

Entering the African Beer Market: Uncovering the strategies to enable success

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Predicted GDP growth in Africa is well recorded

Africa's hopeful economies

The sun shines bright



FINANCIAL TIMES Africa calling



World Bank: Africa's economic growth to outpace average

Africa's 'lion economies' wake from their slumber

Africa
The new frontier for growth

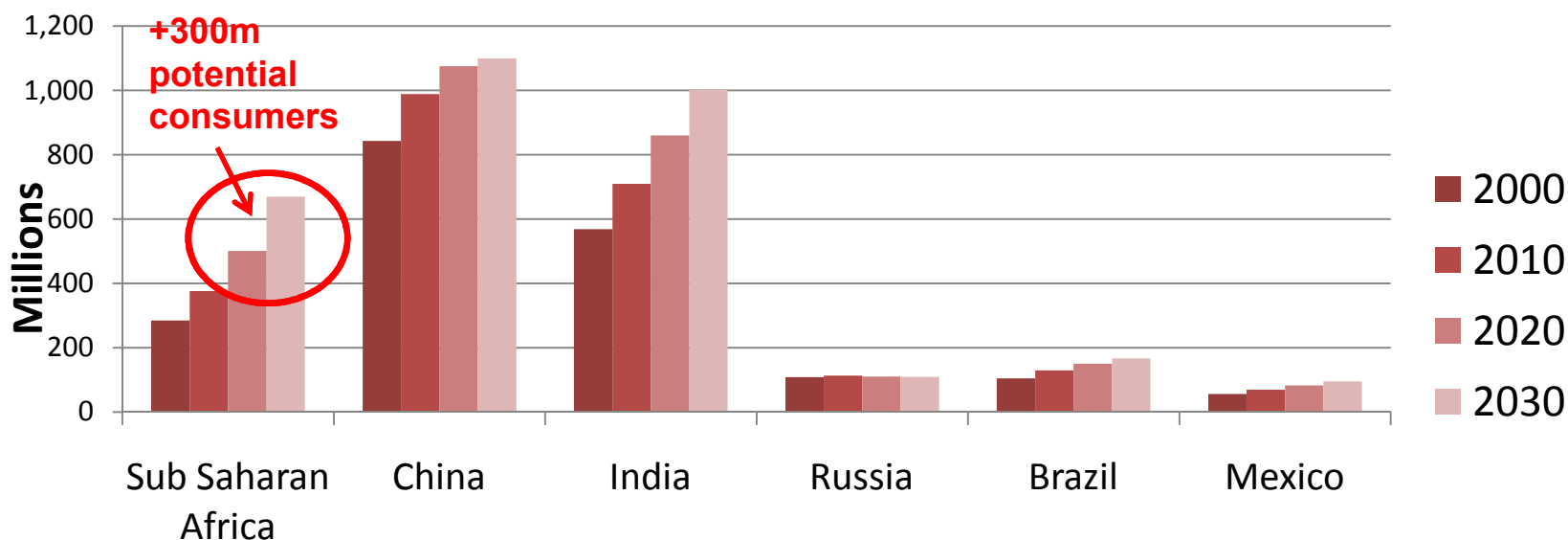


Economics and demographics will lead to an acceleration in number of consumers

....More new consumers than China, Russia, Brazil and Mexico combined, and the same as India

