RELENTLESS CHANGE

THE ‘TOP TWO’ TUSSLERS, THE STABLES AND THE REBOUNDERS

As businesses and consumers look to find stability and certainty in the outlook for Sub Saharan Africa, the latest Nielsen Africa Prospects Indicator ranking shows little reprieve as all eight countries shuffle position at the mid year mark, the first time this has occurred in nearly four years. What is increasingly evident is that no country is unaffected by the fluctuating dynamics, although the sources of disruption and opportunity are unique to each market. Change is fast becoming convention, with success favouring companies that are able to make regular adjustments via agile strategies, operations and execution.

OVERALL RANKING TREND

<table>
<thead>
<tr>
<th>Rank</th>
<th>Q1’15</th>
<th>Q3’15</th>
<th>Q1’16</th>
<th>Q3’16</th>
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<th>Q4’17</th>
<th>Q2’18</th>
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<td>COTE D’IVOIRE</td>
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Kenya reclaims Africa’s lead prospect position as Cote d’Ivoire slips to second place - an ongoing wrangle amongst the two countries to capture Africa’s primary focus. Tanzania returns to third place after a quarter in fifth place, reaffirming it as one of the steadiest prospects over time.

Ghana and South Africa have regularly changed positions, both up and down, on the index, but the longer term trend points to stronger positions for both countries, now in fourth and sixth place, respectively. Nigeria reaches its best level in three years after slow but continued recovery. Uganda, on average, holds seventh place, and Cameroon has deteriorated substantially to eighth place after the short lived climb to fourth place in Quarter 2’2017.
Kenya’s economic and business conditions have improved, matching the growing optimism after the extended election period in 2017. As political anxieties fade and the agricultural sector regenerates, the concerns impacting Kenyan consumers have been alleviated. Nielsen’s Consumer Confidence Index for Kenya rose two points to 104 in the second quarter of 2018, buoyed by inflation lowering from 11.7% a year ago to 4% currently. The positive sentiment is filtering through to consumer spending, with 24% of retailers reporting an increase in consumer spending and 64% of Kenyans willing to try new products.

Despite more positive consumer indicators, Kenya’s retail sector remains challenging, with low retailer expectations for growth and no improvement in the ease of doing business. The Kenyan government’s decision to uphold the interest rate cap on commercial bank lending rates continues to constrain private credit growth, affecting independent retailers.

Cote d’Ivoire trades places with Kenya, but with a smaller absolute score differential, and retains top position for retail prospects. Ivorian retailers are the most upbeat about retail growth, with 68% of the opinion that growth will be good to excellent over the next 12 months. This echoes rekindled investor confidence following last year’s political turmoil. The country is expected to be one of SSA’s strongest growing economies over the next year, and Ivorian consumers are also more favourably inclined to spend, with an increasing number of retailers reporting stronger consumer spending in store.
Tanzania settles back into third place on the overall rankings with improved macro-economic and consumer prospects. Strong GDP growth, relative to the size of its economy, pushes Tanzania into the leading position on the macro rankings.

After a promising climb up the rankings at the end of 2017, Ghana has stumbled, with dips in the macro, business and consumer factors. GDP growth, although more positive than the SSA average, has softened to 6.8%. Slower economic growth, subdued non-oil and industrial sector performance and poor agricultural output have led to lower business confidence and consumer sentiment. Ghana’s consumer confidence index dropped 12 points into Quarter 2’2018, to 108, the lowest level since Quarter 3’2016. Despite easing inflationary pressures, Ghanaians are least open to trying new alternatives with purchasing decisions firmly rooted in familiarity, trust, availability and affordability. It is no surprise when comparing a common basket of food items, that Ghanian spend is the third highest in the region at US$18, which is almost double that of Uganda.

Nigeria continues its gradual climb to a healthier position, and returns to its usual, positive consumer outlook. Nigerians have constantly been some of Africa’s most optimistic and confident consumers, and as inflationary pressures ease, consumers’ volume and value spend has risen into positive territories for the first time in two years. The Nielsen Nigeria Consumer Confidence Index posted a strong, nine point increase to 122, mirroring the spending momentum, steady Naira and stable retail prices.

With two consecutive quarters of GDP contraction, South African prospects have slipped. Drought in the agricultural sector, short-comings in the industrial sector together with fading “Ramaphoria” have had an adverse effect on consumer confidence and spending.

Uganda remains lower on the rankings with weak overall macro and consumer prospects. Despite competitive GDP growth, relative to its East African counterparts, Uganda carries smaller advantages. Consumer prospects are the lowest of the countries measured, with only 13% of retailers expressing the view that consumer spend is increasing and consumers are less open to trying new products. In addition, 78% of Ugandans base their product choices on familiarity and trust.

