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Sector Report

Luxury Goods in Africa

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Overview

There has been a noticeable improvement in economic growth in Africa since the turn of the century, driven by an improvement in the business environment and investment climate, and a decrease in aggregate political risk. Notwithstanding short-term downside risks, the rise of the African consumer's wealth profile should continue to draw the attention of luxury brands seeking to unlock emerging and frontier market growth potential as mature luxury goods markets could no longer maintain double-digit growth.

The global luxury goods segment has reached a more mature phase in recent years, with slower but more readily sustainable growth potential. Global macroeconomic headwinds have hurt traditional markets of luxury goods and services, such as the euro zone and Russia, while threatening to stifle burgeoning demand for luxury goods in emerging and frontier markets. Africa has not escaped the brunt of macroeconomic headwinds brought about by global monetary policy divergence and broader commodity price weakness, and key markets for luxury goods may suffer a slowdown in demand as consumers' disposable income decrease especially in commodity-dependent countries. However, the continent continues to hold strong medium-term economic growth potential, and intra-regional differentiation is increasingly coming to the fore with base commodity importers earmarked as clear winners.

Defining Luxury Goods

The global luxury market loosely consists of the following segments: personal luxury goods such as accessories, apparel, jewellery, and cosmetics, high-end vehicles, luxury hospitality, cruises, custom furniture, fine food, wines, champagne & spirits, yachts and private aviation. . At a simplistic level, luxury goods can be defined as products and services not essential to basic needs, for which demand rises more than proportionally than a rise in income. The evolution of consumer demand for retail goods can be visualised as moving upwards within a pyramidal scheme, with the largest and lowest category labelled accessible goods. Progress in personal wealth conditions sees the consumer advancing to aspirational (logo) goods, whilst the highest bracket presents absolute (high end) goods, preserved for consumers with considerable purchasing power. As such, luxury goods have a high income elasticity of demand; in other words, as consumers accumulate more wealth, demand for luxury goods should rise. A simple proxy for the net change in aggregate disposable income is therefore the change in GDP, and GDP per capita levels. Generally, the demand for luxury goods should be positively correlated with an upward trajectory in economic growth as well as an appreciatory trend in the local currency unit (per US dollar).

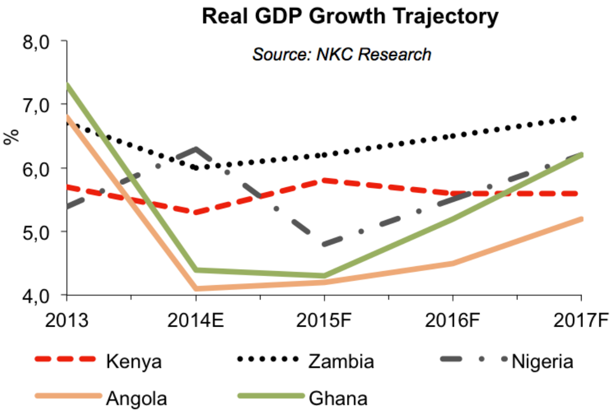
Macroeconomic Environment

Global Environment

Muted economic activity in advanced economies in the aftermath of the financial crisis has increasingly turned the focus to emerging market economies. According to the International Monetary Fund (IMF), growth prospects in advanced economies are handicapped by weak investment and total factor productivity growth, aging populations and low potential investment growth. In its January 2015 World Economic Outlook (WEO) update, the IMF estimates that global growth in 2014 was "a modest 3.4%". The IMF estimates that emerging and developing countries accounted for three-quarters of global growth in 2014. Albeit lower than earlier estimates suggested, economic expansion in the US came in at a modest 2.4% in 2014, which compares favourably to the 0.9% growth posted by the euro zone. In turn, the United Kingdom (UK) expanded by an estimated 2.6% in 2014, while Japan recorded an economic contraction of 0.1%. Emerging and developing countries recorded a robust 4.6% in 2014 (albeit slower than the previous year, which is estimated at 5%). Emerging and developing Asia was the driving force behind the strong performance, recording growth of 6.8%. This came on the back of strong growth by China (7.4%) and India (7.2%). In turn, sub-Saharan Africa (SSA) expanded by 5% in 2014, from 5.2% in 2013. Heavy-weight Nigeria posted strong growth of 6.3% in 2014.

