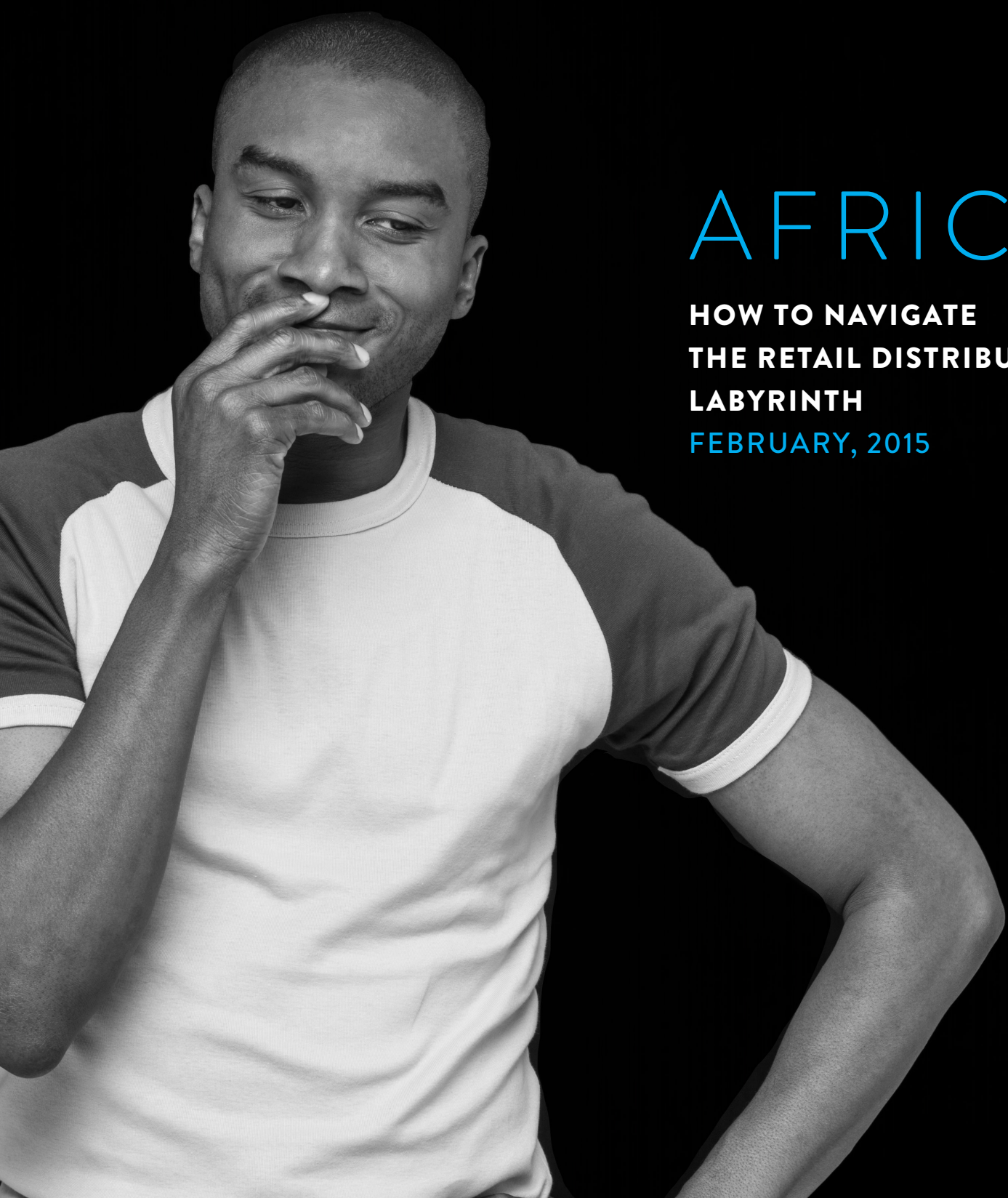


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AN UNCOMMON SENSE
OF THE CONSUMER™



AFRICA

**HOW TO NAVIGATE
THE RETAIL DISTRIBUTION
LABYRINTH**
FEBRUARY, 2015



ALLEN BURCH
HEAD OF AFRICA,
NIELSEN

INTRODUCTION

The promise of Africa's economic progress has put it firmly on the growth agenda of global CPG companies. Today, there are an estimated 350 million middle-class consumers on the continent. Many companies have already mobilized to capture this emerging demand, but nearly as many have had to recalibrate their growth expectations, discovering that delivering strong growth in Africa's markets is not as easy as merely being present with an otherwise solid brand, awaiting demographic tailwinds.

Beyond the well-known infrastructure constraints, one of the more overwhelming challenges is the complexity of the retail environment. Modern trade is growing, but it is still small and underdeveloped outside South Africa. This leaves companies to figure out how to reach consumers in the hundreds of thousands of smaller, traditional and informal outlets that account for the majority of CPG sales. Currently, Nielsen tracks retail sales in 14 sub-Saharan countries where traditional grocery stores account for about 50% of consumer goods spend – there are over 550,000 of these outlets in the countries monitored! But the most common shopping channel of all is the simple table top: a stand set up on the side of the road or in a local market to capture passing trade. Eighty percent of consumers shop from these table tops, of which there are no less than 200,000 in Nigeria alone.

No wonder then, that companies struggle with the scope and scale of distribution. To date, while there is broad macroeconomic and demographic data available to guide market strategies, there has been scant information available about retail structure and consumer interaction to guide distribution strategies. As a result, even companies poised with the right products for the right market still often fail to get them to the right place.

