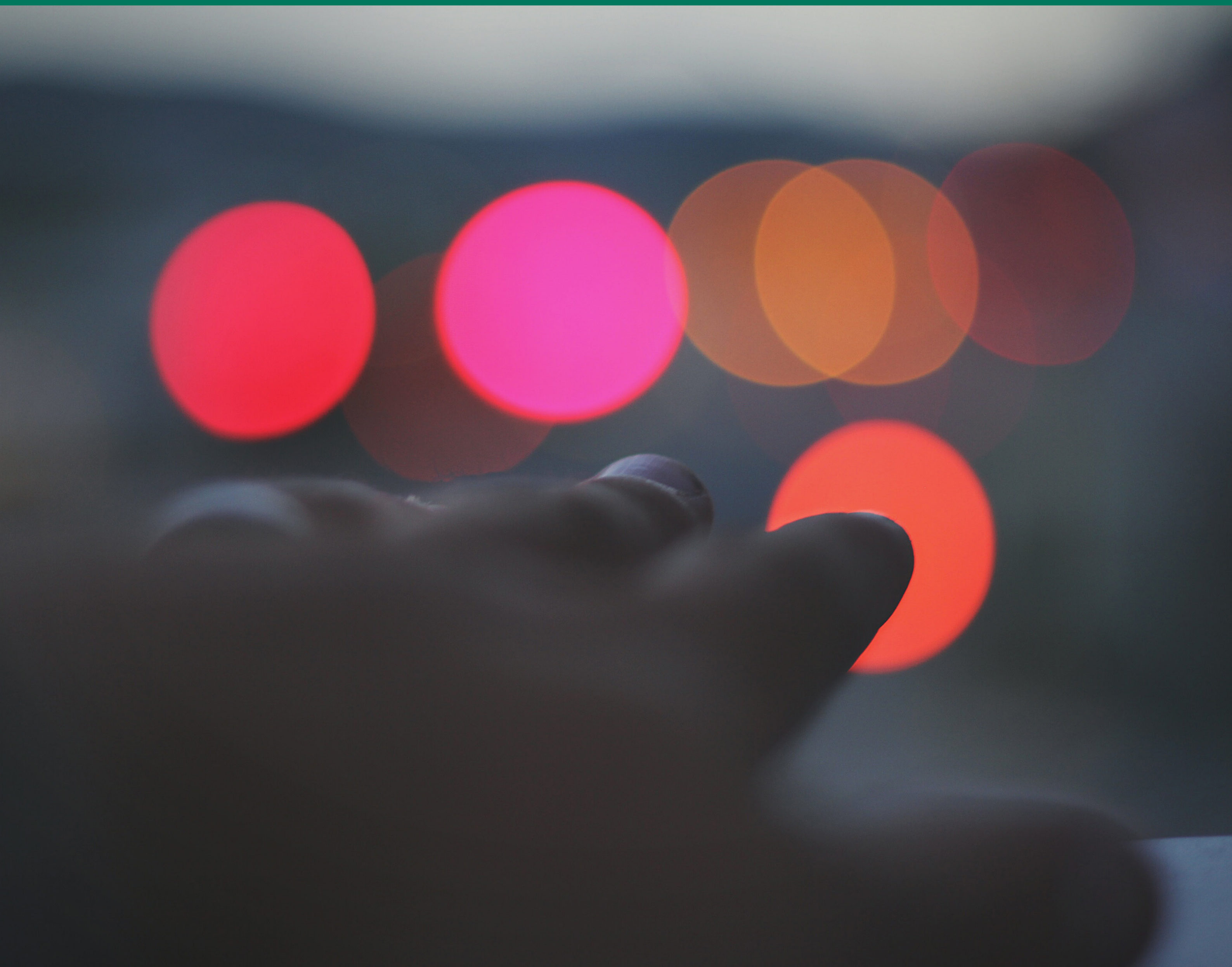
AFRICAN CONSUMER SENTIMENT 2019

Optimism and an Eagerness to Spend



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African Consumer Sentiment 2019

Optimism and an Eagerness to Spend

Pedro Marecos, Stefano Niavas, Takeshi Oikawa, and Nomava Zanazo

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AT A GLANCE

Although parts of Africa are going through rough economic times, Africans' view of the future seems unaffected. BCG's most recent survey of African consumers found that 86% of them are optimistic—significantly higher than optimism levels in other parts of the world.

