



cutting through complexity

Sector Report

Fast-Moving Consumer Goods in Africa

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Introduction & Overview

The fast-moving consumer goods (FMCG) sector, also called the consumer packaged goods (CPG) sector, is one of the largest industries worldwide. FMCGs are generally cheap products that have a short shelf life, and are purchased by consumers on a regular basis. Profit margins on these products are usually low for retailers, who try to offset this by selling large volumes. Some of the most well-known FMCG companies in the world include Unilever, The Coca-Cola Company, and Johnson & Johnson. The FMCG sector comprises a large variety of products, with some of the most important categories being food, beverages, personal care products, and home care products. Within categories, FMCG products are often near-identical, and for this reason price competition between retailers can be intense. To boost profitability, companies use marketing and other techniques to establish loyalty to the product, which enables them to charge higher prices.

Another important characteristic of the FMCG sector is that it generally does well in an economic downturn, with consumers rather cutting back on luxury products.

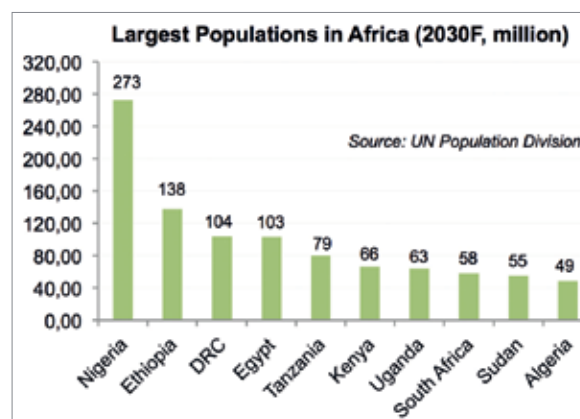
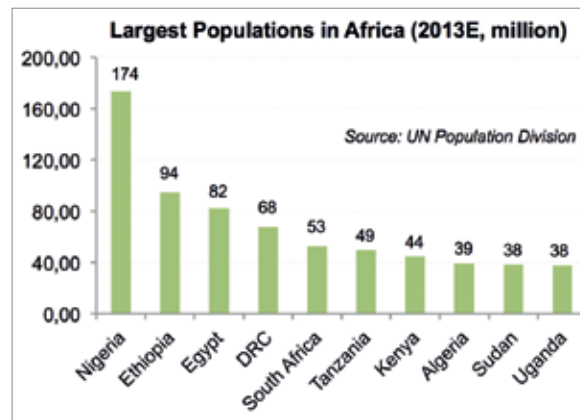
The FMCG sector in Africa has significant scope to expand. Poverty levels in especially Sub-Saharan Africa (SSA) are still quite high, with food and other necessities dominating consumer budgets. For this reason, the food sub-sector of FMCG has a very large market to cater for, while penetration rates in the other categories still have significant room to expand. In this report, the key drivers of the performance of the FMCG sector are analysed. The report also presents the current state of the industry in Africa and the long term growth outlook. Finally, the report identifies the African countries with the biggest potential for expansion of their FMCG industries, and examines the structure and outlook for FMCG in these countries.



Key Drivers

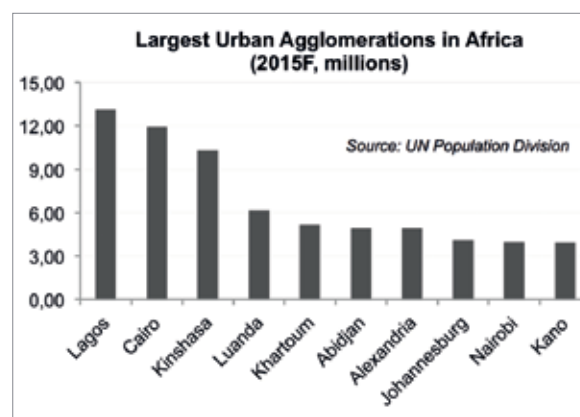
Market Size

FMCG retailers generally operate in a low-margin environment. As a result, the existence of a large market is crucial to the success of these companies. Despite Africa having a population of around one billion, the continent remains relatively under-served by FMCG companies. The accompanying graphs show the 10 African countries with the largest population sizes in 2013 and 2030 according to estimates from the United Nations (UN) Population Division. Nigeria's estimated population size in 2013 was roughly equal to the sum of the next two most populated nations on the continent, Ethiopia and Egypt. Moving from the graph on the left (2013E) to the one on the right (2030F) reveals some interesting trends. The top two countries remain unchanged, although Nigeria is forecast to widen the gap with Ethiopia due to the former's fertility rate, which is projected to decline at a slower pace. For the same reason, the DRC is expected to surpass Egypt, and Tanzania rises above South Africa, which falls from the fifth to the eighth position. Kenya and Uganda also move up the rankings due to high population growth rates.



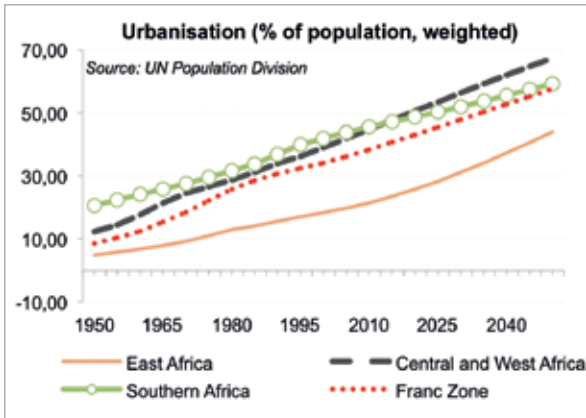
Market Concentration

The density of the population is another important point to consider. FMCG retailers need a steady flow of consumers purchasing their products on a daily basis, so they have to operate in a local market with a large enough size. In 2010, there were 50 urban agglomerations in Africa with a population of one million or more, of which three had a population of five million or more. By 2025, the UN expects there to be 93 agglomerations in Africa of at least one million, of which 12 are forecast to have a population of five million or more. Nigeria accounts for around a quarter of these (in terms of the number of agglomerations, not the population size). Cairo was the 18th largest urban agglomeration in the world in 2010 (11 million), while Lagos (10.8 million) was the 20th largest. By 2025, Lagos is expected to move up to the 11th position globally, with Cairo falling by one position.



North African countries have much higher urbanisation rates than most SSA countries.

