KEEP UP!

IN CPG AND NOT IN AFRICA? YOU'RE ALREADY BEING LEFT BEHIND

The Next Consumer Revolution
An OC&C-Insight

OC&C
Strategy Consultants

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Alastair Adam
Partner
alastair.adam@occstrategy.com

Rambaut Fairley
Associate Partner
rambaut.fairley@occstrategy.com

Thomas Wright
Consultant
thomas.wright@occstrategy.com

Karin Serfarty
Manager
karin.serfarty@occstrategy.com

Rachel Eisenberg
Manager
rachel.eisenberg@occstrategy.com

Mairi McGuinnes
Manager
mairi.mcguinnes@occstrategy.com

INTRODUCTION

Sub-Saharan Africa is increasingly in the limelight and for good reason. The sub-continent is on an upward economic growth trajectory, consumer affluence is rising and barriers to doing business are eroding.

At OC&C, we've seen first-hand how our major CPG clients are recognizing the scale of the opportunity and the importance of getting in early. Those CPG firms that aren't playing in sub-Saharan Africa are already being left behind.

A robust strategy and management commitment are critical for success. In the following pages OC&C lays out why the sub-continent is attractive for the next wave of CPG globalization and takes a look at those who are already ahead of the game. We see that there are clear winners emerging and that European CPG multinationals are beating many of their US rivals, generating high margins and securing share to take advantage of future growth.

We go on to lay out some thinking and experience as to how CPG firms can capitalize on the unfolding opportunity. Read on and call us to make sure you can keep up!

SUB-SAHARAN AFRICA IS BIG AND BOOMING

Almost 1bn people and growing.

The sub-continent's population of almost 1bn people is growing rapidly, faster than anywhere else in the world. By 2050 it will be home to 20% of the world's population.
Nigeria alone will be vying to be the 3rd most populated country alongside the USA, behind China and India.

Immense Urbanization.

Africans are increasingly moving to emerging mega cities. ~60% of the sub-continent will be living in urban settings by 2050, enabling access to urban resources and consumer products that don't readily find their way outside cities. An urban Africa is an accessible Africa.

Booming Economic Growth.

Early growth driven by natural resources has given way to rapid growth driven by the services sector, notably retail & consumer goods. GDP growth of 5.5% pa is forecast, leading all regions except Developing Asia (7.3% forecast). Foreign investment is at an all-time high; the EU is in negotiations for an Economic Partnership Agreement with West African nations; China is investing heavily and major global corporations are locating hubs in the sub-continent.

Mobile, Mobile Everywhere.

The use of mobile for day-to-day consumer purchases has leapfrogged the US & Europe. There are already 600m mobile phone users in the sub-continent. With one third of Kenya's GDP taking place through mobile transactions, understanding the nuances of business practices in the sub-content will be key for success.

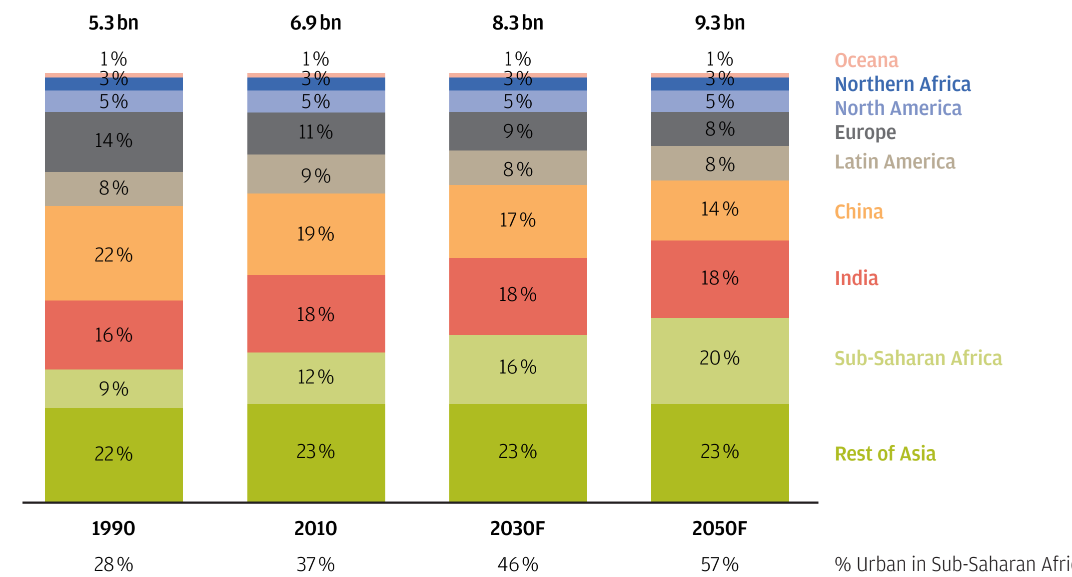
Increasing Consumer Expenditure.