Africans' Affection for Brands

The belief that brands say something about who one is and where one fits in is especially prevalent in Ghana, Kenya, Tanzania, and Uganda, where that belief was expressed by 70% or more of the respondents. By contrast, only about a third of people in other rapidly developing economies are brand conscious in this way.

Where Africans Shop

Africans still make heavy use of traditional retail channels, visiting them, on average, four times as often as they visit modern channels. But there are country-specific differences that marketers and sellers should understand.

Digital's Growing Impact

E-commerce in Africa is just emerging. Internet-influenced shopping, however, is more established and is on the rise.

UNBOWED BY THE ECONOMIC uncertainty surrounding them, consumers in Africa remain optimistic about the future and have retained their appetite for buying new things. These attitudes provide evidence of Africa's immense economic promise even at a time when some of the continent's biggest countries are facing steep challenges.

If this recent survey by Boston Consulting Group had shown a decline in consumer enthusiasm, that would not have been surprising. Many African countries are still recovering from the economic downturn of 2016–2017 and struggling with double-digit inflation. In certain countries, such as Angola and Egypt, the larger economic and political environment has indeed reduced optimism levels.

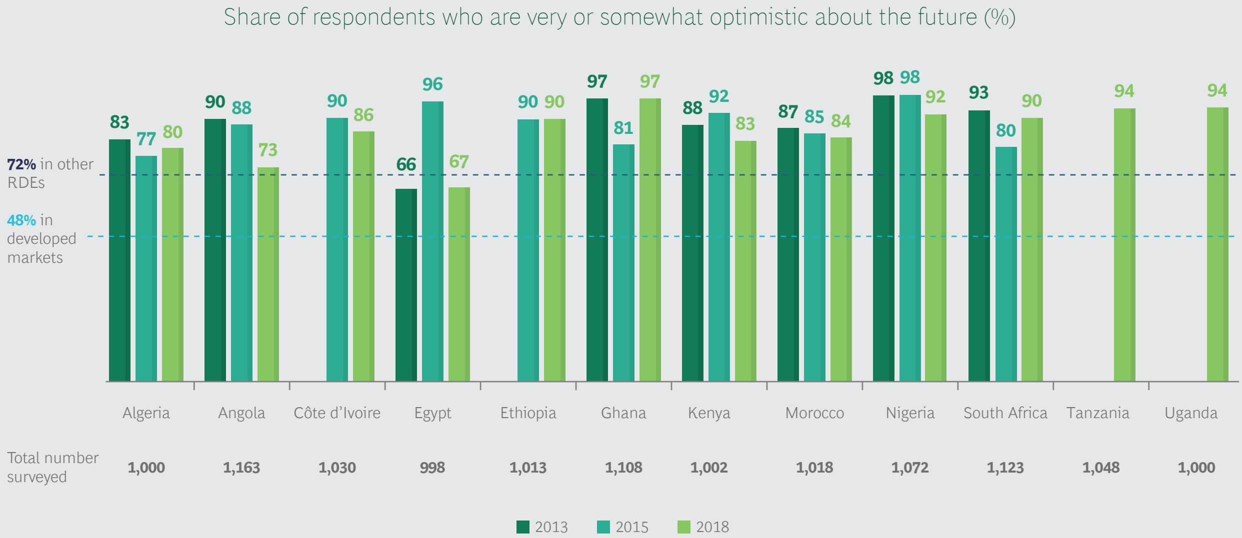
But the real news in the survey—a follow-up to one we conducted in 2015—is less about how individual countries' optimism numbers have shifted than the extent to which optimism remains Africa's default attitude. Across the 12 countries we surveyed, 86% of the population is optimistic about the future, a decline of only 2 percentage points from the level in 2015. That is well above the 72% of consumers in other rapidly developing economies (RDEs) and the 48% of consumers in developed economies who express optimism about the future. (See Exhibit 1.)

