

So much in store



Prospects in
the retail and
consumer goods
sector in ten
sub-Saharan
countries



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The bulk of this research was conducted in 2015.



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Foreword

Despite some of the challenges there remains reason for optimism about doing business in Africa. There are encouraging economic growth rates predicted for 2016 and beyond in a number of countries in Africa and the growth expected in Africa's consumer market provides a major attraction to retail and consumer companies looking to the future.

However, Africa's fortunes are very much tied into those of the global economy. The fall in oil and other commodity prices has seen pressure on government revenues and the ability of governments to increase social expenditure and wages in the public sector. In particular, countries such as Angola, Nigeria and South Africa are feeling this impact and this could impact on the growth of the consumer market in these and other African economies.

The relative weakness of many emerging market currencies has meant a higher risk of tightening monetary policy (with its resultant impact on customer's wallets), exchange controls and of course increased import costs for retailers. Managing the effect on their operations (in particular their cost base) of volatile currencies will continue to be a focus for retailers in Africa.

Although significant investment has gone into improving infrastructure in many countries on the continent the quality of infrastructure remains mixed. Retailers need to assess each country individually and ensure they understand how the quality of ports, roads and energy infrastructure will impact their operations.

Different strategies have been developed for expansion in Africa, including selecting a regional hub to facilitate expansion (such as Kenya into East and Central Africa and Nigeria into West Africa). A critical success factor for retailers and consumer goods companies moving into many African countries has been their ability to implement supply chains that deal with the operational challenges that exist. Given the size of Africa, companies often need to make significant upfront investments in distribution centres and in many countries upfront lease payments to landlords covering a significant period may also be required.

In this report, we focus our analysis on ten African economies that we believe offer some of the most compelling opportunities for retail and consumer

businesses looking to expand in Africa. Sub-Saharan Africa remains one of the fastest growing regions in the world and the successful expansion of a number of global and African retailers and consumer goods companies across the region speaks to the opportunities that exist.

Individual country profiles provide an overview of the demographic and economic situation, challenges and opportunities, as well as sharing insights about doing business from executives on the ground.

Meanwhile, the "big picture" section at the beginning of the report outlines a number of the major trends shaping the retail and consumer sector across sub-Saharan Africa.

We hope this report will enhance your understanding of some of the risks but more importantly the opportunities that Africa has to offer, and provide the groundwork for deeper conversations.

Anton Hugo

**Retail & Consumer Industry Leader
PwC Africa**

The big picture

Trends shaping the retail and consumer sector in sub-Saharan Africa



Recent years have seen surging investor interest in sub-Saharan Africa's retail & consumer sector. Whereas the focus was traditionally on extractive industries such as oil and mining, a growing consumer class demanding everything from mobile phones to fast food have prompted many retailers and consumer goods companies to look with fresh eyes at opportunities in the region.

The purpose of this report is to offer insight into the make-up of sub-Saharan Africa's retail and consumer goods industries, and provide an outlook for the coming five years. However, with each country at its own stage of development and stark differences in culture and consumer behaviour, one cannot paint the entire region with one brush.

We have therefore focused our research on 10 countries – Angola, Cameroon, Ethiopia, Ghana, Ivory Coast, Kenya, Nigeria, South Africa, Tanzania and Zambia. In choosing these territories we considered a variety of factors, including the size of their economies and attractiveness from a consumer perspective, while aiming to provide a good geographical spread.

To give readers a broad snapshot, we have identified significant trends likely to impact the development of the region's retail and consumer goods industries over the coming years.

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Macro developments

Since the turn of the century sub-Saharan Africa has undergone a number of changes that have made it a more enticing investment prospect for consumer-focused companies. The region's economic progress and the 'Africa rising' narrative have been well-documented, and we will not discuss it in depth.

Many sub-Saharan Africa countries have emerged among the world's fastest growing economies. For example, between 2000 and 2014, GDP in Angola, Ethiopia and Nigeria grew at average annual rates of 9.2%, 8.8% and 7.7% respectively.

While significant work remains there has also been some progress on the governance and political front, with many countries moving towards better administration and deepening democracy. For example, Nigeria's March 2015 election was the first time since 1999 that the country had a democratic transition of political power. The polls also defied predictions of security problems and unrest.

These developments, coupled with urbanisation and an increasingly connected and demanding consumer class have given investors a lot to be positive about.

Countries analysed in this report



Economic factors

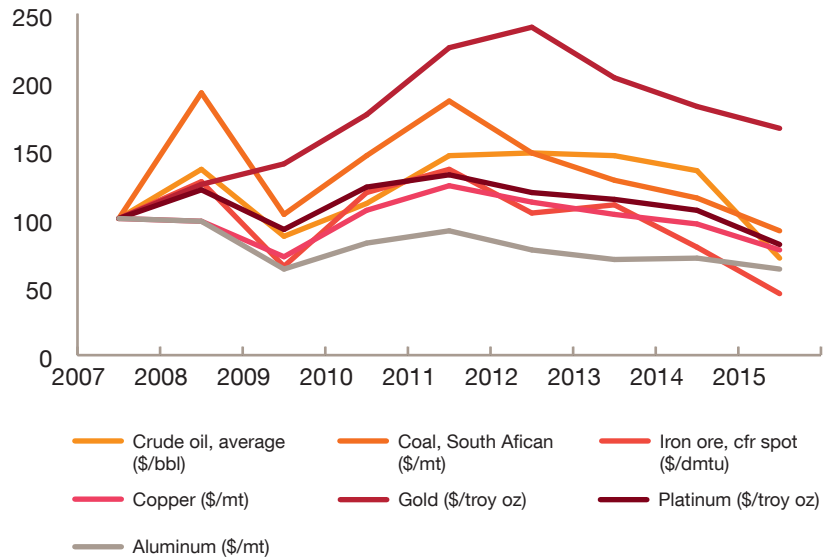
Despite this underlying optimism, many sub-Saharan economies have also been impacted by a string of external and internal challenges that are already having a negative impact.

Softer demand from Europe and China, lower commodity prices (most significantly the oil price, which is severely impacting crude producers such as Angola and Nigeria) and security threats in countries such as Nigeria and Kenya have all had a harmful impact on GDP growth.

In its January 2016 World Economic Outlook Update, the IMF revised forecasts for global growth down by 0.2 percentage points for both 2016 and 2017, reflecting a weaker pickup in emerging economies than previously expected. Despite the challenges, the outlook for sub-Saharan Africa remains positive and significantly ahead of the global average

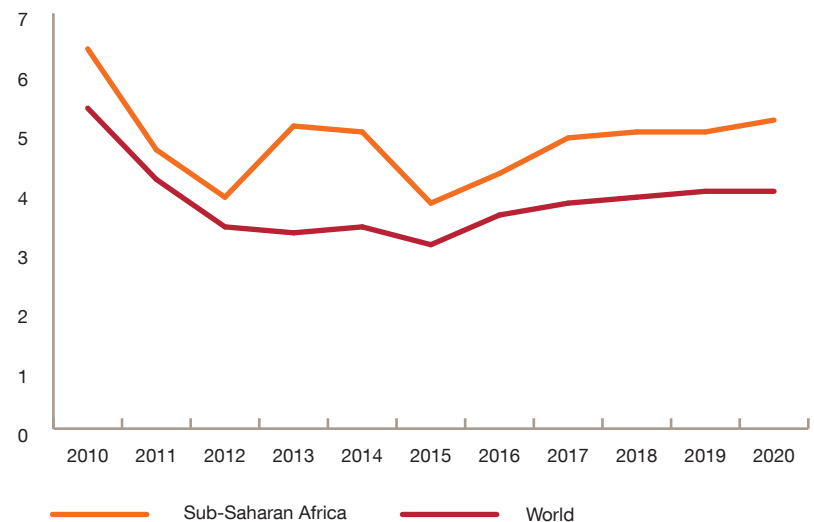
Despite a string of external and internal challenges having a negative impact on its growth rate, Africa's prospects remain significantly better than the global average.

Figure 1 Commodities at USD-indexed prices (Annual average prices, 2007=100)



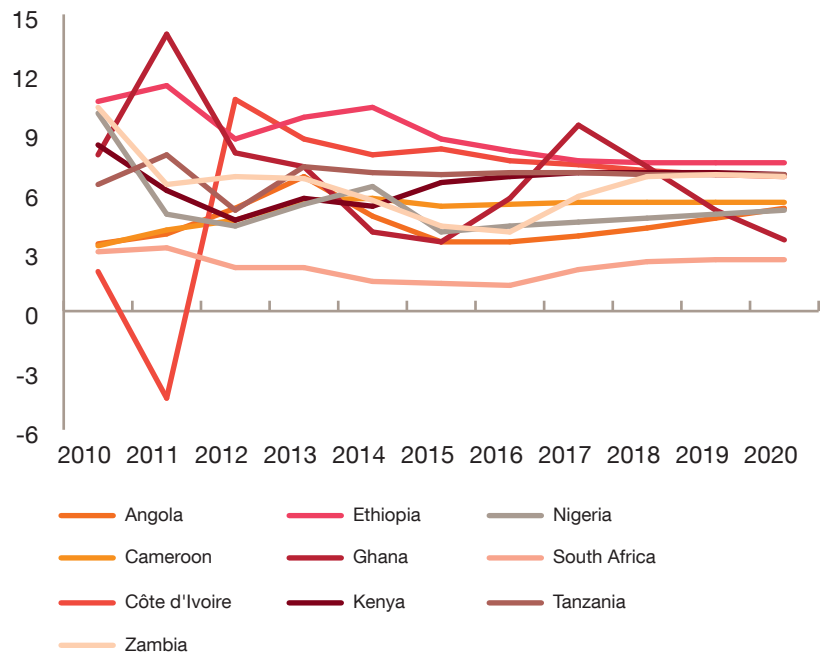
Source: World Bank Commodity Price Data (The Pink Sheet)

Figure 2: GDP growth: Global vs sub-Saharan Africa



Source: IMF, World Economic Outlook, January 2016

Figure 3 GDP growth in profiled countries (%)

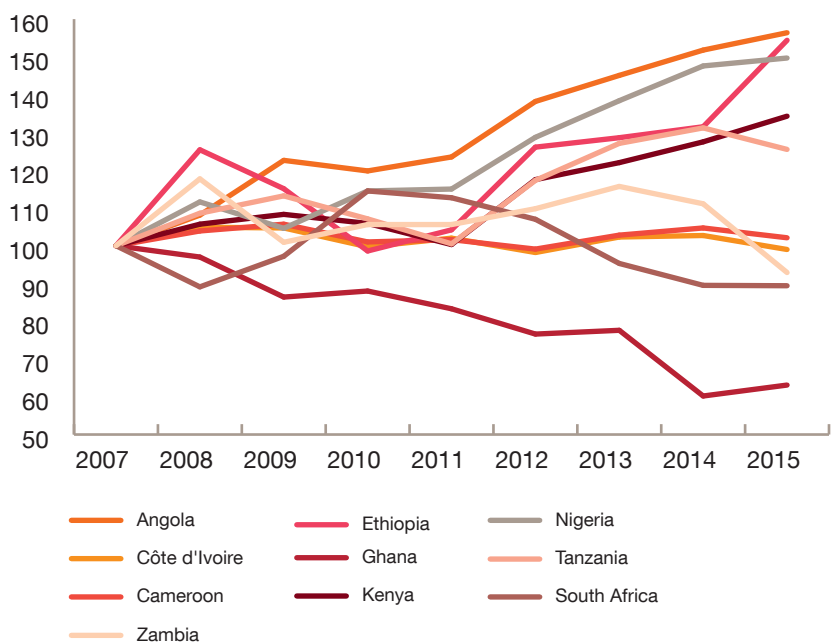


Source: IMF World Economic Outlook Database, latest release October 2015

The strong US dollar has inflated the costs of imports and raw materials, putting added pressure on local economies.

Many African currencies have also weakened against a strong US dollar, which has inflated the costs of imports and raw materials. Furthermore, fresh electricity generation problems in many countries, particularly South Africa and Ghana, means companies have to rely on generators during periods of electricity load shedding. This is expensive and adds to the cost of doing business, which has seen some companies having to lay off staff.

Figure 4 Real effective exchange rates for profiled countries (annual average index, 2007 = 100)



Source: Bruegel, Real effective exchange rate database, updated 26 November 2015. Accessed at <http://bruegel.org/publications/datasets/real-effective-exchange-rates-for-178-countries-a-new-database>

Demographic changes

Africa's young population is expected to drive consumption and economic growth in the coming decades.

According to the World Bank, Africa's median age was 19.7 years in 2012, and it is expected to increase to 25.4 years in 2050, making Africa the continent with the youngest population.

Estimates suggest the continent had a population of 226 million aged between 15 and 24 years in 2015. This is expected to double by 2045.

Africa is the world's second-largest continent with 20.4% of the total global land area. It is also the second-most populous, currently representing 16% of the world's population. The estimated population of 1.18 billion in 2015 is expected to increase to 2.48 billion by 2050, by which time it will represent 25% of the global population.

When the labour force grows more rapidly than the population dependent on it, resources become available for investment in economic development and personal consumption. This offers an opportunity for rapid economic growth.

Demographic dividend

The demographic dividend is the economic growth potential that can result from shifts in a population's age structure, mainly when the share of the working-age population (15 to 64) is larger than the non-working-age share of the population (14 and younger, and 65 and older).

Source: United Nations Population Fund (UNFPA). <http://www.unfpa.org/demographic-dividend#sthash.NRiLxZ5E.dpuf>

Urbanisation

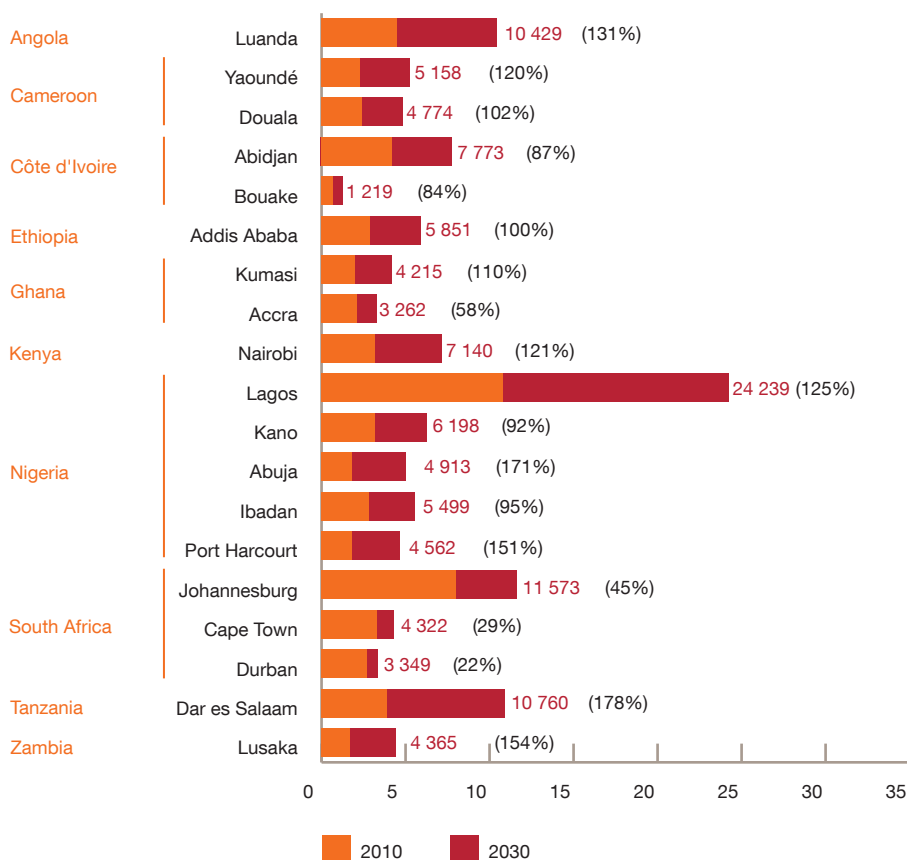
The world, including sub-Saharan Africa, is undergoing the largest wave of urban growth in history. More than half of the world's population now lives in towns and cities, and by 2030 this number will swell to about 5 billion. Much of this urbanisation will unfold in Africa, bringing huge social, economic and environmental transformations.

Continued urbanisation will have a major impact and it is estimated that the urban population in Africa will increase to 56% in 2050 from 35% in 2010, making it the most rapidly urbanising region in the world.

From changing demand patterns and consumer tastes to pressure on supply chains, unprecedented shifts in demographics will affect the retail and consumer sector fundamentally.

Africa's population is expected to reach 2.48 billion by 2050, by which time it will represent 25% of the global population.

Figure 5 Growth of selected African cities (millions)



Source: United Nations, Department of Economic and Social Affairs, Population Division (2014). World Urbanization Prospects: The 2014 Revision. <http://esa.un.org/unpd/wup/CD-ROM/>

Income growth

Key to the prospects and strategies of consumer-facing companies is the outlook for income growth. While the proportion of those living in poverty has fallen from around 55% in 2002 to 48% in 2010, the total number of poor people has increased due to population growth. About 413 million people in sub-Saharan Africa are estimated to live on less than US\$1.25 per day.

However, much of the current optimism about the region hinges on the assumption of an emerging consumer class. In recent years a number of well-publicised research reports have explored the rise of the middle class in Africa.

In 2010, McKinsey & Company's Lions on the move: The progress and potential of African economies report predicted that by 2020 more than 128 million households in Africa will have discretionary income (more than US\$5 000 a year). The following year an African Development Bank (AfDB) study put Africa's middle class at nearly 350 million, or 34% of the population. The report defined the middle class as those with a daily consumption of \$2-\$20, although it concedes that the \$2-\$4 group is extremely vulnerable and can easily fall back into poverty.

In 2014, Standard Bank analyst Simon Freemantle provided a more tempered assessment, saying in a group of 11 focus countries (together accounting for half of sub-Saharan Africa's GDP) there are currently 15 million middle-class households (annual consumption of \$5 500 or more). By 2030, Freemantle expects this figure to swell to over 40 million.

Although there has been much debate about the true size of the middle class, and even the appropriate definition of the term itself, most analysts seem to agree that incomes are indeed rising. This view is supported by the vast majority of business leaders interviewed for this report, although several say the segment might not be growing as fast as some seem to think.

Bruno Olierhoek, managing director for Central Africa at Nestlé, for example, expects consumers in Cameroon to enter an income bracket he refers to as the 'hot zone', when food and beverages sales start to rise exponentially.

Most business leaders interviewed for this report agree that incomes in the region are rising, but several say the middle class might not be growing as fast as some seem to think.

Perhaps Citigroup's senior economist for Africa, David Cowan, provides the most instructive assessment:

We think that at least in the coming decade or so, the key consumer markets in sub-Saharan Africa will largely be low-end, with a splash of high-end colour. While there can be talk of an emerging middle class, we think it is much more logical to talk about the emergence of a new consumer market in sub-Saharan Africa. This new consumer will, for all extents and purposes, largely consume basic goods and services for the next decade or so, assuming that the overall sub-Saharan Africa growth trend remains robust.

"Sub-Saharan Africa: The Route to Transformative Growth"



Busier, healthier, and more informed consumers

Across the countries covered in this report, business leaders point to evolving consumer lifestyles and ambitions that are influencing purchasing behaviour. Due to growth in internet penetration and travel, Africans are more connected to global trends than ever.

Generally speaking, consumers in sub-Saharan Africa are becoming more aspirational and brand-conscious. Ramesh Sadhwani, joint Managing Director of Ghanaian retail group Melcom, says where price used to be the main factor influencing purchases, consumers are paying more attention to brands, packaging and product details. “They are now starting to look a bit more into the details and specifications, as opposed to merely picking the cheapest one.”

This increasing level of discernment is also being seen in the quality of goods that consumers expect and their willingness to pay for it.

Time-constrained, urbanised consumers are also seeking greater convenience. In Cameroon, for example, the growing number of women entering the workforce is creating demand for easy-to-prepare food products.

A decade ago in Ethiopia it was considered improper to buy pre-made injera (a spongy pancake-like flatbread central to Ethiopian cuisine) – it had to be made from scratch at home. However, these days it is commonplace to buy injera from grocery retailers.

Those who can afford it are also more health-conscious, favouring nutritious foods and monitoring their sugar intake. According to Phil Roux, Chief Executive Officer of South Africa’s Pioneer Foods, this is a trend that cannot be ignored, and one his company takes seriously as it formulates its new products.

In countries where regulation around product labelling is weak, we anticipate calls for greater transparency about the contents of processed foods in the coming years.

While remaining price conscious, consumers are becoming more discerning in seeking quality, convenience and value in their purchases.

Home-grown champions making their mark

The coming years could see home-grown African operators increasingly claim their turf. “Local players may not make the headlines but they are a very big part of the future of this market,” says the head of a prominent FMCG business in Nigeria.

Across the continent there are numerous examples of indigenous companies holding their own, and even winning, against foreign competitors due to nimbler business structures and a better understanding of consumer and on-the-ground market realities.

This view is reflected in a recent report released by the Boston Consulting Group, which suggests that while many multinationals may be growing their revenue share in Africa, they are gradually losing market share and being outclassed by local competitors.

Having become dominant players in their home markets, African champions are also boosting their presence in the rest of the continent. Faced with a saturating domestic market, South African retailers have been among the most aggressive in expanding. Supermarket group Shoprite Holdings has been one of the pioneers, having first entered Zambia in 1995.

Outside South Africa, Shoprite is currently active in 14 countries with over 300 stores. These days there are few Johannesburg Stock Exchange-listed retailers or consumer goods manufacturers without a footprint north of the Limpopo. Over the years Kenyan supermarket chains such as Nakumatt and Tuskys have also expanded into the greater East African Community (EAC) region.

In the consumer goods space, it is again South African firms – such as Tiger Brands, Pioneer Foods, Distell and Clover – that are playing a leading role by either setting up local plants, acquiring companies or exporting products to the broader region.

But there are also many examples from other countries: Zambian agriculture and food company Zambeef has grown into Nigeria; Angolan soft drinks producer Refriango, which has cornered the local market for non-alcoholic beverages, exports its products throughout the continent; and Kenyan FMCG producer Bidco Africa currently has manufacturing operations throughout the EAC, with its products distributed even wider.

In recent years many of Africa’s home-grown champions have become take-over targets of international players, with Wal-Mart’s acquisition of South African retail group Massmart being the most high profile. They are also attracting investment from private equity funds. A recent survey by the African Private Equity and Venture Capital Association found 76% of limited partners view consumer goods as the most attractive sector for investment over the next two years.

Shift towards modernisation, but informal trade continues to lead

Informal retail will continue to dominate sales in sub-Saharan Africa for the foreseeable future. With the exception of South Africa and Angola, it is estimated that upwards of 90% of sales in the focus countries is through informal channels such as markets, kiosks, table-top sellers and street hawkers.

The industry is, however, slowly modernising and the past decade has seen the development of numerous western-style shopping centres. In countries such as Ghana, Nigeria and Zambia, many of the malls are anchored by South African retailers.

French company CFAO, in partnership with French multinational retail group Carrefour, the world's fourth-largest retailer, has also announced its intention to build shopping centres in a number of West African countries, with the first one opening in in Abidjan, Côte d'Ivoire, in December 2015.

CFAO has also signed agreements to manage the African stores of a number of French brands, including Kaporal, La Grande Récré, Bonobo, Cache Cache and L'Occitane.

Modernisation is, however, not purely associated with shopping malls, as is being seen in Angola where some of the cantinas (small grocery shops) are developing into mini supermarkets with multiple check-out counters and a greater assortment of products.

Although modern trade is expected to continue growing, companies shouldn't underestimate the strength of the informal sector. Didier N'Guessan, a partner at PwC in Côte d'Ivoire, says even the middle and upper-class still frequent open-air markets in the country. "I don't think we will see the demise of the informal markets anytime soon because products in the mall are priced at a premium," he explains.

The lack of appropriate formal retail space is restricting the growth ambitions of modern retailers in the sub-Saharan Africa. For this reason Shoprite has partnered with property developers to construct malls in Nigeria. But in many countries building shopping malls is a tough and expensive business due to challenges surrounding securing land, skills and the cost of building.

Although modern trade is expected to continue growing, companies shouldn't underestimate the strength of the informal sector.

Online retail showing promising potential

As noted in PwC's Total Retail 2015 report, the digital age is increasingly disrupting the retail industry globally and redefining the role of the traditional store. Although online retail is still in its infancy in sub-Saharan Africa, the industry is certainly showing promising potential.

For example, online sales by South African clothing retailer Mr Price grew by close to 200% over the previous year in 2014. The stage of development of the industry, however, varies from country to country. While South Africa and Nigeria already has numerous e-commerce players, the industry is less developed in countries such as Cameroon and Ghana.

Due to under-developed brick and mortar retail, e-tailing holds a unique value proposition for sub-Saharan Africa, not only in terms of better pricing but also for the convenience it provides as shoppers no longer have to sit through the gridlocked traffic in places like Nairobi and Lagos to reach markets or shopping malls.

Online shopping may offer even greater value for those living outside the big cities where the choice of goods available may be limited. With growing internet penetration through smartphones, it is conceivable that online retail could to an extent leapfrog traditional brick and mortar trade.

Besides South Africa and Kenya, where most traditional retailers have launched online offerings, the industry is generally driven by pure e-commerce companies. Africa Internet Group is one of the most prominent. It owns numerous platforms which include Jumia (e-commerce mall), Zando (fashion) and Kaymu (marketplace) with a presence in 26 countries. A number of e-tailers have also opened up their platforms to third-party sellers, allowing any company or trader to market their products on the internet.

Successfully selling products online in sub-Saharan Africa, however, comes with multiple unique obstacles, including unreliable internet connections, logistical challenges, as well as a general distrust of transacting online and low bank card penetration, which is why most e-commerce companies allow consumers to pay cash on delivery.

In the future, mobile money could emerge as a popular payment channel. M-Pesa, a mobile money transaction platform launched in Kenya in 2007 accounts for approximately 90% of all mobile money transactions in Kenya. As at March 2015, it had 13.9 million active customers in Kenya.

A more sophisticated retail sector

Formal retailers will exploit growth and margin-enhancing initiatives such as private labels, loyalty programmes and retail credit. In less developed retail environments, the entry of regional and foreign players is expected to boost these types of initiatives as they already apply them in their home markets.

Private labels

Private labels are already common in countries such as South Africa and Kenya where retailers have sufficient scale. In Côte d'Ivoire, retail group Prosuma sells home brands, such as juice and frozen foods, from French supermarket chain Casino with whom it has a partnership.

In South Africa, private labels have evolved into trusted brands as opposed to merely cheap alternatives, with supermarket group Pick n Pay already having a range of tiered in-house brands, each aimed at specific consumer segments.

The growth in private labels is a threat to consumer goods manufacturers and forces them to strengthen the positioning of their brands. On the other hand it also provides an opportunity for manufacturers to produce private-label products on behalf of the retailers.

Loyalty programmes

Loyalty programmes are expected to become more sophisticated, and provide retailers with better consumer insights, in turn allowing them to customise electronic communication messages. The majority of South African retailers already have relatively sophisticated loyalty programmes, which they are slowly introducing in the rest of the continent.

Kenya's Nakumatt has launched its Nakumatt Global Card, which doubles as a prepaid debit card as well as a loyalty card through which customers earn points every time they shop. Ghanaian chain Melcom also offers 5% discount to its loyalty card holders.

Retail credit

Consumer credit is already big business in South Africa, but has been relatively slow to catch on in the rest of the region, partly due to the lack of strong credit bureaus. It is, however, an area that holds significant potential.

Some South African retailers have already piloted credit offerings in the rest of the continent. In Ghana, Melcom has partnered with a bank to allow customers to purchase certain items on credit.

Moving into secondary towns

The expansion of modern retail in recent years predominantly focused on the continent's capitals and major commercial hubs. Second-tier cities and emerging 'boom towns' are now increasingly attracting interest. Sub-Saharan Africa is urbanising, but not everyone is moving to the chief commercial centres, creating opportunities in secondary urban areas.

Furthermore, in Ghana, property developer AttAfrica is constructing a mall in Kumasi, an important commercial and trading centre with currently very little in terms of formal retail space.

In Nigeria, Resilient Africa is constructing malls in lesser-known cities such as Benin City, Owerri and Asaba. Similarly, Zambeef, a leading Zambian food producer and retailer, also considers expansion in secondary towns as one of its key growth strategies.

Across the region a number of emerging 'boom towns' have experienced fast growth on the back of nearby mining and oil projects or other business activities. While the decline in oil and other commodity prices has impacted some of these centres in the past year, we believe the long-term outlook remains positive.



Import substitution

Thousands of containers of consumer goods still arrive at Africa's ports every month. While the continent is likely to be a significant importer for the foreseeable future, in nearly all the countries included in this report there is a growing movement towards local production.

This trend is driven by various factors. Firstly, growing democracy and stability is giving companies the confidence to invest in assets on the ground.

Secondly, to circumvent import duties, port delays and generally high transport costs, companies are considering local production options. "An import model – paying excise and transport costs – can never be as effective or efficient from a pricing standpoint than a locally-owned production and route-to-market business," notes Richard Rushton, managing director of South African alcoholic beverages company Distell, which has invested in local bottling plants in Ghana and Angola.

Thirdly, in a bid to diversify their economies and to boost job creation, governments are granting incentives for local manufacturing. Ethiopia, for example, is actively encouraging investment in garment and leather goods manufacturing by offering investors customs duty exemptions and income tax holidays.

Fourthly, Africa's enormous agricultural potential provides ample opportunities for local agri-processing. In Cameroon, Nestlé has identified a range of ingredients currently imported, which it theoretically should be able to source locally.

Despite the clear opportunities, manufacturing in Africa does come with numerous challenges. A Ghanaian electronics retailer has, for example, stopped its local assembly of electronics and appliances citing high rentals, electricity and labour costs.

In countries with power supply problems, running manufacturing operations on generators significantly increases production outlays. And in some cases the relatively low demand doesn't justify investing in manufacturing, especially for big-ticket items such as vehicles.

It is in this regard where economic blocs and trade agreements can play an important role in boosting Africa's manufacturing sector. While demand in one single country might be too small, the opportunity to export to a broader market offers a more attractive proposition.

While local production offers significant benefits to manufacturers and domestic economies alike, there remain numerous challenges.

Supply chain optimisation

Surging competition means supply chain optimisation will be among the top items on the agenda for most retailers and consumer goods companies. Using South Africa as an example, our research shows companies are employing a variety of strategies based on their specific industries and business models.

The country's large supermarket chains are focusing on centralisation of supply; clothing companies are putting themselves in a position to quickly capitalise on new fashion trends by shortening their supply chains; while in response to the weak rand, Samsung is keeping costs down by shipping directly to its distributors and retailers, instead of first to its own warehouses.

Beyond South Africa, supply chains are complex, challenging and expensive. Hurdles include poor transport infrastructure, inadequate local supply capacity and the dominance of informal retail trade, which makes distribution a strenuous exercise. "Whoever can manage supply chain in Africa wins", says Richard Brasher, CEO of South African retailer Pick n Pay, which is expanding to Ghana and considering opportunities in Nigeria.

Transport infrastructure

Poor road networks, under-developed rail and congested ports significantly add to the costs of importing and transporting finished goods and raw materials. In some countries it is not unheard of to have goods stuck in ports for up to three months.

Across the region there are, however, a number of encouraging infrastructure projects that should bring some future relief, including the construction of a new port at Kribi in Cameroon and Ethiopia's new wide-gauge railway line connecting the capital Addis Ababa with the port in neighbouring Djibouti as well as the Lamu Port-South Sudan-Ethiopia-Transport (LAPSSET) Corridor Project in Kenya, which once complete will involve a port, standard-gauge railway line, road network, oil pipeline and refinery, three airports and three resort cities.

Local supplier capacity

Despite the continent's immense agricultural potential and the fact that the majority of people already rely on farming for their livelihoods, stable supply of agricultural produce remains a challenge.

Sourcing crops in the quantities and qualities required is a struggle. Smallholder farmers often don't stay loyal to one buyer and may change the crops they grow. In Nigeria, meat company Zambef has started rearing its own livestock due to problems with the quality and regularity of supply from local farmers.

In Kenya, some fast-food operators still import basics such as meat and potatoes. That said, it is possible to work with local suppliers. Brewing company SABMiller, for example, has partnered with thousands of small-scale farmers to grow sorghum and cassava for its brewing operations. As is already happening in South African and Angola, it is anticipated that retailers and consumer goods manufacturers will increasingly assist farmers to boost their capacity.

Distribution

The dominance of informal trade and the large rural population makes distribution a complex exercise. However, as 90% of sales are made through informal channels, those that ignore this segment are missing out on a significant share of potential revenue.

Due to the high costs associated with calling on thousands of small shop owners, FMCG companies typically work through distributors that in turn supply a network of wholesalers from whom the end retailers come to buy.

There are many examples of companies that introduced innovative ways of improving their distribution. In Ghana, frozen dairy and juice producer Fan Milk sells its products via bicycles and push cart vendors.

East African Breweries has employed a similar strategy by working with local company KasKazi Network, which uses a team of ‘motorcycle sales representatives’ to distribute its products to bars and outlets in Kenya’s informal settlements.

In another innovation, logistics company DHL has partnered with numerous third-party businesses across Africa from travel agents to laundries to act as DHL resellers, alongside their normal offerings. These companies benefit from a commission on sales as well as an increase in foot traffic to their outlets.



How companies can win in Africa

To do business in the world's most diverse continent, a deep understanding of local context is key.

By Jorge Camarate, Peter Hoijtink, and Miles Puttergill

Only a few years ago Africa was being dubbed 'the next Asia', and multinationals watched with mounting interest as local economies boomed across the continent. Although a decline in global commodity demand has since ushered in a slowdown, Africa remains a promising long-term growth market.

Africa's GDP grew about 3.4% in 2015, a full percentage point above global growth, and is expected to increase to 4.2% in 2016 according to World Bank forecasts. The African Development Bank estimates that consumer spending will reach US\$2.2 trillion by 2030 (up from US\$680 billion in 2008). And as home to seven of the world's megacities and some 29 million youth entering the labour force each year, Africa is fertile ground for investment in such areas as infrastructure, manufacturing and retail.

Of course, these figures paint an optimistic picture of the continent as a whole. But Africa is made up of 54 sovereign states that cover a vast range of natural ecosystems and an even vaster range of cultures, with some 2 000 different languages spoken.

Unfortunately, we've seen too many multinationals take their businesses into Africa without a deep understanding of local market dynamics, skills and conditions. They assume that success is a sure thing, and as a result, their strategies turn out to be too broad – revolving around growth projections rather than what individual markets actually need.

Such understanding is critical. But equally important is knowing where your own strengths lie and matching these capabilities to the circumstances of each local market, or knowing what capabilities you need to succeed and finding partners that possess them.

Either way, you'll also need to develop a network of local experts to execute your strategy on the ground. This is what companies that have established successful businesses in Africa have done. Many are companies headquartered in Africa that have been successful in their home country and often in other countries on the continent. Multinationals based elsewhere should learn from their experience.

Market matchmaking

The most successful companies in Africa tend to target countries that are in similar stages of economic development. The same expertise that would benefit their operations in South Africa would do so in, say, Botswana or Namibia, but wouldn't get them as far in Mali or the Democratic Republic of Congo.

It can therefore be helpful for companies to think about groupings of countries with comparable wealth (measured by GDP per capita) and institutional quality (measured by the World Bank Doing Business Index). Based on these criteria, African countries fall into six basic categories. The first three offer the most opportunity, whereas the others tend to be more challenging environments in which to operate.

Countries with high income and strong institutions have reliable ports, roads, legal systems, police and educational resources. They typically have a sizeable middle class, along with a skilled workforce. Companies with distinct capabilities that include world-class product, service, and technological innovation; quality management; and branding and marketing management can thrive in these markets.

For example, South Africa-based First National Bank has delivered impressive profits in Botswana, Namibia, and Swaziland, based largely on its innovations in such areas as mobile applications and online banking. Such features are popular in these countries, where income is higher, infrastructure is more robust, and penetration of banking and mobile phone services is greater than in many other African countries.

Countries with high income and weak institutions have pockets of wealth, and therefore purchasing power. But their lack of institutions places greater demands on companies. They will need strong capabilities in managing relationships with government and other stakeholders, planning for and managing security challenges and crises, and creating supply chain resilience to ensure consistent service.

Nigeria-based Dangote Group, one of the largest conglomerates in Africa, has built deep relationships across the country that enable its divisions to set up productive partnerships and agreements. Its cement division has benefited from this capability, while at the same time ensuring the resilience of its supply chain through vertical integration from raw material sourcing to production and distribution.

Countries with middle income and strong institutions have aspirational customers that demand premium products and services, but need them to be delivered at lower price points. Cost leadership capabilities are thus critical, along with cost management and low-cost service and product provision.

Companies can also succeed in these markets if they offer innovative technology, especially at the distribution level, to help keep prices low. The widely publicised success of Kenya's Safaricom provides a powerful example. Safaricom pioneered the M-Pesa mobile money proposition, a system that uses a low-cost distribution network to enable subscribers to set up modest sized accounts with pre-paid sums, then make payments out of the accounts via mobile phone. No traditional bank account is needed.

In countries in the other three categories the middle income markets with weak institution and the low income markets companies face more acute challenges. They need to be able to operate with limited infrastructure, less efficient and transparent regulation, and less skilled human capital. A company going into any of these markets has to excel at crisis management, as well as end-to-end operations management that ensures self-sufficiency and operational resilience.

For the most part, companies enter these countries to extract resources, and mitigate risk as much as possible through agreements and contracts with the government, often supplemented by World Bank guarantees.

Other companies that have expanded in these countries are those highly skilled at building and operating every component of their business independent of external support. The South Africa based retail chain Shoprite, for example, has built its own shopping centres in Uganda – essentially creating its own infrastructure for its stores.

Think global, operate local

Once a company has identified its target markets, it will need the right people on the ground to execute its strategy. In many of Africa's labour markets, companies will need to develop talent with the skills needed to run their local operations. They should start by embedding a core team of home-country experts to oversee the new business in the early days.

The 170-year-old South African financial-services firm Old Mutual, for example, has subsidiaries in Southern, West, and East Africa. In many of these regions, the company relies on a pool of expats with relevant qualifications and experience for such functions as actuarial work, in which local talent is generally limited. These expats are selected as much for their cultural agility as for their technical skills, to ensure that they can connect with local employees.

It is important to invest heavily in skills transfer. This often includes both on-the-ground training and bringing local employees to the home office to understand the firm's culture and ways of working. After that, the challenge for many successful companies is how to prevent competitors from poaching their talent. They should develop compelling value propositions for local staff, including compensation above the market average, additional benefits like pensions or housing, career development opportunities, and a sense of community.

Aside from developing a local talent pool, companies can also seek out local companies to partner with, through

mergers, joint ventures, or simple supply arrangements. They'll need to clearly define what they want from a potential partner, and then evaluate candidates carefully against these requirements.

RCL Foods, the leading South African poultry producer, takes stakes in local product manufacturers and distribution networks that will benefit from its cold-chain distribution capability. But the company has strict requirements regarding a partner's ethical reputation and track record of teaming with international players. These stringent criteria mean RCL, which currently has joint ventures in Zambia and Botswana, has to be patient. According to Pierre Rossouw, RCL's Group Africa Development Manager, the company turns down 95% of the deals it is pitched.

Sanlam Emerging Markets, a South African financial-services group founded in 1918, avoids competitive bids. Instead, the company invests 18 to 36 months establishing a trusted relationship with a new partner and demonstrating the unique benefits it can bring to develop the partner's business – including inviting management to visit Sanlam's operations in South Africa.

Heinie Werth, CEO of Sanlam Emerging Markets, says the company's 2005 acquisition of African Life Insurance Company was critical to enabling its expansion. African Life provided access to Botswana, Ghana, Kenya, Tanzania and Zambia, and focused on the low-cost product offerings and mass-market distribution that were missing at Sanlam, but essential to success in these markets. Sanlam has since built a direct interest in 11 countries across Southern, West and East Africa (as well as India and Malaysia).

Finally, local subsidiaries won't function well if policies and processes aren't suited to their culture. But as you loosen the reins, you have to ensure that you won't be exposed to major failings of local judgment or ethics violations.

Greg Davis, CFO of Standard Bank International, a leading African bank with operations across 20 countries, attributes much of the bank's success in Africa to its ability to strike a balance

between regional compliance and risk oversight, with full local accountability to empower decision makers. For instance, although the bank establishes a consistent corporate and investment banking capability globally, it grants country teams the autonomy to develop and execute distinct strategies tailored to their own market.

Risk and reward

As in all less-developed markets, companies will face challenges as they enter Africa, from local insurrections, to underestimated costs, to overestimated consumer purchasing power. African economies are highly volatile and unpredictable, vulnerable to both commodity price swings and political instability. Ghana's GDP per capita has grown 106% during the last 25 years, whereas in the DRC it fell 39% over that same period.

But if you incorporate your company's expertise with the economic, institutional, social, and infrastructural realities in local contexts, you can give yourself an edge over the competition.

It's a worthwhile risk, because if you succeed you will have achieved an enviable position: You could be an architect of one of the early pan-African powerhouses.



For more on this topic, see 'Creating Value in Africa' (Strategy&, November 4, 2015).

<http://www.strategyand.pwc.com/reports/creating-value-in-africa>

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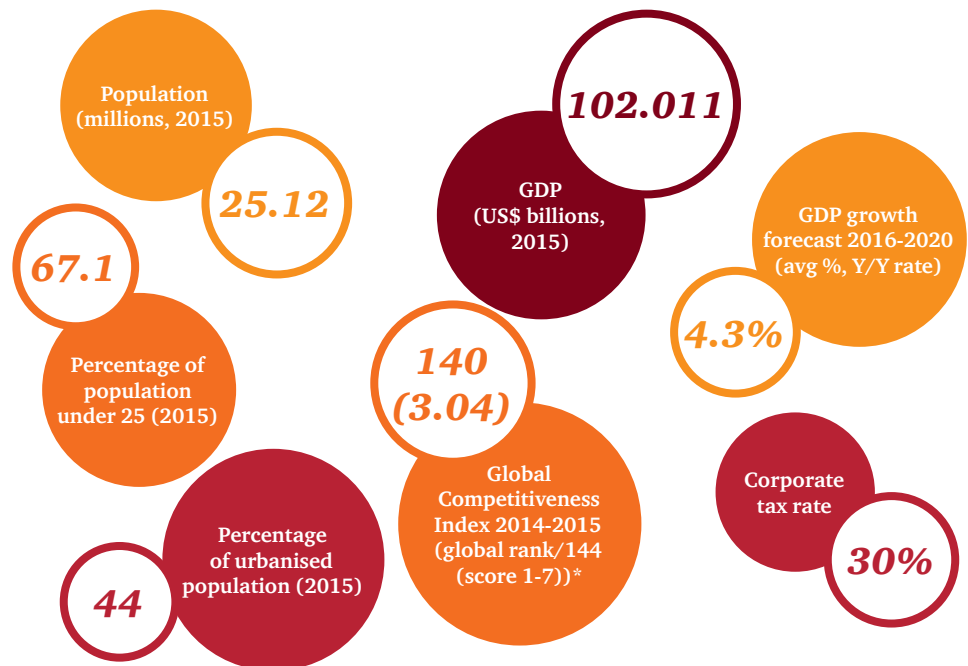
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1. Angola



Opportunities	Challenges
Social housing developments encouraging modern consumer lifestyles	Short- to medium-term impact of lower oil prices will negatively affect government and consumer spending
Government incentivising local production	Strong influence of Portuguese and Brazilian products making it more difficult for new brands to enter the market
Proliferation of shopping malls in Luanda	Higher duties driving up prices of imported goods



(*) The Global Competitiveness Index 2014-2015

Sources: International Monetary Fund; World Economic Forum; World Bank, UN Population Division; PwC

Economy and business environment overview

Economic outlook

Angola has made significant progress since the end of the civil war in 2002. Between 2005 and 2015, GDP growth averaged 9.6%, largely on the back of oil and gas production.

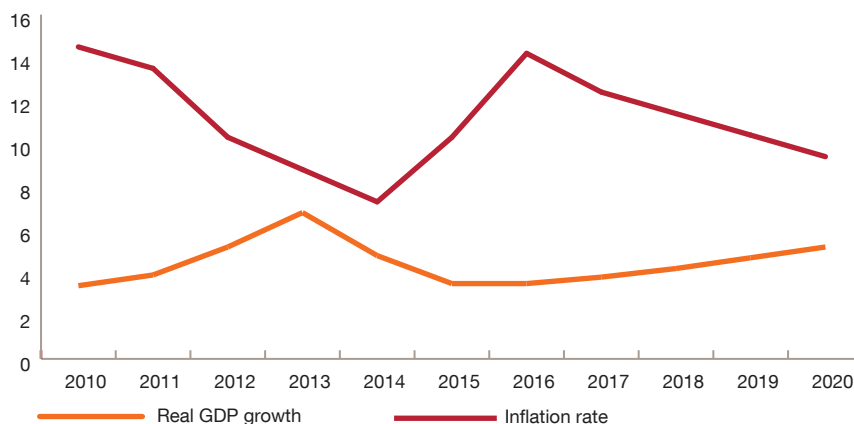
But economic growth has not been inclusive and broad-based, with much of the population still living in poverty. The government is actively trying to diversify the economy and promoting investment in sectors such as agriculture, manufacturing and hospitality.

