Africa Growth Initiative
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Africa's consumer market potential

Trends, drivers, opportunities, and strategies

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In collaboration with Chelsea Johnson

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Table of Contents

Executive summary

Africa is one of the fastest-growing consumer markets in the world. Household consumption has increased even faster than its gross domestic product (GDP) in recent years—and that average annual GDP growth has consistently outpaced the global average.[1] In light of the increasing affluence, population growth, urbanization rates, and rapid spread of access to the internet and mobile phones on the continent, Africa's emerging economies present exciting opportunities for expansion in retail and distribution.

In fact, consumer expenditure on the continent has grown at a compound annual rate of 3.9 percent since 2010 and reached $1.4 trillion in 2015. This figure is expected to reach $2.1 trillion by 2025,[2] and $2.5 trillion by 2030.[3] Also, in 2030, if the Continental Free Trade Area (CFTA)[4] is properly implemented, a single continental market for goods and services will be operational, offering corporations different points of entry to the continent and a potential market of 1.7 billion people.

Studies have shown that African consumers are savvy and brand loyal. Local vendors are entrepreneurial and present key assets for distribution chains.[5] At the same time, the vast majority of consumer spending on the continent currently takes place in informal, roadside markets, even in those countries with the most well-developed retail and distribution markets. This disconnect signals enormous potential for growth as African consumers shift from the informal toward more formal forms of consumption—including shopping malls, supermarkets, and eventually even e-commerce—a process that is already underway in all but the most fragile and underdeveloped countries.

Even relatively frontier markets are receiving increasing attention from foreign investors, who consider factors such as favorability of the tax and regulatory environment, the vstability of the political system, access to human and financial capital, and proximity to key markets.[6] For example, when recent challenges increased the level of country risk in Nigeria, the largest African economy and historically common West African target of foreign investors, many companies looked to Ghana to establish their regional hub of operations, as its healthy business climate is bolstered by a stable, civilian-led democratic regime and increasingly peaceful neighborhood.[7]

By 2030, the largest consumer markets will include Nigeria, Egypt, and South Africa. There will also be lucrative opportunities in Algeria, Angola, Ethiopia, Ghana, Kenya, Morocco, Sudan, Tunisia, and Tanzania, among other African countries. For example, Ethiopia has been reported to be one of the fastest-growing economies in the world over the past decade, with an average annual GDP growth rate of 10.5 percent from 2005-06 to 2015-16.[8] In addition, with one of the highest savings rates on the continent, its economy reflects a more stable and secure consumer sentiment. The administration has also capitalized on the country's connectivity boom by setting up the Ethiopia Com-

1 *Africa: Tapping into growth, Opportunities, Challenges and strategies for consumer products* (2013), Deloitte.

2 Mckinsey & Company, 2016, p.8.

3 Landry Signé. 2018. "Capturing Africa's High Return" (Brookings Institution).

4 The CFTA a continent-wide free trade agreement. As of August 16, 2018, it has been signed by 44 of the 55 African Union member states.

5 Spivey L. et al. (2013) "Ten Things to Know About African Consumers: Capturing the Emerging Consumer Class," Bcg.perspectives, January 25.

6 Ernst and Young (2016), p. 3.

7 *Africa Rising: The last Consumer Frontier* (2012).

8 World Bank, http://www.worldbank.org/en/country/ethiopia/overview.

modity Exchange (ECX) to help overcome market distortions, especially in the agricultural sector.[9] The ECX call-in service already receives over 1.5 million calls each month. Foreign companies, such as Coca-Cola and Heineken, recognize Ethiopia's potential and have made substantial investments.[10] More generally, African business leaders and investors such as Aliko Dangote are aggressively investing across the continent, which is a sign of their confidence in the future for growth in African consumerism.

This report offers business leaders an overview of Africa's biggest opportunities in the consumer market sector, discussing trends and perspectives from now to 2030. It provides policymakers with an accessible perspective on the options likely to attract private investors, accelerate consumer markets' development, and contribute to growth and poverty alleviation, all of which will also facilitate the fulfillment of the United Nation's Sustainable Development Goals and the African Union's Agenda 2063.

9 Foster J. et al. 2016. The service reduces the high costs and risks previously associated with commodity trading and increases the accessibility and profitability of commodity markets for buyers and sellers at all tiers, including small farmers.

10 Foster J. et al. 2016.

1

Background facts and trends

Africa is home to roughly 1.2 billion consumers today, projected to increase to 1.7 billion by 2030. The potential for future growth in retail and consumer spending is, therefore, bright. On the other hand, despite recording some of the fastest economic growth rates in the world over the past decade,[11] income levels in Africa have not kept pace and household spending in the region has remained relatively stagnant.

GDP and Income Growth

Although GDP growth fell from an average of 5.4 percent per year between 2000 and 2010 in Africa, to 3.3 percent between 2010 and 2015, Africa's overall growth is rebounding and likely to be sustained. At present, Africa ranks third among world regions in real growth terms, behind East Asia and the Middle East, though it continues to outpace the global average.

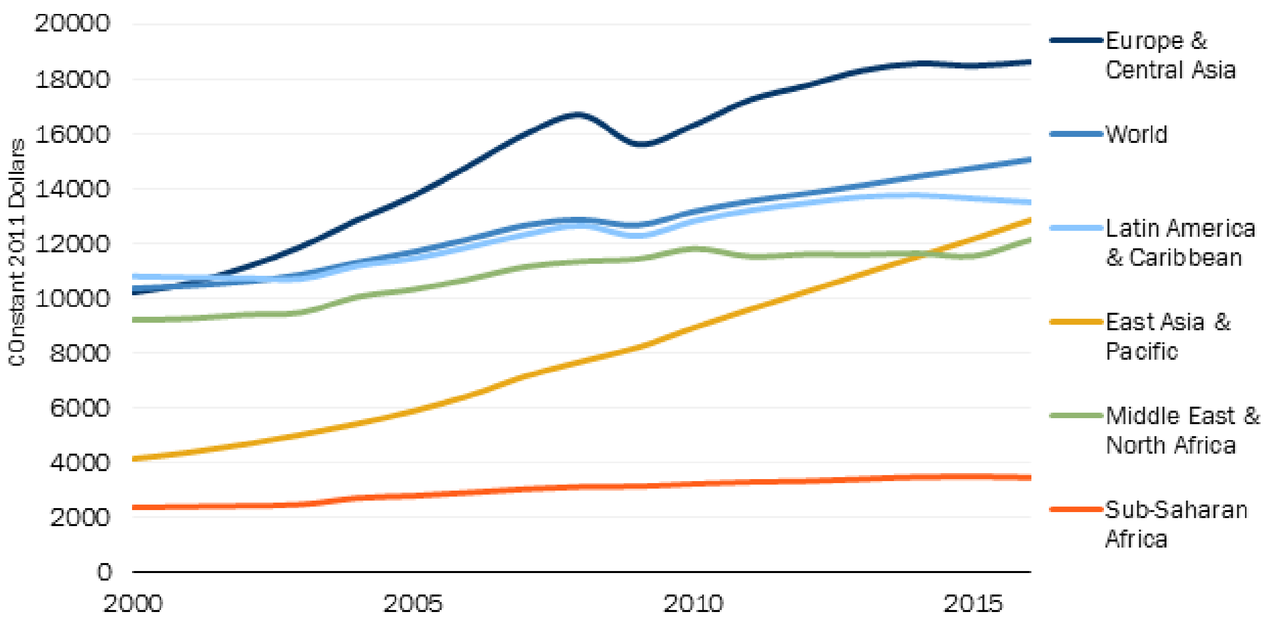
The McKinsey Global Institute notes that increases in income and labor productivity in Africa have been among the fastest in the world and have consistently exceeded projections. Then again, when measured in terms of purchasing power parity, sub-Saharan Africa's growth rates are less impressive, with per capita income levels at less than one-third that of any other world region (Figure 1). As Figure 1.1 illustrates, when measured as purchasing power parity, GDP per capita in Africa has shown notable gains since about 2000, but the global mean level of income increased far more rapidly and now stands at roughly four times that of the African mean.

Household consumption and consumer markets

Household consumption in Africa has exhibited a compound annual growth rate of 3.9 percent between 2010 and 2015. Despite the region's growth, though, changes in household spending in Africa have remained relatively stagnant, failing

11 Second only to the East Asia and the Pacific region among developing countries over the period from 2000 to 2010, for example.

Figure 1. Income levels across the world's developing regions, 1990-2016



Source: World Development Indicators, 2018
Note: With the exception of the world measure, the variables exclude high-income countries.

to keep pace even with the increase in average income levels (Figure 2).[12] At the same time, the formal consumer spending levels in sub-Saharan Africa have been rapidly outpaced by increases in developing East Asia, Central Asia, and Latin America (Figure 2).

Notably, many of these trends owe to the fact that household consumption is generally measured in terms of revenues of formal, retail markets, while the vast majority of spending in Africa takes place in informal markets that remain overlooked by traditional measures.

