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Sub-Saharan Africa Shows Western Retailers how to Leapfrog to the Future of Retail By leveraging a Sense of Community

How digitalization efforts are leveraging a sense of community combined with platforms, commerce value chains and mobile apps to enhance cost optimization and achieve greater market decentralization.

In 30 seconds

- Sub-Saharan countries are promising from a retail perspective. Faced with a fragile but growing middle class, numerous infrastructure challenges and a low density of physical stores, the law of supply and demand is hard at work. Sub-Saharan Africans have demonstrated creativity by 'leapfrogging' from traditional commerce to m-commerce and social commerce.

- Infrastructure challenges such as lack of transport, banking infrastructure, and inadequate logistics services have inspired sub-Saharan retailers to develop alternative approaches leveraging the platform economy. They are leveraging communities of consumers to conduct some retail functions.

- Sub-Saharan Africa has many examples of simple innovation and innovative services that should serve to inspire Western retailers in creating more agility in addressing rapidly-changing customer expectations and take a new role in developing social and ecological responsibility. By doing so, they are contributing to a stronger sense of belonging for customers.

"Numerous African countries are seeing a rise of purchasing power in a world becoming more and more digital, thus leapfrogging to new business models without being bound by bricks & mortar stores."

If you have a look at the departure gate from any major European airport to a sub-Saharan African country, you may be surprised by the amount of luggage you see. A deeply-rooted sense of community becomes obvious when one sees the number of parcels sub-Saharan African natives living in Europe take to relatives, neighbors, and even strangers. In addition, digital platforms such as KakoExpress, a Cameroonian start up, are connecting travelers with parcel senders. This reveals a deeply rooted sense of community by leveraging return trips from Europe to transport parcels for others. This example illustrates how African culture and technologies can be smartly combined.

Beyond parcel delivery, numerous African countries are using digitalization and a sense of community to get a fresh perspective on retail. They are seeing a rise of purchasing power in a world becoming more and more digital, thus leapfrogging to new business models without being bound by numerous bricks & mortar stores.

Sub-Saharan Africa can be an inspiration for Western retailers facing sluggish growth and characterized by a strong individualism for more than half a century. This report provides examples of innovation in the sub-Saharan African region by focusing on two countries with differing levels of retail maturity - Nigeria and South Africa – and what European retailers can learn from them.

Africa has long been forgotten by major brands and retailers who have been disappointed by the promises of the emerging middle class which have not materialized. They should now reconsider and look at the continent not only as an opportunity of opening new markets, but also as a source of inspiration. Africa has many small boutiques which leverage social media such as Instagram. This signifies the first entry into the platform economy. Currently, sub-saharan Africa has developed platforms for very small companies to enable them to put their products on the web, thereby favorizing the local market. TradeDepot[1] is such an example.

Digital is now revolutionizing many businesses in Africa, providing the ability to circumvent the lack of physical stores and infrastructure, such as transport, postal addresses and banks, to leverage the characteristics and culture of most African countries: a strong sense of community, a need for smart and economical investment services, along with a cultural preference towards regional/local products. These challenges have formed the basis of the platform economy in sub-Saharan Africa.

Findings

- Africa is a promising continent for retailers, with a middle-class of 350 million people[2]. In 2040, this number could increase to 900 million people, more than the middle-classes of China and India combined[3]. 13 out of the 29 so called 'border countries' in the world (with low income but growing constantly), are African.
- Although shopping malls are burgeoning, smartphones and e-commerce are the backbone of retail development. 88% of Nigerian Millennials and 71% of South African Millennials paid with an app on their mobile last year[4], and m-payment is a domain in which the continent is a leader.
- Logistics is the key challenge for digital and bricks & mortar retailers in Africa, with three main dimensions: the mediocre quality and lack of transport infrastructures, the lack of postal addresses, and the difficult and heterogeneous frontier management. They cannot rely on strong and competitive logistics & delivery specialists. To overcome this challenge, alternative logistics models have emerged to avoid colossal investments. One such example is Jumia[5]. This pan-African e-commerce player has built its own logistics marketplace to leverage third party companies and self-entrepreneurs for city-to-city and last-mile deliveries. This platform also offers its services to other retailers as a white label.
- Social networks are having a huge success in sub-Saharan Africa. As a result, these are transforming retail, relying on a strong sense of community: 75% of South African and Nigerian spend more money compared to a few years ago on the basics of taking care of their family, according to the BearingPoint/WSL study - a figure much higher than China's. In this context, several retailers or startups are offering platforms for consumers to take on some aspects of the retail value chain (such as merchandizing control with Optimetriks[6], price checks or last-mile deliveries).

