Challenger Brands From DEVELOPING MARKETS

Africa and The New Global Contenders

PRESENTATION TO HAAS SCHOOL OF BUSINESS, FEBRUARY 14TH, 2014
Presentation Overview

• My Credentials and Connections to Africa
• A Light-hearted and Serious Look at South Africa
• CMO Council Introduction
• The Global Corporate Realignment
• New Emerging Market Multinationals
• New Contenders and Disruptors
• Challenger Brands in South Africa
• Why Africa is Attracting Attention
• Contrasting South Africa to South Korea
GLOBAL EMERGING MARKETS
ME, Africa, India, Asia, Latin America

MY PERSONAL BRAND JOURNEY
My South African Connections
South Africa. Never be Surprised!
Introducing the CMO Council

7000 multi-sector members
7 regions
110 countries

$400 BILLION in annual spend
Digital PUBLICATIONS + REPORTS
10-plus SIGS & microsites

CMO support services
The Global Corporate Realignment

McKinsey Global Institute Research Predicts…

More than **45% of the Fortune Global 500**
will be based in dynamic, emerging markets
by 2025 **compared to 17% in 2000**
The Global Corporate Realignment

McKinsey Global Institute Research Predicts…

15,000 companies will have $1B-plus in annual revenues compared to 8,000 in 2010; 40% of new large companies will be located in the emerging world
Why Did These Companies Make News Recently?

China Precision Machinery Export-Import Corp.

Del Monte Foods

双汇国际
The Answers…

- Beat out Raytheon and Lockheed Martin for a major Turkish long-range missile system contract
- Canned food business bought by its family owned, Philippines-based regional partner for $1.68 billion
- Acquired U.S. pork producer Smithfield Foods for $4.7 billion, the largest Chinese takeover of an American company
The New Elite: Emerging Market Multi-Nationals

- Over **1,000 companies** based in emerging markets have topped **$1 billion** in annual sales
- Top **100 Challengers** purchase more than **$1.7 trillion** of goods and services a year
- Combined annual revenues exceed **$8 trillion**
- Average revenues exceed those of the average S&P 500 company
- Annual capital spending is in excess of **$330 billion**

Boston Consulting Group
Allies & Adversaries Report, 2013
New Category Contenders and Disruptors

WHAT’S GIVING THEM A COMPETITIVE ADVANTAGE?

- Comfort in COMPLEXITY
- AGILE, efficient operators
- Lean production
- Access to GROWTH CAPITAL
- Innovative BUSINESS MODELS
- Frugal, LOCALIZED design
- New plant + TECHNOLOGY
- Economies of SCALE
- Enlightened BUSINESS PRACTICE
- DIGITAL + MOBILE WOM
Brands You Hardly Know Will Really Grow…
Strategies for Global Growth*

Knowledge Leveragers

Niche Customizers

Cost Leaders

Global Brand Builders

* The New Emerging Market Multinationals: Four Strategies for Disrupting Markets and Building Brands by Amitava Chattopadhyay, Rajeev Batra, and Aysequil Ozsomer
Western Market Entry

ACQUIRE WHAT CONSUMERS DESIRE

Tata Motors

Lenovo

Grupo Bimbo

Tata Group

SAB

Geely

Nanjing Automobile Group

Dongwon

Yildiz Holding

GODIVA

SAB

MillerCoors

Yildiz Holding

GODIVA

SAB

MillerCoors
Why Are Emerging Market Companies Buying Brands?

- Global growth mandate
- Access to technology
- Intellectual property
- Time-to-market
- Brand assets
- Talent and skills
- Distressed sales
- Distribution channels
- Local knowledge
What Challenges Do They Face?

- Localization requirements
- Public prejudice
- Tariffs and restrictions
- Skills gaps
- Brand distinction
- Quality Perceptions
- Competition for talent
- Cost of doing business
- Budget limitations
What Characterizes the New Contenders?

- Disruptive innovation
- Financial resources
- Insight into RDEs*
- Vision and ambition
- Modern infrastructure
- Cost advantages
- Government support
- Ability to take risk
- Home market growth
- Cash flow
- Economies of scale

*Rapidly Developing Economies
Requirements to Succeed

- Clear value proposition
- Customer experience
- Customer-centricity
- Brand trust and affinity
- Organizational culture
- Operational excellence
- Lean and green commitment
- Marketing investment
- Partnerships and alliances
- World-class business standards
A Sample of “Gazelles” in South Africa

- MTN
- sappi
- dimension data
- old mutual
- shoprite
- the vitality group
- Standard Bank
- Discovery
- SAB Miller
- Distell
- Sanlam
- Nando’s
- FirstRand
- Naspers
- Mediclinic
- SASOL
- Tiger Brands
WHY AFRICA is attracting attention
Why Africa is attracting attention

- **Over one billion consumers**
- **53 countries**
- **2,000 languages & dialects**
- **10 countries** account for 81% of consumption: Algeria, Angola, Egypt, Ghana, Kenya, Morocco, Nigeria, South Africa, Sudan, Tunisia
Why Africa is attracting attention

WORLD’S FASTEST GROWING POPULATION:
40% of global population by 2020
(UN)

WORLD’S YOUNGEST POPULATION:
50%<20 years of age
(Those aged 16-34 years account for 53% of income)
Why Africa is attracting attention

40% of Africans live in cities – Africa is more urbanized than both China and India

By 2016, > 500M will be living in urban centers
Why Africa is attracting attention

DISCRETIONARY INCOME IS ON THE RISE – growing from 85M HHs today to 130M in 2020

Big shift from fragmented, informal retailing to formal shopping environments (Shoprite, Massmart, Woolworths, etc.)

