



Fast- Moving Consumer Goods

Sector Report

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OVERVIEW

The fast-moving consumer goods (FMCG) sector represents one of the largest industries worldwide. Also labelled the consumer packaged goods (CPG) sector, it is mainly characterised by companies that supply low-cost products that are in constant high demand. Products that are classified under the FMCG banner include food, beverages, personal hygiene and household cleaning utensils. The term “fast-moving” stems from the fact that FMCG products usually have a short shelf life and are non-durable.

From a retailing perspective, FMCG is often cited as a low margin – high volume game. Seeing as profit margins are usually rather slim, firms operating in the FMCG sector mostly employ a strategy focused on driving top line sales. 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. That said, managing input costs also remain vitally important, as small margin gains still have a significant impact on the bottom line

due to the large volumes. 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. Well known FMCG multinationals include Coca-Cola, Unilever, Procter & Gamble and Johnson & Johnson.

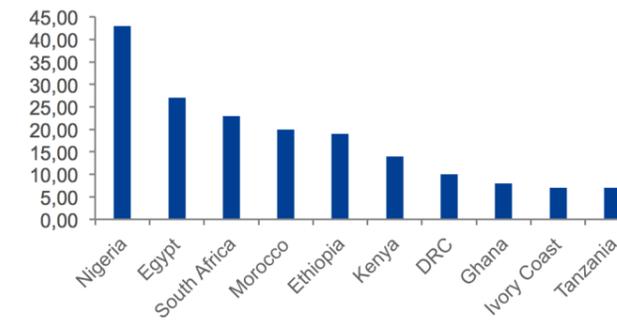
The FMCG sector in Africa has significant scope to expand. Poverty levels in especially sub-Saharan Africa (SSA) are still quite high, with food and other necessities dominating consumer budgets. For this reason, the food sub-sector of FMCG has a very large market to cater for, while penetration rates in the other categories still have significant room to expand. In this report, we first explore the size of the FMCG market in Africa in addition to the main drivers of growth in the sector. We subsequently turn our focus to the African consumer and highlight certain traits and spending patterns applicable specifically to the FMCG market. The report also considers key strategies for FMCG retail success in Africa and concludes by identifying FMCG growth spots on the continent.



THE FMCG MARKET

Market Size

Population by region (Billions)



According to the World Bank’s Global Consumption Database, total household expenditure on FMCG goods reached almost US\$240bn in 2010 for a sample of 39 African countries. Household FMCG expenditure was highest in Nigeria (US\$41.7bn), followed by Egypt (US\$27.6bn), South Africa (US\$23bn), Morocco (US\$20.1bn) and Ethiopia (US\$19.2bn). Other countries with fairly large FMCG markets in an African context include Kenya, DRC, Ghana, Ivory Coast and Tanzania.

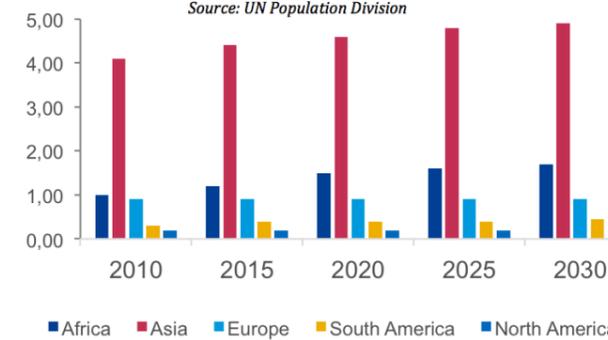
FMCG retailers generally operate in a low-margin environment. As a result, the existence of a large market is crucial to the success of these companies. Here, a large market refers to a region with a large population with adequate spending power. Fortunately, FMCG products

usually enter consumer markets at low price points and as a result, spending power has to be fairly low for the majority of FMCG product categories to be adjudged as being unaffordable. That said, income levels will impact the frequency of household FMCG purchases as well as influence purchasing decisions in relation to the trade-off between cost and quality.

The United Nations (UN) Population Division estimates that the African population reached 1.16 billion in 2014. Although significantly smaller than that of Asia, the size of Africa’s population is larger than any other continent. Furthermore, Africa’s population is forecast to expand rapidly over the next 15 years. The UN Population Division forecasts Africa’s population will approach 1.68 billion by 2030, more than 60% higher than the figure recorded 20 years earlier. Populations in other regions around the world are forecast to expand at a much slower pace. This bodes well in relation to the potential future growth of consumer markets in Africa. Furthermore, Africa is expected to benefit from the so-called demographic dividend – an increase in the proportion of the working-age population relative to the total population – over the long term. That said, the continent will only secure the full benefit if high unemployment rates among working-age populations are reduced.

Population by region (Billions)

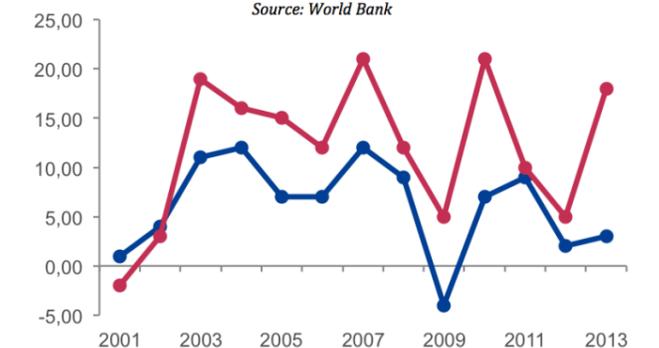
Source: UN Population Division



Africa’s economic performance has improved greatly since the turn of the century, leading to notable gains in GDP per capita and lower levels of poverty. These gains are also evident when considering household consumption spending growth. Annual household spending growth in Africa easily exceeded the corresponding global figure for most years

Household Consumption: Annual Growth (%)

Source: World Bank

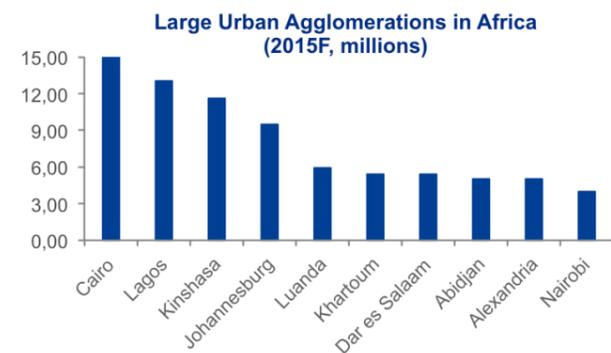


during the 2000-13 period. This again bodes well for African retail in general. The recent sharp decline in global crude oil prices should also have a net positive impact on African disposable income levels, which is again an added benefit. That said, companies operating in the FMCG sector should be mindful of changes in consumption patterns.

