Symphony Limited: Positioning in a Turbulent Information Technology Environment

Mike Eldon, the Executive Director of Symphony Limited in Nairobi, Kenya, had just come back from the Christmas holiday break on January 3rd 2000. On December 17th 1999, the Board of Directors of Symphony had approved the merger of six sister companies trading in different niches in the Information Technology (IT) industry, but a decision on the new core business focus had not been reached. Some of the companies had focused largely on low-end commodity IT markets; others were engaged in higher end solutions provision; while some were involved in a mixture of the two. For a long time, huge resources had been spent cultivating the high-volume, low margin IT re-seller market that ensured reasonable cash flows at low risk. This was the ‘trading’ type of business. However, substantial resources had also been invested in the human skills and technical infrastructure necessary for the provision of large, complex IT hardware and software solutions. Some of the top managers and some board members were comfortable with investing further in the low-end commodity re-sellers as the future for Symphony but Eldon was not convinced. The board had scheduled a meeting in early January at which the group’s strategy would be determined. It expected a definite recommendation from him. As he sat in his third floor office at Symphony Place that morning, with only 3 days to the board meeting, Eldon knew that the direction he chose for the company could make or break Symphony in Kenya’s turbulent IT industry.
Information Technology Industry in Kenya

Market Size
By the end of 1999, the Kenyan Information Technology (IT) industry was at an infant stage although it was one of the fastest growing sectors in the country. The industry comprised of hardware/peripherals and software components on a close to 50-50 basis. The industry was made up of imported products, of which some 76% were sourced from the United States of America. In addition there was also a sizeable percentage from European and Asian countries. Local companies were confined to the retail and maintenance end of the business. Kenya imported 100 percent of its computers, peripherals, and software with very little assembly done locally. However, there was scope for writing software locally, and even more so for tailoring and implementing packages acquired from overseas.

The total IT market in Kenya, according to industry sources, reached US$ 40 million\(^1\) in 1999. This represented a 33% growth from the 1998 figure of US$ 30 million. However, Kenyan imports of IT products fell to US$ 14 million in 1999, representing a 12.5% decline from the US$ 16 million recorded in the previous year (Exhibit 1). With the millennium bug problem surmounted and the economic improvement expected to be higher, some industry sources predicted growth in overall IT spending of even up to 40% in 2000. Statistics were somewhat unreliable, and the consensus within the industry was that the purchases of computer equipment to combat the millennium bug were higher. Predictions about the scale of the software market were even more vague and unreliable.

Product Types
The IT hardware products were classified into five categories - the handhelds, portables, desktops, servers, and peripherals. The handhelds were the smallest computers and although their abilities were not great, they were becoming increasingly useful to a small group of executives who operated out of the office. These pocket devices included electronic planners, mini-notebooks, Compaq's ipaq and many others.

Portables were generally full-capacity computers in a small package, including notebook PCs and laptops. These machines were changing the concept of work, for workers did not have to be seated in the office to be working. With the portables, people could work anywhere and they were particularly useful with executives who traveled extensively. The laptop was the leader in this category. Desktops or personal computers (PCs) were the most common machines and could be found in many offices. PCs were the least expensive of the various categories, and were approximately one and a half times those U.S. prices.

Servers, which were used to run networks for medium-to-large size organizations, were also in increasing demand by the mushrooming number of Internet Service Providers (ISPs) in Kenya. Prices for servers in the local market were often markedly higher than in the U.S. Peripherals included such additional utilities as disks, printers,

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\(^1\) Computer equipment and software were quoted in US dollars due to local currency fluctuations. Companies quoting prices were usually asked to give a price valid for 3-months.
modems, scanners and CD-RW that enhanced the capabilities of computers but without which the machines would still work.

In 1999, branded computers manufactured predominantly by US companies such as Compaq, IBM, Sun, Hewlett Packard, Apple and Dell captured the biggest portion of the local market. These companies sold their new, branded products through several designated distributors and re-sellers. Only Compaq and IBM had local offices in Kenya, while the others used appointed agents. The brands were, however, facing fierce competition from the clones market. Clones were machines that had no well-known brand name, and their components were sourced from different manufacturers and assembled locally or imported already assembled. Another significant market segment was the used computers market. Industry sources placed the market share of the branded, clones and used computers at 50%, 40% and 10% of the total market respectively.

**Information Technology Industry Drivers**

The rapid growth in the Kenyan hardware market and the larger computer industry was motivated by several factors. Among them was the emerging market syndrome where big players always wanted to have a presence. This had seen the entry of several computer companies from the U.S.A., South Africa and also by a few local entrepreneurs.

The increasing competitive pressures, which among other things required downsizing by companies, had resulted in additional use of computers to provide efficiency and cost savings. Key sectors including government, hospitals, schools, banks, service companies and manufacturers were embracing the computer age, further increasing the demand. The explosion of the Internet was another factor. With many companies beginning to use and develop e-commerce, demand was being placed on local business partners to follow suit. The relative drop in the cost of both software and hardware had also contributed to the growth.

Of all the computer hardware used by various organizations in Kenya, more than half was due for replacement, having been used for more than its productive years. This was a potential market yet to be fully satisfied, both in the software and hardware markets.