After peaking in fourth place, Cameroon has slid back over the past year. GDP growth has slowed despite economic diversity, and the fragile outlook together with unrest in parts of the country, ahead of the elections, have impacted economic, business and consumer prospects.
PART I
MACRO PROSPECTS

ECONOMIC GROWTH FAR FROM EQUAL

Economic growth in Sub Saharan Africa is on course for 3.1% in 2018 according to the World Bank, as the outlook for the region continues to firm in the aftermath of the commodity price slump. A healthier global economy, higher commodity prices, improved agricultural output and solid government spending are guiding recovery. However, inadequately diversified economies with less robust business climates, poor regional infrastructure and small private investment sectors are limiting the strength of the recovery.

ECONOMIC GROWTH

Global growth has been steady over 2017 and 2018, but is expected to decelerate over the next two years amid subdued international trade and tightening global financing conditions. As a result, growth in emerging markets and developing economies is projected to plateau. This bodes for tougher growth climates as Sub Saharan Africa’s major economies, Nigeria, South Africa and Angola, have not met market expectations producing weaker than expected results. Growth dynamics though, fluctuate across the region with double digit levels posted by Rwanda and Ethiopia, and solid performances coming from Cote d’Ivoire, Tanzania, Ghana, Uganda and Kenya.
BUSINESS PROSPECTS

DAMPENED BUSINESS SENTIMENT

In line with the uneven economic performance in the region, companies have scored less positively on their overall country and own growth outlooks for the next 12 months. The SSA average score of five (where 10 is the highest) for country performance indicates moderate growth expectations, is behind the previous rating of 5.3 – and is the lowest score in five years, deteriorating by 15% over the past four years.

Country growth expectations dropped in 12 of the 17 countries measured, with the exceptions being Kenya, Uganda, Tanzania, South Africa and Angola. East Africa’s capacity for growth is reflected in Kenya, Uganda and Tanzania which all scored at least 10 index points higher than the SSA average, and business perceptions of Kenya’s potential is at its highest since the inception of the Nielsen business survey. While South Africa and Nigeria do not feature as promisingly for country growth, they do have stronger own business growth outlooks.

COUNTRY GROWTH INDEX

<table>
<thead>
<tr>
<th>Country</th>
<th>SSA Average</th>
<th>Score</th>
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<tr>
<td>Kenya</td>
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</tbody>
</table>

10 points ahead of SSA average

10 points below SSA average
BUSINESS PROSPECTS

UNCERTAINTY IN BUSINESS GROWTH

Over time, own business growth scores have dropped in 13 countries. The top ranked seven countries today, Kenya, Uganda, South Africa, Ghana, Rwanda, Nigeria and Tanzania, have been more stable prospects for business growth over time. Kenya and Uganda have improved, South Africa has remained the same and Ghana, Nigeria and Tanzania have declined marginally, indicating steady longer term growth potential in these markets.

Markets which previously ranked more positively (six or higher), Cote d’Ivoire, Ethiopia, Mozambique are no longer viewed as favourably for business growth, as in-market conditions have impacted companies’ ability to grow sustainably.

OWN BUSINESS GROWTH TREND

In the latest business survey, the SSA average outlook for own growth is lower than country levels for the first time, signifying increasing uncertainty in achieving growth beyond market expectations. With tougher economic conditions in many markets, businesses are struggling to adjust to consumers altered spending ability, with products and price points that were previously suitable, indicating a mounting need for agility, flexibility and operational efficiency.
In addition, the Nigeria Consumer Confidence Index improved to 122 in Quarter 2’2018. Nigerians are feeling more optimistic about their job prospects, with an 11 point increase to 67%, and 83% of Nigerians say that their personal finances will be in a good/excellent state in the next year. These factors have resulted in 10% more Nigerians (48%), who regard the current time as optimal to buy the goods and services they need or want.

Smaller manufacturers have been quicker to adapt to consumers’ changed circumstances by matching their need for value and familiarity with innovative products, pricing and packaging, and have benefitted ahead of the top manufacturers.

**PART 3**

**CONSUMER PROSPECTS**

**NIGERIAN OPTIMISM RETURNS**

After months of subdued consumer optimism, Nigeria returns to the top of the consumer prospects ranking, followed by South Africa and Kenya. Over the last two quarters there has been a noticeable upswing in consumer spend in store, with 25% of Nigerian retailers reporting that consumption is on the increase. This improving ability to spend is also accompanied by a rise in consumer willingness to try new products, signaling stronger spending intentions in the months to come.