Adult Population* by Country, 2000, 2010, 2020 and 2030

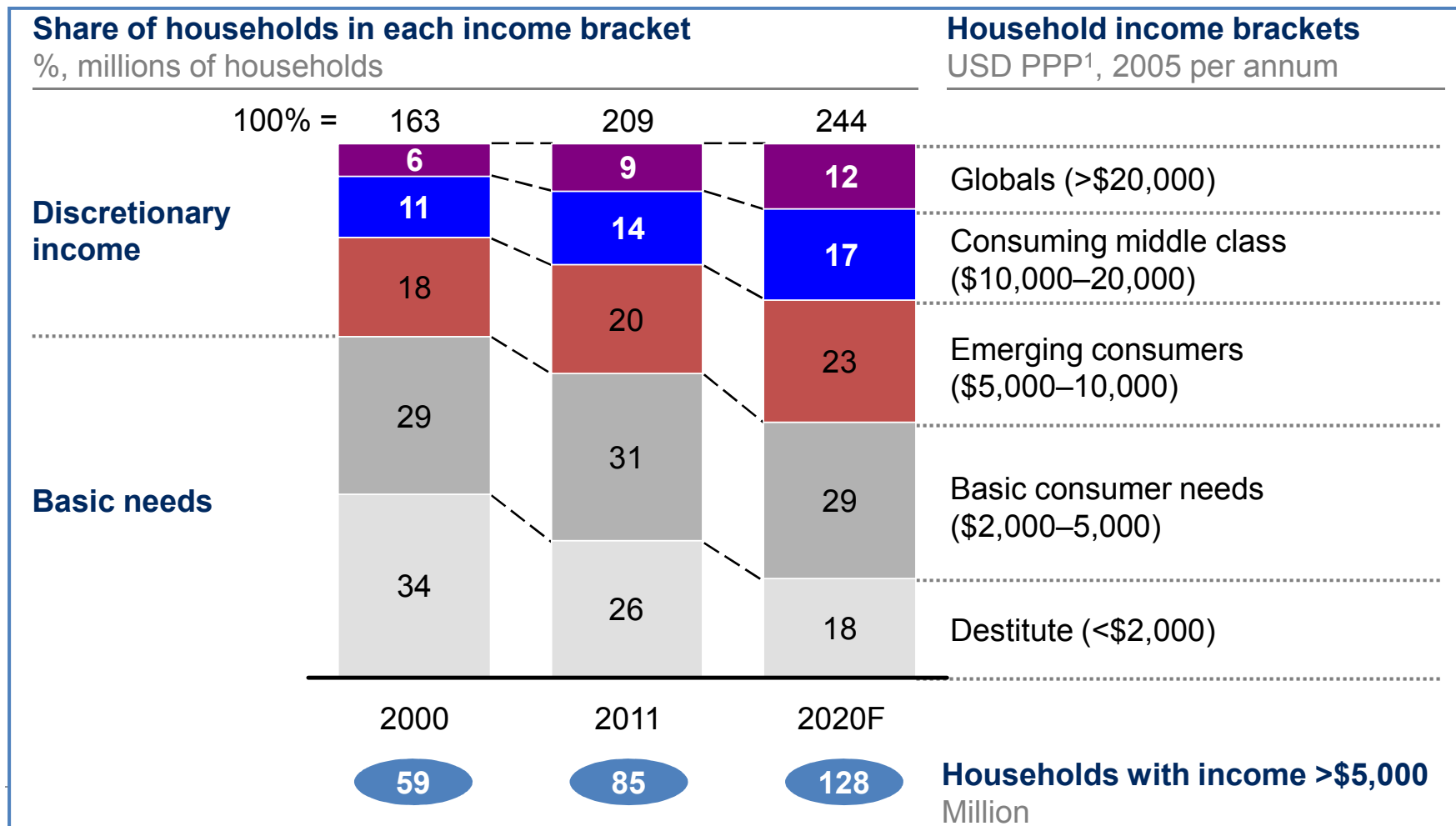
Millions of people, Sub-Saharan African Countries plus China, India, Russia Brazil and Mexico



Source: US Bureau of the Census International Database, www.census.gov, 06/11/12. Note: *LDA+ population data not available by country, hence we are using 20+ as an indicative representation of the LDA+ population.