Growth Drivers

Besides the size of the population and spending power, other key growth drivers of the FMCG market include population density, infrastructure development, downstream industry effectiveness, economic policy and business legislation. Population density essentially refers to the number of individuals located in close proximity to one another. A large population scattered over a large territory does not represent a particularly appealing prospect from an FMCG perspective. Weak infrastructure, especially in relation to electricity supply and road networks, will also adversely impact on the FMCG sector within a particular country.

Furthermore, a large number of firms operating in the FMCG sector depend on downstream domestic industries such as manufacturing, agro-processing and agriculture to ultimately deliver quality products in high volume to the consumer. Finally, economic policies and legislation in relation to foreign direct investment (FDI), trade barriers, property and labour also represent key determinants of FMCG sector growth. Each of these growth drivers are discussed in more detail below.



Population Density – FMCG retailers need a stable 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 other words, markets with higher urbanisation rates usually offer better FMCG prospects. According to the UN Population Division, there are 53 urban agglomerations in Africa with a population of more than one million. Of these agglomerations, seven house more than five million people. These agglomerations, in order of population size, are Cairo, Lagos, Kinshasa, Johannesburg, Luanda, Khartoum, and Dar es Salaam. Interestingly, as of 2015, Africa has two so-called mega-cities, with population of more than 10 million. Cairo is also the ninth largest agglomeration in the world.

By 2025, the UN expects there to be 84 agglomerations in Africa of at least one million people, of which 17 are forecast to be located in Nigeria. Furthermore, by that time, the UN forecasts that Africa will boast four mega-cities and 12 agglomerations with a population in excess of five million people.

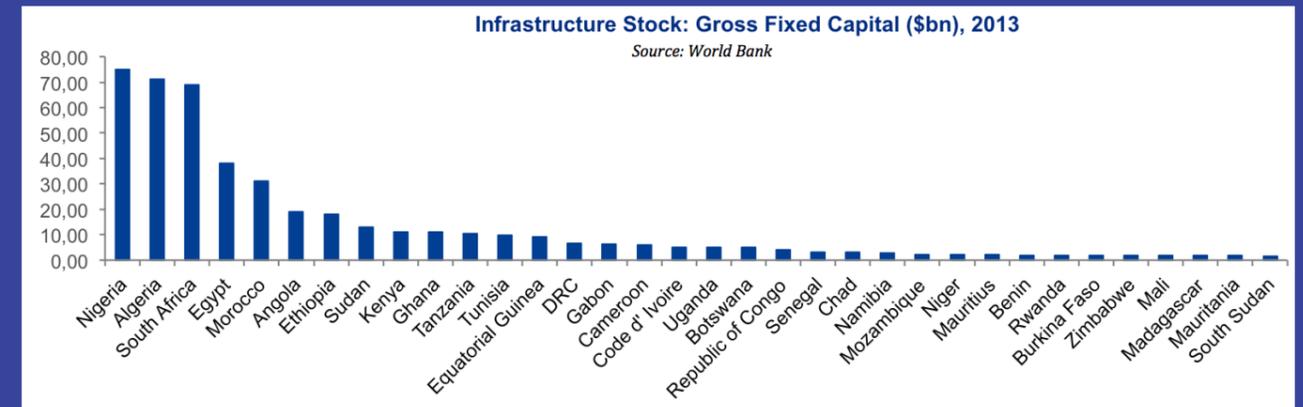
Downstream Industries – Certain FMCG products by nature have very short shelf lives, such as certain foods and dairy products. As a result, it is often necessary for retailers to rely on local supply chains to ensure product wastage is kept to a minimum. That said, downstream industries do not always exhibit the necessary degree of efficiency and flexibility required to keep customers satisfied while simultaneously driving gains on the bottom line. For this reason, many FMCG retailers opt to vertically integrate where possible, be it through buying a stake in a local packaging store or establishing a wholly-owned manufacturing plant in close proximity to the local market. In some cases, the costs associated with establishing an effectively functioning supply chain may outweigh the benefits on the sales side and as a result, multinational firms might decide not to invest despite the market possibly exhibiting adequate FMCG demand potential.

Economic Policies and Legislation – A country’s economic policies, quality of institutions and prevailing legislation hold significant implications for FMCG markets and the business environment in general. For instance, while trade barriers are not necessarily a bad thing, if such regulations simply aim to protect inefficient local producers they can be extremely harmful to the economy. In this case, foreign companies not willing to depend on the unreliable local supply chain will have to pay more to import products. Changes to input costs have major implications especially in the FMCG landscape, where slightly higher prices could result in a loss of market share.

Property and labour laws also impact the business environment. Labour laws and the power of unions have a significant bearing on the productivity, flexibility and cost of labour in a country. An FMCG retailer relying on a local supply chain will thus be directly influenced by these factors. Legislation and incentive schemes pertaining to FDI might also make certain markets more attractive from an investment point of view.

Infrastructure Development – A lack of quality infrastructure remains a key constraint to higher levels of FDI in a number of African countries. Weak infrastructure, especially in relation

to electricity supply and road networks, will also adversely impact on the operations of the FMCG sector within a particular country.



The Infrastructure Consortium of Africa (ICA), for example, believes that 40 billion potential work hours are lost on the continent each year owing to people being unable to open a tap in their homes for water and instead needing to fetch water from another source. From the perspective of land transport, roads account for 80% of goods and 90% of passenger transport on the continent. However, a minority of Africa’s roads are paved, and less than half of rural Africans have access to an all-season road. According to the World