Key Drivers

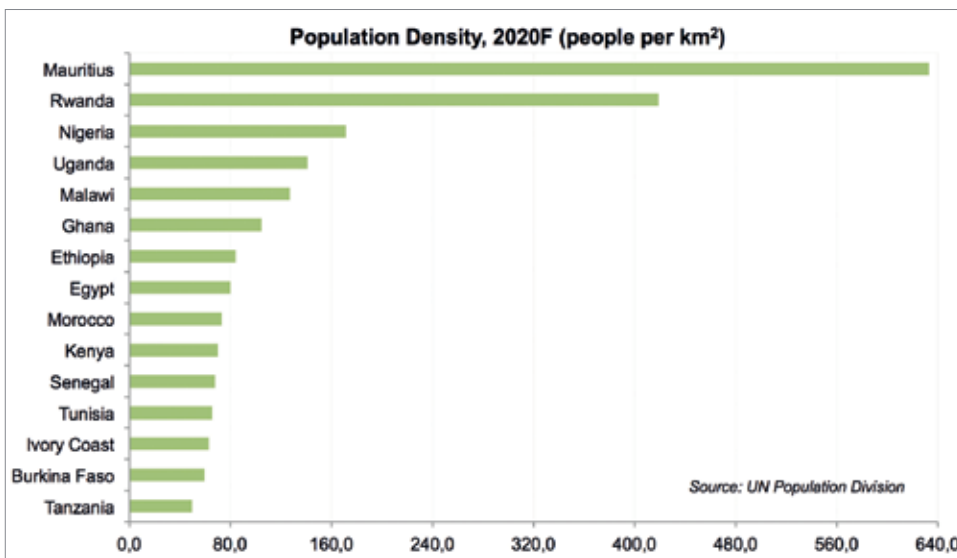


The UN forecasts that SSA’s urbanisation rate will reach 45.9% by 2030 and 56.7% by 2050 from just 36.3% in 2010. Meanwhile, North Africa’s urbanisation rate was already 51.2% in 2010 and is predicted to reach 65.3% by 2050. The urbanisation rate of East Africa is much lower than the rest of SSA. In 2010, East Africa’s urbanisation rate was almost 17 percentage points lower than the second-least urbanised region on the continent, namely the Franc Zone. East Africa’s low level of urbanisation can be ascribed to the substantial importance of subsistence agriculture in most of these countries. Central & West Africa is expected to have higher urbanisation levels than North Africa by 2025. This is driven by the fact that the average urbanisation rate is population-weighted, with Nigeria pulling Central & West Africa’s average up, while Sudan drags the North African mean down. (Excluding Sudan, North Africa’s urbanisation rate remains above that of Central & West Africa until the end of the forecast period in 2050.)

The 15 most densely populated countries in Africa (forecast for 2020) are shown in the accompanying graph. Looking at the national level might however be a bit misleading, with Egypt being a good case in point. Vast portions of the country are desolate, while the bulk of the population is highly concentrated along the banks of the Nile. In fact, more than 95% of the population live on 5% of the land. If the five Egyptian governorates that make up most of the desert area are excluded, then what remains is one of the most densely populated regions in the world. Given this exceptionally high concentration of people, retail opportunities along the Nile are immense.

With the rapid pace of urbanisation, it is crucial that the quality of infrastructure in urban areas improves in order to cater for the influx of people. It is also important that there is sufficient job creation, otherwise per capita spending power will suffer. Key issues to consider with regard to infrastructure include:

- The capacity and willingness of the government to invest in infrastructure;
- The willingness of the government to allow private sector participation in the provision of infrastructure; and
- Openness to foreign investment, and whether there are incentives for foreign firms to improve the country’s infrastructure.



Key Drivers

Related Industries

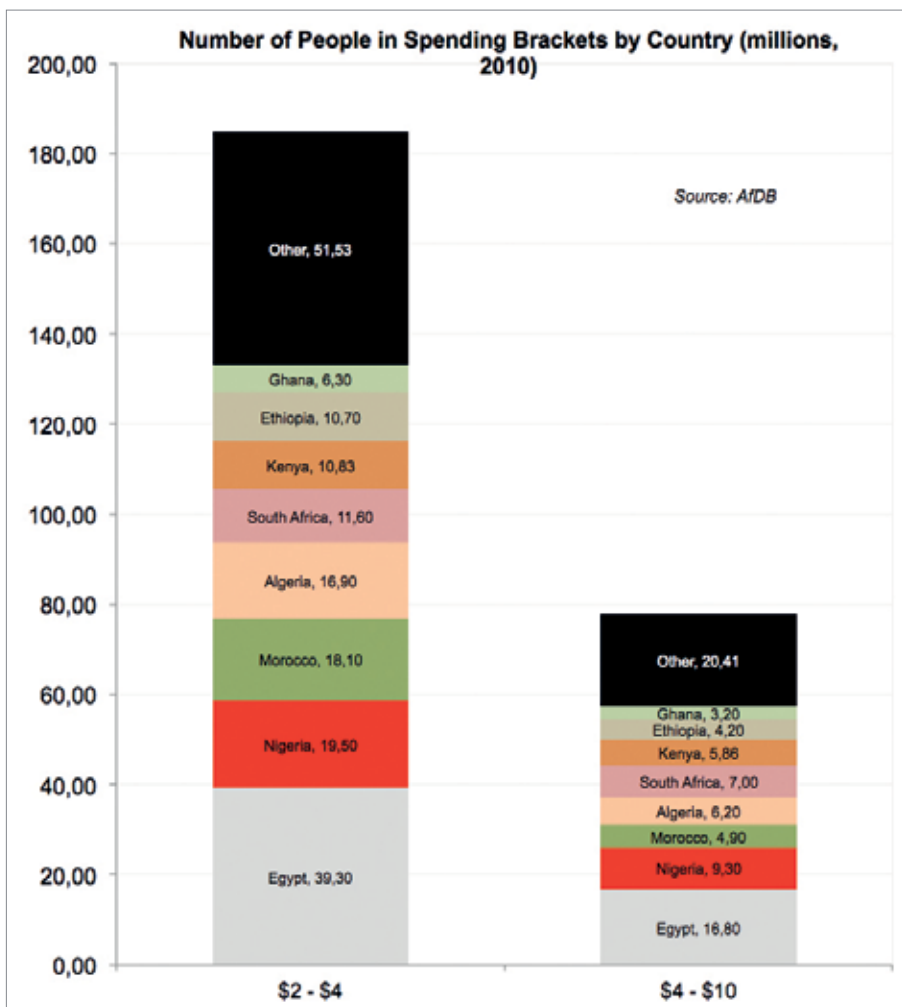
The agricultural and manufacturing sectors are key for a country's FMCG sector, as it is important to have a predictable and trustworthy distribution channel. This is also why many retailers opt for vertical integration, and this is particularly relevant for African countries, where distribution channels

are generally weak. The strength of local agriculture and manufacturing, the quality of transport infrastructure, and the scope and extent of tariffs on imported goods are crucial issues that FMCG retailers need to consider before entering a new market.

