Growing in Africa

Capturing the opportunity for global consumer products businesses
Growing in Africa

Africa is a significant growth market that no consumer products business can afford to ignore. Gross national income per capita in many African countries is already greater than in China or India, gross domestic products (GDP) is comparable to Brazil and, at 16% compound per annum, consumer spending is rising rapidly. But hand in hand with this enormous opportunity goes enormous complexity. Even the global companies that are already established here recognize that capturing the opportunity in Africa is going to be a long, and complex, journey.

To be successful, you need to get the strategic decision-making right and this is particularly true in Africa where the opportunities, and the risks, are on such a massive scale. You need to decide, for example, which of the continent’s 53 countries, multiple trade blocs or socio-demographic segments to prioritize today. Equally important is the ability to execute on the ground and deliver consistently across this wide variety of markets, even as they change and mature over the longer term.

Many of the early entrants to Africa have established successful, profitable businesses. Companies have been able to generate competitive advantage by influencing consumer preferences, building brand loyalty and shaping industry structure before competitors have a chance to become established. Companies that have yet to build a presence in Africa need to move fast if they are to enjoy the same advantages.

Having the “right” approach in place is essential. But deciding what “right” looks like is a matter for judgment that will require companies to understand the specific characteristics of Africa’s varied markets, think differently and think long term.

While partnering with local distributors often seems a low-risk entry strategy to learn the market and get brands established, how and when companies move to joint venture, acquisition or independent operations within or above market is a more complex analysis. Companies will need to keep reassessing the market and adapting their operating model as insight develops and markets change.

As companies look to build their Africa presence, we believe there should be four areas of strategic focus:

- **Resource prioritization** – where and how should we prioritize for greatest return and lower risk?
- **Brand and product portfolio** – how do we determine what is right for each market?
- **Organization** – how do we structure for success?
- **Sustainability** – how do we improve the growth and performance we are generating over the longer term?

Answering questions such as these will be a challenging process, but we believe finding the right answers will help companies to win in the marketplace.

Ernst & Young has a strong presence on the ground in Africa and a history of working with global consumer products companies on their Africa journey. If you would like to find out more about our capabilities or to gain a more in-depth perspective on opportunities in particular markets, please get in touch.

Richard Taylor
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Sizing the prize

Africa is a significant growth market. GDP per household across the continent has more than doubled in the last 15 years. Investment increased sixfold\(^1\) between 2000–09 and today around 85 million households earn at least US$5,000 a year, the income point at which packaged goods become affordable.

As inflation and debt reduce and the level of conflict subsides, so greater economic and political stability will encourage urbanization, access to jobs and the rise of Africa’s middle classes.

Between 2005 and 2015, it is estimated that the number of destitute consumers will shrink by 20%, whereas the addressable market, the number of individuals earning above US$1,000, will grow by 16%. The sheer volume of low-income consumers and the growth in the number of aspirational consumers with disposable income creates huge opportunities for consumer products companies.

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**Africa today**

- Total population, 1 billion
- Population under 15, 41%
- Adult literacy, 62%
- GDP income per capita is 10th of world average
- Around 45% living on US$1 a day
- Mobile phone subscribers, 37%
- Population living in urban areas, 38%
- Collective GDP (2008), US$1.6tr
- Collective FDI (2008), US$87b
- Combined consumer spending (2008), US$860b

**Africa tomorrow**

- Total population, 1.4 billion by mid 2025
- Total population, 2.1 billion by mid 2050
- 128 million households with discretionary income by 2020
- Consumer spending will be US$1.4t by 2020
- Collective GDP will be US$2.6t by 2020
- Around 50% of Africans will be living in cities by 2030

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Africa is a fast-growing economy with significant business opportunities

Gross National Income (GNI) per capita is greater than China’s and India’s (more than US$2,010)

GNI per capita is between China’s and India’s (more than US$825–US$2,010)

GNI per capita is less than India’s (lower than US$825)

Information not available

Source: Africa Rising, V Mahajan
Prioritizing your investment

Considering potential markets for entry or expansion is a complex exercise in Africa. We believe it requires a kaleidoscopic analysis that enables you to assess the strengths and weaknesses of each potential market through a variety of lenses, depending on your strategic priorities.