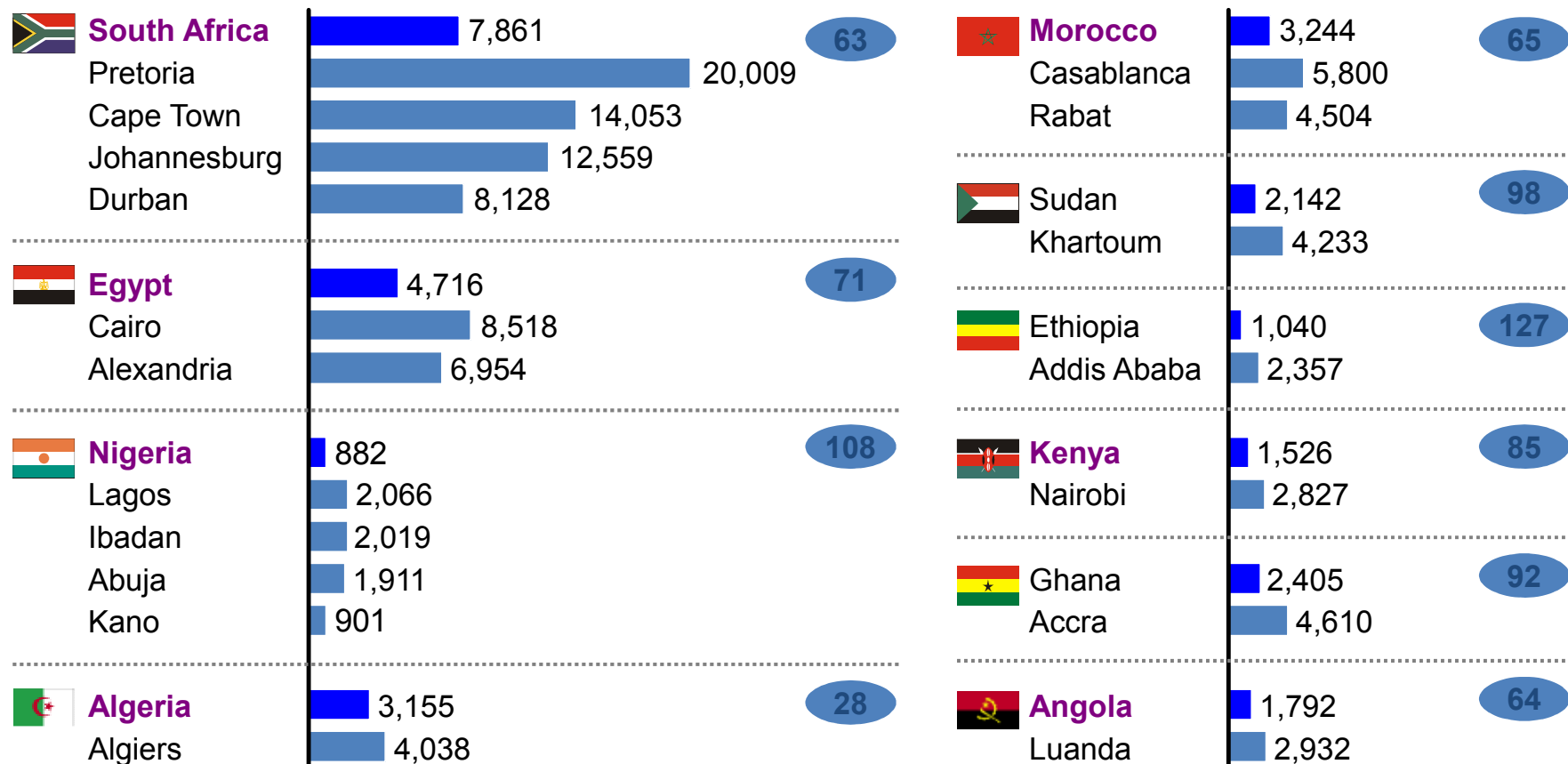
Of those consumers, by 2020, over 50% of African households will have discretionary spending power



