The Rising Middle Class of Africa
Why is the Middle Class still Interesting?

Globally, the middle class segment is growing, with its population expected to increase by ~2.7 times from 2009-2030 and consumption set to triple. Furthermore, the middle class is becoming empowered with various improved facilities, such as education, infrastructure, and technology. As a result businesses should be looking for opportunities to meet the new demands of a fast-growing global middle class, particularly in emerging markets across Africa and Asia.

“The middle class will increase in influence as its ranks swell to 3.2 billion by 2020 and to 4.9 billion by 2030. The middle class will be the protagonist of the universal spread of information societies…Over the coming 20 years, the world will likely evolve from being predominantly poor to mostly middle class, though the change will be geographically uneven”

— Institute for Security Studies European Union (EUISS), ESPAS\(^a\), 2011

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<th>Empowered</th>
<th>Growing</th>
<th>Increasing Consumption</th>
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<td>- Improved accessibility to education, basic amenities, infrastructure and technology, has led to the empowerment of the middle class which is resulting in social and economic progress across the globe(^1)</td>
<td>- From 2009-2030, the global middle class population is expected to increase ~2.7(^2) times its size</td>
<td>- With the growing middle class, the total expenditure from this segment is expected to increase from USD 21.3 Bn in 2009 to USD 55.7 Bn in 2030, based on 2005 PPP dollars(^2)</td>
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<td>- By 2022, the population of the middle class is expected to surpass that of the poor in the world(^1)</td>
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Opportunity to Tap the Middle Class

“Companies will need to change their strategic direction to capitalise on new demands from a fast-growing global middle class, particularly in the emerging markets”\(^3\) — Ernst & Young, 2011

Note: \(^a\) European Strategy and Policy Analysis System
Source: \(^1\) EUISS, ESPAS, 2011; \(^2\) OECD, 2010; \(^3\) E&Y, 2011

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Historically, growth of the middle class has given leverage to many developed and developing economies to grow rapidly. For example, in the last decade, we’ve seen the BRIC economies experience rapid economic growth, fuelled by an increase in middle class consumption.

### Developed Economies

- Since the early 1970s, consumption in the US has been driven primarily by the high expenditure of its middle class.
- In 2010, despite of the economic downturn, the total consumption in the US amounted to USD 10 Tr, primarily driven by the middle class.
- Rise in middle class consumption played a major role in Japan’s growth, since the 1950s. The rising middle class also led to increased urbanisation.

### Developing Economies

- The Brazilian middle class expanded from 38%-52% of the total population between 2002-2012.
- In 2012, the Brazilian middle class accounted for 38% of the country’s income and household consumption.
- During 2000–2010, more than 50% of the Russian population moved to the middle class segment, the highest growth rate among emerging economies.
  - During the same period, the middle class expenditure tripled.
- The Indian middle class increased from 2.7% of the total population in 1995–96 to 12.8% in 2009–10. The expenditure rate increased from 6% in 1985 to 18% in 2005.
- Emergence of the middle class (largest in absolute numbers, globally) and increased urbanisation have led to increased consumption in China.
  - During 2000–2010, middle class consumption in China grew at a CAGR of 21.8%, reaching USD 1.02 Tr in 2010.

Where is the Next Opportunity?

Africa, is expected to benefit significantly from its growing and evolving middle class segment. According to AFDB\textsuperscript{2}, the African middle class is the fastest-growing middle class segment, across the globe. The reduction of income inequality, a robust and growing private sector, stable and secure employment, quality and accessible tertiary education and a well-developed infrastructure are all driving the impressive growth of this segment.

“Africa’s middle class is a reality and widening by the day. It is a trend marked by changing lifestyles, greater spending power, more recreational time, the harnessing of technology and a new political assertiveness and cultural self-confidence”\textsuperscript{1} — The Guardian, 2011

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<td>Stable and secure employment</td>
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Growth in the Middle Class\textsuperscript{b} Population, Africa, 1980–2010\textsuperscript{2}

<table>
<thead>
<tr>
<th>Year</th>
<th>Population</th>
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<tbody>
<tr>
<td>1980</td>
<td>482 million people</td>
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<tr>
<td>1990</td>
<td>634 million people</td>
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<tr>
<td>2000</td>
<td>810 million people</td>
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<tr>
<td>2010</td>
<td>1,021 million people</td>
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Note: \textsuperscript{a} The middle and floating classes in Africa have a per capita consumption of USD 2 – 20 per day.

“Africa is stabilising...It’s better for companies to take positions right now to have new growth drivers when other markets start to mature”\textsuperscript{3} — Jean-Christophe Kugler, Senior Vice President, Africa, Renault, August 2012

Africa’s middle class growth has outpaced overall population growth. Furthermore, growth of the working age population and the high rate of urbanisation in Africa is expected to contribute to the rising middle class.

