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How Nordic Consumer Product Companies and Retailers can take advantage of the rising demand in Africa

1 The Lagging Nordic investments in Africa and the Prospects of Africa

Most Nordic consumer product companies are regional in their internationalization patterns. A significant share of their direct investments is concentrated within the Nordic Region, Baltics and Russia and lately in the new EU-accession economies of Central and Eastern Europe. However, growth in all these regions is slow. As the forecast and investment climate for consumer product companies and retailing in their traditional markets seem extremely challenging, these Nordic firms can turn to Africa to seek for new growth opportunities.

Africa is the second fastest growing region in the world behind Asia, and its population is currently 1 billion. According to the World Bank (2014), GDP growth in sub-Saharan Africa has doubled and currently stands at an annual average of 4.5%. Total GDP is estimated to reach US\$ 2.6 trillion in 2020. Foreign direct investments to Sub-Sahara Africa has hit a record \$60 billion (World Bank 2014). Africa is estimated to become the second-largest market for European consumer products in the coming years. More so, consumer products and retail have been within the first two top investment sectors in Africa since 2013, yet the Nordic share of these investments is very minimal and mostly focused on exports of goods and services. Although there are positive trends in the overall Nordic FDI's investments and exports to Africa, they are lagging behind in the comparative table of global direct investments and exports to Africa.

With the increasing consumer market in Africa the continent is showing great promise as the new frontier for consumer product companies seeking for growth and profitability. This is especially important for Nordic companies as the Nordic consumer products markets becomes more saturated and competition intensifies. Competition for Nordic consumer products and retailers is intensifying in their home market for several reasons. These include: increasing imports of cheaper substitutes due to open markets; the open EU market which enables free competition from other EU producers; and the influx of foreign retail chains who are globalizing to take market share and achieve economies of scale. Therefore, Nordic companies should enter African markets to build market share.

There is no need to be skeptical about entering the African market because of the experiences of China. There is an important difference between the economic growth of Africa and that of China. For example, African countries do not have strong local import substitution industries and, thus, will continue to import most of their consumer goods, particularly consumer durables like home durables, cars, building products, health and hygiene products. As a result, lessons from China should not be a hindrance for Nordic retailers in Africa.

2 African is up for Grabs: Competition intensifies in Nordic Consumer Product Business



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There is an increasing influx of international discount chains within the Nordic Region and their market shares has been rising over the years. The slow growth of consumers' purchasing power has also increased the price sensitiveness of Nordic consumers and has led to intensified price competition among the industry players giving rise to a recent wave of acquisitions of supermarkets and neighborhood stores by large consumer product companies.

Many of the successful consumer product companies and retailers in the world are currently locating subsidiaries and local production factories in Africa, helping to consolidate the fragmented markets. Walmart, Tesco etc. are expanding their business in Africa. At the same time, South African retailers are moving up-continent and using their knowledge and contacts to establish strong brands all over the continent.

Establishing retail chains entails physical presence in shopping centers, agents, wholesalers and retailers around the country, or dedicated sections of supermarkets. All these require more committed market entry and some presence in terms of sales subsidiary offices. Furthermore, outsourcing and local production should not be ruled out. The traditional advantages of outsourcing and local production – price competition, local linkages, and local raw materials are applicable to Africa as they have been in Asia.

African consumer markets are still up for grabs, as international retailers are slowly entering the market. It would be a good strategy to get ahead of the pack and establish first-mover advantages.

3 The potential of Nordic consumer products in Africa

While Nordic companies are generally stronger in business-to-business products, projects and services, there are a good number of consumer products where they are potentially competitive in Africa due to their quality and unique products. What is required for them to enter and dominate the markets for those goods is the right mix of marketing and branding strategies.

3.1 Food and groceries

The unique Nordic climate gives Nordic farming advantages in producing temperate cereals that are inputs for popular foods in Africa. Such cereals are slowly building market share on supermarket shelves. Further development of these products through branding and adaptation will increase market share. The consumption of meat, milk and dairy products will continue to expand with the fast growth of Africa's population. Nordic countries as EU members, have all the advantages of the EU-Africa trade agreements and the lack of barriers for EU farm produce to Africa.



3.2 Forestry-based products

The Nordic forestry industry is very competitive in wood and paper related products. The demand for these products will continue to rise in Africa. Very few African countries have a sustainable local wood industry. Thus wood-based furniture and other products for household furnishing and construction will be in high demand as economies grow and new housing units are being built and habited. The established Nordic competitiveness in softwood furniture, impregnation, embedding and processing will enable Nordic wood-based product companies to compete for African market shares.

3.3 Consumer durables

As the economies grow, the pent-up demand for consumer durables will create large opportunities for Nordic companies. Companies like Fiskars, Elektrolux, Husqvarna etc. can build their brands and establish strong market shares. Just a few years ago, Nokia was the quality standard of mobile phones in Africa. That success story has, unfortunately, ended, but it shows the ability to build a large market share within consumer products.

4 Four takeaways why Nordic Consumer product industries can join the winners wagon in the bid for African market share

4.1 Rising Purchasing Power and Consumer Demand for Quality Products

We have measured consumer sentiments in five sub-Saharan African countries in 2016 (Nigeria, Ghana, Kenya, Namibia and South Africa). Our findings show that consumers are confident about their incomes for the next year except for Nigeria where consumer sentiments seem to be cautious due to concerns about the direction of the economy and weakened exchange rate to the dollar which has increased the price of imported goods and services.

The increasing middle class in these economies has shifted the focus from price to quality as the dominant value of consumer's preference for goods and services. The areas where foreign consumer goods are more preferred are in personal care, paper goods, household durables, canned/jarred goods, fashion & cosmetics, baby items, dry & baking goods (e.g. cereals), electronics & IT applications. African consumers have a preference for local goods in beverages, bread/bakery, dairy, meat & produce. In the areas of produce like fruits and vegetables, there is a growing demand for foreign quality produce as some local produce have quality issues.

