot control them (Kothari, 2004, p.3). Besides other methods (other methods being case study, observation, secondary data, etc), the descriptive research design also relies on survey method – questioning individuals on a particular topic or topics and then describing their responses. One advantage of survey method over the others (others being case study, observation, secondary data, etc) is that it allows researchers to study larger groups of individuals more easily. Thus, the data collection instruments utilized in the descriptive research include questionnaires and interviews, which can be administered on the internet, over the phone, through e-mail or in-person (Sherri & Jackson, 2011, p.17). Table 4.1.1 below shows the characteristics of descriptive research in comparison with other types of research. Figure 4.1.1 below shows the overall research design in the form conceptual framework, for this research study.

The research approach refers to quantitative or qualitative methods of collecting and analysing the data (Dawson, 2002, p.14). Dawson further states that quantitative approach aims at generating statistics (frequencies, percentages, chi-squares, t-tests, etc) through the use of survey-questionnaires, while qualitative approach explores perceptions, attitudes, experiences and behaviours through such methods as interviews, open-ended questions and focus groups. Thus this research study employs both qualitative and quantitative approaches/techniques. In the quantitative approach, we attempt to generate data through survey questionnaires, and then subject the generated data to quantitative analysis. This approach enables the researchers to form a database from which to infer characteristics or relationships within the population (Kothari, 2004, p.5). Regarding the qualitative approach, we attempt to assess the perception on alternative housing in South Africa from the general working class population in South Africa. Also, the ‘mission’ is to assess the perception on alternative housing in South Africa by the private sector (housing companies) and government sector (Ministry of Housing and other government entities) in South Africa. The

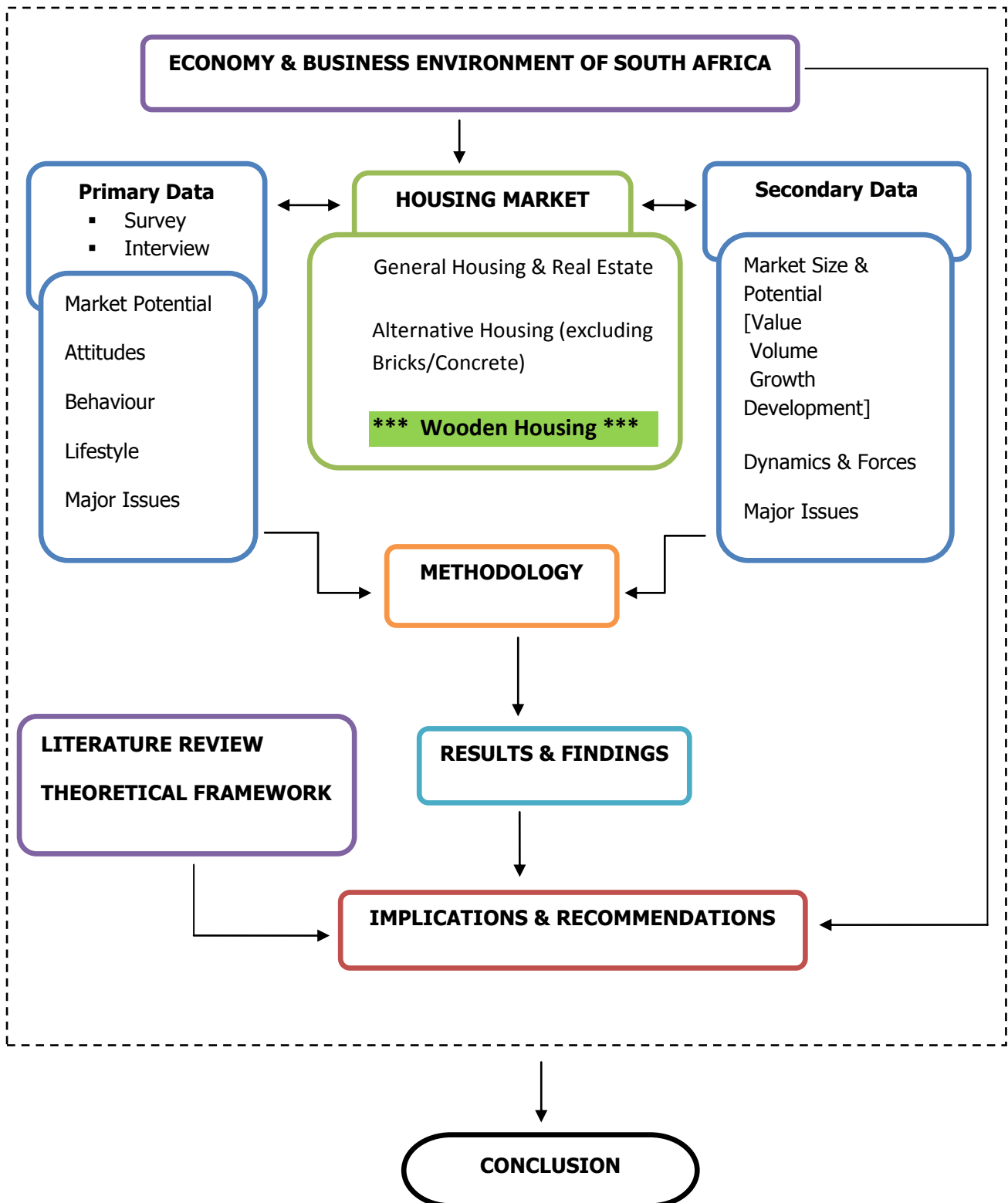
techniques of open ended-questions in the form of questionnaires and interviews are often used in the qualitative approach (Kothari, 2004, p.5; Sherri & Jackson, 2011, p.17), hence the open-ended questions and interviews were used in the qualitative approach in this research study.

Table 4.1.1. Characteristics of Descriptive Research in Comparison with other Types of Research

	<b>Exploratory research</b>	<b>Descriptive Research</b>	<b>Causal Research</b>
Amount of uncertainty characterizing decision situation	Highly ambiguous	Partially defined	Clearly defined
Key Research Statement	Research question(s)	Research question(s)	Research hypothesis
When Conducted?	Early stage of decision making	Later stage of decision making	Later stage of decision making.
Usual research approach	Unstructured	Structured	Highly structured
Examples	<p>“Our sales are declining for no apparent reasons”</p> <p>“What kind of new products are fast-food customers interested in”</p>	<p>“What kind of people patronize our products compared to our primary competitors?”</p> <p>“ What product features are most important to our customers?”</p>	<p>“Will customers by more products in a blue package?”</p> <p>“Which of the two marketing campaigns will be more effective?”</p>
Nature of results	<p>Discovery oriented, productive, but still speculative.</p> <p>Often in need of further research.</p>	<p>Can be confirmatory although more research is sometimes still needed.</p> <p>Results can be managerially actionable.</p>	<p>Confirmatory oriented.</p> <p>Fairly conclusive with managerially actionable often obtained.</p>

Source: Zikmund et al, 2012, *Business Research Methods*, p.58.

Figure 4.1.1. Conceptual Framework Depicting the Research Design



## 4.2 Research Participants/Respondents and Sampling

In order to comprehend the dynamics in the housing market in South Africa, it is important to utilize both secondary data and primary data. The secondary data was drawn from research articles, company reports, government publications, and statistical repositories mainly in South Africa; and for benchmarking with Slovenia some secondary data was collected from Slovenia and EU statistical repositories. The collected secondary data ‘revolve around’ demand, supply, prices, income structures, buyer behaviour, the role of private sector, and the role of government within the housing market of South Africa. The secondary data enabled us to make inferences on housing market drivers, dynamics and potential. The primary data formed the basis for understanding the housing market from the customer perspective (the general working population in South Africa) and supplier perspective (South African housing companies and Slovenian housing companies); and these enabled us to understand the influencing factors for demand and supply in the alternative housing market in South Africa, and thus deduce inferences. The housing market has a systematic interaction of various buyers, sellers and intermediaries, thus the targeted respondents/participants included in the research study is quite diverse. Therefore, the targeted respondents (customers, suppliers, government) are as follows:

1. **The South African working class population:** to assess their perception on alternative housing in South Africa, and also assess if they would be willing to buy wooden houses, or other similar alternative housing units.
2. **South African BEE companies:** to find out their capabilities in terms of architecture, engineering and innovation services, and if they would be willing to partner with a European company that offers superior Engineering, Innovation and Architecture services.
3. **Slovenian housing companies:** to find out what foreign markets they are present on and are interested in expanding too, to find out what entry modes they prefer, and to find out what type of housing (low-end/high-end) they would be interested in building in South Africa.
4. **The South African Housing Ministry:** to find out the role of government in the general housing market and the low-cost housing segment.

To select respondents from Slovenian housing companies, South African BEE housing companies specialising in alternative housing, and South African government ministries, the deliberate sampling also known as purposive sampling was used in the research study. The main reason for choosing purposive sampling is convenience; and that we did not know all the Slovenian housing companies and South African BEE housing companies, thus only those we knew their names were selected for this research study. Our argument for purposive sampling is supported by Denscombe (2007, p.17) when he states that with purposive sampling the sample is ‘hand picked’ for the research, i.e. when the researcher already knows something about specific people, organisations, objects, events, etc. Then the researcher deliberately selects particular ones (people, events, objects, organisations, etc) because they are seen as likely to producing the valuable data (Denscombe, 2007, p.28). Denscombe further states that the advantages of purposive sampling are economical-oriented in the sense it allows the researcher to focus on objects, people, events, etc, that the researcher believes

will be critical for the research. To select respondents for the working class population, a random sampling method was used, wherein the survey-questionnaires were distributed through our network of people using e-mails and social media websites. This was done in order to reach a wide and inclusive coverage of people (working class population) in all the provinces in South Africa.

### **4.3 Data collection instruments and data collection procedures**

The data collection instrument refers to tangible or intangible means of obtaining and gathering the data. In business research studies, the most common research instruments for the descriptive research and qualitative and quantitative techniques are survey-questionnaires, interview schedules, focus groups and observations. In this research study, the survey was used as the method for obtaining the primary data. Our argument for choosing a survey is supported by various authors, this includes Denscombe (2007, p.17) when he states that the advantages of survey include: (i) empirical data – getting information straight from the respondents; (ii) wide and inclusive coverage – for example through online survey one can reach people and situations that would otherwise not be possible; (iii) survey allows the researcher to generate quantitative data; and (iv) survey is economic in terms of time and costs. The survey for this research study consisted of online questionnaires targeted at working class population in South Africa, South African BEE companies and Slovenian housing companies. The online questionnaires was composed of both closed-ended and open-end questions, thus yielding to both quantitative and qualitative data. The reasons and advantages for choosing the online questionnaires are cost, time, and geographic boundaries. The online questionnaire eliminates the cost for paper, printing and distributing (travelling or postage) the questionnaires. Through and with online questionnaires, data can be collected within a short period of time and analysed immediately (Katsirikou, et al. 2009, p.293), i.e. the data gets centralised which can be easily exported to data analysis software programs such as SPSS, readily coded and easily cleaned prior to analysis.

Regarding the data collection procedure, the online questionnaires were administered with EnkliAnketa (1KA) Web Survey Tool, so that research participants could answer the questionnaires over the Internet. 1KA is a web survey tool designed and developed by Centre for Social Informatics, Faculty of Social Sciences, University of Ljubljana. IKA is the widely used web survey tool for research at the University of Ljubljana (FSSL, 2008). There are ‘cons’ for administering questionnaires online. The limitations (disadvantages) might be disruptions on the internet, and manipulation of data by unsolicited people, of which we do not have control over. The other disadvantage is that not everyone in South Africa has internet access, so some people might be unreachable. In general, the old population aged 60 and over, especially in the rural areas of South Africa are computer illiterate and some of them do not have internet access. Nevertheless, through random sampling, we attempt to mitigate this limitation. Again, for cost-benefit considerations, the interviews were conducted over the phone – i.e. we made phone calls to South African government (Ministry of Housing). This enabled us eliminate the costs of travelling to and from South Africa, and around in Slovenia.



## **4.4 Data Analysis - how data was analysed?**

Data Analysis – be it based on qualitative data or quantitative data, is the process of transforming data into summarised, useful and meaningful information in order to make recommendations/conclusions and decisions. To analyse the qualitative data from interviews, and open-ended questions from questionnaires, the manual-content-analysis technique was used. We extracted themes and patterns from the data in order to make meaning out of the data, and presented the results and findings in the summarised descriptive and visual form. From the open-end questions in the survey-questionnaire, the themes or patterns with similar explanations/answers from the respondents were grouped together into some presentable content-information. The answers from the telephone interview with South African Housing Ministry were manually written on paper as the respondent was speaking, then later formally analysed and presented summarily. To analyse the quantitative data from the questionnaires, we used IBM SPSS version 20 and Microsoft Excel version 2010, wherein the data was re-coded and then transformed into descriptive statistics (frequencies, percentages, etc) and test statistics (Persons Square test found within Chi-square distribution), and then presented in tabular and graphical form. All the analysis of data, results and findings are presented in Chapter 6.

## **5 THE OVERVIEW OF SOUTH AFRICAN HOUSING MARKET**

### **5.1 Characteristics of the General Housing Market**

There is a severe backlog of housing in South Africa, estimated at roughly 3 million housing units. The backlog of housing remains at similar levels as it was in 1994. Population growth and migration to major cities have proved too much for the South African government to keep up with. One of the major issues for the South African government is that 60% of households in the country are eligible for subsidized houses (FFC, 2013). This has resulted in an increasing dependence on the government for housing.

It is not all negative in South Africa though. The South African economy has been growing since the end of the apartheid and the country is part of the "BRICS" nations of emerging national economies. There has also been a rising middle class in South Africa. The emergence of the South African economy has led to 65% of households living in houses made of brick or concrete compared to 48% in 1996 and 53% in 2001 (FFC, 2013). Brick and concrete structures are the most popular form of housing in South Africa. Table 5.1 below shows the percentage of people living in a certain dwelling type over time from 1996-2011. After houses made of bricks/concrete, houses in the traditional form made up 8% of households and informal dwellings totalled 14% (FFC, 2013).

Table 5.1. Types of Housing by Percentage in South Africa Between 1996-2011

Dwelling Type	1996		2001		2011	
	No. HHs	%	No. HHs	%	No. HHs	%
House brick/concrete	4 331 586	48	6 238 464	53	9 384 029	<b>65</b>
Traditional dwelling	1 644 388	18	1 654 787	14	1 139 917	8
Flat in block of flats	458 167	5	589 109	5	720 327	5
Town/Cluster/Semi-detached house	381 541	4	319 864	3	573 056	4
Unit in retirement village	40 433	-	-	-	-	-
House/flat/room in backyard	483 460	5	412 377	4	422 849	3
Informal dwelling/shack in backyard	403 329	4	459 525	4	712 955	5
Informal dwelling/shack elsewhere	1 049 686	12	1 376 708	12	1 249 776	9
Room/flat on shared property	139 632	2	120 611	1	118 984	1
Caravan/ tent	17 126	0	30 610	0	14 440	0
Other	128 054	1	568 219	5	113 827	1
<b>Total</b>	<b>9 077 402</b>			<b>11 770 274</b>		<b>14 450 160</b>

Source:2013 *Financial and Fiscal Commission*

### 5.1.1 Recent History of South African Housing Market

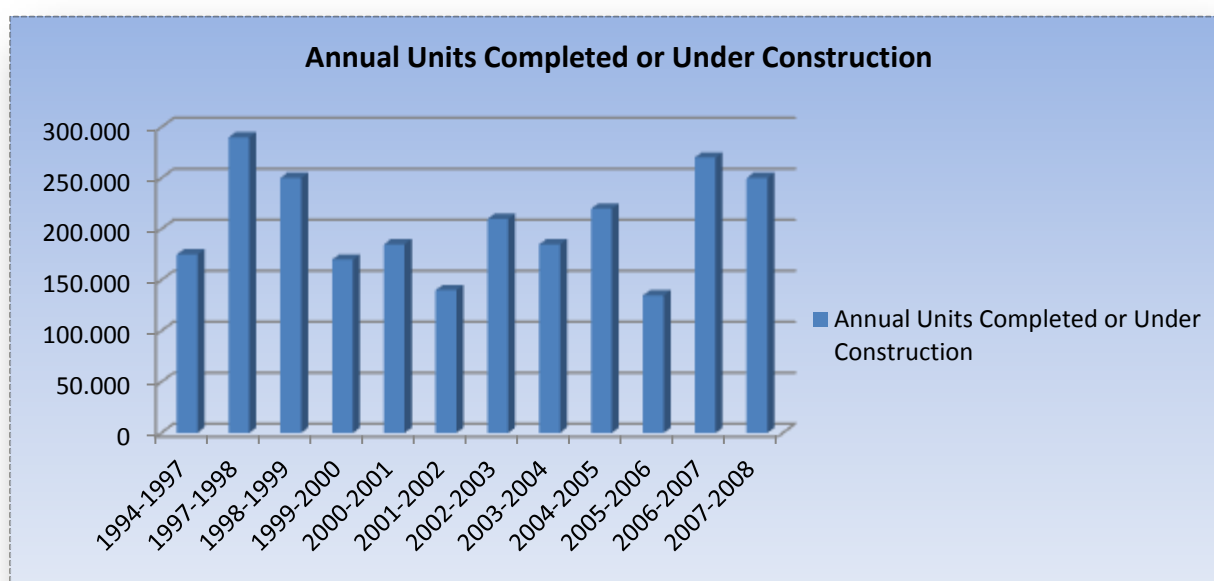
In order to put the current day state of the South African housing market into context a short history of the South African housing market is required. Between 1992-2003 there have been three significant periods of housing. The first period was from 1992-2003. During this period the key factor was the White Paper on Housing and Housing Act (FFC, 2013). The main goal of the White Paper on housing was to provide as many subsidized houses as possible. One million houses were built in the first seven years. Construction of houses started slowly with only 20,000 units by 1999 (FFC, 2013). The main problems that occurred during this period were poor engineering quality, and poor choice of building materials being used.

The second period of housing policy change took place from 2004-2009. The key factor during this period was the breaking new ground policy framework. This program focused on sustainable settlements and building sustainable long term housing with quality standards (FFC, 2013). The amount of housing built continued to increase until 2006, however after 2006 the amount of houses built began to decrease due to a number of reasons such as the

global financial crises and the increasing construction costs. Table 2 below shows the number of social housing units built between 1992-2009 (periods 1&2).

The third period of housing policy change in South Africa is from 2012 to current day. The key factor during the current period is the 2009 revised National Housing Code (FFC, 2013). The housing code contains the framework and guidelines for the various government assistance programs. The program represents "a shift, away from municipal-driven subsidy projects providing RDP houses in the informal settlements, to encouraging the development of a secondary housing market and providing subsidies within integrated areas. The current policy also involves rebuilding or upgrading 400,000 homes with poor construction standards and a program to get more people housing loans (FFC, 2013)". Figure 5.1.1 below displays the number of social housing units built annually by the government of South Africa. Between 1994-2008 roughly 2,500,000 housing units have been built. The amount of units built did not see a sustained growth over the years. The periods of 1997-1998 and 2006-2007 were the periods with the most units built. The periods of 2001-2002 and 2005-2006 were the periods with the least amount of units built. The implications of this information implies is that although there has been a vast shortage in housing in South Africa for a long time housing policy change and lack of action have resulted in inconsistent housing outputs instead of sustained growth.

*Figure 5.1.1. Annual Social Housing Units Completed or Under Construction in South Africa*



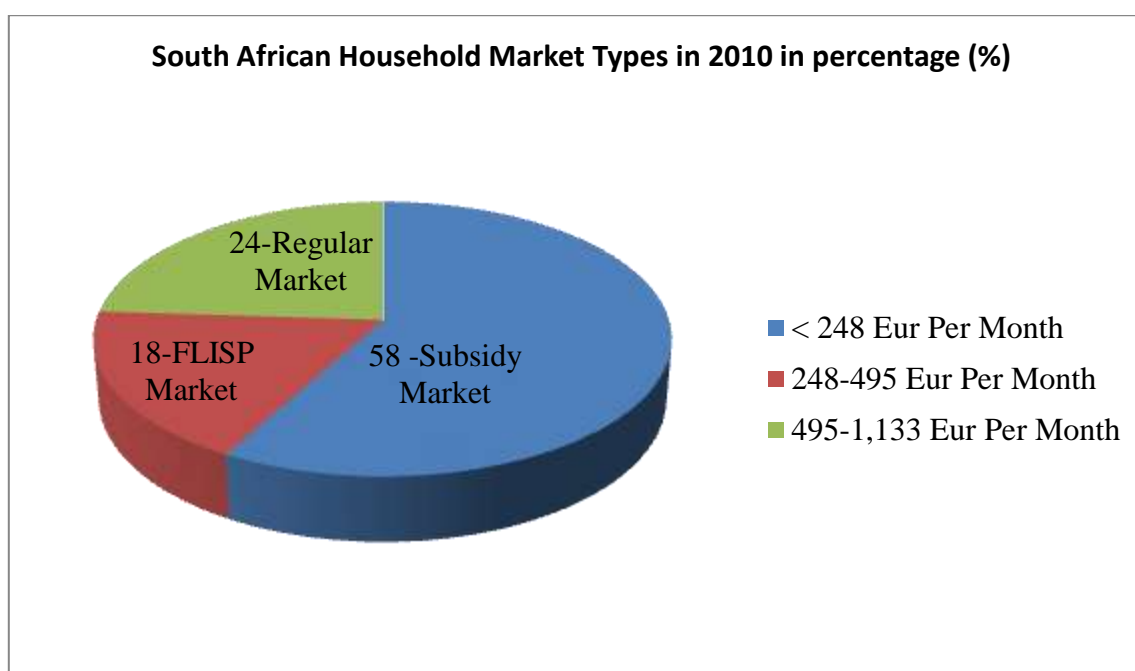
Source: Rust K. 2009 *FinMark Trust*.

## 5.1.2 Population Distribution by Household Type and Income

As of 2010 the subsidy market made up 58% of the households in South Africa (Rust, 2011). The amount of households that had an income of less than 248 Eur per month was 7,242,811. The next group of 18% (2,102,718) of households make up the FLISP market and had a household income of between 248 - 495 Eur per month (Rust, 2011). The FLISP is the Finance Linked Individual Subsidy Program. The program offers down payment assistance in the form of a grant to qualifying beneficiaries, who are able to qualify for a mortgage through

a bank loan (THM, 2013). Essentially 76% of households in South Africa need financial help to pay or rent their home. The regular housing market that is comprised of households with an income of between 495 - 1,133 Eur per month and makes up 24% (3,112,052) of households (Rust, 2011). There are obviously many different levels of income that comprise this 24%, but this is the market that does not need assistance from the government to finance their homes. Figure 5.1.2 below displays the information presented. The subsidized market belongs to the "give away market" and the FLISP belongs to the "financed line" market (Rust, 2011). The regular market belongs to the bonded market.

*Figure 5.1.2. South African Household Market Types in 2010 in Percentage*



Source: Rust K. 2009 *Centre for Affordable Housing in South Africa*

### 5.1.3 Financing

The Department of Human Settlements (DHS) stated that about 70% of South African households do not have access to housing credit through the formal housing banking sector (Le Roux, 2011). When it comes to financing homes in South Africa the market has a mixture of methods. There is a mixture of financing homes through household savings, private financing and state funding (FFC, 2013). State funding is for low income households. In 2011 the government spent one billion Eur on housing, which is set to rise to 1.2 billion Eur in 2013 and 2014 (FFC, 2013). The Human Settlements Development Grant (HSDG) is transferred to provinces using a formula that takes into consideration various socio-economic conditions. To give an idea of who can afford what a subsidized house costing an estimated 10,619 Eur can be purchased by an individual with an income of 35 Eur per month. A newly built house can be purchased at 17,701 Eur by an individual earning about 708 Eur per month (Rust, 2011).

Private financing for housing is given to households who have adequate income to payback a mortgage, and it is also given to private development projects. Mortgages are usually given to households earning 1,062 Eur per month, which accounts for 80% of mortgages offered (FFC, 2013). The remaining 20% of the mortgages is granted to individuals earning between 531 Eur - 708 Eur per month. Individuals with a lower income than this find it almost impossible to get a mortgage. There is also a significant amount of unsecured lending in the South African housing market. Those who are not eligible for a mortgage or fully subsidized housing unit are the main users of unsecured lending (FFC, 2013). The true amount of unsecured lending is unclear.

### **5.1.4 Construction Industry**

It is important to take the construction industry as a whole into consideration as well as considering that the housing industry is a subcategory of the construction industry. In South Africa the construction industry is subdued (AECOM, 2013). This is a result of the global financial crises and disruption and unrest in the mining and manufacturing industries. This has led to a very competitive construction market currently in South Africa. Getting tenders is difficult, profit margins are low and there is an oversupply of workers (AECOM, 2013). The government of South Africa has also been slow to increase planned spending in the construction sector. South Africa's construction growth is very much dependent on its key trading partners (USA, China, Japan, Germany, Zimbabwe and India) and since the global crisis has impacted these nations the construction industry has stagnated. Internationally diverse companies are expected to fare better than domestic companies (BMI, 2012). To conclude the main hurdles for the South African construction industry are the uncertain economic recovery, falling consumer confidence, and a lack of public spending on infrastructure (BMI, 2012).

### **5.1.5 Informal Housing**

In South Africa there is a large informal housing industry. The informal housing industry is not monitored by the government and is not taxed and these dwellings are technically illegal. There are an estimated 2.5 million households living in informal housing across South Africa (Rust, 2011). The main kind of informal housing are shacks and traditional dwellings such as huts. Gauteng province accounts for the most informal settlements at 31% (HDA, 2012). Informal settlements also lack proper sanitation, electricity and water supplies. The average size of households living in informal housing is roughly 3.3 people (HDA, 2012). The majority of informal settlements are developing around urban areas such as Johannesburg and represent a dominant form of urban population growth and housing.

### **5.1.6 Corruption**

Corruption is a major issue in the South African construction industry. The industry is prone to corruption. In May of 2013 18 South African construction companies including the six biggest admitted to price-fixing and collusion (BN, 2013). Also, in 2010 a national audit task put together by the Department of Human Settlements recovered 3.1 million Eur and arrested 1,910 government officials who were benefiting from housing subsidies (SAI, 2010). The anti-competitive behaviour has been taking shape in the forms of cartels, price-fixing,

"kickbacks", "fronting" and tender rigging (Bown, Edwards & Cattell, 2012). The South African government is working on cleaning up the problem. The government has introduced the Construction Sector Transparency Initiative (CoST). This initiative is focused on bringing more transparency and accountability to publically financed construction (CSTI, 2013). On top of this in July of 2013 Industry Body Consulting Engineers South Africa (Cesa) in collaboration with South Africa Forensic Services have set up an anti-corruption hotline (CMEN, 2013). The hotline is for the construction industry. The hotline allows for CESA members and members of the public to report corruption and fraud regarding the awarding of tenders and contracts in the construction industry.

### 5.1.7 Alternative Housing

Table 5.1.7.1 and 5.1.7.2 below show the type of construction material used to build the walls and roofs for homes in South Africa. The data was taken from the 2011 South African Census results. There are many implications the data presents. In both tables four percentages have been highlighted. This was done to show the three most popular wall and roof construction materials in South Africa and also to have the comparison to wood. As can be seen from Table 5.1.7.1 cement block/concrete/brick is by far the most popular wall construction material in South Africa accounting for 77.8 percent of dwelling walls. The three alternative wall building materials are corrugated iron/zinc at 11 percent, mud/mud-cement mix at 7.1 percent, and wood at 2.4 percent. When it comes to the walls in homes iron is the most popular alternative housing solution. Mud/mud-cement mix is mostly used in the countryside by people still following traditional lifestyles. Wood still only makes up a very small number percentage wise. Only 351,562 in South Africa have wood as the wall construction material type.

Table 5.1.7.1. South African Home Structure by Wall Construction Material

Main Dwelling Structure By Wall Construction Material		
Construction Material Type	Number of Homes by Wall Construction Material	Percentage of Homes by Wall Construction Material
Cement Block/Concrete/Brick	11,235,755	77.8
Corrugated Iron/Zinc	1,585,535	11
Mud/Mud-Cement Mix	1,020,74	7.1
Wood	351,562	2.4
Plastic	20,689	0.14
Cardboard	60,689	0.42
Wattle and Daub	57,446	0.40
Thatch/Grass	22,008	0.15
Other	95,685	0.66
Total	14,450,133	100

Source: 2011 South African Census: Statistics South Africa.

When it comes to the roof construction material type there is a big difference compared to the wall construction type. The most popular roof construction material is by far corrugated iron/zinc which accounts for 56.2% of roof construction material in South Africa. The second most popular is tile at 20.2% and then thatch/grass at 6.66%. Thatch and grass is a traditional building material used from interweaving sticks and covering it with mud to create a wall or roof. Wood only accounts for 0.94% of roofs in South Africa. Cement block/concrete account for just 2.82% of roofs.

Table 5.1.7.2. South African Home Structure by Roof Construction Material

Main Dwelling Structure By Roof Construction Material		
Construction Material Type	Number of Homes by Roof Construction Material	Percentage of Homes by Roof Construction Material
Cement Block/Concrete	408,190	2.82
Corrugated Iron/Zinc	8,115,947	56.2
Tile	2,922,647	20.2
Wood	136,275	0.94
Plastic	82,620	0.57
Cardboard	7,720	0.05
Wattle and Daub	77,865	0.54
Thatch/Grass	963,088	6.66
Other	1,735,810	12.0
Total	14,450,133	100

Source: 2011 *South African Census: Statistics South Africa*.

Table 5.1.7.1 and Table 5.1.7.2 indicate that the most common home in South Africa has walls made of cement block/brick/concrete and a roof made of corrugated iron/zinc. The main building materials used for walls is much different than that used for roofs. Cement block/brick/concrete is very much the main building material used for walls, but it makes up a very small percentage of roofs. Wood makes up a very small percentage of walls and roofs. Mud and mud-cement mix homes make up 7.1% of walls, and wattle and daub make up 6.66% of roofs. These construction materials are used for building traditional dwellings in rural areas.

The main alternative building material being used in South Africa is corrugated iron/zinc which is used to make steel. It is the second most popular walls building material and the most popular roof material. Using steel to build an entire home though is not popular in South Africa. In comparison using steel for lightweight home construction has been used for 50 years in Europe, Australia, and the USA (Barnard, 2011). Some of the reasons that steel construction has not caught on in South Africa are; that using steel is for temporary structures such as sight offices and temporary accommodation; local authorities are not familiar with the technology and getting regulations and certifications will be time consuming; companies building with brick/concrete may see the new building method as a threat to their business, and builders are not familiar with building with steel (Barnard, 2011).

## **5.2 Characteristics of the South African Alternative Wooden Housing Market**

This chapter focuses on the four key areas needed to successfully give an overview of the characteristics of the South African alternative wooden housing industry. The first section is "market insight and dynamics". This section aims to unveil the current status, facts, dynamics, influencing factors and drivers of the alternative wooden housing industry in South Africa. The second section in this chapter is "competition and benchmarking". This section looks at two things. The first thing it looks at is the competing companies in South Africa offering alternative wooden housing solutions. The second focus of this section is how Slovenian companies compare to South African companies. The third section in this chapter looks at "segmentation". The opportunities in the alternative wooden housing market in South Africa lie in two areas, the low-end housing sector and the high-end housing sector. The fourth section to this chapter is "costs and risks of entering the South African housing market". This chapter is going to look at costs associated with specific entry modes and the risks that go along with them.

### **5.2.1 Market Insight and Dynamics**

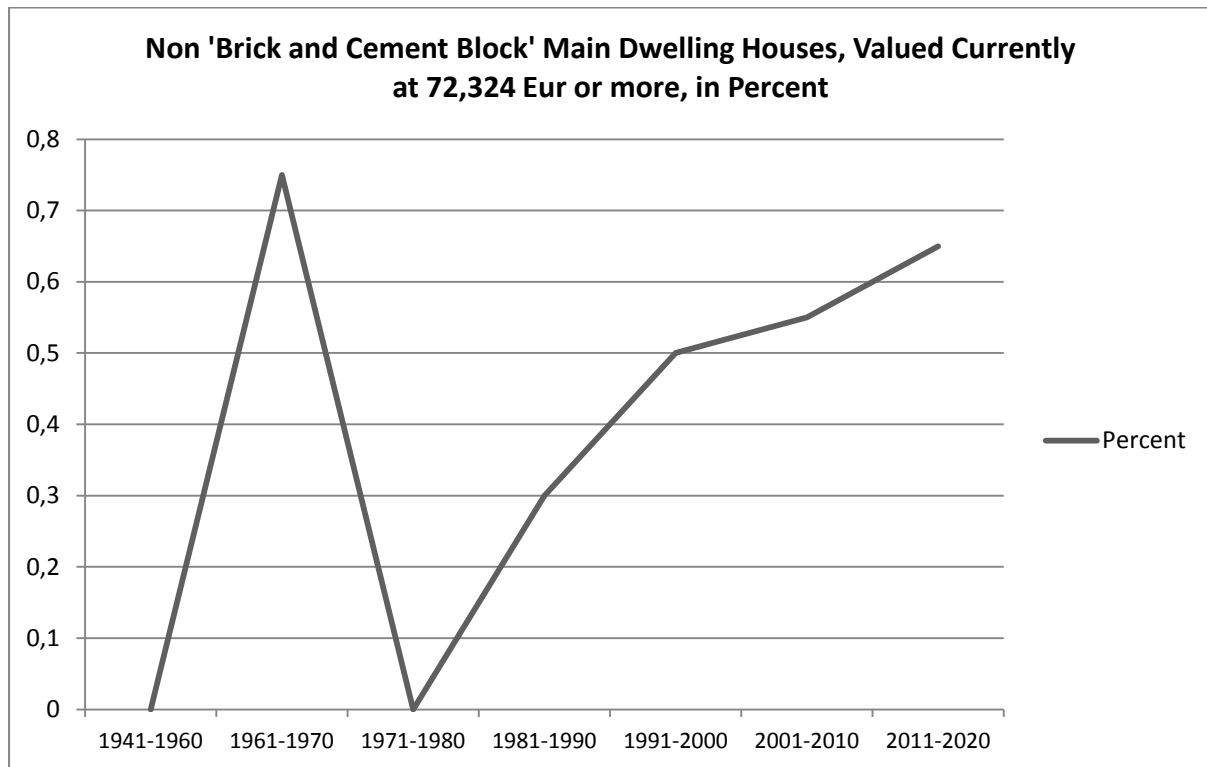
The alternative wooden housing industry in South Africa makes up a very small proportion of the entire housing, building, and construction industry in South Africa. Brick and concrete are by far the preferred construction materials for homes and other real estate housing units. Homes made of material beside brick or concrete make up less than 0.38 percent of the total formal housing industry in South Africa (HWZ, 2013). Traditional houses (brick/concrete) are still the most preferred by the majority of South Africans. Figure 5.2.1.1 below shows the percentage of houses valued at 72,324 Eur<sup>3</sup> which are non "brick and cement block" main dwelling houses. As can be seen as of 2010 only 0.6% of homes were made of "alternative housing materials (mainly steel and wood)" beside brick and cement block (HWZ, 2013). The 2011-2020 section of the graph is our prediction. We expect the percentage of alternative houses to grow in the next decade but only on average by 0.05 percent. We came to this decision because to begin with the alternative housing market in South Africa is growing, the black middle class in South Africa is rising, and so is the governmental and public awareness of the importance of using eco-friendly materials, as will be seen in upcoming chapters. On the other hand though alternative housing solutions in South Africa are still not popular, brick and concrete are by far the preferred construction material, and there is a perception of timber homes as cheaper and less desirable, so this is why we predict limited growth in the South African alternative housing market. To add to this steel is a more commonly used construction material for housing in South Africa, therefore indicating that even though alternative housing makes up such a small portion of the actual housing market, wooden houses are not even the most popular alternative housing material. According to the 2011 Census, 2.4 percent (351,563) of dwellings in South Africa had walls made of wood, and 0.94 percent (136,275) had roofs made of wood (SSA, 2011). It should be noted that the alternative housing industry in South Africa is generally made up of wooden houses, log homes, cottages, and other small to medium wooden structures.

