



Market insights Africa

Chances and Recommendations for German companies

27th of February 2018, Dortmund

GERMAN-AFRICAN BUSINESS FORUM NORDRHEIN-WESTFALEN

Notes



Did you already know that...

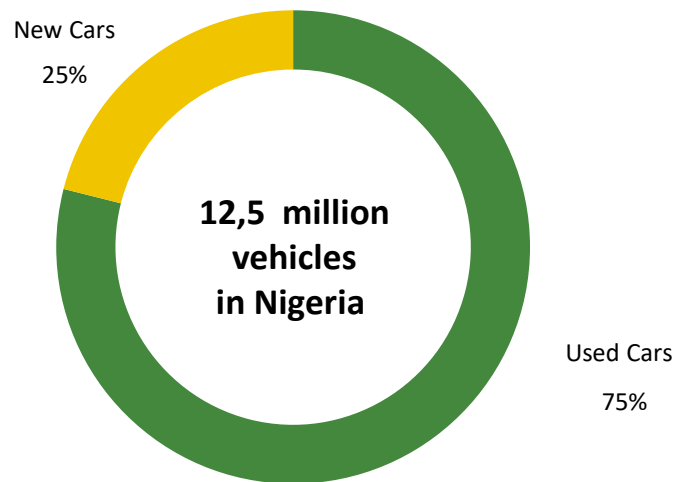
- ... more than 50 million Maggi cubes are consumed in Nigeria every day?**
- ... with 12,5 million vehicles Nigeria is the largest market in sub-Sahara Africa?**
- ... the middle class is represented with more than 400 million consumers in sub-Sahara Africa?**
- ... 67% of the Kenyan population is paying with their cell phones?**
- ... Kenya has the largest production plants for chewing gum?**
- ... a woman in South Africa spends more than 30% of her income on hair care products?**
- ... the amount of credit cards increased by about more than 35%?**

And which German company...

- ... supplies the packaging machines for the Maggi cubes?**
- ... supplies the spare parts and accessories to repair the vehicles in Africa?**
- ... is producing the detergents for the middle class?**
- ... programming the software for mobile payment?**
- ... supplies the machinery for the production of chewing gum?**
- ... supplies the chemicals for the production of shampoo in Africa?**
- ... supplies credit cards in Africa?**

Because of the high share of used cars in the automotive market there is great potential in the independent after market.

Total number of vehicles in Nigeria
(Year 2015)



Insights

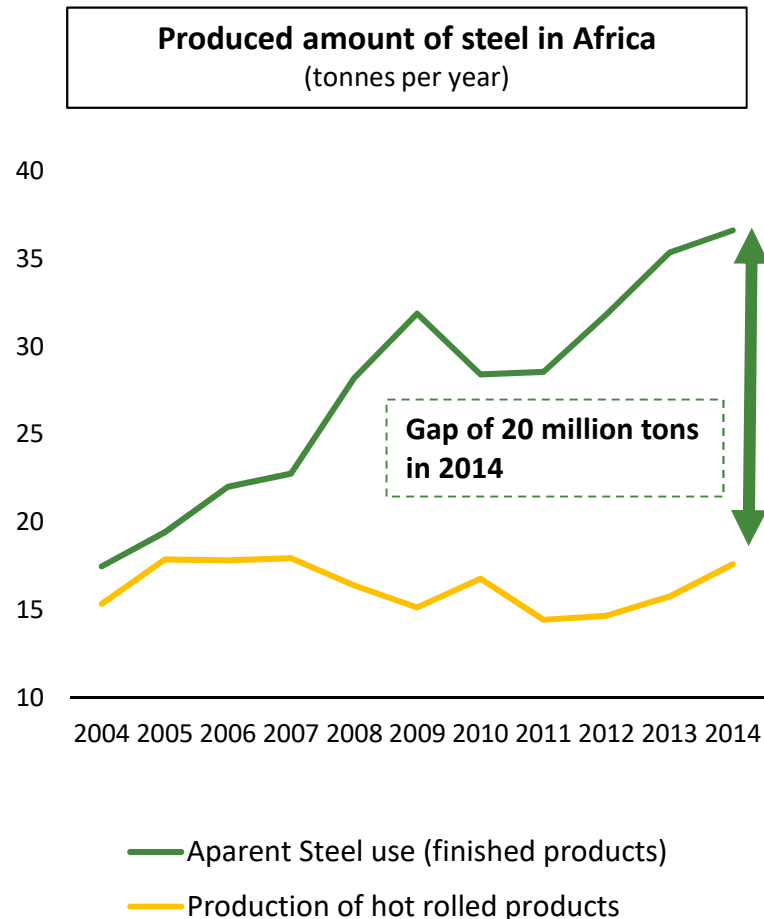
- With 12.5 million vehicles Nigeria is the largest market in Africa, followed by South Africa with 9,5 million vehicles.
- With a share of 75% of used cars the Nigerian market is dominated by used cars.
- There is a great potential in the area of the independent after market, where products like glue, filter, colours etc. are needed
- German automotive suppliers are not strongly represented in Nigeria yet and mostly operate through trading companies

