

BUSINESS SWEDEN



# OPEN FOR BUSINESS

INSIGHTS AND OPPORTUNITIES IN A RAPIDLY EVOLVING AFRICAN CONSUMER GOODS MARKET

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EVOLVING AFRICAN CONSUMER GOODS MARKET

## INDEX

Introduction .....	3
Population growth: More than numbers .....	4
Rising middle class shaping spending patterns.....	6
Megacities spring from growing urbanisation.....	8
Old and new retail networks combine.....	11
The African consumer .....	14
Growing in complex and transformational markets .....	16
Approaches for sustainable business growth .....	18

# INTRODUCTION

Africa's booming population and rapid progression towards widespread affluence, urbanisation and digitalisation is presenting unprecedented opportunities for growth and market development. The widespread implementation and adoption of the internet and mobile telephone usage is one primary force behind the change, as well as political, economic and social changes which are also driving the changes being seen across the entire continent of Africa.

Africa is not homogenous, but a diverse and rich collection of many nations, cultures and traditions. This equally applies to consumer behaviours, retail trends and economic growth. The pace of growth and change of the retail market is varied and anticipating every nuance would be nearly impossible. But the overarching trends and upward growth are at a pivotal time for consumer retailers.

This report focuses on 12 countries in four different trade blocs, chosen because of their market size, population demographics and corresponding retail opportunities:

- South Africa, Botswana and Namibia
- Egypt, Morocco and Algeria
- Nigeria, Ghana and Cote D'Ivoire
- Kenya, Tanzania and Ethiopia

It is important for Swedish companies to be aware of the African Continental Free Trade Area (AfCFTA), which brings together 54 African countries under one agreement and will gradually phase out tariffs and restrictions on trade and investments across the continent. With the implementation phase scheduled to commence on 1 July 2020, the implications could be vast. However, how long and what impact the AfCFTA will have for international companies will unfold over the coming years.

Retail channels and behaviours within emerging African economies are being bolstered by a growing young and urban skilled workforce. Across Africa, there is a growing number of consumers fuelling an unprecedented demand for better quality and sustainable products that fit with new urbanised and middle-class lifestyles. Sweden's retail sector has a long history of providing trusted, quality products. Swedish retail companies now have an opportunity to leverage the changes across Africa to become established, go-to-brands for the African consumers of tomorrow. Africa offers access to a large, growing consumer market that is becoming increasingly affluent and with access to new technology. The growth in the purchasing power of this consumer group provides opportunities for retailers to increase their offering to include more high-end global brands.

To support the population boom and accessibility, major online and offline retailers have established in the market and are contributing to redefining traditional purchasing models and behaviours. These distribution channels have made swift progress in gaining market share as the demand for new products from trusted and globally recognisable brands.

Traditionally, supply chains have limited the participation of Swedish companies within the African retail markets but the increasing numbers of trusted distribution channels in the region, demographic shifts and population growth is now impossible to ignore. This presents a unique opportunity for Swedish suppliers and retailers to enter the market relatively early to lay the foundation for long-term success.

Business Sweden's presence in Africa offers a unique perspective on the changing face of the retail market and places us at the heart of Africa's journey towards a new retail future which supports sustainable consumerism.

## POPULATION GROWTH:

# MORE THAN NUMBERS

While population is one of the strongest drivers of retail consumption, a combination of many factors must exist for that population to improve its overall wealth, change social demographics and increase its buying power. Across the continent, economic development and scale differ quite significantly with absolute growth being primarily driven by 12 large 'lower middle and upper middle income' economies.

In addition to population growth, there is an increase in overall wealth with projections suggesting that by 2030, there will be about 190 million individuals earning over USD 5,000 per year in the megacities alone. These individuals are contributing to the disposable income growth which is set to outpace overall economic growth, particularly in megacities.

In addition to a growing population and rapid urbanisation, Africa's retail sector is growing through ICT and innovation. The increasing access to technology and information, primarily through mobile phones and the internet, has allowed for alternative retail and payment channels. These channels have also contributed to local awareness of global brands.