African Growth Picture

Africa's stellar economic performance over the past five years can partly be ascribed to cheap artificial liquidity on the back of dollar-negative quantitative easing (QE) mandated by the US Federal Reserve (Fed), which benefited the continent via both improved capital and portfolio inflows, and artificially strong commodity prices, which buoyed economic expansion. In addition to fundamental drivers, the end of dollar-negative stimulus however rang in broader commodity price weakness, which placed the spotlight on African commodity exporters' dependence on extractive sector products for the bulk of export receipts. This single commodity dependence warned of the adverse effects of a weaker commodity price environment on numerous countries' external and fiscal positions, and subsequently threatens a slowdown in economic growth.



Trading ties with the euro zone and China furthermore render African countries vulnerable to exogenous demand shocks, which have the potential to exacerbate pressure on countries' balance of payments positions even further. With regard to the latter, the IMF warns that "the authorities in China are now expected to put greater weight on reducing vulnerabilities from recent rapid credit and investment growth. Hence the forecast assumes a further slowdown in investment, particularly in real estate." A slowdown in Chinese capital expenditure will adversely impact African commodity exporters via the goods trade channel, whilst contributing to pressure on domestic exchange rates brought about by broader dollar strength. Faced with a slowdown in merchandise trade exports in response to a softening in demand, African monetary policy is generally biased to the upside to contain the spillover effects of weakening local currency units. In addition to the exchange rate transmission mechanism, which erodes real purchasing power, a slowdown in credit growth brought about by tighter monetary policy could adversely impact aggregate demand for luxury goods.

Oil producers in particular remain vulnerable to spillover effects of a prolonged commodity price slump, with the IMF warning that "oil exporters have to absorb a large terms-of-trade shock and face greater fiscal and external vulnerabilities. Those with fiscal space can allow public spending to adjust gradually to lower oil revenues." However, numerous African oil producers' fiscal spendthrift – notably Ghana, Angola and Nigeria – provide limited scope for fiscal consolidation in the face of weaker commodity prices. With a limited reserve cushion, this has resulted in notable cuts in these countries' economic growth trajectories, real purchasing power and domestic demand forecasts. In addition to the macroeconomic impact of weaker commodity prices, the consumer is presented with real income shifts. Whereas consumers in oil importing countries have generally seen real disposable income increase due to lower pump prices, consumers in oil exporting countries are arguably worse off when the real currency depreciation and inflation effects are considered. This will impact demand for luxury goods at the lower levels. This also erodes the amount available to political elites, who are traditionally strong consumers of luxury goods in countries such as Angola and Nigeria, which will adversely impact their capacity to purchase luxury goods and services.

Regional differentiation – and specifically, net-importers versus net-exporters of base commodities – came increasingly to the fore in recent months. The oil price slump has affected West Africa asymmetrically, with the economic growth forecasts for powerhouses Nigeria, Angola and Ghana revised significantly due to commodity price weakness. The economic prospects for Nigeria specifically deteriorated sharply due to a larger-than-expected (and rapid) decline in the global oil price, which underlines the sovereign's single-commodity dependence for export receipts, and the fiscal sensitivity to oil price dynamics. On the other end of the scale, net oil importers are favourably positioned to take advantage of weak global energy prices, drawing the benefit of reduced pressure on their goods trade positions, as well as expected portfolio inflows on the back of strong growth prospects and low correlation with advanced economies' economic cycles. In this vein, East Africa stands out as a clear winner. Prospects of increased disposable incomes of East African consumers therefore holds potential for luxury brands to court new consumers, especially within the segments of personal luxury goods. The accompanying table captures the economic growth rates of select African countries. In addition to traditional strongholds of luxury goods demand, "up-and-coming" countries were included.