Sub-Saharan retail: diverse but promising

The African market cannot be considered as a single homogenous market. Purchasing power, political stability, and cultural gaps vary from one country to another. African retail is very heterogeneous: as an example, whereas shopping mall density oscillates between 1,8 to 2,6 m² for 1 000 inhabitants in Central and West Africa, this density is 134,5 m² in South Africa[7]. The common and encouraging point in Africa is that the middle class is expanding but it is also fragile. "The potential is there, because the offer is still limited and this population has a real need to consume[8]", highlights Xavier Desjobert, former CEO of CFAO Retail, a leader in specialized retail opening new formats of shopping malls in Western and Central African countries.

Even for large countries with a strong potential and political stability, the situation strongly varies. The following countries are an example of this variety.

Nigeria: a burgeoning online retail scene

Nigeria has huge potential. Its population is around 178 million people, the largest in Africa and the seventh in the world. It is projected to overtake Indonesia and the United States and become the third most populous country in the world by 2050, only behind India and China[9]. It is becoming more and more urbanized, with a rising middle and upper class and a fast-growing economy. It has massive room for growth in formal retail - modern supermarkets make up only 1 percent of all trade, which is still dominated by informal shops and convenience stores. There is a burgeoning online retail scene, where some players have tapped into an area popular among the richest classes. One example is Nigeria's Jumia, a pan-African e-commerce and services platform founded in 2012 and incubated by Rocket Internet. Net spending remains comparatively low, as the "true middle class" is a lot smaller relative to the smaller countries ranked higher. Moreover, Nigeria is a difficult market to do business in—risks are still abundant, entry barriers remain high and consumers often have very specific requirements.

South Africa: a mature retail market

South Africa is characterized by a shopping culture, relatively high wealth levels, and well-established infrastructure. South Africa remains the most developed economy and retail sector in sub-Saharan Africa. It is also one of the best places to do business in Africa: risks are relatively low, politics are relatively stable, and the infrastructure is sufficient. High urbanization rates, ample shopping malls, developed supply chains, and a very significant affluent middle class boosts the country's retail sector. South Africa's grocery leaders are trying to tap into the informal market, which still owns 40 percent of the country's sales, or are looking into Africa expansion strategies - two steps that do not necessarily lead to quick results, as revenues are typically lower. An example of expansion strategy is Steinhoff International, a company that sells mainly furniture and household goods, registering separately its African assets to the Johannesburg Exchange. Another example is Shoprite, Africa's largest food retailer about to enter the Kenyan market[10].

The Middle Class may be fragile, but forecasts are very encouraging

The middle class in Africa is composed of three sub categories, according to the African Development Bank[11] : the « upper » Middle Class, the « Lower » Middle Class, and the « floating » Middle Class. In total, these three categories represent 40% of the total population. But the latter is a very fragile population, risking to re-entering poverty because of income instability. This floating class in Africa represents 20% of the total population of the continent, explaining the important part of the three sub categories, more than a third of the total population.

Today, 350 million African people are part of the Middle Class. In 2040, this part could represent 905 million people, more than the ones of China and India combined, according to BearingPoint[12]. Expectations are high for Africa in general, and even higher for Nigeria, a country expected to get more than 70 million people in the non-floating Middle Class in 2040.

Digitalization is causing a LeapFrog reaction – m-payment, m-commerce, Social

Lack of store density, a developing consumer market, large population and poorly developed infrastructure, all these factors are encouraging the development of specific solutions for the shopping experience in Africa. Combined with mobile phone pervasiveness, strong social media usage and a sense of community, they leads to the African flavor of the platform economy.

