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Risk Vs Reward: Understanding The Africa Growth Opportunity

by Tom Gallen

Africa represents a new frontier for health and beauty firms. With significant economic growth and a population explosion forecast for the continent, now is the perfect time to start thinking about the Africa opportunity, market expert Ben Longman told the recent Ceuta International Conference.

Africa presents a huge growth opportunity for health and beauty firms if they can navigate the significant risks associated with doing business in what are often changeable and unstable markets, says Ben Longman, managing director of African market intelligence consultancy Trendtype.

Longman told the 14th *Ceuta International Alliance* Conference in Barcelona, Spain that the time was now for companies to think about the Africa opportunity as the continent's economic growth over the next five years was set to outstrip that of developed markets such as Europe and North America. According to the IMF, advanced economies will grow on average 1.6% annually between 2019 and 2024, whereas growth in Sub-Saharan Africa is expected to reach 3.8% and in North Africa 4.3%.

"The one thing we do know is for all the complexities, all the volatility, and the fact these are often challenging markets to operate in, the growth in Africa is going to be there," Longman insisted. The engine for this growth was the expected demographic changes, he noted, with the continent's population projected to increase by 1.23bn between now and 2050, bringing with it "tremendous opportunity and tremendous disruption."

One of the big impacts of population growth would be rapid urbanization, Longman explained, with the number of people living in ever expanding cities expected to increase fivefold. This urbanization would drive systemic changes in quality of life, the provision of health and education and the way people aspired to live.

Rapid Change Already Underway

And in several markets, particularly in Sub-Saharan Africa, Trendtype – which provides strategic market research on consumers and retail across Africa – had already observed rapid changes in recent years, he said, with the transformation of consumer lifestyles, the labor market and governance.

Longman highlighted the changes taking place in Nigeria, which was a "growth engine" in its own right. "The rate of urbanization in Nigeria is phenomenal and that has huge impacts in terms of route to market, because rural markets are hard and expensive to reach and often served informally."

Alongside Nigeria, Rwanda had made a concerted effort to develop living standards, he pointed out, with life expectancy shooting up, improvements in roads and housing, and access to electricity and the internet rapidly increasing. "At the turn of century roughly 6% of Rwanda's population had access to electricity, today its 50% and will get close to 100% by 2024."

In Kenya, increased internet access had led to rising mobile app use – spanning everything from transport, to the supply chain and education – which Longman said was "changing the way people live."

> *"Don't treat African markets generically. There is no African market."*

These separate developments in Kenya, Nigeria and Rwanda highlighted the need for companies looking to take their first steps in Africa not to see the continent as a homogeneous block, Longman explained. "My warning is – don't treat African markets generically. There is no African market."

Africa was a collection of 54 markets, he observed, but even within that there were various ethnic groups that straddled borders.

"In these countries you find a broad spectrum of languages, of consumer preferences, political opinions," he noted, "and that can have quite real implications. If you go into a country and think the business language is English you will instantly alienate a lot of people."

While there were huge opportunities in many of these 54 markets, the vast majority also presented significant risks to any company looking to do business, Longman warned.

“The only low risk countries in Africa are Botswana and maybe Mauritius. So there’s 52 high risk countries, such as Nigeria, Democratic Republic of Congo and Sudan.”

Watch Out For Unexpected Risks

Longman said the risks of doing business in Africa could be categorized as either “obvious” or “sneaky.”

“The obvious kind people know about, such as political disruption, or the economy might go down,” he explained. “The sneaky ones people think they know about but they don’t, for example the ruinous impact of changes in access to hard currency, changes in exchange rates, flourishing black markets.”

“All of these risks have effects right the way across the supply chain and they can cut markets for imported products dead overnight.”

It was key therefore for any company entering any one of these markets to gain insight from experts on the ground to understand how to do business effectively, Longman advised. “If your head office is driving your Africa strategy and no one has actually gone into the markets then that’s going to be a big problem,”

Longman suggested some of the first items on the agenda when building an Africa strategy should be foreign exchange risk and distribution partnerships.

Distributor Relationships Are Key

“Commit to your distributor,” he advised. “What drives distributors mad is somebody arrives and says they are looking for quick wins. It’s not something distributors want to hear when it will take a long time to build a successful route to market strategy.”

It was crucial to establish with a distributor their “accessible market” within a country, he noted. “The potential market opportunity might be $100m but your accessible market could be much smaller if your distributor only covers a certain part of the country, or can’t reach retailers in a small rural town.”

Exchange rate fluctuations represented the flip side to the economic opportunity presented by African markets, he said, and had the ability to blindside even the most experienced operators.

Africa’s largest food retailer Shoprite had felt this first-hand, reporting sales down almost 40% in Angola in June because of currency devaluation. With an economy based on oil production, Angola was especially susceptible to currency swings, he noted. “Now Shoprite are thinking if they really want to operate in Angola. This is a company that has more experience of expanding into African markets than almost any other than I know."

Longman's key takeaway for companies just starting out in African markets was to "think like a bank robber." Companies had to get into the market effectively, maximize the opportunity and then find a way to safely take out revenues.

His advice was to think local and to think about detail. "Your opportunity isn't necessarily the obvious one – it might be the thing that's going to be the slow burner that you can keep selling. And in a lot of African markets that means entry level products – products that are going for the mainstream."

Repatriating revenues from an African country could be "extremely challenging," Longman admitted. "You need to think about it from the start and understand at a corporate level what your appetite for risk is."