% Avg. difference

Cities will represent 80% higher consumption per capita

Consumption per capita¹ USD PPP, 2011

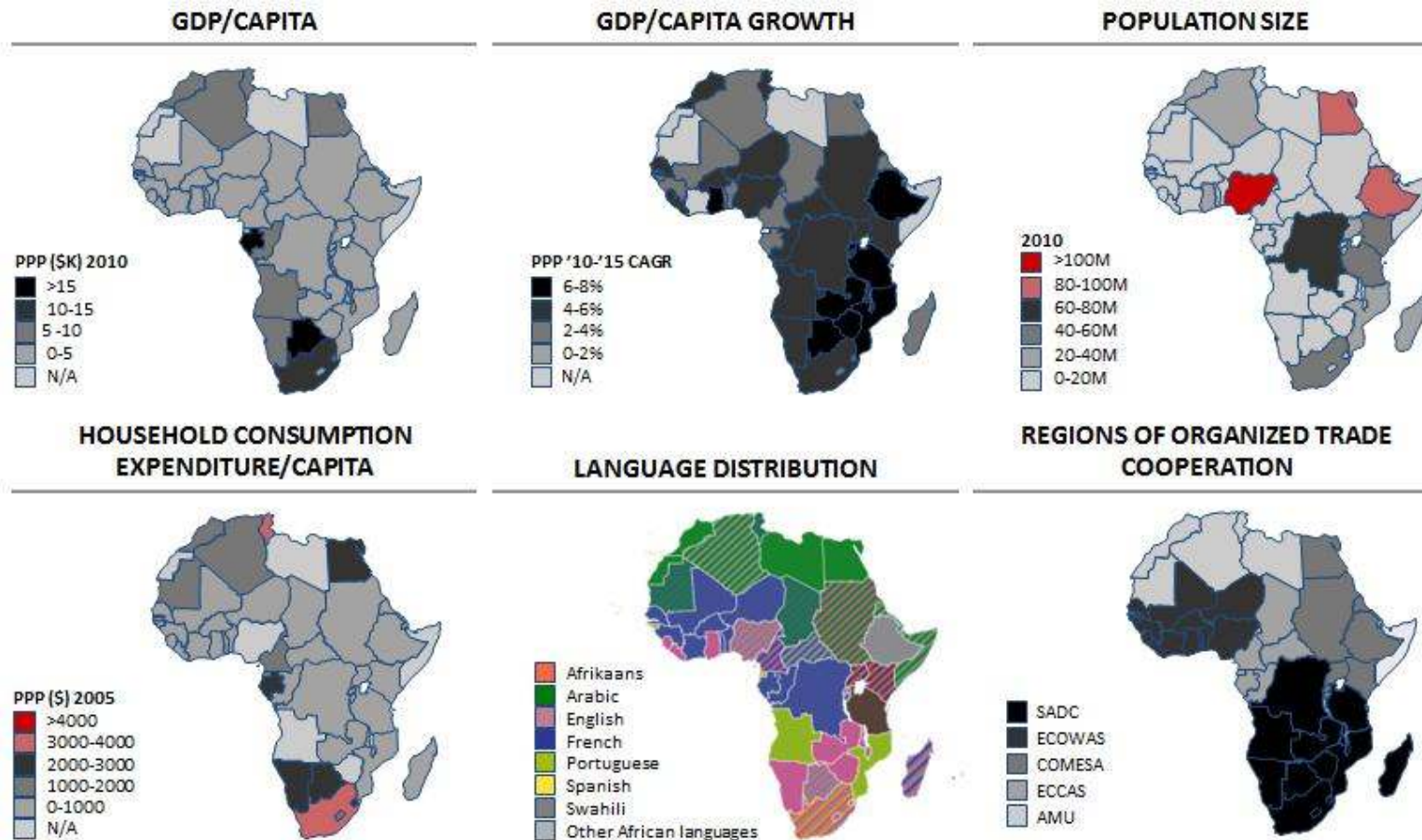


¹ Top 4 largest cities or those with populations above 1 million people included in analysis

