



The rise of the African consumer

A report from McKinsey's Africa Consumer Insights Center

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Africa's consumer-facing industries are expected to grow by more than \$400 billion by 2020.¹ That would account for more than half the total revenue increase that all businesses are expected to generate in Africa by the end of the decade. The world has caught on to the potential of this surging consumer market. But many companies, particularly those new to the continent, have little idea how to translate the opportunity into action. It's not their fault—there has been a lack of research about African consumers' attitudes, behavior, and needs historically. But that's changing: in one of the first studies of its kind, the McKinsey Africa Consumer Insights Center surveyed 13,000 consumers in ten countries in 2011 and 2012, concentrating on the largest African cities. (See sidebar, "About the survey.") We focused on five categories of household consumption: apparel, financial services, grocery, the Internet, and telecommunications.

The survey generated a range of insights, including these findings:

- Africans are exceptionally optimistic about their economic future; 84 percent say they will be better off in two years.
- Internet use is far greater than anticipated—more than 50 percent of urban Africans say they have accessed the Internet in the last four weeks, on par with reported usage in Brazil and China.²
- African consumers demand quality products and are brand conscious, belying the view that the continent is a backwater where companies can sell second-rate merchandise.
- African consumers want the latest fashions and a modern shopping experience.

Our research has broad implications for consumer-facing companies considering entering or expanding their presence in Africa. For one, they should concentrate on the countries and cities with the most promising markets. In addition, innovative product and business-model strategies

are required to meet the needs of highly value-conscious consumers. To ensure successful execution, companies must address distribution challenges, invest in consumer research since data are scarce, and find and retain as many talented Africans as they can. And their approach to marketing should take into account the new reality of the digital consumer.

Poverty and unemployment are still widespread on the continent, more so than in other emerging markets. But fundamental macrolevel trends are encouraging the emergence of more prosperous consumers, who in turn are contributing to rapid economic growth—and employment³—in Africa. In this report, we will look at the overall market context, including where the largest opportunities exist, who the African consumer is and how he or she makes purchase decisions, and what consumer-facing companies can do to build a winning business model. First, let's examine the macrolevel trends behind this growing opportunity.

The African market context

Africa's economic growth accelerated in the years following 2000, making it the world's second-fastest-growing region after emerging Asia and equal to the Middle East. It comes as a surprise to many that resources contributed less than a third of total GDP growth in the 2000s (before the onset of the financial crisis in 2008), while 45 percent of growth came from consumer-facing or partially consumer-facing sectors.⁴ The African market opportunity is concentrated, with 10 of 53 countries—Algeria, Angola, Egypt, Ghana, Kenya, Morocco, Nigeria, South Africa, Sudan, and Tunisia—accounting for 81 percent of Africa's private consumption in 2011.⁵

Private consumption in Africa is higher than in India or Russia; it rose by \$568 billion from 2000 to 2010.⁶ From 2012 to 2020, consumer-facing industries are expected to grow a further \$410 billion, representing the continent's largest business opportunity.⁷ Apparel, consumer goods, and food are expected to account for \$185 billion, or 45 percent, of that amount. This is due in part to urban Africans spending a large share of their budgets on food and groceries, more

1 Consumer-facing industries include retail/wholesale, retail banking, telecommunications, and tourism.

2 Centro de Estudos sobre as Tecnologias da Informação e da Comunicação; China Internet Network Information Center 2011 annual report.

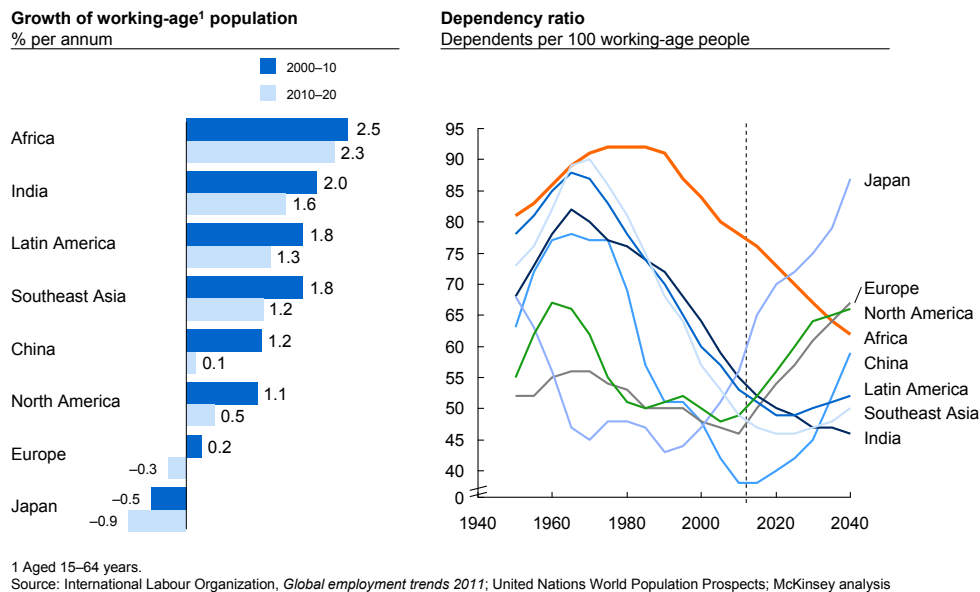
3 McKinsey research indicates that retail and tourism combined will be one of the top three sectors to create jobs in the next decade on the African continent (see *Africa at work: Job creation and inclusive growth*, McKinsey Global Institute, August 2012, mckinsey.com).

4 See *Lions on the move: The progress and potential of African economies*, McKinsey Global Institute, June 2010, mckinsey.com. Consumer-facing industries are retail/wholesale and tourism; partially consumer-facing industries are finance, manufacturing, real estate, telecommunications, and transport.

5 Ethiopia was number 11 on the list, with a population of more than 80 million and annual economic growth of 10 percent through much of the last decade. We expect the country to become a major consuming force.

6 Global Insight.

7 See *Lions on the move: The progress and potential of African economies*, McKinsey Global Institute, June 2010, mckinsey.com.

Exhibit 1 The dependency ratio is rapidly declining.

than consumers do, on average, in Brazil, China, India, and Russia. Following is a look at important macrorends.

Explosive population growth

Africa has the world's fastest-growing population and is projected to account for more than 40 percent of global population growth to 2030, according to the United Nations. Thanks to declining fertility rates, it is the working-age population that will have the highest growth rate. (In fact, by 2040, Africa's working-age population is forecast to surpass China's.⁸) As a result, Africa is expected to experience a dramatic decline in its dependency ratio—the number of children and the elderly supported by each worker (Exhibit 1). This development will contribute to continued increases in GDP per capita in the next decades and comes at a time when dependency ratios in virtually every other region of the world are increasing, with negative implications for GDP growth in those areas.

A youthful market

Africa also has the world's youngest population—more than half its inhabitants are under 20 years old, compared with only 28 percent in China. Among the residents we surveyed in urban centers, we found that the 16-to-34 age

group already accounts for 53 percent of income. And the consumption habits of youth are quite different from those of their elders; younger people in Africa, for example, are more likely to search for information online (67 percent of 16-to-24-year-olds are online, compared with 32 percent of the 45-and-older group) and to seek products and stores that reflect the “right image.” They are more brand conscious, follow the latest fashion and trends (53 percent versus 33 percent), and say they are typically one of the first people they know to try new things (44 percent versus 28 percent). They are also more educated, with 40 percent having completed high school, compared with only 27 percent of the 45-and-older group. These qualities point to a major change in consumption habits as this cohort ages, its incomes increase, and its behaviors and decision criteria become the societal norm.

An emerging, optimistic consuming class

By 2020, more than half of African households are projected to have discretionary income, rising from 85 million households today to almost 130 million in 2020.⁹ Africans share the optimism of that economic forecast: 84 percent of those we surveyed said they expect their households to be better off in two years (Exhibit 2). Sub-Saharan Africans are the most optimistic—97 percent of Ghanaians, for example, said they will be much better

⁸ United Nations World Population Prospects.