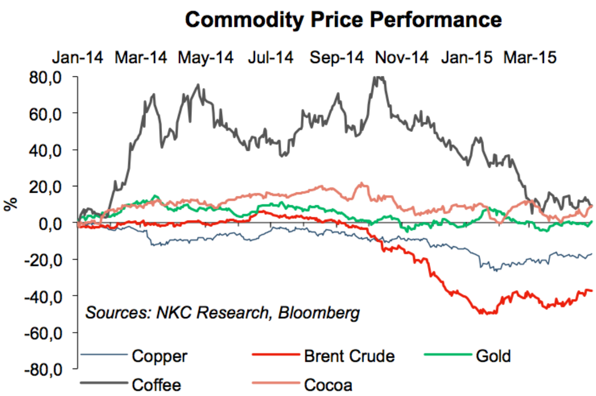
Economic Growth Trajectory (%)

Country	2012	2013	2014E	2015F	2016F	2017F
Angola	5.20	6.80	4.10	4.20	4.50	5.20
Egypt	2.23	2.10	2.16	3.50	3.63	3.81
Ethiopia	8.65	9.52	8.07	8.26	8.13	8.09
Ghana	8.60	7.30	4.40	4.30	5.20	6.20
Kenya	4.50	5.70	5.30	5.80	5.60	5.60
Morocco	2.62	4.36	2.44	4.40	4.15	4.52
Nigeria	4.30	5.40	6.30	4.80	5.50	6.20
Zambia	6.73	6.71	6.00	6.20	6.53	6.81

Source: NKC Research

The Impact of the Commodity Price Slump

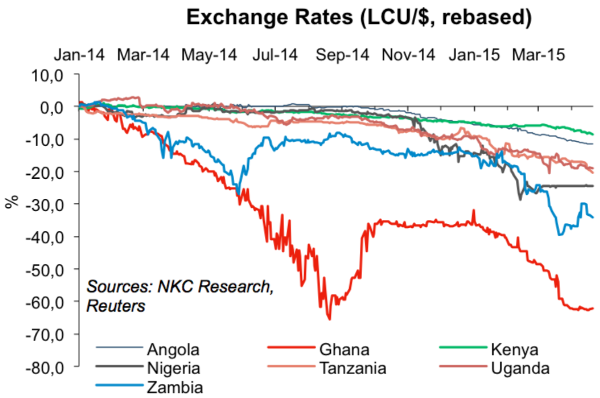
The World Bank states in the January edition of the Global Economic Prospects report that "developments in global oil markets are accompanied by significant real income shifts from oil-exporting to oil-importing countries… [Fragile oil exporters] do not have significant buffers, and a sustained oil price decline may require substantial fiscal and external adjustment, including through depreciation or import compression.
Recent developments in oil markets will also require adjustments in macroeconomic and financial policies in other oil-exporting countries, including Russia, Venezuela and Nigeria." In addition to the impact of lower oil prices on the trade position (and spillovers to the fiscal position and inflation environment), softer global commodity prices impact financial markets.



The World Bank stated that the sharp decline in oil prices has incentivised investors to reassess growth prospects of oil exporters, which has "contributed to capital outflows, reserve losses, sharp depreciations, or rising sovereign [credit default swap] CDS spreads in many oil-exporting countries, including Russia, Venezuela, Colombia, Nigeria and Angola." The World Bank warned against a change in the flow of petro-dollars, noting that surplus savings from oil revenues (which were previously funneled into government and corporate bonds, equities and real estate) could be repatriated. The repatriation of petro-dollars could result in large-scale capital outflows and "potential financial strains" for previous beneficiaries of portfolio inflows. Within the African context, Nigeria remains amongst the most vulnerable to capital outflows.

Real Purchasing Power

Purchasing power in real terms is contingent on the value of the local currency unit, as currency losses erode dollar-denominated wealth accumulation. In this vein, emerging and frontier economies are particularly vulnerable to negative currency movements due to contagion effects emanating from negative market sentiment, broader dollar strength brought about by global monetary policy divergence, and negative trends in commodity exporters' trade positions. This is particularly noticeable in economies whose foreign receipts are largely sourced from natural resources or are highly skewed towards single trade partners. A general bearish bias to African currency units (owing to structurally wide current account deficits, as African sovereigns import high volumes of capital goods to meet infrastructural needs) has been exacerbated in recent months. This is primarily due to the end of the dollar-negative QE programme in the US, increased global risk aversion, and a deterioration in the goods trade positions of commodity exporters.



The accompanying graph depicts selected countries' local currency performance against the US dollar, where a value below zero indicates a depreciatory trend. Notwithstanding the managed nature of the currencies, performance has generally been weak. African currencies are, on aggregate, of a managed nature. The spectrum encompasses hard pegs (west and central Africa) as well as de facto managed float currencies (e.g. Zambian kwacha). Increased pressure on African currencies in recent months has brought into question the degree to which central banks have the ability to maintain currency stability. This is most prevalent in oil exporters within the West African region (Nigeria, Ghana).