Africa has one of the world's youngest populations, that will, in the next decade create their own households and eventually start families, albeit at an older age than the current average. The number of dependents per household is set to decline, a common trend seen globally when the level of affluence increases.

## CHANGES ACROSS AFRICA

450% 

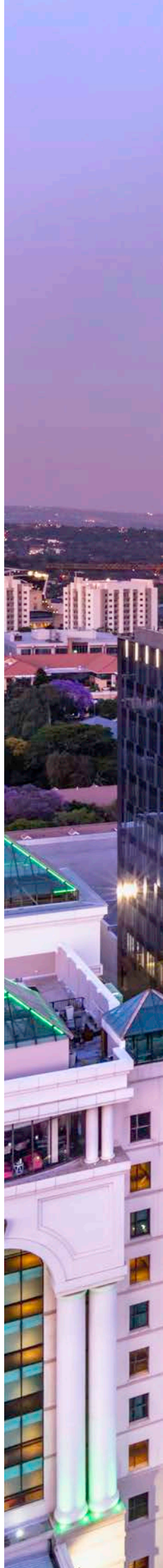
increase in internet usage  
between 2010-2030

175% 

increase in mobile phone usage  
between 2010-2030

190 M 

individuals will be high income  
earners by 2030





SANDTON CITY,  
JOHANNESBURG

# RISING MIDDLE CLASS SHAPING SPENDING PATTERNS

The sheer consumer purchasing power of Africa has been vastly overlooked by much of the western retail sector. Currently, the top four African megacities offer access to the equivalent of nine ‘Stockholms’ in terms of affluent households and relative purchasing power.

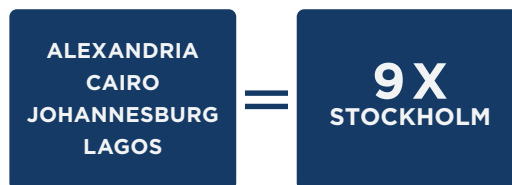
The impact of these demographic shifts and increase in middle and high-income earners is already being seen across the continent. This has translated to a compound annual growth rate of eight percent in the 12 focus markets from 2013–2018 with a projected increase to nine percent in the next five years.

The long-term trends and prognosis also predict substantial growth and attractive development of existing and new consumer segments. With the consumer expenditure figure set to reach USD 2.1 trillion by 2025, long-term investment can be considered a viable option.

In the next decade, total household disposable income growth in the 12 focus countries is predicted to stabilise at around 5–10 percent per annum. This is after taking into consideration political unrest in North Africa and Nigeria and the expected global economic recession.

## TOP 4 AFRICAN MEGACITIES

In 2017, these cities offer access to the equivalent of 9 ‘Stockholms’ in terms of affluent households and relative purchasing power. Stockholm has 699,000 households earning USD 35,000 or more.

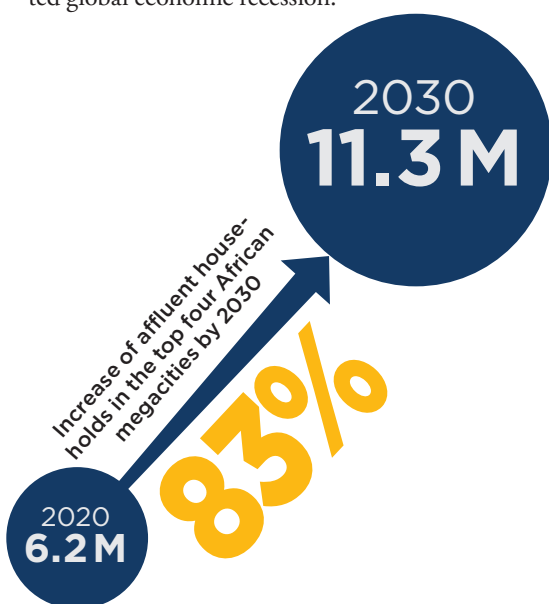


## TECHNOLOGY AND SHOPPING SPACES ARE DEFINING CHANGE

Increasing urbanisation and affluence are shifting consumers away from informal consumption channels to more formal forms, presenting global retailers with opportunities to seize on this transition and expand their local footprints.