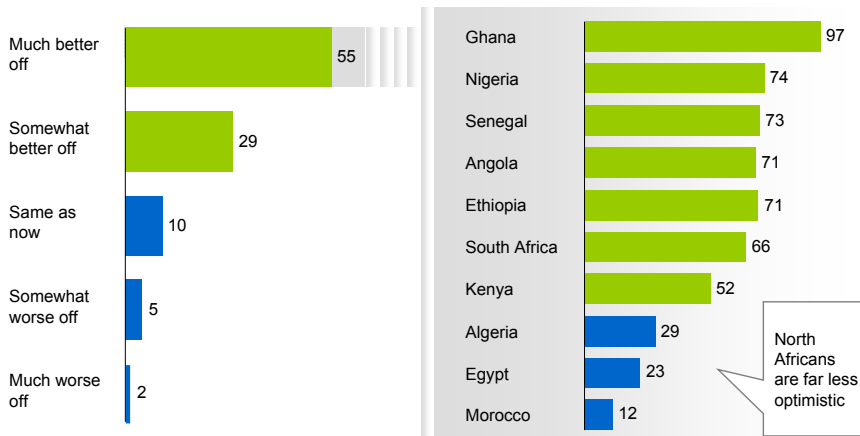
⁹ See *Lions on the move: The progress and potential of African economies*, McKinsey Global Institute, June 2010, mckinsey.com.

off in two years. North Africans, on the other hand, are generally less optimistic about the future, with only 10 to 15 percent of respondents saying they will be much better off in two years, which is unsurprising given the uncertainty generated by recent political turmoil in the region.

Overall, consumers are increasing spending across most categories. Up to 30 percent of more optimistic consumers in some countries say they are buying more frequently and purchasing new and more expensive products, although inflation may also be a factor in buying behavior.

Exhibit 2 Africans are optimistic about their future; 84% feel they will be better off in two years.

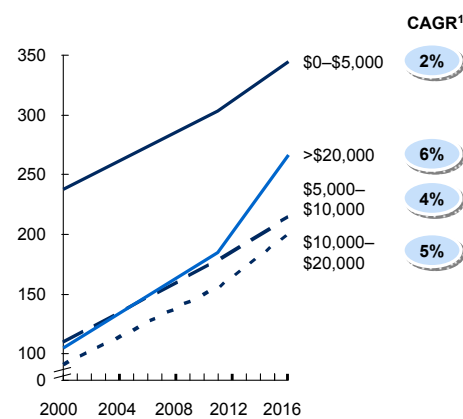
Two years from now, I expect my household to be ...
% who agree¹



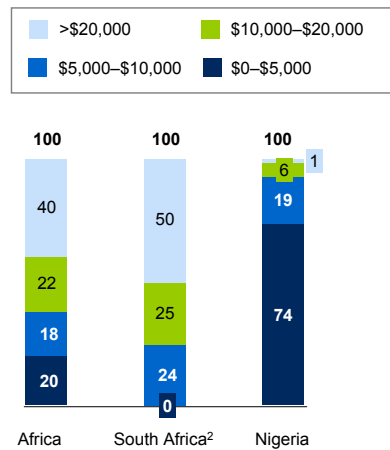
¹ Numbers may not add up to 100%, because of rounding.
Source: Africa Consumer Insights Center survey, 2011 and 2012

Exhibit 3 Much consumption growth will come from households earning more than \$20,000 a year.

Total consumption by income bracket
Real \$ billion, 2000–16



Share of total positive growth within each income bracket
%, 2011–16



Although the majority of African consumption still comes from low-income consumers, growth will be driven by higher-income groups

¹ Compound annual growth rate.
² In South Africa, the <\$5,000 group is projected to show negative growth over the period.
Source: Carback Global Income Distribution Database, McKinsey Global Institute, McKinsey analysis

For companies, it's important to know that 40 percent of the growth in spending power on the continent will be driven by households with an average income of more than \$20,000 a year (Exhibit 3), according to some estimates.¹⁰ While this group currently accounts for just 1 to 2 percent of total households, it is growing faster than the overall average, both in numbers and in average income.

Healthy urbanization

With 40 percent of its population living in cities, Africa is more urbanized than India (30 percent) and nearly as urbanized as China (45 percent). By 2016, over 500 million Africans will live in urban centers, and the number of cities with more than 1 million people is expected to reach 65, compared with 52 in 2011.¹¹ This is already on par with Europe and higher than India and North America. This development is critically important for consumer companies for several reasons:

- Urban spending is increasing twice as fast as rural spending and is projected to account for a disproportionately large share of future growth.
- Urban per capita incomes are, on average, 80 percent higher than those of countries as a whole.¹² In Ghana, for instance, only 29 percent of households have disposable income of more than \$5,000; this increases to 55 percent in Accra. Higher productivity of urban workers accounts for the difference.¹³
- Cities are more densely populated and, as a result, consumers are easier to reach.

A modernizing retail trade structure

Fragmented, informal retailing remains the norm in most of Africa. In apparel, for example, the market share of the six leading retailers in Egypt is just 4 percent¹⁴; in Nigeria,¹⁵ it is less than 2 percent¹⁶ (by contrast, the six leading apparel

retailers hold 47 percent of the South African market¹⁷). However, there are signs that the formalization of retail will dramatically increase in coming years. Experience from around the world shows that retailing starts to expand when a country's GDP per capita reaches \$750 and really takes off at a GDP per capita of \$3,000. Our research suggests that organized trade typically grows tenfold over this period of growth in GDP per capita. This is beginning to play out in some African countries: Shoprite is operating in 16 countries,¹⁸ Massmart in 14 countries,¹⁹ and Woolworths in 11 countries.²⁰ In Nigeria alone, international-store openings are growing by 36 percent a year, albeit from a low base.²¹ The biggest issue restraining faster formalization is lack of available real estate.²²

Further, consumer demand for formal shopping is high. In countries such as Algeria, Angola, and Senegal, more than 60 percent of consumers say they choose stores based on the in-store environment.

Understanding the African consumer

Multinational businesses are beginning to take account of these trends and the opportunities they present. For example, the US clothing chain Gap recently announced it is entering the South African market, following openings in Egypt and Morocco.²³ The Spanish retailer Zara also opened last year in South Africa,²⁴ where the US retailer Wal-Mart purchased a majority share in local retailer Massmart.²⁵ African enterprises such as South Africa's Standard Bank and the mobile-telecommunications company MTN are expanding throughout the continent.

But consumer-facing companies are only starting to explore the African market. In truth, there's limited market research for them to draw on. The study by our Africa Consumer

10 Canback Global Income Distribution Database.

11 See *Urban world: Cities and the rise of the consuming class*, McKinsey Global Institute, June 2012, mckinsey.com.

12 Canback Global Income Distribution Database.

13 Ibid.

14 Euromonitor.

15 Ibid.

16 Ibid.

17 Euromonitor and Mintel apparel report.

18 Shoprite South Africa 2011 annual report.

19 Massmart South Africa Web site, operational review.

20 Woolworths Holdings Limited 2011 annual report.

21 Euromonitor.

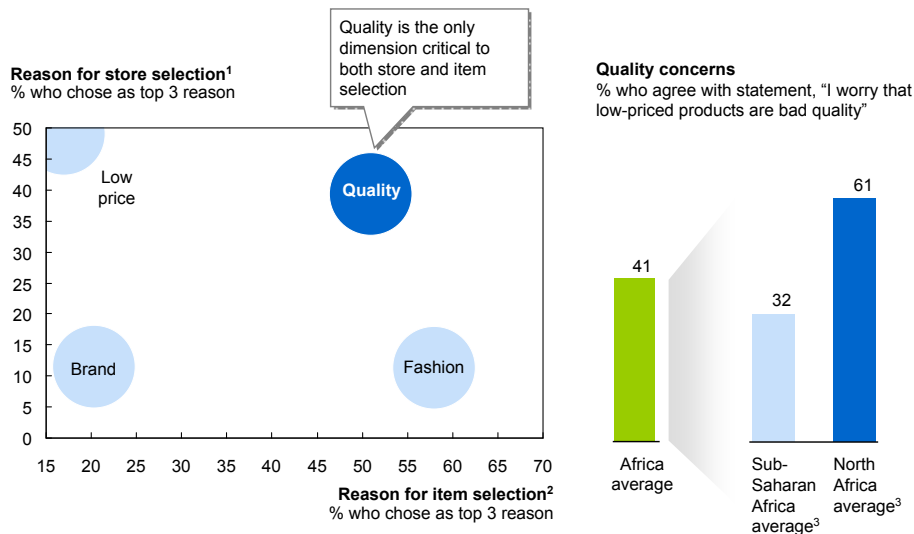
22 Andrew England and Xan Rice, "Retailers wake up to Africa's promise," *Financial Times*, August 6, 2012.

23 Devon Maylie, "Gap kicks off in South Africa," *The Wall Street Journal*, March 19, 2012.

24 Zara Web site.

25 Massmart press releases on Wal-Mart acquisition.

Exhibit 4 Quality is critical and consumers, especially in North Africa, are concerned that low prices mean low quality.