One avenue through which external pressure (and pressure on currencies, specifically) could impact the luxury gods segment is the rationing of forex. Central banks, in their capacity as regulator of financial market and price stability, have (in the cases of Nigeria and Egypt) opted to ration forex for specific purposes such as perishables (e.g. food products). A rationing of forex could therefore limit the amount available to domestic retailers of luxury goods. In Nigeria, the central bank is furthermore contemplating a more conservative limit available for foreign debt card purchases. Considering that a significant part of Africa's demand for luxury goods emanate from Nigeria and Egypt, these factors should be taken into consideration by luxury goods brands.

The impending interest rate normalisation in the US will have substantial spillover effects on African currencies. In addition to the dollar-positive decision to increase US interest rates (which is zero-sum, in other words, the gain in the value of the US currency will be offset by a loss in local currency terms), dollar strength will increase downward pressure on commodity prices. This implies further bouts of weakness for single-commodity exporters in coming months. In this vein, the currencies most at risk for (further) devaluation/depreciation are the Nigerian naira, Angolan kwanza and Ghanaian cedi. On the other hand, African currencies pegged to the euro will see its fortunes echo the euro zone's, as the latter extends its currency war in order to improve the competitiveness of its exports. On aggregate, East African currencies are expected to remain more robust in the face of broader dollar strength. While still expected to weaken against the dollar in the medium term, the scope of currency depreciation should be more nuanced due to broader export bases, and their positions as oil-importers.

Monetary policy responses to exchange rate risks have generally been biased toward tightening. Faced with mounting pressure on fiscal and external positions, which increases the costs of maintaining currency stability, monetary regulators have generally opted to tighten monetary policy, be it via increased sterilised open market operations and higher incidence of dollar auctions (Kenya), more conservative liquidity requirements (Zambia) or change in exchange rate regime (Nigeria).

Currency Forecast, LCU/$						
Country	2012E	2013E	2014E	2015F	2016F	2017F
Angola	95.47	96.20	98.14	114.84	123.25	128.67
Egypt	6.07	6.87	7.08	7.68	8.07	8.39
Ethiopia	17.70	18.63	19.53	20.50	21.54	22.80
Ghana	1.85	2.07	3.07	3.65	4.15	4.48
Kenya	84.53	86.12	87.85	91.95	94.71	97.55
Morocco	8.63	8.40	8.40	9.34	9.26	9.18
Nigeria	157.50	159.07	165.08	209.00	217.00	224.00
Zambia	5.15	5.40	6.16	7.10	7.30	7.00
Sources: NKC Research						

Nigeria

The case of Nigeria, and the monetary authority's 'solution' to mounting exchange rate pressure, is particularly interesting. After a de facto devaluation of the Naira peg (which amounted to a 18% devaluation of the mid-point rate) in February 2015, the policy committee elected to scrap the dual exchange rate regime (interbank and official window) and announced the commencement of an order-based system, where only "eligible" forex orders will be met by the central bank. By a central bank circular issued in June 2015, 41 items (now listed as "Not Valid for Forex") have been excluded from the foreign exchange market and cannot be funded via interbank, export proceeds and bureau de change sources. As a result, liquidity conditions on the interbank market have deteriorated significantly, with numerous commercial banks complaining that orders have not been filled. FCMB Group Plc singled out hard currency liquidity restrictions as the largest risk factor to Nigerian banks, which are starved of liquidity. The absence of market-clearance on the interbank market has buoyed parallel market activity. Under the strict assumption that the monetary authority views the order-based system as a temporary measure, and that gradual liberalisation of artificial liquidity conditions will ensue in due time (which implies a further devaluation in 2015), pressure will be on the central bank to firm the monetary policy stance to lessen the transitory effects of a weaker local unit on the real economy. This implies furthermore that the monetary regulator will need to utilise more broad-based policy tools to limit pass-through to the real economy, and could include interest rate and cash reserve requirement adjustments. This implies high risk of a slowdown in Nigerian consumers' aggregate demand for lower-division luxury goods due to income effects.