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<sup>3</sup> 1,000,000 Rand = 72,323,.87 Eur (XE Currency Converter, 10/11/2013)



Figure 5.2.1.1. Percentage of Non "Brick and Cement block" Homes, Valued Currently at 72,324 Eur or more in South Africa



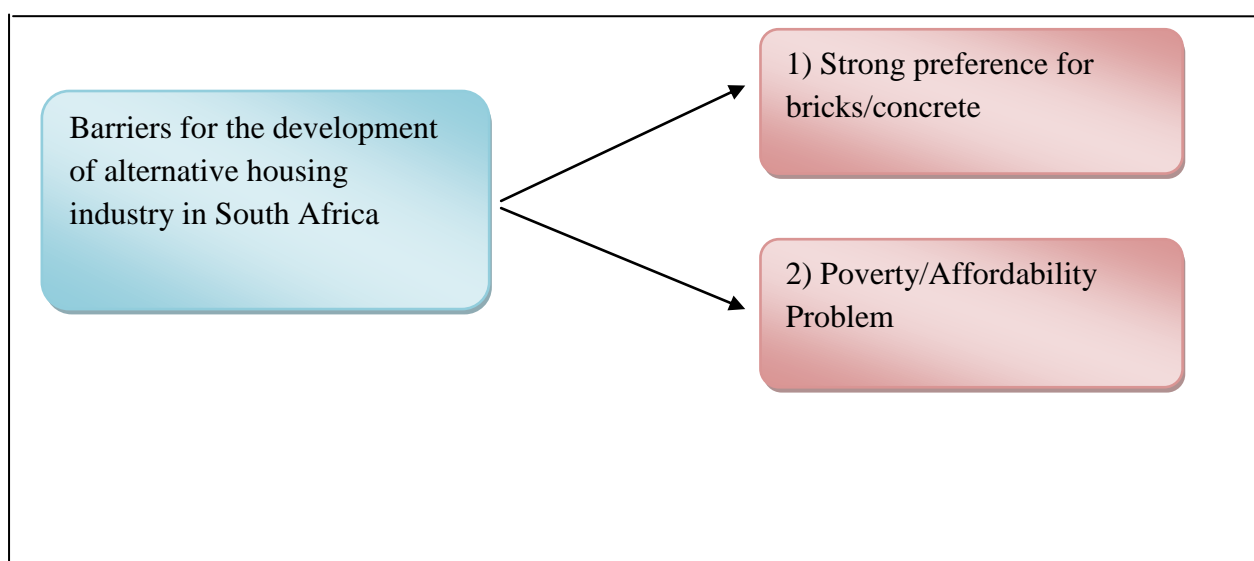
Source: 2013 *Timber Design*; 2011 *South African Census*

Another significant problem when it comes to the housing industry in South Africa is income, which results in an affordability problem for buying houses for the majority of South Africa's population. With an average GDP per capita of 8,644 Eur (CIA, 2012), and about 70 percent of South Africans not having access to housing credit through the formal banking sector, most South Africans could not afford customized prefabricated wooden homes (Le Roux, 2011). Due to the apartheid legacy, one to three million people live in informal settlements, which the current government of South Africa is replacing with sustainable housing units, in order to subsidize the low-income population (those who earn less than 400 Eur per month) (CAHF, 2012; Rust, 2006). The low-income population constitutes the majority (about 60 percent out of 51 million) of the labor force.

South Africa is facing a housing crisis. The 2011 statistics showed a 2.1 million backlog of social housing units, though the true estimate is more likely around three million housing units (DBSA, 2011; CAHF, 2012). On top of this, 1.86 million units are inadequate housing units and 13.6 percent of the population lives in them (SAGIP, 2013). The housing crisis is a real problem for South Africa and represents an opportunity for housing companies.

Due to high levels of crime and lack of safety, more and more of the upper class in South Africa are moving into gated communities. The upper class in South Africa, though, is limited to 8.9 percent of the population (4.6 million) (PPL, 2013). Only 12 percent of the population (6.2million) makes over 1,100 Eur a month, and only 42 percent of the population (21.7million) can afford non-subsidized housing (Rust, 2011).

*Figure 5.2.1.2. The Barriers for the Development Alternative Housing Industry in South Africa*



## 5.2.2 Competition

As of 2004 there were 265 companies in South Africa providing alternative housing solutions. There are far more providers of steel housing solutions compared to companies that provide wooden housing solutions. The majority of these companies relied on middle to high-end customers. Leading up to 2004, 1,550 timber frame houses were built each year, which averages out to 5.8 houses per company (DWAF, 2004). There is no monopoly or oligopoly in the South African alternative wooden housing market. As of 2004, the average revenue per company was roughly 707,500 Eur, and the volume of total sales equaled 187.5 million Eur.

Table 5.2.2.1 at the end of this section displays a competitor analyses of leading companies in the South African alternative wooden housing industry. These companies are Log Homes Africa, T&B Log Homes, Eco Log Homes, Pinecore Construction, and Air-lock Homes Africa. There are some key characteristics to point out. The South African alternative wooden housing companies are spread out across South Africa, which indicates that the place of choice for setting up within South Africa is flexible. For example Log Homes Africa is located in Pretoria and Eco Log Homes is located in Johannesburg.

All the companies competing on the South African market are domestic, which indicates that it is difficult for foreign alternative housing companies to enter the South African market. This is in line with the construction industry in South Africa where no foreign construction companies have been able to break into the top 200 profitable companies in South Africa.

The wooden structures being offered by the wooden alternative housing companies in South Africa include wooden houses, log homes, facade, hotels and wooden cottages. For the most part all of the wooden structures offered are similar. Pinecore Construction and Air-log Homes Africa do though specialize in luxury wooden house.

Calculations in Appendix 13 show the calculations which brought us to our estimate of 99,313 Eur being the cost for a standard wooden house and 226,221 Eur being the cost of a

luxury home in the South African alternative wooden housing market. This works out to being 550.211 Eur per m<sup>2</sup> for a standard wooden house and 724 Eur per m<sup>2</sup> for a luxury wooden house.

When it comes to distribution and where the companies can offer their products and services there is a significant difference. Some companies only operate within the province, others operate within South Africa, others within Sub-Saharan Africa and others operate worldwide. For example Eco Log Homes mainly operates within Gauteng province and T&B Log Homes operates worldwide in five different continents.

There are different strengths and promotions offered by each company. Some reoccurring strengths seen throughout the industry is that South African alternative housing companies working with wood offer the customized solution and many companies have been in the business for 10, 15, or even 25 years. For example Log Homes Africa, T&B Log Homes, and Pinecore construction all offered customized solutions, and Pinecore Construction has been operating for 27 years. When it comes to what companies are focusing promotions on it varies, but speedy construction, being environmentally friendly, and getting assistance with loans are characteristics that stick out.

There are three categories of homes in South Africa: small homes which are 80m<sup>2</sup> to 140m<sup>2</sup>, for 55,609 Eur (average) with an average price of 505 Eur per m<sup>2</sup>, medium-sized homes which are 141m<sup>2</sup> to 220 m<sup>2</sup> for 82,021 Eur (average) with an average price of 454 Eur per m<sup>2</sup>, and large homes which are 221m<sup>2</sup> to 400m<sup>2</sup> for 127,585 Eur (average) with an average price of 411 Eur per m<sup>2</sup> (FSF, 2013). T&B Log Homes, Log Homes Africa, Pinecore Construction, and Eco Log Homes are examples of South African alternative housing companies working with timber. Eco Log Homes is a South African company that provides high-end housing solutions, but also low-end housing solutions by providing do-it-yourself (DIY) timber frame housing solutions. For timber houses in South Africa, prices roughly range as following: 78,501 Eur for a small Eco Log home with 714 Eur per m<sup>2</sup>, and 114,517 Eur for a middle home with 634 m<sup>2</sup> (DIY, 2013). For an alternative DIY solution, the size of house is from 30 m<sup>2</sup> to 74 m<sup>2</sup> with an average price of 12,631 Eur (DIY, 2013).

Table 5.2.2.1. Competitor Analyses for the South African Alternative Housing Market

<b>Competitors in the South African Alternative Housing Market</b>					
	<b>Log Homes Africa</b>	<b>T &amp; B Log Homes</b>	<b>Eco Log Homes</b>	<b>Pinecore Construction</b>	<b>Air-lock Homes Africa</b>
<b>Ownership</b>	Domestic – Pretoria	Domestic - Cape Town	Domestic - Johannesburg	Domestic - Western Cape Province	Domestic - Port Elizabeth
<b>Product</b>	Wooden houses, Log homes, wooden decks, stables horse, wooden fences, etc.	Prefabricated Wooden and Modular Homes, Houses, Facades, Hotels & Resorts.	Timber Frame and Solid Log Homes, Timber Deck, Loft Rooms	Wooden Houses, Wooden Decks, Wooden Fences, Log Homes, Wooden Cottage	American Style Log Homes.

(Table continued)

	<b>Competitors in the South African Alternative Housing Market</b>				
	<b>Log Homes Africa</b>	<b>T &amp; B Log Homes</b>	<b>Eco Log Homes</b>	<b>Pinecore Construction</b>	<b>Air-lock Homes Africa</b>
<b>Price</b>	98,029 Eur - per standard wooden house or 550 Eur per m <sup>2</sup>	98,029 Eur - per standard wooden house or 550 Eur per m <sup>2</sup>	98,029 Eur - per standard wooden house or 550 Eur per m <sup>2</sup>	226,221 Eur - per standard wooden house or 724 Eur per m <sup>2</sup>	98,029 Eur - standard wooden house
<b>Distribution</b>	South Africa and other African countries	Export to 30 different countries worldwide	Mainly in Gauteng Province.	South Africa	South Africa and Sub-Saharan Africa
<b>Strengths</b>	*Diversification of wooden products *18 years experience *Tailored solutions	*Customized solution *Worldwide market *Patent in 51 countries	*BEE Level 4 company *14 years experience *Numerous standards certifications	*Customized solution *27 years experience *Partnerships with contractors	*American wooden homes *Modularity and mobility *Top thermo qualities
<b>Promotions</b>	*Design for convenience *Erection across South Africa *Assistance with getting loan	*Speedy erection - lowering costs *environmentally friendly *Fubgal and fire resistant	*Online videos *Free delivery of flat-pack design *Partners with green companies	*Top quality construction *Manufacture products with different designs and services	*Timber harvested after 60 years *Top thermal qualities *32 days for 162 m <sup>2</sup> completion

### 5.2.3 Benchmarking

The core capabilities that Slovenian housing companies have over South African companies are high quality engineering, architectural, and innovation services. Also, meeting international standards, offering the complete customized solution from design to construction, vertical integration, and experience in large-scale construction are other competences of Slovenian housing companies. To add to this, Slovenian companies provide more unique designs for the customer and can offer gained experience in engineering techniques. South African companies, on the other hand, have the advantage of knowing how to operate in the South African market. Also, some South African alternative wooden housing companies are BEE certified like Eco Log Homes. South African companies already have supply networks and distribution in place. See Figure 5.2.3.1 at the end of this section for a

visual display of the competitive advantage Slovenian and South African alternative wooden housing companies hold on the South African market.

Some Slovene companies have in-house capabilities and resources such as research and development (R&D), technical consultancy, design and architectural engineering, production and assembly technology, and marketing and sales. RIKO is an example of a Slovenian company that has many of these capabilities. South African companies on the other hand depend on research institutes such as the Council for Scientific and Industrial Research (CSIR), and government agencies (Riko, 2013). This indicates that Slovenian companies have better in-house capabilities when it comes to internal innovation compared to South African companies which are more reliant on external and governmental innovation. This links well with the global competitive index for 2012-2013, in which Slovenia is in the "innovation phase" in terms of economic transition, while South Africa is still in the "efficiency phase" in terms of economic transition (WEF, 2013). Thus, the Slovene companies are embracing innovation in their product development. This is something RIKO and Jelovica place focus on.

Slovenian companies and South African wooden alternative housing companies have been building more than just houses. Both Slovenian and South African companies have been building large-scale buildings such as schools or hotels. Companies from both countries are using eco-friendly materials in their construction. Another area where Slovenian companies can compete with South African companies is their product offering with continued customer service; to induce customer satisfaction and retain customers, thus creating a value dam. Their business with customers does not end after assembly (installation) of house/building modules; rather they make it their service level agreement to customers to guarantee warranty and continued maintenance of buildings. Examples of South African alternative wooden housing companies that provide these services are Air-Lock Homes Africa and Log Homes Africa.

The main characteristics needed to compete on the South African market that Slovenian companies already possess are that they have world class engineering, architectural, and innovation skills. These are the areas where Slovenian companies will possess a competitive advantage. Slovenian alternative housing companies also have the ability to offer the complete customized solution from start to finish. This is very important because a number of alternative wooden housing companies in South Africa already offer these services, and in order to be competitive Slovenian companies need to be able to offer them as well. There are certain characteristics that Slovenian companies lack though. A lack of experience on the South African market is one of them. Also, if Slovenian alternative housing companies wanted to go after government tenders in South Africa, they would not be BEE<sup>4</sup> certified.

When it comes to benchmarking against foreign entry it is difficult for Slovenian companies to analyze because no Slovenian companies in the housing industry have entered the South African market in the past or presently. Benchmarking is possible by looking at how successful foreign companies have entered the South African market. According to a 2002 study/survey done by The Edge Institute on "Foreign Companies in South Africa: Entry, Performance, and Impact" (Gelb, 2002) between 1990-2000 acquisitions was a popular

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<sup>4</sup>BEE is a program that seeks to redress the inequalities of the Apartheid System by giving previously disadvantaged groups (black Africans, Coloreds, and Asians) of South African citizens economic privileges previously not available to them. BEE includes measures such as employment preference, skills development, ownership of enterprises, and management of enterprise, socioeconomic development, and preferential procurement (SAGIP, 2013).

method and accounted for 45 percent of entries into the South African market (Gelb, 2002). Of these acquisitions 31 percent were full acquisitions and 14 were partial acquisitions. Of firms in South Africa with foreign ownership that entered the South African market 46 percent met their objectives and 43 percent partially met them (Gelb, 2002). This indicates that it is very plausible for foreign companies to enter the South African market and be successful. Benchmarking against entering the South African market will be discussed more in the "Costs" section which looks at entry modes.

*Figure 5.2.3.1. Comparison of the Competitive Advantage Slovenian and South African companies would/do have on the South African Market*

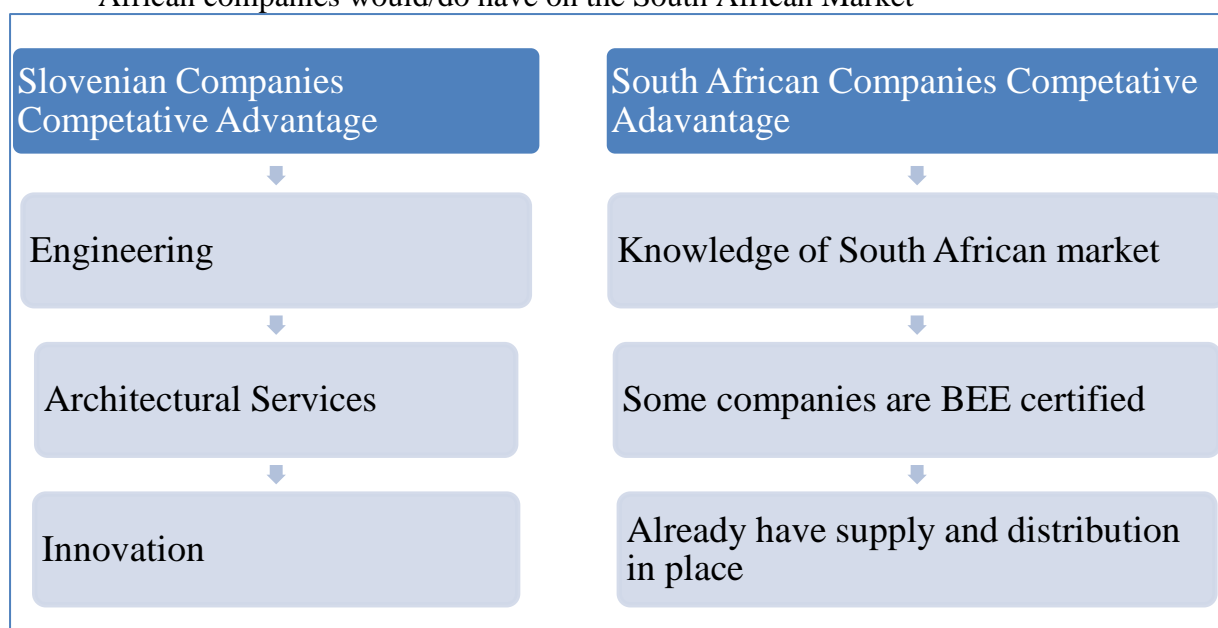


Table 5.2.3.1 below provides the revenues, profits, and major costs for Slovenian wooden housing companies from 2010-2012. We managed to get data from the financial statements for nine Slovenian wooden housing companies. The sources can be found in the references. We got the financial statements from Riko Hise, Marles Hise, Rima Hise, Alpes, Hoja, Lumar, Kager, Lamo, and Vo-Vo. There are a number of interesting findings. The average revenue for the Slovenian wooden housing companies was 6.9 million Eur. The revenue for the years 2010-2012 was very consistent. The revenue ranged from 6.6 million Eur - 7.2 million Eur. This indicates that the Slovenian wooden housing companies on average are bringing in a consistent revenue stream. The average profitability for the Slovenian wooden housing companies was +78,436 Eur. Only in 2011 did the Slovenian wooden housing companies average a loss, otherwise over the three years the companies average a profit with the range being between -81,438 Eur and + 219,755. The year 2010 saw the highest profits for the Slovenian wooden housing companies. When it comes to costs there were three major costs outlined in the financial statements for the Slovenian wooden housing companies. All the companies used the same format. These costs are COGS (cost of material goods and services) cost of labour, and devaluation of value of assets. The average cost of COGS between 2010-2012 was 5.4 million Eur. COGS was very consistent throughout the years ranging from 4.6 million Eur and 5.9 million Eur. This was the highest average cost every year for the Slovenian wooden housing companies. The second major cost was cost of labour. The average cost of labour between 2010-2012 was 1,643,493 Eur. The cost of labour did not range much (1.5 million Eur - 1.7 million Eur). The final major cost for the Slovenian

wooden housing companies was devaluation of value of assets. The average for this between 2010-2012 was 338,806 Eur. The range was 296,339 Eur- 422,819 Eur.

When it comes to revenue there is a large disparity between companies in Slovenia. The first tier of companies are those that average annual revenues above ten million Eur. For example Riko and Marles average annual revenues over ten million Eur. The next tier of companies are those that average annual revenues between 1-10 million Eur. Riko and Kager are good examples of this. The final tier of companies are those that average annual revenues under one million Eur such as Lamo and Vo-Vo. The reason that these companies should be divided into different tiers is because of the size of the companies. The companies with larger revenues will have more capabilities and options regarding what to do with their income and capital. The smaller companies with only a handful of employees have limited options and capabilities. It is important to note that there is a wide range of wooden housing companies in Slovenia in terms of size. To show the sheer size of disparity between revenues, Marles averages an annual revenue of 19.8 million Eur and Vo-Vo averages an annual revenue of 144,085 Eur. When it comes to profit the average profit was +78,436 Eur, but the profits also did vary widely. For example between 2010-2012 Riko had an average loss of 243,478 Eur and Lumar had an average profit of 877,598 Eur. It goes to show that some companies have been more successful than others over the three years. Throughout the three years only during four times did a Slovenian wooden housing make a loss, which implies that the companies are financially healthy and they are operating well on the domestic and foreign markets.

The major costs also had some important implications. The amount companies spent on COGS is also varying greatly. For example Marles spent on average 15.3 million Eur, versus Hoja who spent 1.8 million Eur or Vo-Vo who spent 140,559 Eur on COGS. It shows that certain companies have far more income to spend on materials, goods, and services. This is another indication in the variation in size of Slovenian wooden alternative housing companies. When it comes to the cost of labour it is again a similar story in terms of that cost. Some companies have far higher costs of labour then others indicating a variation in labour forces. Amortization and the devaluation of assets again varied between companies because as you might expect the larger companies have more assets then the smaller ones thus there will be more devaluation.

At the end of the day the companies presented are not all of the Slovenian wooden housing companies. There are roughly a little over 25 companies and Table 5.2.3.1 below shows finances for just nine of the companies. The information though does indicate that the size of the companies and the capabilities of the companies varies greatly. Some of these companies are multinational and some are just companies with a handful of employees. This is crucial information for our recommendations.

Table 5.2.3.1. Revenue, Profit, and Major Costs for Slovenian Wooden Housing Companies 2010-2012 (Eur)

Company Name	2010			2011			2012		
	Revenue	Profitability	Major Costs/expenses/expenditures	Revenue	Profitability	Major Costs/expenses/expenditures	Revenue	Profitability	Major Costs/expenses/expenditure
Riko Hise	6,067,154	+42,334	1) 4,063,238 2) 1,572,540 3) 235,819	5,420,167	-790,279	1) 4,113,999 2) 1,647,759 3) 245,879	8,821,496	+17,509	1) 6,755,323 2) 1,637,220 3) 279,846
Marles Hise	21,290,871	+62,146	1) 16,520,481 2) 4,079,285 3) 448,640	21,313,698	+38,820	1) 16,535,160 2) 4,056,174 3) 459,054	16,804,255	+54,023	1) 12,740,174 2) 3,096,144 3) 398,510
Rima Hise	1,164,366	-4,495	1) 1,021,342 2) 188,471 3) 9,587	2,708,032	+51,133	1) 2,371,541 2) 253,335 3) 12,085	2,714,150	+47,343	1) 2,345,456 2) 320,388 3) 470,692
Alples	16,301,932	+126,108	1) 10,028,620 2) 5,130,525 3) 1,338,180	14,827,270	-671,169	1) 14,491,641 2) 4,103,594 3) 994,431	16,617,306	+23,240	1) 17,069,706 2) 4,723,813 3) 1,885,269
Hoja	2,114,830	+549,564	1) 1,736,344 2) 689,791 3) 189,179	2,480,373	-266,728	1) 1,941,095 2) 645,388 3) 444,056	2,536,388	+200,487	1) 1,733,322 2) 664,688 3) 129,566
Lumar	7,853,019	+1,152,382	1) 4,566,627 2) 1,076,280 3) 267,155	11,156,223	+1,145,507	1) 7,925,195 2) 1,887,395 3) 316,340	10,854,679	+334,906	1) 7,773,107 2) 2,037,791 3) 308,704
Kager	3,850,236	+27,541	1) 2,654,066 2) 1,022,630 3) 182,321	4,036,540	+387,962	1) 2,672,647 2) 812,199 3) 183,816	5,190,489	+192,346	1) 3,727,779 2) 1,117,292 3) 292,188
Lamo	661,604	+20,637	1) 638,038 2) 26,983 3) 3,549	654,132	+21,819	1) 620,096 2) 47,334 3) 8,741	814,753	+1,345	1) 602,796 2) 42,993 3) 37,533
Vo-Vo	140,270	+1,581	1) 137,364 2) 8,508 3) 1,625	142,011	+1,497	1) 139,138 2) N/A 3) 1,948	149,974	+1,732	1) 145,174 2) N/A 3) 3,068
<b>Average</b>	<b>6,604,920</b>	<b>+219,755</b>	<b>1) 4,596,236 2) 1,532,779 3) 297,339</b>	<b>6,970,938</b>	<b>-81,438</b>	<b>1) 5,645,612 2) 1,681,649 3) 296,261</b>	<b>7,167,051</b>	<b>+96,992</b>	<b>1) 5,876,982 2) 1,716,051 3) 422,819</b>

Note\* Major Costs/expenses/expenditures: 1) Costs of Material, Goods and Services. 2) Cost of Labor. 3) Devaluation of Value of Assets - (mostly depreciation)

Source: 2014 *Ajpes.si*.



## 5.2.4 Segmenting the high-end and low-end opportunities

In South Africa, high-end and low-end opportunities exist in the housing market for alternative housing. "High-end" opportunities refer to housing solutions aimed at wealthy tourists and upper class South Africans. These solutions involve gated communities, tourist accommodation, and retirement villages. The "low-end" opportunities refer to housing solutions for South Africans who need subsidized housing. These solutions involve social housing, student housing, and replacing mud schools.

### 5.2.4.1 High-end opportunities

Gated communities in South Africa are a growing trend. Research on gated communities carried out by the Council for Scientific and Industrial Research (CSIR) in 2000 and 2004 revealed that one of the drivers of gated communities is the high rate of crime in metropolitan cities (Johannesburg, Erhululeni, Cape Town, Durban, Pretoria, Port Elizabeth, and East London). As of 2013, there were about 1,730 gated communities in South Africa, with over one-half of these in the Gauteng Province (Johannesburg, Erhululeni and Pretoria) (PPL, 2013). The average price for a house in a gated estate in South Africa is 131,000 Eur (2008 prices), up from around 72,685 Eur in 2003. Return on investment has also been significant. A property that was bought in 2003 and sold again in 2008 would have increased in value by 113 percent in a gated estate (PPL, 2013).

It is worth noting that it is mostly the high-income population (4.6 million) and the middle-income population (5.9 million) that can afford to buy or rent the gated estates in South Africa. The rising trend of the black middle class (1.7 million in 2004 to an estimated 4.2 million in 2012) will drive the demand for comfort and safe living to increase, which in turn will drive the need for gated communities in South Africa (PPL, 2013). Therefore, the European companies that specialize in 'green building' are presented with an opportunity to build 'green' gated communities in metropolitan cities, where most of the high-income population and middle-income population are concentrated.

*Figure 5.2.4.1.1. Gated Community in Pretoria, South Africa*



Source: 2005 Stéphane Degoutin, Degoutin & Glasze & Le Goix

The second high-end opportunity is tourist housing. In 2009 there were a combined 21 million foreign and domestic tourists in South Africa, and by 2020 the government is aiming to have a combined 33 million per year (SAGI, 2012). The government is also looking to increase the GDP amount that tourism contributes to overall GDP from 16.3 billion Eur in 2009 to 36.7 billion Eur in 2020. This data indicates that the tourism market in South Africa is going to grow. Another point worth mentioning is that in South Africa, accommodation accounts for 46 percent of the contribution to tourism (SATI, 2013).

When it comes to tourist accommodation there are two areas to focus on, holiday villages/lodging and single residential units. Holiday villages/lodging is the first aspect we will look at under tourist accommodation. Tourism is increasing in South Africa and there is a lack of tourist housing. An example of a holiday village is the nine timber frame housing community in the Sedgefield Seaside area finished in 2009 (RK, 2013). The homes in this project were worth 121,892 Eur and were 250m<sup>2</sup>. Another example of a holiday village to model homes after is the Gonubie Caravan Park and Resort which has 20 timber chalets that are used for family holidays (GCP, 2013). These timber chalets rent between 58 Eur- 97 Eur per night.

Lodging refers to rented units on South African reserves where tourists stay while going on safaris. Many of these lodges use wood throughout the facility structures, whether it be in part of the housing or in outside decks and platforms. Examples of lodges that could be modeled after are the Nkhoro Bush Lodge, Lukimbi Safari Lodge, Inyati Game Lodge, all of which are on the Sabi Sand Game reserve in Greater Kruger National Park (RA, 2013). Renting prices range from 122 Eur - 379 Eur a night<sup>5</sup> (RA, 2013). There are 19 national parks throughout South Africa with lodging housing spread throughout the parks. For 12 months ending march 2009 Kruger National Park rented 381,622 unit nights and 929,372 bed nights, which resulted in a 78.3% and 61.9% occupancy rate respectively (SAP, 2009).

The second area to focus on when it comes to tourist housing is single residential units. These homes would be the same sort of customized homes that Slovenian companies are currently building in Slovenia and across Europe. They include guest houses, cottages, apartments, villas, chalets, and bed and breakfasts. Prices vary on factors such as location, size of accommodation, and season. Based on rough averages from websites such as holidaylettings.co.uk, holiday-homes-sa.com, and domegos.co.za we came up with average prices and sizes for individual holiday homes in South Africa. We chose holiday homes in the Western Cape in order to compare holiday homes in the same region. Prices per night ranged roughly from 68 Eur for more modest accommodation to 291 Eur per night for more luxurious accommodation. Sizes of the accommodation ranged from 52m<sup>2</sup>-450m<sup>2</sup>. These single residential units range drastically, which leaves a lot of room for customized housing solutions of various design and sizes.

Providing housing for the increase in tourists represents another opportunity in the country for a Slovenian alternative housing company. These tourist homes and communities should be built close to the major tourist destinations in South Africa such as Cape Town, Kruger National Park, Blyde River Canyon, the Winelands and the Garden Route. If a company wants to build tourist accommodation on government land, then public tenders or permission from certain South African departments, such as the Department of Tourism, is required.

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<sup>5</sup> 1675 Rand = 122 Eur and 5200 Rand = 379 Eur (XE Currency Converter, 15/11/2013)

*Figure 5.2.4.1.2. Lukimbi Safari Lodge, Kruger National Park, South Africa*



*Source: 2013 Lukimbi Safari Lodge.*

Retirement villages represent the third high-end housing opportunity in South Africa. There are thousands of retirement villages and communities in South Africa (PGP, 2013). These communities vary in standards from modest to luxurious. In order to insure that seniors do not get taken advantage of the government of South Africa passed a law in 1988 called the "Housing Development Schemes for Retired Persons Act 65". This law allowed for seniors to buy into a retirement village/community and have the backing of the government incase development of the community was not completed (PGP, 2013). An example of the types of projects that Slovenian companies could get involved in is the 250 holiday homes recently built on the Thesen Islands, Knysna (KLE, 2013). This retirement village is located in the picturesque town of Knysna. It has 52 hectares with only five homes per hectare. There is a focus on low residential density and the homes are based off of Victorian architecture. The prices range from 160, 594 Eur - 138, 235 Eur<sup>6</sup> and the sizes range from 257 m<sup>2</sup> - 119 m<sup>2</sup> (KLE, 2013). Other examples of retirement villages that provide a good example for building future retirement villages in South Africa are the Bougain Villa Retirement Village in Pretoria, the Amble Ridge Village in the Western Cape, and luxurious Rob Roy Retirement Village in Kwazulu-Natal.

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<sup>6</sup> 2,195,000 Rand = 160,594 Eur and 1,889,00 Rand = 138,235 Eur (XE Currency Converter, 10/11/2013)

Figure 5.2.4.1.3. Example of the Knysna Lifestyle/Retirement Estate in Knysna, South Africa



Source: 2013 *Knysna Lifestyle Estate*.

#### 5.2.4.2 Low-end opportunities

Companies in alternative housing have three unique low-end housing opportunities in South Africa. These opportunities lie in social housing, student housing, and replacing mud schools. Providing more social housing has become a priority of the South African government. Statistics in 2011 showed a 2.1million backlog of social housing units (MHS, 2012). Additionally, there are 1.2 million households and three million people across the country living in informal settlements (SAInfo, 2010; Rust, 2006). Informal housing in South Africa refers to dwellings which are not formal address's and do not have the permits to exist in the location they are currently in. The informal houses also have very bad construction standards and quality. This information represents a real opportunity in alternative housing, because there are roughly three million low-income housing units that could be built.

The need for low-income housing in South Africa is only going to grow. Sixty percent (31.8 million) of South Africa's population lives in urban areas, and by 2050 this will be 80 percent (NPC, 2013). In addition to this, South Africa's population will have grown by 7.8 million by 2030, and half of these people will need social housing (NDP, 2012). The need for social housing is going to be in big cities such as Cape Town, Johannesburg, Druban, and Pretoria.

Traditionally in South Africa funding for social housing was limited to social housing institutions, but as of 2012 private sector institutions are also eligible for funding. Private sector institutions are now able to apply for a subsidy through the Social Housing Regulatory Authority in order to help build social housing (CAHF, 2012). Since the government is subsidizing social housing in South Africa and at the same time supporting black economic empowerment, it more than likely the South African government will favor BEE companies



when it comes to who they give contracts and tenders too. Foreign companies will more than likely need to partner with South African BEE companies in some way in order to get access to building social housing in South Africa. Entry modes for Slovenian companies and to some extent European companies will be looked at more in the "Costs" section. Karmod Prefabricated Technologies is a Turkish company that offers prefabricated social housing solutions in South Africa (Figure 5.4.2.2.1), so foreign companies have entered the low-end housing sector in South Africa.

*Figure 5.2.4.2.1. Prefabricated Social Housing offered by Karmod Technologies in South Africa*

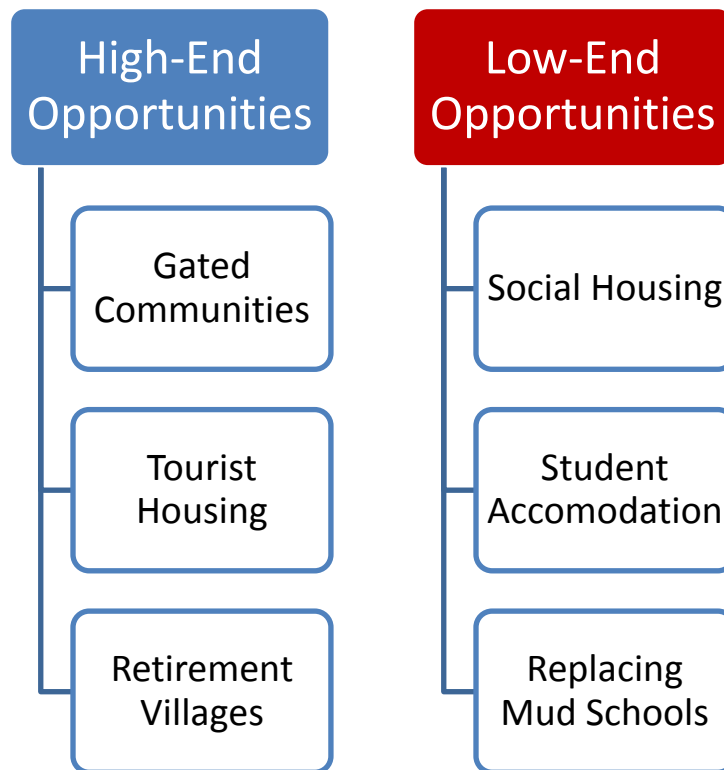


Source: 2013 *Karmod Prefabricated Technologies*.

A mass shortage of housing for students in universities and colleges exists in South Africa, with a shortage of 207,800 beds for students (AA, 2013). As of 2011, 80 percent of students in need of student housing do not have it (DHET, 2011). To go with this there is going to be an estimated two percent growth every year in student enrollment (DHET, 2011). Considering that the private sector is involved in providing student housing in South Africa (DHET, 2011), there is an opportunity to take advantage of the shortage and provide mass accommodation for all the students in need. For example as of 2012 the University of Cape Town and Wits University has relationships with private accommodation companies such as South Point and Aengus Properties (Radebe, 2013). With more poorer people projected to become students in the coming years the demand for student accommodation is only going to increase. This lack of student housing is causing current student housing to become overcrowded and is putting students academic career and health at risk (DHET, 2011).

The final opportunity is replacing mud schools with sustainable structures. As of 2012 there were 496 mud schools in South Africa that needed to be replaced (SAInfo, 2012). The government of South Africa has had a long standing goal of having no more mud schools in South Africa. This is backed up by the government program called the Accelerated Schools Infrastructure Delivery Initiative (LRC, 2013).

Figure 5.2.4.2.2. Opportunities in the South African Housing Market



### 5.2.5 Costs of Entering the South African Market

The reason we included this section about costs and risks for Slovenian alternative housing companies looking to enter the South African housing market is to give Slovenian companies a rough estimate of the costs and risks of entering the South African housing market. This should allow Slovenian companies to make a more informed decision when looking at the South African housing market. This chapter also displays the tables with the costs and provides an overview for them. The exact calculations for the costs and the sources of information are all available in Appendix 6. It is important to remember when reading and analyzing this that these are just rough estimates. Every company works in different ways and has a different budget.

There are many different entry modes for Slovenian alternative wooden housing companies looking to enter the South African market. This means that it is difficult to estimate the costs for Slovenian companies looking to enter the South African market because there are many different ways to enter rather than just one way. This section estimates the costs for the two entry modes we recommended. The first one is Slovenian alternative wooden housing companies using the direct export entry mode with the possibility of using a sales agent. The Slovenian companies will work from Slovenia and export their products to South Africa when there is a possibility of providing housing. This is an export entry mode.

The second entry mode we are recommending is a joint venture/strategic alliance. In this entry mode the Slovenian wooden housing companies will enter into a joint venture/strategic alliance with a South Africa company, but the Slovenian companies will continue to work

from Slovenia and export their products to their partners in South Africa to construct. This is an intermediate entry mode.

