



## Lessons from Africa's pioneers

How successful consumer products companies overcome the five great challenges of doing business on the continent

**By Matthew Meacham, Andrew Tymms, Tiaan Moolman and Joëlle de Montgolfier**

**Matthew Meacham, a Bain & Company partner based in Madrid, leads the firm's Consumer Products practice in Europe, the Middle East and Africa. Andrew Tymms and Tiaan Moolman are Bain partners in Johannesburg and leading members of Bain's Global Consumer Products practice. Joëlle de Montgolfier, based in Paris, is senior director of Bain's Consumer Products practice in Europe, the Middle East and Africa.**

Heineken beer is sold in more than 170 countries, but when the world's third-largest brewer does business in Africa, it knows it needs to play by some different rules. In Africa, Heineken not only operates breweries but also its own power and water treatment plants. That's how the company overcomes a major African obstacle: the continent's notoriously weak and undependable infrastructure. Heineken has learned that, while Africa poses substantial operating challenges for consumer products makers, those hurdles are not insurmountable. And finding innovative ways to clear those obstacles can pay off. The company is about to pass the €2 billion milestone for annual beer sales in Africa and the Middle East, and its operating profit margins there were 26% in 2010.

Many of the obstacles in Africa are similar to those encountered in other emerging markets, and multiregional players may already have honed the skills needed to tackle them. Even so, our research shows that five of these challenges are more pronounced in Africa

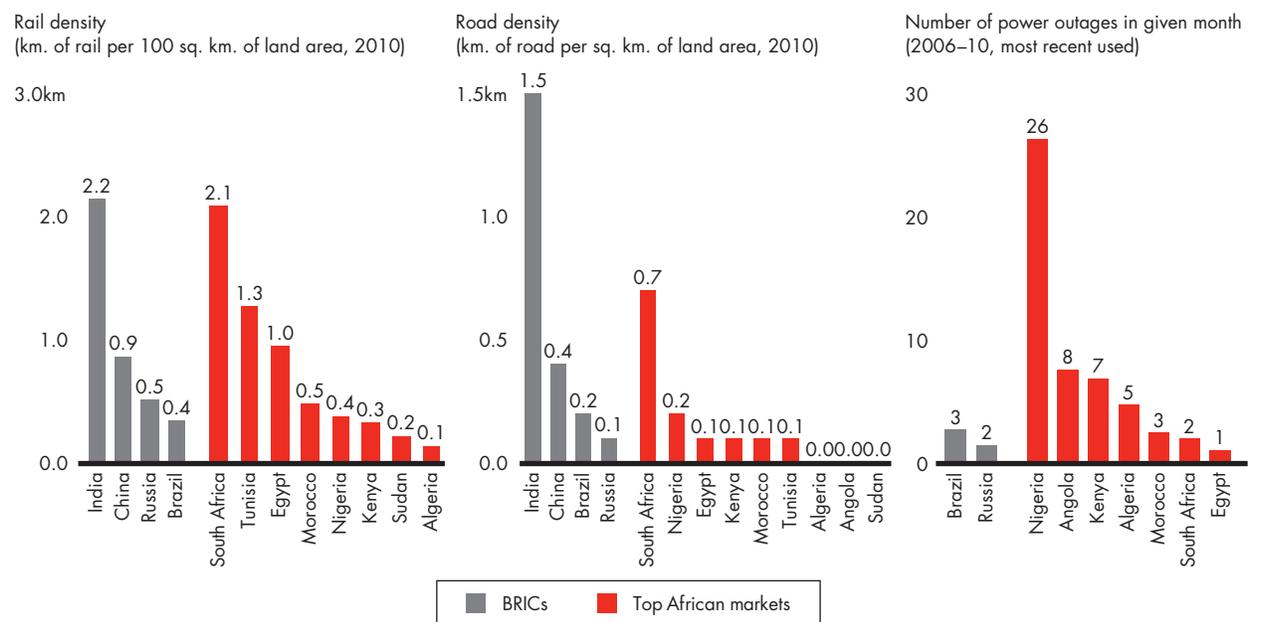
than elsewhere, requiring Africa-specific solutions. The five most significant African challenges are underdeveloped infrastructure, disorganized and fragmented retail landscape, lack of reliable market research, unclear and ever-changing government regulations and a severely limited talent pipeline.