The Changing Landscape Of The African Wealth Picture

Global Wealth Distribution

Notwithstanding macroeconomic headwinds and geopolitical tension, the growth in the ultra-wealthy remains robust. According to The Wealth Report, the global population of ultra-high net worth individuals (UHNWI) rose by 3% in 2014, while 53 new dollar billionaires were created. According to the report, this trend is set to continue, with UHNWI forecast to increase by 34% – to just below 231,000 – in the next decade. With regard to the elusive (and highly exclusive) 1%, Credit Suisse data indicates that global wealth is increasingly concentrated amongst a small group. The wealthy elite – the 1% club – owned 48% of global wealth in 2014. According to Oxfam, the richest 80 people had a combined net wealth of US$1.3trn in 2010 – a figure that jumps to US$1.9trn (or a nominal increase of 50%) by 2014. According to Oxfam calculations, the wealthiest 92 people in the world had the same wealth as the bottom half of the world's population in 2013.

The Wealth Report points toward strong growth in Africa's high net worth (HNW) segment, with the continent's ultra-wealthy population forecast to expand by 59% over the next decade. African countries account for four of the top 15 countries that have reported more than 5% growth in their UHNWI population in 2014. Zambia took the top honours amongst African countries, and second globally after Monaco, with a growth rate of 7% in its UHNWI population. Namibia, with a growth rate of 6% in UHNWI, ranked a respectable fourth globally, and second in Africa, while Nigeria and Uganda, recording 5% growth in their UHNWI populations each, rounded out the global top 15 just ahead of Myanmar.

Turning the focus to HNWI population and investable wealth growth on a regional basis, it is clear that Africa still significantly lags behind the more advanced regions. However, The Wealth Report singles out Ivory Coast and Nigeria as "places to watch" with regard to growth in UHNWI populations. Specifically, Ivory Coast is forecast to see its ultra-wealthy population expand by a staggering 119% over the next decade, outpacing growth in UHNWI in Nigeria at a forecast 90% over the same period. According to Standard Bank, the African continent "has the highest potential for growth at the moment", aided by reforms and a still-robust growth outlook.

Millionaire Population					
Region	**2004**	**2013**	**2014E**	**2024F**	**% Change, 2014 - 2024**
Africa	76,385	164,000	168,815	257,519	53%
Asia	2,718,770	4,933,277	5,094,277	7,373,427	45%
Australasia	144,252	350,500	357,006	440,015	23%
Europe	3,714,948	5,015,797	5,152,132	6,298,363	22%
Russia/CIS	47,714	195,226	197,625	293,390	48%
Latin America	240,017	580,700	593,560	866,146	46%
Middle East	204,944	426,100	438,583	605,438	38%
North America	4,370,348	5,653,100	5,806,833	7,128,478	23%
World	11,517,376	17,318,700	17,808,831	23,262,776	31%

Source: The Wealth Report

Geographical Distribution of Purchasing Power in Africa

Notwithstanding a generally weak position in the global wealth environment on an absolute basis, positive base effects and a changing economic structure have given rise to a new crop of African HNWI, which should be considered in determining the geographical spread of luxury good outlets. According to WealthInsight, the more mature markets continue to account for the largest concentration of the ultra-wealthy in Africa. Firmly in the lead is Africa's most sophisticated economy, South Africa, which boasts two of the top five cities as ranked by UHNWI location. Shrugging off macroeconomic and political headwinds is Egypt, with Cairo remaining a strong force to be reckoned with. In turn, West African powerhouse Nigeria, which surpassed South Africa as the continent's largest economy as measured by GDP, counts three cities amongst Africa's primary locations for UHNWI populations, with Lagos, Abuja and Kano making the list. Interestingly enough Ethiopia features on the list, with Addis Ababa clinching a spot amongst the top 10. Frank Knight has identified Addis Ababa as one of the four "Cities of the Future" due to the wealth creation opportunities presented by the city. In addition to the political importance and strong growth in urbanisation, Addis Ababa has reported a near-doubling of its UHNWI population within the scope of five years, and is expected to boast 2,600 UHNWI by 2024.

