



Harnessing Africa's potential

A growing middle class and more disposable income means luxury companies are eyeing the continent – although many are unsure of the best tactics for growth

Described as a “new frontier” at a recent conference to promote the luxury industry in Africa, the continent's growing middle class and high net worth (HNW) segment make it an interesting proposition for the world's luxury goods brands.

However, there are various economic and social factors that have impeded growth, including poor infrastructure and political issues. According to Capgemini's

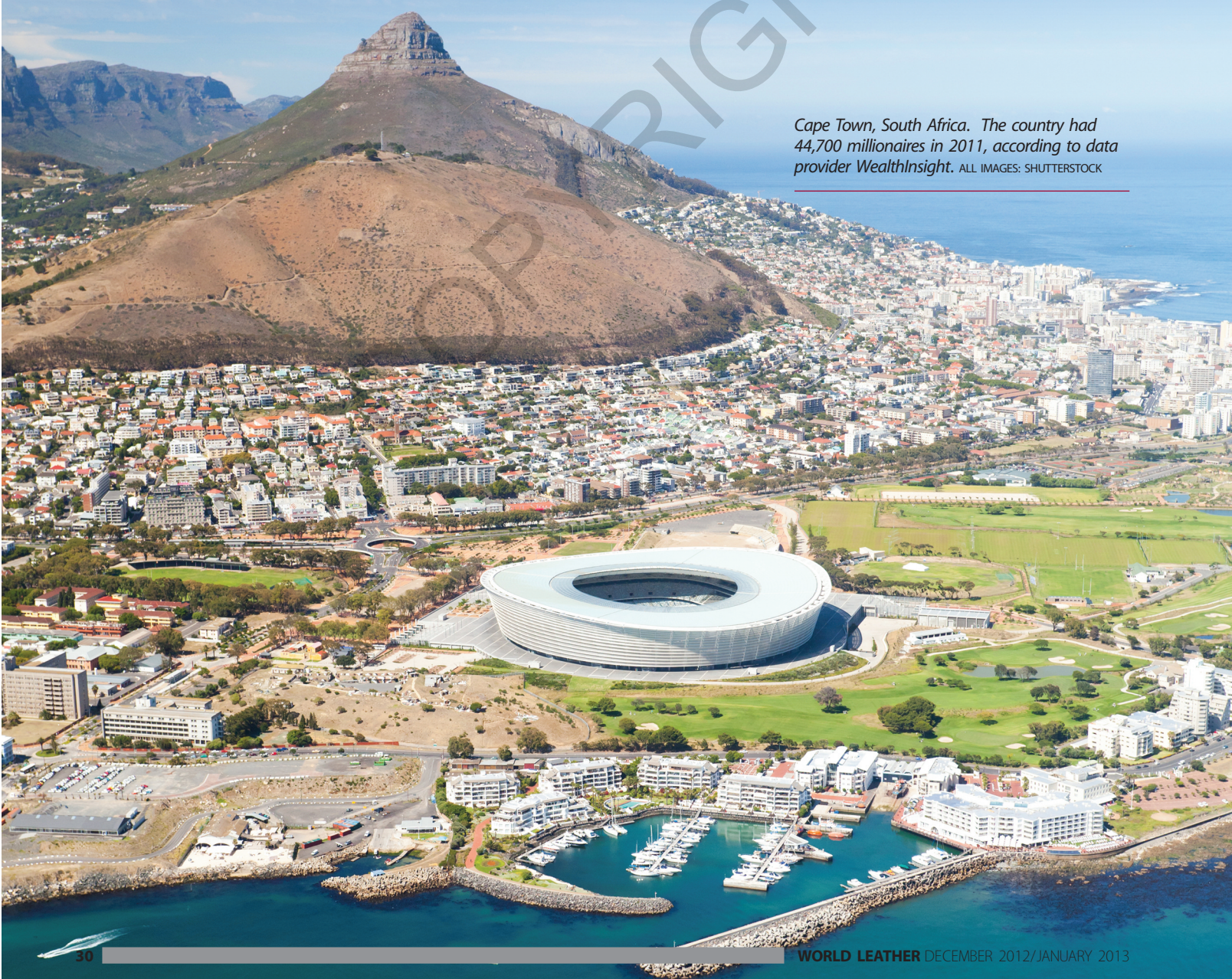
2012 World Wealth Report, HNW individuals in Africa had \$1.1 trillion in investable assets in 2011 – not far behind the \$1.7 trillion available in the Middle East – yet the approach to the continent by luxury brands has, in the main, been very different.