Shopping malls, supermarkets and e-commerce platforms are growing in popularity, enabled by improved access to new banking and credit structures. Technology advancements spearheaded by domestic online retail giants such as Jumia, are utilising technology in smart and innovative ways while the introduction of e-commerce marketplace platforms including Takealot, and Afrimarket have also contributed to the online boom. Additionally, venture-backed platforms such as MaTontine are shifting traditional behaviours into the digital age allowing for improved savings and spending in the population.

Technology is also helping retailers reach and increase conversions with the end customers by enabling alternative retailing techniques and alternative payment methods. Innovations and mobile connections are leading to increasing online-based commercial practices, redefining purchasing and saving behaviours particularly within the informal supply chain.



# USD 499 B

FORECAST FOR AFRICAN FORMAL RETAIL MARKET  
of the top 12 markets on the continent by 2023

Mobile money is also quickly becoming an alternative to hard currency transactions and other traditional banking methods – including opening a bank account. Mobile money is widespread. USD 1.3 billion is transferred daily using M-Pesa, 15 times the amount transferred with Swish.

Online payment and purchasing trends are set to continue as Sub-Saharan Africa is home to the fastest mobile phone penetration growth of any region in the world, and according to the GSMA, mobile numbers are expected to grow to more than a half a billion during 2020.

## RETAILERS RESPONSE

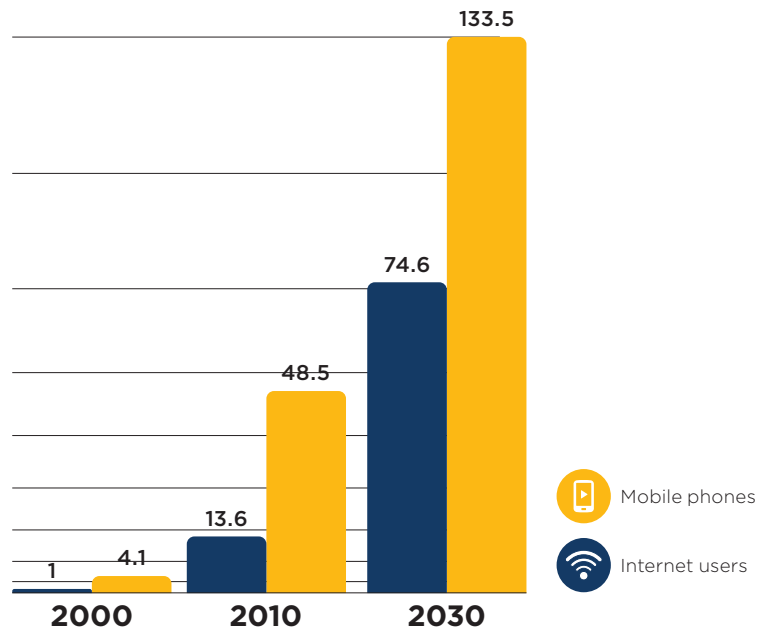
International companies are successfully expanding in Africa through carefully planned out approaches that include background research, risk analysis, partner selection and long-term strategies.

Despite the highly diverse nature of the African retail markets, leading grocery retailers are setting the standard and have begun expanding footprints and building out positions across regions. Prominent retailers are building retail supply chains and logistics to support expansion to adjacent markets within their region. Carrefour has expanded from West Africa into East Africa while South African based Shoprite has expanded to over 15 countries.

International companies should not underestimate the role local vendors can and will play, with many demonstrating entrepreneurial value and becoming key assets for distribution chains.