For example, Nielsen analyzed a range of new products in Nigeria, Africa's largest consumer-goods market. In the course of six months, the highest-selling new product measured in Nielsen's Retail Index reached 65% of the retail universe of 745,000 outlets, while the next nine best-selling products were available in just 30% of these outlets. In what developed market would bestsellers 2-10 reach only 30% of possible outlets in six months? Consider the enormous launch potential if these products had only reached more outlets and consumers. This report aims to demonstrate how CPG companies can overcome distribution challenges by getting much closer to a multitude of small retailers upon whom success will in large measure depend.

To do so, they first need to understand who shops where, for what, and when. For example, despite disproportionately higher total spend in the grocery channel, consumers tend to shop less frequently in these outlets, as stores can be hard to get to without transport. In contrast, they often visit a table top or kiosk daily for smaller, top-up quantities. Shopping patterns also differ by country. In Madagascar, a Nielsen survey showed consumers went shopping 70 times a month on average, while in Kenya the average was 38. Some Madagascar shoppers visited the same outlet two or three times a day.

Second, CPG companies will need to identify the best channels and retailers for a given product category. In Lagos, we found laundry detergents in distribution in no less than 100,000 outlets, an impossibly large number to reach. But further analysis showed that 80% of the sales value came from just 35,000 of those outlets, and a full 50% from a more manageable 10,000.

Finally, companies will need to consider how to help build demand in an environment where consumers on limited budgets are ultra-cautious about trying new products, small retailers have little or no display space, shopper loyalty is sometimes to local manufacturers, and premium-priced branded packages are often split open and sold in unbranded singles or servings to meet consumers' needs.

A final example that brings these three elements together is Nielsen's store-level census data covering 30 cities in 10 countries, mapping store details and distribution of particular product categories in 1.5 million outlets. This data set allows for a deeper understanding of the retail environment. Included in the data is each store's location via GPS, as many don't have street addresses, a photo of the store for identification purposes, the channel classification of the store, trading details, access to amenities, categories stocked, and many other valuable characteristics. Simply knowing which stores have refrigeration can transform the sales efforts of a purveyor of cold drinks. And all this data can be delivered on a mobile phone or tablet.

In addition to an uncommon understanding of the consumer, Nielsen has gathered vast and detailed retail data sets to help companies develop effective physical distribution strategies for countries in Africa. Distribution is perhaps *the* critical success factor for growing brands and new product success. This report lays out unique approaches to address this critical topic.



ALLEN

A LAND OF OPPORTUNITY WITH A HIGHLY FRAGMENTED RETAIL SYSTEM



IN SUB-SAHARAN AFRICA:

- Modern trade is at an early stage of development. 80% of consumers shop in traditional outlets.
- Brand familiarity and recommendations from others are strong purchase drivers.
- Retail channel shopping preferences and the types of products purchased vary significantly from country to country.
- A small proportion of retail outlets can account for a disproportionate portion of sales.

Africa is on companies' growth agenda for obvious reasons. Six of the 10 fastest-growing economies in the world are in Africa, it has the world's greatest proportion of young people, and it has a burgeoning urban population with growing demand for many goods not yet widely available, as well as the means to buy them. The African Development Bank estimates there are 55 million "wealthy" people in Africa, that is, consumers whose per capita daily expenditure is above U.S. \$20. In population terms, that represents a market the size of Italy or Spain. But these consumers account for just 5% of the population. Reach today's growing middle class of around 350 million people, and the opportunities become significant indeed.

Many companies have already mobilized to capture this emerging demand. But it is also the case that many have had to recalibrate their expectations about how fast they can grow their businesses, struggling to translate the opportunity into results.

AN INITIAL PROBLEM WAS A LACK OF UNDERSTANDING OF HOW CONSUMERS DIFFER IN THIS VAST CONTINENT.

But a second, perhaps more challenging one has since emerged: an insufficiently detailed understanding of what is a highly-fragmented retail system. Without such an understanding, it is hard to function effectively within the system.

With the exception of South Africa, modern trade is at an early stage of development. Indeed, the most common shopping channel is the table top; a stall set up at the side of the road or in the local market to capture local and passing trade—the emerging-market equivalent of the convenience store. In a recent Nielsen study of sub-Saharan countries*, we found that 80% of consumers shopped from table tops, of which there are no less than 200,000 in Nigeria alone. In addition, Nielsen retail sales data shows that some 40% of consumers shopped in small, local grocery stores, or "dukas," which account for nearly 50% of consumer goods spend. There are over 550,000 of these outlets in the countries monitored.

In this environment, the approach to market is hugely complex. Manufacturers need to reach large volumes and many different types of outlets, figuring out the different role each plays for the consumer, and how to influence demand. Little wonder, then, that with relatively scant market data available, even those companies with the right products for the right market often fail to get them to the right place. The end result is poor sales growth.

*For a listing of countries, please see methodology section at the end of the report.

