Growing with Africa's consumers

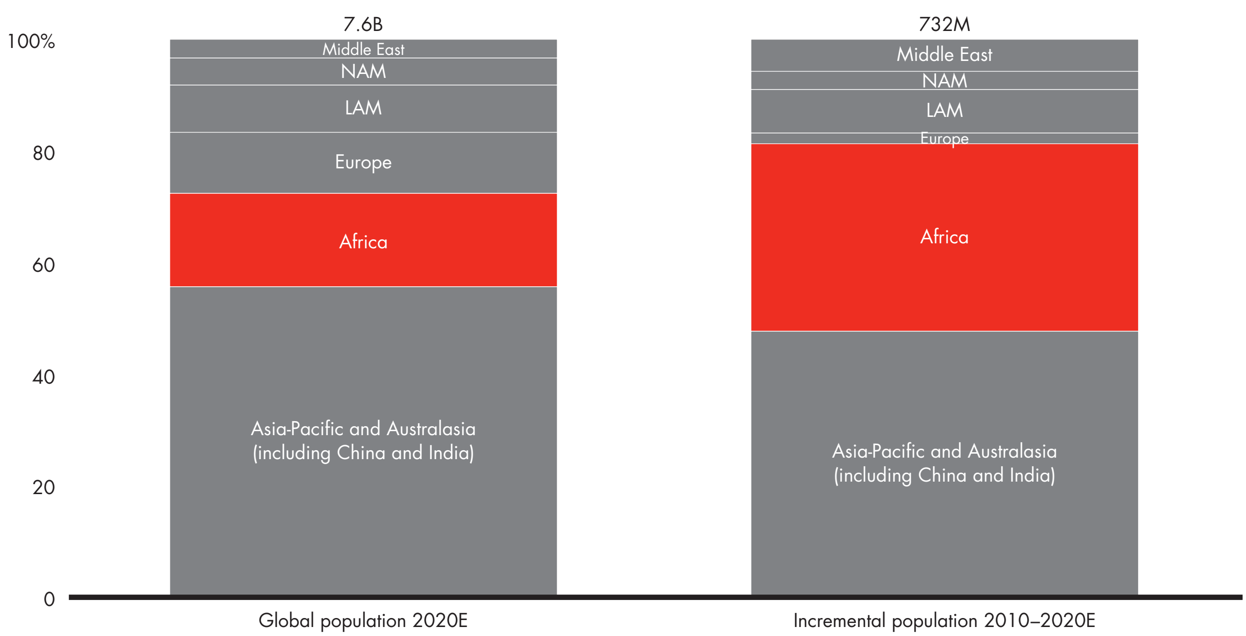
With its increasing consumer population, Africa shows great promise as the new frontier for consumer products companies pursuing growth. The trouble is that competitors are quickly moving into place, too.

When Africa proved resilient to the 2009 global downturn, consumer products executives took notice. Companies without a presence in Africa started taking another look, and many companies already selling there realized it was time to boost their presence and increase their footprint.

A host of factors contributes to a rosier picture of Africa. The continent's total GDP of $1.5 trillion is similar to that of Brazil, India or Russia, and it is expected to grow faster than most non-BRIC emerging markets. While instability still plagues some African nations, overall, political risk has substantially diminished over the past 20 years. If Africa remains fragmented with more than 50 distinct countries, its business environment has significantly improved with the emergence of trading blocs. And there's even more promising news: A new consumer class is rapidly emerging—and emerging so quickly that total consumer spending is expected to double by 2020. The numbers say it all according to Euromonitor and the African Development Bank: 17% of the world's population will live in Africa by the year 2020 *(see Figure 1)*, and the continent's middle class already accounts for one-third of the population and is expanding faster than the other social classes. In five major countries alone (Algeria, Egypt, Morocco, Nigeria and South Africa), there will be 56 million middle-class households with disposable incomes totaling more than $680 billion over the next eight years. Consumption spending per capita matches that of India or China and is expected to grow for the foreseeable future *(see Figure 2)*. Rapid urbanization is also creating higher consumer density and fostering the development of retail networks.