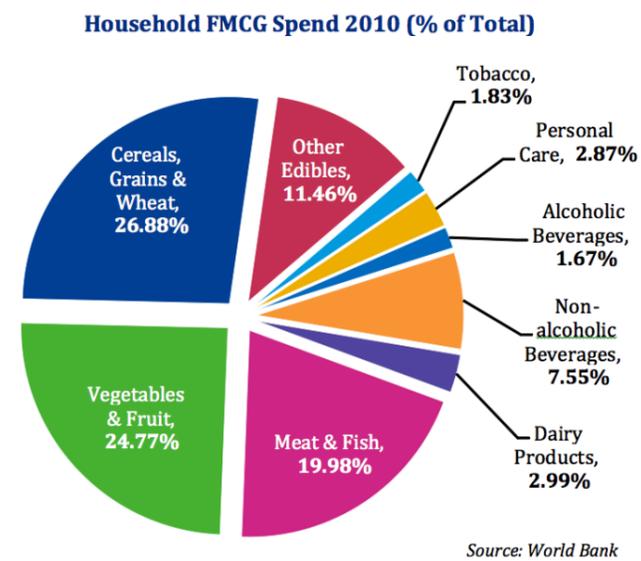
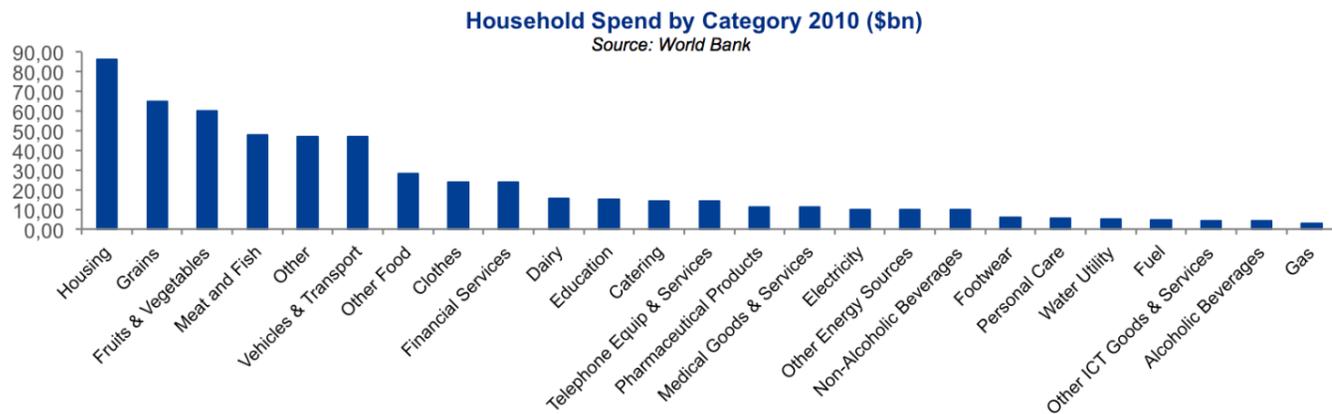
Bank, Nigeria is the country in Africa with the largest amount of infrastructure stock, estimated at US\$75.5bn in 2013. Algeria and South Africa follow closely on Nigeria’s heels, with an estimated capital stock of US\$71bn and US\$68bn in 2013, respectively. However, levels of capital stock decline drastically hereafter. According to the World Bank, only 18 African countries had a capital stock of more than US\$5bn in 2013. This figure drops to 11 countries if the cut-off point is moved higher to US\$10bn.



Consumer Spending Patterns

According to the World Bank's Global Consumption Database, total household expenditure on FMCG goods reached almost US\$240bn in 2010 for a sample of 39 African countries. Seeing as the World Bank's sample include the largest and

most developed countries in Africa for which data is actually available, we deem the spending patterns in these countries to be fairly representative of consumer spending patterns across Africa as a whole.



Considering a breakdown of household consumption expenditure by product category, the World Bank's data suggests that households spend most of their income on housing, which is not surprising given the value of the asset. Total household expenditure on housing reached \$86.5bn in 2010. Interestingly, although some way off the level of spending on housing, the next three largest categories all relate to classic FMCG products. These categories are grains, fruits & vegetables and meat & fish.

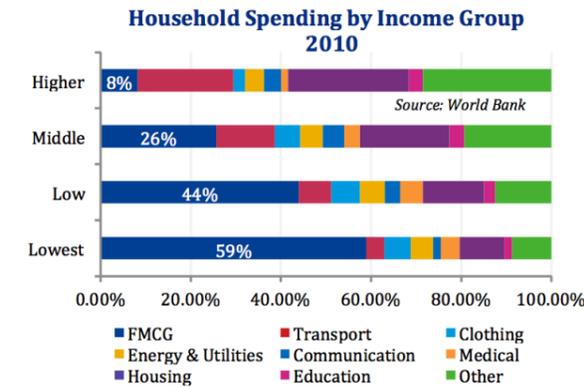
At this point, it is important to highlight why spending on relatively cheap products are so high. While only middle- to higher-income households can afford to purchase or even rent a proper house, the fact that it is so expensive pushes the total household spending figure higher. In contrast, total household spending on the FMCG categories highlighted above is high due to the fact that the vast majority of the population can afford to purchase these items in some shape or form on a frequent basis. Some of the other main household spending categories included vehicle & transport equipment, clothes and financial services.

When only considering products that are classically considered to fall under the FMCG banner, the World Bank's data suggests that cereals, grains and wheat represented the largest share of household spending on FMCG products. Household expenditure on cereals, grains and wheat reached US\$64.5bn in 2010. This category was closely followed by vegetables & fruit (US\$59.4bn) and meat & fish (US\$47.9bn).

Together, edibles accounted for roughly 86.1% of total household expenditure on FMCG goods in 2010. In nominal value terms, household spending on edibles reached US\$206.4bn in that year. Beverages accounted for a much smaller share of total household spending on FMCG goods, or 9.21% to be more precise. In nominal value terms, household spending on beverages reached US\$22.1bn in 2010, with \$18.1bn of this being spent on non-alcoholic beverages. Dairy (3%), personal care (2.9%) and tobacco (1.8%) represented fairly small shares of household expenditure on FMCG goods in 2010.

THE FMCG CONSUMER

FMCG Spending in Africa



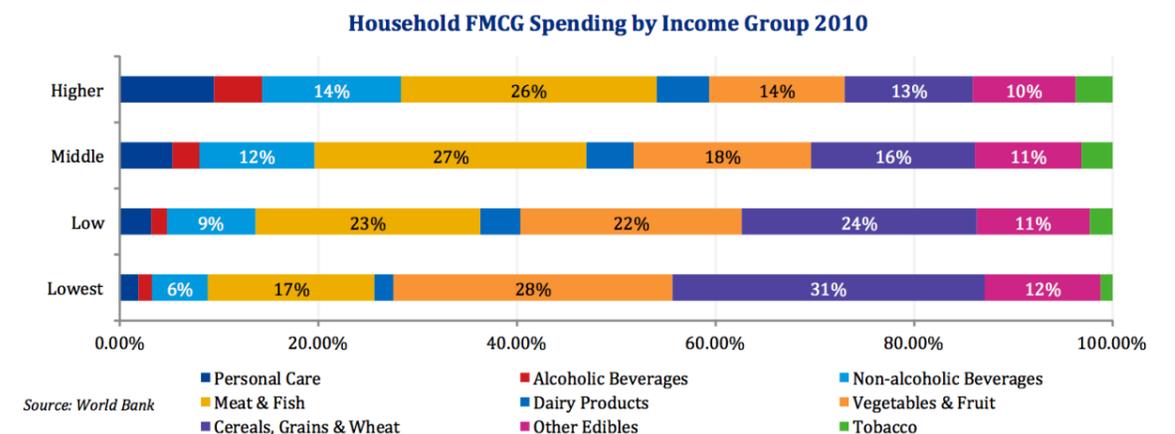
Since FMCG retailers generally sell products that can be classified as necessities, income per person is a less important consideration than for retailers of luxury or durable products. The trend in income levels is however still important in order to establish what types of FMCG products can be offered 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. This section aims to briefly describe consumer spending patterns by level of income. The most recent data available in this regard relates to the World Bank's Global Consumption Database. The multilateral organisation distinguishes between four household consumption segments. The segments are classified according to income thresholds, as follows:

- Lowest – below US\$2.97 per capita a day
- Low – between US\$2.97 and US\$8.44 per capita a day
- Middle – between US\$8.44 and US\$23.03 per capita a day
- Higher – above US\$23.03 per capita a day

Considering households classified as falling under the lowest income group, it is immediately evident that spending on FMCG goods accounted for the vast majority of household spending

in 2010, or 59% to be more precise. Spending on housing represented a further 10% of household expenditure. Households in this group spend comparatively less on transport and communication. Spending by households classified as belonging to the low income group is also dominated by FMCG products, which accounted for 44% of total household spend in 2010. Households in this group spend slightly more on communication and significantly more on transport and housing. Turning to the middle income group, FMCG goods only represented 26% of total household expenditure in 2010, while transport and housing again enjoyed the largest gains in spending. The same trend is visible when considering households in the higher income group. In this case, spending on housing (27%) enjoyed the largest share of household expenditure in 2010, followed by spending on transport (21%). For this group, FMCG products only represented roughly 8% of total household expenditure in 2010.

When focusing exclusively on FMCG products, it is immediately evident that for poorer households the main food items represent larger shares of total expenditure. Considering the lower income group first, cereals, grains and wheat accounted for 31% of total household spending in 2010. In fact, when adding meat & fish and vegetables & fruit, this figure increases to 76%. Households in this group spend very little on dairy, alcoholic beverages, tobacco and personal care. However, as one moves higher up on the income ladder, it becomes evident that more was spent on these product categories, predominantly on account of the fact that individuals can consume only so much food and higher income households thus have funds left to spend on "non-essential" FMCG products. Interestingly, this trend does not seem to apply to the meat & fish product group, seeing as higher income households spend proportionately more on this product than lower income households. This can be ascribed to the fact that higher income households can more easily afford to make meat & fish a larger part of their daily diet, and as such consume less grains and vegetables.



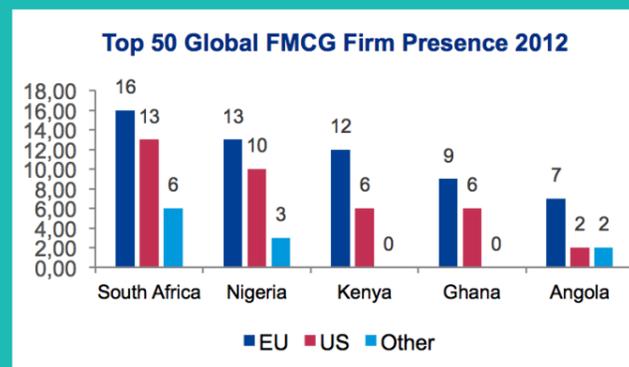
The FMCG Retailer

In a report published in 2013, OC&C examines why SSA represents an attractive market from an FMCG point of view while also evaluating the performance of its FMCG clients that are active on the sub-continent. The strategy consulting firm highlights the need for FMCG retailers to “get in early” and notes that multinational retailers that do not already have a presence in SSA has already been left behind.

In relation to why the sub-continent is said to represent a lucrative FMCG market, OC&C notes that SSA has a large population which is growing faster than anywhere else in the world. Furthermore, the rate of urbanisation is increasing. OC&C estimates that by 2050, 60% of the SSA population will be living in urban areas, “enabling access to urban resources

and consumer products that don’t readily find their way outside cities.” Another important factor in this regard relates to robust economic growth. As income levels rise, the contribution of the services sector to nominal GDP is increasing in a number of African countries as economies gradually evolve from being purely resource dependent to being more consumer-driven. Rising household income levels will also fuel an increase in aggregate consumer expenditure. While acknowledging this, OC&C highlights the fact that manufacturing costs are also much lower on the sub-continent – mostly owing to lower labour costs – compared to more developed regions across the globe. As a result, products can be priced to suit even lower income households in certain cases.

FMCG Retail Performance



When analysing the performance of the top 50 global FMCG retailers, OC&C found that 36 of these firms already had a presence in SSA by 2012. For most of these firms, the core focus was on South Africa and Nigeria. Nonetheless, 24 of the top 50 global FMCG retailers had already expanded beyond these two countries by 2012. According to OC&C, firms

specialising in non-alcoholic beverages, alcoholic beverages and tobacco had established the most widespread presence in SSA. The leading companies all had a presence in a number of SSA countries.

OC&C also found that, with the exception of Coca-Cola, European domiciled FMCG retailers had a wider presence in SSA compared to their US counterparts. On a company level, the leading firms in this regard were Nestlé, Unilever, Diageo, SAB Miller, British American Tobacco and Coca Cola. Of these firms, Nestlé, Unilever and Diageo have made the most inroads. By 2012, for their respective product categories, they enjoyed a higher market share in SSA than their global average and significantly higher margins and returns on capital than they did elsewhere. OC&C notes that, for a number of the multinational FMCG retailers with a presence on the sub-continent, “SSA now accounts for meaningful proportions of these successful firms’ overall global growth and cash margin.”

Key Success Strategies

When analysing the performance of the top global FMCG retailers with a presence in SSA, OC&C identified certain strategies that set the winners apart from the less successful companies. These strategies predominantly pertain to how the more successful firms entered the SSA market, marketed the product to the consumer to establish brand loyalty and setup the supply chain to ensure the product is adequately priced while still generating a commercially viable profit. These key success strategies are briefly outlined below.

Focus on “country clusters” – Seeing as economic development and per capita income levels differ significantly between SSA countries, FMCG retailers are advised to focus on clusters rather than on individual countries. Here, a cluster refers to a region that contains more than one viable market. Other characteristics that could make certain regions especially appealing pertain to cultural similarities across the region, good quality road infrastructure across country borders and political stability. The main clusters identified by top FMCG firms are West Africa (Nigeria, Ghana and Ivory Coast), Southern Africa (South Africa, Namibia, Botswana and Angola) and East Africa (Kenya, Ethiopia, Uganda and Tanzania). Nonetheless, OC&C highlights that getting in early is vitally important, as securing market share fast will “prove defensible and profitable as some FMCG firms are already demonstrating.”