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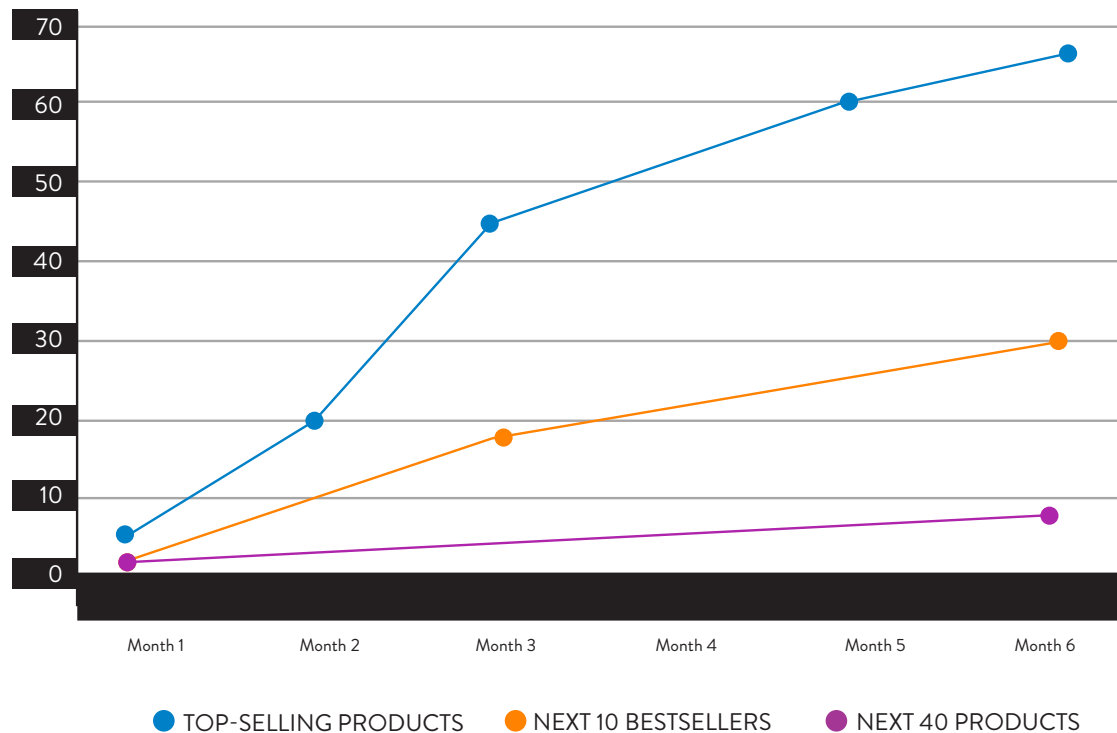


Exhibit 1 illustrates the point. Nielsen analyzed a range of new products launched in Nigeria. The highest-selling new product was able to reach 65% of all 745,000 outlets measured in Nielsen's Retail Index service in six months, while the next 10 bestsellers were available in 30% of outlets over the same period. The bottom 40 products failed to reach even 10 percent. Over a longer time frame, Nielsen research also showed that those brands with declining sales two years after launch were often those that had failed to improve distribution continually—in contrast to those with still growing sales that enjoyed ever-higher reach. It may of course be the case that weak demand for some of the products contributed to weak distribution, but the distribution challenge remains clear. In which developed market would bestsellers #2-#10 only reach 30% of possible outlets?

Exhibit 1

EVEN TOP-SELLING NEW PRODUCTS STRUGGLE TO BUILD DISTRIBUTION

NEW PRODUCT DISTRIBUTION BUILD BY PERCENTAGE OF OUTLETS



Source: Nielsen Retail Measurement, Nigeria



It is against this backdrop that Nielsen is breaking new ground in understanding both African consumers and the retail landscape. At present, Nielsen is conducting quarterly analysis of the macroeconomic, business, consumer and retail outlook in seven sub-Saharan countries that together account for 44% of the sub-Saharan population and 67% of its GDP. The intention is to extend coverage to some additional sub-Saharan countries over time. By collecting and combining three sets of proprietary data with publicly-available macroeconomic analyses, Nielsen is making it possible for any company to take on the challenge of distribution in a large part of sub-Saharan Africa.

The information gathered includes growth, inflation, ease of doing business, consumers' spend on a basket of CPG items and their spending intentions, retailers' growth outlook, manufacturers' growth outlook and manufacturers' priorities. This detailed analysis will enable companies to keep close track of developments in these markets and formulate their growth strategies accordingly. As we will see, much of it is particularly pertinent to building distribution and sales in Africa.

