



Entering the African Beer Market: Uncovering the strategies to enable success

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Predicted GDP growth in Africa is well recorded



FINANCIAL TIMES Africa calling



World Bank: Africa's economic growth to outpace average

Africa's 'lion economies'
wake from their slumber

Africa
The new frontier for growth

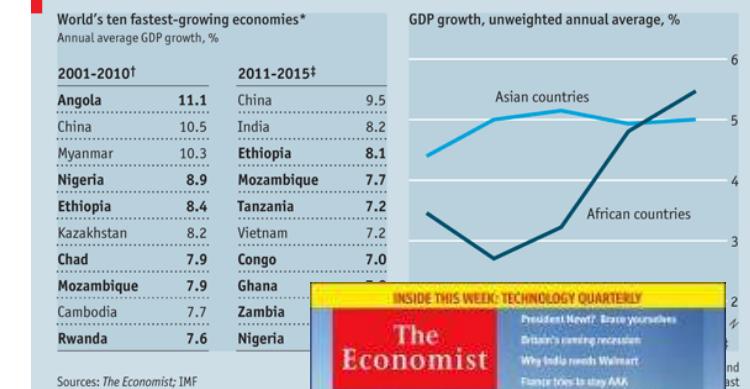


Africa's hopeful economies

The sun shines bright

| World's ten fastest-growing economies* | |
|----------------------------------------|------|
| Annual average GDP growth, % | |
| 2001-2010† | |
| Angola | 11.1 |
| China | 10.5 |
| Myanmar | 10.3 |
| Nigeria | 8.9 |
| Ethiopia | 8.4 |
| Kazakhstan | 8.2 |
| Chad | 7.9 |
| Mozambique | 7.9 |
| Cambodia | 7.7 |
| Rwanda | 7.6 |
| China | 9.5 |
| India | 8.2 |
| Ethiopia | 8.1 |
| Mozambique | 7.7 |
| Tanzania | 7.2 |
| Vietnam | 7.2 |
| Congo | 7.0 |
| Ghana | 7.0 |
| Zambia | 7.0 |
| Nigeria | 7.0 |

