

Book Africa Rising

How 900 Million African Consumers Offer More Than You Think

Vijay Mahajan
Wharton School Publishing, 2008
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Recommendation

“We know everything about how Africans die, but we know little about how Africans live,” said Swedish author and self-proclaimed African-at-heart, Henning Mankell. This is a book about Africa, but its protagonists are not disease-ridden men and women, starving children or raging warlords. Vijay Mahajan paints a picture of a continent overflowing with entrepreneurial spirit and economic opportunity. He excitedly strings together story after story of entrepreneurial gardens planted in what looked like deserts. At the same time, he makes it quite clear that if you expect to make money in Africa simply by copying business models from elsewhere, you might as well forget about it. To succeed, you must take the time to understand how Africans live and, especially, to learn what their daily challenges are, be they economic, political, institutional or existential. Opening the door of opportunity in Africa requires just a little extra portion of creativity. Mahajan covers a lot of ground in this book. His inspiring case studies will teach you lessons about innovation and entrepreneurship that you can apply anywhere in the world. However, while this book might encourage you to plunge into business in Africa, you will have to turn to another source for hands-on advice. For that reason, *BooksInShort* recommends this work to entrepreneurs and strategists who have not yet considered the African market – not those who are ready to go.

Take-Aways

- Despite its many challenges, Africa presents a host of business opportunities.
- Small portions and very low prices are pivotal when marketing to its poor population.
- Companies in Africa need to take part in building the continent’s infrastructure.
- Africa’s communication industry is booming, particularly the cellphone business.
- Africa’s youth, who make up an unusually large percent of the population, are among the “most optimistic” in the world.
- Nigeria’s moviemaking industry is the third largest in the world in terms of revenue.
- African expatriates are responsible for an influx of money and knowledge.
- The Zulu principle of *ubuntu* stands for respect for the community.
- Western development aid may sometimes do more harm than good, but corporate, governmental and nongovernmental organization (NGO) medical and educational aid often has a positive impact.
- Africa’s development will have to come from within, so NGOs need to support the continent’s entrepreneurs.

Summary

“Inspiration Is All Around You”

In 2006, Zimbabwe’s economy was, as it remains, in tatters. Harmful domestic policies exacerbated by Western sanctions had led to hyperinflation, mass unemployment and usurious interest rates. Tourists stayed away, so the souvenir and car rental businesses at the airport closed, and the taxi drivers became unemployed. A billboard screaming the message that “Inspiration is all around you” was in stark contrast to the harsh reality. Few places could be less inspiring.

“Look beyond Africa as a charity case...see it as one of the world’s most important economic markets.”

Yet, even then, some companies prospered, and they continue to do so. Innscor began as a fast-food chain in Harare, Zimbabwe’s capital, in 1987 and became profitable within the first six months. Expanded and diversified, Innscor now owns a number of restaurants that cater to different segments of society and has outlets in more than 12 countries in Africa. In 2007, 19 of southern Africa’s 50 leading companies outside South Africa were Zimbabwean. If a country like Zimbabwe yields businesses like this, imagine what opportunities must exist in more stable, less scarred countries.

Africa One, Two and Three

The African market falls into roughly three segments:

1. **“Africa One”** – This group of 50 to 150 million people, 5% to 15% of Africa’s population, is its upper class. This obvious market is already on companies’ radars.
2. **“Africa Two”** – Some 350 to 500 million people belong to Africa’s middle or submiddle class. This 35% to 50% of the population is becoming richer and more powerful.
3. **“Africa Three”** – With 500 to 600 million people, this 50% to 60% of the population is Africa’s poorest group.

“Whatever its challenges – and there are many, from diseases such as AIDS and malaria to corruption to all-out war – Africa contains more than 900 million consumers.”

Many companies have recognized the potential of Africa Two and have designed products for it. Egypt’s Mansour Group, for example, first targeted Africa One. When it couldn’t grow any more in that market, it opened a discount store offering local produce that successfully attracted Africa-Two consumers. Capturing Africa-Three business calls for an innovative approach. These people live on minimal budgets. How can you get them to spend their meager resources on your product? Tiny portions and low prices are pivotal. Nestlé offers bottles holding just a few sips of clean water for about 13 cents (still more costly than the “bagged water” the locals sell). Procter & Gamble sells mini-portions of detergent and soap.