Africa is seen by many companies as the final frontier for a reason. Together, its countries have a larger land mass than China, the US, India, Europe, Argentina and New Zealand combined. Over 1,000 different languages are spoken by multiple ethnic and religious groups. In many cases, national boundaries have been carved arbitrarily by accidents of history, so religious and urban groupings frequently cut across borders.

Overlapping regional and trading blocks, combined with complex ethnic and cultural groupings, further complicate market prioritization. Economic growth and business prospects are markedly different from country to country and region to region, making it difficult to transfer insight from market to market.

Such complexity requires a fundamentally different approach to investment prioritization.

Some companies may prefer to diversify their investments across several different countries since the differing political, economic and regulatory environments mean that the range of prospective outcomes when looking at an investment is greater and the risks, by definition, are higher.
in Africa

Answering Africa’s strategic questions

Any global consumer products company considering entry into Africa, or further expansion within Africa, needs to weigh the following as part of its attractiveness analysis:

► **Political stability** – Civil unrest, regime instability, economic hardship and corruption are more prevalent in Africa than in any other continent. How do we assess the likely economic and political stability of the markets we are targeting and manage the risk of regime change? What is the level of ongoing civil unrest and is there much evidence of government intervention or contract frustration?

► **Infrastructure status** – What is the quality, connectivity and reliability of roads, trains and ports? Distance may not be the issue, but time – how long do journeys actually take? How reliable are power and water supplies?

► **Quality and reliability of local manufacturing** – Is there a local supply and manufacturing base of sufficient quality that we can leverage?

► **Legislative and regulatory environment** – What are the legal constraints in terms of import vs. local manufacture, and buy vs. build?

► **Consumer understanding** – Do we have sufficient insight into local consumers across all target segments of the population? Do we understand more than where they live and how much they earn? Do we know how they like to live and how they spend?

► **Variety and complexity of routes to market** – Do we know and understand how to get goods to market? Can we leverage an existing distribution network or will we need to innovate and build our own?

► **Local talent** – Are there local staff available with appropriate experience and language skills? To what extent will we need to deploy local staff from day one in order to comply with local requirements?

► **Regulatory, tax and legislative change** – The pace and scale of change in Africa can blindside businesses that are not well networked and can complicate understanding/recognition of local accounting and tax issues. Could we partner more effectively with local businesses to mitigate the impact of protectionist government intervention?

► **Corporate social responsibility considerations** – Working effectively with local partners and local government is essential for success and sustainability in many African markets where rules can change unpredictably, and investment strategy may need frequent and radial revision. How do you identify the right relationships and manage them effectively?
Taking a kaleidoscopic approach

The complexity of the African marketplace requires a fundamentally different approach to investment prioritization, strengthening the case for a kaleidoscopic analysis — one which allows you to interchange different lenses to build up a richness of perspective and the scope to define what, in the African context, are often undeveloped or even latent markets.

Two of the lenses you may find helpful in market prioritization are:

- **Groupings** of markets, like regions, individual countries, trading blocs and countries with cultural affinity
- **Dimensions** like a sector view, demographics and socioeconomic bands

Looking through the geographic lens

Conventional macroeconomic indicators are where most companies start their market analysis. On this basis, South Africa, Tunisia and Morocco are all reasonably mature, diverse and (more or less) open economies, with relatively positive growth prospects. Botswana, Namibia and, increasingly, Mauritius would also fall into this category, although their relative population sizes are small. Nigeria features prominently in many analyses. Despite current challenges of doing business, regulatory reforms are having a positive impact, and sheer population size (over 150 million, almost half of which is urban), oil wealth and the strong economic growth trend make it a market that is difficult to ignore.

Urban conurbations are another lens worth looking through. The continent’s five largest consumer markets by 2020 are likely to include Cape Town and Johannesburg (South Africa) and Lagos (Nigeria). Each of these cities is expected to generate over US$25b a year in household spending — comparable to Mumbai and Delhi. Many other cities — including Dakar (Senegal), Ibadan (Nigeria), Kano (Nigeria) and Rabat (Morocco) are expected to be worth over US$10b a year. Less conventional market groupings can also be useful in helping to progress thinking. Urban corridors, for example, are viable markets in themselves and are often missed in straightforward country-based comparisons. So, for instance, while Nigeria and the broader West African region may look daunting in terms of market development, the Greater Ibadan-Lagos-Accra (GILA) urban corridor has a population of about 25 million consumers, and has the potential to become the real economic engine of Africa.