Sources: *The Economist*; IMF

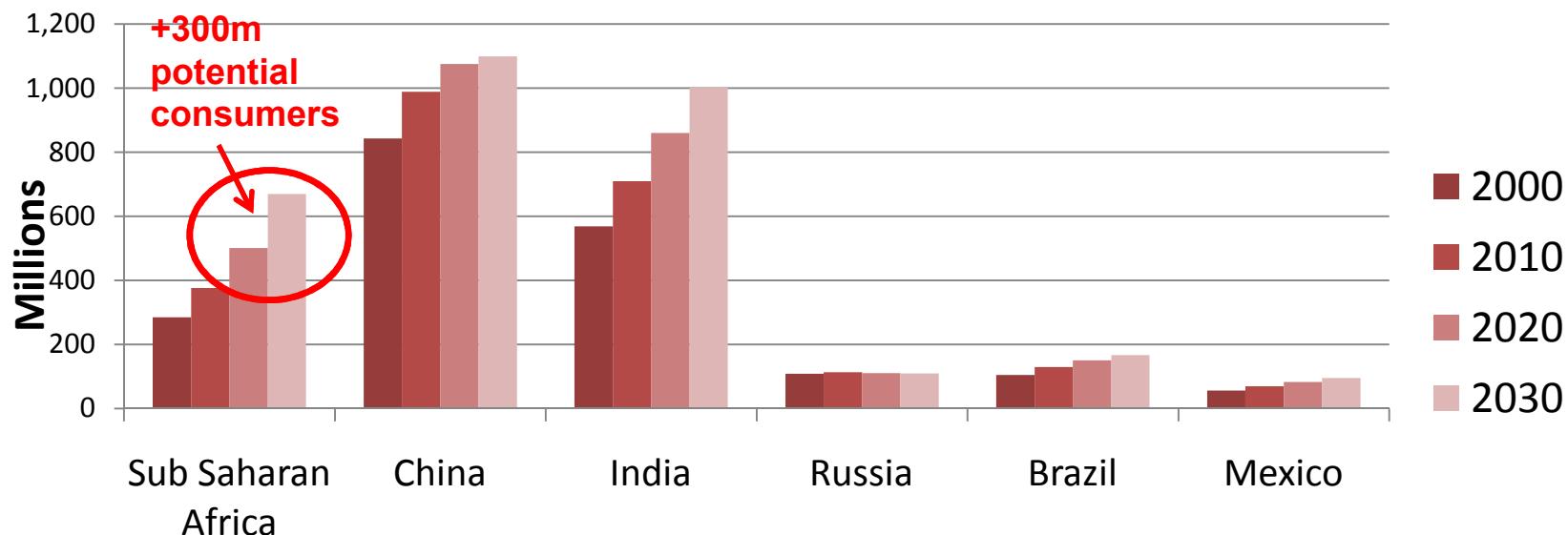


Economics and demographics will lead to an acceleration in number of consumers

....More new consumers than China, Russia, Brazil and Mexico combined, and the same as India

Adult Population* by Country, 2000, 2010, 2020 and 2030

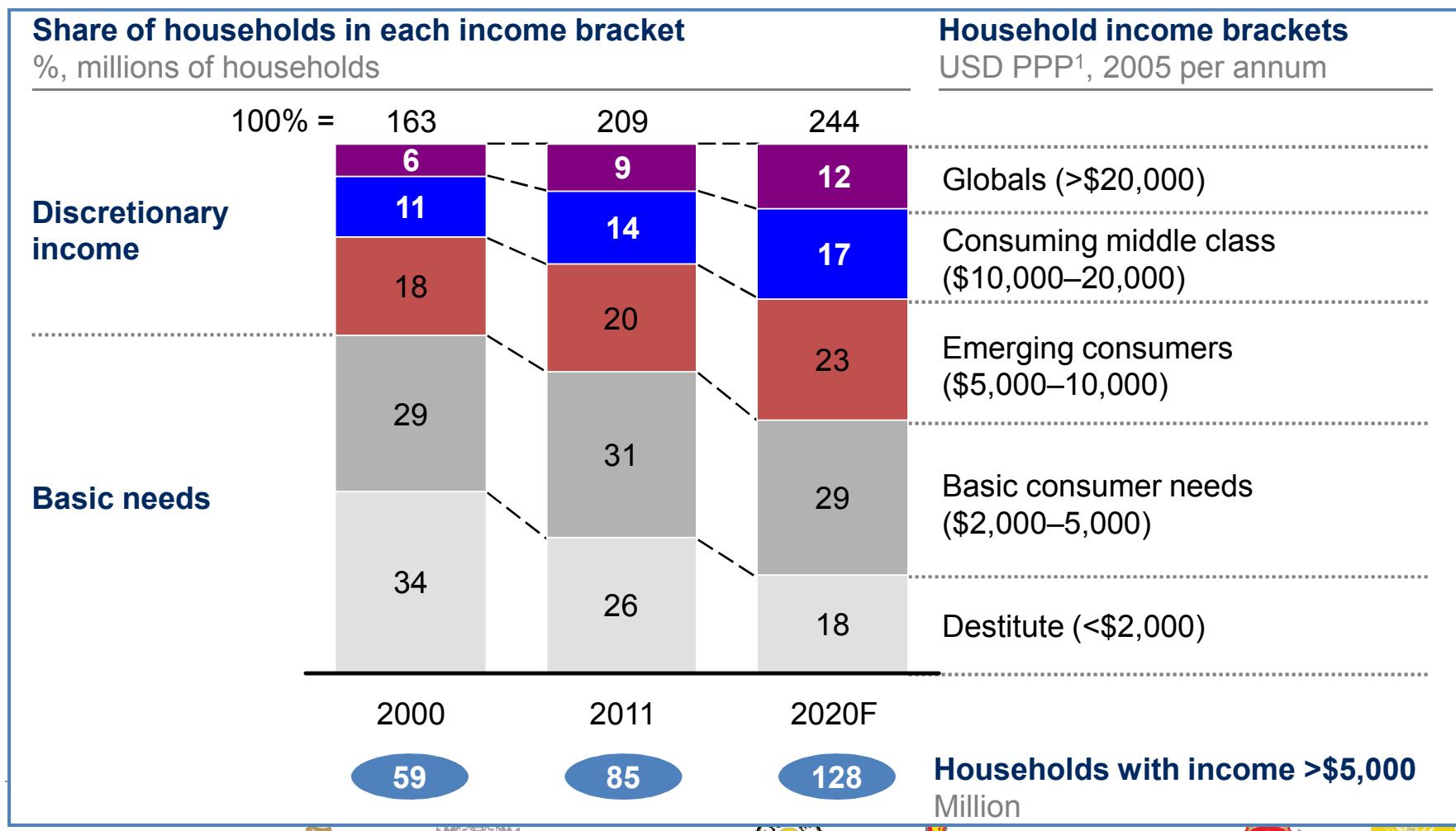
Millions of people, Sub-Saharan African Countries plus China, India, Russia Brazil and Mexico