Consumers in Africa remain optimistic about the future and have retained their appetite for buying new things.

Africa's importance in the global economy is hard to overstate. Of the ten countries whose GDP is expected to grow fastest in 2019, five are in Africa, according to the International Monetary Fund. Long-term demographic trends have likewise drawn attention to the African economy. The continent's population is expected to balloon by 1.3 billion between now and 2050, accounting for 60% of the world's population growth over that period. The question, therefore, isn't really why so many big companies are starting to see the African market as crucial. The question is whether they can understand Africa, in all its complexity, at the level necessary to succeed there. BCG's survey, which is based on in-person interviews with urban consumers in 12 of Africa's most populous countries, lends some clarity to this complexity.

Because the household income of most of the interviewees was less than $500 a month—on the low side for the countries in which we conducted the survey—the results can't be written off as representing the perspective of Africa's most economically privileged. Instead, the results are broadly reflective of what you would hear if you had a conversation with everyday urban Africans—a spaza shop owner in Johannesburg, a cobbler in Nairobi, or a fisherman in Tanzania's Dar es Salaam. (See the sidebar "A Survey Focused on Urban Populations.")

Exhibit 1 | Throughout Africa, There Is a Sense That Things Will Get Better



Sources: 2018 BCG Africa Consumer Sentiment survey, January through March 2018; 2015 BCG Africa Consumer Sentiment survey; 2013 BCG Africa Consumer Sentiment survey; 2013 BCG Global Consumer Sentiment Survey.
Note: The 2018 survey included a total of 12,575 consumers in 12 countries. RDE = rapidly developing economy.

Consumerism and a Focus on Quality

Africans appear to be enjoying an extended honeymoon phase in their evolution as consumers. On average, 82% of the interviewed Africans agreed with the statement, "Every year, there are more things I want to buy." That is down slightly from the 85% of Africans who said this in 2015, before Africa's GDP growth was cut in half, but it is still much higher than in most other parts of the world. For instance, only 60% of people in other RDEs and just 31% in developed economies express this point of view.

Africans also equate happiness with their ability to buy new things. This sentiment, it must be said, is common throughout the world, expressed by 72% of those in RDEs outside of Africa and by 56% of those in developed economies. But the sentiment is especially prevalent in Africa, where it is held by about 86% of the people. (In 2015, the proportion was a bit higher at 90%.)

The Quality Imperative. Africans don't want to buy just anything: they are focused on buying things of good quality. The idea that quality matters more than quantity resonates with 88% of Ethiopians, 85% of Ghanaians, and 80% of South Africans and Nigerians. However, Africans don't stand out on this dimension of consumerism to the same extent that they do on other dimensions, and there are African countries in which the desire for quality is no higher than it is in other RDEs. In particular, Kenyans, Moroccans, and Egyptians (at 64%, 62%, and 57%, respectively) are somewhat below other RDEs in the extent to which they value quality.

In every African country, quality is more important in nongrocery purchases than it is in grocery purchases. The nongrocery categories in which quality matters most

A SURVEY FOCUSED ON URBAN POPULATIONS

For this look at consumer sentiment on the African continent—BCG's third since 2013—we trained our lens on urban populations. Our goal was to gain insights into Africans' use of digital technology and the internet. Our 2015 Africa survey included rural consumers as well. Readers should consider this difference in methodology in interpreting our most recent data.

The surveys that form the basis of this report were conducted in person from January through March 2018, using each country's official language or one that is widely spoken there. A total of 12,575 people participated.

For this report, BCG surveyed consumers in 12 African countries, compared with 11 for the 2015 report and 8 for our 2013 Africa report. Tanzania and Uganda are new this time, joining Algeria, Angola, Côte d'Ivoire, Egypt, Ethiopia, Ghana, Kenya, Morocco, Nigeria, and South Africa. The Democratic Republic of Congo, which was included in the 2015 report, was not included in the 2018 survey.

Each interview, which covered eight areas—including monthly spending behaviors, brand preferences, and use of technology—lasted on average one hour.

are clothing and accessories (which the survey treated as a single category) and footwear. (See Exhibit 2.)