"In general, the luxury industry is quite ignorant about the real dynamics of doing business in Africa," Uche Okonkwo, executive director of consultancy Luxe

Corp, told Reuters. "People just don't understand Africa. It's just too complex. They think it's a country."

Echoing his sentiments at The Promise of Africa, the Power of the Mediterranean – the Milan-based luxury conference in November – Guillaume de Seynes, managing director of French leathergoods group Hermès, commented: "We have not yet found any opportunities to make business in Africa or to open a store in

Cape Town, South Africa. The country had 44,700 millionaires in 2011, according to data provider WealthInsight. ALL IMAGES: SHUTTERSTOCK





Africa. We've looked at Egypt, Morocco and South Africa. These markets are maybe not yet mature enough to welcome a Hermès store."

However, companies are dipping their toes in the water. The conference was attended by Jean Paul Gaultier, Vivienne Westwood and Manolo Blahnik among others, all wishing to find out how best to approach this emerging destination. Precious Moloi-Motsepe, executive chairman of African Fashion International, said: "Whereas Africa has been a source of inspiration and has been seen as different and interesting, it is now seen as a producer of beautiful artwork, fashion and luxury goods, as well as being a possible consumer of high fashion and luxury goods."

Italian fashion house Gucci is looking to enter Nigeria and Angola, and Porsche has opened a showroom in Lagos, Nigeria. The luxury carmaker sees huge potential in the market and aims to sell about 300 units per year over the next three years – although in South Africa it sells 13,000 per year, an indication of how well developed the southern country is compared with its African counterparts.

Winds of change in South Africa

Many of the major international brands have a presence in South Africa, including Louis Vuitton, which has standalone stores in Johannesburg and Cape Town, and Gucci. Closer to home, local leathergoods companies that are thriving include Cape Cobra Leathercraft, whose bags are favoured by Princess Charlene of Monaco. The brand specialises in Nile crocodile and ostrich, both indigenous to South Africa, as well as python, lizards and stingrays from Asia. It employs 90 people, but exports 80% of its annual 6,000-piece production. Robert Schäfer, managing director of the 40 year-old company, said he is beginning to see a change, as an increasing number of sales are to local people. "Our market continues to be mainly the traditional luxury customer, but as the new middle class continues to strengthen, we believe a shift may take place," he commented.

While the growth of retail sales in South Africa has slowed in recent months, sales of leathergoods and footwear have increased. Recently published figures show overall retail sales in September grew 4.4%, which was slower than expected, but textiles, clothing, footwear and leathergoods climbed 8.8%.

The latest figures available from the South African Footwear and Leather Export Council show that in 2011, footwear exports to other African countries



Porsche has opened a showroom in Nigeria. Its managing director, Julian Hardy, said: "We are confident the market is going to expand dramatically. Motor manufacturers see Sub-Saharan Africa as the growth market." CREDIT: PORSCHE

grew 16% in volume to 2.2 million pairs (from 1.9 million in 2010) and 15% in value to 162 million rand (\$18.6 million), up from 141.2 million rand the year before. To the rest of the world, South Africa exported 383,500 pairs of shoes worth 40.6 million rand in 2011, compared with 350,400 pairs worth 37.2 million rand in 2010 – a 10% growth in volume and value.

The biggest market by far for footwear exports from South Africa was Zimbabwe, which took 938,000 pairs in 2011. Second was Zambia with 507,000 pairs, followed by Mozambique with 220,000 pairs. In terms of the rest of the world, Singapore was the largest recipient, importing 68,000, closely followed by Australia, which imported 65,000 pairs.