1 Respondents chose stores and clothing based on four common clothing attributes (fashion, quality, price, and brand); in store selection, fashion = "most fashionable clothing," brand = "all the brands that I buy," low price = "has lowest prices" or "has best offers," and quality = "best quality of clothes."
2 Average between top 3 choices for special occasion and leisure clothing; in clothing selection, fashion = "good style and color," brand = "reliable brand" or "popular brand," low price = "low price/value for money," and quality = "high-quality and durable fabrics."
3 Sub-Saharan Africa includes Angola, Ethiopia, Ghana, Kenya, Nigeria, Senegal, and South Africa; North Africa includes Algeria, Egypt, and Morocco.
Source: Africa Consumer Insights Center survey, 2011 and 2012

Insights Center attempts to fill that gap. Following are several insights that emerged from our survey.

Quality and brand matter

The options of African consumers have often been limited to cheap, poor-quality, unbranded products in many categories. Our research indicates that companies operating in this way are unlikely to succeed in the long term: consumers across the continent attach significant importance to both quality and brand in their decision making.

Quality, for example, is a critical purchase criterion for African apparel consumers, second only to price when choosing a store to shop in and second only to fashion when choosing a specific item to purchase. In addition, Africans worry that they sacrifice quality for low prices, especially in North Africa,²⁶ where about 60 percent of those surveyed expressed that sentiment (Exhibit 4).

Brands also play an important role in Africans' purchase decisions. In North Africa, 72 percent of consumers equate popular brands with quality; the proportion of

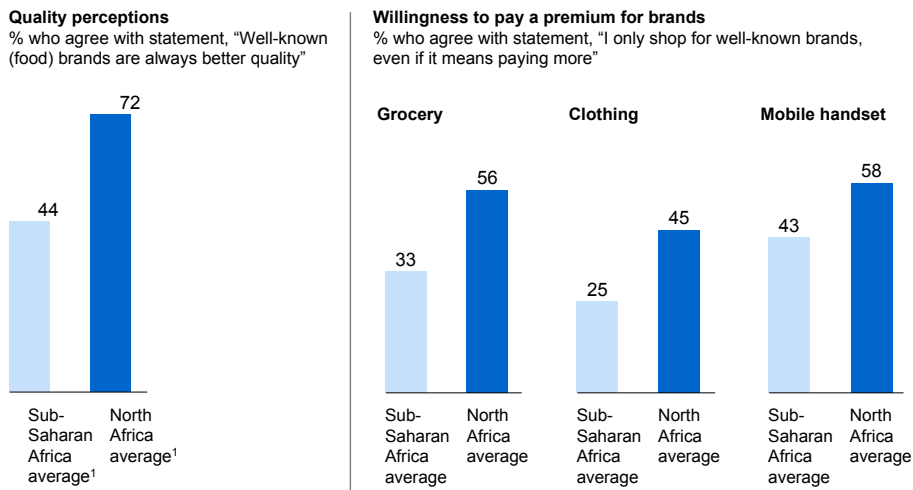
North Africans willing to pay a premium for well-known brands is correspondingly high in the clothing, grocery, and mobile-phone sectors (Exhibit 5).

In both North and sub-Saharan Africa, brand loyalty averages 58 percent.²⁷ While North Africans are loyal to a selection of brands, sub-Saharan Africans tend to be loyal to a specific one and are generally more conservative about trying new things. Our study found that 43 percent of North Africans show a willingness to try new things, compared with 35 percent of people in sub-Saharan Africa (Exhibit 6).

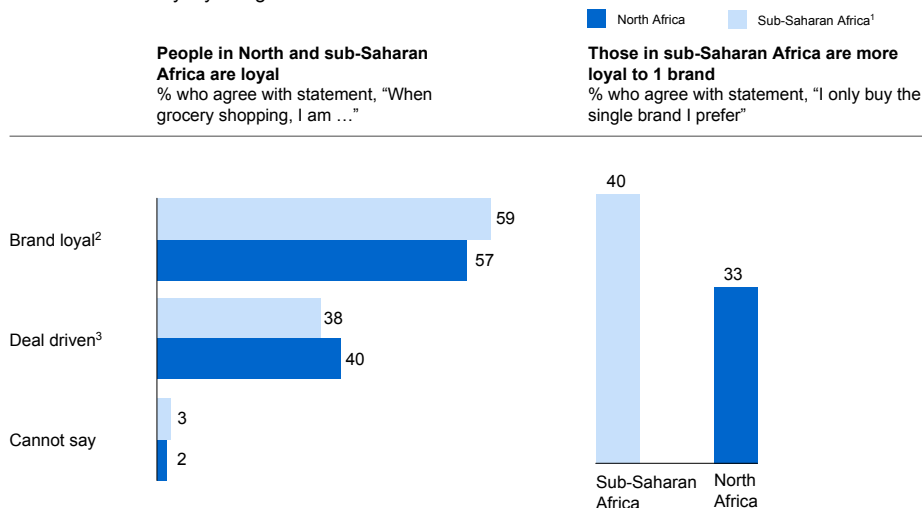
North Africans express a strong desire for international brands rather than local ones, with more than 60 percent agreeing with the statement "international brands are more fashionable than local brands." Sub-Saharan Africans, on the other hand, are far more accepting of local brands. In Nigeria, for example, only 11 percent agreed with the statement above, while in South Africa, the proportion was 12 percent (Exhibit 7). This offers a big opportunity for local companies to create and build their own brands.

26 Survey data from Algeria, Egypt, and Morocco.

27 "Brand loyal" is the sum of consumers loyal to one specific brand or a small selection of brands.

Exhibit 5 Consumers equate popular brands with quality and will pay a premium for them.

¹ Sub-Saharan Africa includes Angola, Ethiopia, Ghana, Kenya, Nigeria, Senegal, and South Africa; North Africa includes Algeria, Egypt, and Morocco.
Source: Africa Consumer Insights Center survey, 2011 and 2012

Exhibit 6 Brand loyalty is high across Africa.

¹ Sub-Saharan Africa includes Angola, Ghana, Kenya, Nigeria, Senegal, and South Africa; North Africa includes Algeria, Egypt, and Morocco. Ethiopia is excluded due to its similarity to North Africa.
² Brand loyal is the sum of consumers loyal to 1 specific brand or a small selection of brands.
³ Deal driven is the sum of consumers that are open to brands on promotion and those that always buy the brand offering the best deal.
Source: Africa Consumer Insights Center survey, 2011 and 2012

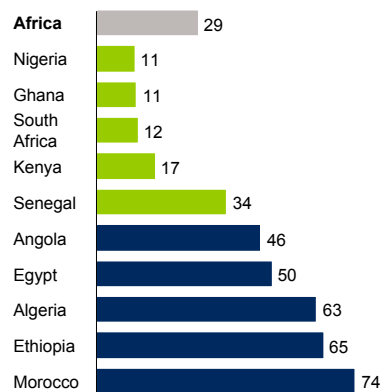
While relatively few Africans have exposure to store brands, those that are familiar with them are relatively comfortable with them: 40 percent say they purchase them frequently or every time they can. For the remaining 60 percent, the number-one barrier to buying store brands is perceived quality. This finding suggests that there is an opportunity for trusted retail brands to deliver high-quality products under their own brand.

Value orientation

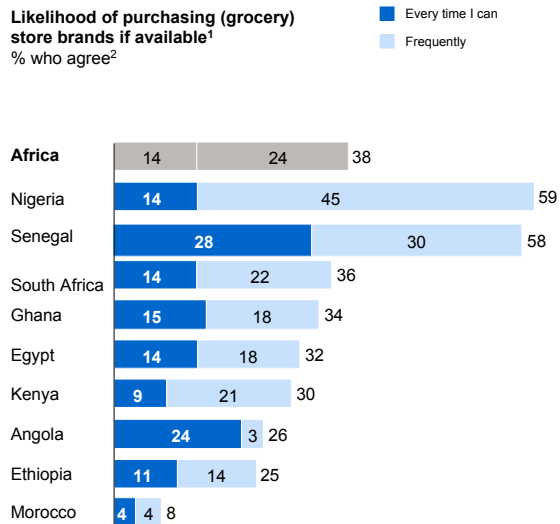
Quality and brand matter to African consumers, but they must be delivered at the right price point. Price and promotion sensitivity is high, given generally low incomes: for example, 53 percent of Africans say they choose a grocery store based on price, and 49 percent say they choose an apparel store based on low price and promotion. However, price sensitivity also varies significantly by country: in a wealthier market like South Africa, only about a third of

Exhibit 7 Local and store brands can win.