There are two factors that make sub-Saharan Africa stand out: consumer expenditure is growing at 10% pa, and products cost significantly less to manufacture, making even a $2k income viable for consumerism. By 2030 sub-Saharan Africa will reach $2.1 trillion in consumer expenditure. In Nigeria, Euromonitor estimates 30% of households account for 70% of consumer expenditure, earning over $3.6k or higher.

Confidence in Africa's Infrastructure.

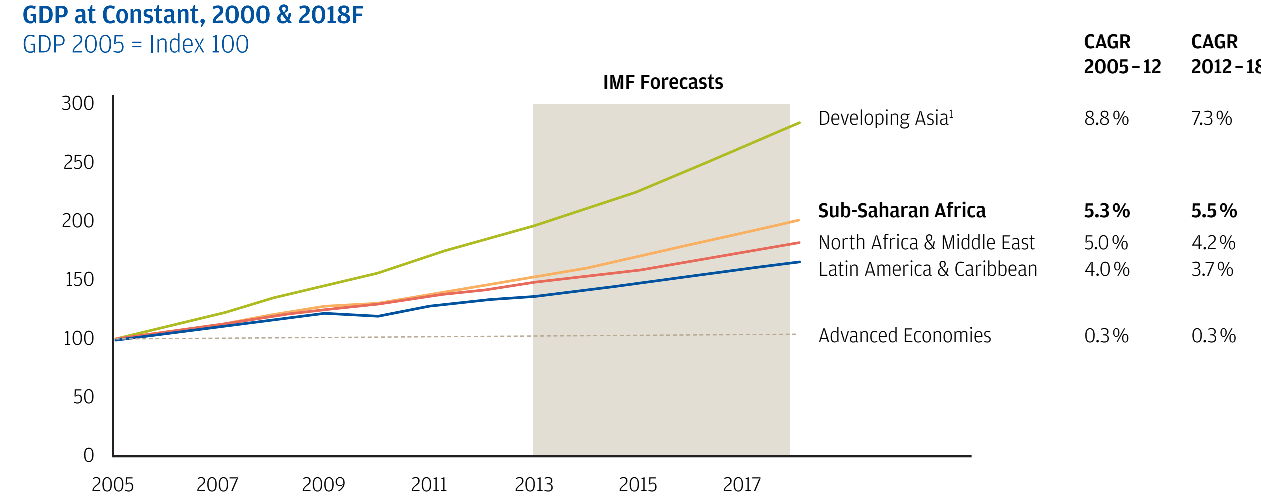
Today many Sub-Saharan nations are rated as easier places to do business than emerging economies like Brazil. Challenges remain but the key is understanding the challenges and identifying strategies to mitigate risks.