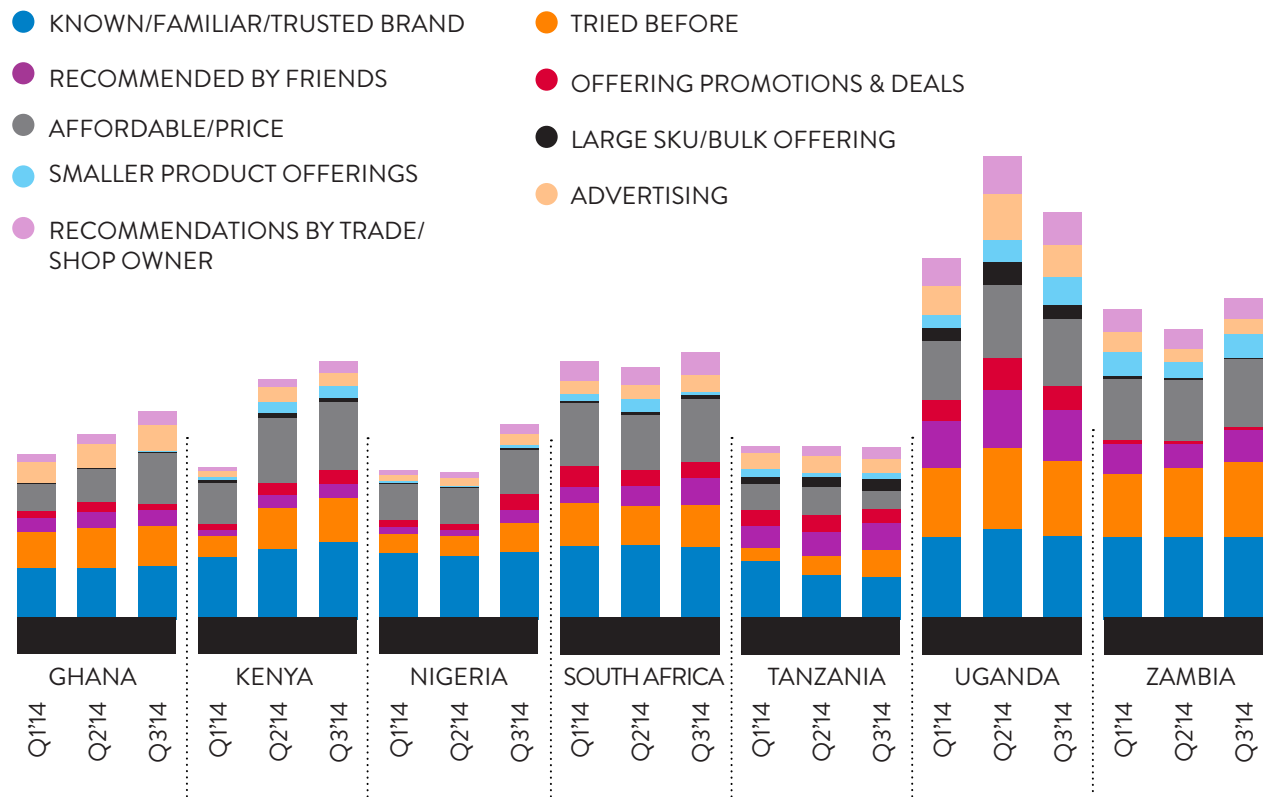
BUILDING AN EFFECTIVE DISTRIBUTION STRATEGY



As shown in Exhibit 2, consumers continue to show a powerful preference for products they know, have tried before, or that have been recommended to them—not surprising in an environment where budgets are tight and a disappointing purchase is an expensive loss. But their level of caution differs by country. Our data shows that in Nigeria, for example, consumer willingness to try new products increased in the third quarter of 2014, but decreased in Ghana. This kind of data helps manufacturers understand consumers, of course, but it also spells out how important it is for manufacturers to get close to retailers and gain their trust. In young consumer markets, it is the retailer rather than the brand that is initially trusted by consumers. Getting close to the retailer is therefore a key component of an effective distribution strategy.

Exhibit 2

HOW CONSUMERS CHOOSE: FAMILIARITY OR A RECOMMENDATION ARE STRONG DRIVERS



Source: Nielsen API Retail Prospects

Nielsen Retailer Survey conducted quarterly among more than 10,000 Grocery, Kiosk and Duka owners/managers



Getting close to the retailer in order to build distribution to support sales and ultimately brands in such a fragmented retail market is a huge undertaking, particularly for international manufacturers lacking in local knowledge. Moreover, it is only the final stage of a meticulous process.

FIRST MANUFACTURERS WILL NEED TO UNDERSTAND WHO SHOPS WHERE AND FOR WHAT, THEN THEY MUST IDENTIFY THE BEST RETAIL OUTLETS FOR A GIVEN PRODUCT, AND THEN THEY CAN TURN TO HELPING RETAILERS BUILD DEMAND.

All three will depend upon a level of local market knowledge that only analysis can deliver, combined with an intensive, customized approach to working with retailers.