The Kenya government was one of the major consumers of IT products, but many (although a declining proportion) of its needs, were met by the donor community. With the restructuring process in the civil service that was being implemented in 1999, private companies were likely to be contracted for hardware and software provision in the coming year.

Parastatal\(^2\) organizations were increasingly continuing to be key consumers of ICT products. The onset of liberalization in the early 1990s saw parastatals turning more to technology to reduce deficits. Virtually all parastatals were computerized, but for many, the level of computerization was not optimal. The continued divestiture by the government of these organizations and the increasing pressure from shareholders for profitability had pressed them to become one of the main consumers of ICT products.

\(^2\) These were companies wholly owned by the state.
The large size of parastatals and the subsequent IT needs had often resulted in foreign computer firms winning the contracts, with local companies performing occasional maintenance business or supplying commodity products. This was helped by the fact that Kenya was developing highly skilled manpower in this industry. The government had, over the years, reduced tariffs on computer hardware to encourage technological advancement. The import duty on hardware and software was 5% while VAT was 18%.

**Vendor Relations**

Relationships with principals or vendors were much more important in the high-end market than in the low-end IT commodity segment. These relationships were often quite problematic. According to Eldon:

> “There was an evolution – or rather a worsening over time – of such relationships. Initially they were monogamous, where one principal stuck with one business partner. Then came polygamy, where a principal decided to work with several business partners. This later model forced the ‘wives’ to pause and think about diversifying their relationships too.”

In the small East African markets these declining mutual loyalties tended to destroy value, as the new temptations to promiscuity presented a dilemma for many companies.

> “Do you stay loyal to your partner, through thick and thin, or do you create multiple but far weaker relationships? And can you afford it?”

Eldon wondered, “After all, you have to invest in multiple skill sets, stock holdings and in time consuming relationship building and maintaining them.”

**Symphony’s History and Strategies**

**Background**

Symphony was formed as a result of a merger among six sister companies in December 1999, but its roots went back to 1979, when businessman and lawyer Horatius Da Gama Rose and IT Executive Mike Eldon founded Computer Applications Ltd (CAL). Eldon had come to Kenya in 1977 and worked for two years as the General Manager of the Kenya subsidiary of International Computers Ltd (ICL). There were no personal computers (PC) then, and only a few vendors who were all subsidiaries of multinationals. Over the 20 years of IT activity in the region, the industry constantly reinvented itself to adjust to the dramatic changes in technology and market expectations that had occurred. New products and services required new skills, both technical and managerial. They brought forth new partnerships, both local and international, while others faded. If survival of the fittest was the way of life for the IT industry, then Symphony had proved it was among the fittest. Some of the groundbreaking missions in their list of earlier pioneering initiatives in East Africa included the introduction of word processing and minicomputers (through their representation of Wang), in the early 1980’s.

Symphony, through its merged sister IT companies, was part of the Da Gama Rose (DGR) Group. DGR had interests in Information and Communications Technology
(ICT), floriculture, tourism, real estate development, heavy industry, banking and insurance, franchises as well as consulting.

Before the merger, each of the six subsidiary companies operated in its area of competence. The companies were: Computer Applications Limited (CAL), the mother of the other five: Impact Consultants Ltd., Legend Technologies Ltd., Technology Strategies Ltd. (TSL), Systems Reliability Ltd. (SRL), and Institute of Advanced Technology (IAT) (Exhibit 2).

**Computer Applications Ltd**

In the early years of its existence, CAL’s success was attributed to word-processing and mini-computer pioneer, Wang Labs. CAL was Wang’s exclusive business partner for numerous countries in Eastern Africa. In 1982 CAL introduced the first portable PC to East Africa, the ‘luggable’ Osborne. PCs were also in demand in Uganda, where CAL had established its offices soon after the fall of Idi Amin\(^3\), and its presence remained there ever since. Thereafter the company started operating in Tanzania.

In 1982, spurred by the spread of Wang systems through American Embassies and USAID missions around the world, CAL opened up the Rwanda and Burundi markets, again pioneering contemporary approaches to IT. A CAL operation was also started in the Democratic Republic of Congo. An office opened in Somalia as well, and soon it achieved a dominant market share too. Not only did CAL have access to the unique Wang mini-computers and word-processors, but it also provided and supported applications software to its clients. It was the first IT vendor in the region to do so. The company moved its head office from downtown Nairobi to Sarit Centre in Westlands, one of the fastest growing suburbs of the city in the mid 1980s.

By 1984, an independent study carried out by Price Waterhouse, a leading international audit and consultancy firm, showed that CAL had already become the IT market leader in Kenya. Major companies, government departments and parastatals sourced their computing requirements from CAL. In Tanzania too the company took the market by storm in the early eighties, delivering comprehensive cost-effective IT solutions that met the major system requirements of the day.

In 1993, CAL acquired BCS, IBM’s then principal business partner in Kenya, thus creating a major relationship with IBM, the world’s largest technology company at that time. CAL marketed and supported the entire range of IBM products, from laptops and PCs, through mid-range servers to high end Enterprise Servers. Numerous software applications were also handled. Meanwhile, the DGR Group established various sister companies to CAL, each addressing different market niches in the IT field. At one point, IBM wanted to acquire CAL but this did not materialize.