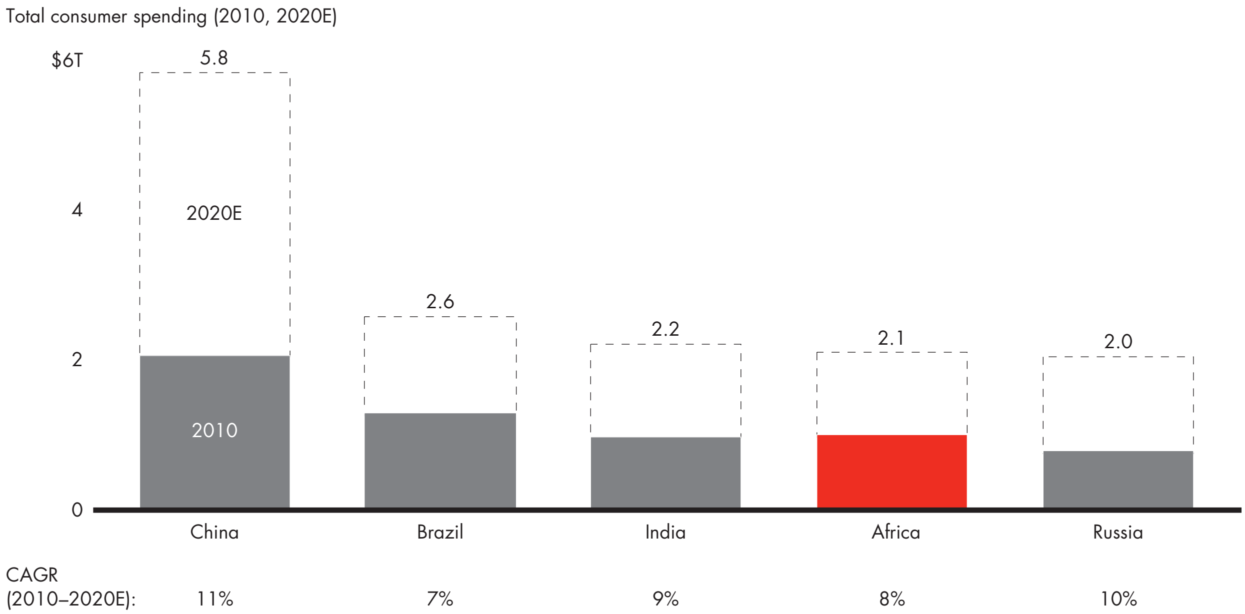
While the opportunity for growth is massive for companies that can overcome Africa's specific obstacles

Figure 1: By 2020, Africa will comprise 17% of the world's population, accounting for about 250 million new people



Source: Euromonitor

Figure 2: Total consumer spending is already higher than spending in Russia and on par with spending in India. It will more than double by 2020



Notes: Africa figures based on 48 countries; data unavailable for Mayotte, Saint Helena, Somalia, Western Sahara, DRC, Equatorial Guinea, Eritrea, Liberia and Réunion
Source: Euromonitor

(see "Lessons from Africa's pioneers" on Bain.com), the continent is brimming with competitors that have the same idea. More than 70% of the top 50 global consumer packaged goods makers are already tapping Africa's rapidly expanding consumer market. For 20% of this top 50, Africa already represents more than 5% of their global sales—as much as 14% for Diageo and 10% for Parmalat—and most in that group also enjoy strong profitability.

In addition to the leading global players, a new species of consumer products competitors is quickly rising from the ranks of emerging market champions. Companies like Singapore's Olam, Saudi Arabia's Savola Foods and India's Marico or Godrej Consumer Products are also aggressively going after the growing African consumer market.