Angola has revised its baseline price for oil in its 2015 budget to US\$40 per barrel, down from \$98 in 2014.¹ The high oil prices of recent years allowed Angolan consumers to enjoy low inflation and price stability, which supported household income growth.

But the recent fall in the price of crude will put pressure on inflation, and undermine the buying power of the local currency. The government has addressed this through foreign exchange controls.

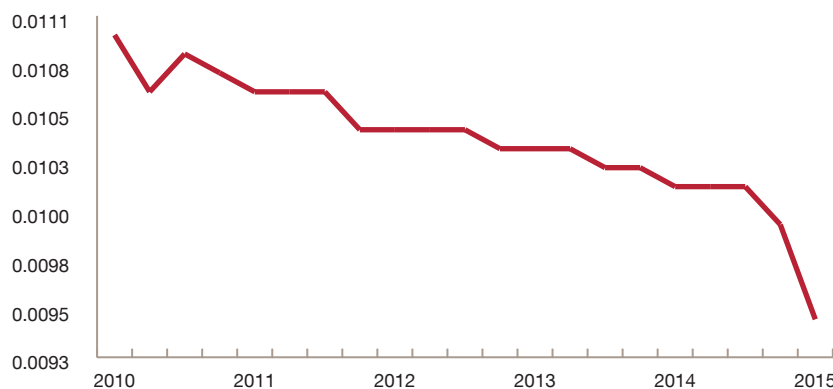
Roger Ballard-Tremeer, head of the Angola-South Africa Chamber of Commerce, expects the government to resume larger infrastructure investments once the oil price improves.

Figure 1.1 Real GDP growth and inflation (%)



Source: International Monetary Fund

Figure 1.2 Historical AOA/USD exchange rate



Source: Oanda



1 Reuters. "Angola passes reduced budget after fall in oil price." Business Day, February 26, 2015. Accessed May 5, 2015. <http://www.bdlive.co.za/africa/africanbusiness/2015/02/26/angola-passes-reduced-budget-after-fall-in-oil-price>

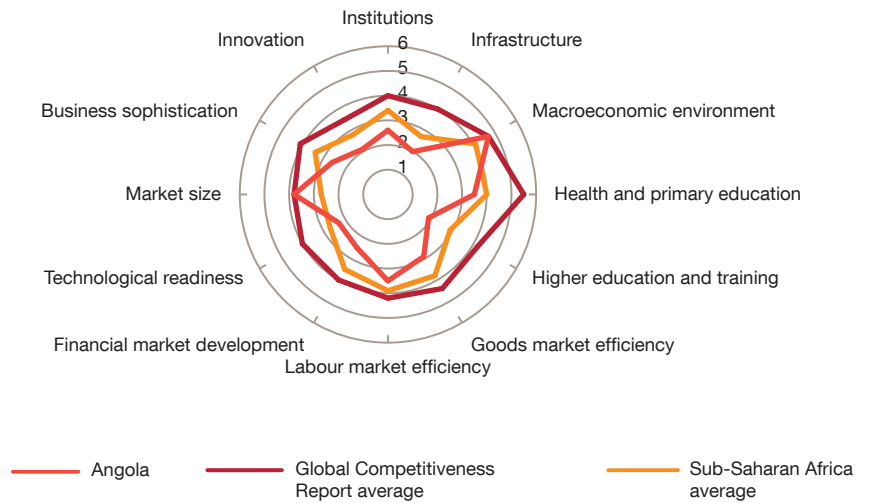
Business environment

Angola's business environment is considered by most observers to be among the toughest in the world. Hurdles faced by business include corruption, weak transport infrastructure, a skills shortage and an unhelpful regulatory environment.² The minimum \$1m investment threshold required for international investors that wish to repatriate profits, together with foreign exchange controls and the visa regime, are not encouraging foreign investors to consider Angola above other countries in the region.

A massive infrastructure roll-out over the past decade, in part undertaken by various Chinese entities under the auspices of an oil-backed credit facility, has improved port and transport infrastructure, government buildings and public housing. An influx of foreign investment has further added to the construction of commercial and residential property, including hotels, office towers and retail space.

The business culture in Angola retains strong links to the country's colonial past, with Portuguese being the language of commerce with the associated customs and etiquette. Portuguese and Brazilian firms have utilised this to their advantage, and foreign business people without these language and cultural skills have had to adapt accordingly.

Figure 1.3 Global competitiveness: Performance overview



Source: World Economic Forum, The Global Competitiveness Index 2014-2015

Note: The latest data available for Angola is for the 2014-2015 period, which is before the full impact of the decline in oil prices was felt. The competitiveness data for other countries profiled in this publication is for the 2015-2016 period.

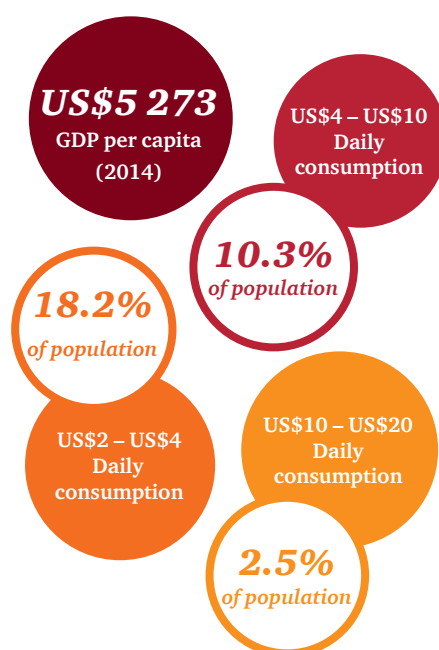
The Global Competitiveness Report is published annually by the World Economic Forum. The report assesses the competitive landscape of more than 130 economies and provides insight into the drivers of their productivity and prosperity. A score between 1 and 7 is awarded to 12 pillars, where 7 is best.



² "Angola Business Forecast Report: Q1 2015." Business Monitor International. December 5, 2014.

Buying power and consumer behaviour

Angola's middle class grew by 700% between 2000 and 2014.



Sources: IMF; Mthuli Ncube and Charles Leyeka Lufumpa. *The Emerging Middle Class in Africa*. (Routledge, 2014)

An increasingly skilled and better-paid consumer class is developing, according to Guido Varatojo dos Santos, an analyst with Eaglestone Securities.³

These consumers are more brand-conscious and focused on aspirational purchases. Consumption is still driven by a relatively small part of the urbanised population benefiting from economic development.

Angola's middle class grew by 700% between 2000 and 2014, and the country is expected to have over two million households with an annual consumption of more than \$8 500 by 2030.⁴

But the rural areas remain poor, where people live as subsistence farmers with high levels of malnourishment.⁵

Angola's population is concentrated in urban nodes in the western half of the country, with 70% of economic activity taking place in the capital Luanda.⁶ There are three main urban clusters: Greater Luanda, which spills over into the Bengo province; the Benguela-Lobito area; and Lubango in Huila province. Urbanisation is increasing as the urban areas offer better access to jobs, services and social housing.

Angolan consumers have a preference for products from Portugal and Brazil, and locally made goods that reflect this Lusophone character. "There is a much, much bigger connection with Brazil than one realises, and it can be seen and heard," says Dave Bennie, head of leasing for Novare Equity Partners, an advisor to the Novare Africa Property Funds, which invests into African retail developments. Offering a product portfolio that incorporates this Lusophone heritage is essential for retailers wishing to be successful in the Angolan market.

Consumers are feeling the brunt of rising prices due to tariff increases and quotas on imported goods imposed in 2014, as well as the removal of the fuel subsidy.

Pedro Calixto, senior partner at PwC in Angola, explains that local production is not yet able to step in and fully cover the shortfall, and this has had an impact on the price levels and negatively affected consumers.

The fuel subsidy was removed in order to alleviate pressure on the national budget and reallocate these funds to more critical programmes. "Not only has the price of fuel increased by as much as 70%, it has had a multiplier effect on other inputs, which is impacting consumers," says Mr Calixto.

Consumption is driven by a relatively small part of the urbanised population benefiting from economic development.

³ "Retail sector in Angola set to grow by 8% as middle class expands rapidly." Eaglestone Securities press release, September 24, 2014. http://www.eaglestone.eu/xms/files/PR_-_Retail_sector_in_Angola_2014_240914.pdf

⁴ Simon Freemantle. "Understanding Africa's Middle Class." Standard Bank Group. July 2014.

⁵ Estefanía Jover, Anthony Lopes Pintos and Alexandra Marchand. "Angola Private Sector Country Profile." African Development Bank. September 2012. http://www.afdb.org/fileadmin/uploads/afdb/Documents/Evaluation-Reports_-_Shared-With-OPEV_/Angola%20-%20Private%20Sector%20Country%20Profile.pdf

⁶ "Angola, Country Report." WESGRO. 2014.

Retail

Formal retail, which is being encouraged by the government, accounts for an estimated 30% of the market. There is significant long-term potential for growth as the market becomes more formal and incomes increase. In the short term, clothing retailers, especially international brands, stand to benefit from expanding retail infrastructure. But the retail sector has been impacted by the recent fall in oil prices as incomes have come under pressure and many expatriates have left the country. However, wealthier consumers are shopping locally rather than internationally due to the currency controls, and are thus keeping the sector active.

International grocery retailers in Angola include Shoprite (South Africa) and Teixeira Duarte (Portugal) through its Maxi and Bompreço brands.

In 2014, Webcor opened the first Spar outlet in the oil-rich Cabinda province. South Africa's Spar Group distribution centre in the Western Cape provides the logistical support for the supply chain, not only delivering its own private label products but also arranging for the importation of products from Spar in Portugal.⁷

Webcor also operates the Super Kamba network of supermarkets. Kero is a more recent Angolan-owned arrival with both hypermarkets and smaller supermarkets in its portfolio. It has had a considerable impact with its large-format stores, a mix of local and imported products suited to local tastes, and a portfolio of clothing, electronics and entertainment products in some outlets.⁸

In an effort to ensure the population has access to essential goods and to stimulate local production, the government established the Nosso Super retail chain.

“Better governance, better directorship, better management, better staff together with better business judgement and more compliant operating systems are contributing to improved efficiency in the retail sector,” according to Mr Ballard-Tremeer.

Proliferation of shopping malls in Luanda

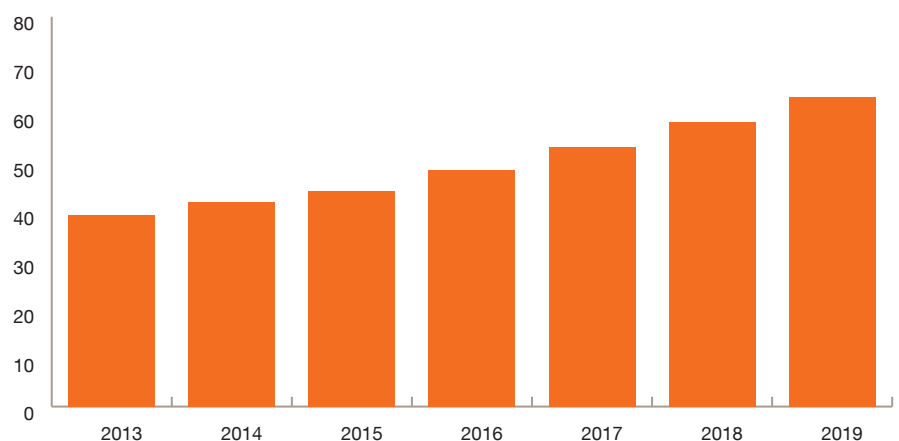
Mr Bennie also advises Broll Property Group, which is currently involved in leasing four new shopping centres in Luanda: the expansion of Belas (16 000m²); Mundial (55 000m²); Lar Patriota (15 000m²); and Muxima (26 000m²).

He explains competition in the Angolan retail sector is currently between the supermarkets and the hypermarkets, and that the opportunity for international fashion brands and household goods retailers to enter the market is growing.

“Outside Luanda the only place you would currently look to build a mall is Benguela or Lobito,” says Mr Bennie, “as that’s a region where you could probably do one regional centre to service both the towns – they are in close proximity to each other. And then you can do smaller convenience centres in cities like Cabinda and Soyo in the north. But most international retailers will obviously want to establish themselves in Luanda first, get their distribution setup going and then look at expanding outside Luanda.”

Mr Ballard-Tremeer agrees that Cabinda and Soyo have potential, given the concentration of workers in the oil and gas sector in these two areas. “If I was an investor I would study those two places because the opportunities are there.”

Figure 1.4 Total retail format sales (US\$ billions)



Source: Planet Retail

Formal retail accounts for an estimated 30% of the market.

7 Spar Group Limited. “Integrated Annual Report 2014.” [http://www.spar.co.za/getattachment/fc16b138-ed55-4d20-9305-ef34e24c7af8/00000000-0000-0000-0000-000000000000-\(11\).aspx](http://www.spar.co.za/getattachment/fc16b138-ed55-4d20-9305-ef34e24c7af8/00000000-0000-0000-0000-000000000000-(11).aspx)

8 “The retail sector in Angola.” Eaglestone Securities. September 2014.

To the point

Charl Cronje, Managing Director, Pepkor Africa

Pepkor Africa comprises more than 250 Pep stores in Zambia, Mozambique, Malawi, Angola, Nigeria and Zimbabwe. Pep sells predominantly clothing and footwear.

Q How did you enter the Angolan market?

A We started in the south in 2008, in Lobito, as we had experience in northern Namibia and understood the product offering and the price positioning for that region. Our expansion strategy followed a 'mushroom' approach, concentrating new stores in a specific region before moving on to another region. This puts less pressure on our supply chain and our infrastructure. We entered Luanda in 2010, and now more than 50% of our stores and more than 50% of our revenue are in Luanda.

Q Have you adapted your strategy since first entering the market?

A We focused on competing on price, but also by offering goods for the whole family under one roof: clothing, footwear and homeware. A one-stop shop, with an average store size of 400m². We now have 60 stores in the country, in more than 25 towns and cities.

Q Describe the strength of the local labour market.

A Angola does have a shortage of skills, but not a shortage of talent. So we have a training school for store managers, which trains between 15 and 18 employees at a time for a three-month period. During this time they train in actual stores, but also have classes.

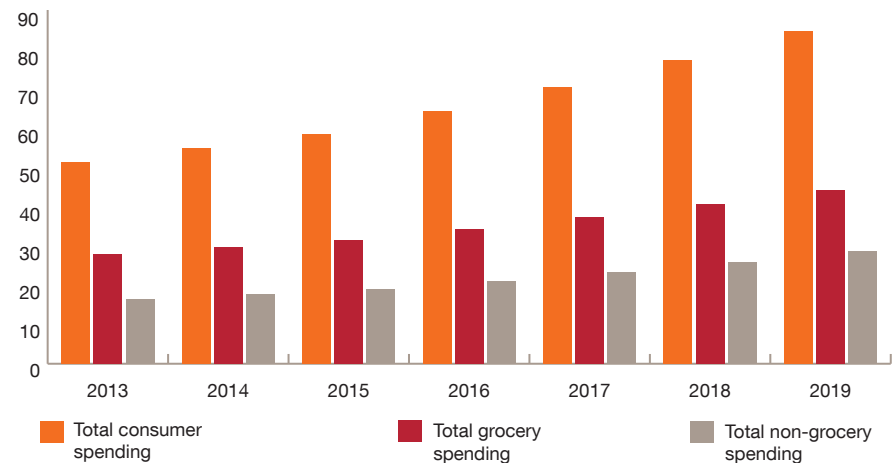
Then we have an e-learning programme, which is done on a tablet computer in every store. Each staff member has a user profile and can choose to follow modules for different roles: cashiers, stock management, receiving, and so on. We are able to monitor their progress.

Consumer goods

Total consumer spending was expected to increase from \$55bn in 2014 to \$85bn by 2015. But the government is hoping for more of this spend to go towards locally produced food and other consumer goods. It is prioritising the development of domestic industries in order to diversify the economy and lower dependence on imports.

Agro-industrial zones and special economic zones are targeted at developing manufacturers. A new import tariff regime has been introduced to stimulate local manufacturing, and a 'Made in Angola' campaign hopes to encourage consumers to choose local products over imports.

Figure 1.5 Spending forecast (US\$ billions)



Source: Planet Retail



Fast-moving consumer goods

Growing demand for food and beverage products, coupled with a rise in import duties, could attract additional investment in FMCG manufacturing in the coming years.

In 2012, Nestlé opened its first Angolan factory in an effort to be closer to local consumers and to better adapt products to their needs and preferences.

A recent hike in import taxes from 30% to 50% on most alcoholic beverages has prompted South African alcoholic drinks maker Distell to establish a local production facility.

Angola is one of the top consumers of beer in Africa and the second-biggest market for spirits and wine. This lucrative market has seen significant investment by France's Castel and SABMiller, which now work together in a joint venture arrangement and boast a 90% share of the local beer market.

Refriango, which began production in 2005, has conquered the market for non-alcoholic beverages with a rich portfolio of recognisable brands.⁹ "They have done a really fantastic brand-building job. In terms of distribution, consumer acceptance and visibility they have actually gone and done a better job than Coke in Angola," says Michael Wood, managing director of consumer goods consultancy Aperio.

Footwear and apparel

The textile industry in Angola had previously been vertically integrated, including the entire process from cottonseed farming to garment manufacturing. The industry has faced significant challenges and production severely declined, but the government has been actively pursuing the reestablishment and rehabilitation of this key industrial sector. A Japanese company, Marubeni, has invested in the \$1bn revival of three textile plants.¹⁰

International fashion retailers are already active and the industry is set to expand. Mr Bennie highlights interest from Middle Eastern retail groups that have international fashion brands in their portfolios. These groups have experience in other African markets and their stores cater to the aspirant middle class.

Their strategy is to enter a market with one or two brands, develop their distribution infrastructure and then bring in their other labels. The demand for international brands is significant. Mr Bennie uses the example of Portuguese clothing company Salsa, whose store in the Belas shopping centre has the highest trading density per square metre among all its outlets internationally.

Consumer durables

According to Business Monitor International, vehicle sales in Angola grew by about 20% per annum over the past two years. But sales have been negatively impacted by the fall in the oil price, according to Mario Spangenberg, president and managing director of General Motors Africa.

However, Mr Spangenberg remains positive about the long-term growth potential in the market. "As incomes rise, Angolans will move from public transport, to used cars, to new cars. As people get wealthier, the demand for used cars may go down." China, Portugal, India, South Africa and Namibia are the largest source markets for vehicle imports into Angola.¹¹

The significant investment in public housing by the Angolan authorities has increased demand for household goods, according to Mr Bennie. "In Kilamba (30km from downtown Luanda) there are 45 000 apartments. All these new apartments need to be furnished and they need kitchenware and homeware."

Angola is one of the top consumers of beer in Africa and the second biggest market for spirits and wine.

Significant investment in public housing has increased demand for furniture, appliances, kitchenware and homeware.

⁹ "Angola Private Sector Country Profile."

¹⁰ "Why Angola's textile industry just received a \$1 billion investment." Brand ID, June 27, 2013. Accessed April 25, 2015. <http://blog.brandid.com/bid/312135/Why-Angola-s-Textile-Industry-Just-Received-a-1-Billion-Investment>

¹¹ "2014 Angola – Automotives." WESGRO. 2014

Supply chain

Angola's potential for agricultural production, and the subsequent benefits for local agri-processing, remains high but still requires significant investment, as most farming is on the subsistence level.

An innovative model for agriculture and agri-processing has been developed by private equity fund Vital Capital. Based on the moshav system in Israel, communities farm collectively but benefit individually, while value addition and marketing are centralised.

This has proven very successful in the case of the Aldeia Nova project, which is currently supplying chicken eggs and dairy products to formal retailers such as Kero.¹² Another retailer, Maxi, has implemented an initiative to develop the capacity of farmers to supply its stores with fresh products, by offering technical support and facilitating the logistics required for distribution.¹³

Angola's inadequate infrastructure has the greatest impact on the supply chain, especially outside of urban areas and in the eastern part of the country. The improvements discussed earlier in this chapter have played a valuable role in addressing this problem.

Ports and major roads have been upgraded, and the rail infrastructure has been rehabilitated, facilitating connections with the states bordering Angola and across the region.

Mr Bennie explains that "distribution and supply chain issues have gotten much, much better. There is a South African retailer in Luanda that says it can get strawberries from Stellenbosch within two days. Another retailer there can get a container from Cape Town to their stores within seven days. So via road and via sea, there seems to be no problem. It has gotten better in the last five years and there are some good logistics operators in Luanda."

To the point

Michael Wood, Managing Director, Aperio

Aperio is a business consulting company focused on accelerating growth of FMCG brands in sub-Saharan Africa.

Q Describe the trends you have noticed in the Angolan market.

A I'm quite impressed with the speed of change happening in terms of the retail and consumer goods industries. It is most notable in the expansion of the formal retail sector, driven by companies like Shoprite and international retailers.

Many of the traditional open markets have been closed down and have been replaced by more formal structures. The authorities are pushing distributors, importers and manufacturers towards formalising their businesses.

In the last four years you have seen a massive expansion of the retail sector. They are expecting formal retail to grow to 50% of the market in the next couple of years.

Q What is needed for success in Angola?

A Growing competition in the retail sector requires companies to cater for local Angolan tastes. It cannot be assumed that products that work in the rest of Africa will be accepted by Angolan customers. Angolans are strongly influenced by Portuguese and Brazilian manufacturers. And so you see slightly different consumer tastes and in the actual way products are consumed.

Q How important is the informal market for consumer goods companies?

A Just three or four years ago your strategy in Luanda should have been around the informal trade because that's where 80-90% of the market volume was. It would have been suicide not focusing on the informal trade. But these days companies can increasingly rely on a modern trade strategy, which includes supplying supermarket chains and what we call A-class cantinas (small grocery stores).

Some of these cantinas are developing into tiny supermarkets with three or four checkouts and a wider range of products. In this regard Angola is different to a market like Nigeria, where open markets and table-top sellers still account for the bulk of retail.

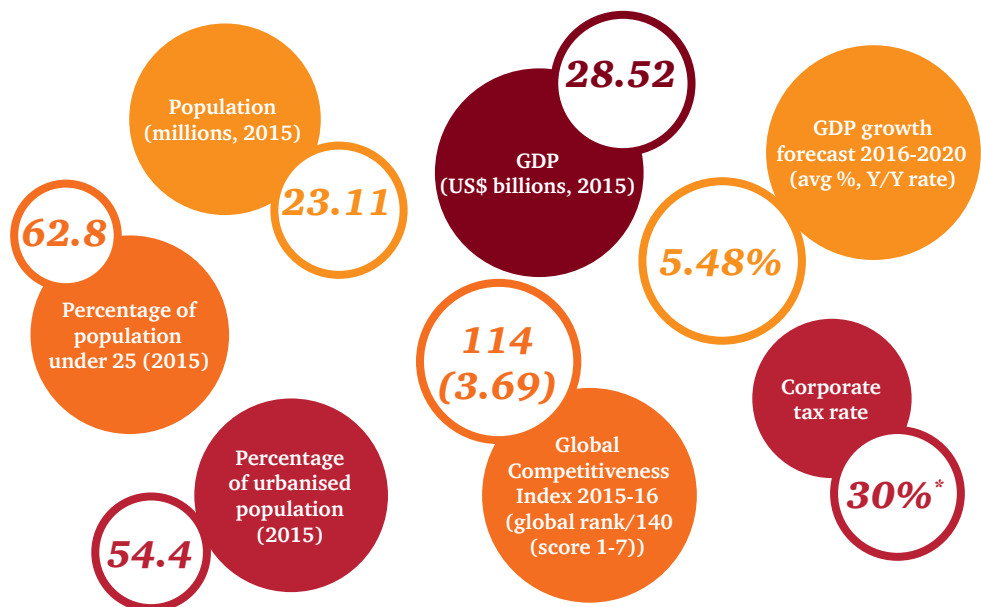
¹² Vital Capital Fund. "Aldeia Nova." Vital Capital Fund. Accessed April 25, 2015. <http://www.vital-capital.com/aldeia-nova/>

¹³ "The retail sector in Angola."

2. Cameroon



Opportunities	Challenges
Leveraging Cameroon's position as a trade hub for the Central African region	Demanding business environment due to a congested port, corruption, inadequate regulatory frameworks, inefficient bureaucracy and a weak judiciary
Boosting product portfolios and improving distribution into rural areas	Counterfeit goods and illegal trade
Introducing convenience food in a market where women – traditionally responsible for household cooking – are increasingly entering the workplace	Boko Haram terrorism campaign in the north of the country and the crisis in Central African Republic could have a destabilising effect on Cameroon



(*) The basic rate of 30% results in the application of an effective rate of 33% due to the application of the additional council tax (10%).

Sources: International Monetary Fund; World Economic Forum; World Bank, UN Population Division; PwC

Economy and business environment overview

Economic outlook

Cameroon is often described as ‘Africa in miniature’ because of its diverse landscapes – including beaches, rainforests, mountains, savannas and deserts – that are representative of the continent’s major climate zones. In terms of its economy Cameroon is similarly well diversified with agriculture, manufacturing, wholesale and retail trade, oil, finance, real estate and business services being the major sectors.¹⁴ Cameroon also has a nascent, but promising, mining industry. Between 2005 and 2015 the economy expanded at a mediocre average annual rate of 3.8%.

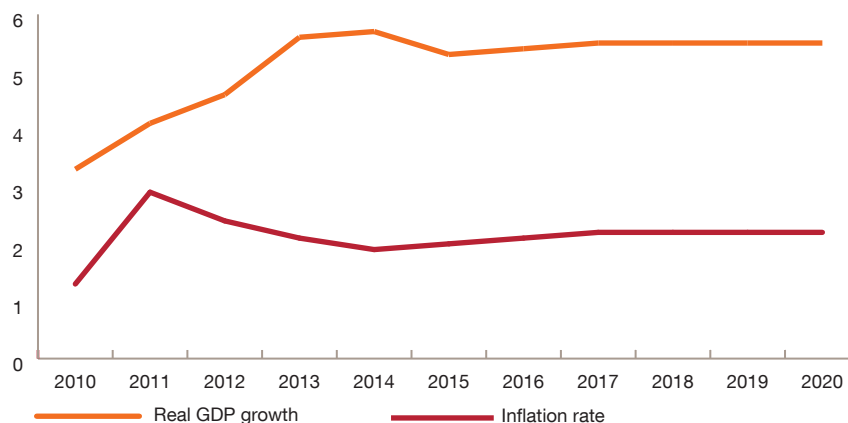
The outlook from 2015 to 2020 is more encouraging, with growth expected to accelerate at an average of 5.5% per annum. Sustained low oil prices could undermine this performance. Inflation is anticipated to remain stable within the 1.9% and 2.2% band through to 2020.

Compared to its regional peers, Cameroon has enjoyed a long period of political stability. But political control is in the hands of a small group, and current president Paul Biya has been in power for more than three decades.

Future stability will depend on a peaceful transition once Biya is no longer in power. Another risk is the recent cross-border attacks by Nigerian-based militant group Boko Haram.

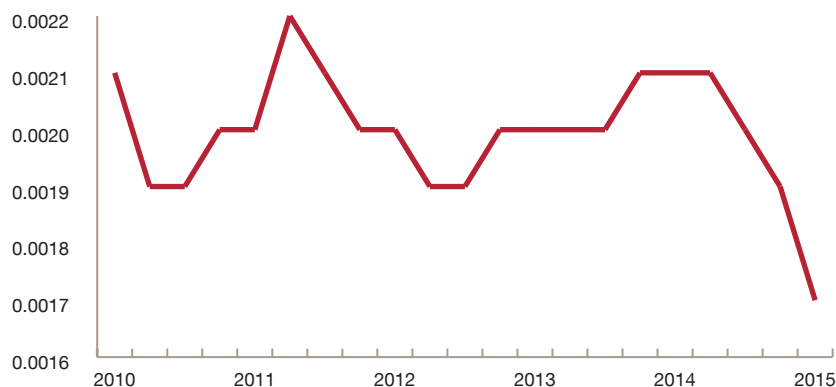
However, to date the attacks have been limited to the far-northern region, without affecting business activity in the rest of the country. The crisis in neighbouring Central African Republic is also having a destabilising effect in eastern Cameroon.¹⁵

Figure 2.1 Real GDP growth and inflation



Source: International Monetary Fund

Figure 2.2 Historical CFA/USD exchange rate



Source: Oanda



¹⁴ Richard-Antoin Doffonsou and Lisa Simrique Singh. “African Economic Outlook: Cameroon 2014.” African Development Bank, Organisation for Economic Co-operation and Development, United Nations Development Programme. http://www.africaneconomicoutlook.org/fileadmin/uploads/aeo/2014/PDF/CN_Long_EN/Cameroun_EN.pdf

¹⁵ “Cameroon Country Risk Report: Q2 2015.” Business Monitor International. 2015.

Business environment

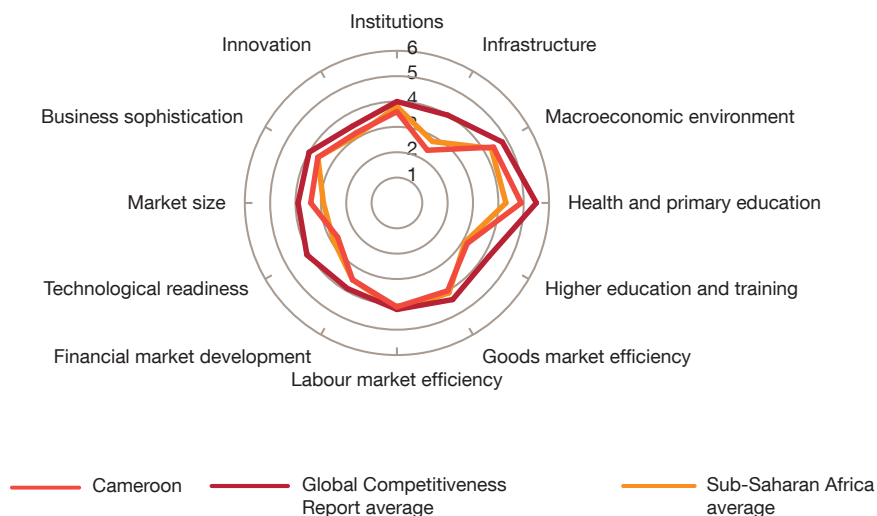
Cameroon is generally considered a tough business environment. Underdeveloped infrastructure, especially the transport system, is a major drag on commercial activity. Ongoing investments in roads, ports, electricity generation and urban construction projects are, however, encouraging.

Businesses also have to contend with corruption, inadequate regulatory frameworks, inefficient bureaucracy and a weak judiciary, which can lead to demands for bribes, project delays and unfair competition.

The Global Competitiveness Report is published annually by the World Economic Forum. The report assesses the competitive landscape of more than 130 economies and provides insight into the drivers of their productivity and prosperity. A score between 1 and 7 is awarded to 12 pillars, where 7 is best.

While underdeveloped infrastructure, especially the transport system, is a major drag on commercial activity, investments in roads, ports, electricity generation and urban construction projects are encouraging.

Figure 2. 3 Global competitiveness: Performance overview



Source: World Economic Forum, The Global Competitiveness Index 2015-2016

Resolving commercial disputes in the courts can also be frustrating.¹⁶ The risk of spontaneous tax increases or the introduction of price controls adds a further degree of uncertainty in the market.

One of Cameroon's greatest strengths is its comparatively strong labour force. It is known for having one of the better education systems in sub-Saharan African, and companies have access to a growing young population that is relatively well educated and a pool of graduates with degrees in disciplines such as science and engineering.

Human resources-related challenges include moderately steep labour costs and a lack of highly specialised skills. Cameroon is also generally less open to foreign participation in the labour force.¹⁷

Another positive is that both French and English are official languages as a result of the colonial past, which saw one part of the country under French control and the other under British rule.

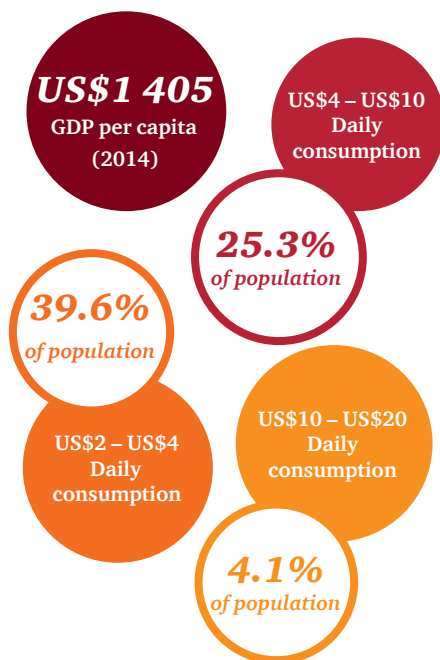
Although French remains the dominant business language, Cameroonians generally have a better command of English than those living in other francophone African countries.

Yaoundé is Cameroon's political capital, but the port city of Douala is the commercial centre. Most of the capitals of Cameroon's ten administrative regions are significant from a business perspective.

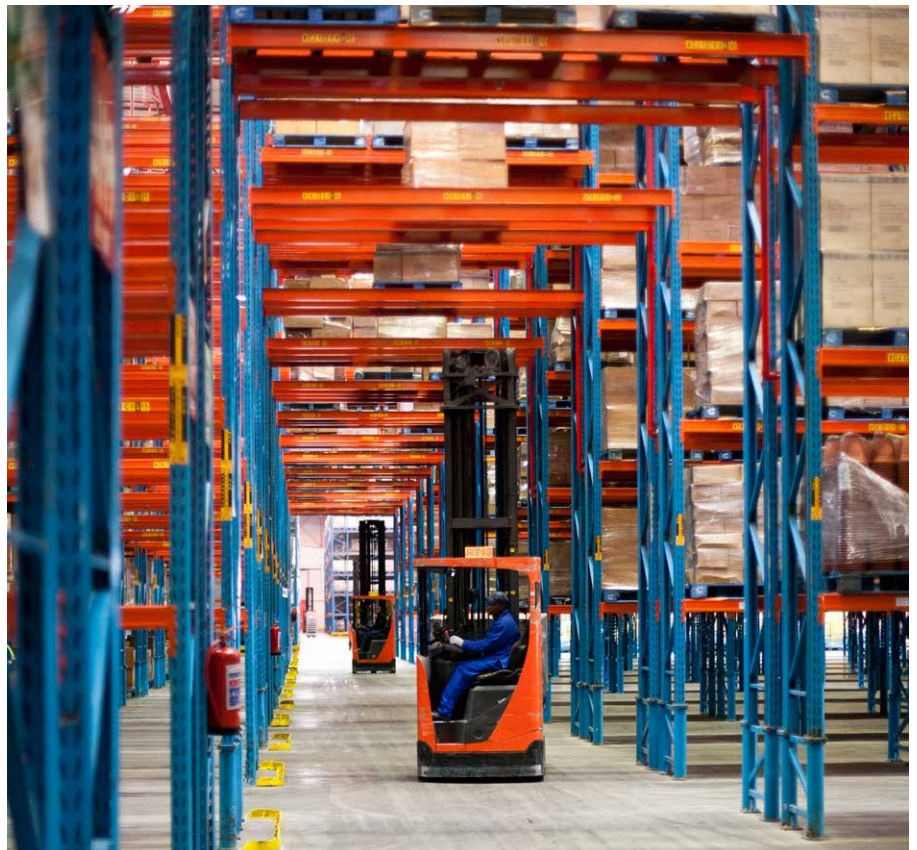
Bafoussam is an important hub that supplies a large number of surrounding towns and villages. The coastal city of Kribi is also likely to attract more activity due to a new port that has been commissioned.

¹⁶ & ¹⁷ "Cameroon Country Risk Report."

Buying power and consumer behaviour



Sources: IMF; Mthuli Ncube and Charles Leyeka Lufumpa. *The Emerging Middle Class in Africa*. (Routledge, 2014)



Bruno Olierhoek, Managing Director for Central Africa at Nestlé, says large numbers of Cameroonian households could soon pass the \$1 500 to \$2 000 income threshold, entering a bracket he refers to as the ‘hot zone’, in which food and beverage sales generally start to rise exponentially.

“Companies that have been around for a long time and have built distribution and brand presence should be the first to benefit when consumers enter this hot zone. When you enter the hot zone your high-single-digit growth all of a sudden goes to high double digits. I’ve seen this happen in Southeast Asia. In Cameroon, I feel we will hit that point.”

The majority of Cameroonians are price-sensitive and this forms the basis for their purchasing decisions. Providing quality products at affordable prices and developing brands consumers can grow to trust are vital for long-term success.

There is a rising trend towards ready-to-eat and easy-to-prepare food. Ndene Sone, Trade Marketing Manager at food processor and FMCG distributor, Group Cadyst Invest, attributes this trend partly to the fact that women are increasingly entering the work place.

“In our society women are in charge of cooking for at least 90% of households. But women are beginning to get into paid jobs and time for taking care of the home is reducing drastically. So people are looking for food that is quicker and easier to prepare. I’m seeing more business people entering the packaged food industry,” says Mr Sone. Cameroon has not seen the same surge in fast-food chains as other parts of the continent have, signalling a clear opportunity.

Consumers are also becoming more health conscious and monitoring their weight and sugar intake. This trend extends to cosmetics, with a growing demand for natural products.

Regulation in terms of FMCG labelling is relatively weak, but due to pressure from civil society groups it is expected to become an important theme in coming years. The government has set up an agency to establish standards that consumer goods companies need to adhere to.

Providing quality products at affordable prices and developing brands consumers can grow to trust are vital for long-term success among Cameroon’s price-sensitive consumers.

Retail

Compared to countries such as Nigeria and Ghana, modern retail has been slow to take off in Cameroon. There are currently no A-grade shopping malls and it is estimated that 98% of retail sales are generated through informal outlets.¹⁸ Open-air-markets – such as the Marché Mboppi in Douala – offer better prices for Cameroonians looking to do their general shopping, and purchase products in bulk.

Formal retail comprises a few chains and independent stores. Mahima and Casino are two of the main grocery retailers, both catering predominantly for the expat community and middle-income to wealthy classes. While Casino has fewer stores than Mahima, it has greater product diversification.

The Casino franchise is held by Monaco-based Mercure International. Mercure opened the new Kadji Mall in Douala in June 2015 and also has plans to upgrade its retail centre in Yaoundé.

French company CFAO has indicated that it intends to launch the Carrefour franchise, accompanied by a new shopping mall, in Cameroon. Many fuel stations also feature a retail component. Tsekenis Group's T.Shop is operated in partnership with the state-owned Tradex service station chain. Similarly, OiLibya houses O'Market and Total has Bonjour.

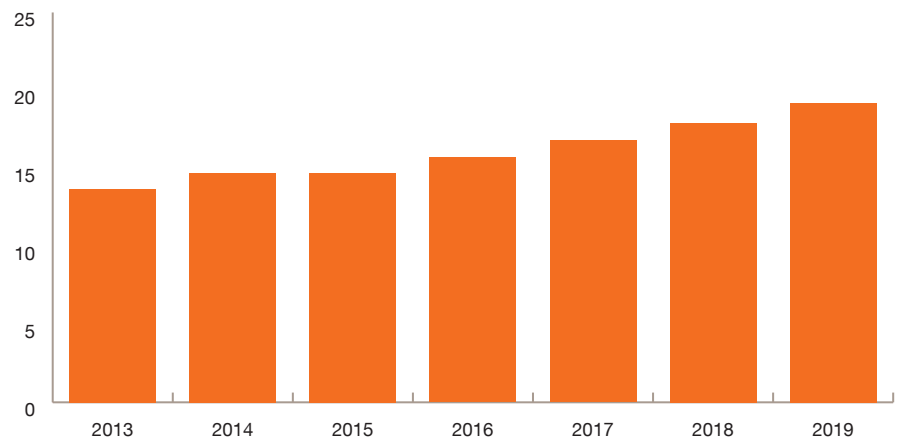
Non-grocery retailers include Groupe Arno, which through its various retail brands sells products ranging from home appliances and electronics to tyres.

Afrilec also trades within the electronics and home appliances space. It has a partnership with financial institution Credit Communautaire d'Afrique (CCA), which offers customers flexible payment facilities.¹⁹

Tsekenis Group operates a number of retail divisions, including department store T.Life, which supplies household goods, clothing, perfumes and jewellery. It has seen growth through enhanced marketing such as back-to-school promotions.²⁰

In the up-market segment, Mercure controls the Guess, City Sport, Aldo and Celio brands.

Figure 2. 4 Total retail format sales (US\$ billions)



Source: Planet Retail

Budding local players

Over recent years a number of Cameroon's independent shop owners have been steadily growing their number of outlets in cities such as Douala, according to Mr Sone of Cadyst Invest. This trend is especially evident with bakeries like Santa Lucia.

In years to come these companies could well develop into powerful local chains. "Formal retail is growing. There are some companies that are building and extending their networks, moving from three to four to five outlets," he notes.

Emerging online retail

E-commerce is a nascent industry, with only 6.4% of the population being online, slow and unreliable internet connections and a general distrust of online payments.²¹

In 2013, Africa Internet Group (AIG) launched online marketplace Kaymu. The platform allows buyers and sellers to trade a wide range of products.

Other AIG ventures that have since been introduced include online retailer Jumia and vehicle classifieds platform Carmudi. Kaymu country manager Candace Nkoth Bisseck says consumers are increasingly searching online for products they can't find locally. "People are very fashionable and trendy. They like to be different. If you can offer something unique and at an affordable price – jackpot."

With basic computer skills often lacking, Kaymu had to invest in educating and training sellers. Low bank card penetration is also a major obstacle, but Kaymu has introduced a mobile money payment option through its partnership with mobile operator MTN. Another challenge is the lack of formal street names and numbers, which makes deliveries problematic.

18 "Africa: How to navigate the retail distribution labyrinth." The Nielsen Company, February 2015. Accessed April 19, 2015. <http://www.nielsen.com/content/dam/nielsen-global/ssa/docs/reports/2015/africa-report-navigating-the-retail-dist-labyrinth-feb-2015.pdf>

19 Euromonitor. "Afrilec Sarl in retailing (Cameroon)". Alacra Store. Accessed April 19, 2015. <http://www.alacrastore.com/storecontent/Euromonitor/Afrilec-Sarl-in-Retailing-Cameroon-2109-21864>

20 Euromonitor. "Tsekenis SA in retailing (Cameroon)". Alacra Store. Accessed April 19, 2015. <http://www.alacrastore.com/storecontent/Euromonitor/Tsekenis-SA-in-Retailing-Cameroon-2109-33091>

21 "Internet users (per 100 people)." The World Bank. Accessed April 19, 2015. <http://data.worldbank.org/indicator/IT.NET.USER.P2>

To the point

Cédric Houdrouge, Development Director, Mercure International

Monaco-based Mercure International operates the Casino, City Sport, Aldo, Celio and Guess brands in Cameroon.

Q How does the overall business environment in Cameroon compare with that of the other African countries where Mercure operates?

A Politically, Cameroon is a stable country and the outlook is positive. In terms of doing business, it is more complex than some other countries where we operate. The congested port in Douala and long customs clearing times make it tricky to import goods. That said, the government is working on addressing these issues.

One of the biggest positives about Cameroon is the quality of human capital. People are relatively well-educated and have a

good understanding of commerce, which makes it easier to put together good retail teams.

The market offers significant opportunities in terms of retail. The middle class is growing, which is why we are focusing on developing accessible and affordable brands.

Q Tell us about your growth plans for Cameroon.

A The Cameroon market is split between the commercial hub Douala and the capital Yaoundé. We have opened our first mall in Douala this year and will also upgrade and refurbish our shopping centre in Yaoundé.

In terms of modern retail space, Cameroon is less developed. There have been a number of local entrepreneurs who have initiated projects, but often these suffer from a lack of funding and professionalism. We feel there is significant growth potential in the country.

Consumer products

Population growth, urbanisation and rising incomes will offer a steady stream of opportunities for consumer-facing companies in the coming years. “It is very premature to say there is saturation in any sector in Cameroon,” notes Anirban Deb, Country Head of agricultural commodity trader and processor Olam.

While considerable volumes of food and other consumer products are imported, a number of companies have manufacturing operations to take advantage of Cameroon’s favourable location as a trade hub for Central Africa as well as its agricultural potential.

But opportunities to add value to crops such as cocoa, coffee and cotton remain under-exploited. Nestlé exports raw coffee beans to Côte d’Ivoire, where it processes the beans before importing it back into Cameroon to be packaged for local consumption. By purchasing the raw materials locally it qualifies for lower import duties.

