Blockbuster brands scramble for Africa

By Micheal Bleby

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The race for Africa's growing consumer wealth is on. The continent will see its population nearly double from 1-billion last year to 2-billion by 2050.

This is part of a wider growth in global population from 6,8-billion to 9,4-billion over the same time, according to Washington-based research body Population Reference Bureau.

Economic drivers

Unilever CEO Paul Polman says better governance, better infrastructure, better education and less corruption are the main drivers of economic growth in markets such as Africa.

What is driving it for his company, however, is brands.

The company behind Sunlight soap and Flora margarine, Lipton tea and Knorr stock cubes says these are what will drive the "double-digit" growth, Polman predicts, without giving any further detail.

Loyalty and status

"Brands are more important, even to people who have less financial means than more financial means, because they can afford less to make a mistake. So actually, the lower you go into the income stratum, if you want to, the higher brand loyalty you find," he says.

The argument makes sense. From meat to detergent, buying a branded product offers a level of security consumers would not get from an undifferentiated commodity.

It also offers status. "Even poorer households buying maize meal, it's incredible how strongly they look at brand because they want the consistency in quality, consistency in safety and, when they buy it, they want to say, 'I bought this type of mealie meal'. It's a part of their status, part of their esteem," says John Purchase, CEO of the Pretoria-based Agricultural Business Chamber.

Investing in growth

Brands obviously do not work only with poor people. Unilever's top 25 brands alone bring in 73% of its global turnover, which last year stood at €39,8bn.

Of course, it costs money to build up brands and supply them to a growing market. Unilever does not say how much it will spend to do this, but says it will be aggressive.

"Whether it's China or Africa, we have only one principle in developing emerging markets. We must outpace the market growth. Therefore we will invest appropriately both in terms of hardware, which is factories, warehouses, and brands and people," says Harish Manwani, the company's president for Asia, Africa, Central and Eastern Europe, speaking alongside Mr Polman at Unilever's South African headquarters in Durban.

Great minds think alike

It is hardly surprising that arch-rival Nestlé follows what seems to be the same strategy. Nestlé is pushing its way into Africa's growing market.

Earlier this month it said it would invest Sf150m (R1bn) in central Africa, bringing its continental total to Sf1bn in the next three years. It is focusing on a portfolio of brands that it calls popularly positioned products, which include Nido, NAN and Lactogen infant formulas, as well as Milo, Nesquik, Maggi and Cerevita.

For Nestlé, this range of almost 4000 products accounts for 8% of annual sales from continuing operations (which, at last year's total of Sf100,6bn or €75,2bn, are twice the value of Unilever's) and is growing faster than the rest of the group.

It is on the back of the current portfolio of brands that Unilever seeks growth, Polman says.

"80% of our growth will come from our core brands and making them stronger," he says.

This, basically, means bringing in variations of existing brands and introducing brands to this region from other parts of the world.

Minimal emphasis on acquisitions

He plays down acquisitions, such as buying an established local brand. "A very small part of our growth will come from acquisitions, " he says.

Last year, Unilever bought brands including Sanex and Radox from US company Sara Lee.

And this is what it boils down to - a battle of the brands between the world's large companies.

"We've always had to find products and ways to reach consumers at the bottom of the pyramid. Increasingly we've tried to do that with more products, which is probably what Nestlé tries to (do)," Polman says.

He should know. Appointed in January last year, Polman was, until September 2008, Nestlé's executive vice-president for the US and previously the Swiss company's chief financial officer. Before that, he worked for another rival, Procter & Gamble.

Source: Business Day