Locations of Africa's Ultra High Net Worth Individuals

Rank	Country	City	Estimated Quantity of UHNWI*
1	South Africa	Johannesburg	298
2	Egypt	Cairo	150
3	Nigeria	Lagos	131
4	South Africa	Cape Town	115
5	Kenya	Nairobi	69
6	Tanzania	Dar es Salaam	36
7	Nigeria	Abuja	23
8	Ethiopia	Addis Ababa	21
9	Morocco	Marrakesh	15
10	Nigeria	Kano	10

Sources: WealthInsight, CNN
**UHNWI are those whose net assets, excluding primary residence, exceed US$30m*

Spending patterns are determined by disposable income per capita, in addition to variables such as personal tastes, culture, and idiosyncratic preferences. A strong positive relationship between income per person and consumption per capita for various goods allows for a mapping of a generalised spending pattern across the income spectrum. At the lowest income bracket, there is very little money (if anything) left to spend after basic needs have been met. Therefore, at the bottom of the income bracket, consumption is mainly on food, much of which has been produced on a small plot of land rather than purchased. Any excess production is typically bartered or sold in order to pay for other necessities such as clothing and shelter. As soon as people start producing more than they consume, funds become available to spend on more than just the basics. The US$1,000 income level has been identified as an important barrier that if reached, allows for an expansion in the amount and type of consumer products that can be afforded. The accompanying table depicts the growth in wealth for selected African countries. Growth in GDP per capita accelerated substantially over the 2007-13 period (which stands in juxtaposition to the global picture), driven by base effects, strong foreign direct investment and fiscal spending, trade partnerships with high-growth countries such as China and India and an improvement in the political and sovereign credit environment.

GDP per Capita, 2014E			
Country	**GDP p.c.**	**Country**	**GDP p.c.**
Algeria	$5,454	Mozambique	$646
Angola	$6,680	Namibia	$5,730
Botswana	$7,412	Nigeria	$3,061
Egypt	$3,666	Rwanda	$628
Ethiopia	$489	South Africa	$6,459
Ghana	$1,361	Tanzania	$954
Kenya	$1,328	Uganda	$668
Mauritius	$10,204	Zambia	$1,717
Morocco	$3,196	Zimbabwe	$1,080

Sources: NKC Research

Global Luxury

The US remains the largest global consumer of luxury goods, surpassing China, France, Italy and Japan, according to Euromonitor. The economic consultancy states that, in addition to being the largest global consumer of luxury goods, the US also claims the highest population of high income potential consumers, stating that more than 21.3 million people recorded a gross annual income in excess of US$150,000 in 2014. This places the US firmly ahead of high income populations in Asia and Europe – in China, 2.9 million people earned the equivalent of at least US$150,000 in 2014, still outpacing Japan and Germany (2.5 million each) and France and the United Kingdom (1.9 million each).

Despite a large global high-income population, the luxury goods segment faces short-term challenges. According to Digital Luxury Group, the luxury goods market has entered a weaker growth cycle. The group expects that 2015 will be "another challenging year" for the luxury goods segment. The Digital Luxury Group stated that economic instability, conflict and social unrest will "drive up the strategic importance of developed markets". The group predicted that 2015 will see a "pendulum shift" from emerging to developed markets as the latter suffers from broader currency weakness, economic slowdown and social unrest. According to a KeyBanc study, global economic fragility, broader dollar strength and geopolitical tension are contributing greatly to a slowdown in non-US luxury goods consumption. KeyBanc stated that the macroeconomic headwinds faced by the traditional strong luxury goods markets – China, Russia, Japan and Europe – will pose challenges to the high-end consumer in these markets. This view is also held by Janney Capital, which warned against "intensifying global headwinds" for luxury good brands. In addition, political impediments and tax policies have impacted luxury goods consumption. Specifically, a crackdown on "gift giving" in China has impacted the luxury goods segment particularly hard, with losses to high-end brands estimated at 40% - 50% in foregone sales.

In turn, the Digital Luxury Group stated that luxury goods demand was adversely affected by geopolitical conflicts in regions such as the Middle East, Ukraine, Russia and protests in Hong Kong. In Russia, which in recent years held the position as one of the leading luxury goods buyers after China, low consumer confidence, weakening access to credit and local currency weakness culminated in a 18% decline in luxury good spending in 2014 (at current exchange rates).