In a further sign of growing wealth and demand for luxury goods in South Africa, carmaker BMW is expanding its production facility in Rosslyn, South Africa – which is also a boost for tanners that supply the automotive industry. It moved production to 24 hours a day at the end of November, creating 600 jobs at the plant and more than 1,000 jobs among its suppliers. This also boosted its production capacity by almost 70% to more than 80,000 units a year from 2013, and will allow it to more than double the number of BMW 3-Series units it exports to markets such as the US, Canada, South Korea, Japan and China. ☉

Zambia: India to invest in leather sector

A two-day event promoting business links between India and Zambia took place in Lusaka at the start of November.

In advance of the event the Indian Business Council of Zambia said that foreign direct investment from India into the African country has reached \$3 billion. The organisation said sound economic policies in Zambia had encouraged investors from India.

Executive secretary Sanjai Chaturvedi said: "Indian investment into Zambia has increased and will continue to rise because more is coming and I am happy to say that a business delegation will be in the country to look for investment opportunities in different sectors."

He said leather was one of the sectors the business delegation is looking to invest in, along with textiles, agriculture, construction, steel, mining, education and pharmaceutical. ☉



Ethiopia: Salt shortage hampers leather industry

Much-needed salt is not reaching Ethiopia's tanners.



When the Ethiopian government ruled in July that iodized salt could no longer be traded except for industrial purposes, the country's tanners warned that this could have serious implications for the leather industry.

Now the Ethiopian Leather Industries Association has been forced to request salt from Pakistan, India and Yemen as the supplies run desperately short, according to local press, despite more-than-adequate national production to meet the 3,000 ton-per-month demand.

Truckloads of salt are reported to have been held up at ports while paperwork was completed, forcing leather producers to buy it on the black market at four times the cost.

"We cannot afford to suspend production," said Dagnachew Demelash, finance manager of Ethiopia Leather & Tannery Share Company, which processes

goat and sheep skin and needs 200 tons of salt to preserve the material on a monthly basis.

The leather association is seeking a solution from the Ministry of Trade, and The Ethiopian Food, Medicine & Health Care Administration and Control Authority.

The chairman of the salt producers association told weekly publication *Addis Fortune* that its board is discussing the matter and will start providing the salt in the coming few weeks. No updates were available at the time of going to press. ☺

LEATHER COURSES ESTABLISHED WITH HELP FROM INDIA

The Ethiopian Leather Industry Development Institute has launched leather training courses to boost skills of workers as processing

techniques within the sector modernise.

The training programme was launched in eight technical and vocational colleges in Addis Ababa and the Oromia region, with 65 students already enrolled.

It is expected that some of the students will travel to India to attend tertiary level instruction, according to an arrangement between the Indian Central Leather Research Institute (CLRI) and Addis Ababa Institute of Technology. The CLRI has agreed to train 30 professionals and five students working towards their tertiary degree.

The income from the export of leather has shown notable improvement after the nation banned the export of crusted raw skins and hides, according to Berhanu Serjebo, director of corporate communication at the Ethiopian Ministry of Industry.

The country earned \$112.1 million from the export of leather and leather products during last Ethiopian budget year, he added. ☺

Botswana: Debate over Francistown abattoir

Local politicians in Francistown, Botswana's second city, are at odds over what best to do with a city-owned abattoir that has not worked for more than a year.

Some members of the city council want to put the facility in the hands of a private-sector meat company, but others believe demand for its services in the north-eastern city is high and that with a small investment in maintenance, animal slaughter could begin there again soon.

One council member recently told local media that he had asked a consultant from South Africa to look at the abattoir and had been assured that a previous quote for putting the facility back into working order was exaggeratedly high. ☺

Gambia: 200,000 cattle at risk

A cattle disease discovered in the Gambia could wipe out 200,000 heads – or half the African country's stock – according to a senior agricultural minister.

