



ONE BILLION CONSUMERS

The rise of consumerism in Africa

Consumer spending forms a critical part of an economy's growth. Imagine an economy with over 1 billion consumers, with more than a quarter of that middle-class. Africa is a continent that boasts such statistics. However, its negative legacy and problems have left many organisations shying away from making the investments necessary to reap the benefits.

Accenture research has found that consumer spending accounted for nearly 60 per cent of Africa's GDP in 2008. The continent already has a population of 1 billion – a consumer base richer than that of India – and that number is expected to double by 2050. Furthermore, its growing middle-class already numbers 350 million - a huge market with amazing potential. In this article, we look at the rise of consumerism in Africa and the challenges organisation's face when looking at the diverse African population.

The negative images of Africans that are often seen in the media do not show the burgeoning middle-class that is evolving from the continent's growing economy. An offshoot of this wealthier middle-class is the increased demand for consumer facing products. Between 2000 and 2007, African consumer expenditures increased by more than 100 per cent from \$376 billion (US) to \$761 billion.

Far from the expectation that most Africans are living off aid from developed countries, a richer swath of the population means rising aspirations for products that were once not readily available to them. Big international brands are well known in Africa and are sought after.

Nigeria is already one of the top 10 fastest-growing drinks markets in the world. In fact, the country is the second largest market for Guinness after the UK. Sales of the 'black stuff' in the country already exceed that of Ireland and it is projected that they will rise by 171.3 per cent to \$7.2 billion between 2009 and 2014. Good news for Diageo, the world's largest drinks group, which has seen a trend of increased consumption of their products throughout all the emerging markets.

Another drinks organisation that is heavily invested in Africa is The Coca-Cola Company. According to **Muhtar Kent**, its CEO and Chairman, "Africa is really going to blossom in the next decade." The Coca-Cola Company is aiming to invest \$12 billion over the next 10 years to expand the company's presence on the continent, and has also endowed \$5 million to the Clinton Foundation.

According to **Katherine Tweedie**, Head of Africa, World Economic Forum, there is a great opportunity for consumer facing products. She mentions Nestlé as an example of a company that has made a large commitment to the continent and is now seeing the benefits. Since its first steps onto the continent in the 1880s, the company's brand has become ingrained in African society. Nestlé now has 27 factories in Africa and employs over 11,500 people. Nestlé CEO, **Paul Bulcke**, says, "Nestlé is committed to unlock the business opportunities and to promote growth in Equatorial Africa. With 400 million people and an emerging middle-class with rising purchasing power, this region has major potential for Nestlé."

"We recognise that our success depends on creating value for society – from the farmer who supplies our products to our employees, our consumers and the communities where we operate. Our aspiration in the region is to source much of our raw materials locally to assist in developing the local economies."

CHALLENGES

There are still incredible challenges facing African consumers. For example, more than 50 per cent of the population lives below the poverty line resulting in the appearance of many 'informal markets' - markets that are neither taxed nor monitored by the government and thus not included in the calculation of the Gross National Product.

The population also experience irregular and informal income streams and thus often lack disposable income to purchase goods. A large portion of the organisation also lacks access to banking services.

However, the number of households with discretionary incomes is expected to more than double over the next 10 years, reaching 128 million. According to McKinsey, by 2030, the combined spending power of the continent's top 18 cities will be \$1.3 trillion.

Africa is also experiencing the highest rate of urbanisation in the world with 41 per cent expected in 2010. Nigeria, the most populous country in Sub-Sahara, has an urbanisation rate of 52 per cent. These large urban centres will see more people looking to purchase food, water, shelter and services such as bank accounts.

Richard Laing, the CEO of CDC Group, says, "Many Africans now have a degree of discretionary spend for goods and services beyond the basic staples of life. They want consumer goods, better food, fashionable clothes, electronic goods, savings products, insurance, better healthcare, better education, and so on. And they are prepared to pay for them."

As organisations look to expand to Africa, they will have to find new solutions for distributing products. The lack of paved roads and proper infrastructure makes it difficult physically to get products to some areas.

Climate change is also a concern for companies going into Africa. Lack of water and energy is forcing organisations to find different ways of supplying these resources. There is therefore, according to **Dr Loïc Sadoulet**, Academic Director for the Africa Initiative at INSEAD, a huge opportunity for alternative energy suppliers in Africa. Owing to this, the continent is becoming a hot bed of innovation (a subject which will be explored further in another Criticaleye Community Article, 'Leapfrogging – Innovation in Africa').

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The terrain and market may be tough in Africa but, with over 1 billion people looking to buy products, the benefits can be huge.

Peter Brabeck-Letmathe, Chairman of the Board of Nestlé, shares this final thought, "To succeed in Africa requires patience, perseverance and a dedication to long-term economic development that will withstand shifting social circumstances. Through a very long-term business strategy, developing regional and national companies over decades, placing long-term business development over temporary short-term returns, we have become a source of stability and economic growth in Africa."

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Featuring commentary from:



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