Source: US Bureau of the Census International Database, www.census.gov, 06/11/12. Note: *LDA+ population data not available by country, hence we are using 20+as an indicative representation of the LDA+ population.



Of those consumers, by 2020, over 50% of African households will have discretionary spending power



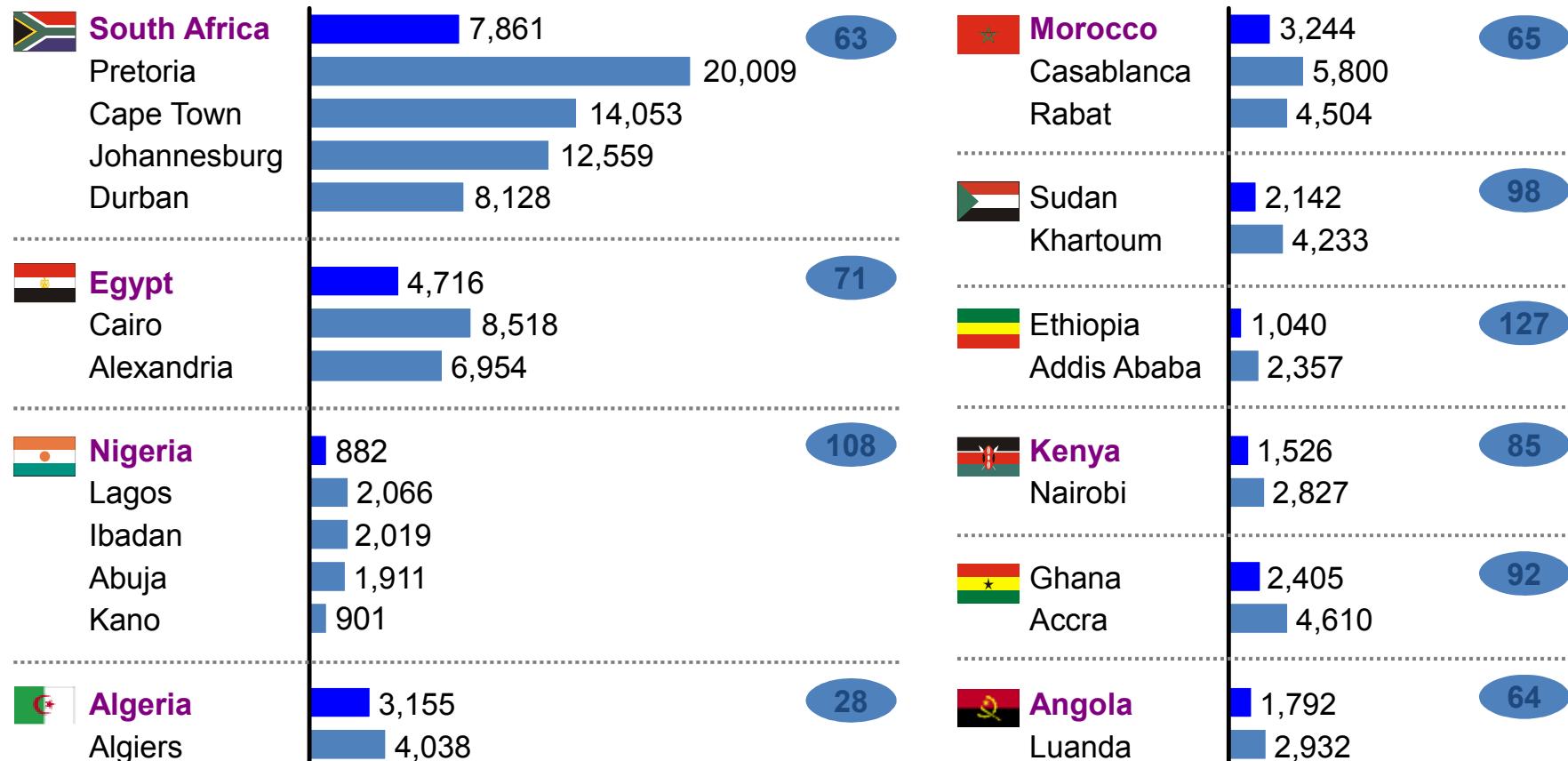
SOURCE: MCKINSEY ANALYSIS
JOHNNIE WALKER GUINNESS



Cities will represent 80% higher consumption per capita

% Avg. difference

Consumption per capita¹ USD PPP, 2011

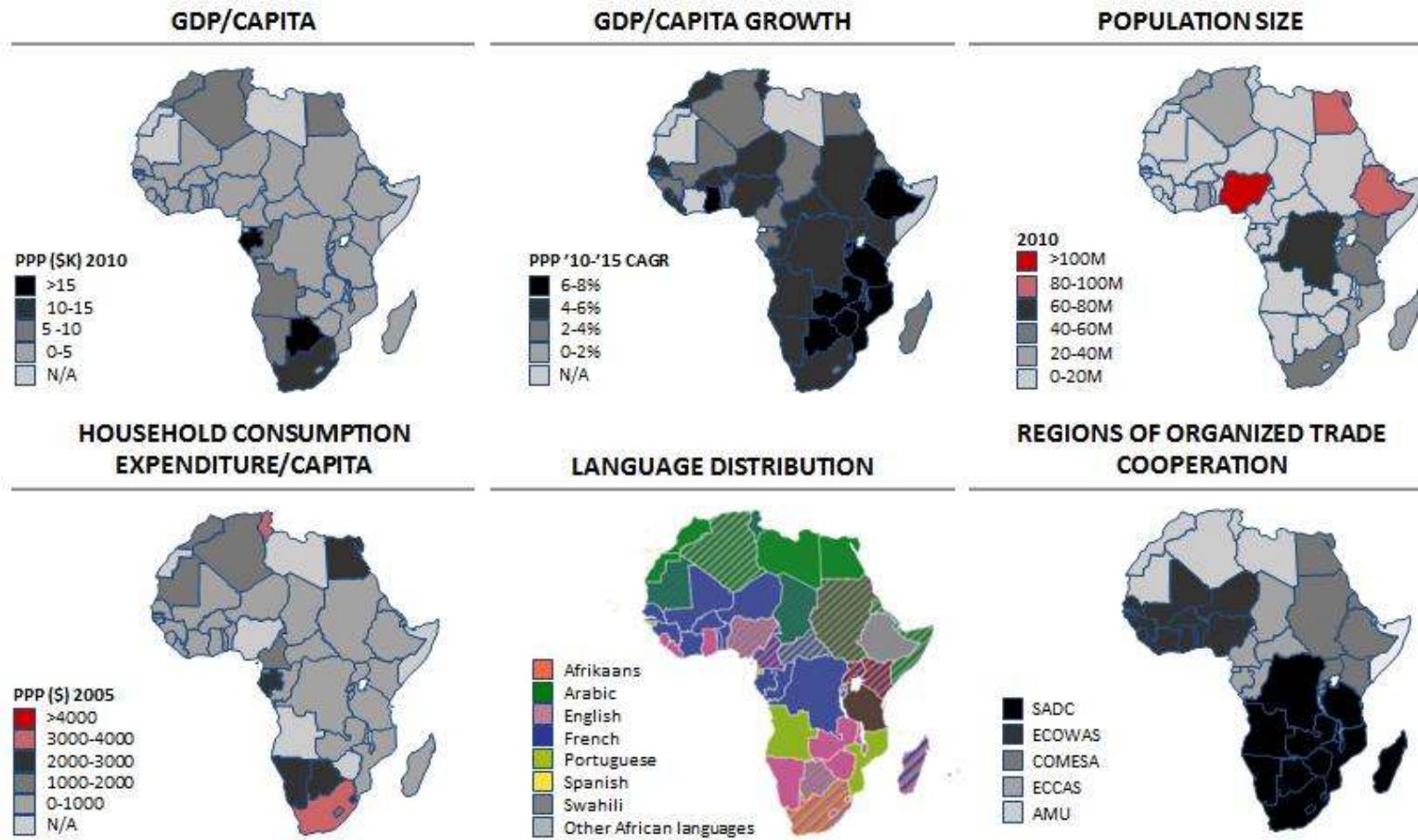


¹ Top 4 largest cities or those with populations above 1 million people included in analysis

JOHNNIE WALKER
GUINNESS
SMIRNOFF
BAILEYS
TUSKER
HARP
SERENGETI
SENATOR
Malta

SOURCE: MCKINSEY ANALYSIS C-GIDD

No ‘one-size-fits-all’ approach – cater for Africa diversity