Average per capita increase


80

No 'one-size-fits-all' approach – cater for Africa diversity

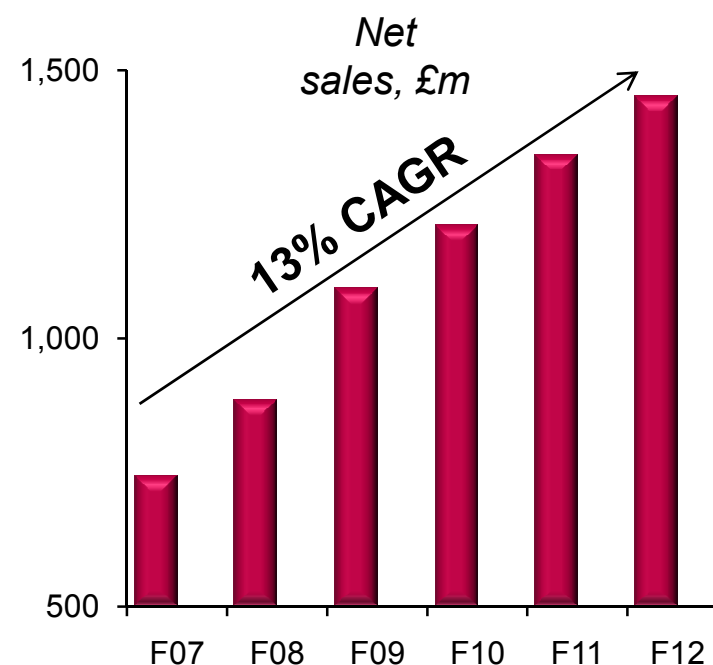
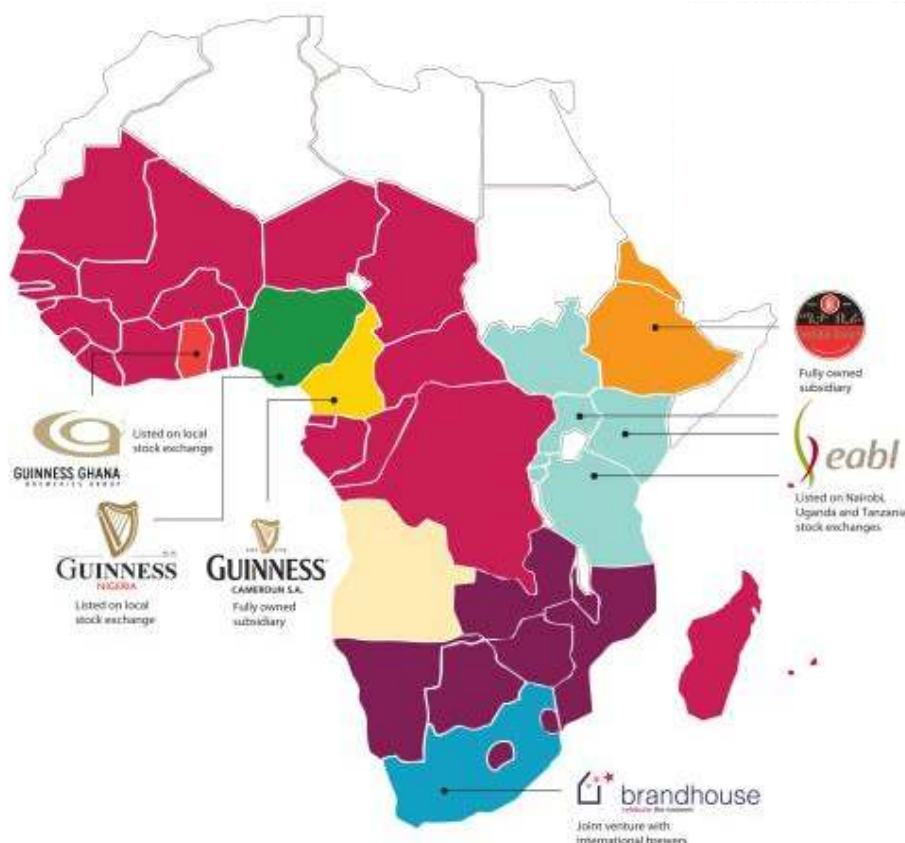


Source: Lit search; CIA Country Factbook; World Bank Development Indicators; IMF; Economic Freedom Index 2010

Challenges remain for business

- Developing transport, energy and communications infrastructure
 - Relatively data “thin”
 - Regulatory environment is “dynamic”
 - Developing legal framework and law enforcement in some territories
 - Talent pool relatively shallow
- 
- **High cost of doing business in some territories**
 - **Local insights and network is important**
 - **Capacity to respond to volatility**
 - **Risk management is key**

A localised approach to manage risk and deliver consistent returns



9%

% Diageo total
NSV

13%



Building an enabling environment through solid controls and risk management

- Embedding Code of Business Conduct into the business
- Implementing effective controls
 - Centralised back office functions to maximise scale efficiencies and share best practice
 - Rolling out enabling technologies (SAP, sales tools)
- Driving value through local procurement strategies
 - Cost efficiencies and forex hedging
- Building public awareness of good governance
 - Coalitions against corruption



Sustained investment behind key growth drivers

- Geographic expansion into key markets we are not present at scale
- Building capacity, developing production and modernising assets ahead of consumer demand
- Developing talent and leadership through capability building
 - Graduate and mid-career programmes
 - Mobility
- Investing in broader value chains to maximise value and support local economic development
 - ‘Upstream’ and ‘downstream’ development

Over £1bn in last 5 years in capex and acquisitions alone



The Senator Story in East Africa

The Elephant that learnt to Dance,
or.....

'Tapping new markets for social good'*



* Harvard Business School Case Study

Situation Assessment: Kenya 2003

- East African Breweries with 95% share of commercial/formal beer market
- But informal and illicit alcohol market estimated to be 56% of total market
- Huge social problems and health risks of illicit brews
- Inflation, and escalating duties on the formal market were encouraging consumers to remain in the informal sector



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Senator Keg was born from this context, with the intent of providing a low cost, accessible alternative to illicit alcohol for socio-economic Group D/E consumers

The challenges.....and solutions.....