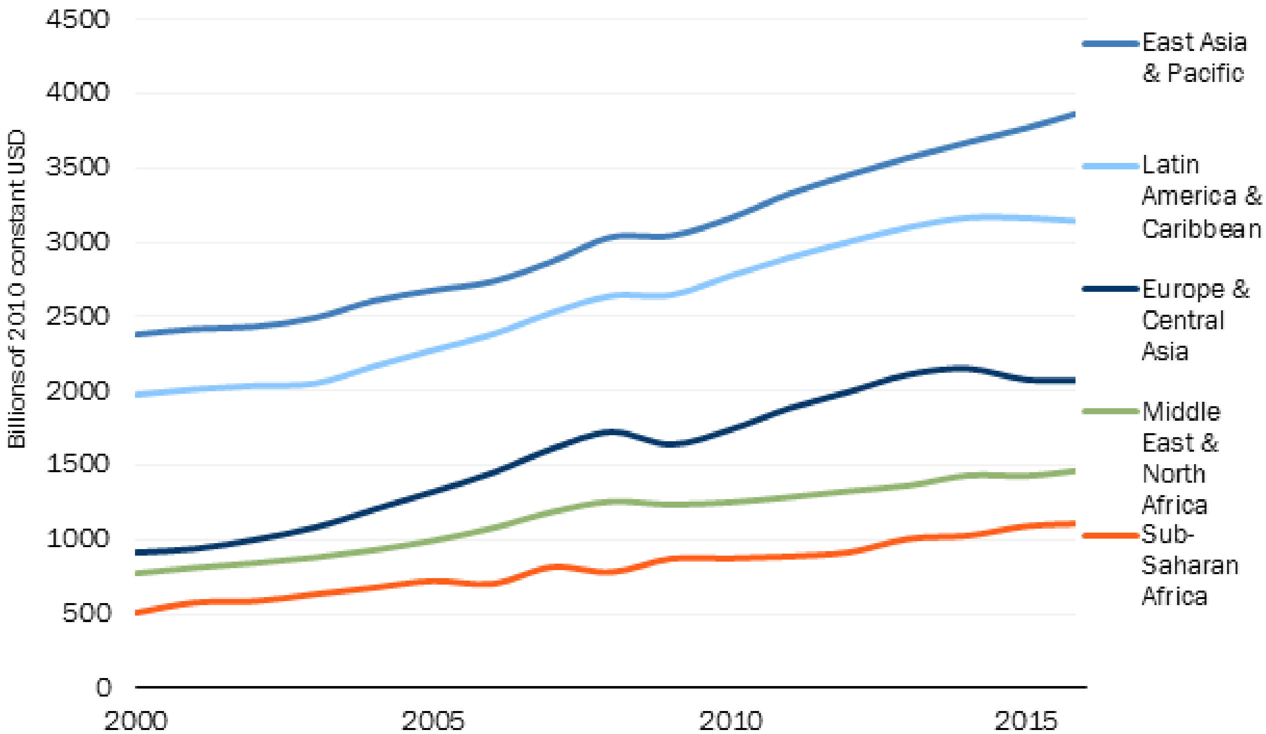
Africa's formal consumer markets are currently the least developed in the world, signaling enormous potential for future growth as the region's emerging markets undergo a process of economic modernization and demographic transformation. Already, Africa's total consumer expenditure accounts for roughly 8 percent of all spending in the world's emerging markets, roughly on par with that of Russia or Brazil.

Within Africa, the largest consumer market in terms of total volume is Nigeria, worth roughly $370 billion in 2013, followed by Egypt, South Africa, Algeria, Angola, Morocco, Sudan, and Kenya. At the same time, the fastest-growing market is Angola,[13] where expenditure increased at a compound

12 Household final consumption expenditure, formerly referred to as private consumption, "is the market value of all goods and services, including durable products (such as cars, washing machines, and home computers), purchased by households. It excludes purchases of dwellings but includes imputed rent for owner-occupied dwellings. It also includes payments and fees to governments to obtain permits and licenses. Here, household consumption expenditure includes the expenditures of nonprofit institutions serving households, even when reported separately by the country." For comparability, figures are in current U.S. dollars. (World Development Indicators 2017).

13 However, Angola's growth rates have been damaged by declining world oil prices since 2013.

Figure 2. Household spending across the world's developing regions, 1990-2016



Source: World Development Indicators, 2018
Note: With the exception of the world measure, the variables exclude high-income countries.

Table 1. Share and value of household consumption in Africa, 2015 and 2025 (projected)

Country	Regional %, 2015	US$ billion, 2015	Regional %, 2025	US$ billion, 2025
Nigeria	26	369.2	22	454.3
Egypt	16	227.2	17	351.1
South Africa	13	184.6	12	247.8
East Africa	14	198.8	15	309.8
North Africa*	13	184.6	13	268.5
Sub-Saharan Africa**	18	255.6	21	433.7
TOTAL	**100%**	**$1,420**	**100%**	**$2,065**

Source: Oxford Economics: IHS, African Development Bank, and McKinsey Global Institute analysis, McKinsey & Company, 2016, p.9.
*Excludes Egypt
**Excludes Nigeria, South Africa, and East Africa

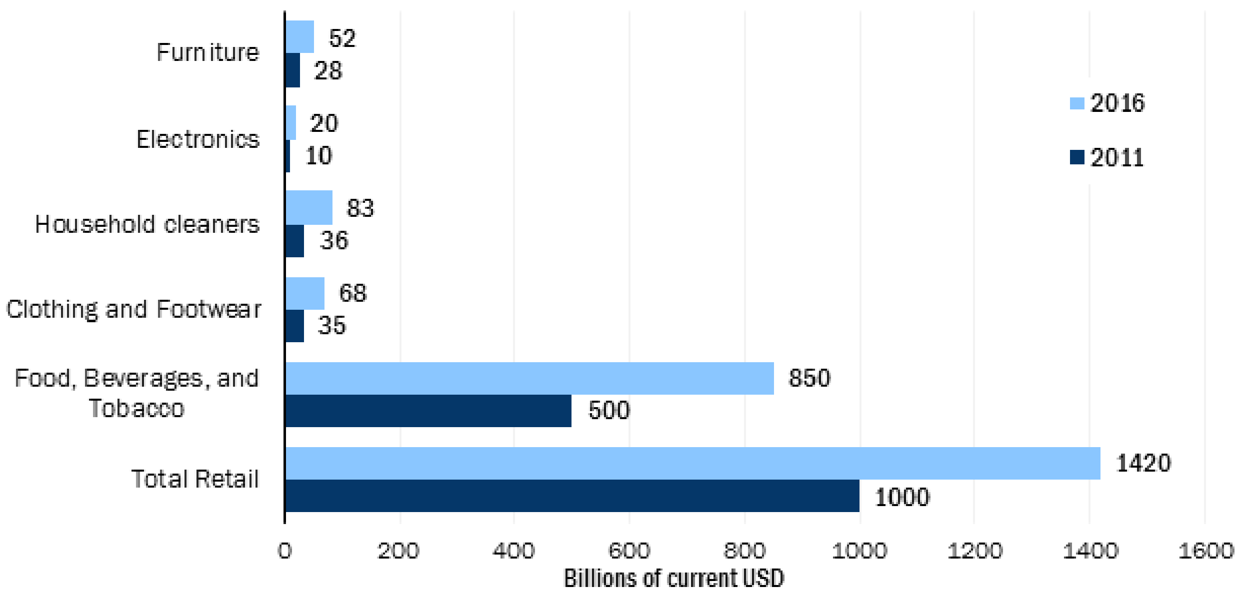
annual growth rate (CAGR) of 34 percent between 2000 and 2013 alone.[14] Increased spending among households in Nigeria will likely amount to nearly $200 billion between 2015 and 2025, or 30 percent of Africa's overall consumption growth over this period (see Table 1).[15]

Growth in the fast-moving consumer goods and distribution services sectors

As a share of Africa's total economy, consumer spending is now the fastest-growing source of demand, compared to government and business spending, and this trend is projected to continue through 2030.[16] By that time, the population of Africa will have surpassed that of either China or India. In light of these projections, even the most conservative estimates expect the value of consumer spending in Africa to surpass $2 trillion within the next few years—an increase of more than 30 percent from 2015 levels.[17] As a result, industries supplying Africa's consumer markets are expected to increase revenues, with household consumption projected to grow by $645 billion by 2015, with the largest benefits expected to accrue in food and beverages, housing, luxury goods, transportation, and hospitality and recreation.[18]

Given the relatively low purchasing power of African consumers, the greatest increase in household expenditure over the short term is likely to occur in the fast-moving consumer goods (FMCG) sector, comprising low-cost products with a short shelf life that are constantly in high demand, such as consumables and cleaning products. According to the Economist Intelligence Unit, African retail spending surpassed $1.4 trillion in 2016, with the FMCG subsectors of food, beverages, and tobacco accounting for roughly two-thirds of the total

Figure 3. African consumer expenditure in major retail subsectors, 2011 to 2016



Source: Economist Intelligence Unit.

14 KPMG, 2016, p9. Other countries with over 10 percent CAGR in this period include Nigeria (23.4 percent), Ghana (15.8 percent), Ethiopia (15.6 percent), Sudan (15 percent), Kenya (12.2 percent), Uganda (12.2 percent), and Cameroon (10.1 percent).

15 World Economic Forum (2016).

16 EIU 2010

17 Karuri, Ken (2016), "Africa's consumer market promising: BCG Report," AFP and Boston Consulting Group, Africannews; Hatch et al. (2012), p. 3. See also Euromonitor, Table 7.1.