Spending Power

Since FMCG retailers generally sell products that can be classified as necessities, income per person is a less important consideration than for retailers of luxury or durable products. The trend in income levels is however still important in order to establish what types of FMCG products can be offered to a specific market. In addition, over time, retailers

would want to benefit from shifts in consumer spending patterns as they move up the income chain, so a high growth market is still preferable. According to the African Development Bank (AfDB), 184.8 million Africans had daily per capita expenditure of between US\$2 and US\$4 in 2010, while 77.9 million spent between US\$4 and US\$10.



Key Drivers

Buying Habits

Since FMCGs are generally similar within categories, retailers have to compete on the basis of price. In a market with fierce competition, margins are squeezed to their minimum levels and the least efficient companies are pushed out of business. However, companies that can convince consumers to purchase their brand name rather than that of a competitor can maintain market share without necessarily having to offer lower prices. Key strategies in this regard are loyalty programmes, enhancing the shopping experience, advertising,

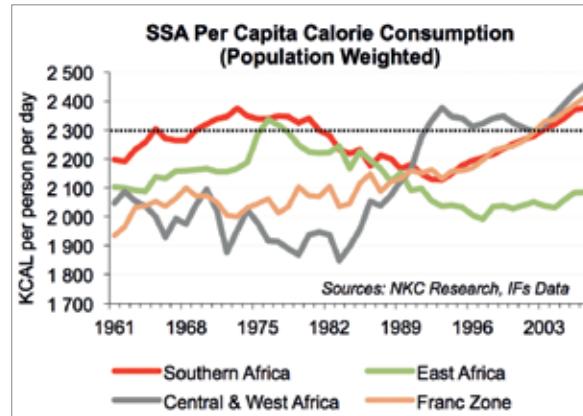
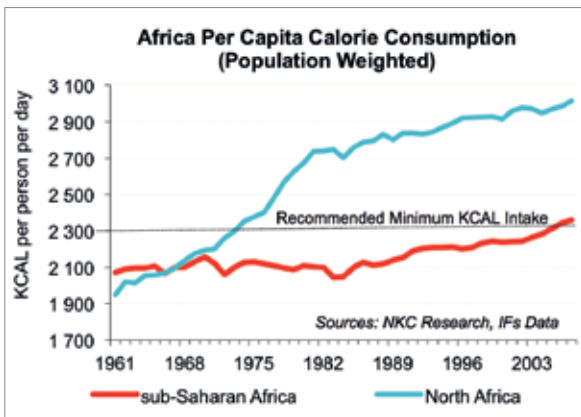
promotions, offering products in smaller packages to make them more affordable, and adapting to local needs. Convincing a consumer that your product is somehow superior to that of a competitor offering a similar product is crucial in ensuring long-term success in a given market. A well-known example is Coca-Cola vs. PepsiCo soft drinks: the products taste similar and fulfil the same need, but consumers generally have a very clear preference for one or the other.



FMCG in Africa

Food

Currently, food dominates African consumers' spending, but this will gradually change as incomes rise. The African population presently remains heavily dependent on cheap staple foods, while the increased inclusion of meat in the diet has barely begun. For the large majority of the African population, the nutritional transition is still focused on quantity increases rather than quality increases. For these reasons, the FMCG sector on the continent presents retailers with lucrative opportunities, with a wide range of products expected to see a sharp increase in demand over the next few decades as African consumers continue to move up the 'food curve'. Once basic needs have been met, consumers will start focusing on quality improvements, e.g. including more meat in one's diet, or buying a higher-quality brand of the same product. It is important for FMCG retailers to establish a footprint in a country at an early stage so that they can benefit from both quantity and quality shifts in consumers' spending behaviour.



Slowing consumer spending in Africa's largest economy and the prospect to profit from the evolution of the consumer elsewhere on the continent have spurred South Africa's retailers to expand into SSA. Shoprite has been the leader in this regard, already having a notable presence in a number of SSA countries. International retailers are also looking to expand into Africa, most notably Walmart (through its acquisition of South Africa's Massmart) and French retailer Carrefour. Informal outlets continue to dominate food retail in most African countries, and this will be the biggest obstacle to overcome. That consumers are starting to favour the convenience offered by supermarkets and shopping centres is not in doubt, but the supply of retail space is thin, and bureaucratic obstacles numerous. Another crucial concern is the lack of sufficient distribution channels and the difficulty of importing products.

Beverages

Beer - Africa has become an increasingly attractive final frontier for the global beer industry, as large populations, positive demographic developments, increasing urbanisation and higher disposable incomes improve the market potential in a largely underdeveloped industry. This is further supported by the saturation of beer markets in most developed and emerging economies. Governments across the continent are making a concerted effort to clamp down on the consumption of illegal, unregulated alcohol because of the health risks as well as the

foregone tax revenue. As wealth increases, legal beer consumption generally increases and in Africa, there is a huge opportunity to trade consumers up from the informal segment or home brews, into the branded sector. Large multinational companies such as SABMiller, Diageo, Heineken, and Castel have already acquired significant interests in African brewers, helping to consolidate the industry and improve corporate governance and operating efficiency. Beer companies are among the largest listed companies in many African countries.

In Nigeria, Nigerian Breweries and Guinness Nigeria have a market capitalisation of around US\$6.7 billion and US\$1.7 billion, respectively. That is equivalent to around 11% of the entire Nigerian Stock Exchange's total market capitalisation. In Kenya, East African Breweries Limited, a subsidiary of Diageo, is the second largest listed company with a market capitalisation of US\$2.4 billion, or 10.5% of the Nairobi Stock Exchange's total market capitalisation. Furthermore, Guinness Ghana is one of Ghana's largest companies, and accounts for around 10.5% of the entire Ghana Stock Exchange's value. Finally, on the Dar es Salaam Stock Exchange, Tanzania Breweries has the largest market capitalisation of around US\$1.5 billion, or around 40% of the total.