Recommendation for German companies

- Analyse the Nigerian market locally. Prices, margins and sales differ tremendously in different markets.
- Be aware of fake products. There can be a faking rate of up to 70 % with some products.
- Identify reliable distributors.

Source: africon research in Nigeria, Kenya and Tanzania (2016/17), OICA (2018), WHO (2016), africon analysis (2018)

The increasing demand for steel vs. the lack of local production leads to investments of local steel companies.



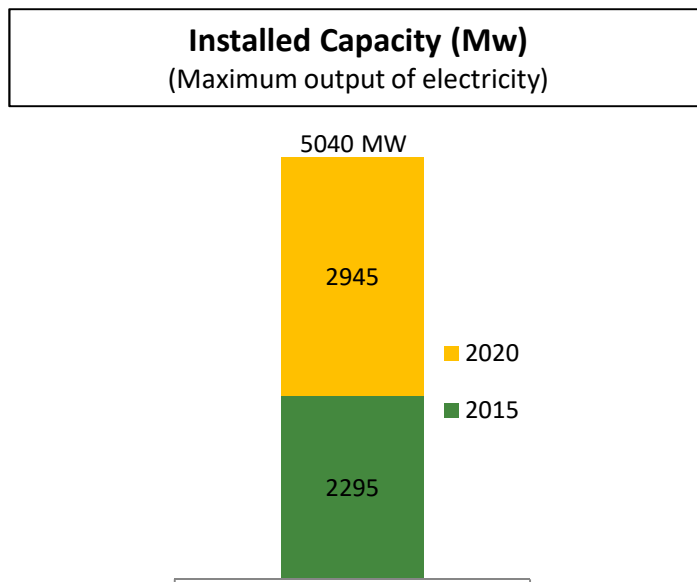
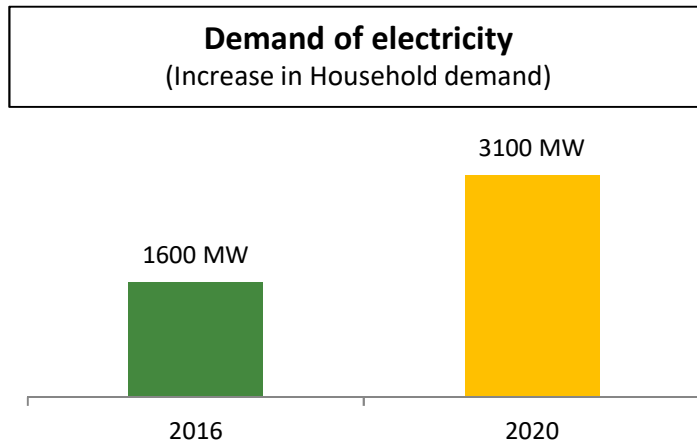
Insights

- Despite an increasing demand for steel the steel production hardly increases on the African continent.
- Currently, the gap is filled by imports and is driven by local investments.
- Government programmes promoting the infrastructure are an additional driver for the African steel market. This results in chances for German machinery and equipment firms.

Recommendations for German companies

- Identify the key markets in Africa and start the dialogue with local firms.
- Be aware of the fact, that the steel sector in East Africa is mainly dominated by the Indian industry, whereas in West Africa local firms dominate the market.
- The adaption of the machinery and plants to local standards is recommended, and therefore the target market can be raised.