Whereas some world-famous mass retailer like Walmart or Carrefour are looking to revitalize their hypermarkets, Africa is making its low stores density an asset through digitalization. Successively, but quickly, m-payment, e-commerce and m-commerce have changed the retail landscape on the continent, giving rise to major players like M-Pesa for m-payment, or Jumia and Konga for e-commerce.

The first leapfrog was m-payment. At the end of 2015, 16 countries in the world, 15 of which were sub-Saharan, had more mobile bank accounts than traditional bank accounts, up from only 6 countries in 2013[13]. This represents a major breakthrough. Previously, people had to walk very long distances to find a bank or a payment agency where they could make a payment. Today, customers can open their account directly on their mobile phone. The mobile payment service M-Pesa, developed in 2007 by Safaricom, a subsidiary of Vodafone in Kenya, is the most famous example with over 30 million customers in 2017 in 150 countries. Paying for goods or services is like sending a text with a simple mobile phone.[14] Other examples include the Wizzit mobile bank in South Africa, provided by a third party (neither a bank nor a mobile operator).

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The second leapfrog is currently underway. M-commerce is developing thanks to a combination of factors. Firstly, sub-Saharan countries have a very low density of stores, 150 times lower than the USA (1 store for 60 000 persons in Africa vs. 1 for 389 in the USA). Secondly, the lack of landline connectivity impacts the ability to answer the needs of the emerging middle class. E-commerce provides the capability to answer the needs of the emerging middle class, giving them access to a vast variety of goods and services, even from remote areas. Despite being very prominent in the press, e-commerce is still minor today compared to physical retail. However, it could reach 10% of retail sales in 2025 in the largest African economies such as Nigeria, South Africa and Kenya.[15] Due to the low development of landline networks, Internet access is mostly via mobile and has developed dramatically over the previous years. This resulted in a focus on m-commerce first in Africa. According to a BearingPoint/ IPSOS study for CFAO on Morocco, Ivory Coast, Cameroon, Nigeria and Kenya, only 42 % of middle class households are equipped with fixed broadband Internet access, while 85 % own at least one smartphone - with an average of 2.4 per household. As a result, e-commerce in Africa is predominantly m-commerce. In 2017, 88% of Nigerian Millennials and 71% of South African Millennials paid with an app on their mobile. Beyond m-commerce, the mobile phone is also extremely influential in the overall shopping experience: respectively 88% and 71% of Nigerian and South African Millennials used mobile in store to look up price or product info.[16]

The third leapfrog is social commerce. Despite usage figures still below other geographies[17], social media is now well established: in Nigeria, 32% of the population visit a social network at least once a week, 10% being active social media users (37% and 32% for South Africa).[18] Therefore, the fast changing shopping patterns in countries with a growing standard of living now more and more involve social media: 51% of Nigerian Millennials and 46% of South African Millennials bought an item through a link on a social media page, compared to 54% in China for example, a country much more known for social media use.[19]

Empowering communities of interest and developing trust

The strong sense of community and the notion of sharing is strong in Africa. As a result, the fact that social media is now well established in the region is not at all surprising.

Africa may well be the cradle of the sharing economy, with the 'stokvels' concept dating back to the 1930's which were informal group saving plans based on mutual trust. Technology can be a great lever to further develop these concepts. As an example, the online boutique « WeShopUp » was launched in 2014 by the Cameroonian start-up « InfinitySpace ». WeShopUp is an e-business marketplace where people do crowd purchasing (buy in group) to get quality products at best prices. It merges the crowdfunding concept, e-commerce and mobile payment as an innovative way to enable people with different level of revenues to afford quality products at the best prices.[20]

African customers have a general distrust towards online services because it can link to an important fraud rate observed in some countries. To overcome that issue, e-commerce platforms of all sizes in Nigeria, including Jumia or Konga, have free return policies similar to major players like Amazon in more advanced markets. Konga is going even further and recently introduced a feature that allows merchants to contact potential buyers via WhatsApp. The Facebook-owned application has become extremely popular in Africa, cashing in on mobile phone penetration. In Zimbabwe, WhatsApp alone accounts for nearly half of all internet traffic in the country. Numerous SMEs - particularly those without online presence, are also doing so directly. Simply chatting with interested customers over WhatsApp on the latest products, sending pictures and discussing price and delivery helps remove the trust barrier and reassures customers.