**IMPROVING CONFIDENCE INDICATORS IN NIGERIA**

% EXCELLENT/GOOD Versus Q1’2018

- **Job Prospects:** 67% (67% increase)
- **Personal Finances:** 83% (5% increase)
- **Time to Buy:** 48% (10% increase)

In addition, the Nigeria Consumer Confidence Index improved to 122 in Quarter 2’2018. Nigerians are feeling more optimistic about their job prospects, with an 11 point increase to 67%, and 83% of Nigerians say that their personal finances will be in a good/excellent state in the next year. These factors have resulted in 10% more Nigerians (48%), who regard the current time as optimal to buy the goods and services they need or want.

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PART 3

CONSUMER PROSPECTS

BROADER PRODUCT CONSIDERATIONS

While Nigerian consumers are feeling more upbeat, their level of spend and product trial will take time to reach the same positive highs enjoyed three years ago. Overall, SSA consumer prospects remain pressurised with the proportion of consumers increasing spend at the lowest levels since 2014. On the upside, consumer spending in Ghana, Kenya and Cote d'Ivoire is on the up, with indicators improving into the latest quarter.

Winning with consumers requires not only an understanding of their varied needs and circumstances, but also relevant products to match their product choice drivers. Over time, trust and affordability have been important attributes, but more recently availability and marketing - formal advertising and informal recommendation – have become important selection criteria, indicating a need for credible information sources and influencers.
INFLATION TREND

The SSA retailer outlook for growth improved from 41% (2016) to 46% currently (good/excellent), with easing inflation levels providing much needed relief to sales, particularly in Nigeria and Kenya. South Africans, however, felt more pressure on their household expenditure in Q2’2018, due to the combination of rising fuel prices, a VAT increase to 15% and the implementation of sugar taxation.

South African retailer confidence in doing business dropped to an all time low amidst the more sensitive pricing environment. Retail growth stagnated as consumers offset their largely unchanged incomes by scaling back on discretionary items, dropping categories from their repertoire, opting only for essentials and seeking value for money brands, including Private Label.

SOUTH AFRICA – FMCG BASKET PERFORMANCE

<table>
<thead>
<tr>
<th>MAT '1A</th>
<th>MAT '1Y</th>
<th>Q3’16</th>
<th>Q4’16</th>
<th>Q1’17</th>
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</table>

- Volume Growth
- Unit Value Growth
- Nominal Value Growth
**RETAIL PROSPECTS**

**FMCG MARKET DYNAMICS**

By contrast, the Fast Moving Consumer Goods (FMCG) grocery basket in Kenya and Nigeria showed positive volume growth with consumers more inclined to open their wallets as inflation eased.

In Kenya, household and personal care categories are leading the growth, and volumes have also recovered in food and non-alcoholic beverages as prices recover. Kenyan modern trade continues to grow as consumers seek competitive pricing and broader product ranges.

**KENYA – FMCG BASKET PERFORMANCE**

<table>
<thead>
<tr>
<th>MAT YA</th>
<th>MAT TY</th>
<th>Q3'16</th>
<th>Q4'16</th>
<th>Q1'17</th>
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**NIGERIA – FMCG BASKET PERFORMANCE**

Food, personal and home care categories in Nigeria propel the renewal as both essentials and non-discretionary items are added back into the basket. Smaller manufacturers lead the recovery with flexible, localised offerings.

<table>
<thead>
<tr>
<th>MAT YA</th>
<th>MAT TY</th>
<th>Q3'16</th>
<th>Q4'16</th>
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![Graph](Image)
SPECIAL FEATURE

BUSINESS PRIORITIES
WHAT CORPORATES ARE BACKING FOR BUSINESS SUCCESS
RECONSIDERED ELEMENTS OF SUCCESS

To persevere through the challenges in SSA, companies have to be adaptable and agile in good and bad cycles in order to maintain growth and relevance. Despite advancing social conditions and improving economics, the region is still experiencing negative per capita income growth.

As a result, consumer prospects have not substantially improved and retail conditions remain challenging, with retailer ease of doing business at the weakest level to date. Consumers remain cautious in their outlook and conservative in their spending, as they await the effects of lower inflation and strengthening GDP to reach their wallets.

Changing conditions require a strong focus on differentiation, innovation and optimisation, and business priorities have consequently shifted to improve growth prospects. Route to Market/Distribution remains the top priority but decreases in contribution from 23% to 15%, as other factors become as important.