Lamin Sain said the government has launched a rapid response task force after contagious bovine pleuropneumonia (CBPP) was discovered, to control the situation as soon as possible.

He said a vaccination programme would commence at the beginning of December and advised farmers not to move cattle, to minimise risk of contagion and to prevent the disease spreading to uninfected herds.

He estimated the loss would be nearly two billion dalasis (\$64.5 million), based on statistics from the Food and Agriculture Organisation of the United Nations.

The 2011 agricultural census in the country estimated the cattle population at 390,000 heads.

CBPP is a lung disease that affects cattle, buffalo and yaks. It is caused by bacteria and has an incubation period of between three weeks and six months. ☺



Nigeria: Minister urges South Africans to invest within the continent

Nigeria's minister for trade and investment, Olusegun Aganga, was the keynote speaker at a discussion forum in Johannesburg in mid-November aimed at boosting trade between his country and South Africa.

The minister told the audience that "Africa's time has come" and said that all African countries should look closer to home for trade and growth. He said: "For more than 50 years Africa has exported its minerals and other precious resources to the developed world. Those days should be over."

He said that South African companies should travel north and invest in Nigeria, with leather production one of the key areas of opportunity, along with textiles and food processing. "We extend the hand of friendship to South Africa," he concluded. "Together let us transform our continent." ☉

Algeria: Skin collecting is child's play

Reports from Algeria suggest the activity surrounding skin collection in the city of Oran following the Muslim festival of Eid-al-Adha, which in 2012 took place at the end of October, is changing.

A long-standing tradition of families using rudimentary methods to tan at home the skins of the animals they slaughter for the sacrifice that is central to the feast appears to have all but died out.

Instead, boys are going from neighbourhood to neighbourhood in the days following the festival to find sheepskins among household waste, loading them onto carts and selling them on to local tanners for a price of just over \$1 per skin. Tanners are happy to buy them up because of the value of tanned sheepskin in the international market in recent months.

One boy said he was typically able to find 45 skins a day. ☉

Africa wide: Initiative aims to eradicate PPR in livestock



The World Organisation for Animal Health (OIE) and the Bill & Melinda Gates Foundation have launched an initiative to tackle peste des petits ruminants (PPR), a viral disease of goats and sheep that affects the skin, rendering it unsuitable as leather.

They will establish a vaccine bank and develop a pilot strategy that aims to progressively eradicate the disease in several African countries.

OIE director general Dr Bernard Vallat said: "Given that animal diseases do not respect geographic or administrative boundaries and jeopardise the animal health status of neighbouring countries and regions, this first 'goat grant' is a fundamental step towards the control and progressive eradication of PPR in the targeted region with possible future expansion to Africa or even globally based on lessons learned from this pilot project."

"PPR is one of the most economically important animal diseases and severely impacts the lives and livelihoods of the world's poorest. However, prevention, control and vaccination tools exist so we are hopeful that this first initiative marks the beginning of a regional and global control strategy for the disease to be improved and implemented with our key partners such as FAO relevant regional organisations and our member countries."

FAO SAYS 22% OF CATTLE BREEDS ARE AT RISK

The Food and Agriculture Organisation (FAO) of the United Nations has said the decline in indigenous livestock breeds around the world is "alarming".

In a statement in advance of a conference on the subject of animal genetic resources at the end of October, the FAO said many countries in Africa, the Near East and the Americas are lagging behind in efforts to halt the erosion of livestock genetic resources, which the organisation has described as "crucial for food and agriculture". A substantial gap in these efforts remains and needs to be urgently addressed, the Rome-based organisation said.

Indigenous breeds are important in agriculture, the statement continued, because they are adapted to often harsh local conditions, contain unique genetic material important for breeding programmes and are often "a livelihood bastion" for poor households because they are easier to keep than exotic breeds. "In a world threatened by climate change, breeds that are resistant to drought, extreme heat or tropical diseases are of major potential importance," the FAO added.

According to the latest available figures, about 22% of the world's livestock breeds are still classified as being at risk of extinction, although breed population figures are often unreported or out of date, making the true state of livestock diversity difficult to estimate.