### **5.2.5.1 DirectExportandJointVenture/StrategicAlliance**

The two entry modes we are recommending are very similar, but not the same. The similarities and differences will be explained more in Chapter 7 in the recommendations section. It should be noted that the costs outlined below are a very rough estimate of the start up costs that Slovenian alternative wooden housing companies would incur when exporting to South Africa within the direct export entry mode or the joint venture/strategic alliance. Slovenian companies have the competitive advantage of engineering, architectural services, and innovation, so their exported products would offer housing solutions with a competitive advantage. It is recommended for this entry mode that the Slovenian companies focus on providing the housing components and exporting them, and the South African BEE companies would focus on everything else. This entry mode involves the Slovenian companies finding customers in South Africa who would be willing to purchase the housing from Slovenian companies and then construct it themselves once it arrives from Slovenia in the case of direct export. In the case the joint venture/strategic alliance the Slovenian companies would enter into a partnership with the South African companies and the Slovenian company will export the products and the South African company will take care of all other operations. The only difference for the cost calculations for these two entry modes is that there is an external cost for the direct export entry mode that does not exist for the joint venture/strategic alliance.

Internal costs are the costs that a business basis its price on. For example things such as materials, energy, and labour (CC, 2014). When it comes to internal costs there is only one cost that we could identify roughly for the Slovenian wooden housing companies. It is also the only useful internal cost we could provide an estimate for. That cost is the cost of exporting freight containers of housing materials from Slovenia to South Africa. The reason that this is the only internal cost we could and should provide a rough estimate for is we have no idea about how many labour hours will go into preparing the materials to be exported, or how many labour hours will go into engineering, or even how much the rough materials will cost. Also, these costs will also vary from project to project. On top of this the Slovenian wooden alternative housing companies will know their internal costs exactly and will already have this information, so besides offering the cost of shipping materials to South Africa, we did not feel providing a rough guess of the internal costs of Slovenian companies in their own country was useful. The competition and benchmarking section though, does provide the internal cost structure for nine Slovenian wooden housing companies between 2010-2012, and the costs of labour and materials are included. This should be able to provide readers with a better understanding of internal costs for the Slovenian wooden housing companies.

When it comes to the internal cost of shipping a freight from Koper, Slovenia to East London, South Africa there are a number of things that need to be explained. We chose East London because it is a port in between South Africa's to main cities Johannesburg and Cape Town. East London is also in between Cape Town and Port Elizabeth to the west and Johannesburg, Durban, and Pretoria to the east. East London is therefore very central in relation to South Africa's other major cities and we recommended to Slovenian companies to focus their efforts on the major urban areas in South Africa.

We are obviously unsure about the amount or price of materials Slovenian wooden housing companies will be shipping each month to South Africa but we can provide an estimate of the price for one meter of space for exporting construction materials from Koper to East London. The estimated price per meter of exporting from Koper to East London is 400 Eur per meters (WFR, 2014). More detailed calculations can be found in the appendix. If for example the Slovenian company was to ship two 12 meter containers of construction materials from Koper to East London with 10,000 Eur worth of goods it would cost roughly 9,071.26 Eur. It is unclear if the Slovenian companies or the customer will pay for shipping, but if they split it equally the Slovenian company would pay 45,35.63 Eur.

External costs are costs that are not included in what the business bases its price on (CC, 2014). Even though external costs are not included in the final price of the product they must still be paid. The main external costs for the Slovenian wooden housing companies are the materials required to construct the homes, the cost of transporting supplies, and only in the case of the direct export entry mode the cost of paying a sales agent in South Africa to promote the Slovenian housing solutions. The cost of materials and the cost of transporting supplies are not something we are going to get into as the Slovenian companies already know these external costs for themselves and we do not have the information to make an educated guess. The yearly cost of supplies and materials is highlighted in the benchmarking and competition section. We estimated that it will cost roughly 500 Eur a month in flat rate to pay a sales agency to promote the Slovenian housing solutions and that for each sale they would get a commission fee. This commission fee is also an undefined expense.

Table 5.2.5.1.1 below shows the costs associated for a Slovenian alternative wooden housing company finding all the information needed about the market, and finding South African partners to work with such as South African companies, customers, and sales agents. The cost of market information and partner information is the cost associated with gaining information on the market of interest and potential partners. There are two aspects to Table 5.2.5.1.1, the first one is doing basic research for one week which would most likely be done in one week by an employee in Slovenia. Then if the Slovenian company feels the market is worth entering, we estimated that two employees of a Slovenian company would then go to South Africa for two weeks in order to explore the market first hand and talk to potential business partners. These costs included two return airfare tickets, staying in a four star hotel, and money to spend on entertaining potential business clients. An important thing to remember is these costs are just rough ideas we used rationale to come up with. Every company operates in a different way and will have different circumstances. The total for these three weeks of work would cost a Slovenian company an estimated 7,547 Eur. The calculations for these costs can be found in Appendix 6.

Table 5.2.5.1.1. Costs of Market Information and Partner Information (Eur) - Direct Export

Market Research	
One Week Doing Basic Research	415
Business Trip To Explore Market	7,132
<b>Final Total</b>	<b>7,547.00 Eur</b>



Transactional costs are expenses that are incurred when buying or selling securities. Transactional costs include brokers, commissions and spreads (Investopedia, 2014). The major transactional costs are outlined in table 5.2.5.1.2 below. They are all negotiation costs. They include phone calls and internet, business trip expenses, and legal costs. One of the major transactional costs is another business trip to South Africa to negotiate the terms of the business transaction, this trip has the same expenses as calculated in the earlier proposed business trip in the "costs of market information and partner information section". These are business trips for different reasons though. The calculations for these costs can be found in Appendix 6.

Table 5.2.5.1.2. Transactional Costs for 1-month period (Eur) - Direct Export

Transactional Costs	
<b>Negotiating Costs</b>	<b>Eur</b>
Calls & Internet	
International telephone calls	22.55
Internet expenses	0
<b>Total</b>	<b>22.55</b>
Business trip expenses	
Flight	2,600
Hotel	2532
Other Expenses	2,000
<b>Total</b>	<b>7,132</b>
Legal Costs	
Lawyer	695
<b>Total</b>	<b>695</b>
<b>Final Total</b>	<b>7,849.5</b>

There are no potential costs or opportunity costs. Potential costs are the costs that a company may or may not occur. Opportunity costs are the cost of an alternative that must be forgone in order to pursue a certain action (Investopedia, 2014). In other words this means the benefits you would have received from another course of action. The cost of withdrawing from the market would not exist because the Slovenian companies would not be physically present in the market. The Slovenian companies will just be working on project to project. We also did not come across any significant opportunity costs because we are not sure of the success of other entry modes or entering other markets.

When it comes to administrative and institutional costs for a Slovenian company in the joint venture there should be none. Administrative costs are expenses incurred in controlling and directing an organization, but not directly identifiable with financing, marketing, or production operations (BD, 2014). These costs are related to the organization as a whole as opposed to expenses related to individual departments. Institutional costs for the purposes of this situation are expenses that a host country will charge a company for operating in that country (Shoptalkonline, 1999). For example foreign companies may be subject to additional charges such as taxes or licensing when operating in host country. We contacted the Ministry of Trade and Industry in South Africa and were told that a Slovenian company would not be treated any differently than a South African company and since they would be entering into a

joint venture with a South African company there would be no costs to operate in South Africa. The ease of doing business for European companies is helped out by the South African European free trade agreement called the EU-South Africa Trade, Development and Co-Operation Agreement (TDCA).

Table 5.2.5.1.3 below outlines all the different cost sections and sums up the total costs for Slovenian alternative wooden housing companies looking to use either of the two recommended entry modes in South Africa. The projected total costs for a one month period are roughly 20,432 Eur for the direct export entry mode and 19, 932 Eur for the joint venture/strategic alliance entry mode. The major costs will be the costs of market information and partner information, transactional costs, and to some extent external costs. The main costs are related to business trips to South Africa and the cost of exporting construction materials to South Africa from Slovenia. There are no potential costs, opportunity costs, administration costs, or institutional costs for these entry modes.

Table 5.2.5.1.3. Structure of Total Costs incurred in one month period (Eur) - Direct Export

Internal Costs	4,535.63
External Costs (only for direct export mode)	500
Cost of Market Information and Partner Information	7,547
Transactional Costs	7,849
Potential Costs and Opportunity Costs	0
Administration and Institution Costs	0
<b>Final Total</b>	<b>20,432.13</b>

It is very hard to estimate the exact costs that would exist for any entry mode in this situation and this also applies to the entry modes we chose. We think that these entry modes are the most realistic though and at least give a rough picture of the costs associated with setting up business in South Africa for Slovenian alternative wooden housing companies. The calculations for all the numbers we came up with can be found in the appendix. The costs are calculated for the first month of operations because these entry modes involve working on random projects that come along as supposed to long term consistent business, and the Slovenian companies may be providing housing one month at a time.

## 6 RESULTS AND FINDINGS

### 6.1 Survey with South African Population

We conducted a survey for our thesis research. The objective of the survey was to collect empirical data we could use to analyze and draw findings and conclusions from. The survey we conducted was for the general population of South Africa. The focus of the survey was to get people's perceptions about wooden housing in South Africa. We used the website 1ka.si to create the survey and administer the survey as the website collects results and provides them in statistical and chart form. For further analysis, the data was exported to IBM SPSS and Microsoft Excel. The survey was distributed using our network of contacts in South

Africa and through various South African Facebook groups for the working class population. The survey was launched and activated in November 2013 and kept open for the respondents until March 2014. The survey was composed of 20 questions and took roughly five minutes to answer. The questions composed of open ended questions, single answer questions, multiple answer questions, and demographic questions. The total of 814 respondents opened the survey, but the respondents who actually filled out the survey comprised a total of 176. Therefore, the response rate was 22%.

### **6.1.1 Limitations**

The survey had a number of limitations that should be mentioned. First we had to rely on our network of connections in South Africa to distribute and fill out the survey. We also used Facebook to distribute the survey by forwarding the link to a network of the working class population in South African. While online survey may prove to advantageous economically, but one major limitation to this using Facebook groups in the South African context could be due to the fact that many people in South Africa, especially in the rural and township areas still access Facebook (Internet) with mobile phones which may not be smart-phones, and makes it difficult for them to fill out surveys. Nobody over the age of 65 completed our survey which means we did not get any responses from senior citizens. It would have been useful to get their responses since one of the high-end opportunities for building housing in South Africa is retirement villages. Another limitation is that the majority of people who answered our survey were from the middle/upper class. We did not get many responses from people in low-income brackets or people living in subsidized/social housing. We also did not get proportional representation from all regions around South Africa. For example we did not get any respondents living in Free State or Mpumalanga. The final limitation has to do with Question 18 and the average household income. Although most South Africans would interpret this question as income per month, we forgot to specify if we meant income per month or income per year.

The number of responses (n) was 176, and this number was far lower than we expected/anticipated. There could be various reasons for this. Due to limited time, we launched our survey and kept it active during November 2013 to the beginning March 2014. In December and January, people in South Africa are generally busy with festivities, and in January and February are busy with 'back-to-school' activities. Access to the computers and internet access is still a challenge in South Africa, especially in the rural areas (HSRC, 2014). Our argument for the survey's limitations is also supported by International Finance Corporation when they state that, though an online survey is inexpensive way to collect anecdotal evidence data, but at the same time online surveys usually generate unpredictable response rates and unreliable data because the researcher has no control over the pool of respondents (IFC, 2014). Lastly, all the variables in the survey were categorical (nominal) in nature – statistics like t-tests, regression analysis, clustering could not be performed. Thus, only Pearson Chi-Square test was performed to test the association (relationship) between variables (see Correlation testing/analysis in sub-section 6.1.5 below).

### **6.1.2 Questionnaire**

All the questions asked in the survey can be found in the appendix, but it is important to outline the importance of asking particular questions and what we hoped to find. The first two questions asked the respondents what building material they would prefer for the walls in

their home if they were to build or buy a home. By asking these questions we hoped to confirm what the literature was saying, that bricks/concrete are the outright preferred material in South Africa. We also wanted to see to what extent brick/concrete are preferred. Finding out what the preferred alternative material is and how popular wood is was also our intent with this question.

Questions 3 and 4 asked respondents about where they would like to build/buy a house. This was pertaining to urban/rural and where in particular in the country (ex. Cape Town or Durban). With these questions we hoped to find a number of things. We wanted to confirm what the literature was saying that there is mass migration of people to urban areas in South Africa. We also wanted to know what regions of the country were preferred in order to give Slovenian companies a better understanding of what parts of the countries have the most potential for housing.

Question 5 asked respondents what their general perception of wooden housing is. This question was asked to find out the major perceptions in South Africa regarding wooden houses, whether they be good or bad. Question 6 asked people if they would buy or build a customized wooden house. This question was asked to get a better understanding of market potential. Question 7 asked respondents why or why they would not buy/build a customized wooden house. We hoped to find out what attracts people to wooden houses, what value proposition can be made and what deters them.

Question 8 asked respondents what the walls in their house are made of. The purpose of this question was to find out what type of housing people are currently living in and how many people are living in alternative housing compared to brick/concrete. This question also helped with our demographics. Question 9 asked respondents what kind of house they lived in regarding social housing, subsidized house, own house, rented house, or other. This question had to do with adding to the survey demographics because we could get an understanding of what type of housing the people answering our survey were living in.

Question 10 and 11 asked respondents what the estimated value of the house they are living in is and if they were to buy a house what the value range would be. The purpose of these questions was to find out what value range of homes South Africans are living in is and are considering buying. This helps when it comes to comparing home prices in South Africa and Slovenia. Slovenian companies may not be able to make a profit if there are not enough people willing to buy homes at Slovenian prices. It also gives companies looking to build housing in South Africa an understanding of the potential of certain home value ranges.

Question 12 was about what would convince people to buy a wooden house. The purpose of the question was to find out what reoccurring answers came up in order to find out what the major influences are that could convince people to buy a wooden home. With these factors Slovenian companies could use this information to better market their homes. Question 13 asked respondents if they knew a company in their region that offers wooden homes. The purpose of this question was to find out if people were even aware of wooden housing companies and to get an indication of how well South African wooden housing companies are marketing their product.

Question 14 asked respondents what they believed were the main reasons that wooden housing in South Africa was unpopular. The purpose of this question was to find out the most

crucial factors that were leading to wooden homes being unpopular. Questions 15-20 were demographic questions.

### **6.1.3 Demographics**

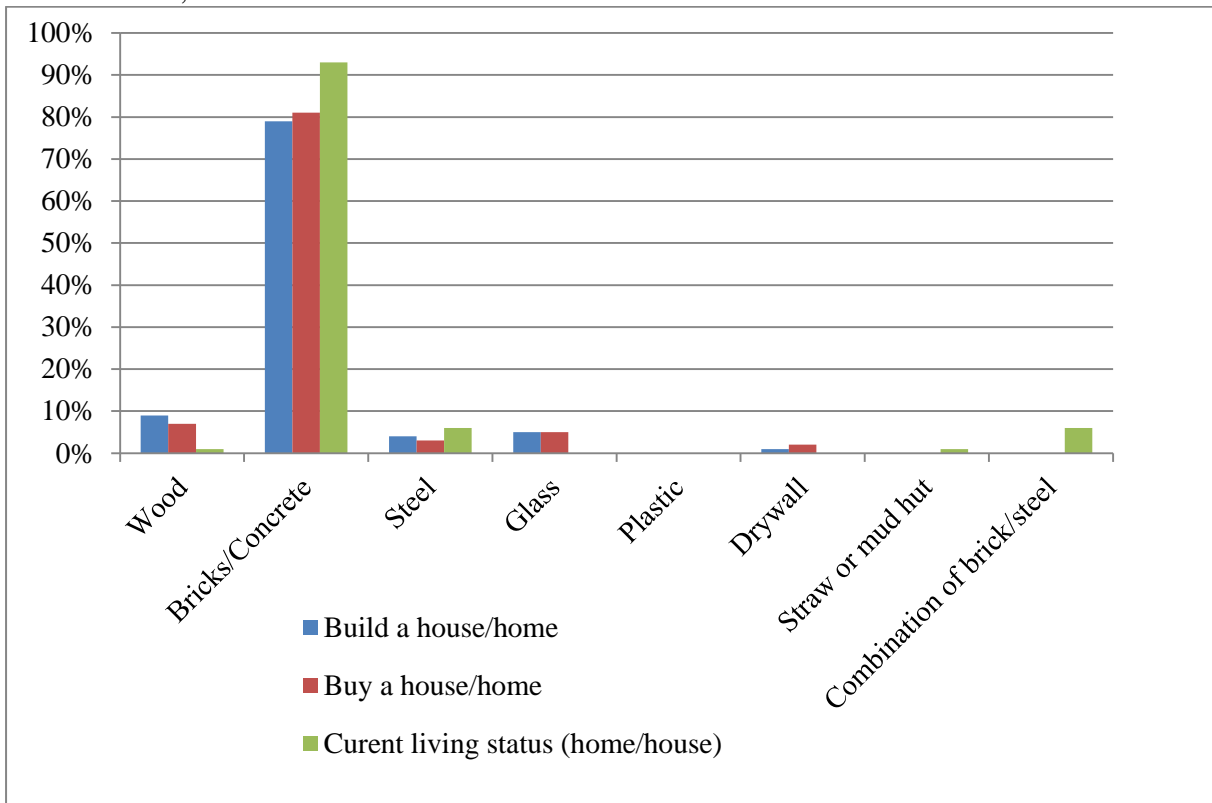
Of the sample 51% were between the ages of 18-30 years old, 34% were between the ages of 31-50, and 16% were between the ages of 51-65. There were no respondents over 65. Of the respondents 60% were female and 40% were male. Out of the respondents 77% lived in a household of 1-5 people and 20% people lived in a household of 6-10 people. When it comes to the value of homes the sample was currently living in, 61% lived in homes valued up to one million rand (66,022 Eur). The rest of the sample lived in homes ranging from over one million rand (66,022 Eur) to over three million rand (198,255 Eur). Of the sample 63% of respondents lived in their own house and 33% lived in a rented house. When it came to household income 50% of respondents had a monthly household income of 20,000 Rand (1,317 Eur), 15% had a monthly household income of 15,000-20,000 Rand (988 Eur), and 17% had a monthly household income of 9,000-15,000 Rand (583 Eur). The majority of respondents came from Western Cape (21%), Eastern Cape (34%), and Gauteng province (31%). This is just an overview of the demographics of the survey. See the appendix for a more detailed analyses of the survey demographics.

### **6.1.4 People's Perceptions about Wooden Housing in South Africa**

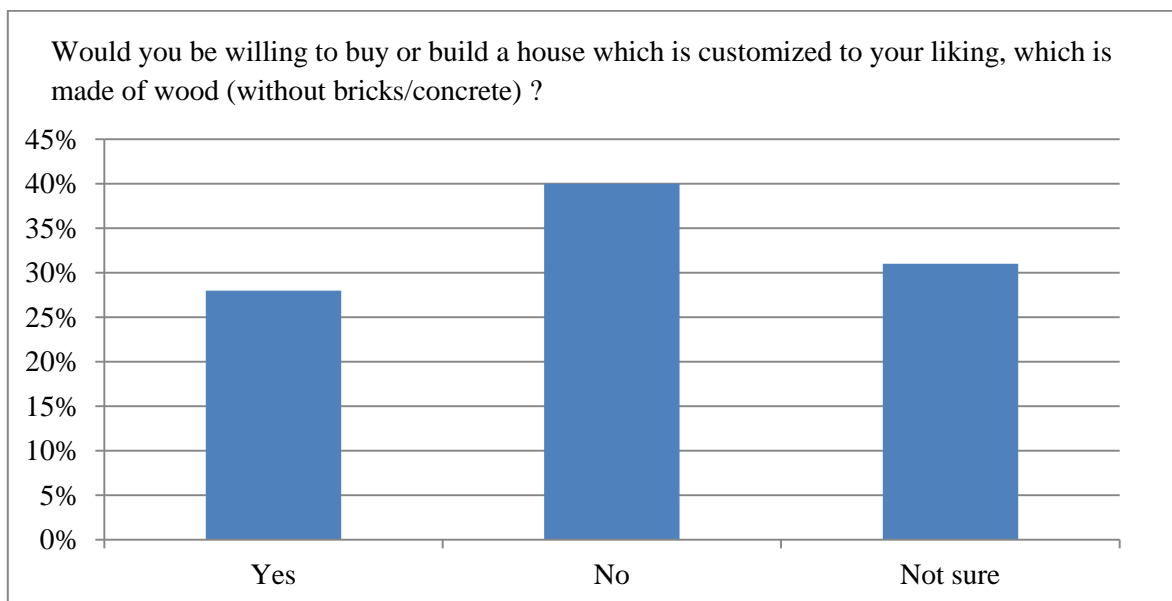
The question “which building material would you prefer for the walls when it comes to buying or building your house” was posed and to allow respondents to choose their preference from the given options. The majority (79%) of respondents indicated that they would buy a house made of brick/concrete walls. The majority (81%) of respondents also indicated that they would build their own house/home with concrete/brick material for walls (see figure 6.1.4.1 below). Furthermore, respondents were asked if they would be willing to buy a house which is customized to their liking, which is made of wood (without bricks/concrete), and 40% of respondents indicated that they would not buy it, while 31% said they were not sure (see figure 6.1.4.2 below). Regarding the status of living, 94% of respondents indicated that they were currently living in a house/home with walls made of brick/concrete, while 6% lived in a house/home with walls made of the combination of wood/bricks. These findings show that brick/concrete is the most preferred building material for walls, thus brick/concrete walls for housing is a norm in South Africa.

However, these findings also indicate that it is not that “bad” a market for alternative housing in South Africa – at some degree there is still a market for wooden houses and other alternative houses (steel, glass, etc), though it is very small, as revealed by the following results: very few (9%) respondents indicated that they would buy a wooden house, while 7% of respondents indicated that they would build their own houses with walls made of wood. It appears that some respondents perceive customisation as good value for money and personal appeal, because 40% of them indicated they would buy a house which is customized to their liking, which is made of wood (without bricks/concrete) (see figure 6.1.4.2 below). Steel, glass and plastic constitute the least percentage of respondents, meaning that the market for steel, glass and plastic (as building material for walls) for building houses/homes in South Africa is almost non-existent.

*Figure 6.4.1.1. Current Living Status and Willingness to Buy or Build a Wooden House, Concrete/Brick House or Other Houses*



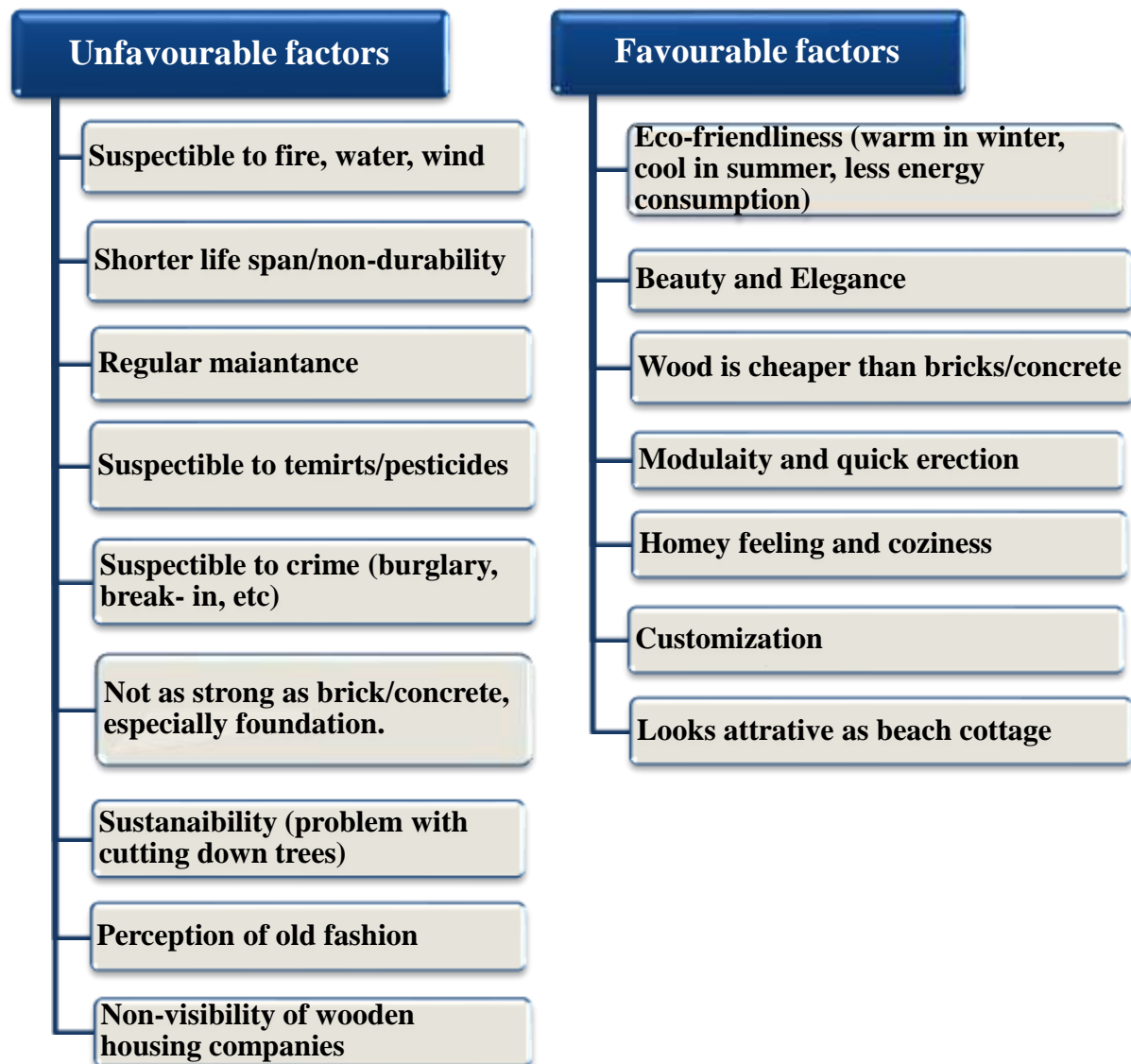
*Figure 6.1.4.2. Assessment of the Respondents' Attitude Towards a Customised Wooden House*



Evidently, while at some degree there is still a market for wooden houses and other alternative houses (steel, glass, etc), there is a clear preference for bricks/concrete amongst South Africans. This supports the findings from the secondary sources that wood as a building material for walls is not popular in South Africa. Therefore, this signals that the market for wooden houses is very small in terms of size (value, volume and growth), and that the market is still very underdeveloped.

One of the main objectives of the survey was to find out the reasons (attitudes and perceptions) from the respondents as to why they would buy a wooden house or not a wooden house. Respondents were given open-ended questions to allow them express themselves. Few respondents expressed various factors in favour of wooden houses. Some of the favourable factors/aspects include beauty/elegance of wood, eco-friendliness, and wood as being cheap/low-cost. There is a general perception among some respondents that wood is cheaper than bricks/concrete, thus a wooden a house should be cheaper than a traditional house. Many respondents expressed unfavourable factors. Some of the unfavourable factors include hazardous nature of wood (susceptible to fire, water, wind), shorter life span of wood, safety concern (crime in South Africa), and maintenance costs. Furthermore, from the given options, respondents were also asked select the factors which they think are not in favour of wooden houses, thus (i) 23% of respondents perceive wood as of low quality compared to bricks/concrete; (ii) 30% of respondent perceive wood material as susceptible to fire; (iii) 15% of respondents perceive that there are is enough companies offering or building wooden houses in their respective communities; and (vi) 31% of respondents perceive that brick/concrete homes are the norm so people want to follow the trend. Figure 6.1.4.3 below summaries the key factors for (favourable) and against (unfavourable) a wooden house as perceived by the respondents.

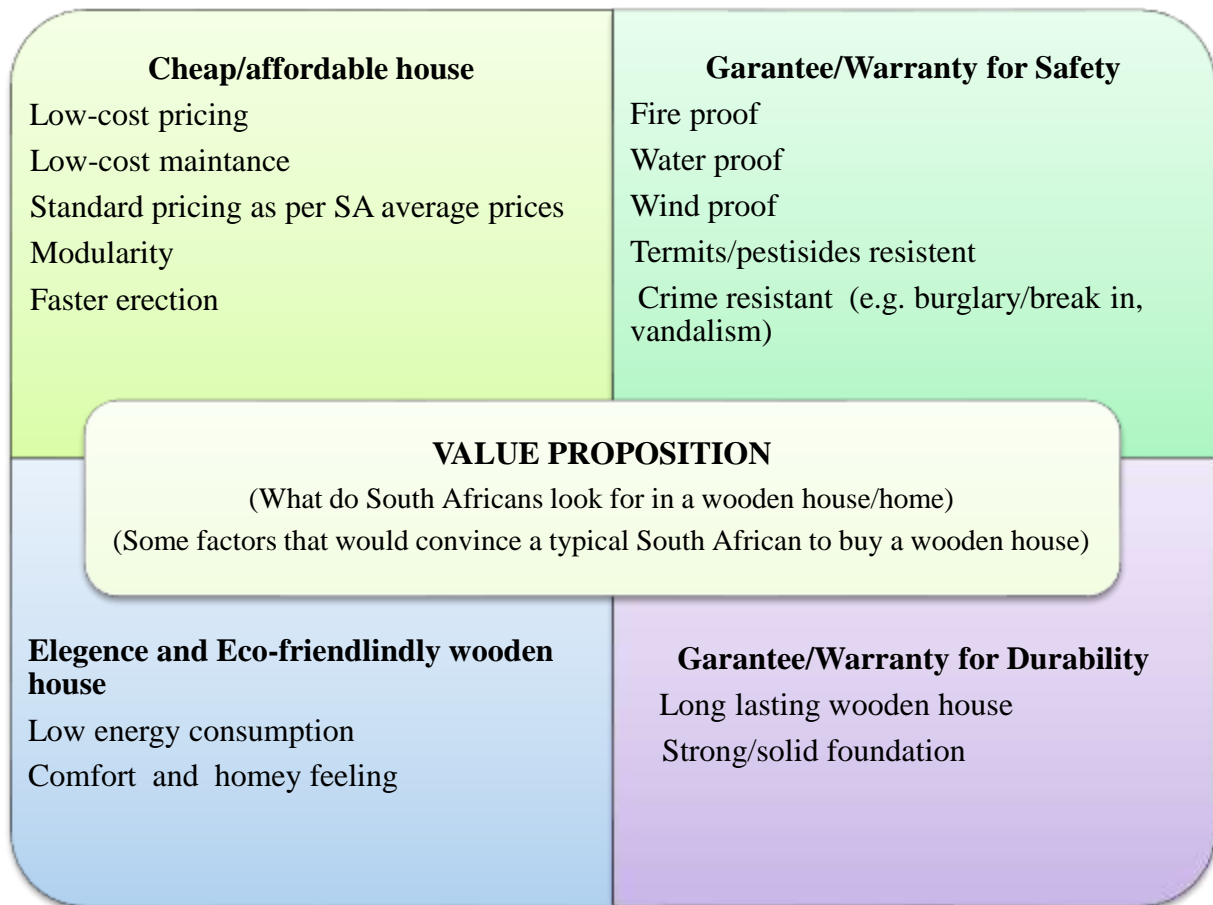
Figure 6.1.4.3. Key Factors for and Against a Wooden House as Perceived by a typical South African



Therefore, it would take several factors coming “into play” to convince a South African to buy a wooden house or any other house made from alternative material other than brick/concrete. Figure 1.4.1.4 below is an attempt to portray the value proposition for South Africans, i.e. what is it that South Africans are looking for in a wooden homes? - how to convince them to buy them? This is important for Slovenian housing companies as it would give them an outlook of empathy analysis of a typical South Africa who should be convinced to buy a wooden house.



Figure 6.1.4.4. Value Proposition for a Wooden House for a Typical South African



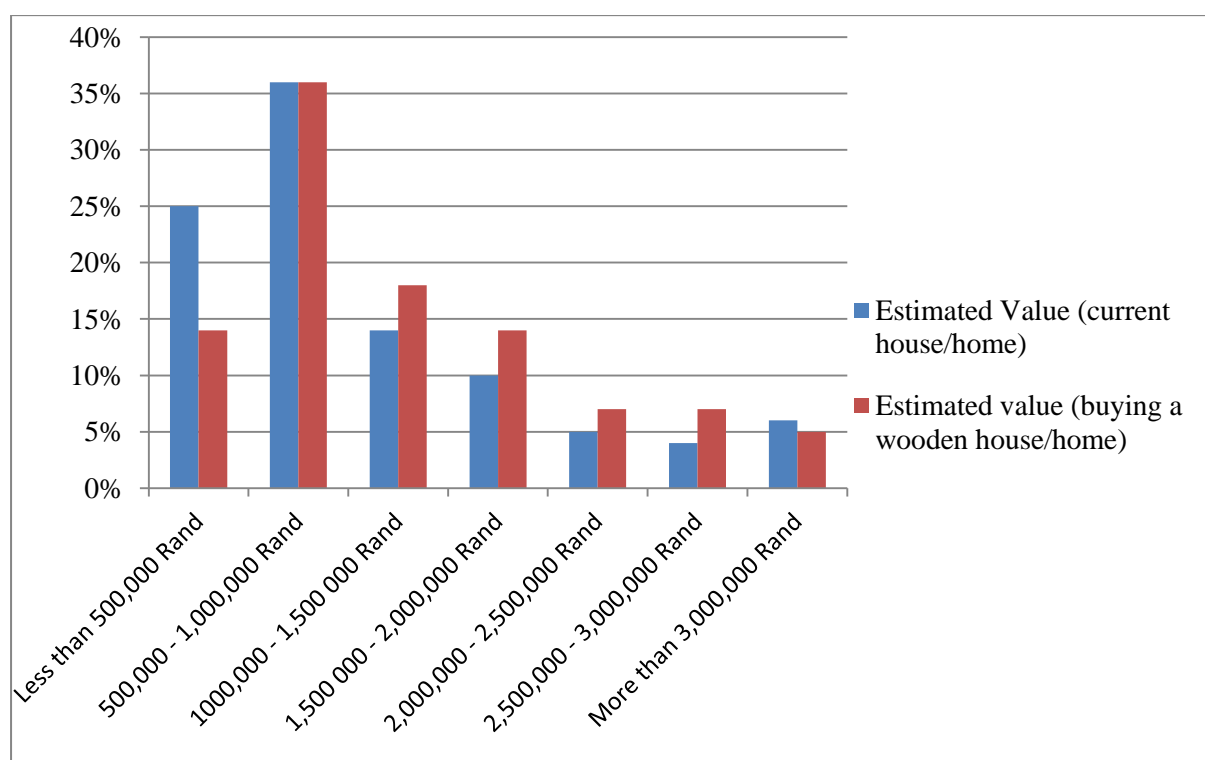
Respondents were asked if they know of wooden housing company in their communities. The majority (76%) of respondents indicated that they do not know of any company that sells wooden houses in their respective areas of residence. We believe that one of the reasons for the unknown presence of wooden housing companies could be lack of/limited marketing (branding, promotions) from the South African housing companies. This finding “signals a message” about the importance of marketing (branding, promotion, etc) to the Slovenian housing companies when entering the South African housing market.

Respondents were asked a question with regards to where (urban, rural, or either) they would like to build or buy their own houses. Most respondents (60%) indicated that they would prefer to build or buy homes/houses in the urban areas, while 22% of them said they like both rural and urban. Few respondents (22%) indicated that they would prefer to build their house/home in rural areas. Furthermore, respondents were also required to write their town, city, region where they would prefer to build or buy their houses – many of them wrote names of the cities such as Cape Town, Durban, Johannesburg, Durban, East London, Pretoria, Port Elizabeth. All these cities constitute major economic activities and job prospects where most South Africans from rural communities migrate to, “for greener pastures”. These findings show that urbanisation is a trend in South Africa; and they also concur with findings from secondary data that urbanisation is on the rise, such that by 2030 it is projected that over 60% of South Africa’s population will be living in urban areas. The housing market in South Africa is concentrated in big cities where there are economic

activities and job prospects. The above findings are important for Slovenian housing companies as they portray the “message” on where the opportunities for the housing market are currently concentrated and where they will be concentrated in the near future in South Africa. This would serve as the basis for informed decision making for Slovenian housing as to which cities/regions/provinces to target (niche player) rather than targeting the entire country.