Source: Economist
Why Africa is attracting attention

MOBILE AND DIGITAL MEDIA ARE BIG INFLUENCERS OF BUYING AND WOM REFERRAL

(50% of Africans rely on friends and family for validation)

Source: University of Waterloo
Why Africa is attracting attention

MOBILE DIGITAL MEDIA PENETRATION

695 million mobile phone subscribers (65% of population)
167 million Internet connections (15% of population)
51 million Facebook members
Why Africa is attracting attention

TV, RADIO AND PRINT STILL RULE TRADITIONAL MEDIA
80% of Africans rely on TV for grocery information
Why Africa is attracting attention

URBAN AFRICANS HAVE MODERN, SOPHISTICATED TASTES

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

McKinsey Global Institute

<table>
<thead>
<tr>
<th>Quality perceptions</th>
<th>Willingness to pay a premium for brands</th>
</tr>
</thead>
<tbody>
<tr>
<td>% who agree with statement, “Well-known (food) brands are always better quality”</td>
<td>% who agree with statement, “I only shop for well-known brands, even if it means paying more”</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Grocery</th>
<th>Clothing</th>
<th>Mobile handset</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sub-Saharan Africa average</td>
<td>33</td>
<td>25</td>
<td>43</td>
</tr>
<tr>
<td>North Africa average</td>
<td>56</td>
<td>45</td>
<td>58</td>
</tr>
</tbody>
</table>

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

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Why Africa is attracting attention

QUALITY AND BRAND MATTER...SO DOES VALUE AND DEALS

Brand loyalty is high across Africa  

McKinsey Global Institute

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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
Contrasting South Africa to South Korea
## Contrasting South Africa to South Korea

<table>
<thead>
<tr>
<th>Category</th>
<th>South Korea*</th>
<th>South Africa**</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population</td>
<td>$48.6M</td>
<td>$49M</td>
</tr>
<tr>
<td>GDP</td>
<td>$1.5 Trillion</td>
<td>$592B</td>
</tr>
<tr>
<td>Ranking</td>
<td>15&lt;sup&gt;th&lt;/sup&gt;</td>
<td>24&lt;sup&gt;th&lt;/sup&gt;</td>
</tr>
<tr>
<td>Exports</td>
<td>$548B</td>
<td>$106.8B</td>
</tr>
<tr>
<td>Unemployment</td>
<td>3.8%</td>
<td>25%-40%</td>
</tr>
<tr>
<td>EODB*</td>
<td>8&lt;sup&gt;th&lt;/sup&gt;</td>
<td>39&lt;sup&gt;th&lt;/sup&gt;</td>
</tr>
<tr>
<td>GDP per Capita</td>
<td>$30K</td>
<td>$10K</td>
</tr>
<tr>
<td>Poverty</td>
<td>15%</td>
<td>31%</td>
</tr>
<tr>
<td>Labor Force</td>
<td>25M</td>
<td>18M</td>
</tr>
<tr>
<td>Tertiary Education</td>
<td>90%</td>
<td>15%</td>
</tr>
</tbody>
</table>

* Ease of Doing Business

* Asia’s fourth largest economy
  ** Africa’s largest economy
Contrasting South Africa to South Korea

WHAT DIFFERENTIATES SOUTH KOREA?

• Long-term master planning
• Shared identity and culture
• World-class education system
• Math, science, engineering focus
• Manufacturing-driven economy
• Export-oriented mindset
• Public-private sector synergies
• Family-controlled conglomerates
Contrasting South Africa to South Korea Cont.

WHAT DISTINGUISHES SOUTH AFRICA?

• Diversified economy
• Ingenuity in face of adversity
• Entrepreneurship
• Complex society
• Natural resources
• Global destination
• Regional leadership
• English language skills
South Africa. The Good News.  
(See SAGoodNews.co.za)

- SA ranked 28th out of 167 countries in the 2011 Democracy Index, compiled by Economist Intelligence Unit, ahead of France, Italy, Greece and all of the other BRICS countries.
- According to Open Budget Index 2012, SA has the second most transparent budget in the world.
South Africa. The Good News.

- SA ranked 10th out of 183 countries for good practice in protecting investors in business (World Bank Doing Business Report 2011).*
- SA placed 14th in a list of 21 countries ranked by international companies as top prospective investment destinations for 2012 to 2014 (World Investment Report from UNCTAD).*
- South Africa ranked 34th out of 183 countries for ease of doing business (Doing Business 2011, World Bank and International Finance Corporation).*

* http://www.sagoodnews.co.za/fast_facts_and_quick_stats/index.html
For More Information:

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