This model provides Swedish suppliers considering Africa with an established distribution network from which to build a solid market presence. International products are gaining reputation giving scope for brands to capture consumer loyalty and future volumes.

## MOBILE PHONE OWNERSHIP AND INTERNET USERS (AVERAGE/100)



## 2018 FORMAL RETAIL MARKET VALUE of the top 12 markets on the continent



### USD 324 B

South Africa, Egypt, Nigeria, Tanzania, Botswana, Ethiopia, Algeria, Morocco, Kenya, Ivory Coast, Ghana, Namibia



### USD 1,586 B

Russia, Germany, France, UK, Turkey, Italy, Spain, Poland, Netherlands, Belgium, Switzerland, Romania

# MEGACITIES SPRING FROM GROWING URBANISATION



The sheer rate of urbanisation and the vast population numbers in Africa means the rise of more cities and megacities is inevitable. If the urbanisation trend continues, it is estimated that 100 cities in Africa will each have more than one million inhabitants by 2025.

This section will focus on four megacities, the biggest one from each trade bloc, and the regional coverage they provide. This will give retailers an understanding of the growth coming out of Africa in the foreseeable future.

The trend towards urban dwelling sees no sign of slowing down with 15 out of the 19 of the highest performing countries set to sustain economic growth above the global average in the next decade. This projected sustained growth is being attributed to the increasing numbers of Africans residing in cities.

## MEGACITIES

Megacities are springing from growing urbanisation. The leading megacities from each trade bloc offer Swedish retailers' access to 41.8m people in their urban areas alone. The sheer population volumes and concentration of affluent households present opportunities that are hard to ignore.

### JOHANNESBURG



Johannesburg is the commercial capital of South Africa and is leading smart city adaptation with a focus on sustainable urban development.

Boasting a high concentration of headquarters for value-added business service companies and one of the world's key financial centres, its high skilled labour force is driving productivity and increasing average income levels.

There is a general trend towards more sustainable purchasing and Deloitte's 2018 Millennial Survey showed that 91% of this generation would switch brands for those championing a cause they relate to. High income earners lean towards global brands while low income earners prefer cheaper, mass produced goods.

People: 9.7m (urban area only)

GDP: USD 85.6b (nominal 2018 prices)

Nr. of affluent households: 968,000 in 2017, 1,872,000 projected for 2030



### CAIRO

Cairo holds a unique position as the gateway between the Middle East and Africa and the economic centre of Egypt. A strong history of leading traditional industrial production in iron, steel, automobiles and textiles is being complemented by investments in new technologies in aeronautics, electronics and chemistry.

Cairo's urban population has 59% higher disposable income than the rest of the country. Retail chains represent 30% of sales compared to 70% for small family structures. While employment in the informal sector accounts for 50% of total employment and is estimated to contribute at least 45% of local GDP.

People: 14.9m (urban area only)

GDP: USD 61b (nominal 2018 prices)

Nr. of affluent households: 2,795,000 in 2017, 4,416,000 projected for 2030



## LAGOS



Lagos is home to Nigeria's busiest airport and the largest seaport in West Africa, giving it a logistical advantage over all other cities in the region.

Nigeria accounts for 68% of the total trade of West Africa and is leading the way in pioneering e-commerce in Africa. Lagos-founded Jumia offers an important logistical platform for e-retailers wanting to enter the African online market.

Lagos residents have a 59% higher disposable income and outspend the rest of the country in hotels and restaurants by 235%, recreation and culture by 111% and clothing and footwear by 154%. Opportunities in modern retail are largely untapped with these channels only accounting for 5% of total retail market transactions.

People: *12.9m (urban area only)*

GDP: *USD 49.7b (nominal 2018 prices)*

Nr. of affluent households: *1,364,000 in 2017, 3,376,000 projected for 2030*

## NAIROBI



Nairobi has over 500,000m<sup>2</sup> of shopping mall space, second only to South Africa in the Sub-Saharan.