Many African countries are producers of the crops that can be used as raw ingredients for beer, such as sorghum, barley, cassava, and maize. According to SABMiller, the prices of sorghum-based beers have to fall to 80% of that of the mainstream brands in order to get the required boost in demand to justify the investment. At the end of 2012, Guinness Ghana Breweries Limited introduced the country's first cassava-based beer, Ruut Extra Beer, onto the Ghanaian market. The beer contains 51% locally sourced cassava. In March 2013, SABMiller followed suit by introducing Eagle Lager, the company's first cassava-based beer in Ghana. These beers have been successful due to tax incentives, and have provided an opportunity to turn locally grown cassava into cash crops.

Soft Drinks - Soft drinks are neither a necessity nor a luxury product. Its price is generally sufficiently cheap so that it can be bought by even the lowest income earners. It is however not a necessity, so in tough times there might be sharp cuts in spending on soft drinks, and/or increased differentiation by consumers based on price. At the same time, the

quality of tap water in Africa is generally so bad that people will opt to buy soft drinks, including bottled water, where they can afford to do so. As a result, the non-alcoholic beverages industry in Africa has access to a potentially massive market. As incomes increase and consumers get increasingly health conscious, the demand for carbonates is likely to fall, while that of juices and bottled water will tend to rise. There is also a strong opportunity for alcohol-free 'social drinks' as incomes rise and the economy formalises. Other crucial contributing factors to the soft drinks market in Africa is the development of tourism, retail, and distribution networks.

Soft drinks account for 40% of the global beverages market, with alcoholic drinks making up a further 50% and hot drinks the remaining 10%. Carbonates account for the largest share of the soft drinks market (37%), followed by juices (20%), bottled water (20%), ready-to-drink tea (9%), sports & energy drinks (9%), and concentrates (3%). While carbonates still dominate the soft drinks industry, the other categories have caught up quickly in recent years, with especially bottled water making up ground. As consumers become more health-conscious, the popularity of drinks that contain minerals and vitamins has increased.

Pepsi and Coca-Cola are rival manufacturers of soft drinks and directly compete against each other in most countries in Africa, although Coca-Cola enjoys a dominant market position in most of the beverages markets on the continent. Coca-Cola has followed a good strategy in Africa, placing particular focus on how to get its product to consumers. The company has implemented innovative ways of achieving this and overcoming the general lack of formal retail, for example, by providing individual vendors and kiosks with refrigerators, and bicycles with coolers.

FMCG in Africa

Personal Care Products

This segment includes shampoo, toothpaste, soap, deodorants, and make-up. The sub-sector has great potential for expansion in Africa. Apart from the usual reasons (favourable demographic profile and strong economic growth), an added driver for this sector is that many Africans appear willing to spend a proportionately large share of their incomes on beauty products. This is at least partially driven by the entry of popular international brand names, the sharp uptake of mobile telephony, and increased internet access, which have resulted in Africans being more exposed to Western culture. Three other important factors that will underpin the growth of this industry in Africa over the long term are improving levels of education, the youthfulness of the population, and the rise of female independence. With regard to the last point, more women are now in the labour force and fertility rates are declining, which means that more money is available for spending on personal care products. A survey conducted by Kenyan businesswoman Suzie Wokabi (founder of SuzieBeauty Cosmetics) showed that Kenyan women are willing to spend up to 20% of their salaries on beauty products.

An important issue in the personal care sector is the adaptation of Western products to the specific

needs of African consumers. Some international companies have recognised this, and have either adapted their global products to suit Africans' needs, or launched new product ranges. (For example, Unilever developed its Motions range of shampoos and conditioners aimed specifically at ethnic hair; make up manufacturers have introduced darker shades; and anti-ageing products have been developed for ethnic skin.) It has also opened up opportunities for local entrepreneurs, with examples including SuzieBeauty Cosmetics (Kenya) and House of Tara (Nigeria).

According to Euromonitor International, the size of the beauty industry in the Middle East and Africa was US\$20.4 billion in 2011 (around 4.8% of the global total), with South Africa contributing US\$3.9 billion, while Nigeria and Kenya have the second and third largest industries in SSA, respectively. On a global scale, toiletries account for around 30% of total sales, skin care and hair care each contributes a further 20%, and make-up and fragrances 10% each. The skin care category saw the biggest increase in its share of the global market between 2008 and 2012, followed by men's grooming. The category seeing the largest decline in its share over this period was fragrances.

Home Care Products

The global home care market size in 2013 was close to US\$155 billion. The largest sub-category is laundry care, which accounted for around 53% of total sales. This is followed by surface care (14%), and dishwashing (12%). Due to the relative lack of modern housing in much of Africa, this sub-sector

is still largely under-developed. Over the long term, this segment should expand quickly, driven by increased home ownership, rising disposable income, and consumer education and hygiene campaigns.

FMCG Growth Spots In Africa

Given Africa's large market and the potential for rising household income, the FMCG sector on the continent stands to benefit immensely. Given that the sector provides either necessities or accessible luxury goods, the size of the market is not constrained by income dynamics in the same way as many other sectors. Taking the FMCG sector's characteristics into account, and considering African countries' demographic profiles, income

levels, and economic growth potential, we think the following geographies have the strongest prospects for growth in the sector over the next five to 10 years: Angola, Ethiopia, Ghana, Kenya, Morocco, Mozambique, Nigeria, Rwanda, Tanzania, Uganda, and Zambia. In this report, we analyse the FMCG sectors of three of these countries, highlighting specific product categories that are expected to do well.

Ghana

Drivers: Important gateway to large West African consumer market; generally accommodating business environment

Risks: Purchasing power of consumers under pressure at present due to high inflation and depreciating currency; risk of higher taxes due to the government's weak finances

Food - Informal markets dominate food retail at present. This should slowly start to change as the number of shopping malls rise, and consumers increasingly prefer the convenience that is offered by one-stop shopping at supermarkets. The latter trend is partly being driven by the growing expatriate population in Ghana, especially Accra. In addition, the shopping mall experience has proved to be very popular in Ghana: Accra Mall attracts around 25,000 shoppers per week. Currently, the most important supermarket chains in Ghana are Shoprite, and two domestic players, Melcom and Maxmart. Shoprite entered the Ghanaian market in 2003 and currently has shops in Accra, Accra Mall, and Tema. Shoprite is also expected to be the anchor tenant at the West Hills and Junction projects currently underway.