Local brands are as competitive as international ones in markets with strong local brands
 % who agree, "International clothing brands are more fashionable than local brands"



Likelihood of purchasing (grocery) store brands if available¹
 % who agree²



¹ Sum of "buy every time I can" and "buy frequently."
² Figures may not sum, because of rounding.
 Source: Africa Consumer Insights Center survey, 2011 and 2012

respondents said they spent a lot of time searching for the lowest price, compared with more than half of respondents in Ethiopia. In addition, prices of key value items—products that shoppers know the price of and frequently price check across multiple stores—are particularly important and can vary substantially by country and consumer segment. In Nigeria, for instance, more than 70 percent of consumers regularly check prices of rice. Nearly 80 percent of higher-income consumers regularly compare prices of red meat.

Modern tastes and sophistication

Despite the predominance of informal retail across the continent, urban African consumers have modern, sophisticated tastes and in many ways are no different from urban consumers elsewhere. They want the latest fashions: 58 percent of respondents said they choose clothing based on fashion, and 43 percent feel it is important to follow the latest trends. In addition, more than half own Internet-capable devices, are online at least once a month, and seek a modern, formal shopping environment.

This last point is true even in markets where formal retailing is a novelty. For example, in Algeria, Angola, and Nigeria, where modern retailing is just taking off, in-store environment and layout, followed by convenience, are the two most important factors driving store choice—ranking higher than both price and quality. In South Africa, on the other hand, where formal

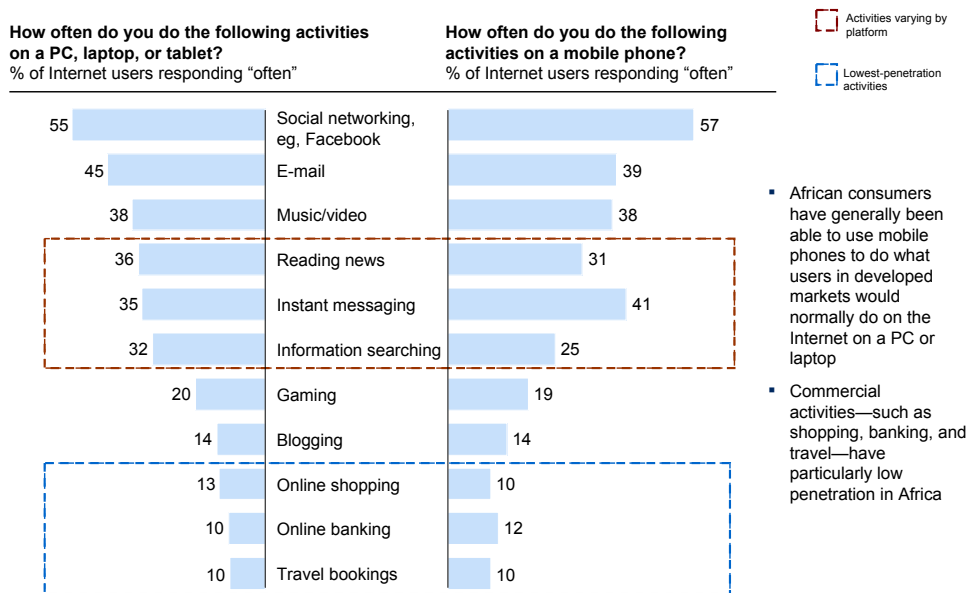
retail is well established and taken for granted by consumers, these are no longer the most important factors. There is a significant opportunity for modern retailers in countries like Angola and Nigeria, in particular for those companies that can overcome the severe shortage of appropriate real estate.

Surging digital usage

More than 50 percent of urban Africans said they have accessed the Internet in the last four weeks, on par with figures for urban China and Brazil. In general, Internet penetration correlates with GDP per capita; however, there are clear outliers. In urban Kenya, for example, Internet penetration stands at 70 percent, propelled by affordable mobile broadband and high penetration (95 percent) of Internet-capable mobile devices. Across all surveyed markets, 56 percent of urban consumers own Internet-capable mobile devices—and a third of them are using these on a daily basis to access the Internet. Low-cost, feature-rich phones account for almost two-thirds of these mobile devices, our survey found.

Overall, 22 percent of urban Africans spend more than ten hours a week online. They do much the same things as Internet users everywhere: in descending order of frequency, they use social-networking sites, send e-mail, watch video and listen to music, keep up with news, and search for information (Exhibit 8). Most consumers have cited low bandwidth, rather than high cost, as the primary barrier to

Exhibit 8 For African consumers, social networking is the leading use of the Internet.



Source: Africa Consumer Insights Center survey, 2011 and 2012

increased Internet usage. The majority of companies in Africa have barely begun to consider the implications of these trends on the marketing of their products and how they communicate with consumers. (See “Deep dive: The growing popularity of the Internet” for more detail on the sector in Africa.)

Well banked, and a culture of saving

Our survey found that 70 percent of urban consumers have access to a bank account and that a robust savings culture exists in Africa. Of the consumers with access to a bank account, 75 percent of respondents said they save monthly, and almost half of those do so intentionally. For the 30 percent of urban consumers who do not have access to a bank account, almost 60 percent still save, often using informal communal savings schemes. Half of all consumers said they make sacrifices in their day-to-day lives to save, relying on this money to finance major expenditures. Urban Africans are also often wary of debt. Across Africa, an average of 40 percent of respondents said that it was unwise to borrow money, except to purchase a house. That view was taken by almost two-thirds of respondents in Algeria and Angola and by more than half of those in Morocco. (See “Deep dive: The untapped opportunity in consumer banking” for more detail on the African consumer-banking sector.)

28 “Africans click more Google Ads than Europeans,” ICTworks, April 2011.

The importance of traditional media and word of mouth

Our research shows that consumers are employing both traditional and nontraditional sources to gather information. Television remains the most frequently used and trusted source; for example, 80 percent of sub-Saharan consumers said that television was a significant source of grocery information for them. Print media are also still important and are used by 70 percent of sub-Saharan consumers. However, use varies substantially by country, and other trends must also be taken into consideration:

- Word of mouth is enormously important. Nearly 50 percent of sub-Saharan Africans and 81 percent of North Africans gather information from friends and family. In Egypt, for example, positive product recommendations from consumers are three times as important as they are for those in Great Britain or the United States.
- Mobile phones and digital channels are rapidly increasing in importance. Fifty-seven percent of Internet users say they use social networking often on mobile phones, while 25 percent search for information often on mobile phones. In 2010, there were 43 percent more Google ad clicks in Africa than in Western Europe.²⁸

Exhibit 9 Distinct consumer segments have different needs.



¹ Average of respondents that strongly agree they will sacrifice store proximity, service, range, organization, and time for lower prices.
² Average of respondents that strongly agree they will pay for brands, believe brands are better quality, and like to stick with 1 brand.
³ Average of respondents that strongly agree their main concern is fresh and that they buy smaller quantities to ensure freshness.
⁴ Percentage of respondents that strongly agree they like to try new things.
 Source: Africa Consumer Insights Center survey, 2011 and 2012

- Most buying decisions are made at the point of purchase. As a result, in-store advertising is particularly important. In North Africa, for example, 58 percent of consumers use in-store advertising to gather information on clothing.

Distinct consumer segments

Our research shows that across the continent there are distinct consumer segments, each with different attitudes and behaviors. In the grocery category, for example, we found five segments: low-price shoppers; local, quality shoppers; brand-loyal shoppers; experimental shoppers; and fresh lovers (Exhibit 9). These segments place varying degrees of importance on price, brand, quality, and openness to trying new things. Brand-loyal shoppers, for instance, say they strongly believe that brands offer better quality and are willing to pay more for them. Experimental shoppers love shopping as a leisure activity and are two and a half times more likely than the typical grocery shopper to try new things.

But the relative size of each segment differed significantly by country and region. We found more fresh lovers and local, quality shoppers in North Africa than in sub-Saharan Africa; there were more brand-loyal and low-price shoppers in sub-Saharan Africa. In Egypt, fresh lovers made up 45 percent of the surveyed group, compared with 12 percent in Nigeria (Exhibit 10). Brand-loyal shoppers made up 36 percent of those surveyed but just 11 percent in Ethiopia. Common segments also exist across the continent in apparel, but there is wide

variation in consumers' emphasis on the importance of factors such as price, brand, fashion, and quality.

We found attitudinal differences even within countries. In Nigeria, nearly 50 percent of consumers in Lagos say they are quick to decide on a purchase without seeking additional information, while only 25 percent do so in Abuja. Forty-five percent of consumers in Lagos say they are open to trying new things, while only 18 percent of consumers in Kano agree with that statement.