18 Lions on the Move II: Realizing the Potential of Africa's Economies (2016), McKinsey Global Institute, p. 10.

consumption (see Figure 3). According to a report by Euromonitor, hygiene (37 percent), tobacco (34 percent), home care (32 percent), and appliances (32 percent) exhibited the highest annual growth rates between 2009 and 2013—which is largely supported by the data presented in Figure 1.3, covering the period from 2011 to 2016—although alcoholic beverages and packaged foods remained the biggest sellers, at $1.34 billion and $1.28 billion respectively.[19]

Substantial growth has also occurred in the distribution services sector—notably farmer to table services—particularly in East Africa, and this has contributed to the marked growth rates exhibited in purchases of food, beverages, and cleaning products from 2011 and 2016 (see Figure 3). Between 2001 and 2008, distribution services grew by a yearly average of 12 percent in Kenya and Tanzania and 20 percent in Uganda. This trend has contributed to the rapid increase in revenues among supermarkets in the region—compound annual growth rates of supermarket retail sales had reached 13 percent in Uganda, 12 percent in Tanzania, and 7 percent in Kenya by 2010.[20] Still, only about 20 percent of sales go through retail outlets in East Africa, and this figure dips to less than 5 percent in other major markets, such as Nigeria, Ghana and Cameroon.[21]

19 Fast Moving Consumer Goods: Sector Report (2014), KPMG, p. 9. The market for alcohol has suffered setbacks in recent years, with imports stagnating in 2012 and declining in 2014. Guinness Nigeria, as one example, reported an 11 percent drop in total revenues in 2013/14. However, the market for non-alcoholic beverages has been one of the fastest growing among packaged foods, at 19 percent per year, and beer still remains the single largest beverage sub-category in Africa.

20 Dihel (2011)

21 Dihel (2011); Mugai (2015).

2

Importance of the consumer market sector

There is a general consensus in the literature on economic transformations around the world that labor productivity gains are central in the shift toward a modern, developed society, a process that eventually culminates in what Rostow (1959) has famously coined, “the age of mass consumption.” Although the original focus was on agricultural revolutions in the early industrializers, especially the United Kingdom, the same logic of modernization has since been applied to the late developers, such as China and India (Chenery et al. 1986; Deng et al. 2008). In general, the process through which this initial transformation occurs has two stages: first, in agriculture and, second, in manufacturing.

An agricultural revolution must first generate an increase in per capita output, allowing substantial portions of the population to shift away from engaging directly in farming and migrate toward urban areas, which are supplied by the nation’s growing food surplus (Tisdale 1942; Allen 2000, 2009; O’Brien 1996; Matsuyama 1992).[22] While these productivity gains directly contribute to expanded employment in a formal, wage-based economy, they also increase the value of labor, thus laying the foundation for a population of consumers. Second, with larger segments of the population concentrated in productive sectors, productivity gains in industry are likely to be caused by technological innovations and advancements in human capital, such as improving education and health indicators. As the value of labor continues to increase, thus raising the average worker’s level of income, manufactured consumer goods also become more affordable to a growing number of households, thereby expanding the range and quantity of goods consumed (Matsuyama 2002).

Thus, in the stages-of-growth model of development, achieving both of these substantial transformations is thought to generate a period of self-sustaining growth in which productivity gains across economic sectors become mutually reinforcing. As income levels rise, a growing segment of the population is able to move beyond subsistence toward discretionary spending, increasing demand for a broader range of manufactured goods; for the construction of vital infrastructures to improve distribution and personal travel; for

22 The direct causal effect is mitigated in a perfectly open economy, where international trade can affect the cost of agricultural products (Matsuyama 1992), as well as in countries that engage in price setting and distort the value of domestic produce (see Bates 1980).

access to formal financial services for savings and credit; and for improvements in education and health services. The robustness of any country's consumer market is, therefore, a crucial reflection of the health of the underlying economy, as well as itself an important driver of growth in other vital sectors.

3

Key drivers of consumer demand

Consumer demand and sales volumes have peaked in the developed world, and now developing economies are projected to account for the lion's share of growth in spending and consumption over the next few decades.[23] Although most investor attention has been in markets in Asia, Latin America, and Eastern Europe, Africa currently contains nine of the 20 fastest-growing economies in the world, with income levels increasing among all socioeconomic groups.[24] Meanwhile, the continent's target markets and categories remain substantially underdeveloped and less competitive than those in other developing regions, since the vast majority of African consumers currently shop at informal outlets, such as road-side and table-top stands.[25] Thus, future growth in the retail sector will be driven largely by factors that increase discretionary household spending and contribute to the shift toward modern, formal consumption patterns.

Urbanization

Recent empirical data from Africa shows that urbanization does, in fact, tend to produce greater gains in consumer spending, at least during stages of early development. Although there is much variation across countries, those African countries that experienced the highest levels of migration from rural to urban areas from 2007 to 2011 tended to subsequently exhibit greater gains in consumer spending from 2012 to 2017 (see Figure 4).

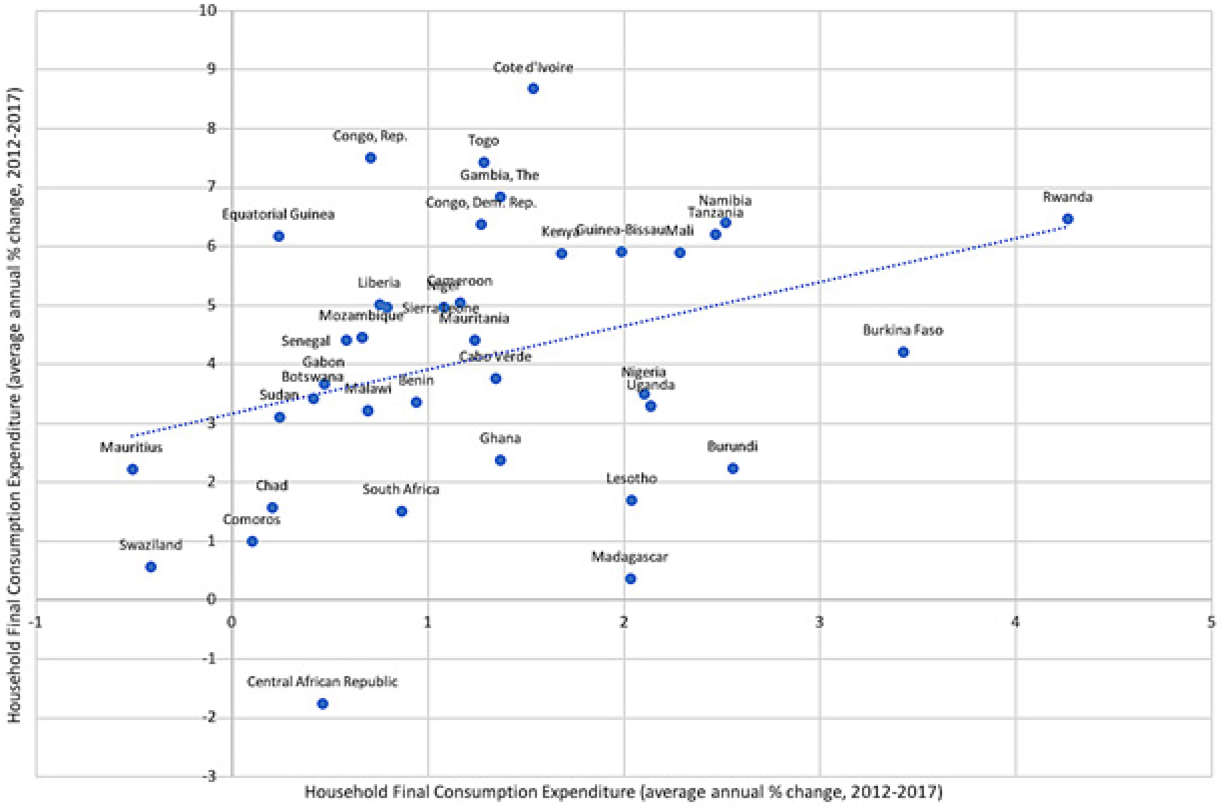
Moreover, analysts estimate that over the next few decades the proportion of the population living in cities is projected to increase from 40 percent to more than 60 percent, with some of the most lucrative markets—such as Nigeria, Ghana, and Angola—are likely to top 80 percent. An additional 187 million Africans will reside in cities within the next decade, and by 2050, roughly 800 million more people will be consolidated in Africa's urban mega-centers. With productivity in cities three times as high as in rural areas, this signals vast potential for increased consumption

23 Africa Rising, The last Consumer Frontier (2012), Nova Capital Africa Analytics, p. 8.

24 Economist Intelligence Unit

25 How Consumers Products & Retail Companies are Structuring Their Operations in Sub-Saharan Africa (2016), Ernst and Young, p. 4.

Figure 4. Relationship between urbanization rates (2007-2011) and growth in household consumption (2012-2017) in African countries



Source: World Development Indicators, 2018.
Note: Outliers are excluded: Zimbabwe, Guinea and Angola.

by households and businesses.[26] According to the Economist Intelligence Unit, the largest 18 cities in Africa could have a combined spending power of $1.3 trillion by 2030.[27]

Population and demographics

In 2030, 1.7 billion Africans will need critical products and services such as food, beverages, access to pharmaceutical products and healthcare services, education, and security, additional to other important products and services. Food and beverages alone will represent $740 billion in spending. Reaching billions of customers in Africa and abroad will require effective agriculture and food processing, well-organized distribution channels from transportation, wholesales and retails, and well-educated professionals supporting an effective value chain. Corporations should prioritize the countries with the highest optimal population and spending relevant to their sectors.