Beer - Ghana's beer industry is dominated by SABMiller and Guinness Ghana Breweries, with the beer market estimated at around 1.76 million hectolitres. According to Business Monitor International (BMI), beer volume sales are expected to expand at a compound annual growth rate of 6.4% during 2013-17. In recent years, brewers have emphasised high-end brands to boost margins by getting drinkers to spend more on each beer they consume. While the cassava-based Eagle Lager and Ruut Extra Beer are far from premium products, they are still more than twice the price of popular

home brews, but have nonetheless been able to tap a market that was previously serviced by illicit, unregulated products. SABMiller has stated that the company expects to source its cassava for its Eagle Lager from as many as 1,500 smallholder farmers within the next year. The government charges an excise tax of 47.5% for beers that have less than 30% local content. For brews with more domestic ingredients, the excise tax drops to 10%. This follows the Local Raw Materials law that imposes concessionary excise duty rates on a sliding scale on the use of raw materials produced in Ghana, in substitution of imported raw materials in the production of excisable goods.

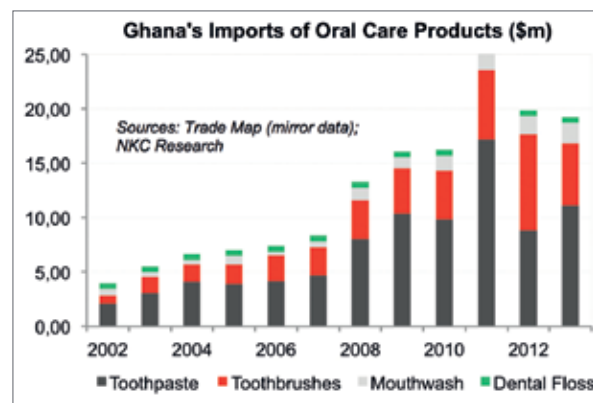
Soft Drinks - Large beverage-producing companies including Coca-Cola and PepsiCo have been operating in Ghana for some time. Coca-Cola's operation in Ghana is made up of Coca-Cola Equatorial Africa Limited and its franchised bottling partner, The Coca-Cola Bottling Company of Ghana (TCCBCG), while PepsiCo operates under the subsidiary Beverage Investment Ghana Limited. Meanwhile, Voltic Ghana is the market leader in bottled water in Ghana with an 85% share of the mineral water market. SABMiller acquired a majority stake in Voltic Ghana in 2009. A significant challenge facing the beverages sector in Ghana is the fact that many materials needed to support growth of the

FMCG Growth Spots In Africa

sector are not produced domestically, and have to be imported. This renders the sector vulnerable to exchange rate fluctuations and keeps production costs relatively high. BMI forecasts a compound annual growth rate of 7.5% in carbonated soft drinks volumes sales during 2013-17.

Personal Care - Ghana has strong prospects for growth in all of the sub-categories of this segment. We highlight particularly strong prospects for oral care and make-up. According to the World Health Organisation (WHO), many African women use damaging skin-bleaching products on a regular basis. Ghanaian Grace Amey-Obeng opened a beauty clinic in the 1980s to help her fellow Ghanaians to reverse the damaging effects that bleaching products have had on their skin. However, with the imported skincare products she prescribed becoming too expensive for her customers – especially given the Ghanaian cedi's

poor performance – Ms Amey-Obeng decided to start her own product range, Forever Clair, in 1998. Starting out with only US\$100, the business now has an annual turnover of US\$8 million - US\$10 million. The company has eight branches in Ghana and also exports to Nigeria, Burkina Faso, Togo, the Ivory Coast, and even Switzerland and the UK.



Kenya

Drivers: Strong population growth; growing middle class; educated labour force; dynamic private sector; regional leader – possibilities for regional expansion; relatively well developed retail infrastructure

Risks: Risk of terror attacks by Al Shabaab; private consumption partly dependent on agricultural earnings; risk of inflation and higher taxes; exposure to Europe for export and tourism revenues

Food - Kenya's food retail sector is well developed in an African context. Foreign retailers are yet to break into the market with four local players – Nakumatt, Tuskys, Uchumi, and Naivas – dominating the scene. Nakumatt has the biggest market share, although Tuskys has a larger number of branches. Stores of these companies are also very prevalent in other East African countries, especially Uganda. In January 2014, it was revealed that Nakumatt is looking to buy three of Shoprite's stores in Tanzania, where Kenyan retailers still have only a limited presence. Kenyan retailers are expected to increase the range of their product offerings over the outlook period in order to build market share. They will also be looking to expand further in the region, especially in countries where their presence is still relatively limited such as Tanzania, Rwanda, and South Sudan.

Meanwhile, Massmart's attempt to acquire a stake in Naivas had failed, although the company is still looking to expand into the Kenyan market, most probably through taking space in the Garden City Mall that is currently under construction.

Beer - While still the dominant producer in Kenya, East African Breweries Limited (EABL, a subsidiary of Diageo) has seen competition intensify in recent years from small local brewers and imports of international brands such as Heineken and SABMiller. Still, East African Breweries controls around 90% of the Kenyan beer market, and continues to expand into the rest of East Africa. A glance at the company's subsidiaries acts as confirmation of this: Kenya Breweries Limited, Uganda Breweries Limited, Serengeti Breweries

FMCG Growth Spots In Africa

Limited, United Distiller Ventnor, Central Glass Industries, and East African Malting Limited. EABL is listed on the Nairobi, Uganda, and Dar es Salaam stock exchanges. The company has invested in new supply chain capacity, including a new canning line, in order to boost production levels. East African Breweries has 26,000 local partners across the value chain, and sources 10,000 tonnes of sorghum in Kenya (from only 400 tonnes four years ago), while two new varieties of high-yielding barley seed were recently launched.

A big focus for East African Breweries is to boost the spirits penetration rate amongst East African consumers; the company has accordingly invested in marketing and sales capabilities in this area. While its 'mainstream' brands remain the most popular, the company expects consumers to trade up over time as incomes rise. East African Breweries stated in its 2012 annual report: "As our economies develop, we expect that more consumers will trade up from home brews and unbranded alcohol into branded products. The size of this opportunity is considerable. This trend has already driven significant growth for Senator Keg in Kenya, and we are in the process of rolling out Senator in bottles in our other markets." With regard to spirits, the Johnnie Walker brand expanded by 74% across East African Breweries' markets in 2012, Smirnoff by 55%, Baileys by 82%, and Richot by 40%. Although spirits still account for only a small share of overall alcohol consumption, the sharp growth is notable. Interestingly, mainstream spirits performed poorly for East African Breweries in 2012 (with sales falling by 6%), while emerging, premium, and reserve spirits sales grew by 32%, 22%, and 276%, respectively. The same trend was noticed for beer: sales of mainstream beer increased by only 3%, while that of emerging and premium beer expanded by 12% and 18%, respectively. East African consumers appear to have 'traded up' in the alcohol market over this period, with some consumers switching from home brews to entry-level branded products, and others from mainstream to premium brands, although admittedly some may have switched from mainstream to emerging brands due to pressure on purchasing power. East African Breweries recently introduced its Tusker Lite brand due to an increasing "taste for products that are low in carbohydrates" among young adults. This contributed to a 17% growth in the Tusker brand in 2012. Meanwhile, Pilsner Ice was rebranded in order to appeal to modern young adult males, while the new SNAPP is aimed at young working women.

