

# HOT TOPIC

August 2016

## Africa's New Consumers

### Hot Topic #3

Over the past decade, Africa has become the fastest growing region in the world. Growth rates of around five percent per year since the turn of the century means that the continent's GDP has doubled in a decade. Even since the global financial crisis Africa has continued to outperform other regions.

The macro-forces that are shaping this transformation, fuelling what is likely to be a long boom after years of stagnation and decline, represent a sea change for the continent's fortunes. Few of them seem likely to reverse in the next few years. The long-term opportunities for business development are significant.

### Framing the opportunity

#### Rising middle class

The real opportunity in Africa for global brands largely lies in Africa's rising middle class, which according to the African Development Bank has tripled over the last 30 years, reaching 313 million people, or 34 percent of the continent's population.

**More stable polity** Many African countries have also stabilised their political and economic environments, making it easier to do business. During the 2009-2013 period, 39 of the 52 countries in Africa registered an improvement in governance.

(<http://www.africanbusinesscentral.com/wp-content/uploads/2016/01/The-Africa-Investment-Report-2015-FDI-Intelligence-Report.pdf>)

Economics and politics are connected here. Over time the growing middle class is more likely to push back against the kind of "big man" politics that has characterised much of Africa since independence.

**"Africa is the untold story, and could be the big story, of the next decade, like India and China were this past decade. The presence and the significance of our business in Africa is far greater than India and China even today. The relevance is much bigger"**

Muhtar Kent,  
CEO Coca Cola,  
Bloomberg Business week

**Population growth** In 2009 Africa's total population for the first time exceeded one billion. Forty percent now live in its urban areas, which are among the fastest growing in the world. By 2020 Africa's urban population is projected to rise to 600 million.

The continent has the youngest age profile of any in the world, with 35% of the population under 35, consumers will continue to generate enormous demand over the next 50 years.

**Diverse continent** Before setting out to navigate the opportunity in Africa, it's worth stepping back to see the context. Few, for example, realise its physical scale and its layers of complexity. As a continent Africa is larger than the United States, China, India, Europe and Japan all combined. For example, it is estimated that in Nigeria alone more than 500 languages are spoken. Moreover, each of Africa's 54 markets is shaped by distinct influences, including local cultures, colonial histories, new global investment partners or diverse diaspora influences.

## Some rules of thumb:

### **Growth is growth.**

Like all growth, it is uneven.



### **Nothing quite like it.**

Don't assume that Africa is like other emerging markets or that African countries are all similar.



### **The streets tell truer stories.**

There's data there, but to understand it, you need to listen to consumers.



### **Agility is essential.**

Whatever your market plan, there will be surprises.



Growth rates of around five percent per year have doubled the size of the continent's economy since the turn of the century. So what factors have transformed Africa's prospects? The answer is that a host of tailwinds have arrived at much the same time.

**Urbanisation.** Cities are engines of growth because of their economic density. And as they expand they require investment in construction, infrastructure and so on which becomes a source of economic development in its own right, providing jobs at all levels of skill. While only two-fifths of Africa's population lives in cities, that proportion accounts for four-fifths of the continent's GDP.

"In Africa,  
there are 150

**\$1B companies**

and more than 500 with annual  
sales of \$100m."

Jonathan Berman  
Consultant at Dalberg

#### Increasing external investment.

FDI project numbers increased by 7% year-on-year, from 722 projects in 2014 to 771 projects in 2015.

([http://www.ey.com/Publication/vwLUAssets/ey-africa-attractiveness-program-2016/\\$FILE/ey-africa-attractiveness-program-2016.pdf](http://www.ey.com/Publication/vwLUAssets/ey-africa-attractiveness-program-2016/$FILE/ey-africa-attractiveness-program-2016.pdf))

#### Increasing South-South trade.

South-South trade (southern hemisphere markets trading amongst themselves) has continued to grow, rising from about one fifth of world trade to about one quarter in the past decade. Growth of South-South trade has accounted for a majority of the growth of world trade with South-South trade now nearly equal to North-North trade as a proportion of world trade.

([http://www.un.org/en/development/desa/policy/wesp/wesp\\_archive/2014wesp\\_chap2.pdf](http://www.un.org/en/development/desa/policy/wesp/wesp_archive/2014wesp_chap2.pdf))

**Technology growth.** By 2025 half of sub-Saharan Africa's billion strong population will have internet access, 360m via smartphones (*McKinsey*).

#### Increasing size of labour force.

Sub-Saharan Africa will have more people joining the labour force in 20 years' time than the rest of the world combined, according to the International Monetary Fund. And according to a McKinsey study there could be 72 million new wage-paying jobs created by 2020.



## Making the opportunity

For businesses to gain competitive advantage in Africa, they must look beyond generic assumptions to understand the underlying truths in people's lives. The secret, as in any market, is to think about how change is reshaping people's lives—and to identify from this ways in which businesses can create value both for their consumers and for themselves. Below the headlines are opportunities for businesses to connect with people by providing effective solutions to these real problems.