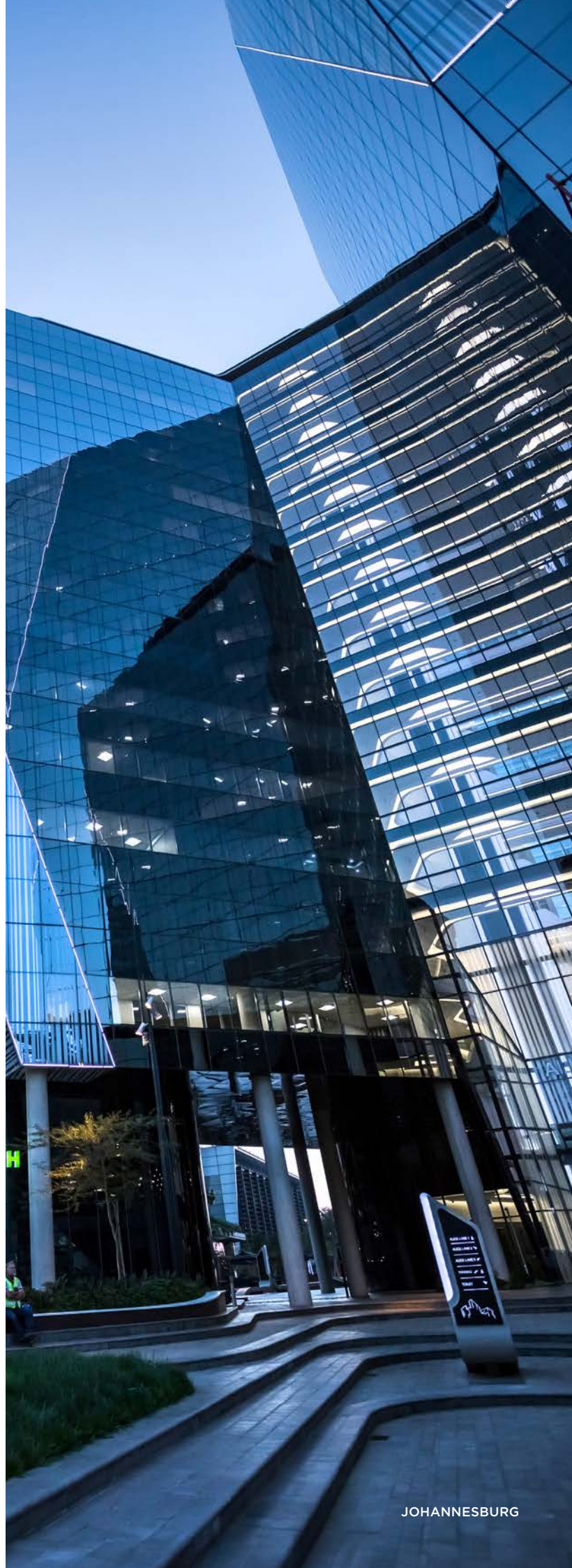
Kenya's growing middle classes and an increase in aspirational consumers has seen food and beverage retailers diversify into Nairobi's central business district and major brands entering the market. Carrefour and Shoprite are increasing their presence taking over locations from bankrupt local retailer Nakumatt.

While modern grocery channels are gaining popularity, traditional grocery retail channels are still prominent, particularly with households who bulk purchase. The two are converging; 24/7 Quickmart supermarket now has a presence in a local market operating alongside local producers, small delis and food courts.

People: *4.3m (urban area only)*

GDP: *USD 24.4b (nominal 2018 prices)*

Nr. of affluent households: *387,000 in 2017, 1,219,000 projected for 2030*



**GREATER ARAB FREE TRADE AREA (GAFTA)**

Algeria, Egypt and Morocco  
Mega-city: Cairo

With 14 country members, GAFTA's main goal is to remove State intervention on inter-regional movement of goods and services. They have a -10% preferential annual tariff reduction for products that originate in member states and have liberated agricultural and agri-business products from any customs tariffs.