To Africans, quality in these categories comes down to how long an item lasts. With per capita incomes that are lower, on average, by a factor of 3.5 than in Asia, 15 than in Europe, and 25 than in North America, Africans cannot afford to buy things that wear out or fail quickly.

The perceived link between quality and durability has a big impact on Africans' brand preferences. This is certainly the case when consumers purchase home electronics. In both South Africa and Tanzania, for instance, 77% of all consumers pick televisions, audio systems, and refrigerators on the basis of the brand's likely durability. Not even one in five people in those countries makes a decision about a home electronics product primarily on the basis of price.

The same goes for clothing brands: the decisive factor is quality. Africans look for clothing that, first, will last a long time and, second, is well designed (another measure of quality). Price is generally the third consideration.

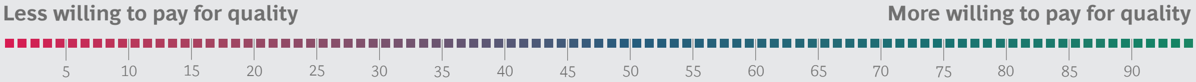
Identification with Brands. Africans are more brand conscious than people in other regions. Considerably more than half of all Africans believe that the brands they use say something about who they are and where they fit in, according to our survey. Brand consciousness, especially prevalent in Tanzania, is a characteristic of 73% of the people there, and in Ghana, Kenya, and Uganda, it's a characteristic of 70% of the respective populations. By contrast, only about a third of people in other RDEs and a quarter of people in developed economies see their brands as defining them.

Exhibit 2 | A Breakdown of Africans' Willingness to Pay for Quality

Share of respondents who would pay a premium, by category (%)

	Category	Algeria	Angola	Côte d'Ivoire	Egypt	Ethiopia	Ghana	Kenya	Morocco	Nigeria	South Africa	Tanzania	Uganda
Grocery	Beer	2	9	15	2	36	8	6	2	18	13	4	7
	Breakfast cereals and foods	20	24	28	21	68	60	53	19	51	28	52	36
	Chocolate and other candy	29	11	23	19	37	19	17	16	21	17	14	6
	Coffee and tea	29	17	29	26	55	40	50	27	53	25	50	15
	Milk	31	33	48	20	72	49	73	28	76	28	55	42
	Packaged food	27	21	27	12	54	45	21	11	54	26	25	10
	Snack foods	19	12	21	21	45	33	33	11	38	23	39	16
	Soft drinks and other nonalcoholic beverages	29	20	29	17	45	58	50	10	52	23	57	46
	Spirits	3	9	12	4	15	7	8	1	15	13	3	4
	Staples	28	29	44	33	55	64	65	34	74	31	76	52
	Wine	1	7	17	1	21	8	7	1	28	10	3	3
Nongrocery	Automobiles	26	14	18	13	17	6	9	12	34	15	8	4
	Baby products	8	19	23	8	37	16	14	10	19	10	10	7
	Beauty care	32	19	38	21	46	58	37	26	41	24	24	48
	Clothing and accessories	54	34	64	37	79	69	71	44	78	39	67	66
	Footwear	55	34	65	37	81	70	71	42	75	40	67	66
	Hair care	25	24	26	22	52	51	38	28	49	19	33	40
	Home appliances	37	23	35	22	49	45	24	23	53	32	24	12
	Home care	25	18	35	26	68	57	45	20	52	23	67	44
	Home electronics	35	25	39	22	51	49	34	24	52	32	37	26
	Mobile electronics	44	24	51	25	55	57	54	31	62	32	55	42
	Restaurants and away-from-home food	23	12	30	16	47	31	22	11	25	17	12	12

Less willing to pay for quality **More willing to pay for quality**



Source: 2018 BCG Africa Consumer Sentiment survey, January through March 2018.
Note: Respondents were asked whether they would be willing to pay more for a better quality product in each of 22 areas. N = 12,575.