## Moving beyond assumptions

The first response when faced with the complexities that Africa presents is to simplify. This is understandable, since businesses that succeed often do so because they are better than their competitors at making the complex manageable. Sometimes, for example, businesses try to draw on some of the rules of thumb that have worked in other emerging markets. But precisely because of its richness and diversity, Africa's many markets operate in different ways. By spending time on the ground, listening to consumers, nuance starts to emerge.

**"People go to Africa and confirm what they already have in their heads and so they fail to see what is there in front of them."**

Chinua Achebe,  
Things fall apart



## #1: Progression isn't linear, it's a treadmill more than a ladder

People aren't experiencing a direct path into a new and emerging middle class. While rapid levels of growth and development are bringing new and exciting opportunities, there are no guarantees. People experience progression as a process of forward and backward momentum.

**Meet Bem.** He owns this expensive mobile phone, he enjoys a secure place within the emerging middle class. However, Bem finds work when he can. Sometimes this means he has a consistent job, but he is typically working on two to three different ventures at one time hoping to eventually gain freedom by creating his own "future." He copes with setbacks and uncertainty by relying on his hope, religion and family to propel him forward



## #2: Aspiration exists within the social context

Individualistic desires aren't driving people to grasp new opportunities for wealth and success. Their aspirations are not rooted in gaining respect as an individual but achieving as a group. Success doesn't exist without sharing the pot (e.g., taking friends, family and networks with them).

**Meet Abasi.** While owning a car is an important signifier of success for Abasi and his family, he prides himself on the new opportunities his success brings to his local community. He employs others in his network and provides financially for his extended family in urban and rural areas.



Namibian fashion designer Lourens Gebhardt.  
Source: <http://louxthevintageguru.tumblr.com/>

### #3: Aspirations are rooted in a careful optimism about the future

The visible signs of change, development and attention from the global community energise people (especially Millennials). However, most have experienced the promise of unfulfilled change before. There are varying levels of belief that anything is actually new or different now. Their hope is balanced by their anxiety.

**Meet Amana.** *She is embracing the new opportunities available to her to make her own money through her own business venture. She is enjoying her success, but this is the third time she has started a business. Previously, her business suffered due to external circumstances such as loss of distribution and the rise in commodity prices, but a promising, evolving economy in her region gives her hope this time around.*



### #4: Networks are a source of survival as much as a source of connection

People are surviving within a context of constant change, few guarantees, limited or non-existent social protection, informal infrastructure and a history of power struggles between military and civilian governments. Strong and trusted networks are the most common ways to build a sense of security into one's life. The essential nature of these connections drives strong relationships between people based on more than simply connection and belonging.

*This group of men meets regularly to discuss their lives and their business opportunities. They have formed a local network for like-minded business people to share ideas and support each other financially. They help each other with loans and with making decisions about where to invest their money.*



### #5: Mobile technology is a substitute for infrastructure as much as a source of connection

While people stay in touch through mobile phones, the more significant role for mobile technology is to facilitate various business ventures. People use their phones to support a range of revenue streams. It acts as their banking system where they buy and sell goods and give each other loans. It also acts as their distribution center where they manage deliveries, get logistics/price updates (a farmer learns the price of sweet potatoes across the region through text updates) and manage employees or business contacts.

**Meet Ken.** *Ken's phone plays an integral role in his business. He uses it to pay his suppliers through M-PESA. He gets updates about distribution issues from the more rural areas and he coordinates with his partners throughout the day, as they operate in different parts of the city.*

*Images taken on field research in African markets by Kristy Evans.*

### #6: Expectations are unmet and decisions are reactive

People are facing the same challenges and growing pains businesses experience when entering Africa. Infrastructure is informal and the rate of its development has often been slower than the demand. There are constant disruptions in the form of power outages, traffic congestion and political gridlock. The economy fluctuates daily. This context has shaped the way people make decisions. While they are practised at being agile and resourceful, they still desire lasting solutions. Any brand or business that helps them overcome some of these challenges is likely to succeed in Africa.

### #7: Emotional benefits are more important to consumers than you would think

Simple doesn't mean devoid of emotional incentive...

Brands that respond to needs and values can achieve powerful resonance.

“

Businesses need to connect with people by providing effective solutions to these real problems

”

Bruce Layzell, General manager of new African markets, KFC

Start by understanding how people really live and reframe your strategy to offer them real value

Look for the barriers presented by the early stages of development and turn them into opportunities

#### Case study: Diageo

“In Africa we create wealth both directly through our operations and indirectly through our broader network, particularly of agricultural suppliers. We source **70% of agricultural and packaging materials locally** and we work with more than 50,000 local farmers for our agricultural inputs. Thirteen of our production sites in Africa are in water-stressed areas, so much of our focus is on **managing water use in our operations effectively** and enhancing access to clean water to surrounding communities through our pan-African Water of Life programme. The launch of our Water Blueprint strategy this year will help us focus further on water use in the supply chain, with one of our key targets being to **equip our suppliers with the tools to protect water sources in water-stressed areas**. We also support many responsible drinking programmes throughout the continent. We tackle issues like drink driving through programmes such as Dry Drive in South Africa, and underage consumption through the Red Card initiative in Uganda, and through advocating stronger legal purchase age laws in Ghana. Our training programmes have also created close to 40,000 responsible drinking ambassadors across Africa this year.”

