The *next* market opportunity sub-Saharan Africa

A report from Wright Associates

Africa Solutions

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In the 19th Century young men from Britain set off for Africa to make their fortunes building the Empire, mining diamonds and laying railways. As the 21st Century starts, once again great opportunities await in Africa for forward looking businesses

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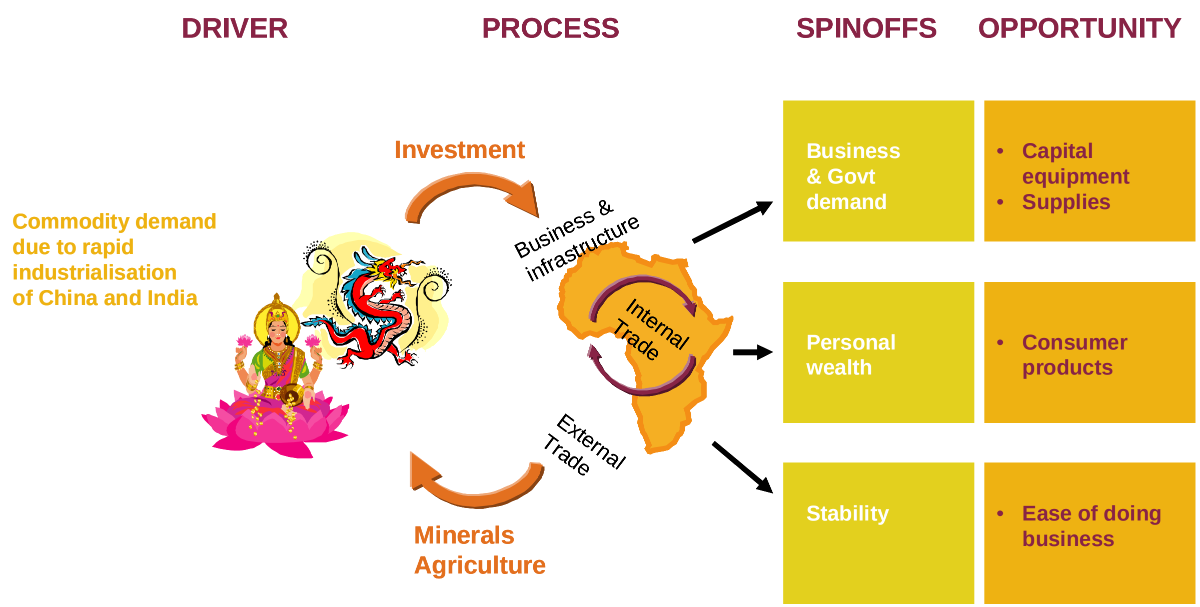
From vision to results

Don't let misconceptions stop you making profits in sub-Saharan Africa



Africa is rich in what China and India need

The chart on the left illustrates what is happening in Africa today. It is well known that China and India are rapidly industrialising, and to sustain the growth they need commodities. A lot of what they need is in SSA. SSA holds 99% of the world's chrome resources, 85% of its platinum, 70% of its tantalite, 68% of its cobalt and 54% of its gold. Africa has vast resources of timber and bauxite.

Sub-Saharan Africa is growing quickly

According to Goldman Sachs, sub-Saharan Africa (SSA) is experiencing its best economic performance in years, in contrast to the USA and Europe. SSA is non-Arabic Africa that lies south of the Sahara Desert. Goldman Sachs believe that gross domestic product growth could average 5% over the next decade. In fact, excluding India and China, sub-Saharan Africa is actually growing faster than Asia.

According to the World Bank, Africa currently offers "the highest returns on foreign direct investment of any region in the world".

Global Thematic Investors report that "African companies are some of the most profitable and fastest growing in the world". This is reflected in local stock market returns. Between 1995 and 2005 the Blakeney index of African stocks showed compound annual growth of 22%. The number of stock exchanges has jumped from ten to eighteen in the past decade.

By 2010, African penetration will be 34.2%. Mobile phones have a huge and immediate economic benefit in Africa, with a direct correlation between mobile penetration and growth in gross domestic product (GDP).

Gartner, Mobile Infrastructure, Worldwide, 4Q07 Update

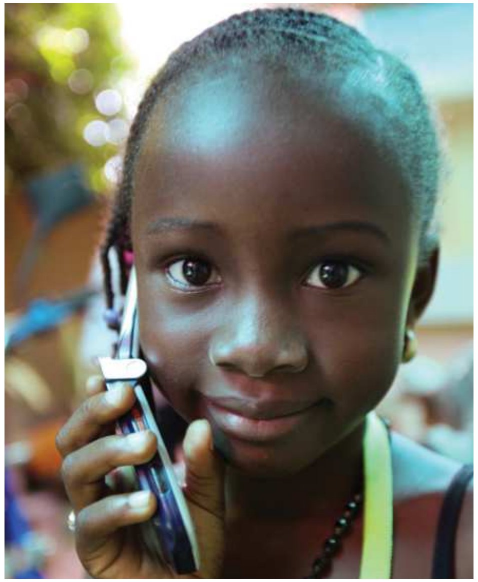
Africa supplies half the world's diamonds, a third of its gold and more than three-quarters of its platinum and palladium precious metals. It even has 12% of the world's oil reserves, which is likely to rise as much world oil production growth will come from the deep water reserves off West Africa.