Respondents were asked to select from the given price ranges, and the question was: “if you were to buy a house which value range would you be looking at” (see Figure 1.4.1.5 below). Most respondents (36% + 18% + 14% + 14%) were looking for a house/home within the price range of 500,000 Rand (33,233 Eur) and 2,000,000 Rand (132,934 Eur). This shows that most respondents were looking for low-cost and standard-price. This finding is ‘in line with’ the Propety.com’s research on prices of houses (standard houses/homes, excluding luxury houses/homes) in South Africa in 2013. Property24.com’s research revealed that average nominal value of small homes (measuring 80 to 140 square metres) was 742,600 Rand (49,258 Eur), medium-sized homes (141 to 220 square metres) was 1,064,900 Rand (70,779 Eur) and large homes (measuring 221 to 400 square metres) was 1,697,900 Rand (112,852 Eur) (Property24.com, 2013). Also, there is a ‘connection’ between the estimated value of the home/house in which respondents currently live and the estimated amount respondents would pay when it comes to buying a home/house. The respondents benchmarked their estimated value for buying a house to their current estimated value of the house/home in which they currently live in. Despite the fact that Slovenian housing companies mostly provide customised wooden houses, but this finding (estimated value of a house that South Africans are looking for) is important for Slovenian housing companies as it gives a ‘pictorial gauge’ on how much people in South Africa would be willing to pay for a house.

*Figure 6.1.4.5. Estimated Value Range that Respondents would be Looking for When Buying a House and Estimated Value Range for their Current Home/House*



### 6.1.5 Correlation Testing/Analysis

In this sub-section we attempt to test the relationships between variables, as to whether some variables might have influenced other variables in the way respondents answered the survey questions (i.e. if one variable has an association to another variable). We are more interested in wood (as building material) and wooden houses because most of the Slovenian housing companies included in this research use wood as their building material. Thus, we test if age, gender, location, and average household income of respondents may have influenced (or has an association with) these variables: (i) buying or building a house with walls made of wood; (ii) choice of location (rural vs urban, or either) for building or buying a house; (iii) value (price) range that respondents would look for when buying a house; (iv) respondents' awareness about the presence of wooden housing companies in the respective communities; (v) and respondents' willingness/unwillingness to buy a wooden house that is customised to their liking.

All the variables in the data were categorical (nominal) in nature. The chi-square test for independence, also called Pearson's chi-square test or the chi-square test of association, is used to discover if there is a relationship between two categorical variables. With IBM SPSS version 20, we used Pearson Chi-Square test from the Chi-square statistics to test relationship/association between age, gender, location, income and the above mentioned variables. The significance level (P-value) of 0.05 and level 1 degrees of freedom were used as the criteria for judging the relationship/association between variables. We assumed that if P-value is less than or equal to 0.05 then there is a(n) relationship/association between the two tested variables, meaning that one variable (age, gender, location, income) might have influenced the other variable. The results (output) from the Pearson Chi-Square test are shown in the contingency tables in the Appendix.

#### 6.1.5.1 Gender vs all other variables

Appendix F, table F1 shows the association test for *gender*. The results from the Person Square test show that there is no statistically significance (no relationship/correlation) between gender of respondents and preferred choice for walls (wood, brick/concrete, steel, glass) for buying or building a house. This means the gender of respondents did not have an influence on how respondents answered the question on preference for walls (wood, brick/concrete) for building or buying their house/homes. There is no statistically significance between respondents' gender and respondents' willingness to buy a customised wooden house to their liking. Also, there is no statistically significance between gender and respondents' preferred location (urban, rural or either) for building or buying a house/home.

The Pearson Square test, at P-value of 0.028, shows that there is a statistical significance between gender of respondents and respondents' awareness on the presence of wooden housing companies in the respective communities. This significant association shows that there is high probability that a male respondent from a random sample in a given community would likely be aware of the presence of a wooden housing company in his community – because the contingency table shows more males than females who said “yes” they know of the presence of a wooden housing company in the respective communities. Furthermore, the housing/building/construction industry in South Africa is still dominated by men, hence it is likely that men would know of a housing company in their communities.

#### **6.1.5.2 Age vs all other variables**

Appendix F, tables F2 and F3 shows the association test for *age*. The age of respondents did not have an influence (association) on their selection or non selection of wood (building material) for buying or building a house/home, because the Pearson Chi-square test shows no statistically significant association between the two variables. That is, all ages equally prefer or not prefer wood (as building material) for buying or building a house. However, when it comes to customisation of wooden houses to respondents' liking, the age of respondents statistically differ (at P-value 0.012) from selection of customisation of a wooden house. This means there is an association between gender and customization; middle-aged respondents (30 – 50 years) and older respondents (31 – 65) appear to be more preferring customized wooden houses than younger respondents (30 years and less). The age of respondents had an association with their awareness on the presence or non presence of wooden housing companies in their respective residential areas – the two variables statistically differ with P-value of 0.029. The younger respondents seem to be more aware than middle-aged and older-aged respondents of the presence of wooden housing companies in their respective communities. The age of respondents did not have an association with the respondents' estimated value range for buying a house.

#### **6.1.5.3 Location vs all other variables**

Appendix F, table F4 shows the association test for *Location (Province)*. There is no statistically significant relationship between respondents' location (province) and their selection on buying or building a house made of wood or other materials, meaning than location (province) of respondents had no association with their choice on buying or building a house made of wood or other materials. The respondents' location did not influence their choice on where (rural, urban or either) they would want to build their house/home. The respondents' choice on customization of wooden house to their liking has no association with the respondents' location, because the two variables (location and customization) did not statistically correlate. The respondents' location did not influence their choice on the awareness/non-awareness of the presence of wooden housing companies in their respective communities. The location (province) of respondents had a statistically significant association with the respondents' estimated value range for buying a house (with a P-value of 0.045). This finding is important for Slovenian housing; for example the contingency table shows that some respondents from Western Cape province appear to be also looking for value range of 2,000,000 Rand (132,934 Eur) and more than respondents from other provinces. Furthermore, the Western Cape province is ranked 2<sup>nd</sup> in terms of GDP per capita, and employment prospects in South Africa) (SSA, 2012). In a nutshell, South African provinces vastly differ in terms of GDP per capita and employment opportunities.

#### **6.1.5.4 Average household income vs all other variables**

Appendix 9, table 9.5 shows the association test for *Average household income*. There was no statistically significant association between respondents' household income and their selection on buying or building a house made of wood or other materials, thus their household income did not have an influence on their selection of buying or building a

wooden house. The respondents' household average income showed no association to the respondents' willingness to buy a customised wooden house to their liking. The respondents' household average income did not have an influence on their preference on where rural, urban or either) they would want to build their house/home. The Pearson Chi-square test shows a strong statistical significance (P-value at 0.000) between average household income and the value (price) range that respondents would be looking for when buying a house. This statistical finding confirms the economic principle-relationship between income and consumer spending (high income is likely to induce more spending, and vice versa). It also confirms the income (low-income earners, middle-income earners and high income earners) situation in South Africa; that Slovenian housing companies should be aware of when entering the South African housing market.

## **6.2 Interview with Slovenian housing companies**

We conducted a number of semi structured interviews with Slovenian alternative wooden housing companies. These interviews took place between the 9th January 2014 and the 3rd February 2014. We used the website 1ka.si to create and administer the questions. We are aware of 28 Slovenian companies that provide wooden housing. They vary from multinational companies to 4-5 man companies. We managed to get 13 of these companies to complete our questionnaire. We came up with the list of companies by searching on the internet for Slovenian alternative wooden housing companies. There were a number of objectives for these interviews. The first was to find what markets (countries) Slovenian wooden housing companies are interested in expanding to and if South Africa is lucrative at all. The second was to find out what conditions make a foreign market appealing and what entry modes are preferred. The third objective was to find out what kinds of housing the Slovenian wooden housing companies are interested in building in foreign markets. The last objective was to find out what these companies feel are their primary capabilities. All the questions and results can be found in the appendix.

### **6.2.1 Overview of Companies**

For ethical purposes, the names of the companies interviewed cannot be mentioned. This section is just a brief overview of the companies interviewed. For a more in depth analysis see "6.2.3- Findings". The companies interviewed have revenues for their last financial year ranging from less than one million Euros to more than ten million Euros. Almost all of the companies are present in more than one market and for the most part almost all of the companies offer customized wooden housing solutions.

### **6.2.2 Questionnaire**

All the questions asked in the interview can be found in the appendix, but it is important to outline the importance of asking particular questions and what we hoped to find. Twelve companies just completed the questionnaire, and one company did the questionnaire and did an in person interview. The questionnaires will be interpreted as an interview, because it is not possible to gather a census of the entire population or a large sample as there are only roughly 28 companies. There were 23 questions asked in the interview/questionnaire.

The first question in the interview asked respondents if they are currently present in Africa. The purpose of this question was to find out if any of the Slovenian wooden housing companies are already in Africa. The second question asked the respondents what regions of Africa they are currently present in. The purpose of this question was to find out where the companies are in Africa and if there are any companies in Southern Africa already. These questions allow us to find out if any companies have experience in African markets.

Question 3 asks the respondents if they are interested in expanding into additional foreign markets. We asked this question because we wanted to find out how many of the companies are currently looking to expand. Question 4 asked if the companies would be looking to expand into Africa. We wanted to know how many of the companies would be considering Africa and how many would not. Question 5 was about what regions would the Slovenian companies be interested in expanding to. The purpose of this question is to find out where in Africa Slovenian companies would be interested in and how many are interested in Southern Africa. Question 6 is about why companies are interested in particular regions. We wanted to know what are the main factors that are attracting Slovenian companies to particular regions. Question 7 asked specifically if companies would be interested in expanding to South Africa. This information will help us in our recommendation for Slovenian companies regarding the South African market. Question 8 and 9 asked for the reasons behind the respondents answers regarding if they are interested in South Africa and what aspects of the South African market are attractive. With this information we hoped to collect further information on the push and pull factors regarding the South African market.

Question 10 asks about entry modes for new markets. We wanted to find out what factors lead to particular entry modes. Q12 also asked about which particular entry modes have been used. This will help us in our recommendation for Slovenian companies when it comes to the South African market.

Question 11 asks about what kind of housing Slovenian companies would be interested in building in South Africa. This is important because we will know what the companies would like to focus on and thus we can give a better recommendation in our thesis. Question 13 asked the respondents about the major costs they have when expanding to foreign markets. This is important for us when it comes to understanding the cost structure and major barriers of entering foreign markets.

Question 14 asks about the importance of particular factors when looking to expand to foreign markets. This goes along well with the major cost analysis in helping us understand major push and pull factors. Question 15 asks about how many markets the company is in currently. This information will help us understand the experience that Slovenian companies have expanding to foreign markets. Question 16 and 17 are aimed at getting information on what regions and markets Slovenian companies are present in order to understand where the companies are and what markets have proved appealing and in order to find patterns in expansion plans. Question 18 is about preference for B2B, B2C, or B2G. Question 19 is about revenue and the rest of the questions are on demographics.

### 6.2.3 Findings

This section will first deal with the Slovenian alternative wooden housing companies answers regarding expanding to Africa and South Africa in particular. Then it will deal with the findings regarding the company's interest in foreign markets, and then it will look at the findings regarding the companies answers towards preferred entry modes. The findings regarding company capabilities will be presented at the end. All of the results of the questionnaire/interview can be found in the appendix.

To begin with, none of the companies are present in Africa at all, however when it comes to expanding to Africa there is interest. Six of the companies are interested in expanding to Africa and four are unsure about it. Only one company is not interested at all in expanding to Africa. When it comes to which particular region the Slovenian alternative wooden housing companies are interested in expanding to, there is no overwhelming region that was favoured. The highest response was that companies were unsure about which region they would like to expand to. Southern Africa received the most interest but only by a little. For the most part interest in expanding to Africa was spread out amongst all the regions as can be seen from the table below. One company had done work in Africa in the past. They were doing social housing work in Morocco.

Table 6.1. African Regions of Interest for Slovenian Wooden Housing Companies

Which regions in Africa would your company be interested in entering? Select all that apply		
<i>Region</i>	<i>Frequency</i>	<i>Percent</i>
Northern Africa	3	16
Eastern Africa	2	11
Western Africa	3	16
Central Africa	2	11
Southern Africa	4	21
Unsure	5	26
<i>Average</i>	<i>3.2</i>	<i>16.8</i>

When it comes to expanding to the country of South Africa itself no companies said they were not interested in it. Five companies said they were interested in expanding to South Africa and three were unsure. The reasons that Slovenian companies showed interest or were interested in expanding to South Africa were to do with South Africa being an emerging market with potential. Answers like South Africa being a "perspective market", South Africa having "one of the highest purchasing powers in Africa", South Africa having "sufficient level of development", and South Africa being a "huge market" were given. The reasons Slovenian companies were unsure about expanding to South Africa is because of their "lack of research" done on South Africa, and they are "unsure they can make a profit". These answers had more to do with the South African market being unknown to the companies. The Slovenian companies were interested in all different kinds of housing (low-end and high-end housing) in South Africa. The table below from the questionnaire answers indicates this. As can be seen in table, the answers were spread out regarding what type of housing the Slovenian companies would be interested in building in South Africa. Both low-end and high-end opportunities were seen as lucrative for Slovenian companies. Tourist housing was

the most popular type of housing Slovenian alternative wooden housing companies are interested in building. One Slovenian company had done social housing work in Morocco, Brazil, Haiti and the Dominican Republic.

Table 6.2. Interest Regarding Types of Housing to Build in South Africa

What type of housing would your company be interested in building in South Africa? Select all that apply		
<i>Type of Housing</i>	<i>Frequency</i>	<i>Percent</i>
Gated Communities	6	15
Social Housing	7	18
Retirement Villages	5	13
Replacing Mud Schools	5	13
<b>Tourist Housing</b>	<b>10</b>	<b>25</b>
Student Accommodation	7	18
<i>Average</i>	<i>6.6</i>	<i>17</i>

When it comes to expanding to foreign markets 12 out of the 13 companies said they were interested in expanding to foreign markets. The companies said that the main factors leading them to expand to foreign markets were the "bad situation in Slovenia", "Europe being in a recession", they have "products that compete on foreign markets", they have "sales skills", they are looking for "bigger markets", and they get specific "requests and demand". It seems that the recession in Slovenia, confidence in their product, and specific requests are the main reasons that Slovenian alternative housing companies are expanding to foreign markets.

When expanding to foreign markets in the past Slovenian wooden alternative housing companies have had experience with costs. There were no outright costs that had a majority of answers. Labor costs, facility costs, market research costs, negotiation costs, institutional costs, employee expatriation costs, learning curve costs, transportation costs, supply chain costs, financing costs, production costs, and marketing costs all had the same relevance overall. For different companies there are different major costs when expanding to foreign markets.

The most important factors for Slovenian alternative wooden housing companies when looking to expand to foreign markets are market potential, political stability, and access to financing. Having a culture similar to Slovenia and there being other Slovenian companies on the market were the least important. The average overall scores are in the table below the from the questionnaire.



Table 6.3. Factors Importance when Looking to Expand to Foreign Markets

On a scale of 1-5, rate the importance of these factors for your company when looking to expand to a foreign market? 1 = Low Importance, 3 = Moderate Importance, 5 = High Importance		
<i>Factor</i>	<i>Average Score</i>	<i>Standard Deviation</i>
Proximity to Slovenia	3.3	1.1
Moving to Regional Powers in Economic Terms (Example - Turkey, Russia, Brazil, South Africa)	2.9	0.9
Business Connections	3.8	0.6
Political Stability	4.1	0.7
Culture Similar to Slovenia	2.5	1.1
Market Potential	4.5	0.5
Access to Financing	4.0	1.1
Available Selection of Potential Partners	3.9	0.9
There are other Slovenian Companies on the Market	2.2	1.0
<i>Average</i>	<i>3.5</i>	

Slovenian companies are present on varying level of markets. One company is present on ten markets and that is the most. The company present on the least amount of markets is present on just two markets. The rest of the companies were present on a number of markets in between 2-10. On Average Slovenian alternative housing companies are present on 5.5 markets. Slovenian wooden housing companies are highly based in Western and Central European markets. Eastern Europe (including western Russia) also had a lot of answers. On the whole the companies are heavily based throughout Europe. The presence of Slovenian wooden housing companies though can also be found in South America, North America, Central America, the Middle East (including east), Central Asia, Eastern Asia and Northern Asia (Central and Eastern Russia). The most important markets to the Slovenian wooden housing companies are Slovenia, Italy, and Austria, however one company mentioned as far away as Japan.

The most common entry mode by Slovenian wooden housing companies in the past was direct export. This was followed by a sales agent, strategic alliance, and joint ventures. Conditions that affect entry modes for Slovenian companies are "knowledge of sales of local firms", "ability to make a profit", "demand" and "entry costs". The Slovenian companies were most interested in B2C (9 companies), this was followed by B2B (6 companies interested), and four companies were interested in B2G (business to government). The Slovenian company that had done work in Morocco used the direct export method in which they made all the pieces for the homes in Slovenia and then shipped them overseas to Morocco where their Moroccan partner company constructed the homes.

One of the key interviews we had was with the Slovenian company that entered Morocco. The company had done social housing in Brazil, Haiti and the Dominican Republic. The company used the direct export mode in all of these countries while working with a local

partner in all of these cases. They pointed out some key factors in doing business in these markets and in this type of work. The importance of finding a reliable and reputable partner company in the country they are working in is key. These partners often took form of small-medium businesses, and family owned businesses. The clients/customers often took the forms of NGO's, churches, and governments. The Slovenian company makes the pieces (wooden modules) and ships them overseas where their partner constructs the housing units. Complying with local building and safety standards is also an issue since they vary from country to country. Also dealing with politics, policies, and late payments are all part of the key issues the Slovenian company faced when entering these markets. The Slovenian company was successful though in many of these markets. They managed to build 22,000 housing units in 2010 in Haiti, and 500,000 housing units in Brazil. Regarding Africa there was another interesting case in which they were in contact with a company from Ghana in which that company turned out to be a fake company trying to steal money. This is why background research on the partner company is key.

#### **6.2.4 Limitations**

There are only a few limitations to our interviews. The first one is that for almost all of the companies the interview was administered in the form of a questionnaire. The second limitation is that not all the companies completed the questionnaire. We only got 13 out of 28 companies to complete the interview. This does not give us the ability to generalize over the entire population when it comes to Slovenian alternative wooden housing companies.

#### **6.2.5 Implications**

There are no Slovenian alternative wooden housing companies in South Africa. This has a number of implications. Slovenian companies have almost no experience on African markets besides the Moroccan experience. This involves entry modes and the general business experience. This implies that it will be a "new", difficult, and risky expansion into Africa if it were to happen compared to markets that Slovenian companies are used to due to similarity to Slovenia. Also since Slovenian wooden housing companies are mostly present throughout Europe it seems that expanding to neighbouring European markets is the current objective and that Africa is not seen as realistic at the moment or of primary concern.

Six of the companies stated they would be interested in expanding to Africa which means they have not completely ruled out Africa, there is more than likely other markets that are more of a concern. Based on these answers it seems that if favourable circumstances and conditions were present in an African market, Slovenian companies would consider. Four companies said they were not interested which indicates that one third are not interested, but this is the minority. The most common answer when it came to what part of Africa the companies were interested in was that they were unsure, but beside that interest was spread throughout the continent. This implies that there is not one region that is the most attractive or "eye catching". Different companies see different enticing factors in different regions.

When it comes to South Africa itself five companies expressed interest in expanding to the country and no companies said they were not interested. The rest were unsure. This implies that Slovenian wooden housing companies are interested in South Africa. When one looks at the reasons companies stated they were interested in the South African market or what

appealed almost all reasons had to do with South Africa being an emerging world market with lots of potential. If South Africa can continue its emergence and increase its GDP per capita and purchasing power there is a good chance interest will increase from Slovenian companies. Slovenian wooden housing companies are present in Japan and South America so why not South Africa?

Slovenian alternative housing companies would be interested in building both high-end and low-end housing in South Africa. All forms of housing, both high-end housing (gated communities, retirement villages, tourist housing) and low-end housing (replacing mud schools, student accommodation, social housing) were interesting to Slovenian companies. This can be seen from Table 6.1 in the findings. Interest in building high-end opportunities was expressed 21 times and interest in building in low-end opportunities was expressed 19 times. Interest for both categories was almost the same. Tourist housing represented the most popular form of interest with interest expressed 10 times, followed by social housing and student accommodation. This information has a number of implications. First of all despite Slovenian wooden housing companies being entirely in the high-end market in their present operations, interest exists almost equally between high-end and low-end opportunities in South Africa. This implies that low-end opportunities should be looked at just as seriously during our recommendations. It also implies that Slovenian companies are open to a wide variety of opportunities in South Africa and are not just limiting themselves to high-end opportunities. It also implies that tourist housing should be taken into special consideration in our recommendations. Perhaps Slovenian companies feel they can cater to European accommodation needs while they are travelling in South Africa.

On average Slovenian alternative housing companies are present on 5.5 markets. This implies that Slovenian companies are interested in foreign markets and not just domestic markets. Neighbouring markets like Italy and Austria seem to be the most important foreign markets for Slovenian companies after the domestic market. Slovenian companies feel more comfortable entering similar markets. The small distances between the markets and the similar business culture offer an easier form of doing business. This is surely why Slovenian wooden housing companies are almost completely located and focused on Europe. Slovenian companies specialize in offering the complete customized solution and the Slovenian companies are much cheaper compared to Western European companies. This is partly due to lower wages in Slovenia compared to Western Europe. Slovenian companies are small and mostly work in niche markets providing tailored made solutions where they are present. One of the main reasons Slovenian companies have not expanded vastly is Slovenian companies are not good at cutting down costs and having large economies of scale. This hinders Slovenian companies from competing on price with multinationals. The main reasons Slovenian companies choose to enter foreign markets have to do with the poor economic conditions in Slovenia, looking at bigger markets, where specific requests come from, and where they feel potential for their products comes from.

Based on Table 6.3 in the findings market potential is the most important factor for Slovenian wooden housing companies when expanding to foreign markets with a score of 4.6. This implies that making a profit is obviously the main driver to enter new markets. It also implies that since Slovenian companies are mostly on European markets that for them European markets have the most market potential. Countries with political stability (score 4.1) are also key for Slovenian wooden housing companies looking to expand. European countries offer more political stability in comparison to African markets for example. This perhaps explains why Slovenian companies have chosen European countries as their main expansions. Access

to financing (score 4.1) is also an important factor for Slovenian companies and so is having a selection of potential partners (score 4.0). Based on European focused expansions it again seems that getting financing and finding the right partner is easier for Slovenian companies in European markets.

The factors that were least important were other Slovenian companies being present in the market already (score 2.3), countries having a similar culture to Slovenia (score 2.5), and moving to regional powers (BRICS) (score 2.9). This leads to some interesting implications. One is that Slovenian wooden housing companies do not need to see a fellow domestic company be successful on a market before they decide to enter. This is good in the case of expanding to South Africa because there are no Slovenian companies there already. Also, Slovenian companies do not place much importance on countries having a similar culture to their own when expanding to foreign markets. Slovenian companies are thus willing to work with companies operating in a different business culture and work with people from other cultures. This would be the case when entering South Africa, and therefore cultural barriers do not seem like they would be too off putting for Slovenian companies looking at entering the South African market. Slovenian wooden housing companies do not place too much importance on moving to emerging markets. This is perhaps why the interest in South Africa to date has been low from Slovenian companies and may be why South Africa is not considered in the near future.

Proximity to Slovenia (score 3.3) did not rank that high, so although Slovenian wooden housing companies have stated the importance of neighboring markets the proximity is not as big of a factor as it first looks. Business connections (score 3.8) has a relatively high score when it comes to the importance of expanding to foreign markets. This ties in with the importance of getting financing and finding the right partner in a foreign market. If Slovenian companies have connections with foreign companies it is easier to attain financing and a partnership.

As mentioned numerous times, Slovenian wooden housing companies are very much based in Europe. Western Europe and Central Europe are the regions in the world with the most representation followed by Eastern Europe (including Russia). After that there is a very small representation in almost every region of the world except for the African regions, South-East Asia, and Southern Asia. Slovenian companies are present in North, South, and Central America, the Middle East (including Turkey), Northern Asia (including Eastern Russia), Central Asia, and Eastern Asia. This has a number of implications. Obviously Europe has presented the most favourable expansion conditions to Slovenian companies and based on where Slovenian companies have expanded to it seems further expansion into Europe will continue. On the other hand this information shows that Slovenian wooden housing companies can be found in markets all over the world and that they are willing to expand globally if the right opportunity arises. This is good for the possibility of Slovenian companies moving to the South African market. As long as conditions are favourable it seems Slovenian companies would be willing to take the challenge. The small numbers of Slovenian companies outside Europe though implies that Slovenian companies' expansion capabilities are limited and their self belief in being able to compete in markets outside Europe is low. It also further implies that Slovenian wooden housing companies seem

focused on European markets. The table below shows where Slovenian wooden housing companies are present around the world.

Table 6.4. Regions Slovenian Wooden Housing Companies are Present in

What regions is your company present in? Select all that apply	
<i>Region</i>	<i>How Many Slovenian Companies Present</i>
Western Europe	9
Central Europe	9
Eastern Europe (Including Western Russia)	6
South America	1
North America	1
Central America	1
Middle East (Including Turkey)	2
Central Asia	1
Southern Asia	0
Eastern Asia	1
South-East Asia	0
Northern Asia (Central and Eastern Russia)	1
Central Asia	1
Southern Asia	0

When it comes to the major costs that Slovenian companies incur when expanding to foreign markets all of the costs were relatively equal in significance. There was no stand out cost that was very high or very low. The highest cost on average happened to be transportation costs and learning curve costs. The lowest costs happened to be institutional costs and financing costs. All the costs were relatively of the same significance though. These were labour costs, facility costs, market research, negotiation costs, institutional costs, employee expatriation costs, learning curve costs, transportation costs, supply chain costs, financing costs, production costs, and marketing costs. This implies that all the costs are significant and that different companies have different major costs when they are expanding to foreign markets.

The next set of implications has to do with entry modes. When you look at the Table 6.5 it is possible to see that direct export and using a sales agent are the two most popular entry modes for Slovenian wooden housing companies. Strategic alliances and joint ventures are also popular. This information relates to information we received from the Slovenian wooden housing company that entered Morocco. They mentioned how when expanding to foreign markets they used the direct export mode and used a partner in a joint venture or strategic alliance to help them enter the market because they know the market and could build the homes after the parts had been exported from Slovenia.

Table 6.5. Most Popular Entry Modes Used in the Past when Expanding to Foreign Markets

Entry modes your company has used when expanding to foreign markets? Select all that apply	
<i>Entry Mode</i>	<i>Companies that have used certain entry mode</i>
Joint-Venture	4
Direct Export	8
Indirect Export	3
Licensing	1
Franchising	3
Turnkey Projects	2
Subsidiary	1
Acquisition	1
Merger	1
Sales Agent	7
Strategic Alliance	5
Other:	0

It seems that the other Slovenian wooden alternative housing companies are following a similar method when expanding to foreign markets. Based on the table above exporting directly from Slovenian to a partner company in a foreign country which then constructs the structure is one of the most used entry modes. The other entry mode that seems popular for Slovenian wooden housing companies is using a sales agent, in which the sales agent promotes and tries to sell the products of Slovenian companies and then once a sale is made the Slovenian company will build the home for the customer. Both of these entry modes have something in common. They both do not require the Slovenian wooden housing companies to have a permanent physical presence in the foreign markets they want to enter. In the case of the direct export method the Slovenian company is taking, preparing, and shipping orders to their foreign partner to construct. In the case of the sales agent after a sale is made the Slovenian company can go there and build the home and then leave. This greatly reduces the costs for the Slovenian wooden housing companies since they do not need to pay costs associated with setting up permanently in foreign market. These entry modes also allow Slovenian wooden housing companies to be flexible in terms of working on project to project in different markets. Slovenian companies can do a project in one country if there is demand and they do not need to stay there in case there is no more demand. The importance of the strategic alliance or joint venture should not be underestimated. It is important for Slovenian companies to get a reliable partner to work with in the foreign markets. This involves lots of research being done on the reliability of the foreign company. One Slovenian company found out that the partner company they wanted to work with in Ghana was not a real company and they wanted to scam the Slovenian company for their money. Slovenian alternative wooden housing companies are interested in B2C, B2B, and B2G. Table 6.6 below indicates this. This implies that Slovenian companies are interested in all forms of business.

Table 6.6. What Kind of Business Companies are Interested in

Is your company primarily interested in? Select all that apply	
B2B	7
B2C	9
B2G	4

Business to consumer is the most popular with nine companies showing interest. The business to consumer interest probably comes from the fact that most of the Slovenian wooden housing companies are interested in providing customized housing solutions, because this is what they are best at and what they started with on the domestic market. This also relates to why the sales agent method was so popular when entering foreign markets. The business to business method is also popular with seven companies. This probably explains the direct export method which is so popular for Slovenian wooden housing companies in foreign markets. Slovenian companies are finding partners overseas who place orders with the Slovenian companies who then go on to export the product overseas to their partners who assemble the homes. The business to consumer interest is mostly dealing with consumer who want a high-end product (customized home). The business to business interest has to do with both low-end and high-end opportunities. The Slovenian companies could be dealing with a foreign partner who wants to erect some high-end wooden homes in the foreign market or they could be dealing with a church or NGO that wants to erect some social housing units. The interest in business to government is not as much as the other two options, but business to government in the housing context most likely will be associated with social housing or student housing of some sort which further goes to show that Slovenian alternative housing companies are interested in not just high-end opportunities, but also low-end opportunities.

The major findings from the interview/questionnaire we did for the Slovenian alternative wooden housing companies are as follows. There are no Slovenian wooden housing companies in Africa and in the past there has only been one temporary case, however there is lots of interest in the continent. South Africa itself also has lots of interest from Slovenian companies. Slovenian companies would be interested in building low-end opportunities and high-end opportunities in South Africa to almost the same degree. Slovenian companies are most comfortable and eager to expand around Europe and are very much cantered there, but they are willing to expand around the world if the opportunities are right for them. Slovenian companies are primarily expanding around Europe because of the market potential in Europe, political stability in Europe, access to financing, small distance between markets, availability of selection of partners, familiarity of the business world, and connections they have made around Europe. The major barriers to entering South Africa are distance, the different business culture and competition they face from local companies, the GDP per capita of the South African population, and the preference for bricks/concrete in building homes in South Africa. Direct export, sales agent, strategic alliance, and joint venture are the main entry modes Slovenian wooden housing companies prefer and have used in the past. B2B and B2C are the most preferred business practices for the Slovenian wooden housing companies, but there is also interest in B2G, just not as much.

## **6.3 Interview with South African BEE housing companies**

We conducted interviews in the form of survey-questionnaire with South African Black Economic Empowerment (BEE) housing companies. We used the website 1ka.si to create and administer the questions in the form of a survey-questionnaire. We sent the questions to about 300 BEE housing companies through e-mails, so that BEE housing companies could answer the questions over the Internet. We also used the contacts from a network of BEE companies, called BEE Facilitators to send the questions to BEE housing companies. The BEE housing companies were mostly small-medium sized.

The survey-questionnaire to the BEE housing companies had 16 questions, and it took roughly about five minutes to fill out the survey-questionnaire. It sought to address four objectives, namely: (i) the extent to which the BEE housing companies are involved in alternative housing and if wood is one of their major building material; (ii) to gauge their engineering, innovation, branding, international experience and quality capabilities; (iii) the extent to which BEE housing companies are involved in high-end and low-end housing; and (iv) to gauge BEE housing companies' experience in partnership with foreign housing companies. The major limitation with BEE housing is response rate. The response rate was much lower than we expected. Out of about more than 100 BEE housing companies, only nine companies filled out the survey-questionnaire. Due to this limitation, we have to interpret this analysis as in the form of an interview. For ethical purposes, the names of the BEE housing companies cannot be mentioned. All the questions and results can be found in the appendix.

### **6.3.1 Findings**

Questions 1, 2, 3 and 4 sought to find out the extent to which BEE housing companies are involved in alternative housing and the extent of using wood as the building material. Out of nine BEE housing companies, six of them indicated that they are currently offering alternative housing (non-brick and non-concrete) solutions. When it comes to the interest in building alternative housing in the future, two BEE housing companies said they would be interested, while one company said they are not sure. Out of nine BEE housing companies, five of them indicated that they are currently using wood as their building material, and three companies indicated that they would be interested in using wood including bricks/concrete, steel, glass and plastic as their building material in the future. This shows that these companies are flexible, willing to adapt and diversify themselves to market changes/dynamics. This also shows that the wooden housing market and other alternative housing market does exist in South Africa, though it may be very small.

Question 5 sought to gauge BEE housing companies' architectural engineering services, innovation services, quality (certifications: example, SABS - South African Bureau of Standards), offering of a complete customized solution, branding, and international experience. The companies were asked to rank themselves on a scale "1 = poor", "2 = below average", "3 = average", "4 = above average/good", "5 = excellent". The architectural engineering services of BEE housing companies can be regarded as above average because four BEE housing companies ranked themselves as "average", while four other BEE companies ranked themselves as "above average" and one company ranked itself as "excellent". This combined makes an average ranking of 3.7 (above average) for all nine BEE housing companies. Also, the innovation services (with an average ranking of 3.9),



quality services (with average ranking of 4.2), offering a customised solution (with an average ranking of 3.6), knowledge of the South African housing market (with an average ranking of 3.6) and branding (with an average ranking of 3.8) can be regarded as above average. When it comes to international experience and working with international partners, the BEE housing companies ranked themselves below average (with an average ranking of 2.5), meaning that they somehow lack international experience and international partnership.

Questions 6 and 7 dealt with the type of housing that BEE housing companies are currently building and the interest to build such type of housing units in the future. The purpose of the questions were to find out the extent to which BEE housing companies are involved in low-end housing (social housing, student housing and replacing mud schools) and high-end housing (tourist accommodation, gated communities and retirement villages), given the fact the two market segments (low-end and high-end) have been identified through the secondary data. Social housing (four companies indicated so) and student accommodation (three companies indicated so) are the most common type of building that BEE housing companies are currently involved in, while the rest of types of housing shared equal preference amongst BEE housing companies (two companies for each type of housing indicated so). Regarding the interest in the future, five BEE housing companies indicated that they would be interested in low-end housing in the future, while four of them indicated that they would be interested in high-end housing in the future.

Questions 8, 9, 10 and 11 sought to find out the BEE housing companies' experience with partnerships – if they have been involved in a partnership with a domestic company or with a foreign company and the kind of partnership. The purpose of these questions was to gauge the openness to partnership from South African BEE housing companies, because the Slovenian housing companies might want to partner with a South African BEE housing in order to secure public/government tenders/contracts for low-end housing. The results show that three out of nine BEE housing companies have been in a partnership with a domestic company, while only two out of nine BEE housing companies have been in a partnership with a foreign company. Furthermore questions 12 and 13 asked the BEE housing companies to select from the given options the services that the foreign company provided in the partnership and the services they (BEE housing companies) provided in the partnership with the foreign company. The foreign company provided facilities and management in the partnership (two BEE housing companies indicated so). The domestic company was mainly the recipient and promoter of products from the foreign company (one BEE company indicated so).

Question 14 asked the BEE housing companies to rate these factors: BEE Certification, Membership of "green ecological" friendly organizations, South African Bureau of Standards Certification (SABS), Personnel Connections, Attending Government Workshops and Briefings, and Company Reputation according to how important they are to them when applying/competing for government contracts/tenders. The ranking selection was 1 = Not Important, 2 = Little Importance, 3 = Relatively Important, 4 = Important, 5 = Very Important. The purpose of question 14 was to gauge the importance of factors for government tenders/contracts because most of low-cost housing is financed by government through public tenders/contracts. This information would give Slovenian housing company a better perspective of important factors for government tenders/contract that they should be aware of when seeking partnership with a South African BEE housing company. The BEE housing companies ranked all the above mentioned factors, except personnel connections as important

when applying/competing for government tenders/contracts. South African Bureau of Standards Certification (SABS) and attending government workshops and briefings (building social capital) were ranked as very important. Personnel Connections was ranked as least/relatively important when applying/competing for government tenders.

Question 15 asked if BEE housing would be interested in partnering with a European Company that has superior engineering, architectural services, and innovation. This question is important for two reasons: (i) the Slovenian housing companies excel in engineering, quality and innovation services. (ii) the Slovenian housing companies may need to partner with a South African housing company to compete for public tenders, and the Slovenian housing companies can add value to the partnership through their engineering and innovation services. Out of nine BEE housing companies, six of them indicated that they would be interested to partner with a European housing company that has superior engineering, architectural and innovation services, while two of them said they are not sure. This finding shows that South African BEE housing companies are 'open' for partnership with foreign companies, including European ones.

The last question was about B2C, B2B and B2G. The BEE housing companies were asked to indicate if they were interested in B2C, B2B, or B2G or interested in all of them. The purpose of the question was to further gauge the BEE housing companies' interest in low-end housing (B2G) and high-end housing (B2C and B2B). The BEE housing companies were interested in B2C, B2B and B2G; five of them indicated interest in B2G, while four of them indicated interest in B2C and four of them indicated interest in B2B. These findings confirm that the BEE housing companies are interested in both low-end and high-end housing.