World Population by Region/Country, 2010-2050F
Bn People, % of Global Population



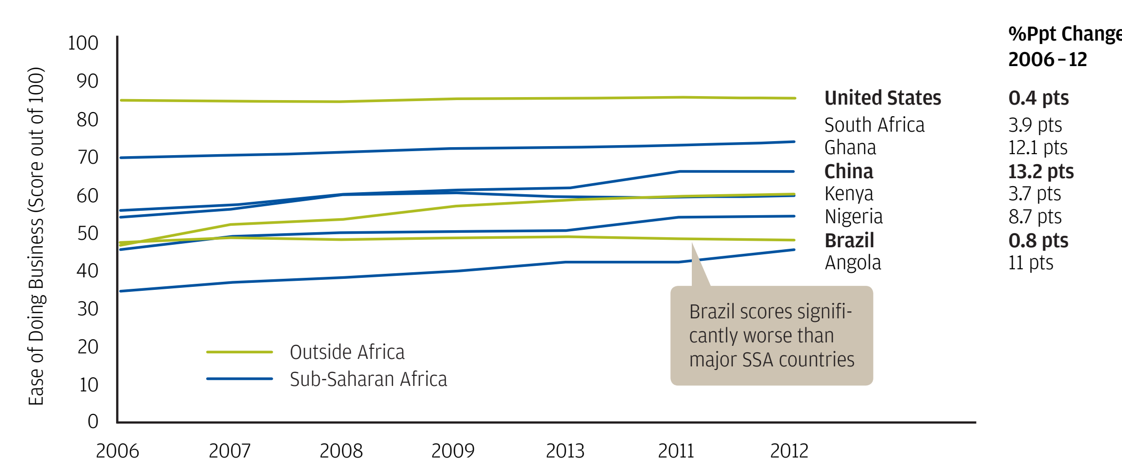
Source: United Nations; OC&C analysis

GDP at Constant, 2000 & 2018F
GDP 2005 = Index 100



1. Includes China and India | Source: IMF World Economic Outlook April 2013; OC&C analysis

World Bank Ease of Doing Business Measure, 2006–2012
Score Out of 100



Source: World Bank; OC&C analysis

EARLY ENTRANTS ARE REAPING REWARDS

Global CPG Players Are Already Active. 36 of the OC&C Global 50 Leading Consumer Goods companies have an active presence in Sub-Saharan Africa. For most, the main focus has been on South Africa and Nigeria. However, 24 of the Global 50 have already established a presence beyond these two countries, making expansion within the sub-continent critical. Business presence is also observable in Kenya, Ghana and Angola, which have the next highest penetration levels of the Global 50.

Winners Are Already Emerging; US Companies Appear to be Falling Behind. Non-alcoholic drinks, alcoholic beverages and tobacco companies have gone deepest into the sub-continent. The leading CPG companies in each category have a multi-country presence – an area where European CPG companies are edging out their US rivals (with the exception of Coca-Cola). Notable examples of winners include Nestlé, Unilever, Diageo, SAB Miller, British American Tobacco and Coca Cola who are clearly ahead of P&G, Colgate Palmolive, Avon, PepsiCo, AB Inbev and Philip Morris International.

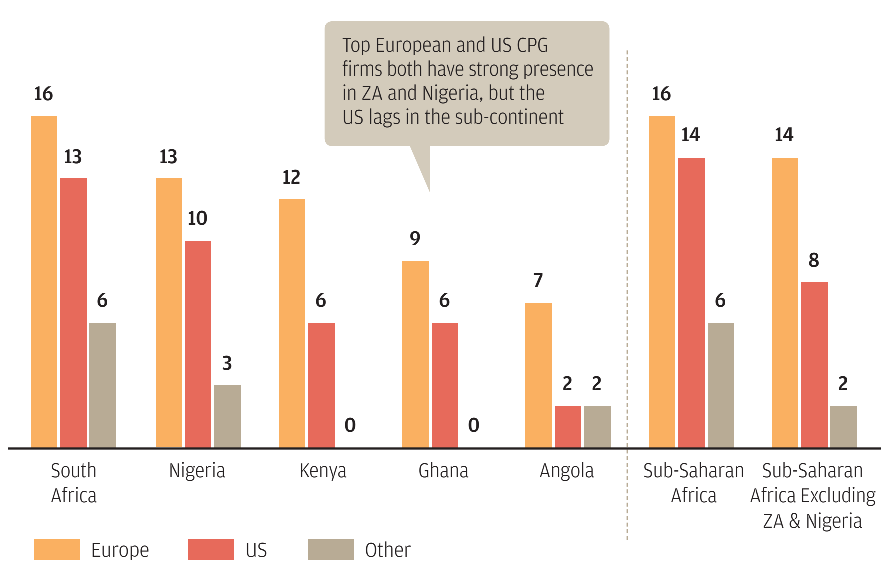
The Winners So Far Are Reaping Rewards. Nestlé, Unilever and Diageo are prime examples – in their specific categories they enjoy higher market share than their global average and generate significantly higher margins and returns on capital than they do elsewhere.

Firms are seeing extremely rapid growth rates of 10-20% pa and operating margins in strong double digits; sub-Saharan Africa now accounts for meaningful proportions of these successful firms' overall global growth and cash margin.

CPG Companies Not in Sub-Saharan Africa Are Missing Out – but if you go big you can catch up. Firms that aren't active with a robust strategy and execution plan are losing out to early entrants and incumbents. If that is you, you need to go big and fast to avoid missing out entirely.

