

Order by Order, Nestlé Expands in Africa

By DEVON MAYLIE

JOHANNESBURG—Big food companies know they need to reach more African shoppers. But on a continent where many consumers live far from urban areas and roads often are sketchy—at best—the typical multinational corporation's supply network of ten falls short.



Nestlé SA sales agent ventures where most salesmen won't, like Johannesburg's high-crime Snake Park neighborhood.

"This is where I dig my gold," he says on a recent sales trip, passing a cow's head on display at a street butcher.

While Nestlé's usual sales staff focuses on filling shelves of big supermarkets, Mr. Mugwambane and 80 other salespeople like him hunt for tiny shops across South Africa that will buy such Nestlé products as baby food and nondairy creamers, often in single-serving packages that appeal to Africa's price-sensitive customers.

It's easy to see why the Swiss food and beverage maker makes the effort. The African Development Bank estimates that Africa's middle class—those earning between \$4 and \$20 a day—will increase to 1.1 billion people by 2060 and account for 42% of the continent's population. And the International Monetary Fund has forecast economic growth in sub-Saharan Africa at 5.25% this year and 5.75% next year, beating the global average of 4% each year.

Nestlé says it expects 45% of its sales to come from emerging markets by 2020, up from roughly 30% now. Africa is an important part of that growth. Nestlé's sales on the continent rose 6.4% to 3.3 billion Swiss francs (\$3.6 billion) last year, while global sales rose 2% to 109.7 billion francs.

That has sparked the need for foot soldiers of sales like Mr. Mugwambane—and not just at Nestlé. **Kraft Foods Inc.** is forming a network of vans to deliver directly to street vendors in South African townships. **Samsung Electronics Co.** has introduced solar-powered phones in such markets as Kenya and Nigeria, where electricity supply is patchy. And **Coca-Cola Co.** says it uses 3,200 distribution points to deliver to small shops in 15 African countries.

Nestlé's journey into emerging markets hasn't always been easy.

The company's milk business in Zimbabwe is grappling with a law requiring that 51% of a foreign company be held by local, black-owned entities. Competition in India prompted Nestlé to pull out of the bottled-water market there. And in the 1970s and '80s, the company faced a boycott over how it sold infant formula in developing countries. The company says that after that controversy, in 1981 it became the first company to adopt a World Health Organization code for marketing breast-milk substitutes.

Africa still presents challenges. About 61% of the continent's population of roughly one billion people still lives on less than \$2 a day, according to the African Development Bank. Nevertheless, Nestlé in the past five years has invested \$850 million in Africa, building up local manufacturing, expanding distribution networks and developing flavors catering to local tastes.

Some of Nestlé's experiments, such as using sales agents like Mr. Mugwambane, have shown results. Sales at the type of small stores he sells to rose 20% in August from June. And the number of small stores carrying Nestlé products in South Africa doubled for the first eight months of the year to just under 4,500.

"We are halfway where we want to be," says Dharnesh Gordhon, Nestlé's sales chief for the country.

Selling some items has been an uphill slog in competition with local products because of the relatively high price of Nestlé's items. "They are better quality but more price," says Palash Munna Barua, who runs a shop in Hillbrow, a densely populated Johannesburg neighborhood with a large African immigrant community. Mr. Barua says that when he cuts prices for Nestlé items, like chicory-based Ricoffy, they sell fast.

Around the corner, Hilary Nnaji, the Nigerian owner of Hilvegas Trading, says he has shelves full of Cerelac baby food, Klim powdered milk and other Nestlé items. After haggling with Mr. Mugwambane, the shopkeeper will receive a \$30 discount from his \$450 order.

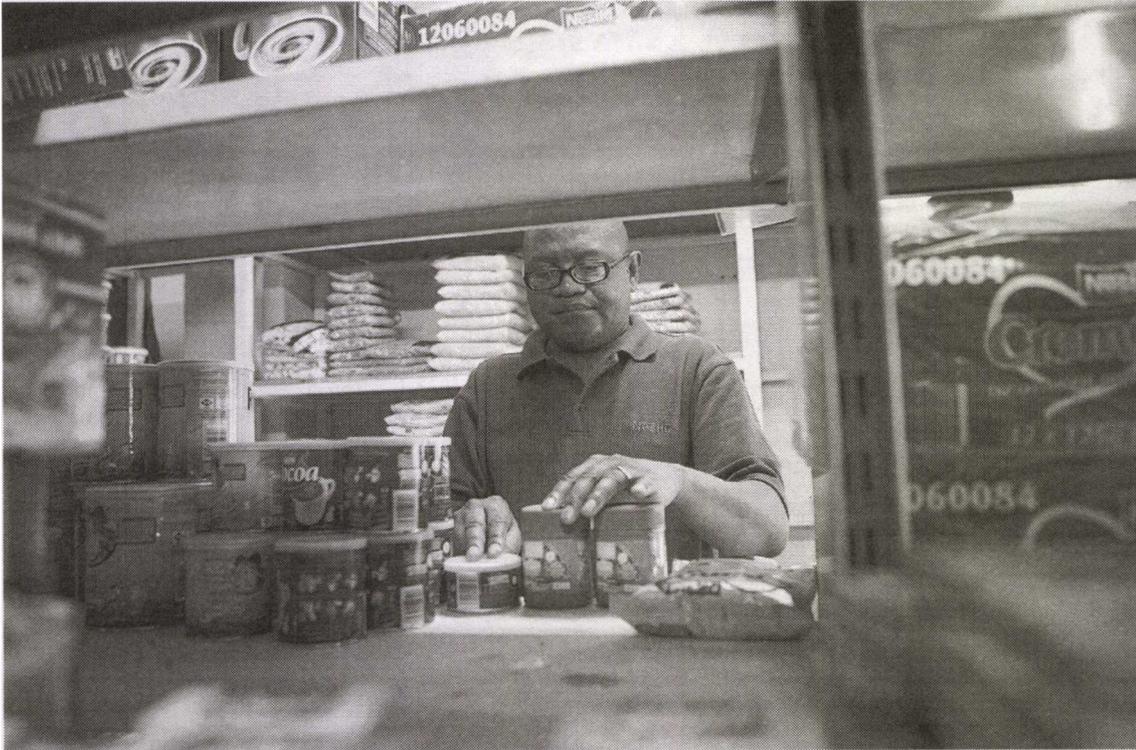
Such negotiations are common. "Here, people argue with me," says Mr. Mugwambane, who gets a 1% commission from Nestlé. He says that by agreeing to a discount, he hopes to get regular, and bigger, orders.

Small-scale delivery, often on bicycle, accounts for between 30% and 40% of Nestlé's distribution in Africa, according to Frits van Dijk, the company's former executive vice president for Asia, Oceania, Africa and the Middle East.

Back in Snake Park, Mr. Mugwambane sells Nestlé baby food to Njomane Drinks Distributors. Four years ago, the shop was essentially a shack. But as spending has increased, Njomane has expanded into a two-room concrete building.

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Nestlé agent Desmond Mugwambane arranged products at a convenience store, top, and spoke to its owner last month.