Kenya aims to reach the middle-income status at 2030. This means an increase in energy access and demand.



Insights

- Electricity demand is expected to reach 3100 MW as a result of increased economic activities, an increase in population and improved access to electricity.
- The government intends to expand its installed capacity from 2295 MW to 5040 MW by 2020. Expansion will be based on the use of renewable energy.
- Other interesting markets in East Africa are Tanzania, Uganda, Ethiopia and Rwanda. Margins are more interesting and competition is less.

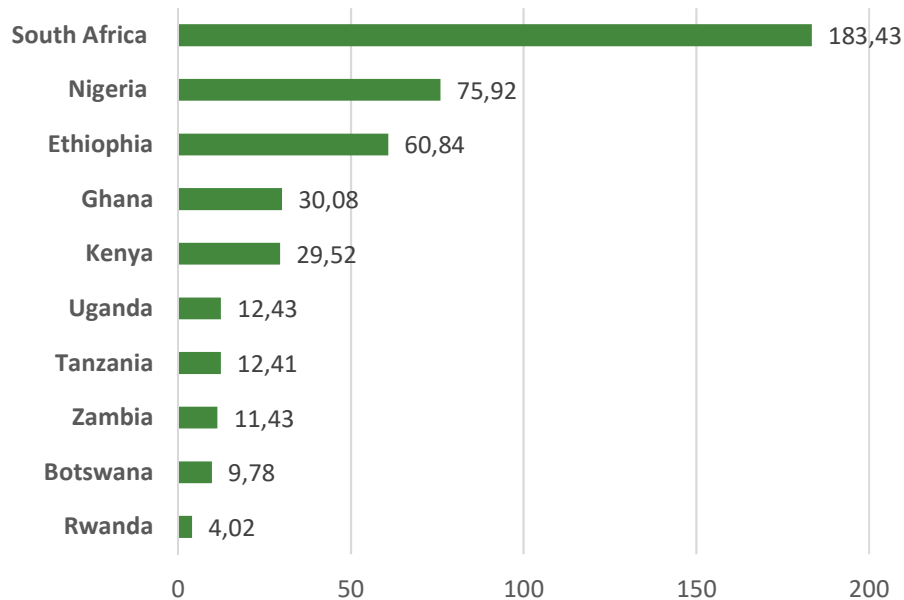
Recommendation for German companies

- Focus on private clients. Currently, mainly Off-Grid applications are demanded.
- Work on tenders with a local partner. This will simplify the market entry and will make it easier to manage the project locally.
- Look (Have a look on) on topics like distribution. The demand will be very high in the future.

Source: KENYA VISION 2030 STRATEGY Ministry of Energy and Petroleum, Kenya, USAID (2015) and ERC | 2015 |

With rising industrial activity, environmental legislation and engineering capacity, water technologies are becoming more demanded.

Imports of water filtration products (relevant HS Codes)
(2016, in US\$ million)



Insights

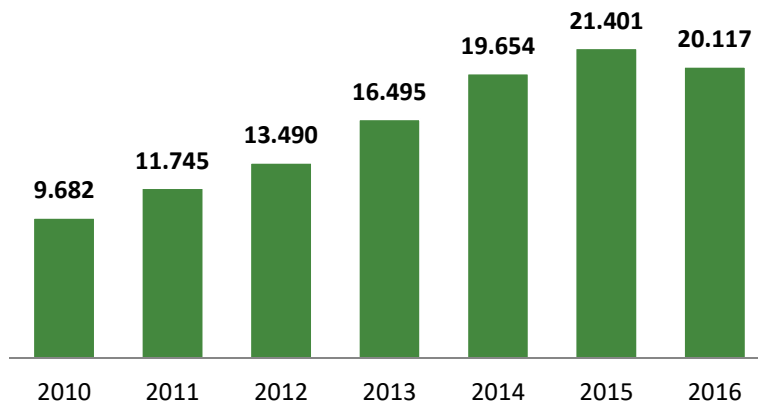
- Germany is, followed by China and USA, the most important supplier of water technologies with an export volume of US\$ 79 million.
- Water scarcity has induced engineering skills into emergence in line with positive trends towards water investments.
- South Africa has the greatest market potential, followed by Nigeria and Ethiopia.