WhatsApp is also leveraged to generate trust by raising service quality standards. Jumia is making very simple use of WhatsApp to interact with third-party partners for delivery. Jumia warehouse employees make random checks by opening selected parcels before they are sent to customers. WhatsApp groups are simply used to show non-conformity or quality issues with a picture showing both the order and the prepared parcel. It is also used as a kind of hotline with the network of delivery partners (information and picture from a road with an accident, etc.). Overall, WhatsApp is considered by Jumia, along with Facebook and Twitter, as complementary channels that are going to replace traditional CRM.

Regarding social commerce, the most interesting potential is most probably with Instagram, the second social media network by number of users in Nigeria and the third in South Africa. While shopping in a physical store in Africa may still be not so pleasant, Instagram can provide a very enjoyable experience, enabling to share selected products with friends and to purchase. This is particularly adapted to SME's for fashion items, with local stars as opinion leader. In order to address and to favor the development of this emerging business, Jumia is currently developing the ability to 'aspirate' the Instagram content of an Instagram to place it on its platform.

Recommendations for Western retailers:

- Most Western Retailers have a significant presence on social media (Facebook, Twitter, Instagram, ...) to generate notoriety and visibility, as well as to react to negative buzz. However, social networks or messaging apps are not fully leveraged for customer service, although this is where customers "are": in Germany, the UK and the USA, for instance, only 15 to 20% of customer service contacts were made via social media in 2017 (vs. around 70% for phone and 60 to 70% for email).[21] Western Retailers should consider leveraging these to offer additional customer service channels to their customers, with answers to queries expected within the hour.

Shopping profiles of Africa: sometimes more digital than China (which is considered a trailblazer in the developing world)

Source: BearingPoint WSL study, 2017

Africa leads the way: recipes for the single platform economy

In the context of economic growth in sub-Saharan Africa, the pervasiveness of mobile phones and social networks have stimulated the rise of a unique platform economy for retail. This involves new ways of shopping and fulfillment leveraging communities of third parties or consumers, and requiring only minimal upfront investments. Some of these simple initiatives, adapted to local needs and realities, can prove very relevant for retailers in more sophisticated and mature markets in the West, in constant search for new models.

Fixing the basics – developing a logistics ecosystem

In Africa, there are around 400 000 villages, 70% of which do not have asphalted road access. In Nigeria alone, where informal trade represents 90% of total commerce, consumer goods distribution is estimated 340 billion dollars, and 4 billion dollars per year are lost because of the lack of visibility and inefficient resulting logistics.[22]

Logistics is therefore the first challenge for digital and bricks & mortar retailers, who cannot rely on strong and price-relevant logistics & delivery specialists like in Western countries.

In order to develop its logistics capabilities while avoiding colossal investments, Jumia, the pan-African e-commerce player with operations in 12 countries, has developed a logistics platform available on tablets or smartphones. Third party suppliers connect to it to take on city-to-city logistics (with 6 to 20 tons trucks), and a community of local entrepreneurs conducts last-mile delivery and payment collection (80% of e-commerce purchases in Africa are paid with cash on delivery). Each of these players are paid with a commission upon successful parcel delivery. Jumia even directly uses consumers to manage peaks of activity, as well as specific networks such as the "keke-marwa" (tuk-tuk) unions in Nigeria.

Capitalizing on that key asset, Jumia also offers its logistics services white labelled to other retailers. Beyond offering a high-quality service to Jumia consumers (next business day for deliveries of in-stock products, 2-4 business days for drop shipment), Jumia Services has strongly contributed to structuring local ecosystems of logisticians.

Other interesting forms of collaborations have emerged to enable logistics, facing the lack of address and slowness of postal delivery. The app OkHi, created in Kenya in 2014, provides each of its users with an address, which is a web link that leads to a GPS beacon. The user adds a photo of the door of their home and the GPS beacon is a kind of guide to the home of the user, whereas the photo ensures the exact place of destination. Numerous parcel transport companies, like the Kenyan start-up Sendy, work with OkHi. Sendy created an app, like Uber, where people can order a courier, indicate a delivery address and pay online. Today Sendy is present in Nairobi, Mombassa, Thika and Kisumu and registers 150 to 200 taxi services daily. The app was initially created for individuals, but it is now used to 75% by companies.