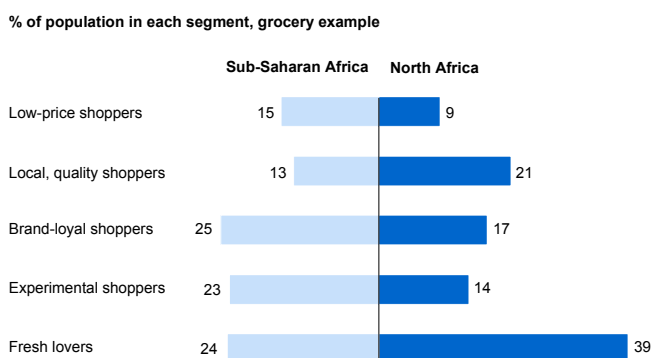
Serving the African consumer

Africa's large, fast-growing population, combined with rising consumer disposable income, offers companies an enormous opportunity. Our research findings have important implications for enterprises new to the continent or for those seeking to expand there from an African base. Companies should examine their strategy, product design, and marketing plans through the lens of these insights. The appropriate actions for each business will depend on a variety of factors. Nonetheless, there are a few implications that every business should consider.

Focus where it matters

Africa comprises 53 countries with more than 2,000 dialects and languages. As a result, viewing it as a single market is unlikely to get results. Companies will have to decide where

Exhibit 10 However, the relative size of each segment differs by region and country.



Source: Africa Consumer Insights Center survey, 2011 and 2012

they can play at scale and how they can efficiently get their products in front of the target consumer. For example, urban Africa offers a compelling opportunity: the largest 50 cities, accounting for only 13 percent of Africa's population, are forecast to contribute nearly 40 percent of total GDP growth until 2025.

While the megacities of Cairo, Johannesburg, and Lagos are front of mind for marketers, there are also lesser-known "middleweight" cities such as Abidjan (Ivory Coast), Khartoum (Sudan), and Rabat (Morocco).²⁹ Growth in these middleweight cities is often faster, with less competition, than in the megacities; as a result, they may offer better profit margins. Africa has 156 middleweight cities, representing only 7 percent of the population but forecast to contribute nearly 20 percent of GDP growth until 2025.³⁰

Trade blocs are also an important consideration, especially for manufacturers. There are eight major trade zones, the result of agreements that eliminated tariffs and quotas between member countries to create common markets allowing free movement of capital and labor. The effectiveness of the trade zones varies: the Common Market for Eastern and Southern Africa, for example, offered Procter & Gamble (P&G) the opportunity to use a manufacturing base in Egypt to serve 19 countries along the East African coast, including Kenya.³¹ On the other hand, the Economic Community of West African States has been less successful at fostering cross-border commerce for its 16 member states because of a large number of country-specific exceptions to its free-trade rules.³²

Understanding growth opportunities at a city level would allow companies to make much more targeted investments. This is a substantial shift for most businesses operating in Africa, as country-level planning and resource allocation is still the rule, resulting in inefficient allocation of human and capital resources. Companies should create detailed profiles of the most promising urban opportunities, including understanding the market dynamics of individual product categories.

Get the timing right

Timing plays a critical role when choosing where to play. Demand for consumer products typically follows an "S-curve" growth profile rather than a linear path. As incomes rise, categories will reach a "take-off point" where demand accelerates by three to five times—we call this the "hot zone." At higher levels of income, markets become saturated and growth slows—we call this the "chill-out zone." Different products and categories enter the hot zone at different moments: products with low price points, such as snacks and beverages, typically take off relatively early; beauty products somewhat later; and luxury goods, such as branded fashion, later still. Not surprisingly, in most African markets, few categories have entered the chill-out zone.

This is where understanding income levels at a city rather than a country level is critically important. When looking at the baby-food category, our research shows that the take-off point occurs at consumption per capita of \$2,700. In the Kenyan market, average consumption per capita is \$1,526, leading us to conclude that baby food has yet to reach the take-off point. However, if we focus on the city level, we see that consumption

²⁹ Canback Global Income Distribution Database.

³⁰ See *Urban world: Cities and the rise of the consuming class*, McKinsey Global Institute, June 2012, mckinsey.com.

³¹ Common Market for Eastern and Southern Africa Web site.

³² Economic Community of West African States Web site.

per capita for Nairobi is \$2,827, putting it in the hot zone and offering an accelerated growth opportunity.³³

Companies that understand the S-curve of a category can more accurately forecast its potential and select an appropriate investment strategy for each geography. In the early stages of the hot zone, additional investment may be required to build the category. When P&G entered the Nigerian market with disposable diapers, for example, its marketing effort focused almost entirely on educating consumers on why and how to use the product.

Develop locally relevant, quality products

Identifying growth hot spots is only the start. Companies should develop locally relevant, quality products that are not only affordable but also scalable. Marketers should understand that quality is a critical buying factor in Africa, and it cannot be compromised when localizing products. However, African consumers' definition of quality can be quite different from those of consumers in developed markets. In clothing, for example, "easy to wash" is a key driver of quality perception, unsurprising given the low penetration of automatic washing machines on the continent.

The quality point has implications for local brands. Eighty-six percent of Nigerians said they would consider buying a local brand but are held back by concerns about quality, perception of friends and family, or a lack of range. In apparel, only 29 percent of African consumers believe international brands are more fashionable. Deciding how much to cater to local tastes and quality needs requires a deep understanding of consumer preferences, tastes, and affordability profiles by category. There are many examples of companies doing this effectively. Tiger Brands tailors the ingredients of its bread to match local taste profiles in markets like Nigeria, SABMiller has launched cassava- and sorghum-based beers, and LG removed its "frost free" capability from refrigerators for markets where consumers consider the presence of frost a sign of proper functioning.

Create a strong value proposition at the right price points

Even though Africans value brands and product quality, affordability remains critical, given generally low incomes and high unemployment. To succeed, companies should

understand the key price points for consumers in their category. Then, they should work to reach these price points through a combination of product reengineering (such as removing low-value-added features), smaller pack sizes, and low-cost operating models. Those that do not understand price points often unintentionally create a "price umbrella," allowing local competitors to capture significant share. Coca-Cola and SABMiller use business models that rely on the use of returnable glass bottles to keep packaging costs low; P&G has reengineered its products and package sizes to achieve lower price points while maintaining, or even improving, profit margins (for example, it brought to market a package of ten Pampers diapers, a one-ounce package of Ariel laundry detergent, and the Bonux value-brand detergent). Unilever introduced the small-unit-packs, low-unit-price concept to hit key price points and sells basic foods enriched with iodine, vitamin A, iron, zinc, and other micronutrients.³⁴

The South African mobile operators MTN and Vodacom developed business models hinging on prepaid systems that allow consumers to purchase airtime in denominations as low as \$1 to \$3, an approach that they have spread across Africa.

Retailers must understand key value items (KVIs). As discussed earlier, KVIs are items for which consumers frequently check prices; as a result, they drive a disproportionate perception of value in their minds. Understanding KVIs allows retailers to invest in the right items, leading to increased traffic, volume, and perception of value. Understanding non-KVIs (items that are not price checked) creates opportunities for higher profit margins.

Build your brand now

As we noted earlier, African consumers are very brand loyal. Fifty-five percent of sub-Saharan Africans are loyal to a single grocery brand, while 70 percent are loyal to a small selection of brands. In addition, our grocery consumer segmentation shows that brand-loyal shoppers represent the second-largest market segment. This is driven by the overwhelming perception that brands are of higher quality. Getting brands into a consumer's initial consideration set is even more important in emerging markets such as Africa than elsewhere. Emerging-market consumers tend to consider smaller sets of brands initially and, compared with other consumers, are less likely to switch later to a brand that

³³ McKinsey Global Growth Compass.

³⁴ "Sustainable living: Affordable products," unilever.com/sustainable-living/betterlivelihoods/affordable; "Sustainable living: Addressing under-nutrition," unilever.com/sustainable-living/nutrition-health/addressing-under-nutrition; Loraine Stander, "How to make it in Africa? Unilever listens to the consumer," December 30, 2011, howwemadeitinafrica.com.

was not in their initial set.³⁵ As such, marketing efforts should be adapted to this environment:

Tailor the value proposition to the target market. One size does not fit all. As discussed previously, substantial differences exist across, as well as within, countries. Companies should understand the size of the segments, tailor the value proposition to the target market, and clearly articulate the benefits of the brand. This will require developing deeper consumer insights. P&G does this by conducting in-home visits. In the detergent category, for example, P&G identified through such research the difficulties Nigerian consumers face in getting water. As a result, the company designed its Ariel detergent to lather more quickly, requiring less water.³⁶ It is also important to employ brand managers familiar with the region because they will likely have a much better sense of local consumer needs.