- Diageo, *Our Business Manifesto*

## Taking the opportunity

The early stages of development pose challenges to businesses looking to enter Africa or expand within it. It is complex and diverse, and also hugely challenging logistically. Businesses that succeed in Africa approach the perceived barriers as opportunities and find creative ways to tackle them.



### Market fragmentation In South Africa

Spar, the smallest of the three food retailer groups listed on the Johannesburg Stock Exchange, uses a franchise model to achieve scale while also enabling entrepreneurs to customise stores to local needs and local customers. The current "MY Spar" brand idea leverages this in communications, customer relationship management and its approach to corporate responsibility.

## Distribution

Coca-Cola has set up around 3,000 micro-distribution centres to help distribute to hard-to-reach areas. The centres are made up of local entrepreneurs who work with local bottlers. This innovative approach now carries more than 80 percent of Coca-Cola's business in its main East African markets, employs around 13,500 people and generates more than \$500 million in annual revenues.

## Unemployment

Nairobi's iHub has become the nexus for Kenya's vibrant tech community. The nonprofit organisation serves as a workspace and meeting area for entrepreneurs to connect with each other and with mentors, and potential funders. 10,000 members are now registered, and iHub has supported the launch of 150 startups that seek to develop the region's technological capability.

## Information

Kenya famously boasts the world's most developed mobile payments system, M-Pesa, which now handles a quarter of Kenya's GDP, just seven years after launch

But mobile phone companies are involved in similar payment systems across the continent. Airtel Africa, for example, operates in 17 markets. Africa is the market leader in this type of payments infrastructure, and it is only a matter of time before it migrates to richer markets.



## Infrastructure

Close to 60 percent of the fruit grown in Nigeria's Benue state rots before getting to market because of a lack of domestic processing capacity or adequate storage. At the same time, an expanding middle class and increasing awareness of health is driving demand for fruit juice in Nigeria: the market has been growing by 10 percent a year since 2002. The decision by Transnational Corporation of Nigeria to commission (in 2012) the first fruit juice concentrate plant capable of processing 26,000 tons of fruit per year, bridges these two issues.



Consumers are facing the same challenges and growing pains as any business and they are in need of solutions.

However, people have developed their solutions organically over time. Some of these behaviours are so intuitive to people that trying to research them directly tends to be unproductive. **Context and culture are critically important.**

When looking to build a business in Africa research has little value on its own; it needs to be designed and analysed with a commercial outcome in mind. As you begin this process there are some key elements to enable you to get the most out of research:

Budgets will never allow you to cover all markets. Instead, you can choose the **most distinctive markets.**

Always allow time and budget for **contextual immersion** when considering Africa. This is almost as important as the research itself.

**Flexibility** is key—let the process emerge and plan for more fluid schedules.

**Don't underestimate** what you can get out of people just because they live in an emerging market—they are typically much better at thinking imaginatively, understanding and conceptualising brands

**There are also some key risks to look out for:**

- Ethnography alone can immerse people in an unfamiliar context and will likely yield interesting behavioural observations, but it might not go far enough in putting observations and insights in context of the wider strategic business objectives.

- Covering large areas with different local partners in each market can create inconsistency, reducing the ability to develop overarching strategic implications.

- Existing global teams with little experience in a market will struggle to gain engagement from local teams (who are actually responsible for executing)—cross-functional teams who spend time in-market are essential.

- Human resources are not able to keep up with demand in the region. You will face a shortage of people with the training and skills to execute the type of work you might be accustomed to doing in other regions. Think creatively about building partnerships with the right people at the start.



“  
A Zambian is as different to a Nigerian, as an Italian is different to a Russian, and people need to start to understand that...People are different, and that means tastes are different, cultures are different, religions are different. As a result, how we take our products to these different people, need to obviously be different.”

Bruce Layzell,  
General manager of new African markets, KFC

# New consumers in Africa

Questions for food and drink businesses:

1

*How might you understand the food and drink market nuances within Africa, in order to direct your focus in the most relevant markets?*

2

*How could you mix local knowledge and traditional customs with the contemporary influence of African markets' booming youth population?*

3

*How could your offer represent true value for the consumer, solving problems and having a net positive effect?*

4

*How might you establish efficient supply and distribution chains, making use of the resources the market has in abundance?*



**For more information, contact:**

[joe.ballantyne@thefuturescompany.com](mailto:joe.ballantyne@thefuturescompany.com)

[paula.donoghue@bordbia.ie](mailto:paula.donoghue@bordbia.ie)

the  
futures  
company

  
The Thinking House  
BORD BIA INSIGHT CENTRE