Through our research and experience working with market leaders, we've identified a range of effective approaches for companies to navigate this thorny landscape.

**Consider creative ways to bypass Africa's poor public infrastructure, reduce operating costs and innovate to compensate.**

Throughout Africa, business growth is hampered by frequent power outages. Nigerian companies experience on average 26 power outages in a typical month. In addition to power woes there is unreliable transportation. Outside South Africa, the transportation network is un-

*Figure 1:* Outside of South Africa, the continent's transport network is underdeveloped, and power outages are more frequent than in Brazil or Russia



Note: Data shown for top 10 African markets, as available  
 Sources: Euromonitor; World Bank Development Indicators 2011 (for number of outages); Bain analysis

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derdeveloped, even compared with other emerging markets—less than 100 meters of road per square kilometer of land area compared with 400 meters in China or 1,500 meters in India (see *Figure 1*).

Successful companies know that they can't depend on Africa's infrastructure and dealing with it will add to costs. They develop strategies to invest in their own support systems when necessary and to offset the additional expenses. They buy power generators, build water tanks and even occasionally pave roads. For example, in Ghana, which experiences frequent water shortages, one beverage company bypassed the unreliable municipal service by building huge water tanks, ensuring consistency of water supplies for its factories.

Market leaders remain competitive by balancing the high costs of infrastructure solutions with rigorous cost and cash management. Take Heineken's local subsidiary in Nigeria, Consolidated Breweries. The company puts cost management at the heart of its business. Salaries are in line with regional and local companies rather than with multinationals. To further curb costs, Consolidated Breweries employs a lot of manual labor in some parts of its operation and substitutes second-hand equipment where possible for expensive new machinery.

Another creative way to overcome some of the challenges posed by the lack of proper infrastructure is to innovate on the product front. One successful example is Cowbell, a milk powder packaged in small sachets, provided by Promasidor, an African dairy, beverage and food enhancement company. This product has enabled the company to overcome some of the root causes behind the low availability of milk across Africa: limited access to refrigeration and to sanitary fresh water to mix with the milk powder. Promasidor replaced the animal fat in milk with vegetable fat to give its product a longer shelf life, thereby diminishing the dependency on a cold supply chain. African children pour the powdered milk directly