Recommendation for German companies

- An opportunistic approach for the development of the project base is recommended.
- Look into (Have a look on) the system integrators and local conditions
- Local partnerships are recommended.

Nigeria's construction sector will continue to grow within the next years. Chances will occur in all areas of the construction sector.

Nigeria's construction sector
(in US\$ million)



Lagos

Insights

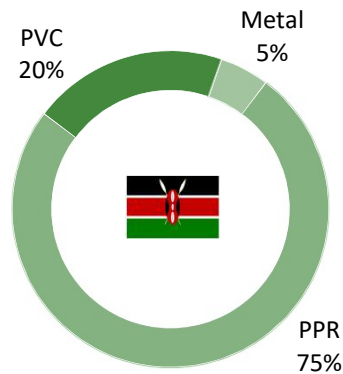
- The construction sector is expected to grow at about 9.5% within the next 5 years, whereas there are still missing 400.000 houses in Lagos
- Global Hotspot 2020: It is expected that Nigeria's construction sector is growing faster than India's construction sector.
- With 3.5% Nigeria's urbanization rate is one of the fastest in the world.
- Different German enterprises in the sanitary sector, furnishing and infrastructure will be offered great opportunities in selected markets like Kenya, Nigeria and Ghana.

Recommendation for German companies

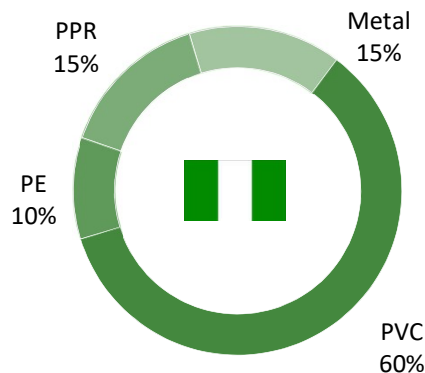
- Focus in smaller projects, which aren't financed by the government.
- Identify possible investors for projects in Nigeria like the Abraaj or Chagoury Group.
- Work with local partners like project developers, builders or architects.

Local market research showed a difference in material preferences, especially in hot and cold piping systems in Nigeria and Kenya.

Material used for drinking water pipe systems
(in %)



Material used for drinking water pipe systems
(in %)



Insights

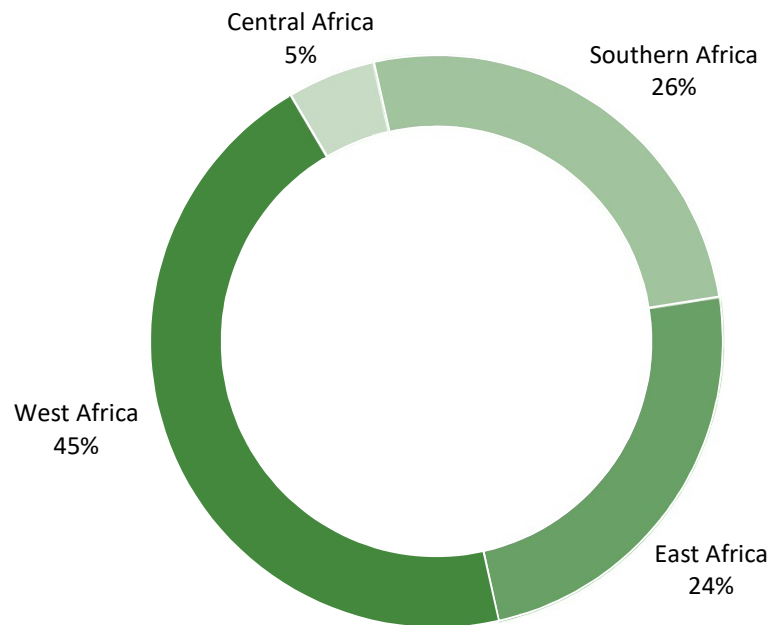
- The demand for sanitary products will increase by 5% until 2020 in the building technology sector.
- Increasing building standards lead to a higher demand for high-quality products, that require simple installation techniques.
- Local manufacturers are already present in the PVC and PPR area.
- Niche products like sound isolation systems are particularly represented in the market.