Chococam, acquired by South Africa’s Tiger Brands in 2008, manufactures cocoa-based consumer products in Douala to cater for the West and Central African market.

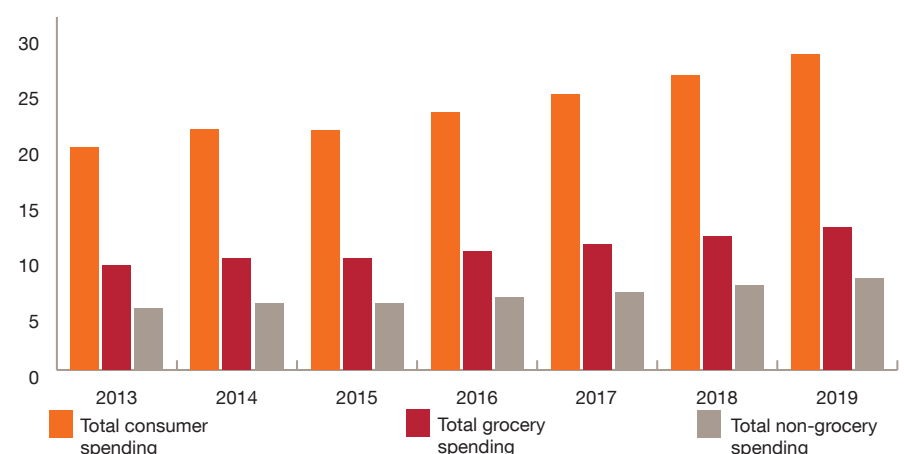
Local personal care manufacturer Biopharma also supplies the broader region.

Cameroon’s relatively small population counts against it. More than a decade ago Unilever closed its manufacturing activities in favour of an import model. Patrick Mandengue, the company’s head for Central Africa, says the reasons were Cameroon’s demanding business environment and the fact that neighbouring countries like Nigeria offered economies of scale that were more attractive for local production.

Counterfeit goods and illegal trade are also notable challenges for FMCG companies. According to one liquor company, over 30% of spirits sold in Cameroon are counterfeit or smuggled into the country.

Unilever also highlights large volumes of branded products entering the country illegally from neighbouring Nigeria.

Figure 2.5 Spending forecast (US\$ billions)



Source: Planet Retail

Fast-moving consumer goods

Despite being a competitive market with all the major FMCG multinationals (Unilever, Procter & Gamble, Danone, Nestlé) present, Cameroon holds ample opportunities for new brands and products, provided they are priced correctly and supported with adequate distribution.

Local pasta and flour producer Cadyst Invest has, for example, introduced its own stock cube product that competes with Nestlé's established Maggi brand.

Some well-known international brands have disappeared from the Cameroonian market due to cheaper competition. FMCG companies also see opportunities to expand their existing portfolios and improve distribution.

"Our growth potential lies in adding more products to our range while at the same time improving distribution by going deeper and deeper into the rural areas," notes Nestlé's Mr Olierhoek.

The alcoholic beverages industry is dominated by Les Sociétés Anonymes des Brasseries du Cameroun (SABC), a brewing company with France's Castel Group and Heineken as its main shareholders. In addition to brewing and distributing brands such as Beaufort, "33" Export and Castel, it also bottles and distributes Coca-Cola products. Other players include Guinness Cameroon, a subsidiary of Diageo and Union Camerounaise de Brasseries (UCB).

Apparel and footwear

Northern Cameroon has strong cotton production, which bodes well for the growth of the local textiles and clothing industry. Cotton production is tightly controlled by a government-owned company that distributes inputs and collects the crops at harvest.

Despite being a beneficiary of the African Growth and Opportunity Act (AGOA), which allows for duty-free entry into the US market, local industry has not yet fully embraced the opportunity within this value chain.

Carlos Lopes, Executive Secretary of the United Nations Economic Commission for Africa, also highlights substantial potential to supply the domestic market. "The opportunity to gain market share is so blatant. Only 1% of the clothing industry is controlled by locals. With entrepreneurs demanding locally sourced quality inputs, the proceeds from the clothing industry can be distributed to reduce the share of imports of new and second-hand clothes. The clothing industry is one area where the 64% under 25 could redirect their energy, boosting economic growth. To achieve this, Cameroon has to devise and implement policy measures that support local enterprises in their endeavour to reap the benefits of their creativity in local and regional value chains," he says.²²

Consumer durables

As incomes rise, urban consumers will demand a growing range of durable goods. Business Monitor International (BMI) predicts increasing sales of mobile phones and automobiles.

Although the economy is diversifying, most durable items are imported as producing these goods in-country remains a challenge. An initiative by China's Futian to build a vehicle assembly plant is already years behind schedule. According to BMI the delay is being blamed on government inefficiency. It is now doubted if the project will ever be completed.²³

Cameroon holds ample opportunities for new brands and products, provided they are priced correctly and supported by adequate distribution.



²² Carlos Lopes. "Cameroon must roar: at a 7% minimum!" Africa cheetah run: The Executive Secretary's blog, August 4, 2014. Accessed April 19, 2015. <http://es-blog.uneca.org/ES-Blog/es-blog/cameroon-must-roar-7-minimum>

²³ "Cameroon Country Risk Report."

Supply chain

Douala's congested port presents a significant challenge for the import and export of goods. One company points out that it has had imports delayed at the port for many months. For this reason, local operators have to plan ahead to ensure sufficient stock levels. "The problem is structural, because traders both in and out of Cameroon have grown exponentially. So there will be some challenges going forward until the new port is completed. You have to plan your supply chain to accommodate it," notes Olam's Mr Deb. To alleviate the congestion at Douala, a new port and container terminal has been commissioned 180km south at Kribi.²⁴

Few FMCG companies in Cameroon control their own distribution due to the high logistics costs associated with servicing the thousands of informal outlets.

Subsequently, companies have little influence on the final price of their products. Multinationals such as Unilever and Nestlé typically sell their products to distributors with their own warehousing facilities. From here goods are supplied to regional wholesalers, which in turn feed city or district-based semi-wholesalers, from where they are supplied to informal retailers. Some companies, such as brewer SABC and the Tsekenis Group, have invested in developing their own distribution networks.

To the point

Bruno Olierhoek, Managing Director for Central Africa, Nestlé

Swiss multinational food and beverage company Nestlé has been active in Cameroon for many decades. Its local activities include food import/export, processing and packaging.

Q What products that you manufacture locally do particularly well in Cameroon?

A The range that we have in Cameroon is obviously not as wide as we have in more developed countries. The top sellers are our culinary products. Our 4g Maggi stock cube is widely distributed and sold in markets cube-for-cube at about CFA 10 (less than \$0.02). It is one of the most affordable products you can find in the market and practically every meal prepared includes it. Just to give you an idea of how successful it is, if you take the volumes of what we produce in Cameroon and stack each cube next to each other, it will go twice around the globe.

Q And this product is specifically developed for the local palate?

A Yes, this is our strategy. Cuisine and the way of cooking in Cameroon are not the same as in Nigeria. The solution that we bring has to be adapted to local tastes. So we have the same stock cube in Nigeria, but with a different taste and a different composition.

Q Describe the potential you see to improve your supply chain.

A We see opportunities to source more of our raw materials locally. Improved local sourcing is a win-win because it gives us a competitive advantage and also contributes to rural development. In Cameroon we have a whole list of ingredients that we theoretically should be able to source domestically.

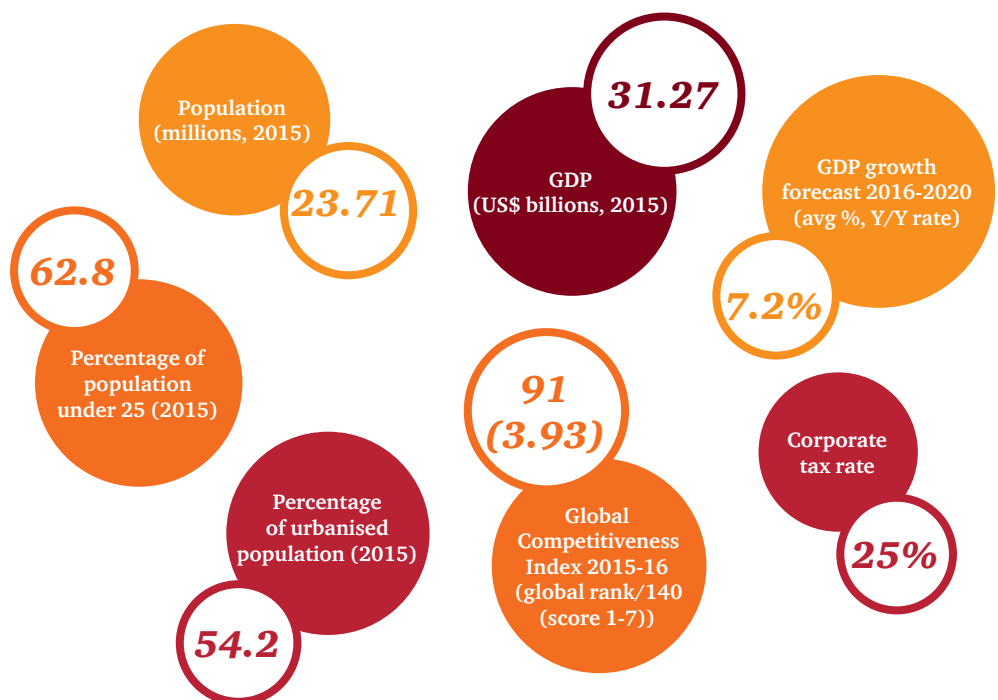
Currently, we are importing corn starch from Europe, but we are working with the government to see if we can source starch from locally grown cassava. However, these initiatives need long-term planning and involve working together with the government and NGOs.

²⁴ Anne Mireille Nzouankeu. "Backlog at Cameroon's main port slows cocoa export." Reuters, March 17, 2015. Accessed April 19, 2015. <http://www.reuters.com/article/2015/03/17/cameroon-cocoa-port-idUSL3N0W151E20150317>

3. Côte d'Ivoire



Opportunities	Challenges
Local processing of crops such as cocoa and palm oil	Low-income earners don't easily switch brands or experiment with new products
Online retail has the potential to leapfrog the under-developed bricks-and-mortar retail sector by offering greater assortment and more competitive pricing	Depressed market for big-ticket consumer durables such as cars, due to low incomes and limited financing options
Untapped market in secondary towns and rural areas	



Sources: International Monetary Fund; World Economic Forum; World Bank, UN Population Division; PwC

Economy and business environment overview

Economic outlook

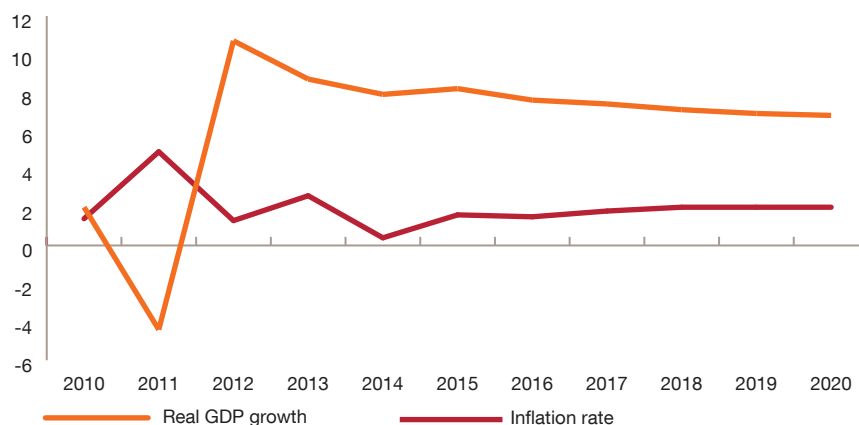
Côte d'Ivoire experienced rapid economic growth of 7.9% and 8.2% in 2014 and 2015, respectively. But this performance should be viewed against a decade of economic stagnation due to political instability that climaxed with the 2010/2011 post-election crisis.

The economy is expected to expand by an average of 7.2% per year from 2016 through to 2020, with infrastructure development been a major driver. Agriculture accounts for the biggest portion of the economy – Côte d'Ivoire supplies about 40% of the world's cocoa, and is a major producer of palm oil, coffee and rubber.²⁵

It also produces crude oil and is a miner of gold and manganese. Unfavourable global commodity prices hold a risk for the economy.

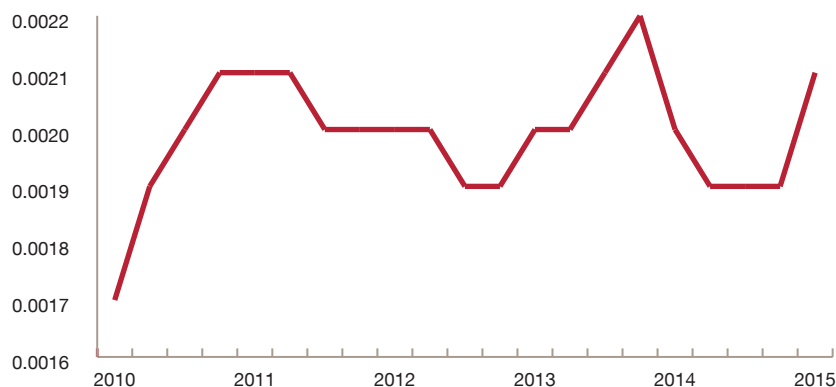
Despite a return to relative peace and stability, which saw incumbent president Alassane Ouattara re-elected by a landslide majority in October 2015, political divisions remain. However, following the 2010-2011 Ivorian crisis, many weapons are still in circulation and the demobilisation of former combatants is moving at a slow pace.²⁶

Figure 3.1 Real GDP growth and inflation



Source: International Monetary Fund

Figure 3.2 Historical XOF/USD exchange rate



Source: Oanda



25 Pascal Yemiline, Bakary Traoré and Luis Padilla. "African Economic Outlook: Côte d'Ivoire 2014." African Development Bank, Organisation for Economic Co-operation and Development, United Nations Development Programme. http://www.africaneconomicoutlook.org/fileadmin/uploads/aeo/2014/PDF/CN_Long_EN/Cote_divoire_EN.pdf

26 "Côte d'Ivoire Country Risk Report: Q2 2015." Business Monitor International. 2015.

Business environment

In the decades following independence in 1960, Côte d'Ivoire was one of the continent's most stable and prosperous countries. Abidjan was even dubbed the 'Paris of Africa'.

Following deterioration in the economy due to civil conflict over a number of years, business confidence is once again improving. In 2003, the African Development Bank (AfDB) relocated its headquarters to Tunisia due to the troubles in Côte d'Ivoire. But recently it has moved back to Abidjan, a clear endorsement of the country's long-term prospects.

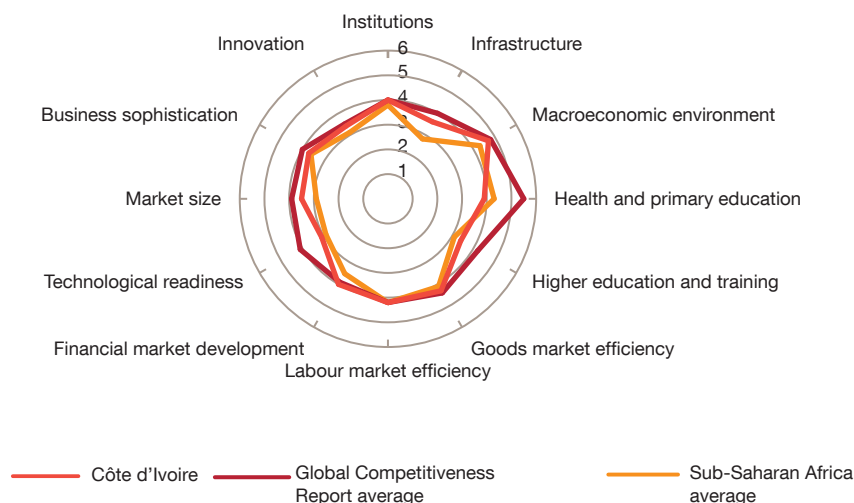
The government has implemented several reforms to encourage foreign investment and improve the business environment. It passed a new investment law that streamlined bureaucracy for investors through the national investment promotion centre, and a 'one-stop shop' has reduced the time needed to set up a company.

The establishment of a special business court has also been well received. But despite the rosy outlook, business people still have to contend with insufficient infrastructure, a lack of bank lending to small and medium-sized enterprises, complicated taxation and rigid customs procedures.²⁷

Côte d'Ivoire's talent base is relatively strong, but the market is becoming competitive and smaller companies often struggle to compete with the salaries offered by large multinationals. The political stability of recent years has made it easier to attract expats.

The Ivorian Government has implemented several reforms to encourage foreign investment and improve the business environment.

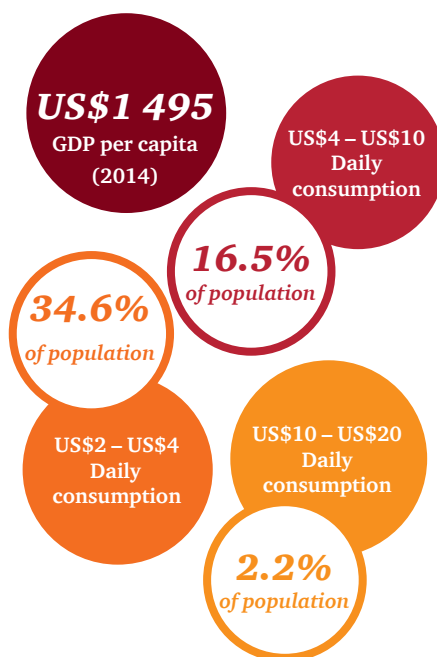
Figure 3.3 Global competitiveness: Performance overview



Source: World Economic Forum, The Global Competitiveness Index 2015-2016

The Global Competitiveness Report is published annually by the World Economic Forum. The report assesses the competitive landscape of more than 130 economies and provides insight into the drivers of their productivity and prosperity. A score between 1 and 7 is awarded to 12 pillars, where 7 is best.

Buying power and consumer behaviour



Sources: IMF; Mthuli Ncube and Charles Leyeka Lufumpa. *The Emerging Middle Class in Africa*. (Routledge, 2014)

Despite rapid economic growth in recent years, poverty is pervasive. Low-income earners are generally sensitive to quality as they cannot afford to buy a product that doesn't fulfil their needs.

Once a consumer trusts a specific brand they are likely to stay loyal. It is hard to convince low-income earners to switch brands or experiment with new products.

Côte d'Ivoire has a high illiteracy rate of about 59%, meaning many consumers base their purchasing decisions on packaging visuals as opposed to the associated text.²⁸ Companies therefore cannot make drastic changes to their package design, as buyers might think it is a counterfeit product.

As incomes rise, Ivorian consumers are, however, embracing new products and upgrading their lifestyles. Growth in demand for fruit juice is a case in point. "Côte d'Ivoire has a young population. The minute there is a slight improvement in household wealth, children start drinking juice. Demand for fruit concentrate is growing beyond population growth," notes Gilbert-Dominique Guei, acting general manager at Continental Beverage Company at the time of writing.

²⁷ "African Economic Outlook."

²⁸ "Literacy rate, adult total (% of people ages 15 and above)." The World Bank. Accessed April 23, 2015. <http://data.worldbank.org/indicator/SE.ADT.LITR.ZS/countries/CI?display=graph>

Compared to some African countries, Ivorians have less of a penchant for foreign brands. “Industry started here a relatively long time ago, so there is a little more confidence in local products,” says Peter Van As, senior partner at private equity firm Phatisa.

“These days local companies are much more aware of the power of a strong brand, so they take the quality of their products much more seriously. While international brands might still have a bit of an upper hand, they can’t command as much of a premium as in other markets. In Côte d’Ivoire they have to compete with strong local brands.”

Due to its colonial history, many French cultural traditions and tastes are entrenched in Ivorian society.

Retail

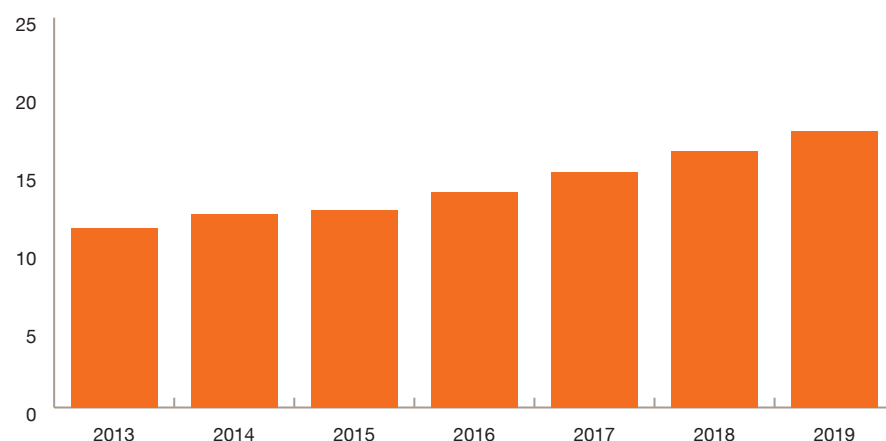
Formal retail in Côte d’Ivoire is dominated by a handful of companies. The largest player is Prosuma, which is involved in retail, wholesale and distribution activities. Its retail brands cover a variety of formats and product categories, and include Hayat (super- and hypermarkets), Casino (multi-format), Cash Center (low-price supermarkets), Cash Ivoire (franchised neighbourhood mini-markets) and Bonprix (small-format retail and wholesale).

Prosuma also owns shopping centres such as the Cap Sud and Cap Nord in Abidjan.

Another significant player is Compagnie de Distribution de Côte d’Ivoire (CDCI), which owns the King Cash retail chain, which sells a variety of food and non-food items aimed at the lower end of the market. It also operates dozens of wholesale outlets.

Monaco-based Mercure International, a shareholder in Prosuma, is the franchisee of upmarket international brands such as Hugo Boss, Aldo, Celio, Guess and Levi’s.

Figure 3.4 Total retail format sales (US\$ billions)



Source: Planet Retail

New competition arriving

Competition in Côte d’Ivoire’s retail sector has intensified with the entry of French hypermarket giant Carrefour, operated by CFAO Retail. In addition, CFAO has also signed agreements to manage the Ivorian stores of a number of French retailers, including Kaporal (fashion brand aimed at 16-35 year olds), La Grande Récré (toys and games company), Bonobo (accessible denim brand), Cache Cache (longstanding women’s fashion brand) and L’Occitane (cosmetics manufacturer), to name a few. These brands, as well as the first Carrefour store, are housed in CFAO’s new PlaYce Marcory shopping centre, opened in December 2015.

“We think there is quite a gap between the needs of the emerging middle class in terms of modern consumption, and what is currently being offered in Côte d’Ivoire,” notes Xavier Desjobert, Chief Executive Officer of CFAO Retail. The company has a long-term plan for Carrefour and says it will open numerous outlets over the coming decade.

Prosuma and CDCI are not likely to idly watch Carrefour erode their market share. Both companies are reportedly investing in growing their number of outlets.²⁹ The majority of modern retail expansion in Abidjan will go into malls, as opposed to street retail, according to Cédric Houdrouge, development director at Mercure. “Abidjan’s city centre is mostly offices with little retail space. During weekends there is very little activity.”

He adds that for the short term, Mercure/Prosuma will predominately focus its attention on Abidjan. “When it comes to wholesale we have opportunities throughout the country, but in terms of modern retail the focus is Abidjan. Maybe in the mid to long term we would consider expanding to Yamoussoukro and San-Pédro.”

Competition in Côte d’Ivoire’s retail sector has intensified with the entry of French hypermarket giant Carrefour.

29 “Making adjustments: Retail and automobile growth exposes a wider logistics issue.” Oxford Business Group. Accessed April 23, 2015. <http://www.oxfordbusinessgroup.com/analysis/making-adjustments-retail-and-automobile-growth-exposes-wider-logistics-issue>

To the point

Francis Dufay, Head, Jumia Côte d'Ivoire

Jumia is an online retailer selling a wide assortment of goods ranging from fashion to electronics. The company is part of the Africa Internet Group.

Q How developed is Côte d'Ivoire's online retail industry?

A It is a sector that is only getting started. In Côte d'Ivoire there is a historic distrust of the internet and we need to gain the trust of consumers. To do that we have a fully integrated business model where we are responsible for our deliveries, quality checks and call centre. We do everything ourselves to ensure quality throughout the supply chain. In a market such as this you cannot disappoint customers.

Ivorians are, however, warming up to the internet, and the sales we are generating in Côte d'Ivoire are very encouraging compared to what we are seeing in our businesses in the rest of the continent. Due to the low penetration of credit cards we allow our customers to pay cash on delivery. We are also pushing for new methods of payment, mostly mobile money.

Q Describe Jumia's main value proposition to Ivorian consumers.

A It is a combination of pricing and convenience. In terms of fashion, we have products that people can't find elsewhere, whereas in electronics we have better prices than the brick-and-mortar players.

Jumia is actually benefiting from the fact that formal retail in Côte d'Ivoire is not as developed as it could be. Consumers can view the entire assortment on the website, compared to having to go to five different stores in Abidjan, and even then not finding what they need. Our promise at Jumia is to deliver within five days. And to incentivise customers to place bigger orders, we are also offering free delivery above a certain purchase amount.

Q Are your products sourced locally or internationally?

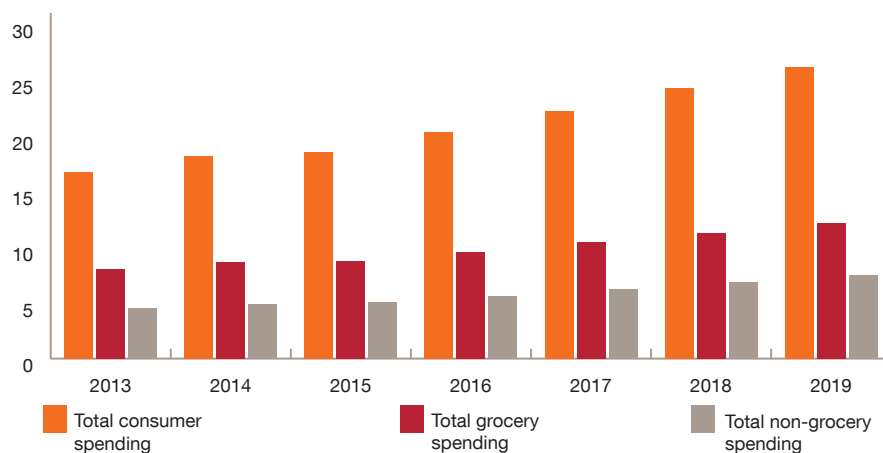
A Jumia tries to have a balance in terms of sourcing. We do keep stock from local suppliers, and in some cases we will collect the goods from local distributors once a customer places an order. But many items just cannot be found in-country, so we import those.

Consumer products

Consumer spending in Côte d'Ivoire is anticipated to surge from \$18.2bn in 2014 to \$26.2bn in 2019. While the market for consumer goods is relatively competitive with numerous multinationals being active, opportunities do exist for agile enterprises that can swiftly adapt to market demands.

"Multinationals usually have long chains of command. Permission needs to come from their headquarters in places such as Europe and the US. With numerous people involved, decisions can take months, even years, to make. Nimble local operators can have new products in the market in a matter of weeks. Smaller companies have a critical role to play in these types of markets. They invest much less in brand equity than the multinationals, but in many ways they are more effective," notes Mr Van As of Phatisa.

Figure 3.5 Spending forecast (US\$ billions)



Source: Planet Retail

Fast-moving consumer goods

Côte d'Ivoire is one of West Africa's most industrialised countries, with numerous FMCG operators active in the market. In the economic capital, Abidjan, billboards of multinationals like Unilever and Nestlé compete with those from local companies such as Groupe Carré d'Or (rice, pasta and mineral water); Sipro-Chim (food and home care); and SIFCA (cooking oil).

International FMCG companies are also strengthening their foothold, with French beauty group L'Oréal recently announcing a partnership with CFAO to locally manufacture and distribute its products.

Solibra is the dominant player in the beverage industry. It is owned by Brasseries et Glacières Internationales (BGI), the beer division of French group Castel. It produces beer brands such as Castel and Flag, and water label Awa; and it also handles the distribution of Coca-Cola products.

BGI recently acquired Les Brasseries Ivoiriennes, one of its main rivals that has managed to capture 10% of the beer market with its mainstream Number One and premium Gold 5.5 brands.

Competitors in the soft drinks category include Soft Drinks CI (bottlers of PepsiCo brands) and Nouvelle Brasserie de Côte d'Ivoire (American Cola, Bubble UP and Planet Orange).³⁰

Potential exists in further exploiting Côte d'Ivoire's agricultural resources to supply both the domestic and regional markets. It is already one of the leading suppliers of agro-food products to other West African states.³¹

The Ivorian government is promoting local value addition to its crops, with a goal to process half of its cocoa beans in-country by the end of the decade.

French chocolate maker CÉMOI recently invested in a \$6.5m factory to produce chocolate powder, bars and breakfast spread to sell in the West Africa region. "There is in this region the strong emergence of a middle class, which has the purchasing power to buy real chocolate," commented Patrick Poirrier, chief executive officer of CÉMOI.³²

The FMCG space also provides ample opportunities for product differentiation and innovation. For example, bottled water producer Continental Beverage Company has introduced 20l water dispensers for placement in offices and homes. The company predicts growing demand for these dispensers from households.

Clothing and footwear

Côte d'Ivoire's potential in textiles and clothing production is under-recognised. There exists significant potential beyond the bazin and wax fabrics currently being produced.

Population growth, urbanisation, the emergence of hotel chains and preferential trade agreements with the West, together with the regional market, offer opportunities in niche areas such as high-class dressmaking, household textiles, interior decoration, traditional embroidery and luxury handicrafts. Côte d'Ivoire has sufficient industrial capacity to diversify its product range.³³



Consumer durables

Côte d'Ivoire's market for new cars remains limited, with fewer than 10 000 vehicles sold in 2014. New car sales are stymied by the relatively high cost of vehicles, low access to consumer financing and a large grey market. The bulk of the emerging middle class buys second-hand cars.

With most global brands represented by local distributors, competition is also fierce. CFAO Automotive, distributor of Toyota, Mitsubishi, Peugeot and Citroën, says only about 15% of its cars are sold directly to individuals, with the majority being supplied to companies, government institutions and NGOs. Vehicle distributors have to negotiate administrative and customs delays as well as high import duties.

There is great potential to further exploit Côte d'Ivoire's agricultural resources to supply both the domestic and regional markets.

30 "Solibra: Beverages." Oxford Business Group. Accessed April 23, 2015. <http://www.oxfordbusinessgroup.com/analysis/solibra-beverages-0>

31 & 33 "African Economic Outlook."

32 AFP. "Tired of being just a grower, cocoa king Ivory Coast wants to cash in on chocolate." Mail & Guardian Africa, March 29, 2015. Accessed April 23, 2015. <http://mgafrica.com/article/2015-03-29-cocoa-king-ivory-coast-wants-to-cash-in-on-chocolate>

Supply chain

Reaching Côte d'Ivoire's numerous informal kiosks and table-top sellers (which account for an estimated 90% of the market) requires FMCG companies to work with distributors that can effectively deal with the wholesalers that in turn supply the informal retailers.

"If you are only targeting the supermarkets you are limiting the potential of your product. If you have an item that will sell at the bottom end of the market, then you are missing out on 90% of the potential if you only work with formal retailers," notes Phatisa's Mr Van As. He adds that some companies have built multi-million-dollar businesses by distributing their products mostly through street hawkers.

Although Abidjan, the economic hub with over 4m people, is the major focus for most retailers and consumer goods companies, those willing to make the effort to venture into secondary towns and rural areas can reap significant rewards.

Continental Beverage Company has managed to carve out a market for its Olgane bottled-water brand by focusing on these areas. "Our strategy has not been to compete head-on with the market-leading brand Awa in Abidjan because it would require a lot of funding. We therefore decided to focus on the interior of the country where the market leaders are less active," says former Acting General Manager Mr Guei.

"We have two different markets: Abidjan and then the rest of the country," notes Francis Dufay, head of online retailer Jumia. While Jumia delivers directly to customers in Abidjan, in the major secondary cities, such as Yamoussoukro, San-Pédro and Bouaké, it is creating central collection points.

For orders from further afield it makes use of third-party logistics providers. Dufay notes that Jumia's wide assortment of products hold even greater value for consumers outside Abidjan, as the variety of goods available in these areas tends to be much smaller.

Large volumes of FMCG products, raw materials and packaging are still being imported. For example, Carrefour is expected to source 70% of its goods from Europe. Continental Beverage Company also has to bring in packaging and puree for its fruit juice brand from Germany and Spain.

It is expected that over time, as businesses become increasingly confident about the safety of their investments in Côte d'Ivoire, more of these goods will be produced domestically. "By sourcing locally we can avoid the transport and duty costs, which means our prices will be much more competitive," notes Mr Desjobert of Carrefour franchise-holder CFAO Retail.

To the point

Didier N'Guessan, partner, PwC Côte d'Ivoire

PwC Côte d'Ivoire offers a range of tax, audit and consulting services.

Q Following a decade of conflict, Côte d'Ivoire is back on the path to peace and prosperity. Describe the changes you are witnessing in the economy, and the challenges business people can still expect to encounter.

A Côte d'Ivoire has gone through about ten years of political difficulties, but since 2011 we've changed our path. Today, we are concentrating on developing the economy, with infrastructure development at the core of the government's strategy. There is also a focus on growing the agriculture and oil sectors. The legal environment is still a challenge for many companies, although the establishment of a commercial court is encouraging. Security in some parts of the country also remains a concern.

Q How is income growth affecting shopping behaviour?

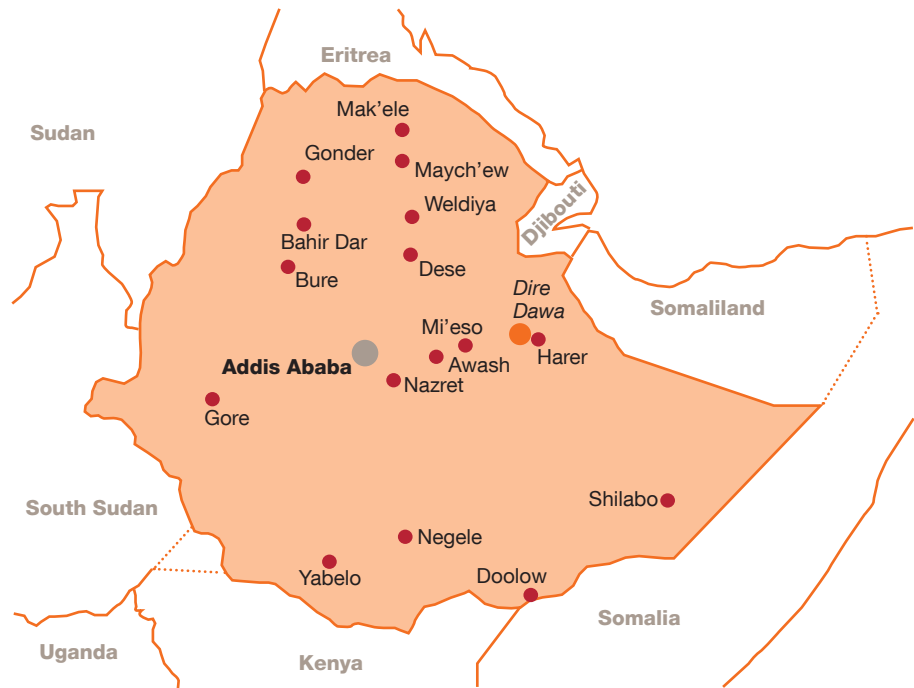
A Companies shouldn't underestimate the importance and size of the informal market. Even the middle and upper classes still frequent open-air markets to buy products such as food. I don't think we will see the demise of the informal markets anytime soon because products in the mall are priced at a premium.

Q What is your advice to foreign investors on investing in Côte d'Ivoire?

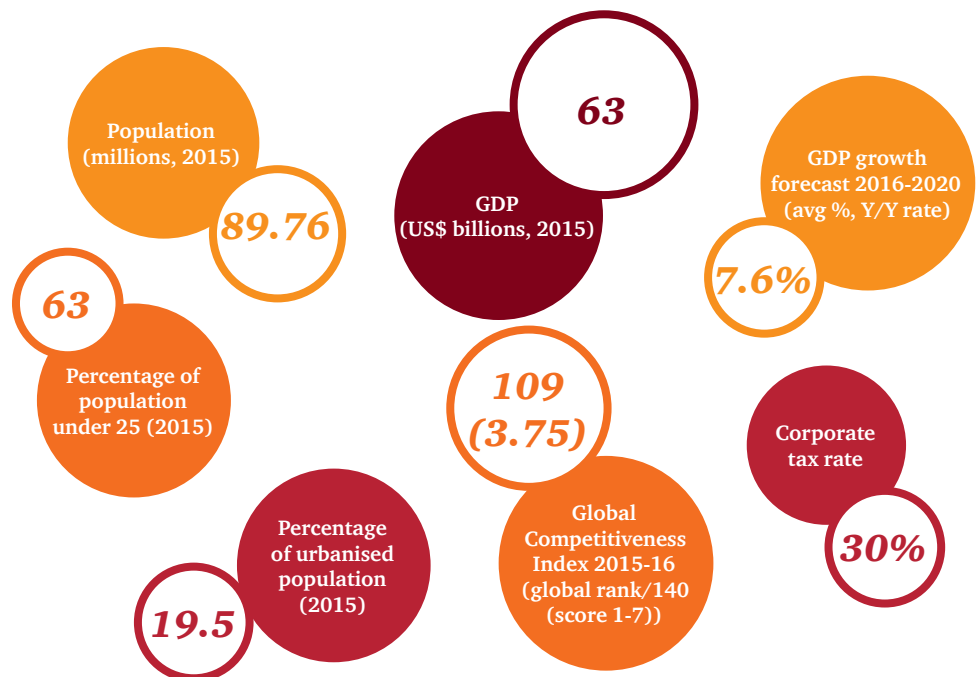
A Companies that are already operating in Côte d'Ivoire have a different perception of the risks than those that are not. Based on the international news coverage, foreigners might think Côte d'Ivoire is more risky than it really is. Knowing the local context and environment is a key factor for success.

It is not only French companies doing business in Côte d'Ivoire. We are seeing foreign investors coming in from China, India, the US as well as other African countries such as Morocco.

4. Ethiopia



Opportunities	Challenges
Manufacturing of clothing and leather goods for the export market by taking advantage of investment incentives, low wages and affordable electricity	Retail sector closed to foreign investment
Changing consumer behaviour presents opportunities for high-quality branded products	Shortage of foreign currency
Offering products and services to the growing brewery industry supply chain	Under-developed banking and telecommunications infrastructure



Sources: International Monetary Fund; World Economic Forum; World Bank, UN Population Division; PwC

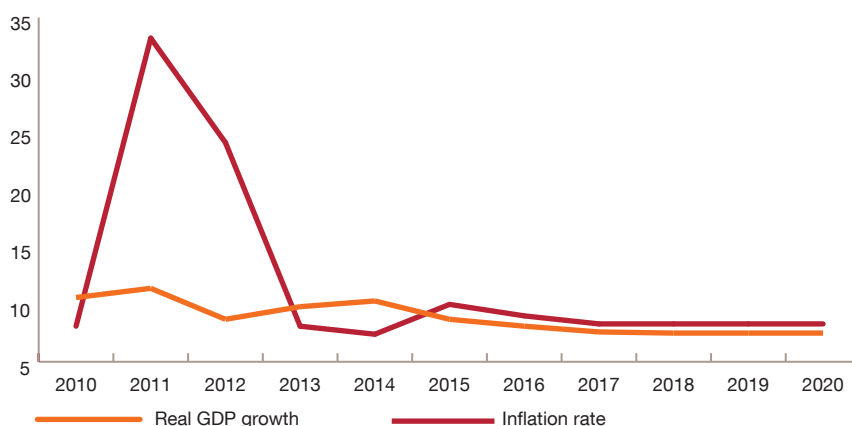
Economy and business environment

Economic outlook

Ethiopia, a country that was once mostly associated with the series of famines of the 1980s, has made significant progress to emerge as one of the world's fastest-growing economies. In the ten years from 2004 to 2013, the economy expanded by an average annual rate of 10.9%. Growth from 2016 to 2019 will remain robust, though slightly tempered, at 7.6%, supported by public infrastructure investment, agriculture and a strengthening consumer segment.³⁴

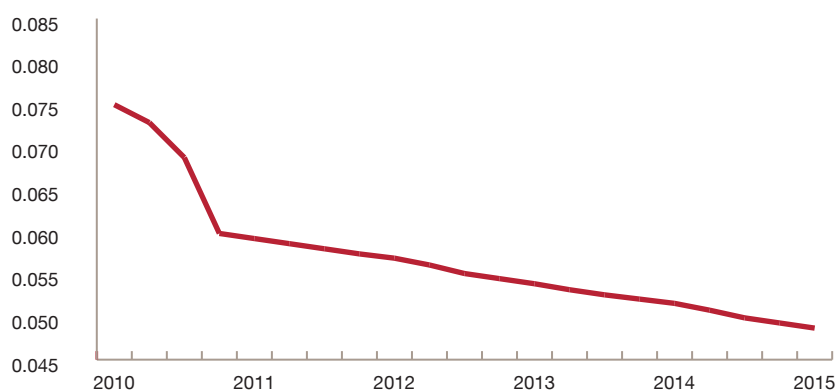
But with agriculture accounting for almost half of economic output, Ethiopia is vulnerable to global commodity price fluctuations and weather-related shocks, particularly drought.³⁵ The Ethiopian People's Revolutionary Democratic Front is not expected to lose its firm grip on Ethiopian politics anytime soon, which will ensure policy continuity. A slight tilt in favour of private-sector-led growth could, however, be on the horizon.³⁶

Figure 4.1 Real GDP growth and inflation



Source: International Monetary Fund

Figure 4.2 Historical ETB/USD exchange rate



Source: Oanda

Economic growth over the next five years will remain robust, supported by public infrastructure investment, agriculture and strengthening consumer demand.

³⁴ "Ethiopia Business Forecast Report." Business Monitor International. March 14, 2014.

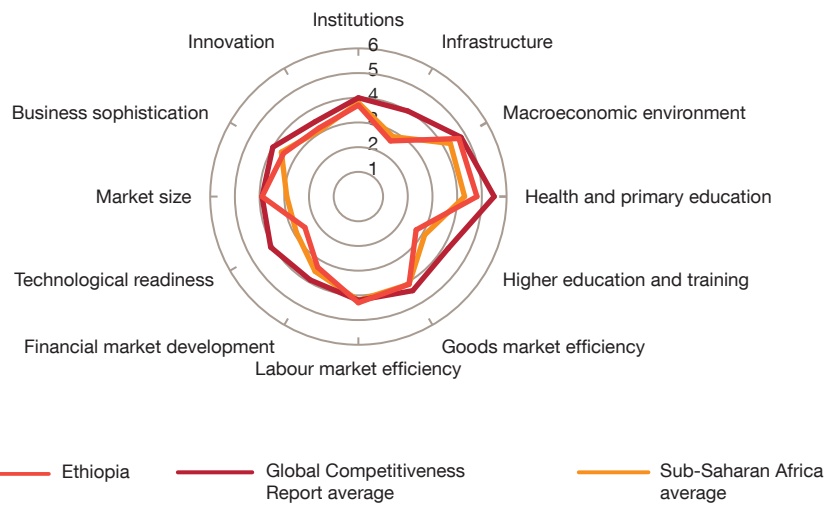
³⁵ "The Federal Democratic Republic of Ethiopia: 2014 Article IV Consultation-Staff Report." International Monetary Fund. October 2014. <http://www.imf.org/external/pubs/cat/longres.aspx?sk=42383.0>

³⁶ "Ethiopia Business Forecast Report."