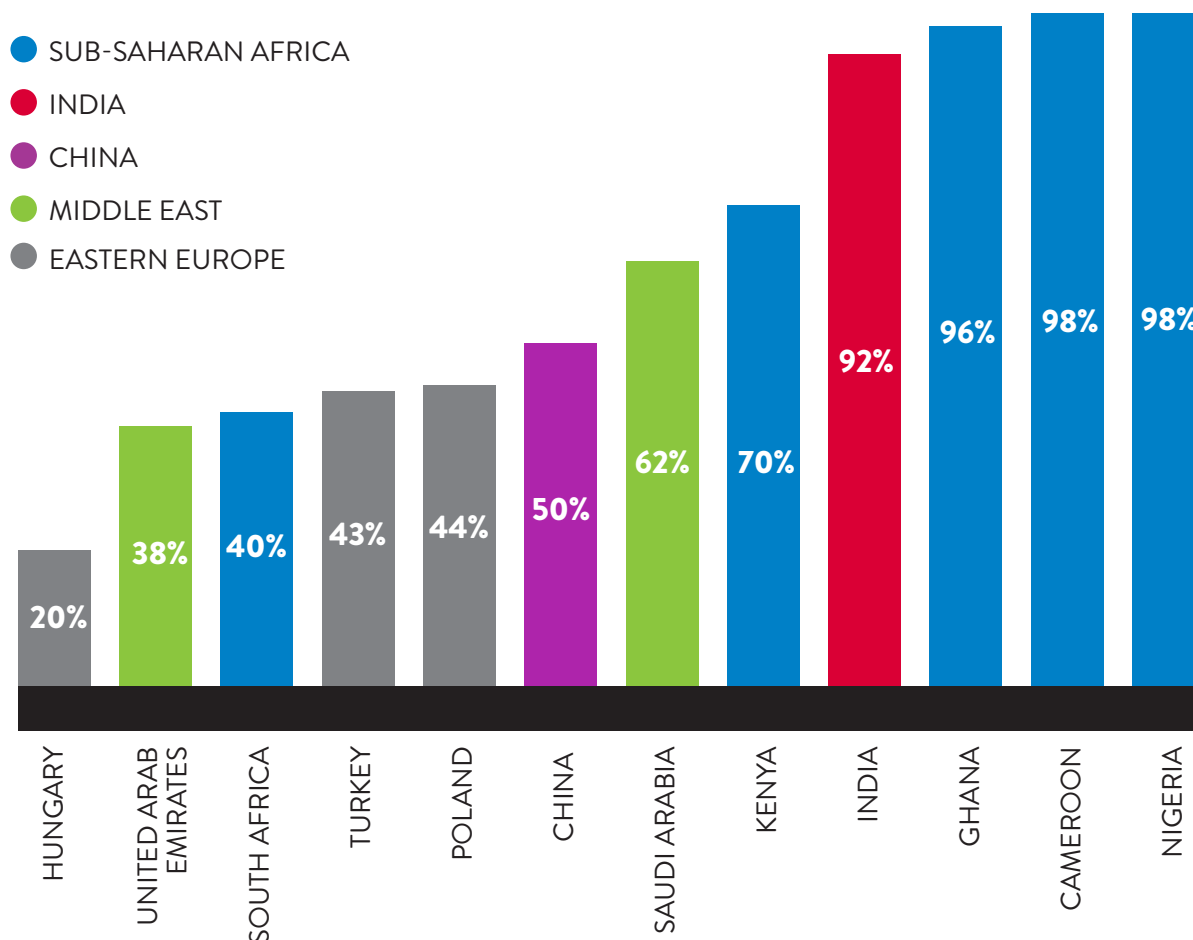
UNDERSTANDING THE RETAIL LANDSCAPE: WHO SHOPS WHERE FOR WHAT



In most countries in Africa, the percentage of CPG sales made through modern trade outlets is exceptionally small. Even in Kenya, regarded as one of Africa's most developed retail markets, traditional trade still accounts for 70% of sales (Exhibit 3). It is true that large African and international retailers such as Shoprite, Woolworths, and Carrefour are making investments in modern trade formats. But traditional outlets will continue to be a significant channel for reaching consumers for some considerable time to come.

Exhibit 3

PERCENT SALES FROM TRADITIONAL TRADE



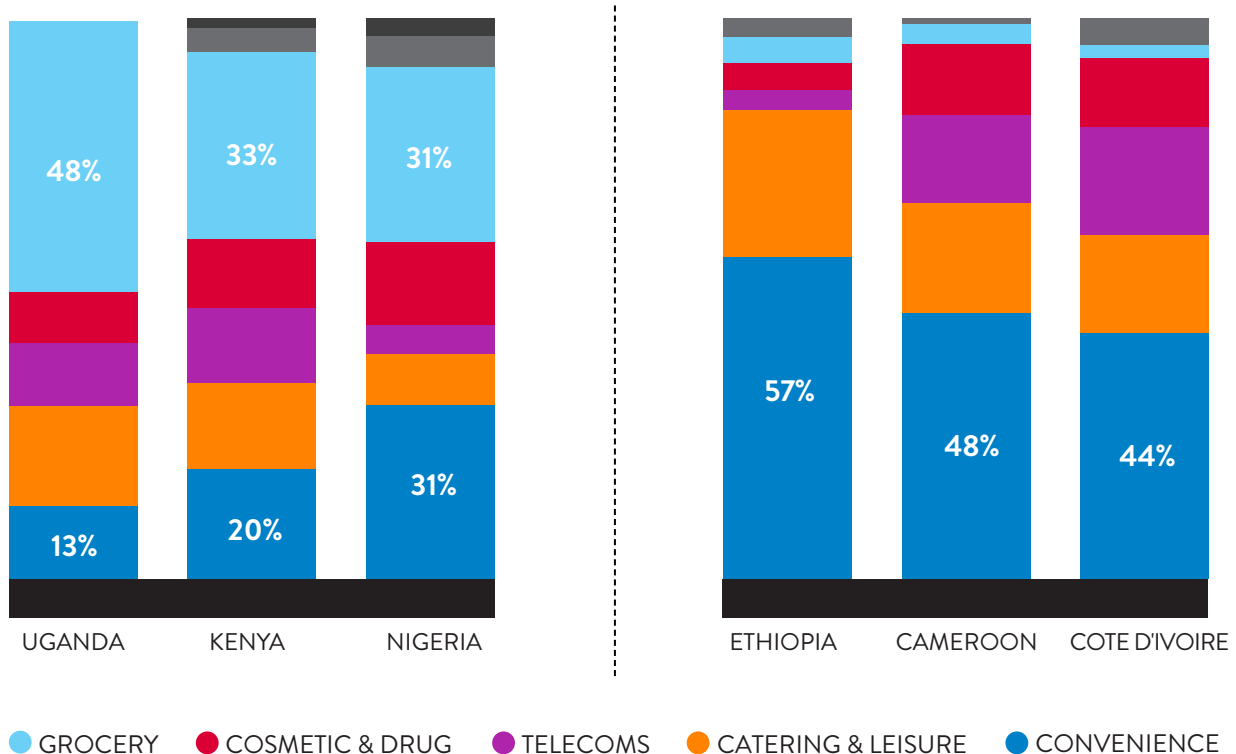
Within the traditional trade environment there is considerable diversity. In Kenya, for instance, 95% of shoppers frequent dukas (66% of the store universe); 92% patronize kiosks (24% of the universe); and 89% shop at supermarkets (less than 1% of the store universe). The remainder of the universe is represented by table tops and pushcarts, and specialty outlets such as pharmacies.

The prevalence of these different types of outlets differs by country. In some, the various convenience outlets—table tops, kiosks, market stalls, etc.—are most heavily represented. In others, it is grocery stores. Exhibit 4 shows the extent to which the landscape differs by country.

Exhibit 4

DIFFERENT COUNTRIES, DIFFERENT MIX OF TRADITIONAL OUTLETS

OUTLET MIX IN DIFFERENT COUNTRIES



What a retailer stocks, how much, the price, the supplier and how often stocks are replenished—all fundamental considerations for a manufacturer—will vary according to the format, which in turn reflects the purpose of a visit to any particular outlet. Grocers and supermarkets are visited relatively infrequently by consumers wishing to stock up on packaged goods, home and personal care products. They offer consumers a wide range of products, including new products, and offer more competitive pricing. But they can be hard to get to for the many consumers who do not have their own transport.

IN CONTRAST, CONSUMERS OFTEN SHOP DAILY IN THE INFORMAL OUTLETS THAT SERVE THEIR NEIGHBORHOODS IN ORDER TO STOCK UP ON DAY-TO-DAY ITEMS.