Up to the mid 1990s, CAL’s strategy combined both the high-end business solutions provider market segment as well as the fast-emerging low-end segment. The solutions provider segment was characterized by uncertainty and high relationship

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\(^3\) President of Uganda (1971-1979). He was infamous for extreme dictatorial leadership and he was forcefully overthrown from power.
responsibility for players. Key customers in this segment particularly included government departments, parastatals and multinational companies.

A high-end market company covering the spectrum of products and services had to build infrastructure solutions (hardware and networks), while sourcing and holding stocks at competitive prices. Companies in this market viewed themselves as consultants dealing with solutions in areas such as corporate strategy, training, and most importantly, software solutions.

There were several ICT products available for a company wishing to operate in the high-end computer hardware segment. These included enterprise servers like the IBM System 390 and the SUN enterprise systems; mid-range systems such as the IBM AS/400 range, Unix Systems from SUN, IBM and others; Intel servers and PCs from several brands; and networking products such as Cisco routers. Competitors in the high-end market included Copycat, Olivetti Equatorial, Circuit Business Systems, Compaq East Africa, Computech, Kenya Digital Equipment and ICL Kenya Ltd.

There was no reliable market data on the ICT industry since none of the government agencies, market research companies or Universities were carrying out that kind of research. The Ministry of Transport and Communications, in whose portfolio ICT fell, focused almost exclusively on the ‘C’ in ICT. Some international business research organizations attempted to estimate the market for their companies wishing to invest in Kenya. Eldon commented:

“Because there was no hard data on the PC market size, what we did at CAL was to choose top local vendors, estimate a monthly running rate and derive a likely annual market size which we then tested out on other informed individuals who had a good intuitive feel. The conventional wisdom was that about 2,000 units a year were being sold in Kenya, with another 2,000 or so between Uganda and Tanzania.” He continued, “It was still a time when those in the industry had a reasonably good feel for who had what enterprise servers, and who was acquiring what each year. At that time, it has to be said, there weren’t too many new purchases, and they were mainly among parastatals.”

Compaq and IBM computers dominated the branded PC segment, although Hewlett Packard and Dell were hot on their heels. It was by far the largest market owing to its niche. Multinational companies, big local companies and high net worth individuals bought the machines in this category. They were sold by authorized dealers, and their quality was guaranteed, often coming with a 1-3 year guarantee. The price of branded PCs started from approximately US$ 1,500, but cheaper ones were available with growing competition and frequent sales. The fact that corporations normally bought in bulk made branded computers the leader in sales.

Players in the low-end market segment were labeled “box pushers”, and some were actually little more than “brief-case companies.” Responsibility for the goods provided at transaction time generally ended with the sale, except perhaps for providing limited maintenance support. Many players thrived here, since other than the cost of holding stocks, there were fewer overheads. One attractive feature for this
segment was quick sales and hence good cash flow, associated with the nature of products. High price competition and low consumer buying power – and hence low margins – were major drawbacks.

Besides the many small “brief case” companies, there were medium sized companies which included Fintech Ltd, Kenya Microcomputers, Mitsumi Computer Garage, Compriite Ltd, and Abacus Computer Systems. IT commodities included servers (other than the higher end ‘Enterprise Servers’), client workstations, laptops, computer hardware such as memory, disk drives, printers and scanners, UPSs and networking devices. Others included consumables such as paper, CDs, magnetic tapes and disks. For computer software, shrink-wrap solutions in the range of up to US$ 4000 were common. The appeal for most companies lay in the volume of business, coming from the large number of small companies and individuals likely to buy these commodities.

In the latter half of the 1990s, the low-end business was moved from CAL to MagnetiCAL (later renamed Technology Strategies Ltd), and Systems Reliability Ltd. Though 1999 had been somewhat disappointing in terms of performance, CAL was nonetheless making reasonable profits for its investors as indicated in Exhibit 3.

**Legend Technologies**

Legend Technologies was set up in 1991 in the Export Processing Zone to assemble its own Legend-branded PCs. The company also won the East African representation for Sun Microsystems, which led to a penetration of the server market that could only be compared to CAL’s earlier assault with Wang. Legend also brought the DGR Group into high-end Enterprise Resource Planning Systems, through its partnership with BaaN. Legend created partnerships with established IT companies in Tanzania, Ethiopia and Eritrea, establishing a dominating regional presence for Sun Microsystems and Legend. Later the ERP business was transferred to Impact Consultants Ltd.

Although most computers that were imported to Kenya were already assembled, there was a growing local business in computer assembly and maintenance and this was Legend’s business strategy. The country lacked the capacity to manufacture the machines, and also the volume of demand to justify the commitment required. Within the country, even where there was a possibility in local production, experts thought the costs were enormous.

Importing parts from Asian markets and doing the assembly made more business sense for Kenyans in the business. There was a general consensus that parts from the U.S.A. were durable and of a higher quality, but their high costs kept assemblers from using them locally. Indeed, even in the USA market itself, PC assemblers were increasingly relying on imported components from Asia.

The clone market was growing fast, fueled by price sensitive consumers feeling the pinch of an economic slump. This market was dominated by local assemblers, sourcing computer parts cheaply from several Asian and Middle East countries increasingly through Dubai, and selling the assembled computers at a cheaper price compared to the branded ones. These machines could be built to customer
specifications and their performance was not in doubt. However, the total cost of ownership including maintenance was comparably high. These machines were popular with small offices and home office users and the growing number of individuals who wanted to participate in the global marketplace through the Internet. The prices of clones ranged between US$ 400 and US$ 1,000.