## **6.4 Interview with the Ministry of Human Settlements, South Africa**

The objective of the interview was to find out the role of South African government in the housing market of South Africa. The interview was conducted telephonically, in March 2014. The interview consisted of four open-end questions, and it took roughly 20 minutes to answer the questions. The first question sought to find out the general role of the Ministry of Human Settlements in the South African housing market/industry in general. The second question sought to find out the role of Housing Ministry in the social housing/state subsidised housing segment. The objective of the third question was to find out the extent to which BEE policy relates to awarding of tenders for building social/state-subsidised housing units. The last question was broadly about the promotion of quality and innovation in social/state-subsidized housing.

### **6.4.1. Findings and Implications**

The main role of the Ministry of Human Settlements is to develop housing policies and facilitate the implementation of the housing policies. In addition to policy development, the Ministry of Human Settlements determines, finances, promotes, communicates and monitors the implementation of housing and sanitation programmes in South Africa (MHS, 2014). This means that the Ministry also finances and implements programmes for social and state-subsidised housing in order to beneficiate/subsidise the low-income earners and poor South Africans. The ministry's mandate is to close the wide housing gap between the poor and rich which was mainly caused and perpetuated by the apartheid-government system. This implies that virtually there are two main formal housing markets in South Africa: (i) the housing market for low-income and poor South African which constantly receives government intervention through financing and other housing programmes; and (ii) the market for high

for middle-income earners and high income earners which is almost entirely a free-capital market with banks and financial institutions playing a key role (credits, loans, etc). In a nutshell, these two formal markets can be viewed as B2G (government intervention housing market) and B2C/B2B (middle income, high income earners, banks, and other financial institutions).

According to the Ministry of Human Settlements, the government has set itself the target of making a positive impact on the quality of life of 500 000 households by 2014, by upgrading informal settlements (MHS, 2014). This roughly means a total of 500,000 housing units for the year 2014 needed to be built; implying that there are huge opportunities in the low-cost housing of South Africa. The government aims to upgrade the informal settlements in the areas closest to the economic amenities. This is in line with findings from Statistics South Africa that there is an ongoing emigration from the rural areas and semi-rural areas to the urban centres such as Johannesburg, Cape Town, Durban, etc (urbanisation) where economic activities and employment prospects are predominant.

When it comes to public tenders/contracts, the Ministry of Human Settlements works with provincial governments (provinces) and local government (municipalities) to issue public tenders for the building new housing units or upgrading informal housing units when there is a need thereof. The Ministry of Human Settlements together with provincial departments (provinces) and local government (municipalities) follow and apply the Procurement-Supply Chain Act, meaning that BEE housing/building/construction companies are given the first priority when it comes to government empowerment. Depending on the supply chain agreements among the national, provincial and local (municipal) housing governments in question, the public tenders can be issued at national level, or at provincial level or at local (municipal) level. This information is useful for foreign housing companies if they want to compete for public tenders (B2G market segment), as they may have to partner with a local company that understands the dynamics in the B2G segment.

The Ministry of Human Settlements does embrace quality and innovation in social/state-subsidized housing. The quality and innovation is also enshrined in their vision and mission – (i) the Ministry envisages that it stands for the creation of sustainable housing units for the improvement of household lives; (ii) The Ministry envisages quality, and affordability, innovation in its programmes and implementations of housing units (MHS, 2014). This information matches well with Slovenian housing companies' capabilities – superior engineering, architecture, quality and innovation. Regarding the quality and innovation in the social/state-subsidised housing, the Ministry of Human Settlements also collaborates with other independent entities such as Green Building, Master Builders, Building Council of South Africa, South African Bureau of Standards (SABS), South African Research Council (CSIR) and others; therefore it is important construction companies to be registered and collaborating with these independent entities.

## **7 RECOMMENDATIONS, IMPLICATIONS AND CONCLUSION**

### **7.1 Recommendations**

This section will provide recommendations to Slovenian alternative wooden housing companies regarding entering the South African market. It incorporates theory, literature, and supporting data from our survey and interview findings to back up our recommendations.

Three key questions are answered in this section. The first is "should Slovenian alternative wooden housing companies enter the South African market? and why or why not?". The second question is "what entry mode should Slovenian alternative wooden housing companies use when entering the South African market? and why this mode?". The third question is "Where in South Africa should the Slovenian alternative housing companies focus their efforts? and why these regions".

### **7.1.1 Should Slovenian alternative wooden housing companies enter SouthAfrica?**

We are recommending Slovenian alternative housing companies enter the South African market. This is due to a number of reasons that have to do with primarily economic, demographic, and housing specific factors. The reasons that are primarily economic and demographic will be looked at first and then the reasons specific to the industry will follow.

To start off with Europe and South Africa have a free trade agreement called the EU-South Africa Trade, Development and Co-Operation Agreement. This trade agreement works in the benefit of Slovenian companies because they will not be treated any differently then South African companies when doing business in South Africa. This was confirmed by the Ministry of Trade and Industry in South Africa when we contacted them. South Africa is ranked 10th in the world out of 189 countries when it comes to protecting investors (WB, 2014). Slovenia for comparison is ranked 14th for comparison so there should not be many hurdles in this area since the countries are similar. On top of this South Africa is ranked 28th out of 189 in terms of "ease of getting credit" (WB, 2014). Slovenia is ranked 109th which indicates getting credit in South Africa is much easier. This is also another positive aspect of the South African market for Slovenian alternative wooden housing companies. Also when it comes to doing business South Africa is ranked 41st in the world and is only behind Mauritius and Rwanda in Africa (WB, 2014). For comparison Slovenia is ranked 33rd. South Africa is also a politically stable country (SA,Info, 2014). The forecasts for economic growth (GDP) in South Africa show a positive outlook – the economy is going to grow for the next three years. The economic growth implies expansion in consumer income and consumer spending, which will stimulate demand for housing in the future. The National Development Plan vision 2015 – 2030 for South Africa sets out economic targets (GDP, employment, income, reducing inequalities, boosting investment, etc) and all the targets seem realistic and achievable, and if the targets are met then it all goes in favour of housing market.

South Africa is also part of the emerging BRICS economies. It is ranked 1st overall in Africa in terms of economic competitiveness according to the Africa Competitiveness Report (SA.Info, 2014). South Africa also represents a "gateway to Africa". Once Slovenian companies have entered the South African market they can have access and experience for entering other African markets especially Southern African markets such as Botswana and Namibia.

There are also three key demographic features of South Africa that should be an incentive for Slovenian companies. First of all South Africa has a rising black middle class. The rising trend of the black middle class from 1.7 million in 2004 to roughly 4.2 million in 2012 will drive the demand for more high-end quality homes (PPL, 2013). The second key demographic feature is South Africa has a very young population. Of the population South Africa has 65.7% (34.8 million) under the age of 35 (SSA, 2013). This represents a lot of people who need to find housing in the future. This is good for Slovenian companies looking to enter the market because there will be further demand for housing on top of the estimated

three million backlog in housing units that already exists. Another key demographic feature of South Africa is the rise in urbanization. Sixty percent (31.8 million) of South Africa's population lives in urban areas, and by 2050 this will be 80 percent (NPC, 2013). This is a good thing for Slovenian wooden housing companies because it will give them a focus for building housing in terms of focusing on the urban centres where higher prices for homes can generally be charged. To add to this South Africans spend 32% of their income on housing (SSA, 2014).

The literature also offers support. In the 2004 book "Strategies in New Markets" chapter seven called "Foreign Direct Investment in South Africa" by Stephen Gelb and Anthony Black looks at foreign direct investment inflows into South Africa in the 1990's from a sample of foreign parent firms (Gelb & Black, 2004). From the 162 firms sampled 92 firms were from Europe. On top of this 15 firms entered the South African market in the construction/infrastructure sector. This indicates that European companies are capable of entering the South African market and that they can enter the South African construction industry. We also believe that as Sanjeev Agarwal and Sridhar N. Ramaswami mention in their work "Choice of Foreign Market Entry Mode: Impact of Ownership, Location, and Internationalization Factors" that "Countries such as Brazil and India, even though not as attractive as the developed countries, may still have sufficient potential and strategic importance to warrant consideration (Agarwal & Ramaswami, 1992)". South Africa is a BRICS member country just like India and Brazil and we believe the South African market has a lot of potential.

There are many key factors related to the housing industry in South Africa that allowed us to come to our conclusion of recommending Slovenian alternative housing companies to enter the South African market. First of all there is a huge shortage of housing in South Africa. Statistics in 2011 showed a 2.1 million backlog of social housing units (MHS, 2012). Additionally, there are 1.2 million households and 3 million people across the country living in informal settlements (SAInfo, 2010; Rust, 2006). This represents roughly 3-5 million housing units that need to be built in South Africa. On top of this there is a mass shortage of housing for students in universities and colleges in South Africa, with a shortage of 207,800 beds for students (AA, 2013). As of 2011, 80 percent of students in need of student housing do not have it (DHET, 2011). Also as of 2012 there were 496 mud schools in South Africa that needed to be replaced (SAInfo, 2012). The shortage in housing may all be located in the low-end housing opportunities in South Africa, but this is not the mismatch it seems to be, for Slovenian companies interested in building high-end homes and South Africa having a shortage in social housing units. Based on the interviews with the Slovenian wooden housing companies there was almost as much interest expressed in building low-end housing in South Africa compared to high-end housing. Slovenian companies expressed interest in building low-end housing 19 times compared to high-end housing at 22 times. Seven Slovenian wooden housing companies were interested in building social housing and student accommodation in South Africa, and five companies were interested in replacing mud schools. This indicates that Slovenian wooden housing companies are interested in building low-end housing as well as high-end housing in South Africa. Since there is such a large backlog in low-end housing in South Africa it represents a great opportunity for Slovenian wooden housing companies. One Slovenian company interviewed had success building social housing units in Brazil, the Dominican Republic, Haiti, and Morocco. This included building 500,000 social housing units in Brazil.

Another important indicator from the survey was that Slovenian wooden housing companies are interested in B2B, B2C, and B2G options in South Africa. B2C was the most popular

with nine companies expressing interest followed by B2B with seven companies expressing interest, but B2G had four companies expressing interest as well which is another indicator of Slovenian companies willing to work with the South African government in building housing. It may not be the most popular option but it was not completely ruled out by the Slovenian companies. The low-end and high-end opportunities themselves were another factor that led us to our recommendation. Sections "5.2.4.1 and 5.2.4.2" presented earlier explain these opportunities in detail and the backlog in the low-end housing was mentioned in the previous paragraphs as well. When it comes to the high-end opportunities there are 1,730 gated communities in South Africa and with the high levels of crime current trends indicate they will increase (PPL, 2013).

Another reason we recommend Slovenian alternative wooden housing companies to enter South Africa is there is interest from people and companies in South Africa in what Slovenian companies can offer. From the South African general population 28% of respondents surveyed said they would consider purchasing a customized wooden home. South Africa has 53 million people and if roughly 28% of people show interest in purchasing customized wooden homes that is roughly 14.8 million people making up the potential market in South Africa. On top of this from the BEE interviews six of the nine companies said they would be willing to partner with European companies that offer superior innovation, architectural, and infrastructure capabilities. This is excellent news for Slovenian companies because if they want to target the low-end opportunities they will more than likely need to partner with a BEE company, and based off of this information these companies would be willing to enter into a partnership if the European company can offer added value. Five of the nine South African companies interviewed were already using wood in some form in the construction of homes, which means they already have experience with the material which should also be a benefit to the Slovenian wooden housing companies.

This brings us to another important factor in our decision making regarding our recommendations, and that is that Slovenian companies can offer added value to homes in South Africa and thus have a good chance of finding a partner to work with. Slovenian companies can offer superior architectural, engineering, and innovation services. There is a huge problem in South Africa when it comes to poor quality housing. This is primarily for low-income housing. The problems with low-income housing in South Africa are leaking roofs, cracking roofs, lack of heat insulation, poor physical structure, flooding, lack of water and electricity, drainage issues, poor workmanship, lack of private sector contribution, lack of management commitment toward electricity, weak bricks, leaking pipes, and unstable door frames (Zungazane& Smallwood &Emuze, 2012). "A case study done in Pelindaba, Bloemfontein revealed that 74% of respondents recorded negative perceptions about the quality of their public sector homes - low income houses, and in another study at Nyandeni local municipality 85% of respondents experienced problems with the low-cost houses they are occupying (Zungazane& Smallwood &Emuze, 2012)".

The South African minister of human settlements has explained that roughly 40,000 social housing units must be rectified or demolished due to poor quality (Zungazane& Smallwood &Emuze, 2012)". When it comes to innovation, Slovenian companies have in-house capabilities and resources such as research and development (R&D), technical consultancy, design and architectural engineering, production and assembly technology, and marketing and sales. RIKO is an example of a Slovenian company that has many of these capabilities (RIKO, 2014). South African companies on the other hand depend on research institutes such as the Council for Scientific and Industrial Research (CSIR), and government agencies. This links well with the global competitive index for 2012-2013, in which Slovenia is in the

"innovation phase" in terms of economic transition, while South Africa is still in the "efficiency phase" in terms of economic transition (World Economic Forum, 2013).

Slovenian wooden housing companies offer "green" eco-friendly housing products and this is something the South African government is currently embracing. The Legacy Project which was launched in 2011 by the South African National Home Builders Registration council and aims to build "green" housing for social housing (NHBRC, 2011). The initiative is in partnership with the South African Department of Human Settlements, the Western Cape Department of Human Settlements, and the city of Cape Town (NHBRC, 2011). The Department of Public Works in South Africa also outlined South Africa's commitment to green building in the 2012 Draft for the National Framework for Green Building (DPW, 2012). European companies can enter the South African housing market successfully. Karmod Prefabricated Technologies is a Turkish company that offers prefabricated social housing solutions in South Africa (KPT, 2014). Slovenian companies should thus be capable of this as well. According to the interview with Slovenian companies the proximity a foreign market is to Slovenia, having a similar culture to Slovenia, and Slovenian companies already being on the market are not very influential factors for Slovenian companies when looking to expand to foreign markets compared to other factors such as market potential and access to financing. This is further evidence that Slovenian companies can enter the South African market successfully since they don't need to work with a similar culture or a nearby market, and they don't need to see Slovenian firms be successful on the market to begin with.

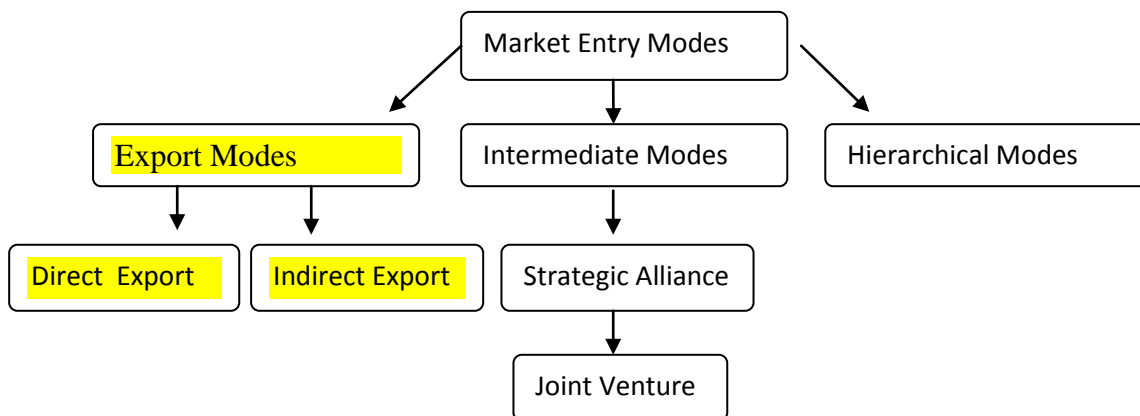
### **7.1.2 Which entry mode is recommended?**

The nature of a firm's operations in a foreign market it enters is very much dependent on the entry mode. The choice of entry mode is a very significant decision for any company. The choice of entry mode affects all the future operations in the foreign market and it is difficult to switch from one entry mode to another (Kumar & Subramanian, 1997). We are recommending two different entry modes for Slovenian alternative wooden housing companies looking to enter the South African market. The first market entry mode we are recommending is a direct/indirect export which is an export mode of market entry. The second entry mode we are recommending is joint venture or strategic alliance. This is an intermediate market entry mode. "Normative decision theory suggests that the choice of a foreign market entry mode should be based on trade-offs between risks and returns (Agarwal & Ramaswami, 1992)". A company will thus according to the theory select the mode of entry that gives the highest risk-adjusted return on investment. This helped us come to our recommended entry modes. We feel the two entry modes we selected will offer the best return on investment while offering the lowest risk to Slovenian alternative wooden housing companies (Agarwal & Ramaswami, 1992). This is backed up by Jay Van Wyk, William Dahmer, and Mary C. Custy in their 2004 article "Risk Management, and the Business Environment in South Africa" when they say "given South Africa's risk profile, the exporting and joint venture modes offer the best risk management options (Van Wyk, Dahmer, & Custy, 2004)".

### 7.1.2.1 Direct Export / Indirect Export

The first entry mode we are recommending is either a direct export mode or indirect export mode as can be seen by Figure 7.1.2.1 below. Figure 7.1.2.1 displays how the direct export and indirect export mode fits into the scientific structure of entry modes. We decided to leave the choice of choosing direct export or indirect export up to the Slovenian wooden housing companies as both export modes have their advantages and disadvantages. Exporting offers low risk, low use of resources, and will allow a company to maintain operational control, however the returns are lower and there is a lack of marketing control (Agarwal & Ramaswami, 1992).

Figure 7.1.2.1. Market Entry Modes showing Direct Export and Indirect Export



Source: 2013 PKP Project, Faculty of Economics, University of Ljubljana

The key issue to do with exporting is that the company's product is manufactured outside the target country and is then exported to it (Puljeva & Widen, 2007). There are two main exporting channel options that firms face. They can either export directly to customers abroad or export indirectly with the help of an intermediary (Hessels & Terjesen, 2007). There are a number of key features to distinguish direct exporting from indirect exporting. Direct exporting indicates that firms set up their own export organization within the company and have direct contact with parties in the target country (Charles, 2007). A salesperson of the company will deal with selling the product in a target country.

Indirect exporting means that a company uses an intermediary in the home country to arrange export agreements (Charles, 2007). This implies that the company does not actually manage the export contracts itself, but gets another party in the home or target country to do it for them. Examples of an intermediary are sales agents, brokers, or export management companies. The advantages and disadvantages of direct exporting and indirect exporting are shown in the tables below.



Table: 7.1.2.1. Advantages and Disadvantages of Direct Export

<b>Direct Export</b>	
<b>Advantages</b>	<b>Disadvantages</b>
*Control of pricing	*Requires a lot of time and money
*Control of brand	*Competitors with local presence are lower risk to buy from
*Maintain customer relationship	*Continuous follow up on leads
*Identify new opportunities	*May require speaking local languages
*Better understanding of buyers needs	* Slower growth

Source: 2014 *New Zealand Trade and Enterprise*.

Table 7.1.2.2 Advantages and Disadvantages of Indirect Export

<b>Indirect Export</b>	
<b>Advantages</b>	<b>Disadvantages</b>
*Cheap	*Intermediary makes a margin
*Straightforward	*Sales support needed
*Use intermediaries contacts	*No direct contact with end customer
*Quick access to market	*Less of a chance to understand overseas markets
*Ability to concentrate resources on production	*Less control over final transaction

Source: 2014 *New Zealand Trade and Enterprise*.

Why are we recommending the direct or indirect export mode? There are a number of reasons we are recommending Slovenian alternative wooden housing companies use the direct or indirect export mode. To begin with South Africa is a very distant market and Slovenian companies have no experience in South Africa and besides one companies past presence in Morocco, Slovenian wooden housing companies have not been present in Africa. The culture and business culture in South Africa is also very different to that of Slovenia. On top of this wood is not a predominant housing material being used in South Africa, which implies that the wooden housing market is small in value and volume, and not yet matured. All of these factors come together and present the South African market carrying a significant amount of risk when entering. This is why we are recommending the direct or indirect entry export mode. Exporting offers low risk and low costs. There will be no costs associated with starting up in South Africa. Materials, facilities, and equipment will not need to be purchased. Also employees will not need to be expatriated to South Africa and provided with housing, transportation, health care and so on. The risk associated with exporting will also be low, because the Slovenian companies will not be present in South Africa. All of the work can be done from Slovenia. There will be no costs associated with pulling out of the market and therefore if things do not work out for the Slovenian companies in South Africa they will not be hit financially by having to cut their losses and leave South Africa.

Another reason we are recommending exporting is because Slovenian companies can work from project to project. Wooden housing is not that popular in South Africa so there may

only be a couple of projects a year that may be available. Direct or indirect exporting means that Slovenian companies will not need to be physically present in South Africa waiting around for work. They can work from Slovenia and when there is work to do in South Africa they can do it. This will save Slovenian companies time and money and allows for flexibility because they can work from project to project. The interviews with the Slovenian companies also support the idea of exporting. Direct exporting was the most popular entry mode used by Slovenian wooden housing companies in the past. Eight companies said they had used the entry mode when entering foreign markets in the past. This indicates that the Slovenian companies have experience with this entry mode and they are comfortable using it. The sales agent was the second most popular entry mode for Slovenian companies, this falls under indirect exporting, and is the reason we are recommending either direct export or indirect export to the Slovenian alternative housing companies. Sales agents are used to sell and market Slovenian wooden housing companies and their products in foreign markets and then once a sale is made Slovenian companies will export their product to that market. More details on how we recommend the Slovenian wooden housing companies go about direct export or indirect export will come later in this section.

The other more popular entry modes of joint venture and strategic alliance are our second recommendation. The other entry modes were not popular with the Slovenian wooden housing companies and that is another reason why we are recommending the direct export or indirect export entry mode. Another reason we are recommending exporting is because Slovenian companies vary in size in terms of financial wealth. Some companies are bringing in millions of Euros in revenue a year and other are bringing in roughly 500,000 Eur or less. The direct/indirect export entry mode is not very costly since all the work can be done in Slovenia and the product is then just shipped overseas. This means that almost all the Slovenian companies could afford to use this method. It will no doubt be easier for companies with more income but it is still possible with the smaller companies as well. There is a positive relationship between firm size and an increase in exporting, this however does not mean smaller companies do not export (Wagner, 1995). The reason it is easier for larger firms such as Lumar, Alpes, and MarlesHise is because ability to export well has to do with things such as economics of scale, opportunity to raise finances at a lower cost, benefits from bulk purchasing, having your own marketing department, and a higher capacity for taking risks (Wagner, 1995).

To add to this Slovenian companies can offer superior architecture, engineering, and innovation services. According to the interviews with the BEE companies six out of eight companies would be willing to work with European companies with superior engineering, architectural, and innovation services. Two companies were unsure and no companies were not willing to work with European companies with superior engineering, architecture, and innovation services. Slovenian companies will also be able to gain from the learn by doing approach. Which means learning from experience. Slovenian companies have probably already "learned a lot by doing" already through, in their current and past direct exports, but they will be able to learn by doing on the South African market as well. This can open the possibility in starting off in one form of housing and expanding to other forms of housing in South Africa.

When it comes to the exact details of the direct export entry mode we are recommending, they are very similar to what we encountered in the interview with the Slovenian wooden housing company that briefly entered the Moroccan market. We recommend Slovenian alternative wooden housing companies first of all find a reliable customer to build homes for. This client may be an NGO, government department, church, individual customer, or a South

African company. We then recommend that the Slovenian wooden housing companies export the parts for the wooden homes to South Africa from Slovenia and the client takes care of putting the homes together or constructing the homes. Basically the client will place the order and the Slovenian company will satisfy it.

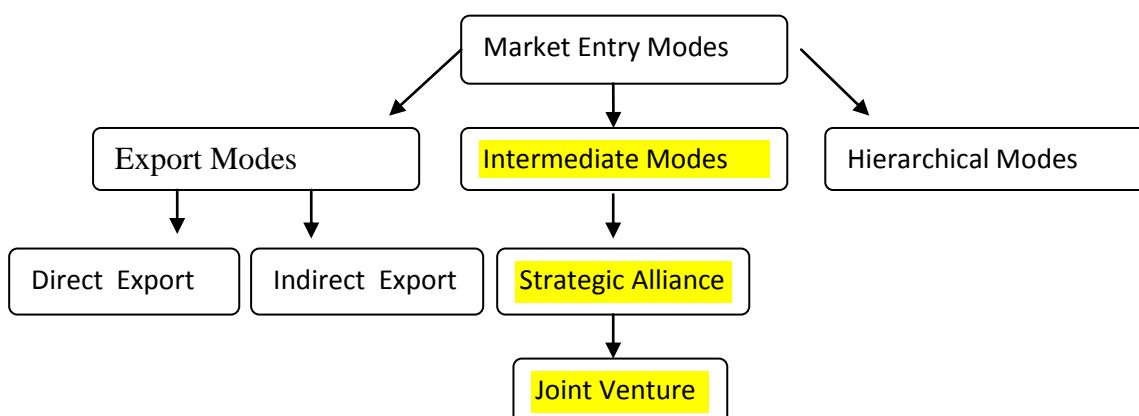
When it comes to indirect export a sales agent, broker, or export management company can be used to promote, market, and find clients for the Slovenian wooden housing companies. The Slovenian companies would need to pay the sales agent, broker, or export management company in South Africa for this of course. It is important to mention that this is not a joint venture or strategic alliance. This is very much a business to customer relationship. The costs for this entry mode can be found in the costs section.

The direct or indirect export mode can serve both the high-end sector and the low-end sector. The high-end sector can be accessed by serving clients who need individual customized homes or companies who want to build high-end housing. The low-end sector can be served by getting clients such as NGO's, government departments, or churches for example. Based off of information from the BEE company interviews the BEE companies are pretty much equally spread in terms of servicing B2C, B2B, and B2G. This again offers direct export to any of these areas. The BEE companies are also involved in all the high-end and low-end opportunities, however they are more involved with the low-end opportunities.

### 7.1.2.2 StrategicAlliance/Joint Venture

The second entry mode we are recommending is a strategic alliance, with a heavy emphasis on a joint venture. This can be seen by Figure 7.1.2.2 below. Figure 7.1.2.2 displays how a strategic alliance falls under the intermediate market entry mode and how a joint venture falls under the strategic alliance entry mode.

Figure 7.1.2.2. Market Entry Modes showing Direct Export and Indirect Export



Source: 2013 PKP Project 2013 Faculty of Economics, University of Ljubljana

A strategic alliance is when two companies exchange things such as technology information, market information, entering new markets, or learning a new area of expertise (Marzec, 2014). Strategic alliances have a number of important characteristics. Strategic alliances involve at least two partner firms. These firms remain legally independent after the alliance is formed, the control and management of assured tasks is also shared (Todeva and Knoke,

2014). The strategic alliance also involves firms making continuing contributions to one or more strategic areas. The characteristics just mentioned lead to an interdependence between companies. The strategic alliance brings benefits in the form of intangible assets and allowing companies to make constant upgrades to the partnership (Todeva and Knoke, 2014).

There are countless motives for firms to enter into a strategic alliance. For example market access, obtaining economics of scale, and developing technical standards (Todeva and Knoke, 2014). Strategic alliances are important for gaining a competitive advantage. Not many firms in the world have all the tools necessary to compete in the ever changing business world. This leads firms to chase the required resources through alliances (Mowla, 2012). Strategic alliances take many different forms such as supplier-buyer partnerships, outsourcing agreements, technical collaboration, joint research projects, and shared manufacturing agreements (Grant and Baden-Fuller, 2004). This variety and countless number of ways that joint ventures and strategic alliances can take place is one reason why we recommended that the Slovenian alternative housing companies use these entry modes. Table 7.1.2.6 below displays the advantages and disadvantages of strategic alliances.

Table 7.1.2.4. Advantages and Disadvantages of Strategic Alliances

<b>Strategic Alliances</b>	
<b>Advantages</b>	<b>Disadvantages</b>
* Instant market access	* Less efficient communication
* Enlarge channel distribution	* Difficult to keep objectives over time
* Share fixed costs and resources	* Weaker management involvement or less equity stake
* Develop new products at a profit	* Loss of control over things such as product quality and operating costs
* Increase sales	* Poor resource allocation

Source: 2014 *About.com Import & Export*

A joint venture is a type of strategic alliance. A joint venture is when two companies come together and invest their money into creating a third jointly owned company. The need for foreign investors to decrease risk exposure combined with the government BEE policy have made joint ventures the most common entry mode in South Africa (Van Wyk, Dahmer, & Custy, 2004). There are many good business reasons to participate in a joint venture. For example the ability to share complementary abilities and resources, finances, distribution channels, and technology (Vralta, 2014). A joint venture is not a separate legal entity. Revenues, expenses, and asset ownership usually flow through the joint venture to the participants, since the joint venture itself has no legal status (Vralta, 2014). Joint ventures are crucial in gaining foreign market access. Joint ventures can strengthen a company's position in the market (KPMG, 2009). Working in a joint venture can allow companies to establish themselves further, gaining key capabilities and resources. Joint ventures do not need to be "equity joint ventures" in which a foreign partner and local partner come together to form a partnership on the local market (Baker and McKenzie, 2006). Joint ventures can be structured in countless ways. The table below shows the advantages and disadvantages of joint ventures.

Table 7.1.2.5. Advantages and Disadvantages of Joint Ventures

<b>Joint Ventures</b>	
<b>Advantages</b>	<b>Disadvantages</b>
*Risk is shared	*Takes time and effort to build relationship
*Joint Ventures can be flexible	*Different cultures and management styles result in poor integration
*Companies can gain new capacity and Expertise	*Partners don't provide enough leadership support in early stages
*Access to greater resources	*Imbalance in level of expertise, investment and assets
*Ability to enter new geographical markets	*Success in joint ventures depends on thorough research

Source: 2014 *Vralta*.

The strategic alliance/joint venture we are recommending has much in common with the direct/indirect export entry mode. We are still recommending Slovenian wooden housing companies to export their products, it is just the partner company they are working with will formally be with them in a joint venture or strategic alliance and this results in a intermediate mode of market entry compared to the export mode of entry. The role of the Slovenian company for the most part will remain the same in terms of just exporting the wooden pieces for homes to South Africa, it is just they will create a third entity when it comes to a joint venture or trade valuable knowledge and skills in terms of the strategic alliance. The joint venture/strategic alliance can be for the short term or for the longer term. We recommend that the South African company take care of all operations in South Africa in terms of selling, marketing, and constructing the homes. This will allow the Slovenian companies to have a consistent partner to work with in South Africa.

There are a number of factors that led us to this recommendation. Many of these factors are similar to the direct/indirect export mode, such as South Africa being a distant market with a distant culture and business culture, wood not being a popular housing material in South Africa, the costs of setting up in South Africa will not exist, Slovenian companies are not very concerned with just entering markets close to Slovenia, and Slovenian companies are not too concerned if the country they are entering has a similar business culture. The literature also offers indications that joint ventures are a good way to enter the South African market. The survey sample from Gelb and Black in "Strategies in New Markets" indicated the most popular mode for foreign direct investment into South Africa in the 1990's was through a joint venture (Gelb & Black, 2004).

A number of findings from the interviews support our recommendation. Five of the Slovenian wooden housing companies said they had engaged in a strategic alliance when entering foreign markets in the past and four companies said they had engaged in a joint venture. This indicates that the Slovenian companies have experience with this entry mode and that they are comfortable doing it. This is not the case with many of the other entry modes. According to the interviews with the BEE companies six out of eight companies would be willing to work with European companies with superior engineering, architectural, and innovation services.

Two companies were unsure and no companies were not willing to work with European companies with superior engineering, architecture, and innovation services. This information

also indicates that the South African companies would be willing to engage in a joint venture or strategic alliance. From the BEE company interviews three companies had been involved in a partnership before with a domestic company, and two companies had been in a partnership before with a foreign company. Although this is not a lot, it does indicate that South African BEE housing companies have experience with partnerships and with working with foreign companies. When it comes to low-end and high-end housing the joint venture/strategic alliance can work for either housing sector. As mentioned before the BEE housing companies are involved in high-end and low-end house. They are involved in low-end housing more to some extent. This leaves the possibilities open for the Slovenian company to target a wide range of opportunities.

A very important part of this recommendation is that we highly recommend that the Slovenian alternative wooden housing companies partner with a BEE housing company in a joint venture or strategic alliance. This is because these BEE companies are highly favoured by the government when it comes to awarding contracts since the BEE agenda is a policy of the government of South Africa. The BEE companies in the survey were involved most in B2G compared to B2C and B2B. This will help the Slovenian companies greatly in targeting the low-end sector in South Africa. Some examples of European companies teaming up with South African BBE companies are the French automaker Renault teaming up with the transportation company Imperial Holdings of South Africa in a joint venture to sell automobiles (Van Wyk, Dahmer, &Custy, 2004). Also, the Greek company Tsavlis Salvage group who are the world largest Marine Salvage Operator teamed up in a joint venture with Cape Diving & Salvage of South Africa who happened to have a 66% black equity share (Van Wyk, Dahmer, &Custy, 2004). We are not saying that a joint venture with a BEE company is the only option though. The high-end housing sector could be targeted successfully with a joint venture or strategic alliance with a company that is not BEE certified.

### **7.1.3 Where in South Africa Should Slovenian Wooden Housing Companies Enter?**

We recommend to Slovenian alternative wooden housing companies to focus their efforts on urban areas and tourist destinations. There are reasons for these recommendations. There has been a steady rise in urbanization in South Africa and it is projected to continue on this trend. For example sixty percent (31.8 million) of South Africa's population lives in urban areas, and by 2050 this will be 80 percent (NPC, 2013). The cities of Johannesburg, Cape Town, Durban, Pretoria, East London, and Port Elizabeth are all major urban centres in South Africa where Slovenian alternative wooden housing companies can focus their efforts.

Tourist destinations is another area we recommend Slovenian alternative wooden housing companies focus their efforts. Slovenian companies showed the most interest in building tourist housing in South Africa based off of the interview with the Slovenian companies. In 2009 there were a combined 21 million foreign and domestic tourists in South Africa, and by 2020 the government is aiming to have a combined 33 million per year (SAGI, 2012). The government is also looking to increase the GDP amount that tourism contributes to overall GDP from 16.3billion Eur in 2009 to 36.7 billion Eur in 2020. Tourist accommodation can be built at or near places such as Cape Town, Johannesburg, Kruger National Park, Durban beaches, Blyde River Canyon, Sun City Resort, the Winelands and the Garden Route.

## CONCLUSION

In this research study we investigated the potential of the South African alternative housing market – whether the market is ideal or not for the Slovenian housing companies to enter. The investigation was done by ‘following’ and applying the methodological principles of descriptive research design with qualitative and quantitative approaches; wherein the survey and interviews (primary data) and secondary data were the enablers for data collection and analysis. We systematically analysed the economy and business environment of South Africa and the South African housing market. We also looked at the literature and theories of international trade to back up our analysis. The methodological principles of descriptive research design enabled us to infer with relevant economic factors, demographic factors, alternative wooden housing specific factors, and other exogenous factors from which we could draw recommendations and implications about the potential of the South African alternative housing market.

Despite some economic weaknesses in South Africa, some economic factors revealed positive outlooks which can be viewed as ‘good’ enablers for foreign housing companies to enter the South Africa housing market. South Africa is one of the world’s emerging markets with promising economic growth for the upcoming years. The GDP per capita is growing, which means consumer income and spending will continue to increase. The public infrastructure development is expanding. The general government spending is also increasing. Most importantly, South Africans spend about 32% of their income on housing, and with an increase in GDP per capita the consumer spending on housing is likely to remain stable or increase. All these economic positive outlooks will continue to be the enablers and drivers for the demand for housing in South Africa. According to Ernst & Young's 2014 Africa Attractiveness Survey, foreign direct investment (FDI) in sub-Saharan Africa is on the rise and the business confidence has sharply improved, and the perceptions are making it the second-most attractive investment destination in the world. The Ernst & Young's survey further suggest that investors are also looking beyond the more established markets of South Africa, Nigeria and Kenya to expand their operations and one the reasons other than business confidence is the rapid rise in Africa's middle class. South Africa is an open economy with free trade agreement with EU, meaning that institutional costs for Slovenian housing companies to enter the South African housing market are almost null.

Despite some socio-demographic challenges such as HIV/AIDS and inadequate skilled labour force (especially engineering and science), some demographic factors revealed positive outlooks for the housing market in South Africa. Such demographic positive outlooks include: (i) the rise in black middle class (up to 5 million as of 2013) – meaning that they can afford high-end houses; (ii) South Africa being a young population with an average age of 25; (iii) South Africa’s population has been steadily growing since 1994, and it is expected to continue growing; and (iv) rise in urbanisation - migration to the metropolitan cities (urban centres) such as Johannesburg, Cape Town, etc. All these demographic positive outlooks will continue to be the enablers and drivers for the demand for housing in South Africa, especially in the urban centres.