2018 BUSINESS PRIORITY RANKING

1. RTM/DISTRIBUTION
2. CONSUMER DEMAND
3. INNOVATION
4. MEDIA & MARKETING
5. OPERATIONS OPTIMISATION

SPENDING THE SAME AS BEFORE
MORE OPEN TO TRYING NEW PRODUCTS
(33% vs 50% 3 three years ago)

44%
Over time, businesses have had to reassess the elements for success. In 2015, companies were primarily focused on the retail environment, with Route to Market/Distribution, Retail Execution, Supply Chain and Stock Management featuring as four of the top five focus areas. Initially, growth could be achieved by making more, or new, products available to consumers in the right stores.

TODAY, THESE RETAIL FUNDAMENTALS REMAIN IMPORTANT, HOWEVER, NOT ALL STOCKED PRODUCTS ARE IDEAL FOR THE CONSUMER - FACTORS ACROSS THE PATH TO PURCHASES NOW RANK AS RISING PRIORITIES FOR COMPANIES.

TOP 5 BUSINESS PRIORITIES TREND

<table>
<thead>
<tr>
<th>2 YEARS AGO (Q4'15)</th>
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<th>2018 (Q2'18)</th>
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<tr>
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<td>1 ROUTE TO MARKET/DISTRIBUTION</td>
<td>1 ROUTE TO MARKET/DISTRIBUTION</td>
</tr>
<tr>
<td>2 RETAIL EXECUTION</td>
<td>2 CONSUMER DEMAND</td>
<td>2 CONSUMER DEMAND</td>
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<tr>
<td>3 SUPPLY CHAIN</td>
<td>3 SUPPLY CHAIN</td>
<td>3 PRODUCT INNOVATION</td>
</tr>
<tr>
<td>4 INSIGHT &amp; METRICS</td>
<td>4 GROWTH FORECAST</td>
<td>4 MARKETING &amp; MEDIA</td>
</tr>
<tr>
<td>5 STOCK MANAGEMENT</td>
<td>5 PRODUCT INNOVATION</td>
<td>5 OPERATIONAL OPTIMISATION</td>
</tr>
</tbody>
</table>
Revisiting businesses’ priorities three years on, Route to Market/Distribution is still the core focus, but four other areas are now present in the top five priorities.

Consumer Demand ranks second, reinforcing the necessity for comprehensive knowledge of consumer circumstances and needs in order to establish, generate and meet demand. In SSA the main drivers of product choice are trust, affordability and availability, but brand success factors and differentiators extend beyond these attributes.

Delivering suitable products is a key component of success. Innovation now ranks in third place, highlighting the importance of qualities that meet Africa’s diverse consumer requirements and aspirations.

Marketing and Media moves into fourth place. Awareness, consideration and trust from respected sources are important basics required to generate trial and repeat, especially for new products in increasingly competitive brand environments.

Operations Optimisation ranks fifth. With tough trading conditions and volatile currencies, streamlined production processes can achieve cost savings enabling vital, lower product price points.
Sub regional priorities reveal nuanced differences. In West Africa, where retail priorities were formerly at the forefront, companies can no longer focus predominantly on getting products into trade, but need to get to grips with identifying the different consumer preferences to regenerate demand.

Similarly, consumer demand is the key focus in Southern Africa where economic headwinds have dampened consumer prospects. Emphasis on operations optimisation as well as marketing and media is particularly evident in South Africa, where sophisticated and competitive modern trade and digital media platforms exist, including a growing connected commerce environment.

Route to market and distribution remains the key focus across Central and East Africa. Businesses in Angola, Democratic Republic of Congo (DRC) and Ethiopia are, however, faced with challenging governance and regulatory restrictions raising this as a critical business area.
Company priorities over the next twelve months by country highlight a consistent spotlight on consumer demand, making it the main focus area in 10 of the 17 countries. Route to market and distribution is the main priority in four countries, namely Tanzania, Uganda, Rwanda and DRC. Governance and regulation are in the top three in six countries; Angola, Ethiopia, DRC, Zimbabwe, Mozambique and Namibia, while Kenya is the only country with innovation prioritised ahead of all else.

The focus on insights and metrics, and growth forecast in Cameroon, Ethiopia, Rwanda and Zambia indicates a lack of information to adequately understand the market dynamics and plan for the future. Marketing and media is important in DRC, Cote d’Ivoire, Ethiopia and Ghana. Other country specific distinctions are evident in Botswana, Namibia and Zambia where Stock Management is a priority. Operations optimisation features in South Africa where companies are seeking to improve profitability by streamlining production and operating processes.