The used computers were in the same market niche as clones, but were predominantly acquired by schools and other institutions. The local vendors obtained the computers cheaply from corporations in developed countries that were upgrading their computer systems. According to the vendors, these computers were in good shape and were normally only a generation or so behind. The machines were sold as they were without any system alterations, although the vendors could do repairs and service where required. The prices of used PCs were also in the range of US$ 400 to US$1,000. To decide what computer to buy, Kenyan customers assessed a machine's memory, storage, processor speed, size of the monitor, included options, expandability and warranty.

Legend had experienced declining performance since 1997 (see Exhibit 3). In a board meeting of October 1999, the CEO was asked to prepare a comprehensive report about the future of Legend and PC assembly in Kenya.

**Institute of Advanced Technology (IAT)**

Established in 1991, IAT introduced a completely new quality of IT training in Kenya. IAT grew in leaps and bounds, quickly becoming by far the largest IT training institution in Sub-Sahara Africa, and a standard-setter for excellence. Operating from downtown Nairobi, IAT become well known in the Kenyan ICT job market for producing high quality graduates who were skilled and proficient in their areas of study.

Together with international partners, the training division had successfully conducted ICT courses since 1991 and had gained valuable experience in that area. Since inception, it had grown from a single 3-classroom training centre to a national training institution with 4 centers in Nairobi and 1 in Mombasa. It had a total infrastructure of 30 classrooms, 400 computers and over 90 full-time instructors. Towards the end of 1999, more than 2,000 students were attending IAT training centers daily.

IAT was the only ISO 9000 certified ICT learning & training centre in Africa. It was accredited by several organizations including the Directorate of Industrial Training (Kenya). It was the leading Microsoft Certified Technical Education Centre for the Microsoft range of products; it partnered with the ICDL Foundation to conduct training in and test for the International Computer Driving Licence (ICDL), and represented the National Computing Centre (NCC) of the UK. IAT delivered NCC Diploma and Advanced Diploma courses in the region. It was also accredited by the Computer Technicians’ Industry Association (CompTIA) and trained and tested the Network+ and A+ certifications. It was also a Virtual University Enterprises (VUE) Testing Centre and examined courses using VUE online systems. All these activities contributed to the good performance of IAT as shown in Exhibit 3.

The major competitors for IAT included Cyber Networks Ltd., Aptech Computer Education, Infotech Training Centre, Kenya College of Communication Technology
Technology Strategies Ltd
MagnetiCAL had been the first of CAL’s sisters, initially marketing computer media. Its portfolio became increasingly technical, bringing in uninterrupted power supply (UPS), structured cabling and other products to support the computer environment. The company name was changed to Technology Strategies Ltd (TSL) to reflect the new business focus.

The company was successful due to an ongoing relationship with a leading UPS vendor, Victron, which was later absorbed by the giant General Electric (GE). TSL was the sole regional representative of GE Digital Energy (GEDE), the leader in the field of power protection, offering the highest quality of UPS and related software products in the industry. This included UPSs ranging from 500VA to 4MVA, together with power management and data protection software. They also dealt with UPSs from American Power Conversion. For structured cabling, their principals were BICC and Siemon Cabling.

Power management and protection was an attractive opportunity in Kenya, because the electricity situation in Kenya had not kept pace with the growing economy and this posed a big challenge to the computer industry. The irregular, unreliable and frequent interruption of power supply adversely affected the sector. Power cuts and power fluctuations continued to raise costs of maintenance for computing equipment and efficiency in the sector. In 1999, when the Kenyan economy experienced a drought, there was an energy crisis and this presented a business opportunity for the UPS market. The power portion of TSL did booming business in that year.

Besides UPS products, TSL was also marketing computer media including paper, hard disks, floppy disks, CD-ROMs and tapes. Following liberalization in 1997, however, competition had become very stiff. Companies that were competing with TSL in all its business segments included Kenya Microcomputers, Kora International, Africaland Computers, Mitsumi Computer Garage, Desktop Solutions, Circuit Business Systems, Abacus Computer Systems, Computers Direct and Adept Systems. Intense competition made the company register a loss in 1999 (Exhibit 3).

Systems Reliability Ltd (SRL)
SRL was established in 1995 to handle network communication needs, benefiting greatly from its close relationship with Racal, its major supplier from UK, and Cisco among others. Over the years SRL had played a leading role in the marketing and selling of many network and communication products, which had become a major commercial success.

SRL operated from Yaya Centre in Nairobi, the headquarters of the DGR group. Networks were an essential part of business, education, government and home communications. As a Cisco business partner, SRL was not only a reseller of network devices but also specialized in the design, implementation and management of Internet Protocol (IP) based networking solutions. The company had the know-how and experience to create secure Internet solutions that allowed individuals,
organizations and countries to increase productivity, improve customer satisfaction and strengthen competitive advantage.

The SRL Networking services included “future-proof" cabling and networking solutions for organizations. Their structured cabling solution incorporated the most comprehensive range of cables and components available in the market. The networking solutions became a total solution with their wide range of switches, routers, modems and other network devices.