The alternative housing market specific factors revealed various positive outlooks. Firstly there is no projected housing bubble in the South Africa housing market, which would otherwise discourage investment and entry into housing market. Secondly, the general population of South Africa indicated that they would buy customised wooden houses (as

indicated by the survey results). This means that even though many South Africans still rely on brick/concrete houses, some South Africans are curious in exploring new or alternative ways of housing. This argument ‘matches’ well with Slovenian housing companies because they offer wooden houses with superior design, engineering, innovation, quality services and complete customised solution. Most importantly, the housing market in South Africa has four unique high-end and three low-end opportunities (segments) which the Slovenian housing companies would target upon entry into South Africa market. The unique segments are driven by low-income earners, middle-income earners and high-income earners. This would enable Slovenian housing companies to provide the customers with tailored-made housing units specific to each income cluster.

Regarding the exogenous factors, according to the survey and interviews, most Slovenian housing companies have used direct export, while some have used partnership (joint venture and strategic alliance) when entering the foreign markets. The literature and theory revealed that some foreign companies entering South Africa often used partnership (joint venture or strategic alliance) and some used direct exports. The direct/indirect export offers foreign companies the least risks and costs, while they have almost full control over their supply chain. The direct/indirect export and partnership are particularly useful when the explored market is still small in terms of value, volume and development. Though there is an-going ‘green’ movement and other government initiatives to encourage alternative ways of building, construction and housing in South Africa, the alternative wooden housing market is small because the general population still prefers brick/concrete houses. Therefore, it is for these arguments that Slovenian housing companies should use the ‘Learning by Doing Approach’ when entering the South African alternative housing market, in order to mitigate the risks and costs that would otherwise be borne if they were to enter as part of the full global supply chain.

It was surprising to discover that the majority of respondents indicated that they do not know of any names, brands and presence of wooden housing companies in the respective areas of residence (communities). This could imply that there is limited marketing coverage by the South African wooden housing companies in some regions in South Africa; perhaps the wooden housing companies could be only focusing their marketing effort in major urban centres like Johannesburg, Cape Town, Ekurhuleni and Pretoria, while underestimating or less focusing on other metropolitan areas like East London, Bloemfontein and Port Elizabeth, etc. It was also surprising to discover that quite a number of respondents from the general population of South African indicated that they would buy a customised wooden house, while the secondary data showed that wood (as the building material for walls) is generally not popular in SA. This could mean that some people in South Africa perceive customisation as a good value for money and also good for personal appeal (elegance, beauty, eco-friendly, homey feeling, etc) as revealed by the responses on open-end questions in the survey-questionnaires. This would imply that, with strong marketing strategy and value proposition from the wooden housing companies some middle income earners and high income earners in South Africa could buy a customised wooden house.

Thus, the consolidation of the afore-described economic positive outlooks, demographic positive outlooks, housing specific factors and other exogenous factors brought us to a conclusive recommendation that South African alternative wooden housing market is an ideal market for Slovenian housing companies to enter, and they should enter now. South Africa is moving forward, and is indeed the land of opportunities.



There is no time to wait; the Slovenian housing companies should enter now, study the market, accumulate knowledge about the market, move with the market and grow with the market. There is a big market in low-cost housing, informal housing and state-subsided housing segments to be explored and exploited. The key entry factor to the South African housing market for a foreign company, especially from a distant geographic location like Slovenia, would be establishing contacts with a South Africa local partner who understands well the South African housing market. The best way to search for a reputable partner would be contacting the South African network of embassies, government agencies, housing market analysts or legal firms. INTO SA is an example of a South African legal firm that assists foreign companies establishing themselves, their brands and products in South Africa and sub-Saharan Africa. INTO SA offers foreign companies a safe and sound legal framework for any successful venture (INTO SA, 2014). They provide foreign companies with an extensive Information Library, which offers the Laws of Sub-Saharan Africa (eLAW), Information Leaflets on local legal issues (eINFO) and an overview over bilateral treaties for each country (eTREATY).

Lastly and most importantly, South Africa has the National Development Plan (NDP) vision 2015 – 2030. The NDP will be implemented as from 2014. The NDP set out economic goals and targets. The first goal and target has to do with economic growth (GDP). The NDP targets 5% GDP growth by 2017. The second goal has to do with income inequalities. The NDP aims at reducing income inequalities by empowering (education, training, business opportunities, business support) the black majority population, and by providing the state-subsidized housing units to the low-income earners and the poor. Thirdly, the NDP aims at reducing unemployment to 15% by 2020 and to 6% by 2030. The NDP aims at boosting energy efficiency by diversifying the country's energy supply to nuclear energy, coal energy, renewable energy and hydro energy; thus creating new industries. The NDP also aims at attracting investment from BRIC countries. If the NDP targets become achievable, then it all goes in favour of the housing market because the GDP per Capita (income) will increase, which will lead to an increase in consumer spending, leading to demand for housing. Therefore, it is pertinent for the Slovenian housing companies to enter South African housing market now.

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## **APPENDIXES**





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## Appendix A: Summary of Thesis in Slovenian

Slovenske stanovanjsko gradbene družbe so v veliki meri odvisne od tržišč na področju nekdanjih jugoslovanskih trgov in drugih trgov EU. Nekatere države EU se srečujejo z neugodnimi gospodarskimi pogoji, kot npr. Grčija, Španija, Hrvaška, Portugalska in Italija, ki se trenutno soočajo z neugodnimi gospodarskimi razmerami. Slovenski trg je majhen v smislu velikosti prebivalstva, ki šteje le okoli dva milijona ljudi. Upad prebivalstva (brez priseljencev) zaradi nizke rodnosti in staranja prebivalstva bo verjetno nadaljeval z negativnim vplivom na rast dolgoročnega poslovanja v Sloveniji. Slovenski letni finančni rezultati za obdobje 2010–2012 kažejo, da so nekatera slovenska gradbena podjetja doživela upad prihodkov in dobičkov, medtem ko so druge gradbene družbe dobile le majhno povečanje prihodkov in dobičkov. Ti dejavniki in pogoji nudijo slovenskim nepremičninskim družbam omejene možnosti za napredovanje.

Po drugi strani pa Afrika, zlasti Podsaharska Afrika, doživlja rast prebivalstva (predvsem dominira mladina) in gospodarstva. Južna Afrika s svojimi sosednjimi državami prav tako doživlja relativno ugodne demografske in gospodarske razmere. Okraji Podsaharske Afrike, kot so Južna Afrika, Bocvana, Namibija in Gana doživljajo relativno stabilne politične razmere v primerjavi z drugimi afriškimi državami v Severni Afriki. Republika Južna Afrika (v nadaljevanju JAR) je članica skupine BRIC in ena od najhitreje razvijajočih se držav na svetu. Njeno gospodarstvo je po obsegu bruto domačega proizvoda (v nadaljevanju BDP) največje v Afriki, po velikosti BDP na prebivalca je ravno tako med prvimi na afriški celini, kar jo v svetovnem merilu uvršča v zgornjo polovico srednje razvitih držav. Gospodarstvo JAR je bilo z nastopom globalne recesije v obdobju 2007–2009 le minimalno prizadeto in se je uspelo relativno hitro povrniti k nekdanji gospodarski rasti.

Razmeroma ugodni ekonomski, demografski in politični dejavniki so pripeljali do vprašanja, ali predstavlja JAR idealno tržišče za slovenska podjetja, ki se ukvarjajo z montažnimi hišami, predvsem v luči tehnološkega znanja, servisa in ponudbe celostnih rešitev na področju alternativnih stanovanjskih enot (povečini lesenih hiš) s strani slovenskih podjetij. Kljub temu pa le analiza ekonomskih in demografskih dejavnikov ne zadošča za izdelavo zanesljivih priporočil slovenskim podjetjem iz vidika tržnega potenciala na področju alternativnih stanovanjskih enot v JAR.

V luči omenjenega magistrsko delo aplicira metodološke principe opisnega raziskovanja s ciljem podrobne raziskave morebitnega tržnega potenciala za slovenska podjetja na področju alternativnih stanovanjskih enot v JAR. Glavni cilji raziskovalnega dela so tako:

- kritično analizirati tako stroške kot tveganja, povezane z vstopom na južnoafriški trg alternativnih stanovanjskih enot
- raziskati relevantne načine vstopa na južnoafriški trg in oceniti njihovo potencialno uspešnost
- raziskati in posledično razložiti percepcijo odnosa prodajalec/kupec iz aspekta prodaje lesenih hiš v JAR
- raziskati in razumeti obnašanje dobaviteljev
- analizirati vlogo in vpliv javnega sektorja na trg alternativnih stanovanjskih enot v JAR

S pomočjo anket, intervjujev in sekundarnih virov smo pridobili tako kvantitativne kot kvalitativne podatke o južnoafriškem aktivnem prebivalstvu, "bee housing companies", južnoafriškem ministrstvu za prostorsko planiranje in slovenskih proizvajalcih hiš. Rezultati analize primarnih in sekundarnih podatkov kažejo na gospodarske in demografske dejavnike,

kot tudi dejavnike, specifične za trg hiš ter nekatere eksogene dejavnike, na podlagi katerih smo lahko oblikovali predloge in zaključek o potencialu južnoafriškega trga alternativnih gradenj (hiš). Zaključujemo, da je južnoafriški trg idealen za vstop slovenskih proizvajalcev hiš. Slednji naj na trg vstopajo bodisi preko posrednega/neposrednega izvoza ali skozi jointventure oz. strateška partnerstva.

Slovenska stanovanjska podjetja bi morala uporabiti načelo učenja skozi prakso, "learningbydoingapproach" ob vstopu na južnoafriški trg, z namenom pridobivanja znanj, poslovanja in širjenja na zadevnem trgu. Načelo učenja skozi prakso v kombinaciji z direktnim/indirektnim uvozom ali z jointventure strateškim partnerstvom se priporoča, ker je takšen pristop za vstop na afriški stanovanjski trg manj tvegan in cenejši od drugih, saj je alternativni trg lesenih stanovanj v Južni Afriki majhen in še nerazvit. Južnoafriški alternativni stanovanjski trg ima dva edinstvena tržna segmenta, in sicer 'high-end' segment (turizem, stanovanjske skupnosti, upokojitvene vasi in visoko standardne družinske hiše) in 'low-end' segment (socialna/državno subvencionirana stanovanja in zamenjava sol grajenih iz gline), ki jih slovenska stanovanjska gradbena industrija lahko izkoristi kot vstop na južnoafriški stanovanjski trg. Oba edinstvena segmenta sta povezana s prejemniki visokih, srednjih in nizkih dogodkov – kar nudi slovenskim stanovanjsko gradbenim družbam možnosti, da prilagodijo svojo vrhunsko inženirsko, inovativno, kakovostno in arhitekturno ponudbo s specializiranimi stanovanjskimi enotami ali rešitvami, ki so prilagojene določenim slojem prebivalstva s specifičnimi finančnimi zmožnostmi. Pri vstopu na južnoafriški stanovanjski trg je najbolj pomembno vzpostaviti partnerstvo z lokalnim podjetjem, ki je seznanjeno z njegovim načinom delovanja. Za pomoč pri iskanju uglednih in zanesljivih lokalnih partnerjev se podjetja lahko obrnejo na mrežo južnoafriških veleposlaništev, vladnih organizacij, analitikov stanovanjskega trga in pravnih podjetij.

## **Appendix B: Summary of Thesis in English**

The Slovenian housing companies heavily depend on former Yugoslavian markets and other EU markets. Some countries within the EU are experiencing unfavourable economic conditions. For example: Greece, Spain, Croatia, Portugal and Italy are experiencing unfavourable economic conditions. The Slovenian market is small in terms of population size with only about two million people. The decline in population (excluding immigrants) due to low birth rates and the aging population are likely to have a negative impact on business growth in the long run in Slovenia. The Slovenian annual financial statements for the period 2010 – 2012 indicate that some of the Slovenian wooden housing companies experienced a decline in revenue and profitability, while other wooden housing companies only gained a small increase in revenue and profitability. These factors and conditions offer Slovenian housing companies limited opportunities for growth.

On the other 'hand' Africa, particularly in the Sub-Saharan Africa, is experiencing population growth (youth being dominant) and economic growth. South Africa with its neighbouring countries are also experiencing relatively favourable demographic and economic conditions. Sub-Saharan African countries such as South Africa, Botswana, Namibia and Ghana are experiencing relatively stable political stability as compared to other African countries in Northern Africa. Furthermore, South Africa is one of the

world's emerging markets, and also a member of BRICS nations. South Africa is the largest economy in Africa by GDP, and is also ranked as the upper-middle income economy with one of the highest GDP per Capita (income) in Africa. South Africa had been minimally impacted by 2007-2009 global economic crisis and has quickly returned to its normal economic growth rates. The relatively favourable economic factors, demographic and political factors in South Africa brought about 'the question' as to whether South Africa could be an ideal market for the Slovenian housing companies to enter, by offering alternative housing units (mostly wooden houses), services and solutions. However, the analysis of economic and demographic factors is not sufficient to make conclusive recommendations about the South African alternative housing market potential.

We therefore 'follow' and apply the methodological principles of descriptive research design to investigate the potential of the South African alternative housing market for the Slovenian housing companies. The goal of the research study is to provide the managerial recommendations whether to enter or not enter the South African alternative housing market. The main objectives of research study are: (i) to critically analyse the costs and risks associated with entering the South African alternative housing market; (ii) to investigate the important entry modes into South African markets; (iii) to understand customer/consumer perception in relation to wooden houses in South Africa; (iv) to understand the supplier 'behaviour'; and (v) to analyse the role of the government sector in the South African alternative housing market. We used survey, interview and secondary sources as 'means' for obtaining quantitative and qualitative data from the South African working population, South African BEE housing companies, South African housing ministry, and Slovenian housing companies.

The results and findings from the primary data and secondary data yielded to economic factors, demographics factors, alternative housing market specific factors and other exogenous factors from which we could draw recommendations and a conclusion about the potential of the South African alternative housing market. We recommend and conclude that South African alternative housing is an ideal market for Slovenian housing companies to enter. The Slovenian housing companies should use the direct/indirect export or joint venture/strategic alliance partnership to enter the South African alternative housing market. The Slovenian housing companies should apply the 'Learning by Doing Approach' when entering the South African market, in order to accumulate knowledge about the market, move with the market and grow with market. The 'Learning by Doing Approach' with direct/indirect export or joint venture strategic alliance partnership is recommended because it is less risky and less costly than other market entry approaches; since the alternative wooden housing market in South Africa is small and not yet developed.

The South African alternative housing market has two unique market segments, namely high-end segment (tourism sector, gated communities, retirement villages and premium family houses) and low-end segment (social/state-subsidised housing and replacing mud

schools); from which Slovenian housing could exploit upon entry in the South African housing. The two unique segments are 'driven' by high income earners, middle income earners and low income earners – this would enable Slovenian housing companies to adapt their superior engineering, innovation, quality and architectural services by providing tailor-made housing units or services/solutions suitable for a specific income population cluster. The key factor upon entry into South African housing market is establishing partnership with a domestic partner who understands the housing market of South Africa. The network of South African embassies, government agencies, housing market analysts and legal firms could be used as 'first contacts' when searching for a reputable and reliable South African local partner.

## Appendix C - Economy

Table C1. Economic profile of South Africa

	Unit	2005	2006	2007	2008	2009	2010	2011	2012
<b>Currency</b>									South Africa Rand
<b>Production and income</b>									
GDP per capita	USD current PPPs	8 601	9 261	9 938	10 377	10 251	10 523	10 798	..
Gross national income (GNI) per capita	USD current PPPs	8 429	9 079	9 599	10 065	9 987	10 322	10 725	..
Household disposable income	Annual growth %	5.0	6.9	5.2	0.6	1.4	5.7	5.6	4.6
<b>Economic growth</b>									
Real GDP growth	Annual growth %	5.3	5.6	5.5	3.6	-1.5	3.1	3.5	2.5
Net saving rate in household disposable income	%	0.1	-0.8	-1.2	-1.2	-0.8	-0.5	-0.2	0.0
Gross fixed capital formation	% of GDP	11.0	12.1	14.0	13.0	-4.3	-2.0	4.5	5.7
<b>Economic structure - value added</b>									
Agriculture, forestry, fishing: share of real value added	%	2.7	2.9	3.0	3.0	2.9	2.6	2.5	2.6
Industry: share of real value added	%	28.4	28.2	28.1	28.8	27.0	26.0	25.4	24.4
Services: share of real value added	%	21.1	21.6	22.6	21.6	21.3	21.2	21.3	21.5
<b>Government deficits and debt</b>									
Government deficit	% of GDP	-2.0	-1.4	-0.6	-1.4	-5.2	-6.0	-5.6	-6.2
<b>Trade</b>									
Imports of goods and services	% of GDP	27.9	32.5	34.2	38.9	28.2	27.6	29.9	31.3
Exports of goods and services	% of GDP	27.4	30.0	31.5	35.9	27.3	27.4	29.3	28.3
Goods trade balance: exports minus imports of goods	Bln USD	-8.0	-15.9	-15.8	-13.6	-9.9	-8.7	-6.8	..
Imports of goods	Bln USD	55.0	68.5	79.9	87.6	63.8	80.1	99.7	..
Exports of goods	Bln USD	47.0	52.6	64.0	74.0	53.9	71.5	93.0	..
Service trade balance: exports minus imports of services	Bln USD	-0.8	-2.0	-2.7	-4.2	-2.8	-4.5	-4.8	..

Imports of services	Bln USD	12.1	14.2	16.5	17.0	14.8	18.5	19.7	..
Exports of services	Bln USD	11.3	12.2	13.8	12.8	12.0	14.0	14.8	..
Current account balance of payments	% of GDP	-3.5	-5.3	-7.0	-7.2	-4.1	-2.9	..	..
<b>Foreign direct investment (FDI)</b>									
Outward FDI stocks	Mln USD	37 706	50 826	65 878	49 956	72 583	89 453	78 473	..
Inward FDI stocks	Mln USD	78 986	87 765	110 415	67 987	117 434	153 133	134 350	..
Inflows of foreign direct investment	Mln USD	6 647	-527	5 695	9 007	5 696	1 228	6 004	4 572
Outflows of foreign direct investment	Mln USD	930	6 063	2 966	-3 134	1 151	-76	2 785	4 369
<b>Prices and interest rates</b>									
Inflation rate: all items	Annual growth %	2.1	3.2	6.2	10.0	7.2	4.1	5.0	5.7
Inflation rate: all items non food non energy	Annual growth %	1.7	2.4	5.3	8.0	7.6	4.2	3.7	4.8
Inflation rate: food	Annual growth %	1.7	6.0	10.0	15.5	9.4	1.2	7.1	7.2
Inflation rate: energy	Annual growth %	11.5	10.2	8.8	28.1	-6.4	14.6	19.4	14.6
Producer Price Indices (PPI): manufacturing	Annual growth %	3.7	6.4	9.8	15.2	0.7	1.9	5.7	6.6
Long-term interest rates	%	8.07	7.94	7.99	9.10	8.70	8.62	8.52	7.90
<b>Purchasing power and exchange rates</b>									
Purchasing power parities	ZAR per USD	3.87	4.00	4.20	4.45	4.75	5.05	5.34	5.54
Exchange rates	ZAR per USD	6.36	6.77	7.05	8.26	8.47	7.32	7.26	8.21
Indices of price levels	OECD = 100	60	59	58	51	55	67	69	..
<b>Energy supply and prices</b>									
Total primary energy supply (TPES)	Mtoe	128.2	127.2	137.3	147.7	144.3	136.9	..	..
TPES per unit of GDP at 2000 prices and PPPs	Toe per '000 USD	0.32	0.30	0.30	0.32	0.31	0.29	..	..
Renewables' contribution to total primary energy supply	%	10.7	11.0	10.2	9.6	9.9	10.7	..	..
Crude oil import prices	USD per barrel	..	..	..	..	..	..	..	..
<b>Information and Communications Technology (ICT)</b>									
Households with access to the Internet	%	3.0	..	..	..	..	10.1	9.8	..
<b>Environment</b>									
CO <sub>2</sub> emissions from fuel combustion	Mln tonnes	329	330	355	387	369	347	..	..

<b>Employment</b>									
Employment rate in population aged 15-24	%	15.0	16.0	15.7	16.5	14.4	12.8	12.7	12.2
Employment rate in population aged 25-54	%	59.3	61.1	60.6	60.9	58.7	56.6	56.5	56.9
Employment rate in population aged 55-64	%	42.2	43.6	42.2	40.9	39.2	37.3	38.0	38.0
<b>Unemployment</b>									
Unemployment rate: total labour force	%	23.5	22.1	21.0	22.9	23.9	24.9	24.9	..
Unemployment rate, men: male labour force	%	19.7	17.8	18.2	20.0	22.1	22.8	22.4	..
Unemployment rate, women: female labour force	%	27.8	27.0	24.3	26.3	26.1	27.5	27.9	..
Long-term unemployment: total unemployed	%	63.7	59.5	57.7	49.5	49.3	56.1	58.8	57.7
<b>Research and Development (R&amp;D)</b>									
Gross domestic expenditure on R&D	Mln USD	3 654	4 005	4 178	4 370	4 019	..	..	..
Researchers: full-time equivalent	Per '000 employed	1.4	1.4	1.4	1.4	1.5	..	..	..
<b>Population</b>									
Total population	'000 persons	47 793	48 331	48 842	49 319	49 752	50 133	50 385	50 655
Population growth rates	%	1.2	1.1	1.1	1.0	0.9	0.8	0.5	0.5
Total fertility rates	Children	2.7	2.6	2.6	2.5	2.5	2.4	..	..
Youth population aged less than 15	% of population	31.7	31.4	31.0	30.7	30.4	30.1	29.9	29.7
Elderly population aged 65 and over	% of population	4.1	4.2	4.3	4.4	4.5	4.6	4.8	4.9
Life expectancy at birth	Years	51.1	51.0	51.1	51.3	51.6	52.1	52.6	..
Life expectancy at birth: men	Years	49.7	49.7	50.0	50.3	50.8	51.4	52.0	..
Life expectancy at birth: women	Years	52.5	52.2	52.1	52.2	52.4	52.8	53.2	..
Infant mortality	Per '000	51.6	50.0	46.8	44.9	41.4	35.5	34.6	..
Overweight and obese aged 15 and over	% of population	..	..	..	..	..	42.4	..	..
Suicide rates	Per 100 000 persons	0.5	0.5	0.5	0.4	0.4	..	..	..

Source: 2012 *OECD Factbook statistics*; 2013 *World Bank Databank*; 2013. 2013 *Statistics South Africa*.



Table C2. South Africa's global competitiveness rankings

Measure	2010 Ranking (Out of 139 countries)	2011 Ranking (Out of 142 countries)	2013 Ranking (Out of 148 countries)	
SA Overall Ranking	54	50	53	↓
Basic Requirements overall score	79	85	95	↓
Institutions	47	46	41	↑
Infrastructure	63	62	66	↓
Macro-Economics	43	55	95	↓
Health and Education	129	131	135	↓
Efficiency Enhancers overall score	42	38	34	↑
Higher Education	75	73	89	↓
Goods Market Efficiency	40	32	28	↑
Labour Market Efficiency	97	95	116	↓
Financial Market Development	9	4	3	↑
Technological Readiness	76	76	62	↑
Market Size	25	25	25	→
Innovation and Sophistication	43	39	37	↑
Business Sophistication	38	38	35	↑
Innovation	44	41	39	↑

Source: 2013World Economic Forum; 2014Pennington, South Africa – the Good News.

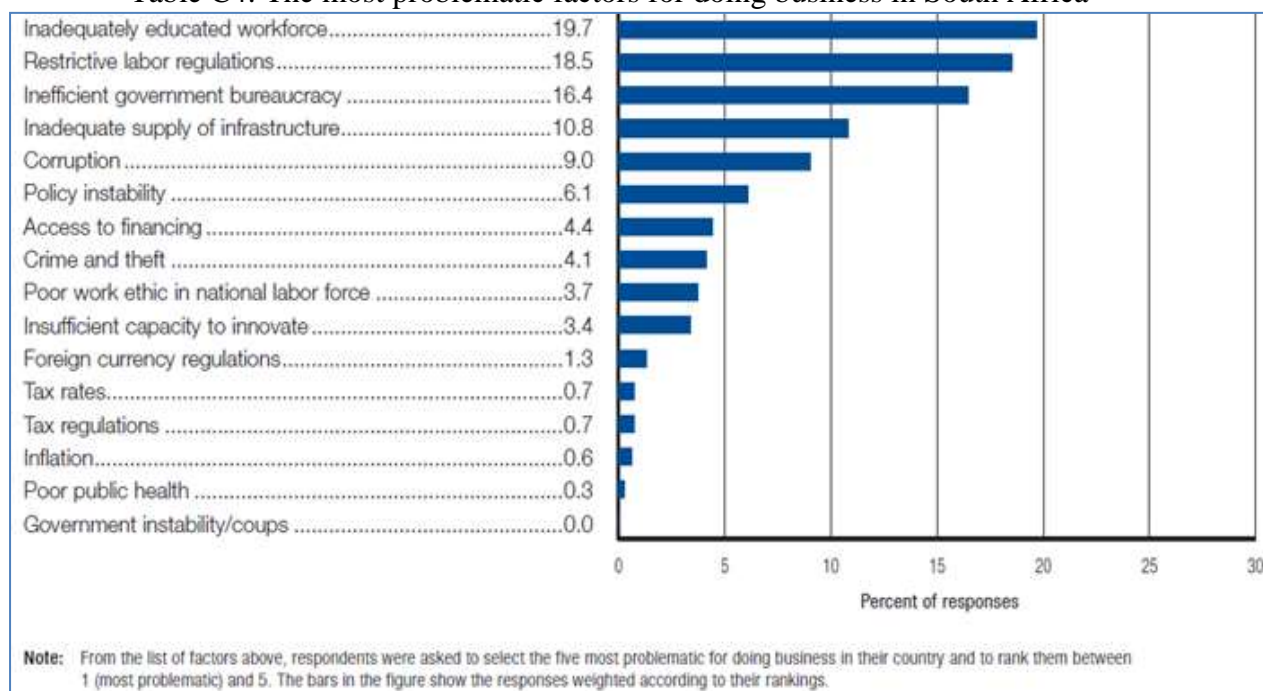
Table C3. Doing Business in South Africa, Sub-Saharan Africa and OECD

Indicator	South Africa	Sub-Saharan Africa	OECD
<b>Starting a business</b>			
Procedures (number)	5	8	5
Time (days)	19	34	12
Cost (% of income per capita)	0,3	67,3	4,5
Paid-in Min. Capital (% of income per capita)	0	116	13,3
<b>Dealing with construction permits</b>			
Procedures (number)	13	15	14
Time (days)	127	196	143
Cost (% of income per capita)	33,4	751,6	78,7
<b>Getting electricity</b>			
Procedures (number)	5	5	5
Time (days)	226	133	98
Cost (% of income per capita)	1505,8	4736,9	93
<b>Registering property</b>			
Procedures (number)	6	6	5
Time (days)	23	65	26

Cost (% of property value)	5,9	9,4	4,5
<b>Getting credit</b>			
Strength of legal rights index (0-10)	10	6	7
Depth of credit information index (0-6)	6	2	5
Public registry coverage (% of adults)	0	4,2	10,2
Private bureau coverage (% of adults)	54	5,6	67,4
<b>Protecting investors</b>			
Extent of disclosure index (0-10)	8	5	6
Extent of director liability index (0-10)	8	4	5
Ease of shareholder suits index (0-10)	8	5	7
Strength of investor protection index (0-10)	8	4,5	6,1
<b>Paying taxes</b>			
Payments (number per year)	9	39	12
Time (hours per year)	200	319	176
Profit tax (%)	24,3	19	15,2
Labor tax and contributions (%)	4,1	13,3	23,8
Other taxes (%)	4,9	25,9	3,7
Total tax rate (% profit)	33,3	57,8	42,7
<b>Trading across borders</b>			
Documents to export (number)	6	8	4
Time to export (days)	16	31	10
Cost to export (US\$ per container)	1620	1990	1028
Documents to import (number)	7	9	5
Time to import (days)	23	37	10
Cost to import (US\$ per container)	1940	2567	1080
<b>Enforcing contracts</b>			
Time (days)	600	649	510
Cost (% of claim)	33,2	50,1	20,1
Procedures (number)	29	39	31
<b>Resolving insolvency</b>			
Time (years)	2	3,4	1,7
Cost (% of estate)	18	23	9
Outcome (0 as piecemeal sale and 1 as going concern)	0	0	1
Recovery rate (cents on the dollar)	35,4	22,4	70,6

Source: 2013 World Bank Group Doing Business Data.

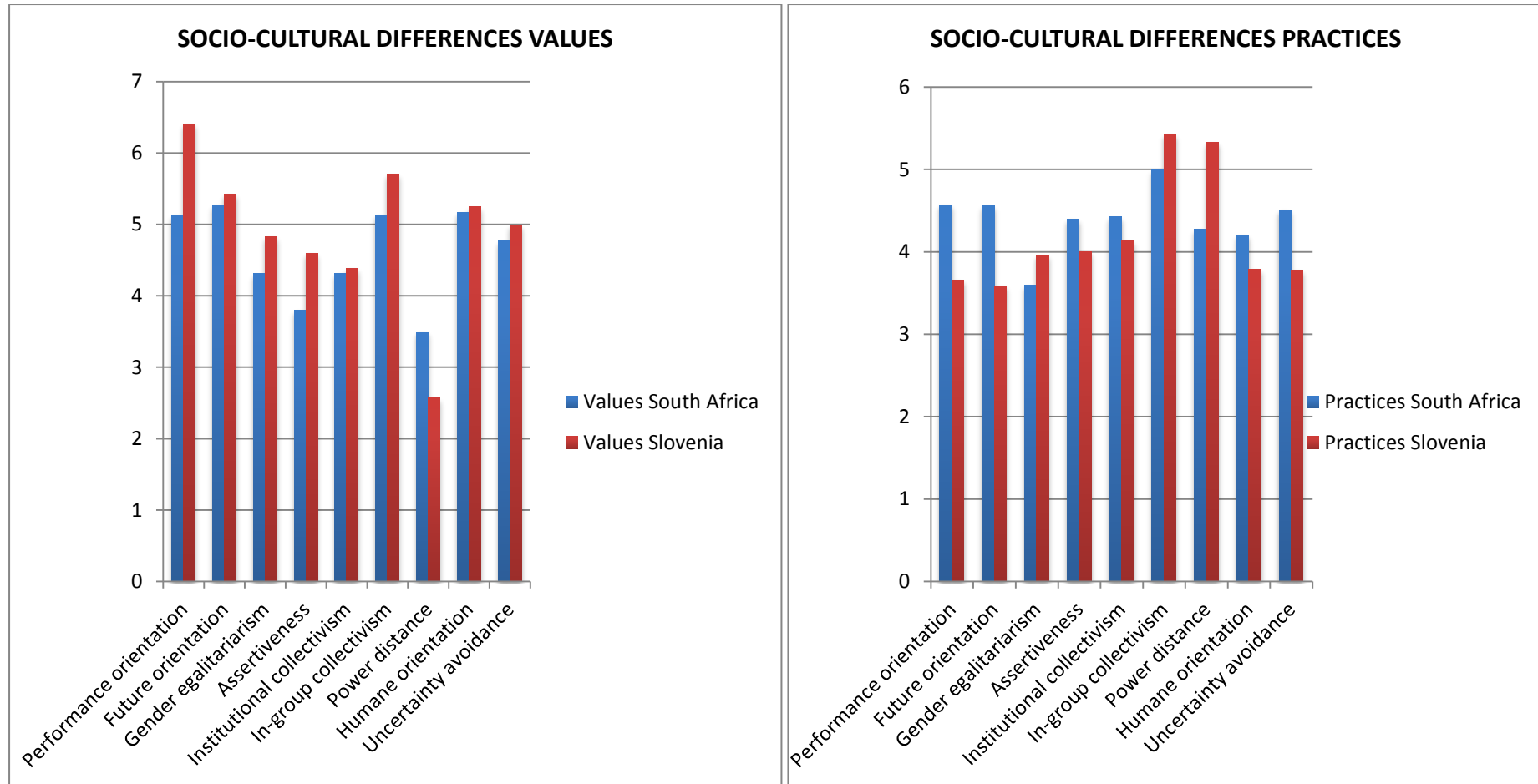
Table C4: The most problematic factors for doing business in South Africa



Source: 2013 *World Economic Forum*.

## Appendix D: Cultural Distance

Table D1. Estimation of cultural distance between Slovenia and South Africa



Source: 2004 House, R. J., Hanges, P. J., Javidan, M., Dorfman, P. W., & Gupta, V; Culture, Leadership, and Organizations The Globe Study of 62 Societies. SAGE Publications.

## Appendix E: Cost Calculations for Direct Export & Joint Venture/Strategic Alliance

### Internal Costs

#### Container Costs

\* We estimated the container costs using information from worldfreightrates.com. We took the estimated value of shipping 10,000 US dollars with a 45ft, 40ft and 20ft, and we divided the three totals by 35ft  $((40+45+20)/3)$ . This gave us an estimated value of 1ft(0.3 meters) of container space equalling 166 US dollars per 0.3 meters. 166 US dollars is equal to 120 Eur (XE, 2014). Therefore the cost of shipping 1 meter of construction materials from Koper to East London is roughly **400 Eur**. For one 40ft (12 meter) container with goods worth 10,000 Eur the estimated value was projected by worldfreightrates.com and then we doubled it to get an estimate of the value.

### Costs of Market Information and Partner Information

#### Market Research

\* **One Week Doing Basic Research-** Five days of basic research on the market will equal roughly 83 Eur per day in wages for a Slovenian employee working from Slovenia (SE, 2013). This was taken by breaking down the monthly wage of a Slovenian marketing(2,500 Eur per month) staff member into wage per day.  $5 \times 83 =$  **415 Eur** for the week.

\***Business Trip to South Africa to Explore Market-** For a 12 day business trip to Johannesburg there are a few crucial costs. The first one is the plane ticket. The business trip will include two Slovenian employees, so the return plane ticket from Ljubljana to Johannesburg is 1300 Eur for one employee and 2600 Eur combined for two employees (TA, 2013). It costs 105.5 Eur on average per night to stay in a four star hotel in Johannesburg. This was calculated by taking the average price of ten four star hotels in Johannesburg and looking at the average price per night being offered (TA, 2013).  $105.5 \text{ Eur} \times 12 \text{ days} = 1266 \text{ Eur}$ .  $1266 \times 2 \text{ employees} = 2532 \text{ Eur}$ . 2000 Eur should also be available for entertaining business clients and other expenses. The total rough estimated cost for the business trip is therefore  $2600 + 2532 + 2000 =$  **7,132 Eur**.

### Transactional Costs

#### Negotiation Costs

\***Internet Telephone Calls** - The cost to get unlimited worldwide calls to landline and mobile phones is **22.55 Eur per month** (10.49 Eur + 12.06 Eur (VAT)) (Skype, 2013). The cost was only calculated for one month.

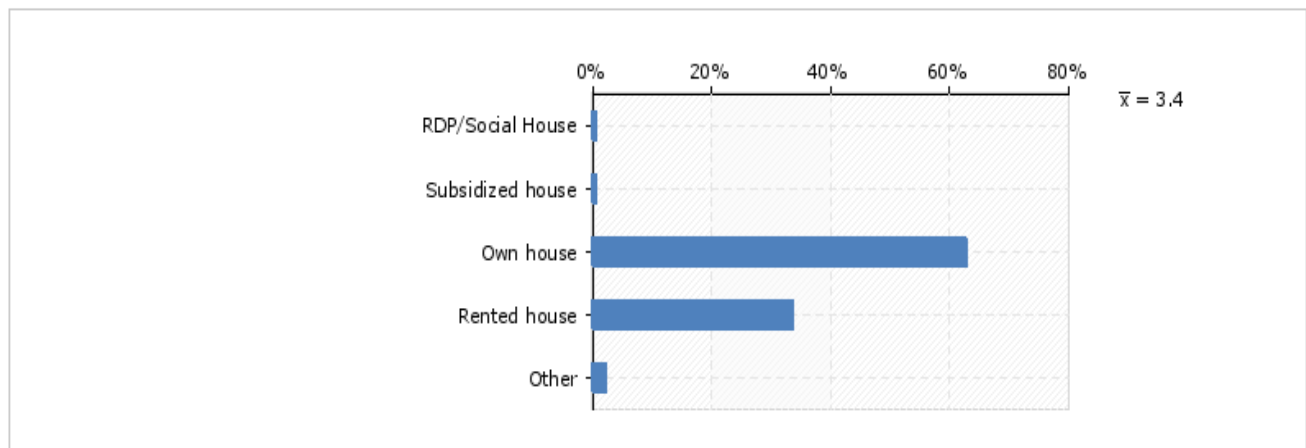
\***Business Trip for Negotiations** - For a 12 day business trip to Johannesburg there are a few crucial costs. The first one is the plane ticket. The business trip will include two Slovenian employees, so the return plane ticket from Ljubljana to Johannesburg is 1300 Eur for one

employees and 2600 Eur combined for two employees (TA, 2013). It costs 105.5 Eur on average per night to stay in a four star hotel in Johannesburg. This was calculated by taking the average price of ten four star hotels in Johannesburg and looking at the average price per night being offered(TA, 2013).  $105.5 \text{ Eur} * 12 \text{ days} = 1266 \text{ Eur}$ .  $1266 * 2 \text{ employees} = 2532 \text{ Eur}$ . 2000 Eur should also be available for entertaining business clients and other expenses. The total rough estimated cost for the business trip is therefore  $2600+2532+2000 = \mathbf{7,132 \text{ Eur}}$ .