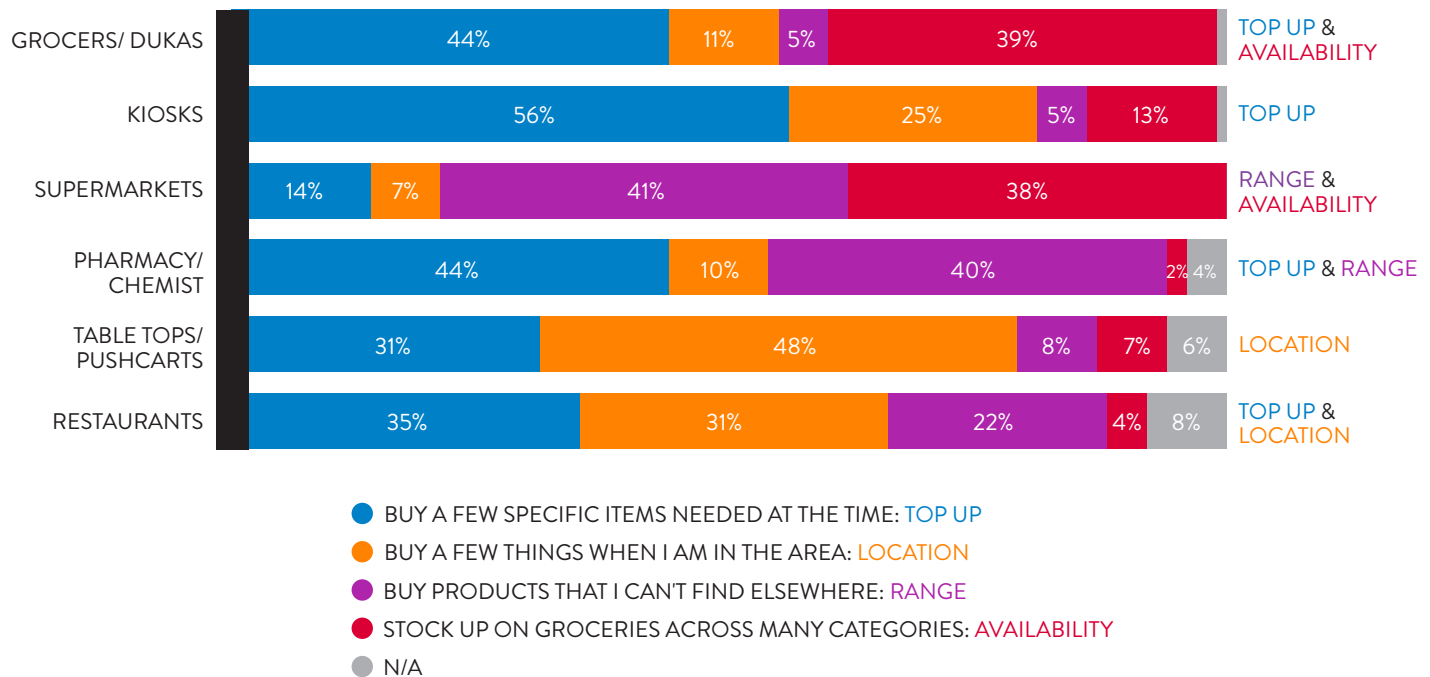
They are familiar with both the vendor and the products, and the products are helpfully sold in decanted or single servings and in rounded denominations (e.g., 100 Kenyan shillings or 2 Ghanaian cedis). So while the shop itself may be no more than a table or countertop, its products unbranded and the product range small—many might sell no more than four different items—these outlets perfectly meet consumers' needs.

THEY OFFER FAMILIAR GOODS AT THE DESIRED PRICE AND SIZE, THEY OFFER CONVENIENCE, AND THEY ARE TRUSTED.

Exhibit 5 shows the reasons why consumers shop the various outlets, using Kenya as an example. Consumers visit grocers mainly to top up, and because they know they will find what they want (availability). When it comes to table tops, location is the main attraction.

Exhibit 5

THE PURPOSE OF A SHOPPING TRIP DIFFERS BY OUTLET



Source: Nielsen Emerging Markets Insights, 2013: Kenya

The reason for visiting a particular type of outlet also affects the frequency with which consumers shop. In Madagascar, for example, consumers in Nielsen's survey went shopping 70 times a month on average. In Kenya, the average was 38, with some shoppers visiting the same outlet two or three times a day. This represents a huge opportunity to connect with potential customers on their frequent shopping visits. But seizing the opportunity depends upon identifying from among hundreds of thousands of outlets those most likely to promote sales growth.