A few of the most significant products SRL imported were Cellular and Packet Radio, WatchWord and GSM test set. GSM phones were first introduced in Kenya in 1997 by Safaricom Ltd, a mobile phone service provider. SRL together with RACAL positioned themselves to market the GSM test set for the mobile industry. The Kenyan mobile market had expanded slowly in the past two years. However the neighbouring countries had a vibrant mobile industry and SRL were optimistic the same would happen in Kenya.

SRL had good relationships with other manufactures such as Siemens and Cisco which were involved in network and communication products. Particularly, they acquired routers, switches, hubs firewalls, modems and network interface cards from Cisco. The major clients were government, parastatals and corporate companies, NGOs and private businesses.

Competitors in this market included Lantech, Cybernetworks and Fintech. SRL had a difficult time since some competitors were using unfair business practices like political patronage for government contracts. The business performance is indicated in Exhibit 3.

**Impact Consultants**

As the emphasis on software and associated consultancy grew, Impact Consultants took on the entire Group’s activity in this area. The market leaders in the IT consulting business were large multinational firms such as PricewaterhouseCoopers, Deloitte, Ernst & Young and KPMG. As part of their management consulting, they had IT divisions and any company targeting this market had to compete with them. IT vendors wishing to do business in this market had to further overcome the perception of being “just an IT vendor” in the eyes of targeted customers. This was a major motivation for creating Impact Consultants rather than continue with this line of business as part of CAL.

The Enterprise Resource Planning (ERP) domain, with systems such as SAP, Sage/Tetra and BaaN, groupware products like Microsoft Exchange and Lotus Notes, database systems such as Oracle and MS SQL, were of major importance to any company with an interest in the high-end business solutions consulting area. Impact Consultants implemented ERP solutions using BaaN, though Sage/Tetra was becoming increasingly popular. Other solutions included messaging, workflow and document management solutions based on the Lotus Domino infrastructure, and storage management solutions based on the Tivoli range of products.

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4 NGOs refers to Non-Governmental Organizations
Managers at Impact Consultants believed that a business needed the right tools for the job and a consultant who could understand the business needs. They were committed to helping businesses, their employees, customers and partners to automate business operations. According to Eldon, there were many ways that an ERP system could help an organization. First, an organization’s operating costs would be reduced. An ERP system could integrate all parts of an organization so that it has more control of its operations. Also, an ERP system increases the organization’s time efficiency. Since all its functions became integrated with each other, users require less time to perform their tasks. Moreover, as people had faster access to more information, this would improve the speed and quality of decision-making. The big challenge to realising benefits of an ERP system was the need to develop a highly disciplined work environment, and that didn’t exist in too many organisations.

“We undertook a complete ERP consultancy from the business process re-engineering stage to implementation and support. Our team of ERP consultants were specialists in identifying and mapping business process flows of an organization, and they possessed the right kind of technical software knowledge which led to successful implementations.”

Eldon commented.

Consulting required working with principals including IBM, Sun Microsystems, BaaN and other companies. One of the difficulties with vendor relations was the principals’ expectation that their partners would be loyal to them even as they appointed other partners to compete with them (to ‘increase the footprint’, and hence market share). While this was good for big markets like the USA, it was less suitable for small markets like Kenya. The consequence too often was that companies fought over the same small amount of business and increasingly just on price, as vendors of what had now become commodities. The principals liked this price warfare because it made them more price competitive. However, it became increasingly hard for the partners to afford the investment required to provide excellent solutions and services. They just could not generate enough market share, or a critical mass of business.

Cost and other capital investments (e.g. people certification, in-house hardware and software, spares) were a must. Another major concern was the need to educate the public on the cost-justified benefits of acquiring IT systems. Demand creation was a very expensive business, given that even Kenyan decision makers were still largely illiterate on IT issues and usage. In addition, even if one managed to create the demand, there was no guarantee that one would be selected to satisfy it. Too often the opposite was more likely - the business would go to the low overhead commodity provider who had invested nothing upfront.

Another feature differentiating the commodity from the consulting business solutions strategy was that in the former operational efficiency was paramount, while in the latter customer intimacy and service were more significant. Either way, in the difficult East African environments, where importing and clearing were so problematic, operating efficiency was paramount. You had to be adept at sourcing and logistics, on teamwork, and on product expertise at the sales and technical levels. The company performance is indicated in Exhibit 3.
The Merger

Each of the Group companies established itself in its area of focus. However, amid a disappointing overall performance in 1999 (See Exhibit 3), it became increasingly apparent that there should be more synergy between them. The process was taken to its logical conclusion on December 17th, 1999 when the board of directors agreed to merge the six companies into a single entity, Symphony. Everyone moved to one building, Symphony Place, in Westlands under a unified management team with common support services.

The result of the merger brought harmonization of both management and operations with a total of 385 employees, of whom 308 were skilled IT professionals. This process saw the birth of the company logo and the “harmony in IT” motto (Exhibit 4).

In choosing the name, Eldon explained:

“We thought of Symphony as a work composed with great skill and artistry, played harmoniously by many players and many instruments and conducted well. The logo’s font represented stability, power, strength and order. The design captured many components fitting smoothly together, with fluidity of structure, motion and openness.”

After the merger, Symphony remained part of the DGR group of companies, which employed 2,600 people. Eldon believed in the group’s philosophy, which had been a major driver up to the time of the merger.