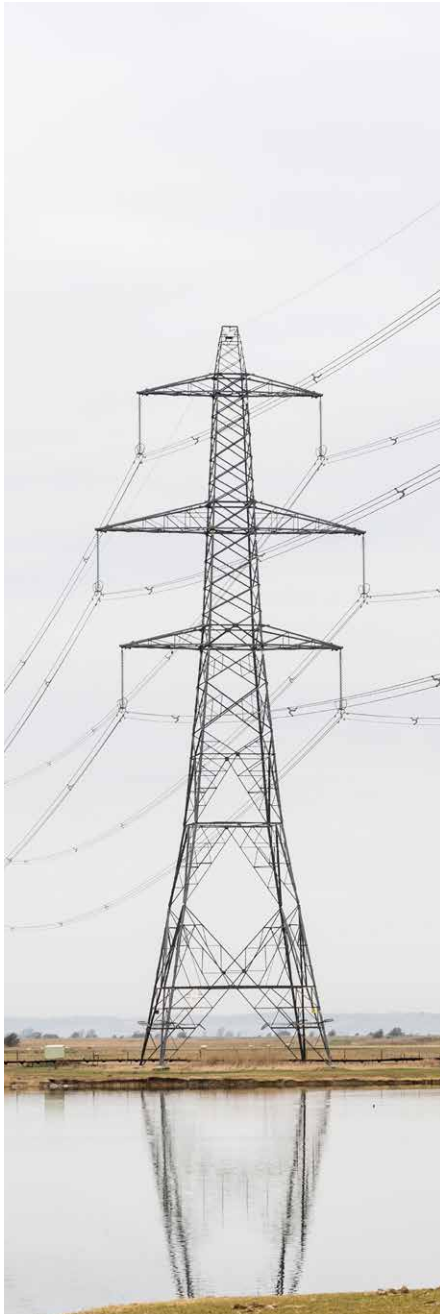
Business environment

The *Global Competitiveness Report* is published annually by the World Economic Forum. The report assesses the competitive landscape of more than 130 economies and provides insight into the drivers of their productivity and prosperity. A score between 1 and 7 is awarded to 12 pillars, where 7 is best.

Figure 4.3 Global competitiveness: Performance overview



Source: World Economic Forum, The Global Competitiveness Index 2015-2016



To improve competitiveness, the government has initiated a number of bold infrastructure projects. These include the 6 000MW Grand Renaissance Dam on the Blue Nile, which will become Africa's largest hydropower plant and make Ethiopia a major energy exporter in the region; a new railway between Addis Ababa and Djibouti; and a metro line in the capital.

Although the state-led development plan has delivered robust growth, the IMF recommends a more prominent role for the private sector. Sectors such as telecommunications, financial services, media and retail trade are off limits to foreign investors.

The effects of a lack of competition are evident in the telecommunications sector, where state-owned Ethio Telecom holds a monopoly. Less than 30% of the population has mobile phones, while internet penetration is in the low single digits.³⁷ The financial services sector is also under-developed, although recent progress in terms of electronic and mobile banking is encouraging.³⁸

Local operators highlight excessive bureaucracy, high taxes and duties, steep transport costs and a lack of skilled labour as the biggest constraints to business. Another significant challenge is the chronic shortage of foreign exchange, with much of the available foreign currency being absorbed by public enterprises.

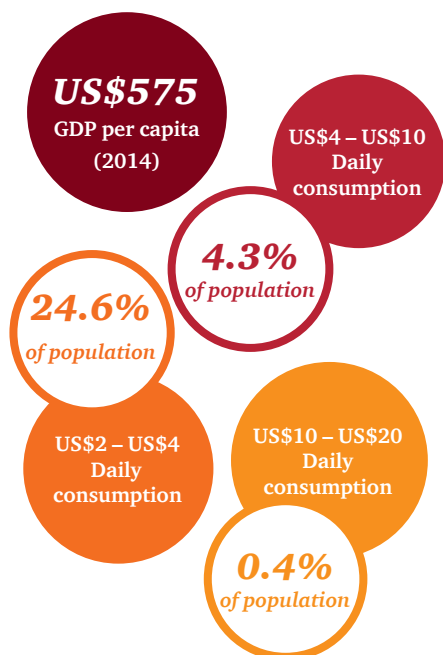
The central bank's foreign exchange reserves barely cover two months of imports – half the level of other countries in the region.³⁹ "Finding dollars can be a really big issue, which can be challenging when you need capital to buy equipment, or dollars to pay dividends. I have heard stories of companies not meeting targets because their distributor didn't have dollars in good time to pay for goods – even though they had local currency in their accounts," notes one executive.

37 "Out of reach." *The Economist*, August 24, 2013. Accessed April 27, 2015. <http://www.economist.com/news/middle-east-and-africa/21584037-government-expands-mobile-phone-network-tightens-its-grip-out-reach>

38 "The Federal Democratic Republic of Ethiopia: 2014 Article IV Consultation-Staff Report."

39 Aaron Maasho and Edmund Blair. "Foreign brewers battle for Ethiopia's beer drinkers." *Reuters*, April 1, 2015. Accessed April 27, 2015. <http://www.reuters.com/article/2015/04/01/us-ethiopia-beverages-idUSKBN0MS49820150401>

Buying power and consumer behaviour



Sources: IMF; Mthuli Ncube and Charles Leyeka Lufumpa. *The Emerging Middle Class in Africa*. (Routledge, 2014)

Growth in purchasing power has lagged countries such as Kenya and Nigeria, with many Ethiopians only just entering an income bracket that allows them to spend beyond their basic needs. To market to these consumers, companies need to adopt simple and direct messages.

“You can’t have an overly creative strategy or branding campaign because it will just pass over people’s heads. Sometimes you just literally have to tell consumers, ‘buy this product because of this reason’,” says Addis Alemayehou, Managing Partner of advertising agency 251 Communications.

Local players do, however, highlight an emerging consumer class willing to embrace new products and services. “Many farmers are now earning good money and are sending their kids to high schools and universities. These people are just coming out of poverty and their lives are changing. The Ethiopian market is developing in every sector,” says Saleh Nasreddin, Chairman of biscuit producer NAS Foods.

“People are prepared to try out new things,” notes Dagmawi Kesate, manager of Ethiopia’s first frozen yogurt outlet, which opened in 2013. “The social structure of Ethiopia is about to change. Today’s teenagers will be the middle-income workforce in ten years. Thousands of teenagers in Addis Ababa have been so westernised that they no longer even speak Amharic properly,” he adds.

Consumers are also demanding convenience foods due to busier lifestyles and a move towards apartment living. Mr Alemayehou points out that a decade ago it was frowned upon to buy pre-made injera (a spongy pancake-like flatbread central to Ethiopian cuisine) – it had to be produced from scratch. However, these days it is the norm to buy injera from retailers.

Ethiopia is a unique society in many ways. It has never been colonised (bar five years of Italian rule in the 1930s and 1940s) and therefore has been less influenced by foreign cultures. Ethiopians even have their own calendar.

Some cultural and religious traditions can have an impact on consumer goods sales. Ethiopian Orthodox Christians, for example, observe long fasts during which they are not allowed to consume animal products like meat, butter and milk. Local businesses have, however, adapted to this – biscuit company NAS Foods makes ‘fasting biscuits’, while Addis Ababa-based Italian pizzeria Cris’s Pizza offers a special pizza made without cheese.

Many Ethiopians are only just entering an income bracket that allows them to spend beyond their basic needs.



Retail

Planet Retail expects retail sales to more than double over the coming five years, from \$29bn in 2014 to over \$61bn in 2019. But tapping this growth is currently not an option for foreign retailers.

Unlike other African countries that have opened their doors to foreign vendors, Ethiopia's retail sector is closed to outside companies. Walmart's South African subsidiary, Massmart, describes Ethiopia as a "compelling growth opportunity", albeit one it cannot legally pursue.⁴⁰

Despite having a population of over three million, the capital Addis Ababa has limited formal trade. By 2013, there were only eight modern retailers operating a combined total of 15 medium-sized stores of no larger than 1 500m².⁴¹ But there is a growing demand for more organised shopping experiences in malls such as the Friendship City Center and Dembel City Center.

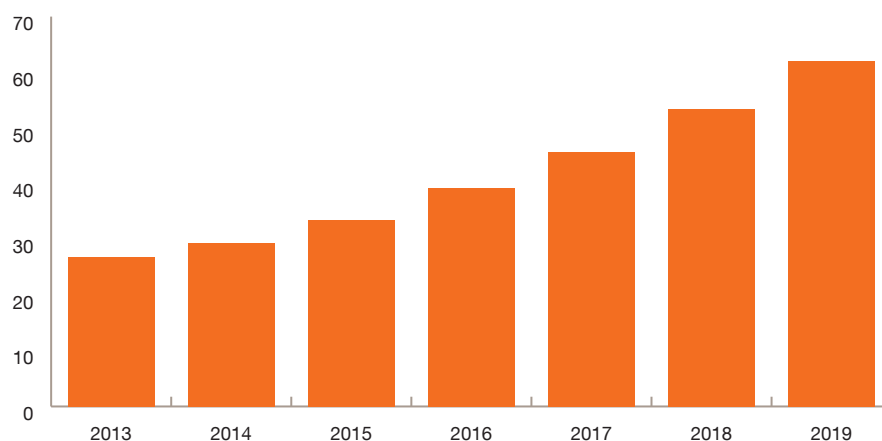
Cameroon Street, a popular commercial area in Addis Ababa, is already home to numerous restaurants, coffee shops, fashion outlets and a cinema. Local chains such as Shoa Bakery and Kaldi's Coffee have multiple outlets and are expanding to second-tier cities. Market intelligence firm Sagaci Research suggests there is an opportunity for up to 20 new modern supermarkets and ten shopping centres in Addis Ababa over the medium term.⁴²

It is the informal sector that dominates trade. At Addis Ababa's bustling Merkato open air market – said to be the largest in Africa – hundreds of traders sell everything from agricultural commodities to kitchen utensils to fuel. But even vendors here have noted a decline in sales as those with the means increasingly shop from mini-markets.⁴³

Addis Ababa also accounts for less than 5% of the total population. FMCG companies looking to target the mass market therefore have to invest in their distribution channels to reach

the thousands of outlets in cities such as Adama, Gondar and Mek'ele as well as the rural areas. "Ethiopia is urbanising like everywhere else in Africa and not everyone is coming to Addis. So all these other cities are growing and need consumer products," notes Brooks Washington, CEO of glass bottle manufacturer Juniper Glass Industries.

Figure 4.4 Total retail format sales (US\$ billions)



Source: Planet Retail

A distinctive retail environment

Ethiopia has a unique and highly regulated retail environment. By law, manufacturers are not allowed to engage in retail activities. The government seeks to have a distribution system that does not involve too many middlemen, but also one where a manufacturer cannot monopolise a category.

In 2013, the government launched a state-owned cash-and-carry wholesaler called ALLE. It was established in an effort to break up monopolies and enforce wider price controls on food and other essential items after spells of sky-high food inflation.

"The inflation was caused by practices such as hoarding, speculation and sheer selfishness among traders," says ALLE General Manager Nuredin Mohammed. "We want to show the private sector how to engage in fair trade. We sell to retailers who are obliged to meet our terms and conditions, such as sticking to certain prices."

By sourcing goods directly from producers, ALLE's prices are 5-15% more competitive than those of other wholesalers. It has also shortened the supply chain by selling directly to retailers. ALLE currently has six stores, but plans to grow to 36 outlets in 27 cities over the coming two years.

40 & 43 Richard Lough. "Ethiopia pushes retail door ajar to foreigners." Reuters, May 26, 2014 <http://www.reuters.com/article/2014/05/26/ethiopia-retail-idUSL6N0081SL20140526>

41 & 42 "Potential for 15 to 20 new modern supermarkets and 5 to 10 new shopping centres in Addis Ababa between now and 2018." Sagaci Research press release, August 30, 2013.

To the point

Blen Abebe, Vice President, Schulze Global Investments

In 2008, Schulze Global Investments (SGI), a US-owned investment firm and family office, became the first international private equity firm to open an office in Ethiopia. One of its portfolio companies is Tarara Coffee that produces premium roasted coffee for sale in Ethiopia and abroad.

Q How are changing lifestyles affecting consumer behaviour?

A Initially we thought of Tarara Coffee as a premium product that would not be bought by the average Ethiopian. But we were wrong and local demand is growing. Last year our sales were up 90%, predominantly driven by domestic demand. Although the price of Tarara is in some instances almost double that of other roasted coffee made here, people are still buying it. Five years ago people wouldn't have spent \$10 on a kilogram of coffee. Consumers' mentality is changing and they no longer only look at the price, but also the brand and the quality. Rising incomes have given people the option to be more selective.

Q How do you differentiate Tarara Coffee from other brands?

A Nowadays, people want to know the story behind products they consume. Therefore, they don't just want to buy a blend of Ethiopian, Colombian and Kenyan coffee; rather, they want to purchase coffee that is traceable. And with Tarara we provide buyers with the traceability factor. Furthermore, the story of Tarara is quite unique because the grandfather started the business in the 1940s after emigrating from Yemen. Today, the grandchildren are running the company and they are one of the coffee connoisseur families the country has.

In addition, our coffee is of high quality, but still affordably priced compared to other premium international brands. Amongst other things, Ethiopia has cheap labour and low-cost electricity. This allows us to sell our coffee at a reasonable price and compete with large producers like Italy's Illy and Lavazza.

Q What challenges do you face in terms of logistics?

A Exporting is difficult. We have international buyers that want the products delivered within a short period of time. The process is delayed with Ethiopia being a landlocked country and with coffee being highly regulated. Therefore, it can be challenging to deliver products within the required period of time due to the logistical challenges.

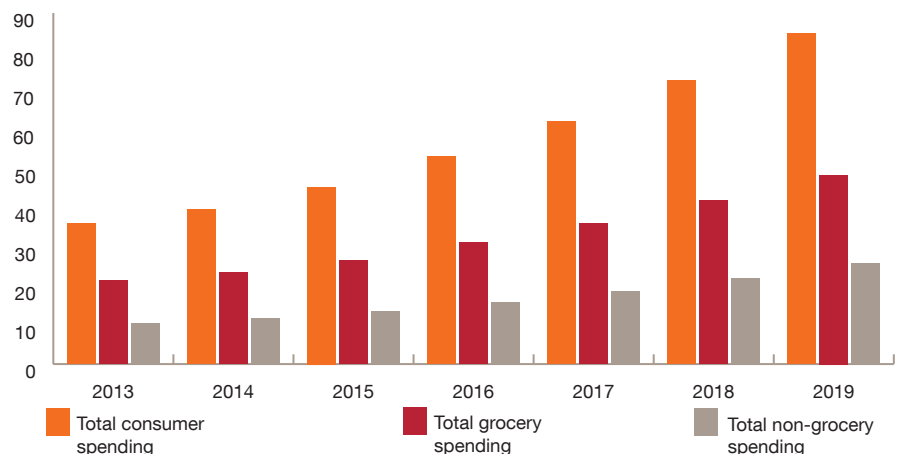
Consumer products

The Ethiopian Government is actively encouraging foreign investment in the production of consumer items through generous incentives such as customs duty exemptions on capital goods and income tax holidays.

The Ethiopian Investment Commission has earmarked garment and leather goods manufacturing as strategic sectors. With large livestock resources providing hides for the leather industry and established cotton production, raw materials for these industries are readily available.

Preferential trade agreements, such as the African Growth and Opportunity Act, also allow for duty-free access to Western markets. The country has already attracted numerous Asian manufacturers taking advantage of Ethiopia's low wages and cheap electricity. Average Ethiopian salaries in leather factories are only about \$50 per month, which is ten times lower than those in China.⁴⁴

Figure 4.5 Spending forecast (US\$ billions)



Source: Planet Retail

44 Elissa Jobson. "Treading a new path." Good Governance Africa, March 1, 2014. Accessed April 27, 2015. <http://gga.org/stories/editions/aif-20-can-africa-make-it/treading-a-new-path/view>

Fast-moving consumer goods

FMCG multinationals are strengthening their presence. According to Mr Alemayehou of 251 Communications, companies that previously handled their Ethiopian operations from abroad through distributors are now investing in local offices and staff, establishing manufacturing facilities and spending more on marketing. Last year, Unilever, which already imports Knorr stock cubes and Omo detergent, announced its intention to open a manufacturing plant.⁴⁵

The sector has also attracted growing foreign merger and acquisition activity. In 2010, South Africa's Tiger Brands formed an FMCG joint venture with the East African Group of Companies of Ethiopia. Private equity deals in recent years include Nairobi-based Catalyst Principal Partners' acquisition of a 50% stake in bottled-water company Yes Brands and an investment by UK specialist asset manager Silk Invest in biscuit-maker NAS Foods. South Africa's Agri-Vie has also taken a stake in fruit juice producer AfricaJuice.

Ethiopia's beer market doubled over the last five years, driven by a growing population, urbanisation and rising incomes. With annual per capita consumption still relatively low at 4-5 litres, the industry has significant upside potential.⁴⁶

A few years ago the government started privatising state-owned breweries, which has attracted a string of foreign investors likely to challenge the dominance of popular beer brand St George, owned by France's Castel Group.⁴⁷

In 2011, Heineken acquired the Bedele and Harar breweries for \$85m and \$78m respectively, and in January 2015 it opened a new \$120m brewery in Kilinto.

UK-based Diageo also snapped up formerly state-owned Meta Abo brewery for \$225m. Furthermore, British asset manager Duet Group invested a significant amount in Dashen Brewery Plc, while Dutch-based Bavaria acquired a stake in Habesha Breweries.

Clothing and footwear

Leather production is big business in Ethiopia, with more than 30 tanneries and hundreds of factories making shoes and leather garments and accessories.⁴⁸ In 2012, Chinese footwear manufacturer Huajian opened a factory at the Eastern Industry Zone, a dedicated industrial park outside Addis Ababa, where it manufactures shoes for international brands such as Guess, Tommy Hilfiger and Naturalizer. It is the company's intention to establish an entire shoemaking cluster in Ethiopia.⁴⁹

In 2014, Taiwanese footwear producer George Shoe Corporation started supplying the international market with 'Made in Ethiopia' leather shoes produced from its factory on the outskirts of the capital.⁵⁰

In terms of clothing manufacturing, international retailers such as Hennes & Mauritz (H&M), Tesco, Asda, Primark and Tchibo are increasingly sourcing garments from Ethiopian suppliers. However, ethical concerns regarding the use of

cotton grown on land from which locals had been forcibly evicted, have prompted retailers to pay closer attention to their Ethiopian supply chains.⁵¹

Consumer durables

Ethiopia's total car sales are estimated to be less than 10 000 units a year, with about 90% of the market consisting of used vehicles.⁵² But unlike most other sub-Saharan African countries that have little in terms of car manufacturing, Ethiopia has about half-a-dozen companies assembling both consumer and commercial vehicles.

Lifan Motors entered the market in 2007, and was the first Chinese company to assemble vehicles.⁵³ Another player is Mesfin Industrial Engineering, which assembles cars for China's Geely Automobile Holdings, and has intentions to start with full-scale production.⁵⁴

However, vehicle manufacturers struggle to compete with importers due to high taxes and duties, and consumer preference for foreign cars.⁵⁵ Ethiopia has similarly also attracted electronics manufacturers such as Chinese mobile phone maker Tecno, which opened a plant in 2013, as well as South Korean electronics maker Samsung, which launched a printer assembly factory in Addis Ababa in 2014.⁵⁶

45 William Davison. "Unilever plans manufacturing in Ethiopia to emulate Vietnam." Bloomberg, March 10, 2014. Accessed April 27, 2015. <http://www.bloomberg.com/news/articles/2014-03-09/unilever-plans-manufacturing-plant-in-ethiopia-as-growth-surges>

46 Irene Madongo. "Heineken to build Ethiopia's biggest brewery." The Financial Times, March 7, 2013. Accessed April 27, 2015. <http://blogs.ft.com/beyond-brics/2013/03/07/heineken-to-build-ethiopia-biggest-beer-factory/>

47, 48 & 55 Tom Smurthwaite. "Quality or quantity – Beer in Ethiopia." The Reporter, July 27, 2013. Accessed April 27, 2015. <http://www.thereporterethiopia.com/index.php/in-depth/indepth-business-and-economy/item/765-quality-or-quantity-%E2%80%93-beer-in-ethiopia>

49 Elissa Jobson

50 Zerihun Getachew. "Taiwanese Shoe Factory in Ethiopia Starts Marketing." AllAfrica, June 8, 2014. Accessed April 27, 2015. <http://allafrica.com/stories/201406090207.html>

51 Helena Soderpalm and Aaron Maasho. "H&M says seeks to ensure cotton does not come from disputed land." Reuters, November 11, 2014. Accessed April 27, 2015. <http://uk.reuters.com/article/2014/11/11/uk-h-m-landgrabbing-idUKKCN01V28920141111>

52 & 53 Ayenew Haileselassie. "Lifan Motors has a long road vision in Ethiopia." Addis Fortune, June 8, 2014. Accessed April 27, 2015. <http://addisfortune.net/articles/lifan-motors-has-a-long-road-vision-in-ethiopia/>

54 William Davison. "China's Geely cars may be manufactured in Ethiopia by 2017." Bloomberg, November 13, 2012. Accessed April 27, 2015. http://www.bloomberg.com/authors/AIQ69p_Gvo/william-davison

56 "Samsung's first printer assembly in Africa inaugurated." Ethiopian Opinion, June 6, 2014. Accessed April 27, 2015. <http://www.ethiopianopinion.com/samsungs-first-printer-assembly-in-africa-inaugurated>

Supply chain

Landlocked Ethiopia relies heavily on the port in neighbouring Djibouti for the import and export of goods. Transporting cargo over almost 900km between Djibouti and Addis Ababa and dealing with delays at the port present significant challenges for companies.

A new wide-gauge railway line from the capital to Djibouti, set to open in 2016, is expected to bring much-needed relief.⁵⁷ “Logistics costs account for between 45% and 60% of the final product price because of the long distance from Djibouti to Addis Ababa,” says Mr Mohammed of ALLE. “Once we start using the railway these costs will reduce.”

The growth of FMCG manufacturers in Ethiopia is creating opportunities for businesses throughout the supply chain. For example, soft drinks and alcoholic beverage manufacturers currently import millions of bottles every year because of insufficient local production.

To tap into this market, Juniper Glass Industries is establishing a glass bottle factory in the Amhara region. The company’s CEO, Mr Washington, says although large beverage companies can easily buy bottles at affordable prices from abroad, costs escalate by the time the bottles reach Addis Ababa.

“They have to ship it to Djibouti, and then truck it to Addis, and then they have to pay customs, duties, clearance and VAT. All these things are incredibly expensive. So they end up paying a lot. So as long as we meet quality standards, they are very happy to buy from us.”

The establishment of the Ethiopia Commodity Exchange (ECX) in 2008 has simplified the sourcing of agricultural commodities. In addition to merely being a trading platform, the ECX built an entire ecosystem of services that includes the warehousing and quality grading of commodities.

“It is not that difficult to buy coffee because we use the ECX – an organised marketplace where buyers and sellers come together to trade. So we select what we want, and it comes to our warehouse – all for a small brokerage fee,” notes Ms Abebe, of Schulze Global Investments.

To the point

Nuredin Mohammed, General Manager, ALLE

ALLE, established in 2013, is a state-backed modern FMCG wholesaler.

Q Are you seeing evidence of a growing middle class?

A Yes. The purchasing of fast food and packaged food is increasing. Previously, people made their own injera at home, but now they want Indomie (an instant noodle brand), which you can prepare in five minutes. We are also seeing more people buy cars and electronics. They live in condominiums, not huts. In the last decade nearly 150 000 condominiums have been built that people are buying through mortgages.

Q Do consumers prefer local or foreign brands?

A They turn to foreign products. They don’t expect local products to be good quality. However, this is changing, especially in terms of locally made clothes and shoes. This is because Ethiopian products are being sold in the US and Europe. So people think, “If the French can buy our shoes, they must be of good quality”.

Q How easy is it for a new brand to break into this market?

A It is very difficult. You have to do a lot of promotion, create awareness, give out samples and offer low prices. But once consumers start using a product and it meets their needs, they will stick with that brand. Here Pampers are diapers and diapers are Pampers. That is how loyal consumers can be to a brand.

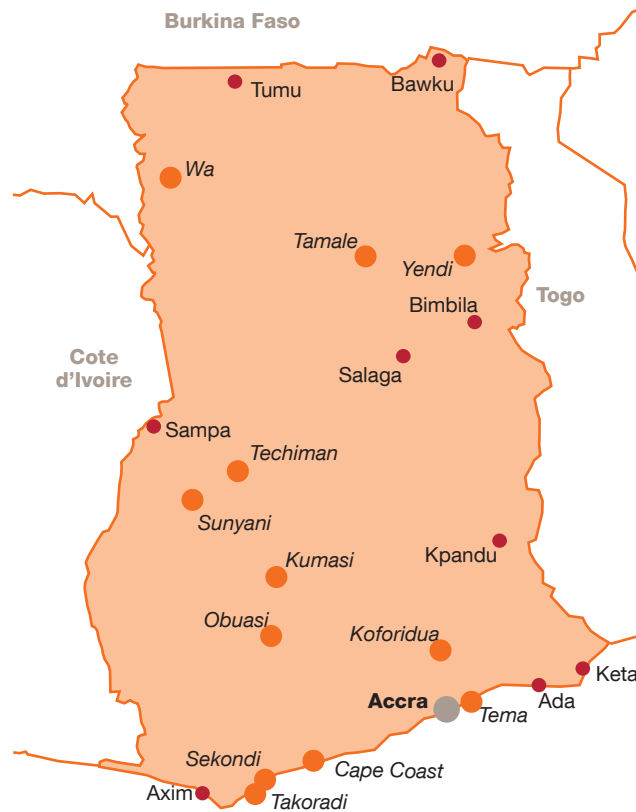
Q Which product categories offer untapped opportunities for investors?

A Edible oils. We are importing up to 30 000 tonnes of palm oil every month, so if you invest in palm oil production you will have a good business. And although we grow rice here, there is substantial demand for Indian basmati rice – we import about eight to 16 containers a month. Furthermore, Ethiopia is a large wheat producer, but local supply still doesn’t satisfy demand, presenting a clear opportunity.

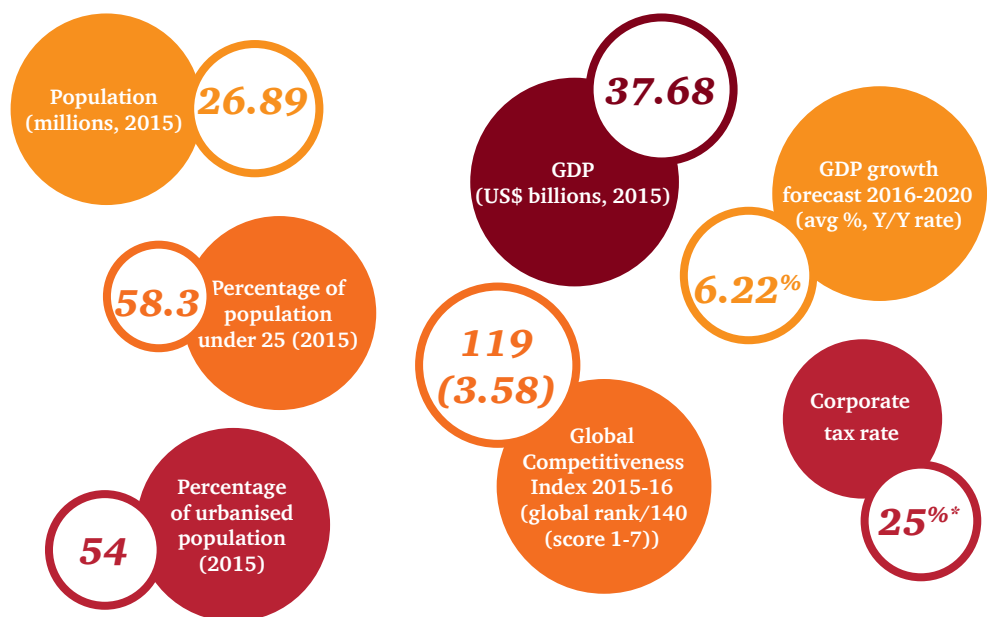
The growth of FMCG manufacturers in Ethiopia is creating opportunities for businesses throughout the supply chain.

⁵⁷ Aaron Maasho. “Ethiopia says new railway to Djibouti to start in early 2016.” Reuters, January 28, 2015. Accessed April 27, 2015. <http://www.reuters.com/article/2015/01/28/ethiopia-railway-idUSL6NOV74Z920150128>

5. Ghana



Opportunities	Challenges
Potential for retailers to cater for consumers in bustling secondary cities such as Kumasi and Takoradi	Tough operating environment that includes high inflation, high interest rates, reduced income caused by the steep decline in global commodity prices, a weak local currency and power shortages
Import replacement to supply both local and regional markets	Cheap counterfeit products creating an uneven playing field for domestic manufacturers
Driving retail sales through loyalty cards and consumer credit	Local suppliers struggling to meet regulatory and packaging requirements



* Companies listed on the GSE on or after 1 January 2004 are charged at a rate of 22% for the first three years. Lower tax rates apply for manufacturing located outside Accra/Tema. Companies operating in the banking, petroleum, mining and hotel industries are also taxed at different rates.

Sources: International Monetary Fund; World Economic Forum; World Bank, UN Population Division; PwC

Economy and business environment overview

Economic outlook

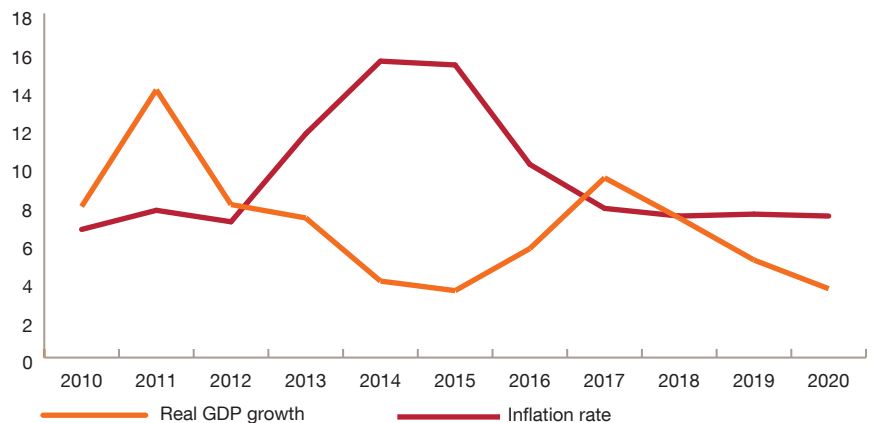
Since Ghana started with offshore oil production in 2010, it has been one of sub-Saharan Africa's fastest-growing economies, with GDP increases of 14.0%, 8.0% and 7.3% in 2011, 2012, and 2013, respectively.

Lately, however, the economy has lost its shine due to a widening budget deficit, high inflation, a plummeting local currency and an energy crisis. Depressed gold, cocoa and oil prices are also not doing Ghana any favours. Growth in 2014 was 4%, with 3.5% expected for 2015 and a slightly more positive 5.7% forecast for 2016.

To help the country address its challenges, the International Monetary Fund approved a \$918m three-year credit facility to Ghana in April 2015. The aim is to restore debt and macroeconomic stability, and to foster a return to high growth and job creation, while protecting social spending.⁵⁸

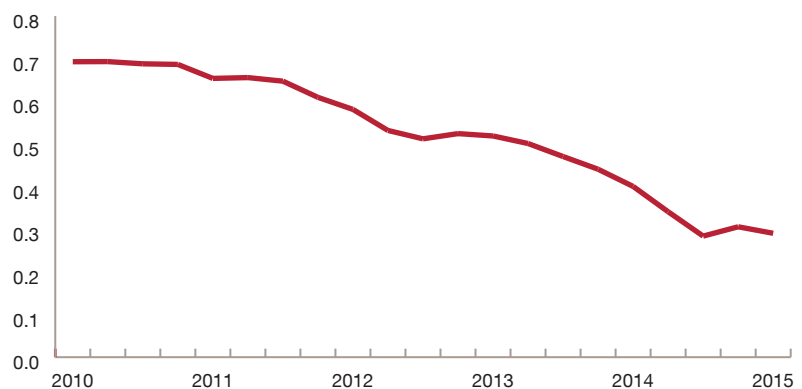
Overall, Ghana's medium-term economic outlook remains cautiously positive due to expected improved oil and gas production, greater private sector investment, public infrastructure development and sustained political stability.⁵⁹

Figure 5.1 Real GDP growth and inflation (%)



Source: International Monetary Fund

Figure 5.2 Historical GHS/USD exchange rate



Source: Oanda



58 "IMF approves US\$918 million ECF arrangement to help Ghana boost growth, jobs and stability." International Monetary Fund press release, April 3, 2015. Accessed April 8, 2015. <http://www.imf.org/external/np/sec/pr/2015/pr15159.htm>.

59 Eline Okudzeto, Wilberforce Aminiel Mariki, Gregory De Paepe and Kordzo Sedegah. "African Economic Outlook: Ghana 2014." African Development Bank, Organisation for Economic Co-operation and Development, United Nations Development Programme (2014). http://www.africaneconomicoutlook.org/fileadmin/uploads/aeo/2014/PDF/CN_Long_EN/Ghana_ENG.pdf.

Business environment

As one of sub-Saharan Africa's most peaceful and stable countries, Ghana has traditionally been considered an attractive business environment. But in recent times businesses have been hit by various challenges, including power cuts, a weak currency, and high lending rates. The multiplicity of taxes has also been highlighted as a key challenge to business.⁶⁰

The recent power shortage, and subsequent load shedding, was blamed on low water levels at the Akosombo Dam, site of the largest hydropower station; a shortage of gas to the country's thermal energy stations; and maintenance issues at some plants.⁶¹

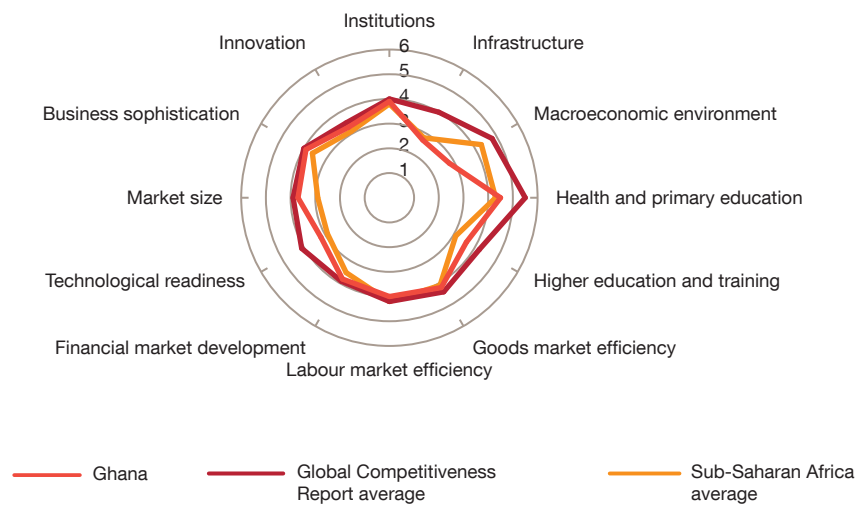
The government has, however, committed to adding an additional 3 665MW of generation capacity over the coming five years.⁶² To provide temporary relief, two floating power barges, delivering a total of 450MW, were ordered from Turkey. The first arrived in November 2015.⁶³

Business financing is negatively impacted by steep interest rates; in many cases rates on bank loans are close to 30%.⁶⁴ High government borrowing from the domestic sector has been a major cause of soaring interest rates.⁶⁵

The capital, Accra, is the most populous city, with the Greater Accra region being home to more than 4m people. The second-largest city is Kumasi, an important industrial and trading centre.

A city that has attracted significant attention in recent years is Takoradi, situated in the western part of the country. Takoradi is the closest port to Ghana's offshore oil fields, and since the discovery of oil has seen an influx of people and greater commercial activity.

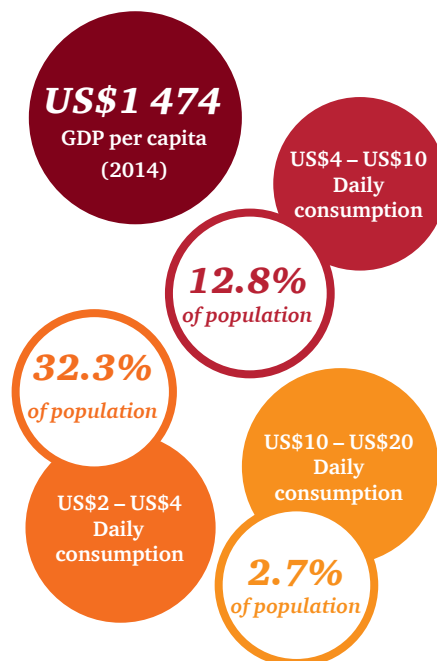
Figure 5.3 Global competitiveness: Performance overview



Source: World Economic Forum, The Global Competitiveness Index 2015-2016

The *Global Competitiveness Report* is published annually by the World Economic Forum. The report assesses the competitive landscape of more than 130 economies and provides insight into the drivers of their productivity and prosperity. A score between 1 and 7 is awarded to 12 pillars, where 7 is best.

Buying power and consumer behaviour



Ghanaian consumers are feeling the brunt of high inflation and the power crisis. The incomes of small business owners are being negatively impacted by the fact that they need to run their businesses on generators, or go without power for long periods of time.

While there is general consensus about the emergence of a rising middle class over the past years, the segment might not be growing as fast as some seem to think. "There is definitely growth, but I think there is a lot more hype than reality," says one executive.

Sources: IMF; Mthuli Ncube and Charles Leyeka Lufumpa. *The Emerging Middle Class in Africa*. (Routledge, 2014)

60 Eline Okudzeto, Wilberforce Aminiel Mariki, Radhika Lal and Sylvia Sefakor Senu. "African Economic Outlook: Ghana 2015." African Development Bank, Organisation for Economic Co-operation and Development, United Nations Development Programme (2014). http://www.africaneconomicoutlook.org/fileadmin/uploads/aeo/2015/CN_data/CN_Long_EN/Ghana_GB_2015.pdf.

61 Ekow Dontoh. "Ghana power rationing to continue into 2015: Official." Bloomberg, May 13, 2014. Accessed March 8, 2015. <http://www.bloomberg.com/news/articles/2014-05-13/ghana-power-rationing-to-continue-into-2015-official>.

62 "Ghana tackles power crisis." Oxford Business Group, March 26, 2015. Accessed April 8, 2015. <http://www.oxfordbusinessgroup.com/news/ghana-tackles-power-crisis>.

63 "Power barges deadline could be missed." GhanaWeb, April 1, 2015. Accessed April 8, 2015. <http://www.ghanaweb.com/GhanaHomePage/business/artikel.php?ID=352683>.

64 "Windfall for shareholders... as banks make record profits of GH¢1.4bn". GhanaWeb, April 3, 2015. Accessed April 8, 2015. <http://www.ghanaweb.com/GhanaHomePage/business/artikel.php?ID=353013>.

65 "African Economic Outlook."

Retail chain Melcom does, however, highlight greater demand for branded and better-packaged products. “Previously it was all about price, but now we see some loyalty to brands. Consumers are getting more attracted to products that are well packaged, well documented and where the packaging explains the product properly. They are now starting to look a bit more into the details and specifications, as opposed to merely picking the cheapest one,” notes Ramesh Sadhwani, joint Group Managing Director of Melcom.

Both Diageo and SABMiller, through their Ghanaian subsidiaries, have launched low-cost beer brands made predominantly from cassava, a locally grown woody shrub with an edible root. These brands are aimed at lower-income consumers, many of whom traditionally drank home brews.

By involving local farmers and creating a new source of tax revenue (home brews are not taxed), both brewers have negotiated reduced excise rates with the government, meaning they can price these brands at a discount to mainstream lagers.

SABMiller’s experiences indicate that companies can win over customers by tapping into national pride. Over the past five years its Accra Brewery has extended its share of the beer market from 28% to 48%, largely due to growth of the Club Premium Lager brand. Through marketing that emphasises its Ghanaian heritage, SABMiller has significantly increased the perceived ‘localness’ of the brand.⁶⁶

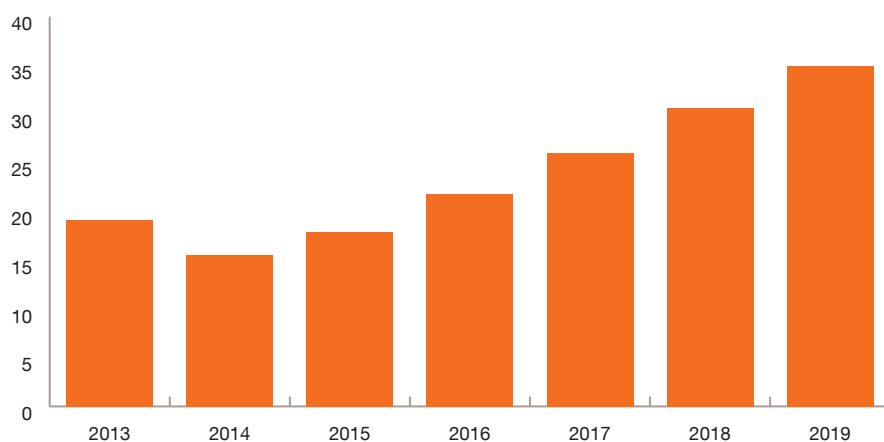
Retail

Ghana’s formal retail sector comprises both domestic and international players. Local chain Melcom was established in 1989 and is the largest retailer with 32 outlets across the country. It sells a range of goods, including electronics, houseware and food.

There are a few smaller retail chains such as Palace and Max Mart. One of the most prominent foreign supermarket groups is Shoprite Holdings from South Africa, which has six outlets. Other South African retail brands that have taken up space in Accra shopping malls include Game, Edgars, Woolworths, Truworths, Mr Price and Jet.

Lebanese-based Azadea Group operates the Mango, Payless ShoeSource and Sunglass Hut franchises. Vlisco Ghana, a producer of wax print fabrics and finished garments, also has a retail presence in Accra and the rest of the country through its Vlisco and Woodin brands.

Figure 5.4 Total retail format sales (US\$ billions)



Source: Planet Retail

While informal trade still accounts for about 90% of the market, modern retail is slowly but surely taking off, mostly in the capital Accra.

The 20 000m² Accra Mall, completed in 2007, was the first A-grade shopping centre and is anchored by Shoprite and Game.

The 27 000m² West Hills Mall opened in November 2014 and is anchored by Shoprite, Palace and clothing chain Edgars.

Other smaller centres include the Marina Mall, The Junction and Oxford Street Mall. New retail facilities are also being developed in Kumasi.

66 SABMiller. “Quarterly divisional seminar series Africa - March 2015.” March 9, 2015. <http://www.sabmiller.com/investors/divisional-seminars/quarterly-seminar-series-africa>

Market for modern retail space becoming saturated

Despite the proliferation of shopping centres in Accra, some suggest the city is becoming saturated in terms of modern retail space. “Today there are three A-grade shopping centres and by the end of the year we’ll have a fourth one. There could potentially be demand for a fifth, but that would be it for Accra for quite a long time,” notes Kevin Teeroovengadam, CEO of AttAfrica, owner of the Accra Mall and West Hills Mall. However, he says opportunities for smaller neighbourhood centres remain.

While Melcom’s Mr Sadhwani recognises a continued shift towards formal trade, he believes space in malls is coming online faster than required. He says many local retailers still find the rental costs too high.

Modern shopping centres in Ghana have developed over a relatively short period of time, and many domestic retailers don’t have the capital to have a presence in all the malls, meaning they are selective about the developments they commit to.

To the point

Ramesh Sadhwani, Joint Group Managing Director, Melcom Group of Companies

Melcom is Ghana’s largest retail chain, with 32 outlets.

Q A growing number of foreign retailers are entering the Ghanaian market. Is this a threat to your business?

A Obviously it is a threat to an extent because we are the largest retailer, and the easier target for new players to get market share from. On the other hand, it is also an opportunity for us because we already import sizeable volumes of goods that we can sell to these new retailers on a wholesale basis. With only one or two outlets, their volumes are not significant enough to justify bringing in products directly.

In recent times a number of foreign retailers have come in, but struggled and gone back. Ghana’s retail environment is not as straightforward as South Africa, Europe or the US. Companies need to tweak their offerings to how things are done in the local market, which I think is a challenge for newcomers.

Q Melcom recently launched a discount and loyalty card, and is now also allowing customers to purchase certain items on credit. Are initiatives such as these part of a larger trend in the market?

A We launched our loyalty card a few months ago. We are already seeing that the average spend of a loyalty card member is higher than that of a non-loyalty card shopper. Currently we offer a 5% discount on purchases above GHS50 (\$13). However, we are looking at developing a fully-fledged loyalty programme similar to what the airlines and hotels do where customers build up points. Other than us, I know of a few smaller retailers who also have some type of loyalty or discount card.

In terms of consumer credit, we don’t directly extend credit to consumers. We merely facilitate a system whereby the consumer comes to one of our stores, chooses a product, gets a pro forma invoice and takes it to the bank. The bank then approves the transaction and extends the credit. The bank deals directly with the customer and we see the bank as a wholesale customer. Some of the banks here have started offering consumer credit, but many are still fine-tuning their systems in order to improve recovery rates.

Q Tell us about your growth strategy for the coming years.

A We will continue doing what we’re doing. It is important that we keep our costs and inventories under control. We will also look at opportunities in areas where we have not yet established branches, as well as in categories where we are currently not doing much.



Consumer products

Ghana's economic headwinds and energy problems are having a negative impact on consumer goods companies. "Generally, the manufacturing sector has been under severe constraint. Challenges include the availability of capital, high interest rates and power supply. Manufacturers also complain about the depreciation of the currency, which makes the cost of their raw materials more expensive," notes Michael Asiedu-Antwi, a partner at PwC Ghana.