Eight projects to improve the management of animal genetic resources, involving 22 countries, are already under way. ☉



Kenya: Strategy to add value to hides boosts exports by 50%

The value of Kenya's leather exports are projected to hit \$116 million for 2012, according to the Kenya Leather Development Council (KLDC), an increase of nearly 50% compared to the figure for 2011. Chief executive, Dr Mwinyikione Mwinyihija, said recently that government measures to encourage operators in Kenya to add as much value to raw material as possible on home soil before export had made a big difference.

Kenya's tanneries currently process 8.5 million small skins and 1.5 million cattle hides every year. According to the KLDC, there are also possibilities in exotic leather, fish and rabbit skins.

Established in 2011, the KLDC's role is to improve livestock size and breed, to streamline product development and to promote market expansion. It has said that its priority will be to encourage exports of finished leather and leathergoods rather than raw hides or wet blue.

One fascinating story to have emerged from the industry in Kenya in the course of this year concerns Nairobi-based leathergoods brand Adelphi, which has worked with government-appointed consultants to try to set up training, jobs and a finished leathergoods brand for groups of marginalised women.

Adelphi founder, Nalina Rupani, came up with the idea as a way of expanding her business while helping some of the poorest people in Nairobi, women, often widows, who have fled war or famine in neighbouring countries and who, otherwise, are frequently in danger of drifting into prostitution as a means of providing for themselves and their families. She has begun teaching leathercraft skills to small groups, but would like to make the set-up more formal and permanent. She wants to present collections of the leathergoods the women make as a standalone brand within the wider Adelphi range.

If she wins approval, an initial group of about ten women will formally enter the programme, making bags and belts that Ms Rupani hopes to export. She is convinced consumers in Europe and other developed markets will like the quality of the products the women can produce and that the back-story will also prove interesting. "The training is intense," she says, "and it takes years to reach the productivity and quality levels required, but this idea can help us expand and help these women find a good way to feed their children. What I want is to offer them a long-term solution." ☉



*A traditional tannery –
The Old Medina in Fès.*

Morocco: Fédic outlines plan to improve competitiveness

Morocco's leather industries federation, Fédic, has said it intended to present a new improvement programme to the country's ministry of commerce before the end of 2012. Fédic said its aim was to put in place "precise measures" to improve the sector's competitiveness both in the domestic and in export markets.

In all, 2012 was a difficult year for the Moroccan industry. Figures for the first nine months showed a decline in export earnings of around 17% at \$343.3 million (for the entire leather sector). Overseas shipments of footwear, which account for 70% of the sector's exports, declined by 20%, principally because of the downturn in the economy in the European Union, Fédic said.

The programme envisages locating tanneries in industrial zones in different parts of the North African country. Fédic has estimated that setting up tanneries in this environment will allow some operators to increase their output by around 30%, to make substantial savings in energy and other costs and, as a result, to cut substantially their production costs.

Training will be another benefit of the new programme, making the most of public-private partnerships, with training providers from outside Morocco also making a contribution. Fédic has said it believes better training of leather-sector personnel will lead to better product quality and design. The programme also envisages a far greater presence of Moroccan companies at major international industry events.

Finally, Fédic said it was determined to build into the programme a set of measures to boost the business of small and medium finished goods manufacturers in the leather sector. "A large number of enterprises is involved," the organisation has said, "often working informally. The region around Fès has around 6,000 small operators and Casablanca has between 2,500 and 3,000."

It said that, on average, these companies employ around 20 people each and, collectively, account for around 80% of Morocco's entire footwear and leathergoods output aimed at the domestic market. It wants the new programme to make it easy for these companies to "formalise their structures".

Fédic has pointed out that raw material provision is strong. In 2010 and 2011, when exports of finished products went into decline, exports of hides and skins increased by 64% in volume and by 93% in value. The organisation has concluded that the future health of the industry depends on better connections between local tanners and finished product manufacturers. It believes its new improvement programme can bring this about. ☉