“Our philosophy was anchored on sector leadership through quality and market share, and professional management. We were entrepreneurial in nature, used common sense, and kept things simple,” he explained.

The Kenya and East Africa Economies

Recent History

As Eldon considered how to lead the newly merged group forward, he reflected on the somewhat erratic history of the Kenyan economy. Between 1974 and 1990, Kenya's economic performance declined. Inappropriate agricultural policies, inadequate credit, and poor international terms of trade contributed to the decline in agriculture. Kenya's inward-looking policy of import substitution and rising oil prices made Kenya's manufacturing sector uncompetitive. The government began a massive intrusion in the private sector. Lack of export incentives, tight import controls, and foreign exchange controls made the domestic environment for investment even less attractive.

From 1991 to 1993, Kenya had its worst economic performance since independence. Growth in Gross Domestic Product (GDP) stagnated, and agricultural production shrank at an annual rate of 3.9%. Inflation reached a record high of 100% in August 1993, and the government's budget deficit was over 10% of GDP. As a result of increasingly tense relations with the donors, bilateral and multilateral development partners suspended program aid to Kenya in 1991.
From 1993, the government of Kenya implemented a program of economic liberalization and reform. A new minister of finance and a new governor of the central bank undertook a series of economic measures with the assistance of the World Bank and the International Monetary Fund (IMF). As part of this program, the government eliminated price controls and import licensing, removed foreign exchange controls, privatized a range of publicly-owned companies, reduced the number of civil servants, and introduced conservative fiscal and monetary policies.

From 1994-96, Kenya's real GDP growth rate averaged just over 4% a year and inflation remained under control. Following strong economic growth in 1995 and 1996, Kenya's economy had stagnated in the subsequent years, with GDP growth failing to keep up with the rate of population growth.

Growth slowed down in 1997-98. Political violence damaged the tourist industry, and the International Monetary Fund (IMF) allowed Kenya's Enhanced Structural Adjustment Program to lapse due to the government's failure to enact reform conditions and to adequately address public sector corruption. Moreover, El Nino rains destroyed crops and damaged an already crumbling infrastructure in 1997 and 1998. Long-term barriers to development included electricity shortages, the government's continued and inefficient dominance of key sectors, widespread corruption, and the country's high population growth rate.

In 1998/99, the GDP grew at a paltry 1.4 percent. Per capita incomes dropped by 1.6 percent. Investments stagnated as a result of budget cuts, poor infrastructure, high interest rates, reduced donor funding and excess capacity. A severe drought in 1999 compounded Kenya's problems, causing water and energy rationing and reducing agricultural output. GDP growth was estimated to decline further in 2000 to less than 1 percent. The economy had in the past proved to be erratic and things were not looking much smoother. This made it difficult to have accurate projections for any company for the years ahead. Exhibit 5 shows key economic indicators.

The depressed economy did, however, offer opportunities for the computer industry, as many business decision-makers realized that the use of information technology greatly improved their work automation processes and their productivity. With these improvements, they hoped to empower their workers, who would then be motivated into working more efficiently.

**Corruption**

Kenya, the regional hub for trade and finance in East Africa, had long been hampered by corruption. Despite considerable talk about reform, in July 1997, the Government of Kenya refused to meet commitments made earlier to the IMF on governance reforms. As a result, the IMF suspended lending for 3 years, and the World Bank also put a $90 million structural adjustment credit on hold. Although many economic reforms put in place three years earlier remained, Kenya needed further reforms, particularly in governance, in order to increase GDP growth and combat poverty among the majority of its population. Lack of progress in the Goldenberg scandal investigations marked a further unwillingness to deal with corruption, though the Government of Kenya took some positive steps with reform, including the 1999 establishment of the Kenyan Anti-Corruption Authority, and measures to improve the transparency of government procurements and to reduce the government payroll.
**East African Cooperation**

The Eastern Africa region was characterized by weak economies, high interest rates, declining donor support, low appreciation of IT, poor telecoms infrastructure, and few and relatively small opportunities. Nairobi continued to be the primary economic hub of East Africa. It enjoyed the region's best transportation linkages, communications infrastructure, and trained personnel. A wide range of foreign firms maintained regional branch or representative offices in the city. In March 1996, the Presidents of Kenya, Tanzania and Uganda re-established the East African Cooperation (EAC). The EAC’s objectives included harmonizing tariffs and customs regimes, free movement of people, and improving regional infrastructures. As Eldon saw it, there was an opportunity here.

“We need to operate regionally and to benefit from the economies of scale that justify skills development. And one has to be efficient so as to be competitive and profitable. Part of this has to do with focusing on your employees’ skills – and also attitudes, and not least in the area of customer care.”

**Mike Eldon’s Dilemma**

Eldon had been in charge of CAL for nearly 20 years and had just become the Executive Director of Symphony (see Exhibit 6 for Eldon’s profile). As part of the DGR group, he knew what the other sister companies had been doing. While the decision to merge was concluded, Eldon was left wondering where to position the merged company. Should they focus on the low end as commodity resellers or should they focus on the high end as solution providers? Or maybe they could combine the two? Whichever path Symphony took, it would have to build appropriately from the strengths of the constituent merged companies, forging a unified team with one culture.