**ECONOMIC COMMUNITY OF WEST AFRICAN STATES (ECOWAS)**

Nigeria, Ghana and Cote D'Ivoire  
Mega-city: Lagos

The ECOWAS has 15 member countries and has removed customs duties and taxes on goods and products produced locally. There is a common currency (Franc CFA) used by eight member countries and they have lifted non-tariff barriers to trade in goods.

**EAST AFRICAN COMMUNITY (EAC)**

Kenya, Tanzania and Ethiopia  
Mega-city: Nairobi

A free trade zone on goods and services with their five member countries and a common tariff reference for external trade. There is a liberal stance towards the freedom of movement for all factors of production including labour, goods and capital, etc.

**SOUTHERN AFRICAN DEVELOPMENT COMMUNITY (SADC)**

South Africa, Botswana and Namibia  
Mega-city: Johannesburg

The SADC has 15 country members and has established free movement of services for six prioritised sectors: communications, construction, energy, finances, tourism and transport. They have eliminated quota restrictions and tariff duties on all type of products except certain products, namely sugar.



**TRADE BLOCS**

Trading blocs have, and will continue to play a pivotal role in the long-term growth and sustainability of African retail markets. They go beyond internal distribution and trade relations by increasing global economic integration. Different trading blocs exist on the continent with each one having varying levels of integration and participants.

However, the ongoing work to bring to reality the wider AfCFTA will make it increasingly easier and cost effective to move goods across internal country borders. Currently all 54 states have signed the agreement, and the start of trading under this unprecedented move is scheduled for 1 July 2020. The ambition of the AfCFTA is for Africa to be one free trade zone.

**RETAIL CHAINS**

- SHOPRITE
- SPAR
- CARREFOUR
- WOOLWORTHS
- BIM
- MASSMART
- PICK N' PAY



**FOOD MANUFACTURING COMPANIES**

- TIGER BRANDS
- PIONEER FOODS
- DISTELL
- CLOVER
- NAKUMATT (KENYA)
- TUSKYS (KENYA)



# OLD AND NEW RETAIL NETWORKS COMBINE

Traditional retail patterns and consumer behaviours are in a period of transition and suppliers into African FMCG markets inhabit a fragmented, dynamic space that is hovering between formal and informal trading platforms. Formal shopping networks, both online and offline, now sit firmly alongside traditional networks such as stalls and markets. This shift means more accurate assessments of the actual and potential market worth are available, giving both local and international retailers valuable insight into opportunities and market trends.

The market share held by informal networks is difficult to capture and all figures quoted about the African consumer market only factor in formal networks such as supermarkets and hypermarkets and traditional vendors if they are registered as corporate entities.

Despite this shift towards more formal networks, wider socio-political issues mean African economies overall remain highly volatile and unpredictable. When entering any developing markets, companies face challenges including local insurrections, underestimated costs and overestimated consumer purchasing power. These can be counterbalanced by incorporating your company expertise with the economic, institutional, social and infrastructure realities of the local market.

International and local retail players are growing side-by-side, building on traditional behaviours and distribution channels to create complementary experiences for consumers.

**AN EARLY PRESENCE IN  
AFRICAN MARKETS WILL  
HELP YOUR COMPANY  
LEARN AND GROW AS THE  
MARKET EXPANDS**





# THE AFRICAN CONSUMER



The African consumer is evolving, following global technology, urbanisation and consumer trends. While this transition won't be immediate, it is projected that the number of individuals in the high income bracket will reach 190 M by 2030.

## MOBILE READY

Mobile in hand, ready to shop, scroll and purchase online. Empowered individual who has leap-frogged traditional banking options which were previously out of reach. Enjoys on-the-go online shopping and pays with a variety of local payment apps that have become popular all over Africa.

## URBANISED

Living in the hustle and bustle of a big city with a desire to purchase goods and services to match a new lifestyle. Combines traditional shopping with visiting new shopping precincts to buy essential retail goods alongside higher-end products that match a new lifestyle.