Localise the product offering – It is critically important for FMCG retailers to ensure they are properly informed about the needs and lifestyles of consumers in African countries. This will ultimately inform decisions around products, pricing and marketing. African consumers are certainly brand and quality conscious, but affordability remains the key consideration when purchasing decisions are made. A good example of this is Unilever, which sought to lower prices and improve affordability by reducing pack sizes, which in turn allowed the firm to target low income households.

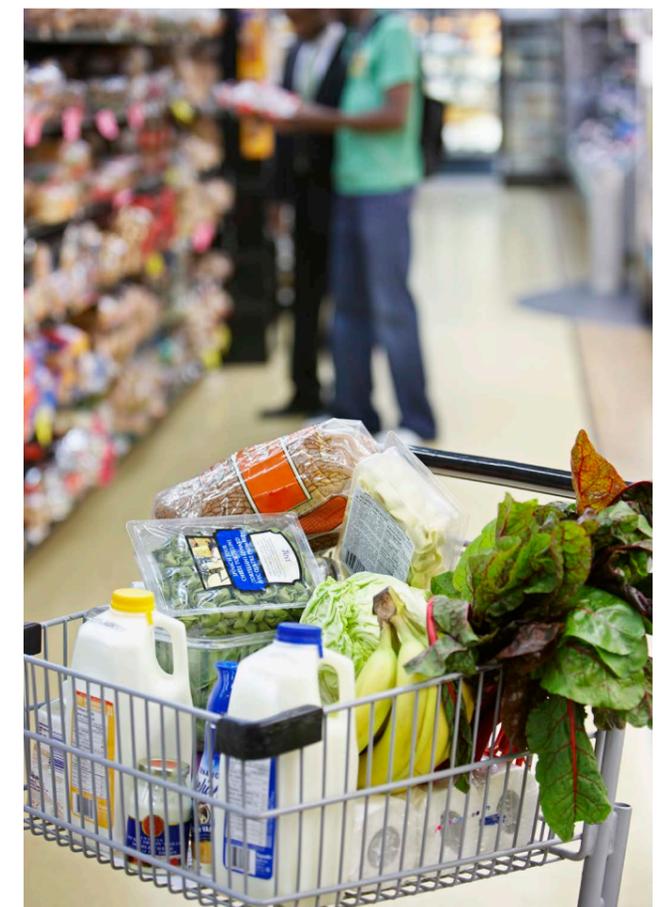
Furthermore, FMCG retailers should endeavour to target multiple price points. Often retailers focus on the easy wins, usually the more affluent customer where the product and packaging do not need to be re-engineered significantly. However, lower income households still represent a very large potential market. According to OC&C, “brands need to develop a hierarchy covering different levels of price and exclusivity in order to win new customers of lower affluence and keep them as their wealth rises.”

Marketing that is a local fit – Brand awareness is low in general across SSA. To build brand awareness, it is advised that multinational retailers leverage the influence of western brands and countries. Furthermore, OC&C disputes the marketing effectiveness of traditional “above-the-line broadcast media” and proposes firms focus more on physical and digital marketing. A good example of direct marketing relates to Coca-Cola supplying its fridges to local retail outlets. Meanwhile, Nestlé used local entertainers to market the

company’s products while Heineken supplied outlets with branded beer mats, fridges and draft taps.

Get creative with the supply chain – International FMCG retailers wishing to enter the African market need to carefully evaluate all possible supply chain models. While simply importing the product is certainly the option requiring the smallest initial capital investment, possible drawbacks include import tariffs in addition to the fact that products are often delayed at ports. A number of African countries have introduced foreign investment incentives in recent years. Although these regulations differ across countries, they usually involve some kind of tax holiday and favourable terms on imports.

Examples of multinational FMCG retailers which opted to establish a manufacturing base in Africa include Diageo, Heineken, Nestlé and Unilever. Heineken and Diageo have acquired local breweries to bolster market share as well as for establishing local manufacturing bases. OC&C further notes that Unilever and Nestlé have “both deployed significant capital investments to build their own manufacturing capacity in Africa, notably Unilever in South Africa.”



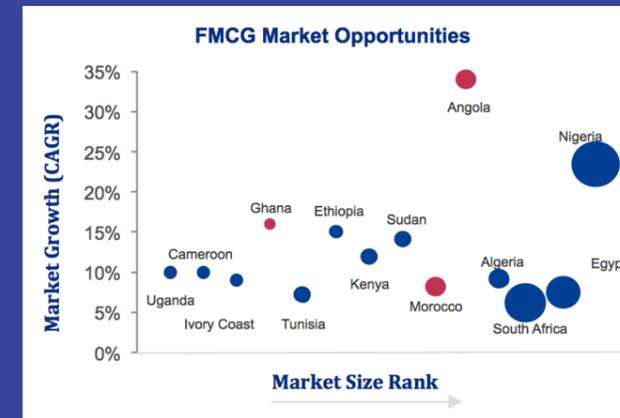
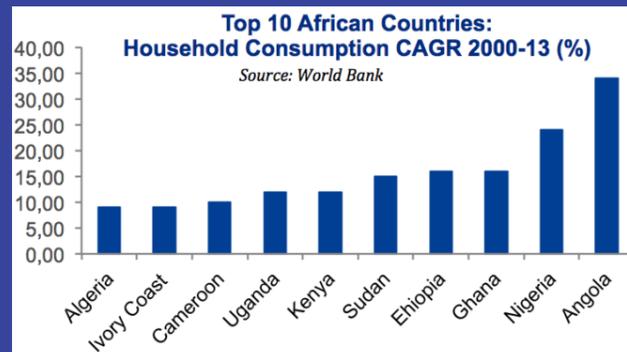
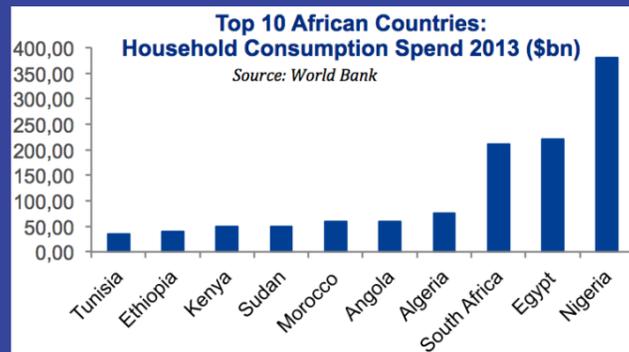
The FMCG Growth Areas

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. Nonetheless, aggregate household consumption expenditure by country does provide a good approximation of the size of the market and assists in identifying the most lucrative FMCG markets on the continent.