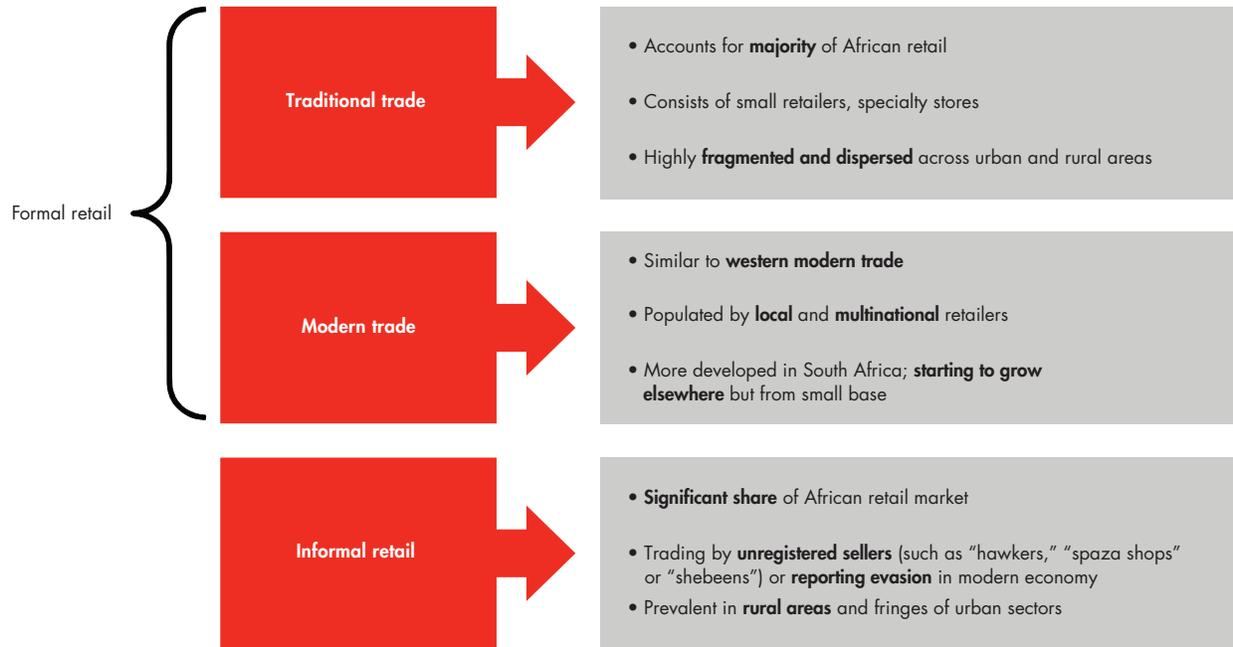
on their tongues, a way to avoid concerns about finding fresh water. As a result, Promasidor is now a leader in the powdered milk market in Nigeria.

Moreover, the lack of infrastructure contributes to an uncertain supply of raw materials. The market leaders surmount this challenge by building strong supplier relationships or even becoming vertically integrated to stockpile critical materials, better manage costs and mitigate supply unpredictability. Heineken has set the ambitious goal of buying 60% of its raw goods from local suppliers to guarantee product quality and a reliable supply source. It's a win-win: The brewery avoids disruptions at local operations and the local economy benefits from new jobs, generating income that may spur consumer spending and possibly improve government relationships. The company also provides farmers with agricultural education to increase crop yields—another move that helps establish a more dependable supply chain. Similarly, The Coca-Cola Company, in collaboration with the nonprofit TechnoServe and the Bill & Melinda Gates Foundation, has successfully partnered with local governments and farmer associations in Kenya and Uganda to enhance the quality and quantity of locally produced passion fruit and mangoes. In both countries, growing demand for fruit juices has created a significant market opportunity, but production was stymied by low-quality fruit and inadequate supplies. By partnering with some 50,000 local producers, the beverage company was able to ramp up its fruit juice business—benefitting both the beverage maker and area farmers.

### **Develop multitiered models to route products to market and reach the largest number of consumers.**

The challenge is to gain traction in a marketplace where the majority of consumers still buy from traditional or informal retailers (see *Figures 2 and 3*).

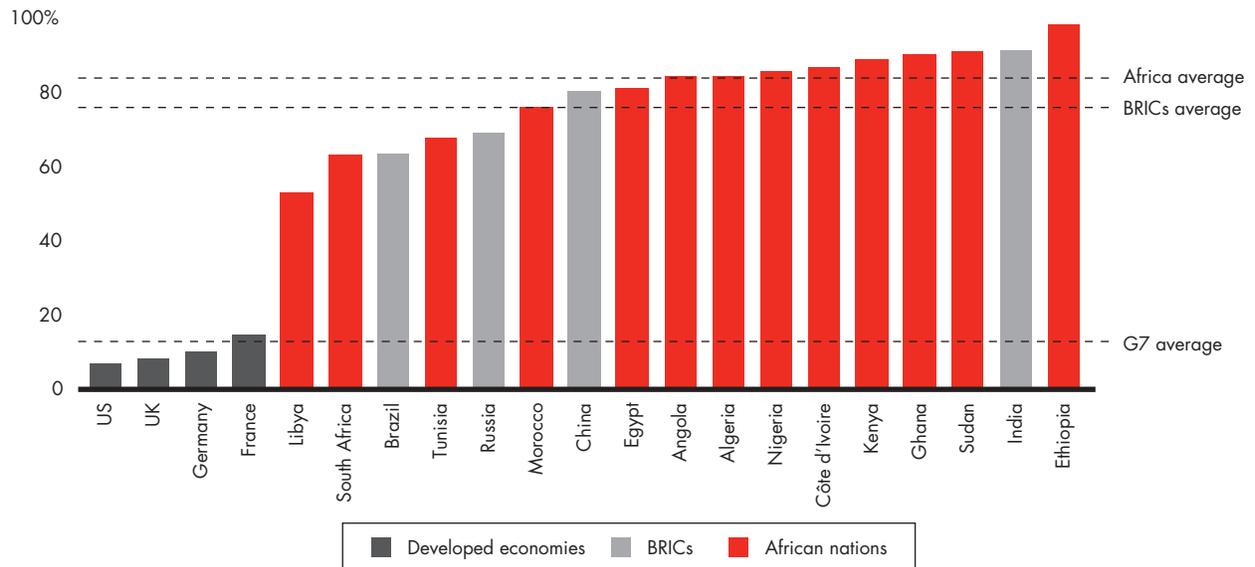
Figure 2: African retail trade is composed of three segments