## AFFLUENT

With a higher disposable income, shopping is now more attractive and affordable. With reduced economic pressure, extra funds can be spent on a range of products which reflect this new-found wealth-and change in lifestyle.

## DEMANDS GLOBAL BRANDS

Attaches social and cultural value to international trends and brands that they have seen online. Happy to mix local and global brands and tailor them to their own style and needs. Some brands and countries appeal more than others, and sustainability plays a role in the bigger picture.

## SHOPS ONLINE AND OFFLINE

Enjoys shopping in formal shopping areas and shops which is a social experience and means they can mix and match with informal traders and traditional options. Online shopping is equally as important to see all the latest trends and global brands and makes purchasing easy.

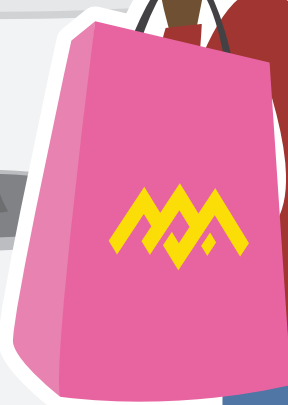
## SUSTAINABILITY AWARE

The African consumer is showing a growing interest in sustainable products and many are willing to pay more for a product with a conscience.





MALL



# GROWING IN COMPLEX AND TRANSFORMATIONAL MARKETS

## SOCIO-POLITICAL LANDSCAPE A CHALLENGE AND OPPORTUNITY

There are critical socio-political conditions that exist across the continent of Africa and awareness of these conditions, coupled with an understanding of economic developments is imperative to successful market entry and long-term sustainability. Insight into historical and cultural context will also explain practices and business decisions, which can guide decision making by international companies.

Criticism is often received by companies who operate in regions where socio-political challenges exist, and Africa is no exception. However, on many levels, the trends of conducting business is moving in a positive direction. Political and social reform is happening across the continent, with varying rates of change and progress.

Working together with local partners and being present in changing markets can be a successful tool from a growth perspective and help to positively influence structural change. For this reason, early engagement can support Swedish retail companies in securing sizeable market shares in the present and to build a reputation to reap rewards also in the long term. It also opens the doors for positively shaping policy, social reform and sustainable business and consumer behaviours.

## BUILDING A PRESENCE IN THE AFRICAN CONSUMER MARKETS

- 1** Target the young growing workforce who are adopting new technologies and are more likely to keep up to date with global trends and developments. The projected purchasing power of this demographic presents solid opportunities
- 2** Create a long-term risk strategy and stay relevant by adapting your offering to the demands of the market. Be aware of regional variations within larger African countries and review your go-to-market approach as your market position evolves.
- 3** Explore export credit financing and stay asset light to minimise being impacted by volatile foreign exchange fluctuations and constantly changing market conditions.
- 4** Find local partners with resources and local on-the-ground know-how and consider working with leading domestic retailers rather than distributors. This will help to build local market knowledge and consumer insights which can facilitate a rapid response to market changes and uncover future business opportunities.
- 5** Engage local market advisors before making significant commitments. Their expertise, coupled with the right facts, figures and references can overcome challenges in reducing the high costs of finding accurate data in rapidly changing markets.



# FIVE-STEP APPROACH TO ENTERING AFRICAN CONSUMER MARKETS



## 1 Do your homework

- Target markets based on growth needs, capital requirements, and time horizon
- Conduct due diligence with the support of local expertise
- Understand and accommodate for regional variations in larger countries



## 2 Define and develop your strategy

### Common challenges

- Market data is often not readily available or reliable
- Continuous economic and political changes and regional variations within large markets
- Identifying informal decision-makers is difficult

### Recommended actions

- Be asset light to maintain responsiveness to fast-paced changes in market conditions
- Iterate go-to-market approach as your market position evolves
- Plan to scale long-term and stay relevant with awareness of regional variations within larger countries