According to the World Bank, household consumption expenditure in 2013 was highest in Nigeria, reaching close to US\$377bn. Nigeria was followed by Egypt and South Africa, where household consumption expenditure reached US\$221bn and US\$213bn in 2013, respectively. These three countries are by far the largest consumer markets on the African continent. Other large markets include Algeria

(US\$73bn), Angola (US\$63bn), Morocco (US\$62bn), Sudan (US\$53bn) and Kenya (US\$44bn).

The rate of expansion is also important when assessing market opportunities, as large markets may already be saturated, while fast expanding markets offer sales growth potential. According to the World Bank, Angolan household consumption expenditure expanded at a compound annual growth rate (CAGR) of almost 34% during the 2000-13 period (countries where household consumption expenditure was less than \$10bn in 2013 were discarded). The second fastest growing market on the African continent is Nigeria, where household consumption expenditure expanded by a CAGR of 23.4% during 2000-13. Other countries where household consumption expenditure growth (CAGR) was higher than 10% during the same period include Ghana (15.8%), Ethiopia (15.6%), Sudan (15%), Kenya (12.2%), Uganda (12.2%) and Cameroon (10.1%).



The size and growth of household consumption expenditure is jointly considered in the accompanied graph. Using this method, Nigeria and Angola represent the best prospects for retail in general. While Nigeria already represents a large market, growth in household expenditure was also very high during the 2000-13 period. Meanwhile, although smaller in size, the Angolan market is still amongst the largest in Africa and recorded the fastest expansion during 2000-13.

That said, given the recent decline in global crude oil prices, growth in household expenditure in the two countries could well come under pressure as authorities employ policy tools to shield the oil dependent nations from the shock. High interest rates, tight fiscal policies, weaker currencies and higher inflation will all weigh on consumer spending power going forward. Also, consumers in these countries will not benefit as much from a decline in fuel prices, as authorities cut fuel subsidies in the face of declining oil revenues. This also applies to the case of Algeria, another crude oil dependent country. Other countries with good retail prospects, based on the criteria highlighted above, include Egypt, South Africa, Morocco, Tunisia, Kenya, Sudan, Ethiopia and Ghana. That said, investment decisions still need to be evaluated on a country-by-country basis. For example, some countries like Ethiopia and Algeria have implemented certain restrictions on foreign investment. Meanwhile, Sudan is characterised by high political risk and the regional security situation remains dire, with intermittent conflict in South Sudan and a civil war raging in Libya. In this report, the FMCG sectors of Nigeria, Angola, Ghana and Morocco are analysed in more detail.



Nigeria

Nigeria's retail sector is currently undergoing a transformation with international supermarket brands entering the country, new malls being constructed, and the conversion of informal markets into more modern facilities. Although only a small portion of retail trade is formal at present, the advantages of shopping in supermarkets and convenience stores have become increasingly apparent to domestic consumers. More women are entering the labour force, and to them, the time-saving benefits of shopping in supermarkets are becoming ever more apparent.

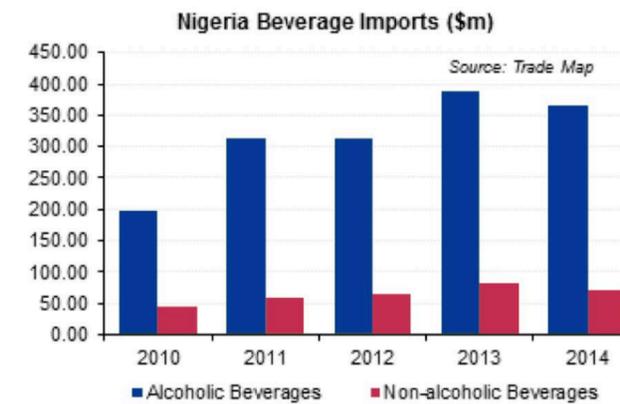
The UN expects the size of the Nigerian population to increase by 113.4 million between 2010 and 2030, and by 167.2 million between 2030 and 2050. Irrespective of poverty levels and the fairly challenging business environment, Nigeria cannot be ignored given the large market it offers. Still, the UN forecasts that Nigeria's fertility rates will remain a lot higher than for most other countries, which means that its opportunity to benefit from demographic shifts will only occur at a much later stage. Nigeria's appeal will for a long time be its vast number of consumers rather than the wealth of these consumers, so sellers of affordable basic products will tend to benefit the most. That said, even though only a tiny proportion of Nigeria's population can afford luxury products, this is not an insignificant number of people in absolute terms.

The domestic retail scene ranges from small shops in rural areas selling the most basic of necessities to poor customers, all the way up to multi-million-dollar Western-style malls in the larger cities. Nigeria's first modern shopping mall – the Palms Mall in Lekki, Lagos – was opened in 2006. In December 2011, Ikeja City Mall was opened in Lagos, and it has been quite popular. Smaller centres include City Mall, Surulere Shopping Centre, and Silverbird Galleria. Large-scale shopping centres in Abuja include the Silverbird Entertainment Centre (23,000 m²), Ceddi Plaza (10,000 m²), and Grand Towers Abuja Mall (8,300 m²). The city's middle class is growing rapidly, supported by above-average wage earners from the public sector, and this has boosted retail development. The Jabi Lake Mall is expected to dominate the formal retail scene in Abuja once completed. The centre will offer 25,000 m² of retail space and will be anchored by Shoprite and Game. Construction of the mall commenced in November 2013, and

it is expected to open towards the end of 2015. The other major property market in Nigeria, Port Harcourt, does not currently have a modern shopping centre, although a number of developments are in the pipeline. The most notable of these is the construction of Artee Mall (16,000 m²), which will be anchored by Spar and Park 'n' Shop. Other developments in the pipeline in Nigeria include the Royal Garden Mall, Osapa Convenience Centre and Lekki Mall, amongst others.

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. Meanwhile, Massmart launched a pilot food retail project in Lagos in February 2014. According to data from the company's website, Massmart currently has six retail outlets in Nigeria. 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 11 outlets in Nigeria and claims to employ 1,660 people, of which 99.5% are Nigerians. Although formal retail in Nigeria is growing rapidly, informal channels continue to dominate. The share of modern retail is however expected to continue increasing in coming years, driven by the development of a number of large-scale modern shopping centres.

Turning to the FMCG market, the low-income consumer by far dominates the Nigerian retail scene, which will provide a lot of opportunities for FMCG companies. A key trend in the sector will be the gradual trading up along the value chain as consumers' purchasing power increases, as this will boost profit margins. Grocery retailers have already started to offer more non-grocery items to take advantage of this trend. Most of the different FMCG product categories continue to perform well in Nigeria. Euromonitor International highlights that the packaged food market recorded strong growth rates over the 2009-14 period. The market is highly competitive, with only one company enjoying a market share in excess of 10%. The soft drinks market also continues to perform well, especially categories such as bottled water, according to Euromonitor International. The demand for bottled water is driven by poor access to safe drinking water in addition to a rise in urban consumers.