Source: Bain & Company

Figure 3: Within formal retail, traditional trade drives—and will continue to drive—greatest share, more so than in BRICs

Traditional trade percent of formal sector grocery retail sales (2010)



Note: Africa 2010 average includes data for 55 African nations; G7 2010 average includes data on USA, UK, Germany, France, Italy, Japan and Canada  
Sources: Planet Retail research (2011); Bain analysis

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Traditional trade represents more than 80% of formal retail across Africa and consists of very small outlets and specialty stores dispersed across urban and rural areas. Modern retail is growing, primarily out of South Africa, but is still a minor portion of the formal retail landscape. Informal retailers are unregistered sellers—such as “hawkers” (street vendors), “spaza shops” (run out of homes) or “shebeens” (unlicensed pubs) in South Africa—and are deemed to account for a significant, although hard to measure, share of the African trade market. One benchmark: The informal economy is estimated to represent 30% to 60% of the Gross National Product in selected African countries,<sup>1</sup> and some consumer packaged categories, such as food, alcoholic beverages or tobacco, are particularly prone to being sold through informal channels.<sup>2</sup>

Winning companies gain a competitive advantage by having the flexibility and adaptability needed to accommodate such a varied retail market. They strike partnerships with third-party distributors and wholesalers to maximize reach, collaborate with traditional retailers at the point of sale and help informal retailers formalize and progressively develop capabilities required to grow alongside modern retail.

Many companies establish a network of trusted third-party distributors and wholesalers to accelerate market coverage, teaming their own salesforce with distributors to ensure a measure of control. For example, one leading food company appoints sales supervisors to each one of its sub-distributors—they have 10 to 30 of them per market. The sales supervisor works at the sub-distributor, managing inventory and brand image while the sub-distributor handles logistics and accounting. Similarly, another food player relies on its distributors to replenish products and collect cash, but its local sales employees will be on the ground to identify new outlets, place product displays and help distributors build their capabilities.

Another approach involves collaborating with traditional outlets directly to increase sales and improve distribution, and in the process, professionalize the way shopkeepers work. For example, Diageo helps traditional retailers improve their business by teaching them category display and shopper management.

In some categories, players can also bolster sales by encouraging unauthorized sellers to formalize their businesses. Brewer SABMiller helped illegal taverns in South Africa convert into licensed outlets by offering support, including assigning dedicated employees to assist with the application process and leading information workshops. In addition, the company made all license applicants eligible for training in customer care, stock management, bookkeeping, credit control and responsible alcohol use. SABMiller's investment, launched in 2002, has transformed off-the-books sellers into a thriving new retail segment. The company has trained 12,400 tavern owners. The number of newly licensed retailers has increased sales by an average of 31%.<sup>3</sup>

Finally, leading players in Africa are proactively preparing for the growth of modern trade. They're investing in category management, joint shopper research and integrated supply chains. Some companies have started designing their own in-house distribution operations to service more densely concentrated urban centers and centralized trade networks.