Trade blocs can also create a favorable operating environment and companies should consider the benefits of operating within established country groupings such as ECOWAS (the Economic Community of West African States), a regional group of 15 West African countries, founded in 1975. EAC, the East African Community, is the regional intergovernmental organization of the Republics of Kenya, Uganda, Tanzania, Rwanda and Burundi, forms a similar function in the East.

Looking through the socio-demographic lens

The African continent is highly sociologically complex and home to people from a wide variety of ethnicities, creeds and cultures. For example, it is home to one third of the world’s Muslim population, living not just in north Africa, but also in sub-Saharan countries like...
Nigeria, and in east Africa. Understanding this enables a more “joined up” perspective of African consumers that stands apart from historic, colonial boundaries. Overlay this perspective with analysis of household income and you can start to develop a view of which consumer groups in which countries are becoming more or less affluent – insight which is essential as businesses hone their product portfolio to target Africa’s bulging base.

While each company will need to construct its own framework for analysis, depending on its strategic priorities, we have produced a sample identifying the high potential African markets for companies targeting consumers in the middle class, US$5,000-US$20,000 annual income.

Assessing the US$5,000–US$20,000 annual household income segment in a sample of African markets

This framework ranks the potential of African markets based on a variety of indicators – primarily the growth rate of the target market segment, the number of households within that segment as a proportion of the whole market and the ease of doing business in that country.

Questions to consider:
- Do we understand the growth opportunity in Africa?
- Where do we stand relative to our competitors?
- What are the lenses we need to apply in deciding our strategy for Africa?
- Where should we start our journey or leverage our existing presence?
- What level of investment will be necessary and what are the timescales for returns?
Deciding what to

There are a number of very strong messages coming out of Africa in terms of brand preferences and the drivers of consumer purchasing behavior. You need to understand African consumers and overcome the difficulties of poor local infrastructure and lack of modern trade to reach priority consumer segments with a tailored proposition.

African consumers are a complex and varied group where ethnicity, culture, affluence and religion play a major role in driving preferences and purchasing behavior. Consumer strategy needs to be tailored to reflect how these influences play out across country markets. Although many markets are not yet strongly developed, consumer research is available. Companies looking to bolster consumer research and acquire data by partnering with local businesses to leverage their consumer knowledge, and by hiring locals to conduct market research and build the insights and case studies that showcase the deeper drivers of consumer behavior.

Understanding African consumers

► **Pro Africa** – SABMiller tried to introduce its traditionally South African brand, Castle, into Kenya but failed to dislodge EABL’s Tusker beer which taps into the country’s fierce nationalism with its elephant branding and “My country, my beer” slogan.

► **Status conscious** – Africans are keen to demonstrate status through wealth. Trading up is a common trend that drives the purchase and use of products. For example, Unilever’s Handy Andy surface cleaner (Cif) is often left out in homes for guests to see. Similarly, premium spirits are consumed in bars, not at home.

► **Religious** – Many consumers are influenced by religious practices (particularly in countries with a strong Muslim or variable ethnic contingent) affecting everything from clothing to personal grooming to eating and drinking practices. Ramadan has been the focus of a number of highly successful initiatives by consumer products companies; for example, P&G’s musk-scented Tide detergent for Ramadan.

► **Traditional** – Clothing requirements are behind some key sales trends. P&G has seized the opportunity and launched a campaign for Pantene focusing on its strength and ability to combat hair loss, which is often an issue for veiled women.

► **Cost conscious** – Single-use or low-cost products are experiencing solid demand. Products like SC Johnson’s individual mosquito coils for US$0.01 and returnable 200ml bottles of Coca-Cola’s drinks can be profitable, provided companies invest in research, planning and logistics needed to reach the US$0.5-a-day consumers.