## 3 Adapt business model

### Common challenges

- Economic volatility of buyers in resource-rich markets and high dependence on development funds in resource-poor markets
- Sales process is time consuming given the lack of access to decision-makers, bureaucratic processes, and the strong interpersonal nature of business relationships

### Recommended actions

- Turn the rapid pace of change into a competitive advantage by adapting existing products and services to meet specific needs
- If possible, connect offering with technology and offer end-to-end solutions
- Go beyond 'quality' USP and focus on relationships and knowledge exchange



## 4 Go long and be resilient

### Common challenges

- Procurement processes are more complex than in Europe and the decision-making process is often protracted
- Long-term contracts in local currency carry higher risk exposure and often contract negotiations and extensions are delayed
- It is difficult to secure financing, resulting in payment delays and postponed due dates for large projects

### Recommended actions

- Plan and build long term relationships with government and local stakeholders
- Build resilience and mitigate short-term volatility by:
  - Hedging financial risks
  - Keeping the business as lean as possible
  - Having a diverse portfolio
- Ensure local integration



## 5 Ensure local integration

### Common challenges

- Business culture is characterised by a lack of organisation and structure, and buyers are often hard negotiators
- While it is easier to enter indirectly (e.g. via distributors), selling indirectly makes it harder to learn key success factors in local culture

### Recommended actions

- Show commitment and dedication to the market by:
  - Understanding that all business is personal
  - Investing in local presence via greenfield, alliance or partnership
  - Hiring locally whenever possible, and develop future leaders internally

# APPROACHES FOR SUSTAINABLE BUSINESS GROWTH



## CULTURAL AWARENESS

Informal business practices  
Accepted social norms  
Local process



## SUSTAINABILITY

Environmental strategy  
Sustainable economic growth  
Social and community



## LEGAL COMPLIANCE

Local, regional or national laws  
Trade agreements or tariffs  
Tax regulations

The global demand and drive towards sustainable business growth is becoming a critical factor for success. Sweden and Swedish companies have and continue to hold a strong reputation in this area, and it should be a key aspect of any global growth plans.

Every market has unique characteristics that influence business operations, growth opportunities and long-term viability.

Before you enter an African market, it is advisable to have a strategy in place to manage both macro and micro market related issues. This strategy should address all or a combination of, sustainability, legal compliance and cultural awareness. Across Africa, countries are beginning to adopt and enforce sustainable business practices across the environment, economic and social spheres.

To reduce the risks of business malpractice and ensure you continue to meet international and Swedish standards and maintain economic stability, it is important to have a region-specific sustainability strategy.

A tailored sustainability strategy must address economic, human rights and labour condition issues and how your company aims to work with local suppliers to address these. It should also outline how you plan to meet and exceed environmental sustainability in accordance with applicable global and regional legislation.

Each country in Africa has unique legislative processes for the retail sector value chain. Specific signed trade agreements exist primarily between the EU and the different trading blocs within Africa. A complete analysis of your legal responsibilities and the implications of these should be conducted before entering the market.

Conducting business in Africa is heavily influenced by cultural practices. Building relationships with potential key stakeholders and getting an understanding of cultural nuance is as important as knowing the formal business structures.

# SUPPORTING SWEDISH COMPANIES' AFRICAN GROWTH AMBITIONS

**54 COUNTRIES COVERED**

**20+ GROWTH EXPERTS**

**50% OF TEAM ARE LOCAL**

Business Sweden's continent-wide presence in Africa which is built on a foundation of understanding local business, trade, political and social practices. Knowledge of local investment incentives, tariff regimes and customs unions can help Swedish retailers' pinpoint opportunities and geographical locations that will support smooth market entry. Business in Africa is personal, and we can support you in building relationships with key stakeholders in

government and the business community which is key to long-term success.

Finding retail partners, distributors and acquisition targets can present significant challenges which our local teams can help overcome. Utilising Business Sweden's operational expertise and practical knowledge in identifying and reaching out to local customers and establishing local support is a proven pathway to smoother entry into African retail markets.



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