### **Gain a competitive edge by compiling your own information about Africa's fast-evolving consumer or trade landscape.**

Building in-house consumer and customer research capabilities, systems and know-how is a proven way to fill a critical gap. In Africa, there's a dearth of data and insights about consumers' needs and behavior, as well as the retail environment. The shortage is made even more challenging because of the diversity of both African

consumers and markets. Leading consumer packaged goods makers rebuild capabilities that they had long outsourced to external agencies in developed markets, gathering their own information on Africa instead of depending on limited and not-so-reliable data from public research firms.

Some companies establish research programs to identify consumer preferences and behavior in each African market. Olam, a global leader in agricultural products, which also operates a packaged foods business in Africa, is investing heavily to analyze the extreme differences among consumers in West Africa. Its investments aren’t simply to help them tailor products to local needs and preferences, but to also help identify possible new categories for growth.

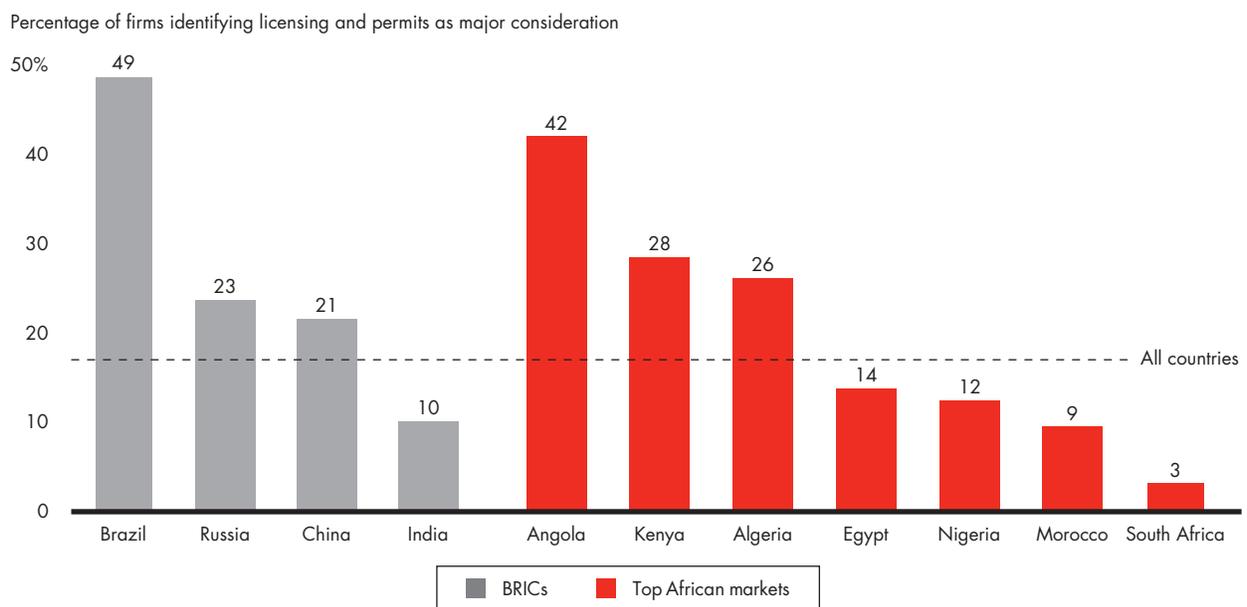
Leading consumer packaged goods players also gather retail data through internally led censuses and point-of-

sale studies. In 2008, one beverage company performed an extensive survey of retail outlets in Nigeria to gather information about the location, size and turnover of distributing stores. The resulting insights helped the company assess the relative importance of the different outlets and make appropriate adjustments to its distribution strategy. Among the changes: It was able to re-prioritize the stores it served and visited.