Government engagement

- How to deal with the health issue whilst maintaining revenues?
- The win-win concept led to an initial 30% tax remission at launch in 2004 which became 100% in 2006

Internal alignment

- Diageo focus is upon premium and upper mainstream market sectors. Entry into the value sector would bring lower margins and the threaten cannibalisation

Route to Market

- Busaa Clubs and Chang'aa Dens
- Legitimising the informal market
- Business Development
- Urban to Rural



The challenges.....and solutions.....(cont)....

Technical

- Delivering low Cost of Goods.
 - Unmalted barley, transitioning to sorghum
 - Keg format
- Outlet Quality
 - Bespoke dispense solution – manual operation
 - Dispense Hygiene good practice
- Raw Material availability
 - Agro Development

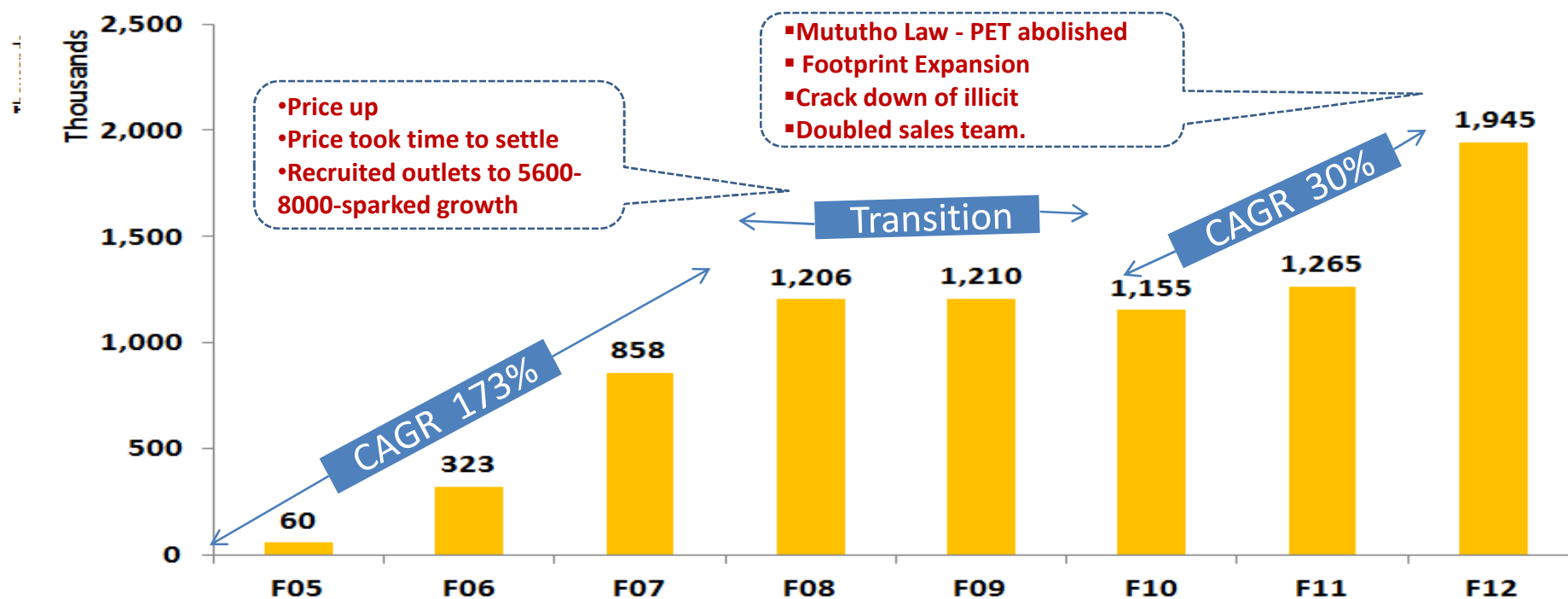


The consumer experience.....

DIAGEO



The Results



- 12,000 Senator retail points
- Conversion of c.50% of illicit alcohol market to the commercial sector
- Consequent reduction in instances of alcohol poisoning
- 12,000 small scale sorghum farmers employed through the value chain
- A model for development in other African markets





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Questions