The future growth potential for Africa's consumer market is bolstered by positive demographic forecasts. While the global population is aging, Africa's workforce is increasingly young, urban, and affluent—particularly in comparison to other developing regions, where productivity gains have largely stagnated in recent years. The continent's

26 Hatch et al. (2012), p. 3; Nova Capital Africa Analyst (2012), p.8.

27 Economist Intelligence Unit and the Economist - Africa: Open for business, 2011; Nova Capital Africa Analytics (2012), p. 8

population is growing at an average rate of 2.2 percent, more than twice that of Asia, and nearly two-thirds of its inhabitants are under the age of 25.[28]

These young consumers are sophisticated, globalized, and cost-conscious, representing important drivers of consumer trends in emerging markets more generally, particularly as they become household decision-makers over the next 10 years.[29]

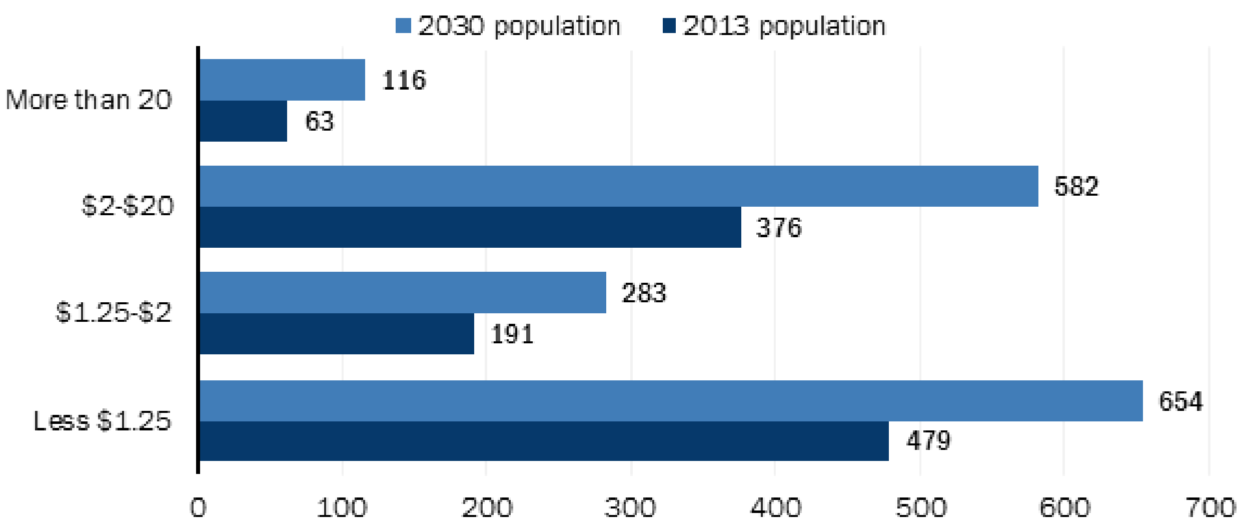
The growth of the middle and upper classes

Indeed, the tremendous potential of African countries is not only correlated with population growth, but with income growth as well. One in five of the world's consumers will live in Africa by the end of the next decade, and more and more of these people will fall into the category of affluent or middle class.

In the next few years, more than half of all African households are expected to have discretionary income—that is, approximately, 130 million families by 2020. In the five largest consumer markets alone—Nigeria Egypt, South Africa, Morocco, and Algeria—the African Development Bank estimates that there will be 56 million middle-class households with disposable incomes of nearly $680 billion.[30] Consumers who are considered "better off than middle class" according to OECD standards are expected to spend an additional $174 billion per year over the same period, accounting for another 27 percent of the region's total consumption growth.[31] At present, the middle class accounts for roughly one-third of the region's population, but it is expanding so quickly that total consumer expenditure is expected to double by 2020.[32]

Special attention should be paid to the size of the middle-class and its purchasing power. Figure 5 shows the daily personal income distribution in Africa in 2030, compared to 2013. An approximate number of 582 million Africans will have estimated revenues of $2 to $20 a day, classing them in the

Figure 5. Personal income distribution in Africa by 2030 (per day)



Source: The Deloitte Consumer Review, Africa: A 21st century view, 2014

28 Deloitte (2013), p.2-3.

29 Emerging Consumer Market in Maghreb and West Africa (2016), Business Sweden, The Swedish Trade and Invest Council, p. 4.

30 Hattingh et al. (2012), p. 2.

31 World Economic Forum (2016)

32 Bain &Company, 2012, p.1

middle class. An additional 116 million people will have revenues higher than $20 a day, for a total of 698 people from the middle and upper class. If in 2013 the middle and upper classes represent only 33.90 percent of the population, in 2030, it is estimated to represent about 42.69 percent of the population.

Second, while it remains relatively small compared to other world regions, an upper class is beginning to emerge in certain African countries, demanding high-quality, niche, and foreign-produced goods as a mark of social status. Particularly if the price of oil rebounds to pre-2014 levels, oil-producing countries like Angola, Nigeria, Algeria, and Egypt are poised to see an increased market share for luxury goods. By 2030, the number of consumers in the top income bracket is projected to double in Algeria and potentially nearly triple in Morocco, while per capita income in Tunisia is expected to increase at more than twice the regional average, at 4 percent per year.[33]

ICTs and formal markets

A robust consumer market requires sufficient maturity in sectors that support citizens' abilities to act as modern consumers. In particular, adequate financial development is necessary so that the workforce can efficiently save, spend, and borrow from financial markets. Relatedly, the spread of information and communications technologies (ICTs) provides new and innovative avenues for consumer spending—such as e-commerce—and marketing campaigns. There is also an increasingly recognized, complementary relationship between these two sectors, as the internet and mobile phones have increased the range of financial services available to previously under-reached consumers.[34]

The rapid diffusion of ICTs in Africa over the past decade has facilitated access to consumers in new and varied ways. Africa is currently the fastest-growing mobile telecom market in the world, averaging roughly 30 percent increase in mobile phone connections per year since 2000, and recently overtaking Latin America to become the world's second-largest mobile market behind Asia.[35] Roughly two out of three Africans now has internet access, 75 percent of whom report going online on a daily basis, and connectivity has surpassed 80 percent in many countries.[36] Although formal financial development in sub-Saharan Africa is among the lowest in the world to date, with less than one-in-three people claiming access to a traditional bank account. Nevertheless, the spread of mobile phones has rapidly increased the proportion of the population with mobile money account, raising the number of people who have access to either a financial institution or mobile-money service provider to 43 percent, according to World Bank data. Africans are especially likely to prioritize their ICTs over other needs—in recent surveys, many respondents even reported skipping meals in order to pay for mobile airtime and internet use.[37]

Figure 6 provides an illustration of the way in which ICTs have transformed consumption patterns in Africa in recent years. Specifically, those countries with the highest mobile penetration rates (lagged) tend to exhibit substantially higher levels of household spending per capita in 2016. As Figure 1.6 clearly shows, though, there is substantial variation remaining in terms of the uptake of ICTs.

33 Emerging Consumer Market in Maghreb and West Africa (2016), Business Sweden, The Swedish Trade and Invest Council, pp.5-6.

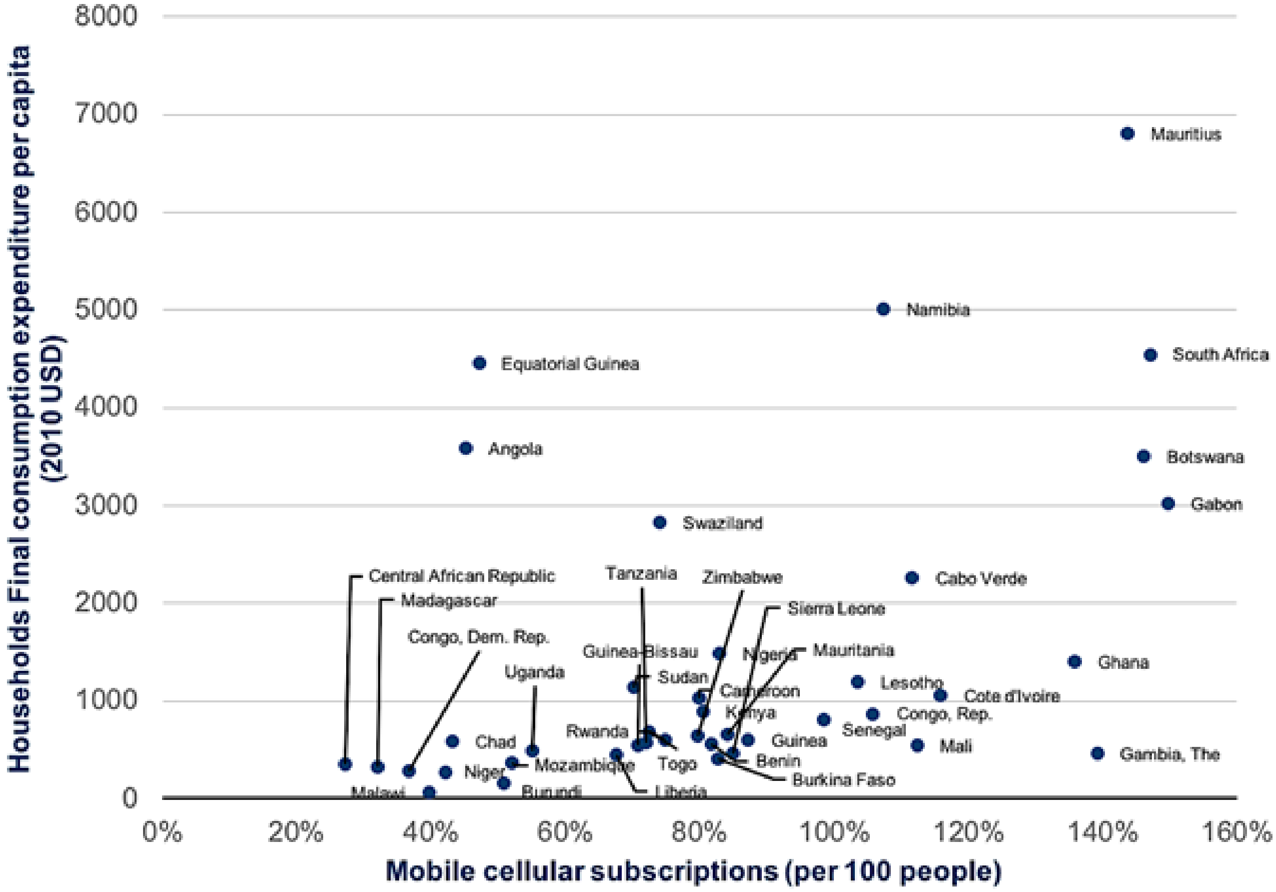
34 Sassi and Goaied 2013; Kpodar and Andrianaivo 2011; Steinmueller 2001