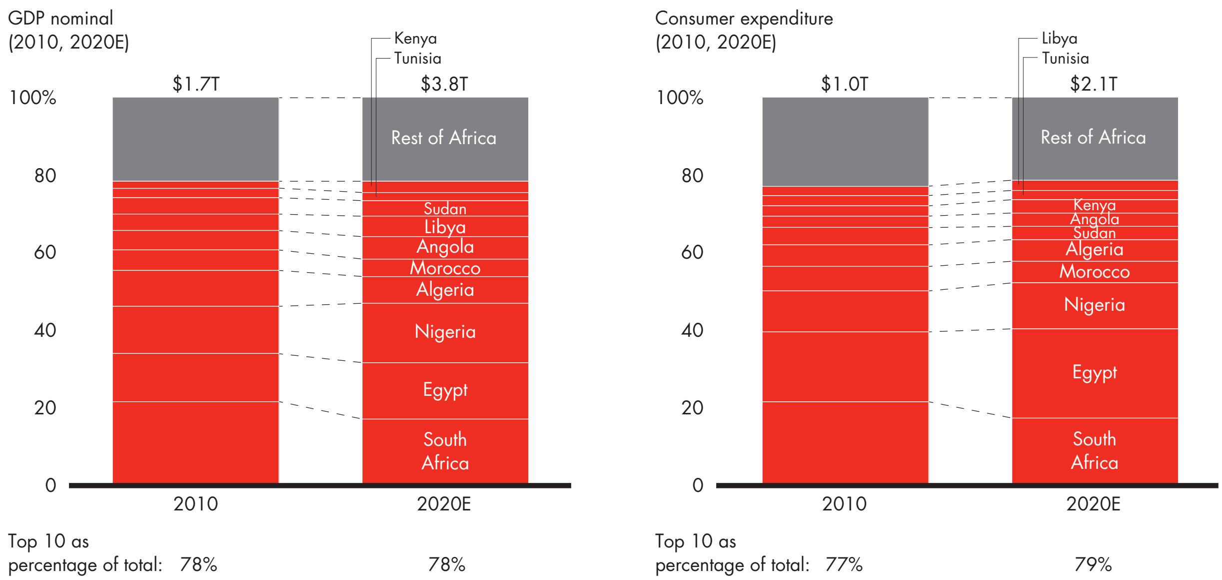
What does this mean? The Africa opportunity is intensifying competition, narrowing the window of time for companies to successfully enter and expand or shape the landscape to their benefit.

How can players get ahead? Companies with no presence in Africa may want to seriously reconsider. Skipping Africa means potentially missing significant growth opportunities. For companies already selling in Africa, now could be the time to accelerate growth by building up existing positions and expanding into new markets. But whether your company is already testing the waters or still thinking about wading in, it's critical to understand a few characteristics of this unique continent to best frame how to successfully tap into it.

Deciding where to invest

Foremost among the considerations is where to enter and to expand. In most emerging markets, you can carefully plan your expansion by first establishing yourself in the biggest markets, then in the primary regions or cities, where dense populations will help optimize your investment, and finally moving on to the smaller regions or towns. But in Africa, you might not be able to systematically follow such a logical and disciplined sequence within and across markets. You may choose to start in the 10 markets that, according to Euromonitor, account for 75% of Africa's GDP (South Africa, Egypt, Nigeria, Algeria, Morocco, Angola, Libya, Sudan, Tunisia and Kenya) *(see Figure 3)*. Depending on your category, you may also need to prioritize other markets

Figure 3: Market size is often a key criteria for entry or expansion—10 countries drive more than 75% of GDP and consumer spending



Notes: GDP for 54 African countries (data unavailable for Saint Helena, Mayotte, Réunion and Western Sahara); Consumer expenditure for 48 African countries (data unavailable for Saint Helena, Mayotte, Réunion, Western Sahara, Equatorial Guinea, Eritrea, Liberia, DRC and Somalia)
Source: Euromonitor

from the next tier. What's often critical for success in Africa is having the flexibility to quickly jump on opportunities, even if they arise in an unexpected order. Africa's fragmented markets, quickly changing political and regulatory environment and shortage of local incumbents with scale mean global players need to act swiftly to acquire promising companies that become available or jump on opportunities opened up by privatization. Heineken, for instance, had placed Ethiopia on its top list of Africa markets to target, but it was not the highest on that list. Regardless, they recently acquired two breweries in Ethiopia the moment they became available—even though they still have much further to go to develop and grow in Nigeria, a primary African market for the company. The lesson Heineken learned: Know which markets you want to prioritize, screen them thoroughly to identify those rare opportunities that may interest you, and be agile and responsive when they arise.