Creating Infrastructure

“The African market is informal and disorganized,” but successful companies there have created opportunities by solving structural problems themselves rather than waiting for the market to get ready. Firms such as Coca-Cola, Guinness and Gillette use bicycles, pushcarts and even donkeys to take their products into rural areas. Don’t impose a new infrastructure on an existing system when you want to market your goods. Instead, find out what works already and shape your business accordingly. In Morocco, most people buy at local mom-and-pop stores. Shop owners often allow customers they know personally to pay later. One entrepreneur opened a retail chain that prospered by emulating that system.

“While those outside of Africa focus on the problems, there is a sense in many parts of Africa that nothing is impossible.”

Electrical power remains a challenge in Africa. During the frequent blackouts, many companies use their own generators to provide electricity. One executive even installed an inverter on his computer to bridge the brief moment between the outage and the start of the generator – so his computer would keep running during a power failure.

“Africa is richer than India on the basis of gross national income (GNI) per capita, and a dozen African countries have a higher GNI per capita than China.”

People have organized large and small projects to solve the problem of unreliable electricity. The Grand Inga Dam, proposed for the Congo River, would be the world’s biggest hydroelectric dam. In contrast, little villages install solar panels, share generators or even produce their own “green energy” from jatropha oil. TechnoServe, a nongovernmental organization (NGO), found a way to make energy while processing coffee. Similar creativity stretches to other problem areas, such as the water supply. The Roundabout organization has built a water pump that works like a playground merry-go-round; children pump water as they play.

“Whether Poor or Rich, People Still Need to Communicate”

The communication industry is booming in Africa. The cellphone market is developing faster here than anywhere else in the world. Even people who don’t have cellphones buy SIM cards and use them in their friends’ phones. One mobile company in Senegal has achieved so much success that its managers were “embarrassed to publish their figures in a country that is so poor.”

“African markets do not arrive ready-made. They must be organized.”

Mohamed (Mo) Ibrahim founded Celtel in 1989. It is now a major African phone company active in 15 countries. When he began, Ibrahim had to build his power and communication infrastructure from scratch. Unable to find a bank to invest in his enterprise, he repeatedly provided equity funding to build the company. In 2006, he sold it to MTC Kuwait for \$3.4 billion. Ibrahim puts the money he makes back into projects that benefit people. He sponsors a \$200 million fund that supports African entrepreneurs. “This is money I made in Africa,” he says, “and it is really their money.”

“In 2005...there were more Ethiopian doctors in Chicago than there were in Ethiopia.”

People in some rural areas of Kenya benefit from Celtel in a different way: They pirate the power it generates for its cell towers. Why does Celtel allow that? For one thing, its managers believe in supporting village populations and, for another, having access to Celtel’s electricity gives the villagers an incentive to keep its towers intact.

“By working with the World Bank to promote better hygiene, Unilever can improve health and also build the future market for its Lifebuoy soap.”

The impact of cellphones on economic development in Africa far exceeds their importance on other continents. The arrival of this technology opened opportunities for small businesses in areas where people never had landlines; it even spawned entire industries. Many more people have cellphones than bank accounts, so it is no wonder that Africa has pioneered the use of cellphones for banking transactions. In fact, “prepaid minutes have become a form of currency.” Rather than shifting money from one account to another, people transfer prepaid minutes. The entertainment sector also is exploring ways to reach a broader audience through cellphones. DSTv Mobile wants to broadcast the 2010 soccer World Cup via cellphones. In Nigeria, people already can subscribe to a service that lets them watch the news on their phones. Cellphones have also changed health care. A system designed by the US company Voxiva connects clinics, doctors and patients in Rwanda by cellphone, thus allowing better health care in rural areas.

African Youth

In Africa, approximately 41% of the population is 14 years old or younger. (Compare that to 14% in Japan.) In contrast, in 2007, only 3% of the people were over 65

years old. This imbalance leads to opportunities for youth- or child-related products, such as diapers, toys and school uniforms. Soft drink manufacturers and other companies use music and sports, the global lingua franca among the young, to reach kids with their branding messages. However, the age imbalance also poses possible threats. Studies show that civil wars and dictatorships are much more likely in countries with excess youth. Some “80% of the civil conflicts that broke out in the 1970s, ’80s and ’90s occurred in countries where at least 60% of the population was under 30.”