► **Performance focused** – Consumers will seek to maximize product use e.g., using one or two diapers a day, not eight. Efficacy and quality are key product attributes and companies should strive to optimize core functionality rather than seeking to “add value” as in more developed markets.
Developing the relevant portfolio

A variety of global and local brands are already established across Africa and companies will be striving to achieve an 80/20 or ideally 70/30 split between global and local products in order to preserve economies of scale and boost profitability. The key question for many is whether Africa will turn out to be like Asia, where each country market is unique and it can be harder to establish global brands and operating models; or whether Africa will follow more closely in the footsteps of developing markets in the Middle East and Latin America. In these regions, despite cultural differences, consumer appetite and brand preferences have generally integrated well with the global model. While global companies’ experience of Africa is still too early to have a clear view on what proportion of the brand portfolio will need to be exclusively African, it seems clear that a strong showing in value products will be necessary to tap into Africa's bulging base (see page 4).

Getting the price point right

It is difficult to provide any general oversight into pricing in Africa. Markets are highly variable and companies are still in the phase of working out their go-to-market strategies, reflecting on experience and redefining their approach in the light of better understanding about how consumers like to shop and what they can afford. A good rule of thumb, particularly in rural areas, is that consumers lack transport and funds, so they are likely to prefer to buy goods in smaller quantities and smaller sizes for immediate consumption.

Innovations around price frequently involve reworking pack sizes for immediate consumption and smaller budgets. In Nigeria, for example, companies sell water in plastic bags for 5 naira (US$0.04), the smallest unit of currency. The closest the major companies have come to this is a small lemon-shaped bottle with a foil cap, produced by Nestlé for 16 naira (US$0.13).

In Egypt, P&G has launched smaller sizes of Tide and Bonnex to target less affluent consumers. In Kenya, reflecting the fact that many consumers lack access to refrigeration or reliable power supplies, EABL has kept prices down by selling its Senator beer direct from kegs in rural areas. The beer lasts longer than in bottles and could be sold by the glass, at cheaper price points.

The scale of counterfeiting and illicit trade complicates pricing strategy across Africa. It is hard to compete effectively against businesses that pay no tax or duties and which piggy-back on the brand and market spend of legitimate global businesses.

Tailoring the consumer experience

Consumers have different expectations of products in Africa than in developed markets. For example, whereas Western consumers’ key expectations of a meal at McDonald’s are speed and convenience, many African consumers will see a trip to McDonald’s as a special event, not a routine occurrence. This means they want to enjoy the moment and not be rushed.

Coca-Cola has neatly joined this desire for an experience with the need for value by partnering with a local distribution company to sell its drinks in returnable bottles to small local stores. If consumers drink on the premises, they need only pay for the contents of the bottle. This minimizes cost and, as volumes increase, enables the store-owners to qualify for Coca-Cola “gold status.” Gold status stores receive branding support from Coca-Cola including signage, glass-fronted fridges and Coca-Cola menus, which in turn enhances the experience for the consumer and encourages further consumption.
Investing successfully and organizing effectively

Investment approaches and operating models need to be adjusted to local market conditions and regulatory requirements. No matter what approach you adopt, consistent execution across all markets to deliver reliably to customers and consumers, drive down costs and reduce risks will help make businesses more likely to achieve long-term operating success.

Getting into the market

In our experience, many companies begin their involvement in Africa via a distribution relationship with a third party. Often, they move on to a joint venture relationship before, if the economic and political conditions are right, acquiring majority ownership of the joint venture. In the longer term, if local rules allow, some choose to establish a wholly owned local presence.

Given that the degree of certainty around the legal and regulatory framework varies greatly across the continent, some companies have a preference for joint ventures over outright acquisitions as a means of keeping goals aligned. Whatever the entry strategy, investment in Africa is often complicated by the difficulty of getting credible data to base a valuation. Organizations may need to consider how their standard deal evaluation models need updating to reflect the vagaries of doing deals in Africa. Some organizations have a standard global approach to deal evaluation, often driven by the Group treasury function, which applies rigorous financial thresholds. In our experience, such an approach is not always successful in Africa since, as in many emerging markets, there will always be a subjective aspect to deal pricing and what one leader may see as “transformational” may be interpreted less favorably by others. Disagreement on value highlights the vital importance of the integration process in any merger or acquisition.
Harnessing five steps for success

We believe there are five steps that are critical for successful acquisitions in Africa:

1. **Carefully select the right local partner/target** — Understanding the equity story, the shareholding structure in what may be a family business, the M&A experience of the shareholders, management capability and integrity are critical for would-be global acquirers.