Source: Lit search; CIA Country Factbook; World Bank Development Indicators; IMF; Economic Freedom Index 2010

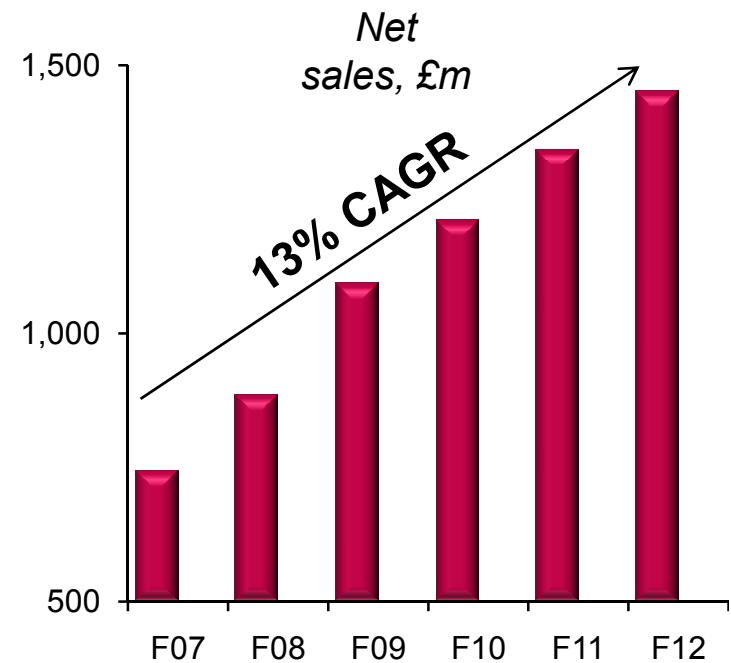


Challenges remain for business

- Developing transport, energy and communications infrastructure
 - Relatively data “thin”
 - Regulatory environment is “dynamic”
 - Developing legal framework and law enforcement in some territories
 - Talent pool relatively shallow
- 
- **High cost of doing business in some territories**
 - **Local insights and network is important**
 - **Capacity to respond to volatility**
 - **Risk management is key**



A localised approach to manage risk and deliver consistent returns



9%

% Diageo total
NSV

13%



Building an enabling environment through solid controls and risk management

- Embedding Code of Business Conduct into the business
- Implementing effective controls
 - Centralised back office functions to maximise scale efficiencies and share best practice
 - Rolling out enabling technologies (SAP, sales tools)
- Driving value through local procurement strategies
 - Cost efficiencies and forex hedging
- Building public awareness of good governance
 - Coalitions against corruption



Sustained investment behind key growth drivers

- Geographic expansion into key markets we are not present at scale
- Building capacity, developing production and modernising assets ahead of consumer demand
- Developing talent and leadership through capability building
 - Graduate and mid-career programmes
 - Mobility
- Investing in broader value chains to maximise value and support local economic development
 - ‘Upstream’ and ‘downstream’ development

Over £1bn in last 5 years in capex and acquisitions alone



The Senator Story in East Africa

The Elephant that learnt to Dance,

or.....