**Partner with local stakeholders—governments, businesses and communities—to establish credibility.**

It’s a smart way to deal with the political complexity and web of regulatory and trading barriers that companies face in Africa. It’s no secret that the business environment in many countries is hindered by bureaucracy, corruption, ever-changing regulations, as well as multiple currencies and protectionist measures that often

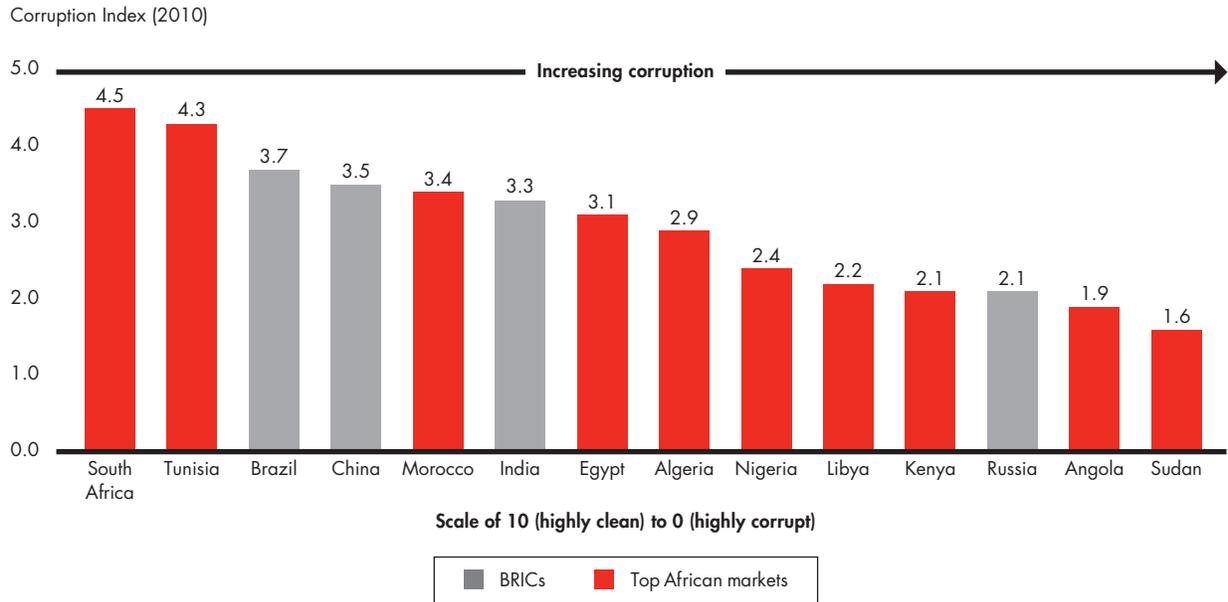
*Figure 4:* Bureaucracy is a major consideration in African countries



Note: Most recent data used for percentage of firms identifying major consideration. Data shown for 10 key African markets, as available  
Source: Enterprisesurveys.org