**ICT Commodity Resellers Proposal**

Vivek Shah, the Sales and Marketing Director (see Exhibit 6 for Shah’s profile), was arguing for the commodity market position. He also felt that it would please the holding company with its need for cash flow and lower risk. There was assured availability of maintenance and service revenue in the low-end approach, with lower risks. But it was a low margin business, with high working capital needed for stocks. The supply chain also had to be particularly efficient.

A major challenge was the interest on borrowing - which was lower for some of the other competitors who had ‘godfathers’ in the government, some of whom were not paying import duty or even Value Added Tax (VAT). There was dire need for a level playing field!

In addition, training the large numbers of end users through IAT would provide cash flow. However, there would be need for further investment in infrastructure and lecturers where, because of the high turnover of staff designed into the system, constant recruitment was the norm rather than the exception.
Consultancy and Business Solutions Provider Proposal

The high-end market meant dealing with the government, in addition to multinationals and big local and private businesses. This market segment expected its providers to have available an expensive high-level knowledge base (even though customers weren’t always ready to pay normal market rates for the time of those who possessed the knowledge). As a result, there were fewer competitors in this market area, and margins were high compared to the commodity reseller market. There was a chance of having insufficient staff in the event of getting more contracts than expected, with a long lead-time for recruitment and development.

In creating a consulting, solution-oriented type of business, one needed to engage a certain number of ICT expatriates, because local expertise was limited in some areas. Issues like visas and work permits arose, and high costs were guaranteed, including for the children and dependents who would have to be dealt with. Decisions on whether it was better to bring young people with skills (say from India) or to get senior local people who were quite expensive, would have to be made.

Government and parastatals were major clients in this market segment, yet dealing with them was difficult, as CAL had witnessed. Before coming to Kenya, Eldon had coined what he called “Eldon’s Law”: “The more incompetent the users the more they blame the vendor”. In Government, they were often completely incompetent (not stupid, just not engaged, or even trying to prevent a system that was going to introduce transparency and accountability from working) and therefore had to completely blame the vendor. For this was their only path to risk avoidance. In implementing large, complex projects, one had to be willing to take a risk. And the risk was that your client was prepared – or not prepared – to partner with you to see a successful implementation.

In his many years in the IT industry, Eldon had learned that dealing with big clients had taken a toll on the company. CAL had on several occasions burnt its fingers on the biggest project bids which were in most cases government contracts, due to lack of commitment or competence at the user end, and the readiness to blame the supplier for internal shortcomings.

Another key concern in that market was the business culture. Corruption in central and local government, as well as among parastatal organizations, made it difficult to win tenders based purely on price and performance. Companies that did not engage major godfathers were far less likely to win tenders for government projects. CAL had suffered badly from such issues, and the memories were still fresh in the mind of Symphony’s management.

As for IT consultancy, this required building a brand name and working with company CEOs for acceptance. Eldon wondered, “Symphony has the competence but would the customer pay for it? The big boys (and the big brands!) like PriceWaterhouseCoopers and Ernst & Young were entrenched in the market. How would Symphony do it? Could they? Could free promotional presentations help? What else was required?”
Decision Time

As Eldon and his colleagues grappled with the issues, he reminded himself that in his long stay in the country, the Kenyan market had never been wealthy and the prospects of change were not good, at least for the foreseeable future. Elections were due in two years’ time, but whoever was elected into office would inherit a dilapidated infrastructure and a cripplingy corrupt and bureaucratic environment.

Eldon recalled some arguments he had had with senior managers.

“Do you go for a limited vertical market and try to really dominate it, or must you be a jack of all trades... as no niche is big enough to keep you going? And if you specialize in a niche, this requires domain skills - how do you build them? Then, which option allows for short term as well as long term survival?”

As Eldon weighed his options, he knew that the high-end approach would be a huge undertaking, calling for lots of resources, time and commitment from management and the board. The returns were likely to be handsome in the long term, but was Symphony up to the challenge? What if the gamble failed to materialize?

On the other hand, whereas going for the commodity market was a softer option, would it end up being sufficiently profitable? Which way forward for Symphony was Eldon’s make or break challenge. He watched the clock in his office as the time ticked towards the board meeting in 3 days time. Time was running out!
Exhibits

(Source: International Business Strategies)

<table>
<thead>
<tr>
<th>Origin</th>
<th>1997</th>
<th>1998</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>EPZ*</td>
<td>0</td>
<td>139,737</td>
<td>113,695</td>
</tr>
<tr>
<td>Others**</td>
<td>13,037,278</td>
<td>15,593,473</td>
<td>13,867,474</td>
</tr>
<tr>
<td>Total</td>
<td>13,037,278</td>
<td>15,733,210</td>
<td>13,981,169</td>
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</table>

*Manufactured in the Export Processing Zones, Nairobi  
**All other imports

Exhibit 2: Da Gama Rose Group - IT companies before merger  
(Source: Symphony)

- DGR Group
  - CAL
  - LEGEND
  - IMPACT
  - TSL
  - IAT
  - SRL

- IBM, Lotus, SUN, Legend PCs, BaaN, Sage-Tetra, Victron, GE, BICC, Microsoft, NCC, ICDL, Racal, Telematics, Siemens,
(Data disguised)