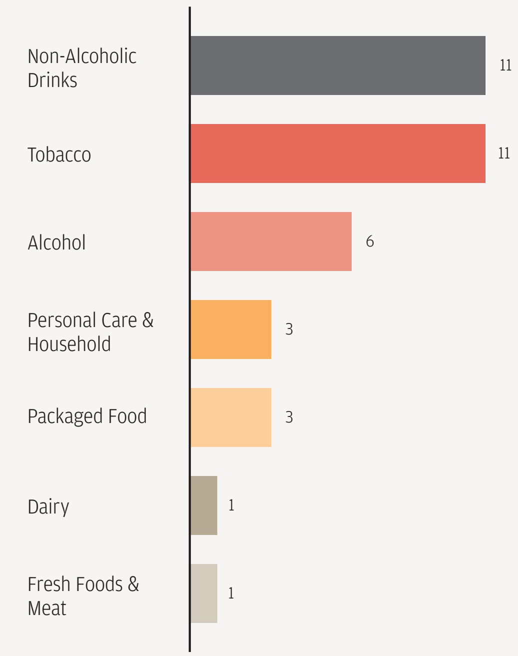
THE LEADING CPG COMPANIES IN EACH CATEGORY HAVE A MULTI-COUNTRY PRESENCE – AN AREA WHERE EUROPEAN CPG COMPANIES ARE EDGING OUT THEIR US RIVALS (WITH THE EXCEPTION OF COCA-COLA).

Global 50 Firms Presence in Sub-Saharan Africa, By Country
of Global 50 Firms, 2012

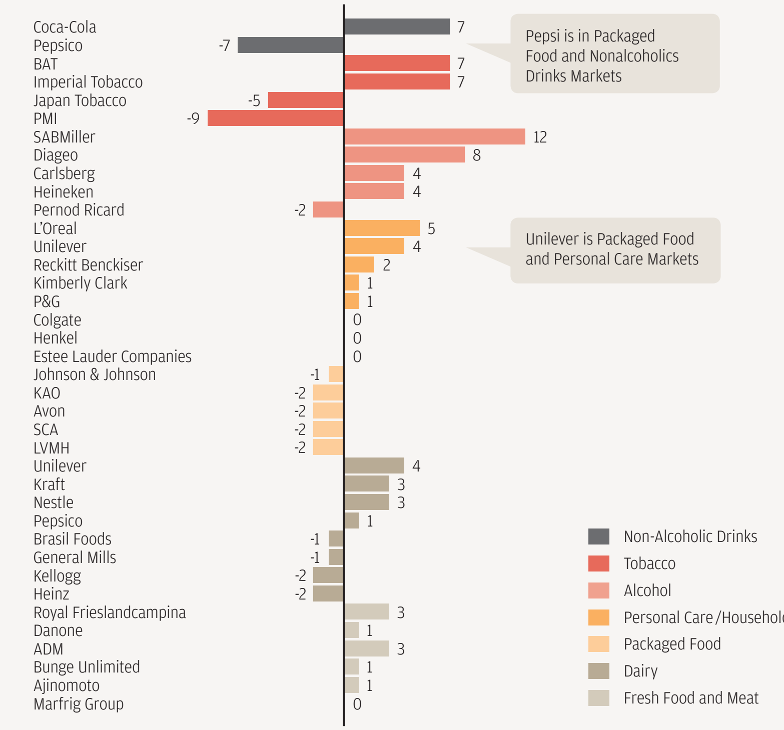


1. Presence based on review of office and manufacturing locations or evidence of significant distribution/share in country
2. Includes all firms listed as present in Nigeria, Kenya Ghana or Angola and selected reviewed other Sub-Saharan African countries
Source: Company Websites / Annual Reports, Press Research, OC&C analysis

Country Penetration by Global 50 CPG Firms, by Category
Average of Countries



Top CPG Firms in Sub-Saharan Africa[1]
Difference between Company and Category Average of Countries



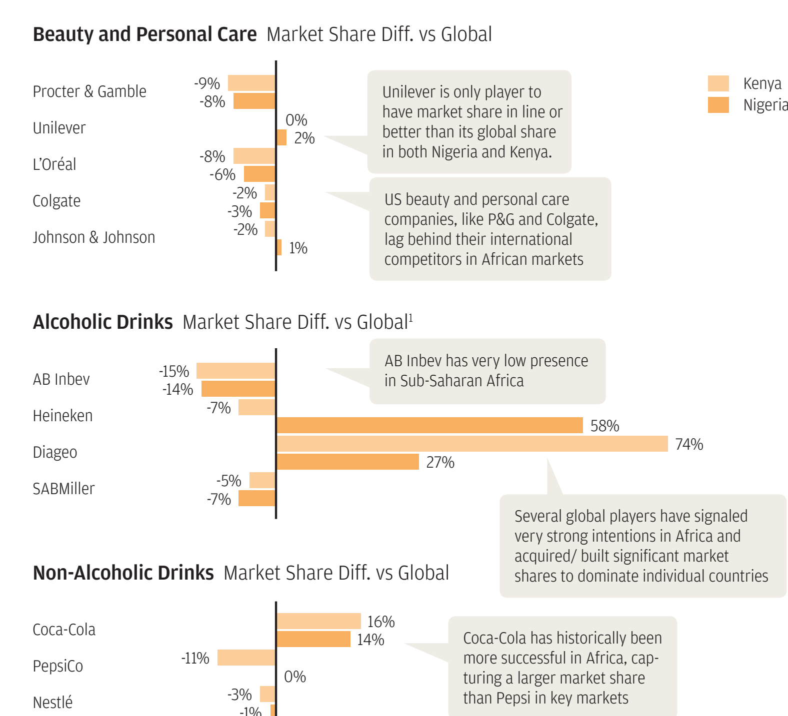
1. Based on evidence of sales, distribution, production or offices in 18 Sub-Saharan countries
Source: Company Websites / Annual Reports, Press Research, OC&C analysis