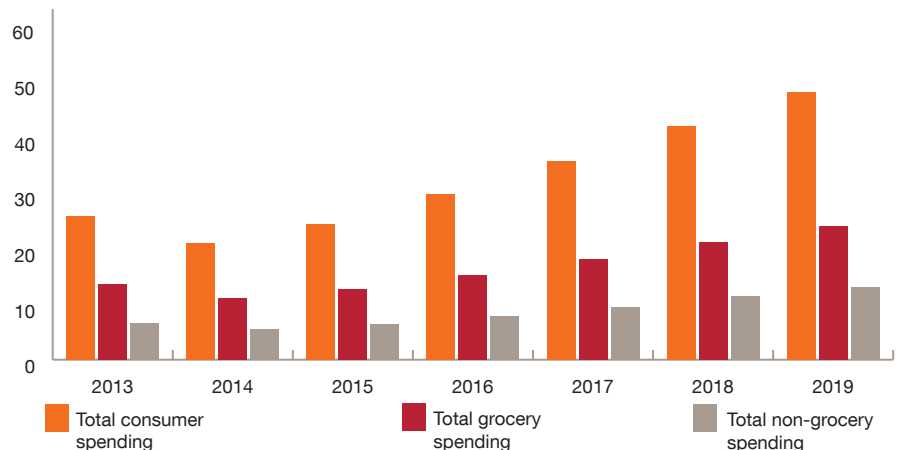
Due to the energy crisis, local manufacturers have to rely on diesel generators, which are expensive to run. Power rationing used to be limited to residential consumers, but at the end of 2014 was extended to industry.⁶⁷

Companies such as Coca-Cola reportedly had to lay off workers to contain costs.⁶⁸ Food preservation has also become more challenging.

The dire energy situation has, however, also provided an opportunity to sell power-efficient products. Samsung dominates a recent list, released by the Ghana Energy Commission, of energy-efficient refrigerators and freezers available in the Ghanaian market.⁶⁹

As part of its 'Built for Africa' initiative, Samsung has undertaken extensive research to develop products for areas with limited power. For instance, its Duracool refrigerators are fitted with a 'cool pack' which allows the appliance to stay cold for hours without electricity.

Figure 5.5 Spending forecast (US\$ billions)



Source: Planet Retail

Fast-moving consumer goods

Ghana has a number of multinational FMCG manufacturers, including Unilever, Nestlé and PZ Cussons. Another prominent company is Fan Milk, a producer of affordable frozen dairy and juice products. It started in Ghana in 1960 and has since expanded to other West African countries. In 2013, Fan Milk was jointly acquired by private equity firm The Abraaj Group and international food company Danone.

Guinness Ghana Breweries (Diageo) and Accra Brewery (SABMiller) are the dominant players in the alcoholic beverages market. Both have recently invested in bolstering their operations. Guinness Ghana Breweries committed £28.6m (\$41m) to a new brewing and packaging line at its plant in Kumasi, while Accra Brewery is in the process of a \$100m expansion involving the installation of new packaging lines, ten beer storage vessels, warehouse and storage facilities, an effluent treatment plant, new brewing equipment and the upgrading of the municipal water supply.^{70 71}

Despite the tough economic environment, companies see opportunities for import replacement, to supply both domestic consumers and rising demand in regional markets such as Togo, Burkina Faso, Nigeria and Côte d'Ivoire.

In 2014, UK-based private equity firm Duet Group invested in GNFoods, a fast-growing food-manufacturing company. At the time Duet said "Ghana is particularly well positioned to become a food manufacturing hub for the region, as West Africans increasingly prefer home-grown affordable brands to expensive imports".⁷²

South African alcoholic beverages company Distell has also established a new plant in Ghana from where it will bottle drinks that were previously imported. "An import model paying excise and transport costs can never be as effective or efficient from a pricing standpoint than a locally owned production and route-to-market business," notes Richard Rushton, managing director of Distell.⁷³

67 "Load shedding extends to Ghana's industrial zones next week." Myjoyonline, November 18, 2014. Accessed April 8, 2015. <http://www.myjoyonline.com/business/2014/November-28th/load-shedding-extends-to-ghanas-industrial-zones-next-week.php>.

68 "Dumsor: Coca Cola, Cadbury, others to sack workers." Starr FM, February 17, 2015. Accessed April 8, 2015. <http://www.starrfmonline.com/1.1998862>.

69 "Ghana Energy Commission lists Samsung fridges, freezers as energy-efficient." Ghana Business News, April 3, 2015. Accessed April 8, 2015. <https://www.ghanabusinessnews.com/2015/04/03/ghana-energy-commission-lists-samsung-fridges-freezers-as-energy-efficient/>.

70 Guinness Ghana Breweries. Company overview, August 2014. Access April 8, 2015. http://issuu.com/dfworld/docs/guinness_ghana_breweries_-_july_2014.

71 SABMiller. "Investing in African growth." March 3, 2015. Accessed April 8, 2015. <http://www.sabmiller.com/home/stories/investing-in-african-growth>.

72 "Duet Group and its partners invest US\$50 million into two high-growth consumer companies in Ghana." Duet Private Equity Limited press release, June 6, 2014. Accessed April 8, 2015. https://www.duetgroupnet2.blob.core.windows.net/articles/1418723564-dcwa_press_release_march_2014_.pdf.

73 Jaco Maritz. "Liquor giant replacing imports with local manufacturing in key African markets." How we made it in Africa, August 29, 2014. Accessed June 20, 2015. <http://www.howwemadeitinafrica.com/liquor-giant-replacing-imports-with-local-manufacturing-in-key-african-markets/42946/>

Fashion and apparel

The Ghanaian government is promoting the development of the local clothing and textile industry.⁷⁴ An initiative that encourages people to wear clothing made in Ghana to work on Fridays is seen as a positive for the sector.

In 2014, President John Dramani Mahama showed his support for a young footwear company, Horseman Shoes, by wearing its shoes to the State of the Nation address.

One of the foremost players in Ghana's textiles industry is Dutch-based Vlisco, a producer of traditional African wax print fabrics and finished garments. Through its Ghanaian manufacturing arm Tex Styles and marketing and distribution unit Premium African Textiles, the company manufactures the GTP and Woodin brands.

Counterfeiting is a significant challenge for producers such as Vlisco. "Our fabric designs are copied, reproduced cheaply abroad and then smuggled back into the country. Some are even so bold as to copy our logo, and to claim that their products are made in Ghana. These smugglers don't pay taxes or VAT. We, on the other hand, do business legitimately by paying taxes, which means our costs are much higher," explains Mr Kofi Boateng, Managing Director of Vlisco Ghana.

Consumer durables

Competitively manufacturing consumer durables such as electronics and appliances in Ghana is challenging due to the general high cost of doing business and the lack of supporting industries.

Melcom Group, distributor and stockist of brands such as Sharp, Sony, Panasonic and Hitachi, used to assemble air conditioners and DVD players from their semi-knocked-down (SKD) state, but has closed down this operation due to steep overheads. The facility has now been transformed into an after-sales service centre to support the warranties of the brands it distributes.

"If you look at the overall picture, it is just as cheap or cheaper to import. Once rentals, electricity and manpower costs are factored in, costs are the same as importing a product fully built-up. It is very difficult to be competitive when you try and compete with industries in Asia who are doing huge volumes of scale business," notes Mr Sadhwani.

The majority of vehicles sold in Ghana are imported, and in recent years the industry has suffered from the weak local currency.⁷⁵ Industry players don't expect a major uptick soon. New-vehicle dealerships are also being challenged by parallel imports from the Middle East and the US.

Supply chain

Newcomers to the Ghanaian market can expect to encounter a number of supply chain challenges. "Supply chain is difficult and expensive," notes Mr Sadhwani of Melcom. "Because we have scale, we have our own import, forwarding and clearing division. We are custom-licensed to do our own clearing at the port, and we have our own warehousing and logistics. Ordinarily it would be very challenging because you would have to deal with different companies and the expense of each one is very high."

Although Melcom wants to procure more products locally, Sadhwani notes, his company has found it difficult to find manufacturers that can meet the company's specifications at competitive prices.

Local sauces, condiments and spreads producer, Nurevas Food Ghana Limited, has created a competitive advantage by being able to produce a wide range of products to international quality standards on relatively short lead times through its flexible processing, reducing the need for its clients to stockpile imported goods for months and allowing the company to achieve very competitive pricing.

"Generally, retailers and traders are forced to stockpile product for at least three months. That ties up a lot of their working capital, which is a significant financial risk. We can supply products on demand, which enables clients to turn over their working capital much more frequently," notes Nicholas Draeger, Executive Director of Nurevas.

The company also notes that being able to package its products in a broad range of packaging types provides the choice that is increasingly desired by Ghanaian consumers.

Improving market penetration

Considering Ghana's fragmented retail landscape, companies are seeking ways to increase their reach. Fan Milk has been particularly successful in distributing to the mass market by making use of bicycle vendors to sell its frozen dairy and juice products directly to consumers.

It has also added pushcarts and is currently experimenting with new vending equipment, including motorcycles and solar-powered kiosks.

To deepen its market penetration, alcoholic beverages company Diageo conducted a census of all relevant outlets for its products. Through this exercise it discovered its distribution partners only called on around 25% of the relevant outlet universe, revealing a significant opportunity to grow its coverage. It is now calling on substantially more wholesalers and has established new micro distributors that cover smaller outlets.⁷⁶

International express and logistics company DHL Express has boosted its retail footprint by partnering with hundreds of local businesses, including petrol stations, travel agents, pharmacies, supermarkets, laundries and photo studios, to sell DHL's express services alongside their normal offerings. These businesses benefit from commission on DHL sales, as well as an increase in foot traffic to their outlets.

74 "Government of Ghana plans to invest in textile industry." Fibre2Fashion, September 11, 2014. Accessed March 8, 2015. http://www.fibre2fashion.com/news/textiles-policy-news/newsdetails.aspx?news_id=167560.

75 Leslie Dwight Mensah and Benson Afful. "Weak cedi dampens car sales." Business & Financial Times, April 30, 2014. Accessed April 8, 2015. <http://thebftonline.com/content/weak-cedi-dampens-car-sales>.

76 Diageo Investor Webcast: Route to Consumer." Diageo plc presentation, November 2014. <http://www.diageo.com/Lists/Resources/Attachments/2392/RTC%20Investors%20Webcast%20presentation%20FINAL%20script.pdf>.

To the point

Kevin Teeroovengadam, Chief Executive Officer, AttAfrica

AttAfrica is a Mauritius-based property company focused on investing in, developing and acquiring A-grade shopping centres in sub-Saharan African markets. In Ghana its yielding properties include the Accra Mall and West Hills Mall and Achimota Retail Centre. It is also developing the Kumasi City Mall.

Q AttAfrica is investing in the development of the 20 000m² Kumasi City Mall. What prompted the decision to build a shopping centre in Kumasi?

A I think in a year's time the Accra market will be pretty much served from a modern retail point of view. There are about 2.5 million people living in Kumasi, with nothing in terms of A-grade shopping malls. There are many traders coming down to Kumasi from the northern landlocked countries to do their business, so it is a vibrant city. We want to leverage on our first-mover advantage.

Q Ghana's economy is currently facing considerable challenges. What is your outlook for the business environment?

A The country has been going through a tough time. The macroeconomic picture is not great compared with two years ago. Government expenditure far exceeds domestic revenue generation. And the fact that the oil price has come down significantly is also impacting Ghana's potential oil revenue.

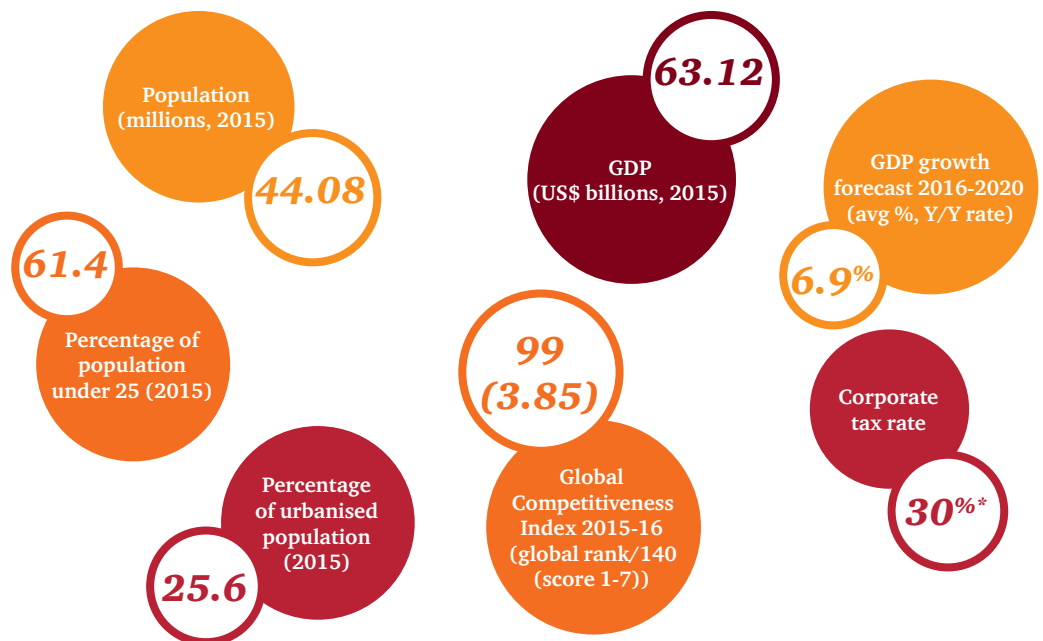
Government debt-to-GDP is almost hitting the 70% mark, which is very high for a country like Ghana. The agreement between the IMF and the government will probably take another few years to turn the country around, as the country requires significant fiscal discipline.

Having said that, our malls are in very defensive locations. We remain optimistic and we just need to ride out the cycle. After all, we are long-term investors and are committed to Ghana.

6. Kenya



Opportunities	Challenges
Supplying the growing hospitality and restaurant industries with food products	Transport and power infrastructure deficits
Consumer credit remains unexploited	Anti-competitive behaviour – through counterfeit products, uneven tax compliance enforcement and cartels – creates an unequal playing field
Catering for the bottom of the pyramid by offering products in small pack sizes	General security concerns, including persistent terrorist activities



* Non-resident corporations are taxed at 37.5%, whereas newly listed companies enjoy a reduced rate for three to five years. Companies operating in the Export Processing Zone are exempt from taxation in the first ten years and then pay 25% annually for the next decade.

Sources: International Monetary Fund; World Economic Forum; World Bank, UN Population Division; PwC

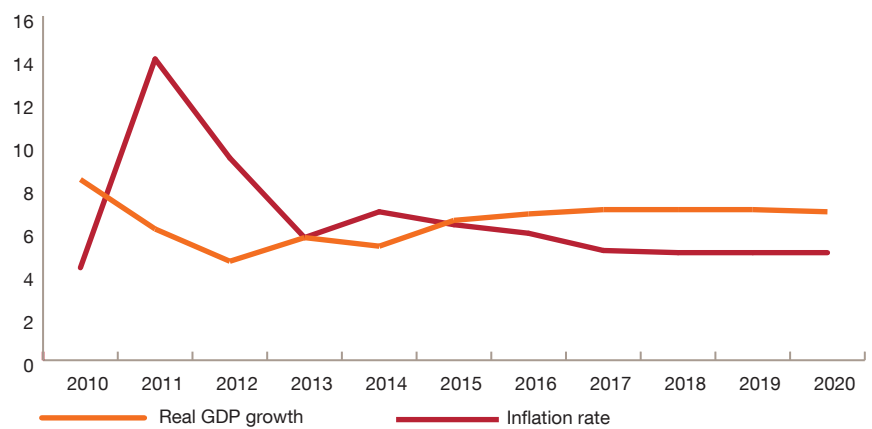
Economy and business environment overview

Economic outlook

Kenya's economic growth is expected to remain robust for the rest of this decade, growing at a 6.8-7% annual rate from 2016 to 2020. Because of the diversified nature of the economy, Business Monitor International says economic expansion will be broad-based and sustainable. As East Africa's regional economic hub, Kenyan companies are expected to benefit from growth in neighbouring countries such as Uganda and Tanzania.⁷⁷

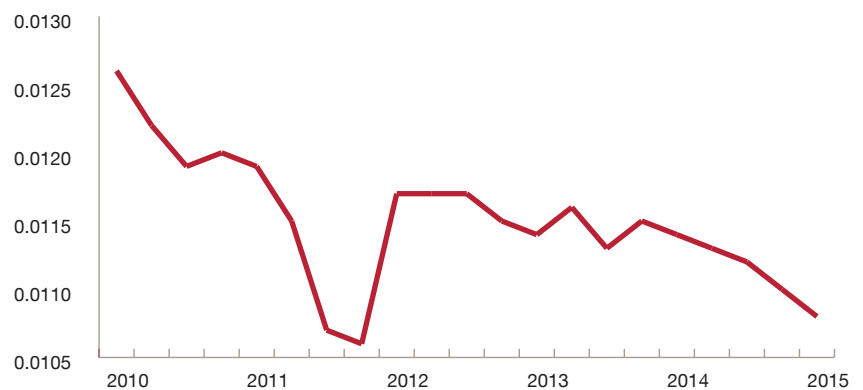
A string of terrorist attacks have negatively impacted Kenya's economy in recent years, notably the tourism industry. It has also instilled fear and crippled many businesses. While the Somali militant group Al-Shabaab has claimed responsibility for some of the attacks, local criminal gangs and politically motivated individuals are also said to be responsible.

Figure 6.1 Real GDP growth and inflation



Source: International Monetary Fund

Figure 6.2 Historical KES/USD exchange rate



Source: Oanda



⁷⁷ Kenya country risk report: Q2 2015'. Business Monitor International. 2015.

Business environment

Figure 6.3 Global competitiveness: Performance overview

The *Global Competitiveness Report* is published annually by the World Economic Forum. The report assesses the competitive landscape of more than 130 economies and provides insight into the drivers of their productivity and prosperity. A score between 1 and 7 is awarded to 12 pillars, where 7 is best.



Source: The Global Competitiveness Index 2015-2016

Kenya's new system of devolved government has created opportunities for businesses to expand countrywide, especially to county headquarters where once silent towns are becoming thriving economies.

Kenya is East Africa's most advanced economy, and has attracted significant foreign investment in recent years. Operating challenges include a transport infrastructure deficit, electricity generation troubles, high levels of red tape and trade bureaucracy, as well as corruption concerns.⁷⁸

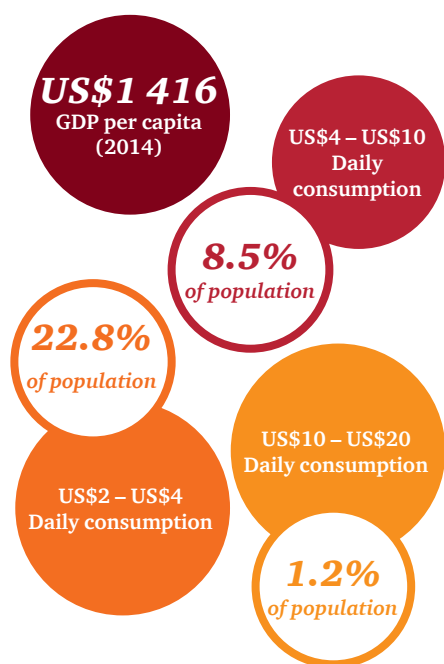
The government is addressing these issues and in the coming years will implement large-scale infrastructure projects, including the construction of a new railway between Nairobi and the port city of Mombasa; geothermal power-generation plants; irrigation schemes; and a new oil pipeline.

Business leaders interviewed by PwC cite an educated workforce as one of the positives of doing business in Kenya. "The population is relatively well educated. Train them once and then they can do the job," says one executive.

In 2013, Kenya adopted a system of devolved government that led to the creation of 47 counties, each with its own governor and county assembly. This has created opportunities for businesses to expand countrywide, especially to county headquarters where once silent towns are becoming thriving economies. Managing Director of retail chain Nakumatt, Atul Shah, says his company intends to have a presence in all 47 county headquarters in the coming years. Currently, Nakumatt is active in more than ten counties.

Smaller cities and towns that have seen rising economic activity in recent years include Nakuru, Naivasha, Kajiado, Mombasa, Kisumu, Nanyuki and Machakos. Growth in these areas is largely on the back of industries such as agriculture and tourism, and due to their proximity to Nairobi. Naivasha, for instance, is only 90km from the capital and has become a popular weekend getaway destination.

Buying power and consumer behaviour



Sources: IMF; Mthuli Ncube and Charles Leyeka Lufumpa. *The Emerging Middle Class in Africa*. (Routledge, 2014)

Kenya is a developing country, with 32.5% of the population living on \$2 or less per day. Retailers and consumer goods companies do, however, highlight a sizeable middle class and an upcoming generation of young and aspirational shoppers. Although many brands might currently be out of reach to these young consumers, it is expected that consumption will increase as disposable incomes rise.

As commercial hub of East Africa, the capital Nairobi also has a large contingent of foreign business people, diplomats and development workers providing strong demand for higher-priced consumer goods.

While quality foreign brands are held in high esteem by Kenyans, domestic labels too are becoming more popular. “We see Kenyans increasingly accepting and embracing locally made products because manufacturers here have upped their game and quality has improved significantly in the last decade,” says Faraz Ramji, Director of Norda Industries, manufacturer of the Urban Bites brand of potato- and maize-based snack products.

Some manufacturers are appealing to low-income consumers by packaging products in more affordable low-unit packs. In this so-called kadogo economy (Swahili for ‘economy for the small man’), people are able to buy goods such as diapers and toothpaste in smaller-than-usual quantities at lower price points. The Nice & Lovely body care brand (owned by L’Oréal) has pack sizes that retail for as little as Ksh. 25 (\$0.27). Premier Gas sells a 1kg cylinder of cooking gas for less than \$4. It lasts an average household a week and can be refilled for under \$1.

Although only about a quarter of Kenyans currently live in cities, the country is urbanising. Just shy of 40% of the population will be urban by 2040. The capital, Nairobi, is the main urban area with a population of over 3.5 million. It is one of sub-Saharan Africa’s fastest-growing cities and expected to have more than six million inhabitants by 2025, a 77% increase.⁷⁹ Other populous cities include Mombasa, Kisumu, Nakuru and Eldoret.

While quality foreign brands are held in high esteem by Kenyans, domestic labels are also becoming more popular.

⁷⁹ ‘Tracking Africa’s Progress in Figures’. African Development Bank. 2014.

Retail

Retail sales have grown steadily over the past decade from \$10bn in 2005 to more than \$25bn by 2014, according to Planet Retail. By 2019, retail revenues are expected to surpass \$40bn. Food accounted for 65% of total retail sales in 2014.

Four large home-grown chains dominate supermarket retail in Kenya. They are Tuskys (45), Nakumatt (57), Naivas (36) and Uchumi (27). All stock a variety of food, home and personal care, electronics and clothing products. These chains are aggressively expanding into high-density residential areas in Nairobi and along major highways leading out of the capital. They are also opening in secondary cities such as Naivasha, Kisumu, Nakuru, Eldoret, Kajiado and Kitale.

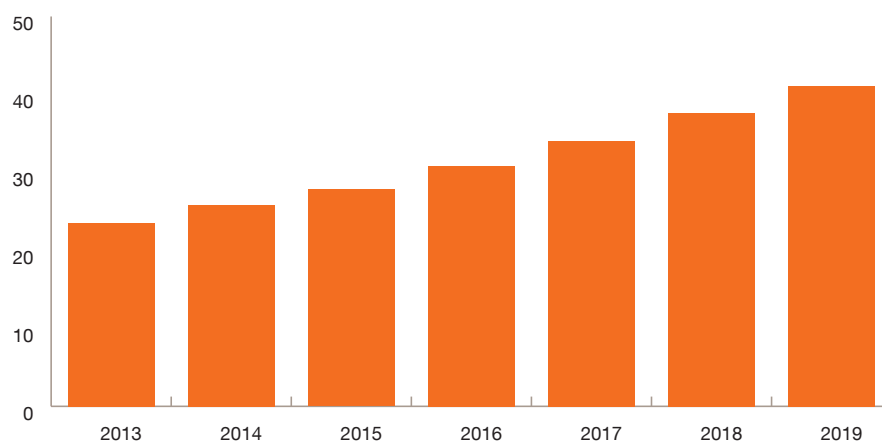
Another local success story is Java House, the leading café and casual dining restaurant operator, with 30 branches. In 2012, pan-African private equity firm Emerging Capital Partners acquired a stake in Java for an undisclosed amount.

A number of international retail brands trade in Kenya through local franchise holders. Deacons is the franchisee for clothing labels such as Adidas, Mr Price and Truworths, while Nakumatt operates the stores of British shoemaker Clarks as well as the American footwear brand Skechers. Quick-service restaurant chains KFC, Domino's Pizza, Subway and Steers are also operated by local franchisees.

The leading supermarket chains have adopted retail growth strategies such as private labels and loyalty programmes. Some have also introduced in-store bakeries and are looking to attract customers through on-site restaurants. For example, at its branch in Nairobi's affluent Westlands neighbourhood, Naivas has introduced a sit-down café offering drinks and food.

Retail credit, although still in its infancy, is an area that holds significant potential. One company that has found traction is AFB, which offers a retail credit card that can be used at over 450 stores in Kenya. AFB underwrites the risk and handles the administration of the scheme. So far the company has issued close to 100 000 cards. CEO Mr Westvig says in the case of some retailers, up to 15% of their sales are generated through AFB.

Figure 6.4 Total retail format sales (US\$ billions)



Source: Planet Retail

Retail space and channels evolving

Over the past decade, Nairobi has seen the construction of numerous shopping malls. Investment company Centum is set to open East Africa's largest mall in the capital during the first half of 2016. The Two Rivers development features retail, residential, office, leisure and hospitality components. The shopping centre will be anchored by French hypermarket chain Carrefour and will have 62 000m² of lettable space. Modern shopping centres are also being developed in second-tier cities such as Naivasha, where the Buffalo Mall opened last year.

Despite the trend towards modernisation, most goods are still sold through informal outlets. Nakumatt's Mr Shah, says the evolution from informal to formal retail is 'moving steadily', but that doesn't mean informal retail is dying.

"We estimate some level of growth in formal retail penetration and diversification. At the same time, the informal sector also appears to be gaining a foothold, with much diversification in terms of commodities now under informal retail sales," he says.

A number of bricks-and-mortar chains have introduced e-commerce platforms, while exclusive online retailers such as Jumia and deal site Rupu offer consumer products such as clothing and household goods. Due to the success of mobile money transfer platforms such as M-Pesa, Kenya is often perceived as one of sub-Saharan Africa's most technologically advanced countries.

The Government has also given priority to the ICT sector. Although credit card penetration remains low, millions of Kenyans use mobile banking platforms, which can be used to pay for goods online.

To the point

Kevin Ashley, Chief Executive Officer, Java House

Java House is Kenya's largest coffee chain, with 30 outlets.

Q Java House is opening restaurants in the less popular areas of Nairobi as well as in other secondary cities. What is the reason behind this?

A Who would have thought a few years back that we would be building \$600 000 restaurants in Naivasha? The fact remains, there are people in those markets telling us they need Java where they work and where they live. We are seeing opportunities in some of those neighbourhoods where people wouldn't have thought a Java would work.

Q What is required from foreign investors to be successful in the Kenyan market?

A The Kenyan market is very sophisticated and it's very cosmopolitan. It's also very price-sensitive. People look for value so when you come in with an international brand people will expect you to price it fairly. And they expect the quality to be at least equal to what you sell abroad, and that your staff look like they are cared for.

Foreign brands have come and gone in this country over the last 15 years. The bones of South African businesses are littered across East Africa. It is because companies underestimated the Kenyan consumer.

Q In which areas of the business are you currently investing?

A We just completed a 3 700m² central production factory. All our baking and coffee roasting is done from there and then distributed to the various branches. But most of our investment is actually going into new stores. We spend between \$500 000 and \$700 000 on a new outlet. We are building about 12 a year now, so that is about \$6m to \$7m per annum.

Consumer products

Consumer spending is anticipated to surge from \$38.3bn in 2014 to \$63.5bn in 2019. Per capita consumer spending will grow at an average annual rate of 7.81% over the period, rising from \$891.57 to \$1 298.50.

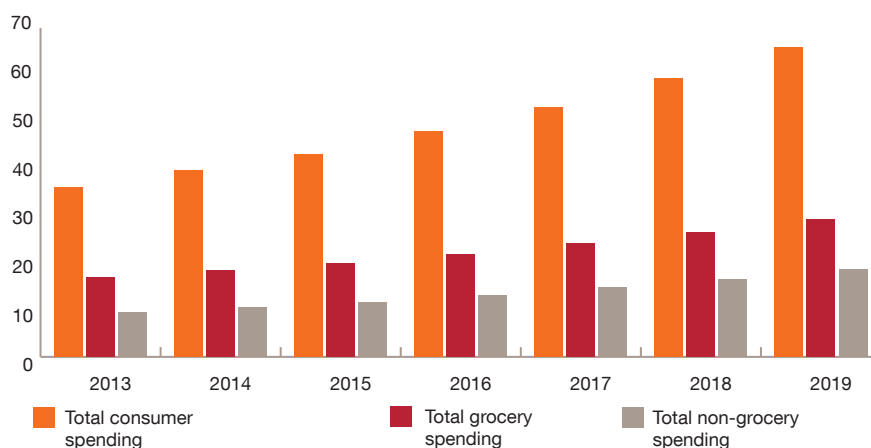
Local consumer goods manufacturers are diversifying their product portfolios. Bidco Africa, the largest manufacturer of edible oils, is investing about \$19m in a beverages plant to produce non-alcoholic drinks and bottled water. Chief Executive Officer Vimal Shah says his goal is to "serve the same customer with as many products as possible".

Fruit juice producer Kevia Kenya has also expanded its product portfolio with ready-to-drink coffee, tomato sauce and packed vegetable soups, while Norda Industries, a maker of potato crisps, plans to diversify into other food and beverage products to fully utilise its 20 000m² manufacturing facility.

Norda Chief Executive Officer Mr Ramji says diversification of product lines will help manufacturers maximise use of their infrastructure and capitalise on strengths in supply chain and distribution.

Kenyan retailers have turned to stocking private-label products. Both Nakumatt and Tuskys are now selling their own branded cereals, snacks, sugar, rice and toilet tissue, to name a few. "The growth of the private brands market has provided a new lease of life for numerous local manufacturers. For example, more than 96% of Nakumatt Blue Label products are sourced from local manufacturers," says the company.

Figure 6.5 Spending forecast (US\$ billions)



Source: Planet Retail

Fast-moving consumer goods

Food products in Kenya are a mix of locally produced and imported items. Kenya has a strong agricultural sector and local food processing and packaging industries are expanding.

Growth in formal retail, hospitality, restaurants and the airline industry is creating opportunities for food manufacturers. Local franchisees of international fast-food chains note that although they want to source locally, produce such as meat, potatoes, sauces and spices are currently being imported due to quality issues. Eric Andre, co-owner of the local Domino's Pizza franchisee Om Nom Nom, says sourcing locally will be central to the future success of the pizza chain.

"Two or three years down the road when we have more outlets, we will need to source locally because of timing. For example, we import our tomato sauce from Portugal and it takes six months to get here. Meat from Saudi Arabia takes three to four months. If we had a local supplier it would take just a week," says Mr Andre.

Diageo-owned East African Breweries Limited controls about 85% of Kenya's formal alcohol market with more than 20 beer brands as well as a portfolio of spirits.⁸⁰ It is facing some competition from companies such as Keroche Industries, SABMiller and Heineken. In 2014, South African liquor company Distell Group bought a 26% stake in KWA Holding East Africa Limited, Kenya's foremost spirits manufacturer, bottler and distributor.

The home and personal care category is dominated by multinationals such as Colgate-Palmolive, PZ Cussons, Beiersdorf, Johnson & Johnson, Procter & Gamble and Unilever.⁸¹ Local manufacturers that have been able to achieve success have become takeover targets for international companies.

In 2008, South Africa's Tiger Brands bought a 51% stake in Haco Industries, a manufacturer of skin care products, shampoo, bleach and fabric softeners, in addition to numerous food items. The rebranded entity is known as Haco Tiger Brands.

In 2013, French beauty giant L'Oréal acquired the health and beauty business of Kenyan company Interconsumer Products, maker of the Nice & Lovely range of beauty products that are priced for emerging middle-class consumers.

Fashion and apparel

The textile and clothing industry is but a shadow of its heyday in the early 1980s when it was the country's top manufacturing activity.⁸² Cheap imported second-hand clothing, known as *mitumba*, poses significant competition for local manufacturers, who are predominantly focused on producing for large western brands such as Walmart and H&M.

With a local cotton industry as well as relatively cheap labour, Kenya has the potential to attract global manufacturers

as wages rise in China. The African Growth and Opportunity Act, under which garments produced in Kenya can enter the US duty free, also presents a clear opportunity. The Government is trying to attract investment into the sector by offering manufacturers incentives such as subsidised electricity.⁸³

Consumer durables and electronics

A recent study by Standard Chartered Bank indicates 57% of middle-class Kenyans plan to buy new household products and appliances over the coming five years, while some 32% expect to purchase a new car or motorcycle.⁸⁴

White goods and electronics sold in Kenya are mostly foreign brands. While multinationals such as Epson, Sharp and Panasonic have offices in Nairobi, the majority of products are imported fully assembled. Samsung has stated its intention to open a television, laptop and printer assembly plant to service the greater East African market.⁸⁵

Vehicle manufacturers such as General Motors, Renault, Jaguar Land Rover, Porsche, Volkswagen, Toyota, Mitsubishi and Mazda all have dealerships in Kenya. But new-vehicle sales remain relatively low compared with second-hand imported cars, which are popular even among high-income earners. General Motors is actively educating consumers about the advantages of purchasing new vehicles, especially in terms of fuel and maintenance costs.⁸⁶

80 Peterson Thiong'o. 'Brewers bring beer fight to East Africa'. The East African, January 12, 2013. Accessed September 17, 2015. <http://www.theeastafrican.co.ke/business/Brewers-bring-beer-fight-to-East-Africa/-/2560/1663912/-/avchnsz/-/index.html>

81 Victor Juma. 'Interconsumer steps up market rivalry with new products'. Business Daily, September 8, 2013. Accessed September 17, 2015. <http://www.businessdailyafrica.com/Corporate-News/Interconsumer-steps-up-market-rivalry-with-new-products/-/539550/1984364/-/1axdf9z/-/index.html>

82 'Kenya's apparel and textile industry 2005', Export Processing Zones Authority, 2005.

83 Katrina Manson. 'Textile sector in Kenya gears up to take a larger share of world market'. Financial Times, December 2, 2014. Accessed September 17, 2015. <http://www.ft.com/intl/cms/s/0/75b7273e-6040-11e4-88d1-00144feabdc0.html#axzz3OPkBDPhH>

84 'Standard Chartered Consumer Aspirations Study'. Standard Chartered. June 2014.

85 Okuttah Mark. 'Samsung to open laptop, TV assembly plant in Kenya'. Business Daily, April 3, 2013. Accessed September 17, 2015. <http://www.businessdailyafrica.com/Corporate-News/Samsung-to-open-phone-and-TV-assembly-plant-in-Kenya/-/539550/1738928/-/6ntcuaz/-/index.html>

86 'The Kenyan motor vehicle industry thrives'. CNBC Africa, October 28, 2014. Accessed September 17, 2015. <http://www.cnbc.com/video/?bctid=3862586786001>

Supply chain

It is the 'last mile' distribution that many Kenyan consumer goods manufacturers find frustrating. This is mainly due to poor infrastructure and the large number of small traders, often operating in remote areas.

"It is very resource intensive and time consuming to distribute products to the mass trade and informal market. I feel a real sense of accomplishment when I drive past a small kiosk and see my product," says Mr Ramji of Norda Industries.

Some companies have adopted innovative ways to get their products into the large informal market. East African Breweries Limited uses a local company called KasKazi Network, which has a team of over 100 'motorcycle sales representatives', to distribute its products to bars and outlets in densely populated areas like informal settlements, which aren't easily reachable by motor vehicles. KasKazi has also worked with several other manufacturers, including Nestlé, Haco Tiger Brands, British American Tobacco and GlaxoSmithKline. Each sales representative supplies to an average of 40 small shops and kiosks per day. According to KasKazi, Kenya has about 100 000 small traders.

Companies are also facing hurdles in sourcing raw materials locally. Bidco Africa has subcontracted 10 000 farmers to grow oil seeds such as soya beans, sunflower and maize. A major challenge is having a surplus of one crop and a shortage of others when farmers decide to grow the same crop. The vagaries of weather also lead to erratic supply.

"The other thing is, farmers are never loyal. So don't expect that they will always sell to you. What you have to do is make sure that, as a company, you are giving them the best prices, a guarantee of market and that you pay them immediately," says Bidco Chief Executive Mr Shah.

An alternative would be for companies to do the farming themselves, but Mr Shah notes property ownership complexities in Kenya make it hard to access large tracts of land.

To the point

Vimal Shah, Chief Executive Officer, Bidco Africa

Bidco is East Africa's leading edible oil, soaps and detergents, margarine and baking powder manufacturer, with more than 40 brands.

Q A number of Kenyan retailers have introduced their own private-label products. Are you concerned this will eat into your market share?

A There is nothing wrong with private labels. At the end of the day the war of marketing is fought in the mind of the consumer. If your product is the same as that of everybody else, people will switch.

Some 10-15% of customers might switch to private labels, but will it be 70%? I doubt it. They will appeal to people when the price difference between a branded product and a private-label product is huge. Inevitably, private labels will help bring down prices. What manufacturers have to do is to differentiate their products. The rule is to differentiate or die.

Q What risks should foreign investors be aware of?

A There are two things here. One is reality and the other is perception. When we look at the perception of risk and the reality of risk, there is a huge disparity. Negative sentiment about Kenya revolves around security, and that our democracy is under threat. All these are perceived risks. The reality on the ground is different. The reality is, there is so much opportunity here. I don't see any political risks. There is no risk of expropriation or the Government taking your business away. It never happened in the last 50 years and it is not going to happen now. We have a clear constitution. Civil laws protect you.

Q Highlight the factors central to your future success.

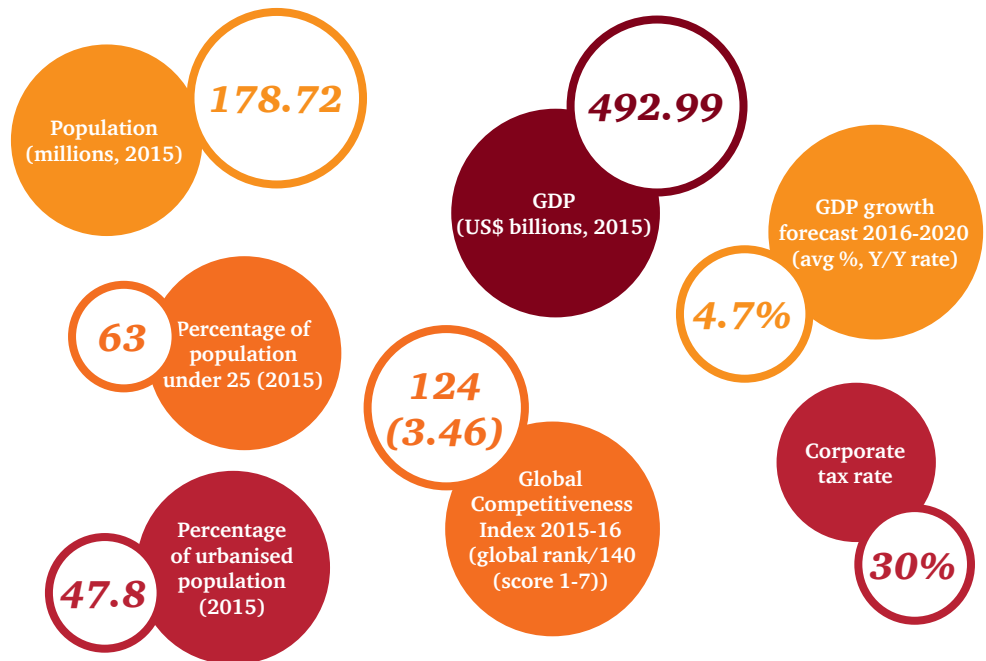
A First we have to be aligned with our goal to become a leading player across Africa. Secondly, we have to look at consumption. How people consume products has changed. A few years ago coffee chains didn't exist in Kenya, yet today they are flourishing.

Keeping in touch with consumer needs and creating relevant products and services is vital for our success. As modern trade grows, so will sophistication. The internet is also making consumers very powerful because it allows them to research and compare products. Keeping up with these changes is very important.

7. Nigeria



Opportunities	Challenges
Large population and growing consumer class provide an attractive market for retailers and consumer goods companies	Growing competition impacting margins on FMCG products
Online retail offering an attractive value proposition	Expensive retail space in modern shopping malls
The Nigerian Automotive Industry Development Plan incentives make domestic vehicle assembly attractive	Local input suppliers lacking capacity and commercial knowledge



Sources: International Monetary Fund; World Economic Forum; World Bank, UN Population Division; PwC

Economy and business environment

Economic outlook

Nigeria, Africa's biggest economy, with a GDP of \$493bn, is a country in transition as it builds on 16 years of often turbulent democracy and years of infrastructural and urban decay. The rebasing of GDP calculations in 2013 (base year 2010), revealed an economy 89% larger than earlier estimated.

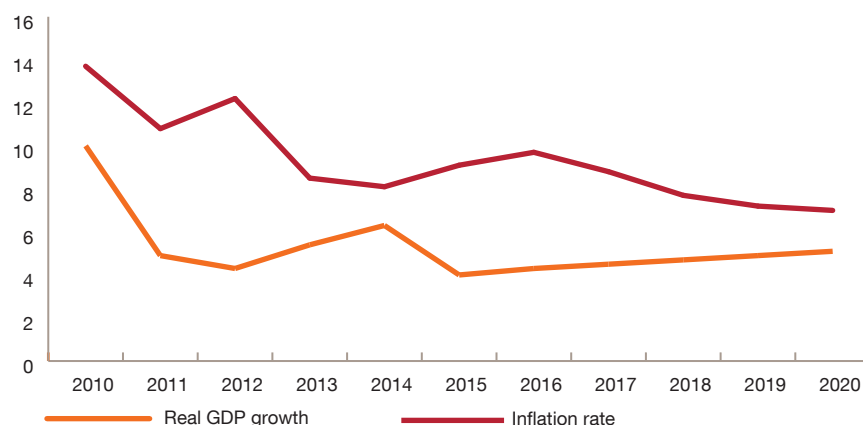
The structure of the economy has also changed. The two biggest contributors to GDP previously – hydrocarbons and agriculture – have both declined in importance. Services now account for more than half of GDP, with telecoms showing tenfold growth from 0.8% in 1990 to 8% in 2013. Manufacturing's share of GDP has grown from below 2% to nearly 7%.⁸⁷

But the country's economic trajectory is being undermined by low oil prices, reflecting its continuing dependence on oil and gas for more than 90% of foreign exchange income and about 70% of government revenues. The International Monetary Fund's growth expectation for 2015 was 4% compared to 6.3% in 2014.

One significant challenge facing Nigeria is the continuing insurgency by Islamic extremist group Boko Haram, which over the past years has killed thousands of civilians. Although mostly confined to the north-east region, Boko Haram's terror campaign has destabilised the regional economy and put a damper on otherwise positive investor sentiment.

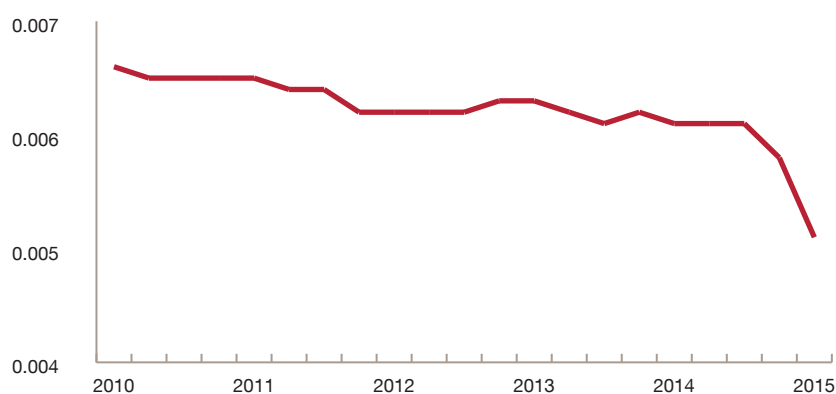
The successful presidential election held in March 2015 defied predictions of violence and political turmoil, and ushered in a new era. The new president, Muhammadu Buhari, has pledged to fight insecurity, eradicate corruption and instill discipline into the country. The decisive win by his coalition party, the All Progressives Congress (APC), gives it a strong mandate to address political and economic challenges.