**\*Legal Fees-** A Slovenian company will need to get legal documents drawn up in South Africa if they want to work in South Africa. The cost per hour for legal services in South Africa for an attorney with lots of experience ranges averages around 139 Eur an hour(VWA, 2013). We estimated that a Slovenian company will need to higher an attorney to work on legal documentation for roughly five hours in total. This would mean the legal fees to start up for a Slovenian company in a joint venture with a South African company would total  $139*5= 695 \text{ Eur}$ .

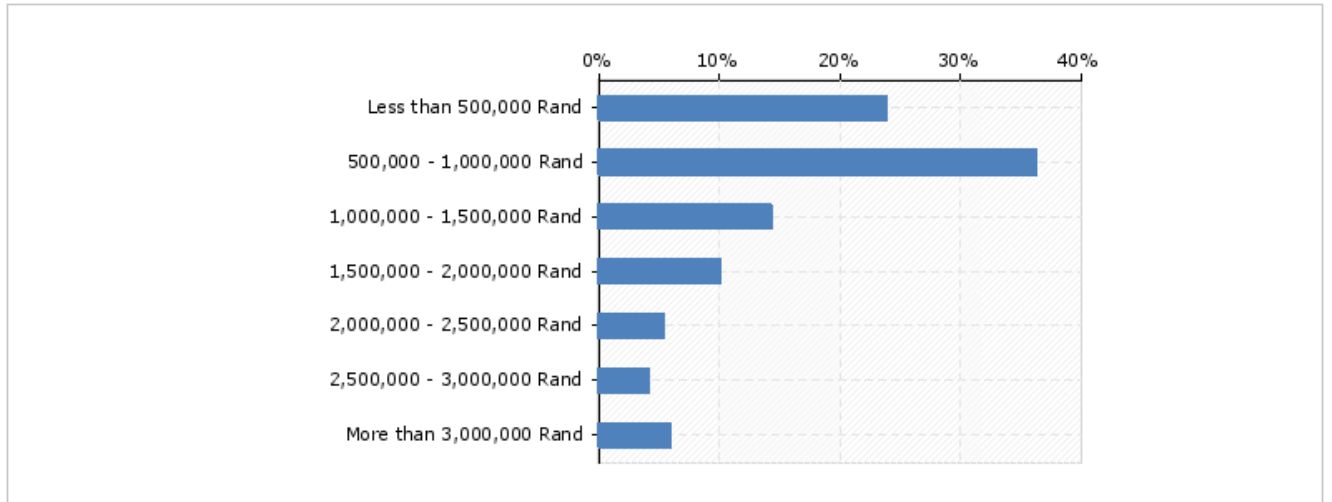
## Appendix F: Survey: General Population South Africa

*Figure F1. What kind of house do you live in?*



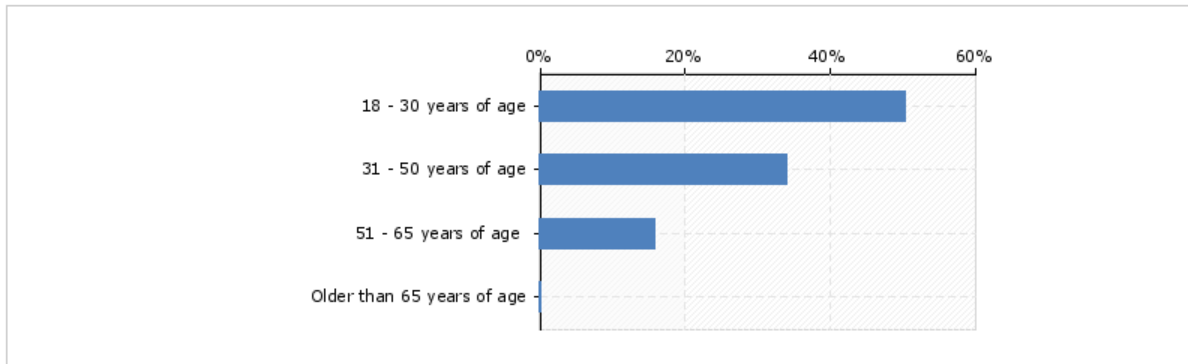
From the sample 1% of respondents said they lived in an RDP/Social House, 1% said they lived in a subsidized house, 63% said they lived in their own home, 33% said they lived in a rented house and 2% answered "other".

*Figure F2: What is the estimated value of the house you are living in?*



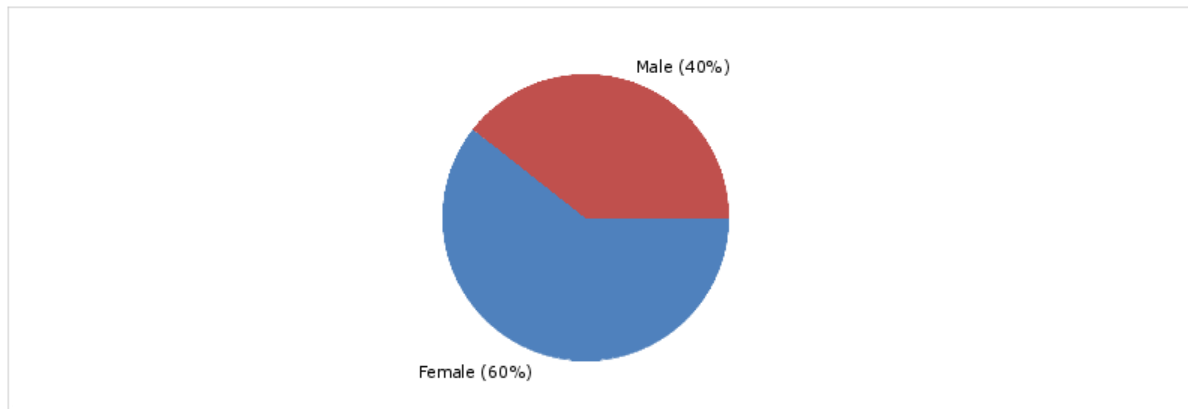
From the sample 25% of respondents said they lived in a home with a value of less than 500,000 Rand (32,971 Eur). The range with the most responses was the 500,000-1,000,000 Rand (65,938 Eur). These two ranges had cumulative percent of 61% and made up the majority of responses.

*Figure F3. In which age group do you belong?*



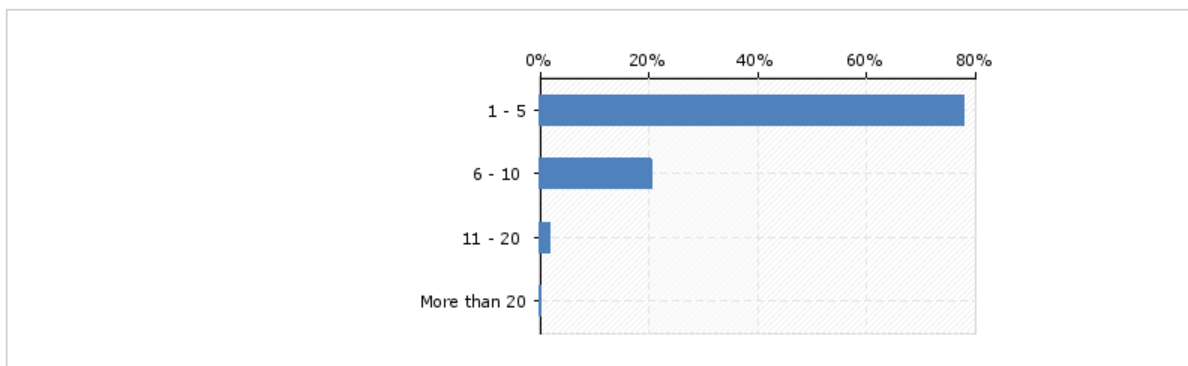
Of the sample 50% were between the ages of 18-30 years old, 34% were between the ages of 31-50, and 16% were between the ages of 51-65. There were no respondents over 65.

*Figure F4. What is your Gender*



Of the respondents 60% were female and 40% were male.

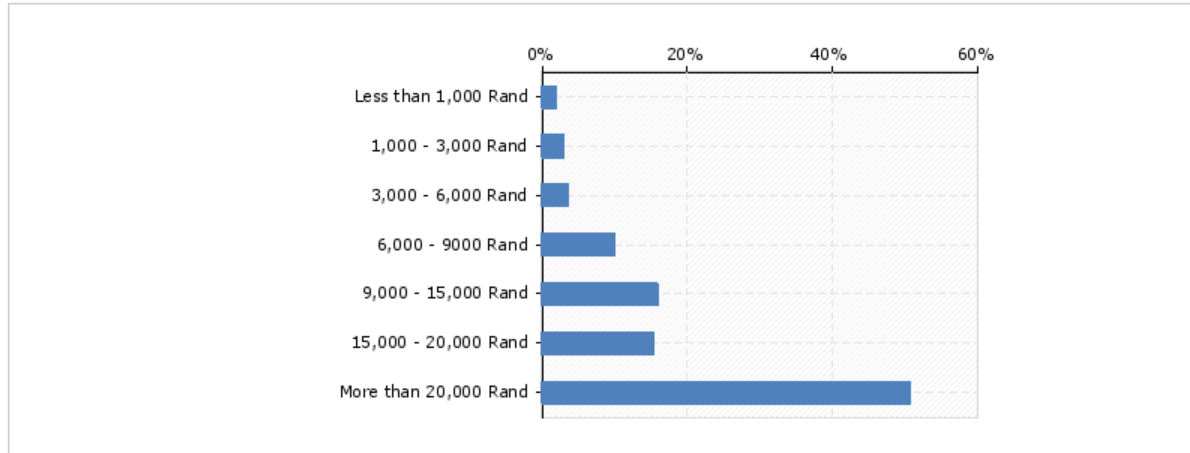
*Figure F5. Number of people in your household?*



Of the respondents 77% answered that they lived in a household with 1-5 people, 20% said they lived in a household of 6-10, and 3% said they lived in a household of 11-20.

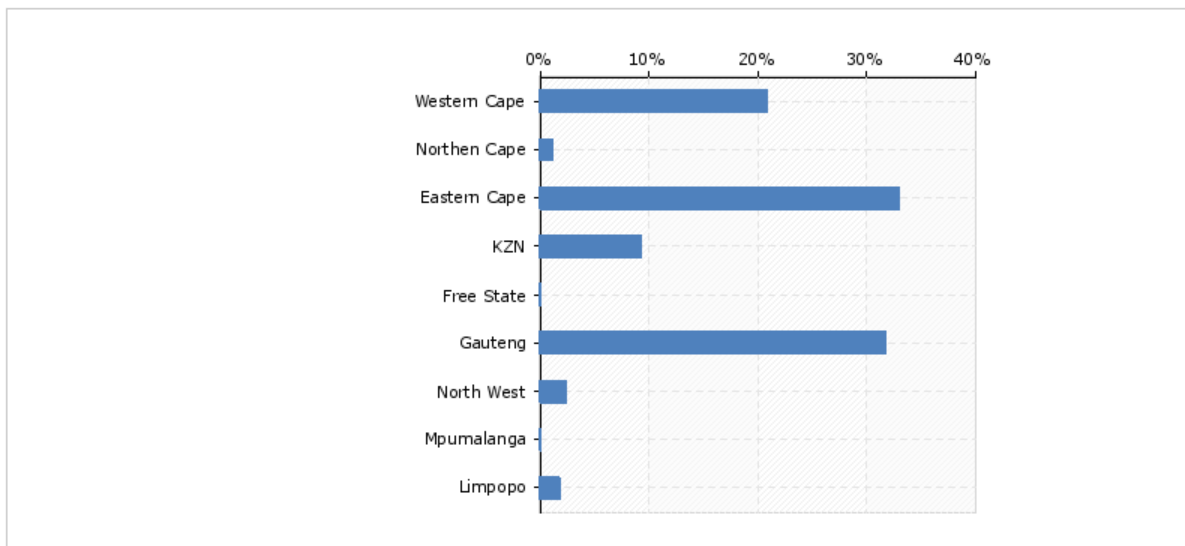


*Figure F6. Average household income*



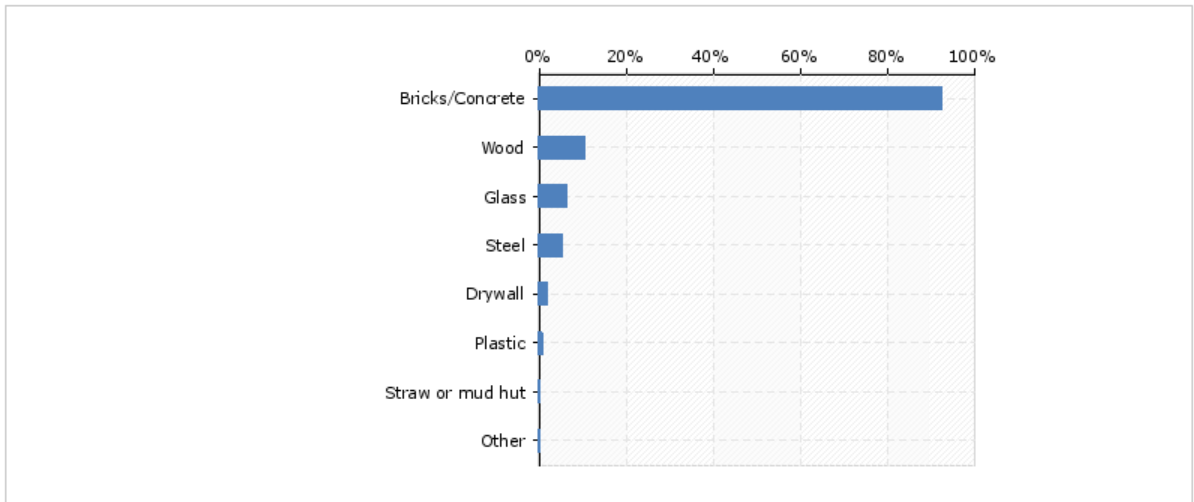
When it came to household income 50% of respondents had a monthly household income of 20,000 Rand (1,317 Eur), 15% had a monthly household income of 15,000-20,000 Rand (988 Eur), and 17% had a monthly household income of 9,000-15,000 Rand (583 Eur). These three groups cumulatively made up 82% of responses. The other four ranges made up the remaining 18%.

*Figure F7. In which province do you currently live in?*

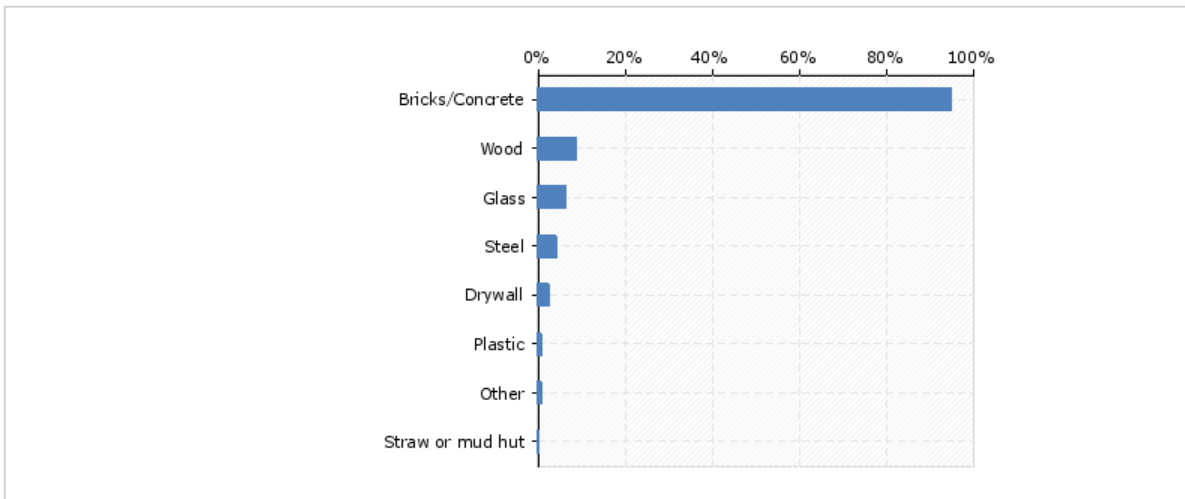


The majority of respondents came from Western Cape (21%), Eastern Cape (34%), and Gauteng province (31%). This is just an overview of the demographics of the survey.

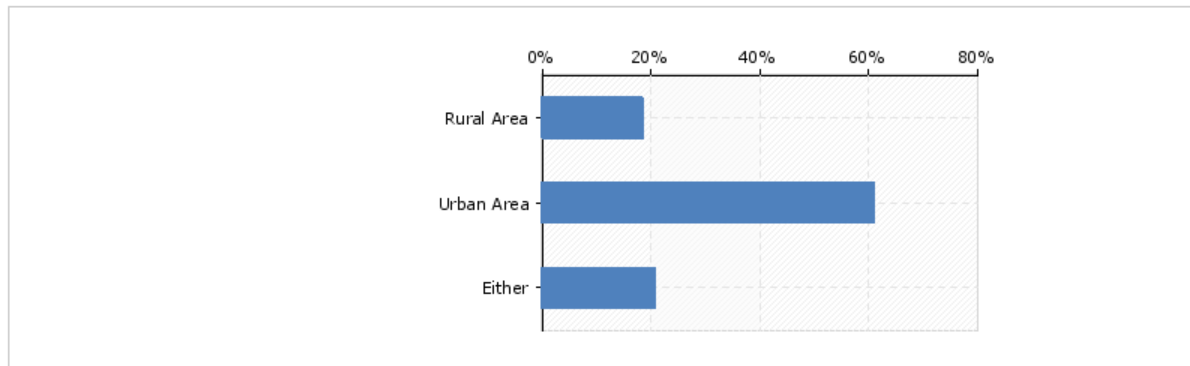
*Figure F8:* If you were to have your own home/house built, which building material would you use for the walls?



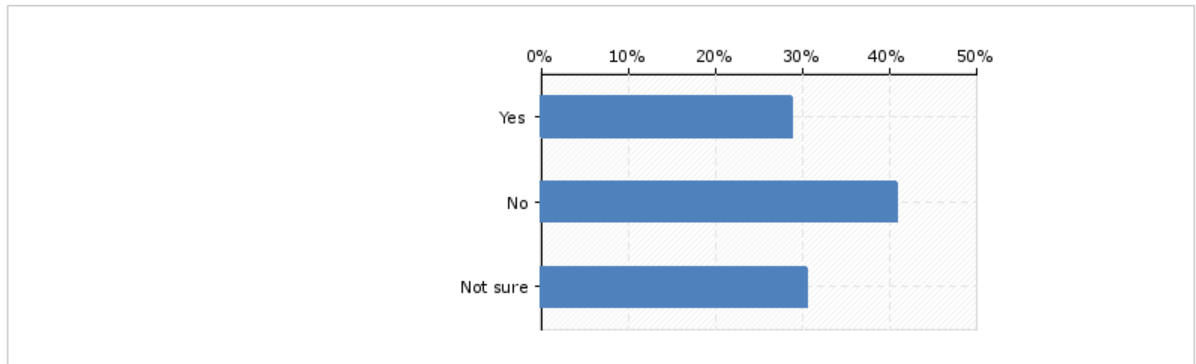
*Figure F9:* If you were to buy your own house which building material would you want for the walls?



*Figure F10.* Where would you want build or buy your house / home?



*Figure F11.* Would you be willing to buy or build a house which is customized to your liking, which is made of wood (without bricks/concrete)?



*Figure F12.* What are walls in your house/home that you currently live in made of?

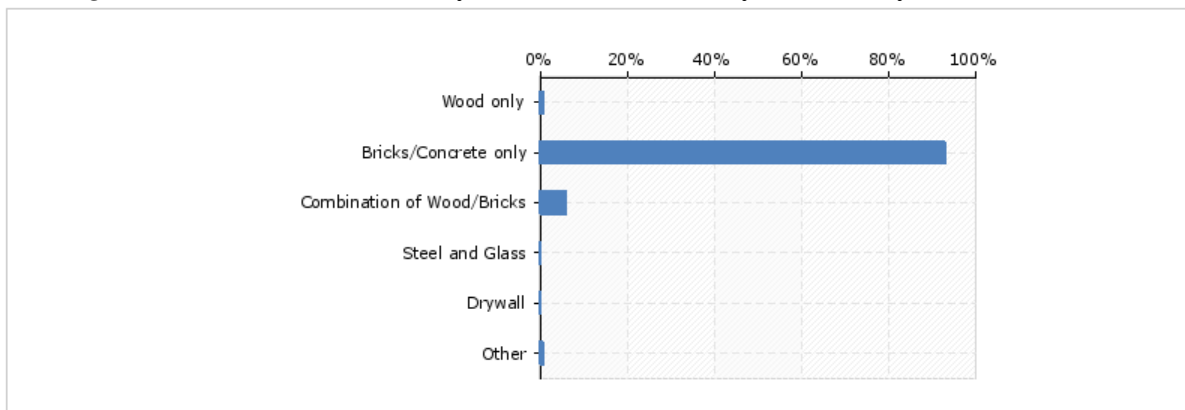


Figure F13. If you were to buy a house which value range would you be looking at?

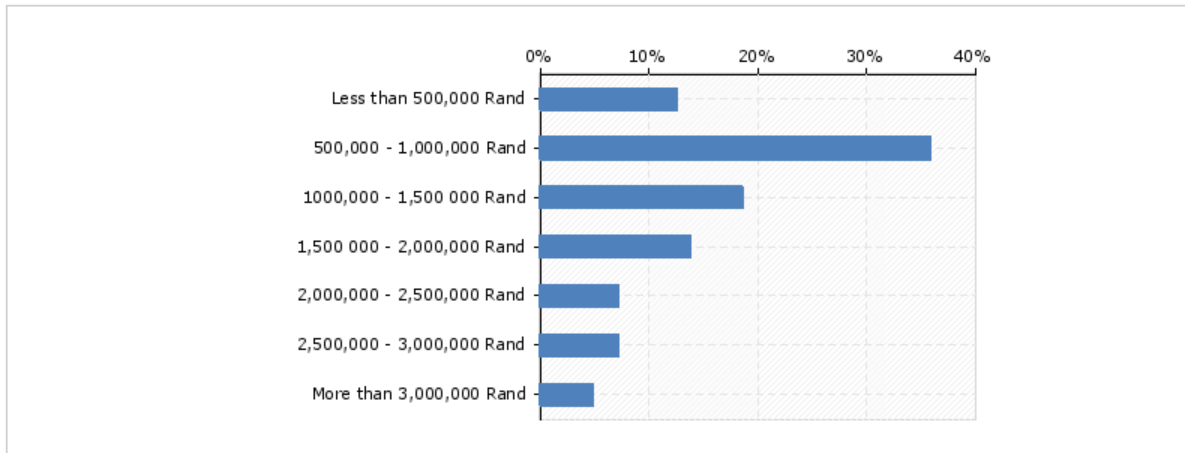
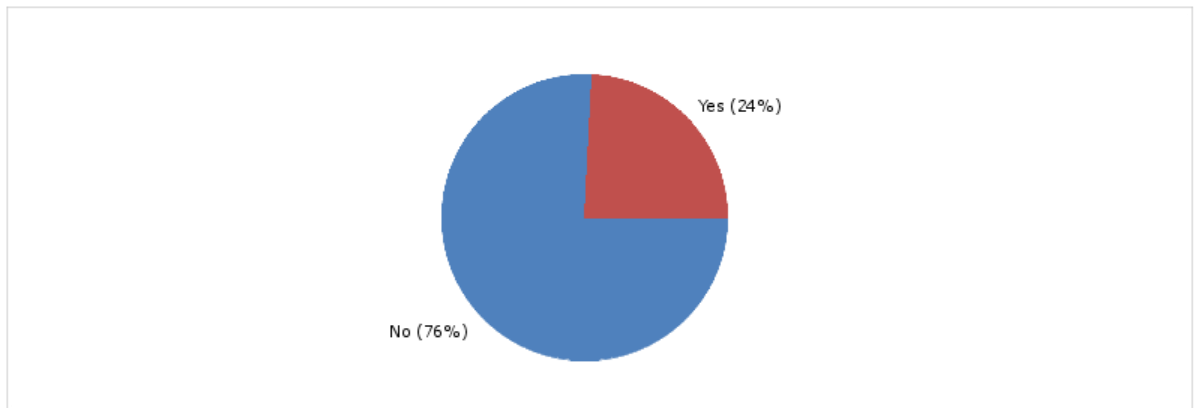


Figure F14. Do you know of a company in your area/region/town/city that sells wooden houses (i.e. houses with walls made of wood)?



*Figure F15.* It seems wooden houses in South Africa are unpopular, in your opinion which factors below explain this unpopularity?

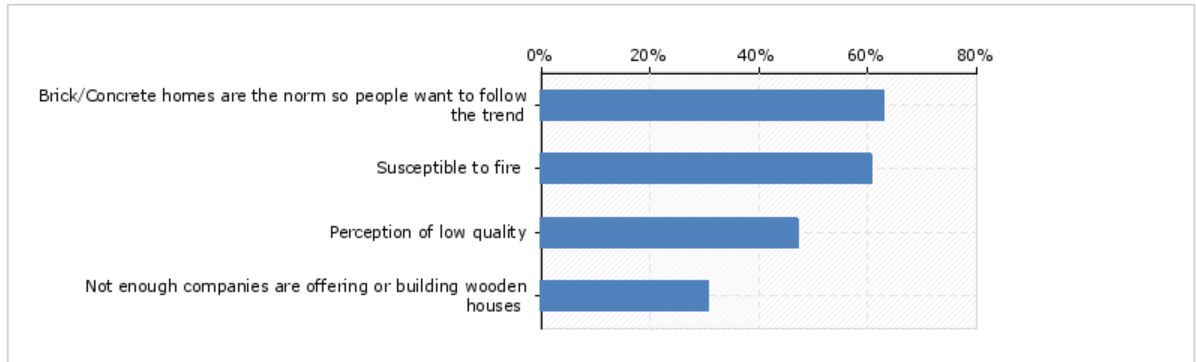


Table F1. Gender vs Awareness about Company Presence

Do you know of a company in your area/region/town/city that sells wooden houses (i.e. houses with walls made of wood)? * What is your Gender: Crosstabulation					
			What is your Gender:		Total
			Male	Female	
Do you know of a company in your area/region/town/city that sells wooden houses (i.e. houses with walls made of wood)?	Yes	Count	22	19	41
		Expected Count	16,0	25,0	41,0
		% within Do you know of a company in your area/region/town/city that sells wooden houses (i.e. houses with walls made of wood)?	53,7%	46,3%	100,0%
		% within What is your Gender:	33,3%	18,4%	24,3%
		% of Total	13,0%	11,2%	24,3%
	No	Count	44	84	128

		Expected Count	50,0	78,0	128,0
		% within Do you know of a company in your area/region/town/city that sells wooden houses (i.e. houses with walls made of wood)?	34,4%	65,6%	100,0%
		% within What is your Gender:	66,7%	81,6%	75,7%
		% of Total	26,0%	49,7%	75,7%
Total		Count	66	103	169
		Expected Count	66,0	103,0	169,0
		% within Do you know of a company in your area/region/town/city that sells wooden houses (i.e. houses with walls made of wood)?	39,1%	60,9%	100,0%
		% within What is your Gender:	100,0%	100,0%	100,0%
		% of Total	39,1%	60,9%	100,0%
Chi-Square Tests					
	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	4,851 <sup>a</sup>	1	,028		
Continuity Correction <sup>b</sup>	4,075	1	,044		
Likelihood Ratio	4,765	1	,029		
Fisher's Exact Test				,042	,022
Linear-by-Linear Association	4,823	1	,028		

N of Valid Cases	169				
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Table F2. Age vs Awareness about Company Presence

Do you know of a company in your area/region/town/city that sells wooden houses (i.e. houses with walls made of wood)? * In which age group do you belong?					
Crosstab					
			15. In which age group do you belong?		
			18 - 30 years of age	31 - 50 years of age	
13. Do you know of a company in your area/region/town/city that sells wooden houses (i.e. houses with walls made of wood)?	Yes	Count	19	10	
		Expected Count	20,2	13,8	
		% within 13. Do you know of a company in your area/region/town/city that sells wooden houses (i.e. houses with walls made of wood)?	47,5%	25,0%	
		% within 15. In which age group do you belong?	22,4%	17,2%	
		% of Total	11,3%	6,0%	
	No	Count	66	48	
		Expected Count	64,8	44,2	
		% within Do you know of a company in your area/region/town/city that sells wooden houses (i.e. houses with walls made of wood)?	51,6%	37,5%	
		% within In which age group do you belong?	77,6%	82,8%	

		% of Total	39,3%	28,6%
Total		Count	85	58
		Expected Count	85,0	58,0
		% within Do you know of a company in your area/region/town/city that sells wooden houses (i.e. houses with walls made of wood)?	50,6%	34,5%
		% within In which age group do you belong?	100,0%	100,0%
		% of Total	50,6%	34,5%

Crosstab				
			15. In which age group do you belong?	Total
			51 - 65 years of age	
Do you know of a company in your area/region/town/city that sells wooden houses (i.e. houses with walls made of wood)?	Yes	Count	11	40
		Expected Count	6,0	40,0
		% within Do you know of a company in your area/region/town/city that sells wooden houses (i.e. houses with walls made of wood)?	27,5%	100,0%
		% within In which age group do you belong?	44,0%	23,8%
		% of Total	6,5%	23,8%



	No	Count	14	128
		Expected Count	19,0	128,0
		% within Do you know of a company in your area/region/town/city that sells wooden houses (i.e. houses with walls made of wood)?	10,9%	100,0%
		% within 15. In which age group do you belong?	56,0%	76,2%
		% of Total	8,3%	76,2%
Total	Count	25	168	
	Expected Count	25,0	168,0	
	% within Do you know of a company in your area/region/town/city that sells wooden houses (i.e. houses with walls made of wood)?	14,9%	100,0%	
	% within In which age group do you belong?	100,0%	100,0%	
	% of Total	14,9%	100,0%	
Chi-Square Tests				
	Value	Df	Asymp. Sig. (2-sided)	
Pearson Chi-Square	7,097 <sup>a</sup>	2	,029	
Likelihood Ratio	6,473	2	,039	
Linear-by-Linear Association	2,444	1	,118	
N of Valid Cases	168			

Table F3. Age vs Willingness to Buy a Customised Wooden House

Would you be willing to buy or build a house which is customized to your liking, which is made of wood (without bricks/concrete) ? * In which age group do you belong?						
			15. In which age group do you belong?			Total
			18 - 30 years of age	31 - 50 years of age	51 - 65 years of age	
Would you be willing to buy or build a house which is customized to your liking, which is made of wood (without bricks/concrete) ?	Yes	Count	15	18	14	47
		Expected Count	23,6	15,9	7,4	47,0
		% within Would you be willing to buy or build a house which is customized to your liking, which is made of wood (without bricks/concrete) ?	31,9%	38,3%	29,8%	100,0%
		% within In which age group do you belong?	17,4%	31,0%	51,9%	27,5%
		% of Total	8,8%	10,5%	8,2%	27,5%
	No	Count	40	23	7	70
		Expected Count	35,2	23,7	11,1	70,0
		% within Would you be willing to buy or build a house which is customized to your liking, which is made of wood (without bricks/concrete) ?	57,1%	32,9%	10,0%	100,0%
		% within 15. In which age group do you belong?	46,5%	39,7%	25,9%	40,9%
		% of Total	23,4%	13,5%	4,1%	40,9%

	Not sure	Count	31	17	6	54
		Expected Count	27,2	18,3	8,5	54,0
		% within . Would you be willing to buy or build a house which is customized to your liking, which is made of wood (without bricks/concrete) ?	57,4%	31,5%	11,1%	100,0%
		% within . In which age group do you belong?	36,0%	29,3%	22,2%	31,6%
		% of Total	18,1%	9,9%	3,5%	31,6%
Total	Count	86	58	27	171	
	Expected Count	86,0	58,0	27,0	171,0	
	% within Would you be willing to buy or build a house which is customized to your liking, which is made of wood (without bricks/concrete) ?	50,3%	33,9%	15,8%	100,0%	
	% within In which age group do you belong?	100,0%	100,0%	100,0%	100,0%	
	% of Total	50,3%	33,9%	15,8%	100,0%	
Chi-Square Tests						
	Value	df	Asymp. Sig. (2-sided)			
Pearson Chi-Square	12,803 <sup>a</sup>	4	,012			
Likelihood Ratio	12,313	4	,015			
Linear-by-Linear Association	8,489	1	,004			

N of Valid Cases	171		
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Table F4. Province vs Value Range

In which province do you currently live in? * If you were to buy a house which value range would you be looking at? Crosstabulation										
			If you were to buy a house which value range would you be looking at?							Total
			Less than 500,000 Rand	500,000 - 1,000,000 Rand	1000,000 - 1,500,000 Rand	1,500,000 - 2,000,000 Rand	2,000,000 - 2,500,000 Rand	2,500,000 - 3,000,000 Rand	More than 3,000,000 Rand	
In which province do you currently live in?	Limpopo	Expected Count	,3	,7	,4	,3	,1	,1	,1	2,0
		% within In which province do you currently live in?	50,0%	0,0%	0,0%	0,0%	0,0%	50,0%	0,0%	100,0%
		% within . If you were to buy a house which value range would you be looking at?	4,3%	0,0%	0,0%	0,0%	0,0%	8,3%	0,0%	1,2%
		% of Total	0,6%	0,0%	0,0%	0,0%	0,0%	0,6%	0,0%	1,2%
Total		Count	23	60	31	22	12	12	8	168
		Expected Count	23,0	60,0	31,0	22,0	12,0	12,0	8,0	168,0

	% within In which province do you currently live in?	13,7%	35,7%	18,5%	13,1%	7,1%	7,1%	4,8%	100,0%
	% within If you were to buy a house which value range would you be looking at?	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%
	% of Total	13,7%	35,7%	18,5%	13,1%	7,1%	7,1%	4,8%	100,0%
<b>Chi-Square Tests</b>									
	Value	df	Asymp. Sig. (2-sided)						
Pearson Chi-Square	51,558 <sup>a</sup>	36	,045						
Likelihood Ratio	54,586	36	,024						
Linear-by-Linear Association	,534	1	,465						
N of Valid Cases	168								

Table F5. Household Income vs Value Range

Average household income *If you were to buy a house which value range would you be looking at?							
Crosstabulation							
	If you were to buy a house which value range would you be looking at?						
	Less than 500,000 Rand	500,000 - 1,000,000 Rand	1000,00 - 1,500 000 Rand	1,500 000 - 2,000,00 Rand	2,000,00 - 2,500,00 Rand	2,500,00 - 3,000,00 Rand	More than 3,000,000 Rand

Average household income	Less than 1,000 Rand	Count	0	3	0	0	0	0	0
		Expected Count	,4	1,1	,6	,4	,2	,2	,1
		% within Average household income	0,0%	100,0%	0,0%	0,0%	0,0%	0,0%	0,0%
		% within If you were to buy a house which value range would you be looking at?	0,0%	5,1%	0,0%	0,0%	0,0%	0,0%	0,0%
		% of Total	0,0%	1,8%	0,0%	0,0%	0,0%	0,0%	0,0%
	1,000 - 3,000 Rand	Count	4	1	0	0	0	0	0
		Expected Count	,7	1,8	,9	,6	,4	,4	,2
		% within Average household income	80,0%	20,0%	0,0%	0,0%	0,0%	0,0%	0,0%
		% within If you were to buy a house which value range would you be looking at?	17,4%	1,7%	0,0%	0,0%	0,0%	0,0%	0,0%
		% of Total	2,4%	0,6%	0,0%	0,0%	0,0%	0,0%	0,0%
	3,000 - 6,000	Count	0	4	0	0	0	2	0

