EVERY THURSDAY

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BUSINESS: AFRICA

Natural place to be

How fast is the middle class growing in Africa, and where is it growing? What is it spending, and on what?

SA companies such as Shoprite, Tiger Brands and Nampak would love to know the answers to these questions.

After all, Tiger bombed out of Nigeria in a big way after divesting its 65.7% stake in Tiger Branded Consumer Goods in Nigeria — previously Dangote Flour Mills — to Dangote Industries for a nominal US$1.

Tiger bought a majority stake in the flour, rice and pasta business for R1.6bn in 2012 from Nigerian tycoon Aliko Dangote, but has since written down R2.7bn in the subsidiary, after extensive new capacity in these products came on line. The huge impairments put a heavy damper on solid gains from the core SA operations, and damaged the group's reputation.

Business statistics are the heady stuff in which the Economist Group's intelligence unit (EIU) sees value. So in 2015 it bought the database of Canback, which describes itself as an "elite management consulting and related services firm anchored in management science, predictive analytics and consumer market knowledge". Canback, now called EIU Canback, says it has grown 27%/year since it was founded in 2004.

Staffan Canback, an electrical engineer of Swedish background with a Harvard MBA, who co-founded Canback — and is "now an employee" of the company with an "attractive earnout" due in 2018 — says the company's forecasts indicate there will be steady growth in the numbers of consumers across Africa over the next 10 years.

However, most of sub-Saharan Africa's population will remain economically marginalised.

Specialising in global fast-moving consumer goods and retail trends, including telecoms, the company has done consulting work in 77 countries and has offices in Boston, Chicago, Johannesburg, London, Dubai, Shanghai, Beijing and Singapore – with satellite offices in Tokyo, Mexico City, São Paulo and Jakarta.

Despite employing only about 50 staff worldwide, it competes with global consultants such as Boston Consulting Group, Bain, and McKinsey.

Staffan Canback says the company's income distribution database is aimed at marketing professionals, strategic planners, management consultants, investment bankers and academic researchers, among others.

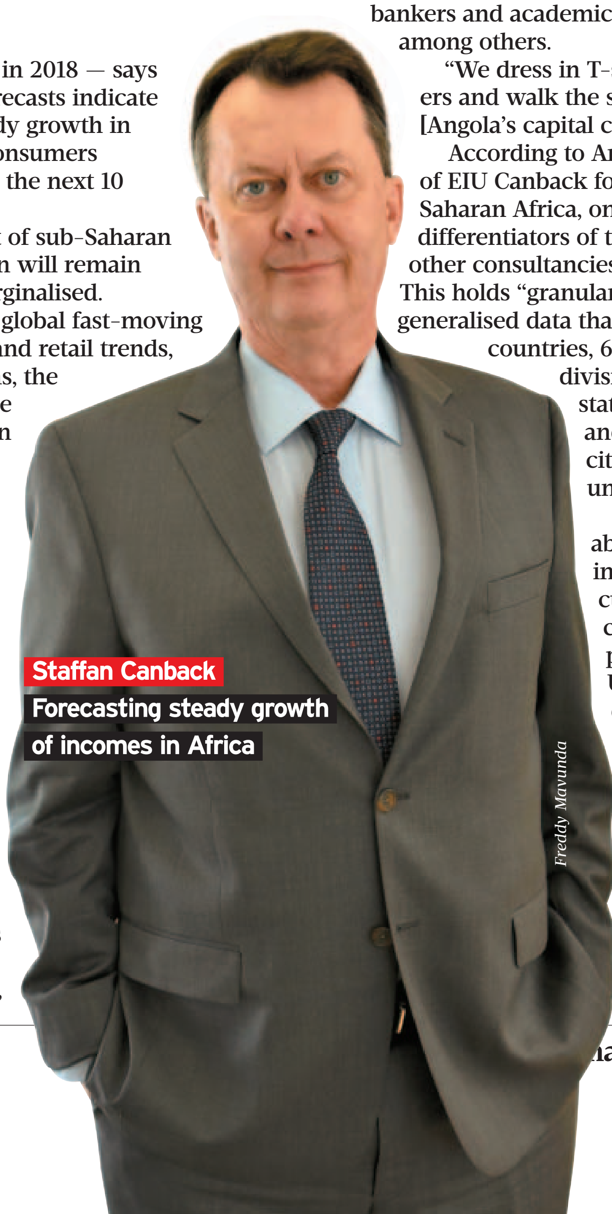
"We dress in T-shirts and sneakers and walk the streets of Luanda [Angola's capital city]," he says.

According to Arshad Abba, MD of EIU Canback for SA and sub-Saharan Africa, one of the major differentiators of the company from other consultancies is its database. This holds "granular" (detailed) and generalised data that covers 213 countries, 696 regional subdivisions such as states and provinces, and 997 major cities from 2001 until 2026.