Africans are more likely than people elsewhere to give credence to brands that have endured for generations. Seventy percent of Africans said that they believe that the best brands are those that have been around the longest; by contrast, only 38% of people outside of Africa say this. But Africans' brand loyalties aren't inflexible; they can change. That is clear from the advances that the Chinese mobile phone manufacturer Tecno has made, especially in Kenya and Nigeria. Tecno is now the most popular mobile electronics brand in Kenya and Nigeria, having surpassed several well-known brands (including Nokia and Samsung) that were ahead of it in 2015. This suggests that newer brands can make inroads in Africa if they are seen as superior and are marketed effectively.

The Channel Question: Where Do Africans Shop?

Africans still visit traditional retail channels—general stores, kiosks and spaza shops, street hawkers, and markets—on average four times more frequently than they visit modern channels. Modern channels in Africa—including grocery stores, hypermarkets, specialty retailers, and supermarkets—don't get nearly as much business as traditional channels. But there are country- and income-specific channel preferences that sellers should understand.

General Stores Still in Wide Use. Nigerians tend to use modern channels—mostly specialty retailers—for their technology purchases. The reason for this may be related to Nigerian retailers' track record of providing poor after-sales service and their failure to guarantee their products' performance. (A few years ago, the lack of guarantees was such an issue that the country's consumer protection oversight council expressed concern that Nigeria's economy would be held back by it.) When they are buying these high-ticket items, Nigerians may see a measure of safety in going to a specialty retailer whose products carry the backing of major foreign manufacturers. By contrast, Nigerians turn to traditional channels—usually general stores—for food, beverage, and clothing purchases.

Likewise, Moroccan and Tanzanian consumers buy most of their everyday items at general stores. In these countries, the general store is the go-to format (far ahead of specialty stores) for the purchase of technology products. Alcoholic beverages are the only everyday products for which Tanzanians deviate from their own pattern and look to modern channels. They buy beer and spirits at specialty retailers and wine at supermarkets.

Africans still visit traditional retail channels on average four times more frequently than they visit modern channels.

Consumers in Ethiopia and Ghana (two of the fastest-growing countries in our survey) also prefer traditional channels, with Ethiopians still making considerable use of street kiosks. Ghanaians' channel preferences are more varied. Their first choice for chocolate and other candy is indeed a street kiosk, but a plurality of Ghanaians also shop at general stores for milk, at traditional markets for clothing and footwear, and at street hawkers for snack food.

Among our survey participants, Angolans appear to be the least set in their channel preferences. They prefer traditional channels over modern ones when they are buying clothing, packaged foods, and home care products, but for breakfast and snack foods, they are as likely to go first to a modern channel as to a traditional channel. Indeed, looking at a distribution of channel preferences by product category, one might not see much rhyme or reason in Angolans' behavior. This may be a reflection less of randomness than of the issues that have arisen because of Angola's economic problems and the devaluation of its currency. If you are one of the many people living in Luanda, the nation's capital, and struggling financially, you are probably less focused on where you shop than on finding an outlet that has the product you need, at a price you can afford. (See the sidebar "A Retailer in Angola Succeeds Using a Contrarian Strategy.")

A RETAILER IN ANGOLA SUCCEEDS USING A CONTRARIAN STRATEGY

The payoff of engaging at a detailed level with what's really happening in Africa, rather than making assumptions, is evident in the success of the Bem Me Quer chain in Angola.

As Angola's GDP growth began to decline in 2014, turning negative in 2016, many foreign-owned shops shut down. Bem Me Quer, a franchise business set up by Mega Cash & Carry, took the opposite approach: it expanded. The chain converted hundreds of previously independent kiosks into franchises, persuading the store owners to operate under the Bem Me Quer brand by offering to refurbish the stores and providing them with better storage equipment, including new coolers and refrigerators. The average franchise store now generates $1,000 a week in sales.

The franchise business has become a nice source of revenues for Mega Cash & Carry, which is part of Nuvi Group, an international corporation.