Traditional shopping methods like informal small shops are gradually replaced by supermarkets and shopping malls setting the stage for retail market consolidation and what we see as the next



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wave of acquisitions in Africa in the next 10 years. Nordic countries have some strong brands in the consumer industry, and we at Foresight Consulting believe that Nordic consumer products companies have strong potentials to succeed in Africa.

4.2 China is no more a cheap manufacturing location and even Chinese manufacturers are establishing outsourcing locations in Africa

The rise in production costs in Asia has made manufacturers to begin to look at countries such as Ethiopia, Kenya and Rwanda as their next manufacturing destination. As at 2015, China has the largest foreign direct investments in Africa's manufacturing sector. The cheap labor in Africa combined with their quest for Africa's natural resources has increased their direct investments to this region. Nordic firms cannot continue to play the "wait and see game" while the Chinese companies are currently acquiring strategic knowledge-based firms in the West to improve their knowledge assets to compete against the 'Western firms. If they have both lower cost and quality manufacturing at the same time, they will hinder Nordic firms from gaining a significant market share in the bid for Africa as huge chunk of the African consumers are both price sensitive and brand conscious. Therefore, outsourcing to Africa or establishing production there would be part of a global competitive strategy for Nordic firms.

4.3 See challenges in entering Africa as opportunities rather than hindrance

While several consultants, governments, world organizations, and businesses are promoting the opportunities in Africa, we at Foresight Consulting will not belittle the challenges in entering the Africa market. The level of under-development of supply chains and logistics infrastructure, currency volatility, trade barriers, and weak institutions are among the challenges of doing business in Africa from our survey of 66 Nordic CEOs in consumer product companies. While urbanization is increasing at an average pace of 3-4% faster than any region of the world, infrastructural underdevelopment even in these highly urbanized cities makes it challenging to develop efficient supply chains. Issues remain with customs clearance, delays and bureaucracies in the process of importation of goods into these countries. Currently, weak exchange rates, control of foreign exchange and capital flows as well as corruption and fraud are most concerns of these CEO's.

These challenges mean that firms entering this market must find innovative approaches to entering and alternative strategies to avoid corruption, and ensure transparency. Nordic companies must decide where to enter, which entry strategy to utilize, where to focus, what new innovative approaches/models can be used to develop efficient supply chains, new methods and media to reach consumers effectively, where and how to recruit talents and a right mix of marketing and branding strategies. Notably, most successful innovative companies in Africa have developed new localized approaches and platforms to reach consumers. For example, M-PESA in Kenya, Konga & PrepClass in Nigeria, Jumia in Morocco, Egypt, and Nigeria.



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In spite of these teething problems, companies are still investing heavily because they have found alternative strategies to mitigate these problems. Above all they believe that the opportunities outweigh the problems. These suggest that seeing these challenges as an opportunity for innovation and positive ROI is a more thoughtful approach to harnessing the untapped business opportunities in Africa.

4.4 Doing Business in Africa is getting easier than as perceived by Nordic firms

According to the World bank, five African countries were among the top ten improvers globally in the 2015 Doing Business rankings for 2013/14. Overall, Sub Saharan Africa accounted for about 30% of the regulatory reforms making it easier to do business in 2014/15, followed closely by Europe and Central Asia.

Regulatory reforms and improvement of the business climate is a top priority of most African Governments. Countries like Rwanda, and Ivory Coast that were considered hopeless conflict countries have rebounded and improved their business climates considerably. They have shown the willingness and ability of African countries to create good environments for business.

Corruption and poor infrastructure are still problems. African countries are improving on both of these. Their efforts require the support of the rest of the world to succeed. As African countries are seen as improving governance and the business climate, rich Western countries are supporting infrastructure growth. Reducing corruption requires both local legislation, strengthening of institutions, as well as the commitment of foreign companies to do clean business. The business climate is a dynamic issue that Nordic companies will have to follow through a system of competitive intelligence. We have strong capabilities in this area.

How Foresight Consulting can support Nordic companies to target African markets

Understanding African Consumer Markets: Consumer marketing is by nature more multi-faceted and challenging than business marketing. Consumers are a broad and complex group, besides the fact that there are always more competitors for consumer products. Africa's consumer markets will expand but continue to be complex and challenging. Apart from the largest markets like Nigeria and South Africa, single country markets may not be adequate in size to demand the full attention of some companies. Companies should develop strategies that give them synergies across several countries or within regions.

Therefore, succeeding in consumer marketing in Africa requires in-depth knowledge of not just consumer segments in single countries but a synergistic regional approach. Also, Nordic companies seeking to invest in Africa need a long term strategy and require a presence in Africa that provides them both local market and institutional knowledge, which are necessary for successful product/service innovation. At Foresight Consulting, we have:



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- ❖ Strong knowledge of consumer marketing strategies in Africa
- ❖ Strong knowledge of African consumers and national markets
- ❖ Strong knowledge of regional markets and regional developments that allow us to help companies to develop synergies for success across several countries
- ❖ Strong knowledge of the advantages and disadvantages of different international market entry modes that enable us to advise companies on the best strategic entry modes and processes.

Specifically, we can do the following:

- ❖ Analyze many countries and advise you which are the best potentials for your products
- ❖ Analyze and segment the market. This means that we will classify the segments for your product and help you to choose the best ones
- ❖ Assist you to position your product, i.e. to develop successful marketing strategies to succeed;
- ❖ Advise you about regional developments, for example, the evolution of regional economic unions, and help you to position your products across the region.