Examples of Growth an Returns in Nigeria, 2010/11

		Royal Friesland Campina	Nestlé	Unilever
Sales 2011	Global	$13.4b	$94.8b	$64.8b
	Nigeria	**$670m**	**$630m**	**$350m**
CAGR of Sales 2010–2011	Global	13%	6%	10%
	Nigeria	**14%**	**20%**	**15%**
Operating Margin 2011	Global	4%	14%	14%
	Nigeria	**12%**	**22%**	**15%**
ROCE 2011 (pre-tax)[1]	Global	11%	16%	22%
	Nigeria	**92%**	**41%**	**85%**

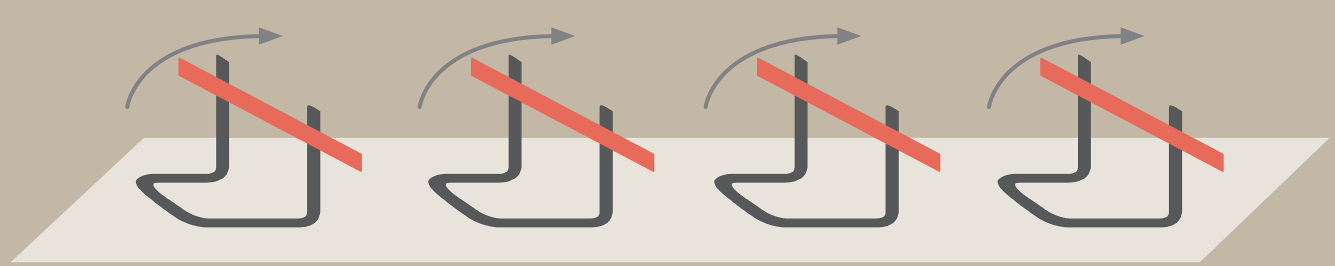
1. Calculated based on local company annual report stated earnings and capital amployed
Source: Annual Reports, OC&C analysis

Market Share by Category, Nigeria and Kenya vs. Global, 2012
Select Global 50 Players



1. Alcoholic drink share based on volume
Source: Euromonitor, OC&C analysis

HOW TO WIN IN SUB-SAHARAN AFRICA



Individually countries are still small and difficult to address

"Go Big or Go Home"
Focus on attractive "Country Clusters" where you can win; go big and early to achieve scale and help mitigate political risk and executional challenges

Consumers in Africa have different needs and ability to pay

"Localize Your Offer"
Develop localized products to meet consumer demands, making sure they are affordable for consumers

Awareness of many brands / products is low and consumers media availbility is different

"Learn the Language"
Learn the local language, cultures and ways; develop brand strategies and marketing campaigns to fit with culture and media usage

Regulations, infra-structure, security and retail density make import and distribution a challenge

"Check your Game Plan"
Investigate all the supply chain options; get creative and don't be constrained by the status quo

1.