Investment and trade from China and India is driving the growth

China is buying up Zambian copper, Nigerian oil, Tanzanian timber and South African platinum. They also need food: prawns and cashew nuts from Mozambique, oranges from South Africa. In order to secure these supplies they are investing in businesses and infrastructure projects in a huge way.

The Chinese have paid for a road-building programme around Ethiopia, including the "China-Ethiopia Friendship Road"; are financing the rebuilding of 100 schools and 30 hospitals in Liberia; have cancelled loans to Cameroon; have rebuilt Angola's Benguela railway; and have set up a road-building programme in Mozambique. Last year, direct investment reached a cumulative $6.5bn, and Chinese firms have recently agreed a $1.4bn deal to open new oil fields in Angola.

Exports from Africa to Asia have tripled in the last five years, with trade between China and Africa surging 40% last year to $55.5bn. A third of Chinese oil now comes from Africa.



This means demand for capital and consumer goods and services

When China invests in a mine in Angola then the mine needs a lot of trucks and drills and boots; and the wages of those new mine workers will find its way to brewers and electrical goods makers and furniture companies and mobile service providers.

The demand for commodities from China and India, and hence the huge supply of cash, should continue for many years. This investment is building physical infrastructure and economic structures that is creating a momentum for internal trade that can become self sustaining.

The large size of Africa, with its relatively lower IT penetration and its engagement in major telecommunication deployments, is making a strong IT trend. This region shows a forecast CAGR from 2006 through 2011 of 77 percent, which is the strongest of all the emerging regions.

Gartner, Market Trends: Unveiling IT Trends in Emerging Regions. Jan 2008.

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A consumer class is emerging

Consumerism is emerging, for example, mobile-phone penetration growth in the DR Congo was 96% a year from 2001 to 2006, in Nigeria it was 161% a year, with each user spending US$20 a month. 28M sub-Saharan Africans have internet access. There are 200,000 Angolans who subscribe to a pay TV service at over US$60 a month.

It's getting easier to do business

As well as the improved infrastructure, there is growing political stability and hence less risk.

The number of African democracies has jumped from just four in 1990 to 17 today. From 1960-1989, only one African leader left office having lost an election. But from 1990-2003, there were 18.

Economic liberalisation and developing capital markets is also contributing. This can be seen in Uganda whose GDP grew an impressive 7% a year from 1993 to 2002.

In 2006, Nigeria was given a formal credit rating by international bond agencies for the first time. In Transparency International's most recent survey, Botswana is rated less corrupt than Italy or Greece.

So what are the opportunities?

Mining, agriculture and tourism generate more than 80% of foreign exchange for sub-Saharan Africa. The opportunity is to prosper from the investment spending in those industries and the trade and consumer spending that is generated by these core activities. The big spending areas are infrastructure, telecoms, IT, agribusiness, vehicles, tourism, finance and natural resources. But also expanding are companies providing basics such as soap, chocolate and beer to people with more cash to spare. Some of the fastest-growing economies are those that have few commodity resources such as Kenya.

More than 35% of Africans live in sustained-growth economies that have grown at more than 4% a year for ten years.

World Bank report, April 2007

What does a sub-Saharan Africa marketing mix look like?

The section above paints a clear picture of a growing opportunity to market a whole range of products and services in SSA to governments, businesses and consumers. Identifying the opportunity is just the first step. SSA is not like Europe or Asia and there is a lot to consider when planning a business programme in the region. Below we outline some of the issues we have come across.

Distribution

How do you get products to your customers throughout SSA? We have found only one company that can provide a pan-SSA solution.

A hub and spoke approach makes a lot of sense, so where would you put your distribution hubs? You need to consider: physical transport links; customs unions and duties; air freight charges; and general ease or otherwise of doing business in the country where you put your hubs.

Which are the retail chains that are represented across SSA? What is it about furniture chains in southern Africa that you need to know?

Product

How much does your product need to be modified for SSA, and within SSA?

You may need adaptation for custom and taste reasons and for practical reasons. For example, electrical supply voltage and socket standards; and in some countries products need surge protection due to unstable power distribution and the effect of electrical storms.

Pricing

How often do you need to review pricing because of exchange rate fluctuation? We have found a quarterly review is needed but backed by continual monitoring.

For consumers which countries do you have to price in local currency and which will tolerate US dollar pricing?

What is the impact of withholding tax in each country?

Promotion

How many African advertising agencies can handle a pan-SSA campaign? We have found that none are present in all countries but a few have close links that enable a pan-SSA response.

What about language considerations? You actually have fewer languages to worry about than in Europe. In addition to local dialects, as a result of the colonial legacy, almost all of the SSA urban classes speak French, English or Portuguese.

The Francophone market is a third the size of the Anglophone market. They form two distinct blocks with cultural and historic differences which mean that marketing campaigns need to be planned separately.

Should you replicate your Europe media mix in SSA? This would be a big mistake. TV ownership is very low, largely due to very poor terrestrial broadcast quality. This is changing due to the growing availability of digital terrestrial television; and that now, most countries have 1 or 2 satellite providers. But for now, the key media is radio, as everyone has a radio and listens to it more than the average European; followed by print; and increasingly the use of mobile text and phone in competitions.