Recommendation for German companies

- Have a closer (and detailed) look on the individual African markets (separately) before the market entry.
- Don't develop an overall-strategy, but local adapted projects.
- Prove all different pricing structures and decision-making structures in the correspondent countries and adapt the pricelists accordingly.

West Africa offers an attractive environment for the construction sector, especially the hotel industry.

Development of new hotel rooms in SSA
(in %, 2016)



Insights

- The hotel industry is currently growing with by more than 8% annually
- 45% of new African hotel rooms are found in West Africa with Nigeria as the main market
- There is an interesting potential in the construction and interior furnishing sector. German companies can profit from the African construction boom as much as in providing services in selling sanitary equipment furniture and floor covering

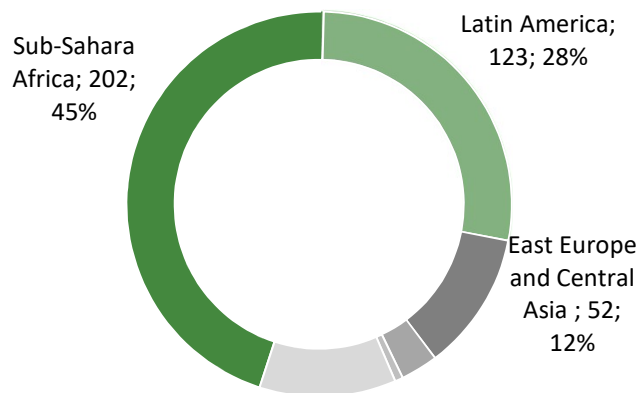
Recommendation for German companies

- Identify the addressed markets in detail.
- Look only for partners, which understand and sell German products.
- Employ a brand ambassador in the target country, who has direct contact with the clients and can educate partners.

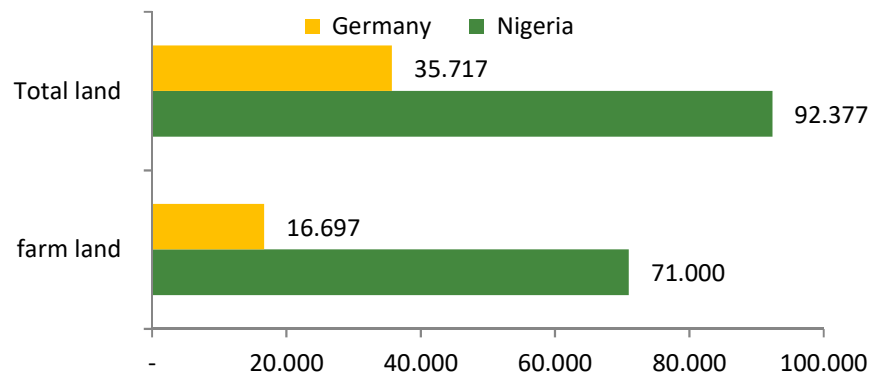
Source: W Hospitality Group (2016)

Nigeria's agricultural sector includes a 119 US\$ mrd industry with a growth rate of 4.5% in 2016.

Uncultivated land
(regions in million ha, 2010)



Farm land in Nigeria vs. Germany
(% percentage of arable land)



Insights

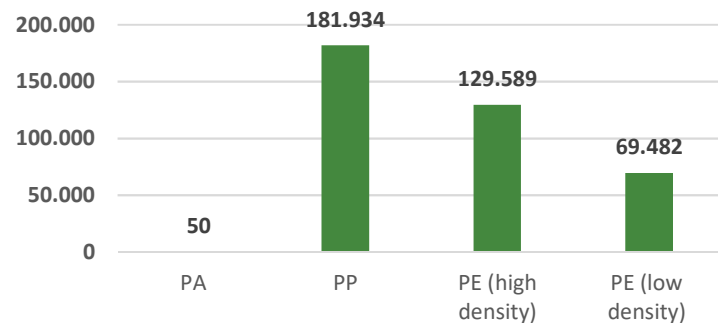
- Nearly 45% of all uncultivated land in the world can be found in Africa. However, Africa is still importing food products of a value of € 40 bn per year.
- Nigeria's agricultural sector employs almost 70% of the working force and therewith contributes nearly 24% to the Nigerian GDP.
- Recently, Dangote Group has decided to establish the largest milk production in Africa.
- Nigeria wants to manage to get along without rice imports until 2020.