35 Deloitte (2013), pp..2-3

36 Foster et al. 2016

37 Spivey et al. (2013)

Figure 6. Relationship between mobile penetration rate and consumer spending levels in African countries (2016)



Source: World Development Indicators, 2018

At present, informal markets overwhelmingly dominate the scene for private consumption in Africa. The modern trade sector is largest in South Africa and Angola, yet formal retail still accounts for just 39 percent and 34 percent of shopping visits in 2015, respectively.[38] In Nigeria, there are more than 200,000 roadside or "table-top" vendors in 2015, which are the primary source of daily purchases for more than 80 percent of consumers.[39] In many of Africa's foremost emerging markets—such as Ghana, Cameroon, Ethiopia, and Egypt—these informal stalls and markets still account for more than 95 percent of consumer spending in 2015.[40]

38 Foster et al. (2016)

39 Nielsen (2015), p.5

40 Mugai (2015).

5

Key players and spending trends

As an indication of growing recognition of Africa's market potential, foreign direct investment (FDI) to the region increased five times between 2000 and 2010, and it now exceeds that received by many of the world's largest emerging markets, including Brazil.[41] In terms of domestic firms, however, Africa currently possesses only 60 percent of the number of large corporations that one would expect when compared to peer regions, and their average revenue of $2 billion per year is half that of the large firms in India and Brazil. Given that consumer spending in Africa is largely concentrated in the informal sector, a small proportion of retail outlets account for a disproportionate amount of sales revenues. There is certainly room for growth.

In Nigeria, for example, there are approximately 700,000 informal stalls that sell soft drinks, yet there are relatively few of the most prominent supermarket chains: just seven Spars, 16 Shoprites, six Massmarts, and two Game stores in the whole country. In contrast, South Africa has a much more developed formal retail sector, with nearly 2,000 Spar and Shoprite supermarkets.[42] Yet, the share of modern retail in countries like Nigeria is growing rapidly—as fueled by population trends and urbanization, among other factors—and growth rates are expected to increase in the coming years with the development of large-scale shopping centers. African retailers like Shoprite (South Africa) are likely to continue benefiting from this trend, fueled by rapid improvements in regional distribution networks.

Brand recognition is highly important to African buyers, who often refer to products by an associated brand name, such as "Tide" for detergent or "Gillette" for razors. As a result, multinationals providing recognizable international brands continue to report strong profitability in their African investments.[43] More than 70 percent of the 50 largest packaged goods producers in the world are already tapping into Africa's rapidly growing consumer market. Of these corporations, one in three generates more than 5 percent of their global sales in the region—as high as 14 percent for Diageo and 10 percent for Parmalat,

41 Hach et al. (2012), p. 3.

42 Foster et al. (2016)

43 Bain &Company (2012), p.2

for example. In contrast, consumer goods that are produced locally tend to be focused on a single, country-specific market, and they generally lack the funding and distribution needed to achieve recognition and loyalty among a critical mass of consumers.[44]

44 Spivey et al., 2013

6

Opportunities

Although competition is increasing, as highlighted by the recent entry of significant multinational players like Walmart, Africa's consumer market is currently much less saturated and developed than that of other developing regions, such as Asia and Latin America.[45] Thus, the opportunities for growth are high across the continent, and certain countries offer particularly lucrative investment opportunities due to their potential for rapid and sustained growth over the next decade. In the continent as a whole, already 11 countries account for roughly 80 percent of total wealth and consumer spending: South Africa, Egypt, Nigeria, Morocco, Algeria, Sudan, Angola, Kenya, Ethiopia, Tunisia, and Ghana. All of these countries have exhibited marked growth in household consumption since 2000, particularly in the post-2005 period, although growth in Nigeria, Egypt, and South Africa has significantly outpaced all other markets, as illustrated in Figure 7.

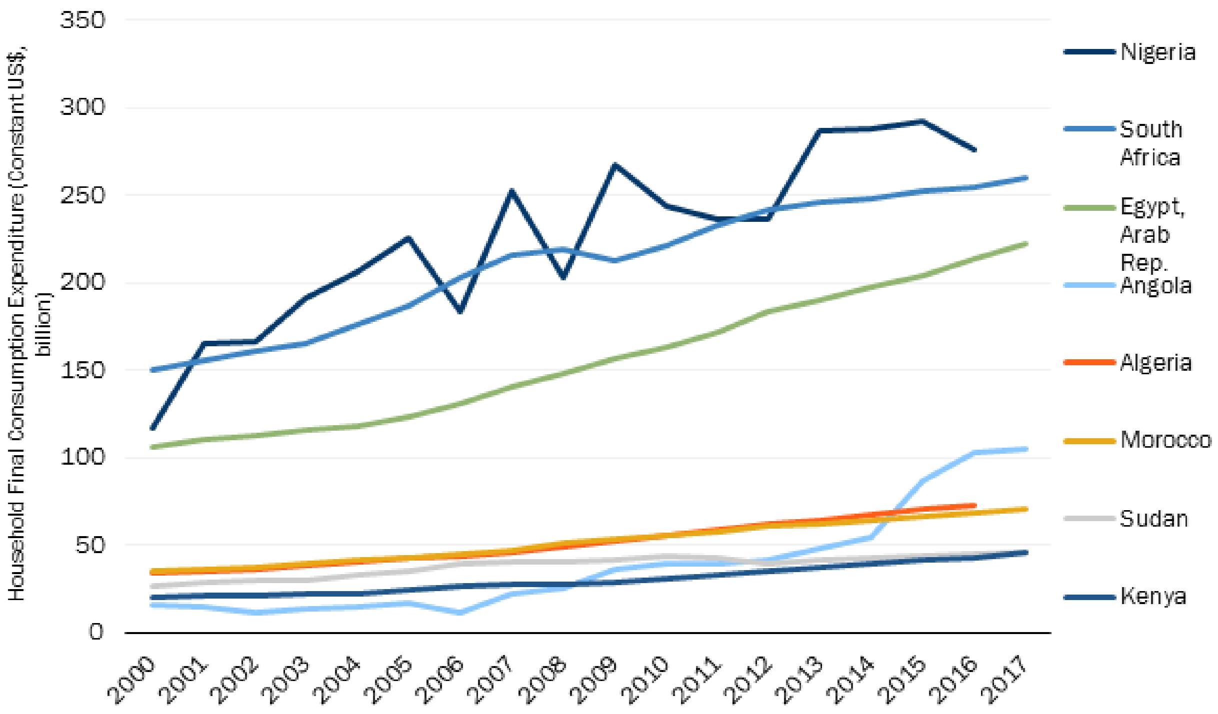
While these three countries now dominate the rest of the continent in terms of consumer spending by volume, however, a number of factors suggest that their future growth trajectories may be more restrained than some other emerging markets, where private consumption is just starting to take off. There has been a marked downturn in household consumption in South Africa since 2010 (Figure 7). Though the country's robust middle class masks some of the highest rates of income inequality and unemployment in the world. Moreover, although it is worth nearly $200 billion per year, South Africa's retail market is already considered overly saturated—as there exist a plethora of vendors—especially by regional standards.[46] In Egypt, growth in per capita income over the past six years has been one of the lowest among the top 11 consumer markets, suggesting a potential downturn in consumption in the near future. In November 2016, the International Monetary Fund even approved a $12 billion bailout for Egypt over the next three years, aiming to restore investor and consumer confidence in the economy.

In light of the drivers of growth in consumer markets identified in section IV, we provide a systematic comparison of Africa's top consumer markets based on their current market size and potential for future growth. We develop a multivariate index of "Market Potential," ranging from zero (low potential) to 40 (high potential), which combines countries' rankings on recent indicators of GDP per capita growth rates, urbanization rates, mobile penetration rates, and compound annual growth in sales of fast-moving consumer goods. This comparison is illustrated in Figure 8, while Table 2 provides a descriptive summary of relevant data.