Regarding the address issue, Jumia is even considering to further leverage mobile phones. It would no longer ask for the delivery address, but instead ask for authorization to detect the phone's GPS to enable deliveries at home or at work, with a SMS being sent to the consumer 1 hour prior to delivery.

Travels from the African diaspora can also be leveraged for more cost-effective cross-border commerce. Several platforms have emerged, allowing these people to send parcels at a relatively cheap price[23], such as Jwebi, a crowd-sourced shipping service created by a Franco-Tunisian in 2014 with an initial focus on trips between France, Cameroon, Tunisia, Senegal and Madagascar. Once the service seeker and the traveler are connected, they can agree on the nature of the exchange and define the starting point and the place of arrival as well as the conditions of transaction and price. In addition to its financial efficiency, the service is environmentally friendly as is reduces the number of trips and packaging.

Beyond e-commerce and enhancement of logistics services, digitalization is also used to develop the informal retail space. TradeDepot, a Nigerian startup, hosts a platform enabling millions of kiosks to access real-time prices and discounts and enables ordering these products as well as quick delivery. The order is then transferred to the nearest warehouse where TradeDepot ensures visibility and traceability to manufacturers and brands, which can optimize their deliveries to retailers, improve the pricing of the products and benefit from a direct communication channel with small retailers.

> **"Logistics is therefore the first challenge for digital and bricks & mortar retailers, who cannot rely on strong and price-relevant logistics & delivery specialists like in Western countries"**

The customer as a partner, developing business and a sense of belonging

Retailers may use individuals to complete more retail functions, smartphone being essential for geo-localized service propositions and as a mobile office.

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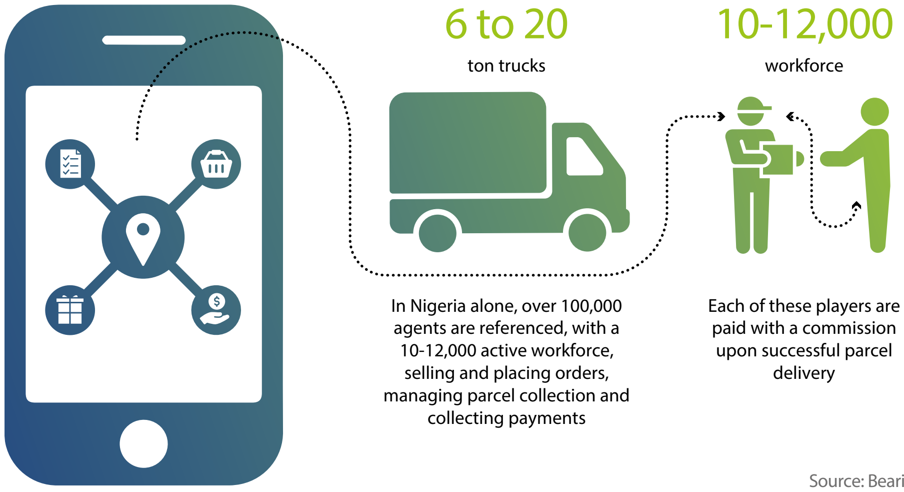

Source: BearingPoint

Recommendations for Western retailers

Western retailers are also struggling with last-mile delivery, from a store or from an e-commerce warehouse, which requires heavy investments to offer same or next-day delivery time to the customers.