Euromonitor forecasts that luxury goods sales growth could slow to 3.5% in 2015 to US$351bn. Euromonitor is however more upbeat about luxury goods consumption in the Middle East and Africa, and predicts that growth in these regions could reach 5.6% in 2015. In turn, the Digital Luxury Group identified the US as the "biggest growth market in absolute terms," and predicts that growth in luxury goods spending in the US will equate to US$4bn in 2015. The group expects the bulk of the growth to emanate from mid-market designer apparel, luxury accessories and jewellery. In turn, the group forecast that India will return the highest growth in percentage terms in 2015, driven by rising prosperity. While expressing some concerns about the pace of luxury goods growth in Hong Kong, Digital Luxury Group predicts that China "will have its best year since 2012", and forecast double-digit growth in luxury demand. The group expects that social unrest in Hong Kong will drive up luxury goods spending in mainland China.

Rise of social media

The advent of the digital age has brought about a fundamental shift in luxury goods consumption, easing comparison shopping. Hand-in-hand with a rise in e-commerce is the growing importance of social media in the luxury goods experience. With the aid of the latter, luxury goods brands broadened their platform with regard to communicating brand heritage, coining new brand ambassadors and mobilising users to market brands to their social networks. Social media platform Instagram was pivotal to broadening brands' marketing strategies. According to Nitrogram, which ranks brands on Instagram by popularity, Michael Kors – which ran the first company-sponsored advertisement on Instagram in 2013 – saw a staggering increase in followers after the sponsored post. Nitrogram estimates that the impact of the sponsored post has led to a 16-fold increase in followers, in comparison to a non-sponsored post. The Digital Luxury Group forecasts that "the e-commerce functionality of social media platforms such as Twitter and Facebook will become much higher profile." The group predicts an increase in luxury brands' investment in digital technology, encompassing the use of virtual stores to the live-streaming of fashion shows.

On the African continent, the rapid increase in internet usage over the past decade reflects the vast potential that exists in online African retail. The advent of smart mobile phones and access to the internet, as the African telecommunications sector leapt forward in leaps and bounds, allows easy access, while the availability of mobile payment options significantly reduces operating and opportunity costs.

Affordable Accessories

Luxury goods with affordable price entry points – leather accessories, designer sunglasses and cosmetics – are expected to post robust growth in 2015 owing to a broad consumer base. Euromonitor expects that growth in accessories sales will reach 5.4% in 2015 and account for 17% of the luxury goods market. In turn, jewellery and watches – which account for an estimated 16% of total luxury sales – are forecast to post growth of 3.7% in 2015. This compares to a more modest forecast for higher-priced apparel, which Euromonitor expects to grow at 2.8% in 2015. The Digital Luxury Group predicts that luxury electronic gadgets will be the luxury goods industry's fast-growing category, driven by aspirational consumers' appetite for smart phones. This is expected to hold even in markets where consumers face a decline in disposable income, with the group predicting that these consumers will opt to substitute other luxury products for luxury electronic devices. The introduction of the Apple smart watch was a "seminal event", according to The Dilenschneider Group, and represents a merger between technology (which traditionally has a short product lifetime) and fine watches (long lifecycle). NextMarket Insights predicts that the smart watch category will reach 373 million units by 2020, from 3.2 million units in 2013. The Swatch group planned to launch its debut smart watch in May 2015. Africa promises strong growth potential with the affordable luxury goods segment, and technological devices in particular. The East African region, on the back of an expected rise in disposable income, holds significant growth potential.

Urbanisation

Unsurprisingly, luxury growth is highly concentrated in cities. As such, mature cities will remain critical, given their absolute size. This implies that increasing market share in Western megalopolises should remain high on the priority list for luxury brands. In Africa, there has been a broad trend towards urbanisation, which is expected to support growth in the luxury goods market over the medium to long term. This could see luxury spending in cities such as Accra, Lagos, Addis Ababa, Nairobi, Luanda, Abuja, Lusaka, Kampala, in addition to traditional strongholds of Cape Town and Johannesburg accelerate in coming years as the pace of urbanisation increases and consumers' spending power escalates.