Recommendation for German companies

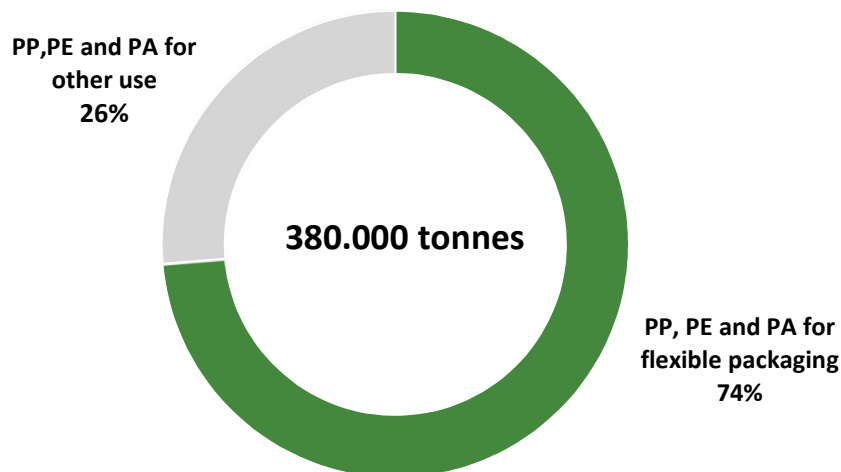
- Identify local major projects in Africa and speak directly to local firms. Examples are Stallion in Nigeria or Azuri in Kenya.
- Speak to the local ministry for agriculture and ask for major projects in the target country.
- Develop solutions, which are adapted to the needs of the target countries.

In Nigeria werden 74% aller Chemikalien für die Verpackungsindustrie für flexible Verpackungen verbraucht.

Total PP, PE & PA imports of raw material in 2016
(tonnes per year)



Use of PP, PE and PA imports in 2016
(in % of total imports)



Insights

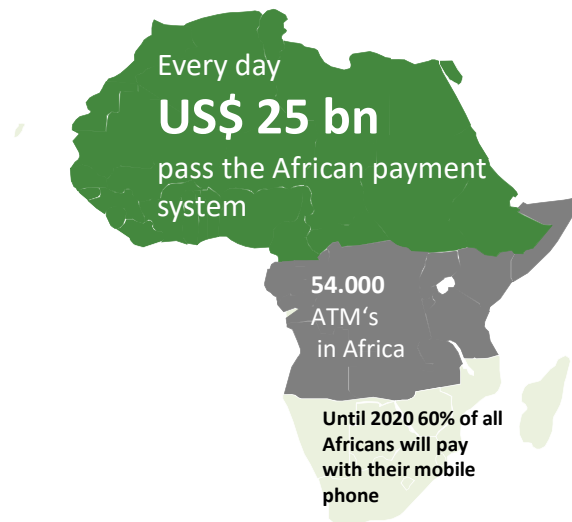
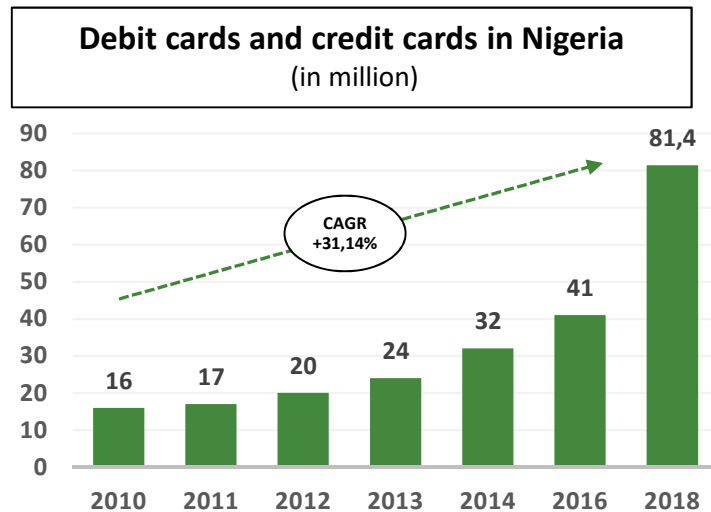
- The packaging market in Africa is growing continuously with a growth rate of over 6%.
- The most common packaging solution in Nigeria is Polypropylene packaging which is mainly used for the production of plastic bags.
- Exports of packaging machines increased about 400% since 2002
- In Nigeria, there are more than 150 packaging machines owned by 30 different manufacturers.