Most recently, the alcoholic beverages market in Kenya was hit by tax changes, namely a change in the value-added tax (VAT) bill, and a reduction in tax incentives for EABL's Senator Keg brand. According to EABL, volume sales of Senator Keg declined by 85% after the increase in excise duty on 1 October 2013, and this resulted in the closure of 3,000 outlets, with 3,000 more reportedly in danger of being closed. While being negative for EABL, the tax increase does open up opportunities for other companies active in the Kenyan beer market, although EABL is trying to offset the fall in demand for Senator Keg by promoting its other brands.

Although EABL clearly dominates, competition in Kenya's beer industry has increased in recent years, as both macrobrewers and microbrewers attempt to take advantage of naturally expanding markets. At the end of 2012, Keroche Breweries (Kenya's only local brewery) stated that it plans to raise its share of the beer market in Kenya to 20% (from around 3% currently) in two years, and is increasing capacity to meet that target. This includes the construction of a brew house with an annual capacity of one million hectolitres, which is expected to be completed by the end of 2014 at an estimated cost of US\$29.4 million. Apart from boosting production of existing brands, the company also plans to start producing other products that are not currently in its portfolio, such as stouts and non-alcoholic drinks. Keroche also plans to expand into Tanzania, Rwanda, and Uganda over the medium term.

Soft Drinks - Kenya has a strong domestic soft drinks manufacturing sector. Soft drinks production increased notably during 2007-09, rising by an annual average of 4.9%. Production stagnated somewhat in 2010, before increasing by 2.8% in the subsequent year and falling again in 2012. Available data for 2013 indicates that production has once again increased. In fact, during the first 11 months of 2013, Kenya's soft drinks production increased by 19.1% y-o-y, while domestic sugar production rose by 18.9% y-o-y over the same period. (Domestic sugar production had declined during 2009-11.) By subtracting exports and adding imports to these output levels, one can estimate Kenya's domestic consumption of soft drinks. As a result, we estimate that Kenya's soft drinks consumption increased from 306.8 million litres in 2007 to 350.7 million litres in 2011. Over this period, per capita consumption of soft drinks rose from 8.13 litres per person per year to 8.35 litres. Per capita consumption of soft drinks in Kenya is projected to reach 14 litres p.a. by 2030, and 30 litres by 2050.

FMCG Growth Spots In Africa

Kenya imports a large amount of soft drinks from Austria, and to a lesser extent from Mauritius, the United Arab Emirates (UAE), Thailand, South Africa, and the UK. On the other hand, Kenya's soft drinks exports are mainly destined for Sudan, Uganda, Tanzania, and Somalia.

Coca-Cola has dominated the soft drinks industry in Kenya for a number of years. Coca-Cola's dominance may in fact have contributed to the industry not growing at such robust levels as in some neighbouring countries where there is more competition. This could change in the near future, with PepsiCo recently opening a manufacturing plant in Ruaraka (Nairobi) at a cost of some US\$28 million, through its African franchisee Seven-Up Bottling Company (SBC). Pepsi has tried to re-enter the Kenyan market since 2010, and has quite a bit of lost ground to make up, having exited Kenya in the 1970s. Coke has seven bottling plants in Kenya, and has been operating in the country for 65 years. Following Pepsi's move, Coke recently injected some US\$50 million into its manufacturing plants in Kenya. Consumption of Coca-Cola products has shown moderate growth in recent years, with per capita consumption of company beverage products (in units of 237 ml of a finished product) falling from 35 in 1992 to 31 in 2002, before increasing to 39 (approximately 9.2 litres) in 2012. In comparison, per capita consumption was 26 servings (6.2 litres) in Nigeria, 39 in China, and 87 (20.6 litres) in Morocco. According to Coca-Cola, it is facing rising competition from fruit juices due to consumers becoming increasingly averse to carbonated drinks for health reasons. This also contributed to higher imports in recent years, in turn forcing local carbonates manufacturers to cut production levels. In response, Coca-Cola recently launched its Coke Zero brand in Kenya, as well as its Minute Maid fruit juice. The company also cut its price for a 300 ml soda from KSh25 (US\$0.3) to KSh23 (US\$0.27) in June 2012 in order to boost demand. Other players in Kenya's juice industry include Kevian Kenya and Del Monte.

In March 2008, East African Breweries successfully launched a non-alcoholic malt drink, called Alvaro. Eight months later, Coca-Cola followed suit with its own malt drink, Novida. These products are aimed at young professionals that want to socialise but do not want to consume alcohol. Demographic, cultural, and income shifts are expected to lead to a big expansion of the non-alcoholic social drinks market in Kenya over the next few decades. Furthermore, the low quality of drinking water in urban regions

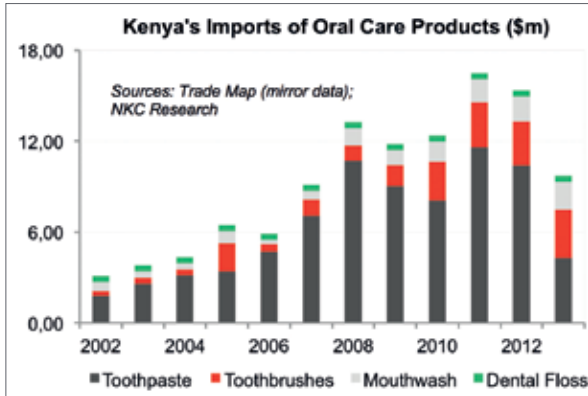
will encourage consumers to spend more on bottled water and other soft drinks, particularly as their incomes rise. In April 2013, Unilever launched a home water purifier on the Kenyan market at a cost of KSh10,000 (around US\$116) in order to capture a share of the growing number of Kenyans switching to bottled water.

An article published in the International Journal of Research in Management in March 2013 explored the determinants of brand loyalty among soft drinks consumers in Kenya and India. The study found that for Kenyan consumers, the promotion of the product was the most important factor that drove the decision whether to buy it or not, while on average, Indian consumers tended to be relatively more price sensitive.