Note: \textsuperscript{a} African Development Bank
Source: \textsuperscript{1} Guardian, 2011; \textsuperscript{2} AFDB, 2011; \textsuperscript{3} International Business Times, 2012
Countries such as Tunisia, Morocco and Egypt, have a high concentration of existing middle class, while South Africa is expected to become the largest middle class segment by 2030. However, the opportunity for growth is to target not at a country-level but across a cluster of countries which show similar behavior in the middle class population.

### Size of Middle Class in Total Population

- **Tunisia** has the highest percentage of middle class population at 89.5%. This can primarily be attributed to the improved economic policies, such as price liberalization, tax reduction, and the possibility of national currency conversion.
- **Egypt’s middle class**, accounting for 79.7% of its total population, is witnessing expansion, which combined with economic liberalization in recent years is driving the country’s growth.
- At 84.6%, **Morocco** has the second highest middle class percentage, observing growth due to the rising revenue per capita and enhanced economic access.
- Around 46.6% of the population in **Ghana** belongs to the middle class which is gaining strength due to increased jobs, wealth, and political participation.
- **Gabon** has 75.4% of its population in the middle class, an emerging segment primarily comprised of civil servants.
- The middle class in **Botswana** constitute 47.6% of the total population, with expansion driven by the significant economic growth in last two decades.
- **South Africa** has 43.2% of its total population in middle class and is forecasted to become the largest new middle class by 2030.

The African middle class is a consolidated segment, with small families, high spending, considerable savings, and access to major consumer durable goods, private healthcare and education.

### Middle Class Family Demographics

- The typical middle class household tends to have fewer children than their lower class counterparts; they tend to invest more in the nutrition and education of their children.
- Most middle class households do not rely completely on public healthcare services and tend to seek private healthcare services for their families when necessary.

### Spending Pattern

- The ‘upper middle class’ in Africa spends between USD 10–20 per day (2005 prices). Owing to the disposable income, they are able to consider alternatives to essential goods and services such as private schooling.
- The ‘lower middle class’ spends between USD 4–10 per day (2005 prices). They live above the subsistence level and have the ability to save and consume non-essential goods and services.

### Habitation and Lifestyle

- Middle class families are concentrated around urban centers and along the coasts of Africa.
- Most middle class households possess major durable goods such as refrigerators and telephones; most also own a motor vehicle.
Baba represents the story of an average middle class African, highlighting the kind of family, education, employment, income, expenditure, and lifestyle he possesses.

**Baba and his Family**

Baba is married, and has 4 children—the oldest being 14 years old and the youngest 6 years old. Baba works Monday-Friday, while all his children attend school. Baba enjoys spending time with his family and treating them to entertainment offerings, such as watching a movie at the cinema.

**Baba's Professional Life**

Baba works as a business-banking consultant. His annual expenditure is about USD 4,500. Baba completed his schooling in Nigeria and went on to receive tertiary qualifications from the University of Ghana. He holds a postgraduate degree in corporate finance.

**Baba's Lifestyle**

Baba lives in a rented house in the suburbs of Abuja. His house is equipped with modern amenities—household appliances such as a refrigerator, and other electronics including a flat screen television. Baba owns a sedan to transport his family around safely, and is planning to purchase a home soon.
Baba's lifestyle and daily routine highlight that he is well qualified, has a good job with a foreign bank, access to products from reputed brands, and can spend money on entertainment, outings and healthcare for his family.

Baba starts his day with a bowl of Wheatbix, a banana and a cup of Nescafe coffee. After his morning shower he puts on his Chino’s pants and his Lacoste shirt, jumps into his new Chevrolet Cruze sedan and leaves home.

Baba heads to his doctor’s office with his children for their annual vaccination shots. After rewarding them with chocolates for taking the injections bravely, Baba takes them to the local private school where his children receive a quality education and take part in multiple sporting activities.

Once his children are safely at school, Baba heads to his office—one of the foreign banks that have recently entered his country. During the course of the day, Baba attends important client meetings, including one with an entrepreneur looking to secure funding to expand his construction business into a neighbouring country.

At the end of another hard working day, Baba sits in a Cappello restaurant awaiting the arrival of a friend. While waiting, Baba uses the time to pay his utility bills and book movie tickets for his weekly family outing, online, via his smartphone.

Baba’s friend, an estate agent, finally arrives. He has brought along a contract for a house, in an upcoming residential development, which Baba intends to purchase. Baba is very excited as the new development has good security and will help ensure his family’s safety.