Go Big or Go Home

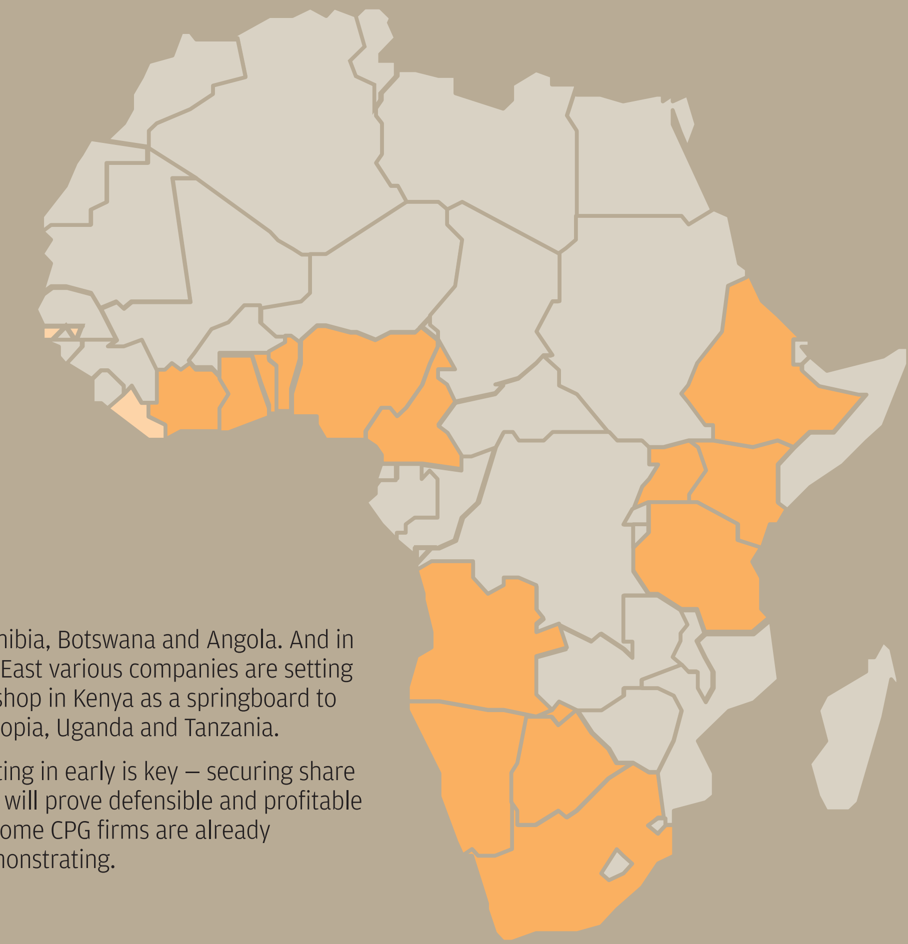
Affluence across sub-Saharan Africa's 48 countries varies considerably and beyond South Africa and Nigeria, individual markets are still small and difficult to address due to differences in culture, infrastructure and political risk.

To be successful CPG firms need scale and multi-country exposure. Firms should focus on attractive clusters, going in early and big to secure share and help overcome risks.

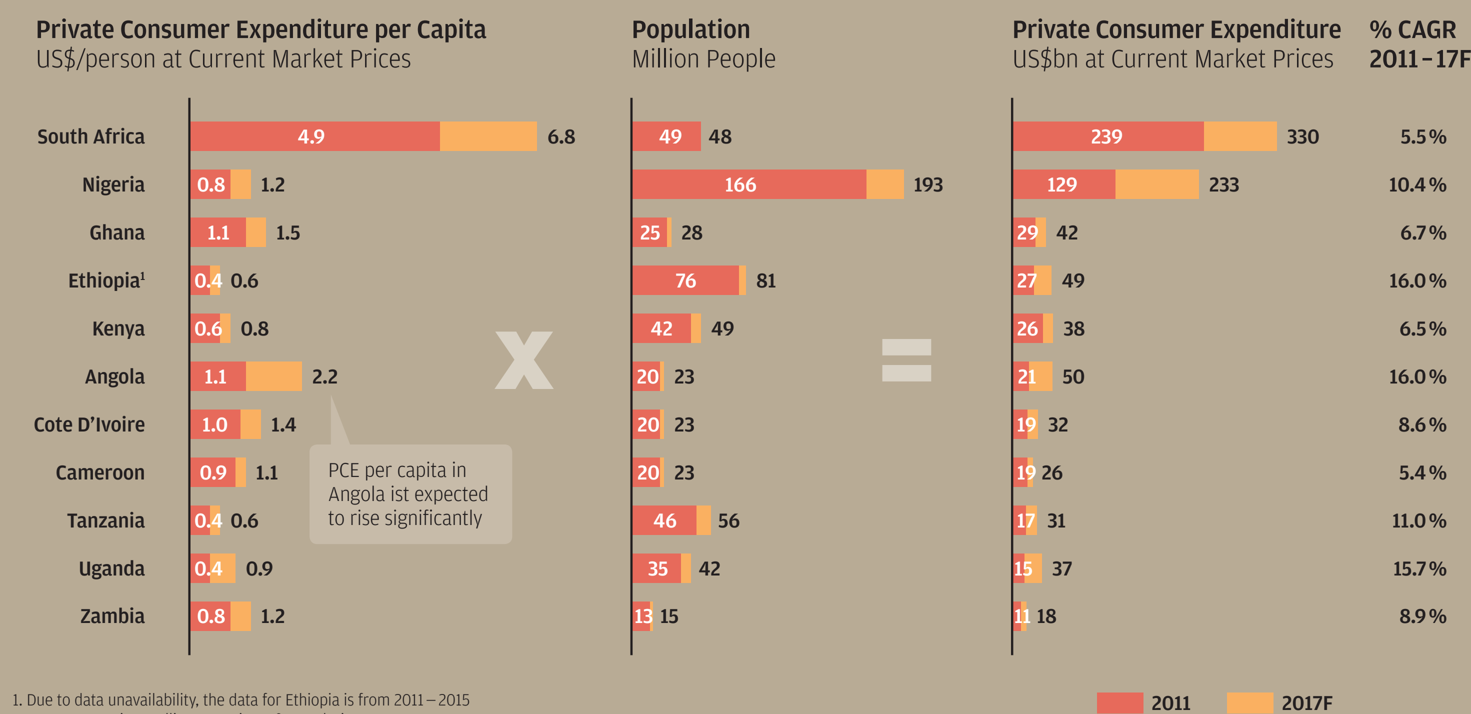
Potential Country Clusters to Achieve Scale