- Consider partnerships with fulfillment specialists, in order to offer advanced level of service to the customers, while benefiting from investment mutualization. A player such as Ocado, the UK-based largest grocery retailer in the world, is capitalizing on its advanced end-to-end operating solution and know-how to provide white-label services for omni-channel grocery retailers. Ocado customers for such services include UK-based Morrissons or Monoprix in France.
- Leverage communities of people to facilitate the last-mile delivery in a more cost-effective way while creating a sense of belonging for the retailer. Customers involved in the value chain are more loyal to the brand, because they are not only considered as clients but also as partners as they participate in something meaningful. Some retailers are already developing such initiatives, with startups such as well-known San Francisco-based Instacart, which delivers groceries from local stores for retailers, leveraging geo-localized individuals who register to the platform and become affiliates. Instacart works with over 300 retailers, including Costco, Walmart, Albertson's, Aldi, Sam's Club, Kroger or Loblaw. Other startups have invested in that market, e.g. French startups Yper or Shopopup. Walmart has also embraced a hybrid approach: instead of directly delivering each internet order, company trucks drop off parcels in a store close to the recipient's address. The employees of the store can then choose to deliver these parcels to their clients on their way back home.

Enhancing efficiency while maintaining a lean organization – leveraging people to manage distribution channels

Distribution remains informal at 90% in sub-Saharan Africa, with small independent businesses that sometimes do not follow their agreements with brands. There is also often a big gap between roll-out plans and the reality in the field.

Optimetriks is a crowdsourcing start-up that relies on an information collection app to help retailers or brands better manage their distribution in Africa. The company proposes assignments on the platform to which everyone can answer. Assignments can be very diverse, from registering the address of a beauty shop in a dashboard as soon as it is seen on the street to identifying the brands sold in a shop, taking a picture of the display. This process allows the brands to collect relevant information such as pricing and availability quickly. The start-up has already more than 15 key account customers, including Nestlé, L'Oréal and Total.

Jumia Force is a multi-layer sales system. In Nigeria alone, over 100.000 agents are referenced, with ten to twelve thousand active ones, selling Jumia products in their neighborhood, placing orders on their behalf, managing parcel collection and collecting payments. J-Force is currently developing additional services, including price checks in physical stores. Hundreds of daily ultra-local price checks are entered on the platform daily by a community of users and agents, enabling Jumia and its marketplace merchants to adapt their prices when necessary. This community can be mobilized for other tasks as well, such as pre-launch surveys for brands with very qualitative feedback within one week.

Methodology

The target group for our research was early adopters of technology for shopping. To qualify as an early adopter, a person must have completed four of the following actions within the last 30 days:

- Ordered something online for home delivery or to someone else at another address
- Ordered something online to pick up in a store
- Downloaded a coupon onto mobile
- Paid for a product or service with an app on a mobile
- Bought something through a link on a social media page, such as Facebook, Instagram, or Snapchat
- Watched YouTube videos that demonstrate things the person wanted to buy
- Kept a "wish list" on a retail website of things things the person may want to buy in the future
- Ordered from a kiosk in a store

Other survey details:

Fielding period: September 5-19, 2017

Sample Specification:

- China: 205
- Japan: 218
- South Africa: 212
- Nigeria: 207

Shopping criteria: responsible for at least some consumer product shopping for the household

Affinity for technology: early adopters of technology for shopping

Age: Millennials, 20-36, born between 1981 and 1997

Recommendations for Western retailers:

- Consider leveraging platform-based services for price checks and stock availability. This should be a priority for today's Western brands and retailers, as they still struggle for price checks in physical stores: provided by third parties, they are expensive and not always reliable. In a similar idea as J-Force in Nigeria, French startup Mobeye is an interesting candidate. Individuals who register on the platform through an app are offered short geo-localized "assignments": specific questions to answer in a specific store at a given point in time. These include checking assortment/ merchandizing, and potentially sending pictures so that the regional director may check the correct application of the merchandizing plan. Assignments are paid up to 10 Euros, making it very cost effective for brands and retailers.

Conclusion

At first glance, western retailers may not think they have much to learn about retail from countries such as Nigeria or South Africa. However, upon closer review, these two countries, though very different in their level of retail maturity and marketspace, can provide significant inspiration. The leap-frogging effect is one such example. Having less and trying to do more is a recurring theme amongst western retailers. Africa has proven that it doesn't take significant resources to think creatively. In addition, the concepts of community, social commerce, and influencers can be leveraged by any retailer anywhere in the world in today's rapidly developing platform economy. Western retailers only have to get outside of their comfort zone to leverage what Africa has to offer.

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