	Rand	Expected Count	,8	2,1	1,1	,8	,4	,4	,3
		% within Average household income	0,0%	66,7%	0,0%	0,0%	0,0%	33,3%	0,0%
		% within If you were to buy a house which value range would you be looking at?	0,0%	6,8%	0,0%	0,0%	0,0%	16,7%	0,0%
		% of Total	0,0%	2,4%	0,0%	0,0%	0,0%	1,2%	0,0%
	6,000 - 9000 Rand	Count	3	9	1	2	1	0	0
		Expected Count	2,2	5,7	3,0	2,0	1,2	1,2	,8
		% within Average household income	18,8%	56,3%	6,3%	12,5%	6,3%	0,0%	0,0%
		% within If you were to buy a house which value range would you be looking at?	13,0%	15,3%	3,2%	9,5%	8,3%	0,0%	0,0%
		% of Total	1,8%	5,4%	0,6%	1,2%	0,6%	0,0%	0,0%
	9,000 - 15,000 Rand	Count	10	11	2	1	2	0	1
		Expected Count	3,7	9,6	5,0	3,4	2,0	2,0	1,3

		% within Average household income	37,0%	40,7%	7,4%	3,7%	7,4%	0,0%	3,7%
		% within If you were to buy a house which value range would you be looking at?	43,5%	18,6%	6,5%	4,8%	16,7%	0,0%	12,5%
		% of Total	6,0%	6,6%	1,2%	0,6%	1,2%	0,0%	0,6%
	15,000 - 20,000 Rand	Count	5	8	8	1	1	0	2
		Expected Count	3,5	8,9	4,7	3,2	1,8	1,8	1,2
		% within Average household income	20,0%	32,0%	32,0%	4,0%	4,0%	0,0%	8,0%
		% within If you were to buy a house which value range would you be looking at?	21,7%	13,6%	25,8%	4,8%	8,3%	0,0%	25,0%
		% of Total	3,0%	4,8%	4,8%	0,6%	0,6%	0,0%	1,2%
	More than 20,000 Rand	Count	1	23	20	17	8	10	5
								Total	
Average household income		Less than 1,000 Rand			Count			3	



		Expected Count	3,0
		% within Average household income	100,0%
		% within If you were to buy a house which value range would you be looking at?	1,8%
		% of Total	1,8%
	1,000 - 3,000 Rand	Count	5
		Expected Count	5,0
		% within Average household income	100,0%
		% within If you were to buy a house which value range would you be looking at?	3,0%
		% of Total	3,0%
	3,000 - 6,000 Rand	Count	6
		Expected Count	6,0
		% within Average household income	100,0%
		% within If you were to buy a house which value range would you be looking at?	3,6%
		% of Total	3,6%
	6,000 - 9000 Rand	Count	16
		Expected Count	16,0
		% within Average household income	100,0%

		% within If you were to buy a house which value range would you be looking at?				9,6%		
		% of Total				9,6%		
	9,000 - 15,000 Rand	Count				27		
		Expected Count				27,0		
		% within Average household income				100,0%		
		% within If you were to buy a house which value range would you be looking at?				16,3%		
		% of Total				16,3%		
	15,000 - 20,000 Rand	Count				25		
		Expected Count				25,0		
		% within Average household income				100,0%		
		% within If you were to buy a house which value range would you be looking at?				15,1%		
		% of Total				15,1%		
	More than 20,000 Rand	Count				84		
		If you were to buy a house which value range would you be looking at?						
		Less than 500,000 Rand	500,000 - 1,000,000 Rand	1000,00 - 1,500 000 Rand	1,500 000 - 2,000,000 Rand	2,000,00 - 2,500,000 Rand	2,500,00 - 3,000,000 Rand	More than 3,000,000 Rand

Average household income	More than 20,000 Rand	Expected Count	11,6	29,9	15,7	10,6	6,1	6,1	4,0
		% within Average household income	1,2%	27,4%	23,8%	20,2%	9,5%	11,9%	6,0%
		% within If you were to buy a house which value range would you be looking at?	4,3%	39,0%	64,5%	81,0%	66,7%	83,3%	62,5%
		% of Total	0,6%	13,9%	12,0%	10,2%	4,8%	6,0%	3,0%
Total		Count	23	59	31	21	12	12	8
		Expected Count	23,0	59,0	31,0	21,0	12,0	12,0	8,0
		% within Average household income	13,9%	35,5%	18,7%	12,7%	7,2%	7,2%	4,8%
		% within If you were to buy a house which value range would you be looking at?	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%	100,0%
		% of Total	13,9%	35,5%	18,7%	12,7%	7,2%	7,2%	4,8%
									Total

18. Average household income	More than 20,000 Rand	Expected Count		84,0
		% within Average household income		100,0%
		% within If you were to buy a house which value range would you be looking at?		50,6%
		% of Total		50,6%
Total			Count	166
			Expected Count	166,0
			% within Average household income	100,0%
			% within If you were to buy a house which value range would you be looking at?	100,0%
			% of Total	100,0%
Chi-Square Tests				
	Value	df	Asymp. Sig. (2-sided)	
Pearson Chi-Square	83,549 <sup>a</sup>	36	,000	
Likelihood Ratio	88,295	36	,000	
Linear-by-Linear Association	21,014	1	,000	
N of Valid Cases	166			

## Appendix G: Interview Questions and Results – Slovenian Housing Companies

Table G1. Slovenian company presence in Africa

Q1	Is your company currently present in Africa?				
	Answers	Frequency	Percent	Valid	Cumulative
	1 (Yes)	0	0%	0%	0%
	2 (No)	13	100%	100%	100%
Valid	Valid	13	100%	100%	

Average	2.0	Std. Deviation	0.0
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Table G2. Regions that Slovenian companies are present in

Q2	What regions in Africa is your company currently present in? Select all that apply							
	Subquestion	Units					Counts	
		Frequency	Valid	% - Valid		% -	Frequency	%
Q2a	Northern Africa	0	0	0%	13	0%	0	0%
Q2b	Central Africa	0	0	0%	13	0%	0	0%
Q2c	Western Africa	0	0	0%	13	0%	0	0%
Q2d	Eastern Africa	0	0	0%	13	0%	0	0%
Q2e	Southern Africa	0	0	0%	13	0%	0	0%
	Total valid		0		13		0	100%

Table G3. Interest in expanding to additional foreign markets

Q3	Is your company interested in expanding into additional foreign markets? (not just African Markets)				
	Answers	Frequency	Percent	Valid	Cumulative
	1 (Yes)	12	92%	92%	92%
	2 (No)	1	8%	8%	100%
	3 (Unsure)	0	0%	0%	100%
Valid	Valid	13	100%	100%	

Average	1.1	Std. Deviation	0.3
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Table G4. Interest in expanding further into Africa

Q4	Would your company be interested in expanding to Africa or further into Africa if already present?				
	Answers	Frequency	Percent	Valid	Cumulative
	1 (Yes)	6	46%	50%	50%
	2 (No)	2	15%	17%	67%
	3 (Unsure)	4	31%	33%	100%
Valid	Valid	12	92%	100%	

Average	1.8	Std. deviation	0.9
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Table G5. Slovenian company presence in Africa

Q5	Which regions in Africa would your company be interested in entering? Select all that apply							
	Subquestion	Units					Counts	
		Frequency	Valid	% - Valid		% -	Frequency	%
Q5a	North Africa	3	10	30%	13	23%	3	16%
Q5b	East Africa	2	10	20%	13	15%	2	11%
Q5c	West Africa	3	10	30%	13	23%	3	16%
Q5d	Central Africa	2	10	20%	13	15%	2	11%
Q5e	Southern Africa	4	10	40%	13	31%	4	21%
Q5f	Unsure	5	10	50%	13	38%	5	26%
	Total valid		10		13		19	100%

Table G6. Reasons for interest in african regions

Q6	Why is your company interested in this/these region or regions? If you selected unsure, why is your company unsure?				
	Answers	Frequency	Percent	Valid	Cumulative
	if the sale price is lower then the costs of production and construction	1	8%	13%	13%
	za prodajo prodajnih stojnic, za izvoz znanja	1	8%	13%	25%
	because this region is the most developed	1	8%	13%	38%
	we are afraid we couldnt be competitive with our solutions - mainly because our structural system (e.g. wall elements, roof elements, etc) is adapted to colder climates (high level of insulation, providing low energy or passive structures) and due to cost of transportation	1	8%	13%	50%
	we dont know what to expect on those market - have no surveys... therefore we dont know, if the market needs such sophisticated houses like passive house...	1	8%	13%	63%

	more markets better..!	1	8%	13%	75%
	because we have expiriens for social housing	1	8%	13%	88%
	we did not made any research at the moment.	1	8%	13%	100%
Valid	Valid	8	62%	100%	

Table G7. Interest in expanding to South Africa

Q7	Would your company be interested in expanding to the country of South Africa?				
	Answers	Frequency	Percent	Valid	Cumulative
	1 (Yes)	5	38%	63%	63%
	2 (No)	0	0%	0%	63%
	3 (Unsure)	3	23%	38%	100%
Valid	Valid	8	62%	100%	

Average	1.8	Std. deviation	1.0
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Table G8. Further explanation for Q7

Q8	Please explain the reasons behind your answer to Question 7? Please answer in the space provided				
	Answers	Frequency	Percent	Valid	Cumulative
	we are unsure that we could make a profit in a market do far away	1	8%	13%	13%
	its same as on question 6.	1	8%	13%	25%
	...	1	8%	13%	38%
	we like to sell houses all over the world	1	8%	13%	50%
	south africa is developped economy. but we must first do some research of the market.	1	8%	13%	63%
	imamo veliko znanja za izvedbo lesenih izdelkov okoli stanovanjskih hiš in javnih zgradb	1	8%	13%	75%
	same as 6). however, we could be interested in providing the technology (know-how, technological equipment, setting up of factory, training of local workforce, etc)	1	8%	13%	88%
	africa is perspective market..	1	8%	13%	100%
Valid	Valid	8	62%	100%	

Table G9. Attractiveness of South African market

Q9	What aspects of the South African market are attractive to your company?				
	Answers	Frequency	Percent	Valid	Cumulative
	one of the highest purchasing powers in africa, fast growth, tourism opportunities	1	8%	11%	11%
	projektiranje in izvedba vrtov	1	8%	11%	22%
	logistics, sufficient level of development	1	8%	11%	33%
	/	2	15%	22%	56%
	making an european trade mark known worldwide	1	8%	11%	67%
	it is huge market..	1	8%	11%	78%
	furniture market. we are not builders.	1	8%	11%	89%
	hard to say - dont know the market there.	1	8%	11%	100%
Valid	Valid	9	69%	100%	

Table G10. Reasons for foreign expansion

Q22	What are the reasons that usually lead your company to expand to a foreign market ?				
	Answers	Frequency	Percent	Valid	Cumulative
	potential for our products	1	8%	9%	9%
	bad situations in slovenia	1	8%	9%	18%
	we have products, which can easy compete on the market - have certified passive technology and house. we are also the part of the green building group, which means we have possibilities to sell our products on the european markets.	1	8%	9%	27%
	prodaja znanja(ne materiala)	1	8%	9%	36%
	bigger market	1	8%	9%	45%
	europe is in recession	1	8%	9%	55%
	better payment discipline, higher sale prices, lower material costs	1	8%	9%	64%
	we believe that this market need this product	1	8%	9%	73%
	search of new opportunities, firming of brand reputation, possibility of large-scale projects, slow growth of domestic market, higher purchasing power abroad, relative competitiveness when compared to local providers (western markets)	1	8%	9%	82%
	we try to find if there are any requests for our kind of products.	1	8%	9%	91%
Valid	Valid	11	85%	100%	



Table G11. Entry modes conditions for Slovenian companies

Q10	Under what conditions do certain entry modes apply for your company?				
	Answers	Frequency	Percent	Valid	Cumulative
	prodaja znanja lokalnim podjetjem	1	8%	11%	11%
	/	1	8%	11%	22%
	financal and architectual point of view	1	8%	11%	33%
	making a profit (exporting)	1	8%	11%	44%
	demand. economical and political stability and legal order.	1	8%	11%	56%
	is to find the partner incestitor	1	8%	11%	67%
	basic interest and demands..	1	8%	11%	78%
	can not say	1	8%	11%	89%
	costs are big moment by decions to entry on a certain market.	1	8%	11%	100%
Valid	Valid	9	69%	100%	

Table G12. Type of housing slovenian companies would be interested in building in South Africa

Q11	What type of housing would your company be interested in building in South Africa? Select all that apply							
	Subquestion	Units					Counts	
		Frequency	Valid	% - Valid		% -	Frequency	%
Q11a	Gated Communities	6	11	55%	13	46%	6	15%
Q11b	Social Housing	7	11	64%	13	54%	7	17%
Q11c	Retirement Villages	6	11	55%	13	46%	6	15%
Q11d	Replacing Mud Schools	5	11	45%	13	38%	5	12%
Q11e	Tourist Housing	10	11	91%	13	77%	10	24%
Q11f	Student Accomodation	7	11	64%	13	54%	7	17%
	Total valid		11		13		41	100%

Table G13. Entry modes that have been used when expanding to foreign markets

Q12	Which entry modes has your company used when expanding to foreign markets? Select all that apply			
	Subquestion	Units		Counts

		Frequency	Valid	% - Valid		% -	Frequency	%
Q12a	Joint-Venture	4	13	31%	13	31%	4	11%
Q12b	Direct Export	8	13	62%	13	62%	8	22%
Q12c	Indirect Export	3	13	23%	13	23%	3	8%
Q12d	Licensing	1	13	8%	13	8%	1	3%
Q12e	Franchising	3	13	23%	13	23%	3	8%
Q12f	Turnkey Projects	2	13	15%	13	15%	2	6%
Q12g	Subsidiary	1	13	8%	13	8%	1	3%
Q12h	Acquisition	1	13	8%	13	8%	1	3%
Q12i	Merger	1	13	8%	13	8%	1	3%
Q12j	Sales Agent	7	13	54%	13	54%	7	19%
Q12k	Strategic Alliance	5	13	38%	13	38%	5	14%
Q12l	Other:	0	13	0%	13	0%	0	0%
	Total valid		13		13		36	100%

Q12l_text	Q12 (Other: )			
	Answers	Frequency	Percent	Cumulative

Table G14. Costs for company when expanding to foreign markets

Q13	On a scale of 1-5, rate these costs for your company when expanding to foreign markets in the past? 1 = Low Cost, 3 = Moderate Cost, 5 = High Cost										
	Subquestion	Answers						Valid	Units	Average	Std. deviation
		1	2	3	4	5	Valid				
Q13a	Labour Costs	0 (0%)	2 (20%)	6 (60%)	2 (20%)	0 (0%)	10 (100%)	10	13	3.0	0.7
Q13b	Facility Costs	0 (0%)	2 (22%)	5 (56%)	2 (22%)	0 (0%)	9 (100%)	9	13	3.0	0.7
Q13c	Market Research	1 (10%)	1 (10%)	6 (60%)	2 (20%)	0 (0%)	10 (100%)	10	13	2.9	0.9
Q13d	Negotiation Costs	1 (10%)	3 (30%)	3 (30%)	1 (10%)	2 (20%)	10 (100%)	10	13	3.0	1.3
Q13e	Institutional Costs	2 (22%)	2 (22%)	4 (44%)	1 (11%)	0 (0%)	9 (100%)	9	13	2.4	1.0
Q13f	Employee Expatriation Costs	0 (0%)	3 (33%)	4 (44%)	2 (22%)	0 (0%)	9 (100%)	9	13	2.9	0.8

Q13g	Learning Curve Costs	0 (0%)	3 (30%)	3 (30%)	3 (30%)	1 (10%)	10 (100%)	10	13	3.2	1.0
Q13h	Transportation Costs	0 (0%)	3 (33%)	1 (11%)	4 (44%)	1 (11%)	9 (100%)	9	13	3.3	1.1
Q13i	Supply Chain Costs	1 (11%)	2 (22%)	6 (67%)	0 (0%)	0 (0%)	9 (100%)	9	13	2.6	0.7
Q13j	Financing Costs	3 (27%)	2 (18%)	5 (45%)	1 (9%)	0 (0%)	11 (100%)	11	13	2.4	1.0
Q13k	Production Costs	0 (0%)	3 (30%)	6 (60%)	1 (10%)	0 (0%)	10 (100%)	10	13	2.8	0.6
Q13l	Marketing Costs	1 (9%)	4 (36%)	5 (45%)	1 (9%)	0 (0%)	11 (100%)	11	13	2.5	0.8

Table G15. Importance of factors for Slovenian companies looking to expand to foreign markets

Q14	On a scale of 1-5, rate the importance of these factors for your company when looking to expand to a foreign market? 1 = Low Importance, 3 = Moderate Importance, 5 = High Importance										
	Subquestion	Answers						Valid	Units	Average	Std. deviation
		1	2	3	4	5	Valid				
Q14a	Proximity to Slovenia	0 (0%)	4 (33%)	3 (25%)	3 (25%)	2 (17%)	12 (100%)	12	13	3.3	1.1
Q14b	Moving to Regional Powers in Economic Terms (Example -Turkey, Russia, Brazil, South Africa)	1 (8%)	2 (17%)	6 (50%)	3 (25%)	0 (0%)	12 (100%)	12	13	2.9	0.9
Q14c	Business Connections	0 (0%)	0 (0%)	3 (25%)	8 (67%)	1 (8%)	12 (100%)	12	13	3.8	0.6
Q14d	Political Stability	0 (0%)	0 (0%)	2 (17%)	7 (58%)	3 (25%)	12 (100%)	12	13	4.1	0.7
Q14e	Culture Similar to Slovenia	3 (25%)	2 (17%)	5 (42%)	2 (17%)	0 (0%)	12 (100%)	12	13	2.5	1.1
Q14f	Market Potential	0 (0%)	0 (0%)	0 (0%)	5 (42%)	7 (58%)	12 (100%)	12	13	4.6	0.5
Q14g	Access to Financing	1 (8%)	0 (0%)	0 (0%)	7 (58%)	4 (33%)	12 (100%)	12	13	4.1	1.1
Q14h	Available Selection of Potential Partners	0 (0%)	0 (0%)	4 (33%)	4 (33%)	4 (33%)	12 (100%)	12	13	4.0	0.9
Q14i	There are other Slovenian Companies on the Market	3 (25%)	4 (33%)	4 (33%)	1 (8%)	0 (0%)	12 (100%)	12	13	2.3	1.0

Table G16. Number of markets Slovenian companies are present on

Q15	How many markets (countries) is your company present on? Please enter a number in the space provided				
	Answers	Frequency	Percent	Valid	Cumulative
	2	1	8%	9%	9%
	3	2	15%	18%	27%
	4	1	8%	9%	36%
	5	1	8%	9%	45%
	7	1	8%	9%	55%
	8	2	15%	18%	73%

	5	1	8%	9%	82%
	10	2	15%	18%	100%
Valid	Valid	11	85%	100%	

Table G17. Regions Slovenian companies are present in

Q16	What regions is your company present in? Select all that apply							
	Subquestion	Units					Counts	
		Frequency	Valid	% - Valid		% -	Frequency	%
Q16a	Western Europe	9	12	75%	13	69%	9	28%
Q16b	Central Europe	9	12	75%	13	69%	9	28%
Q16c	Eastern Europe (Including Western Russia)	6	12	50%	13	46%	6	19%
Q16d	South America	1	12	8%	13	8%	1	3%
Q16e	North America	1	12	8%	13	8%	1	3%
Q16f	Central America	1	12	8%	13	8%	1	3%
Q16g	Middle East (Including Turkey)	2	12	17%	13	15%	2	6%
Q16h	Central Asia	1	12	8%	13	8%	1	3%
Q16i	Southern Asia	0	12	0%	13	0%	0	0%
Q16j	Eastern Asia	1	12	8%	13	8%	1	3%
Q16k	South-East Asia	0	12	0%	13	0%	0	0%
Q16l	Northern Asia (Central and Eastern Russia)	1	12	8%	13	8%	1	3%
	Total valid		12		13		32	100%

Table G18. Most important markets for Slovenian companies

Q17	Which markets (countries) are most important to your company? Please answer in the space provided				
	Answers	Frequency	Percent	Valid	Cumulative
	Africa	1	8%	8%	8%
	western europe	1	8%	8%	17%
	slovenian, austrian	1	8%	8%	25%
	Italy	1	8%	8%	33%
	italia, austria, germany, suisse, france...	1	8%	8%	42%

	slovenian, italian	1	8%	8%	50%
	austria	1	8%	8%	58%
	italy, uk, france, slovenia, switzerland	1	8%	8%	67%
	domestic	1	8%	8%	75%
	italy spain japan	1	8%	8%	83%
Valid	Valid	12	92%	100%	

Table G19. Type of business Slovenian companies are interested in

Q18	Is your company primarily interested in? Select all that apply						
	Subquestion	Units			Counts		
		Frequency	Valid	% - Valid		Frequency	%
Q18a	Business to Business (B2B)	7	12	58%	13	7	35%
Q18b	Business to Customer (B2C)	9	12	75%	13	9	45%
Q18c	Business to Government (B2G)	4	12	33%	13	4	20%
	Total valid		12		13	20	100%

Table G20. Revenue of Slovenian companies

Q19	What was the revenue of your company last year?				
	Answers	Frequency	Percent	Valid	Cumulative
	1 (Less than 1 Million EURO)	5	38%	42%	42%
	2 (1 Million EURO - 2 Million EURO)	1	8%	8%	50%
	3 (2 Million EURO - 3 Million EURO)	0	0%	0%	50%
	4 (3 Million EURO - 4 Million EURO)	0	0%	0%	50%
	5 (4 Million EURO - 5 Million EURO)	1	8%	8%	58%
	6 (5 Million EURO - 6 Million EURO)	1	8%	8%	67%
	7 (6 Million EURO - 7 Million EURO)	1	8%	8%	75%
	8 (7 Million EURO - 8 Million EURO)	0	0%	0%	75%
	9 (8 Million EURO - 9 Million EURO)	0	0%	0%	75%

	10 (9 Million EURO - 10 Million EURO)	0	0%	0%	75%
	11 (More than 10 Million EURO)	3	23%	25%	100%
Valid	Valid	12	92%	100%	

Average	4.8	Std. deviation	4.3
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Table G21. Age of respondents

XAGE	In which age group do you belong?				
	Answers	Frequency	Percent	Valid	Cumulative
	1 (18 - 30 years of age)	4	31%	31%	31%
	2 (31 - 50 years of age)	7	54%	54%	85%
	3 (50- 65 years of age)	2	15%	15%	100%
	4 (66+)	0	0%	0%	100%
Valid	Valid	13	100%	100%	

Average	1.8	Std. deviation	0.7
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Table G22. Gender of respondents

XSEX	Gender:				
	Answers	Frequency	Percent	Valid	Cumulative
	1 (Male)	10	77%	77%	77%
	2 (Female)	3	23%	23%	100%
Valid	Valid	13	100%	100%	

Average	1.2	Std. deviation	0.4
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Table G23. Respondents position within company

Q20	What is your job title/position within your company?				
	Answers	Frequency	Percent	Valid	Cumulative
	Direktor	1	8%	8%	8%
	structural engineer	1	8%	8%	17%
	Marketing	1	8%	8%	25%

	Director	1	8%	8%	33%
	sales manager	1	8%	8%	42%
	Manager	1	8%	8%	50%
	procurist	1	8%	8%	58%
	sales representative	1	8%	8%	67%
	project coordinator	1	8%	8%	75%
	Partner	1	8%	8%	83%
Valid	Valid	12	92%	100%	

## Appendix H: Interview/Survey – South African BEE housing companies

Table H1. South Africa BEE companies offering alternative housing

Q1	Is your company currently offering alternative housing (non-brick and non-concrete) solutions?				
	Answers	Frequency	Percent	Valid	Cumulative
	1 (Yes)	6	67%	67%	67%
	2 (No)	3	33%	33%	100%
Valid	Valid	9	100%	100%	

Average	1.3	Std. deviation	0.5
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Table H2. South African BEE companies interest in building alternative housing

Q2	Would your company be interested in building alternative housing in the future?				
	Answers	Frequency	Percent	Valid	Cumulative
	1 (Yes)	2	22%	67%	67%
	2 (No)	0	0%	0%	67%
	3 (Unsure)	1	11%	33%	100%
Valid	Valid	3	33%	100%	

Average	1.7	Std. deviation	1.2
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Table H3. South African BEE Companies using alternative materials

Q3	Which alternative housing materials would your company be interested in using in the future?							
	Subquestion	Units					Counts	
		Frequency	Valid	% - Valid		% -	Frequency	%
Q3a	Wood	0	3	0%	9	0%	0	0%
Q3b	Steel	0	3	0%	9	0%	0	0%
Q3c	Glass	0	3	0%	9	0%	0	0%
Q3d	Drywall	0	3	0%	9	0%	0	0%
Q3e	Plastic	0	3	0%	9	0%	0	0%
Q3f	Unsure	3	3	100%	9	33%	3	100%
Q3g	Other:	0	3	0%	9	0%	0	0%
	Total valid		3		9		3	100%
Q3g_text	Q3 (Other: )							
	Answers		Frequency	Percent	Valid	Cumulative		

Table H4. Building materials South African companies are currently using

Q4	Which building materials is your company currently using? This includes brick and concrete							
	Subquestion	Units					Counts	
		Frequency	Valid	% - Valid		% -	Frequency	%
Q4a	Brick/Concrete	4	9	44%	9	44%	4	17%
Q4b	Wood	5	9	56%	9	56%	5	21%
Q4c	Drywall	5	9	56%	9	56%	5	21%
Q4d	Steel	3	9	33%	9	33%	3	13%
Q4e	Glass	5	9	56%	9	56%	5	21%
Q4f	Plastic	1	9	11%	9	11%	1	4%
Q4g	Other:	1	9	11%	9	11%	1	4%
	Total valid		9		9		24	100%

Q4g_text	Q4 (Other: )				
	Answers	Frequency	Percent	Valid	Cumulative



Table H5. South African BEE company capabilities

Q5	Give a score from 1-5 for your company's capabilities in the areas below in your opinion. 1 = Poor, 2 = Below Average, 3 = Average, 4= Above Average/Good 5 = Excellent										
	Subquestion	Answers						Valid	Units	Average	Std. deviation
		1	2	3	4	5	Valid				
Q5a	Architectural Engineering	0 (0%)	0 (0%)	4 (44%)	4 (44%)	1 (11%)	9 (100%)	9	9	3.7	0.7
Q5b	Innovation	0 (0%)	0 (0%)	3 (33%)	4 (44%)	2 (22%)	9 (100%)	9	9	3.9	0.8
Q5c	Quality (certifications: example, SABS - South African Bureau of Standards	0 (0%)	0 (0%)	2 (22%)	3 (33%)	4 (44%)	9 (100%)	9	9	4.2	0.8
Q5d	Using "Green" Materials	0 (0%)	3 (38%)	1 (13%)	3 (38%)	1 (13%)	8 (100%)	8	9	3.3	1.2
Q5e	Offering a complete customized solution from designing a home to actually building it	0 (0%)	2 (25%)	2 (25%)	1 (13%)	3 (38%)	8 (100%)	8	9	3.6	1.3
Q5f	Knowledge of the South African Housing Market	0 (0%)	1 (13%)	2 (25%)	4 (50%)	1 (13%)	8 (100%)	8	9	3.6	0.9
Q5g	Your Companies Brand	0 (0%)	1 (13%)	1 (13%)	5 (63%)	1 (13%)	8 (100%)	8	9	3.8	0.9
Q5h	International Experience	3 (38%)	0 (0%)	3 (38%)	1 (13%)	1 (13%)	8 (100%)	8	9	2.6	1.5
Q5i	Working with International Partners	4 (50%)	0 (0%)	2 (25%)	1 (13%)	1 (13%)	8 (100%)	8	9	2.4	1.6

Table H6. Tyoe of housing being built by South African BEE companies

Q6	What type of housing is your company building?							
	Subquestion	Units					Counts	
		Frequency	Valid	% - Valid		% -	Frequency	%
Q6a	Gated Communities	2	8	25%	9	22%	2	13%
Q6b	Social Housing	4	8	50%	9	44%	4	27%
Q6c	Retirement Homes	2	8	25%	9	22%	2	13%
Q6d	Replacing Mud Schools	2	8	25%	9	22%	2	13%
Q6e	Tourist Housing	2	8	25%	9	22%	2	13%
Q6f	Student Accomodation	3	8	38%	9	33%	3	20%
	Total valid		8		9		15	100%

Table H7. Type of housing South African BEE companies are interested in building

Q7	What type of housing is your company INTERESTED in building that it is not currently doing already?							
	Subquestion	Units					Counts	
		Frequency	Valid	% - Valid		% -	Frequency	%
Q7a	Gated Communities	1	7	14%	9	11%	1	11%
Q7b	Social Housing	1	7	14%	9	11%	1	11%
Q7c	Retirement Homes	2	7	29%	9	22%	2	22%
Q7d	Replacing Mud Schools	2	7	29%	9	22%	2	22%
Q7e	Tourist Housing	1	7	14%	9	11%	1	11%
Q7f	Student Accomodation	2	7	29%	9	22%	2	22%
	Total valid		7		9		9	100%

Table H8. South African BEE comapanies and partnerships

Q8	Has your company ever been in a partnership with a domestic company?				
	Answers	Frequency	Percent	Valid	Cumulative
	1 (Yes)	3	33%	38%	38%
	2 (No)	5	56%	63%	100%
Valid	Valid	8	89%	100%	

Average	1.6	Std. deviation	0.5
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Table H9. Types of partnerships South African BEE companies were in

Q9	What kind of partnership?				
	Answers	Frequency	Percent	Valid	Cumulative
	business plan, design & build	1	11%	100%	100%
Valid	Valid	1	11%	100%	

Table H10. South African BEE Companies and partnerships with foreign companies

Q10	Has your company ever been in a partnership with a foreign company?				
	Answers	Frequency	Percent	Valid	Cumulative
	1 (Yes)	2	22%	25%	25%
	2 (No)	6	67%	75%	100%
Valid	Valid	8	89%	100%	

Average	1.8	Std. deviation	0.5
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Table H11. Type of partnership with foreign company

Q11	What kind of partnership?				
	Answers	Frequency	Percent	Valid	Cumulative
	general partnership	1	11%	50%	50%
	knowledge and training exchange.	1	11%	50%	100%
Valid	Valid	2	22%	100%	

Table H12. Services offered by BEE companies in partnerships with foreign companies

Q12	What services did the foreign company offer in the partnership?							
	Subquestion	Units					Counts	
		Frequency	Valid	% - Valid		% -	Frequency	%
Q17a	Engineering and Architectural Services	0	1	0%	9	0%	0	0%
Q17b	Innovation	0	1	0%	9	0%	0	0%
Q17c	Labour	0	1	0%	9	0%	0	0%
Q17d	Technology and Machinery	0	1	0%	9	0%	0	0%
Q17e	Supplies	0	1	0%	9	0%	0	0%
Q17f	Facilities	1	1	100%	9	11%	1	50%
Q17g	Management	1	1	100%	9	11%	1	50%
Q17h	Access to Market	0	1	0%	9	0%	0	0%
Q17i	Access to a Network of Subcontractors	0	1	0%	9	0%	0	0%

Q17j	Market Research Data	0	1	0%	9	0%	0	0%
Q17k	Other:	0	1	0%	9	0%	0	0%
	Total valid		1		9		2	100%

Table H13. Services offered in partnerships with foreign company

Q13	What services did your company provide in the partnership with the foreign company?							
	Subquestion	Units					Counts	
		Frequency	Valid	% - Valid		% -	Frequency	%
Q18a	Engineering and Architectural Services	0	1	0%	9	0%	0	0%
Q18b	Innovation	0	1	0%	9	0%	0	0%
Q18c	Labour	0	1	0%	9	0%	0	0%
Q18d	Technology and Machinery	0	1	0%	9	0%	0	0%
Q18e	Supplies	0	1	0%	9	0%	0	0%
Q18f	Facilities	0	1	0%	9	0%	0	0%
Q18g	Management	0	1	0%	9	0%	0	0%
Q18h	Access to Market	0	1	0%	9	0%	0	0%
Q18i	Access to a Network of Subcontractors	0	1	0%	9	0%	0	0%
Q18j	Market Research Data	0	1	0%	9	0%	0	0%
Q18k	Other:	1	1	100%	9	11%	1	100%
	Total valid		1		9		1	100%

Table H14. Role in partnership with foreign company

Q14k_text					
	Answers	Frequency	Percent	Valid	Cumulative
	we were the recipients.	1	11%	100%	100%
Valid	Valid	1	11%	100%	

Table H15. Impotence of factors when applying for government contracts

Q15	Rate the following factors according to how important they are to your company when applying/competing for government contracts/tenders? 1 = Not Important, 2 = Little Importance, 3 = Relatively Important, 4 = Important, 5 = Very Important										
	Subquestion	Answers						Valid	Units	Average	Std. deviation
		1	2	3	4	5	Valid				
Q19a	BEE Certification	1 (13%)	1 (13%)	1 (13%)	0 (0%)	5 (63%)	8 (100%)	8	9	3.9	1.6
Q19b	Membership of "green ecological" friendly organizations	1 (13%)	0 (0%)	2 (25%)	4 (50%)	1 (13%)	8 (100%)	8	9	3.5	1.2
Q19c	South African Bureau of Standards Certification (SABS)	0 (0%)	1 (13%)	0 (0%)	1 (13%)	6 (75%)	8 (100%)	8	9	4.5	1.1
Q19d	Personnel Connections	2 (25%)	0 (0%)	2 (25%)	1 (13%)	3 (38%)	8 (100%)	8	9	3.4	1.7
Q19e	Attending Government Workshops and Briefings	0 (0%)	1 (13%)	2 (25%)	1 (13%)	4 (50%)	8 (100%)	8	9	4.0	1.2
Q19f	Company Reputation	0 (0%)	0 (0%)	0 (0%)	1 (14%)	6 (86%)	7 (100%)	7	9	4.9	0.4

Table H16. Interest in partneting with European companies

Q16	Would your company be interested in partnering with a European Company that has superior engineering, architectural services, and innovation?				
	Answers	Frequency	Percent	Valid	Cumulative
	1 (Yes)	6	67%	75%	75%
	2 (No)	0	0%	0%	75%
	3 (Unsure)	2	22%	25%	100%
Valid	Valid	8	89%	100%	

Average	1.5	Std. deviation	0.9
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Table H17. Interest in type of business

Q17	Is your company interested in?							
	Subquestion	Units					Counts	
		Frequency	Valid	% - Valid		% -	Frequency	%
Q21a	Business to Business (B2B)	4	8	50%	9	44%	4	31%
Q21b	Business to Consumer (B2C)	4	8	50%	9	44%	4	31%
Q21c	Business to Government (B2G)	5	8	63%	9	56%	5	38%
	Total valid		8		9		13	100%

## **Appendix I: Calculation Costs for Cost of Wooden Homes in South Africa**

### Cost for a Wooden Home in South Africa

- 1) Average price for a wooden home in South Africa is R6 200 and R9 000 per m<sup>2</sup>
- 2)  $(R6\ 200 + R9\ 000)/2 = R\ 7\ 600$  or 550.221 Eur(Average price per m<sup>2</sup>)
- 3) The average price of medium-sized homes (141-220 m<sup>2</sup>)
- 4)  $(141+220)/2 = 180.5\text{m}^2$
- 5)  $180.5\text{m}^2 * 550.211\ \text{Eur} = 99,313\ \text{Eur}$
- 6) 99,313 Eur is the estimated average price of an average sized home in South Africa

### Price of Luxury Wooden Homes

- 1) The average size and price of large homes in South Africa (221-400 m<sup>2</sup>)
- 2)  $(220+400)/2 = 310\ \text{m}^2$  (Average size of large homes)
- 3) Average price for a wooden home in South Africa is R6 200 and R9 000 per m<sup>2</sup>
- 4)  $R6\ 200 + R9\ 000 = R\ 7\ 600$ (Average price per m<sup>2</sup>)
- 5) R 10,000 or 723. 974 per m<sup>2</sup> Eur price per m<sup>2</sup> for a luxury home(This is an educated guess based on the average price for an average home which is R 7 600)
- 6)  $R10,000 = 729.746\ \text{Eur}$
- 6)  $729.746 * 310 = 226,221.26\ \text{Eur}$