Personal Care - Unilever Kenya is the market leader in the personal care industry. The company has been present in Kenya for a long time, and has established a strong distribution network. Brand loyalty has also been entrenched by marketing and promotional campaigns, as well as the provision of good quality products at affordable prices. In the oral care market, Unilever (Close Up) faces competition from Colgate-Palmolive East Africa (Colgate) and GlaxoSmithKline Kenya Limited (Aquafresh). Throughout the Middle East and African region, Colgate is the number one brand for toothpaste and toothbrushes, and the second most popular brand for mouthwash. Meanwhile, Procter & Gamble (P&G) is looking to grow its oral care market share in the region, and recently launched its Oral-B toothbrush. As consumers' incomes rise, they will first make a quantity shift, i.e. brush their teeth more often, and therefore buy more toothpaste, after which they will make quality and variety shifts, i.e. shifting to brands that offer more than just the basics, and buying mouthwash and floss in addition to toothpaste. According to Dr Andrew Wetende of the Kenya Dental Association, only 5% of Kenyans currently have access to quality dental care. Mr Wetende wants "Kenyans to take up brushing their teeth as a habit and stop considering it as a luxury". This is indeed expected to happen over time as incomes rise and the proportion spent on food declines, thereby driving the strong expected growth in the oral care sector. The accompanying graphs show Kenya's imports and exports of oral care products over the past decade based on trading partner data from Trade Map. The main sources of Kenya's oral care imports are India, Thailand, South Africa, and China, while the primary destinations are Uganda, Ethiopia, Somalia, Rwanda, and Tanzania.

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In the 2013/14 fiscal budget, the import duty on plastic tubes for packing of toothpaste, cosmetics and similar products was raised from 10% to 25% to protect domestic manufacturers.



Home Care - This segment will benefit from the current boom in construction activities taking place across the country, as it will increase the need for specialised cleaning products. In the toilet care category, Reckitt Benckiser is the market leader thanks to its popular Harpic brand. Euromonitor International expects the introduction of new fragrances in the toilet care market to boost sales over the outlook period. Meanwhile, air care products have traditionally not sold well in Kenya, as they are not considered a necessity. However, this is slowly starting to change, and sales have picked up of late as their use in commercial buildings has increased. Further increases in demand are expected on the back of a number of malls and mixed-use developments being built, urbanisation, increased home ownership, and the expansion of the middle class. In the laundry care segment, Unilever is the clear market leader, with the company accounting for around half of all sales in value terms. The company's Omo and Sunlight brands are well established, while Unilever can capitalise on its strong distribution network that has been built over a number of years. According to research by Euromonitor International, strong growth is expected for this category on the back of increased innovation and brand diversification, as well as the ongoing switch from bar format cleaning products to liquid forms.



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Nigeria

Drivers:	Large market size; youthful population; urbanisation
Risks:	Risk of naira devaluation, which would raise cost of imported goods; poor infrastructure; difficulty to source products due to small local manufacturing sector; political risk in run-up to elections in February 2015; security risks in northern states

Food - The Nigerian retail scene remains dominated by informal trade, although this is quickly starting to change with the entry of supermarkets and the increase in the number of shopping centres. The US Department of Agriculture (USDA) notes that the major traditional foodstuffs consumed by the majority of the population are predominantly unprocessed and/or semi-processed (including maize, sorghum, tubers, and fish). However, changes that are occurring with regard to purchasing power, demographics, lifestyles, and consumer preferences are resulting in increased demand for a wider range of products. The most important supermarkets in Nigeria are Artee Group's Park n Shop and Spar stores, and South Africa's Shoprite. Artee Group is Spar's partner in Nigeria, opening the first Spar store in the country in 2010. Artee Group has identified a further six sites for Spar supermarkets, and will also convert Park n Shop supermarkets to the Spar brand. Meanwhile, Massmart launched a pilot food retail project in Lagos in February 2014, and depending on its success, the company may decide to open at least nine further stores in the country during the next two years. Massmart is setting up smaller shops – in contrast to its usual style – owing to the difficulty in getting access to large tracts of land in Africa. The store sizes are around 280 m² with five employees, around 10% its usual size.

South African based food retailer Shoprite entered the Nigerian market in 2005, and was slow to increase its number of shops. At present, the retailer has seven outlets in Nigeria. A lack of available sites has reportedly slowed the retailer's expansion plans. Shoprite is in the process of adding a further 37 stores in Nigeria, although CEO Whitey Basson believes the country "could handle 600 to 800 stores". Apart from a lack of available sites, the company is also being held back by the difficulty of importing products, and for this reason is looking to establish its own distribution centre in the country. Shoprite stores that are due to open in Nigeria this year are Silverbird Abuja, Onitsha Mall, Effurun Mall, Ado Bayero Mall, Cocoa Mall (Lagos), Festival Mall,

and Ibadan Mall. MTN Nigeria and Shoprite recently signed an agreement whereby customers will be able to purchase airtime and data bundles whilst doing their normal shopping at all Shoprite outlets in the country.

Gloo.ng is Nigeria's biggest online supermarket, and it offers "100% free same day delivery" in certain areas surrounding Lagos, as well as a cash on delivery payment option. This is appealing as it saves the consumer time, and circumvents the problem of limited formal retail outlets in the country. E-commerce has taken off sharply in Nigeria, with Konga and Jumia also doing well, although these two websites generally do not offer a large variety of food products.

Wide-ranging reforms in Nigeria's agricultural sector are ongoing. These are centred around import restrictions to boost local production, better distribution of fertilisers, a scrapping of import duties on agricultural equipment, and easier access to credit for farmers. Though the policy of restricting imports is meant to support local production, farmers have been unable to satisfy demand, resulting in shortages and causing headaches for grocers. Arguably, more needs to be done to improve the basics, such as high levels of corruption and the poor state of infrastructure. In the interim, and as Shoprite's experience has shown, it is important for entrants into Nigeria's retail industry to develop and build local supply chains and distribution networks.