The West African region, particularly Ivory Coast, Ghana and Nigeria is booming, with significant effort being made to free international trade and investment. In the South, companies are considering expansion from South Africa into a cluster consisting of Namibia, Botswana and Angola. And in the East various companies are setting up shop in Kenya as a springboard to Ethiopia, Uganda and Tanzania.

Getting in early is key – securing share fast will prove defensible and profitable as some CPG firms are already demonstrating.



Sub-Saharan Africa Population and Consumer Expenditure, 2011 & 2017F



1. Due to data unavailability, the data for Ethiopia is from 2011 – 2015
Source: Economist Intelligence Unit; OC&C-Analysis

2.

Localize Your Offer

Absorb and acknowledge local needs, tastes and lifestyles, and in turn develop locally relevant affordable products. African consumers are drawn by quality and brand in their decision making, but foremost products must be affordable to the target consumers.

Pricing and packaging are critical levers. Unilever's success to date is a prime example; actively focusing on the 'Bottom of the Pyramid' they have sought to produce goods at lower cost and improve affordability by lowering pack sizes, pioneering the concept of more affordable low unit packs 'LUPs'. Similarly, the decision to use glass bottles is a simple but effective example of how Coca-Cola changed packaging from the Western norm to improve affordability in the African markets.

Build Price Points to Cover All Income Bands. Go for the easy win higher affluence groups, but don't stop there. Low-income consumers represent one of the region's largest potential markets, but most are unable to afford high-priced Western brands. Brands need to develop a hierarchy covering different levels of price and exclusivity in order to win new customers of lower affluence and keep them as their wealth rises.

3.

Learn the Language

Awareness of many products and brands is low, even in the more developed markets like South Africa and Nigeria. You need marketing strategies which fit with media trends and resonate with local culture.

Invest and Look at the Options to Build Brand Equity. When initial scale is low, you need to invest and look for clever ways to build the brand. Leverage the influence of western brands and countries. Consider acquiring local brands for a quick route to share and market control without having to establish a reputation.

Think Physical & Digital. Conventional above-the-line broadcast media is never going to be as important in sub-Saharan Africa as in mature markets; it is all about physical and digital. Invest in physical advertising campaigns, web-based and mobile marketing.

Embrace the Unconventional. Brands can't rely on conventional campaigns. Work closely with retailers to get favorable visibility on shop fronts, install branded fridges/coolers, leverage low people costs to train and employ brand ambassadors and run product demonstrations. Nestlé has used innovative approaches like hiring local singers to provide entertainment and product demonstrations to villagers in rural locations. Heineken and Guinness (Diageo) have created lock in by deploying convention such as branded beer matts, beer fridges/coolers, draft taps, staff training – alongside less conventional methods such as heavily branded retail outlets.

Case Study

Localized Products:

We have seen early movers successfully introduce innovative localized products, e.g.