45 Ernst and Young (2016), p.4

46 PwC, 2012, p.11; Johan M., 2007, p.1

Figure 7. Household spending in Africa's 10 largest consumer markets, 1980-2016



Source: World Development Indicators, 2018

Table 2. Descriptive data on factors related to potential future growth in Africa's top consumer markets

Country	Household consumption (US$ billions)	GDP per capita growth (%)	Urbanization rate (%)	FMCG sales growth (%)	Buyer sophistication (1-7)	Intensity of competition (1-7)
Nigeria	377.33	0.93	4.51	23	3.3	5.1
Egypt	275.74	0.77	2.23	8	3.1	4.8
South Africa	176.93	0.32	2.34	6	3.9	5.4
Sudan	74.37	4.60	2.80	14	-	-
Angola	74.47	0.28	5.35	34	2.33	2.6
Algeria	68.04	1.32	2.86	10	3.1	4.1
Morocco	60.02	2.03	2.26	9	3.2	5.2
Kenya	54.97	2.82	4.31	12	3.2	5.5
Ethiopia	50.80	6.97	4.92	15	3.2	3.7
Tunisia	29.94	0.52	1.43	7	2.9	5.0
Ghana	28.43	4.54	3.60	16	3.0	5.0

Source: World Development Indicators (December 2017). Figures may differ slightly from those provided in Table 1 due to different sources used. Household consumption are data for 2016; average income growth and urbanization rate are annual averages over the period 2011-2016; FMCG sales growth are annual average over the period 2011-2015; "Buyer sophistication" and "Intensity of competition" are from World Economic Forum Global Competitiveness Report (2017-2018) and scored from 1 (worst) to 7 (best).

Subsectors

Two consumer subsectors offer particular opportunities for growth across the African region: fast moving consumer goods (FMCG) and luxury goods. First, unlike other sectors, FMCGs tend to be household necessities with relatively constant, inelastic demand across all consumer classes. Demand for these types of products is likely to correlate with population growth rates, especially as single-person households are forecasted to exhibit the fastest growth in consumption through 2030.[47] More significantly, as consumers become increasingly affluent and purchasing power increases in the region—particularly among the majority, low-income tier of buyers—the sector will exhibit a gradual trading up in prices along the value chain, ultimately boosting profit margins for both producers and retailers.[48]

In East Africa, a recent boom in the distribution services sector has contributed to a notable shift in consumer spending away from informal markets and toward formal retailers—a trend that is likely to be replicated across the continent in the coming years. The distribution sector now contributes to more than 10 percent of GDP in Kenya, Tanzania, and Uganda, and regional growth in distribution and retail has more than doubled the rate of GDP growth in the region over the past few years. At the same time, it continues to be outpaced by consumer demand, and research by Nakumatt Holdings—one of the region's largest formal retailers—indicates that the East African population has the potential to sustain at least 10 major retail stores, on average, in each town.[49] Thus, the potential for growth in Africa's formal retail sector is enormous, representing a key driver of future investment in the region.

Nigeria

With the largest population on the continent, Nigeria is also Africa's largest consumer market by volume, with roughly $380 billion in household consumption per year. Although its economic growth rate has been outpaced by many other African countries in recent years, including neighboring Ghana, recent compound annual growth in fast-moving consumer goods (FMCGs) is second on the continent behind Angola, at 23 percent. This is reflective of a number of positive conditions that suggest enormous market potential for Nigeria in the near future. With eight cities already reporting a population above 1 million people and with one of the highest urbanization rates on the continent (see Table 2), Nigeria will be home to Africa's greatest number of urban mega-centers in the coming decades.[50] This trend is already driving the shift from informal markets toward modern retail centers, although informal trade still accounts for the vast majority of consumer spending. Major international retailers are rapidly expanding their operations in Nigeria, such as Shoprite and Spar, and Nigeria now reports one of the highest levels of market competition in Africa.[51] E-commerce has even taken off with the launch of Jumia, a local version of Amazon, which allows for payment-on-delivery in order to overcome the deficiency of formal financial accounts and mobile money services.[52]

However, there are a few reasons to be wary of the current economic and regulatory climate. Nigeria ranks 145 out of 183 countries in the World Bank's Ease of Doing Business Index in 2018—a decline from a height of 133, 11 years ago—a result of burdensome contract, licensing, and tax regulations and energy shortages. Moreover, due to the heavy reliance on oil rents as a share of total GDP, the recent decline in world oil prices has constrained markets and impacted local prices and demand, while also causing fuel and power supply shortages. At the end of 2016, consumer confidence scores were at their lowest point in the

47 Emerging Consumer Market in Maghreb and West Africa (2016), pp. 5-6.

48 Fast Moving Consumer Goods: Sector Report (2014), p. 8.

49 Dihel (2011), p.1

50 FMCG, 2009, p.2

51 KPMG, 2014, p.8

52 Foster J. et al. 2016

three-year history of the Nielsen Global Survey of Consumer Confidence and Spending Intentions. Meanwhile, devaluation of the naira, constraints in access to foreign exchange, and a resurgence of security concerns led the IMF to revise the five-year forecasted GDP growth rate from 3.2 percent to 2.3 percent. Concerns related to these factors have kept investment in Nigeria's consumer market below full potential in recent years.

In light of the sheer size of local demand for consumer goods, however, Nigeria presents an attractive investment option looking to the future, particularly for affordable basic products and FMCGs. Its retail market remains dominated by low-income consumers, and current GDP per capita growth rates and projections indicate that this is not likely to change in the near future. However, as consumers' purchasing power increases over the medium term, investors' profit margins will improve through a gradual trading up along the value chain.[53]

Ghana

Although the annual volume of consumer spending in Ghana is presently much lower than that in neighboring Nigeria, it provides a relatively free and stable operating environment by comparison, leading many investors to view it as the new "gateway to the West African region."[54] Major multinationals have already started capitalizing on this by setting up manufacturing facilities in Ghana—Unilever, PZ Cussons, and Fan Milk Group—thus allowing retailers to purchase consumer goods locally and at lower cost. Yet, only a small number of international retailers have set up shops in the country to date, and they are mainly restricted to the capital, Accra. Over the past decade, though, at least 10 new, large retail centers—ranging from 8,000 to 27,000 square meters—have been completed or are near completion, and reports indicate that the total amount of retail space could increase by 180,000 square meters in another 10 years.[55]

Ghana's middle class, though currently small, is growing at a rapid rate and increasingly demanding the convenience of modern supermarkets and retail outlets. The Nielsen Global Survey of Consumer Confidence and Spending Intentions (2016) reports that consumer confidence scores increased by 10 percent in 2016 alone and are now on par with that of Nigeria. This is reflective of the country's impressive economic performance in recent years, with population growth of roughly half a million people per year, average annual growth in GDP per capita being above 4.5 percent over the past six years, and CAGR in fast-moving consumer goods of 16 percent (see Table 2)—the third highest on the continent behind Angola and Nigeria.[56] Businesses working in Ghana report noticeable improvements in the ease of doing business in recent years, as well as in consumer spending and economic growth outlooks, in exchange and inflation rates, and in power supply.

Angola

Angola is another attractive market for international retailers. Growth rates in fast-moving consumer goods have been highest in all of Africa, at 34 percent compound annual growth over the past five years, and sales of packaged food alone are now worth $1.8 billion per year.[57] Angola's population growth rates and average income levels are especially high, with a rapidly expanding middle class—which presently stands around 16 percent of the country's total population—despite substantial inequality. According to Euromonitor International, the "Angolan middle class is increasingly able to afford a growing range of essential products, such as food and beverages, and demand for non-essential items is also expected to increase."

Moreover, its consumer market has already started to show signs of rapid movement away from informal markets and toward formal retailers. South African-based Shoprite already has 19 retail outlets in Angola, which have recorded higher

53 Business Sweden 2016, p.6; KPMG, 2014, p.8

54 Fast Moving Consumer Goods: Sector Report (2014), p. 9.

55 KPMG, 2014, p.9

56 See, for example, Business Sweden, 2016, p.7

57 KPMG, 2014, p.9

sales of products like Red Bull and LC Le Roux sparkling wine than in all of its 382 domestic outlets combined. A number of large retail centers have opened in and around the capital Luanda over the past 10 years, including Luanda Shopping with 208 shops, a six-screen cinema, and a gym.

Yet, at present, Angola's retail market remains significantly less saturated than that of Nigeria, South Africa, or Egypt. More international retailers and manufactures have demonstrated their intention to invest more heavily in Angola in the immediate future, however, despite the macroeconomic imbalances and reductions in consumer spending caused by the recent decline in world oil prices, in order to avoid losing out on market share and the rapid growth in consumption that is likely to occur once the economic climate stabilizes.[58]

Morocco

Unlike in sub-Saharan Africa, growth in consumer markets in North Africa is largely being driven by expansion of the most affluent sector of society, or households earning more than $50,000 per year. Thus, although Morocco has not exhibited particularly impressive growth in sales of FMCGs in recent years, there is greater potential for growth in consumption of non-essential items, especially high-end products and services.[59]

Domestic retailers currently dominate the market in Morocco, the largest being Marjane Holding, Hyper SA, and Group Chaabi, but international brands and outlets have already started making inroads by focusing on the market for luxury goods.[60] Retailers have also capitalized on the boom in internet penetration, as the country's online shopping scene has taken off since 2013.[61] Morocco is thus poised to be at the forefront of Africa's broader shift from informal to modernized consumer markets.