'Tapping new markets for social good'*

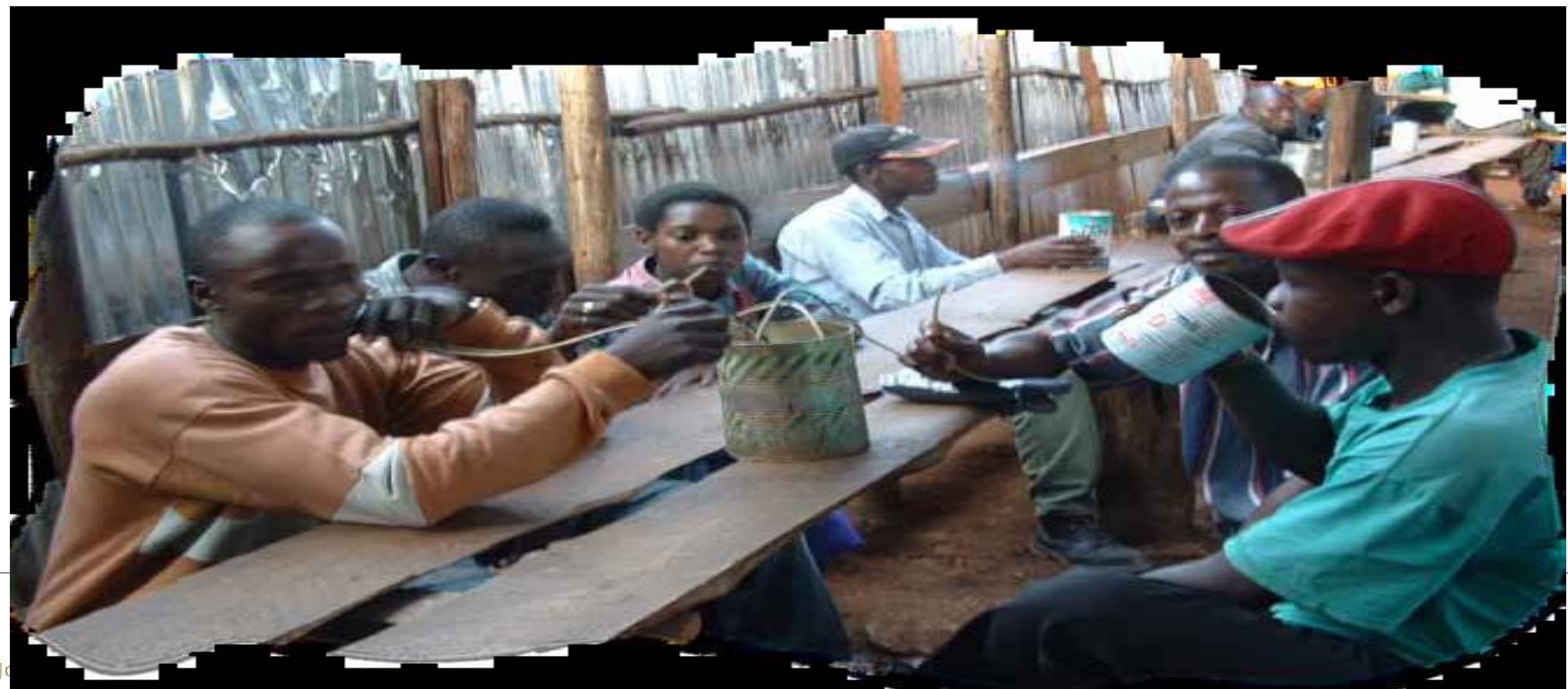


* Harvard Business School Case Study



Situation Assessment: Kenya 2003

- East African Breweries with 95% share of commercial/formal beer market
- But informal and illicit alcohol market estimated to be 56% of total market
- Huge social problems and health risks of illicit brews
- Inflation, and escalating duties on the formal market were encouraging consumers to remain in the informal sector



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The challenges....and solutions.....