Figure 7.1 Real GDP growth and inflation



Source: International Monetary Fund

Figure 7.2 Historical NGN/USD exchange rate



Source: Oanda

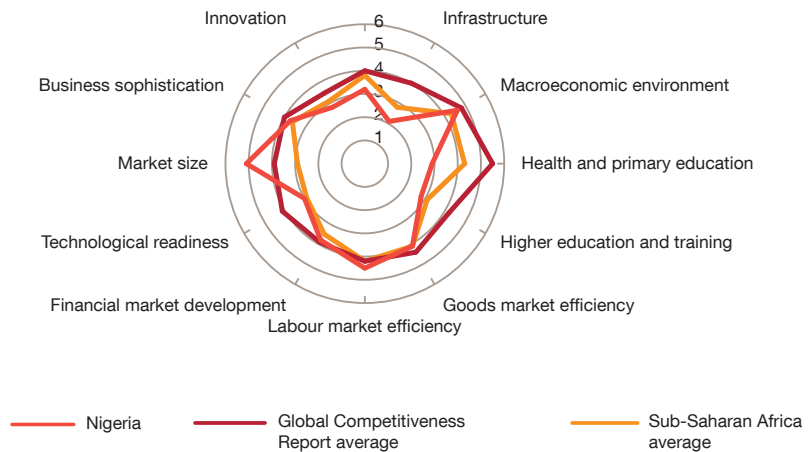


87 "Measuring better: Rebasing / re-benchmarking of Nigeria's gross domestic product." National Bureau of Statistics website. April 2014. Accessed April 29, 2015. <http://www.nigerianstat.gov.ng/pages/download/201>

Business environment

The *Global Competitiveness Report* is published annually by the World Economic Forum. The report assesses the competitive landscape of more than 130 economies and provides insight into the drivers of their productivity and prosperity. A score between 1 and 7 is awarded to 12 pillars, where 7 is best.

Figure 7.3 Global competitiveness: Performance overview



Source: The Global Competitiveness Index 2015-2016

Nigeria's operating environment is challenging. Structural inefficiencies and a large infrastructure deficit make it costly and difficult to do business. According to the African Development Bank, Nigeria's core stock of infrastructure is estimated at only 20-25% of GDP, well below the 70% for middle-income countries of this size.

Labour unions are fairly powerful in Nigeria and strikes are not uncommon. The umbrella organisation, the Nigeria Labour Congress, has 29 affiliated unions across various sectors and four million members. The price of labour is rising, but this is not accompanied by similar increases in productivity. Executive hire is highly priced.

Structural inefficiencies and a large infrastructure deficit make it costly and difficult to do business in Nigeria.

The lack of power is one of the biggest constraints. Despite the privatisation of generation and transmission companies, installed generating capacity was just over 7 000MW in early 2015, with actual generation still at about 4 000MW – a fraction of demand. Businesses are required to run generators for up to ten hours a day, and sometimes more, to supplement the national grid.

Intellectual property protection is poor despite the existence of legislation outlawing counterfeiting and piracy. JJ Van Dongen, CEO for Africa at Philips, says that although no reliable industry-wide statistics on the incidence of counterfeiting in Nigeria exist, market feedback suggests it is serious.

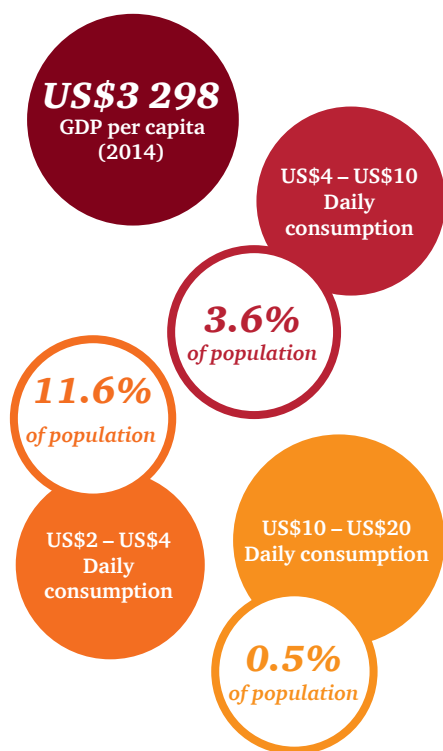
A lack of rail infrastructure means goods need to travel by roads that are in poor condition and often congested, particularly in the cities. Inefficient and overcrowded ports are also an issue.

"We estimate that up to six out of ten products sold in Nigeria from our consumer lifestyle category (irons, shavers, kettles etc.), as well as our light bulbs, are fake. Syndicates are becoming more sophisticated in replicating products." In 2015, the company initiated its 'Buy Original' campaign in West Africa, which allows customers to authenticate Philips products. This has already been successful in other African markets.

Water supply is also poor, and businesses are required to be mini-municipalities to counter state dysfunction.

The macroeconomic problems associated with the current low oil price include the devaluation of the currency (the naira), high interest rates and a shortage of foreign exchange. These factors are affecting consumer spending as prices rise.

Buying power and consumer behaviour



Sources: IMF; Mthuli Ncube and Charles Leyeka Lufumpa. *The Emerging Middle Class in Africa*. (Routledge, 2014)

Nigeria's consuming class is growing rapidly. By 2030, some 160 million Nigerians (out of a projected population of 273 million) could live in households with sufficient incomes for discretionary spending, according to consulting group McKinsey. It estimates that sales of consumer goods could more than triple by 2030 to almost \$1tr.⁸⁸

According to Standard Bank research, Nigeria's middle class (defined as households earning between \$8 500 and \$42 000 a year) grew by 600% between 2000 and 2014, creating 4.1 million middle-class households by 2014, which will rise to 11 million by 2030.⁸⁹

Consumption choices typical of this class, such as internet usage, private health care, formal retail, as well as car and property ownership, are all on the rise.

Nigerian consumers are generally price conscious, with even small changes in cost altering buying patterns significantly. Companies have to be creative in developing products that meet the needs of the customer at their desired price points.

UAC Foods, a local company 49%-owned by South Africa's Tiger Brands, has not increased the price of its best-selling Gala sausage rolls for years. With new competition in the market, it cannot take the chance of alienating customers.

When input costs rise, it is pack sizes, rather than price, that usually adjust. At the higher end, people are status conscious and will pay a premium for luxury goods and imports but still target value for money.

Improved packaging is part of the increasing demand for quality. "The quality of packaging has become a key competitive factor," says Ebele Enunwa, managing director of Sundry Foods in Port Harcourt.

Boulos Boulos, CEO of Boulos Group Nigeria, concurs, saying because Nigerians at all levels are asking for better-quality products, a lot of Nigerian companies have had to upgrade and be innovative in their packaging.

Single servings now come with an easy tear strip, for example, where before consumers would tear it with their teeth, he says. The company recently launched resealable fruit juice sachets.

The luxury goods market is served largely from western markets, where many Nigerians are schooled and have lived, which still represent markets of choice, particularly for big-brand items.

Some luxury brands are starting to make their way into Nigeria with local franchises and Nigerian partners. Examples include Ermenegildo Zegna, Hugo Boss, Mango and Porsche, as well as luxury watch brands. Nigeria is among the top consuming countries in Africa for high-end alcoholic drinks, particularly champagne, cognac and whisky.

Research suggests Nigeria's middle class grew to 4.1 million households in 2014. This is predicted to rise to 11 million by 2030.

⁸⁸ McKinsey Global Institute. "Nigeria's renewal: Delivering inclusive growth in Africa's largest economy." McKinsey & Company. July 2014.

⁸⁹ Simon Freemantle. "Understanding Africa's Middle Class." Standard Bank Group. July 2014.

Retail

Retail in Nigeria is everywhere, from hawkers in the traffic to upmarket shopping malls in some cities. Most shopping is done from large informal markets, street stalls and table tops. The latter are the most popular as they are prolific and well located to capture passing trade, obviating the need for customers to pay transport costs.

Nigeria's cities also have a more formal tier of shopping such as plazas – typically multistorey buildings with owner-managed shops – and some 'high street' shopping, although this has not gained much traction because of a lack of parking, weather conditions and the general environment.

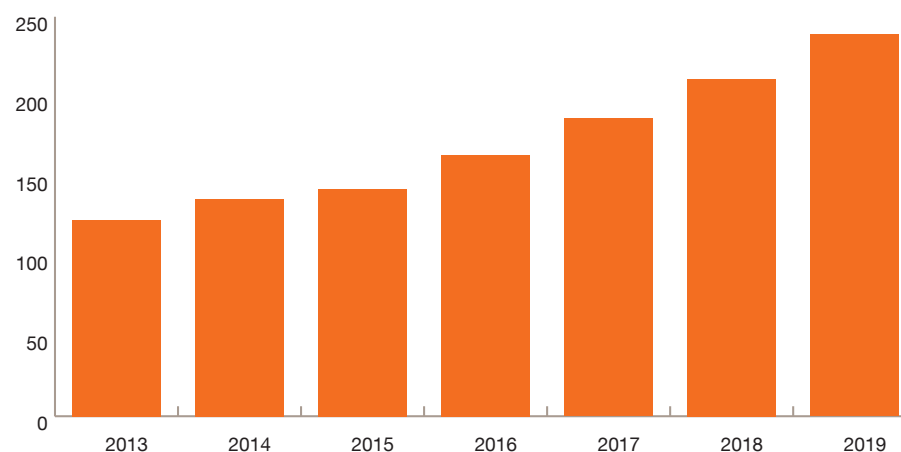
The development of western-style shopping malls since 2005 in a few major cities reflects rising incomes and changing lifestyle options enjoyed by middle-class Nigerians. More than a dozen are trading and another 30 are due to open before the end of 2016, according to property management company Broll, which manages many of the malls in Nigeria.

South African supermarket group Shoprite is the main food anchor tenant in most malls. Others include Wal-Mart, through its South African subsidiary Massmart, and Nigerian company Artee Group, which has the Spar franchise. Formal retailing is not only providing an outlet for locally produced goods, but has improved standards in the retail trade.

Building shopping malls is difficult and expensive. Securing land is complicated because of unchecked urbanisation, competing claims to title, litigation and unrealistic prices in the absence of standard valuation practices. Developers need to provide power back-up, boreholes, waste treatment plants, parking and other features standard in such malls. Importing professional skills and quality building materials adds to the cost.

Rentals at malls in Lagos are more than two-thirds of those in Johannesburg malls and \$20m² more than the top rentals in Nairobi. But one retail executive we spoke to, who manages more than 30 stores in Nigeria, believes it is still cost effective because security, generator power and services are all included and rentals are charged monthly. In standalone properties, tenants need to pay extra for this and local landlords demand between two and five years, rent in advance, he says.

Figure 7.4 Total retail format sales (US\$ billions)



Source: Planet Retail

Online retail's unique value proposition

Nigerians have embraced the digital age, highlighted by the mobile phone explosion and increasing internet penetration. The large youth cohort is driving brand and quality consciousness fed by increased use of mobile devices, the internet and social media. They are brand savvy and eager to experiment. Many are entering the middle class or are being raised in newly middle-class homes.

E-commerce in Nigeria is a fast-expanding area of new business. Nicolas Martin, CEO of e-commerce company Jumia, says the challenges, costs and logistics of operating offline retail in Nigeria make the value proposition of e-commerce very relevant.

The retail industry is generally fragmented, with huge disparities in pricing, but e-commerce tends to be 10-15% cheaper than other retail options and prices are consistent. "In two years, Jumia has become a price setter for electronic and other goods. People compare prices on the street with our prices," says Martin.

Concerns revolve around the security of online payment, time for delivery, product quality and internet usage costs. Online retailers are still building trust but interest is growing. A survey done for PayPal in 2015 among 500 people estimated that 65% of the country's 50 million internet users have shopped online at least once while 24% plan to do so.

To the point

Jan van Zyl, head of property development, Novare Equity Partners

Novare Equity Partners developed the Apo Mall in Abuja and is busy with several other projects in Nigeria.

Q What is your outlook for Nigeria's formal retail industry?

A There is no doubt that formal retail will continue to grow, coming off an extremely low base. We believe the government will gradually start to support this industry in order to diversify the tax base and create jobs.

Although 98% of retail trade is currently done in informal markets, as more shopping centres are built, the percentage of people using them will increase. People like the convenience, especially in this hot and humid climate, and we have a lot of repeat business. Nigeria is a large youth market and they are easier to persuade to frequent shopping centres. They may not have the income yet, but as they enter the workforce they will aspire to patronise formal retail outlets.

Borrowing costs are also going down as the industry develops, but investors need to have a long-term strategy. Developers and retailers need economies of scale, and for that you cannot be in the market only for the short term.

Q Describe the competitive landscape in the retail development market.

A Nigeria is a challenging environment, not so much in terms of competition but in terms of getting a high-quality end product at a reasonable price. There are currently just a few major players in the industry focusing on developments in the main and secondary urban areas. Most developers are local or from South Africa, where retailers and developers are diversifying away from the saturated home market. There is also some interest now from companies in Europe and the Middle East.

The market is big enough for competitors to co-exist. We do not want to see anybody fail in this industry because it makes other investors hesitant to enter the market.

Q Is the number of local tenants increasing?

A Yes, definitely. There are growing local chains occupying the malls. Operators such as HealthPlus and furniture retailer Lifemate are making excellent progress in expanding their footprint. SmartMark, a distributor of lifestyle brands, and Persianas, which deals with luxury brands, have a wide variety of franchise outlets in current and new shopping malls, as do the mobile phone companies, local banks and others.

But we need more local retail tenants that can be successful in this market. Signing a lease does not necessarily translate into a profitable business. The tenant still needs to apply good business models and practices in order to succeed.



Consumer products

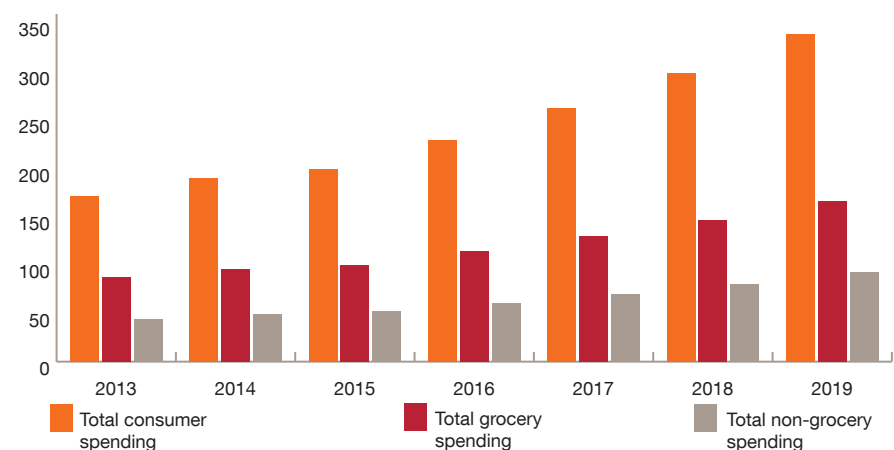
Many consumer products in Nigeria are produced by global multinationals, most with a long history in the country. These include Unilever, Nestlé, Procter & Gamble, PZ Cussons and Cadbury as well as international brewers, cosmetics companies and others. But they are increasingly facing competition from local manufacturers, many of them also with deep roots in Nigeria. These include Boulos Food and Beverages, UAC Foods, the Dangote Group and Daraju Industries.

Attempts to boost local manufacturing have been undermined by the generally tough business environment as well as the high cost and short-term nature of local finance and smuggling through the porous border with neighbouring Benin. Nigeria is an import-dependent nation, spending billions of dollars annually to bring in everything from milk to cars. An import ban on a range of goods was imposed in 2003 and although it has slowly been whittled down, it remains in place.

The biggest market is at the base of the pyramid, where consumers are extremely price-sensitive but becoming more demanding about quality and value for money. These consumers tend to make small purchases, often from table-top retailers, and are the main market for single-serve items. They tend to patronise local brands and brands they know.

Small retailers sometimes split open packages of premium-priced brands and sell small servings to make them affordable.⁹⁰ This category, while large, is highly dispersed, is often hard for marketers and distributors to reach, and has limited spending power.

Figure 7.5 Spending forecast (US\$ billions)



Source: Planet Retail

Fast-moving consumer goods

Food is the biggest-selling commodity in Nigeria and consists mostly of cheap staple starches such as rice and cassava. Although the government is encouraging local cultivation of cassava and rice, the latter is still imported.

Meat, usually goat, chicken and beef, is often a delicacy in low-income households. While many Nigerians are farmers, fresh meat is in short supply. Adeyemi Adeleke of Zambeef, a Zambian company that operates Shoprite's butcheries and butchery chain Master Meats in Nigeria, says the company is rearing its own livestock to meet growing demand. He says quality and regularity of supply from local farmers is challenging, given poor access to good feedstock, veterinary back-up, funding, proper abattoir facilities and cold storage.

Nigeria's lucrative beer market is among those hit by currency devaluation and lower sales in the north-east because of the violence. Major breweries include Diageo, which sells more Guinness in Nigeria than in the beer's native Ireland; Heineken, which controls Nigerian Breweries, the country's biggest brewer; as well as SABMiller, which only entered the market in 2009.

Major non-alcoholic or 'social' drinks are big sellers in Nigeria because of the large Muslim population, as are spirits, particularly among wealthier consumers. Brewing companies are looking for innovative ways to appeal to consumers. Tapping into local landmarks, ethnicity or history is one way. SABMiller, for example, has created Hero lager, a brand that is positively associated with the Igbo ethnic group, which dominates the area in south-east Nigeria where the company has its main brewery.⁹¹

The biggest market is among lower-income earners, who are extremely price sensitive, but becoming more demanding about quality and value for money.

⁹⁰ "Africa: How to navigate the retail distribution labyrinth." The Nielsen Company. February 2015. Accessed April 19, 2015. <http://www.nielsen.com/content/dam/nielsen/global/ssa/docs/reports/2015/africa-report-navigating-the-retail-dist-labyrinth-feb-2015.pdf>

⁹¹ Dulue Mbachu. "SABMiller's Hero taps into Biafra nostalgia in Nigeria". Bloomberg Business, April 10, 2014. Accessed April 27, 2015. <http://www.bloomberg.com/articles/2014-04-09/sabmiller-s-hero-beer-taps-into-nostalgia-for-biafra-in-nigeria>

Clothing and footwear

Although Nigerians have a strong ethnic clothing identity, which favours bespoke tailor-made clothes, there is also a large market for well-priced quality clothing and cheaper garments imported in bulk from Asia. At the high end, Nigerians tend to shop in the US and UK and seek out international brands.

With a large population and relatively low labour costs, Nigeria has a comparative advantage in textile production. Decades ago, it had a flourishing clothing and textiles sector, but the industry declined due to power supply problems and competition from cheap products smuggled into the country. Capacity utilisation in the textile industry dropped to 38% in 2010 from a 79.7% peak in 1975.⁹²

Consumer durables

A 2011 study by Renaissance Capital revealed that while the vast majority of middle-class Nigerians already own appliances such as refrigerators, electric irons and DVD players, there remains significant upside potential for washing machines, microwave ovens and dishwashers.⁹³

Smartphones are also big business. E-commerce retailer Jumia says smartphones are one of their best-selling items – from cheaper Chinese models to the big global brands. For many customers, brand loyalty matters less than price, presenting an opportunity for new brands to position themselves at the lower and middle ends of the market.

After South Africa, Nigeria is sub-Saharan Africa's largest vehicle market. Through the recently launched Nigerian Automotive Industry Development Plan, the government is discouraging the importation of fully assembled vehicles and providing incentives for local manufacturing.

Import duties and levies on cars have been increased from 20% to 70%, while duties on locally assembled vehicles are at 5-10% for semi-knocked-down kits. Major international brands that have so far taken advantage of the incentives include Nissan and Peugeot. There is reportedly strong interest from numerous other manufacturers.

Supply chain

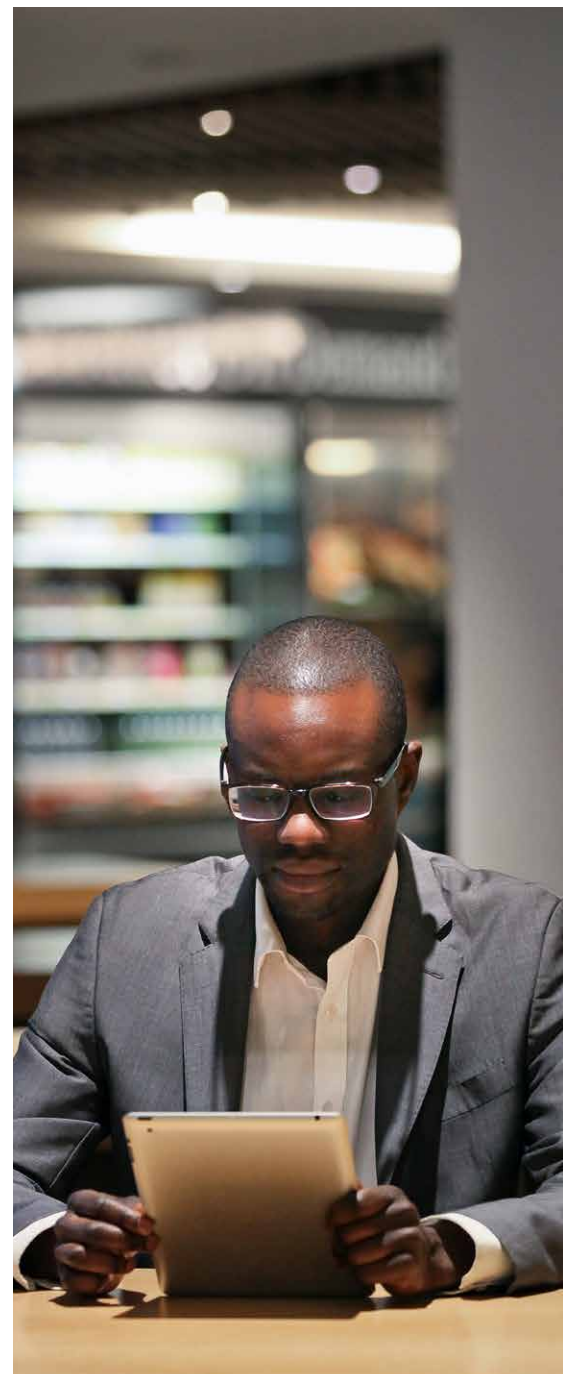
The supply chain in Nigeria is long, complex, challenging and costly. This is partly the result of infrastructure deficits – poor roads, a lack of railways and congested ports.

Delays in getting goods out of the port in Lagos can range from a week to three months. But the problem is not just inadequate infrastructure, it is also inefficient or obdurate bureaucrats, a surfeit of different agencies and the sheer volume of imports that are overwhelming existing infrastructure.

Although attempts at reform have been made, in some cases these have made the processes more onerous. Companies complain about the over-zealous application of rules and regulations. By the time foodstuffs get out of the port, they are sometimes close to, or past, their sell-by date. This makes patronage of alternative ports in the neighbouring Benin Republic and Togo an attractive option for some importers, especially in the semi-formal sector.

Distribution is a challenge. Most distribution is not done through national operators but rather a variety of operators with specific localised networks. This can affect margins. A city, rather than country, view of markets is necessary due to the variegated nature of risks, challenges, retailers and markets. The supply chain also has geographic considerations due to distances and differences in the quality of infrastructure as well as the nature of retail.

Local suppliers with sufficient capacity and stock to provide raw materials or inputs are difficult to find. "Many suppliers are quite opportunistic and have not invested in the appropriate infrastructure to handle increasing volumes from growing businesses. They also lack capital, but more importantly, they lack knowledge. Sourcing from small-scale farmers is challenging as they are difficult to identify and many of them are out of touch with modern business dealings," says Mr Enunwa of Sundry Foods.



92 Barbara Barungi. "African Economic Outlook: Nigeria 2014." African Development Bank, Organisation for Economic Co-operation and Development, United Nations Development Programme. 2014. http://www.africaneconomicoutlook.org/fileadmin/uploads/aeo/2014/PDF/CN_Long_EN/Nigeria_EN.pdf

93 "A survey of the Nigerian middle class." Renaissance Capital. September 2011.

To the point

Boulos Boulos, Chief Executive Officer, Boulos Group Nigeria

Boulos Foods and Beverages was established in 2012 in Ibadan, Nigeria, and is part of the Boulos Group Nigeria, which has interests in tissue paper recycling and conversion as well as automotive assembly.

Q Are you seeing evidence of a growing middle class?

A The number of Nigerians who are shopping in modern trading environments has definitely grown over the past ten years. This is partly a consequence of the growth of telecoms, banking and other sectors, which have attracted large numbers of Nigerian professionals and their families from abroad to live and work in Nigeria. This is driving the growth of a middle class.

At one time, 100% of Nigerian shoppers shopped at open markets. Today, we have noticed that 10% of consumer trading is in modern outlets. In the next ten years, we expect that this will comprise 25-30% of consumers. Wealthy people are starting to do their own shopping now that they have more upmarket places to shop.

However, the masses are still shopping at open markets, where many of them buy in bulk.

Our company makes goods for different segments of the market to cater for changing tastes in terms of its tissue products. The demand for the high-end products is much lower than for the middle- or lower-segment products. But even low-income consumers are demanding better quality in consumer goods. There is huge competition in packaging as a result.

Q Are consumers moving increasingly to local products?

A Most people still have more trust in international brands, mostly western brands and to a lesser extent those from Asia, because they associate this with better quality. But this is starting to change, and local manufacturers are benefiting from local messaging and the improved quality of their goods.

People at the mass-market end of the spectrum are particularly price sensitive, but it is not just them. Price sensitivity also exists in the middle- and upper-income groups. People want quality for their money and if they can afford it, they are willing to pay extra for guaranteed quality.

Q What are the main challenges you face in Nigeria?

A The supply chain is a challenge and the biggest problem by far is the port. Any company that relies on imports is held hostage by the ports authority, as it can take one or even two months to get the goods through.

A more recent challenge has been sourcing foreign exchange to pay for imported goods and inputs. With the rapid devaluation of the currency in 2014 and 2015, foreign exchange is getting harder and harder to access.

Sourcing raw materials for foodstuffs is also difficult. Although there have been some improvements in agriculture, finding food in bulk is almost impossible and there is still a reliance on imports for products from tomatoes to milk.

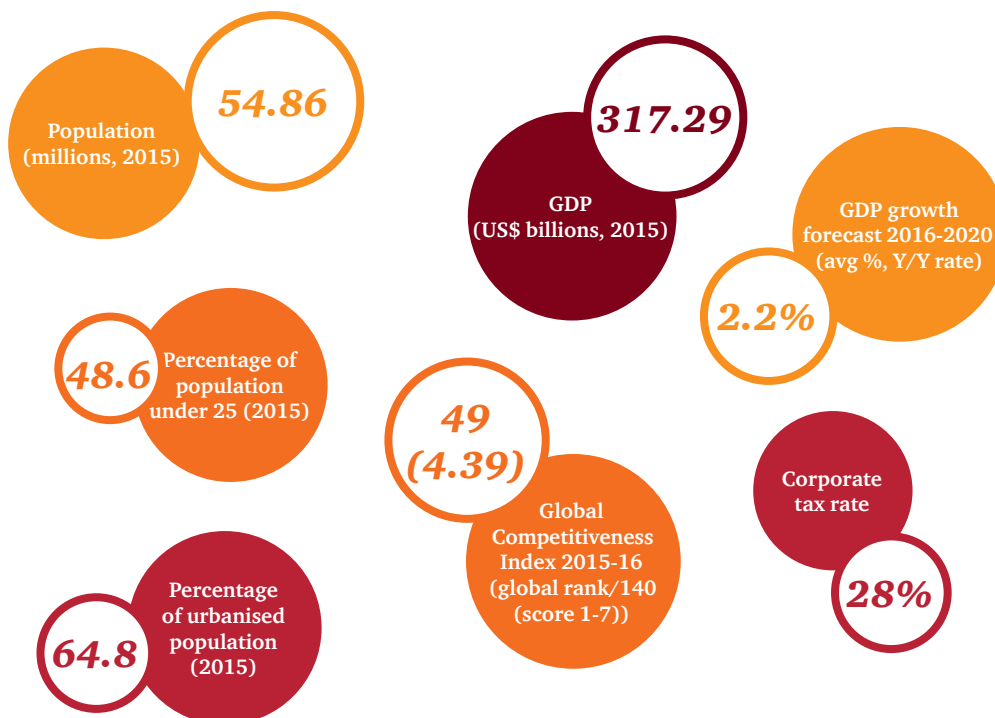
The cost of energy is high and can be up to 10% of the total cost of manufacturing. Another issue is the cost of labour. The trade unions have been pushing up labour costs over the years, but productivity among unskilled or low-skills workers is often very low. However, it is getting easier to find qualified middle and executive management locally than it was ten years ago.



8. South Africa



Opportunities	Challenges
Opportunities for smaller-format discount chains targeting the lower end of the market	High unemployment, weak disposable income and high debt-to-income ratios, putting a drag on consumer spending
Leveraging technology to drive sales and improve customer engagement	Growing sophistication of private-label products presenting a threat for consumer goods companies
Opportunity for domestic clothing producers to capitalise on the 'fast fashion' trend by offering retailers shorter lead times	Electricity constraints impacting costs and reducing trading hours



Sources: International Monetary Fund; World Economic Forum; World Bank, UN Population Division; PwC

Economy and business environment overview

Economic outlook

South Africa's remarkable progress since the end of apartheid has lost momentum, with lacklustre average annual GDP growth of 2.2% predicted from 2016 to 2020.

Challenges associated with weak external demand and muted commodity prices are compounded by domestic issues such as high unemployment of about 25%, an electricity crisis, frequent industrial action and labour market rigidities.

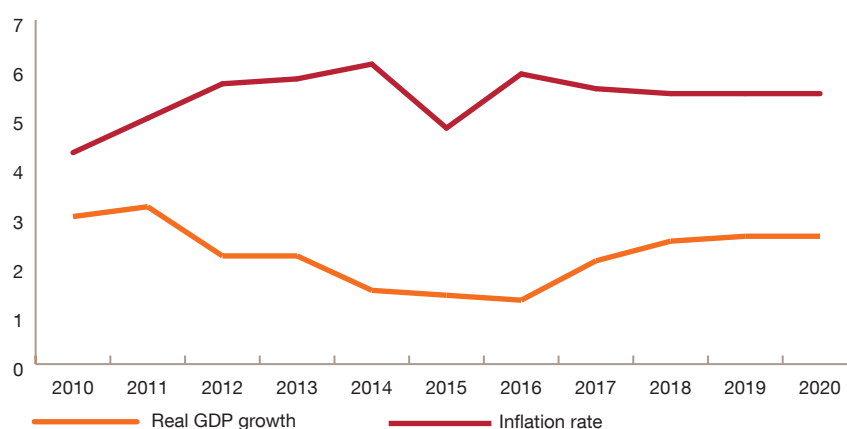
The education system is not equipping young workers with the skills needed in a modern economy. According to the International Monetary Fund (IMF), the government needs to speed up implementation of the National Development Plan, while reducing policy uncertainty.⁹⁴

Due to the strong majority of the ruling African National Congress, Business Monitor International (BMI) expects broad political stability to persist.

However, public frustration with a lack of service delivery, alleged misuse of public funds and high unemployment levels could cause increasing political tensions.

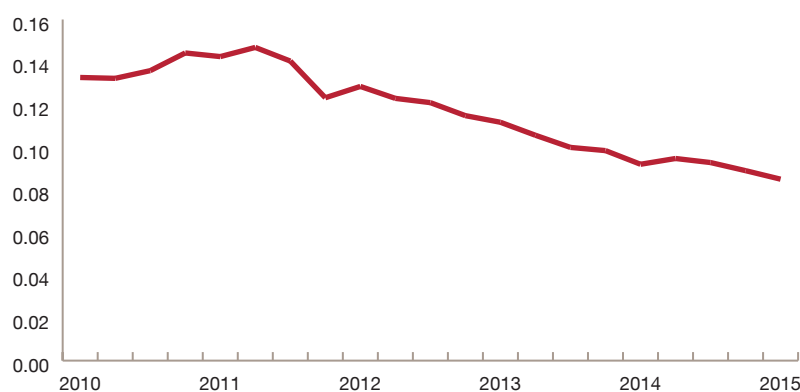
The establishment of the Economic Freedom Fighters political party and the growing popularity of the Democratic Alliance, which recently elected its first black leader, are viewed as positive for long-term democracy.⁹⁵

Figure 8.1 Real GDP growth and inflation



Source: International Monetary Fund

Figure 8.2 Historical ZAR/USD exchange rate



Source: Oanda

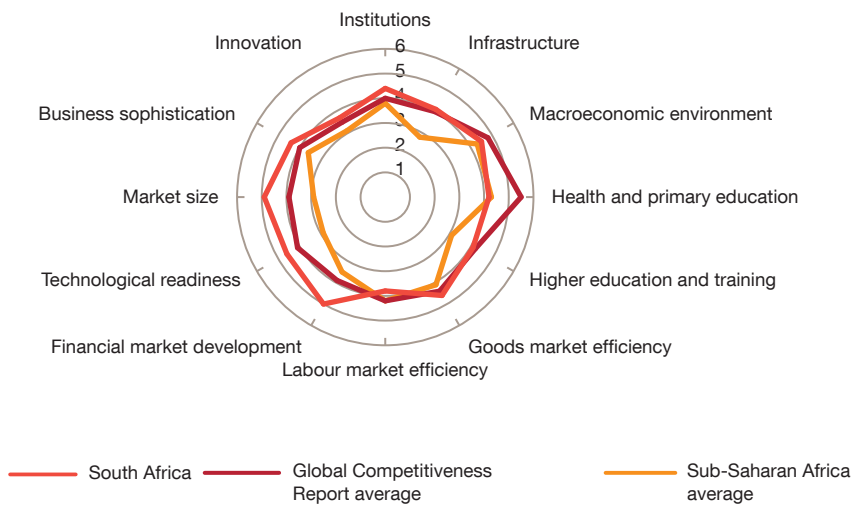


94 "Statement by Mr. David Lipton, first deputy managing director of the IMF, at the conclusion of his visit to South Africa." International Monetary Fund press release, March 6, 2015. International Monetary Fund website. Accessed May 15, 2015. <https://www.imf.org/external/np/sec/pr/2015/pr1595.htm>

95 "South Africa country risk report: Q2 2015." Business Monitor International. 2015.

Business environment

Figure 8.3 Global competitiveness: Performance overview



The *Global Competitiveness Report* is published annually by the World Economic Forum. The report assesses the competitive landscape of more than 130 economies and provides insight into the drivers of their productivity and prosperity. A score between 1 and 7 is awarded to 12 pillars, where 7 is best.

Source: World Economic Forum, The Global Competitiveness Index 2015-2016

South Africa remains one of sub-Saharan Africa's most competitive economies, with relatively well-developed infrastructure, an advanced financial system and a strong judiciary. But the country's business environment has been hit by a variety of troubles in recent years.

Top of these is an energy crisis due to inadequate capacity at state utility Eskom to fully supply electricity demand. Since December 2014, this has resulted in frequent load shedding. Although South Africa's installed capacity of more than 40 000MW is far superior to that of other sub-Saharan African countries, local companies' operational and business models historically didn't account for the need to generate their own power.

In April 2015, health and personal care retailer Clicks Group said load shedding has thus far cost it 1% of its trading hours, while Fruit & Veg City used generators to power critical appliances such as lights, tills and some fridges.⁹⁶

Supermarket chain Shoprite says a R4.3m (\$362 000) saving due to a drop in the fuel price in December 2014 was offset by R8.1m (\$682 000) spent on diesel costs to run its generators.⁹⁷ Although the government is addressing the power issue, it is currently uncertain when there will be adequate sustainable supply.

A more recent development has been the onset of a severe drought across many regions of South Africa. This is having significant consequences for food production and human welfare in the areas affected. Food inflation and imports to replace lost production are expected to begin impacting the economy later in 2016.

In the first half of 2014, South Africa's mining sector saw its worst labour strike in history as 70 000 platinum miners downed tools. The labour action had a devastating effect on business and the economy contracted by 0.6% in the first quarter of that year.

Although the disputes have been resolved, the high level of unionisation of the labour force holds a constant threat of industrial action and labour unrest for various industries. Not only does this disrupt business operations, but it also impacts disposable income as strikes take place on a no-work-no-pay basis.

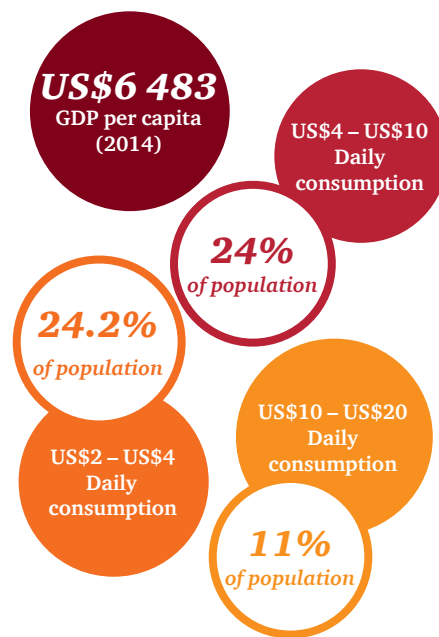
The South African rand, like most emerging-market currencies, has lost significant value against the US dollar, presenting considerable challenges for business.

"The rand plays havoc in our business as all our soft commodities and the bulk of our ingredients and packaging is priced in US dollars," says Phil Roux, Chief Executive Officer of Pioneer Foods.

⁹⁶ David Kneale. "Clicks Group Limited interim results for the six months ended 28 February 2015." Results presentation webcast, April 23, 2015.

⁹⁷ "Operational overview." Shoprite Holdings Ltd. February 2015. http://shopriteholdings.co.za/InvestorCentre/Documents/2015/AnalystPresentation_Feb2015-

Buying power and consumer behaviour



Sources: IMF; Mthuli Ncube and Charles Leyeka Lufumpa. *The Emerging Middle Class in Africa*. (Routledge, 2014)

South African consumers are generally under pressure due to high unemployment, over-indebtedness and steep living costs.

South African consumers are generally under pressure due to high unemployment, over-indebtedness and steep fuel and utility costs.

The FNB/BER consumer confidence index for the fourth quarter of 2015 collapsed close to multi-year lows, as adverse economic forces continued to hammer consumers. Consumers expect the economy to further deteriorate and although debt-to-income levels are slowly improving, many are not in a position to take on additional debt, a major headache for credit retailers.

These difficulties are forcing shoppers to adjust their consumption patterns by favouring lower priced products and foregoing discretionary purchases.

The higher-income strata are, however, more resilient to the current economic pressures, putting retailers that cater to their needs in a better position.

Nevertheless, consumers across the board are seeking greater value for money. “What began as a response to austerity in the global economic downturn has become a full-blown consumer trend among the more affluent as well as the less-affluent,” notes Pick n Pay Chief Executive Officer Richard Brasher in the company’s 2014 integrated annual report.⁹⁸

Time-constrained consumers are placing a greater premium on convenience and are seeking out neighbourhood stores and, to a lesser extent, online purchasing options.

Retailers are responding to this trend by developing a growing array of ready meals. A number of retailers have also partnered with fuel station operators to open convenience stores.

Woolworths has a successful partnership with fuel company Engen, and in 2009 Pick n Pay opened its Pick n Pay Express outlets in co-operation with BP. Fruit & Veg City has also launched its Freshstop stores in association with Chevron.⁹⁹

Shoppers at the upper end of the spectrum are becoming more demanding in terms of the products they expect to find on the shelves, especially due to the popularity of cooking shows and recipe books.

“Everybody wants to be a chef,” notes Brian Coppin, Managing Director of Fruit & Veg City. “Consumers are coming into our stores with their recipes, and we need to make sure we’ve got all those products, so all the high-end items like berries, chicory and all the spices.”

According to Mr Coppin, retailers not purely competing on price will only remain relevant by offering shoppers a unique experience. This is a sentiment echoed by Woolworths, which says “successful retailers give customers new reasons to visit with fresh formats, displays and experiences, including tastings, demonstrations, advice, personalised services and discussions. Stores need to engage and entertain – it is about more than just shopping.”¹⁰⁰

98 Pick n Pay. 2014 Integrated annual report 2014. http://www.picknpayinvestor.co.za/financials/annual_reports/2014/2_chief_executive_officers_report.php

99 “Country report South Africa.” Planet Retail. 2015.

100 Woolworths Holdings Limited. “2014 Integrated report.” http://www.woolworthsholdings.co.za/investor/annual_reports/ar2014/whl_2014_integrated_reprt1.pdf

Retail

Sluggish economic growth and a lack of disposable income are expected to keep retail sales suppressed in the medium term. Coupled with a fiercely price-competitive environment, retailers have to work harder and smarter to maintain growth. In the clothing sector, the entry of international brands such as H&M, Cotton On and Zara is likely to become an increasing threat to local chains.

Shoprite Holdings Managing Director and Chief Executive, Whitey Basson, says while the South African market is maturing for its Shoprite and Checkers supermarkets, there is still strong growth opportunity for the Usave chain, a smaller-format no-frills discounter focusing on lower-income consumers.¹⁰¹

Similarly, Pick n Pay wants to develop its Boxer banner, also aimed at the bottom end of the market, into a national brand.

Fashion retailers The Foschini Group (TFG) and Woolworths see potential in catering for the expanding black middle class, while Truworths wants to offer a wider spread of price points across all ranges and brands.

In the search for growth and to build economies of scale, South African retailers are also looking abroad. Recently, Woolworths paid about \$2bn for Australia's David Jones department store; Spar acquired a majority stake in Ireland's BWG Group; and TFG bought UK fashion group Phase Eight.

Expansion into the rest of Africa remains firmly on the agenda. While many sub-Saharan countries are growing at a much faster pace than South Africa, lower oil prices have put a damper on the prospects for crude producers such as Angola and Nigeria.

Other challenges in the rest of the continent include complicated supply chains and adapting merchandise to countries with warm year-round climates.

In 2013, Woolworths pulled out of Nigeria citing high rental costs, duties and supply chain challenges. Pick n Pay has also closed its underperforming operations in Mozambique and Mauritius.

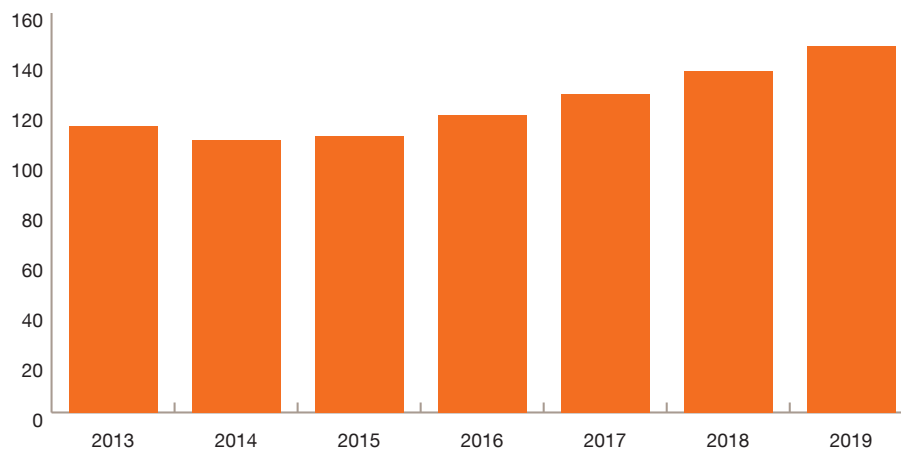
The past years have seen grocery retailers opening in-store pharmacies and standalone liquor outlets, as well as expanding existing categories – both Massmart and Woolworths have indicated their plans to enlarge their food offerings.

In an effort to invite “consumers to come and do all their business in one place”, as Shoprite Chairman Christo Wiese puts it, retailers are also pushing complimentary products and services such as money transfers, event and flight tickets and iTunes vouchers, as well as allowing customers to do financial transactions in-store.

Both food and clothing retailers now offer financial services products such as personal loans and insurance. For example, Edcon, in partnership with Hollard Insurance, sells Edgars- and Jet-branded insurance.

Retail sales are expected to remain suppressed in the near term because of sluggish economic growth and a lack of disposable income.

Figure 8.4 Total retail format sales (US\$ billions)



Source: Planet Retail

¹⁰¹ Shoprite Holdings Ltd. “2014 Integrated Report.” http://www.shopriteholdings.co.za/InvestorCentre/Documents/2014/IntergratedReport2014/5206_Integrated_Report.pdf

Leveraging technology

Retailers are increasingly employing technology to drive sales and better engage with customers. Compared to western markets, online retail has been relatively slow to catch on in South Africa. While most retailers already have some form of e-commerce offering, bricks-and-mortar is expected to dominate for the foreseeable future, which gives companies adequate time to streamline their online strategies.