Recommendation for German companies

- Identify the biggest local manufacturers and visit them locally.
- Discuss new concepts with local companies, to differentiate from the Asian concurrence.
- Work on the Nigerian market in teams, for example plant manufacturers together with chemical suppliers.

Source: UNComtrade (2017), africon interviews in Nigeria (2018), Expertenpanel (2018)

Due to the African population growth there is a shift from cash payment to cashless payment.



Insights

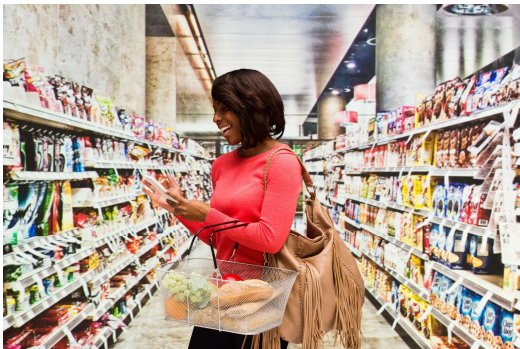
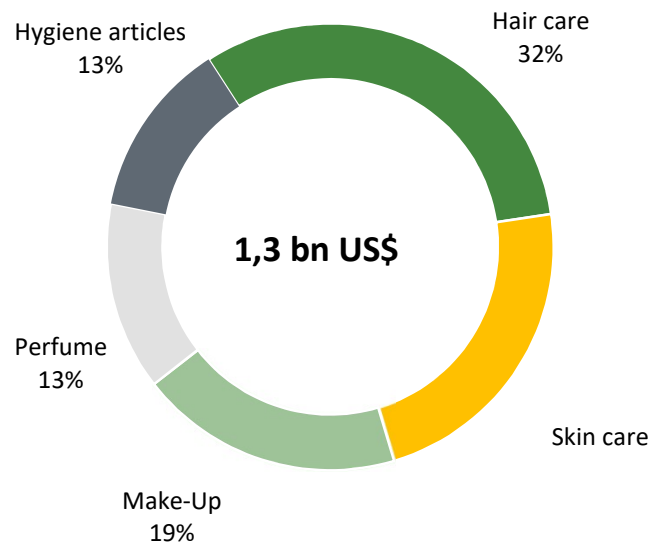
- Every year the usage of debit cards increases by 18% - this is nearly 5% above the world average.
- Until 2020 mobile payment will account for 60% of all finance transactions in most African countries.
- South Africa, Nigeria, Tanzania and Kenya offer the greatest potential in the finance sector.
- In Kenya 46% of the population owns a bank account and 98% own a mobile phone.

Recommendation for German companies

- Communicate with already present IT-partners for a market entry in Africa.
- Support firms, partners and clients with the training of the personal.
- Analyse the markets precisely. In the area of payment systems competition is already quite strong.

The hair and skin care market in Sub-Sahara Africa significantly differs from the European market.

Market segmentation in the cosmetic market in East Africa
(in %, 2016)



Insights

- The cosmetic market in Africa is a 1.3 bn US\$ industry.
- In countries like South Africa and Nigeria more than 60% of all beauty care products are manufactured locally.
- The biggest product groups are:
 - Relaxer (for “softening of hair “)
 - Toning Cream (Opposite of tanning cream)
- The beauty market offers opportunities for German companies in all areas, for example chemical products, packaging, machinery and marketing of own cosmetics.

Recommendation for German companies

- Develop market strategies for informal markets. They have a share of 70-80% in the market.
- Choose companies, which are covering the whole country or choose different partners.
- Analyse the client in Africa. The requirements differ noticeable from Germany.



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