Source: Renaissance Capital, 2011; Deloitte, 2011
Impact on FMCG Sector

The middle class is driving the growing demand for consumer goods in Africa, resulting in an increasing opportunity for both local and global FMCG manufacturers, suppliers and retailers.

Africa’s middle class has a direct impact on the growing demand of consumer goods across the continent

- Compounded annual GDP growth per capita in Africa is expected to be ~4.5%, from 2010 to 2015\(^1\)
  - This is expected to boost consumer spending in the continent by 35%, over this period\(^1\)
- African consumers are influenced by global consumer trends and aspire to have mobile phones, the latest music CDs and other non-essential goods

This dramatic growth is creating opportunities for FMCG suppliers and retailers

- Of the Top 50 global CPG manufacturers, 70% have an established presence in Africa\(^2\)
  - Africa contributes more than 5% of the global sales, to a fifth of these Top 50 companies\(^2\)
- Many retail giants, such as South Africa’s Shoprite and Wal-Mart’s Massmart chain are expanding into Africa\(^3\)

Governments welcome retail investors, as they create new jobs, provide stimulus to local business and generate tax revenues

- Regardless of the fact that India has a larger population than Africa, Africa now has more middle class consumers
- Improving business conditions, political stability and liberalisation of trade will lower the cost of doing business and lead to a wider variety of consumer goods available at cheaper prices in Africa\(^4\)

Source: \(^1\)McKinsey & Company, 2010; \(^2\)IMARA, 2012; \(^3\)Chartis, 2012; \(^4\)McKinsey Quarterly, 2010
Impact on Healthcare and Education

Demand for private healthcare and education services in Africa has grown rapidly, due to the rising middle class, which is showing interest in better healthcare and education services.

Governments of African nations have shown increasing interest towards providing better healthcare and education services

- Governments and social service organizations—including the healthcare and education sectors—employ 11% of the African labor force\(^1\)

- Interest shown by the middle class for foreign education indicates opportunities for establishing local campuses and developing strategic partnerships with foreign institutes, to satisfy this excess demand for foreign education

The growing middle class is driving the demand for private healthcare services in Africa

- “So much is changing for healthcare in Africa…Governments are beginning to implement universal health schemes and new private sector players now see opportunities in healthcare across Africa”\(^2\)
  
  – Editorial Director, EMEA, The Economist Group

Further, the middle class has increasingly shown interest in better education facilities

- A survey conducted across the middle class in Nigeria revealed that 92% have obtained tertiary education, and that education is a top priority for their children; more than half of the segment sends their children abroad to complete their education\(^3\)
Impact on Finance and Banking

The increasing wealth of the middle class and unbanked population in Africa are expected to drive growth in Africa’s banking sector.

**Africa’s banking sector has grown significantly over the past decade, and still holds potential for further growth**

- Africa’s banking assets in 2008 equalled USD 1.1Tr, more than that of Russia\(^1\)
  - However, only 23% of adults in Africa in 2011 had an account with a formal financial institution\(^1\)
- ABSA Group CEO, Maria Ramos, opines that there is growing demand for banking products and services by the middle class in Africa\(^1\)

**Half the growth seen by Africa’s largest banks has been organic, and is driven primarily by the growing middle class**

- In most of Africa’s main markets the financial sector has outgrown the GDP
- “Considering the pace at which much of Africa’s middle class is accumulating wealth, it is clear that this will provide the most fundamental pretext for banking growth across the continent”\(^2\)
  
  – Senior Analyst, Standard Bank

**Future growth in Africa’s banking sector will focus on the unbanked segment of the population**

- By 2020, financial services are expected to account for 19% of Africa’s GDP; compared to 11% in 2009
- “Retail banking will grow faster than corporate banking ... bringing in the previously unbanked population and shifting the experienced to sophisticated products”\(^3\)

  – Partner, Bain & Company

Source: \(^1\)The World Bank: Development Research Group, 2012; \(^2\)How We Made It in Africa, 2011; \(^3\)Deloitte, 2012
Impact on Technology

As a late entrant, Africa has leapfrogged the past technological advancements of the developing world. Further, the growing demand for technology products from the middle class is expected to drive even more technological advancement in Africa.