The industry is, however, showing promising potential. Clothing retailer Mr Price grew its online sales from R15m (\$1.3m) in 2013 to R45m (\$3.8m) in 2014, a 195.3% increase.¹⁰²

Although many consumers are not yet ready to shop via the internet, they are researching products online before going to buy them in-store, making it essential for retailers to have an adequate online presence.

Mirroring global trends, the South African retail scene is likely to move towards offering shoppers a seamless experience between the online and physical worlds, and communicating with customers through both traditional and digital channels. For example, some retailers now send out discount vouchers via SMS.

At its outlet at Cape Town's V&A Waterfront, Mr Price has installed tablet computers that allow shoppers to browse products online. Massmart has announced plans to roll out secure lockers at locations such as petrol stations and fast-food restaurants where customers can collect online orders. Increasingly, sophisticated loyalty programmes are also giving retailers greater consumer insights.

"We believe digital marketing, particularly through the use of mobile technology, has enormous potential for our business. Effective utilisation of customer data gathered from electronic marketing channels allows us to construct profiles of individual shoppers so we can market to their specific needs," says Whitey Basson in Shoprite's 2014 annual report.¹⁰³

To the point

Johan Enslin, Chief Executive Officer, Lewis Group

Lewis Group is a leading credit retailer selling household furniture and electrical appliances through the Lewis, Best Home and Electric, and Beares brands.

Q How is Lewis Group being impacted by South Africa's electricity generation problems?

A As long as load shedding is being kept to less than three hours a day, it is not a material problem for us. We've got ways and means to serve customers even if the power is off. Everybody in high-street South Africa is in the same position. Companies with a cold chain are far worse off than a business like ours.

Q Through its 're-serve' programme Lewis Group identifies existing customers for further credit based on their payment history. Tell us more about this initiative.

We are very proud of the fact that about 50% of all our sales are repeat sales. Our customers will generally not commit to a second purchase until they've settled their current account. However, we have specific offers that we market to customers as they come closer to settling their accounts.

A very important tool is that we don't allow customers to pay their bills via debit orders. A customer has to come into the store on a monthly basis to settle his or her account. We utilise these visits to build personal relationships and to also expose them to new merchandise.

Q What steps have Lewis Group taken to optimise its supply chain?

A One of our competitive advantages is that we don't have big distribution centres. Every shop has its own standalone storeroom that falls under direct control of the local store manager.

Typically, we will have retail space of between 200m² to 400m², as well as a storeroom of about 300m². The storeroom is not situated adjacent to the outlet, but normally in an industrial area where rentals are more favourable.

Typically, 95% of our sales are delivered to the customer on the same day, whereas the average time for furniture retailers that make use of distribution centres is between three and seven days. Customers don't want to wait.

Key to the success of this model is a sophisticated planning system that ensures we have the right merchandise in the right place at the right time. We also have an IT system that gives the store manager full visibility of all merchandise available within an 80km radius of his or her store.

Q What is the biggest risk currently facing the company?

A The biggest risk facing Lewis Group is one that faces the economy as a whole, and that is unemployment. At this point there is no clear catalyst that will spur job creation. But luckily, in the furniture retail industry we've got a small economy within the bigger economy, and the demise of Ellerines (a furniture retailer that went under business rescue) actually offers a lot of potential market share gains in the short and medium term. We believe this, together with exclusive merchandise, will drive top-line sales in the short and medium term.

¹⁰² Mr Price analyst presentation. http://www.mrpricegroup.com/MRPG/media/MRPG/Files/2015_InterimResults/MRPG-IR-Presentation-Sep-14-Analyst.pdf

¹⁰³ Shoprite Holdings Ltd. "2014 Integrated Report."

Consumer goods

A highly competitive market against a backdrop of sluggish economic growth is leaving consumer goods companies with little room to manoeuvre.

Similarly to the retailers, many South African consumer goods manufacturers are targeting the rest of Africa for growth in terms of both exports and acquisitions.

In recent years, FMCG producer Tiger Brands has bought companies in Kenya, Ethiopia, Cameroon and Nigeria; alcoholic beverage maker Distell has acquired a Kenyan wine and spirits business and also invested in bottling lines in Ghana and Angola; and dairy company Clover has targeted opportunities in West Africa.

But competition in these economies has intensified as local and multinational manufacturers have also expanded their operations.

Fast-moving consumer goods

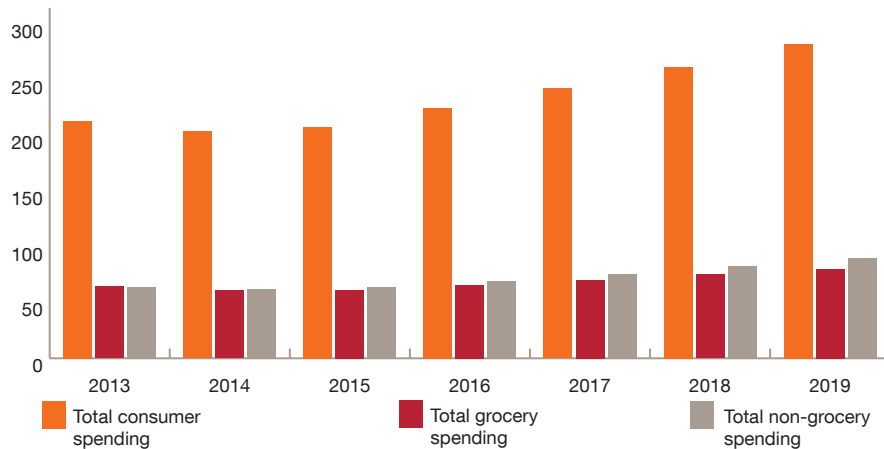
With cut-throat competition and little help from the macroeconomic environment, FMCG companies are prioritising cost control and operational efficiencies.

There is also an emphasis on further developing core brands, product innovation and enhancing the value proposition to consumers. Companies have to play a balancing act of positioning products at the right price points, while accounting for rising input costs.

At the upper end of the market there is a budding demand for healthier foods. Woolworths has, for example, capitalised on a new dietary trend by introducing low-carbohydrate ready meals.

“Consumers are becoming more aware of the salt and sugar content in foods. There is also a focus on functional foods. Although still relatively small, it is definitely a trend we can’t ignore. So it’s reflected in our product development efforts and also some reformulation work in existing products,” notes Mr Roux of Pioneer Foods.

Figure 8.5 Spending forecast (US\$ billions)



Source: Planet Retail

With annual beer consumption of 64 litres per capita, South Africa is one of the continent’s largest beer markets. However, SABMiller, the dominant brewer with about 90% market share, still views the country as a growth market.

Trends SABMiller expects to see driving alcohol sales are the large number of South Africans who will enter the legal drinking age in the coming years, as well as a declining number of women abstaining from alcohol.¹⁰⁴

Clothing and footwear

South Africa’s developed fashion retail industry offers a robust market for clothing and footwear manufacturers. However, since the turn of the century the once thriving garment industry has struggled to compete against more cost-effective producers from China and clothing jobs more than halved from 220 000 in 2002 to 100 000 in 2011.¹⁰⁵

Of late, the sector has seen some stabilisation due to retailers’ increasing focus on ‘fast fashion’, which demands speed to market and subsequent shorter supply chains.

The Southern African Clothing and Textile Workers’ Union (SACTWU), which represents the majority of workers in the industry, has called on government to centralise the tender process for the public procurement of clothing and textile products and to make the system more transparent.

While it is mandatory for the government to buy clothing, textile, footwear and leather (CTFL) products domestically, SACTWU says opaque tender processes have created loopholes, resulting in the state still buying imported CTFL products.¹⁰⁶

To build capacity among local manufacturers, the state has rolled out the Clothing and Textile Competitiveness Improvement Programme (CTCIP), through which it issues targeted grants to manufacturers. The recent electricity load shedding has, however, put renewed pressure on the industry.

¹⁰⁴ “Quarterly divisional seminar: South Africa presentation transcript.” SABMiller. March 31, 2014.

¹⁰⁵ Tansy Hoskins. “Ethical fashion: saving South Africa’s clothing industry.” *The Guardian*, February 2, 2015. Accessed May 15, 2015. <http://www.theguardian.com/sustainable-business/sustainable-fashion-blog/2015/feb/02/ethical-fashion-rebuild-south-africa-garment-industry>

¹⁰⁶ “Centralised state procurement.” Southern African Clothing and Textile Workers’ Union press release, April 1, 2015. SACTWU website. Accessed 15 May, 2015. <http://www.sactwu.org.za/news/411-centralised-state-procurement>



Consumer durables

BMI predicts new-vehicle sales to remain depressed over the short term due to fragile macroeconomic fundamentals.¹⁰⁷ According to JD McIntosh, Chief Executive Officer of automotive retailer CMH Group, “The weakening of the rand will inevitably result in price increases and a continued trend in favour of lower-priced models.”¹⁰⁸

From a production point of view, South African-based vehicle manufacturers are also facing headwinds, particularly due to the power crisis. Mario Spangenberg, Chief Executive Officer of General Motors Africa, told PwC that he expects sales to contract over the short term, but anticipates the situation to improve as the economy stabilises. He highlights labour tensions, infrastructure problems and a weak rand as some of the major challenges facing the industry.

BMW South Africa signed a power purchase agreement with a biogas-electricity producer in 2014, which will allow its plant in Pretoria to be 30% powered from renewable sources.¹⁰⁹

The feeble currency is pressing some durable-goods retailers to source more products locally, creating opportunities for domestic manufacturers. Whereas furniture and home appliances group Lewis used to import around 50% of its furniture, this has now been reduced to 25% in the most recent financial year.

In the electronics category, Samsung recently opened a television manufacturing facility at the Dube TradePort outside Durban. Matthew Thackrah, Deputy Managing Director of Samsung South Africa, says it wants to eventually supply the greater Southern African Development Community region from the plant.

107 “South Africa country risk report: Q2 2015.”

108 Combined Motor Holdings Limited. “Integrated Annual Report 2015.” <http://www.cmh.co.za/ClientData/Platform4Auto/455/WebsiteDownloads/CMH%20integrated%20annual%20report.pdf>

109 “Renewable energy to power BMW’s Rosslyn plant.” BMW South Africa press release, October 28, 2014. https://www.press.bmwgroup.com/south-africa/pressDetail.html?title=renewable-energy-to-power-bmw%E2%80%99s-rosslyn-plant&outputChannelId=45&id=T0195467EN&left_menu_item=node__803

Supply chain

Grocery retailers are focusing on optimising supply chains and improving distribution infrastructure. Some have made greater strides in this regard than others. Shoprite credits much of its success to its centralised distribution system and the fact that it controls its own logistics.

As part of its turnaround plan, Pick n Pay is also centralising more of its suppliers and boosting distribution centre productivity.

Recently, Clicks implemented a new demand-driven replenishment system that integrates both store and distribution centre replenishment.¹¹⁰

In the electronics category, Samsung has opened a manufacturing /assembly facility at the Dube Trade Port outside Durban.

Matthew Thackrah, Deputy Managing Director of Samsung South Africa, says that Samsung intends to supply the greater South African Development Community region with products from the plant. Several future factors will play a role to fulfil this intent.

To capitalise on the latest fashion trends, clothing retail groups such as Woolworths, Edcon and Truworths are working on increasing speed to market by developing their Southern African suppliers.

Domestic clothing manufacturers offer shorter lead times and can quickly produce styles that sell well during a particular season. By implementing 'fast fashion' processes, Woolworths says it has been able to get to market in just five to seven weeks with more than 30% of its goods.¹¹¹

This provides a unique opportunity for local clothing manufacturers, which have been under significant strain in recent years.

Similarly, Truworths says the pressure from international retailers has also created an opportunity for unique designs and customised ranges by leveraging local knowledge, as opposed to merely replicating northern hemisphere fashion.¹¹²

To enhance margins, South African retailers are increasingly developing their private-label offerings, presenting a potential threat for FMCG manufacturers.

According to Michael Wood of FMCG consultancy Aperio, private labels are no longer cheap alternatives, but have evolved into trusted brands. Private labels are becoming more sophisticated with Pick n Pay, for example, having a range of in-house brands that cater for various income groups and consumer needs. The result is that FMCG brands now have to differentiate their brand benefits even more strongly.¹¹³

Retailers are focusing on optimising supply chains and improving distribution infrastructure, including increasing speed to market.

110 Clicks Group Limited. "Integrated annual report 2014." <http://www.clicksgroup.co.za/IRDownloads/AnnualReport2014/Clicks-IAR14-web.pdf>

111 Woolworths Holdings Limited.

112 Truworths International. "Integrated report 2014." https://www.truworths.co.za/assets/investor/2014/september2014/Truworths_IAR%202014%2025%20Sept.pdf

113 Michael Wood. "Private label brands are the biggest threat to FMCG companies". Aperio website. Accessed May 15, 2015. <http://www.aperio.co.za/index.php/home/blog/25-blog/93-private-label-brands-are-the-biggest-threat-to-fmcg-companies>

To the point

Phil Roux, Chief Executive Officer, Pioneer Foods

Johannesburg Stock Exchange-listed Pioneer Foods is one of South Africa's largest producers and distributors of food items. Its products include Weetbix, White Star, Sasko, Ceres and Liqui-Fruit.

Q What is your outlook for the South African economy and how are you growing Pioneer's business?

A With deep structural challenges in the South African economy, our outlook for the next five years is particularly muted. We have right-sized the organisation and put a lid on costs.

Whereas Pioneer used to be independently run between the business units, we've centralised our procurement, logistics, shared services, finance and administration functions.

To strengthen our brands we are paying a lot more attention to understanding consumer needs. We've also rationalised our SKUs and have a deeper focus on seven power brands.

Q How is the growth in private labels impacting your business?

A Firstly, we are a big private-label packer ourselves, doing products such as bread and pasta for retailers. So we have a hybrid approach to private-label. When it makes sense, we do private-label.

But in the categories we don't participate in, we take the threat of private labels very seriously, and there is only one thing we can do about it, and that is to continually strengthen our brand position.

Private labels are not going to go away. While they are under-developed in South Africa, they have the scope to increase. Luckily, we also have quite a high degree of brand commitment in South Africa.

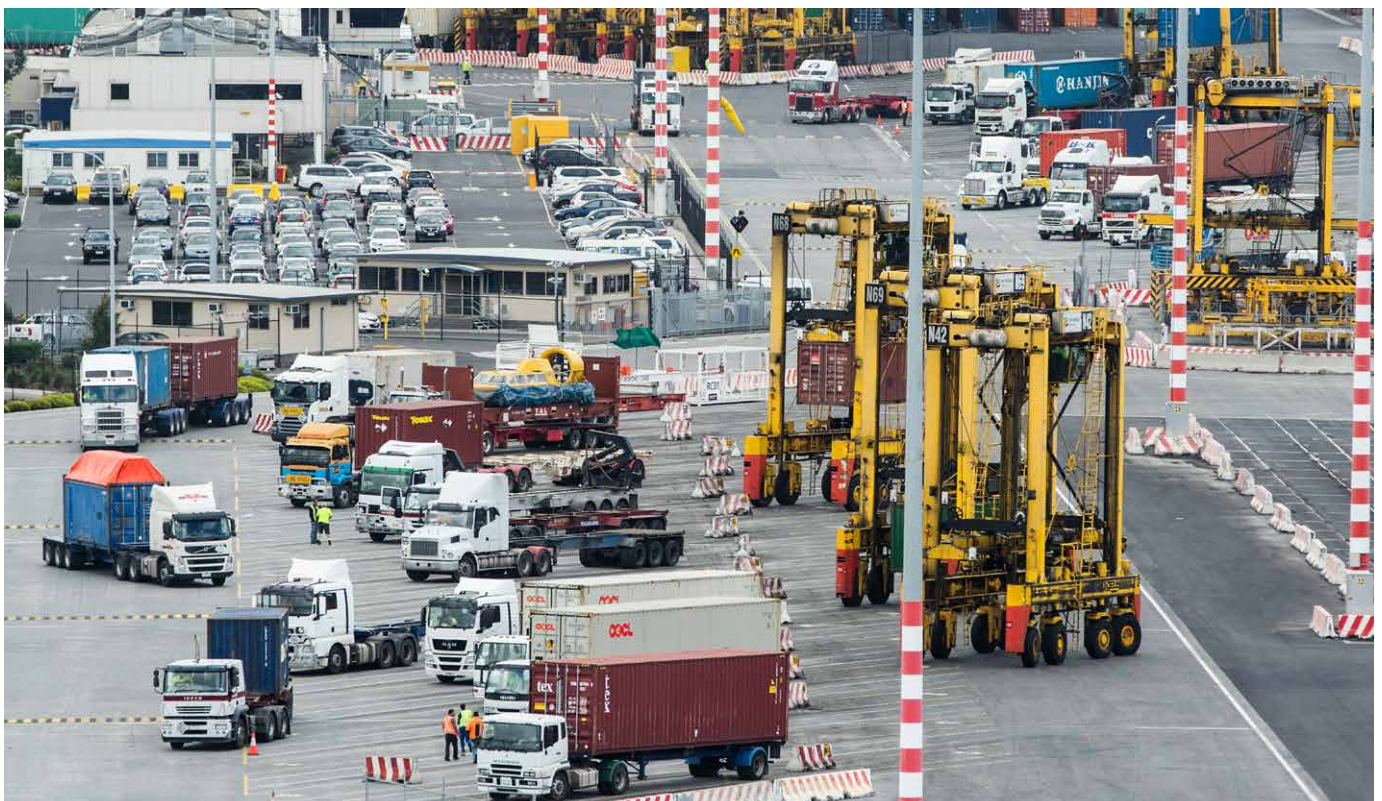
Q Pioneer recently made an investment in Nigeria. Tell us about this and your thoughts on the Nigerian economy.

A Nigeria is a bit in the doldrums at the moment, but if you become bearish about Nigeria you are silly, it is a massive economy. The oil price also won't stay low forever. We invested \$7m in a company called Food Concepts Pioneer Limited, which owns a baked goods business producing bread and sausage rolls.

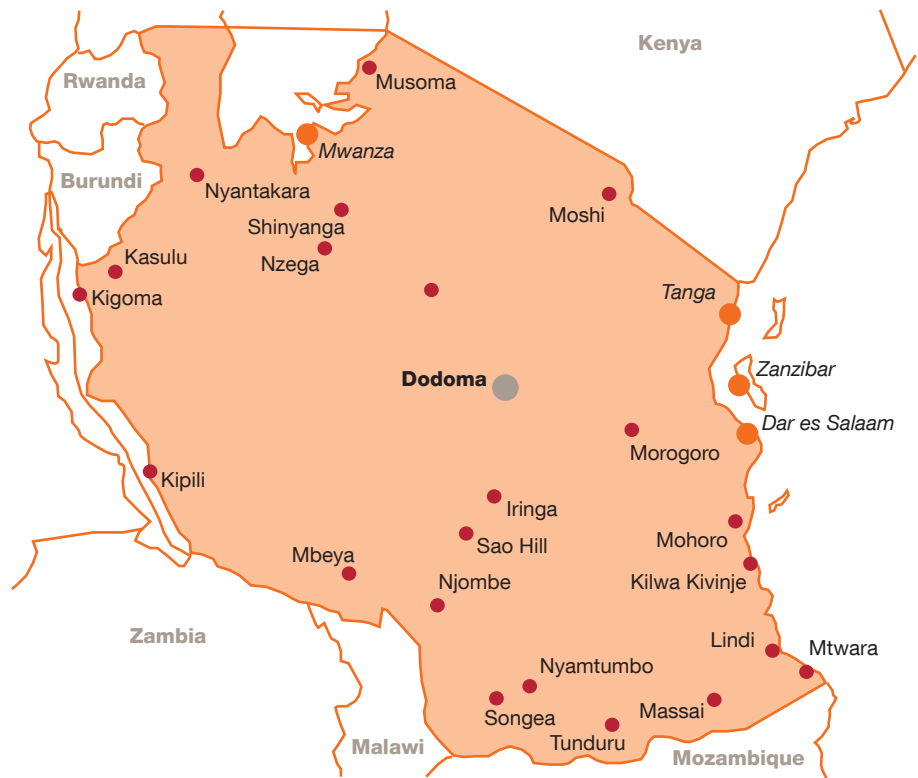
We are slowly learning the market, and if that culminates in us building a commercial bakery in a few years' time to give us real scale, that's what we'll do.

Q What factors are central to the long-term success of Pioneer?

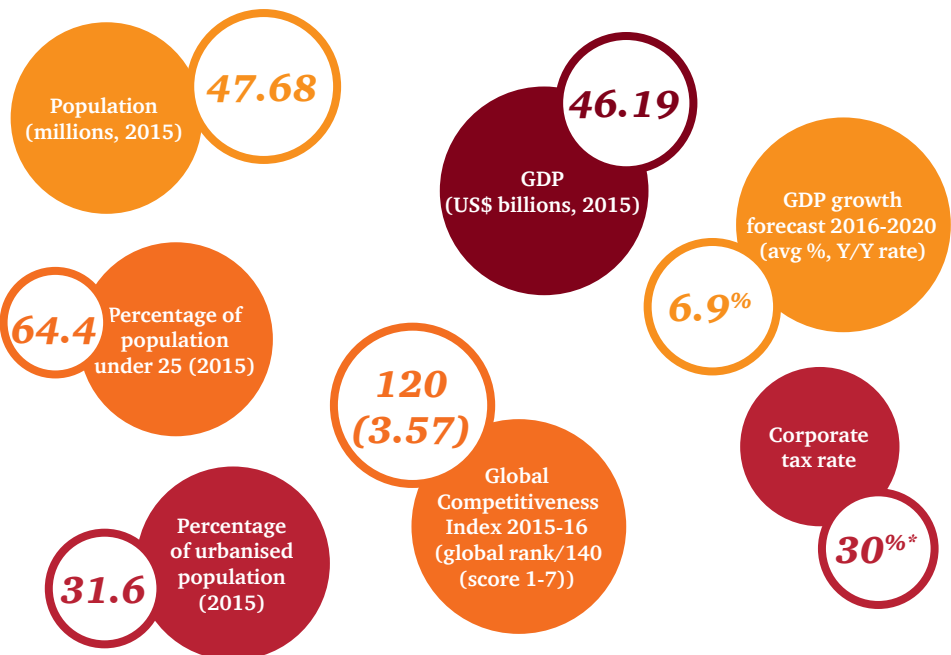
A The first thing is, we have to keep strengthening our core brands. Secondly, domestic growth in South Africa won't be sufficient, so we have to grow acquisitively. The third thing is that if you are going to survive in South Africa, you'd better have the lowest possible cost base, be highly efficient and have scale.



9. Tanzania



Opportunities	Challenges
Development of natural gas industry holds significant upside potential for the economy.	Insufficient power and transport infrastructure is a constraint to business.
Political risk is limited, although corruption remains a concern.	Companies typically need a large product portfolio due to low income per capita.
FMCG manufacturers see opportunities to grow their product portfolios and introduce new local brands in the market.	Retailers are challenged by high rental costs and long supply chain lead times.



* Newly listed companies qualify for a reduced rate of 25% for three years. Companies providing technical and management services to mining, oil and gas companies are taxed at 5% of turnover.

Sources: International Monetary Fund; World Economic Forum; World Bank, UN Population Division; PwC

Economy and business environment overview

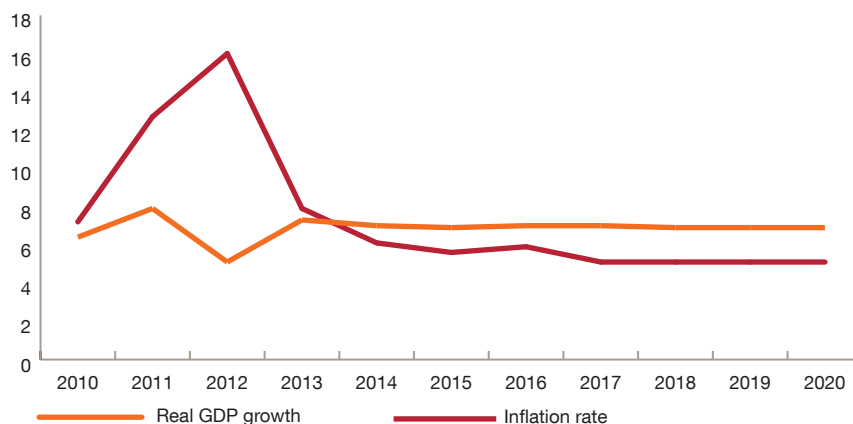
Economic outlook

In recent years Tanzania's economic growth has been supported by the communications, transport, financial intermediation, construction, agriculture and manufacturing sectors.¹¹⁴

Projected average annual GDP growth of 6.9% from 2016 to 2020 will be underpinned by infrastructure investments and development of the country's offshore natural gas deposits, estimated to be as much as 55tr cubic feet of gas.

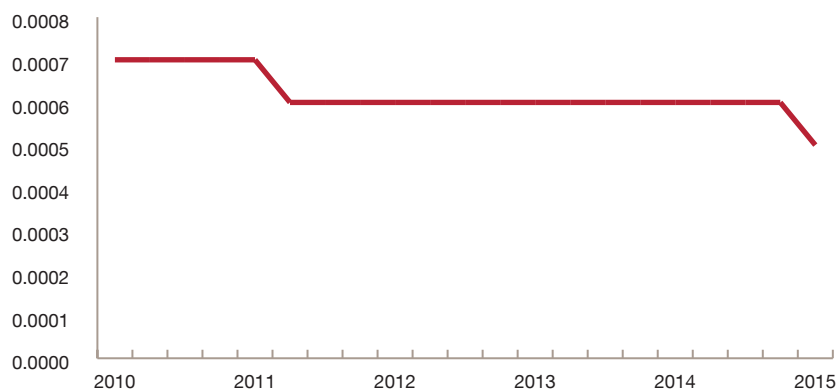
However, the bulk of the industry is still in exploration phase, and final investment decisions are some years away. According to Norway's Statoil, construction of a liquefied natural gas plant, which is needed to export Tanzania's gas, is likely to only be completed by 2022.¹¹⁵

Figure 9.1 Real GDP growth and inflation



Source: International Monetary Fund

Figure 9.2 Historical TZS/USD exchange rate



Source: Oanda



114 Prosper Charle, Rogers Dhlwayo and Josef Loening. "African Economic Outlook: Tanzania 2014." African Development Bank, Organisation for Economic Co-operation and Development, United Nations Development Programme (2014). http://www.africaneconomicoutlook.org/fileadmin/uploads/aeo/2014/PDF/CN_Long_EN/Tanzanie_EN.pdf.

115 Leonard Mwakalebela. "Construction of LNG plant to take seven years." Daily News Online Edition, November 29, 2014. Accessed March 9, 2015. <http://www.dailynews.co.tz/index.php/local-news/38817-construction-of-lng-plant-to-take-seven-years>.

Business environment

Inadequate power and transport infrastructure is a constraint to business in Tanzania. FMCG manufacturer ChemiCotex, for example, has its own generators with a total capacity of 1.9MW to ensure constant electricity supply to run its plant in Dar es Salaam.

In addition, online retailers lament the lack of paved roads and proper street addresses, which makes delivering goods difficult.

To address these challenges, Tanzania is implementing large-scale infrastructure projects such as the Chinese-funded 542km natural gas pipeline from Mwaura, in the south, to Dar es Salaam, aimed at improving power generation; upgrading of the railway infrastructure on the Dar es Saalam-Isaka section of the East African Central Corridor; and establishing a new \$11bn port and special economic zone in Bagamoyo.¹¹⁶ Construction of new roads is also ongoing.

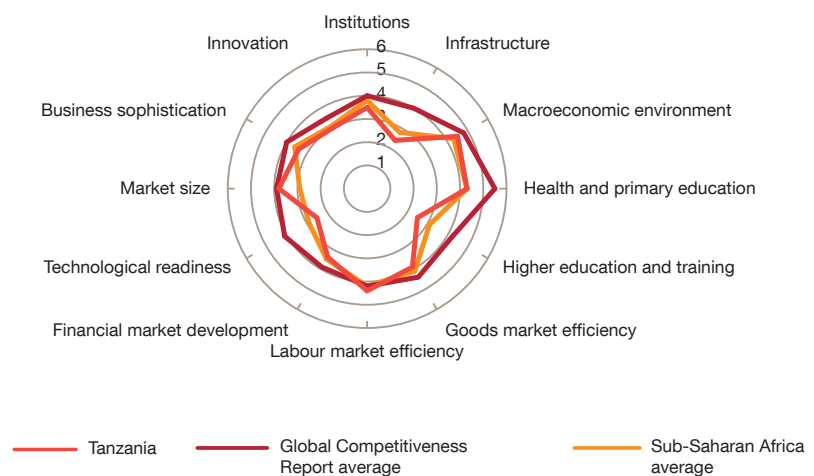
While business leaders cite political stability as one of the benefits of operating in Tanzania, corruption remains a key concern.

Business success in Tanzania requires companies to have local managers who are well versed in the local environment. Limited skilled talent in a competitive labour market is, however, a challenge.

Dar es Salaam is the undisputed commercial hub, with a population of about 4.4 million.¹¹⁷ UN Habitat expects it to reach megacity status within a generation from now if current growth trends persist.

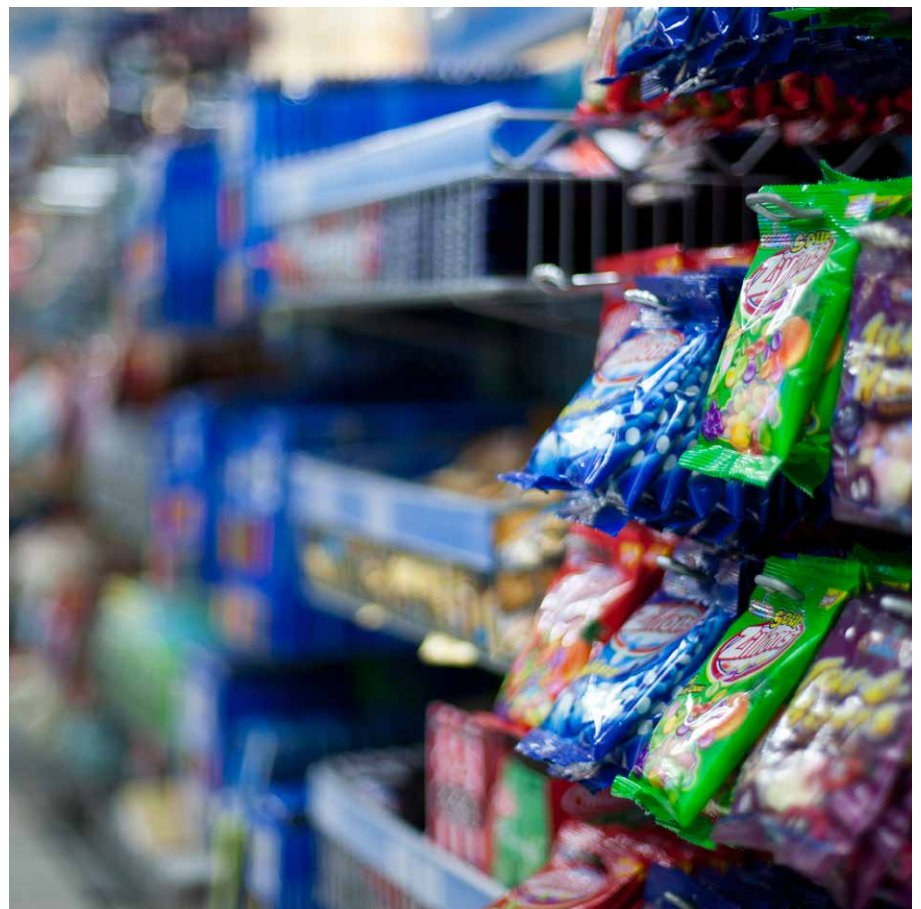
Other populous cities include Mwanza, Arusha, Dodoma (the capital), Mbeya, Morogoro, Tanga and Zanzibar City.

Figure 9.3 Global competitiveness: Performance overview



Source: World Economic Forum, The Global Competitiveness Index 2015-2016

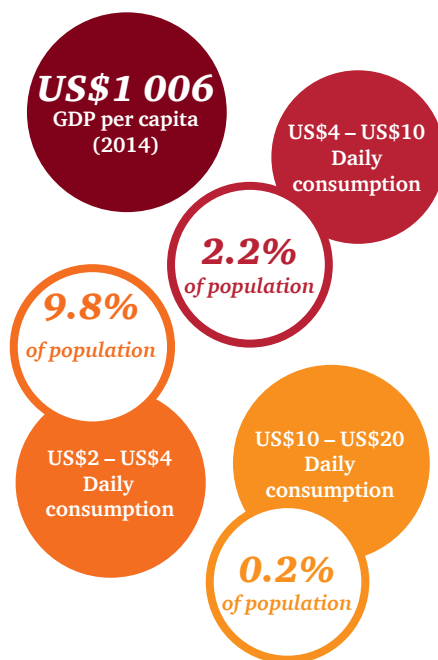
The *Global Competitiveness Report* is published annually by the World Economic Forum. The report assesses the competitive landscape of more than 130 economies and provides insight into the drivers of their productivity and prosperity. A score between 1 and 7 is awarded to 12 pillars, where 7 is best.



¹¹⁶ Edith Honan. "Tanzania dreams big with port project at former slave harbour." Reuters, March 15, 2015. Accessed July 21, 2015. <http://www.reuters.com/article/2015/03/15/tanzania-ports-bagamoyo-idUSL1N0WF0AS20150315>

¹¹⁷ "The state of African cities." UN-Habitat. 2014.

Buying power and consumer behaviour



Sources: IMF; Mthuli Ncube and Charles Leyeka Lufumpa. *The Emerging Middle Class in Africa*. (Routledge, 2014)

Tanzania's economic growth has not been sufficiently broad-based and poverty levels remain high. Consumers in rural areas are generally dependent on agriculture and their purchasing power therefore heavily influenced by harvests and the weather.

Local business leaders also have mixed perspectives on the expansion of the middle class. Leading tea company Chai Bora says that while there has been a rise in incomes, it has not had a material impact on its business.

“For the last 10-15 years there has been some growth in the middle class, but there are almost 50 million people in this country. If we had a middle class of one million ten years ago, now it is 1.2 million. On paper that looks good because it's 20% growth. But in reality that growth is negligible compared with the overall population,” says the company's Managing Director, Kapila Ariyatilaka.

“The shift from mass market brands to premium brands is very small. For instance, our numbers don't show that the person drinking our mass market tea brand has now moved to the luxury brand. The volumes show very marginal changes,” adds Mr Ariyatilaka.

For others, spending growth is, however, more tangible. “If you look at our premium spirits business you will see it is doubling every six months, and that really is an indication of an emerging middle class,” notes Steve Gannon, Managing Director of Serengeti Breweries, majority-owned by Diageo subsidiary East African Breweries.

“People's awareness of premium brands is increasing. People know Johnnie Walker and are beginning to learn about malt whisky. From our perspective, there is a group of people who are now learning about luxury brands, and spending on those brands, and they are generally the so-called emerging middle class.”



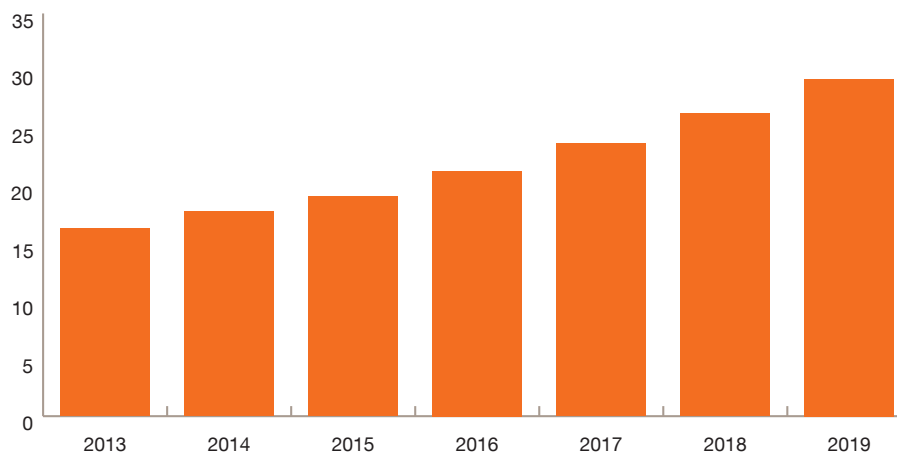
Retail

Compared to neighbouring Kenya, modern trade is less developed in Tanzania. At Dar es Salaam's bustling Kariakoo market, hundreds of traders sell everything from food to fashion. Informal shops tend to be cheaper than supermarkets since they do not charge VAT and may even sell smuggled goods.

Locals also find it frustrating to travel long distances to formal grocers. Despite Tanzania's larger population, the retail market is also smaller than Kenya's. Total retail format sales in 2014 were \$17.8bn, compared to \$25.8bn in Kenya.



Figure 9.4 Total retail format sales (US\$ billions)



Source: Planet Retail

Compared to some other countries in the region, Tanzania is less developed and presents a far more challenging environment in which to succeed in business.

Kenyan supermarket chain Nakumatt is active in Tanzania, with five stores. A number of other foreign brands such as Game (South Africa), Mr Price (South Africa) and Baby Shop (Bahrain) also have a limited presence.

South African chain Shoprite also sold its three outlets to Nakumatt, describing its operations in Tanzania as unprofitable.¹¹⁹

However, not everyone has found success in the Tanzanian market. In 2012, Kenyan retailer Deacons pulled out of the country citing expensive rentals, long supply chain lead times, a small upper-middle class and the generally high cost of doing business as the major reasons for its exit.¹¹⁸

¹¹⁸ "Deacons withdraws from the Tanzania market as it expands to the rest of the region." Deacons Kenya Ltd. press release, February 10, 2012. <http://deacons.co.ke/site/images/Tanzania%20Press%20Release.pdf>

¹¹⁹ Shoprite Holdings Ltd. "2014 Integrated Report." http://www.shopriteholdings.co.za/InvestorCentre/Documents/2014/IntergratedReport2014/5206_Integrated_Report.pdf

Changing consumer culture

Shopping mall culture is slowly picking up. One of the first modern malls was the 19 000m² Mlimani City that opened in 2006. Other notable shopping centres in Dar es Salaam are the Quality Centre and the Msasani City Mall.

“The consumer culture here will change significantly in the next few years. The small mom-and-pop stores will exist, but the emerging middle class, which I think is growing deceptively quickly, will not want to shop at Kariakoo market. They will demand a more comprehensive retail experience,” says Farouk Jivani, CEO of office supplies and electronics distributor DESPEC.

Due to the limited number of A-grade malls, many international and local brands trade out of smaller shopping centres and office blocks with a retail component. For example, KFC, Subway and local coffee house Black Tomato operate out of the eight-storey Diamond Plaza building in Dar es Salaam.

To the point

Kapila Ariyatilaka, Managing Director, Chai Bora

Chai Bora is a leading Tanzanian tea company with multiple products. In 2008, Kenyan investment company TransCentury acquired the brand from its previous owner, Tanzania Tea Packers (Tatepa). In 2013 TransCentury sold the business to East Africa-focused private equity fund Catalyst Principal Partners.

Q Chai Bora recently acquired a condiment manufacturing company. What were the reasons behind this, given that your company is known for tea?

A This market consumes roughly 5.4m kg of tea a year, compared with 25m kg consumed in neighbouring Kenya. So even though the population here is bigger by five million, the tea market is just one fifth of the Kenyan market. This is because the middle-income population in Tanzania is smaller. Everybody drinks tea, but not necessarily three or four cups a day.

This being a small market, we are looking at Chai Bora transitioning from a tea company to a food and beverages company. We recently acquired Dabaga's, a local manufacturer of tomato ketchup, jams and pickles, and we intend to expand that business. That said, we do expect to see growth in tea and coffee consumption as Tanzanians are becoming more health conscious. Carbonated drinks have received a lot of bad press recently.

Q Should investors be concerned about the recent elections?

A Tanzania is one of the most stable countries in the region and political risk is minimal. I have witnessed five elections in this country and each time business continues as before. What tends to happen is currency fluctuations caused by the political aspects relating to finance – for example donors freezing aid as corruption scandals emerge. Ultimately, although such macro-economic changes do affect all businesses, outbreaks of violence are highly unlikely.



Consumer products

Planet Retail expects annual consumer spending to increase from \$24.3bn in 2014 to \$40.2bn by 2019. However, for many local consumer goods manufacturers the market is too small to only sell one product, which is why they tend to have sizeable portfolios.

For example, MeTL Group, one of the largest conglomerates, trades in everything from flour and cashew nuts to bicycles and textiles.

ChemiCotex is also active in a variety of categories, including oral care, cosmetics and food.

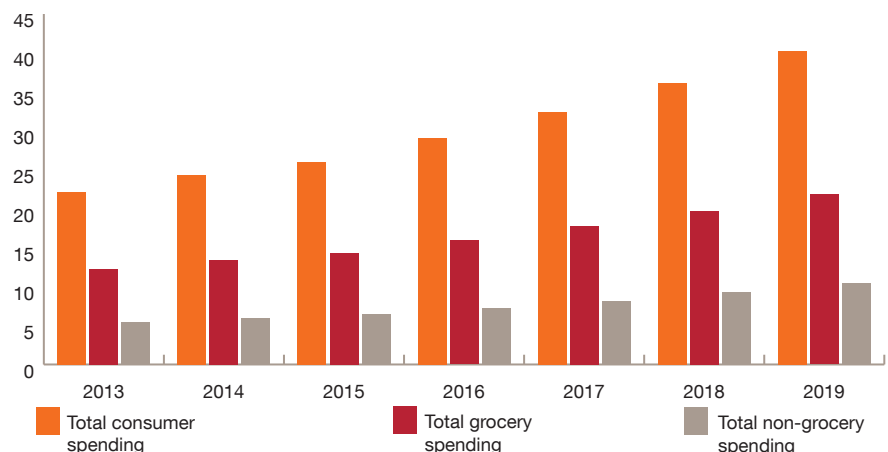
“Depending on one product line/category can put the bottom line under pressure during demand swings due to low per capita income leading to higher price elasticity,” says LN Rathi, Managing Director of ChemiCotex.

Correct product pricing is critical for success in Tanzania. ChemiCotex’s products are priced to appeal to low- and middle-income consumers. One of its winning strategies has been to pioneer free toothbrushes alongside its Whitedent toothpaste brand.

“If you give consumers a good product at a relatively fair price they will embrace it. Whitedent holds a large market share in Tanzania because it is just as good as our nearest competitor, but is priced affordably,” explains Mr Rathi.

Price generally trumps brand in Tanzania. “I would say about 30% of the population is brand conscious, but everybody is price conscious. You cannot overprice your products otherwise the consumer will move to the next available option. You may have a strong brand and excellent quality, but still price has a place,” says Mr Ariyatilaka of Chai Bora.

Figure 9.5 Spending forecast (US\$ billions)



Source: Planet Retail

Fast-moving consumer goods

Home-grown consumer goods companies effectively compete with international brands. In 2014, MeTL Group launched its own soft drink, Mo Cola, pitting itself against the likes of Coca-Cola. Its competitor Bakhresa Group, a diversified family business, also sells its Azam Cola.

“We make sure the quality is top-notch and the product is competitive in terms of pricing, and we’ve been very successful. People want to relate to the local brands,” says MeTL Group CEO, Mohammed Dewji, of the soft drink brand.

According to Mr Dewji, MeTL Group’s vast distribution infrastructure and the fact that it is active in a large number of product categories, gives it an advantage over multinationals.

It has over 100 retail outlets throughout Tanzania that also act as points where farmers can sell their produce to the company. “Any farmer that walks into one of my outlets and wants to sell a commodity, whether it may be cashew nuts or maize, I will buy it... [and if] he wants to buy a bicycle, I manufacture bicycles. He wants to buy sugar? I sell sugar. So it is a one-stop shop.”¹²⁰

The spirits category holds opportunity for alcoholic beverages companies. Mr Gannon, Managing Director of Serengeti Breweries, highlights growing the category as a key strategy.

The formal spirits market is dominated by the Konyagi brand, owned by SABMiller-controlled Tanzania Distilleries. As is the case in other parts of the continent, much of the beer consumed in Tanzania is in the form of home brews. Potential therefore exists to turn these drinkers into formal alcohol consumers.

SABMiller, for example, is addressing this market with its low-cost Eagle brand. Alcoholic beverages companies typically struggle with interrupted electricity supply, water shortages and counterfeit products.¹²¹

Tanzania’s home and personal care category features a mix of local players and multinationals such as Colgate-Palmolive, Beiersdorf, Procter & Gamble and Unilever.

Most international brands manufacture their products either in Kenya or in South Africa and export to Tanzania. ChemiCotex sees potential for growth in hair care and cosmetics products, as well as exporting to the greater East African region.

¹²⁰ Mohammed Dewji. “Africa’s new multinationals.” Africa Global Business Forum. Dubai. October 2, 2014. Accessed July 21, 2015. <http://africaglobalbusinessforum.com/gallery/agbf-2014#overlay-context=agbf-2014-day-1>.