Build awareness through traditional and nontraditional channels. Traditional media in Africa have become more cluttered in recent years, but relative to developed economies, they still present an effective and efficient way to reach consumers.³⁷ TV, radio, and print are the most frequently used sources of information and will continue to play an important role in building awareness. But companies will require a basic understanding of their cost, quality, and reach to get the mix correct. In addition, companies should consider building three nontraditional channels into their overall marketing plan:

- Word of mouth is enormously important. Nearly 50 percent of sub-Saharan Africans gather information from friends and family. This number increases substantially in North African countries, where 81 percent of consumers gather information through word of mouth. It is important to listen to what consumers are saying both online and offline. Companies can monitor online social-media channels to observe what consumers are saying about their brands. Offline marketing events, such as in-store product sampling and product demonstrations, can be used to engage with customers one-on-one and spur recommendations.
- Mobile, digital channels are rising rapidly in popularity. Africans are quite open to mobile marketing, particularly as a channel to find information. Text-messaging

campaigns and social networks are important tools in communicating with consumers. Telecom providers, for instance, are running thousands of SMS microcampaigns each year. The campaigns initially target a limited number of consumers and are scaled up if successful.

- Consumers frequently make decisions at the point of purchase, particularly in those countries with a more developed retail environment. For example, in South Africa, nearly 60 percent of consumers receive their information in-store. For markets with a less developed retail sector, this number declines dramatically: for example, in Angola, only 13 percent rely on in-store information. That said, our experience suggests that in-store communication can be critically important and may be underused in the less developed markets. Brand leaders such as Coca-Cola, MTN, and SABMiller make extensive use of point-of-sale communication in both formal and informal markets, and we suggest making this a core part of the route-to-market strategy.

Educate the consumer and stimulate trial. In Africa, many markets are still in early stages of development and must be built through concerted consumer education and trial. P&G understood this well when it introduced diapers in Nigeria. The company launched a mobile-health-clinic program in which it connected with more than 100,000 mother-and-baby pairs in 50 towns across the country. The clinics offered free baby care and hygiene education, health check-ups, and diaper samples. In addition, promotions are typically quite effective in many African countries and can stimulate trial.

Build a powerful route to market

Creating a strong route to market (RTM)—the set of activities to effectively get a product to market, including account management, order taking, delivery, payment, and in-store merchandising—is challenging, given Africa’s fragmented retail environment. But doing so is necessary to succeed; if done well, it can create competitive advantage. Companies should take three steps to build a powerful route to market:

Design an effective model. The primary objective of RTM design is to combine the benefits of direct customer relationships with the cost advantages of third parties. Thus, it’s critical to decide which activities to do internally and which

³⁵ Yuval Atsmon, Jean-Frederic Kuentz, and Jeongmin Seong, “Building brands in emerging markets,” *Winning the \$30 trillion decathlon: Going for gold in emerging markets*, August 2012, mckinsey.com.

³⁶ David Holthaus, “Chasing 1 billion new consumers,” April 17, 2011, news.cincinnati.com.

³⁷ According to Magna Global and Warc, the cost to reach 1,000 viewers by television in South Africa is about five times lower than in the United States and 40 percent lower than in the United Kingdom; in Morocco, the average number of radio advertisements heard per listener per year is less than one-hundredth that of the United States.

to outsource. Insight into customer needs, distribution economics, and internal capabilities are crucial to making effective choices. Many consumer-goods companies in Africa rely on a passive wholesale model and lack a direct relationship to the customer, limiting their visibility into retail-outlet performance. But, in our experience, companies that build in transparency, irrespective of the RTM chosen, may observe sales improvements of 20 to 30 percent. Coca-Cola applies these principles throughout Africa, where it frequently assumes control of value-creating activities such as account management and ordering but uses a third party to deliver products. (Some of these third parties even use pushcarts to get products to the consumer.)

Effectively manage the distributor network. Building an efficient and well-managed distribution network can have an enormous impact on financial performance. Too often, companies make significant investments (for example, through discounts and other kinds of trade spending) in distributors that have gaps in outlet coverage, execution, and capabilities. An effective distributor-management system comprises network design and selection, distributor segmentation, performance-based terms, and an ongoing performance dialogue:

- Companies should base distributor selection on designing a network that achieves their strategic objectives, such as maximizing outlet coverage or optimizing cost to serve. In many cases, distributor networks are the result of historical relationships and may be ineffectively designed.
- Companies should segment distributors based on criteria such as size and quality of relationship. Segmentation provides the basis for a differentiated management approach, where levers such as trade terms, account planning, capability building, and territory allocation are deployed in line with segment needs or challenges.
- Companies should introduce pay-for-performance parameters that are in line with company and distributor-specific development priorities. These could include volume, outlet coverage, SKU coverage, or price compliance.
- Companies should have an ongoing performance dialogue with distributors and continually track their key performance indicators.

Develop a compelling retail value proposition.

Companies should define a set of compelling retailer value propositions tailored by channel and outlet. The objective of a retailer value proposition is to design win-win solutions that drive increased volume, improved efficiency, and outlet loyalty. To accomplish this, the manufacturer can establish a set of “gives” in return for a set of “gets” from the outlet. Typical “gives” include increased delivery frequency, equipment, expert sales advice, promotional elements, and flexible payments. Typical “gets” from the outlet include exclusivity, shelf space, price compliance, and stock levels.

Ride the youth movement

Given the size of the population and its potential economic power, we think it is worth paying special attention to Africa's youth. For most multinationals, this represents a shift in thinking, since the developed regions where they operate tend to have much older, and aging, populations. We believe companies should focus on three areas:

- Young Africans are even more brand conscious than the general population. Understanding the segment's purchase-decision-making process and how to communicate with youth is critically important to ensuring brands are part of these consumers' initial consideration set.
- Internet, particularly mobile, is extremely important. With young people searching for information twice as much as their elders, it is clear that digital communication will be key not only in marketing to youth but also in monitoring their feedback. This is particularly important in countries that already have relatively wide adoption and acceptance of digital, such as Kenya, Nigeria, and Senegal. In Nigeria, for example, more than one-third of young people receive information via SMS.
- Affordability is an even more critical consideration for youth, given their lower incomes and often higher unemployment. It will be essential to understand key price points and to ensure that product and package design takes account of them.



Africa's business and economic growth potential is widely acknowledged. The issue for companies now is how to obtain a better understanding of the market and its consumers. The McKinsey Africa Consumer Insights Center study moves beyond sweeping generalizations to offer a unique deep dive into the behavior of consumers across the continent.

About the survey

The survey, conducted in 2011 and 2012 by the McKinsey Africa Consumer Insights Center, sampled 13,000 individuals from 15 cities in ten countries. We intend to conduct the survey regularly to provide a longitudinal view of trends. It focused on the biggest African cities, as they make up a disproportionately large share of consumption. Cities surveyed account for 81 million consumers, 15 percent of their national populations, 24 percent of their national consumption, and \$177 billion in constant 2005 dollars.

We surveyed residents in Abuja, Accra, Addis Ababa, Alexandria, Algiers, Casablanca, Cairo, Cape Town, Dakar, Durban, Johannesburg, Kano, Lagos, Luanda, and Nairobi. Five categories of household consumption were examined—apparel, financial services, grocery, the Internet, and telecommunications. For each category, we interviewed primary or secondary decision makers for either themselves or their family. Consumers under the age of 16 were not interviewed because of their limited spending power and influence.

The survey employed a quota sampling method. Quota targets were set within each country to ensure that the right number of people from each age group, race, gender, and Social Economic Standard (SEC) was interviewed and in line with city populations. For smaller cohorts of age, race, gender, and SEC, we oversampled (in other words, we sampled more than the required number of people) to ensure the base size was big enough to analyze, and then weighted these samples to the population proportions to make the results representative of overall demographics.

We sampled in two phases. The first stage was used to understand the size and demographic profile of each of the categories we wanted to measure. To do this, we didn't set quotas on category but allowed them to follow the natural penetration rates within the age, race, gender, and SEC cohort we sampled. After this initial sampling, we were able to understand the size and profile of each category within each city population. The second stage of sampling was done to make sure we had a minimum base of each size category for analysis. We used the demographic profiles from the first stage of sampling to determine the sample framework for this phase.

We used categories of socioeconomic class for much of the analysis. These categories make up a hierarchy of distinct groups, so that members of each have relatively similar wealth and consumption levels. Definitions of socioeconomic class are based on the education, occupation, and asset ownership of the household rather than income. Independent research in Africa has shown that incomes alone are not necessarily a good indicator of lifestyle and consumption habits because of dispersed family structures, large differences in household size, and significant remittances of payments.

Socioeconomic class E, typically defined as destitute households, represented 4.8 percent of survey respondents. Socioeconomic class D made up 27.2 percent; class C2, 30.5 percent; class C1, 23.0 percent; and class AB, the wealthiest grouping, 14.4 percent.