<table>
<thead>
<tr>
<th>Company</th>
<th>1997</th>
<th>1998</th>
<th>1999</th>
</tr>
</thead>
<tbody>
<tr>
<td>CAL</td>
<td>0.8</td>
<td>1.1</td>
<td>0.9</td>
</tr>
<tr>
<td>IAT</td>
<td>1.8</td>
<td>2.1</td>
<td>1.9</td>
</tr>
<tr>
<td>Impact</td>
<td>0.3</td>
<td>0.36</td>
<td>0.25</td>
</tr>
<tr>
<td>TSL</td>
<td>0.21</td>
<td>0.12</td>
<td>(0.5)</td>
</tr>
<tr>
<td>SRL</td>
<td>0.5</td>
<td>0.58</td>
<td>0.61</td>
</tr>
<tr>
<td>Legend</td>
<td>0.52</td>
<td>0.35</td>
<td>0.2</td>
</tr>
</tbody>
</table>

Exhibit 4: Symphony logo

SYMPHONY
...harmony in IT
### Exhibit 5: Kenya Economic Indicators (1995-1999)

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>Nominal GDP (in billions of shillings)</td>
<td>465</td>
<td>527</td>
<td>621</td>
<td>699</td>
<td>731</td>
</tr>
<tr>
<td>Real GDP</td>
<td>4.8</td>
<td>4.6</td>
<td>2.3</td>
<td>1.8</td>
<td>1.6</td>
</tr>
<tr>
<td>Consumer prices (period average)</td>
<td>1.5</td>
<td>9.0</td>
<td>11.2</td>
<td>6.6</td>
<td>2.6</td>
</tr>
<tr>
<td>Real effective exchange rate (- depreciation; end of period)</td>
<td>-18.3</td>
<td>12.3</td>
<td>1.9</td>
<td>0.1</td>
<td>-12.2</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Investment and savings</th>
<th>(In percent of GDP, unless otherwise indicated)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross investment</td>
<td>21.8</td>
</tr>
<tr>
<td>Central government</td>
<td>5.9</td>
</tr>
<tr>
<td>Other</td>
<td>16.0</td>
</tr>
<tr>
<td>Gross national savings</td>
<td>17.4</td>
</tr>
<tr>
<td>Central government</td>
<td>5.9</td>
</tr>
<tr>
<td>Other</td>
<td>11.5</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Macroeconomic policy variables</th>
<th>(In millions of U.S. dollars, unless otherwise indicated)</th>
</tr>
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<tbody>
<tr>
<td>Total revenue and grants</td>
<td>30.5</td>
</tr>
<tr>
<td>Total expenditure and net lending</td>
<td>30.4</td>
</tr>
<tr>
<td>Overall government balance (excluding grants)</td>
<td>-1.1</td>
</tr>
<tr>
<td>Overall government balance (including grants)</td>
<td>0.1</td>
</tr>
<tr>
<td>Money and quasi money (end year; percent change)</td>
<td>12.5</td>
</tr>
<tr>
<td>Interest rate (90-day treasury bill rate; end of period)</td>
<td>18.3</td>
</tr>
</tbody>
</table>

### External Sector

<table>
<thead>
<tr>
<th>Current account deficit (excluding official transfers) (in percent of GDP)</th>
<th>-505</th>
<th>-209</th>
<th>-469</th>
<th>-546</th>
<th>-523</th>
</tr>
</thead>
<tbody>
<tr>
<td>Scheduled debt service (in percent of exports of goods and services)</td>
<td>24.9</td>
<td>24.3</td>
<td>22.4</td>
<td>21.8</td>
<td>26.7</td>
</tr>
<tr>
<td>Exchange Rates: Kenya shillings per U.S. dollar (period average)</td>
<td>51.4</td>
<td>57.1</td>
<td>58.0</td>
<td>61.8</td>
<td>75.5</td>
</tr>
</tbody>
</table>

Exhibit 6: Key Directors brief profiles: Mike Eldon and Vivek Shah

Mike Eldon’s Profile
Mike Eldon had a Bachelor of Economics degree, and an Executive MBA from the London Business School. His Father, Bruno Eldon had been head of Management Training at Shell International UK. In his time Bruno had interacted with gurus of management such as McGregor and Maslow in the USA. Bruno had also worked with Nick Muriuki, soon to become head of Shell in Kenya. In 1977 Mike landed in Kenya for the first time, to take up a two-year assignment with the ICL Kenya Limited as General Manager. At ICL Mike saw enormous potential in the high-end solutions IT market the company was engaged in. He further developed ICL as a major player in the IT solutions provider sector. With a continually growing experience over the years, Mike had become very competent and an innovative ‘management consultant’ type of vendor in the IT sector. Mike had a keen interest in human resource development, and had unique strength in team building. In addition he developed deep involvement in professional associations and community based organizations.

Vivek Shah’s Profile
Vivek Shah was a third generation Kenyan whose parents had migrated from India in the early 1920’s. Vivek worked in his family shop as he grew up and learned the retail business – as what his parents called a “duka walla”. He trained as an engineer and worked with a number of companies before joining Legend Technologies in 1992. Shah had a sharp intellect, was highly competent, and understood the IT industry inside out. Above all, due to his childhood days, he had a passion for trading. He was an active member of his temple, was highly involved in the Lions service club and was well networked with the Shah community as well as other Asian communities. He was also quite at ease with his African friends and with his colleagues at Legend. Vivek was a self made man and often told his junior staff that hard work, diligence and belief in self were the key ingredients of success.