¹²¹ Tanzania Breweries Ltd. “2014 Annual Report.” <http://www.sabmiller.com/docs/default-source/investor-documents/reports/2014/financial-reports/tanzania-breweries-ltd-annual-report-2014.pdf?sfvrsn=2>



Fashion and apparel

Mr Dewji, CEO of METL Group, believes Tanzania has the potential to compete with Asian textile and garment producers. He highlights local cotton production as well as relatively cheaper power and labour as positives for the industry.¹²²

METL Group is one of the largest textile manufacturers and owns three local textile companies that produce a variety of products, including kitenge and khanga (traditional African print wraps), shirting, suiting and dress material.

In footwear, local producer Bora Industries is a significant player and the leading manufacturer of slippers and sandals.

Consumer durables

Tanzania has limited local production of consumer durables, with most electronics, white goods and vehicles being imported fully assembled. Mr Jivani, CEO of DESPEC, says Tanzanian consumers are just as demanding as those in the developed world, albeit in different ways. For example, consumers are hesitant to buy electronics from brands that do not have a dedicated service centre network to support the product.

“There are no brands that hold insurmountable value in the customer’s eyes, so there is room to introduce new brands. But you have to build value around those brands. You can’t come in here and dump your products, make a margin and go. When they buy a mobile phone, consumers will ask where your service centre is,” notes Jivani.

Supply chain

For consumer goods manufacturers, distribution is a major challenge considering Tanzania's vast size. Companies wanting to reach the mass market have to invest heavily in their route to consumer systems.

ChemiCotex handles its own distribution with 13 centres across the country and a fleet of 140 vehicles that deliver goods to semi-wholesalers.

"Our products are available across the length and breadth of the country, including kiosks. Initially we subcontracted our distribution, but we changed tack because we did not have our ears on the ground. Now we have a better opportunity to know what consumers feel and say, and that guides us in product development," says Mr Rathi.

To avoid the logistical challenges of moving products from one corner of the country to the other, Serengeti Breweries has production plants in the cities of Moshi, Mwanza and Dar es Salaam.

"The best solution is to build your brewery closest to demand. Physically moving goods from Moshi to Mwanza is prohibitively expensive. You can't make money that way," explains Mr Gannon.

While tea company Chai Bora has distribution outlets across the country and 36 trucks that deliver goods to wholesalers, Mr Ariyatilaka says such a model causes frustration.

"The downside is you spend a lot of time managing the logistics, whereas our strengths lie in branding, packing and marketing. In another country I would probably subcontract that to a distributor but here there are not many well-developed distributors that can support our brand."

Distribution is a major challenge for consumer goods manufacturers, given Tanzania's vast size, poor transport infrastructure and predominantly rural population.

To the point

Steve Gannon, Managing Director, Serengeti Breweries

Serengeti Breweries is the second-largest brewer in Tanzania. In 2010, Diageo-owned East African Breweries acquired 51% of the company's issued share capital.

Q What challenges do you face in sourcing raw materials?

A Seven of our 11 brands are 100% made with Tanzanian raw materials. So Kibo Gold, for instance, is made with water from the snow of Kilimanjaro and raw materials from farmers in West Kilimanjaro. Barley is a commodity that is in short supply currently and therefore we have to import some of it from Sweden.

It is cheaper to import malt and ship it to Dar es Salaam than to drive it from Arusha. In the future I hope we will have a maltings plant that will allow us to malt the barley here. But that will depend on government policy.

Q Describe the strength of the labour force in Tanzania. How are you addressing talent challenges?

A We have got a fantastic team of 900 at Serengeti. We are committed to growing our talent and we run extensive product and management training programmes.

We have a Tanzanian lady brewer whom we sent for training in Germany. She is the first woman brewer in Tanzania and today is running the Dar es Salaam brewery.

This year, we took 30 graduates into our spirits team and 20 out of them are still with us, a good sign considering that fresh graduates move quite quickly. These guys have decided to stay at Serengeti because they can see opportunities for career progression, training and international exposure.

Q In which areas of the business are you currently investing capital?

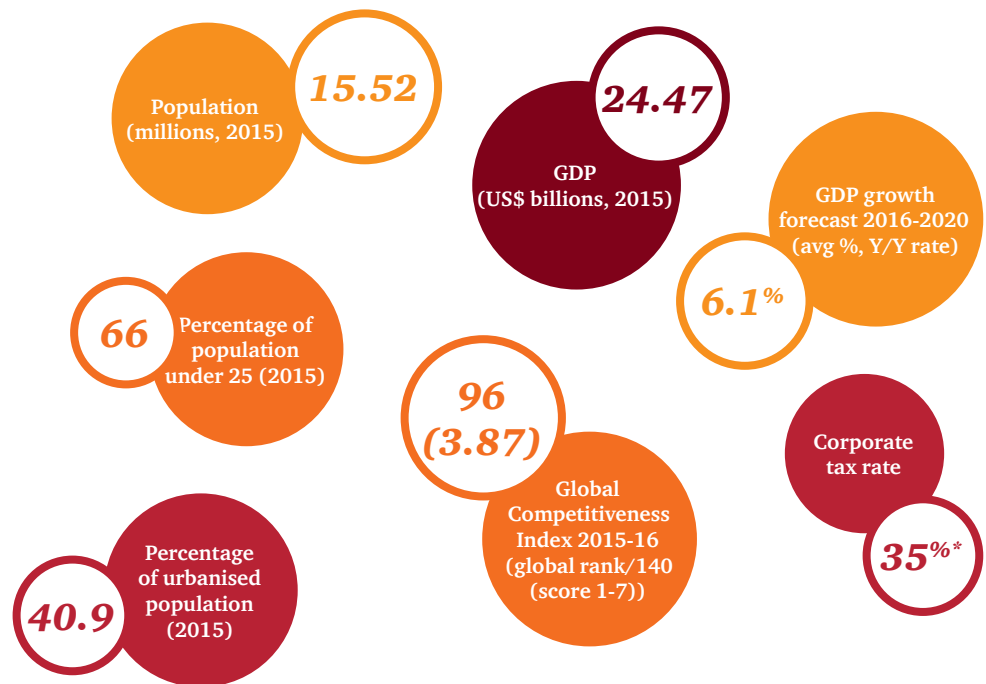
A We have a lot of innovations in the pipeline. We want to grow our spirits business, and as such have recently recruited a bigger team for that part of the business.

In the next couple of years you will see us develop our spirit production capability further. Spirits is a very high-growth business and we see immense opportunities there. It is relatively small in volume sense, but very high in value terms. We have opened a new depot in Mbeya and plan to develop the business further in the southern part of the country.

10. Zambia



Opportunities	Challenges
Taking advantage of Zambia's agricultural resources to develop local food processing	High labour and transport costs
Expansion into mining towns and rural areas where there is less competition	Inadequate retail space outside the major cities
Using Zambia as a base to supply consumer goods to neighbouring countries	Limited domestic demand to justify investment in capital-intensive local manufacturing



* Certain industries (such as mining) and other specific business activities are taxed at different rates.

Sources: International Monetary Fund; World Economic Forum; World Bank, UN Population Division; PwC

Economy and business environment overview

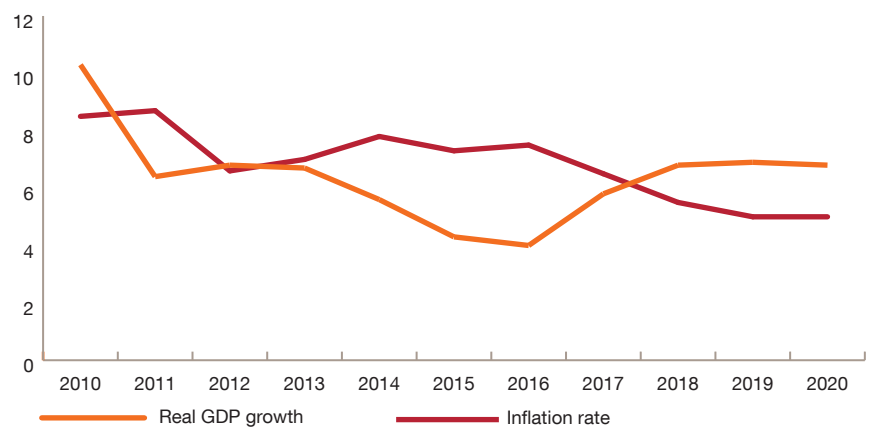
Economic outlook

Over the past decade, Zambia has experienced strong economic growth on the back of construction, transport, communications, the public sector, trading and mining. Despite the worldwide decline in the mining sector, the future outlook is also relatively positive, with GDP expected to expand by an average of 6.1% per year from 2016 to 2020, driven by investment in infrastructure and a growing public sector.¹²³

The mining industry (mainly copper) is the most important recipient of large foreign direct investment, and accounts for the majority of export earnings. Agriculture, both commercial and small-scale subsistence farming, provides employment for the bulk of the population, however. Recent increases in agricultural productivity bode well for the industry's future outlook.¹²⁴

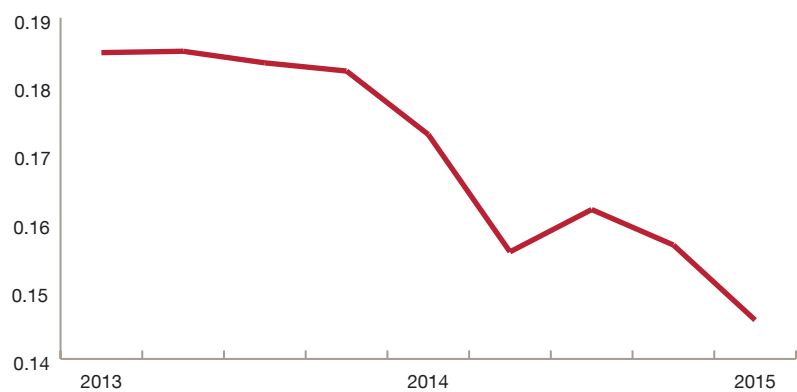
Falling global copper prices and the adverse effects of unfavourable agricultural harvests hold downside risks for economic growth.¹²⁵

Figure 10.1 Real GDP growth



Source: International Monetary Fund

Figure 10.2 Historical ZMW/USD exchange rate



Source: Oanda



¹²³ Peter Engbo Rasmussen. "African Economic Outlook: Zambia 2015." African Development Bank, Organisation for Economic Co-operation and Development, United Nations Development Programme (2015). http://www.africaneconomicoutlook.org/fileadmin/uploads/aeo/2015/CN_data/CN_Long_EN/Zambia_GB_2015.pdf

¹²⁴ "African Economic Outlook: Zambia 2015."

¹²⁵ Peter Engbo Rasmussen, Kambaila Munkoni and George Lwanda. "African Economic Outlook: Zambia 2014." African Development Bank, Organisation for Economic Co-operation and Development, United Nations Development Programme (2014). http://www.africaneconomicoutlook.org/fileadmin/uploads/aeo/2014/PDF/CN_Long_EN/Zambia.pdf

Business environment

Zambia gained independence from the United Kingdom in 1964 and has enjoyed a long period of political stability. Economic liberalisation, which started in the 1990s with the privatisation of parastatals and the abolishment of exchange controls, has encouraged private investment.

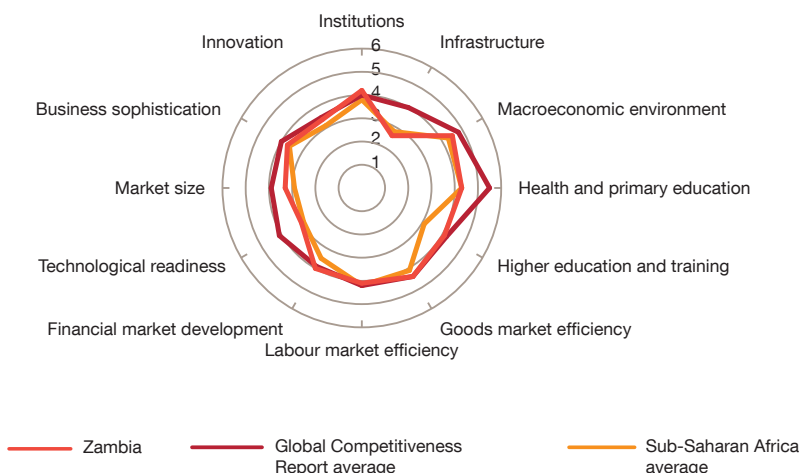
To encourage development, an investment guarantee and tax incentives are available to companies that invest in certain industry sectors (such as manufacturing and processing) in a multi-facility economic zone. The key tax incentives include exemption from corporate income tax, withholding tax and import duties for the first five years following investment.

Local operators highlight significant positive changes in Zambia's business environment over the past decade. It generally has good rule of law, with a strong judiciary. Financial and communication systems are also adequate, and although there is still an infrastructure deficit, the situation is improving.

Operating challenges include steep transport costs due to the country being landlocked; repeated policy reversals; and labour market inefficiencies such as high redundancy costs, low productivity compared to wages and government interference.¹²⁶ Tensions between the local population and Chinese investors have in the past led to strikes and riots, which Business Monitor International (BMI) believes could flare up again.¹²⁷

An increase in mineral royalties that came into effect on 1 January 2015 resulted in an outcry from the resource industry, and some investors have threatened to leave the country.¹²⁸ In response, the government has since scaled back royalties. While allowing Zambians greater participation in the resource wealth is a clear positive, increased state involvement in the economy has a tendency to deter private investors.

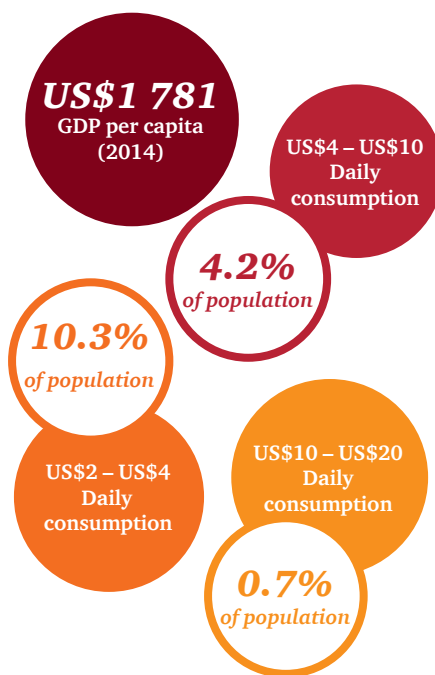
Figure 10.3 Global competitiveness: Performance overview



Source: World Economic Forum, The Global Competitiveness Index 2015-2016

The *Global Competitiveness Report* is published annually by the World Economic Forum. The report assesses the competitive landscape of more than 130 economies and provides insight into the drivers of their productivity and prosperity. A score between 1 and 7 is awarded to 12 pillars, where 7 is best.

Buying power and consumer behaviour



Sources: IMF; Mthuli Ncube and Charles Leyeka Lufumpa. *The Emerging Middle Class in Africa*. (Routledge, 2014)

While many Zambians live below the poverty line, incomes have risen in the major urban areas. Lusaka and the Copperbelt are the most affluent regions. Growth in wholesale and retail is being led by greater demand for white goods, electronics and food.¹²⁹ Local business leaders point to an emerging consumer class that demands better-quality products and a more formalised shopping experience.

In a generally low-disposable-income environment, some companies are successfully targeting price-sensitive consumers. Multinational electronics manufacturers, for example, have found traction with inexpensive, feature-light models. "They have some entry-level products which are good quality, probably low on features, but they serve the purpose. It's about cutting into the lowest income strata of the population and moving them in under the brand umbrella," explains Abhilash Bajpai, director at Radian Stores, an electronics and home appliances retailer.

126 & 129 "African Economic Outlook: Zambia 2015."

127 "Zambia Business Forecast Report: Q1 2015." Business Monitor International. December 5, 2014.

128 Chris Mfula. "Zambia mines minister says won't reverse mining royalty hike." Reuters, December 31, 2014. Accessed March 9, 2015. <http://www.reuters.com/article/2014/12/30/zambia-mining-idUSL6N0UE0RN20141230>.

Similarly, SABMiller has positioned its Chibuku brand, a traditional opaque beer, as an entry point into the formal beer category. It is hoped that low-income consumers will later move up to more premium beers.

The relatively nascent stage of the Zambian market means a fair amount of consumer education is needed to successfully introduce a new product. When Java Foods launched its eeZee brand of instant noodles in 2012, it didn't fully appreciate the level of education required. For the past two years the company has been setting up taste tests and demonstrating its product.

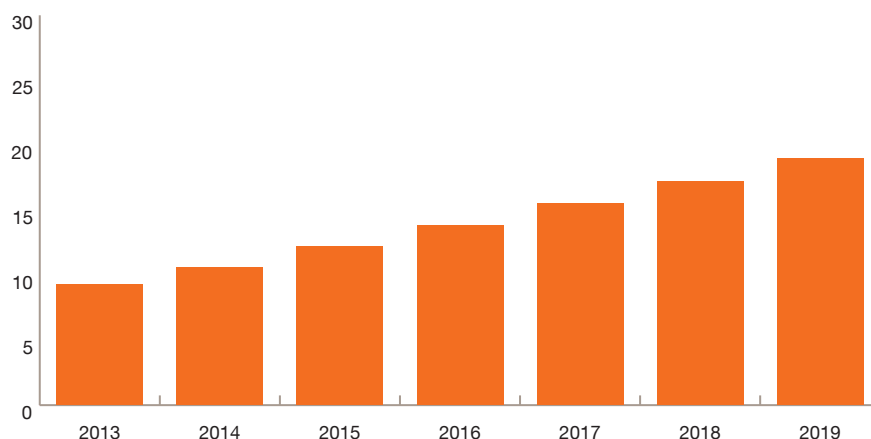
"I think people are much more visual and they would like to see how you prepare noodles and would like to taste them. So for instance we go to children's functions, and show people how you prepare the noodles and allow them to taste it and the impact of doing this has helped people appreciate eeZee Noodles," explains Java Foods founder Monica Musonda.

Retail

The development of Zambia's retail sector is characterised by formalisation, the entry of foreign brands, and expansion to secondary towns and rural areas. Planet Retail expects total retail sales to widen from \$10.6bn in 2014 to just over \$19bn by 2019, an annual compound growth rate of 12.3%.

"Although Zambia has a small population, it is relatively well developed from a retail point of view. The evolution of A-grade malls has happened over the last six years, and we have seen a number of local retailers grow into established businesses in parallel with the growth of these developments," notes Kevin Teeroovengadum, CEO of AttAfrica, an owner of the Manda Hill Mall in Lusaka.

Figure 10.4 Total retail format sales (US\$ billions)



Source: Planet Retail

South African chains play a significant role in formal food and apparel retail. Shoprite opened its first outlet in 1995 and is currently one of the dominant grocers, with 25 supermarkets. Others from South Africa include Pep, Pick n Pay, Food Lover's Market, Woolworths, Game, Hi-Fi Corp, Mr Price and Foschini.

Dutch retail brand Spar – a joint venture between Inncor International of Zimbabwe and Platinum Gold Zambia – also operates a number of outlets throughout the country.

Lusaka Stock Exchange-listed Zambeef Products sells meat and other food products through 93 of its own outlets as well as operating Shoprite's 23 in-house butcheries.

Restaurant and fast-food franchises are also growing. Zambeef owns local chain Zamchick Inn, while global franchisor Yum! Brands has launched KFC and more recently Pizza Hut into the market. Fortune Foods is the local franchisee for South African brands Steers, Nando's and Debonairs Pizza.

Some retailers have expanded their traditional core offerings and introduced value-added services. Shoprite now allows its customers to do money transfers, while Pep has added a cellular division. "We are selling handsets and airtime in all the stores, and they contribute between 5-7% of turnover," says Pepkor Africa Managing Director Charl Cronje.



Access to retail space improving

The past years have seen numerous shopping centres being developed in Lusaka. “What is happening, specifically in Lusaka, is that the local population is realising the benefit of shopping malls,” says Mr Cronje. “It’s a one-stop shop – they can have all their shopping done in one location, and the prices at formal retailers are the same in the mall as they are in main street outlets.”

The proliferation of malls has added considerable formal retail space to the market. “Five years ago the only good shopping malls available in Lusaka were Manda Hill and Arcades, with full occupation and a long waiting list. But in the last five years numerous shopping malls have been built – such as Levy Junction, Makeni Mall, Woodlands Mall, Crossroads and EastPark Mall. So for the retail chains coming in now, they at least have options with good retail space,” explains Radian Stores’ Mr Bajpai.

Retailers say there is enough consumer demand to justify even larger shops in the existing malls. “We’ve been in Manda Hill since its opening and we’d like to double our size today – even triple it,” notes Mr Cronje. “But there’s no space because everyone is so successful within that mall, and they are now planning to enlarge the mall. It’s the same with Levy Junction – it is a fantastic mall, we have a good space there, but if we could add another 50% we would double our turnover.”

Considerable volumes of trading still occur outside the shopping malls, however. Lusaka’s busy Cairo Road never has a shortage of foot traffic and is home to many standalone outlets and street vendors. To the west lie the New City and Kamwala markets, major informal shopping areas.

Zambeef has been particularly successful in catering to both formal and informal channels. Its Joint Chief Executive Officer, Francis Grogan, believes the large informal market in Zambia holds significant business opportunities. For example, he estimates no more than 25% of chickens are sold processed. The rest are sold alive in the informal market.

Growth in secondary towns

Outside of the capital, secondary cities like Kitwe, Ndola, Kabwe, Chingola, Mufulira, Luanshya and Livingstone boast relatively large populations and are attractive expansion centres for consumer-facing companies. Many of these urban centres have grown due to their proximity to the copper mining industry and the Democratic Republic of Congo (DRC) border.

Zambeef recently built a wholesale outlet in Kasumbalesa, on the Zambia-DRC border, and has started constructing another in Mongu in the Western Province. It also has expansion plans in Solwezi, Kalumbila, and Mansa, as well as Nakonde on the Tanzania border.

One of Zambia’s ‘boom towns’ is Solwezi, situated in the Northwestern Province bordering the DRC, where growth has been fuelled by new mining projects. First Quantum Minerals owns the largest copper mine in Africa, situated just 10km north of Solwezi, and the company is also busy developing additional copper and nickel projects about 150km west. An entire new town has been constructed in Kalumbila, where these new mines are situated.

However, access to quality retail space in smaller towns remains a challenge and can drive up operating costs. “Sometimes we are forced to take up some substandard buildings and then try to renovate,” says Radian Stores’ Mr Bajpai. “In some cases there is absolutely nothing available, so we have to buy some land and then set up our own outlets.”

To the point

Ezekiel Sekele, Corporate Affairs Director, Zambian Breweries

Zambian Breweries, a subsidiary of SABMiller and listed on the Lusaka Stock Exchange, is the country’s largest brewery. Its main brands include Mosi, Castle and Eagle, as well as Coca-Cola, Sprite, Fanta and Schweppes.

Q How brand conscious are consumers in the market?

A There is a growing and emerging middle class which is driving ‘premiumisation’. Zambian consumers are also becoming more health conscious. As is the case elsewhere, consumers are very well connected and this has largely been driven by the rapid expansion of both the cellular networks and internet connectivity.

Q Are there any preferences in terms of foreign versus local brands?

A Foreign brands are often seen as having quality credentials. Having said this, many local brands have seen improvements in quality, and consumers are aware of this.

Q Do you have specific strategies to grow sales in rural and informal areas?

A Absolutely – we have strategies in terms of accessing these areas with the expansion of our depot infrastructure, our route to market and sales resourcing. The cities that provide the greatest potential in terms of sales are what they call “the line of rail” – Livingstone, Lusaka, Ndola. The mining areas, such as Solwezi, are also driving economic development.

Consumer goods

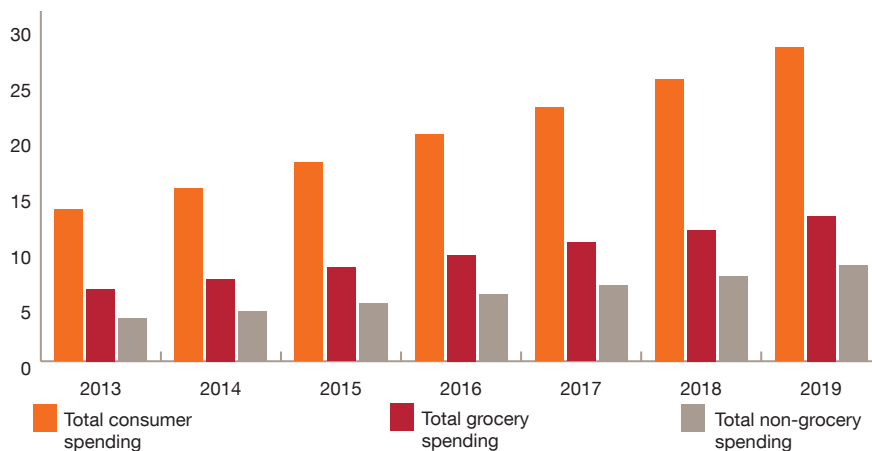
Consumer goods spending is expected to almost double over the coming years, from \$15.6bn in 2014, to \$28.2 by 2019. Although local food and beverages producers already account for about two-thirds of value-added manufacturing, many consumer products are imported.¹³⁰ Due to favourable farming conditions, Zambia is well positioned to increase food processing.

While being landlocked is normally considered a weakness, it does hold certain advantages for local manufacturers. Zambia borders eight countries and is integrated within two free trade areas – the Common Market for Eastern and Southern Africa (COMESA) and Southern African Development Community (SADC) – which offers preferential tariff access to a total market of around 400 million people.

A number of consumer goods companies are already capitalising on Zambia's location. Chicco Foods exports its confectionary products to Malawi, Zimbabwe and the DRC; while Pepsi products are sold in Zimbabwe and Mozambique.

Zambia's central geographic location is advantageous for manufacturers looking to export goods to any of its eight neighbouring countries.

Figure 10.5 Spending forecast (US\$ billions)



Source: Planet Retail

Fast-moving consumer goods

One of the top food producers is Zambeef. Capitalising on Zambia's immense agricultural potential, it has grown into a market leader in the production, processing, distribution and retailing of a range of food products, including beef, chicken, pork, dairy, eggs and flour.

Other domestic food manufacturers include Superior Milling (maize products), Lynx Zambia (fruit drinks), Freshpikt (canned fruit and vegetables), Invesco (beverages) and Chicco Foods (confectionery and biscuits), to name a few.

Parmalat, Pepsi and Nestlé are some of the international brands with a presence.

New entrepreneurs such as Ms Musonda of Java Foods, have also identified fresh opportunities in the market. She quit her job as a corporate lawyer and in 2012 started promoting her own instant noodle brand.

SABMiller has a 91% and 65% share of the clear and opaque beer markets respectively through its two subsidiaries – Zambian Breweries and National Breweries. It produces local brands Mosi and Eagle Lager as well as Chibuku, which resembles home-brewed opaque beer and is popular among lower-income groups.

Zambia has some local home and personal care producers competing with multinational brands. One of these is Trade Kings, which manufactures washing powder and soap. It started out as a trading concern, but has moved into manufacturing its own products.

¹³⁰ "African Economic Outlook: Zambia 2014."

Footwear and apparel

Under government protection, Zambia used to have a thriving textile industry. However, with liberalisation and the importation of cheap second-hand clothing (known locally as *salahula*) by container loads, the local industry could no longer compete.

In an effort to support the industry, the government has introduced measures such as compelling public institutions to procure at least 20% of their textile requirements from local producers. The Zambia Association of Manufacturers (ZAM) has proposed to completely ban cheap imports.¹³¹

One of the largest domestic footwear companies is Lusaka Stock Exchange-listed Bata, which trades through 50 branded outlets across the country. In 2014 Tanzania's METL Group signed an agreement to revive the Mulungushi textiles factory in Kabwe.¹³²

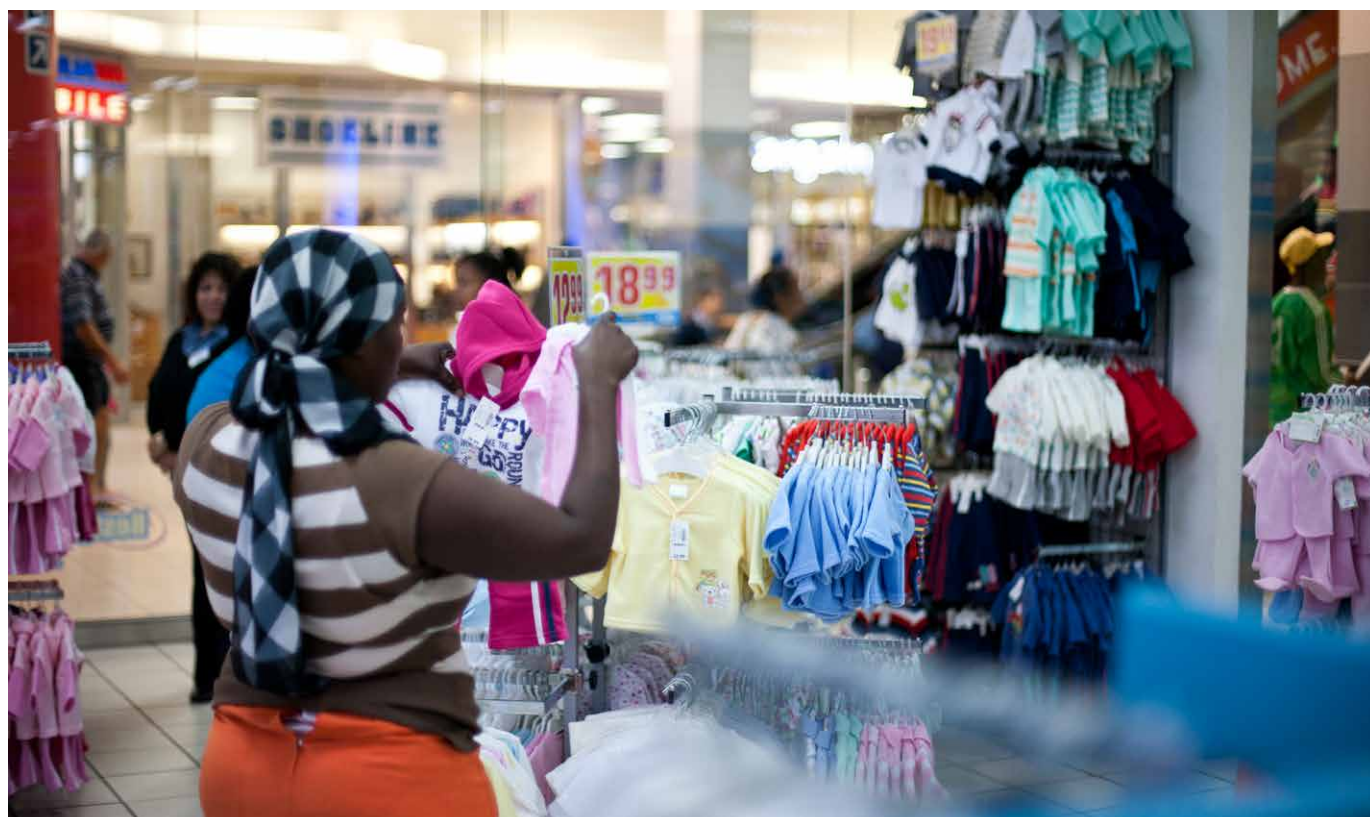
Consumer durables

The electronics and white goods sector has become more competitive in recent years, with many international brands, available in the market. Mr Bajpai of Radian Stores says Zambians are becoming increasingly brand conscious when purchasing electronics and appliances. "I'm sure in times to come, most customers will make their purchasing decisions based on brands instead of just the price."

While vehicle manufacturers such as Jaguar Land Rover, Toyota and General Motors all have dealerships in Zambia, the market for new cars is relatively small. Used and grey imports account for the majority of sales.

One automaker told PwC the Zambian market currently doesn't justify local manufacturing. "The reality is, in order to do real manufacturing, you have to have a supplier base, infrastructure, and volume. Zambia doesn't have enough new-vehicle volumes to justify any manufacturer or supplier making large-scale investments into localisation and manufacturing."

Retailers say there is enough consumer demand to justify even larger shops in the existing malls.



131 Moses Kabaila. "Revamp textile industry." Times of Zambia, April 8, 2014. Accessed March 9, 2015. <http://www.times.co.zm/?p=18471>.

132 "Mulungushi Textiles in Kabwe is set to re-open." Lusaka Times, August 1, 2014. Accessed March 9, 2015. <http://www.lusakatimes.com/2014/08/01/mulungushi-textiles-kabwe-set-re-open>.

Supply chain

Zambia's landlocked location means imported goods must travel long distances from ports in neighbouring countries, which adds to lead times and transport costs. The majority of goods are transported via road as Zambia's railways cannot cope with demand.¹³³

Consumer companies are continuing to invest in their supply chains. Pepkor has set up its own distribution centre in Lusaka. Globally sourced products are shipped to a bonded warehouse in Durban (South Africa), and then transported to Lusaka, so that duties are only paid as they enter Zambia.

Mr Cronje says it doesn't take longer than a week to transport goods by road from Durban to Lusaka. Pep outlets in Zambia are restocked every week – sometimes even on a daily basis for those based in and around Lusaka.

Zambeef has its own logistics arm, with one of the largest trucking fleets in the country. It owns its entire supply chain, from farm to shop, to better meet consumer demand. For example, the company started out by sourcing chickens from third-party farmers, but found it could not secure timely supply in the volumes it wanted. So Zambeef set up its own chicken houses and abattoir.

Radian Stores registered a subsidiary company to handle its transportation and warehousing. Mr Bajpai believes separating this division from the retail business provides it with more focus to increase efficiency.

Local sourcing is also becoming a more important theme for food and beverages manufacturers and retailers. Many domestic manufacturers have grown their businesses on the back of supply contracts with grocers such as Shoprite and Spar. Zambian Breweries works with farmers to source barley, sorghum and sugar. It also buys packaging materials – such as labels, PET preforms, cartons and crates – from domestic suppliers.

Although Woolworths wants to develop its local supply chains, some of its food products sold in Southern Africa are imported from South Africa. "Getting the right quality with consistent capability to a business of scale like ours is a challenge and it is going to take us a long time to build that infrastructure," explains Paula Disberry, Woolworths Group Director for retail operations.¹³⁴

To the point

Monica Musonda, Chief Executive Officer, Java Foods

Established in 2012, Java Foods is a promoter of its own brand of instant noodles in the Zambian market. Ms Musonda currently serves on the boards of Zambia Sugar, Africa Life Assurance and Dangote Industries Zambia.

Q Why did you decide to import your instant noodles as a finished product rather than manufacturing locally?

A The reason we did that was because we couldn't estimate the market size when we launched in 2012. We thought instead of building a factory right away, to first test the market and gauge the market size. Also, we wanted to build demand for our brand prior to local manufacturing. So that is what we have been doing for the last two years, and next year we are actually going to be manufacturing in Zambia.

Q Will the company still have to import raw materials, or can it source locally?

A We have a surplus of wheat here in Zambia, which we can buy to produce the noodle cake. However, things like packaging materials will have to be imported. There are definitely some products that are not found in Zambia that we will have to import, but the main ingredient is wheat, so we don't have to worry about that.

Q Where do you see opportunities to export?

A There are probably one or two indigenous instant noodle brands in Southern Africa, and we are one of them so we have a lot of queries for imports. But we are trying to increase capacity and understand our local market first to get a good base, and will then start exporting. It's definitely our plan next year and we will be looking to partner with key distributors to export into Zimbabwe, Malawi, DRC, and Botswana and other neighbouring countries.

¹³³ "Zambia Business Forecast Report: Q1 2015."

¹³⁴ Kate Douglas. "Why Woolworths' African food stores rely on exports from South Africa." How we made it in Africa, June 19, 2014. Accessed July 23, 2015. <http://www.howwemadeitinafrica.com/why-woolworths-african-food-stores-rely-on-exports-from-south-africa/40638/>

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Key figures

Population (Millions of people)

	2010	2011	2012	2013	2014	2015
Angola	21.66	22.31	22.98	23.67	24.38	25.12
Cameroon	20.42	20.93	21.46	21.99	22.54	23.11
Côte d'Ivoire	20.86	21.40	21.95	22.52	23.11	23.71
Ethiopia	82.91	84.24	85.59	86.96	88.35	89.76
Ghana	23.70	24.30	24.93	25.56	26.22	26.89
Kenya	38.50	39.50	40.70	41.80	42.93	44.08
Nigeria	156.05	160.34	164.75	169.28	173.94	178.72
South Africa	50.79	51.55	52.34	53.16	54.00	54.86
Tanzania	42.83	43.88	44.93	45.83	46.74	47.68
Zambia	13.22	13.63	14.08	14.54	15.02	15.52

Source: World Bank, World Development Indicators

Percentage of total population under 25

	2015	2020	2030	2050
Angola	67.1	66.6	64.5	57.6
Cameroon	62.8	61.4	58.2	50.2
Côte d'Ivoire	62.8	61.9	59.5	53.9
Ethiopia	63.0	60.5	54.1	43.1
Ghana	58.3	56.9	54.2	47.1
Kenya	61.4	59.9	56.6	48.8
Nigeria	63.0	62.8	61.0	54.6
South Africa	48.6	46.4	43.1	36.2
Tanzania	64.4	63.9	62.0	55.1
Zambia	66.0	65.0	62.6	56.6
World	42.3	40.8	38.8	35.0
Sub-Saharan Africa	62.8	61.9	59.2	52.3

Source: World Bank, World Development Indicators

Percentage of population residing in urban areas

	2015	2020	2030	2050
Angola	44.0	47.8	54.4	63.8
Cameroon	54.4	57.1	62.0	70.0
Côte d'Ivoire	54.2	57.5	63.0	70.8
Ethiopia	19.5	21.8	26.8	37.6
Ghana	54.0	57.2	62.6	70.5
Kenya	25.6	27.9	32.8	43.9
Nigeria	47.8	51.7	58.3	67.1
South Africa	64.8	67.2	71.3	77.4
Tanzania	31.6	35.1	41.9	53.0
Zambia	40.9	43.3	48.2	58.3
Sub-Saharan Africa	37.9	40.4	45.4	54.8
World	54.0	56.2	60.0	66.4

Source: World Bank, World Development Indicators

Nominal GDP (Billions of US dollars)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Angola	82.5	104.1	115.3	124.2	129.3	102.0	98.8	105.4	112.5	119.4	127.2
Cameroon	23.7	26.6	26.5	29.6	31.8	28.5	30.8	33.5	36.5	39.6	43.2
Côte d'Ivoire	24.9	25.4	27.1	31.1	33.7	31.3	34.3	37.9	41.8	46.0	50.9
Ethiopia	29.9	32.0	43.1	47.5	54.8	63.0	70.2	77.4	84.4	92.0	100.3
Ghana	32.2	39.6	41.9	47.8	38.6	37.7	42.3	46.9	51.2	55.0	58.3
Kenya	40.0	42.0	50.4	54.9	60.9	63.1	68.9	76.8	85.3	94.3	104.0
Nigeria	373.8	418.8	467.1	521.8	574.0	493.0	484.9	508.5	534.7	565.2	595.0
South Africa	375.3	417.1	397.4	366.2	350.1	317.3	326.5	340.5	357.0	374.5	394.7
Tanzania	31.1	33.6	39.1	44.4	48.1	46.2	46.9	50.3	54.8	59.3	64.1
Zambia	20.3	23.7	24.9	26.8	26.6	24.5	25.2	27.2	29.9	33.0	36.3

Source: International Monetary Fund, IMF Data Mapper

Real GDP growth (Annual percentage change)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Average growth rate, 2016-2020
Angola	3.4	3.9	5.2	6.8	4.8	3.5	3.5	3.8	4.2	4.7	5.2	4.28
Cameroon	3.3	4.1	4.6	5.6	5.7	5.3	5.4	5.5	5.5	5.5	5.5	5.48
Côte d'Ivoire	2	-4.4	10.7	8.7	7.9	8.2	7.6	7.4	7.1	6.9	6.8	7.16
Ethiopia	10.6	11.4	8.7	9.8	10.3	8.7	8.1	7.6	7.5	7.5	7.5	7.64
Ghana	7.9	14	8	7.3	4	3.5	5.7	9.4	7.3	5.1	3.6	6.22
Kenya	8.4	6.1	4.6	5.7	5.3	6.5	6.8	7	7	7	6.9	6.94
Nigeria	10	4.9	4.3	5.4	6.3	4	4.3	4.5	4.7	4.9	5.1	4.7
South Africa	3	3.2	2.2	2.2	1.5	1.4	1.3	2.1	2.5	2.6	2.6	2.22
Tanzania	6.4	7.9	5.1	7.3	7	6.9	7	7	6.9	6.9	6.9	6.94
Zambia	10.3	6.4	6.8	6.7	5.6	4.3	4	5.8	6.8	6.9	6.8	6.06
Sub-Saharan Africa	6.4	4.7	3.9	5.1	5	3.8	4.3	4.9	5	5	5.2	4.88
World	5.4	4.2	3.4	3.3	3.4	3.1	3.6	3.8	3.9	4	4	3.86

Source: International Monetary Fund, IMF Data Mapper

Inflation rate, average consumer prices (Annual percentage change)

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Angola	14.5	13.5	10.3	8.8	7.3	10.3	14.2	12.4	11.4	10.4	9.4
Cameroon	1.3	2.9	2.4	2.1	1.9	2	2.1	2.2	2.2	2.2	2.2
Côte d'Ivoire	1.4	4.9	1.3	2.6	0.4	1.6	1.5	1.8	2	2	2
Ethiopia	8.1	33.2	24.1	8.1	7.4	10	9	8.3	8.3	8.3	8.3
Ghana	6.7	7.7	7.1	11.7	15.5	15.3	10.1	7.8	7.4	7.5	7.4
Kenya	4.3	14	9.4	5.7	6.9	6.3	5.9	5.1	5	5	5
Nigeria	13.7	10.8	12.2	8.5	8.1	9.1	9.7	8.8	7.7	7.2	7
South Africa	4.3	5	5.7	5.8	6.1	4.8	5.9	5.6	5.5	5.5	5.5
Tanzania	7.2	12.7	16	7.9	6.1	5.6	5.9	5.1	5.1	5.1	5.1
Zambia	8.5	8.7	6.6	7	7.8	7.3	7.5	6.5	5.5	5	5
Sub-Saharan Africa	8.2	9.5	9.4	6.6	6.4	6.9	7.3	6.7	6.1	6	5.8
World	3.8	5.2	4.2	3.9	3.5	3.3	3.4	3.6	3.5	3.5	3.5

Source: International Monetary Fund, IMF Data Mapper

Global Competitiveness Index 2015-2016

	Global Rank /140	Score (1-7)
Angola*	140	3.04
Cameroon	114	3.69
Côte d'Ivoire	91	3.93
Ethiopia	109	3.75
Ghana	119	3.58
Kenya	99	3.85
Nigeria	124	3.46
South Africa	49	4.39
Tanzania	120	3.57
Zambia	96	3.87

* The latest data available for Angola is for the 2014-2015 period, when 144 countries were included in the Index

Source: World Economic Forum, The Global Competitiveness Index 2015-2016

Global competitiveness: Performance overview

	Score (1-7)											
	Institutions	Infrastructure	Macro-economic environment	Health and primary education	Higher education and training	Goods market efficiency	Labour market efficiency	Financial market development	Technological readiness	Market size	Business sophistication	Innovation
Angola	2.6	2.0	4.7	3.5	1.9	2.9	3.5	2.5	2.3	3.8	2.6	2.1
Cameroun	3.6	2.4	4.4	4.9	3.2	4.0	4.1	3.5	2.7	3.4	3.6	3.2
Côte d'Ivoire	4.0	3.6	4.7	3.9	3.4	4.3	4.2	4.0	3.1	3.5	3.7	3.4
Ethiopia	3.7	2.6	4.7	4.8	2.7	4.1	4.3	3.3	2.5	3.9	3.5	3.2
Ghana	3.9	2.7	2.8	4.5	3.6	4.2	4.0	3.8	3.2	3.7	3.9	3.3
Kenya	3.6	3.2	3.6	4.6	3.8	4.2	4.6	4.3	3.3	3.8	4.2	3.7
Nigeria	3.2	2.1	4.6	2.9	2.8	4.1	4.5	3.8	3.0	5.1	3.7	2.8
South Africa	4.4	4.1	4.5	4.2	4.1	4.6	3.8	5.0	4.6	4.9	4.4	3.7
Tanzania	3.5	2.4	4.5	4.3	2.5	3.9	4.4	3.4	2.5	3.8	3.4	3.0
Zambia	4.2	2.6	4.5	4.3	4.1	4.4	4.1	4.0	3.0	3.3	3.7	3.4

* The latest data available for Angola is for the 2014-2015 period, when 144 countries were included in the Index

Source: World Economic Forum, The Global Competitiveness Index 2015-2016



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