Being a late entrant has enabled Africa to leapfrog past technologies of the developing world

- There has been rapid growth of fibre-optic submarine cables for Africa, such as Seacom in 2009, connecting South Africa, Kenya, Mozambique and Tanzania to Europe and Asia
- Internet usage in Africa grew by 2,527% from 2000 to 2011, more than five times the global average of 480%

With the emergence of world-class services from telecom providers, the African telecom market has become increasingly competitive

- To meet the growing demand of the continent, investment in telecom infrastructure has grown annually by 33%, between 2003-2008; estimated annual investment in telecom infrastructure in 2012 is USD 21 Bn
- Samsung produces smart phones and other electronic devices specifically for Africa taking into account the needs and financial resources of the typical African consumer

Moreover, Africa is increasingly pacing towards mobile-technology

- Mobile money subscriptions are expected to grow from virtually zero in 2007 to 350 million, by 2015. Annual growth rates for mobile banking in Southern Africa are estimated to be extremely high—204% in Namibia, 277% in Botswana, 376% in Zambia and 473% in Swaziland

Impact on Infrastructure

The growing middle class is impacting various business sectors, creating the need to develop commercial infrastructure across the continent and driving the demand for residential infrastructure.

Due to the impact of the growing middle class on various business sectors, there is a need to develop supporting infrastructure:

- The current combined investment in infrastructure by governments and the private sector, across Africa, is estimated to be ~USD 72 Bn per annum\(^1\)
- Donor-funded infrastructure projects in Africa earn an average return of 30–40%, making these projects very attractive for investors\(^1\)

The continent has witnessed a strong need for commercial infrastructure development:

- “In addition to power, the other main area of opportunity is in the commercial development of infrastructure right across the continent. The private sector can play a huge role in developing and operating power, transportation and other key infrastructure. It’s critical to Africa’s social and economic development…”\(^2\)
  
  – Partner at Canada’s CPCS

The growing middle class is also driving the demand for residential infrastructure in the continent:

- “The bank’s development arm is funding the construction for middle-class housing on the outskirts of Nairobi and Accra...They typical knee-jerk response to this is to ask, “How can you build middle-class housing when so many Africans lack basic housing?” The answer: because Africa has the fastest growing middle class in the world”\(^3\)
  
  – Director, Renaissance Capital

Source: \(^1\)BBC, 2012; \(^2\)Ernst & Young, 2012; \(^3\)Slate.com, 2012
Investment by Global Players in Africa

Due to the growing African middle class, several global players are trying to tap the opportunities in Africa. Major global players from various sectors, including Retail, F&B, Automotive, and Technology, have already invested in the continent and wish to expand their presence in Africa.

“We also recognize Africa's extraordinary growth potential, which is one reason we plan to spend significantly in the continent during this decade. Africa's growing middle class and increasingly younger population creates growth opportunities for our business”

— Muhtar Kent, Chairman & CEO, Coca Cola, 2012

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<th>Several Global Players have Entered Africa…</th>
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“Several Global Players have Entered Africa…

Retail

Automotive

Technology

| F&B                                      | |
| Nestlé                                   | |
| Shoprite                                 | |

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“Opportunities abound throughout Africa, despite the challenges of poor infrastructure, disparate regulatory environments and ferocious competition. Spending on ICT infrastructure is expected to total more than US$23 billion a year over the next few years”⁷

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Recently, economists and industry experts, along with global agencies, such as the OECD, AFDB, IMF and World Bank, have been vocal about the growing global middle class population, particularly in the emerging markets. In developed economies, such as the US, UK, and Japan, middle class consumption has been one of the significant drivers of growth. Development in the BRIC economies over the last decade has also been fuelled by the rising consumption of the middle class. As this consumer segment is one of the biggest driving forces behind demand for various goods and services in any particular economy, it cannot be ignored.

If we consider opportunities in emerging markets created by the middle class segment, Africa tops the list. In the last three decades, the African middle class population has tripled and is considered the fastest growing middle class in the world. Africa’s middle class population growth has outpaced overall population growth. Income equality, accessible education, secure employment, changing lifestyle, growing private sector, and access to improved infrastructure, healthcare and technology has been driving this growth in Africa.

Since Africa is divided based on country borders, ethnicities and cultures, businesses need to look for opportunities across clusters of countries with similar characteristics. The African middle class cannot be ignored, and businesses should be proactively looking at Africa for market entry and long-term expansion opportunities, and develop their strategies accordingly.
If You Are…

- Looking to understand preferences of the middle class in the various countries in Africa
- Looking to understand various consumer segments and their aspiration and requirements in Africa
- Interested in finding out about segments that contribute the maximum revenues?
- Looking to evaluate growth opportunities in a particular industry or country in the continent
- Interested in identifying market opportunities in a specific country
- Looking to evaluate partnership or acquisition opportunities in a particular industry or country

…Contact Us

Grail Research, a division of Integreon at +27 11 685-0700 or alternatively email us at south.africa@integreon.com

Johannesburg Office Address:
1st Floor The Lodge, Hunts End, 38 Wierda Road West, Wierda Valley, Sandton 2196