2. **Analyze available data** — Global businesses will need to devote resource to analyze the inevitable gaps between local GAAP and IFRS/US GAAP. This is likely to require a full audit including not just financials but legal and IP rights, tax, environmental, manufacturing, HR and ethical practices. This provides a base for assessing whether business plans are reasonable and for building a new “combined” business plan. Companies can also bridge the data gap by watching or even partnering with large donors or charities so they can gain insights into the government’s development agenda, and learn more about consumers’ day-to-day lives.

3. **Value the company** — In our experience, companies should favor discounted cash flow (DCF) approaches rather than relying exclusively on multiples, and be prepared to build several scenarios to reflect economic and political uncertainty as well as market volatility. The risks in cash flows (or discount rates) also need to be assessed, plus inflation risks before companies can get comfortable with the bridge between the stand alone value and the potential price.

4. **Negotiate with stakeholders** — Deal pace in emerging markets is often slower and it is essential to negotiate with all the major stakeholders, all the time, both to maintain progress and to build the relationships which will be so essential to the future success of the venture.

5. **Integrate and operate the company** — Securing productivity improvements and retaining existing clients will be top early goals — and both will depend on getting local staff on side and making local management accountable.
Organizing effectively

All developing markets are a journey, but this is particularly true of Africa. Companies operating in Africa are exposed to increased levels of cost and risk because the complexity and variety of markets frequently means that capability varies.

Despite these challenges, many are now starting to recognize they need to transform their overall operating models within the region to address issues on a more consistent basis.

Businesses are starting to evaluate and change their old model and are actively considering which activities need to be in market, which can be put above market in a regional hub, which should be performed in-house and which outsourced. Finance and supply chain are often early targets, offering considerable opportunity to reduce headcount, minimize operating costs and maximize leverage.

Another approach being considered is the opportunity for collaboration. Where it is not the basis of competitive advantage, we are starting to see companies consider how they could cut costs by pooling activities in areas such as payroll or procurement.

Managing the tax charge

A “one-size-fits-all” approach to tax compliance and planning is not a strategy that will work in emerging markets. The various tax systems and administrations simply do not allow for a consistent model. Instead, companies will need to adapt their approach for each country, and sometimes the regions within that country, to provide an optimal model that ensures an appropriate charge. We believe that there are opportunities for effective tax management in Africa and companies need to be prepared to investigate and weigh up the options before taking major location or structuring decisions.

Direct tax in the local emerging markets – In some of the more developed emerging markets, companies can aim to make the most of preferential arrangements in particular regions, e.g., tax credits, holidays or lower rates. Generally, in Africa, in the absence of advanced pricing agreements which would provide certainty about how investments in assets and income generated locally will be treated from a tax perspective, greater vigilance will be required and there may sometimes be an element of compromise regarding indirect taxes – potentially allowing some to remain on the books (so-called sticky VAT) in the interests of not becoming a locally registered entity for corporation tax purposes.

Indirect taxes payable in the local emerging markets – In many emerging markets, the authorities use import and export regulations to protect the local market against penetration from abroad and against the loss of labor in the local jurisdiction. The regulations are often aimed at making products more expensive or impossible to import and in some countries more expensive to export also. So when it comes to market focus (both prioritizing investment and product strategy) indirect taxes need to be part of the decision-making in order to minimize overall supply chain costs.

Locating global functions for maximum tax efficiency – As companies move from a nationally focused business to a regional or global supply chain structure, it is essential to develop an appropriate tax and legal model in order to improve transfer pricing and recognize profit in the most beneficial manner – so-called tax efficient supply chain management (TESCM). Global companies can realize substantial recurring advantages by applying a TESCM lens to the opening, closure, location and structuring of centralized supply chain functions.

Companies also need to be prepared for the need to help local partners with credit and cash-flow issues. In many countries where access to organized finance can be problematic, assistance in terms of funding stock up front or deferring payment for goods supplied can be helpful in strengthening local partnerships. On the downside, however, this can increase operating risk.

Companies are adopting a variety of strategies to organize effectively in Africa – the following include some examples of approaches that we have observed.