Beer - Nigeria is Africa's largest alcohol consumer according to Deutsche Bank Market Research. Based on sales of the world's largest distiller – Diageo – on the continent, the country accounts for around 36% of Africa's formal alcohol market. The Nigerian beer industry has recently evolved from a duopoly to an oligopoly, with Heineken commanding a 71% share of the market through its two subsidiaries, Nigerian Breweries (61%) and Consolidated Breweries (10%); Diageo has a 27% market share through its stake in Guinness Nigeria; while SABMiller has recently entered the market

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and shown strong growth. Nigerian Breweries has the largest capacity (13.5 million hectolitres annually), followed by Guinness Nigeria (7.5 million hectolitres annually), and SABMiller (1.8 million hectolitres annually). According to figures released by Heineken, the Nigerian beer market is expected to record a compound annual growth rate of 5.6% between 2011 and 2020.

Despite the strong long-term outlook, the Nigerian beer industry is going through a tough period at present due to an increase in the cost of living, as well as distribution pressures stemming from security concerns. Research by Financial Derivatives Company, a diversified financial institution, indicates that the Nigerian beer industry contracted by about 10% between January and September 2013. In particular, the demand for premium and mainstream brands declined to the benefit of lower priced brands. Guinness Nigeria's profit before tax declined by 32% y-o-y in the six months ending December 2013, following a 17% y-o-y decline in the 12 months ending June 2013. Despite consumers' purchasing power being under pressure, Guinness Nigeria increased the price of its Malta Guinness by 10% to N110, and that of Harp Lager by 5% to N210 (both of these are mainstream brands). These price increases were later reversed due to a decline in sales volume. The value beer segment is currently the largest in the Nigerian market, accounting for around 25% of total consumption. As a result, Guinness is now trying to boost production of its entry-level brand Dubic Lager, which was launched in 2011. Apart from Dubic, the company has also launched several other new products in recent years, including Malta Guinness Low Sugar, SNAPP (for female working professionals), Alvaro (a non-alcoholic drink), Orijin (premium bitters), and Master's Choice (premium whisky). Nigerian Breweries has experienced much of the challenges faced by Guinness. According to a September 2013 report by ARM Research, the fact that mainstream brands are performing poorly while economy brands are doing well is indicative "of a possible structural change in the Nigerian beer market as less affluent consumers switch to cheaper beer and more sophisticated drinkers (the primary target of mainstream brands) migrate to wine and spirits". The prominence of economy and premium brands and the poor performance of mainstream products tend to suggest that there is a large market at the very low end and at the very high end, but that there is a missing middle class. Nigerian consumers are expected to remain relatively squeezed in the

short term, with the naira under pressure and interest rates remaining high. Meanwhile, expansionary fiscal spending ahead of elections is not expected to lead to a notable increase in consumer spending at the aggregate level. Over the long term, the emergence of a large middle class will be very important for the Nigerian beer industry. Some analysts estimate a current installed capacity deficit of 53 million hectolitres to service the potential market.

Soft Drinks - Coca-Cola Nigeria Limited remains the dominant producer of carbonates and bottled water in Nigeria due its long established history in the country, strong distribution network, and aggressive marketing techniques. In turn, Chi Nigeria Limited leads Coca-Cola Nigeria Ltd in fruit/vegetable juice, with an off-trade market share of around 45%. Competition is intensifying, with innovative domestic companies gaining market share, such as La Casera (formerly known as Classic Beverages Nigeria Limited) that recently introduced the first sugar-free carbonate with real fruit, Latina. Per capita consumption of Coca-Cola products has fallen in recent years in terms of units of 237 ml servings, decreasing from 31 in 2002 to 26 in 2012. Rising health awareness among Nigerian consumers has resulted in particularly strong growth in the fruit/vegetable juices and bottled water categories. In addition, rising health awareness has bolstered demand for low-calorie carbonates. Consequently, manufacturers have responded to this general trend by developing new reduced sugar and sugar-free variants, as well as products that contain more natural ingredients. The movement away from sugary drinks has been supported by an increase in the import duty on raw sugar from 5% to 10% in the 2013 budget. This is in addition to a levy of 50%, bringing cumulative tax on sugar to 60%.

According to Euromonitor International, off-trade channels such as supermarkets and small grocers continued to account for the lion's share of total soft drinks volume sales in Nigeria in 2012. However, on-trade (restaurants and nightclubs) soft drinks volume sales grew faster, partly because they were emerging from a much lower base, but also due to the expansion of large fast-food chains. During 2012, independent small grocers remained by far the most important channel in terms of off-trade volume sales, followed by other grocery retailers. Economic growth and the growing influence of Western consumption trends will encourage Nigerians to trade up to higher quality and more expensive soft drinks, particularly healthier products.

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Personal Care - The Nigerian personal care sector is dominated by international brand names. Key role players in the industry include Unilever Nigeria, PZ Cussons, Soulmate Industries, House of Tara International, MAC Cosmetics, and Sleek Nigeria. According to Euromonitor International, mature personal care categories such as general purpose body care and lip gloss continued to grow rapidly in 2012. Even stronger growth was seen in developing categories such as shower gels, men's deodorants, and women's razors. While demand for the basic products is mainly expected to be driven by population growth, the other categories will rely on increases in disposable income. Hair care products are generally considered to be more essential than many other categories of personal care, and as such, it has performed well in Nigeria over the past decade, driven by the growing young working female population. Other factors that have supported the sector's performance are the rise of the internet, and the growing number of Western-style shopping centres in the country. Both of these factors have brought the Western culture to Nigeria's doorstep. Soft Sheen Carson had an 11% share in the hair care market in 2012, with its leading brand Dark & Lovely enjoying loyal support from customers. Meanwhile, the men's grooming category is also expected to show rapid growth, though from a low base. Demand has increased as the availability of these products improved, which indicates that there was in effect a latent demand

for beauty products for men. Over time, the uptake of these products should increase on the back of income growth, the formalisation of the economy, the fast-growing youth population, and increased exposure to Western culture. The main role player in this category is Procter & Gamble with a 44% market share, mainly due to its popular Gillette products. In the bath & shower division, PZ Cussons is the market leader with a share in sales of 30%. The company has built a strong distribution network in the country and has a number of popular brand names such as Joy, Imperial Leather, and Premier.

Home Care - Unilever is the main player in this segment, with a market share of around 25%. The company's products enjoy strong brand loyalty, and according to Euromonitor International, "the effectiveness of its distribution network is phenomenal". Smaller domestic companies, including Eko Supreme Nigeria and Limex Global Industries, have shown strong growth on the back of affordable product offerings. Growth in Nigeria's home care sector is expected to be robust over the medium term, as consumers continue to switch from (cheaper) general substitutes to products that are task-specific (e.g. switching from using a bar of soap to clean various household items to using different products to fulfil different needs), in line with rising incomes. Other factors driving this market include urbanisation and increased home ownership.

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