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Attractive Africa: Five growth drivers in Africa's beauty and personal care

messe frankfurt

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Introduction

Beautyworld Middle East recently issued a report explaining why Africa is a particularly exciting marketplace representing the next consumer hot spot for the beauty and personal care sector. Here we take a look at five of the key factors driving that growth. Drawing on research from Business Guide Africa and other sources the material focuses primarily on Sub-Saharan Africa (SSA).

1. A fast growing economy

According to a recent International Monetary Fund (IMF) report, SSA registered a five to seven per cent growth over the past decade. While this has dropped due to the decline in oil prices to 3.5 per cent in 2015 and is expected to decelerate further in 2016 to circa three per cent, IMF reports that "medium-term growth prospects remain favourable" with the oil importers continuing to register robust growth of 5 per cent and higher as they continue to reap the benefits of lower oil prices.

The IMF report states, "The underlying drivers of growth that have been in play domestically in the region over the past decade or so…generally continue to be in place, and favourable demographics are poised to support these drivers over the coming decades."

2. A rapidly expanding youthful population

By 2065 Africa is projected to be home to about three billion (bn) people. According to Business Guide Africa that is "more than the projected combined populations of China and India at that time". In SSA, 70 per cent of the population is under 30 and furthermore, according to IMF, by 2035, the number of Africans joining the working age population will exceed that from the rest of the world combined. While this means that the region will have to create jobs at an extremely rapid rate and for an extended period of time, it is inevitable that there will be considerable more people earning. This will provide a ready target market for beauty and personal care products.

3. A rising middle class and increasing urbanisation

In the past 30 years Africa's middle class has tripled in size. There is about 300 million (mn) middle class in SSA and this is estimated to reach one bn by 2060. In 2014 the middle class population had daily purchasing power parity (ppp) of between USD 2 and USD 20. It is estimated that by 2030 Africa's top 18 cities could have a combined spending power of USD 1.3 trillion (tn). In Kenya, for example, Business Guide Africa's survey revealed that Kenyan women were willing to spend as much as 20 per cent of their salary on beauty products. This is certainly an interesting market for beauty and personal care players.

Also as cited by Business Guide Africa, "according to Canback Global Income Distribution Database urban incomes per capita are on average 80 per cent higher than those of countries as a whole". This year, projections were that 500 mn individuals would live in African cities. These individuals spending trends are higher and as they are located in cities, they represent an easier-to-reach consumer for brands to target.

4. Little local manufacturing and low consumption

With a dearth of local manufacturing, global brands still have the opportunity to acquire market share and to expand their manufacturing into the region. L'Oreal, for example, has a 650-strong employee base (2014 figures) and two plants in South Africa and Kenya while Procter & Gamble has invested USD 174 mn in the development of a new plant in South Africa.

The consumption of beauty and personal care products in Africa tends to be anything between 10 to 20 times lower than in developed countries which suggests there is huge potential to grow that market with strategic targeting and product tailoring.

5. Doing business in Africa is getting easier

An improved business environment has made it easier for international players to enter the market and conduct a sustained business strategy. In 2014, for example, about 16 SSA countries were featured on the list of 50 countries with biggest improvements in World Bank's Ease of Doing Business Report. These improvements were driven by the loosening of trade restrictions and the creation of trade blocs. Governments across SSA countries are working towards further improving trade regulations.

For the beauty and personal care sector distribution has been traditionally complicated and unstructured, largely due to Africa's vast expanse. However, as demand for beauty and personal care products rises, formal retail channels are expanding across the entire region with larger African retailers providing a simplified route to the market. That being said, importers remain the biggest players in the foreign brands market with many international companies opting for local distribution partnerships.