The realized sample met the required criteria for statistical inference. As with all surveys, however, the accuracy of the results reflected may be subject to self-reporting biases.

Deep dive: The growing popularity of the Internet

Despite low income per capita and limited telecommunications infrastructure, consumers in Africa's major cities have embraced the Internet. Affordable mobile-Internet devices, Internet cafés, and the desire to connect with friends and family have been catalysts for Internet adoption throughout the continent.

Strong demand in cities

Internet penetration in urban Africa compares favorably with that in other emerging markets. In Africa's major cities, 52 percent of those surveyed have connected to the Internet in the last month, compared with 54 percent in China. Some countries have relatively high exposure; for example, 78 percent of Kenyans and 54 percent of South Africans said they had used the Internet in the last four weeks.

Our survey found that 26 percent of urban Africans are connecting daily to the Internet, led by people in Kenya at 47 percent and in Senegal at 34 percent. Nigerians and Angolans are the least connected, at 21 percent and 16 percent, respectively. Some 22 percent of urban Africans said they were online for more than ten hours a week, carrying out only personal activities.

Propelling online activity is the number of Internet-capable devices in the hands of consumers. More than half of urban African consumers have such devices, and mobile phones are leading the way: 57 percent of those surveyed said they had Internet-capable phones or smartphones, 34 percent said they had desktop and laptop computers, and 7 percent reported having tablets. African consumers have generally been able to use mobile phones to do on the Internet what users in developed markets would normally do on a personal computer or laptop.

Social networking is the leading use of the Internet, with about 57 percent of urban African users saying they visited such sites often. E-mail and music/video followed in popularity. Commercial activities such as banking, shopping, and travel have low penetration in Africa.

Strong Internet usage across socioeconomic classes

Internet usage is widespread across socioeconomic classes, including a significant proportion of lower-income groups. For example, our survey found that 33 percent of those in the struggling working class (socioeconomic class D) had used the Internet in the last four weeks. This is much smaller than the 49 to 77 percent of members of higher socioeconomic groups that are online, but the size of this cohort still makes it a force to be reckoned with.

In our surveyed cities, for every 100 people online in the highest socioeconomic class, AB, there were 81 people in socioeconomic class D. A Kenyan laborer that responded to the survey, for example, said that he accesses the Internet four to six times a week for social networking and instant messaging. The laborer also expressed a desire for faster and cheaper Internet. An Egyptian plumber, also in socioeconomic class D, voiced similar needs, requesting faster and cheaper browsing, as well as more content in his local language.

In addition, the survey found that consumers in socioeconomic class D are online daily on a mobile phone in similar proportions to their higher-income counterparts (15 percent, compared with 18 percent). The use of personal computers to connect to the Internet by the lowest-income group is just 6 percent, compared with 15 percent for the wealthiest consumers.

Africa's Internet leaders

African countries are not all at the same level of development. Kenya and Senegal lead the pack, demonstrating the pivotal role that sound public policy, innovative telecommunications operators, and the stimulation of consumer demand play in advancing Internet penetration. The two countries have each managed to obtain much greater Internet penetration and more frequent use than African countries with higher GDP per capita. While they have high penetration, their users are not typically online for long each week—about ten hours for Kenyans and eight and a half hours for Senegalese.

The countries have used different platforms to reach high penetration: in Kenya, the mobile phone is dominant, and in Senegal, it's the personal computer.

How did these countries achieve such high levels of penetration? In Kenya's case, it was a combination of affordable access and devices and technological literacy. Cutting prices was key; the landing of submarine cables to Kenya, for example, helped to reduce access costs.¹ In addition, the removal of value-added tax and import duties on mobile handsets in 2009 contributed to a 200 percent increase in device sales, as well as increased availability.² And Kenyans have shown they are receptive to new technology, illustrated by Safaricom's successful introduction of M-Pesa, a mobile-money-transfer system.

In Senegal, a combination of decreasing the barriers to entry and increasing the value of the Internet to consumers led to improved penetration; government policy was also important. Internet cafés brought technology to the masses—by 2007, Senegal already had 18,500 telecenters, many of which offered Internet services for as little as 65 cents an hour. As a result, 24 percent of Senegalese go online at Internet cafés, compared with an average of 19 percent Africa-wide. Local media companies were quick to adopt the Internet as a key communications platform, with multiple newspapers online, while the large Senegalese diaspora fueled demand for social networking. Government played an important role in regulating the market for Internet service providers (there are currently 14 in the retail market) and eliminating taxes and duties on imported computers.³

The role of consumer segments

We segmented consumers by attitude to better understand how needs varied. Six segments emerged: early adopters, image-conscious consumers, brand-loyal consumers, pragmatic users, value seekers, and low-price hunters.

The early adopters were 3.4 times more likely than the average respondent to reply positively to the statement, "Among people I know, I am usually first to buy/try new telecom products/services when launched." When asked specifically about their intention to buy or use a laptop or data card, they were also 1.5 times more likely to do so than the average respondent.

As the segment name implies, low-price hunters focused on price: 91 percent said that they would always buy products from the store offering the lowest price, even if it was far away. The average for all respondents was 15 percent.

What players can do

While there has been remarkable progress in Internet use in urban Africa, the direct contribution of the technology to GDP remains low. There are multiple actions that participants in the market can take to maximize their benefit from current demand and to encourage further adoption and use.

Governments

Governments could play an important role in facilitating Internet adoption by developing a country vision, supporting network rollout, stimulating demand, and ensuring a healthy regulatory context. Some examples of how governments have helped to stimulate demand include introducing e-government services and reducing duties and taxes on sales of personal computers and mobile devices to cut the cost of devices for consumers. In many countries, governments have supported the rollout of infrastructure through subsidies, low-cost loans, and regulatory concessions.

1 Lois Kerubo Bosire, assistant director for Kenya's ICT Ministry of Information and Communications, "Access and affordability to broadband in Kenya."

2 Mobile telephony and taxation in Kenya 2011, Deloitte.

3 John Cockburn et al., "The gender and poverty impacts of trade liberalization in Senegal," CIRPÉE working paper number 10–13, March 2010.

Telecommunications companies

Telecommunications players should address specific consumer needs. They can improve the Internet experience by providing a fast and reliable connection through network optimization, compression, and buffering; across Africa, faster browsing speed is the change most desired by Internet users. These companies can reduce price anxiety by offering clear and predictable pricing and increase affordability by making special packages available to consumers facing budget constraints; 23 percent of urban Africans surveyed said the reason they don't use mobile-Internet browsing is that it is too expensive.

But not knowing how to use mobile Internet is the number-one reason urban Africans gave for not signing up, so companies should work to increase ease of connection by providing trouble-free setup. Companies should demonstrate utility by educating customers on the benefits of the Internet. Customer-education initiatives could include building display stores to expose customers to new technology and increasing public visibility by allowing frontline sales representatives free personal use of smartphones.

Media companies

Media players can take four main actions: digitizing television content, increasing local content, making media more affordable to access, and making it accessible through mobile devices.

- Media companies should explore opportunities to put content online for Internet distribution in countries where costs and bandwidth allow. YouTube and several start-ups are providing African movies online, catering primarily to the African diaspora. As bandwidth grows on the continent and Internet charges decline, opportunities to serve Africans in this fashion will increase.
- African consumers are crying out for local content to suit their distinct tastes, cultures, and languages. This is particularly the case in non-English-speaking countries like Algeria, Angola, and Senegal, where more than 40 percent of survey respondents said local content was the key change they wanted to the Internet. The multitude of Internet start-ups providing Nollywood (Nigerian movie) content online suggests that media or telecommunications companies with scale have the opportunity to address this need in a cost-effective manner.
- Since cost is a major concern for most consumers, companies could employ flexible fee structures to decrease barriers to adoption. To reach wider audiences, companies can explore bundled, pay-per-use, and video-on-demand models.
- The majority of content viewership is limited to fixed devices; however, the access platform in Africa is overwhelmingly mobile. Media companies should focus on improving compression technologies and partner with telecommunications players to improve portability.

Deep dive: The untapped opportunity in consumer banking

Participating in the formal banking system is difficult for most Africans. But those who live in major cities have broad access to banking. Our survey showed that 74 percent of urban Africans have bank accounts, three times higher than the African average. Greater wealth and wide branch networks have contributed to higher bank-account penetration in urban areas.

Africa's banking revenues total about \$80 billion, according to our estimates. Opportunities for growth abound, even in the urban areas where more people have bank accounts: up to \$20 billion in additional revenue is available, our estimates show. Increasing bank-account penetration to South African levels—the continent's highest levels—across Africa's 50 biggest cities could yield up to \$3 billion for financial institutions by 2016. These 50 cities are expected to increase real GDP between 4 and 5 percent a year to 2016; this could result in up to \$4 billion in additional banking revenues, assuming penetration levels comparable with those in South Africa.

