

Multinationals target potential of Africa's middle class

By GEOFFREY YORK, Global and Mail, June 8, 2011

After decades of ignoring the continent, it's now seen as an emerging engine of consumer growth and possibly the next China

For a huge consumer-goods company such as Procter & Gamble Co., PG-N it might seem an odd choice for a target market: the impoverished African country of Ethiopia, often perceived as a land of famine and drought.

But when Procter & Gamble sent its researchers into Ethiopia, they discovered that the company's products were unexpectedly well-known. Even among Ethiopians barely above the poverty level, its brands were recognized far more widely than the company had imagined.

"It was totally surprising for us to see that Ethiopia had such huge potential," said Eva Imir Yokus, the company's head of consumer and market knowledge for southern and eastern Africa.

The researchers spent time with an Ethiopian woman who lived with her family near a slum neighbourhood in a one-room house with no windows. Even though Procter & Gamble had only limited distribution of its Always sanitary pads in Ethiopia, the woman was familiar with the brand, had a positive impression of it and was ready to buy it if it was available. "She was already using most of our consumer categories; we were really surprised," Ms. Imir Yokus said.

After decades of ignoring the region, multinational companies are turning to Africa as one of the emerging engines of consumer growth. By some estimates, Africa already has as many middle-class consumers as China or India. And most of them are buying mobile phones and televisions, own cars or houses, and use the Internet.

A recent study by the African Development Bank concluded that 34 per cent of Africans can be categorized as middle-class consumers. In absolute numbers, the study counted 313 million middle-class Africans in 2010, compared with just 111 million in 1980.

Within the continent, the middle classes are expanding far beyond their traditional strongholds in South Africa, the richest country in Africa, or Nigeria, the most populous. Ethiopia is one example of the new markets being identified. Despite its reputation for poverty, Ethiopia is the second-most

populous nation in sub-Saharan Africa, with more than 80 million people, and there is money among its consumers and government clients.

"I think the Chinese discovered this potential before everyone else," Ms. Imir Yokus told a seminar at the Johannesburg Stock Exchange on Wednesday. "There's so much Chinese investment going on in Ethiopia right now. They dominate the direct investment."

She estimates that about 20 to 25 per cent of households in sub-Saharan Africa now have enough discretionary income to spend on consumer goods. By 2020, she predicted, this will rise to about 50 per cent of households, creating far more opportunities for corporations such as Procter & Gamble.

"We're really putting Africa at the top of our agenda," she said. "China and India are not new news any more. Africa is more on our agenda."

Anna Jones, area head for southern Africa for MasterCard Inc., said her company's research suggests that Africa's economic growth is the third-fastest in the world today, behind only China and India. And consumer confidence is growing. On a scale of zero to 100, consumer optimism ranked at 87 in Kenya and 94 in Nigeria, she said.

"If you want to know where your next billion consumers are coming from, they are coming from here," she told the seminar.

Africa's younger generation is becoming a key source of innovation among African consumers, especially in mobile-phone banking and other cashless transactions, Ms. Jones said. As in Japan after the Second World War, consumers in Africa are forced to be innovative, allowing them to leapfrog ahead to the most modern technology, she said.

For companies such as MasterCard, the potential in Africa is enormous. While only half of European transactions are conducted with cash, more than 90 per cent of African transactions are done with cash, meaning the credit card companies have big opportunities for growth, Ms. Jones said.