“Although the dangers are there, what is most striking about Africa are actually the opportunities. Perhaps what I needed was not a bodyguard but an investment banker.”

Nonetheless, young Africans are among the world’s “most optimistic” youth. Ghanaian economist George Ayittey says the “cheetah generation” (as opposed to the parent, or “hippo,” generation) is forward-looking, well-connected and confident. Its members want “democracy, transparency and an end to corruption.” The energy they radiate is almost palpable, says Celtel founder Ibrahim. African children’s educational aspirations motivated American TV star Oprah Winfrey to spend \$40 million in order to create a girls’ school in Africa. As Winfrey explains, “In South Africa, kids don’t ask for money or toys. They ask for uniforms so they can go to school.” Development in Africa may evolve from this ambitious spirit.

“The more Africa is wired, the more the old and the new come together, the more African societies have to address such clashes.”

A lot of initiatives focus on the education of young children. Nicholas Negroponte, chairman emeritus of MIT’s Media Lab, launched the One Laptop per Child initiative to create inexpensive computers to donate to kids worldwide. Similarly, Intel built cheap “Classmate computers” for African schools. In classes that used them, testing showed a 25% spike in students’ performance.

Hollywood, Bollywood, Nollywood

When Kenneth Nnebue imported empty video cassettes to Nigeria, he had no idea that he would spawn the development of the world’s third-largest (by earnings) moviemaking industry. Assuming he could charge more for the tapes if they weren’t empty, he produced a cheap film about “a man who killed his wife in a cult ritual.” The film was an immediate success and inspired copycats – a lot of them. Today, Nigeria’s “Nollywood” produces 2,000 “notoriously cheap” movies annually – more than either the United States’ Hollywood or India’s Bollywood.

The Diaspora

Many Africans have left the continent to get educated or employed elsewhere. More people from Cape Verde, for example, live outside the country than within it. Sub-Saharan African expatriates transfer large sums of money back to their home countries. In Somalia, the money that expats sent back home in 2005 was responsible for 25% of the country’s GDP. Companies tap this market by offering convenient ways to transfer money. One company, Sadza, has a Web site that allows expats to send groceries or medication instead of money, thereby circumventing the currency risk. Returning expats also boost the tourism industry. Some come back to stay, bringing home expertise and the motivation to create change. As that happens, Africa is actually experiencing a “brain gain.”

“The best time to plant a tree is 20 years ago. The second best time is now.” [– African proverb]

Ubuntu “Ubuntu” is a Zulu term. According to Bishop Desmond Tutu, it translates to “I am because you are.” This concept is at the core of opportunities in Africa. Whether you are setting up an NGO or a business, you need respect for the people and a thorough understanding of the community. No company can ignore the struggle that its African employees and prospective customers face. Corporate social responsibility is a business necessity. Corporate leaders work to address these and other common problems many different ways:

- **HIV/AIDS** – Three-quarters of the families participating in a market research survey in one area included children left parentless by the disease. Coca-Cola engages in several anti-AIDS campaigns, distributing condoms and medication.
- **Drinking water** – “More than 300 million people in sub-Saharan Africa are without access to clean drinking water.” Procter & Gamble has supplied purifiers as part of a clean-water campaign.
- **Disease** – “Some 3,000 children age five or younger die every day from malaria in Africa.” Pharmaceutical firm Novartis has offered malaria medication “virtually at cost” to the World Health Organization and the Global Fund for distribution to poor people. It also printed comics and other reading material to inform people about infection risks and treatments.

“Trade Not Aid”

Many economists and politicians remain skeptical about the effectiveness of development aid. Some claim that certain aid programs didn’t only fail to have a positive effect, but actually had a negative impact on the country’s development. Western charity reinforces the image of Africa as a problem-stricken continent. Africa is seen as a passive beggar rather than as an active agent of change. NGOs have a responsibility to promote entrepreneurship and self-driven development. Microlending can make a huge difference in developing areas. Although some areas still have a desperate need for help, the most important source of change is within Africa itself.

About the Author

Vijay Mahajan, a former dean of the Indian School of Business in Hyderabad, India, holds a chair in business at the McCombs School of Business at the University of Texas in Austin. He has written several books, including *The 86% Solution*.