However, the largest opportunity lies in deepening financial-product usage among those holding accounts. For example, just reaching the average urban revenue-per-customer levels in all of Africa's 50 largest cities (excluding South African cities) could unlock \$12 billion for financial institutions, our estimates show. To tap this growth, financial institutions must better understand both who the urban “unbanked” and “banked” consumers are.

Unbanked consumers: An opportunity to increase penetration

In Africa's major cities, the unbanked are easier to serve than many financial institutions assume. Our survey found that 57 percent of the unbanked are in mid- or higher-level socioeconomic classes, 40 percent are formally employed, and 55 percent have completed high school or attained more advanced degrees. The unbanked typically earn less than those with accounts, but 61 percent of them earn more than \$400 a month, adjusted for purchasing-power parity.

While 69 percent of the unbanked cited a lack of income as the chief obstacle to financial access, 55 percent said they save every month, with 29 percent using informal plans such as a community savings group. The number of people who said they save every month ranges from a high of 72 percent in Angola to a low of 22 percent in Morocco.

Banked consumers: An opportunity to deepen usage

Financial institutions seeking to expand in Africa must recognize country differences; assuming the same product mix or value proposition for each country, for example, is a recipe for losses.

Product use

About three-quarters of urban Africans have personal bank accounts, but there are important differences across countries, the survey found. About 95 percent of urban South Africans said they have accounts, while only 35 percent of urban Egyptians did. There is also great variation by socioeconomic class: 89 percent of the wealthiest urban Africans said they have accounts, compared with just 63 percent of the unskilled working class. Although product penetration correlates with GDP levels, there are some outliers. According to our survey, for instance, self-reported credit penetration in Nigeria's largest three cities—Abuja, Kano, and Lagos—is higher than that of African cities with similar GDPs such as Addis Ababa and Dakar.¹ Similarly, Nairobi's insurance penetration punches above its weight: 45 percent compared with 20 percent for other large African cities with similar GDPs.²

1 Our Nigerian credit-penetration results are double the 2010 estimate from Enhancing Financial Innovation and Access (EFInA), a Nigerian organization that conducts a survey on access to finance in the country. An explanation for the difference could be that we surveyed only urban residents in Nigeria's three biggest cities, while EFInA's estimates are for the total Nigerian population.

2 Our self-reported insurance penetration rates are three times those of FinAccess of Kenya, which did a similar survey in 2009. In this case, the difference may be accounted for by the fact that we surveyed residents of Nairobi, while FinAccess surveyed residents in all Kenyan urban areas.

There's a large opportunity to increase credit penetration among the banked population. Only 20 percent of urban Africans said they have formal credit arrangements. But significant country differences exist: while more than 45 percent of urban South Africans said they own a formal credit product, the number drops to 20 percent in Nigeria and less than 10 percent in countries such as Algeria, Egypt, and Ghana. These populations are underpenetrated relative to their countries' GDP. In addition, the wealthiest urban Africans are four times as likely to have formal credit as the unskilled working class, but only 38 percent of the highest socioeconomic class has formal credit products. Attitudes toward default also vary by country: 10 percent of the Ghanaians surveyed said defaulting on a loan is acceptable, compared with 20 percent of Nigerians.

To facilitate sustainable increased credit penetration, banks must improve credit-scoring capabilities. Basic steps include using information collected during the application process, information from other product holdings such as current accounts, and credit-bureau data (where available). But banks can also tailor their approach for data-poor environments. To assess the creditworthiness of small entrepreneurs, some banks are using psychometric testing; resulting scores can be used to separate good risks from bad and can lower default rates by 25 to 40 percent.

Penetration of insurance products is also relatively low. Only 23 percent of urban consumers have insurance, and only half of the highest socioeconomic class has any coverage. Penetration levels vary by country, with Kenya at 45 percent penetration, compared with 18 percent in Nigeria—although GDP per capita is comparable for the covered cities in each country. The most common insurance product also varies by country; in South Africa, funeral insurance predominates, with 33 percent of the surveyed group having a policy. In Nigeria, health insurance is the most common product, with 16 percent of those surveyed having a policy.

Savings attitudes

Urban Africans generally are savers, with 75 percent of those with a bank account saying they save every month. They consciously make an effort to save, with 31 percent reporting that they put aside funds for emergencies and 17 percent saving for a specific purchase. Savings are particularly important for the lowest socioeconomic class; 76 percent of these consumers are actively saving money.

Demographics

Our survey found that consumers with bank accounts are predominantly male. Eighty-seven percent earn more than \$400 a month, adjusted for purchasing-power parity. Three-quarters are in the mid- or higher-level socioeconomic classes, 71 percent are formally employed, and 24 percent have completed tertiary education.

Capturing the opportunity

Most financial institutions must adjust their product offerings, value propositions, and channels to increase their penetration of the urban African consumer-banking market. Following are some actions they can take:

Craft a compelling value proposition

Large South African banks, like their regional peers, appear to be wrestling with how to differentiate themselves effectively. For example, the flexible-term savings accounts offered by South Africa's four biggest banks are quite similar with regard to balance, term, fees, interest rate, and accessibility of funds.

Those banks that have differentiated themselves have reaped the benefits. Capitec Bank of South Africa, for example, has increased its number of active customers by 30 percent a year over the last five years, albeit from a low base, by targeting lower-income earners and consumers who preferred a simple, easy-to-use product and limited branch interaction.³ In another example, Equity Bank of Kenya, which was established in 1984 as a start-up building society

³ Patrick Cairns, "Can Capitec continue to sizzle?," Moneyweb, May 11, 2012; Juliet Pitman, "Success stories—Capitec: Riaan Stassen," Entrepreneur Magazine Online, South Africa, December 14, 2011.

offering mortgages to low-income individuals, grew to become the second-largest bank in Kenya by the end of 2011 and one of the most profitable in the country. Equity Bank has continued to focus on lower-income individuals and small and midsize enterprises, tailoring products to meet the needs of this target market.⁴ The bank's chief executive officer, James Mwangi, said its success was underpinned by a focus on low-income earners who historically have been excluded from the financial system.⁵

Banks typically defer to income and demographics to craft their value proposition, using income- and age-based segmentations. But our survey found that wealth and age are often poor predictors of consumer needs and preferences. Alternatively, we found that consumer segmentation by attitude outperformed income and demographics in predicting consumer needs and preferences.

In South Africa, when consumers were asked about the most important factors in choosing a bank or attitudes toward credit repayment, their responses were largely the same by income group. This was the case for other questions that determine how consumers behave and select financial products. But when responses of South Africans were assessed by attitudinal segment, the differences were stark. Consumers in the “convenience and personal-service lover” segment, for example, are 5.7 times more trusting of banks for advice than “price sensitive” consumers. When comparing the responses of consumers grouped by income or age group, the maximum differential is only 1.3 times.

Use big data

African banks have access to substantial customer information, but they have not yet realized its potential to deliver value across retail-banking product lines and to enhance customer experience. Taking advantage of the data's potential is important for increasing product penetration. Banks with siloed product systems that struggle to identify the complete holdings of a customer are furthest behind. Using customer-relationship-management systems that can create a single view of a customer is often an appropriate first step. From there, identifying opportunities for cross-selling and initiating targeted customer offerings is in reach. Individuals who have made recent large deposits in their bank accounts, for example, could be contacted with options for investment products.

Develop a multichannel strategy

Africa's urban consumers rely heavily on bank branches for using financial services. When asked to name the top three ways they interacted with their bank, 96 percent of consumers said branches, 77 percent said automated teller machines, and 27 percent said a dedicated staff member, who may visit the client or can be contacted directly. As a result, branches are busy—in Nigeria, for example, 30 percent of consumers said they visited two to seven times a week, while 25 percent said they visited once a week.

Banks are looking for ways to ease that congestion and reduce their dependence on costly physical networks. In our survey, urban Africans displayed a willingness to experiment with alternative channels, with 30 percent of consumers saying they would try mobile banking; only 10 percent said they use it now. Kenyans are outliers—mobile banking is well developed in their country, with almost 80 percent of consumers saying they already use it. Only 2 percent of urban Nigerian consumers said they use mobile banking, but 47 percent said they would try.

Encouraging customers to use self-service channels rather than branches could help banks unlock more value in African financial services. For example, the full cost of offering a savings account in Mexico through a traditional retail bank was about \$70 a year in 2009, compared with \$40 a year for pure mobile banking, according to our estimates.

⁴ Superbrands profile of Equity Bank, superbrandseastafrica.com.

⁵ Equity Bank Web site, equitybank.co.ke.

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