Government engagement

- How to deal with the health issue whilst maintaining revenues?
- The win-win concept led to an initial 30% tax remission at launch in 2004 which became 100% in 2006

Internal alignment

- Diageo focus is upon premium and upper mainstream market sectors. Entry into the value sector would bring lower margins and threaten cannibalisation

Route to Market

- Busaa Clubs and Chang'aa Dens
- Legitimising the informal market
- Business Development
- Urban to Rural



The challenges....and solutions.....(cont)....

Technical

- Delivering low Cost of Goods.
 - Unmalted barley, transitioning to sorghum
 - Keg format
- Outlet Quality
 - Bespoke dispense solution – manual operation
 - Dispense Hygiene good practice
- Raw Material availability
 - Agro Development

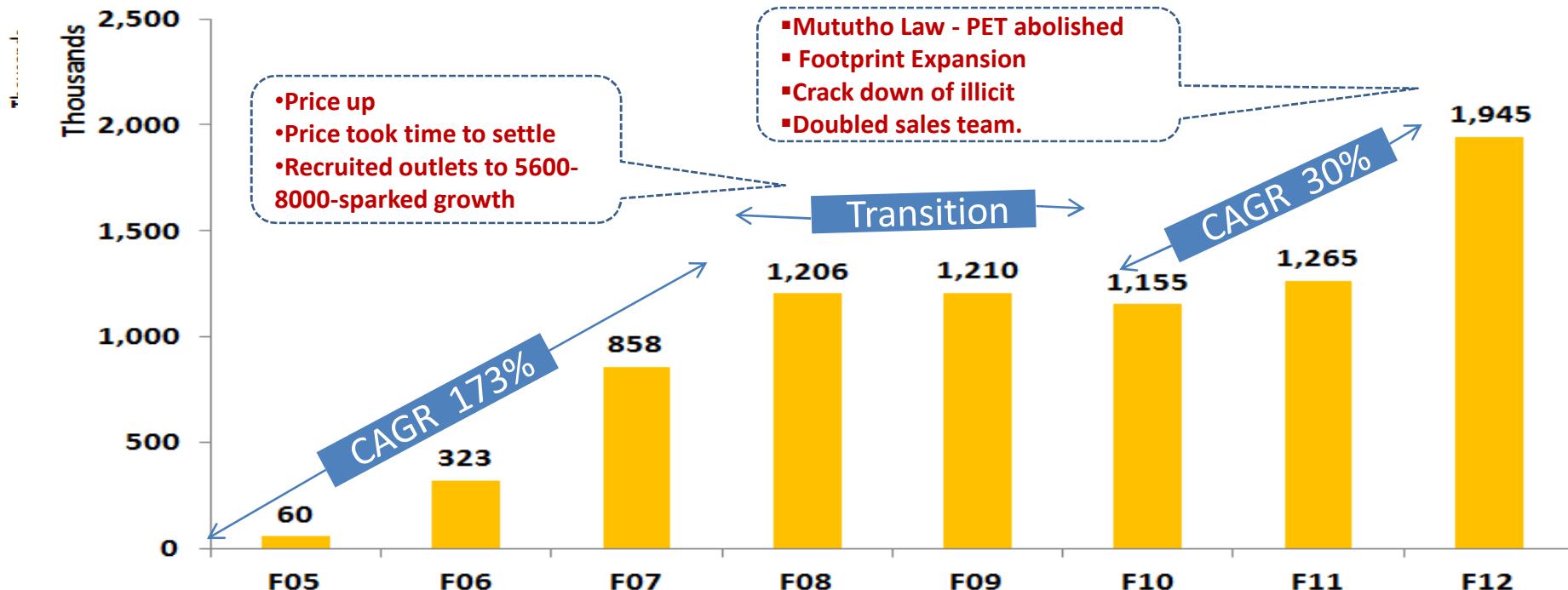


The consumer experience.....

DIAGEO



The Results



- 12,000 Senator retail points
- Conversion of c.50% of illicit alcohol market to the commercial sector
- Consequent reduction in instances of alcohol poisoning
- 12,000 small scale sorghum farmers employed through the value chain
- A model for development in other African markets





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Questions