To manage the changes and encourage investment, the Moroccan government has established a strategy known as Plan Rawaj, which aims to triple the value added in formal market trade and to create 450,000 new jobs in the commerce and distribution sectors—which already account for 13 percent of employment in 2013.[62] The plan includes development of 600 new large and medium-sized retail markets, including 50 "hypermarkets" and 30 malls and outlets, with the baseline goal of growing the consumer market by 8 percent per year through 2020.[63]

Kenya

The volume of consumer spending in Kenya is already the largest in the East African region, and several trends point to enormous potential for continued growth in the immediate future. First, the East African region, and Kenya in particular, has seen some of the most impressive improvement in transit infrastructures in all of Africa in recent years. Combined with process innovations related to the incorporation of ICTs in the industry, this has contributed to marked growth in the region's distribution sector, which supplies Kenya's exponentially increasing number of retail centers and supermarkets. Kenya's Vision 2030 lists distribution as a "strategic sector" to target and, recognizing the centrality of the distribution sector in driving regional growth, the governments of East Africa have worked to harmonize their customs and tax regulations and to encourage the movement of goods across borders.[64]

There is also a vibrant and growing domestic industry for the manufacturing of consumer goods and food products in the country, and a range of analyses consider Kenyan products to be among the top four countries in Africa that score above the global average in terms of the competitiveness of products on the international market.[65] While

58 Fast Moving Consumer Goods: Sector Report (2014), p. 9
59 Business Sweden, 2016, p.5
60 KPMG, 2014, p.10
61 Fast Moving Consumer Goods: Sector Report (2014), p. 15.
62 KPMG, 2014, p.15
63 http://www.invest.gov.ma/?Id=34519&lang=fr&RefCat=8&Ref=153
64 Dihel, 2011, p.1
65 KPMG 2015, p.13. Other countries in the top five according to the analyses cited include Seychelles, Ghana, and Zambia.

domestic production will continue to drive growth in domestic consumption, Kenya is also emerging as one of the continent's top exporters of manufactured consumer goods over the medium- to long-term.

Finally, Kenyan consumers indicate a positive outlook for the market. According to the Nielsen Global Survey of Consumer Confidence and Spending Intentions (2016), consumer confidence scores increased over the last three consecutive quarters in 2016, with 53 percent of survey respondents feeling that "now is a good time to spend." Moreover, 72 percent respondents reported favorable sentiments about personal and finance and savings, with an increasingly large segment of the Kenyan population—the largest in Africa by a wide margin—are using mobile money services to spend and save. Currently, the majority (54 percent) of growth in consumption in Kenya is being driven by middle class households earning between $5,000 and $20,000 per year, and with the current trend of stable, positive growth in income levels and urbanization rates (see Table 2), this segment of the population is likely to continue expanding over the coming years.

7

Challenges and risks

The decline in global commodity prices is one of the foremost challenges facing the short-term development of the consumer market in some of Africa's largest economies, which happen to also be resource–rich or oil-exporters. The country with the largest population and the biggest consumer market in the region, Nigeria, is also the largest oil producer in sub-Saharan Africa. In Angola—which experienced the most rapid growth in consumer spending over the past decade while oil prices were high—oil rents account for more than 30 percent of annual GDP. Five of Africa's eight largest consumer markets are heavily reliant on oil exports—Nigeria, Egypt, Angola, Algeria, Sudan—and, as such, the short-term prospects for growth in household income and spending in these countries will depend on whether commodity prices stagnate or rebound.[66]

However, one should note that most of the African countries are not resource-rich. For example, when oil prices drop, oil importers tend to lower the cost of energy, the extent of which depends on the degree of pass-through from international prices to local prices. The lower local prices for energy increase the discretionary income of households, boosts consumer spending, and improve government finances. Despite the perceived risk, it is therefore critical for investors to look at specific country cases given the variety of experiences and opportunities.

Beyond the economic climate, investment in Africa's consumer market presents many similar challenges affecting all sectors in the region:

Distribution costs

Weak infrastructure, especially the poor quality of road networks in rural areas and traffic congestion in cities, drives up the cost of transporting goods. Distribution networks can also be disrupted by hijacking and extortion from organized crime groups, such as in the "mungiki" controlled areas on the outskirts of Nairobi, which generates hidden costs. Most companies working in the region therefore choose to invest in insurance and increased security.[67] Market entry is often obstructed by regulatory measures, which can be burdensome and prone to change without notice. Retailers importing consumer goods report cumbersome customs processes caused by bureaucratic hurdles and port congestion. This raises the cost of imports and makes it more difficult to maintain inventory at appropriate levels.

66 Emerging Consumer Market in Maghreb and West Africa (2016), p. 5.

67 Spivey L. et al. (2013)

Table 3. Comparison across indicators of challenges of doing business in Africa's top consumer markets

Country	No. procedures to start a business	No. days to start a business	Impact of policies on FDI (1-7)	Burden of customs procedures (1-7)	Transport Infrastructure Quality (1-7)
Nigeria	9	25.2	5.1	2.9	2.9
Egypt	4	6.5	3.4	3.9	5.1
South Africa	7	43	4.3	4.2	5.6
Angola	8	66	2.61	1.84	2.37
Algeria	12	20	3.1	3.4	3.7
Morocco	4	9.5	5.1	4.5	4.8
Kenya	7	22	4.5	4.1	4.9
Ethiopia	14	35	3.6	3.6	4.2
Tunisia	9	11	4.5	3.1	3.9
Ghana	8	14	4.6	3.9	3.9

Source: World Economic Forum Global Competitiveness Report (2017-2018). Note that the three variables, "impact of policies on FDI", "burden of customs procedures", and "transport infrastructure quality" are scored from 1 (worst) to 7 (best). Scores for Angola are from the 2014 report. Sudan is excluded due to lack of data.

Regulations

Companies interested in investment in the distribution sector in East Africa should know that, despite efforts to simplify the process, all countries in the region have some form of regulation on market access.[68] Kenya, Tanzania, Uganda, and Rwanda require that new businesses formally register, get approval from authorities, and obtain the necessary commercial licenses and permits, which carry various fees depending on the type of business. There are typically multiple licenses required in distribution, such as approval from authorities in each of the local territories serviced and individual exporting documentation for each product. In one instance, a distributor reported needing export documentation for every individual flavor of yogurt transported.[69]

Complications also arise because different countries have different regulations and requirements for doing business (see Table 3). Rwanda regulates tax registration even for micro-retailers, small franchises, and kiosks, while Uganda prohibits foreign retailers from establishing outlets outside the city limits. On the other hand, Burundi has relatively few regulations on distribution services beyond pharmaceutical providers, which has actually constrained the growth of retail and distribution businesses due to legal uncertainty and opportunities for corruption.

The foremost regulation-related restriction facing the retail and distribution sectors, however, is caused by price controls. Most East African countries have imposed pricing regulations as a measure of consumer protection, despite opposition from the private sector, which has a negative effect on competition. The most commonly controlled goods are fuels, but other price controls include sugar in Burundi, pharmaceuticals in Rwanda, and various food products in Kenya. Tanzania has implemented the most wide-reaching regulations, with controls on water, electricity, public transit fares, and telecommunications.

68 FMCG, 2009, p.2

69 Dihel (2011), pp.5-6

Information gaps

For businesses trying to appeal directly to African consumers, on the other hand, a major impediment is the availability of market data. At present, consumer research and data-mining companies have a minimal presence on the continent. Much of the data that is publicly available, both in terms of market supply and consumer demand, is unreliable and easily contradicted by field surveys. Multinational companies will have difficulty determining which socioeconomic groups demand which products, which products can command a premium, where consumers prefer to shop, how they respond to marketing techniques, and which markets have the highest growth potential.[70] This problem is particularly acute for distributors at the bottom end, where market fragmentation is high. Lacking performance indicators and information about market share, it can be difficult for companies to effectively develop and market products and to plan strategically for the future.[71]

70 Foster et al. (2016)

71 Spivey et al. (2013)

8

Strategies and risk management

When investing in Africa's retail and distribution sectors, most large companies have traditionally favored one of two models. In the first case, the organization is highly centralized and hierarchical, with most decisions and activities taking place at a central headquarters. This allows companies to capitalize on economies of scale, but it hampers adaptability and responsiveness to local specificities. In the second model, country-based operations dominate and decision-making is largely decentralized, which can mitigate the disadvantages of the centralized model but result in duplications and undermine coordination.[72]

In light of these trade-offs, many companies have started to adopt a middle-ground model by restructuring operations around Africa's regional economic communities. This approach allows for effective local market coverage and sub-regional, country-level variation, while centralizing management in a strong, regional headquarters—a "hub-and-spoke" model. Another advantage is in the ability to coordinate shared services at the regional level, including supply chains and distribution, as well as in contributing to the development of a regional manufacturing presence. The most successful FMCG retailers working in Africa are increasingly following this strategy of focusing on country clusters in developing and marketing products.[73]

No matter which model of operational structure a company chooses to adopt, effectively entering Africa's consumer market requires attention to certain key strategies:

Investment in market research

While the growth potential of Africa's consumer market offers enormous opportunities, purchasing power on the continent remains among the lowest in the world. In order to achieve short-term success, companies will need to target consumer segments with the greatest potential and to tailor their marketing and distribution. Doing so requires

72 Ernst and Young (2016), p.2

73 The FMCG/Prepared Food Sector in Africa: An Overview and Trade Analysis (2016), KPMG, p. 5.

gathering a significant amount of data on the tastes, preferences and behaviors of consumers across localities and demographic groups.[74]

For distributors, a census of local trade outlets will be necessary to develop a profitable strategy. It should attempt to measure the quantity, type, size and accessibility of all existing outlets in target countries, as well as the products that they stock and the characteristics of their customer base.