IDENTIFYING THE RIGHT RETAIL OUTLETS

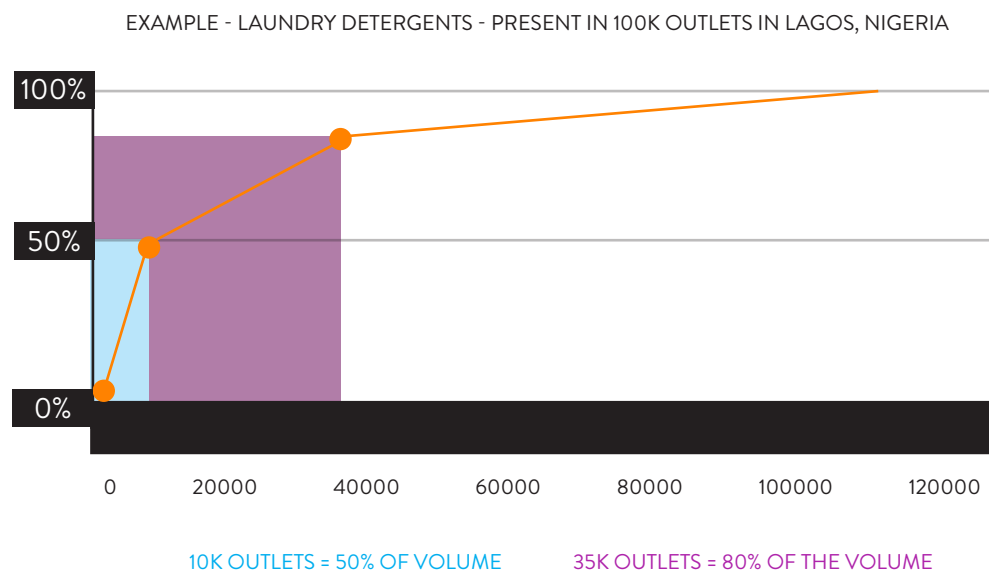


Exhibit 6 illustrates the difficulty (not to say the importance) of identifying the best retail outlets. As we see, in Lagos, laundry detergents are present in no less than 100,000 outlets, an impossibly large number for manufacturers to reach. But further analysis shows that 80% of the sales value comes from just 35,000 of those outlets, and a full 50% from a more manageable 10,000. Similarly, in the same city, beverages are sold in 61,000 outlets, but only 24,000 of those outlets generate 80% of sales.

Exhibit 6

A SMALL PROPORTION OF OUTLETS CAN ACCOUNT FOR A DISPROPORTIONATE PORTION OF SALES

GET THE CONTACT DETAILS OF THE 10,000 OUTLETS IN LAGOS, NIGERIA



Source: Nielsen Trade Dimensions and Analytic Consulting

Nielsen has conducted research in 30 key cities in 10 countries to understand the distribution and turnover of particular goods and products in a total of 1.5 million outlets, including health and beauty stores, telecom specialists, kiosks and table tops, supermarkets and grocery stores, restaurants, tea and coffee shops, liquor stores and tobacconists. In these 30 cities, every single outlet from 37 store types that handle the vast majority of CPG goods has been included in the analysis.

As a result, Nielsen can deliver data to mobile phones that enables manufacturers to develop highly-detailed distribution strategies designed to optimize sales and profit. Included in the data are crucial details such as store location (via GPS), type of store, trading days, opening hours, access to power and water, the presence of a storeroom, categories stocked, and a long, long list of other characteristics. Simply knowing which stores have refrigeration can transform the business of a purveyor of cold drinks (Exhibit 7).

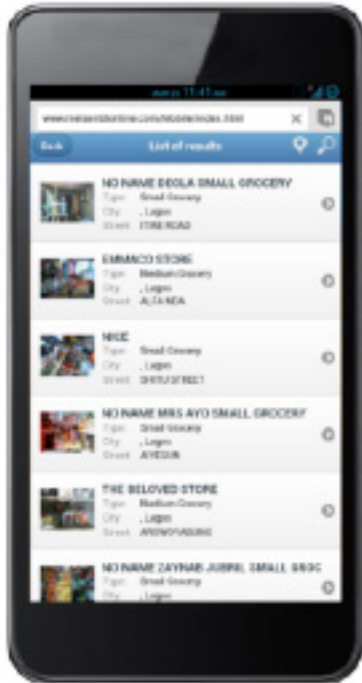
Getting at this level of detail is extraordinarily labor-intensive. But it is the only way to start building effective distribution, as suggested by a number of companies who have successfully accelerated growth. One might regard this data on 1.5m stores as offering a broader, more dynamic representation of the best-practice data gathering that successful companies have discovered necessary in traditional-trade environments in Africa.

With the right list of outlets and channel clusters, manufacturers are better able to offer the right product format and size to meet the particular needs of the consumers who visit those particular outlets. Moreover, the level of detail provided in these 30 cities makes it possible for manufacturers to optimize their supply chains, at once improving availability and trimming waste, eliminating unnecessary costs borne by consumers and, in the longer term, strengthening the whole market.

Exhibit 7

DELIVERING DATA VIA MOBILE ENABLES ON-THE-GROUND EXECUTION

VIEW LIST OF STORES



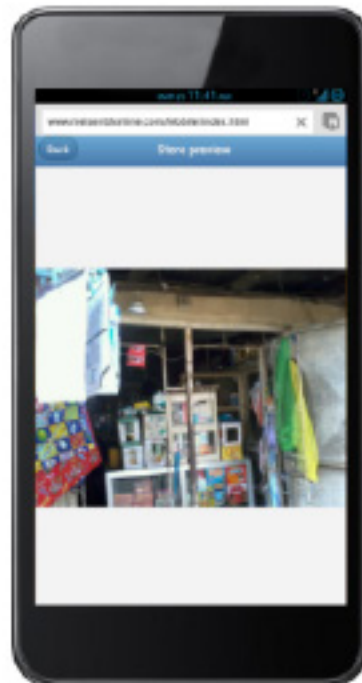
PLOT LOCATIONS ON THE MAP



VIEW STORE DETAILS



PHOTOS TO IDENTIFY THE STORE



HELPING RETAILERS BUILD DEMAND



Once manufacturers have established a distribution strategy, how can they increase sales of their products at any given location? Most will have long experience of how to execute well in larger-format stores. But they will have to learn how to do the same in traditional formats: they cannot ignore what may be as much as 99% of a country's outlets, even if the supermarkets claim an outsize percentage of sales. A study of table-top vendors in Kenya showed over 30% had daily sales of more than 2,000 KES (\$23)—and they operate seven days a week.

A CLOSE UNDERSTANDING OF HOW SMALLER, TRADITIONAL RETAILERS OPERATE WILL INDICATE THE RIGHT APPROACH TO BUILDING SALES.