“Going regional” to improve service and reduce cost

In an attempt to combat complexity and drive down cost, Ernst & Young helped a global consumer products company design a regional operating model to move functional activity above market, improve service and reduce cost. Rather than a proliferation of local businesses, the manufacturer selected what it considered the region’s critical must-win territories: Kenya, Nigeria and South Africa. Three key factors drove its decision to drive scale through these three locations: strong existing demand, potential for future growth and trade bloc incentives.

Plants in these centers combine manufacturing capability with a strong local logistics presence that enables the company to adjust or regulate the flow of goods in response to changing market conditions. Each center also has a sales organization that manages relationships with customers (large retailers), independent distributors and other third parties, including trade organizations.

In the local country markets served by the focus factories, the company deploys different operating models depending on the conditions. Each center also has a sales organization that manages relationships with customers (large retailers), independent distributors and other third parties, including trade organizations.

Businesses are starting to evaluate and change their old model and are actively considering which activities need to be in market, which can be put above market in a regional hub, which should be performed in-house and which outsourced. Finance and supply chain are often early targets, offering considerable opportunity to reduce headcount, minimize operating costs and maximize leverage.
Cracking the informal market

The informal economy is a key feature of life in Africa – estimated to account for around 42% of GDP in 2000 with the highest figures in Zimbabwe (59.4%), Tanzania (58.3%) and Nigeria (57.9%). South Africa is the least informal market – only 28.4% of GDP. The International Labour Organization (ILO) estimates that 72% of non-agricultural employment in sub-Saharan Africa is informal, so small “mom and pop” stores have enormous market share – possibly as high as 85% of volumes.

The combination of lack of formal retail, underdeveloped infrastructure and a fragmented local logistics sector means that global consumer products companies often need to consider strategic improvisation to create their own solutions for cracking the informal market and reaching consumers effectively and in a cost-efficient manner.

Although not apparent, informal markets have structures, rules and a flow which businesses can tune into if they are prepared to invest sufficient time and effort.

Questions to consider:

► Are we selecting acquisition targets effectively?
► How do we ensure consistent and efficient delivery across Africa?
► How do we improve cost-efficiencies across a number of African countries?
► What organizational structure should we adopt to ensure long-term success?
► Have we got an operating model that will enable us to move with agility and speed?
► How do we successfully replicate our business model across Africa?
► How do I make my investment tax-efficient?

Getting creative to reach consumers

Whatever model they adopt, companies need to be particularly careful that in the drive for control and consistency, they retain the market insight and flexibility that ensures they remain responsive to changing consumer dynamics.

When local markets are too small for a multinational to offer just the core range, it is commonplace to extend distribution facilities to other businesses to bulk out ranges and cooperate with others to reduce transportation costs. Some of the approaches we have seen include:

► Coca-Cola uses a combination of trucks, bicycles and hand carts to distribute its products. Working closely with local distributor Njeri, there is nowhere in Africa the company does not go. It works closely with the distributor and local stores (dukas) to ensure products are delivered and displayed properly.

► Guinness in Nigeria uses small “pousse-pousse” push carts to sell non-alcoholic “Malta”, while in Zambia (Southern Africa), Gillette put 18,000 young men on bicycles to sell small cards with five inexpensive double-edged blades. They took the product all over Zambia, increasing sales from 5,000 to 750,000 units in 2004.

► Unilever in Ghana has created a network of small retailers, often with stores no bigger than a large appliance box. This has allowed the company to reach 80% of the population, with rural sales representatives distributing products to remote villages.

► Americana, a fast-food franchisee, has created a sophisticated system for home delivery in Egypt which includes call centers, a routing database using government data and a network of motorcycles with packaging to preserve heat and freshness.
Building for the future

Laying strong foundations for long-term profitable growth is perhaps one of the toughest challenges concerning the African market, given the diversity of market conditions, the speed of consumer change and the unpredictability of legislation and regulation. Deciding where and how management should focus to protect growth and drive performance is a critical challenge facing many businesses.

In our experience, companies are focusing on four key areas to safeguard the future of their operations in Africa:

- Implementing an effective controls and compliance environment
- Retaining local talent
- Fostering strong relationships with local regulators
- Ensuring that the principles of corporate social responsibility are properly embedded

Focusing on critical control areas

The complexity and varying maturity of markets in Africa can create recurring internal control problems within market operations. As you strive to improve the operating environment and lay solid foundations for long-term profitable growth, you may find weaknesses in key financial and business process controls combined with limited appreciation of the value of good control. Particularly where the tone at the top is less consistent than in head office, the sheer pace of development may be used as a reason to slack off both on controls compliance and remediation efforts.