As for South Africans, they have the distinction of being the only group in the survey who buy more in modern channels than in traditional channels. This partly reflects how fast retail has come of age in South Africa: Shoprite, Pick n Pay, Spar, and Woolworths all operate there, giving South Africa the most extensive set of modern retail options on the continent. (Kenya, Egypt, and Morocco also have a fair number of modern retail outlets; other countries in Africa generally have far fewer.) For two-thirds or more of South Africans, a modern supermarket is the place to go for breakfast cereals, milk, coffee and tea, and staples. Overall, South Africans do not go to supermarkets nearly as often as they go to traditional channels, but the survey suggests that when they do go to a supermarket, they walk out with their arms full.

Developing a Channel Strategy. The different rates at which shopping channels have developed across Africa means that there is no one path to success for retailers and multinational corporations. It might seem that African retail would be moving inexorably in the direction of modern channels, certainly for more sophisticated products. But a manufacturer that makes that bet—and puts all its resources behind it—would jeopardize a sizable portion of its sales in certain product areas and markets.

Alcohol purchases provide a good example of why companies should gather facts before committing to a channel strategy in Africa. Consumers in Morocco, like those in Tanzania, generally buy alcoholic beverages in modern channels. But in Ethiopia a company trying to sell wine would be making a mistake if it overlooked traditional channels. Ethiopian kiosks—and neighborhood shops that people run out of their homes—are where most consumers buy wine. The habit of going to a specialty store for wine, a relatively high-ticket item, hasn't yet caught on in Ethiopia.

Or take mobile electronics. This is a category, if ever there was one, that seems best suited to a modern channel, one with the resources to offer product-and-service bundles and staff who can provide technical support. But a mobile electronics manufacturer that focuses entirely on modern channels in Uganda—the second-poorest country in our survey—would miss a substantial portion of the market. Half of all Ugandans who buy such products do so through a traditional channel.

To some extent, the choice of a shopping channel in Africa is income dependent. High-income (more than $3,000 per month) households in Angola and Morocco are more likely to shop in the modern channels available in those countries; low-income (less than $700 per month) Angolans and Moroccans are usually more comfortable with older, traditional channels. But the difference doesn't show up in every African country. For instance, wealthier Nigerians, just like poorer ones, prefer traditional channels.

In the end, it's probably most accurate to say that there isn't a good channel strategy in Africa that doesn't take into account the specifics of the category and the country where the product is being sold. (See Exhibit 3.)

Who's Online? Africa's Digital Consumer

Generally, in the urban parts of Africa where we conducted the survey, at least 40% of the people have some form of internet access. From 40% to 49% of Angolans, Egyptians, Ghanaians, Moroccans, and South Africans have internet access. Internet penetration is even higher in Algeria and Uganda (59% and 50%, respectively) and higher still (60% to 70%) in Côte d'Ivoire, Ethiopia, and Nigeria. Tanzania is the outlier on the low end (only 38%), and Kenya is at the high end: more than 80% of the population in Kenya's cities have internet access, reflecting one advantage of living in one of Africa's most technologically advanced countries.

Exhibit 3 | Where Africans Shop for Different Products

	A sampling of products purchased in modern channels	A sampling of products purchased in traditional channels
Algerians	Baby and toddler products	Chocolate and other candy
Angolans	Home appliances	Home care
Egyptians	Packaged food	Snack food
Ethiopians	Home appliances	Milk
Ghanaians	Baby and toddler products	Breakfast cereals
Ivorians	Spirits	Snack food
Kenyans	Home electronics	Clothing and accessories
Moroccans	Alcoholic beverages	Clothing and footwear
Nigerians	Alcoholic beverages	Staple foods
South Africans	Home appliances	Snack food
Tanzanians	Packaged food	Clothing and footwear
Ugandans	Alcoholic beverages	Soft drinks

Source: 2018 BCG Africa Consumer Sentiment survey, January through March 2018.
Note: Staple foods include rice, maize meal, cassava flour, and wheat flour.

In most of the countries we surveyed, the total share of internet-connected consumers drops considerably when people in rural areas are factored in, according to World Bank survey data.