It provides data about GDP and income in local currencies; purchasing power parity against the US dollar, and dollar comparisons in constant and current values.

"We look at how quickly that [Luanda] market will formalise," Abba says.

The compa-



Staffan Canback
Forecasting steady growth of incomes in Africa

Freddy Mavunda

ny has about 15 clients in Africa, five of whom are in SA — including Standard Bank. It is coy about financial and client details, but consults on consumer and other retail goods and telecoms. Its database covers all of SA's 278 municipalities, consisting of eight metropolitan, 44 district and 226 local municipalities.

Investment and the consumer data that drives this is the basis for EIU Canback's existence. In 2005, the company, which is based in Boston in the US, started working with Kraft Foods on a project called "Cheese in China", to ascertain whether the Chinese would ever eat cheese, a food they were not used to.

Using a well-known quantitative marketing model, the then Canback company predicted that over 20 years, by 2025, China would become the second-largest market for cheese in the world, with annual growth of 32%. So far, growth has indicated that this will be the case, and the company has not looked back.

It opened its Johannesburg office in late 2014, after entering about 20 African countries. "Demand was so great we decided to open in SA," Staffan Canback says. "Africa has been very attractive — competition for us here has not been as strong [as elsewhere]."

The company has consumer data on all 54 countries in Africa; the most recent additions are Western Sahara — a disputed territory in North Africa, bordering Morocco — Algeria, Mauritania and countries in the Atlantic Ocean region.

Staffan Canback says income per capita in Africa will continue to grow.

Markets that have a high percentage of

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> **CONSUMERS AT THE LOW END SPEND ABOUT 40% OF INCOME ON FOOD AND BASIC NEEDS**
> STAFFAN CANBACK

informal trading will continue to formalise and create further opportunities for retailers to develop these markets. "Our smallest client has US$2bn in sales . . . mostly in Africa," he says.

"In Southern Africa, where markets are more developed, the markets will continue to increase in competitiveness.

"Consumers at the low end spend about 40% of their income on food and basic needs — this will remain in the years to come, though consumers' income levels will rise " he says.

He says diversified economies, mainly in East Africa, but also, somewhat surprisingly, in Nigeria, will do better than less diversified ones such as Angola.

Like Nigeria, Angola is highly reliant on oil, and like Nigeria, it is at present suffering a currency meltdown.

The plunge in the prices of oil and other mineral commodities has caused setbacks for blue-chip SA companies such as Nampak, which has invested heavily in the vision of "Africa rising".

The group has R1.5bn of cash trapped in Angola and Nigeria, where it has experienced delays in converting its bank balances to US dollars, due to hard currency shortages. It now produces 2.7bn — mostly value-added — aluminium beverage cans a year in Angola and Nigeria.

But despite the significant cooling of economic growth on the continent of late, the group's operations in the rest of Africa, excluding SA, now account for 47% of group trading profit, up from 38% last year.

Nampak CEO André de Ruyter says the company's investments into Africa have been vindicated by African revenue growth of 30% in the interim period to March from the same period last year, despite substantial foreign exchange losses. Margins are also much higher on the continent than in SA, and Coca-Cola and other global drinks giants have recently invested about $700m in Nigeria.

Coke has also just opened a $130m bottling facility in Mozambique through Port Elizabeth-based bottler Coca-Cola Sabco, whose regional market includes Ethiopia, Kenya, Mozambique, Namibia, SA, Tanzania and Uganda.

The plant is the largest greenfield investment in Coca-Cola Sabco's history.

"Coca-Cola has been investing in Africa for almost 90 years and is today present in every African country, with over 70,000 employees across 145 bottling and canning facilities," says Muhtar Kent, chairman and CEO of The Coca-Cola Company.

"We have continued to increase investment in our business in Africa with $17bn committed across our system for investments in distribution, infrastructure, manufacturing and marketing during this decade," he says.

Mozambique is also undergoing a currency crisis at present after hiding more than $1.4bn in debt from aid donors. But, despite such travails, it is not hard to think that SA companies ranging from Tiger Brands to sugar and starch producers such as Tongaat Hulett, and logistics groups Grindrod, Imperial and Super Group, stand to benefit mightily from growth in Africa.

"You ignore Nigeria at your peril," New Tiger Brands CEO Lawrence MacDougall says. He says the market there still holds great promise.

The company is sticking to its mantra that Africa is critical to its future success.

It has impaired extremely large sums of money over its failed Nigerian venture, a failed distributor in Mozambique and executives who cooked the books at its Kenyan fast-moving consumer goods subsidiary Haco.

But Africa is a natural place for SA companies to be. And EIU Canback hopes to help them get there.

Mark Allix

allixm@bdfm.co.za

Coca-Cola bottling in Mozambique

Largest greenfield investment in Coca-Cola Sabco's history

Image by Coca-Cola Sabco.