Unilever's low-cost climate stable margarine which doesn't require refrigeration, and soap products which require less water to be effective

SABMiller's launch of Impala, a Cassava-based (root vegetable) beer to tailor to local tastes and take share from illegal home-brewing (which adds a credible market message)

Tiger brands' heavy investment into Nigeria in local brands and tailoring of ingredients in breads to meet local tastes in Nigeria

Tiger Brands

Case Study

New Product Launch and Brand Building:

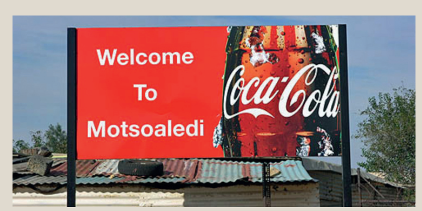
Early movers have successfully launched products and built brands e.g.

Diageo has positioned its Tusker beer brand as a national beer in order to appeal to local consumers

Amstel brand lager is prominently displayed on the South African television show, "Generations," which is popular among black, middle-class families

In many African countries, SABMiller has rolled out the brand Chibuku, which costs only 50 cents per serving; it also offers low-priced lagers and premium beers

Coca-Cola provides small South African retailers with resources, such as free drink coolers, and guidance about shelving and standardized marketing practices



4.

Check Your Game Plan

The Route-to-Market is complicated and economics are fundamentally different in sub-Saharan Africa. The right answer is seldom obvious and may be different from more established markets.

Case Study

Getting Product to Market:

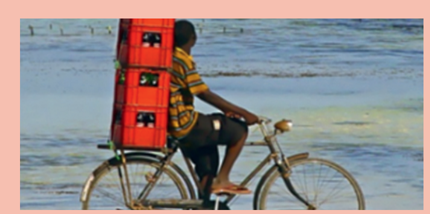
Major firms have been acquiring and building manufacturing capacity in Africa, and using a combination of conventional and novel approaches to distribution

Diageo and Heineken have been actively acquiring local brewing competitors to rapidly grow market share , and deploying conventional on and off trade distribution, as well as ideas like chilled beer vending machines

GUINNESS KILIMANJARO PREMIUM LAGER

Nestlé and Unilever have both deployed significant capital investments to build their own manufacturing capacity in Africa, notably Unilever in South Africa

Coca-Cola partners with local, independent distributors who make use of carts, bicycles and rickshaws to deliver to remote retail outlets



Evaluate All the Options for the Upstream Supply Chain. Import may be the fastest lowest capital cost way to enter markets, but it is slow and riskier – shipments can get held at ports and borders erratically. Local manufacturing (via acquisitions, JV or greenfield) is increasingly popular as business environments can evolve fast and costs are lower in the region. International & local logistics routes can change; access to utilities, staff quality and acceptable suppliers & raw materials can vary and import regulations/duties can increase cost and timeframes.

Get Creative on the Downstream Supply Chain. Arterial haulage or last mile distribution to stores, firms need to get creative. Nestlé has structured networks of key distributors managed by Nestlé supervisors to get a firm grip on all retail operations without burdening their headcount & cost structure. On a less conventional theme, they hire youths with rick-shaws to distribute Nescafé coffee and use 'couriers' to deliver goods and collect payments to and from the many tiny outlets in rural locations or dangerous townships. Similarly, Unilever has rolled out its Shakti program, pioneered in India, in Africa which recruits locals to work as micro-retailers / sales-force / brand ambassadors to spread the word, distribute and sell product in more rural locations.

WHO WE ARE AND OUR EXPERIENCE IN CONSUMER GOODS IN AFRICA

OC&C is a leading strategy consulting firm, with deep sector focus. We bring clear thinking to the most complex issues facing ambitious management. We have extensive experience working with CPG companies across the globe and our expertise is strengthened by working throughout the value chain.

Within Africa we have developed deep expertise based on hands-on experience helping clients answer operational and strategic questions, including new entry strategies, acquisition target identification, expansion strategies and commercial due diligence. Our client roster includes brands, retailers and distributors across the continent.

Get in touch to make sure you can keep up!

Offices

Belo Horizonte
T +55 31 3481 0092
Boston
T +1 617 896 9900
Düsseldorf
T +49 211 86070
Hamburg
T +49 40 4017 560
Hong Kong
T +852 2201 1700
London
T +44 20 7010 8000
Mumbai
T +91 22 6619 1166
New Delhi
T +91 11 4051 6666
Paris
T +33 1 58 56 18 00
Rotterdam
T +31 10 217 5555
São Paulo
T +55 11 3053 0434
Shanghai
T +86 21 6115 0310
Warsaw
T +48 22 826 2457

www.occstrategy.com

Alastair Adam
Partner
alastair.adam@occstrategy.com

Rambaut Fairley
Associate Partner
rambaut.fairley@occstrategy.com

Thomas Wright
Consultant
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