FMCG categories that have struggled, comparatively speaking, in recent years include alcoholic beverages and tobacco. According to Euromonitor International, the alcoholic beverage market is recovering slowly after a dismal 2012. Trade Map data suggests that alcoholic beverage imports remained flat during that year. Alcoholic beverage imports recovered in 2013, but then declined in 2014. Nigeria's beer industry performed relatively poorly in 2014. Guinness Nigeria reported total revenues of N109.2bn during the 2013/14 financial year, down from N122.5bn a year earlier. The company highlights that the overall economic situation in the country adversely affected brewed products in general. While

Guinness Nigeria witnessed a slight increase in consumption, customers increasingly shifted from premium products to 'economy' products. Meanwhile, Nigerian Breweries reported a 0.8% decline in revenues in 2014. Turning to tobacco products, Euromonitor International highlights that demand has largely stabilised, with volume sales growth actually declining slightly in 2013.

Looking ahead, disposable household income is likely to remain under pressure in 2015, and this will adversely affect FMCG market growth. The sharp fall in global crude oil prices has contributed to a weaker naira, higher inflation and tighter monetary policy. As such, a similar trend to that highlighted by Guinness Nigeria, where consumers opt for less expensive variants of a particular product, may again be evident in 2015. Another development that retailers in general need to be cognisant of relates to the central bank's preference for following a developmental stance. The Central Bank of Nigeria (CBN) recently announced that a list of up to 40 products would henceforth not be eligible for the purpose of purchasing foreign exchange on the interbank market. Importers of these products will thus need to turn to the significantly more expensive parallel foreign exchange market to gain access to forex. The case for establishing a domestic supply chain will become increasingly more plausible if the central bank continues to pursue economic development goals such as imposing restrictions on imports.



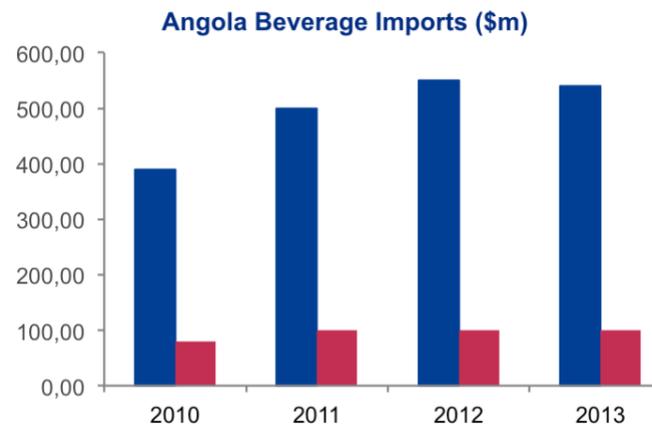
Angola

Angola is one of the most attractive markets for international retail trade, due to the significant expansion of the population and the relatively high average income that the country boasts. Together with the growth of available income and development of the middle class, the retail market is expected to increasingly move away from informal routes such as street markets and vendors. In addition, favourable demographics provide retailers with long-term opportunities for expanding and building brand loyalty.

The underdeveloped retail sector has seen significant investment in recent years. These include Belas Shopping which opened in 2007 in Talatona with 100 shops; Ginga Shopping which was inaugurated in 2012 in Viana with 70 shops; and Atrium Nova Vida, which opened in 2012 in Luanda Sul. In addition, projects set to be completed in 2015 include the Galerias Sky Center; Luanda Towers/Vista Club Shopping in downtown Luanda with 40 shops; Luanda Shopping in Alvalade with 208 shops, six cinema screens and a gym; Shopping Fortaleza on the coastal road; and Shopping do Kinaxixi.

According to the Institute of Grocery Distribution (IGD), Angola still represents a lucrative market from an FMCG perspective, despite the recent sharp decline in global crude oil prices and the likely impact thereof on economic growth and household spending. This is mainly ascribed to the fact that investors want to reap the benefits over the long-term and failure to invest now, despite the macroeconomic imbalances brought about by the oil price shock, could result in a loss of market share and as a result, a company could well not find itself in the position to take full advantage of future growth in the market.

South African retailers have been especially keen to enter the Angolan FMCG market in recent years. According to IGD, South African-domiciled Distell announced in August 2014 that it had purchased land in Angola to construct a manufacturing plant. Furthermore, Massmart stated that it plans to open two stores in 2015 followed by another two stores in 2017. The South African-based Spar Group also opened its first store in Angola in 2014 and if successful, more stores could follow. Meanwhile, South African-domiciled Shoprite already has 19 stores in Angola. Some remarkable statistics describing the Angolan retail market come from Shoprite, showing that just five stores in Angola recorded more unit sales of the energy drink Red Bull than all 382 Shoprite stores in South Africa combined, while the total of 19 Shoprite stores in Angola sold more bottles of the sparkling wine JC Le Roux than the entire South African business did.



According to Euromonitor International, most FMCG product categories recorded significant growth over the 2009-13 period. The packaged food category expanded by an average annual growth rate of 23% during the 2009-13 period and was valued at US\$1.8bn in 2013. In relation to the sub-categories, oils and fats (51% p.a.), pasta and noodles (36% p.a.) and soup (39% p.a.) recorded strong growth over this period. The beverage category expanded by an average annual growth rate of 19% during the 2009-13 period, mostly driven by strong growth in bottled water (23% p.a.), juice (22% p.a.) and carbonates (22% p.a.). Nonetheless, beer remains the largest beverage sub-category. Trade Map figures suggest Angola's imports of alcoholic beverages increased significantly during 2010-12, but declined to US\$521m in 2013. Imports of non-alcoholic beverages have remained mostly flat since 2011.

Euromonitor International forecasts that the packaged food and beverage industries will expand by average annual growth rates of 19% and 15% during the 2013-18 period, respectively. Euromonitor International highlights that the "Angolan middle class is increasingly able to afford a growing range of essential products, such as food and beverages, and demand for non-essential items is also expected to increase." Euromonitor International predicts that tissue and hygiene (25% p.a.), home care (21% p.a.) and beauty & personal care (18% p.a.) will record the fastest expansions over the 2013-15 period.