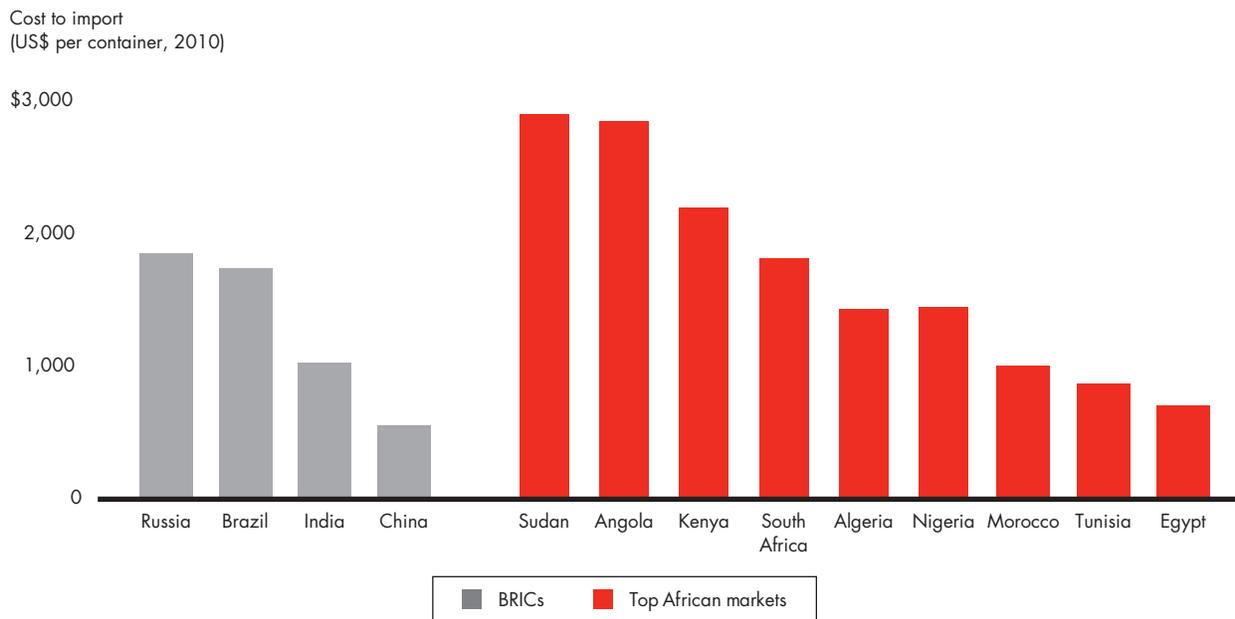
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Figure 5: Corruption in certain African markets is worse than in BRIC markets



Note: African countries shown are top 10 key markets, as available  
 Source: Transparency International

Figure 6: Legislation is country-specific and places high tariffs on imports



Sources: Company interviews; World Bank

result in high import costs (see Figures 4, 5 and 6). By developing strong relationships with local stakeholders, companies ultimately earn the ability to influence local agendas and effect change.

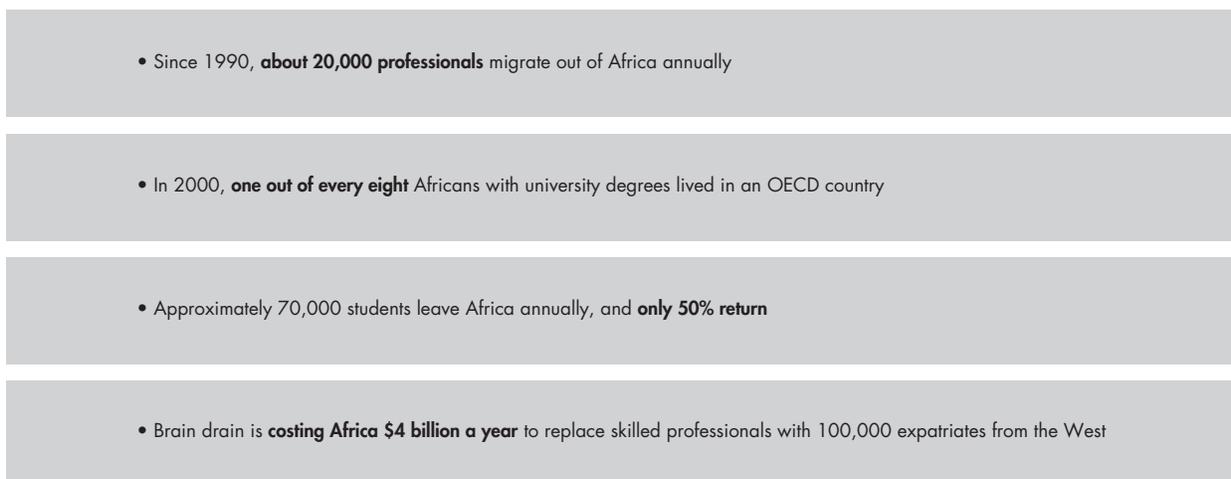
Market leaders collaborate with local business networks. They appoint local business leaders to their board of directors or get listed on the local stock exchange. They also invest in community development. They seek to form mutually beneficial partnerships with local governments. For example, Kenya faced high illicit alcohol consumption, creating dangerous side effects, including blindness and even death, from consuming poor-quality alcoholic beverages. At the same time, relatively high taxes were making the lower-income market inaccessible for East Africa's scale brewers. Diageo won government support for a new product by offering a safer and legal alternative: regulated beer in a sanitary keg. The government helped make the offering affordable to consumers by providing reduced tax rates.