Although the likelihood of being online climbs with household income in Africa, many poor people do find ways to connect to the internet. For instance, two-thirds of Kenyan respondents with household incomes of $50 to $200 a month (the lowest income bracket in the survey) had accessed the internet within the 12 months leading up to the survey. This was true for 59% of Nigerians, 49% of Ivorians, and 44% of Ethiopians at this income level. Algeria has the lowest share of low-income internet users, but even there, the number is a not insignificant 19%.

The vast majority of those with internet access in Africa (on average, 90% in the countries in our survey) connect with a smartphone. Connections are typically over a 3G network. The prevalence of these connections (which often provide less than one-tenth the speed of 4G connections) is something that companies need to consider in designing websites and e-commerce services for consumers in Africa.

Millennials' Internet Activity. In all the surveyed countries, millennials are the Africans most likely to be accessing the internet. The prevalence of young internet users is particularly pronounced in Algeria and Uganda, where about three-quarters of all internet users are millennials. South Africa is the only country in which millennials don't account for the majority of internet usage. The explanation for this may lie in the average age in South Africa, which—while young compared with the rest of the world—is on the older side for Africa.

In all the surveyed countries, millennials are the Africans most likely to be accessing the internet.

E-commerce is just emerging in Africa, but many Africans already use their smartphones and other connected devices to inform their offline shopping excursions. For instance, among Africans with online access, about one in four uses the internet to search for price information before going to a retail store. One in five uses the internet to search for product specifications and product information.

Social-Media-Influenced Shopping. In certain African countries, social media sites are becoming important sources of influence in offline shopping. In Kenya, Algeria, Côte d'Ivoire, and Ethiopia, the proportion of consumers who said that social media sites influence their purchases has more than doubled since 2015, reaching 38%, 33%, 21%, and 16%, respectively, in those countries. This coincides with a continent-wide decline in the influence of traditional media: with few exceptions, neither television nor radio has the same impact it had a few years ago.

Despite the early stage of e-commerce on the continent, a handful of indigenous players have gained mindshare. Among them is Jumia. In accepting cash as a form of payment and promising fast deliveries and hassle-free returns, Jumia has directly confronted issues—such as trust and transparency—that have held back e-commerce in Africa. Some manufacturers are pursuing similar strategies and racking up early victories. (See the sidebar "An Angolan E-Seller Takes Steps to Reduce Buyers' Fears.")

AN ANGOLAN E-SELLER TAKES STEPS TO REDUCE BUYERS' FEARS

"I don't have a Visa card."

"I don't know if the seller is real or not."

"What happens if the product gets delivered and I don't like it?"

NCR Angola knew customers would have concerns like these when it decided to add an e-commerce site to its brick-and-mortar outlets. So it took a few steps to fend off consumers' anxiety.

First, the electronics company made it clear—through banner ads on its new site—that it would accept everyday bank cards for payment. The company also set up a team to call customers within two hours of their adding items to a shopping cart. And when even those steps weren't enough to overcome customers' innate distrust of an online site, the company did away with delivery fees.

The result has been the creation of a new online business that represents more than 10% of NCR Angola's total retail sales.

Among the best practices the Angolan company has identified—and which other sellers can emulate—are to accept all modes of payment, including mobile money, and to make embedded search engines easy to use. The company is now putting together home installation teams so that products are not only delivered but are also set up to customers' satisfaction. The goal is to reduce the expensive problem of returns.

This third edition of our Africa survey confirms a continuation of trends already evident in 2013 and 2015, such as a high degree of optimism among consumers, a preference for well-made durable products, and a significant amount of loyalty to long-established brands. This latest survey provides further evidence that Africa is not a single market. Rather, it comprises many markets that differ in their levels of economic and retail development. For now, just about every country on the continent still conducts most of its consumer sales through traditional channels, including general stores and traditional markets.

Despite the persistence of traditional retail formats, it would be a mistake to downplay the significance of modern channels in Africa, including, obviously, internet commerce, which will certainly grow quickly once it starts. In other emerging markets, Gen Z consumers, many of them on social media, are already forcing retailers and manufacturers to adapt. Change hasn't happened as quickly in African countries as in other RDEs, but it is starting and will soon accelerate. Those who want to win must perform a delicate balancing act: serve the continent now and prepare for its much bigger future.

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