Getting clear visibility of the issues and understanding the cultural and business norms that are at the heart of issues like these is essential if global businesses are to successfully implement a more effective controls and governance environment.

Recurring internal control problems in developing markets tend to be weaknesses in key financial and business process controls, lack of coordination on remediation efforts and control improvements that suffer from inconsistent management attention. This means that parent companies tend to hear about everything, or nothing — neither of which is ideal.

To strike the right balance between local control and global oversight, sustainable change in the control environment requires increased training and awareness, continually reinforced through performance management.
Retaining local talent

Many global consumer products companies agree that building a strong local team will be a source of competitive advantage longer term – driving both local market success and providing the company with a talent pool to draw from when moving into other untapped high-growth markets or sectors. In some countries, the proportion of local to international staff is set by law, putting even greater pressure on businesses to recruit and retain the right people.

Education levels and availability of local workers is therefore a key market entry consideration for many companies. There is an expectation that companies will have a positive impact on the communities where they are present and pressure is on companies to be creative in the way they deploy and promote local people.

As operating models change over time, possibly removing some functions out of country, the pressure on talent may ease.

Fostering strong relationships with local government

Collaboration with local partners, social inclusion and investment in education can be key drivers of growth in emerging markets and often play a vital role in ensuring that you stay relevant to your consumer base.

Governments look for job creation, training and development of small and medium sized enterprises (SMEs) and infrastructural developments as evidence that companies are going to work effectively in local communities. In return, businesses have the opportunity to use closer community and government relationships to build understanding of the potential timing and scope of tax or regulatory change.

Embedding strong corporate responsibility

Corporate social responsibility takes many forms in Africa. Educational programs include the hospital programs run by P&G in collaboration with the government, offering childcare education to mothers. In Nigeria, Unilever distributes a million free samples of products to mothers in maternity clinics.

Such partnerships deliver value for the local communities but also offer a highly valuable opportunity to enhance consumer understanding and to develop insights. Consumer products companies that are able to place staff into social organizations as part of their community outreach programs have an opportunity for real-time, on-the-ground learning that will prove invaluable in terms of understanding both how people live, and how products are used and adapted.

Questions to consider:

- How can we inject pace into remediating control issues and demonstrate the need to change the game?
- How can we foster strong relationships with local government to help future-proof our business?
- Can we leverage our investment in corporate social responsibility programs to get closer to consumers and improve our insight?
- How do we obtain visibility and confidence in the execution and management of our investments?
- How do we sustain growth and performance into the future?
- How can I account for and positively influence tax volatility?
Ernst & Young has a well-established presence in Africa. Our network of over 3,600 people based in 22 countries includes consumer products professionals who are familiar with the complexities of this diverse marketplace. The high level of integration between our country practices enables us to implement consistent high-quality service across the continent, coordinated through a single point of contact. We work with clients providing advice in a number of areas including African tax, transactions, compliance, technology risk, assurance and other areas. Knowledge professionals based in our Africa Business Center provide support for our clients with research insights on new markets, thought leadership and regular investment bulletins.
Growing in Africa
Capturing the opportunity for global consumer products businesses

Our footprint

Source: Ernst & Young
About Ernst & Young

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How Ernst & Young’s Global Consumer Products Center can help your business

The global recession has reset the consumer products landscape. Value-seeking consumers, intensified competition, increased commodity costs and growth opportunities in emerging markets are driving change. Consumer products companies now need to be leaner and more agile, with a relentless focus on execution. If you lead a consumer products business, you need to anticipate trends, identify implications and make informed decisions that support your business goals.

Our Global Consumer Products Center enables our worldwide network of over 13,000 industry-focused assurance, tax, transaction and advisory professionals to share powerful insights and deep sector knowledge with businesses like yours. This intelligence, combined with our technical experience, can help you accelerate and improve your execution. We can help you to realize the full value of your transactions, improve customer and brand profitability, drive down costs and build an agile and resilient supply chain. If you want to compete powerfully in your market, we’ll help you achieve your potential today and tomorrow.

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