## Out-invest in recruiting, developing and retaining local talent, especially mid- and top-level management.

It's well known that Africa suffers from a critical shortage of skilled professionals, mainly due to the population's low education level and a troubling brain drain—the steady exodus of the continent's highly educated workers (see Figure 7). Consider the fact that more than 70,000 students leave Africa each year, with only half returning. Leading companies understand that, amid such scarcity, creating a rich talent pipeline requires a substantial commitment over time.

To attract top local talent, leaders leverage and promote their corporate reputation, brand strength and presence. Some companies launch graduate recruiting and training programs and provide clear career development paths to increase skills and retention. Among the lures: offering attractive transfers and sought-after job rotations. Successful companies also ensure that salaries are

*Figure 7:* Africa's brain drain of highly educated workers is a major challenge for companies



Sources:

- Africa Recovery, Vol. 17 #2, July 2003
- Gerald Kitabu, Investment in education sector will propel impoverished Africa, 1 Nov 2011
- Africa and Europe in Partnership, 'New report by African Development Bank and World Bank: Leveraging migration for Africa: Remittances, Skills and Investments', 15 April 2011
- <http://www.eaie.org/pdf/krakow/606.pdf> "European Association for International Education"
- Konia Kollahlon and Edward Eule, "The Socioeconomic Attainment Patterns of Africans in the United States," *International Migration Review* 37:4 (2003):1165-1190

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correctly benchmarked not just against direct competitors in the local marketplace, but also against companies in other fast-growing sectors, such as financial services or telecom, that could raid their talent. They also rely on expatriates to temporarily fill local talent shortages.

For one leading fast-moving consumer goods company, a well-devised talent plan was an integral part of its strategy. The company hired more than it actually needed—a safety cushion to limit future shortage. To develop its workforce, the company drew up training programs and implemented a mentoring system with quarterly feedback and guidance. To retain talent, it improved remuneration, rewarding strong performers differentially. Another important measure was to put in place processes and metrics to monitor the talent evolution. For example, it implemented attrition incident reports. Finally, to address immediate capacity gaps, the company repatriated talent working in other markets

and temporarily introduced additional layers in the organization to make spans of control manageable. Though talent shortage remains a key challenge for the company, these actions allowed it to successfully fill a portion of the gap and make strides toward its growth goals.

These are pragmatic examples of how companies beat the specific challenges of doing business in Africa. But as these pioneering companies have also discovered, one critical capability to master in the African context is having an entrepreneurial mindset. That means easily adapting to unexpected roadblocks and opportunities, becoming comfortable taking the kinds of risks that aren't required when doing business in most other parts of the world, and following gut-level instincts to make less-informed decisions. To win in Africa, you don't need to throw out everything you've learned in sophisticated markets, but you do need to foster a culture of boldness, agility and resourcefulness. 

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1 Friedrich Schneider, "Size and measurement of the informal economy in 110 countries around the world," July 2002; Gavin McLachlan, "Wire Craft and Urban Space: A case study of the wire art trade in South Africa," 41st ISoCaRP Congress 2005

2 <http://www.unisa.ac.za/contents/faculties/ems/docs/Report349.pdf>, accessed January 12, 2012

3 [http://www.bop.org.za/BOP\\_Lab/Publications\\_files/SABo8.pdf](http://www.bop.org.za/BOP_Lab/Publications_files/SABo8.pdf), accessed January 12, 2012

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