For any company, determining the most lucrative markets to target will also require analysis of data on the following key factors: market fragmentation and saturation, allegiance to traditional trade channels, availability of third parties for joint ventures, tax and licensing regulations, quality of contract enforcement and potential for expropriation, corruption risks, strength of infrastructure, ease of movement and barriers to trade, and access to capital.[75]

Localization

In addition to assisting in decisions at the regional level, market research will help retailers to localize product offerings, to ensure that they meet the needs and lifestyles of consumers in varied localities. Studies show that companies that have successfully entered the consumer market in Africa have had two strategies in common: adapting products and services to the needs of local customers and building linkages and investing in the local community.[76] Establishing a local presence is vital to success in Africa, where community remains central to most people's daily lives.

Analysts have shown that collaborating with local partners and businesses and investing in education are key determinants of growth in emerging consumer markets, which not only increases returns to investment, but it ensures that companies remain relevant to their core consumer base over the long term.[77] Only one university in East Africa offers a formal course in retail management, so most companies working in the region currently rely on on-the-job training.[78] More effective businesses have invested in specialized training programs, which help to overcome these local talent shortages and to convey modern techniques, such as inventory management and merchandising.

Consequently, establishing a local presence is, therefore, key to effectively penetrating Africa's consumer market, and it also significantly enhances the likelihood that companies will thrive over the long term. While there is no one-size-fits-all strategy for success, many analysts have pointed to a few other common tactics in attempting to explain why some firms have been able to expand and grow their business in Africa:

Import substitution

Africa currently imports roughly one-third of the processed goods it consumes, compared to 20 percent in the ASEAN trade bloc of Southeast Asia and 10 percent in South America's Mercosur trade bloc. Of manufactured products like cars and chemicals, 60 percent of Africa's supply is imported, which is twice that of Mercosur. And despite Africa's abundance of natural resources, 15 percent of its cement needs are imported, compared to 5 percent in ASEAN and Mercosur countries. There is, therefore, ample opportunity for African distributors to target more local suppliers and manufacturers in the future, which would ultimately cut costs and boost profit margins while contributing to job creation and rising incomes in targeted emerging markets.[79]

74 Foster et al. (2016).

75 Deloitte (2013), p.4

76 Africa Rising: The last Consumer Frontier (2012)

77 Ernst and Young (2016), p.17

78 Dihel (2011), p.6

79 Lions on the Move II: Realizing the Potential of Africa's Economies (2016), p. 16.

Traditional and modern trade

Successful multinational companies working in African markets recognize the role of both traditional and modern retail outlets in reaching consumers. Penetrating informal markets means providing goods in small, manageable packages and educating informal vendors about product information.[80] The most effective companies have found innovative solutions to localized conditions and demands and have provided training courses for kiosk sellers on merchandising, sampling and promotion techniques. Combined with locally targeted marketing campaigns, allowing customers to try new products has proved effective in overcoming their reluctance to switch away from preferred brands, a notable challenge in Africa given the relatively high brand loyalty of its consumers.

At the same time, the progressive shift from traditional to modern trade gives producers and distributors a chance to capitalize on the additional shelf space by creating product extensions and new varieties that are more likely to appeal to target demographics. As this shift is more broadly reflective of increasing purchasing power on the continent, companies should not limit their marketing efforts to affordable products with an existing consumer base, as aspirational brands tend to become the preferred option when incomes rise.[81]

Innovation

The varied challenges of doing business in Africa mean that successful companies will constantly need to adapt to reaching new markets. Companies choosing to pursue the regional operations structure are increasingly moving their research and development teams into regional hubs in order to better respond to local consumer preferences and behavior.[82] The result is likely to be more products designed to strike the optimal balance between durability and price and to address local conditions in emerging markets—existing examples include Renault's Dacia automobile and Samsung televisions with built-in power surge protectors.[83]

Rural and low-income consumers in Africa tend to be neglected due to the difficulty of access and economic constraints, signaling vast growth potential for companies that find workable solutions.[84] According to Herman Heunis, founder of the free mobile chat service MXit, his company has had marked success in reaching low income Africans by targeting early adopters in communities and promoting education about new services offered.[85] Meanwhile, Nestle has successfully penetrated traditional outlets in rural areas of South Africa by using informal distributors, who walk or use bicycles to deliver goods. Not only does this strategy minimize costs and increase market coverage, it has also enhanced brand awareness.[86]

Expanding access to Africans on the bottom tier of the consumer pyramid also demands innovative approaches to financial services. Due to the historically volatile nature of the economic climate, most of Africa's low-income consumers are accustomed to living without a social safety net, formal savings, or access to credit. Purchasing power will be significantly enhanced in these conditions where companies aim to facilitate customers' access to services like micro-credit, mobile money transfers, savings accounts, and insurance policies.[87]

Growing a consumer-facing business in Africa means remaining flexible to changing conditions and seeking to leverage a first-mover advantage whenever possible. Emerging markets in Africa are characterized by market fragmentation, quickly evolving political and legal environments, and a shortage of strong local businesses. In order to take advantage, global companies must be prepared to jump on opportunities to grow as they

80 Dihel, 2011, p.9
81 Spivey L. et al. (2013)
82 Ernst and Young (2016), p.3
83 Spivey L. et al. (2013)
84 Karuri et al. (2016)
85 Hatch et al. (2012), p. 32
86 Foster et al. (2016)
87 Spivey L. et al. (2013); Dihel (2011), p.9

emerge, for example, when companies become available through privatization or market exit. According to analysts at Bain & Company, this strategy helped Heineken to develop a coast-to-coast presence as one of the largest beer providers on the continent.[88]

88 Bain & Company (2012), pp.3-4

9

Looking to the future

From the perspective of international producers and retailers, therefore, the appeal of Africa's consumer market already exists, and several ongoing developments on the continent bolster the region's growth potential in the coming years.

According to the McKinsey Global Institute, the region offers "robust long-term economic fundamentals" driven by the advantages of a young and growing population, a rapidly growing workforce, the fastest urbanization rate in the world, and accelerating technological change.[89]

Production of consumer goods in Africa remains cost-competitive when compared to other regions. Meanwhile, studies of African consumers show that they tend to be entrepreneurial, ambitious, well-informed, and disproportionately heavy users of the Internet and mobile technology. Africans are also more likely to prefer international products than in markets such as China and India, where many local brands have already reached a broad scale. African consumers also appear to have more brand loyalty than their Asian counterparts, preferences that are commonly shared within families and social groups, and they are willing to make sacrifices for more durable, high-quality products, even when doing so requires saving and pooling resources.[90]

For creative and innovative businesses, rural consumers present a vast and untapped market, particularly in expanding services—like banking, food and beverages, and mobile phones and internet—outward from already established urban market centers.[91] Distribution services will be critical for increasing access to rural populations, as well as in the rapid expansion of business-to-business trade and the broader shift from informal to formal retail markets.[92] Therefore, governments should demonstrate a willingness to invest in the necessary infrastructure, such as roads, and to reduce regulatory restrictions on the movement of goods, as has already been the case in East Africa. This will allow investors in distribution to increase their gains.

The technology and connectivity boom also presents enormous potential for reaching new markets, as well as providing services that are profitable, while increasing the spending power of African consumers. In the next five years, at least 250 million Africans will have mobile phones and

89 "Lions On The Move" (2016), pp. 7-8.

90 Spivey et al. (2013)

91 Spivey et al. (2013)

92 Dihel (2011), pp. 1-2; FMCG (2009), p. 3.

a monthly income of over $500. Since 75 percent of people on the continent do not have bank accounts, this signals vast potential for investment in financial services like bill payments and money transfers. Some analysts project that the financial mobile services market will be worth $1.5 billion in revenues by 2020.[93] And while online shopping is currently rare—only 25 percent of Nigerians report having done so, the highest on the continent—improvements in small-scale distribution networks, power reliability, and internet penetration signal massive growth in e-commerce and online advertising in the coming decades. Meanwhile, social networks are also becoming an increasingly critical—and affordable—tool for marketing and consumer education in the region. These technological developments are helping the continent to overcome infrastructure gaps and improving consumers' access to information and products.

The current state of Africa's consumer market and the demographic changes that are already underway mean that certain markets are poised for investment over the next few decades. In just five countries—Algeria, Egypt, Morocco, Nigeria, and South Africa—an estimated 56 million households will reach the status of middle class by 2020, with disposable incomes of more than $680 billion.[94] In sub-Saharan Africa, nine countries will account for nearly 75 percent of all consumer spending by 2020—Nigeria, Senegal and Ghana in West Africa; Kenya, Uganda and Ethiopia in the East; and the southern states of Angola, Zambia, and South Africa.[95]

Future consumption in Africa is now characterized by stabilizing incomes, increasing purchasing power, and strong confidence in the future, while its consumer market remains relatively unsaturated and uncompetitive.[96] In this light, a recent report by Bain & Company concludes that "companies with no presence in Africa may want to seriously reconsider [since] skipping Africa means potentially missing significant growth opportunities."[97] Across the continent and across all sectors, the forecast for Africa's consumer market is bright—it is expected to be worth $1 trillion by 2020 and as much as $2 trillion by 2025.[98]

93 Foster et al. (2016)

94 Nova Capital Africa Analytics, 2012, p. 8

95 Hatch et al. (2012), p.15

96 Karuri et al. (2016)

97 Bain & Company (2012), p. 2

98 Hatch et al. (2012), p. 3; World Economic Forum (2016)

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