Ghana

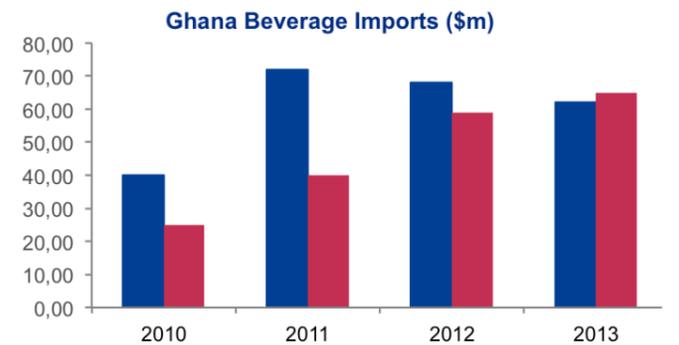
Ghana's modern retail sector is restricted mainly to Accra. There are currently only a small number of international retailers on the scene. The size of the middle class is still small, but is growing at a rapid pace, thereby providing the base for the demand for the convenience and variety that is offered by super- and hypermarkets. Due to Nigeria's much more complex operating environment, many investors view Ghana as the gateway to the West African region. For this reason, it is also less of a problem to source products in Ghana than it is in some other African countries. Companies that have set up manufacturing facilities in the country include Unilever, PZ Cussons, and Denmark's Fan Milk Group. Retailers can therefore buy products locally rather than import them. Accra Mall (22,900 m2), Ghana's first world-class shopping centre, was opened in 2008, and is conveniently located close to the Kotoka International Airport and near the Tema Motorway, which makes the mall accessible to neighbouring countries as well. Other shopping centres launched in recent years include A&C Square (10,000 m2), and Marina Mall (8,000 m2). The success of these malls has prompted further development plans, with Broll Property Group projecting in its 2013 annual report that more than 180,000 m2 of formal retail space will be developed over the next few years. Some projects that are at a relatively advanced stage include:

- West Hills (27,000 m2)
- Tema Meridian Mall (22,000 m2)
- The Junction Mall (13,000 m2)
- Mall of Kumasi (23,000 m2)
- Sunrise Airport (16,000 m2)
- Osu Mall (8,000 m2)
- Accra Mall extension (10,000 m2)

Turning to FMCG products specifically, informal markets still 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. 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. MarketResearch.com estimates per capita food consumption increased by 10.7% in 2014.

Meanwhile, Ghana's beer industry is dominated by SABMiller and Guinness Ghana Breweries. 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 announced in February 2015 that it had completed the US\$100m upgrade to its Ghanaian subsidiary, Accra Brewery. The upgrade will allow the plant to double its production capacity. SABMiller's managing director stated at the time that "the long-term growth potential for the African beer market is enormous and the investments we are making today will ensure that we are prepared to capture the growth tomorrow." MarketResearch.com estimates beer sales volumes increased by 7% in 2014 and forecasts this figure will average 9% p.a. over the 2013-18 period.



Euromonitor International states that the robust economic growth rates achieved in recent years have increased household disposable income levels. In turn, this resulted in "booming sales of all consumer packaged goods." Euromonitor International estimates that tissue and hygiene (37% p.a.), tobacco (34% p.a.), home care (32% p.a.) and consumer appliances (32% p.a.) recorded the highest average annual growth rates over the 2009-13 period. Nonetheless, sales of alcoholic drinks reached US\$1.336bn in 2013, the highest sales figure amongst all FMCG categories in that year, followed by packaged food sales at US\$1.279bn. Interestingly, according to Trade Map, imports of non-alcoholic beverages (US\$66m) actually exceeded alcoholic beverage (US\$64m) imports in 2013. This can be ascribed to domestic alcoholic beverage manufacturing capacity. Regardless, imports of non-alcoholic beverages have increased steadily from 2010 onwards, which signals that the market for this product category is expanding. Euromonitor International forecasts that all FMCG product categories will record robust growth of between 13% p.a. and 16% p.a. over the next few years, with the highest growth projected for tobacco.

Morocco

Morocco is an exciting and potentially lucrative investment destination for retail companies. The consumption landscape is in the process of changing from one in which informal trading (markets and corner shops) dominates, to one in which chains of supermarkets and hypermarkets account for a significant portion of consumption and this presents significant opportunities for investment. To control the shift towards organised retail, the government has formulated a strategy called the Plan Rawaj (rawaj means 'turnover' in a general sense). The goals of this plan are for value added in trade to triple by 2020, for its contribution to GDP to go up to 15%, and to create 450,000 jobs in the sector. One of the plan's more interesting aspects is a reform of a 1955 law on commercial property which had made landlords reluctant to let property, as it is difficult for them to evict delinquent tenants. In a general sense the plan calls for reforms to administrative procedures to make it easier to do business, a welcome intention in a country where it can be daunting from a bureaucratic point of view to set up a new company. The government has set a target of 600 new medium and large stores (including 50 hypermarkets) to be established by 2020.

The retail industry has registered modest growth of 3.4% p.a. over the past 12 years and contributed 10.2% to GDP in 2013. The industry also provided employment to 13% of Morocco's labour force in 2013. The online retailing space also started to take off in 2013, as an increase in internet penetration prompted leading domestic retailers to launch internet platforms to engage with customers. Furthermore, domestic firms dominate the formal retailing scene in Morocco, with Marjane Holding, Hyper SA and Group Chaabi representing the main players, although international brands and firms have started making inroads in this regard, especially in the luxury goods market segment.

The overall outlook for Morocco's retail sector is positive and growth will continue to be supported by a growing

urban middle class and an increase in urbanisation. Corner stores will continue to dominate the retail experience in poorer sections of society, although this is partially because the number of cars per capita is relatively low. The gradual reduction in state subsidies could contribute to consumers switching from corner shops to supermarkets, as the latter have lower prices. That being said, supermarkets appear to be too optimistic about the rate at which consumption patterns will change, since this process has been quite slow over the last few years. Private consumption per capita remains relatively low in a regional context, while local knowledge has proved to be vital in achieving success. The upper middle and high-earning income groups present interesting opportunities for retail, due to their demand for brand names and quality products.

On the FMCG front, performance has been mixed. Euromonitor International estimates that packaged food would have recorded strong growth in 2014, despite higher per unit prices. Packaged food is forecast to continue to record healthy growth rates over the 2014-19 period. However, Euromonitor International highlights that some categories "which have reached maturity and which are subsidised by the government, such as bread, are expected to slow down this growth." Meanwhile, alcoholic beverage sales continued to shrink in 2013, partly on account of higher taxes on alcohol which drove prices higher. Soft drinks continued to record robust growth in 2014, driven by an increase in bottled water sales on account of the poor quality of the domestic water supply. Bottled water suppliers took advantage of this and expanded their product ranges to include five litre water containers to be used by families. Energy drinks also became more popular among adults and is often seen as a substitute for alcohol. Euromonitor International forecasts soft drinks will record robust growth over the medium term.

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