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## Africa's New Consumers Choose Quality Over Quantity

By Alexandra Wexler



Top priority: Cellphone minutes are among the first things Africa's new consumers buy when they find themselves with some disposable income, says one frontier-markets fund manager.

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As more and more of Africa's population earn disposable income for the first time, consumption of goods will naturally rise. The big question? What they're buying first, of course.

The answer varies widely from country to country, but certain themes, including the importance of quality and brands, seem to pervade.

"People think if you sell something in Africa it has to be cheap," said Alison Graham, chief investment officer at frontier-market-focused fund manager Voltan Capital Management in New York. "A lot of it kind of ends up being junk, and there's no such thing as a refund policy in Africa."

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What a lot of those people are missing is that Africa's new consumers are willing to save up money and spend more on a product that they perceive to be of higher quality.

"People trade up and down the value chain much more quickly and easily than people do in developed markets," Ms. Graham said, citing soap as an example.

With a little extra spending money, consumers in developing markets will upgrade to an imported product, like Dove, a [Unilever](#) brand. But, if money becomes tighter again—say, if someone in the family loses a job—they'll trade down to a local brand.

### **Missed Opportunity**

Companies are prone to ignoring low-income consumers in developing markets, says the Boston Consulting Group. By doing so, however, those companies may be missing a substantial opportunity.

"Often overlooked are the low-income and bottom-of-the-pyramid consumers who also shop and are already buying and willing to trade up for international brands," BCG said in a study of consumer sentiment among 10,000 Africans. "In fact, the total number of consumers who are likely to buy any given product may be larger than many companies believe."

BCG found that African consumers are mostly likely to increase spending on clothing, footwear and accessories, cars, and baby and toddler products.

# Living Large: African consumers' spending plans

Average increase or decrease (%).

Category	Ghana	Kenya	Nigeria
Clothing, footwear, accessories	50.00	56.00	43.00
Cars, automobiles	49.00	52.00	39.00
Baby and toddler products	47.00	47.00	25.00
Mobile electronics	25.00	23.00	36.00
Insurance	44.00	58.00	18.00
Beauty care	14.00	31.00	22.00
Home appliances	19.00	20.00	15.00
Home electronics	20.00	14.00	18.00
Healthcare	-12.00	41.00	0.00
Take-out meals, restaurants	-7.00	3.00	-2.00
Breakfast cereals, foods	20.00	36.00	21.00
Packaged food	2.00	15.00	24.00
Coffee, tea	5.00	26.00	6.00
Wine	-6.00	25.00	-12.00
Snack foods	-17.00	5.00	2.00
Soft drinks	-14.00	13.00	-7.00
Beer	-11.00	-6.00	-18.00
Alcoholic beverages ex-beer/wine	-17.00	-7.00	-22.00
Chocolate, candy	-27.00	-19.00	-7.00

Source: BCG

The segments that are least likely to see growing interest from African consumers in the near-term may surprise companies. According to the report, alcoholic beverages—which are commonly thought to be among the first things people buy when they have a little spare cash—do not figure as highly on new consumers' spending plans. Candy and chocolate, and take-out meals and restaurants were also found to be lower priorities.

“Brands remain important even as income declines,” BCG said, noting that 99% of the consumers surveyed could recall a favorite brand of mobile phone, and 89% could name a favorite clothing brand.

What else do these consumers buy? “Certainly cell phone minutes,” Ms. Graham said. “And a lot of gifts for people, or parties, and over-the-counter medicines like Aspirin.”

## Small Is Big

In many rural areas, entrepreneurial Africans can be found selling cigarettes one at a time to local consumers. The consumer goods companies that succeed in newly emerging markets tend to be those that understand the significance of that and tailor not just their products but the way they sell them to suit customers whose disposable income often amounts to just a few dollars.

“It’s hard for a lot of people to accumulate enough money for large purchases,” Ms. Graham said. “A lot

of consumer companies have done well offering very small sizes” of their products.

Successfully selling products in small quantities can present logistical challenges, though, given the poor infrastructure in many African countries, which worsens dramatically in more rural areas. As a result, the supply chain remains a huge challenge in reaching newly minted African consumers.

Ms. Graham says [Coca-Cola](#) and Mars have particularly good supply chains in rural areas of frontier markets, thanks to some innovative delivery techniques. Mars, Ms. Graham said, often uses tiny refrigerated containers, strapped onto the back of mopeds, which are sometimes solar-powered. Coca-Cola uses local distributors who transport their products in small quantities by bicycles or donkey carts, she added.



Market knowledge: Multinationals that package products to appeal to newly emerging consumers have more chance of succeeding.

Agence France-Presse/Getty Images

Of course, there is also a rapidly growing middle class in these markets that retailers have access to for the first time. The Organisation for Economic Co-Operation and Development estimates that the global middle class comprised 1.8 billion people in 2009. By 2020, just 11 years later, it will have grown to 3.2 billion.

“There’s a little bit of a difference in terms of what’s a priority” in Asian and African markets, said Madhur Jha, senior global economist at Standard Chartered bank, citing a survey of 5,000 middle class consumers in several developing markets in Asia and Africa. In a country like Indonesia, for example, saving and education are two main goals for consumers entering the middle class.

“[In] some of the African countries, it’s more about being able to get a motorcycle or accessories or household consumer durable goods,” Ms. Jha said.

The Standard Chartered survey revealed another key trend among middle class consumers in Africa. According to the report, they would rather travel to China to conduct business than the more traditional U.S. and European destinations, an indication of China’s growing importance in the African economy.

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