Partnering for position and profits

A second important consideration is how independent you can afford to be in Africa. This is one place where you must rely on help from a guide to explore, learn and grow. Few—if any—consumer packaged goods companies have succeeded on their own. Success there means viewing partnerships and acquisitions as an inevitable fact of life. And winning companies look for different types of acquisition or partnership opportunities: brands with strong competitive positions or robust equity with local consumers, companies with route-to-market capabilities, or players that offer production capacity or access to supply.

If you are interested in acquiring companies, you should know that the availability of relevant targets might significantly vary from one market to another or from one category to the next. Also, the average size of companies is usually smaller than companies elsewhere and the risk tends to be higher. If you aspire to minimize risks, you can adopt a cautious approach. Many players start by establishing joint ventures where they hold a majority position, with an out-clause in case the venture fails. As they progressively gather knowledge about the target company, they can choose whether to increase control or move to a full-blown acquisition. One noteworthy consideration when engaging in M&A activities in Africa: Given the lack of reliable market data and transparency on financial results or ways of doing business, you will need to apply more practical due diligence techniques than you would elsewhere, actually going back to the basics, such as leveraging local contacts to harness their expertise on the target company, running primary consumer research or conducting in-store intercepts and outlet-checks.

What to sell?

A final consideration is which categories, products or brands you should sell in Africa. As in many other developing markets, such as Indonesia or Brazil, you don't need to enter into new local categories to gain ground. You can choose to push your existing core categories and brands. Even if your category is currently under-penetrated, you should not hesitate: There's room for growth. This is a place where creating new consumption habits and building category penetration might happen quickly—possibly even faster than gaining competitive ground in a more established category. One way players can successfully launch consumption of under-penetrated categories is by investing in consumer education. Unilever, for example, grew the market for its toothbrushes and toothpaste in Nigeria, where consumption was low but the opportunity was huge. Many Nigerians brush their teeth only once a day. Managing to get them to brush twice daily would automatically double the toothpaste market. To achieve that goal, Unilever held presentations with easy-to-remember visuals in the backs of vans or rural area schools to educate the population about oral hygiene. The "Brush Day and Night" campaign helped the company build robust toothpaste volume growth over the past decade.

At first glance, entering or expanding in Africa may appear daunting because of the undeniable complexity of the continent. No company can depend on a simple plug-and-play strategy to enter or on a single operating model to quickly expand. But our research shows that Africa is not significantly more challenging than many other emerging markets. As growth slows in developed markets and categories in other emerging markets quickly consolidate—squeezing out newcomers—Africa may be the next best place on Earth to look for a new growth engine.

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

Key contacts in Bain's Global Consumer Products practice are:

Americas: **Vijay Vishwanath** in Boston *(vijay.vishwanath@bain.com)*
Kara Gruver in Boston *(kara.gruver@bain.com)*

EMEA: **Matthew Meacham** in Madrid *(matthew.meacham@bain.com)*
Tiaan Moolman in Johannesburg *(tiaan.moolman@bain.com)*
Andrew Tymms in London and Johannesburg *(andrew.tymms@bain.com)*
Cyrille Fabre in Dubai *(cyrille.fabre@bain.com)*
Giovanni Arnese in Rome *(giovanni.arnese@bain.it)*
Marcello Tripodo in Milan *(marcello.tripodo@bain.it)*
Joëlle de Montgolfier in Paris *(joelle.demontgolfier@bain.com)*

Asia: **Mike Booker** in Singapore *(mike.booker@bain.com)*
Satish Shankar in Singapore *(satish.shankar@bain.com)*

For additional information, please visit **www.bain.com**