For instance, a table-top vendor selling a small range of everyday basics will often stock only a very narrow range of products. With no transport and limited or no storage, the vendor will probably not visit even one distributor or wholesaler. Instead, everything is brought to the stall either on a bicycle, *boda boda* (cargo-carrying motorcycle), in a motor vehicle, or perhaps even on a pushcart or by foot. Sometimes it is a wholesaler who drops off supplies, sometimes another retailer; often, there is no record of what are all cash transactions. Airtime, cigarettes and sodas may be delivered as often as three to five times a day. Other goods, such as gum, sweets, biscuits or analgesics, might be delivered every three days.



The vendors are masters at adapting their offerings to meet consumers' immediate needs, which change at various points during their day. In the morning, the commuting consumer may stop for breakfast—ready-made tea served from a flask, freshly squeezed juice, slices of bread, a cooked sausage, a single teabag and a serving of sugar—even super glue for fixing a broken shoe.

All of this must be understood by a manufacturer that wants to introduce its product to the table top market and develop its success, particularly because it is the vendor and not a wholesaler intermediary that will make the ultimate decision. Meeting consumers' needs in this environment means not only being timely, but also thinking about the required pack size, format, affordability and denomination. If a branded packet is too expensive, the retailer may open the pack, split it into smaller ones, and sell it unbranded, resulting in profit for the manufacturer, but weaker brand identity.

Success in this environment requires matching the flexibility the vendor has developed, and could include:

- Repackaging and branding products into single servings or at least smaller sizes
- Providing branded packaging such as wrappers or sachets that retailers can use if they spilt up larger portions
- Branding the selling vessel, for example, the basin from which water sachets are sold
- Providing branded cooler boxes for table-top vendors to sell products which require refrigeration
- Providing small, portable display stands for kiosk vendors to stack products and add visibility
- Branding re-usable product packaging or containers for top-ups and repurchases
- Providing free samples appropriate to the time of day and the way the outlet is used. Each table top can be seen as a location to trial new products with no risk to either the vendor or the consumer.

CONCLUSION

Africa represents an enormously promising market for those willing to navigate its challenges. The data Nielsen is gathering and delivering in a user-friendly fashion can make it possible for manufacturers to turn the forbidding complexity of serving its vast number of small and even tiny vendors into opportunities to engage a veritable army of brand stewards who can help them build trust in and loyalty to their products.

METHODOLOGY

Nielsen Emerging Market Insights is an ongoing, comprehensive multi-country program to capture in-depth information and insights about consumer behaviors, attitudes and influencers across sub-Saharan Africa. Nielsen's progressive waves of research over the past three years in more than 15 countries is based on more than 14,500 face-to-face surveys from urban and peri-urban respondents between the ages of 15 and 45 years, across all socio-economic classes. Countries covered include: Angola, Botswana, Cameroon, DRC, Ghana, Ethiopia, Kenya, Namibia, Mozambique, Madagascar, Nigeria, Tanzania, Uganda, Zimbabwe and Zambia.

Nielsen Retail Measurement data is based on 14 countries: Kenya, Tanzania, Uganda, Angola, DRC, Mozambique, Zambia, Ethiopia, Nigeria, Ghana, Cameroon, Ivory Coast, Senegal and South Africa.

The seven sub-Saharan countries in which Nielsen is conducting quarterly analysis of the macroeconomic, business, consumer and retail outlook are: Nigeria, Kenya, Ghana, South Africa, Tanzania, Uganda and Zambia.

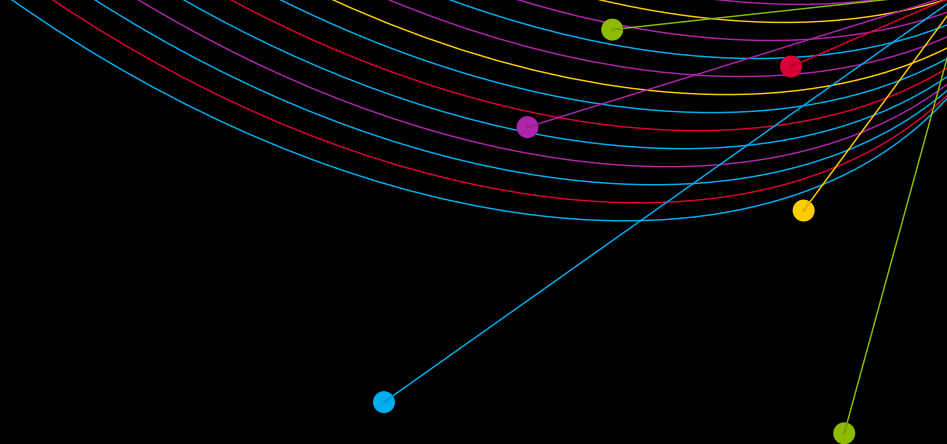
Nielsen Trade Dimensions data is based on research in 30 key cities and 10 countries: Nigeria (Lagos, Kano, Abuja, Enugu, Ibadan), Senegal (Dakar, Thies, St Louis), Cote d'Ivoire (Abidjan), Ghana (Accra, Kumasi, Takoradi), Cameroon (Yaounde, Douala), Angola (Luanda, Benguela, Lubango), Ethiopia (Addis Ababa), Uganda (Kampala, Jinja, Mbale, Mbarara), Kenya (Nairobi, Mombasa, Kisumu, Nakuru, Nyeri) and Tanzania (Dar Es Salaam, Mwanza, Arusha).

ABOUT NIELSEN

Nielsen N.V. (NYSE: NLSN) is a global information and measurement company with leading market positions in marketing and consumer information, television and other media measurement, online intelligence and mobile measurement. Nielsen has a presence in approximately 100 countries, with headquarters in New York, USA and Diemen, the Netherlands.

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