The priorities by country reveal similarities but also distinct differences, depending on individual market factors. What is more common is the significance of having rich insights into consumer needs to better determine future demand. Retail proficiency will be the shared winning ground, once companies are equipped with consumer understanding, optimal products and meaningful media messages and moments, to connect with consumers.

More than ever before, no one size fits all and no total continent, country, city, consumer or channel approach is enough to ensure ongoing success in SSA. Africa offers one of the greatest gifts of untapped potential, but requires differentiation, individualisation, resilience and focused but adaptable strategies.
WHAT’S NEXT IN AFRICA?
FROM UNCERTAINTY TO CERTAINTY
WHAT TO EXPECT NEXT

CONSUMER AT THE CENTRE

Companies are increasingly challenged to be more informed, immersed and measured in the environments in which they operate, in addition to being prepared for the future.

Factors such as population change and how it is dispersed, legislation, technology and innovation all influence consumer lifestyles and market dynamics at an accelerating pace.

Manufacturers and retailers currently find themselves competing for share of the overall wallet that is increasingly allocated to non negotiable living expenses such as housing, transport, education and utilities. FMCG spend is where the greatest flexibility is required and this is bringing about changes in the composition of consumable categories and products to accommodate the household budget restrictions. Companies will need to reconsider their products, packaging, pricing/promotion and retail options for consumers seeking to better manage their FMCG spend.

Consumer lifestyles are also evolving rapidly due to urbanisation, longer commutes and the spread of the internet, which has resulted in rising stress and time pressures. With busier, more connected and on-the-go lifestyles, manufacturers and retailers will need to satisfy the consumer demands for ease, utility and simplicity. Consumers are looking for solutions to fulfil a range of lifestyle requirements centered around convenience.

Quick to prepare, ready made, home delivered and on-the-go products are on the increase, but will need to be tailored to consumers specific circumstances and wallets. Stores in accessible locations, offering value added services and efficient checkouts, in addition to e-commerce solutions, will save consumers valuable time.

A deeper understanding of Africa’s consumers can bring much needed certainty to current and future planning and execution.
SOURCES & METHODOLOGY

GDP size, GDP growth, Core Inflation, Food Inflation, Population and Consumer Spending sourced from World Bank and country specific Central Banks and Statistical Institutions. Common Consumer Basket Spend sourced from Numbeo. Data is updated quarterly, where available, and quoted as per latest quarter available. Where information is published monthly the reading at mid-month of the quarter is used.
Methodology: Ranking factored on GDP growth and GDP size, updated quarterly.

BUSINESS PROSPECTS: Nielsen survey conducted amongst business executives with responsibility for single or multiple African countries. Edition 7 represents more than 300 country level responses from multinational, regional and local manufacturers and retailers in the Consumer Packaged Goods and Telecommunication industries. Two standard questions are fielded bi-annually, and additional issue-based questions are covered for spotlight features.
Methodology: Ranking factored on Country Growth View and Own Business Growth View.

CONSUMER PROSPECTS: Nielsen survey conducted amongst 5,700 Grocery and Kiosk Traders in eight countries: South Africa, Nigeria, Kenya, Ghana, Tanzania, Uganda, Cote d'Ivoire and Cameroon. Nielsen Consumer Confidence Survey conducted amongst 1,500 respondents in Nigeria, Kenya and Ghana. A mobile methodology is used in Nigeria, Kenya and Ghana. Surveys are conducted quarterly. Index levels above or below 100 indicate degrees of optimism/pessimism.
Methodology: Ranking factored on Consumer Spend in Store and Consumer Trend on Willingness to Try New Products.

Methodology: Ranking factored on Retailer View of Growth, Ease of Doing Business and Inflation.

AFRICA PROSPECTS INDICATOR:
The overall Indicator ranking is created from 9 common datasets and 12 weighting calculations to determine the relative indicators for each of the individual dimensions.
Methodology: Overall ranking is factored on an equal weighting combination of the 4 dimensions, available for the 8 countries where common datasets are available.

OTHER REFERENCES:
Nielsen Emerging Market Insight (EMI I and II) country reports
Nielsen Quarter by Numbers, Africa Middle East, Q2'18
The Conference Board ® Global Consumer Confidence Survey conducted in collaboration with Nielsen Q2’18 for South African consumer confidence. The survey is based on respondents with Internet access. Index levels above or below 100 indicate degrees of optimism/pessimism.
IMF Regional Economic Outlook: Sub Saharan Africa May 2018
World Bank Africa Pulse Vol17, April 2018
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