Infrastructure

A lack of infrastructure remains a key impediment in Africa. Notwithstanding an increased focus on infrastructural development since the turn of the century, the shortfall in road, rail and freight infrastructure on the continent remains significant. As a region, SSA has the worst electricity supply in the world, with weak power generation infrastructure resulting in frequent power outages and high business costs. While the vast potential that exists and high returns to be generated from infrastructural development will likely continue to attract private sector interest, expected demand continues to outpace development. Subsequently, the high baseline costs and barriers to entry posed by weak power and road infrastructure may impede the entry of luxury brands into the African market. Furthermore, weak road infrastructure naturally lends itself to specific products, such as demand for sturdy off-road vehicles, while constraining the use of luxury supercars to only the most developed regions.

The Global Consumer

The rise in consumers' disposable income rung in an era of increased foreign travel. Wealthy Africans prefer to spend on luxury goods outside of Africa, showing preference for locations such as London. According to CNBC Africa, wealthy Africans show preference for retail stores such as London's Harvey Nichols, Harrods and Selfridges. Premier Tax Free stated that Nigerians account for approximately 46% of total sales by Africans in London.

Luxury Accommodation

In recent years, Hilton Worldwide, Protea Hospitality Group, Rezidor Hotel Group and Minor Hotel Group (MHG) announced expansion into Africa with the development of luxury resorts and hotels. According to New World Wealth, South Africa remains the most popular destination in Africa for ultra-wealthy consumers, which, according to its database, hosted more than 12,000 multi-millionaires in 2014. According to the New World Wealth, primary destinations in South Africa include the cities of Cape Town, Johannesburg, Umhlanga, Franschhoek and Stellenbosch, while the Kruger National Park and the Garden Route were primary drawcards to the ultra-wealthy as well. Further north within Africa, the consultancy noted that the ultra-wealthy preferred the cities of Marrakech and Casablanca in Morocco, Cairo and Sharm El Sheikh in Egypt, the Masai Mara region and Nairobi in Kenya, the Serengeti in Tanzania, the city of Livingstone in Zambia and the Okavango Swamps in Botswana. The group further noted that gorilla safaris in the Virunga Mountains in Uganda are a popular luxury hospitality destination among the ultra-wealthy.

Top-rated hotels and lodges in Africa

Rank	Hotel	Location
1	La Mamounia	Marrakech, Morocco
2	Ngorongoro Crater Lodge (& Beyond)*	Ngorongoro, Tanzania
3	Royal Mansour*	Marrakech, Morocco
4	12 Apostles Hotel & Spa*	Cape Town, South Africa
5	Hemingways*	Nairobi, Kenya
6	The Oyster Box*	Umhlanga, South Africa
7	Royal Livingstone*	Livingstone, Zambia
8	Lost City and Sun City	North West, South Africa
9	Four Seasons*	Sharm El Sheikh, Egypt
10	Cape Grace*	Cape Town, South Africa

Source: New World Wealth
**According to New World Wealth, these destinations recorded 200 or more multi-millionaire visitors in the year to June 2014*

Conclusion

On aggregate, the African luxury goods sector remains in the gestational period, and accounts for a mere fraction of the global demand for luxury goods and services. However, the continent holds significant potential for the luxury goods segment on the back of a high demographic dividend and rising per capita GDP levels. The median African consumer tends to be brand loyal, which provides the first mover with substantial growth potential. Luxury goods brands can, by establishing brand loyalty at an early stage, benefit from the evolution of the African consumer, especially in moving up the value chain.

Emerging luxury goods expansion into Nigeria, Angola and Kenya is poised to rival the traditional luxury goods strongholds of Egypt and Morocco in the medium to long term. Macroeconomic headwinds to the West African region in particular, by way of an erosion of real purchasing power and tighter credit conditions, could however impede demand for luxury goods at the lower end of the spectrum due to income effects. Conspicuous consumption needs could however incentivise lower-income luxury goods consumers to substitute lesser-valued products for high-value products, such as luxury technological devices. Luxury goods brands seeking to expand into Africa should furthermore be highly cognisant of product and consumer differentiation, especially differences in consumer preferences embedded in cultural and religious grounds. Correctly estimating the maturity phase of the target country is pivotal to commercial success, as different product categories see peak demand at different moments of the maturity cycle, ranging typically from the lowest to highest price points. Gender differentiation is a key factor to consider: male income continues to outpace their female counterparts' earnings trajectory, which presents opportunities in the technology, apparel and wine & spirits categories.

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